Making Ends Meet

The impact of the benefits freeze on people in debt

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February 2020

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Introduction

Our benefits system exists to help people cover their costs during times of need. It supports people who are looking for a job or in low-paid work, parents needing help with the costs of bringing up children, and disabled people facing higher living costs.

However, since 2016 the value of most income-related benefits has been frozen. Combined with rising prices, this has resulted in a 6.5% drop in real-terms support through these benefits.[1] This has meant an average reduction in support of £420 a year for families claiming benefits.[2]

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 LHA has been frozen in most areas and has fallen behind local rents.[3]

Reducing the value of benefits makes it harder for people to cover day-to-day costs. Our previous research found that almost half (49%) of those receiving frozen benefits had struggled to meet essential costs such as food and toiletries in the past year, whilst almost a quarter (23%) reported falling behind with rent or mortgage payments.[4]

We welcome the Government's ambition to 'build prosperity and strengthen and level up every part of the country.'[5] Key to this will be ensuring people are able to maintain a decent standard of living.

The Government has the opportunity to enable this through the choices it makes around benefits. The value of income-related benefits[6] and the LHA[7] will increase in line with inflation from April - but this will still leave a lot of households unable to cover their living costs. In order that our benefits system truly acts as a financial safety net, it's vital people have sufficient income to make ends meet and build financial resilience - both through benefit levels and wider reforms to benefits such as Universal Credit.

In this briefing we detail what different options for uprating benefits would mean for the tens of thousands of benefit claimants we help who are struggling with debt.

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[1] Citizens Advice (2019), Achieving income security for all
[2] IFS (2019), Spring Statement 2019
[3] Shelter (2019), Briefing: Estimates day debate on Ministry, Housing, Communities and Local Government and Department for Work and Pensions
[4] Citizens Advice (2019), Achieving income security for all
[5] Conservatives (2019), 2019 Conservative Party Manifesto
[6] Secretary of State for Work and Pensions (2019) Welfare and Pensions Update: Written statement - HCWS74
[7] Parliamentary Under Secretary of State for Welfare Delivery (2020), Welfare Update: Written statement - HCWS29

Effects of the benefits freeze on people we help

Since the benefits freeze began, we've seen an increase in the proportion of people we help with debt who have no money left at the end of the month once they've covered their living costs.[8] **In 2016/17, 32% of all people we helped with debt had no money left after covering their costs, but by 2019/20 this had risen to 38%.**

These households are deemed to have a negative budget, which means that each month they have less money coming in than they are spending. Many of these households face a vicious cycle of not being able to repay their debts or meet basic costs, such as rent or bills. This can lead to detrimental consequences, such as further debt problems, the risk of eviction or homelessness, or having their energy supply cut off.

Chris' story

Chris is 62 and is looking for work. Previously, he claimed Employment and Support Allowance because he has a condition that affects the amount of hours he can work. Chris now receives Universal Credit to help with his living costs.

He needed an advance payment to tide him over when he first applied for Universal Credit. Chris is also 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.

Chris 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 -£42.31 every month, leaving him unable to pay for essentials. Citizens Advice was able to provide Chris with a food bank referral voucher, but this will not solve his problem in the longer-term.

A closer look at these numbers shows that this growth has been driven by households who rely on frozen income-related benefits; specifically Universal Credit and the benefits it replaces.[9] **From April to August 2019, four in ten (40%) of the people we helped with debt who claim income-related benefits didn't have enough money to cover their living costs.** This is up from 32% in 2016/17 - a 25% increase since the benefits freeze came into effect. In comparison, the proportion of households with a negative budget who don't claim these benefits has remained largely unchanged.

