christians against poverty CAP

Checking in: debt and Universal Credit

CAP clients' experiences of Universal Credit so far

Applying and waiting for Universal Credit

Debt and Universal Credit

Living and working on Universal Credit

This paper is the second in the Checking in series, exploring the experiences of CAP clients who are early Universal Credit claimants. Here the interaction between debt and Universal Credit is examined through semi-structured interviews with nine early claimants. In a Department of Work and Pensions (DWP) survey as many as four in ten respondents said they were in financial difficulty, and therefore how debts are treated under Universal Credit will be key to many people's experience.[1]

As explored in the first instalment of this series, transitioning to Universal Credit can cause debt, but many people with existing debt problems will also be transitioning to Universal Credit. 82% of the people CAP helps receive some form of benefits and will move onto Universal Credit in the next few years. Typically, these are people on low incomes, 64% living below the poverty line, with a high incidence of mental and physical health problems and other difficulties that mean their financial worries are just the tip of the iceberg.[2]

Regardless of the cause of debt problems, it is clear that the treatment of debt repayments within Universal Credit places additional strain on claimants. The Government made changes to soften the hardship caused to claimants repaying debts as part of a package of extra help for households moving to Universal Credit announced in the 2018 Autumn Budget. Yet, these changes will not commence until October 2019 at the earliest and there remains limited flexibility, with the full extent of claimants' financial pressures often overlooked.

Taking into account both the direct interaction between Universal Credit and claimants' debts, as well as indirect pressures where claimants' income is chipped away by wider financial difficulties, conversations with claimants in financial difficulty find:

- Deductions to repay advances are unaffordable
- The amount deducted for other debts causes hardship
- Claimants find it difficult to reduce deductions to affordable levels
- Paying rent top-ups further exacerbates financial difficulty

'It definitely didn't help the debt situation. I did have debts before I came across to Universal Credit but it doesn't help when the system, either by design or by accident, leaves you just on the nick of the poverty line constantly. It just compounds everything.

Every month I'm ringing people to say I can't pay, even though I've only got very small bills; £9 a month phone, I don't have internet, I don't have Sky, or anything like that. Everything is cut down to the bone and I'm still living hand to mouth. I try not to go [to the food bank] when I don't have to, but I've always been using the food bank while I've been on this benefit.

I had to use the system of borrowing money and thank goodness because I had zero money. They said they'd take it back at a rate I could afford but started taking it back at £130 a month of the £190 I had to pay my living costs. As soon as I got my benefits I was left with £60 for the month.'

Paul, 45, CAP client [3]

1 | Survey of full service claimants published in June 2018 (paragraphs 2.5 to 2.11), NAO (2018) *Rolling out Universal Credit*, Citizens Advice (2017) *Universal Credit and Debt*
2 | CAP (2018) *Client Report: Bringing restoration to desolate homes*, available at capuk.org/clientreportpdf
3 | Names have been changes to protect anonymity.

Pushed downstream: advance repayments

Interest-free loans, known as advances, are available to tide claimants over until their first Universal Credit payment. These loans must be repaid within twelve months, typically through benefit deductions.[4] This means most Universal Claimants find themselves in debt as soon as they start to claim the benefit. As explored in the first paper in this series, there is much trepidation about this, but claimants have few alternatives. Whilst advances provide some relief during the wait period, the problem is pushed downstream and it is common for advance repayments to leave claimants in hardship once payments start.

All participants who had taken out an advance felt the repayments were unaffordable or did not leave them with enough to live on. In particular, the restricted repayment term of twelve months meant the repayments formed a substantial proportion of their income.

