

Tracking Welfare Reform:

Universal Credit and Local Support Services
an extended London Councils briefing



Summary

With Universal Credit, the most significant change to the welfare system in 70 years, due to take effect by 2017, this extended briefing highlights some outstanding questions relating to its implementation in London. London has significant pressures compared to the rest of the UK, particularly on housing and childcare, but the new system fails to recognise these and so could disincentivise work for those the scheme is trying to help. In addition, many of the proposed changes, such as paying housing benefits to tenants, have cost implications for London boroughs. This report shows how the Local Support Services Framework could be integrated with employment and skills programmes to develop a single 'wrap-around' system of local welfare that is tailored to the individual and delivers sustained positive outcomes.

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1. Introduction

Universal Credit offers an opportunity to radically alter the way in which welfare-to-work schemes have previously operated, particularly for those facing multiple barriers to employment. This briefing illustrates how devolution of responsibility over commissioning employment programmes, embedded alongside a properly funded and constituted Local Support Services Framework (LSSF), could allow locally determined welfare-to-work programmes to develop that are tailored to need and maximise the benefits of local knowledge and partnerships.

Universal Credit (UC) is the most significant planned change to the UK's social security system since the Beveridge report, bringing together six working-age benefits and tax credits into a single payment, available in and out of work, aimed at providing clear incentives for claimants to move into work or increase their hours of work.

A series of 'cultural changes' will accompany the implementation of Universal Credit that aim to fundamentally alter the relationship between the state and recipients of social security. In most cases, Universal Credit recipients will be expected to:

- sign-up to a formal commitment drawn up in relation to their capacity to look for and move into work
- receive payments monthly and pay rent directly to their landlord
- make and maintain their claim online.

London Councils supports the principles of simplifying the system of welfare and making work pay, but argues that London's higher costs of housing, transport and childcare have the potential to negatively affect the work incentives inherent in Universal Credit design.

The LSSF, designed by government to ease the transition to Universal Credit and offer long-term support to recipients, is an opportunity to radically rethink how welfare-to-work programmes operate in a way that takes account of the requirements of London's local labour markets and makes the best use of local knowledge.

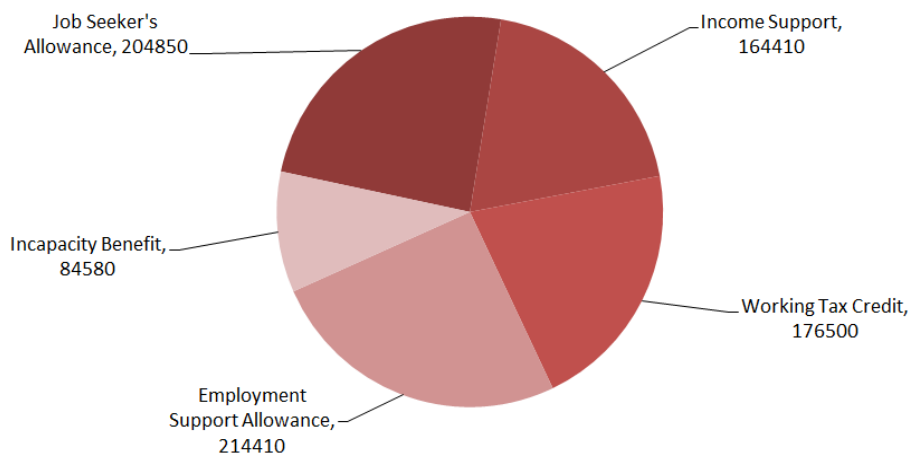
This extended briefing highlights some outstanding questions relating to Universal Credit and makes initial suggestions about how the Local Support Services Framework might be integrated with employment and skills programmes to develop a single 'wrap-around' system of local welfare that is tailored to the individual and delivers sustained positive outcomes.

"London Councils supports simplifying the welfare system, but believes London's higher housing, transport and childcare costs could affect work incentives"

2. Moving to Universal Credit

Universal Credit will replace six¹ major 'legacy benefits' and tax credits currently administered by three separate arms of the state: Department for Work and Pensions (DWP), Her Majesty's Revenue and Customs (HMRC) and local authorities. DWP estimates for the roll-out of Universal Credit suggest that the legacy benefits will cease to take new claims during 2016 with the majority of existing claimants migrated to Universal Credit by 2017.

