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The long and winding road

The introduction and impact of Universal Credit in Liverpool City Region and the UK

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Executive Summary

Universal Credit (UC) – the fundamental re-design of Britain's welfare system involving merging six benefits into one – is an enormous undertaking. Despite being a decade in the making, only one-third of UC's expected final caseload is currently on the benefit, so the majority of its roll-out still lies ahead.

UC's journey so far has been a turbulent one. It has become a (negative) symbol of all changes to social security over the past decade. That charge has not always been fair: huge cuts to working-age benefits since 2010, and broader shifts in the use of sanctions and in health assessments, affect both UC and the legacy system it replaces. But the concurrent nature of these changes has meant that everything is lumped together under the banner of UC. A clear lesson from this experience is that trying to reduce the generosity of benefits at the same time as a wholesale redesign of the system has made the latter many times more difficult.

Beyond the broader welfare environment, UC has been complicated by a proliferation of objectives. Alongside the two headline goals of simplifying the system and improving work incentives, UC has targeted an IT and digital overhaul; boosting claimant 'responsibility' via things like monthly payments and the direct payment of housing support; and widening benefit conditionality. Each of these objectives comes with its own tensions and trade-offs, and in particular the vast new IT system has been the main driver of successive delays and implementation problems. More broadly, UC has faltered dueto swiftly imposing far-reaching changes on some of the most vulnerable people in society. Those changes have, at times, had more of an eye on operational simplicity, or altering human behaviour, than on supporting families in need.

The beginning of the new parliament comes at a crucial juncture in UC's journey. That's because the idea of scrapping UC lost out in the election campaign, so it is definitely going ahead. And it is this parliament – not the previous one – in which the majority of the roll-out will happen. In terms of that roll-out, the benefit is one year into operating at full service for all new claims, and for people experiencing a change of circumstances. However, the tricky 'managed migration' of existing benefit claimants – now known as 'Move to UC' – is still around a year away.

We're also at a crucial juncture in the ongoing iteration of UC's design. Recent increases in its generosity have undone – in aggregate terms at least – most of the cuts imposed specifically on UC in 2015. Alongside this, practical design features such as the 'five-week wait' for the first payment and the monthly payments schedule have risen rapidly up the agenda over the past year. While steps have been taken, including a greater availability of benefit advances, further action is likely to be needed.

So now is a particularly opportune time to step back and assess where UC has got to so far, and its likely impacts in the longer term. That is the subject of this report – supported by the Liverpool City Region (LCR) Combined Authority – which reviews both the national picture and the experience in LCR in particular as a case study of UC's impact on a particular place and its people. We draw on analysis of administrative data, microsimulation modelling, case-study modelling, and in-depth qualitative interviews with UC recipients across LCR.

As well as providing insights for local government and other organisations in LCR, this focus on one area illustrates that UC's impact is more nuanced than either its opponents or supporters often suggest.

UC already reaches a significant minority of families in Britain and particularly LCR, where the experience of moving onto the benefit has been mixed

The first UC claims in Great Britain were made in parts of the North West (outside LCR) in early 2013. Claims were first made in St. Helens and Halton later that year, and there were UC recipients in all six local authorities in LCR by mid-2014. Since being UC's test bed, the North West of England has remained ahead of Great Britain as a whole in terms of roll-out. Even part-way through its roll-out, UC already touches a significant minority of households. This is particularly true in LCR, where over one-in-seven households contains someone currently receiving UC, compared to one-in-ten in Great Britain as a whole.

UC recipients in LCR reported a range of experiences of moving onto the benefit. Experience with claiming online was particularly polarising: some found it much easier, whereas others reported very negative experiences. Most recipients thought there was little online, telephone or face-to-face support from the government to help navigate the claim process if they had problems, with some getting this support from friends or Citizens Advice. One thing that did not emerge from our qualitative research was any sense that the integration of multiple claims processes into one was an improvement on the legacy system, or increased recipients' chances of getting all the benefits to which they are entitled.

The wait for the first payment represented a common challenge among the UC recipients in LCR we spoke to. 'Advance' payments were almost universally offered to help people manage during this period, and were generally (although far from always) well-understood and well-liked. Despite the shift to the 'direct payment' of housing support, most recipients participating in our qualitative research had their housing support paid direct to their landlord. People preferred this arrangement, but it had only been an option for some after they had first fallen into rent arrears. Both rent arrears and legacy benefit debts were challenges for some families, with UC's approach to debt repayments being more stringent than the legacy system in some respects. Monthly UC payments were almost universally disliked. Interactions with Jobcentre Plus staff were mixed with the threat (less than the actuality) of sanctions a big concern, but some positive claimant-adviser relationships were reported.

If take-up gains are realised, UC will on average be slightly more generous than the legacy benefits system across Great Britain, but less generous in LCR

UC is a bigger deal in some parts of the country – like LCR, hence our focus on this area – than others. 205,000 working-age families in LCR (31 per cent of the total) are expected to receive UC once it is fully rolled out, compared to 775,000 working-age families in the whole of the North West (27 per cent), and 6.2 million families in the UK as a whole (24 per cent of the total). In part, this reflects the fact that some key family groups are more likely to be on UC in LCR than elsewhere, including couples, out-of-work single people and disabled people. But a bigger factor is population differences: LCR contains more single parents, workless single people, disabled people and social renters than other parts of the country – groups more likely to receive benefits.

Despite the fact that we expect UC to boost benefit take-up as a result of combining multiple claims processes into one, we estimate that 27,000 families in LCR will still not claim the UC support to which they are entitled. This group is mainly made up of single people, in-work couples and coupled parents.

Focusing on UC's effect on incomes compared to the legacy benefits system it replaces, we find that more families lose from the switch to UC – and fewer gain – in LCR than the UK as a whole. 52 per cent of benefit-recipient families in LCR lose out from the switch to UC, while only 32 per cent gain. The respective figures for the UK as a whole are 46 per cent and 39 per cent. This means that the gap between the proportion of families losing and the proportion of families gaining (20 percentage points) in LCR is almost three time as large as that gap in the UK (7 percentage points).

Average gains among families that gain – £61 per week in the UK and £54 per week in LCR – are higher than average losses among families that lose out – £50 per week in the UK and £47 per week in LCR. Overall, benefit-recipient families across the UK are on average £1 better off per week as a result of the switch to UC compared to the legacy benefits system. In LCR, however, they are on average £7 per week worse off. Of course, these small aggregate differences hide thousands of families with large increases in income and thousands with very big decreases in income.

These differences between LCR and the UK as a whole are again driven by population differences, for example, a greater proportion of out-of-work, single parent and disabled families (who are more likely to lose out from the switch to UC) in LCR. These differences also reflect a relative boost to incomes (compared to the legacy system) from a more generous provision for working people with high rents, which lower-rent LCR does not benefit from as much as other places do. Participants in our qualitative research in LCR echoed these conclusions, viewing UC as putting downward pressure on their incomes, compared to previous experiences. Wider welfare cuts are likely to have contributed to this viewpoint, alongside the impact of UC itself.

UC improves incentives to enter work for most groups, but creates the risk that some working families reduce hours and can accentuate as well as reduce income volatility

UC looks set to achieve its objective of improving financial incentives to enter work for most groups, particularly at low hours where the legacy system did not provide support. For instance, a low-earning single parent in LCR would be only £1,000 per year better off working eight hours per week on the National Living Wage (NLW) than not working in the legacy system, but £2,700 better off in the UC system. However, UC weakens incentives to enter work for second earners in couples. For example, a second earner whose partner works full time on the NLW would see a 22 per cent income boost from taking a 16 hour per week job on the NLW under the legacy benefits system, but only a 13 per cent income boost under UC. Workless UC recipients participating in our qualitative research generally had a strong sense that they would be better off working, although some thought high benefit withdrawal rates remained a barrier to working part time.

UC's likely effect on how much work people do (compared to the incentives in the legacy system) is complex. On the one hand, UC removes the very highest benefit withdrawal rates that can disincentive earnings progression. On the other hand, it creates the risk that some recipients are incentivised to reduce their hours. There are good financial reasons why claimants might 'slide down' from the hours aligned with tax credits rules to UC 'sweet spots' – the point at which earnings first start being tapered away. For example, a single parent in LCR earning the NLW could halve their working week from 16 hours (the minimum required to receive tax credits) to eight hours (the UC 'sweet spot'), and only be £1,000 per year worse off. The ability of in-work conditionality – the application of work-search requirements to those in work at low hours, backed up by the threat of sanctions – to prevent this from happening seems far from assured.

Complex, too, is UC's role in cushioning the monthly earnings volatility that is a common feature of the UK jobs market. UC is more responsive to earnings changes than the legacy benefits system, which can mean better income smoothing. But its time lags and fixed assessment period can actually amplify volatility in some people's incomes, and the greater visibility of benefit changes compared to the tax credits system might put people off working or earning more. Both sides of this argument were reflected in our qualitative research.

National government, local government, and partner organisations in LCR all have roles to play to ensure that UC's potential is maximised

With UC already established across Great Britain, and in particular in LCR, and the caseload growing rapidly, it is now – inextricably – at the core of our working-age social security system. However, at this crucial point in its roll-out, there is both the opportunity and the need to make significant changes to ensure that it fits with recipients' lives and the realities of our 21st century labour market; boosts benefit awards; and creates strong incentives to work and earn more.

To give UC the best chance of success, we suggest that national government considers:

- Offering more protection for people moving onto UC, via increasing the proportion of new claims paid on time and in full; considering how to further reduce the wait for the first payment including via testing an initial fortnightly payment for certain groups; and ensuring that the government (rather than the individual) bears the financial risk of further teething problems related to the managed migration ('Move to UC') of legacy benefit claimants.

- Making UC fit better with the lives of those claiming the benefit, via easing reporting requirements and extending the assessment period for the self-employed; making childcare support within UC less inflexible and burdensome (building on recent changes that make the Flexible Support Fund available to meet up-front childcare costs for some); considering how UC can further prevent income volatility; and allowing third parties to pay off debts on behalf of recipients.

- Improving awards and strengthening work incentives for single parents and second earners, via boosting the single parent work allowance and introducing a work allowance for second earners.

In addition, although not specific to UC, national government should reduce the impact of a decade of working-age benefit cuts, in order to prevent child poverty from rising.

We suggest that the Liverpool City Region Combined Authority and its partners consider:

- Pro-actively supporting claimants to navigate the managed migration ('Move to UC') from late 2020 onwards, and supporting all claimants with the ongoing management of their claim.

- Working with and alongside Jobcentre Plus to maximise UC's potential to support working, including via 'better off in work' calculations; supporting up-front childcare costs; and by targeting local education and employment budgets at supporting employment progression for those on UC.
- Maximising take-up of UC among groups that are expected to be less likely to get the support to which they are entitled in LCR.

The start of a new parliament is the right time to act to improve UC. This means national government and local partners taking steps to ensure that UC achieves its original objectives, and that it provides a realistic fit with the lives of the ever-increasing number of low-income families across the country that rely on it.

Section 1

Introduction

The move to Universal Credit (UC) represents a huge change to Britain's welfare system. Despite the fact that it has already been a decade in the making, the majority of its roll-out is still ahead of us. At this crucial juncture in both UC's implementation and the development of its design, this report takes stock of the benefit's progress to date and expected future path, with a specific focus on experiences and impacts within the Liverpool City Region. In this introductory section, we briefly describe these developments, against the backdrop of UC's original objectives and the wider policy context it is being introduced within.

Universal Credit set out to radically reform working-age welfare

A decade on from its conception, it's clearer than ever that UC represents an enormous undertaking. UC involves merging six working-age benefits (income-based Jobseeker's Allowance (JSA), income-based Employment and Support Allowance (ESA), Income Support (IS), Child Tax Credit, Working Tax Credit and Housing Benefit) into one to create a single core in- and out-of-work welfare system. The scale of UC is therefore huge: once fully rolled out more than 6 million families[1] will receive it at any given time,[2] and it will pay out over £60 billion each year.[3]

The UC concept was originally developed in the late 2000s by the Centre for Social Justice,[4] with the coalition government swiftly adopting these principles. UC's twin objectives were made crystal clear in the 2010 Universal Credit White Paper: to simplify the welfare system and to boost work incentives, with the ultimate goals of combatting worklessness and poverty.[5]

To achieve these objectives and goals, the policy's design was based around:

1 Families ('benefit units') are single adults or couples, and any dependent children. Households can consist of multiple families.
2 M Brewer, D Finch & D Tomlinson, Universal Remedy: Ensuring Universal Credit is fit for purpose, Resolution Foundation, October 2017
3 P Johnson, Switching millions to universal credit poses real threat of 'poll tax' moment, The Times, October 2018
4 Centre for Social Justice, Dynamic Benefits: Towards welfare that works, September 2009
5 Department for Work and Pensions, Universal Credit: welfare that works, November 2010

- Integrating different claims processes in a single system, in order to increase the extent to which people take-up their benefit entitlements, and therefore reduce poverty;
- Ending the separation of support for in- and out-of-work people, which was seen as a disincentive to entering work; and,
- Removing the highest benefit withdrawal rates as earnings increase, which were seen as disincentives to increasing working hours or earnings.

This approach attracted widespread – and cross-party – support.[6] This support has since waned as a result of other design elements creeping in; the wider welfare context; roll-out delays and implementation problems; cuts to the level of support; and simply the realities of swiftly imposing such far-reaching changes on some of the most vulnerable people in society. All of these developments are discussed below.

Moreover, even the original objective of tackling household worklessness and welfare dependency was at the time, and is increasingly, out of step with the big challenges faced by workers in Britain's 21st century labour market. The proportion of working-age households in which no one works was lower even in the immediate aftermath of the biggest recession in living memory in 2010 (19.2 per cent) than it was in 1996 (20.9 per cent). That proportion has since fallen by almost a further third, to 13.6 per cent in 2019.[7] Working-age households in the six local authorities that make up the Liverpool City Region (LCR) remain much more likely to be workless than those across the UK as a whole, so, in a sense, are better matched to UC's original objective. However, recent reductions in worklessness have been slightly more rapid in LCR that across the UK as a whole.[8]

Rather than household worklessness, today's labour market is increasingly characterised by persistent low pay, insecurity and a lack of progression; and the importance of dual-earning within couples to avoid rising in-work poverty.[9] Despite its focus on making work pay, UC's design was never sufficiently targeted at these realities, and actually creates the risk that some people work *fewer* hours than under the legacy (tax credits) system. We discuss these challenges in detail in Section 4.

6 N Timmins, Universal Credit: From disaster to recovery?, Institute for Government, September 2016
7 Office for National Statistics, Working and workless households in the UK: April to June 2019, August 2019
8 The proportion of working-age households in which no one works fell 28 per cent (from 26 per cent to 19 per cent) between 2010 and 2018 in LCR, compared to a fall of 24 per cent (from 19 per cent to 14 per cent) in the UK as a whole. See: Office for National Statistics, Workless households for regions across the UK: 2018, July 2019
9 For example, just 7 per cent of children living in couple families in which both adults are in full-time work are in poverty, compared to 37 per cent of children living in couple families with only one full-time worker. Source: Department for Work and Pensions, Households below average income: 1994/95 to 2017/18, March 2019

UC brought together numerous objectives, and has been introduced amid other far-reaching welfare changes

Alongside the fact that UC's original goals were not entirely in-step with the realities of today's labour market, the policy's progress was made more challenging by other objectives loaded upon it, and the broader welfare context.

Turning first to UC's multiple objectives, alongside the two that were put front-and-centre at the outset of its design:

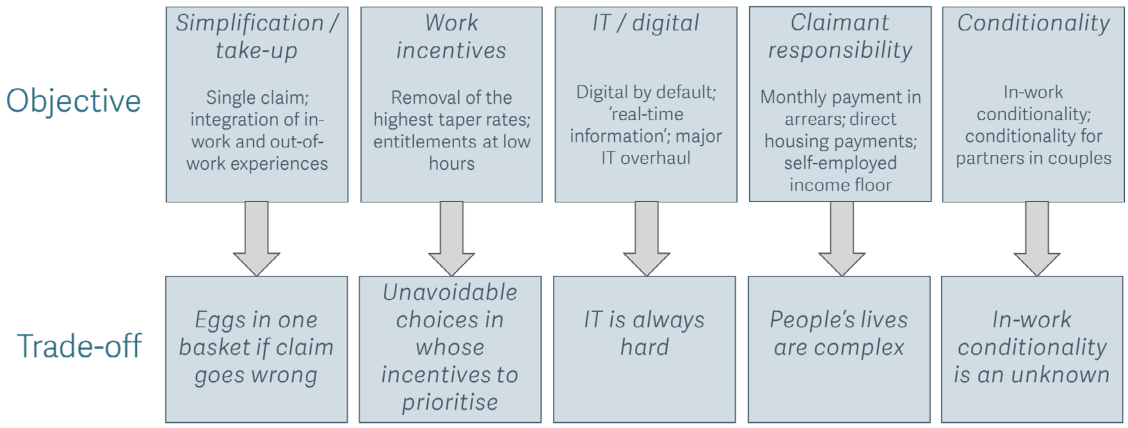
- Simplifying the system to boost take-up and smooth the transition to work;
- Improving financial incentives to enter work and earn more;

We can identify at least three additional objectives that were a key part of UC's design from the start, or became so along the way:

- Adopting a more sophisticated IT system resting on 'real-time' earnings information;
- Increasing claimant 'responsibility' (which we would argue is itself a loaded term that implies that people receiving benefits are not in control, or are in some way excessively dependent) via elements including payments being made monthly and in arrears (creating a five-week wait for the first payment after the initial claim date), and direct housing payments (as opposed to support towards housing costs being paid straight to landlords); and,
- Expanding conditionality to people in work, and some partners in couples.

