Citizens Advice response to the House of Commons Work and Pensions Select Committee inquiry on Universal Credit: the wait for a first payment
April 2020

About Citizens Advice

Citizens Advice provides free, confidential and independent advice to help people overcome their problems. In 2018-19, we helped 2.7 million people face to face, over the phone, by email and web chat. We provide support from over 2,550 locations across England and Wales.

Since the rollout of Universal Credit began, Citizens Advice has helped over 590,000 people with Universal Credit, including through its Help to Claim scheme. We have published several reports on Universal Credit based on our client data, insights from frontline advisers, and interviews with clients.

The geographical scope of this response covers England and Wales.

Introduction

Coronavirus has had a sudden impact on people's jobs and incomes. Our research shows that nearly 4 out of 10 (38%) people have lost income because of this crisis, with nearly 1 in 10 (8%) losing 80% or more.[1]

We've also seen this through the increase in demand for our advice at Citizens Advice. Over the past month (9 March - 9 April) our website had nine million pageviews - a 39% rise on the same period last year. 'Coronavirus' was the most searched word on our website,[2] followed by people looking for information on Universal Credit.

In addition to accessing information on the website, people have been coming to us for advice via telephone, email and webchat. Since we started recording whether a problem was related to coronavirus, advisers recorded 32,000 people contacting them with queries related to the pandemic. Half of those wanted to discuss Universal Credit.

Enquiries about Universal Credit first began to spike in mid-March, and have remained at high levels, mirrored by the unprecedented numbers of people applying for the benefit through the DWP.

The DWP has processed 1.4m claims since 16 March. We welcome changes that have been made to shore up people's incomes during this time, such as the increase in the Universal Credit standard allowance by £1,000 for the year and the uprating of the Local Housing Allowance (LHA) to the 30th percentile of local rents.

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[1] Polling with 2016 UK Adults, carried out between 2-7 April
[2] Citizens Advice press release: 'Citizens Advice data shows the changing picture of the nation's concerns'

However, we know that the initial wait for payment can cause serious problems for the people we help.[3] The mitigations introduced before this crisis have made a dent in the problem, but more is needed to ensure the wait doesn't lead to financial difficulties and material hardship. We know from previous research that half of the people we help during the initial wait are unable to keep up with bills, rent or are forced to go without the essentials such as food and heating.[4] Advance payments help in the short-term but those taking out advances are more, not less, likely to have to borrow to pay back the advance.[5]

In the context of the current crisis, and in light of ongoing issues with the five-week wait, it is critical that our benefit system is able to respond quickly and provide people with long-term income security.

Citizens Advice recommends that the Government:

- Immediately and temporarily convert advance payments into grants and suspend advance payment deductions from existing claims
- Protect the incomes of people receiving legacy benefits, which could be done by pausing natural migration during this crisis and uprating legacy benefits in line with the additional £1,000 invested in Universal Credit, or bringing forward legacy run-ons immediately as well as transitional protections.
- In the long-term, explore more flexible assessment periods so that the first payment for Universal Credit comes no later than two weeks after the claim is made.

Response to questions

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

Pre-coronavirus changes

People claiming Universal Credit are often in difficult financial situations and take up Universal Credit due to a disruptive change of circumstances, such as losing their job or becoming ill.[6] This can leave them with a reduced income and at risk of falling into unmanageable debt. Waiting five weeks for a first payment can mean that people claiming Universal Credit aren't getting financial support when they need it most.

[3] Citizens Advice (2019) Managing Money on Universal Credit
[4] Survey evidence collected between July and September 2018 for Managing Money on Universal Credit
[5] Citizens Advice (2019) Managing Money on Universal Credit
[6] Ibid

The November 2017 Budget introduced a number of welcome changes to Universal Credit.[7] Our evidence suggests that these changes improved people's ability to cope with the wait for a first payment, but a concerning number still struggle.[8] After these changes were fully implemented in April 2018:[9]

- We saw the proportion of people we help who **fall behind on household bills** whilst applying for Universal Credit reduced from **58% to 48%**
- We saw the proportion of people we help who have to **borrow from family or friends** fall from **69% to 54%**
- We saw the proportion of people we help who have to go without the **essentials** during the wait, such as food and heating, from **60% to 46%**
- The proportion who **fall behind on rent or mortgage payments**, however, remained the same **(49%)**.

