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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>13 November 2018</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/113/18/AP/CM</b>
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<b>Subject:</b>	<b>Welfare Reforms Update</b>		

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## 1.0 PURPOSE

- 1.1 The purpose of this report to update the Committee on the impacts of the UK Government's Welfare Reforms and recent developments in respect of Universal Credit and specific projects.

## 2.0 SUMMARY

- 2.1 The Work and Pensions Secretary announced on 15<sup>th</sup> October 2018 that the Universal Credit Managed Migration programme, moving those still on legacy benefits such as Employment and Support Allowance, Housing Benefit and Tax Credits over to Universal Credit, has been delayed and will not start in January 2019 as expected but instead will begin in a test area over the course of a year starting later in 2019. The roll-out will then increase from 2020 onwards. At present, there are almost 5700 UC claimants in Inverclyde.
- 2.2 The Department for Work and Pensions wrote to the Chief Executive on 1<sup>st</sup> October 2018 to inform that Universal Support will from 1<sup>st</sup> April 2019 be delivered by Citizens' Advice Scotland. River Clyde Homes (RCH) delivers these services on behalf of the Council under their branded service "Future Skills", jointly funded by the Council and the housing associations. Citizens' Advice Scotland is a partner within the Inverclyde Financial Inclusion Partnership and officers have begun engagement. Clarity as to how they propose to deliver Universal Support is being sought to ensure that service users are in no way adversely impacted by this change.
- 2.3 The local Scottish Social Security partnership lead for Inverclyde who will cover at least one other council area has been announced and an invitation to join the Inverclyde Financial Inclusion Partnership and the Welfare Reform Project Board has been made through the Local Delivery Lead.
- 2.4 Overspends in recurring DHP and SWF budgets are being projected this year however it is intended to contain these overspends in carried forward balances. However, this indicates a future expenditure pressure unless policy changes can reduce demand in both these areas.
- 2.5 Good progress continues to be made in the delivery of the Financial Inclusion Strategy with the report containing an update regarding Scotcash, a recent consultation response regarding In Work Poverty and the recent launch of the Digital Money Advice pilot.
- 2.6 Discussions continue with the funders of the I:DEAS project. The issues highlighted to the last Committee fundamentally remain despite some progress. A separate report on the agenda gives greater detail for Members.

### **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that the Committee notes the various matters highlighted in the report and that a further update will be provided to the February Committee.
- 3.2 It is recommended that the Committee agrees that a letter be sent to the Secretary of State for Work and Pensions (copied to the Secretary of State for Scotland) expressing concern at the transfer of Universal Support to the Citizens' Advice network and the need for clarity as a matter of urgency as to how the service will be delivered locally from 1<sup>st</sup> April 2019.

**Alan Puckrin**  
**Chief Financial Officer**

## **4.0 BACKGROUND**

- 4.1 The Committee has requested that reports are presented to each meeting of the Policy & Resources Committee updating Members on the impact of Welfare Reforms and the response by the Council and partners in managing these at a local level.

## **5.0 UNIVERSAL CREDIT UPDATE**

- 5.1 The Universal Credit (UC) programme is reaching what is widely accepted as the most critical stage. The Government has set out proposals in draft legislation to move 2.87 million long term and perhaps the most vulnerable claimants who remain on working age benefits over to Universal Credit. Senior DWP officials acknowledge that managed migration will be the greatest challenge of the programme.
- 5.2 The Work and Pensions Secretary announced on 15<sup>th</sup> October 2018 that the Universal Credit Managed Migration programme, moving those still on legacy benefits such as Employment and Support Allowance, Housing Benefit and Tax Credits over to Universal Credit, has been delayed and will not start in January 2019 as expected but instead will begin in a test area over the course of a year starting later in 2019. The roll-out will then increase from 2020 onwards. Officers expect to learn more about the process in the coming months and updates will be provided in future reports.
- 5.3 There are 5672 UC claimants in Inverclyde as of September 2018. (Appendix 1). Officers' best estimates are that there could be up to 4000 Employment and Support Allowance (ESA) claimants and a similar number of Tax Credit claimants who, as well as their partners, will be required to make a claim for UC.
- 5.4 The Department for Work and Pensions wrote to the Chief Executive on 1<sup>st</sup> October 2018 to inform that Universal Support will from 1<sup>st</sup> April 2019 be delivered by Citizens' Advice Scotland. There are 2 components to Universal Support: Personal Budgeting Support (PBS) is to help people manage their monthly UC payments and Assisted Digital Access (ADA) is to support people make an online claim and to provide them with the skills to maintain their online claim. Inverclyde Council has an agreement with the Department for Work and Pensions to deliver Universal Support services to Universal Credit (UC) claimants. The agreement has been renewed annually since Universal Credit was introduced in Inverclyde in October 2015.
- 5.5 River Clyde Homes (RCH) delivers these services on behalf of the Council under their branded service "Future Skills", jointly funded by the Council and the housing associations. Future Skills was established by RCH in preparation for the launch of Universal Credit as well as providing a wider social inclusion role by offering digital skills to any member of the community who seeks their help. Future Skills do not have an office base but instead meet service users in a venue that suits them such as a library, Jobcentre Plus, a Community Hub or in their own home.
- 5.6 The demand for Universal Support is such that Future Skills spend almost all of their time supporting UC claimants. Almost 500 UC claimants were assisted during 2017/18. The termination of the Council's responsibility to deliver Universal Support jeopardies what is an effective, reactive service that meets the current demand and which is ready to support the UC Managed Migration programme. There are likely to be financial implications for River Clyde Homes and for Inverclyde Council to a lesser degree and potentially users reliant on Universal Support if the new arrangements are not fit for purpose.
- 5.7 Citizens' Advice Scotland is a partner within the Inverclyde Financial Inclusion Partnership and officers have begun engagement. Clarity as to how they propose to deliver Universal Support is being sought to ensure that service users are in no way adversely impacted by this change. The Welfare Reform Project Board believe the best way of achieving this would be for CAS to sub-contract this service with Future Skills to ensure a continuity of service for Universal Credit claimants.

