REDUCING DEDUCTIONS

THE FIRST STEP IN A PACKAGE OF SUPPORT FOR LOW-INCOME HOUSEHOLDS

17 May 2022

New data released today shows that 4.1 million households were claiming universal credit (UC) in February 2022.[1] Benefits were recently increased by less than half the rate of inflation, meaning these families saw the real value of their UC fall by £660 a year on average.[2] And while benefit levels sit at historic lows, an estimated 1.8 million households are receiving an average of £61 less each month than they are entitled to because of automatic deductions from their UC payment.[3]

Two in five (42 per cent) families receiving UC have money automatically taken from their UC each month, affecting an estimated 2 million children in lower-income households.[4] These deductions are most commonly to repay loans families were forced to take out to get them through the initial five-week wait for their first UC payment.

With so many households on the edge, every pound deducted from UC is a pound less for food, electricity and other essentials. Families across the country are cutting back on non-essential spending as prices rise at the fastest rate in three decades, but many families receiving benefits simply have nothing left to cut back. Deductions make a difficult situation worse, and were a key driver of food bank use even before the cost of living crisis hit.[5]

The government must take immediate action to reduce the burden of deductions on cash-strapped families. Lowering the maximum deduction rate from 25 per cent of the UC 'standard allowance' to 15 per cent would provide up to £53 more a month for a couple and up to £33 more a month for a lone parent.

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[1] Department for Work and Pensions, *Households on Universal Credit*, Stat-Xplore, 2022
[2] Child Poverty Action Group, *UC Families face £660 income cut as Bank of England increases inflation expectations*, 2022
[3] Author's calculations using PQ 129166, tabled on 24 February 2022 and DWP, *Households on Universal Credit*, Stat-Xplore, 2022
[4] Author's calculations using PQ 141987, tabled on 17 March 2022 and DWP, *Households on Universal Credit*, Stat-Xplore, 2022
[5] Trussell Trust, *Lift the Burden*, 2020

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Most deductions are taken to repay government loans

Deductions are taken from a family's UC for a variety of reasons, but most often to repay debts. These could be rent or fuel arrears, or government debts for UC advance payments or historic tax credit overpayments.

Where a family is in rent or council tax arrears, a landlord may receive payment for a portion of these arrears directly from the Department for Work and Pensions (DWP) before the claimant receives their UC each month. Repaying these debts automatically can help prevent people from getting evicted or seeing their council tax arrears spiral out of control due to bailiff fees.

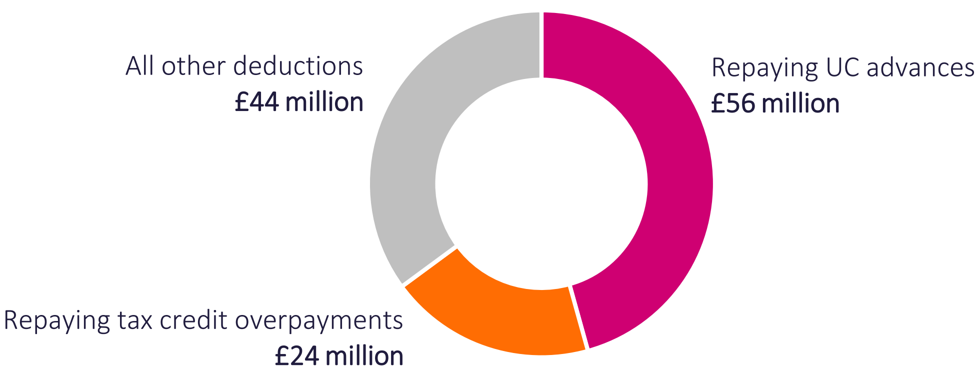
But **the most common form of deduction is repaying advance payments**. Advance payments are a form of loan available to help people get through the initial wait for their UC. Many people moving on to UC are in financial crisis and need immediate support to pay their rent and other household bills. But the design of UC means people are forced to wait five weeks before they receive their first payment.

Advance payments are then returned to the DWP automatically through deductions from a family's UC payment, meaning that when they finally get their first UC payment, it is less than they are entitled to. The average family paying back an advance loses around £28 a month.[6]

While advances provide vital support, people are forced to take on debt at the start of their claim due to the design of the system. Others have deductions taken to repay historic tax credit overpayments, which many people are not aware of until they move to UC.

