

ADVICE NOTTINGHAM – WRITTEN EVIDENCE (EUC0083)

The economics of Universal Credit

Advice Nottingham is a consortium of six advice agencies in Nottingham City committed to delivering free and independent advice and guidance.

In response to the Lords Select Committee consultation into Universal Credit, we wish to highlight the current challenges we face with Universal Credit.

5-week wait

The 5-week wait remains the primary issue with Universal Credit. Advance payments and access to emergency help, like food banks, could be eradicated if payments were made as soon as possible. Waiting 5-weeks for any money is challenging at the best of times, and a welfare safety net which take 5-weeks to appear is no safety net at all.

Digital literacy and requesting a telephone claim

Universal Credit is a digital benefit. The application and ongoing maintenance of a claim is entirely digital. It works for people who have reasonable levels of IT literacy, but for anyone who struggles with IT there are challenges. Whilst Help to Claim and other service providers can help with the initial claim, accessing a claim on an ongoing basis is troublesome.

The DWP has a telephone claim line for Universal Credit but advisors agree that telephone advisors are loathed to accept claims. Requests to make a telephone claim are often denied, meaning people are forced to make a digital claim with an advisor's help. Unfortunately, once a digital claim has been set up there is no way to move to the telephone service.

Similarly, no paper applications exist for those who would prefer to submit a paper claim. The DWP are clearly wishing for everyone to complete a digital claim, which is very challenging for some people. It also adds another layer of bureaucracy to the process.

There is also an assumption that everyone has access to free WIFI, when in fact this is not the case.

Budgeting skills

The first package of support for Universal Credit included a 'personal budgeting' component, however, the Help to Claim service does not offer this. A radical programme of money and budgeting support is needed to help people moving onto Universal Credit. Whilst budgeting is vital, it is important to recognise that budgeting on a low income carries additional challenges also.

Moving to a different payment cycle, budgeting for a month instead of a fortnight or a week, and making direct payments to landlords and council tax,

adds complications. On top of this, as Universal Credit assesses each period independently, payments can alter each month.

A key aim of Universal Credit is to help people budget more effectively, matching households who are paid on a monthly basis. Despite this, no money and budgeting education has been made available. Any help is ad-hoc and people are simply told to 'budget', there is also an assumption that people know how to budget. Digital literacy plays its part too, people with good levels of computer literacy have a financial advantage, for instance they can search the internet for cheaper deals on utilities, access internet banking and order cheaper products online.

Deductions

Advisors strongly feel that deductions are unfair and further compound debt problems. According to the DWP "*the maximum amount that can be deducted is an amount equivalent to 30% of the claimant's Universal Credit standard allowance.*" Deductions are taken for advance payments (which must be paid back within 12 months), historical benefit overpayments, child maintenance, court fines, rent, council tax and utility bill arrears.

Deductions are far higher than previously, for instance, on legacy benefits – a magistrate's court fine would be £5 per week, and under Universal Credit it is £108 per month¹. This is even worse for under 25s, where the standard element is £200.

Advance payments

Anecdotally, we know people are receiving huge sums of money as advance payments – £1,500, even £2,500 in some cases. The amount is supposed to be the estimated first monthly payment, however, is it not clear if this is the case.

Some people are extremely vulnerable and find receiving such a large amount of money challenging, often underestimating how much money is needed for bills and household expenses.

Advance payments are also problematic for people with complex needs, for example, people suffering with learning difficulties, mental health issues, or substance misuse. Someone who was previously on Job Seekers Allowance may be given hundreds of pounds immediately instead of receiving the standard £146.20 per fortnight. The payment, which under Universal Credit includes housing costs, can seem like a pay rise, and it is all too easy to see how an advance payment can be spent quickly and repeat advances requested. Based on the above calculations, on the standard allowance of £317.00, after 30% deductions, an individual would have only £221.90 to cover all other costs, excluding rent payments.

1

https://england.shelter.org.uk/housing_advice/benefits/universal_credit_deductions_when_you_owe_money

The language around the advance payments should be changed. The payment is a loan and not an advance payment for the predicted award. A better option would be to treat the payment as an advance, issuing an estimated amount (as per the current loan), and then refunding/repaying any difference when the award entitlement is known. This way people would only pay for the amount borrowed.

Consideration should be given to the fact that people generally do not have 5 weeks of savings to tide them over for the assessment period, we know this and have seen countless examples of the wait pushing people into debt.

