



HARDSHIP NOW OR HARDSHIP LATER?

UNIVERSAL CREDIT, DEBT AND THE
FIVE WEEK WAIT



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Our aim is to end hunger and poverty in the UK. We support a nationwide network of food banks and together we provide emergency food and support to people locked in poverty, and campaign for change to end the need for food banks in the UK.



Our vision is to create a society free from problem debt. By helping those in debt get back on their feet, and by campaigning for policies that aim to prevent problem debt, we'll help overcome the difficulties that debt creates for our society in the 21st century.

FOREWORD

GARRY LEMON, DIRECTOR OF POLICY & EXTERNAL AFFAIRS, THE TRUSSELL TRUST

We think of ourselves as a nation built on justice and compassion, and our public services are a testament to these values. Our benefits system was created to anchor people from being swept into poverty. But Universal Credit, the Government's flagship new benefits system, isn't the poverty-fighting reform that was promised.

If someone finds themselves in need of Universal Credit, that's because our system has recognised they need some extra support right now. But every person needs to wait at least five weeks for their first payment, and we know that even when people's payments come through intact, all too often that sum is too small to scrape by on.

Unaffordable loans and repayments aren't the solution to this five week wait. Last year, the biggest reason for a referral to a food bank was benefit payments not covering the cost of living. It's no surprise that taking money off these already low payments pulls people deeper into crisis right at the very point when support is most needed.

That's why we at The Trussell Trust started the #5WeeksTooLong campaign, and why we're proud to work with debt charity StepChange to bring together evidence showing the harmful impact the 5 week wait and deductions can have.

The Government can't look away any longer – they must listen, and end the wait now.

PETER TUTTON, HEAD OF POLICY AT STEPCHANGE

At StepChange, we know the harm that problem debt can cause. We know that millions of people are struggling to keep one step ahead of severe financial difficulty. For the most financially vulnerable, the margin between making ends meet and falling into debt can be impossibly tight.

So it is vital that Universal Credit is effective in doing the job that it needs to do – helping people to cope with income shocks, and at the very least to keep up with their essential household bills. The evidence from The Trussell Trust tells us this is not the case, with more people now needing help from a food bank.

Our own research shows benefit deductions for debt repayments leaving households short of what they need to get by, with many forced to borrow to make up the difference. With over a million people already using high cost credit to fill holes in their monthly budget, it must be a priority to not make this debt trap worse.

Elsewhere we have seen some good commitments from Government aimed at helping people recover from financial difficulties with less harm and hardship. It makes absolutely no sense at all for this good work to be undermined by failures in the design of Universal Credit. The stakes here are very high, so StepChange is joining with The Trussell Trust to call on the Government to think again.

KEY ASK

Remove the need for bridging loans by ending the five week wait

- **In the short term**, the DWP should offer Advance Payments as non-repayable grants, at the very least for the most vulnerable groups (e.g. using the DWP's own definitions of hardship)
- **In the long term**, remove the need for bridging payments by ending the 5 week wait
 - Pay Universal Credit after two weeks and pay awards fortnightly: This would mean the wait for a first payment is automatically shortened by making the 'assessment period' (after which a payment is made) two weeks rather than a month.
 - Backdate the first assessment period, so that the payment date falls with the start of a claim: This would mean a first proper payment would start straight away, excluding any administrative time to set up a payment.

BACKGROUND

Universal Credit was introduced as part of the Coalition Government's welfare reforms in the Welfare Reform Act 2012, merging the six largest working-age benefits into a single payment. The system has gradually been rolling out to new claims from 2013.

As of April 2019, two million people are on the system, with 200,000 moving now onto the system per month. By the end of 2018, the roll-out of Universal Credit to jobcentres was complete – all jobcentres now process any eligible new claimants under Universal Credit rather than old 'legacy' benefits. By 2023, all existing eligible claimants currently on the legacy benefits system will have to move to the new system. When full transition ends, eight million households will be on Universal Credit.

