Overcoming the 5 week wait

A discussion paper

Craig Berry
September 2024

citizens advice

Contents

Summary 2

Introduction 3

- The 5 week wait 3
- New claim loans 3
- The policy options 4

Replacing loans with grants 5

- New claim grants 5
- Targeted grants 7

Making payments up front 9

- Up front monthly payments 9
- Weekly or fortnightly payments 12

Extending repayment periods 15

- Reforming new claim loans 15
- Income-contingent loans 16

Summary of costs 18

Assessment of policy options 20

Discussion 24

Annex: Cost estimate calculations 26

Summary

The 5 week wait is a significant source of hardship. It means new Universal Credit claimants must experience a period without (sufficient) income – or take out a loan that leads to deductions from their regular Universal Credit payments.

This paper discusses options for eliminating the 5 week wait or mitigating its impact. Contact the author Craig Berry at craig.berry@citizensadvice.org.uk for further discussion.

The paper explores three main options for addressing the 5 week wait:

- Providing new claim grants in place of loans; grants could be targeted on those most in need
- Making up front rather than in arrears payments, either by default or through greater use of alternative pay arrangements
- Keeping new claim loans, but expanding the repayment period

Introducing **new claim grants would be the fairest and most effective way of overcoming the 5 week wait**. This option would require additional public spending of around £1.5 billion each year; this represents 1.9% of 2023/24 expenditure on Universal Credit and legacy benefits.

Costs could be reduced by paying grants valued at less than the full monthly entitlement of Universal Credit, or by targeting grants on certain groups.

There are several options for overcoming the 5 week wait on a more fiscally neutral basis. The most straightforward would be to significantly extend the repayment period for new claim loans – claimants would still be subject to deductions from subsequent Universal Credit payments, if they want to avoid the 5 week wait, but deductions would be lower in value. However, it would remain far from ideal that many thousands of people each year would still be starting their Universal Credit claim in debt to the government.

Moving instead to up front payments would eliminate this problem. Allowing more people to choose weekly or fortnightly payments, from the first monthly assessment period, would have a similar impact, while allowing the principle of payment in arrears to be retained.

However, each of these cost-free options involve greater complexity – as well as risks to claimants that may require additional spending to mitigate.

Introduction

The 5 week wait

Universal Credit payments are made monthly in arrears by default.[1] There is a political rationale for this, insofar as the government wants Universal Credit payments to mimic earnings from employment. This policy preference is then baked into the system's operations, as monthly assessments mean payments cannot be made (accurately) until a claimant's monthly income is known. With additional processing time, it means first payments are typically made 5 weeks after a claim.

The decision to make payments monthly in arrears, from the start of a claim, was based on unrealistic assumptions about how seamless transitions from employment or other benefits to Universal Credit tend to be.[2] The 5 week wait is a significant source of hardship: we supported more than 30,000 people with the initial wait for payment in the year to March 2024.[3]

New claim loans

In recognition of this problem, the Department for Work and Pensions (DWP) offers new claim (or benefit transfer) loans for new Universal Credit claimants, allowing recipients to partially bridge the gap in income between their initial claim and first monthly payment.

But this means that a very large proportion of new claimants start their Universal Credit journey in debt to the DWP. And the deductions required to

---

[1] Please contact the author Craig Berry at craig.berry@citizensadvice.org.uk if you would like to discuss the issues raised here further. The author is grateful to Victoria Anns, Kayley Hignell, Rebecca Rennison, Julia Ruddick-Trentmann and Jonny Tatam-Hall for support and advice with this paper.

[2] Note that the paper is focused mainly on new claimants, rather than those migrating to Universal Credit from legacy benefits.

[3] It is also worth noting that, even after waiting for 5 weeks, not all new claimants receive their first payment on time. In January 2024, only 87% of new household claimants received their first payment on time, and a further 5% received some of their first payment on time (see https://www.gov.uk/government/statistics/universal-credit-statistics-29-april-2013-to-11-april-2024/universal-credit-statistics-29-april-2013-to-11-april-2024#claims-and-starts-to-universal-credit). This underlines the need to eliminate the 5 week wait

repay new claim loans also cause significant hardship. The 5 week wait is technically averted, but in return Universal Credit payments – which have fallen significantly in value since 2015 – become even less adequate.

The cure isn't quite as bad as the disease, but it's close. According to the latest available data, 732,000 households on Universal Credit are repaying a new claim (or benefit transfer) loan, with average repayments of £31 per month.[4]

In 2023 Citizens Advice helped around 9% more people with advance loan (including new claim loan) deductions issues than we did in the year before the pandemic. And around 60% of the people we have helped with advance loan deductions in the past year also needed a food bank referral.[5]

The latest information we have on the scale of Universal Credit deductions dates from February 2023 – this is before the timetable for the 'managed migration' of legacy benefit claimants to Universal Credit accelerated. Many claimants, despite simply transferring from one benefits system to another, will have to wait around 5 weeks for their first monthly Universal Credit payment.

Some legacy benefits allow for a 2 week 'run-on' payment to partially bridge this income gap – but this is not available to tax credit claimants. They are likely therefore to have to access benefit transfer loans (the equivalent of new claim loans) and begin their Universal Credit claim in debt to the Department for Work and Pensions (DWP).

The policy options

This paper explores three main options for addressing the 5 week wait:

---

[4] PQ 191730 (February 2023 data), available at: https://questions-statements.parliament.uk/written-questions/detail/2023-06-29/191730. It is worth noting that the average total deduction is £61 per month (February 2023 data), or £73 per month for households with children (August 2022 data; PQ 136691, available at https://questions-statements.parliament.uk/written-questions/detail/2023-01-31/136691).

