Universal Credit: increasing hunger by design

Summary

As Churches we are concerned that the design of Universal Credit does not sufficiently take into account the lives, skills and resources of the least well off, and as a result will lead to greater debt, poverty and exclusion. We believe it should be paused until these design and implementation flaws are rectified.

The design of Universal Credit (UC) does not reflect the realities of those who must rely on it. The design assumes substantial savings, IT access and literacy as well as monthly salaries. While these are the norm for many members of society, including those who designed UC, they are not the experience of many people who will have no choice but to rely on UC.

As Universal Credit is a single payment combining a number of benefits, the accuracy and timeliness of payments is even more crucial than for the legacy benefits. UC payments are often delayed, inaccurate and the National Audit Office indicates that this is not expected to improve.

The monetary value of Universal Credit continues to be significantly eroded. 4 in 10 UC claimants report they are in serious financial difficulties. The benefit freeze, continued cuts to work allowances, cuts to the underlying tax credit rates and a number of other detailed changes have transformed UC from a poverty reducing measure to a poverty increasing measure.

The design of Universal Credit leaves families who do not have savings with no choice but to go into substantial debt if they wish to pay their rent and feed their children. The choice to create an inflexible monthly cycle necessitates a substantial wait for the first UC payment. The government has chosen to solve this design problem in UC by offering large loans. Repayments of these loans will make a substantial impact on a family's ability to make ends meet for at least a year.

Universal Credit is designed around claimants having good IT skills and ongoing internet access yet this is not true for considerable numbers of people, especially older, poorer and disabled people.

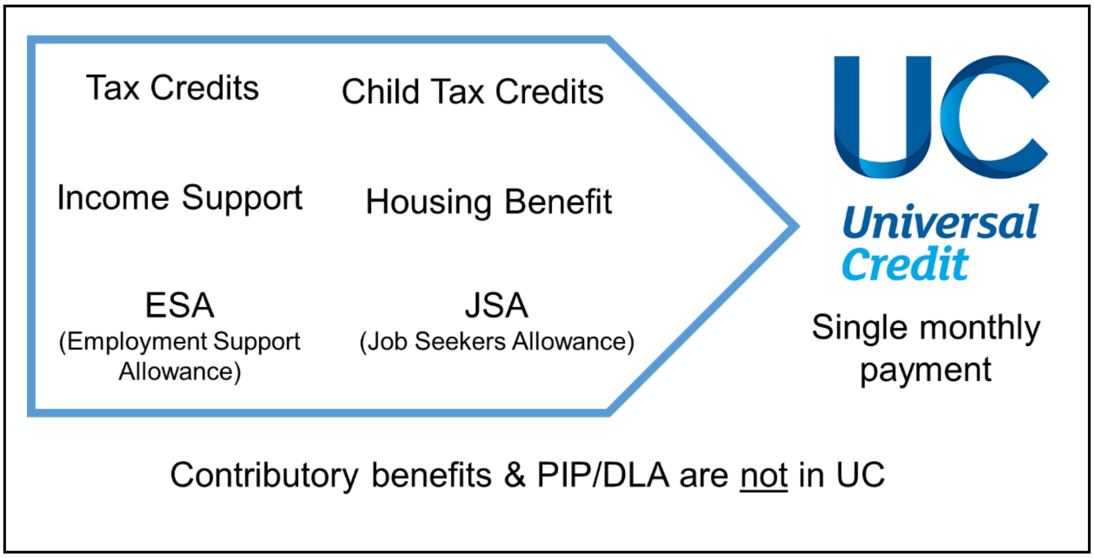
Self-employed people often do not receive a regular monthly income and are therefore placed at huge disadvantage. UC assumes that self-employed people earn £1,187 or more per month. When incomes go above this UC is reduced as normal, on months where income is below this UC is not increased as it would be for employees.

Early data on Universal Credit trials and job outcomes was based only on single people without children who were fit and ready for work. Whilst the data for these easiest of cases is positive it tells us nothing about how UC affects the more complex cases of those with children, those unfit for work, or those in work but with a low income who will form the vast majority of claimants.

Benefit Sanctions are more common under Universal Credit than the previous system. Sanctions have become more frequent, more severe and the number of families living under threat of sanction is set to double and include working people. This is despite the substantial body of evidence that says sanctions do not move people into work long term and can be extremely harmful.

