Citizens Advice submission to the inquiry on Universal Credit - November 2018

About Citizens Advice

Citizens Advice provides free, confidential and independent advice to help people overcome their problems. In 2017-18, we helped 2.6 million people face to face, over the phone, by email and web chat. We provide support in over 2,000 locations in England and Wales.

Since the rollout began, we have helped nearly 150,000 people with Universal Credit issues. Thousands more have accessed our Universal Credit advice content online. We have published several reports on Universal Credit based on our client data, insights from frontline advisers, and interviews with clients.

Q1. To what extent do the changes announced in the budget address any problems or weaknesses you have identified with the Universal Credit system?

Citizens Advice support Universal Credit's aims to simplify the benefits system, help people into work and take more hours, and support those who can't work. However, this opportunity is being undermined by delivery challenges and a number of design problems which are negatively impacting on some claimants - many of whom are in vulnerable situations.

We welcome the Government's recent investment and improvements announced in the budget. There are however fundamental problems with the benefit which still need to be addressed before millions more people are moved on to it.

a) Increasing work allowances

Under UC a 'work allowance' is the amount of money you're able to earn before your benefit payment starts to be reduced. They can provide improvements in financial work incentives particularly for those working the fewest hours and are currently available to people who have responsibility for a child or those with a limited capability for work.

As Citizens Advice has raised with the Committee previously, we have had strong concerns that under UC there are many reductions to the value of benefits for some claimants which have reduced the financial awards available and weakened work incentives.

The recent announcement that work allowances will be increased for some claimants is therefore very welcome. It is estimated that 2.4 million[1] working families with children and some disabled people will gain around £630 per year as a result of these changes. For working families with children the number expected to be better off under UC now matches the number that are expected to be worse off (1.5 million)[2]. It is clear though, given the reductions to the value of benefits in Universal Credit that this investment does not fully make up for the losses that some groups face.

In this response we have focussed on the impact on disabled people as this group face some of the largest losses in Universal Credit.

58% of households with a disabled adult will receive Universal Credit once it is fully rolled out[3]. It is therefore vital that adequate and appropriate financial support is provided to meet the needs of these claimants. Additional in-work financial support currently provided by the work allowance recognises that disabled people and those with health conditions are likely to work fewer hours overall and can be more limited in their choices in the labour market.

Our recent report UC for single disabled people identifies four principles that existed in the legacy system that we believe the government should consider fully integrating into UC to ensure the benefit provides disabled people with enough money to live on. These include ensuring people with a limited capability for work are able to trial part-time work without facing a significant penalty in their benefit award.

The increased work allowance for disabled people with housing costs who have a limited capability for work (both single and joint claims) is therefore particularly welcome and represents a change beyond reversing the 2015 cuts to UC. The changes do however still fall short of allowances within the legacy system. Permitted Work rules in Employment Support Allowance (ESA) allow disabled people to earn up to £125.50 per week without facing any reductions in benefit (equivalent to £6,526 per year). This is significantly higher than the increased work allowance for this group following the budget (equivalent to £3,430 per year).

In addition, we remain concerned that many disabled people are still likely to struggle to get the work allowance because it is not available to disabled people who are assessed as fit for work[4]. Working disabled people who do not get the work allowance can be over £300 a month worse off on UC compared to somebody getting the Disabled Worker Element that existed in Tax Credits[5].

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[1] HMT, Budget 2018, October 2018 (pg 77)
[2] Resolution Foundation, Back in Credit? Universal Credit after Budget 2018, October 2018
[3] Citizens Advice analysis based on national patterns of benefit claims from Family Resources Survey 2014-15 and constituency level administrative data from the DWP and HMRC (August 2015)
[4] Unless they have children. In this case they get a work allowance to reflect their needs as a parent but no additional support related to their disability or health condition.
[5] Citizens Advice, UC for single disabled people, October 2018

We believe one change that could help would be to allow Personal Independence Payment (PIP) and other qualifying benefit criteria give access to work allowances in UC. PIP supports disabled people and those with health conditions whether or not they are in work. It already acts as a passport to the Disabled Worker Element in Tax Credits. People could also be given access to the work allowance if they have previously claimed a Limited Capability for Work (LCW) or Limited Capability for Work and Work Related Activity (LCWRA) element in the same way Tax Credits looks at prior ESA claims.

For some disabled people who cannot work or do any work preparation (those in the LCWRA group), UC improves the financial support they get. However, disability premiums which were present in the legacy system have been removed in UC. Whether those unable to work are better or worse off (and by how much) is largely determined by which combination of disability premiums they would have received in the legacy system.

