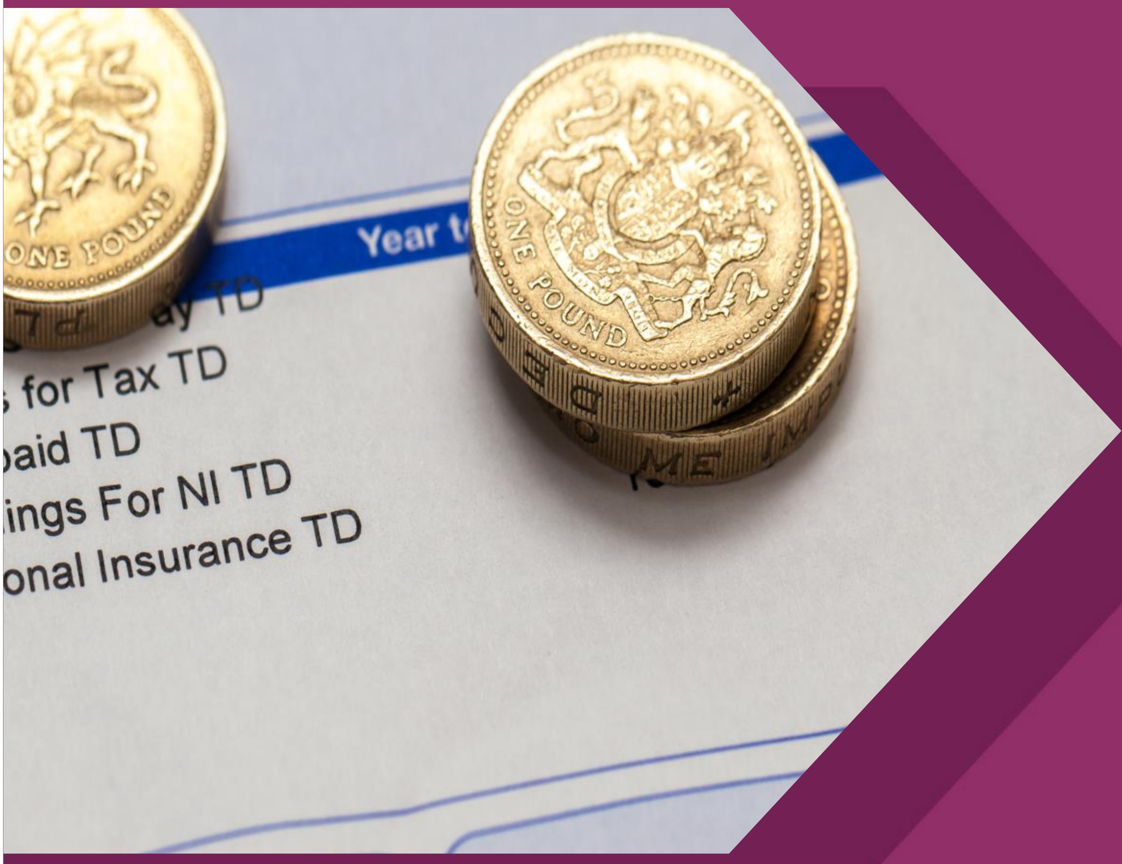
A replacement for Universal Credit



Acknowledgements

The TUC set up an informal working group of union representatives and experts to examine what a replacement for the Universal Credit system could look like. We would like to thank everyone for their contributions.

The report's conclusions and recommendations were reached through deliberation by the group and represent the views of the group - though each person took part as an individual and they do not necessarily agree with every element of the final report.

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Contents

Executive Summary

The introduction of Universal Credit is one of the most significant social security reforms in recent decades. Universal Credit combines six benefits and is expected to cover around 7 million people once rolled out, making it a huge means-tested scheme.

The benefit was brought in by the Conservative and Liberal Democrat coalition government via the Welfare Reform Act 2012 and introduced from 2013 onwards. The government stated that in bringing together these benefits, Universal Credit would:

- Encourage people on benefits to start paid work or increase their hours by making sure work pays.
- Make it easier for people to manage the move into work.
- Simplify the system, making it easier for people to understand, and easier and cheaper for the government to administer.
- Reduce the number of people who are in work but still living in poverty.
- Reduce fraud and error.

As of June 2022, around 5.6 million people are on Universal Credit, an increase of around 90 per cent since the pandemic began.

At TUC Congress 2018, Congress passed a motion calling on the government to 'Stop and Scrap Universal Credit'.

The TUC believes the policy and design of Universal Credit are fundamentally flawed. In line with our motion, we believe we need a replacement for Universal Credit. The TUC set up an informal working group of union representatives and experts to examine what a replacement for the Universal Credit system could look like.

The working group agreed a set of principles that any reform of the benefits system should be trying to achieve:

- A system that helps to prevent poverty and works together with efforts to create decent work for all.
- A system that helps with additional costs, including childcare, housing, and the added living costs linked to disability.
- A system that helps people work the number of hours that fits their family circumstances.
- A system that is simple to understand and deliver and in which claimants and staff are treated with dignity.
- A system that enables financial independence within families.
- A system that promotes equality for everyone in society.

Achieving these principles requires many more changes to our current social security system than simply replacing Universal Credit. In particular, it is difficult to fully achieve these aims within a predominantly means-tested system of social security. Means-tested benefits are a major part of the social security system in the UK. Around 60 per cent of all working-age benefits are now means tested.

In this report we look at the issues with Universal Credit which form our critical opinion of the new system. We also highlight potential solutions within each area.

<u>Changes in making work pay</u>

1. Issue: Universal Credit was sold as making work pay, however those on Universal Credit face very high marginal deduction rates.

Solution: The Universal Credit taper rate can be reduced further, and options of different taper rates for different groups of people should be examined. To ensure that work pays, work allowances also need to be increased, and extended to those not currently entitled to them. The second earner should have their own independent work allowance too.

<u>Changes to the amount</u>

2. Issue: Claimants currently seeking financial support experience the inadequacy of social security payments.

Solution: To improve the adequacy of benefits, the TUC has called for the basic level of Universal Credit and legacy benefits, including jobseekers allowance and employment and support allowance, to be raised to at least 80 per cent of the national living wage (£260 per week).

3. Issue: Universal Credit fails to fully recognise the extra costs disabled people incur. Financial support for some groups of disabled people will be much lower in Universal Credit than current support available for people in the same circumstances.

Solution: No one should lose out financially in Universal Credit; we need to look beyond transitional protection to ensure that disabled claimants are getting at least the amount they would have done in the legacy system.

4. Issue: Previously the older partner of a mixed aged couple could claim pension credit when reaching state pension age. Now they have to wait till the younger partner does and have to claim the much lower value of Universal Credit compared to Pension Credit.

Solution: The older partner of a mixed age couple when reaching State Pension Age (SPA) should entitle the couple to claim pension credit.

Changes to waiting and conditions of payment

5. Issue: Under the design of Universal Credit, claimants must wait at least five weeks for their first payment. This means that at the point when people may be at their most vulnerable, the system fails to support them.

Solution: There is no justification for the five week wait for a first payment of Universal Credit. In the short term this can be replaced immediately with non-repayable grants. The amount can be estimated on the first monthly payment like the advance.

6. Issue: The low- paid self- employed face an income penalty in Universal Credit, because of what is known as the Minimum Income Floor (MIF). The MIF only applies to the self-employed and assumes that self-employed people earn the equivalent of 35 hours a week at the national Minimum Wage when they access Universal Credit.

Solution: The punitive MIF should be removed permanently, with self-employed people only subject to the 'gainful self-employment test' already used by the DWP to ensure that a business is genuine.

7. Issue: The current benefit sanctions regime is callous. There are structural and personal barriers to gaining employment. There are many reasons why the TUC is troubled by the current system. Any replacement of Universal Credit must replace this system.

Solution: The punitive sanctions scheme must be scrapped. Employment support must be designed to genuinely help people into decent work.

8. Issue: Though not introduced yet Universal Credit proposes to extend and intensify conditionality in the benefits system to those in work.

Solution: Proposals to introduce in-work conditionality should be dropped. The TUC supports and encourages genuine progress in the workplace by investment in training and development, rather than wielding the stick of conditionality and sanctions.

Changes to process

9. Issue: Universal Credit is designed by default to be online; this can make the application process difficult for many claimants.

Solution: More options for claiming the benefit, including widely available access to Jobcentres for those not comfortable with IT or who do not have access to IT facilities.

10. Issue: There are also serious concerns about the process of managed migration to Universal Credit. Claimants will be contacted to migrate; the process requires claimants to end an existing claim and make a completely new claim. It is not

automatic, and the responsibility is transferred to the claimant, resulting in stress and anxiety for them.
The process of "managed migration" to universal credit has also just begun, without a full trial and evaluation.

Solution: Responsibility for the process of managed migration should be on the Secretary of State (rather than claimants), who should ensure that the termination of existing benefits will not cause undue or unnecessary hardship.
And the managed migration process needs to be trialled first and then evaluated.

11. Issue: Transitional protection is another complex feature of Universal Credit. We are concerned how claimants will understand the calculation of this, and the protection is not available to all claimants. We are also concerned that over time the payment will lose its value, as transitional protection freezes entitlement at point of migration.

Solution: No one should lose out when moving over to a new benefits system. The process of migration needs more thought. Along with ensuring the uprating of transitional protection.

12. Issue: Despite the increase in staff at the beginning of the pandemic, the DWP announced in March 2022 they planned to close 41 sites, putting thousands of jobs at risk.

Solution: Large scale employment drive in jobcentres and service centres to reduce workloads for work coaches in order to achieve better outcomes for claimants. And reduced reliance on digital only services and expansion of jobcentre network: Flexibility in delivery that empowers the claimant.

<u>Changes to assessing income ('assessment periods')</u>

13. Issue: Monthly assessment periods in Universal Credit and the timing of benefit payments can be complex to understand and can be the cause of fluctuating incomes. Universal Credit is better suited to those with stable hours and income; but even they can find their incomes fluctuating, due to pay cycles not coinciding with assessment periods

Solution: Short Term - introduce earnings disregard into Universal Credit so that income can increase a certain amount without affecting the award.
The legal challenge win on the assessment period which caused fluctuating incomes for those in work only applies to claimants who are paid on a regular monthly basis, and not those who are paid on a four-weekly, weekly or fortnightly basis. This needs to be extended to these workers too.

Long Term - A three -to-six-month assessment period to reduce fluctuations and provide stability for claimants. If circumstances change then claimants should be able to report this and request for their circumstances to be reassessed.

14. Issue: Universal Credit relies on the competence and compliance of employers. Real Time Information pay data, is the system which employers submit PAYE data to HMRC. If employers submit late or incorrectly, there are serious consequences for the benefit.

Solution: Employees should be compensated for any errors by employers to do with Real Time Information that affects their Universal Credit award adversely.

15. Issue: The fluctuating incomes in Universal Credit can cause problems with passported benefits. Claimants who receive passported support with health costs, for example, will be found not eligible in some assessment periods. With free school meals there is an earnings threshold in Universal Credit of £7,400 per year, creating an earnings 'cliff edge' for entitlement which Universal Credit was expressly supposed to avoid.

Solution: Short term - Free school meals should be available to all those on Universal Credit, there should be no cliff edge. For other support, a longer assessment period could be used, to smooth out fluctuating incomes.
Long term - In the long term every child in compulsory education should be provided with free school meals.

<u>Changes to how payments are made</u>

16. Issue: Budgeting on monthly payments in Universal Credit is more challenging than the fortnightly or weekly payments in legacy benefits. And the support for housing costs is now part of the single payment made to claimants who are now responsible for paying their landlord directly. Claimants find this difficult on their tight budget.

Solution: Claimants should have options to be paid Universal Credit twice or four times per month to allow them to budget to suit their circumstances, rather than these being exceptional temporary discretionary arrangements as in most of the UK. And to have a similar option of the housing costs element of Universal Credit being paid directly to the landlord more automatically in the whole of the UK.

17. Issue: The way in which Universal Credit works means that it is claimed and assessed on a household basis; couples must claim jointly, and they receive their benefit as a single payment. This has huge implications for financial independence, especially for women.

Solution: Short term – examine further the best way (s) in which to respond to calls for ensuring access to some universal credit for both partners and the prevention of financial coercion.
Long term - beyond this there is a need to look further into the individualisation of social security payments.

