Designing out deductions

How to address the **welfare debt trap**

citizens advice

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Summary

Benefit deductions mean that people receive lower benefit payments in order to repay debts. They arise largely from debts that claimants owe to government itself. This report details the impact that such deductions can have on people receiving Universal Credit, and outlines policies that can prevent and alleviate deductions.

Deductions have been normalised: 2.25 million households on Universal Credit – containing 2.3 million children – are now receiving less income than they are entitled to as a result of deductions. Given that Universal Credit is already failing to provide an adequate income for many claimants, the scale and spread of deductions is alarming.

And the situation is getting worse. In 2023, Citizens Advice supported 28% more people with Universal Credit deductions than in the year before the pandemic. The number of people seeking help with overpayments rose by almost 25%, and with advance loan deductions by almost 10%. The number of people we helped with the overall financial level of their deductions (including both debts to government and third parties) grew by almost 300%.

Groups already more likely to be in financial hardship are particularly affected by advance loan and overpayment deductions. Compared to the people who seek our help with general Universal Credit issues, social tenants and people with long-term health problems are over-represented among the people we help with deductions issues.

1 in 3 of Universal Credit claimants we supported with overpayment or advance loan deductions also needed support accessing localised social welfare, and nearly 1 in 5 needed help with fuel vouchers. 6 in 10 of those we helped with advance loan repayments in the past year needed a food bank referral. Deductions feed into a 'cycle of debt' that many of the people we help are experiencing; more than half also needed debt advice. And almost 80% of our advisers say that overpayment and advance loan deductions negatively affect the mental health of the people they are supporting.

Part of the problem is that the Department for Work and Pensions (DWP) provides very little information to Universal Credit claimants about why their benefit payments are being reduced – especially in the case of historic overpayments. Claimants are not empowered to challenge decisions around

deductions, and debt repayments are very rarely fully or partially waived, or even delayed to allow claimants to adjust their income expectations.

There are grounds for deductions in some circumstances. They can help claimants manage their debts to third parties (while noting that most 'third party' debts are actually owed to other parts of the public sector). Advance loans – repaid via deductions – can also help claimants to manage their own finances. And, in general, it is understandable that the DWP seeks to recover overpayments caused by claimant error.

However, overpayment recovery practices now exceed this mandate. Deductions are being made where overpayments arise due to government error, or as anomalous features of the 'managed migration' from legacy benefits to Universal Credit. Even in the case of claimant error, overpayments may have occurred because the DWP failed to act upon new information provided by claimants that affected their benefit entitlement.

Furthermore, most advance loan repayments are due to new claim (or benefit transfer) loans which are only necessary because of the 5 week waiting period for first Universal Credit payments. The application of monthly payments in arrears (the main cause of the wait) is based on unrealistic assumptions about the financial circumstances of low-paid employees. The 5 week wait is therefore a significant source of hardship, and the loans provided by the DWP to bridge the income gap prolong its impact even as they soften it. Expecting people to start their Universal Credit journey in debt to the DWP, in return for mitigating the 5 week wait, is not a sustainable situation.

In order to eliminate the 5 week wait and the deductions it leads to, the report recommends that new claim or benefit transfer loans are replaced with new claim grants. Alternatively, the DWP could opt to make payments up front – albeit at the risk of further complicating the Universal Credit system – or, if advance loans are retained, the maximum repayment period should be at least doubled to 4 years.

We also recommend writing off all overpayments due to government error, and consider writing off overpayments that occurred more than 5 years ago. The DWP should also widen access to deduction waivers where there is evidence that overpayment recovery and other deductions cause significant hardship, and allow for more detailed and straightforward communications that would empower claimants to challenge DWP decisions.

Introduction

Deductions are a portion of a person's benefit award that is taken directly from monthly payments to cover debts.[1] The focus of this report is on deductions for Universal Credit claimants arising from debts to government, principally advance loan and overpayment debts.

How deductions work

For Universal Credit claimants, deductions are taken from the core benefit payment (i.e. the standard allowance), so do not affect additional support for things like housing and children. But up to 25% of the standard allowance can be taken off via deductions – still a very significant amount.[2]

Box 1. Advance loans

The most important type of advance loan in the Universal Credit system is the new claim loan, taken up by most new Universal Credit claimants due to a 5 week wait for their first payment. It will generally be equivalent to the claimant's monthly Universal Credit award, and by definition means that their subsequent payments will be lower because they need to repay the new claim loan. Benefit transfer loans are a similar mechanism, taken out by people transferring to Universal Credit from legacy benefits (there are 2 week 'run-on' periods for some legacy benefit payments, partially bridging the 5 week gap, but not for tax credits). Universal Credit claimants can also access budgeting advance loans and change of circumstance loans to meet large or unexpected living costs. Advance loans are generally repayable over a 2 year period (this was previously one year, and it may be as short as 6 months for some types of advance loans).

[1] The authors are very grateful to Rebecca Rennison, Jagna Olejniczak, Victoria Anns, Kate Harrison and Matt Vaughan Wilson, and all colleagues who supported this research. We are particularly grateful to the local advisers and government officials who gave up their time to share insights on this issue.

[2] Legislation allows for deductions up to 40%, but a cap of 25% is now DWP policy, having first been reduced to 30%. In various circumstances, however, deductions can exceed 25%.

Box 2. Overpayments

An overpayment means that a claimant has, at some point, received benefit payments at a higher level than they are entitled to. The DWP can recover overpayments through repayments up to the value of 15% of a claimant's standard allowance, or 25% in some cases. There is no limit on recovery irrespective how far back in time the overpayment may have occurred, and the Department for Work and Pensions (DWP) may recover overpayments from the higher standard allowance amount for couples even if only one member of the couple received the overpayment before claiming as a couple. For the most part, DWP makes no distinction between overpayments arising from government error, and overpayments arising from claimant error – the Welfare Reform Act 2012 stipulated that overpayments could be recovered even where claimants had no reason to believe the government was mistakenly overpaying. The managed migration of claimants from legacy benefits to Universal Credit is expected to lead to many more cases of overpayments being identified. DWP is not recovering newly discovered historic overpayments due to government error in these circumstances, but it is recovering overpayments caused by the managed migration process itself.

The deductions system is highly complex and, within the overall 25% cap, there are different caps for different types of deductions, as table 1 details. Our previous report[3] on this topic considered third party debts alongside debts to government – arguing for instance that the former should be prioritised over the latter – but our focus here is deductions for loans from government and the repayment of previous overpayments.

[3] Elizabeth Miller (2023) The welfare debt trap: adjusting the level and priority of deductions from benefits to prevent hardship. Citizens Advice. Available at: https://assets.ctfassets.net/mfz4nbgura3g/1tJul36C0JuJjOkLqCP4XL/5a32c6b9e077022a828dd07dd9002389/The_20welfare_20debt_20trap.pdf.

Table 1. Caps and other rules applicable for various types of deductions (percentages refer to the Universal Credit standard allowance)[4]

Advance loans	
New claim and benefit transfer loans	Fixed instalments over a maximum of 24 months
Change of circumstances loans	Fixed instalments over a maximum of 6 months
Budgeting advance loans	From December 2024, fixed instalments over a maximum of 24 months (currently 12 months)
Advance loans received by claimants before migrating from legacy benefits to Universal Credit	Treated as overpayments - see rules below
Overpayments	
Overpayment of DWP legacy benefits or Universal Credit (due to government or claimant error) where the claimant does not have earned income that reduces their standard allowance award	15%
Overpayment of DWP legacy benefits or Universal Credit (due to government or claimant error) where the claimant has earned income that reduces their standard allowance award	25%
Overpayment of tax credits (due to claimant error)	DWP legacy benefit overpayments caps apply
Overpayment of tax credits (due to government error)	Not recoverable

[4] Rules for advance and hardship loan deductions are available at: https://data.parliament.uk/DepositedPapers/Files/DEP2023-0365/051_Deductions_V14-0.pdf. Rules for overpayment recovery deductions (and other deductions treated as overpayments) are available at: https://www.gov.uk/government/publications/benefit-overpayment-recovery-staff-guide/benefit-overpayment-recovery-guide, and the specific policy regarding migrating claimants was explained to the authors by DWP officials. Rules for third party deductions are available at: https://assets.publishing.service.gov.uk/media/64a6b13cc531eb000c64ffa6/admd2.pdf.

Hardship loans	
Hardship payments made while claimant was subject to a sanction	DWP has discretion, but if deemed recoverable, these are treated as overpayments - see rules above
Fraud[5]	
Overpayments arising from claimant fraud	25%
Third party debts	
Most third party debt repayments, including council tax arrears and court fines	5%
Rent and service charge arrears for private tenants	10-20%
Service charge arrears for owner-occupiers	5%
Arrears of energy and water bills	Deductions can be above 5% if required to protect ongoing consumption[6]
Child maintenance payments (arrears or ongoing payments)	Set by the Child Maintenance Service

Outline of the report

It is clear that Universal Credit deductions are pushing many people into significant hardship. The report begins by outlining the scale of deductions within the Universal Credit system, especially regarding advance loan and overpayment repayments. It then charts how this problem has grown over time

[5] Civil penalties for negligently providing incorrect information or failing to provide information, and financial penalties imposed in suspected fraud cases as an alternative to prosecution, are treated as overpayments in the Universal Credits deductions system. See https://www.gov.uk/government/publications/benefit-overpayment-recovery-staff-guide/benefit-overpayment-recovery-guide.

[6] The DWP can deduct 5% of the standard allowance plus an estimated amount for the claimant's ongoing consumption if the claimant is in arrears (see https://www.legislation.gov.uk/uksi/2013/380/schedule/6), and they consent to the additional deduction (see https://www.legislation.gov.uk/uksi/2023/232/regulation/3/made).

– and is expected to grow further as people migrate from legacy benefits to Universal Credit – and outlines which groups among the people we support are most affected by deductions.

We then detail the impact of deductions in terms of the hardship they cause for the people we support, and outline concerns among advisers and claimants about how deductions are applied. Finally, the report explores options for designing out deductions – minimising the accrual of debts to government within Universal Credit – and more generally mitigating the impact of deductions.

The scale of deductions

45% of Universal Credit claimants have a deduction from their award, with an average monthly deduction of £61.[7] This amounts to around 2.25 million claimant households – with 2.3 million children within these households.[8] In the year to February 2023, 3.52 million claimants had one or more deduction for some period of time – there were 3.35 million children within these households.

Advance loans

The number of households who have a deduction for different types of advance loan repayments to government are:

- New claim or benefit transfer loan: 732,000
- Budgeting advance loan: 911,000
- Change of circumstance loan: 39,000[9]

The average monthly deductions for these types of debts are:

- New claim or benefit transfer loan: £31
- Budgeting advance loan: £41[10]

[7] PQ 191819. Available at https://questions-statements.parliament.uk/written-questions/detail/2023-06-29/191819. Note that the DWP does not routinely release information on Universal Credit deductions; we are generally reliant on parliamentary questions for updates. The figures here relate to deductions in February 2023, so will not include the significant increase in tax credit overpayments that has been reported by Citizens Advice advisers on the front line. A more recent parliamentary question revealed that the average deduction in May 2023 was slightly higher, £63 (see https://questions-statements.parliament.uk/written-questions/detail/2023-10-17/203044); we use the earlier data because it includes a more detailed breakdown by deduction type.

[8] PQ 189564. Available at: https://questions-statements.parliament.uk/written-questions/detail/2023-06-14/189564. In August 2022, the average deduction for households with children was £73. At the time, the average for all households was £62 – so we can deduce that households with children experience higher Universal Credit deduction rates (see PQ 136691, available at https://questions-statements.parliament.uk/written-questions/detail/2023-01-31/136691).

[9] PQ 191730. Available at: https://questions-statements.parliament.uk/written-questions/detail/2023-06-29/191730.

[10] It is worth reiterating that, as a result of a decision at the 2024 Spring Budget, the repayment period for new budgeting advance loans will be extended to 24 months from December, in line with other advance loans. Other things being equal, while current recipients will not see any benefit, in future years monthly deductions for these types of loans should be lower.

- Change of circumstance loan: £26[11]

Overpayments

The number of households who have a deduction for different types of overpayment recovery are:

- Tax credit overpayment: 643,000
- DWP benefit overpayment: 481,000[12]

DWP's latest fraud and errors statistics show that overpayments, whether due to government or claimant error (therefore excluding fraud cases), accounted for around 1.5% of total Universal Credit expenditure in 2023/24.[13]

The average monthly deductions for these types of debts are:

- Tax credit overpayment: £43
- DWP benefit overpayment: £41[14]

It is apparent that a large proportion of deductions cases involving Universal Credit overpayments are the product of government rather than claimant error. DWP's annual accounts for 2023/24 suggest that overpayments due to government error now make up 47% of the value of Universal Credit overpayments (excluding fraud cases).[15]

There have long been concerns that the Universal Credit system's reliance on real-time information (RTI) about claimants' earnings, which in theory makes Universal Credit more sensitive to changing needs, is also a source of inaccurate payments. The system relies on information being provided to HMRC by

[11] PQ 191730. Available at: https://questions-statements.parliament.uk/written-questions/detail/2023-06-29/191730.
[12] PQ 191730. Available at: https://questions-statements.parliament.uk/written-questions/detail/2023-06-29/191730. Note that 690,000 households have deductions for multiple advance loan and/or overpayment debts.
[13] See https://www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-2023-to-2024-estimates/fraud-and-error-in-the-benefit-system-financial-year-ending-fye-2024#universal-credit-overpayments-and-underpayments.
[14] PQ 191730. Available at: https://questions-statements.parliament.uk/written-questions/detail/2023-06-29/191730.
[15] See https://assets.publishing.service.gov.uk/media/669e2ca2ab418ab055592996/annual-report-accounts-2023-2024-web-ready.pdf (table 2 on page 383).

employers, and then rapidly passed to DWP. Overpayments (and their recovery) have therefore become an endemic feature of the Universal Credit system.

When surveyed in February 2024, 62% of our advisers agreed that the RTI system causes inaccurate payments that negatively affect claimants (and only 5% disagreed). It is worth noting that deductions for overpayments are applied through a largely automated process, despite the discretion available to DWP. This means there is usually only a very limited opportunity for claimants to challenge deductions, or explain the hardship recovery will cause, before their Universal Credit payments are reduced.[16]

Third party debts

The £61 average deduction includes debt repayments to third parties. The number of third-party debts registered against Universal Credit households is:

- Council tax arrears: 161,900
- Electricity bill arrears: 1,800
- Gas bill arrears: 1,400
- Water bill arrears: 46,000
- Court fines: 253,100[17]

While this report's focus is debts to *central* government – advance loans and overpayments – it is notable that the overwhelming majority of so-called third party deductions are also for money owed to the public sector. In terms of council tax, the Universal Credit system is evidently being impacted by the inadequacy and variability of Council Tax Support, and indeed the regressive nature of the tax itself.[18]

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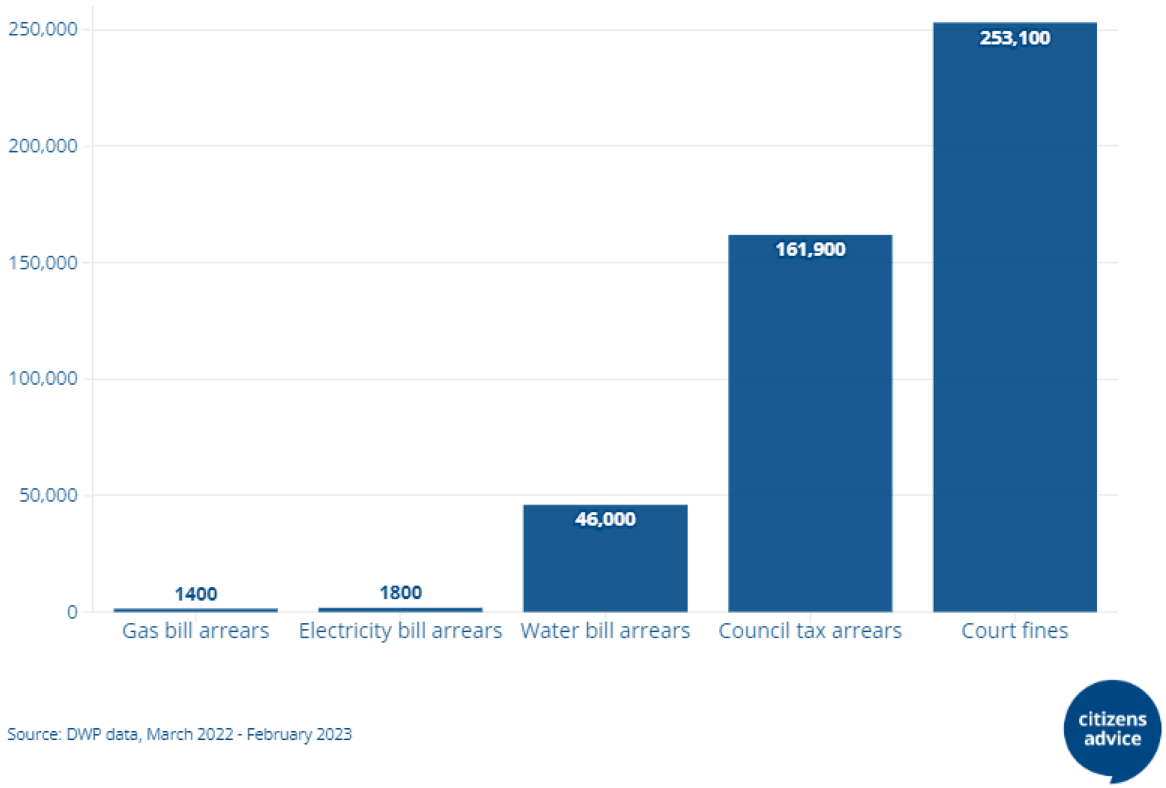
[16] FOI 2023/45348. Available at: https://www.whatdotheyknow.com/request/the_level_of_discretion_when_app/response/2360067/attach/4/Response%2045348.pdf.
[17] PQ 187661. Available at: https://questions-statements.parliament.uk/written-questions/detail/2023-06-05/187661. These figures refer to the year March 2022-February 2023 (claimants may have more than one type of third party debt deductions throughout the year, so may appear more than once in these statistics). The figures for utilities arrears excludes people who have deductions solely to protect ongoing consumption.
[18] Maddy Rose (2023) It's time to rethink Council Tax Support. Citizens Advice. Available at: https://wearecitizensadvice.org.uk/its-time-to-rethink-council-tax-support-9786330eff8f); The Economist (2024) Britain's council tax is arbitrary, regressive, and needs fixing. Available at:

Figure 1: Number of third party debts registered against Universal Credit households



However, the 5% cap means deductions for council tax arrears and court fines are a less acute source of hardship for Universal Credit claimants, other things being equal (although this cap does not prevent multiple third party deductions being applied).

The level of deductions

In accordance with DWP policy, claimants usually cannot have deductions valued at more than 25% of their standard allowance. But as figure 2 shows, a large number of households have deductions at or even over this level.

Of households subject to deductions, 1 in 10 (215,000) have deductions at 25% or higher; it is likely that most of these are people with 'last resort' deductions

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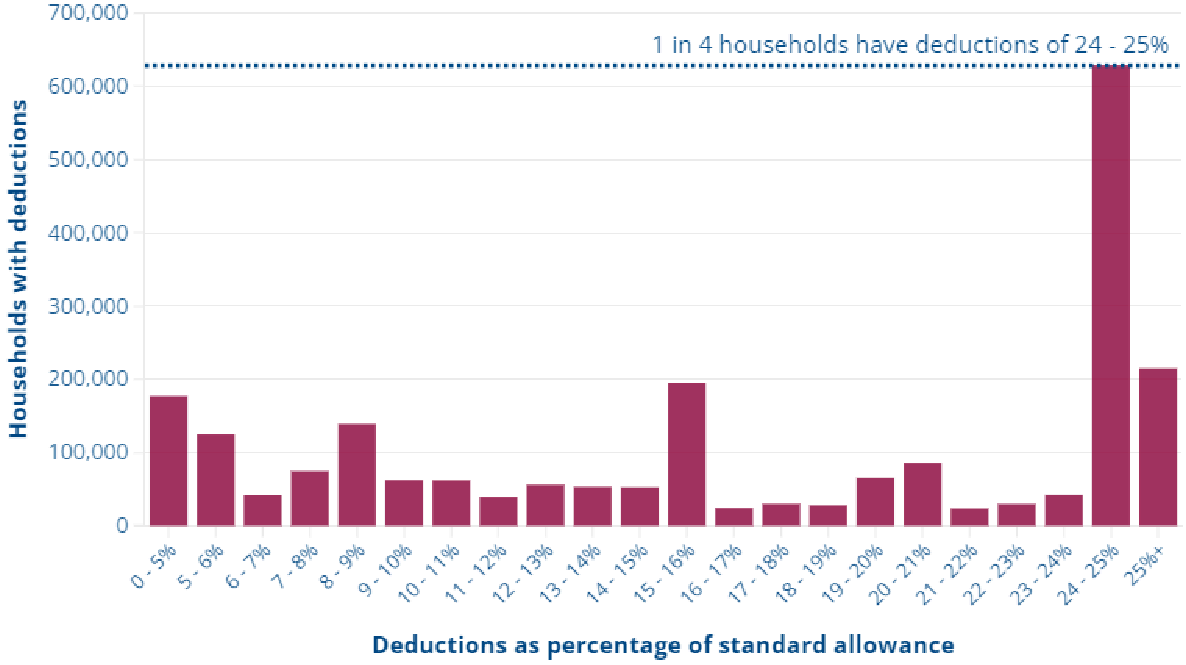
https://www.economist.com/britain/2024/01/25/britains-council-tax-is-arbitrary-regressive-and-needs-fixing.

that breach the cap (a practice that is allowable in exceptional circumstances). More than 1 in 4 households subject to deductions (628,000) have deductions of 24%-25%. A further 8% (190,000) have deductions of 20%-24%.[19]

Figure 2: Level of deductions for Universal Credit households subject to deductions



Source: DWP data for households subject to deductions, February 2023

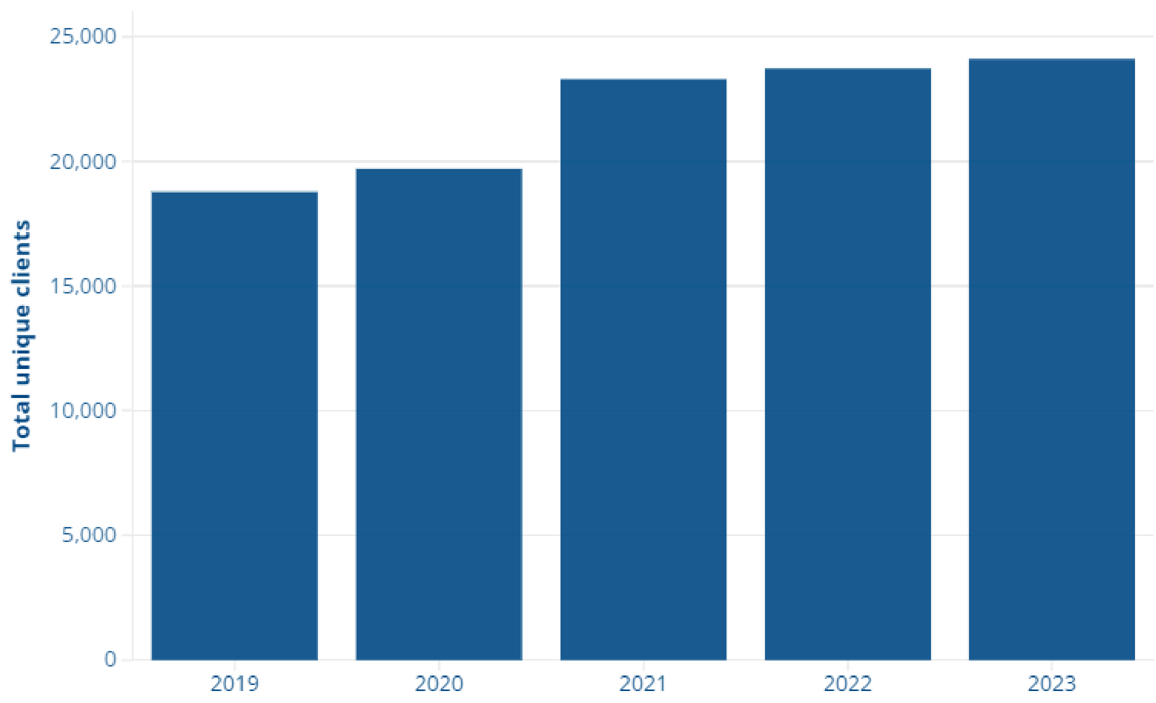
[19] PQ 194946. Available at: https://questions-statements.parliament.uk/written-questions/detail/2023-07-18/194946. Many of those with deductions at or above 25% of their standard allowance are highly likely to have deductions beyond 25% as a result of 'last resort' deductions to prevent homelessness or disconnection from their fuel supply. It is a mathematical necessity, if claimants were in receipt of a full standard allowance in February 2023, that a 25% deduction must have been rounded *down* to below 25% for the vast majority of claimants, since a fraction of a pence cannot be deducted, and the deduction amount cannot be rounded *up* without breaching the cap. (This applies to the full standard allowance rate for single claimants – the vast majority of Universal Credit claimants are single). It is highly likely therefore that most of those with deductions at or above 25% at this point in time were having 'last resort' deductions applied, rather than people with regular deductions up to the level of the cap (this group will be instead included in the 24-25% category). This may be justifiable, but it is worth noting that there is no defined process for determining when last resort deductions are necessary (see FOI 2023/86602. Available at: https://www.whatdotheyknow.com/request/last_resort_deductions/response/2490199/attach/3/Response%20FOI2023%2086602.pdf).

A growing problem

Change since the pandemic

Each year since the COVID-19 pandemic began, more people have needed our help with deductions from their Universal Credit award. The number of people we've helped with all deduction-related issues has increased by 28%, from just under 18,800 in 2019 to over 24,100 in 2023 (figure 3). Over this period, we've seen an almost fourfold increase in the number of people needing help specifically with the overall level of their deductions.[20]

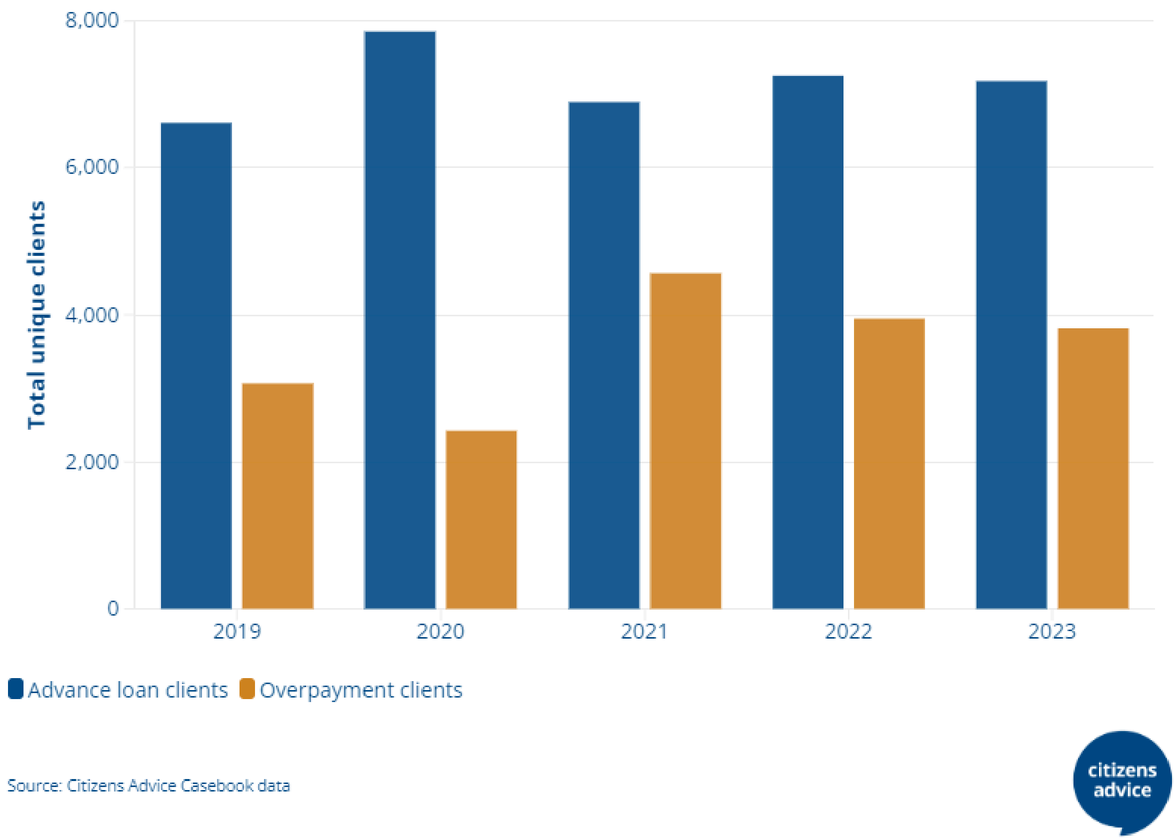
Figure 3: People coming to us for help with Universal Credit deductions



Source: Citizens Advice Casebook data

[20] We supported 744 people in relation to the overall level of their deductions in 2019 and 2,950 in 2023, an increase of 297%.

Figure 4: People coming to us for help with advance loan and overpayment deductions



Deductions for advance loan and overpayment recovery are a growing concern. In 2023 we saw 24% more people with problems relating to overpayments, and 9% more relating to advance loans, compared to 2019 (figure 4).[21]

The number of people we helped with advance loan repayment issues increased particularly quickly – by almost 20% – between 2019 and 2020, reflecting the surge in new Universal Credit claims during the early stages of the pandemic.[22] Though the number of people we are helping with this issue has fallen from the 2020 peak of 7,800 we are still supporting more people with this issue than before the pandemic.

[21] We helped 3,067 people with overpayment issues in 2019 and 3,816 in 2023. We helped 6,609 people with advance loan repayment issues in 2019 and 7,179 in 2023. In terms of specific third party deductions, we saw an 89% increase in people needing our help with deductions for council tax arrears over the same period.

[22] House of Commons Library (2021). Coronavirus: Universal Credit during the crisis. Available at: https://researchbriefings.files.parliament.uk/documents/CBP-8999/CBP-8999.pdf

Advance loans and overpayments have consistently been the most prevalent issues for the people we help with deductions. People seeking help with advance loan issues were the largest group among those we supported with deductions issues every year between 2019 and 2023, while the prevalence of people seeking help with overpayment issues has grown. In 2019 and 2020, this group was respectively the third and fourth largest group among those we helped with deductions issues, but in 2021, 2022, and 2023, they were the second largest group.

The size of debts has also increased over this period: the value of tax credit and benefits overpayments together has increased by 24% since 2019.[23]

Managed migration

Nearly a third of advisers report that there is already strong or emerging evidence that the compulsory migration of legacy benefit claimants to Universal Credit is leading directly to deductions that cause hardship.[24] We expect this problem to intensify as the DWP aims to migrate around 900,000 households to Universal Credit before the end of 2024.[25]

For instance, we know that many claimants, despite simply transferring from one benefits system to another, will have to wait around 5 weeks for their first monthly Universal Credit payment. Some legacy benefits allow for a 2 week 'run-on' payment to partially bridge this income gap – but this is not available to tax credit claimants. Many migrants to Universal Credit therefore require benefit transfer loans, with repayments made from subsequent Universal Credit payments. This means they receive less than they need from Universal Credit or, at the very least, see the value of their transitional protection eroded.

Deductions for historic tax credit overpayments appear to be the most common and concerning deductions triggered by managed migration. Tax credit

[23] Aiden Greenall (2023) Debt time bomb: countdown to a household debt disaster. Available at: https://wearecitizensadvice.org.uk/debt-time-bomb-countdown-to-a-household-debt-disaster-e596d10996fe
[24] 30% of 199 frontline advisers surveyed February 2024.
[25] National Audit Office (2024) Progress in Implementing Universal Credit. Available at: https://www.nao.org.uk/wp-content/uploads/2024/02/progress-in-implementing-universal-credit-report.pdf

overpayments, which have essentially lain dormant in HMRC systems for as long as a decade in some cases, are uncovered by the process of making a new claim for Universal Credit. An estimated 8 in 10 tax credit claimants who will undergo managed migration this year have an outstanding overpayment, which the DWP can recover from Universal Credit awards.[26] As one frontline adviser remarked:

"HMRC often never notified claimants of their overpayments at the time they were incurred and made no effort to recover them. [...] The overpayments are often 5-10 years old, so claimants do not have the financial records to challenge the DWP/HMRC." [27]

Some overpayment debts are being created by managed migration. For example, in order to facilitate a switch from weekly to monthly benefit payments, the government calculates an annualised earnings for tax credit claimants who are in work, but if someone is paid by their employer just before the day of the month that has been allocated as their 'migration day', this will exaggerate their annual earnings. The government then assumes they have been paid tax credits at a higher level than they were entitled to. These overpayments will be taken from future Universal Credit payments.[28]

Similarly, how the transitional element (TE) is being calculated is also a potential source of overpayment debts. The TE is the aspect of transitional protection designed to safeguard a claimant's current income when they are required to migrate from legacy benefits to Universal Credit. There has been a degree of uncertainty around the TE's calculation in the initial stages of managed migration: for example, in general the TE is supposed to be based only on information from a claimant's legacy benefit record, but in some cases new information provided via a Universal Credit claim can be used to supplement this information. It has not always been clear how and when this should happen, meaning the TE may have been overestimated for some people. The DWP's position is that all overpayments will be recovered.

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[26] National Audit Office (2024) Progress in Implementing Universal Credit, available at: https://www.nao.org.uk/wp-content/uploads/2024/02/progress-in-implementing-universal-credit-summary.pdf

[27] Survey response from Citizens Advice adviser, February 2024.

[28] This example is detailed further in our recent submission to the Public Accounts Committee's inquiry into the implementation of Universal Credit (see p.14 https://assets.ctfassets.net/mfz4nbgura3g/5HUzHTjS9ACZDJLHCh8Op7/c5f26ca550c4edc6fbbd0892119c2a24/CitA_PAC_submission_290224.pdf).

The advisers we interviewed had generally not at that point seen many people directly affected by managed migration. However, advisers had supported people who were negatively affected by deductions caused by natural migration to Universal Credit. Advisers described people they support having decades-old tax credit overpayment debts, typically worth thousands of pounds, unexpectedly recovered from their Universal Credit payments. This group faces particular challenges with accessing the information needed to understand, manage and, if needed, challenge their deductions.

Who is experiencing deductions?

In some respects, the people we help with deductions issues are broadly representative of those who seek our support with all Universal Credit-related issues.

- 52% and 63% of the people we help with advance loan and overpayment issues, respectively, are female, compared to 59% of all those we help with Universal Credit issues.
- 81% and 76% of the people we help with advance loan and overpayment issues, respectively, are white, compared to 78% of all those we help with Universal Credit issues.[29]

However, groups already more likely to be in financial hardship are particularly affected by advance loan and overpayment deductions, and are over-represented in our data. These people are less likely to be homeowners, and more likely to be social tenants, compared to all those we help with Universal Credit issues. The people we help with advance loan issues are also more likely to be unemployed and looking for work.[30]

Among the people we help with advance loan issues, single people without children are also overrepresented by 12 percentage points, and make up half of this group.[31] This is partly due to younger people making up a disproportionate number of the people we help with advance loan deductions (figure 5).

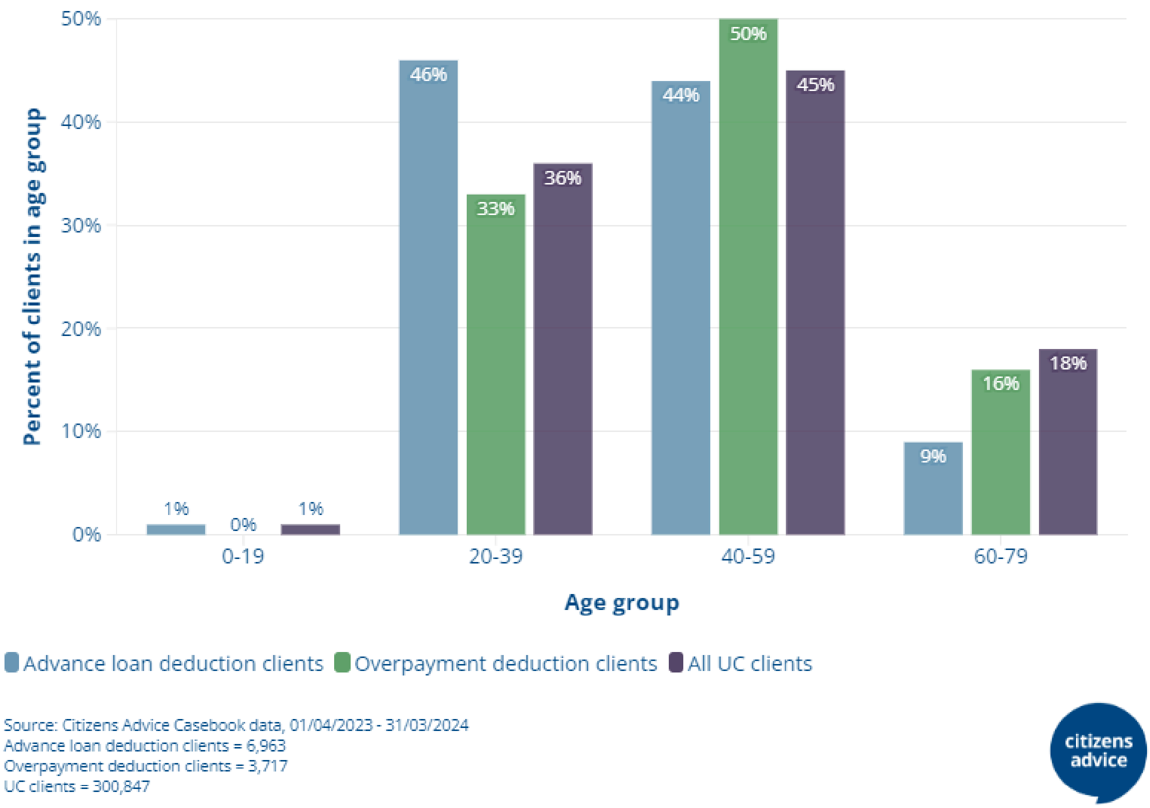
People with long-term health conditions make up a disproportionate number of those we help with overpayment and advance loan repayments (figure 6). The proportion of the people we help with overpayment and advance loan deductions who have long-term health conditions has grown by 7% since 2019 among the overpayments group, and by 9% among the advance loan repayment

[29] Client data from 01/04/2023 - 31/03/2024.
[30] 19% of all our Universal Credit clients are homeowners, compared to 9% of overpayment deductions clients and 7% of advance loan deduction clients. 36% of all our Universal Credit clients are social tenants, compared to 49% of overpayment deduction clients and 48% of advance loan deduction clients. 21% of our Universal Credit clients and 21% of our overpayment deduction clients are unemployed and seeking employment, compared to 31% of advance loan deduction clients. Data from 01/04/2023 - 31/03/2024.
[31] 38% of all Universal Credit clients and 38% of overpayment deduction clients between 01/04/2023 - 31/03/2024 were in single adult households, compared to 50% of advance loan deduction clients.

group. Among the people we help with advance loan deduction issues who are disabled or have long-term health conditions, 42% have multiple impairments, and 36% have a mental health condition; a greater share than among the people we help with all Universal Credit issues.[32]

