UNIVERSAL CREDIT: WHAT NEEDS TO CHANGE?
FULL REPORT

July 2021

This report accompanies the briefing *Universal credit: what needs to change to make it fit for children and families*. It provides a detailed description of every issue and recommendation outlined in the briefing, grouped into five areas:

1. Improving adequacy
2. Filling the gaps
3. Supporting people into work and in work
4. Starting a claim
5. Managing a claim

This report is not an exhaustive list of all the problems with universal credit (UC), but covers what we think are the most important changes needed. Where possible, we have specified the cost of each recommendation and its impact on child poverty. These estimates were calculated in July 2021 using the tax-benefit microsimulation model UKMOD and the most recent official statistics available. Many of the uncosted recommendations are administrative improvements that would remove unfair and contradictory rules, or remove access barriers, and can be achieved at minimal cost.

To illustrate the issues, we have included some examples from CPAG's Early Warning System (EWS), which collects case studies from frontline practitioners working directly with families on the problems they are seeing with the social security system.

Child Poverty Action Group
30 Micawber Street
London N1 7TB

1. Improving adequacy

1.1 Restore and maintain the value of UC: abandon plans to cut the standard allowance, increase the child element and uprate UC in line with costs as a matter of law

Prior to the pandemic, the value of UC had been falling ever since it was introduced due to below inflation increases and freezes. When the pandemic hit, to help address inadequacy, the government increased the value of UC by £20 a week. Cutting UC in October 2021 will reduce the incomes of millions of people across the UK by over £1,000 a year, and cut the level of unemployment benefit to its lowest in real terms since 1990/91.[1]

The £20 increase to UC did not extend to families receiving legacy benefits, other than working tax credit, nor did it affect the amount of support provided for children. Children's benefits had been frozen for four years prior to the pandemic, and only increased with inflation since 2020/21.

The current real value of UC's child element remains substantially below its 2013/14 value. Research has shown that low-income families with children have seen the greatest increase in living costs since the pandemic began, when it became harder to access free services, demands on home energy increased and resources for home schooling were needed.[2] Increasing the child element by £5 a week would make good on some of the losses, however increasing it by £10 would better reflect the rise in living costs families with children have faced, both as a result of the pandemic, and more widely.[3]

Recommendations:

- Abandon plans to cut the standard allowance of UC by £20, and extend the increase to recipients of legacy benefits (who will eventually transition to UC). This would cost an estimated £7.5 billion a year, and lift 350,000 children out of poverty.
- Reinvest in the child element of UC, and child tax credit, to reflect the rising living costs faced by low-income families with children. An increase of £10 a week would cost an estimated £2.9 billion a year, and lift 400,000 children out of poverty.
- Prevent the level of UC from regressing further by continuing to uprate all elements of UC in line with the cost of living, as a matter of law.

Policy change	Annual cost (£bn)	Children lifted out of poverty
Making the increase permanent and extending it to legacy benefits	£7.5	350,000
Increasing the child element of UC and child tax credit by £5 a week	£1.4	200,000
Increasing the child element of UC and child tax credit by £10 a week	£2.9	400,000

[1] M Brewer, A Corlett, K Handscomb and D Tomlinson, *The Living Standards Outlook 2021*, The Resolution Foundation, January 2021
[2] 36 per cent of families with children in the bottom fifth of the income distribution reported spending more during the pandemic compared to 22 per cent of families with children in the top fifth. M Brewer and R Patrick, *Pandemic Pressures: Why families on a low income are spending more during Covid-19*, Resolution Foundation, January 2021
[3] D Hirsch, The cost of a child in 2020, CPAG, October 2020

1.2 Prevent UC being eroded by debt repayments: reduce the maximum deduction rate and write off historic benefit-related debts

In August 2020, around 41 per cent (1.85 million) of UC claimants were subject to some form of deduction which meant their UC award was lowered in order to repay a debt.[4] Since April 2021, the maximum combined deduction rate has been 25 per cent of the UC standard allowance (reduced from 30 per cent). While this reduction is welcome, millions of households are still receiving a fraction of the UC that they are assessed to need.

The most common reason for debt deductions is because a person has received an advance payment of UC (affecting 1.17 million claimants). This is generally because UC claimants have to wait five weeks before they receive their first payment, and they need an advance in order to survive during this period. Later in this report (see 4.1) we call for these advances to be made non-repayable.

