Note for Financial Inclusion Commission from Fran Bennett, December 2014

Fran Bennett works as a senior research and teaching fellow in the Department of Social Policy and Intervention at the University of Oxford (0.5 FTE) working on poverty, social security and gender issues (for profile and publications see www.spi.ox.ac.uk). This evidence, and oral evidence already given, however, draws largely on her work as a member of the Women's Budget Group (www.wbg.org.uk), including representing the WBG on the Department for Work and Pensions' (DWP's) universal credit support and exceptions working group; her previous experience as deputy director/director of the Child Poverty Action Group; and her current connections with a local advice centre and other organisations working with people on low incomes. She therefore brings to bear a mix of academic expertise - including a research project with Dr Sirin Sung focusing on the financial arrangements of couples on low incomes (see www.genet.ac.uk) - and more practical insights.

This evidence summarises some of the arguments most relevant to financial inclusion in briefings written for the WBG about universal credit: http://wbg.org.uk/economic-social-policy/universal-credit/. Please refer to these for more detail on the issues discussed below. The main references to evidence supporting the arguments made are also contained in those briefings.

Summary

- Financial inclusion is understood here as requiring a financially inclusive society. This means (according to the body monitoring financial inclusion after the Taskforce finished its work) having a secure income that meets a minimum standard; the availability of appropriate and well regulated financial services; and easy access to free education and advice, especially on debt.
- This evidence responds largely to question 7 in the call for evidence from the Commission, about the impact of 'welfare reform' on financial inclusion and what support should be available to people as a result. It focuses on universal credit in particular.
- The government has argued that universal credit will bring advantages for claimants in relation to financial inclusion, because they will have a monthly lump sum payment that resembles a salary, and this will help them not only to move into work but also to set up bank accounts, direct debits etc. and benefit from discounts, thus enabling them to overcome the 'poverty premium'.
- The government did recognise that some people would need support with managing the money being paid in this way, although it may initially have under-estimated the numbers, and argues that this should be only temporary for most, as a transitional measure.
- This evidence argues that this is likely to be unrealistic; that the mere fact of receiving a monthly income is not likely to overcome the problems of the poverty premium; that the replacement of current benefits and tax credits by universal credit removes several features that were helpful to budgeting without the necessity of external support; that the numbers expected to need support have been growing as the government increasingly recognises the issues involved, and that this will increase dependence on / control by intermediaries; that other features of universal credit threaten to jeopardise financial inclusion; and that there has been insufficient awareness of the specific issues faced by couples on universal credit.

- In the absence of a decision to halt the introduction of UC, possible measures would involve allowing claimants to have the housing element paid to their landlord; to have more frequent payments; and in the case of couples, to split payment between the two partners.

1. The government's vision for universal credit and financial inclusion

The government has argued that universal credit (UC) will bring advantages for claimants in relation to financial inclusion, because they will have a monthly lump sum payment that resembles a salary, and this will help them not only to move into work but also to set up bank accounts, direct debits etc. and benefit from discounts, thus enabling them to overcome the 'poverty premium'.

The government argues that UC 'fosters independence and personal responsibility' (*Universal Credit at Work,* DWP 2014), in part through 'encouragement for claimants to manage their finances, while in and out of work'. Some of the pilots prior to UC roll-out involved helping claimants to set up bank accounts, direct debits etc. This can of course bring advantages for those for whom it is appropriate.

Government ministers have argued that budgeting more frequently than monthly can undermine a move into work (*UCAW*). Whilst this may be the case for some claimants, others will not be paid wages monthly; half of those on under £10,000 per year are paid more frequently, so the monthly basis of UC will be different from their wage payments. (The government's new move to allow income earned or losses made in a previous period to be included in assessment for UC is also very different from the way in which payments of earnings are made of course.) In addition, they may receive council tax support, child benefit and possibly other benefits at different times and frequencies as well (which was always the case for those on such benefits in work). For those in work, a UC payment may not coincide with their wage payment. And many couples have two wages - so one monthly payment is not how they experience the world of work, or manage their money.

2. Support needs under-estimated

The government did recognise that some people would need support with managing the money being paid in this way, although it may initially have under-estimated the numbers, and argues that this should be only temporary for most, as a transitional measure.

