

# Managing Money on Universal Credit

How design and delivery of  
Universal credit affects how people  
manage their money



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# Summary

Universal Credit is one of the biggest changes to the welfare system since its inception. Bringing together six existing benefits, by the time it has rolled out around 7 million families will be receiving the new benefit - more than half of which are working families. This is a hugely ambitious programme, seeking to simplify the existing complicated benefit system and incentivise more people to start and progress in work.

While Universal Credit may be working for many, there are a significant numbers of people who are having problems - many of whom are in vulnerable situations and most in need of support. Since Universal Credit was rolled out we have helped over 190,000 people with issues relating to Universal Credit. Our evidence shows many people on Universal Credit are struggling to manage their money and cover essential costs particularly during the five week wait for their first payment. And while changes introduced by the Government since 2017 have started to help people they've only made a dent in the problem rather than fixed it.

Universal Credit is designed to be a single household payment, which includes housing costs, and is paid monthly. It uses HMRC real time information to respond to changes in income for many people, reducing the Universal Credit payment gradually as earnings increase. The benefits it replaces are:

- Income Based Jobseeker's Allowance
- Income Based Employment Support Allowance
- Income Support
- Working Tax Credit
- Child Tax Credit
- Housing Benefit.

Every area in the UK now has Universal Credit. The number of people claiming the benefit doubled to more than 1.4 million in 2018, and looks to increase by a further 1.6 million this year<sup>1</sup>. Currently only new claimants and existing benefit claimants who've had a change of circumstances need to apply. From later this year the Government will start testing the process for moving people on legacy benefits onto Universal Credit, a process known as 'managed migration'.

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<sup>1</sup> Amber Rudd, Hansard, Universal Credit: Transition, January 2019

We support the aims and principles of Universal Credit to simplify the benefits system. However, there a number of ways that Universal Credit is different to legacy benefits which will have a significant impact on how people are expected to manage their money. A rigid design is built around the single monthly assessment and payment period providing a one size fits all model for the vast majority of people who claim it. There is a stark difference between the fixed way the system operates and the way many people currently budget. This presents particular challenges for people currently used to receiving their income more frequently, whether through legacy benefits, work or a combination of the two, and creates a five week wait for a first payment. Advance Payments - which are currently helping 6 in 10 people<sup>2</sup> during the five week wait for their initial payment, are also the largest cause of high deductions from benefit income in the following months.

We welcome changes the Government has made to the design of Universal Credit since 2017 and the recent additional investment in the system in the 2018 Budget. These changes include those intended to help people manage their money such as:

2017 Budget changes	Introduction
<b>Maximum Advance Payments (AP) were increased</b> to 100% of the estimated final award and <b>offered to everyone</b>	January 2018
<b>Repayment periods for APs were increased</b> , so people have a year to pay it back - up from six months	January 2018
<b>7 'waiting days' were removed</b> , reducing the wait for those paid on time from 6 to 5 weeks	February 2018
People moving from legacy benefits were given <b>two more weeks of Housing Benefit</b> during the five week wait. This is known as a run-on	April 2018
Upcoming changes	Date
<b>Work Allowances will be increased</b> , providing 2.4 million households with either disabled people and children with up to £630 more a year	April 2019
<b>Reducing the cap on deductions</b> from 40% to 30% of the standard allowance - typically from £127.13 to £95.35	October 2019

<sup>2</sup> Parliamentary Question 190996, November 2018

Introducing two weeks of <b>run-on of JSA and ESA</b> for people moving from legacy benefits	July 2020
<b>Increasing the repayment period</b> for Advance Payments from 12 to 16 months	October 2021

**Our evidence suggests that changes made through to April 2018 to address these problems have started to help people cope with the wait for a first payment.** Nearly half of all UK adults have savings of less than £2,000<sup>3</sup>, and the trigger for moving onto UC is often a disruptive change of circumstances like losing a job or breaking up with a partner. So the wait for a first payment has often meant that people claiming UC aren't getting financial support when they need it. Since 2017 Budget changes were fully implemented in April 2018 we've seen reductions in the proportions of people we help who are falling behind on bills (from 58% to 48%) or are having to borrow from family and friends (from 69% to 54%) during the initial wait for a payment. There has also been a noticeable improvement in the proportion of those who go without essentials, such as food and heating, during the wait (from 60% to 46%).

Some further improvements may come from the two week run-on of Employment and Support Allowance and Jobseeker's Allowance once it is introduced in July 2020. However, this latest change won't help the hundreds of thousands of people moving on to the benefit before that time or those in receipt of Tax Credits. People who haven't previously received benefits and make a new claim for Universal Credit will also still face a five week wait.

**The changes already enacted have made a dent in the problem, but they have not fixed the issue.** Challenges with the wait for an initial payment still leave half of the people we help unable to keep up with bills, rent or going without essentials. The debt and arrears that can build up during this period can have knock-on problems that make it harder to manage financially in the medium to long term.

Rent arrears during the wait for a first payment continue to affect around half of the people we help and debt is still more common for those on Universal Credit than those claiming legacy benefits. Compared to those claiming legacy benefits, people on Universal Credit are particularly likely to have priority debt, such as rent, council tax or utility bills, that can leave them at risk of being evicted, having their electricity or gas cut off or exposed to aggressive collection practices.

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<sup>3</sup> Financial Conduct Authority, The financial lives of consumers across the UK, June 2018

Many people Citizens Advice help do not have enough to live on, and people claiming Universal Credit have less income available to repay debts than people claiming legacy benefits. Investments in work allowances from April 2019 will improve the situation, but many people still face losses as they move onto UC.

High levels of deductions also lower monthly income. A single person over 25 claiming Universal Credit can see up to £127 taken per month to repay existing debts.<sup>4</sup> We welcome the announcement that from October 2019 this will be reduced to £95, but we still have concerns. Deductions in Universal Credit were taken from more than half of all payments in September 2018<sup>5</sup>. These are designed to help people manage their debts, keep their housing secure and their gas and electricity on. However, some people can't afford the amounts that are taken, and they often don't understand when or why they happen. Along with other debt repayments this reduces income and can increase the unpredictability of their finances over a longer period of time.

**The move to monthly payments for everyone doesn't reflect the reality of many people's lives or how they manage their money.** This is a fundamental change from the legacy system, where different benefits had their own payment schedules and were often paid weekly or fortnightly. Citizens Advice found last year that only 45% of the people we help who were in work before claiming UC were paid monthly<sup>6</sup>. Housing payments will no longer be made directly to landlords, which is a potential factor in the increase of rent arrears under Universal Credit. Payment dates aren't scheduled to align with wage slips. These changes can cause budgeting difficulties for many people moving onto the new benefit.

**Alternative Payment Arrangements (APAs) - designed for people who are struggling to manage their money - are not available widely or used effectively.** APAs are designed so that people who are struggling with some of the standard design features of Universal Credit can have some extra support. There are three APAs - one which pays housing support direct to the landlord, one which provides more frequent Universal Credit payments, and another which pays Universal Credit to both members of a couple rather than just one.

Significant design changes in Universal Credit are required, but APAs can ensure that people don't experience unnecessary hardship and budgeting challenges today. However, they have design issues which means they don't work as they

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<sup>4</sup>The cap is a percentage of the standard allowance, so is different couples and young people

<sup>5</sup> Parliamentary Question 196809, November 2018

<sup>6</sup> Citizens Advice, Universal Credit and Modern Employment: Non-traditional work, April 2018

should. Rigidity in the system and lack of awareness on the part of people asking for them means that APAs are often accessed only once significant arrears have built up. Take up of some APAs is very low. Only 3% of people who claim receive more frequent payments and just 20 households currently receive split payments to different family members. Only 4 in 10 of the people we help are aware about managed payments to landlords. Just 1 in 6 know payments can be made more frequently, but 6 in 10 would take this option if they knew about it and could<sup>7</sup>. This suggests they are not being widely offered to people who might benefit from them.

Despite welcome policy changes and improvements for some, too many people on Universal Credit are still struggling to manage their money. In January 2019, the Secretary of State promised a “*fresh look*” at Universal Credit, signalling a more flexible system that can be adapted to suit the way people live their lives<sup>8</sup>. This is a welcome direction, but more significant reform of the system is needed so that Universal Credit pays enough money for people to live on and is designed in a way which works for everyone.

## Summary Recommendations

To meet the scale of challenges still affecting people who claim Universal Credit more action is needed. Some long term changes to the design of UC should be explored, but today’s challenges also require action sooner than current proposals are set to be enacted.

- 1. Make sure people can access adequate financial support at the beginning of their claim** and look to improve Universal Credit design to reduce the wait.
- 2. Ensure Universal Credit provides enough to live on** by reviewing how benefit rates are set and ensuring deductions are manageable.
- 3. Help people to budget by designing Universal Credit around real lives**, providing greater flexibility in how UC is paid and income is assessed.

*For detail on these recommendations, see the yellow boxes throughout the report.*

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<sup>7</sup> Citizens Advice, Universal Credit Full Service Monitoring Survey, Nov 2017 - Nov 2018, Base: 762

<sup>8</sup> Amber Rudd, Speech about the future of Universal Credit, January 2019

# Research method

To understand the financial issues the people we help face, we used a range of quantitative and qualitative research methods.

Quantitative research looked at people we help and frontline advisers in England and Wales including:

- Analysing existing client data from our Money Advice Recording Tool (MART)
- Surveying people who come to us about Universal Credit
- Surveying our frontline advisers

Our MART collects in depth data on debts, creditors, incomes, expenditures and demographic information. For this report, we analysed data from April to June 2018, including 1,551 debt clients claiming UC and 5,178 claiming legacy benefits.

Our survey of the people we help with UC asked about experiences of debt and other financial coping mechanisms during the wait for first UC payments. It reached 1,193 people who came into 57 offices in England and 5 offices in Wales from July to September 2018. We also surveyed 111 advisers in March and a further 179 in November 2018 to ask them about experiences helping people with deductions issues. In August, we included questions on Universal Credit on a survey of the 2,034 adults in Great Britain carried out by ComRes.