Debt deductions for historical tax credit overpayments are also common. The UK's tax authority, HMRC, previously reclaimed overpayments through the tax system, but if someone's income remained below the personal allowance the overpayment couldn't be reclaimed. However, UC allows HMRC to reclaim historic overpayments through deductions, meaning that families who have experienced a prolonged spell of low income are pushed deeper into poverty when they move to UC.

The research project *Covid Realities*, which works with parents and carers living on a low income, highlighted the impact debt deductions have on budgeting and reducing what little income families had to get by on:[5]

> *"The government needs to understand the effect a deduction has on a person's ability to survive on UC. Until you have been in that position you will never understand it."* Danni, Covid Realities participant

> *"Our rent alone is over 95 percent of our total benefits. I have not been able to find work which fits around the children's school times. On top of it all, this month the government have taken money to pay for previous benefit overpayments (made when my late husband was dying). Our situation is precarious, we struggle enormously."* Aurora, Covid Realities participant

Recommendations:

- Reduce the maximum combined deduction rate to 20 per cent of the standard allowance. This would provide affected single adult families with an additional £20 a month, and couples with another £25, and ensure that UC awards more closely match assessed need.[6]
- Write off benefit-related debts owed to the Department for Work and Pensions (DWP) or HMRC after two years, ensuring that those who experience a prolonged spell of low income are not saddled with indefinite debt repayments.

---

[4] T Lee and R Patrick, *Budget 2021: Delivering on debt deductions?*, CPAG, March 2021

[5] R Patrick and T Lee, *Advance to debt Paying back benefit debt – what happens when deductions are made to benefit payments?*, Covid Realities, January 2021. Also see note 4.

[6] Figure assumes that the UC increase is kept in place. Without the increase it would be £16 and £20 respectively.

EWS case: A lone parent who was a student had a UC overpayment of £1,000 because the DWP did not act on information about student income that the client provided on time. The client's adviser asked the DWP to use their discretion not to recover the overpayment and included a statement demonstrating financial hardship, but they refused.

2. Filling the gaps

2.1 Provide support that reflects household need: remove the two-child limit and the benefit cap

The benefit cap limits the amount low-earning and non-employed households can receive through UC, regardless of need. The policy disproportionately affects households with dependent children – in February 2021, 166,000 capped households (83 per cent) contained children. The level of the cap hasn't been revised since it was lowered in 2016, meaning that the shortfall between what capped families receive and their assessed need has increased with the cost of living. The cap also prevents affected families from getting the UC increase.

A key stated aim of the benefit cap is to incentivise people into paid work, but a 2019 Work and Pensions Committee inquiry found that the majority of capped families were not required to look for paid work because they faced considerable barriers doing so and therefore were not required to.[7]

UC is also restricted through the two-child limit, which deprives families with a third or subsequent child born after 6 April 2017 from receiving up to a further £2,845 in support, regardless of their work status. It means that a low-income family expecting their third child and receiving UC will only receive £14 a week in child benefit, when the estimated cost of providing a child with a socially accepted minimum standard of living is £93 a week.[8] A Work and Pensions Committee inquiry into the two-child limit found no evidence that the policy was encouraging parents to work more, but did find evidence that it was "all but impossible for some families to increase their working hours to compensate for their losses."[9]

Both the two-child limit and the benefit cap undermine one of the founding principles of the social security system: that entitlement is based on individual and family needs. They have also driven an increase in the number of children in poverty and the depth of child poverty. In the three years after the two-child limit was introduced and the benefit cap was lowered the number of children in larger families living in deep poverty increased by 440,000.[10]

---

[7] Work and Pensions Committee, *The benefit cap: Twenty-Fourth Report of Session 2017–19*, House of Commons, March 2019
[8] D Hirsch, *The Cost of a Child in 2020*, CPAG, October 2020, Table 3.1. This figure is the estimated additional cost of raising a third child, excluding rent, childcare and council tax.
[9] Work and Pensions Committee, *The two-child limit: Third Report of Session 2019*, House of Commons, November 2019
[10] Department for Work and Pensions, *Households below average income: for financial years ending 1995 to 2020*, March 2021. Larger families are those with three or more children.

