What impact will Universal Credit have on in-work poverty in Scotland?
The causes of in-work poverty are not solely related to benefit top ups. In Highland some of the remote rural challenges experienced by residents include the cost and availability of travel and childcare as 2 such examples which Universal Credit (UC) alone cannot mitigate.

It should also be noted that in-work poverty has been on the rise in Scotland before the introduction of Universal Credit. The Scottish Government's publication entitled Poverty and Income Inequality in Scotland: 2015/16 presents annual estimates of the percentage and number of people, children, working age adults and pensioners living in low income households in Scotland. The report highlights:

“Although much lower income households are now in employment this is not guarding them against poverty. In-work poverty has shown a long term rising trend since 2009/10. This is explained by changes in the employment market with many low income households working part-time. For working families who also receive benefit income, especially families with children, increases in earnings were balanced against withdrawal of benefit income, combined with a one per cent cap on benefit up-rating.”

“One of the key aims of UC is to make work pay by providing clear financial incentives and removing the restrictive complex rules when someone starts work. Since its introduction, Universal Credit has been subject to a number of changes, some have benefitted claimants whilst others have had a detrimental impact which overall have reduced the amount of money recipients both in and out of work may receive. This has included:

• **Beneficial:**
  - Proportion of childcare costs which can be claimed was increased from 70% to 85%;
  - Taper was reduced from 65p to 63p in the pound i.e. the rate which Universal Credit is withdrawn when a claimant’s earnings exceeds the work allowance.

• **Disadvantageous:**
  - Work allowances frozen and then reduced meaning the 63% taper is applied at a lower rate of earnings than was previously the case;
  - 4 year freeze on the majority of Universal Credit rates as opposed to annual uprating in-line with inflation at a time when the cost of living is increasing;
Higher rate child element for 1st child abolished;
Child element restricted to 2 children per family;

The reduction in work allowances which were introduced in April 2016 significantly reduced or completely eliminated the threshold of earnings at which point UC would be removed and has detrimentally impacted in-work households. Similar decreases were proposed in Tax Credits but were withdrawn.

The reduction in the UC work allowance introduced in 2016 more than cancelled out the small gains from the reduced taper rate.

Therefore, Universal Credit has the potential to increase in-work poverty. In addition to the above detrimental impacts, Universal Credit claimants face additional challenges when moving into work, including:

- The initial 5 or 6 week assessment period is pushing some into debt and others further into financial crisis.
- Debts are further compounded when a household is applying for additional benefits but are unable to evidence their UC and therefore unable to evidence that they satisfy the eligibility criteria.
  - For example, during the UC assessment phase, applicants are unable to evidence UC which is one of the qualifying criteria for Free School Meals and School Clothing Grants. This potentially denies children and young people access to a healthy meal which cannot be backdated once UC entitlement is confirmed/appropriate school clothing.
  - The Highland Council has therefore adopted a pragmatic approach to mitigate such potential negative impacts by awarding applicants, in the UC assessment phase, their entitlements for 8 weeks at which point, the evidence of UC entitlement can be submitted by the applicant and entitlement continued.
- paying childcare costs up front and having a limited time to submit claims are proving challenging for many low/lower paid in-work claimants, particularly single parent families, where there isn’t sufficient cash flow to wait a month to be reimbursed for child care costs.
  - Some child care providers, in particular private individuals who are registered child minders, also don’t have the financial ability to operate delayed payments or to enter into payment plans with their clients to spread the cost of child care.
  - To enable individuals to take up work and to increase their working hours, a key component is ensuring there is adequate child care provision which is both affordable and accessible. There is a risk therefore, particularly in rural communities where commercial child care provision may be limited, that private individuals will not continue to operate as a registered child minder or will not provide places for those families who are accessing Universal Credit.
  - While the funded early learning and childcare costs for 2,3,4 year olds will ease the pressure on in-work families who are receiving Universal Credit, there are restrictions around the number of hours and provision varies across Scotland.
• Where an employee’s hours fluctuate from month to month then this is reflected in the amount of UC award they will be entitled to receive and in some cases the UC claimant will be unsure how much they can expect to receive. It also makes financial planning and planning for example, their children’s extra-curricular activities more challenging than is otherwise the case for those who receive a stable amount of income each week/fortnight/month.