One of the most recognisable features of Universal Credit is the wait for the first payment – once a claim is submitted, all households receiving the benefit must wait at least five weeks for the first full Universal Credit payment. This wait is a consequence of Universal Credit being paid monthly, and in arrears – the five week wait includes the first month after which you receive a payment, plus five processing days to set up payments.

The Government argues that monthly payment in arrears is a way to mimic monthly wages; a rationale that is arguably flawed given the majority of new claimants moving onto the benefit from work will have been paid more regularly.¹ Nevertheless, it has recognised that the wait for a first payment can create problems and made some changes, including reducing the wait from six weeks in February 2018. However, this is still a substantially longer wait than for legacy benefits, which is typically around two weeks.

The Department for Work and Pensions (DWP) currently provides financial assistance for new Universal Credit claimants during the five week wait through 'Advance Payments'. This is a loan which claimants must pay back through automatic deductions in their monthly payments. Repayments can push people into hardship, and may not be the only debt claimants are paying back.

¹ Resolution Foundation (2017) [Universal Remedy: Ensuring Universal Credit is fit for purpose](#).

There is strong evidence that one of most immediate impacts of the wait for the first payment is household debt. This briefing brings together evidence from StepChange and the Trussell Trust, two organisations working on the frontline supporting people in financial hardship. It illustrates the significant impact of the five week wait – either through waiting for five weeks without any income, or from dealing with the impact of Advance Payment deductions from later payments.

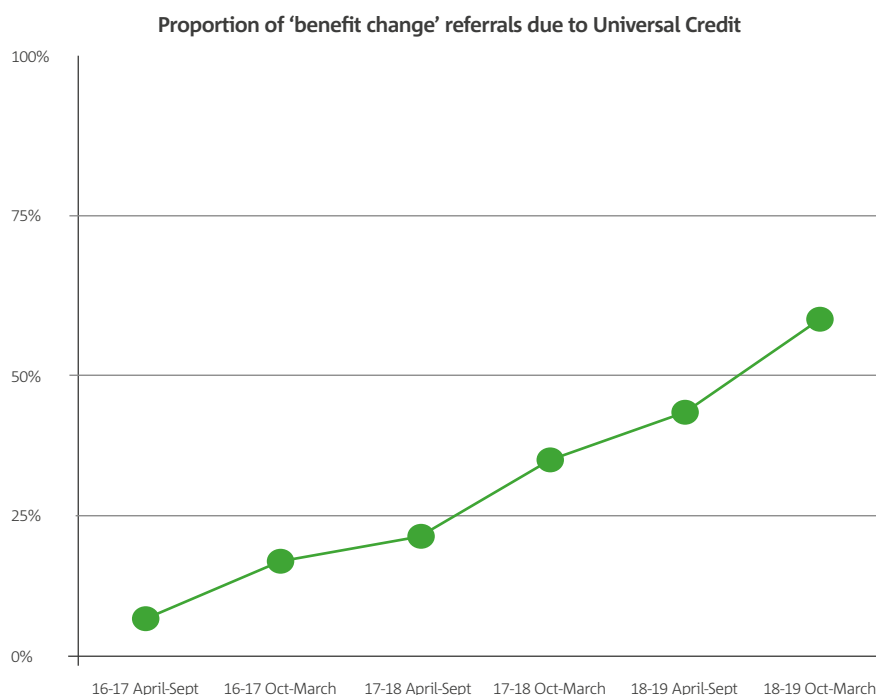
IMPACT OF THE FIVE WEEK WAIT

- **Waiting for Universal Credit can cause severe and immediate hardship for claimants**
- **Going five weeks or more with no income can lead to debt and rent arrears**
- **Hardship is felt particularly by people with additional inescapable costs, like disabled people and families with children**

Going five weeks with no income can cause severe and immediate financial hardship to people moving onto Universal Credit, during the waiting period and into their claim.

The Trussell Trust has gathered evidence showing the impact on demand for food banks in its network. Analysis in 2018 from the Trussell Trust on food bank referral data showed a 52% average increase in food bank use in areas that had Universal Credit for 12 months or more compared to 13% in areas that had not yet gone live with Universal Credit, or had been live for three months or less.

Critically, the latest data on referrals indicates the wait for Universal Credit is a continuing problem, despite attempts to lessen its impact by the Government. Benefit delays are a growing trigger for referral to a food bank, and waiting for Universal Credit increasingly accounts for referrals in this category. The Trussell Trust can analyse detailed information about the type of benefit payments people at food banks experience using data gathered from electronic food bank referrals. Between April 2018 and March 2019, 49% of electronic food bank referrals made due to a delay in benefits being paid were linked to Universal Credit.²



² E referrals allow Trussell to a) collect more info than traditional paper vouchers and b) data comes from a sample within the network

WAITING FOR A FIRST UC PAYMENT AND DEBT

Many frontline organisations have reported that the most common experience amongst claimants moving onto Universal Credit and waiting for their first payment was debt. Research undertaken by the Trussell Trust in March 2018 found that debt was a common experience amongst Universal Credit claimants forced to use a food bank during the wait for the first payment.³

The DWP's own Universal Credit claimant survey found that over two-thirds (65%) of claimants in arrears fell into debt after they made their claim. This may in part explain why the survey also shows little improvement in people's financial security in the first year of Universal Credit. At three months into their claim, 44% of Universal Credit claimants surveyed said that paying their bills was a constant struggle or they were falling behind on payments. At nine months in, this was broadly stable at 40%, showing little improvement to people's ability to afford the basics on Universal Credit.⁴

Since then, some improvements have been made to offer assistance to claimants, like increasing the accessibility and value of Advance Payments, improving access to 'alternative payment arrangements',⁵ a two-week run-on of Housing Benefit, support for families in temporary accommodation, and the reduction of the wait for the first full Universal Credit payment from six weeks to five weeks.

However, debt remains a prevalent outcome of the wait for the first payment. Citizens Advice reported that the five week wait for a first benefit payment still left nearly half of the claimants it advised unable to pay household bills or forced them to go without basics such as food or heating, while 54% had to borrow cash from family and friends to stay afloat.⁶

Since February 2019, the Trussell Trust has been gathering stories from food banks in its network showing the impact of the five week wait on household finances. A prevalent theme has been the role of the five week wait in pushing people into, or further into, debt and arrears.

Box 1: Arrears, debts, and the threat of sanction

Jenna, is a single woman who was working full time but she lost her job and has been unable find another contract. She applied for Universal Credit and was told it would be 6.5 weeks until her first payment. The week her payment was due she was told that she would have to wait another week.

Jenna has two weeks' rent arrears and her gas and electricity bills are due and she is worried about these. Her mobile phone bill is due as is her home internet bill. She has already agreed a four week extension to paying her home internet, but is now in danger of being cut off. She says that she doesn't know how she will fulfil her work search obligations if she loses access to the internet. She told us:

"I'm expected to make calls or access my Universal Credit account via the internet. (If I get cut off) how will I search and apply for jobs?"

The only support from her job coach to her financial situation is that she was encouraged to go to the Citizens Advice to get a food bank voucher.

³ The Trussell Trust (2018) [Left Behind: Is Universal Credit really Universal?](#)

⁴ DWP (2018) [Universal Credit full service survey](#)

⁵ Alternative payment arrangements include changes such as moving from monthly to fortnightly payments. [GOV.UK source](#)

⁶ Hobson et al. (2019) [Managing money on Universal Credit](#). Citizens Advice.

Jenna has waited for her first Universal Credit payment for nearly eight weeks already, and cannot make any commitments to pay her bills by a certain date as she still doesn't know when it will be paid. She said:

“I had regular monthly financial commitments before being made unemployed and now I am being pushed into debt owing / falling behind on essential home bills because of the five week wait...I cannot make any promises to pay my commitments due to the Universal Credit uncertainty”

ADVANCE PAYMENTS

The DWP has acknowledged the need for support during the five week wait, and has responded with some additional support, as noted above, and more recently seeking to improve their offer of advice through transition.⁷

The most common form of support offered to claimants while moving onto Universal Credit is an Advance Payment – a loan valued at up to 100% of your first Universal Credit payment, paid back through deductions in your monthly payments as soon as they begin. Claimants can choose the amount of Advance Payment they apply for, but they must be paid back within 12 months of the payment. From October 2021, the Government plans to change the repayment period to 16 months, to improve affordability.

Evidence from the frontline suggests these loans can push people further into hardship when they need support most.

1. Repayments don't take into account people's ability to afford them

When it comes to lending and repaying money, it's vital that this is done in an affordable way. In the private sector, it's best practice for consumer credit firms and debt collectors to complete an income assessment of the person and then set repayments at a level that won't push people into hardship.

But that is not how Advance Payments work – deduction levels are set at fixed levels by the DWP and these can be hard to challenge, even if you fall into financial hardship while repaying. In some cases, you can have your repayment levels renegotiated, but this is rare – and by that point, you're likely already to be in financial difficulty, and may be in arrears on other bills.

⁷DWP's 'Help to Claim' service, launched in full in April 2019

Box 2: Deductions from Universal Credit

The Department for Work and Pensions may deduct up to 40% of the Universal Credit standard allowance to repay certain debts. (The government has committed to decrease this threshold to 30% from October this year.)

The standard deduction rates are:

Type of debt	Deduction rate
Advance payments	The amount of the advance divided by 12, but no more than 40% of the standard allowance. ⁸ Payment may be deferred by up to three months in exceptional circumstances but repayment must be completed within 15 months.
Budgeting advances	The amount of the advance divided by 12, but no more than 40% of the standard allowance. Payment may be deferred by up to six months in exceptional circumstances but repayment must be completed within 18 months.
Benefit overpayments and civil penalties	Up to 25% of the standard allowance or 15% if earnings are less than the work allowance. Recoverable hardship payments, administrative penalties and overpayments caused by fraud may be made up to 40% of the standard allowance.
Rent arrears	A minimum of 10% and a maximum of 20%. Where a sanction or penalty is applied, or an advance is being recovered, 10% may be deducted even if this takes total deductions above 40%.
Third-party deductions including gas, electricity and water arrears, owner-occupier housing costs and Council Tax	5% may be deducted each. If the total amount deducted for gas, electricity and water amounts to more than 25%, the claimant must consent to the deduction being made.
Fines	A minimum of 5% and no more than £108.35.

'Last resort' deductions may be made that exceed 40% of the standard allowance where a DWP decision maker considers this to be in the claimant's best interest to avoid eviction or disconnection from fuel utilities. Where someone has fuel or water arrears, deductions may also be made for ongoing consumption above the 40% cap.

⁸ The repayment period (before any exceptional circumstances are considered) will be increased to 16 months from 2021.

Where more than one deduction is applied, the interaction between different deductions may be complicated. A priority order is applied, beginning with deductions for fraud and conditionality sanctions, followed by advances and 'last resort' deductions like rent and gas before 'social obligation' deductions including council tax.

If someone is struggling financially and deductions amount to more than 10% of the standard allowance and are being made for a benefit debt, a Social Fund loan or rent arrears, they can ask for the amount of those deductions alone to be reconsidered on the basis of financial hardship. The financial hardship decision is made by the Debt Management team if deductions are being made for a benefit debt or Social Fund loan, or a DWP decision maker if deductions are being made for rent arrears only.

Other deductions remain set at fixed rates and cannot be reduced (with the exception of the flexibility to vary repayment of fines and the possibility of a payment break for advances).