- 5.8 Given the maturity of the local Universal Support model it is recommended that the Committee agree that a letter be sent to the Secretary of State for Work and Pensions (copied to the Secretary of State for Scotland) expressing concern at the transfer of Universal Support to the Citizens Advice network and the need for clarity as a matter of urgency as to how the service will be delivered locally from 1<sup>st</sup> April 2019.

## **6.0 DEVOLVED SOCIAL SECURITY**

- 6.1 A briefing was delivered to members by the Social Security Scotland, Local Delivery Lead on 26th September 2018.
- 6.2 The scope of responsibility extends to 11 devolved benefits. The first of 2 annual payments of the Carers Supplement of £221 was paid to eligible recipients in October 2018. The Best Start Grant launches before Christmas which will see qualifying families receive £600 at the birth of their first child and £300 for subsequent babies. This is followed by £250 when the child is at nursery and £250 when they start school. The Scottish Government is in the process of developing the Funeral Expense Assistance scheme which is scheduled to be delivered from summer 2019. This will be followed by the Young Carer Grant in autumn 2019. The remaining benefits, including the replacement for Personal Independence Payment will be introduced incrementally after that.
- 6.3 The local partnership lead for Inverclyde, who will cover at least one other Council area and will be the local link for the agency, will manage staff based in Inverclyde who will provide face-to-face support to service users. An invitation to join the Inverclyde Financial Inclusion Partnership and the Welfare Reform Project Board has been made through the Local Delivery Lead.

## **7.0 DISCRETIONARY HOUSING PAYMENTS/SCOTTISH WELFARE FUND**

- 7.1 Appendix 2 shows that £980,000 Discretionary Housing Payments have been awarded or have been committed to be paid to those whose Housing Benefit or Universal Credit is reduced by the SSSC. Expenditure is projected to exceed the Scottish Government's estimated liability by £28,000. The Scottish Government is, however, committed to mitigating the impact.
- 7.2 DHP awards to those coping with financial hardship for other reasons including those in temporary accommodation are projected to be £154,000. This exceeds the recurring budget of £120,000 by £34,000 which will be scored against a carried forward earmarked reserve at the year end.
- 7.3 Appendix 3 shows that expenditure on the Scottish Welfare Fund (SWF) to 30<sup>th</sup> September 2018 was £391,000 exceeding the Scottish Government programme funding by 17%. If demand on the SWF budget in the coming months follows previous years, expenditure will exceed the 2018/19 Scottish Government allocation and the £100,000 from the Welfare Reform recurring budget may not be sufficient to absorb the pressure.

## **8.0 FINANCIAL INCLUSION STRATEGY**

### **8.1 Scotcash**

Scotcash is a national not for profit social enterprise who since 2007 have been able to offer an ethical and affordable alternative to expensive sub-prime lenders. In 2017, Scotcash became a partner in the I:DEAS programme in Inverclyde and as part of start-up costs, was awarded £150,000 to fund a loan pot specifically for Inverclyde residents. To date, 80 loans with a value of £44,016 have been delivered, saving Inverclyde residents £18,400 in interest charges had they taken the same loan with a sub-prime lender. The majority of loans have been made to residents from the more deprived areas. Whilst the numbers accessing loans are still small, there is a steady increase with projections by 2023 of 360 loans totally £160,000. As the loans are repaid this funding will be recirculating within the existing loan pot. Appendix 4 highlights further information regarding this initiative.

- 8.2 **Scottish Parliament's Social Security Committee into Social Security and In-work Poverty**  
HSCP Advice Services and Inverclyde Financial Inclusion Partnership both responded to the above consultation which asked for views on the impact of Universal credit on in work poverty. The full responses are available at Appendix 5, however In summary to the questions asked:

What impact will Universal Credit have on in-work poverty in Scotland?

This is thought to be in the main a negative impact due to the design flaws and the complexity of claims within the system. In addition, the extended reach of UC with changes to cuts to in work support will result in growing claimant hardship.

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?

As Inverclyde is a full service area we are already seeing the impacts of UC with rent arrears and direct deductions; impact on Scottish Welfare Fund; Increased demand for advice and support and the difficulty in accessing UC.