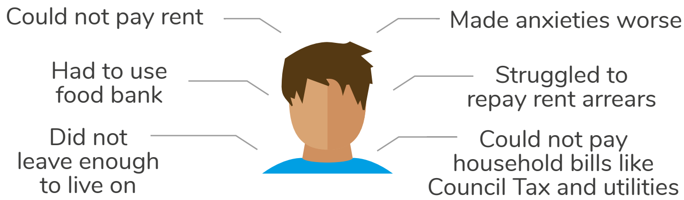
From October 2021, the repayment term for advance payments will be extended to 16 months which will see claimants' monthly repayments fall by 25%. For example, repayments for a £300 advance will fall from £25 to £18.75 a month. Yet, this relief is three years away and will be slight, as the pressure of repayments is felt acutely due to low income and already living on tight budgets.

This saw participants continuing to use food banks and falling behind with household bills, as well as restricting their ability to pay off other debts, such as rent arrears, incurred during the wait for their first payment.

'I don't know how they expect people to live on nothing. They did say, 'You can get a loan', but then that's putting you in more debt. You already owe five weeks' rent and if you take a loan, that's more you have to pay back. I took a loan, I had no choice.'

'I thought brilliant, they're human, they're going to give me a loan against my next payment and sure enough they did and thank goodness because I had zero money… I read one line on a website that said, 'We will take it back from your payments at a rate you can afford'. Well I shouldn't have trusted them… as soon as I got the award for the benefits, I was down to £60 a month straight away.'

Impact of advance repayments



Stacking up: deductions for other debts

In addition to advance repayments, deductions can be taken from Universal Credit payments for a range of other debts including rent and Council Tax arrears, court fines and utility bills. Many claimants face deductions for multiple debts and understanding the interaction between these repayments is key to fully appreciate the financial pressures faced by claimants. This is especially pertinent for Universal Credit as Citizens Advice research has found Universal Credit claimants are 37% more likely to have debt problems compared to those claiming legacy benefits.[5]

Where participants had deductions for other debts in addition to repaying an advance from their Universal Credit payments, it was common for deductions to place a significant financial strain on the claimant. It was the amount of the deductions, rather than the practice of a deduction being taken in itself, that was the key determinant of the effect this had on participants. For instance, one participant had £12.50 a month deducted from their payments and felt that this was fine. However, it was more common for deductions to constitute a significant proportion of a claimant's payments.

There are two key reasons deductions under Universal Credit cause a higher degree of hardship than the previous system:

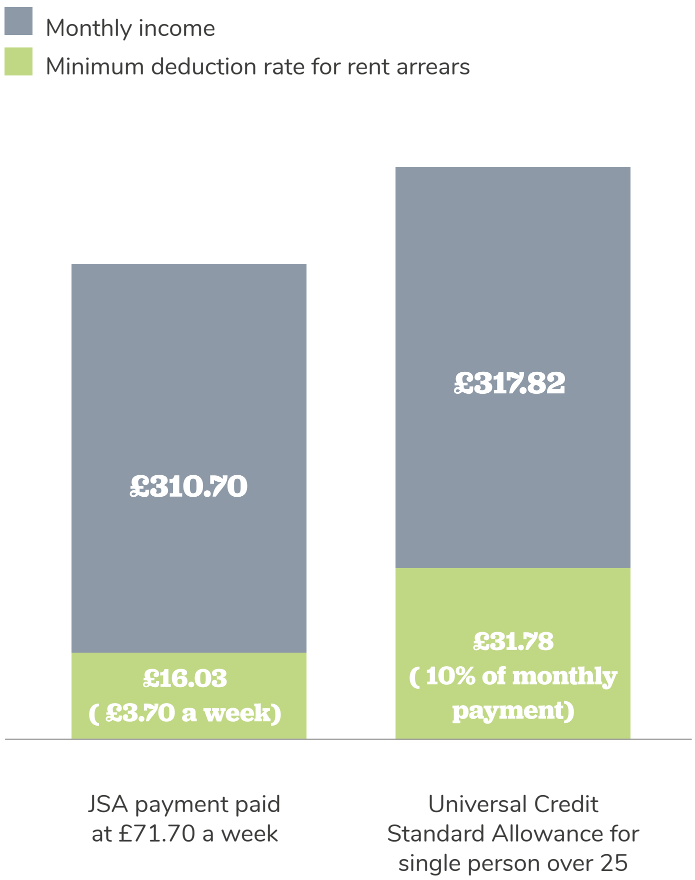
1 A higher ceiling for the total amount that can be deducted

