

The logo for Child Poverty Action Group (CPAG) is a magenta parallelogram tilted to the right. Inside, the words "CHILD POVERTY ACTION GROUP" are written in white, stacked in four lines.

**CHILD  
POVERTY  
ACTION  
GROUP**

The logo for the Early Warning System features the words "EARLY WARNING SYSTEM" in blue, stacked in three lines. To the right is a graphic of orange concentric arcs forming a partial circle.

**EARLY  
WARNING  
SYSTEM**

The logo for the Oak Foundation consists of a blue globe icon to the left of the word "OAK" in a large, blue, serif font. Below "OAK" is the word "FOUNDATION" in a smaller, blue, sans-serif font.

**OAK**  
FOUNDATION

The logo for Barrow Cadbury Trust features a stylized graphic of three vertical bars in yellow, green, and red, with a blue swoosh at the bottom. To the right, the words "Barrow Cadbury Trust" are written in blue, stacked in three lines.

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Cadbury  
Trust**

## **ROUGH JUSTICE**

Problems with monthly assessment of pay and circumstances in universal credit, and what can be done about them

Findings from CPAG's Early Warning System

August 2018

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## About CPAG's Early Warning System

Child Poverty Action Group works on behalf of the one in four children in the UK growing up in poverty. Our Early Warning System gathers cases from advisers working with families and social security recipients around the country, and analyses these to identify emerging issues related to social security reforms including the introduction of universal credit. The Early Warning System is made possible by the support of Oak Foundation and Barrow Cadbury Trust.

For further information or to submit cases to the Early Warning System, please visit <http://www.cpag.org.uk/early-warning-system>.

## Acknowledgements

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Most of all we would like to thank all the people claiming universal credit, and their advisers, who took the time to speak to us and submit cases to our Early Warning System. We hope this report does justice to your stories.

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## Rough justice

# Problems with monthly assessment of pay and circumstances in universal credit, and what can be done about them

## Summary

This report identifies a range of problems arising from the rigid system of monthly assessment in universal credit (UC) that is used to determine awards. It is based on cases from CPAG's Early Warning System, some of which we have included as examples in boxes throughout this report. Of more than 400 universal credit cases submitted to the Early Warning System since 2017, around one in twenty includes a problem related to assessment periods. These problems should surprise nobody, having been raised in parliament as far back as 2012 when universal credit was still in the design stage. We hope that now powerful evidence is emerging of their impacts, more attention will be given to fixing them if the system is to be ready for managed migration to begin and manageable for all claimants, particularly for families with children.

Monthly assessment periods are central to the design of UC. Assessment periods run for a calendar month, starting from the date on which UC was awarded (so they are different for each claimant). Each month, claimants' circumstances and income are assessed to determine their entitlement to UC, with payment made a week later in arrears. Circumstances are assessed using a 'whole-month' approach, meaning that whatever circumstances apply on the last day of the assessment period count when it comes to calculating awards, regardless of whether those circumstances have changed during the preceding month. This applies to overall eligibility for UC, as well as housing costs and the presence of any children. These circumstances determine the maximum award of UC which may be paid.

Income is then assessed to determine whether the maximum award needs to be 'tapered'. If claimants have earnings, UC is reduced by 63% for each pound of earnings above any 'work allowance'. Claimants who have children or limited capability for work due to illness or disability have a 'work allowance' of £198 per month (or £409 per month if they are not claiming help with housing costs) which can be kept in full, before the 63% 'taper' is applied. For employees, earnings are counted against an assessment period if they are reported to HMRC as being paid during the period, regardless of the period of work they relate to.

Claimants whose circumstances change near the end of an assessment period, for example becoming a student, moving to a cheaper property or seeing their children move out, can lose out on significant amounts of money as their circumstances and needs earlier in the month are ignored. Many working claimants are seeing their UC awards rise and fall month by month purely because of when their paydays and assessment periods fall, making budgeting extremely difficult, while others lose hundreds of pounds a year because of the knock-on effects of these mismatches on work allowances, the benefit cap, passported benefits and discretionary housing payments. This includes those who are not paid monthly, so receive more pay in some assessment periods than others, as well as monthly-paid employees who receive two monthly pay packets in some assessment periods (for example if paid early due to a bank holiday) and none in others. People who receive back pay from a previous job can lose out unexpectedly too.

Meanwhile the whole-month approach to assessment of circumstances can leave families who move house, whose child moves out of the home, or who become students, with arbitrary financial shortfalls, purely because of the date when these events occurred. This is a serious shortcoming in a system which is supposed to be personalised and responsive to actual need.

Instead of stability and predictability, these effects can mean that claimants' monthly UC awards vary arbitrarily with respect to needs and income. Not only this, but this happens in ways which are difficult for people to understand and predict, wreaking havoc with their ability to budget. Claimants with identical circumstances and jobs can also end up receiving very different amounts of UC simply because of when they get paid or when their circumstances change. We recognise that it is difficult for any benefits system to deal perfectly with the complexity and variety of people's lives and that means testing is always an imperfect art. However the legacy benefit system offers considerable benefits over UC in this regard.

Tax credits are awarded based on annual estimates of income, which means that payments are stable and predictable over the year, with the risk that adjustments may be needed at the end of the year. Claimants wishing to avoid this, have the option to report changes in earnings when these occur and to have their award adjusted mid-year if they prefer. UC provides no such choice, insisting on monthly assessment and leaving claimants to absorb any arbitrary over- or under-payments which result from this.

While UC's 'whole month' approach to the assessment of circumstances creates underpayments (and overpayments) by design, the legacy system matches payments to needs more precisely. If a child leaves home, child tax credit entitlement stops from the date they leave – not before. If a family moves from a higher to a lower rent home, housing benefit awards are reduced from the Monday after the week in which the change occurred. Furthermore the legacy system with its range of benefits paid on different cycles makes it easier for claimants to budget.

This report sets out a number of problems we have identified with assessment of (i) income and (ii) circumstances, and proposes practical solutions to address them. The problems we have identified undermine some of the key selling points of UC, namely that it was supposed to be simple, adjust to people's earnings in real time, and reward work or increased earnings in ways which are easy to understand. In reality the current monthly assessment system is a huge oversimplification which does not reflect the reality of people's lives and work. It may be simpler for the department to administer than some of the solutions we have suggested, but this does not mean that the result is simplicity for claimants. Rather, they are left to cope with – and financially absorb - the unpredictable results of a system which is currently ill-equipped to support them.

## Rough justice

### Problems with monthly assessment of pay and circumstances in universal credit, and what can be done about them

Since April 2017, CPAG has been collecting case examples from the frontline of universal credit (UC) through our Early Warning System. We analyse these cases to identify problems, and propose pragmatic solutions. Almost 5 per cent – one in twenty – of the 400+ UC cases submitted to our Early Warning System include a problem with the system of monthly assessment periods. The case studies given throughout this report are all real life stories.<sup>1</sup>

We suggest a range of possible remedies throughout this briefing, wherever possible based on adaptations to existing rules and procedures. We recognise that some of these proposals will be more straightforward to apply than others and hope that immediate steps can be taken to alleviate the problems, while longer-term solutions are considered. Substantial progress needs to be made on the issues raised in this report before the UC system can be deemed ready to take on more complex family cases or for managed migration to begin next year.