Recommendation:

- Abolish the two-child limit and the benefit cap. Of all the recommendations in this report, abolishing these policies would be the most effective way to target money towards children in poverty.

Policy change	Annual cost (£bn)	Children lifted out of poverty
Removing the benefit cap	£0.6	60,000
Removing the two-child limit	£1.0	200,000
Remove the benefit cap *and* the two-child limit	£1.9	285,000

2.2 Remove the young-person penalty: increase the amount for under 25s to the 25+ rate

Prior to the £20 increase, the UC standard allowance for people aged under 25 was 20 per cent lower than the rate for those 25 and over.[11] This fits into a long-term trend of reductions in support for young people which began in 1996 with the introduction of jobseeker's allowance.

UC introduced a new cut in support for the under 25s, as the lower rate also applies to younger parents. Under UC, single parents under 25 receive around £65 less each month, and couple parents receive £100 less. In 2019/20, 45 per cent of parents aged under 25 were in poverty, almost double the poverty rate among older parents (24 per cent).[12] As more and more people move from legacy benefits to UC, poverty among younger parents and their children will deepen.

Recommendation:

- Increase the standard allowance for under 25s to the amount provided to other working-age adults. This would cost an estimated £0.6 billion and lift 10,000 children out of poverty.

Policy change	Annual cost (£bn)	Children lifted out of poverty
Increase UC for all younger people to the rate for those aged 25+	£0.6	10,000

2.3 Support all those with a work-limiting condition: restore the £30 a week payment for those with a limited capacity for work

There is widespread evidence that disabled people face considerably higher living costs,[13] but only some UC recipients with a recognised disability or health condition are provided with additional financial support.

Under UC, recipients with a recognised work-limiting disability or health condition are divided into two entitlement groups. Those assessed to have 'limited capability for work *and* work-related activity' receive an

---

[11] With the increase in place, the standard allowance for people aged under 25s is 16 per cent lower than the rate for those over 25.
[12] See note 10
[13] On average, disabled people face extra costs of £583 a month. E John, G Thomas and A Touchet, *The Disability Price Tag 2019*, Scope, February 2019

additional £79 a week, while those assessed to have 'limited capability for work' only, since April 2017, receive no additional financial support. Previously, they would have received an additional £30 a week, and those placed in this group prior to April 2017 still do.

Restoring the £30 per week payment to this group would ensure all UC recipients assessed to have a work-limiting disability or health condition are provided with some additional financial support. The cost of providing this would be minimal as only a small minority of UC claimants are in this category (24,000 in February 2021).[14]

Recommendation:

- Recognise the additional costs that low-income people with a disability or health condition face by providing all UC recipients in the 'limited capability for work' group with an additional £30 a week.

3. Supporting people into work and in work

3.1 Support families into work: increase the amount each adult can earn before their UC is clawed back

Trends from the past two decades show that, in a couple household, having both members of a couple in work is increasingly important in preventing child poverty. However, the design of UC makes it incredibly hard for parents to escape poverty through work.

As soon as a disabled person or a family with children earns more than the monthly 'work allowance', their UC is clawed back at a rate of 63p per pound earned. This taper rate is considerably higher than the 55 per cent taper put forward when UC was originally proposed (though it is slightly lower than the 65 per cent taper UC had when first introduced).

For the vast majority of families with children the work allowance is just £293 a month,[15] the equivalent of working one day a week at minimum wage. This work allowance applies to the entire family, which often means that when the second person in a couple enters work the family's UC income tapers away instantly.

The low and limited work allowance, combined with the high taper rate, make it harder for parents to increase their incomes through employment and exacerbate in-work poverty. There are many ways that UC could be modified to address this. A common recommendation is to reduce the taper rate to 55 per cent. While this would allow parents to keep more of what they earn and reduce in-work poverty, a more effective way to achieve the same outcomes would be through increasing the work allowance.

Providing a work allowance of £583 per household, with couples allocated a work allowance of £293 each, would more effectively reduce poverty per pound spent. This is because it would target money to those who face the highest barriers to employment – single parents, disabled people and second earners in couples, who often have to arrange childcare in order to work. Alternatively, increasing the work allowance to £617 for each adult in the

[14] Department for Work & Pensions, Households on Universal Credit Dataset, Stat-Xplore. In February 2021, 24,000 UC recipient households were in the "limited capability to work" group.