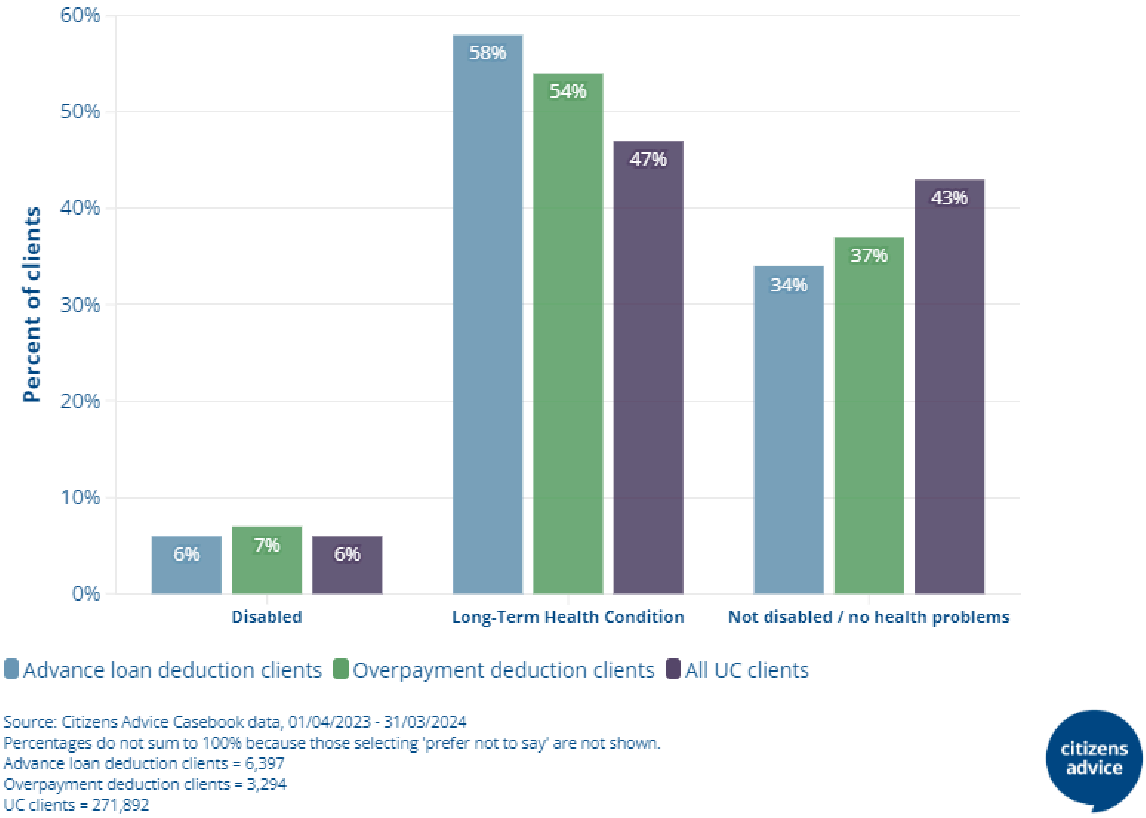
The high proportion of those with long-term health conditions among the people we support with overpayment and advance loan deductions issues is also reflected in employment status. Compared to all of the people we help with Universal Credit, those we support with overpayment and advance loan deductions are less likely to be employed for 30 hours or more per week and more likely to not be in work as a result of being permanently sick or disabled.[33]

Figure 5: Composition of the people we support with advance loan, overpayment, and all Universal Credit issues, by age



[32] 47% of all Universal Credit clients between 01/04/2023 - 31/03/2024 have a long-term health condition. Of disabled Universal Credit clients or those with a long-term health condition, 37% have multiple impairments and 27% have a mental health condition.
[33] 26% of all Universal Credit clients between 01/04/2023 - 31/03/2024 were not in work as a result of being permanently sick or disabled, compared to 29% of overpayment deductions clients and 33% of advance loan deductions clients.

Figure 6: Composition of the people we support with advance loan, overpayment, and all Universal Credit issues, by disability and health condition



Advisers report that deductions are causing the greatest hardship for those who are already less financially resilient or who face additional barriers in managing and understanding their Universal Credit claims. For example, families affected by the benefit cap, people at risk of homelessness, and people who have been on low pay for many years experience additional financial hardship both during the 5 week wait and when advance loan deductions subsequently reduce their benefits income. The next section discusses this in more detail.

Disabled people and people with long-term health conditions tend to have lower incomes and higher than average living costs. Nearly 1 in 10 households with a disabled person are in a negative budget on average, compared to 1 in 15 households overall.[34] Households with at least one disabled adult or child are also estimated to need an additional £975 per month, on average, to maintain the same living standard as households where no one is disabled.[35] They are therefore more likely to already be experiencing financial hardship before deductions, and may also need more support with managing their deductions. The barriers to understanding and managing deductions are discussed further in the penultimate section.

[34] Citizens Advice (2024) The national red index: how to turn the tide on falling living standards. Available at: https://www.citizensadvice.org.uk/policy/publications/the-national-red-index-how-to-turn-the-tide-on-falling-living-standards/. Note that the index excludes Northern Ireland.
[35] Scope (2023) Disability Price Tag 2023: the extra cost of disability. Available at: https://www.scope.org.uk/campaigns/extra-costs/disability-price-tag-2023/

The impact of deductions

Affording essentials

Deductions by definition bring people's income below their assessed need, so it is inevitable that people with advance loan and/or overpayment deductions consistently struggle to afford essentials. Almost all advisers (97%) report that overpayment and/or advance loan deductions negatively affect people's ability to afford essentials like rent, bills, and food.[36]

Set up to fail

Given the 5 week wait, most new Universal Credit claimants have little choice but to take out an advance loan, at the cost of having a reduced benefits income while the loan is repaid. As one adviser told us:

"Clients are saying to me and my colleagues, 'the government is setting us up to fail'".

Advisers tell us that the financial position of the people they support often means they are unable to avoid reducing their future Universal Credit payments through deductions, because they need an advance loan to afford the 5 week wait. In some cases, people have claimed Universal Credit as a last resort, and, by the time they claim, have already run down the savings that might have enabled them to get through the 5 week wait without the advance loan.

Joseph* applied for Universal Credit while waiting to hear back from job applications. To get through the 5 week wait, he had to apply for an advance loan. While Joseph was working, he was able to help make up the £114 shortfall between the Local Housing Allowance (LHA) and the rent for the flat he shares with his mother. Now that he is receiving Universal Credit and repaying the advance loan, he is struggling to afford rent and bills. His local Citizens Advice needed to refer him to a food bank. Repaying the advance loan is also making it harder for Joseph to return to work: he's worried about how he's going to afford to travel to interviews when he hears back from job applications.

*All names have been changed

[36] 97% of 201 advisers surveyed in February 2024.

Refused advance loans

Claimants can also be refused advance loans. While this means they avoid the repayment deductions from their future Universal Credit payments, they are put in a very difficult financial position during the 5 week wait. Advisers have highlighted cases involving people who have amounts outstanding from previous advance loans, but also instances where they were not told why they had been refused the advance loan. However, in cases like Lisa's, being refused the advance loan was a consequence of moving to Universal Credit from being in work.

> Lisa* has 3 young children and is 7 months pregnant. She has a job but has been unwell for several weeks and is unable to work. Lisa doesn't have any savings, and has existing debts she's been working to manage with support from a debt advice charity. She applied to Universal Credit to make ends meet, but can't afford to wait 5 weeks for her first payment. However, when she called DWP, she was told she couldn't get an advance loan because of wages she earned 3 months ago. With no food in the house and no income for the next few weeks, Lisa can't meet her and her family's essential needs without crisis support. Our adviser referred her to a local food bank and baby bank.

*All names have been changed

As in Lisa's case, charitable and crisis support can be the only options remaining for those who've been refused an advance loan. Reliance on crisis support is also widespread for people trying to make ends meet on Universal Credit reduced by deductions.

Crisis support

The human and financial costs of unaffordable deductions are in practice being passed from one part of the welfare system to another. The people we advise on advance loan and overpayment deductions are forced to rely on crisis support like food banks, fuel vouchers, and the locally-administered Household Support Fund (HSF)[37] to meet their essential costs.

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[37] Julia Ruddick-Trentman (2024) Where Next for the Household Support Fund? Why the Need for Crisis Support Remains. Available at: https://www.citizensadvice.org.uk/policy/publications/where-next-for-the-household-support-fund-why-the-need-for-crisis-support/

1 in 3 people we supported with advance loan and/or overpayment deductions over the past 12 months also needed advice on localised social welfare. More than a fifth also needed advice on the HSF specifically, and nearly a fifth needed fuel vouchers.[38] Advisers tell us that people are factoring crisis support into their budgets for essentials.

"What we can do is use a combination of, at the moment, Household Support [Fund], local authorities welfare support, just to get people through it. We've got a good combination of ways to get people through it, which is good. But what it does do, is mask the problem." - Citizens Advice adviser

Reliance on food banks is especially widespread, both during the 5 week wait, and when deductions reduce the standard allowance on an on-going basis. Food banks are the most common additional issue for people who come to us for support with advance loan repayments. Over 6 in 10 people we supported with advance loan repayment issues needed support with food bank referrals over the past year.[39] One adviser told us that the 5 week wait is sometimes given as the official recorded reason on food bank referrals.

Although crisis support is a lifeline for people struggling to meet their basic needs, it is not a sustainable or reliable solution to the financial detriment caused by deductions.

Sam* lives with his partner and their 9 and 18 month-old children. Sam is off work waiting for a medical procedure, and has struggled to keep up with rising costs. There is a £125 monthly shortfall between his Universal Credit housing element and his rent each month. Sam’s budget is even harder to balance because he is paying back £33 a month for an advance loan. One of our advisers helped Sam get a fuel voucher and a £105 supermarket voucher through his local HSF, so he could keep heating his home and putting food on the table.

*All names have been changed

[38] 33% (3,309) of the 10,045 advance loan and overpayment clients we supported between 01/04/2023 - 31/03/2024 also needed advice on localised social welfare, 22% (2,259) on the Household Support Fund, and 1,794 (18%) on fuel vouchers.

[39] 7,023 people came to us for advice relating to advance loan repayments between 01/04/2023 - 31/03/2024, of whom 4,287 (61%) also needed food bank referrals.

"Many are running out of money over a week before their next Universal Credit payment. We have run out of HSF fuel vouchers and supermarket vouchers are limited, our local food bank is only issuing a maximum of 3 vouchers in 6 months. So we have families who have to choose between heating and eating." [40]

There are often limits on how often someone can access crisis support: restrictions on the number of food bank vouchers within a certain number of months can mean those who may still need the support are unable to access it. One adviser had called local food banks to ask them to make exceptions to these rules for people who needed another food bank voucher because of their deductions.

For people with deductions struggling to meet their essential costs, local authority crisis support is also not necessarily a reliable option. Variation between local authorities means the support available can depend on where someone lives. For example, 37 English local authorities do not operate a Local Welfare Assistance (LWA) Scheme, which offers support to people experiencing financial hardship.[41]

The future availability of local crisis support is also uncertain. The HSF has become essential for local authorities, making up 62% of LWA spending in 2022/23,[42] but is continually extended only on a short-term basis. In September 2024, the HSF was extended for 6 months, leaving the future of the fund past 31 March 2025 uncertain. One adviser discussed how the local authority in their area referred people to Citizens Advice in the first instance; people could only access the council's limited emergency support once Citizens Advice had exhausted their food vouchers.

Growing debts

Given that few claimants can avoid taking out an advance loan, the 5 week wait is by definition creating new debts for Universal Credit claimants. Advisers report that the people they support largely understand that the advance loan is a debt

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[40] Survey response from Citizens Advice adviser, February 2024.

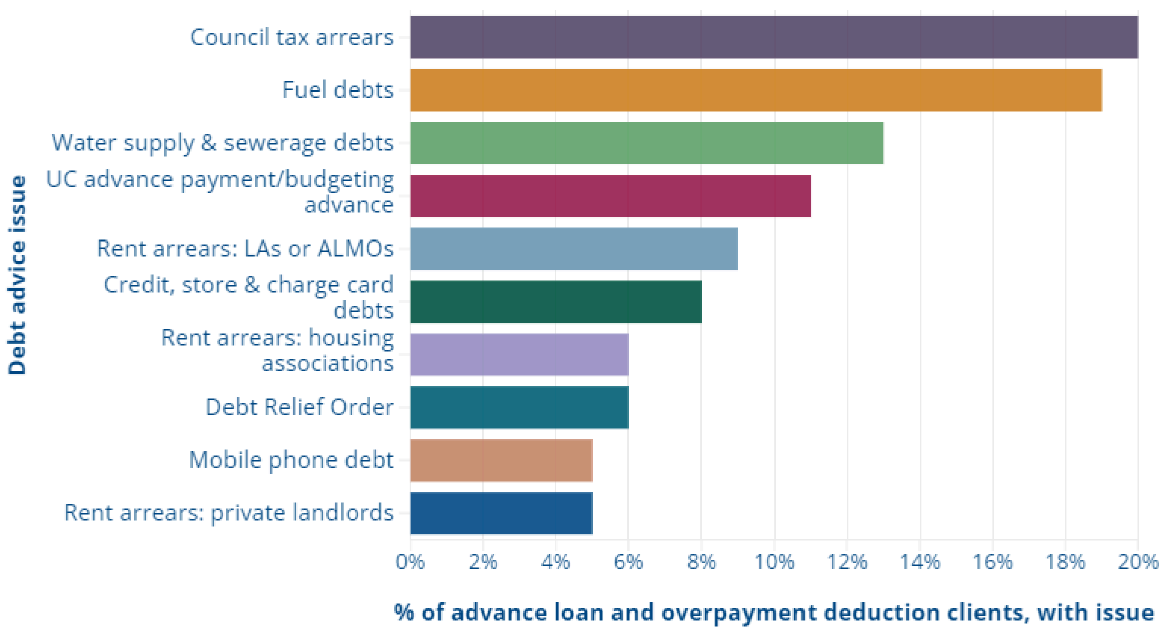
[41] David Bond and Claire Donovan (2023) On the Cliff Edge: Crisis Support 2022/23. Available at: https://endfurniturepoverty.org/wp-content/uploads/2023/11/On-the-Cliff-Edge-The-State-of-Crisis-Support-2022-23-Final1.pdf

[42] Ibid.

that they will repay,[43] and that in some cases the advance loan, because it is a new debt to government, deters people from claiming Universal Credit.

Advance loans and deductions can be the start of a “cycle of debt”:[44] 3 in 4 frontline advisers (75%) report that overpayment and/or advance loan deductions are having a negative impact on people’s existing debts, or the accruing of new debts.[45] Over half (54%) of the people we help with overpayment and advance loan deductions issues also needed debt advice over the last 12 months, with council tax arrears specifically the most common debt issue (Figure 7).[46]

Figure 7: Top 10 additional debt advice issues for the people we support with overpayment and advance loan deductions issues



Source: Citizens Advice Casebook data, 01/04/2023 - 31/03/2024
Percentages out of 10,045 advance loan and overpayment deduction clients.

[43] 65% of 185 advisers surveyed in February 2024 responded that between 41-100% of clients who had applied for an advance loan understood that they would pay this back through monthly deductions from their Universal Credit award.
[44] Citizens Advice adviser survey response, February 2024.
[45] 75% of 201 advisers surveyed in February 2024.
[46] 5,438 of the 10,045 advance loan and overpayment clients we advised between 01/04/2023 - 31/03/2024 were also advised on debt issues.