18. Issue: In Universal Credit, with childcare costs the claimant must make the initial payment directly to provider and then get this reimbursed. The issue of fluctuating incomes on Universal Credit also causes havoc with having to budget for childcare costs.

Solution: Short term - The childcare payment system needs to be redesigned to allow the childcare payment to be made upfront and paid directly to the provider.

Long term - Universal childcare needs to be free at the point of use.

19. Issue: The integration of benefits and tax credits into one system, in the form of Universal Credit, may simplify the design. However, a system designed to deliver entitlement in one benefit can result in hardship if there are any problems with the claim.

Solution: Support with childcare costs to be taken out of Universal Credit. And look into which other elements can be taken out of Universal Credit.

This report recognises that some solutions are far more complex than others. Changes to the monthly assessment periods, payments to partners in couples, and integration of benefits are seen as the most complicated areas and would be considered as fundamental reforms to Universal Credit.

We also wanted claimant involvement in our report by hearing directly from those receiving Universal Credit. From the small number of in-depth conversations, adequacy of income was the key issue which came out for claimants, even though the study was not focussing on adequacy but instead the design and structure of Universal Credit.

Introduction

What is Universal Credit?

The introduction of Universal Credit is one of the most significant social security reforms in recent decades.

Universal Credit combines six benefits and is expected to cover around 7 million people, making it a huge means-tested scheme.

Universal Credit merges:

- Housing Benefit
- Income-related Employment and Support Allowance (ESA)
- Income-based Jobseeker's Allowance (JSA)
- Child Tax Credit
- Working Tax Credit
- Income Support

The payment is made up of a basic 'standard allowance' and extra payments that might apply depending on circumstances.

There are extra benefits if someone::

- Is looking after one or more children
- Is working and paying for childcare
- Needs help with housing costs
- Is disabled or has a health condition
- Is a carer for a disabled person or has a disabled child

The benefit was brought in by the Conservative and Liberal Democrat coalition government via the Welfare Reform Act 2012 and introduced from 2013 onwards. The government stated that in bringing together these benefits, Universal Credit would:

- Encourage people on benefits to start paid work or increase their hours by making sure work pays.
- Make it easier for people to manage the move into work.
- Simplify the system, making it easier for people to understand, and easier and cheaper for the government to administer.
- Reduce the number of people who are in work but still living in poverty.

- Reduce fraud and error.[1]

As of June 2022, around 5.6 million people are on Universal Credit, an increase of around 90 per cent since the pandemic began.

- Of those on Universal Credit, around 3.1m are women and 2.4m are men.
- Of those on Universal Credit 41 per cent of claimants are in work.
- Women on Universal Credit are more likely to be in work than men (45 per cent compared to 36 per cent).[2]
- In 2022-23, the expected cost of Universal Credit and its legacy equivalents is £75.4 billion.[3]

Universal Credit was originally scheduled to be fully rolled out by 2017; however, after numerous delays it is expected that this will now be the end of 2024.

For those moving on to Universal Credit from legacy benefit, this is either by natural migration because of a change of circumstances, a voluntary move, or people will be managed migrated to Universal Credit - which is when you will be contacted by the DWP to migrate.

The TUC's view

At TUC Congress 2018, Congress passed a motion calling on the government to 'Stop and Scrap Universal Credit'.[4]

The TUC believes that Universal Credit is not fit for purpose. The policy and design of Universal Credit are fundamentally flawed. Some of the problems were summed up by the UN Special Rapporteur on extreme poverty and human rights, who on his visit to the UK said: "I have heard countless stories from people who told me of the severe hardships they have suffered under Universal Credit. When asked about these problems, Government ministers were almost entirely dismissive…".[5]

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1 DWP (2015) Policy paper 2010 to 2015 government policy: Welfare reform – https://www.gov.uk/government/publications/2010-to-2015-government-policy-welfare-reform/2010-to-2015-government-policy-welfare-reform

2 TUC analysis of statexplorer (2021) - Stat-Xplore - Log in (dwp.gov.uk)

3 OBR 2021, Economic and Fiscal Outlook

4 Trades Union Congress 2018- https://congress.tuc.org.uk/motion-30-stop-and-scrap-universal-credit/#sthash.m8jF4ncr.dpbs

5 United Nations Human Rights – Office of the high commissioner (2018), Statement on Visit to the United Kingdom, by Professor Philip Alston, United Nations Special Rapporteur on extreme poverty and human rights - https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=23881&LangID=E

In line with our motion, we believe we need a replacement for Universal Credit to deliver a fair and dignified system for everyone, as one part of a more comprehensive social security system. To develop this, the TUC set up an informal working group of union representatives and experts to examine what a replacement for the Universal Credit system could look like.

In compiling this report, we heard directly from those receiving Universal Credit, and have used their quotes throughout the report.

The working group agreed a set of principles that any reform of the benefits system should be trying to achieve:

- A system that helps to prevent poverty and works together with efforts to create decent work for all.
- A system that helps with additional costs, including childcare, housing, and the added living costs linked to disability.
- A system that helps people work the number of hours that fits their family circumstances.
- A system that is simple to understand and deliver and in which claimants and staff are treated with dignity.
- A system that enables financial independence within families.
- A system that promotes equality for everyone in society.

Achieving these principles requires many more changes to our current social security system than simply replacing Universal Credit. In particular, it is difficult to fully achieve these aims within a predominantly means-tested system of social security. Means-tested benefits are a major part of the social security system in the UK. Around 60 per cent of all working-age benefits are now means tested.[6]

Our working group was clear that means-tested benefits should supplement contributory benefits (benefits paid as a result of certain contributions and/or credits, that do not depend on income) and universal benefits (benefits paid to everyone within a certain category, for example children), rather than substitute for these.

But in the short to medium term, we need to set out improvements to the means-tested system. While we are concerned about the direction taken in recent years towards further reliance on means-tested benefits, they can be improved. For example, inadequacy could be overcome if means-tested benefits in the UK were sufficient. Similarly, means testing can be done in a less intrusive manner, can be simpler, can

6 Institute for Fiscal Studies, 2019, The Future of Benefits - https://ifs.org.uk/uploads/Presentations/IFS%20at%2050%20Future%20of%20benefits.pdf

provide more individual autonomy and security, and can avoid relying on a harsh sanctioning regime.

This paper focuses on how we could replace Universal Credit as the main means-tested benefit and does not suggest wider reforms to the social security system– whilst recognising that these are necessary.

We believe that implementing the reforms set out in this paper would create a new system, whilst making use of the investment that has been put into the existing IT to operate Universal Credit and avoiding disruption to current claimants.

Our aim throughout is to provide a fairer, more effective system, and minimise problems for claimants and the staff who deliver this support.

Issues with Universal Credit and solutions

In this chapter we look at the issues with Universal Credit which form our critical opinion of the new system. We also highlight potential solutions within each area.

- Section one looks at - Changes in making work pay
- Section two – Changes to the amount
- Section three – Changes to waiting/conditions of payment
- Section four – Changes to process
- Section five – Changes to assessing income
- Section six – Changes to how payments are made

Section one - Changes in making work pay

Issue: Making work pay

Universal Credit was sold as making work pay, in part because it removed the 16-hour rule that previously meant that those working below 16 hours and claiming income-related benefits could see only marginal increases in their income. However, those on Universal Credit still face very high marginal deduction rates. The reduction in the taper rate to 55 percent from 63 per cent and the increase in the work allowance in the October 2021 Budget, while welcome, may still not make work pay for some. The taper rate needs to be reduced further.

The amount of Universal Credit automatically responds to changes in earnings; it is calculated based on net (take-home) pay. For every pound earned above the work allowance (which itself is only available to certain group of claimants), the increase as a result of the reduction in the taper rate is 5p in the pound for people earning at about the threshold allowance of £12,570 per year, as a result of the way in which Universal Credit interacts with tax and national insurance contributions. So, the actual amount they keep is rising from 25p to 30p for each additional pound earned. [7]

7 Policy in Practice (2021) - Autumn Budget 2021: Increased support, but not for everyone - https://policyinpractice.co.uk/autumn-budget-2021-increased-support-but-not-for-everyone

The reduction in the taper rate in the Budget also often does not fully offset the loss of the £20 per week uplift to the standard allowance of Universal Credit introduced in 2020, even when combined with the increase in the National Living Wage.[8]

Looking at Australia, under the 'new start allowance' – previously Australia's main unemployment benefit - benefits were reduced at a much lower rate than in Universal Credit. Benefits were withdrawn more gradually at first (at a rate of 50 per cent), and then once earnings reached a certain point they were withdrawn at a faster rate (of 60 per cent). The withdrawal rate was lower for lone parents (40 per cent), and the withdrawal rate of benefits intended to give some support for the costs of children lower still (at 20 to 30 per cent).

The Australian social security system is not a generous one. The system retains different benefits targeted at specific groups, rather than an integrated benefit for those in different situations as with Universal Credit. There is no separate in-work benefit or tax credit, and the social security system as a whole is mostly means tested, but the relatively generous treatment of earnings through the income allowance free area and the taper rates means that people in paid work can continue to receive benefits.[9] The UK Government should also consider options to have different taper rates for different groups of people.

Work allowances, the amount that can be earned before the taper rate is applied, also play a crucial role in helping to increase hours and income for those in work. Work allowances do not apply to everyone, since 2016 they are restricted to only those with a disability or a child. The work allowance should be applied to all claimants.

Targeting increases in the work allowance and/or reductions in the taper to those who are more responsive to incentives could encourage greater take-up of jobs and additional hours. Single parents and second earners in couples with children tend to be more responsive to financial incentives than 'first' or main earners. But because 'first earners' in a household may use up the one work allowance that is allowed per household, including couples, 'second earners' may find that all their earnings are immediately subject to the taper. The second earner is more likely to be a woman, so this disproportionately hits them. To improve work incentives, a second earner should have their own independent work allowance.

8 Resolution Foundation (2021), The Boris Budget - https://www.resolutionfoundation.org/publications/the-boris-budget/

9 P Whiteford (2019) , A 'Fresh Approach to Universal Credit - Are there lessons from Australia?, University of Bath

Solution:

The Universal Credit taper rate can be reduced further, and options of different taper rates for different groups of people should be examined.

To ensure that work pays, work allowances need to be increased, and extended to those not currently entitled to them.

The second earner should have their own independent work allowance.

Section two – Changes to the amount

Issue: Inadequacy of social security payments

Claimants currently seeking financial support experience the inadequacy of UK benefit rates. For example, if you become unemployed, the basic rate of Universal Credit for a single person over 25, known as the standard allowance, is around £78 per week (i.e. this is £334.91 per month), this is a seventh of average weekly pay. The rate is the same for those on legacy benefits and is lower for those aged under 25, at £265.31 per month. The standard allowance in Universal Credit is the standard amount for the individual or couple before any additional elements.

Many people need to rely on the social security system at some point in their lives. Illness and unemployment can strike anyone at any time, as the pandemic has shown. And when this happens, we should be able to turn to social security to help us. Yet it fails us.

The UK's benefits system has been dramatically weakened after harsh cuts since 2010. The New Economics Foundation calculates that a decade of cuts have resulted in an annual reduction of £14bn in social security.[10]

Currently the levels of social security benefits are not based on the actual costs of living. The Joseph Rowntree Foundation's measurement of a Minimum Income Standard (MIS), based on what groups of the public identify as the items and services households need to reach a minimum acceptable income standard, shows year after year how short UK benefits fall. This year the analysis showed that out-of-work families with children on Universal Credit fall about 40 per cent short of the income they need, and those without children fall 60 per cent short.[11]

The Spring Statement 2022 saw the annual social security increase rise well below inflation. The standard allowance for Universal Credit and legacy benefits increased by 3.1 per cent in April 2022 (this is the CPI inflation rate of September 2021). But this is far below the latest inflation figure (CPI is 9.4 % in June 2022 and RPI is 11.8 %), with inflation forecast to rise higher in the coming months.

10 New Economics Foundation (2021), How our benefits system was hollowed out over 10 years - https://neweconomics.org/2021/02/social-security-2010-comparison

11 Joseph Rowntree Foundation (2021), A Minimum Income Standard for the United Kingdom in 2021 - https://www.jrf.org.uk/report/minimum-income-standard-uk-2021

Benefits in April are usually uprated with the September CPI Inflation rate, however with the dramatic rise in inflation it was hoped that the Spring Statement would at least increase benefits in line with current inflation.