UWAC (p. 42) suggests that, even when most claimants are single and without complex circumstances, nearly one in four does not feel confident about their ability to budget. The government has now recognised that money management is a 'very personal subject' *(UCAW)*, and that the first telephone call about UC may not be the best time to discuss this, as trust needs to be established in order for it to be successful. Instead, therefore, work coaches are to initiate a face to face conversation with claimants to make them aware about the assistance from the Money Advice Service (over the telephone), or if necessary from the 'universal support delivered locally' (face to face). However, it is not clear what this means in terms of the implications for couples making a joint claim, as they may not always want, or be able to arrange, a joint meeting with the work coach.

UCAW also suggests that processes involved with the direct payment of housing benefit (in future the rent element of UC) to social housing tenants (instead of the landlord) did not initially work well. It was recognised that some people would need alternative payment arrangements (APAs) from the start - meaning a return to payment to the landlord. But when this affected more than anticipated, and when it proved difficult to know what 'triggers' predicted who might fall into arrears, agreement was reached to move to considering budgeting support and an APA after one month's arrears, and a managed payment to the landlord to be put in place once two months' arrears have been reached. From last month, deductions can be made at an increased rate for these arrears. This seems somewhat different from the government's initial expectations - at a time when few couples and even fewer families with children are currently on UC itself. 80% of CAB clients likely to be eligible for UC agreed that paying the housing element direct to their landlord would be helpful.

3. Implications of UC for financial inclusion

This evidence argues that this is likely to be unrealistic; that the mere fact of receiving a monthly income is not likely to overcome the problems of the poverty premium; that the replacement of current benefits and tax credits by universal credit removes several features that were helpful to budgeting without the necessity of external support; that the numbers expected to need support have been growing as the government increasingly recognises the issues involved, and that this will increase dependence on / control by intermediaries; that other features of universal credit threaten to jeopardise financial inclusion; and that there has been insufficient awareness of the specific issues faced by couples on universal credit.

The mere fact of receiving a monthly payment is not likely to be sufficient to overcome the problems of the 'poverty premium' (meaning that people on low incomes tend to pay more for the goods and services they buy), as ministers have tended to imply. In addition to the features of UC that mean it is unlikely to be as stable as suggested (see below), the major reason for the poverty premium is arguably not frequency of payment or lack of availability of lump sums but ongoing low levels of income. This will not change in general as a result of UC - though there will be gainers and losers.

The replacement of current benefits and tax credits by UC removes several features that were helpful to budgeting (and therefore to financial inclusion). This is not primarily about a minority of 'vulnerable' claimants (though they may exist under any system); it is about what arrangements are most appropriate for those on low incomes. Monthly payment of UC is more significant because it is made up of six benefits/tax credits rolled into one. There is consistent evidence that most of those on low incomes manage their money well; that most claimants tend to budget more frequently than monthly; and that most do not believe that monthly payments will help them to budget better. 95% of CAB clients likely to be affected by UC agreed that they would benefit from being paid twice monthly instead. Low-income claimants report that payments under the current system are helpful not just in terms of budgeting but also psychologically, as regular payments 'bridge' life on a low income (as forthcoming qualitative research by Prof Mary Daly and Grace Kelly in Northern Ireland shows). Early emerging evidence suggested that those who had been transferred to UC, even though they were likely to be single and without complicating circumstances, were more likely to borrow money than when they were on Jobseeker's Allowance (JSA) - especially from family and friends.

The numbers expected to need support have been growing as the government increasingly recognises the issues involved, and this will increase dependence on / control by intermediaries. The practicalities of intervening in UC claimants' lives have already become labour-intensive, even before more claimants with more complicated and changing circumstances are involved. Local authorities involved in the pre-UC pilots and social landlords in the direct payments scheme have been working closely with claimants to encourage them into employment and/or to help them manage their money - though they have indicated that this level of support will not be feasible given the larger numbers involved with full UC roll-out. It is also a far cry from the kind of hands off future envisaged by the government for claimants, becoming independent of state support and managing their money in the mainstream. It may point to the hazards of creating a system which - as ministers described it in evidence to Select Committees - is geared to (what is seen as) a majority way of life, rather than being shaped around the priorities and coping mechanisms developed by those living on low incomes. Instead of building on their strengths, it creates a new system that removes existing supports and then labels those for whom this does not work well as exceptions (often, indeed, in the kind of language used in official documents, 'vulnerable', or failing to manage their money well).

