

# The Economics of Universal Credit



Response from The Salvation Army to the House of Lords Economic Affairs Committee

## Executive summary

This submission has been produced at the request of the House of Lords Economic Affairs Committee who asked for examples of fresh evidence of how the social security system is operating and impacting upon people's lives in the context of the Covid 19 pandemic. In our previous submission of 19 February 2020, we recognised the laudable, original intentions of Universal Credit and in welcoming the Committee's inquiry we set out the case that increasingly Universal Credit has become a source of hardship for many.

Based on case studies from the frontlines that detail individuals experience of the social security system because of the Covid 19 pandemic and how the help provided by The Salvation Army has made a vital difference to them.

However as some of your other witnesses have said, such as Professor John Hills, key problems remain with the benefit even after the changes made during the Covid 19 crisis. These problems are:

- The five week wait for initial UC payments
- Indebtedness of claimants
- High case loads for work coaches that impede their ability to help vulnerable clients

In this report we include lessons learnt from service users and we recommend that the Government:

- Reflects carefully on preserving the benefits of its provisional measures. The interim measures put in place by DWP have worked, however if in future they are withdrawn people will slip back into difficulty. The measures need to be retained so any future decisions need to be subject to an Impact Assessment or Parliamentary scrutiny.
- Remove the Five Week wait for the First payment of Universal Credit by converting advances into non-repayable grants for all claimants and Furthermore move towards a more targeted approach in the long term (i.e. for eligible and more vulnerable claimants)
- Invest in a more human support for claimants through ensuring that Work Coaches have more manageable case loads (i.e. report and case studies) to allow better identification of vulnerabilities, including the existence of problem debt, amongst new claimants.
- Provide a sustainable solution to people's wider financial issues by attaching the option of an automatic breathing space period to new Universal Credit claims for claimants experiencing problem debt.

## Contents

1. Case studies sourced from Salvation Army services
2. Covid 19 - the crisis we all face
3. The structural problems of Universal Credit
4. Recommendations to the Government

Territorial Headquarters, 101 Newington Causeway, London SE1 6BN  
Switchboard: 020 73674500 Web: [www.salvationarmy.org.uk](http://www.salvationarmy.org.uk)

The Salvation Army is a Christian church and registered Charity No.214779 and in Scotland SC009359; Social Trust Registered Charity No. 215174 and in Scotland SC037691  
Republic of Ireland Registered Charity No. CHY6399; Guernsey Registered Charity No. CH318; Jersey NPO0840; Isle of Man Registered Charity No. 267  
The Salvation Army Trustee Company, registered number 00259322 (England and Wales). Registered office: 101 Newington Causeway, London SE1 6BN  
General: Brian Peddle  
Territorial Commander for the United Kingdom with the Republic of Ireland: Commissioner Anthony Cotterill

## 1. Case studies sourced from Salvation Army services

In drafting this additional submission, we have sourced case studies from our church centres and services on how the current crisis has impacted upon claimants and our ability to serve people. The names of service users have been changed to protect their identity. The cases studies are as follows.

### **Paula - North East of England**

At the end of March 2020, due to the challenging economic conditions the UK faces Paula made a claim for Universal Credit as her partner Richard is self-employed and due to her health conditions, she is considered 'high risk'.

According to the design of Universal Credit the couple had to wait five weeks for the first payment which did arrive on time. Due to the fact that Paula gets receives PIP and her son gets support as he has special needs this wait was not too onerous. The family are doing well and have no need for an advanced payment but compared to the experience of others they are believe they are lucky. Paula reflects that without savings it would have been hard.

Paula said that a 'sick note' was requested and the claimant journal requested it being presented. However, Paula cannot leave home as she is not allowed out for twelve weeks and her partner is reluctant to leave her at home for periods. JCP then got in touch and the claimant journal was amended accordingly.

Paula appreciates help from the local Salvation Army team, she doesn't like aspects of Universal Credit such as the monthly payment which means she has to budget very differently to before. Things have worked out well but without savings and the Salvation Army it would have been a struggle.

