## Briefing for Peers –
## Debate: Impact of Universal Credit on claimants
## Short debate: Inflation impact on families affected by benefit freeze
Thursday 16th November 2017

**Child Poverty Action Group** (CPAG) works on behalf of the 4 million children growing up in poverty. This submission draws on CPAG's new report (November 2017): The Austerity Generation: the impact of a decade of cuts on family incomes and child poverty, and our **Early Warning System (EWS)**, which collects and analyses case evidence on how social security changes affect the wellbeing of children and their families. It covers:



### What is Universal Credit?
Universal Credit (UC) is being gradually introduced to replace current means-tested benefits and tax credits for working-age people. When the introduction of UC was announced, there was widespread hope that the intended simplification of the benefits system, strengthened work incentives and a more gradual progression into employment would prove beneficial to low-income families.
Six years later however, cuts to entitlements, policy flaws and reported administrative problems have raised serious concerns that UC is having a detrimental impact on struggling families and will contribute to increased rates of child poverty.

### What effect have cuts to UC had on families?
CPAG's November 2017 report 'The Austerity Generation: the impact of a decade of cuts on family incomes and child poverty'[1] models how cuts to UC (detailed in section 2e) affect different populations and family groups. The research, conducted with the Institute for Public Policy Research, concluded that families with children lose the most from the cuts, particularly those with young children. Single parents, larger families and families in which someone has a disability also lose out disproportionately. Some key figures:

[1] http://cpag.org.uk/content/austerity-generation-impact-decade-cuts-family-incomes-and-child-poverty

## 1. Reduced rewards from work

- Working families stand to lose £420 a year from cuts to UC – these are losses across the population, so the losses for UC recipients would be much higher.
- Work allowance cuts have the greatest impact in cash terms on households in the second and third deciles (the 'just about managing' group).
- While work incentives may have improved for some families, big falls in family income caused by cuts and changes to UC have left many worse off overall, overwhelming any gains from increases in the 'national living wage', personal tax allowances and help for childcare. **For example, take a lone parent with children earning £150 from working 18.5 hours a week. Although UC reduces the effective tax rate to 74 per cent, this lone parent and her children would be £2,336 a year worse off than under the 2010 tax credit system.**
- Freezes and cuts to UC work allowances (the income level at which UC starts to be withdrawn) will leave lone parents worse off by, on average, £710 a year, couples £250 a year. A full-time working couple on the 'national living wage' would have to work an extra 17 days a year to make up for the cuts to UC work allowances. A single parent working full-time on the 'national living wage' would have to work 41 extra days a year – two extra months.

## 2. Cuts hit families with children hardest, especially lone parents

| Average change in annual income for **all** UK families resulting from changes to: | | |
|---|---|---|
| | Tax Credits 2010-2020 | UC 2013-2020 |
| Single parent with no children | - £340 | - £220 |
| Single parent with children | - £1,940 | - £2,380 |
| Couple with no children | - £460 | - £160 |
| Couple with children | -£2,080 | - £960 |
| Single pensioner | - £240 | - £30 |
| Couple pensioner | - £440 | - £40 |

## 3. Real terms cuts to benefit adequacy

- Uprating decisions will cost the average single parent family on UC £710 a year, with the average couple with children losing £430 a year.

## 4. Families already at greater risk of poverty will lose most

- The poorest 10 per cent will lose 10 per cent of their income (£450 a year) on average compared with what was promised by UC.
- The average family with three children will be 10 per cent (£2,540 a year) worse off, and the average family with four or more children 19 per cent (£5,000 a year) worse off due to UC cuts.
- Families containing someone with a disability will be £300 a year worse off due to UC cuts; families containing someone with a severe disability will be £530 a year worse off.

## 5. Child poverty rising

- **The cuts to UC would put 1,000,000 children in poverty and 900,000 in severe poverty by the end of the decade**, assuming the absence of tax credits.

