Universal credit

A briefing from the UK Women's Budget Group

The Chancellor has announced that the waiting time for Universal Credit payments will be cut from six weeks. This is welcome news, but fails to address the many other significant problems that exist with Universal Credit.

This briefing is an overview of the gender impact of the Universal Credit system. UC was introduced in 2013 and is being rolled out across the country in stages until full implementation in 2022. It replaces six means-tested benefits and tax credits with one single monthly means-tested payment.

The main goals in introducing UC were to simplify the benefits system and 'to make work pay'.[1] It is hard to find anyone who disagrees with such broad objectives – although there are in our view better ways of trying to achieve them than redesigning means-tested benefits in this way.

However, in addition, a series of problems in the design of UC from the beginning, made worse by subsequent cuts, seriously undermine these objectives.

As a result of the cuts to spending on Universal Credit:

- **Employed claimants will be £1200 worse off** per year by April 2021 compared with the original design of UC; **unemployed claimants will be £500 worse off**;
- Women will lose more than men on average;
- **Families with three children with one earner will be £3891 worse off**, while families of this size with **two earners will be £3287** worse off.

What is wrong with the design of Universal Credit?

Monthly assessment and single monthly payment

Universal credit is paid every month through a single payment in arrears. (This is the default arrangement, though in Scotland and Northern Ireland it is possible to have more frequent payments, and some claimants in England and Wales may be able to have them in particular circumstances.) The government claimed that the intention of a monthly payment was to mimic as closely as possible the monthly pay that people receive when in employment. However, half those earning less than £10,000 per year receive their earnings weekly or fortnightly[2] and

Moreover, with UC almost all your eggs are in the one basket. So if there are delays or administrative problems – which are reportedly common with UC payments currently – workless claimants risk losing almost all their income. Only council tax support amongst the means-tested benefits is dealt with separately. There are reports of claimants surviving for weeks on child benefit as their only source of regular income. This inevitably results in hardship for many claimants and their families, as most have little or no savings to fall back on.[3]

The government has argued that advance payments are available, and has recently given guidance to Jobcentres to be more proactive about publicising these. But such payments are not automatic, and have to be paid back, usually over six months.

[1] Department for Work and Pensions (2015) *2010 to 2015 government policy: welfare reform* (http://bit.ly/2jeG7ES)
[2] Child Poverty Action Group (2012) *Universal credit: monthly awards* (http://bit.ly/2z95Mpt)
[3] Resolution Foundation (2013) *Squeezed Britain* (http://bit.ly/2zVzWjC)

So advance payments are not a solution to the structural problem, which is that UC is assessed monthly. So there is no weekly or daily rate of UC. And, apart from changes in pay, which are dealt with through the RTI system, only 12 days in the year matter for UC claimants. It is their circumstances on those 12 assessment days that count for UC, regardless of what happens during the rest of the month. So, apart from pay, any difference between the amount of UC and actual household needs has to be absorbed by the claimants and their families.

Payment to single account

The monthly payment is paid in full into a single bank account. This means a lack of independent income and power imbalances in relationships. It may also mean a higher risk of financial abuse, and greater difficulty for women to have access to money to meet their own and their children's needs and to leave abusive relationships.

After several third-sector organisations and other stakeholders stated their concerns about these risks of financial abuse, Scotland committed in February 2017 to allow UC payments to be split between partners rather than paid to a single account.[4] (Splitting of the payment is only possible currently in particular circumstances, and must be requested.)

Worsened incentives to employment for second earners and lone parents

Research on the original UC design has consistently shown that the tapering of Universal Credit at 63% for net income (above the level of the work allowance where relevant) reduces the incentive for second earners to enter paid employment, or to work more hours in relation to the tax credits system.[5] This is because in many couples the 'first earner' will have used up the work allowance in relation to their own wages already. The taper in the tax credits system was 41% of gross income.

Analysis from the Joseph Rowntree Foundation found that this is especially true for lone parents and second earners on the minimum wage.[6] For these claimants, working over 30 hours a week translates into lower disposable income compared with working fewer hours, since the childcare allowance and the pay received will not be enough to cover the tapering of UC, the tax that has to be paid on such income, and childcare costs.

Conditionality for parents and partners

The introduction of UC means conditionality for the first time for many partners in couples, with and without children, who if they have had a partner in employment have previously not been affected. This will bring a large group of women in particular into conditionality for the first time. The Women's Budget Group is concerned that there is little awareness amongst Jobcentre staff of the complexities of gender roles and relationships, or of the potential impact of the combination in UC of joint claims, conditionality for both partners, a joint earnings threshold target and a single monthly payment for most couples.