Whereas under legacy benefits no more than 25% of a claimant's personal allowance could be deducted for debt repayments without consent, under Universal Credit up to 40% of a claimant's Standard Allowance can be deducted.[6] In some cases, deductions can even exceed this ceiling, if for example a 'last resort deduction' for rent arrears needs to be deducted as well as an advance repayment and the minimum amounts for these total over 40%.[7] In the 2018 Autumn Budget the Government announced that the maximum deduction rate will reduce to 30% from October 2019. This will help relieve the pressure, but will come too late for many struggling to make ends meet now and will still mean nearly a third of someone's monthly income can be deducted each month.

2 Higher minimum deduction rates for specific types of debt

The minimum deduction rates for certain types of debt are also higher under Universal Credit than for legacy benefits. For instance, the standard deduction for rent arrears is 20% of a claimant's Standard Allowance and this cannot be reduced below 10%, whereas for legacy benefits this could be as low as £3.70 a week.

Minimum deduction rate for rent arrears (equivalised to a monthly basis)



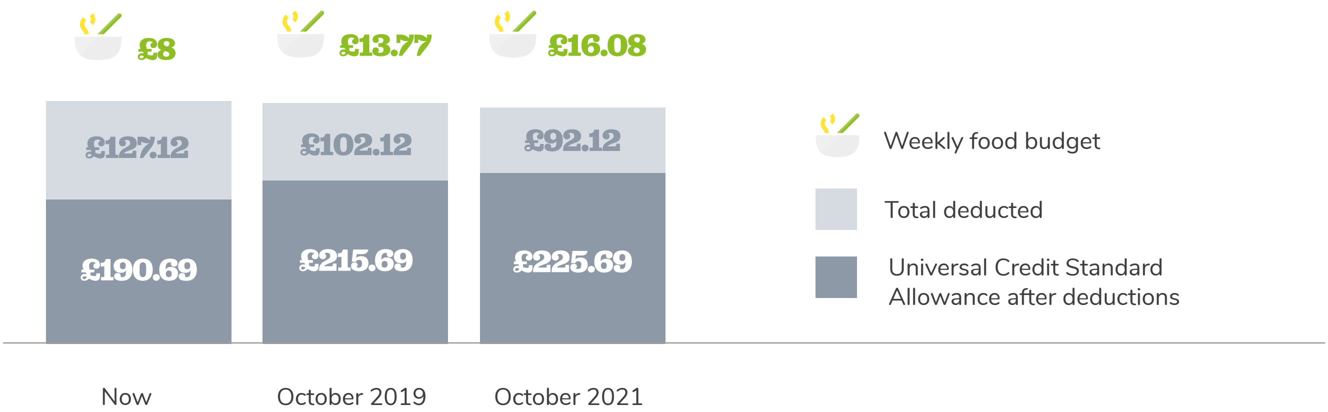
4 | DWP official guidance on advance payments published October 2017. The Government announced in the 2018 Autumn Budget that the repayment period for advance payments will be extended to 16 months, but this will not commence until October 2021.
5 | NAO (2018) *Rolling out Universal Credit.*
6 | JRF (2018) *Destitution in the UK 2018.*
7 | WP (2016) *Deductions guidance.*

Case study one

A man in his fifties was put at risk of homelessness after being unable to pay his rent. He struggles with both physical and mental ill-health and had built up debts due to the impact of suffering from multiple sclerosis over a long period. 40% of his Universal Credit Standard Allowance was being deducted to repay rent arrears, a budgeting loan and an advance payment. He also had gas, electricity and Council Tax arrears and eight other debts totalling over £4,000 to pay.