## 1. How assessment periods work

Monthly assessment periods are central to the design of UC. Assessment periods run for a calendar month, starting from the date on which UC was awarded (so they are different for each claimant). Each month, claimants' circumstances and income are assessed to determine their entitlement to UC, with payment made a week later in arrears. This system is intended to mirror the world of work, although in reality many people in work are not paid monthly in arrears, with one study showing that more than half of people moving on to UC from work were in fact coming from jobs where they were paid weekly or fortnightly.<sup>2</sup>

Each month, claimants' entitlement to UC is calculated based on their income and circumstances. First their circumstances are assessed to determine their maximum possible award: whether they are single or in a couple, the number of dependent children in the household, their housing costs, childcare costs and any disabilities, health conditions or caring responsibilities resulting in additional elements. If someone's circumstances change at some point during the month, it is their circumstances on the last day of the assessment period which are used to calculate entitlement. Income is then assessed to determine whether the maximum award needs to be 'tapered'. If claimants have earnings, UC is reduced by 63% for each pound of earnings above any 'work allowance'. Claimants who have children or limited capability for work due to illness or disability have a 'work allowance' of £198 per month (or £409 per month if they are not claiming help with housing costs) which can be kept in full, before the 63% 'taper' is applied.

Income is assessed each month on a strictly cash in/out basis, so any pay received during the assessment period affects that month's award regardless of when the work it relates to took place. This includes back pay, holiday pay and advances from employers. Employees usually have their earnings assessed using HMRC's real-time

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<sup>1</sup> Some details have been changed to protect people's identities.

<sup>2</sup> Brewer, M., Finch, D. and Tomlinson, D. (2017) *Universal Remedy: Ensuring Universal Credit is fit for purpose*. Resolution Foundation, London. [www.resolutionfoundation.org/publications/universal-remedy-ensuring-universal-credit-is-fit-for-purpose/](http://www.resolutionfoundation.org/publications/universal-remedy-ensuring-universal-credit-is-fit-for-purpose/)

information system, reported directly to the Department for Work and Pensions (DWP), and income is recorded as received on the date on which it is reported through this system regardless of the period to which it relates.

Self-employed workers are responsible for reporting their own income and outgoings each month, and self-employed earnings are treated on a strictly cash in/cash out basis each month. There is no provision for averaging variable incomes and costs, or for carrying forward losses (unlike the tax system, which allows losses to be carried forward in recognition of the fact that self-employed people may incur occasional large costs at certain times for such items as new equipment or insurance, and may have variable earnings through the year). Self-employed workers who have had their business for more than a year are also subject to the 'minimum income floor', which treats them as having earned the equivalent of the minimum wage each month, even if they have not done so.

## 2. Problems arising from the monthly assessment of income

### 2.1 Mirroring the world of work?

UC is based on a system of monthly assessment periods and monthly payments (combining money for adults, children, housing, disability and childcare costs, adjusted to respond to earnings each month). This approach arises from a desire for the system to mirror the world of work, in order to 'ensure that there is a smooth transition'<sup>3</sup> for claimants who move into (or out of) work, and encourage claimants to 'take responsibility for their own financial affairs'.<sup>4</sup>

First, some of those on UC will not be returning to work because they are too ill or disabled to do so. However, in addition the idea that people needing to claim UC are ill-prepared for employment because they are currently not budgeting on a monthly basis, or accustomed to receiving separate payments for adults, children and housing, does not seem to have any basis in reality. The world of work as experienced by many low-paid people bears little relation to the system of monthly assessment and payment.

The design of UC appears to be based on a model of employment that was never universal, and is becoming increasingly less common today. In addition, it does not seem to be consistent with the government's wish for claimants to be more flexible in their job search and to consider all kinds of employment opportunities.<sup>5</sup> This mismatch can lead to all sorts of problems when the system comes up against the reality of claimants' working patterns, as explored in this report. For claimants in work, the simple idea that they will have one pay packet each

<sup>3</sup> Oral evidence given by Neil Couling (Director, Universal Credit Programme, Department for Work and Pensions) to the House of Commons Work and Pensions Committee on 18 October 2017, Question 76.

<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/universal-credit-rollout/oral/71618.pdf>

<sup>4</sup> DWP (2018) *Personal Budgeting Support and Alternative Payment Arrangements*. Universal Credit Guidance, page 3.

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/724449/personal-budgeting-support-and-alternative-payment-arrangements-110718.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/724449/personal-budgeting-support-and-alternative-payment-arrangements-110718.pdf)

<sup>5</sup> Speech by Esther McVey to Reform on 19 July: 'We are already seeing seismic shifts, as we enter what is known as the fourth industrial revolution. The gig economy matches people and tasks more dynamically than ever before – creating new opportunity. Flexible working is no longer an exception, and we are seeing an increasingly inclusive workforce, where work fits around personal circumstances and caring responsibilities. Gone is the job for life. And our welfare system should reflect that. It should be nimble and adaptive – reflecting changing working patterns in this fast-paced moving world.' <https://www.gov.uk/government/speeches/the-way-forward-personalisation-and-digitalisation-of-benefits-and-support>

month, and that UC will adjust automatically should wages go up or down – ensuring a smooth income overall, and allowing people to easily calculate the effect of taking on extra work – is often far from the truth.

First, while around three-quarters of the UK workforce is paid monthly, this is not the case for lower-paid employees who are more likely to claim UC. The Resolution Foundation found that of employees who lost their jobs and moved on to UC in 2016/17, 58% came from a job in which they were paid either weekly or fortnightly.<sup>6</sup> For these people, a monthly UC payment which adjusts to monthly earnings makes little sense, as they inevitably have some months with more paydays in than others, leading to variability in their UC income when there has been no change in their earnings.

Everybody has twelve monthly UC assessment periods per year, but:

- Someone paid weekly will have eight periods each year in which they receive four pay packets, and four in which they receive five.
- Someone paid fortnightly will have ten periods in which they receive two pay packets, and two in which they receive three.
- Someone paid four-weekly will have eleven periods in which they receive one pay packet, and one in which they receive two (when UC will record double the usual 'monthly' earnings).

Second, for people who are self-employed or on variable or zero-hours contracts, monthly incomes from work can be highly variable, and may be negative in some months for the self-employed. Tax rates for all workers are based on annual earnings and adjusted at the end of the year if the wrong rate has been applied, while self-employed people can carry forward losses to be offset against future gains, in recognition of the reality of their earnings pattern. In UC, self-employed earners can carry forward losses for eleven months (far less than in the tax system), but there is no such provision for employees with uneven earnings

Third, the majority of couple families today have two earners, meaning that each partner receives an income in their own name. These payments may be received on different days of the month or on different payment schedules, further complicating the picture of how much pay UC records as received in each monthly assessment period. Over 75% of mothers of dependent children living in couples are in work.<sup>7</sup>

Fourth, even for people on monthly pay it is not the case that payments are necessarily made on the same date every month. Some are paid on the last working day of the month or the last Friday of the month. Some are paid early at Christmas and most are paid early when the regular payday falls on a weekend or bank holiday. If, due to an unfortunate collision of paydays and UC assessment period dates, this means being paid twice in some assessment periods and not at all in others, UC awards will jump up or down in value when underlying earnings patterns have not changed (Figure 1), and claimants can experience real financial losses.

Claimants whose assessment period start date and payday are both close to the end of the month are particularly likely to miss out, as many bank holidays are in the last days of the month (the second May bank holiday, August bank holiday, Christmas and Boxing Day).

