



## Citizens Advice response to the House of Lords Economic Affairs Committee inquiry on the economics of Universal Credit

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### About Citizens Advice

Citizens Advice provides free, confidential and independent advice to help people overcome their problems. In 2018-19, we helped 2.7 million people face to face, over the phone, by email and web chat. We provide support from over 2,550 locations across England and Wales.

Since the rollout of Universal Credit began, Citizens Advice has helped over 540,000 people with Universal Credit, including through its Help to Claim scheme. We have [published several reports](#) on Universal Credit based on our client data, insights from frontline advisers, and interviews with clients.

The geographical scope of this response covers England and Wales.

### 1. How well has Universal Credit met its original objectives?

- 1.1 Citizens Advice supports the principles of Universal Credit (UC) to simplify the benefits system, ensure that work pays and reduce in-work poverty. However, our evidence shows that for many people, Universal Credit is not delivering these objectives.
- 1.2 Rolling six benefits into one simplifies the administration of the system. However, the current rigidity of how UC assessments and payments work is out of step with the reality of many people's lives and can make managing their money far more complicated.<sup>1</sup>
- 1.3 By combining in- and out- of- work benefits, and removing financial cliff edges that existed within the legacy system, UC attempts to smooth transitions from not working to working, and making it easier to increase the number of hours claimants work.
- 1.4 However, other issues with how UC is designed and delivered can cause fluctuating income and increased debt, which in turn causes intense hardship

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<sup>1</sup> Citizens Advice (2019) [Managing Money on Universal Credit](#)

and stress for some. For many people this may reduce their ability to progress in work or increase the hours they work. So for some people, elements of the design and delivery of UC may actually be creating additional barriers to increasing income from work.<sup>2</sup>

- 1.5 Some elements of the design of UC, such as the five week wait for initial payment and the rate at which deductions are taken to repay debt, combined with impact of fiscal retrenchment on the value of UC, has also hindered UC's ability to achieve its objective to reduce in-work poverty.<sup>3</sup>
- 1.6 The sections below describe our evidence of the issues people can face managing their money, progressing in work, and achieving income security while on UC.

## **2. What effect has fiscal retrenchment had on the ability of Universal Credit to successfully deliver its objectives?**

- 2.1 One of the objectives of UC is to reduce in-work poverty. However, our evidence shows that many people receiving UC, including those in-work, struggle to make ends meet. Some of the reasons people can't cover their living costs relate to the design and delivery of UC- such as the five week wait for initial payment, or misalignment between wages and assessment periods causing income fluctuations.<sup>4</sup> Our evidence also indicates that the decline in the value of UC, along with other income-related benefits during fiscal retrenchment, has also made it more difficult for people receiving these benefits to cover their living costs.<sup>5</sup>
- 2.2 Since 2016 the value of most income-related benefits has been frozen as part of fiscal retrenchment.<sup>6</sup> Combined with rising prices, this has resulted in a 6.5% drop in real-terms support through these benefits.<sup>7</sup> This has meant an average reduction in support of £420 a year for families claiming benefits.<sup>8</sup> At the same time there have been changes to the Local Housing Allowance (LHA), which is used to calculate levels of housing support for those in privately rented accommodation. Until 2016, LHA set the maximum that could be paid in housing support based on the bottom 30% of local private sector rents. Since then, the

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<sup>2</sup> Citizens Advice (2020) Forthcoming report on experiences of in-work Universal Credit claimants

<sup>3</sup> Citizens Advice (2020) [Making Ends Meet: The impact of the benefits freeze on people in debt](#)

<sup>4</sup> Citizens Advice (2019) [Managing Money on Universal Credit](#)

<sup>5</sup> Citizens Advice (2020) [Making Ends Meet: The impact of the benefits freeze on people in debt](#)

<sup>6</sup> HM Treasury (2015) [Summer Budget 2015](#)

<sup>7</sup> Citizens Advice (2019) [Achieving Income Security For All](#)

<sup>8</sup> IFS (2019) [Spring Statement 2019](#)

LHA has been frozen in most areas and has fallen behind local rents.<sup>9</sup> Findings in our [recent report](#)<sup>10</sup> show increasing financial insecurity during the benefits freeze among people we help with debt<sup>11</sup>:

- From April to August 2019, **four in ten (40%)** of the people we helped with debt who claim income-related benefits,<sup>12</sup> including Universal Credit, **had a negative budget**.<sup>13</sup>
- This is up from 32% in 2016/17 - an **8 percentage point increase** since the benefits freeze came into effect.<sup>14</sup>
- Our data also shows that **36% of people** we help with debt who are **working** and on income-related benefits have a **negative budget**.<sup>15</sup>

2.3 Previous research also shows that this issue extends beyond people we help with debt.

- In 2019, we found that in the previous year, **55% of people claiming Universal Credit had gone without essentials such as heating, food and toiletries**, compared to 37% on 'legacy' benefits.<sup>16</sup>

2.4 While the higher proportion of Universal Credit claimants relative to 'legacy' claimants struggling to afford essentials suggests that some elements of the design and delivery of Universal Credit make it more difficult for claimants to make ends meet, the growth in the proportion of people on income-related benefits with a negative budget during the benefits freeze indicates the loss in value of benefits during this time is also reducing claimants financial security.

2.5 We have modeled<sup>17</sup> the impact of various benefit uprating measures on the income of people we help with debt receiving income-related benefits, including UC. Under current Government plans to increase income-related benefits by the Consumer Price Index, the proportion of households in this group who are in negative budgets would barely decrease from **40% currently to 38% by 2024**. This would still leave many people struggling to meet their day-to-day costs,

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<sup>9</sup> Shelter (2019) [Briefing: Estimates Day Debate on Ministry, Housing, Communities, and local government and Department for Work and Pensions](#)

<sup>10</sup> Citizens Advice (2020) [Making Ends Meet: The impact of the benefits freeze on people in debt](#)

<sup>11</sup> Last year we helped 380,000 people with their debts.

<sup>12</sup> Income-related benefits are working-age benefits: Universal Credit and the [benefits it replaces](#).

<sup>13</sup> A negative budget means a debt adviser has assessed that a client cannot meet their living costs. To do that, they use a tool called the Standard Financial Statement (SFS). The SFS is agreed between debt advice and financial service providers. It enables advisers to build a detailed budget, recording levels and types of income, fixed costs such as rent, and flexible costs such as food. Guidelines are set to inform how much people should spend in each category and it doesn't include any unsecured debt repayments. When someone has £0 or less after their expenditure they are considered to have a 'negative budget'

<sup>14</sup> Citizens Advice (2020) [Making Ends Meet: The impact of the benefits freeze on people in debt](#)

<sup>15</sup> Citizens Advice (2020) [Making Ends Meet: The impact of the benefits freeze on people in debt](#)

<sup>16</sup> Citizens Advice (2019) [Achieving Income Security For All](#)

<sup>17</sup> Citizens Advice (2020) [Making Ends Meet: The impact of the benefits freeze on people in debt](#)

putting individuals more at risk of not being able to heat their homes, pay for food, or cover the cost of their rent or mortgage payments.

- 2.6 Alternatively, we estimate that by **uprating income-related benefits including UC by CPI +2%** and recalculating Local Housing Allowance rates,<sup>18</sup> the proportion of this group with negative budgets **would fall to 28% by 2024**, enabling more people to get out of debt and build financial resilience.
- 2.7 While our evidence suggests that the loss in value from income-related benefits, including UC, during fiscal retrenchment has made it more difficult for people who receive benefits to make ends meet, investing in the value of these benefits could help more people achieve financial stability.

#### **Case study:**

*A client needed an advance payment to tide him over when he first applied for Universal Credit. He is behind on his Council Tax bills and owes money to his water supplier. He has almost £100 deducted every month from his Universal Credit payment to help him pay off his debts. He came to Citizens Advice for support. He was able to have his debts temporarily put on hold while he sought a suitable repayment plan, but he is still managing a negative budget of -£42 every month, leaving him unable to pay for essentials. Citizens Advice provided him with a food bank referral voucher, but this will not solve his problem in the longer-term. -Collected via adviser case note review for [Making Ends Meet: The impact of the benefits freeze on people in debt](#)*

### **3. Which claimants have benefited most from the Universal Credit reforms and which have lost out?**

- 3.1 UC is taking a test and learn approach to its rollout. A key benefit of a test and learn approach is the ability to fix issues as they arise. This option is an improvement on previous benefit systems where old IT and systems have meant improvements have been more difficult or extremely expensive to implement. Since UC was first introduced, the Department for Work and Pensions have made several welcome changes to the design of UC that have improved the financial situations of some claimants, such as removing the 7 waiting days at the beginning of a claim, increasing the awareness of and amount available from Advance Payments, increased investment in work allowances and the two-week housing benefit run-on for people moving from legacy benefits.
- 3.2 However, despite these improvements, UC continues to leave some claimants in a worse financial position than they would be under the legacy system.