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

There is evidence that those people who are self employed are not claiming UC as the process is time consuming and difficult to access.

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

The response from Advice Services focuses on a number of technical changes that could be made to remove some of the complexity and uncertainty, particularly in relation to the work allowances; two child restriction; taper rate and system of monthly assessments

- 8.3 The Scottish Legal Aid Board (SLAB) has funded a pilot Digital Money Advice Service within Inverclyde until March 2019. It is being delivered by the HSCP Advice Services Team and aims to pilot how money advice and benefit advice (to the extent money advice involves income maximisation), can be delivered using different channels, including webchat and increasing the availability of online resources. To date, this has involved making online chat available via the Advice and Benefits section of Inverclyde Council's website and embedding an online benefit calculator onto Inverclyde Council's website. It is being advertised through social media and since 9th September, 80 clients have been supported using the chat facility. It is believed that Inverclyde HSCP is the first local authority service in Scotland to pioneer using webchat to deliver money and benefit advice and a number of other local authorities have expressed interest in finding out more about the service. The Improvement Service has also agreed to help evaluate the service and will be running a webinar on it on 31<sup>st</sup> October 2018.

## **9.0 I: DEAS (INVERCLYDE DELIVERING EFFECTIVE ADVICE AND SUPPORT)**

- 9.1 The Big Lottery Fund Scotland (the Lottery) and European Social Fund (ESF) developed a partnership to provide £17.3 million which was awarded through competitive tender to 5 geographical areas in Scotland, to fund strategic interventions aimed to support financial inclusion and capability for disadvantaged households. Inverclyde Council led a partnership approach and now has a £2.27m contract over 3 years with the Lottery to provide the I:DEAS (Inverclyde Delivering Effective Advice and Support) programme with sub-contracts between 6 other partners. The programme has now been operational since September 2017 (with an incremental approach) and although it has had some extremely positive results for individuals, there are a number of challenges emerging which can be grouped under:

- Fewer referrals than anticipated.
- Achieving compliance.
- Payment on Outcome funding model which is placing financial and reputational risk on all stakeholders.

Further detail is covered in a separate private report on the agenda.

## 10.0 IMPLICATIONS

### 10.1 Finance

The financial implications are as detailed within the report.

#### Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (if Applicable)	Other Comments
N/A					

### 10.2 Legal

There are no specific legal implications arising from this report other than those specifically highlighted.

### 10.3 Human Resources

There are no HR implications arising from this report.

### 10.4 Equalities

Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

### 10.5 Repopulation

Reacting positively to the ongoing welfare reform changes will help retain people within Inverclyde and hence maintain population levels.

## 11.0 CONSULTATIONS

11.1 The Welfare Reform Board continues to meet discuss all welfare reform matters including the matters raised in this report.

## 12.0 LIST OF BACKGROUND PAPERS

12.1 None

Universal Credit - Inverclyde Council

	No. of UC claimants	% of UC claimants with earnings	No. of UC claimants with Council Tax Reduction	No. of UC claimants awarded SWF Crisis Grants
<b>Feb-17</b>	1466	27%	647	128
<b>Mar-17</b>	1960	28%	883	125
<b>Apr-17</b>	2576	31%	1019	118
<b>May-17</b>	2908	29%	1159	135
<b>Jun-17</b>	3169	29%	1256	134
<b>Jul-17</b>	3470	31%	1358	109
<b>Aug-17</b>	3582	31%	1498	119
<b>Sep-17</b>	3786	31%	1581	134
<b>Oct-17</b>	3899	32%	1763	109
<b>Nov-17</b>	4103	35%	1838	123
<b>Dec-17</b>	4266	35%	1863	88
<b>Jan-18</b>	4314	33%	1958	202
<b>Feb-18</b>	4515	30%	2153	160
<b>Mar-18</b>	4628	30%	2205	143
<b>Apr-18</b>	4804	31%	2258	160
<b>May-18</b>	5000	31%	2323	150
<b>Jun-18</b>	5240	32%	2408	135
<b>Jul-18</b>	5397	32%	2526	125
<b>Aug-18</b>	5527	32%	2607	176
<b>Sep-18</b>	5672	32%	2647	156

Notes

1. No. of UC claimants is the number of individuals in receipt of Universal Credit either individually or as part of a couple

**Discretionary Housing Payments**  
**Position 30.09.18**

<u>1/ SSSC (Bedroom Tax)</u>		
	£000	
Applications Approved	1472	92.64%
Applications Not Eligible/Refused	68	4.28%
Applications Being Assessed	49	3.08%
	<u>1589</u>	
	£000	
Paid to Date	980133	Note 1
2018/19 Budget	951776	Note 2
(Under)/Overspend	<u>28357</u>	
<u>2/ Other DHP Cases</u>		
	£000	
2017/18 Budget	120152	Note 3
less : Payments to 30/9/18	153925	Note 4
(Under)/Overspend	<u>33773</u>	Note 5

**Notes**

- 1/ Represents 97.81% of those households known to be affected by SSSC.
- 2/ Estimate of liability; Scottish Government will meet expenditure in full.
- 3/ Includes £40k from the Welfare Reform recurring budget
- 4/ Includes £21k Benefit Cap, £71k Temporary Accommodation
- 5/ Any overspend will be scored against the DHP earmarked balance of £102k carried forward from 2017/18.