The government has acknowledged that the removal of the Severe Disability Premium (SDP), in particular, can create large reductions in financial support for people with high support needs. As a result they have announced that **people with existing SDP claims will not be migrated to UC until transitional protections are in place**. This is hugely welcome. The SDP provides extra financial support for disabled people who don't live with an adult carer and who often live alone. **We believe the government should use this opportunity to consider what alternative financial support can be put in place for those who are making completely new claims or would have become newly eligible for SDP support in the future.**

b) Extending the two-week Housing Benefit run-on that claimants migrating to UC can currently receive to income-related JSA, ESA and Income Support (from July 2020)

Prior to moving on to UC, many claimants are likely to have been paid weekly or fortnightly (estimated to be around 58%[6]), and/or have been used to having more frequent benefit payments. The transition to monthly payments, and the initial 5 week wait, is therefore a big adjustment for many people. We have continuously highlighted the struggles a significant group of claimants have in managing the initial wait for their UC payment[7]. Over the last year the government has acknowledged the problems many are facing and implemented a series of welcome changes to begin to help new claimants both during the initial claim process and adjust to the monthly payment cycle. This included introducing a two-week run-on for existing Housing Benefit claimants (from April 2018) to help prevent people from falling behind on their rent payments. Early findings from recent Citizens Advice research[8] indicate this policy may be starting to have some positive impact with fewer UC clients who started a new claim after April

[6] Resolution Foundation, Universal Remedy: Ensuring Universal Credit is fit for purpose, October 2017
[7] Citizens Advice, Making a Universal Credit claim, July 2018
[8] We are currently analysing data relating to how people manage their money under UC (collected via our network between April and September 2018)

2018 falling behind on rent, bills and other financial commitments. However, our data shows debt, and priority debt in particular, remains more prevalent in UC than legacy benefits.

The extension of a two-week run-on for existing claimants of out-of-work benefits is therefore also very welcome. This additional support should help an estimated 1.1 million claimants manage the transition to monthly UC payments[9]. While this is not due to be implemented until July 2020, we understand that prior to this work coaches will have the discretion to bring in this arrangement for those going through managed migration earlier through a 'discretionary payment'. We await further details of how this will work in practice and what guidance will be given to work coaches.

It is also important to note that, while welcome, this extension will not mean the initial wait for a first UC payment has been reduced to three weeks. It will only be available to existing claimants of income-related JSA, income-related ESA and Income Support so new claimants, not currently in receipt of one of these out-of-work benefits, will still have to wait five weeks for their initial UC payment. Currently there are also no proposals to introduce a similar run-on for existing tax credit claimants. This is a particular concern as Child Tax Credit is the main form of means-tested support for many families with children. For example, a lone parent on Income Support with two children will typically receive Income Support of £73.10 per week, but £117.40 a week of Child Tax Credit.

Citizens Advice believe DWP should consider introducing **an automatic two-week run on for all legacy benefits including tax credits, to help avoid gaps in income or negative financial impact during the managed migration process**[10]. Government also need to review the payment structures in Universal Credit both in terms of the impact during the initial wait for payment and the ongoing challenges for those who are not paid monthly given the evidence of the problems people are facing.

c) Reducing the maximum deduction cap for debt repayments from UC awards from 40% to 30% of the standard allowance from October 2019

d) Extending the period over which Advances may be repaid from 12 to 16 Months from 2021

Currently the reason for making a UC claim is often a change of circumstances such as losing a job, ill health, relationship changes or having children. Research has shown that life events such as these, particularly when they're unexpected, often reduce people's income and can be common triggers for unmanageable debt[11]. 9 in 10 of those we helped with their debts in 2017 said they had been through a recent change in their lives[12]. It is therefore vital that any benefit system, including UC, has an adequate mechanism for managing debt amongst claimants.

[9] HMT, Budget 2018, October 2018 (pg 77)
[10] Citizens Advice response to the SSAC consultation into the managed migration regulations
[11] Money Advice Trust, A decade in debt, September 2018 (pg 6)
[12] Citizens Advice, Walking on thin ice, 2018

As with legacy benefits, the DWP has the power to deduct sums of money directly from UC claimants each month to cover debt repayments for certain types of debt, including priority debts (such as rent arrears, council tax arrears and utility debt) and court fines. The way deductions work under UC does however differ from the legacy system. This includes having a higher deductions cap, benefits overpayments becoming more easily recoverable from more claimants, and most new UC claimants taking out repayable Advance Payments.