In November 2021, the government took £124 million back from claimants through deductions and the majority of this money went straight back to the government – £56 million to the DWP to repay advances, and £24 million to HMRC for historic tax credit overpayments.[7]

Figure 1: Total amount taken from UC recipients through automatic deductions in November 2021



[6] Author's calculations using PQ 129166, tabled on 24 February 2022
[7] PQ 129166, tabled on 24 February 2022

Over a six-month period, the DWP takes around £483 million from claimants to service central government debts. This is only slightly less than the £500 million allocated in the Spring Statement to helping the most vulnerable with the cost of living via the Household Support Fund.

Deductions during a cost of living crisis

The basic level of unemployment support is now at its lowest level in 50 years,[8] and deductions can reduce this by a further 25 per cent. Deductions reduce UC awards by £61 a month on average,[9] but a couple family with children with deductions set at the maximum rate will see their income reduced by £131 a month.

People can have multiple deductions from their UC payment if they have multiple debts, and the amount that can be taken to repay debts owed to private companies is tightly regulated. For example, the maximum that can be deducted for fuel arrears is capped at 5 per cent of the core component of UC – the 'standard allowance'. But the government does not hold itself to the same standard it applies to third party debtors – repayments for advances or historic tax credit debts are allowed to go much higher.

Families subject to deductions are by definition in a challenging financial situation – either without enough savings to make it through the five-week wait for UC, in debt to their landlord, or behind on household bills. As prices and bills continue to climb, these families are at risk of falling into unmanageable debt and going without. By changing the way deductions are made from UC, the government can quickly provide support to families whose budgets are on a knife-edge.

Reduce deductions to ease pressure on low-income households

Some aspects of UC deductions – such as those for rent or fuel arrears – are necessary as they can lower a family's risk of eviction or having their energy supply cut off. But reducing deductions for the repayment of government debts, often taken at a higher payment rate, presents no risk to claimants. Reducing this rate would allow families to access more of their UC award, and presents no cost to the government as the debts would simply be collected in more manageable amounts over a longer period. **The DWP must reduce the maximum deduction rate for government debts to 5 per cent, in line with other creditors and to ease the pressure on families who are already financially vulnerable.**

In addition to this, the government needs to immediately reduce the cumulative level of deductions taken from peoples' benefits from the current 25 per cent down to 15 per cent. **This cost-neutral intervention would provide up to £53 more a month for a couple and up to £33 more a month for a single person or lone parent.**

Act now to increase benefits in time for a difficult winter

With the Bank of England now expecting inflation to hit 10 per cent this year[10] and energy bills expected to increase by a further £830 in October,[11] the government has admitted further support will be necessary. Just £1 in every £3 of support announced at the Spring Statement will go to households in the bottom half of the income

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[8] JRF, *Main out-of-work benefit sees its biggest drop in value in fifty years*, 2022
[9] PQ 129166, tabled on 24 February 2022
[10] Bank of England, *How high will inflation go?*, 2022
[11] Office for Budget Responsibility, *March 2022 Economic and fiscal outlook*, 2022

distribution.[12] Any further support must correct this unjustifiable imbalance and be targeted at families in greatest need.

The government must act now to prevent rising levels of debt and hardship. Immediately reducing the amount deducted from benefits will ease pressure on the most vulnerable households, but without further action, millions of families will be pushed deeper into poverty this year.

Benefits are not currently scheduled to increase again until next spring, which will come too late for families facing a difficult winter. **The Treasury has to take steps now so that the DWP has enough time to update the IT systems and increase the value of benefits in October in line with expected inflation.** If benefits were uprated by 10 per cent in October, matching the Bank of England's inflation forecasts, a couple with two children on universal credit would have another £101 a month and a lone parent with one child would have another £58 a month before winter.

The government must restore adequacy to the social security system

The rising cost of living has bought the inadequacy of benefits into sharp focus. After a decade of decline, the value of working-age benefits stands at its lowest level for 50 years.[13] Soaring inflation is not the reason for the hardship we are seeing, but it is making the situation more acute.

The recommendations above represent the bare minimum of what is required to help families get through the year. Without additional support, child poverty levels will rise even higher. **The government must restore adequacy to our social security system to reverse the rise in child poverty and ensure that all children are able to reach a decent standard of living.**

About CPAG

Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and solve poverty – for good. We provide training, advice and information to make sure hard-up families get the financial support they need. We also carry out high profile legal work to establish and protect families' rights.

[12] Resolution Foundation, *Chancellor prioritises his tax cutting credentials over low-and-middle income households with £2 in every £3 of new support going to the top half*, 2022

[13] See note 8

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