While more recent intervention has been welcomed, a one-off boost to help with rising energy costs, the government still doesn't have a plan for giving families long-term financial security. We urgently need to get pay packets rising and to pay Universal Credit at a permanently higher rate – not just temporary support.

The TUC calls on the Government to raise the basic level of Universal Credit and legacy benefits, including jobseekers allowance and employment and support allowance, to at least 80 per cent of the national living wage (£260 per week for a single person). In addition, it has been calling on the Government to -

- Significantly increase benefit payments for children and remove the two-child limit within Universal Credit and Child Tax Credit.
- Remove the arbitrary benefit cap.
- Remove the No Recourse to Public Funds (NPRF) restrictions. Everyone living in the UK must have access to public funds.
- Reform the savings rule that reduces payments to anyone with £6,000 in savings and means those with £16,000 are not eligible.
- Ensure that statutory Sick Pay is sufficient to cover basic living costs. Weekly payments must rise from £99.35 to the equivalent of a week's pay at the Real Living Wage – around £330 a week.
- Remove the lower earnings limit for qualification for sick pay to ensure that everyone can access it, no matter how much they earn.
- Increase statutory maternity, paternity and shared parental pay and leave.
- Pay Maternity Allowance at an equivalent rate to earnings-related Statutory Maternity Pay for the first six weeks.
- For the self- employed, introduce a paternity allowance to match the maternity allowance.

Solution:

To improve the adequacy of benefits, the TUC has called for the basic level of Universal Credit and legacy benefits, including jobseekers allowance and employment and support allowance, to be raised to at least 80 per cent of the national living wage (£260 per week).

Issue: Disabled People and Universal Credit cuts

The slashing of social security benefits since 2010 has disproportionately impacted disabled people. Negative impacts are particularly large for households with more disabled members, and individuals with more severe disabilities.[12]

The critical report on poverty in the UK by the UN special rapporteur Philip Alston also said that disabled people have been some of the hardest hit by austerity measures. Combined with cuts to other services this has driven many families with a person with a disability to breaking point.[13]

Under Universal Credit, financial support for some groups of disabled people will be much lower than support available for people in the same circumstances on legacy benefits, while some will be better off.[14]

Many of the problems disabled claimants have within social security are with the health/disability work capability assessments, which need reform, but which are beyond the scope of this paper. But there are specific issues with Universal Credit that affect disabled people.

Universal Credit may increase financial support for some of those who are least able to work, by boosting the Support / Limited Capability for Work and Work-Related Activity (LCWRA) component. Some will still receive lower overall awards because of the removal of disability premiums.

Within Universal Credit the government is ending the Severe Disability Premium (SDP) currently paid to disabled people who do not have another adult caring for them. Universal Credit does not have an equivalent to the SDP element. Until recently anyone claiming SDP and naturally migrating to Universal Credit lost out on transitional protection, as this would not be available until managed migration. It was then announced by the Secretary of State (only following a court case) that those entitled to SDP in legacy benefit would not move on to Universal Credit until they qualify for transitional protection under the rules.

From January 2021, people who receive SDP with a social security benefit are no longer prevented from making a new claim for Universal Credit. However, the transitional SDP

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12 Reed H, Portes J, 2018, The cumulative impact of tax and welfare reforms , Equality & Human Rights Commission

13 United Nations General Assembly, 2019, Report of the Special Rapporteur on extreme poverty and human rights, Visit to the United Kingdom of Great Britain and Northern Ireland- G1911213.pdf (un.org)

14 Budget Representation from Disability Benefits Consortium to HM Treasury, 2020, https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fdisabilitybenefitsconsortium.files.wordpress.com%2F2020%2F02%2Fdbc-budget-representation-2020.docx&wdOrigin=BROWSELINK

element is liable to erosion over time with inflation and changes of circumstances in the same way as other transitional protection elements. And there are other restrictions too.

The reform also does nothing to ensure new claims can be made for SDP, meaning that new disabled Universal Credit claimants could lose entitlement of around £3,000 annually.

There is also no mention of the enhanced disability premium (EDP); like SDP, this is an additional disability premium to which someone may be entitled.

In the old system disabled people working more than 16 hours per week are entitled to the disabled worker element of Working Tax Credit (WTC). This is paid to those who have a disability or condition that makes it more difficult for them to find and sustain employment. This was assessed by the work disadvantage test and dependent on receiving a qualifying benefit. Under Universal Credit, any person requiring additional support because they are disabled will have to take the Work Capability Assessment (WCA). Anyone who is found to be fully 'fit for work' in the WCA will receive no extra financial help within Universal Credit. In the legacy system, this additional financial support is provided through the disabled worker element of WTC.[15]

While Universal Credit does provide in-work financial support for disabled workers through the Work Allowance, many struggle to get the Work Allowance as it is not available to disabled people who are assessed as fit for work. Working disabled people who do not get the Work Allowance can be over £300 per month worse off on Universal Credit compared to somebody getting the Disabled Worker Element that existed in Tax Credits.[16] Even if they get the Work Allowance, working disabled people without children can be worse off on Universal Credit than on Tax Credits and legacy benefits.[17]

Universal Credit fails to fully recognise the extra costs disabled adults and children incur because they are disabled. Financial support for some groups of disabled people will be much lower in Universal Credit than current support available for people in the same circumstances. No one should lose out financially in Universal Credit; we need to look

15 The Children's Society and Disability Rights UK , 2012, 'Holes in the safety net'

https://www.citizensadvice.org.uk/Global/Migrated_Documents/corporate/holes-in-the-safety-net-final-copy.pdf

16 Citizens Advice (2018), Universal Credit for Single Disabled people _

https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/UC%20for%20single%20disabled%20people.pdf

17 Citizens Advice (2018), Universal Credit for Single Disabled people -

https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/UC%20for%20single%20disabled%20people.pdf beyond transitional protection to ensure that claimants are getting at least the amount they would have done in the legacy system.

Any new system to replace Universal Credit should be designed in co-operation with disabled as well as other claimants.

Solution:

No one should lose out financially in Universal Credit; we need to look beyond transitional protection to ensure that disabled claimants are getting at least the amount they would have done in the legacy system.

Issue: Older people and Universal Credit changes

Previously the older partner of a mixed age couple could claim pension credit when they reached state pension age (SPA). From May 2019 they were prevented from claiming pension credit until the younger partner reaches state retirement age and have to claim Universal Credit till then. This is referred to as the 'mixed-age couples' reform because it affects couples where one partner is, and one is not, above state pension age.

The older partner of a mixed age couple should be entitled to claim pension credit when reaching SPA.

Pension Credit rates are much higher than Universal Credit rates, and therefore claimants suffer a financial penalty. Previous analysis shows about 250,000 households (or 3% of pensioner households) will (at a point in time) have lower entitlement than if the reform was not in place, losing on average £4,500 per year. This would suggest a saving to the Government of just over £1 billion a year.[18]

In addition, we recommend decoupling the SPA and pension credit eligibility, allowing people approaching SPA to claim pension credit, in order to tackle rising poverty rates among people approaching SPA as a result of increases to the SPA and the gap between working age and pension age benefits.

18 IFS (2019) - Changes to pension credit rules for 'mixed age couples' mean a large number have to wait many years before they can claim - https://ifs.org.uk/publications/14238

Solution:

The older partner of a mixed age couple when reaching State Pension Age (SPA) should entitle the couple to claim pension credit.

Section three - Changes to waiting and conditions of payment

Issue: Five-week wait for first payment

Under the design of Universal Credit, claimants must wait at least five weeks for their first payment. This means that at the point when people may be at their most vulnerable, the system fails to support them and adds to the turbulence of their finances. There is no justification for a five-week wait for a first payment of social security.

The assessment cycle designed to include a monthly payment in arrears 'to mirror the world of work' is seen as central to Universal Credit, and it is this that results in the five-week wait for the first payment (a month for assessment and a few days for administration). However, in the world of work not everyone is paid monthly, and one analysis showed that the majority of new claimants starting Universal Credit who were previously employed had been paid either fortnightly or weekly in their last job.[19]

Universal Credit also fails to take into account that most low-paid workers do not have savings to get them through this wait. The assumption by government that people should have a final monthly pay packet or savings to get them through this five-week wait is not supported by evidence.

For those transferring from legacy benefits to Universal Credit, the modification to allow a run-on payment for housing benefit, income support, and means-tested ESA or JSA for two weeks is still not sufficient to support five weeks of living costs. And the run-on payments do not include working tax credits for those in low-income jobs, or child tax credits for low-income families.

Furthermore, there has been no assessment by the DWP of the impact of the five-week wait for the first Universal Credit payment on levels of food insecurity, relative poverty, and destitution in the UK.

The Government argues that an advance payment can be requested and this is the solution to the five-week wait. However, this is actually a loan and has to be paid back as a deduction from future Universal Credit payments. This essentially means that someone is starting their Universal Credit claim in debt.

19 Resolution Foundation (2017), Universal Remedy –Ensuring Universal Credit is fit for purpose - https://www.resolutionfoundation.org/app/uploads/2017/10/Universal-Credit.pdf

The deduction for the advance is capped at 25 per cent of the standard allowance, this is then paid back over 24 months. If other deductions are also made from the Universal Credit standard allowance (e.g. overpayments, utility bills, council tax arrears) the overall deduction remains at 25 per cent. The deduction can therefore be a quarter of the standard allowance; this is a significant proportion of benefit levels which are already inadequate after years of under-investment.

The five week wait in payment is causing immense misery to claimants.

In 2020 we set up a survey on our website to hear more about the experiences of those on Universal Credit and also to gain views on the five week wait from those who were not claiming the benefit. The survey claimant responses were harrowing, with many being forced into debt, relying on food banks, or going without food. Many said that it had affected their mental health through stress and anxiety and that they felt degraded by the process.[20]

While the survey responses are not representative, they indicate the problems caused by the five week wait in Universal Credit.

- Our survey found that 47 per cent of Universal Credit claimants took the advance payment; and overall, 71 per cent had to borrow money in some way as a result of the five week wait.
- More than two thirds of those claiming Universal Credit (71 per cent) reported the five week wait to be a problematic feature of the system.
- Of those who had not claimed Universal Credit, roughly the same proportion said they would find the five week wait a problematic feature if they had to claim.
- The survey also asked those who obtained an advance payment if this had put pressure on their household budget, and 86 per cent responded that it had.
- One in 5 specifically discussed their struggles to pay rent and other bills, with many going without food and other essentials.
- Nearly 1 in 10 cited having to use foodbanks to get by at some point while waiting.
- The stress and worry and degrading nature of the process has clearly had an impact on many respondents – with 1 in 10 respondents referencing the impact on their mental health.

Our survey analysis is in line with what others are reporting on the suffering caused by the five week wait for the first payment of Universal Credit.

