

Submission of the Women's Budget Group to the Universal Credit Inquiry Public Accounts Committee June 2018

1. Summary and Recommendations

The Women's Budget Group is pleased to be able to submit this response to the Public Accounts Committee Inquiry into Universal Credit.

This submission gives an overview of the gender impact of Universal Credit, focusing on the problems with the structural design of the system and the recent changes that have been introduced to it.

We recommend action be taken to address these issues:

- **Payment to single bank account can facilitate financial abuse;** consider split payments as default system.
- **Disincentives for second earners and for increasing hours in paid employment.**
- **Two-child cap has an impact on larger families;** remove the two-child limit in Universal Credit and Child Tax Credit.
- **Equality Impact Assessment;** the DWP should develop an updated and revised Equality Impact Assessment, as suggested by the EHRC, that includes a detailed gender analysis drawing on the expertise of organisations such as the EHRC, the Women's Budget Group, End Violence Against Women coalition, and Surviving Economic Abuse.

2. About the Women's Budget Group

The Women's Budget Group (WBG) is a network of leading academic researchers, policy analysts and activists set up in 1989 to analyse UK government economic policy for its impact on women and to promote policies that will increase gender equality.

Our vision is of a gender equal society.

Our mission is to promote greater gender equality in policy making and raise awareness of feminist approaches to economics.

We do this by producing well-respected, academically robust analysis of the gender impact of economic policy in order to influence policy discussions and promote gender-equal policy outcomes

3. Problems in the design of UC

Monthly assessment and single monthly payment

The default in England and Wales is for UC to be paid every month through a single payment in arrears. The government claimed that the intention of a monthly payment was to mimic the monthly pay that people receive when in employment. However, half of those earning less than £10,000 per year receive their earnings weekly or fortnightly.¹

Moreover, with UC being paid through a single monthly payment, many families risk losing almost all of their income if there are any delays or administrative issues in the payment process. As evidenced in prior inquiries, delays and errors have been frequent.²

Payment to single account

The monthly payment is paid into a single bank account. The Women's Budget Group is concerned that the single payment could result in less equal couple relationships and risks further financial abuse.³ The reduction in women's financial autonomy could result in main carers (usually mothers) losing clearly labelled child benefit payments, which are often paid separately and can provide a lifeline to survivors of domestic abuse.

Following an inquiry with individuals and organisations expressing concerns over the single payment system and financial abuse, the Scottish government has committed to introducing split payments to joint claimants as the default system.

Worsened incentives to employment for second earners and lone parents

Research on the original UC design has consistently shown that the tapering of UC at 63% of net income reduces the incentive for second earners to enter paid employment, or to work more hours.⁴ This is because in many couples the first earner will have used up the work allowance in relation to their own wages already.

Analysis from the Joseph Rowntree Foundation found that this is especially true for lone parents and second earners on the minimum wage.⁵ This has been exacerbated by recent cuts to work allowances.⁶ For these claimants, working over 30 hours a week translates into lower disposable income compare with working fewer hours, since the childcare allowance

¹ Child Poverty Action Group (2012) Universal credit: monthly awards (<http://bit.ly/2z95Mpt>)

² House of Commons Library (2017) The roll-out of Universal Credit (<http://bit.ly/2IBPO1W>)

³ For a comprehensive analysis of UC and financial abuse see Women's Budget Group (2018) Universal Credit & Financial Abuse: Exploring the links (<http://bit.ly/2Kd414j>)

⁴ 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>)

⁵ Joseph Rowntree Foundation (2013) Does Universal Credit enable households to reach a minimum income standard? (<http://bit.ly/2B07tWT>)

⁶ Child Poverty Action Group (2016) Universal credit: cuts to work allowances (<http://bit.ly/2zSLunN>)

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, and 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.

4. Recent changes to UC

Cuts to work allowance

From April 2016, the work allowance was cut for some groups of claimants and abolished entirely for others. This exacerbated the disincentive for some groups – particularly second earners in families with children, who are mostly women – to enter work or progress to more hours, as acknowledged by research by the House of Commons Library⁷ and the Social Mobility and Child Poverty Commission⁸. 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 and undermines the intention to make work pay. The reduction of the taper from 65p to 63p, introduced by the government subsequently, does not compensate for the cut to the work allowance.

Two-child cap on payments for children

In 2015 a limit on payments was introduced for the first two children in a household for tax credit claims for new births after April 2017. This is an arbitrary cut-off for support for those who are bringing up children. It penalises some of the families with the lowest incomes in the country. It disproportionately affects BME families since they are more likely to have three or more children.

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- and 1-year-olds are required to attend work-focused interviews. This is problematic in particular for lone parents who struggle with job-seeking and looking after their children.⁹

⁷ House of Commons Library (2016) Universal Credit changes from April 2016 (<http://bit.ly/2B6plut>)

⁸ Social Mobility and Child Poverty Commission (2015) State of the nation 2015 (<http://bit.ly/2jdaU1L>)

⁹ 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>)

Overall freeze to benefits/tax credits

In the summer 2015 Budget, the freeze on working-age benefits was extended to four years. This freeze will hit 13 million families (7.4 million of whom will be in work), who will lose an average of £260/year.¹⁰

5. Making work pay? The distributional impact of changes to UC

The Women's Budget Group and the Runnymede Trust analysed the distributional impact by 2021 of the changes to UC announced in 2015 and 2016. We found that **it is employed claimants who will lose the most as a result of these changes.**

- **Low-paid workers will be 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.**

