TUC
Changing the world of work for good

Work and Pensions Committee Inquiry - Universal Credit: the wait for a first payment

Introduction

The Trades Union Congress (TUC) exists to make the working world a better place for everyone. We bring together around 5.5 million working people who make up our 48 member unions. We support unions to grow and thrive, and we stand up for everyone who works for a living.

We appreciate the opportunity to respond to the Work and Pensions Committee inquiry on Universal Credit and the wait for the first payment. The experience of those claiming Universal Credit is of particular interest to us, as social security has an enormous impact on the living standards of working people.

The introduction of Universal Credit is one of the most significant social security reforms in recent decades. The TUC believes that Universal Credit based on its current design, and on the experience of the roll out so far, is not fit for purpose. Such is the concern of trade unionists that our democratically agreed policy position is for Universal Credit to be stopped and scrapped altogether.

Evidence of Universal Credit's failures is well documented. Along with the five week wait, there are difficulties in registering a claim online, payment delays, financial hardship and the increased use of foodbanks.

And it is not just the delivery of Universal Credit; there are serious issues with the design and the policy of Universal Credit embedded within the new system. This includes the rigidity of the monthly assessment periods not working for all claimants, questions on the notion of 'making work pay', and the lack of detail on how in-work conditionality will work in practice.

Question

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

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

There is no justification for the five-week wait for the first payment of Universal Credit. Whether you are making a new claim to Universal Credit, naturally migrating to Universal Credit (due to change of circumstances) or being 'managed migrated' to Universal Credit.

The assessment cycle designed with a monthly payment in arrears 'to mirror the world of work', seen as central to Universal Credit, results in the five-week wait for the first payment. However, in the world of work not everyone is paid monthly, and analysis shows the majority of new claimants starting UC who were previously employed had been paid either fortnightly or weekly in their last job. [1] This design feature in Universal Credit has to be restructured to avoid the wait in payment, rather than constantly defended as central to the workings of Universal Credit.

Universal Credit fails to take in to account that most low paid workers do not have savings to get them through this wait. The assumption by government that people should have savings to get them through this five-week wait is not supported by evidence. The households saving ratio remains low[2]. Citizen's Advice show the number of households able to save in the UK is at a near record low, with 6.5 million households having no savings at all[3]. Low income households are the least likely to be able to save as they spend a much greater proportion of their income on basic essentials (with 30% spending 60% of their income on essentials).

The modification to allow a run on payment for housing benefit for two weeks for those transferring from legacy benefits to Universal Credit, is simply not sufficient to support five weeks rent. And the run on payments do not include tax credits for those in low income jobs and have children.

Also, five weeks is the minimum wait for Universal Credit payment. Due to administrative delays the wait can be much longer. Prior to the surge of 1.4 million Universal Credit applications as a consequence of Covid 2019, latest DWP stats show 19 percent of new claims do not receive full payment on time, and for all claims this is 8 percent[4]. And there is no data available on progress of the recent claims during the crisis.

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[1] https://www.resolutionfoundation.org/app/uploads/2017/10/Universal-Credit.pdf

[2] https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/quarterlysectoraccounts/julytoseptember2019#households-saving-ratio

[3] https://www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/Walking%20on%20thin%20ice%20-%20full%20report.pdf

[4] https://www.gov.uk/government/statistics/universal-credit-29-april-2013-to-9-january-2020

Government argue an advance payment is a solution to the five-week wait, however this is actually a loan and has to be paid back as a deduction from future Universal Credit payments, and essentially means you are starting your Universal Credit claim in debt. Data from August 2019 shows nearly £50 million of Universal Credit benefit payments were deducted in just one month from the poorest households to pay back loans they had to take to cover basic living costs for the five weeks they have to wait before their first Universal Credit payment. [5]

The deduction for the advance is capped at thirty percent of your standard allowance currently paid over 12 months and will increase to 24 months from October 2021. The maximum amount that can be taken off your benefits to pay it back is also being reduced from 30 per cent to 25 per cent.

The deduction is still a quarter of your standard allowance; this is a significant proportion of benefit levels which are already inadequate after years of underinvestment. More recent government policy on benefit capping and freezing have further reduced the real-terms value of benefits undermining our safety net. In 1993, the last time the unemployment rate went over 10 per cent, the basic rate of unemployment benefit was worth around a fifth of average wages. In 1984, when unemployment was over 11 per cent, the benefit was worth a quarter of the average wage. And in 1979, it was worth 30 per cent of the average wage. Today, even after the recent increase in the rate by £20 a week – the basic rate of universal credit is worth around a sixth of average weekly pay (17 per cent).[6]

On top of this claimants are often paying other deductions, e.g. council tax arrears, utility payments and tax credit overpayments.

The five-week wait for the first payment of Universal Credit has fundamental consequences, claimants are falling into poverty and debt, and rising numbers are being referred to foodbanks.

UNITE the Union carried out a survey on the experiences of Universal Credit claimants, and the difficulty of repaying back the advance payment came out clearly in this. [7]

"The 5 weeks wait left me in rent arrears and my landlord served me with an eviction notice because of this. Paying back the advance payment only made things worse with trying to get back on track with my debts that had built up over the 5 weeks while I waited."