Figure 1: Benefit (May 13) and Tax Credit (Dec 2013) receipt in London



Although no regional estimates exist for the likely caseloads of Universal Credit, London's current benefit and tax credit caseloads suggest that around 850,000 Londoners are likely to qualify for Universal Credit. Of this, only 21 per cent are currently in receipt of Working Tax Credit and therefore likely to be judged as 'working enough' under Universal Credit.

A further 79,000 are in receipt of the support element of Employment Support Allowance (ESA) and can be expected to be judged as 'too sick to work' under Universal Credit. A further 79,370 individuals are currently either in receipt of the basic rate of ESA while they wait for their claim to be assessed and to be allocated an ESA group, or they are still in receipt of Incapacity Benefit awaiting a work capability assessment before transferring to ESA.

Around 200,000 Job Seeker's Allowance recipients are likely to be judged as 'not working' or 'not working enough', as may a proportion of the 164,000 Income Support claimants.

1. Income-based Job Seeker's Allowance, Income-based Employment and Support Allowance, Income Support, Working Tax Credit, Child Tax Credit and Housing Benefit.

3. Making Work Pay in London

“All household types in London will have lower gains from Universal Credit when moving into work than elsewhere in the country”

Research² carried out by the Centre for Economic and Social Inclusion on behalf of London Councils found that when Universal Credit is introduced, all household types in London will have lower gains from working compared to elsewhere in the country when moving into low-paid work. Furthermore, it found that London families with two or more children are considerably worse off under Universal Credit compared to the rest of the country.

Londoners face much higher costs of living than people elsewhere in the UK, yet there is almost no recognition of additional cost pressures recognised within the benefits and tax credits system. One of the only recognitions of London's higher costs is the limited proportionality with which the system of housing benefit in the private sector is calculated in relation to local rents. Caps introduced in 2011 limit the extent to which these measures can operate.

Londoners are less well off when moving into work than out-of-work individuals elsewhere in the country³ because of a range of factors, including:

- higher childcare costs - the Daycare Trust found that London is the most expensive region for childcare with nursery care for under-fives 25 per cent more expensive than the average across Britain⁴
- higher housing costs - the Valuation Office Agency says the average monthly rent in London is £1,300 per month, more than double the average for England (£595)⁵
- caps in the benefit system disadvantage London
- low rates of pay in London.

Despite the strength of its economy and the generation of more than 326,000 jobs in the last five years, London faces a significant and large scale employment and skills challenge.

London's employment rate has remained consistently below the national average for the last 20 years. While London's labour market has been resilient during the recession, it has seen persistent and growing levels of very long term unemployment – more than a sixfold increase in since 2009, outstripping levels in other regions.

A significant cohort of Londoners has multiple barriers to getting a job, as many residents:

- speak English as an additional language – the proportion of people who report not being able to speak English well, or at all, is 4.1 per cent compared to a national average of 1.3 per cent⁶
- suffer with mental ill health – London is estimated to have higher rates of mental illness than the rest of the UK⁷
- have a physical disability, affecting approximately 1.4 million people in the capital⁸
- live in a 'troubled family' - London has 18 per cent of the national total of troubled families.⁹

Many Londoners lack the relevant skills to compete effectively now or to meet future skill requirements. More than 600,000 adults in London have no qualifications at all. London's economy demands skills at a higher level than the UK average, with 55 per cent of jobs in London requiring Level 4 qualifications or above, compared to less than 40 per cent across the UK. This demand for higher-level skills is forecast to continue to rise in London.

2. Making Work Pay in London under Universal Credit; CESI and London Councils 2011

3. Making Work Pay in London under Universal Credit, CESI and London Councils

4. Childcare Costs Survey 2013, Day Care Trust

5. Valuation Office Agency, Private Rental Market Statistics

6. Office for National Statistics, 'Language in England and Wales', 2011

7. Public Health England. (Various). [Online]: apho.org.uk/resource/view.aspx?RID=39296

8. Ibid.

9. Department for Work and Pensions ESF 2011-2013

Available jobs will also increase among low-skill occupations but competition for many of these jobs in the capital is high, owing to London's position as a global city meaning that strong 'employability' skills – or attributes – are needed. Many Londoners are trapped in low-paid work: a third of new benefit claims are repeat claims, indicating a significant number of people 'cycling' in and out of work, or in-work but likely to be on 'in-work' benefits.

