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Deductions: Driver of Poverty

The case for reform of deductions from Universal Credit payments

LLOYDS BANK FOUNDATION
England & Wales

What's inside

Acknowledgements

This report has been written by Dalia Ben-Galim on behalf of Lloyds Bank Foundation for England & Wales. Our thanks go to all those who have shared their stories with us and have carried out research that is referenced in this report.

Lloyds Bank Foundation for England and Wales partners with small and local charities that help people overcome complex social issues. Through funding for core costs, developmental support and influencing policy and practice, the Foundation helps charities make life-changing impact. During 2021, the Foundation awarded £16.3m to more than 800 small and local charities.

These charities the Foundation supports have raised concerns over welfare deductions. Therefore, the Foundation produced this report to gather evidence on the impact of deductions to make the case for reform. The Foundation is an independent charitable trust funded by the profits of Lloyds Banking Group.

"I was worried at the amount they deducted this month (£192 which leaves £864) ... They said ... "at the time of accepting it [you] said [you] could afford [repayments]", I pointed out that at the time of taking that advance ... no one had told me the legacy [benefits] would stop.

Ted, Covid Realities participant

Summary

Deductions are impoverishing individuals and families against a backdrop of low incomes, rising living costs and widening inequalities during Covid.

Deductions are primarily the explicit result of Government policy, not individual behaviour, and contribute to undermining the Government's objectives especially on Universal Credit.

Immediate action on deductions alongside wider reforms are necessary to restore adequacy to social security, particularly important given rising costs, bills and prices.

Deductions are payments taken by DWP from Universal Credit (UC) awards to repay loans, claim back arrears or previous errors or overpayments by the government of benefits.

"We live in constant fear that our money will be so cut off. The title social 'security' is laughable. We have never felt so insecure. The system needs to be adequate to deliver what it says on the tin.

Rosie, Covid Realities participant

Overview

- The most common deductions are Advance Payments and historic Tax Credit overpayments but they can include other debts such as energy or rent arrears as well.
- Advance payments – loans that need to be repaid – are designed into UC to manage the built-in 5 week wait with no income when UC is first claimed, but they then leave people facing much reduced benefit levels for months to come.
- The reclaiming of Tax Credit overpayments are often triggered by a new UC claim. This historic debt surprises claimants who are usually unaware of it. It is a relic of a clunky legacy system that translates to reduced benefit levels.
- There is significant overlap between deductions and Council Tax arrears.
- Whatever the cause, the deductions system is leaving people receiving UC facing much reduced incomes, driving impoverishment and further debt, particularly hitting the most vulnerable.

At at time when the cost of living is rapidly rising, action on deductions now would get money quickly to people who really need it

- Deductions policies and practices – not individual behaviour – are significant drivers of debt.
- The increase in the debt people face and the deductions to pay it back are the explicit result of Government policy.
- Unlike in the private sector, no checks are undertaken to understand whether people can afford these deductions.

44%

of people receiving Universal Credit were having money deducted to repay debts in November 2020.

£78

on average is deducted from people's monthly UC payment.. This is significant. It is almost 20% of the amount single claimants over the age of 25 can typically expect to receive.

- Against a backdrop of low incomes, rising living costs and widening inequalities during Covid, deductions leave people without enough money to live off and can lead to a downward spiral of increasing debt
- **Survey data indicates people with deductions were around twice as likely to have gone without food, toiletries and utilities than those on UC without deductions.**

Immediate action on deductions alongside wider reforms are necessary to restore adequacy to social security

- This unfair and inefficient system is contributing to a concentration of vulnerability where deductions are more common for those on low incomes and of ill-health and / or with caring responsibilities.
- The complex systemic nature of the deductions regime undermines the Government's aim for UC to be simple, and personalised to 'make work pay'
- At a time when the cost of living is rising, the Government has a choice – and a responsibility – to fix the system.

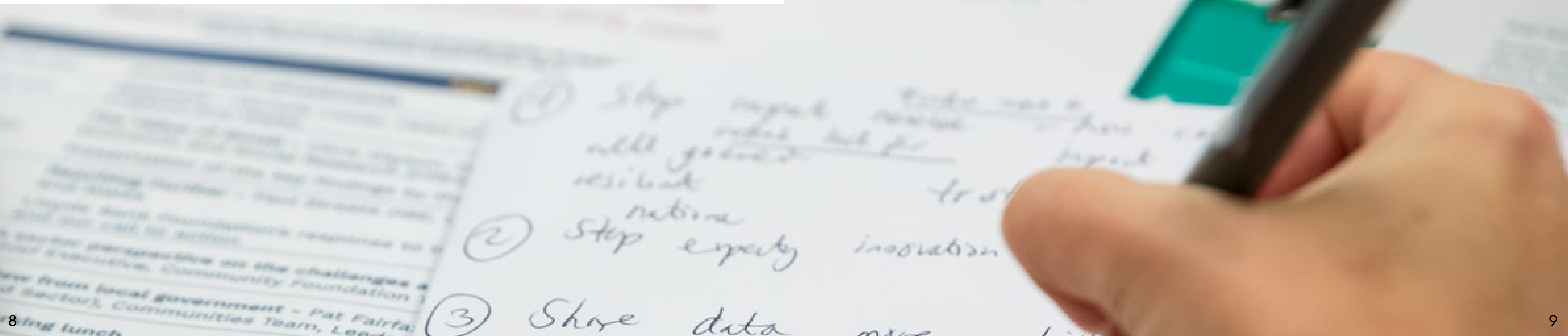
This report brings together evidence, analysing it to summarise and highlight the issues and present a case for reform

It is structured around:

Introduction

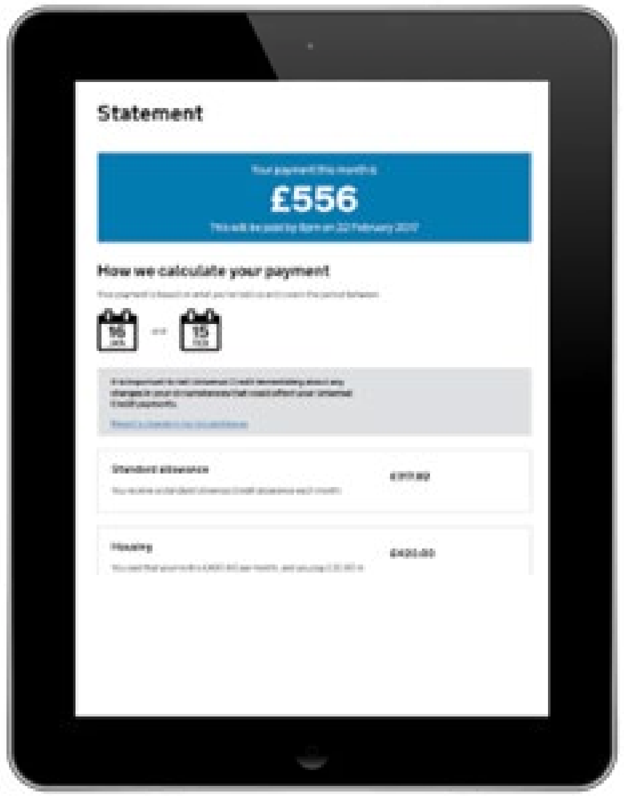
Deductions are a systemic driver of low income for many households – which can in turn force low income households to take out debt.

- Reforming the system could alleviate some of the hardship low-income households face and enable them to get by without having to take on additional debt or resort to foodbanks to cover essential living costs.
- There are a range of steps Government can take to overcome the challenges deductions bring.
- This report identifies simple changes Government could introduce to reduce these challenges, alongside solutions for wider reform.



What are deductions?

Deductions are payments that DWP has the power to automatically take from benefit payments to pay off debts owed to government from loans (e.g. advance payments), errors and historic benefit overpayments as well as some third party debts (e.g. utilities bills and rent arrears).



Deductions of up to 25% of UC payments can be taken – and in most cases, they are taken at a fixed rate without any consideration of people's ability to repay.

They can leave people without enough money to meet essential living costs, leading to increasing debts.

The most common deductions

44%

of claimants had a deduction.

The average deduction was around

£78

per month – which is the equivalent to almost

20%

of someone's income as a single UC claimant.

Advance Payment

A 5-week wait between a UC application and the first payment leaves many needing to take out a loan (an advanced payment) to cover the shortfall.

Council tax

it's estimated that £4.4bn is owed in England (March 2021) and £157million in Wales

Historical tax credit repayments

these are triggered by moving onto UC for the first time. This accounts for approximately £5.4bn of debt

The intersecting and cumulative nature of deductions within a complex and inadequate welfare system

[Franklyn] learned that his universal credit payments were being cut last summer by about £20 a month to repay council tax arrears dating back to 2019, as well as £58 a month to repay a universal credit advance loan.

His payments are also subject to the benefit cap, and last winter his benefit was stopped entirely for three months because he had supposedly been overpaid disability benefit by £300 – just a week after his disability benefit payments started. He is now living, after paying rent, on around £230 a month, which amounts to less than £60 a week

‘I’m really struggling,’ he told The Observer. He was given a Chromebook via a council digital inclusion project so that he could do an online course in data analytics , but has had to pawn it in exchange for a loan.

This is the level of destitution that I’m having to actually try to live through – without jumping off a bridge. I’m not a person who was ever used to being on the benefit system like that – I have always worked. What I am seeing here is a complete nightmare in how the system works against people.’

This example shows the ways in which deductions and the wider welfare system interact, with income reduced in this case by:

- ☑ **Council tax arrears**
- ☑ **Advance payment due to the 5 week wait**
- ☑ **An official error**
- ☑ **Having to give up a training course, undermining the Government’s aim to support routes into paid work.**

This leaves individuals struggling to make ends meet in a system that feels like it’s working against them.

What's the issue?

Several issues collide with benefit deductions creating a complex web. Benefit deductions have a significant impact on people's lives.

> Even before deductions, "a single out-of-work person receiving UC has only a third of the income necessary for a minimum socially acceptable standard of living (technically known as the 'Minimum Income Standard')"
>
> The Trussell Trust, 2021

- Benefit levels are already low in an historical context and comparative to other countries.
- Policy decisions have eroded the safety net that the welfare system should provide
- Benefit deductions have a disproportionate impact on those who may already face the greatest challenges. They leave too many people without enough to live on.
- These challenges are compounded at a time when living costs are rising

Unclear, Confusing and Disempowering

The deductions system itself is also unclear, confusing and disempowering

There are different deduction rates for different parts of the system.

Since April 2021, the maximum rate of deduction has reduced from 30% to 25%. Additional deductions such as those from third parties fall outside of this limit.

Currently over 200,000 households face third party deductions – e.g. for water, gas and electricity bills – where an agreement between the provider and DWP automatically deducts payments. There are legal challenges to stop this automation. As energy prices rise, these deductions will only increase as more people are unable to pay for rising energy costs.

When the cap was **30%** it was estimated that **1 in 5** claimants were paying debt exceeding **30%**

More information here

Gaps in Jobcentre Plus advisor knowledge and inconsistent application of adviser discretion result in a system that responds poorly to personal circumstances

- Safeguards exist for advisers to respond to individual circumstances – demonstrating that the Government recognises the need for personalisation
- But awareness of these safeguards and exemptions is low, and so they are often not used or inconsistently applied
- The onus is on the claimant to ask. Claimants often don't know these safeguards exist or that they can ask. The power imbalance between adviser and claimant can also make it difficult to ask or challenge decisions.

There is too little genuine participation from people experiencing the system

"including people with direct experience in research, not only as data sources, but also as collaborators, is the only way to uncover a holistic picture of families and their circumstances living on a low income ... If we want to create a social security system that truly works for the people who experience it, it is paramount to listen to their voices."

Cat from Covid Realities

The Universal Credit system is Complex

An award is calculated by:

UC standard allowance

(the amount depends on household status e.g. single person / family)

Your circumstances	Monthly standard allowance
Single and under 25	£257.33
Single and over 25	£324.84
In a couple if you're both under 25	£403.93 (per couple)
In a couple and either of you are 25 or over	£509.91 (per couple)

+

Additional elements

For example:

- Child element
- Childcare costs
- Carer element
- Housing costs
- Work capability assessments (LCW or LCWRA)
- Severe disability assessment

Policy decisions have already eroded the level of benefit people receive

For example:

- Decision to end £20 uplift
- Benefit cap
- 2 child limit

Deductions are then applied further reducing the amount of money people have to live off

Deductions mean people have substantially less to live on and for some time....

"I am living on £118 a week with three children. I had to stop going to post-traumatic stress disorder treatment as I can't afford to go. I still don't know why they are only paying me £118. They are taking £100 per month leaving me needing the foodbank and struggling with utilities. I am a single mum and have lost my parttime job. Financially I don't have enough. We depend on the Universal Credit which is not enough for feeding my children as I can't afford the electric and gas bill."

Client story from StepChange found here

Deductions are reducing incomes yet the cost of living is rising, with a disproportionate impact on low-income households

Office for Budget Responsibility' inflation forecasts for April 2022 were

4.4%

which would translate to approximately

100,000

individuals pulled into poverty; approximately

70%

in households with children; half in working households. If inflation remains at

5.1%

estimates are

200,000

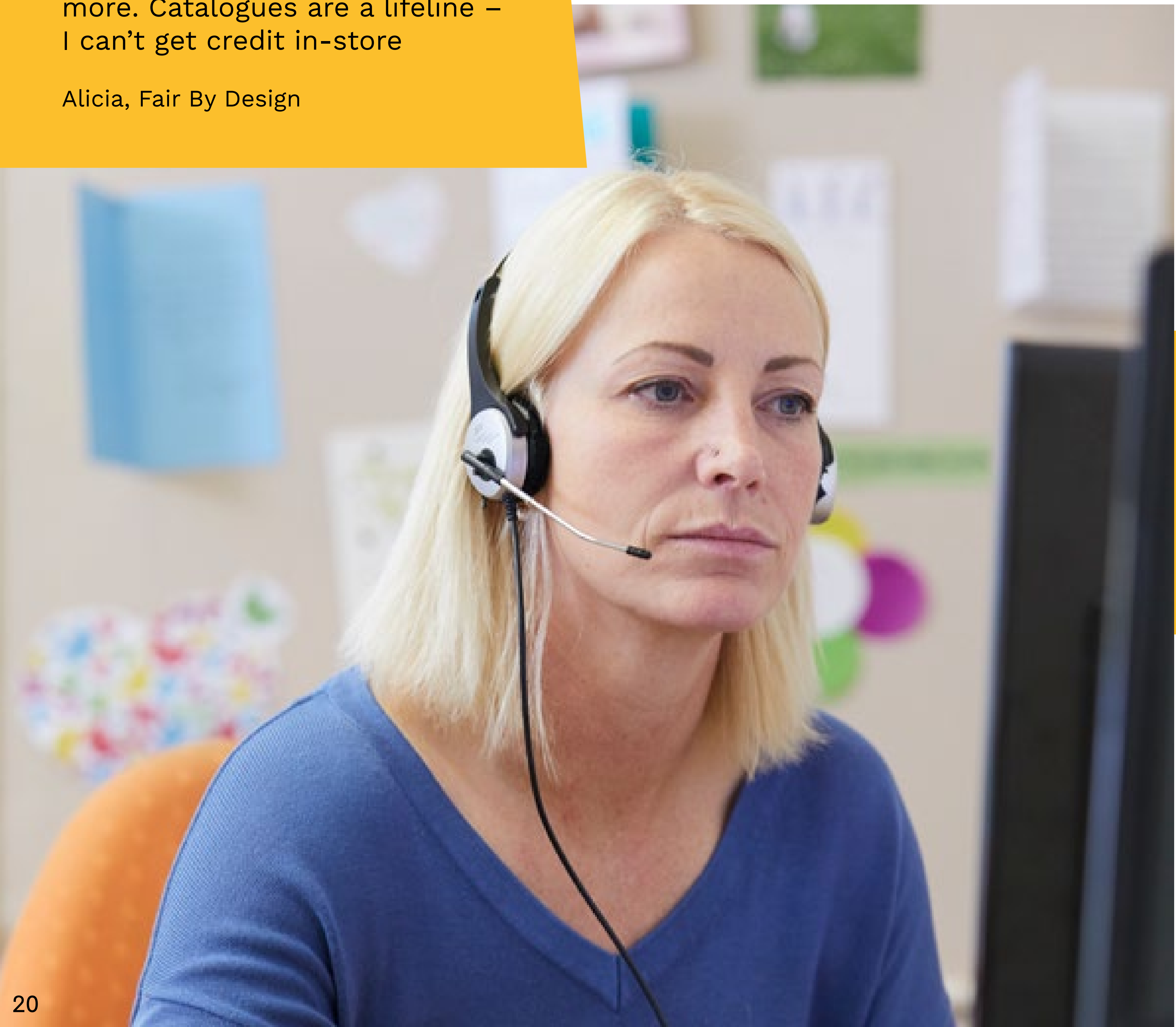
will be pulled into poverty.
The Bank of England now predicts inflation in 2022 will rise to around

10%

£490 a year

is the average 'poverty premium' - extra costs for essential goods and services that low-income households face

> Paying in instalments feels more affordable, even if you have to pay more. Catalogues are a lifeline – I can't get credit in-store
>
> Alicia, Fair By Design



The recent price cap announcement from Ofgem is the poverty premium in action

Prepayment customers – who are more likely to be on lower incomes – will see their energy prices soar by

70% from **£1,309** to **£2,017** per year

Those paying by direct debit will also see a significant annual increase of

£963 from **£1,277** to **£1,971**

> I pay more for my contents insurance because I can only afford monthly instalments rather than paying less in one lump sum.
>
> Susie, Fair By Design

> It's perverse and upsetting
>
> Martin Lewis on the poverty premium

The concentration of hardship with little reference to personal circumstances has been amplified by Covid

- During Covid, some of the newly unemployed found themselves accessing the benefits system for the first time.
- For those who were already at risk of financial hardship – with few savings – a harsh reality emerged.

For example:

Single parent debt **increased by about**

15%

compared to **8% for couple parents** in November 2020.

44%

of UC claimants had a deduction;

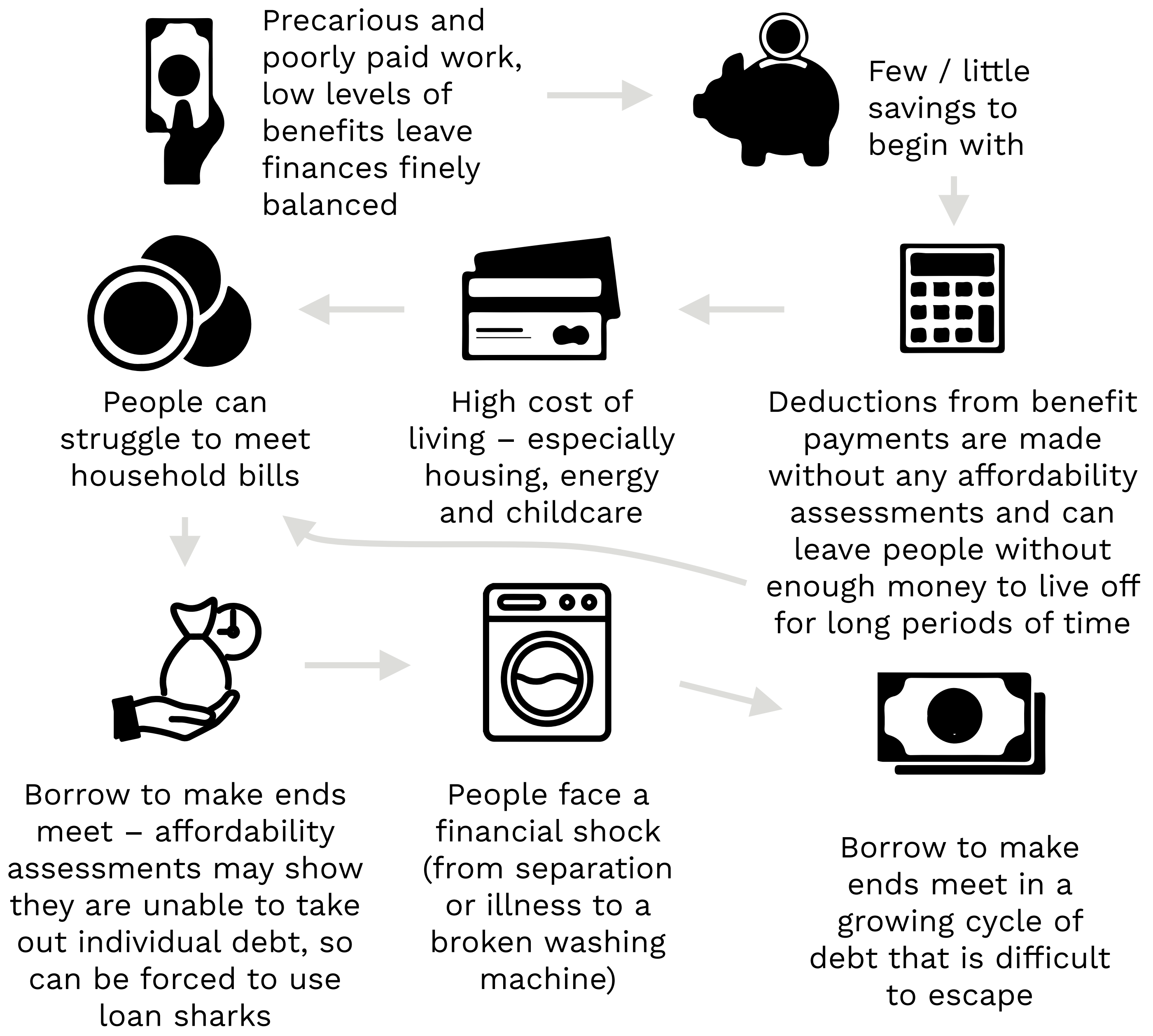
the average deduction was £78

63%

of new claimants had deductions in August 2020
compared to 41% of all UC claimants

Deductions are reducing incomes yet the cost of living is rising, with a disproportionate impact on low-income households

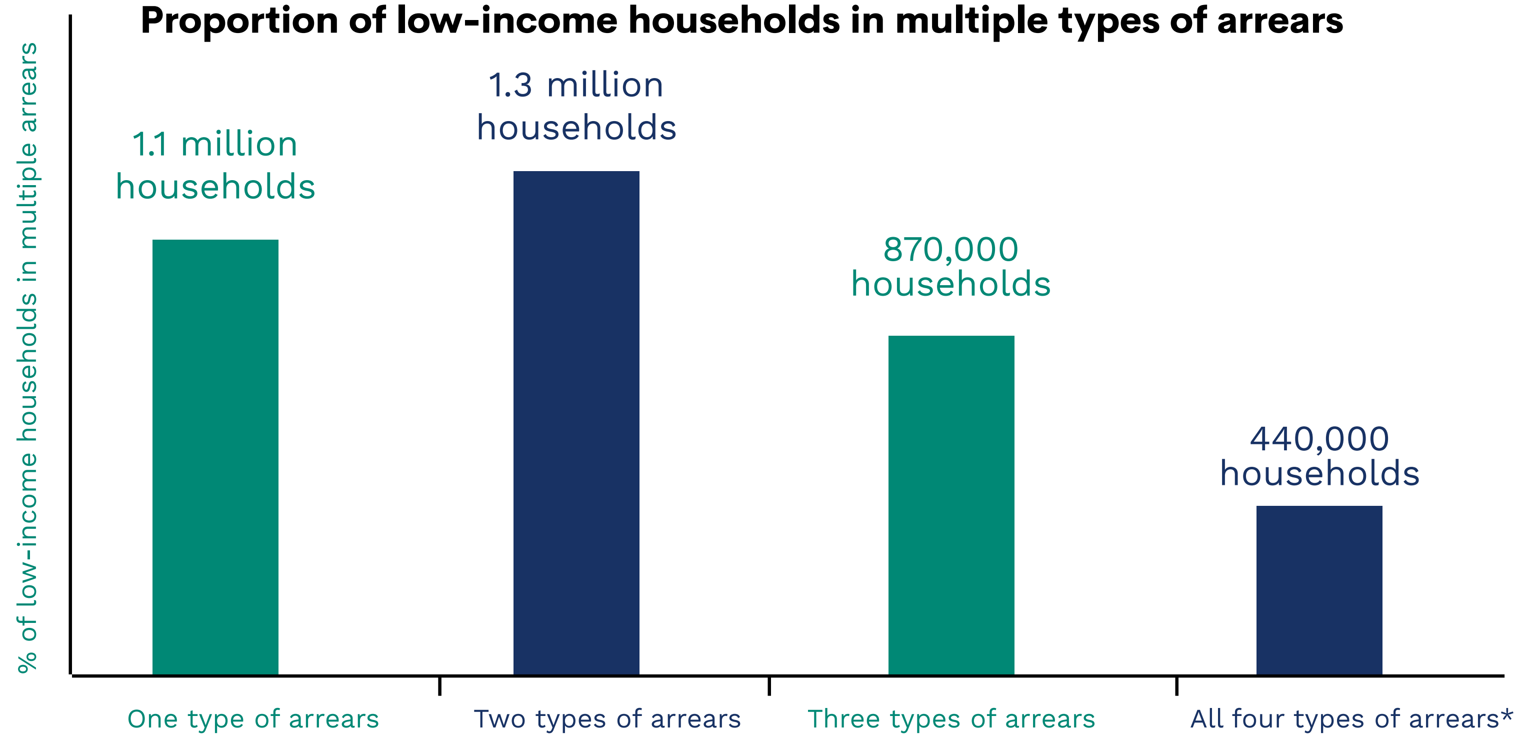
> I'm not able to afford my rent this month. The debt from past benefit payments has been restarted, as a result we may become homeless ... Fantastic! I'm so tired of this all. Destitution was never the plan.
>
> Aurora – Covid Realities



Overall deductions significantly contribute to wider levels of debt

The Joseph Rowntree Foundation (JRF) analysis of debt sharpens our understanding of the relationship between deductions and debt. They show that 2.7 million low-income households face more than one type of debt; of them 35% (1.3 million households) are in three or more types of debt.