[5] The impact of Universal Credit deductions is discussed in depth in Craig Berry and Julia Ruddick-Trentmann (2024) *Designing Out Deductions: How to Address the Welfare Debt Trap*, Citizens Advice, available at https://www.citizensadvice.org.uk/policy/publications/designing-out-deductions-how-to-address-the-welfare-debt-trap/. Note that advance loans also encompass budgeting and change of circumstance loans.

- Providing new claim grants in place of loans; grants could be targeted on those most in need
- Making up front rather than in arrears payments, either by default or through greater use of alternative pay arrangements
- Keeping new claim loans, but expanding the repayment period

The paper will suggest the most effective option would be to (largely) replace new claim loans with a new claim grants system. This would also be the most expensive policy option discussed in this paper, but targeting grants on those most in need could significantly reduce the cost.

Options such as up front payments and weekly or fortnightly payments in the first month would also (partially) address the 5 week wait, but would also introduce greater complexity and risks. Options such as relaxing new claim loan repayment terms or backdating payments would not directly address the 5 week wait and the impact it has on some claimants, although the former could be introduced at no or negligible cost.

.

Replacing loans with grants

New claim grants

The fairest and most effective way of overcoming the 5 week wait would be for every new claimant to receive a grant, equivalent to the estimated monthly entitlement, around 1 week after having a claim accepted.

In terms of its impact on the 5 week wait, a system of new claim grants would be similar to making up front payments, which is discussed further below. But it would mean that regular Universal Credit payments could continue to be paid in arrears, which would be in line with the current government's policy preference. And it would negate the need for complex mitigation mechanisms such exit loans or run-on payments (also discussed below).

However, unlike up front payments, a grant system would have a substantive impact on public spending. It would mean that new claimants are effectively receiving 13 payments in a 12 month period, as a result of effectively being paid twice for the first month.[6] Yet it would eliminate the need for new claim loans for most (if not all) new claimants, effectively boosting their income by an average of £31 per month. It can therefore satisfy some of the aims achieved by temporary or permanent uplifts in the value of Universal Credit payments at a much lower cost.

To reduce the cost of new claim (or benefit transfer) grants, the government could pay only a portion of the full monthly entitlement: there would be no wait for a first payment, but the grant may not be sufficient to meet all living costs in the first month.

The partial payment could amount to, say, half or two-thirds of the full monthly entitlement. Alternatively, the government could produce a more bespoke amount based on an estimate of actual financial need during the 5 week wait, taking into account typical exits from employment and other income sources.

[6] The government would presumably also seek to limit how many new claim grants can be received by each claimant with a given period of time. This might mean that repeat claimants are subject to the 5 week wait when they cannot access a grant, but would avoid the risk of repeat claimants accessing new claim grants at a frequency that undermines the system's legitimacy.

There is insufficient information on Universal Credit entrants available publicly to appraise or estimate costs for this option in this paper.

A grant system may create the risk of fraud, since new claimants would be able to access the grant before their claim has been verified (there is of course already fraud within the new claim loan system). One option to address this would be for grants to be paid as deferred loans in the first instance, and converted to grants once Universal Credit eligibility has been established. Claimants ultimately deemed ineligible for Universal Credit would be liable to repay loans as they are at present, or would be deterred from claiming a convertible loan in the first place.[7]

Targeted grants

An alternative approach could mean that grants are targeted on groups least able to tolerate a period of no or reduced income. There are perhaps three main groups: claimant households including children, claimant households including disabled people[8], and claimants in the private rented sector at risk of significant rent arrears. Again, the grant could cover the full amount, or only a portion of the award.

There is a question of whether a targeted grant would cover the full estimated monthly payment for certain groups, or instead only the additional elements that they are entitled to as a result of their household characteristics.[9] To illustrate the difference between these two approaches, let's take the example of a single parent, with one child, who works for 15 hours per week, paid at the National Living Wage. A grant valued in line with their monthly Universal Credit award, taking their earnings into account, would be £493.49. A grant equivalent to only their child element entitlement would be £287.92.[10]

---

[7] Loans that do not convert to grants would be recovered as overpayments due to fraud or claimant error outside the Universal Credit system.

[8] A complication with this approach is that eligibility for disability-related elements is not typically established at the beginning of a claim.

[9] The calculation of targeted grants that cover the full estimated monthly payment (or even a portion of it) would involve the application of the Universal Credit taper to reflect any earnings from employment above work allowances. However, the calculation of grants based only on the value of additional elements would not apply the taper because the Universal Credit standard allowance would not be part of the grant.

[10] Their standard allowance is £393.45, and adding the child element for one child (ie £287.92) leads to an initial award of £681.37. However, they have earnings of £745.60 per month. The

If a grant system does not cover the monthly entitlement in full, is targeted on particular groups, and/or includes limits on eligibility for repeat claimants, an advance loans system would probably have to continue in parallel for some claimants who cannot access a (full) grant.

Universal Credit work allowance means the first £404 is disregarded, and applying the 55% taper to the remaining £341.60 leaves an amount to be deducted of £187.88. Deducting this from the initial award leads to a monthly entitlement of £493.49. Note that housing costs have been excluded from this calculation, although the lower work allowance rate assumes the claimant also receives housing cost support.

Making payments up front

Up front monthly payments

A move to up front payments would eliminate the bulk of the 5 week wait. The first payment could be made quickly, based on information provided in the initial claim. The majority of Universal Credit claimants are out of work, so the calculation of their first payment is straightforward insofar as no earnings need to be taken into account. They may have income from other benefits that reduces their Universal Credit entitlement – but these benefits are also mostly administered by DWP.

On the surface, this would therefore be a less expensive option than a new claim grants system – but it would involve greater complexity (and possibly some additional spending to mitigate its impact on exiting claimants).[11]

Once a claimant is established in the Universal Credit system, whether payments are made up front or in arrears has a negligible effect.[12] For the minority in work whose earnings affect their award from one month to the next, payments can be calculated based on their earnings in the previous month, even if technically being paid up front.[13]

Another option would be to make payments partially up front, and partially in arrears, at the midpoint of a claimant's monthly assessment period. It would mean the 5 week wait is reduced to 2 or 3 weeks (some people may require an advance loan to cover the remaining gap).

