



Universal credit: A three-step plan

June 2024

Introduction

By the time it is fully rolled out, half of all children in the UK will live in a household claiming universal credit (UC). UC was promised as an 'all in one' benefit that would wrap various legacy benefits into one, simplify the system, reduce poverty, and make it easier to transition into work. However, UC has been plagued with administrative issues and restricted by budget cuts since its inception. As a result, it currently does not meet its own objectives, including reducing poverty: a record 4.3 million children in the UK now live in poverty.

With some financial investment and operational changes, UC can be the safety net that families need. These reforms would reduce the number of children living in poverty, help to build a stronger labour market, and lead to increased long-term prosperity as fewer children and families are held back by the debilitating effects of poverty.

The importance of investing in a strong and functioning social security system cannot be underestimated. For children, it can be life changing. There is a large body of evidence that indicates increased social security leads to healthier, better developed children who achieve more at school.¹ This means better outcomes in adulthood and a healthier, more productive workforce, leading to higher economic growth.²

There is also the effect of reduced costs and higher tax revenues for the government. Spending on the NHS will be lower. When children grow up, they will be more likely to be in employment, and in higher-paid jobs, which means higher tax revenue and less spending on social security in the future. CPAG analysis found that the costs of child poverty to the public purse (in terms of higher costs and reduced revenues) total up to £40 billion.³

The next government cannot afford to neglect the social security system any further, and this is a crucial moment to reset. The consequences of not doing so are being felt by children and families up and down the country. Restoration of the value of our non-means-tested benefit system will also be needed, but a crucial starting point

¹ CPAG, Education Anti-Poverty Coalition, *'There is only so much we can do'*, 2023

² H Hoynes, DW Schanzenbach and D Almond, *'Long-run impacts of childhood access to the safety net'*, *American Economic Review*, 106(4):903–34, 2016

³ D Hirsch, *'The cost of child poverty in 2023'*, CPAG, 2023

will be reform of UC, as the main working-age benefit in the UK. It will require some additional resources, but also a culture change to ensure that people who interact with the system are treated with the dignity, respect and autonomy they deserve.⁴

This report sets out a plan and policy recommendations for improving UC across three key areas: adequacy, the design and function of UC, and UC's relationship to work. It is important to note that this is not a comprehensive list of issues that need reform in UC, instead these are our priorities for an incoming government, based on our evidence and expertise.⁵ These recommendations for reform will require a mix of amendments to primary and secondary legislation, changes to guidance, and a number of operational/technical changes to the UC system. We have set out these changes in an implementation plan at the end of this report.

1. Summary of recommendations on adequacy

- Scrap the two-child limit
- Remove the benefit cap
- Increase the child element of UC by £20 a week
- Remove the lower rate of the standard allowance for under 25s.
- Reduce the monthly cap on deductions
- Launch an immediate review of benefit adequacy
- Legally enshrine that all benefits (and associated thresholds) rise as a minimum by the higher of inflation and earnings growth each year

2. Summary of recommendations on the design and function of UC

- Amend the UC digital claim form
- Use the information the DWP holds to calculate UC awards accurately
- Improve the appeals process in UC
- Pause/slow the roll out of managed migration
- Automatically transfer at-risk claimants
- Fill the gaps in the 'enhanced support journey'
- Increase the capacity of advice services
- Improve the support for people without digital skills or access to manage claims

3. Summary of recommendations on UC's relationship to work

- Conduct a review of conditionality in UC
- Automatically passport people who receive disability benefits into a non-stringent work conditionality group
- Make a work capability assessment mandatory for new claimants if the claimant queries their ability to work
- Substantially reduce the use of sanctions
- Provide voluntary tailored employment support to everyone on UC capable of work
- Introduce a second earner work allowance
- Cover 100 per cent of childcare costs in UC
- Extend childcare to parents preparing for work or training
- Review monthly assessment periods
- Abolish minimum income floor and surplus earnings rules

⁴ For more information about the key principles that should underpin the delivery of our social security system, see CPAG's [Secure Futures](#).

⁵ See CPAG, [Universal credit: what needs to change to make it fit for children and families](#), 2021 for a more expansive list of UC reforms.

