

Written evidence from Karbon Homes [UCW0095]

On behalf of Karbon Homes, we appreciate the significance of the Work and Pensions Committee calling for evidence on Universal Credit and the '5 week wait'. We look forward to reading the Committee's report on an issue which has very much shaped our organisation since 2018.

Introduction to Karbon Homes

At Karbon we build, manage and look after affordable homes for people across the North. And then we go further, we give them the strong foundations they need to get on with life.

Since our formation in 2017, we've focused on delivering our three strategic aims - to provide as many good quality homes as we can, to deliver excellent service to our customers, and to shape strong, sustainable places for our communities.

Our footprint covers the North East of England and Yorkshire, with almost 30,000 homes across diverse communities, all facing different opportunities and challenges. Some customers just need an affordable home, or a way onto the property ladder. Others might need more – financial advice, community services, sheltered accommodation or even training that can lead to a new job. Whatever people need to feel more secure, confident and happy with where they're at, we work hard to provide it.

Executive Summary

This enquiry comes at a crucial and formative time for Universal Credit. The Covid-19 pandemic has caused the number of claimants to rise meteorically, in circumstances which are already starting to reshape the way the benefit works.

Like most housing associations, UC has had a significant impact on Karbon Homes and our customers. 4,839 Karbon residents are in receipt of the benefit; that's 19% of all Karbon tenancies. This figure is projected to increase to around 10,000 residents, (over 35% of our customer base), when full migration to UC has taken place. The correlation between UC and rising rent arrears is striking, prompting housing associations to take on much more of a financial advisory role as they become more deeply entrenched in how their residents manage debt. Just in the last 24 hours, UC deductions for rent arrears by third parties have been suspended, as the system leans even more firmly on housing associations as a temporary financial facility.

Karbon embraces this duty and continues to provide much-needed support to our customers. We have a Money Matters team that specialises in FCA regulated debt advice, along with personal budgeting, energy, and welfare guidance. As a team comprised of 13 full time equivalent staff, funding resources like Money Matters – alongside our more traditional Income Management team - is no small feat. In the

last year, the team provided a service to 5,607 individual clients on 7,682 different issues. Of these clients, over one-third were in receipt of Universal Credit at the point of referral and 38% of those needed specific help and advice with UC problems.

At Karbon, we pride ourselves on our ability to develop sustainable communities, and in doing this we have become accustomed to adapting to new social challenges – never has this been more important. In 2020/21 the ratings agency, Moody's, expect social housing to experience £1.1bn in arrears and bad debts, or 14% of expected letting income. The mitigations which the DWP find to help UC claimants manage their rent will therefore have a significant impact on Karbon and the sector as a whole. We hope we can contribute to the debate

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

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

1.1 To get a deeper understanding of the Universal Credit process and the five-week wait, we commissioned independent research with IFF-Voluntas. The research brought to light the fact that a resounding 88% of Karbon residents have needed to make alternative financial arrangements during the five week-wait: 63% took an advanced payment from the DWP; 60% borrowed money from friends or family; 35% deferred rent payments; and 33% deferred payments on other bills/credit facilities. These options are often taken in combination.

1.2 Mitigations put in place to manage the five-week wait attempt a balancing act between easing cash flow for claimants and preventing them getting into debt. The cashflow problem has been at least alleviated by the advance payment, but it has done nothing for rent arrears which continue to escalate throughout the sector. Karbon's rent arrears for UC customers stands at 10.04% of our entire rent roll, as opposed to just 1.36% for non-UC customers.

1.3 Even though housing costs are factored in to the advance payment, it is often the case that rent is still deferred in favour of everyday needs such as food and heating bills. This represents quite an easy choice for many, using rent arrears as something of a low risk/cost loan facility. The consequence is that the claimant is then subjected to monthly UC deductions to repay their advance, in addition to any additional payments needed to catch up on rent arrears. This double debt can and often does amount to something of a debt trap.