## UC impact on employment

The government has reported that UC claimants are 'moving into work faster' and 'earning more' than under the old system. However, its own most recent evaluation[2] shows that the effect on employment is small:

- 6 months after making a claim, 56% of the UC claimants were in work and 53% of similar claimants on Jobseeker's Allowance were in work (3 percentage point difference).
- 63% of the UC claimants had worked at some point in the first 6 months of their claim, compared with 59% of the jobseeker's allowance claimants (4 percentage point difference).

The evaluation also revealed a serious problem in the personalised support underpinning UC. In theory, UC claimants and 'work coaches' work together to produce a 'claimant commitment' setting out job search expectations. In reality, this is often not happening. The DWP's own research, published in September 2017, found:[3]
*'there was a widespread feeling that the Claimant Commitment (CC) hours were too high and therefore hard to achieve, because of: a perceived lack of job vacancies locally; issues around balancing jobsearch with family life/childcare; internet access; disabilities or literacy issues; and fitting jobsearch around paid work. For the most part, claimants felt they had been given a 'one size fits all' CC which they were struggling to meet.'*

The evaluation also found:

- Only two in five(42 per cent)  felt all the actions in their claimant commitment took account of their personal circumstances
- Only two in five (44 per cent) felt all their actions in the claimant commitment would genuinely increase chances of finding work
- Only half (50 per cent) all their actions were achievable

*Question: The Government's own evaluation, published in September, revealed significant problems with the development and implementation of the claimant commitment: essentially 'claimants felt they had been given a 'one size fits all' [Claimant Commitment] which they were struggling to meet'. What steps are ministers taking to address this problem?*

An earlier DWP evaluation[4] which compared earnings between UC claimants and Jobseeker's Allowance claimants found that the difference in earnings was small and not always statistically significant.

It further explained that 'the relatively modest impact on earnings suggests that whilst UC claimants are more likely to have some work it appears that this additional work probably involves relatively few hours at relatively low wages' (p.27).

---

[2] https://www.gov.uk/government/publications/universal-credit-employment-impact-analysis-update

[3] 'Universal Credit Test and Learn Evaluation', Research report 944, DWP, September 2017: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/643978/research-into-families-claiming-universal-credit.pdf

[4] https://www.gov.uk/government/publications/universal-credit-estimating-the-early-labour-market-impacts-updated-analysis

## UC Roll Out: Key problems from case evidence

Cases from CPAG's **Early Warning System (EWS)** enable us to develop an in-depth understanding of the impact of welfare reform and to identify how policies and services can contribute to delivery of better outcomes of children.

CPAG's report from March 2017 on UC Full Service Roll Out sets out in detail the evidence gathered through the Early Warning System that the first months of the roll out of UC have left many claimants in financial hardship.[5] A summary of the report's key findings is below:

**1. Administrative problems experienced by claimants include:**

- difficulty making claims for UC, with many online claims seeming to 'disappear,'
- UC being underpaid because 'real time information' provided by HMRC regarding income is not always reliable or accurate
- claimants being paid the wrong amount of UC for no apparent reason. This appears most common in relation to housing costs and has resulted in some claimants facing eviction
- difficulty claiming contributory benefits that should be available alongside UC.

**2. Rules and policies relating to the administration of UC are causing difficulties for claimants. For example**:

- claimants experiencing financial difficulties due to the six week wait for the first payment
- DWP's policy of only working with a client's adviser where there is evidence of unequivocal consent from the claimant
- homeless claimants being left unable to fully meet their temporary accommodation costs because the maximum housing costs they can receive through UC have been capped at the amount they would be entitled to if they were to rent private sector accommodation
- claimants facing hardship due to the rate of deductions that are applied in relation to rent arrears and other debts
- increased conditionality and sanctioning rules causing claimants stress, anxiety and undue hardship, particularly where individual characteristics and circumstances are not fully taken into account.

**EWS Update – March to October 2017**

As UC roll-out moves across the country, CPAG's Early Warning System is picking up further issues impacting on claimants.

1. **Delays in work capability assessments**

- We have collected a considerable number of case studies about people who have been submitting sick notes from their doctor, but have either not been referred, or have experienced a long delay before being referred, for a work capability assessment. In the meantime there is a huge discrepancy between work coaches' use of discretion to vary the claimants' conditionality, in some case resulting in the client being sanctioned repeatedly.

A client with mental health problems claimed UC over a year ago and has been submitting sick notes for the last 6 months. She has been sanctioned repeatedly for failure to comply with her claimant commitment and to date has only received one payment of UC and has been refused hardship payments. Despite submitting sick notes for six months she has not been referred for a work capability assessment.

[5] http://www.cpag.org.uk/sites/default/files/CPAG_EWS_UC%20full%20service%20May%202017.pdf

A UC claimant has kidney failure, is awaiting dialysis and is submitting fit notes pending a work capability assessment. She has had her conditionality reduced from 35 hours to 20 hours but is very ill and really not able to take part in any work-related activity or look for work.

- This practice may be contributing to high number of UC sanctions noted in Dr David Webster's report[6], which noted there were approximately 129,000 JSA and 229,000 UC sanctions on unemployed people before challenges in the year to March 2017. This accounts for 7.4% of UC claimants compared with 2.5% of JSA claimants.

2. **Delay processing applications for people who are terminally ill**

- Individuals who submit a form signed by their doctor confirming that they are terminally ill, should have an additional amount (limited capability for work-related activity element) included in their UC award. However case studies highlight that this is not working as it should and people are facing excessive delays in having the relevant amount included in their award.

A terminally ill client claimed UC and submitted the form confirming their terminal illness at the same time, which should have led to them being automatically entitled to the limited capability for work-related activity element. The client died three and a half months later, without the additional amount having been paid. The family received a payment following the client's death, but it erroneously did not contain the LCWRA element for the first three months (the assessment period) but there is no assessment period for claimants who are terminally ill.

3. **Unnecessary re-assessments following migration from ESA to UC**

- Individuals who have the limited capability for work or limited capability for work-related activity element included in their Employment and Support Allowance (ESA) award, should automatically have the relevant element included in their UC award unless their ESA award ceased prior to them claiming UC. For example, someone who is receiving ESA making a new claim for housing benefit in a full service area would trigger a claim for UC. However we have collected a number of case studies that evidence the relevant elements are often not being included automatically and individuals are being told they will have to be re-assessed before the relevant element can be included in their award.

A client with learning difficulties has been underpaid UC for five months. She was claiming income-related ESA, but had to claim UC when she had to start claiming help with her housing costs. She should have had the limited capability for work-related activity element included in her UC award automatically, but has not and has been told that the will have to undergo another work capability assessment first.

[6] Benefit Statistics briefing August 2017, Dr David Webster, Glasgow University.

## Benefit adequacy (short debate, initiated by the Lord Bishop of St Albans, on the impact of inflation on families affected by the benefit freeze follows the UC debate)

*NB Inflation forecasts have been increased since this analysis was carried out, so our figures will be under-estimates of the impact of the freeze/uprating decisions between now and 2020.*

### Background: sustainability of social security

Since 2010 austerity policies have been broadly justified by the stated need to reduce the budget deficit and the claimed unsustainability of social security spending. Yet, while benefits and services for low-income families have been repeatedly targeted for cuts, people higher up in the income distribution have benefited from tax cuts.