1. Adequacy

The most fundamental issue affecting UC is that the social security system, as a whole, is inadequate. Benefit levels are too low and have been eroded over time. The UK government now spends £50 billion a year less on social security than it would have spent if cuts, freezes and other changes since 2010 had not happened.⁶ These cuts have pushed hundreds of thousands of children and families into poverty. Child poverty has risen from 3.6 million in 2010/11 to 4.3 million in 2022/23. This stands in contrast to when child poverty fell considerably from 1999/00 to 2004/05, due to large increases (above the rate of inflation and earnings growth) in the adequacy of social security.

The following areas are our priorities for reform to help restore adequacy in UC.

Two-child limit

The most cost-effective way to reduce child poverty is to scrap the two-child limit. As of April 2024, almost 1.8 million children in 500,000 families live in households affected by the policy and they lose up to £3,455 per child. The vast majority of these families are in poverty.⁷ The policy has been shown to have a negligible effect on the number of children parents decide to have,⁸ so the only real effect of the policy is to take money out of the pockets of low-income families and drive up child poverty, as this case from CPAG's Early Warning System shows.

A working couple with three children has their UC reduced by the two-child limit and a deduction for rent arrears. Their income is very tight. During a period when the father was out of work due to ill health, the family was not able to get a cake or any presents for their youngest child's birthday. They hoped the child would be too young to remember.⁹

Scrap the two-child limit. This would lift 300,000 children out of poverty and mean 800,000 children are in less deep poverty – making a significant difference to the lives of over a million children at a cost of only £1.8 billion.¹⁰

Benefit cap

Removing the benefit cap would help some of the poorest families across the country. The vast majority of households affected by the benefit cap are families with children. Latest statistics show there are 83,000 capped households, but this number is likely to have risen substantially in April as the benefit cap threshold is frozen while benefits have increased. Estimates for 2024/25 indicate that over 100,000 households could be affected by the cap this year (containing 300,000 children).¹¹

⁶ Author's calculations from the Policy Measures Database, March 2024. The sum of all policies in the 'Social security benefits', 'Tax credits', 'Welfare inside cap' and 'Welfare outside cap' categories for 2022/23, except 'Devolving disability benefits to the Scottish government.' These cover all policies announced from the 2010 Budget to the 2024 Spring Statement.

⁷ The results presented here are based on UKMOD version B1.12. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The results and their interpretation are the author's sole responsibility.

⁸ M Reader, J Portes and R Patrick, [Does cutting child benefits reduce fertility in larger families? Evidence from the UK's two-child limit](#), Nuffield Foundation, 2022

⁹ P1435 (YWYW) December 2023, Early Warning System, CPAG

¹⁰ See note 7

¹¹ See note 7

The logic for the benefit cap remains fundamentally flawed. It has a negligible effect on work incentives, while taking money away from the poorest families. The main reason families are unable to earn enough from paid work to escape the cap is there are significant barriers to employment, such as ill health or childcare.

*A lone parent with three children aged nine, 11 and 13 is assessed as unfit for work but this does not exempt her from the benefit cap. She has to find £80 each week towards her rent to make up for the shortfall in her benefits. She describes eating one meal a day so that her children get enough to eat. 'I can't spend any money on myself. My underwear is old and outgrown but I can't afford to buy new ones. I can't replace broken furniture. I don't like taking my kids shopping because I spend the whole time saying no to them. I am constantly checking the heating and electric balance, with the rent hanging over me. My kids can't go to a holiday club, or activities at school like gymnastics which cost £10 a month... How am I supposed to live? I'm not fit for work.'*¹²

Remove the benefit cap. Most capped households sit far below the poverty line, therefore removing the cap will not have much effect on the number of children in poverty but it will substantially reduce the depth of poverty for the 300,000 children estimated to be living in families affected by the cap, and cost just £300 million or 0.1 per cent of the social security bill.¹³ Living in deep poverty is particularly damaging for children's life chances.

Child element

Increase the child element of UC by £20 a week. In addition to removing the two-child limit and the benefit cap, the value of the child element of UC must be increased. CPAG's Cost of a Child research shows that many families on UC are unable to cover the basic costs of children.¹⁴ An out-of-work family with two children now receives only half of the basic costs of a child. In 2008, they faced a shortfall of a third. Increasing the child element by £20 a week would reduce child poverty by 400,000 at a cost of £3 billion.

UC for under 25s

Remove the lower rate of the standard allowance for under 25s. People under the age of 25 receive substantially less on UC than those over 25. Unlike legacy benefits, this also applies to young parents, who face the same costs of raising children as other parents.

