

Written evidence from Christians Against Poverty [UCW0075]

This inquiry into the options to improve one of the major difficulties for claimants of Universal Credit, the five week wait, could not be more timely. With a million new claims for Universal Credit in the first few weeks of the coronavirus outbreak in the UK, the rollout is accelerating more rapidly than expected, and more people will sit outside the additional support being built into the managed migration pilot.

Christians Against Poverty (CAP) is pleased to be able to contribute to the Committee's inquiry. Universal Credit is undoubtedly the single biggest welfare reform since the welfare state was introduced. While the principles and intentions of Universal Credit, to simplify the benefit system, are widely supported, the implementation and system design is causing hardship for too many people.

Each year CAP helps 20,000 people in the grip of debt, providing professional debt counselling and holistic face-to-face support through a network of 618 community-based services partnered with local churches. 82% of those who receive debt help from CAP claim some form of benefit and so the vast majority of our clients will transition onto Universal Credit in the next few years. Typically, CAP clients are on low incomes, 64% live below the poverty line, and there is a high incidence of mental and physical health problems combined with difficulties, that mean their financial worries are just the tip of the iceberg.¹

As a result, adapting to the new system, which is digital-by-default and involves the managing of rent payments and a single monthly payment, has been challenging for many. Once up and running, it is a strength that Universal Credit payments are adjusted based on live earnings to avoid overpayments. Yet the length of time claimants are without income before their Universal Credit payments start, remains a key area of concern.

Advance payments are a lifeline that many people are too afraid to use. Where people have no choice, the repayments prolong financial hardship. There is no one simple solution. Instead, we need a range of reforms that will make Universal Credit work for the variety of circumstances that people making a claim find themselves in. Backdating is needed, as well as non-repayable Advances for claimants with deficit budgets.

Debt deductions and Advance repayments must be reviewed immediately to ensure the repayments are affordable. October 2021 is too far away.

I would like to extend our thanks to the Committee for looking at this important issue. It is a complicated area and there is great value in bringing together evidence and views of how to mitigate the detriment the current system is causing.

1. To what extent have mitigations the government has introduced so far (e.g. Advance payments) helped reduce the negative impact of the five week wait for UC claimants?

The mitigations put in place by the government have improved the support available to claimants during the transition to Universal Credit. Some of the early changes made have been of particular importance; including the removal of the seven wait days, shortening the length of the wait for first payment to five weeks, and increasing Advance payments to 100% of a claimant's expected entitlement. The provision of run-ons has also helped people in certain situations, but other policy changes, while welcome, have lengthy delays before

¹ CAP (2019) Client Report: Changing perceptions, available at capuk.org/clientreport

implementation. It is particularly disappointing that the extension of the Advance repayment time-frame to 24 months will not take force until October 2021.

What problems do claimants still experience during the five week wait?

In CAP's experience, most claimants still find the wait for first payment financially and emotionally testing. Despite the mitigations in place, it is still common for people to experience real poverty during this period. All claimants who had taken an Advance payment, when interviewed for CAP's *Checking in* series of briefing papers about Universal Credit, reported being left with too little to live on due to unaffordable repayments.² One claimant described themselves as 'dirt poor' during this time. There is a great deal of apprehension that Advance payments are a loan and many CAP clients who are already in financial difficulty want to avoid further debt at all costs. Instead, CAP clients have told us they have resorted to selling personal belongings, leaving bills unpaid and relying on charity from friends, family and food banks.

Quotes from CAP clients about their experiences of the five week wait

'I started to sell some things on eBay... just £10 here, £10 there and that was it. And I just thought let's do a little bit of walking... it's about a 45 minutes walk to my local supermarket so this is what I did and just carried what I could, there and back.'

'I had nothing. I relied on my brother, my sister, my neighbours. Because you don't get anything, and I mean nothing at all. So there's no rent being paid, there's no Council Tax being paid, there's no money for shopping, gas, electric, nothing... The worst one was the rent, because it meant five weeks rent arrears building up.'

'That all ended up in a real stress... we had a fairly good relationship [with private landlord] before and it became horrible.'

'I had to get a credit card and then I just couldn't afford to pay it back.'