Given the key aim of Universal Credit is to incentivise those not working or judged as not working enough to move into some or more hours of work, it is perhaps surprising that government has not commissioned a proper assessment of the ways in which costs of moving into work affect incentives in different regions. For example, a flat rate childcare element of Universal Credit will mean a London household would be able to access a lower number of hours of childcare than someone anywhere else in the country and so will be able, or incentivised, to take on a lower number of hours of work than they might be able to otherwise.

London Councils' analysis¹⁰ has shown that London local authorities are delivering better sustained job outcomes compared with nationally commissioned schemes such as the Work Programme. Since the start of the programme (June 2011) to the most recent figures (September 2013), the Work Programme in Haringey has achieved 16.8 per cent sustained job outcomes. In comparison, a local scheme (the North London Pledge) that ran from February 2010 – July 2011 achieved 32.4 per cent sustained job outcomes in the borough.

Clear arguments for devolving more power and more responsibility for commissioning employment support to London boroughs were set out in London Councils' report 'Getting London Working' in 2013. The introduction of Universal Credit offers a double opportunity to begin to think about how the 'front-end' of the welfare system, namely the Local Support Services Framework, can be embedded and integrated within a wider welfare-to-work system commissioned locally. Such a localist approach could lead to the development of a single journey for Universal Credit claimants from orientation onto Universal Credit through to sustained job outcomes.



10. [Getting London Working](#), London Councils 2013

3. Supporting Cultural Change

As well as representing a substantial reconfiguration of welfare administration, Universal Credit is accompanied by a number of 'cultural changes' that will fundamentally alter the way in which people interact with the social security system. The government has recognised that a proportion of Universal Credit recipients will require particular assistance in order to make and maintain a claim for Universal Credit, manage these cultural changes and to move into some or more work.

DWP has set out initial plans for a Local Support Services Framework to operate at a local level. This will bring together local and central government agencies with the voluntary and community sector and other local organisation to develop services that will assist the process of claiming Universal Credit, build the capacity and skills of claimants and help them move into some or more work.

The LSSF potentially offers a unique opportunity to reframe the context of the welfare-to-work process, maximising the utility of local knowledge and partnerships to deliver a comprehensive wrap-around service that allows tailoring to the needs of the claimant optimising the chance of sustained work outcomes and reduce welfare spending.

Local councils are well-placed to coordinate the kinds of support services envisaged in the initial framework documentation, possessing as they do existing links with communities, with the voluntary and community sectors and with housing providers. London Councils believes that local authorities should be tasked with the responsibility of leading these local frameworks, in sub-regional partnerships where appropriate. To this end, DWP should act to make clear a central role for local authorities in the delivery of the LSSF for the long term and to devolve budgetary responsibility and accountability to local authorities.

Furthermore, London Councils has argued that skills and employment support cannot and should not be separated from the LSSF. The LSSF should be a triage - that is, Universal Credit capacity, skills and employment continuum - with a single claimant process from first contact with Universal Credit to a sustained job outcome. As it stands, although Job Centre Plus is envisaged to be involved with the LSSF, the LSSF partnerships would not have influence over central government employment programmes and there would be no guarantee of engagement with providers of employment services, e.g. the Work Programme.

"The Local Support Services Framework offers a unique opportunity to reframe the welfare-to-work process"

Case study: Lewisham Universal Credit Pilot

LB Lewisham has worked with DWP to develop an evidence-based definition of vulnerability aiming to smooth the process of transition and access to Universal Credit. The pilot triages claimants assessing their needs against financial, digital, housing and employment-related requirements and directing to local support. The transition process aims at improving the ability of claimants to:

- budget and maintain monthly payments
- sustain tenancies in the social and private sector
- transact with government services online
- access employment and work-focussed training.