Deductions

Official figures show 51 per cent of children in households claiming UC, or 2.3 million children, are in households having debt deductions taken from their benefits, forcing them to live on significantly less than their entitlement.¹⁵ The average per-household monthly deduction is £75 – collectively working out as £84 million a month or £1 billion a year being taken away from low-income families. This puts an unnecessarily large additional burden on already precarious finances, as this case from CPAG's Early Warning System shows:

¹² LX23001 February 2024, Early Warning System, CPAG

¹³ See note 7

¹⁴ J Stone and M Padley, *The Cost of a Child in 2023*, CPAG, 2023

¹⁵ Number of Households with Children by Parliamentary Constituency, May 2023, available at questions-statements.parliament.uk/written-questions/detail/2023-09-11/198821

A couple with three children has monthly UC deductions totalling £140 to pay off a UC advance and rent arrears. They are struggling to get by on their earnings and UC, and have debts of more than £10,000 despite using the local food bank and the household support fund. The family could not afford for their children to take part in activities during the school holidays.¹⁶

Reduce the monthly cap on deductions to 15 per cent of the UC standard allowance and introduce a Department for Work and Pensions (DWP) deduction cap of 5 per cent (in-line with the private sector cap). This would greatly support low-income families at no cost to the government. This money would still be repaid, just at a slower, more manageable rate.

Wider benefit adequacy

Launch an immediate review of benefit adequacy. To address the adequacy of social security more widely, the government must review benefit levels across the board. Current benefit levels are set at arbitrary amounts and do not reflect the actual living costs that people face. In order to make a substantial reduction in child poverty, the adequacy of all elements of UC (eg, child element, standard allowance, housing support, disability support) must be increased.

Legally enshrine that all benefits (and associated thresholds) rise as a minimum by the higher of inflation and earnings growth each year. In addition to reviewing the adequacy of benefits and setting levels at appropriate amounts, benefits should increase each year as costs rise. Otherwise the social security system does not keep up with economic growth, and child poverty rises. Over time, the value of benefits has decreased. For example, unemployment benefit is now just 14 per cent of average earnings, whereas 60 years ago it was nearly a third.¹⁷ In order to further reduce child poverty, benefits will at times need to rise at a higher rate than inflation.

2. The design and function of UC

How people access UC, and their experience of managing a UC award day to day, are important for a variety of reasons. Firstly, design and administrative hurdles can influence household finances as well as a claimant's health and wellbeing. Secondly, they can affect take-up of UC, and effective take-up of benefits is essential for ensuring social security reduces and prevents poverty. Households struggling financially outside of the system have lower living standards and are unable to access employment support. Children in these households are very likely to be living in deep poverty, which is particularly damaging to their life chances.

Through CPAG's welfare rights work, we have evidence of design and administrative flaws across a variety of different areas of UC, but the UC digital system and managed migration are our priorities for reform.

UC digital system

UC is a 'digital by design' benefit. While there are many advantages of a digital benefit for both claimants and the DWP, significant design flaws remain with the UC digital system. CPAG's *You Reap What You Code* research¹⁸ examined this issue in detail, and includes comprehensive recommendations for reform.

Amend the UC digital claim form. Our research found that the UC digital claim process does not gather all the information needed to correctly calculate claimants' awards. There are significant omissions in the questions

¹⁶ P1291 June 2023, Early Warning System, CPAG

¹⁷ M Brewer and L Murphy, *From safety net to springboard*, Resolution Foundation, 2023

¹⁸ For more details about the project and the full list of recommendations see R Mears and S Howes, *You Reap What You Code*, CPAG, 2023

asked of prospective claimants, and the onus is placed on people in certain circumstances, including those with disabilities and experience of homelessness, to identify whether these specific circumstances apply to them and to raise that with the DWP without any prompting. Claimants who are unable to do this (often because they do not know the complex rules of UC entitlement) risk losing out on financial support that they are entitled to.

In addition to problems with the questions asked, the digital claims process does not allow a claim to be submitted until all the questions have been answered. People can miss out on entitlement if there is any delay beyond a day in submitting a claim. Certain groups may particularly struggle to provide information like bank details, including those with recently granted immigration status or experience of homelessness. The UC digital claim form must be amended so that claimants have a fair opportunity to demonstrate their entitlement to UC.

