Advance to debt
Paying back benefit debt – what happens when deductions are made to benefit payments?

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Context

Deductions can be taken from benefit payments for a range of reasons including repayment of universal credit advances, legacy benefit overpayments, budgeting loans, rent arrears, utilities bills and mortgage interest. In April 2020, the Westminster Government temporarily paused the recovery of benefit overpayments for three months as part of its emergency response to the Covid-19 pandemic. The Government promised this would see people receive more support at the initial peak of the crisis, and would also allow it to divert frontline staff working on recovering this debt onto processing the massive spike in claims for benefits support as a result of the Covid-19 pandemic. Notably, the Government chose not to suspend the recovery of advance payments to universal credit. Advance payments are repayable loans, which many claimants receive from the government during the five-week wait for their first universal credit payment. The suspension of government debt recovery was only a temporary one; and the recovery of benefit overpayments recommenced in July 2020. In this paper, we explore the impact of repaying these government debts on people who are already on very low incomes.

Why do debt deductions matter?

This paper is part of Covid Realities, a Nuffield Foundation-funded research programme looking at experiences of families on a low income during the pandemic. Through this project, we have been working directly with parents and carers to understand the impact Covid-19 is having on their day-to-day lives. Parents can log onto a safe, online space, where they complete diary entries; respond to 'big questions of the week'; and also take part in virtual discussion groups.

Early on in our work with parents and carers, we started to hear about the negative impact of debt deductions: the extent to which they made budgeting on a very low income harder still, and very simply reduced what little income families had to get by on. It was clear that we needed to better understand the reach and impact of debt deductions, rather than focusing on the adequacy of benefit rates alone. This briefing draws on that work, incorporating economic modelling on the wider effects of debt deductions, combined with first-hand accounts from parents and carers themselves. It focuses on the impact of debt deductions taken for universal credit advance payments and legacy benefit overpayments.

What is the impact of debt deductions on families?

Debt deductions inevitably reduce a household's income; and can make budgeting only harder still. Different debts are recovered at different rates, and over different time periods, making the situation complex to understand and often creating a further layer of uncertainty and anxiety for families on a low income.

Sophie is a parent of two children, who was recently made redundant because of Covid-19. She claimed universal credit and had to take out an advance payment while she waited to receive her first payment. Sophie explains:

> *"I was recently made unemployed due to covid. I now have no money. No one will help me. I have two boys aged 11 and 14. Universal Credit [is] not enough as I did have income the month before [from work]. I'll need to wait another month for a normal payment."*

Sophie has deductions taken from her universal credit to recover the advance payment she received:

> *"I pay an advance back at [£]122 per month."*

This means that Sophie is receiving significantly less income through benefits than she is assessed as needing - with her debt recovery more than offsetting the additional £20 a week she receives through the temporary increase to universal credit, which is due to end in April.

Sophie's experience of seeing significant reductions to her benefits because of debt deductions that leave her struggling to get by demonstrates the effect these are having. But how widespread is this issue across the country?

Table 1: Universal credit claimants by deduction type in August 2020

	All claimants	Covid-19 claimants
Any deduction	**1,850,000**	**1,060,000**
Only advance repayment	*1,170,000*	*810,000*
Only other deduction	*230,000*	*50,000*
Both	*450,000*	*200,000*
None	**2,700,000**	**630,000**
Share with any deduction	**41%**	**63%**

Note: All claimants figures come from https://www.theyworkforyou.com/wrans/?id=2020-11-09.113275.h&s=universal+credit++deductions#g113275.q0. Covid-19 claimants refer to new claimants March-June 2020. Covid-19 claimants figures are estimated from Stat-Xplore, Department for Work and Pensions; Universal credit declarations (claims) and advances: management information; https://www.theyworkforyou.com/wrans/?id=2020-11-09.113275.h&s=universal+credit++deductions#g113275.q0

Table 1 shows the number of universal credit claimants by deduction type. In August 2020, 41% (1.85 million) of all households on universal credit were subject to a deduction. For households that started claiming in the March-June period at the start of the Covid-19 pandemic, the share is even higher at 63%. There are a variety of reasons for deductions but the most common is advance repayments. These occur when a claimant requests an advance on their universal credit payment because they cannot get by without support until they receive their first UC payment (80% of advances are during the five-week wait).[1] This advance is then repaid by deducting a sum from universal credit payments over the next twelve months. In May 2020, the average deduction for advance repayments was £60.[2] This amount will be greater for families as they have higher entitlement and will need a larger advance to cover their costs during the five-week wait. This can have a big effect on family finances, especially during a pandemic.

