Dear Convener

I am grateful for the opportunity to submit written evidence to the Social Security Committee’s inquiry into social security and in-work poverty. Our submission highlights several areas within Universal Credit (UC) that are likely to contribute to in-work poverty. These include the removal and reduction of work allowance, the Minimum Income Floor for the self-employed, in-work conditionality and payment delays.

You will be aware that I and my predecessors have written to the UK Government on numerous occasions to call for a halt to the roll out of UC in light of continuing overwhelming evidence of the damage it is doing to the people who claim it. Most recently, I wrote to Esther McVey on 20 August 2018, expressing my concern about the roll out of UC to Scotland’s largest cities over the next few months, including Glasgow, which will affect some of Scotland’s most vulnerable people and the communities in which they live. Despite these calls, the UK Government continues to press ahead with UC roll out.

The plans for managed migration of UC will see many more people who are in-work and claiming Working Tax Credits needing to make claims to UC. I recently responded to the Social Security Advisory Committee’s consultation on the draft regulations for the managed migration of UC and DWP’s proposals for transitional protection. The Committee has a copy of that correspondence. Planned migration is due to begin next year which may impact further upon working households and in-work poverty and is something the Committee may wish to consider in due course.
I look forward to hearing the outcome of this inquiry.

Best wishes

SHIRLEY-ANNE SOMERVILLE
Universal Credit (UC)

As of December 2017, 64,700 households in Scotland are on UC and according to the latest data provided to the Scottish Government by DWP, around 600,000 households are estimated to be in receipt of UC when it is fully rolled out. Of the 99,000 people on UC as of June 2018, 34,000 or 34% were in paid work. This is because the majority of the UC caseload are people without children and within this group, those more likely to be eligible for UC are also unemployed. As the process of managed migration is due to commence in July 2019 and more households with children move onto UC the share of people in paid work is expected to rise.

Because of the relatively early stage of UC rollout, current assessment of its impact on working households and in-work poverty will be limited and partial. However, what we already know about in-work poverty and how UC affects households can help us build a picture of future impacts.

In-work poverty

In-work poverty refers to people living in households where at least one member of the household is in either full or part-time paid work (‘working households’), but where the household income is below the relative poverty threshold. A majority of children and working age adults in poverty live in working households, and levels of in-work poverty have been rising over time: in 2014-17, 66% of children in poverty (relative poverty after housing costs) and 59% of working-age adults in poverty were living in working households, compared to 50% and 51% respectively in 2004-07.¹

Child Poverty projections

The Scottish Government has commissioned modelling to forecast child poverty rates in Scotland. The model, using the Family Resources Survey dataset, takes account of all tax and benefit policies at UK and Scotland level that can be modelled, including UC. Between 2015/16 and 2030/31, families in which one partner is working full-time and the other partner is not in paid work are forecast to experience an increase in child poverty of 19 percentage points, from 29% to 48%. Families in which one or two adults are in part-time paid work, including many lone-parent families, are forecast to experience a rise of 18 percentage points, from 39% to 57%, while families in which one or more of the adults is full-time self-employed are forecast to experience a rise of 11 percentage points, from 27%

¹ The Scottish Government (2018), Poverty & Income Inequality in Scotland 2014-17
to 38%. Lower increases in child poverty, of between 6 and 7 percentage points, are forecast for families in which all adults work full-time and couples with one adult working full-time and one working part-time.²

Increasing in-work poverty can be very costly to society. This is due to the fact that an increasing number of working people remain dependent on income from UC, and at the same time pay less tax and national insurance contributions, negatively affecting tax revenues.³

Below we discuss what UC features and reforms over the recent years could have an impact on in-work poverty.