Alternative Payment Arrangement (APAs)

There is a problem with the way Alternative Payment Arrangements (APAs) are made to housing associations/ALMOs. The same payment system, which was previously used for Housing Benefit payments, is also used for Universal Credit payments. This system works on a 4-weekly cycle, and this is problematic for several reasons. Payments sent from DWP land into the housing associations/ALMOs' account every 4-weeks, instead of monthly, as per Universal Credit. Therefore, rent payments do not coincide with rent payment days and this, inevitably, leads to rent arrears as payments are missed.

Careful consideration should be given when arranging APAs as they are not the best solution for most tenants, aside from those whose situation is unlikely to change, for example, people with long-term sickness. Managing rent accounts and keeping track of rent payments is incredibly complicated for people who are paid weekly or fortnightly, and therefore not recommended.

The payment of APAs gets even more complicated as rent is not ringfenced and can be eaten into by deductions.

For example, Claire is single, working and earns £800 during her Universal Credit assessment period.

Income:

Wages: £800

UC award (£317 standard allowance and £500 housing): £817

Total: £1617

After deductions and taper rates:

Wages: £800

UC award after taper rate deductions: £493.21

UC award after 30% deductions: £147.96

Total: £1145.25

As Claire has an APA, the remaining UC award of £345.25 will be paid directly to her landlord, although the rent is £500, meaning she now has arrears of £154.75.

Payment dates and the 53-week year

As payment dates run from one assessment period to the other, the timing of any salary payments is hugely important. Receive two or more payments in one month and run the risk that a Universal Credit payment will be missed. This system doesn't work for people with irregular payment dates and for times when wages are paid earlier, for example, at Christmas, bank holidays etc. Going forward, employers could ask HMRC to specify a salary payment date each month and request that all payments are counted on that specific date.

An anomaly in the accounting system of the DWP means that some years have 53-weeks instead of 52. This means that people receive only 52 weeks of rent and have to make up the shortfall.

Untidy tenancies

DWP is unable to make correct payments on 'untidy tenancies' and must manually make alterations. Legally, everyone listed on a tenancy agreement is liable for the whole rent, so the fact that one person no longer lives at the property is irrelevant. The law states that anyone listed on the tenancy agreement is liable for the rent and if one person moves out then the other person/s must pay the whole of the rent. The only way to remove a person's name from the tenancy is to get a court order or, ask the person to remove themselves from the tenancy agreement. With this in mind, there is no reason why DWP cannot pay the whole amount of the rent.

Prison leavers and Universal Credit

The Help to Claim team have been working for prison leavers within HMP Nottingham and also at local job centres. Very often, prison leavers have only the bus fare needed to get into the city, or a £46 allowance. Without somewhere to sleep and food to eat, all prison leavers will need an advance payment. There is little, if any, support to find accommodation for that night and in the future, and therefore prison leavers are handed hundreds of pounds and often find themselves sleeping rough. In these cases, they are vulnerable and exposed to drugs and alcohol which may well contribute to re-offending.

Despite the 5-week wait, prison leavers are unable to apply for Universal Credit ahead of release. Prison leavers are not mandated to apply for benefits upon release and therefore many, eager to see family and friends, leave prison without financial support in place. To allow prison leavers to have more support when they are released, Universal Credit could be applied for when a release date is agreed. This would avoid the need for an advance payment.

Probation officers rarely, if ever, attend the Job Centres with a prison leaver and a lack of support can cause frustration and sometimes aggressive behaviour. Prison leavers can have control measures in place, this means certain precautions need to be taken. These measures are based on the type of conviction, and any previous incidents with the Job Centre. For instance, an individual may not be allowed to access computers or cannot be seen by a female member of staff. This places a huge amount of pressure on support workers and means they are potentially at risk. The need for support services – probation, substance misuse, mental health support, housing etc. has never

been more needed and yet, progressive cuts to services have continued. This, together with a 5-week wait for any benefit payment, compounds the challenges faced by prison leavers and those supporting them.

Self employment

The rules around self-employment are generally considered harsh and prohibitive to people wishing to run their own businesses. Under legacy benefits, details of income and expenditure were submitted to the DWP and entitlement calculated. With Universal Credit, people who are classed as self-employed are given a 12-month timescale in which to build a business, then they must meet the 'minimum income floor'. This means they must make the equivalent to a 35-hour week at the national minimum wage. Anything below this amount will be questioned and work coaches can decide that the person is not 'gainfully employed'. This rigid rule doesn't consider seasonal work; project work which is paid at the end of a completed piece of work; or the natural up and downs of self-employment. Very few people in self-employment earn a consistent amount throughout the year. The government needs to re-evaluate this policy and ensure it works for people who are self-employed. Many people find self-employment a beneficial way of working as it fits around other responsibilities, like caring for family members and bringing up children. It can also work for people with complex needs, like mental health issues, physical disabilities and learning difficulties.

