

Social Justice and Social Security Committee – Inquiry into Child Poverty and Parental Employment

Child Poverty Action Group in Scotland written evidence on Social Security rules, 23 June 2023

How to ensure social security isn't a disincentive to increasing pay and/or hours for parents?

Summary

- Passporting devolved benefits from UK benefits means that in some circumstances parents can hit a cliff edge where loss of a small amount of universal credit due to an increase in earnings could mean a significant loss of devolved benefits, including Scottish child payment, making the family worse off.
- We do not know the extent to which this is an issue (i.e., the number of families affected, or the extent of income lost), or the impact it has on decisions to move into work or increase earnings.
- The Scottish government could reduce the risk of parents facing cliff edges in benefit entitlement as earnings rise, for example by making the Scottish child payment a stand-alone benefit (rather than top up to universal credit) with its own run on or taper.
- Other ways to reduce the impact of cliff edges include increasing the taper rate for council tax reduction and extending universal free school meal provision.
- The Scottish government should act on the 2021 SNP manifesto commitment to introduce additional support so that students who are in receipt of benefits do not lose out because they are in receipt of, or entitled to, student support.

Our detailed responses to the Committee's questions are below.

Does the Universal Credit taper and work-allowance always make it worthwhile to take on extra hours? (How does it compare with tax credits in this regard?)

On paper the taper and work allowance mean that parents are always better off in work, however this does not consider additional work-related costs such as transport or equipment (for example knives, tools, or uniform).

The work allowance is the amount someone can earn before their universal credit award (UC) is reduced. It is only applied for people who are responsible for children or who have limited capability for work. It is £379 if the UC award includes a housing element, or £631 if it does not include a housing element. For every £1 that someone earns more than the work allowance, their UC award will be reduced by 55p.

For example:

Lana is a lone parent and gets help with her rent from UC. She has a part-time job earning £450 a month. Because Lana has a child, a work allowance applies and so some of her earnings can be ignored. Lana's UC includes a housing costs element, so her work allowance is £379. Lana's earnings exceed her work allowance by £71 (£450-£379) 55% of this excess is £39.05. Therefore, Lana's UC will be reduced by £39.05 (Example from CPAG's Welfare Benefits and Tax Credits Handbook 2023/24).

Tax credits were more supportive of parents working additional hours than UC, with

- an additional element for working 30 hours or more,
- a taper rate that reduced tax credits at 41p for every £1 earned over the earnings threshold, and
- a £2500 disregard for an increase in earnings from the previous year

Help to pay for childcare is more generous in UC (up to 85% of costs) than tax credits (up to 75% of costs), but administration of childcare costs for tax credits was much more flexible which made it much easier for families to access help to pay for their childcare costs.

In devolved benefits, does the passporting of Scottish benefits via Universal Credit create 'cliff edges' which can act as a disincentive?

It is worth considering this question in two parts:

- Does the passporting of Scottish benefits via universal credit (UC) create 'cliff edges'?
- Do any 'cliff edges' act as a disincentive?

When a claimant loses entitlement to UC they lose entitlement to the passported supports that receipt of UC entitles them to. This is not an issue specific to Scottish benefits. This can mean that if a claimant loses entitlement to universal credit due to a small increase in their earnings this can result in them having sudden loss in overall income.

For example, consider this scenario:

Susan is a lone parent who is currently working. She has one child. She has gross earnings of £600 per week and receives £9 per week universal credit and £25 per week Scottish child payment. She gets a 6% pay increase and due to her increased wages, she is no longer entitled to UC. She will lose £9 per week universal credit and stop receiving £25 a week Scottish child payment. Her financial loss, £36, will be more than the increase of her take home pay.

It is important to note that parents on the lowest incomes will continue to receive universal credit and Scottish child payment even if their income from employment increases. A family with two parents and two children will have joint take home pay of around £736 per week before they lose entitlement to universal credit.

Many families will be better off with a parent in work, or if a parent increases their hours. However, in some circumstances, a small increase in income through earnings, could result in a larger loss of income from passported benefits.

There are many variables that impact on whether a family will be better or worse off as earnings rise:

- The increase in earnings
- Whether childcare costs are claimed through UC
- How many children there are – many families with 3 or more children will lose entitlement to UC at the same level as families with 2 children as a result of the 2-child limit
- Depending on the ages of any children in the household there may be entitlement to best start foods, best start grants and free school meals
- Receipt of any other passported benefits, such as discretionary housing payments.
- Tapering of council tax reduction alongside UC

We would suggest modelling be carried out to examine the impact of the different variables.

There a number of ways in which cliff edges could be reduced within Scottish powers:

- Uncoupling Scottish child payment from UC – this would allow the Scottish government to determine at which point entitlement stops e.g through providing a run on of child payment or tapering the child payment after UC is withdrawn.
- Entitlement to Scottish child payment could then determine entitlement to other passported benefits such a best start grants and school clothing grants.
- Extend universal free school meal provision.
- Reduce the taper for council tax reduction and increase the personal allowance and child elements so that the taper kicks in at a higher point.