All objectives have trade-offs and challenges underlying them, so the problem with multiple objectives – beyond the fact that these have not necessarily been consistent or coherent throughout the roll-out – is how to weigh these up. Figure 1 illustrates some of the trade-offs and challenges inherent in the objectives we have identified for UC. For example, the admirable goal of merging different claims processes to simplify the system increases the costs to individuals of administrative errors or payment delays. And such costs would be amplified by claimant mistakes – given their increased 'responsibility' for things like paying their own rent – that reflect the complexity of their lives or their challenges navigating the new system. In addition, the interaction between a different system of financial work incentives and a broader conditionality regime represented a big unknown.

FIGURE 1: **Universal Credit has multiple objectives, and they all entail trade-offs**



Of course, many policies take on multiple objectives as they develop, but it seems reasonable to suggest that a reform on UC's scale was made harder to do by being pulled in multiple directions. In some cases, these objectives are not inherent to UC but instead appear to have flowed from attempts to make short-term savings, or alter human behaviour rather than support people in need.

As well as this challenge of multiple, shifting and not-always-coherent objectives, UC's progress has been complicated by the fact that it is by no means the only big change being made to the welfare system. As a key pillar of recent governments' focus on austerity in public spending, the generosity of working-age benefits was reduced under the coalition government, and then further reduced as a result of the £12 billion of welfare cuts announced by George Osborne in 2015.[10] These 2015 cuts included: the cash freeze to working-age benefits; the two-child limit and abolition of the 'family element' for new claims; reduced entitlement for the ESA 'work-related activity group'; a reduced benefit cap; social rents reductions; and the transformation of Support for Mortgage Interest from a benefit into a loan. In addition, Council Tax Benefit was replaced by less-generous localised Council Tax Reduction schemes in 2013 and so was part of the broader context of welfare cuts. Indeed, the fact that this benefit sits outside of UC undermines its simplification objectives from the perspective of the individual, with claimants continuing to face multiple, overlapping benefit withdrawal rates.

Alongside these welfare cuts, the 2010s have been characterised by wider changes to welfare delivery focused on the 'activation' of people who aren't working. These include reforms to the ESA work capability assessment; the extension of 'lone parent

10 L Gardiner, The shifting shape of social security: Charting the changing size and shape of the British welfare system, Resolution Foundation, November 2019

obligations' (the move onto JSA – which entails work-search requirements – from largely unconditional IS) to single parents with children as young as five; and a tougher sanctions regime, especially around 2013.[11]

Two points are worth making in relation to this wider welfare context that UC has been introduced within. First, there will be a limit to the amount of change that a given government (or government department) can deliver effectively, or that it is reasonable to expect citizens to deal with. Trying to do something on the scale of UC at the same time as such drastic changes to both the level of benefits and their behavioural requirements has represented an enormous challenge for the Department for Work and Pensions (DWP). It's probable that this delivery burden has hampered UC's progress.

Second, it's important to note that these wider welfare changes are largely being made both to UC and to the legacy system it replaces. While some of the cuts announced in 2015 were UC-specific (after the reversal of the equivalent cuts to tax credits in the 2015 Autumn Statement), post-2015 reforms (discussed below) have largely counteracted these in aggregate terms. But the fact that reductions in welfare generosity and wider activation changes would be happening with or without UC is not at all clear to recipients, or in the public debate. Of course, we could do with a bit more honesty from politicians and commentators about what UC is and isn't doing.[12] But it's hardly surprising that everything happening to the social security system gets put under the banner of the flagship welfare policy. This is particularly the case given that the implementation of welfare cuts is following a very similar timetable to the implementation of UC.[13]

Welfare cuts and the expansion of sanctions have undoubtedly made UC's journey harder, both in terms of negative perceptions towards it, and (in the case of cuts) by reducing the overall funding envelope it is operating within. Recipients' perspectives on this policy confusion are discussed in more detail in Section 3.

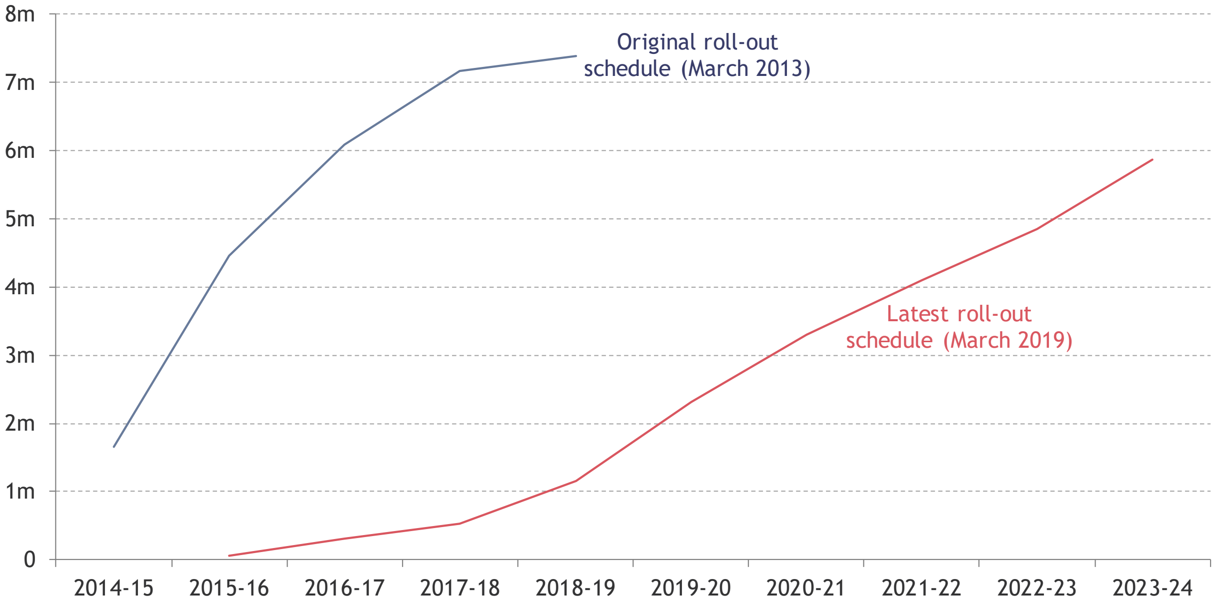
UC's introduction has taken far longer than expected, with the benefit's real-world impact only becoming apparent quite recently

Given the challenges discussed above, it is perhaps unsurprising that UC's roll-out has taken far longer than originally expected, as Figure 2 shows. UC is still only around one-third of the way towards being fully rolled out across the country, and roll-out is now not expected to be completed until 2024.

11 The number of sanctions peaked around 2013, and has eased off since. See: T Bell & L Gardiner, Feel poor, work more: Explaining the UK's record employment, Resolution Foundation, November 2019
12 See: T Bell, Universal Credit: The honesty we owe and the changes we need, Resolution Foundation, October 2018
13 See Figure 23 in: Resolution Foundation, Super, smashing, great: Spring Statement 2019 response, March 2019

FIGURE 2: **Universal Credit's roll-out has been repeatedly pushed back**

Universal Credit roll-out assumptions (caseload)



SOURCE: OBR, Economic and Fiscal Outlook, March 2019

UC began in 2013 on a small scale and without its full IT infrastructure, starting with a handful of 'pathfinder' areas in the North West of England. The very first areas were outside LCR, but these were soon joined by postcodes in St. Helens and Halton in the second half of 2013. LCR began and has remained ahead of the curve in terms of UC's implementation (discussed in more detail in Section 2), making it a good candidate for the in-depth study of UC's progress to date and expected future impacts that we provide in this report.

Beyond the pathfinder phase, UC's initial delays related mainly to the IT infrastructure. In 2013 the Major Projects Authority expressed concerns which led to a 'reset' of the digital approach, and the dual running of the fully digital service and the more rudimentary one for a number of years. The 'full' service was rolled out in earnest across Great Britain from the second half of 2017 and concluded in December 2018.[14] This means all new claims (or claims after changes of circumstances, known as 'natural' migrants) are now to UC rather than legacy benefits. It was this ramping up of UC's roll-out (at the same time as non-UC-specific benefit cuts were really biting), that is likely to have led to heightened (negative) media and political attention on the benefit in the past couple of years.

From the beginning of 2019 onwards, the remainder of UC's roll-out entails the continued inflow of new benefit claimants; the 'natural' migration of legacy benefit claimants because of changed circumstances (like moving house or entering work) requiring a new benefit claim; and finally 'managed migration' (now known as 'Move to UC'). The last of

14 Department for Work and Pensions, Universal Credit transition rollout schedule, March 2018

these involves remaining claimants of legacy benefits being notified that these benefits will end, requiring them to make a claim for UC to continue receiving support. Reflecting concerns about readiness for managed migration, the 2018 Budget delayed its start from July 2019 in order to make improvements to UC's effectiveness.[15] Up to 10,000 claimants will be involved in a managed migration pilot between 2019 and 2020, with the process not starting in full until late 2020 (pending parliamentary approval).

Roll-out delays have given the policy time to morph along the way

Successive delays to UC's implementation – and the wider context of welfare reductions – mean that the policy's design has undergone a number of changes since it was first set out in detail in the 2013 Autumn Statement.[16]

Initially, the story was one of large reductions in benefit levels. 'Work allowances' (the amount that can be earned before benefits start being withdrawn) were frozen in cash terms in 2014 and 2015. But the big blow came in the 2015 Summer Budget, which included around £3 billion[17] of cuts to work allowances (which were retained when the equivalent cuts to tax credits were reversed at the 2015 Autumn Statement). These changes shifted UC from its original position of being more generous overall than the system it replaces,[18] to being notably less so. But subsequent changes have largely reversed the impact of the 2015 Summer Budget cuts, at the aggregate level. These include:

- A reduction in the 'taper rate' (the rate at which benefits are withdrawn above work allowances) from 65 per cent to 63 per cent in the 2016 Autumn Statement, an eventual investment of £0.6 billion per year;
- Run-ons of Housing Benefit for new claimants and the reduction of the six-week wait to a five-week wait via the removal of 'waiting days' in the 2017 Autumn Statement; and,
- A boost to work allowances for claimants with children or assessed as having 'limited capability for work' in the 2018 Autumn Budget (an investment of £1.7 billion), plus a package of measures to ease the transition to UC. This package includes 'running-on' out-of-work benefits for those moving onto UC under managed migration ('Move to UC').[19]

15 D Finch & L Gardiner, Back in credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018
16 For details of its original design, see Annex A in: D Finch, Making the most of UC: Final report of the Resolution Foundation review of Universal Credit, Resolution Foundation, June 2015
17 Annually, and in 'steady state', i.e. when the benefit is fully implemented.
18 See: Department for Work and Pensions, Universal Credit impact assessment, December 2012
19 For further details, see Box 1 in: D Finch & L Gardiner, Back in credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018

As a result of these changes, the Office for Budget Responsibility judges that UC has returned to a position of offering marginally higher awards in aggregate than the legacy benefits system it replaces. But, crucially, this is only the case if UC achieves its hoped-for take-up gains.[20] And as we set out in Section 3, this aggregate position hides large gains and losses for different groups and areas.

Following UC's latest boost, commentators' and policy makers' focus has shifted in particular to the challenges of the five-week wait for the first payment, and progress towards the tricky managed migration phase.

With design having shifted and UC at a key stage of its roll-out, now is a good time to assess short- and long-term impacts

Successive changes to UC's design and the current roll-out position – with full service in operation everywhere but managed migration still a little way off – make now a particularly opportune time to step back and assess where UC has got to so far, and its impacts in the longer term. That is the task of this report, which is supported by the Liverpool City Region Combined Authority. As such, as well as providing a national picture, our analysis takes an in-depth look at UC in LCR, and our qualitative work draws entirely on the LCR experience. As well as providing a range of insights for local government and other actors in the city region itself, zooming in on one area, as we do in this report, helps national policy makers to understand the extent to which their overall conclusions about UC's impact ring true at the local level.

Our conclusions in this report are based on the following methods and activities:

- Analysis of administrative data to evaluate UC's progress to date;
- Microsimulation modelling to understand who will receive UC (once in 'steady state', i.e. when it is fully rolled out), and its impact on benefit levels in comparison to the legacy system;
- Case study modelling to assess UC's steady-state impact on incentives to enter and progress in work, in comparison to the legacy system; and,
- 14 in-depth qualitative interviews with UC recipients across LCR, conducted in August and September 2019. It is important to note that participants in these interviews were recruited with the help of staff in Citizens Advice Bureaux and other local support organisations. This means that they may not reflect a true cross-section of the experience of UC within LCR, for example they may be more likely to have had difficulties or negative experiences on the benefit that caused them

20 D Finch & L Gardiner, Back in credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018

to contact these other services. So the findings of our qualitative work should not be taken as a comprehensive overview of the experiences of all different types of claimants, but they are nonetheless instructive as to many aspects of how UC has affected people's lives.

The remainder of this report is structured as follows:

- The following section, **Section 2**, describes **the move to Universal Credit and the claimant experience**, including UC's evolving caseload, and recipients' experiences of moving onto the benefit;
- **Section 3** discusses **UC's recipients and the level of benefit awards** in comparison to the legacy system, including recipients' views on what life is like managing on the benefit;
- **Section 4** focuses on **UC and work**, including the financial incentives it creates to enter work or work more in comparison to the legacy system, and recipients' views on the extent to which UC supports work; and,
- **Section 5** provides **conclusions and policy directions** for both national policy makers and those in the Liverpool City Region.

Section 2

The move to Universal Credit and the claimant experience

This section summarises the experience of Universal Credit to-date, both in terms of the benefit's roll-out progress and recipients' experiences moving onto and managing on UC. UC is further along the journey towards its final caseload in LCR and the North West than it is across Britain as a whole, and even part-way through its roll-out it already touches a significant minority of households. This is particularly true in LCR, where over one-in-seven households (rising to more than one-in-five in Halton) contains someone currently receiving UC.

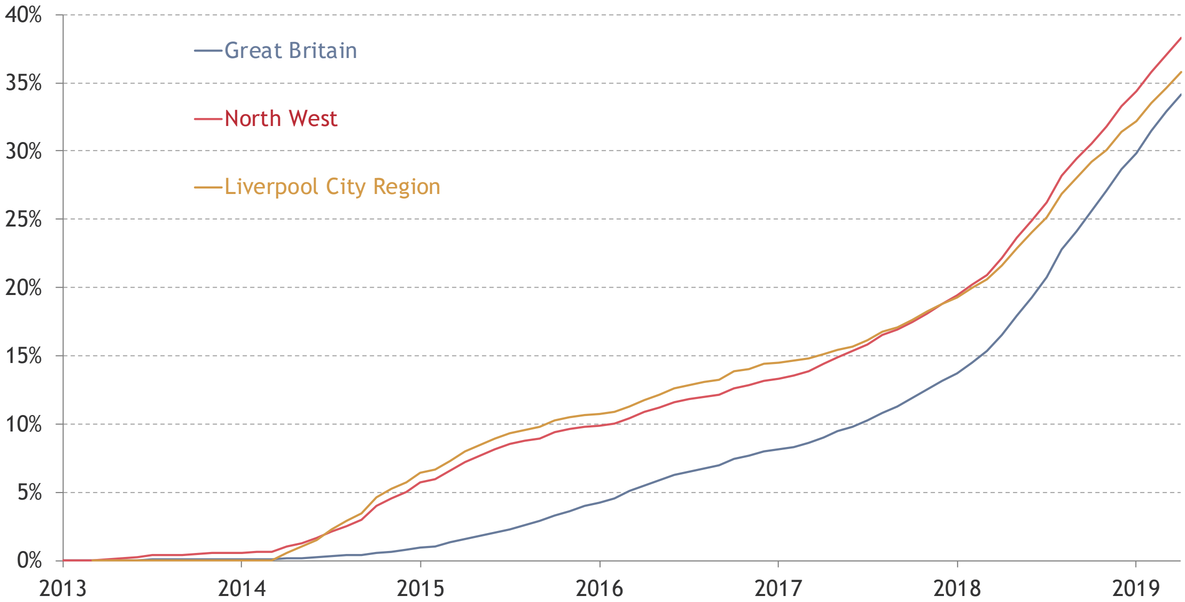
UC recipients in LCR reported a range of experiences moving onto the benefit. Experience with claiming online was particularly polarising: some found it much easier, whereas others reported very negative experiences. The wait for the first payment represented a common challenge. 'Advance' payments were almost universally offered to help people manage during this period, and were generally (although far from always) well-understood and well-liked. Housing support being paid direct to landlords appears to continue and is recipients' preference, while monthly payments are very much not, and are seen as a big drawback. Interactions with Jobcentre Plus staff were mixed with the threat (less than the actuality) of sanctions a big concern, but some positive claimant-adviser relationships were reported.