Qualitative research involved interviewing advisers and people we help in England during the spring and summer of 2018. We interviewed 8 frontline advisers in full service areas about their experiences working with people about debt and deductions, who were receiving UC. We also interviewed people from 8 households from a spread of English regions who had deductions taken from their UC payments. These households had deductions ranging from only repaying advance payments to multiple deductions up to the 40% cap on what can be taken. In addition, we analysed 520 case studies with casenotes provided by local Citizens Advice Advisers between November 2017 and November 2018.



# Chapter 1 - How people on Universal Credit are managing money

## What is different in Universal Credit

Universal Credit (UC) represents the biggest change to the modern welfare system since its post-war inception. It brings together 6 different benefits, often called '*legacy benefits*', into a single monthly payment. By the planned end of rollout in 2023, over 7 million families will receive it - nearly 3 in 10 (28%) of all working-age households. Citizens Advice had helped over 190,000 people with UC since rollout began.

For many households, whether they have previously been in receipt of legacy benefits or are entirely new to the benefits system, the way they manage their money will probably have to change.

One of the biggest changes under UC is that people receive single monthly payments in arrears - designed to mimic work with a monthly salary. This will be new to many people used to claiming legacy benefits, which are generally paid more frequently and separately from one another. Recent analysis also shows the majority of people claiming UC as a result of leaving employment (58%) were previously paid weekly or fortnightly.<sup>9</sup> In addition to that basic monthly payment structure, UC has several design and delivery features that can help, or make it harder, for people to manage their money:

- The five week wait for a first payment after applications are made.
- Repayable Advance Payments (APs) during the wait for a first payment.
- Paying support for housing costs directly to claimants, rather than to landlords.
- A system of automatic deductions that can be made from monthly payments to repay certain debts, some at higher rates than in legacy benefits.
- Alternative Payment Arrangements (APAs) such as direct payments to landlords, more frequent payments and split payments between members of the household.

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<sup>9</sup> Resolution Foundation, 'Universal Remedy: Ensuring Universal Credit is fit for purpose', October 2017

UC is now available in every part of the country, and evidence of how it works is continuing to emerge. A welcome part of the *'test and learn'* approach is that the Government has already taken some action where problems are occurring.

In this report we use new evidence from the people we help to explore how effective these policies and changes have been to date, as well as examining how other features of UC are affecting people's ability to manage their money.

## **Changes have made some improvements during the wait for a first payment**

A number of changes to UC were announced in the November 2017 budget, costing around £1.5 billion over five years. These changes were primarily aimed at addressing some of the problems people were experiencing early in their claim. Between January and April 2018:

- Advance payments, which can be requested as soon as a claim is made, were increased from 50% of the estimated final award to up to 100%, and repayment periods were extended from 6 to 12 months.
- 7 'waiting days' were removed, reducing the wait for those paid on time from 6 weeks to 5 weeks.
- A Housing Benefit run-on of 2 weeks was introduced, meaning those who were in receipt of Housing Benefit receive an additional 2 weeks of payment as they move onto UC which doesn't have to be repaid.

Citizens Advice welcomed these changes as a start to addressing the problems people were facing with the original 6 week wait.<sup>10</sup>

### **What our data tells us**

From our latest evidence it appears these changes have had an impact - reducing financial difficulties and material hardship for some people during the wait for payment.

Over the summer of 2018, we conducted research with some of the people we helped with their UC claim. This shows some improvements for some people, though too many are still struggling.<sup>11</sup> As Figure 1 shows, before changes began in January 2018, 7 in 10 people we help with UC (69%) were borrowing from family and friends, and 3 in 5 (58%) were falling behind on bills or were going

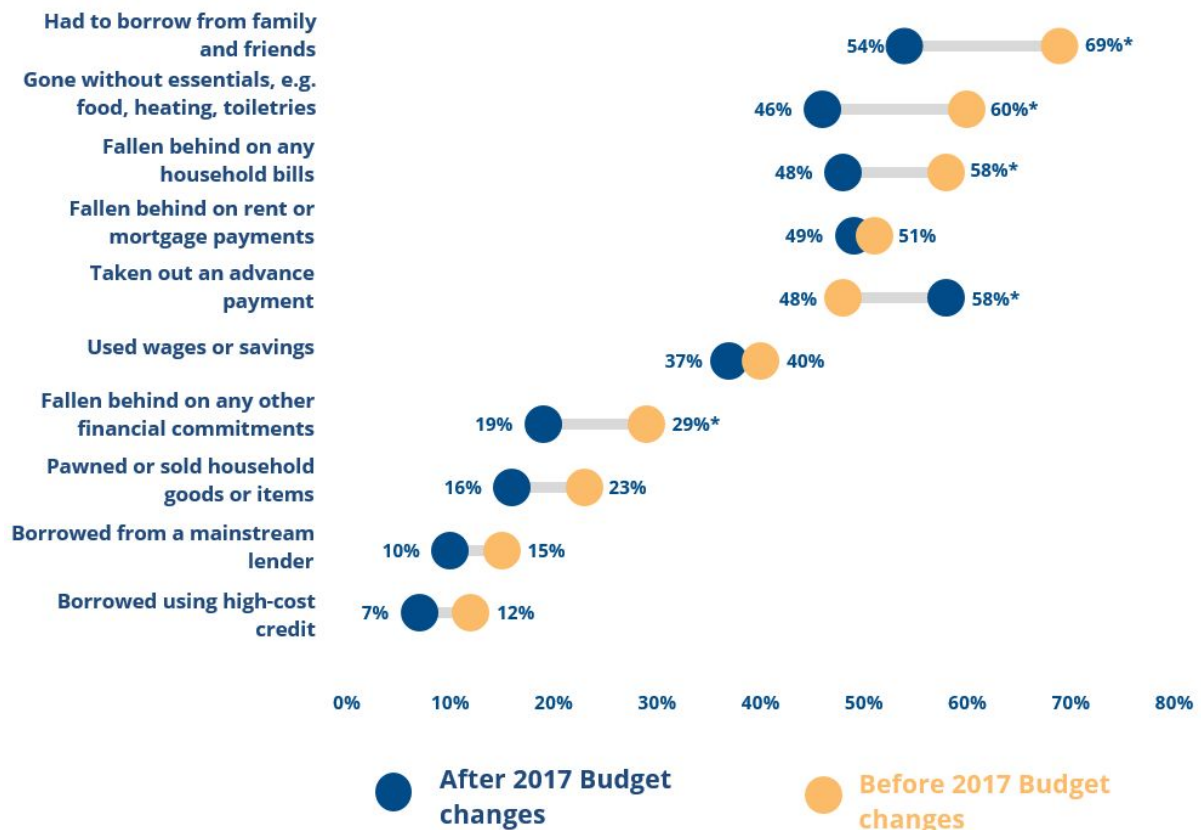
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<sup>10</sup> The government also stopped charging for the UC helpline in November 2017,

<sup>11</sup> Source: Citizens Advice UC client survey, July to September 2018. Base: 1,194

without essentials (60%). All of these figures have fallen to around half of those who claimed after the budget changes had all come into effect (54%, 48% and 46% respectively).

**Figure 1: How people we help coped with the wait for their first payment before and after budget changes**



Source: Citizens Advice, survey of UC clients (all those due a payment), July to September 2018. Base: 459. \*Indicates a statistically significant difference.

Improved payment timeliness accounts for some of these changes. Matching findings from earlier in 2018<sup>12</sup>, if you are paid late you are still more likely to struggle than if you are paid on time.<sup>13</sup> By August 2018, 84% of new claimants were paid in full and on time, up 10 percentage points from a year earlier.<sup>14</sup> However, our analysis shows that these outcomes have improved even looking only at people who are paid on time.

Related to these improvements, the proportion of people we help taking out advances has risen (by 10 percentage points), reflecting wider promotion and

<sup>12</sup> Citizens Advice, Making a Universal Credit Claim, July 2018

<sup>13</sup> Citizens Advice, survey of UC clients (all those due a payment), July to September 2018. Base = 824

<sup>14</sup> DWP, Universal Credit statistics, October 2018

size of advances. The largest falls have been to borrowing informally from friends and family and to the proportion of people going without essentials. These are positive developments, and suggest that the changes are starting to have an impact on the experiences some people have claiming UC.

Last Autumn the Government was right to accept rent arrears are a problem and provide people moving from a Housing Benefit claim with a further 2 weeks payment at the start of their UC claim. Although advisers we interviewed told us it was too early to fully assess the effect of the run-on, housing arrears can have severe consequences such as threats of homelessness and eviction. So, providing this additional income is welcome. However, despite improvement in other areas during the wait, the proportion of the people we help who are on UC and falling behind on rent or mortgage payments has remained consistent during this period (at around 50%).

It is clear that despite improvements significant proportions of the people we help continue to struggle during the wait for first payment. **With nearly half of people struggling to pay for essentials or getting behind on bills and rent Government must take further action quickly as more and more people move on to Universal Credit.**

### **Upcoming changes to the five week wait**

One of the welcome reforms to UC introduced in the 2017 budget was the Housing Benefit run-on, which gives people in receipt of housing support an additional fortnight of payment, overlapping with the first weeks of their UC claim.

In the November 2018 budget, it was announced that this run-on policy will be extended to most out-of-work benefits<sup>15</sup>. This will include Jobseekers Allowance (JSA), Employment and Support Allowance (ESA) and Income Support (IS), though not Tax Credits. This means that more people will have additional money to manage the wait for a first payment. However, this policy is not due to be implemented until July 2020, 18 months after the announcement, meaning the hundreds of thousands of people who move onto UC during this time can not benefit from this change.

Extending the run-on to all out of work benefits will get more money into the hands of people during the initial claim, when we know despite the improvements that significant proportions of people are still struggling. For someone moving from Jobseeker's Allowance, this could mean an additional

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<sup>15</sup> Excluding Child Tax Credits which can be paid to parents who are not working

£146.20 during the wait for first payment. Crucially, this is not repayable, so will not leave people with a reduced income over the long term. However, not including Tax Credits in this run-on will exclude many families with children from the benefits of this policy. This is a particular concern as Child Tax Credit is the main form of means-tested support for many families with children and supports those both in and out of work. For example, a lone parent on Income Support with two children will typically receive Income Support of £73.10 per week, but £117.40 a week of Child Tax Credit.