<sup>6</sup> Brewer, M., Finch, D. and Tomlinson, D. (2017) *Universal Remedy: Ensuring Universal Credit is fit for purpose*. Resolution Foundation, London. [www.resolutionfoundation.org/publications/universal-remedy-ensuring-universal-credit-is-fit-for-purpose/](http://www.resolutionfoundation.org/publications/universal-remedy-ensuring-universal-credit-is-fit-for-purpose/)

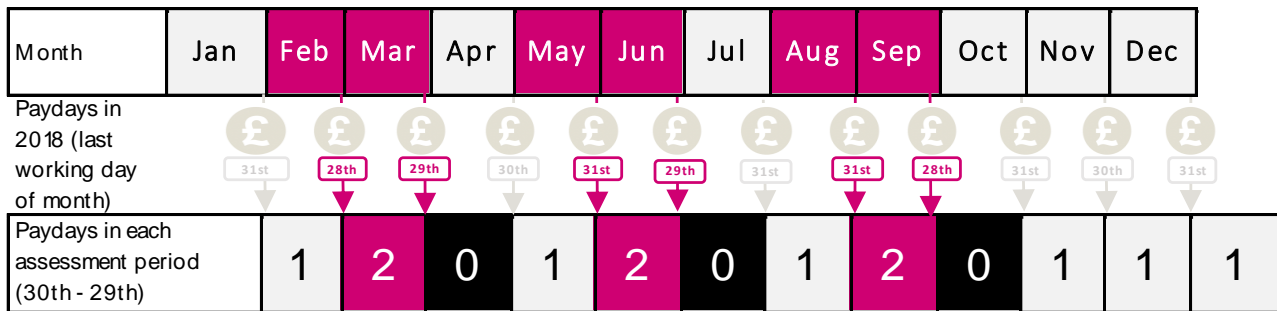
<sup>7</sup> Office for National Statistics, *Families and the labour market, England, LFS and APS datasets, Table 8*. September 2017. Downloaded from <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/familiesandthelabourmarketenglandlfsandapsdatasets>



A worker paid on the last working day of each month in 2018, with assessment periods dated from the 30th of one month to the 29th of the next month (see Figure 1), will have:

- 6 assessment periods with one payday;
- 3 assessment periods with two paydays; and
- 3 assessment periods with no paydays.

**Figure 1.** A person paid monthly may receive one, two or no paydays in an assessment period



It is clear that for many of the people claiming UC while working – which will be the majority of claimants once the roll-out is complete – the mismatch between the two will create significant confusion, budgeting difficulties and financial losses. We are already seeing many such cases through our Early Warning System, and call for these to be addressed as a matter of urgency before UC rolls out to millions more families in work through ongoing natural migration and, from next year, the managed migration process.

## 2.2 The consequences of monthly assessment of income

### 2.2.1 Budgeting difficulties

The situations described above can make budgeting very difficult, as people find themselves with hugely variable UC awards even when their underlying earnings have not changed – they simply appear higher in some months than others due to the design of the UC system. Many people report that they had no idea this would happen, and that greater awareness would at least have enabled them to prepare as best they could. The general information online about payment frequencies and assessment periods is either not reaching people when they need it – perhaps because people do not think to look it up until they are hit by an unexpectedly low UC award – or not detailed enough to enable them to work out how the rules will affect their particular claim. But for some the variability is difficult to predict.

This is particularly true for couples in which both partners work on different pay cycles, as in the case of Katie and her family. Their UC payments range from zero to almost £1200 per month, making budgeting almost impossible. They had no warning from their work coach that this would happen, which would have allowed them to try to plan for it, and have been left confused and struggling to pay bills on time. For families such as this one, the promise of simplicity and stability from UC looks very hollow indeed.

### Case study 1: Katie and Luke

Katie and Luke have two children aged 12 and one. Luke works full-time in a warehouse, taking home between £285 and £300 per week (paid weekly). Katie works 16 hours per week in a shop (despite not being required to work given the age of her youngest child) and is paid £512 every four weeks.

Since they claimed UC in December 2017, neither their circumstances nor their pay have changed. Luke's wages vary slightly each week, which should only result in small changes to their UC entitlement. However, due to the interaction of pay cycles and assessment periods, they have received vastly varying UC payments:

December	£624
January	£466
February	£1,185
April	£392
May	£0
April	£598

The couple have found this almost impossible to manage and have ended up in arrears for rent and council tax for the first time in their lives, as well as having to borrow money from relatives and being unable to pay the car insurance which is necessary for Luke to get to work. Both members of the couple have experienced depression.

The effects on the family have been serious, as Katie explained: *'No one ever told us this was a possibility. If we had been forewarned, we would have tried our best to plan for it. I wouldn't be in rent arrears, council tax arrears... my 12 year old daughter might have been able to go on her school French trip, but no she's had to miss out.... I have even felt suicidal at times... We don't know if we're coming or going from month to month! It makes budgeting so, so difficult because you just do not know what you'll get'.*

### 2.2.2 Benefit cap applied inappropriately

The benefit cap limits the total amount which can be paid in benefits to families where no one works or with very low earnings (with some exceptions). In the UC system, anyone earning less than £520 per month will see their total award capped at a maximum of £1,667 per month (£1,917 in London) for couples or people with children, or a lower amount for single people without children. The £520 earnings threshold is equivalent to 16 hours per week at the 'National Living Wage' (the minimum hourly wage for people aged 25 or above).

We do not believe that it was the intention of policymakers to apply the benefit cap to people who earn more than £520 per month but who do not always *appear* to have these earnings for the purposes of the UC system, purely because of when their paydays and assessment period dates fall. However, we have seen several cases in which this is happening. The pattern of people's wage payments can create a distorted picture and misrepresent – for the purposes of UC – the reality that they are working and earning more than the monthly threshold above which the benefit cap should not apply. This can lead to serious financial losses, and runs completely against the stated purpose of the benefit cap to incentivise work.

Some claimants who are paid monthly, but sometimes paid twice in one assessment period and none in the next, are being benefit capped because they appear to have no earnings in months when they have no paydays. This compounds the difficulties caused by a very low UC payment in the preceding months when they are paid twice;

rather than their award rising in the following month to compensate, it is reduced by the benefit cap. See the cases of Nancy and Petra below.

### Case study 2. Nancy

Nancy is paid on the last working day of the month. Her UC assessment period runs from 30th of one month to the 29th of the next month.

Nancy was paid twice in her December assessment period, and as a result received only £64 in UC at the start of January. She only found out about this shortfall a few days before her January UC was paid, making budgeting for January much harder than normal. The DWP advised her that this was “the nature of the beast” and there was nothing she could do.

Nancy planned to stop her UC award and make a new claim but then discovered that UC rules mean that unless she waits six months before reclaiming, she would be given the same assessment period and so the problem would remain.

Nancy’s request for a hardship payment to help her get through January was refused because hardship payments are only available to people who have been sanctioned, not whose UC is reduced for other reasons.

Nancy was not paid any wages at all during the following assessment period, as her pay days fell just outside the dates of the assessment period. Her UC was then capped for that month because the ‘earnings exemption’, which means that the benefit cap does not apply if you earn over £520 during an assessment period, did not apply.

This pattern – paid twice in one assessment period, and then not at all during the subsequent assessment period – is set to continue, and modelling shows that, during the 18 months from January 2018 onwards, Nancy’s UC entitlement will be based on a single wage packet on only six occasions. There is nothing she can do to avoid this under current UC rules.

### Case study 3. Petra

Petra is a single parent living in Manchester, with twins aged 18 months and another child aged ten. She works 25 hours per week even though UC does not require the carer of a child under three to look for work.

However, her wage payments are sometimes early due to a weekend, which means that in some assessment periods she has two wage payments, whilst she has none in others. This led to her being benefit capped about three times in a year.

Petra asked her employer to change her pay dates, but they are a fairly large employer and were not able to change their practices just for her.

Other working claimants are benefit capped because they are paid otherwise than on a monthly basis and do not always have earnings above the capping threshold in their assessment periods, even though if paid monthly their earnings would exceed the threshold and they would not be benefit capped.

Claimants paid four-weekly rather than monthly can expect to be paid one pay packet in eleven assessment periods per year, and twice in one assessment period (as they receive thirteen pay packets overall each year). This means that if they earn just over the benefit cap threshold on a monthly basis, for example if they work sixteen hours per week at the 'National Living Wage' or slightly more, they will be paid slightly under the threshold in eleven months each year, but well above the threshold in the one month they are paid twice. *This can result in them being benefit capped in eleven months out of twelve, while someone with identical earnings but paid monthly would never be benefit capped.* This is the situation of Sarah, described below.