By reducing people’s incomes below liveable levels, deductions damage long-term financial resilience: people may incur more debt to government, for example through budgeting loans, and even rely on commercial credit to meet essential costs. Nearly 1 in 10 people we advised on advance loan and/or overpayment deductions in the past year also needed advice on deductions for budgeting loans.[47]

“If they could have the first payment within a week, then they wouldn't need an advance payment. So then there wouldn't be a knock on effect. They’d be able to get food, gas and electric. They wouldn't have to have budgeting loans [...] It spirals from one thing to the other to the other, and it's just like a snowball effect” - Citizens Advice adviser.

For people with existing debts, deductions are a barrier to making repayments and getting out of the red.

In addition to creating new debts through the advance loan, debts to government are also created when overpayments are allowed to accumulate. Now that the DWP can make deductions for all overpayments, regardless of whether they stem from official or claimant error, claimants will pay the price even if the DWP could have acted to prevent overpayment.

Priya* claims Universal Credit to top-up her husband’s income from work. She has deductions of £75 a month to pay back a tax credit overpayment estimated to be £3,500, and deductions for an advance loan. She and her husband are also trying to manage repayments of priority debts with the help of one of our debt advisers. Before seeking debt advice, Universal Credit deductions and a contractual payment for a loan left Priya with just £50 spare each month after paying for essentials. Priya and her husband are trying to manage their other debts, which include mortgage arrears, ground rent arrears, and credit card debts. The Universal Credit deductions make it very challenging for Priya to generate enough of an income surplus to start making repayment towards these priority debts.

*All names have been changed

[47] 914 of the 10,045 advance loan and overpayment clients we advised between 01/04/2023 - 31/03/2024 were also advised on budgeting loan deductions.

Amina* is studying for a degree 2 days a week, and was also working part-time to support her 3 children. When her agency lost one of their contracts, Amina lost her job. To make ends meet, she tried to increase her Universal Credit, but her claim was suddenly closed and she was told she owed £4,500 for an overpayment. Months before, Amina had reported her student status in her Universal Credit journal and provided copies of her maintenance loan statements at her jobcentre appointment. Despite doing everything to inform DWP about her student loan, it wasn't taken into account for four months, leaving Amina with a £4,500 overpayment debt that isn't her fault. Without income from her job or Universal Credit, Amina couldn't feed her family. Our advisers referred Amina to a local food bank, and will help her ask for the overpayment recovery to be waived because it is causing her family financial hardship.

*All names have been changed

Rent arrears

Rent arrears are a particularly concerning impact of overpayment and advance loan deductions, putting people at risk of eviction. Rent arrears build up for people with deductions not just because their reduced income makes rent less affordable. Among the people we helped with advance loan and overpayment issues in the past 12 months:

- 9% also needed advice on rent arrears owed to local authorities
- 6% also needed advice on rent arrears owed to housing associations
- 5% also needed advice on rent arrears owed to private landlords.[48]

While not directly related to the impact of deductions, our advisers consistently report that the design of Universal Credit more generally creates the risk of rent arrears (particularly when moving to Universal Credit from Housing Benefit). A new claim or benefit transfer loan would be the only mitigation available, meaning they start their Universal Credit claim in debt, with reduced payments (negating the value of transitional protection).

[48] Between 01/04/2023 - 31/03/2024, 921 advance loan and overpayment deductions clients also needed advice on local authority or ALMO (Arms-length management organisation) rent arrears, 635 clients for housing association rent arrears, and 465 for private landlord rent arrears (out of 10,045 advance loan and overpayment deductions clients during this period).

For council tenants, Housing Benefit is paid directly into council rent accounts. For private tenants, payments are usually made fortnightly in arrears. By contrast, Universal Credit is typically paid directly to claimants (even for tenants renting from councils), monthly in arrears.

The 5 week wait can mean new Universal Credit claimants are unable to pay their rent while waiting for their first payment, leaving them perpetually in 5 weeks of rent arrears. Those switching from Housing Benefit can be similarly affected by a 3 week payment gap between the end of the 2-week run-on period and the first Universal Credit payment. One of our advisers estimated that around 75% of rent arrears at his local council were the result of the waiting period for the first Universal Credit payment. The council could take eviction action as a result (although is not currently doing so). For social housing tenants previously receiving Housing Benefit, arrears from this waiting period can add to those which may build up as they adjust to making payments directly to landlords.

Switching to Universal Credit also means monthly rather than weekly payments. Concerned about tenants' ability to maintain rent payments in this context, some housing providers are asking new tenants to pay weeks of rent upfront, and for existing tenants to overpay their rent. Advisers gave examples of local authority or charitable support being used by people to meet these impossible housing association costs. One adviser told us:

"We saw somebody yesterday at one of our drop ins and she'd been rehoused after being in a women's refuge for 7 months. She was very happy with the accommodation and it was our biggest social housing provider, managing what used to be council housing. And they'd asked her to pay a month in advance. I said to her 'But you're in social housing'. I was thinking maybe it was a deposit or something. No, they just wanted the month in advance, because being in the refuge she'd been getting Housing Benefit for her rent, so now she'd be getting Universal Credit for her rent, it would be 4 or 5 weeks in arrears, so they wanted advances. It's completely wrong. How is anybody going to afford that? Nobody is."

Health and wellbeing

"You have to wait 5 weeks and then when you get it, it's reduced anyway, because of overpayments and an advance payment. I mean, it's just absolutely devastating to

somebody who's already depressed, or somebody who has got a physical condition and they need to keep particularly warm." - Citizens Advice adviser

More than 3 in 4 of frontline advisers (78%) report that overpayment and/or advance loan deductions have a negative impact on the mental health of the people who come to us for help. Nearly 1 in 5 (19%) advisers also report that these deductions are detrimental to the physical health of those we support.[49] This is particularly concerning given that 64% of the people we help with advance loan deductions, and 61% of those we help overpayment deductions, are disabled or have a long-term health condition. Advisers report that reduced Universal Credit incomes can leave the people they are supporting unable to afford health-related costs, giving the examples of specialist baby cream or keeping their home warmer.

The financial pressure caused by advance loan and overpayment deductions is itself detrimental to the mental health of the people we support. Advisers tell us that fear of eviction, with deductions contributing to rent arrears, is particularly damaging for people's mental health. Advisers also describe deductions making people stressed and anxious, and report cases of self-harm and suicidality, for example when the people they support have exhausted food and fuel bank vouchers, and "don't know where to turn". In the words of one adviser:

"I was sitting with a client for just over two hours, I thought I can't let this guy go with the way he's feeling, and it's all down to deductions in their benefits."

According to our advisers, that overpayments and advance loans are debts, and are experienced as such, can also worsen the health of people with pre-existing mental health conditions. As one specialist debt adviser explained, while mental health conditions can lead to incurring debt, debts then further aggravate the mental health conditions.

The stigma and emotional toll of debt contribute to the negative effects of advance loans and overpayments, and make tackling deductions more challenging for the people we support. As one adviser described:

"[For] debts generally, people feel very intimidated by creditors and will often [...] try and ignore the problem, for fear of there not being any sort of reasonable way of

[49] 78% and 19% of 201 advisers surveyed in February 2024 reported that clients' mental health and physical health respectively had been negatively affected by overpayment and/or advance loan deductions.

dealing with the debt. And so people often don't contact Universal Credit or debt management".

In the case of overpayments in particular, lack of prior communication about the debt recovery adds to deductions' negative impact on wellbeing. As is discussed further in the next section, the people our advisers support are often surprised both that they have had an overpayment, and at the scale of the amount owed, which is usually thousands of pounds. Since "as far as they were aware they didn't owe any money to anybody", in the words of one adviser, the unexpected recovery of large overpayment debts contributes to feelings of powerlessness and injustice.

The deductions process

Communicating and administering deductions

Lack of information

"No information being given, no advance warning, nothing" is how one adviser described the overpayment deduction process. A substantial majority (75%) of frontline advisers described the DWP as fairly or very poor at communicating the reasons for benefit deductions to claimants.[50] Although the DWP should communicate with claimants before overpayment recovery begins (for example by letter), this does not seem to be working in practice. Our advisers frequently support people who only learn about their overpayments once their Universal Credit income has already been unexpectedly reduced by deductions.

"People really are shocked and surprised. They've been managing, and then all of a sudden somebody's taking £70 a month off an income of £350 or whatever it is, and it's such a high proportion. And for something that they didn't know they had, or if they did, they thought it had been resolved long ago. It's just a very punitive way to deal with it." - Citizens Advice adviser

The lack of information about ongoing advance loan and overpayment deductions is itself negatively affecting claimants. Being unable to anticipate overpayment deductions or access clear breakdowns of deduction amounts add to the challenge of budgeting on a reduced benefits income. A large proportion of advisers (74%) report that overpayment and/or advance loan deductions negatively affected the people they support by causing confusion and misunderstanding of Universal Credit award amounts.[51]

Advisers tell us that Universal Credit statements often only describe a deduction as "other DWP recovery". Lack of information is especially problematic for overpayment deductions. Because the reasons for an overpayment deduction are not detailed in claimants' Universal Credit statements or journals, claimants often do not know:

- Which benefit was overpaid

[50] 75% of 118 advisers surveyed in October 2023.
[51] 74% of 201 advisers surveyed February 2024.

- When the overpayment occurred
- Amounts already paid towards the debt and still outstanding
- How long deductions are scheduled to continue.

People who are digitally excluded or with limited digital skills are especially affected by the lack of information, because those with telephone rather than digital Universal Credit claims are even less likely to see their deductions clearly broken down.

Accessing information often entails calling multiple departments within the DWP and HMRC (in the case of tax credit overpayments), which is time- and resource-intensive. Advisers have had to arrange additional appointments with clients because they have not been able to reach the right person in the DWP within one appointment.

"There is no explanation of the reason for the deduction and it is often for historical overpayments that were not raised at the time. Trying to get an explanation results in being passed around from the debt recovery team, DWP national and local jobcentre with no answers." [52] - Citizens Advice adviser

Issues with record keeping

For older tax credit overpayments there can often be no records available, although deductions are still reducing people's benefits income each month. One adviser told us he often found himself in the "bizarre situation" of being told by DWP and HMRC that a tax credit debt is "too old, we don't hold records on that", even though the overpayment is being recovered. This lack of information makes it harder for people to find out what they might owe, and to challenge incorrect deductions. We expect these issues to affect a growing number of people as the managed migration process picks up pace this year, and more historic tax credit debts are uncovered.

In cases like Joe's, the practice of retrospectively correcting Universal Credit statements once an overpayment has been identified makes it even harder for claimants to understand and manage their deductions.[53]

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[52] Survey response, October 2023.

[53] Although note that, after our research had been completed, we discovered that, where Universal Credit records are altered retrospectively to reflect inaccurate payments, claimants are now able to see the previous and current records to better understand changes. This is a

Joe* cared for his mother until she died, and was receiving Carer's Allowance and Universal Credit. When Joe came to his local Citizens Advice for help with his benefits, his adviser spotted that he was having deductions for an overpayment. It seemed that Universal Credit had not taken his Carer's Allowance income into account, and he had been overpaid. However, once our adviser looked at Joe's Universal Credit statements again, the ongoing deductions looked incorrect: Joe was already having deductions from his Universal Credit during the time when the overpayment was said to have happened. Joe and his adviser queried this. The DWP's answer suggested that Joe's old Universal Credit statements had been retrospectively corrected. Joe's statements no longer reflected what he had been actually paid at the time, adding an unnecessary barrier to understanding and tackling his overpayment deductions.

*All names have been changed

Managing and challenging deductions

It is usually difficult to challenge DWP decisions on deductions, especially in relation to debts to government. There are complex rules around requesting a mandatory reconsideration (MR), requiring evidence that the DWP has made an error in applying a deduction (usually an overpayment recovery decision). Claimants can also appeal to a tribunal if the MR process upholds DWP's original decision.

Separately, it is also possible for claimants to request a repayment delay, or even a partial or full waiver, for most debts to central government (again, this is primarily exercised for overpayments but can also apply to advance loans). There must be evidence that the claimant is experiencing severe hardship or ill-health as a result of the deduction. MR requests, and requests for delays or waivers, are not often successful.[54]

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welcome reform, but it is not clear whether it applies to cases where records had already been altered.

[54] FOI 2023/80962. Available at: https://www.whatdotheyknow.com/request/appeals_statistics_benefits_over/response/2473453/attach/3/Response%20FOI2023%2080962.pdf; FOI 2023/45348. Available at: https://www.whatdotheyknow.com/request/the_level_of_discretion_when_app/response/2360067/attach/4/Response%2045348.pdf. There are also concerns among Citizens Advice advisers that DWP generally signposts claimants to the MR process, focused on identifying erroneous

Matt* split up with his partner, who stayed as the carer of their children. Because of the relationship breakdown Matt became homeless, and was initially staying with a friend until the friend asked him to leave. Matt came to his local Citizens Advice for support when he became street homeless. After his relationship ended, Matt set up a sole Universal Credit account, after having had a joint account with his partner. The child element of Universal Credit continued to be paid to his partner, but Matt was also having deductions for the child element taken off *his* Universal Credit - even though he had never been paid it. Matt told his local adviser that without these incorrect deductions, he might have been able to afford some accommodation rather than sleeping in the street. Matt challenged his incorrect deductions through his Universal Credit journal, but has waited weeks for a response.

