

The welfare debt trap

Adjusting the level and
priority of deductions from
benefits to prevent
hardship



**citizens
advice**

Elizabeth Miller
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Introduction

Deductions are a portion of a person's benefit, calculated and administered by the Department for Work and Pensions (DWP), that are taken directly from monthly payments to cover debts. This comes off the core benefit payment (standard allowance), excluding any additional support for things like housing and childcare. Last year we helped 24,000 people with deductions from Universal Credit (UC).¹

Someone receiving UC can currently see up to 25% of their standard allowance being taken through deductions (legislation allows for 40% but 25% is the standard policy).² Money can be taken to repay money to the DWP or to cover debt for things like energy, council tax or rent. The system is complicated and the amount that can be taken varies according to the type of deduction. People receiving UC can have multiple deductions applied. For example, a person could be repaying an advance payment and also several third party debts.

Type of deduction	% of Universal Credit standard allowance that can be deducted ³
Advance payment (new claim)	Fixed instalments over 24 months
Benefit overpayment	15%
Rent arrears	10-20%
Most third party deductions (except fuel costs, water charges, child maintenance) ⁴	5%
Fraud	25%

¹ Citizens Advice data 2022/23, 23,894 unique clients.

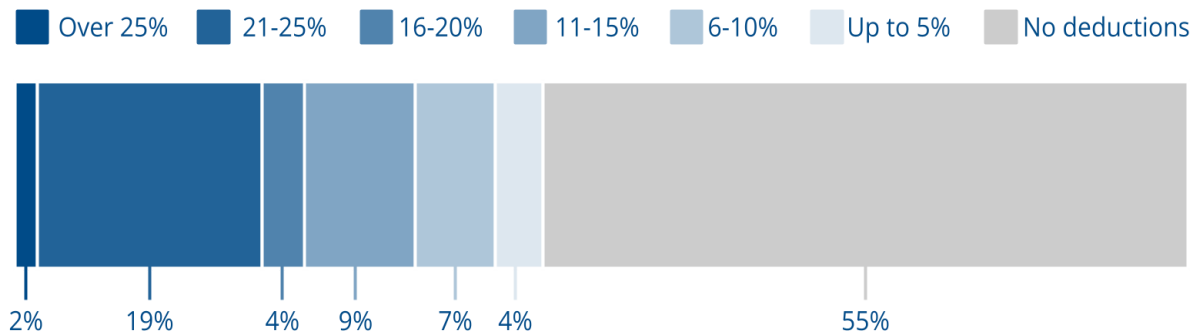
² Advice for decision making: staff guide. Chapter D2 third party deductions UC, JSA and ESA, Available at: www.gov.uk/government/publications/advice-for-decision-making-staff-guide

³ Shelter [Deductions from Universal Credit for debts](#)

⁴ Ongoing fuel and water costs can be higher to help maintain supply. Child maintenance deductions are set by the Child Maintenance Service.

The latest available data shows that 45% of UC claims are subject to a deduction,⁵ and over 1 in 5 UC claimants are subject to a deduction of more than 20% of their standard allowance.⁶ The average amount taken was more than £62 each month, or £14.27 weekly.⁷

Level of deductions for Universal Credit households, as a proportion of standard allowance



Source: DWP, February 2022⁸

⁵ Written Question 156979. Asked March 2023. Available at <https://questions-statements.parliament.uk/written-questions/detail/2023-03-02/156979>

⁶ The UC standard allowance ranges from £292.11 per month for single claimants under 25 to £578.82 per month for a couple where at least 1 is over 25. 1 in 5 had a deduction of more than 20% in February 2022:

Written Question 9854. Asked May 2022. Available at <https://questions-statements.parliament.uk/written-questions/detail/2022-05-26/9854>

⁷ Written Question 17006. Asked June 2022. Available at <https://questions-statements.parliament.uk/written-questions/detail/2022-06-13/17006>

⁸ Written Question 9854. Asked May 2022. Available at <https://questions-statements.parliament.uk/written-questions/detail/2022-05-26/9854>

Central government debt

The bulk of deductions are for central government debt. In autumn 2021 86% of benefit deductions were going towards DWP debts such as benefit advances used to tide people over during the UC waiting period, overpayments and budgeting loans to support with unexpected costs such as household repairs.⁹

Over 1 in 5 people we helped with deductions in autumn 2022 had to access a grant or loan from their local authority to cover the cost of their essentials as their residual benefit payments were too low.¹⁰ Nearly half (46%) of UC claimants with deductions needed help accessing a food bank in the same period.¹¹

Deductions, often applied to repay government debt, can lead to a circular situation in which they are forcing people to rely on government funded crisis support through schemes like the Household Support Fund.

