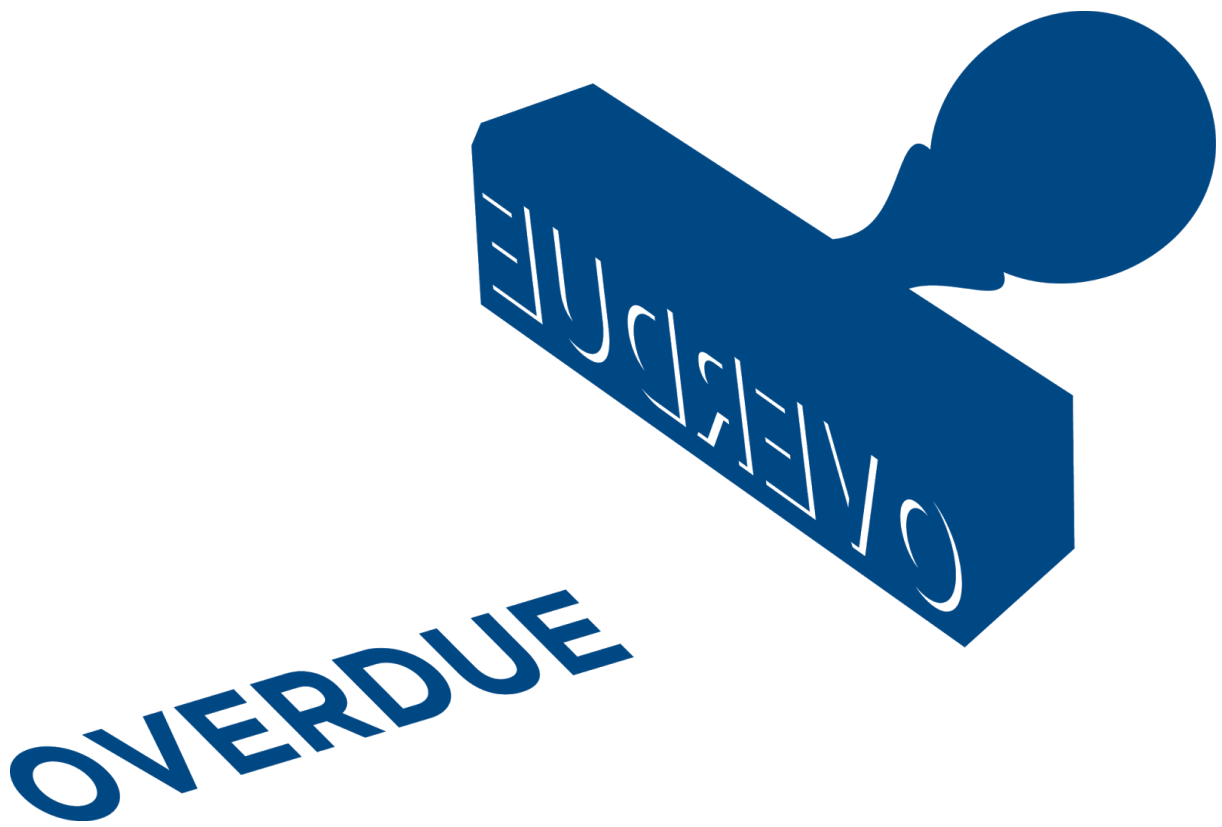


# Universal Credit and Debt

Evidence from Citizens Advice about how Universal Credit affects personal debt problems



Chris Drake

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# Summary

Universal Credit (UC) represents the biggest change to the welfare system undertaken since its inception. It brings together six different benefits into a single payment. By 2022, over 7 million families will be in receipt of this benefit - nearly 3 in 10 (28%) of all working-age households.

Citizens Advice is often the first port of call for people needing help with benefits and in the last year we helped more than 30,000 people with UC issues. We support the aims of UC to simplify the benefits system, make transitions into work easier and make every hour of work pay. However to achieve these aims it is vital that it works well for all claimants.

Our research shows that some aspects of UC risk causing or exacerbating personal debt problems. With UC roll-out due to accelerate significantly from October 2017<sup>1</sup>, identifying and tackling the problems new claimants are facing now - before problems become widespread - is necessary to ensure UC meets its aims. The Department for Work and Pensions' (DWP's) test and learn approach to implementing UC provides an opportunity to do this.

Our evidence shows that our UC clients are more likely to have debt problems than those on legacy benefits. A quarter (26%) of the people we helped with UC also needed help with debt, compared to 19% for legacy benefits. They are also struggling to pay off their debts. More than 2 in 5 (41%) debt clients on UC have no spare income to pay creditors, compared to a third (33%) on legacy benefits. Worryingly, they are also more likely to have problems with priority debts. The ultimate sanction for non-payment of these debts is a loss of home, essential services, essential goods acquired on hire purchase, or even imprisonment. Over three quarters (79%) of debt clients on UC had priority debts, compared to 69% on legacy benefits.

Our previous research<sup>2</sup> has identified that UC currently has many problems with delivery and administration. This included evidence of the people we help struggling to get support on the helpline, waiting up to 12 weeks for their first payment and not being told about crucial support like Advance Payments. Recent data from the Department for Work and Pensions also shows that 1 in 5 of all UC claimants are not receiving their full payment within 6 weeks.<sup>3</sup>

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<sup>1</sup> From October 2017 around 50 Jobcentres will get full service Universal Credit each month

<sup>2</sup> Citizens Advice, [Delivering on Universal Credit](#), July 2017

<sup>3</sup> [HC Deb 19 July 2017 c4292W](#)

Our new research, looking specifically at debt, has also identified the following issues which are causing or exacerbating UC clients' debt problems:

- **The 6 week waiting period.** Lack of funds during the initial 6 weeks whilst claimants are awaiting their first regular UC payment can cause or exacerbate debt problems, particularly rent arrears.
- **Poor administration.** Processing delays within DWP, and incorrect information provided to claimants is leading to delays in submitting and paying UC claims.
- **Difficulty budgeting.** Some UC claimants find it difficult to adjust to monthly UC payments, particularly those in debt, or with fluctuating incomes.
- **Difficulty opening a suitable bank account to receive UC payments.** UC claimants are required to have a suitable bank account to receive UC. Some are finding it difficult to open one, leading to delays in receiving their benefits.
- **Deductions from UC for benefit overpayments and other debts.** UC claimants are experiencing financial difficulties due to the amount which can be deducted for other debts or overpayments, which is considerably higher than under legacy benefits.

This, alongside our recent evidence in [Delivering Universal Credit](#), demonstrates the need to improve the way UC is delivered and reduce the risk of UC causing or exacerbating debt problems. To do this, the Government should pause the roll out and fix the problems with Universal Credit so that:

1. No one is left waiting longer than 6 weeks for an income
2. Those who need it get a payment within 2 weeks that they do not need to pay back
3. People have access to a minimum standard of support to help them adapt to Universal Credit, which is published. This should, at a minimum, include
  - a. Ensuring all UC claimants are made aware of, and can access budgeting support which is appropriate to their needs and;
  - b. Making funding available for free impartial debt advice to meet existing increases in demand as a result of Universal Credit.

In addition, the Financial Conduct Authority (FCA) should:

- Amend its rules on assessing creditworthiness to require firms to develop policies on how they factor in income from Universal Credit in affordability assessments
- Actively monitor the roll out of Universal Credit to see if it has an adverse impact on unauthorised lending, and consumer credit firms' forbearance and debt collection practices
- Develop guidance on how banks should keep their commitments under new legislation to provide basic bank accounts to unbanked UC claimants.

Acting on these recommendations, as well as those set out in our '[Delivering Universal Credit](#)' report, will help reduce the risk of UC claimants falling into debt or of UC exacerbating their existing debt problems.

# Background

Universal Credit (UC) was first introduced in 2013. The policy intentions behind the new benefit were to simplify the number and complexity of current means-tested benefits, and to help more people move into and progress in work while supporting the most vulnerable.

UC replaces six existing means-tested benefits which currently provide support to people in and out of work: income-based Jobseeker's Allowance, income-based Employment and Support Allowance, Housing Benefit, Income Support, Child Tax Credits and Working Tax Credits. We refer to these as 'legacy benefits' throughout this report. Universal Credit does not include Council Tax Support (CTS), which is a localised scheme providing reductions in Council Tax to people on a low income.