[11] It is worth noting that the government already calculates an estimated monthly payment up front, in order to provide advance loans (albeit without fiscal risks, because the loan is repaid in full even if its value is different to the monthly entitlement when calculated in arrears).
[12] Although a positive impact would be reducing the implementation lag when benefit levels are uprated, since claimants would see higher payments from their first payment after uprating is implemented, rather than their second.
[13] For those in work with fluctuating earnings, there may of course be months where earnings are lower than the previous month, meaning Universal Credit payments are lower than required for the current month. But the opposite is just as likely to be true, and it would be the claimant's responsibility to adequately budget for these circumstances. Budgeting advance loans would remain available. The government could also allow claimants to request a higher monthly payment, based on expected earnings, with adjustments made in subsequent monthly payments if the claimant's expectations prove to have been inaccurate.

Overpayment risk

Making payments fully or partially up front would be fiscally neutral (claimants would receive the same number of payments each year), albeit with two caveats. First, there is an increased risk that the first payment would be inaccurate for people with earnings from employment – less so if payments are half up front, half in arrears – but the government would have the scope to recover overpayments and reimburse underpayments in subsequent months. To avoid detriment for some claimants, the government may choose to write off overpayments related to only the first monthly assessment period.

Second, it is almost certain that there would be an increased propensity of overpayments in the *final* month of a claim. Claimants exiting the Universal Credit system into paid employment may have already been paid their monthly Universal Credit entitlement up front, before subsequently becoming ineligible for Universal Credit for a portion of the same month.[14] Again, the government would have the scope to recover this overpayment in full, in line with existing policy – but it would mean, other things being equal, day-to-day DWP expenditure would be higher in the first instance, even if the fiscal balance sheet is largely unaffected.

Risk to exiting claimants

The complex impact of up front payments on the end of Universal Credit claims indicates the main risk to claimants from this option. If claimants move from benefit payments up front to employment income paid in arrears, they potentially risk a gap of up to 2 months between receiving their final Universal Credit payment, and receiving earnings from paid employment. Fear of this gap may act to disincentivise work.

There are three main options for addressing this risk:

1. Writing off final month overpayments
2. Run-on payments
3. A support fund for claimants entering work
4. Exit loans

[14] For example, they receive an up front Universal Credit payment on 1st June, but then commence employment that ends their eligibility on 20th June. They will be required to repay the portion of the up front payment that relates to the period 20th-30th June (even if they have not been paid by their employer during this period).

First, the government could simply agree to write off overpayments in the circumstances described above (ie where claimants are overpaid Universal Credit in the final month of their claim as a result of commencing employment, or higher paid employment, after receiving an up front payment in their final monthly assessment period). This could strengthen work incentives and/or smooth the transition from Universal Credit to employment. However, there would then be a degree of arbitrariness around who receives these additional payments, and how much they receive, depending on the point of their final monthly assessment period they begin work or increase their earnings.

Second, run-on payments (already available for other DWP benefits) would help exiting claimants bridge the gap between Universal Credit and work. Run-on payments essentially involve continuing to make benefit payments to claimants after their eligibility has ended, for a defined period. Their value could be equivalent to a proportion of the claimant's final monthly entitlement (eg half, since most existing run-on mechanisms last for 2 weeks). This would have a cost, although in practice the monthly award for most people exiting will be relatively low given they will already be receiving an income from work alongside benefits.

Third, in order to target this support on exiting claimants who most need it, rather than making run-on payments available to all, the government could introduce a support fund that claimants could access where they can demonstrate that the gap in time between their final Universal Credit payment and their first or next payment from work would cause detriment.

Take-up of the fund would be relatively low, contrasted with run-on payments where payments to eligible claimants would be automatic, because claimants would be required to apply for the fund with evidence of detriment. This would help to reduce costs, while at the same time allowing the government to demonstrate that it is supporting people to move from benefits to employment.

Exit loans

Alternatively, and fourthly, the government could introduce exit loans, alongside switching to up front payments, for people who leave the Universal Credit system when they enter paid employment. This would be a fiscally neutral reform, since the loans would be repaid. In contrast to new claim loans being taken out by people at a time of hardship, when low income brings them into Universal Credit eligibility, exit loans would generally be taken out (and repaid, at

least initially) by people when they are lifted out of Universal Credit eligibility, with a higher income and greater financial resilience.[15]

The key disadvantage of exit loans would be the possibility that they disincentivise moving from Universal Credit to work. However, they would only be available to people whose income from employment lifts them out of income-related benefit eligibility, so the impact on marginal deduction rates would be minimal. It is also likely that most exiting claimants were already receiving income from both Universal Credit and employment before becoming ineligible – they exit by increasing their hours or pay – we can expect take-up of exit loans to be much lower than advance loans.

Furthermore, the disincentive created by exit loans would have to be balanced against the more general work disincentive, noted above, created by the prospect of a 2 month income gap when claimants exit a system of up front payments. Nevertheless, a system of exit loans may be *perceived* as a work disincentive even if the material impact of loan repayments is very low.

Weekly or fortnightly payments

Alternative payment arrangements (APA) – including fortnightly payments, or even weekly payments in exceptional circumstances – are available throughout the UK from the second month of a Universal Credit claim.

In England and Wales, eligibility for APA is very narrow: a work coach or case manager has to agree that a claimant has a significant risk of homelessness, or 'severe or multiple debt problems', to relax the requirement of monthly payments.[16] However, fortnightly payments are already the default in Northern Ireland, and can be chosen by all claimants in Scotland (in both cases, again, only from the second monthly assessment period).