Source: Universal Credit Full Service Guidance, updated 28 March 2019, www.rightsnet.org.uk/universal-credit-full-service-guidance

StepChange research shows the effects that taking money from people's benefits to repay debt. Of StepChange clients who had money deducted in this way, 71% say that it has caused them and their family hardship.⁹ Specifically:

- As a result of deductions, **a quarter (26%) had cut back on food spending and a further 25% found it difficult to pay for heating.**
- **40% fell behind on other household bills** – meaning that deductions could actually be contributing to the cause of the problem they are trying to solve, by pushing people further into debt.
- **20% had to use credit to pay essential household bills** (rent, mortgage, energy bills, and council tax) due to deductions – a strategy we know increases people's risk of falling into further problem debt.
- **16% had to use high cost credit** to make up a payment shortfall caused by deductions.

Some deductions from Universal Credit are judged to be in a claimant's best interests, such as repaying rent arrears to ensure someone can stay in their home. However, most deductions (including many labelled 'priority debts') are not made for this reason and are made without checking if they are affordable and in someone's best interests. In fact, DWP guidance states that some hardship is inevitable when overpayments are collected.¹⁰ Hardship should not be tacitly accepted as an inevitable by-product of debt collection: this is simply not the case and government standards for debt collection should make this clear.

⁹ StepChange Debt Charity (2016). Survey of 827 StepChange Debt Charity clients.

¹⁰ DWP (2018) [Benefit overpayment recovery guide](#), p38 paragraph 5.70.

Box 3: Worked example: the impact of deductions on single parent families

This example is based on the typical circumstances reported by StepChange clients who are single parents.

Sam is a single parent with two children, aged in her late twenties. Sam lives with her children in a privately rented two-bedroom flat and pays £400 in rent each month.

Sam has worked on and off in the last few years due to difficulties finding stable work that fits around childcare and has struggled to cope financially as her income has fluctuated. As a result, Sam has a number of debts and arrears, including:

- A tax credit overpayment to repay linked to complex childcare reporting arrangements and confusion over reporting changes in circumstances.
- Arrears of £1,000 on council tax and £700 on the water bill.
- Credit card and catalogue credit debts of £3,000.
- Hire purchase debt of £900 for a washing machine, cooker and television.

Sam is eligible for a Universal Credit payment of £1,227 (including the housing element) and Child Benefit of £149.07, taking the total support she receives to £1,375.64.

When Sam applied for Universal Credit, she took out an advance payment of £1,000 to cover her rent and expenses while waiting for the first payment.

Sam is likely to have a number of deductions automatically applied to her Universal Credit standard allowance (which makes up £318 of the total payment):

- Between 10% and 20% can be deducted to repay rent arrears.
- Up to 40% of the allowance can be deducted to repay the advance payment.
- A further 5% each can be deducted to repay both council tax and water arrears (so 10% in total).
- Up to 15% can be deducted to repay benefit overpayments, in this case Sam's tax credit debt.

Following these deductions, £127 would be deducted from Sam's Universal Credit payment, the full 40% of the standard allowance allowable for deductions in most circumstances. While Sam can try to negotiate lower repayments, the flexibility to change deductions is

limited and, under the current guidance, Sam is unlikely to be able to significantly reduce the deductions applied.

Among StepChange clients who are single parents and have an income between £1,300 and £1,400, 36% currently have a 'deficit budget', which means they have less money coming in than they need to pay for basic essentials; if a £127 deduction in income is applied to this group, the proportion with a deficit budget rises to 75%, leaving most to choose between basic necessities like food, clothing and heating their home.

2. Even small deductions can have a big impact on people living on a financial knife-edge

Deductions are capped at 40% of the core element of your Universal Credit payment (known as the standard allowance).

The DWP says most people don't pay this much. However, it does not routinely make available figures about the level of repayments for Advance Payments. In 2017, the National Audit Office (NAO) found that the average monthly repayment for Advance Payments was around £43 a month (or 8% of the average monthly Universal Credit payment).¹¹ DWP figures obtained through parliamentary questions show that, of all claimants on Universal Credit as of September 2018, almost a quarter (24%) had a deduction above 20% of their standard allowance.¹² In total, almost four in ten (39%) were paying over 10%.