What is Universal Credit?

UC replaces 6 means tested benefits and places them into a single monthly payment.

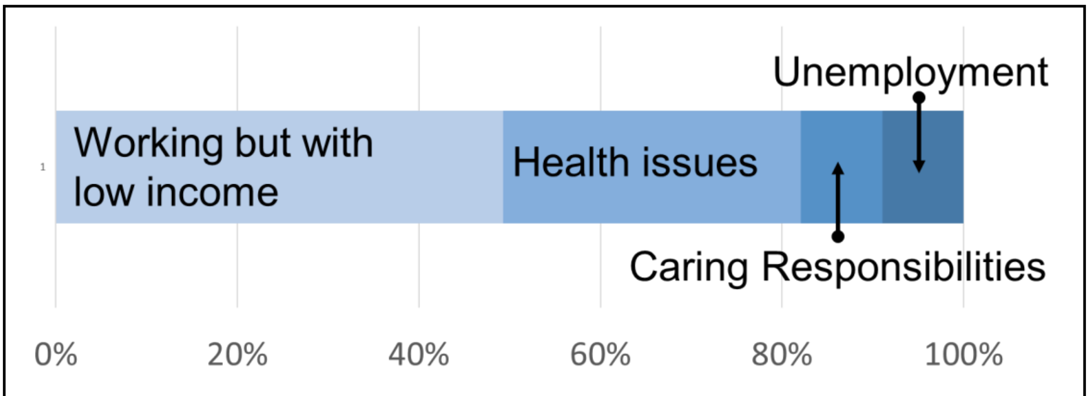


Who Gets Universal Credit?

Estimates are that 6.5 – 7 million families will receive Universal Credit by 2023.

Universal Credit is a working age benefit for low income families especially those with children - around half of the UK's children will be in families receiving UC.

The unemployed – those who are not working but are fit and able to work - will form a small proportion of UC claimants and the majority are likely to get a job within 12 weeks.



Authors estimates of final UC caseload composition based on OBR (2018)

Introduction

Foodbank use goes up by **52%** when Universal Credit is rolled out in an area.[1] This figure is made even more shocking because even in these areas the vast majority of families are yet to move onto UC. Moreover, only the easiest cases will have been moved across.

The failures of Universal Credit have become increasingly apparent. Large numbers of project workers and ministers have contacted the Churches' Joint Public Issues Team asking us to raise concerns about the new system. This is very unusual, and the level of concern and anger is obvious.

The National Audit Office report into Universal Credit was damning and confirmed the concerns we have been hearing from our churches.[2] Their evidence showed that the system was difficult to navigate, riddled with error and delay. Perhaps most concerning is their finding that Department of Work and Pensions is dismissive of those who point out serious problems.

The Churches have joined with many others to call for the roll out to be halted until the failings are addressed. Below is a short summary of the more serious problems in Universal Credit's design.

The roll out of Universal Credit and "Managed Migration"

Currently Jobcentres administer three different benefit systems – UC **Full Service**, UC **Live Service** and the legacy system. The legacy system will be the largest for at least another year.

Universal Credit was introduced in 2013 and was intended to be complete by summer 2017. Substantial delays mean that the planned completion date is currently 2024. The first IT system failed and was repurposed to be Universal Credit **"Live Service**" a system only for the easiest cases (single, childless, healthy, and unemployed, renters). This is in the process of being replaced by Universal Credit **"Full Service"** which can handle a wider variety of claims.

Full Service UC has now been introduced into every jobcentre in the UK. In a Full Service area most new claims are placed onto Universal Credit. People who have a change in circumstance (e.g. moving house, new job, new baby) will also be moved onto Universal Credit.

Around half of families will be "**Managed Migration**" This group is likely to include people who have huge health problems and other difficulties who are likely to find the move to UC extremely difficult.

The DWP's plans for the Managed Migration process raise grave concerns. Each family will be contacted and instructed to apply for UC. If they do not apply – for whatever reason – they will be cut off from support. The DWP has given assurances that it will endeavour to contact "vulnerable" people before they are cut off.

Managed Migration tests begin in July 2019 with the bulk of families being moved from 2020.