[15] In February 2021, 76 per cent of UC recipient households with children received the housing element and would have a monthly work allowance of £293, the remaining 24 per cent had a higher work allowance of £515. See note 14

household would ensure that UC is not withdrawn before someone is earning the equivalent of a full-time job at the minimum wage.

It is not possible to cost these changes accurately as we cannot forecast to what extent they would result in more UC recipients entering work (though the experience of working tax credits suggests that a higher work allowance would support more people to enter work).[16] The figures in the table below assume no behavioural change and thus represent the maximum cost and minimum impact on poverty. Assuming a higher work allowance led to an increase in the number of UC recipients in work, the reduction in child poverty would be greater and expenditure on UC would be lower than shown in the table.

Recommendation:

- Increase the work allowance for those who face the greatest barriers to entering work and increasing their hours: second earners in families with children, single parents and disabled people.

Policy change	Annual cost (£bn)	Children lifted out of poverty
Lower the taper to 55 per cent	<£2.8	>275,000
Provide a second earner work allowance of £293	<£0.7	>50,000
Double the work allowance with an equal split between couples	<£1.7	>200,000
Increase the work allowance to £617	<£3.3	>450,000
Provide a second earner work allowance of £617	<£1.5	>100,000

3.2 Provide practical support with the cost of childcare: increase the limit, cover 100 per cent of costs upfront, give greater flexibility in the rules of access

UC allows parents in work to claim back 85 per cent of their childcare costs up to a certain limit. But the way this support is provided makes it difficult for parents to take it up. By default, childcare support is paid in arrears, with parents typically paying for it upfront out of their own pocket, and then claiming back the eligible costs afterwards. The High Court has found this to be unlawfully discriminatory against women, and irrational.[17]

The 85 per cent limit means that parents pay at least 15 per cent of their childcare costs regardless of their income. If there is no childcare available within the cost limit, which has been frozen since 2016, parents have to pay any additional amount without help.[18]

[16] D Finch, *Universal Challenge: Making a success of Universal Credit*, Resolution Foundation, May 2016
[17] R (Salvato) v Secretary of State for Work And Pensions [2021] EWHC 102 (Admin), https://www.matrixlaw.co.uk/wp-content/uploads/2021/01/Salvato-v-SSWP-Final-Judgment.pdf
[18] Research shows that this childcare cap can leave some families living in high cost areas worse off after entering work. D Hirsch, *The Cost of a Child in London*, CPAG, June 2021

UC's childcare package means that when a recipient parent starts a new job they are expected to find a suitable childcare placement, and a way to pay for it, before UC will support them and before they receive their first pay cheque. This system makes budgeting and entering work challenging for parents.

While parents may get help with upfront childcare costs via the flexible support fund, it is a discretionary fund that has not been well promoted or used,[19] and if those claimants receiving help with childcare costs were to access it consistently, the fund would quickly run out of money.

EWS case: A lone parent moved from tax credits to UC following a relationship breakdown. She does not have the money to pay her nursery fees upfront in order to reclaim them from UC. She has accrued arrears of over £1,000. Her nursery place and consequently her job are at risk if she cannot pay the fees. Her work coach is unsympathetic and has not allowed her to access the flexible support fund.

Recommendations:

- Increase the amount of childcare costs covered to 100 per cent, and pay childcare costs upfront so that claimants do not have to reject job offers, give up work or get into debt because they cannot afford childcare.
- Periodically review and update the limit to reflect any increases in childcare costs, giving particular consideration to high-cost areas.
- Expand eligibility for the flexible support fund so it can support all those for whom childcare access would facilitate employment (for example, parents attending an interview).

The effect of having two earners for a family with children on UC

One person in a couple works 30 hours a week at minimum wage and earns £1,091.13 a month after tax. The other person in the couple looks after their two children, aged four and seven. They rent a two-bedroom home costing £650 a month. They have a UC award of £1,263.34 a month (including the temporary UC increase) and receive £152.32 a month in child benefit. The family's net income after housing costs is £1,856.79.

The primary carer of the children takes a part-time retail job of 16 hours a week at minimum wage, and earns £617.76 a month after tax. They now pay for childcare, which costs £329 a month. Their UC award falls slightly to £1,153.80 a month (while the family's additional earnings causes their UC award to drop, this is somewhat countered by additional help towards childcare costs). The family's net income after housing and childcare costs is £2,036.01.