Adam* is unemployed and claiming Universal Credit. He has deductions from his Universal Credit of nearly £44 that leave him with only £291 a month (based on January 2023 benefit levels for over 25s). Adam is struggling to afford essential items and has been skipping meals. He cannot afford to turn the heating on, or replace broken appliances such as his fridge and his washing machine. Adam's situation is having a negative affect on his mental health.

We helped Adam apply for help from the Household Support Fund, requesting a new washing machine and fridge, and £100 in supermarket vouchers.

*All names changed

⁹ Written Question 989. Asked May 2022. Available at <https://questions-statements.parliament.uk/written-questions/detail/2022-05-11/989>

¹⁰ Citizens Advice research, autumn 2022

¹¹ Citizens Advice data Q3 2022

An unequal impact

There are equality implications for how the burden of deductions falls. 60% of UC claimants seeking help from Citizens Advice with government debt (deductions for a budgeting loan, advance payment, social fund, overpayments and hardship loans) had at least one long-term health condition or were disabled.¹²

Households with children are more likely to have deductions applied to their benefit and these are more likely to be at a higher level. 27% of households with children in them face a deduction that takes 21% or more of their standard allowance, compared to just 13% of households without children.

Ruth and her husband George claim Universal Credit. They have long term health conditions and are unable to work. Their benefit is being reduced by approximately £100 a month for a deduction for a historic overpayment of Income Support.

Due to the cost of living crisis, Ruth and George are paying around £50 a week in energy bills and struggling to afford this and essentials such as food. They have needed a foodbank voucher every month for the last three months. The overpayment deduction is also pushing them into rent arrears.

Ruth approached DWP to ask if they could reduce the deduction, but was unsuccessful.

¹² Citizens Advice data 2022-2023

Affordability

Deduction levels are set by DWP at standard rates, and aren't tailored to individuals and their circumstances - there is no requirement for DWP to determine whether claimants can afford them.¹³ Advisers report that people are not aware they can ask for them to be adjusted if they are finding their reduced benefit amount difficult to live on. Advisers also highlight cases where claimants have approached the DWP and asked to reduce their deductions, and have been refused, even when the levels of deductions are causing hardship and pushing people towards crisis support.

Dylan lives alone, is unemployed and claiming Universal Credit. He has £80 worth of deductions taken from his benefit every month to repay his advance payment loan, which helped him cope with the initial 5 week wait for payment, and for a court fine.

This leaves Dylan with £288.74 left a month. He is struggling to afford everyday essentials and has needed 6 foodbank vouchers in 6 months. He asked the DWP to reduce the amount deducted from his benefit, but was refused.

The majority of our advisers (56%) do not feel any level of deduction from benefits is affordable for people. The average amount deducted from UC claimants seeking help from Citizens Advice was £125.11 a month. Half of our clients had to delay bill payments in order to afford essentials like food and toiletries. 47% said they had gone without essentials such as heating, food and toiletries.¹⁴

¹³ Written Question 121021. Asked Jan 2023. Available at <https://questions-statements.parliament.uk/written-questions/detail/2023-01-11/121021>

¹⁴ Citizens Advice research, autumn 2022

Priority order

Deductions are taken in a priority order, with advance payments (as well as sanctions and fraud penalties) prioritised, until the 25% maximum is reached.¹⁵ In addition to money owed to the DWP, a maximum of 3 third party deductions can be made at any one time and there are further additional amounts that can be taken off. Taking advance payment deductions first, before applying the priority order, means DWP are prioritising their own debt recovery and not protecting claimants from the consequences other types of debts can lead to. 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.

Our debt advisers will carefully weigh up which debts are priority debts, and which must be tackled first to prevent problems severely escalating. Advance payment recovery is very unlikely to be considered the top priority in the face of other debts, because there are no harmful consequences for either claimants or the government, if it is not repaid immediately.

