

Universal Credit in the Time of Coronavirus

Policy briefing | Beti Baraki | June 2020

1. The benefit system needs reform now more than ever

- 1.1 **The benefit system has long failed those who need to use it.** With the economic crisis precipitated by the virus and lockdown measures, the system is experiencing a huge surge in demand. The need for reform to make the system help people effectively has never been greater.
- 1.2 **The coronavirus pandemic is now a full-blown economic crisis, likely to last between a few months to a year and its impact will be felt for much longer.** Current forecasts suggest the economy could shrink by at least 13% in 2020, making this the worst recession to hit the UK in 300 years.¹ A recession of this kind will most likely lead to significant job losses, worsen the health and wellbeing of many households and exacerbate existing inequalities.
- 1.3 **In addition to the hundreds of thousands who have already suffered job losses, many more will follow;** recent research suggests up to 5.6 million workers are at high risk of losing their livelihoods and are ineligible for new government support schemes.² A large proportion of these workers are likely going to have to rely on social security to survive, with the majority claiming Universal Credit (UC). Just between 16th March and 12th April 2020, the DWP revealed 1.4 million households had already applied for UC.³
- 1.4 **Our social security system should act as a safety net, to ensure people do not fall below a certain level of financial means.** However UC has been problematic since its inception in 2013. In fact, it has had the effect of pushing people further into poverty.⁴ Previous research by NEF Consulting on the causes of hardship crisis, such as the Help through Crisis⁵ or the 'Local Conversations' programme,⁶ point to UC as a major driver of crisis.

¹ <https://www.reuters.com/article/us-health-coronavirus-britain-economy/uk-economy-could-shrink-by-the-most-in-300-years-in-2020-idUSKCN21W1EQ>

² <https://neweconomics.org/2020/04/millions-slipping-through-the-cracks>

³ <https://www.gov.uk/government/statistics/universal-credit-29-april-2013-to-12-march-2020>

⁴ <https://www.tuc.org.uk/blogs/universal-credit-driving-workers-poverty-stop-and-scrap-it-now>

⁵ <https://www.nefconsulting.com/the-national-lottery-community-fund-help-through-crisis/>

⁶ <https://www.peopleshealthtrust.org.uk/impact/reports/evaluating-local-conversations-2019>

- 1.5 **Our broader social security system, including UC, has been broken for many years due to both system design flaws and the subsequent cuts introduced over many years, which were not race and gender-sensitive and did not take into account intersecting inequalities.** As a result, UC changes have further exacerbated existing inequalities with a disproportionate impact falling on women and BAME people, with BAME women in particular being worst affected.⁷ The economic crisis ensuing from the Covid-19 pandemic has the potential to have a negative impact on the same demographic that has already been disproportionately hit by austerity measures over the last decade. For example, women are more likely to have caring responsibilities,⁸ and more likely to be in low-paid, insecure employment in sectors that have been hit hardest by the lockdown.⁹ Social security should be a system that helps correct these inequalities, rather than making them worse.
- 1.6 **Many of those who will rely on UC over the coming weeks and months run the risk of experiencing the same reality as those who had been struggling with UC prior to the outbreak.** This will mean extreme hardship with a long-term impact on health, wellbeing and opportunity. Recent government reforms to social security in response to the coronavirus crisis, do not go nearly far enough. Reforming UC to both address immediate crisis and bring about long-term change is an imperative now more than ever.

