



Citizens Advice response to Work and Pensions Committee inquiry into Universal Credit rollout

About Citizens Advice

Citizens Advice provides free, confidential and independent advice to help people overcome their problems.

In 2017 we helped 2.6 million people face to face, by phone, email or webchat. We provide support in over 2,000 locations in England and Wales and people visited our online advice pages 42 million times.

Overview

Citizens Advice supports the aims and principles of Universal Credit - to simplify the benefit system and improve work incentives. We are closely monitoring the rollout of the new benefit and its impact on people we help.

We have unparalleled evidence on the roll-out of Universal Credit:

- Citizens Advice has helped people with over 100,000 Universal Credit issues since it was introduced.
- In 2017 our advisers supported 49,000 people with 94,000 Universal Credit issues.
- We've had over 1.3 million visits to our UC web pages in the last 6 months.
- We are seeing the equivalent of 1 in 10 new Universal Credit claimants every month.

We have published two reports and made previous submissions on UC to the Work and Pensions Select Committee. We welcomed the steps taken by the Chancellor in the Autumn Budget 2017 towards fixing the problems we have identified. We continue to share our evidence and raise issues as they arise.

Alongside our general UC monitoring, we are undertaking research on the impact on working households and on disabled people and those with health conditions. We are looking to publish our findings in these areas shortly.

1. Self Employment

- What effect has UC had on self-employed people?

Self-employment has grown dramatically over recent years. 4.8 million people are now self-employed - a million more than a decade ago¹. This expansion in self-employment has helped push overall employment to record levels. 15% of all people in work are now self-employed². However, median earnings for self-employed people lag significantly behind earnings for employees³. Part-time self-employment has seen the biggest expansion. This means a significant proportion of the self-employed workforce are potentially eligible for in-work benefits, and will be looking to Universal Credit for support.

Universal Credit brings with it some fundamental changes for self-employed people. Monthly reporting and assessment of incomes places new burdens on them. The design of monthly assessments in Universal Credit means those with irregular earnings can struggle to achieve financial stability. There is also set to be increased scrutiny through the introduction of the 'gainful self-employment' test, minimum income floor and surplus earnings rules. These rules are intended to incentivise progression, root out unviable businesses and minimise manipulation of earnings. However, they carry the risk of penalising a significant number of self-employed people financially, and impeding the development of new or innovative businesses.

It is difficult to strike the right balance between ensuring people are supported appropriately and guarding against fraud. **The government should test its new rules and ensure they are assessed for their impact on self-employed people and their businesses.** Citizens Advice is undertaking research on how self-employed people will be affected, and will continue to monitor the impact on the people we help.

How Universal Credit treats variable and irregular incomes

Universal Credit makes changes to how income is assessed and reported. The benefit is assessed monthly whereas tax credits are assessed annually. This approach was intended to improve on tax credits by reducing the likelihood of overpayments when earnings change. However it does mean that UC tends to work best for people in the most 'traditional' models of work: who are directly employed, working a fixed number of hours each week, and paid once each calendar month. Yet we also know this group are declining in the wider labour market. Variable, non-monthly and irregular incomes are becoming more widespread as self-employment and other non-traditional working patterns grow. **For some people Universal Credit will help to smooth monthly income fluctuations but for others it can make their income far less stable.**

¹ ONS, December 2017, [EMP01_SA](#)

² ONS, December 2017, [UK Labour Market](#)

³ Citizens Advice, 2015, Who are the Self-Employed?

Annual assessments meant that working people receiving tax credits had a predictable benefit income over the course of a year, even if their earnings fluctuated. Monthly assessments mean that people who experience a change in pay from one calendar month to the next, will also experience fluctuations in their benefit payments. Whether this helps smooth income or increases income fluctuations is largely down to *timing* of earnings relative to assessment periods and UC payments. Ideally, a wage payment date should be a few days *before* the end of a UC assessment period, meaning the UC payment is effectively topping up that month's wages. However, if the wage payment date falls a few days *after* the end of the assessment period, then UC is likely to exacerbate changes in income. In this scenario, low wages can sometimes follow a few days after a low UC payment, drastically reducing monthly income.

While the timing of assessment periods relative to wage payments can be crucial for people with fluctuating incomes, it is also set entirely arbitrarily. Under current arrangements, UC assessment periods are set on the basis of the day someone submitted their UC claim - meaning the extent to which UC helps to smooth or exacerbates income fluctuations is largely down to luck.

We are already seeing people struggling to budget as a result. Citizens Advice is monitoring this issue and undertaking research on the challenges faced by people with non-traditional working patterns and incomes.