In 2015, a major study by LSE, Manchester & York universities of the Coalition government's spending record concluded that benefit cuts were largely offset by tax cuts, undermining the argument that there was no alternative to these spending cuts: [7]

*"Almost all of the savings achieved by cutting benefits were offset by gains for richer groups. Given the Chancellor's emphasis on the centrality of cutting 'welfare' to reducing the deficit, this will be a surprising finding to many people, but reflects in particular the very large cost of raising the income tax personal allowance."*

For example, the increases in the personal tax allowance, which overwhelmingly benefit the better off, cost £8 billion under the Coalition, and a further £5.5 billion will spent in 2017-18 paying for the allowance being increased to £11,500 and the higher threshold being raised to £45,000. [8]

The Office of Budget Responsibility says looking at social security spending as a percentage of national income 'is the most relevant metric when considering the sustainability of the public finances'.[9] The cap on Annually Managed Expenditure – the 'welfare cap'- which is set in cash terms is arbitrary and shifts risk, like policy failure or higher than expected inflation, from the government to individuals.

The OBR's analysis (see chart below) demonstrates that 'welfare' spending as a percentage of GDP has been relatively stable in the last thirty years.[10]

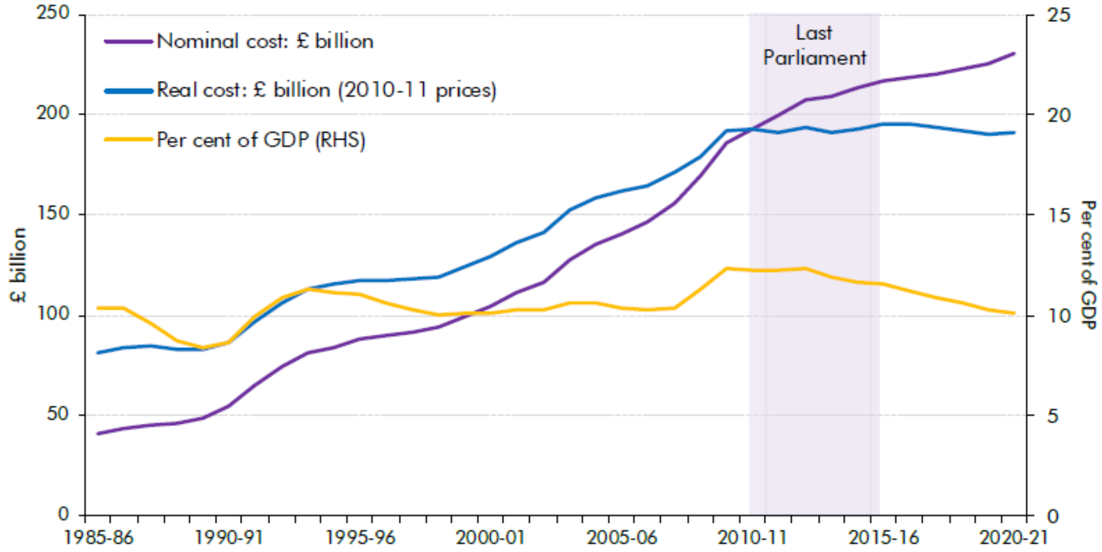
[7] See http://sticerd.lse.ac.uk/case/_new/research/Social_Policy_in_a_Cold_Climate/Programme_Reports_and_event_information.asp

[8] See https://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=5&ved=0ahUKEwjR7uKKm-nWAhXoCMAKHbZ8DXkQFgg7MAQ&url=https%3A%2F%2Fwww.ifs.org.uk%2Fuploads%2Fbudgets%2Fbudget2017%2Fbudget2017_ah.pdf&usg=AOvVaw3gx_NhK14HA-sbCgqWnABe

[9] See http://budgetresponsibility.org.uk/download/welfare-trends-report-october-2016/

[10] See http://budgetresponsibility.org.uk/download/welfare-trends-report-october-2016/

Chart 3.1: Historical trends in welfare spending




Source: DWP, ONS, OBR

In 2013, CPAG published estimates that put the costs of UK child poverty at £29 billion a year.[11] These include:

- Spending on services to deal with the consequences of child poverty (15 billion).
- Tax receipts lost to government as a result of people earning less, having grown up in poverty, (£3.5 billion)
- Benefits spent on people who are out of work more as a result of growing up in poverty rose (£2.4 billion)
- Loss in private post-tax earnings by adults who have grown up in poverty rose (£8½ billion)

**Background: adequacy**

The freeze comes on top of years of not uprating benefits properly but will have particularly serious consequences. Child benefit rates are expected to be 24 per cent lower in 2020 than had they been uprated by RPI since 2010, and child tax credit rates 11 per cent lower.[12] When the freeze was introduced, inflation was not expected to be so high as is now forecast.