> Debts owed to the state feature heavily for those in multiple kinds of debt, with council tax arrears making up half of the estimated £1.5bn owed to the state."
>
> JRF Report



* (housing payments; utility bills; borrowing payments; and debts to the state)

Deductions drive up wider debt too, as people are forced to take on extra debt when they do not receive enough money to live off. Given their low levels of income, people are more likely to be pushed to take on problem debt with high interest rates that they will be unable to pay back.

Government has become the main creditor and it's driving up foodbank use

DWP, through deductions, is the main creditor

By mid 2020, almost half (47%) of all people referred to a foodbank owed the DWP money, with people receiving lower levels of benefits as a result of deductions.

DWP has become the most common creditor – with more people owing DWP money than have borrowed from family and friends; or other loans.

It is a significant increase from previous years where it was 26% in 2018 and 38% at the beginning of 2020.

Sources of loans (%)

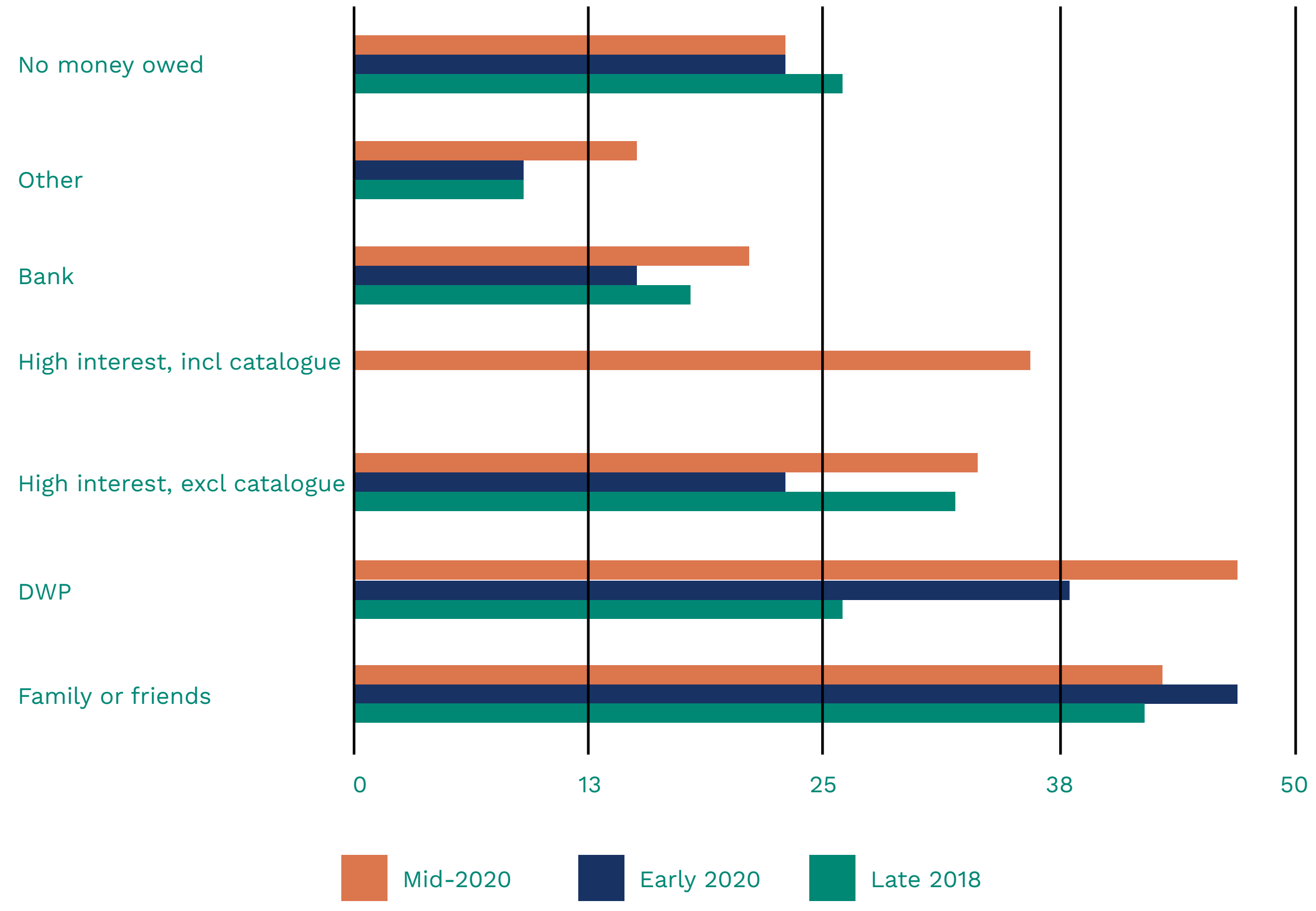


Table 3-20 reproduced from Trussell Trust, State of Hunger Survey.

With Government as the main debt collector, current deductions further undermine the Government's own goals for Universal Credit

Make work pay

Deductions undermine Government's commitment to make work pay, often driving up poverty rates instead.

Deductions also occur when claimants are not in work.

Personalised support

There is little flexibility for advisers to recognise people's changing individual circumstances – and even where it does exist, claimants typically don't know what support is available and are disempowered to challenge the deductions system or ask for advisers to use their discretion

A simplified system

Claimants often find themselves in a complex system with deductions they neither understand nor expected, with little or no warning or explanation from DWP.