Households with requirements are supported by local partners including Lewisham Credit Union, voluntary and community groups who specialise in digital training or employment advice. A welfare calculator has been developed to demonstrate the benefits of returning to work.

Universal Credit claimants will be required to agree to and sign a claimant commitment in order to be eligible to receive a Universal Credit payment.

The details of the commitment are intended to vary based on the particular situation of the claimant (for example, too sick to work yet, not working enough etc). Although the implementation of the main elements of Universal Credit is slower than anticipated, the claimant commitment is already being rolled-out for Job Seekers across the country. The commitment is backed by a more stringent scheme of benefit sanctions of between one month and three years in duration. Examples of actions which could potentially lead to a sanction include failing to attend a job interview, failing to take up offers of paid work and failing to report a change of circumstance. Universal Credit recipients will fall into four categories, their commitment tailored accordingly:

- No Work Related Requirements. This group is for claimants who cannot work or prepare for work or if they are already earning above their conditionality threshold.
- Work Focused Interviews Only. This group is for claimants expected to stay in touch with the labour market and begin thinking about a move into work, more work, or better paid work.
- Work Preparation. This group is for claimants not expected to look for work but expected to prepare for a move into work, for example, participating in the Work Programme.
- All Work Related Requirements. This group is for claimants expected to move into work, or increase their earnings.¹¹

DWP is empowered by legislation to pay a hardship payment to someone under sanction if they have met all of their claimant commitment requirements for the previous seven days, meaning that sanctioned claimants must wait a week before accessing hardship funds. London local authorities have found that a substantial level of demand for recently implemented local welfare provision schemes has come from clients who have been sanctioned on DWP administered benefits by Job Centre Plus. It is likely that, as the claimant commitment rolls out, demand will grow as people get used to the new system.

It is concerning therefore that DWP has announced that from 2015/16, likely to be a significant year for Universal Credit roll out, the grant for local welfare provision will be abolished. London Councils has called on DWP to carry out a full assessment of locally administered schemes and likely future requirements for emergency welfare provision before taking any final decisions on future funding. A facility for making emergency support payments would be a useful addition to the Local Support Services Framework in order to ease the transition to the monthly direct payment element of Universal Credit.

Case study: LB Southwark and Family Mosaic - Direct Payment Pilot

DWP is running a number of pilots of direct payment to tenants across the country, one of which is in London. The partnership between LB Southwark and Family Mosaic Housing Association has thus far found that:

- 14 per cent of tenants originally identified for the pilot were later deemed too vulnerable to take part while 11 per cent refused or were unable to engage with the pilot
- 60 per cent of tenants identified were successfully moved onto direct payments
- 22 per cent of those that have received direct payments have switched back to payment to landlord due to non-payment of rent
- rent arrears are higher under direct payment than when payment goes direct to the landlord; 7 per cent higher for LB Southwark and 1.6 per cent higher for Family Mosaic
- there are additional administration costs for the LA and significant investment will be required to upgrade IT systems and re-skill staff to support direct payment.

"A collection rate of 91 per cent would cost London's boroughs £300 million yearly"

Most recipients will receive their whole Universal Credit payment in full monthly, direct to their bank account. This represents a reversal of the long-standing practice of paying housing benefit to landlords. Currently 222,000 London households receive payment of housing benefit direct whereas in 625,000 households payment goes to the landlord.

Across the six Great Britain-wide direct payment pilots, the average rent collection rate was 94 per cent but ranged from 91 per cent to 97 per cent. A London Councils calculation estimates that a 94 per cent rent collection rate would equal a financial loss to London local authorities and housing associations of around £200 million pa compared with 100 per cent collection. A 91 per cent collection rate would equal a £300 million pa loss.¹²

A National Housing Federation survey¹³ of London housing associations around direct payments found that:

- 81 per cent anticipated increased difficulty in rent collection
- 80 per cent said an increase in rent arrears is likely
- 87 per cent expected to need to put more resources into rent collection and money advice.

UC recipients will in most cases be expected to make and maintain their claim online. Clearly this stipulation requires two criteria other than the successful delivery of the front end IT system by the DWP, to be fulfilled in order to be successful: computer access and computer literacy. DWP has announced that it is making 6000 additional PCs available in Job Centres across the country as well as working on additional ways in which Universal Credit can be accessed, including via tablets and mobile.