As a result of the deductions, he could only afford to spend £8 a week on food and little else, aside from basic household bills. He could not afford to pay his mobile phone contract and was being helped out by a family member. He was reliant on Discretionary Housing Payment to pay his rent top-up but was at risk of homelessness because his landlord had already begun eviction proceedings. He also could not afford to make repayments towards any of his other creditors, including for Council Tax arrears.

Income	Monthly	Expenditure	Monthly
Housing Element	£481.09	Rent	£575
Discretionary Housing Payment	£93.91	Household bills	£100.03
Universal Credit Standard Allowance	£317.81	Travel costs	£33.58
Rent arrears (20% deduction)	- £62.12	Food	£34.67
Advance repayment (12.5% deduction)	- £40	Other	£4.39
Budgeting loan repayment (7.5% deduction)	- £25	Phone bill	£0
		Repayment of utility arrears	£17.02
		Repayment of Council Tax arrears	£1
		Repayments to other creditors	£0
Total	**£765.69**		**£765.69**



From October 2019, the maximum deduction rate will be capped at 30%. Under this scenario, in this case 32.5% of the Standard Allowance would be deducted due to rent arrears being a last resort deduction but repayments for the budgeting loan would stop until either the rent arrears or advance had been repaid. This would mean £25 less is deducted each month, which would be budgeted for food spend, on equivalent to an extra £5.77 a week to spend on food.

From October 2021, advance repayments will also be spread over sixteen months instead of twelve. Under this scenario, the repayments would reduce by £10 a month and the total amount deducted would fall to 29.4%. This would allow for £16.08 to be budgeted each week for food. The client would still be dependent on discretionary housing payment, unable to pay their phone bill or make repayments to their other creditors.

Starting from behind: rent top-ups

While not a debt in itself, financial pressures are further exacerbated where claimants are required to pay a rent top-up. This occurs when a claimant is not entitled to a Housing Element payment that covers their full rent because of where they live, their age and/or the number of bedrooms in their property. The claimant's ability to pay is not taken into account and rent top-ups are paid from a claimant's Standard Allowance which is intended to cover other basic living costs.

Paying rent top-ups was widespread amongst participants who predominantly lived in rented accommodation and said housing costs were a key concern, forming a big part of their expenditure. For one participant, the top-up was only a small amount, around £13 a month, and did not cause them problems, but for most it was significant and a stretch.

This included a participant who was living in the two-bed property he had shared with his mother before she passed away and was now required to pay a top-up of £100 a month from his Standard Allowance of £317, which he paid by cutting his food expenditure to unacceptable levels.

'I have to pay a top-up because I'm living in the place I used to share with my mum... I find it difficult [to pay the rent top-up] because it takes money off my food.'

'When I was homeless I had two choices for properties with the council but both had two bedrooms. Back then Bedroom Tax wasn't really around and I had to take what was given to me.'

Case study two

Another man in his fifties contacted CAP for help with debts after being threatened with eviction as he could not afford his rent top-up of £110.69 a month. He had recently had a hip operation and also suffered with depression and anxiety which had caused his financial difficulties. He had no food in the house and was very upset and anxious. He lived in a three-bedroom housing association property. His only debts were arrears on household bills and he was repaying an advance deducted at £58.30 a month. He could not afford to pay his water bill or a TV licence and had a very restricted budget, with only £12 a week to spend on food and little else.

Income	Monthly	Expenditure	Monthly
Housing Element	£286.29	Rent	£396.98
Universal Credit Standard Allowance	£317.81	Household bills	£39.92
Advance repayment (18% deduction)	- £58.30	Council Tax	£14
		Food	£52
		Other	£3.83
		Phone bill	£5
		Repayment for rent arrears	£16.25
		Repayment for utility arrears	£17.82
Total	**£545.80**		**£545.80**

'Computer says no': affordability of deductions

While debt recovery is not meant to cause 'undue hardship', there is little flexibility to reduce deductions to an affordable level and these calculations do not take into account the wider financial pressures claimants face. While there is provision for one three-month payment holiday for a short-term financial crisis, in reality, financial hardship is enduring for most claimants and there is little ability to reduce deductions over a longer period.