These rates can be hugely significant for people, especially those living on benefits designed to provide only a minimum amount needed to live on. Trussell Trust research has shown that some people on Universal Credit might not have enough to cover even basic essentials like food, because of cuts to the system and the freeze on working-age benefits.¹³ Research by StepChange found that even a deduction of just 5% would push nearly half (47%) of StepChange clients on benefits into a negative budget, meaning they would not have enough money to cover their essential costs.¹⁴

This highlights how any level of deduction can be problematic. The Government has committed to reducing the overall cap on deductions from 40% to 30% in October 2018. Yet a 30% deduction tips 65% of StepChange clients on benefits into debt, only slightly less than the proportion when a 40% deduction is applied (70% pushed into negative budget).¹⁵ This change is therefore unlikely to tackle the problem. As our research shows, the fundamental problem is that when people do not have enough money to get by, even relatively small deductions can lock people into poverty.

¹¹ National Audit Office (2018) [Rolling out Universal Credit](#)

¹² Answer to [Parliamentary Written Question - 196810](#), Catherine West MP, 28 November 2018

¹³ [Left Behind](#), 2018

¹⁴ Based on StepChange Debt Charity clients, who came to the charity for debt advice in 2017 and who had some benefit income. The figures were calculated using the single person Standard Allowance rate for Universal Credit for 2018-19 (£317.82)

¹⁵ *Ibid*

Box 4: Hardship now or hardship later?

Simon was referred to his local food bank, after recently separating from his partner, who he lived with along with their children. Following the break-up he was made homeless, and had to move into temporary accommodation. The temporary accommodation he's currently housed in does not permit his children to stay or visit so this limits his contact with them.

Simon is unwell and not able to work at the moment. He made a Universal Credit claim and was offered an Advance Payment, which he took up. He has now started receiving his Universal Credit payments. However he has found that the deductions to repay the Advance Payment are too high and he does not have enough money to last the month. He hasn't been able to afford food, which is why he needed a referral to the food bank. He thinks moving onto fortnightly payments may help him but he has not been offered this and did not know that he could ask for it.

3. You could be hit by multiple repayments, including ones you didn't know you had

It's hard to budget for paying back arrears – particularly if, like many people in financial hardship, you have multiple debts you need to repay. And the DWP's own claimant survey found that 27% of claimants didn't know that the Advance Payment was a loan that needed to be repaid.¹⁶

Even if you can afford to pay back your advance, this isn't necessarily the only thing you'd be repaying through an automatic deduction – you could be paying back a third party debt for energy bills or council tax. Depending on the level of your debts, these additional repayments could tip you above the 40% cap set by the DWP (see box 2).

DWP's own figures show that over half (440,000 people) of the 850,000 claimants who had a deduction to repay an Advance Payment also had at least one other debt resulting from a previous overpayment of benefit or DWP social fund loan.¹⁷ These additional repayments on top of repaying an Advance Payment only add to the financial strain people are under.

The Government is also using the move to Universal Credit to recover historic debts like tax credit overpayments, so people are finding themselves hit by surprise repayments for debts they didn't know they had. As of April 2019, around 340,000 Universal Credit claimants (about a quarter of claimants) were having deductions taken from their benefit to repay a previous tax credit debt.¹⁸

4. It's not just claimants themselves who feel the effects of Advance Payment repayments

Research by StepChange shows that worrying about debt, such as when unaffordable repayments are being taken, can hinder people's ability to find work or improve their hours, undermining some of the key policy aims of Universal Credit.