1.4 Even when the claimant decides to pay their rent in full during the five-week wait the consequences can still be hugely detrimental in terms of food and fuel poverty. In the words of one claimant from our study: "I was just sitting with nothing. I had money coming in every week and now it's sitting and having to wait for four weeks for a payment. They gave £509 (advance payment) and I had to pay £400 rent from that. I was left with £109 a month for gas, electric and food."

1.5 The Alternative Payment Arrangement seeks to mitigate against rent arrears through a 'direct payment' option, whereby rent can be paid straight to the landlord

but only if the claimant has the initiative to activate this facility. Trusted Partner Status offers a similar means by which rent can be paid direct to the landlord but is only used if vulnerability and arrears 'triggers' are met. The impact on arrears has been negligible at best.

1.6 The Scottish implementation of UC known as Scottish Choices on the other hand does seem to be making an impact on rent arrears. Scottish Choices aims to make UC 'better suited to the needs of those who claim it', by offering UC on a monthly or twice monthly basis as well as rent payments direct to the landlord. These choices are built into the initial stages of the application process so that they can't be overlooked, and a more tailored personal budget can be built around them. 50% of Scottish UC claimants take up the choices on offer, which has meant a mass migration to fortnightly UC awards. This undermines the outdated concept of paying by the calendar month and it seems as though a move to bring in fortnightly payments from the very beginning of the application may not be far away. Expediting this process sooner rather than later would go a long way to alleviating the impact of the five-week wait.

1.7 One common experience during the five-week wait is a sense of uncertainty amongst claimants, largely due to poor or non-existent communications. Only a quarter of Karbon customers felt fully aware of what would happen after they applied; 38% felt partly informed and 33% had no awareness of what would happen next.

1.8 39% of Karbon customers mentioned that they would have liked additional support while waiting for their first payment, and 11% would have appreciated updates about the progress of their application. In the words of one Karbon customer: "I didn't know how much I was going to get and when I asked the Jobcentre, they didn't know either. It was quite frustrating not knowing what I was going to get." Although not applicable to all claimants, it feels as though there is much more scope to use technology, acknowledging receipt of the claim and updating customers on each stage of their application.

1.9 Confirming a growing awareness of the issue, our research highlighted that food and fuel poverty were alarmingly prevalent during the UC process: 25.05% had fewer than two meals a day for two or more days; 14.69% had been unable to heat their home for five or more days. Both of these 'markers of destitution' (Joseph Rowntree Foundation) are accentuated by the cashflow issues inherent in the five-week wait.

2. What is the best way of offsetting the impact of the five-week wait?

- **Is it possible to estimate how much this would cost the Department?**
- **Is it possible to estimate any costs or savings to third parties (for example, support organisations)?**

2.1 UC attempts to instil budgetary responsibility on its recipients from the outset, but at a time when money is extremely tight; this inevitably leads to a lot of misspending and debt.

2.2 The advance payment as it exists right now needs support from measures which complement it and help it to avoid any unintended consequences. The advance helps with cashflow, but in many cases, contributes to unmanageable debt, particularly if housing arrears are accrued during the five weeks. One obvious target for more sophisticated mitigations is therefore to introduce measures to tackle the rent arrears issue.

2.3 Right now, every UC claimant can apply for an advance payment worth up to 100% of their monthly UC entitlement. This payment includes an allowance for one month's worth of housing costs - which the claimant will then owe the DWP. Claimants are essentially borrowing against their rent. From our experience, we have found that a lot of our residents don't realise that the advance includes a contribution intended to go towards their rent, so it is not always paid over. This means that in the following weeks and months the claimant will be repaying UC, as well as trying to get back on top of their rent arrears. One Karbon customer observed: "I didn't know the rent was being paid in my money, as I didn't get a breakdown. I had someone from Karbon to help, and I ended up in over £1,000 rent arrears, because I didn't know I had to pay the rent with my money. Before it always went to the landlord."

