



# Universal Credit: a Joseph Rowntree Foundation briefing

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by Katie Schmuecker, Joseph Rowntree Foundation

This briefing provides information and evidence on the latest developments as Universal Credit rolls out across the UK. It provides recommendations on how the system could be improved.

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**Universal Credit (UC) remains the right thing to do. The current system is fragmented and traps people in poverty. The prospect of an integrated benefit system that responds to people's changing circumstances is a prize worth having.**

**The roll out of UC is picking up pace and the millionth claim has been made. This is a time to be alive to the risks and opportunities of UC.**

**Welfare reforms are reducing the support on offer to many low-income families, both in and out-of-work. This poses a threat to the Government's message about being on the side of those that are only just managing to get by.**

April 2017

**This briefing highlights three priorities for immediate action to ensure UC achieves its goals and helps reduce poverty:**

- **UC waiting time:** People risk debt, destitution and eviction while they wait at least five weeks to receive their first UC payment (an arbitrary seven-day wait before being allowed to claim, plus payment one month in arrears). The DWP should get rid of waiting days in UC. The impact of payment one month in arrears should also be monitored, and reconsidered if it results in rising debt and destitution.
- **Stemming the rise in child poverty:** More money directly improves children's health and development outcomes, while child poverty scars prospects, costing the Exchequer £6.1bn per year in lost tax revenue and additional benefit spending. From April 2017, all families with children making a new claim will receive £545 per year less financial support. Families will also receive no additional support for a third or subsequent child (with a few exceptions). This policy alone is likely to push an extra 200,000 children into poverty in 2020/21. This could be prevented by lifting the limit, at an estimated cost of £1.4bn in 2020/21.
- **Supporting good jobs:** To help ordinary working families UC must support people to get into good jobs and to get on at work. This requires employment support and progression services to be well connected to the needs of local employers. The arrival of Metro Mayors offers an opportunity; DWP should work with them to develop a devolution deal for employment support.

Looking forward to the Autumn Budget, JRF will be doing further work on UC.

- **The benefit freeze:** Inflation was 2.3% in February, and is forecast to rise further, meaning the freeze on most working-age benefits will begin to bite. Given the changed inflationary environment government should reconsider the freeze. JRF will be monitoring its impact and exploring mitigation options.
- **Living standards in work:** Projections show eroding living standards by 2020 for single-earner families and lone parents working full time on the National Living Wage. Largely as a result of the cut to the Work Allowance (the amount someone can earn before UC starts to be withdrawn), JRF will explore options for reform to ensure living standards rise for people in work, in line with Government ambitions.

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# 1 Introduction

Universal Credit (UC) is a radical and important reform to the working-age benefits system that brings six separate benefits into one integrated payment. The current system of benefits and tax credits is complex and fragmented, and it is all too easy for people to fall between the cracks when their situation changes, or fail to claim all the help they are entitled to. UC has the potential to change this.

UC is not simply a framework for calculating and administering benefit payments. It also reflects a desire to understand and respond to the incentives that influence peoples' decisions and an appreciation that incomes are not fixed, but change over time.

The Government has highlighted its intention to help ordinary working families, as well those who are most disadvantaged. UC is a crucial policy lever for both these groups, as it provides support to working people on relatively low incomes as well as those who are not working.

Recently UC has come in for criticism:

- Evidence to the Work and Pensions Committee highlighted long waiting times for the first payment, putting people at risk of destitution and eviction (Work and Pensions Committee 2017).
- The financial support on offer to low-income families has changed fundamentally. Originally the transition to UC was estimated to result in more gainers than losers compared to current benefits and tax credits system. The reverse is now the case (Work and Pensions Committee Oral Evidence, 2017).
- Projections show 1.2 million additional children are likely to experience poverty in 2021/22. Tax and benefit reforms drive one third of this increase (IFS 2017a).

JRF backed UC from the start. We believe it is an important tool for tackling poverty, as set out in *We Can Solve Poverty in the UK* (JRF 2016a). The aim of an integrated benefit system is laudable but we must recognise the risks and opportunities presented by UC.

Following multiple delays, the roll out of the new benefit is picking up speed and more people are moving onto UC. By February 2017, one million claims had been made (DWP 2017).

With several major welfare reforms due to be implemented in April 2017, and a second budget due in the Autumn, this briefing identifies three immediate priorities for action, and two areas where JRF will be doing further work ahead of the Autumn Budget.

