Department for Work & Pensions

Minister for Welfare Delivery
4th Floor
Caxton House
Tothill Street
LONDON
SW1H 9DA

www.dwp.gov.uk

31 March 2020

Dear Stephen,

Thank you for your letter dated 6 March 2020. I hope you found the meeting on 6 February useful and I want to reaffirm my commitment to continuing a constructive relationship with the Committee. You have raised in your letter several points regarding Universal Credit.

Regarding the claim from Trussell Trust my Department does not keep official statistics on Food Bank use. We have requested this information from leading Food Bank organisations but we are still awaiting these. While Trussell Trust have claimed that there is a 52% growth in Food Bank demand in areas where Universal Credit has rolled out, their evidence also shows that in 2018/19 only a small minority of referrals were due to benefit delays caused by UC. This shows that Food Bank use cannot be linked to a single cause. It is unhelpful and an oversimplification however to attribute foodbank usage to UC and the first assessment period and fails to acknowledge the many reasons somebody may make use of a foodbank.

In your letter you pointed out the potential cost of delivering up-front non-repayable advance payments to all claimants. Based on previous estimates, the cost of introducing non-repayable advances would be between £2.1 billion and £2.6 billion per year between 2020/21 and 2024/25.

Non-Repayable Advances

We must consider the way in which UC operates. In common with both the legacy benefit system and employers' payroll systems, UC is not paid immediately at the beginning of a claim but instead follows a predictable payment cycle. Assessment periods ensure UC entitlement is accurately calculated each month, responding efficiently to changes in household circumstances including employment earnings.

The option of non-repayable advances for those most in need has been explored. However, an advance is an advance payment of overall entitlement and a non-repayable advance would therefore be an increase in overall entitlement for some claimants only creating disparity between new and existing claims.

Increased Payment Frequency

It is impossible to pay an accurate award of UC after the first 2 weeks as awards are assessed and paid monthly. Assessing UC on a monthly basis ensures that we receive at least one update of earnings information for each working member of a household, meaning that the benefit calculated accurately reflects the needs of the household. At the end of each assessment period, the claimant is paid an amount that reflects their circumstances for the forthcoming month.

For those who need assistance in managing their finances, alternative payment arrangements can be put in place. These include More Frequent Payments, which you and I have discussed previously.

Removing the ‘five week wait’ for those moving from legacy to Universal Credit

The Department has taken a number of steps to smooth the transition from legacy benefits to UC. Aside from updates to the advances policy, we have already announced non-repayable 2-week run-ons for elements of Jobseekers Allowance, Employment Support Allowance and Income Support. These will come into effect from July this year and will run alongside the existing 2-week run-on for housing benefit for eligible claimants. The run-ons will work in tandem with the advances to ensure claimants are eased into UC and are able to manage their money in the early stages of their claim.

Backdating

We encourage all claimants to register their claim and engage with us at the earliest opportunity to ensure we can understand their unique circumstances and support them appropriately. Backdating will be available in very limited circumstances to protect our most vulnerable claimants who may be delayed in claiming Universal Credit through no fault of their own.

We want to ensure that claimants understand they must make a claim at the point of need.

Deferring repayment of advances until after claimants are in work

The Department’s approach to recovering advances strike the correct balance between providing support to vulnerable claimants in immediate financial need and ensuring there is always a work incentive in Universal Credit alongside fairness to the taxpayer. The repayment method and schedule of advances is explained to the claimant by a work coach or case manager, who will outline what they are expected to receive, as well as confirming the claimant is able to afford the monthly repayments. Budgeting support is also available to any claimant who needs additional help.

Repaying advances only after entering employment could act as an employment disincentive, undermining one of UC’s the core objectives. The Department acknowledges that the repayment of advances can be difficult for some which is why the package of changes announced in the Spring Budget included changes to way advances and deductions are recovered.

Lowering the deductions cap

You will be pleased to know that, as announced by the Chancellor on 11 March, we will be further lowering the standard deductions cap from 30% to 25% of the standard allowance from October 2021. This reduction will allow more than 350,000 claimants to retain more of their monthly award for day-to-day expenses.