Case study: Fluctuating income exacerbated by Universal Credit

John's hours vary greatly. In December he worked more due to Christmas but he has almost no work for January. After his income rose temporarily during December John received no Universal Credit payment on his scheduled payment date of 10th January. Without a Universal Credit payment and with very little earnings in January, he and his family had been experiencing financial hardship. His next Universal Credit payment was due on 10th February. He visited his local Citizens Advice as he was struggling to pay the bills, and had built up rent arrears.

New rules for self-employed people

Universal Credit brings with it a number of new rules. It intensifies the level of scrutiny on self-employed people through the 'gainful self-employment' test, minimum income floor and surplus earnings rules. These rules are in addition to other policies introduced in Universal Credit like the claimant commitment and in work conditionality. The new rules for self-employed people are intended to incentivise progression and make sure that people on Universal Credit are running genuine and viable businesses. The intention is to identify and encourage people in non-viable businesses to seek work in the regular labour market. However, these approaches are currently untested. They carry the risk of affecting self-employed people in viable businesses and also choking off new businesses before they have had the time to become viable (we discuss the specific

impacts in more detail below). **The government should test and assess a variety of rules for self-employed people** in order to understand how best to tackle fraud and avoid unintended labour market consequences. DWP should ensure that self-employed people are able to access an equivalent level of support to their employed counterparts.

Gainful Self-Employment

- How should “gainful self-employment” be defined under UC?

Self-employed people now need to demonstrate to a Jobcentre assessor that they are ‘gainfully self-employed’. They go through an initial interview at Jobcentre Plus and must provide evidence that demonstrates that their work is regular and organised, that it is their main job and that they expect to make a profit. If the Jobcentre assessor decides they are not gainfully self-employed they are required to begin job search.

The principles and measures underlying this test are reasonable, but it is important that it is set at the right level and flexible enough to accommodate the diversity in the self-employed population - the time taken to demonstrate gainful self-employment may be different for someone starting an entirely new venture versus someone in a more established area, such as taxi-driving, for example. If the bar for “gainful self-employment” is set too high or too rigidly it could deter self-employed people with viable business ideas who would genuinely benefit from support.

Another challenge is administering and delivering this test. It has already been introduced to tax credits and we see cases where it is misapplied or not completed thoroughly. For example, in practice, decision makers sometimes rely solely on earnings in a year, without considering wider issues and context. Supporting people in employment is new territory for work coaches and self-employed people in particular can have very varied needs and working patterns. This makes it potentially difficult to determine whether a business is viable. Previous Citizens Advice research has found that there is huge diversity in the self-employed population and the progression of their businesses.⁴ Assessing the potential of a business and determining a reasonable timescale for it to reach maturity is not an exact science and judgments like these require a significant amount of experience and expertise. **Without sufficient training and resource for the Jobcentre, there is a risk that the new rules under UC could be applied inconsistently and unfairly.**

Minimum Income Floor

- How can the Department best balance protecting public funds with supporting self-employed people in UC? Does the Minimum Income Floor (MIF) achieve this balance?
- Is the existing Start-up Period for newly self-employed UC claimants appropriate? If not, what changes should be made and how much would these cost?

⁴ Citizens Advice, 2015, Going Solo; Citizens Advice, 2015, Who are the self-employed?

- What are the options for reforming the MIF, and what are their cost implications?

The Minimum Income Floor (MIF) is the biggest change for self-employed people receiving in-work benefits. Like the 'gainful self-employment' test, the MIF is intended to tackle fraud and make sure Universal Credit does not support businesses that are unviable.

The MIF assumes that, after the first twelve months of trading, a self-employed person will be earning a certain amount. For people without health conditions or caring responsibilities this is the equivalent of National Living Wage at full-time hours. Even if they are not earning this amount, their benefit entitlement is calculated on the basis that they are, meaning those who fall below lose out on much needed financial support.

This means that self-employed people can find themselves at a significant financial disadvantage compared to employees.

The MIF will penalise people running potentially non-viable businesses, leaving them with a choice of changing businesses or moving into employment to increase their household income. However, it will also affect self-employed people in viable businesses with fluctuating, irregular or seasonal incomes. Following months in which a self-employed person receives high earnings they will see their Universal Credit reduced, in line with employees. But, unlike employees, in months when their income falls below the MIF threshold they will see their Universal Credit capped. This puts them at a significant disadvantage when compared to somebody earning an identical annual income evenly over 12 regular monthly payments.