For example, six in ten people (61%) people said that worrying about debt made them feel less confident about getting a promotion at work, whilst 15% say that their debt worries led to changes in attendance such as arriving late or taking more time off.¹⁹

¹⁶ DWP (2019) [Universal Credit full service omnibus survey](#)

¹⁷ Answer to [Parliamentary Written Question - 249941](#), 8 May 2019

¹⁸ Answer to [Parliamentary Written Question - 255341](#), 21 May 2019

¹⁹ StepChange Debt Charity (2015) [Held back by debt](#)

5. It's not just claimants themselves who feel the effects of Advance Payment repayments

When people can't pay their rent because their repayments don't leave them enough to cover it, they fall into rent arrears which affect housing associations and private landlords.²⁰ Local authorities, like Southwark Council and Newcastle Council have said that the five week wait for the first Universal Credit payment is a strain on their finances due to crisis payments and rent arrears.^{21, 22}

WHAT NEEDS TO BE DONE?

It is clear that there is a fundamental issue with how debt is dealt with under Universal Credit. The Government has options to ensure the new benefit system acknowledges the reality of juggling bills on very low incomes and helps, rather than hinders, the financial security of claimants.

The box below outlines straightforward steps to make sure that where debt arises, Universal Credit encourages fairer and more sustainable debt management.

Box 5: Making deductions from Universal Credit affordable

Issues with the repayment of advances highlights the wider problem of unaffordable deductions being taken directly from benefits to repay debts. The present system of deductions from Universal Credit to repay debt is inflexible, difficult for the people affected to navigate and is failing to protect people against hardship. The DWP should urgently review the way deductions are applied, ensuring they are only used when they are affordable to the individual. StepChange recommends that the government:

- Commits to give people at least 28 days notice, through someone's preferred communications channel and the Universal Credit journal, when any deduction is applied, providing clear information about each deduction and referring to free debt advice with an explanation that deductions that are unaffordable can be negotiated.
- Use the Single Financial Statement (the standard income and expenditure assessment developed by the Money and Pensions Service and used in the debt advice sector) when considering the affordability of deductions.
- Make deductions to repay Advance Payments and Budgeting Advances more flexible by increasing the maximum repayment period to 24 months (to match the legacy Budgeting Loan system) and introduce more flexible payment suspension options or token payments where deductions cannot be made without hardship.

²⁰ For example: <https://www.24housing.co.uk/opinion/we-want-to-see-a-universal-credit-system-that-works-for-everyone/>

²¹ Gibbons & Walker (2019) [Reshaping Financial Support](#), Local Government Association

²² The Smith Institute (2018) [Safe as Houses 2](#)

- All deductions from benefits to repay debts should be included in the Government's proposed 'breathing space' and statutory debt repayment plan schemes, so that deductions are stopped for anyone under the protection of these schemes.

The government recently committed to publish a new cross-government Debt Management Strategy and Debt Standard.²³ The Department for Work and Pensions should use this opportunity to revisit its approach to deductions in Universal Credit and create a system that protects those at risk of hardship and ensure deductions are made only where they are affordable or in the best interests of the claimant.

Crucially, though, the Government must also address the ways in which the fundamental design of Universal Credit is creating or worsening debt problems – specifically through the five week wait for a first payment. If the Secretary of State is serious about making the new benefits system work for everyone, and ensure it is a 'force for good' it must not create financial insecurity from the outset of a claim.

To that end, the Government should remove the need for bridging loans when moving onto Universal Credit by ending the five week wait.

- **In the short term:** the DWP should offer Advance Payments as non-repayable grants, at the very least for the most vulnerable groups (e.g. using the DWP's own definitions of hardship)
- **In the long term:** the DWP must remove the need for bridging payments by ending the five week wait. There will be more detail in a forthcoming report from the Trussell Trust; in summary, two key options include:
 - Pay Universal Credit after two weeks and pay awards fortnightly: This would mean the wait for a first payment is automatically shortened by making the 'assessment period' (after which a payment is made) two weeks rather than a month.
 - Backdate the first assessment period, so that the payment date falls with the start of a claim: This would mean a first proper payment would start straight away, excluding any administrative time to set up a payment.

²³ Cabinet Office (2019) [Fairness Group joint public statement](#)