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<sup>18</sup> Our estimates are based on modelling recalculating Local Housing Allowance rates to the 30th percentile of local rents.

- 3.3 As an advice organisation, we tend to see claimants who are struggling financially rather than those whose situation has improved under UC.
- 3.4 In this section, we highlight some of the most common characteristics of people who may face particular challenges on UC compared to legacy benefits.

### **Claimants in debt**

- 3.5 UC introduced the 5 week wait for initial payments, the monthly assessment period, and claimants can face deductions up to 30% of the standard allowance. These all have an exacerbating effect on claimants who are in debt and can also lead to claimants experiencing new debt. Previous research found that **38% of people claiming UC reported falling behind on rent or mortgage payments** in the last year, compared to 23% on legacy benefits.<sup>19</sup> Advance payments provide income to people during the 5 week wait for initial payment, but they must be repaid, leading to reduced income beyond the beginning of a claim. **7 in 10 (70%) of the people we help on UC who take out advances are also getting into arrears on bills**, compared to half of those (53%) who do not take out an advance.<sup>20</sup> This indicates that a significant number of the people we help are likely to already be in very difficult financial circumstances when they are making their claim for Universal Credit.

### **Claimants with disabilities and long-term health conditions**

- 3.6 Once fully rolled-out, 58% of households with a disabled person will be in receipt of Universal Credit.<sup>21</sup> While DWP has made welcome improvements to UC such as increasing the value of the work allowance for disabled people and introducing the Severe Disability Premium (SDP) gateway many disabled claimants will still receive less support under UC than they would have under the legacy system. While the SDP gateway protects disabled people currently or previously receiving the SDP from losing income under UC,<sup>22</sup> in future many new claimants who are unable to work as a result of their disability or long-term health condition will receive less support under UC than they would have under legacy benefits because UC does not include equivalents to disability premiums such as the SDP.<sup>23</sup> While UC does provide targeted in-work financial support for disabled people through the Work Allowance, many will struggle to get the Work Allowance because it is not available to disabled people who are assessed as fit for work. Working disabled people who do not get the Work Allowance can be

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<sup>19</sup> Citizens Advice (2019) [Achieving Income Security For All](#)

<sup>20</sup> Citizens Advice (2019) [Managing Money on Universal Credit](#)

<sup>21</sup> Citizens Advice (2018) [Universal Credit for Single Disabled People](#)

<sup>22</sup> DWP (2019) [Universal Credit and Severe Disability Premium Claims](#)

<sup>23</sup> Citizens Advice (2018) [Universal Credit for Single Disabled People](#)

over £300 a month worse off on UC compared to somebody getting the Disabled Worker Element that existed in Tax Credits.<sup>24</sup>

- 3.7 To ensure UC is working for disabled people, we recommend reviewing the amount of support disabled people in different circumstances can receive and allowing Personal Independence Payment (PIP) - and other qualifying benefit conditions<sup>25</sup> - to act as a 'passport' to the work allowance, which would help strengthen work incentives within UC for disabled people. PIP is already used for passporting to the Disabled Workers Element in Tax Credits.

### **Case Study**

This case study was shared by an adviser whose client was considering moving to Universal Credit even though they were not required to. The client decided against applying to UC:

*A client who called the Help to Claim line, would be at a significant disadvantage if she were to move over to Universal Credit. The client, who is 50 and has a severe disability (she receives the enhanced rate of PIP daily living and mobility), also has a disabled son and works 16 hours per week. She currently claims Working Tax Credits and within this receives a disability element of £3,165 per year and a severe disability element of £1,365 per year (before deductions for earnings). For this particular client, this equated to a £159 weekly drop in income if she were to move over to Universal Credit.*