Finance Services  
30/09/2018



**Scottish Welfare Fund**  
**30<sup>th</sup> September 2018**

Calls Answered	6124		
Applications	3149		
Applications Granted	1922	61.04%	
Applications Refused	606	19.24%	Note 3
Applications Withdrawn	540	17.15%	
In Progress	81	2.57%	
Referrals to DWP	130		Note 2
	<u>Spend</u>	<u>Budget</u>	<u>Spend</u>
	<u>£000</u>	<u>£000</u>	<u>%</u>
Crisis Grant paid (1436)	135	254	53.15%
Community Care Grants paid (512) (includes 26 applications paying both CCG & CG)	256	517	49.52%
	<u>391</u>	<u>771</u>	50.71%

**Note 1** 1<sup>st</sup> Tier Reviews waiting decision = 1  
 1<sup>st</sup> Tier Review decisions = 43 (1.70%)  
 1<sup>st</sup> Tier Reviews upheld in customer favour = 21 (48.84%)  
 2nd Tier Reviews = 5 (as % of 1<sup>st</sup> tier decisions: (11.63%)  
 2nd Tier Reviews upheld in customers favour by SPSO = 2 (40.00%) Note 5

**Note 2** Referrals to DWP are the number of customers who are awaiting payment of a new claim for Universal Credit from DWP. In these circumstances an application can be made for a UC advance, which is repayable to the DWP.

**Note 3** The most common reasons for refusal of claims are, applicants not meeting the eligibility criteria, not being in receipt of a qualifying benefit or incomplete evidence provided.

**Note 4** Core Budget is £670,985 to which is added £100,000 allocation from the Anti-Poverty recurring budget.

**Note 5** 1 decision was based on additional information sourced by SPSO which was not available to Discretionary Payments Team at the point of the original application or 1<sup>st</sup> tier review stage.

**Inverclyde Council**

**Report by Sharon MacPherson, CEO, Scotcash**

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**Scotcash & Inverclyde Partnership - Briefing**

Purpose of Report:

To advise Inverclyde Council on Scotcash outcomes within the Inverclyde area

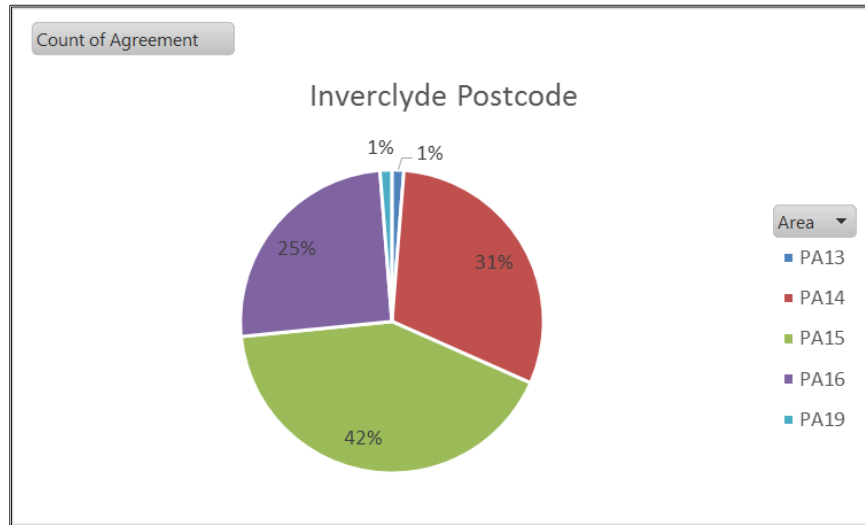
## **1.0 INTRODUCTION**

- 1.1 Financial inclusion remains a key strategic priority for Inverclyde Council. I:DEAS was developed with a number of local and national partners with an interest in financial inclusion and local knowledge of Inverclyde. The objective was to put eligible participants (EPs) at the heart of the project and offer EPs services to address their support issues, improve financial capability and reduce social exclusion. Partners considered where the service gaps were arising and identified that access to affordable credit, banking and financial capability were necessary to deliver an innovative, life changing, wrap around financial inclusion project for Inverclyde EPs.
- 1.2 In 2017, Scotcash was selected as partner in the I:DEAS project and is supported by Inverclyde Council via capital loan fund investment of £150,000.
- 1.3 This report highlights Scotcash activity in the Inverclyde region since 2007 and provides narrative on the outcomes achieved.