2.4 We would advocate that the DWP do not advance any housing costs directly to the claimant. Only advance a personal allowance, with any assessed housing costs paid directly to the landlord - as was the case with Housing Benefit. The logic behind this approach is to encourage lower advance payments which can be targeted at more specific budgeting needs. This approach would save DWP money as they are advancing less, and it would reduce the impact on the customer who would be paying less in UC deductions.

2.5 The Scottish Choices interpretation of the UC process acknowledges the impact of removing the 'rent question' by encouraging direct rent payments as a choice to be made proactively at signup, rather than further down the line when the money hits the claimants account. The wise choice here is to pay rent directly and then claim an advance payment which can be allocated with much more clarity around essential needs such as food and heating. As mentioned in section 1.5, the system in England offers similar facilities (APAs, Trusted Partner, Landlord Portal), but they tend to be triggered much more reactively, or in hindsight of the problem.

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

3.1 New claimants are particularly vulnerable as there is no scope for any kind of 'managed migration'. Whereas those claiming legacy benefits such as Employment and Support Allowance (ESA) or Housing Benefit are granted 'run-on' payments for two weeks after the UC claim is made, new applicants don't have this security. In addition, they may have had very little time to prepare for UC so the five-week wait is much more of an endurance test. Once again, a phased migration would be more suitable, with fortnightly payments from the outset.

3.2 Under present rules, the applicant can backdate a claim for one month with relevant proof. For claimants who may have suffered a death in the family, domestic abuse or mental health issues this seems unfair as circumstances have denied them

the chance to make their claim on-time and they may be denied months' worth of payments. These people are already at a vulnerable stage of their lives and a five-week wait can be catastrophic.

3.3 At present UC does not do enough to support non-standard forms of employment such as zero-hour contracts where the principle of simplification is lost entirely.

3.4 To illustrate the point, fluctuating working hours and demand mean that wages for those in the gig economy can vary enormously between one week and the next, with UC awards responding in kind. If a UC claimant on a zero-hours contract was to earn a higher wage in the most recent month and then lose their job immediately after, they would lose substantial amounts of UC - in recognition of their most recent wage - and face unemployment in the next month. This is a trapdoor which needs to be fixed. UC also represents a logistical challenge for those on zero-hour contracts with those on weekly wages potentially needing to re-apply for UC up to five times in the same year - due to months when they have received five wages, thus pushing them above the UC threshold. This introduces numerous points-of-failure for the claimant and excessive administration for the DWP. An assessment structure and a grant award which moves more flexibly with the claimant would be of benefit.

4. Are there barriers or potential unintended consequences to removing the five week wait—either for claimants or the Department?

- **How can they be overcome?**

4.1 Removing the five-week wait entirely to be replaced by fortnightly payments from the outset, would face ideological opposition; UC was designed to mirror the working world with a pay schedule based on calendar months and it seems like most mitigations which have been brought in since the scheme was implemented have been designed as temporary, ready for the claimant to be pulled-back onto the monthly schedule. Karbon's view is that it should be remembered that UC was designed in 2010. Since then, millions of workers have entered self-employment and the gig economy (5million+) and through no choice of their own are subjected to irregular pay schedules. If UC is to remain relevant to pay patterns ten years on, it needs to be sympathetic towards these changes in culture and the principle of simplification needs to apply to everyone.

In light of the evidence provided here, Karbon would like to make the following key recommendations to the inquiry:

- Remove housing costs/rent from the advance payment or offer solutions which make this choice more accessible.
- Introduce a UK-wide version of 'Scottish Choices' whereby on sign-up for UC, the claimant is invited to send rent payments directly to the landlord
- Make fortnightly payments available from the start of the claim to reflect modern working practices and ease cashflow difficulties
- Allow more flexibility for the start of a claim to be backdated
- Defer repayment of the advance for six months and consider writing-off the debt if the claimant finds long-term work

- Better use of technology to update claimants on the status of their claim at any one time – departments like HM Passport Office do this very well with mobile updates - why not UC
- Find ways to be more flexible around non-standard forms of employment such as zero-hour contracts and reward those subjected to these contracts by allowing them to keep more of any excess pay

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