Changes in Summer Budget 2015

A series of changes were made to Universal Credit in the Summer 2015 Budget, including:

[4] WBG (2017) *Scottish Government commits to splitting payments of Universal Credit* (http://bit.ly/2zU2euO)
[5] See for example Resolution Foundation (2013) *All work and no pay: Second earners' work incentives and childcare costs under Universal Credit* (http://bit.ly/2hP1u35)
[6] Joseph Rowntree Foundation (2013) *Does Universal Credit enable households to reach a minimum income standard?* (http://bit.ly/2B07tWT)

Further cuts to work allowance (from April 2016)

The work allowance (the amount of money claimants can earn before their UC starts to be reduced) was cut for some groups of claimants and abolished entirely for others. Because the first earner was now more likely to have used up a couple's work allowance, this exacerbated the disincentive for some groups – particularly second earners in families with children – to enter work or progress to more hours, as analysis from the House of Commons[7] and from the Social Mobility and Child Poverty Commission[8] acknowledged. As a result of these changes, nearly all second earners in receipt of UC are set to lose 65p for every £1 earned' as soon as they start paid work, which acts as a 'significant disincentive to enter employment'[9] and undermines the intention to make work pay. (The government subsequently reduced the taper from 65p to 63p in the pound; but this was inadequate compensation for the cuts.)

Increase in waiting time for first UC payment

In 2015, the government introduced a 7-day waiting period for many new claims that increased the minimum waiting time for the first UC payment to 6 rather than 5 weeks. (Those entering UC from legacy benefits do not have the 7 day waiting period.) Some benefits used to have a 3 day waiting period; but this only applied to those benefits, and not to benefits for housing costs and now payments for children in addition, as the 7 day waiting period for UC does.

Since UC is paid monthly in arrears, and the claim has to be processed administratively, claimants anyway have to wait more than a month between the date they make their UC claim until they receive the first payment (see above). This has already brought hardship to people without enough savings to cover that month who have had to resort to foodbanks, borrowing, going without and debt to make ends meet.[10]

Two-child cap on payments for children

The Summer Budget 2015 also saw the introduction of a limit on payments for the first two children in a household for tax credit claims and new Universal Credit claims for births after April 2017. This affects larger families, and disproportionately affects BME families since they are more likely to have three or more children.

This is an arbitrary cut-off for support from the rest of the community for those who are bringing up children. It penalises some of the families with the lowest incomes in the country. And we know from work by the Women's Budget Group and others that when families have to tighten their belts, it is often mothers who go without.[11]

Increased conditionality for parents and partners

Conditionality for parents was increased from April 2017 onwards. Parents of 3- and 4-year-olds are expected to be available for work and actively seeking it. Parents of 2-year-olds are required to attend work-focused interviews, and they have a work preparation requirement, while parents of 1-

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[7] House of Commons Library (2016) *Universal Credit changes from April 2016* (http://bit.ly/2B6pIut)
[8] Social Mobility and Child Poverty Commission (2015) *State of the nation 2015* (http://bit.ly/2jdaUlL)
[9] Resolution Foundation (2016) *Under New Management: Options for supporting 'just managing' families at the Autumn Statement* (http://bit.ly/2iAlsvP)
[10] Work and Pensions Select Committee (2017) *Universal Credit: the six week wait* (http://bit.ly/2AfLJK1)
[11] Women's Budget Group (2005) *Women's and Children's Poverty: Making the links*

year-olds are required to attend work-focused interviews. This may be problematic in particular for lone parents who struggle with job-seeking and looking after their children.[12]

Overall freeze to benefits/tax credits

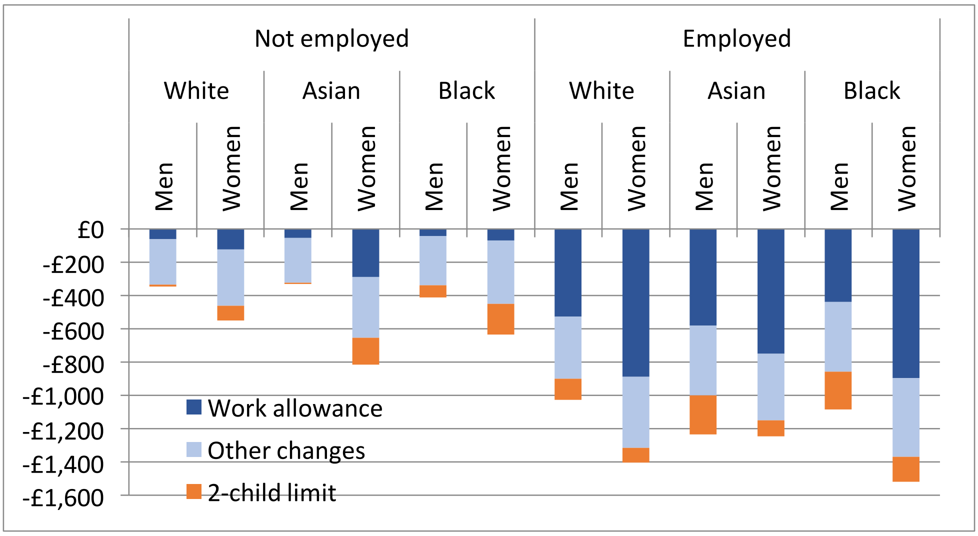
In the summer 2015 Budget, the freeze on working-age benefits[13] was extended to four years. The Institute for Fiscal Studies says that the freeze will hit 13 million families (7.4 million of whom will be in work), who will lose an average £260/year.[14]

Distributional impact

The Women's Budget Group and the Runnymede Trust analysed the distributional impact of the changes to UC announced in 2015 and 2016.[15] We found that:

- **Low-paid workers were hardest hit** by the 2015 and 2016 changes to UC.
- **Employed claimants will be £1200 worse off** per year by April 2021 compared with the original design of UC; **unemployed claimants will be £500 worse off** (see Figure 1).
- Women on average will lose more than men: **employed women will lose £1400** of their yearly income, with a **£600 loss for unemployed women**. **Employed black women will lose the most: £1500** (see Figure 1).