The Committee may be aware of a report published in October 2017 ‘Universal Remedy: ensuring Universal Credit is fit for purpose’ by the Resolution Foundation.

The reported findings included that design flaws are emerging as the speed of Universal Credit roll-out increases and the claimant group includes more families and more complex cases. For example, in relation to the six week wait for benefit, the report quotes analysis showing that the majority of new universal credit claimants are not paid monthly by their employer with 47% paid weekly and 11% paid fortnightly. The reduction in the built-in delay while welcomed still doesn’t reflect work for many recipients.

Other key findings within the report include:

• At a time when working poverty has become a major challenge facing the country, cuts to UC mean it is set to be almost £3 billion a year less generous than the tax credit system it replaces. As a result it will leave working families an average of £625 a year worse off. However, this masks a significant mix of outcomes across family type.
• The net impact on all two parent families in work is broadly neutral, though 1.1 million will lose an average of £2,770 a year.
• Working single parents lose out, by an average of £1,350 a year. Almost twice as many lose (0.7m) as gain (0.4m), losing almost twice as much (£2,955 average annual loss v £1,600 gain).

In order to provide financial incentives to enter and progress in work, the report recommended:

• Boosting work allowances for single parents to at least £6,800 a year (the equivalent of working 15 hours on the wage floor) at an annual cost of £1.3 billion;
• Introducing an initial work allowance for second earners of £3,200 a year at an annual cost of £1 billion, with a long term goal of this reaching a level equivalent to 15 hours a week;
• Closely monitoring the situation of workers without children or disability, particularly those working part time, and the impact that universal credit has on their working patterns;
• Committing to trialling different forms of financial incentive to encourage progression with stronger financial incentives and more forms of practical support, including lower tapers for second earners and single parents, time-limited conditional payments for achieving progression, and providing additional support with the cost of childcare for pre-school aged children; and
• In the short term, gradually reducing the universal credit taper once work allowances have been strengthened.
What is the experience so far in full-service areas in Scotland for those who are in work who are moving or have moved on to Universal Credit?

In the published DWP Universal Credit statistics for June 2018, the Highland Council area has had approximately 14,327 claimants who have completed the Universal Credit claim process and accepted their Claimant Commitment. In the Highland Council area 8,828 claimants are still claiming Universal Credit of which approximately 3,587 (41%) are in some form of employment.

Feedback from frontline advisers within Highland has highlighted UC claimants who are in work having had different experiences of Universal Credit dependent on their circumstances. However, the main difficulties for in-work UC claimants have included:

- Level of rent arrears when moving into work;
- Financial capability;
- trying to claim childcare costs for their children;

**Levels of rent arrears**
The Council and various other organisations have regularly evidenced the increase in rent arrears as a result of Universal Credit. The average rent arrears for council tenants in receipt of Universal Credit at March 2018 were £748 compared with £966 at March 2017. While this level of reduction is welcome, tenants in receipt of Universal Credit have average rent arrears that are 5 times higher than tenants in receipt of Housing Benefit.

This level of debt from rent arrears, and the impact on mental health, can in itself have a detrimental impact on a person starting or continuing work and striving to perform to the required standards and expectations of their employer.

**Financial capability**
It is the Council’s understanding that work coaches within Jobcentres currently provide tailored support including better off calculations which detail information on whether there is financial benefit of moving into work based on a claimant’s circumstances. There also needs to be a recognition that many factors, including but not limited to finance, influence a decision to move into work or take on more hours. Approved childcare provision can be extremely pressurised in some locations and transport links often do not support travel to child care and then to work needs within a working day.