Shared by adviser in Leicestershire and Northamptonshire Jobcentre Plus District

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<sup>24</sup> Citizens Advice (2018) [Universal Credit for Single Disabled People](#)

<sup>25</sup> The disability elements of Tax Credits can be passported from PIP and other qualifying benefit conditions such as prior receipt of ESA or Statutory Sick Pay. [HMRC Guidance: Tax Credits Disability Helpsheet](#)

## Claimants in non-traditional employment

- 3.8 Many UC are not in traditional employment, whether this is because they are self-employed, have fluctuating incomes, or work part time.<sup>26</sup> One advantage UC offers to this group over the legacy system is the removal of 'cliff edges' that existed within the legacy system, whereby the value of benefits payments would decrease suddenly at a certain threshold if people started working more hours (usually more than 16 hours/week).<sup>27</sup>
- 3.9 Under UC there is no limit to the number of hours claimants can work- although UC payments still decrease by a taper- currently for every £1 a claimant earns their UC payment will reduce by 63p.<sup>28</sup> In theory, this means no claimant should be left with less money if they either work more hours or get a higher paying job.
- 3.10 However, large challenges still exist for this group within the design of Universal Credit which make managing money difficult for those who are not paid once a month. For example, an employee who is paid four-weekly, will likely receive two payments in one calendar month at least once a year, significantly reducing the amount of benefit they are paid for the same period.<sup>29</sup> For those who are self-employed, the Minimum Income Floor means that if a claimant does not make the equivalent of National Minimum Wage (NMW) in a month, their Universal Credit payments won't make up the difference, and, if they earn above the NMW in the next month their benefit payment will still be reduced.<sup>30</sup> Figure 1 is a model to illustrate how the rigid approach to monthly assessments and the Minimum Income Floor could lead to two workers with identical circumstances and annual earnings receiving different amounts of support.
- 3.11 The next section considers challenges faced by UC claimants in-work in more detail.

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<sup>26</sup> Citizens Advice (2018) [Universal Credit and Modern Employment: Non-Traditional Work](#)

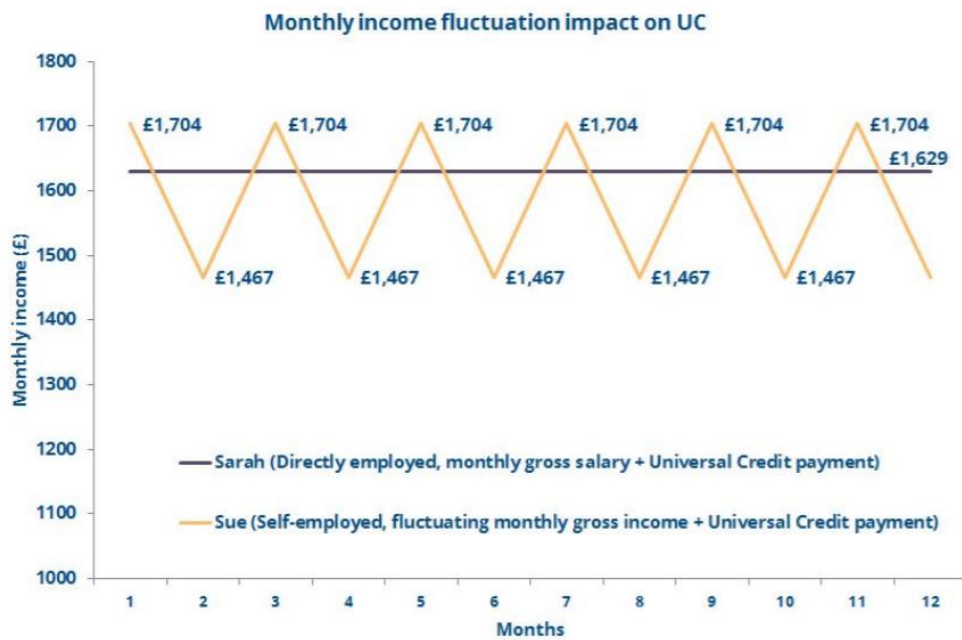
<sup>27</sup> Department for Work and Pensions (2017) [Understanding How Universal Credit Influences Employment Behaviour](#)

<sup>28</sup> Department for Work and Pensions (2019) [Guidance: Universal Credit Work Allowances](#)

