StepChange Debt Charity written evidence to the Work and Pensions Select Committee inquiry into the five-week wait

About StepChange

StepChange Debt Charity is the largest provider of free specialist debt advice in the UK. In 2019, 635,000 people contacted StepChange for help and support and we provided full debt advice to over 300,000 people.

In 2019, StepChange published a join briefing with the Trussell Trust examining the impact of the five-week wait, *Hardship now or later? Universal credit, debt and the five-week wait*. In January this year, StepChange published a report, *Problem debt and the social security system*, setting out how Universal Credit and legacy benefits can exacerbate or cause financial difficulty and problem debt.

The impact of the five-week wait

To understand the impact of the five-week wait on those who are struggling with problem debt, we conducted a survey of StepChange debt advice clients and commissioned national polling.[1] Our evidence indicates that the five-week wait remains a source of hardship and financial difficulty:

- Most clients (92%) affected by the wait had experienced some form of hardship or financial difficulty as a result.
- 65% had gone without or cut back on meals and food; 47% had fallen behind on rent; and 60% had relied on family and friends for financial help.
- In many cases, the wait had contributed to debt problems: as a result of the wait, 33% had used credit to pay for essentials, a key risk factor in developing debt problems, and 56% had fallen behind on existing debt repayments.

Clients told us in survey responses how the wait and subsequent repayment of advances had affected them. The following is a sample of these comments:

> *Repaying the money back each month left me in great financial difficulty, I've had to attend food banks and felt very low as I had to cut back on things for my son.*
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> *[It] caused my depression to get worse which affected my children. I fell behind on my bills and now have debts being pursued by debt collectors which is causing more stress and anxiety.*
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> *Five weeks without money & to keep borrowing from my parents who don't have the money to lend me was exceptionally hard for us all in the family. My parents had to cut down their shopping & other spending to help me out with money. I had an advance payment of £50 which in this day & age goes nowhere.*

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[1] StepChange Debt Charity (2020) *Problem debt and the social security system*

> *They [DWP] are deducting about £65 from my monthly benefit to pay back the advance which is leaving me even more short of money. I asked them if they could reduce the monthly repayment amount so that I pay it back over a longer period, but they said they were unable to do that.*
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> *The stress caused by the wait and the subsequent [lower] payments has led to bouts of depression and constant worry over how I'm going to manage to meet my financial obligations. During my first year on Universal Credit I was twice issued with a Notice of Possession Order from my landlord because I couldn't meet my rent payments with the money I was getting.*

Universal Credit advance payments worth up to 100% of the value of the first payment have undoubtedly helped many people. However, the five-week wait continues to cause problems despite the availability of advance payments for several reasons:

- Some of those accessing support continue to experience difficulty accessing advance payments – reasons for this include eligibility criteria (claimants must be able to show hardship to access an advance payment), ID verification delays or obstacles, communication problems and administrative errors.
- The repayment of advances through deductions from subsequent monthly payments often causes hardship or financial problems. To illustrate this issue, the monthly repayment of a 100% advance payment for a single parent with two children entitled to a full (not tapered) Universal Credit payment would be £73. The average budget surplus – the amount remaining after accounting for essential expenses – of StepChange clients who are single parents is £24. (In fact, 31% of single parent clients have a budget deficit.)

This example is typical: those applying for support often do not have the flexibility to make substantial debt repayments. This means the repayment of advances is rarely affordable and tends to spread difficulty over a long period. Spreading repayment may appear helpful but when unaffordable can precipitate hardship and financial crisis just as easily as a larger, short-term income shock.

The negative impacts of the five-week wait on households do not exist in isolation and are often compounded by other problems linked to the design of Universal Credit. These include a lack of control over payments, unpredictable fluctuations in support, unaffordable deductions to repay overpayments and other debts (other than advance payments) and persisting administrative delays and errors.

When we asked clients if receiving Universal Credit had made it easier or harder for them to budget and manage their financial situation, 9% chose easier and 65% harder (23% selected neither and 3% ‘unsure’). Our national population polling indicates that 25% of those receiving Universal Credit are affected by problem debt, three times the rate among the general population (8%), and 11% more than those receiving legacy benefits (14%).[2]

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[2] Large national poll conducted by YouGov Plc. Total sample size was 4,972 adults. Fieldwork was undertaken between 28th November - 2nd December 2019. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

Policy options to address the five-week wait

StepChange supports people affected by financial difficulty and problem debt. The most common reason households struggle with debt is a combination of an underlying lack of financial resilience, driven primarily by low income, and income shocks, most often linked to unemployment and illness. Through our advice work, we see how important it is that the social security system supports people to make ends meet and stabilise their financial situation. The five-week wait works directly against these aims and does not have any compelling public policy grounds. It is imperative that the five-week wait is designed out of Universal Credit as soon as possible.

The committee's call for evidence highlighted the range of options that have been proposed to mitigate or eliminate the five-week wait. We do not agree this range of options reflects a lack of agreement about solutions; rather, the problem is complex and more than one solution is needed to effectively eliminate the wait.