## **Make sure people can access adequate financial support at the beginning of their claim**

The government has already taken some welcome action to help people manage the wait for a first payment. However more is needed to ensure the wait for a first payment doesn't have a detrimental impact on people. This could include:

### ***In the long term***

The 5 week wait for a payment is a result of UC's current income assessment and payment cycles - a one month assessment period and a week long processing period, with a payment made once those are complete. In the long term, the Government should explore more flexible assessment periods. This could allow shorter assessments and therefore a first payment sooner (and greater flexibility over the long term<sup>16</sup>).

### ***In the shorter term***

Without shifting away from the current monthly assessments the DWP could also explore medium term changes to ensure people get the money they need earlier:

- Move the start date of the claim to the point when someone sets up a UC account as opposed to when a claim is submitted.
- For the many people who do not complete a claim as soon as they are entitled to do so, or have gone without income for weeks before submitting a claim, their assessment period could be backdated to before the current entitlement period begins. This would work similarly to awards that are backdated in legacy benefits today and allow the first payment to be brought forward.
- For those moving from employment or legacy benefits who have recent income, the Government could encourage timely UC applications and

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<sup>16</sup> See more in recommendations to '*Help people to budget by fitting the design of Universal Credit to lives*'

backdate payments to the beginning of eligibility for UC.

Within the current design of UC, problems could be addressed by providing **additional financial support during the five week wait**. Our data shows that many people need additional resources during the wait for a payment as soon as they claim UC, and that advances and Housing Benefit run-on are not meeting the full problem. Some of these challenges would persist even if assessment periods were changed.

- In recognition of the additional support needed during the move onto UC, run-ons are set to be expanded from 2020. This should be brought forward to address current need, and the DWP should consider introducing an automatic two-week run-on of all legacy benefits including Tax Credits.
- The repayment terms of advance payments should be revisited to ensure more people can take them out if they are needed.<sup>17</sup> As a minimum the current extension of the repayment period to 16 months should be brought forward from October 2021 and apply to existing claimants.

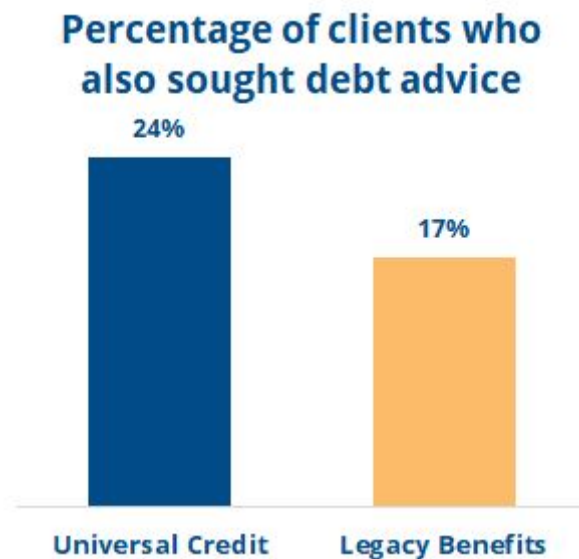
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<sup>17</sup> See more in recommendations to *'Ensure Universal Credit provides enough to live on'* p. XX

## Universal Credit, legacy benefits and debt

Beyond the period when people are waiting for their first payment our evidence shows that debt problems are more common for the people we help with UC than for those claiming the legacy benefits it is replacing - continuing a trend we identified in 2017<sup>18</sup>.

**Figure 2: People advised on UC also seeking debt advice**



*Source: Citizens Advice data, April 2018 to November 2018 Base: 83,241 Universal Credit clients, 369,536 legacy benefit clients. This is a statistically significant difference.*

Our research in 2017<sup>19</sup> and earlier this year showed that the wait for a first payment, and payment delays, were significant factors in people experiencing financial problems and hardship.<sup>20</sup>

This should not be surprising. Nearly half (45%) of all UK adults have no cash savings or savings of less than £2,000 to help them cope with any sudden change of circumstances or income shocks.<sup>21</sup> The trigger for making a UC claim is often a change of circumstances such as losing a job, moving house, becoming ill or having children. Research has shown that life events such as these, particularly when they're unexpected, often reduce people's income and can be common triggers for unmanageable debt.<sup>22</sup> 9 in 10 of those we helped with their

<sup>18</sup> Citizens Advice, Universal Credit and Debt, September 2017

<sup>19</sup> Citizens Advice, Universal Credit and Debt, September 2017

<sup>20</sup> Citizens Advice, Making a Universal Credit Claim, July 2018

<sup>21</sup> Financial Conduct Authority, The financial lives of consumers across the UK, June 2018

<sup>22</sup> Money Advice Trust, A decade in debt, September 2018 (pg 6)

debts in 2017 said they had been through a recent change in their lives.<sup>23</sup> So, UC not only serves people who are vulnerable to debt, it does so at a time of particular vulnerability for many.

*"The government designs UC as if it assumes that people have enough income and savings to live on."*  
**- Citizens Advice UC Adviser**

Department for Work and Pensions (DWP) figures also show more than half of people claiming UC are in rent or other housing payment arrears or are not keeping up with financial commitments.<sup>24</sup> These widespread experiences continue a trend where households have experienced growing levels of arrears as well as debts to the government over the last decade, even as consumer credit issues have declined.<sup>25</sup>

### **Higher levels of priority debt**

Priority debts such as rent arrears and council tax debts have the greatest consequences if you don't pay them, including eviction, bailiff visits and enforcement action through the courts.<sup>26</sup> In our 2017 *'Universal Credit and Debt'* report we highlighted how people who come to us about debt and are claiming UC were 10 percentage points more likely to have priority debts than those claiming legacy benefits.<sup>27</sup>

Analysis of our data in 2018 shows this divide has stayed about the same, with 82% of people we help with debt who are claiming UC holding priority debt.<sup>28</sup> As Figure 3 shows, they are significantly more likely than those on legacy benefits to owe money to their landlords - 44% had rent arrears which could expose them to eviction risks. Over half (56%) have Council Tax debts which can be referred to bailiffs, exposing people to bad practices and additional costs.<sup>29</sup>

Many of the most common debts for the people we help do not result from money they have borrowed, but from bills they have fallen behind on and debts to the government. This suggests that some people are often not planning their

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<sup>23</sup> Citizens Advice, *Walking on thin ice*, 2018

<sup>24</sup> DWP Universal Credit Full Service Survey, June 2018

<sup>25</sup> Citizens Advice, *Hidden Debts*, August 2018

<sup>26</sup> Priority debts can include Court fines, Council Tax, TV Licence, Child maintenance, Gas and electricity bills, Income Tax, National Insurance and VAT, Mortgages and rent arrears

<sup>27</sup> Citizens Advice, *Universal Credit and Debt*, September 2017

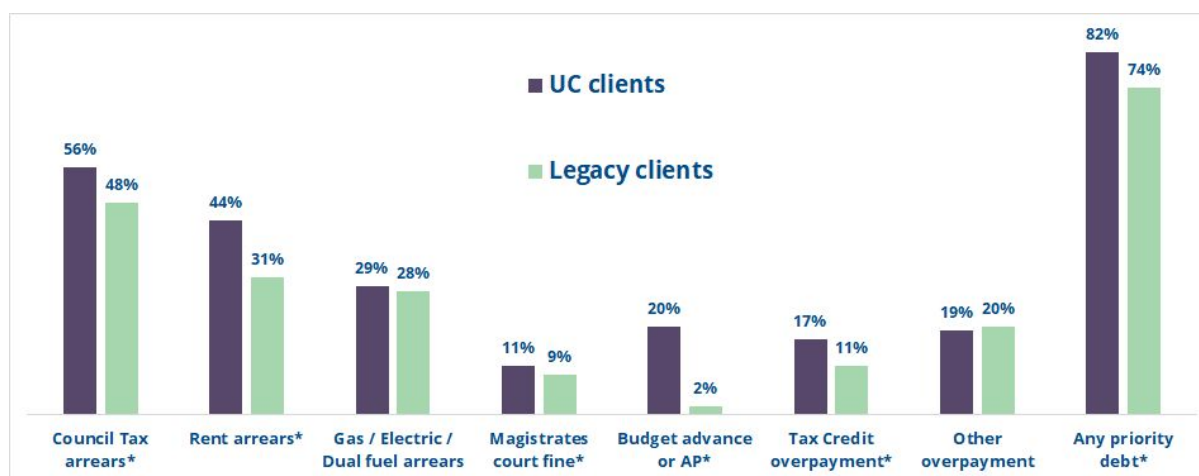
<sup>28</sup> Source: Money Advice Recording Tool, April to June 2018. Base: 21,085 clients, including 1,551 UC clients and 5,179 legacy benefits clients

<sup>29</sup> Citizens Advice, *A law unto themselves: How bailiffs are breaking the rules*, November 2018



borrowing, but falling into debt when they are unable to cover essential expenses - reflecting the changing nature of debt in recent years.<sup>30</sup>

### Figure 3: Types of debt held by people claiming UC and legacy benefit



Source: Money Advice Recording Tool, April to June 2018. Base: 21,085, including 1,551 UC clients and 5,179 legacy benefits clients. \*Indicates a statistically significant difference.

### People on UC have less income available

People who claim means tested benefits have low incomes, and policies such as the benefits freeze have meant significant real terms squeezes on incomes for the poorest families.<sup>31</sup> This often leaves little financial wriggle room to deal with debts or financial shocks.