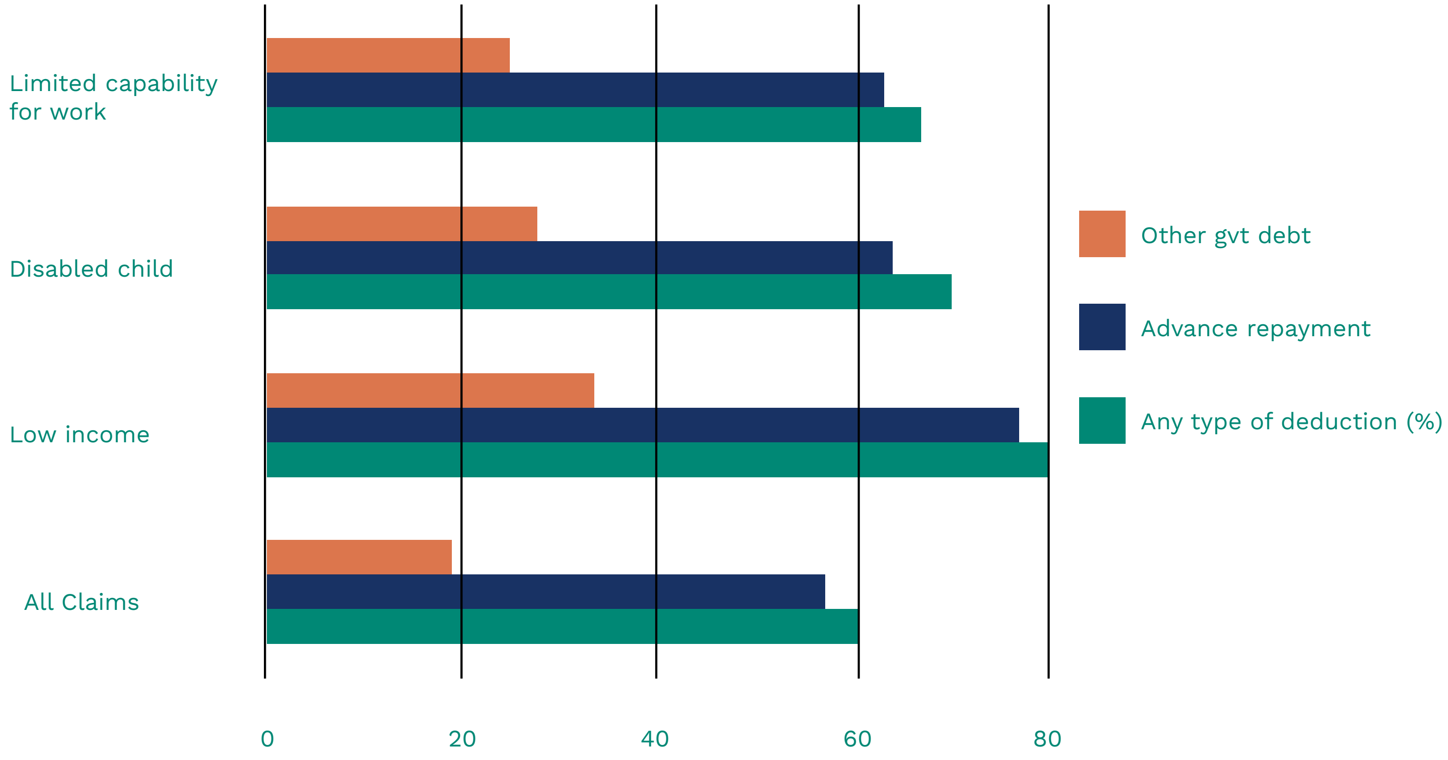
The main sources of deductions

Deductions are hard wired into Universal Credit through advance payments, historic tax credit debt and council tax arrears.

Advance Payments

- Advance Payments are loans offered by DWP to cover the 5-week wait until the first UC payment is received. They were designed based on the assumption that many won't have savings to cover a 5-week wait
- Advance Payments are concentrated in low-income households and those with a disability or health condition

Proportion of Universal Credit claimants repaying different types of deductions from their first payment (%)



Advance Payments are a constrained choice between no income for 5 weeks or debt and reduced benefit income later. All too often, the impact of this false choice for many low-income families is acute hardship.

In practice this means...

> I’ve been on Universal Credit since 2018, when my working hours got dropped below 16 hours per week, so I had to start claiming. Before I claimed Working Tax Credit and Child Tax Credit, but because Universal Credit came in to replace them, that’s what I applied for. I took out the advance loan to get me through the five-week wait for the first payment. It was a nightmare, because paying back the advance later reduced my payment by over £100 a month, and that’s too much. Universal Credit included my housing costs, so there was a massive deduction for my rent as well.
>
> I’m good at doing forms and stuff, but for people who aren’t used to that it might be difficult claiming Universal Credit. For me, applying wasn’t the problem, but the money was terrible. I have a broad experience claiming different types of benefits, but on Universal Credit I was the worst off.

Person supported by a charity funded by
Lloyds Bank Foundation for England & Wales

Historic Tax Credit debt

- Historic tax credit debt is one of the prime areas where claimants' benefits are automatically deducted.
- Deductions to recover historical tax credit overpayments and arrears are part of the transition from legacy benefits to UC. They are often triggered when a claimant moves onto UC.
- These deductions result from historic overpayments and DWP errors which were a common feature of the old tax credit system that was based on reconciling actual income with estimated income.
- In addition, Government policy such as the Coalition's decision to decrease the income disregard threshold (i.e. reducing the amount that someone's income could change before a debt was incurred) contributed to significantly increasing tax credit debt and therefore repayments and deductions.
- Tax credit overpayments and arrears often happened several years ago, yet suddenly the money is reclaimed now through deductions with no warning or explanation leaving people confused, struggling to budget and plan and much reduced incomes

The concentration of hardship with little reference to personal circumstances has been amplified by Covid

During Covid, some of the newly unemployed found themselves accessing the benefits system for the first time.

For those who were already at risk of financial hardship – with few savings – a harsh reality emerged.

For example:

Tax credit deductions are part of the transition from legacy benefits to UC.

£3 billion Tax Credit debt has already been transferred to DWP affecting 2.4million UC claimants

£2.4 billion is due to migrate with future UC claims

Click Here for more information

Much of the debt is historic and created by the system not individuals. The Government is now claiming it back

16% relates to claims made before 2011

52% relates to claims made between 2011-2016

28% relates to claims made after 2016

Click Here for more information

DWP does not actively chase tax credit debt, until it is triggered by a new UC claim

The Government's view

> The Department has a duty to protect public funds and an obligation to ensure that overpaid benefit payments are recovered in accordance with the appropriate social security legislation.
> The Department seeks to recover benefit overpayments as quickly as possible without creating any undue financial hardship to the claimant...
>
> Baroness Stedman-Scott, 8th June 2021

The reality for claimants is very different

> I had no idea I was being paid too much (than the tax credit estimate), still to this day have no idea how I built such a large debt. I was scraping by picking up ad hoc forklift driving work, not regular work, I needed tax credits to get by. I'm a single dad getting no help from my daughter's mother. I told the truth with every claim and update but now have a 10 year debt hanging over me.
>
> A claimant story from Stepchange

The system was and remains clunky and opaque

- Most tax credit deductions result from an old, unwieldly process of reconciling estimated income with actual income.
- DWP errors emerged as a common theme in CPAG's Early Warning System that explain a smaller proportion of historic tax credit debt

> An advisor shared the experience of a "client who had received payments into his bank account which were less than the 'bottom line' shown on his UC statements. This happened three months in a row, and the lost sums added up to more than £1,000. DWP Debt Management eventually confirmed that these sums had been put towards historic overpayments, but there was no paper trail, no explanation and no apology."
>
> CPAG early warning system e-bulletin - January 2022

- Many people are unaware of the debt and aren't warned that a deduction will be made from their UC payments
- So deductions are directly undermining UC as a system and for individuals

The origin of tax credit deductions is different to Advance Payments, but the impact is similar

- Tax credit deductions severely increase people's financial vulnerabilities
- Those with tax credit debt are more likely to be low income households vulnerable to problem debt

89% of clients with tax credit debt surveyed can't afford it

59% borrow to cover the shortfall.

