Rolling out UK Universal Credit in a context of austerity: Is it going to work?

ESPN Flash Report 2016/20

JONATHAN BRADSHAW AND FRAN BENNETT – EUROPEAN SOCIAL POLICY NETWORK JUNE 2016

Universal Credit, the major reform in the UK to benefits for people who are on a low income in or out of work, rolls out digitally in stages from May 2016. It was part of the Welfare Reform Act 2012 but only about 225,000 individuals are now receiving it. Even if the digital scheme works, critics argue that the original concept has been undermined by cuts in its level for many people.

Description

Universal Credit (UC) is being introduced in the UK on a rolling "test and learn" basis that started in 2013 in pilot areas. UC was part of the Welfare Reform Act 2012. It brings together six means-tested benefits and tax credits: means-tested jobseeker's allowance, housing benefit, working tax credit, child tax credit, means-tested employment and support allowance, and income support. UC extends work conditionality to many more people both in and out of work compared with the previous benefits and tax credits, including partners with children. It was designed to simplify the (means-tested) benefits system and to incentivise claimants to take up work, including "mini jobs". Recipients can keep earnings up to a threshold or work allowance, after which a taper or withdrawal rate (65%) is applied to net earnings.

UC's implementation has suffered serious delays for administrative/IT reasons, and by March 2016 only 225,000 individuals were claiming. It is now being rolled out nationally for new single unemployed claimants (the simplest cases), with other groups also allowed to claim in certain areas. Most UC cases are dealt with under the "live service", with claimants being helped by staff, but in parallel a digital service is being developed, to catch up and ultimately overtake the live service. The intention is now that UC will have been fully implemented by 2021; but there are still anxieties (Guardian report 11.03.15) about whether it will ever work.

UC means a change in payment frequency, with all elements being paid together in one lump sum, in arrears, after the end of each month. This is a change for many of those previously claiming means-tested benefits and/or tax credits, which were often paid more frequently. The payment of benefit to cover housing costs to the claimant rather than the landlord is a change for social housing tenants in particular. These various changes mean that the lump sum paid monthly will be significantly higher than before, especially if it includes (e.g.) childcare costs too.

UC is a monthly benefit, with no weekly/daily rate as such. The rate should be adjusted automatically to take into account changes in earnings, through a new reporting system by employers to the tax authorities, who then pass this on for (re)calculating UC. But changes in other circumstances (e.g. in household membership or housing costs) that apply on the monthly assessment date are dealt with as though they applied for the whole of the previous month. For a new claim there are now 7 waiting days before UC can start to be assessed. There should be help available locally with digital access etc. and also, in some cases, with monthly budgeting, and arrangements to have payments made differently if necessary in limited cases.

UC is claimed jointly by couples and both have to agree to their "claimant commitment" (about conditionality) before the claim can go ahead. The partners are jointly liable for reporting changes in circumstances and for repaying overpayments etc.

There is still little information about how "passported" benefits (available to people because they are on certain benefits) such as free school meals are going to be dealt with under UC, although as these are devolved they may be treated differently in the different nations of the UK. The delay in passing the Welfare Reform Act 2012 in Northern Ireland was in part due to its desire to include different features in its UC scheme, and Scotland is going to deliver UC differently, including options to pay it more frequently and pay housing benefit direct to the landlord for social housing tenants.

Outlook & Commentary

Most politicians and commentators welcomed the concept of UC; but even if the digital roll-out succeeds there are other issues causing concern. A new round of £11 billion cuts to working age benefits was announced in Summer 2015. Most benefits and tax credits for those below pension age would be frozen until 2020. These cuts would be partially offset by the introduction of a new increased national minimum wage.

Following a defeat on the proposed cuts in tax credits in the House of Lords, the Chancellor of the Exchequer announced in the Autumn Statement that he was abandoning some of these. However, they all remain in UC, including the cash freeze on benefit levels, the reduction in the income increase disregard, the reduced eligibility for new claims (including the loss of the family element and the limit to two children for new claims/children), and the reduction in the earnings disregard (work allowance). He also announced a new earnings floor for the self-employed (which assumes that they are earning the new national minimum wage after 12 months), tighter eligibility for childcare tax credits (see below) and savings to housing benefit.

A research institute, the Resolution Foundation (Whittaker 2015), estimated that average losses in 2020 will be £1000, and £1300 for families with children, and judged that the distributional consequences are heavily regressive - i.e. that it is the poorest who will be hit hardest. The Institute for Fiscal Studies (IFS) (Brown and Hood 2016) predicted that, partly as a result of the changes to UC as well as other factors, relative child poverty would rise from 17.8% in 2015/16 to 25.7% in 2020/21, increasing the number of poor children by 1.2 million and reversing most of the progress made since 1997/98.

Further reading

Universal Credit: https://www.gov.uk/universal-credit

The Guardian (11.03.15): http://www.theguardian.com/society/2015/mar/11/coalition-britain-after-the-teething-problems-will-universal-credit-work

Whittaker, M. (2015) "O, blessed revisions: fiscal windfall and what to do with it." Resolution Foundation: http://www.resolutionfoundation.org/wp-content/uploads/2015/11/SR2015.pdf

Brown, J. and Hood, A. (2016) Living standards, poverty and inequality in the UK: 2015-16 to 2020-21. London: Institute for Fiscal Studies.

Report of peer review on universal credit in Mutual Learning programme, held in Nov/Dec 2015:

http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=2302&furtherNews=yes

Author

Jonathan Bradshaw, University of York and Fran Bennett, University of Oxford