Use the information the DWP holds to calculate UC awards accurately. The DWP has failed to use the data it holds about claimants' entitlement to other benefits to ensure that the UC digital system automatically and accurately calculates UC awards. This means certain groups of claimants, including carers and families with disabled children, miss out on their full entitlement to UC and face an administrative burden while they attempt to challenge incorrect decisions. The DWP should use the information it already holds about claimants to calculate awards accurately, including exploring automated solutions.

A lone parent with two children under 16 years old was a full-time carer for her disabled daughter. She claimed carer's allowance which was deducted from her UC pound-for-pound. However, her UC award didn't include a carer element, which would offset most of this reduction. The claimant was unaware of this missing entitlement and decided to stop claiming carer's allowance, since it was reducing her UC award. She only realised she was being underpaid after receiving benefits advice.¹⁹

For recent analysis of this issue see CPAG's briefing on *UC and relevant benefits*.²⁰

Improve the appeals process in UC. The notifications provided to claimants about their appeal rights do not accurately reflect the legislation. The consequence of this lack of transparency can include claimants unknowingly missing time limits and decisions going unchallenged if claimants wrongly believe deadlines have expired and cannot be extended.

The DWP has failed to provide a digital function for a claimant to lodge a mandatory reconsideration (MR) request – the first step in the UC appeals process. Instead, claimants must request an MR via their UC online journal, the UC helpline or post. Our research suggests that claimants who request an MR via the journal are often subject to 'gatekeeping' where they are dissuaded from pursuing a challenge and the initial request for a review is not actioned. The DWP must improve the appeals process in UC, so that claimants wishing to challenge a decision are able to do so. This includes ensuring claimants are provided with accurate information about their appeal rights, MR processes are improved (to address issues like gatekeeping and delays), and digital options for requesting an MR on the UC online journal are explored.

¹⁹ December 2023, Early Warning System, CPAG

²⁰ CPAG, [Universal credit and relevant benefits](#), February 2024

Managed migration

The DWP is in the process of moving legacy benefit claimants onto UC through managed migration. Claimants are being selected for managed migration and are sent a 'migration notice' informing them that they have three months to claim UC, after which their legacy benefits payments will be terminated.

While the majority of claimants are making the move over to UC, CPAG is extremely concerned that 32 per cent of people have not and have had their benefit payments terminated. The DWP has little information about why so many claimants with a strong financial incentive to move to UC²¹ are not doing so.²² Yet it is set to continue with the roll out, and recently announced plans to bring forward the managed migration of sick and/or disabled employment and support allowance claimants from 2028 to later this year.^{23 24}

Pause/slow the roll out of managed migration. The pace at which the DWP is scaling up managed migration is alarming, and it needs to slow down to create capacity within the department for the changes above to be implemented. This includes revising the April 2025 deadline to close the tax credits system. It should pause, evaluate and publicly report on the effect of the current phase of managed migration in advance of any employment and support allowance claimants being sent their migration notice.

Automatically transfer at-risk claimants. To make sure that all claimants safely move to UC without an interruption in their benefit payments, the DWP should automatically transfer the most at-risk claimants and verify any missing information as necessary. This should include terminally ill claimants, care-leavers and people with a recent experience of homelessness.

Fill the gaps in the 'enhanced support journey', which provides some claimants with additional reminders and offers of support before their claim for legacy benefits is terminated. This should include making calls to any claimant who says they do not need support but who then does not make a claim for UC before their deadline. The DWP should also work with local authorities and registered landlords to develop an enhanced support journey specifically for housing benefit-only claimants who currently have their benefit paid directly to their landlord.

Advice and support

Increase the capacity of advice services. Welfare rights advice services are critical to the effective implementation and delivery of UC. However, since the roll out of UC began, they have faced significant budget cuts with advice 'deserts' in many areas of the country. This is despite that fact that people going through managed migration are signposted by the DWP to advice services for support. Such services are vital to the claiming process, including the managed migration process, as they can provide face-to-face support, coordinate with other support services and inform the DWP if mitigations are needed. However, many advice services are already oversubscribed, experiencing serious funding pressures, and in some cases closing entirely. Without extra support for services and a more gradual UC roll out, they will be unable to meet demand when 440,000 migration notices are sent out promoting their vital services over the next few months. In addition to increasing the capacity of advice services, funding for second-tier welfare rights advice and bringing benefits advice within the scope of legal aid are also crucial to ensuring people can access good quality advice and support.

