

UNIVERSAL CREDIT: what needs to change to make it fit for children and families?

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Introduction

Universal credit (UC) is now the main working-age benefit in the UK. Since its inception, UC has been plagued with administrative issues and budget cuts and, as a result, its early promise to reduce poverty has yet to be realised. When the pandemic hit, swift changes were needed to make UC fit for purpose including an increase in the amount of financial support provided and a relaxation of some of its most punitive rules. However, the vast majority of these positive changes have already been reversed, or are due to be reversed in the coming months.

Rather than turn back the clock, now is the time to improve UC further to make it fit for families and reduce child poverty.

This briefing gives an overview of UC's main problems, and provides recommendations for change in 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 is not an exhaustive list of all the problems that might arise in UC, but covers what we think are the most important changes needed. Our recommendations address the aspects of UC that deepen poverty, and make it harder for families to lift themselves out of poverty and increase their earnings. Where possible, we have estimated the cost of each recommendation and its impact on child poverty. This data is shown in the final section of this briefing.

Rather than pick and choose from the recommendations, it is crucial that the government adopts them as a package. We recommend that the government immediately adopts the measures that target support to children in poverty by abolishing the two-child limit and the benefit cap, restoring the child element of UC, and abandoning plans to cut UC by £20. We know these are easily achievable as many of them simply restore elements of the social security system that have been taken out in recent years.

In addition to this, new investment is needed to address the growing levels of in-work poverty and turn UC into the benefit it was intended to be – one that supports people to move into work.

To inform future policy development, this briefing is accompanied by [a fuller report with further details on each issue and recommendation](#).

Child Poverty Action Group is a charity registered in England and Wales (registration number 294841) and in Scotland (SC039339). Registered office: 30 Micawber Street, London N1 7TB.

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IMPROVING ADEQUACY

The problems

- Prior to the pandemic, the value of UC had been falling ever since it was introduced. As a result, when COVID-19 struck, an instant increase to UC's standard allowance was needed.
- Despite research showing that low-income families with children faced the biggest increases in the cost of living during the pandemic,¹ there was no increase to the child element of UC which had been frozen for four years.
- Over 40 per cent of UC claimants do not receive their full payment because a portion of it is withdrawn to repay a debt, such as historic tax credit overpayments.² As a result, millions of families are missing out on the income the government assesses them to need to meet their basic living costs.

¹R Patrick and M Brewer, [Pandemic Pressures: Why families on a low income are spending more during Covid-19](#), Resolution Foundation, January 2021

²T Lee and R Patrick, [Budget 2021: Delivering on debt deductions?](#), CPAG, March 2021

³M Brewer, A Corlett, K Handscomb and D Tomlinson, [The Living Standards Outlook 2021](#), The Resolution Foundation, January 2021

⁴Figures assume that the UC increase is kept in place. Without the increase it would be £16 and £20 respectively.

The solutions

- Abandon plans to cut £20 a week from the UC standard allowance, which would plunge millions of people deeper into poverty and make unemployment benefit fall to its lowest level since 1990/91.³
- Re-invest in the child element of UC. 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.
- Ensure people receive more of their UC award by reducing the maximum amount that can be deducted from UC 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 £25.⁴
- Prevent those who experience a prolonged spell of low income from being saddled with indefinite debt repayments by writing off benefit-related debts after two years.

FF The £20 increase in UC at the start of the pandemic was an acknowledgement that UC was inadequate.

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FILLING THE GAPS

The problems

- There are many gaps in the support provided through UC, meaning that certain groups are getting significantly less than they objectively need.
- The rise in child poverty in recent years has been concentrated among **larger families** who are disproportionately affected by both the two-child limit and the benefit cap. Both these policies deepen child poverty and have been shown by the Work and Pensions Committee to be based on flawed reasoning.⁵
- All **people aged under 25** receive substantially less on UC than those over 25. Unlike in the legacy benefit system, UC extends this penalty to younger parents. This makes single younger parents £65 a month worse off and couple parents £100 a month worse off than on legacy benefits.
- There is significant evidence that **disabled people** face considerably higher living costs⁶ but, since 2017, some UC recipients who are assessed to have a work-limiting disability or health condition are no longer entitled to £129 per month in additional support.⁷

