



Cliff edges and precipitous inclines

The interaction between Universal Credit and additional means-tested help for working claimants

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Drawing on the findings from our wider qualitative longitudinal research study exploring the experience of working claimants on Universal Credit (UC)¹, this policy brief highlights the key findings of our supplementary report, published in September 2024, which explores the interaction between UC, earnings, ‘passported’ benefits and other means-tested help.²

Our report makes the following recommendations:

- A review of passported benefits and means-tested help that sit outside the main working-age benefits is needed, exploring, in particular, their interaction with UC and the effects on work incentives.
- Entitlement rules and earnings thresholds of the different means-tested schemes need to be simplified and standardised. Fairer and more consistent methods are also needed for withdrawing support as earnings rise.
- Entitlements should be regularly updated to keep pace with inflation and to better support work incentives.
- The income volatility and work disincentives caused by the interaction between UC and council tax reduction schemes need to be reduced.
- Entitlement to free school meals should be extended beyond households with earnings below the current £7,400 threshold, to a much wider group of UC claimants.
- The social tariffs offered by some telecoms and broadband companies should be offered by other utility providers, with eligibility extended to all UC claimants.
- Communication about and signposting to the different means-tested schemes needs to be increased and enhanced, making better use of the UC journal and technology more generally.
- Auto-enrolment and the automatic passporting of entitlement should be increased.
- The interaction between earnings, passported benefits and other means-tested support should be included as part of the Government’s formal review into UC and commitment to ‘make work pay’.
- Additional means-tested help, and the link with employment and work incentives, should also be included in the remits of the Government’s new Child Poverty Taskforce and Child Poverty Unit, as part of their work to develop a new child poverty strategy.

Passported benefits and means-tested help

Passported benefits and other means-tested help are income-based forms of financial and in-kind support with essential living costs delivered by a range of government departments, local authorities and utility providers, to which UC claimants (together with legacy benefit recipients and other targeted groups) may be entitled, depending on their circumstances. The support is typically provided in the form of reductions, concessions or discounts in charges, or in-kind help – such as vouchers – but cash benefits may also be paid.

Eligibility criteria, application processes and income thresholds are the responsibility of the particular government department, devolved administration, local council or utility company that owns and administers the different schemes. Better-known examples include council tax reduction (CTR) schemes, free school meals and free prescriptions, but there are many lesser-known schemes, including healthy food vouchers for new mothers and reduced (or social) tariffs on utility bills. The devolved governments in Scotland and Wales operate a further set of means-tested benefits and grants. Though the thresholds differ, the support is generally reduced or ended entirely, as it is for UC, in circumstances where household earnings rise above a certain level.

Policy context

Passported benefits and means-tested help outside of the main working-age benefits are of increasing policy interest due to their key role in supporting the incomes of households with low or no earnings. However, also important to consider is the impact these schemes can have on work incentives and Universal Credit's endeavour to 'make work pay'.

Marginal effective tax rates and cliff edges

When assessing the interaction between earnings and means-tested help, there is an important distinction to be made between policies and benefits that increase the 'marginal effective tax rate' (METR) – where an increase in income results in a gradual reduction in entitlement – and 'cliff edges' – where an increase in income results in loss of entitlement altogether. Both high METRs and cliff edges can reduce work incentives. However, cliff edges can be particularly detrimental because the additional net earnings from working more may actually be worth less than the value of entitlements lost, potentially leaving people financially worse off.

UC's *single taper* – which currently reduces entitlement by 55p for each £ of additional net earnings – and *work allowance* – which enables some claimants to earn a certain amount before the taper is applied – are

intended to reduce METRs and cushion the blow of cliff edges. When UC was rolled out in 2013, all UC claimants were entitled to a work allowance. However, since 2015, only families with dependent children and people assessed as having limited capability for work are entitled to a work allowance. High METRs, resulting in the loss of 60-70p or more for each £ of additional earnings, can also still affect working claimants through loss of entitlement to council tax reduction, which is withdrawn simultaneously and in addition to tapered entitlement to UC. Significant cliff edges and high rates of withdrawal as earnings rise therefore continue to affect large numbers of UC claimants.

Changes to the Administrative Earnings Threshold (AET) and UC work conditionality regime

The interaction between Universal Credit and entitlement for other sources of means-tested help matters all the more due to recent reforms to the conditionality regime, including an increase in the Administrative Earnings Threshold (AET).³ The AET is a monthly household earnings threshold that determines whether claimants are placed in the Intensive Work Search (IWS) regime or the Light Touch (LT) regime, in which work conditionality is eased. Because the AET is much higher than the income thresholds which currently apply to the different means-tested schemes, claimants who increase their hours or earnings to meet the new conditionality rules could find themselves financially worse off.