Ted S is a single parent living in the North of England. In this diary entry, he sets out the effect having to repay a universal credit advance is having on him and his young daughters:

> *"So after lots of back and forward with getting a response from universal credit journal system I was worried at the amount they are deducting this month (£192, which leaves £864). By the time all that happened it had gone into the bank. In short, they [universal credit] said I can't defer the advance for three months because at the time of accepting it I said I could afford it… I pointed out that at the time of taking that advance I was reaching almost sick with the burdens of taking it...so they taking £ £85.00 advance; £39.00 deductions DWP; and £75.00 from housing...Winter's coming and the stress is coming about that and the prepayment meters. It never bothered me before when I was self-employed and getting legacy benefits, nothing did. This past six months has certainly been different… A quick reckoning up of outgoings, not including food, I've got £98 to last a month. That's if I ain't forgot anything. Oldest daughter got some shopping in yesterday; still need few things till the next shop. All sorts can go through your mind. Maybe I'm overthinking or maybe just every parent is the same. Things like Sally needs a winter coat, tights etc for school, then there is the FAT man coming (Santa Claus). Can't even bear thinking about it."*

What Ted's diary entry also shows is that advance repayments of universal credit are not the only source of deductions. In August 2020, 15% of universal claimants had deductions for other reasons, such as tax credit overpayments (sanctions and fraud penalties are not counted as they are reductions of benefits rather than deductions). Although these affect only a fraction of claimants, the impact can be sizable. In August 2019, the average loss through other deductions was £140 per month.[3] This can have a massive effect on family budgets.

[1] Universal credit declarations (claims) and advances: management information, Department for Work and Pensions
[2] Proportion of universal credit claims with deductions, average deduction and proportion of the total amount deducted to repay advances for claims with a payment due in May 2020, by Parliamentary Constituency, GB
[3] Author's calculations from Number of households on Universal Credit, Stat-Xplore, Department for Work and Pensions; https://www.theyworkforyou.com/wrans/?id=2020-11-09.113275.h&s=universal+credit++deductions#g113275.q0; https://www.theyworkforyou.com/wrans/?id=2020-01-31.10759.h&s=deductions+constituency#g10759.q0

Aurora is a single parent living with two children after her husband died three years ago. When we asked her about the impact of debt deductions, this was her answer:

> *"It is simply the difference in being able to pay our rent. Our money is already tight without any extra deductions."*

She set out the negative impact it is having on her and her family:

> *"I'm not able to afford my rent this month. The debt from past benefit payments has been restarted, as a result we may become homeless... Fantastic! I'm so tired of this all. Destitution was never the plan."*

Aurora also explained the effect that struggling to manage financially was having on her own feelings of self-worth:

> *"We are [benefit] capped on UC. I'm a widowed parent of two primary aged children. Our rent alone is over 95 percent of our total benefits. I have not been able to find work which fits around the children's school times. On top of it all, this month the government have taken money to pay for previous benefit overpayments (made when my late husband was dying). Our situation is precarious, we struggle enormously and have done for many reasons. I feel like an utter failure."*

For households that have to pay back both advance repayments and other deductions, the amount taken off their universal credit entitlement can be very large. Although there is a monthly limit of 30% of the standard allowance, this still means that £179 (for couples) can be deducted each month.[4]

Debt deductions mean more families in deeper poverty

The deductions outlined above are clearly significant, but how do they compare to the household incomes of families in poverty? A measure often used to look at the depth of poverty in the UK is the poverty gap. This measures how far below the poverty line the average (median) household in poverty is, without accounting for deductions. In August 2020, the average household in poverty was 23% below the poverty line.[5] The pounds and pence figure differs by household composition, but for a couple with two children, it works out at £400 per month.

Inevitably, and unsurprisingly, debt deductions push families further into poverty. This also means that accounting for deductions deepens the poverty gap significantly. For a couple with two

[4] From October 2021 the maximum monthly deduction will be reduced to 25% and the length of time to pay back will be increased to 24 months. This change will slightly improve the financial hardship faced by families in any given month. However, £150 a month can still be deducted (from couples) and households will face these deductions for a longer period of time. In addition, October 2021 is a long way off for households currently facing deductions, who are particularly struggling now because of the labour market impact of Covid-19.
[5] Estimated using UKMOD, Family Resource Survey and Understanding Society – May 2020

children, repaying the advance repayment could increase the poverty gap to £500 a month.[6] If they have other repayments the amount could reach as high as £579 a month. This is unsurprisingly having a substantial and negative impact on family finances.

What needs to change?

There has rightly been much focus on the importance of keeping the temporary £20 Covid-19 uplift in universal credit, as well as extending this to legacy benefits. However, there is a parallel, equally urgent need to look at the impact and reach of debt deductions, and to take immediate steps to reduce the ways in which they push families further and deeper into poverty and associated debt and hardship. This is especially pertinent against a context of rapidly rising rates of Covid-19, further restrictions and school closures; a context which creates additional hardship for all of us; but which can be especially hard to navigate for families living on a low-income and for those having to claim Universal Credit for the first time.

