SOCIAL SECURITY COMMITTEE
SOCIAL SECURITY AND IN-WORK POVERTY INQUIRY
SUBMISSION FROM INVERCLYDE HSCP

What impact will Universal Credit have on in-work poverty in Scotland?

We have concerns it will increase it due to the design flaws within UC. As the roll out continues and the focus shifts from natural to managed migration these design flaws will become all the more transparent. The complexity of claims are proving difficult for the system to deal with. The extended reach of UC with cuts to in-work support will result in growing claimant hardship.

The Resolution Foundation Report, ‘Universal Remedy’, estimates 3.3 million working families are expected to be worse off, with an average loss of £48 a week, 600,000 will no longer have any entitlement (compared to the existing Tax Credit system). Concerns have been expressed as to the adequacy of the proposed Transitional Protection for those who do lose out. The design of UC was predicated on addressing primarily the issue of worklessness. The concerns over worklessness have been somewhat alleviated by record levels of employment. Yet at the same time:

1 in 5 workers are in low pay;
1 in 6 low paid workers will make the transition to higher levels of pay within a decade.

With 68% of children in poverty living in a working household the barriers UC should be redesigned to address and help tackle are structural labour market barriers of low pay and restricted capacity for in-work progression.

The Government White paper of 2010 promised that UC ‘will improve financial work incentives.’ The reality has been a litany of changes to the system of in-work support by way of work allowances, a taper rate of 63% (early designs of UC suggested a taper rate of 55%), a 4 year freeze on most UC rates, restrictions in child support limited to 2 children per family, and issues with conditionality and subsequent sanctions. Of the 3 million in-work UC claimants, the Government estimates 1 million of these will be subject to in-work conditionality by 2021. Added to this are the concerns raised nationally as to DWP administration and decision making.

A submission made on behalf of Inverclyde Financial Inclusion Partnership will cover the experience so far of full service UC in Inverclyde. This response will therefore progress to address the question of:

What can or should the Scottish Government do to mitigate any detrimental impact?
We would suggest that they can raise concerns as to current UC design issues and where possible suggest design modifications that can possibly remove some of the complexity and uncertainty pertaining to UC as it stands at present. In particular address issues of work allowances, 2 child restriction, taper rate, and system of monthly assessments.

**Work Allowances**

The amount claimants can earn before UC starts to be withdrawn. One work allowance allocated per UC assessment unit, irrespective of the number of earners:

April 2014-18: work allowances frozen;

April 2016: work allowances reduced. Falls from £222 to £192 for families with children who rent with UC housing costs, and from £536 to £397 for families without housing costs. Removed completely for non-disabled adults without children resulting in the application of the UC taper as soon as earnings commence.

The weakness of the work incentive for a second earner is both obvious and stark with all their potential initial earnings subject to a 63% taper that allows for only 37 pence from every pound earned to be retained. The importance of increasing the number of dual earning households is every bit as much obvious and stark:

43% of children of one-earner couples live in relative poverty. This compares with 24% among all children, 33% for children of working lone parents, and 11% for children of two-earner couples;

Median equivalised income for children whose parents are a one-earner couple is 37% below that for children with two working parents and 13% below those with a working lone parent. (Institute for Fiscal Studies – In-work poverty among families with children. July 2017)

The policy demand should be for the restoration of all work allowances and the creation of a second earner work allowance. The second earner worker allowance could be set at part time hours of 15 hours a week at the National Living Wage (NLW):

£7.83 x 15 = £117.45 a week, £6,107.40 a year.

Representing a clear unambiguous and significant work incentive that would make a concrete contribution to tackling child poverty and help satisfy the demands of the modern labour market.

**Two Child Restrictions**

From February 2019 the two-child limit will apply to families with 3 or more children who have to make a claim to UC, irrespective of when their children were born. By 2021/22 more than half of children in families with 3 or more children are forecast to be in poverty.
600,000 three children families receiving approximately £2,500 a year less on average, with a further 300,000 families with 4 or more children receiving £7,000 a year less on average. It has been postulated that the majority of affected families will be low income working families. Many larger non-working families will be already subject to the benefit cap. The two-child limit, therefore, appears to be targeted on families in work but reliant on Tax Credits/UC to supplement their low wage.

Analysis of Child and Working Tax Credit statistics 2015-16 shows:

Of the 590,000 awards for families with 3 children, 68% were in work and 32% out of work;

Of the 281,000 awards for families with 4 or more children, 62% were in work and 38% out of work.