- There is inconsistent application of adviser discretion to consider individuals' circumstances, driven by gaps in adviser and claimant knowledge and an onus on claimants to raise concerns. As a result, too many face deductions that they cannot afford.

Council tax debt: Where local and national debt collides

- In March 2021 it was estimated that there was £4.4bn council tax debt in England and £157million in Wales
- Councils have been able to increase rates by up to 5% a year to close budget deficits and help raise local revenue to provide services to residents.
- Different councils take different approaches to chasing council tax debt and enforcement and have different schemes in place to support people who cannot afford to pay.
- The variation in what councils do has created a postcode lottery around the country. For example, some councils froze debt recovery during the pandemic while others continued to pursue arrears.
- The system creates real tension for councils. Council tax is a significant revenue stream to provide services for residents in a time of scarce funding and increased pressure on local services. But it is also responsible for pushing people into debt and increasing their dependence on other support services.
- Many who are exposed to deductions from their benefit payments are also vulnerable to being in arrears on their council tax.

- Even though this is administered and collected by local authorities, it matters because similar patterns emerge about who faces significant challenges:
    - Those with long-term health conditions or disabilities are three times more likely to have fallen behind (compared to those without long-term health conditions or disabilities)
    - Those receiving income related benefits like UC (JSA, ESA and tax credit) are four times more likely to have fallen behind (compared to those not receiving these benefits)
    - A third of people referred to food bank were in council tax arrears in 2021

The approach to chasing council tax debt is often ineffective and costly

For every

£1 debt

27p

Is returned

Centre for justice

4 in 5

(79%)

claimants surveyed said council collecting methods had a negative impact on their wellbeing

Solutions and Conclusion

The system of deductions is neither fair nor efficient. Change is possible – and there is a precedent for change.

- Individuals are bearing the brunt of a flawed system.
- Change is possible.
- There are examples of both small and large reforms in policy and practice from across Government where different approaches are already taken. From meeting a minimum income threshold to begin student debt repayments; pausing student debt repayments when there's a change in income; and writing off Bounce-Back loans, there are precedents across Government for how the system could be improved.
- The ability to change has been most visible during Covid where a combination of suspensions and temporary measures has shown agility and flexibility in the UC system. For example:
    - tax credit and social fund loans were temporarily suspended
    - a £20 uplift was introduced and then withdrawn
    - the taper rate and work allowance were increased in the 2021 Budget.
- Pre-Covid changes to policy and practice were also evident– for example, Advance Payment repayment time periods were increased from 12 to 24 months; and maximum rates of deductions were reduced from 40% to 25%. These changes were introduced in recognition of the problems caused by deductions.

UC claimants are punished by comparative standards. It is in stark contrast to other Government administered schemes

Debt collection practices are outdated compared with wider debt sector and other Government schemes

- To prevent financial hardship, the Financial Conduct Authority (FCA) has a regulatory framework that includes vulnerability strategies and affordability assessments adopted by other regulators such as Ofgem and Ofwat.
- Most deductions from benefits by DWP have had no affordability assessments.
- The commercial sector is bound by the Limitation Act (1980) that prevents collection of lapsed debts beyond six years. They are written off.
- Breathing Space, a scheme to better support people in debt by giving people time to seek debt advice and explore their options without facing enforcement, does not apply to debt that is deducted via benefit payments.

Government can write off errors and debt – and there is precedent for doing it

- The Government is set to write off both fraud and debt from the Covid bounce-back loan scheme for small businesses.
- In March 2021, BEIS showed £1.3bn of loans had been defaulted on and were not being paid back; £4.9bn was potentially fraudulent. These estimates are ‘work in progress’ and are likely to be revised down.
- The Government has a manifesto commitment to introduce a statutory debt repayment plan by 2024 with a proposed 10 year limit to collect debt
- At the same time, Government is continuing to pursue historic tax credit debt many years after the debt was accrued.

Other Government administered schemes take a more understanding approach

- Government administered Student Loans are loans where repayments begin once a minimum threshold has been reached. Repayments can be temporarily paused if income drops below a certain threshold.
- ‘Benefit of the doubt’ is the HMRC approach for businesses who have made genuine mistakes with the furlough scheme.
- Both these examples stand in sharp contrast to benefit claimants where repayments are rarely paused, and errors tend to stem from the DWP not individuals. There is no benefit of the doubt for people receiving benefits; deductions persist.

The case for reform remains strong

- **Claimants are held individually accountable,** often for system errors: Most deductions are designed into the system; they are not the result of individual behaviour. People are doing 'all the right things' and yet face financial hardship and emotional distress. UC claimants often seem to be punished for no fault of their own.
- **There is a concentration of vulnerability:** A strong pattern emerges with those who may already face the greatest challenges and more likely to have multiple deductions, further marginalising those who need support the most.
- **Universal Credit is undermined by an outdated legacy:** Tax credits have created historic debt many years later that is limiting the ability of UC to effectively support people.
- **Deductions undermine the central tenets of Government UC policy:** Deductions do not 'make work pay', nor do they simplify or personalise the system
- **There are more effective ways to collect debt:** Following private sector debt collection standards and rules set by the FCA, or adapting existing Government schemes such as student loans that are only repaid when a sufficient income threshold is reached would ensure people are better able to afford to repay.
- **There are a number of ways Government can address the challenges presented by deductions,** both through widespread reform that can be easier to administer in a big system, and incremental reform that is easier to personalise at smaller scale.

Options for change: Immediate reforms to reduce the harm caused by deductions

Reform	Rationale
Affordability assessments to determine the claimants' ability to pay. At the very least this should be offered to everyone taking out an Advance Payment	• Responds to individual need by better reflecting the ability of an individual to repay. • Can prevent hardship • Accepted and implemented in other regulatory bodies – e.g. Ofgem, Ofwat and private companies • Increases the likelihood that creditors would recover debt
Incorporate UC into Breathing Space - a Government scheme that provides someone in problem debt legal protections from their creditors, protecting them from contact and freezing most interest and repayments on their debt. Additional provision for those with mental health needs	• Offers support to those who are more vulnerable to problem debt • The scheme already applies to other areas of Government debt
Increased dialogue between adviser and claimant, with increased ability for advisers to amend / pause deductions where they cause financial hardship	• Brings personalisation into the system in a more genuine way • Allows for adjustments in affordability plans to reflect changing circumstances • DWP and claimants could co-design parameters for claimants to adjust repayments within boundaries, giving DWP more certainty over payments and claimants more control over their budgets
Reduce the maximum rate of all deductions to 5%	• In line with maximum third party deduction rate • Claimants are more likely to be able to manage the deduction
Introduce a minimum income threshold so that no one is left without enough basic income to cover essentials	• Follows precedent for repayment of student loans • Ensures people are not pushed into destitution
Introduce a maximum payment duration of how many months, so where debts are not repaid in this timeframe, the remainder is written off	• Follows precedent for repayment of student loans • Enables people to free themselves from debt to start building financial independence
Advisers proactively look for additional ways to support claimants where a vulnerability is already flagged on the system (e.g. around mental health, homelessness or domestic abuse)	• Ensures those who are eligible for specific support can access it
Provide more up front information about the exemptions and safeguards in place that claimants can request	• Empowers people to ask for support where it is needed • People are less likely to be pushed into problem debt
Provide up front information about the reasons for deductions, what they are for, how much will be taken and for how long – and provide updates throughout the deduction period	• Enables people to understand why their payments are lower and can help them budget more effectively

