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Universal Credit: Ten years of changes to benefit claims and payments

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Contents

Summary

'Universal Credit: Ten years of changes to benefit claims and payments' is part of a series looking at developments over the ten years since the Coalition Government came to power and launched its welfare reform programme.

The introduction of Universal Credit changed the way around seven million working-age households make benefit claims and get paid. This paper explores some key changes, their effect, and the debate surrounding them.

While often described as the most significant welfare reform since the Beveridge report and the post-Second World War Labour Government, Universal Credit does not begin from a completely blank sheet. Many of the things it seeks to achieve had been aims of previous reforms. It also retains many features of the benefits it is replacing, providing similar levels of support, often on similar terms, to similar groups of people. Nonetheless, Universal Credit is transformational. Delivering most working-age means-tested welfare support through a single benefit has meant that the Government could take a more holistic approach to meeting these aims, designing a benefit which would be claimed and paid very differently to the old system of legacy benefits.

Legacy benefits and Universal Credit

Like the 'legacy' benefits it is replacing, it is available to those who are in work but on low incomes, as well as those who are unemployed or whose capability for work is limited by sickness or disability. By February 2021, over 5 million households were claiming Universal Credit, compared to 3.2 million claiming legacy benefits. The six 'legacy benefits' being phased out and replaced by Universal Credit since 2013 serve different groups of low-income households with different needs. Where a household was eligible for more than one legacy benefit, each was claimed and paid separately. Legacy benefits were criticised by the incoming Coalition Government for their complexity and for creating poor work incentives for some groups.

The single online claim

Universal Credit aims to end excessive form-filling, high administration costs, and the scope for error in legacy benefits through the introduction of a single online claim. This has not been controversial in principle. As Universal Credit was being introduced, however, claimants and advocacy groups pointed to problems faced by those who cannot access the internet or struggle to use it. As rollout got underway, there were also criticisms of the application process itself. These issues resulted in a significant proportion of new UC claims not being paid in full and on time. Adaptations to the claim-making process from 2017 onwards brought about improvements in payment timeliness, and the

Government commissioned Citizens Advice and Citizens Advice Scotland to deliver 'Help to Claim' from April 2019, assisting people to make applications.

The wait for a first payment

Universal Credit is paid in arrears, after a month-long period where income is assessed to calculate the award, and a seven-day processing period. As a result, claimants have a five-week wait before they can first be paid. Different legacy benefits are paid at different frequencies – weekly, fortnightly, every four weeks, or monthly – meaning that separate payments may be received at different times, usually sooner than five weeks after claims.

The wait for the first payment has long been controversial, with MPs and campaigning organisations arguing that it causes financial hardship for some claimants. The DWP points out that advance payments, and 'run-ons' it has introduced for people moving from legacy benefits, are available so no claimant has to wait five weeks for financial support.

Monthly payments and assessments

Universal Credit is paid as a single monthly household payment and based on a monthly assessment of income. This has caused controversy since the benefit was proposed. Monthly assessments can result in fluctuating and unpredictable benefit awards, particularly when working claimants are paid wages on non-month cycles. Monthly payments, particularly for people used to receiving legacy benefits, or in jobs where they are paid their wages more frequently, can also create new budgeting challenges.

The Government has resisted proposals to change Universal Credit's monthly design, citing practical impediments and downsides to alternative assessment methods, and noting that most jobs are paid monthly. Within the monthly assessment structure, the UK Government has made some provision for Alternative Payment Arrangements (APAs) in certain circumstances. The Scottish Government allows claimants to choose whether to receive payments twice-monthly or to have payments made directly to landlords, resulting in a considerably higher usage of alternatives. In Northern Ireland, twice monthly payments and managed payments to landlords are the default.

Deductions

Deductions have long been a feature of the benefits system, designed to help claimants pay their bills and debts, and for the Government to recover money it is owed. Universal Credit broadly replicated the deductions rules in legacy benefits. However, recoveries of advances and tax credit overpayments have been particularly common under the new benefit, and there have been months where more than half of claimants have had a deduction applied. Welfare rights organisations have argued that these deductions are creating hardship. In response, the Government has introduced reforms including reducing the cap on the amount that can be deducted each month. They argue, however, that deductions help claimants to manage their finances, and that a balance has to be found between helping claimants out of debt and affordability.

1 Introduction

The Coalition Government argued that Universal Credit would be the most significant change to social security in the UK since the Beveridge report and post-war Labour Government's reforms,[1] but not everything in the benefit is new. Several features were adopted or adapted from former systems, and many of the policy aims were familiar from previous rounds of reform.

Universal Credit supports very similar groups of people to the benefits it replaces. Earlier reforms had made more dramatic changes to who is entitled to help through the benefits system. For example, the introduction of Attendance Allowance and its successors[2] from the 1970s offered financial support for the extra costs of disability and ill-health without contribution requirements or a means-test, where such help had not previously been available. Child Benefit too provided universal support for children, replacing more limited Family Allowances and child tax allowances.[3]

Universal Credit leaves these reforms in place and continues the provision of in-work benefits which had been expanding from the 1970s through to the introduction of tax credits under the last Labour Government. For the most part, the new benefit does not expand support to, or withdraw it from, any large group of people.[4] Neither does Universal Credit break with long-established trends in the basic principles of welfare provision.

Decisions over decades up to 2013 shifted working-age social security from a largely contributory system to a largely means-tested one. Non-contributory disability and unemployment benefits had been expanding since the 1960s and 70s.[5] Tax credits and their predecessors established the state's role in supporting families in low paid work.

Conditionality has always been a feature of the social security system, particularly unemployment benefits, and is intensified through the introduction of Universal Credit. But developments in the 1980s and 90s, such as in the introduction of Jobseeker's Allowance in 1995, had already significantly expanded the role of work-related requirements.

Neither does Universal Credit completely transform the amount of support most of its claimants receive. The calculation of awards is different – some

1 DWP, Universal Credit: Welfare that Works, 10 November 2010, Cm 7957, p58

2 Disability Living Allowance in the 1990s and Personal Independence Payment in the 2010s

3 See RevenueBenefits, Child Benefit and Guardian's Allowance: Where it all started, 25 May 2020

4 There are some exceptions. The design of Universal Credit's single taper rate does mean some relatively higher earners are eligible who would not have received support under legacy benefits, and current tax credit claimants with savings above £16,000 will not be eligible for Universal Credit.

5 Commons Library Insight, Contributory benefits and social insurance in the UK, 29 October 2020.

elements in legacy benefits are different or are not replicated in UC, capital rules apply whereas tax credits are unaffected by savings, and a new single taper rate means that benefits interact with earnings differently. This has created winners and losers,[6] but the general picture of who gets what is not dramatically different. In short, Universal Credit continues past practice, generally paying similar people similar amounts of support, on similar terms, to the benefits and tax credits it is replacing.

But Universal Credit is still transformational. Instead of fundamentally changing the aims of social security, the introduction of a single benefit is designed to help the Government meet some long-held policy goals. Roy Sainsbury, who had been involved in some of the early exploratory work for the DWP about creating a new single benefit,[7] had argued that the purpose of creating a single benefit was to "meet the welfare-to-work aims of social security as they have developed over the last 10 years"[8] before the Coalition Government came to power. He later went on to tell the journalist and social policy commentator Nicholas Timmins that the new benefit was "essentially a technocratic change… an apolitical idea that was not rooted in any ideology at all".[9]

That "technocratic change" allows new design choices that that have transformed the way that working-age people make and manage claims, and how benefits are paid. Delivering most working-age, means-tested welfare support through a single benefit has allowed the Government to take a more holistic approach to meeting these aims, designing a benefit which would be claimed and paid very differently to the old system. Nonetheless, elements of the new benefit have been controversial. This paper is focused on some of these key changes to claims and payments, and debate surrounding them:

- The singe online claim
- The wait for a first payment
- Monthly household payments and assessments
- Deductions

It is not a comprehensive analysis and does not seek to explain in detail every part of a claimant's experience interacting with the system. For example, the report does not cover some important features of the system such as the benefit cap or capital rules, which affect claimants of both legacy benefits and Universal Credit.[10] Neither does it address the contemporaneous Government effort to limit overall benefit spending through measures such as the benefit freeze.

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[6] See Institute for Fiscal Studies, Universal credit and its impact on household incomes: the long and the short of it, 24 April 2019

[7] For example see DWP, Exploratory qualitative research on the 'single working age benefit', 1 July 2010

[8] IPPR, One For All: Active welfare and the single working-age benefit, 12 July 2007, p14

[9] Nicholas Timmins, Institute for Government, Universal Credit: From disaster to recovery? 6 September 2016, p7

[10] For further information see the Commons Library Constituency Casework page How savings can affect benefits, 23 June 2020

2 How legacy benefits were claimed and paid

Universal Credit was introduced by the Coalition Government from 2013 with the aim of simplifying and streamlining the benefits system for claimants and administrators, as well as to improve incentives to work, tackle poverty, and reduce the scope for fraud and error. The Government argued that much of the complexity and poor work incentives stemmed from the six different means-tested 'legacy' benefits and tax credits having to be claimed and paid separately. These benefits are:

- **Income-based Jobseekers Allowance (JSA)** – an unemployment benefit available to people looking, or preparing, for work.
- **Income-related Employment and Support Allowance (ESA)** – an income-replacement benefit for people whose capability for work is affected by disability or ill health.
- **Income Support (IS)** – a benefit for certain groups of people not expected to look for work, including carers and lone parents with younger children.
- **Housing Benefit (HB)** – a benefit to help people on low incomes and in rented accommodation pay their housing costs.
- **Working Tax Credit** – a benefit paid by HMRC to households who are in work and have a low income.
- **Child Tax Credit** – a benefit paid by HMRC to lower income families with children.

In addition to the benefits above (excluding tax credits), claimants may also qualify for additional amounts called premiums. They are eligible if they also receive 'qualifying benefits' such as Personal Independence Payment. The 2021-22 rates of premiums for JSA, ESA, IS and HB (as well as personal allowances and other components) can be found on the GOV.UK website.

A detailed exploration of why the Government sought to replace legacy benefits with Universal Credit can be found in section 2.4 of The aims of ten years of welfare reform (2010-2020), Commons Library Briefing Paper CBP-9090, 18 December 2020.[11]

[11] A short summary of Universal Credit's design features beyond making claims and getting paid can be found in section 1 of Coronavirus: Universal Credit during the crisis, Commons library Briefing Paper CBP-8999, 15 January 2021

This section provides a brief outline of how each of these benefits or tax credits was claimed and paid. Since the caseload rollout of Universal Credit is not yet complete, individuals and families continue to receive these benefits, although the numbers are declining.

Jobseeker's Allowance

Income-based Jobseeker's Allowance was introduced in the Jobseekers Act 1995, replacing Income Support for the unemployed.[12] The primary purpose of this reform was to expand work-related conditionality for benefit claimants who were expected to be looking for work.[13]

People could apply for JSA by telephone, paper form and, more recently, online. In order to complete their claim and receive a first payment, claimants had to attend an initial interview where they would prove their identity and discuss and agree to work-related requirements (set out in their 'Jobseeker's Agreement'). People who applied by telephone or online would, if living in rented accommodation, usually also apply for Housing Benefit at the same time, if they were not already receiving it.

JSA has seven 'waiting days' before entitlement began.[14] Once it is in payment, JSA is calculated weekly and generally paid fortnightly in arrears. Other income the whole household receives has to be reported and will generally reduce income-based JSA payments on a pound-by-pound basis, although claimants can work and earn a small amount each week (the amount depending on their circumstances) before benefit is affected. Entitlement ends if a claimant works for more than 16 hours or their partner works more than 24 hours, though these households may then have been able to claim Working Tax Credit.

Employment and Support Allowance

ESA was introduced by the Welfare Reform Act 2007, replacing Incapacity Benefit and Income Support on the grounds of incapacity for work.[15] It is a benefit for people who have 'limited capability to work' as a result of ill health or disability. Income-related ESA could be claimed by telephone, paper form and, more recently, online. Contributory, 'New Style' ESA is not a legacy benefit and can still be claimed today.

After seven 'waiting days'[16] ESA is paid fortnightly with claimants getting different amounts depending on the group in which they are placed[17] - in

12 The 1995 Act also replaced contributory Unemployment Benefit with contribution-based JSA, which is now called New Style JSA

13 See Jobseekers Allowance, Commons Library Briefing Paper RP 96-5, 16 January 1996 for further background

14 This was increased from three days in 2014

15 As with JSA, there is also contributory 'New Style' ESA for claimants with sufficient National Insurance contributions

16 This was increased from three days in 2014

17 Following the 'assessment phase'

addition to a basic amount, successful claimants would receive either the 'support component' or the 'work related activity component'.[18] This decision usually follows a Work Capability Assessment.

For income-related ESA, similar income rules to those for income-based JSA apply, although some claimants may be able to earn more than the standard ESA earnings disregard (£20 a week) under the 'permitted work' rules.

Income Support

Income Support was originally introduced under the Social Security Act 1986 to replace Supplementary Benefit. Those provisions were consolidated into Part VII of the Social Security Contributions and Benefits Act 1992. Although it originally provided out-of-work means-tested support for all claimant groups, for unemployed people and those who were not capable of work due to ill health or disability, these functions were later replaced by income-based JSA and by income-related ESA respectively. Of the remaining Income Support claimants at August 2020, 57% were lone parents and 42% were carers of disabled people.[19]

Claims were made to the DWP and could be made either by telephone or using an approved paper form. People who applied by telephone would usually also (if renting) apply for Housing Benefit at the same time. Payments are normally paid fortnightly in arrears with payment dates determined by the claimant's National Insurance number. Broadly the same income rules, and rules on working and claiming benefit, apply to Income Support and to income-based JSA.

Housing Benefit

Following the passage of the Social Security Act 1986, the current Housing Benefit (HB) scheme was introduced in April 1988 along with the Income Support and Family Credit schemes.[20] It is a benefit for people on low incomes who pay rent; claimants who get IS and the income-related versions of JSA and ESA are automatically eligible.

Claims are made to local authorities, who administer Housing Benefit, although people claiming legacy benefits would often also fill out applications at the same time and have those sent to their local authority.

Housing Benefit can be paid weekly, fortnightly, four weekly, or monthly, depending on when rent is due. Where the local authority is the landlord, HB is paid as a reduction in rent. If the claimant lives in private or housing association property, it is normally paid to the claimant unless another arrangement is made.