*"[UC] is fine for people who've recently been made redundant, who are used to being employed, who have savings and capital... The vast majority of clients don't fit that model."*

**- UC adviser in the South East**

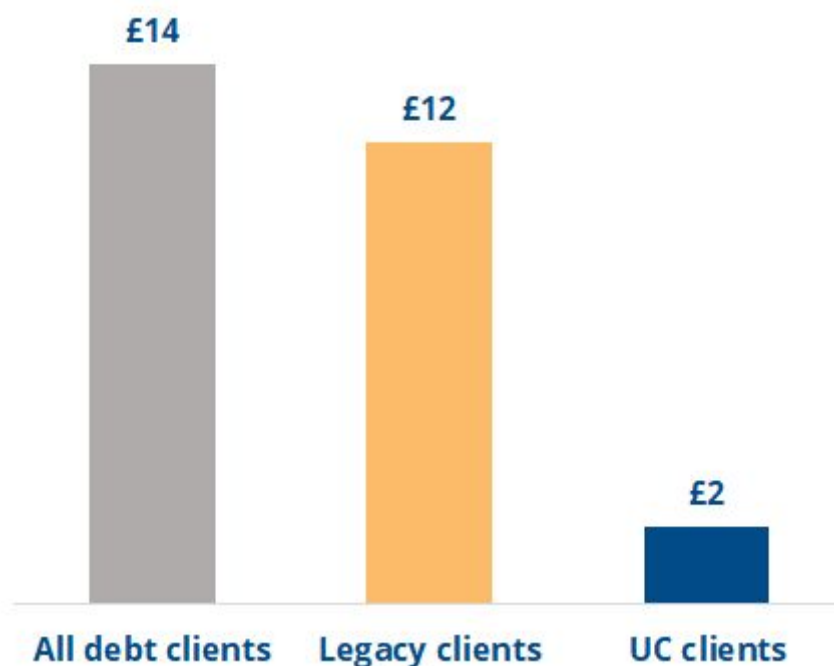
Analysis of data from the debt advice we give also shows most people have limited money to pay back creditors. On average, the people we saw had £14 left over each month to pay creditors after their essential living costs<sup>32</sup>. Those who claim working age benefits are in slightly tighter circumstances than the average person, with those on legacy benefits having £12 left over. The situation for people who claim UC is much tighter still, with **only £2 slack left** in their average budgets.

<sup>30</sup> Citizens Advice, Hidden Debts, August 2018

<sup>31</sup> Resolution Foundation, Budget Response, p3, 2018

<sup>32</sup> Essential living costs include food, housing, bills, health and care, communications, transport, pensions and insurance, personal and professional costs and other essential costs

**Figure 4: Median monthly available income to pay creditors after essential living costs**



Source: Money Advice Recording Tool, April to June 2018. Base: 21,085, including 1,551 UC clients and 5,179 legacy benefits clients.

Nearly half (47%) of all those getting help with debt and claiming UC have no money left to pay creditors, or are running negative budgets. This is significantly higher than the 36% of people we help with debt who receive legacy benefits and do not have any money left over, suggesting many people who claim UC are in a worse financial position overall and face particular difficulties repaying debts.<sup>33</sup>

### **Larger work allowances announced in the 2018 budget**

In November 2018, work allowances were increased, meaning many budgets won't be further squeezed as people move on to UC, and some people will be better off. Under UC a 'work allowance' is the amount of money you're able to earn before your benefit payment starts to be reduced. They can provide improvements in financial work incentives, particularly for those working the fewest hours. They are currently available to people who have responsibility for a child or those the government defines as having a limited capability for work or work related activity due to a health problem or disability.

<sup>33</sup> Source: Money Advice Recording Tool, April to June 2018. Base: 21,085 clients, including 1,551 UC clients and 5,179 legacy benefits clients

Increasing work allowances is the most significant additional investment in Universal Credit since cuts were made in 2015. Before this several groups of people stood to lose income that would have left them in difficult budgeting situations, struggling to make ends meet and vulnerable to income or spending shocks. For working families with children the number expected to be better off under UC now matches the 1.5 million that are expected to be worse off<sup>34</sup>. Examples of people who still face losses are disabled people including those who are not eligible for the work allowance, single parents who own their homes and self employed people.

These losses are in addition to continued downward pressures to real terms benefit levels coming from policies like the changes to Local Housing Allowances (LHAs) and the freeze on this and other working age benefits.

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<sup>34</sup>Resolution Foundation, [Back in Credit? Universal Credit after Budget 2018](#), November 2018

## Chapter 2 - How UC design works for people's money management?

Universal Credit aims to simplify the experience of receiving benefits with single monthly payments as opposed to the multiple claims to different benefits seen in the legacy system. In theory, this should allow people claiming UC to better understand and engage with the system. To supplement its basic design, features such as advance payments, direct deductions to pay debts, and alternative ways of being paid can be offered to help people stay on top of their budgeting.

In this chapter, we explore evidence of how these features of UC are working for people's money management.

### Advance payments during the five week wait

The period before people receive their first UC payment, now around five weeks if they are paid on time, is a period of significant adjustment for many people. As explored above, a large proportion of the people we help are struggling with the wait. Providing money, via new claim advance payments, in the days immediately after a claim is made has ensured people have access to some income to help get through those weeks. Though the department does not technically define advance payments as loans, they have to be repaid in the same way as budgeting advance loans and are treated in the same way as benefit overpayments if a UC claim ends before they are paid back.

From January 1st 2018, advance payments were more actively promoted and provided up to 100% of estimated final awards. People now also have up to 12 months to repay them - doubling the amount and repayment time compared to what used to be on offer. As a result, advance payments were taken up by 60% of new claimants by October 2018.<sup>35</sup>

Our research, however, finds that people who take out advances are more, not less, likely to have to borrow in other ways.

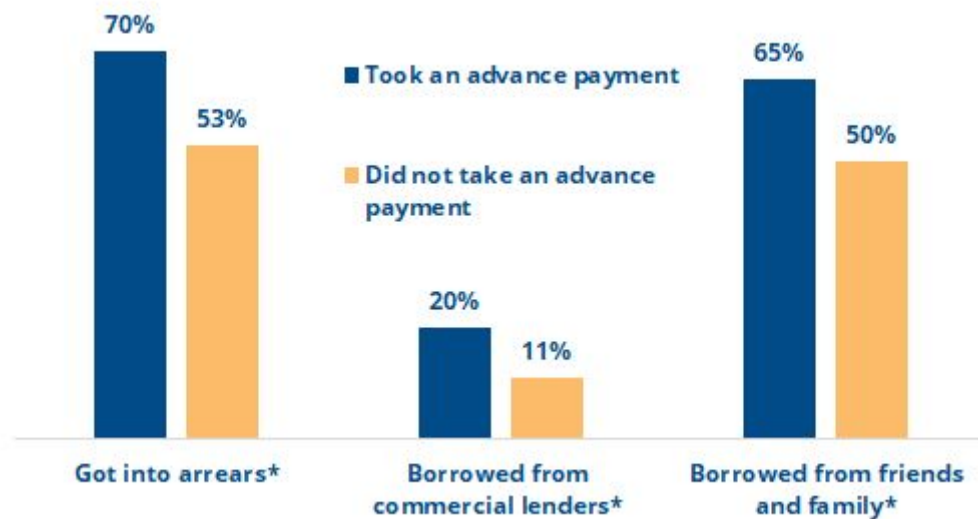
7 in 10 (70%) of the people we see on UC who take out advances are also getting into arrears on bills, compared to half of those (53%) who do not take out an

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<sup>35</sup> Parliamentary Question 190996, November 2018

advance. Two thirds are borrowing from friends and family during the wait for a first payment, compared to half of those who did not.

**Figure 5: How UC advance payments relate to other debts**



Source: Citizens Advice, survey of UC clients, July to September 2018. All clients due a payment: Base: 824. \*Indicates a statistically significant difference.

This evidence does not mean that advances don't help. Both the people claiming UC we spoke to and our advisers agreed that advances are welcome and have helped people through periods that they otherwise would have found far more difficult. However, it does point to financial problems during the wait for a first payment that are not solved by advances, and that a significant number of the people we help are likely to already be in very difficult financial circumstances when they are making their claim for Universal Credit.

*"I've noticed the changes with advances, though lots [of clients] don't want to borrow"*

**- Citizens Advice UC Adviser**

Our survey data does not explain why those who take out advances are more likely to be struggling with the wait. But our advisers observe financial disruption around changes of circumstances (like a relationship breakdown), delays in making a claim as people think they can cope, problems completing claims causing delays, and people struggling with budgeting in the first months of UC - even when they have taken out advances.

## Deductions leave many with reduced incomes

To repay advance payments, and a range of other debts and costs, deductions can be made directly from people's benefits, including UC. More than half of all UC payments in September 2018 - 53% (474,000 claims) - had a deduction applied. 7% of all payments had 40% of the standard allowance deducted, and 24% had more than 20% taken<sup>36</sup> - £127.12 or £63.56 a month for a single person over 25.

### Deductions Explainer

#### What deductions can be taken under Universal Credit?

Not all debts are deductible. Debts and costs that can be included are priority debts, money you owe the government and child maintenance.

#### How much is taken?

Each individual deduction has a set rate or range. Most are calculated as a percentage of the standard allowance (£317.82 for a single person over 25). Common ones include<sup>37</sup>:

Deduction type <sup>38</sup>	As percentage of standard allowance	Monthly sum for single person over 25
Housing arrears or costs	10%-20%	£31.78 - £63.56 <sup>39</sup>
Each utility arrear	5%	£15.89
Benefit overpayments	15% 25% if earning (40% if fraud)	£47.67 £79.45 (£127.13)
Council tax arrears	5%	£15.89
Advance Payments	Up to 12 monthly installments	Dependant on size of advance
Court fines	Between 5% and £108.35	£15.89 to £108.35

<sup>36</sup> Parliamentary Question 196809, November 2018

<sup>37</sup> All figures based on the standard allowance for a single person over the age of 25

<sup>38</sup> Deductions can also be taken for child maintenance, integration loans, other eligible loans, social fund and budgeting advances

<sup>39</sup> In-work claimants will only have housing deductions if their earnings are below the work allowance. If they earn more than the Work allowance for 3 months, deductions stop.