Universal Credit implementation is further along in LCR than across Great Britain

As mentioned in the previous section, UC was first introduced to small numbers of claimants in areas of the North West (outside LCR) in early 2013. The first claims were made in St. Helens and Halton later that year, and there were UC recipients in all six local authorities in LCR by mid-2014. Since being UC's test bed, the North West of England has remained ahead of Great Britain as whole in terms of roll-out, as Figure 3 shows. LCR, too, has stayed ahead of Great Britain in it progress towards its estimated final caseload.

FIGURE 3: **LCR and the North West as a whole were early starters in terms of UC**

Proportion of steady state caseload currently on Universal Credit

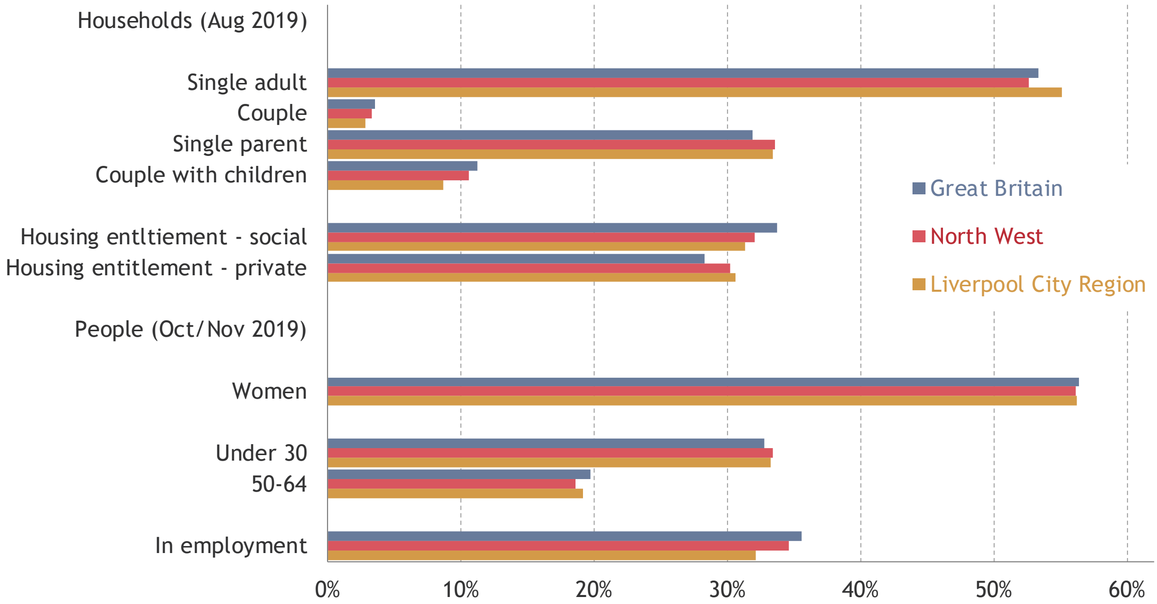


NOTES: Based on caseload estimates using 2015-18 data. Household UC caseloads used, extended back prior to August 2015 using individual caseloads.
SOURCE: RF analysis of DWP, Universal Credit statistics; ONS, Labour Force Survey; DWP, Family Resources Survey, using IPPR tax-benefit model

In UC's early days, only single jobseekers with no children were eligible to move onto the benefit. Even today – with full service operating across the country for new and changed claims, but the managed migration of legacy benefit claimants (now known as 'Move to UC') not started – the UC population is heavily skewed towards this group and other groups that experience high benefit 'churn'. This is shown in Figure 4, which also suggests that at present the characteristics of UC recipients in LCR are fairly similar to those in the North West and Great Britain as a whole. For example, in each of these geographies, between 53 per cent and 55 per cent of households receiving UC contain only a single adult. As discussed in Section 3, the 'steady state' UC population looks quite different to those on the benefit so far, and the differences between these geographies are set to become much greater as UC roll-out progresses. Figure 4 does indicate that some of these differences, such as LCR's lower proportion of working claimants, are already starting to emerge.

FIGURE 4: **The UC population in LCR is similar to that elsewhere in the country at the moment**

Proportion of Universal Credit recipients, by characteristic: 2019



SOURCE: RF analysis of DWP, Universal Credit statistics

Our qualitative interviews with UC recipients in LCR uncovered a broad mix of reasons for initial UC claims. Many were what might be considered 'usual' routes, including falling out of work, being advised to claim upon being made redundant, and being required to move off IS due to a youngest child turning five:

> *"I just recently lost my job and just needed some money to get by until I find myself a job."*
>
> Single female

> *"When my daughter turned five, they just stopped my benefits. They kept sending letters saying that everything is going to be stopped and that you need to go to the Jobcentre and apply [for Universal Credit]."*
>
> Female single parent

Alongside these were a handful of less typical cases. These included a series of complications and misunderstandings leading to Carer's Allowance payments being terminated, wanting to get help with a self-employed venture, and an ESA claimant being advised to move over ahead of the 'managed migration' of legacy benefit claimants (now known as 'Move to UC'):

> *"I basically got talked into going [off Employment and Support Allowance and] onto Universal Credit…I just got scared and thought, well, if I do it now, at least it's done."*

Female single parent

There are two tribes – those who like the online claim process and those for whom it is a significant burden

As well as the use of 'real-time' earnings information to inform benefit award, the other big digital change being brought in with UC is the move to an online claim and claim management process. In our qualitative research, this innovation divided opinion. A high proportion (often younger people and those who had recently been in work) were very comfortable with claiming online, while others (often those with health problems or who had been on legacy benefits for a long time) saw it as a significant drawback:

> *"It's a lot easier than it used to be. It's just an online form now."*

Single female

> *"It was very hard for me because I'm not very good at computers."*

Female single parent

Even many of those who found the online claim process straightforward commented that it was quite time consuming or that a lot of information and evidence was required. For some, providing information on their housing costs proved a particular burden, as previous research by Citizens Advice has also found:[21]

> *"You have to go online, you can't ring up and speak to anybody. You have to upload photographs. It's a long process to get onto it."*

Single parent

Most recipients thought there was little online, telephone or face-to-face support from the government to help navigate the claim processes if they had problems, with some getting this support from friends or Citizens Advice. However, those with health problems or language barriers were often supported to claim directly by Jobcentre Plus (JCP) staff:

> *"I got a lot of help… the two women that helped me do it… I couldn't fault them… everyone slags them off but they were very compassionate."*

Single male

21 Citizens Advice, Making a Universal Credit claim, July 2018

One issue that did not come up at all in our qualitative research was any sense that the integration of multiple claims processes into one was an improvement on the legacy system, or increased recipients' chances of getting all the benefits to which they are entitled. As discussed in the previous section, this element of simplification was one of the central original objectives of UC. The fact that this wasn't seen as much of an improvement from the claimant perspective is perhaps because in the legacy system people had not generally started claiming multiple legacy benefits at exactly the same point in time, and so didn't recall this type of complexity being an issue.

On the other hand, partners in LCR flagged the challenge of Council Tax Reduction schemes remaining outside of UC. Despite the fact that DWP has enhanced the UC claim process to remind claimants that they need to make a separate claim for support towards paying Council Tax with their local authority, families failing to claim this support and then falling behind with Council Tax payments remains a common occurrence.

Payment advances have been offered as standard, but the wait for the first payment is often a challenge nonetheless

One of the most high-profile issues faced by UC claimants is the five-week wait for the first payment. This is an area where some policy change has been forthcoming in recent years. As mentioned in the previous section, the removal of 'waiting days' reduced it from a six-week wait, and run-ons of Housing Benefit and out-of-work benefits (the latter for the 'managed migration' caseload only) have been introduced for people receiving these immediately prior to their UC claim. There are further changes that could be made beyond these (which we discuss in Section 5). These have to work around the fact that the five-week wait exists due to UC's central design feature of measuring a claimant's income over a month, and then awarding benefit on this basis, in arrears.

The wait for the first payment was a big issue among the recipients in LCR we spoke to, some of whom moved onto UC before the policy changes mentioned above took effect. This echoes research by other organisations showing that a significant minority of households will be unable to meet their costs during the five-week wait,[22] and that this wait has worsened claimants' mental health and pushed them towards food bank use:[23]

> *"It's hard. I didn't have the money for the rent for my house. I had to tell the housing company that I had to move to a new benefit, and that's the reason I couldn't pay."*

Female in couple with children

22 Policy in Practice, Financial resilience and the transition to Universal Credit, September 2019
23 E Thompson, A Jitendra & S Rabindrakumar, #5weekstoolong: Why we need to end the wait for Universal Credit, The Trussell Trust, September 2019

> *"Sometimes you are starving, there's no food. Once you start the payments then it's fine, but when they [first] put you on it's quite stressful...and you keep thinking how am I going to manage this...I'm all alone."*
>
> Female single parent

While most people got their first UC payment after five or six weeks, we spoke to a few recipients who had experienced much longer waits. This is echoed in DWP statistics, which show that approaching one-in-five (17 per cent of) initial UC payments are not made on time and in full.[24] We heard about delays due to issues with historic benefit claims, a lack of evidence being provided, or unknown reasons accompanied by mis-information about when the first payment would be made:

> *"It was just horrendous, it went on and on and on. They were incompetent."*
>
> Single male

> *"On the 15th [my journal] said 'your payment is in 0 days', so it doesn't actually say that you're not going to get paid...it just counts down to the 15th, so you don't know until then that you're not going to get the UC."*
>
> Single female

To help navigate the wait for the first payment, our qualitative research suggests that 'advance' payments (a loan during the wait for the first payment that is paid back out of future benefits) are offered (and usually taken up) pretty much as standard across LCR. This is also an area where policy has been tweaked in recent years, with the rate of repayment and the window over which payments are made were eased in the 2018 Autumn Budget. Recipients we spoke to mostly reported good experiences – receiving the advance immediately and having the option to get it in instalments if they wanted, for example. However, one or two reported that they were unclear it was a loan, and shocked when they found out they had to pay it back:

> *"They offered me [an advance payment]...I didn't really understand it at first, I had to ask three times what does it mean and she explained that it comes off your monthly payment. So I took that and it obviously helped a lot...I think it's, like, £20 each month, something like that. It's been really good. I think I actually got the choice of what to pay back and when, so I went with an OK amount."*
>
> Single female

24 Department for Work and Pensions, Universal Credit statistics: 29 April 2013 to 11 July 2019, August 2019

> *"She said, oh no that's your advance payment, that's a loan. And I never asked for a loan and didn't want a loan...I didn't know I had to pay this money back."*
>
> Single parent

For a handful of recipients in LCR, repayment of advances and the level of initial payments were complicated by historic debts related to legacy benefits, or rent arrears. While the rate at which historic debts and advances can be deducted from monthly awards has recently been reduced from 40 per cent to 30 per cent, some features of UC continue to exacerbate debt issues. For example, UC allows for faster recovery of housing arrears than the legacy system did, and the move over to a new system makes it much harder to challenge and amend errors in the calculation of legacy benefit debts, or put easements in place.

Partner organisations in LCR also noted that some claimants attempt to make multiple claims within a short space of time to access funds pay off their own personal debts, which the individuals are then liable for repaying. Again, this was reflected in our research:

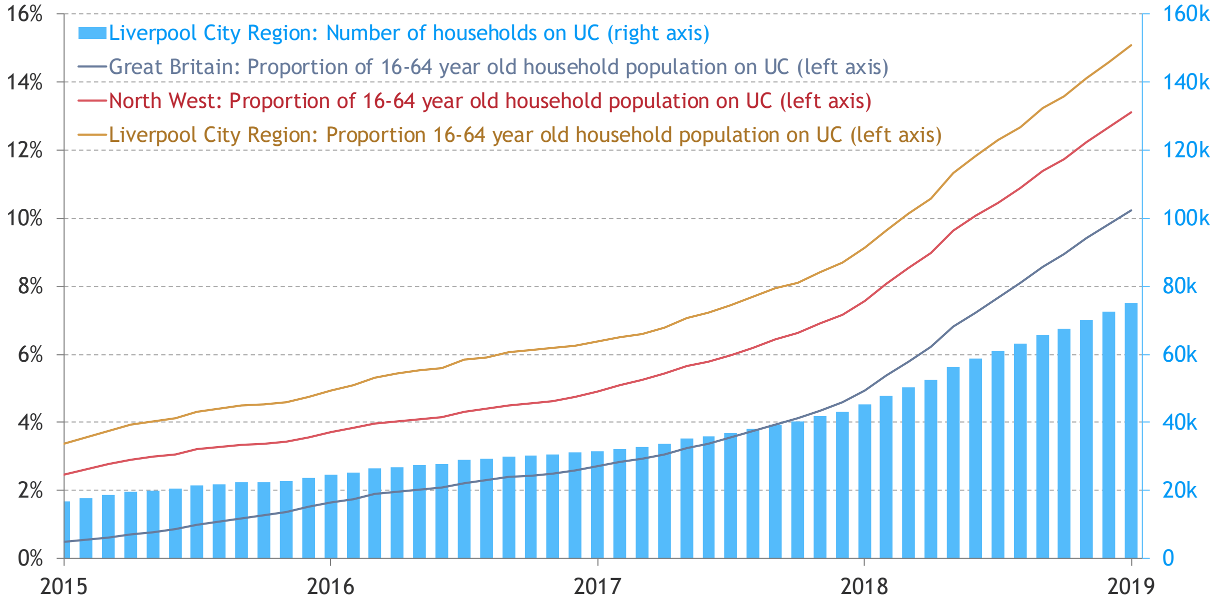
> *"When I was with my girlfriend we were getting tax credits and I didn't know when I went to claim UC that I had a bill of £800. They gave me the bill before they even gave me any money. So I was like, 'wow, I've come cap in hand and you've just said to me: here's a bill'."*
>
> Single male

UC already reaches a high proportion of the working-age population

Some of the issues emerging from our qualitative research relating to the initial process of making a claim for UC might be put down to 'teething problems' in the early stages of the new benefit's roll-out. While this is undoubtedly the case and some teething problems are unavoidable, it's worth emphasising that even part-way through its roll-out UC touches a sizable minority of working-age households, especially in LCR, as Figure 5 shows. This reflects both the fact that LCR is ahead of Great Britain as a whole in its roll-out journey, and that UC will reach a higher proportion of households in LCR than elsewhere once in steady state (as we discuss in the next section). With over one-in-seven working-age households in LCR already receiving UC, any remaining teething issues are swiftly becoming a mainstream experience.

FIGURE 5: **Around one-in-seven working-age households in LCR contains someone claiming UC**

Number of households and proportion of working-age household population on Universal Credit

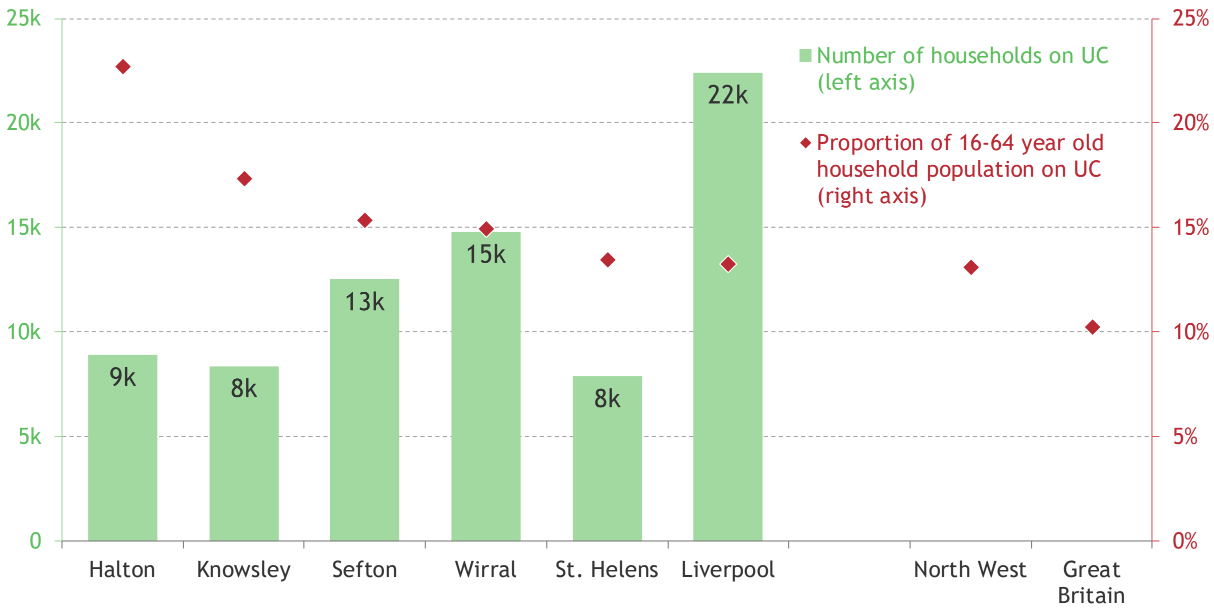


SOURCE: RF analysis of DWP, Universal Credit statistics; ONS, Annual Population Survey

Figure 6 shows that in some parts of the city region, the proportion of households that contains someone claiming UC is already much higher, standing at more than one-in-five in Halton, for example. All six local authorities in the city region have a higher current claim rate than the North West and Great Britain as a whole.