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18 The work-related activity component was removed for new claims from April 2017

19 DWP benefits statistics: February 2021, 23 February 2021

20 An in-work benefit later replaced by tax credits

Claimants can work and still receive Housing Benefit. The award is reduced by 65p for every £1 of net income above the amount claimants would receive in benefits if they weren't working. The calculation of the award is complex and depends on the type of housing claimants live in, whether other legacy benefits are claimed, household circumstances, capital and income.

Tax Credits

Working and Child Tax Credits were introduced by the Tax Credits Act 2002 in order to provide "support for families with children and working households facing disadvantage, including those which include a worker with a disability."[21] They are administered by Her Majesty's Revenue and Customs (HMRC) rather than the DWP.

Tax Credits were claimed using a 'TC600 ' claim form which claimants would usually fill in themselves and send to HMRC in the post. This would include all the necessary details required to make an initial award, including the claimant's household circumstances, children and income.

Claimants can choose to be paid weekly or four-weekly.

Tax credits are means-tested. The amount received depends on income, so that in general the amount received tapers away as income increases. Households may receive Child Tax Credit, or Working Tax Credit, or both. Tax credits are claimed on a family rather than an individual basis, so that for couples the incomes and circumstances of both partners will be taken into account. Award calculations are based on an annual cycle which coincides with the tax year (which runs from April to April). Awards are based initially on a family's income for the previous tax year, and their circumstances at the beginning of the tax year. Awards run for twelve months, after which the claim must be renewed.

Claimants are asked to confirm their circumstances for the year that has just ended and provide information on actual income received over the year. This is then used by the HMRC to 'finalise' the award for the year ended: the family's actual tax credit entitlement for the period is determined and reconciled with what has actually been paid out over the course of the year. The income information also determines the initial award for the next year.

In order to manage their claims, changes in circumstances during the year must be reported to HMRC as they occur, and the award is adjusted accordingly. Other changes do not need to be reported in year, but it may be in the claimant's interests to do so.

A detailed guide to tax credits can be found on the Low Income Tax Reform Group website.

[21] Explanatory Notes, Tax Credits Act 2002

3 The single online claim

One of the central advantages claimed for Universal Credit by its designers is simplicity. The Coalition Government's July 2010 Green Paper, 21st Century Welfare, emphasised the complexity of legacy benefits and tax credits, pointing to overlaps in support and the multiple applications claimants were expected to make to different agencies. This, the Government argued, made it difficult for households to understand what they could get, risked overpayments, undermined trust and discouraged take-up, as well as increasing the administrative burden on government agencies.[22]

Universal Credit is designed to reduce this complexity by requiring claimants apply for just one benefit, providing all the information required to decide what support they are entitled to. The later White Paper explained:

> People will be able to obtain all elements of Universal Credit through a single application, ending the excessive form filling of the current system, reducing scope for error and reducing administration costs.[23]

This principle has not been controversial. For example, in an otherwise critical report, Citizens Advice noted:

> We [...] support the aim of Universal Credit to simplify the benefit system.
>
> A key component of achieving this is through the introduction of a single online claim. Under the previous legacy system it was possible for an individual to need to make multiple applications, across different channels, to different government departments and local authorities - each time providing similar information. Instead, Universal Credit is designed to be completed online with one claim through a personal account and journal. This records a person's details, assesses their eligibility for the benefit and then becomes one of the main communication channels between the claimant and Jobcentre or the Department for Work and Pensions.
>
> A single application should make this process simpler.[24]

The decision to make claims 'digital by default' and other elements of the application process have, however, been subject to criticism.

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[22] DWP, 21st Century Welfare, July 2020, Cm 7913, pp13-16

[23] DWP, Universal Credit: Welfare that Works, 10 November 2010, Cm 7957, p15

[24] Citizens Advice, Making a Universal Credit Claim, 23 July 2018, p18

How claims are made

Unlike the legacy benefits it is replacing, Universal Credit is claimed online by default without using paper forms.[25] In exceptional circumstances, the DWP may allow telephone claims or make home visits to assist with digital claims,[26] but most people will set up an account and complete the application on GOV.UK.

The basic steps required to claim Universal Credit and get to a first payment, excluding some alterations made during the coronavirus pandemic,[27] are:

1. **Open an online account** – this involves creating a username, setting a password and giving answers to individual security questions, before verifying the account with a code sent to the email address used or mobile phone. If a claimant has a partner, each must create a separate account.[28]
2. **Make a claim online within 28 days** – the clamant will have a 'to-do list' in their online account including a questionnaire asking for personal details, and factors such as housing costs and health conditions which might be relevant to their claim.[29][30]
3. **Declare that information provided is correct and submit the application** – this is when entitlement to Universal Credit begins.[31]
4. **Confirm identity** – This can be done online via GOV.UK Verify or the Government Gateway[32], or by booking an appointment to verify identity.[33]
5. **Book an appointment at the jobcentre**[34] – Usually, this is done by checking the 'to-do' list on the online account and calling the number

[25] Online claim forms have also been introduced as an option for legacy benefits in recent years.

[26] See Regulation 8 of The Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payments) Regulations 2013, SI 2013/380, as amended

[27] See section 4 of Coronavirus: Universal Credit during the crisis, Commons Library Briefing Paper CBP-8999, 15 January 2021

[28] These can then be linked using a "linking code" sent to the first member of the couple to set up an account.

[29] See what you'll need on the DWP's understanding Universal Credit website (accessed 1 July 2021). The specific questions asked at application changes, but a full list was shared by the DWP in a January 2016 freedom of information response.

[30] DWP, Universal Credit guidance: New claims v15.0, 26 April 2021

[31] See Regulation 10 of The Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payments) Regulations 2013, SI 2013/380

[32] From April 2020 onwards. See DWP, Universal Credit claimants to verify identity through Government Gateway, 16 April 2020

[33] During the coronavirus pandemic this has been conducted over the phone, but appointments before then were usually at the Jobcentre, as part of step 5.

[34] Detailed information on preparing for these interviews can be found on the Citizens Advice website (accessed 1 July 2021)

> provided.[35] At these interviews claimants may be asked to provide evidence in support of their claim, confirm their identity if this has not been possible online, discuss the conditions of claiming Universal Credit, and agree a 'claimant commitment'.[36]

If applicants say they have a health condition or disability which limits their capability to work, they may be referred for a Work Capability Assessment.[37]

Debate and adaptations to the claims process

In deciding that Universal Credit would normally be claimed online, the Government argued that this would "be more responsive to changes in a claimant's circumstances and promote behaviours that help the claimant prepare for work."[38] It cited 2012 research which found that "78 per cent of main claimants said that they use the internet, including 48 per cent who said they use it every day",[39] and said that support would be made available to support those with difficulties accessing the internet or using computers.

In a May 2012 speech to the National Digital Conference, the then Minister for Welfare Reform, Lord Freud, told delegates that Universal Credit had been designed as "digital by default" and that, while there would still be face-to-face and telephone support in place, support would be geared towards helping people to use the online channel, rather than providing alternative channels. He went on to stress the idea that this could help claimants develop digital skills useful for employment:

> I am determined to make the most of the opportunity – and the financial incentive – presented by universal credit to identify claimants who lack computer skills and to help them to become digitally independent.
>
> This is about work as much as it's about welfare. As you know, employers expect digital skills for almost all jobs.

[35] Jobcentre appointments were paused during the coronavirus pandemic, and up-to-date information on this stage can be found on the DWP's Understanding Universal Credit website (Accessed 1 July 2021). During this time, claimants are not asked to book an interview, but are instead called by the DWP – see DWP, Don't call us – we'll call you, 9 April 2020

[36] Claimants who do not agree a claimant commitment are given a 7 day "cooling off period" to reconsider. See DWP, Universal Credit guidance: Claimant Commitment not accepted v2.0, 15 April 2021

[37] DWP, Universal Credit: Health conditions and disability guide, 1 July 2020

[38] Explanatory memorandum to The Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payments) Regulations 2013, SI 2013/380

[39] DWP, Work and the welfare system: a survey of benefits and tax credits recipients, 12 July 2012, p4

> It also opens up opportunities for managing money better via online banking or budgeting support. Or accessing money saving services like internet-rates and paper-less billing.[40]

Following stakeholder consultation on supporting the needs of vulnerable claimants, the Social Security Advisory Committee (SSAC) expressed concerns about the digital design of Universal Credit. They noted that while the majority of claimants did have access to the internet at home, many did not have "the necessary online skills, or confidence to manage a UC claim, and while [they] may be able to learn these skills, [it] may not be a realistic ambition for all claimants." The report went on to explore issues with the proposed design of the online platform and the alternatives to online claims, in particular the telephone call charges then in place for some Universal Credit helpline users.[41]

In an October 2012 report, the Joseph Rowntree Foundation (JRF) explored the "digital channel shift" in benefits delivery, as well as the continuing problem of "digital exclusion" affecting vulnerable groups and people in certain rural areas, and the DWP's progress in tackling it. The authors commented:

> The importance of resolving issues around digital exclusion, service user willingness to use online channels, and digital competence among staff cannot be underestimated. The Draft Regulations for UC make it clear that online claims and channels will be the only option available unless a service user falls within a class of claims for which telephone applications will be acceptable, such as for ESA and Personal Independence Payment (PIP). Mandating claimants to manage their claim using electronic means raises important questions around freedom of choice that should be addressed if the user voice is to be adequately accounted for in the development of new delivery channels.[42]

The report argued that while the DWP had made progress towards developing a "coherent digital strategy", it should go further in demonstrating how to ensure that no "service user" was excluded by the proposed arrangements. The JRF went on to criticise plans for local authority support services for people who found it difficult to claim online, claiming that "tight deadlines have left limited time for designing these services and, where services are being piloted, little funding has been made available for service delivery".[43]

The Work and Pensions Committee took evidence on meeting the needs of vulnerable claimants in 2012. Stakeholders welcomed the opening up of a digital channel to claim benefits where paper-based forms had previously

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40 DWP and Lord Freud, National Digital Conference: A speech by Lord Freud, Minister for Welfare Reform, 30 May 2012

41 SSAC, Occasional Paper 10: Implementation of Universal Credit and the support needs of claimants report, 3 May 2013, pp25-28

42 Joseph Rowntree Foundation, Implementing Universal Credit: will the reforms improve the service for users? 30 October 2012

43 ibid

been the norm. However, concerns were expressed about vulnerable claimants' access in the new system. The Committee concluded:

> The aim of moving to an online benefits claiming system and of increasing digital inclusion is welcome. However, the target for the vast majority of Universal Credit claims to be made and managed on line—"digital by default"—is ambitious and carries a risk that some vulnerable people will have difficulty in accessing their benefit entitlement because they do not know how to make a claim. DWP has not to date provided sufficient information about how this will be addressed. It now needs to set out: how people will know where to go to make a claim; what support they will be able to get; and what resources DWP plans to allocate to providing this support.[44]

From 2017, when Universal Credit began to take on more claimants who were not single people without children,[45] welfare rights organisations began to report that more people were struggling to manage the online claim or complete applications. In July 2017 Citizens Advice published a report based on a survey of 792 people who had sought advice in areas with Universal Credit. As well as highlighting problems with the (then) 'six week wait' (see below), the report identified a wide range of administrative challenges, including problems with the online system and long waits on the helpline.[46]

A DWP survey of Universal Credit claimants conducted in 2017 also found that a significant minority were experiencing problems with the online application process:

> UC is a digital service and 98 per cent of claimants did claim online. However, only half (54 per cent) of all claimants were able to register their claim online unassisted, with a further fifth (21 per cent) completing it online but with help. A quarter (25 per cent) were not able to submit their claim online at all, predominantly due to difficulties using or accessing computers or the internet. Three in ten (30 per cent) of those who registered a claim online found this difficult, and the process of verifying their identity online was seen as particularly difficult.
>
> Findings suggest that providing additional support for digital claim management may reduce the volume of calls made to DWP to seek help. Overall, more than four in ten (43 per cent) claimants said they needed more support registering their claim for UC. Furthermore,

[44] Work and Pensions Committee, Universal Credit implementation: meeting the needs of vulnerable claimants, 12 November 2012, HC 576

[45] In December 2017 75% of claimants were single adult households with no children, and appeared to be a similar cohort to the Jobseeker's Allowance caseload under legacy benefits. More households with children and health related elements have since claimed. For the situation in late 2017 see Universal Credit roll-out: 2018-19, Commons Library Briefing Paper CBP-8299, 14 June 2018, p28-32. A more up to date analysis of claimant composition can be found in OBR, Welfare trends report – March 2021, 23 March 2021, pp14-16

[46] Citizens Advice, Delivering on Universal Credit, 6 July 2017

> three in ten (31 per cent) claimants said they need more ongoing support with using their UC account.[47]

At that time, the Department pointed to the 'Universal Support' services on offer through local authorities which provided assisted digital support.[48] They also noted that computers in Jobcentres were available for those who could not access the internet at home, with the support of Jobcentre staff on offer in some cases.[49]

However, in the Summer and Autumn of 2018, the National Audit Office,[50] Work and Pensions Committee[51] and Public Accounts Committee[52] all published reports which were critical of the application process and the assisted digital support on offer. The Work and Pensions Committee compared reports of the service being delivered with the outputs Universal Support providers were expected to provide,[53] and concluded:

> Universal Credit's savings depend on claimants using its digital systems successfully: not just at the outset, but throughout their time on the benefit. Some will find this easy. Others will require substantial, possibly ongoing, support. The Department provides an extensive list of tasks that Assisted Digital Support providers should assist claimants with, but it will fund only a single two hour session of support at the start of a claim. Its own research shows that for many claimants this is woefully inadequate. The digital service saves DWP money: it is in the Department's interests to invest in helping claimants use it. We recommend the Department lift the three-month limit on providing Assisted Digital Support. We also recommend it engages quickly and positively with local authorities and Citizens Advice to agree arrangements for funding additional Digital Support sessions for claimants with higher needs.[54]

Citizens Advice, drawing on their experience of helping people to make claims, noted that the struggles people had completing their applications were leading to delayed payments and, in some cases, losses of entitlement. People, they argued, needed more support at the beginning of their claims.[55]

Since these issues began to be raised in 2017, the Government made a series of changes aimed at improving the application process and payment timeliness. These included:

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[47] DWP, Universal Credit Full Service Survey, June 2018, p13
[48] See DWP, [Withdrawn] Universal Support 2018/19 Guidance, 7 March 2019
[49] See PQ 130878 5 March 2018
[50] NAO, Rolling out Universal Credit, 15 June 2018, HC 1123
[51] Work and Pensions Committee, Universal Support, 24 October 2018, HC 1667
[52] Committee of Public Accounts, Universal Credit, 26 October 2018, HC 1183
[53] See DWP, [Withdrawn] Universal Support 2018/19 Guidance, 7 March 2019, Annex A
[54] Work and Pensions Committee, Universal Support, 24 October 2018, HC 1667
[55] Citizens Advice, Making a Universal Credit Claim, 23 July 2018

- Making the DWP's Universal Credit Helpline free of charge.[56]
- Introducing changes which make it easier for claimants to evidence housing costs, such as the private sector landlord portal.[57]
- Funding Help to Claim – a service provided by Citizens Advice and Citizens Advice Scotland which offers multi-channel tailored support for anyone making a claim.[58] This superseded Universal Support that had previously been offered through local authorities[59] and has since been extended until April 2022.[60]

A July 2020 National Audit Office report outlines how the Department has, alongside these changes, made other alterations to the Universal Credit system, automating processes and improving communication with claimants.[61]

During the coronavirus pandemic, the Department, and the digital application process, have received praise from select committees, opposition politicians and sometimes critical commentators. Writing for the Institute for Government in May 2020, the social policy commentator and historian Nicholas Timmins noted:

> Credit where it is due, and Universal Credit (UC) is due some. In the five weeks after the UK headed into lockdown, there have been more than 1.8 million new claims to UC.
>
> [...]
>
> The website slowed at times. Telephone contact was, initially, a nightmare – on one day alone the Department for Work and Pensions (DWP) received 2.2 million calls. But the website did not fall over. That tsunami of claims is being processed, and, five weeks on, the first pay outs are coming through – with some 93% of those processed in the first week of the lockdown being paid out in full and on time, according to DWP.
>
> That is no mean achievement. It is a percentage far higher than most would have predicted of arguably the least loved of Britain's benefits, and sits in stark contrast to what would have happened in the old days of the 'legacy benefits' UC is replacing: Jobseeker's Allowance, Income Support and Housing Benefit.[62]

[56] Work and Pensions Committee, Oral evidence: Universal Credit rollout, 18 October 2017, HC 336, Q72
[57] See DWP, Universal Credit: Landlord Portal and Trusted Partner Scheme for social landlords, 20 November 2020
[58] See Citizens Advice, Citizens Advice launches new service for people applying for Universal Credit, 1 April 2019 and DWP, New 'Help to Claim' service provides extra Universal Credit support, 1 April 2018
[59] Citizens Advice, Help to Claim — the story so far, 31 October 2019
[60] HC Deb 8 March 2021 c512
[61] National Audit Office, Universal Credit getting to first payment, July 2020, HC 376
[62] Nicholas Timmins, Institute for Government, Credit where it is due: Universal Credit during the coronavirus lockdown, 4 May 2020

In May 2021 the DWP issued notice of a potential funding for telephone and online support services from April 2022. This new telephony and digital support "could include, but may go beyond" helping claimants to:

- understand eligibility to Universal Credit
- support to submit a UC claim
- support with evidence requirements
- other support required between claim submission and first payment
- support understanding how Universal Credit works
- partner engagement and outreach into the local community
- signpost or refer to more in depth support (for example debt advice, digital inclusion support and assistance)[63]

Detailed discussion of Universal Credit's role in the pandemic can be found in Coronavirus: Universal Credit during the crisis, Commons Library Briefing Paper CBP-8999, 15 January 2021.

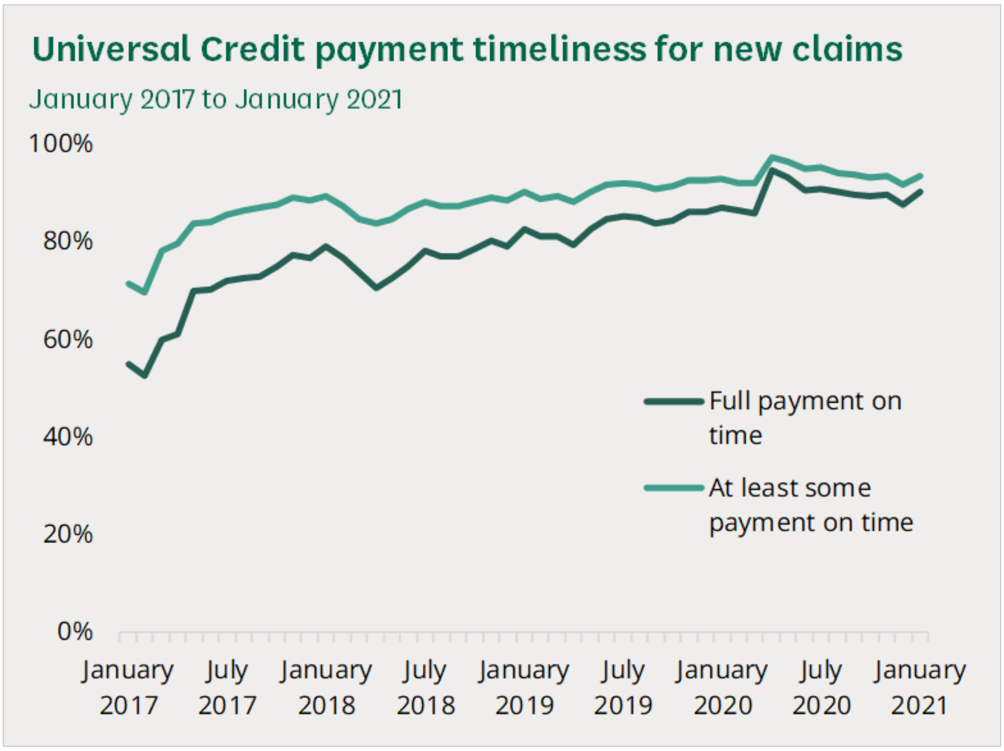
Improvements to digital applications and payment timeliness

Changes to the claims process have improved certain outcomes. In July 2020, the National Audit Office noted that "[t]he Department's approach has been very effective in improving the proportion of claims paid on time".[64] At the beginning of 2017, just 55% of new Universal Credit claims were paid in full and on time. By 2020, this was closer to nine in ten, a figure that improved even as the DWP processed an unprecedented number of new claims during the early months of the Coronavirus crisis.[65]

[63] DWP, Universal Credit: Future telephony and digital support offer 2022: request for information, 7 May 2021

[64] National Audit Office, Universal Credit getting to first payment, July 2020, HC 376, p10

[65] See Section 2 of Coronavirus: Universal Credit during the crisis, Commons Library Briefing Paper CBP-8999, 15 January 2021



Source: DWP Stat-Xplore and DWP Universal Credit statistics

Universal Credit received praise from various quarters for how it had withstood the increased demand that came with the coronavirus crisis. The online claims process, in contrast to less automated systems such as that for unemployment benefit claims in Spain,[66] was able to get money to people efficiently when they needed it.

In May 2020 Nicholas Timmins praised Universal Credit's ability to handle the pressure, despite some causes for complaint.[67] He noted the previous month that the crisis had highlighted the advantages of Universal Credit's entirely digital system, which had not collapsed under the pressure. He remarked further that if people had been left to rely solely on the 'legacy benefit' system, "Jobcentres and council offices would have been overwhelmed", with long queues making it difficult to comply with social distancing guidance. He concluded that this "may be the moment when the country becomes grateful for Universal Credit".[68]

Similar praise came from the Work and Pensions Committee and the Lords Economic Affairs Committee, in reports published in June and July 2020. The Work and Pensions Committee's report on the DWP's response to the coronavirus pandemic praised the changes the Department had made to the

[66] See El Pais, Sent home over Covid-19, laid-off workers still waiting for their checks in Spain, 22 May 2020

[67] Nicholas Timmins, Institute for Government, Credit where it is due: Universal Credit during the coronavirus lockdown, 4 May 2020

[68] Nicholas Timmins, Institute for Government, Coronavirus is giving Universal Credit its moment in the sun, 2 April 2020

application process, such as using Government Gateway accounts to verify identity, and welcomed improvements to payment timeliness. It stated:

> DWP should be commended for its rapid response to an unprecedented increase in claims. In particular, the extraordinary work of its front-line staff, whose efforts have led to most claimants receiving their first payment on time, deserves the highest praise. [69]

Nevertheless, the Committee's report also highlighted further room for improvement, and outlined various challenges facing UC in the future.

The Lords Economic Affairs Committee, in a report otherwise critical of Universal Credit, noted that the digital and automated structure the benefit, combined with the temporary changes made by the DWP, had allowed it to withstand the sudden increase in demand:

> The efficient management of an unprecedented number of new claims over such a short period would not have been possible without the digitalisation of the Universal Credit application process. Furthermore, the DWP was able to process the large number of applications using automation, a rapid reorganisation of resources and by changing policies and processes. It also took steps to safeguard claimants and staff. We commend the DWP, and particularly frontline staff, for responding with decisiveness and dedication. [70]

The Resolution Foundation concluded that Universal Credit had "passed its first test" during the initial stages of this crisis and praised the digital system and hard work of civil servants. Its own research found evidence of issues with the verification system persisting for some claimants, but that new claimants to UC were "mostly positive" about the claims process and the service they received:

> Although there remain issues with the identification verification systems, 74 per cent of claimants in our survey reported they were satisfied or very satisfied with the way DWP handled their claim. Overall, the system has coped well, and DWP deserves applauding for this. It's almost certain that, without the capacity of the new digital-based systems, families would have waited longer for a payment and suffered as a result. However, even those happy to claim online appreciated the phone calls with DWP staff, something that DWP should maintain to ensure UC is accessible to claimants. [71]

[69] Work and Pensions Committee, DWP's response to the coronavirus outbreak, 22 June 2020, para. 21

[70] House of Lords Economic Affairs Committee, Universal Credit isn't working: proposals for reform, 31 July 2020, HL 105, para. 15

[71] Resolution Foundation, This time is different – Universal Credit's first recession, 27 May 2020, p5 and 23

On the other hand, in January 2021 the Joseph Rowntree Foundation relayed more negative feedback from UC claimants (including new claimants) in its 'Grassroots Poverty Action Group':[72]

> Discussions within the JRF Grassroots Poverty Action Group highlighted many of the known problems within the social security system, as well as problems that those interacting with the system for the first time, as a result of coronavirus, were facing. The themes of fear, frustration and difficulties were repeated throughout the conversation. Participants reported finding the system difficult to navigate, over-reliant on digital technology and lacking in personal support, something that has been exacerbated by the limitations that coronavirus has put on face-to-face meetings.
>
> For those who have lost their jobs or experienced significant income loss due to coronavirus, having to navigate the social security system for the first time can add another level of fear and stress at an already worrying time, and this was enhanced by the negative stories that abounded in the media.[73]

Despite these improvements in payment timeliness and praise for the Universal Credit IT system, other concerns, notably the five-week wait for a first payment, remain.

[72] JRF describes this as "a diverse group of people with direct experience of living on a low income" who took part in discussions over five sessions and whose findings inform the analysis in the report.

[73] Joseph Rowntree Foundation, UK Poverty 2020/21: The leading independent report, January 2021, p54. The description of the Grassroots Poverty Group can be found on p22.

4 The wait for a first payment

Universal Credit is paid in arrears as a single payment, following a monthly assessment of income and a period of up to seven days. Payments are then made monthly from that point.[74] Before February 2018, there were an additional seven 'waiting days' after the claim was made, before the first assessment period began.[75]

This is what was meant when people referred to the then six-week, and now five-week, wait for a first payment of Universal Credit.

Legacy benefits and tax credits do not have this monthly assessment period as the amount to be paid is determined using information submitted with the claim. For tax credits and Housing Benefit, which also taper away as working claimants earn more, people submitted income information with their claim,[76] and this was used to calculate the initial award.[77]

Legacy benefits are paid to different frequencies - weekly, fortnightly, four-weekly, or monthly - meaning that separate payments might be made at different times, often sooner than five weeks from the registration of a claim.

From the early stages of Universal Credit rollout, the wait for the first payment has been controversial, with MPs and campaigners arguing that it causes financial difficulties for claimants.

The Government points out that advance payments and 'run-ons' for people moving from legacy benefits are available and that "no one has to wait five weeks for financial support".[78]

Concerns about the impact of the wait

During 2017, as Universal Credit was being rolled out to new areas of Great Britain,[79] evidence began to emerge of widespread problems experienced by people moving onto UC, in particular as a result of the wait for first payment.

[74] See DWP, Universal Credit: different earning patterns and your payments (payment cycles), 13 March 2019

[75] These waiting days were removed in the Autumn Budget 2017

[76] See HMRC, Getting your tax credits claim form right (TC600 Notes), 6 April 2018; and Housing Benefit: Supporting your claim on GOV.UK

[77] For tax credits, claimants provided their income for the previous year and their provisional award would be based on this until the award was finalised at the end of the tax year, based on actual earnings over the year. If during the course of the year claimants know their actual income would be substantially different from the previous year, they can ask HMRC to adjust their award in-year.

[78] For example, see PQ 157112 1 March 2021

[79] See Universal Credit roll-out: Autumn/Winter 2017, Commons Library Briefing Paper CBP-8096, 15 November 2017, p16

In a report published in October 2017, the Work and Pensions Committee commented:

> The rollout of full service Universal Credit, which began in May 2016 and is being accelerated from October 2017, has been associated with increases in rent arrears, problem debt and foodbank use. Many claimants have found themselves unable to cope with the long wait for their initial UC payment. A long wait for support may even make it more difficult for claimants to search for work.[80]

The Committee noted that the (then) six-week wait "was at the core of many problems highlighted" in the evidence its inquiry had received, adding:

> Universal Credit claimants would ideally have savings or a last monthly paycheque to cover essential outgoings during this period. More than half of low and middle income families, however, have no savings, and two thirds have less than a month's worth. Only half of people earning £10,000 or less per year are paid monthly. Many households simply do not have the resources to persist for six weeks, or in a minority of cases far longer, without resorting to desperate measures.[81]

Reforms and mitigations

From Autumn 2017, the DWP announced a series of measures designed to help people moving onto Universal Credit. This included introducing the free helpline, the 'landlord portal', and Citizens Advice Help to Claim discussed above. As noted, these changes designed to help claimants who encounter problems making and completing their claims have improved payment timeliness and ensured that fewer claimants face longer waits.

Further changes were made, including shortening the length of the wait, providing easier access to money upfront in the form of expanded advances people could get at the start of their claim, and benefit 'run-ons'. The key changes were:

- From February 2018, the seven-day waiting period was abolished, bringing the wait for a first payment down from six weeks to five.[82]
- Universal Credit advances have gradually been made more accessible, with larger amounts available and longer repayment periods:
  - Refreshing guidance for DWP staff to improve awareness of advances.

[80] Work and Pensions Committee, Universal Credit: the six week wait, 25 October 2017, HC 336, para 6
[81] Ibid. para 8
[82] HM Treasury, Autumn Budget 2017, 22 November 2017

- From January 2018, allowing people to receive UC advances worth 100% of their estimated award, and extending the repayment period from 6 to 12 months.
- From Spring 2018, a new facility allowing online applications for UC advances.
- From October 2019, reducing the cap on what can be deducted from awards to repay advances (as well as other costs and debts[83]) from 40% to 30% of the Universal credit Standard allowance. [84]
- From April 2021, extending the period over which advance payments can be recovered again, from 12 to 24 months, and further reducing the deductions cap to 25%.

• Benefit 'run-ons' have been introduced, allowing people moving from legacy benefits to continue to receive those benefits for a period at the beginning of their Universal Credit claim:

- From April 2018, a two-week Housing Benefit run-on for people moving to UC. New UC claimants previously in receipt of Housing Benefit continue to be paid for two weeks after benefit would normally have ceased.
- From July 2020, additional two-week run-ons of Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance.

Debate on the effect reforms

The measures announced from 2017 were welcomed by welfare rights organisations and pressure groups, and some evidence of positive change has been noted.

Research carried out over the Summer and Autumn of 2018 by Citizens Advice with people it had helped with their Universal Credit issues suggested that, while many people were still struggling, the measures introduced up to early 2018 had improved some claimant's financial positions during the wait - fewer of their clients had fallen behind on bills, gone without essentials or borrowed from family and friends after the changes.[85]

A September 2019 analysis by the Trussell Trust of data of food bank usage, however, did not indicate any "notable impact" as a result of the measures in place by April 2018. It found:

> Early analysis of food bank data comparing food bank demand in areas which went live with full Universal Credit rollout before and

[83] For example benefit overpayment debt and rent arrears

[84] See below for more detail on deductions

[85] Citizens Advice, Managing Money on Universal Credit, 6 February 2019, p10

> after the April 2018 changes does not indicate any notable impact. Food banks in areas that went live both before and after the changes saw a notable increase in parcels provided over the six months following rollout.
>
> Indeed, food banks that went live after early 2018 improvements saw a bigger increase in food parcels provided. This may be due to the increase in starts on Universal Credit as rollout has progressed – analysis of DWP data shows that areas included in the post-April 2018 cohort saw more than double the increase in claimants moving to the new benefit (1,112%) in the six months after the 'go live' date, compared with the pre-April 2018 cohort (472%).[86]

The Smith Institute has published a series of reports looking at new claimants of Universal Credit and rent arrears, using data from social landlords in Southwark[87] and a more recent study across 12 London boroughs.[88] The 2019 Southwark study, which could compare data to previous waves of research conducted prior to many of the reforms, found that there had been a noticeable decrease in the levels of rent arrears among those it surveyed in the Spring of 2018 compared to those it surveyed in 2016. They concluded, however, that the main reason for this improvement was the earlier use of Alternative Payment Arrangements, rather than the wider set of reforms.

The National Audit Office also looked at the issue of rent arrears among three cohorts who claimed Universal Credit from 2015 to 2018, using DWP data. It found that throughout this period there had been increases in rent arrears before claims, followed by rapid increases in the weeks afterwards. This had, however, improved over the period.[89] In a letter to the Work and Pensions Committee, the NAO's Comptroller and Auditor General shared the Smith Institute's view that improvements in rent arrears among new claimants in social housing could be attributed to Alternative Payment Arrangements.[90]

The NAO concluded that despite the changes that had been introduced, people were still facing problems with the wait for first payment, but that it was difficult to assess its impact on such issues without also considering other wider factors:

> 1.15 Despite the availability of advances and run-ons, the transition to Universal Credit is clearly a challenging time for many claimants. Both charities and claimants responding to our consultation told us that the initial wait for Universal Credit can make it difficult for them

86 Trussell Trust, 5weekstoolong: why we need to end the wait for Universal Credit, September 2019, p21

87 The latest is The Smith Institute, Safe as Houses 3: Have government reforms to Universal Credit reduced the rent arrears of Southwark's tenants? September 2019

88 The Smith Institute, Falling behind: The impact of Universal Credit on rent arrears for council tenants in London, 22 July 2020

89 National Audit Office, Universal Credit getting to first payment, July 2020, HC 376, Figure 7

90 See Work and Pensions Committee, Universal Credit: the wait for a first payment, 19 October 2020, HC 204, p16

to afford utilities, rent and even food. It can also establish a longer-term pattern of falling behind in paying bills (Appendix Five).

1.16 Assessing the impact of the initial wait for Universal Credit is complicated because it is hard to separate its effect from a range of wider factors. For example, there are various differences between Universal Credit and legacy benefits, which include:

- absolute amounts of Universal Credit. Some groups are entitled to more money than they were under legacy benefits and some less. The overall amount households receive is also affected by wider benefits policy such as the benefits cap;
- managing finances. For example, in most cases Housing Benefit was previously paid to landlords, but Universal Credit is usually paid directly to claimants; and
- variable payments. For some claimants it is less clear how much money they will receive until a few days before they receive their payment because Universal Credit can vary each month.

1.17 The evidence available, however, indicates that the wait for Universal Credit is an important source of pressure on new claimants when combined with:

- existing debts and financial distress;
- the fact that some claimants delay making their claim for Universal Credit; and
- the longer-term impact of managing deductions from Universal Credit to repay advances and other debts.[91]

Further proposals for reform

Whatever the impact of the measures announced so far, there remains widespread opinion that further action on the wait for first payment needs to be taken. Possible changes were explored thoroughly in recent Work and Pensions Committee[92] and Lords Economic Affairs Committee reports, published in July and October 2020.[93]

[91] National Audit Office, Universal Credit getting to first payment, July 2020, HC 376, pp24-25
[92] Work and Pensions Committee, Universal Credit: the wait for a first payment,19 October 2020, HC 204
[93] Lords Economic Affairs Committee, Universal Credit isn't working: proposals for reform, 31 July 2020, HL 105

Both reports recommended a wide range of reforms from better tracking of vulnerable claimants[94] to expanded use of Alternative Payment Arrangements. Both took evidence from stakeholders and discussed two key issues in the in the current design of Universal Credit.

First, **the monthly assessment of income** and payment in arrears which leads to the five-week wait. Both committees suggest alternative models of income assessment should be considered, as well as expanded use of more frequent payments within the existing monthly assessment structure. The Government has resisted such suggestions.[95]

More on monthly payments and assessments can be found below.

Second, **the need to repay advances** and whether they can be replaced or accompanied by non-repayable grants. The Work and Pensions Committee recommended non-repayable three week "starter payments" for new claimants. The Lords Economic Affairs committee recommended a two-week initial grant, similar to proposals made by Nicholas Timmins for a "silver hello".[96]

The Government rejected both proposals and pointed to changes already made, as well as the fraud risks associated with providing non-repayable advances.[97]

Speaking at a March 2021 oral evidence session held jointly by the committees, the Minister for Welfare Delivery, Will Quince, explained that the DWP had explored the Economic Affairs Committee's and Nicholas Timmins' proposal, which he described as "workable". He argued, however, that limited resources might be better spent elsewhere, given the mitigations which are already in place. He explained:

> I have found only one potential solution that is workable in theory, and that is very similar to the proposition that has been put forward by Nick Timmins at the Institute for Government. But as you will also see, that comes with a price tag of about £2 billion to £2.5 billion per

[94] At the time those Committees reported, DWP staff used 'pinned notes' – in essence, electronic 'post-it' notes – to record claimants' vulnerabilities or support needs on the UC system. On 9 March 2021, the Minister for Welfare Delivery, Will Quince, conceded that the lack of a 'marker' to track vulnerable claimants through the UC system was "a deficit" but said that work was progressing "at pace" in the DWP to develop a 'claimant profiles' system to track vulnerable and disadvantaged people through the UC system, which he hoped would go live in the first half of 2021.

[95] Work and Pensions Committee, Universal Credit: the wait for a first payment, 19 October 2020, HC 204, pp74-75 and Lords Economic Affairs Committee, Universal Credit isn't working: proposals for reform, 31 July 2020, HL 105, pp13-18

[96] Nicholas Timmins, Institute for Government, Universal Credit: getting it to work better, 6 March 2020

[97] See Work and Pensions Committee, Universal Credit: the wait for a first payment: Government Response to the Committee's Third Report, 12 January 2021, HC 1117 and Lords Economic Affairs Committee, Government response to the report, Universal Credit isn't working: proposals for reform, 15 October 2020

annum. It would be a significant overhaul of the system and could take two years, maybe even a bit longer, to implement.

[...]

Say we were to look at a starter payment. Even if you managed to park the £2 billion cost, and even if you parked the fraud risk—by the way, Treasury would not allow us to park either of those two, but let us just imagine in an ideal world that it did—you would also have to question a £2 billion to £2.5 billion spend into our welfare system, if this is the place you would spend it, based on the need but also on the fact that you have advances in place. [98]

[98] Lords Economic Affairs Committee and Work and Pension Committee, Corrected oral evidence: Reports—Universal Credit Isn't Working: Proposals for Reform, and, Universal Credit: the Wait for the First Payment, 9 March 2021, Q2, Q6

5 Monthly payments and assessments

As with legacy benefits and tax credits, Universal Credit awards can vary depending on how much other income a household receives (see Box 1 below).

How Universal Credit is affected by income

One of the key motivations behind the introduction of Universal Credit was the complex, uneven, and for some people, prohibitive, way in which legacy benefits were withdrawn as claimants entered work and earned more.[99]

Universal Credit aims to provide these by simplifying the treatment of earned income. All income from employment or self-employment reduces the award at a constant rate of 63 pence for each pound[100] of net earnings (this is known as the **single taper**), although some families with children or disabilities are able to keep some of their earned income (the '**work allowance**') before it begins to affect their award.

For details see RevenueBenefits, Calculating universal credit, 24 May 2021

Universal Credit is assessed and paid monthly in arrears. Unless exceptional circumstances apply, awards are delivered as a single household payment combining multiple elements designed to contribute to different needs. The reasoning behind this was twofold:

- The HMRC Real Time Information (RTI) system - which gathers Pay as You Earn (PAYE) information from employers - operates monthly, so automating income assessments was simpler to deliver on a monthly schedule.[101]
- Monthly payments in arrears would mimic the most common experience of workers, most of whom are paid wages monthly.[102]

[99] See DWP, 21st Century Welfare, July 2020, Cm 7913, p7
[100] This was 65 pence before April 2017.
[101] A good explanation of this can be found in Nicholas Timmins, Institute for Government, Universal Credit: From disaster to recovery? 6 September 2016, pp24-25
[102] DWP, Universal Credit: welfare that works, 11 November 2010, Cm 7957, p34

Both assessing income and paying Universal Credit monthly have been sources of controversy since the benefit was proposed. Monthly assessments can result in variations in benefit payments where claimants are paid on non-monthly cycles.[103] Monthly payments too, particularly for people who have claimed some legacy benefits or worked in jobs where wages are paid more frequently, have created new budgeting challenges.

The Government has consistently resisted proposals to change Universal Credit's monthly design, citing practical impediments and downsides to alternative income assessment cycles, and has argued that a growing majority of jobs are paid monthly.

Within the monthly assessment structure, the UK Government has made some additional use of Alternative Payment Arrangements, particularly direct payments to landlords in certain circumstances. In Scotland, the Scottish Government has used powers recently given to it in the Scotland Act 2016 to give claimants the ability to choose whether to receive payments twice monthly after their first assessment period, and to have housing cost payments made directly to landlords. In Northern Ireland, twice-monthly payments and direct payments to landlords are the default.

Monthly income assessments

Universal Credit not only modified earnings tapers and disregards as they exist in the legacy system,[104] it changed the mechanism by which income is assessed for employees, introducing 'Real Time Information' from the HMRC Pay as You Earn (PAYE) system to calculate awards each month. Employees not on PAYE and the self-employed, still need to report their earnings directly.

Legacy benefits which taper away as claimants earn more, assess income to different cycles. Housing Benefit is calculated on a weekly basis with claimants reporting changes in income. Tax Credits, are calculated on an annual cycle based on income in the current year and are reconciled at the end of the year, controversially[105] generating overpayments and underpayments if earnings have increased or decreased significantly.[106]

The November 2010 White Paper, 'Universal Credit: welfare that works', promised that removing the need for "end-of-year reconciliation will reduce the scope for overpayments."

Universal Credit does this by assessing income as it is paid[107] during an 'assessment period', then paying awards monthly in arrears based on that income and other household circumstances. The calculation is based on the household's circumstances – i.e. the number of children, housing costs,

[103] Or even monthly cycles where two paydays fall in a single assessment period.

[104] See box on previous page

[105] For example see Parliamentary and Health Service Ombudsman, Tax credits: getting it wrong?, 9 October 2007, HC 1010

[106] See RevenueBenefits, Tax Credits: Overpayments and underpayments, 25 May 2020

[107] Regulation 54 of the Universal Credit Regulations 2013, SI 2013/376 (as amended)

capability for work – on the last day of the assessment period. This 'whole month' approach benefits households experiencing a change part way through the month which increases their entitlement, but where a change occurs which reduces entitlement the household will lose out. The loss can be substantial if the change occurs just before the end of assessment period.

UC payments are normally paid directly into the claimant's account within seven days of the last day of the monthly assessment period, or "as soon as reasonably practical" thereafter if this is not possible.

The assessment period 'window' is not the same for all Universal Credit claimants. A household's first assessment period begins on their first day of entitlement to UC and lasts for one calendar month.[108] Each subsequent assessment period begins on the same day of the month, unless the first day of entitlement is 31st of the month.[109]

Once a household's assessment period dates have been determined, they remain fixed for as long as the household remains entitled to Universal Credit. They cannot ask the DWP to change the assessment period dates. Furthermore, if a household makes a claim for UC after having previously ceased to be entitled to UC or after having closed a previous claim, their previous assessment period dates will apply, unless six months or more have elapsed.

For employees paid through PAYE, HMRC's Real Time Information (RTI) system allows the DWP to adjust their UC award automatically if their wages change.[110] A person's UC award will be calculated on the basis of the payments received as indicated via RTI, but the DWP is not obliged to use RTI data if, for example, the employer is not providing accurate reports, or the information on the RTI report is wrong. Not all employers submit information to HMRC via RTI; some employees – and all self-employed UC claimants – have to self-report their earnings to the DWP.[111]

Effect of assessment periods and impact on claimants

Real time assessment of income is designed to be responsive to changes in earnings. For people who are paid at the same monthly frequency as Universal Credit in particular, monthly assessments smooth the impact of significant falls (and rises) in pay.[112] If claimants are paid significantly less in one month than another, they will see their Universal Credit payment increase

[108] See New to Universal Credit: How and when you'll be paid on the DWP's understanding Universal Credit website (accessed 1 July 2021)

[109] In which case each assessment period begins on the last day of the month, or the first day of entitlement is the 29th or 30th of the month. In such cases, an assessment period beginning in February starts from the 27th, or the 28th in a leap year.

[110] See RevenueBenefits, Universal credit: RTI and Universal Credit, 24 May 2021

[111] See the DWP, Universal Credit Guidance: Real time information, v10.0, 26 April 2020

[112] DWP, Universal Credit: welfare that works, 11 November 2010, Cm 7957, p33

and cushion the blow. They also won't be exposed to the risk of an overpayment if their income increases.

Nevertheless, the assessment period rule can cause problems for people whose pay arrangements are not completely in step with the monthly Universal Credit system. Claimants who receive more than the usual number of wage payments in an assessment period will see reduced awards. This could apply to any claimant whose wage payments are split unevenly between assessment periods, including those who are:

- Paid weekly - who may therefore be paid five times in some months and four times in others
- Paid fortnightly – who may have three pay days in some months and two in others.
- Paid every four weeks – having one month of the year with two pay days
- Those who receive their wages on the last working or banking day of the month and so experience months when two months' wages are received during one assessment period.[113]

In consequence, even if the total amount they receive is not usually affected, awards can change from month to month in ways that are difficult for claimants to predict and budget for.

In some cases, claimants can also lose out financially over the longer term if they get an additional pay packet in an assessment period. Those receiving two months' pay in one assessment period but no payment of wages in the next assessment period will only have one month's work allowance deducted from the earnings. Claimants paid two months' wages in one assessment period but none in the next can also find themselves subject to the benefit cap in the second month, even though their annual earnings have not changed.

Households who would usually be eligible for passported help with health costs – such as free prescriptions – because their earnings are low can find themselves ineligible in some months when their earnings appear to be higher than they are. Or, it can result in people not being eligible for a Universal Credit payment and therefore for a Discretionary Housing Payment from the local authority, as these are only available to people in receipt of Housing Benefit or the housing costs element of Universal Credit.

If a household is not entitled to Universal Credit because they have received an additional payment of wages, they need to re-apply to get UC again the following month.[114] This doesn't require them to make an entirely new claim, however. To re-apply, they will need to log on their online account. The claim will show their circumstances on the date they last got UC, and they will need to confirm that the details in their account are correct to claim again

[113] See DWP, Universal Credit: different earning patterns and your payments, 13 March 2019

[114] Automatic reclaims were put in place during the 2020 coronavirus pandemic so that, at the time of writing, claimants did not have to reapply. See CPAG, UC, SEISS payments and automatic reclaims, 1 August 2020

automatically. Their monthly assessment period and payment dates remain unchanged.

Think tanks and welfare rights organisations have argued that the monthly assessment period rules are causing problems for a significant number of UC claimants who are experiencing fluctuations in their monthly payments. In August 2018, the Child Poverty Action Group (CPAG) said that of more than 400 Universal Credit cases submitted to its 'Early Warning System' since 2017, one in 20 included a problem related to the assessment period. It reported:

> Many working claimants are seeing their UC award rise and fall month by month purely because of when their paydays and assessment periods fall, making budgeting extremely difficult, while others lose hundreds of pounds a year because of the knock-on effects of these mismatches on work allowances, the benefit cap, passported benefits and discretionary housing payments. This included those who are not paid monthly, so receive more pay in some assessment periods than others, as well as monthly-paid employees who receive two monthly pay packets in some assessment periods… and none in others. People who receive back pay from a previous job can lose out unexpectedly too.[115]

CPAG reported that many of the claimants in its study found budgeting difficult because people were receiving "hugely variable UC awards even when their underlying earnings have not changed". It cited the example of a couple whose UC monthly payments had ranged from zero to almost £1,200.[116]

The Resolution Foundation has acknowledged that monthly assessments "hold out the prospect of a system that is better able to mitigate the impact of short-term downwards changes in pay".[117] However, they have also argued that issues with the design "undermine the advantages of a more responsive system" for certain groups of claimants:[118]

- Those who are paid more frequently than monthly, introducing volatility to personal incomes.
- Those whose pay dates are not helpfully aligned with the "arbitrary" start and end dates of assessment periods.

Using a sample of Lloyds Banking Group client data, their analysis showed that Universal Credit recipients in the sample "have higher monthly pay changes than they would in a tax credit-like system in which payments are the same in each month."[119]

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[115] CPAG, Rough Justice: Problems with monthly assessment of pay and circumstances in universal credit, and what can be done about them, August 2018, p3

[116] Ibid, p9

[117] Resolution Foundation, Irregular Payments: Assessing the breadth and depth of month to month earnings volatility, 15 October 2018, p9

[118] Ibid, p11

[119] Ibid, p53

Citizens Advice has argued that for the significant portion of their clients who are not paid monthly, the way UC is administered "can lead to income fluctuations that undermine income security for people in non-traditional employment." In a submission to the Lords Economic Affairs Committee in February 2020, they shared a case study from an Adviser in Leicestershire and Northamptonshire Jobcentre Plus District:

> The client is paid every four weeks. Every time there are two wages in one assessment period his claim is closed. The client has been claiming Universal Credit since January 2019. His assessment period runs from the 26th of one month to the 25th of the following month. His Universal Credit claim has been closed roughly every other month due to pay from work showing twice in one assessment period, this has meant that he has to start a new claim each time, wait another five weeks and also attend the Jobcentre to sign his claimant commitment. This is also causing the client financial hardship. The client is a wheelchair user and works part time in a supermarket, the financial hardship this is causing is making his travel expenses to work impossible and he has now been signed off work with stress.[120]

Court cases

The Johnson and Others case

On 22 June 2020 the Court of Appeal gave its judgment in the case of Johnson, Woods, Barrett and Stewart, which concerned four Universal Credit claimants who received their monthly salary on or around the last working or banking day of the month, and therefore sometimes got two salary payments in a single monthly assessment period, affecting their UC awards.[121]

The Court ruled that the Secretary of State for Work and Pensions had acted irrationally and unlawfully by failing to adapt the earned income assessment rules to account for the impact on the four claimants. The DWP said that it would not appeal the ruling, and would bring forward regulations to amend the UC rules on how earnings are taken into account in light of the Court's judgment.

On 20 October 2020 the Secretary of State laid before Parliament The Universal Credit (Earned Income) Amendment Regulations 2020 (SI 2020/1138), which came into force on 16 November. The regulations allow the DWP to reallocate a payment of earnings reported via HMRC's Real Time Information service to a different Universal Credit assessment period, either because it was reported in the wrong assessment period or (in the case of monthly paid employees) it is necessary to maintain a regular payment cycle. This should mean that claimants who are paid monthly will only have one

[120] Citizens Advice, Written Evidence for the Lords Economic Affairs Committee inquiry into the economics of Universal Credit, 28 February 2020

[121] see Secretary of State for Work And Pensions v Johnson & Ors [2020] EWCA Civ 778

salary payment taken into account in each assessment period. From mid-summer 2021, the DWP plans to automate the identification of affected claimants.[122] The DWP's Explanatory Memorandum accompanying the regulations gives further details.

The Pantellerisco and Others case

In 2019, the Child Poverty Action Group (CPAG) began judicial review proceedings on behalf of a working single mother who challenged the application of the Benefit Cap to her Universal Credit award. The claimant worked 16 hours a week at the National Living Wage and was paid her salary every four weeks. Had she received her wages monthly, she would have been exempt from the Benefit Cap. However, the effect of the four-weekly payment cycle on her UC award was that she was treated as if she earned less than the threshold required to secure the earnings exemption from the Benefit Cap – which is calculated on calendar-monthly basis – in all but one assessment period in every year.

On 20 July 2020, the High Court ruled that the assessment of earnings under the UC Benefit Cap rules is irrational and unlawful, because it subjected the claimant to the Cap solely because she was paid on a four-weekly basis rather than monthly.[123] The Secretary of State was granted permission to appeal by the Court of Appeal. The appeal hearing took place in June 2021[124] and a judgement had not been given at the time of writing.

The Child Poverty Action Group's website has information on the Johnson and the Pantellerisco cases and their wider implications; see:

- Universal credit, earned income and monthly pay.
- Universal credit, benefit cap and those paid 4 weekly.[125]

These cases, and the wider issues with monthly assessment periods are covered in detail in The Universal Credit assessment period and earned income, Commons Library Briefing Paper CBP-8501.

Continuing debate on monthly assessments

Because of its link to the five-week wait for a first payment and issues faced by those whose pay days do not align with the monthly design of Universal Credit, the monthly assessment period continues to be one of the most contested features of the benefit.

Academics Jane Millar and Peter Whiteford have argued that designing income assessment and payment periods involve inevitable trade-offs between responsiveness and income security. Universal Credit, they argue,

[122] PQ 10456 14 June 2021

[123] R (Pantellerisco and others) v SSWP [2020] EWHC 1944 (Admin)

[124] Courts and Tribunals Judiciary, Pantellerisco & others (claimant/respondent) –v- The Secretary Of State for Work and Pensions (defendant/appellant), 15 June 2021

[125] Both accessed 1 July 2020

does not give sufficient weight to security of income - "knowing how much you will receive and when [… a]n important dimension of not just how people manage their money but also how they feel about their financial situation". Instead, Universal Credit prioritises responsiveness to changes in circumstances, which "adds to financial insecurity, potentially creating stress alongside debts". [126]

An August 2018 CPAG report argues that a "fundamental rethink of the strict system of monthly assessment of earnings would be sensible." For some claimants, it believes weekly assessment would be more suitable, while for others (such as self-employed people with "lumpy" earnings and costs across a year), longer assessment periods might be more appropriate. However, it also recognises that monthly assessment was central to the design of UC and could not be changed overnight. With that in mind, CPAG suggests measures which could resolve the issues its report identifies within the current system of monthly assessment. These include:

- Using averaged earnings for Benefit Cap decisions and for those on non-monthly pay cycles.
- Using regular monthly pay, where applicable, to determine UC awards
- Permitting monthly-paid claimants to change their assessment period dates.
- Allowing earnings to be averaged over three months to determine entitlement to passported benefits.
- Providing more information and tools for claimants so that they know in advance what they will get and can plan accordingly. [127]

Citizens Advice similarly argues that in the long term the "Government should explore a redesign of assessment and payment cycles", [128] but that short term changes should be considered such as expanding access to Alternative Payment Arrangements (see below) and allowing greater flexibly in assessment start dates. [129]

The Resolution Foundation makes similar recommendations for flexibility in assessment period start dates, and suggests that the DWP investigate the impact of more-than-monthly pay packets on volatility and living standards. However, even in 2018, it acknowledged that "ideal time for designing this flexibility into the system has undoubtedly long passed". [130]

126 Jane Millar and Peter Whiteford, University of Bath, Timing it right or timing it wrong: How should income-tested benefits deal with changes in circumstances? 18 December 2019

127 CPAG, Rough Justice: Problems with monthly assessment of pay and circumstances in universal credit, and what can be done about them, August 2018, section 2.3

128 Citizens Advice, Managing Money on Universal Credit, 6 February 2019, p41

129 Citizens Advice, Written Evidence for the Lords Economic Affairs Committee inquiry into the economics of Universal Credit, 28 February 2020

130 Resolution Foundation, Irregular Payments: Assessing the breadth and depth of month to month earnings volatility, 15 October 2018,

As the Resolution Foundation notes, monthly assessments are fundamental to Universal Credit's design. The DWP generally pushes back against criticism by pointing to problems with annual assessment of tax credits, and suggesting that alternatives to monthly assessment periods are unworkable. Nevertheless, both the Work and Pensions Committee and Lords Economic Affairs Committee suggested in 2020 that alternative models of income assessment should be considered.

In 2020, the Lords Economic Affairs Committee took evidence and explored a number of alternative proposals for assessment periods, while acknowledging that despite concerns about monthly assessments, “there is no consensus on how [reform] should be achieved.”

One idea presented to the committee was that of Gareth Morgan, Managing Director of the consultancy Ferret Information Systems, who proposes a “day-pay approach to assessing earnings”. This, he claims, could smooth incomes by using existing HMRC data to calculate a daily pay rate upon which awards could be calculated, avoiding arbitrary monthly fluctuations in assessed pay and award.[131]

The Lords Economic Affairs Committee itself recommended fixing awards for three-month periods, to create more security and certainty for claimants:

> 47. Claimants would have greater certainty and security of income if awards were fixed at the same level for at least three months. This may encourage claimants to increase the number of hours that they work as they would not face an immediate fall in benefit. We believe that this can be done using the current process of assessment but using it to reassess levels of award once every three months only.
>
> 48. One downside of this proposal is that if income falls significantly during the award period, claimants may struggle financially until their payments are increased at the next assessment. This could be managed by allowing claimants to report falls in income or disadvantageous changes in circumstances and have an earlier reassessment.
>
> 49. We recommend that the DWP assess this proposal, taking account of how this would work for out-of-work claimants as well as those in work.[132]

The DWP dismissed this idea, saying that the monthly assessment is a fundamental part of Universal Credit and that fixing awards over three-month periods would resurrect problems seen under tax credits:

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[131] See Gareth Morgan, Irregular UC and regular pay – A solution that also ends the 5 week wait? 24 March 2020

[132] House of Lords Economic Affairs Committee, Universal Credit isn’t working: proposals for reform, 31 July 2020, HL 105, pp18-19

> The UC assessment period and payment structure are fundamental parts of the UC design and is intended to mirror the world of work. This has been inherent in UC since its launch and, consequently, is not possible to adapt the existing structure without a complete overhaul of the system. Change of Circumstance advances are available to claimants who experience a sudden change of circumstance during an Assessment Period, and money is often made available within a matter of just a few days. Acknowledging the need to avoid payment shortfalls, in 2021 we will be increasing the time over which an advance can be repaid to from 12 to 24 months.
>
> UC is assessed and paid monthly, in line with the manner in which the majority of the UK workforce is paid. Around 75% of people are paid monthly, a proportion which has grown steadily over time as the economy shifts away from weekly or fortnightly paid jobs This is also how costs such as rent and other bills are usually accounted for.
>
> The committee recommends effectively locking in payment levels with a quarterly review. This is one of the key failures in the design of the Labour Government's tax credits, the impact of which is still felt when claimants move from tax credits to UC and carry debts with them. These debts are often unknown debts which may only materialise when an individual makes a claim to UC. Monthly payment of benefit helps prepare households to budget on a monthly basis and eases the transition into monthly paid work. It also makes it easier for households to take advantage of cheaper tariffs for essential costs such as utility bills. By changing to a 3 month fixed rate system, we are likely to repeatedly pay claimants an inaccurate amount, raising the incidence of over and underpayments, increasing the administrative cost of UC to the taxpayer and potentially resulting in greater shifts for household income. As such, the Department will not be taking this recommendation forward.[133]

The Work and Pensions Committee recommended that the DWP should assess Gareth Morgan's proposal:

> 231. The monthly assessment is a core part of design of Universal Credit for the Department and is the guiding reason behind the five-week wait and payment in arrears. Although the Department says that most people in the wider economy are paid monthly, there is evidence that a significant proportion of people moving onto Universal Credit were paid weekly or fortnightly in their previous job. Even for people who are paid monthly, the recent High Court and Court of Appeal cases which found against DWP show that a rigid assessment still causes fluctuations for claimants, financially disadvantages people and, in some cases, puts people off applying

[133] Lords Economic Affairs Committee, Government response to the Economic Affairs Committee report on the economics of Universal Credit, 15 October 2020, HL 105,

> for more stable work. But changing the monthly assessment period would entail a fundamental rebuilding of the entire Universal Credit system. That is not likely to be feasible in the short or even medium term. In the longer term, we would encourage the Department to consider in detail the proposals that have been made for systems that could more flexibly meet claimants' needs—especially for people who are not paid monthly.
>
> 232. We recommend that the Department assesses a model in which it estimates people's daily pay rate from data it already receives from HMRC, as suggested by Ferret Information Systems, and in which it would make payments from day one of the claim with reconciliation in month two. We request that the Department share information on what data that it receives from HMRC, including whether it knows how frequently people are paid, and makes clear what parts of its system are and can be automated.[134]

The Department's response, however, was that this would be difficult to operationalise and would likely lead to problems with overpayments and underpayments:

> The proposed system described by the Committee cannot easily be operationalised because, whilst you can conceptualise it for an individual case with regular earnings, you cannot reliably run it where earnings fluctuate (such as in zero hour contracts) or where there is more than one set of earnings data (such as in couple households where both maybe working, or individuals with more than one job). In these instances, the reconciliation would be challenging and likely to result in over and underpayments each month as earnings data is verified. This would lead to financial uncertainty and a poor customer service.
>
> HM Revenue and Customs sends information to the Department relating to UC claimants who are employed, this includes: gross taxable earnings less tax, National Insurance and pension contributions, pay dates and frequency of payments. This information is combined with any self-reported earnings and income to calculate awards of UC at the end of claimants' assessment period.[135]

The Government's resistance to changes to the monthly assessment period was discussed further at the March 2021 joint session of the Work and Pensions and Lords Economic Affairs committees. The Minister for Welfare Delivery, Will Quince, and the Universal Credit Senior Responsible Owner, Neil Couling, said that while Gareth Morgan's proposal might in theory work on a

[134] Work and Pensions Committee, Universal Credit: the wait for a first payment, 19 October 2020, HC 204, pp74-75

[135] Work and Pensions Committee, Universal Credit: the wait for a first payment: Government Response to the Committee's Third Report, 12 January 2021, HC1117, pp74-75

spreadsheet, it would not be able to run at volume. Neil Couling went on to describe further problems with delivering such a system:

> It is very clever and very attractive, but it just cannot be made to work. We have monthly assessment periods in the service for multiple reasons. One is that you have to bring the weekly and two-weekly paid into account and into the system. You need to decide to what period a change applies. For example, if a baby is born on the last day of your assessment period, you are paid as if that baby had been with you for the entire assessment period. Why do we do that? It is because that baby will need to be fed for the next month and so will need a month's worth of money.[136]

Monthly payments

Payments of benefit do not have to align with assessments of income. Tax credits, for example, are calculated on an annual basis but usually paid every four weeks or weekly. As explored below, a significant proportion of Universal Credit claimants, particularly in Scotland and Northern Ireland,[137] receive their payments twice a month.

However, in line with monthly assessments, the Coalition Government introduced Universal Credit as a single monthly payment, paid in arrears, that would cover all a household's needs. The thinking was that UC "prepares claimants for the world of work," where 75% of employees are paid monthly, and most large bills such as rent are also paid monthly.[138]

But this may not be the case for many low-income families. While only 15% of all employees are paid weekly or fortnightly, the DWP said in 2018 that it expected that the proportion would be closer to 30% among working UC claimants.[139]

Research into how benefit claimants manage their finances suggests that, rather than reflecting poor money management skills, short-term budgeting may be a rational strategy for making ends meet on a very low income. Kate Summers and David Young at the London School of Economics argue that the monthly payment cycle can undermine the budgeting strategies of low income people:

> The evidence shows that social security recipients have developed effective tools and processes to make ends meet while in receipt of meagre means-tested payments: the monthly payment design of UC pushes against many of these strategies. Moreover the

[136] Lords Economic Affairs Committee and Work and Pensions Committee, Corrected oral evidence: Reports—Universal Credit Isn't Working: Proposals for Reform, and, Universal Credit: the Wait for the First Payment, 9 March 2021, Q17

[137] Twice-monthly payments are the default in Northern Ireland and an option for all claimants in Scotland

[138] DWP, Alternative Payment Arrangements, 13 May 2020

[139] PQ 151086 12 June 2018

> earmarking tools and short-term orientations are sometimes seen as deficiencies to be fixed with money management education and training. Instead they should be recognised for what they are: astute responses to managing on a very low income.[140]

The Government also chose to pay housing support in Universal Credit by default to claimants, rather than landlords, breaking with past practice for claimants in the social rented sector:

> (b) The Government's intention is to pay universal credit to the claimant in the majority of cases. The Government believes that this policy will replicate the budgeting skills that people will need when working and will help to break the cycle of welfare dependency that is a feature of the current benefit system.[141]

Direct payment of the housing costs element of Universal Credit to social housing tenants is controversial. There is concern that it can result in increased rent arrears and impact on landlords' revenue streams. Private landlords, who have experienced direct payment of the Local Housing Allowance (LHA) to claimants since April 2008, have long campaigned for tenants to be given a choice over whether their housing costs are paid direct to the landlord or not. There is evidence that private landlords are increasingly unwilling to let to claimants who are fully or partially reliant on LHA to meet their housing costs.[142]

Single household payments also carry risks. As the Work and Pensions Committee has heard, paying UC as a single payment into one account can make it easier for perpetrators of domestic abuse to further harm and control their victims.[143]

Alternative payment arrangements

In order to help people who struggle with receiving single household monthly benefit payment, the DWP offers three kinds of Alternative Payment Arrangement (APA):

- paying the housing costs element of Universal Credit as a Managed Payment (MP) direct to the landlord
- more frequent than monthly payments
- split payment of an award between partners

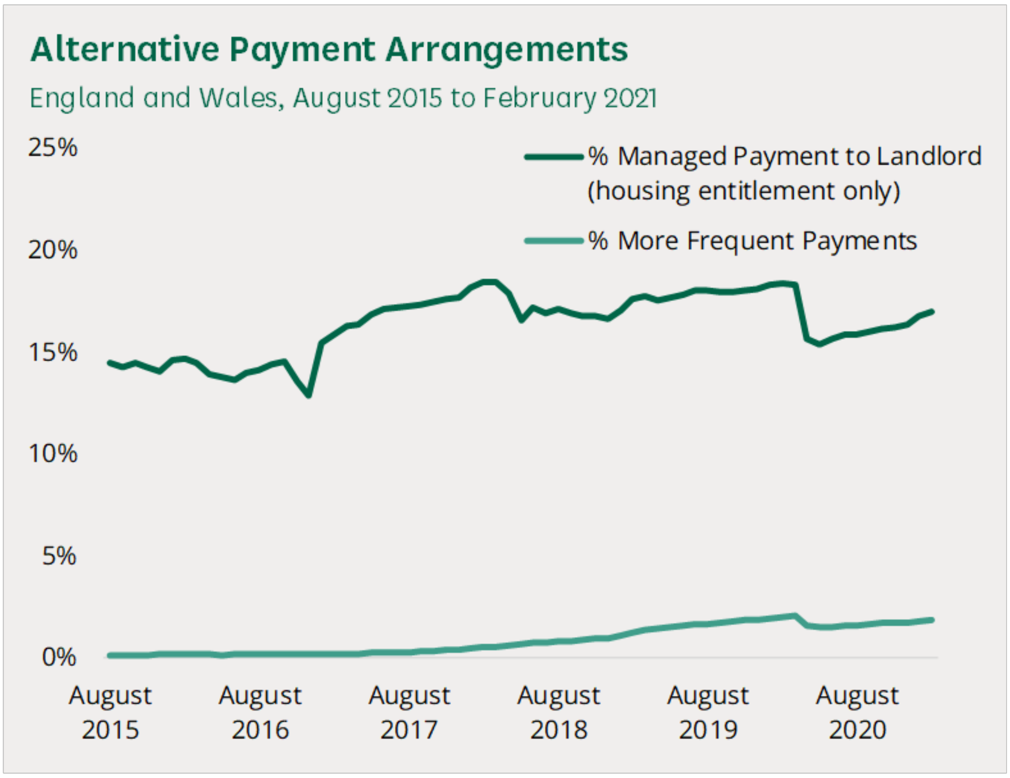
In England and Wales, APAs are possible, but only where claimants cannot manage single monthly UC payments and are at risk of 'financial harm'. The

[140] The alleged simplicity of Universal Credit and the lived experience of benefit claimants, Kate Summers and David Young, London School of Economics, 4 February 2019
[141] HC Deb 10 October 2011 c255W
[142] See Housing costs in Universal Credit, Commons Library Briefing Paper SN06547, 8 May 2019, pp9-10
[143] Work and Pensions Committee, Universal Credit and domestic abuse, 1 August 2018, HC 1166

Government still places emphasis on the idea Universal Credit should help people adapt to monthly budgeting.

In January 2019 the DWP announced new measures to improve access to APAs. These include making it easier for private landlords to request direct payment of rents, and trialling new ways to promote more frequent payments. The DWP also said it was looking at what more might be done to ensure that, for couples with children, household payments go directly to the main carer.[144]

In England and Wales, at least until the coronavirus pandemic, there had been some increase in the take up of managed payments to landlords since 2017, with around one in six claims with a housing element having one in place. There has also been a growth in more frequent payments, which are received by around 2% of all claimants.



Source: DWP Stat-Xplore

UC payment arrangements are not the same across the whole of the UK. Claimants in Scotland can choose to receive their UC payments twice a month and for their landlord to receive the housing element directly as part of the Scottish Government's 'Scottish Choices' programme.[145] The Scottish Government also plans eventually to split payments of UC to couples "to increase equality within the welfare system", although DWP officials say that

[144] DWP and The Rt Hon Amber Rudd, Universal Credit: personal welfare, 11 January 2019

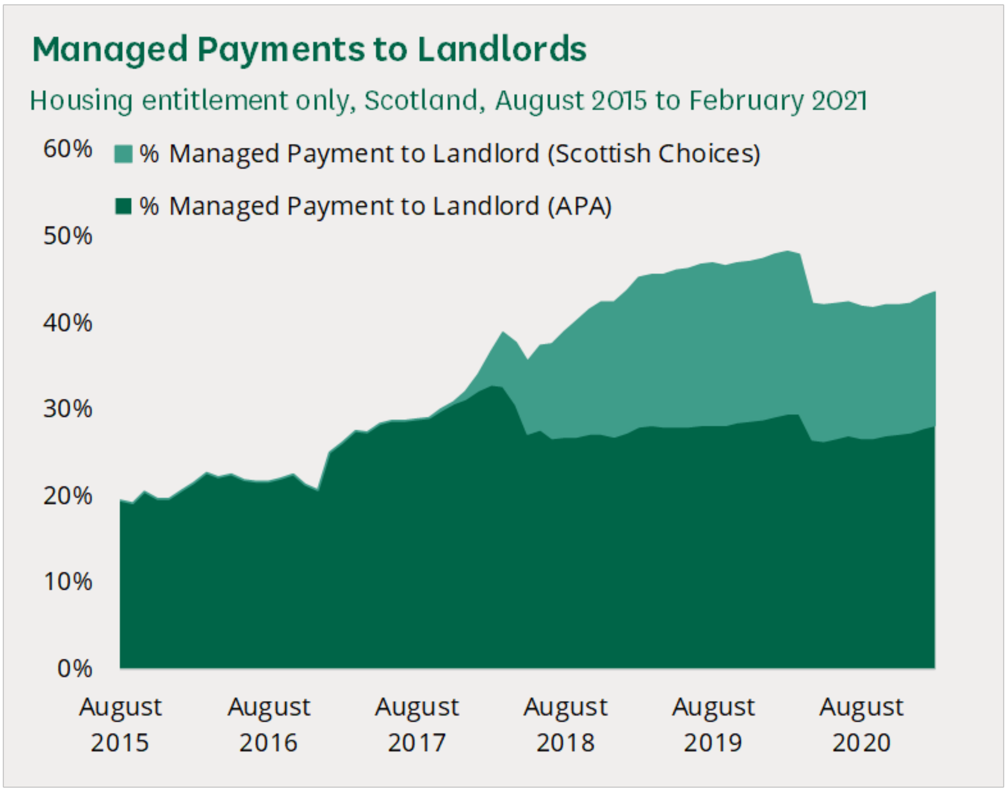
[145] For background see Scottish Government, Universal Credit Scottish choices: evaluation, 4 March 2021

they have not been able to find a workable policy for delivering this.[146] In addition to these choices, Alternative Payment Arrangements are also available in the same way as in England and Wales.