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[1] https://www.trusselltrust.org/what-we-do/research-advocacy/universal-credit-and-foodbank-use/

[2] "A benefit system which drives families into debt and leaves people hungry is a failing benefit system" say Churches http://www.jointpublicissues.org.uk/a-benefit-system-which-drives-families-into-debt-and-leaves-people-hungry-is-a-failing-benefit-system-say-churches/

1. Design problems are rooted in a lack of engagement with the lives of the least well off.

Many of the design choices for Universal Credit reflect the concerns and experiences of the wealthier members of our society and ignore the lives and experiences of those who will rely on UC for food, shelter and warmth.

The design assumes substantial savings, IT access and literacy as well as regular monthly salaries. While these are the norm for the more affluent, most likely including the politicians and policymakers who created and implemented UC, they are not the experience of many people who will have no choice but to rely on UC.

Looking at UC it is hard not to conclude that it is optimised for the lives of those who designed it – salaried, well-educated employees with access to savings or credit – rather than the hugely varied group of families who must rely on it.

A key assumption driving UC's design is that families will be able to work more if they change their behaviour in response to either "work incentives" or instructions backed by threat of sanctions. For families with sickness, disability or caring responsibilities, already in low paid work, who will make up the vast majority of the Universal Credit caseload, this assumption is at odds with the reality of their lives.

2. Fragility of Universal Credit support

Benefit errors have been common for some time and can have disastrous consequences. Even before Universal Credit the largest cause of people needing help from a foodbank was problems with the benefits system. However, when families claimed multiple benefits, other benefits could keep being paid even when one was suspended. The family often still had some income.

There is no real backstop to UC, therefore a failure to receive a payment may leave a family (and their landlord) with nothing. Local welfare support schemes in England are extremely patchy, difficult to access, and in some areas simply do not exist. The devolved administrations run their own schemes which provide support at the moment of crisis.

We know of a number of cases where churches have been families' sole support for several months, despite them being entitled to UC. The National Audit Office has indicated that these experiences are common - 1 in 10 families wait 11 weeks or more for their first UC payment – and the situation is not expected to improve.

The design of UC means that accuracy and timeliness of payments is even more crucial than for the legacy benefits. Payments require successful information flow between employers, the Department for Work and Pensions (DWP), landlords, claimants and others. With all these moving parts, even without "teething troubles", there is a substantial risk of mistakes being made. Universal Credit's design chooses to place the cost of these risks on the claimant.

3. Financial incentives over financial security

The design of Universal Credit places an emphasis on financial incentives – or "making work pay". It is important to recognise that financial incentives, especially incentives of the order the benefits system is able to provide, have limited powers. Many people face difficulties that financial incentives cannot overcome.

The monetary value of UC has been and continues to be significantly eroded. The benefit freeze, cuts to work allowances, cuts to the underlying tax credit rates and a number of other detailed changes have transformed UC from a marginally poverty reducing measure to a poverty increasing policy.[3]

A key role of the benefits system is to provide a sound platform to allow families to regroup and cope with the difficulties they face. For many families, especially those with children, UC does not allow that stability. Instead families are trapped in poverty and pitched from one crisis to another.

The experience of churches working alongside those coping with poverty is that the primary concern is meeting immediate needs. For people anxious about being unable to feed or house their children, taper rates are a secondary issue. What is required is an adequate reliable income, something that both the labour market and UC increasingly fails to supply.

A failure to appreciate the lives of many people who experience poverty has allowed the design of Universal Credit to become blind to the fundamental principle of providing families with enough to meet their basic needs.

4. Problems caused by the inflexible monthly assessment cycle

In order to prioritise work incentives, Universal Credit is assessed on a rigid monthly cycle. Each family's circumstances are evaluated and an underlying entitlement to UC calculated. Each pound of pay in the month then reduces the actual UC payment by around 63p.[4]

For those with regular wages paid monthly, which is the norm amongst more affluent employees, this is appropriate. However this pattern is not appropriate for the majority of UC claimants to date whose work is more likely to be paid weekly or fortnightly[5] and will present huge problems to the self-employed.

Government has presented monthly payments as a virtue, stating that this pattern prepares families by mimicking the world of work. It is important to recognise that this pattern mimics the world of work experienced by more affluent members of society. Many UC claimants move in and out of weekly or fortnightly paid jobs, and the monthly cycle of Universal Credit makes their lives more difficult.

