

SOCIAL SECURITY COMMITTEE

SOCIAL SECURITY AND IN-WORK POVERTY INQUIRY

SUBMISSION FROM CHILD POVERTY ACTION GROUP IN SCOTLAND

1. Child Poverty Action Group works on behalf of the one in four children in Scotland growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and solve poverty – for good. **What impact will universal credit have on in-work poverty in Scotland?**

2. Universal credit (UC) was introduced with the promise of reducing poverty, simplifying the benefit system and incentivising work – however, CPAG evidence and analysis indicates that this is not the case.

3. Reduction in the value of the work allowance. Cuts to UC have substantially reduced the rewards from work for many families. Cuts and freezes to work allowances mean that families see their UC award reduced at a lower level of earnings than under tax credits. This will leave lone parents worse off by £710 a year on average, and couples £250 a year on average, across the population. In order to make up the losses from work allowance cuts, a couple already working full time on the 'national living wage' would have to work 17 extra days a year, and a lone parent an extra 41 days a year –in effect, a fourteen month year.

4. A couple with two young children, with one full-time and one part-time earner on the 'national living wage', will be over £1,200 worse off a year as a result of cuts to universal credit. A lone parent with two young children, starting work at 12 hours a week on the 'national living wage', will see their effective hourly wage rate reduced from £5.01 to £4.18 an hour by universal credit cuts.ⁱ

A working parent recently married her terminally ill partner causing their tax credit claims to end and resulting in a new claim for UC. When her partner dies, the parent expects to be up to £39 a week worse off because the amount she can earn in UC before her award is reduced is less generous than it was in tax credits. #16854

5. Assessment periods The monthly UC payment is calculated based on income in the previous month 'assessment period.' Even people who are paid monthly, but not on the same date each month may receive two wages in one assessment period and none in another. The effect of receiving two wages is that the UC award will be reduced, or stopped - forcing the claimant to make a new claim for UC the following month. Receiving no wages in the assessment period may result in the claimant being subject to the benefit cap, because exemption from the benefit cap due to work, is reliant on minimum net earnings of £520 in an assessment period. ⁱⁱ

6. Entitlement to passported benefits for people receiving UC is usually based on income during an assessment period. For example: entitlement to free-school meals is based on

having an income of less than £610 in the assessment period before the free-school meals application. If the applicant has more wages than usual, for example it is a month where they receive 2x 4 weekly pay, they may not be eligible for free school meals when they would be in other months.

7. Surplus earnings Since April 2018, if you earn above a certain threshold* and your UC stops, an amount of 'surplus earnings' may be carried over as earnings to a new UC claim if you claim again within 6 months. If you have surplus earnings included in your new claim for UC, the amount of your new UC award may be reduced, or you may get no UC, in which case you would have to reclaim again, once your surplus earnings have been calculated to have reduced to a level which would entitle you to UC.ⁱⁱⁱ There is no equivalent provision in tax credits.

*The current threshold is £2,500, but is expected to reduce to £300 in April 2019.

8. Lack of support for self-employed workers If a claimant has been self-employed for more than a year DWP will set a 'minimum income floor' which is the amount of earnings it is assumed the claimant will earn and is used in the calculation of the UC award even if the claimant earns below that. CPAG's Early Warning System has received a number of cases of self-employed workers facing destitution because their actual income falls well below the minimum income floor.

A self-employed man broke his arm and was unable to work. His work coach set the minimum income floor at 35 x the national minimum wage. Even though the claimant has had no income, the UC calculation assumes that he is receiving 35 x the national minimum wage and is therefore not entitled to UC. The client has no money, is accruing rent arrears and developing mental health problems as a result. #17059

9. No support for mortgage interest payments If a UC claimant has any earnings they are not entitled to receive support for their mortgage interest payments (which now take the form of a loan) and will have to wait nine months after they have had any earnings before they are eligible. This could be a disincentive to start work.

10. In-work conditionality Claimants earning less than the equivalent of a 35 hour week at the national minimum wage may be required to increase their earnings, by increasing their hours or looking for additional work. Anecdotally we have heard of a number of working claimants withdrawing their claims for UC because the difficulty complying with their in-work requirements, which can be disruptive to their existing working arrangements, and are disproportionate to the amount of UC they receive.

What is the experience so far in universal credit full-service areas in Scotland for those who are in work who are moving or have moved on to Universal Credit?

11. UC has been punitive for employment and support allowance (ESA) claimants who have tried working for a short period, but have been unable to sustain work. Unable to make a new claim for ESA, they have had to claim UC and found themselves worse off,

because disability premiums (additional amounts of money) that would have been paid in ESA are not payable in UC.