*All names have been changed

Negotiating more affordable deductions

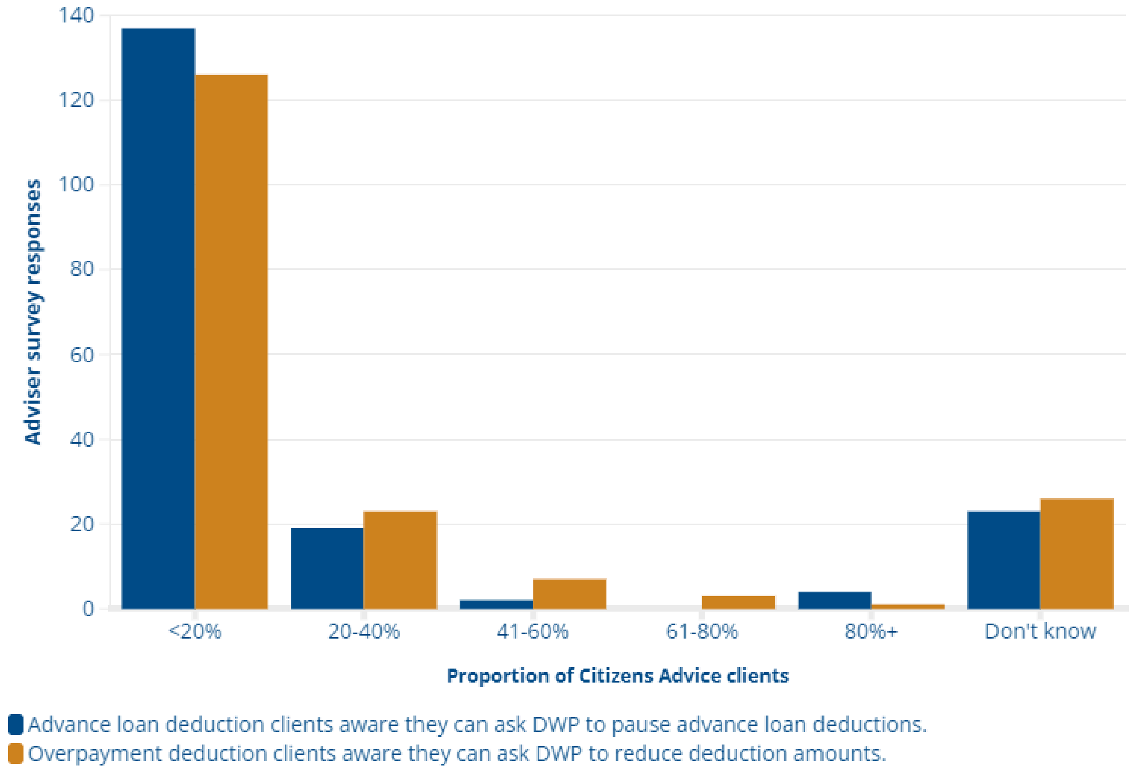
Deductions for advance loans and overpayments are typically made without specific affordability or hardship checks. Advance loans are usually repaid in instalments over 2 years while 15% of the standard allowance is deducted for overpayments, regardless of claimants' circumstances.

Claimants' main option for mitigating the financial impact of deductions is to ask the DWP to pause advance loan recovery for up to 3 months, and pause or reduce the rate of overpayment deductions. However, awareness of these options is not widespread. As figure 8 shows, a substantial majority of advisers reported that less than a fifth of the people they have supported were aware they could ask for overpayment deductions to be reduced or for advance loan deductions to be paused on affordability grounds.[55]

decisions, at the expense of communicating to claimants that other forms of relief from deductions might be available.

[55] 68% of 186 advisers responded that less than 20% of clients with overpayment deductions were aware they could ask DWP to reduce their deduction amounts. 74% of 185 advisers responded that less than 20% of clients with advance loan deductions were aware they could ask DWP to pause advance loan deductions. Survey conducted February 2024.

Figure 8: Advisers' perception of clients' awareness of negotiating deduction affordability



Source: Citizens Advice survey of 185 advisers, February 2024

"Usually the claimant only finds out about the deduction when they receive their payment breakdown - by which time they will be receiving the reduced payment shortly and will not be able to dispute it/negotiate to reduce the deduction in time." - Citizens Advice adviser

In practice, is it very challenging for claimants to anticipate and mitigate the financial hardship caused by deductions, as a result of the combination of minimal communication before deductions start (particularly in the case of overpayments), the high automatic rate of deductions, and lack of awareness that deduction amounts can be negotiated.

However, even when people are aware they can negotiate the affordability of their deductions, or are informed and supported to do so by advisers, the DWP may not agree to reducing or pausing deductions. The majority of our advisers report that less than 40% of the people they support who contacted the DWP, succeeded in getting an affordability measure put in place.[56]

Claimants and advisers face a number of barriers during the process of negotiating deductions:

- Long hold times make it challenging to reach the right person in the DWP, especially since not all department employees have the power to make decisions about deduction rates.
- Once claimants' queries and requests have reached the right DWP department, there can be long wait times for a response. Expected timeframes for responses are often unclear.
- Advisers also tell us whether the DWP are receptive to reducing a claimant's deductions depends on the individual they speak to. One adviser described his experience:

"The person on the other end of the line was quite standoffish, they didn't seem to believe that the client was really struggling. There were very questioning about "why did you take out an advance payment, if you couldn't afford it, why did you take out a loan if you couldn't afford it" and it wasn't a nice phone call."

Unreceptive responses are especially concerning where people are negotiating the affordability of their deductions without the support of a third-party adviser. Our advisers raised concerns that people who tried to negotiate affordability independently were less likely to get positive outcomes. They had been "talked up" to agreeing to higher levels of deductions than were affordable, and felt they were less likely to be listened to and given information than advisers.

An unequal impact

The many steps required to first access information about deductions, and then negotiate affordable repayments, are more challenging for certain groups of people, exacerbating the negative impact of their deductions. Advisers reported that people that they help with learning difficulties, limited literacy, and mental health problems found it harder to understand their deductions, and that information in other languages wasn't accessible for people with limited English.

[56] 55% of 185 advisers, surveyed February 2024.

"By the time you can get to the point of asking for an interpreter, you're well beyond the point where you needed one. You've got to jump through so many hoops, especially now you have that awful automated voice that asks for your National Insurance number, what benefit it is you're asking about, [...] by the time you've done all of that you've been speaking English for 20 minutes." - Citizens Advice adviser

Nate* approached a Citizens Advice caseworker for debt advice and to find out if he was receiving the right benefits. He had been sofa-surfing and relying on food parcels. Nate thought he was receiving less than the full Universal Credit standard allowance, but wasn't sure about the details of his deductions. His Universal Credit award showed he was repaying £31 a month for advance loans, and £42 for "DWP benefits recovery". Nate thought these deductions were for a budgeting loan, water arrears, and a court fine, but his statement didn't have any more details.

To find out more about the "DWP benefits recovery", Nate's caseworker advised him to ask for a print out of the breakdown of his Universal Credit deductions at his next jobcentre (JC) appointment, since Nate isn't confident using digital technology. However, at the last minute, his face-to-face appointment at the JC was changed to a short phone appointment, and Nate didn't have the chance to find out more about his deductions. Nate's caseworker emailed his JC on his behalf, to ask for more details about the deductions, but was told to call the DWP Debt Management team for this information. Debt Management provided the following breakdown of Nate's deductions to his caseworker:

1. Advance loan. Total outstanding £20.26. Deductions at a rate of £20.83 per month.
2. Second advance loan. Total outstanding £20.76. Deductions at a rate of £8.34 per month.
3. Universal Credit overpayment. Total outstanding £562.03. Deductions at a rate of £42.48 per month.
4. Court fine. Total outstanding £286.55. Deductions at a rate of £18.44 per month.

After deductions, Nate had a £117 monthly budget deficit. Nate's caseworker emailed the JC, asking to reduce the deductions so Nate could start trying to stabilise his housing situation. The JC passed this request on to the DWP payments team.

After nearly two weeks with no response, Nate and his caseworker called the JC, who weren't able to give an update on when the payments team would get back to them. After another week, the JC contacted Nate's caseworker to tell her that it wouldn't be possible to change the deductions for Nate's fine, and that the caseworker would need to speak to Debt Management again about the other debts. Nate's caseworker explained that when she'd spoken to Debt Management, they had told her the opposite - that she had to speak to a different department in Universal Credit. 3 months after first looking into Nate's benefits, his caseworker was able to have the rate of overpayment recovery temporarily reduced for 12 months.

*All names have been changed

Policy options

This section explores and outlines various options for eliminating or minimising Universal Credit deductions, or mitigating their impact on claimants. It begins by considering how to prevent claimants accruing advance loan and overpayment debts, as well as options for reducing repayments. It then looks at wider options for reforming how deductions are administered in the Universal Credit system.

Advance loans and the 5 week wait

The most significant deductions from Universal Credit payments are for the repayment of new claim loans, necessary due to the 5 week wait between a claim being accepted and the first payment being made.[57] This section looks first at how deductions arising from new claim loans could be minimised. And then considers 3 main options for eliminating the 5 week wait altogether:

- Making payments up front rather than in arrears
- Offering weekly or fortnightly payments from the first month
- Replacing loans with grants for all new claimants

Extending new claim loans

To minimise the hardship caused by resulting deductions, the repayment schedule could be extended beyond 2 years (which is effectively the same as reducing the cap on this source of deductions). The amount deducted each month would generally be halved if the repayment period was 4 years rather than 2 years (although noting that claimants can already opt for shorter repayment periods, and some would probably continue to do so). This would effectively be a fiscally neutral change.

[57] It is also worth noting that, even after waiting for 5 weeks, not all new claimants receive their first payment on time. In January 2024, only 87% of new household claimants received their first payment on time, and a further 5% received some of their first payment on time (see https://www.gov.uk/government/statistics/universal-credit-statistics-29-april-2013-to-11-april-2024/universal-credit-statistics-29-april-2013-to-11-april-2024#claims-and-starts-to-universal-credit). This is itself a significant problem for the families affected, but also underlines the need to eliminate the 5 week wait or better address the hardship it causes.

A complication of this approach would be that more people are likely to exit Universal Credit before they have paid off their advance. This could result in repayments continuing from employment income, or the use of a debt collection agency to recover amounts still owed.[58]

Up front payments

Universal Credit payments are made monthly in arrears by default. There is a political rationale for this, insofar as the government wants Universal Credit payments to mimic earnings from employment. This policy preference is then baked into the system's operations, as monthly assessments mean payments cannot be made (accurately) until a claimant's monthly income is known. With additional processing time, it means first payments are typically made 5 weeks after a claim.

A move to up front payments would eliminate the bulk of the 5 week wait. The first payment could be made quickly, based on information provided in the initial claim. Once a claimant is established in the Universal Credit system, whether payments are made up front or in arrears has a negligible effect. The majority of Universal Credit claimants are out of work, so the calculation of their first payment is straightforward insofar as no earnings need to be taken into account. They may have income from other benefits that reduces their Universal Credit entitlement – but these benefits are mostly administered by DWP. For the minority in work whose earnings affect their award from one month to the next, payments can be calculated based on their earnings in the previous month, even if technically being paid up front.[59]

Technically, making payments up front would be fiscally neutral. There is an increased risk that the first payment would be inaccurate for people with earnings from employment, but the DWP would have the scope to recover

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[58] See https://www.gov.uk/guidance/universal-credit-advances#if-you-no-longer-get-universal-credit-and-have-not-paid-back-your-advance.

[59] For those in work with fluctuating earnings, there may of course be months where earnings are lower than the previous month, meaning Universal Credit payments are lower than required for the current month. But the opposite is just as likely to be true, and it would be the claimant's responsibility to adequately budget for these circumstances. Budgeting advance loans would remain available. And the government could also allow claimants to request a higher monthly payment, based on expected earnings, with adjustments made in subsequent monthly payments if the claimant's expectations prove to have been inaccurate.

overpayments and reimburse underpayments in subsequent months (although we would advocate minimising the impact of overpayment deductions, as discussed further below). There is also a likelihood that there would be an increase in final month overpayments, where exiting claimants receive an up front monthly payment but become ineligible for Universal Credit when taking on a job at some point during this month (there is a similar scenario for claimants whose income from work increases during a monthly assessment period, albeit not enough to take them out of Universal Credit eligibility). Again, the DWP would have scope to recover these overpayments in full.

The DWP could also minimise both risks by making payments partially up front, and partially in arrears, at the midpoint of a claimant's monthly assessment period, meaning the 5 week wait is reduced to 2 or 3 weeks, comparable to the waiting period for legacy benefits.[60]

The main risk of claimant detriment from a shift to up front payments would be at the end rather than beginning of a claim, if they are moving from benefit payments paid up front to employment earnings paid monthly in arrears – this would potentially lead to no or lower income for up to 2 months. Up front payments may also act therefore as a work disincentive.

However, this risk to claimants should not be overstated. Firstly, a 2-month income gap would be an extreme case; few claimants would take on employment at the very end of their monthly assessment period, having received their final Universal Credit payment at the beginning of the month. And is also likely that most exiting claimants were already receiving income from both Universal Credit and employment before becoming ineligible – they exit by increasing their hours or pay, not by moving fully from unemployment to employment – so they would not lose all of their income for 2 months, even in the unlikely scenario they were waiting this long for their income from employment to increase.

More frequent payments

If Universal Credit payments were made on a weekly or fortnightly basis, rather than monthly, new claimants could receive a first payment – albeit not their full monthly entitlement – sooner than 5 weeks after their claim is accepted. This

[60] Some people would require an advance loan to cover the remaining gap in these circumstances.

would effectively be a fiscally neutral reform; there would be a slightly higher risk of inaccurate payments if a weekly or fortnightly payment were made based only on information made in the claim, rather than a full assessment of eligibility, but this could be mitigated by adjusting the final payment of the month once checks have been completed.

Alternative payment arrangements (APA) – including fortnightly payments, or even weekly payments in exceptional circumstances – are already available throughout the UK from the second monthly assessment period, but in England and Wales eligibility for APA is very narrow. A work coach or case manager has to agree that a claimant has a significant risk of homelessness, or 'severe or multiple debt problems', to relax the requirement of monthly payments.[61] Fortnightly payments are the default in Northern Ireland, and can be chosen by all claimants in Scotland – but in both cases, only from the second monthly assessment period.