[15] To enable this, mechanisms that allow claimants to repay exit loans through earnings would have to be used. And claimants would presumably revert to making repayments via benefit payments if they subsequently return to Universal Credit.

[16] See https://www.gov.uk/government/publications/universal-credit-alternative-payment-arrangements/alternative-payment-arrangements#more-frequent-payments.

In November 2023, only 3.7% of claimants in England and Wales (almost 165,000) had Universal Credit payments more frequent than monthly. We supported around 1,800 people with APA issues in the year to March 2024.

There is a strong case, in general, for allowing more people to access APA, and extending it to the first monthly assessment period. This would be fiscally neutral. Only around 78% of employees in the UK are paid monthly[17], and we can assume this is less likely to be the case for low-paid people often on zero and limited hours contracts.

As such, many new Universal Credit entrants may have a pattern of financial commitments that makes a sudden shift to monthly payments problematic (especially in arrears). Greater APA availability could help to alleviate the 5 week wait specifically, if more claimants were able to exercise choice at the beginning of a claim.[18]

First month payments

One option would be to apply APA to all in the first month by default, with monthly payments beginning in the second month (unless a continuation of APA is applied for) once new claimants have had the opportunity to adjust to monthly payments. As with the option of up front payments, there would be additional risk of overpayment and underpayment in the first month, if initial weekly or fortnightly payments are made based on only information provided via the claim, rather than following an end-of-month income assessment. We assume this drawback is the reason that APA, where it is offered, is currently only available from the second month of a claim: the government does not make any

[17] This refers to April 2021; see https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/adhocs/14237annualsurveyofhoursandearningsasheproportionofallemployeejobswithweeklyfortnightlyfourweeklyandmonthlypayperiodsukapril2021.

[18] The managed migration process makes provision for APA and/or up front payments especially important, as many claimants experience moving from weekly to monthly benefit payments. For example, our advisers report cases of Housing Benefit claimants in social housing being asked to overpay their rent in the run-up to their migration day, so that they do not unavoidably fall into arrears, with no way of clearing the debt, as result of the 5 week wait. People receiving tax credits – the first cohort to migrate to Universal Credit – could previously choose weekly or four-weekly payments.

Universal Credit payments before claimants have gone through at least one regular assessment period.[19]

However, even if errors are identified at the end of the assessment period, the final weekly or fortnightly payment could be adjusted to ensure that claimants do not receive more than they are entitled to in the first month of their claim.[20] To avoid detriment for claimants, the government may choose to write off overpayments related to only the first monthly assessment period.

A second option would be to offer APA from the first month to only claimants who do not also have an income from employment. This would significantly reduce the risk of incorrect payments: their only income is likely to be other benefits, typically those administered by DWP, so calculations would be straightforward. And it would target reform on those most likely to experience detriment as a result of the 5 week wait.

[19] However, it is highly unlikely that all new claimants would choose weekly or fortnightly payments: in Scotland, around a quarter of households had weekly or fortnightly payments (100,293 of 395,055 households) in November 2023. This would reduce the risk of erroneous payments. It is worth noting again that the government already calculates an estimated monthly payment up front, in order to provide advance loans.

[20] To offer a simplified illustration of this mechanism, take the example of a claimant whose claim indicates a monthly entitlement of £500, but who DWP deem eligible for £400 once the assessment period is complete at the end of the month. The claimant may have already been paid a fortnightly payment of £250, and since their next payment would be after the assessment has been undertaken, the second fortnightly payment would be adjusted down to £150. Other things being equal, their fortnightly payments would then be £200 in subsequent assessment periods.

Extending repayment periods

Reforming new claim loans

With the partial exception of run-on payments for some compulsorily migrating to Universal Credit, the only mitigation against the impact of the 5 week wait currently available is the advance loan system: new entrants to Universal Credit can take out a new claim or benefit transfer loan, valued at up to 100% of their estimated monthly payment.

The loan is repaid via deductions from subsequent Universal Credit payments, with total deductions capped at 25% of the value of a claimant's standard allowance. Claimants can now choose to repay new claim (or benefit transfer) loans over 2 years.[21]

DWP does not regularly publish data on advance loans and deductions in general. But we know that a very large proportion of new claimants take out a new claim or benefit transfer advance: 16% of all Universal Credit claimants, or an estimated 27% of new claimants, had deductions related to these loans in February 2023, which was before the migration of claimants from legacy benefits to Universal Credit was scaled up.[22]

---

[21] The 25% cap applies to all forms of deductions (legally, the cap is 40%, but current government policy means 25% is applied in practice save for exceptional circumstances). A repayment schedule of up to 2 years means new claim loan repayments alone are highly unlikely to breach the gap, but if claimants are also repaying overpayment or third party debts, new claim loans and other advance loans can contribute to high levels of deductions.

[22] 732,000 claimants were repaying a new claim or benefit transfer loan in February 2023 (see https://questions-statements.parliament.uk/written-questions/detail/2023-06-29/191730); this is around 15% of all households receiving Universal Credit at this time. We also know that 3,476,020 people started Universal Credit claims in the 2 years (ie the maximum advance loan repayment period) up to February 2023, which equates to 2,989,377 households. 732,000 is 24% of this new claimant group. However, not all new claimants will have chosen to repay an advance loan over the maximum time period (and new claimants in March 2021 did not yet have the option of a 2 year repayment schedule). 24% is therefore likely to be an underestimate, given that some new claimants from March 2021 onwards are likely to have taken out and already repaid an advance loan by February 2023.

We also know that deductions are a source of hardship.[23] We helped 24,000 people with Universal Credit deductions issues in the year to March 2024, including 7,000 with advance loan repayments. 82% of people who come to Citizens Advice for support with advance loan repayments are out of work. On average monthly new claim or benefit transfer loan repayment deductions were £31 in February 2023. The majority of claimants had other deductions too, meaning the average overall deduction was £61.[24]

In the absence of action to eliminate the 5 week wait for a first payment, we can expect demand for advance loans to remain high. To minimise the hardship caused by resulting deductions, the repayment schedule could be extended beyond 2 years (which is effectively the same as reducing the cap on this source of deductions).

