Welfare Trackers Research Briefing No. 2

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WELFARE TRACKERS

About the project

Welfare Trackers is a collaboration between the Poverty Alliance, Glasgow Council for Voluntary Services and Scottish Drugs Forum and funded by the Big Lottery Fund. The research briefings form part of 'evidence' stream of the project which involves understanding the impact of welfare reform on organisations and service users on the frontline within the Glasgow area.

Introduction

This evidence review was conducted as part of the Welfare Trackers project in Glasgow. It provides an overview of Universal Credit and analyses some of the key issues and challenges facing Glasgow in light of the roll-out of Universal Credit to the city since June 2015.

What is Universal Credit?

Universal Credit was introduced as part of the Welfare Reform Act 2012. Universal Credit began to be rolled out from 2013. It was designed to bring together a number of existing working age benefits payments into one single payment system[i]. Universal Credit will replace:

- income-based Jobseeker's Allowance
- income-related Employment and Support Allowance
- Income Support
- Child Tax Credits
- Working Tax Credits
- Housing Benefit[ii]

The UK Government's rationale behind the changes is to provide a system to make the benefit system 'simpler, fairer and more affordable, reduce poverty, worklessness and welfare dependency and reduce levels of fraud and error'. [iii] However, the number of benefits being amalgamated into Universal Credit means a significant change in the administration and delivery of these benefits for both claimants and organisations that are supporting them.

Universal Credit will be paid to people both in work and out of work. Claimants will receive one monthly payment paid into a bank account in the same way as a monthly salary and support with housing costs will go directly to the claimant rather than the landlord at present.[iv]

Universal Credit is intended to simplify the social security system in order to incentivise claimants to move into employment by smoothing out the transition into employment. The intention is to do this by introducing a single system of earnings disregards and a single taper. The Centre for Economic and Social Inclusion discuss that this model will operate in the following ways:

- "The level of earnings disregard is the level of earnings that a claimant needs to have before their benefit starts to be withdrawn. The higher the disregard, the more income the claimant can keep in full. Disregard levels for individual claimants will be determined according to the household status (single or couple), the number of children, whether anyone is disabled, and the level of rent (if applicable). The intention is to make disregards larger for those with higher costs from returning to work."

- "The taper is the rate at which additional income is withdrawn once it goes above the disregard level. A lower taper means that the claimant keeps more of their additional income. In Universal Credit there will be a single taper of 65% - so for every extra pound earned, the claimant keeps 35 pence of it. However for those earning above the tax threshold, they would lose part of this in tax (meaning that there is a combined taper of 76%). This is a significant improvement for many claimants, who can face combined tapers of more than 90%."[v]

Universal Credit has brought one of the biggest changes to the UK welfare system. Its introduction has been controversial and subject to much scrutiny by campaigners and service providers. By the end of October 2014, the Department of Work and Pensions had spent £700 million on Universal Credit and is expected to have spent £1.7 billion on the programme by 2022-23[vi].

UC has been introduced on a phased basis. The pilot of UC in Scotland took place in the areas covered by the Inverness job centre. It was rolled out to Glasgow in June 2015 and currently only applies to new, single claimants. Given the specific labour market conditions in Glasgow it will be important to closely monitor the impact of UC, particularly as other clients are included. It is vital that local data is made available for analysis, which is not the case at the moment.

A report by the National Audit Office (2014) highlighted numerous concerns including questioning the value for money of UC, the timescales for the transfer of existing tax credit claimants, and contingency plans in case of digital service failure or delay.[vii] This briefing will now explore some of the challenges of Universal Credit that have been highlighted to date.

Online system

Universal credit is designed to be ‘digital by default’ where most applicants will be expected to apply online. This is a further step in the digitalization of the welfare benefits service. Concerns have been raised about the impact on claimants who may be digitally excluded or face challenges in using technology. Research conducted by the DWP (2011) on perceptions of welfare reform and universal credit found that many participants questioned the fairness of an online system for claimants without access to or confidence in the internet.[viii] A study on digital literacy conducted by Citizens Advice UK found that of those surveyed 66% were ‘not ready’ for UC.[ix]

Research conducted by The Carnegie Trust found that Glasgow has the lowest home broadband take-up in the UK and has been behind both the Scottish and UK averages for some years. Using figures from Ofcom, Carnegie estimates that 40% of households in the Greater Glasgow area do not have home broadband.

This compares to a Scottish average of 32%, and a UK average of 24%[x]

Barriers other than home access may be an issue. Research has shown a number of factors and issues can contribute to digital exclusion. This includes not knowing how to use a computer, a lack of confidence in skill set and limited opportunities to develop skills. Concerns about using technology and fears around issues such as online security may also play a part. Specific groups may face more complex or hidden barriers when using online application processes for example those with low levels of literacy, language barriers, and learning impairments.