Outcome: the family does 70 hours more work in a month, earns £617.76 after tax, but is only £179.22 better off. The family's additional income means they are no longer defined as in poverty, but their income after childcare costs means they remain below the poverty line.

[19] Figures from 2016-17 shared with the Work and Pensions Committee show that 2.3 per cent of the fund was spent on childcare. Work and Pensions Committee, *Universal credit: childcare costs*, House of Commons, December 2018

3.3 Provide predictable support to low-income workers: introduce fast and effective mitigations for working people paid on non-monthly cycles

UC's rigid system of monthly earnings assessment means that UC awards can be unpredictable for those paid weekly, fortnightly or four-weekly,[20] even when their underlying earnings patterns have not changed. This makes budgeting difficult. People may see their UC award fall to zero, or find themselves subject to the benefit cap, in some months but not others.

UC's monthly assessment system makes it impossible for people who aren't paid on the same date every month to anticipate what their UC award might be. It often leaves people out of pocket and the onus is on the recipient to challenge the DWP's discrepancies.

Recommendations:

- Ensure that working claimants paid on non-monthly cycles receive predictable and consistent UC awards in the same way as those paid monthly. This could be done using pay cycle information, that the DWP already has access to, to identify assessment periods where claimants will receive a higher number of wage payments than normal, and to devise a solution that mitigates the impact of the fluctuating UC amounts in these assessment periods.

EWS case: A lone parent has her part-time earnings topped up by UC, including additional amounts for her disabled child and the carer's element. She gets paid on the last Thursday of the month so sometimes she is paid twice in one assessment period (which runs from the 28th of one month to the 27th of the next), and her UC payment drops accordingly. She has asked for this to be looked at but her request was dismissed.

3.4 Reflect the reality of insecure work: scrap the minimum income floor and surplus earnings rules

Before the pandemic, the minimum income floor meant that self-employed recipients of UC were assumed to have earnings equivalent to the minimum wage for the amount of hours that person was considered available for work, regardless of what they actually earned. Research shows that this is an unrealistic assumption: analysis from the TUC found that half of self-employed adults aged 25 and over were earning less than minimum wage,[21] and the family resources survey shows that the earnings of the self-employed are a fraction of employees' earnings.[22] Despite this, the minimum income floor rule is due to be reintroduced in August 2021, after a period of suspension due to COVID-19.

---

[20] A sizable proportion of working UC claimants are not paid monthly. A 2017 report found that 58 per cent of new claimants moving onto UC after leaving employment were paid either fortnightly or weekly in their previous job. M Brewer, D Finch and D Tomlinson, *Universal Remedy: ensuring Universal Credit is fit for purpose*, Resolution Foundation, October 2017

[21] TUC, *Two million self-employed adults earn less than the minimum wage*, September 2018

[22] Department for Business, Innovation and Skills, *The income of the self-employed*, February 2016

EWS case: A self-employed claimant is doing erratic work as an actor. He receives UC and the minimum income floor is applied. The client has mental health problems as well as learning difficulties. He is at risk of homelessness as a result of the minimum income floor causing his UC award to be reduced, pushing him into rent arrears. An adviser has helped him to stop his self-employment, and he now receives UC without the minimum income floor being applied. Now the client is not doing the work that was beneficial to his mental health and has to try to clear debts that accrued while his payments were reduced.

The self-employed and employees alike are also disadvantaged by the surplus earnings rule in UC, which carries over 'surplus earnings' to count against someone's UC award the following month. This does not reflect the reality that the earnings of many working UC recipients often fluctuate significantly, for example seasonal workers or self-employed people who cannot control which month clients pay their invoices. This rule can leave people much worse off than a monthly-paid employee with the same annual earnings.

EWS case: A 24-year-old lone parent was made redundant when the cafe she was working in closed due to the pandemic. She received statutory maternity pay in a lump sum of £5,000, which was deducted from her UC in the subsequent two assessment periods due to the surplus earnings rule.

These excessively complex rules make people's monthly UC awards difficult to predict, deter people from entering self-employment or taking seasonal work, and obscure the relationship between earnings and entitlement which is meant to be easy for claimants to understand.

Recommendation:

- Scrap both the surplus earnings rule and the minimum income floor.

