

Universal Credit and Debt

Westminster Hall debate, 5 June 2019

Briefing from Citizens Advice Scotland

Citizens Advice Scotland (CAS), our 59 member Citizen Advice Bureaux (CAB), and the Extra Help Unit, form Scotland's largest independent advice network. Advice provided by our service is free, independent, confidential, impartial and available to everyone.

Since the Welfare Reform Act 2012, benefits issues have been the most common problems raised by citizens across the network. In 2017/18, Scotland's CAB network provided advice on 19,047 issues related to Universal Credit (UC), which by the end of the period had only been rolled out to around half of Scotland's local authority areas. Additionally, CAB advised clients on 10,562 Working Tax Credit and 11,499 Child Tax Credit issues, which are the main in-work benefits that will be replaced by UC.

Universal Credit and debt

CAS has raised several issues associated with Universal Credit (UC) that have caused stress, detriment and/or hardship to CAB clients across Scotland. Among these, our evidence shows some UC design features can adversely affect a claimant's ability to manage their money, risking the creation and exacerbation of debt. These features include, but are not limited to:

- > The **five-week wait** for a first UC payment;
- > **Direct deductions** to ongoing payments to recover arrears, overpayments and advances; and
- > The timing of **housing costs** payments to landlords.

These difficulties are exacerbated by the **ongoing benefits freeze** and **the overall rates of UC** that are payable, which, for many claimants, are lower than under the legacy system.

Five-week wait

Claimants must wait a minimum of five weeks for their first payment. CAB evidence from across Scotland has consistently shown that this can cause serious financial hardship for claimants. In many cases, it can also cause or exacerbate debt problems. Payment of rent, council tax, utilities and other priority bills may immediately be put at risk during such an extended wait for income. Arrears of rent and council tax now exceed levels of credit card debt for families in Scotland. Advance payments are available, and these may improve immediate cash flow but these advances must be repaid via a deduction from the claimant's ongoing monthly UC award. Advances are also treated as overpayments if the claim ends before the advance has been fully repaid. This can leave claimants with an acute dilemma: either experience hardship during the five-week wait, or experience ongoing hardship to repay an advance from subsequent payments.

Two-week 'run-on' payments are made to Housing Benefit (HB) claimants to help reduce the gap between their last HB payment and their first UC payment. Run-ons of Income Support (IS), Employment and Support Allowance (ESA) and Jobseekers Allowance (JSA) will also be available

to claimants transitioning to UC from these benefits from July 2020. However, Tax Credits run-ons are not available and not planned, which is of concern as Tax Credits are often the main source of means-tested support for low earners and families with children both in and out-of-work. CAS is also concerned that the other run-ons will not be available until 2020: many people need this financial support now. Finally, it should be noted that none of the support above is available to new claimants who are not transitioning from legacy benefits: the only support available for them is an advance, which must be repaid.

While CAS' Help to Claim service supports clients applying for Universal Credit until their first payment, the wait between claim submission and payment can be extended in some cases by administrative delays and processing errors within DWP. CAB evidence shows clients experiencing the entire UC payment being delayed, the first payment arriving without housing costs being included, incorrect housing costs being included, or, in the event of housing payments being made directly to the landlord, the amount being deducted from the UC payment but not being paid to the landlord.

Direct deductions

Direct deductions to recover advance payments, overpayments and arrears (e.g. rent, council tax and utilities) can cause claimants significant financial hardship. Deductions are taken at high levels (currently up to 40% of the UC standard allowance) from the claimant's monthly payment, and the decision to apply them does not include an affordability test. Deductions are often applied without warning or an opportunity for the claimant to negotiate the level of deduction. Indeed, CAB evidence has consistently shown that deductions can leave people **unable to afford food**, or having to choose between food and other essentials, such as energy. Reduced ongoing monthly payments can also make it difficult to pay rent and bills, which can trap claimants in a cycle of debt. The maximum deduction rate will be reduced from 40% to 30% of the standard allowance in October 2019. However, CAS remains very concerned that this level is still too high and will continue to cause significant financial hardship.¹

Timing of housing cost payments to landlords

As discussed above, claimants may experience rent arrears as a result of the five-week wait. However, there are further problems for tenants who have their housing costs paid directly to their landlord, either through a Scottish Choice or an Alternative Payment Arrangement. Both are paid to landlords on a four-weekly basis, which do not match the calendar monthly basis on which either UC payments are made, or direct ('managed') housing payments to landlords are sent. This creates a discrepancy as there are thirteen payment cycles each year, and twelve monthly assessment periods, and can automatically put claimants into rent arrears.² DWP has recognised this problem and has announced its intention to move to a monthly payment cycle. However, CAS remains alarmed that no firm date has been given for this change.

Benefit freeze and overall level of entitlement on UC

For many people, the amount of UC they are entitled to is less than they were or would have been entitled to under the legacy system. In addition, despite the rising costs of living, benefit

¹ *Voices from the Frontline: the impact of direct deductions from Universal Credit Payments:* www.cas.org.uk/publications/voices-frontline-impact-deductions-universal-credit-payments

² *Rent Arrears: Causes and Consequences for CAB clients:* www.cas.org.uk/publications/rent-arrears

rates have been frozen since 2016. This has meant **a significant real-term squeeze on incomes for the poorest families** and leaves people with little financial resilience to deal with debts or unexpected shocks. In fact, the Joseph Rowntree Foundation indicates that adults without children receiving UC get only around 40% of the income needed to meet their Minimum Income Standard, while families with children receive only around 60%.³ The recent increase to the Work Allowances (i.e. the amount of money a claimant is able to earn before their UC entitlement is reduced) will improve this situation for some people. Ultimately though, many people simply do not have enough money to live on whilst claiming UC. Fixing design and delivery issues can help with the five-week wait and ongoing budgeting issues, but people need to be paid reliably and at a level that gives them enough to meet essential living costs.

Citizens Advice Scotland recommends that:

- > A single, **non-refundable assessment payment** is made available to all claimants during the five-week wait with immediate effect.
- > **Run-ons** of ESA, JSA and IS are made available to all claimants with immediate effect. Equivalent run-ons of Tax Credits should also be introduced.
- > The maximum permitted **deduction rate** is reduced further from 30% of the standard allowance.
- > DWP takes a holistic overview of a claimant's circumstances and allows claimants to **negotiate the rate of deduction** before it is applied, particularly if it may cause hardship.
- > DWP works with organisations representing social landlords to **harmonise the frequency of payments** of UC Scottish Choices and Alternative Payment Arrangements with Universal Credit payments and cycles of rent payments immediately.
- > DWP takes all steps to ensure the **prompt processing** of Universal Credit claims. In particular, it should ensure that additional information required from claimants, particularly in relation to housing costs, is appropriate and is processed in a timely manner.
- > **Benefit rates** should be 'unfrozen' and reviewed to ensure that people have enough money to live on.

For more information or CAB case evidence, please contact:

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³ See www.jrf.org.uk/report/does-universal-credit-enable-households-reach-minimum-income-standard