#### Case study 4. Sarah

Sarah lives in Sussex with her children, and works 17 hours per week. She is paid £510 every four weeks. The monthly equivalent would be £552.50 – enough to mean that she would not be benefit capped if she were paid monthly. However, as she receives less than this in almost all assessment periods, except the one in twelve where she is paid twice (receiving £1,020), she is benefit capped almost every month.

We have even heard of colleagues working in the same shop, in the same role and with the same hours and pay (16 hours per week at close to the 'National Living Wage'), some of whom are regularly benefit capped while others are not, solely because some are paid monthly and some four-weekly (depending on when their contract started). Those who are paid four-weekly are subject to the benefit cap almost every month, while their colleagues who are paid monthly are not.

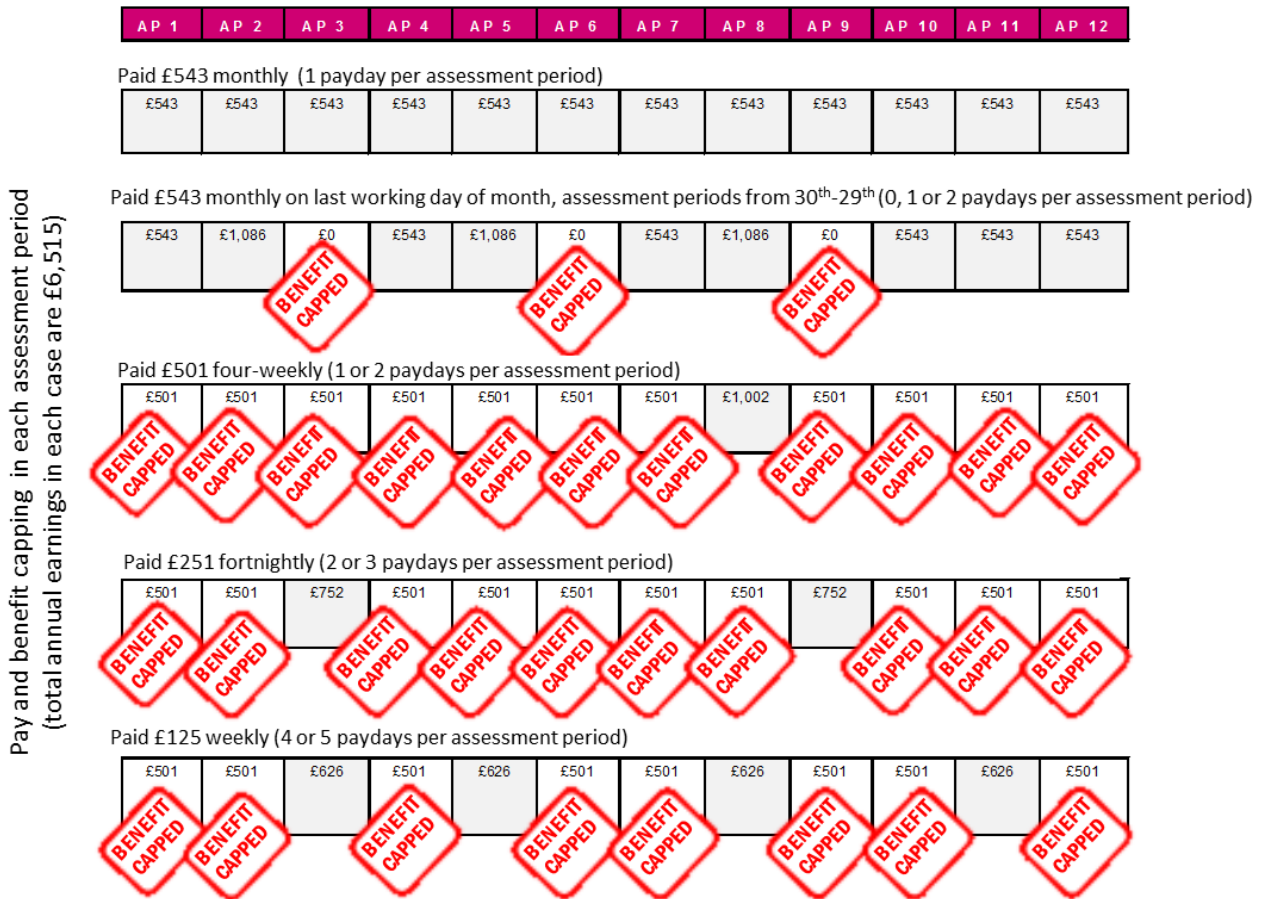
A similar problem can arise for anyone working 16 hours per week on the 'National Living Wage' (or with the equivalent earnings) who is not paid monthly. People paid fortnightly would appear to have earnings below the benefit cap threshold for the ten months of the year in which they are paid twice rather than three times, and people paid weekly would fall below the threshold in the eight months each year in which they are paid four times rather than five. These situations are compared in Figure 2 (p.12).

Of households affected by the benefit cap to date under UC, the majority have lost up to £50 a week from the cap (up to £217 a month). Around 1 in 4 lost £51-100 a week (up to £433 a month), and almost 1 in 10 lost £101-150 a week (up to £650 a month).<sup>8</sup>

The DWP has indicated that it is looking into how this problem can be resolved. Below we propose a solution using existing arrangements for averaging earnings (p.17).

<sup>8</sup> Department for Work and Pensions statistics: *Benefit cap: number of households capped to February 2018, Table 1*. Downloaded from <https://www.gov.uk/government/statistics/benefit-cap-number-of-households-capped-to-february-2018>

**Figure 2:** People working 16 hours per week on the National Living Wage – the level at which the benefit cap should not apply – nonetheless face being benefit capped in up to 11 months each year, depending on their pay frequency and assessment period dates.



### 2.2.3 Loss of passported help with health costs

As noted above, some people find themselves benefit capped in assessment periods where they have no reported payday or earnings which are too low. Conversely, people who receive passported support with health costs, on the basis that their earnings fall below a threshold, may find themselves eligible in some months but not others. UC claimants are exempted from various health charges such as prescription charges, sight tests, wigs, fabric supports and glasses, and receive help with travel to NHS treatment, if their earnings are below £435 (£935 if they are long-term sick or disabled or a parent) in the assessment period in which the cost was incurred.

Claimants who would be entitled to help if their earnings were averaged over the year may find that in some assessment periods they are counted by UC as having earned too much to qualify. This would not only make budgeting difficult but would risk encouraging people to delay seeking treatment or collecting prescriptions until an assessment period when their earnings are below the threshold, potentially endangering their health. In contrast, for people claiming tax credits, the earnings limit for accessing passported benefits is an annual figure, meaning that if they are paid early, or paid more frequently than monthly, their entitlement is not affected.

Arrangements for other passported benefits have been designed to prevent this problem. Once a family qualifies for free child care for a two-year-old, this cannot be lost even if earnings rise. And a family applying for free school meals can have up to three assessment periods taken into account, to avoid the risk that they miss out due to claiming after a period with unusually high earnings.

#### 2.2.4 Loss of work allowances

CPAG has encountered several cases of people on monthly pay who have a payday which is on or close to the first day of their assessment period. If they are paid a day or two early in some months, because their normal payday would fall on a weekend or bank holiday, they are then recorded as having had two paydays in one assessment period and none in the one after. For claimants with children or with disabilities, being paid twice in a month means losing the effect of one month's work allowance every time this happens – a monthly loss of £125 or £258 each time (Box 1). These losses mount up to a substantial amount for claimants for whom this happens several times each year.

The claimant in Figure 1, with a payday on the last working day of the month and an assessment period running from the 30th of one month to the 29th of the next month, would lose £375 this year if claiming housing costs, or £774 if not claiming housing costs, compared with someone with identical earnings and circumstances but with slightly different assessment period dates.

