

## Information sheet on short-term advances and budgeting advances

### **Background**

The Discretionary Social Fund currently enables Budgeting Loans and Crisis Loans to be paid in certain circumstances. The Welfare Reform Act 2012 abolishes the discretionary Social Fund. In order to retain the protections currently available to benefit claimants via the Social Fund, new regulations will introduce a system of payments on account of benefit to replace Budgeting Loans and Crisis Loan alignment payments as well as Interim Payments of benefit.

*Short-term Advances* will replace Interim Payments and Social Fund Crisis Loan alignment payments for all benefits from April 2013;

*Budgeting Advances* will replace Social Fund Budgeting Loans for eligible Universal Credit claimants from April 2013. Budgeting Loans will continue to be available to those claiming legacy benefits until all such claims have either been closed or migrated to Universal Credit.

### **Short-term Advances**

When someone makes, or is about to make, a new claim to benefit, they can sometimes encounter a period of financial need before receiving their first payment of benefit. Short-term Advances of benefit will help claimants through that period by providing an advance of their future benefit award, which will then be recovered from subsequent payments of benefit.

Short-term Advances will also be available:

- to claimants who have experienced a change of circumstances that will
- increase the amount of benefit to which they are entitled;
- where the first payment of benefit is made in respect of a period shorter than that in respect of which subsequent payments will be made (e.g. the first payment is made in respect of a week and the next payment is due to be paid in two weeks' time and will be made in respect of those two weeks); or
- in cases where it is impractical for benefit to be paid on the due date (e.g. due to a technical problem in processing the claim or payment).

Short-term Advances of benefit will be available to claimants of any contributory or income-related social security benefit, including Universal Credit, from 1<sup>st</sup> April

2013. To be eligible for a Short-term advance, the claimant must be able to demonstrate that they are in financial need. The Regulations will define “financial need” and guidance will assist Decision Makers in how to apply it to applicants.

Decision Makers’ guidance will also provide for a maximum repayment period of three months, which may be extended to six months in exceptional circumstances.

## **Budgeting Advances**

Currently, Budgeting Loans from the Social Fund are available to income-related benefit claimants who have been in receipt of such benefit for 26 weeks or more. They are intended to help claimants defray intermittent expenses such as needing to buy essential items such as furniture or household equipment, or expenses related to, for example, maternity or starting work.

Budgeting Advances will replace Budgeting Loans for Universal Credit claimants from 1<sup>st</sup> April 2013 to ensure that those with the lowest incomes claiming Universal Credit will continue to have access to an interest-free alternative to high-cost lending for emergency and unforeseen expenses. Budgeting Loans will continue to be available for those claiming legacy benefits until all such claims have been closed or migrated to Universal Credit.

Budgeting Advances will reflect existing Budgeting Loan eligibility requirements and available amounts. As such, Budgeting Advances will in most cases require the claimant to have been claiming Universal Credit - or have had a continuous claim to a legacy income-related benefit migrating to Universal Credit - for at least six months. To maintain work incentives however, that requirement does not apply if the expense for which a Budgeting Advance is required is necessary as a consequence of the claimant obtaining or retaining employment.

Budgeting Advances are available only to those on the lowest incomes (just as access to Budgeting Loans is restricted to those receiving income-related benefits) and the Regulations will specify a maximum earnings threshold for eligibility to a Budgeting Advance.

The maximum Budgeting Advance available for a claimant will depend on whether the Universal Credit claim is in respect of a single person or a couple, and on whether the claimant is responsible for any children or qualifying young people. The Regulations will specify the maximum loan for each of those categories of claimant and any reductions to apply in respect of capital held by the claimant or their partner.

There will be some clear differences from Budgeting Loans in that Budgeting Advances are intended to discourage dependency on the benefit system and long-term repayment of loans, enabling claimants to take better personal responsibility for their own finances.

Decision Makers’ guidance will set out a maximum recovery period of 12 months, extendable to 18 months in exceptional circumstances, which compares to 104 weeks for a Budgeting Loan. Additionally, claimants will not be eligible for a

Budgeting Advance if they have an earlier Budgeting Loan or Budgeting Advance that has not been fully repaid.