The way in which UC is delivered is different to legacy benefits:

- **It is paid monthly in arrears**, to align with perceived usual employer practice on wage payments.
- **There is a link with the HMRC PAYE system** so that Real Time Information about claimant's earnings can be used in the calculation of UC. This enables better and more accurate assessments of UC entitlement, with the aim of reducing under and overpayments of benefits.
- **It is solely administered by DWP, rather than a combination of DWP, HMRC and local authorities**, so claimants don't have to provide the same information several times to different organisations.<sup>4</sup>
- **It is normally paid via a single payment to a household**, rather than to individual household members.
- **Benefit to cover housing rental payments is generally paid to the claimant**, rather than direct to the landlord.
- **UC claims are made and managed online**, rather than on paper or over the phone.

Unlike previous reforms to the benefit system - which were introduced across the UK at the same time - the government is rolling out UC gradually, allowing it to test aspects of the new benefit system. Currently UC operates with two different versions:

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<sup>4</sup> UC claimants will still need to tell local authorities about any change in their circumstances if they are claiming Council Tax Support.

- **The live service:** available to all new eligible claimants in every Jobcentre in England and Wales. It is generally limited to 'simpler' claims: single adults, without a health condition or disability, who are not in work. Since June 2015 some couples and families have been included.
- **The full service:** available to all new UC claimants eligible for one of the legacy benefits in a limited number of local authorities. In May 2016 DWP began rolling out the full service across the country, gradually replacing live service UC. It aims to complete roll-out by 2022, when it will affect 7.2 million families.

In the 12 months to May 2017, over 600,000 people sought advice from us on benefits. Our data allows us to monitor policy and practice changes including the roll-out of new benefits such as UC. It also allows us to see the impact of benefit changes on other advice areas like debt.

We undertook this research to establish whether our UC clients are more likely to have debt issues than legacy benefit clients and, if so, why.

## Research methods

To understand more about UC and debt we used a mix of quantitative and qualitative research methods.

The quantitative research covered England and Wales. It included analysing existing service data on the advice we provide to clients. In addition, we have been surveying people who come to us for advice in UC full service areas about their experience of making and managing a claim. This survey ran between August 2016 and May 2017 in 18 areas with full service Universal Credit. It has a total representative sample of 792 respondents. We also undertook a survey of 169 advisers, between October and November 2016, using a self-completion questionnaire.

We used our service data, both from our advice issue data and from our money advice recording tool, a specialist part of our electronic case recording system to administer complex debt cases. This latter source of data includes debt clients' income, expenditure, creditors and debts, as well as their profile and the local authority area where they lived. We analysed over 50,000 complex debt cases seen in the period October 2016 to June 2017. Where UC was noted as income

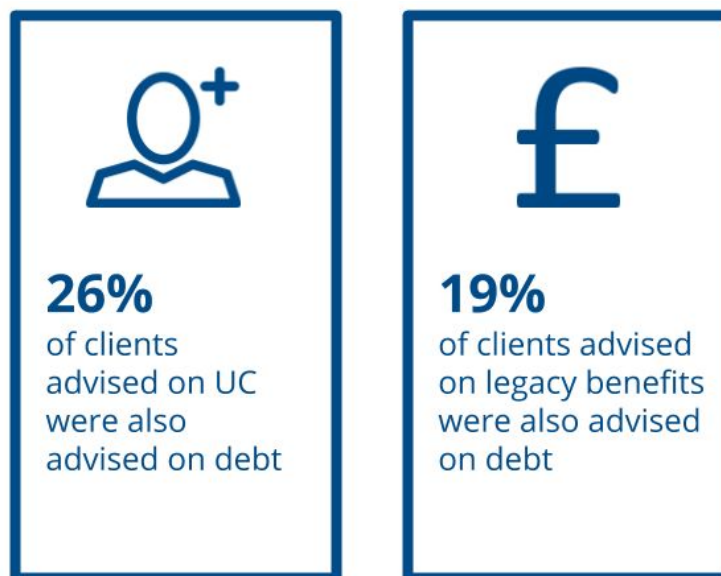
we broke this down further to determine whether they were likely to be in receipt of live or full service Universal Credit. As this level of detail is not noted in our service data, we did this by comparing data about the local authority area the client lived in, the date on which full service UC was rolled out to Jobcentre areas within that local authority, and the first date on which the client's data was entered in the money advice recording tool.

The qualitative research involved interviewing Citizens Advice clients and advisers in UC full and live service areas across England. Between January and March 2017 we interviewed 22 clients claiming UC, including 7 who completed a diary of their experiences during the 6 week wait. The sample included a diverse range of respondents including those in and out of work, those with and without children and disabled people. We also interviewed 21 frontline advisers.



# What does our front line service data tell us?

Our analysis identified some key differences between our UC and legacy benefit clients. Our advice issue data indicates that there is a stronger link between advice on UC and debt than on legacy benefits and debt.<sup>5</sup>



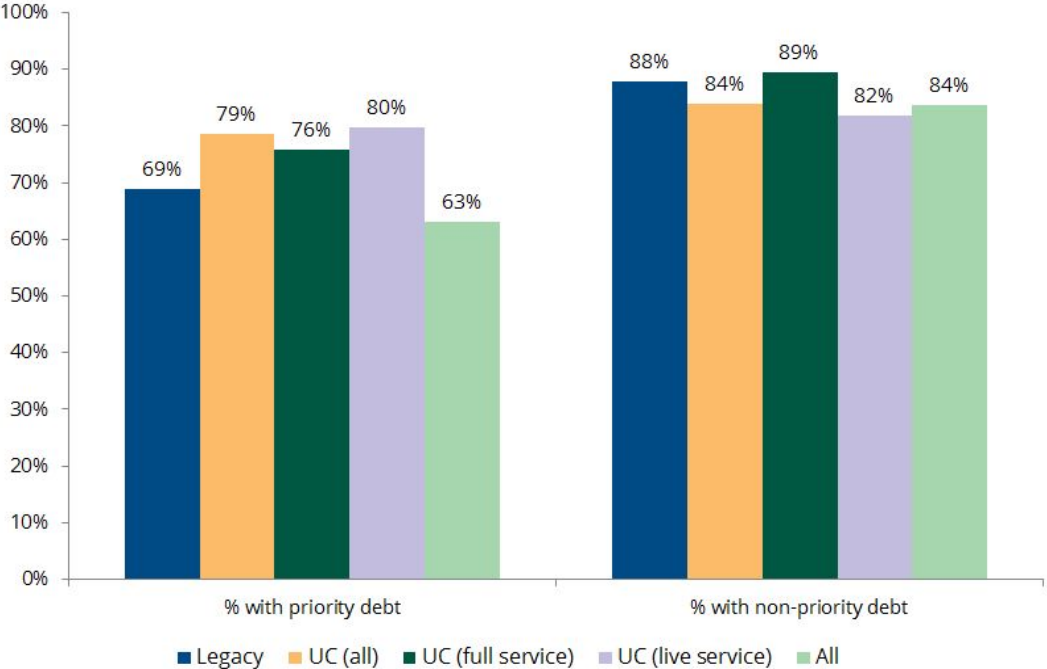
The link was also clear in the additional service data we have from the Money Advice Recording Tool for clients with multiple debts. We identified four broad trends.

## 1) People in receipt of UC were more likely to have priority debts than those on legacy benefits

Priority debts are those where the ultimate sanction for non-payment is loss of home, essential services, essential goods bought on hire purchase, or even imprisonment. Common priority debts include rent arrears, Council Tax arrears, and magistrates' court fines.

<sup>5</sup> October 2016 to March 2017 N = 18,140 Universal Credit clients, 187,374 legacy benefit clients. Source: Citizens Advice AIC cluster reports.

**Figure 1: Debt clients with priority and non-priority debts**



Source: Money Advice Recording Tool, October 2016 to June 2017. Base: 52,075 clients, including 2,151 UC clients (634 full service, 1,506 live service, 11 unknown) and 24,002 legacy benefits clients.

From our analysis of over 50,000 multiple debt cases, we found that 79% of all our clients receiving UC had priority debts, compared to 69% receiving legacy benefits, and 63% of all our debt clients. This means that people we’ve helped who receive Universal Credit are 14% more likely to have problems with priority debts like rent and Council Tax if they're on Universal Credit compared with legacy benefits. Whilst the percentage of clients in live service areas with priority debts was slightly higher than those in full service areas (80% compared to 76%), UC clients overall are more likely to struggle with priority debts. For example, we found that 1 in 4 didn’t pay some or all their rent during the 6 week wait.<sup>6</sup>

Clients on UC were less likely to have non-priority debts, such as credit cards, loans and overdrafts, than those on legacy benefits. It is too early to draw firm conclusions on why this is. However, from our qualitative research we found that some UC clients are trying to avoid borrowing more from lenders during the 6 week wait, as they don’t want to add to their debts. Instead, they are relying on informal borrowing from friends and family or delaying payment of bills.