However, financial capability including the ability to understand and undertake positive financial decisions in life requires more than reduced taper rates or work incentives albeit they are extremely important levers aimed at addressing low incomes. Low income is a cause of poverty and people living on low incomes are more likely to rely on public services.

Research from the Money Advice Service on levels of financial capability among Scotland’s children revealed that thousands are seriously unprepared to manage their
money in later life. The results showed that for 16-17 year olds across Scotland – those about to leave full-time education – 31% do not have a current account and, of those that do, a quarter (26%) have no experience of putting money into it. Furthermore, a worrying 55% are unable to read a pay slip.

Engaging those who are out of work or on low incomes in managing their money and taking financial decisions is a vital step to giving them the skills and confidence needed to cope financially whilst in work and life in general. Positive financial decision making is a key life skill that needs nurtured over a period of time rather than being designed in a manner that only provides beneficiaries with a one-off opportunity to gain such valuable skills.

The Universal Support service delivery model in Highland is preventative and is founded on the strong working relationship between key officers in the Council and members of the local jobcentre senior management team and their work coaches.

Such relationships create a positive environment in which to move forward in a direction that consistently aims to enhance customers’ outcomes and experiences. Examples of such shared local outcomes for claimants include:

- Financial resilience; health and wellbeing; independent living; housing sustainment; social interactions; and continued employment.

It is evident that Universal Support must be accessible to all customers regardless of location. The localism agenda is also threaded throughout the Council’s Programme. It holds the potential to enable greater support in local communities for customers in order to meet their needs.

Two jobcentres in Highland deliver their full range of services from newly developed Council offices in Wick and Fort William involving DWP’s full staffing complements in each of these areas being based in Council premises. This epitomises the radical reform that can be achieved by such powerful partnerships with the shared aim of putting the customer at the heart of decision making and design of public services.

The above model has enabled asset management and cost reductions for both organisations at the same time as balancing policies which prioritise economies of scale whilst tailoring services to meet the requirements of sparsely populated rural areas with residents with diverse needs. The combined impacts of remoteness, sparsity, travel distances and changing demographic trends (in particular an ageing population) in increasing the vulnerability of some people to debt and financial exclusion and in under claiming benefits has been mitigated to some extent by the robust partnership working approach for the greater good of the people in Highland.

Also, in partnership with the DWP Remote Claimants’ Project, the Highland Council hosts video link facilities to enable our rural customers the opportunity to access DWP services, and attend DWP interviews, remotely via Skype rather than make around a 100-mile round trip to attend their local jobcentre. This facility improves DWP’s success rate of supporting claimants to apply and maintain their claims while also supporting an increased number of customers back into work. Around 12 customers every week make
use of this local service and the feedback from DWP and customers alike is very positive.

The challenge and indeed the requirement for customers in Highland is to deliver a blended accessible service through a variety of delivery methods including community hubs, co-location of service, partnerships, outreach, and mobile services including home visits, online and telephone services which meet the requirements of residents including those with diverse needs. The Council's Welfare Support Team undertakes these delivery methods to provide benefit/income maximisation advice to customers.

**Childcare costs**

In June 2018, Save the Children highlighted that the design flaws in the way Universal Credit supports families with the cost of childcare was pushing low-income parents hundreds of pounds into debt “just for getting a new job”.

In Highland, this has been reflected with UC claimants facing a number of challenges when trying to claim childcare costs for their children, these include:

- Up-to 85% of childcare costs is eligible for payment. This means many low income lone parents who need to pay for childcare in order to work, find the gains from work are much lower in Universal Credit than in the tax credit system

- Payments for Universal Credit childcare costs are paid in arrears. Claimants have to pay the costs up front and then report their payments each month before they receive support. This can be problematic for some low income families who may not be able to afford the cost of paying the bill in advance.

- The short time to provide evidence is proving to be problematic for some in-work claimants. When childcare costs are paid, the claimant must report and provide evidence in the same assessment period they are paid in. Depending on how the assessment period and the childcare payment date fall, the opportunity to report may be very limited.