It stands to reason that the amount deducted each month would be halved if the repayment period was, say, 4 years rather than 2 years (although noting that claimants can already opt for shorter repayment periods, and some would probably continue to do so). This would effectively be a fiscally neutral change.[25]

Income-contingent loans

A related option would be for income-contingent advance loans. Debts would only be recovered if a claimant is in, or commences, paid employment.[26] To some extent, this would be consistent with one of the underlying aims of Universal Credit, i.e. smoothing transitions into work. However, there is a risk

---

[23] The impact of Universal Credit deductions is discussed in depth in Craig Berry and Julia Ruddick-Trentmann (2024) *Designing Out Deductions: How to Address the Welfare Debt Trap*, Citizens Advice, available at https://www.citizensadvice.org.uk/policy/publications/designing-out-deductions-how-to-address-the-welfare-debt-trap/.

[24] See https://questions-statements.parliament.uk/written-questions/detail/2023-06-29/191730 and https://questions-statements.parliament.uk/written-questions/detail/2023-06-29/191819. The most common other forms of deductions are overpayment recovery and third party debt repayments (mainly council tax arrears and court fines). Note that advance loan repayments are prioritised by DWP over other deductions, so other deductions are only possible when advance loan repayments are beneath the 25% cap.

[25] It is more likely that people would exit Universal Credit before repaying their new claim loan in full, if the repayment period is extended. This would result in repayments continuing from employment income, or the use of a debt collection agency to recover amounts still owed (see https://www.gov.uk/guidance/universal-credit-advances#if-you-no-longer-get-universal-credit-and-have-not-paid-back-your-advance).

[26] In the case of joint claims, presumably this would apply if one of the partners enters work.

that this mechanism would be perceived as a work disincentive, and would therefore not align with the aims of Universal Credit. Loan repayments would effectively increase marginal deduction rates, which are already very high for Universal Credit claimants in work due to the 55% taper rate.[27]

[27] It may be necessary therefore for income-contingent loans to become recoverable only once claimants exit Universal Credit eligibility altogether. New mechanisms for repaying loans from employment income would have to be developed for those who are required to repay. There would be concerns around fairness if there were different expectations across different groups of claimants regarding whether advance loans are repayable in practice.

Summary of costs

New claim grants

A new claim grant system would require additional public spending: a grant equivalent to the estimated monthly entitlement to all new claimants would cost around £1.5 billion. The cost would be lower if:

- The grant covers only a portion of the monthly entitlement, and/or the government introduces limits on how often repeat claimants can receive a grant.
- A targeted system of grants were introduced, for claimants in receipt of the child element, disabled child element, Limited Capability for Work (LCW) element, Limited Capability for Work-Related Activity (LCWRA) element, or housing element.[28]

Up front payments

Making Universal Credit payments up front rather than in arrears would be fiscally neutral – and so would making Universal Credit payments weekly or fortnightly, rather than monthly.

If the government wanted to write off overpayments related to first monthly payments only (ie those arising from making upfront payments prior to processing claim details), it would cost around £0.07 billion per year.[29]

If the government wanted to write off overpayments related to final monthly payments only, it would cost around £0.2 billion per year. This is the likely impact on day-to-day DWP expenditure that results from a higher overpayment rate at the end of Universal Credit claims, although it would only materialise as a fiscal cost if the government chose not to recover the overpayments.

If the government wanted to introduce a run-on payment for people entering work, or a support fund that claimants apply to when detriment can be

[28] Continuing an advance loans system alongside partial or targeted grants would be fiscally neutral.
[29] This is likely an overestimate for weekly or fortnightly payments, because not all claimants would choose this option, so there is a lower impact on payment accuracy.

demonstrated – to combat the risk of an income gap when exiting Universal Credit – a baseline estimate is that this would cost around £0.2 billion per year and around £0.1 billion per year, respectively.

Longer repayment periods

Extending the repayment period for new claim or benefit transfer loans would effectively be fiscally neutral.

It is difficult to estimate the cost of an income-contingent repayment system: it would effectively be fiscally neutral if the government retained the option of recovering loans in the future from those who leave or do not enter paid employment, although may eventually cost around £0.35 billion if the government wanted to write off some of the unrecovered debt after a certain period of time (this estimate is highly uncertain).

Assessment of policy options

Benefits	Concerns
New claim grants	
Eliminates the 5 week wait, as well as fear of detriment that some claimants experience when entering Universal Credit. Eliminates the need for new claim loans (and deduction), effectively increasing Universal Credit payments for many at a lower cost than temporary or permanent uplifts in benefit value. A simple solution that, in comparison to other options, avoids introducing further complexity and potential unfairness.	This would involve significantly higher public expenditure, partly because grants would be available to all new claimants even if they do not experience hardship as a result of the 5 week wait. There would be a risk of fraud within the grants system, although this could be addressed by offering grants as convertible loans (converting to grants once eligibility is established).
New claim grants targeted on child, disabled child, LCW, LCWRA or housing element recipients	
Depending on how the system is targeted, could eliminate the 5 week wait, as well as fear of detriment that some claimants experience when entering Universal Credit, for those most likely to experience hardship as a result of the wait. Significantly reduces demand for new claim loans, especially for groups most affected by deductions.	This would involve significantly higher public expenditure, although less so than providing grants for all new claimants. Choices around which groups to target for new claim grants would be contentious, with varied implications for public spending. There would be a risk of fraud within the grants system, although this could be addressed by offering grants as convertible loans (converting to grants once eligibility is established). Eligibility for LCW and LCWRA is not typically established at the beginning of a claim.