## 2 Immediate priorities

### Risk of destitution while people wait for a first UC payment

Living for a sustained period with very low – or no – income and no savings to fall back on increases the risk of destitution. Destitution is when someone is unable to afford to eat, stay warm and dry, and keep clean (Fitzpatrick et al, 2016).

New UC claimants must wait at least five weeks for a first UC payment (an arbitrary seven-day wait before being allowed to claim, plus payment one month in arrears). As UC wraps multiple major benefits into one payment, this leaves people with few, or no, other sources of income to fall back on. Among the poorest fifth of households, 69% have no savings, and a further 10% have less than £1,500 to fall back on (Tinson et al, 2016).

The early experience of delivering UC shows the risk of debt and destitution and the threat of eviction is heightened (Work and Pensions Committee 2017). In Croydon, which was a UC pilot area and has one of the largest UC caseloads in the country, the average wait time for a first payment is currently 12 weeks. During this time, the availability of benefit advances are not being effectively communicated (Work and Pensions Committee 2017). This appears not to be an isolated problem. Up to 40% of local welfare assistance applications are estimated to result from DWP advisers failing to inform people of support they might be eligible for (Work and Pensions Committee 2016).

The widespread use of benefit advances is not the solution to this problem, as they result in an accumulation of debt. To reduce debt and destitution, people who are entitled to, and in need of, income support should receive it quickly.

**JRF recommends the DWP gets rid of arbitrary waiting days in UC. In addition, the impact of payment one month in arrears should be monitored and reconsidered, if it results in rising debt and destitution.**

### Benefit changes pushing up child poverty

High-quality evidence shows more money directly improves child development and health outcomes (Cooper and Stewart 2013). Conversely, growing up in poverty scars prospects, resulting in lower earnings and higher benefit claims as an adult. This is estimated to cost the Exchequer £6.1bn per year in lost tax revenue and additional benefit spending (Bramley et al 2016). Yet support for families with children is being reduced. The Institute for Fiscal Studies (IFS) projects that over a million more children are likely to be in poverty in 2021/22, with one third of the increase driven by policy choices (IFS 2017a).

All families with a first child born after 6 April 2017 will receive up to £545 per year less than a similar family claiming now, due to the abolition of the 'First Child Premium'. The equivalent part of Child Tax Credit (the Family Element) is also being abolished.

Larger families (with more than two children) stand to lose even more, following the restriction of the child-related element of UC (and Tax Credits) to the first two children only. This amounts to a reduction in support of up to £2,780 per year for a third child, and the same again for each child thereafter. It only applies to children born after April 2017 (with a small number of exceptions). This is despite large families already having a higher risk of poverty – 21% of families with three children under 19 experience poverty, compared to 15% of families with one or two children.

About two thirds of the families affected by these changes will have at least one adult in work (IFS 2017b).

There is some evidence that the design of the benefit system has a small impact on people's decisions about family life. Birth rates are found to have risen in response to a large increase in the generosity of benefits for children in the past, but it is not clear whether the effect was to bring forward the timing of having additional children or people choosing to have more children (Brewer et al 2008). There is no conclusive evidence on whether the changes being implemented will have any effect on decisions about family size in the future. What is clearer is that this policy will drive up poverty among larger families. The IFS project an additional 200,000 children will be in absolute and relative income poverty in 2020/21 as a direct result of this policy (IFS 2016).

Poverty not only damages the life chances of children, it costs us all dearly. The UK spends £78bn per year dealing with the effects of poverty (Bramley et al, 2016). It is in all our interests that all children receive the best start in life.

**JRF recommends the child element of UC is not limited to the first two children only. It is estimated this would cost an estimated £1.4 billion in 2020/21 and prevent an additional 200,000 children experiencing poverty.**

## **An employment support deal for Metro Mayors**

UC is not simply about cash transfers. Its design is also intended to help people get into work and get on at work.

JRF has highlighted the need for more integrated employment support delivered through income and employment hubs that provide a gateway to public and voluntary sector services and benefits (JRF 2016b). Devolving responsibility for delivering employment support would be one way to enable such integration.

With three out of four people failing to escape low pay over a ten-year period, such services must focus on getting people into good jobs and supporting progression once in work. Getting it right could bring substantial savings: increasing the earnings of in-work tax credit recipients by just £30 per week would deliver an estimated £4.1 billion saving to the Exchequer (Oakley 2015).

