

## Rent arrears deductions in Universal Credit

The third party deduction (TPD) scheme in Universal Credit (UC) works on a similar basis to the arrangements for existing benefits (e.g. Income Support, Jobseeker's Allowance). The main difference is that there is a single Priority Order for deductions, which includes all deductions that can be made from UC (e.g. utility arrears, child maintenance, Social Fund loans, benefit overpayments). The Priority Order is applied when there is insufficient UC in payment to meet all deductions, or if the total amount of deductions that have been requested would exceed the overall maximum deduction rate. The overall maximum deduction rate is an amount equal to 40% of the claimant's UC standard allowance.

Housing-related deductions, such as rent arrears, are top of the Priority Order, to protect the claimant and their family from being made homeless. The current deduction rate for rent arrears is set at 5% of the claimant's UC standard allowance.

We are considering whether to increase the deduction rate for rent arrears, in order to recover them more rapidly. This could help both safeguard claimants' tenancies and stabilise landlords' income streams. One option we have identified would be to increase the deduction rate to 40% of the claimant's UC standard allowance (which is equivalent to the overall maximum deduction rate in UC). If however any other deductions were required on the award, e.g. utility arrears, fines etc, we would reduce the 40% for rent arrears by the amount of the other deductions, but only down to the current rate of 5%. We could also make a Financial Hardship decision if the claimant or a third party, such as a representative from the Advice Sector or a Social Landlord, contacted us to say the claimant was struggling because of the amount being deducted. This option would apply to existing cases, as well as new referrals for rent arrears deductions.

The monthly deduction rates are set out below (based on April 2014 benefit rates):

	<b>UC standard allowance</b>	<b>Current 5% rate</b>	<b>40% option</b>
<b>Single under 25</b>	£249.28	£12.46	£99.71
<b>Single 25 or over</b>	£314.67	£15.73	£125.87
<b>Couple both under 25</b>	£391.29	£19.56	£156.52
<b>Couple one/both 25 or over</b>	£493.95	£24.70	£197.58

In our discussions of this proposal with the Social Security Advisory Committee, they recommended that we obtain the views of specific stakeholders, including organisations that provide debt and money advice. We would welcome your views on the following questions.

**Part 1: Do you agree that the deduction rate should be increased from the current rate of 5% of the claimant's UC standard allowance? Please give reasons for your response.**

**We recognise that tenants must pay rent fully and on time: timely rent payments and effective rent repayment measures reassure landlords of reliable income streams and help maintain tenancies.**

Universal Credit has yet to be rolled out fully, so the efficacy of direct deduction under Universal Credit has not been tested, though in principle we support having a flat rate at 5%.

We do not support increasing the rate above 5%. Increasing the repayment rate will further squeeze the precarious finances of indebted households living below the poverty line, risking that claimants resort to borrowing and get further into debt.

Instead, a range of measures focused on preventing and minimising rent arrears should be introduced, with the 5% deduction kept in place to safeguard landlords when rent arrears are incurred.

**We recommend:**

- 1. That the maximum direct deduction rate remain at 5%.**
- 2. That 4 weeks of rent arrears trigger a robust response from DWP, including an automatic review of the circumstances of the claimant, with Alternative Payment Arrangements put in place as appropriate.**
- 3. That claimants who reach the arrears trigger should be referred to support to help their financial situation.**

This should include a referral to:

- Local Discretionary Housing Payment schemes to establish eligibility for additional financial support for housing costs
- Budgeting advice to look at finances and establish whether more arrears can be paid back

- 4. Where claimants can manage repayments *in addition to the 5% direct deduction*, voluntary repayment arrangements should be established between the claimant and landlord.**

Using voluntary arrangements mitigates the risk that claimants become locked into repayments they cannot afford. Retaining partial financial control will also help claimants prepare to become financially independent again, in line with UC intentions. These additional sums paid directly to landlords would need to be recognised by DWP to prevent the automatic deduction continuing longer than necessary.

**Part 2: Would a deduction rate of up to 40% of the claimant's UC standard allowance be an appropriate rate? If not, what would be an appropriate rate and why?**

**The proposed 40% amounts to a punitively high squeeze on household finances which is unsustainable, and we do not support it. We agree that claimants should not incur rent arrears, and, where claimants incur arrears, we support the objective of establishing a regular repayment scheme. Mandatory deductions is one way to impose regular repayments, but mandation should be balanced with manageability, rather than punishment.**

DWP stated that Universal Credit “requires a much more substantial financial hardship regime” – though inflicting financial hardship may be deemed appropriate for sanctions or fraud cases, it is

not appropriate for tackling rent arrears.<sup>1</sup> The proposed 40% deduction rate mirrors repayments imposed on claimants who have defrauded the system, and repayment of hardship funds which people may have to access because they have been sanctioned for not meeting work requirements.<sup>2</sup>

However the majority of claimants in arrears do not wilfully get into rent arrears, and as such, rent arrears should not be treated in the same way as sanctions or fraud by incurring punishingly high repayment rates. Rent arrears cases coming to Shelter court desks are often caused by HB delays or mistakes. In addition, recent welfare reforms are now a key source of arrears, with upwards of 1 million HB claimants with shortfalls.<sup>3</sup> The most recent estimate by JRF is that half of the 498,000 affected by social size criteria are in arrears<sup>4</sup>.

