Written evidence from Dr Ruth Cain [UCW0036]

This brief submission is presented in my personal capacity as an academic researching the impact of Universal Credit (UC) on low paid people, particularly lone parents.

Executive summary:
The 5 week wait is causing considerable and well documented hardship to claimants who are already in financial need when their claim is lodged and the advance payment method reduces later payments, hindering budgeting and continuing hardship.
- The monthly assessment period and payment in arrears which Universal Credit deploys is failing to perform its intended function of preparing claimants for the world of work.
- Payments made may vary considerably and confusingly each month, for several reasons:
  o multiple deductions made per month for overpayments, debts etc;
  o the assessment period often fails to coincide with wage payments, thus leading to subsequent UC payments being reduced accordingly, possibly to zero.
- The Government should consider making the advance payment non-repayable, eg. making it in effect a first payment of UC.
- If this is ruled out, the advance payment and any further budgeting advances should be paid off at a much lower rate than 12 months with 3 months extension in case of severe financial hardship, the current system.
- Payments should be paid bi-weekly, as per the legacy benefits system and many actual working wages, to enable better budgeting.
- Information for claimants should be improved so that claimants are aware in advance of what may be happening to their monthly payments and what and when they may have to pay back.

Universal Credit (UC) was designed to make claimants responsible and work-ready, by replicating the world of work. This submission considers the well-documented and heavily criticised ‘5 week wait’ for the first UC payment. UC pays claimants in arrears, emulating a monthly-paying employer. Monthly payment, however, does not necessarily replicate ‘the world of work’ because many kinds of jobs are not actually paid monthly but on a bi-weekly, weekly, etc, basis. The 5 week wait and the monthly payment model also fails to help claimants to budget, landing them in debt before their first payment even arrives; the ongoing monthly payment is subject to deductions and variability which also make it harder to budget and plan, as per below).

Although claimants obviously make UC claims because of joblessness or low pay, and are disqualified from claiming for having savings, or if their partner has savings or income (regardless of whether actually shared with the claimant), they will have used them up before the claim is successful but are nonetheless expected to find funds for 5 weeks. This is illogical.
Claimants also often receive different amounts every month, making budgeting extremely difficult, due to the ways in which automated earnings data from the HMRC Real Time Information (RTI) system work with the Universal Credit fixed monthly assessment period. For example, if the actual payment dates do not coincide with the UC assessment period, eg at Christmas when employees are usually paid for Dec on the last working day before the public holiday.

If wages are paid weekly or four weekly, or early due to a week-end or bank holiday, in single-earner couples two or sometimes three sets of wages could be counted in one monthly assessment period, potentially reducing the Universal Credit payment to zero. In dual earning couples, in which both the partners’ wages were paid with different frequencies or on different days in the month, up to four sets of earnings could be used as the monthly income figure against which their entitlement was assessed. Thus, even though monthly earnings remain the same, the Universal Credit claim can automatically end because aggregated earnings exceed the monthly entitlement threshold. Although claimants can reapply the following month, the lost entitlement and work allowance from the previous month are non-recoverable.

Childcare contributions are included in the monthly assessment and tapered according to earnings, so the variable payments affect capacity to pay childcare costs, potentially leaving parents unable to work. Such effects are causing significant budgeting difficulties and financial hardship for some working families, as well as undermining UC’s key policy goal of incentivising work and earning more (see further Rita Griffiths, Submission to House of Lords Inquiry on the Economics of Universal Credit, 27 February 2020).

Advance payments are available to claimants who apply to the DWP, but must be repaid within 12 months, 15 in the case of financial emergency, which the claimant must prove. For claimants with rent arrears, disabled claimants, lone parents, or those suffering from drug or alcohol addiction, high interest loans, loan sharks or money from friends or family (which may not be repayable) are the only solutions to what can become a continual state of debt and hardship.

Given that the 5 week wait includes all costs, including housing costs which are now paid directly to the tenant rather than the landlord (in another attempt to make tenants more ‘responsible’ citizens), evictions are a common result of lack of funds swallowed by debt, addictions, etc, as reported widely in the press (https://www.independent.co.uk/news/long_reads/universal-credit-single-parent-stories-a8060451.html). Food bank use has also been persuasively connected to the 5 week wait, as documented by the Trussell Trust (https://www.trusselltrust.org/five-weeks-too-long/#1537797406800-ff30ac4d-e8cd).

During the 5 week wait and also when UC payments suddenly decrease as noted above, informal borrowing will frequently be required to keep up bill payments, rent (which may be in arrears due to claimant’s clearly parlous financial state at point of claim), and large household expenses such as baby items, etc. Budgeting advances are available for such larger expenses but must, again, be deducted from UC payments over 12 months with a possible 6 month extension.
Recommendations:

- The advance payment should be non-repayable. If non-repayable, it will basically count as an immediate benefit payment. This makes financial sense for all parties as it will enable claimants to survive the five weeks without hardship, and budget appropriately for coming months, and will also help government to avoid the knock-on costs associated with evictions, rehousing vulnerable families, loan sharking etc.

- If the advance must be repaid it should be over a longer period eg 2/3 years and account should be taken of the effects of other deductions for previous overpayments (often historical, sometimes from ex partners and households), rent arrears and payments to creditors who can apply to have unpaid bills deducted from UC payments.

- Budgeting advances for extreme financial hardship or exceptional expenses such as baby requisites, appliances etc should be repayable over a longer period and account should be taken of the effect of other deductions on claimant income as per above.

- Backdating claims to allow payments to be made at the point of actual need would also be beneficial if the payments cannot be made as soon as possible from the date of claim.

- The current 2 week run on from legacy benefits, which leaves legacy benefit claimants with 3 weeks to wait for their first payment, should be removed. 3 weeks is still a significant time to manage without funds and may carry significant risks for an already vulnerable group.

- Paying UC bi-weekly will help with budgeting and may be closer to many claimants’ real experience of a working wage.

- Clearer, earlier information from the DWP about the calculation and assessment of entitlement, together with consideration of a fixed period of award (which would include any necessary deductions) instead of continuous re-assessment on a monthly basis, would help claimants to budget more effectively.

References


Griffiths, Rita. 2019. Written submission to House of Lords enquiry

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