- The receipt, not invoice, can now be uploaded by the claimant to their journal to show they have paid for childcare which mitigates the need to attend the Jobcentre to hand in the evidence.

- However, for those who don’t and are unable to make use of the upload facility, making the trip to the jobcentre, which often relies on public transport in an area like Highland, is proving difficult. There are time, cost and child care pressures on in-work claimants and having to attend a jobcentre every month is compounding such pressures with some reporting negative impacts on their mental health. This is particularly prevalent in rural and urban communities where, unlike inner cities, many claimants are not within a reasonable walking distance from their local jobcentre. Instead, a trip to a jobcentre for an in-work UC claimant in Highland typically involves 4 geographical locations with time delays (public transport timetables) and costs at each stage.
• Such challenges can be a barrier to work for some claimants.
• In rural locations, some claimants are unable to complete the 4-location (as per above diagram) trip in a single day and while in theory there would appear to be an option to attend the jobcentre on a non-working day, the short time to provide evidence can make this challenging or the availability of public transport may not be sufficiently regular for claimants to attend a jobcentre.

The following example details the experience of a UC claimant whilst being supported by the Highland Council’s Welfare Support team. It demonstrates the difficulties faced in the current system for claiming childcare costs:

Claimant Y paid and reported childcare costs during their assessment period of 08/02/2018 – 07/03/2018 and the correct amount was included in their March 2018 UC payment at £433.50.

Claimant Y paid and reported childcare costs during their assessment period of 08/03/2018 – 07/04/2018. However DWP delayed payment of their childcare costs as a result of problems at the Service Centre. DWP should have paid these costs to the claimant in April but did not do so until 17/05/17. The sum of the delayed payment was significant at £481.85.

This resulted in Claimant Y being unable to pay and therefore report their April/May 2018 invoice for £435 until the 17/05/2017 (the day they received their March payment from the DWP).

The Service Centre refused to issue the payment until the June 2018 pay date as the reporting had fallen in the assessment period 08/05/18 to 07/06/18 despite the reason being the late payment of previous childcare costs by the Service Centre.

Despite several phone calls to the Service Centre by both Mrs A and the Welfare Adviser, the Service Centre insisted the UC system would not allow the payment to be
made on the basis that proof of childcare costs was not reported during the correct assessment period. (Note: the claimant’s name and dates have been changed to protect the identity of the claimant.)

The design of Universal Credit means that “Department Error” (i.e. errors arising from DWP and not the claimant) are not recognised.

The complexity of the current system means claimants are caught in a recurring cycle of debt awaiting DWP repayments of child costs which can cause severe financial hardship and considerable stress.

Claimant Y was very concerned as her childcare provider was not themselves in a position to await a delayed payment. Claimant Y could not afford to pay their childcare provider the next bill until DWP paid her entitlement to reimbursement of childcare costs. Claimant Y was extremely fearful that her childcare provision would be withdrawn by their provider due to late payment which ultimately would have resulted in Claimant Y having to give up work to care for their child.

**What is known about those experiencing in-work poverty in Scotland who do not claim or are not eligible for Universal Credit?**

The Department for Work and Pensions statistics for 2015/16 estimate up to £12.4 billion of means-tested benefits were left unclaimed by some of Britain’s poorest families who are eligible to claim; this includes pension credit (PC), jobseekers allowance (JSA) and employment and support allowance (ESA).

HM Revenue & Customs estimated take-up rates for tax credits for 2014-15 estimates £2.3 billion of child tax credit and £3 billion of working tax credit went unclaimed by 640,000 families and 1.2m families in the UK respectively.

It is important to recognise that households experience poverty in different ways and to various degrees over their lifecycle with poorer households experiencing worse outcomes with regard to physical and mental health, educational attainment and employment prospects.

The Highland Council area covers a third of the land area of Scotland including the most remote and sparsely populated parts of the United Kingdom. It is 10 times larger than Luxembourg, 20 per cent larger than Wales, and nearly the size of Belgium.