Advance payments and deductions

The initial wait for Universal Credit is a period of significant adjustment for many people. Advance payments are available to provide people with access to income to get through the five-week wait. The Government has made a number of changes to advance payments, including increasing the maximum size of a payment to 100% of somebody's estimated Universal Credit award, increasing the time available to repay the advance from 6 months to 12 and reducing the cap on deductions (the maximum amount that can be deducted from a Universal Credit award to repay advances and other debts) from 40% to 30%. From October 2021, new claimants will have 24 rather than 12 months to repay advance payments and the cap will be reduced to 25%.

After the 2017 Budget changes took effect over half (58%) of the people we helped during the first wait took out an advance, up 10 percentage points from before the changes.[10] While an advance can be a vital lifeline during the initial wait, the deductions taken from subsequent awards to repay the advance leave people with reduced incomes in the longer term and sometimes without enough to live on.[11] Our research shows that people who take out advances are more, not less, likely to have to borrow in other ways to make ends meet:[12]

- **70% of the people** we helped who take out advance payments also fell behind on **bills and into arrears**, compared to half (53%) of those who didn't.

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[7] Changes include: offering Advance Payments to everyone at 100% of the estimated final award value; extending repayment periods for advances from 6 months to 12 months; removing the seven 'waiting day' period before someone can claim Universal Credit, reducing the wait from six to five weeks; and introducing a two week 'run-on' of Housing Benefit during the five-week wait.
[8] Citizens Advice (2019) Managing Money on Universal Credit
[9] We compared the circumstances of our clients in September 2018 to those in July 2018 to look at the impact of the 2017 Budget measures. All changes referenced are statistically significant. These reductions are the result of both the 2017 Budget changes and improved payment timeliness within the system.
[10] We compared the circumstances of our clients in September 2018 to those in July 2018 to look at the impact of the 2017 Budget measures.
[11] Citizens Advice (2019) Managing Money on Universal Credit
[12] Ibid

- **One in five (20%)** who take out an advance also **borrowed from commercial lenders**, compared to one in ten (11%) who didn't.

These figures show that many people are in very difficult financial situations when they move onto Universal Credit and indicates that a repayable loan is not providing these people with the income security they need.

Case Study
Cameron lost his job and claimed Universal Credit to help cover his household bills and rent arrears. Cameron is under 25 and lives in a socially rented property. He took out an advance to cope with the wait for first payment but repaying the advance has left him without enough to live on. After deductions for the advance at a repayment rate of 20% of his standard allowance and £25 for rent arrears, Cameron is left with £171.74 after housing costs. He is unable to pay for the essentials, such as household bills and food, and is forced to rely on food banks.

The shortfall in people's budgets caused by deductions to repay advances as people's Universal Credit claim continues can create severe financial challenges and have knock-on effects, such as pushing people to cut back on essentials, sell personal possessions or take on further debts.[13]

As outlined above, the cap on deductions was reduced from 40% to 30% in October 2019. However, many people claiming Universal Credit do not have significant financial resilience or flexibility[14] - research in 2019 found 49% struggled to afford the essentials in the last 12 months[15] - and the people we help still experience hardship even where deductions are lower than 30% of the standard allowance.[16] Our advisors continue to report ongoing budgeting issues caused by deductions which can leave people unable to buy the essentials and forced to rely on food banks.[17]

Case Study
Zaineb is disabled and is unable to work. After deductions for an advance payment at a repayment rate of 30% of her Universal Credit standard allowance and repaying a bank loan, she is left with £197 per month. Zaineb is struggling to pay for essentials and has got behind with her rent, energy bills and is relying on foodbanks to eat.

[13] Citizens Advice (2019) Managing Money on Universal Credit
[14] Citizens Advice (2019) Achieving Income Security For All
[15] Survey evidence from our 2019 report Achieving Income Security For All. We surveyed people receiving working-age benefits that had been frozen since 2016.
[16] During research conducted in late 2018 for Managing Money on Universal Credit our advisers highlighted that people with deductions below 30% still experienced financial difficulties. Further analysis of 329 evidence forms (client case studies with casenotes) provided by local Citizens Advice Advisers between October 2019 and February 2020 confirms this is an ongoing issue.
[17] Analysis of 329 evidence forms (client case studies with casenotes) provided by local Citizens Advice Advisers between October 2019 and February 2020.