"You wait 5 weeks, yes an allowance is available which you must take if you wish to keep up bills, but I got offered £1300, I took £1000. Paying that back at £85 per month with 2 children was hard"

"The system is a disgrace it puts you in debt from the moment you switch over and get your advance which you need to survive the 5 weeks of no money but then each month your payments are reduced to pay this back - money needed to survive!"

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[5] https://www.abcorg.net/item/3186-snp-slam-dwp-for-clawing-back-50-million-from-universal-credit-claimants-in-just-one-month

[6] https://www.tuc.org.uk/blogs/universal-credit-emergency-boost-needed-help-people-through-coronavirus

[7] https://unitetheunion.org/media/2631/8869_universal-credit-report_a4_finaldigital.pdf (not all quotes in publication – available from UNITE

"DWP act as irresponsible lenders whenever they give advance payments that have to be paid back over 12 months to people without consideration of their ability to repay, or of the impact on the claimant of making the repayments that they will impose……"

There is no standard assessment of affordability made by staff before setting debt deductions.

StepChange, show the five-week wait for the first payment led almost all clients affected (92%) to experience some form of hardship or financial difficulty. And their polling indicates that 25% of those receiving Universal Credit are in problem debt, three times the rate among the general population (8%), and 11% more than those receiving legacy benefits (14%). [8]

Citizens Advice Scotland say their evidence has consistently shown this lengthy wait for payment to be one of the most problematic features of Universal Credit for CAB clients. It can cause or exacerbate debt problems, as payment of rent, council tax, utilities and other priority bills may immediately be put at risk, particularly if someone has no savings. ……..Many clients have also reported increased stress and negative impacts on their mental and physical health as a result of the wait. [9]

As disabled people face higher living costs and their physical and mental health conditions can be significantly worsened by the delay in income.

The Disability Benefits Consortium surveyed around 500 disabled people about their experience of Universal Credit. The survey highlights some serious concerns and deeply worrying findings. Over 30% of people surveyed said waiting for their first payment had meant they were forced to use a food bank. They were falling into debt or relying on family and friends to get them though. Most worryingly, a number of people said they had considered suicide.[10]

Trussell Trust end of year data for April 2018 and March 2019 show a record 1.6 million food parcels had been given out by the network, a 19% increase on the year before. And that Universal Credit now accounts for half of all referrals to food banks due to benefits delays, and waiting for Universal Credit is a growing trigger forcing people to food banks.[11]

Furthermore, there has been no assessment by the DWP on the impact of the five-week wait for the first Universal Credit payment on levels of food insecurity, relative poverty, and destitution in the UK. When asked about this by the Poverty Alliance under a FOI the department replied: 'having searched all our records, I can confirm that we do not hold the requested information in respect of the five week wait'[12]

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[8] https://www.stepchange.org/Portals/0/assets/pdf/social-security-mini-brief-report.pdf
[9] https://www.cas.org.uk/news/universal-credit-5-week-wait-leads-people-debt-stress-foodbanks-and-ill-health
[10] https://www.disabilityrightsuk.org/news/2019/june/five-week-universal-credit-wait-having-devastating-impact-disabled-people
[11] https://www.trusselltrust.org/news-and-blog/blog/page/3/
[12] https://mcusercontent.com/4fae14f57a18ee08253ffc251/files/e5fe874c-5d85-45db-a99d-c222bdccc8fb/FOI2019_44340_Reply.pdf

The five-week wait needs to end for all Universal Credit claimants. A solution has to be found to address the sudden drop in income caused by this wait, those on low incomes have little, if any, savings to get them through this five-week period and there is well documented evidence on the severe hardship this wait causes.

All options should be looked at. Potential ideas include

- An actual advance payment not a loan, which would be an estimate and could be adjusted after the first assessment period.
- For those migrating to Universal Credit - you can make a payment during the first assessment period but using the 'Universal Credit methodology' using the Real Time Information (RTI) for what would have been the previous assessment period. (An illustrative example is provided in annex)
- And a shorter- term measure for all claimants moving over to Universal Credit before a solution is found, could be to consider delaying the end of legacy benefits by a month so that they cease one month after the deadline day proposed in the draft regulations.

Other recommendations for Universal Credit

Removing the 5 week wait is only one of our recommendations for Universal Credit – others include:

We call on the government to urgently raise the basic level of universal credit. Restoring 'replacement rates' to the level seen before the long dismantling of the safety net began in the 1980s, would mean increasing the payment of universal credit to £165 a week – around 30 per cent of average wages. But we think the government should be more ambitious to protect against this income drop. We recommend raising the basic rate of universal credit for this period to the value of 80 per cent of weekly earnings at the national living wage – or £260 a week.

There needs to be a recognition that not everyone gets paid monthly, so the monthly assessment period may not work for them. Those paid non – monthly wages may earn a sufficient amount to take them over the Universal Credit earnings threshold, for example, where two four-weekly wage packets fall into a single assessment period. And if the claimant is paid early because of a weekend or bank holiday the system counts this as having been paid twice in that month and therefore reduces or withdraws Universal Credit.

