

Universal Credit Policy Briefing Note 2

The payment proposal

1. Core objectives

- a) A key aspect of the Universal Credit is that it should mimic work and receipt of a salary. In order to help households understand what money they receive and how choices over work affect it, the Universal Credit will be simpler and will work on a single system of disregards and one taper. Universal Credit will be paid monthly, reflecting the fact that 75% of people are paid earnings monthly in arrears¹.
- b) Decisions over payment of the benefit should support these overarching objectives, but, in addition, the Government wishes to place responsibility for household budgeting with the household. It is not Government's role to dictate how a household spends their money.
- c) To ensure households are able to budget in this way, a package of support is being developed which is likely to include a mix of targeted financial advice and interim and bridging loans.

2. Considerations/limiting factors

- a) There will be some households which need more help to budget and for whom exceptional rules may need to be followed, and we are carefully considering arrangements for them.
- b) Transitions to a system of single payment per household will be a large change for some claimants. For example, a considerable number of Housing Benefit recipients in the current system have their benefit paid directly to their landlord or their benefit takes the form of a rent rebate. Payment directly to the claimant household will be a significant change from the current system.
- c) In addition, the current system of benefits and tax credits allows payments of money for different needs to both members of a couple. The move to one payment will also be a significant change for them.
- d) Many in and out of work benefits are currently paid at a fortnightly cycle so monthly payment will be a further change for many households.

¹ Bacs Family Finance Survey 2011.

3. Key policy proposals

- a) Under Universal Credit, couples living in the same household will make a joint claim for the benefit payment. We will assume that ordinarily the benefit will be given in a single monthly payment to a household. It will be for the family to decide who receives the benefit and for them to decide how to budget that money on rent and the needs of the household: encouraging payments to a joint bank account might allow both partners to have access to the money.
- b) We understand that many people on low incomes will be used to managing fortnightly payments of benefits and intend to ensure that, whatever the period of payment, there will be appropriate budgeting support made available. We want families to be able to manage their financial affairs in a manner that best reflects the demands of modern life, whether in or out of work.
- c) Where we consider exceptional circumstances exist, a payment exceptions service will be made available to provide more frequent payments to households.
- d) We also recognise that we may need to offer alternative arrangements for very ill people who may have appointed an attorney to manage their affairs, or cases where there is proven abuse of the money, and redirection of the payment is urgently required in order to safeguard the rest of the family. The latter cases might include where the claimant is being sanctioned, where there is persistent fraud, or for those with children at serious risk of losing their homes.

4. Fit with Universal Credit

- a) A system of single monthly household payments fits well with the overarching Universal Credit narrative of simplicity and preserving work incentives, although we know that we will need to provide some payments to third parties.

5. Policy Rationale

- a) Maintaining single payments is important so that households can see clearly the effect of their decisions about work on total household income, and so that claimants can take responsibility for budgeting. We want, as far as possible, for Universal Credit payments to mimic those of salary for paid employment, as part of the move to work we want to see.
- b) Making decisions over household finances and budgeting in the most appropriate way to meet family needs is best done by the family itself. It has been suggested that Government interference in household

budgeting arguably undermines individual responsibility.² There is also evidence to suggest that only 7% of cohabiting couples and only 2% of married couples keep their finances completely separate.³

- c) Encouraging out of work households to budget on a monthly, rather than fortnightly basis, will better prepare people for the reality of working life. 75% of all those in employment, and 51% of those earning less than £10,000 a year, currently receive earnings monthly⁴. Monthly direct debits for household bills are often cheaper than more frequent billing options.
- d) There may, however, be exceptional cases that require alternative arrangements: to ensure safeguards. The Government intends to retain powers to split payments between members of a couple in joint claim cases. We are considering the circumstances for and details of these alternative arrangements, and work is ongoing. We will also ensure that an exceptions service to allow for more frequent payment will be developed.

6. Further work we will do

- a) We are continuing to work on how we will provide for exceptional cases, what the criteria will be for triggering further state intervention, how this fits with wider government support offered to struggling families, and how to do this within the Universal Credit system. A key consideration will be the balance between offering safeguards to claimants and avoiding disproportionate intrusion into their affairs.
- b) Work is also underway to develop plans about how the Department can best support households to manage monthly payment. Proposals are likely to include a mix of financial advice and interim and bridging loans. We will also agree how payment dates during the month will be allocated.

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² Wikeley, Ogus and Barendt's *The Law of Social Security* (5th Edition), p. 334

³ Maplethorpe et al (2010), 'Families with children in Britain: Findings from the 2008 Families and Children Study (FACS). DWP Research Report 656

⁴ Bacs Family Finance Survey 2011