<sup>29</sup> Citizens Advice (2018) [Universal Credit and Modern Employment: Non-Traditional Work](#)

<sup>30</sup> Citizens Advice (2018) [Universal Credit and Modern Employment: Non-Traditional Work](#)

Figure 1<sup>31</sup>:



This case study was shared by an adviser whose client was considering moving to Universal Credit even though they were not required to. The client decided against applying to UC:

*The client is a single parent who reported a low income as a self-employed person- they currently receive Working Tax Credits and Child Tax Credits. They reported fluctuating earnings and hours. On both good and bad weeks they worked below 35 hours per week, although they also spent additional hours developing their business. As their business was over 12 months old, if they had moved onto UC, then the Minimum Income Floor would have applied, and reduced their total weekly net/benefit earnings from between £330 (bad week) - £490 (good week) to just £230 per week. The client informed us that they would have struggled to continue growing their business had they moved onto UC. The client said that whilst the profitability of their business is low, they have been steadily growing it since its inception.*

- Adviser in Bedfordshire and Hertfordshire Jobcentre Plus District

<sup>31</sup> Sue and Sarah are both single parents with one child, earning £9,750 a year, with housing costs of £150 per week. These calculations were made in 2018, so reflect the salary threshold for the Minimum Income Floor for a single parent with one child under 13 at that time (calculated as 25 hours per week at the National Minimum Wage of £7.50 an hour). Due to differences in how self-employed & directly employed workers pay NI, we show gross income plus Universal Credit throughout to aid comparison. Take-home pay will be lower than shown here. This chart is taken from Citizens Advice (2018) [Universal Credit and Modern Employment: Non-Traditional Work](#)



## 4. Does Universal Credit's design adequately reflect the reality of low-paid work?

- 4.1 Financial challenges are commonplace for those in low-paid work. While the increased investment in work allowances in April 2019 was a welcome step, our evidence shows that for some people the design and delivery of UC continues to exacerbate rather than alleviate financial insecurity for some,<sup>32</sup> making it harder for people to progress in work.

### Financial insecurity

- 4.2 For our forthcoming research report, we undertook qualitative research with people in-work who were claiming UC<sup>33</sup>- the majority of participants were in non-traditional employment and many had fluctuating earnings. Many felt that being on UC had increased their financial uncertainty, as the design of UC assessments and payments (as described above) further increased their income volatility. As a result, making ends meet was an ongoing struggle and a constant source of stress. Managing this additional level financial uncertainty, pushed them into an even more risk-averse and short-term mindset, severely limiting their capacity to think about in-work progression.

*"I'm just trying to hold it all down at the moment .. All of my energy is going into that."*

Non-standard employee<sup>34</sup>, Newport

### Lack of flexibility

- 4.3 As described under question 5, the rigid approach to monthly assessments and payments does not reflect the reality of many people's lives, especially many people in low-paid work. **Our previous research found that less than half (45%) of our clients who were in work before claiming UC were paid monthly.**<sup>35</sup> The way UC is administered can lead to income fluctuations that undermine income security for people in non-traditional employment.
- 4.4 Alternative Payment Arrangements (APAs) are intended to help people manage their money and prevent debt, by giving people options about how they receive their UC payment and how to pay their rent in exceptional circumstances. However, research with the people we help suggests that people claiming UC are

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<sup>32</sup> Citizens Advice (2019) [Achieving Income Security For All](#)

<sup>33</sup> Citizens Advice (2020) Forthcoming report on experiences of in-work Universal Credit claimants. 47 participants took part in a series of focus groups in London, Newport and Morecambe and a subset of 12 people also took part in an in-depth ethnographic study to monitor and observe UC claimant experiences over time in 2018-19. All had been on UC for at least 2 months and around a third of the sample had been on the benefit for over 9 months.

<sup>34</sup> 'Non-standard' refers to people in irregular work such as zero hours contracts and one-off jobs/contracts

<sup>35</sup> Citizens Advice (2018) [Universal Credit and Modern Employment: Non-Traditional Work](#)

not always made aware of APAs so can not ask for them, and they are not always available even to those who want them.<sup>36</sup> Rigidity in the system and lack of awareness on the part of people asking for them means that APAs are often accessed only once significant arrears have built up. Take up of some APAs remains very low.<sup>37</sup>

- 4.5 Even when APAs are in place, delivery and design issues are undermining their effectiveness. One of the design problems is the priority order in which APAs can be considered by decision makers. This means the right type of support is harder to get, because some support such as more frequent or split payments have to be considered after managed payments to landlords.
- 4.6 In the short term, DWP should work to improve the availability and design of APAs. In the longer term, the system should be designed to fit the ways that different people organise their lives and budget their money.