When asked how they would prioritise an individual's debts, they suggested the following:

1. Arrears of rent and / or service charges
2. Fines
3. Arrears of community charge or council tax
4. Fuel ongoing consumption
5. Child maintenance
6. Arrears of fuel - electric and gas
7. Mortgage interest
8. Water ongoing consumption
9. DWP tax credit fraud overpayments
10. Arrears of water charges
11. Advance payments
12. Social fund
13. UC recoverable hardship payments

¹⁵ Advice for decision making: staff guide. Chapter D2 third party deductions UC, JSA and ESA, Available at: www.gov.uk/government/publications/advice-for-decision-making-staff-guide

14. HB and DWP civil administrative penalties
15. Tax credit and housing benefit DWP overpayments
16. Arrears of integration and eligible loans

The first DWP debt does not appear until the ninth position, behind things such as rent arrears and council tax debt.

Deductions due to DWP error

Under the legacy benefit system, if you received a benefit overpayment, you could not be asked to pay it back, unless the 'benefits office can show that you misrepresented something or failed to disclose something which affected your award'.¹⁶ However, under UC, overpayments can be recovered even if DWP made the error. Claimants can ask the DWP to exercise their discretion not to recover an overpayment, but the DWP do not have to agree to this and if they refuse there is no recourse to challenge the decision.¹⁷

In 2022/23 2.9% of UC claimants were overpaid as a result of official error.¹⁸ The DWP present this as 'point in time' data (rather than a total for the given year). Taking September 2022 as a sample month, at that point there were 4.9m households on UC.¹⁹ If 2.9% of those were unknowingly being overpaid and if this were subsequently discovered and claimed back, that would be over 140,000 households facing a deduction and cut in their benefit payment.

Prisha is disabled and claims Universal Credit. She was overpaid Universal Credit due to DWP error (which was confirmed by the DWP via a subject access request). Prisha had provided all the necessary information, but DWP had incorrectly calculated her benefit. By the time the DWP had realised their error, £2000 had been incorrectly paid to Prisha. Once the DWP identified the error they deducted £48 a month from her Universal Credit.

The reduction to her Universal Credit caused Prisha a lot of stress, and impacted negatively on her health. Prisha left the house less, and couldn't afford to see family or friends. She also needed to access a foodbank because of her reduced income.

¹⁶ Turn2us [Benefits Overpayment guide](#)

¹⁷ In 2021/22 5 people had benefit overpayments caused by official error waived. Written Question 133557. Asked January 2023. Available at:

<https://questions-statements.parliament.uk/written-questions/detail/2023-01-26/133557>

¹⁸ DWP (2023) Fraud and error in the benefit system. Available at:

www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-2022-to-2023-estimates

¹⁹ DWP Statxplare. Available at: <https://stat-xplare.dwp.gov.uk/>

Conclusion and recommendations

An overwhelming majority of deductions are for money owed to the DWP itself. At the same time, evidence shows that the deductions applied are pushing people into hardship and driving them to access crisis support. **As a first step to improving the deductions process, all DWP debts should be consolidated and capped at the same 5% as most third party deductions.**

Deductions are taken in priority order, with those for advance payments taken first. This sits at odds with the debt prioritisation process, where debts are ranked according to risk and places repaying DWP over things like court fines and rent arrears. **The second step to improving deductions needs to be changing the priority order so claimants first have deductions taken for debts where non-payment would have the most serious consequences.**

Historically, if the fault lay with the DWP and benefits were overpaid due to official error, the responsibility for, and cost of, this sat with the DWP. Today it is passed to claimants. With deductions pushing households into hardship **the third step to making deductions fairer is to end the practice of reclaiming money overpaid due to DWP mistakes.**

These 3 immediate actions would reduce the burden on households and set deductions on a path to becoming more manageable. **In the medium to long term, the DWP needs to consider how to prevent debt to the department accruing in the first place**, especially through advance payments. **Looking at third party deductions, the DWP needs to set out a roadmap to reducing the total amount being taken off households** which, as our data shows, in many cases simply don't have the money to pay.

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We provide free, confidential and independent advice to help people overcome their problems. We are a voice for our clients and consumers on the issues that matter to them.

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