It is important to note that this trend appears to be changing with more people coming to us with non priority debts in UC full service areas than in live service areas. It is also significant that the trend is different for water debts. Here we see

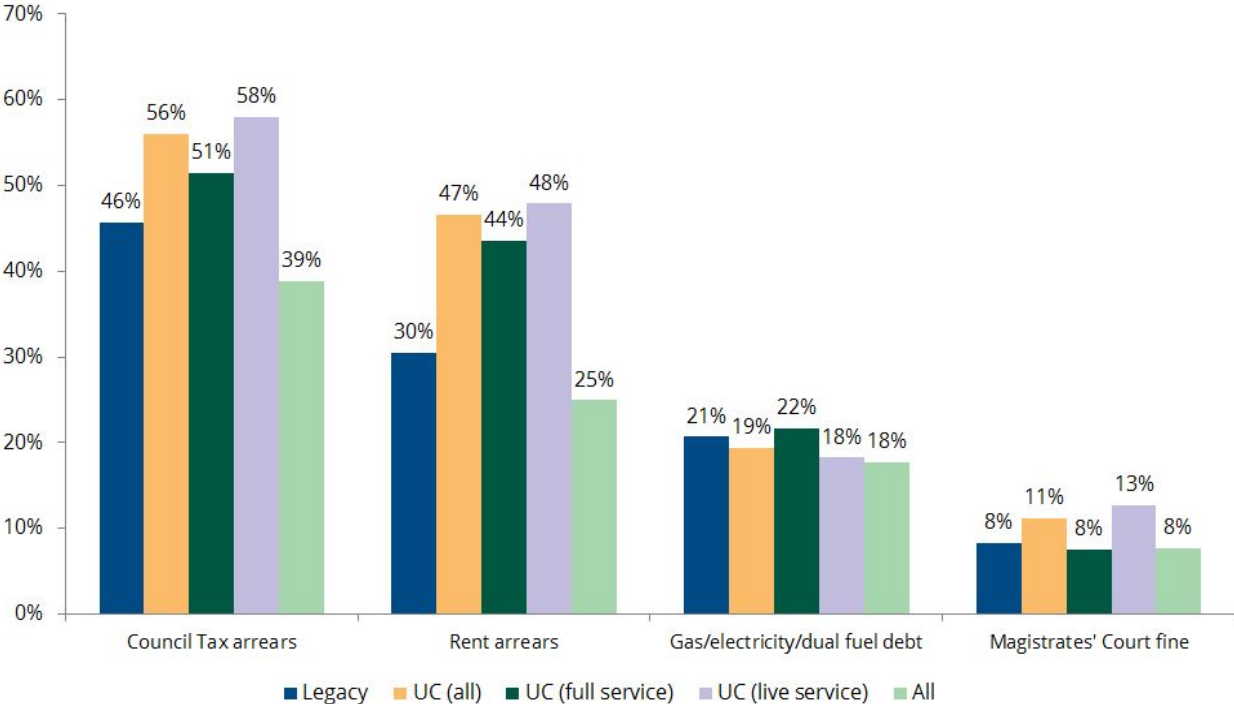
<sup>6</sup> Source: Citizens Advice UC full service roll-out survey August 2016 to April 2017. N = 630.

that the people we help who are in receipt of UC in a full service area are significantly more likely to have water debts (43%) compared to the legacy system (33%).

**2) People on UC were more likely to be struggling with rent and Council Tax arrears**

There was a difference in the type of priority debts that UC clients had compared to those receiving legacy benefits. UC clients are significantly more likely to have rent and Council Tax arrears than legacy benefit clients. This difference is particularly marked for rent arrears - where 47% of all UC clients had rent arrears, compared to 30% of legacy benefit clients.

**Figure 2: Most common priority debts amongst debt clients on UC compared to those on legacy benefits**



Source: Money Advice Recording Tool, October 2016 to June 2017. Base: 2,151 UC clients, 24,002 legacy benefits clients.

There are signs of some progress, with slightly lower levels of rent and Council Tax arrears for clients in full service UC areas. DWP’s actions to signpost claimants to make a separate claim for Council Tax Support and their work to improve interactions with landlords have potentially made a difference here and are welcome steps in the right direction. However, this data shows that there is still significant work needed to reduce debt problems back to even where they

were with the legacy system. With a significant increase in the speed of UC rollout due in October these problems are set to affect hundreds of thousands more people.

**3) Those on UC owe similar amounts to those on legacy benefits**

Whilst more debt clients receiving UC have priority debts, the median amount owed by our UC clients is slightly higher than that owed by legacy benefit clients. UC clients in full service areas also had higher median priority debt than UC clients in live service areas. This may be a consequence of the gateway conditions for entitlement to UC in live service areas restricting claims to single people who have lower rent liabilities.

**Figure 3 - Citizens Advice debt clients, average outstanding priority debts**

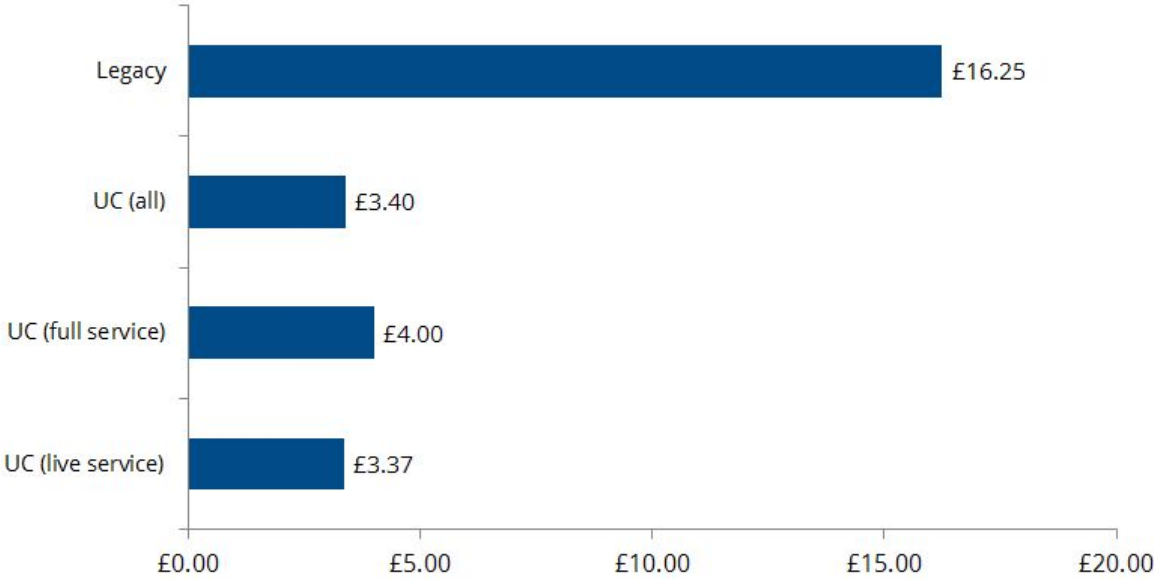


Source: Money Advice Recording Tool, October 2016 to June 2017. Base: 2,151 UC clients, 24,002 legacy benefits clients.

**4) Those on UC have less available income to pay creditors**

Many of the people we help who are on UC have little or no money available to pay their creditors. On average, UC clients have less than £4 per month left to pay all their creditors after they've paid for essential living costs, compared to over £16 per month for people in receipt of legacy benefits, as Figure 4 shows. The lower available income figure for clients in live service areas can be accounted for by the higher proportion of claimants aged under 25 in live service areas. Claimants aged under 25 are entitled to lower standard allowance.

**Figure 4: Median monthly income available to pay all creditors, after essential living costs**



*Source: Money Advice Recording Tool, October 2016 to June 2017. Base: 2,151 UC clients, 24,002 legacy benefits clients.*

More than 2 in 5 (41%) debt clients on UC have no available income for creditors as their monthly expenditure on essential living costs exceeds their income. Clients in live service areas were slightly more likely to have no available income than clients in full service areas (42% compared to 39%). This compares to a third of debt clients on legacy benefits.<sup>7</sup> This demonstrates the additional challenges UC claimants face to get on top of any debt they have compared to those in the legacy benefit system.