20 Trades Union Congress (2020), Universal Credit and the impact of the five week wait for payment - https://www.tuc.org.uk/research-analysis/reports/universal-credit-and-impact-five-week-wait-payment

StepChange shows that the five week wait for the first payment led almost all clients affected (92 per cent) to experience some form of hardship or financial difficulty. And their polling indicates that 25 per cent of those receiving Universal Credit are in problem debt, three times the rate among the general population (8 per cent), and 11 per cent more than those receiving legacy benefits (14 per cent).[21]

Citizens Advice Scotland reports that its evidence has consistently shown this lengthy wait for payment to be one of the most problematic features of Universal Credit for its clients. It can cause or exacerbate debt problems, as payment of rent, council tax, utilities and other priority bills may immediately be put at risk, particularly if someone has no savings. ……..Many clients have also reported increased stress and negative impacts on their mental and physical health as a result of the wait.[22]

Trussell Trust end of year data for April 2020 and March 2021 show that food banks in its network distributed 2.5 million emergency food parcels to people in crisis, a 33 per cent increase (up one third) on the previous year.[23] Waiting for Universal Credit is one of the main drivers of food bank use. Analysis by the Trussell Trust during the pandemic showed that 73 per cent of those who needed to use a food bank and were receiving Universal Credit were repaying an advance payment.[24]

In addition, the National Audit Office highlights the disproportionate impact on disabled claimants and people on low incomes, as they are more likely to claim advances and have other debts to repay from their Universal Credit. Some 80 per cent of claims by low-income households, 67 per cent of claims including someone who has limited capability for work because of a disability or health condition, and 70 per cent of claims including a disabled child had a deduction applied to their first payment to cover advance repayments or other debts. This compares to 61 per cent of all claims. [25]

In the short term, the first monthly payment of Universal Credit should be based on an estimate in the same way that the repayable grants are now. This will mean that some claimants may receive slightly more than they are entitled to, and some may receive slightly less. In the longer term, changes to the assessment period should help with this process. But in the short term we think this level of error is a small price to pay for

21 Stepchange (2020), Problem debt and the social security system - https://www.stepchange.org/Portals/0/assets/pdf/social-security-mini-brief-report.pdf

22 Citizens Advice Scotland (2019) - Voices from the Frontline: The impact of the five-week wait - https://www.cas.org.uk/news/universal-credit-5-week-wait-leads-people-debt-stress-foodbanks-and-ill-health

23 Trussell Trust (2021) - End of year stats - https://www.trusselltrust.org/news-and-blog/latest-stats/end-year-stats/

24 Trussell Trust (2020) - The impact of Covid-19 on food banks in the Trussell Trust network - https://www.trusselltrust.org/wp-content/uploads/sites/2/2020/09/the-impact-of-covid-19-on-food-banks-report.pdf

25 National Audit Office (2020), Universal Credit: getting to first payment -https://www.nao.org.uk/press-release/universal-credit-getting-to-first-payment/

preventing millions of people falling into destitution due to an unnecessary wait for their social security payments.

Solution:

There is no justification for the five week wait for a first payment of Universal Credit. In the short term this can be replaced immediately with non-repayable grants. The amount can be estimated on the first monthly payment like the advance.

Issue: The Self-employed and the Minimum Income Floor

Universal Credit has not been well designed for the self-employed. The low-paid self-employed face an income penalty in Universal Credit, because of what is known as the Minimum Income Floor (MIF). The MIF only applies to the self- employed and assumes that self-employed people earn the equivalent of 35 hours a week at the National Minimum Wage when they access Universal Credit. The hours requirement is less (usually 25 hours per week) if you have caring responsibilities or are disabled.

In 2015, during a parliamentary debate, Lord Freud explained the purpose of the MIF:[26]

"The welfare system is not there to prop up unproductive or loss-making businesses. The minimum income floor is there to incentivise individuals to increase their earnings from their self-employment. Those subject to the minimum income floor are exempt from having to search for or carry out any other work, allowing them to concentrate on making a success of the business … the other thing that the minimum income floor does is address a loop-hole in the tax credits system whereby individuals can report little or zero income but still receive full financial support, which is neither a desirable or sustainable situation to maintain."

However, the MIF only applies to those who are considered 'gainfully self-employed'[27] by the Department for Work and Pensions (DWP). So those who are doing odd jobs and not in a sustainable business have already been sieved out by the system, in that those who fail the test would be subject to benefit conditionality.

26 Hansard (2015),https://publications.parliament.uk/pa/ld201516/ldhansrd/text/151214-0003.htm

27 Revenue Benefits - Self-employment: Gainful self-employment, https://revenuebenefits.org.uk/universal-credit/guidance/entitlement-to-uc/self-employment/gainful-self-employment/

The Office for Budget Responsibility (OBR), in its previous welfare trends report, confirms that low-income self-employed people face a much tougher benefits system under Universal Credit.[28] Prior to Universal Credit being further delayed, it estimated that the MIF in 2022-23 will overwrite actual income for around two thirds of self-employed Universal Credit claimants. And on average, those affected are assumed to lose around £3,000 relative to what they would receive if the MIF were not in place.

TUC analysis shows almost half of self-employed adults aged over 25 are earning less than the minimum wage and punctures the myth that pertained prior to the pandemic of a growing army of wealthy entrepreneurs.[29]

There is a grace period of 12 months for the newly self- employed, before the MIF applies, this period is considered too short for a new business set up by many, as large numbers of the self-employed earn very little at the outset of their new business. Such a short start-up period in the MIF could close businesses with the potential to become sustainable and profitable. In addition, these rules could discourage people from starting self-employment in the first place. Self-employment can sometimes be the only option for single parents, carers and groups that find traditional employment difficult to access.

Since September 2020 there has been a change in the rules, all new Universal Credit claimants receive a 12-month grace period before the MIF rules apply.

Also, as the self-employed are more likely to have fluctuating earnings, and Universal Credit is assessed on the previous month's income, a situation can arise in which a self-employed claimant (albeit above the level of the current minimum income floor) receives substantially less Universal Credit than an employed claimant earning a similar annual income. In one example modelled by the independent Low Incomes Tax Reform Group (LITRG), the self-employed person received £2,600 less in a year in Universal Credit than their employed counterpart.[30]

The Universal Credit system became even more complicated from 2018 with the introduction of surplus earnings rules for both the self-employed and employed. If a Universal Credit award is terminated (as income increases, for example), the DWP would calculate 'surplus earnings' for that month and the following five months. This is more likely to happen with fluctuating incomes. This is the amount of income a claimant has above the point at which their Universal Credit would reduce to nil, plus a

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28 OBR – (2018),Welfare Trends Report - http://obr.uk/wtr/welfare-trends-report-january-2018/

29 Trades Union Congress (2019), Almost half the self employed are on poverty pay - https://www.tuc.org.uk/blogs/almost-half-self-employed-are-poverty-pay

30 Low Incomes Tax Reform Group (2017), Self-employed claimants of universal credit – lifting the burdens - https://www.litrg.org.uk/sites/default/files/Self%20Employment%20report%20FINAL%20for%20release.pdf

£2,500 *de minimis* amount. If a new claim is made within that period, the surplus earnings for those months will be applied to their new claim as income.

The *de minimis* level was set at £2,500 per month, much higher than the original proposal of £300. It is expected that it will be reduced to £300 at some point in the future and that as a result many more Universal Credit claimants will be affected.

For a system designed to be simple and streamlined, Universal Credit has, in this way and in others, ended up being complex and bureaucratic. In addition, the self-employed, as well as providing earnings information to the DWP each month, still have to report to HMRC for tax obligations – but at different intervals and in different ways.

Solution:

Universal Credit has not been well designed for the self-employed. The punitive MIF should be removed permanently, with self-employed people only subject to the 'gainful self-employment test' already used by the DWP to ensure that a business is genuine.

Issue: Sanctions in social security benefits

Changes introduced in the 2012 Welfare Reform Act tightened the sanctions regime, which resulted in a dramatic increase in the use of sanctions. This applies to Universal Credit along with legacy benefits. Any replacement of Universal Credit must scrap punitive sanctions. Employment support must be designed to genuinely help people into decent work.

The current benefit sanctions regime is callous. There are structural and personal barriers to gaining employment. The mind-set that unemployed people are to blame for their situation has led to the imbalance between conditionality and effective support.

There are many reasons why the TUC is troubled by the current system. We have been clear that it has to end – as we set out in the welfare charter endorsed by Congress in 2016.[31]

Financial hardship resulting from sanctions has been devastating to claimants. There is a strong link between increased benefit sanctions and higher foodbank use.[32] Mental

31 TUC, 2016, (JN7411)(6) A5 Welfare Charter Leaflet (wordpress.com)

32 Trussell Trust, 2016, Benefit sanctions & Foodbank use - https://www.trusselltrust.org/2016/10/27/benefit-sanctions-foodbank-use/

and physical health has suffered as a result of sanctions.[33] There are also serious effects on the wider family, particularly children, because of the loss of income.

Sanctions are often vastly disproportionate. People have had their benefits stopped for reasons as minor as being minutes late to a meeting or missing an appointment because they were in hospital.[34] This can lead to claimants receiving no income for months at a time.

The Work and Pensions Select Committee report on benefit sanctions said that it heard repeatedly that when someone's claimant commitment was not tailored to their personal circumstances, it resulted in unrealistic and/or unachievable conditionality. In such circumstances, claimants were sanctioned because they simply were not able, rather than not willing, to comply.

Harsher conditionality and sanctions have been justified to motivate people to engage with jobcentre support and in taking active steps to move closer to work. However, the evidence of the effectiveness of the policy is limited.[35]

The TUC are concerned about the new Way to Work scheme introduced by the DWP, this reduces the time a person has to find a job which suits their experience from three months to one, at which point they could be sanctioned. This is bound to increase the number of sanctions. The new rules mean benefit claimants could have sanctions forced upon them before they have even received their first payment of Universal Credit.

Solution:

The punitive sanctions scheme must be scrapped. Employment support must be designed to genuinely help people into decent work.

Issue: In-work conditionality and Universal Credit

Though not introduced yet Universal Credit proposes to extend and intensify conditionality in the benefits system (for claimants earning above the administrative earnings threshold). When in-work conditionality is introduced, claimants will be expected to look for more or better-paid work until they reach a certain income –

33 Poverty & Social Exclusion, 2013, Hardship caused by benefit sanctions - https://www.poverty.ac.uk/editorial/hardship-caused-benefits-sanctions

34 House of Commons Work and Pensions committee, 2018 - https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/955/955.pdf

35 Welfare conditionality report, 2018 - http://www.welfareconditionality.ac.uk/wp-content/uploads/2018/06/40475_Welfare-Conditionality_Report_complete-v3.pdf

which for non-disabled single people and those without caring responsibilities will normally be 35 hours per week paid at the minimum wage. They may be obliged to attend meetings at Jobcentre Plus and provide evidence of their attempts to increase their hours or pay.

There is no evidence to support the idea that those subject to in-work conditionality will progress in work. The TUC supports and encourages genuine progress in the workplace work through investment in training and development. However, it does not believe that extending conditionality in the benefits system is the right approach. The TUC is extremely concerned about this punitive approach and in work conditionality should be dropped; social security should support people, not punish them.

In-work claimants face several barriers to progressing in work:

- Those in insecure work often face great fluctuations in their hours, over which they have little control.
- The current employer may simply not be able to offer additional hours and it may not be practicable to move to another.
- In-work claimants can have childcare and other caring responsibilities that they need to fit in with their working hours.
- In Universal Credit, financial incentives for progression in terms of either more hours or higher hourly pay are not that strong.
- The system of monthly assessment periods and the corresponding benefit payment can be highly complex to understand in order to see whether there is a financial advantage to higher earnings.
- In-work conditionality assumes employer engagement; there is no evidence to show that this will be in place.

Solution:

Proposals to introduce in-work conditionality should be dropped.

The TUC supports and encourages genuine progress in the workplace (investment in training and development), rather than wielding the stick of conditionality and sanctions.

Section Four - Changes to process

Issue: Universal Credit - digital by design

Universal Credit is designed by default to be online; this can make the application process difficult for many claimants. More options are needed, including widely available access to Jobcentres for those not comfortable with IT or those who do not have access to IT facilities.

The DWP's own survey in 2018 showed that only just over half (54 per cent) of claimants were able to register their claim online unassisted, with a further fifth (21 per cent) completing it online but with help.[36]

While the Department for Work and Pensions (DWP) claims that the digital and automated nature of the system ensured a speedier response to the surge in claims during Coronavirus, it has to be recognised that this model does not work for everyone. This process can lead to increased anxieties for those not comfortable with technology, and it assumes that a claimant has access to the internet and Wi-Fi. While support is available for the initial claim (though not face to face from April 2022), claimants need ongoing support.

Digital exclusion is creating a two-tier system for people claiming benefits, those without digital means or skills should not be disadvantaged in seeking vital support.

Solution:

More options for claiming the benefit, including widely available access to Jobcentres for those not comfortable with IT or who do not have access to IT facilities.

36 DWP (2018), Universal Credit Full Service Survey - https://www.gov.uk/government/publications/universal-credit-full-service-claimant-survey

Issue: Managed Migration and Universal Credit

There are also serious concerns about the process of managed migration, now known as 'Move to UC'. Claimants will be contacted to migrate; the process requires claimants to end an existing claim and make a completely new claim. Rather than automatic migration to Universal Credit, as the process of 'managed migration' suggests, the responsibility is transferred to the claimant. This can cause considerable stress and anxiety to some claimants. The responsibility for managed migration should be on the Secretary of State.