Legacy benefit run-ons and transitional protection

The introduction of two week run-ons of additional legacy benefits (Employment and Support Allowance, Jobseeker's Allowance and Income Support) from July 2020 will go some way to supporting people moving to Universal Credit from the legacy benefits system. However, this welcome change won't help those moving on to the benefit before July 2020, people in receipt of tax credits or those who make a new claim for Universal Credit and have not previously received benefits.

Under plans for moving over all remaining legacy benefit claimants to Universal Credit (through a process known as managed migration), the Government made a commitment that people whose circumstances remain unchanged will not lose out in cash terms. This support is known as transitional protection.

However, transitional protection is not available to households who need to apply for Universal Credit due to a change of circumstances. This includes things like losing your job, which will be the reality for many people at this present time. The risk is that households could be left worse-off in the long-term than they would be if they were to move on to Universal Credit through the rollout of managed migration.

Recommendation: The Government could take several approaches to supporting people receiving legacy benefits during this crisis:

- **One option would be to pause natural migration during this crisis and uprate legacy benefits in line with the additional £1,000 invested in the standard allowance within Universal Credit (and mirrored in Tax Credits).**
- **Another option would be to bring forward these run-ons immediately, along with the transitional protections that legacy claimants would have received had they been able to wait until managed migration to move to Universal Credit.**

Changes to Universal Credit since March 2020

Since the outbreak of coronavirus, the Government has made significant changes to the benefits system to help shore up people's incomes. These include:

- Increasing the value of Universal Credit standard allowance by £20 per week from April 2020.
- Uprating LHA to the 30th percentile of local private rents.
- Temporarily suspending deductions for Social Fund Loans and legacy benefit and Tax Credit overpayments.

The increase to Universal Credit represents a 29% increase in the value of the standard allowance for a single person over 25, relative to March 2019.[18] However, we are concerned that many families will still struggle to make ends meet during the wait for a first payment and beyond. People who were receiving benefits before this crisis hit may have very low financial resilience to cope with financial shocks:

[18] This includes 1.7% increase for inflation https://commonslibrary.parliament.uk/research-briefings/cbp-8806/

- Our research in 2019 found that almost half (49%) of those receiving income -related benefits (Universal Credit and the benefits it replaces) had struggled to meet essential costs such as food and toiletries in the past year, whilst almost a quarter (23%) reported falling behind with rent or mortgage payments.[19]
- From April to August 2019, four in ten (40%) of the people we helped with debt who claim income-related benefits didn't have enough money to cover their living costs.[20]

Many people receiving benefits before this crisis managed their budget on a fine margin, or were unable to make ends meet and fell into debt. This places people receiving benefits in a poor position to cope with the financial shocks they could face during this crisis - such as losing employment or falling ill.

Many families that were previously not receiving benefits will also struggle to make ends meet if they lose their income - this is particularly likely for the 10% of all adults in Great Britain who say they couldn't cover their costs for longer than a week if they lost their main source of income.[21] Our polling shows that nearly 4 out of 10 (38%) people have lost income because of this crisis, with nearly 1 in 10 (8%) losing 80% or more.[22] They may also have higher fixed costs (such as high private rental costs) that Universal Credit will not cover fully.

The five-week wait risks pushing people in this situation into arrears for things like rent and utilities. Paying back advance payments will also leave those struggling with a larger shortfall between their fixed costs and income on an ongoing basis.

Case Study
Sam is an agency worker. He made a claim for Universal Credit when the agency closed due to Coronavirus government guidance. He applied for an advance payment to help cover his essential costs whilst waiting for his first payment. Unfortunately, the advance wasn't enough to cover all his essential costs and he was unable to pay all of his rent and didn't have enough money for food. Sam is relying on crisis support from local charities and food banks.

The Government has made unprecedented and welcome changes that will certainly help shore up people's incomes. However, given the scale of the impact that coronavirus will have on people's livelihoods, and with what we know about the level of financial security of households at the start of the crisis, many will be at risk of falling into debt during the wait for initial payment or will face budgeting shortfalls to repay advances. It will therefore be important for the Government to review further changes to the benefit system to ensure it provides money to people when they need it and promotes long-term income security.

People should not have to choose between hardship today or debt tomorrow.