3.5 Stop policing working people: remove in-work conditionality

UC is the first benefit programme in the UK to apply conditionality to recipients who are already in work. Currently in-work conditionality applies to a limited number of claimants earning below a certain threshold who may be expected to find additional employment. However, the DWP is developing an enhanced in-work conditionality regime that will extend to more people.

The evidence that in-work conditionality leads to an increase in earnings is limited. The DWP's own randomised control trials found that "the recorded impacts are small in magnitude", and a cost-benefit analysis showed that more intensive programmes were less cost-effective due to the additional delivery cost.[23]

EWS case: The lone parent of a one-year-old child is working 11 hours a week in a chip shop, which is the maximum she can do as she relies on her family for childcare. She is very distressed because her work coach told her she needs to look for more hours. As the parent of a one-year-old she most she should be required to do is attend work-focused interviews.

[23] Department for Work and Pensions, Universal Credit: in-work progression randomised controlled trial, October 2019

Recommendation:

- Abandon UC's in-work conditionality regime. Provide optional supports that incorporate what research has shown to be effective: job-related training, interventions tailored to individual needs, and support to address personal barriers.

4. Starting a claim

4.1 Provide support at the point when people need it: remove the five-week wait

When someone initiates a new claim for UC they have to wait at least five weeks for their first regular payment. While advance loans are available, these must be paid back out of future UC payments. Front-line organisations including Citizens Advice, StepChange and the Trussell Trust have all reported that the five-week wait causes significant hardship.[24]

Recommendation:

- Remove the five-week wait by making advances non-repayable. This would ensure no one in need has to struggle without any income, and avoid creating hardship further down the line through the repayment of advances.

4.2 Protect the incomes of care-givers and people in couples from financial abuse: split payments between members of a couple

We know that when money is paid to the main carer it is more likely to be spent on children. However, UC is not, by default, paid to the main carer in a couple. It is paid into a single nominated bank account. Only in "exceptional circumstances", such as domestic violence or financial abuse, can a split payment between both members of a couple be arranged.

Paying the entire UC award for a couple into a single account has been criticised for: making financial abuse easier; facilitating the unequal distribution of income and responsibilities within couples; and being unsuited to the varying circumstances of couples living together in the UK today.

Recommendation:

- Split UC payments between members of a couple to give both adults financial autonomy ensuring a source of income to the primary caregiver of children.

[24] Work and Pensions Committee, *Universal Credit: the wait for a first payment. Third Report of Session 2019–21*, House of Commons, October 2020

4.3 Help people budget in a way that works for them: make alternative payment arrangements available on request

UC recipients who rent their homes get a 'housing element' in their award to help pay the rent. It is then the responsibility of the recipient to pay their rent using this housing element (plus any additional amount if the housing element is less than the rent charged).

There is a way for the housing element of UC to be paid directly to the landlord through an alternative payment arrangement (APA), however, access is highly restricted. DWP guidance states a claimant should be "in arrears…for an amount equal to, or more than, two months of their rent".[25] A landlord can legally start eviction proceedings once someone is in two months of rent arrears, meaning those able to apply for an APA are already at crisis point.

An APA can also be made so that UC is paid twice a month to support recipients with budgeting. But, under existing guidance, these are only provided in exceptional circumstances. Providing more frequent payments on request would allow recipients to manage their money to suit their needs. It would help prevent situations where families are unable to buy the basics they need, or have to borrow money to tide themselves over until their next UC payment.

Recommendation:

- Make an APA available on request to support people to budget in the way that works best for them, whether that's through direct payments to landlords or more frequent payment dates.

4.4 Protect people moving from legacy benefits to UC: provide long-term transitional protection

The DWP plans for UC to replace legacy benefits. People can move from legacy benefits on to UC in two ways:

1. Natural migration – when a claimant's circumstances change such that they would normally claim a new benefit but instead have to make a claim for UC.
2. Managed migration – when a claimant receiving legacy benefits is supported to move to UC by the DWP through the 'managed migration' process, without a change in their circumstances.

The DWP has not finalised its plans for managed migration, and a pilot of the process has been paused due to the pandemic.

Transitional protection rules in managed migration mean that if a person's UC award is less than they received in legacy benefits, their UC award is raised and then frozen at the level of their total previous benefits. However, this does not extend to people who move to UC through natural migration including those who migrate as a result of bereavement, domestic violence or eviction.