The process of "managed migration" to universal credit has just begun, but without a full trial and evaluation. The process was supposed to be trialled in a pilot in Harrogate, in 2019, however this was paused due to the pandemic after 38 people had migrated. The DWP has since decided not to restart the pilot but to proceed with managed migration, starting small before scaling up the process. We believe this is a serious error as the process needs to be trialled and evaluated first.

Solution:

Responsibility for the process of managed migration should be on the Secretary of State (rather than claimants), who should ensure that the termination of existing benefits will not cause undue or unnecessary hardship.

And the managed migration process needs to be trialled first and then evaluated.

Issue: Transitional Protection in Universal Credit

When the Government launched Universal Credit, it made a commitment that no-one would lose out as a direct result of the reforms. Transitional protection would be provided; this is a top-up to Universal Credit so that it matches previous benefit income to ensure that someone is not worse off immediately due to the move to Universal Credit.

Transitional Protection (TP) is another complex feature of Universal Credit, and some claimants will unfairly lose out on protection. We are concerned how claimants will understand the calculation of TP. The protection is only available to claimants who are manage migrated, not if they migrate as a result of change of circumstances. Those claiming Universal Credit can also see their protection payment end if there are changes of circumstances in their claim. We are also concerned that over time TP will lose its value, as there will be no increase in this element over time. The term

‘Transitional Protection’ merely serves to freeze entitlement at the point of migration. No one should lose out when moving over to a new benefits system. The process of migration needs more thought.

Solution:

No one should lose out when moving over to a new benefits system.

The process of migration needs more thought. Along with ensuring the uprating of transitional protection.

Issue: Delivery of Universal Credit

The Public and Commercial Services Union (PCS) represents around 50,000 staff working in DWP and were consulted on the delivery of social security.

Before the pandemic hit, the department had been hit extremely hard by austerity and was ill-prepared for the huge pressures that it was to be put under. Since 2011, over 52,000 staff had been lost and over 130 offices had been closed in that same period. Its members worked tirelessly on the frontline to help administer the unprecedented Universal Credit claims in the pandemic.

To support the increased numbers of claimants, the department doubled the number of work coaches, hiring 13,500 to bring capacity to 27,000. The PCS view was that this recruitment went some way to meeting the staffing shortfall that there has been in the Jobcentres for some years. By March this year 12,000 of the 13,500 extra staff that were recruited on temporary contracts were still working for DWP. However, 9,000 of the 12,000 extra staff were given permanent contracts for roles in jobcentres, where many staff work with Universal Credit claimants. This constitutes a significant job cut in Jobcentre staffing, with the remainder of these staff moving to other roles such as fraud investigation.

Despite the increase in staff at the beginning of the pandemic, the DWP announced in March 2022 that they plan to close 41 sites across the country, putting thousands of jobs at risk. The opposite is required, a large scale employment drive and expansion of jobcentre networks, and reducing reliance on digital only services.

Losing experienced and knowledgeable workers will mean the services provided to claimants at both job centres and service centres will be poorer. Investment is vital to ensure that all who are trying to access state support can do so but also that those with the knowledge and expertise to deliver the support are paid and treated fairly. We must have a system which is fully accessible but also a department which treats its staff with respect, and this must mean that no staff member working a universal social security system is also having to claim the same benefits they administer because their pay is so low.

Solution:

A large-scale employment drive in jobcentres and service centres is needed to reduce workloads for work coaches in order to achieve better outcomes for claimants.

And to reduce the reliance on digital only services and expansion of jobcentre network - flexibility in delivery (digital and in person) that empowers the claimant.

Section Five - Changes to assessing income ('assessment periods')

Issue: Monthly assessment period

The system of monthly assessment periods and the corresponding timing of benefit payments can be complex to understand and can be the cause of fluctuating incomes for many of those on Universal Credit. The design of Universal Credit is better suited to those with stable hours and income; but even they can find their incomes fluctuating, due to pay cycles not coinciding with assessment periods.

Those in insecure work (the low-paid self-employed, agency, casual and seasonal workers, and those on zero-hours contracts) are particularly affected by the design of the monthly assessment periods. This group of workers are more likely to experience fluctuations in their income due to irregular hours. Ministers have said that Universal Credit was designed to better support this group, with benefit payments adjusting monthly to reflect their earnings. But in fact, Universal Credit provides less predictability and security for them. Insecure work now affects one in nine of those in work; this adds up to 3.7 million UK workers.[37]

The monthly assessment periods are central to Universal Credit, and they are set based on the date of someone's claim, rather than being aligned with pay cycles, thus causing a mismatch between the two.

For some claimants, temporary increases in monthly incomes, caused for example by overtime, can take them over the earnings threshold for that assessment period. In these cases, their Universal Credit automatically ends. With no earnings disregard in Universal Credit like tax credits where one can earn up to £2,500 extra annually without losing entitlement, a few hours of overtime in Universal Credit may not see any financial rewards.

Also, as Universal Credit is paid in arrears, there can be a situation of receiving a low Universal Credit payment in the month where there were insufficient hours, and as Universal Credit is assessed on the previous month where extra hours may have been worked - this would then reduce the current Universal Credit payment. This causes real financial hardship, as claimants are already on low incomes, and they cannot afford to take this hit to their budget.

The process along with causing hardship undermines work incentives. StepChange, a debt charity, found that some clients receiving Universal Credit mentioned that they

37 Trades Union Congress (2022) , https://www.tuc.org.uk/research-analysis/reports/insecure-work-why-employment-rights-need-overhaul

had felt better off when they were not working, because their income was more stable; and that they feared moving into temporary work because, if their job came to an end, it would mean they would again experience the interruption in income caused by the five week wait.[38] Other research by Institute for Policy Research (IPR) also found income stability, and a reliable Universal Credit payment, were often much more important than maximising household income.[39]

The DWP White Paper on Universal Credit of 2010 says: *Universal Credit is a single system supporting those in and out of work. Hence, as people's earnings increase or decrease, their Universal Credit amount will adjust smoothly to reflect this.*

But, as noted, in practice even those working steady hours and with a regular income can have difficulties with the disjuncture of the assessment periods and their pay cycle.

When it comes to assessing circumstances other than income, the Universal Credit award is based on people's circumstances on the last day of their assessment period; it is not adjusted on a pro rata basis to take account of when their circumstances change. This means that whenever a change in circumstances occurs, such as moving house, or children moving in or out, claimants can experience significant differences between their needs and the amount of Universal Credit they receive.

The Child Poverty Action Group did mount a successful legal challenge to an aspect of the way earned income is treated in Universal Credit, which caused some claimants in paid work to experience huge fluctuations in Universal Credit income and significant cash losses. For the women involved in the legal case, this was because their regular monthly pay date fell towards the end of their assessment period and sometimes, they would receive two wages payments in the one assessment period (for example, because their normal payday fell at the weekend, so they received their salary payment early). This resulted in their Universal Credit payment being significantly reduced, and the loss of the work allowance against one month's pay, causing financial hardship. However, the adjustment that is now made by the DWP as a result of this case only applies to claimants who are paid on a regular monthly basis, and not those who are paid four-weekly or on a weekly or fortnightly basis. This needs to be extended for all payment combinations.

Reforming the assessment period in Universal Credit is one of the most complex of the suggested reforms.

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38 Stepchange (2020), Problem debt and the social security system - https://www.stepchange.org/Portals/0/assets/pdf/social-security-mini-brief-report.pdf

39 Institute for policy Research, 2022, Couples navigating Work, Care and Universal Credit - https://www.bath.ac.uk/publications/couples-navigating-work-care-and-universal-credit/attachments/Couples_Navigating_Work_Care_and_Universal_Credit_-_Executive_Summary.pdf

Options for reform

The House of Lords Economic Affairs Committee report *'Universal Credit isn't working'* said that the benefits system should not cause claimants significant shortfalls in income.[40] The DWP's whole-month approach to changes in circumstances does not reflect the lives of many low-income households, some of whom undergo frequent, short-term changes of circumstances. Universal Credit needs to be flexible enough to adapt to these circumstances**.** In addition, the way in which income is treated exacerbates these problems, as it operates on the basis of counting all income received in the assessment period, regardless of the time to which it relates.

The report says that claimants would have greater certainty and security of income if awards were fixed at the same level for at least three months. This may encourage claimants to increase the number of hours that they work, as they would not face an immediate fall in benefit. It would certainly give claimants much greater security. The Committee believes that this can be done using the current process of assessment but using it to reassess levels of award once every three months only.

They recognise that the downside of this proposal is that, if income falls significantly during the award period, claimants may struggle financially until their payments are increased at the next assessment. This could be managed by allowing claimants to report falls in income or disadvantageous changes in circumstances and have an earlier reassessment.

The report recommends that the DWP assess this proposal. The Department responded that they would not be taking this recommendation forward, arguing that the Universal Credit assessment period and payment structure are fundamental parts of the Universal Credit design and it is not possible to adapt the existing structure without a complete overhaul of the system.[41]

For longer assessment periods, we need to reflect on the experience of the tax credits system - that, while the long assessment period provided a stable income, there could be significant adjustments at the end of the year. The way this worked was that the Tax Credit award was provisionally based on a family's income and circumstances from the preceding tax year. The award was finalised after the end of the tax year once income and circumstances were known for certain. The final award could be lower than the provisional award in cases in which incomes increase, although the first £2,500 (at one period, £25,000) of any income increase during the year is disregarded. The scale of

40 HOUSE OF LORDS Economic Affairs Committee 2nd Report of Session 2019–21 HL Paper 105 Universal Credit isn't working: proposals for reform-https://committees.parliament.uk/publications/2224/documents/20325/default/

41 Government response to the report, Universal Credit isn't working: proposals for reform, (2020), https://committees.parliament.uk/publications/3020/documents/28598/default/

overpayments has been higher than anticipated when the schemes were designed. Claimants had £63 million deducted from their Universal Credit accounts for this reason between April and November 2020.[42]

Also, we need to distinguish between different groups when it comes to assessment periods – i.e., the employed and the self-employed. For some claimants, shorter assessments could be more suitable, while for others (e.g., the self-employed with lumpy earnings and costs across a year), longer assessment periods might be more suitable.

The House of Commons Work and Pensions Committee inquiry on *'Universal Credit: the wait for the first payment'* also heard proposals for long-term changes to the assessment system to mitigate the income fluctuations that claimants can experience.[43] The Joseph Rowntree Foundation suggested a more frequent assessment period, such as weekly, and that DWP should build in "the ability to average earnings over multiple periods". Alternatively, it proposed continuing assessments on a monthly basis, but adding interim payments midway through each month based on estimated earnings. It said that, at the end of each month, the calculation could be reconciled using actual earnings with the month-end payment adjusted to account for any differences. This would allow claimants to receive twice-monthly payments on an ongoing basis, with the first payment some two weeks after submitting the claim.

Citizens Advice and London Councils in evidence to the inquiry said that, if assessment periods and payment cycles could match the cycles of pay for in-work claimants, payments could be made earlier and more frequently, and would not incur the problems associated with the monthly structure.

The Committee asked witnesses whether it would be viable for claimants to set their own assessment and payment dates according to their outgoing costs and income. Gareth Morgan, a specialist in benefits technology from Ferret Information Systems, told the committee that he had found it difficult to model this kind of system. He said that this could work for single earners, but that for couples on different pay cycles, who may have different cycles for paying housing costs, he has been "unable to find any way in which there is a right answer for the best date for an assessment period to start". Instead, Gareth Morgan told the committee that the focus should not be on the assessment period of one month, but with "how the calculations within that assessment period are carried out".

42 Policy in Practice (2021) Tax credit overpayments: Universal Credit is being held back - https://policyinpractice.co.uk/tax-credit-overpayments-universal-credit-is-being-held-back/

43 House of Commons Work and Pensions Committee Universal Credit: the wait for a first payment Third Report of Session 2019–2 - https://committees.parliament.uk/publications/3069/documents/28787/default/

To overcome problems associated with the assessment model, Gareth Morgan proposed an “easily assessed day-rate” which would calculate a person’s daily earnings. The Department would then aggregate this figure to calculate their earnings over a month. He explained that this would work for people already in employment because DWP could pull a net income figure from the data that the employer passes to HMRC and from HMRC’s calculation of tax and National Insurance contributions. The DWP would then determine the number of days falling within the assessment period. With this, Gareth Morgan said that the DWP could estimate fairly accurately a “Day-Pay Rate” which is the “daily net pay for that pay period”. If the DWP over- or under-estimates, it would have to reconcile the amount with the claimant in the following month.

