UNIVERSAL CREDIT

Work and Pensions Select Committee Submission

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The Centre for Social Justice

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Introduction

Universal Credit (UC) is the most radical change to the British welfare system since Beveridge. It simplifies a number of benefit programmes into a single monthly payment, reducing disincentives to work whilst supporting the least advantaged in society to take control of their life.

Early results suggest that UC increases the probability that a welfare claimant finds work within 6 months of a claim, that they are more likely to work for more hours, and earn more. The DWP estimate that UC will help around 250,000 more people into work, compared with legacy benefits.

Long-term worklessness is one of the most influential factors that drives poverty in the United Kingdom. Staying out of work has been found to cause increased difficulties for individuals getting back into work through issues such as skill loss, employer bias and changing attitudes to work. Moreover, a child in a workless household is almost three times as likely to be in poverty as a child living in a family where at least one adult works.

The Centre for Social Justice (CSJ) designed UC in 2009 in our paper Dynamic Benefits. We believe it to be one of the most important public policy reforms in the fight against poverty because of the way it is designed and proven to support more people into work.

Why Universal Credit

The Centre for Social Justice set out the blueprint for UC in 2009 in our paper Dynamic Benefits.

It is worth noting the state of the British welfare system in 2009, when UC was first conceived; there were 10.4 million working age people not working, of which 5.9 million were claiming out of work benefits[1]. 1.6 million children lived in a house with a lone parent that was out of work. The ONS persistent poverty rate was 16 per cent higher in 2008 compared to 2015[2], and while inequality had edged downwards, it was still at the same levels as it had been in the late 80s and early 90s[3].

There were some 21 different working age benefits available to claimants, designed to provide either subsistence support (JSA, ESA and Income Support), topping up low pay (working tax credits), supporting housing costs (housing benefit), providing childcare support (child benefit, child tax credits and childcare support) or support for those with a disability (DLA, PIP and Carers Allowance).

Each benefit had to be claimed separately, resulting in a process that was both time consuming and complex. Additionally, claimants who moved from out-of-work benefits to in-work support often experienced very high effective marginal tax rates. At worst, people were able to keep just 4p in every extra £1 of income earned - an effective marginal tax rate of 96 per cent.

The different withdrawal rates across each benefit payment meant there were various 'cliff edges' that seriously disincentivised people from taking up more hours and declaring a higher income. Analysis by the Institute for Fiscal Studies found there was an abnormally large number of people working 16 hours a week, with very few working fewer hours and not many working between 17 - 21 hours. This was largely because working tax credits kicked in at 16 hours, which were then drawn away at a high rate for people working more than 16 hours.

UC was a response therefore to a system that failed to incentivise work and often trapped people in a life of welfare dependency, was overly complex, and at risk of fraud. UC simplified this system by combining six welfare programmes (income based JSA, income-based Employment Support Allowance, Income Support, Child Tax Credit, Working Tax Credits and Housing Benefit) into one. There is now one taper rate of 63 per cent, meaning an individual who chooses to increase their hours can expect to keep more of their money under UC than they would have under the legacy system.

UC is also designed so that no new claim needs to be made if someone was to either fall out of work, or transition back into paid employment. The role of the Work Coaches is designed so that a Work Coach stays with the claimant from his or her initial claim, into work and then up the value chain until they are no longer a recipient of UC. Work Coaches have enhanced authority to help claimants manage their finances (through the use of advances, setting up an Alternative Payment Arrangement (APA), or issuing an emergency loan to a claimant). UC also allows for a Universal Support programme to run alongside. Universal Support is an integrated triage system that directs claimants with complex problems to support service providers.

1 Centre for Social Justice, Dynamic Benefits (2009)

2 ONS, Persistent poverty in the UK and EU: 2015 [accessed via: www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/persistentpovertyintheukandeu/2015]

3 ONS, Household disposable income and inequality in the UK: financial year ending 2016 [accessed via: www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2016#inequality-rose-for-retired-households-but-fell-for-non-retired-households-in-recent-years]

Results So Far

The DWP carry out regular evaluations on the impact of UC on claimants in the labour market. So far, the results show, encouragingly, that UC claimants are more likely to be in work when compared to claimants still in the legacy system.

- A 2014 survey of 900 single UC claimants and 900 JSA claimants, found *"UC to be easier to understand than JSA and to offer greater rewards for small amounts of work and better financial benefits… UC claimants reported spending more time than the JSA claimants on job search activities. Most claimants were willing to do short term jobs and more UC claimants were willing to take any job on offer"*. Fundamentally UC claimants were five percentage points more likely to be in work at the time of their interview compared to JSA claimants[4].