<table>
<tr><th colspan="2">Up front monthly payments</th></tr>
<tr><td>Eliminates the 5 week wait, technically at no or negligible cost, although may require DWP to recover more overpayments.

Addresses concerns around different payment schedules and frequency between Universal Credit and employers or legacy benefit systems.</td><td>Creates a higher risk of inaccurate payments in the first month, although could be mitigated by payments that are half up front and half in arrears.

Creates a risk of detriment when claimants exit Universal Credit, which may be a work disincentive. One of the supplementary options below may be required to address this risk.

Creates a risk of overpayments in the last month – undermining fiscal neutrality in practice – although this could be accepted as a de facto run-on payment and work incentive.</td></tr>
<tr><th colspan="2">Run-on payments (alongside up front payments)</th></tr>
<tr><td>Facilitates the shift to up front payments, while largely eliminating the risk of financial detriment at the point of exit.

The run-on payment mechanism is already in use within other DWP benefits.</td><td>This would involve additional public spending , with payments made automatically to most exiting claimants in line with final monthly awards. However, as above, award values for this group are likely to be low.</td></tr>
<tr><th colspan="2">Support fund for exiting claimants (alongside up front payments)</th></tr>
<tr><td>Facilitates the shift to up front payments, while largely eliminating the risk of financial detriment at the point of exit.

The aims of the support fund – smoothing the transition from benefits to work – is consistent with Universal Credit's aims and other forms of discretionary support DWP offers.</td><td>This would involve additional public spending, but at a lower cost than run-on payments because recipients would need to demonstrate hardship to apply for the fund.

The greater administrative burden on claimants may mean that some eligible recipients do not apply, or cannot sufficiently evidence their eligibility.</td></tr>
<tr><th colspan="2">Exit loans (alongside up front payments)</th></tr>
<tr><td>Facilitates the shift to up front payments at no or negligible cost.</td><td>The need to repay exit loans when in work may be a work disincentive, although</td></tr>
</table>

<table>
<tr><td>Exit loans would be taken out by people who are, other things being equal, better off than people who currently take out new claim loans. (Take-up of exit loans is therefore likely to be low.)</td><td>repayments would be at a time when claimants have greater financial resilience. And unless claimant immediately earns enough to exit Universal Credit completely, the gradual tapering out of support means loan values (and therefore repayments) could be relatively low.

Introduces greater complexity into the Universal Credit system.</td></tr>
<tr><td colspan="2">Weekly or fortnightly payments</td></tr>
<tr><td>Eliminates the 5 week wait at no or negligible cost.

Better reflects the complexity of how often people are paid by employers or legacy benefits before entering Universal Credit.</td><td>Creates a higher risk of inaccurate payments, although could be mitigated by adjusting the final weekly or fortnightly payment within the first month once monthly entitlement has been calculated.</td></tr>
<tr><td colspan="2">Weekly or fortnightly payments for only out-of-work claimants</td></tr>
<tr><td>Eliminates the 5 week wait at no or negligible cost, with support targeted on those most likely to suffer detriment as a result of the wait.

Better reflects the complexity of how often people are paid by employers or legacy benefits before entering Universal Credit.</td><td>Creates a higher risk of inaccurate payments, although the risk would be minimal because entitlement calculations for people without income from work are straightforward.</td></tr>
<tr><td colspan="2">Longer advance loan repayment period</td></tr>
<tr><td>Mitigates the main impact of the 5 week wait, ie deductions for those who take out new claim loans.

Builds upon existing support, and precedence for extending repayment periods.</td><td>Does not eliminate the 5 week wait or fully address its impact.

People would remain indebted to DWP, with deductions, for a longer period.

More likely that more people would have to continue repaying advance loans once they have exited Universal Credit.</td></tr>
</table>

Income-contingent advance loans	
Eliminates the main impact of the 5 week wait, i.e. deductions for those who take out new claim loans. Repayments would be made instead when claimants have greater financial resilience.	This would be administratively complex (ie a recovery mechanism outside the Universal Credit system) and is likely to require a significant proportion of loans to be written off. May be perceived as unfair if only claimants entering work are required to repay loans, and may act as a work disincentive.

Discussion

Introducing new claim grants would be the fairest and most effective way of overcoming the 5 week wait. This option would require additional public spending of around £1.5 billion each year (this estimate does not take into account the April 2024 uprating, but also assumes there would be no limits on how often new claimants can access a grant). This represents 1.9% of 2023/24 expenditure on Universal Credit and legacy benefits.

Costs could be reduced by paying grants valued at less than the full monthly entitlement of Universal Credit, or by targeting grants on certain groups. For example, paying grants to only new claimants eligible for the child element would cost around £0.8 billion if they received their full monthly award, or £0.3 billion if they only received their child element entitlement.

New claim grants would largely eliminate demand for new claim loans – reducing indebtedness and increasing take-home Universal Credit payments for hundreds of thousands of claimants – at least among the groups most likely to suffer hardship as a result of Universal Credit deductions. The cost of this option should be judged against the higher cost of temporary or permanent uplifts in the value of Universal Credit rates.

There are several options for overcoming the 5 week wait on a more fiscally neutral basis, although most involve greater complexity. The most straightforward would be to significantly extend the repayment period for new claim loans – claimants would still be subject to deductions from subsequent Universal Credit payments, if they want to avoid the 5 week wait, but deductions would be lower in value. However, it would remain far from ideal that many thousands of people each year would still be starting their Universal Credit claim in debt to the government.

Moving instead to up front payments would eliminate this problem, albeit with greater administrative complexity and a higher risk of overpayments. Allowing more people to choose weekly or fortnightly payments, from the first monthly assessment period, would have a similar impact, while allowing the principle of payment in arrears to be retained.