Gareth Morgan said that the model of a ‘day rate’ would have a knock-on effect on the wait for the first payment. He said that a principle of future estimation, and subsequent reconciliation, would mean immediate assessment and rapid payment of Universal Credit, therefore the “five week wait would no longer be required”.

How has the Department responded to proposals to change the assessment system?

The same House of Commons Work and Pensions Select Committee inquiry on Universal Credit reports that in oral evidence, the Minister for Welfare Delivery cautioned against structural changes to Universal Credit because of the impact on other DWP operations. He said that a change to the monthly principle of Universal Credit “would mean literally starting again” and that this change would come with “enormous build costs”…….

The Department provided feedback on different assessment models for the Committee. With shorter assessments, on twice-monthly assessments, Neil Couling (the Senior Responsible Owner for Universal Credit) said that this model would not work for people who move in and out of jobs with different pay cycles or for couples who claim together. He said that shortening the initial assessment to two weeks (for people who are paid twice monthly) would increase the risk of error.

When the Department was asked whether a person could be assessed each calendar month, in line with most people’s pay dates, rather than on the date on which they started their claim, Neil Couling said that it would be “theoretically” possible to do this; however, it would put an “incredible strain on the system” because most payments would be made at the same point each month. He said that “if you get to a completely automated system”, the DWP might be able to administer assessments and payments on a calendar month schedule.

In written correspondence, the Minister for Welfare Delivery told the committee that the ‘day rate’ (put forward by Gareth Morgan) would be difficult to operationalise. He said that it is “possible to conceive of a daily-based system”, but it would rely on “accurate recording of start and end dates, as well as people working regularly within that period”. He told the Chair that the operational obstacle to a day rate would be running it at volume, “particularly as this increases the number of possible changes to bring to account when determining entitlement”.

The Minister said that a weekly assessment system would work only for the “minority of weekly-paid people”. He said that, for anyone with different payment frequencies, such a system could result in “significant fluctuations which would undermine the ability of claimants to budget”.

The Minister for Welfare Delivery confirmed that the DWP receives information on a person’s earnings frequency from HMRC. However, he said that the Department “would not necessarily want to align Universal Credit and earnings” because of the risk that earnings could be reported late. He said that “the minority of weekly earners would theoretically receive more fluctuation and uncertainty” if assessments were aligned with their payment dates. He maintained that there are aspects of Universal Credit “which are fundamental to it and deliberately designed to achieve its original objectives”, of which a monthly assessment is one.

We suggest a three- to-six-month assessment period to reduce fluctuations and provide stability for claimants. The payment would be made more frequently by choice by the claimant, it would just be the assessment made over this longer period. The payment would be fixed, however if circumstances change then claimants should be able to report this and request for their circumstances to be reassessed immediately.

In tax credits there was an income disregard which provided a ‘buffer zone’ in which a family’s income could increase during the course of a year without affecting their tax credit entitlement. We also suggest an earnings disregard in Universal Credit like tax credits so that if earnings increase as a result of a few hours of overtime there would be no penalty. This would ensure that work always pays

In legacy benefits, there was the problem of overpayments of tax credits as the award was based on the previous year’s earnings; any new system needs to ensure that such large debt cannot be built up. That is why we suggest a shorter assessment period than tax credits, to avoid this and recommend other safeguards for claimants – a short time period to be informed of any overpayment, and an affordability assessment before the repayment rate is decided.

Many people moving from legacy benefits are only told that they have outstanding tax credit debts when they make a claim for Universal Credit. Much of the Universal Credit debt now being reclaimed for overpayments is historic, worth some £6bn.[44]

In the transition to Universal Credit, collecting tax credit overpayments has passed from Her Majesty's Revenue and Customs (HMRC) to the Department for Work and Pensions (DWP). Currently, HMRC is under no obligation to show evidence of these overpayments and HMRC is authorised to go back further than other creditors, with statutory debts being limited to seven years.[45]

Historical tax credit debt over 2 years old should be written off and not transferred over to Universal Credit. Many claimants do not know they have a historical debt to be paid back; this is the system's fault rather than the claimants. There also needs to be more onus on HMRC to prove the outstanding debt; simply stating on transfer to Universal Credit that the system shows a tax credit debt from X years ago is not sufficient. And the DWP should assess the affordability for the claimant before determining the rate of repayment; and the maximum deduction for tax credit overpayments (25 per cent of the standard allowance) should be significantly reduced.

Some of the issues which come out in this discussion are related to the IT system. Government departments are very defensive over the Universal Credit design and always say that the IT cannot adapt to change. There is a need to move towards more flexible assessment and payment cycles. The government should test these options and report back on the costs of implementing them. IT systems have to be designed to take into account the realities of people's lives.

Quote from claimant

"It's so confusing. I didn't know anything. I read about it on a Facebook group. They all said the best time to put your claim in is the middle of the month, because if you claim at the end of the month because of leap years or short months, you can get affected. I didn't understand quite why but I just went with it".

44 Institute for Government, (2020) Cancelling historical debt would improve the lives of Universal Credit claimants - www.instituteforgovernment.org.uk/blog/universal-credit-debt

45 Policy in Practice (2021) Tax credit payments: Universal Credit is being held back – www.policyinpractice.co.uk/tax-credit-overpayments-universal-credit-is-being-held-back/

Solution:

Short Term - introduce earnings disregard into Universal Credit - so that income can increase by a certain amount without affecting the award.

Short term - The legal challenge win about the assessment period which caused fluctuating incomes for those in work only applies to claimants who are paid on a regular monthly basis, and not those who are paid on a four-weekly, weekly or fortnightly basis. This needs to be extended to these workers too.

Long Term - A three- to-six-month assessment period to reduce fluctuations and provide stability for claimants. If circumstances change then claimants should be able to report this and request that their circumstances be reassessed.

Issue: Real time information

Universal Credit also relies on the competence and compliance of employers. Core to this is the Real Time Information pay data (RTI), a system through which employers submit PAYE data to HMRC on or before their employees' pay day. The RTI is fundamental to the working of Universal Credit. However, if employers submit data late or submit incorrect figures (even if they are subsequently corrected), there can be potentially serious consequences for the Universal Credit award. In some cases, this could alter the level of Universal Credit payments, or it could lead to a Universal Credit award stopping altogether. The Low Incomes Tax Reform Group (LITRG) has raised this issue.[46]

Employees need to be compensated for errors made by their employer.

Solution:

Employees should be compensated for any errors by employers to do with Real Time Information that affects their Universal Credit award adversely.

46 Tax Advisor (2018), Real Time Information and benefits: an update - https://www.taxadvisermagazine.com/article/real-time-information-and-benefits-update

Issue: Passported Benefits

Passported benefits are benefits or schemes to which some groups of people are entitled because of their entitlement to certain other benefits or tax credits, now including Universal Credit. They include education-related benefits (e.g., free school meals, uniform/clothing grants, help with travel/transport costs), health-related benefits (e.g., free prescriptions, and free sight tests and dental treatment), access to justice benefits (e.g., legal aid), and utility-related benefits (e.g., Warm Home Discount).

The fluctuating incomes in Universal Credit can cause problems with passported benefits too. Claimants who receive passported support with health costs, for example, will be found not eligible in some assessment periods. This could be damaging for claimants' health if they delay seeking any support by waiting for an assessment period that makes them eligible. We suggest looking into longer assessment periods to smooth fluctuating earnings.

With free school meals there is an earnings threshold in Universal Credit of £7,400 per year, and this creates an earnings 'cliff edge' for entitlement of the kind that Universal Credit was expressly supposed to avoid. If someone is earning just under the £7,400 limit, taking on extra hours or getting a pay rise could make them worse off as they could lose free school meals currently worth over £400 per child per year. And if they are earning just over the limit, they could be better off taking a pay cut.

Free school meals should simply be available for all children who have a parent/s on Universal Credit.

<u>Quote from claimant</u>

"Free School Meals is the one I'm worried about. It's already bad now ours are in secondary school - they're on free school meals, but I end up topping them up with extra cash anyway, because suddenly they're choosing their own lunches, not like in primary. But honestly, when my partners starts his taxi work, we'll lose the free lunches altogether. Now I'm saying this I'm not even sure it'll be worth it - with three teenagers to feed."

Solution:

Short term - Free school meals should be available to all those on Universal Credit – there should be no cliff edge. For other support, a longer assessment period could be used, to smooth out fluctuating incomes.

Long term - In the long term every child in compulsory education should be provided with free school meals

Section Six - Changes to how payments are made

Issue: Difficulty in budgeting on monthly payments of Universal Credit

Those moving on to Universal Credit can find the change to payments being made monthly more challenging than the fortnightly or weekly payments in legacy benefits (with an option also for weekly payments in tax credits). Many claimants find it difficult to budget on small incomes over a month and, when an unexpected cost arises, waiting for a whole month causes real financial difficulty.

Support for housing costs (renting) in Universal Credit is part of the single payment made to claimants, and in the vast bulk of cases tenants are now also responsible for paying their landlord rather than landlords receiving a direct payment. Claimants can find that on their tight budget they have to make tough choices, and this can lead to housing arrears and even eviction.

Universal Credit Scottish choices does give people living in Scotland after their first Universal Credit assessment period the options of being paid Universal Credit twice a month rather than monthly and having their Universal Credit housing element paid directly to their landlords. Both these options are more automatic than the equivalent in the rest of the UK. The rest of the UK should adopt this approach.

When StepChange asked clients how frequently they would like to receive support to budget and manage their finances, two-thirds (66 per cent) said weekly or fortnightly with only 17 per cent choosing monthly.[47]

Quote from claimant

"Fortnightly would be better - or every week actually something coming in. Once I've allocated everything for rent, bills. There's nothing left for emergencies. If there's a bit coming in each week, you don't panic, you know there's always something coming."

47 Stepchange (2020), Problem debt and the social security system - https://www.stepchange.org/Portals/0/assets/pdf/social-security-mini-brief-report.pdf

Solution:

Claimants should have options to be paid Universal Credit twice or four times per month to allow them to budget to suit their circumstances, rather than these being exceptional temporary discretionary arrangements as in most of the UK.

And to have a similar option of the housing costs element of Universal Credit being paid directly to the landlord more automatically in the whole of the UK.

Issue: Lack of individualisation in payment

The way in which Universal Credit works means that it is claimed and assessed on a household basis; couples must also claim jointly, and they receive their benefit as a single payment into one account. This has huge implications for financial independence, especially for women. The government has still to recognise the importance of ensuring women's economic equality and independence when designing social security policy.

The DWP has recently altered the online claim process to 'nudge' couples with children to name the 'lead carer' as the recipient of Universal Credit. However, this is a limited approach to tackling financial dependence.

Individualisation in Universal Credit is complex. We have to recognise that there has been a rebalancing of the benefits system towards means-tested benefits based on household income. And there is individualisation of assessment and individualisation of payment. There has been more focus on addressing individualisation of payment, and we look at this. Individualisation of assessment is much more easily achieved via non-means-tested benefits.

In their evidence to the House of Lords Committee on the topic Surviving Economic Abuse, a charity, said that Universal Credit is "based on the assumption that couples make financial decisions together and that resources (and debts) are shared, but this does not reflect the complex realities of many families". They also set out how the single payment encourages financial dependence: "Denying an independent income to both parties through the single payment is regressive in that it encourages financial dependence, reinforcing the traditional 'male breadwinner' model and overlooking women's right to an independent income". [48]

Split payments are an option; however, these are discretionary and intended to be exceptional (except in Northern Ireland) and must be requested, and victims of domestic abuse subject to financial control and coercion are unlikely to openly request them - hence why numbers are so low. Separately, on the issue that split payments can only be administered manually, Neil Couling (the Senior Responsible Owner for Universal Credit) has said that automation would be technically possible if sufficient demand were evident.[49]

There are several issues to consider in making separate payments of Universal Credit to each partner. For example, should there be a 50/50 division or (for example) 80/20? Does the child element go to the main carer and the specific elements of an award to the qualifying person? And how is it best to share the work allowance? What happens when one partner has other income; and what to do when that income increases or decreases, affecting the Universal Credit award? On dividing the payment there is no simple answer and this area needs to be looked at further.