Shelter solicitors on the court desk report that judges favour a flat repayment rate of 5% for those in receipt of JSA/Income Support: it is straightforward to apply and fair in that claimants incomes are consistently deducted at a manageable rate. It also guarantees landlords a set repayment rate. However, direct deductions at a fixed rate are a blunt method of clawing back arrears because they do not take into account the financial situation of households – hence they need to be carefully balanced with manageability.

Shelter calculates that increasing deductions to a punitively high 40% will squeeze the finances of affected households to an unsustainable level: households with rent arrears, caused by HB miscalculations or HB shortfalls, could face a sudden jump in their deduction rate from 5% to 40%, meaning their weekly income would drop from £54.50 to £34.42. This is not a manageable rate, and would take households further, and substantially, into poverty – DWP should not collect rent arrears in a way that causes unnecessary hardship and could increase dependency on borrowing.

The protections flagged up to SSAC by DWP to identify struggling claimants under this proposed system are insufficient. The difficulties of identifying claimants for alternative payment arrangements has been flagged in the Pathfinders. Self-disclosure to DWP is proving challenging, and could become even more ineffective if claimants perceive that revealing financial information to DWP could lead to mandatory deductions.<sup>5</sup> Third party referral (e.g. landlords flagging up that 40% is causing hardship) is not straightforward and cannot be relied on to identify claimants who are struggling – this is especially the case for the approximately 1 million HB claimants in the private sector.

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<sup>1</sup> <http://ssac.independent.gov.uk/pdf/minutes/minutes-04-12-13.pdf>

<sup>2</sup> Up to 40% may be taken from benefits to repay fraudulently claimed benefits:

<https://www.gov.uk/government/news/new-measures-to-protect-the-integrity-of-the-benefits-system>

Up to 40% may be taken from standard allowance to repay hardship funds.

<sup>3</sup> There are now upwards of 1 million HB claimants with a shortfall because of welfare reforms, even when potential double counting on benefit cap/social sector criteria and benefit cap/LHA

(LHA 504,357 at February 2010:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/232335/lha-review-feb-2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/232335/lha-review-feb-2011.pdf)

Social sector criteria 498,000 at November 2013:

<http://www.jrf.org.uk/sites/files/jrf/housing-benefit-reform-summary.pdf>

Benefit cap 28,434 as at December 2013:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/277675/benefit-cap-december-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277675/benefit-cap-december-2013.pdf) )

<sup>4</sup> <http://www.jrf.org.uk/sites/files/jrf/housing-benefit-reform-summary.pdf>

<sup>5</sup> NHF 'Universal Credit: early learning from the North West pathfinders'

**Table 1: The 40% deduction rate will drive households deep into poverty<sup>6</sup>**

	Weekly income, after housing costs, no arrears deduction	Weekly income, after housing costs, + 5% deduction on standard allowance	Weekly income after housing costs, + 40% deduction on standard allowance	Weekly poverty line
24 year old, single	£57.37	£54.50	£34.42	£128
24 year old, single parent, 1 child	£141.00	£138.13	£118.06	£264
Couple, under 25, 2 children	£239.94	£235.44	£203.92	£357
Couple, in their 30s, 2 children	£263.56	£257.88	£218.09	£357

**Table 2: Stepchange figures show the 40% deduction would leave households without sufficient income to cover their outgoings<sup>7</sup>**

	Proportion with income shortfall, no deduction	Proportion with income shortfall, 40% deduction
Clients in rented accommodation		
Single under 25	28%	68%
Single 25 or over	27%	72%
Couple under 25	26%	71%
Couple 25 or over	24%	73%

### **Part 3: How would an increased deduction rate impact on claimants?**

**A deduction rate of 40% would drive squeezed households down into further poverty. The jump from 5% to 40% could shake precarious budgets, and mean claimants take on more debt.**

To accommodate the income reduction squeezed households may be able to make further cutbacks to weekly bills, by reducing food and energy bills, but will have very little wriggle room.