The main risks from moving to up front payments would be at the end of Universal Credit claims. The government would be knowingly overpaying benefits during the final monthly assessment period, so would have greater amounts to recover. And claimants may experience a gap in income, in the period between their final up front Universal Credit payment and their next or first payment from work (if they are paid in arrears). This could be perceived as a work disincentive.

Run-on payments or an exit loan system may be required to address these problems (the former would be expensive, and the latter could itself be perceived as a work disincentive). A support fund available to exiting claimants who genuinely experience hardship due to this gap – costing around £100 million per year – would address this problem while allowing the government to demonstrate its commitment to supporting people to move from benefits to employment.

Annex: Cost estimate calculations

New claim grants (for all new starters)

In 2023, 1,925,627 *people* started a Universal Credit award, so we can estimate that there were 1,656,039 new *household* claimants in 2023.[30] If their monthly entitlement is £900 on average, a new claim or benefit transfer grant of this value would cost £1,490 million per year.

This may, on the one hand, be an overestimate, because some repeat claimants would have a limit on how often they can receive a grant. On the other hand, there is uncertainty over how the managed migration of legacy benefit claimants will affect the average monthly award over 2024 and 2025. Note also that Universal Credit payments were uprated by a significant cash amount in April 2024.

A grant valued at two-thirds of estimated monthly entitlements would cost £984 million per year, and a grant valued at half of estimated monthly entitlements would cost £745 million per year.

New claim grants (for child element recipients)

In November 2023, 2,441,319 households received the child element of Universal Credit, with an average monthly entitlement of £1,097.23. 45% of all household claimants receive the child element, so it is reasonable to assume the same proportion among new household claimants. We can estimate therefore there were 745,218 new claimants with the child element in 2023.

Paying this group a new claim or benefit transfer grant at their full estimated monthly entitlement would cost £818 million per year (or £409 million per year if valued at half their entitlement). Note that Universal Credit payments were uprated by a significant cash amount in April 2024.

[30] In November 2023, there were 0.86 household claimants for every person receiving Universal Credit, including those claiming as part of a couple. This ratio is applied to all cost calculations, where relevant.

If the grant was equivalent to only the value of the child element (ie the rate for children born after April 2017), including being double the value for households with 2 or more children, it would cost £338 million per year.

New claim grants (for disabled child element recipients)

In November 2023, 304,590 households received the disabled child element of Universal Credit, with an average monthly entitlement of £1,566.14. 6% of all household claimants receive the disabled child element, so it is reasonable to assume the same proportion among new household claimants. We can estimate therefore there were 99,362 new claimants with the disabled child element in 2023.

Paying this group a new claim or benefit transfer grant at the full estimated monthly entitlement would cost £156 million per year (or £78 million per year if valued at half their entitlement). Note that Universal Credit payments were uprated by a significant cash amount in April 2024.

It is not possible to estimate the cost of paying grants equivalent to only the value of the disabled child element (or the child element plus the disabled child element), due to a lack of publicly available caseload data on receipt of the higher and lower rates of the element, or the number of children receiving the element per household.

New claim grants (for LCW element recipients)

In November 2023, 23,581 households received the LCW element of Universal Credit, with an average monthly entitlement of £939.47. 0.4% of all households receive the LCW element, so it is reasonable to assume the same proportion among new household claimants. We can estimate therefore there were 6,624 new claimants with the LCW element in 2023.

Paying this group a new claim or benefit transfer grant at their full estimated monthly entitlement would cost £6 million per year (or £3 million per year if valued at half their entitlement).

If the grant was equivalent to only the value of the LCW element, assuming only 1 recipient per claimant household, it would cost £1 million per year. Note that Universal Credit payments were uprated by a significant cash amount in April 2024.

New claim grants (for LCWRA element recipients)

In November 2023, 1,335,693 households received the LCWRA element of Universal Credit, with an average monthly entitlement of £1083.79. 25% of all households received the LCWRA element, so it is reasonable to assume the same proportion among new household claimants. We can estimate therefore there were 414,010 new claimants with the LCWRA element in 2023.

Paying this group a new claim or benefit transfer grant at their full estimated monthly entitlement would cost £449 million per year (or £224 million per year if valued at half their entitlement).

If the grant was equivalent to only the value of the LCWRA element, assuming only 1 recipient per claimant household, it would cost £172 million per year. Note that Universal Credit payments were uprated by a significant cash amount in April 2024.

New claim grants (for housing element recipients)

In November 2023, there were 1,500,831 households receiving the housing element of Universal credit in the PRS, with an average monthly entitlement of £1028.88. 28% of all households receiving Universal Credit are in this group, so it is reasonable to assume the same proportion among new household claimants. We can estimate therefore there were 463,691 new claimants with the housing element in the PRS in 2023.

Paying this group a new claim or benefit transfer grant at their full estimated monthly entitlement would cost £477 million per year (or £239 million per year if valued at half their entitlement). Note that housing element payments were uprated for most claimants in April 2024.

The government could decide to pay grants equivalent to only the value of the housing element, in order to mitigate the impact of the 5 week wait on the accrual of rent arrears. However, housing element payments vary significantly by housing tenure, type, size and location, so it is not possible to estimate the cost of this option.

Up front payments (fully or partially)

This policy option would be fiscally neutral, as long as overpayments for those who enter paid employment or gain higher earnings in their final monthly assessment period are recovered (the cost of instead writing off these overpayments is discussed below). Of course, even if the government elects to recover overpayment, there would be higher day-to-day expenditure in advance of recovery succeeding.

Run-on payments (introduced alongside up front payments)

1,394,315 people exited Universal Credit in 2023.[31] This equates to 1,119,111 households. The average monthly Universal Credit award in November 2023 was £900. If each exiting claimant received half of this as a run-on payment, it would total £540 million per year. This does not take into account the April 2024 uprating.