Case study: Minimum Income Floor penalises viable business

Sophie is a self-employed cleaner. She applied for Universal Credit to help her manage time out of work as she was due to undergo major foot surgery. She normally earns around £800 per month when she is able to work. She has a steady client base waiting for her when she returns to work. Following her application she attended the Jobcentre and was told that when she is unable to work she would receive Universal Credit that should cover 85% of her rent and leave some money to live on. She next visited the Jobcentre to undergo a 'gainful self-employment' test. At this interview she was informed she would be subject to the Minimum Income Floor and her Universal Credit would only be £62 per month in total.

The MIF means that Universal Credit policy for self-employed people is focused on combating fraud or unviable businesses but it is a policy which carries significant risks. It could cut businesses off before they have had time to mature, discourage people from trying innovative business ideas and push people with fluctuating incomes away from self-employment even if their total annual income clears the MIF. It is important that this policy is tested to understand whether it is effective at preventing fraud, and how it

impacts new businesses. The MIF is applied at 12 months but research by the RSA has calculated that a business takes an average of 3 years before its owner begins to earn the National Minimum Wage.⁵ **The government should extend the MIF exception period for businesses that need more time to reach viability.**

As more self-employed people cross into the second year of their UC claim, Citizens Advice will be monitoring the impact of the MIF. **The government should test the impact of the MIF alongside and against other measures such as the business viability test and trials of in-work conditionality.** The MIF should be kept under review as it rolls out and different approaches - such as averaging functions rather than crude monthly measures - should be tested and piloted.

- Are any groups of self-employed people particularly likely to be affected by the MIF?

The Minimum Income Floor will affect people running non-viable businesses, as intended. However, its effects will also be felt by a wider group of self-employed people.

The MIF is particularly likely to affect people with irregular incomes. When irregular and unpredictable incomes interact with the MIF, the *total amount of financial support* that a self-employed person is entitled to under UC is significantly reduced. We are currently looking into the impact of this.

The MIF also carries risks for people whose self-employed earnings are low due to caring responsibilities and those who struggle to enter mainstream employment due to health conditions. The MIF is set equivalent to the hours requirements for in-work conditionality. If somebody is only required to seek 16 hours of work because they have caring responsibilities, the MIF should be calculated as NLW at 16 hours. It is crucial that this happens in practice. Otherwise, the MIF will particularly penalise these groups. The role of the workcoach is key in UC as their judgement and discretion will be used to determine a person's availability for work.

Surplus Earnings Rule

- To what extent will UC Surplus Earnings Rules offset the impact of the MIF?

The Surplus Earnings Rule is another attempt to protect against fraud, specifically the idea that people may 'manipulate' their income - for example by declaring large amounts of income in a single month and then reporting very low wages for several months afterwards - to maximise their UC payments. It is due to come into effect in April 2018.

UC aims to simplify the benefits system but the Surplus Earnings Rule is complex and together with the MIF will add further complexity. **The government should investigate**

⁵ RSA, 2011, [Boosting the living standards of the self-employed](#)

how well these rules will be understood, how they might interact, and whether they are achieving the right balance between preventing fraud and achieving the aims of Universal Credit.

The new rule will mean that if someone's UC award ends because their income increases, that income will be used to calculate their 'surplus earnings' for that month. This is set at the amount of income which exceeds the maximum permitted for a UC payment, plus £300. If the person then needs to reclaim UC in the following five months, their surplus earnings will be counted as income and will be used to calculate their new payments (often meaning a nil or very small UC payment) until the surplus earnings are used up. Self-employed people can also carry forward a loss in any of the previous 11 months and apply it to their assessment period. However, losses can only reduce assessed income down to the Minimum Income Floor in the relevant month. **This interaction between the Surplus Earnings Rule and the MIF means some self-employed people could benefit from some loss relief but many others are likely to be left significantly worse off.**

In practice, some self-employed people will build up 'surplus earnings' in months where they have higher earnings, and see these earnings added to lower earning months alongside the MIF. This could have significant financial consequences for seasonal businesses or those with irregular incomes.

The Low Income Tax Reform Group demonstrates this with the following illustration:

"In April, Henry has a profit of £7,000. Between May and September his profit is nil. Under the current rules, Henry will receive no universal credit in April and in May to September his universal credit will have the MIF applied. Under the new surplus earnings rules from April 2018, his 'surplus earnings' from April will be carried forward and used as income in May, June, July and August, potentially reducing his Universal Credit award even further."