FIGURE 6: **Halton has the highest proportion of households on UC**

Number of households and proportion of working-age household population on Universal Credit



SOURCE: RF analysis of DWP, Universal Credit statistics; ONS, Annual Population Survey

Payment of housing support direct to landlords has continued largely uninterrupted, but the shift to monthly payments is seen as unwelcome

Once on Universal Credit and receiving benefit, our qualitative research in LCR sought to understand recipients' views on those of UC's design elements that differ from the legacy system. One area that differed much less than might have originally been expected is the way in which support towards housing costs is paid. The vast majority of recipients we spoke to in rented accommodation had their housing support paid directly to their landlord, mostly right from the start of their claim, and often without much intervention from them to make this happen. Everyone who participated in our qualitative research preferred direct payment of housing support to landlords.

While such 'alternative payment arrangements' are common in the social rented sector, partner organisations in LCR have reported that in the private rented sector these arrangements tend not to be permanent and are usually only agreed if a tenant is deemed vulnerable, or after they have fallen into arrears. This was reflected in our qualitative research:

> *"So my first housing payment, which I should have used to pay rent, I had to use to buy loads of furniture, so I went into arrears. Then I got switched over to direct payments, and I'm happy with that. It just happened."*

Single male

By contrast, monthly payments represented a big change. One or two recipients with little experience of legacy benefits and recent work experience were happy being paid monthly, but everyone else disliked monthly payments because they make it harder to manage money. Echoing research by Citizens Advice, there appeared to be very little awareness that it was possible to switch to a fortnightly (but still arrears-based) payment schedule:[25]

> *"I did prefer the Jobseeker's. It's not so much more money, it's just that they pay you fortnightly so it's easier to get by, whereas if you get paid monthly it's all gone in a week or so and you don't get anything else for another three weeks."*

Single female

Most out-of-work claimants thought their payments were fairly consistent and any fluctuations were for reasons they understood, however one or two had experienced much more volatile UC payments:

25 Citizens Advice, Making a Universal Credit claim, July 2018

> *"There's been reductions in the amount and increases but you don't know without checking all the time...It doesn't give cumulative amounts, and no letter was sent before the deductions to say this deduction has been made to your UC...I don't think I authorised it, they just took it...It does seem to be lacking in dignity and disempowering."*

Single female

Interactions with Jobcentre Plus have been mixed

Those in LCR reported a mix of interactions with JCP. Many had had poor experiences and felt staff were not there to support them, or that a lack of continuity in who they saw meant that their circumstances were poorly understood. These views perhaps partly reflect the avenues (other organisations and support services) through which participants were contacted to take part in our research. That said, quite a few recipients had at some point had positive and supportive experiences with JCP staff, especially when they were able to see the same adviser over a period of time:

> *"The system has changed quite a bit from when I was on it two years ago to what I'm on now. It's all digitised and you don't really get much support. You just go to your appointments which can be few and far between sometimes."*

Single male

> *"The two job coaches I work with have been absolutely spectacularly good. Even though I've heard some horror stories."*

Single male

While few recipients we spoke to had experienced a benefit sanction while on UC (and one who had due to error had got it reversed fairly smoothly), the threat of sanctions appeared ever present in their interactions with JCP. Sanctions were frequently cited as one of the major disadvantages of UC, (to some extent, erroneously, as we discussed in the previous section) in comparison to the legacy system:

> *"That word, 'sanction', it's like the sword of Damocles hanging over everybody. That's a constant worry, that. That all needs eradicating - it's making people stressed."*

Single male

> *"With Universal Credit it's ridiculous. You didn't used to get threatened with sanctions all the time [on previous benefits], there was just lots more help."*

Single parent

Finally, recipients we spoke to across LCR were almost universally positive about the other organisations that were supporting with financial- or employment-related issues. These included Citizens Advice, services run by housing associations, and a number of local employment support and work-readiness programmes. Again, this is perhaps unsurprising given how we recruited participants, but the crucial role the voluntary sector is playing in supporting LCR residents in contact with the UC system should not be overlooked.

Having built a rounded picture of the progress of UC to date and recipients' experiences moving onto the benefit and managing their claim, the next section switches to a longer-term perspective, focusing on UC once in steady state.

Section 3

Universal Credit's recipients and the level of benefit awards

This section focuses on the steady-state impact of UC on the groups of people receiving benefit and the amounts they receive, based on detailed microsimulation modelling for the UK, the North West and Liverpool City Region.

We find that, once fully rolled out, almost one-third (31 per cent) of working-age families in LCR will receive some UC, higher than the 27 per cent that do in the North West and the 24 per cent figure for the UK as a whole. This higher recipient rate is mainly driven by population differences. LCR contains more single parents, workless single people, disabled people and social renters than the other parts of the country we focus on – groups more likely to receive benefits.

Focusing on UC's effect on incomes, we find that more families lose from the switch to UC – and fewer gain – in LCR than the UK as a whole. This is again driven by population differences between areas, as well as by UC's relative generosity boost (compared to the legacy system) for working people with high rents, which does not favour lower-rent LCR. As a result, while on average benefit-recipient families are £1 better off per week as a result of the switch to UC, in LCR they are on average £7 worse off (a figure that hides thousands of families with large increases and thousands with very big decreases in income). Participants in our qualitative research in LCR echoed these conclusions, viewing UC as putting downward pressure on their incomes, compared to previous experiences.

The effect of UC when it is fully rolled out will depend on the characteristics of its recipients

Previous analysis has shown that the impact of the switch from legacy benefits to UC varies significantly across different family, housing and employment situations.[26] The

26 See: D Finch & L Gardiner, Back in credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018; M Brewer et al., Universal credit and its impact on household incomes: the long and the short of it, Institute for Fiscal Studies, April 2019

overall level of payments in the UC system (as discussed in Section 1, UC is now expected to be very slightly more generous than the legacy system if it achieves desired take-up gains) hides millions of families losing substantially and millions making substantial gains.[27] But less attention has been given to the extent to which the impact of UC varies in different parts of the country.

That is the focus of this section, which shifts from assessing UC's progress to date to looking at its estimated effects once fully rolled out (i.e. once it is in 'steady state'), comparing LCR to the North West and UK as a whole. As in previous Resolution Foundation analysis of this nature, we model a baseline scenario that corresponds to UC's design in 2019-20 (based on uprated survey data from 2015-18) in which the legacy system is fully in place. We compare this to a scenario in the same time period in which UC is fully in place. In both scenarios, we assume that cuts to family support (the removal of the family element and two-child limit) that occur in both systems will be fully implemented.[28]

A major reason for the lack of this type of analysis for different areas of the country is data limitations. Most modelling of the impact of UC relies on household survey data in which sample sizes are too small to drill down to local areas. This report takes advantage of a new modelling approach which allows us to compare the impact of UC at a city-region level to regional and UK-wide estimates. This approach is detailed in Box 1.

BOX 1: **Estimating the steady-state impacts of Universal Credit in the Liverpool City Region**

Following our approach in previous estimates of UC's steady-state impact, we produce UK and North West estimates for the number of people receiving UC, and the profile of families[29] that gain and families that lose out, using our in-house tax-benefit microsimulation model. In order to generate sufficient sample sizes for reliable regional (North West) estimates, we combine the three latest years of Family Resources Survey datasets (spanning 2015-18) as the basis for this modelling. We model UC in 2019-20 as if it were in steady state in that year – i.e. fully rolled out, and assuming 'transitional protection' (whereby those who move onto UC via 'managed

27 P Johnson, Switching millions to universal credit poses real threat of 'poll tax' moment, The Times, October 2018
28 M Brewer, D Finch & D Tomlinson, Universal Remedy: Ensuring Universal Credit is fit for purpose, Resolution Foundation, October 2017
29 Throughout this report, we analyse the impacts of UC on families (also known as 'benefit units'), consisting of a single adult or couple and any dependent children. This is a different unit for analysis to households – for example, there can be more than one family in a household, such an adult child living with their parents. Benefit awards are generally calculated at the family level, which is why this is our preferred unit of analysis.

migration' – now known as 'Move to UC' – are prevented from having immediate cash losses) has been exhausted – and compare it to a scenario in which the legacy benefits system is fully in place.

Our modelling is on a take-up rather than an entitlement basis, and we account for the expectation that UC will achieve, on average, a higher take-up rate than the benefits it replaces. Our central estimate is a UC take-up rate of 85 per cent, which our model varies according to family demographics and entitlement amounts.

To produce LCR-specific estimates as well as national and regional ones, we assess differences between the North West and LCR populations on relevant characteristics, using the Labour Force Survey. Key differences (summarised in Table 1) include LCR having a higher share of disabled families, social renters, single parents and singles, as well as workless households.

TABLE 1: **Populations of the UK, North West and LCR, aged 16-64 (unless otherwise specified): 2015-18**

	Number			Proportion within group		
	UK	North West	LCR	UK	North West	LCR
Age 16-29	9,880,000	1,030,000	230,000	19%	20%	19%
Age 30-49	17,200,000	1,710,000	370,000	34%	33%	31%
Age 50-64	12,190,000	1,260,000	290,000	24%	24%	25%
Age 65+	11,480,000	1,170,000	290,000	23%	23%	25%
Single, no kids	8,320,000	890,000	220,000	21%	22%	25%
Couple, no kids	14,980,000	1,480,000	310,000	38%	37%	35%
Single parent	2,490,000	290,000	80,000	6%	7%	9%
Couple, 1-2 kids	11,310,000	1,120,000	240,000	29%	28%	27%
Couple, 3+ kids	2,180,000	210,000	40,000	6%	5%	4%
Workless	9,140,000	1,000,000	250,000	23%	25%	28%
Working, part time, mid-	5,150,000	510,000	110,000	13%	13%	13%
Working, part time, high-	2,200,000	190,000	40,000	6%	5%	5%
Working, full time, mid- a	11,340,000	1,200,000	250,000	29%	30%	28%
Working, full time, high-s	11,440,000	1,090,000	240,000	29%	27%	27%
Not disabled	32,260,000	3,190,000	690,000	82%	80%	77%
Disabled	7,020,000	810,000	210,000	18%	20%	23%
Owner	24,800,000	2,590,000	550,000	63%	65%	61%
Private renter	8,350,000	760,000	170,000	21%	19%	19%
Social renter	6,130,000	650,000	180,000	16%	16%	20%

NOTES: The Labour Force Survey does not include Halton in its definition of the Merseyside area. However, we scale population totals to account for the Halton population – in so doing we effectively assume that Halton's population has the same characteristics as the population across the rest of the city region.
SOURCE: RF analysis of ONS, Labour Force Survey

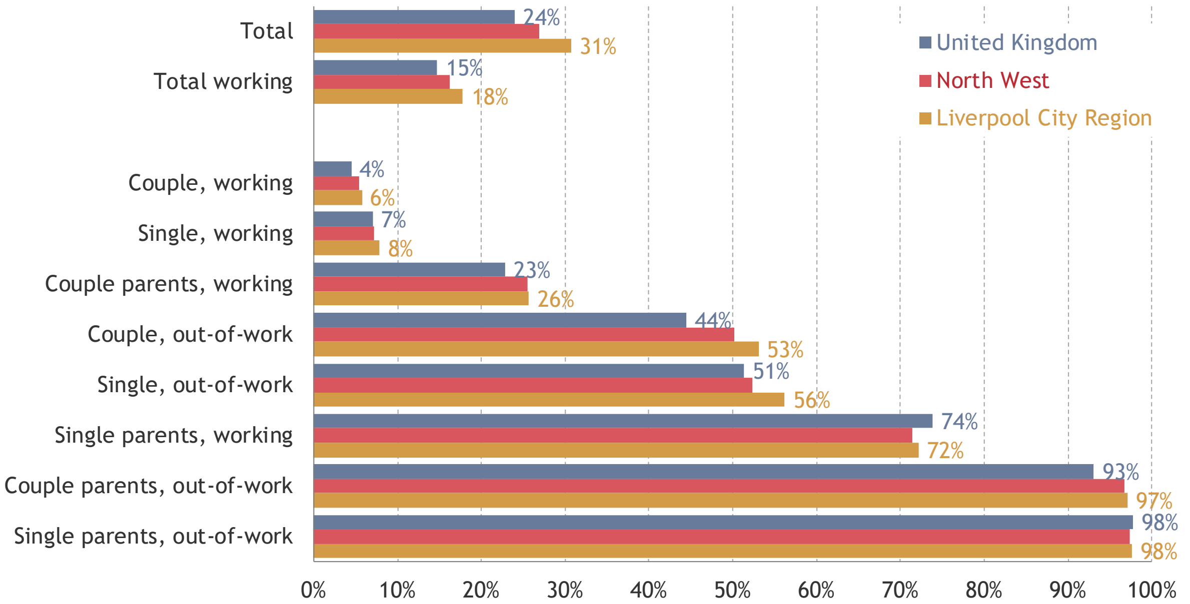
We use these proportional differences between the LCR and North West populations to 'adjust' (reweight[30]) our tax-benefit modelling results for the North West as a whole to reflect the size and characteristics of the LCR population.

Almost one-third of working-age families in LCR will claim UC

Based on the size of the population during 2015-18, we estimate that 205,000 families will receive UC in LCR once the benefit is in steady state, compared to 775,000 across the North West and 6.2 million across the UK as a whole. The proportion of the population expected to receive UC, overall and within different groups, is shown in Figure 7.

FIGURE 7: **A greater share of families are expected to receive UC in LCR than in the rest of the North West and the UK as a whole**

Proportion of working-age families in receipt of UC once fully rolled out, by family type and employment situation: 2015-18



NOTES: Modelling is based on the population in 2015-18, but assuming that the UC system is fully in place. Modelling is on a take-up basis, accounting for higher benefit take-up in the UC system than in the legacy system.
SOURCE: RF analysis of DWP, Family Resources Survey; ONS, Quarterly Labour Force Survey, using the IPPR tax-benefit model

We find that close to one-third (31 per cent) of working-age families in LCR are expected to receive UC, 3.8 percentage points higher than the proportion in the North West, and 6.7 percentage points higher than the proportion across the UK as a whole. In part, this reflects the fact that some key family groups are more likely to be on UC in LCR than elsewhere, including couples and out-of-work single people, as Figure 7 shows. But a

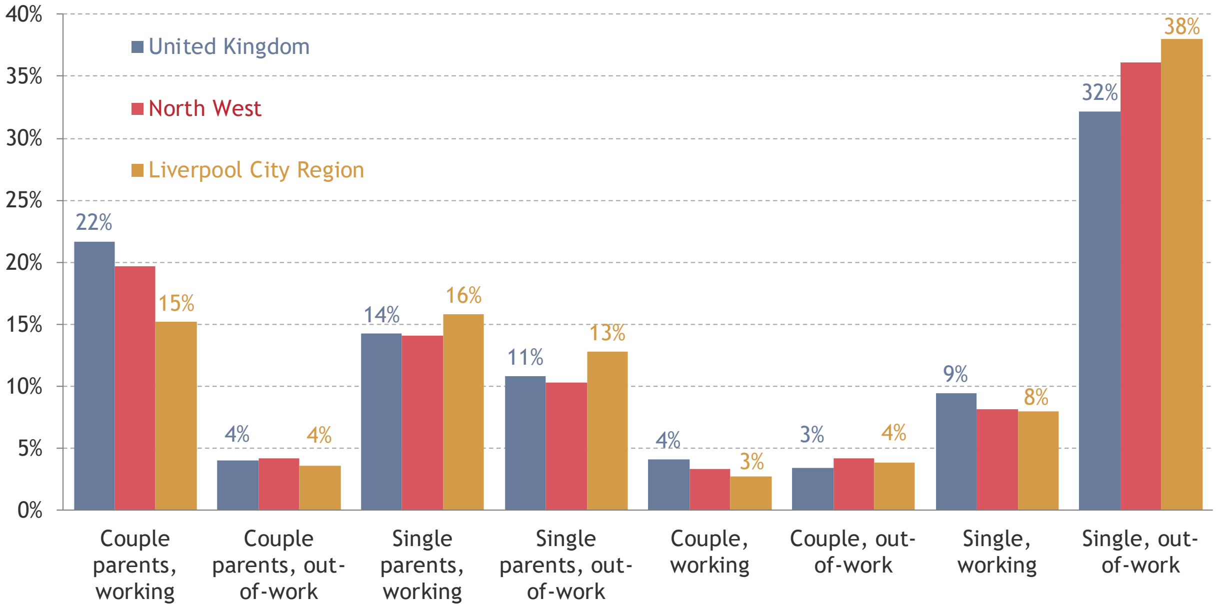
30 See: J Browne, REWEIGHT2, Institute for Fiscal Studies, July 2012

bigger factor is a greater prevalence (shown in Table 1) of groups that are more likely to be on UC (based on the proportions shown in Figure 7) in LCR than in the North West or the UK as a whole, in particular out-of-work single people and both working and workless single parents. A simple 'shift share' analysis based on the eight groups in Figure 7 shows that more than two-thirds (70 per cent) of the 6.7 percentage point difference between the proportion of families on UC in LCR and the UK is due to these 'compositional' differences, with the remainder due to 'within group' effects.