²¹ H Aldridge and J Thunder, '[The limits of test and learn](#)', CPAG and Z2K, 2023

²² National Audit Office, '[Progress in implementing Universal Credit](#)', 2024

²³ 'Prime Minister's speech on welfare: 19 April 2024', [gov.uk/government/speeches/prime-ministers-speech-on-welfare-19-april-2024](https://www.gov.uk/government/speeches/prime-ministers-speech-on-welfare-19-april-2024)

²⁴ For information about CPAG's work on managed migration to UC see cpag.org.uk/policy-and-research/findings-our-projects/managed-migration-research-project-findings

Improve the support for people without digital skills or access to manage claims. The ‘help to claim’ programme delivered by Citizens Advice offers some support to people lacking digital access or skills to make a UC claim. However, this does not include help for people to manage their claims on an ongoing basis, and funding has been cut despite an expected increase in the number of claimants making non-digital claims because of managed migration. More support and better alternatives are needed, particularly for people in vulnerable situations. This could mean, for example, more access to computers at the job centre, and improved processes for managing non-digital claims (eg, reducing telephone waiting times and improved home visiting services).

3. UC’s relationship to work

The final step is reforming the relationship between work and UC. In order to make reforms to get people into (better) work, it is vital to understand why some parents are unable to work and many others are stuck in jobs which are low paid, precarious and offer little chance of career progression.²⁵

The current rhetoric regarding economic inactivity is overblown – the economic inactivity rate has risen from 21 per cent pre-COVID to 22 per cent now. Our inactivity rate is still far lower than the EU or OECD average.²⁶ Spending on disability benefits is forecast to rise by £8 billion by 2026/27, compared to the £50 billion in cuts since 2010/11.²⁷

That is not to say that the relationship with work in UC does not need reform. At the moment, there is far too much stick and not enough carrot. People are pigeon-holed into strict conditionality groups, where they are deemed fit or not fit to work, and there is little recognition of the complex barriers to work that people face, such as a lack of childcare, fluctuating health needs or skills barriers.

Our priorities for change include reforming the conditionality regime, including the work capability assessment and sanctions; providing tailored employment support; introducing a second earner work allowance; and providing more support with childcare. These solutions would make a significant difference to parents, many of whom want to work, or work more, but face significant barriers to employment.

Conditionality and sanctions

The conditionality regime is currently set up to get as many people as possible into any type of work, regardless of the suitability for the claimant, while placing financial penalties (the benefit cap and sanctions) on those who are unable to find work. The support given to claimants is one size fits all and the onus is generally on the claimant to find work with limited guidance from work coaches. There are administrative issues with the work capability assessment, meaning many claimants are stuck in limbo, required to look for work when they are not able or need more support to do so.

Conduct a review of conditionality in UC to assess which claimants end up in which group and what the shortfalls of the strict conditionality regime are. The conditionality requirements on claimants have increased substantially in recent years, despite no evidence that doing so is beneficial for employment outcomes.

It has become apparent that there are currently administrative issues with the work capability assessment. However, its proposed reforms are hugely problematic and will only serve to limit access to disability benefits for

²⁵ H Hoynes, R Joyce and T Waters, *Decades of benefit reforms have pushed more people into work – but very often into part-time, low-paid work with little prospect of progression*, IFS, 2023

²⁶ OECD, *Economic Inactivity*, 2023

²⁷ OBR, *Welfare Spending disability benefits*, November 2023 and see note 6

people who need them. Here are some alternative reforms to conditionality that could make the system much easier to run and more transparent for claimants:

Automatically passport people who receive certain benefits (personal independence payment, adult disability payment and adult disability living allowance) into a non-stringent work conditionality group. It adds unnecessary administrative burden to assess these claimants multiple times. That is not to say that all claimants in this group should never be expected to work. More voluntary work-related support coupled with protections against being reassessed while you ‘try’ work would benefit claimants and the government.

Make a work capability assessment mandatory for new claimants if the claimant queries their ability to work. CPAG hears of many claimants who are forced into stringent conditionality despite evidence to suggest that this is not appropriate in their circumstances. It would make more sense to place these claimants in a non-stringent work conditionality group with voluntary employment support until they have their assessment.

