FINANCIAL RESILIENCE AND THE TRANSITION TO UNIVERSAL CREDIT

A report by Policy in Practice

Supported by funding from the Joseph Rowntree Foundation

7 factors driving financial resilience

These 7 factors determine a household's ability to cope with the move to Universal Credit. They can interact and overlap.

Over 3 million households (71% of those yet to move to Universal Credit) face at least 1 of these challenges. Over 1 million low-income households (26% of those yet to move onto Universal Credit) face 2 or more of these challenges

1 Savings and debts

14% of people yet to move to UC have insufficient savings to cover the 5 week wait and are already in debt or struggling to pay their bills. This represents 700,000 households.

2 Delayed payments

11% of people yet to move to UC, based on the current UC processing times, are likely to receive no payment at 5 weeks from their initial claim date. This represents 500,000 households

3 Income after costs

16% of households are unable to meet their outgoings both during the 5 week wait, and while repaying the UC advance. This represents 740,000 households. A further 25% of households face an income shortfall during the 5 week wait and return to surplus after, this represents 1.3 million households.

4 Run-on support

Households will not get run-on support for their children through Child Tax Credit, this represents 1.9m families and 3.8m children. A further 8% of households will receive no run-on support at all as they make new claims for UC.

5 Deductions

25% of the current cohort face deductions greater than 20% of the standard allowance. This affects 500,000 families today and will affect a further 1.2 million households as UC rolls out.

6 Lower award

28% of households who will move onto UC will get a lower award than under legacy benefits. This represents 1.3 million households. Of these, 700,000 moving to UC via natural migration will be immediately hit, while 600,000 moving to UC via managed migration will get transitional protection.

7 Readiness for work

44% of the UC cohort are not expected to look for work due to illness or caring responsibilities, so work is unlikely to be a route out of any financial difficulties they may face.

Supported by JRF JOSEPH ROWNTREE FOUNDATION

The Joseph Rowntree Foundation has supported this project as part of its programme of research and innovative development projects, which it hopes will be of value to policy-makers, practitioners and service users. The facts presented and views expressed in this report are, however, those of the author and not necessarily those of JRF.

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A full version of this report containing a comprehensive Technical Appendix is available online and from hello@policyinpractice.co.uk. It outlines the data sources, assumptions and methodology used in this analysis.

Project brief

There has been considerable debate surrounding the detrimental impact that moving onto Universal Credit (UC) has on households' financial resilience. There have been ongoing concerns that this move - which should be a lifeline that helps people to keep their heads above water when they are struggling - is adversely affecting the financial security of claimants, and may also be acting as a barrier to the adoption of Universal Credit (UC).

While the focus has been on the initial five week wait for payment under Universal Credit, there are a range of compounding factors that can affect how a household experiences a move onto Universal Credit. These can trigger or exacerbate issues with the five week wait, and can pull people into poverty. These include but are not limited to:

- their initial level of savings (or debts) as they move onto Universal Credit
- the time it takes them to make a claim, and their experience of moving onto Universal Credit
- the initial five week wait, the impact of the Universal Credit advance and subsequent repayments
- other deductions from their Universal Credit award (e.g. to recover overpayments)
- the impact of a different award amount under Universal Credit than under legacy benefits
- the impact of moving into work under Universal Credit

The Joseph Rowntree Foundation (JRF), alongside a number of other organisations including the Trussell Trust and Policy in Practice have called for changes to ease the transition onto Universal Credit[1]. In response to widespread public concern around the five week wait, the government has announced a number of changes to Universal Credit to ease the transition onto the new benefit. These include but are not limited to:

- the Universal Credit advance has been made available at the start of a Universal Credit claim, allowing people to borrow up to 100% of their maximum Universal Credit award
- the seven day waiting period for Universal Credit was abolished in February 2018
- a two-week run-on for people in receipt of Housing Benefit was introduced in April 2018
- Universal Credit work allowances were increased for households with children and those with limited capability for work in April 2019 by £1,000 per year
- the maximum deduction rate from Universal Credit will be reduced from 40% of the standard allowance to 30% of the standard allowance from October 2019
- a two-week run-on for people in receipt of DWP benefits (JSA, ESA, IS) will be introduced in July 2020
- the repayment of Universal Credit advance payments will be extended from twelve to 16 months in October 2021

This report takes into account the range of challenges people face alongside these recent improvements to identify how many people are likely to continue to struggle with the transition onto Universal Credit.

We speak with people in receipt of Universal Credit to understand their biggest challenges, and what could help them to stay afloat. We then go onto model the transition onto Universal Credit across the population. This analysis focuses on the short-term financial impact as a result of the initial transition onto Universal Credit, as well as the longer-term impact of repayments of the UC advance and other deductions to determine what causes people to struggle, and where changes to the system can have the greatest impact.

We then go on to model a range of policy options to ease the transition onto Universal Credit before making recommendations for the government to consider.

[1] Policy in Practice briefing papers: Options to reduce the six-week wait & Additional options to improve Universal Credit, November 2017, available here.

Background and context

Universal Credit represents a fundamental overhaul of the benefit system, affecting an estimated 6.7 million households when it is fully rolled out by 2023. It has been designed to simplify the benefit system and ease the transition into work by bringing together six separate means-tested benefits and credits, administered by two government departments and over 370 UK local authorities, into a single award paid monthly in arrears.

There are widespread concerns that monthly payment in arrears, intended to mimic and thereby ease the transition into work, is instead eroding people's financial security as they transition to Universal Credit, and that this may also be a barrier to claiming Universal Credit.

There are now over two million people in receipt of Universal Credit; it has been the default across the country for new claims since January 2019, with 100,000 people moving to the benefit each month. The growing scale and pace of the rollout is in itself a considerable achievement.

It will be fully rolled out across the UK by 2023, reaching a further 4.7m households. However, people are expected to adapt to the changes brought about by Universal Credit while the welfare system is becoming less generous overall, putting low income households under increasing pressure.

There are still a significant number of households that we know continue to struggle as they transition to Universal Credit. To ease the mounting pressure on these households, improvements that smooth the transition to Universal Credit need to be made now.

Direct experiences of problems with Universal Credit
We held focus groups and spoke with people in receipt of Universal Credit about their experiences of moving to Universal Credit, to get their thoughts on the new measures announced to ease the transition to Universal Credit, and to ask them what changes would have helped them.