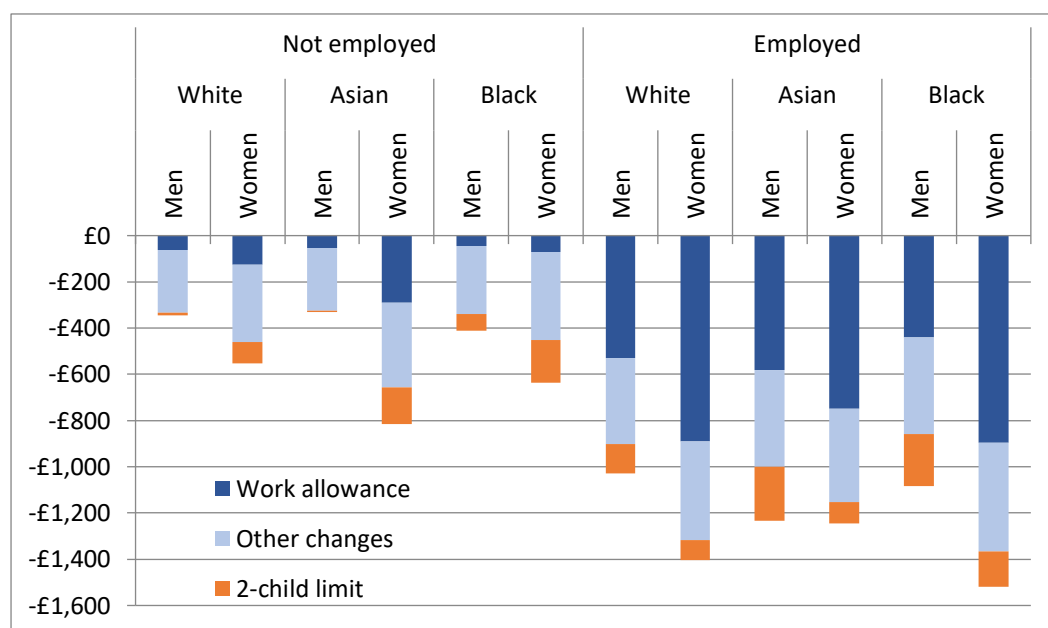


Figure 1: Individual impact of changes to UC by gender, ethnicity and employment status

6. Changes to national living wage and income tax *do not* compensate for cuts and changes to UC and wider social security

The impact of Universal Credit should be seen in the context of changes to the wider social security and tax systems. It is worth noting that changes to the National Living Wage and income tax since 2010 *will not* compensate for the changes and cuts to social security, including universal credit.

¹⁰ Institute for Fiscal Studies (2015) Summer Budget 2015 (<http://bit.ly/2B8CpFI>)

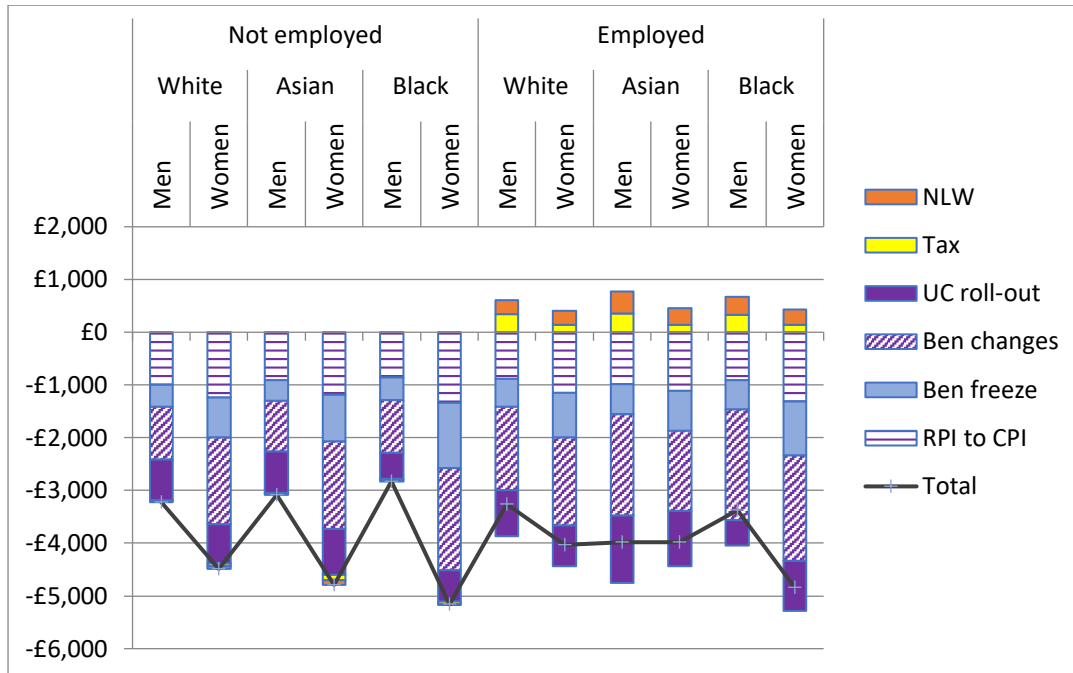


Figure 2. Contribution of different benefit and tax changes since 2010 to the cumulative impact on net income by April 2021, by gender, ethnicity and employment status

7. Recommendations

We recommend action be taken to address these issues:

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- **Two-child cap has an impact on larger families;** remove the two-child limit in Universal Credit and Child Tax Credit.
- **Equality Impact Assessment;** the DWP should develop an updated and revised Equality Impact Assessment, as suggested by the EHRC, that includes a detailed gender analysis drawing on the expertise of organisations such as the EHRC, the Women’s Budget Group, End Violence Against Women coalition, and Surviving Economic Abuse.

For more details about the issues with the design and changes to Universal Credit please see our contribution to the Work and Pensions Select Committee Inquiry on Universal Credit and Domestic Abuse (<http://bit.ly/2lwarFM>)

UK Women's Budget Group, April 2018

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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