Our statistics therefore show that more of our UC clients have debt problems than those on legacy benefits, that they are more likely to have problems with priority debts and have little or no money to pay creditors. As a result, many are struggling to make ends meet. To explore this further, we undertook further qualitative and quantitative research amongst our Citizens Advice advisers and UC clients. Our findings are set out in the next section of this report.

<sup>7</sup> Source: Money Advice Recording Tool, October 2016 to June 2017. Base: 2,151 UC clients, 24,002 legacy benefits clients.

# Why does UC adversely affect people's debt problems?

Through our qualitative and quantitative research with our UC clients and our survey of 169 advisers, we identified the following key issues causing or exacerbating UC claimants' debt problems.

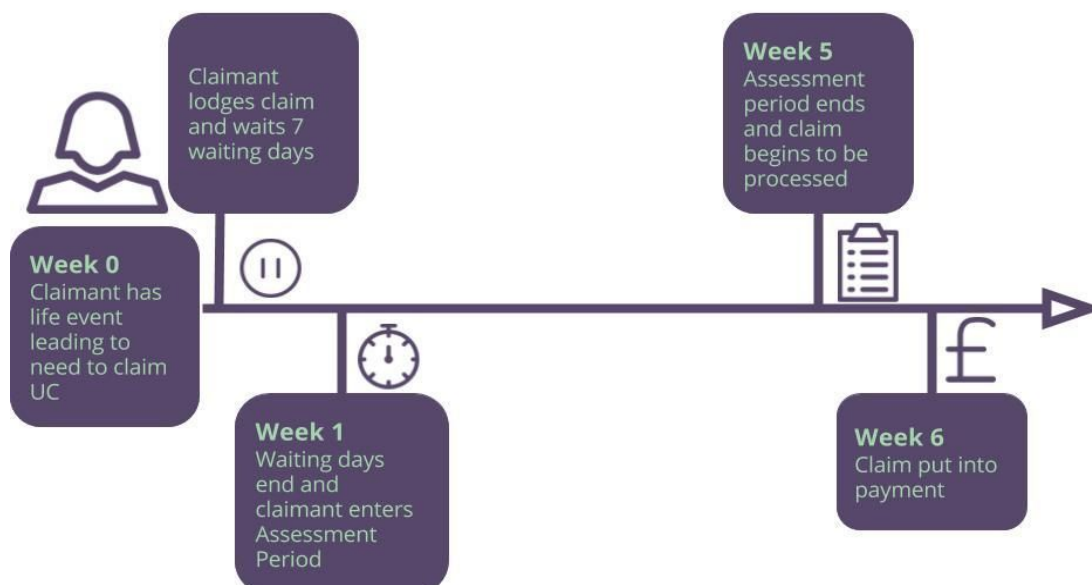
- the 6 week wait
- difficulty opening a bank account to receive UC
- deductions from regular UC payments
- difficulty budgeting
- poor administration

We address each of these issues in turn, broadly in line with the claimant journey from applying for UC to receiving regular payments.

## The initial 6 week wait

Most claimants will have a 6 week wait for their initial UC payment. As Figure 5 shows, this consists of a one week wait without entitlement, known as the 7 waiting days, a one month assessment period and an additional week to process the claim. Any earnings the claimant receives during the assessment period are taken into account in calculating the UC due to them.

**Figure 5: How the 6 week wait breaks down**



## **Many people have no available income during this wait**

The 6 week wait policy assumes that UC claimants will have enough money left over from their previous employment to tide them over during this period.

But for many of our clients this is not the case. Our survey of clients in UC full service areas found that only 1 in 6 (17%) were able to rely on their own resources from savings or final wages. Further, our survey of advisers found that 4 out of 5 (83%) had advised UC clients experiencing problems with the 6 week wait.

One client who completed a diary on their experience of claiming UC wrote:

“I have no food in my house at all and no money to buy any. I signed on to Universal Credit today and was told I won’t get any money for 6 weeks.”

Another diarist wrote:

“I barely ate at all today. I had to space out my meals as I didn’t have enough food for the week.”

## **People are getting into debt in an attempt to cope**

Without any income, people have to find other ways of managing. Some are getting into debt for the first time. Others find their current debt problems are made worse.

In our survey of full service areas more than 1 in 3 (35%) of our UC clients had to juggle their finances by not paying their rent, energy or other bills.

One adviser commented:

“Quite often they get into Council Tax arrears, almost always water debt, and often don’t pay their TV licence.”

Nearly 1 in 4 (24%) UC clients we surveyed in full service areas didn’t pay some or all of their rent during the 6 week wait, which is leading to rent arrears.<sup>8</sup>

One diarist wrote:

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<sup>8</sup> Source: Citizens Advice UC full service roll-out survey August 2016 to April 2017. N = 630.

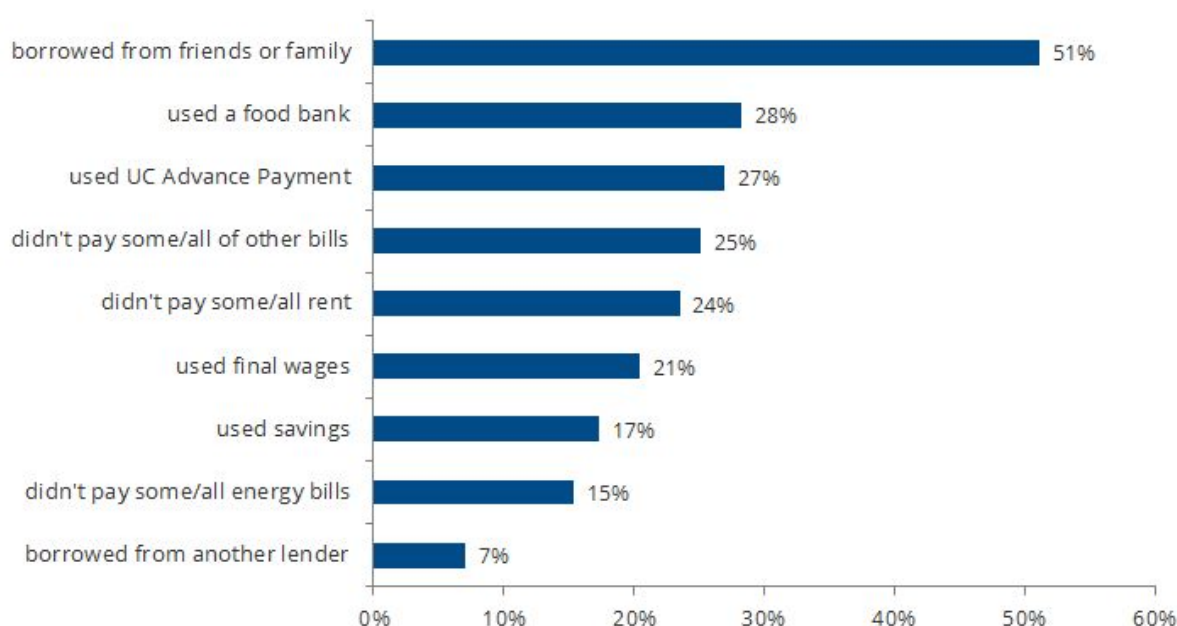
“By the time my first UC payment comes through I’ll be £1,500 behind on my rent and I don’t know how I’m going to pay all that.”

Another wrote:

“My rent is in arrears - for the first time ever I’ll have to pay back money on top of my rent.”

Nearly 3 in 10 (28%) used a food bank to get by.<sup>9</sup> We also found that the majority had to borrow money. This included half (51%) who had to borrow from friends and family and one in four (27%) using a UC Advance Payment.

**Figure 6: How UC clients are managing financially during the 6 week wait**



Source: Citizens Advice UC full service roll-out survey, August 2016 - April 2017. N = 630 awaiting their first UC payment, receiving UC, or no longer doing so.

As Figure 6 shows, our UC clients often rely on more than one source of borrowing. This includes existing sources of credit, such as bank overdrafts and credit cards.

One claimant we interviewed commented:

“I had credit cards that I've had to rely on. I haven't got big limits on them because I'm on a low income but I ended up maxing them out to pay for things. That did put me in a difficult financial situation and I am still paying for that now, but it's better than paying a payday loan.”

