UNIVERSAL CREDIT: IMPLICATIONS FOR SCOTLAND
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About the Scotland Institute

The Scotland Institute is a progressive and independent think tank set up to deal with the changing face of Scotland. It aims to investigate the implications of devolution while finding innovative solutions to the old problems of social exclusion, and to encourage Scotland’s competitiveness in the global market. Through high-quality comprehensive research and policy making it hopes to put Scotland on a path towards a more competitive, progressive, and optimistic future.

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‘We look to Scotland for all our ideas of civilisation.’

Voltaire
Introduction

Universal Credit was introduced by the Conservative-Liberal Democrat coalition in 2010. The claimed aim was both to simplify the benefits system (by bringing six different benefits into the same payment) and to ‘make work pay’ by reducing the loss of income when someone entered work. At the same time, the Coalition Government extended the previous New Labour focus on sanctions for those who were deemed to not be seeking work, suspending benefits for longer periods, and creating a culture of administrative decision making as to whether an individual remained entitled to benefits.

Its introduction has been badly flawed and delayed. Originally it was to have been fully implemented in 2014 but in April 2016 the DWP claimed that all Job Centres in Scotland were now offering Universal Credit and that this covered nearly 25,000 people\(^1\). However, for the most part this excludes households with more complex and challenging needs\(^2\) or those already in work. Equally its implementation has been dogged by major IT problems.

However, the next stage of its introduction will see households who are in work and/or in receipt of housing benefit caught up by Universal Credit. This is worrying for two reasons. First, as a result of the 2016 Scotland Act, eleven separate benefits\(^3\), representing 15.3% of welfare spend\(^4\) in Scotland, will be devolved to the Scottish Parliament. Thus the welfare system will become even more complex, especially as key issues such as the interaction between any specifically Scottish payments and those within Universal Credit have not been made clear. Second, as people who currently receive in-work tax credits move onto Universal Credit they will be between £1,600-3,000 worse off per year\(^5\). In addition they will find themselves subject to a regime where they can lose some or all their benefits if they fail to follow instructions from Job Centre staff to find more work.

Against this background, it is important to both understand the underlying nature of Universal Credit and to consider how (if at all) the Scottish Government can use its new powers to try and offset the worst aspects.

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Universal Credit

Progress in Implementation

Universal Credit was first introduced by the Conservative-Liberal Democrat Coalition government after the 2010 General Election. It was officially presented as seeking to simplify the administration of the benefits system by bringing together six main benefits that are paid to people of working age. These include:

- Income-based Jobseeker’s Allowance
- Income-related Employment and Support Allowance
- Income Support
- Child Tax Credit
- Working Tax Credit
- Housing Benefit

The stated intention was that by combining these benefits, the process of moving into work would be simplified and individuals would avoid the earlier problem of exceptionally high marginal tax rates as they started to earn but lost previous benefit entitlements. Implementation has been much slower than originally envisaged and mostly Universal Credit has only replaced the old Jobseekers Allowance for single people. The DWP has recently announced that all areas of Scotland are now covered and according to the DWP 25,000 people in Scotland are now in receipt of Universal Credit (of whom over 9,000 are in work). To put this claim into context, in August 2015, there were a total of 66,000 people in Scotland in receipt of Jobseeker’s Allowance alone – so at best Universal Credit covers around 25% of those who are out of work and claiming benefits in Scotland.

Criticisms and Concerns

Universal Credit has been subject to a number of criticisms since it was first proposed. Their have been consistent IT problems, allegations that DWP ministers...
have tried to cover up for policy failures and cost overruns as the policy has missed target date after target date (by now, in theory it should have been fully implemented covering all the benefits). Critics have also noted that the Treasury, in a series of budget announcements, have increased the rate at which claimants will lose benefits as they start to earn undermining one of the ideological claims that underpinned its initial introduction. While notionally outside the introduction of Universal Credit there has also been sustained criticism of related welfare reforms by the Coalition and now Conservative government including the fitness for work tests for those on disability benefits and the large scale use of sanctions leading to an explosion in the use of food banks. Until recently, the only criticism by the UK Labour Party was one of incompetence in the implementation of what was otherwise seen to be a reasonably policy.