Any solution must address the wait for both those receiving legacy benefits who transition to Universal Credit (through natural or managed migration) and those who make a new claim for support. These groups have distinct needs, and there is no 'one size fits all' solution. This means a combination of solutions is needed:

- Extending the 'run-on' of legacy benefits from Housing Benefit, JSA, income support and ESA to tax credits, which would prevent a gap in payments for those making the transition to Universal Credit from legacy benefits. This is important because for households with children and those affected by disability tax credit payments are often the largest component of support.[3]
- Turning advance payments into a non-repayable grant for those making new Universal Credit claims. While significant, this step is necessary to stop passing on significant debt to financially vulnerable households and prevent continuing waves of hardship and harm for those accessing Universal Credit. Grants could be targeted at more vulnerable groups: however, most of those who apply for Universal Credit are vulnerable to financial difficulty and the most effective and fair approach would be to provide grants to all claimants.

In the longer term, there are a wider range of steps needed to put Universal Credit on a sustainable footing, such as introducing more flexibility in assessment periods and more control over payments – StepChange has set out reforms needed to ensure Universal Credit works for those affected by problem debt.[4] While we believe further reforms are needed as soon as possible, such changes should not delay urgent action to address the five-week wait.

One of these steps is the introduction of greater flexibility to backdate support for new applicants. Universal Credit claims can only currently be backdated in limited circumstances (for example, where

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[3] This approach would not eliminate the need for advance payments entirely since some households migrating to Universal Credit will be eligible for a higher level of support due to a change in circumstances; however, it would both greatly reduce the number of households that need an advance payment and reduce the amount of the advance needed.

[4] StepChange Debt Charity (2020)

someone was unable to make a claim due to illness). Our experience as a debt advice provider is that many people delay accessing support for a number of reasons, including excessive optimism about their situation, stigma, a lack of knowledge of the support available, and difficulty managing their situation due to multiple pressures, often compounded by mental health problems. Allowing new Universal Credit claims to be backdated by at least a month would end the wait for many households because, from the point they first claim, they would immediately be eligible for a payment covering the last month (if they had no source of income during this period).

Technical issues have been cited as a barrier to addressing the five-week wait. We do not underestimate these issues, but the government must be transparent about the nature of these barriers, the relative costs and benefits of addressing them, and clear about the pathway to removing arbitrary limitations on the design of the social security system. More generally, learning occurs in any complex and large-scale programme and policy and political conditions change: one clear lesson from Universal Credit is the need for policy makers to develop infrastructure that is flexible and future proofed as far as possible.

Suspending deductions from Universal Credit

The economic impact of Coronavirus has increased the urgency of acting to mitigate the negative impacts of the five-week wait. The large influx of people into Universal Credit during the social distancing period means that an effective approach must address both the five-week wait for future claimants and support those who have recently made new claims. In light of the urgent need to mitigate hardship and support households, the government should suspend deductions from both Universal Credit and legacy benefits for 12 months.

Over half (54%) of StepChange clients receiving Universal Credit report having at least one deduction in place; 40% of clients had two or more deductions in place and 15% had three or more. Among clients, deductions are most frequently for Universal Credit advances, benefit overpayments and council tax debt, followed by rent and utility arrears. Most (93%) of those we surveyed affected by deductions had experienced some financial difficulty or hardship as a result.

The government has to date responded to evidence of hardship caused by deductions from Universal Credit by reducing the maximum percentage of the standard allowance that may be deducted (to 30% in 2019 and to 25% from October 2021, with an extended repayment period of 24 months introduced from the same date).

This approach will mitigate but not address the problem of unaffordable deductions. 25% of the standard allowance is currently between £86 and £149 each month – this amount can easily push households, particularly those with no other source of income, into hardship. The problem is not simply the maximum level of deductions but the practice of applying deductions at fixed rates within this threshold without regard to affordability. The inflexibility of the system is compounded by poor communication, including insufficient notice, difficulty obtaining basic information about deductions, and the absence of a single point of contact for those affected.

Among StepChange clients who responded to our survey with a deduction in place, 42% did not know they could discuss repayment with a DWP official; among those who contacted the Department for Work and Pensions to negotiate repayment, over half (55%) did not agree the repayment agreed was affordable.

The decision to reduce the maximum rate of deductions reflects an acknowledgement that the system is causing hardship, but the solutions put in place will not address that hardship. The government should now suspend non-priority deductions and use the period of suspension to introduce a sustainable approach to managing debt within Universal Credit, amending legislation and regulations where necessary. (‘Priority’ deductions are those, such as rent arrears repayments, that may be necessary to maintain access to essentials.)

The National Audit Office recently highlighted that the government lags behind the consumer credit industry in good debt management practice. The system of debt recovery in Universal Credit illustrates this problem. The government should now seek to match or exceed the standards of the consumer credit regulatory framework overseen by the Financial Conduct Authority, which requires creditors to suspend repayments that are unaffordable. This should include:

- accepting industry-standard affordability assessments, adjusting and deferring repayments where appropriate;
- introducing a single ‘one stop shop’ point of contact for those affected by deductions; and
- improving communications by providing sufficient notice and clear information about deductions, and signposting to free debt advice.

At present, Universal Credit too often undermines rather than supports financial resilience and causes hardship and poor outcomes: the five-week wait is the primary driver of these problems. The present approach is not sustainable in the long-term. The economic dislocation precipitated by Coronavirus will prompt further reflection on the purpose and effectiveness of the safety net. The government can best respond by acting urgently to fully address the five-week wait and engaging constructively in a dialogue about the future direction of the social security system.