End Child Poverty in April 2018 published the report, ‘Unhappy Birthday – The Two-Child Limit at One Year Old’. The report noted:

“One of the core foundations of a just and compassionate welfare state, and one that has been embedded with our social security system since its inception, is that the level of support available to families should be linked to their level of need.”

The report in turn highlights the example given in the ‘House of Commons Library Briefing Paper (7935) ‘The Two Child Limit in Tax Credits and Universal Credit’ (April 2017):

Lone Parent working 35 hours on the NLW with 3 children.

Example A: If this family’s claim started before April 2017 and if all the children were born before April 2017, then they would expect to receive a Tax Credit award of £10,090 in 2019/20

Example B: If, however, one of the children were born after April 2017, then their entitlement would drop to £7,310 – a loss of £2,780.

Example C: If the same family were to make a brand new claim for Universal Credit, after February 2019, then they would also be affected by the removal of the first child premium and other cuts to Universal Credit, reducing their entitlement to £3,900 – a loss of £6,200, compared to the base case.

One of the original stated objectives for UC was, ‘reducing poverty’. Reducing support for low paid working families with children will conversely, however, only be a driver for increasing poverty.

**Taper**

The way earnings reduce entitlement to UC, the rate at which UC tapers away as earnings increase. As earnings rise above the work allowance, if any, UC reduces by 63pence for every pound earned. The Resolution Foundation terms this as part of the Marginal Effective
Tax Rate (METR) UC claimants are subject to. Before April 2017 the benefit taper was set at 65%, this is now reduced to a more ‘generous’ 63%. After Tax and NI are factored into the calculation this equates to a 1pence improvement with a claimant now able to retain 25pence for every pound earned, an effective METR of 75%. To put this in context, for those not dependent on social security the tax rate is 32%, for higher earners 47%. The METR of 75% increases if child care is a consideration. UC will cover 85% of child care costs. A claimant earning the NLW is already subject to a METR of 75% leaving £1.96 from their earnings of £7.83. If child care costs £4.50 per hour UC will cover £3.83, leaving the claimant to pay the remaining 67pence leaving the claimant £1.29 out of their earned income of £7.83 and a METR of 84%.

Make the taper more generous, such as at the rate of 55% and replace the stick of conditionality with the carrot of financial incentive.

Monthly Assessments

Monthly assessment is central to the design of UC. Earnings are counted against the assessment period if they are reported to HMRC as being paid during that assessment period, regardless of the period of work they relate to. The system is designed to mirror the world of work. The reality, however, for many low paid workers are that the mirror distorts, leading to significant adverse financial impacts on hard pressed families. Whilst approximately three quarters of the UK workforce is paid monthly, this is not the case for low paid workers who are more likely to be claiming UC. There are 12 monthly UC assessment periods, however:

A claimant paid weekly will have 8 assessments periods where they receive 4 wages, and 4 where they receive 5;

A claimant paid 4 weekly will have 11 assessment periods where they receive 1 wage, and 1 in which they receive 2.

The practical result is variability as to UC entitlement when in fact there has been no material change to earnings. This means real and significant financial loss for the claimant. The adverse impacts of these losses have been detailed in a report from CPAG – ‘Rough Justice, Problems with monthly assessments of pay and circumstances in Universal Credit, and what can be done about them.’ August 2018.

To take but one example from the report: Under UC anyone earning less than £520 per month is subject to a benefit cap of £1,667 per month. The cap is not applied if you, or your partner, have at least net monthly earnings of £520 during your UC monthly assessment period. If a claimant paid 4 weekly was earning just over the earnings threshold, roughly working 16 hours per week at the NLW, they will for UC purposes be assessed as earning less than the threshold figure and be subject to the benefit cap 11 months out of 12. A worker with identical earnings but paid monthly would never be subject to the cap. The example is given of a claimant with children who works 17 hours a week and receives a
wage of £510 every 4 weeks. If paid monthly this would translate to a wage of £552.50, well above the threshold figure of £520. As however, she receives less than this in all but one of the assessment periods the family will be subject to the benefits cap 11 months of the year.

As to the question, ‘what can be done’, a solution is to extend the scope of Regulation 90 (6) (b) (ii) of the Universal Credit Regulations 2013. This regulation allows for earnings to be averaged over an extended period to determine the threshold for in work conditionality. No logical reason why the averaging of earnings cannot be extended to determine other aspects of UC entitlement to create a consistent monthly assessment of earnings.