Longer term, there is a need to look further into the individualisation of social security payments, this is much easier to do if there is more emphasis on non-means-tested benefits.

The Scottish Government is exploring the option of separate payments. Though the Scottish Government has made regulations to enable it to introduce separate payments, it has not yet reached a decision on how best to achieve this. Proposed policy options for separate payments are being discussed with the DWP. As Universal Credit is reserved to the UK Government, it is not solely for the Scottish Government to decide what can be delivered and when; it is very dependent on what is technically feasible within the DWP's IT systems. These separate payments would have to be delivered using the IT system that supports Universal Credit and as such they could be administered UK-wide if successful.

In the Work and Pensions Select Committee Inquiry into Universal Credit and Domestic Abuse, the Women's Budget Group said that whether and how couples subsequently choose to pool this income is their choice. If payments are made separately to the two

48 HOUSE OF LORDS Economic Affairs Committee 2nd Report of Session 2019–21 HL Paper 105 Universal Credit isn't working: proposals for reform- https://committees.parliament.uk/publications/2224/documents/20325/default/

49 House of Commons Work and Pensions Committee - Universal Credit and domestic abuse (2018)- https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/1166/1166.pdf

partners, couples could still choose to share the money, but this would be “on their terms”.[50]

In the inquiry, Women’s Aid identified a range of different ways that payments might be divided between partners, but there was no clear preference for any one of these. When respondents were able to choose multiple options from a list - responses were:

- 59% felt that all Universal Credit should always be paid to the mother.
- 50% felt that Universal Credit amounts related to children should be paid separately to the rest of the award—for example, being paid with Child Benefit.
- 37% felt that elements related to housing should be paid separately from the rest of the award.
- 22% felt that payments should be split equally between partners who have a joint claim.

Other witnesses to the Work and Pensions Select Committee inquiry said that a 50:50 divide would prompt new, more equal financial norms within couples. The Women’s Budget Group said that an even split would give a clear signal of equality between partners, would enable each to develop and practise financial capability (one of the government’s aims) and would be consistent with the dual nature of joint claims as having individual as well as joint responsibilities. Marilyn Howard (Research Associate at the University of Bristol) said that an equally split payment would highlight to claimants that they have “individual responsibilities—both to meet benefit conditions and to meet household budgeting” requirements. This would “counteract” the regressive concept of a “head of household”.

Neil Couling said in evidence to the inquiry that a 50:50 split between both members of the couple would be the most feasible technically.

In the light of Scotland’s commitment to allowing each member of a couple to receive separate payments of Universal Credit, the Women’s Budget Group in the inquiry recommended that the DWP should support the Scottish Government to test out different approaches to delivering separate nomination and payment in Scotland. Negotiations between the DWP and the Scottish Government could then include plans to test out and evaluate different approaches and for using evidence from such piloting to make decisions in the future about what form a separate payment approach could take.

50 House of Commons Work and Pensions Committee - Universal Credit and domestic abuse (2018)-
https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/1166/1166.pdf

The inquiry recommended that the Department support the Scottish Government to scope out and, if appropriate, support them to pilot different approaches to separate payments in Scotland as soon as possible.

In the Australian social security system, one aspect to examine is partial individualisation. Peter Whiteford and Jane Millar in A 'Fresh Approach to Universal Credit' – Are There Lessons from Australia? | IPR blog (bath.ac.uk) consider this.[51]

The treatment of couples in the income test provides a form of 'partial individualisation' in Australia. Each member in a couple has their own individual work allowance and the income test is sequentially applied. This means that the earnings of one partner in a couple do not reduce their partner's payment until the other earner's component is fully extinguished. Thus, there are financial incentives to work for both partners in couples.

It is always going to be difficult to provide independent income within what is a jointly means-tested system. It is therefore important, given the principles set out at the beginning of this paper, in the long term to explore ways in which non-means tested benefits payable to individuals can be improved in terms of both their conditions of entitlement and their level.

Quote from claimants

"I've always done all of our finances. It's easy for us as my partner is so lazy… He'd never get round to it if it was up to him. There's much less paperwork when there's one payment. But then again, I work with clients suffering from domestic violence all the time. DWP will literally wait until your life is at risk before they start to think about split payments."

Solution:

Short term - examine further the best way(s) in which to respond to calls for ensuring access to some universal credit for both partners and the prevention of financial coercion.

Long term - beyond this there is a need to look further into the individualisation of social security payments.

51 Peter Whiteford and Jane Millar (2019), - A 'Fresh Approach to Universal Credit' – Are There Lessons from Australia? | IPR blog (bath.ac.uk) - https://blogs.bath.ac.uk/iprblog/2019/03/05/a-fresh-approach-to-universal-credit-are-there-lessons-from-australia/

Issue: Complexity of childcare payments

Help is available with childcare costs in Universal Credit, no matter how few hours are worked. However, the claimant has to make the initial payment and then get this reimbursed, as childcare is paid up front and Universal Credit is paid in arrears. The claimant must report actual childcare costs on a monthly basis, and there are stringent conditions on the claims process.

The issue of fluctuating incomes on Universal Credit also causes havoc with having to budget for childcare costs. Many of the affected households are in precarious financial positions, which the move to Universal Credit could exacerbate.

The design flaw means families having to cover massive upfront childcare costs every month before claiming them back. The claimant can apply for help to the discretionary Flexible Support Fund (FSF); work coaches have the discretion to use the FSF to meet any childcare bills paid before the claimant receives their first wages. This does not deal with paying in subsequent months upfront.

In Northern Ireland since October 2021, a more flexible scheme has been introduced. It is possible to claim a non-repayable grant to cover upfront childcare costs for the first month, paid in advance directly to a registered childcare provider. Importantly, this payment of upfront childcare costs is included in the Universal Credit assessment when calculating the childcare costs element, which helps to pay for the second and subsequent months.

The Institute for Policy Research, University of Bath highlighted their findings from their research into the experiences of couples on Universal Credit in evidence on in-work progression:[52]

i) Contributions towards childcare costs are also included as part of the monthly assessment, and therefore are reduced when earnings increase - something which parents found difficult to understand or manage in practice.
ii) With childcare contributions absorbed within the monthly payment and tapered away as earnings rose, some working mothers were unable to pay their childcare fees and got into debt with their childcare provider.
iii) Such issues led some working mothers to reduce their hours of work or give up jobs altogether, hampering their ability to progress in work and their careers.

52 Institute for Policy Research (2020), Couples, Universal Credit and in-work progression - https://www.bath.ac.uk/publications/couples-universal-credit-and-in-work-progression-response-to-call-for-evidence/attachments/Couples__Universal_Credit_and_in-work_progression.pdf

Quote from claimant

The monthly dates thing is really hard for me. It took me ages to work out how to choose the right dates, I spent so long on these massive facebook sites getting advice. How it works for me, is that I get my nursery bill, and I pay it on the last day of the month, same day I get paid. Then on the 16th of the month, I get my statement from UC on how much I'll receive and then get the cash on a few days later on the 20th. So I'm always 20 days *behind. But because I pay for term time only, sometimes you get funny months. So in March, I'll only get £450 or so from UC because I had reduced hours in February because of half term. But at the same time, I've just paid £800 for March. So you get these really difficult months, for no good reason.*

Solution:

Short-term - Claiming for childcare costs in Universal Credit involves families having to cover massive upfront childcare costs every month before claiming them back. The childcare payment system needs to be redesigned to allow the childcare payment to be made upfront and paid directly to the provider.

Long- term - Universal childcare free at the point of use, rather than these or the current arrangements, would be the preferred option.

Issue: Integration of benefits

The integration of benefits and tax credits into one system, in the form of Universal Credit, may simplify the design. However, a system designed to deliver entitlement in one benefit can also cause severe financial hardship if there are any problems with the claim.

A delay with the application will mean receiving no money at all to live on (although the claimant will receive child benefit if entitled to this, as it remains outside Universal Credit).

In the legacy system, as there were several separate benefits/tax credits, and they were received on different dates; if there was a delay in accessing one of the benefits there would still be income from a different benefit, so there would still be some money coming in.

So how far do we want to integrate benefits? We need to examine the design of Universal Credit to assess whether any elements could be easily taken out, and the advantages and disadvantages of doing so.

For example, support for childcare costs may be the most obvious to remove from Universal Credit. This was also recommended by the House of Lords Economic Affairs Committee in its 2020 report *'Universal Credit isn't working'*.[53] Including childcare support in Universal Credit has created complexity for claimants. The design involves reimbursement of costs in arrears and has been a barrier to in-work progression. In some cases, it has been a disincentive to work.

Integration along with separation of payments for couples and the monthly assessment periods, are the most complex areas of reform and would be considered fundamental reforms to Universal Credit.

Solution:

Support with childcare costs to be taken out of Universal Credit.

Look into which other elements can be taken out of Universal Credit.

53 HOUSE OF LORDS Economic Affairs Committee 2nd Report of Session 2019–21 HL Paper 105 Universal Credit isn't working: proposals for reform- https://committees.parliament.uk/publications/2224/documents/20325/default/

Universal Credit Qualitative Research

In compiling this report, we wanted claimant involvement by hearing directly from those receiving Universal Credit. We commissioned a qualitative study to understand the complexity of the issues raised in this report with a small number of users, rather than a quantitative study looking at statistically significant numbers of people. It was a small sample size so not illustrative of the larger population, though the group was diverse.

The study provides us some insight to claimants' thoughts on proposed changes. It focussed on six reform areas, as the interviews were an hour long it was not possible to cover the full range of issues. It does include areas we identified earlier in the report as more complex areas of reform. The six areas of focus are monthly assessment periods; monthly budgeting; passported benefits; childcare payments tapering; direct payments to providers; and individualisation of payment.

In summary

Monthly Assessment Period

- Whilst the monthly assessment period was more pertinent as an issue for those with fluctuating incomes, it is a challenge for virtually everyone. Most people were aware that choosing the date to apply was important, even if they did not fully realise why this might be. Many also said that they have had to make a request to employers that they do not vary their pay day in order to be able to manage their Universal Credit income.
- Respondents liked the idea of longer assessment periods like six-months, and some pointed to other benefits, e.g. tax credits which are paid on annual assessment periods. There were of course questions about how this might work, and a desire to be confident that there would be a solid floor below which income would not fall below, and an ability to apply for an increase during this period if necessary.
- The work allowance came up here in discussion, this was popular, as respondents felt that it would free up people to take on extra hours or do overtime, without the concern that this might leave them worse off.

<u>Quotes from claimants</u>

"It's so confusing. I didn't know anything. I read about it on a Facebook group. They all said the best time to put your claim in is the middle of the month, because if you claim at the end of the month because of leap years or short months, you can get affected. I didn't understand quite why but I just went with it".

"I spent ages learning it all and I still have no idea how much I'm getting each month. I do some online English language teaching and am a bike courier, but it's hard to know if it's worth doing because of what you'll lose."

"I think the work allowance you mentioned would make a big difference - if I knew the first few hundred pounds I was earning was actually coming to me, it would feel different. You need energy to go out hustling to find a job, just because you found a few more hours last month, why should you have less this month? It drains you that, having nothing in your account, it drains you of the energy you need to find work, it stops you getting any momentum."

Monthly Budgeting

- The subject of more frequent payments was very popular, and probably the most straightforward of any of the reforms discussed. The focus is very much on choice - different respondents had different preferences for weekly / fortnightly / monthly payments, largely stemming from their previous experience of receiving benefits or wages.
- It seemed like common sense to participants that some of the stress of budgeting is removed if you know that you have got some more money coming in the following week, even if the overall amount has not changed.

<u>Quotes from claimants</u>

"Let's face it, everyone's a payday millionaire. I know I do it, probably worse than most. It would be better, honestly, if I had a smaller amount weekly than all of it at once."

"Fortnightly would be better - or every week actually something coming in. Once I've allocated everything for rent, bills. There's nothing left for emergencies. If there's a bit coming in each week, you don't panic, you know there's always something coming."

Passported Benefits

- Most respondents were unaware of the eligibility criteria built into all of the passported benefits, other than free school meals.
- Because most people were surprised that other passported benefits were assessed monthly, they were not keen on switching to a longer three-month assessment period. They agreed that free school meals should be available to all Universal Credit recipients, and went further, arguing that the same should be true for the other specified passported benefits too.