Self-employed claimants of Universal Credit – lifting the burdens
Low Income Tax Reform Group⁶

The Surplus Earnings Rule also makes some significant assumptions about how businesses plan their finances. It is being introduced due to concerns about manipulation of income following the move to monthly reporting. However, the Surplus Earnings Rule pushes businesses towards monthly budgeting systems, even if they have legitimate business reasons for budgeting on an annual basis. For example those in the wedding industry may make the majority of their annual income during a few months of the year. Monthly budgeting in the way assumed by the Surplus Earnings Rule may

⁶ Low Income Tax Reform Group, 2017, [Self-employed claimants of universal credit – lifting the burdens](#)

prove difficult for these businesses and take them away from the most appropriate budgeting approach.

Recommendations

- Different versions and combinations of the 'gainful self-employment' test, minimum income floor and surplus earnings rules should be developed and tested. The government should measure the impact on fraud, development of businesses, and the extent to which genuine and viable businesses are unintentionally affected.
- The government should investigate how well these new and complex rules are understood, and whether they are achieving the right balance between preventing fraud and achieving the aims of Universal Credit.
- The Government should introduce specialised training on supporting self-employed people for Work Coaches. Jobcentres will need to engage far more with self-employed people including in deciding whether or not their business is viable. They will require additional training and input from specialists to make such decisions.
- The MIF exception period should be extended beyond 12 months for businesses that need more time to reach viability.

2. Free school Meals and passported benefits

- How should eligibility for Free School Meals in UC be determined?
- How can eligibility criteria for passported benefits balance UC work incentives with achieving value for money? Is this balance currently being achieved?
- Are current eligibility criteria for other passported benefits (eg. help with health costs and the Healthy Start Scheme) appropriate? If not, how should they be reformed?

Universal Credit aims to simplify the benefits system and make every hour of work pay. When designing eligibility criteria for passported benefits, such as Free School Meals, it is important to consider the impact on these aims.

Eligibility criteria for passported benefits create complexity in Universal Credit. People need to be able to predict their eligibility for the passported benefit from month to month and if they increase their hours or earnings. This relies on clear, accessible information and reliable administration of Universal Credit and the passported benefit.

Work incentives may suffer as the eligibility threshold becomes a 'cliff edge' for families. For example, if the free school meal threshold is set at £617 per month, families will lose access to this passported benefit on months that they earn more. It could take several additional hours worth of pay to get back to the equivalent household income as before being affected by a cliff edge for free school meal eligibility. This could have serious implications for a monthly family budget and discourage people from increasing their earnings. **The government should test the impact of earnings thresholds for**

passport benefits. It should look at how multiple thresholds for different passported benefits would interact and how this would affect real world work incentives.

Another difficulty arises from the impact of *monthly* income assessments. Families with fluctuating or unpredictable incomes, or even those with non-monthly pay schedules, could move above the threshold for eligibility to passported benefits on some months. This makes it difficult to plan monthly budgets and could discourage people from increasing their earnings. **The government should consider how it measures earnings for assessing eligibility to passported benefits. It should ensure people are not penalised for irregular or non-monthly incomes.** If eligibility changes monthly, administration and delivery of passported benefits will prove more difficult.

Recommendations

- Universal Credit and passported benefits need to be administered reliably and accurately. People should be provided with clear accessible information about their claims. This should include guidance on how changes in earnings and hours will affect their passported benefits as well as their Universal Credit.
- The government should assess how work incentives are affected by earnings thresholds for passported benefits such as Free School Meals. It should consider how multiple thresholds for different passported benefits would interact and the impact this has on real world work incentives.
- The government should consider how it measures income for assessing eligibility to passported benefits. It should consider assessment methods that ensure people are not penalised for irregular or non-monthly incomes.

3. Work incentives

- What would be the impact of adjusting a) the taper rate or b) UC work allowances on employment incentives in UC? Which option for reform would be most cost-effective?
- Should UC have different taper rates and/or work allowances for different claimant groups?
- How can the Department help UC claimants better understand the impact on their incomes of moving into work or taking on more hours?

At its launch Universal Credit had ambitions to significantly improve work incentives. Since then, a series of significant cuts to the benefit have reduced the financial awards available and weakened work incentives. The biggest change has been cuts to work allowances which are estimated to cut £5 billion per year from Universal Credit when it is fully rolled out⁷. Reducing the taper rate in Universal Credit and increasing work allowances are two methods that would help improve work incentives. Both let people keep more of their money as hours and earnings increase. However, **work allowances are more targeted than taper rate reductions and have the biggest real world impacts for people in terms of increasing their hours or earnings.**

Lowering taper rates - the proportion of benefit withdrawn for each pound of income

⁷ IFS, 2016, Green Budget <https://www.ifs.org.uk/uploads/gb/gb2016/gb2016ch10.pdf>

earned above the work allowance - improves marginal returns to work, but there needs to be substantial change for most families to feel a significant impact in their budgets and work incentives. Increased work allowances extend how much people can earn with no penalty in their benefit entitlement. This is a more targeted approach as work allowances are set at different rates (including £0) for different groups of benefit claimants. It can provide significant improvements in financial work incentives for those currently working the fewest hours. **To help the people most affected by poor work incentives, the government should invest in work allowances.** Alternatively, to make small improvements for all claimants, the taper rate could be reduced.