## **2.0 SCOTCASH IN INVERCLYDE**

- 2.1 Scotcash has provided support to Inverclyde residents in the form of small sum loans since the company was established in 2007. As a not for profit social enterprise, Scotcash is able to offer an ethical and affordable alternative to expensive sub-prime lenders for Inverclyde citizens. Since 2007, 80 loans with a

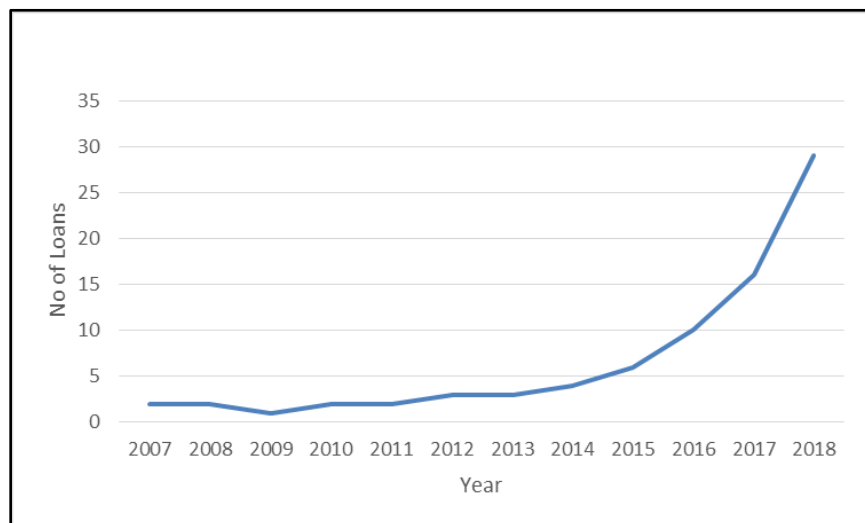
value of £44,016 have been delivered, saving Inverclyde citizens £18,400 in interest charges has they taken the same loan with a sub-prime lender. Over 40% of loans are from PA15 postcodes, with PA14 accounting for 31% and PA16 for 25%. The graph below illustrates the geographical spread of Scotcash loans in the Inverclyde area:

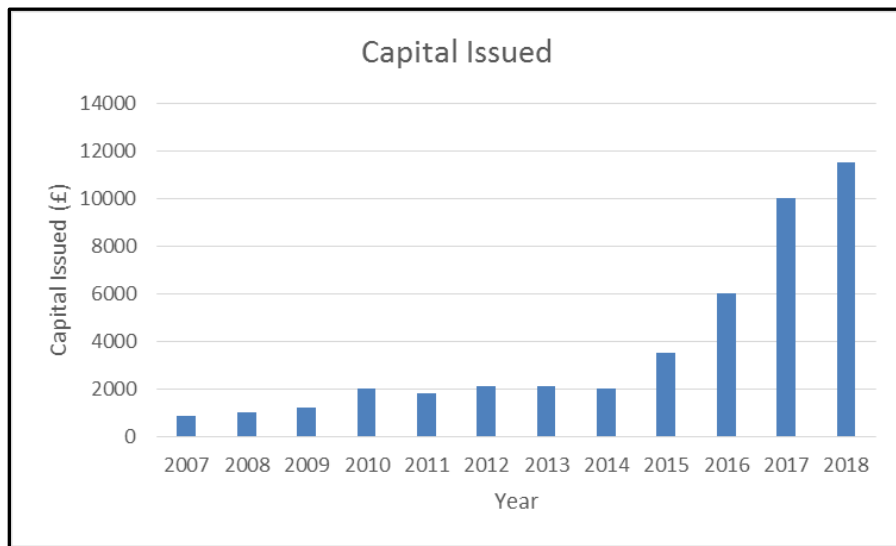


2.2 The loans range from £150 to £1,500 per loan with an average value of £557. This is comparable with all Scotcash loans across Scotland and demonstrates loans are being provided to those households who require very small sum borrowing. The loans are being used to fund:

- Home improvements
- Christmas
- Other Events
- Holidays

2.3 It is important to note that over half of all loans since 2007 were provided in 2017 and 2018. This indicates that the I;DEAS Project has had a significant impact on raising awareness of Scotcash services and has provided many more Inverclyde citizens with an ethical and alternative lender. The chart below illustrates the growth in demand since 2007:





2.4 The majority of Inverclyde customers borrow only once (69%) however those that do borrow more than once, tend to borrow on average 4 times, meaning Scotcash is a stable and ongoing source of affordable credit for these households.

### 3.0 CONCLUSIONS

- 3.1 It is clear there is a growing and on-going demand for small sum affordable credit in the Inverclyde area and that for many, Scotcash is meeting that need. It is also evident the partnership between Scotcash and Inverclyde Council has resulted in a growing awareness of alternatives for Inverclyde citizens that we anticipate will continue to increase.
- 3.2 Our forecast predicts we will lend a total of £160,000 over 360 loans by 2023. This will produce a saving on interest charges for Inverclyde citizens of £82,800. Based on the existing trajectory, we expect the capital loan funds will be fully deployed by 2023.

## **SOCIAL SECURITY COMMITTEE**

### **SOCIAL SECURITY AND IN-WORK POVERTY INQUIRY**

#### **SUBMISSION FROM INVERCLYDE FINANCIAL INCLUSION PARTNERSHIP**

#### **What impact will Universal Credit have on in-work poverty in Scotland?**

It is the view of the Financial Inclusion Partnership that the effect Universal Credit has had on in-work poverty has varied, depending on the client group, but overall is negative. We do not believe Universal Credit is a panacea to in-work poverty.