- A 2015 report found that UC claimants were eight percentage points more likely to have been employed in the first nine months of their claim - 71 per cent for Universal Credit versus 63 per cent for Jobseeker's Allowance. The DWP also noted that UC claimants were *"estimated to work about 12 days more than the matched comparison group during the first 270 days after they made their claim"*[5].

- A 2017 report found that at 6 months after a claim, UC claimants were three percentage points more likely to be in work - 56 per cent for UC claimants versus 53 per cent for JSA. The same report shows that UC claimants were 4 percentage points more likely to have been in work at one point over the six-month period compared to JSA claimants[6].

The DWP 2017 report also established that the impact of UC on claimants' probability of finding work was consistent across jobcentres that had transferred from the legacy system to UC at different points of the roll-out.

When Office Started UC	Employment increase within 6 months of first UC claim
Pathfinder	4%
June 2014	4%
July 2014	4%
September 2014	3%
October 2014	4%
November 2014	6%
December 2014	3%
All	4%

Table 1: Department for Work and Pensions, Universal Credit Employment Impact Analysis (September 2017)

4 Department for Work and Pensions, Universal Credit Expanded Gateway Singles Survey (February 2015) [accessed via: www.gov.uk/government/uploads/system/uploads/attachment_data/file/403415/universal-credit-survey-report-final-ad-hoc-20.pdf]

5 Department for Work and Pensions, Estimating the Early Labour Market Impacts of Universal Credit (December 2015) [accessed via: www.gov.uk/government/uploads/system/uploads/attachment_data/file/481827/universal-credit-estimating-early-labour-market-impacts-dec-2015.pdf]

6 Department for Work and Pensions, Universal Credit Employment Impact Analysis (September 2017) [accessed via: www.gov.uk/government/uploads/system/uploads/attachment_data/file/644541/universal-credit-employment-impact-analysis-update.pdf]

Where we are now

Overall, UC is proven to lead to more people being in work, staying in work, and earning more. There have, however, been a few concerns raised over the past few months over the implementation of UC. There are three in particular that have been raised:

- ***Late Payments*** - The most recent DWP analysis shows that across all claims 92 per cent of claimants received full payment of UC on time (96 per cent of claimants received some of the payment on time). New claims have a high rate of late payment; 76 per cent of new UC claimants received full payment on time[7]. These figures are a significant improvement on payment timeliness rates at the beginning of 2017. There are stories that some claimants have waited up to 12 weeks for their first payment, although these are becoming increasingly rare. Jobcentres and Work Coaches have cited problems with claimants filing incorrect information as the predominant reason for very late payments and long waiting periods.

- ***Rent arrears*** - 60 per cent of arrears are carried over from the legacy system. Southwark rent arrears come to 1.7% of total council income generated from housing. In our discussions with housing associations (HA), claimants are encouraged to work with their HA to find a suitable payment plan that doesn't result in rent arrears. HAs estimate total arrears at between 7 and 20 per cent. The role of the Work Coach and HAs are essential for ensuring the claimant financially plans for their rent payments and other commitments. Alternative Payment Arrangements (APAs) are also available to claimants who need help with financial planning.

- ***Debt*** - Citizens Advice Bureau (CAB) research found *"a quarter (26 per cent) of the people we helped with UC also needed help with debt, compared to 19 per cent for legacy benefits"*[8]. The CAB cited the 6-week waiting period, late payments, claimant's difficulty in budgeting, a claimant's lack of access to a bank account, and exiting debt deductions made by the DWP, as the main reasons for debt problems amongst UC claimants. The Secretary of State for Work and Pensions David Gauke announced new measures to allow advances to be made to claimants who are under particular financial hardship on the same day as their claim. This will significantly reduce the risk of a claimants missing a rent payment, falling into high cost debt and going without the basic necessities while their UC claim is processed. An advance payment is not debt, no interest is accrued on the advance, the advance is worth two weeks of a monthly UC payment and is then deducted from future UC payments over a period of up to 6 months.

7 Department for Work and Pensions, Universal Credit Statistical Ad Hoc: Payment Timeliness (October 2017) [accessed via: www.gov.uk/government/uploads/system/uploads/attachment_data/file/648800/universal-credit-payment-timeliness-statistical-ad-hoc.pdf]

8 Citizens Advice Bureau, Universal Credit and Debt (September 2017) [accessed via: www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/Universal%20Credit%20and%20Debt%20-%20final.pdf]

CSJ Recommendations

The CSJ believes that it is essential to continue the roll out of UC for new claimants across jobcentres around the country. However, we recommend the DWP take a number of steps that will help UC reach its full potential and reduce the stress of transition for many claimants.