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[3] IFS (2016) https://www.ifs.org.uk/uploads/gb/gb2016/gb2016ch10.pdf and many others.

[4] For some families a "Work Allowance" applies where no deductions are made to the initial earnings. Earnings may also be taxed and therefore in some circumstances the family will keep only 17p of each £1 earned.

[5] Resolution Foundation (2017) Universal Remedy http://www.resolutionfoundation.org/app/uploads/2017/10/Universal-Credit.pdf .

4.i 5-week wait for first payment

The 5-week wait is made up of this month long assessment period and a further week for processing and payment.[6] Around 1 in 4 claims are not paid on time, with 1 in 10 claims taking 11 weeks or more. The DWP does not expect this to improve.

There is overwhelming evidence from CAB, Trussell Trust and housing associations that shows that this wait leads to debt, rent arrears and foodbank use. Anecdotally, projects in churches such as foodbanks and debt centres in roll out areas are also reporting these problems.

The initial design assumed that families had savings to cover several weeks of living expenses including rent. ONS data shows that, for the poorest families which Universal Credit was intended to serve, this was never likely to be the case.

4.ii Large loans called "Advance Payments" offered to mitigate the 5 week wait for first payment- often increasing family's problems

Advance payments are loans offered to families to cover the 5-week wait for the first Universal Credit payment. The Government's response to criticisms of the long wait for a first payment has been to expand the availability and the size of these loans.

Currently families are offered a loan of up to one month's UC payment to cover the 5-week gap. The Advance Payment is a substantial debt. It is recovered by deductions from UC payments over the next year. However, should a family's Universal Credit payments reduce or stop due to a change in circumstances the balance is passed on to the debt recovery team.

4.iii Repayments of these Advances take up to 40% of a family's living allowance for 1 year.

Universal Credit rates are low and difficult to live on. Families without savings who need an Advance Payment must live on much less money for the first year due to their repayments.

For families where the loan repayments would be more than 40% of living expenses, the DWP reduces the amount available to borrow. This reduces their repayments but conversely reduces the amount of money the family has to survive on for the 5-week wait.

The families affected by this rule are likely to have children and other substantial needs. They will face a 5-week wait with a reduced Advance Payment to live on, followed by a year living with a 40% reduction in the money they have available for living expenses.

It is important to note that these are problems created by the design of UC that were not in the old system. The government's choice to solve its problem by loading debt onto already impoverished families appears at odds with this stated belief that unmanageable debt is a key "pathway to poverty".

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[6] This has been reduced from 6 weeks in the latest budget, which is a minor but welcome improvement.

4.iv Childcare support leads to further debt.

The support offered to working families to pay childcare costs is included in the monthly payment. Universal Credit covers 85% of childcare costs up to a maximum of £1108 a month for a family with 2 or more children.

While childcare providers typically ask to be paid a month in advance (often with an additional deposit) UC's childcare element is paid in arrears. Families must provide documentary evidence of the childcare within a short window of time or miss out on help with childcare costs.

The childcare system within UC again requires families to have substantial savings to pay for their childcare upfront. For families without savings the only choice is to take on significant debt.

It should be noted that this is in stark contrast to the Tax-Free Childcare scheme offered to wealthier families with incomes of up to £199,998. These families receive the childcare support as the bill is paid, and undergo less frequent and less intrusive checks to confirm eligibility.

4.v UC Fails to cope with weekly, fortnightly and 4-weekly paydays

The majority of Universal Credit claimants to date normally have weekly or fortnightly paid jobs. UC's inflexible monthly assessment cycle causes such workers large difficulties.

A person who is paid weekly will have four paydays that fall into the Universal Credit Assessment for the eight months of the year. For four months of the year five paydays will fall into the assessment cycle. The higher earnings in that cycle will reduce the UC payment and if it is reduced to zero the family will need to reapply for UC the next month. Note that if they forget or don't realise they need to reapply barring exceptional circumstances, UC is not backdated therefore that month's payment will be lost.

Similar problems happen for families with fortnightly or 4-weekly paydays, with the problems being less frequent (twice and once a year respectively) but because the pay-packets are bigger the reduction in UC and the likelihood of needing to reapply for benefits is proportionately larger.