The solutions

- Restore the link between the amount a family needs and the support provided by abolishing the two-child limit and the benefit cap. Of all the recommendations in this report, this would be the most effective way to target money towards children in poverty. It would only cost £1.9 billion and lift 285,000 children out of poverty.
- Ensure parity of support to adults, including parents, under 25 by increasing their standard allowance to the amount provided to other working-age adults.
- Recognise the higher cost of living that disabled people face by ensuring all UC recipients with a work-limiting disability or health condition are provided with additional financial support.

⁵ Work and Pensions Committee, [The two-child limit: Third Report of Session 2019](#), House of Commons, November 2019; and Work and Pensions Committee, [The benefit cap: Twenty-Fourth Report of Session 2017–19](#), House of Commons, March 2019

⁶ 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

⁷ Since 2017, new UC recipients assessed to have limited capability for work and work-related activity receive an additional £344 a month, while recipients assessed to have limited capability for work only do not receive any additional support.

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

SUPPORTING PEOPLE INTO WORK AND IN WORK

The problems

- The design of UC makes it hard to escape poverty through work. As soon as a family with children earns more than £293 a month, their UC is clawed back at a rate of 63p per pound earned. This often means that when a second earner enters work the family's UC is clawed back instantly.
- Juggling childcare and work is challenging for parents, with some unable to take on paid employment as a result. UC pays childcare costs in arrears, so parents who need childcare in order to work have to pay for it upfront which is impossible for some. Parents can then only claim back up to 85 per cent of these costs up to a cap.
- UC makes budgeting difficult, and often leaves people out of pocket by failing to recognise the reality of the insecure labour market. UC's rigid system of monthly income assessments makes it difficult for the 40 per cent of working claimants who aren't paid monthly to anticipate their UC award. Meanwhile the 'minimum income floor' and 'surplus earnings rule' penalise the self-employed and those with fluctuating earnings.
- UC is the first benefit system in the UK to apply conditionality to recipients who are already in work despite there being limited evidence that such measures lead to an increase in earnings.

The solutions

- Ensure that parents keep more of their earnings when they start work. Lowering the taper would be welcomed but doubling the work allowance for families, split equally between members of a couple, would be more effective.
- Don't let the cost of childcare lead parents to reject job offers, give up work or fall into debt. Increase the cap on childcare costs, increase the proportion that parents can claim to 100 per cent and provide that support upfront.
- Prevent the 40 per cent of working UC recipients paid on non-monthly cycles from being out of pocket by ensuring that they receive predictable and consistent UC awards.
- Remove barriers to self-employment and seasonal work by scrapping the minimum income floor and surplus earnings rules.
- Replace in-work conditionality with optional career development support.



The design of UC fails to recognise the reality of the insecure labour market.

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STARTING A CLAIM

The problems

- When someone needs to claim UC, they have to wait at least five weeks for their first payment. Multiple front line organisations have reported that this causes extreme hardship.⁸
- By default UC is paid into a single bank account for couples, which makes financial abuse easier and can deprive the main care giver, who is more likely to spend money on their children, of an independent source of income.
- UC is paid less frequently than legacy benefits, which leaves some recipients unable to buy essentials, or having to borrow money while they wait for their next payment. UC is also not paid directly to landlords, leaving some claimants at risk of falling into rent arrears. Alternative payment arrangements are, outside Scotland, only available in exceptional circumstances.
- More than half of people who move to UC from other benefits are expected to receive less money after they transfer.⁹ The transitional protection that exists is extremely limited and quickly lost when someone's circumstances change.

The solutions

- Ensure that no one is forced to struggle without help in their time of need by making UC advances non-repayable, ending the five-week wait.
- Protect people in couples from financial abuse, and help to ensure an income for care givers, by splitting UC payments between members of a couple.
- Help people budget in a way that works for them by making alternative payment arrangements available on request.
- Ensure that all people are able to move onto UC smoothly, without increasing poverty, by providing long-term transitional protection.