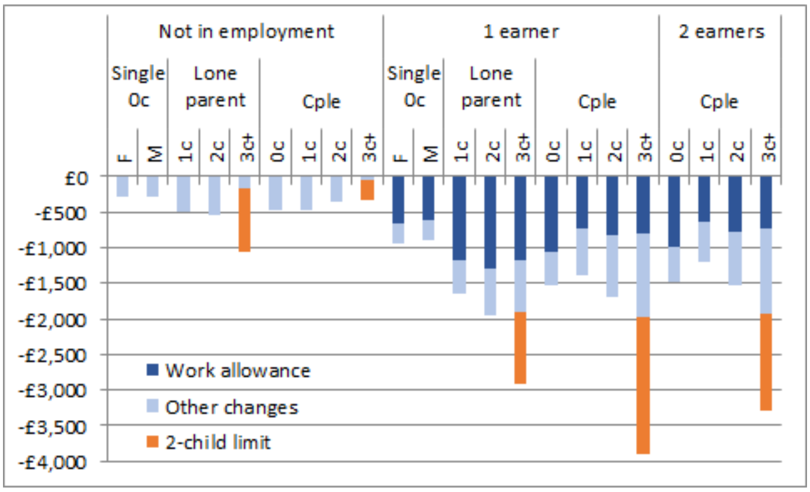
Figure 1: Individual impact of changes to UC by gender, ethnicity and employment status



- **Families with three children** or more stand **to lose £2,600**, with £1,200 coming from the two-child cap (see Figure 2).
- It is employed families that lose the most: families with 3 or more **children with one earner will be £3891 per year worse off**, while families with **two earners will be £3287** worse off (see Figure 2).

Figure 2. Household impact of changes to Universal Credit by employment status and number of children in household

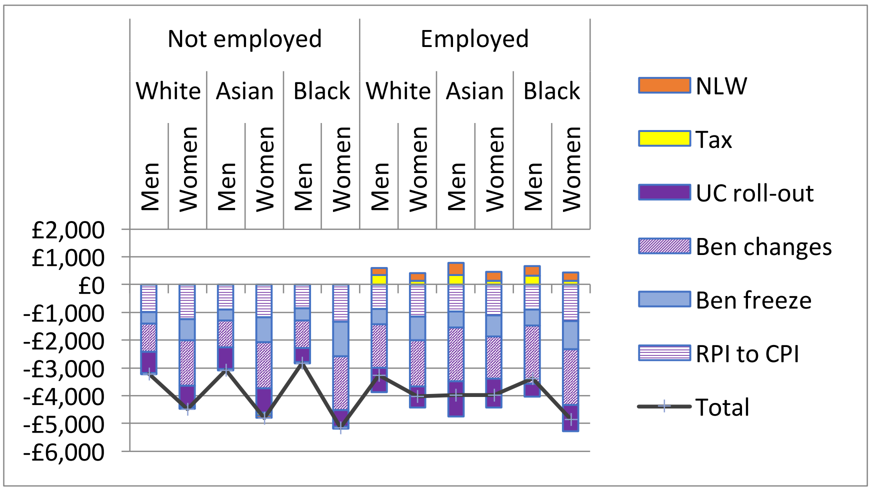
[12] Women's Budget Group and Runnymede (2017) *Intersecting Inequalities: The impact of austerity on Black and Minority women in the UK* (http://bit.ly/2jLave5)
[13] Excluding sick pay, maternity allowance, maternity/paternity pay and some disability benefits
[14] Institute for Fiscal Studies (2015) *Summer Budget 2015* (http://bit.ly/2B8CpFl)
[15] For a more detailed analysis and tables with exact figures see WBG's and Runnymede's pre-Autumn Budget 2017 press release at http://bit.ly/2zTSAbv



Finally, it is worth noting that **changes to the national living wage and income tax** since 2010 ***will not* compensate for** the changes that UC brings. Figure 3 illustrates this:

- 5.9 million women in UC-eligible households will lose £4406 by April 2021 from the combined impact of benefit and tax changes since 2010.

Figure 3. Contribution of different benefit and tax changes since 2010 to the cumulative impact on net income by April 2021, by gender, ethnicity and employment status



UK Women's Budget Group, November 2017.

WBG is an independent, voluntary organisation made up of individuals from Academia, NGOs and trade unions. See www.wbg.org.uk

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