A lone parent with one teenage child lived with domestic abuse for many years before leaving the relationship and claiming benefits. She has poor mental health and long-term physical health conditions. At her first UC appointment, her work coach did not accept her account of her difficulties and set mandatory work search and work availability requirements. This did not lead to the claimant finding work, but it did have an impact on her mental health and placed a burden on her support network (including professionals) who had to advocate for her several times to prevent her being sanctioned. She was only referred for a work capability assessment after getting independent benefits advice.²⁸

Substantially reduce the use of sanctions. There is no evidence that sanctions are beneficial for employment outcomes.²⁹ Benefit sanctions slow people’s progress into work and are likely to force them into taking lower-paying jobs that leave them hundreds of pounds a year worse off. They are also bad for other outcomes such as mental health.³⁰ They push families into deeper poverty and damage the relationship between claimants and the DWP.

A couple with two children claimed UC while the father (the main breadwinner) was too unwell to work. The family was sanctioned while the father was appealing a decision about his capability for work and continuing to provide the DWP with medical certificates from his GP. Job centre staff have discretion about adjusting work-related requirements in this situation, but the decision was made to sanction the family instead. The sanction and the absence of a limited capability for work related activity component are both having a major impact on their finances.³¹

This approach fails to account for the litany of barriers that many people, in particular parents, face when trying to find a (better) job for them and their family. These include financial barriers (the take-home pay from working more can often mean it is not worth it) and non-financial barriers such as childcare availability or a lack of tailored employment support.

Conditionality has also spread too far, in terms of both who is affected and the stringent conditions placed on these claimants. Most claimants would welcome high quality tailored employment support that came with no fear

²⁸ P1242 July 2023, Early Warning System, CPAG

²⁹ DWP, *The Impact of Benefit Sanctions on Employment Outcomes: draft report*, 2023

³⁰ NAO, *Benefit Sanctions*, 2016

³¹ 53085 August 2023, Early Warning System, CPAG

of sanctions or onerous job search requirements. Increasing conditionality requirements can actually be a hindrance to work, as this Early Warning System case study illustrates.

A lone parent with one child, living in homelessness accommodation, was managing to do some hours of agency work each week while looking for a job with more hours. During a period when she was required to have weekly work-focused appointments, she had to mark herself as unavailable for agency work and missed out on work opportunities. The appointments caused particular disruption when they were in-person at the job centre or where she was called late by her work coach for telephone or video appointments. The claimant describes the appointments as being very short and superficial – ‘I just tell them I’m still looking for work’ – and said they did not improve her work search. She has recently found a 22.5-hour a week job on her own initiative.³²

Employment support

The current approach to employment support is one size fits all and focuses on getting people into any job, regardless of their household circumstances, qualifications and aspirations. The onerous job search requirements with limited support mean that claimants are stuck spending lots of time looking for work without knowing where to look.

CPAG’s Your Work Your Way (YWYW) project used a different approach to provide tailored employment support to potential second earners in households claiming UC.³³ It is clear from this project that, in addition to the taper rate which sees UC support withdrawn as earnings rise, second earners experience a number of different barriers to work. It is vital that parents can access childcare (detailed below) as well as having flexible working hours.

Mother of three Jeena was supported by YWYW to complete an NVQ in make-up and further specialist training in beauty, which enabled her to pursue work as a bridal make-up artist. The job is flexible around family commitments and gives Jeena huge satisfaction. Jeena said: ‘YWYW helped me to find what I always wanted to do, they give me a chance to express my situation, listened patiently and understood me. They helped me to build my confidence, guided through options and supported along the way. They gave me the opportunity to do what I love to do and put my feet onto the right path. I am happy working a few hours per week which works well around childcare but can charge a good fee for what I do. My children are excited for me and my husband feels proud that I work now.’³⁴

As this case study highlights, it is important that potential earners are given employment support to find the best job to match their skills; that they can access training courses; that they receive advice on self-employment; and that they receive financial support to fund any associated costs with training or preparing for work. The average amount spent per YWYW client was £1,400, on things like training, laptops to apply for jobs, transport costs and childcare (to attend training). This short-term investment led to greater wages. This approach can save the government money in the medium term as benefit entitlement may be lower and more taxes are paid.

Provide voluntary tailored employment support to everyone on UC capable of work (whether in or out of work).

Good quality employment support, together with access to good quality affordable childcare and a second earner work allowance (see below), will do far more to support parents and carers to enter the labour market (or work more hours) than the high levels of conditionality within UC.

³² LX23007 March 2024, Early Warning System, CPAG

³³ See cpag.org.uk/your-work-your-way for more details

³⁴ Your Work Your Way participant

Second earner work allowance

A particularly large financial barrier affecting families is the fact that there is no second earner work allowance in UC. For potential second earners, from the first £1 they earn, 55p is lost in reduced UC. Primary earners can earn a small amount before they start losing their UC entitlement. When combined with childcare costs and taxes, the financial return from work for second earners can be incredibly low.