##### Box 1. Loss of a work allowance when paid early

The first £198 of pay received during an assessment period is protected as a 'work allowance' for claimants with children or limited capability for work (£409 if the claimant is not receiving help with housing costs). For any earnings above this level, UC is withdrawn at the rate of 63p in the pound.

Only one work allowance is permitted per assessment period, regardless of the number of paydays falling into that period. This means that if two monthly pay packets are received in the same assessment period, the claimants only benefit from one work allowance across both pay packets instead of two.

So, for claimants with housing costs, £198 of a claimant's pay in the assessment period in which they are paid twice will be subject to the taper, *which would not have been tapered if paid in the next assessment period*. They therefore lose 63% of £198, i.e. **£125**.

For claimants not claiming housing costs, the loss would be **£258** in every month in which this happens (63% of the higher work allowance of £409).

For people with no work allowance, there will be no overall financial loss, as UC lost in one month will be made up in the second month, unless earnings in the month with two paydays are high enough to mean that they have nil entitlement that month.

However, they will still face an unexpectedly variable award of UC, making budgeting difficult and potentially causing hardship when payments are lower than expected. Even if their next month's payment is higher, compensating for the difference, they may have gone without or struggled to pay rent and bills in the meantime.

**Case study 5. Suma**

NHS worker Suma is paid on 28th of the month, unless that date falls on a weekend or a bank holiday, in which case her monthly wages are paid on the previous working day. In August last year, Suma was paid three days early, on August 25th, as her normal payday fell on the bank holiday Monday.

As her assessment period runs from the 27th of one month to the 26th of the next month, she was assessed as being paid twice in one assessment period (July 28th and August 25th). She was not paid at all in the following assessment period (as her next payday was September 28th). This happened again in January 2018 (when she was paid early on 26th January) and May 2018 (when she was paid on 25th May).

Across 2018 Suma will be paid her wages on 12 occasions but, because a work allowance can only be applied in each assessment period when the claimant is paid wages, she will only benefit from ten work allowances. She therefore loses £250 this year compared to someone with different assessment period dates.

**Case study 6. Jenny**

Jenny has worked for a local authority as an administrator since July 2017. She is paid on 15th of each month, unless that date falls on a weekend or bank holiday. Her UC assessment period runs from the 15th of one month to the 14th of the next month.

Jenny is a lone parent with a school-aged daughter, so she is entitled to a work allowance. Before she started work for the council she was a full-time carer for her daughter and she still has considerable caring responsibilities.

Jenny missed the first payday at the council as she was new in her job, so she was paid six weeks' wages on 15th September. This effectively wiped out her UC entitlement for that month

Since then, she has been paid twice in an assessment period, and not at all in the subsequent assessment period, on two occasions. According to her calculations, this is due to happen twice more this year.

Jenny says, 'I spoke to the enquiry line but they didn't know about work allowances. I asked if they would move my assessment period and the officer said he would ask the special payments team. He suggested I speak to a benefits adviser.'

'I was on carers allowance and so I'm good with money, but I have lost a lot because of the work allowance.'

See also the case of Nancy (p. 10), who had no access to a hardship payment despite struggling to cope with an unexpectedly low UC award and the loss of a work allowance, and who was subsequently benefit capped the following month.

Many claimants in this position ask whether they can change their assessment period dates, but this is not currently possible. Even if they close their claim and make a new claim, the previous assessment period dates apply unless six months or more have elapsed.



It is reported to us that DWP staff usually advise claimants in these circumstances to ask their employer to change their payday, because there is nothing else that they can offer claimants within the rules. However many employers are not willing or able to do this. A large employer might have many employees claiming UC, all with different assessment periods, and cannot reasonably be expected to personally adjust each employee's payday accordingly.

### 2.2.5 Loss of discretionary housing payments

Discretionary housing payments (DHPs) are available from local authorities to assist people struggling financially to meet their housing costs. This includes families affected by the bedroom tax (who may be unable to find a home with fewer bedrooms) or by the benefit cap, as well as those who face a rent shortfall because local housing allowances have not risen with rents in many areas, or because they are in expensive temporary accommodation following homelessness.

DHPs are only available to people receiving housing benefit or the housing element of UC. This means that if someone paid monthly receives two pay checks in one assessment period due to the mismatch of dates described above, and as a result is not eligible for any UC for that assessment period, they may lose not only their UC but also a discretionary housing payment. This can be worth hundreds of pounds and its loss can leave families in rent arrears, as the case of Peter and Karen shows.

#### Case study 7. Peter and Karen

Peter and Karen have one child. Karen is looking for work, and Peter earns just under £1600 every month. The family only claimed UC when they were made homeless when their landlord gave them notice. They were placed in expensive temporary accommodation, where they pay rent of £890 each month. Karen had been working as a support worker, but had to give this up when her hours and shifts were changed significantly.

Karen and Peter's assessment period runs from the 27th of one month to the 26th of the next month. Peter's payday is the last Friday of every month, which can be anything from 22nd to 31st. This means that occasionally he receives two wages in one assessment period, and none in the next. For example, he was paid on April 27th and May 25th 2018 (twice in one assessment period, 27th April – 26th May), but was not paid at all in the following assessment period (27th May – 26th June).

In normal months, the family receives just over £400 from UC to help with their housing costs. This in turn allows them to claim a discretionary housing payment (DHP) of £390 from their local authority. However, when Peter is paid twice in one assessment period, they receive no UC at all. Although their UC will rise somewhat the following month, the family loses £125 across the two assessment periods affected, due to the loss of a work allowance.

But there are other knock-on consequences too. Discretionary housing payments are only payable when people receive the housing element of UC (or housing benefit), so they also lost their £390 DHP. In total, this left the family £515 worse off. As a result, they accrued rent arrears for the first time in their lives.

*In April 2018, new rules came into force meaning that housing costs for temporary accommodation are now paid through housing benefit rather than UC for new claims. However, as Karen and Peter were already claiming help with the costs of temporary accommodation from UC at this point, they continued to do so in the months which followed.*



### 2.2.6 UC reduced by back pay and tax rebates

If people claiming UC receive a lump sum of back pay or holiday pay, or a tax rebate for a previous year's work, this is treated as income for the assessment period in which the payment is made even if it relates to a period before they ever claimed UC. This means that UC is withdrawn at the rate of 63p in the pound against this income.

People who have previously overpaid tax, or who are owed pay from a time when they were not claiming UC, would have kept the money in full had they been taxed correctly or paid on time by their employer. It seems unjust that because the money is received only after they have claimed UC, almost certainly for reasons beyond their control, they instead lose almost two-thirds of this money. Further, many people who are expecting such a payment will have budgeted accordingly, not realising until they receive a greatly reduced UC payment that this income has been treated as current pay.

In one case raised through our Early Warning System, a recent widow had her UC reduced dramatically shortly after her husband's death, when his employer made a final payment of holiday pay related to a period in the past.

People who have lost their job and immediately make a UC claim may well receive some final pay or holiday pay during their first assessment period, which can greatly reduce their first UC award. They then have to wait a further month for a second payment. If the first award is reduced to nothing, this means a nine-week wait before they receive any UC at all. See the cases of Kelly and Joe, below.

Some families will have committed to outgoings in expectation of receiving both their back pay *and* UC, for example having used a benefits calculator to estimate UC entitlement based on being out of work, assuming that UC would be based on their current earnings, not those related to a job they no longer have.

Although the removal of waiting days when someone first claims UC is a positive step overall, meaning people receive a UC payment after five weeks rather than six, it may in fact increase the risk that people receive their final payment from a job during their first assessment period, if they claim UC straight after a job ends.

For some people, the resulting loss of UC may be greater than the loss from a longer waiting period would have been. There is a risk that this problem will lead to claimants either delaying claims or withdrawing them when they are paid and re-claiming later, leading to an increased administrative burden on UC staff and leaving people without access to the support they may need to find another job.