### **Is there a cap on what can be taken?**

There is a cap on what can be taken of 40% of your standard allowance, though this can be exceeded if decision makers believe it's in your best interests. This cap will be reduced to 30% from October 2019. Under current rules, fraud and sanctions can always be recovered, even if this exceeds the 40% cap. Regulations allow advance payments to be taken in addition too, though in practice they tend to be treated as falling within the cap.

### **What happens if you don't have enough UC to cover deductions?**

If there is not enough money left over in your award, or your deductions would be more than can be taken within the rules, the DWP will apply a '*priority order*' which decides the debts which will be taken first.

Sanctions, fraud penalties and advance payments are taken *before* the priority order is applied, then:

1. Housing and utility debts
2. Council Tax debts
3. Social obligations like fines and child maintenance
4. Benefit debts like Tax Credit and Housing Benefit overpayments

Debts higher up the priority order will be taken first, deferring repayment of others.

### **Is there flexibility?**

Initial decisions to apply deductions follow rigid rules and rates and do not include an affordability test. To challenge this, people can appeal some individual deductions on the basis of hardship or error, or seek to negotiate with the DWP. However, advisers report that the process is complicated and each debt repayment rate has to be negotiated individually.

The issues that result from deductions affected 6% of people Citizens Advice helped with UC from April to November 2018.<sup>40</sup> The three most frequent deduction types we helped people with were advance payments (24% of deductions clients), benefit overpayments (21%) and housing costs or arrears (10%).

Under UC, rules are prescriptive and some deductions are taken at higher rates than under legacy benefits. As a consequence of their high rates and prevalence,

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<sup>40</sup> Citizens Advice client data, April to November 2018, Base: 86,584

advisers have been pointing to the hardship deductions are causing since UC began to roll out. Around 5 in 6 advisers tell us that the affordability of deductions and people's understanding of how they work is worse in UC than in legacy benefits.<sup>41</sup>

Research from February 2018 showed that only 17% of in-work UC and Tax Credit claimants are regularly able to put money aside.<sup>42</sup> The DWP's own data shows that more than 7 in 10 people claiming UC struggle to keep up with bills and credit commitments at least sometimes.<sup>43</sup> In this context of tight finances, any money taken from people's monthly payments is likely to place them in difficult financial circumstances.

*"Money is really tight but it just about stretches when we get the whole payment. Once they took money away, it didn't add up"*

**- In-work couple claiming Universal Credit in the South West**

## **Repayment of advances drives the prevalence of deductions**

Advances may be improving the immediate financial situation that people face during the wait, but they have also **resulted in deductions for 41% of all payments** in September 2018 - 370,000 households in total.<sup>44</sup> These monthly repayments are repaid over a period of up to a year. This means a twelfth of the total monthly award, including housing costs and any additional support for children or disabled people, will be taken if the full advance is taken out.

Evidence from our interviews suggests that, even where deductions for other debts are not being made, repayment of advances can create severe financial challenges for some. Because, as we show, people who take out advances are more likely to be getting into other forms of debt, the 12 month burden of repayment will be particularly difficult. Those we interviewed for this report told us they took advances because they felt they had no other option, and for some the knock on consequences in reduced income have been difficult.

*"Sometimes the advance payment can lead to further problems... some people don't understand what it's for, or what the consequences will be. So it works both ways... it doesn't help those worried about [taking on] more debt."*

**- Universal Credit adviser in the North East**

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<sup>41</sup> Survey of advisers, October 2018, Base: 179

<sup>42</sup> Citizens Advice, UC and Modern Employment, February 2018

<sup>43</sup> DWP, Universal Credit Full Service Survey, June 2018

<sup>44</sup> Parliamentary Question 195128, November 2018



Where people are struggling with their repayments, they can seek a 3 month deferral of payment, but currently this is only available if they can demonstrate that they face an unforeseen circumstance.

## **Other debts result in large deductions, particularly early in claims**

Analysis of case studies provided by our advisers suggest people who have large proportions of their standard allowance deducted are often those who have multiple deductions<sup>45</sup>.

On top of the 2 in 5 people repaying an advance payment in September 2018, figures provided by the DWP show 10% of UC households (92,760) faced a recovery for a benefit overpayment and 5% (45,000) had a deduction for housing arrears or costs in October 2018<sup>46</sup>.

These can, and do, overlap to result in larger deductions - the rules mean that the 13% of households claiming UC who are having more than 30% of their standard allowance (£95.43<sup>47</sup>) taken from their monthly payment will usually have multiple deductions.<sup>48</sup>

Commonly, interviewees did not understand the impact that deductions resulting from taking out advances, or falling behind on rent and bills, would have. Most did not realise that historic Tax Credit overpayments might begin to be deducted when they received their UC payments. The prevalence of high deductions in the first few months of Universal Credit prolongs the period of financial strain for many into the months beyond their first payment.

*"We knew about the Tax Credit overpayment and had been sent letters by HMRC suggesting we pay back £100 a month. We said we could not afford that and thought they would offer a lower rate. We heard nothing for a long time then suddenly it started coming out of our UC"*

**- Citizens Advice interviewee in the South**

## **Financial hardship and knock on effects**

A large majority of our advisers report that people who we help are experiencing knock on effects and hardship as a result of deductions.<sup>49</sup> Those we interviewed

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<sup>45</sup> Analysis of 520 evidence forms (client case studies with casenotes) provided by local Citizens Advice Advisers between November 2017 and November 2018

<sup>46</sup> Parliamentary Question 195129, November 2018

<sup>47</sup> For a single person over 25

<sup>48</sup> Unless they took out a very large advance or have a recovery for a fraud related overpayment

<sup>49</sup> Surveys of advisers, March and November 2018. Base: 111 and 179

also reported multiple consequences of living on a reduced income caused by deductions including:

- Cutting back on essentials such as food and heating
- Selling or pawning personal possessions
- Building up further debts, falling into additional arrears, using credit and borrowing from family or friends

Beyond this, interviewees also reported an impact on their mental health such as stress and depression. Some also said strains were put on their relationships and that they had no money in their budget to travel, leaving them trapped at home and reducing their independence.

*“The financial strain means a drastic decline in [my clients’] mental health. Some start drinking - some people in recovery relapse because they can’t cope.”*

**- Universal Credit and homelessness adviser**

### **Client case study - Repayment of an advance contributes to unmanageable deductions**

Zainab is currently repaying three different debts through deductions - her advance payment, some council tax arrears and a historic Tax Credit overpayment. These deductions mean that Zainab has been receiving a lot less than the payment she thought she was entitled to.

The severity of these deductions means that she isn’t able to meet her daily living costs, despite cutting back on essentials. She told us that she doesn’t drink or smoke, has stopped putting the heating on to save money and sometimes only eats one meal a day. She rarely leaves the house unless she really has to. Despite all these efforts, Zainab still relies on a credit card to buy food.

When asked how automatic deductions from UC had helped them to repay debts, the people we spoke to recognised that they had been useful in some circumstances. However, most said they would like to have been involved in the decisions to apply deductions and that lack of foreknowledge exacerbated the budgeting problems.

*“They knew we only had just about enough to live, but still took money away”*

**- Citizens Advice interviewee in the South West**

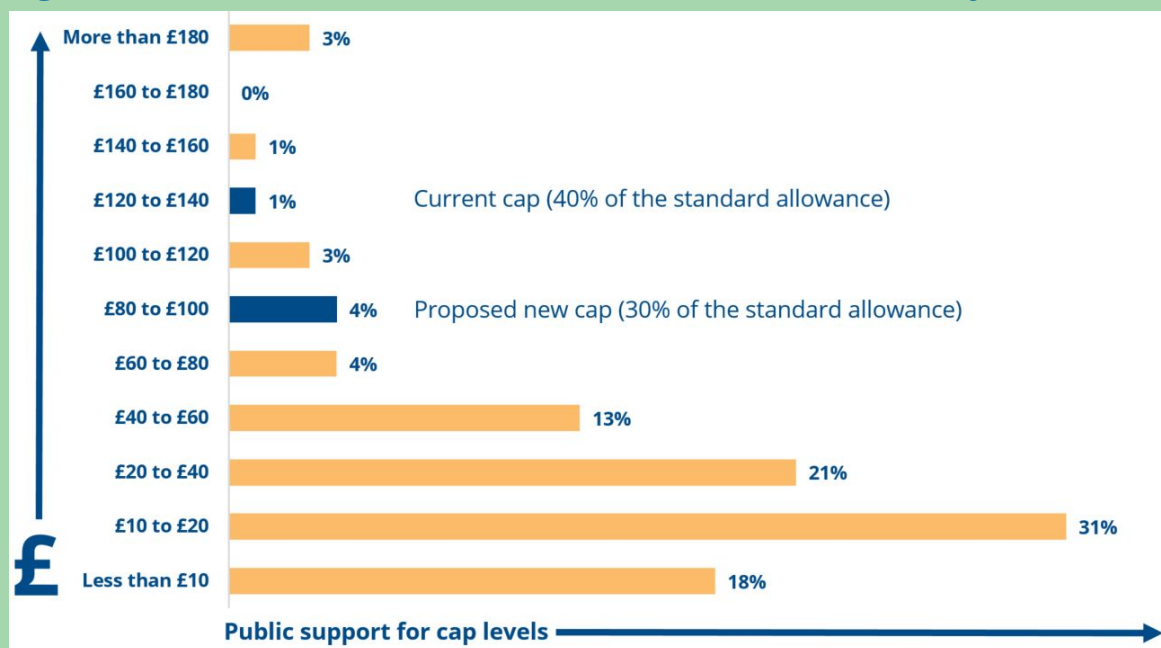
More than four in five of our advisers felt deductions did not strike the right balance between helping people to pay bills and ensuring they have enough to live on.<sup>50</sup> When unaffordable amounts are taken, it risks people getting behind on bills and into further debt.

## What people think it's fair to take?

The government has argued that the aim of deductions is to protect people from being made homeless or having their fuel disconnected - but these should be taken at a manageable level. The current cap on deductions for a single person over 25 is £127.12 a month, and will be reduced to £95.43 in October 2019.