**Message:** Having savings and support from an organisation such as The Salvation Army makes all the difference for claimants, highlighting the problems faced by those without savings and lacking access to support. Universal Credit can work but support and savings make the difference.

### **Salvation Army Employment Plus - West Midlands**

The Salvation Army has a long history of helping individuals to find sustained employment and lead independent and fulfilling lives. Since we opened the country's first Labour Exchange in Whitechapel in 1890, 'Work for All' has been an integral part of our mission. Today, The Salvation Army remains as committed as ever to this goal through the provision of person-centred, holistic support programmes, known as Employment Plus and Employment Plus Local.

Feedback from an Employment Plus Regional Manager in the West Midlands has been helpful in discerning some of the patterns experienced in the recent pandemic. The manager, Richard Loach said:

"Currently, those on benefits already are 'ok'. In comparison we have observed that those making new claims for people who struggled have struggled and not been paid within five weeks. Some of these people cannot be classified as our clients as we are constrained getting them onto our system."

"In particular, there is an issue we need to raise with one aspect of DWP operations in the new environment. In a normal cycle we can negotiate better re payment plans and loans/overpayments with DWP re payment usually when people are physically present and via a phone-call we can talk to the DWP to broker a solution or mitigation. These are the most vulnerable people."

"However, now under the constraints we have been told we can't do three-way calls and this is a challenge. So what do we do? The client, staff member and adviser are in separate places this has not been allowed"

"For ongoing claims it is possible that we will have mitigation in place currently, but in future this might affect new claimants who might need some mitigation and problems can mount up. Without remedial action. We need to find a way forward."

**Message:** Despite the good work put in place by DWP the unique challenge created by Covid 19 creates operational difficulties that need resolution. Third Sector organisations are well placed to advocate for people but if we aren't able to continue to easily address these problems claimants will encounter difficulties. The new arrangements are welcome, but more thought and action is required to address such operational and technical issues that the crisis and the new ways of working have generated.

### **The Salvation Army Debt Advice Service**

The Salvation Army runs a Debt Advice Service authorised and regulated by the Financial Conduct Authority (FCA) in 21 centres in England and Scotland; supporting those people within our church and communities who find themselves burdened with debt. We do this by providing a not for profit debt advice service, budgeting training and working with other agencies that can support our clients. We gave direct support to 668 people last year.

- In assessing the impact of the recent crisis the view from Debt Advice Service is that the picture is complex and not easy to disaggregate overall The Debt Advice Service has seen a good turnaround. We would stress that with respect to data we have not got an update that would help us to establish any patterns emerging yet.
- The overall picture from our Debt Advice Service is that in the early days of Covid 19 there were a deluge of Universal Credit claims and then the Government responded. Adjustments were made such as the additional £20 a week and the relaxation of conditionality and operation responses such as 'Don't call us we will call you' did make a positive difference. Furthermore, now there is no Universal Credit conditionality being applied people are not getting sanctioned we are not seeing this policy impact as had been the case.
- It is helpful that over-payments are not being claimed back. However, there is a concern if a claim is made in the current cycle will the claimant be liable to over-payment and then the money will be clawed back, as was the case with tax credits? Our Debt Advice Service has urged people to stick to their payment plan, but people have expressed concerns
- The interim measures need to be kept in place or problems will resurface and we will be back in the same place. However, this consequently begs the question, if in future the Government goes back to previous methods there is a danger of a cliff-edge occurring and people being pushed back into problems.

**Message** - the interim measures put in place by DWP have worked, however if in future they are withdrawn people will slip back into difficulty. The measures need to be retained so any future decisions need to be subject to an Impact Assessment or Parliamentary scrutiny.

### **Maria Employment Plus East London**

Maria is from Central America, she used to have training at the Employment Plus centre in East London. She used to work as a full-time cleaner, and she used to come to our Employment Plus centre in East London to train online and update her CV with the goal to change job and work as a carer.

She was in full time work and then after the outbreak, her working hours were reduced progressively until they went down to zero, and she missed her employer's email regarding furlough due to a cluttered inbox, so her salary was stopped.

