

## **Economy Committee: Proposal for the November meeting**

### **Purpose of the November meeting:**

The Economy Committee's 2017 report "Short changed" provided an overview of the financial health of Londoners with a particular focus on young people and small businesses. Many of its recommendations which were aimed at helping people to avoid getting into debt were accepted by the Mayor and work is on-going to deliver on them.

It is timely to revisit the topic in the light of growing concerns over the impact of the roll-out of Universal Credit (UC) on people with volatile income and at risk of getting into debt.

### **Background**

UC is a single monthly payment for working age households in or out of work. It replaces six existing benefits and is paid directly to one member of the household.

UC works by assessing a household's income over a monthly period and adjusting payments on the basis of income that month. When a household becomes eligible for UC they must first wait seven days before their claim can start. Their income is then assessed for a month, after which they should receive their first payment seven days later. This means that it takes at least six weeks for a household to receive their first payment after applying.

In June 2018, 121,810 London household were claiming UC, 103,877 of which were in payment and 17,939 were not in payment. As of September, 27 of London's 33 local authorities operate the full-service system in at least some postcode areas. All remaining London authorities are due to have full UC service in place by December 2018. Full service is currently available only to those who make a new claim or experience a change of circumstance. Managed migration, whereby existing claimants are invited to apply for UC, is due to commence from August 2019.

UC full service is only for new claimants or those households who have experienced a change of circumstances. From 2020 existing claimants of legacy benefits will be transferred to UC.

### **UC and self-employment**

Under UC, in an effort to deter non-viable self-employment, claimants who classify themselves as self-employed are assumed to have an income equivalent to 35 hours at the National Minimum Wage (after a grace period of a year for newly created self-employed businesses). This is £262.50 a week from April 2017. If a claimant has an income below this, they are still assessed as if this were their income.

### **Challenges for self-employed recipients of UC**

UC system has significant implications for Londoners on low incomes and those in non-traditional jobs. Mike Cherry, the chairman of the Federation of Small Business, said: "The minimum income floor is bad for entrepreneurialism, pure and simple. We know that it generally takes two to three years to get a viable firm off the ground. The UC system fails to recognise that fact and, in doing so, threatens the futures of successful firms."

A self-employed person can receive less payments under the UC system each year compared to an employee earning exactly the same amount. According to a study by the Policy in Practice, more than three quarters of self-employed people – such as Deliveroo and Uber drivers – on a low income in London will be more than £4,000 a year worse off as a result of UC.<sup>1</sup> Citizens Advice found that self-employed workers whose earnings fluctuate monthly could receive £630 less in UC over the course of a year.<sup>2</sup>

Given that a higher share of London's self-employment is in 'low pay' sectors such as construction and retail, it is plausible that there will be a disproportionate impact on the city. In the year to September 2016, there were 800,000 working-age self-employed adults in London, the highest of any region of the UK. This is 18% of all of those in work, four percentage points higher than the average for Great Britain.

### **November meeting**

A session on the changes facing people who are self-employed would build on our existing work on supporting micro-businesses to survive and thrive and could look into the following areas:

- The consequences of the UC's minimum income floor on self-employed Londoners
- the "gainfully" self-employed test is working
- Managing income volatility
- Identifying the kinds of support people need and what is available

Expert guests could include the RSA, FSB, London Councils, Policy in Practice, Small business advice/accountancy representatives, Fair Finance, Money Advice Service, Association of Independent Professionals and the Self-Employed (IPSE), Financial Capability Lab, Citizens Advice.

The findings from this meeting would feed into our work focusing on improving the level of engagement and effectiveness of the LEAP.

08.10.2018 RD/PN/TLT

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<sup>1</sup> Policy in Practice, [What choices do self-employed people have with Universal Credit?](#)

<sup>2</sup> Citizens Advice, [Universal Credit needs to adapt to the modern labour market](#)