Their experiences of moving to Universal Credit

- A minority of participants were paid after five weeks, but others had to wait more than two months.
- A majority of participants cited frustrations with the digital nature of the application process and the inflexibilities of the system.
- However, a minority said that they appreciated only needing to make one application for all of their benefits.

"I don't feel like there was a lot of help, and it wasn't really explained to me."
"Even the advance was not enough to pay all the backed-up bills, five weeks is quite a long time to wait, it's too long."

The impact of the measures announced by DWP

- While most took advantage of the advance loan and found it had helped them with the transition to Universal Credit, it seemed wrong that they should have to take out a loan at all.
- The run-ons would have been appreciated had they been available to them, however most people with children would need both the run-on and the loan option, and those who had left employment would have needed an alternative arrangement to cover the five week wait.

"Why would you end it knowing that someone's not working… why is there a gap?"
"It would have made it easier, but I feel like I would still take the advance… Getting that extra two weeks would be helpful but it's not the extra four, five weeks, is it?"

Their solutions to ease the transition to Universal Credit

- There should be more flexibility and support to help people at the application stage.
- Advance repayments should be more flexible or delayed until claimants were earning enough money
- Universal Credit should be paid every two weeks, from the beginning of the claim.

"It suits certain people if you get your money every two weeks and it suits other people getting paid monthly."

Some of the focus group participants had claimed Universal Credit before some of the measures (payment timeliness, awareness of the advance and the run-on of Housing Benefit) had been introduced, but their experiences help to highlight the challenges and pressures quantified through the analysis of this report.

Universal Credit has improved, but there are still significant issues

Universal Credit payment statistics April 2019 (vs 12 months earlier)[2]

- 83% of new claims to Universal Credit received full payment on time (vs 71%)
- 89% of new claims to Universal Credit received some payment on time (vs 84%)
- 94% of households on Universal Credit received their full Universal Credit payment on time (vs 84%)

Despite the welcome improvements to the speed of processing for Universal Credit, it is clear that many people continue to face difficulties with the transition to Universal Credit. The statistics above suggest that:

- Around 17,000 households who are trying to move to Universal Credit each month are not paid in full on time.
- Around 11,000 households receive no payment even after five weeks.
- Around 6,000 people already on Universal Credit were not paid in full on time last month, rising to 400,000 households once Universal Credit is fully rolled out (assuming the same standard for processing claims).

The impact of not having any 'Income After Costs'

The human impact of households represented by these statistics is brought to life through the focus groups and in reports by the Trussell Trust, Citizens Advice and other organisations that help those people who are struggling most with the transition to Universal Credit[3].

"I had to let my childminders know that, "I haven't been paid, I can't pay you this month but I still have to go to work and I still have to bring my child here," so I had to open up my Universal Credit claim and show it to them to say zero…"

Building on the technically rigorous Social Metrics Commission poverty metric, recently adopted as an experimental statistic by DWP, we use an indicator called '**Income After Costs'** to determine financial vulnerability. This measure compares reported income to estimated costs, where cost estimates are based on the ONS Living Costs and Food Survey, adjusted for household size. Living costs used are those reported by households in the bottom 30% of the income distribution. This provides an estimate of the number of households expected to cope, to struggle or to be at risk because of each of these factors.

[2] DWP Universal Credit Statistics 11 July 2019 (published 13 August 2019, available here. 'Payment on time' means paid within 7 days of the end of the first 'Assessment Period', essentially five weeks after the initial claim. Note this therefore excludes delays arising from the difficulties in that initial submission.
[3] The Trussell Trust: Why we need to end the wait for Universal Credit, September 2019, available here

Faced with an income shortfall, households are forced to grapple with a number of options to make ends meet. Household members may seek to increase their earnings through work, dip into savings, take out loans, or reduce their living costs. Each of these options places additional strain on the household, meaning the transition to Universal Credit can create hardship.

Some households will have savings that they can use to mitigate against the income shortfall. Where this is the case, the financial shock of the five week wait dramatically reduces their savings and in most cases completely exhausts them.

Most households in poverty do not have savings to fall back on. Households with no or insufficient savings may be forced to take on debt to cover their costs. The Universal Credit advance is an example of such a loan, albeit interest free. The option to offset the shortfall through loans is particularly problematic for those who continue to face a shortfall after the five week wait. These households are less likely to be able to pay off any debts incurred during the transition. Where debts to DWP (such as advance repayments) are deducted at source, these households face a deeper shortfall in their income.

Such households may reduce their expenditure on 'non-essential' items in order to avoid debt, preserve savings, or ensure that unavoidable costs (such as rent or council tax) are met. This means that although expenditure can sometimes be reduced while continuing to meet ongoing commitments, this cost reduction is likely to result in a substantial drop in living standards. For example, a significant reduction in grocery expenditure places households at an increased risk of destitution, and is relevant to the rise in food bank usage that has been linked to the rollout of Universal Credit.

The analysis below seeks to understand the scale of each of the different types of challenges people face with the transition to Universal Credit, to help determine where investment and changes in policy can have the greatest impact.

Household level financial profiles

We looked at six different factors that may affect an individual's transition to Universal Credit:

- their initial level of savings (or debts) as they move to Universal Credit
- the time it takes them to make a claim, and their experience of moving to Universal Credit
- the initial five week wait, and mitigation in place, including the Universal Credit advance (and subsequent repayments) alongside legacy benefit run-ons
- other deductions from their Universal Credit award (e.g. to recover overpayments)
- the impact of a different award amount under Universal Credit than under legacy benefits
- the impact of moving into work under Universal Credit

We use data from the Family Resources Survey (FRS), the Office of Budget Responsibility (OBR) and other publicly available data, combined with our own modelling, which takes into account the changes to Universal Credit already announced, including those yet to come in.

A detailed technical explanation of our methodology is available in the appendix to this report.

Seven factors determining financial resilience

- **Savings and Debts:** 14% of people yet to move to Universal Credit have insufficient savings to cover the five week wait and are already in debt or struggling to pay their bills before they move to Universal Credit. This represents 700,000 households yet to move to Universal Credit.