## Benefit adequacy in tax credit system

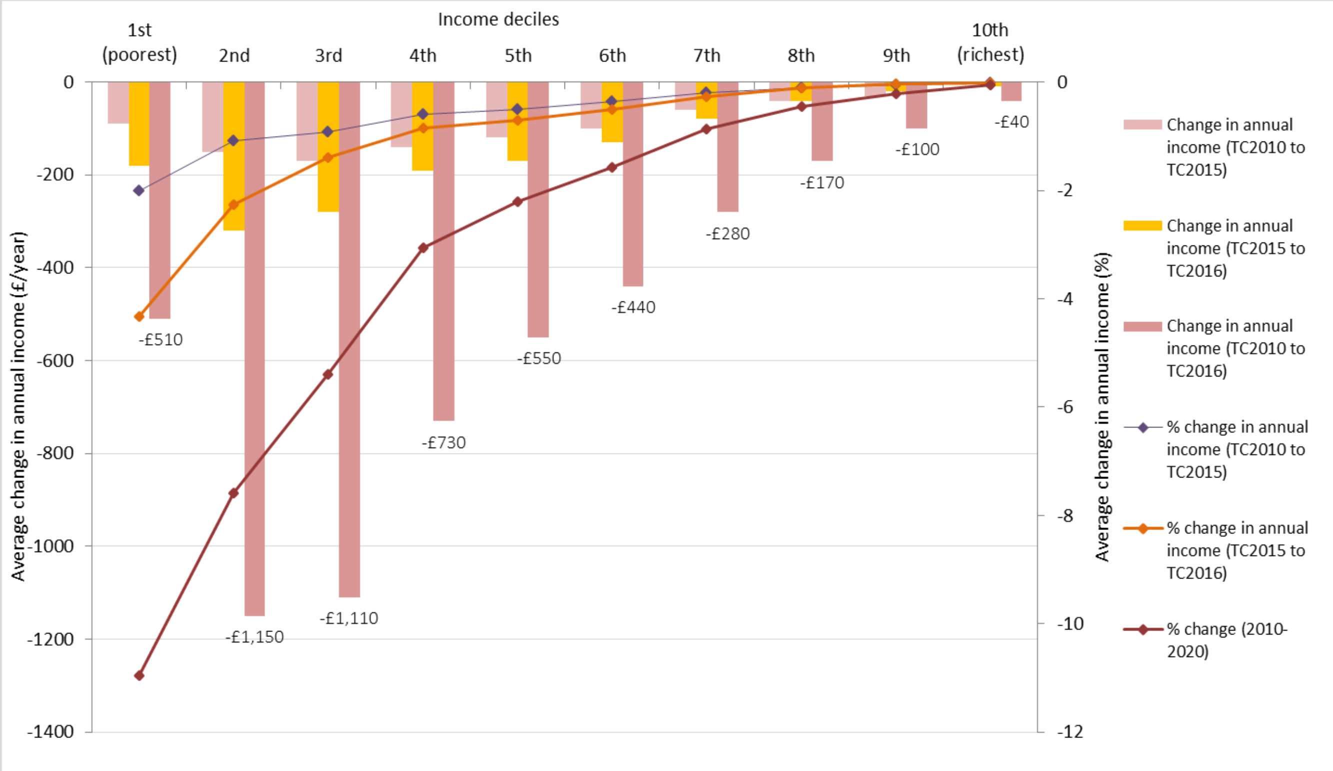
Sub-inflationary uprating decisions including the freeze will cause very significant losses:

---

[11] See http://www.cpag.org.uk/content/estimate-cost-child-poverty-2013

12 End Child Poverty, Feeling the Pinch, 2017

Average change in annual income for all families from sub-inflationary uprating of benefits in a tax credit system (TC2010 to TC2016) by equivalised income decile.




