**Citizens Advice Scotland: Budget Submission February 2020**

**Improving Universal Credit for People In-Work**

**Summary**

Citizens Advice Scotland (CAS) believe the Universal Credit (UC) system must change if the benefit is to work for citizens across Scotland and the rest of the UK. CAS has consistently sought to work with the government to address the problematic aspects of the UC system. In this Budget submission, CAS sets out two policy recommendations that would improve UC for people in-work.

Citizens Advice Bureaux (CAB) data, including Citizen Alerts (cases from local CAB), have shown clear issues for people who are working and on UC. Particularly, that people are often working and living with an income that is too low to meet the cost of living. Ensuring that UC makes work pay was central to the original policy aims of UC. However, this is not the reality for people who are working, are on UC and are finding themselves accessing CAB for financial advice.

To improve UC for people in-work, CAS calls on the government to announce two key changes in the forthcoming Budget:

1. **Introduce a Work Allowance for all claimants**
2. **Reduce the Taper Rate to allow workers to keep more of what they earn**

**Legislative Requirements**

Changes to the Work Allowance and Taper Rate have previously been made through the following two instruments:

* The Universal Credit (Reduction of the Earnings Taper Rate) Amendment Regulations 2019 – UK Statutory Instrument 2017 No.248 [reduction in taper rate from 65p to 63p]
* The Universal Credit (Miscellaneous Amendments, Saving and Transitional Provision) Regulations 2018 - UK Statutory Instrument 2018 No.65 [increases to work allowance]

In deciding to improve UC for people in-work, the government would be required to undertake similarly minor legislative changes.

**Background**

Universal Credit is the UK’s main working-age benefit; providing financial assistance to those who are unemployed or working on a low-income. CAS is concerned that without government action to rectify current issues with UC for people in work, the government risks the policy not fulfilling its original ambition of making work pay.

As natural and managed migration to UC progresses, with more people in-work claiming UC, CAS believes the scale of the issues around UC as an in-work benefit will become increasingly apparent. CAS will continue to highlight the implications of Universal Credit for people in-work throughout this Parliament and urge the government to make the changes set out in this submission in the March Budget.

CAS’ main concern is centred on the number of clients seeking assistance from CAB who are on UC and in-work but are struggling with an income that does not cover their essential living costs.

Statistics from the Department for Work and Pensions show that many UC claimants have limited knowledge around how earnings from employment interact with UC payments. Only 2% of claimants could identify both groups eligible for the Work Allowance, only 3% of claimants were aware of the Taper Rate.[[1]](#endnote-1)

CAS believes measures are required to improve UC for people in-work as well as increasing knowledge and understanding of how UC is delivered as an in-work benefit. Implementing the recommendations made in this submission increase knowledge and understanding of how UC works as an in-work benefit but also increase incomes, subsequently reducing in-work poverty levels.

CAS also suggests that if people were secure in the knowledge that they could earn a certain amount before their UC payments were impacted this could help to boost an individual’s economic activity and ultimately contribute towards economic growth and stability.

Improving the UC system for people who are in-work has the potential to foster truly inclusive economic growth – inclusivity being essential if economic growth is to aid in reducing poverty. Adequate investment in social security provision can lift people out of poverty, reduce health inequalities and support local economies, which in turn can reduce pressure on other public sector services and resources.

CAS believes the government must fulfil its duty to ensure that citizens can live an adequate quality of life. Announcing the changes suggested in this submission would increase the incomes of the lowest paid workers in society and help to fulfil this duty.

**Introducing and Increasing Work Allowances**

For Universal Credit to fulfil its policy ambition of making work pay, CAS suggests the UK Government announce two specific changes to the UC system for working people in the March Budget.

Firstly, it is essential that a Work Allowance is introduced for all UC claimants – as was initially the case when UC was first introduced. Research by the Joseph Rowntree Foundation has shown that people who are in low-paid work and on UC are falling short of meeting the Minimum Income Standard.[[2]](#endnote-2) Urgent action is required to halt and reduce the current rising number of people who are in-work and in poverty.

CAS are deeply concerned that UC as currently delivered is not adequately supporting people who are in-work and on a low income. The two main reasons for this are the lack of a Work Allowance for people who do not have children nor a disability, coupled with the high Taper Rate of 63%.

At present, only people with limited capability for work (a disability), or, people with a child or children are entitled to a Work Allowance. The Work Allowance allows a person to earn up to a certain amount of money without any financial impact on their overall UC entitlement. Current Work Allowance rates are set at £287 for someone receiving housing costs and £503 if a person does not receive housing costs.

Originally, all UC claimants had a Work Allowance. The Summer Budget 2015 announced cuts to work allowances for most claimants from April 2016; including the complete removal of the £1,332 annual Work Allowance for a single person or couple, not living with a disability, with no children.

This means that single people and couples without dependents who don’t have a limited capability for work are not entitled to any Work Allowance. People within this category lose 63p of their UC for every £1 they earn, from the very first pound they earn. This means that a single-person, not receiving housing costs, only has to earn around £505 a month (after deductions) to be earning too much to be entitled to the Universal Credit standard allowance of £317.82.[[3]](#endnote-3) This was the case for the CAB client in the case below, who despite working 25 hours a week in a physically demanding job did not qualify for any financial support through UC.