The DWP recognises these problems and suggests that families should budget for irregular payments. For families just making ends meet this is extremely difficult and is made worse by another design feature. The assessment cycle begins on any date (determined by the date the application is accepted) and not the 1st of the month. This means that the pattern of 5-payday assessments for weekly workers will be unique to each individual. An added complexity is that as UC is paid to families often with two earners two unique wage cycles will need to be factored in in order to budget for the next month's UC payment. This is a feat of enormous complexity.

For families with steady incomes paid any way other than monthly, UC payments will be unstable and unreliable. At best, the least well off working families who tend to be paid weekly will have to budget extremely closely with one eye on the calendar and the other to the Universal Credit assessment rules. Many will find their carefully worked out budgets in pieces when a mistake is made or a rule is misunderstood.

4.vi Self-employment and Universal Credit

Self-employed people are often paid variable amounts at irregular intervals. UC payments will vary wildly. This is compounded by the “minimum income floor” rule. This assumes the self-employed person earns at least £1,187 every month[7] and reduces their benefit accordingly even on months when they may been paid nothing.

Self-employed “income” is reported to the DWP monthly on a cash-in/cash-out basis. This means that in months where a person invests in equipment or materials their income will be recorded as very low or even negative but in months where goods are sold or clients pay their bills “income” will be recorded as very high.

In high income months the next UC payment will be reduced as normal. For low income months the DWP will assume that each person earns £1,187 and reduce the next UC payment accordingly. The implications for those with seasonal incomes such as small farmers are serious.

The consequences of this design choice are yet to filter through because very limited numbers of self-employed people have been allowed onto Universal Credit and because at the moment the rule will not be applied until the second year of a person’s Universal Credit claim.

5. The 2-child rule targets traps a further 200,000 children in poverty

The two child rule denies Universal Credit support for the 3rd and later children in a family. The policy will lead to around 200,000 more children being trapped in in poverty.

The policy applies a very simple logic of financial incentives in an attempt to influence family’s decisions to have children. The evidence is clear that such human decisions, influenced by experience, culture, religion and plain luck do not respond to financial incentives. Therefore it will not reduce the number of children born but instead reduce the support available to those children as well as making re-marriage and the creation of blended families financially less advisable for single parents.

For people to respond to the policy as intended they must have absolute control of their fertility and knowledge of their financial circumstances for the first 18 years of their child’s lifetime. This is clearly not the case especially for the poorest families. While the benefit system is viewed as an insurance protecting families that fall on hard times – the 2-child rule ensures that that 3rd and later children will no longer be protected.

6. The evidence that Universal Credit improves employment outcomes is flawed

Universal Credit’s stated core purpose is to get more people into work. The NAO believes that the way Government has chosen to introduce UC means it will be impossible to determine if it ever achieves this key goal.

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[7] This is the equivalent of working full time (35hrs per week) at minimum wage. The amount is reduced if the person is not expected to work full time or is under 25 years-old.

The early UC system could only handle the simplest claims - single people without children, renting, who are fit and ready for work. The early system was much better resourced than today's "Full Service UC" – the benefits levels were less severely cut, and there was between 5 and 10 times more support worker-time available per claimant than in the final system.

Even in these favourable circumstances improvements in gaining work were only very modest compared to the old system. Claimants were likely to do some paid work ***on*** 1-2 days a month more but they worked very few actual hours extra hours. The only earnings data indicates that over 9 months they earned £60 more **in total**. Data on more complex families due in December 2016 has yet to be published.

Today's UC claimants are very different from the people on these early trials. Today's Universal Credit system is also very different from the UC on the early trials – the IT is different, the payments are smaller, and the support available is reduced. It is simply not credible to say this old trials data is relevant to today's Universal Credit.[8] However it is the only evidence that underpins the Government's ubiquitous claim that "*Under universal credit, people are moving into work faster and staying in work longer than under the previous system*".[9]

7. Online application system requires IT skills and internet access

Universal Credit is designed around claimants having good ongoing IT skills and internet access. There are considerable numbers of people, especially those experiencing poverty and disability, for whom this is simply not appropriate.

The application system is online by default. The dual application system (once for UC and once to verify identity) has proved particularly confusing with less than a third managing to complete it.

These problems continue throughout the duration of the claim. The UC Journal system – which logs communications between the UC customer and the Jobcentre – requires ongoing internet access.