However, it also assumes that those receiving the highest Universal Credit awards – including child and disability elements – are as likely to exit Universal Credit as any other claimant. This is almost certainly not the case. In fact, where people exiting are already receiving an income from work as well as Universal Credit, average monthly awards at the point of exit is likely to be significantly lower than the overall average.

It should also be noted, furthermore, that not all exit to paid employment; for example, some exiting claimants will have died, and some will have reached state pension age. Restricting run-on payments to only those exiting Universal Credit as a result of entering paid employment would also significantly reduce the annual cost. Our baseline estimate therefore is that run-on payments would cost no more than £200 million per year, This estimate is uncertain, due to the absence of publicly available data on exit pathways, or on how average payments vary according to claimants' employment status.

It is possible that, rather than a formal system of run-on payments, the government could instead write off overpayments that arise in a claimant's final monthly assessment period, when they enter paid employment or gain higher

[31] There were 1,925,627 starts in 2023, but the overall caseload in terms of people rose by only 531,312 from December 2022 to December 2023.

earnings. It is not possible to estimate the cost of this measure, but it is likely to be negligible).

Support fund (introduced alongside up front payments)

Eligibility for the support fund would be the same as for run-on payments. We can again assume therefore that the final monthly awards for people eligible for the fund – which would define the maximum amount of support available – are much lower than the overall average award. In fact, support could be restricted with reference to the actual financial detriment caused by the shift from benefits to work, rather than calculated with reference to previous Universal Credit income.

Furthermore, while run-on payments would be made automatically to eligible exiting claimants, the support fund would have lower take-up because it would require claimants to apply to the fund, providing evidence of likely financial detriment. Our baseline estimate therefore is that a support fund would cost no more than £100 million per year. Again, this estimate is uncertain, due to the absence of publicly available data on exit pathways, or on how average payments vary according to claimants' employment status.

Exit loans (introduced alongside up front payments)

This policy option would be fiscally neutral.

Weekly or fortnightly payments (ie APA offered in the first month)

This policy option would be fiscally neutral.

Longer repayment periods for advance loans

This policy option would be fiscally neutral.

Income-contingent advance loans

This policy option would be fiscally neutral, if it could be guaranteed that all loans would be recovered. However, this is unlikely to be the case – the government would need to accept that some income-contingent loans would be written off.

Deductions for new claim and benefit transfer loans 'save' the government £561 million in Universal Credit payments each year.[32] We know that 38% of people receiving Universal Credit are in work, leaving 62% out of work who may end up having an income-contingent advance loan written off after a certain period of time. Once the system is fully established, with loans being written off for some, this would represent a reduced saving of £213 million for the government – a difference of £348 million per year.

However, this estimate is uncertain, for several reasons:

- Many *people* out of work receiving Universal Credit will be part of a *household* claim with a partner who is in work.
- Many of those out of work will move into paid employment before reaching the point at which their loan may be written off.
- It stands to reason that those in work, or likely to move into work, are less likely to need to take up an advance loan when they commence a Universal Credit claim.
- The government may choose to write off income-contingent loans, even for those in paid employment if they receive income from Universal Credit and work, to avoid increasing work disincentives.

Writing off first month overpayments (due to up front payments or APA)

Overpayments due to government and claimant error totalled £800 million in 2023/24, or just over £44 million per month on average.[33] Assuming the same level of error within new claims, this policy option would therefore cost around £67 million per year. This may be an under-estimate: it is reasonable to assume the overpaid amount for the first month could be slightly higher than the average where payments are made up front, given the reliance on information in the initial claim instead of actual earnings outturns. Note also that Universal Credit payments were uprated by significant cash amounts in both April 2023

[32] This is based on data for the year to November 2021 (available at https://questions-statements.parliament.uk/written-questions/detail/2022-05-11/989), inflated in line with subsequent uprating decisions).
[33] See https://www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-2023-to-2024-estimates/fraud-and-error-in-the-benefit-system-financial-year-ending-fye-2024#universal-credit-overpayments-and-underpayments.

and April 2024; other things being equal, the amount overpaid will have increased.

However, if up front payments or APA were made available for new claimants to choose, rather than being applied by default, the risk of erroneous payments would be reduced because not all new claimants would choose these arrangements.

Writing off final month overpayments (due to up front payments)

As noted above, there is no publicly available data on Universal Credit exit pathways, or on how average payments vary according to claimants' employment status. We therefore do not know with any degree of certainty how many people are already combining Universal Credit and employment income at the point of exit, or what their Universal Credit eligibility is in the final month of their claim.

But we can estimate the cost of writing off overpayments arising in these circumstances similarly to how the cost of run-on payments has been estimated above. 1,394,315 people exited Universal Credit in 2023. This equates to 1,199,111 households. The average monthly Universal Credit award in November 2023 was £900. If each exiting claimant received was overpaid by half of this amount (because those who become ineligible for Universal Credit during their final monthly assessment period will on average become ineligible at the mid-point of the month), it would total £540 million per year. This does not take into account the April 2024 uprating.

Yet because average awards for claimants close to exiting the Universal Credit system are likely to be significantly lower than average awards for all Universal Credit claimants, our baseline estimate is that the cost of writing off overpayments in these circumstances would be no more than £200 million per year.

Administrative costs

There would be additional administrative costs associated with most of these options, but in the context of lower administrative costs once managed migration is complete, and the reduced burden of administering fewer advance loans.

Citizens Advice helps people find a way forward.

We provide free, confidential and independent advice to help people overcome their problems. We are a voice for our clients and consumers on the issues that matter to them.

We value diversity, champion equality, and challenge discrimination and harassment.

We're here for everyone.

Contact the author:
craig.berry@citizensadvice.org.uk

citizensadvice.org.uk

Published September 2024

Citizens Advice is an operating name of The National Association of Citizens Advice Bureaux.

Registered charity number 279057.