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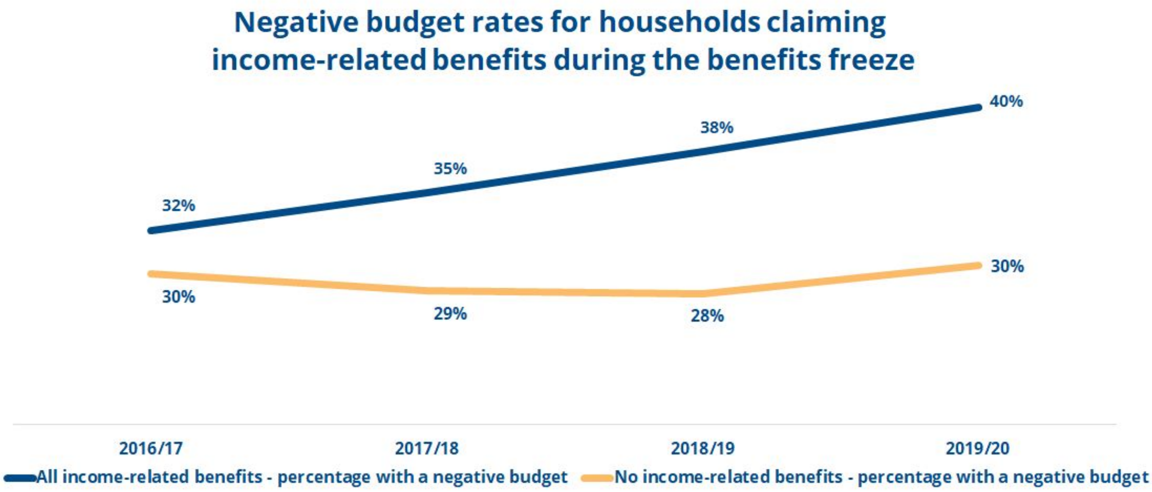
[8] For further information about the people we help with debt with a negative budget, see Citizens Advice (2020), Negative Budgets - A new perspective on poverty and households finances
[9] See Citizens Advice's information on Universal Credit for further detail



Source: Money Advice Recording Tool, April 2016 to August 2019. **Base:** 131,844, including 93,997 clients claiming income-related benefits

Whilst employment can be a way for people to increase their income, our data shows that negative budgets are a problem for both those in and out of work - 36% of people we help with debt who are working and on income-related benefits have a negative budget.

We are also seeing a high prevalence of negative budgets among disabled people we support - over two fifths (41%) of people we help with debt who receive income-related benefits are disabled or have a long-term health condition.

40%

of people we help with debt who are on income-related benefits have a negative budget

36%

of people we help with debt who are working and on income-related benefits have a negative budget

Looking ahead

We have developed a model[10] that explores what the impact would be on people we help with debt through different benefit uprating scenarios, looking at how much income they would have after costs. These include:

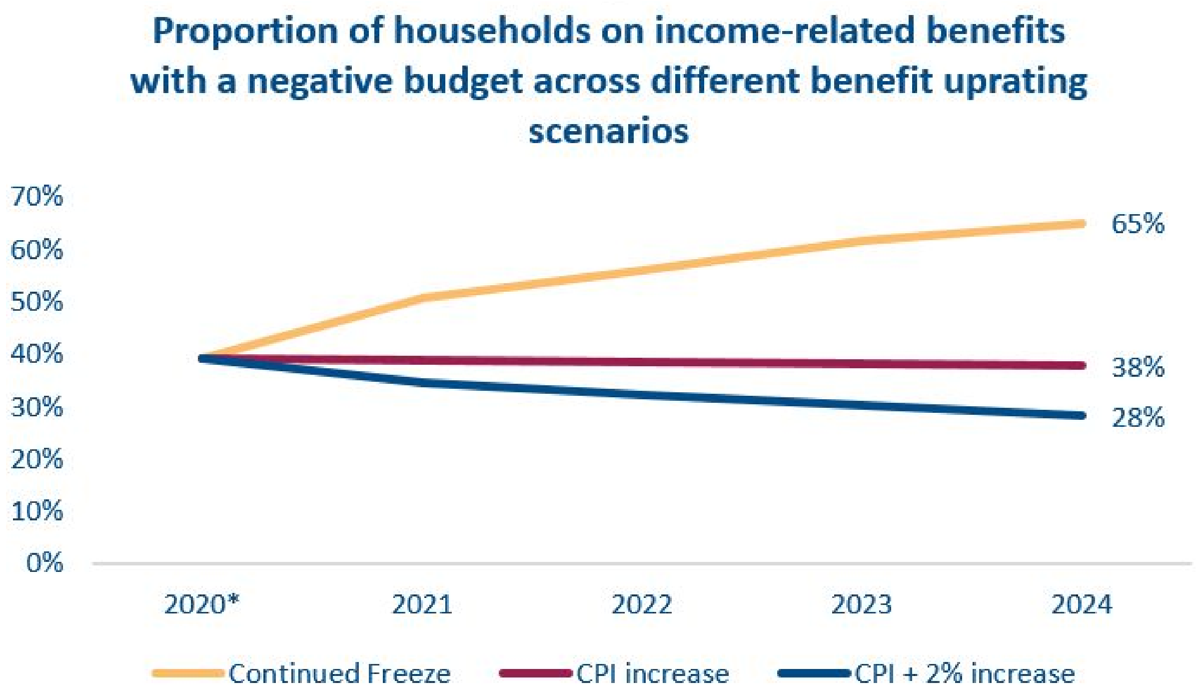
- Retention of the benefits freeze.
- Annual uprating of benefits in line with the Consumer Prices Index (CPI).
- Restoration to pre-2016 benefit levels through uprating benefits by 2% above inflation over the next four years and recalculating the LHA to the 30th percentile of local rents.