Recipients of the severe disability premium (SDP), who lose out systematically in the move to UC, may be entitled to the severe disability 'transitional element' to compensate for the loss of the SDP. But this is not intended to compensate for the full amount of legacy benefit formerly paid. A transitional element has not been provided to

[25] Department for Work and Pensions, *Guidance: Alternative Payment Arrangements*, May 2020 [Accessed 9 July 2021]

other groups who become systematically worse off under UC, such as parents under 25 or families with children with certain disabilities.

The transitional protection that does exist through managed migration is short lived. When an individual's UC award changes due to a change in circumstances, such as moving in and out of work, that transitional projection is quickly lost.

EWS case: A client in receipt of the SDP was incorrectly advised that she would have to claim UC, which she has now done. She will receive the severe disability transitional element in her UC award. Soon her children will be returned to her care which will increase the child element of her UC award. This increase in her UC award will mean that her severe disability transitional payment is lost.

More than half of UC claimants who move from other benefits are expected to be eligible for less money when they transfer.[26] Robust transitional protection is needed to ensure that all are able to move onto UC smoothly without increasing poverty.

Transitional protection should be extended to natural migration and should not be so easily lost through common life events.

Recommendations:

- Ensure a proportion of the transitional protection stays with each member of a couple if they separate, at least for a grace period, especially if there has been domestic abuse or if one person is now a single parent.
- Keep transitional protection in place when people take on periods of work of up to nine months.
- Make protection for SDP recipients a permanent top-up rather than being subject to transitional protection erosion and loss.
- Extend similar protections to those offered to SDP recipients to other groups who become systematically worse off on UC, including families with children with certain disabilities, and parents under 25.

5. Managing a claim

5.1 Make the sanctions system fairer and more accountable

Sanctions cause significant hardship and should only be used as a last resort. At their most severe level, sanctions result in recipients not receiving any of their standard allowance for six months (and possibly longer if there is a concurrent sanction).

Due to the pandemic, almost all new sanctions were suspended from March to July 2020. They have remained at a low level since then as the DWP has recognised that recipients may be unable to fulfil all aspects of their claimant commitment while pandemic restrictions are in place.

[26] See note 20

The DWP has also introduced the sanction assurance framework, which puts greater onus on the work coach to discuss any barriers or circumstances that may have had an impact on work-related activities with the claimant. They also have to gather evidence on why a sanction is warranted given the claimant's circumstances and needs, and get the approval of their team leader before giving a sanction. These are welcome changes that should prevent sanctions from being applied for minor or unintentional 'infractions', such as being slightly late for an appointment. But more can be done to make the sanctions regime fairer.

Recommendations:

- **Remove fixed-term sanctions**. Sanctions should end when claimants have complied with their requirements or if the claimant becomes unable to comply, eg, due to becoming unwell or having a new baby.
- **Create stronger safeguards for claimants subject to an open-ended sanction.** Sanctions should only begin from the assessment period in which the decision is notified to the claimant.
- **Provide examples of "good reasons" for breaching a claimant commitment**. Claimants who have a good reason for breaching their claimant commitment are not subject to a sanction, but the DWP does not outline what constitutes a "good reason". Providing a list of examples will help claimants understand what is required of them, and increase accountability by reducing reliance on the discretion of the work coach.
- **Make hardship payments non-repayable**. Hardship payments are available to people in receipt of a sanction who are unable to pay for rent, heating or basic food and hygiene costs. These payments are then paid back through deductions to future UC payments. In effect, hardship payments merely prolong the sanction as the same penalty is applied over a longer time period. Given that hardship payments are only available to people in extreme financial need, when they are complying with the claimant commitment they should become non-repayable.

5.2 Treat income fairly: disregard historic back pay and treat maternity allowance as earned income

Under the current UC system, all earnings paid during an assessment period are counted as income regardless of what period those earnings relate to. This means that if someone on UC receives back pay from employment before the UC claim started, their award is lowered.

Given that UC is paid in arrears on the basis that claimants who have just lost their job will have their last monthly pay packet to tide them over, it is contradictory for back pay to be treated as current income if it arrives during their first UC assessment period.