**UC Work Allowance, taper rate and work incentives**

Work allowances (the level of income beyond which the UC award is reduced by the taper) were a fundamental part of the original design of UC. This meant that people working a small number of hours on low wages would not see their benefit entitlement reduced. However, in April 2016 work allowances were significantly reduced for claimants with children, with the largest reductions for lone parents. Work allowances were removed entirely for non-disabled claimants without children, which effectively means that for this group UC award will be reduced with any increase in earned income.

We believe that the policy will make it harder for people to work their way out of poverty and increasing the likelihood of in-work poverty. Research from the Joseph Rowntree Foundation has found that increasing the work allowances to their original level would help 3 million households and protect 340,000 people from poverty.⁴

From April 2017 the UC taper rate was reduced from 65% to 63%. This has increased the proportion of each extra £1 of earnings that UC claimants get to keep, increasing their incentive to increase their earnings. However, those working UC households who are on higher incomes will benefit more from this policy than those who are on lower incomes.

We believe that increasing incentives for second earners to work can help reduce in-work poverty for households with children with one earner. However, under UC there is no work allowance for second earners, meaning the value of UC payments reduces at the rate of the taper as soon as the second earner enters work. This can weaken the incentives for parents to enter work, especially when they are faced with high childcare costs.

**Minimum Income Floor (MIF) for the self-employed**

Claimants who have been self-employed for over 12 months are treated as having gross earnings equivalent to 35 hours per week at the national living wage even if their earnings are less than this level. This means that self-employed claimants whose income fluctuates over the course of a year could receive less UC than employed claimants. In 2018 the

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³ The Scottish Government. (2015), *What do we know about in-work poverty? A summary of the evidence*
⁴ Joseph Rowntree Foundation (2018), *Universal Credit: a chance to boost living standards for those on low incomes*
Office for Budget Responsibility estimated that 430,000 people will be affected by the MIF policy after full rollout of UC, and that these people will lose almost £3,000 per year in UC entitlement each. Using a Scottish share we estimate that between 30,000 and 40,000 people in Scotland are likely to be affected by this policy.

In-work conditionality

In-work conditionality is a new feature introduced with UC with the aim to improve labour market participation and in-work progression. Claimants whether in or out of work are required to sign a claimant commitment and when their earnings are below a set threshold they will be required to work more hours or take up higher paid employment. Failure to meet the conditionality requirements could result in a sanction.

As of February 2018, UC claimants are over 6 times as likely to be sanctioned as claimants of JSA. People in the ‘Searching for work’ conditionality group, who are unemployed or have low employment income, are the most likely group to be sanctioned, accounting for 93%. However, the second most likely group of claimants to be sanctioned are claimants in the ‘Working with requirements’ group. The most recent data shows around 2% of this group are sanctioned each month. Whilst these claimants are in work and may have not had conditions under the legacy system, under UC they face the prospect of financial penalties.

For the working poor increasing their working hours or earnings is not straightforward and for many not achievable. Qualitative research conducted by Britain Thinks on behalf of the Joseph Rowntree Foundation to collect experiences of in-work conditionality suggests that Job Centre staff have unrealistic expectations of the claimants’ ability to affect their working hours or pay. Participants in low-paid work did not think it was feasible to get more hours work from their current employer or negotiate better pay. Most felt there was limited (or no) capacity to progress in the job they were currently in, due to limited job opportunities in more senior roles and high competition within their workplace for these jobs. Similarly, they felt that the hours they work were dictated primarily by their employer, rather than being something that they could simply ask for. And finally, most of these claimants thought there were only a small number of jobs available in their area that they were qualified to do which also offered better pay or more hours.

There is limited evidence that because of UC conditionality claimants on low pay and/or low hours are indeed moving up the career ladder. Research suggests that employment and skills providers gear their support towards sustaining employment, rather than progression. Therefore, there is a high risk that more stringent in-work conditionality can only result in reduced UC payments and hardship for claimants unable to progress in their employment. There is also a risk of conditionality (or the fear of it) resulting in eligible claimants

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5 Office for Budget Responsibility (2018), Welfare Trends Report
6 This threshold depends on whether the claimant has caring responsibilities or is disabled.
7 Analysis based on Stat-Xplore data
8 Britain Thinks (2018), Learning from experiences of Universal Credit
9 Joseph Rowntree Foundation (2014), Future of the UK Labour Market
disengaging with the benefit system. This is especially likely for working claimants who may be affected disproportionately more by conditionality than benefiting from the UC payment.

