Despite the government's U-turn, Universal Credit still has major problems

*While the 2018 Budget proposals mitigate some of the risks of Universal Credit implementation and may help certain groups eligible for work allowances, they overall do little to offset the erosion in household incomes caused by welfare reforms, explains **Dan Finn**.*

Universal Credit (UC) aims to simplify and modernise the income and employment support system for millions of households. The system's implementation has, however, been punctuated by controversy over missed deadlines, botched IT development, and poor project management. It has also been directly associated with increased debt, rent arrears, hardship, sanctions, and food bank use. Despite the significant problems that remain the National Audit Office recently concluded there is no practical alternative but to continue with UC implementation.

Ministers claim that the difficulties are exaggerated, and in the 2018 Budget the Chancellor announced that UC was 'here to stay' and will help 'drive' future 'growth and employment'. He sought to deflect mounting criticism by injecting extra resources into 'work allowances' and measures to support the transition of some 2.8 million working age existing claimants onto UC. Concerns about this 'managed migration' process had already caused the Department for Work and Pensions to announce a delay in its migration timetable. This process will now be tested on 10,000 claimants in 2019 with fuller migration to start later in 2020.

Work allowances and the 2018 Budget

Work allowances are integral to the work incentive effect of UC. They are a set amount that a claimant in receipt of UC can earn from employment after which their benefit entitlement is reduced at a rate of 63%. The Budget increased the work allowance by £1,000 but only for claimants with a disability or who have children. The Office for Budget Responsibility estimates that it reverses only half the savings associated with the cuts made in the 2015 Budget. These cuts abolished the work allowance – then worth over £1,300 – for non-disabled and childless claimants, and cut it back severely for other groups. At the time it was estimated that just over three million families would lose an average of about £1,000 per year, saving £3.4 billion in 2020-21. By contrast the £1,000 increase will help some 2.4 million families keep an extra £630 of income each year at a cost to the Treasury of £0.5 billion in 2019-20, rising to just under £1.7 billion in 2023-24.

The government's original vision for UC emphasised the increased generosity of work allowances and the lower withdrawal rate compared to the equivalent income thresholds in 'legacy' benefits. This was true for out-of-work benefits, such as Jobseekers Allowance. It remains a false claim, however, when compared with working tax credits that have an income threshold of £6,420, followed by a 41% withdrawal rate (the threshold for those claiming only Child Tax Credit is significantly higher). The number of working families receiving tax credits has fallen from 4.85 million in 2010-11 to 2.86 million in 2016-17. UC further contracts the poverty-reducing in-work income support system that existed in 2010.

UC payments, Jobcentre support, and the extension of benefit conditionality to around a million low paid workers are expected to encourage more claimants to take up employment and increase their earnings. There is a risk, however, that rather than support 'progression', UC will encourage the growth of 'mini jobs' and further underpin the dramatic growth in part-time and low paid employment and also fuel in-work poverty.

The unaddressed problems

The other measures in the 2018 Budget add to a patchwork of changes introduced to offset some unanticipated, albeit predicted by critics, effects of paying UC monthly in arrears, that will also ease the forthcoming passage of the 'managed migration' regulations that Parliament must approve. Until 2016 most UC claimants were unemployed, often single or childless, and claimed only for a short period. This caseload profile is changing and after 'managed migration' UC claimants are more likely to be families in low paid work, the self-employed, and long-term claimants with disabilities or work-limiting health conditions.

Currently, UC applies only to people making a new claim for benefit, or existing claimant households who through 'natural migration' must make a new claim because of a change in circumstances. The 'full' digital service through which UC is delivered will cover all Jobcentre areas at the end of 2018, after which no new claims will be accepted for 'legacy' benefits. The promise of transitional protection has muted criticism of reduced entitlements under UC. This guarantees that claimant households transferred to UC through managed migration will suffer no immediate reduction in income should their entitlement be lower. This protected payment lasts until it is extinguished by a change in circumstances or subsequent increases in benefit rates.

Draft regulations on 'managed migration', published in June 2018, raised concerns about the DWP requirement that all existing claimants must make a new claim for UC. The regulations propose a campaign of 'warm up' messages advising claimants to prepare for change, for example, by ensuring they have evidence of identification and proof of their right to residence (creating potential for another Windrush scandal). This will be followed by a formal one month notice period for claimants that their current benefit claim will be terminated and that they must make a new online claim for UC and agree a claimant commitment. If someone fails to make a claim on time they risk not only an immediate loss of income but when they do apply they may lose their transitional protection.

Safeguards are proposed for 'vulnerable and complex' cases, but concerns have been raised about the likelihood that large numbers of 'migrated' claimants will miss their deadline and lose transitional protection. The Work and Pensions Committee has highlighted the problems of a significant minority of claimants when navigating the application process. The Committee recommend that migration should proceed only when the Universal Support system has a much improved provision to assist this group of claimants in developing their online, budgeting, and debt management skills.

The transition to UC risks pushing 'migrated households' into debt. New UC claimants must cover their living expenses and much of their rent for up to five weeks before receiving their first payment (if the claim goes smoothly). Claimants can apply for earlier assistance but 'advance payments' are a loan which is recovered, along with any other benefit debts, from subsequent UC payments.

Some of the problems experienced by UC claimants were ameliorated in the 2017 Budget. It reduced the initial UC waiting period from six to five weeks, made access to advance payments easier, and rolled on rent support for two weeks for new UC claimants already receiving Housing Benefit. The measures in Budget 2018, which will cost '£1 billion over 5 years', provide further mitigations. They extend two weeks rent support to those migrating from legacy benefits from July 2020. From October 2019, the government will reduce the maximum rate at which debt deductions can be made from a UC award, from 40% to 30% of the standard individual allowance, and will increase the period over which advances will be recovered, from 12 to 16 months. Other mitigations include extending to two years the grace period for self-employed people and ensuring that people receiving Severe Disability Premium have transitional protection.

Anyone who thought that the Budget might end austerity for benefit claimants has been disappointed. It mitigates some of the risks of UC implementation and the increased work allowances will help those eligible and employed enough hours to use them. Most UC claimants are not working, however, and the Budget has done little to offset the erosion in their household incomes caused by welfare reforms and the four-year freeze in benefit rates which continues in 2019-2020.

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Date originally posted: 2018-11-05

Permalink: http://blogs.lse.ac.uk/politicsandpolicy/universal-credit-2018-budget/

Blog homepage: http://blogs.lse.ac.uk/politicsandpolicy/