

Welfare reform and working people

Citizens Advice has started a major new research programme on income security. As we enter a period of political and economic uncertainty, this issue is increasingly important. It is a particular challenge for disabled people, anyone with long-term health problems and those in lower-paid work affected by welfare reform.

As Universal Credit begins to replace many existing benefits, there are big changes facing people who receive benefits and are in work. We spoke to over 2,000 people in this group and many are already concerned about their financial security. Nearly 3 in 5 are not confident they could increase their income from work.

**citizens
advice**

Universal Credit means big changes for low-income working households

Universal Credit is one of the biggest reforms ever made to the welfare system. While the principles underpinning the new benefit - simplifying the welfare system and making work pay - are welcome, it is also vital that there is enough support. Most people who receive benefits will be affected, but those in working households - who are moving from tax credits to Universal Credit - will see some of the most significant changes.



Introduction of in-work conditionality

This means, for the first time, working people who receive benefits, and whose income falls below a set level, must try to increase their hours or rate of pay. This will become a condition of receiving Universal Credit.



Financial losses for many

Under plans to further reduce welfare spending, changes to the way benefits are calculated for people in work will mean financial losses for many.



Rules on working hours will change

Those receiving Working Tax Credit now must work a minimum of 16 hours a week, but this rule will not apply under Universal Credit. This means there could be more options for hours to vary.

If the support and prospects for working people who receive benefits are to be improved under Universal Credit, it is vital we understand the needs, options and constraints facing this group.

The context for welfare reform has changed

In the past, welfare benefits were often associated with people out of work, but this is changing. The numbers of working families receiving Working and Child Tax Credits has risen from around 1.4 million in 2003-04 to 1.8 million in 2014-15.

Working families without children - receiving Working Tax Credit only - increased from around 164,000 in 2003-04 to 510,000 in 2014-15.¹

While unemployment remained relatively low in recent years, our analysis finds that 4.5 million people are in some form of insecure work.²

According to the Institute for Fiscal Studies (IFS),

2.1 million working households stand to lose out when they move onto Universal Credit, with an average loss of benefit income of around £1,600 per year.³

Between January and March 2016, Citizens Advice carried out a survey of 2,216 people across England and Wales, who received either tax credits or Universal Credit and lived in working households.

We asked them about their jobs, their financial security and their wider lives. We also asked them what they would do if their income was reduced by £100 a month (linked to the IFS calculations of average losses).

Our findings suggest a number of areas in which they are likely to need support as they move to Universal Credit.



Financial insecurity is already an issue for people receiving tax credits



70%

are 'never able to put some money aside as savings'



£8.58

Average daily travel costs. These account for more than the mean hourly wage of £8.07



£5-9

average hourly earnings of survey respondents

In the event of a £100 reduction in their monthly income:

53%

feel they would need to take on debt

39%

would cut their household spending

27%

couldn't take on more debt due to existing repayments

48%

believe they had already cut their household spending back as far as they could

"They've introduced split shifts over afternoons and evenings which can be at different locations and you're expected to travel between shops for these shifts. Travel to a two and a half hour shift can take nearly two hours by bus... [If my income was reduced] I suppose I could look for an additional part time job, but with the way my hours of work are split this would be virtually impossible."

Sue, 48

"I'd find it difficult to get extra hours as I have 4 children aged between 2 and 13 to look after. I hope to become self-employed so I can work around my children, but I'd have to earn a certain amount to get Universal Credit so I might need to top my earnings up with another job, which again would make childcare difficult."