Only 25% of the population live in settlements of over 10,000 people and 40% in settlements of over 1,000 people. Residents in the Highlands and other rural areas in Scotland face many more complexities when accessing support and digital services compared to someone living in an inner city, for instance.

Highland has a relatively high proportion of zero hour and part time workers; it also experiences greater seasonal fluctuations in unemployment than the rest of the country due to the nature of the dominant service sector economy.
These factors mean residents in the Highlands (and other rural areas in Scotland) face many more complexities and potential expenses whilst in work, especially those who are in low paid employment. This includes:

- Part-time/seasonal employment fluctuations mean people who work seasonally due to the area they live are reliant on benefits when they are not working.
- Seasonal employment impacts on the job opportunities available in quieter months which in turn contributes to potential poverty;
- Limit transport links reduce the ability to travel distances to gain better paid employment. In addition the cost of transport whether that is public or private can in some instances be a significant expense.
- Child care costs and limited availability of child care provision, particularly in remote rural areas can be barriers to work.
- Low-wage economies, like those prevalent in Highland, are a catalyst for the increasing poverty levels, and child poverty rates, being experienced in Scotland.

In February 2018, a report by the Poverty and Inequality Commission ‘Advice on the Scottish Government’s Child Poverty Delivery Plan 2018’ highlighted that the relationship between work and poverty is not straightforward.

Children in households where no-one is in employment are at the highest risk of poverty: six out of ten children living in households where no-one is in employment are living in poverty (compared to one in twenty children in households with two adults in employment).

Nevertheless work is not always a direct route out of poverty. In-work poverty has been rising in recent years. In terms of actual numbers there are more children living in poverty who are in a household where someone is working than in a household where no-one is working. Nearly two-thirds of children who are in poverty live in a household where someone is in some form of employment.

In addition, social security will be one of the most direct routes for reducing levels of child poverty in Scotland. It cannot be expected to provide the whole solution but investment in the new social security agency provides the Scottish Government with an opportunity to mitigate the impacts of overall poverty within Scotland.

Entitlement to passported benefits both in the old ‘legacy’ benefit and new UC system are withdrawn as earnings increase. This can create a ‘cliff-edge’ for many and may lead some to question whether they are better off in or out of work.

For many households experiencing either in or out of work poverty, Free School Meals are the only hot nutritious meal that a child may eat in a day. A report published in November 2018 by campaign group End Child Poverty showed almost one in five children in the Highlands are living in poverty. The report highlighted the overall percentage of children living in poverty after housing costs in the Highland Council area is 19.1% with variations at ward level ranging from 12% (Inverness Millburn) to 31.2% (Inverness Central).

In Highland, the Council’s Service Delivery team processes all Council-administered entitlements. This approach provides a range of advantages, including identifying and automatically putting into payment a range of up to 10 entitlements, such as Free School
Meals and School Clothing Grants, following receipt of a single application form and the need for claimants to supply their evidence only once.

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

**Rent arrears**
The Council would strongly urge the removal of housing costs from Universal Credit and return to Housing Benefit in the same way that has been implemented for temporary accommodation since April 2017. Indeed, consideration should be given to lobbying for devolving Housing Benefit administration to the Scottish Government to align with Scotland’s powers over matters such as housing and social security.

**Financial capability**
It is important to ensure that Universal Services and the support provided are available for all Universal Credit claimants regardless of their circumstances, including those with or without housing costs and those in or out of work. This is important for a number of reasons including the cultural shift to monthly payments, and the reduced work allowances and the taper for earnings which are impacting on UC claimants.

Further viable options need to be developed and delivered to address the 'bigger picture' society is currently faced with in terms of financial inclusion. Balancing policies which prioritise economies of scale whilst tailoring services to meet the requirements of big inner cities will inevitably vary greatly to meeting the needs of individuals within sparsely populated rural areas. Although this is not a new challenge, it continues to be a source of contention.