- **Delays in payments:** 11% of people yet to move onto Universal Credit, based on the current Universal Credit processing times, are likely to receive no payment at five weeks from their initial claim date. This represents 500,000 households yet to move to Universal Credit.

- **Income after costs:** 16% of households are unable to meet their outgoings both during the five week wait, and while repaying the Universal Credit advance. This represents 740,000 households. A further 25% of households face an income shortfall during the five week wait and return to surplus afterwards, this represents 1.3 million households.

- **Run-on support:** Households will not get run-on support for their children through Child Tax Credit, this represents 1.9m families and 3.8m children. A further 8% of households will receive no run-on support at all as they make new claims for Universal Credit.

- **Deductions from UC:** 25% of the current cohort face deductions greater than 20% of the standard allowance, this affects 500,000 families today, and will affect a further 1.2 million households as Universal Credit rolls out.

- **A lower award amount under UC:** 28% of households who will move onto Universal Credit are eligible for a lower award than under legacy benefits. This represents 1.3 million households. Of these, 700,000 households moving to Universal Credit through natural migration will be immediately impacted, while 600,000 households expected to move to Universal Credit through managed migration will initially receive transitional protection.

- **Work ready:** 44% of the Universal Credit cohort are not expected to look for work due to illness or caring responsibilities, meaning that work is unlikely to be a route out of any of the financial difficulties they may face.

The multiple stages in the journey to Universal Credit can often interact and overlap to affect the same household in several different ways. The analysis shows that it is possible to identify these pressure points, and to act proactively to prevent hardship and ease the transition to Universal Credit. Based on the pressure points captured by the FRS dataset (savings and debts, income after costs, changes in award levels and expectation to work) we can estimate that a minimum of:

- 3.3 million households, or 71% of the cohort yet to move to Universal Credit, will face at least one of these challenges.

- 1.2 million low-income households, around 26% of the cohort yet to move onto Universal Credit, will face two or more of these challenges.

- 150,000 low-income households, around 3% of the cohort yet to move onto Universal Credit will face three or more of these challenges.

In addition:

- 1.2 million households yet to move onto Universal Credit will have award deductions greater than 20%. Even assuming no relationship between deduction amounts and the likelihood of other challenges (e.g. pre-existing debts), this would mean 800,000 households experience high deductions in addition to at least one other pressure point.

- 400,000 households who have not yet moved to Universal Credit will have had no prior legacy claim. This is around 8% of the remaining 4.7m to migrate by the close of 2023.[4] Again, assuming no relationship between prior claim type and other challenges (e.g. changes in award levels), 300,000 households will experience at least one other pressure point without the benefit of legacy run-ons or final payments.

- 500,000 new Universal Credit claims will not receive their payment on time. Even if we assume no relationship between a payment delay and other challenges, 400,000 households will have their delayed claim compounded by other pressure points.

Recovery of overpayments under legacy benefits

The maximum recovery rate of overpayments under legacy benefits is £11.10 per week. This is equivalent to 15% of a single persons standard allowance, or 10% of the standard allowance for a couple.

Under Universal Credit, the maximum recovery rate for overpayments is 15% of the standard allowance for those without earnings, or 25% for those who are earning. In addition, if they have an advance loan the maximum recovery rate rises to 40%, considerably more than legacy benefits.

The maximum recovery rate is set to fall to 30% of the standard allowance in October 2019, this suggests there may be scope for it to fall further still.

We know that a significant number of people are likely to struggle, even when planned reforms are taken into account. Equipped with this knowledge, the Government must find ways to further ease the transition to Universal Credit, and make it the lifeline it was intended to be, particularly for those who are fighting to stay afloat.

Policy options to ease the transition onto Universal Credit

There have been many changes proposed to improve Universal Credit. Some of the key recommendations from our earlier briefing papers continue to have meritand could still be implemented.[5] These recommendations seek to improve the general administration of Universal Credit, and to ensure it does not have an adverse and unjust impact on the people it was designed to support.

Two previous recommendations Policy in Practice have made that could help to ease the transition to Universal Credit include allowing **backdating** of Universal Credit for one month prior to the start of the claim under any reasonable circumstances and **writing off tax credit debt** that is more than three years old.

Recognising the continuing validity of many of these recommendations, we identify through our analysis three separate options to help ease the transition to Universal Credit. The options below were selected because they are simple and

[4] See technical appendix page and OBR welfare trends report 2018 available here.
[5] Policy in Practice briefing papers: Options to reduce the six-week wait & Additional options to improve Universal Credit, November 2017, available here.

clear for recipients to understand, have been shown to be feasible for DWP to rollout while large numbers are yet to move onto Universal Credit, and can be targeted to those that most need support.

- A targeted grant in place of an advance would help people cope as they move to Universal Credit
- An extension to the two-week run on to include Child Tax Credit would help families with children
- Greater flexibility as called for by claimants will help people to manage the transition to Universal Credit

"They really need to look into the processes and people's situations stringently and give support to those who really need it."

Targeted grant based on needs

We believe that a targeted grant can help with the challenges identified during the transition to Universal Credit. A targeted grant is perhaps the simplest and most direct option to help vulnerable people as they move to Universal Credit. It has a number of distinct advantages:

- It provides immediate financial support to people facing delayed payments, for recipients unable to sustain repayment of an advance, particularly alongside other deductions, and for those whose Universal Credit award is lower than their expected outgoings once repayments are taken into account.

- It can soften the blow of a lower award amount upon moving to Universal Credit and offers direct support to those struggling who are not expected to look for work due to illness or caring responsibilities.

- It may be a powerful way to engage the managed migration cohort, many of whom may not have engaged directly with DWP for a number of years, and

- While we think the DWP should allow for more generous backdating, it offers a flexible alternative when delays in making a claim are for understandable reasons, or due to administrative errors.

There used to be an array of non-repayable grants, for example in 2010-11 the department spent £141m on community care grants. Other grants were abolished at around the same time, and replaced with loans[6]. The introduction of a targeted grant is simply a return to previous approaches. To illustrate the potential (and flexibility) of needs-based targeting, we have modeled the costs and impacts of grants targeted to households experiencing pressure points throughout their transition to Universal Credit. Table 1 shows each of these options compared to a grant applied to the whole upcoming Universal Credit cohort, the total number of households targeted, the average grant award (based on an amount equivalent to the personal element, housing element and child element of Universal Credit), and the total cost of the measure during migration.