Extending the Advance repayment period

As mentioned previously, from October 2021, claimants will be able to repay new claim advances over 24 months instead of 12 months. This will replace the previous proposed measure of extending the period to 16 months. In conjunction with the change to the deductions limit, this change will mean that claimants will be able to repay third party debts more quickly as well as being able to access the support they require.

Specific response on Covid-19 for 2020/21

Further to the aspects raised above, in response to the growing concerns around COVID-19, the Government has announced a number of measures including, changes to the standard allowance, which will provide additional support to claimants for one year. From 6 April this year, the standard rate of UC will be increased by £86.67 a month for 12 months, meaning claimants will be up to £1040 better off.

This measure is in addition to the planned annual uprating of all benefits in line with CPI of 1.7% and will work with previous welfare announcements to safeguard our claimants during this difficult time.

I hope the above responses explain the work we have been conducting in this space and look forward to exploring further options to support our claimants with you as part of your inquiries.

Will Quince MP

Minister for Welfare Delivery

Work and Pensions Committee
House of Commons, London, SW1A 0AA
Tel 020 7219 8976 Email workpencom@parliament.uk

Will Quince MP
Minister for Welfare Delivery
Department for Work and Pensions

6 March 2020

Dear Will

Thank you for meeting with me on 6 February to discuss Universal Credit.

The fact that 60% of claimants take a loan from the Department when their claim starts suggests that the initial assumption—that claimants would have a month's pay in their bank account when claiming—was incorrect.[1] The Trussell Trust reports that Universal Credit claimants are two and a half times more likely to use a foodbank than legacy benefit claimants. It is hard to see differences that can account for this other than the five week wait. I hope the Committee can play a constructive role in supporting sensible changes to address the problem. I envisage this being an important part of the Committee's work when we start meeting after the recess.

The initial assumption clearly does not apply to people who have left a weekly paid job or a zero hours contract; nor to people migrating from other benefits. Up-front payment to all claimants of a non-repayable advance to cover the five week wait would be a solution, but costly. I think you said it would cost £3 billion over the spending period.

Is that correct and, if so, please could you set out the assumptions on which it is based (for example, take-up)?

There are a number of other ways of reducing the impact of the five week wait which are likely to be of interest to the Committee and would incur lower costs. Would it be possible, for each of the options below, to set out:

- **The Department's assessment of costings; and**
- **The Department's assessment of feasibility.** We are particularly interested in the Department's assessment of possible effects on claimant behaviour, and on how implementing each option would affect the rest of the UC programme?

The options are:

- Paying a non-repayable up front advance only to claimants most in need; the Committee suggested in September that this should include disabled people (including families with disabled children) and those with long term health conditions; those receiving social services support; and those in debt above a specified threshold;

[1] See Social Security Advisory Committee, The Universal Credit (Waiting Days) (Amendment) Regulations 2015 (S.I. 2015 No. 1362) - Report by the Social Security Advisory Committee under Section 174(1) of the Social Security Administration Act 1992 and statement by the Secretary of State for Work and Pensions in accordance with Section 174(2) of that Act, para. 10-18.

- Making a payment faster than five weeks in specified cases. For example, claimants could opt to be paid two-weekly from the start of their claim (meaning their first payment would be made after two weeks).

- Dropping the five week wait altogether for those transiting from legacy benefits, including child tax credits; which would have the advantage of entailing a one-off cost only;

- Allowing claimants more readily to backdate their claims to the day after their last pay cheque; which would in particular target the problem that people delay claiming after losing their job in the hope of quickly finding a new one;

- Allowing claimants to defer repayment of Advances until they have moved into work;

- Lowering the maximum cap on deductions for repayment of debts from Universal Credit. Currently, the maximum is 30% of the claimant's standard allowance.

- Extending the time permitted to repay Advances. This is currently 12 months, due to increase to 16 months from 2021.

If the Department wished to offer an assessment of any additional options, that would also be very welcome.

I look forward to working with you and your colleagues in the months ahead.

Yours sincerely,

Stephen Timms

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee