Universal Credit: the problem of delay in benefit payments

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By Carl Packman

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Introduction

One of the more controversial aspects of Universal Credit is the introduction of a new seven-day waiting period before an individual qualifies for benefit. What is more, people on Universal Credit will have to endure a wait of one calendar month while their entitlement is calculated, and then a further seven-day wait for payment into their account, which will produce a total wait of at least five weeks before they receive any money. Given the cuts and new conditions to local welfare assistance, this wait drastically increases the risk to the claimant of hardship. They risk rent arrears, food shortages and debt. Of particular concern is the increased risk claimants will fall back on payday loans, which can leave them in dangerous debt cycles.

The Department for Work and Pensions (DWP) has admitted that more people on Universal Credit will take on debt than claimants in the current system, and that average debt levels will also be higher.[1] This short report looks at what changes are taking place to the welfare system, the preparedness of the DWP to deal with complications in the migration to Universal Credit and examples of hardship that are already caused by benefit delay. It concludes by setting out a number of recommendations.

The policy changes being introduced by the government

Universal Credit

Universal Credit is a new benefit that brings together six existing benefits into one. It will eventually come to replace:

- Income-based Jobseeker's Allowance
- Income-related Employment and Support Allowance
- Income Support
- Working Tax Credit
- Child Tax Credit
- Housing Benefit.

It is the outcome of radical thinking regarding changes to the welfare system, in large part influenced by work at the Centre for Social Justice.[2] The stated intentions of Universal Credit are to: simplify the benefits system; make work pay; encourage people to take more responsibility over their own money; set a precedent for financial inclusion in the future; and to ensure benefit claimants stay work-ready. Claims are to be made as a household; two individuals of a couple, for example, will be required to make a claim as one. Claims for Universal Credit will also be made online as standard and contact between recipients and the DWP, and other agencies thereafter, will be made online. Furthermore, claimants will be obliged to have their payments made into a bank account, building society account or an alternative provider such as a credit union.

Payments of Universal Credit will be on a monthly basis and if a household is in receipt of housing benefit then it will automatically be sent to the claimant rather than the landlord.

Universal Credit is being piloted in a number of areas, with the expectation that anybody who claims benefits come 2017 will automatically be placed on UC. The Universal Credit pathfinder areas are Tameside, Wigan, Warrington, and Oldham, which were all supposed to begin in April 2013. But all except Tameside began in July due to IT complications. The pilots only include the very simplest cases such as single people with no children. By October 2013 there should also have been a managed introduction of Universal Credit in London's Hammersmith and Fulham, Rugby, Inverness, Harrogate, Bath, and Shotton (the so-called "hub jobcentres"), but in the event only Hammersmith and Fulham went live.

An issue of increasing salience is the toughening up of rules on 'sanctions' (penalties for breaking the UC rules). As another TUC report on Universal Credit stated, penalties for failing to comply with the new conditionality regime will be tougher and imposed sooner than is currently the case.[3] Under UC, people will lose benefits for three months for a first offence, six months for a second offence and three years for a third offence. This comes at a time when DWP data shows sanctions rising. In the quarter to June 2013 around 12 per cent of jobseekers were referred for sanction, compared to 2007 when less than eight per cent of jobseekers were. One former Labour Minister at the DWP has said that while government ministers have said there is no policy of sanctions, Jobcentre Plus employees fear the prospect of job losses themselves and can often see imposing sanctions as a way to please their bosses – who are themselves under pressure to save money.[4]

One of the more controversial aspects of Universal Credit is the introduction in April 2015 of a new seven-day waiting period before an individual can claim benefit that will never be paid back. This will be introduced for Jobseekeer's Allowance and Employment and Support Allowance in October 2014 and extended to Universal Credit in April 2015.

What is more, most claimants will face a long delay before they receive their first payment. After claiming (and waiting seven days to become entitled), there will be a one calendar month (that is, usually about four and a half weeks) assessment of how much Universal Credit the claimant is entitled to. Following this, claimants will have to wait a further seven days until payment is received, bringing the total waiting period to at least five weeks from the first day when the claim was made. If the seven waiting days are in addition to the assessment period and further delay, the wait for first payment will be at least six weeks. (This issue had still not been decided by Ministers when we went to press.) This delay has the potential to be especially damaging for those newly out of work, trying to control their finances without recourse to debt or rental arrears. Even DWP's own analysis of the impacts on JSA and ESA claimants demonstrates that substantial numbers of claimants will be at risk of financial hardship as a result of this measure, with disabled people particularly badly affected.[5]

Are benefit claimants better off under Universal Credit?

For a policy change predicated on the assurance that few taking it up will be worse off, there has been a long debate about what the actual benefits of Universal Credit are, and for whom. The government has always said that 3,100,000 people will be better off, 2,400,000 will experience no change, and 2,800,000 will be worse off on Universal Credit.[6] One report by *The Guardian* pointed out that of the 2,800,000 hardest hit 800,000 will lose an average of £137 per month and 300,000 will lose as much as £300 per month.[7] As a Joseph Rowntree Foundation report on UC pointed out in July 2013, those without children fall furthest below a minimum income if they do not work, but also find it easiest to get above this standard by working, particularly if they live as couples.[8] Looking at this in 2011, the Institute for Fiscal Studies pointed out that on average couples with children will gain more (in cash and as a percentage of income) than couples without children, who will gain more than single adults without children. It is lone parents who will on average lose out in the long run, though the report also points out that there will be winners and, in the end, losers amongst all family types.[9] One group clearly at a disadvantage will be single people with no work, who will find themselves with less than half of what they need – just under 40 per cent of the Minimum Income Standard[10] requirements after rent and council tax.[11]

Universal Credit is a single payment, replacing several separate benefits. This makes assessing it easier for claimants to assess their personal circumstances when working out whether going into work will pay or not; but it is not without its risks. While UC allows single parents, for example, to earn around £60 per week, if any more than this is earned then benefits will drop significantly while childcare costs will go up.[12] Overall, working some hours rather than none on Universal Credit will typically be better for claimants, but people already working in low-paid jobs may be worse off. Furthermore, the wider reduction in entitlements from welfare reform undermines any positives about UC.

Wider welfare changes

The gradual movement towards Universal Credit takes place while there are ongoing changes in general to the welfare system. George Osborne's Autumn Statement in June 2013 made clear that welfare spending would be where he would continue to target his cuts. On the same day that he gave the highest earners an average tax cut of £100,000 The *Telegraph* ran an article with the dystopian headline: "Britain can no longer afford welfare state".[13] In brief, those significant changes to the welfare system include:

- Work Capability Assessments for those receiving Incapacity Benefit with those found capable of work migrated to Jobseekers' Allowance (beginning April 2011, completed March 2014)
- Housing Benefit deductions for claimants who have other adults living in the same property as them (beginning April 2011)
- deductions in the maximum entitlement of Housing Benefit to single people aged between 25 and 34, now equivalent of the Shared Accommodation Rate (beginning January 2012)
- reductions in maximum Housing Benefit paid for working age tenants, otherwise known as the Bedroom Tax (which already exists for those claiming before April 2011, applies to all housing benefit claimants of working age from April 2013)
- a total benefit cap of £26,000 per annum, or £500 per week
- the replacement of the Disability Living Allowance (DLA) with the Personal Independence Payment (PIP)
- the replacement of the Council Tax Benefit with local council tax support schemes
- the abolition of the discretionary Social Fund and its replacement with a devolved local scheme, with a substantial decrease in the budget.

Are the DWP and claimants prepared for the coming changes?

There is a substantial range of evidence to suggest that neither the DWP, nor claimants themselves, are ready for the migration over to Universal Credit. The most scathing review of Universal Credit comes from the National Audit Office, which in its September 2013 report said that the DWP had not achieved value for money and, further, had been unable to assess the value of the systems it had spent over £300m to develop. In sum, £34m had already been written off and approximately £303m was at risk. Only a few months after the DWP defended the IT system it was creating – claiming it would reduce administration costs, fraud, error and overpayments – official figures found that the amount that was being underpaid in benefits due to official error, not fraud, was £500m–£20m more than will supposedly be saved by the controversial Bedroom Tax.

Even more seriously, there is a real risk that administrative errors linked to the shift to UC will lead to real hardship. Last year over 32,000 benefit claimants expecting payments on Christmas Eve were left without money over Christmas due to a DWP blunder. Cases like this remind us that a simpler system is necessary, but given continued IT concerns readiness to deliver by 2017 – which is already a delayed timetable – seems ambitious.[14]

A matter of deep concern is whether the DWP is ready for more complex situations arising under UC. The pilot, or pathfinder areas, had very strict criteria for the 1,000 benefit claimants chosen to be test cases for Universal Credit – namely claimants with the least need. One North East England CAB branch manager said "The DWP was sure of who was to be placed on it: under-25s, single, no housing costs. The small grouping now includes couples on that list. The easiest ones who had a safety net." Another CAB in the North East said: "Users on Universal Credit now are computer literate, but what about come 2015 when addicts and those with mental health problems join?"[15]

These issues aside, the DWP has insisted that UC will be delivered on budget, and on time.[16] However, even if this is the case, DWP figures largely rely on there being a smooth transfer from existing benefits to UC. That means reliance on significant behavioural change by benefit claimants, around issues including budgeting money, relationships with landlords (where claimants are renting their accommodation), internet use, and use of mainstream banking services.

Evidence suggests there are considerable concerns among benefit claimants today that the DWP seems not to have taken into serious consideration. The baseline results of Citizens' Advice's Universal Credit Managing Migration Pilot,[17] for example, found that 92 per cent of the 1,700 people interviewed who were UC-relevant (i.e. in a position where Universal Credit would theoretically be suitable for them) said that they were not yet ready to migrate to Universal Credit. Eighty-five per cent said they would need help in more than one of the capability areas (monthly payments, budgeting, getting a bank account or using banking facilities and getting online) and 38 per cent said they would need support on all of them.

The DWP will now offer personal budgeting support for Universal Credit claimants; however, there is already evidence of this being a problem in some job centres in pathfinder areas. One CAB branch manager in a pathfinder area branch said: "We have had at least two glaring examples of Jobcentre Plus/UC staff being so unsure of the criteria for UC that clients came to us complaining that they had been shuffled backwards and forwards between the two agencies several times, neither admitting that they were the correct centre. It was left to CAB to sort out." In addition, it is unclear whether the support will be widely available or tightly targeted on those already facing significant financial problems.

While the Rt Hon Iain Duncan Smith MP, Secretary of State for Work and Pensions, told Ministers, during an evidence session with the Work and Pensions Committee back in September 2012, that "the 'weekly pay packet' at the factory gate is a thing of the past", research by the Social Market Foundation found that only half of all employees earning under £10,000 per year are paid monthly. Four in ten of those in the lowest two income quintiles are paid weekly.[18] The implication is that monthly instalments of Universal Credit will not necessarily better prepare all UC-ready claimants for the financial position they would face were they to move back into employment.

Improvement to personal budgeting is clearly a good skill to be equipped with but we should be careful not to suggest that low-income households are where they are because of poor budgeting skills, overlooking the reality of the sums they often deal with, and the rising cost of living. However, while many low-income claimants are exceptionally good at managing their money, covering everyday expenditure and one-off contingencies on very tight budgets, unfortunately given the very low levels of benefit entitlement many people in low-income households do find that at times they struggle to make ends meet, which can lead to a higher incidence of debt problems. An official report by the Universal Credit evaluation team at the DWP found that many social housing tenants have problems with debt and rent arrears that might compound possible problems with personal budgeting. Commenting on the different approaches local authorities have taken, the report said that "results have been 'mixed'".[19]

The DWP is being very optimistic, as shown by its very ambitious assumptions about Universal Credit migration. These are: that it will be achieved on time and on budget; that all participants will be willing and able to move from fortnightly payments to monthly ones (whether they are in work or on previous benefits); and that all claimants will be able to pay rents directly themselves without prioritising other outgoings. The DWP also assumes that claimants will be using the internet, and becoming banking-ready. And there is very little thinking, at least in public, by the DWP about contingency arrangements if these things do not all go to plan. After all, even among people who will be UC-ready, there are still a great many who struggle to budget with the sums they have, are used to rents going straight to landlords, struggle to afford the internet (let alone use it confidently) and who don't use banking facilities. Perhaps the ongoing uncertainty about UC has meant the DWP have taken their eye off the ball.

Hardship and Universal Credit

The principle concern here is that the DWP, in all its previous examinations of Universal Credit, has taken little consideration of increased delay to the benefit claimant. We know that delay has been a principal cause of hardship to benefit claimants historically, whether as a result of official error, or because of the standard three-day wait for a Jobseeker's Allowance claim. But it seems particularly bewildering that a system designed specifically to simplify benefits when a person's circumstances change adds on waiting days for eligibility at the start. A sophisticated system should surely be aiming to decrease the wait.

Moreover, it is equally worrying how little attention has been given by the DWP to the extra pressure this waiting period will add to a newly unemployed person trying to manage their finances under new circumstances, on top of the longer wait for a first payment of Universal Credit.

Claimants will not be paid during the waiting period for eligibility for Universal Credit, not even in arrears. In addition, in a further shift from the current system this unpaid period will be applicable to the whole claim including housing, child and disability elements. Access to local welfare assistance to make up for any hardship caused to the claimant will depend upon the state of the local authority's funds – which, as a result of government cuts, have been reduced and subject to even stricter criteria rules (with some funding set to be removed all together from 2015/16[20]). The extension of more unpaid days while waiting for benefit eligibility risks putting more claimants at high risk of rent arrears, reliance on food banks and higher debt.

Food banks

The use of food banks has been increasing steadily since 2005. There are more food banks in the UK than many may realise: there were once thought to be around 700, but a 2014 crowdsourced database shows that the figure is now around 926.[21]

Between April and September 2013 alone over 350,000 people received food from the Trussell Trust. 346,992 people received a minimum of three days' emergency food from Trussell Trust foodbanks in 2012-13, compared to 128,697 in 2011–12 and 26,000 in 2008–09. Of those helped during the first quarter of 2013–14, some 52 per cent were referred to foodbanks by frontline care professionals due to problems with benefits. During that same period in 2012/13, 43 per cent of referrals were due to benefits problems – representing an overall increase of 21 per cent in people referred to foodbanks with benefits problems.[22]

Table 1. Numbers given three days' emergency food by the Trussell Trust, 2008/9 to 2012/13

2008/9	2009/10	2010/11	2011/12	2012/13
26,000	41,000	61,468	128,697	346,992

Lord Freud, the life peer and Parliamentary Under Secretary of State for Work and Pensions, suggested that the reason for growth in the numbers of people turning to foodbanks was simply a question of supply – that more foodbanks are opening and more people wish to receive a free meal.[23] But Chris Mould, the director of Trussell Trust, pointed out that food banks are not drop-in centres; they require referral. Adrian Curtis, the Foodbank Network Director of Trussell Trust, also confirmed that referrals relating to benefit delay are historically, and pre-welfare reform, a reality.[24]

Arrears

The number of people going to Citizens Advice with rent arrears rose in every region of England in 2013 – indeed in the second quarter Citizens Advice Bureaux gave advice on the following:

- 22,412 issues about social housing rent arrears – a 13 per cent increase on the same period last year
- 2,840 issues about possessions claims due to rent arrears in the social housing sector – a 38 per cent increase on the same period last year
- 2,736 issues about threatened homelessness in social housing – a 12 per cent increase on the same period last year
- 3,307 issues about Discretionary Housing Payments – a 110 per cent increase on the same period last year.[25]

The introduction of Universal Credit has also had a significant strain on both private rental tenants and landlords. Already the main trade body for landlords, the National Landlords' Association (NLA), has released advice to their members notifying them to avoid the worst case scenario and plan lettings "on the basis that you may only receive rent 10 out of 12 months".[26] Landlords themselves are beginning to anticipate arrears even before they happen. It has been confirmed by the NLA that one of the biggest concerns for landlords is uncertainty and a lack of confidence about what the result of the government's welfare reform agenda will be.[27]

The government once argued, back in 2010, that after cuts to housing benefit landlords in the private rented sector would take lower rents from people, modifying their prices to take into consideration the shortfalls of their tenants.[28] Unsurprisingly this has not been the case. The same goes for the government's assumptions under Universal Credit. Given the uncertainty landlords face, the chances of them taking a charitable view of benefit cuts means that fewer of them will rent to claimant tenants. Indeed data from the National Landlords' Association shows the number of landlords letting to people on benefits has halved from (46 per cent) to just one in five (22 per cent) in the last three years. Government cuts and uncertainty about Universal Credit are already having a real impact.

Furthermore, the prospect of letting to people who may go up to six weeks without money, which will certainly result in more people having greater budgeting issues further up the line, is a worrying one for landlords and tenants alike.

Debt problems

Evidence shows that there is a greatly increased chance of debt problems among those with low incomes. The DWP has drawn on this point itself. When carrying out their evaluation of the UC pilot stages it found that 34 per cent of Universal Credit claimants rely on debt, support from friends and family and advance payments to top up their incomes. That is not an insignificant amount – and it must not be forgotten that the relatively few claimants involved in the pilot stages were the least complicated cases.

Figures from the British Household Panel Survey found that in both 1995 and 2000 debt to income ratios were highest for low-income households.[29] For example, people in poverty in 2000 tended to have debts relative to their incomes 20 to 25 per cent higher than those of the population as a whole. One suggestion by the Joseph Rowntree Foundation, when analysing these figures, was for the government to explore the "substantial expansion of the Social Fund as a means of improving access to credit by people in poverty".[30]

The government eventually took a different route. Instead, they have abolished the Social Fund, and replaced it with local welfare assistance schemes with lower funding. Prior to April 2013, the Social Fund was made up of three different components: Budgeting Loans (interest free); Crisis Loans (interest free); and, Community Care Grants (non-repayable grants). Research carried out by the Centre for Responsible Credit has found that in the new localised system "Many local authorities are implementing tight eligibility criteria and their assistance is less likely to involve cash payments, with in-kind support such as food parcels and voucher schemes used in their place."[31] Indeed as suspected by organisations running food banks, the hard work of non-profit charities who work with volunteers around the clock to feed people who would otherwise go hungry is now a vital part of the welfare system.

To be sure, the Social Fund needed reform. It was introduced in 1987, during the Thatcher days. Norman Fowler, who served as a member of Margaret Thatcher's cabinet from 1981 to 1990, instituted what came to be known as the 'Fowler reforms' of the social security system, under which the Social Fund was introduced. One of the most frequent criticisms of it was how long it took to be given to the recipient. In her book *Hard Work,*[32] Polly Toynbee described applying to her local authority for a Social Fund loan: after making her application, she was told she would have to wait several weeks. For recipients, this meant weeks without money. For her, when it did come in, it was less than she had applied for.

During one survey carried out by Citizens Advice of a CAB branch in Dorset,[33] it was found that rejections for the Social Fund were all too common. Claimants' experiences of being refused crisis loans included:

- one was told he had already made too many applications
- one had reapplied within 28 days of a previous social fund application
- one was refused a loan on the grounds that a broken bed was not considered a crisis (though CAB later helped the client secure a budgeting loan but waited three months from the original claim)

- another was unable to attend an interview at the time given and was therefore refused.

Citizens Advice carried out another survey of CAB advisers,[34] looking at local support, which at the time began to replace community care grants. Sixty-seven per cent of advisers said they had seen clients who had turned to high cost credit, such as home credit, payday lending, bills of sale and unlicensed lenders. Only 13 per cent said they had not seen this happen.

The Children's Society carried out some work to audit what kind of welfare assistance systems local authorities had used to replace the Social Fund.[35] The majority were greatly downsized in their reach, which does not bode well since the Social Fund needed a boost, not a cut. In total, they found six local authorities that explicitly stated that access to credit would be considered in deciding whether to make an award. As funding for local welfare assistance has been reduced so much we can expect to see more local authorities toughen the criteria on which a claim is assessed. In short, the help given to those people experiencing hardship has been cut so hard by the national government that being able to access unsecured debt now seems to count against those who want to apply for crisis loans. It appears that the UK is moving towards a situation where government policy implicitly directs claimants towards high cost unsecured credit rather than local welfare assistance.

This trend is being exacerbated by ongoing reductions in support for local assistance schemes. In 2011/12, Community Care Grants and Crisis Loan expenditure was over £270m; the DWP has allocated a programme budget of just £178m to support the provision of local welfare schemes in 2013/14.[36]

Debt will be an especially significant problem for those who struggle to make ends meet during the period of at least five weeks when they are without any support.

Universal Credit advances

After extended correspondence with the office of Lord Freud the DWP has provided some useful guidance about the advance payments that will be available to Universal Credit claimants.

Claimants making a new claim for Universal Credit

People making a new claim for Universal Credit can apply for a Universal Credit Advance (new claim). This is meant to help them until they start receiving regular payments of Universal Credit, and is very limited: the maximum is usually 50 per cent of the amount they are likely to get per month, though they may be eligible for up to 100 per cent where their pay day has passed and they don't yet have their Universal Credit award. The Advance is recovered: where it is made after the payment due date, it is recovered immediately from the arrears that are due to them. Otherwise it must normally be paid back within six months (though this may be extended by three months in exceptional circumstances).

To qualify, in addition to having an underlying entitlement to UC, claimants must be in financial need and, crucially, be able to afford the monthly repayments. This means that claimants with existing debts (precisely those who may be facing the greatest financial hardship as a result of benefit delay) are also the most likely to be declined.

Claimants moving onto Universal Credit from a 'legacy benefit'

People who are transferring from a benefit that was paid weekly, fortnightly or four weekly in arrears to monthly paid Universal Credit can find they face a gap in payments. To help them cope they can apply for a Universal Credit Advance (benefit transfer). This is a one off advance of 50 per cent of their expected Universal Credit entitlement and again, it has to be repaid, usually in instalments over up to twelve months through deductions from their monthly award.

Unlike the new claim Advances, claimants do not have to be in financial need to qualify. This type of advance will be phased out when all existing claimants have moved to Universal Credit.

Established Universal Credit claimants

People who already get UC and whose circumstances change so that their entitlement goes up can apply for a Universal Credit Advance (change of circumstances) if they cannot wait till the end of their assessment period for the increase. The maximum is usually 50 per cent of the total indicative monthly award, recovered over a maximum period of six months (though this may be extended by three months in exceptional circumstances). Again, to qualify, in addition to having an underlying entitlement to UC, claimants must be in financial need and be able to afford the repayments.

Universal Credit Claimants with an intermittent expense

Universal Credit claimants with an emergency one-off expense can apply for a Budgeting Advance. This covers essential items like furniture or a cooker or fridge. To qualify, an applicant must have received Universal Credit (or one of the means-tested "legacy benefits") for at least six months and have had earnings below a set of very low thresholds: £2,600 for single people and £3,600 for couples during the previous six months. There are very strict capital rules too: for every £1 they have over £1,000 in savings, their maximum Advance is reduced by £1. If a claimant already has a Budgeting Advance, this must be repaid before they can qualify for another. The six month eligibility criterion is waived if the advance is needed to get or keep a job: to buy tools or make an advance payment for childcare, for instance.

The minimum Budgeting Advance is £100 and the maximum amounts are £348 for a single person, £464 for a couple without children and £812 for claimants with children.

The Advance normally has to be repaid within twelve months (in exceptional circumstances this can be extended by six months) and is recovered from their Universal Credit award.

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Budgeting support

The DWP also offers budgeting support – "a mix of universal and targeted budgeting advice, alongside advances of benefit and financial products that are made available dependent on claimant circumstances." Some people may be offered alternative payment arrangements, such as payment of housing costs to the landlord, paying more frequently than every month or splitting the payment within the household.

It is unlikely that alternative payment arrangements will be available for everyone who needs them. The DWP says that "alternative payment arrangements are considered on a case-by-case basis and assessed on their individual merits. Wherever possible, these alternative payment arrangements will be time-limited and delivered in conjunction with appropriate support to help claimants successfully make the transition to monthly budgeting."

The TUC is also worried that there will not be enough Advances to meet the level of need, particularly given the tight eligibility criteria around them. Officials have indicated, for instance, that when the extended waiting days are introduced for JSA and ESA in October, they expect 15 per cent of JSA claimants to be in substantial financial need. These figures are based on the assumption that 40 per cent of JSA new claimants who face serve waiting days will either have received a redundancy payment or been employed (even if just for a few days) in the previous three months. It is very optimistic to assume that everyone in this position will have enough cash to get through till their first benefit payment, particularly if they are waiting up to six weeks. But even in the DWP's own figures this means around 250,000 claimants will be in hardship, with no guarantee of an advance. If similar assumptions are being made for UC, where claimants will have to wait at least five weeks for their first money, there are likely to be severe problems.

The Department admits that the October change will put 245,000 new JSA claimants and 35,000 new ESA claimants at risk of significant financial hardship, with the analysis suggesting that many more will also face financial difficulties and be at risk of taking out short-term loans. JSA claimants will lose an average of £40 per week and ESA claimants £50 – significant sums for people managing the shift to much lower incomes. The Department has admitted that, when waiting days are applied to UC, and affect the amounts for housing costs and children "the potential hardship for claimants is much greater."[37]

We have reason to fear that Universal Credit Advances will not be enough to meet the need for assistance. Short Term Benefit Advances (SBTAs) were introduced in 2013 to replace Crisis Loans, and they operate in much the same way as the Universal Credit Advances. The Child Poverty Action Group has compared[38] the Jan–Mar figures for Crisis Loans and the April–June figures for SBTAs. Of course, these figures only cover the early days of the new system, things may well change, but the initial results show that the number of people applying has fallen (this figure depends to a large extent on whether a claimant's Jobcentre Plus adviser mentions the availability of support) and that the proportion being approved is much reduced:

Table 2. Crisis Loans and STBAs, Jan– Mar and Apr– Jun 2013

	Applications	Awards	Proportion
Crisis Loans, Jan–Mar 2013	268,300	225,800	84.2%
Short-Term Benefit Advances, Apr–Jun 2013	82,801	18,781	22.6%

It is worrying that the DWP's November 2013 evaluation found that UC claimants were more likely to obtain "funds in addition to their benefit", with 34 per cent doing so, compared with 19 per cent of JSA claimants in one survey, 26 per cent in another. In other words, on Universal Credit more people look set to seek alternative finance from a payday lender than under JSA. Similarly, more people look likely to use their bank overdrafts on Universal Credit than on JSA. And far more people seem likely to have to seek an advance from the DWP in the form of a Budgeting Advance or Universal Credit Advance than was the case under JSA[39] (although given the tough eligibility criteria it seems likely that many will find their requests refused). Those who find they are turned down will be at high risk of making greater use of payday lenders and bank overdrafts.

Payday loans

There are two main problems associated with payday lending, or high cost credit, today. Firstly its business model is designed to lock people into dangerous debt. Secondly, any market competition that occurs within the industry negatively affects the consumer rather than reducing their costs of credit.

In a response to public misgivings about the ways in which payday lenders operate a common response is that lenders only sell credit occasionally. One influential paper on the subject by academics Flannery and Samolyk[40] asked whether an industry like this could survive if there were fewer high frequency borrowers. Their answer is that it might, but its long-term scale would be substantially decreased. The incentive for this industry then is to keep high frequency borrowers borrowing. Indeed evidence shows that lenders in the UK have not only made tremendous profits over the past few years, particularly during the recession, but that they have done so by trapping people into long term debt. In 2007–8, the payday lending industry was worth around £900m,[41] while today it is estimated to be worth around £2.2bn[42] – a huge growth that many other businesses can only dream of. Britain's 12 leading payday loans companies made almost £1bn profits between them in 2012/13.[43] Furthermore it has been found by the OFT that 28 per cent of the loans which are rolled over (where a lender allows a borrower to continue owing money after the repayment date, indicating severe repayment difficulties) or refinanced bring in around 50 per cent of the lender's total revenue.[44]

This was most callously demonstrated when it was found that one top boss at a major payday lending company sent emails to staff encouraging them to get borrowers to roll over loans instead of offering repayment plans to those struggling.[45]

The argument that access to this type of expensive credit could count against a crisis loan claim is deplorable, not to mention irresponsible.

It is often claimed that competition keeps interest rates as low as possible. As Claude Saumaise, the 16th century Dutch Calvinist said, “if the number of usurers multiplies, the price of money or interest will be driven down by the industry”. This has not been the case with payday lenders: prices for this high cost credit have stayed at a solid average of £25 per £100 lent. Lenders do not in fact compete on price, but on the speed of getting credit into your account. It is thus a disincentive for the lender to carry out proper credit checks – a subject of much controversy.

The extent to which payday lenders drain money away was illustrated by a report by the London Mutual Credit Union that examined how much borrowers would have saved if they had borrowed through credit unions and not the high cost credit industry. It found that if the 8.2 million payday loans taken out in 2011/2012 had been through a credit union, an estimated saving of between £676m and £749m would have been made. This would equate to an average saving of at least £91.43 for every payday loan taken out.[46]

While payday lenders say on record that they do not lend to people on benefits, there is evidence to suggest otherwise and that payday lenders do not check their customers’ ability to make payments before lending them money. Citizens Advice carried out work checking the payday lenders’ Good Practice Customer Charter (published in November 2012 and written by the four main trade associations for payday lenders in the UK) against the reality of borrowers’ experiences. Based on their survey of 4,000 people it was found that lenders only checked whether a loan was suitable for borrowers’ circumstances in 39 per cent of the loans. Equally, lenders only carried out sound and proper affordability assessments and credit vetting for 39 per cent of the loans.[47]

The DWP has itself shown that some existing UC claimants will seek payday loans to supplement its benefits. More people under Universal Credit will do so than in the current system.

Benefit delay has been the reason for a significant rise in the referrals to food banks, but we know this only because the Trussell Trust and other agencies work to signpost this reality. Payday lenders are not quite so transparent. A payday lending trade association will not announce what proportion of applications to their members’ shops has resulted from benefit delays. But it is a reasonable assumption that the five-plus week wait for someone who has lost their job to receive benefits will lead to an increased use of payday loans. This is because:

- a longer delay (for a larger number of benefit elements) is part of the design of Universal Credit
- the growth of high cost credit has swamped less affluent areas where benefit claimants are higher in number
- even claimants in the Universal Credit pilots (who have the simplest cases) have had to rely on debt, with credit options for many people limited to payday loans

- the introduction of local welfare schemes has seen a significant decrease in funding and conditionality that is likely to exclude new claimants awaiting eligibility
- some local authorities will turn down applications for crisis loans if applicants are able to take on unsecured consumer credit like a payday loan.

Access to mainstream banking

Another part of the problem is that mainstream banks have been discriminating against many less affluent areas. Research carried out by the School of Geography in the University of Nottingham found that some 7,500 bank and building society branches have been lost in the period covering 1989–2012.[48] Inner city areas have lost banks 3.5 times faster than more affluent suburbs and small towns. One CityWire report noted that 52 per cent of credit products on the high street are from non-banks and 'other' financial institutions, including payday lenders and pawnbrokers.[49]

Conclusions

It is often too easy for governments to forget the invisible costs to households in crisis when they underfund the services and benefits those households are entitled to. Scrapping the Social Fund and decreasing the budget for local schemes on a year-year basis risks putting those in hardship straight into the arms of high cost credit lenders. This in turn throws open the possibility of a long-term debt trap which makes it near impossible to save money or go through the next month without borrowing again.

The principle of simplifying the benefits system is positive for both the government and the claimant. For the former it means less risk of error and fraud. For the latter it is easier to see the advantages of work and get a realistic idea of the countervailing factors, such as the costs of childcare. Though the principle is valuable, there are clearly huge risks, such as:

- EU rules on interchange fees that could mean the newly banked claimants of Universal Credit may be hit with extra fees for using their cards
- a drop in the number of food bank volunteers (indeed many food banks around the country have reported an inability to cope under the pressure)[50]
- benefit recipients' limited access to the internet to check their online finances limiting their ability to actively manage their money
- a widespread ban of tenants on benefits by some landlords, and a shortage of private rental housing (the uncertainty is having a knock-on effect already)[51]
- the effect of sanctions on families' potential incomes.[52]

In this context the government should be doing everything it can to make the system work better for claimants, not to make life even tougher. But instead benefit delay will be a core design component of UC.

A three-day wait that is unpaid may seem very little to some, but to many it means the difference between eating and not. However, a seven-day wait is unbearable for a new claimant, particularly when all elements of benefit entitlement (including those intended to meet housing costs and the additional costs of brining up children) are included. When you consider also the assessment month and the further seven-day gap between the end of the assessment and the first payment, the associated problems that are likely to arise are clear. The government should be looking at IT solutions that reduce this number, not increase it – after all, what is the taxpayer paying for if not a more sophisticated system?

Recommendations

In light of the likely consequences of waiting at least five weeks we therefore make these key recommendations:

1. The new seven-day waiting period is unacceptably long. It is also far tougher than the previous three-day wait as payments designed to support claimants with the costs of housing and raising children will also be held back. The seven-day waiting period should be abolished, with benefit entitlements reverting to the current status quo (a three-day wait for JSA and immediate eligibility for payments designed to meet wider specific needs).
2. After the seven-day waiting period has expired, Universal Credit claimants will still face a delay of at least another five weeks before they receive any cash. This will place large numbers of new claimants at risk of significant hardship. To help alleviate this difficulty claimants should be able to request to receive UC on a two-weekly basis. This payment schedule mirrors the basis on which many people, particularly those on low incomes, receive their earnings.
3. For those who struggle during the extended wait, there will be the option of requesting a Universal Credit Advance. But eligibility for this payment will be very tightly drawn and the value of Advances will only be a proportion of lost benefits. The DWP should widen eligibility so that anyone who requests an Advance before their first UC payment is received is able to access one. This would mirror good employment practice, where many employers offer new employees access to a cash advance on their first pay cheque. Similarly, all claimants who want to request that the housing element of their UC is paid directly to their landlord should be able to take up this option. Where claimants believe that varying the prescribed payment options would improve their ability to budget DWP should not be stopping them. In addition, the value of Advances should be increased.
4. While Universal Credit Advances will provide some help, they will have to be paid back leaving claimants struggling the month after their Advance has been received. While the option to request fortnightly payments and the abolition of the initial seven waiting days would partially offset this challenge, the financial costs of early benefit delays will still be significant for some. This is why the DWP should make sure that state backed emergency financial assistance is available to those in particular need during the early days of their benefit claim, ideally by reintroducing the Crisis Loan element of the Social Fund.
5. Even if the design of UC is improved, the whole system could face substantial problems if it is not properly resourced and there are not enough staff in place to run it properly. Administrative problems are already a cause of substantial existing benefit delays. To ensure that the implementation of UC addresses these problems, rather than compounding them, DWP must ensure that enough staff are in place to meet tight processing deadlines (without the JCP workforce being placed under undue pressure).

6. The DWP should make sure that every new UC claimant is provided with clear and upfront information on Universal Credit Advances, ongoing Budgeting Advances and personal budgeting support services.
7. It is vital that the JCP workforce know that personal budgeting support is available to anyone who is migrating to UC and not just those with difficulties.
8. The DWP should make it a requirement of all local assistance schemes to ensure access to high-cost, unsecured credit is not used against a claimant trying to access state run schemes.
9. The DWP should be proactive in attempting to reduce claimants' reliance on payday loans, offering their support for the new regulator of the consumer credit market, the Financial Conduct Authority, to build into their regulation methods a real-time database of unsecured loans being taken out. The success of this initiative relies on forcing lenders to submit all lending data. This would enable the DWP to better target extra support at individuals who are taking out high cost credit products to supplement their benefits or in lieu of benefits if they face delay.
10. It is important that lack of access to the internet does not prohibit claimants from managing their money effectively. Where claimants do not have affordable and regular internet access they should not be required to claim and manage UC payments via an online system.

Glossary of terms

Arrears	Unpaid, overdue debt related in this context to rental arrears where money usually paid to a landlord is late.
Bedroom Tax	A change in housing benefit rules that the government calls the removal of the spare room subsidy.
Budgeting Advances	An advance payment provision that will eventually come to replace the Budgeting Loans (see below) as Universal Credit is widely rolled out. The eligibility criteria for these advances are tightly drawn and are limited to maximum amounts for different family types (as is discussed in more detail in this report).
Budgeting Loans	A scheme by the Department for Work and Pensions to help long-term, income-related benefit recipients cope with the cost of essential items like furniture and household equipment. As Universal Credit is rolled out across the country this scheme will be replaced with payments on account of benefit, called Budgeting Advances (see above).
Community Care Grants	Interest-free loans to help people on low incomes when moving out of residential care to live independently in the community. As of 1 April 2013, these grants are no longer available.
Conditionality Regime	The claimant commitment, a new regime of conditionality that a benefit recipient must agree to when migrating to or claiming Universal Credit.
Consumer Credit	An unsecured debt (that is a debt not secured on property) incurred for purchases made on credit cards, lines of credit and some loans.
Council Tax Support Scheme	A local council replacement of Council Tax Benefit, which came into force on 1 April 2013. The change has meant many low-income households previously eligible for support are now no longer so.
Crisis Loans	Interest-free loans that provided help in an emergency or disaster. No longer available.
Disability Living Allowance	A non-means-tested, non-contributory benefit that will now be phased out during 2013-16. Eligibility required the recipient to have had a disability for at least three months, and for the disability to be expected to continue for at least six more months.
JSA	Jobseeker's Allowance is a benefit for people who are unemployed but capable of work. How much recipients are entitled to are based on personal circumstances but will be at least £56.80 per week.
Pathfinder Areas	The areas where Universal Credit are being piloted and tested for the first time before their wider role out.
Payday loans	A high cost form of consumer credit that can often have annual interest rates of up to 4,000 per cent attached to them.
PIP	The Personal Independence Payment, which replaces the Disability Living Allowance (see above). It aims to help with some of the extra costs caused by long-term ill-health or a disability for those aged 16 to 64.
Sanctions	The withdrawal of benefit payments by the DWP from a recipient on grounds including missing an interview, leaving a job voluntarily or not turning up to the job centre for assessment. Many claimants appeal against sanctions but even if they are successful will already experienced a delay or a full loss of benefit payments. Under Universal Credit's new conditionality regime sanctions will be tougher.
Social Fund	A support fund for low income or benefit claimant households to help with one off expenses through either grants (the Community Care Grant) or loans (Crisis Loans). On 1 April 1 2013 it was scrapped and is now subject to a postcode lottery for its existence in local authorities.
Universal Credit	A new benefit that has started to replace six existing benefits with a single monthly payment.

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