In Northern Ireland, twice-monthly payments and direct payments to landlords are the default, and evidence suggests very few claimants have opted out.[147]

The rules in Scotland have led to significantly higher take up of managed payments to landlords and more frequent payments, with nearly half of claims including a housing costs element choosing direct payments to landlords and around a quarter getting more frequent payments in the period up to the pandemic.

Very few households have ever received split payments, with just 179 in Great Britain getting them in February 2021.[148]

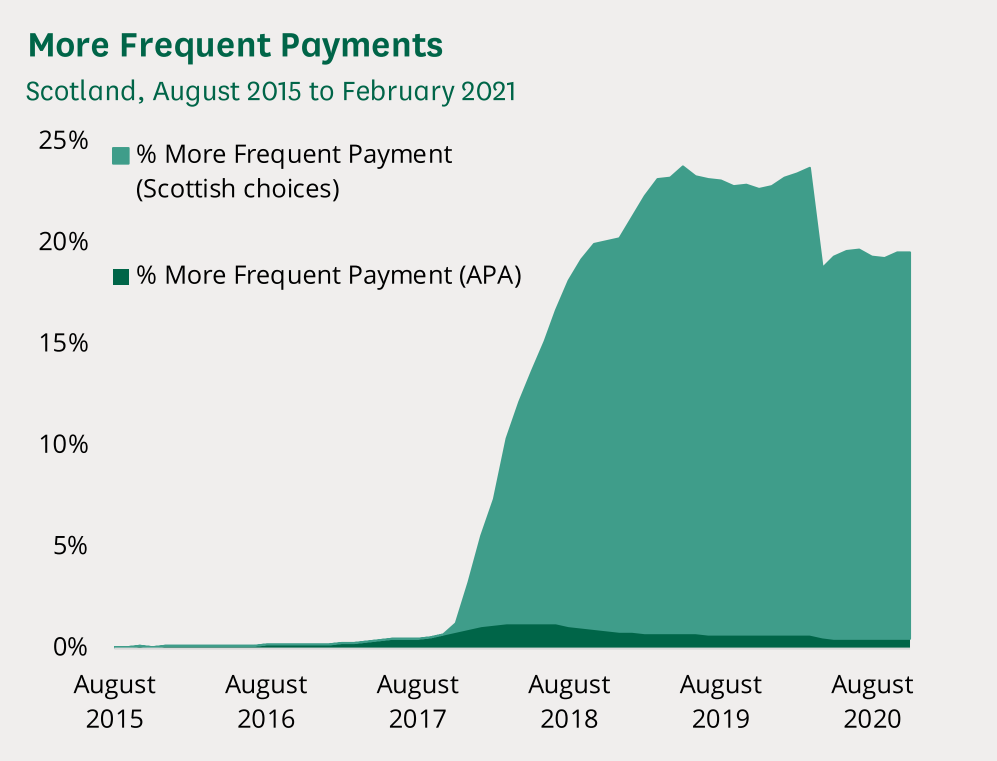


Source: DWP Stat-Xplore

[146] Lords Economic Affairs Committee and Work and Pensions Committee, Corrected oral evidence: Reports—Universal Credit Isn't Working: Proposals for Reform, and, Universal Credit: the Wait for the First Payment, 9 March 2021, Q18

[147] Letter from Anne McCleary, Director of Social Security Policy & Legislation at the Department for Communities, to Stuart Ramsey, Second Clerk of the Work and Pensions Committee, 13 August 2019

[148] Source: DWP Stat-Xplore



Source: DWP Stat-Xplore

An April 2021 Scottish Government evaluation of Scottish Choices found that both managed payments to landlords and more frequent payments had positive impacts, but "cannot overcome all the perceived problems with the Universal Credit system – in particular, they cannot address the overall level of Universal Credit payments (which falls outwith the power of the Scottish Government to change)." The study also found that awareness for Scottish Choices was low, and that there is evidence of confusion around how they work, resulting in some negative impacts.[149]

In Northern Ireland, twice monthly payments and direct payments to landlords are the default. Split payments are available on request.[150] The Permanent Secretary of the Department of Communities reported in February 2019 that the "overwhelming majority" of UC claimants in Northern Ireland receive their payments fortnightly.[151] 71% of Northern Irish households claiming Universal Credit in February 2021 had a payment made directly to their landlord.[152]

The DWP has faced frequent calls to expand access to APAs or adopt the approaches to payment flexibility taken in other parts of the UK, allowing claimants to choose. In response to such a recommendation by the Lords

[149] Scottish Government, Universal Credit Scottish choices: evaluation, 4 March 2021

[150] See Social security powers in the UK, Commons Library Briefing Paper CBP-9048, 9 November 2020, Section 5.4

[151] Letter from Permanent Secretary, Department for Communities NI, to Chair of the Work and Pensions Committee, 11 February 2019

[152] Department for Communities, Universal Credit Statistics - February 2021, 26 May 2021, Table 3b

Economic Affairs Committee,[153] the Government rejected the idea, reiterating the argument that both monthly household payments and the requirement for claimants to pay rent themselves engenders financial responsibility:

> UC encourages all claimants to take responsibility for their own financial affairs and helps them to develop the financial capability to do so. Therefore, households are expected to manage their own budgets, unless this risks financial harm to themselves and/or their family. By default, as the Committee knows, UC is paid monthly, mirroring how the majority of the working population are paid. However, where it is identified that a claimant is finding it difficult to budget monthly, they can have their UC paid more frequently, for example: twice monthly or, exceptionally, four times a month.
>
> Our guidance to Work Coaches is already clear that where claimants may struggle with budgeting or debt, financial guidance and/or debt advice should be offered, and APAs should be considered. Each claimant will have a named Work Coach with whom a trusted relationship can be forged. This localised approach allows for appropriate support, which can be delivered by the Department or its partners, to be tailored to the needs of the individual claimant.[154]

[153] House of Lords Economic Affairs Committee, Universal Credit isn't working: proposals for reform, 31 July 2020, HL 105, p20

[154] Work and Pensions Committee, Universal Credit: the wait for a first payment: Government Response to the Committee's Third Report, 12 January 2021, HC1117, p3

6 Deductions

The DWP has the power to make direct deductions from benefit payments to pay certain debts and costs owed by claimants. This can include money owed to the Government due to a benefit overpayment or loan, or to a third party such as a landlord, utility provider, local authority, and the courts.

Universal Credit broadly replicated the rules which applied in legacy benefits. However, recoveries of advances and tax credit overpayment debt have been common under Universal Credit. Welfare rights organisations and others have argued that the level of deductions is creating hardship.

In response, the Government has reduced the cap on the total amount that can be deducted, and increased the period of time claimants have to repay advance payments. They argue, however, that deductions help claimants to manage their finances, and that a balance has to be found between helping people out of debt and affordability.

Universal Credit deduction rules

Third party deductions were introduced in the benefits system in the 1970s, originally in response to fuel supply disconnections due to arrears. Over time, the provision was expanded to include other items such as housing costs, rent arrears and Council Tax debt, as well as social obligations such as court fines and child maintenance. In addition to third party deductions and social obligations, the Government can recover money owed in advances, benefit overpayments or Social Fund loans.

The rules in Universal Credit are complicated, and each different type of deduction from Universal Credit can be made at a specified level, or within a range.

Deductions are generally calculated in relation to the claimant's standard allowance – i.e. the basic amount of UC for the adult(s) in the household – and not the household's actual total UC award, or their maximum UC award before the taper is applied. For a single claimant over 25 in the 2021-22 financial year, the standard allowance is £411.51 per month – although this sum will fall to £324.84 if current plans to end the temporary £20-a-week increase to the standard allowances in October 2021 go ahead (following the six month extension of the uplift announced in Budget 2021).[155]

For many deduction types, the Universal Credit rules replicate the amounts that could be taken in legacy benefits. For example, fuel, water and Council

155 Commons Library Insight, Budget 2021: Social security measures, 09 March 2021.

Tax arrears can be deducted at £3.75 a week from IS, JSA or ESA in 2021-22[156] - equivalent to 5% of the Universal Credit standard allowance for a single person.[157]

In other areas, maximum amounts of deduction diverge from this amount. Rent arrears (and service changes included in rent), for example, have a minimum deduction rate of 10% and a maximum of 20%.

Two of the most impactful changes in Universal Credit compared to the legacy system relate to the two most common forms of deductions:

- First, more than half of Universal Credit claimants take out New Claim Advances during their wait for a first payment. These are usually recovered by deductions in equal instalments of up to 24 months (although this may vary if in some months if the claimant doesn't have enough UC to cover the instalment). This was extended from 12 months in April 2021.[158]
- Second, under the Welfare Reform Act 2012 and later regulations, any outstanding tax credit debt is transferred to the DWP when claimants move to Universal Credit, allowing the DWP to recover tax credit debts by any of the methods available to it to recover debts it is owed.[159] For most claimants this means that overpayments will be recovered at a rate of 15% of the standard allowance if they are not in employment, and 25% if they are. This will usually happen automatically, and does not require claimant consent.[160] The recovery rules from continuing tax credit and legacy benefit claims are complex,[161] but the powers available to HMRC and to the DWP are generally less extensive than when a person claims Universal Credit.

Maximum amounts

No deduction is made if it would reduce the monthly amount of Universal Credit payable to less than 1 pence. Deductions are taken in a priority order which places rent arrears above fines and compensation orders, although certain types of deductions (such as fraud penalties, sanctions, and advance repayments) are taken before the priority order is applied.[162]

Currently, the maximum amount deducted cannot usually exceed 25% of their standard allowance. This was reduced from 40% in October 2019. 40% is still

[156] See DWP, Benefit and pension rates 2021 to 2022, 29 March 2021
[157] Excluding the temporary coronavirus-related uplift
[158] GOV.UK, Universal Credit advances, updated 19 April 2021
[159] Section 126 of the Welfare Reform Act 2012
[160] See RevenueBenefits, Universal credit: Tax credit debt, 2 June 2020
[161] See RevenueBenefits, Tax Credits: Dealing with overpayment debt, 3 November 2020
[162] DWP, Universal Credit Guidance: Deduction Priority Order v5.0, 26 April 2021

prescribed in the legislation,[163] but the DWP's Advice for Decision Making guidance explains that current policy is to limit deductions to a lower rate.[164]

However, the maximum figure can be exceeded in certain circumstances. Broadly speaking there are two exceptions to the maximum amount rules:

- If any additional amounts are being deducted for ongoing consumption for people with fuel or water debts, these additional amounts will not count towards the 25% maximum
- If a sanction or penalty needs to be applied, or an advance need to be deducted, last resort deductions will continue even if it means the total amount exceeds the 25% maximum.
- Additionally, where there is only one deduction required, then that item's maximum deduction rate is taken.[165]

In the March 2020 Budget, the Government announced that the maximum deductions rate would fall again to 25% of the standard allowance, from October 2021.[166] In the March 2021 Budget, the Government brought this forward, to April 2021.[167]

Impact of deductions on claimants

For Universal Credit claimants with a payment due during November 2020, 44% had a deduction. The total amount was around 5% of the total amount of UC paid that month, with an average of £78 deducted per claim.[168] Pre-pandemic (in November 2019), the proportion of all UC claimants with a payment who had a deduction was 58%.[169]

The most common forms of deduction are for the recovery of Universal Credit Advances, which applied to 33% of all claims in December 2020, and tax credit overpayments, which applied to 10% of claims. These figures were generally higher before the pandemic.[170]

While certain deductions for the recovery of UC and legacy benefit overpayments, Social Fund loans, and tax credit debts from Universal Credit were paused from 3 April 2020[171] to July 2020[172] as part of the Government's response to the initial outbreak of coronavirus, other deductions (such as

163 Part 4, Schedule 6 of The Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payments) Regulations 2013, SI 2013/380
164 DWP, Advice for Decision Making Chapter D2: Third Party deductions UC, JSA & ESA, 18 June 2021, D2038
165 See DWP, Universal Credit Guidance: Deductions v9.0, 26 April 2021
166 HM Treasury, Budget 2020, 12 March 2020, para 1.180
167 HM Treasury, Budget 2021, 3 March 2021, para 2.23
168 PQ 156460 22 March 2021
169 PQ 20637 25 February 2020
170 PQ 183059 19 April 2021
171 DWP, Recovery of benefit overpayment suspended, 3 April 2020
172 See Rightsnet, DWP to recommence recovery of benefit related overpayments and social fund loans, 6 July 2020

advance repayments) continued to be made, with 40% of UC claims in May 2020 experiencing a deduction, 86% of which were advance repayments (with an average deduction of £60).[173]

Various campaigning organisations, think tanks, and other stakeholders have reported findings about the proportion of Universal Credit (and other benefit) claimants subject to deductions:

- According to a StepChange report published in January 2020 ('Problem debt and the social security system'), people on UC were more likely to experience deductions than those on legacy benefits. In answer to a StepChange survey, 54% of clients claiming UC had at least one deduction from their award, compared to 36% of people on legacy benefits.[174]
- The National Audit Office found in a report published in July 2020 that 80% of "low-income households" on Universal Credit, and 67% of people with a disability or health condition, had a deduction from their first payment.[175]
- The Trussell Trust found in a report published in November 2019 that 40% of people referred to their food banks said that their benefit income was subject to deductions.[176] In a subsequent report published in December 2020, it found that nearly half (47%) of households referred to food banks during the summer of 2020 "owed money to the Department for Work and Pensions" – and that 73% of people receiving UC were repaying an advance (up from 51% before the pandemic).[177]
- The social policy commentator and historian, Nicholas Timmins, estimated in his February 2020 report on Universal Credit that almost 20% of UC claimants were experiencing deductions which were not subject to the then overall maximum cap of 30% (such as last resort deductions, outlined above) and were therefore experiencing deductions exceeding 30% of their standard allowance.[178]
- A Joseph Rowntree Foundation report on destitution published in December 2020 found that half of people surveyed experiencing destitution were claiming or had applied for Universal Credit, and that debt deductions were a key driver of destitution.[179]

173 PQ 88351, 10 September 2020
174 StepChange, Problem debt and the social security system, p7
175 National Audit Office, Universal Credit: getting to first payment, 10 July 2020, p9
176 The Trussell Trust, State of Hunger: A study of poverty and food insecurity in the UK, November 2019, p70
177 Trussell Trust, Lift the Burden: Tackling the Government Debts Facing People at Food Banks, 1 December 2020
178 Nicholas Timmins, Institute for Government, Universal Credit: getting it to work better, February 2020, p13
179 Joseph Rowntree Foundation, Destitution in the UK 2020, December 2020