8. Universal Credit increases the scope, frequency and severity of benefit sanctions

Sanctions are a punishment given to families if a claimant is judged not to have been trying hard enough to find a job (or a higher paying job). Typically families lose the living expenses part of their Universal Credit for a month but in some cases a sanction can last 3 years.

Universal Credit greatly increases the rate of sanctions, and makes sanctions more severe by running multiple sanctions consecutively rather than concurrently as happens now. UC will also more than double the number of people who are under threat of sanction by including the following groups:

- Across the UK around 300,000 parents of children aged three and four will become sanctionable.

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[8] Both the Office of Budgetary Responsibility and the NAO have pointed this out and refused to use this data to guide their projections.
[9] E.g. Mr David Gauke Hansard Vol 631 Column 1200

- Approximately 0.5 million people judged as sick by their doctors but waiting for a DWP assessment will be sanctionable.
- Around 1 million low paid workers will be required to attend their local JobCentre Plus and complete tasks a work coach believes will improve their income, on pain of sanction.

The trials of threatening working people with sanctions have now failed to show positive results (indeed it appears to be harmful).[10] While the Government still intends to proceed with the policy of extending sanctioning, Parliamentary questions reveal that implementation has been delayed.[11]

The belief that threat and punishment is an effective way to get people into work is deep-seated. There is however no evidence that the UK sanctions system has positive effects and it is the only major welfare reform that the DWP has chosen not to evaluate. The NAO's study found that sanctions did not get people into work long-term and indeed were positively damaging to prospects for people who were unable to work due to ill health.

Research from the multi-university Welfare Conditionality project indicates that the effects of sanctions are "profoundly negative". [12] They also note a finding reported anecdotally by churches that positive outcomes happen when people are supported by those they trust to make substantial life changes or overcome barriers. Sanctions clearly hinder this.

Those who are at risk of destitution because of a sanction can claim a "hardship payment". Under UC this becomes a loan. Repayments of this loan mean that the maximum 3 year sanction may means that a family must live on only 60% of their basic living allowance for 7½ years (and in some circumstances longer).

[10] Universal Credit: In Work Progression Randomised Control Trial (2018) https://www.gov.uk/government/publications/developing-in-work-support-for-people-claiming-universal-credit

[11] Universal Credit Written Question (2018) https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2018-10-24/183277/

[12] http://www.welfareconditionality.ac.uk/

Conclusions

The Churches join the growing number of charities and civil society groups calling for Universal Credit to be delayed until fundamental problems with the design and implementation have been resolved. While the Government contends that a delay would lead to 200,000 fewer people in work, the published evidence does not support this claim.

Churches, charities and many others have reported that Universal Credit was driving families into hardship. Long delays are built into the system and are compounded by prolonged difficulties in resolving problems in UC claims when they arise. Landlords are seeing greater problems with rent arrears and evidence from groups including Citizens Advice Bureau (CAB) and Trussell Trust show conclusively that Universal Credit is trapping families in poverty. .

The single-minded focus on financial incentives has had damaging consequences. By design the poorest families are required to get deeper into debt to make ends meet. Low-paid families with weekly pay-packets are faced with irregular and unpredictable Universal Credit payments leading to unmanageable budgeting problems. Universal Credit is expected to increase child poverty as financial support especially to families with children has been substantially eroded.

The design of Universal Credit has not sufficiently taken into account the lives, skills and resources of the least well off. We commend the work of Poverty Truth Commissions[13] where people struggling against poverty have the opportunity to work alongside officials and policymakers so that their experiences are given appropriate weight.

We welcome the Secretary of State's acknowledgement that UC has problems[14]. We firmly believe that only by engaging with real poverty experts, perhaps using Truth Commission model or the Scottish Government's related "Experience Panel" system[15], will the fundamental problems of UC begin to be properly addressed.

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Joint Public Issues Team
Churches working for peace & justice

Baptists Together The Methodist Church The Church of Scotland The United Reformed Church

[13] eg. Scotland's Poverty Truth Commission: https://www.faithincommunityscotland.org/poverty-truth commission
[14] Amber Rudd, Hansard (2018) https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2018-10-24/183277/
[15] https://www.gov.scot/policies/social-security/engagement-on-social-security/