In reality, Universal Credit is not an administrative reform it is the implementation of an ideology. Unfortunately, the underlying analysis started under New Labour and was then enthusiastically picked up by right wing commentators and Ian Duncan Smith’s Centre for Social Justice. This lineage matters as the shared

ideology has informed the policy. At its core is the view that those in receipt of benefits need to be pushed to do more (and if in work to find more work), that they need to learn to budget as if they were in work (this has driven decisions such as to make payments on a monthly basis and to pay Housing Benefits to claimants not landlords). Equally, the notion of family breakdown as a cause of poverty (as opposed to considering the impact of low income as a cause of poverty) is a regular part of the analysis (hence the focus on paying benefits to the household unit not to individuals).

This matters as the more profound problems with Universal Credit stem from this background, not the deeply flawed implementation.

### Household Payment

Previously individuals have been entitled to key benefits in their own right. All the parts of Universal Credit will be paid to households and usually to a nominated, male, member of the household. There are clear (and quite deliberate) implications for gender equality as women will lose access to most benefits in their own right. Of concern, only the Women’s Equality Party in the recent Scottish parliamentary elections identified the regressive consequences of this change and campaigned for Universal Credit payments to be made to the relevant individuals.

### Universal Coverage

The range of benefits that are being combined into Universal Credit go far beyond those traditionally paid when someone is out of work. As noted above, the claim is this will ease transition from unemployment, to partial work to full work as a household will retain some benefits as they earn more and not need to make multiple claims. However, the reality is far more problematic. Related to the problems of administering benefits has been the exponential growth in both ‘conditionality’ and sanctions. Once it is fully implemented, anybody of working age in receipt of housing benefit will be subject to this regime.

To place this in context, in late 2015 some 450,000 households (so probably around 750,000 adults and an estimated 250,000 children) were in receipt of housing benefit. Of these, 70,000 had already had their entitlement reduced due to the operation of the ‘Bedroom tax’ (although this has been mostly mitigated by

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the Scottish Government). All of these households may find their benefits stopped or reduced at the whim of DWP staff who deem they are not doing enough to increase their earnings (or enter work).

Benefit sanctions are already disproportionately affecting young people under 25 and other disadvantaged groups such as those who are homeless or have physical or mental health problems. Bringing 1 million of the poorest individuals in Scotland into this system is a worrying step\textsuperscript{21}.

\section*{In-Work Support}

The concern about the range of benefits planned to fall into Universal Credit applies in particular to those in work\textsuperscript{22}. Under New Labour two forms of in-work tax credits were devised to mitigate the impact of low pay on family incomes. These policies have rightly been criticised on grounds of administrative process\textsuperscript{23} and that they effectively subsidise employers who pay low wages. George Osborne, in one of his 2012 budgets, initially proposed the abolition of these payments\textsuperscript{24} but then backed down after facing considerable opposition.

Bringing these benefits into Universal Credit will create a number of problems. At the simplest there will be a substantial cut in the amount received. Estimates for this loss of income range from £1,600 per year (IFS) or £3,000 per year (Owen Smith, who now shadows the DWP for the labour party). A Conservative think tank has suggested that 2.5 million families across the UK will be worse off and some by more than £3,000 a year\textsuperscript{25}. In effect, Universal Credit again, and by design, will reduce the incomes of the poorest. However, the problem goes beyond this.

Again, this will bring many households into the regime of conditionality and sanctions. Failing to find additional hours will lead to sanctions (ie loss of all benefits) if DWP officials believe the individual is not making sufficient effort. For the self-employed the situation will be worse as periods when they receive pay

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\textsuperscript{22} Child Poverty Action Group 2014. Tax credits – moving on to universal credit. London: CPAG.


may well see benefits stopped (as earnings maybe too high) but periods when work is limited or payments delayed will also see benefits stopped due to a lack of work activity.\(^26\)

### Conditionality

Sanctions and loss of benefits have been a major feature of the DWP’s approach since 2010. This has affected people out of work who are deemed to be not looking for work in an officially designated manner. It has affected too many people who were previously in receipt of disability benefits but then found themselves found ‘fit for work’. The wider evidence is that the liberal use of sanctions has been the major trigger behind the explosion in reliance on foodbanks that has become such a feature of the UK since 2010.