What is income after costs?
Our advisers use the Standard Financial Statement[11] to help people manage their debt. Using this tool, advisers work with people to record levels and types of income, fixed costs such as rent, council tax and utility bills, and flexible costs such as food. Flexible costs are capped in four categories based on household size.

Average monthly income after costs refers to any money left over after these living costs are paid. Typically in the course of debt management this income would be used for debt repayments.

[10] See technical note on page 9 for further information
[11] For further information: https://sfs.moneyadviceservice.org.uk/en/what-is-the-standard-financial-statement

The chart below looks at these three benefit uprating scenarios over the next four years, projecting the change in the proportion of households on income-related benefits we help with debt who would have a negative budget after covering their costs[12]



Source: Money Advice Recording Tool, April-November 2019. **Base:** 25,346, including 19,534 clients claiming income-related benefits

*Data for 2019/20 is April-November 2019 data and is used as a baseline for projections

Based upon the above:

- If the **benefits freeze was kept** in place, **more than six in ten households (65%)** we help with debt receiving income-related benefits would have a negative budget by 2024. This would be due to rising living costs. On average, this group would have a **shortfall of £47 a month by 2024.**

- Ending the benefits freeze and **uprating income-related benefits by CPI** every year would only lead to a slight decrease in the proportion of people we help with debt who are in receipt of these benefits and have a negative budget - **38% of households would still have a negative budget by 2024.** This would still leave many people struggling to meet their day-to-day costs, 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.

[12] It is possible in the CPI and CPI +2% uprating scenarios that some people's benefits would rise to a point that they would be affected by the benefit cap. Whilst we have been unable to factor this into our model, there is a strong argument for the level of the cap to be reviewed alongside any increases to benefit levels.

Under this scenario, these households would have an average of just **£13 left over a month by 2024.** This would limit the ability of even those without a negative budget to clear their debts or deal with financial shocks.

- Ending the benefits freeze and **uprating income-related benefits by CPI +2%** every year for four years, as well as recalculating the LHA to the 30th percentile of local rents, would mean the proportion of households we help with debt receiving income-related benefits with a negative budget would **fall to 28% by 2024.** On average, this group would have **£67 left over a month by 2024,** enabling more people to start to get out of debt and build financial resilience.

- By comparison, **22%** of households we help with debt who are not receiving income-related benefits (whose income will be made up mainly of income from employment) are projected to have a negative budget in 2024. By this point, this group is projected to have an average of **£186 a month left over after covering their costs**.[13]

[13] This is based on CPI uprating, as some households in this group receive Child Benefit. Under CPI +2%, this group would have an average income of £188 by 2023/24.

Recommendations

There is growing consensus[14] that a longer-term solution is needed to ensure benefits provide people with adequate support at different points in their lives. Yet for many people we help, simply uprating frozen benefits in line with CPI will not be enough to enable them to make ends meet.

As indicated through our analysis, an above-inflation increase to benefit levels would have a significant impact on people in debt we help who receive income-related benefits. It would support a greater proportion within this group to cover their living costs, helping people to avoid situations such as falling further into debt or being evicted from their home.

It is not enough to simply look at benefit levels alone. We also need to ensure that our benefits system as a whole provides everybody with the support they need to meet their living costs. This includes reviewing the amount of money working people can retain under Universal Credit through features such as the work allowance, and helping people to better manage deductions under the benefit.

The combination of these changes would give people greater flexibility in their budgets, putting them in a stronger position to pay off existing debts, pay into savings, and manage an unexpected expense (like repairing a broken appliance). This is crucial to creating a society where everybody is able to build income security.

That's why Citizens Advice is calling for the Government to:

- Uprate the value of frozen benefits by the Consumer Prices Index (CPI) plus 2% for four years.
- Recalculate the Local Housing Allowance to at least the 30th percentile of local rents to re-establish the link with rental prices.
- Ensure Universal Credit provides people with enough to live on, by reviewing areas such as the amount of money retained by working claimants and deductions for those faced with debts.

[14] See for example Work and Pensions Committee (2019), Welfare safety net and StepChange (2020), Problem debt and the social security system

Technical Note

Using data from the 2019/20 financial year (up to November 2019), we created a model to establish a sense of how different benefit uprating decisions would affect the budgets of people we help with debt.

The data we collect as part of the Standard Financial Statement contains itemised income sources, expenditures and debt data. The granularity of the income data allows us to model how uprating decisions would affect each type of benefit income. This is a dataset of working-age households only, it does not contain any households receiving income from pensions (state pension, private pension, etc).