Key findings

- For working people with low earnings and low hourly rates of pay struggling to afford the rising costs of housing, utility bills and food, any extra help they can get to top up their income from earnings and UC payments could often be a lifeline, acting as a vital safety net.
- In the absence of a substantial rise in benefit levels and/or wage rates, sources of means-tested help that sit outside Universal Credit are likely to continue playing a crucial role in supporting the living standards of working individuals and families for the foreseeable future.
- While all participants had levels of earnings low enough to entitle them to Universal Credit, only in rare instances (such as the Government's Cost of Living payments) did UC receipt, of itself, automatically qualify them for help.
- Many working claimants were ineligible for support due to the very low earnings thresholds which applied to most of the schemes. Others had variable earnings which meant they dipped in and out of eligibility from one month to the next. Some were unaware that additional help was available.

Others were put off from applying because they had insufficient time; application processes could be onerous and time-consuming.

- The patchwork of independently administered, often discretionary, schemes has grown with little coherence or strategic overview. It is generally left to the designated government department, devolved administration, local council or utility provider to design and raise awareness of their schemes and to determine how much help any particular applicant, in any particular year, may get.
- Whether people knew about, were entitled to, able to apply for and successfully awarded any help was a hit-and-miss lottery of postcodes, personal circumstances and happenstance.
- Separate entitlement rules, earnings thresholds and application procedures add complexity to the social security landscape, creating barriers to access and administrative burdens for claimants, and countering UC's goal of simplification. The schemes can also be complex and costly for administering authorities to deliver, particularly when people's earnings are subject to frequent change.
- Different income thresholds attaching to the different schemes undermine the policy rationale of having a single taper rate in UC as earnings rise, making it hard for claimants to calculate or reliably estimate the financial impact that working longer and earning more will have. Fluctuating earnings and monthly assessment in UC, in which entitlement can vary from month to month, compounds this difficulty.
- Much-needed sources of cash and in-kind help that reduced or were withdrawn, sometimes simultaneously, when earnings increased or rose above a certain level, left some people worse off, countering UC's goal of 'making work pay.'
- Loss of entitlement to council tax support when monthly earnings increased, even by just a few pounds, meant some participants were financially worse off by working more, contributing to arrears and debts, both of council tax and more widely.
- The uncertainty and potential reduction in household income that loss of entitlement to means-tested help outside of UC can cause influenced the decisions some claimants made about whether, when, and how much, to work and earn.
- To avoid the loss of income, some of those whose UC conditionality requirements did not oblige them to work, meet the AET or earn more, reduced their hours of work or withdrew from the labour market altogether.

What can be done?

Conduct a review of passported benefits and means-tested help that sit outside the main working-age benefits, exploring the interaction with UC and effects on work incentives

The last independent review of passported benefits was conducted more than a decade ago by the Social Security Advisory Committee (SSAC), prior to the introduction of UC. It did not include council tax reduction (CTR) schemes, the effects of monthly assessment in UC or the impact on work incentives. These gaps need to be addressed. The recent intensification of work conditionality, obliging UC claimants to earn more as a requirement of benefit receipt, also needs to be included as part of any review.

Simplify and standardise entitlement rules, increase earnings thresholds and uprate entitlements to better support work incentives

There is a need to simplify and streamline eligibility and application rules to increase take-up by reducing complexity and with a view to more explicitly supporting work incentives. The different means tests need to be better aligned and the low and variable earning thresholds applying to the different schemes need to be increased. Fairer and more consistent methods are also needed for withdrawing support as earnings rise. Consideration should be given to abolishing earnings limits for certain schemes, such as those targeted on families with young children, as has been done in Scotland.

To ensure entitlements keep pace with rising costs, a system of annual uprating pegged to inflation or another agreed metric needs to be introduced. Reducing the UC taper, increasing work allowances and reinstating work allowances for all UC claimants would also help to compensate for the loss of entitlement to other means-tested help as people move into work and earnings rise.

