Submission

Economic Affairs House of Lords Committee inquiry into Universal Credit

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Shelter helps millions of people every year struggling with bad housing or homelessness through our advice, support and legal services. And we campaign to make sure that, one day, no one will have to turn to us for help.

We’re here so no one has to fight bad housing or homelessness on their own.

Summary

- We welcome the opportunity to submit evidence to this inquiry. Every week, we work with people threatened with, or experiencing, debt, hunger and homelessness as a result of the government's welfare reforms.
- More than 4.7 million people came to Shelter last year for help with housing and homelessness problems across England and Scotland.[1]
- Many of those who used Shelter services required help with Universal Credit (UC) or need to make a claim to help with their housing costs. We also help people who need somewhere temporary to stay or assistance to avoid homelessness.
- Through our services, and our wider research and policy work, we have gathered evidence about how UC is working for those with housing needs.
- Our work demonstrates that there are many concerns with how Universal Credit is affecting those on low incomes and that its original objectives have created unintended consequences that are detrimental to people's lives.
- The five-week wait and the high rates of deductions through the third-party deduction system are causing huge problems for people on UC. The biggest problem is the inadequate levels of Local Housing Allowance (LHA), which is how the housing element for those renting privately is calculated.
- This is impacting families' economic resilience and is pushing people towards debt, poverty and homelessness.

Recommendations:

- Ending the benefit freeze by lifting the rates by 1.7% has not been sufficient to match the true cost of renting. To help prevent debt and homelessness the rates must be realigned to **cover at least the 30th percentile of local market rents as a matter of urgency.**
- The five-week wait at the beginning of a UC claim **should be abolished completely**.
- The rate at which debts are deducted from a UC claim should be as low a percentage as possible. The rate should be based on an individual's ability to pay and their individual circumstances at an absolute maximum rate of 10%.

[1] Shelter, *Impact Report 2016/17*, Shelter, 2017

Response to specific questions

How well has Universal Credit met its original objectives?

Originally, when Universal Credit (UC) was designed and implemented, it set out to update and simplify the 'legacy' benefit system and improve work incentives.[2] It aimed to introduce a system that "makes work pay"[3] and, in doing so, intended to reflect the world of work by way of making the payments monthly. While these aims are not problematic themselves, there have been a number of unintended consequences as a result of how the system works. The way in which some of them have been designed has meant that they either do not reflect the world of work or do not "make work pay" as originally intended. More worryingly, our advisors are seeing many people who, as a result of UC, are having to live on incredibly restricted incomes or having to borrow large amounts from family and friends. In some cases, it is pushing people towards destitution, rent arrears and homelessness.

A clear example of this is the introduction of the five-week wait at the start of a UC claim. Along with changing the benefit system to one monthly payment, paid in arrears, the government has created an initial five-week gap between application and first payment. As the payments are issued monthly, there is a month long assessment period from the commencement of an application. Because payments are in arrears, this leaves an applicant without a payment for the first income assessment period. Applicants can apply for an advance payment and receive money for this period up-front; however, this later incurs huge deductions from their monthly payments as they pay back their advance.

Two of the main reasons the government is resolute in maintaining the five-week wait are in order to maintain their original aims for UC:

a) they wish to mirror the "world of work" and so want to keep monthly payments[4] and
b) they need the time to assess the household, as they want the payments to "reflect, as closely as possible, the actual circumstances of a household during each monthly assessment period".[5]

The monthly assessment period aims to ensure that the chances of an overpayment to a claimant are as low as possible, meaning they will not be asked to pay money back at a later date. It also makes it easier to calculate for those who are working or moving into work (providing they are paid monthly); thereby contributing towards the aim of ensuring the transition from UC into work is as easy as possible.