Option	Cohort	Households impacted	% of total cohort impacted	Average grant amount	Cost during migration
Baseline	All households	4.7m	100%	£919	£4.3b
Option A	Households with one or more serious issues with the transition to Universal Credit	3.4m	72%	£801	£2.7b

[6] DWP, Annual report on the Social Fund 2010/11 available here.

Option B	Households with two or more serious issues with the transition to Universal Credit	1.2m	27%	£654	£816m
Option C	Households with three or more serious issues with the transition to Universal Credit	0.2m	3%	£746	£116m

Table 1. Options for needs-based targeted grants based on number of pressure points during transition to Universal Credit; ongoing costs after transition are estimated to be £168m per annum if applied to all households.

This modelling illustrates that it is not only possible to identify households that are likely to experience challenges transitioning onto Universal Credit, but it is also possible to use this identification process as a means of targeting support.

The approach outlined in Table 1 leverages the rich data available in the FRS (which has equivalent detail to the administrative datasets held by DWP) to target households based on combined vulnerability levels, regardless of specific challenge type.

In Table 2, we have modeled more specific targeting approaches based on the individual challenge types identifiable through FRS/administrative data. This shows the flexibility of needs-based targeting using administrative data, meaning it can be adjusted to meet specific policy objectives, or to complement individual support systems.

Option	Cohort	Households impacted	% of total cohort impacted	Average grant amount	Total cost
Baseline	All households	4.7m	100%	£919	£4.3b
Option D	Households in ongoing shortfall	0.8m	18%	£410[7]	£0.3b
Option E	Households in shortfall during the five week wait	1.2m	25%	£860	£1.0b
Option F	Households worse off under Universal Credit	1.3m	28%	£981	£1.3b

Table 2. Options for needs-based targeted grants based on specific pressure points during transition to Universal Credit, ongoing costs can be estimated by applying the percentages shown to the £168m cost for support to all households.

Some of the concerns we would anticipate around a targeted approach would include the accuracy of any assessment, the arbitrary and subjective nature of distinguishing who needs help, raising awareness of the support and the feasibility of making the necessary legislative and administrative changes for this to be a possibility.

We have shown through our analysis that targeting using these relevant criteria is possible. We also know through our work with councils that they are able to use benefits administration data to determine accurate assessments of which households are more likely to be vulnerable, and can use it to target financial support such as Discretionary Housing Payments. For councils, targeting offers an indication of who might need support, supporting the effective targeting of discretionary funds, instead of replacing a rights-based approach. It could be applied similarly by DWP.

Many local authorities are using their administrative data, including benefits data on Housing Benefit and Council Tax support, alongside the 'Income after Costs' measure of financial vulnerability in order to better target support. They use similar approaches to raise awareness of Discretionary Housing Payments. However, relying on individuals knowing

[7] The average grant amount for this group is lower than for other subgroups due to demographic differences. Further explanation is available in the technical appendix of this report.

their eligibility for additional support is not enough - our work with local authorities has identified that on average, only 1 in 5 households eligible for DHPs actually apply for one. Discretionary awards can be improved through better targeting. You can see how this might work in a case study at the end of this report. The approach to targeting could include a rights-based element, e.g. for those experiencing three or more challenges with the transition to Universal Credit, and a discretionary element for those facing fewer challenges.

One legislative approach to implement targeted grants could be an amendment to the Social Security (Payments on Account) Regulations 2013, which states that in certain circumstances the payment on account would not normally be recovered or would be deferred indefinitely. An amendment of this nature would not be controversial, with cross party support there should not be an issue getting it enacted.

Two-week run-on of tax credits

Having accepted legacy benefit run-ons as a tool to help ease the transition to Universal Credit, focus group participants were surprised that Child Tax Credit was not included.

A two-week run-on of Child Tax Credit would cost an estimated £430m during migration and help families with children. There is a strong case for additional support. 22% of families have young children and are not expected to look for work, and 40% of families with children will be worse off under Universal Credit, losing £181 per month on average[8]. Combining these two factors, 8% of families with children will be worse off under Universal Credit and have parents who are not expected to look for work. This represents 200,000 households or 400,000 children who are yet to move onto Universal Credit.

It is possible for DWP to identify families affected by each of these pressures through the administrative data given when they make their Universal Credit claim.

In addition to the proposed run-on of Child Tax Credit, given that 183,000 new claims are expected to move onto Universal Credit each year in steady state, and would not qualify for any run-ons, there is also a case for a run-on of Working Tax Credit. This would cost around £183m a year in steady state.

Some of the concerns around expanding the run-ons to include Child Tax Credit are likely to include the fact that run-ons for housing already exist. Run-ons have also already been announced for Jobseeker's Allowance, Income Support and Employment and Support Allowance. However, without Child Tax Credit being included, the run-ons that have been announced explicitly exclude support for children. This is difficult to justify, particularly for parents facing multiple challenges with the transition to Universal Credit.

Tax credit run-ons would be a costly administrative change for HMRC to deliver. However, the system need not be administered by HMRC: it could be administered in a similar manner to the Universal Credit advance loan, calculated on the basis of dependent children in the household, adjusted for two weeks. This would be payable in a similar manner to the targeted grant, outlined above.

Greater flexibility to help people as they transition onto Universal Credit

Claimants that took part in the focus groups called for a number of different forms of flexibility. These included a more straightforward approach to verification, more knowledgeable advisors able to offer support and identify issues with the

[8] Policy in Practice: The impact of welfare reform on child vulnerability, May 2019, available here.

claim, the option to delay repayments for short periods to deal with unexpected outgoings, and the option to choose twice-monthly payments.
Greater flexibility around:

- **Backdating** to limit the loss of entitlement amongst claimants who did not claim Universal Credit at the point of eligibility, because of turbulence due to the change in their circumstances or other challenges in making a claim, including mental illness, learning difficulties or an inability to get online.

- **Debt repayments** to help people to cope with unexpected costs when they already have an advance, or are having additional deductions from their Universal Credit award, particularly when deductions relate to unexpected amounts, including overpayments. Greater flexibility around debt repayments would also help people with lower Universal Credit awards to cope with the transition to a lower monthly income.