Maternity allowance (MA) may be available to women who do not qualify for statutory maternity pay (SMP). However, while SMP is treated as "earned income" under UC and therefore benefits from the work allowance and taper, MA is treated as "unearned income". This means that anyone receiving MA who applies for UC has their UC award reduced by a pound for every pound of MA they receive.

Women in a variety of circumstances do not qualify for SMP and therefore have to claim MA. For example, women who are sick during their pregnancies, those on zero-hour contracts and seasonal workers may not have earned enough during the relevant period to satisfy the national insurance contributions required for SMP. Additionally, self-employed women have no option but to claim MA.

Recommendations:

- Exempt earnings that were earned, if not paid, prior to the start of a UC claim from the income assessment.
- Treat MA like earnings under UC (in the same way as SMP). This would mean women with young children could benefit from the work allowance and the 63 per cent taper leaving them considerably better off.

EWS case: A lone parent, whose UC is already subject to the two-child limit, is about to receive arrears of statutory maternity pay along with final earnings and statutory redundancy pay, totalling £2,327. This will stop her entitlement to UC in the assessment in which she receives them.

5.3 Remove access barriers: support people with limited digital access, limited digital skills and those who face language barriers to manage their claim

Early results from the ongoing *Welfare at a Social Distance* research study have shown that about half of UC claimants experienced difficulties when applying.[27] The National Audit office has highlighted that claimants with limited English appeared to find it harder to complete their claim form accurately or understand what was required of them.[28] While the 'help to claim' programme delivered by Citizens Advice assists people lacking digital access or skills to make a UC claim, it does not include help for people to manage their claims on an ongoing basis.

In the DWP's most recent claimant service and experience survey, 20 per cent of UC recipients reported that their payment calculations were not explained clearly, and 21 per cent reported that the UC payments received over the past three months had not always been correct.[29]

Recommendation:

- Provide more support and better alternatives for the ongoing management of claims. This could mean:
  - increased access to computers at job centres;
  - greater provision of support for people whose first language is not English;
  - offering claimants multiple ways of managing their claim;
  - improved provision of support such as home visits (for which there can be a long wait currently); and
  - funding for more independent advice services with specialist welfare rights advisers, particularly those able to offer services in multiple languages.

[27] K Summers, L Scullion, B Baumberg Geiger, D Robertshaw, D Edmiston, A Gibbons, E Karagiannaki, R De Vries and J Ingold, *Claimants' experiences of the social security system during the first wave of COVID-19*, Welfare at a Social Distance, February 2021

[28] Issues included claimants making incorrect declarations or submitting the wrong evidence, or not taking required actions promptly. They also found that some were not able to successfully dispute errors on their claim. National Audit Office, *Universal Credit: getting to first payment*, July 2020

[29] Department for Work & Pensions, *DWP claimant service and experience survey 2018 to 2019*, July 2020

5.4 Reflect changes in housing costs from the moment they take place

If someone's housing costs change while claiming UC, their award will adjust upwards or downwards as a result. However, if someone moves house mid-month they only receive help with rent on the basis of where they live on the last day of their monthly assessment period, even if they lived elsewhere for most of the month, and they may be left short. For claimants affected, this can cause significant hardship.

Recommendation:

- Base the housing element of UC on the total rent the recipient has had to pay across the assessment period, rather than their housing cost at the point in time when they are assessed.

5.5 Provide rapid remedies when real-time earnings information is disputed

For most employees claiming UC, evidence of earnings comes directly from HMRC via the real-time information (RTI) feed. The RTI is not always correct (for example, if employers report earnings incorrectly) and may over- or under-state earnings, which can lead to incorrect UC awards. Errors in the RTI can cause enormous hardship if a claimant with very low earnings has their UC reduced because higher earnings were reported than they actually received.

While there is a dispute resolution process after which claims may be corrected, this process can take months, prolonging the hardship of affected claimants.

Recommendation:

Provide rapid remedies when the RTI is disputed. There are many ways the DWP could make progress in this area such as:

- Setting a target to resolve 95 per cent of RTI challenges within four weeks
- Identifying common causes of delays to target process improvements
- Keeping claimants informed of the reason for any delays

About CPAG

Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and solve poverty – for good. We provide training, advice and information to make sure hard-up families get the financial support they need. We also carry out high profile legal work to establish and protect families' rights.

CHILD POVERTY ACTION GROUP