Reforms to deductions policy

Lowering the overall maximum deduction cap

As noted above, the Government has successively lowered the cap on the amount that can usually be deducted from Universal Credit payments from 40% to 25% of the standard allowance. Nonetheless, there have been calls to go further than this. For example, In July 2020 the Work and Pension Committee recommended that the cap be reduced to 10% of the standard allowance:

> The Department should strive to bring in the extension to the repayment period and lowering of the deduction cap sooner than planned, no later than April 2021— recognising the likely increase in the numbers of claimants over this winter. We also recommend that the deduction cap should be reduced further, to 10%, in recognition of the fact that deductions are taken from an income already set at subsistence levels. If this acceleration involves deprioritising other planned changes or developments in the build programme, the Department should set out what these are and provide a revised timescale for their introduction.[180]

The Work and Pensions Committee went on to recommend that the rules regarding deductions in excess of the cap in certain situations be tightened:

> DWP should ensure that claimants never face deductions in excess of the usual cap, and should use the data that it has on "last resort" deductions to help claimants tackle their debt problems without reducing their Universal Credit award further.[181]

In its response published in January 2021, the Government refused, however, to reduce the deduction cap lower, arguing:

> There will always be a balance to be struck between setting the deduction cap and ensuring we have adequate protections in place for some of our most vulnerable claimants who struggle with managing their money. Lowering the deduction cap further would not be an effective way to protect vulnerable claimants and is an important element in protecting and preventing claimants from consequences such as utility disconnection, eviction and homelessness and it is that consideration that influences how low any cap on deductions can realistically be.
>
> The Department will continue to review its deduction policy to ensure social obligations are met, debt is repaid and – crucially - claimants

[180] Work and Pensions Committee, Universal Credit: the wait for a first payment, 19 October 2020, HC 204, para 110
[181] Ibid, para 111

> continue to be protected from the very worst consequences of not addressing priority debts.[182]

In response to the Committee's recommendation that the DWP ensure that "claimants never face deduction in excess of the usual cap", the Government's response reiterated its existing policy:

> The Department's deductions policy strikes a fair balance between a claimant's need to meet their financial obligations and their ability to ensure they can meet their day-today needs. Since October 2019, UC deductions are a maximum of 30% of a claimant's standard allowance down from 40% previously. We also recognise the importance of safeguarding the welfare of claimants who have incurred debt, so last resort deductions over the 30% cap can be applied to protect vulnerable claimants from eviction and/or having their fuel supply disconnected, by providing a repayment method for arrears of these essential services.
>
> Fraud penalties and conditionality sanctions reductions can be applied before third party deductions are considered. As certain third party deductions prevent such consequences as utility disconnection, eviction and homelessness, these last resort third party deductions are not subject to the deduction cap to safeguard the claimant by continuing to make repayments.
>
> The Department operates a well-established system of hardship payments, benefit advances and budgeting advances for those who need extra support during times of acute need. Claimants in need of advice can approach their named Work Coach or Case Manager to determine what support is available to meet their needs.[183]

As noted above, however, in Budget 2021, the Government brought forward the reduction in the overall deductions cap to 25% to April 2021.

In evidence to a joint session of the Work and Pensions Committee and the Lord Economic Affairs Committee in March 2021, Neil Couling, the DWP's Senior Responsible Owner for Universal Credit, provided further information on the Department's policy on deductions and gave reasons why lowering the overall cap for the rate of deductions might harm vulnerable claimants:

> [...] if you look at what deductions are for and you constrain the ability to take them, there might be bad outcomes for individuals from that. Some obvious ones are electricity and gas, which are not covered by the 25% cap, but court fines are. If you do not pay your court fine, eventually the court will chase you down and say, "It's time for you to go to prison".

[182] Work and Pensions Committee, Universal Credit: the wait for a first payment: Government Response to the Committee's Third Report, 12 January 2021, HC117, p5

[183] Ibid. p5-6

> There is a whole series of things. The Minister alluded to rent arrears, and landlords, particularly private landlords, do not have to rent to benefit claimants. They will carry on renting if they think they will get any arrears back. If by reducing the cap we remove landlords' ability to get rent arrears paid, they might stop renting, which would not be in the interests of some vulnerable claimants.
>
> There is a difficult balance to strike with 40%, which was the original level and the level of deductions across the old legacy system. I am often criticised about universal credit next to the legacy system. That was the actual level of deductions taken in total across the legacy system. They have come down to 30%. They are coming down to 25% in April, and I think we are reaching the limit of how far you can take those without tipping the balance the other way and putting claimants at different forms of risk—of being imprisoned or losing their homes and so on.[184]

Reducing the maximum level of court fine deductions

Prior to April 2021, deductions could be taken from Universal Credit to repay court fines at a minimum of 5% of the standard allowance and a maximum of £108.35 a month.[185] In practice, fines were often taken as the maximum rate because guidance issued to decision makers was more restrictive, requiring that "[w]hen there is only one deduction required, that item's maximum deduction rate is taken."[186]

A legal challenge on behalf of four claimants, R (Blundell & Ors) v Secretary of State for Work and Pensions,[187] argued that the regulations allow the DWP discretion in setting the level at which court fines are deducted, but that the guidance was preventing the use of this discretion. On 17 March 2021, the High Court agreed that they guidance was "unlawfully fettering her [The Secretary of State for Work and Pensions'] discretion to decide, where necessary in individual cases, how much to deduct from a person's universal credit to pay off fines imposed under the criminal law." [188]

The DWP did not appeal the decision and subsequently changed its guidance so that court fines are now deducted at a maximum of 5% of the standard allowance.[189]

[184] Lords Economic Affairs Committee and Work and Pensions Committee, Corrected oral evidence: Reports—Universal Credit Isn't Working: Proposals for Reform, and, Universal Credit: the Wait for the First Payment, 9 March 2021, Q8

[185] This is set out in regulation 4(1A)-(1C) of the Fines (Deductions from Income Support) Regulations 1992, SI 1992/2182, as amended

[186] DWP, Universal Credit guidance: Deductions v.9.0v, 26 April 2021, paras16-21

[187] [2021] EWHC 608

[188] See also High Court rules DWP's universal credit deductions policy unlawful, Shelter blog, 17 March 2021

[189] See DWP, Benefit overpayment recovery guide, 12 May 2021, Appendix 4

Including deductions in the "breathing space moratorium" scheme

In May 2021, regulations came into force providing eligible individual debtors with problem debt a period of protection from their creditors known as a "breathing space moratorium". The aim is to give people the time to access professional debt advice, without the stress caused by spiralling debt and impending enforcement action.[190]

At the time of publication, the breathing space rules can stop certain deductions from DWP legacy benefits, but existing Universal Credit deductions are not included.[191] The Government plans to include third party deductions and Universal Credit advances in the Breathing Space on a phased basis following the commencement of the wider scheme".[192]

Further proposals for reform

Introducing payment flexibility and affordability assessments

In evidence to the Work and Pensions Committee's inquiry on the wait for a first payment of Universal Credit,[193] various campaigning organisations, including StepChange, the Trussell Trust, and the Joseph Rowntree Foundation called for the introduction of "affordability assessments" before deducting money to claimants to determine if they will be able to afford repayments. This would adhere to Financial Conduct Authority regulations.[194]

In response, Neil Couling told the Work and Pensions Committee that this would sacrifice the ability to get money to people quickly, noting in evidence to the committee on 15 July 2020:

> I get where you are coming from, wanting to protect claimants. We will make them very aware that they are going to have to pay this money back, but we are trading speed and immediate response to destitution threats against how long such a process you are talking about is going to take to see through.[195]

Campaigning organisations have also called for the DWP to take "a more individualised" approach to advance repayments, rather than what it characterised as its current "one size fits all" approach. In particular, the

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[190] See Debt Respite Scheme – a breathing space for those in debt, Commons Library Briefing Paper CBP-9256, 9 June 2021

[191] DWP, Stop and restart deductions from benefits under the Debt Respite Scheme ('Breathing Space'), 6 May 2021

[192] PQ 3708 28 October 2019 and PQ 17855 22 June 2021

[193] Work and Pensions Committee, Universal Credit: the wait for a first payment, 19 October 2020, HC 204

[194] See for example StepChange, Written evidence from StepChange to the Work and Pensions Committee inquiry into the wait for a first payment, April 2020,

[195] Work and Pensions Committee, Oral evidence: Universal Credit: the wait for first payment, 15 July 2020, HC 204, Q274

Trussell Trust and StepChange published a report in 2019 which called on the DWP to replicate best practice in the private sector:

> In the private sector, it's best practice for consumer credit firms and debt collectors to complete an income assessment of the person and then set repayments at a level that won't push people into hardship. But that is not how Advance Payments work–deduction levels are set at fixed levels by the DWP and these can be hard to challenge, even if you fall into financial hardship while repaying.[196]

A range of organisations, such as the Trussell Trust[197] and the Centre for Social Justice (CSJ)[198] have called on the Government to introduce a Government Debt Management Bill which would introduce individual affordability assessments. The CSJ has called for this to be accompanied by a reduction in the maximum level of third-party deductions to 10%:

> Introduce affordability assessments into the benefits deductions process to ensure that deductions are implemented in a way that is affordable to the claimant. The DWP should make an affordability assessment based on SFS [Standard Financial Statement] data captured by a JobCentre work coach (or as agreed with a regulated third party) to determine what level of deduction should be applied to the claimant given their circumstances. Where appropriate, this should be referred on to the debt aggregator in the Cabinet Office Debt Management Function in order to consolidate multiple debts owed to the government and private debts subject to deductions, such as utility bills and rent arrears.
>
> Reduce the maximum level at which third-party debts and benefit overpayments can be recovered to 10 per cent of the standard allowance. The 10 per cent maximum level should be set in order to protect the effectiveness of the welfare system to provide financial support for those in need (without simply recovering it back through deductions), while retaining fairness for creditors where debts need to be repaid. This is already the case where some housing associations have requested that the DWP lower deductions so that debt is recovered more sustainably and proportionately from their residents. It is imperative, however, that this is not the automatic rate of recovery, and that these deductions are made at a claimant level corresponding to an affordability assessment as recommended above.[199]

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196 StepChange and the Trussell Trust, Hardship now or hardship later? Universal Credit, debt and the five week wait, June 2019, p

197 Trussell Trust, Lift the Burden: Tackling the Government Debts Facing People at Food Banks, 1 December 2020

198 Centre for Social Justice, Collecting dust: A path forward for government debt collection, April 2020

199 Centre for Social Justice, Collecting Dust: A path forward for government debt collection, April 2020, p16

This echoes previous calls from other organisations, such as Citizens Advice.[200]

Writing off historic tax credit debt

Tax credits have long had significant levels of overpayments[201] which create debts that are usually not written off even if they were incurred many years previously.

The DWP has greater powers to recover debts than HMRC, particularly when a Universal Credit claim is in payment. When someone with tax credit debt claims Universal Credit, the debt is transferred to the DWP, who can recover it from ongoing Universal Credit payments or from earnings. This process is automatic and supersedes any existing payment plans the claimant may have had with HMRC.[202] By June 2021, approximately £3 billion in tax credit debt had been transferred to DWP, relating to 2.4 million Universal Credit claimants. HMRC forecasts that a further 2.4 billion tax credit debt will transfer to DWP in the future.[203] Recovery of overpayments from Universal Credit is common. Prior to the pandemic, when such deductions were temporarily paused, around one in six UC claims had a deduction for a tax credit overpayment each month.[204]

Various organisations have also called for the Government to write off historic tax credit debt which owed by Universal Credit claimants. In particular, the House of Lords Economic Affairs Committee said in its July 2020 report, 'Universal Credit Isn't Working: Proposals for Reform':[205]

> 159. Many people are unaware that they have tax credit debts and often the overpayments they have received were not their fault. Using Universal Credit to recover historic debts has left many households with an income well below that to which they are entitled.
>
> 160. The Government should write off historical tax credit debt owed by Universal Credit claimants. We believe that the £6 billion of tax credit debt should be treated as a sunk cost—it is highly unlikely to be repaid in full, and the Government should not jeopardise the financial security of claimants in pursuit of it.

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[200] See Citizens Advice, Managing Money on Universal Credit, February 2019, pp 30-31

[201] For the latest data on overpayments resulting from changes in earnings during the course of an award see: HMRC, Child and Working Tax Credits statistics: finalised annual awards, supplement on payments - 2017 to 2018, 31 July 2019, Table 1; for overpayments resulting from fraud and error see HMRC, Child and Working Tax Credits error and fraud statistics 2018 to 2019, final estimate, 15 April 2021

[202] See DWP, Tax credits debt in Universal Credit, 18 April 2016 and the GOV.UK website (accessed 21 June 2021)

[203] PQ HL55 8 June 2021

[204] PQ 16144 21 June 2021

[205] House of Lords Economic Affairs Committee, Universal Credit isn't working: proposals for reform, 31 July 2020, HL 105, para 159-160

The Government stresses that there is a need to "protect public funds and to ensure that, wherever possible, overpayment and penalty debt is recovered."[206] The Government's response to the Lords Economic Affairs Committee's report said, in relation to this particular recommendation:

> The Department acknowledges the impact on claimants moving from one benefit to another can bring and considers that more should be done to manage under and overpayments while in tax credits. We will continue our discussions across Government on how to better manage this.[207]

The Centre for Social Justice has also previously called for the transfer of tax credit debt to the DWP to be reversed, with tax credit debt older than three years to be written off. It has suggested that the remaining portion be retained by HMRC and recovered by a new system modelled on student debt recovery "where individuals only begin to pay it back in instalments when their earnings reach a specific threshold".[208]

Reforming advance payments

In August 2020, 68% (£88.2 million) of the total deducted from Universal Credit payments (£129.1 million) was taken to repay advance payments.[209] This will have been higher than usual because of the pauses in certain other deductions. Nonetheless, recommendations to replace the current system of advance payments with non-repayable alternatives (see above) would, if adopted, have a significant impact on the burden future claimants would face.

[206] See DWP, Benefit overpayment recovery guide, 12 May 2021; PQ HL55 8 June 2021

[207] Lords Economic Affairs Committee, Government response to the Economic Affairs Committee report on the economics of Universal Credit, 15 October 2020

[208] Centre for Social Justice, Collecting Dust: A path forward for government debt collection, April 2020, p15

[209] PQ122792 30 November 2020