- **Verification** to help minimise delays to payments and ease the transition onto Universal Credit. It may also mean fewer people have to rely on the Universal Credit advance.

- **Fortnightly payments** to put choice back into a benefit system that sets out to promote independence and recognise those households who are paid weekly or fortnightly today.

Wider welfare reforms, in particular the benefit freeze, also need to be tackled to ease the burden on low income households more generally. Action here would also help ease the transition to Universal Credit.

When proposing changes to Universal Credit, we must first recognise changes already made, and planned changes that have been announced. For example, the Universal Credit advance is greatly valued by people on Universal Credit. Focus group participants said that it gave them flexibility to cope with unexpected costs. They appreciated that it was interest free and could be repaid directly from their Universal Credit. They simply couldn't understand how it was right that they *had* to take out an advance to cope with the initial waiting period.

In addition, the government has already announced changes to the maximum amount that can be deducted from Universal Credit, and over what period the advance is recovered. The proposed date for lengthening the advance repayment period to 16 months is October 2021. We believe the Government should move this forward if technically feasible, and give work coaches guidance on which households are financially vulnerable. Our recommendation is that they use the criteria outlined in this report, so that claimants have the ability to make flexible repayments, and work coaches are equipped with information on when they ought to offer to restructure payment plans. Making repayments flexible, so that they can be paused, adjusted, or even increased where that suits the claimant, should be deliverable.

More broadly, there needs to be recognition that one size doesn't fit all. We believe that the government should allow backdating prior to the start of the claim under any reasonable circumstances and without the overly burdensome and sometimes inappropriate evidence currently required. It's unreasonable to expect people to prioritise making a Universal Credit claim if they have lost their job, been made homeless, split up with their partner or had a baby. Indeed, some circumstances such as domestic abuse are very difficult to prove and attempts to provide evidence may cause considerable trauma to individuals at a time of heightened stress. Backdating is present within many legacy benefit assessments for just these reasons, with benefits backdated to the point the change occurred.

Everyone in Scotland already has the option of fortnightly payments, as part of Scottish Choices, but these are only available after the first assessment period, and in arrears. This could be extended to claimants within England and Wales (twice-monthly payments are the default in Northern Ireland). An alternative raised with the DWP would involve an interim payment at two weeks from the start of the claim, separating payments from the calculation of the award, retaining the monthly assessment period at the heart of Universal Credit. In this instance, the DWP would estimate the Universal Credit award, along the lines of the advance and pay 50% after two weeks. The award would be calculated as now, with the remainder paid after five weeks.

Under this option, it would be possible to continue the process on an ongoing basis, with ongoing monthly reconciliation were people are overpaid. This would have the added benefit of giving people greater certainty over the amount they would receive and when, allowing them to focus on job search. It could also help to reduce the volatility of payments where multiple payments are received in a given assessment period.

Conclusions and recommendations

Universal Credit is undoubtedly a major change to the benefit system, involving both those gaining and losing support and introducing a significant change to how benefits are paid. As such, it is bound to throw up challenges for many claimants as they seek to adjust to the new system. However, many of these challenges, most notably the five week wait for their first payment, are because of how the system has been designed. DWP have ultimately had to respond, albeit belatedly, to these problems by providing financial support to claimants, and giving people more support through the transition.

We fully recognise that many of the encouraging changes and improvements to Universal Credit, those already in place or planned, have been hard won by the department. There is also growing evidence that administrative delays are being addressed. Against this generally encouraging background, our analysis clearly shows that the transition to Universal Credit presents major problems for a significant number of claimants.

These households tend to be in debt before making their Universal Credit claim, compounding their need for an advance payment which they then need to repay; they often experience a delay of longer than five weeks before receiving their first Universal Credit payment; and they find that their Universal Credit entitlement is lower than the support they were used to receiving under legacy benefits. Many are not expected to look for work, which means that they have limited ability to increase their income to escape the difficulties caused by the transition to Universal Credit.

Of these challenges we have shown that deductions, a lower award amount, and an inability to increase their income through work affect the greatest number of people. We also show that it's possible for DWP to identify households affected by multiple challenges in advance of their transition to Universal Credit, and how this can be the basis for targeted interventions. We have also drawn out the flexibilities requested by people already on Universal Credit.

In these circumstances,certain features of Universal Credit need to be redesigned to focus available help and resources on supporting these households to steer clear of poverty.

We therefore recommend that as a matter of priority the Government should now introduce:

- A targeted grant in place of the Universal Credit advance payment for those households clearly struggling because of the transition to Universal Credit;
- A two-week run-on of Child Tax Credit, paid through the Universal Credit system, to help families with children;
- Fortnightly payments of Universal Credit, starting with an initial payment at two weeks based on the estimated monthly award amount.
- Greater flexibility in processes such as recovery of overpayments and advances, claim verification and backdating, as called for by claimants, to help people to manage the transition to Universal Credit.

Case study - How councils use administrative data to target support

How support is targeted to people in financial need is being revolutionised using administrative data already held by DWP, alongside advanced analytics. Local authorities use this approach to understand the financial resilience of households, and segment support according to financial vulnerability and the likely impact of additional support.

Many local authorities use their administrative data, including benefits data on Housing Benefit and Council Tax support, alongside the 'Income after Costs' measure of financial vulnerability in order to better target support. They use data to:

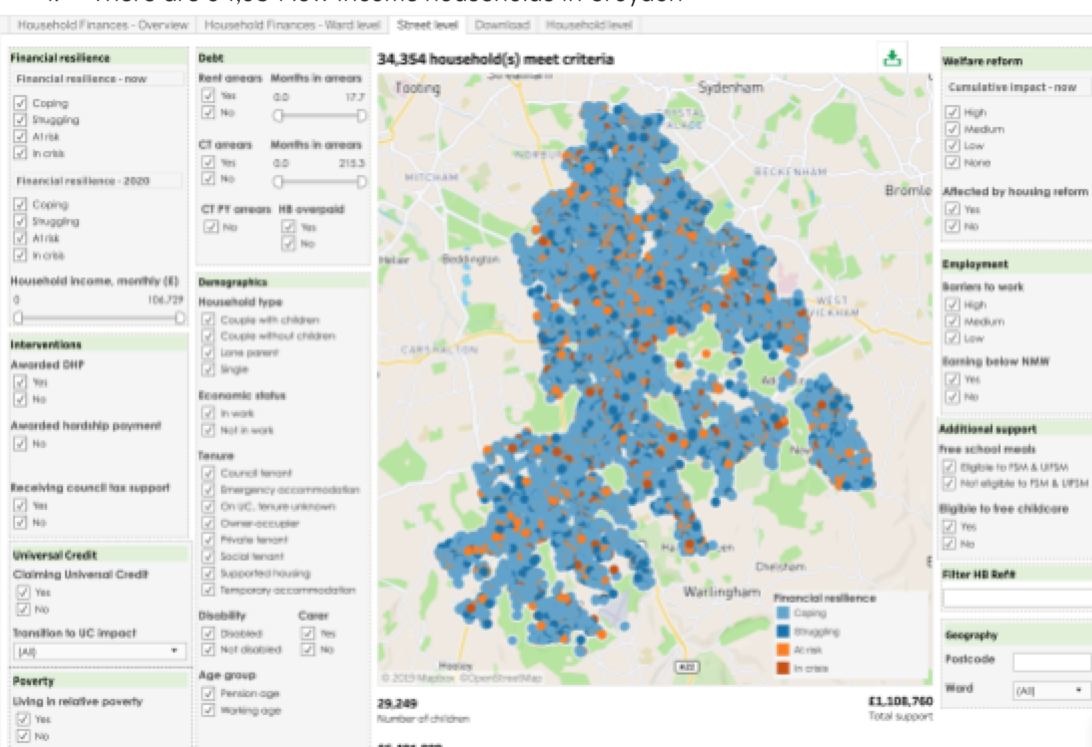
- **Provide context of overall financial resilience at the household level**: Pooling data on benefit eligibility and debt allows users to identify those at risk now, and combined with advanced analytics, can identify those who will be at risk in the future.

- **Target relevant cohorts and tailor collections**: By combining underlying levels of vulnerability with a consolidated debt picture, debt collection policies and operational practices can be tailored to suit specific cohorts, and even individual households.

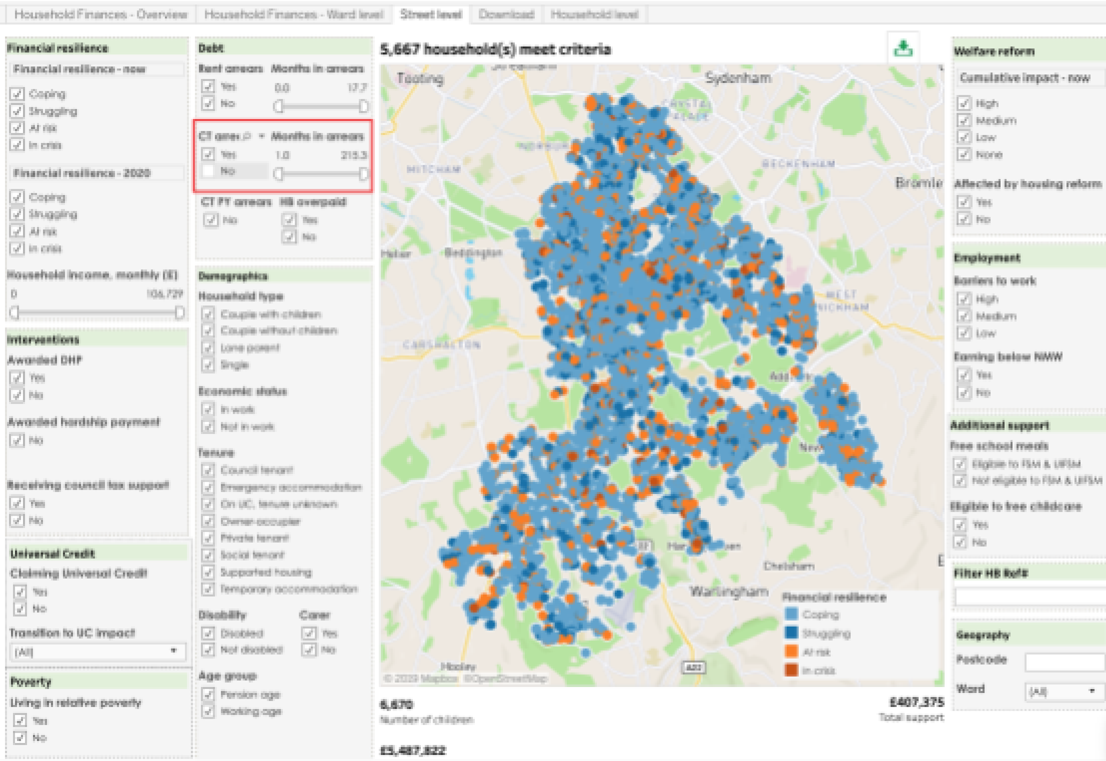
DWP could use similar datasets, including Universal Credit data, to target support. The images below show how councils are using data alongside powerful analytics to identify claimants who are in debt, who are likely to face income shortfall during and after the five week wait, and who will receive a lower award amount under Universal Credit.

This deep and granular level of assessment can be used to target tailored support in advance to households who are struggling, see our illustrative case study, below. A similar approach could be used to target the non-repayable grant proposed in this paper.