When asked to consider a fair maximum amount to deduct each month to repay debts such as rent arrears and government loans, 7 in 10 people across Great Britain believed that £40 or less should be the limit.<sup>51</sup> Only one in 20 respondents believe that £120 or more (close to the actual cap) is a fair amount to take.

**Figure 6: Maximum deduction rate considered fair by Britons<sup>52</sup>**



<sup>50</sup> Surveys of advisers, March and November 2018, Base: 111 and 179

<sup>51</sup> ComRes interviewed 2,034 adults in Great Britain online between 8th and 9th August 2018.

<sup>52</sup> Question: 'People who claim benefits can have money taken directly from their monthly payments to repay certain debts, such as rent arrears and government loans. If a single person receives £317.82 in basic benefit a month to cover their essential costs (such as food, household bills and travel costs), how much do you think is a fair maximum amount to take each month to repay these debts?'

Source: ComRes interview of 2,034 adults in Great Britain aged 18+ online between 8th and 9th August 2018

## **Wider debts fall outside the cap if they are not deducted directly**

The problem of multiple debts goes beyond direct deductions from UC. Many who have deductions have other debt obligations. All of the people we interviewed had additional debts that DWP did not consider in the calculation or administration of deductions. These could be:

- Non-deductible debts such as consumer credit
- Deductible debts such as housing or utility arrears for which repayments have been directly agreed with the provider
- Debts to friends or family members

Some of these were priority debts which had not been considered in deductions calculation, but were being deducted by other means. For instance, Council Tax debts can be collected through bailiffs<sup>53</sup>.

*“We have a debt management plan and set up a plan to pay back money we owed for bills... this was not anything to do with [the] Universal Credit [system]”*

**- Citizens Advice interviewee in the South**

*“I’ve got direct debits set up for my debts to the gas and electric, so that all comes out too”*

**- Citizens Advice interviewee in the North West**

Even where these are deductible debts, they fall outside the calculation of any cap if they are not being deducted through UC payments. People with debts will often repay directly to lenders and providers such as landlords or utility companies on a repayment schedule. But this can then disadvantage them as these repayments are part of the cap. It is important that UC considers these and supports people with their repayments and budgeting across their financial commitments.

## **DWP discretion and people’s understanding of deductions**

People are told how much they will be paid each month, including their deductions, 7 days before their payment date. Those we spoke to felt like deductions *“happened to them”* and did often not involve them in decision

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<sup>53</sup> Money Advice Trust, Stop the Knock, November 2017

making or seek their agreement. Advisers report that many of those we help do not fully understand why deductions happen, how they are calculated, or how long they will continue. Because finances are tight, budgeting across the month is difficult and unexpected deductions can worsen things. Advisers describe the deductions process as confusing, unclear and unpredictable, and report that the people they help often feel out of control and helpless, reducing their financial independence.

*"Deductions are a massive issue. It's not just the loss of money, it's that it's really difficult to know how much deductions will be in advance"*

**- Universal Credit adviser**

People are not asked whether they are able to afford deductions. Most people we interviewed didn't know about them before they happened, beyond some being aware of advance payment repayments. Those we spoke to often found out about their deductions either by realising they had received less than they expected, or when they were told by an adviser or third party.

Deductions can cause particular confusion for those who are in work. Although some deductions do not apply to those earning more than their work allowance, remaining deductions are set as a prescribed percentage of the standard allowance or a fixed amount. This means even where earnings mean UC payments are reduced, deductions can remain at the same level and result in a greater proportion of the remaining award being deducted.

One couple with a fluctuating income told us that having deductions when their UC income already varied monthly due to earnings added to their confusion. This is despite the fact that UC aims to stabilise the income of people who earn different amounts each month.

### **Client case study - deductions for wages and other debts not factored into calculations**

Deductions can be particularly difficult for people in work like Paula. Each deduction is *calculated* as a proportion of the standard allowance people get, but if you receive 40% or less of that allowance because you work and earn enough, the money will be taken from other elements. This happened to Paula, who received £1.25 in UC in July 2018.

Her UC award is made up of £317.82 standard allowance and a £273.16 housing element. She earned £734.29 in June, meaning that her award was

reduced by £462.20 to £128.38.

Deductions are being made for a Tax Credit overpayment, Advance Payment and social fund loan that are being deducted at a rate of 40% of her standard allowance, or £127.13 - which comes out of her housing element.

But Paula also had other deductible debts - she owes £850 in rent arrears and £1,000 unpaid council tax. Both these priority debts would supercede Tax Credit and social fund recovery, but neither her landlord or her council has made an application for third party deduction so she is having to try and pay these separately. This means she getting the maximum level of deductions **and** risking eviction.

Our advisers, who regularly ask for deductions to be reduced for the people they help on the basis of hardship, told us they are often frustrated by the lack of flexibility and discretion used by decision makers. Around half have seen cases where the DWP has been asked to reduce repayment rates due to hardship, but has not done so.<sup>54</sup>

*"[The benefit system] isn't fit for purpose. There's so much that goes wrong... You call, negotiate, it's fixed, [then] something else comes up... A new deduction... Sometimes it's like playing whack-a-mole"*  
**- Citizens Advice adviser**

Some advisers feel frustration at having to challenge individual debts when hardship is being caused by the overall level of multiple deductions. People who have large single arrears such as overpayments or housing debts can negotiate down deductions with DWP on the basis of hardship or error. This becomes more complicated if you have to challenge multiple different debts.

## **Upcoming changes to deductions policy**

In the November 2018 budget, the government announced two major changes to the way that deductions will happen.

- A lower deductions cap - From October 2019, the current cap on what proportion of the monthly standard allowance can be taken in deductions is set to reduce from 40% to 30%. For a single person aged over 25 years this is the equivalent of a maximum monthly deduction being reduced from £127 to £95.

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<sup>54</sup> Surveys of advisers, March and November 2018 Base: 111 and 179 respectively

- Longer periods to repay advances - From October 2021, new claimants will have 16 rather than 12 months to repay advance payments. The impact of this will vary depending on the size of an award and the sum people choose to borrow. Using the example of the case study on page 25, Zainab's monthly repayments would fall from £61.76 to £46.25.

The difference between a cap of £127 and £95 a month for a single person over 25 is significant and would have helped 13% of families claiming UC in September. However, as explored above, many people claiming UC do not have significant financial resilience or flexibility. People we help are experiencing hardship even where deductions are being taken at less than 30% of the standard allowance, so, whilst welcome, these changes are likely to mean much of the hardship we have identified in our research will remain. Slowing the rate of Advance Payment recovery will eventually mean most people with deductions have smaller reductions in income. But this change will not take place for nearly three years, so does not help the 2 in 5 families having these deductions now.

## **Ensure Universal Credit provides enough to live on**

The people we see on UC often struggle because the level of income they live on leaves no budget for any unexpected expenses or income shocks. Some simply do not have enough money to live on. Fixing issues in the design and delivery of UC can help with the five week wait and ongoing budgeting issues, but people need to be paid reliably at a level that gives them enough to meet essential living costs. The Government should:

### ***Pay enough UC for people to live on***

- End the benefit freeze and review how benefits rates are set. The freeze on the majority of working age benefits has been in place since 2016, and changes in the way Local Housing Allowance is calculated continues in most areas, significantly reducing the financial support for housing that many people can access. These real terms cuts have put many people in greater financial difficulty and hardship.
- Review levels of award for groups who will currently be entitled to lower payments in UC than legacy benefits. Investment should be focused on work allowances and elements which can be targeted at particular groups who have additional financial needs. In contrast, the taper rate spreads resources across all claimants in work.
- Protect incomes as people move onto UC - whether people migrate as a result of a change of circumstances or in managed migration, they should be protected from unmanageable reductions in income.

### ***Ensure that deductions leave enough UC to live on***

More than half of all UC payments are not made in full because a deduction is applied. In order to prevent the hardship this causes and ensure deductions meet the aim of keeping people in their homes and able to pay their bills, the Government should urgently:

- Address the role Government debts like Advances and overpayments play in producing high rates and levels of deductions. The Government should explore:
  - Changing the way Advance Payments are repaid, including setting a maximum monthly repayment and repayment holidays while other deductions are taken. Eventual write offs after a set period or in cases of hardship should be considered to ensure debts do not loom over people in the long term.
  - Repayment holidays and write offs for people who cannot repay overpayment debt (from UC or legacy benefits), so they no longer apply to so many people in the early months of their claim.
- Evaluate how affordable for individuals a 30% deductions cap is, and look to change individual rates of housing and court fine deductions, which are taken at higher rates than under the legacy system and causing hardship.
- Research and implement improvements to communications around deductions. Budgeting is already a challenge for many people, so people should always have notice before a deduction is taken.
- Protect people from financial hardship and ensure that debts are sustainably repaid where they can be. The Government should:
  - Introduce affordability tests to deductions particularly in cases when more than one deduction is sought ensuring that debts can be repaid and that others collected outside the deductions system are considered.
  - Include debts which can be deducted directly from Universal Credit in the 'breathing space' and Statutory Debt Repayment Plan, including Advance Payments and other deductions that are already being taken. This would protect people who are



struggling financially in the short term and ensure their debts are more likely to be collected in the longer term.

## Monthly payments are a difficult adjustment

Many legacy benefits such as Jobseekers Allowance and Employment and Support Allowance are paid fortnightly. A survey of people Citizens Advice helps with UC found that more than half of the people we help are not paid monthly<sup>55</sup>. Similarly, research from Resolution Foundation looking at bank statements, which found that 58% of people leaving a job and then claiming UC are paid in weekly or fortnightly cycles.<sup>56</sup> The change to a monthly payment schedule, intended to help by mimicking and preparing people for employment, is an important part of the way that UC is designed. But for most people, monthly payments are a change and for many, a challenge.

*“My income has increased, but it doesn't feel that way. I didn't seem to be in as much debt... it could be now that I'm on a monthly payment rather than every fortnight. It just seemed a lot easier to estimate my incomings versus my outgoings [before monthly payment]”*

**- Citizens Advice interviewee in the North**

The design choice to have a monthly assessment can cause significant hardship. At the very least, it requires the people affected to adapt to new and difficult budgeting challenges.