**Citizens Alert:** A West of Scotland CAB reports of aclient currently working 25 hours per week as a child minder. The client is struggling to meet the cost of living and has used up her savings over the last two years. The client is not entitled to UC as they do not qualify for a Work Allowance. Therefore, when the taper rate is applied to the earnings of the client this effectively nullifies the standard UC allowance to zero. The client is nearing retirement age and unable to work more hours in a physically demanding job.

CAS has previously called for an increase to the National Minimum Wage to a level that reflects the increasing cost of living. CAS set out our view on low paid work in our response to the Low Pay Commission consultation.[[4]](#endnote-4) We reiterate the vital importance of National Minimum Wage levels being set at a level that truly reflects the cost of living. However, in addition to this, the UK Government must use UC payments to fulfil its duty to ensure its citizens can afford an adequate standard of life.[[5]](#endnote-5)

The introduction of a Work Allowance for people, who at present don’t have one, would support those working on a low income to improve their standard of life and increase their income.

**Citizens Advice Scotland recommends:**

* **A Work Allowance is introduced for all who do not currently meet the criteria for the existing Work Allowance**

**Reducing the Taper Rate**

At present, the UC system works with a Taper Rate of 63% (63p in the £1). This means for someone without a Work Allowance, every pound they earn reduces their UC entitlement by 63p. For a person with a Work Allowance, every pound they earn above the Work Allowance reduces their UC entitlement by 63p.

A joint report by the Trades Union Congress and the Child Poverty Action Group found that reducing the Taper Rate would have a significant impact on work incentives. Reducing the Taper Rate was proposed as one way of giving those with jobs a stronger incentive to increase their earnings. The report also noted that increasing the personal allowance for income tax would also improve work incentives – but at three times the cost of reducing the Taper Rate.[[6]](#endnote-6)

Reducing the taper rate, would mean that once a person met their Work Allowance limit they could work additional hours in the knowledge they would keep more of this money. This is in contrast to currently, where once a person reaches their Work Allowance they lose 63p for every £1 they earn.

CAS suggest that reducing the Taper Rate or moving to a gradual taper rate system – would better support people to take on more work in the knowledge that it would not impact on their UC entitlement. Reducing the taper rate would also increase the eligibility of many low-paid workers to claim UC, including the CAB client in the case below.

**Citizens Alert:** A West of Scotland CAB reports of a client, seeking financial advice about claiming Working Tax Credits. The client was advised that UC has now replaced the legacy benefit system and a new claim must be made for UC. After a benefit check was completed, the client was advised that the taper rate of 63% when applied to her earnings of £590 per month left £371.27, whereas the client would have only been entitled to £317.82. Therefore, she would not qualify for any Universal Credit. A what if calculation was done and showed that if the client had been able to claim Working Tax Credits, they would have been entitled to £37.52 per week (a total of £1951.04 a year).

The case above demonstrates a real situation where a worker was left financially worse off under the UC system compared to legacy benefits, in this case Working Tax Credits. CAS believe no one should be worse off on UC than they were on legacy benefits. It is particularly concerning - given the policy aim of making work pay - that people working on a low income find themselves without any entitlement to financial support and worse off than under the legacy benefit system.

Introducing a Work Allowance for all claimants would go some way to addressing the problem of low-paid workers, without children or a disability, finding themselves in financial hardship whilst working. Similarly, reducing the taper rate would also enable workers to keep more of what they earn, consequently increasing the incomes of the lowest paid workers.

**Citizens Advice Scotland recommends:**

* **The Taper Rate is reduced to allow workers to keep more of what they earn**

**Conclusion**

In providing this budget submission - reflecting the experiences of CAB clients - we urge the UK Government to take forward the policy solutions set out by CAS in the March Budget. Ultimately, this will make the Universal Credit system work better for citizens across Scotland and the rest of the UK by increasing the incomes of the lowest paid workers in society.

For further information on any of the content in this submission, please contact Mhoraig Green, Strategic Lead for Social Justice (mhoraig.green@cas.org.uk).

1. DWP, [Universal Credit Full Omnibus Survey,](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/783158/universal-credit-full-service-omnibus-survey.pdf) (February 2019) [↑](#endnote-ref-1)
2. JRF, [Does Universal Credit enable households to reach the Minimum Income Standard](https://www.jrf.org.uk/report/does-universal-credit-enable-households-reach-minimum-income-standard)  [↑](#endnote-ref-2)
3. Which, [How Universal Credit is calculated](https://www.which.co.uk/money/tax/tax-credits-and-benefits/universal-credit/how-universal-credit-is-calculated-acrr84l2ckrv) [↑](#endnote-ref-3)
4. CAS, [Response to the Low Pay Commission Consultation](https://www.cas.org.uk/system/files/publications/cas_response_-_low_pay_commission_2019_consultation.pdf) (2019) [↑](#endnote-ref-4)
5. Universal Declaration of Human Rights, [Article 25](https://www.un.org/en/universal-declaration-human-rights/) [↑](#endnote-ref-5)
6. Trades Union Congress and Child Poverty Action Group, [Reforms to Universal Credit,](https://www.tuc.org.uk/sites/default/files/ReformstoUniversalCredit_0.pdf) [↑](#endnote-ref-6)