'I don't know how they expect people to live on nothing. They did say 'you can get a loan', but then that's putting you in more debt. You already owe five weeks rent and if you take a loan, that's more you have to pay back. I took a loan, I had no choice.'

The implications of this can be very stark. CAP has supported people who have been threatened with eviction because of arrears built up during the five week wait, or taken to court for non-payment of Council Tax. Credit cards and overdrafts are also commonly turned to as a coping strategy for the wait. This can have an enduring impact as people struggle to repay debts incurred during this period for several months or longer.

While the theory is that people leaving employment will have a final pay-packet to see them through until their Universal Credit payments start, in practice a fifth of Universal Credit claimants delay making their claim. This could be due to difficulties making the claim or providing ID, expecting to find another job quickly, or ill health. It is problematic that there is no backdating within the Universal Credit system. Living on low incomes means people live month to month, and 94% of CAP clients had no savings they could fall back on when financial difficulty struck.³ This means that most people CAP helps do not have resources to buffer them for a further five weeks.

² CAP (2019) *Checking in: CAP clients' experiences of Universal Credit so far*, available at capuk.org/checkingin

³ CAP (2019) *Client Report: Changing perceptions*, available at capuk.org/clientreport

Furthermore, it can be difficult for claimants to make an informed choice about how much Advance they need and some are unaware that they can request a second Advance payment if they did not take their full entitlement initially. It is also a fundamental issue that Advance payments are intended to see a claimant through a five-week period, yet the maximum amount available to them is normally only intended to cover a single month's living costs and most claimants find this a stretch in the best of times.

Whilst Advance payments play an important function within the Universal Credit set-up of payment in arrears, the repayments for these loans commonly leave claimants in hardship after the payments start. All the claimants interviewed for CAP's *Checking in* series of briefing papers about Universal Credit who had taken an Advance payment then found the repayments unaffordable and were not left with enough to live on.⁴

Although deductions can be paused for three months if a claimant is in financial hardship, because the repayment time is fixed, there is no ability to reduce the repayments to an affordable level each month. This is especially problematic where Advance repayments are combined with other debts deducted from the claimant's Universal Credit payments which can result in more than the current 30% maximum cap being taken in total. As a result, many CAP clients still have to use food banks and cannot meet all their household bill payments after their Universal Credit payments begin.

Case study

CAP supported a man in his fifties who was at risk of homelessness after being unable to pay his rent. He struggles with both physical and mental ill-health and had built up debts due to the impact of suffering from multiple sclerosis over a long period. He had deductions from his Universal Credit Standard Allowance for rent arrears and an Advance payment, with a budgeting loan stacked for repayment next. He also had gas, electricity and Council Tax arrears and eight other debts totalling over £4,000 to pay.

As a result of the deductions, he could only afford to spend £13.77 a week on food and little else, aside from basic household bills. He could not afford to pay his mobile phone contract and was being helped out by a family member. He was reliant on Discretionary Housing Payment to pay his rent top-up but was at risk of homelessness because his landlord had already begun eviction proceedings. He also could not afford to make repayments towards any of his other creditors, including Council Tax arrears.

Income	Monthly	Expenditure	Monthly
Housing element	£481.09	Rent	£575
Discretionary Housing Payment	£93.91	Household bills	£100.03
Universal Credit Standard Allowance	£317.81	Travel costs	£33.58
Rent arrears	-£62.12	Food	£59.67
Advance repayment	-£40	Other	£4.39
Budgeting loan repayment	-£0	Phone bill	£0
		Repayment of utility arrears	£17.02
		Repayment of Council Tax	£1
		Repayment to other creditors	£0

⁴ CAP (2019) *Checking in: CAP clients' experiences of Universal Credit so far*, available at capuk.org/checkingin

Total	£790.69	Total	£790.69
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2. What is the best way of offsetting the impact of the five week wait? Is it possible to estimate any costs of savings to third parties (for example, support organisations)?

In CAP's view, there are three elements that are needed to offset the current impact of the five-week wait:

1. Reduce the number of people who, in practice, face longer than five weeks without income.
2. Ensure access to financial support for those without resources to see them through the wait.
3. Ensure no one is pushed into financial hardship by repaying an Advance payment.