Reduce the income volatility and work disincentives caused by council tax reduction schemes

Given their capacity to adversely affect in-work incomes, council tax reduction schemes warrant particular scrutiny. CTR schemes are the responsibility of each local authority. As such, the amount of reduction in council tax to which low-income people may be entitled, and the extent to which their liability varies with changes in earnings, is something of a postcode lottery. Efforts should be made to reduce this variability. Councils

should also be encouraged to review their eligibility criteria and earnings thresholds to mitigate the effects of income volatility and the rapid loss of entitlement when monthly earnings rise or fluctuate. Longer term, integrating council tax reduction into UC would, according to the Institute for Fiscal Studies (IFS), mean practically no workers facing a METR above 75 per cent.⁴

Extend entitlement to free school meals to a wider group of UC claimants

Entitlement for free school meals for new applicants is currently restricted to families with household earnings below £7,400 per annum, significantly under the current AET. In the context of the Government's new strategy to reduce child poverty,⁵ this threshold needs to rise. Without an increase, parents currently in receipt of free school meals, whose household earnings are above the current limit, will lose their entitlement when transitional protection ends on 31 March 2025, or the point the child finishes their current phase of education.

According to the IFS,⁶ expanding eligibility to all state school primary pupils would cost around £1 billion a year, about the same as it would cost to offer free school meals to all state school pupils, primary and secondary, whose families claim UC. A less expensive option would be to increase the household earnings threshold. Raising the threshold to £20,000 a year⁷ would cost around £425 million a year but bring about 900,000 more children into eligibility. This would mean that around two-thirds of children whose families get UC would qualify for free school meals.

Extend social tariffs offered by telecoms and broadband companies to other utility providers

Raising awareness of and extending the social tariffs offered by some telecoms, broadband and water companies to gas and electricity suppliers would help reduce the number of working claimants on UC struggling to pay, and falling behind with, their bills.

Improve communication and signposting and increase auto-enrolment and automatic passporting

Better awareness raising of the support available using the UC journal and increased signposting by Jobcentre work coaches would help to increase take up. Take-up could also be increased, and administrative burdens reduced, through auto-enrolment and the automatic passporting of entitlement, as happened with the Government's Cost of Living payments.

Going forward: making work pay and the new child poverty strategy

The interaction between earnings, passported benefits and other means-tested support should be included as part of the formal review into UC and the commitment to ‘make work pay’ that was pledged in the Labour Party manifesto.⁸ Reviewing passported benefits and means-tested help, and the link with employment and work incentives, should also be included in the remit of the Government’s new Child Poverty Taskforce and Child Poverty Unit, as part of their work to develop a new child poverty strategy.

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- 1 Funded by abrdrn Financial Fairness Trust, the research, entitled: ‘Coping and hoping: Navigating the ups and downs of monthly assessment in Universal Credit’ tracked month-to-month changes in earnings and household income, in real time, between February 2022 and March 2023, with a sample of 61 Universal Credit claimants in 42 working households, with and without children, in England, Scotland and Wales. <https://www.bath.ac.uk/publications/coping-and-hoping-navigating-the-ups-and-downs-of-monthly-assessment-in-universal-credit/>
 - 2 Griffiths, R. and Wood, M. (2024). Cliff edges and precipitous inclines: The interaction between Universal Credit and additional means-tested help for working claimants. <https://www.bath.ac.uk/publications/cliff-edges-and-precipitous-inclines-the-interaction-between-uc-and-additional-means-tested-help/>
 - 3 In May 2024, the Administrative Earnings Threshold (AET) was increased to £892 per monthly assessment period for single claimants and to £1,437 per assessment period for couples. This is equivalent to an individual working approximately 18 hours per week or couples working around 29 hours per week between them – approximately double the number of hours that were required in 2022.
 - 4 Ray-Chaudhuri, S. and Waters, T. (2024). Universal Credit: incomes, incentives and the remaining roll-out, p.4. The Institute for Fiscal Studies. <https://ifs.org.uk/sites/default/files/2024-06/Universal-Credit-Income-incentives-and-remaining-rollout-Institutue-for-Fiscal-Studies-Report.pdf>
 - 5 <https://www.gov.uk/government/news/ministerial-taskforce-launched-to-kickstart-work-on-child-poverty-strategy>
 - 6 Cribb, J. et al. (2023). The policy menu for school lunches: options and trade-offs in expanding free school meals in England. The Institute for Fiscal Studies. <https://ifs.org.uk/sites/default/files/2023-03/The-policy-menu-for-school-lunches-options-and-trade-offs-in-expanding-free-school-meals-in-England.pdf>
 - 7 National Food Strategy (2021). Recommendations in Full. <https://www.nationalfoodstrategy.org/wp-content/uploads/2021/07/National-Food-Strategy-Recommendations-in-Full.pdf>
 - 8 Change: Labour Party Manifesto 2024, p.78. <https://labour.org.uk/wp-content/uploads/2024/06/Labour-Party-manifesto-2024.pdf>



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