While on the whole participants had found advisers in the Jobcentre and the Universal Credit helpline to be helpful, some expressed frustrations at the limited authority they had to resolve queries. Several participants had asked for deductions to be reduced but had not had success. As a result, participants typically found that their financial difficulties continued once their payments started. They talked about still having to go without, being unable to pay bills or using food banks since payments started.

'I rang up Universal Credit and said, 'look, obviously it's your money and it's got to come back, and I understand it was a loan, but you're taking it at a rate I really can't afford... There was just a 'computer says no' on that one. The computer calculates what you can afford and that was it on that one.'

'If you can't afford £30 why can't they just accept £20? Because in a few weeks extra they'd have paid it off already. It's taking that extra £5 or £2 off people. It would pay for an extra day's shopping.'

A couple of participants had also found their deductions confusing either because they felt they had not been informed about them or because of learning difficulties. This is compounded by the removal of Implicit Consent under Universal Credit which prevents debt advisers helping claimants in financial difficulty to reduce deductions, and the fact that claimants are not sent an award letter detailing their payment amount or deductions under Universal Credit. Implicit Consent allowed advisers who demonstrated sufficient knowledge of the claimant to access information about their claim without the claimant being present.

'I've got dyscalculia and dyslexia so it's going to be a bit dodgy. At some point, I had to pay back my Social Loan as well. There was this Tax Credit overpayment as well which got confusing.'

Case study three

A single mother in her forties approached CAP for help after her struggles with mental ill-health led to a debt crisis. She had one dependent child aged 14 and one non-dependent child living at home, who contributed what they could afford to the household costs. She was finding debt repayments unmanageable and deductions from her Universal Credit were putting her under particular pressure.

The deductions from her Universal Credit Standard Allowance for rent arrears were reduced from £63 a month to £31.50 a month, which helped. However, this still meant that in total 25% of her Standard Allowance was deducted each month, and she was unable to afford to pay her ongoing rent top-up of £156 a month as she also had to make repayments for other debts, including Council Tax arrears which were being collected by enforcement agents.

Key areas of concern from the treatment of debt under Universal Credit:

- **Deductions to repay advances are unaffordable**
  Advance payments push financial hardship further downstream. Once Universal Credit payments begin, repayments are a substantial proportion of claimants' income and cause considerable financial strain. While the extended repayment timeframe from October 2021 will help, this is three years away. CAP is calling for repayments to be calculated based on affordability, not restricted by a rigid timeframe.

- **The amount deducted for other debts causes hardship**
  The maximum total amount that can be deducted from Universal Credit payments to pay debts is too high. Even at 30%, to lose a third of your income places substantial strain on low income households who lack the ability to create or maintain any sort of financial 'safety net'. In addition, the minimum levels for specific types of deductions do not ensure deductions can be set at an affordable level. More flexibility is needed to take into account a claimant's full financial picture to ensure debt repayments are affordable.

- **Claimants find it difficult to reduce deductions to affordable levels**
  Many claimants are left feeling powerless and confused by the deductions from their payments. Claimants would benefit from a letter detailing their Universal Credit award and any deductions when their payments commence. The removal of Implicit Consent restricts debt advisers' ability to support claimants in difficulty and needs to be reinstated.

- **Paying rent top-ups further exacerbates financial difficulty**
  There is not enough consideration of the strain paying a rent top-up places on claimants, especially where there are also deductions from their Standard Allowance. We would like to see minimum deduction rates and affordability calculations taking into account the full range of financial pressures on claimants, including the implicit reduction in claimants' Standard Allowance where they pay a rent top-up.

This paper is the second in the *Checking in* series.
The full series will be available at *capuk.org/checkingin*.

The next paper will focus on the experience of claimants receiving Universal Credit while in work.

Author: Rachel Gregory, Social Policy and Relationship Manager at Christians Against Poverty.

always hope.

capuk.org/policy externalaffairs@capuk.org 01274 761985 @CAPuk