 More than half of people who move to UC from other benefits are expected to receive less money when they transfer.

⁸ Work and Pensions Committee, [Universal Credit: the wait for a first payment. Third Report of Session 2019–21](#), House of Commons, October 2020

⁹ M Brewer, D Finch and D Tomlinson, [Universal Remedy: ensuring Universal Credit is fit for purpose](#), Resolution Foundation, October 2017

MANAGING A CLAIM

The problems

- Sanctions cause significant hardship. At their most severe, sanctions result in recipients not receiving any of their standard allowance for six months.
- Given UC's complex calculation, awards are often incorrect. One in five recipients reported having recently been paid an incorrect amount.¹⁰ Often, the onus is placed on claimants to identify these errors and challenge them with the DWP, which is particularly difficult for those who have additional needs or face access barriers.
- UC is riddled with unjust rules such as:
 - If someone receives back pay from employment which took place before their UC claim started, it is counted as current income and their UC award is lowered.
 - Maternity allowance is treated differently from statutory maternity pay, systemically disadvantaging women in insecure work.
 - If someone moves house mid-month to a place with lower rent they are automatically short changed through the housing element, as any change of circumstance will be applied from the beginning of the assessment period, regardless of the date they moved.
- UC calculations rely on real-time earnings data provided by HMRC which can be incorrect. Errors can leave people in significant and prolonged hardship as the appeals process can take months.

The solutions

- Stop people having their UC payments deducted or suspended for unreasonable or historic 'infractions' by making the sanctions system fairer.
- Ensure everyone is able to access what they are entitled to by making UC more transparent, for example by providing more information on payment statements, and giving more support to those who face digital and language access barriers.
- Remove contradictory and unfair income rules that leave people short changed by:
 - disregarding historic back pay;
 - treating maternity allowance as earned income; and
 - basing the housing element on rent paid across the assessment period.
- Prevent prolonged spells of hardship caused by administrative errors by providing a quick resolution when real-time earnings information is disputed.

¹⁰ Department for Work and Pensions, [DWP claimant service and experience survey 2018 to 2019](#), July 2020



UC's complex and often contradictory rules routinely leave claimants short changed.

IMPROVING UC TO REDUCE POVERTY

Child poverty rose rapidly in the 2010s, and 4.3 million children were in poverty (after housing costs) by the end of the decade. To reverse this rise, it is crucial that the government adopts the changes outlined in this briefing.

We recommend that the government immediately adopts the measures that target support to children in deep poverty by abandoning plans to cut UC, abolishing the two-child limit and the benefit cap, and restoring the child element of UC.

In addition, new investment is needed to address long-standing shortfalls in support for children and young people, and to address growing levels of in-work poverty. There are many ways that UC can support people into work and reduce in-work poverty. The cost estimates presented here do not assume more people will enter work as a result of these changes and therefore represent a maximum potential cost. In practice the cost would likely be considerably lower. The most effective way to reduce child poverty in working families per pound spent would be to double the household work allowance, splitting it equally between members of a couple in a two-parent household.

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.

Changes that restore the value of UC

Policy change

	Annual cost (£bn)	Children lifted out of poverty
Restore the value of UC – make the increase permanent and extend it to legacy benefit recipients	£7.5	350,000
Restore the value of the child element of UC and child tax credit – increase it by £5 a week	£1.4	200,000
Restore the link between need and support – abolish the benefit cap and the two-child limit	£1.9	285,000
Increase UC for younger parents to the rate for those aged 25+	£0.2	10,000

Changes that invest in UC

Policy change

	Annual cost (£bn)	Children lifted out of poverty
Increase the child element of UC and child tax credit by £10 a week	£2.9	400,000
Increase UC for all younger people to the rate for those aged 25+	£0.6	10,000
Ways of supporting people into work and reducing in-work poverty:		
Lower the taper rate to 55 per cent	<£2.8	>275,000
Provide a second earner work allowance of £293	<£0.7	>50,000
Double the household work allowance (to £586 a month) and split it equally between members of a couple	<£1.7	>200,000
Increase the work allowance to £617 a month (equivalent to working full time at minimum wage)	<£3.3	>450,000