DWP research¹⁴ in the Universal Credit pilot area in north west England has found that 90 per cent of Universal Credit claims were made online, with 73 per cent of these saying they managed to complete their application the first time. 13 per cent said the website crashed. The Citizens Advice Bureau in one of the pilot areas, Tameside, however has suggested that almost 80 per cent¹⁵ of individuals claiming Universal Credit online were unable to do so without assistance.

As well as receiving payment direct to cover rent, Universal Credit will be paid monthly to a single household member in most cases. A survey¹⁶ carried out by the Payments Council, which oversees bank and card transfers in the UK, found that half of people eligible for Universal Credit are concerned about managing cash flow when payments are made monthly.

Furthermore, concerns have been raised in relation to the process by which decisions will be taken over the circumstances in which alternative payment arrangements will be made, for example in cases of:

- substance addiction
- controlling relationships
- mental health issues.

There are clearly a range of significant changes to previous practice that will lead to difficulties for some Universal Credit claimants in making and maintaining their claim. Local Support Services Frameworks will be vital to ensuring that the process of transition to Universal Credit will be as smooth as possible and that where action can be taken locally to improve skills and enhance the capacity of Universal Credit claimants in a way that will assist them to engage with Universal Credit and build the likelihood of them moving into work.

12. [Tracking Welfare Reform – Meeting the Financial Challenge](#), London Councils 2013

13. National Housing Federation - Impact of welfare reform on housing associations baseline survey 2012

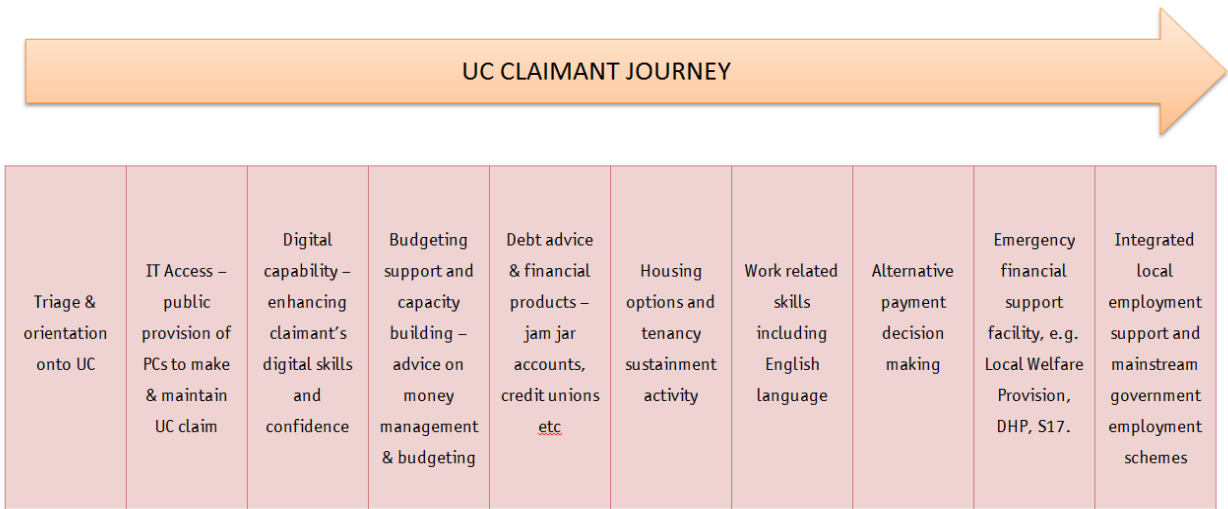
14. DWP, Universal Credit Pathfinder Evaluation, November 2013

15. Citizens Advice press release, 10 October 2013

16. Payments Council press release, 1 October 2013

There must be recognition at national government level of the value that local authorities and local partnerships can bring to the Universal Credit process and a commitment made that sufficient responsibility and power will be devolved in order to local frameworks to be successful and that there will be a proper and fair funding settlement that recognises the additional costs to local authorities of implementing local frameworks.