To do this requires a multi-pronged policy response, including:

- **Allowing more flexibility for the start of a claim to be backdated**
 Backdating is available in the legacy system for certain benefits. Introducing it into the Universal Credit system would reduce the number of people who wait five weeks between their claim and first payment. It would be possible to backdate all, or part, of the first assessment period in line with the last date earnings were reported to HMRC or a benefit payment was made. This will particularly benefit new parents, who cannot realistically be expected to make a Universal Credit claim on the day their child is born, as well as people in vulnerable circumstances who may take longer to make their claim due to their need for support.
- **Extend run-on payments to cover all legacy benefits**
 While two week run-ons do not remove the challenges of the five week wait completely, they do provide an important financial cushion for household finances during the wait period. It is not right, however, that Tax Credit claimants will miss out on this support. While these claimants will have some employment income to help buffer them too, low income families rely on Universal Credit to top-up their wages to meet basic household costs. Extending run-ons to Tax Credit claimants will not substantially increase the cost of the system in the long-term, but will provide more consistency and a longer adjustment period for households transitioning to their new payment amounts and frequency.
- **Offer non-repayable Advances to some claimants**
 It is appreciated that with a 'payment in arrears' model and recent scams, there are challenges in offering non-repayable Advances to all claimants. However, there are some claimants who simply cannot afford to repay Advances. They either face acute destitution during the five-week wait for Universal Credit, or prolonged hardship while they repay the loan. Non-repayable Advances should be available to claimants in the most difficult financial situations, who have deficit budgets. The Joseph Rowntree Foundation (JRF) and Policy in Practice have modelled how this approach could work and, depending on the criteria used, estimate that between 16% and 27% of claimants require a non-repayable Advance.⁵ Means-testing the grants is a fair approach and limits the cost of this option. The DWP should consider how this could be operationalised based on the substantial data they collect from claimants and their employment income.

⁵ Policy in Practice (2019) Financial resilience and the transition to Universal Credit, available at policyinpractice.co.uk/wp-content/uploads/Universal-Credit-and-Financial-Resilience-JRF-Summary-report.pdf

- **Substantially reducing the rate at which Advance payments are paid back**

One of the main problems with the system is the difficulties claimants experience when repaying Advance payments. To reduce the burden of repayments, the DWP should immediately bring forward the reduction in the maximum deduction rate from the Standard Allowance to 25%, and the extension of the Advance repayment time-frame to 24 months (both planned for October 2021). This is especially important in light of the greater numbers of people moving onto Universal Credit sooner than expected due to the Covid-19 outbreak. These policies alone will not ensure Advance repayments are affordable, and the DWP should further consider changing their approach to debt collection and calculating repayment rates based on an income and expenditure assessment, such as the Standard Financial Statement (SFS), in line with best practice in other sectors.

In addition, claimants would benefit from greater flexibility to match the assessment period with their pay cycles to ensure their payments are consistent once they start. Assessment period length should be matched to the frequency in which claimants in work receive their pay and the assessment date set with sufficient leeway to accommodate shifts in the payday around weekends and bank holidays. Flexibility to choose payment frequency would also help claimants who find monthly payments difficult to budget. This should be available in England and Wales, as it is in Northern Ireland and Scotland.

3. Are different mitigating options needed for different groups of claimants?

The range of claimant types covered by Universal Credit does mean that different groups of claimants experience challenges associated with transitioning to the new benefit in different ways. That is why the range of measures highlighted above is needed to help all claimants remain financially resilient in the face of the move to Universal Credit.

4. Are there barriers or potential unintended consequences to removing the five week wait – for example for claimants or the Department? How can they be overcome?

There is no silver bullet to resolve the problems experienced because of the five-week wait. Simply removing the wait at the beginning, and paying Universal Credit upfront, would fundamentally change the principles of the system. There are benefits to payment in arrears, in terms of reducing the risk of claimants incurring large overpayments they will have to repay. It would also shift the problem downstream and leave claimants facing a long wait between payments when moving into employment.

Likewise, a move to twice monthly payments to reduce the wait for first payment would also require the assessment period to be halved. While this may serve claimants who are out of work well, it would have unintended consequences for those who are employed and paid on a monthly basis, who would see large fluctuations in their Universal Credit payments.

Instead, the DWP should introduce a range of reforms to soften the impact of the wait for first payment, and target additional financial support to those who are unable to afford to repay Advance payments.