Therefore, this Council would suggest an essential improvement to the support available would be to embed Universal Support in the claimant journey i.e. all UC claimants should have to participate in Universal Support regardless of their circumstances to ensure they are financially capable and able to cope with making positive financial decisions on a daily basis.

The level of engagement required would need to be sufficiently agile to flex to the diverse needs of individual claimants. The Highland Council would not wish non-compliance with Universal Services to be subject to benefit sanctions as that would drive claimants into debt and for some financial crisis with reduced prospect of being able to focus on job search or increasing their working hours.

**Childcare costs**
- Increase award levels back to similar levels as the tax credit system originally were. From 2006, tax credits were 80% and then from 2011 reduced to 70%.
  - **Tax credits** was up to a maximum of £175 for the first child per week (£9,100 per annum) OR 2 or more children was £300 per week (£15,600 per annum) whereas
  - **UC** for the first child is a monthly limit of £646.35 (£7,756 per annum) and for 2 or more children the maximum is £1,108 per month (£13,296 per annum).
  - **So a reduction**, for the first child in UC = £1,344 per annum and for 2 or more children the reduction in UC = £2,304 per annum.
In UC up to 85% of costs are paid which is more than tax credits in percentage terms BUT the upper limits are lower in UC than in tax credits.

- DWP making payment of childcare costs in advance – this could be into an account only accessible for childcare costs or direct to the childcare provider to reduce the risk of overpayments although the latter may introduce risks around disclosure and privacy where claimant consent is not invited and received;
- Consideration should be given to ease the method and timescales for the provision of child care bills in a more efficient and effective manner.

**Frequency of assessment periods**
- Although embedded in the design principles of Universal Credit, monthly assessments are giving rise to a number of challenges and barriers to work for recipients. While these may be unintended consequences, it may be useful for the Scottish Government to undertake research into the impacts of moving to longer periods between assessments, e.g. quarterly or half-yearly assessments reducing the need for claimants to evidence their circumstances while providing greater financial stability for recipients.

**Passported benefits**
- Passported benefits are powerful tools to prevent and alleviate poverty and inequality. They deliver positive impacts and provide mutual benefits to individuals and communities. However, the funding of passported benefits or top ups must be affordable and sustainable, in addition to being reflected in any outcomes both short and long term.
- Currently the Council Tax Reduction scheme (CTR) and Education Maintenance Allowance (EMA) in Scotland are the only passported benefits which have had thresholds in place for a period of time. The policy intent and regulations enable local authorities to administer CTR and EMA efficiently and effectively.

**Annual uprating**
- The 4-year freeze on benefit rates has detrimentally impacted recipients as living costs continue to increase. The impact of having less disposal income when on a low budget is disproportionate to that experienced by middle and higher earners. The Scottish Government’s powers over Social Security in Scotland include the power to vary these rates.

**Data sharing**
- Prompt and effective communications between landlords, support organisations and the DWP are essential to UC operating as intended. The introduction of explicit consent and withdrawal of implicit consent to enable the DWP to discuss individual cases and share information with third parties under UC Full Service (UCFS) had made it harder to achieve the resolution of problems.
- The DWP re-introduced the implicit consent approach to MPs representing the interests of their constituents when engaging with or directly claiming UCFS. This approach has not been extended to local support agencies that still require utilising the explicit consent process to access information in relation to UC claimants they are supporting.
• Improved data sharing would enable information to be shared with various support agencies. However, it should be noted from our own experience UCFS shows only one support agency can be acting for a UC claimant when seeking information from the DWP.

• This is impractical where a vulnerable claimant may be receiving a range of support from several different agencies. It is critical that recognition is given to the need for multiple engagements with DWP from support agencies acting on behalf of claimants without the need for explicit consent to be given by the claimant in every assessment period.

• Wider data sharing to support benefit take-up initiatives would also be helpful to address poverty and inequalities.

Allan Gunn, Head of Revenues & Customer Services, The Highland Council.