Source: analysis of 2014/15 family resources survey using the IPPR tax-benefit model

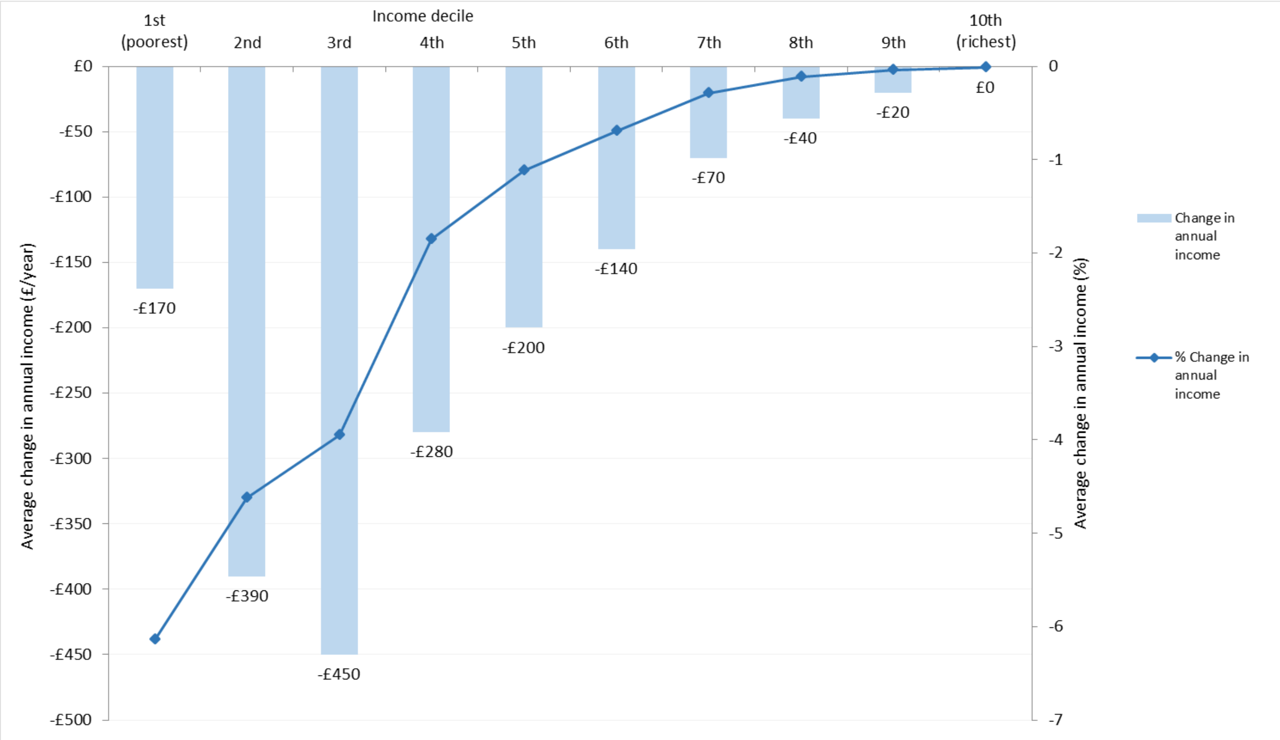
TC2010: the benefits and tax credits system inherited by the Coalition government in May 2010.
TC2015: benefits and tax credits system inherited by the Conservative government in May 2015.
TC2016: the benefits and tax credits system as legislated at the end of 2016, assuming full implementation of all changes regardless of the actual planned date of implementation.