In the 12 months up to the end of October 2018 Citizens Advice helped over 6,300 clients with more than 6,750 UC deductions issues. The top three areas on which clients sought our help were Advance Payment repayments (1,520 issues), benefit overpayments (1,344 issues) and issues around the calculation of their deductions (921 issues). Evidence from our advisers[13] shows that high rates of deductions, particularly at the start of UC claims, is causing hardship amongst the people we help with UC.

Currently, the amount that can be taken to repay debts is capped at 40% of the UC Standard Allowance. For a single claimant aged over 25 years this is the equivalent of a monthly deduction of £127, under the revised cap, it will be reduced to £95. This lower deductions cap announced in the budget is welcome and it will improve the situation for some people.

However, we still see clients who have deductions at below 30% of their standard allowance who are in hardship. There are also other issues with the current system of deductions under UC that remain unresolved. These include:

- The fact that it is currently easy for multiple deductible debts to build up early in UC claims (eg. Advance Payment repayments)
- High rates of deductions exist for single debts, such as rent (up to 20%) and benefit overpayments (up to 25% if earning)
- There is currently no requirement for DWP/Work Coaches to undertake an affordability assessment before setting up deductions and there is a lack of flexibility within the system.
- Our recent analysis[14] shows claimants subject to deductions often have a poor understanding of the reasons for the deduction(s).

The last publically available DWP data shows around 6 in 10 new UC claimants are now taking out Advance Payments[15]. Our evidence suggests that the repayment of Advances is one of the factors contributing to problems associated with deductions in the early stages of a UC claim. The announcement that the repayment period will be extended from up to 12 months to up to 16 months is welcome, however it is unclear why this change is being delayed until 2021. We also remain concerned that ongoing recovery of

[13] Analysis of 236 evidence forms (client case studies with casenotes) provided by local Citizens Advice Advisers between November 2017 to May 2018
[14] Analysing Citizens Advice data, client case notes, insight from our frontline advisers and client case studies during the spring and summer of 2018
[15] NAO, Rolling out Universal Credit, June 2018 (pg 32)

debts from benefits that are not keeping pace with inflation will leave people struggling on a lower income for a longer period of time.

The current priority order also means Advance Payments are recovered before priority debts or other government debts. The fact that so many UC claimants are turning to Advance Payments to help them manage their money during the initial wait for their UC payment means for some claimants this could lead to a potential delay in the repayment of priority debts and encourage third parties (such as landlords, local authorities or energy suppliers) not to engage with the deductions system. While the extension of the Advance Payment repayment period could go some way to relieve this situation it is an area that needs to be carefully monitored to ensure there are no unforeseen consequences of this policy which could exacerbate hardship for some indebted claimants.

e) Extending the start-up period within which self-employed UC claimants are not subject to the Minimum Income Floor (MIF) from 12 months

There are three key changes that will affect self-employed people moving onto UC - the initial gainful self-employment test; the Minimum Income Floor (MIF), and the surplus earnings rule. Taken together, they constitute substantial changes to the benefit system for self-employed claimants - yet all are as yet largely untested.

The introduction of the MIF is probably the biggest change facing self-employed people moving on to UC. Currently the MIF takes effect immediately for people making a new claim for UC who have already been self-employed for more than 12 months. Claimants setting up a new business have a 12 month grace period before the MIF applies.

In our report Universal Credit and non-traditional employment we highlighted the real challenges likely to face many self-employed people once the MIF is applied which could significantly reduce the support they receive from the in-work benefits system.

One of the most significant factors is the variability of many self-employed people's incomes, which can be seasonal or simply highly unpredictable from month to month. A recent Citizens Advice survey found nearly half (49%) of people who are self-employed or in insecure work said their income changed either a fair amount or a great deal from one month to the next, compared to 13% of all adults[16]. A variable monthly income can create budgeting challenges even for those not claiming benefits, but can be exacerbated for people on UC due to the way in which benefit payments are calculated.

Our analysis[17] shows that because of the MIF, being self-employed with an unpredictable income can significantly reduce the total amount of support that someone is entitled to under UC - leaving them worse off compared to directly employed counterparts with identical annual earnings simply because of the nature of the work they undertake. The impact is even greater for self-employed workers whose

[16] Citizens Advice, Walking on thin ice, 2018
[17] Citizens Advice, 'Universal Credit and non-traditional employment, April 2018 (pg 7-8)

earnings are largely seasonal.

We welcome the extension of the 12 month grace period to all new self-employed UC claimants before the MIF applies. This should give all self-employed claimants more time to develop their business, although it is still unclear how long is needed for this stage of business development. However, we do not believe this addresses other fundamental issues with the MIF, particularly for self-employed workers whose income changes from month to month.