A client with severe learning difficulties and no work history was incorrectly advised that he could try work and return to ESA if it didn't work out. The client was unable to cope and tried to reclaim ESA but had to make a new claim for UC instead, which meant he no longer received the severe disability premium (worth £64.30 a week). #18773

12. Inaccurate real-time information has led to claimants being underpaid and in some cases having their UC stopped. Claimants do not have to report their income to UC, with DWP relying on real-time information (RTI) from HMRC instead. This is much easier for claimants, unless the RTI is inaccurate, which can be due to errors in employers reporting or HMRC administration.

RTI showed that a claimant was paid a day later than he actually was which meant it looked like he had received two wages in one monthly assessment period, resulting in him not getting any UC for that period. The client asked for the decision to be looked at again and produced bank statements and payslips showing the correct date of payment but DWP incorrectly advised that they could only base their decision on the RTI. #16983

13. Difficulty paying for childcare UC can include an amount to help pay for childcare costs. Cases submitted to the Early Warning System indicate that childcare costs are often not included in UC payments or are paid at the wrong amount, causing parents difficulty paying their childcare costs and jeopardising childcare arrangements

A lone parent has been struggling to pay her childcare costs since moving from tax credits to UC. Childcare costs do not appear to have been included correctly in her UC award despite raising the issue repeatedly in her online journal as instructed. The client needs her son's nursery place so she can work and has been paying nursery instead of her rent, accruing rent arrears as a result. #Mii253

14. Loss of passported assistance. CPAG has reported families experiencing: long delays, in one example 5 months, before their UC award has been granted; administration errors in the amount of UC they are entitled to; and confusion about whether to claim UC or benefits that pre-date the introduction of UC.^{iv} Failures in UC administration can lead to UC claimants losing out on other financial assistance that they would otherwise be entitled to.

15. Managed migration from tax credits to universal credit has the potential to increase in-work poverty for those people who do not manage to make a successful claim for UC. 30% of new claimants do not make it through the claims process and have their claim closed before any payment is made.^v

16. 2.09 million claimants are due to be migrated to UC, 722,000 (35%) of whom are currently receiving working tax credit. (WTC)^{vi} Assuming 10% of the WTC claimants due to be migrated are in Scotland, that is an estimated 72,000 people. If 30% of them fail to

migrate to UC, that could be the equivalent of 21,600 low income households who lose in work benefits through the process of migration.

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

17. There is a risk that people in work who do not claim or are not eligible for UC will miss out on other assistance such as free-school meals and best start grants. There are people who are not entitled to UC who would have been entitled to tax credits, for example:

An adviser has two clients who are both pregnant with their first child and have no housing costs. The client who is receiving maternity allowance (MA) is not entitled to UC (and therefore a best start grant [BSG]) because her maternity allowance is taken into account in full in the UC calculation. The client who is receiving statutory maternity pay (SMP) is entitled to UC because although SMP is paid at the same rate as maximum MA, SMP is treated as earnings and therefore only partially taken into account in the UC calculation. Maternity allowance is paid to people who have not worked for long enough or earned enough to satisfy the conditions for SMP, so parents with less stable employment and lower earnings will not be able to access assistance from the BSG.

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

- 17. Adopt a flexible approach to passported benefits to ensure administrative problems with UC do not preclude UC claimants accessing other entitlement, such as free school meals, best start grants and funeral expenses payments
- 18. Give strong consideration to whether any entitlement to UC might be accepted as indicator of lower income to passported benefits. This would be simpler for claimants and administration and address some of the issues arising from monthly assessment periods for UC.
- 19. For low income groups who are not entitled to UC, alternative ways of identifying low income households should be considered, for example, entitlement to council tax reduction.
- 20. Invest in advice and information and ensure this is available to people who are in work
- 21. Support employers to ensure they are aware of the implications of UC, particularly in relation to payment cycles, the importance of accurate reporting to HMRC and in work conditionality

For more information, please contact Kirsty McKechnie, welfare rights worker, Child Poverty Action Group kmckechnie@cpagscotland.org.uk or 0141 611 7091

ⁱ [CPAG UK's report: Austerity Generation – the impact of a decade of cuts on families incomes and child poverty](#), November 2017

ⁱⁱ [CPAG UK's report: Rough Justice – Problems with monthly assessment of pay and circumstances in UC and what can be done about them](#), August 2018

ⁱⁱⁱ [Universal Credit \(Surpluses and Self-Employed Losses\) \(Digital Service\) Amendment Regulations 2015 \(S.I. 2015 /345\), as amended by S.I. 2015/ 1754, S.I. 2016/ 215, S.I. 2017/ 197 & S.I. 2018/ 65.](#)

^{iv} [CPAG briefing for the Social Security Committee in advance of the meeting with Esther McVey](#), April 2018

^v [National Audit Office report: Rolling Out Universal Credit](#), June 2018

^{vi} [DWP explanatory note for Social Security Advisory Committee on the Universal Credit \(Transitional Provisions\) \(Managed Migration\) Amendment Regulations 2018](#), June 2018