Participants in the Welfare Trackers project raised a number of concerns. These included, for example, the risk to people’s benefits as a result of making errors when applying, and risks of disengagement amongst those with fewer IT skills. Project participants argued that targeted support would be needed to overcome these types of issues. An evidence review has supported these concerns which outlines that targeted support would be required for a number of different demographic groups. This will be of increasing importance as Universal Credit in the roll out process moves over to more complex claimant groups.

In addition, the online system used to administer UC has been fraught with technical problems. The National Audit Office (2014) reported that multiple problems in the system to date in terms of the IT infrastructure. In the early days of Universal Credit in 2013 the DWP were manually checking system payment calculations and correcting them prior to making payments. This then moved to a programme of targeted checking[xi].

This, however, was challenged when between April and June 2014, over 10% of payments made to claimants were incorrect and DWP had to reintroduce 100% manual checking of payments in June 2014. This system has now reverted to targeted checking from February 2015. They also raised concerns about the cost of manual checking. It was estimated that that the Department spends £10 per claim monthly for manual checking on the assumption of no further investment to improve the system.

For example, if further problems occur, the Department would have to spend around £5 million per month for manual checking once live service caseload peaks in May 2016.

Frequency and System of Payments

Under Universal Credit the payment system will be changed. Payment will be made as a lump sum on a monthly basis. The payment will include help with housing costs (Housing Benefit) if eligible. Unless there is alternative payment arrangement in place, Housing Benefit will be paid to the individual rather than being paid directly to the landlord as at present.[xii] The rationale for the monthly payment is to help familiarise people to being paid monthly as is often the case in paid employment. UC payments will also be made on a household rather than an individual basis. For example a couple who are both eligible for UC will receive one combined payment.

This however ignores the available evidence on how people are paid. Research conducted by the Social Market Foundation found that only half of all employees earning under £10,000 per annum are paid monthly[xiii]. According to the Scottish Household Survey (2014) nearly 1 in 5 households in Glasgow (around 57,000) have an income of less than £10,000 per annum. This is above the Scottish average and is the highest of the main Scottish cities. Figures for how these households are paid are not available. However using the Social Market Foundation estimate, around 28,000 households could be affected by a move to monthly payments.

The TUC has raised concerns about the timescale between application and payments being made. Under UC there will be a one calendar month assessment period as well as a further seven day period before payment is received as well as a waiting period. This potentially means people can be waiting for up to six weeks for a payment.

This will create financial hardship for more people. Research on foodbanks has already shown that previous welfare reform changes have been a contributing factor in the rise of their use. Research by the DWP[xiv] found that the issue of a monthly payment was seen as highly contentious by potential claimants. Questions were raised about how people would be able to deal with this especially if they do not have any other sources of financial support to protect them in the interim.

This was also supported by research from the Social Market Foundation (2012) on the introduction of the monthly payment. Their findings indicated that households were concerned about money running out before the end of the month, that the more frequent payments under the existing system provided a psychological boost and helped households to retain better control of their income and spending.

Concerns were also cited about the potential amount people may be paid and how they would know if their payment was correct or not. There were concerns about potential under – or overpayments and people not being able to clearly understand if the amount was accurate if multiple payments were rolled into one.

These fears were also raised throughout the Welfare Trackers project. Participants argued that it could put further pressures on low income households, especially for those who may be inexperienced at budgeting for prolonged periods. In particular participants raised the risk of rent not being paid to landlords at specific points in the year e.g. Christmas or if a household had an emergency situation.

With such a significant change in the administration of benefits, support for claimant groups will be crucial to ensure that households are sufficiently prepared for the forthcoming changes and what they will mean for their individual circumstances. Some of the most vocal criticisms of UC have been raised by housing associations. Research by IPSOS Mori found that that 90% of the housing associations surveyed said they had concerns about:

- The capacity of tenants to cope with monthly budgeting
- The timetable for migration of tenants to Universal Credit
- The capacity of the Government's IT systems to cope with the move
- Tenants being able to access online facilities
- Increased difficulty in rent collection
- The additional resources needed to support tenants claiming Universal Credit
- Identifying tenants who needed an alternative payment arrangement (i.e. housing costs paid direct to the landlord)[xv].

Figures from the DWP's pilot projects for Universal Credit found that of over 6000 tenants making direct payments, rent collection rates stood at 94% on average and the level of rent arrears was currently running at 7%. This suggests that there were potential issues for some tenants to paying their rent when receiving UC.

Research conducted by the National Housing Federation (2014) in England on the experiences of housing associations during the first year of UC found that some claimants who received UC already had existing rent arears and other debts. They provided examples of two housing associations where around 75% of its tenants on UC had arrears prior to UC.

In Scotland the Inverness pilot site of UC in 2014, landlords cited several problems with UC. These included:

- The length of time being taken by the DWP to make a decision on "Alternative Payment Arrangements" (APA's)
- Payment in some cases reverting to claimants despite a 'switchback payment' arrangement being put in place.
- Payments not been received on the dates stated on UC notification letter
- Verification of housing costs – including issues over the calculation of housing costs[xvi].