Clarissa and her husband have three children. Their youngest is three and attends nursery for 15 hours a week under the universal funded childcare provision for three-year-olds. Clarissa's husband works in manufacturing. Clarissa is keen to work and has been looking for a job ever since her daughter started nursery, but she wants a job in the evenings to enable her husband to look after the children when she is at work. One of the children has some health issues and finding suitable childcare is difficult. Their household income is currently £2,515 a month. With Clarissa working 16 hours a week, their income would be £2,811 a month, an increase of £296.

However, when Clarissa finishes work in the evenings, she would need to use taxis to return home due to distance and poor public transport. Monthly taxi costs are £91. Factoring in those essential travel costs, Clarissa and her family would see an increase in their income of just £205 a month or £47 a week for working 16 hours. That's £2.94 an hour. Clarissa is disappointed that being away from her family for four evenings a week – missing bedtimes, help with homework and general family time – would result in a net gain of less than £50 a week.³⁵

Introduce a second earner work allowance. This would initially cost £2 billion and reduce child poverty by 150,000. Over time, we would expect this policy to encourage more parents into employment. This would mean a greater poverty reduction impact. The amount spent on UC would also be likely to fall as more and more potential second earners enter the workforce and dual earner households receive less in benefits or come off UC altogether.

Childcare in UC

Childcare provision is a particularly prominent barrier for parents looking to move into work and access good quality jobs. Currently UC pays up to 85 per cent of childcare costs, but the remaining 15 per cent can have a substantial effect on family budgets. When coupled with the taper rate, national insurance contributions and income tax, it can mean that parents see only a small financial gain from taking on extra work.³⁶

Jill is a lone parent with two children who attend the local primary school. She is currently working 15 hours a week on the minimum wage to fit in work around school drop-off and pick-up (8:30am and 3:30pm respectively). Jill is currently in receipt of UC and is eligible to claim support for up to 85 per cent of her childcare costs. After she's covered her housing costs, Jill's weekly income is £297, which means Jill and her children live below the poverty line (£300 for her family). Jill would like to work more but childcare costs are a significant barrier. If Jill chooses to increase her work to 30 hours a week but has to pay for childcare to make this possible, she would lose over half of her increased net income to meet these costs. In this instance, Jill's additional income would be £55 a week (after tax) but she would spend £30 on childcare.

Cover 100 per cent of childcare costs in UC. This would initially cost £150 million and reduce the costs faced by many families. Over time, we would expect that childcare use would rise as more parents work (more hours)

³⁵ Your Work Your Way participant

³⁶ CPAG and Magic Breakfast, [Children's futures and the economic case for before- and after-school provision](#), 2022

because childcare provision is more generous. This would mean more spent on childcare, but also less spent on other areas of UC, as some families' earnings will rise and UC entitlement will fall.

Extend childcare to parents preparing for work or training. Childcare in UC is limited to parents in work. Evidence from YWYW shows that parents looking for work often struggle to access training, fill out application forms and attend interviews without dedicated childcare support to cover these times.

Jo, a mother of two from Greater Manchester, wanted to work with children and was interested in qualifying as a forest school assistant. She identified accredited training but was unable to access it as she was not eligible for any childcare support, and Jo was unable to afford nursery fees.

Reform the treatment of earnings in UC

Review monthly assessment periods. Monthly assessments of earnings can be difficult to predict and can create arbitrary differences in entitlement between people with the same average earnings purely on the basis of their working patterns. It can obscure the relationship between earnings and entitlement which is meant to be easy for claimants to understand.

Abolish minimum income floor and surplus earnings rules. This is particularly the case for self-employed workers. The minimum income floor penalises low-earning self-employed people, who are often the very poorest workers, by assuming that they are making the minimum wage regardless of their actual income. The surplus earnings rules punish people who take on temporary well-paid pieces of work by reducing future awards.

Conclusion

UC could become an invaluable tool for reducing child poverty, boosting the labour market and providing long-term economic growth. However, in its current state, it is plagued with administrative issues and is severely underfunded. Reversing even a fraction of the £50 billion cut from social security since 2010, alongside some operational reforms to the system, would go a long way to reducing child poverty and improving the lives of millions of families.

Appendix: What's needed to make these reforms happen?