We believe there are a number of issues that affect claimants, such as cuts to the work allowance; the freezing of rates (despite the rise in the cost of the living); the two children restriction on the amount of benefits payable and the large numbers of claimants who are experiencing rent arrears.

We also believe the fact that conditionality can change as earnings drop can also cause difficulties for claimants, particularly where they are self-employed.

#### **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?**

Our partner agencies are reporting a number of problems.

#### **Rent Arrears and Direct Deductions**

One problem we are seeing a rise in, is the number of claimants who are experiencing rent arrears. This is a particular problem that has been reported by housing associations and the Legal Services Agency (LSA) in Inverclyde, who provide housing advice and representation to service users with rent arrears.

In particular, they are reporting that as claimants earnings fluctuate, the amount they are entitled to in Universal Credit fluctuates, which often means landlords are not receiving their full rent. Tenants, under these circumstances often struggle to keep track of how much is going to their landlord and struggle to maintain any repayment plan towards arrears or shortfall.

One tenant that a housing association is aware of now chooses to pay her rent from her earnings so that her landlord always receives their rent, but this can mean the amount of income she has each month for essential expenditure, fluctuates.

We are also seeing a rising problem of claimants who are having deductions taken from their Universal Credit for other debts (up to 40%), which means how much they have left to

pay their rent is reduced. The effect of this is these debts are now being given priority over the rent arrears and increasing the likelihood of eviction.

This is exacerbated in cases where we see claimants who have had previous benefit claims that have been ended.

There is often a gap between the ending of the previous claim and the new claim beginning. As Universal Credit generally doesn't give backdated awards, this means during this period rent arrears can increase, as can other debts which may then be recovered via Universal Credit.

Some of the feedbacks that Inverclyde Council received from a survey of Universal Credit claimants helps illustrate this point:

*"It fluctuates so I can't depend on it being the same amount which is worrying because I have the housing element and can't guarantee it will be paid."*

*"I'm struggling but I know I have to get used to monthly pay as most jobs are monthly paying. I have set up direct debit with River Clyde Homes so I know my rent will always be paid."*

*"Behind with main bills for first time ever, can't get back on track because they change payment amounts every month although my circumstances are the same every month."*

*"I spend 2 weeks of the month really struggling. I will get there once I get a freezer instead of living daily with my money."*

### **Scottish Welfare Fund**

We have also seen a significant increase in the number of crisis grants being awarded by Inverclyde Council since the roll out of Universal Credit began. In the first 4 months of 2016/17 there were 683 Crisis Grants awarded; this compares with 871 in 2017/18 and in 2018/19 the number of grants increased to 934.

Inverclyde Council is now projecting the Scottish Welfare Fund will overspend by approximately £45,000 in 2018/19 (7% above the Scottish Government allocation). Inverclyde had the highest equal overspend in Scotland in 2017/18. The availability of Universal Credit Advance payments helps contain demand on the SWF during the period until the first UC payment is received however repayment of UC advances has increased the level of applications once claims are established.

### **Increased demand for advice and support**

Claimants are, therefore, clearly experiencing increased hardship and a number of our partner agencies are seeing the effect of this, with increased demand for advice services and increased demand for foodbank referrals. We are also seeing the number of sanctions increase as the number of claimant's increase, which is supported by national statistics and therefore, follows a national trend.

We are also seeing the nature of those demands change, with more requests for advice not relating to the claiming of Universal Credit, but rather disputes about claims, such as the level of deductions and decisions to sanction claimants.

### **Accessing Universal Credit**

Between the 22<sup>nd</sup> of March and the 12<sup>th</sup> of April 2018, Inverclyde Council carried out a small survey of Universal Claimants, which 156 claimants responded to.

The overall response, was that although majority of claimants initially had to receive some assistance with making their claims (85%), the majority were now able to access Universal Credit from home, although a significant minority were still struggling and either dependent on support from family or friends, or accessing it via public access points provided via housing associations, libraries and the jobcentre.

The comments that were provided during the survey gave an insight into some of the experiences of those that responded.

*"I found the initial process quite hard and lengthy; verifying my identity and waiting for the first payment."*

*"A very lengthy degrading process, the initial sign up for UC was pretty complicated as I am not very computer savvy, also found waiting on appointments to prove who I am annoying."*

*"I found it really straightforward to use. Had a few teething problems at the start learning how to use it but all in all, I think it's a really good system"*

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

It is known that many claimants who are entitled to Universal Credit and are not claiming it are doing that for a number of reasons.

One is where they are self-employed; they are finding the whole process time-consuming and difficult to access, as they need to show their self-employment is gainful self-employment.

The process of proving self-employment is gainful is difficult for many as they have to attend interviews and spend time showing their income and that they will make a profit. Many are deterred from applying for this purpose, as they would prefer to spend that time growing their business.

Also where it is shown their employment is not gainful, they still have to apply for jobs and attend interviews in order to continue receiving their Universal Credit.