It's uncertain what works in providing support to progress when in employment, and the trials currently being undertaken in Job Centres (and elsewhere) will provide important learning. The existing evidence points to the need for personalisation (Ussher 2016) and a mix of incentive payments, careers advice, coaching, training and advisers that are able to broker relationships with employers (JRF 2016b). To be effective, services must be well connected to the needs of local employers and local economic growth strategies.

We are not aware of evidence on the role of conditionality and sanctions (financial or otherwise), so we would urge caution in this area, with approaches tested rigorously and sanctions only used as a last resort. To date the DWP has been slow to embrace devolution. However, the creation of Metro Mayors marks an opportunity to better connect employment support to the needs of local employers.

**JRF recommends the DWP and Metro Mayors (once they are in post) work together to develop a devolution deal for employment support.**

# 3 Looking ahead to the Autumn Budget

## Declining living standards for some working families

Work should be the route to better living standards. This doesn't simply mean people should be able to avoid poverty; they should be moving towards what the public thinks is needed for an acceptable standard of living (known as the Minimum Income Standard (MIS)). People working all available hours yet seeing their living standard erode pose a real threat to the Government's message about prioritising ordinary working families.

The introduction of the National Living Wage (NLW) has undoubtedly helped improve the incomes of some working people. The rising personal tax allowance has also cut taxes for those earning above the threshold.

However, losses will outweigh these gains for many. Rising prices will eat into the value of benefits that are frozen until 2019. Simultaneously, changes to Universal Credit (UC) have reduced the level of support available to low-income working households. Reductions in the UC Work Allowance (the amount people can earn before their benefits start to be withdrawn) alone is responsible for a quarter of the projected increase in poverty among children in working households by 2020/21 (IFS 2017a).

Cuts to the Work Allowance took £3 billion from working families with the lowest incomes. The 2016 Autumn Statement put a little of that money back into Universal Credit by lowering the taper rate (the speed with which benefits are withdrawn), but this amounted to £0.7 billion.

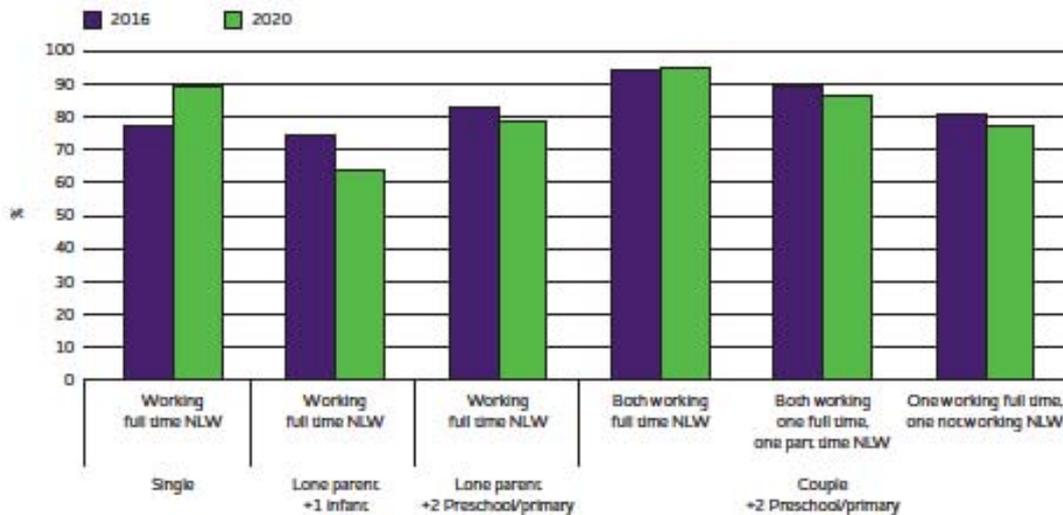
Analysis by Loughborough University for JRF finds some families will see their living standards decline by the end of the parliament, even when they're working full time on the NLW, which is expected to rise substantially. Rather than moving towards an adequate income, some working families will be moving towards poverty.

Using MIS as a benchmark of an acceptable living standard:

- Single adults or dual-earning couples with children will be close to a decent living standard when working full time on the NLW in 2020 - as long as they have low housing costs.
- A couple with children and one person working full time on the NLW will see their living standards decline. By 2020 they will be £104 per week short of what they need for an acceptable living standard. Supporting these families to move to having both adults in work would help, but isn't always possible. Among the 1.1 million non-working adults in families in working poverty, just over 300,000 have children under the age of five and 175,000 are not working because they are sick, disabled or injured (Tinson et al 2016).
- Working lone parents will also see their living standards decline. By 2020 a lone parent working full time on the NLW who has one child at school and the other in formal childcare will be £76 per week short of a decent living standard. Cuts to the Work Allowance will hit working lone parents particularly hard.