Quotes from claimants

"Free School Meals is the one I'm worried about. It's already bad now ours are in secondary school - they're on free school meals, but I end up topping them up with extra cash anyway, because suddenly they're choosing their own lunches, not like in primary. But honestly, when my partners starts his taxi work, we'll lose the free lunches altogether. Now I'm saying this I'm not even sure it'll be worth it - with three teenagers to feed."

"I'd like to just be able to get some help with things like this, without having to go through all of the UC process. It's different in Scotland because we get prescriptions, eye care etc free here. But I can imagine for someone in my position in England, you don't want to bother with the whole bother for Universal Credit, but especially if you had a health condition, prescriptions would make a big difference. Why can't people just apply to those separately?"

Tapering of childcare costs element

- Childcare is so unaffordable for so many, that the specific question of tapering of Universal Credit in line with increasing incomes was less of a priority. There are many more challenges: the exorbitant overall childcare costs in comparison to wages; that nursery hours do not flex around many work patterns; that only Ofsted registered providers are covered, meaning that it is not possible to use more flexible or lower cost options; that only 85 percent of costs are covered; and the fact that reimbursement for childcare costs is paid in arrears as part of the Universal Credit monthly award, to name but a few.
- Whilst the tapering away in line with increased earnings is certainly another challenge for many, most of the parents said they simply cannot afford paid childcare provision and were waiting for the 15/30 hours per week free provision, or attendance by their child at school, before being able to consider working.

Quotes from claimants

"I applied for a special bit of the childcare allowance for my 16 year old. He's got epilepsy and special educational needs, he has a boarding element of the state school he goes to, and they told me to claim it back through Universal Credit. I did that in September, and I'm not being funny, I got it back this week. This week. I sent my evidence in three times - I can show you my journal - it's just all messages from me chasing them. They've got all my invoices and codes and everything, and it took 6 months."

"I'll be honest with you, I'm a worker. I like working. I do it for the adult company to be honest, a bit of space from all the kids. But any overtime I do, there's genuinely no point. It all gets taken off me."

The monthly dates thing is really hard for me. It took me ages to work out how to choose the right dates, I spent so long on these massive facebook sites getting advice. How it works for me, is that I get my nursery bill, and I pay it on the last day of the month, same day I get paid. Then on the 16th of the month, I get my statement from UC on much I'll *receive and then get the cash on a few days later on the 20th. So I'm always 20 days behind. But because I pay for term time only, sometimes you get funny months. So in March, I'll only get £450 or so from UC because I had reduced hours in February because of half term. But at the same time, I've just paid £800 for March. So you get these really difficult months, for no good reason.*

Direct payments to providers

- This was also very popular, especially with those social tenants who remember their Housing Benefit going direct to landlords. It felt that this would take another of the "jobs" associated with managing Universal Credit out of the equation. However, there were some concerns, for example with the stigma attached to receiving Universal Credit; and questions about how direct payments to providers would work in the case of fluctuating hours of childcare.

<u>Quotes from claimants</u>

"It's just another thing to put the work on to people who are already struggling. It would definitely be one less job if it went straight out to them. They don't make people in higher up jobs sort out their own tax payments, or their own student loan payments or their own pension payments - the government does it all for you. So why do people on benefits have a different story?"

"I think I had the option for it to go to my landlord - maybe it's different in Scotland? I actually chose for it to come to me. I don't think it was a really conscious decision, I just didn't want my landlord to know how I manage my money. The number of ads for flats you see in Glasgow that say no housing benefits tenants. I think it's illegal but they all do it anyway."

Individualisation of payment

- This was the most unevenly received idea. Most people, particularly women, instinctively worried about the implications for domestic abuse of shared accounts. One woman had supported a friend through trying to apply for a discretionary split payment, only to find that it is necessary to have at least two agencies involved in a domestic violence case to do so.
- However, some people also raised concerns about split payments. The failure of Universal Credit to keep pace with cost of living increases, meant that for most people, the vast majority of their Universal Credit is immediately allocated to bills and essentials on receipt. There was a concern that this would be harder to

manage if it was received into separate bank accounts and might cause unnecessary arguments and stress within couples. Many of the women said that they had always done all the budgeting for themselves and their partners even before Universal Credit: so, in fact, joint payments were in practice not as much of a challenge as might be thought.

Quotes from claimants

"I've always done all of our finances. It's easy for us as my partner is so lazy… He'd never get round to it if it was up to him. There's much less paperwork when there's one payment. But then again, I work with clients suffering from domestic violence all the time. DWP will literally wait until your life is at risk before they start to think about split payments."

"I get the domestic violence thing, I really do, and I've supported friends through it, but for me separate payments would be a nightmare. Most of what we get just covers bills - it would be even harder to manage that if we were getting it separately."

"They say they're trying to make Universal Credit like being in work - that's why you get it monthly, not weekly, so it's more like a salary. But who gets paid their salary into their boyfriend's bank account?!"

"The most ridiculous thing is how UC makes you allocate a main carer. Me and my partner wanted to do this evenly, split childcare 50/50, right down the middle. But they just don't let you do that. I absolutely hate that it defaults to the woman, even though I've always earned more than my partner, the system assumes it's me staying home looking after my baby. It's like they want me to do that. "

There is so much complexity around Universal Credit that no two experiences are the same, and this research did not attempt to cover the full spread. However, from the small number of in-depth conversations adequacy of income was the key issue which came out for claimants, even though the study was not focussing on adequacy.

Beyond replacing Universal Credit

Achieving the set of principles outlined at the beginning of the report requires many more changes to our current social security system than simply replacing Universal Credit.

In the short to medium term, we need to set out improvements to the means-tested system, amongst other suggestions for reform. While we are concerned about the direction taken in recent years towards further reliance on means-tested benefits, they can be improved. For example, inadequacy could be overcome if means-tested benefits in the UK were paid at a level that was sufficient for participation. Similarly, means testing can be done in a less intrusive manner, can be simpler, can provide more individual autonomy and security and can avoid relying on a harsh sanctioning regime.

However, Universal Credit as a means-tested benefit can only help relieve poverty after it has actually happened and not prevent poverty striking people. Neither can it fulfil the other functions that a comprehensive social security system needs to fulfil, including sharing of risks; contributing towards additional costs (e.g. in relation to disability, and children) for anyone, no matter what their income level; redistribution across the individual/family/life-course to times when resources are needed more; and helping to reduce inequalities between different social groups.

In the longer term, we need to design a better social security system (although this is beyond the scope of this paper).

In the short term, however, the social security system must be substantially reformed beyond Universal Credit by:

- Raising the basic level of universal credit and legacy benefits, including jobseekers allowance and employment and support allowance, to at least 80 per cent of the national living wage (around £260 per week).
- Significantly increasing benefit payments to children and removing the two-child limit within social security.
- Remove the arbitrary benefit cap.
- Remove the No Recourse to Public Funds (NPRF) restrictions. Everyone living in the UK must have access to public funds.
- Reform the savings rule that reduces payments to anyone with £6,000 in savings and means those with £16,000 are not eligible.

- Ensure that statutory Sick Pay is sufficient to cover basic living costs. Weekly payments must rise from £99.35 to the equivalent of a week's pay at the Real Living Wage – around £330 a week.
- Remove the lower earnings limit for qualification for sick pay to ensure that everyone can access it, no matter how much they earn.
- Increase statutory maternity, paternity and shared parental pay and leave.
- Pay Maternity Allowance at an equivalent rate to earnings-related Statutory Maternity Pay for the first six weeks.
- For the self- employed, introduce a paternity allowance to match the maternity allowance.

Summary of recommendations

Changes in making work pay

Issue: Making work pay

Solution: The Universal Credit taper rate can be reduced further, and options of different taper rates for different groups of people should be examined.

To ensure that work pays, work allowances need to be increased, and extended to those not currently entitled to them.

The second earner should have their own independent work allowance.

Changes to the amount

Issue: Inadequacy of social security payments

Solution: To improve the adequacy of benefits, the TUC has called for the basic level of Universal Credit and legacy benefits, including jobseekers allowance and employment and support allowance, to be raised to at least 80 per cent of the national living wage (£260 per week).

Issue: Disabled people and Universal Credit cuts

Solution: No one should lose out financially in Universal Credit; we need to look beyond transitional protection to ensure that disabled claimants are getting at least the amount they would have done in the legacy system.

Issue: *Older people and Universal Credit changes*

Solution: The older partner of a mixed age couple when reaching State Pension Age (SPA) should entitle the couple to claim pension credit.

Changes to waiting and conditions of payment

Issue: Five week wait for first payment

Solution: There is no justification for the five week wait for a first payment of Universal Credit. In the short term this can be replaced immediately with non-repayable grants. The amount can be estimated on the first monthly payment like the advance.

Issue: The self -employed and the Minimum Income Floor (MIF)

Solution: Universal Credit has not been well designed for the self-employed. The punitive MIF should be removed permanently, with self-employed people only subject to the 'gainful self-employment test' already used by the DWP to ensure that a business is genuine

Issue: Sanctions in Social Security benefits

Solution: The punitive sanctions scheme must be scrapped. Employment support must be designed to genuinely help people into decent work.

Issue: In work conditionality and Universal Credit

Solution: Proposals to introduce in-work conditionality should be dropped.

The TUC supports and encourages genuine progress in the workplace (investment in training and development), rather than wielding the stick of conditionality and sanctions.

Changes to process

Issue: Universal Credit - digital by design

Solution: More options for claiming the benefit, including widely available access to Jobcentres for those not comfortable with IT or who do not have access to IT facilities.

Issue: Managed Migration of Universal Credit

Solution: Responsibility for the process of managed migration should be on the Secretary of State (rather than claimants), who should ensure that the termination of existing benefits will not cause undue or unnecessary hardship.
And the managed migration process needs to be trialled first and then evaluated.

Issue: Transitional Protection in Universal Credit

Solution: No one should lose out when moving over to a new benefits system.

The process of migration needs more thought. Along with ensuring the uprating of transitional protection.

Issue: Delivery of Universal Credit

A large-scale employment drive in jobcentres and service centres is needed to reduce workloads for work coaches in order to achieve better outcomes for claimants.

And to reduce reliance on digital only services and expansion of jobcentre network - flexibility in delivery (digital and in person) that empowers the claimant.

Changes to assessing income ('assessment periods')

Issue: Monthly Assessment Period

Solution: Short Term - introduce earnings disregard into Universal Credit - so that income can increase a certain amount without affecting the award.

Short term - The legal challenge win about the assessment period which caused fluctuating incomes for those in work only applies to claimants who are paid on a regular monthly basis, and not those who are paid on a four-weekly, weekly or fortnightly basis. This needs to be extended to these workers too.

Long Term - A three -to-six-month assessment period to reduce fluctuations and provide stability for claimants. If circumstances change then claimants should be able to report this and request for their circumstances to be reassessed.

Issue: Real Time Information

Solution: Employees should be compensated for any errors by employers to do with Real Time Information that affects their Universal Credit award adversely

Issue: Passported Benefits

Solution: Short term - Free school meals should be available to all those on Universal Credit – there should be no cliff edge. For other support, a longer assessment period could be used, to smooth out fluctuating incomes.

Long term - In the long term every child in compulsory education should be provided with free school meals

Changes to how payments are made

Issue: Difficulty in budgeting on monthly payments of Universal Credit

Solution: Claimants should have options to be paid Universal Credit twice or four times per month to allow them to budget to suit their circumstances, rather than these being exceptional temporary discretionary arrangements as in most of the UK.

And to have a similar option of the housing costs element of Universal Credit being paid directly to the landlord more automatically in the whole of the UK.

Issue: Lack of individualisation in payment

Short term – examine further the best way(s) in which to respond to calls for ensuring access to some universal credit for both partners and the prevention of financial coercion.

Long term - beyond this there is a need to look further into the individualisation of social security payments.

Issue: Complexity of childcare payments

Solution: Short-term - Claiming for childcare costs in Universal Credit involves families having to cover massive upfront childcare costs every month before claiming them back. The childcare payment system needs to be redesigned to allow the childcare payment to be made upfront and paid directly to the provider.

Long- term - Universal childcare free at the point of use, rather than these or the current arrangements, would be the preferred option.

Issue: Integration of benefits

Solution: Support with childcare costs to be taken out of Universal Credit.

Look into which other elements can be taken out of Universal Credit.