#### **Case study:**

*The client is paid every four weeks. Every time there are two wages in one assessment period his claim is closed. The client has been claiming Universal Credit since January 2019. His assessment period runs from the 26th of one month to the 25th of the following month. His Universal Credit claim has been closed roughly every other month due to pay from work showing twice in one assessment period, this has meant that he has to start a new claim each time, wait another five weeks and also attend the Jobcentre to sign his claimant commitment. This is also causing the client financial hardship. The client is a wheelchair user and works part time in a supermarket, the financial hardship this is causing is making his travel expenses to work impossible and he has now been signed off work with stress.*

Adviser in Leicestershire and Northamptonshire Jobcentre Plus District

## **5. If Universal Credit does not adequately reflect the lived experiences of low-paid workers, how should it be reformed?**

5.1 Citizens Advice believes the social security system, of which Universal Credit is an integral part, needs to be accessible to all those who need it, provide an adequate level of support to cover the true cost of living, and be flexible to meet people's individual needs to help them live fulfilling lives. While ensuring the system is accessible and flexible to individual circumstances may lead to additional complexity in the administration of benefits, this must be balanced against the need to ensure that the system is supportive and understandable to all claimants. Simplification of the system

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<sup>36</sup> Citizens Advice (2019) [Managing Money on Universal Credit](#)

<sup>37</sup> Stat-Xplore (Accessed February 2020) [Households on Universal Credit- Alternative Payment Arrangements](#)

must not come at the expense of those in particularly challenging or vulnerable circumstances facing undue challenges to access the support they need.

5.2 To this end, Citizens Advice recommends the following changes to Universal Credit:

### **To ensure Universal Credit provides enough for people to live on**

- Increase the value of working-age benefits (including Universal Credit) to keep up with the cost of living (Consumer Prices Index + 2% for 4 years).
- Get money to people quicker by reducing the 5-week wait for Universal Credit to no later than two weeks after the initial claim.
- Explore changing the way Advance Payments are repaid, including setting a maximum monthly repayment and repayment holidays while other deductions are taken. Eventual write offs after a set period or in cases of hardship should be considered to ensure debts do not loom over people in the long term.
- Consider repayment holidays and write offs for people who cannot repay overpayment debt (from UC or legacy benefits), so they no longer apply to so many people in the early months of their claim.
- Evaluate how affordable for individuals a 30% deductions cap is, and look to change individual rates of housing and court fine deductions, which are taken at higher rates than under the legacy system and causing hardship.
- Consider introducing an automatic two-week run-on of all legacy benefits including Tax Credits.

### **To ensure Universal Credit is flexible to individual circumstances**

- Make sure Universal Credit supports people in non-traditional employment to manage their money effectively, by exploring giving people more choice about when and how they're paid. For example, allowing people to choose a UC payment schedule that best matches the way their household budgets or aligning assessment periods to wages or rental/mortgage payments.
- DWP should also look at flexibility in assessment start dates. Currently for new claims, your first assessment period begins in relation to the date that you file your claim, regardless of when and how you are paid. This does not reflect many people's wage payments and other bills, reducing the potential for UC to help them smooth their income, rather than increase fluctuations.

- Target investment in the work allowance at groups on Universal Credit who will receive a lower award compared to the legacy benefits system.

### **To ensure it is accessible to all who need it**

- Allow for Personal Independence Payment (PIP) - and other qualifying benefit conditions<sup>38</sup> - to act as a 'passport' to the work allowance, which would help strengthen work incentives within UC for disabled people. PIP is already used for passporting to the Disabled Workers Element in Tax Credits.

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<sup>38</sup> The disability elements of Tax Credits can be passported from PIP and other qualifying benefit conditions such as prior receipt of ESA or Statutory Sick Pay. HMRC, [How to qualify for the disability elements of tax credits](#)