In a tax credit system, uprating decisions for child benefit and child tax credit alone would leave the average family with three children £1,100 a year worse off and the average family with four or more children £1,950 a year worse off than under the 2010 system (TC2010), on top of the effect of other cuts.

**Had children's benefits been uprated in line with inflation since 2010, there would be 400,000 fewer children in poverty after housing costs** (also 400,000 before housing costs) in a tax credit system. In addition there would be 400,000 fewer children in severe poverty.

## Benefit adequacy in UC system

### Changes in income for all families resulting from the failure to uprate UC and child benefit (UC2013 to UC2016) by equivalised income decile




Source: analysis of 2014/15 family resources survey using the IPPR tax-benefit model

UC2013: Universal Credit as originally legislated and other benefits as legislated in 2013.

UC2016: Universal Credit as legislated at the end of 2016, assuming full implementation of all changes regardless of the actual date of implementation.

The four-year freeze to UC, plus child benefit uprating policy, will cost the average single parent family £710 a year and the average couple with children £430 a year in a UC system.

Working families will be on average £190 a year worse off as a result of the freeze and uprating decisions in UC and child benefit.

The freeze of the child element in UC will cost the average family with three children £230 a year, and the average family with four or more children £420 a year. If the freeze to child benefit is added, this rises to £320 a year for families with three children, and £540 a year for families with four or more. The freeze of the child element costs the average couple with children £100 a year and the average lone parent family £230 a year (£170 and £300 a year respectively with the freeze of child benefit also included).

**In a UC world, failure to uprate UC and child benefit in line with inflation since 2013 – even allowing for the cuts to work allowances and the first child element – mean 300,000 additional children in poverty** (AHC) and 200,000 additional in severe poverty (BHC). The freeze of the child element alone means 100,000 extra children in poverty, and together with the freeze of child benefit means 200,000 extra children in poverty and 100,000 in severe poverty.

Had the UC child element and child benefit instead been triple locked since 2013, there would be 500,000 fewer children in poverty and 400,000 fewer in severe poverty.

## Ways to improve UC

CPAG has supported the UK government's decisions to delay the original October 2017 timetable for completion of the roll-out of UC in order to resolve problems and safeguard financial support for families.

**However, our modelling of the impact of the cuts and Early Warning System cases show that UC continues to be beset by systemic design problems, as well as serious operational issues. In light of this evidence, CPAG believes the government should now pause the roll-out and fix these issues as a priority. The January 2018 scheduled pause should be sustained until the DWP and its stakeholders are confident that UC can be rolled out safely for families.**

In order to restore UC's poverty-reducing potential the UK government must:[13]

- Restore work allowances. This would benefit all working families by an average of £150 a year – so those on UC would benefit by much more than this figure.
- Triple-lock child benefit and the child element of UC: this would be the single most effective intervention to reduce child poverty (it would reduce numbers by 600,000). Children have twice the poverty rate as pensioners – it's right that children's benefits seek the same protections as the basic state pension.
- Lift the two-child limit, keeping up to 200,000 children from poverty.
- Remove the benefit cap, keeping up to 100,000 children from poverty.
- Reduce the current six week wait for a first payment to two weeks.
- Raise the UC childcare ceiling so it's not limited to two children and pays a higher rate for disabled children.

If the current design of UC was retained, the following changes could also have a positive impact across the UK:

- A second earner work allowance for couples, equivalent to that available to first earners, could keep up to 100,000 children from poverty.
- Further reducing the taper rate to 55% could keep up to 200,000 children from poverty.

**Were all the cuts to UC reversed, up to 1 million children could be kept out of poverty, who would otherwise experience poverty under the current design.**

Further information: Jane Ahrends jahrends@cpag.org.uk 0207 812 5216 or 07816 909302

[13] http://www.cpag.org.uk/sites/default/files/Broken%20promises%20FINAL%20for%20website.pdf