Even in their own terms there is no evidence that sanctions work. International evidence indicates that benefit sanctions might increase the numbers leaving benefits and taking up short-term work but have an adverse effect on earnings, job quality and longer term employment retention. In addition, those sanctioned face hardship, run the risk of losing their home, turning to petty crime to make ends meet. More-over by penalising adults, the DWP also penalises their children.\(^27\)

As Universal Credit covers more people in work, this regime will start to see people threatened with the loss of benefits unless they find more work. Previous Scotland Institute reports have found that most people doing part time work are already looking for more hours.\(^28\) The real risk is that with such decisions left to DWP staff (who in turn face pressure from their managers), people who want but cannot find more work, will suddenly find themselves losing vital sources of income. Even if they manage to win an appeal against the DWP, this means that households with little or no savings\(^29\) will have to cope with a massive drop of income at very short notice.
Changing Welfare Powers in Scotland

In effect, Universal Credit is a deeply flawed process and the problems are not just of a technical IT or administrative nature. So far the Scottish Government has used the existing limited powers to offset the worst impact of the DWP’s policies (such as the Bedroom Tax) but in theory is due to receive more powers over the next two years as the 2016 Scotland Act has devolved a further eleven benefits to Scotland. Even without these changes, the Scottish Government has managed to fund some additional welfare payments and mainly used these to offset the full impact of policies such as the ‘bedroom tax’ and other changes.

This follows the work of the Smith Commission, set up after the 2014 independence referendum as an all-party group attempting, to resolve the question of what additional powers should be given to the Scottish Parliament. The outcome became the basis of the recent Scotland Act which allows a limited range of adjustments to the payments captured by Universal Credit. In particular the Scottish Government can ‘top-up’ otherwise reserved benefits (although the ability to offset benefit sanctions is severely curtailed) and to create new benefits (as long as they do not replace a benefit that is currently reserved). The ability to influence how Universal Credit is paid is deliberately limited but there is some scope to ensure it is paid more often.

However, the nature of Universal Credit will hamper any attempt to modify its impact in Scotland unless the DWP and the Scottish Government negotiate a different settlement. At the moment, the interaction between any additional Scottish payments or new benefits and Universal Credit is unclear and the DWP seems to have retained the right to make its own decisions. As an example, if the Scottish Government increases Housing Benefit any extra payments will be reduced at the same rate as other parts of Universal Credit if the household manages to increase their earned income.

33 Ibid., para 24
34 Ibid., para 30
This leads to the key concern. In an interview with the author of this report, experts expressed deep concern that the interaction of any new Scottish benefits and Universal Credit is unclear, as is the link to benefits outside Universal Credit (this matters as sometimes receipt of one benefit acts as a ‘passport’ to further entitlement). There are two parts to this problem.

- First if benefits are created outside the Universal Credit system then there is no guarantee that the DWP will not reduce Universal Credit pro-rata. This was one reason why the Scottish Government was unwilling to promise to compensate for lost tax credits under George Osborne’s original proposals. Equally it is not clear what will happen if such benefits in turn mean a household breaches the DWP’s ‘benefit cap’. One assumption is that any extra income will be lost;
- Second if benefits are part of Universal Credit then they will be subject to the same regime of conditionality and sanctions that the DWP applies to all other benefits and the Scottish Government has no right to overturn this.

In combination, and given the lack of any clear statement by the DWP, the Scottish Government’s new welfare powers will have very little impact on the worst consequences of Universal Credit. There is a substantial risk that benefits outside Universal Credit will be clawed back by the DWP and that those embedded within Universal Credit will be lost at the whim of DWP officials.
Implications and Recommendations

As is clear, Universal Credit is a deeply flawed policy driven by the ideological beliefs rather than a focus on efficient public administration. The problems so far are not just down to the incompetence of DWP Ministers or the problems in implementing an effective IT platform, the real concern is how this policy will be used to make the lives of the poorest in Scotland so much worse. However, practically, the Scottish Government is in no position to push for its abolition so this leads to three key recommendations that will go someway to mitigate the very worst effects;

Insist that payments continue to be made to individuals (rather than household units) and that this happens automatically (not at the request of the recipient)\(^\text{37}\);

Obtain clear agreements from the DWP that any specifically Scottish benefits will not be used to reduce Universal Credit payments, will not be subject to the ‘benefit cap’ and will not be subject to being removed at the whim of DWP officials;

Push for more control over aspects such as sanctions and conditionality. The Northern Ireland assembly has been able to use its welfare powers effectively in this respect with the result that the rate of benefit sanctions are much lower;

As more people in-work, move onto Universal Credit insist that the DWP does not apply its conditionality rules to remove benefits if people are unable to find additional hours of work.

These recommendations will still mean that Universal Credit is a significant threat to the poorest in Scotland but will at least allow the Scottish Parliament greater oversight of how it is implemented in Scotland.

Bibliography