The second part of the question is - what impact this cliff edge may have on work incentives?

The Social Security Advisory Committee noted that “there is no rigorous research evidence to show that the provision of passported benefits acts as a work disincentive: when people take decisions about moving into work or increasing working hours, they take a range of factors into account.”

(assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/214611/ssac-rev-of-pass-bens.pdf).

There is evidence that suggests a claimant’s specific circumstances make a significant difference to the way they respond to changes in benefit entitlements. Parents with large families, for example, may respond differently to those over pension age to changes in their benefit entitlements
(sticerd.lse.ac.uk/_new/publications/abstract/?index=10186).

If the legislative basis for the Scottish child payment was change from a ‘top-up’ benefit to a stand-alone benefit (The Scottish government has consulted on this as part of the Enhanced Administration and Compensation Recovery Bill consultation)

this would allow ministers to make changes to the rules, allowing, for example, run-ons of Scottish child payment, or rates to be tapered, when a claimant's entitlement to universal credit ends. This would reduce 'cliff edges' or provide people with transitional support when they move into higher paid employment.

How are 2nd earners impacted by these benefit rules and what impact does that have on parents wishing to increase their working hours as children get older?

There is only one work allowance per UC award, so if for example, Aleksander is the main earner in a couple, he can earn £379 (assuming he is liable for rent) before it will impact on the award, any additional earnings will be reduced by 55p for every £1. The UC award will be further reduced by 55p for every £1 that his partner, Amy, earns, because the work allowance has already been applied to Aleksander's earnings. There is not one each.

This means that households will have to weigh up whether it is worth a second earner taking up work, or increasing hours, once the impact on UC has been taken into account, particularly once any work-related costs and childcare have been considered.

The UK government should introduce a second earner work allowance within universal credit and providing tailored employment support for second earners (cpag.org.uk/policy-and-campaigns/briefing/pre-budget-briefing-parliamentarians).

How does conditionality affect people's ability to move into good quality employment?

Institute for Fiscal Studies (IFS) analysis concludes that imposing job-search conditions on claimants of out-of-work benefits led many to move into paid work, but 'that work has been almost entirely part-time (fewer than 30 hours per week) and low-earning (in the bottom 40% of the overall earnings distribution). This is precisely the kind of work that tends to bring little or nothing in the way of longer-term benefits for skills, labour market attachment and wages.' (Decades of benefit reforms have pushed more people into work – but very often into part-time, low-paid work with little prospect of progression, ifs.org.uk/inequality/benefits-and-tax-credits). This means that these people often do not earn enough to pay income tax, remain on means-tested benefits, and very often remain trapped in poverty.

The DWP's own report into the impact of sanctions on employment outcomes concludes that 'a sanction leads the average claimant to exit less quickly into PAYE earnings and to earn less upon exiting.' (gov.uk/government/publications/the-impact-of-benefit-sanctions-on-employment-outcomes-draft-report/the-impact-of-benefit-sanctions-on-employment-outcomes). It goes on to say, 'this excludes the wider role of a sanction, which acts to incentivise compliance with a conditionality regime that encourages work search and earnings increases.' As the IFS analysis cited above suggests, there is limited evidence that increasing conditionality has positive effects on incomes.

Rather than the threat of punitive conditionality, a far more effective approach to support people back into work (or into higher paying more productive jobs) would be to invest in tailored employment support (welfareconditionality.ac.uk/wp-content/uploads/2018/06/40475_Welfare-Conditionality_Report_complete-v3.pdf).

CPAG's Your Work Your Way (YWYW) project provided tailored employment support to second earners in households claiming universal credit (See cpag.org.uk/your-work-your-way for more details). Whilst the project took place in England, many of the findings regarding the benefits of tailored support are applicable in Scotland too.

“Fatima is a mother of 3 from Pakistan. Her husband works in a warehouse (All names have been changed to protect the identity of participants). She was a teacher in Pakistan and has a Master’s Degree. She wants to work as a teaching assistant. She has a good level of conversational and written English but due to availability of space at the Adult Education provision has been studying at a lower level. If she continues to use this route to gaining a Level 2 Functional Skills in English it could take her another year before she can work as a Teaching Assistant (L2 Functional Skills qualifies as GCSE equivalent for jobs requiring English and Maths GCSEs). YWYW are working with her to fund an intensive L2 course which will mean she can start to apply for jobs in a couple of months rather than a year from now.”

As the case study highlights, it is important that potential earners are given employment support to find the best job to match their skills; that they can access meaningful and relevant training courses; and that they receive advice on self-employment. There should also be greater consideration given to hidden costs such as transport (particularly in rural areas) and access to IT.