However, the majority of people[6] have to take out an advance payment in order to see them through this initial five-week wait. These advance payments are then clawed back by harsh

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[2] DWP Press Release, *Universal Credit Introduced*, DWP, 5 October 2010,
[3] DWP Press Release, *Universal Credit makes work pay*, DWP, 15 February 2015
[4] Sharma, A., *DWP Written Question answered on 8 April 2019,* DWP, 2019
[5] Sharma, A., *DWP Written Question answered on 10 June 2019*, DWP, 2019
[6] NAO reported in 2018, 60% of new claimants receive an advance payment meaning 60% of new claimants will be subject to at least one repayment to DWP from the beginning of their claim.

repayment plans meaning there is a constant need for the majority of claimants to be paying back money through the deduction system. This completely negates the government's original aim to ensure overpayments and recalculations are avoided.

Additionally, the five-week wait is not fulfilling its aim to assess the 'actual circumstances of a household' accurately. As reported by the Comptroller and Auditor General in 2019, the 'estimated overpayments of Universal Credit are the highest of currently measured benefits'. This is also the highest estimated overpayments rate since 2003-4.[7]

Furthermore, the hardship created by the five-week wait cannot justify these reasons. It is causing serious problems for those who are left without any income at all for over a month – sometimes longer due to administrative errors or delays. The economic hardship faced by people as a result of the five-week wait will be addressed in a later question.

The desire for UC to incentivise work is also not being fulfilled by the programme. People who are on the old legacy benefit system move over to UC because of a change in circumstance. One of the changes in circumstance that can trigger a natural migration claim is moving into work. However, if claimants are likely to have a lower income on UC and then also have to apply for an advance payment, resulting in their income being reduced through deductions, they are unlikely to be incentivised to move into work and apply for UC. Even those who could receive an increase in their UC payment when moving from legacy benefits, regardless of what the change in circumstance is, may not actually be better off under UC after the five-week wait. If they take out an advance payment, they will see their standard allowance deducted for some time. This means they may not see the income increase in real terms until they have paid off their advance payment and any other deductions. We have seen this scenario play out among people who come to Shelter for help. One of our advisors detailed a case where this difficult decision was in play:

I had one case where a single mother with one child wished to return to work. Her choice was to stay on legacy benefits and be £60 per week worse off than if she were on UC or make a claim for UC and be left with no money for five-weeks. How can we sensibly advise on such a gamble?[8]

In this instance, this difficult decision could ultimately discourage someone to return to work as this could trigger a UC claim and they would knowingly need to endure a period of no income. This undermines the incentivisation of work that UC set out to achieve and is a further reason that the five-week wait should be abolished.

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[7] National Audit Office, *Annual Reports and Accounts 2018-2019*, NAO, 2019
[8] Some details have been changed for anonymity

Were the original objectives and assumptions the right ones? How should they change?

While, in principle, we support the government's attempt to streamline an outdated and complicated benefit system, the design problems within the new system are causing severe hardship for our service users.

What have been the positive and negative economic effects of Universal Credit?

Local Housing Allowance (LHA)

The Local Housing Allowance (LHA), introduced in 2008, is the way in which housing benefit for private renters is calculated, which includes how the housing element is calculated for those on UC who rent privately. The rates are localised to reflect different housing costs in different areas, based on 152 Broad Rental Market Areas (BRMAs) in England.[9] Originally, they were set at a rate that would cover the lowest half of local rents, or the 50th percentile, and have different maximum rates for different sized property (e.g. one-bedroom home, two-bedroom home etc) up to a five-bedroom home. To maintain the rates at the 50th percentile, they were regularly updated to reflect fluctuating rents.

There have been a number of other cuts to LHA since 2011 including dropping the entitlement to cover the bottom 30% of local rents, or the 30th percentile, limiting the maximum property size from a five-bedroom to a four bedroom and raising the age entitlement for a one-bedroom property from 25 to 35 years old. The rates were then uncoupled with local rent rises and subject to a number of cuts and freezes, culminating in the most recent four-year benefit freeze (2016-2020), leaving the LHA rates trailing far behind the cost of renting across the country.

Since the introduction of UC in 2013, private renters who receive assistance with housing costs have gradually been moving onto UC and are now receiving the housing element of UC. This continues to use LHA rates to calculate the level of housing element someone is entitled to, even though it remains completely inadequate in the face of rising rents.