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<sup>9</sup> Ibid.



We found some use of other lending sources, including doorstep lending, payday lending and catalogues. Some advisers highlighted the potential risk of claimants turning to illegal money lenders:

“Borrowing from family and friends is most prominent but I have seen instances of payday loans. Even before the introduction of Universal Credit, the doorstep loans were quite high in this area. In the last few months we're hearing more and more about loan sharks operating in the area, so the worry is that some clients are going to turn to them as well, which is obviously an even bigger concern.”

As UC is rolled out more widely, there is a risk that unscrupulous lenders may exploit people in need of money during the 6 week wait - for example, through irresponsible marketing and lending practices.

One adviser said:

“These are people on low income, and are not going to be able to access a loan from banks or building societies. They will also resort to payday loans and doorstep loans with high interest.”

Early indications from our research show that some creditors are adopting a zealous approach to recovering debts from UC claimants, without demonstrating due forbearance.



David was not advised that he needed to make a separate claim for Council Tax Support when he claimed UC. As a result he fell into arrears of £128 on his Council Tax. The debt was then passed to bailiffs, increasing David's debt to £310, including enforcement fees. The bailiffs initially wanted £25 per week but David could not afford this. The bailiff was unwilling to accept a lower amount and demanded payment in full.

One diarist awaiting his first regular UC payment wrote:

“I received letters from two of my creditors threatening to pass my debt on to debt collection agencies.”

## **Debt accumulated while waiting for UC compounds others problems**

Aggressive debt collection by unscrupulous creditors during the UC waiting period may cause further financial problems as people do not always have an understanding of the best order to pay their debts, and may prioritise aggressive collectors. We have previously found that, if faced with the choice to pay a non-priority credit card debt compared to another priority debt, 15% of respondents would forego making payments on their rent or mortgage and 27% would skip paying their Council Tax.<sup>10</sup> The inability to pay priority debts during the waiting period may make a difficult situation without any income even worse.

High levels of debt also negatively impact on a person's family life, their relationships and their resilience. This is particularly concerning for people's mental health. In previous research, three quarters of our debt clients said they felt stressed or anxious as a result of their debts.<sup>11</sup> National data from the Understanding Society survey also shows that people with unmanageable debt are 24% more likely to have a mental health score in the bottom quarter of the population.<sup>12</sup> The untenable debt situation faced by many UC claimants is likely to impact upon their mental health and increase demand on services.

## **Advance payments are only providing partial help**

UC claimants who don't have enough money to tide them over the 6 week wait can apply for an UC Advance Payment. Whilst 27% of those responding to our survey in UC full service areas had taken an advance payment, two in five reported they were not aware of them. Of these, more than half said they would have requested one.<sup>13</sup>

Jobcentre Work Coaches currently signpost claimants to an application process for an Advance Payment. Work Coaches are a key point of contact with claimants and often have the most access to information about a claimant's situation. With training, this point of contact and relationship could be further utilised by allowing work coaches to recommend claimants are awarded an advance payment or giving them the power to make a decision to award themselves. This would need to be done in addition to the the existing routes for Advance Payment claims.

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<sup>10</sup> Citizens Advice (2016) [People putting themselves at risk by debt decisions](#).

<sup>11</sup> Citizens Advice (2015) [Unsecured or insecure?](#)

<sup>12</sup> Citizens Advice (2016) [A debt effect? How is unmanageable debt related to other problems in people's lives?](#)

<sup>13</sup> Citizens Advice, [Delivering on Universal Credit](#), July 2017

The maximum claimants can get from an Advance Payment is usually 50% of their estimated monthly UC award, as an interest free loan.<sup>14</sup> In most cases this is repayable within six months. Our research showed that people claiming an Advance Payment often found it insufficient to cover day to day living costs and rent during the 6 week wait so they are having to borrow from other sources as well. This is leading to financial hardship.

Jane, who had been claiming UC for around 6 months, said:

“I took an Advance Payment of £330. But I got it because I was in arrears, so I had to whack it on my rent. I also had to borrow around £200 from a friend of a friend.”

Even when claimants start receiving UC, their income may be insufficient to cover essential living costs and repay debts acquired to get by during the 6 week wait, as we show later in this report.

The Government needs to pause the rollout of Universal Credit to allow them time to fix these problems. We recommend that the Government ensure no one is left waiting longer than 6 weeks for an income, and that those who need it get a payment within 2 weeks which they do not need to pay back. By taking these steps, the risk of claimants getting into debt or exacerbating existing debt problems because of the 6 week wait will be reduced.

## **It is difficult to open a bank account to receive UC payments**

To receive UC payments, claimants are required to have a bank, building society, credit union or Post Office Card account (POCA). Many claimants already have a suitable account. However, those needing to open one may find it difficult if they have a poor credit history or lack widely accepted identity documents, such as a passport or driving licence. This can lead to a delay in receiving UC benefits, exacerbating any existing debt problems they have.

Our 2016 research on access to basic banking found that some consumers asking for a basic bank account were being refused a bank account altogether due to their poor credit history.<sup>15</sup> This is concerning as UC claimants need an account to manage their benefits. Others, with a suitable credit history, were

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<sup>14</sup> This is capped at 40% of the Standard Allowance over 6 months (£762.77)

<sup>15</sup> [“Getting The Basics Right” - access to basic banking](#), Citizens Advice, 2017.

only being offered a full current account, although a basic bank account may have been more suitable as they don't include overdraft facilities. Whilst people can get their benefit paid into POCA, our previous research shows that the limited functionality of a POCA may be a barrier to financial inclusion.<sup>16</sup>

Our basic banking research also found that some people find it difficult to open a bank account as they lack widely accepted identity documents. Less than half (48%) of the 559 banking branches we visited said they would accept letters from DWP or HMRC as proof of identity or address. This can make it difficult for some UC claimants to open an account.



Joe is a 20 year old single UC claimant. He lives at his mother's house in a UC full service area. However, he has experienced difficulties opening a bank account to receive his UC payments.

Joe did not have a passport or driving licence, or utility bills addressed to him. The bank staff said they could not accept a letter from DWP as proof of identity. As a result Joe had to obtain a letter from his GP. This cost him £15, which he had to borrow from a relative.

Under EU law, firms need to obtain proof of identity and address from customers wishing to open an account.<sup>17</sup> However, some firms' internal restrictions on acceptable identity documents may be exceeding regulatory requirements. As a result, some UC claimants are finding it difficult to open a suitable account.

We are planning to undertake further research on the availability of basic bank accounts later in 2017 to measure progress on these issues.

## **Deductions from regular UC payments make it hard to manage**

Once claimants start receiving regular UC payments, they can still find it hard to make ends meet due to deductions from their UC payment.

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<sup>16</sup> [Banking with benefits - exploring the need for basic banking](#), Citizens Advice, 2016

<sup>17</sup> Relevant UK legislation and regulatory rules are the Fraud Act 2006 and the Money Laundering Regulations 2007.

DWP can directly collect debts from a claimant's UC payments to repay debts, including previous benefit and tax credits overpayments and certain third party debts such as Council Tax and rent arrears.

This is a very complex area and there is a need for clarity on the guidance and the law that underpins this areas. Additional deductions can also be made to repay advance payments in UC. Guidance<sup>18</sup> and practice suggest that this repayment could mean up to 40% of the standard allowance<sup>1920</sup> is deducted from their UC entitlement, on top of any direct deductions for other debts.

With legacy benefits, the third party direct deduction scheme is seen by advisers as a useful tool to help clients manage their financial situation. Advisers noted that it was particularly helpful for clients in rent arrears to social landlords who might be considering possession action. The promise of direct deductions might persuade the landlord to allow the client to remain in their home, whilst allowing the client to make small but affordable payments to pay off the arrears.

However, the new approach to deductions is leading to financial difficulties for some clients. More than half (52%) of advisers we surveyed said they had advised UC clients experiencing problems with deductions.

Deductions for rent arrears are causing a particular problem. This is because UC claimants are more likely to have rent arrears, and deductions are usually set at a higher rate of recovery than under legacy benefits. Our advisers tell us that they are often set at 20% of the standard allowance, even though the law allows them to be reduced to 10% in cases of financial hardship. This compares to a flat rate of 5% under legacy benefits.

