

Universal Credit: The scheme faces difficulties that must be resolved before it is rolled out

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Nigel Keohane examines the government's Universal Credit scheme and points out five areas of concern. He argues that it will make budgeting on low incomes very difficult, that monthly payments in arrears will risk indebtedness, and that the reform of Council Tax Benefit will play havoc with the scheme. Also, bringing those in part-time work into the conditionality regime will be difficult in practice and the question of how so-called 'passported benefits' such as free school means and free prescriptions will be treated is unresolved.



The Secretary of State Iain Duncan Smith appeared before the DWP select committee yesterday morning charged with defending his Universal Credit policy once again. As with previous appearances, the encounter was bruising.

The main [announcement](#) was that the scheme is suffering delays and that Universal Credit will not be rolled out to new claimants in October as had been scheduled. Instead there will only be an additional six pilots in specific Job Centre Plus areas. While there will be lots of huffing and puffing about the holdup and questions about when the IT system will eventually be ready, the government is surely right not to make a leap in the dark on such an important policy.

But, the computer system is just one problem standing in the way of getting Universal Credit right. Below we set out SMF's top five areas where the scheme faces difficulties that must be resolved before it is rolled out.

1. It will make budgeting on low incomes very difficult

As the SMF's [Sink or Swim](#) report argued in September 2012, many claimants will struggle to adapt to the structure of monthly benefit payments under Universal Credit. [Research](#) out yesterday from Citizen's Advice shows the same. When combined with the policy of paying housing benefit to social housing tenants rather than direct to the landlord, this is likely to push many households further into debt and pose significant problems for social landlords. The most recent [findings](#) from the Housing Benefit Demonstration Pilots showed that almost a fifth of claimants were unable to pay their rent in full and had their payments switched back to their landlord. This proportion corresponds broadly to the experience of private sector tenants under the Local Housing Allowance.

Currently, the [DWP](#) is planning to decide centrally which individual claimants should be shifted onto alternative payments schemes (such as fortnightly payments or payments direct to landlords). Each instance will be 'considered on a case by case basis and assessed on their individual merits'. But, given that there will be approximately 8 million claimants under Universal Credit, how expensive will such a policy be to deliver and will the government be able to identify all the vulnerable people who need help before they get into difficulties? And, with social landlords facing lower incomes from rent – what does the policy mean for house building? Is there not a strong case to allow claimants to opt-in to alternative payments as previously proposed by the SMF in its '[Budgeting Portal](#)'?

2. Monthly payments in arrears will risk indebtedness

Under Universal Credit, households will have their earnings assessed every month, but they will also be paid monthly payment in arrears. From the perspective of a spread sheet in Whitehall, this looks like a very neat way of overcoming the problems of overpayments and underpayments under the tax credits regime.

However, even on the most optimistic assumptions about the success of the system, the SMF calculated that someone on a weekly wage who is subsequently made redundant could face a month's wait for their revised benefit

payment. Many would have little alternative but to go into debt. This situation has been exacerbated by the announcement in the June Spending Review that benefits will be withheld from the newly unemployed for seven days, saving the Treasury some £250m per year. Not only, therefore, will claimants have to wait for up to a month, but they will get less when the payment hits their account. A significant proportion of this £250m saved by the exchequer is therefore likely to be converted straight in to debt for claimants. That may prove to be a false economy.

3. The reform of Council Tax Benefit will play havoc with the scheme

The numbers of winners and losers under Universal Credit is predicted by the [Department](#) to be quite even, albeit that those who win will on average gain marginally more than the losers will lose. However, since the Secretary of State's last appearance, the government has abolished the Council Tax Benefit policy and handed responsibility down to councils, throwing a 10% cut into the bargain. With pensioners protected against any reduction in their support, expenditure on the working-age population will be cut by 16% on average. This policy will play havoc with the taper rate under Universal Credit, significantly undermining the two principal aims of the policy to simplify and markedly improve the taper rates.

Each council will implement the new regime differently, but if some choose to give full support to workless people and then withdraw it all from working people, this could severely damage incentives to move into work. So, what impact has the CTB reform had on incentives to work under Universal Credit? And, will there be more losers than winners now?

4. Bringing those in part-time work into the conditionality regime will be difficult in practice

As claimants will be entitled to in-work support immediately on entering work, rather than at the point of working 16 hours per week as at present, the UC contains strong incentives for people to take up low-hours jobs. But, at the same time, incentives to work more hours have been weakened in many cases.

To offset this incentive to reduce hours, the government is introducing 'in-work conditionality', which will seek to push people to work longer hours. All claimants who earn less than the equivalent of a 35-hour week at the national minimum wage rate will have to boost their income through taking on more hours at the same job, an additional part-time job or higher hourly wages. This will affect an [estimated](#) 1.2m people, who will be threatened with sanctions (such as losing part of their UC payment) if they do not comply.

While the rationale for this is clear, how will it work in practice when dealing with the complex work and domestic arrangements of claimants' lives? Will it ever be possible for the circumstances of each case – such as caring responsibilities – to be considered objectively in such a scheme?

5. Who gets free school meals?

A big sticking point for UC will also be how so-called 'passported benefits' such as free school means and free prescriptions will be treated. With the loss of the 16 hours-per-week definition of work, the new system will have to devise a way to determine who should and should not get financial help with these extra costs. The threatened withdrawal of free school meals would act as a big disincentive to work if it happens at a particular earnings threshold. Meanwhile, any attempt to monetise the value of these extras will add in yet more complexity and new taper rates to a system that was originally sold as a simplification exercise.

These are the big problems that need to be ironed out before Universal Credit does get properly underway.

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About the Author

Dr Nigel Keohane is Deputy Director at the Social Market Foundation, having joined in summer 2011. Previously he was Head of Research at the New Local Government Network where he was responsible for NLGN's research programme and policy development. His research has focused on public service reform, commissioning, public management and transport.