**UC payment delays**

UC payment delays are found to have exacerbated problems such as destitution and use of foodbanks. A Joseph Rowntree Foundation’s study into destitution found that in 2016 30% of destitute people had experience of benefit sanctions in the last 12 months, and 40% had experienced benefit delays. The follow-up study confirmed that on 2017 benefit gaps and delays have been exacerbated by the roll-out of UC, especially given the initial waiting period of at least five to six weeks before the first payment was made. Evidence provided by COSLA, suggests that average arrears for those in receipt of UC are more than 2.5 times average arrears for those on Housing Benefit.

Recent research on foodbank use has found that poor administration and a long wait for payment meant that people who were currently in work, or recently in work, were still left with little or no money. This was a particular problem in insecure or short-term work, where the system could not accommodate unsteady incomes. Trussell Trust analysis shows that foodbanks in areas that have been in full UC rollout for a year or more have experienced an average increase in demand of 52% in the twelve months after the full rollout date in their area, compared to twelve months before. This is against a 13% average in other areas.

**What the Scottish Government can or should do to mitigate any detrimental impact**

By 2021 UK welfare cuts are expected to remove approximately £4bn expenditure from Scotland. In the face of this the Scottish Government is already spending over £125m per year to mitigate the worst impacts of the UK’s Government’s welfare reforms, including mitigating the bedroom tax in full.

With the limited powers the Scottish Government has over social security, employability and employment, we are demonstrating that we are committed to tackling poverty in all its forms, and supporting people into sustainable, rewarding work. This includes:

- The Living Wage and guaranteeing a minimum pay award have protected the incomes of those who earn the least and helps to work towards reducing the overall income gap. The Scottish Government was the first government in the UK to become an Accredited Living Wage Employer. In 2018/19 the Scottish Government increased funding to £340,000 to the Scottish Living Wage Accreditation Initiative. Scotland remains the best performing of all four UK countries with the highest proportion of employees paid the Living Wage or more (81.6%). Scotland has proportionately more than 5 times as many accredited LW employers as the rest of the UK.
- The Scottish Government’s new, devolved employment support service - Fair Start Scotland, launched in April this year and will support a minimum of 38,000 people who are further removed from the labour market over 3 year referral period (2018-2021). Scottish

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10 Joseph Rowntree Foundation (2016), *Destitution in the UK*
11 Joseph Rowntree Foundation (2018), *Destitution in the UK 2018*
12 The Trussell Trust (2017), *Early Warnings Universal Credit and Foodbanks, p.9*
Government have committed an additional £20 million in each year of this Parliament – to a value of up to £96 million to deliver Fair Start Scotland over the duration of its contract - almost trebling the funding allocated by the UK Government through Department of Work and Pensions to ensure that devolved employment services are funded appropriately.

- As part of an overall £50M investment in a range of anti-child poverty measures, £12 million has been allocated to support parents, offering specific, targeted and integrated employability and upskilling support.

- One identified cause of in-work poverty for households with children is childcare costs which may discourage parents (usually mothers) from working or mean that parents choose to work part-time in order to balance work and caring responsibilities. To alleviate the burden of high childcare costs the Scottish Government is committed to invest £243 million towards providing 1,140 hours of childcare per year. Childcare support is aimed at addressing what is considered a key cause of poverty and in-work poverty.

- Finally the Every Child, Every Chance Delivery Plan is committed to take actions to reduce by more than half the disability employment gap, tackle low pay in the public sector and help with costs of the school day, amongst the most significant regular costs for families.