She made a claim for, Universal Credit however, knowing her story, her Salvation Army adviser emailed her employer together to enquire about the possibility of her taking furlough. it turned out she was just in time to apply, and she received the money. We also updated her Universal Credit file and we are waiting for an answer. This might not have happened if we didn't ask Maria and that show the benefit of spending time to get to know someone and their needs and plans. She asked for help with Universal Credit and we made a claim. She may not get Universal Credit due to furloughing, but she will be secure for the next period.

**Message** – without support and input from advisors and work coaches that have the time to develop a relational and supportive approach people can fall into difficulties. This is particularly true for people who find themselves in precarious employment

## 2. Covid 19 - the crisis we all face

In its response to this crisis The Salvation Army recognises and welcomes the work being undertaken by DWP to respond to the situation. It would be remiss not to note decisions such as the re deployment of staff and other easements such as the relaxation on attendance at jobcentre appointments in person and increasing the standard allowance for Universal Credit have made a positive impact. These measures have all made a difference but more needs to be done.

The pressures exerted on the welfare system has exacerbated in a short period of time with, figures for Universal Credit applications up to 12 March 2020 indicating that:

- In the 6 weeks to 12 April 2020, the DWP received over 1.8 million declarations (i.e. applications) to Universal Credit. This is almost 5 times higher than the amount of declarations received from individuals in the same period last year
- In the 4-week period to 12 April 2020 over 513,000 advance payments were issued compared to 183,000 in the preceding 4 weeks.<sup>1</sup>This reinforces the concerns that you heard from your witnesses about the build-up of claimant debt on 3 March 2020.

## 3. Universal Credit's structural problems

There are several substantive structural problem within Universal Credit that need to be rectified for it to fulfil its stated aim to 'radically simplify the system to make work pay and combat worklessness and poverty.'<sup>2</sup>

In particular, the combination of delays in payments, the Five Week wait for a first payment of Universal Credit is problematic and vulnerable users find it difficult to access the system.

The key elements requiring attention are:

### a) The Five Week Wait for a first payment of Universal Credit

There is broad consensus that the Five Week wait for the first payment of Universal Credit is a cause of great difficulty for people and families engaging with the social security system. **A recent internal Food Distribution survey undertaken by The Salvation Army found that 47.9%<sup>3</sup> of those requiring food support were doing so due to the wait for a first Universal Credit payment.**

We acknowledge that DWP sees the provision of an Advanced Payment of Universal Credit as the means to bridge the difficult five week waiting period, however there is significant concern about that they are not the best solution, as they simply increase levels of indebtedness.<sup>4</sup>

In addition, we submit that comments made during the Committee's deliberations thus far indicate that the system does have the capacity to be more agile in responding to people's needs. Furthermore, The Salvation Army's concerns on the Five Week wait for the first payment of Universal Credit and the accessibility of the system are shared by others.

---

<sup>1</sup> <http://dwp-stats.maps.arcgis.com/apps/MapSeries/index.html?appid=f90fb305d8da4eb3970812b3199cf489>

<sup>2</sup> ibid

<sup>3</sup> Food Distribution Survey, The Salvation Army, April 2020

<sup>4</sup> P12, 'Universal Credit Getting it to work better', Nicholas Timmins, March 2020 -

<https://www.instituteforgovernment.org.uk/publications/universal-credit-getting-work-better>

On 10 March, the architect of Universal Credit Rt Hon Iain Duncan Smith MP, repeatedly insisted there is flexibility in the system and said: “There are flexibilities in this; the idea that there are not is absolutely not the case.” Later adding “nothing is perfect in these systems, but UC is capable of flexibility. These are policy decisions that can be made by the Government.”

On Professor John Hills, 25 February 2020 whilst admitting there are “known unknowns” relating to the variable impact of Universal Credit was quite clear about the link between the Five Week wait for the first payment of Universal Credit and savings levels creates an invidious situation:

“There is a considerable amount of evidence of people budgeting fortnightly or weekly for whom the effect of the wait, unless they decide that they will be 8% worse off for the next year than they would otherwise be, is that they have to run down any savings they have and use up their credit with family and friends. In a way, it means that when people start to receive their payments they are already under water. That leaves them with very little margin for any period while they are on universal credit.”

Over the long-term, The Salvation Army believes the most comprehensive and beneficial reform the Government could make to Universal Credit would be to reduce the length of its assessment periods from one month to two weeks. This would enable people to receive payments every two weeks, including during the first two weeks of their claim. Rather than find appropriate work arounds, this would resolve the problems created by the Five-Week wait for a first payment of Universal Credit in a systematic and sustainable way.

The Salvation Army is, however, aware of the scale of this reform and that it would require significant amendments to relevant legislation and Universal Credit’s IT system. These changes should not be rushed and should be subject to the appropriate Parliamentary scrutiny. Given the need for a solution, which can be swiftly implemented in the wake of the Covid 19 outbreak and the subsequent increase in need it has produced interim measures are needed to mitigate hardship. Nevertheless, we believe that it should be kept under review by government with a view to its possible implementation at a later date.

Given these constraints, at the present The Salvation Army believes that best way to offset the Five-Week Wait is to convert advances into non-repayable grants.

#### b) Precarious levels of savings exist amongst many groups in the UK making the transition to Universal Credit problematic

Figures from the English Housing Survey reveal in 2017/18<sup>5</sup>, 4.5 million households (19 per cent of all households) were living in the private rented sector, while 4 million households (17 per cent of all households) were living in the social rented sector.<sup>6</sup> Based on sampling from both forms of tenure, the English Housing Survey estimates that around 63 per cent of private renters and 83 per cent of social renters possess no savings.<sup>7</sup> These figures underline the precarious financial position of a significant proportion of households in England.

This widespread lack of financial resilience means that any necessary transition to the social security system can prove problematic for people, especially if a claim is delayed for any reason. It can also lead to difficulties if a claim is unexpectedly interrupted at any point. Salvation Army churches aim to collect information about the needs of the people they support via a system known as Practical Assistance Records. Over a six-month period, between November 2018 and April 2019, the churches using Practical Assistance Records revealed that almost half (47 per cent) of the people they supported had requested assistance due to issues relating to benefit changes or delays.

---

<sup>5</sup> The Salvation Army has chosen to use figures from the English Housing Survey 2017/18 for this submission because the full figures are not yet available for the English Housing Survey 2018/19

<sup>6</sup> MHCLG (2019), English Housing Survey: Headline Report 2017/18, pp. 1-2

<sup>7</sup> MHCLG (2019) English Housing Survey 2017/18, Annex table 2.8

Analysis by Policy in Practice on behalf of the Joseph Rowntree Foundation (JRF) indicates that 700,000 households yet to move to Universal Credit have insufficient savings to cover the five-week wait.<sup>8</sup> For some, the wait for a first payment can extend beyond five weeks.

### c) Eviction, homelessness and rent arrears and risk of ‘moral hazard’ once we are beyond the Covid 19 problem.

There exists a correlation between claims for Universal Credit and people accruing rent arrears. In assessing the impact on landlords, the NAO<sup>9</sup> found that “there is an increase in average rent arrears as claimants move on to Universal Credit. This increase starts to accelerate before they make their Universal Credit claim, indicating that there could be a delay before they make their claim. Arrears rise starkly as claimants wait a month for their first payment.”

This increase in arrears is substantiated by different pieces of research from organisations, including Peabody<sup>10</sup>, The Smith Institute<sup>11</sup>, and Shelter<sup>12</sup>. In the worst cases, it has contributed directly to evictions and homelessness. Given the large increase in new claims for Universal Credit during the Covid 19 outbreak, it is likely that a substantial number of people will be at risk of amassing arrears due to the length of the new claims process. The Government’s ban on evictions during the Covid 19 outbreak will provide welcome relief for many claimants in the short term. However, as this ban is only temporary (it is currently scheduled to last for three months), this protection will ultimately come to an end before many have been able to resolve any outstanding arrears, heightening the prospect of future eviction.