Under UC, the inadequacies of the LHA rates is having the most negative economic impact on those claiming UC and pushing people towards homelessness. As a result of the LHA rate freeze, and previous reforms, Shelter research found that there is a shortfall between LHA rates and rents at the 30th percentile in 97% of areas in England.[10] In fact, the rates have fallen so far below rents across England that in a third of areas, they do not even cover the cheapest 10% of the rental market for a two-bedroom home. Despite lifting the rates by 1.7%, the percentage of the areas in England where the LHA rates will cover the 30th percentile will change from 97% of areas to just 96% of areas, for a two-bedroom home.[11] **The inflationary rise in April 2020 will do very little to change the current situation as it stands.** With such small proportions of the market affordable under LHA rates, many will find that there simply

[9] Valuation Office Agency (VOA), *Understanding Local Housing Allowance and broad rental market areas*, VOA, 1 June 2013
[10] Shelter analysis of Local Housing Allowance rates applicable from April 2019 to March 2020
[11] Shelter analysis of Local Housing Allowance rates applicable from April 2020 to March 2021

isn't anything available when they need it, making it incredibly difficult for families to find suitable accommodation without having to take on a shortfall.

With hundreds of thousands of families having to make up large differences between their rent and LHA rate, this situation forces people to make difficult decisions about budgeting and impossible trade-offs:

- Shelter research found that more than 1 in 3 (36%) private renters in receipt of LHA cut back on food and a further 1 in 3 (32%) have sold their possessions just to keep up with rental payments.[12]
- Our research also found that nearly half (48%) of private renters in receipt of LHA had to borrow money in some way in order to pay their rent, pushing many into debt. This included taking out overdrafts, credit cards, payday loans or relying on money from friends and family members.[13]

This precarious situation leads many to accrue rent arrears; edging them closer towards eviction and homelessness.

At Shelter, we see more and more people forced into homelessness after going into debt while claiming LHA, or because they are unable to find a suitable, affordable privately rented home as LHA rates are so low. All available evidence points to LHA reforms as a major driver of homelessness:

- Since the first changes to LHA were introduced in 2011/12, homelessness acceptances by local authorities in England from the private rented sector have increased by 66%. In London, this number has more than doubled.[14]
- Because LHA rates have failed to keep up with rents, tenants in receipt of LHA struggle to find a new place to rent if they are evicted. The government's Housing White Paper acknowledged that 'high and increasing costs in the private rented sector can impact upon tenants who struggle to pay, and these households are more likely to be at risk of becoming homeless'.[15]
- The inability to find anywhere affordable on LHA means people remain homeless and local authorities are forced to place them in often unsuitable temporary accommodation. In 2018-19, councils spent £1.1 billion on temporary accommodation for homeless households. This has increased by 78% in the last five years.[16]

The only way to prevent UC from having such a negative economic impact on its claimants would be to restore the LHA rates to at least cover the bottom 30% of local market rents. Instead, the government has lifted the LHA rates by a tiny 1.7% at the end of the freeze. At this rate, homelessness will continue to increase. After this 1.7% increase, the rates do not

[12] YouGov, survey of 828 private renters in receipt of housing benefit in England, online, August - September 2019
[13] Ibid.
[14] The ending of an AST as reason for loss of last settled home increased by 105% in London between 2011/12 and 2017/18. MHCLG Acceptances and decisions live tables: January to March 2018 (revised) 2019
[15] Department for Communities and Local Government, *Fixing our broken housing market,* DCLG, 2017
[16] MHCLG *'Statutory Homelessness live tables: Table TA1 - Number of households in temporary accommodation at end of quarter'*, England, 1998 Q1 to 2019 Q2

cover the bottom 30% of the market in 96% of areas for a two-bedroom home. In addition, rents aren't standing still – looking at just the last 12 months outside of London, the cost of renting has increased by 1.7% according to the Office for National Statistics (ONS). This completely negates the 1.7% increase to LHA and means the gap between rents and LHA rates will actually stay the same despite this supposed increase in benefits.

And in some areas of the country, this LHA increase actually represents a worsening of their entitlement in the context of their rising rent. In Yorkshire and The Humber, the cost of renting has increased 1.9% in the last 12 months. In the East Midlands it has increased by 2.1% and in the South West it has increased by 2.3%. For people in these areas, the gap between their LHA rate and their rent will continue to rise, despite there being a 1.7% uplift.