In terms of using APA to address the 5 week wait, one option would be to apply APA to all in the first month by default, with monthly payments beginning in the second month (unless a continuation of APA is applied for) once new claimants have had the opportunity to adjust to monthly payments.

Another option would be to offer APA from the first month to only claimants who do not also have an income from employment. This would significantly reduce the risk of incorrect payments: their only income is likely to be other benefits, typically those administered by DWP, so calculations would be straightforward.[62] And it would target reform on those most likely to experience detriment as a result of the 5 week wait.[63]

[61] See https://www.gov.uk/government/publications/universal-credit-alternative-payment-arrangements/alternative-payment-arrangements#more-frequent-payments. In November 2023, only 3.7% of claimants in England and Wales (around 163,000) had Universal Credit payments more frequent than monthly. We supported around 1,800 people with APA issues in the year to March 2024.

[62] The overpayment risk should not be overstated. It is highly unlikely that all new claimants would choose weekly or fortnightly payments: in Scotland, only around a quarter of households had weekly or fortnightly payments (100,293 of 395,055 households) in November 2023.

[63] Weekly or fortnightly Universal Credit payments would also be more aligned with in-work claimants who are paid four-weekly rather than monthly – this group tends to have a high frequency of underpayments or overpayments due to this discrepancy.

Replacing loans with grants

The fairest and most effective way of overcoming the 5 week wait would be for every new claimant to receive a grant, equivalent to the estimated monthly entitlement, shortly after having a claim accepted. This would mean that regular Universal Credit payments could continue to be paid in arrears, and is simpler than other potential solutions.

However, unlike up front payments, a grant system would have a substantive impact on public spending. A new claim or benefit transfer grant for all new claimants would cost around £1.49 billion per year, in 2023/24 terms.[64] To reduce the cost of new claim grants, the DWP could pay only a portion of the full monthly entitlement. A grant valued at two-thirds of estimated monthly entitlements would cost around £0.98 billion per year, and a grant valued at half of estimated monthly entitlements would cost around £0.75 billion per year.

An alternative approach could mean that grants are targeted on groups least able to tolerate a period of no or reduced income. There are perhaps three main groups:

- Claimant households including children.
- Claimant households including disabled people.
- Claimants in the private rented sector at risk of significant rent arrears.[65]

There is a question of whether a targeted grant would cover the estimated monthly payment for certain groups, or instead only the additional elements that they are entitled to as a result of their household characteristics. If the former, generally grants would be higher in value, but the taper mechanism for

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[64] In 2023, 1,925,627 people started a Universal Credit award, so we can estimate that there were 1,656,039 new household claimants in 2023 (in November 2023, there were 0.86 household claimants for every person receiving Universal Credit). If their monthly entitlement is £900 on average, a new claim or benefit transfer grant of this value would cost £1,490 million per year. This may, on the one hand, be an overestimate, because the DWP would presumably introduce controls so that some repeat claimants would have a limit on how often they can receive a grant. On the other hand, there is uncertainty over how the managed migration of legacy benefit claimants will affect the average monthly award over 2024 and 2025. Note also that Universal Credit payments were uprated by a significant cash amount in April 2024.

[65] Again, the grant could cover the full amount, or only a portion of the award. If a grant system does not cover the monthly entitlement in full, is targeted on particular groups, and/or includes limits on eligibility for repeat claimants, an advance loans system would probably have to continue in parallel for some claimants who cannot access a (full) grant.

reducing benefit payments for those with income from work would apply as in regular calculations. If the latter, the taper could not be applied in the normal way, since the grant value would not include the standard allowance.

To illustrate the difference between these two approaches, let's take the example of a single parent (aged over 25), with one child (born after April 2017), who works for 15 hours per week, paid at the National Living Wage. A grant valued in line with their monthly Universal Credit award, taking their earnings into account, would be £493.49. A grant equivalent to only their child element entitlement would be £287.92.[66]

The cost of a targeted grant system would depend on how eligibility is defined. If the following groups were paid a grant equivalent to their full monthly entitlement, we can estimate that:

- A targeted new claim grant for only child element recipients would cost £0.82 billion per year.
- A targeted new claim grant for only disabled child element recipients would cost £0.16 billion per year.
- A targeted new claim grant for only Limited Capability for Work (LCW) element recipients would cost £0.01 billion per year.
- A targeted new claim grant for only Limited Capability for Work-Related Activity (LCWRA) element recipients would cost £0.45 billion per year.[67]
- A targeted new claim grant for only housing element recipients would cost £0.5 billion per year.[68]

Any grant system would create the risk of fraud, since new claimants would be able to access the grant before their claim has been verified. There is of course

[66] Their standard allowance is £393.45, and adding the child element for one child (ie £287.92) leads to an initial award of £681.37. However, they have earnings of £745.60 per month. The Universal Credit work allowance means the first £404 is disregarded, and applying the 55% taper to the remaining £341.60 leaves an amount to be deducted of £187.88. Deducting this from the initial award leads to a monthly entitlement of £493.49. Note that housing costs have been excluded from this calculation, although the lower work allowance rate assumes the claimant also receives housing cost support.
[67] Note that it would currently be impossible to target a new claim grant on all LCW or LCWRA element recipients, because the waiting period for grants means that these elements are not awarded at the beginning of a Universal Credit claim (although may be for people migrating from legacy benefits).
[68] See the annex for full costing information and more detail on design options for a targeted new claim grant scheme.

already fraud within the advance loan system, with fraudulent loans recovered through the legal system. And the DWP would be incentivised in these circumstances to speed up verification processes.

However, one option to reduce the potential impact of fraud would be for grants to be paid as deferred loans in the first instance, and converted to grants once Universal Credit eligibility has been established. Claimants ultimately deemed ineligible for Universal Credit would be liable to repay loans as they are at present, or would be deterred from claiming a convertible loan in the first place.

Overpayments

There is little public interest in allowing the 5 week wait, and therefore new claim loans (and subsequently deductions), to continue. These practices create hardship and undermine the legitimacy and effectiveness of the Universal Credit system. We acknowledge, however, that there may be a stronger public interest in recovering overpayments, in terms of ensuring both fairness between claimants, and the sound management of public money.

This does not mean, however, that all overpayments should be recovered, irrespective of the circumstances. The public interest must be balanced against the need to also treat the recipient of overpayments fairly, and to avoid significant hardship through recovery processes.

There are three main circumstances in which the DWP should consider setting aside full recovery:

- Where the overpayment is a result of government error. The implicit assumption that overpayment recovery simply mirrors additional amounts received previously is misguided. Claimants will generally be unaware that they have been overpaid, and the level of overpayments will have been insufficient to make a significant material difference to their living standards in the context of a lack of adequacy in benefit levels more generally. As such, where an overpayment has been received through no fault of their own, the claimant should not be expected to bear responsibility alone for correcting the impact on the public finances, especially when inaccurate payments are a feature rather than bug of the Universal Credit system.[69]

- Similar circumstances arise when, even if the original overpayments arose as a result of claimant error, the DWP does not act on information provided by the claimant in good faith to prevent future overpayments occurring.
- Overpayments arising from the managed migration process are particularly problematic, and should be written off in full. Some overpayments are artificially generated by the process of transferring between different benefits systems, and overpayment of the transitional element seems to be largely a product of the DWP's own confusion about how it should be calculated.

- Where the overpayments occurred many years ago.[70] It is unreasonable to assume that a claimant is still benefiting from overpayments received, say, more than 5 years ago, to the extent that their current payments should have deductions applied. The managed migration process appears to be identifying many more cases of historic overpayments. A cut-off for recovery of no less than 5 years should be considered.[71]
- Where deductions would cause significant hardship. This could be remedied by widening access to repayment waivers, discussed further below. A lower cap on repayments would also help to alleviate hardship. Overpayment recovery within the Universal Credit system could be capped at 5% of the claimant's standard allowance if they have no earned income, and 10% if they have earned income which reduces their

[69] At the very least, there should be strict criteria on when overpayments due to government error are recoverable, in part or in full, taking into account when the overpayment occurred, whether the claimant received any meaningful benefit from the overpayment, and the likely impact of deductions on the claimant.

[70] Note that there is no publicly available information on the age of overpayment debts, so we are not able to determine how many people would benefit from policy change on this issue, or what the implications for public spending might be.

[71] There are understandable reasons for overpayment recovery commencing many years after the overpayment occurred. For example, the claimant may have not been in receipt of benefit payments for some or all of the intervening period, or they may have had other deductions that are higher in the priority order. However, we do not know how many claimants such circumstances apply to. At the very least, recovery of overpayment debts more than 5 years old should not begin without a thorough investigation of the circumstances within which the overpayment arose, and the affordability of deductions in the present.

standard allowance entitlement.[72] Alternatively, these lower caps could be introduced only for claimants repaying overpayments due to government error, with higher caps retained for cases of claimant error.

In terms of the cost of writing off overpayments, non-fraudulent Universal Credit overpayments were valued at £800 million in 2023/24.[73] Applying the 2024 uprating decisions to this would mean, in a steady state, overpayments would be £854 million in 2024/25. We know that around 47% of the value of overpayments are due to government error, so writing these off would cost £401 million per year.[74] However, if the DWP were to bear the cost of this write off, it would create a powerful incentive to reduce the rate of official error, and therefore the value of future overpayments.[75]

Assuming deductions for overpayments remain at or below this level, writing off future overpayments that arise as a result of government error is probably not a

[72] Our understanding is that the existing overpayment deductions caps, 15% and 25% respectively, are applied by default when debts become recoverable, although claimants are able to request repayments at lower levels. However, a stronger safeguard would be to apply lower levels by default, with the DWP then contacting claimants to ask if they would prefer to make repayments above the cap in order to clear debts more quickly. Note that there is no publicly available information on the level of deductions currently being applied to overpayment cases, so it is difficult to evaluate how well the DWP is currently using its discretionary powers in this area. Further research on the barriers claimants face in seeking to negotiate deduction levels with the DWP would be welcome.

[73] See https://www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-2023-to-2024-estimates/fraud-and-error-in-the-benefit-system-financial-year-ending-fye-2024#universal-credit-overpayments-and-underpayments.

[74] See https://assets.publishing.service.gov.uk/media/669e2ca2ab418ab055592996/annual-report-accounts-2023-2024-web-ready.pdf (table 2).

[75] There are, however, different ways to think about the cost of writing off overpayments. We also have some information on the total value of deductions. In the year to November 2021, Universal Credit claimants had around £246 million deducted for the recovery of overpayment of DWP-administered benefits (including Universal Credit). Applying the 2022, 2023 and 2024 uprating decisions to this would mean, in a steady state, deductions for DWP benefit overpayments would be £297 million in 2024/25. Forgoing half of these deductions would mean increased DWP expenditure of £149 million each year. Note also that some Universal Credit claimants, in the year to November 2021, had deductions for tax credit and Housing Benefit overpayments valued at £517 million (in 2024/25 terms). This is likely to have increased, and likely to increase further, as a result of managed migration. But this would only matter if the DWP chooses to write off some historic overpayments as well as forgo deductions for future overpayments, and even in these circumstances presumably the majority of this debt would remain recoverable. See https://questions-statements.parliament.uk/written-questions/detail/2022-05-11/989.

prohibitively expensive policy. Its cost would come down further if the DWP invested in systems that minimise the prospect of overpayments occurring. Writing off historic overpayments would however cost significantly more.

In 2022/23 we estimated that the stock of overpayment debt was valued at £13.8 billion.[76] This was an increase of 24% on 2019/20, almost certainly related to higher caseloads – and less stringent checks on claims – as a result of the pandemic. Overpayments continue to be made in Universal Credit, increasing the stock of debt. But managed migration means the overpayment of other benefits, such as tax credits, will stop because these benefits will soon close. And people who have overpayment debts at the point of migration to Universal Credit – or identified at this point – will already be making repayments, reducing the stock of debt.

Nevertheless, any write-off policy, even targeted on specific circumstances, is likely to be expensive. But fairness demands that some action is taken. The most serious cases involve overpayments received more than 5 years ago, either due to government error (or failure to check information provided by claimants), or where there are limited records on how the overpayment arose.[77]

And the up front fiscal impact should be balanced against the fact that, while the current policy on recovering virtually all overpayments allows for the illusion of fiscal neutrality, in practice recovery can take many years (and longer if the cap on deductions is reduced) so it is not currently playing a significant role in mitigating the negative impact of overpayments on day-to-day government spending.[78] An alternative approach could be to give greater weight to the age of overpayment in issuing deductions waivers (discussed further below).

Reducing the cap on overpayment recovery payments would effectively be fiscally neutral. However, this indicates that it is an imperfect solution, because it means claimants would see lower deductions, but would remain in debt to government for longer. However, it would quickly reduce the amount being

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[76] Aiden Greenall (2023) Debt time bomb: countdown to a household debt disaster. Available at: https://wearecitizensadvice.org.uk/debt-time-bomb-countdown-to-a-household-debt-disaster-e596d10996fe.

[77] There is no publicly available information on the age of overpayment debts being held by government.

[78] Furthermore, reducing the hardship caused by overpayment recovery is likely to reduce demand for discretionary hardship support funds administered by local government.

taken off many people's monthly benefit payments and leave them with more money in their pocket.

The deductions process

The priority order and the deductions cap

Our previous report focused on reforming the order in which deductions are applied to Universal Credit payments, up to the cap of 25% of the standard allowance. Technically, advance loan repayments (as well as sanctions and fraud penalties) are deducted *before* the priority order is applied.[79] The DWP is prioritising the recovery of its own debt rather than protecting claimants from the consequences other types of debts can lead to.