#### Case studies 8 and 9. Kelly and Joe

Kelly had been working for an agency, but claimed UC in late March when she lost her job. In her first assessment period, she lost all her entitlement to UC because her agency paid her holiday pay of nearly £300 earned between February and mid-March 2017, in a single lump sum paid on the last day of March.

Joe is a care worker, who lost his job and claimed UC. After claiming, he realised that his former employer had forgotten to pay him holiday pay. When the arrears were paid, his entitlement to UC was cut to nothing for the first assessment period of his UC claim.

Both Kelly and Joe had to wait more than two months to receive a first payment of UC, and both turned to foodbanks to get by.

### Case study 10. Amina

Amina saw her UC drastically reduced in the month after her husband died, because she was paid his final holiday pay by his former employer in this assessment period. The time when he earned the holiday pay had long passed, but it was paid in a lump sum following his death.

## 2.3 Recommended solutions to problems with the monthly assessment of income

The problems above all stem from the strict monthly assessment period system within UC, which does not necessarily align with the reality of working lives and pay schedules. This can leave people at best confused and struggling to budget, and at worst hundreds of pounds worse off. UC is supposed to support people in work and reward work financially. Action to fix these problems is urgent.

It is our view that a fundamental rethink of the strict system of monthly assessment of earnings would be sensible. For some claimants, weekly assessment would be more suitable, while for others (e.g. the self-employed with lumpy earnings and costs across a year), longer assessment periods might be more suitable. The current system is not fit either for people on non-monthly pay cycles or for those self-employed people whose costs and earnings are not evenly spread throughout the year, such as farmers.

However, we recognise that the system of monthly assessment was central to the design of UC and could not be changed overnight. With that in mind, we suggest a number of measures below which would resolve the issues we have identified within the current system of monthly assessment, in many cases using existing procedures and rules.

### 2.3.1 Use averaged earnings for benefit cap decisions and for those on non-monthly pay cycles

UC rules currently allow earnings to be averaged in order to determine whether claimants are earning enough to exceed the threshold for in-work conditionality. Claimants earning below a certain level may be required to look for more work in order to receive UC and face sanctions if they do not continue to seek additional work; this 'in-work conditionality' is typically only applied to people whose earnings fall below the equivalent of their expected hours of work – up to 35 hours per week, or less if they have caring responsibilities or health needs – at the minimum applicable wage level.

In order to determine whether their earnings meet the threshold, there is provision for averaging in order to take account of irregular earnings patterns and avoid penalising claimants whose income fluctuates but – on average – exceeds the threshold on a weekly basis (see Box 2).

An identical system could be used to determine whether people's earnings exceed the benefit cap threshold. It could also be applied more widely for people on non-monthly pay cycles, or with partners on different pay cycles, to ensure a consistent monthly award of UC and year-round stability.

We understand that averaging currently has to be done manually, and we recognise that the process involves an element of judgement as to which pay cycle to use. However, for claimants with regular, but non-monthly, pay

cycles, this judgement is straightforward and only has to be made once. We recommend that this be a priority for automation, as the difficulties created for claimants on non-monthly pay cycles are severe and likely to affect large numbers.

We also recommend that the system be applied manually for the purposes of applying the benefit cap with immediate effect, due to the serious financial losses for affected claimants, unless the department has a better alternative solution to prevent unfair benefit capping.

### Box 2. Averaging of earnings under universal credit

The Universal Credit Regulations 2013 provide for claimants' work-related requirements (whether they have to continue to seek additional work) to be determined on the basis of average weekly earnings. The following extract from the regulations describes how weekly earnings are calculated [emphasis added]:

“(6) A person's weekly earnings are the person's earned income taken *as a weekly average* by reference to—  
 (a) the amount of that earned income calculated or estimated in relation to the current assessment period before any deduction for income tax, national insurance contributions or relievable pension contributions; or  
 (b) in a case where the person's earned income fluctuates (or is likely to fluctuate) the amount of that income—  
 (i) where there is an identifiable cycle, over the duration of one such cycle, or  
 (ii) where there is no identifiable cycle, over three months or such other period as may, in the particular case, enable the weekly average to be determined more accurately.”

See Universal Credit Regulations 2013 (90) at <http://www.legislation.gov.uk/uksi/2013/376/regulation/90>

The UC 'surplus earnings' rules already show that in some circumstances the Department for Work and Pensions believes it is appropriate to take into account wages from previous assessment periods when calculating UC awards. Under these rules, claimants who have earned too much to receive UC for a period of months will see any 'surplus' (currently with a grace amount of £2,500, due to fall to £300) taken off future UC awards. Self-employed claimants are also able to carry forward losses for up to 11 months. These rules, along with existing averaging provisions described above, show that the Department for Work and Pensions is already willing and able to move away from strict monthly assessment of earnings in some circumstances.

### 2.3.2 Use regular monthly pay, where applicable, to determine awards

For claimants who have regular earnings of the same amount each month, demonstrated through an employment contract or a consistent earnings history, the problem of monthly-paid claimants having two payday in some assessment periods, and none in others, could be eliminated by using their regular pay amount to determine UC awards in each assessment period instead of real-time information on pay.

It is our understanding that this would also require IT changes; but this ought to be a high priority, given the financial losses which these claimants are incurring due to the loss of work allowances, as well as the risk of inappropriate benefit capping, loss of DHPs and loss of passported benefits.

### 2.3.3 Permit monthly-paid claimants to change their assessment period dates

Allowing claimants to change their assessment period so that the start date is not close to their payday would eliminate the problems for those on monthly pay. UC regulations already provide for short assessment periods of less than a month to be used for the purposes of backdating (to ‘bolt on’ a mini-assessment period to the start of someone’s claim for whatever duration of backdating has been granted).<sup>9</sup> This procedure could easily be adapted to allow claimants to insert a mini-assessment period of two weeks (or similar period) into their claim once their claim has started, effectively allowing them to shift their assessment period dates by half a month. To limit the administrative burden this could create, changes could be limited to one per year.

### 2.3.4 Allow earnings to be averaged over three months to determine entitlement to passported benefits

Regulations governing entitlement to free school meals allow for income to be assessed over a period of up to three months to determine whether a family exceeds the earnings limit to qualify for free school meals (see Box 3). This avoids the risk of children moving in and out of entitlement on a monthly basis, and ensures that a child is not denied free school meals because they happen to be assessed in a month when their parents had unusually high earnings (or happened to have two paydays in one month). An identical approach could be applied to passported exemptions from health costs.

#### Box 3. Universal credit and eligibility for free school meals

The Free School Lunches and Milk, and School and Early Years Finance (Amendments Relating to Universal Credit) (England) Regulations 2018 establish an earnings limit for entitlement to free school meals of £616.17 in one assessment period, £1,233.34 over two assessment periods, or £1,850 over three assessment periods. If earnings fall below any of these thresholds, the child is entitled to free school meals.

If earned income in the assessment period immediately preceding a claim for free school meals is lower than £616.17, the child immediately qualifies for free school meals. If it is higher, then earnings from the previous assessment period are added. If earnings still exceed the higher threshold, a third assessment period is included. If earnings fall below any of these thresholds the child qualifies.

The following extract from the regulations describes this procedure:

#### “Prescribed circumstances: receipt of universal credit

2. The circumstances prescribed for the purposes of section 512ZB(4)(a)(ai) of the Education Act 1996 are that C’s parent—

- (a) is on, or after, 1st April 2018 in receipt of universal credit, and
- (b) in the relevant period has earned income not exceeding the applicable amount.

<sup>9</sup> The Universal Credit (Miscellaneous Amendments, Saving and Transitional Provision) Regulations 2018 introduce a new procedure allowing a mini-assessment period of any length to be inserted at the start of someone’s claim, to avoid having to change a claimant’s assessment periods when a backdating request is approved. Previously, the entire claim had to be recalculated on a monthly basis starting from the newly agreed start date.