Figure 2: Potential elements of the Local Support Services Framework



5. Towards a Future Model of Welfare

London Councils has a long-standing policy position of encouraging devolution of responsibility, power and flexibilities to local authorities. Universal Credit offers a considerable opportunity to integrate the Local Support Services Framework with a locally commissioned employment offer that would be capable of helping those who would find it difficult to make and maintain a claim, provide support to build their own capabilities and move them towards sustained work outcomes.

We have proposed¹⁷ a single funding pot¹⁸ for employment services in London that can be targeted in line with local need. Alongside this single pot would sit the Local Support Services Framework, enabling a single client journey from making an initial Universal Credit through to a sustained employment outcome where this is a realistic possibility.

The single funding pot for employment support across London would include a range of national programmes including:

- JCP Flexible Support Fund: £19 million per annum (on-going co-commissioned funding with JCP)
- Work Programme: £24 million per annum (ending March 2016)
- Work Choice: £10 million per annum (ending 2015)
- Future families programme: £8.5 million per annum (DWP Troubled Families Programme is due to end in December 2013)
- Youth contract: £4.4 million per annum (ending 2015)
- Work Programme Completers Pilot: Estimated £12 million per annum (new funding stream, starting 2014).

Additionally, recognition by DWP of a central and enduring role for local authorities in Universal Credit would allow funding for the Local Support Service Framework to be integrated alongside the London employment pot; local authorities could pool parts of this funding with the single employment pot where this is judged to add value.

The success of this intervention would be reliant on changes at the national level, including:

- A new agreement on data sharing with the default position that data can be shared within Functional Economic Area Partnerships and with national government and providers as long as it supports the progress of the individual or programme performance.
- A reinvestment model ensuring that London receives a major share of the financial benefits generated from their work supporting people back into work. London would reinvest this in successful programmes developed by the FEA Partnerships. We would expect to negotiate the terms of a reinvestment model with the government as part of the Growth Deal process.
- Local integrated Universal Credit provision with an overarching partnership agreement by summer 2015 between local authorities and government, covering support to be delivered, central funding available, outcomes expected and a payment by results funding mechanism, with all budgets used for local support services for Universal Credit held by London boroughs (or groups of boroughs).

17. [Getting London Working](#), London Councils 2013

18. Illustrative spend in summer 2013.

6. Conclusion

The scale of change necessary at central government level for Universal Credit to be implemented successfully should not be underestimated, but it should also not overshadow the significant changes necessary at a local level to ensure that Universal Credit works for all and that people are able to sign up, maintain their claims and move into the sustained work that are the key desired outcome of the change.

With an estimated 850,000 individuals likely to be eligible to receive Universal Credit in London, it is important to ensure that transition from legacy benefits is carried out in a safe and orderly fashion and to this end it is more important for transition timescales to be realistic rather than quick.

London's economic circumstances present additional challenges to Universal Credit designers that have not yet been addressed. High costs such as child care, low wages and a unique jobs market all have an effect on whether or not someone moves into work and may impair the work incentives that should be inherent to Universal Credit. Tailoring an employment offer and building the skills that are needed in local economies must be part of future intentions.

Cultural changes that accompany Universal Credit will attempt to break cycles and conventions that have operated for years and will undoubtedly have negative consequences for some. In order to maximise the chances of success, local government must play an integral role in those potentially numerous cases where a straightforward transition to Universal Credit is not possible. In some cases, on-going support will be required and for some, independence from state assistance will not be a realistic goal. It must be ensured that services are tailored to the individual and that all public agencies and voluntary organisations are engaged.

A truly local, properly funded LSSF is a great opportunity to create a wrap-around welfare-to-work service that takes new Universal Credit claimants, assesses need and skill deficiencies, designs programmes of support and moves people towards sustained job outcomes. London Councils believes that for this process to be successful central government must be prepared to cede control and push power and resource downwards to local authority-led partnerships. LSSFs should be properly funded on a long-term basis, based on results and be fully integrated with locally commissioned employment support that takes account of London's circumstances.

“For Universal Credit to be successful, central government must push power and resources down to local authority-led partnerships”

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