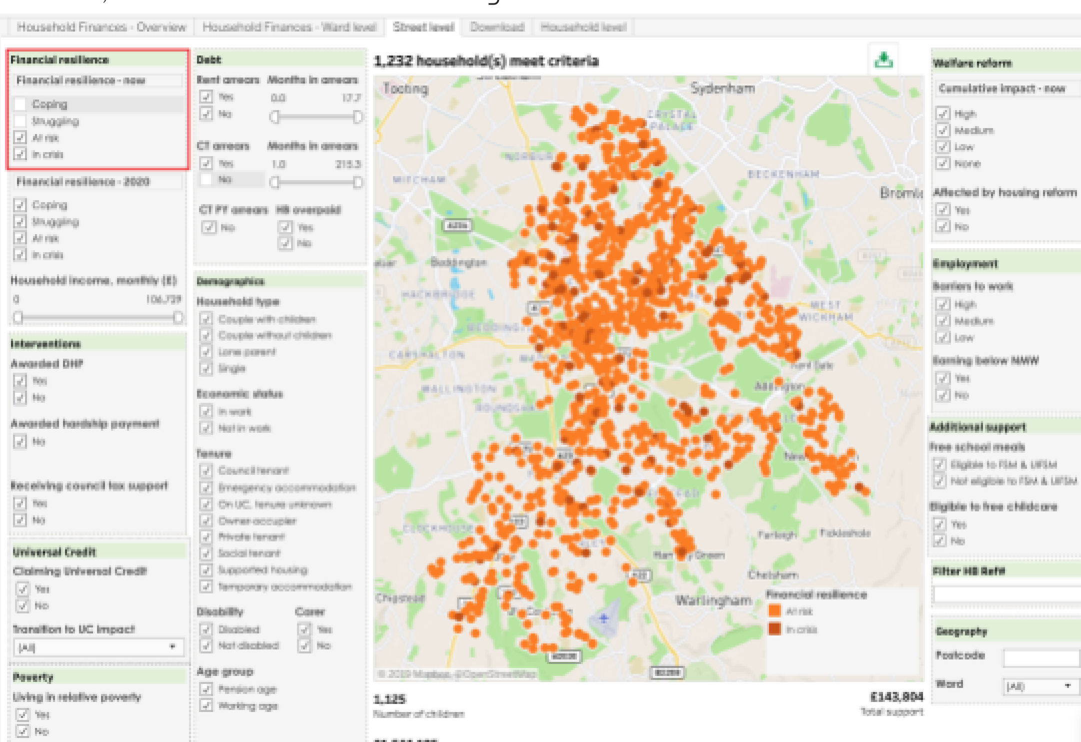
1. There are 34,354 low income households in Croydon



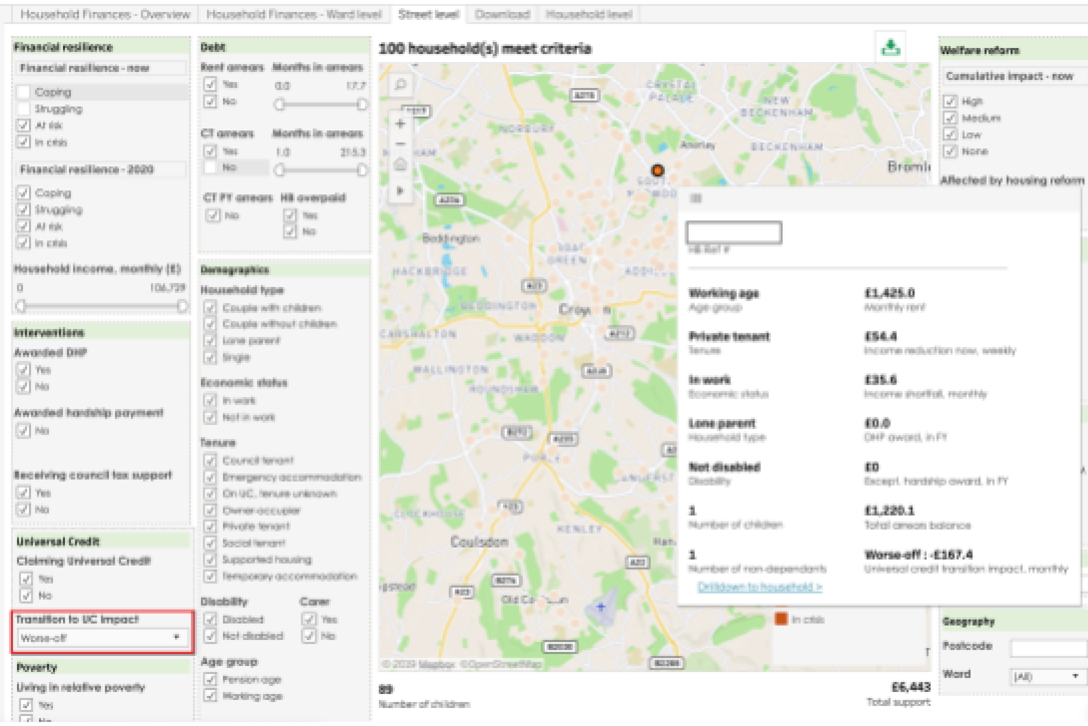
2. 5,667 of these households are more than one month behind in paying their council tax



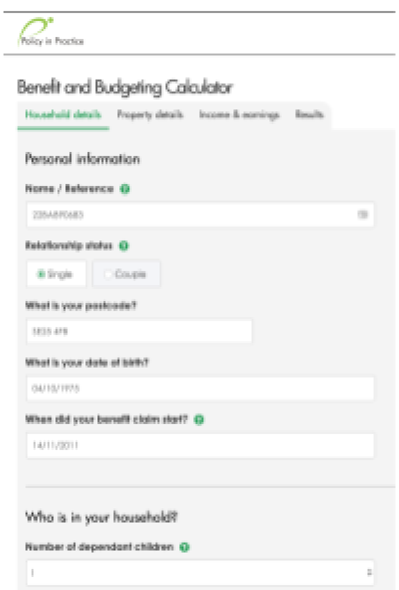
3. 1,232 of these households are facing a cash shortfall now

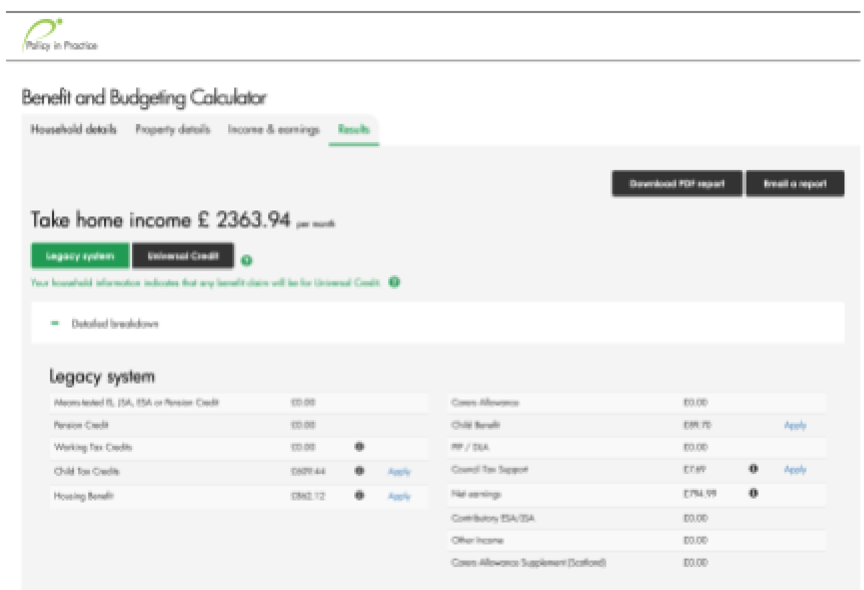


4. 100 of these households will be worse off when they transition to Universal Credit