For example, unpaid court fines can lead to court bailiff interaction and/or a warrant for arrest, rent arrears can lead to eviction and homelessness, and council tax arrears can mean rapidly increasing fees and bailiffs. When asked to redesign the priority order last year, the advisers we surveyed put advance loan repayments in 11th place in a list of 16 types of Universal Credit deductions. Third party debts were generally ranked at the top of the list.[80] Note that overpayment recovery deductions are generally lower down the DWP priority order than third party debts.[81]

Changes to the priority order would not see the level of deductions lowered. It would not eliminate advance loan or overpayment deductions, and would probably mean that many claimants remained in debt to government for longer as third party debts were prioritised above advance loan repayments. However, it would clearly be a more appropriate approach to Universal Credit deductions, focusing on avoiding detriment rather than reducing DWP expenditure, and would be effectively fiscally neutral as debts to government would be repaid in due course.

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[79] See www.gov.uk/government/publications/advice-for-decision-making-staff-guide.
[80] Elizabeth Miller (2023) The welfare debt trap: adjusting the level and priority of deductions from benefits to prevent hardship. Citizens Advice. Available at: https://assets.ctfassets.net/mfz4nbgura3g/1tJul36C0JuIjOkLqCP4XL/5a32c6b9e077022a828dd07dd9002389/The_20welfare_20debt_20trap.pdf.
[81] See https://data.parliament.uk/DepositedPapers/Files/DEP2019-0465/Deductions_priority_order_v2.0.pdf.

One option that would see deduction levels reduced for some is lowering the overall cap, alongside extending the new claim loan repayment period and reducing specific overpayment recovery caps. As noted above, more than 1 in 4 households subject to deductions have deductions of 24%-25%, and a further 1 in 10 have deductions above 25%. For a single claimant (aged 25+), a 25% deduction could amount to almost £100 per month; for a couple (at least one aged 25+), it could amount to more than £150 per month. A cap of 15% would mean higher income for the former of around £40 per month, and around £60 per month for the latter.

Appeals and waivers

As discussed above, it is difficult to mitigate or challenge a decision to apply a deduction to a Universal Credit award. Many claimants are unaware of the possibility, or what challenging the decision might entail.

In terms of MR, generally used to challenge the erroneous identification of overpayments, in 2021/22 (the latest available data) 11,200 of 25,990 MR requests related to Universal Credit overpayments were successful – a relatively high success rate, but arising from a small number of requests. In 2022/23, 270 of 1,070 tribunal appeals related to Universal Credit overpayments were successful.[82] Clearly, the DWP gets it wrong fairly often: it is important that communications around deductions make claimants fully aware of the process for appealing decisions.

Extraordinarily, there were only 213 requests for discretionary waivers – for people likely to experience severe hardship or ill-health as a result of the deduction – related to Universal Credit debts. And only around 12% of requests were successful. In recent years almost 90% of successful requests have related to Universal Credit overpayments due to government error, although in the year to March 2023, these represented only around 60% of requests.[83]

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[82] FOI 2023/80962. Available at: https://www.whatdotheyknow.com/request/appeals_statistics_benefits_over/response/2473453/attach/3/Response%20FOI2023%2080962.pdf?cookie_passthrough=1.

[83] FOI 2023/24003. Available at: https://www.whatdotheyknow.com/request/universal_credit_overpayments_an/response/2291570/attach/4/Response%20FOI2023%2024003.pdf. In 2021, 2022, and 2023 (up to 24 March), 76 of 86 waivers granted were for overpayment debts arising from government error.

Increasing the availability of waivers would help to mitigate the impact of Universal Credit deductions. It should be easier for people to demonstrate that deductions will cause hardship, based on broader criteria of who is likely to be vulnerable in this regard – or a more rigorous application of the criteria that already exists[84] – so that deductions can be delayed, or waived in full or in part. The DWP should also be more prepared to use this option for advance loan repayment cases, as well as overpayment cases. And greater safeguards (like stronger checks for the likely impact of deductions) within the processes used to determine deductions could mean that DWP decisions are less likely to cause hardship.

As noted above, the length of time that has elapsed between overpayments being received, and recovery being sought, could also become part of the criteria for a deductions waiver.

It is difficult to estimate the cost of making waivers more available, since we do not know enough about the circumstances of individual claimants to understand the impact reform may have on take-up. However, if we start with our estimate of the value of DWP benefit overpayment deductions in 2023/24, ie £297 million, additional waivers that protected a quarter of claimants from all overpayment deductions would cost around £75 million per year.[85]

Communicating deductions

While it is essential that deductions are minimised, and their impacts mitigated, it is also important that claimants are better informed about decisions made within the existing deductions system.

This applies especially, but not exclusively, to overpayment recovery. This report has detailed the lack of information that characterises DWP communications around deductions. HMRC is at fault too, in terms of informing claimants about tax credit overpayments when they transfer to Universal Credit.

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[84] See https://www.gov.uk/government/publications/benefit-overpayment-recovery-staff-guide/benefit-overpayment-recovery-guide#chapter-8.

[85] See note 69 for source and calculation of the £297 million figure. And note that, in practice, many claimants would presumably receive partial rather than full waivers. This cost is probably an underestimate given that, ideally, an increased availability of waivers would also apply to deductions for the recovery of tax credit overpayments for claimants who are now in the Universal Credit system.

The DWP should keep and share fuller records of benefit payments, and ensure they engage with people before overpayment recovery begins. This would also empower claimants to challenge deductions they think are wrong. This change would form part of a new approach for the DWP, whereby every person is provided with a full explanation and breakdown of how and why deductions are being applied to their Universal Credit payments.

This new approach would also entail a more streamlined system for Universal Credit claimants (and their advocates) to contact the DWP about deductions, and debt issues more generally. It would be designed around the needs of the end user, rather than fragmented across departmental silos. This single point of contact should be used to signpost people towards processes for appealing decisions and applying for waivers.

A related point is that the DWP needs to collect and publish more comprehensive data on deductions. We are generally reliant on parliamentary questions and Freedom of Information requests for official data – and even then, the information released is not current, and is not sufficiently detailed. More transparency in this regard would allow the fairness and effectiveness of deductions to be properly assessed, improving trust in the Universal Credit system.

Conclusion and recommendations

Through the Universal Credit system, the government determines the minimum amount that people and families need to live on, taking various circumstances into account. Any deductions from this amount will, by definition, risk taking people's incomes below this minimum.

For many, receiving 100% of their Universal Credit award is already not enough, insofar as their actual needs surpass assessed needs.[86] There should therefore be a very high bar for justifying policies which further reduce benefits income.

Deductions that allow claimants to pay off third party debts arguably reach this high bar, insofar as they enable debts to be managed sustainably, preventing people from losing their homes or access to essential utilities. For this reason, Citizens Advice continues to support placing some third party debts above advance loans in the recovery priority order, that is, how debt repayments are sequenced in the deductions process.[87]

Deductions for debts to government are much less likely to meet this high bar. There is of course a need to manage public money appropriately, on behalf of society as a whole. But the state does not have financial constraints in the way that a private company does. The need to recover debts arising from, for instance, new claim loans or previous benefit overpayments, therefore does not justify causing hardship and anxiety for millions of Universal Credit claimants, and may be counterproductive insofar as deductions undermine the sustainability of the Universal Credit system.

On overpayments, while we agree that claimants should not benefit from their own errors, there should be no deductions for overpayment recovery related to

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[86] Citizens Advice (2024) The national red index: how to turn the tide on falling living standards. Available at: https://www.citizensadvice.org.uk/policy/publications/the-national-red-index-how-to-turn-the-tide-on-falling-living-standards/.

[87] Elizabeth Miller (2023) The welfare debt trap: adjusting the level and priority of deductions from benefits to prevent hardship. Citizens Advice. Available at: https://assets.ctfassets.net/mfz4nbgura3g/1tJul36C0JuJjOkLqCP4XL/5a32c6b9e077022a828dd07dd9002389/The_20welfare_20debt_20trap.pdf. It should be reiterated, however, that most third party debts involve payments to other parts of the public sector, so some of the arguments we make around debts to DWP could be applied to, for instance, council tax arrears and court fines.

government errors, or those arising from the managed migration process or failures to process new information provided by claimants. The notion that Universal Credit claimants are meaningfully better off due to being overpaid, in the context of general inadequacy in benefit levels, is simply incorrect. The DWP should ensure that claimants receive what they are entitled to in law. It should not inflict hardship on people to compensate for its own failure in this regard. Even in cases of claimant error, the automatic recovery of overpayments that occurred many years ago must end.

On advance loans, while loans can help claimants manage their finances, debt recovery must inflict as little hardship as possible; repayment periods can be extended with no or negligible impact on public spending. The DWP must go further, however, in addressing the debts that arise as a result of the 5 week wait. The wait for a first payment is a source of significant hardship for many, arising from a political commitment to monthly payments in arrears that does not align with reality for most new Universal Credit claimants.

It is clear that some form of advance payment is needed. A switch to up front payments for the entire Universal Credit system would technically be a fiscally neutral way of eliminating the harms caused by the 5 week wait, but would be complicated in practice and could shift some risks from entering to exiting claimants. The most effective alternative is a new claim grant, in place of a loan, while payment in arrears continues more generally. Grants could be targeted on groups most likely to experience hardship during the 5 week wait, not least to reduce the cost of the scheme to the DWP.

Alongside action on preventing the need for deductions, and/or reducing the burden of specific deduction types, a reduction in the overall deductions cap is necessary. A 15% cap could be implemented almost immediately, increasing Universal Credit payments with the highest level of deductions by £50 per month with a negligible long-term fiscal impact.

The DWP should also communicate to claimants the reasons for deductions in much greater detail, and well in advance of deductions beginning. This applies especially to historic overpayment recovery. It should be easier to challenge decisions on deductions, and to appeal for repayment waivers – a more streamlined process for claimants to discuss their case with the DWP would be an important step in this direction.

We should not underestimate the big impact these small changes could make to the people we support, including some of the people whose stories are included in this report. Without the deductions needed to repay an advance loan, Sam* and his children might not have needed fuel vouchers to heat their home, and Joseph* could not only have avoided becoming reliant on food banks, he would have had more money to travel to job interviews.

Without deductions for overpayment recovery, Amina* could have avoided needing to use a food bank, and Priya* and her family could have focused on repaying priority debts. If Matt* had been empowered to challenge his deductions, he could have avoided homelessness. If the DWP had more straightforward contact channels for claimants, Nate* would have been able to arrange lower deductions sooner, and might not have ended up in precarious housing or reliant on food banks.[88]

[88] *Names have been changed.

Annex: Cost of a targeted new claim grant scheme

New claim grants for child element recipients

In November 2023, 2,441,319 households received the child element of Universal Credit, with an average monthly entitlement of £1,097.23. 45% of all household claimants receive the child element, so it is reasonable to assume the same proportion among new household claimants. We can estimate therefore there were 745,218 new claimants with the child element in 2023.

Paying this group a new claim or benefit transfer grant at their full estimated monthly entitlement would cost £818 million per year (or £409 million per year if valued at half their entitlement). Note that Universal Credit payments were uprated by a significant cash amount in April 2024.

If the grant was equivalent to only the value of the child element (i.e. the rate for children born after April 2017), including being double the value for households with 2 or more children, it would cost £338 million per year.

New claim grants for disabled child element recipients

In November 2023, 304,590 households received the disabled child element of Universal Credit, with an average monthly entitlement of £1,566.14. 6% of all household claimants receive the disabled child element, so it is reasonable to assume the same proportion among new household claimants. We can estimate therefore there were 99,362 new claimants with the disabled child element in 2023.

Paying this group a new claim or benefit transfer grant at the full estimated monthly entitlement would cost £156 million per year (or £78 million per year if valued at half their entitlement). Note that Universal Credit payments were uprated by a significant cash amount in April 2024.

It is not possible to estimate the cost of paying grants equivalent to only the value of the disabled child element (or the child element plus the disabled child element), due to a lack of publicly available caseload data on receipt of the higher and lower rates of the element, or the number of children receiving the element per household.

New starter grants for LCW element recipients

In November 2023, 23,581 households received the LCW element of Universal Credit, with an average monthly entitlement of £939.47. 0.5% of all households receive the LCW element, so it is reasonable to assume the same proportion among new household claimants. We can estimate therefore there were 6,624 new claimants with the LCW element in 2023.

Paying this group a new claim or benefit transfer grant at their full estimated monthly entitlement would cost £6.2 million per year (or £3.1 million per year if valued at half their entitlement).

If the grant was equivalent to only the value of the LCW element, assuming only 1 recipient per claimant household, it would cost £1 million per year. Note that Universal Credit payments were uprated by a significant cash amount in April 2024.

New starter grants for LCWRA element recipients

In November 2023, 1,335,693 households received the LCWRA element of Universal Credit, with an average monthly entitlement of £1083.79. 27% of all households received the LCWRA element, so it is reasonable to assume the same proportion among new household claimants. We can estimate therefore there were 414,010 new claimants with the LCWRA element in 2023.

Paying this group a new claim or benefit transfer grant at their full estimated monthly entitlement would cost £449 million per year (or £224 million per year if valued at half their entitlement).

If the grant was equivalent to only the value of the LCWRA element, assuming only 1 recipient per claimant household, it would cost £172 million per year. Note that Universal Credit payments were uprated by a significant cash amount in April 2024.

New starter grants for housing element recipients

In November 2023, there were 1,500,831 households receiving the housing element of Universal credit in the PRS, with an average monthly entitlement of

£1,028.88. 28% of all households receiving Universal Credit are in this group, so it is reasonable to assume the same proportion among new household claimants. We can estimate therefore there were 463,691 new claimants with the housing element in the PRS in 2023.

Paying this group a new claim or benefit transfer grant at their full estimated monthly entitlement would cost £477 million per year (or £239 million per year if valued at half their entitlement). Note that housing element payments were uprated for most claimants in April 2024.

The government could decide to pay grants equivalent to only the value of the housing element, in order to mitigate the impact of the 5 week wait on the accrual of rent arrears. However, housing element payments vary significantly by housing tenure, type, size and location, so it is not possible to estimate the cost of this option.

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