The Salvation Army welcomes the unprecedented steps taken by Government to reduce homelessness in recent weeks including; the directive by Luke Hall MP, Minister for Local Government and Homelessness<sup>13</sup>, asking all local authorities to take urgent action to move people who are homeless and sleeping rough into suitable accommodation (e.g. hotels, b&bs and student accommodation). This letter also encouraged local authorities to use alternative powers and funding to assist those with no recourse to public funds, who equally require shelter and support. This directive was accompanied by a further announcement by the Housing, Communities and Local Government secretary, Rt Hon Robert Jenrick MP<sup>14</sup>, of £1.6bn for local authorities to respond to other COVID-19 pressures, including for services helping the most vulnerable (bringing the total to £3.2 bn).

However, to ensure that these measures are as effective as possible and to ensure that all people experiencing homelessness are supported through this testing time, The Salvation Army is asking the Government to:

- allocate dedicated funding to ensure that those who have been recently housed have access to the necessary support to help them sustain their new accommodation. This should include specialist person-centred support to help people manage any issues they’re experiencing with things like mental and physical ill-health, addiction, and debt;
- remove all current eligibility restrictions around local connection and no recourse to public funds (NRPF), so that everyone who requires it is able to access housing and support;

It is vitally important that once the nation is beyond this point of crisis, sensitive and strategic decisions are made to ensure vulnerable people who have been placed in accommodation at this time receive ongoing support. We would suggest that what is required of Government is a well-thought-

---

<sup>8</sup> Policy in Practice & the JRF (2019), Financial Resilience and the Transition to Universal Credit, p. 5

<sup>9</sup> NAO (2018), Rolling out Universal Credit, p. 44

<sup>10</sup> Peabody (2019), The Impact of Universal Credit: Examining the risk of debt and hardship among social housing residents

<sup>11</sup> The Smith Institute (2017), Safe as houses: the impact of universal credit on tenants and their rent payment behaviour in the London boroughs of Southwark and Croydon, and Peabody

<sup>12</sup> Shelter (2019), From the frontline: Universal Credit and the broken housing safety net

<sup>13</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/876466/Letter\\_from\\_Minister\\_Hall\\_to\\_Local\\_Authorities.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876466/Letter_from_Minister_Hall_to_Local_Authorities.pdf)

<sup>14</sup> <https://www.gov.uk/government/news/government-pledges-extra-16-billion-for-councils>

out transition plan developed in partnership with the sector going that encompasses accommodation, long-term support.

#### d) Indebtedness - The need for a debt breathing spaced

The recent report from the Institute for Government<sup>15</sup> alluded to the fact that 60% of Universal Credit claimants have an issue with debt-repayment, largely as a consequence of “..past overpayments of tax credits which are automatically reclaimed when claimants “migrate” onto Universal Credit - as they are doing in ever greater numbers.” Pertinently, the report dryly notes that:

“When combined with the now notorious five-week wait for payment for new claimants, the issue of historical debt could damage Universal Credit’s reputation further and undermine its effectiveness.”

We would recognise this pattern, from the experiences of Salvation Army residential, community, and church-based services, a common cause of persistent financial strain for Universal Credit claimants is the presence of debt. According to internal data, 392 people were receiving support from a Salvation Army debt advice service as of 31 December 2019. Of these 392 people, 24 per cent (n. 94) were Universal Credit claimants.

The presence of debt is also pervasive among Universal Credit claimants at Salvation Army homelessness services. Between March 2019 and February 2020, 46 per cent (n. 3274) of people interviewed as part of their initial referral to a Salvation Army homelessness service in England were in receipt of Universal Credit. Over the same period, 40 per cent (n. 1660) of people who completed a support plan at one of these services requested help to overcome debt-related issues. A support plan is completed by a person once they’ve begun working with a service to outline the things, they would like assistance with, as well as what they would like to achieve over the course of their interaction with The Salvation Army.

Therefore, The Salvation Army believes DWP should focus on providing a sustainable solution to people’s wider financial issues by attaching the option of an **automatic breathing space period to new Universal Credit claims for claimants experiencing problem debt**

It is well documented that these structural problems existed prior to the Covid-19 pandemic, only time will tell its true impact as data is collected. The Committee’s important deliberations present an ideal opportunity to make a cogent, informed case to Government for reform. As Nicholas Timmins has recently concluded “there is no going back”<sup>16</sup> for Universal Credit, therefore it is ‘the only game in town’ and urgent remedial action is now required.