One adviser commented:

“Historically claimants have had deductions taken from their benefits for priority debts, leaving them with a certain amount of cash. But the levels of deductions seem to be higher under Universal Credit, especially for

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<sup>18</sup> [http://data.parliament.uk/DepositedPapers/Files/DEP2016-0778/Deductions\\_V2.0.pdf](http://data.parliament.uk/DepositedPapers/Files/DEP2016-0778/Deductions_V2.0.pdf)

<sup>19</sup> The UC standard allowance is the basic amount claimants receive before extra amounts are added for housing costs, childcare and disability, and before the work allowance and income taper is applied. There are different standard allowances for single people and couples, and those under and over 25 years old. For deductions purposes, the single over 25 standard allowance is used.

<sup>20</sup> The 40% rate should only be applied in instances of fraud. If fraud is not involved this should be capped at 15% of the standard allowance if there is no earned income and 25% if there is earned income. In practice our advisers tell us that DWP use guidance that suggests a rate of 40% is applied routinely even in cases not involving fraud.

rent arrears, meaning they're finding it harder to budget. There's a large change in the amount of money that's been taken, so there's less cash available to pay other creditors."

We're also seeing cases where DWP is setting UC rent arrears deductions at higher levels than those set by the courts.

One adviser commented:

"We're asking the council to really consider before they do these attachments to benefits for rent arrears because they're overriding the court, which is my biggest concern really. The courts set it at £3.70 a week [5% of the claimant's standard allowance] but DWP is continuing to set deductions at 20% of the claim. To be honest I think councils are perfectly happy with 5%, because they know they're going to get their money. I work with housing officers who don't want 20%. It just makes their lives harder because they're then supporting clients to get access to food banks and the social fund."

As Figure 8 shows, a single jobseeker on UC with rent arrears and no other deductions can be around £46 a month worse off than on legacy benefits.

**Figure 8: How regular deductions for rent arrears affect single jobseekers**

Single jobseeker, 25 years old and over			
Income based Jobseeker's Allowance (JSA)		Universal Credit (UC)	
Benefit: Monthly equivalent:	£73.10 (weekly) £316.77	Standard monthly allowance:	£317.82
Monthly deductions (5%) for rent arrears	£3.70 (weekly) £16.03	Monthly deductions (20%) for rent arrears	£63.56
Net benefit adjusted to monthly equivalent <sup>21</sup>	<b>£300.74</b>	Net monthly benefit	<b>£254.26</b>

For some of our clients, the higher deductions for rent arrears under UC are making it very difficult to ensure they have enough money to live on.

<sup>21</sup> Calculated as: (JSA net payment x 52 weeks)/12 months. For 2017/18, the weekly deduction for rent arrears under legacy benefits is £3.70. We have converted this to a monthly equivalent of £16.03 to enable comparison with UC rent arrears deductions.



Kevin had historical rent arrears with his local authority. He was receiving Universal Credit as a single person and, due to his arrears, his rent was paid directly to his landlord along with a payment for his arrears. Under legacy benefits, the normal payment rate for arrears, for someone in his circumstances, was £16.03 per month. However, deductions for Universal Credit had been set at £63.56. Kevin was struggling to heat his home and, even with savings in other areas, only had £107 per month for food and household bills (£3.51 per day).

### **People aren't always told about deductions, or the options to make them more affordable**

Our clients and advisers reported a lack of flexibility to make lower repayments over longer periods.



Joseph had a Working Tax Credit overpayment of £2,600. This was being deducted from his UC payments at £80 per month, meaning he was struggling to cover essential costs. He asked DWP to reduce the payments but his request was refused.

Some claimants reported receiving insufficient notice of UC deductions, making it difficult for them to budget.



Lydia reported that she hadn't received any notice of a significant increase in her monthly UC deductions for a court fine. She noted that the deductions had been increased from £20 to £102.75 per month. Our adviser contacted DWP who could offer no explanation for the increase in this case.

One claimant we interviewed for our qualitative research was surprised to see deductions for historic tax credit overpayments, which she was not previously aware of:

“They were taking a lot of money off me for tax credits overpayments, which I didn't even know anything about. They just started taking it out of the money they were giving me, so it left me in more debt. They started taking off £124 in one go, without even telling me. It turned out it was

because they believe I have an overpayment of tax credit from years ago. But they didn't write to me or let me know, nothing".

## **Poor Government debt collection practices are keeping people in debt**

The public sector is mostly out of step with financial services and utility companies, as it does not have an open or consistent approach to dealing with debtors or assessing affordability. Deducting unaffordable debt payments from a claimant's UC can leave people with even less money to pay for essentials, such as food and heating, and further compound a debt spiral.

Government debt collection is different to other creditor debt collection, as there is no overarching public statement of best practice on the way it should collect debts. There is also no independent regulatory scrutiny of its debt collection behaviour, to balance its wide ranging powers to collect and enforce non-payment. This contrasts with debt collection in the financial services and utility sectors where regulators expect firms to treat their customers fairly.

A previous survey of our advisers found that national government debt collectors were rated poorly at communicating - answering the telephone and responding to letters - and lagged behind the higher standards of debt collection in other industries, including water, banks or private debt collectors.<sup>22</sup> We have been calling upon central government to work with the private sector, Citizens Advice and the other advice charities to develop a best practice debt collection protocol to ensure UC claims are able to live affordably.

Deductions and debts acquired during the 6 week wait are contributing to some claimants' difficulties adjusting to monthly UC payments. In the next section we explore these budgeting issues further.

## **Difficulty budgeting**

In line with its aims of simplifying the benefits system, UC consolidates legacy DWP, HMRC and local authority benefits into a single monthly payment. From our qualitative research, we found that some claimants welcome this change and find it simpler to deal with a single benefit agency and one single benefit payment. These claimants tended to be those receiving the same amount of UC each month. However, others are struggling to manage their money effectively

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<sup>22</sup> Citizens Advice (2016) [The state of debt collection - the case for fairness in government debt collection practice](#).



and nearly 7 out of 10 (68%) advisers surveyed said they had advised UC clients with budgeting problems.<sup>23</sup>

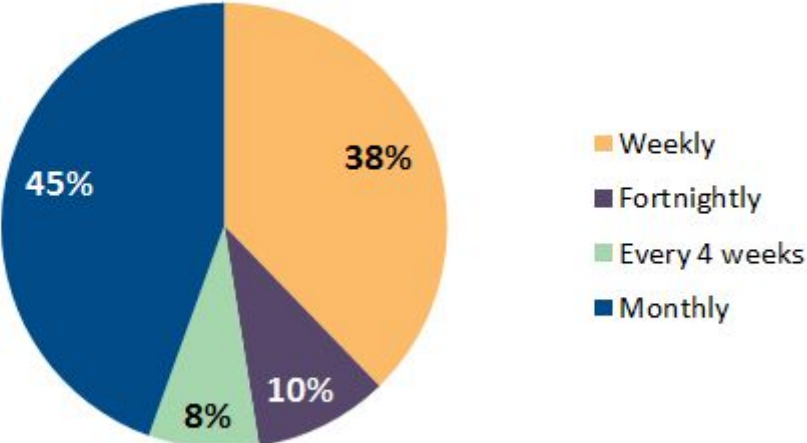
Our qualitative research showed that this is because:

- They are unused to budgeting monthly from a single benefit payment, as they have often previously received more frequent wages and benefit payments.
- They are finding it difficult to take steps to adjust to paying rent to their landlord themselves. Previously, legacy housing benefit was often paid direct to landlords.
- Their wages fluctuate and their wage periods aren't aligned with their UC assessment periods. This can result in periods when they receive both low UC payments and low wages.
- They are not aware of available budgeting support and Alternative Payment Arrangements (APAs), so are not receiving the help they need to budget effectively.

**Claimants are unused to budgeting monthly and receiving all their benefits in one payment**

Many people are used to receiving income more frequently than once a month and can find it difficult to budget for monthly UC payments. Many legacy benefits are paid fortnightly. And, as Figure 9 shows, fewer than half (45%) of the claimants we surveyed, who were previously in work, were paid monthly before claiming UC.

**Figure 9: Frequency of payments from work, before claiming UC**



<sup>23</sup> Survey of 169 Citizens Advice advisers, October - November 2016.

Source: Citizens Advice UC full service roll-out survey, August 2016 - April 2017. N = 400 respondents.