In addition to good quality employment support, it is vital that parents are able to access:

- Childcare
- Flexible work opportunities
- A second earner work allowance in UC, to allow them to keep more of their earnings
- Access to funded training and skills (including funding for childcare to undertake training)

The UK government also claims that the benefit cap is needed as a work incentive. However, a recent assessment found that the vast majority of capped households do not move into work (What impact did lowering the benefit cap have?, IFS, 2023). This is unsurprising as just over a third (34%) of people on universal credit who are subject to the benefit cap – which the Government claims incentivises work – are assessed by the DWP as not required to look for a job because they are caring for very young children (FOI data debunks benefit cap ‘work incentive’, CPAG, 2023). While a further 18% are already in work but do not earn enough to reach the threshold for the cap to be lifted. These households are not out-of-work or on very low earnings because benefits are too generous, but because of deeper structural reasons that the cap does not help to address. In addition, the vast majority of capped households who found work would have found work even in the absence of the cap.

The Scottish government is investing £6m this year to use discretionary housing payments (DHP) to mitigate, as far as possible, the benefit cap in Scotland.

Whether you are aware of any further details on implementing the UK Spring budget changes to Universal Credit on childcare costs.

The Universal Credit (Childcare) (Amendment) Regulations 2023 (legislation.gov.uk/uksi/2023/593/made/data.html) come into force on 28 June 2023.

Reg 2(2) improves upfront support for childcare costs to allow the claimant to take up or increase their hours of work.

Regulation 2(3) increases the maximum childcare that can be paid each month for 1 child from £646 to £951 and for 2 or more children from £1108 to £1630.

As we understand, including from engagement with a DWP stakeholder event in March:

- The increased childcare cap will not be applied to tax credits.
- Parents will be able to stack the childcare offer (e.g. access free hours first and then claim back 85% of additional costs through UC).
- The approach to help parents get support upfront with their childcare costs works as follows:
 - childcare providers are paid directly from the flexible support fund for the first month
 - claimants can get reimbursed by the UC childcare costs element for the first month though (even though they didn't pay)
 - they can use this money to pay for the next month (and so the cycle continues).
- This will be available to support people who start work, but also who increase their working hours.
- The upfront help with costs relies on work coaches/claimants knowing about the flexible support fund and how this can be claimed.

The proportion of childcare costs covered by UC remains at 85 per cent. Making low-income families pay for childcare is illogical if the government is serious about encouraging parents back to work. CPAG believes UK government should increase childcare support to cover 100% of the costs for low-income families.

What reforms of benefits and student funding would help parents access education?

We note that you raise the issue of Scottish child payment as a 'top-up' payment in this regard. We would also be interested in the way that rules for both further/higher education and full time/part time education interact with the benefit system for parents, and the degree to which any solutions lie within the remit of the Scottish Government.

Because of the way DWP calculate UC awards differently for students and earners, a student could have the same income as someone working and getting UC, but not

be entitled to UC themselves and have to pay some of that income (student loans) back in the future. This could be a disincentive to studying.

For example:

Laura is a lone parent with one child. During term time her monthly income (from her student loan, independent student's bursary and lone parent grant) is £1288.12. To calculate UC, the bursary is ignored and £110 student income is disregarded each assessment period. The income used to calculate Laura's UC is £1053.12.

Laura's maximum UC entitlement is £1038.32
Standard element £368.74 + child element £269.58 + housing costs £400 =
£1038.32

Laura's income (£1053.12) exceeds her maximum UC (£1038.32), so she is not entitled to any UC.

Sam is also a lone parent with one child. Her net monthly income from work is £1288.12 (the same as Laura's student income)
To calculate income for UC, the work allowance is deducted and the 55% taper applied.
 $£1288.12 - £379 = £909.12 \times 55\% = £500.02$

Sam's maximum UC entitlement is also £1038.32 (same as Laura's)
For the purposes of UC, Sam's income (£500.02) is less than her maximum UC (1038.32) so she will get £538.30 UC and be entitled to passported benefits such as Scottish child payment.

The SNP's 2021 Manifesto includes a commitment which could address this issue if implemented,

'No student should lose their benefit entitlements because they are in receipt of student funding. We will introduce a special support payment so that students who are in receipt of benefits do not lose out because they are in receipt of, or entitled to, student support' (snp.org/manifesto)

The example above highlights that some students will not be entitled to benefits because they are in receipt of student funding. The special support payment must include them too.

The way in which the Scottish government could deliver the payment without requiring legislative changes to UC would be to increase the levels of non-repayable support that will not count as student income for UC, for example: study expenses allowance for books and travel; childcare grant; disabled students' allowance; additional support for learning amounts. These are disregarded for the purposes of UC.

CPAG in Scotland's student project produces a range of resources (cpag.org.uk/scotland/welfare-rights/students-benefits) detailing the links between social security and student support including our Benefits for Student's handbook

which is free to access online

(askcpag.org.uk/publications/scotland?_gl=1*_jdjsi1*_ga*NDkwNzc3MTk2LjE2Nzk5O
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MC4w).