## Figure 1

Disposable income as a proportion of the Minimum Income Standard in 2016 and 2020 for different family types in work and in receipt of UC.



Source: data modelling by Donald Hirsch, Loughborough University, for JRF.

JRF's analysis shows raising the Work Allowance reduces poverty more cost effectively than lowering the taper rate (the speed with which benefits are withdrawn once people's earnings exceed the Work Allowance) (JRF 2016b). Some groups – such as lone parents and women with partners – are more sensitive to the impact of the tax and benefit system on work incentives (Ghelani and Stidle 2014). As such, higher work allowances for these groups are likely to have more impact on improving living standards.

**JRF recommends low-income working families keep more of what they earn before benefits start to be withdrawn. Working lone parents should be the priority for this help.**

In the coming months JRF will explore how work allowances can best be reformed to ensure living standards rise for people in work. If you would like to receive a briefing or be kept up-to-date on our work in this area please contact us.

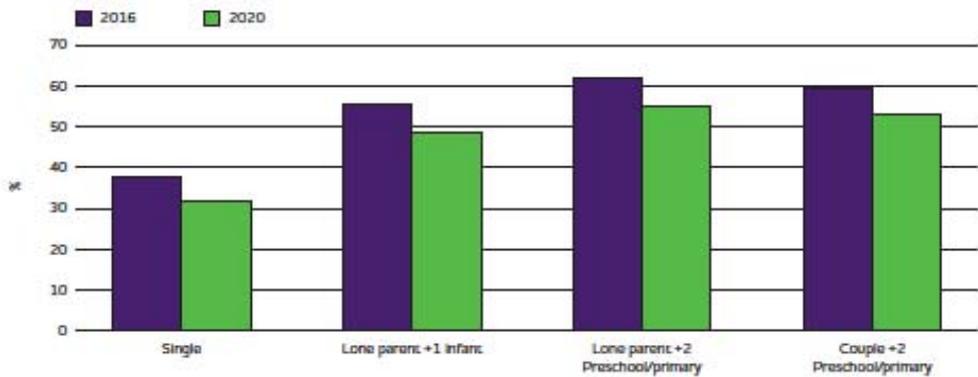
# Rising prices putting pressure on living standards

After a period of low inflation, one impact of the Brexit vote has been a large fall in the value of sterling, triggering price rises. CPI inflation was 2.3% in February 2017 and is forecast to rise further. This is at a time when real earnings growth is projected to stagnate (OBR 2017), and the value of most working-age benefits are frozen (for both working and non-working households, for four years from April 2016). This will result in eroded purchasing power, and people already struggling to cover the cost of essentials slipping further behind.

Current higher inflation means the take away from low-income households will be £2.7 billion by 2020, compared to what was originally anticipated (Finch 2017).

This cut will be felt by a great many of the poorest working-age households, although its effect will be somewhat ameliorated for those with wages rising faster than inflation. The squeeze will be most acute for those reliant on out-of-work benefits. By 2020 out-of-work single adults are projected to have around only a third of what the public thinks they need for an acceptable living standard, and an out-of-work family with two children will have only around half (respectively £125 and £205 short per week (see Figure 2 below).

**Figure 2**  
**Disposable income as a proportion of the Minimum Income Standard in 2016 and 2020 for different family types out-of-work and in receipt of UC.**



Source: data modelling by Donald Hirsch, Loughborough University, for JRF.

JRF recommends that in light of the changed inflationary environment, government reconsiders the current freeze on working-age benefits.

Over the coming months, JRF will be monitoring the impact of rising inflation on low-income families, and looking at options for reform. If you would like to receive a briefing or be kept up-to-date on our work in this area, please contact us.

# 4 Summary

JRF welcomes the introduction of UC and believes it is an important reform. The prospect of an integrated benefit system that responds to people's changing circumstances is a prize worth having.

As more people start to claim UC, the Government will need to be agile in responding to the evidence of its impact in practice. As the environment changes – such as higher inflation than previously forecast – policy must respond.

By addressing priorities around waiting times, rising child poverty, supporting good jobs and living standards, the power of UC to reduce poverty and help people to get on can be realised.

Failure to act risks undermining the Government's message about being on the side of ordinary working families and the most disadvantaged in society.

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# Further information

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