Other features of universal credit threaten to jeopardise financial inclusion. UC is a monthly benefit, with no daily or weekly rate. This does not just mean that there is no entitlement for any self-contained period shorter than a month. But in addition, changes of circumstances that apply on the assessment date each month are treated as though they applied to the previous month as a whole (not on a pro rata basis for the part of the month to which they were relevant). This may apply to changes in housing, household composition etc. (though not to changes in hours of work and/or wages, which will effectively be applied pro rata). This may have either negative or positive consequences financially; but the income change will only rarely match the actual change, and will therefore mean that income matches circumstances less closely. This will be likely to make it more difficult to (eg) set up direct debits for bills, see the impact of wages on UC entitlement etc. (In addition, the arrangements for passported benefits have not yet been developed; and council tax support will be worked out on a completely different system, by a different organisation.)

There will be 7 waiting days after UC is claimed (also applied to equivalent legacy benefits). Then there is a month for the assessment period. Then there is the time taken to work out entitlement. So payment should be made about 7 days after the assessment date. This is more than six weeks after first claiming. It may or may not relate to the date for payment of any wage. And if something goes wrong, all the eggs are in one basket. This makes claimants heavily dependent on officials, and on the administration working as intended, and financial services providers will realise this. UC claimants should be able to request a benefit advance, which will then be deducted from their UC; given the timing of payments described above, this is likely to be relevant to large numbers of claimants, in my view. This is likely to make it even more difficult for claimants to see how the amount of UC they get relates to their circumstances, and even less likely to match them.

Those claimants who need support to 'manage' monthly payments may get personal budgeting support over the phone or face to face. They may also get an APA, moving to more frequent payments (likely to be twice monthly). However, this is currently envisaged as meaning that half the payment is made to the claimant (when other claimants will be getting the whole payment), with the rest of the payment a half-month further in arrears. It is difficult to see this as being conducive to financial inclusion. Already, there have been warnings that monthly payment in arrears will be more likely to drive people to non-mainstream sources of credit; the arrangements for APAs threaten to exacerbate this issue, for the very people who are likely to be finding things most difficult.

Finally, there has been insufficient awareness of the specific issues faced by couples claiming UC. As with claims for tax credits and most claims by couples for JSA, a claim for UC is a joint claim. Many couples today tend to have a mix of accounts to manage the complexities of modern family life; but UC must be paid to only one (chosen by the couple). The WBG has argued that compulsory payment of UC to one account means that one partner may have no access to income, and that they may also therefore have no opportunity to practise financial capability. 700,000 individuals have no access to any account in their household; but a total of 1.87 million adults are presently unbanked, meaning that they have no individual account.

This is not really an issue of how to budget and/or manage household finances (as tends to be assumed by the government). But even if this were the case, government research with those likely to be eligible for UC only asked one household member the questions about budgeting (the main claimant), and thus did not obtain their partner's perspective. Given the likelihood that men are the main claimants, and the fact that in low-income families women tend to be the managers of the household budget (especially the daily/weekly purchases likely to be squeezed most by monthly payments), this evidence is therefore unfortunately of strictly limited value. One in five CAB clients likely to be affected by UC said payment of UC into one account would cause them problems.

Moreover, payment of UC to a joint account does not guarantee either equal access or equal control, as qualitative research carried out by Sirin Sung and myself showed (www.genet.ac.uk). The government has said that when couples cannot decide on the account for UC, it will be paid to the main carer in couples with children and to the person paying the main bills in others; but this does not resolve the issue of access to income, and in any case only applies to those who cannot agree (and tell the government this). 'Agreement' will be unlikely in a couple where coercive or controlling behaviour - now recognised officially as domestic abuse - takes the form of financial abuse. The government allows split payments in such cases; but it is still unclear how this is going to work in practice, and there is a tendency in official documents to suggest that the default arrangement of a single UC payment will be returned to once household money is being better managed.

4. Possible measures

In the absence of a decision to halt the introduction of UC, or to change the monthly basis of assessment and payment and/or other features, possible measures would involve allowing claimants to have the housing element of UC paid to their landlord; to have more frequent UC payments; and, in the case of couples, to split the UC payment between the two partners. Each of these would be a more flexible solution, bringing their finances more within their own control and decision making, and would be likely to support them to be financially included in the most appropriate way for them.