Access requirements

Access is prohibitive to those without a bank account, an email address and ID. Often, prison leavers only have 'release papers' which fortunately the DWP will accept.

Severe Disability Premium

The Severe Disability Premium (SDP) doesn't exist under Universal Credit and this puts disabled people without an adult carer at a disadvantage. Financially, this could mean a loss of £180 per month.

In June 2018, the High Court ruled that the Secretary of State unlawfully discriminated against two men claiming Universal Credit which led to changes in the system.

From the House of Commons library²:

"The Severe Disability Premium (SDP) is an addition payable with means-tested social security benefits. Universal Credit does not include an element equivalent to SDP – or indeed any of the disability premiums currently available. Disabled people may therefore find that their entitlement to UC is significantly lower than their previous "legacy" benefits. Transitional protection will be available to those moving onto UC at the final "managed migration" stage so that they are not worse off in cash terms at the point of transfer, but this does not apply to people

² <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8494#fullreport>

who move onto UC by "natural migration" – i.e. following a change of circumstances.

In June 2018 the High Court ruled that the Secretary of State unlawfully discriminated against two men who had to claim Universal Credit when they moved to another area, and as a result experienced a sudden drop in income due to there being no equivalent to SDP (and the Enhanced Disability Premium) within UC. The DWP compensated the two individuals for the losses experienced, but the Court left it to the Government to devise a wider solution.

On 16 January 2019, regulations came into force preventing people in receipt of benefits including SDP from moving onto Universal Credit until the final managed migration stage, when they can receive transitional protection. Separate regulations in force from 24 July provide for "SDP transitional payments" – both backdated and on an ongoing basis – for people who moved from legacy benefits to UC before 16 January and lost SDP. The DWP is reviewing UC claims to identify those may be eligible for payments. Around 45,000 claimants are expected to benefit from this package of support.

The two claimants in the original High Court case are seeking to challenge the latest regulations on the grounds that the transitional payments still do not fully compensate for the shortfalls experienced by some people previously getting SDP on moving to Universal Credit."

Citizens Advice made some recommendations in their report *Universal Credit for single disabled people - What Universal Credit means for single people who are disabled or have health conditions*³ on how to solve the problem long-term.

"Universal Credit removes the Severe Disability Premium (SDP) which went to disabled people who live alone without an adult carer. This puts people without a carer at a disadvantage despite the unique costs they may face. While the government has taken welcome steps to improve financial security for many existing claimants of legacy benefits, it should now look to establish support for new claimants in similar circumstances. Under current plans, people will not benefit from the announced protections if they have a change of circumstances which leads to them newly becoming disabled without an adult carer. There have been a number of expansions and reductions to disability components and premiums that existed in the legacy system. However, the net impact for somebody who would qualify for the SDP and LCWRA element is that they can be over £180 a month worse off than they would have been in the legacy system. Many people in this position will be unable to make up the reduced income through work. A Self-Care element could be introduced to UC of at least £156.45 a month - the same value as the Carers element. This would go to those who live alone and who satisfy the criteria for the Severe Disability Premium, helping them cover additional costs such as paying somebody to help with household tasks such as cleaning. Although this is currently lower than the SDP it would ensure severely disabled people who live alone are treated at least comparably to those who have a carer."

3

<https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/UC%20for%20single%20disabled%20people.pdf>

Habitual Residency Test and immigration

Anyone who is not a British national must pass the Habitual Residency Test (HRT) to receive Universal Credit. Any British nationals who leave the country for more than four weeks must also pass the test. If a client fails the HRT, they cannot claim Universal Credit.

Decisions are given by the DWP and there are many instances of incorrect decisions, therefore more training must be given. Incorrect decisions can have many implications, for instance, if a private landlord issues a Section 21 notice due to rent arrears and local authorities refuse to help as the person isn't classed as habitually resident.

Administration

There are some practical changes that could be made:

- Explain on the Universal Credit award letter what the total award represents, for instance, housing costs, child benefit, tax credits
- Joint claims and linking codes do not work
- The DWP debt management team will not accept 'official error' - under legacy benefits, if an award letter said £1000, but it should have said £100, the debt could be written off
- Better communication about council tax reduction and that it must be applied for separately
- Language line is difficult to get through to
- Bring Carers Allowance into Universal Credit, the allowances are the ultimately the same whether the person received Carers Element or Carers Allowance, however the language is confusing
- Claims should be left open, originally claims were meant to be open for six months, however this is now not the case - this would avoid having to do a Rapid Reclaim

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