There also needs to be a robust mechanism going forward to ensure that LHA rates cover at least the cheapest 30% of market rents in perpetuity.

Five-week wait

During 2018, our services saw over 2,180 cases where the main presenting problem was related to UC.[17] We analysed this data for our *From the Frontline* report and it reveals the initial five-week wait for payment from making a claim is causing extreme hardship, as people are left with no money to survive, pay rent or bills.

This is supported by reports by other agencies that the five-week wait is leading to severe hardship. The Trussell Trust have found worrying increases of foodbank use in areas where UC has been rolled out. On average, 12 months after rollout, foodbanks see a 52% increase in demand, compared to a national increase of 13% across the country. This increase exists even after accounting for seasonal and other variations. Their analysis found that one of the key reasons people are seeking help there is because of the initial wait for a UC payment.[18]

Ministers have justified the five-week wait on the basis that claimants moving onto UC could have money saved to support themselves through the five-week period. However, in our experience, low incomes mean it is rarely possible for people to save anything at all. The 2017-18 English Housing Survey showed that a significant proportion of renters have very little by way of cash savings. Two in three (63%) privately renting households and four in five (83%) social rented households have no savings.[19] These proportions are likely to be higher amongst recipient households, particularly given the shortfall between LHA rates and rents.

Even if people do have savings or receive their final pay in arrears during the five-week wait, this can often work against them. A woman we spoke to had recently lost her job and had

[17] We most likely helped a greater number of clients with aspects of their UC claim than are recorded here, but these cases are where UC is the primary problem for seeking help.

[18] The Trussell Trust, *The next stage of universal credit: Moving onto the new benefit system and foodbank use*, The Trussell Trust, 2018

[19] MHCLG, English Housing Survey 2017 to 2018: private rented sector: Chapter 2

received her final pay packet during the five-week wait. This period was a struggle, but it was made worse when her first payment after the five-week wait was only £74 for the whole month. Because she had received her final pay packet during the five-week assessment, this had been included in the assessment of income. This essentially resulted in a second month with inadequate income. The direct result of the five-week wait, followed by the reduced first UC payment, was that she accumulated over £3,000 of rent arrears. Another man told us he had lost his job, so applied for UC, to support his wife and two children. Once he had endured the five-week assessment period, he received a first payment of just over £90. This was also because his assessment included his final pay cheque from his job. As discussed above, the monthly payment cycle is designed to reflect the world of work. However, the inclusion of a person's final pay from a previous job explicitly does not mirror the world of work as a new job would not take into consideration any previous earnings in the first monthly salary.

The five-week wait is a by-product of the government's aim to replicate the world of work. However, it is causing unnecessary hardship and is, in some cases, such as when a claimant has recently lost a job and receives a final pay cheque during the assessment period, counteracting the government's aim of replicating the world of work. If you were entering another job, your first salary would not take into account your final pay cheque when calculating your pay. The five-week wait should be abolished.

Our analysis of service data shows us that UC is pushing people into high levels of arrears. We are seeing this up and down the country and it can cause knock-on complications for their housing situation:

One of our service users had a disability that meant he had to use a wheelchair. His house was not appropriately adapted and so he needed to move to suitable accommodation. However, he was prevented from moving by the local authority because he had accrued around £500 in rent arears as a result of his switch to UC and the five-week wait. His switch over to UC had stopped him getting a home he could access.[20]

One of our advisors in the North of England reported the five-week wait is regularly pushing people towards eviction because of rent arrears:

A service user was self-employed but had to stop due to ill health and so had made an application to UC. She had historic rent arrears due to other periods of ill-health through her working life. However, she was making regular payments to bring these down with court agreed payments and she had not been at risk of eviction for some time. Upon making a UC application, her housing benefit automatically stopped, and she did not receive a payment for five weeks. Because of this, her arrears reached over £1000 in this time and her landlord applied for an eviction warrant.[21]

[20] Some details have been changed for anonymity
[21] Some details have been changed for anonymity

Not having any income for five-weeks is understandably pushing people towards claiming an advance payment. However, this is just causing further debt and hardship at a later date. As discussed previously, the advance payment is paid back through at an astonishing rate of up to 30% of the standard allowance. If a claimant has other debts which can be clawed back via deduction at source from UC, then their advance payment deductions may be lower but the total level of deduction from their UC income will still be up to 30% overall. In some limited cases, deductions for benefit fraud and some "last resort" payments that are judged to be in a claimant's best interest can sometimes even push a deduction level above the 30%.