Some UC claimants, accustomed to receiving more frequent wages or benefit payments, commented that it was easier to budget on legacy benefits. This is because they didn't have to make their benefits last the whole month. For example, Jobseeker's Allowance and Employment and Support Allowance are paid fortnightly and Tax Credits are paid weekly or 4 weekly. In addition some people had set up budgeting systems where they assigned payments of particular benefits to specific outgoings. Debbie told us:

"I find monthly budgeting really hard because I've always been used to tax credits going in weekly. So every Friday I've gone and got my food shopping, and my tax credits will get the baby milk, nappies, stuff like that. That's my week's money for my shopping but because I'm getting UC monthly I'm finding it really hard."

Claimants struggling with monthly budgeting and one benefit payment face an increased risk of severe financial hardship and some are running out of money.

One adviser commented:

"Some people run out of money before the end of the month. Then they come to us. Sometimes we have to issue them with a food voucher."

### **Paying rent direct to landlords is challenging for some**

Some claimants are building up rent arrears as they don't clearly understand that they are responsible for paying their rent themselves. Legacy housing benefits were often paid direct to landlords. But UC housing benefits are usually included in claimants' UC payments and they are expected to pay their landlords themselves.

DWP claimant information, such as the recently published "Universal Credit and You booklet", makes it clear that claimants are responsible for paying their rent. However, some have not understood this, leading to rent arrears.



Miguel said it had not been explained to him that his UC payments would include his Housing Benefit. As a result, he had not paid rent to his landlord. He had built up rent arrears and was being threatened with eviction.

Other claimants, particularly those who have additional support needs, are struggling to put money aside for rent or take the action necessary to set up payment mechanisms to pay their rent directly to their landlord.



Jason ran up rent arrears of £1,063 as he did not understand that he had to pay the rent himself out of his monthly UC payment. He suffers from severe depression which makes it hard for him to budget and sort out administration, so didn't set aside money to pay his rent or sort out a way for these payments to be made.



Mike acquired over 9 months of rent arrears and was evicted from his home as he had not passed on his UC housing costs to his landlord. He experiences addiction issues and, as a result, was unable to put money aside for rent.

### **People are not aware of budgeting support and Alternative Payments Arrangements (APAs)**

UC design includes ensuring budgeting support is available to claimants who need it, to help them to adapt to changes in the way payments are made. However, fewer than 1 in 5 (18%) UC claimants we surveyed in full service areas reported they had been told about help with budgeting or managing debts.<sup>24</sup>

Monthly payments were designed into UC to mirror the world of work, encourage self-reliance and budgeting skills, and smooth the transition into work. However, it has been accepted that some claimants need additional support to adjust to and manage monthly payments. Particularly those who do not receive monthly wages, like 56% of the people we help who we surveyed between August 2017 and April 2017.

Accordingly, UC has a system of Alternative Payment Arrangements (APAs) to help these claimants adjust. There are 3 types of APAs: having UC housing payments paid direct to landlords; having UC paid weekly or fortnightly instead of monthly; and splitting UC payments between couples.

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<sup>24</sup> Source: Citizens Advice UC full service roll-out survey. N = 756 clients.

Nonetheless, we found that most UC claimants in full service areas reported they were not told about APAs, so many are not receiving the help they need. Only 1 in 4 (26%) claimants we surveyed in UC full service areas were told about APAs allowing UC housing payments to be paid direct to landlords. Only 1 in 12 (8%) were told about more frequent UC payments, and fewer than 1 in 20 (4%) were told that UC payments could be split between them and their partner.

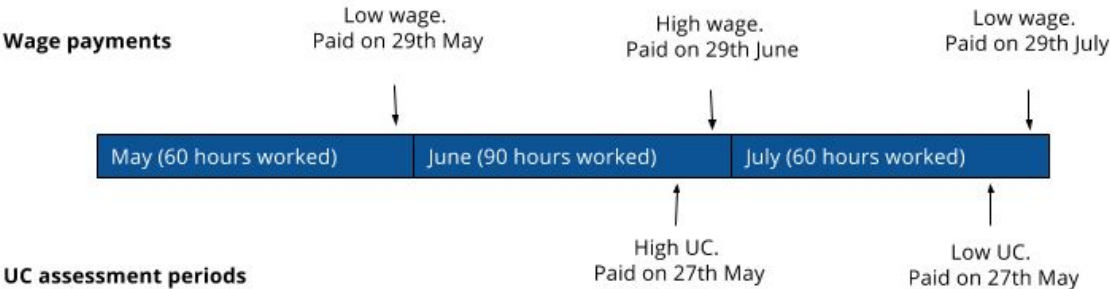
### Claimants on fluctuating incomes are finding it more difficult to budget

For claimants in work but on fluctuating incomes, the move from Tax Credits to UC can pose particular challenges to budgeting.

Under legacy benefits, the annual cycle of Tax Credit awards creates the risk of overpayments, but it does mean that claimants know how much they will receive from Tax Credits each month, helping them to smooth fluctuations in their income. As UC is adjusted monthly and paid in arrears, this ability to smooth income and budget is taken away. This can make it difficult for claimants to make ends meet in lean periods, particularly if they have existing debts.

Depending on the timing of the UC assessment period relative to the date when a claimant’s wages are paid, UC can either exacerbate or smooth monthly fluctuations. Essentially, if UC is paid a few days after wages, topping up wage payments, it can help smooth monthly payments. If UC is paid a few days before monthly wage payments, it can exacerbate monthly fluctuations, making it difficult for claimants to budget. Figure 10 illustrates how misalignment of UC and wage payments can exacerbate fluctuations in a claimant’s income.

**Figure 10: Misalignment of UC and wage payments**



Misalignment of UC assessment periods with wages can present additional problems for people on fluctuating incomes who do not receive their wages

monthly - for example if they are paid 4 weekly. This is because the extent to which their UC and wage payments are aligned will vary from month to month. We interviewed several clients who were finding it difficult to manage on UC, due to fluctuating incomes. Peter, a 56 year old single man who was working and claiming UC, said:

"If you work they take it off you anyway. A lot of people are going to struggle with that especially if they only do a couple of day's work a week and then they do another couple of days work another week, is it worth working?"



Katie is a 50 year old single woman, living in a full service UC area. She receives variable pay from employment and claims UC. She didn't receive any UC payment in January 2017, due to working additional hours in December. She was not aware this would happen as she had confused UC arrangements with tax credits and thought she could work 16 hours without deductions.

We will be exploring this issue further in upcoming research covering Universal Credit and the modern labour market.

### **Fluctuating benefits and wages are making it hard for people to arrange debt repayments.**

Fluctuating incomes from UC and wages are also making it difficult for advisers to assist clients looking to set up repayment plans to pay off their debts. It is very difficult for advisers to assess how much money these clients have available each month to pay creditors.

In some cases advisers have to request a hold on repayments until they have clearer information on what the client's regular income will be:

"For clients on fluctuating incomes we request a hold on the action, to be sure what their income's going to be. There's nothing the creditors hate like those whose offers they've accepted and still can't make the payments."

In other cases, advisers are having to estimate the client's income:

"We usually estimate their income. For one client I advised today I had to estimate their Universal Credit payments and other income including from a zero hours contract. I took their past income over a period of months and averaged it."

It is particularly challenging for advisers to assess available income for creditors on fluctuating incomes applying for a Debt Relief Order - a low cost alternative to bankruptcy. One of the eligibility criteria is to have less than £50 spare income available each month for a 12 month moratorium period. If the person's available income exceeds £50 per month at any point during that period, the Debt Relief Order is revoked, and creditors can start collection action again.

Difficulties adapting to different payment schedules, together with fluctuating and insufficient income are making it difficult for some claimants to manage their money effectively. In addition, some UC payments are being delayed due to insufficient support for claimants struggling to manage their claims online, or administrative errors. This is exacerbating claimants' debt problems, as the next section shows.

## Poor administration

Some aspects of UC administration are working well. For example, all the claimants we interviewed who had applied for a UC Advance Payment received it on time. There is also greater clarity in the online application about how to access support for housing costs.<sup>25</sup>

But other administrative issues are delaying UC payments. Delays in processing benefit claims are a common problem for people in receipt of legacy benefits. However, the combination of the 6 week wait and less frequent (monthly) payments means that UC claimants can wait longer for their money if there is a delay, leaving them with little money to live off.

It's not uncommon for people to wait for more than 6 weeks for their first UC payment. More than 1 in 3 of our UC clients that we surveyed in full service areas waited more than 6 weeks and 11% waited more than 10 weeks.<sup>26</sup> DWP's own data shows that 1 in 5 UC claimants are not receiving their first payment on time.