The combination of the different population compositions and different within-group UC prevalence leads to a different UC caseload in LCR compared to the North West and the UK as a whole, as shown in Figure 8. In particular, more workless single adults within the population, plus a higher incidence of UC receipt within this group, means a greater share of LCR's UC caseload will be workless single adults than in the UK as a whole.

FIGURE 8: **The UC-recipient population in LCR will be more tilted towards single parents and workless single adults**

Proportion of UC-recipient family population, by family type and employment situation: 2015-18

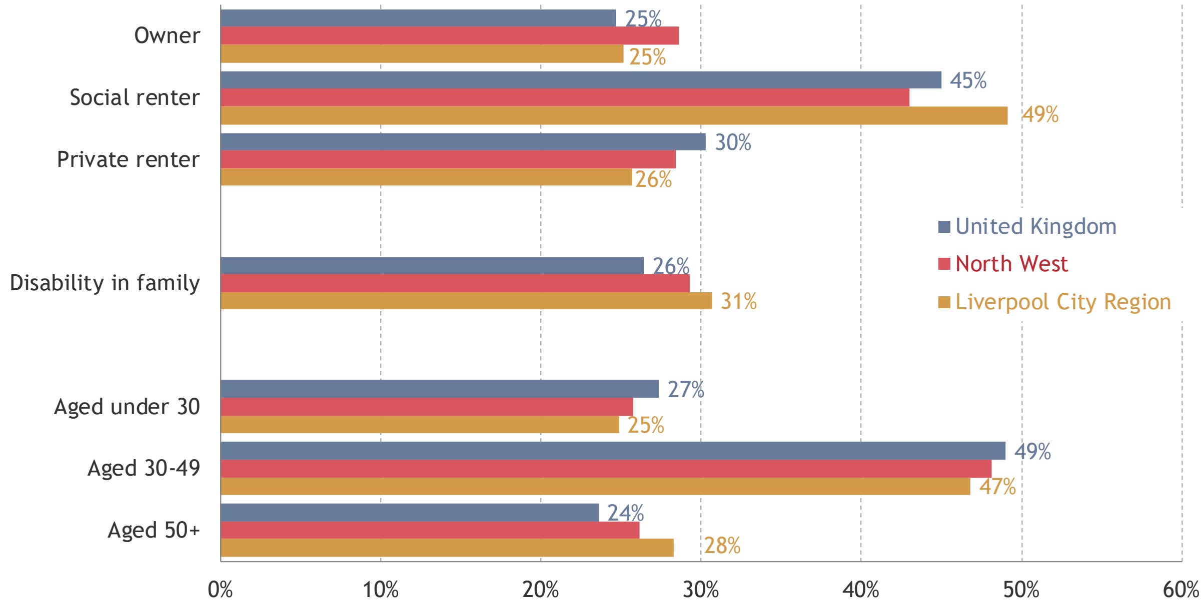


NOTES: Modelling is based on the population in 2015-18, but assuming that the UC system is fully in place. Modelling is on a take-up basis, accounting for higher benefit take-up in the UC system than in the legacy system. Couple, working includes single earner families.
SOURCE: RF analysis of DWP, Family Resources Survey; ONS, Quarterly Labour Force Survey, using the IPPR tax-benefit model

And it's not just on family type and employment status that the UC caseload differs between LCR and elsewhere. Figure 9 sets out the profile of the UC caseload in these three geographies according to housing tenure, disability status and age. The patterns largely match the population differences summarised in Table 1, but as with our analysis of family type and employment status, they also reflect the different likelihood of different groups being on UC.

FIGURE 9: **Social renters and people with disabilities make up a greater share of the UC caseload in LCR than across the UK as a whole**

Proportion of UC-recipient family population, by age, tenure and disability status: 2015-18



NOTES: Modelling is based on the population in 2015-18, but assuming that the UC system is fully in place. Modelling is on a take-up basis, accounting for higher benefit take-up in the UC system than in the legacy system.
SOURCE: RF analysis of DWP, Family Resources Survey; ONS, Quarterly Labour Force Survey, using the IPPR tax-benefit model

For example, Table 1 shows that LCR has a higher prevalence of social housing residents than the UK as a whole, and this group is also more likely to be on UC in LCR (69 per cent are) compared to families in social housing across the country (61 per cent). It is these two factors combined that drive the fact that 49 per cent of the UC caseload is expected to be in social rented accommodation in LCR. The same combination of factors is at play in relation to disability: 56 per cent of families containing someone with a disability are expected to be on UC in LCR, compared to 48 per cent across the UK as a whole.

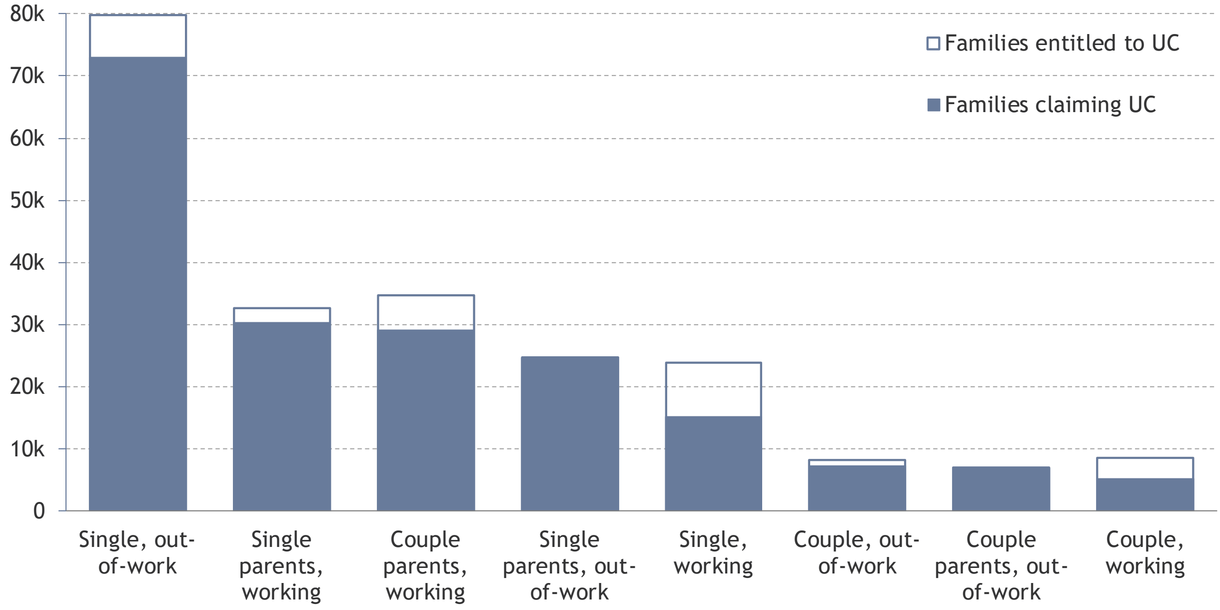
Despite take-up gains, an estimated 27,000 families in LCR will fail to claim the UC to which they are entitled

As set out in Box 1, our analysis in this section is based on modelling that accounts for benefit take-up in the UC and legacy systems, including a higher overall take-up rate under UC as a result of combining multiple claims processes into one. Here our central take-up estimate for UC is 85 per cent. This has been calibrated to match the Office for

Budget Responsibility's estimate of the number of additional families claiming benefit as a result of the take-up boost, and the additional spend due to higher take-up.[31] But this 85 per cent take-up rate still implies 27,000 families in LCR not claiming the support to which they are entitled.[32] Again based on national estimates of the propensity of different groups to take up support,[33] Figure 10 sets out which groups in the LCR population are likely to miss out on their UC entitlements.

FIGURE 10: **Single people and working couples and coupled parents are the least likely to claim the UC to which they are entitled**

Gap between UC take-up and UC entitlement (number of families): Liverpool City Region, 2015-18



NOTES: Based on a central UC take-up estimate of 85 per cent. Take-up variations by family and employment situation reflect national estimates, and are not LCR-specific. Modelling is based on the population in 2015-18, but assuming that the UC system is fully in place.
SOURCE: RF analysis of DWP, Family Resources Survey; ONS, Quarterly Labour Force Survey, using the IPPR tax-benefit model

People in LCR not taking up their UC entitlement are most likely to be single people, in-work couples, or coupled parents. Among working families, lower take-up generally reflects low entitlement amounts (such that claiming is seen as not worth the hassle). Out-of-work single people may be more likely not to claim because they don't want to engage with benefit conditionality, especially if they are only out of work for short

31 See: D Finch & L Gardiner, Back in credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018; Office for Budget Responsibility, Economic and Fiscal Outlook – October 2018, October 2018
32 This take-up rate is applied consistently in our modelling across geographies, given a lack of any evidence on how benefit take-up differs across areas.
33 These estimates are calibrated in the IPPR tax-benefit model by its creators.

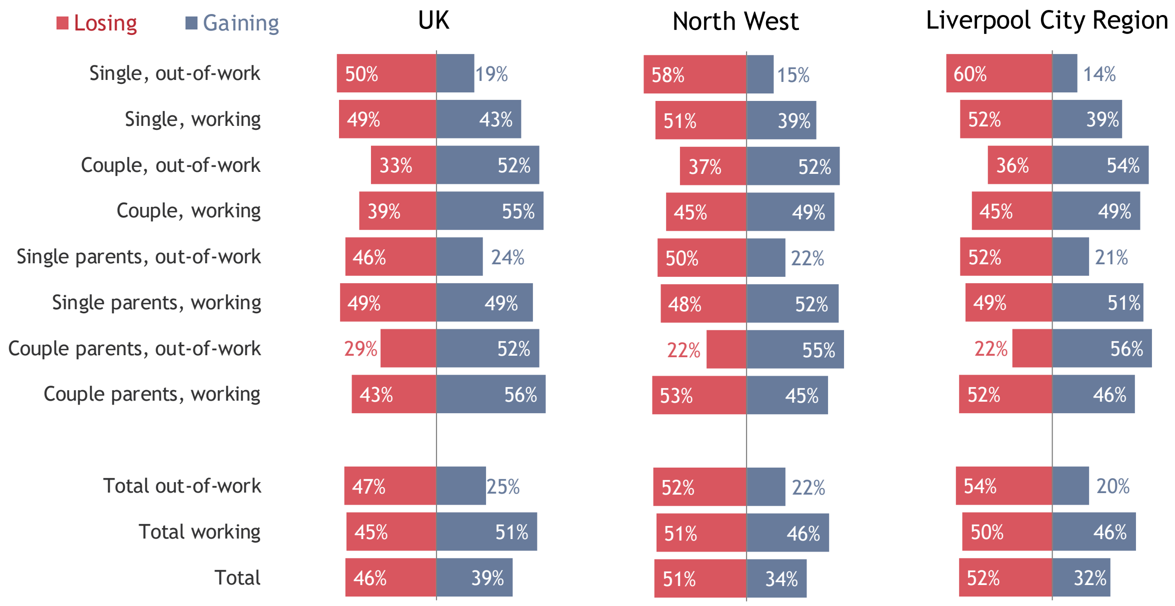
periods.[34] Overall, Figure 10 shows where in the LCR population the gains from pushing UC take-up even higher than our central estimate would be felt.

Families in LCR are more likely to lose out from the switch to Universal Credit than families across the UK as a whole

With this picture of the families expected to receive UC in different areas, we turn now to how UC level of award compares to the legacy benefits system it replaces. Figure 11 sets out the profile of families that gain (those with a higher award in UC than the legacy system) and families that lose out (those with a lower award) among all families receiving some benefit in either system (or both). The headline finding is that outcomes are tilted away from those gaining and towards those losing in the North West, and especially in LCR, compared to the UK as a whole. For example, the gap between the proportion of families losing and the proportion of families gaining (20 percentage points) in LCR is nearly three time as large as that gap in the UK (7 percentage points).

FIGURE 11: **Over half of affected families in LCR lose out from the switch to UC**

Proportion of benefit-recipient families that gain and lose from the switch to UC, compared to legacy benefits system, by family type and employment situation: 2015-18



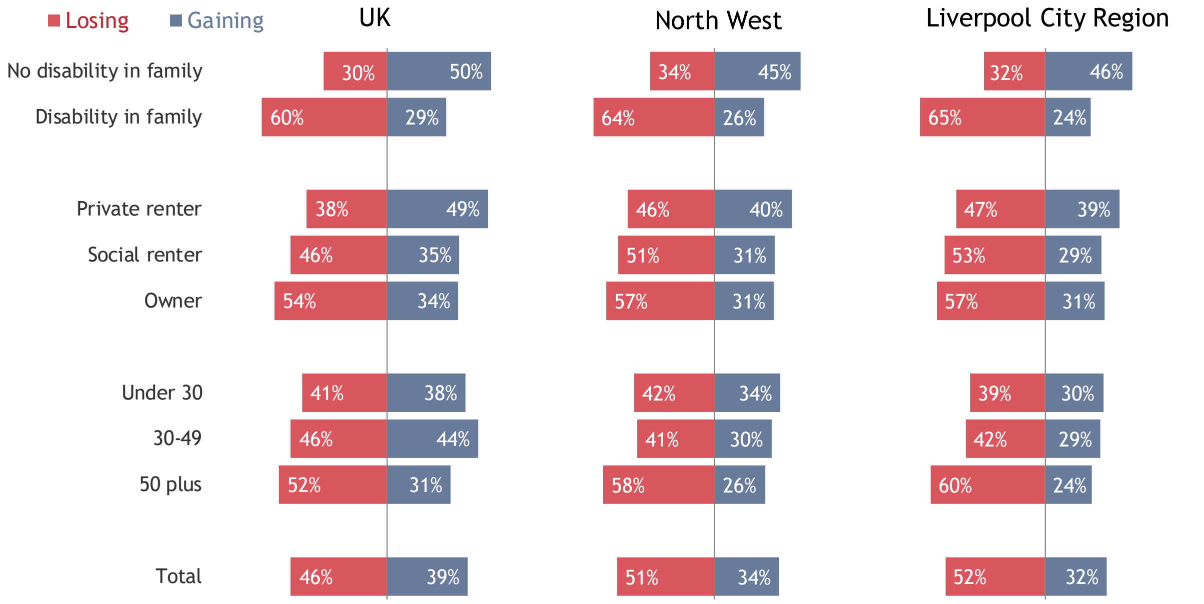
NOTES: Modelling is based on the population in 2015-18, but assuming that the UC system is fully in place. Modelling is on a take-up basis, accounting for higher benefit take-up in the UC system than in the legacy system. The population captured within this analysis includes families receiving either UC or legacy benefits (or both). Gains and losses less than £1 per week are excluded.
SOURCE: RF analysis of DWP, Family Resources Survey; ONS, Quarterly Labour Force Survey, using the IPPR tax-benefit model

34 This raises the interesting prospect that by merging both conditional (e.g. JSA) and unconditional (e.g. Housing Benefit) support into a single, conditional system, UC could in some circumstances reduce benefit take up (among those who can't or don't want to search for work), rather than boost it. A caveat to this conclusion is the fact that, technically, UC claimants not complying with conditionality can only have their basic allowance sanctioned, and not their housing support. So it would still be possible for someone who didn't want to search for work to receive the equivalent of their Housing Benefit award in the UC system. However, this nuance is unlikely to be visible to prospective claimants, and there would likely be significant hassle involved in having to 'break the rules' of a single, conditional system.

Figure 12 provides further breakdowns of the proportion of families gaining and losing in each of these three regions.

FIGURE 12: **Disabled families, older people and social renters are more likely to lose out from the switch to UC**

Proportion of benefit-recipient families that gain and lose from the switch to UC, compared to the legacy benefits system, by age, tenure and disability status: 2015-18



NOTES: Modelling is based on the population in 2015-18, but assuming that the UC system is fully in place. Modelling is on a take-up basis, accounting for higher benefit take-up in the UC system than in the legacy system. The population captured within this analysis includes families receiving either UC or legacy benefits (or both). Gains and losses less than £1 per week are excluded.
SOURCE: RF analysis of DWP, Family Resources Survey; ONS, Quarterly Labour Force Survey, using the IPPR tax-benefit model

What accounts for the overall difference in the gaining vs losing profile between LCR, the North West and the UK? As in our discussions above, it is the combination of two factors. First, a higher prevalence of groups more likely to lose than gain in the LCR population than across the UK (for example, workless single people, single parents, and families containing members with disabilities). And second, more families losing than gaining *within* most groups. For example, 60 per cent of workless single people lose out from the switch to UC in LCR, compared to 50 per cent in the UK.

Why are there more families losing than gaining within many of these groups in LCR than in the North West or the UK? To some extent this reflects the overlap between the characteristics shown in Figure 11 and Figure 12 within the populations of each area (for example, there are more disabled people within the population of workless single adults in LCR than the UK). Beyond this, the most important factor among working families relates to levels of rents and earnings in these different areas.

UC, like the legacy system, provides support to people on the lowest earnings – with UC doing this somewhat more comprehensively due to the removal of hours rules that existed in tax credits. In addition, UC's single taper rate, and removal of the highest marginal deduction rates that those receiving both Housing Benefit and tax credits experienced, mean that it provides relatively more support to working families with high rents (by extending support up to a higher level of earnings), compared to the legacy system.[35]

Crucially, rent levels in different areas of the country differ far more than earnings levels do: the 'coefficient of variation' for rents across English local authorities was 43 per cent in 2018, compared to a coefficient of variation of 16 per cent for weekly earnings.[36] This means that an area's ranking in the rents distribution matters far more than its ranking in the earnings distribution in determining whether its population gains or loses from the switch to UC.