3. The circumstances prescribed for the purposes of section 512ZB(4)(b)(ai) of the Education Act 1996 are that C—  
 (a) is on, or after, 1st April 2018 in receipt of universal credit, and  
 (b) in the relevant period has earned income not exceeding the applicable amount.

4. For the purposes of regulations 2 and 3—

(a) “earned income” means income for the purposes of Chapter 2 of Part 6 of the Universal Credit Regulations 2013;

(b) The relevant assessment period and the applicable amount are those referred to in the following sub-paragraphs as applicable—

(i) except where sub-paragraphs (ii) or (iii) apply, where the parent has earned income which did not exceed £616.67 in the universal credit assessment period immediately preceding the date of the request for a free school meal (period 1)—

(aa) the relevant assessment period is period 1; and

(bb) the applicable amount is £616.67; (ii) this sub-paragraph applies where sub-paragraph (i) does not because the applicable amount referred to in that sub-paragraph is exceeded and there is a universal credit assessment period (period 2) immediately preceding period 1 referred to in that sub-paragraph—

(aa) the relevant assessment period is the sum of period 1 and period 2 (SAP); and

(bb) the applicable amount is £1,233.34;

(iii) this sub-paragraph applies where sub-paragraph (ii) does not because the applicable amount referred to in that sub-paragraph is exceeded and there is a universal credit assessment period (period 3) immediately preceding period 2 referred to in that paragraph—

(aa) the relevant assessment period is the period made up of SAP and period 3; and

(bb) the applicable amount is £1,850;

(c) where C, or as the case may be C’s parent, is—

(i) a member of a couple who have jointly made a claim for, and are entitled to, universal credit; or

(ii) a member of a couple but has claimed, and is entitled to, universal credit as a single person, references to applicable amounts in sub-paragraphs (i) to (iii) of paragraph (b) as applicable are to be read as references to the combined income of the couple.

See Free School Lunches and Milk, and School and Early Years Finance (Amendments Relating to Universal Credit) (England) Regulations 2018 at <http://www.legislation.gov.uk/ukxi/2018/148/contents/made>

### 2.3.5 Disregard income from pay or tax rebates relating to a period preceding the claim

It would make UC awards fairer and more predictable for claimants if lump sum payments of back pay or tax rebates relating to a period when the claimant was not in receipt of UC were disregarded as income.

### 2.3.6 Provide more information and tools for claimants

While longer-term solutions are being developed, as a minimum there is a need for more information for claimants and more support for them to understand the implications of monthly assessment in relation to their specific working patterns. It is not enough for there to be generic guidance on the UC website – people need to be actively informed and supported to calculate their own likely awards for given months, and to plan accordingly. More detailed information, proactively shared with working claimants, and a calculator tool, might be useful for both work coaches and claimants to make these calculations, particularly for people who have more than one job or where partners have different pay cycles.

Work coaches need to be trained in these issues and required to explain to all claimants on non-monthly pay cycles how their pay frequency may affect their UC awards, and to work with claimants to calculate their awards in advance so that claimants can prepare for this situation. Work coaches also need to be aware of the risks facing claimants who are monthly paid and have assessment period dates which start on, or just before, their payday, in order to proactively explain this and help claimants to work out how often this situation is likely to arise for them. This conversation could include offering claimants the option of starting their claim a few days later to avoid the ‘clash’. However, this is not a long-term solution, as it applies only to new claimants, not those who start a job with their claim already in place, and would mean the loss of a few days of entitlement and a longer wait for payment.

It would also help if work coaches routinely asked claimants who have recently left a job whether they are expecting a final pay award which might fall during their first assessment period. Claimants might wish to respond to this by budgeting accordingly, taking out an advance, or withdrawing their claim and re-claiming after they have received any final pay.

Work coaches already carry a lot of responsibility under UC.<sup>10</sup> They are being asked to deliver a complex new benefits system, understand and correctly apply a huge amount of new law, procedure and guidance, and meet the needs of a very wide range of client groups. We do not think that requiring them to do yet more is a sustainable solution to the problems we have identified, and call for systematic fixes to be made as a matter of urgency. However, in the short term work coaches could be supported to take steps that would help to make the situation more manageable for claimants.

### 3. Problems arising from the monthly assessment of circumstances

#### 3.1 The ‘whole month’ approach to changes of circumstances

Under UC, circumstances affecting a family’s financial needs, such as family composition and housing costs, are assessed using a ‘whole month’ approach –circumstances on the last day of each assessment period determine what they will be paid for the whole preceding month. As others have put it, ‘for calculating UC, only twelve days in each year will be important’ for assessing needs.<sup>11</sup>

This means that whenever a change in circumstances occurs, claimants can experience significant over- or under-payments, which simply have to be absorbed. This in effect means that the amount of UC received can fluctuate arbitrarily in relation to claimants’ needs, depending at what point in an assessment period changes occur.

This is a significant shortcoming in a system which is supposed to be highly personalised and responsive to needs, and to promote better budgeting. This aspect of UC is also not always understood by claimants. It is explained with respect to housing costs on the ‘Understanding Universal Credit’ website (though not with respect to children), but does not seem to be mentioned in the ‘Universal Credit and You’ leaflet, for example.<sup>12</sup>

<sup>10</sup> See extracts from the work coach job description in Office for Budget Responsibility (2018) *Welfare trends report* January 2018, p.77 [http://obr.uk/docs/dlm\\_uploads/WelfareTrends2018cm9562.pdf](http://obr.uk/docs/dlm_uploads/WelfareTrends2018cm9562.pdf)

<sup>11</sup> Millar, J. and Bennett, F. (2017) *Universal Credit: Assumptions, Contradictions and Virtual Reality*, *Social Policy and Society* 16(2): 169-182, p.173.

<sup>12</sup> Accessed on 25 July 2018.

## 3.2 Consequences for people whose circumstances change

### 3.2.1 People who move from a higher-rent to a lower-rent property lose out

Housing costs payable through UC are determined for each assessment period based on the claimant's monthly rent for the accommodation they are in on the last day of the assessment period. This means that if a claimant moves from a higher-rent to a lower-rent home during an assessment period they may not receive enough money to cover their rent for the first part of the month. People responding to the benefit cap or 'bedroom tax' by moving to a smaller home may find that they lose out. This unfairness will be particularly acute if they move just before the end of their assessment period.

#### Case study 11. Catherine

Catherine is a single mother of a disabled toddler. She claimed UC while living in a rented flat, but when her landlord gave her notice to leave she decided to move back in with her parents. She told jobcentre staff about the planned move, but was not warned that if she moved before the end of her assessment period she would receive no housing costs for that assessment period through UC.

Catherine paid rent of £600 during the assessment period in which she moved, then moved in with her parents a few days before the assessment period ended. On receiving her UC payment she was surprised to find that she had received no housing cost element at all, leaving her significantly out of pocket. Had she moved house just a few days later she would have received help with these costs.

### 3.2.2 People moving into temporary or specified accommodation receive no UC housing element that month

For people who move into temporary accommodation (as a result of homelessness) or specified accommodation (which includes refuges, hostels and supported housing for those needing help to live independently) midway through an assessment period – or worse, at the end of their assessment period – the situation is worse. There is no payment to cover housing costs for these forms of accommodation under UC, meaning that claimants need to claim housing benefit instead. However, housing benefit will only pay for the period in which the claimant lives in this accommodation, while UC will not pay any rent for previous housing which the claimant left at some point through their assessment period.

#### Case study 12. Zahira

Zahira is a refugee and a victim of torture. She moved into temporary accommodation during her UC claim. At the end of the assessment period in which she moved, she was found not to be entitled to any housing costs from UC from the start of the assessment period because she was no longer living in eligible accommodation. Housing benefit would only pay for the short period after she moved into temporary accommodation, leaving a substantial period for which this vulnerable person had no help with housing costs.