Many would rather spend this time growing their business and, therefore, don't apply.

Without the Universal Credit income, people obviously struggle and are more likely to get into rent and mortgage arrears and fall behind in payments to other debts. This we believe

is likely to make their businesses less sustainable and more likely to fail and is not conducive to creating an entrepreneurial culture.

We are also finding the conditionality element of Universal credit puts many people off, as does the digital nature.

The effect of this, where people do not claim, is easy to predict with people being left without sufficient income and is undoubtedly linked to the increased dependency by some on food banks and family and friends for support.

We also find, where people have not claimed and then submit a claim, the gap between not claiming and claiming can often result in rising debts, which causes hardship when they do claim as they are then likely to begin getting deductions from their Universal Credit.

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

Other than creating new top up benefits or increasing funding to the Scottish Welfare Fund to help mitigate the hardship arising from Universal Credit, we believe the Scottish Government should review the many welfare reform mitigation projects that were piloted across Scotland, during 2015/16, with a view to updating or replication the most successful and seeking to support new projects in light of the experience gained over the past few years.

We also believe that the detrimental effects of Universal Credit can be mitigated by:

- Increasing the number of public access IT points available to claimants;
- Increasing the provision of IT provision that assists claimants to develop skills to allow them to access UC successfully; and
- Increasing the provision of advice, including debt advice, to help people who are struggling with debts that have arisen because of Universal Credit claims or are being deducted from their Universal claim awards.



**SOCIAL SECURITY COMMITTEE****SOCIAL SECURITY AND IN-WORK POVERTY INQUIRY****SUBMISSION FROM INVERCLYDE HSCP ADVICE SERVICES****What impact will Universal Credit have on in-work poverty in Scotland?**

We have concerns it will increase it due to the design flaws within UC. As the roll out continues and the focus shifts from natural to managed migration these design flaws will become all the more transparent. The complexity of claims are proving difficult for the system to deal with. The extended reach of UC with cuts to in-work support will result in growing claimant hardship.

The Resolution Foundation Report, 'Universal Remedy', estimates 3.3 million working families are expected to be worse off, with an average loss of £48 a week, 600,000 will no longer have any entitlement (compared to the existing Tax Credit system). Concerns have been expressed as to the adequacy of the proposed Transitional Protection for those who do lose out. The design of UC was predicated on addressing primarily the issue of worklessness. The concerns over worklessness have been somewhat alleviated by record levels of employment. Yet at the same time:

1 in 5 workers are in low pay;

1 in 6 low paid workers will make the transition to higher levels of pay within a decade.

With 68% of children in poverty living in a working household the barriers UC should be redesigned to address and help tackle are structural labour market barriers of low pay and restricted capacity for in-work progression.

The Government White paper of 2010 promised that UC 'will improve financial work incentives.' The reality has been a number of changes to the system of in-work support by way of work allowances, a taper rate of 63% (early designs of UC suggested a taper rate of 55%), a 4 year freeze on most UC rates, restrictions in child support limited to 2 children per family, the issues with conditionality and subsequent sanctions Of the 3 million in-work UC claimants, the Government estimates 1 million of these will be subject to in-work conditionality by 2021.

A submission made on behalf of Inverclyde Financial Inclusion Partnership will cover the experience so far of full service UC in Inverclyde. This response will therefore progress to address the next question of:

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

We would suggest that they can raise concerns as to current UC design issues and where possible suggest design modifications that can possibly remove some of the complexity and uncertainty pertaining to UC as it stands at present. In particular address issues of work allowances, 2 child restriction, taper rate, and system of monthly assessments.

#### **Work Allowances**

The amount claimants can earn before UC starts to be withdrawn. One work allowance allocated per UC assessment unit, irrespective of the number of earners:

April 2014-18: work allowances frozen;

April 2016: work allowances reduced. Falls from £222 to £192 for families with children who rent with UC housing costs, and from £536 to £397 for families without housing costs. Removed completely for non-disabled adults without children resulting in the application of the UC taper as soon as earnings commence.

The weakness of the work incentive for a second earner is both obvious and stark with all their potential initial earnings subject to a 63% taper that allows for only 37 pence from every pound earned to be retained. The importance of increasing the number of dual earning households is every bit as much obvious and stark:

43% of children of one-earner couples live in relative poverty. This compares with 24% among all children, 33% for children of working lone parents, and 11% for children of two-earner couples;

Median equivalised income for children whose parents are a one-earner couple is 37% below that for children with two working parents and 13% below those with a working lone parent. (Institute for Fiscal Studies – In-work poverty among families with children. July 2017)

The policy demand should be for the restoration of all work allowances and the creation of a second earner work allowance. The second earner worker allowance could be set at part time hours of 15 hours a week at the National Living Wage (NLW):

$£7.83 \times 15 = £117.45$  a week,  $£6,107.40$  a year.

Representing a clear unambiguous and significant work incentive that would make a concrete contribution to tackling child poverty and help satisfy the demands of the modern labour market.