⁷ <https://raceequalityfoundation.org.uk/wp-content/uploads/2017/11/Better-Housing-27-Universal-Credit.pdf>

⁸ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/womenshoulderttheresponsibilityofunpaidwork/2016-11-10>

⁹ <https://www.ifs.org.uk/publications/14791>

2. Universal Credit design flaws

- 2.1 **Currently, those who have applied for UC are facing massive queues due to the surge in demand since the outbreak.** This is partly because UC is a means-tested benefit and there is a five-week wait before people receive their first payment. This has led to, among other things, an increased reliance on food banks,¹⁰ but also increased debt, rent arrears and evictions,¹¹ mental health distress,¹² as well as gender specific problems such as making it harder for women to leave abusive relationships.¹³ Some claimants are able to access advance loans while waiting, but these are then deducted from future monthly UC payments, which are already extremely low, plunging people further into debt. During the immediate crisis, people will need to access payment without delays, whilst also not being further burdened by debt repayments and deductions if they are to survive the shock of sudden job losses.
- 2.2 **Furthermore, UC payments increase women’s vulnerability to economic abuse as payments are made to one individual in a household.** Evidence shows income is not shared equally within households, to women’s disadvantage. Splitting payments between partners would secure everyone’s economic wellbeing.¹⁴
- 2.3 **UC is a conditional benefit designed to incentivise people back into work. Failing to complete work-search related tasks can lead to suspension of payments as a sanction,** although this element has been temporarily removed for those affected by Covid-19. Our research found that people were experiencing sanctions with severe consequences for little infractions such as missed appointments.¹⁵ However sanctions are shown to be punitive, ineffective and quite damaging to people’s wellbeing,¹⁶ with a disproportionate impact falling on women, and disabled people.¹⁷
- 2.4 **Despite the current economic crisis, many people, particularly migrant people with No Recourse to Public Funds (NRPF) won’t be able to access UC or any other government support scheme due to increasingly restrictive and hostile immigration policy.** Migrant people are at greater risk from coronavirus and more likely to be in precarious work.¹⁸ This will likely already be causing extreme and inhumane hardship for many following lockdown and job losses leaving them without any protection or safety net. In fact, the latest High Court ruling has recently found the rules surrounding NRPF are in breach of human rights obligations, specifically Article 3 of the European

¹⁰ <https://www.trusselltrust.org/five-weeks-too-long/>

¹¹ <https://www.bbc.co.uk/news/business-49439699>

¹² <https://www.theguardian.com/society/2020/feb/27/universal-credit-linked-psychological-stress-increase-study-benefits-uk>

¹³ <https://www.trusselltrust.org/2019/06/14/guest-blog-universal-credit-domestic-abuse/>

¹⁴ <https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/1166/1166.pdf>

¹⁵ <https://www.nefconsulting.com/the-national-lottery-community-fund-help-through-crisis/>

¹⁶ <https://www.theguardian.com/society/2018/may/22/benefit-sanctions-found-to-be-ineffective-and-damaging>

¹⁷ <https://www.bbc.co.uk/news/uk-scotland-28331544>

¹⁸ <https://www.ippr.org/blog/migrant-workers-and-coronavirus>

Convention on Human Rights (ECHR) as it forces people into destitution.¹⁹ However, this successful ruling seems to be limited to people with leave to remain on the ten-year-route to settlement. The purpose of an adequate social security should be to prevent extreme inequalities from being further entrenched in our society and this can only take place if entitlement to social security is open to all and based primarily on need.

- 2.5 **During the economic lockdown, many more people will be exposed to the reality of extremely low income under UC.** Poverty, defined as having an income less than 60% of the median income, after housing costs, has hit a record high for working families and their children.²⁰ About 56% of people living in poverty are in a working family compared to 39% 20 years ago, due to low-paid insecure work, high living costs and high rents. Even where UC claims do get processed, millions of people will be in receipt of very low payments. The recent government measure of raising the main element of UC payments for a single adult from £74.59 to £94.59 per week (and £79.09 for the under 25s) won't be sufficient to absorb the shock in income drop as many families face job losses and sharp falls in earnings. UC payments of little more than £90 a week (plus inadequate top-ups for children and housing) amount to about a third of a minimum wage income on 35 hours per week.²¹
- 2.6 **One of the critical factors contributing to the very low income for UC is the severe cuts to the benefits system, as well as caps imposed on welfare over the years.** One example is the two-child cap on payments, which arbitrarily restricts payments for third and subsequent children, born after April 2017, in a household. The two-child limit restricts some children from accessing the right to social security they should be entitled to by virtue of their birth order. This has led to an increase in child poverty²² and has disproportionately hit the incomes of BAME women, pushing families deeper into poverty.²³ Additionally, there is a high likelihood new claimants will experience steep shortfalls between the cost of rent and the amount paid in UC, partly due the maximum benefit cap imposed to UC (as well as the Local Housing Allowance rates). This will result in hardships familiar to those who have been receiving UC for years, ranging from rent arrears to evictions, particularly in the private rented sector.²⁴ Our research found this increasingly affected families, with one frontline worker reporting a changing trend: *"Years ago you did not see families experiencing homelessness, now you see big families facing evictions due to the benefit cap"*.²⁵ Recent government measures include halting evictions for three months and updating the Local Housing Allowance rates to reflect the 30th percentile of