The reforms outlined above will require changes to:

1. Primary legislation
2. Regulations (secondary legislation)
3. Guidance
4. The UC digital system (technical change)
5. DWP operational processes, outside of the digital system (operational change)

Adequacy

Two-child limit and benefit cap

The 2012 Welfare Reform Act (as amended by the WRWA 2016) introduced some of the most egregious policies including the two-child limit (section 12) and the benefit cap (section 96 and 97). To **scrap the two-child limit and remove the benefit cap**, primary legislation is needed. As these are two of the worst policies for families living in poverty ever implemented, we believe abolishing these policies via primary legislation should be a matter of urgency for any future government and must be planned as an early part of any legislative programme.

Deductions

Reducing the monthly cap on deductions to 15 per cent of the standard allowance and introducing a DWP deduction cap of 5 per cent could be implemented through changes to DWP guidance.

Wider adequacy/child element

The best way to address adequacy in UC would be to **launch an immediate review of benefit adequacy**. Increasing the different elements of UC and other benefits could be incorporated into the annual uprating process which usually commences in the autumn. This means no additional legislative time would be needed to increase different elements of UC and other benefits by a more significant amount. This also applies to **increasing the child element of UC by £20 a week**.

Primary legislation would be needed to **legally enshrine that all elements (and associated thresholds) in UC and other benefits rise as a minimum by the higher of inflation and earnings growth each year**.

The design and function of UC

Digitalisation

Amending the UC digital claim form, using the information the DWP holds to calculate UC awards accurately, and improving the appeals process in UC would require technical and operational changes to the UC digital system.

Amending the claim form so that the right questions are asked of claimants, and they have the opportunity to demonstrate their entitlement from the correct date (the day they started the claim, or an earlier date if they had a good reason for delaying their claim), could be implemented via changes to the UC digital claim form itself.

Improving decision-making processes, by ensuring the DWP uses the data it holds about claimants' entitlement to other benefits to accurately calculate UC awards, would require technical changes to the UC digital system, including exploring options for automation.

Improving appeals processes in UC would require some technical/operational changes to the UC digital system such as introducing a ‘submit a mandatory reconsideration’ function on the UC online account, amending the information about appeal rights provided to claimants in decision notices, and additional resources for DWP staff to improve the processing time of MRs.

All of these changes to the UC digital system would need to be supported by updated guidance and training for DWP staff to ensure that any changes were operationalised consistently.

Managed migration

No primary legislation would be needed to improve the roll out of managed migration. The most significant reform to implement would be **automatically transferring at-risk claimants** as this may require changes to regulations. **Filling the gaps in the ‘enhanced support journey’ and pausing/slowing the roll out of managed migration** would involve technical and/or operational changes.

Advice and support

Increasing funding for welfare rights advice services would require the government to allocate additional resources to the welfare rights sector, either directly to the advice sector, or through local authorities and legal aid contracts.

Legislative changes would be needed to reverse the removal of welfare benefits advice from the scope of legal aid (introduced by the Legal Aid, Sentencing and Punishment of Offenders Act 2012).

Improving the support for people without digital skills or access to manage claims, would require operational changes, and some changes to DWP guidance.

UC’s relationship to work

The best way to reform UC’s relationship with work would be to **conduct a review of conditionality in UC** and then use primary legislation to reform the current status quo on work and conditionality, as the current system is not fit for purpose.

Most work-based reforms could be achieved through amending the regulations:

1. Introducing a second earner work allowance
2. Covering 100 per cent of childcare costs in UC
3. Extending childcare to parents preparing for work
4. Abolishing the minimum income floor and surplus earnings rules
5. Automatically passporting people who receive certain benefits (personal independence payment, adult disability payment and adult disability living allowance) into a non-stringent work conditionality group.
6. Making a work capability assessment mandatory for new claimants if the claimant queries their ability to work.

Providing voluntary tailored employment support to everyone capable of work on UC (whether in or out of work) could be achieved through changes to guidance. In practice, the government would also need to re-train current work coaches, hire new work coaches and/or consider devolving employment support to external providers.

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.

About the Early Warning System

Our Early Warning System helps us get a better understanding of how changes to the social security system are affecting the lives of children and families. The information we gather from frontline advisers informs much of our policy, research and campaigning work, and also feeds into our advice services. Thank you to everyone who has contributed to our Early Warning System – to every adviser who has submitted a case and to rightsnet, which hosts invaluable benefit forums for advisers.