## Two Child Restrictions

From February 2019 the two-child limit will apply to families with 3 or more children who have to make a claim to UC, irrespective of when their children were born. By 2021/22 more than half of children in families with 3 or more children are forecast to be in poverty. 600,000 three children families receiving approximately £2,500 a year less on average, with a further 300,000 families with 4 or more children receiving £7,000 a year less on average. It has been postulated that the majority of affected families will be low income working families. Many larger non-working families will be already subject to the benefit cap. The two-child limit, therefore, appears to be targeted on families in work but reliant of Tax Credits/UC to supplement their low wage.

Analysis of Child and Working Tax Credit statistics 2015-16 shows:

Of the 590,000 awards for families with 3 children, 68% were in work and 32% out of work;

Of the 281,000 awards for families with 4 or more children, 62% were in work and 38% out of work.

End Child Poverty in April 2018 published the report, 'Unhappy Birthday – The Two-Child Limit at One Year Old'. The report noted:

“One of the core foundations of a just and compassionate welfare state, and one that has been embedded with our social security system since its inception, is that the level of support available to families should be linked to their level of need.”

The report in turn highlights the example given in the 'House of Commons Library Briefing Paper (7935) The Two Child Limit in Tax Credits and Universal Credit' (April 2017):

Lone Parent working 35 hours on the NLW with 3 children.

Example A: If this family's claim started before April 2017 and if all the children were born before April 2017, then they would expect to receive a Tax Credit award of £10,090 in 2019/20

Example B: If, however, one of the children were born after April 2017, then their entitlement would drop to £7,310 – a loss of £2,780.

Example C: If the same family were to make a brand new claim for Universal Credit, after February 2019, then they would also be affected by the removal of the first child premium and other cuts to Universal Credit, reducing their entitlement to £3,900 – a loss of £6,200, compared to the base case.

One of the original stated objectives for UC was, 'reducing poverty'. Reducing support for low paid working families with children will conversely, however, only be a driver for increasing poverty.

## **Taper**

The way earnings reduce entitlement to UC, the rate at which UC tapers away as earnings increase. As earnings rise above the work allowance, if any, UC reduces by 63pence for every pound earned. The Resolution Foundation terms this as part of the Marginal Effective Tax Rate (METR) UC claimants are subject to. Before April 2017 the benefit taper was set at 65%, this is now reduced to a more 'generous' 63%. After Tax and NI are factored into the calculation this equates to a 1pence improvement with a claimant now able to retain 25pence for every pound earned, an effective METR of 75%. To put this in context, for those not dependent on social security the tax rate is 32%, for higher earners 47%. The METR of 75% increases if child care is a consideration. UC will cover 85% of child care costs. A claimant earning the NLW is already subject to a METR of 75% leaving £1.96 from their earnings of £7.83. If child care costs £4.50 per hour UC will cover £3.83, leaving the claimant to pay the remaining 67pence leaving the claimant £1.29 out of their earned income of £7.83 and a METR of 84%

Make the taper more generous, such as at the rate of 55% and replace the stick of conditionality with the carrot of financial incentive.

## **Monthly Assessments**

Monthly assessment is central to the design of UC. Earnings are counted against the assessment period if they are reported to HMRC as being paid during that assessment period, regardless of the period of work they relate to. The system is designed to mirror the world of work. The reality, however, for many low paid workers are that the mirror distorts, leading to significant adverse financial impacts on hard pressed families. Whilst approximately three quarters of the UK workforce is paid monthly, this is not the case for low paid workers who are more likely to be claiming UC. There are 12 monthly UC assessment periods, however:

A claimant paid weekly will have 8 assessments periods where they receive 4 wages, and 4 where they receive 5;

A claimant paid 4 weekly will have 11 assessment periods where they receive 1 wage, and 1 in which they receive 2.

The practical result is variability as to UC entitlement when in fact there has been no material change to earnings. This means real and significant financial loss for the claimant. The adverse impacts of these losses have been detailed in a report from CPAG – 'Rough Justice, Problems with monthly assessments of pay and circumstances in Universal Credit, and what can be done about them.' August 2018.

To take but one example from the report: Under UC anyone earning less than £520 per month is subject to a benefit cap of £1,667 per month. The cap is not applied if you, or your partner, have at least net monthly earnings of £520 during your UC monthly assessment period. If a claimant paid 4 weekly was earning just over the earnings threshold, roughly working 16 hours per week at the NLW, they will for UC purposes be assessed as earning less than the threshold figure and be subject to the benefits cap 11 months out of 12. A worker with identical earnings but paid monthly would never be subject to the cap. The example is given of a claimant with children who works 17 hours a week and receives a wage of £510 every 4 weeks. If paid monthly this would translate to a wage of £552.50, well above the threshold figure of £520. As however, she receives less than this in all but one of the assessment periods the family will be subject to the benefits cap 11 months of the year.

As to the question, 'what can be done', a solution is to extend the scope of Regulation 90 (6) (b) (ii) of the Universal Credit Regulations 2013. This regulation allows for earnings to be averaged over an extended period to determine the threshold for in work conditionality. No logical reason why the averaging of earnings cannot be extended to determine other aspects of UC entitlement to create a consistent monthly assessment of earnings.