The effects the MIF will have are largely unknown. It has had little evaluation to date and there are no comparable international schemes. It may incentivise self employed claimants to increase their earnings, but it could also lead to them abandoning otherwise viable businesses that simply require more time to become established. It also puts self-employed people at a significant and unfair financial disadvantage compared to their employed counterparts.

We believe the DWP should:

- **review the impact of the Minimum Income Floor to ensure self-employed people are not disadvantaged financially compared to people in employment, and**
- **undertake a full evaluation of this policy including trials of alternative models, such as allowing claimants with fluctuating monthly wages to average their incomes over a set period.**

The MIF could also be replaced altogether by requiring self-employed people to undergo more regular tests to ensure they remain gainfully self-employed which, like in-work conditionality, could be triggered if recorded income falls below the MIF threshold for a set period of time.

Q2. How, in your view, should the Department assess its readiness for transferring existing benefit claimants to Universal Credit? In particular, are there any specific tests or targets that the Department should set itself before proceeding?

Managed migration will affect nearly 3 million people once Universal Credit has been fully rolled out. Many people in this cohort will have had little or no recent engagement with the Jobcentre. At least a third (36%) of households due to go through the process of managed migration include someone with a disability or long-term health condition.

It is therefore vital that the process is safe and straightforward for claimants, and that people are given the right support throughout this transition.

The Government has stated it intends to take a 'safe, steady and secure approach' to the rollout of managed migration. Citizens Advice has been calling for readiness checks ahead of further expansion of Universal Credit, and we therefore welcome the Government's recent commitments to setting success criteria and publishing an impact assessment ahead of the expansion of managed migration. We have set out three principles below which we believe should shape its approach to assessing performance and readiness within Universal Credit, ahead of the acceleration of managed migration.

We have also suggested some areas of performance in which we believe targets or KPIs would be beneficial both for UC in general and for assessing readiness for managed migration. This list is not exhaustive and any proposed targets should be explored in depth during the test year for managed migration, to ensure they contribute to positive outcomes and are reflective of claimant experiences.

a) Approach to monitoring and evaluation

The Government recently confirmed that it intends to proceed with a test phase from July 2019 and will not significantly increase the numbers moving onto Universal credit through managed migration until July 2020. We believe this is a positive step. Sufficient time must be given to testing and improving the process before it is expanded. Safeguards also need to be in place to ensure those claiming during a test phase do not face additional detriment or hardship.

In our response to the SSAC consultation on managed migration, we called for the DWP to conduct a transparent assessment of the readiness of UC systems before significantly increasing the volume of claimants through managed migration.[18] We therefore also welcome the Government's commitment to publish an impact assessment for managed migration after the test phase and before the process is accelerated.

For this process to be meaningful, it is important that the Government can set out clear criteria for what 'good' looks like and establish measures that are reflective of the experiences of both claimants and frontline staff. It should also provide an opportunity to track progress towards the intended benefits of Universal Credit.

To achieve this, we recommend that Government follow three principles in order to establish a framework for monitoring the performance and readiness within Universal Credit.

i) Government should consult with claimants, frontline organisations, and key stakeholders when setting success criteria

Any framework for measuring the success of Universal Credit must reflect the experiences of people and households claiming the new benefit, as well as the organisations that support them. It should encompass indicators both for system readiness and the impact of Universal Credit on claimants.

We recommend that the Government continue to engage with frontline organisations and stakeholders when setting out success criteria for Universal Credit and involve them in tracking progress. Stakeholders have experience, expertise and insight into how the new benefit is working on the ground. In many cases, they also hold data which may be helpful in assessing the nature and scale of the impact on individual households. The

[18] Citizens Advice, Response to the SSAC consultation into managed migration regulations, October 2018

Government should also continue to explore and utilise opportunities to involve claimants in the design and evaluation of Universal Credit.

ii) Success criteria must capture experiences of different groups of claimants

It is important that performance indicators are considered across different groups of claimants and those claiming different UC elements. There is a risk that general measures will mask the experiences of specific groups who are struggling.

This risk is particularly acute give that, in many cases, general measures may overlook areas where negative experiences are having a disproportionate impact because they affect groups particularly vulnerable to hardship.

For example, the most recent measures of payment timelines for new UC claims show that only a third of new claims which include the Limited Capability for Work Related Activity elements are paid in full and on time, compared with 81% of all new claims at that time.[19] As people with a disability or long-term health condition will generally face higher living costs, any delay in payment is likely to have a disproportionate impact.

To support this principle, the DWP must progress its work identifying and tracking the experiences of people with additional support needs and those particularly vulnerable to hardship.

iii) The Department for Work and Pensions should regularly and transparently review progress against its success criteria.