A claimant who moves into one of these forms of accommodation a week before their assessment period ends will receive no UC housing element at all that month, and will receive housing benefit only for a week. There is thus a complete gap in support with housing costs for the first three weeks of their assessment period and people may be left unable to make final rent payments at a time when their circumstances are already extremely difficult due to having faced homelessness, domestic abuse or illness.

### **3.2.3 People whose children leave home during an assessment period receive no help with the cost of their child that month**

An identical situation could arise for a family whose child moves out of the home just before the end of an assessment period, as UC will award no child element for the entire month. The other side of this coin is that families who have a baby just before the end of their assessment period will benefit from almost a month's 'extra' child element, as their child is counted as having been present for the entire month. However, this further shows up the arbitrary results of the whole-month approach, and will not help a family struggling to pay for basics in the month after their child moves out.

### **3.2.4 People who lose eligibility for universal credit during an assessment period receive no UC at all for that month**

Somebody who loses eligibility for UC during an assessment period, for example if they become a full-time student (and are not disabled), will not be entitled to any UC for that whole assessment period. This could mean substantial losses for people who start their studies close to the end of an assessment period, who will still have had rent and other costs to pay during the time when they *were* entitled earlier that month.

## **3.3 Recommended solutions to problems with the monthly assessment of circumstances**

### **3.3.1 Pay housing costs on the basis of actual rent incurred**

There seems no reason why housing costs in a month in which a claimant moves home could not be reported to UC, in the same way that childcare costs are reported, and paid accordingly on the basis of actual costs incurred. It is not clear why the whole-month approach is deemed appropriate for housing costs and child elements, but not for childcare which is paid on the basis of actual costs.

### **3.3.2 Pro rata payments**

Systems are needed to allow payments of the various elements to be awarded on a pro rata basis for the preceding month, for example on the basis of notification that a child moved out on a particular date, or evidence of when a claimant moved house or became a student. This would make UC much more sensitive to people's actual needs and avoid the current risk of significant under- and over-payments which are simply absorbed by claimants.



## 4. Conclusions

A central principle of UC is that it is supposed to be simple for claimants to understand, and to reward participation in paid work in a clear and straightforward way. However, the ostensibly simple system of monthly assessment periods for all claimants – regardless of their working arrangements and pay cycles – can, in reality, lead to unpredictable and seemingly arbitrary variations in payments which make budgeting extremely difficult. UC is supposed to mirror the experience of stable monthly-paid work but, for working claimants who are not paid monthly, or who are unlucky enough to have a payday close to their assessment period start date, it can instead be a stressful and unstable experience.

In the worst cases, people are losing out on significant amounts of money – hundreds of pounds over the course of a year – simply because of when their paydays and assessment periods fall. This unfairness is most starkly shown by the experience of employees at the same company, with identical hours and pay, some of whom are subject to the benefit cap most months of the year simply because they are on a four-weekly contract, while their colleagues on a monthly contract are not. And some of the most vulnerable claimants are those at risk of moving into supported or temporary accommodation, yet the current assessment period rules can leave them with a shortfall at precisely the time they most need support.

When it comes to the assessment of circumstances, it is clear that a blunt monthly assessment (the ‘whole month’ approach) is not sufficient to ensure that UC responds to claimants’ needs. Currently, UC is either over-responsive or under-responsive to genuine changes in need. This is particularly important for those living on a very low income, for whom an under-payment – for example, losing several weeks of support for housing costs or the child element of UC – could mean crisis.

The situations described in this report are complicated enough for a single claimant. If we consider that claimants may have a partner with a different working pattern, varying childcare costs which have to be paid upfront and reclaimed in arrears, and other realities of life such as occasionally moving house, it is clear that for many families it will be extremely difficult to calculate how much UC they will receive each month. It will also be unduly difficult for many to work out the implications of different choices in relation to work, childcare and accommodation.

None of the problems identified in this report should come as a surprise, as warnings were made to parliament as long ago as 2012 by the Work and Pensions Select Committee and in evidence provided to it by the Child Poverty Action Group, the Women’s Budget Group, the Low Incomes Tax Reform Group and the Chartered Institute of Housing, among others.<sup>13</sup> However, they have remained features of UC. We hope that this evidence of real impact will now lead to a change of course.

For workers, the nub of our recommendations is that the system needs to be better at attributing pay to the period of work to which it relates, not strictly to the assessment period in which it happens to be reported. Most people earn on a regular pay cycle (be it weekly, fortnightly, four-weekly, or monthly), meaning that this could be achieved through a simple form of averaging, which is already provided for in UC regulations. In cases in which hours (or the size of the pay packet) fluctuate, this may create some need for adjustments for under- or over-payments; however, these would be unlikely to be large, and this would still be much fairer and easier for

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<sup>13</sup> See House of Commons Work and Pensions Committee (2012) *Universal Credit implementation: meeting the needs of vulnerable claimants*, Third report of Session 2012-13, Volumes I and II. Downloaded from <https://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/inquiries/parliament-2010/universal-credit/>

claimants to understand than the current arbitrary variations in awards. Currently, any losses (for example, due to the loss of work allowances) simply have to be absorbed by claimants. This can have a severe impact. Due to the monthly assessment system, claimants only receive notification of the amount of UC they will receive for each month at the end of each assessment period. This is around a week before payment is made, meaning that there is no time for people to respond in terms of budgeting.

When it comes to changes in people's needs, something more sophisticated than a whole-month approach is needed to better reflect people's actual needs. We recommend that a system be considered which can convert entitlement to UC as a whole, and amounts for housing and children, into pro rata daily amounts of which the correct number are paid to match eligibility. For housing costs an alternative would be to pay on the basis of actual rent incurred, as is done with childcare costs.

The legacy system of benefits and tax credits offered greater responsiveness to need – with changes of circumstance taken into account from the day they took effect, or in housing benefit slightly later if they were disadvantageous to the claimant – and also several aids to budgeting, with payments at different times during the month which were clearly labelled as being for different purposes. This has now disappeared and claimants are expected to budget without these, whilst too often seeing their monthly awards changing in unpredictable and arbitrary ways. The personal budgeting support on offer to claimants is not an adequate solution to this in-built design problem.

We have suggested a range of ways in which most of these problems could be addressed, often using procedures which already exist in UC. Several existing arrangements could be deployed in new ways to assist claimants, without the need to reinvent the wheel.

While longer-term changes are being made, an important interim step would be to ensure that work coaches have a good understanding of how assessment period dates and different working patterns and changes of circumstances interact, including the effect of lump sum income and back pay at the start of a claim. Work coaches could be proactively watching out for the issues we have identified, explaining them to claimants, and helping claimants to understand and map out their future UC payments. This support could extend to working with claimants to calculate how different working patterns or changes of circumstance will affect their UC awards. In too many of the cases we have heard about, claimants are simply left puzzled by how much – or how little – UC they receive one month to the next. This on its own is not a solution, but would help as a short-term measure while fixes to the underlying problems are being developed.

The proposals we have suggested would simplify the experience of UC for many claimants, bring greater fairness to the system, and empower people to take fully informed decisions about work and other issues (such as accommodation). We realise that some of them will require technical changes to the UC IT system and that there is already a substantial queue of IT issues to be addressed. In our view, solving these problems ought to be a high priority. Other changes could be done relatively quickly, such as allowing claimants to change their assessment period dates. Delivering these measures – or others achieving the same goals – is urgently needed before large numbers of families come on to UC, and before the start of 'managed migration' (the mass movement of more than 2 million people<sup>14</sup> from legacy benefits over to UC) in January 2019. Otherwise the system cannot be deemed ready for this to begin.

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<sup>14</sup> Public Accounts Committee Oral evidence: Universal Credit, HC 113, 9 July 2018, Evidence from Neil Couling, Director General Universal Credit. Q. 255. <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-accounts-committee/universal-credit/oral/86629.pdf>