Emma, 36

Increasing income from work is seen as a challenge



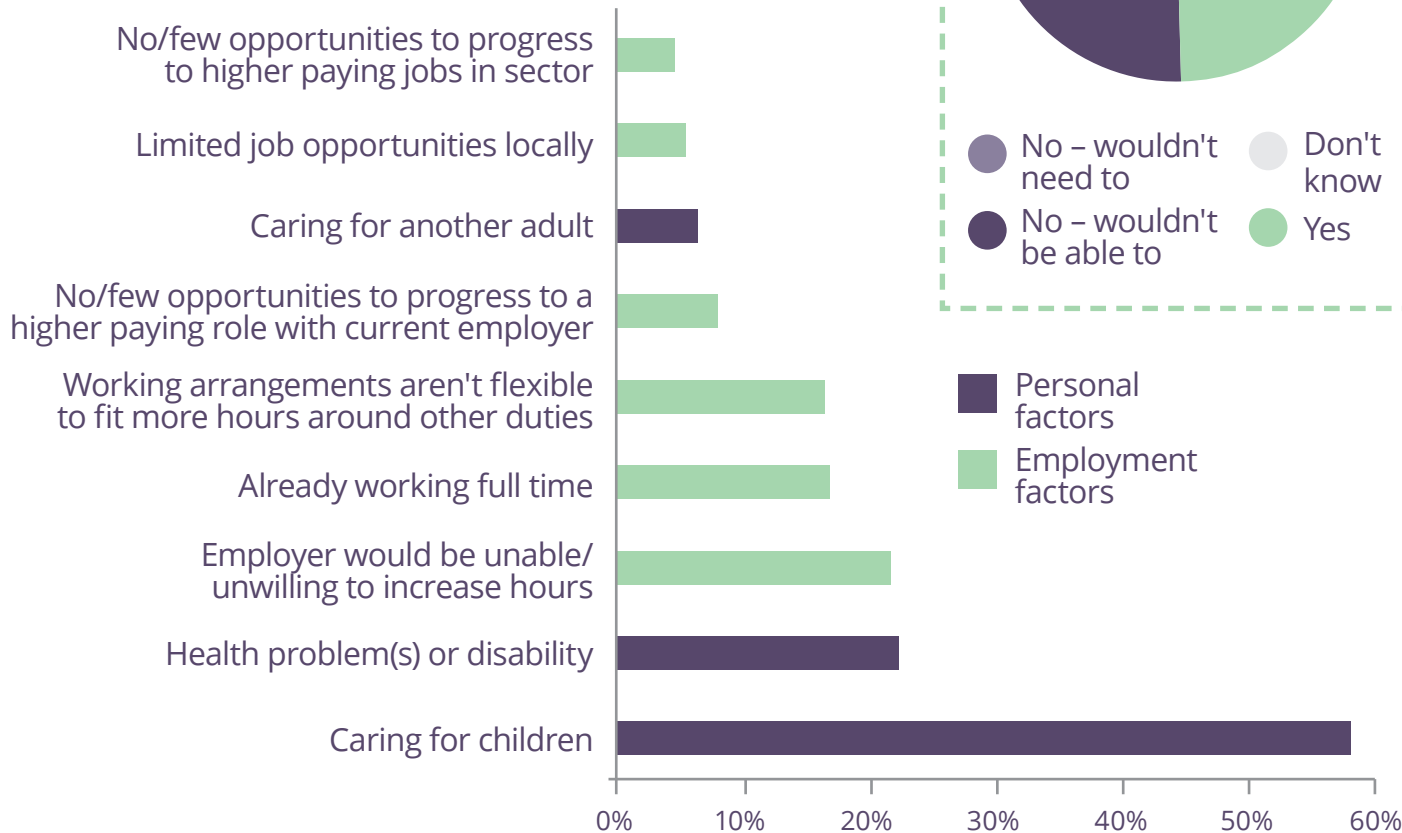
1 in 3

survey respondents feel they would be able to increase their employment income.

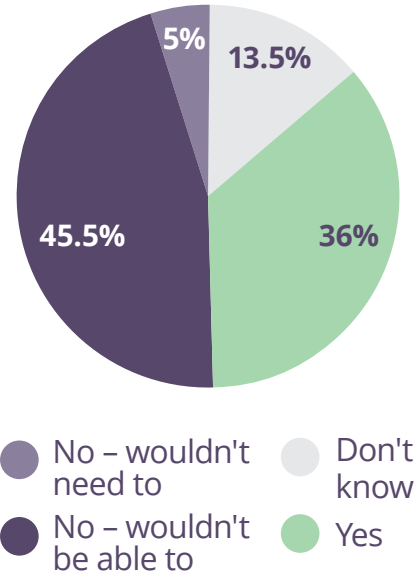


For those who believe they would not be able to do this, the challenges mentioned often relate to their personal circumstances, particularly childcare.

Restrictions on increasing employment income:



To deal with a £100 reduction in your monthly budget would you, or anyone in your household, look to increase your income through employment?



Some are more likely to struggle financially and feel less confident about their employment options

Parents - particularly lone parents

4 in 5

survey respondents live in households with dependent children (an average of 2 dependent children per household)

3 in 5

lone parents feel they would not be able to increase their income from employment

People with a health condition or disability

1 in 5

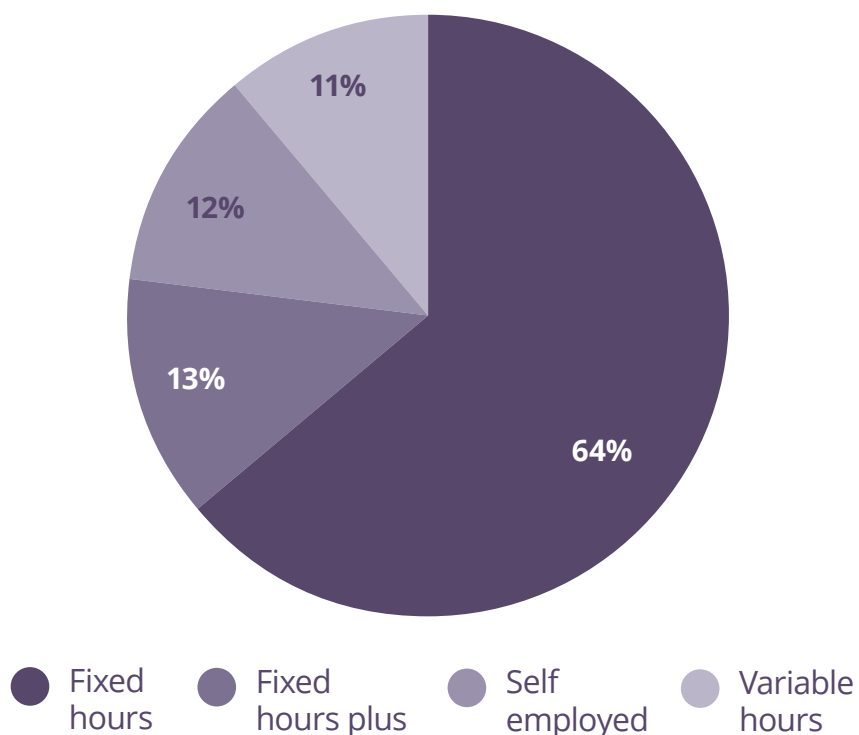
survey respondents report a disability or long-term health condition

2 in 3

feel they would not be able to increase their income from employment, compared to less than half of those without a health condition or disability

Many people receiving tax credits do not have a standard fixed hours contract

More than 1 in 3 either work fixed hours plus (some fixed hours combined with regular overtime), variable hours (do not work fixed hours week to week), or are self-employed. This is more common for older workers, disabled people and those with long-term health conditions.



1. HMRC, Child and Working Tax Credits Statistics UK, Finalised Annual Awards in 2014-15.
2. Analysis of ONS Labour Force Survey (2015). We define a worker as insecure if any of the following apply: zero hours contract; temporary contract; agency work; work more than 8 hours paid overtime per week; work variable shift patterns.
3. IFS Press Release, February 2016 www.ifs.org.uk/publications/8135

“Universal Credit is central to the government’s ambition of reducing welfare spending and increasing wages. But to achieve this it must support people on low incomes to progress and earn more, without creating income insecurity.

“Welfare reforms such as Universal Credit mean big changes for a lot of people, and many will need help to adapt. Getting policies and support right – particularly in untested areas like in-work conditionality - will be very important”

Kayley Hignell
Head of Policy at
Citizens Advice

What's next?

The transition to Universal Credit is set to be completed within the next 5 years. Working people will see some of the biggest changes as part of this process. Many are already facing financial challenges and struggles to increase and secure their income from work.

Government and employers now need to consider how best to support them. The current focus of Jobcentre Plus on reducing the overall numbers of people claiming benefits will need to shift towards helping people into secure and sustainable employment.

Through our research on income security in the labour market and how this interacts with welfare policy, Citizens Advice will be gathering a range of evidence to develop recommendations. These will focus on the impact of insecurity on people’s lives and what employees, employers and government can do in response.