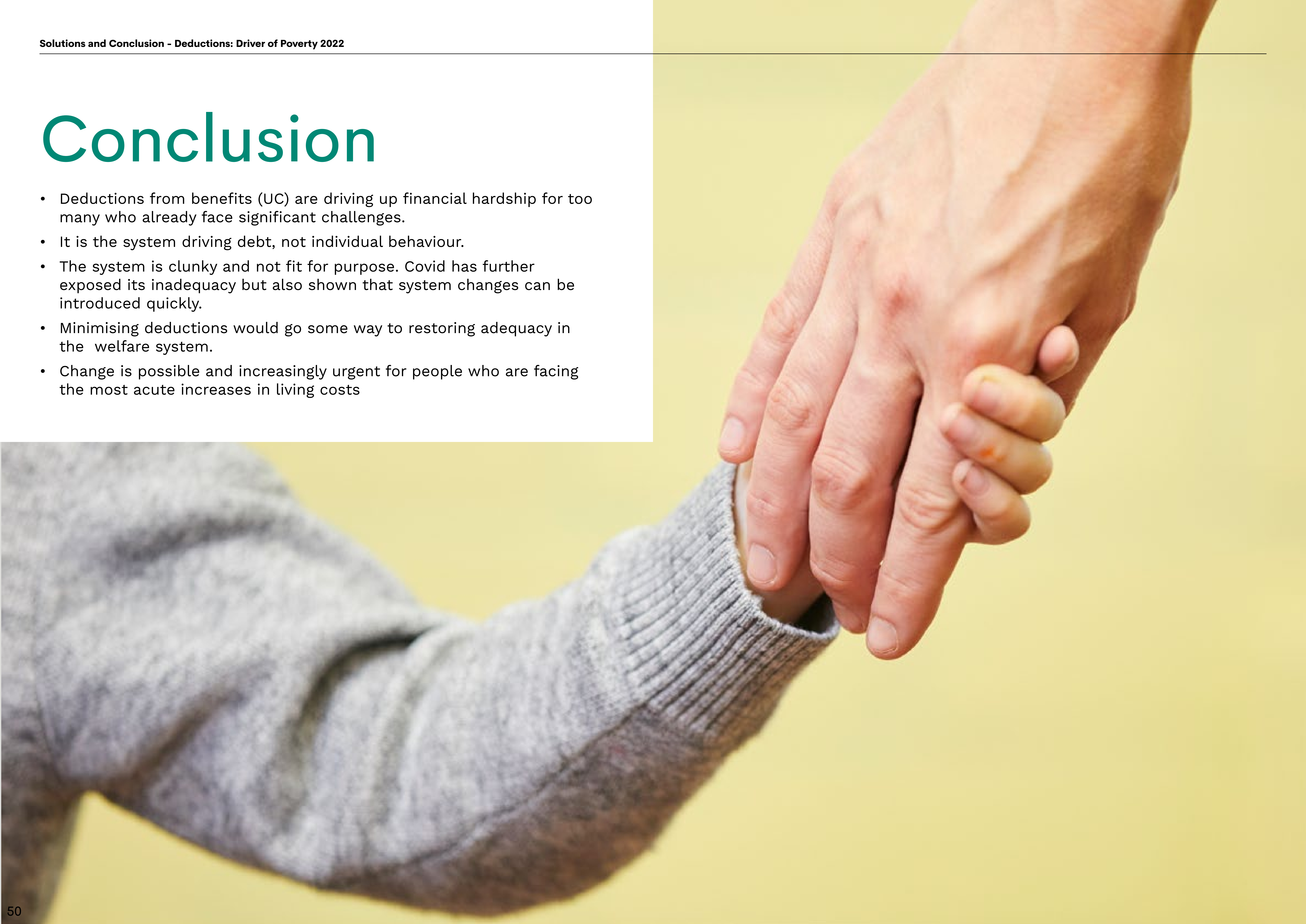
Reform	Rationale
Data / insight to inform and iterate changes to the cap	• A system driven by latest real time insights from claimants • A cap that better responds to claimants' ability to pay
Councils sign up to CAB / LGA scheme to commit to more effective Council Tax collection	• With a focus on prevention and enforcement it could create fairer and more consistent practices.
Link local and national – e.g. local targeted grants for Advance Payments through discretionary use of Household Support Fund	• Better align UC with Local Authorities to identify pressure points of those who are at risk of problem debt and offer them grants to smooth income e.g. to cover 5-week wait • Could save Councils money later on • More discretionary use of the Household Support Fund – a £500 million fund for Councils – could be expanded and explored as potential funding route

Options for change: reform to prevent further erosion of UC levels by deductions

Reform	Rationale
Convert Advance Payments into grants	• Claimants no longer needing to 'choose' between no income and debt • Simple to administer
Write off historic tax credit debt	• Rectifies a design flaw that drives up problem debt, especially for those who may already face the greatest challenges • Simple to administer and reduces administration costs
Reform council tax legislation and support schemes	• Create a fairer system across the country, including looking at the support provided so poor people are not being chased for council tax they cannot pay.

Conclusion

- Deductions from benefits (UC) are driving up financial hardship for too many who already face significant challenges.
- It is the system driving debt, not individual behaviour.
- The system is clunky and not fit for purpose. Covid has further exposed its inadequacy but also shown that system changes can be introduced quickly.
- Minimising deductions would go some way to restoring adequacy in the welfare system.
- Change is possible and increasingly urgent for people who are facing the most acute increases in living costs



LLOYDS BANK FOUNDATION
England & Wales

Lloyds Bank Foundation for England and Wales partners with small and local charities who help people overcome complex social issues. Through funding for core costs, developmental support and influencing policy and practice, the Foundation helps charities make life-changing impact.

This report brings together evidence on the impact of deductions, analysing it to summarise and highlight the issues and present a case for reform. The Foundation is an independent charitable trust funded by the profits of Lloyds Banking Group.

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