Claimant Commitment

Another significant area of the UC concerns stricter conditionality rules around the claimant commitment. Like JSA, the claimant will be expected to comply with a claimant commitment under UC. The claimant commitment will be administered either online – the default requirement – or by telephone or in writing, as specified by the DWP[xvii]. The acceptance of the claimant commitment will be a condition of entitlement to Universal Credit.

CPAG (2011) report failure to agree a commitment will result in no benefit being paid. In the case of couples, both partners will have to accept an individual commitment (it is unlikely that the single rate of benefit will be paid if one partner does not accept a commitment)[xviii].

The Claimant Commitment will set out what the claimant has agreed to do to prepare for and look for work, or to increase their hours if they are already working. It will be subject to a review process which, when updated, will need to be agreed to in order to continue receiving UC[xix]. Under the new process there are a number of different groups in which a claimant can be placed depending on their individual circumstances. Where they are placed affects what they will be expected to do while claiming. The groups are:

- Full conditionality – all work related requirements
- Work preparation
- Work focused interview
- No conditionality.

One particular area of concern is the issue of conditionality for people in employment which is being introduced for the first time through UC. The rationale behind this is to strengthen the incentive to increase hours and earnings. The earnings threshold for UC is set at the equivalent of working full time at the national minimum wage[xxi]. Claimants will be expected to meet the earnings threshold through a combination of measures that can include:

- Increasing their hours or their hourly wage with their current employer.
- Finding one or more additional jobs alongside their existing employment.
- Finding a new job with a higher income[xxii].

Research by the Resolution Foundation (2012) raised concerns about this approach. Specifically, they highlighted the current labour market context. Changes in the labour market as a result of the economic crisis of 2008 saw an increase in underem-ployment across the UK. That is, people who are not currently seeking or available for work but would like to be, or those who are working part-time because they could not find a full-time job.

Figures for the first half of 2014 showed that there were 5.8 million underemployed adults in the UK.[xxiii] Of this group the number of adults in part-time work because they could not find full-time work, was 1.4 million (24%). Like Scotland the rate of underemployment in Glasgow increased rapidly from 2008 to 2012. During this period the Glasgow rate was higher than the Scottish rate rising to 12.2% by 2012. However it has since declined to 8.9% today and is now below the Scottish average rate of 9.6%.

The aftermath of the 2008 recession has also witnessed rises in temporary or insecure work such as zero hour contracts and casual employment. Although zero-hours contract jobs only comprise about 4% of all employment they are concentrated in sectors with lower than average pay[xxiv]. Yet despite the rise in insecure employment, most people experiencing in-work poverty are full-time, permanently employed workers concentrated in sectors such as hotels and restaurants, wholesale and retail.[xxv] Jobs in these sectors comprise around 18% of all jobs in Glasgow.[xxvi] As such they are more likely to include people claiming in-work benefits such as tax credits. Trying to increase working hours will prove to be very difficult for people in these circumstances.

In addition there are barriers to achieving higher paid employment for those in low paid work. For example evidence from JRF (2014) shows that people in low paid work are less likely to be offered training by their employer, thereby hampering their chances of progressing to a better job[xxvii].

The Resolution Foundation (2012) has also raised concerns about the capacity of the system to provide appropriate support to claimants about progression and choices in the labour market. For example relying on online and telephone support from Jobcentre Plus staff instead of face-to-face contact may affect the quality of employment support and advice for claimants.

Conditionality

The Claimant Commitment will be subject to strict criteria under UC. Wright (2015) argues that means sanctions will be applied more widely under Universal Credit compared to previous regimes. This will include new groups including partners of claimants and those who are in employment (who will be required to increase their hours of work and pay)[xxviii]. The New Policy Institute (2014) estimates that an additional one million claimants will be subjected to conditionality under UC.[xxix] Therefore, if the current JSA sanction rate (5.1% of total claims each month) is replicated for UC it could result in an additional 612,000 sanctions a year[xxx].

Conclusions

As Universal Credit continues to be rolled out, Glasgow faces a number of challenges:

- Unemployment remains stubbornly higher in Glasgow than elsewhere. The city has consistently had a higher rate of adults claiming out-of-work benefits than other Scottish cities despite that rate having declined from 29.2% in 2000 to 18.4% in 2014. And while UC currently only affects those who are single and aged under 25 years claiming out of work benefits the inten-tion is to roll it out to all people claiming benefits.

- In terms of low-pay, a survey by Ipsos MORI (2014) estimates that 8% of the Glasgow population experience in-work poverty in contrast to 6% for Scotland as a whole.[xxxi] Many if not most of these people will be claiming or entitled to in-work benefits and will therefore come under stricter conditionality rules when they move over to UC.

- Digital exclusion is a significant issue in Glasgow as the figures from the research by The Carnegie Trust show. There will therefore be significant numbers of people needing support to access and use digital technology to apply for UC in Glasgow.

- The shift to UC represents a significant change in the benefits system. People's experience with UC will depend to a large extent on claimants' individual and household circumstances. However having an understanding of the challenges UC presents will be crucial in starting to ensure that support organisations are able to target support for households effectively.

Footnotes

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