If the aim of Universal Credit is to make work pay, the taper rate (the rate at which benefits are reduced as income from work rises) needs to be looked at. And second earners, who are often women, miss out on the entitlement to a work allowance as it only paid to one person in the household.

In addition, there needs to be a process of splitting payments between recipients within the same household. Women are further disadvantaged as Universal Credit payments go to one person in a household, which will often be the man, increasing their financial dependence on their partner. Splitting Universal Credit couple payments by default could provide some protection for victims of domestic abuse. This option needs to be explored.

Reversing the cuts to the work allowance in full, scrapping the unfair 'two child' policy and the removing the first child premium. The cap on benefit uprating must also be lifted. The 2015 summer Budget reduced work allowances by £3bn, and the 2018 Budget only partially restored this by £1.7bn.

Childcare support offered to Universal Credit claimants need to be simplified. Claiming for childcare costs in Universal Credit involves families having to cover massive upfront childcare costs every month before claiming them back. Many of the affected households are in precarious financial positions which the move to Universal Credit could exacerbate.

The implementation of the Minimum Income Floor for the self-employed should be permanently removed. (Not just suspended during the current crisis). Families with a self-employed earner will face reductions in the level of support they receive on Universal Credit if they do not meet the 'Minimum Income Floor' (MIF). This requires them to earn the equivalent of 35 hours a week at the National Minimum Wage (NMW). This could close businesses with the potential to become sustainable and profitable. In addition, these rules could discourage people from starting self-employment.

During managed migration to Universal Credit - responsibility for the claim needs to be shifted from the claimant to the Secretary of State. The process of managed migration places the responsibility of transferring to Universal Credit from legacy benefit on the claimant. This will cause considerable stress and anxiety to some claimants.

The DWP needs to look at ways of automatically transferring claimants onto the new benefit. Rather than automatic migration as the process of 'managed migration' suggests, the process involves claimants to end an existing claim and making a completely new claim.

Transitional Protection needs to be re-examined. When the Government launched Universal Credit, it made a commitment that no-one would lose as a direct result of the reforms. Transitional protection (TP) would be provided, however, TP needs to be reconsidered as some claimants are unfairly losing this protection.

In-work conditionality should include proposals that guarantee claimants who work short hours because their employer will not offer them additional hours will not be sanctioned. Claimants will be expected to look for more or better paid work until they reach a certain income – which for non-disabled single people and those with caring responsibilities will normally be 35 hours paid at the minimum wage.

More flexibility is required for claiming – it cannot only be digital – claimants need face to face assistance. The online nature of UC makes the application process difficult for claimants. The DWP’s own survey showed only half (54 per cent) of claimants were able to register their claim online unassisted, with a further fifth (21 per cent) completing it online but with help.[13] While this is not possible during the current Covid crisis – adequate telephone help is required to fill this out – and currently claimants are having difficulty trying to get through to DWP, they are waiting hours.

Adequate levels of staffing are required for Universal Credit. There are also serious concerns about inadequate levels of staffing to deal with the rollout of UC before the surge in applications as a result of Covid 2019, and the impact that this has on staff and those having to claim it. PCS, our affiliate union, continue to raise this issue.

[13] https://www.gov.uk/government/publications/universal-credit-full-service-claimant-survey

Annex - Illustrative Example - swift interim payment using the 'Universal Credit Methodology' based on the previous month's Real Time Information

This method however only applies to those who are employed and excludes the self-employed. This interim payment is to be made 7 days after the Universal Credit claim is made, the payment provides income for the claimant till the end of the first assessment period in a month. This would avoid the need for a two -week run on of housing benefit. The payment suggested would be a one-off payment and would not affect future Universal Credit payments.

Proposed by draft regulations	**Proposed alternative**
Step 1: Claimant receives a letter dated 31 January 2020 advising of the need to make a new UC claim by 28 February 2020 **Step 2:** Claimant completes the steps necessary to make a claim for UC on 15 February 2020 – before the deadline **Step 3:** This date starts the UC claim and marks the beginning of the first UC assessment period **Step 3A:** It also means that tax credit ceases on 14 February 2020. **Step 3B:** The first UC assessment period ends on 14 March 2020 **Step 4:** Claimant receives first UC award on 21st March 2020 including any transitional protection.	**Step 1:** Claimant receives a letter dated 31 January 2020 advising of the need to make a new UC claim by 28 February 2020 **Step 2:** Claimant completes the steps necessary to make a claim for UC on 15 February 2020 – before the deadline **Step 3:** This date starts the UC claim and marks the beginning of the first UC assessment period **Step 3A:** It also means that tax credits cease on 14 February 2020. **Step 3B:** Using the assessment period from 15 January to 14 February DWP base the interim payment on the RTI feed for that period to make an interim payment including transitional protection if it applies. **Step 3C:** Claimant receives an interim payment on 22 February 2020– 7 days after making the UC claim **Step 3D:** The first UC assessment period ends on 14 March 2020 **Step 4:** The first UC award is paid on 22 March 2020 including any transitional protection.