1. *Phase-out the 7-day waiting period* - The seven non-eligible days mean most people who lose their job and rely on the welfare system as a safety net never receive any money for their first week out of work. UC is supposed to mirror the payment cycle of someone in work, however no-one in paid employment works for the first seven days for free. This is forecast to cost £140 million in the first year.

2. *Further improve the taper rate and re-invest in work allowances* - The Government should re-invest money taken out of the system in 2015. The Government took a welcome and encouraging step at the last Autumn Statement to improve the taper rate by two per cent, moving it from 65 to 63 per cent. Reducing the taper rate from 65 to 63 per cent is forecast to cost approximately £1 billion over five years[9]. So, we forecast similar costs when reducing the rate to 60 per cent. The CSJ believes that this good first step should be built upon, and the taper rate moved to 60 per cent, such that the poorest workers are enabled to keep more of what they earn. They should also reintroduce work allowances that had been cut in 2015. Re-investing in work allowances is forecast by the IFS to cost £3.4 billion by 2020/21[10].

3. *Make advances widely available to those who need it* - Work Coaches need to better communicate the availability of advances and should use them in any situation where financial stress for a claimant is possible. If DWP are concerned that those who need money before the 6-week mark are not getting it, they should consider making them a default for a period.

4. *Accelerate the introduction of Universal Support* - DWP Universal Support delivered locally trials proved the inherent value in an integrated system of identifying claimants with complex problems and triaging them towards services that can support them with financial budgeting, housing, debt and addiction problems, as well as support to get back in to work. The DWP should accelerate the roll out of a Universal Support programme that provides triaging services for UC claimants that are most in need of help.

5. *Invest in Work Coaches* - Strong one-to-one support for claimants is essential if they are to re-enter the labour force after a long period. Work Coaches need to be trained to better handle problems that claimants with complex problems may face when applying for UC. Work coaches' success should be measured in terms of job retention and productivity of a claimant in the long term.

6. *UC can be used to support up-skilling* - After the full roll out of UC, the DWP should consider increasing payments related to training for claimants. Currently claimants must sign a claimant commitment with Work Coaches that can force them to seek training support as part of finding a job. However, in an effort to support lifelong learning and increased levels of both occupational and wage mobility, UC can be used to give claimants the resources to seek training services independently.

9 Guardian.co.uk, Chancellor urged to lower tax rate on universal credit (14 October 2017) [accessed via: www.theguardian.com/society/2017/oct/14/chancellor-urged-to-lower-tax-rate-on-universal-credit]

10 IFS, Benefit Changes and Distributional Analysis (2015) [accessed via: www.ifs.org.uk/uploads/publications/budgets/Budgets%20 2015/Summer/Hood_distributional_analysis.pdf]

Conclusion

Once fully rolled out Universal Credit will be the most powerful poverty fighting tool at the Government's disposal. It directs financial support to claimants that are most in need, whether they are single parent families or those with physical or mental health conditions. It will reduce the risk of fraud and help support up to 250,000 people into work.

Strengthening UC work is the most effective way of supporting those who are struggling. It is, for example, much more effective than raising the income tax personal allowance, for which an estimated 72 to 75 per cent of the gains are received by people in the top half of earners in this country.

The current Government policy is to increase the income tax personal allowance from £11,000 to £12,500. Estimates of the cost of doing so depend highly on the level of inflation and the speed with which the threshold is changed, but regardless it will be significantly more than what was saved from the UC work allowance cuts.[11]

The transition from the legacy system into UC can be stressful for some claimants. However, both Work Coaches and housing associations have a wide variety of mechanisms at their disposal that reduce the risk for claimants of missing their rent payment or being compelled to take out a high interest loan (or worse borrow money from an illegal loan shark).

The process of roll out, using 'Test, Learn, Rectify' allows for alterations to be made without pausing the process and without risking serious damage to claimants. It is worth comparing this to the 'big bang' approach used under the Labour Government in 2003 when introducing tax credits, that resulted in 220,000 families not having been processed after three months, 400,000 payments arriving late and £1.9 billion of over-payments.

The 'Test, Learn, Rectify' model will allow the DWP to put in place some of the recommendations outlined on page 6, specifically scrapping the 7 waiting days, reintroducing work allowances and reducing the taper rate to 60 per cent. Once all of the recommendations have been put in place, the full potential of UC can be realised.

11 For instance see New Statesman, Raising the personal allowance: more expensive than you'd think, and not as progressive as they say, March 2015 [accessed via: www.newstatesman.com/politics/2015/03/raising-personalallowance-more-expensive-youd-think-and-not-progressive-they-say]

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