¹⁹ <https://www.theguardian.com/society/2020/may/07/home-offices-denial-of-benefits-to-migrant-families-unlawful-court-rules>

²⁰ <https://www.theguardian.com/business/2020/feb/07/uk-live-poverty-charity-joseph-rowntree-foundation>

²¹ <https://neweconomics.org/2020/04/an-income-floor-for-all>

²² <https://www.theguardian.com/business/2020/feb/07/uk-live-poverty-charity-joseph-rowntree-foundation>

²³ <https://www.theguardian.com/society/2019/jun/26/two-child-benefit-limit-pushes-families-further-into-poverty-study>

²⁴ <https://www.bbc.co.uk/news/business-49439699>

²⁵ <https://www.nefconsulting.com/the-national-lottery-community-fund-help-through-crisis/>

local private rents. However, this is unlikely to be sufficient; many will still face shortfalls in rent due to the high cost of private rents. Others are unlikely to benefit from this measure, as they are pushed above the benefit cap which restricts the total amount of benefit paid to individuals or households.²⁶ The market has completely failed to deliver decent and affordable homes for those at the sharpest end of the housing crisis. The need for a large-scale social housebuilding programme has never been more important.

²⁶ <https://www.resolutionfoundation.org/publications/housing-outlook-q2-2020/>

3. NEF's emergency proposals

3.1 At NEF, we propose the abolition of the benefit cap and an immediate increase to the generosity of payments, through a Minimum Income Guarantee (MIG). This is a payment of £221 per person per week (around 70% of minimum wage income) to cover living costs excluding rent, mortgage, and childcare costs.²⁷ The MIG would be:

- Based on need and available to everyone who applies for it.
- Not be means-tested for new claimants at the point of access, thus preventing delays to much needed payments.
- Payments would be made quickly through the advanced payment system of UC, without the need for repayments out of future UC entitlements.

3.2 We also propose new legislation for a rent and mortgage holiday (not deferral), and forthcoming proposals will set out reforms to childcare delivery and fees.²⁸ Under MIG, all existing UC claimants would have the main element of their support topped up to reach this amount.

²⁷ <https://neweconomics.org/2020/04/an-income-floor-for-all>

²⁸ <https://neweconomics.org/2020/05/suspending-rents>

4. Conclusion

- 4.1 **How we respond to this crisis will dictate the speed of our recovery as a society. UC is a flawed and punitive system that has left many people struggling to cope over the years.** The price we pay for such weaknesses in welfare systems and deliberate failures to adequately fund safety nets has never been more apparent. Reforming UC is more urgent now than ever before; we need a social security system that is fit for purpose, with measures that are sensitive to intersecting inequalities. This would ensure existing inequalities are not exacerbated, help stabilise the economy, protect families and individuals from extreme hardship and promote wellbeing for all.

New Economics Foundation
www.neweconomics.org
info@neweconomics.org
+44 (0)20 7820 6300

NEF is a charitable think tank. We are wholly independent of political parties and committed to being transparent about how we are funded.

Registered charity number 1055254
© 2020 The New Economics Foundation