This is borne out in Liverpool City Region. While LCR has below-average earnings (median weekly pay was 7 per cent below the level in England in 2018[37]), its rent levels are much lower still. This is due to both a greater prevalence of lower-cost social housing, and well-below-average private-rental costs: average private rents in LCR were 33 per cent below the English average in 2018.[38] Because UC entails a similar (very slightly higher) aggregate spend to the legacy system it replaces, but is relatively more supportive of higher rents than the legacy system was, wide variation in rent levels across the country plays a big role in determining whether areas tend to gain or lose from the switch. Low-rental cost areas like LCR lose out, while high-rent areas like London attract more spend than in the legacy system. Evidence for this conclusion can be seen in Figure 12, which shows a particularly large difference in the profile of families gaining and losing between LCR and the UK among private renters: 47 per cent of private renters lose out from the switch to UC in LCR, compared with 38 per cent of private renters across the UK.

We should be clear that this is not an argument against UC's prioritisation of support towards high housing costs. Housing costs have played a big role in driving poverty and inequality in recent decades,[39] so a welfare system that cushions people against their impacts is welcome. Rather, by understanding these dynamics we can very clearly see

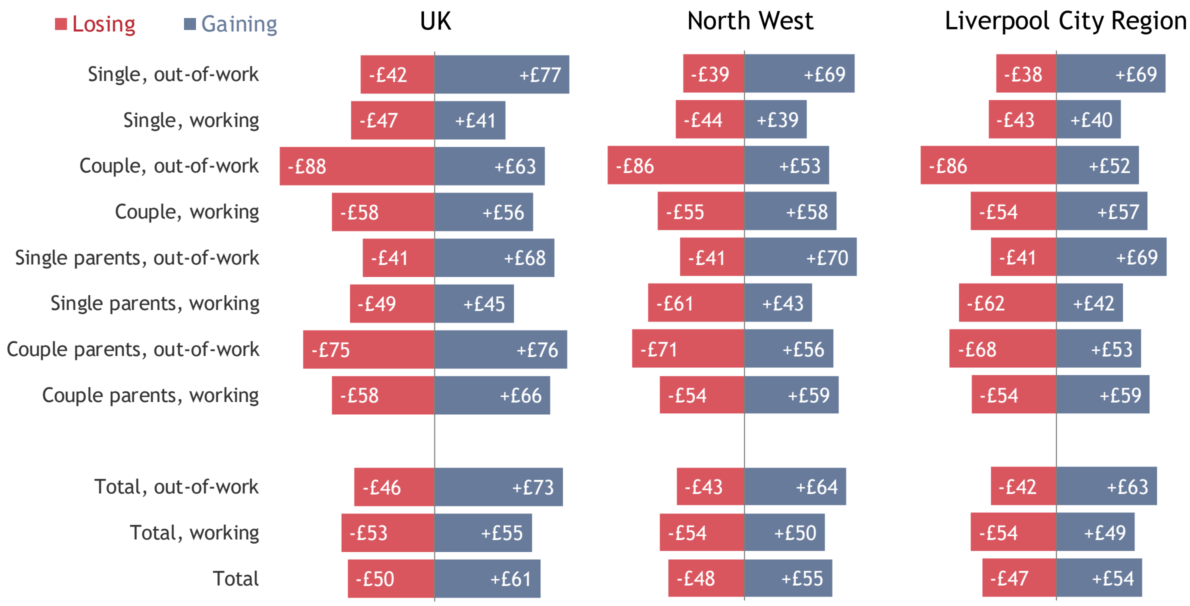
35 More support for families with high rent levels comes entirely from UC's taper: Local Housing Allowance caps (in the private rented sector) remain in place as a limit on the maximum award, meaning housing support for out-of-work claimants is largely unchanged in the switch from the legacy system to UC.
36 The coefficient of variation is the ratio of the standard deviation of a set of data relative to its mean. Earnings are residence-based. Source: RF analysis of ONS, Annual Survey of Hours and Earnings; Resolution Foundation private rents data series (based on data from Hometrack and various government sources)
37 Earnings are residence-based. Source: RF analysis of ONS, Annual Survey of Hours and Earnings
38 The English average is calculated as a simple (unweighted) average across local authorities. Source: RF analysis of Resolution Foundation private rents data series (based on data from Hometrack and various government sources)
39 D Tomlinson, Inequality street: Housing and the 2019 general election, Resolution Foundation, November 2019

how national claims about UC average impacts will not ring true in particular parts of the country.

With these explanations as context, Figure 13 adds to our understanding of the relative impacts of the switch to UC in different areas, setting out the average total amounts of weekly losses among families that lose out, and gains among families that gain. It shows that in most cases (notably excluding single parents), both losses and gains are smaller in LCR than in other areas, largely reflecting the lower rent levels discussed above. There is a mixed picture on the extent to which the balance between average gains and losses shift across these areas: average losses are relatively larger in LCR compared to the UK for some groups (including working single parents), and relatively smaller for others (including working couples).

FIGURE 13: **Average gains and losses are generally lower in LCR than in the UK as a whole**

Average change in weekly award among benefit-recipient families losing and gaining from the switch to UC, compared to the legacy benefits system, by family type and employment situation: 2015-18



NOTES: Modelling is based on the population in 2015-18, but assuming that the UC system is fully in place. Modelling is on a take-up basis, accounting for higher benefit take-up in the UC system than in the legacy system. The population captured within this analysis includes families receiving either UC or legacy benefits (or both). Gains and losses less than £1 per week are excluded.
SOURCE: RF analysis of DWP, Family Resources Survey; ONS, Quarterly Labour Force Survey, using the IPPR tax-benefit model

Beyond differences between areas, Figure 13 shows that in general, and especially for the largest groups within the UC caseload set out in Figure 8 (workless single people and working coupled parents), average gains are larger than average losses. This is how UC ends up being very slightly more generous than the legacy system in aggregate, despite a slightly higher proportion of families that lose out than families that gain in the UK as a whole.

There are other groups that experience big changes in awards in the switch from the legacy system to UC that we have not discussed so far in this section. Additional groups losing out from the switch include single parents under the age of 25,[40] families with high levels of assets, couples containing one member of working age and one of pension age (who previously would have been eligible for Pension Credit and other, often higher, pensioner benefits, but now are required to claim UC),[41] and the low-earning self-employed. It is not possible to cover all these groups in detail within this analysis of different geographies, however Box 2 provides a brief summary of how the self-employed fare from the switch to UC in LCR, in comparison to other groups.

BOX 2: **The impact of the switch to Universal Credit on the self-employed**

UC represents a big change for self-employed people. This is mainly due to the impact of the 'minimum income floor' (MIF). The MIF aims to both prevent deliberate under-reporting of self-employed income, and discourage individuals from persisting with unprofitable enterprises while receiving state support. After the first 12 months of starting a business, it acts as a cap on benefit income in months when an individual's self-employment income drops below the equivalent of a full-time worker on the National Living Wage (NLW). Self-employed people earning less than this amount receive the same UC award, no matter how much they earn. The MIF was originally expected to save the government over £1 billion per year.[42]

Figure 14 sets out how this plays out in LCR compared to the North West and the UK. Families with at least one self-employed worker account for 19 per cent of all working families entitled to UC in the Liverpool City Region, similar to the 21 per cent figure for the UK as a whole. While average losses are similar in size to average gains, and lower in LCR than across the UK as a whole, a greater proportion of such families lose out in LCR and across the North West. This will mainly be due to more self-employed workers in these areas earning below the MIF.

40 L Gardiner & F Rahman, A fraying net: The role of a state safety net in supporting young people develop and transition to an independent, healthy future, Resolution Foundation, October 2019

41 This means that some families will in practice be required to move from pensioner benefits (such as Pension Credit and pensioner Housing Benefit) onto UC, and then back onto these pensioner benefits in years to come when both adults are of pension age. This is another way in which UC's simplification objectives appear somewhat undermined in practice.

42 Office for Budget Responsibility, Economic and fiscal outlook – December 2014, December 2014

FIGURE 14: **The self-employed are more likely to lose from the switch to UC in LCR than across the UK**

Proportion of benefit-recipient families that gain and lose from the switch to UC and change in award, compared to the legacy benefits system, among families containing self-employed people: 2015-18

NOTES: Modelling is based on the population in 2015-18, but assuming that the UC system is fully in place. Modelling is on a take-up basis, accounting for higher benefit take-up in the UC system than in the legacy system. The population captured within this analysis includes families receiving either UC or legacy benefits (or both). Gains and losses less than £1 per week are excluded.
SOURCE: RF analysis of DWP, Family Resources Survey; ONS, Quarterly Labour Force Survey, using the IPPR tax-benefit model

Previous Resolution Foundation research has shown that while there is a logic to the MIF, it is particularly punitive because it operates on a monthly basis, and so takes no account of the fact that self-employed earnings are often volatile.[43] This means that a self-employed earner who earns the same amount as a full-time worker on the NLW over the course of a year, but receives the majority of these earnings in the summer months, for example, will receive less UC in total than the full-time worker with the same overall earnings. We return to how this challenge might be tackled in Section 5.

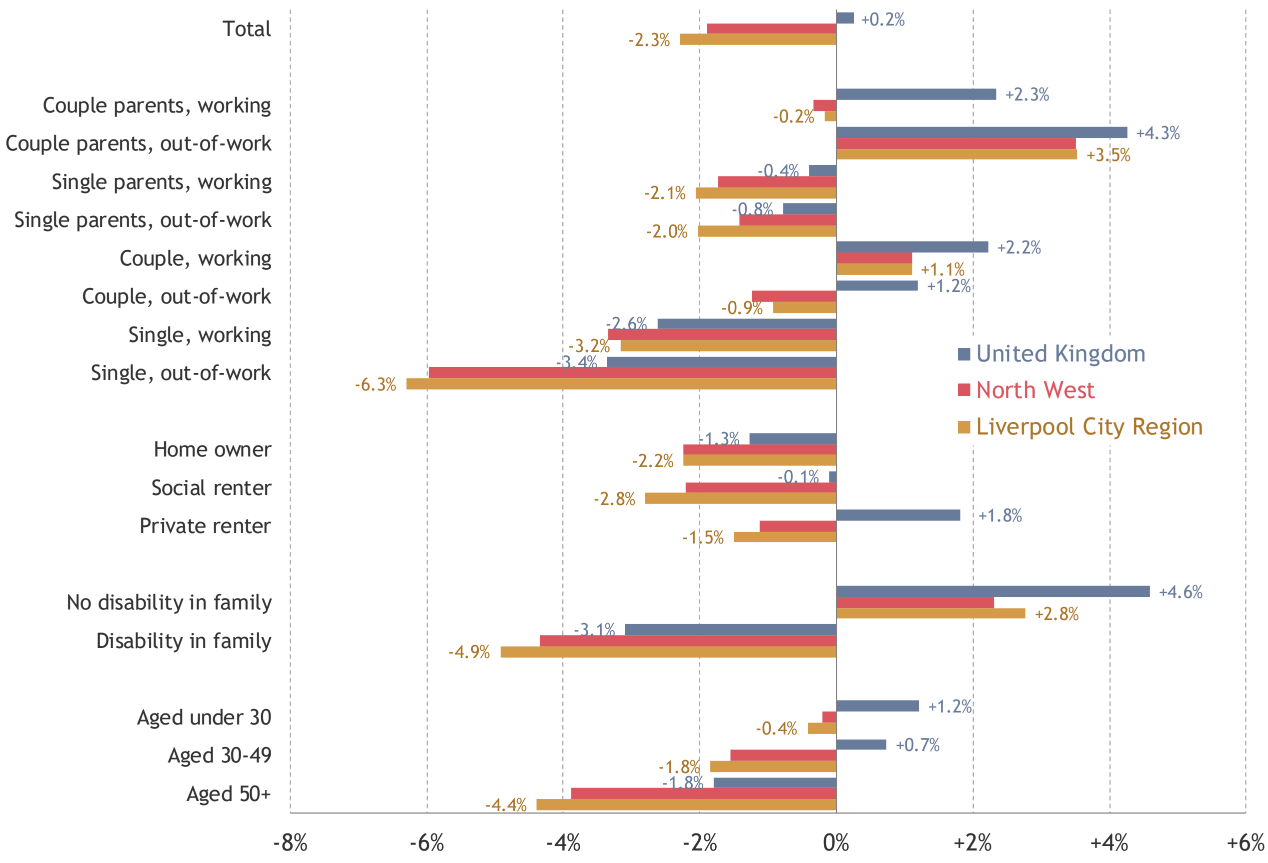
43 L Gardiner, Three steps to make it a happier new year for Universal Credit, Resolution Foundation, December 2018

UC offers slightly higher awards than the legacy system across the UK, but lower awards in LCR

Figure 15 brings together the findings set out so far in this section on the size of gains and losses and the number of families gaining and losing, presenting the change in average income resulting from the switch to UC. We find that on average UC boosts the incomes of recipient families by 0.2 per cent (£1 per week) across the UK, while reducing incomes by 2.3 per cent (£7 per week) in LCR.

FIGURE 15: **Overall the switch to UC boosts family incomes very slightly across the UK as a whole, while reducing them in LCR**

Change in income among benefit-recipient families from the switch to UC, compared to the legacy benefits system, by characteristic: 2015-18



NOTES: Modelling is based on the population in 2015-18, but assuming that the UC system is fully in place. Modelling is on a take-up basis, accounting for higher benefit take-up in the UC system than in the legacy system. The population captured within this analysis includes families receiving either UC or legacy benefits (or both).
SOURCE: RF analysis of DWP, Family Resources Survey; ONS, Quarterly Labour Force Survey, using the IPPR tax-benefit model

The average income changes within each group shown in Figure 15 largely mirror the profile of gains and losses shown in Figure 11 and Figure 12. But even when focusing on particular groups, it is important to recognise that these averages hide many people experiencing substantial gains and many experiencing substantial losses.[44] Granted, other research has shown that people experience smaller income changes in the long run than in this short-run picture, due to changes in circumstances such as moving in and out of work.[45] But, nonetheless, the key message from this analysis is that while maintaining the legacy system's overall level of benefit spending, UC entails substantial redistribution of welfare between different groups within the population and different parts of the country.

This less-than-positive take on UC's generosity in LCR was reflected in our qualitative interviews. This will likely be because, mirroring the picture of the UC caseload to date set out in Figure 4 in the previous section, interviews were mainly conducted with out-of-work single people and (both working and workless) single parents – groups we've shown are more likely to face reductions in award:

> *"I've gone to less money each month than what I was previously getting in two weeks...diabolical. There's more poverty, there's more child poverty out there, since Universal Credit's come in. I'm seeing families who've never struggled, struggle. And it's not fair. All the prices are increasing, and the money's dropping. And then we get called into school because our children are obese, but there's families out there who can't afford to eat healthily because it costs more."*

Single parent

Reflecting the wider welfare context set out in Section 1, discussions about benefit levels in our qualitative research reinforced the idea that for many people, welfare cuts happening in both UC and the legacy system fall under UC's banner. For example, cash freezes to working-age benefits and increasingly punitive (Local Housing Allowance) caps to the amount of housing support that can be claimed in the private rented sector were both mentioned as downsides to UC:

> *"It is quite similar to the amount that they used to pay me on tax credits, but everything is getting more expensive every year...rent, bills, and gas and electricity has gone so much higher."*

Single parent

44 P Johnson, Switching millions to universal credit poses real threat of 'poll tax' moment, The Times, October 2018
45 M Brewer et al., Universal credit and its impact on household incomes: the long and the short of it, Institute for Fiscal Studies, April 2019

> *"All they would help me out with was £475 of a £750 rent, so I became homeless."*

Single parent

More broadly, while many recipients were extremely negative about the amount of money they got on UC in comparison to the legacy system, others felt it was pretty similar. And one or two people who'd had little prior experience of claiming benefits were just pleasantly surprised there was a social security safety net there at all:

> *"Pretty much the same in my eyes, just more over the internet nowadays."*

Single male

> *"I'm just grateful that there's actually something there that is offered to us. I'm just grateful that there's any amount."*

Single female

Having provided a comprehensive picture of UC's recipients and generosity once fully rolled out, the following section turns to its effect on attitudes towards work and financial work incentives.

Section 4

Universal Credit and work

This section turns from UC's static impact on benefit caseloads and levels, to its potential to change employment behaviour via improved work incentives.

We find that UC does improve financial incentives to enter work for most groups, particularly for those working short hours, where the legacy system did not provide support. However, UC weakens incentives to enter work for second earners in couples. These incentive effects are very similar in LCR and the UK as a whole. Workless participants in our qualitative research in LCR generally had a strong sense that they would be better off working, although some thought high benefit withdrawal rates remained a barrier to working part-time.