The Department intends to continue its 'test and learn' approach throughout the next stage of Universal Credit rollout. To support this process, it is important that the Government continues to provide opportunities for MPs, charities and other 3rd party organisations to review and monitor its assumptions in tracking the performance of Universal Credit.

We recommend that the Government commit to regularly publishing data to support its framework for monitoring and evaluating the rollout of Universal Credit. As well as helping to facilitate a process of continuous feedback and improvement, this would provide some confidence in the Department's evolving plans for expanding the volume of people moving onto it.

b) Suggestions for performance indicators

The DWP has indicated that it will use the test phase of managed migration to establish a set of criteria to assess readiness ahead of the expansion of the rollout. We have long been calling for readiness checks ahead of further rollout, and believe this is the right

[19] NAO, Rolling out Universal Credit, June 2018. Latest figures show that the overall proportion of new claims not paid in full and on time now stands at 16% (see DWP, Universal Credit: 29 April 2013 to 11 October 2018, Nov 2018).

approach. We would urge the Department to continue engaging with stakeholders on this issue throughout the test year.

Outlined below are the areas we believe Government must consider setting targets in order to monitor performance. This draws on evidence and insight gathered from helping our clients with Universal Credit issues. As a result, the list is not exhaustive and we recognise that other frontline organisations will bring their own data and insights to this process.

- **Payment timeliness** - Delays in payments put people at risk of falling behind on bills and can leave them struggling to make ends meet. Payment timeliness must be improved before managed migration is expanded and performance should be monitored across different types of claimant.

- **Claim process** - Our recent report highlighted the problems people can face in making a new claim to Universal Credit.[20] This reflects challenges claimants face in understanding and navigating the system as well as issues with the delivery of the new benefit. We would like to see the claim process simplified for claimants ahead of managed migration. In addition to payment timeliness, improvements in this area could be measured by looking at:

    - Claim drop out rate
    - Stage at which people drop out of a claim
    - Length of time taken to complete a claim

- **Service delivery** - The introduction of Universal Credit represents a major overhaul of the benefit system. While we should continue to expect a degree of error and confusion as frontline staff and claimants adapt to the new benefit, it is important to minimise the detriment caused to claimants. To ensure there is sufficient capacity within the DWP to support the delivery of a good service for claimants, measures could include:

    - Length of wait for claimants calling the Universal Credit helpline
    - Length of wait for response to enquiries posted via the online journal
    - Workload of work coaches and UC case managers
    - Take up and wait for home visits to provide support in completing a Universal Credit claim

- **Build -** In its review of Universal Credit, the National Audit Office recommended that the DWP 'ensure that operational performance and costs improve sustainably before increasing caseloads through managed migration'.[21] From a claimant perspective, Citizens Advice advisers continue to report delays and errors where processes have not yet been automated. Before expanding the rollout of managed migration, the DWP should:

[20] Citizens Advice, Making a Universal Credit claim, July 2018
[21] NAO, Rolling out Universal Credit, June 2018

- Set out progress and timelines on automation of key aspects of the claim process
- Progress on the known backlog of areas that need fixing, creating or adapting

- **Impact on claimants** - Citizens Advice and others have found evidence which suggests that Universal Credit can have a negative impact on people moving onto the new benefit - for example, falling behind on essential bills or rent payments, difficulty adapting to fluctuations in monthly payments.[22] Whilst recent policy changes designed to address some of these issues are welcome, is important that the DWP continues to explore the impact of Universal Credit on different groups of claimants and uses this to prioritise work moving forward. We recommend that the DWP:

    - Urgently progress work to identify and track the experiences of vulnerable groups within Universal Credit
    - Monitor awareness of Alternative Payment Arrangements (APAs) alongside take up
    - Work with stakeholders to monitor the impact of Universal Credit on household finances

- **Impact on 3rd party organisations** - The National Audit Office found that 'Universal Credit is creating additional costs for local organisations that help administer Universal Credit and support claimants'.[23] Issues associated with the introduction of Universal Credit, such as the digital approach and the need for explicit consent, presented new challenges for 3rd party organisations. Ahead of the expansion of managed migration, we recommend that the DWP:

    - Assess demand amongst claimants for support for all aspects of Universal Credit, including longer term support needs, from 3rd party organisations outside of that provided by DWP and JCP

[22] Citizens Advice, Universal Credit and Debt, Sept 2017. (See also e.g. Trussell Trust, Left Behind, April 2018; CPAG, Rough Justice, August 2018).
[23] NAO, Rolling out Universal Credit, June 2018