These deduction levels do not take into account whether a claimant is repaying additional debts, on top of their UC deductions, such as debts to family and friends, low cost credit or pay day loan debts on top of their UC deductions. This means that a claimant will then have to use further amounts from the remaining 60% of their standard allowance to pay these other debts. If they are also having to make up a shortfall between their rent and their LHA rate out of their standard allowance, the amount families have to live on can be incredibly small.

It is not unusual to see service users with as little as £100 per month to live on after paying their rent, all the deductions and any shortfall they have. One of our services reported the difficulties these sorts of situations can cause:

Our client had the usual 40%[22] deducted from her standard allowance. Of her overall deduction, 61% was being deducted for her advance payment – by far the biggest deduction. On top of this, she also had council tax arrears to pay as well as a monthly shortfall between her rent and the LHA/housing element she was receiving. This meant that, in reality, 66% of her standard allowance, including her rent shortfall, was being deducted. This left her with just over £100 to live on per month after paying her rent with the shortfall.[23]

However, people can sometimes feel that taking out an advance payment will be so detrimental to their future finances, that they will struggle through the five-weeks with no income:

A mother of two was in receipt of LHA and tax credits but had recently separated from her partner and moved house, with her children, triggering a new claim for UC. As a result, her tax credits had been automatically stopped but she refused an advance payment because of the high deduction rates she knew would hit her future UC payments. However, she then faced a dire situation and had to rely on food vouchers and fuel assistance for five weeks.[24]

While removal of the five-week wait would address the punitive deduction rates on the advance payments, there would still be other UC debts subject to these intolerably high

[22] Prior to October 2019, the rate of deduction was 40%. This was lowered to 30% in October 2019.
[23] Some details have been changed for anonymity
[24] Some details have been changed for anonymity

deduction rates. If arrears and homelessness, or severe hardship, are to be addressed, deductions should be sustainable and leave the claimant with a reasonable amount left to live on without causing financial distress.

We therefore recommend that the overall deduction rates should be far lower than 30% to ensure people do not experience financial difficulty as a result. The rate of deduction should be set by individual circumstances and their ability to pay and should never be higher than 10%. There should be clear and comprehensive guidance for Jobcentre staff to assess an appropriate level of income after any relevant deductions, and this should be decided on the basis of the person's ability to pay. Deductions must take into account any non-UC debts the claimant is accountable for and paying, as well as any shortfall in their LHA.

If Universal Credit does not adequately reflect the lived experiences of low-paid workers, how should it be reformed?

As detailed throughout this submission, the three main recommendations we would recommend to ensure UC works for those on low-incomes are:

If homelessness is to be tackled, LHA must cover the cost of renting

- Ending the freeze by lifting the rates by 1.7% is completely insufficient to avoid debt and homelessness.
- The rates must realigned to at least the 30th percentile of local market rents as a matter of urgency.
- To retain the link with local rents, LHA rates need to be annually uplifted in line with the projected growth of rents. Choosing a consistent measure should reassure landlords that renters will not fall into arrears.

The five-week wait needs to be removed to ensure it is not causing unnecessary hardship

- The five-week wait at the beginning of a UC claim should be abolished completely.
- At the very least, an alternative solution could be making advance payments a grant and not a loan.

Debts should be recovered at an acceptable and sustainable rate that is as low as possible

- Removing the five-week wait would remove the punitive deduction rates on the advance payments, but there would still be other UC debts subject to these high deduction rates.
- The rate at which debts are deducted from a UC claim should be as low a percentage as possible.
- The rate should be based on an individual's ability to pay and their individual circumstances at an absolute maximum rate of 10%.