The introduction of a greater variety of taper rates and work allowances could lead to a more personalised benefit system. **Targeted and personalised work allowances or tapers could increase work incentives for specific households** who face greater barriers and costs to entering work. With the aim of simplifying the benefit system the government has instead simplified tapers and work allowances to reduce variation. It is not clear that this simplicity has meant people have a better understanding of their work incentives. People still struggle to understand how their benefit award is calculated and how it will be affected by changes in hours or earnings. In a DWP-commissioned survey of families claiming UC, knowledge of the work allowance and taper were found to be limited. Only one in six (17 per cent)⁸ had heard of the work allowance as part of their UC claim. Separate research⁹ commissioned by DWP found 'a widespread perception among families that they would be worse off on UC if they entered work'.

Work incentives need to be invested in and will only be maximised if the Department can develop or support the provision of **personalised tools which help people calculate their benefits and their total income as they increase their earnings** to see a strong financial incentive from work or more work.

Recommendations

- To help the people most affected by poor work incentives, the government should invest in work allowances. Alternatively, to make small improvements for all claimants, the taper rate could be reduced.
- The government should develop or support the provision of personalised tools which help people calculate their Universal Credit, passported benefits, and their total income as they increase their earnings.

⁸ DWP, 2017, Universal Credit Test and Learn Evaluation: Families. Findings from survey Wave 2 (Mar-Sep 2016). This was not significantly different from the proportion (14%) at Wave 1 (Dec 2015 - Jun 2016).

⁹ DWP, 2017, Understanding how Universal Credit influences employment behaviour.

4. Universal support

- How important is Universal Support to the success of UC?
- Is Universal Support working well, and how could it be improved?
- Are there local variations in the quality of Universal Support? If so, how should these be addressed?

Universal Credit brings together six existing benefits. By 2022, more than 7 million households will be receiving the new benefit¹⁰. In order for it to be a success, Universal Credit needs to work for millions of people in different circumstances and with varying needs. It needs to be administered reliably and people need to be able to manage their claims, with support where necessary.

Our evidence shows that people are struggling with various aspects of Universal Credit. It is crucial that people who need it are supported to make and manage their claims online, and to adapt to budgeting a single monthly payment. Universal Support should be providing this assistance and helping people adapt. We are concerned that support is not being delivered consistently and at a high enough standard in different areas. We have been monitoring Universal Support through our network of local offices. Our early insight shows that many local Citizens Advice offices are not confident that support services in their area will meet local need and demand among UC full service claimants. The evidence also suggests that, where services are funded by the Local Authority or Jobcentre, poor or complex referral systems mean that claimants are not accessing the support they need.

Finally, the evidence suggests that the scope of Universal Support is not currently adequate for the support needs people have when claiming Universal Credit. As structured it provides support to adapt to Universal Credit but not to get on to this benefit. For example, we see people who need help with making and completing UC claims, including understanding evidence requirements.

We are continuing to monitor Universal Support across England and Wales.

Recommendations

- The government should ensure people have access to a minimum, consistent standard of support to help them adapt to Universal Credit, which is published. This should, at a minimum, include
 - a) Ensuring all UC claimants are made aware of, and can access budgeting support and digital support which is appropriate to their needs and;
 - b) Expanding the scope to include help to make and complete a claim with support available to help people manage their finances whilst waiting for their first payment
 - c) Making funding available for free impartial debt advice to meet existing increases in demand as a result of Universal Credit.

¹⁰ Citizens Advice, 2017, Fixing Universal Credit

5. Childcare support

- Are UC systems for reporting childcare costs easy for claimants to use? How might they be improved?

Families on Universal Credit are asked to pay upfront for childcare and use receipts to claim costs back. This is a method to prevent fraud but the evidence requirements have proved challenging for some people. We have seen many UC claimants struggling to source and provide the required evidence. This has led to some people facing financial difficulty while they collect the evidence and then provide physical copies.

In July, Citizens Advice called for the introduction of online submission of childcare evidence. We are pleased Universal Claimants in full service areas can now submit photographic evidence electronically and will be monitoring the impact of this on our clients.

Recommendations

- In the long-term the government should look to simplify administration further and create one portal for childcare evidence, covering UC systems, tax free childcare and free childcare hours.