Furthermore, the Joseph Rowntree Foundation (JRF)<sup>17</sup> has exposed any suggestion that the virus is a ‘great leveller’ in its impact highlighting that: “The consequences of the virus are not the same for everyone, and disproportionately impact people on low incomes and who are already living in poverty.” Soberingly, it has been evidenced that the Covid pandemic has impacted on diverse groups in a disproportionate fashion, with a brutal impact upon the poor<sup>18</sup> and ethnic minorities.<sup>19</sup> Furthermore, the Resolution Foundation<sup>20</sup> has highlighted that the young, low-paid and key workers, many of whom are more likely to be female, are also at a high risk of being affected by the crisis.

The Work and Pensions Select Committee<sup>21</sup> which is currently looking at both the impact of the Five Week wait for the first payment for Universal Credit and also the handling of the Covid 19 crisis

---

<sup>15</sup> <https://www.instituteforgovernment.org.uk/publications/universal-credit-getting-work-better>

<sup>16</sup> *ibid*

<sup>17</sup> <https://www.jrf.org.uk/blog/covid-19-greater-health-risk-people-low-incomes-we-can-give-life-line>

<sup>18</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deathsinvolvingcovid19bylocalareasanddeprivation/deathsoccurringbetween1marchand17april>

<sup>19</sup> <https://www.ifs.org.uk/inequality/chapter/are-some-ethnic-groups-more-vulnerable-to-covid-19-than-others/>

<sup>20</sup> <https://www.resolutionfoundation.org/app/uploads/2019/10/Risky-business.pdf>

<sup>21</sup> <https://publications.parliament.uk/pa/cm5801/cmselect/cmworpen/correspondence/coronavirus-survey-responses.pdf>

recently undertook a survey seeking responses from people claiming benefits for the first time, from existing claimants, and from people who need support but have found they are unable to claim any benefits. More than 6,000 people responded to the Committee's survey and it found that people are appreciative of the work DWP is doing in the eye of the Covid 19 storm, yet there are serious problems such as:

- There are lots of new claimants who don't understand the benefits system
- People claiming sickness and disability benefits feel particularly hard hit
- Some people want to claim Universal Credit but aren't able to
- Some self-employed people are falling through the gaps in support
- Some people are still struggling to make ends meet

The Chair of the Work and Pensions Select Committee Rt Hon Stephen Timms MP reflected that:

"It's clear from what we've heard that DWP staff are working very hard and have made great strides in adapting to the unprecedented strain on the benefits system."

"But we've also heard from people who are still facing serious difficulties. Disabled people have been particularly hard hit: their living costs have gone up, but their benefits have stayed the same. And there's an urgent need for more clarity for people who are self-employed"

Clearly, there appears to be a range of concerns about the impacts of the crisis on the most vulnerable. It is too early to predict the scale of its effects and the inequitable distribution of pain but whilst DWP's achievements are rightfully noted there are areas of policy that require attention.

#### **4. Recommendations**

In order to respond to current pressing needs and to ensure Universal Credit achieves its worthy stated intentions we recommend that the Government:

- Reflects carefully on preserving the benefits of its provisional measures. The interim measures put in place by DWP have worked, however if in future they are withdrawn people will slip back into difficulty. The measures need to be retained so any future decisions need to be subject to an Impact Assessment or Parliamentary scrutiny.
- Remove the Five Week wait for the First payment of Universal Credit by converting advances into non-repayable grants for all claimants and Furthermore move towards a more targeted approach in the long term (i.e. for eligible and more vulnerable claimants)
- Invest in a more human support for claimants through ensuring that Work Coaches have more manageable case loads (i.e. report and case studies) to allow better identification of vulnerabilities, including the existence of problem debt, amongst new claimants.
- Provide a sustainable solution to people's wider financial issues by attaching the option of an automatic breathing space period to new Universal Credit claims for claimants experiencing problem debt

20 May 2020

Written by Ian Geary with Dr Matthew Sowemimo, The Salvation Army, Public Affairs and Social Policy Unit, United Kingdom Territory with the Republic of Ireland.

---