UC's likely effect on how much work people do (compared to the incentives in the legacy system) is complex. On the one hand, it removes the very highest benefit withdrawal rates that are likely to disincentivise earnings progression. On the other hand, by supporting short-hours working it creates the risk that some recipients are incentivised to reduce their hours. There are good financial reasons why claimants might 'slide down' from the hours aligned with tax credits rules to UC 'sweet spots' – the point at which earnings first start being tapered away. In-work conditionality's ability to prevent this from happening seems far from assured.

Complex, too, is UC's role in cushioning the monthly earnings volatility that is a common feature of the UK jobs market. UC is more responsive to earnings changes than the legacy benefits system is, which can mean better income smoothing. But its time lags and monthly assessment period can actually amplify volatility in people's incomes, and the greater visibility of benefit changes compared to the legacy system might put people off working or earning more. Both sides of this argument were reflected in our qualitative research.

Recipients in LCR saw health problems and childcare responsibilities as their main barriers to work

The analysis in the previous section considered only the direct, 'static' effects of UC, with no estimation of its 'dynamic' effects via the behavioural change it might cause. These are important as UC's potential to deliver the originally-promised 300,000 employment increase via an integrated in- and out-of-work system and stronger financial work incentives was one of its original selling points.[46] As such, in this section we turn to the question of how UC interacts with employment and employment decisions.

Participants in our qualitative research were mainly out of work, although some were currently doing casual or self-employed work, had been in work very recently, or were about to start work. Nearly everyone had very clear work aspirations, but many thought that current barriers to working meant that getting a job wasn't a realistic prospect for them at that time, whatever JCP's view was. One barrier to entering work that was not mentioned was the availability of jobs. In fact, some commented that there was an abundance of jobs available, particularly compared to a few years ago. Instead, the main things preventing people working were health problems, a lack of qualifications and childcare responsibilities:

> *"I've made them very aware that I don't want to be on Universal Credit for the rest of my life, but right now there'd be no point putting me in a job [due to my mental health]...I do want to better myself...I can't live off a low income all my life. And it's also going to help my mind and help me be more sociable."*

Single female

> *"With my qualifications...I'm pretty much bottom of the pile. I've got loads of experience but not enough qualifications."*

Single male

> *"I can't do a normal job, you know I need to go to drop my kids off [at school] and then I have to go to college myself, and cooking and cleaning, that's a full time job itself. And then I have to go and pick them up because there is no-one else, and then when they come back give them food."*

Single parent

In the case of childcare, one or two were not keen on the idea of using formal childcare while in work, but most were. However, some participants who were or had been in work on UC thought that the way UC provides support for childcare costs represented

46 Department for Work and Pensions, Universal Credit impact assessment, December 2012

a barrier in itself. UC actually provides more support towards childcare costs than the legacy system, but requires working parents to pay their full costs up front and then claim 85 per cent back, monthly and in arrears. Such a system works particularly poorly for people with fluctuating childcare needs or who are required to pay for an entire term's childcare in advance. And it stands in stark contrast to the Tax-Free Childcare system for better-off parents, in which the government provides matched support up front:[47]

> *"They do things like, I tell them what I've spent on childcare, and they backfill. But the last time I did it I didn't get the receipts off the childcare provider in time, so I wasn't able to get the money back. And if I get the receipts now it will go through a big appeal thing...I think it's awful. You've got to find the money a month in advance."*

Single parent

UC improves incentives to enter work in all parts of the country – for some groups

UC set out to improve incentives for currently out-of-work people to take up a job. This was partly via the simplified system which provided continuity of support when moving into work and removed the need to make new benefit claims, and partly via improved financial incentives (particularly at low hours given the removal of the tax credit system's 'hours rules').

Early evidence published by the DWP suggested that the initial workless cohorts that moved onto UC did more job search activity than on JSA,[48] and were more likely to enter work early on in the period they were claiming.[49] This is perhaps evidence of the benefits of a simpler, integrated system. Participants in our qualitative research were mainly aware of this element of simplification and some saw it as a small improvement on the previous system, although no one thought that the hassle and waiting times involved in making a tax credits claim discouraged them from trying to find a job under the old system. By contrast, one or two participants had no idea UC also functioned as an in-work benefit:

> *"What they do when you find a job, they keep your account open for six months because you still might be entitled to some sort of benefit."*

Single parent

47 L Gardiner, Three steps to make it a happier new year for Universal Credit, Resolution Foundation, December 2018
48 Department for Work and Pensions, Universal Credit at work: spring 2015, February 2015
49 Department for Work and Pensions, Estimating the early labour market impacts of Universal Credit: Updated analysis, December 2015

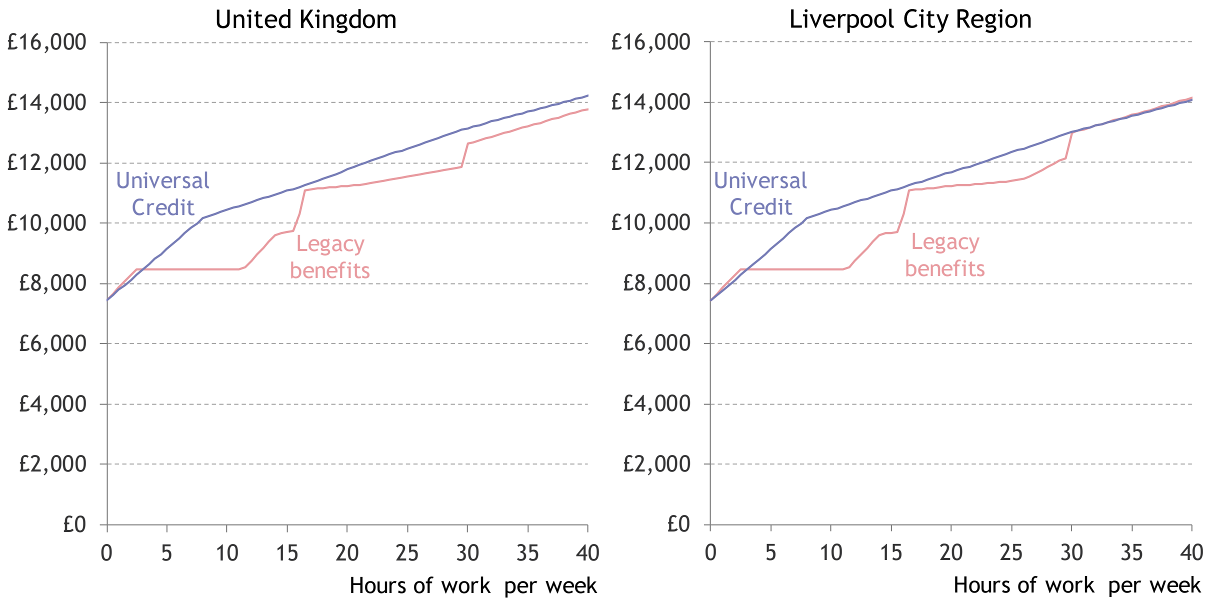
"I just thought it stopped."

Single female

In terms of financial incentives to work – we can use our in-house 'case study' model to get a sense of how the switch to UC affects example families. As in the analysis in the previous section, we compare a scenario in which the legacy system is fully in place to a contemporaneous scenario in which UC is fully in place.[50] Figure 16 makes clear that UC does indeed improve the incentive for a low-earning single parent to enter work compared to the legacy system, particularly at low hours. For example, such a single parent in LCR would be £2,700 per year better off working eight hours per week on the NLW than not working in the UC system, but only £1,000 better off in the tax credits system. Incentives to enter work at 16 hours are similar in the two systems in this scenario, but incentives to enter at between 16 and 30 are improved by UC.

FIGURE 16: **UC improves incentives for single parents to enter work at short hours**

Net annual income after housing costs for a single parent with one child in the social rented sector earning the National Living Wage, Universal Credit system compared to legacy system: 2019-20



NOTES: This analysis assumes that UC is fully rolled out, as are cuts to support for families across the UC and legacy systems (the removal of the family element and limiting support to two children). Rent is based on average rents for a two-bedroom social-rented property in each geography.
SOURCE: RF analysis using the RF microsimulation model

The boost to income from entering work at different numbers of hours differs slightly between the UK and LCR in the example shown in Figure 16 (due largely to different

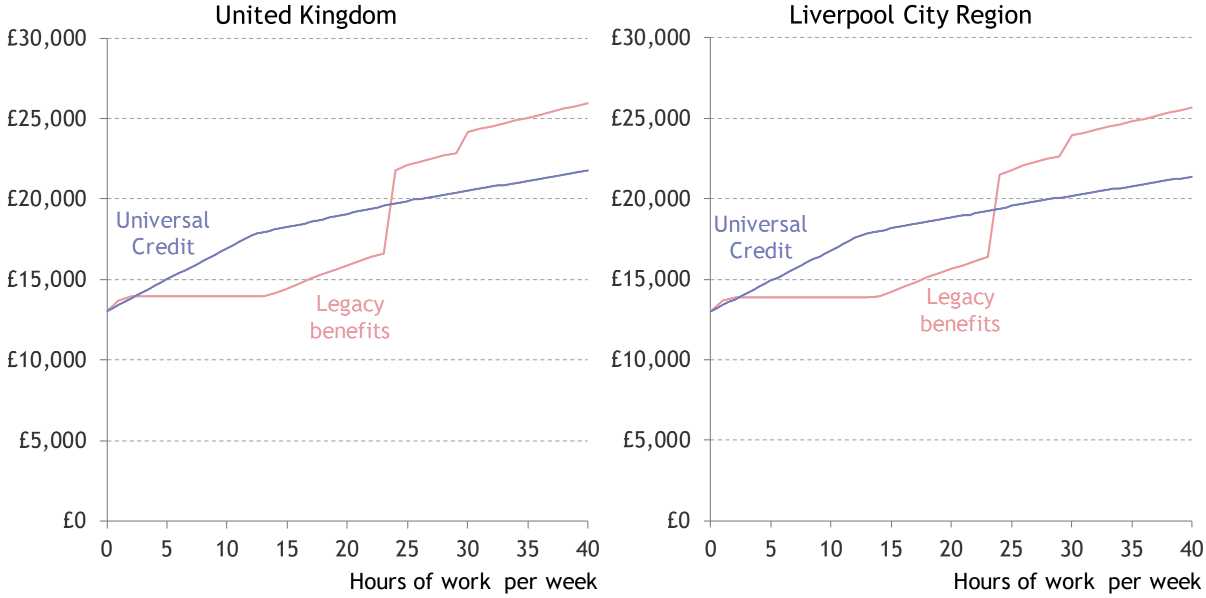
50 For more case studies and greater detail on the incentives described in this section, see: D Finch & L Gardiner, Back in credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018

rent levels), but the overall shape of the curves is very similar. Incentives to enter and progress in work under UC are similar across the country.

Figure 17 presents the same picture for an example single-earning, home-owning couple with two children. It shows that, compared to the legacy system, UC improves incentives to enter work below 24 hours per week (where tax-credit hours rules kick in for couples). But UC also reduces the incentive to work full time. This is particularly the case because, as we showed in the previous section, at a national level UC tends to be relatively less generous to home owners than the system it replaces.

FIGURE 17: **UC improves incentives for single-earning coupled parents to enter work at short hours**

Net annual income after housing costs for a home-owning, single-earning couple with two children earning at the 25th percentile, Universal Credit system compared to legacy system: 2019-20

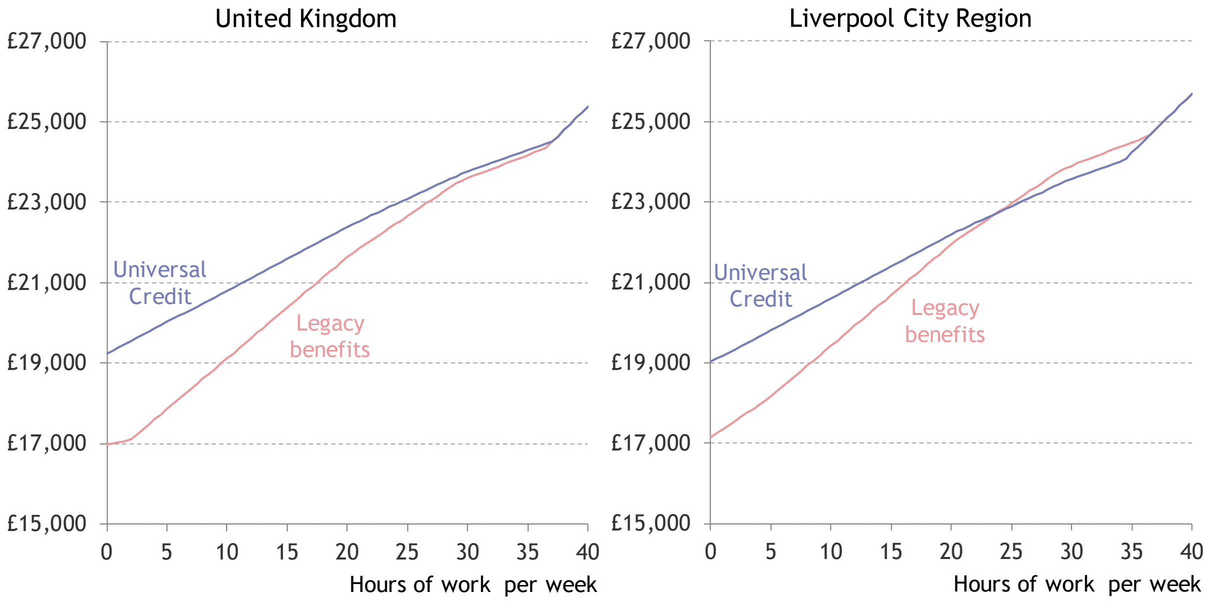


NOTES: This analysis assumes that UC is fully rolled out, as are cuts to support for families across the UC and legacy systems (the removal of the family element and limiting support to two children).
SOURCE: RF analysis using the RF microsimulation model

However, reflecting the trade-offs and choices we highlighted in Section 1, incentives to enter work are not improved across the board. A key group that faces weaker marginal incentives to start working under UC than under the legacy system is second earners, as Figure 18 shows. These incentives are weaker partly because UC is more generous towards the main earner than the legacy system (so income when the second earner doesn't work is higher). And partly because UC is withdrawn at the 63 per cent taper rate from the very first pound the second earner earns, compared to the 41 per cent taper rate under tax credits (the Housing Benefit award is mainly exhausted by the main earner's earnings, and in this example, with Council Tax Reduction still being withdrawn, the taper rate is initially still only 53 per cent). As a result, a second earner in this scenario has a family income 22 per cent higher working a 16 hour per week job on the NLW in the legacy system, but is only 13 per cent better off under UC. As discussed in Section 1, ensuring all adults in the household work is an increasingly important route to boosting living standards and avoiding in-work poverty, so these weaker incentives for second earners are a cause for concern.

FIGURE 18: **UC weakens the incentives to enter work for second earners in couples**

Net annual income after housing costs for a second earner in a couple with two children in the social rented sector earning the National Living Wage, Universal Credit system compared to legacy system: 2019-20



NOTES: This analysis assumes that UC is fully rolled out, as are cuts to support for families across the UC and legacy systems (the removal of the family element and limiting support to two children). Rent is based on average rents for a two-bedroom social-rented property in each geography. The main earner works full-time on the National Living Wage.
SOURCE: RF analysis using the RF microsimulation model

Participants in our qualitative research were mostly of the view that they would be (or had had experience of being) a lot better off in work, particularly on full-time hours. However, some saw benefit withdrawal rates as a disincentive to part-time work in particular, and quite a few participants thought that part-time work wasn't worth it:

> *"I was alright on Universal Credit while working because I was earning and still bringing in £800 of UC...working is the only time Universal Credit worked. My UC payments went down a little bit but not by much. I was definitely still better off from working."*

Single parent

> *"For every pound you earn they take 73 pence off that. So it's not even worth being in a part-time job on Universal Credit. They take the majority of your wage off you."*

Single parent

One person's experience of having his UC withdrawn 'pound for pound' on the basis of his pension income (which is treated as 'unearned' income in UC and so not subject to the taper) had given him the impression that any earnings would be similarly harshly treated:

> *"The impression I get is, for every pound you earn you get a pound deducted. Because I get a £22 pension every month that just reduces my UC by the same amount. If I worked just a few hours a week I wouldn't expect to be better off."*

Single male

More broadly, few participants had a clear idea of how their net income would change at different levels of earnings, and although many were interested in finding out, no one had experienced a 'better off in work' calculation:

> *"I'd have to look into the details of it, and nobody seems to be able to give me an idea of what the situation would actually be."*

Single male

Of course, financial reckonings of how much better off people would be in work are never the full picture, with additional costs incurred when working and the precise nature and security of the jobs on offer having a big bearing on how work actually affects families' living standards and wellbeing. But the general view that more information about how incomes change when entering work would be helpful reflects the findings of past qualitative research with UC claimants, which suggested that increasing awareness and understanding of UC's components and income smoothing function might promote more labour market engagement.[51]

UC improves progression incentives for some, but also creates the risk that people reduce their working hours

How does UC affect the amount of work people chose to do when working? There are two key aspects to its effects on working hours and progression. First, as was its intention, UC does indeed remove the very highest disincentives to earning more. For example, taking the single parent case study shown in Figure 16 above, we can see that the UC income curve in both areas is noticeably steeper between around 16 and 30 hours

51 N Rahim et al., Understanding how Universal Credit influences employment behaviour: findings from qualitative and experimental research with claimants, Department for Work and Pensions, September 2017

of work than the curve for legacy benefits. This reflects the fact that within this earnings and hours range, between 84 per cent and 93 per cent of legacy benefits are being withdrawn for each additional pound earned (due to the interaction between the tax credits and Housing Benefit taper, and National Insurance Contributions). This is known as the 'marginal deduction rate' (MDR). By contrast, UC's MDR is 63 per cent (or a bit higher due to the interaction with Council Tax reduction schemes) within this range.