Our data is not comprehensive enough to know exactly what would happen to each person's benefits over the next four years, so we have made the following assumptions:

- Expenditure (including rent) would be uprated with CPI under any uprating scenario, and any benefits people are claiming today would be claimed throughout the four years the model projects. Pay (salaries, wages and self-employment income) would be uprated in line with Office for Budget Responsibility pay forecasts (net of tax, not including benefits) in all scenarios.[15]
- All working-age benefit income is frozen or uprated consistently in each scenario, except for the benefits discussed in the table below.
- Uprating by CPI or CPI+2% without accompanying increases to the benefit cap would result in some people's benefits reaching a point that they are above the level of the current caps. This would mean some households may not see the full benefit of uprating. We have not factored this into our calculations as we cannot know from our data which households would be subject to the cap and those who would be exempt. A fairly small proportion of households receiving income-related benefits are affected by the cap - in August 2019, across Great Britain 79,000 households had their benefits capped[16] (comparatively, 2.1 million households were receiving Universal Credit across the UK).[17]

[15] Office for Budget Responsibility, The economy forecast - Income
[16] Department for Work and Pensions (2019), Benefit cap quarterly statistics: GB households capped to August 2019
[17] Department for Work and Pensions, Universal Credit statistics: 29 April 2013 to 10 October 2019 (published 12 November 2019)

Benefits with variable uprating under certain scenarios

	Scenario 1 (continued benefits freeze)	Scenario 2 (uprating by CPI)	Scenario 3 (uprating by CPI+2%)
Universal Credit	No uprating, except for the following element: **Limited capability for work and work-related activity:** We cannot identify how many households are receiving the Universal Credit limited capability for work and work-related activity element, which has been uprated in previous years. We have therefore used the proportion of clients receiving ESA Support Group rates out of all clients receiving legacy benefits (36%) as a proxy. We have increased the income of all Universal Credit claimants by 36% of the amount they would receive in CPI uprating of this element each year.	Total Universal Credit income uprated by CPI each year.	Total Universal Credit income uprated by CPI+ 2% each year, except for following elements: **Clients living in the private rented sector (PRS), applied to first year projection only:** To address the housing element within Universal Credit, we have attempted to replicate the uplift applied to reset the LHA to the 30th percentile (see LHA row below). We cannot identify which Universal Credit claimants receive the housing element. As a proxy, we multiplied the proportion of PRS clients on legacy benefits who claim Housing Benefit (70%) by the average LHA uplift value for this group (£44), and applied 70% of this uplift in income to all Universal Credit clients in the PRS. **Limited capability for work and work-related activity:** We expect that this element would only be uprated by CPI, as it has been in previous years. We cannot identify how many households are receiving the limited capability for work and work-related activity element within Universal Credit. We have therefore used the proportion of clients receiving ESA Support Group rates out of all clients receiving legacy benefits (36%) as a proxy. We have decreased the income of all Universal Credit claimants by 36% of the amount they would receive in CPI uprating of this element each year.
Local Housing Allowance (LHA)	No uprating. Assumed no further Targeted Affordability Funding.	Total LHA income is uprated by rent projections (CPI) each year.	This projection is based upon Shelter's dataset of the shortfall between LHA and the 30th percentile rent for every local

			authority in England.[18] For households claiming Housing Benefit in the PRS whose rent was greater than their LHA, an uplift was applied based on the average percentage shortfall between LHA and 30th percentile for their Broad Rental Market Area. Where the uplift was greater than a household's rent shortfall, this has been capped at their rent expenditure. After the first year of projections, LHA is uprated by CPI.
Employment and Support Allowance (ESA)	ESA Support Group rates have been uprated by CPI in previous years, while ESA Work Related Activity Group (WRAG) rates have not. The majority of WRAG claimants receive £316.77 per month,[19] so any claimants receiving more ESA income than that will have their income uprated by CPI. Other ESA income will not be uprated.	Uprated by CPI each year.	ESA Support Group receives CPI uprating only. ESA WRAG receives CPI +2%.
Carer's Allowance	Uprated by CPI each year as they have been in previous years.	Uprated by CPI each year.	Uprated by CPI each year.
Contributory Jobseeker's Allowance	No uprating.	Uprated by CPI each year.	Uprated by CPI each year.
Council Tax Reduction	We have assumed no uprating.	We have assumed no uprating.	We have assumed no uprating.

[18] Shelter (2019), Analysis: Local Housing Allowance freeze
[19] For further information: https://www.gov.uk/employment-support-allowance/what-youll-get

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Published February 2020

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