<sup>6</sup> Table explanation:

Assumptions included for households - workless, no disabilities, in receipt of HB which covers rent exactly  
 Column 1 - Weekly income includes Universal Credit standard allowance, HB (which is in effect 0 because of our assumption that it is being paid out straight to landlord) and Child allowances and Child benefit where appropriate  
 Column 2 - Weekly income after 5% deduction from Universal Credit standard allowance for rent arrears.  
 Column 3- Weekly income after 40% deduction from Universal Credit standard allowance for rent arrears  
 Column 4 - Weekly poverty line taken from DWP HBAI data, table 2.2:

<https://www.gov.uk/government/publications/households-below-average-income-hbai-199495-to-201112>

<sup>7</sup> Stepchange analysis taken from their own submission

JRF research found that social tenants are already cutting back and mounting up debts to cope with welfare reform.<sup>8</sup> If required to make a 40% repayment, a young family with two children would be left with around £50 per person per week to cover gas, electricity, food, travel costs, clothes and council tax. If affected by welfare reform, this household could have even less.

Those who were trying to manage the impact of welfare reform themselves may start to require financial support. As DWP suggest demand for hardship loans may increase. Under this regime, the approximately 1 million HB claimants with a HB shortfall could struggle to make the top up themselves<sup>9</sup>. Where rent arrears impact on the ability of tenants to make up their HB shortfalls, despite households making proportionally high debt repayments, they could still be at risk of eviction and entrapment in debt cycles. Universal Credit early Pathfinders found people relying on top up from family and friends to make ends meet, backed up by a report commissioned by Shelter indicating people with HB shortfall may borrow from friends and families.<sup>10</sup> A Shelter survey in January found people are already taking out loans, including high interest loans to meet their rent and mortgages.<sup>11</sup>

Claimants with privately arranged debt repayment plans e.g. with a payday loan lender or a bank, could be the worst affected because this debt may not figure in the calculation of third party debt. A claimant with a private arrangement could be using their standard allowance in addition to the 40% to meet these arrangements. This could leave households with little option but to take out more debt or to stop paying off other debts, embedding them further in a debt cycle.

An income reduced at the rates calculated in table 1 over a sustained period of time could impact on the ability of claimants to improve their situation. Seeking work incurs costs, such as travel costs, that a household would be looking to bring down.

#### **Part 4: How would an increased deduction rate impact on landlords?**

**The potential benefit for landlords is that rents will be paid back at a quicker rate, however the exact impact will vary between landlords. The financial impact could be undermined if HB shortfalls are not paid, and rent collection measures have to be increased.**

It is difficult to quantify the overall financial impact on landlords, because information on rent arrears is patchy. For example, we do not know how many Universal Credit claimants are likely to be in rent arrears or how much landlords are currently owed. What we do know is that the

<sup>8</sup> <http://www.jrf.org.uk/sites/files/jrf/welfare-reform-landlords-tenants-summary.pdf>

<sup>9</sup> There are now upwards of 1 million HB claimants with a shortfall because of welfare reforms, even when potential double counting on benefit cap/social sector criteria and benefit cap/LHA

(LHA 504,357 at February 2010:

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<sup>10</sup> GFK report to be published April 2014 'The experiences of families claiming Housing Benefit during a time of cuts and changes to benefits'

Universal Credit Pathfinder evaluation:

[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/263427/uc-report-final.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263427/uc-report-final.pdf)

<sup>11</sup> <http://www.bbc.co.uk/news/uk-25733830>

financial impact for individual landlords will vary - reported rent arrears rates by individual landlords involved in the Universal Credit Pathfinders vary and change over time.

The unintended consequences of increasing the rate could reduce the financial benefits for landlords:

- Automatically introducing direct payments to landlords in cases of rent arrears will protect HB contribution to rent payments but not HB shortfalls. Upwards of 1 million HB claimants with shortfalls could struggle to top up their rent. Introducing a high deduction rate could mean households with HB shortfalls continue to rack up partial rent arrears, embedding them further into a cycle of rent arrears.
- It may not be beneficial for landlords to have tenants in such precarious financial positions – it will be costly because of the need for consistent rent collection, and lead to a rise in tenants leaving tenancies because they are financially unmanageable.
- Our most recent poll of private landlords shows the majority of private landlords do not want to let to HB claimants and we would be concerned that, perversely, this could add to their disinclination if significant numbers of people move into multiple debts as a result<sup>12</sup>.

**Part 5: If we increase the deduction rate, the new rate would be applied to both new applications for rent arrears deductions and to claimants who are currently having 5% deducted from their UC. Have you any suggestions on how we could reduce the impact on claimants when the new rate is initially applied to their claim?**

As discussed, we recommend that the rate is not changed.

**Part 6: Is there anything else you wish to add about how we could improve the process for deducting rent arrears in UC?**

See recommendations at part 2.

**Questionnaire completed by (on behalf of which organisation):**

Zorana Halpin, Shelter

**Please include contact details:**

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Please return the completed questionnaire to the following email address:  
[UNIVERSALCREDIT.POLICYCORRESPONDENCE@DWP.GSI.GOV.UK](mailto:UNIVERSALCREDIT.POLICYCORRESPONDENCE@DWP.GSI.GOV.UK)

Please ensure your response reaches us by **11<sup>th</sup> April 2014**.

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<sup>12</sup> YouGov survey of 1000 private landlords.