Secondly, paying a month's worth of UC at once - and then requiring people to wait a month for their next payment - can cause particular problems for vulnerable people. Advisers we spoke to emphasised the difficulties that people with addiction or substance abuse issues faced. Those with learning difficulties and some mental health conditions are also more likely to struggle to budget larger amounts of money over longer periods of time. For those who are not confident with numeracy or have low financial capability, having to handle large amounts of money and calculate costs over longer periods of time can be intimidating, stressful or impossible. The monthly payment cycle puts all of these groups at serious risk of hardship and poverty at the end of every monthly period.

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<sup>55</sup> Citizens Advice, Delivering on Universal Credit, 2017.

<sup>56</sup> Resolution Foundation, Universal Remedy, 2017, p. 6.

*“Defaulting to monthly payment seems to be fueling the debt cycle in order to streamline the payment process... especially for those with addiction or substance abuse issues.”*

**- Universal Credit adviser**

Additional issues affect people in non-traditional work. Many people get paid weekly, fortnightly or four-weekly by their employer. As we found in our previous work on UC and modern employment, this puts their income from employment on a different schedule to their UC, which means that their payments vary.<sup>57</sup> The income volatility that people who are paid non-monthly experience also reduces the responsiveness of the system to income changes. If you're paid four-weekly by your employer, you'll have a significantly lower UC payment once a year (or no payment at all); if you're paid weekly, you'll have considerably lower UC payments four months in the year.

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<sup>57</sup> Citizens Advice, Universal Credit and Modern Employment: Non-traditional work, April 2018

**Figure 9: Increased income volatility from weekly pay dates**

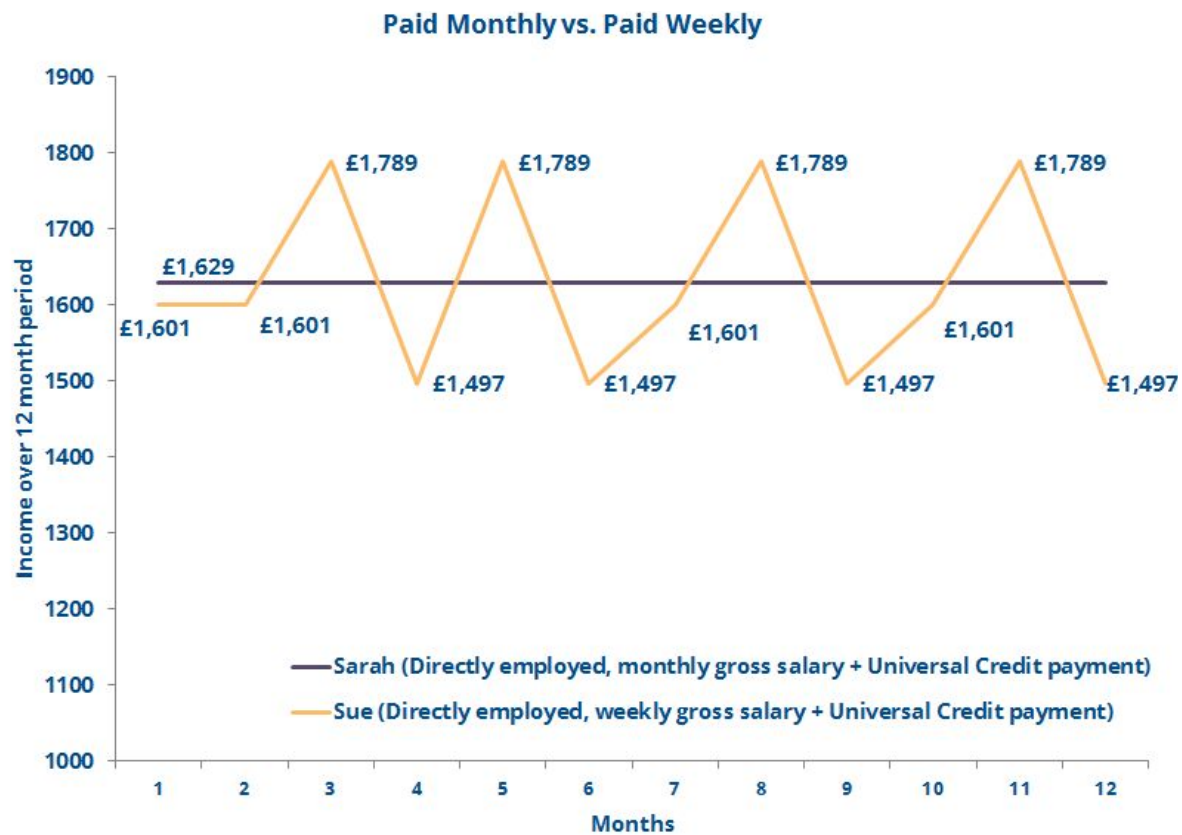


Figure 9 is taken from our *Universal Credit and Modern Employment* report<sup>58</sup>.

Often people struggle to budget for these changes in their UC award which, even after changes in wages are taken into account, can include drops in income from month to month and changes of eligibility for passported benefits. Over the year some people can find they are worse off whilst others face challenges because the timing of their UC assessment period is linked to the date they made a claim rather than the dates they receive wages or the timing of their essential bills to reflect changeable patterns of income. This design choice can prevent UC smoothing peoples income changes and can actually increase the volatility of their income month to month.

## Alternative Payment Arrangements are falling short

Alternative Payment Arrangements (APAs) are intended to help people manage their money and prevent debt, by giving people options about how they receive

<sup>58</sup> To illustrate how different payment cycles work, we took the example of two workers with identical circumstances and annual earnings. Sue and Sarah are both single parents with one child, earning £9,750 a year, with housing costs of £150 per week. Sue is paid weekly and Sarah is paid monthly.

their UC payment and how to pay their rent in exceptional circumstances. However, research with the people we help suggests that people claiming UC are not always made aware of APAs so can not ask for them, and they are not always available even to those who want them. Work coaches are expected to assess whether an APA might be helpful for someone based on risk of financial harm, but this requires a clear conversation about what a person finds difficult and whether an APA could help.

Even when APAs are in place, delivery and design issues are undermining their effectiveness. One of the design problems is that there's a priority order in which APAs can be considered by decision makers.<sup>59</sup> This means the right type of support is harder to get, because some support such as more frequent or split payments have to be considered after managed payments to landlords.

*"The system works really well for some people - better than the old one if your life and experiences fit monthly payments and the rest [of the design features]. Compared to legacy benefits, UC seems to be based on white collar people, their levels of savings and kinds of jobs. But that isn't most of the people we see"*

**- Universal Credit adviser**

In January 2019, Amber Rudd announced intentions to improve the provision of APAs, making it easier for private renters to have payments made directly to landlords and test ways to make more frequent payments to more people who struggle with monthly budgeting. The current system can cause significant problems and leave people without alternative ways of being paid that they would benefit from. So this new direction is welcome, but issues with the current provision of APA's need to be addressed. In the longer term, the system should be designed to fit the ways that different people organise their lives and budget their money.

## **Managed payments to landlords**

6 in 10 people claiming UC are entitled to support with their housing. Of those, around 20% have a '*managed payment*' which pays their housing element to a landlord directly.<sup>60</sup> These direct payments are designed to safeguard the homes of those who can't manage having to pay their landlord from their single monthly payment. For example, people with addiction issues or particular health

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<sup>59</sup> DWP, Personal Budgeting Support and Alternative Payment Arrangements, April 2018

<sup>60</sup> DWP, Universal Credit Statistics, November 2018

conditions may be at risk of eviction because of difficulty budgeting larger sums of money.

The managed payment option can also be particularly useful for those who have moved to UC from legacy benefits. This is because in the legacy system Housing Benefit was automatically paid to social housing landlords, and could be paid direct to private landlords when the claimant was vulnerable, or currently in or at risk of rent arrears. This suggests that many people migrating to UC, especially those who are vulnerable or would struggle to maintain rent payments, won't be used to making rent payments themselves.

However, several of the advisers we interviewed told us that the system of managed payments to landlords do not always work. This can mean that they don't give people the help that they need to stay out of rent arrears and stabilise their housing situation.

Firstly, if someone has managed payments made directly to their landlord for their housing element, then they also might not realise that they will need to pay some or all of the rent themselves if the housing element does not cover their full rent or they receive a lower payment in any given month. This means that people can end up in rent arrears without realising, because they believed their rent was being paid in full by the managed payment.

*"One of the housing associations in the area has been very clear that they're advising their tenants away from direct payments, even the vulnerable [tenants]... [because] it makes rent timeliness worse."*

**- Universal Credit adviser**

Secondly, government guidelines state that the managed payment should only be available when a person is already in significant rent arrears, or when they meet the vulnerability criteria.<sup>61</sup> Landlords can only request a managed payment for their tenants when they're already in significant rent arrears.<sup>62</sup> This is very unlikely to be an option for those moving from legacy benefits who've previously had their Housing Benefit paid directly to their landlord, because they won't usually have rent arrears.

In order for a vulnerable person's Work Coach<sup>63</sup> to know that they meet the vulnerability criteria, it's usually necessary for that person to tell the Work Coach about their difficulties up front. For some kinds of vulnerability, this could be

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<sup>61</sup> This list includes substance dependency, learning disabilities and mental health conditions

<sup>62</sup> DWP, Personal Budgeting Support and Alternative Payment Arrangements, April 2018

<sup>63</sup> The Jobcentre staff people meet regularly as part of their Universal Credit claims.

embarrassing or problematic - and people with some mental health problems are known to find it difficult to have financial conversations<sup>64</sup>. If someone doesn't know that there might be a benefit to telling the work coach about their difficulties, it's even less likely that they'll do so. It's particularly worrying, then, that less than a third of people we help with UC (31%) know about the possibility of the managed payment.<sup>65</sup>

In these instances, vulnerable people could need to get into unnecessary debt before being offered retrospective support, because they didn't know they had to explain their health or family difficulties in order to get the APA.<sup>66</sup> Our evidence suggests that people are falling through these gaps, as more than two thirds (69%) of those who said they weren't told about the managed payment option would have used it if they'd known.<sup>67</sup>

Thirdly, the managed payment doesn't come into effect immediately. The DWP note that *"the first APA managed payment to landlord payment... is normally received within 6 to 8 weeks from the date deductions commence, for example, from the end of the assessment period in which managed payments commenced"*.<sup>68</sup> Since people must be struggling to pay their rent to be considered for the managed payment APA, and so many of them will have growing rent arrears, this additional delay of up to two months puts people and their homes at significant unnecessary risk.