Working in partnership with the parents and carers taking part in Covid Realities, we have identified where policy change is most urgently needed and where it would have the biggest impact.

To address the negative impact of debt deductions, the Government should:

- Convert advance payments of universal credit to non-repayable grants, immediately ending a significant proportion of debt deductions.
- Write off historic tax credit overpayments after a period of 2 years.

Vitally, these recommendations have emerged from close engagement with parents and carers' experiences; through economic modelling to better understand the impact of debt deductions; and importantly through discussion with parents who took part in one of the Covid Realities monthly 'big ideas groups' (virtual discussion groups). At this meeting, parents unanimously agreed that action on these two areas is both urgently needed and could make a significant difference to those currently adversely affected by debt deductions.

In this time of national crisis, families have been relying more than ever on the social security system to make ends meet and stay afloat. Although the upratings to the universal credit standard allowance, local housing allowance and working tax credit have helped households across the country, many families do not receive the support they expected due to deductions.

First-hand evidence from parents and carers shows the negative effect deductions are having at a household level. When combined with modelling of the effect deductions are having on hundreds of thousands of families across the country, it creates a compelling case for policy change and reform.

[6] The average advance repayment deduction is £60. However, advance repayments for new claimants (to cover the five-week wait) are based on expected entitlement. Families have higher costs and therefore higher entitlement through the child element and increased housing element.

We welcome the Government's promise to provide support to those who most need it. Action to reduce the level and number of debt deductions is now required to achieve the Government's objective to support low-income families through the pandemic and beyond.

About this report:

This briefing has been written by Ruth Patrick and Tom Lee (senior policy analyst, CPAG). They thank the Covid Realities participants who shared their experiences and developed the policy recommendations in partnership with the research team. This wider research team is made up of Kayleigh Garthwaite, Geoff Page and Maddy Power. Covid Realities is a research programme funded by the Nuffield Foundation (more details at www.covidrealities.org).

Acknowledgement:

The Nuffield Foundation is an independent charitable trust with a mission to advance social well-being. It funds research that informs social policy, primarily in Education, Welfare, and Justice. It also funds student programmes that provide opportunities for young people to develop skills in quantitative and scientific methods. The Nuffield Foundation is the founder and co-funder of the Nuffield Council on Bioethics and the Ada Lovelace Institute. The Foundation has funded this project, but the views expressed are those of the authors and not necessarily the Foundation. Visit www.nuffieldfoundation.org

Technical Appendix:

The nowcasted income distribution relates to incomes in August 2020 as this is when the statistics on the number of universal credit households who face a deduction is from. To model the labour market impact of Covid-19, we estimated regression models using the May wave of Understanding Society for:

- Probability of being furloughed
- Probability of losing job (for non-furloughed employees)
- Probability of reduced hours worked (for still employed non-furloughed employees)
- Probability of not working for the self-employed
- Probability of reduced hours worked (for still working self-employed).

This gives the probability of an individual with given characteristics ending up in one of these groups. These coefficients are then applied to the Family Resource Survey (FRS) dataset to get an estimate for the likelihood of an individual in the FRS falling into these categories. Individuals were then randomly assigned to categories based on their probabilities and observed external data on the number of people in different categories in May. The nowcasted labour market outcomes could then be passed through a tax-benefit microsimulation model (UKMOD) to provide the post-tax-benefit income distribution.[7]

However, this approach would give the income distribution in May 2020. In August 2020, the number of people furloughed was significantly lower as some people returned to work (on the same hours), some returned on reduced hours and some were made unemployed. Therefore some people randomly assigned to be furloughed were re-assigned to previous employment, reduced hours, or unemployment in order to match available August 2020 data.[8]

These nowcasted labour market outcomes were then passed through UKMOD to estimate the post-tax-benefit income distribution. Emergency policy measures including the £20 uplift, local housing allowance uprating and suspension of the Minimum Income Floor were included in the estimation. Careful attention was paid to make sure the number of households on universal credit matched external data. The poverty gap was then calculated by comparing the median equivalised after housing cost (AHC) income of households in poverty with the poverty line, calculated as 60% of the median household equivalised AHC income of the new income distribution.

[7] Assumptions were also made about the share of furloughed employees who received a top-up from their employer and the share of self-employed people who were eligible for the Self-Employment Income Support Scheme.

[8] The key assumptions made here were (1) that conditional on being initially furloughed there is no further information which predicts who remained being furloughed and who changed to other categories (2) the additional increase in unemployment is predicted by the same characteristics as the initial move from employment to being furloughed.