However, as mentioned above, by prioritising the first earner within each family, UC has no such effect on progression incentives for second earners. Below around 30 hours of work, our example second earner in Figure 18 faces MDRs of 63 per cent or higher under UC from their first hour of work, compared to rates of 41-53 per cent in the legacy system.

The second key aspect of UC's potential effect on the amount of work people do pushes in the opposite direction to lower MDRs (for some groups, at some earnings levels). While UC has removed the highest deduction rates, by better-rewarding short-hours work it has also increased the risk that some people reduce their working hours, particularly single parents who (alongside second earners) tend to be most responsive to financial work incentives.[52] This risk relates to the 'kink' in the UC curve in Figure 16 around eight hours – the point at which the work allowance is exhausted and benefits start being tapered away. If this single parent were working 16 hours per week (which is common among this group due to hours rules in the tax credits system),[53] after moving onto UC they could halve their working week to eight hours and only be £1,000 worse off each year. Because UC has moved the 'sweet spot' (the earnings and hours at which financial incentives are optimised, where lines go from steeper to flatter in the above charts) away from tax credit's hours rules down to the value of work allowances, it creates the risks that single parents and primary earners in couples (a similar sweet spot around 13 hours is visible in Figure 17) are incentivised to work less.

Progression incentives, or the possibility of reducing working hours, were not mentioned in our qualitative interviews, mainly because the majority of participants were out of work. However, one self-employed participant did raise the fact that the 'minimum income floor' that would apply after his first 12 months of starting a business was acting as an incentive for him to progress and grow his business:

> *"They said that's absolutely fine, until that point your rent payment won't go down, and that's where I want to get to because I want to grow my business."*

Single male

52 D Finch, Making the most of UC: Final report of the Resolution Foundation review of Universal Credit, Resolution Foundation, June 2015
53 D Finch & L Gardiner, Back in credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018

On top of new financial incentive structures, UC also extends forms of conditionality (work-search requirements) that were previously in place for some out-of-work groups (the unemployed, long-term sick or disabled judged fit for work and single parents once children had reached a certain age) to families in which individuals are in work. To date, such conditionality has been introduced slowly and largely limited to the extent it was in place in the legacy system: those with no barriers to work (such as caring responsibilities) are expected to seek work for 35 hours per week, but there is no financial sanction for those working part time.

Longer term, the intention is to apply conditionality to UC recipients earning less than the equivalent of 35 hours a week at the minimum wage. For a parent or person with health problems, those hours are reduced to fit with the work that they can reasonably do. For instance, the parent of a primary school child might be expected to work up to 25 hours a week, fitting around the school day.

In-work conditionality could have important interactions with the financial incentives created by UC. For instance, in theory at least, imposing a financial sanction that reduces a UC award below a certain earnings threshold would create a strong incentive to boost earnings to above that target – thereby effectively replacing the current hours rules in the tax credits system. This could then provide a means of ensuring that people do not respond to the new financial incentive structure by reducing their hours or earnings.

However, despite an early pilot, the approach is untried and untested – particularly among more complex cases like parents of young children. And while much has been made of the approach of tailoring conditionality to need, doing so will rely on the discretion of advisers, and maintaining consistency is likely to mean falling back on blunter rule-of-thumb decision making.

There are significant potential advantages to a more active and engaged approach with low earners in order to help them progress. But success will mean finding the right blend of practical support and financial incentives that enable progression – not blunt tools to force people into full-time, low-paid work.

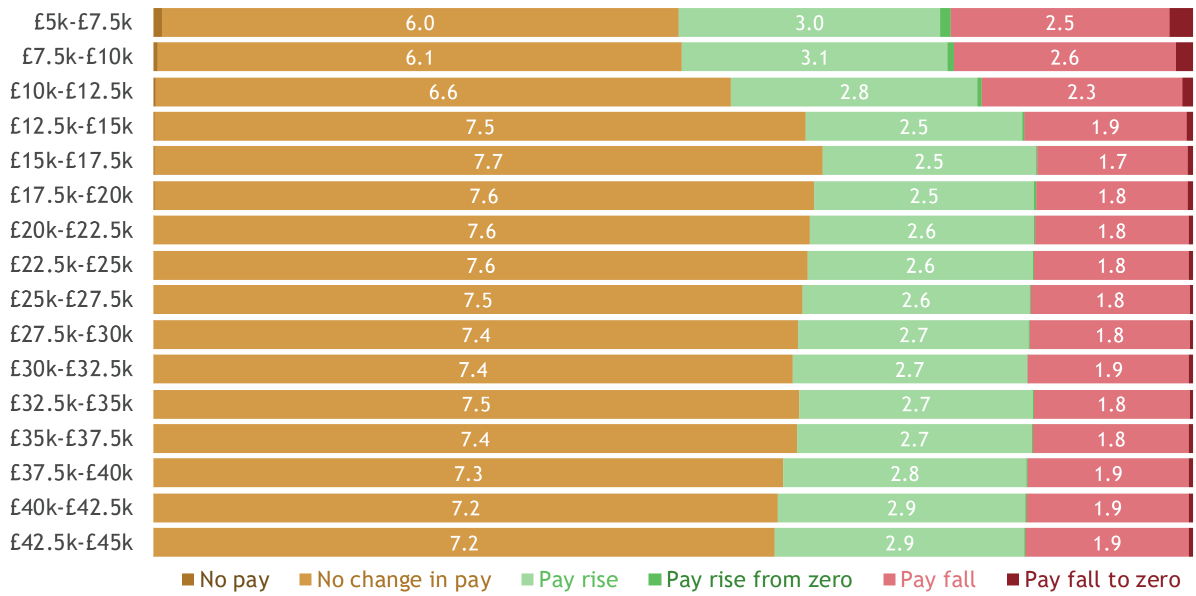
UC's role in helping people manage earnings volatility was seen as mixed in LCR

One of UC's advantages is that, via the use of 'real-time' information and monthly assessments, it is designed to be more responsive to short-term changes in earnings than the tax credits system it replaces (which reconciled awards to earnings levels on a retrospective, annual basis). With rising use of 'atypical' employment forms including zero-hours contracts and agency work over the past decade,[54] such responsiveness is likely to be particularly important in today's labour market.

Previous Resolution Foundation research, which made use of anonymised bank account data, demonstrated the scale of month-to-month earnings volatility among UK workers. This was particularly true for those changing jobs or in 'sporadic' employment. But even those appearing to remain in the same job had pay changes of at least 5 per cent in an average of almost five months of the year.[55] As Figure 19 shows, the incidence of pay changes is even higher among those on the lowest earnings.

FIGURE 19: **The frequency of different monthly pay changes varies across the earnings distribution**

Average number of months with different monthly pay change patterns for employees remaining in work with the same employer, by annual take-home pay: UK, 2016-17



NOTES: Changes are defined as taking place whenever the arc percentage change in pay from one month to the next has an absolute value greater than 5 per cent.
SOURCE: Lloyds Banking Group

So UC might appear well-placed to respond to these high levels of volatility. However, our previous research raised some possible challenges in relation to the benefit's role in cushioning household incomes against volatility. First, for the four-in-ten workers in our previous analysis who were paid more frequently than monthly, UC's monthly assessment period introduces or increases volatility in overall income. For example, someone paid exactly the same amount once each fortnight will have two months each year in which

54 L Gardiner, General election 2019: The jobs eight out of 10 Britons do, BBC, November 2019
55 D Tomlinson, Irregular Payments: Assessing the breadth and depth of month to month earnings volatility, Resolution Foundation, October 2018

they receive three pay packets, which will drive their UC award down in the following month, despite no actual volatility in their earnings over time.[56]

Second, even when paid monthly, time lags between pay dates and UC receipt act to increase volatility in personal income for workers with fluctuating earnings. In the rather extreme – but illustrative - example of a worker whose earnings yo-yo between a higher and lower level from each month to the next, and whose pay check comes in towards the start of their UC assessment period each month, the smallest pay checks are close to contemporaneous with smaller UC awards (because the UC award is based on the higher earnings received in the previous assessment period).

The third challenge for UC relating to pay volatility relates to the 'visibility' its responsive, monthly system creates. UC's still-relatively-high 63 per cent taper is good for cushioning the impact of pay falls, but coupled with the monthly assessment period, could put people off taking short-term and casual work. This is because UC awards will instantly fall just after claimants make an effort to boost their pay. In comparison, in the tax credit system any associated fall in award didn't take place until the end of the tax year (and might not happen at all if the total pay change over the year was lower than the 'earnings disregard'). UC's design clearly has benefits, not least the simplicity of a steady taper rate, and its ability to cushion pay falls. But it's not at all clear that the system's design is well suited to encouraging individuals to take up additional hours of work in the short-term, something which it would be undoubtedly good to encourage.

These trade-offs in UC's responsive system were reflected in our qualitative research. One participant praised UC's responsiveness in comparison to the legacy benefit system in helping her manage periods of low earnings:

> *"I've always had my money topped up by Universal Credit, even if it was just, like, £60. It's good in that sense. If you have a bad month or you have no work for the month then they'll give you help to pay your rent and stuff like that. If you're in an agency – where your money can vary from week to week – or you're off sick, then it's good. Because they get notification of your wages before you even get them and they'll give you money accordingly."*

Single parent

However, a handful of participants were put off casual or part-time work by the threat of UC being immediately withdrawn as a result, or because they were fearful of how and when their UC award might vary. For one participant, experience of doing a single day's

56 HM Revenue and Customs are reportedly issuing guidance to employers advising them on how to avoid creating undue volatility in UC income due to things like early Christmas pay checks.

work while on UC had put him off ever doing this kind of work again, and shifted his focus towards only finding full-time employment:

> *"Basically they take money off your UC claim, so I think I earned about £80 for one full day's work…and the people at the event said 'don't worry it won't affect your benefits or anything like that'. But obviously everything goes through the tax office, so I got a message saying my [UC] money would be cut this month because I took an event job. And I got the UC money at a different time to the money from the job, so it just hurts you when you don't need it. It really just prevents you from doing any kind of event work or day work, because it just cuts your benefits by a similar amount. So either you work loads or you don't work at all. I wish it just stayed the same under a certain amount…I was pretty much worse off, because I had all my bills planned out."*

Single male

Having drawn together lessons on UC's progress to date, the claimant experience so far, UC's long-run impact on incomes compared to legacy benefits and the interaction between UC and work over the previous three sections, the final section turns to brief conclusions and policy directions.

Section 5

Conclusion and policy directions

With UC already established across the UK, and in particular in LCR, and the caseload growing rapidly, it is now – inextricably – at the core of our working-age social security system. However, at this crucial point in its roll-out, there is both the opportunity and the need to make significant changes to ensure: that it fits with recipients' lives and the realities of our 21st century labour market; boosts benefit awards (particularly given the scale of losses from the switch to UC expected in LCR); and creates strong incentives to work and earn more. In this final section, we briefly touch on changes that national government could make to achieve these aims, and actions that local government and partner organisations in LCR might consider to ensure that UC has as positive an impact as possible on residents.

A range of policy changes at the national level could give UC the best chance of success

Reflecting on the findings in this report, now is an opportune time to ensure that UC is well-prepared for the next, crucial phase in its roll-out. Building on our own past research and similar recommendations made by other organisations,[57] we suggest:

- **More protection for people moving onto UC.** This means ensuring that the 'managed migration' (now known as 'Move to UC') of legacy benefit claimants only goes ahead when the DWP has increased the proportion of new claims paid on time and in full and that the Department (rather than the individual) bears the financial risk of further teething problems related to this migration.[58] This means: finding ways to reduce the five-week wait for the first UC payment, for example by moving to a faster payments system; exploring the potential to run-on tax credits for those moving onto UC via managed migration; offering the option of backdating assessment periods to the day after the most recent pay check for new UC

57 For example, see: Citizens Advice, Universal Credit and Modern Employment, April 2018; L Bush, M Templer & K Allen, How can Universal Credit help parents move out of poverty?, Joseph Rowntree Foundation, February 2019
58 For more details, see: D Finch, The benefits of moving: Managing the transition of existing claimants to Universal Credit, Resolution Foundation, September 2018

claimants;[59] and testing an initial payment a fortnight into the claim for groups likely to face the biggest challenges in managing the move onto UC.

- **A better fit with the lives of those claiming the benefit.** Two groups of recipients stand out within our analysis: the self-employed and those with childcare costs. For the former, we suggest reducing the punitive effects of the minimum income floor by moving both the assessment period and reporting requirements for the self-employed to a less frequent basis than monthly. For the latter, we suggest building on the recent availability of the Flexible Support Fund to meet up-front childcare costs for some by taking further steps to make childcare support within UC less inflexible and burdensome, ideally with costs covered up-front as standard (as in the Tax-Free Childcare system), rather than funds being repaid in arrears. In addition, reflecting UC's potential to amplify rather than smooth volatile earnings, DWP should grant individuals already in work the flexibility to move their assessment period in order that it better reflects the dates on which they are paid. And the Department should explore other ways of cushioning income volatility within UC's structure, including via more frequent payments. Finally, the Department should provide a facility via which third parties can pay off debts on behalf of recipients.

- **Improved generosity and stronger work incentives for single parents and second earners.** Single parents lose out from the switch to UC (particularly in LCR), and it creates the risk that they will reduce working hours, as well as providing weaker work incentives for second earners. These groups (mainly women) have been shown to be the most responsive to work incentives. To address these challenges, the government should boost the work allowance for single parents to the equivalent of at least 15 hours on the wage floor, and introduce a second-earner work allowance for couples with children, initially equivalent to seven hours on the wage floor. These policies combined come at a cost of a little over £2 billion, but would make the system more female friendly and would immediately boost incomes for 1.6 million UC recipients across the country.[60]

More broadly than these specific suggestions, with the reputation of UC under significant threat, now is the time for the government and the DWP to really understand how it is working on the ground in order to make necessary changes. The National Audit Office has suggested that the DWP is not approaching things in this way at present, "often dismiss[ing] evidence of claimants' difficulties and hardship instead of working with [outside organisations] to establish an evidence base for what is actually happening. The result has been a dialogue of claim and counter-claim and gives the unhelpful impression

59 For more options relating to the five-week wait, see: I Porter, We need to end the five-week wait for Universal Credit – here's how, Joseph Rowntree Foundation, September 2019
60 L Gardiner, Three steps to make it a happier new year for Universal Credit, Resolution Foundation, December 2018

of a Department that is unsympathetic to claimants."[61] This kind of approach needs to change, and in-depth evidence on how UC is operating for specific groups and in specific parts of the country – such as that provided in this report – can help.

Finally, although not specific to UC, reversing the impact of a decade of working-age benefit cuts will be essential for preventing child poverty from rising further in coming years, as previous Resolution Foundation research has argued.[62]

Local government and other partners in the Liverpool City Region can help support families with the transition to UC, and maximise the benefit's potential

Beyond the actions of national government, local government and other organisations in different parts of the country have a role to play in supporting UC's roll-out. We suggest that the Liverpool City Region Combined Authority and its partners explore ways to:

- **Pro-actively support claimants to navigate the managed migration ('Move to UC') from late 2020 onwards, and support all claimants with the ongoing management of their claim.** In this context, it is important to note that funding for assisting UC claimants is no longer provided to local authorities, and 'Help to Claim' funding provided to Citizens Advice is only designed to support people up until they receive their first payment. Many are likely to need ongoing support to manage their claim and finances. Learning from the DWP's 'Move to UC' pilot in Harrogate, in particular in terms of the collaboration with partner organisations, will be particularly important in terms of getting the approach right in LCR.
- Work with and alongside Jobcentre Plus to **maximise UC's potential to support working.** This might include improving understanding of the fact that UC continues seamlessly when claimants move into work, and continues to provide financial support so they are financially better off in work. One avenue to explore is increased provision of 'better off in work' information and calculations. In addition, LCR and partner organisations could explore ways to ease the transition to work by reducing up-front childcare costs (if the government doesn't change its approach), for example by exploring whether credit unions could underwrite these costs for families. Finally, LCR could target local adult education budgets and community-based learning specifically at supporting employment progression for people on UC.
- **Maximise take-up of UC** among groups that are expected to be less likely to get the support to which they are entitled in LCR.

61 National Audit Office, Rolling out Universal Credit, June 2018
62 L Gardiner, The shifting shape of social security: Charting the changing size and shape of the British welfare system, Resolution Foundation, November 2019

UC has been a decade in the making already, but still has a long way to go. For the 205,000 families in Liverpool City Region (and more than 6 million families across the country) expected to receive UC once fully rolled out, the start of the new parliament is the right time to take action to improve it. This means taking steps to ensure that UC achieves its original objectives, and that it provides a realistic fit with the lives of the ever-increasing number of low-income families across the country that rely on it.

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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