[19] Citizens Advice (2019) Achieving Income Security For All
[20] Citizens Advice (2020) Making Ends Meet
[21] Office for National Statistics (2020) Wealth and Assets Survey
[22] Polling with 2016 UK Adults, carried out between 2-7 April

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

In the longer term, reducing the wait for Universal Credit will require looking at the assessment period and payment cycles. In the shorter term, and particularly so in the context of the current crisis, there is a pressing need to introduce measures to get money to claimants quickly to support them during the initial wait, while not sapping their financial resources in the medium term. Over 7 million people have no savings to fall back on[23] - if people can't cope during the five-week wait without taking on debt, this may leave some feeling they have no choice but to continue working, undermining the public health response to coronavirus.[24]

Below we present three options for how the Government could protect people from the immediate impact of the pandemic and address the continuing problems with the five-week wait.

1. **Temporarily turn advance payments into grants and suspend existing deductions for their repayment**

While the monthly assessment and payment cycle is still in place, the best way to ensure that people get the support they need to get through the 5-week wait is to introduce a one-off non-repayable payment for all people who claim.

Turning advance payments into non-repayable grants would provide people struggling during the five-week wait with the immediate financial support they need,[25] without burdening them with longer-term debt. This would reduce the proportion of claimants experiencing shortfalls during the wait,[26] and leave people with more income to cover their essential costs over the long-term through not having to repay the advance.[27] Making these payments non-repayable might make them more accessible to all who need them by removing the reluctance some people may have in taking out an advance that must be repaid.[28]

This would sidestep the problems of designing and applying a means-test, which would be a significant challenge during this period of high demand. Given the urgency of our current situation and the need to respond quickly, there is a strong case for easily accessible support.

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[23] Financial Conduct Authority (2018) Financial Lives Survey
[24] Citizens Advice (2020) Helping people through the Covid-19 pandemic
[25] Modelling by Joseph Rowntree Foundation and Policy in Practice shows that this would be an effective way to reduce the number experiencing a shortfall during the five-week wait.
[26] Modelling by Joseph Rowntree Foundation and Policy in Practice shows that this would be an effective way to reduce the number experiencing a shortfall during the five-week wait.
[27] For a single person over 25 repaying an advance for the full value of their standard allowance over 12 months, turning advances into grants would effectively provide an extra £34.15 a month that would otherwise have been deducted for repayment.
[28] Two advisors reported that their clients had not taken out an advance, despite their need, between the 16th and 25th March 2020.

We also recommend suspending advance payment deductions from existing claims to bolster the incomes of people who have already gone through the initial wait for Universal Credit.

2. Additional payment based on backdated assessment

Short of applying a non-repayable advance universally, payment could be targeted at those who have had no, or little income in the weeks before they have submitted their claim. One way to do this could be to introduce an additional payment based on a backdated assessment period, which could follow the current model for the calculation of eligibility and level of payment.

This would ensure everyone who is eligible receives a grant, avoiding issues with defining hardship-based eligibility criteria. Consideration would need to be given to those who have recently received income who may get little or no money in this scenario. Where this isn't enough for people to manage for five weeks, this could be mitigated against through the continued availability of advance payments.

3. Flexible assessment and payment cycles

In the longer term, and once the acute phase of the crisis has passed, the Government should explore more flexible assessment periods to tackle ongoing issues with the five week wait, if turning advances into grants is not deemed sustainable in the long term. This could allow for shorter assessment and therefore a first payment sooner, as well as greater flexibility throughout the duration of a claim.

Monthly assessment periods can cause problems for those paid more frequently or with fluctuating income.[29] If someone is paid twice during an assessment period they can be left without benefits, or with a reduced award in the next month. If assessment periods and payment cycles could match the cycles of pay for in-working claimants for instance, payments could be made earlier and more frequently, and without the problems associated with monthly assessments.

These changes would need reforms to the IT system that would take time to implement, and loss of pay resulting from people not making claims as soon as they become eligible would still need to be addressed. But greater flexibility would help address financial difficulties people can face during the 5-week wait, as well as ongoing problems with budgeting and overall income stability.

[29] Citizens Advice (2018) Universal Credit and Modern Employment: Non-traditional Work

Citizens Advice recommends that the Government:

- Immediately and temporarily convert advance payments into grants and suspend advance payment deductions from existing claims
- Protect the incomes of people receiving legacy benefits, which could be done by pausing natural migration during this crisis and uprating legacy benefits in line with the additional £1,000 invested in Universal Credit, or bringing forward legacy run-ons immediately as well as transitional protections.
- In the long-term, explore more flexible assessment periods so that the first payment for Universal Credit comes no later than two weeks after the claim is made.