<sup>27</sup>

We identified the following problems which are delaying UC payments:

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<sup>25</sup> DWP recently amended the online question in the claim form on housing costs to make it clearer.

<sup>26</sup> *Source: Citizens Advice UC full service roll-out survey, August 2016 - May 2017.*

<sup>27</sup> [HC Deb 19 July 2017 c4292W](#)

- Claimants struggling to manage their claim online
- Lack of clarity around evidence requirements
- Administrative errors

### **Claimants struggling to manage their claim online**

Under UC, claimants are required to submit and manage their claim online. This means that they frequently have to log into their UC account throughout each month. Whilst this is convenient for some, others need help to do this. Without adequate support, they are taking longer to submit their claims and may have to wait longer for their first UC payment.

DWP provides some support with digital skills and budgeting through Jobcentres and local authorities, via what is set to be the Universal Support initiative. This involves DWP providing funding to local authorities, who are then responsible for delivering support with budgeting and digital skills to UC claimants. However, some claimants are finding it difficult to access support as is not available at the right point, or is insufficient. Others have little or no access to the internet, making it very difficult to manage their claim online.

One adviser commented:

“Claiming UC can be tricky for claimants with limited computer literacy and/or health issues. I'm thinking of a client who has limited mobility, has very limited finances, and I do mean very, very limited. She doesn't have a computer, she's computer illiterate and lives two miles from the place where she would normally get access to one. ”

Claimants are required to prove their identity for their UC claim to be accepted. The UC online claim form asks claimants to do this via the online Verify system. Claimants unable to do this can book an appointment with their local Jobcentre and are asked to bring in certain documents proving their identity.

Whilst Verify is useful for accessing a range of government services, many claimants are struggling with it. Nearly 3 in 5 (57%) UC clients we surveyed in full service areas reported finding the process difficult.<sup>28</sup> This can delay their claim if they need to arrange an appointment with the Jobcentre. They may then wait longer to receive their money, exacerbating any debt problems they have. For those with limited internet access or without suitable identity documents it can be even harder.

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<sup>28</sup> Source: Citizens Advice UC full service roll-out survey, August 2016 - May 2017.

One adviser commented:

“As part of my role I've worked a lot with the homeless community. That group really suffers, especially because they've been fairly transient. The odds of them having sufficient ID or being able to show Council Tax bills, it's just nil. On one occasion the 6 to 8 weeks to receive Universal Credit was extended to 3 months, where they were trying to provide sufficient information to allow DWP to process the claim”.

### **Lack of clarity around evidence requirements**

To claim housing costs, UC claimants must provide proof to DWP that they have a tenancy and how much rent they pay. Our qualitative research found that Some claimants cannot easily obtain the necessary documents, or are receiving incorrect information from DWP about the evidence they need to provide. This is leading to delays in receiving UC housing benefits and exacerbating rent arrears. There is a similar challenge with evidence of childcare costs.

Wendy, is 50 year old single claimant living in a UC full service area. She took part in our diary research. She told us she had built up 2 months' rent arrears as a result of receiving incorrect information from DWP about what she needed to do to prove her housing costs.



Wendy claimed UC on 11 January 2017 and received her first UC payment on 24 February. This did not include anything for her rent: “I phoned Universal Credit. They said, ‘You haven’t given us the right information. You need to provide the date you moved in’. I said, ‘In the interview they said everything was fine with my letter for my tenancy’. I had previously shown DWP my tenancy agreement, which included the date I moved in, but I was told it wasn’t needed”.

### **Administrative errors**

Our research showed that administrative errors within DWP are leading to delays in paying UC. We would expect early issues with a new benefit but a year on from initial full service roll-out some of these issues are continuing and are causing financial hardship for some claimants.



Sarah, one of the UC clients we interviewed, found herself short of money because DWP delayed making a manual adjustment needed to pay her UC housing benefit.



Sarah is a 36 year old single claimant with a 1 year old child, living in a UC full service area. Sarah had not received £600 in UC housing benefit due to her, because DWP had failed to process a manual adjustment to her claim.

Over a 2 month period, another claimant received £50 a month less UC than she should have. This was because DWP had applied the wrong local housing allowance in calculating her UC housing benefit. The client queried this with the local council and DWP and managed to resolve the matter. She said:

“DWP worked it out that I was getting paid £50 less, so I had to get it backdated and changed.”

As well as waiting longer to receive their UC, claimants may also be unclear about what is happening to their claim.



Alice took part in our diary research. She is a 39 year old single claimant living in a UC full service area. She ran up 12 weeks rent arrears as a result of administrative errors and the 6 week wait:

“I am 12 weeks in arrears with my rent. I went on the computer to do my UC claim and ticked the housing benefit. The housing place actually sent me a letter saying that £257 had been paid into my account and I owed them money. But it hadn't. It had been paid to my landlady. But then I got an email saying that I hadn't claimed for housing benefit. Two days ago I had to make a new claim for the housing. I am back to the beginning again. I am not sure if it is going to take another eight weeks.”

To reduce administrative errors and delays, it is important that local advice providers work closely with Jobcentres to help identify and resolve problems. A number of our local offices are doing this in varying ways including arranging regular meetings with Jobcentre staff. We are also sharing with DWP key insights on UC issues we are seeing at both a local and national level. Our July 2017

report, [Delivering Universal Credit](#), includes further insights on administrative issues which our clients have experienced in claiming UC.

The lack of a published Universal Support Strategy is preventing the development of a comprehensive support package to ensure people can adapt to Universal Credit, access support mechanisms like Alternative Payment Arrangements and get help when there are administrative errors. The local support currently on offer is negotiated on a Local Authority by Local Authority basis. It is often inconsistently delivered and does not cover all of the support needs of UC claimants.

We recommend that the Government pause Universal Credit rollout and fix the problems so that people have access to a minimum standard of support to help them adapt to Universal Credit and that this minimum standard is published.

This should, at a minimum, include

- Ensuring all UC claimants are made aware of, and can access budgeting support which is appropriate to their needs and;
- Making funding available for free impartial debt advice to meet existing increases in demand as a result of Universal Credit.

# Conclusions and recommendations

## Conclusions

Citizens Advice supports the aims of UC to simplify the benefits system, make transitions into work easier and make every hour of work pay. As UC is such a significant reform, it is vital that it works well for all claimants. Our research shows that problems with UC risk undermining these aims by exacerbating claimants' indebtedness. This leads to greater financial hardship and can actually reduce work incentives.<sup>29</sup>

Clients we advise on UC are more likely to be struggling with debt, particularly priority debts, than those on legacy benefits and have little or no money to pay creditors. Those with poor credit histories may have to borrow from high cost lenders, making it even more difficult to pay off their debts in the longer-term. With UC set to be rolled out to over 7 million families by 2022, these issues are likely to get worse if they are not addressed.

## Recommendations

Ensuring that UC is rolled out smoothly, without significantly exacerbating claimants' debt problems, requires continued coordination between relevant agencies, including DWP, local authorities, advice providers such as Citizens Advice, the Financial Conduct Authority (FCA), and creditors.

The evidence in this report alongside our recent evidence in [Delivering Universal Credit](#), demonstrates the need to improve the way UC is delivered and reduce the risk of UC causing or exacerbating debt problems.

To do this, the Government should pause the roll out and fix the problems with Universal Credit so that:

1. No one is left waiting longer than 6 weeks for an income
2. Those who need it get a payment within 2 weeks that they do not need to pay back

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<sup>29</sup> Citizens Advice, "[A Debt Effect?](#)", 2016

3. People have access to a minimum standard of support to help them adapt to Universal Credit, which is published. This should, at a minimum, include
  - a. Ensuring all UC claimants are made aware of, and can access budgeting support which is appropriate to their needs and;
  - b. Making funding available for free impartial debt advice to meet existing increases in demand as a result of Universal Credit.

In addition, the Financial Conduct Authority (FCA) should:

- Amend its rules on assessing creditworthiness to require firms to develop policies on how they factor in income from Universal Credit in affordability assessments
- Actively monitor the roll out of Universal Credit to see if it has an adverse impact on unauthorised lending, and consumer credit firms' forbearance and debt collection practices
- Develop guidance on how banks should keep their commitments under new legislation to provide basic bank accounts to unbanked UC claimants.

Acting on these recommendations, as well as those set out in our ['Delivering Universal Credit'](#) report, will help reduce the risk of UC claimants falling into debt or of UC exacerbating their existing debt problems.

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We advocate for our clients and consumers  
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