## Upcoming changes

The Government has recently announced a welcome change to the way that the managed payment is paid to some landlords, to be implemented in 2019.<sup>69</sup> For social housing tenants, the managed payments are currently paid in 13 four weekly cycles over a year, in arrears. The amount of housing support people are entitled to is calculated in the assessment period with the rest of the UC award, but the payment to the landlord isn't made on the same date that people are paid their UC. Instead, the landlord is paid on the first payment date in the four-week cycle after the UC payment date, meaning that the rent can be paid up to four weeks after someone has received the rest of their UC.

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<sup>64</sup> Money and Mental Health, Vulnerability: the experience of debt advisers, November 2018

<sup>65</sup> Citizens Advice, Universal Credit Full Service Monitoring Survey, Nov 2017 - Nov 2018, Base: 762

<sup>66</sup> DWP, Personal Budgeting Support and Alternative Payment Arrangements, April 2018

<sup>67</sup> Citizens Advice, Universal Credit Full Service Monitoring Survey, Nov 2017 - Nov 2018, Base: 762

<sup>68</sup> DWP, Universal Credit and rented housing: guide for landlords, Oct 2018

<sup>69</sup> Inside Housing, DWP agrees to change Universal Credit direct payments schedule, Jan 2019

If a person's UC payment changes month to month, any delay in the managed payment can make it even more difficult to work out any extra rent they'll need to pay to their landlord, and when it's due. Also, despite the current four-week payment cycle, housing support is still calculated and paid as a monthly amount, which means that there's an eight-week period each year where no rent will be paid to a landlord. This happens when two dates of the four-week payment cycle fall within one UC assessment (one right at the beginning, and one right at the end), which neither person claiming UC nor their work coach are in control of.

The Government is right to recognise difficulties caused by the 4 weekly payment cycle and announce the intention to move to a monthly cycle for the managed payments. However, we're concerned that no firm date has been given for this change. Resources should be allocated to addressing this problem in the shortest viable timescale.

Further, the change to a monthly payment cycle doesn't necessarily address all the problems with the timing of managed payments. If the managed payment is made on the same date as people receive their UC payments, it will be easier for them to understand how UC works - but it will still be paid in arrears when most rent is due in advance, and is unlikely to line up with the date their rent is actually due. In order to protect people direct payments to landlords should be made to the schedule set out in the rental agreement.

### **Client case study - Problems with managed payment to landlord risks eviction**

When they started on UC, Claire and her disabled partner Benjamin didn't realise that their housing support wasn't being paid to their landlord so they ended up in rent arrears. Their landlord started the process for eviction but agreed not to evict if the managed payment was put in place. Claire and Benjamin agreed to this, and the APA was confirmed.

Eight weeks later, no payment had been made to the landlord but Claire and Benjamin hadn't been receiving their housing element either. They were therefore in two more months of rent arrears. Their landlord issued a second eviction notice, and told Claire that they were planning to go through with the eviction because of the escalating arrears.

Some of the advisers that we interviewed told us they'd seen people threatened with eviction as a result of the problems with the managed payment APA, even when the housing provider knew that the arrears weren't the tenant's fault. Even

if threats of eviction aren't carried out, being threatened with it can cause unnecessary anxiety and uncertainty.

## Twice monthly payments

The twice-monthly payment option is designed to support people who have difficulties with the monthly payment cycle of Universal Credit. For those that struggle with budgeting, smaller and more frequent payments help maintain stable finances. Though as the underlying monthly assessment periods remain in place, these can not address the problems caused by non-monthly pay cycles.

In addition, it can be difficult for people claiming UC to set up this arrangement, even if they'd benefit from it. Our survey shows that only 14% of the people we helped over the last year knew more frequent payments were possible, although 80% of those who weren't told about it would have taken the option if they had known.<sup>70</sup> Only around 3% of those claiming UC in August 2018 had more frequent payments in place.<sup>71</sup>

Scottish Choices is a system in Scotland that allows people to choose the managed payment and / or split payment without needing to meet any criteria. This gives some early data about wider interest in the more frequent payment option. In August 2018, 26,000 people claiming UC had this APA in place, 17,000 of whom (nearly two thirds) had chosen this via Scottish Choices.<sup>72</sup> Only around a tenth of people currently claiming UC are in Scotland - the apparently higher rate of twice monthly payments there suggests that this APA isn't being made available to as many people in England and Wales as would want it.<sup>73</sup>

More frequent payments are unavailable to those who want to pay their housing element to their landlord themselves - making it harder for people to receive this support, regardless of the type of difficulty they have.<sup>74</sup> The priority order of the adjustments available also means that the issues with the system of managed payments to landlords can mean more frequent payments are harder to obtain.

Placing APAs in a hierarchy suggests that all those who need these type of adjustments will struggle in the same way, and that the same pattern of adjustments will therefore be appropriate in all instances. However, people's

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<sup>70</sup> Citizens Advice, Universal Credit Full Service Monitoring Survey, Nov 2017 - Nov 2018, Base: 771

<sup>71</sup> DWP, Universal Credit Statistics, November 2018

<sup>72</sup> DWP, Universal Credit Statistics, November 2018

<sup>73</sup> Scottish Government, 2018 Annual Report on Welfare Reform, Oct 2018

<sup>74</sup> If they are a householder. See DWP, Personal budgeting support and alternative payment arrangements, April 2018



circumstances and difficulties can vary hugely, and people who are able to make their own rent payments may still struggle with monthly budgeting.

Both our data and DWP statistics point to the greater takeup of advance payments since changes in the 2017 budget and an awareness drive. A similar promotion of more frequent payments, and making them available independently of the managed payment could help many people manage their money better, and reduce the number of people running out of money between payments.

## **Split Payments**

Universal Credit is paid to households, so one member of a cohabiting or married couple will receive the whole UC payment unless they have a joint bank account. Though this is not new to people who have previously claimed legacy benefits, the single monthly payment concentrates the risks of paying one household member.

Because of these issues, the third APA available is a split payment system which allows a couple "*in very exceptional circumstances*" to divide their UC between them<sup>75</sup>. This split is designed to protect people who experience domestic violence or other partner abuse such as financial coercion or emotional abuse.

Although the existence of split payments is welcome, evidence suggests that it doesn't meet the needs of many of those in domestic abuse situations. Out of one million people claiming UC in August 2018, just 20 households were receiving the split payments.<sup>76</sup> Annual data from the Crime Survey for England and Wales suggests that 4.5% of adults experienced partner abuse in the year ending March 2018.<sup>77</sup> Although we do not know the figure for people claiming UC specifically, it suggests the number of split payments does not come close to meeting the scale of the issue.

In January 2019, the Secretary of State announced that action will be taken to get more payments directly to the main carer of children in a household<sup>78</sup>. This won't address all of the problems but is a welcome change in response to the concerns that specialist domestic violence and women's charities have highlighted when giving evidence to the Work and Pensions Committee Inquiry

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<sup>75</sup> DWP, Personal budgeting support and alternative payment arrangements, April 2018

<sup>76</sup> DWP, Universal Credit Statistics, November 2018

<sup>77</sup> ONS, Domestic abuse in England and Wales: year ending March 2018, Nov 2018

<sup>78</sup> Amber Rudd, Speech about the future of Universal Credit, January 2019

into UC and domestic abuse. The inquiry concluded in July that the current way UC is paid can put some survivors of domestic abuse at increased risk.<sup>79</sup>

## Help people to budget by designing Universal Credit around real lives

In order to be able to offer people the support they need, the UC system should be designed to fit the ways that different people organise their lives and budget their money. The current design leaves large groups of people facing additional budgeting challenges and changes to this would support more people to budget effectively.

### ***In the long term***

The Government should explore a redesign of assessment and payment cycles in UC to establish flexibility as an integral part of the system. This would allow people to build stable finances around the various ways they live their lives (and could help improve the wait for a first payment<sup>80</sup>).

- People should be able to choose a UC payment schedule that best matches the way their household budgets. To build a flexible system, the Government should explore aligning assessment periods, including payment dates, to wages and/or rental or mortgage payments. This would ensure UC meets its aim of responding to real-time changing circumstances and reflecting the variety of ways people actually work in the modern labour market.
- DWP should also look at flexibility in assessment *start dates*. Currently for new claims, your first assessment period begins in relation to the date that you file your claim, regardless of when and how you are paid. This does not reflect many people's wage payments and other bills, reducing the potential for UC to help them smooth their income, rather than increase fluctuations.

### ***In the shorter term***

There are some changes that would significantly improve the flexibility within the current monthly assessment and payment structure. These could either be built permanently on top of the current design of UC, or provide transitional flexibility on the path to a wider redesign. They include:

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<sup>79</sup> Work and Pensions Select Committee, Universal Credit and Domestic Abuse, July 2018

<sup>80</sup> See more in recommendations to 'Make sure people can access adequate financial at the beginning of the claim'

- Work quickly on plans to expand access to all three APAs. Many claimants say they would benefit from all three APAs and should be able to choose the types of payment that suit them when they make a claim or at any point while they are in receipt of UC.
- Addressing delivery problems with managed payments to landlords so that they fit around actual rent payment cycles as quickly as possible
- Ensuring UC is paid to primary caregivers in households by default.
- A disregard should be considered for small changes to income at a similar level to the current Tax Credit system. This would make UC income more predictable for those who have fluctuating or non monthly pay, could make budgeting simpler and could incentivise people to take on more hours.

# We help people find a way forward

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