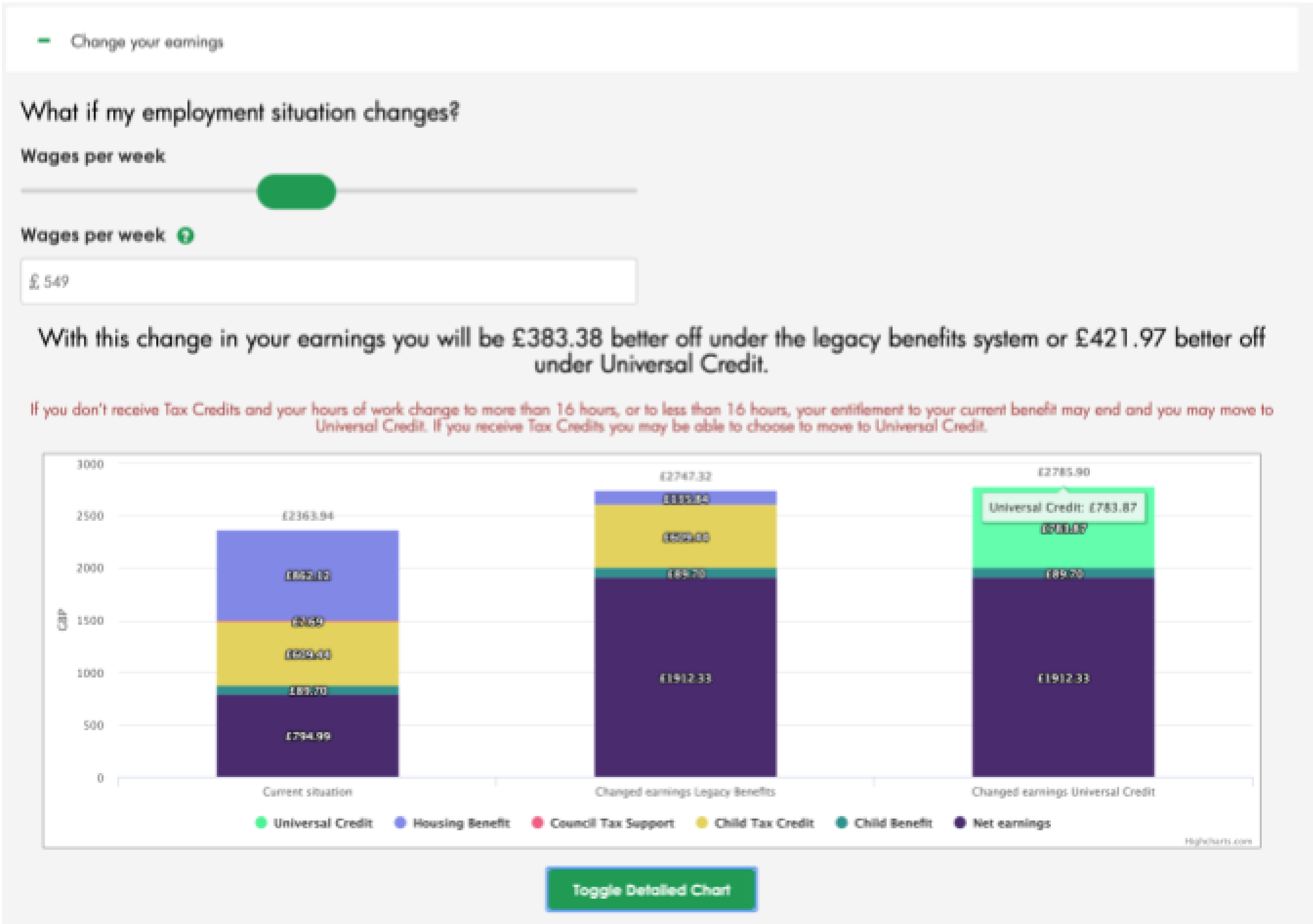


5. The underlying data can be used to give individual households targeted income and budgeting support, tailored to their circumstances





6. And households can see the impact of moving into work, or of moving onto Universal Credit



Technical appendix

A full version of this report containing a comprehensive Technical Appendix is available online and from hello@policyinpractice.co.uk. It outlines the data sources , assumptions and methodology used in this analysis.

About Policy in Practice

Government policy is complex, confusing and changing all of the time. Policy in Practice was founded to make government policy easy for people to understand.

The policy engine we built drives our award winning Benefit and Budgeting Calculator which helps 10,000 people daily via GOV.UK. It also supports frontline advisors in their work to explain changes in government policy, including Universal Credit. By looking at the interaction of policies from multiple government departments, the engine can identify the impact on people with certainty and highlight what actions they can take to be better off. It also shows people on low incomes what extra help they could get with, for example, low cost utility tariffs and council tax support.

Our policy engine also drives our Low Income Family Tracker which analyses household level administrative data and visualises the insights gained. The LIFT Dashboard is used by councils across the UK to **identify** households with low financial resilience; showing how future policies will affect them allows limited support resources to be targeted effectively. Then, using the built in Benefit and Budgeting Calculator, frontline advisors can **engage** people what the impact of taking steps such as reviewing household spend or moving into work could have on their financial resilience. Over time, the LIFT Dashboard can **track the impact** of interventions through low-cost case-controlled evaluations, in order to improve effectiveness.

We believe administrative data is the future of social policy analysis, and we want to work with partners to help them and their residents to navigate government policy and make active decisions that improve lives.

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