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Universal Credit and Third Party Deductions: The Rules and Their Impact on Claimants

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This article seeks to analyse Universal Credit (UC) and its impact on claimants by focusing on one specific aspect of UC in detail. Allowable third party deductions will be considered and compared to the position under the legacy benefit rules. Using this comparative approach, data from a case study of real UC claimants from a local Citizens Advice office, information from wider research and incorporating scenarios to highlight what this could mean for claimants in practice, this article concludes that many claimants are worse off on UC than they would have been under the legacy benefits it replaces due to the third party deductions regime. This, in many cases, places claimants in hardship and makes it impossible for them to meet their priority payments.

Keywords: Universal Credit, third party deductions.

Introduction

In 2010 the Government announced an intention to substantially reform the welfare benefit system in the UK (DWP, 2010). They justified the need for change by categorising the old system as complicated, expensive to maintain and as failing to incentivise work (DWP, 2010: Chapter 1). Instead they proposed the introduction of a new single means tested benefit, Universal Credit (UC), to replace six of the main existing benefits. This change was introduced in the Welfare Reform Act 2012.

UC was initially introduced in four pilot areas and applied only to new, single claimants. The benefit was then rolled out in phases by postcode and claimant group. It was originally intended that UC would be implemented in all areas by 2017, but, due to delays caused by system errors and vocal criticism, the full roll out was not completed until December 2018.

In a 2015 television interview, the Government's then Work and Pensions Secretary Ian Duncan Smith, stated that 'no one loses a penny' on UC as compared to the legacy benefits it replaces. The 2010 White Paper that preceded the benefit's introduction – *Universal Credit: Welfare that Works* (DWP, 2010: 3) – was even more explicit, stating that:

> *The Government is committed to ensuring that no-one loses as a direct result of these reforms. We have ensured that no-one will experience a reduction in the benefit they receive as a result of the introduction of Universal Credit.*

The Paper also described the new system as 'very simple' (DWP, 2010: 1). This claim was backed up by Lord Freud, one of the architects of UC, who stated that the Government's objective of reducing fear in claimants that they would be worse off by returning to work, accounted for the 'simplicity' of the new benefit, which aimed to remove this fear (Sainsbury, 2014: 42). UC is intended to simplify the benefit system, reduce fraud and encourage people to work in a system where work 'pays' (Dwyer and Wright, 2014: 27).

However, as the roll out of UC has progressed, problems with the new benefit have become more apparent and the truth of these claims is being tested. Although transitional protection will apply to claimants who, in time, are migrated across to UC by the Department of Work and Pensions (DWP) (Royston, 2012: 72), which could be used as a justification for the claim that 'no one loses a penny' on UC, in practice many benefit claimants are worse off in real terms.

This article seeks to contribute to the understanding of the issues with UC by focusing on one specific problem area – that of allowable third party deductions – to assess whether claimants are losing out on the new benefit.

UC and third party deductions

UC is a conditionality based benefit, replacing income based Jobseekers Allowance for those seeking work, income related Employment and Support Allowance for those unemployed but incapable of work, Income Support for those unable to work due to personal circumstance (e.g. carers), Housing Benefit/Local Housing Allowance for those eligible for help with rent based on their household income, Child Tax Credits payable to those responsible for a child and Working Tax Credits payable to some workers on a low income.

UC entitlement is calculated in elements. All of the elements which the claimant is entitled to are added together, giving their maximum UC amount. The elements are:

- the standard or personal element (paid at different amounts for single people and couples, and for those aged under twenty-five and over twenty-five);
- the child element (paid per eligible child that the claimant is responsible for);
- the childcare costs element (paid for eligible childcare costs);
- the limited capability for work element (payable to those with limited capability for work but abolished for most new claimants after 3rd April 2017);
- the limited capability for work related activity element (paid to those assessed as unable to work or complete work-related activity);
- the carer element (paid to those with caring responsibilities);
- the housing costs element (paid to cover eligible housing costs).

Once a claimant's maximum entitlement is calculated by adding together the elements they qualify for, deductions are made to take in to account any earned or other income they have. The amount remaining after these deductions is their payable UC.

However the DWP is then allowed to deduct money from the payable UC. Deductions are allowed for debts owed to the DWP, such as unpaid budgeting loans, advances and overpayments, but also, in some circumstances, for debts owed to other creditors. These deductions can cover ongoing charges and/or arrears or debts

(The Claims and Payments Regulations 2013, s.2). Deductions made from benefit under these rules are known as third party deductions or direct payments.

Third party deductions are allowed providing that particular debt/payment is covered by the regulations and that taking the deductions does not reduce the payable UC to less than 1p. The rules also state that there cannot be more than three separate deductions in total from the UC payment in each assessment period (The Claims and Payments Regulations 2013, s.3 (1)(a) and (b)). Up to 40 per cent of the standard element of UC can be deducted under third party deduction rules (The Claims and Payments Regulations 2013, Sch 6 para 4 (1)); this 40 per cent threshold does not include deductions for the costs of ongoing fuel or water charges, which can be taken in addition (The Claims and Payments Regulations 2013 s.4 (3)). The Government announced in the 2018 budget that, from October 2019, the maximum percentage that can be taken through these deductions will be reduced from 40 per cent to 30 per cent of the standard allowance; the other rules regarding third party deductions will remain unchanged (HM Treasury, 2018).

The policy context

When UC was first proposed in 2010, the Government stated that the purpose of this reform was to 'reintroduce the culture of work' (DWP, 2010: 3) by making the benefit system more worker friendly and incentivising work. It stated that the reforms were aimed at giving people back control of their income and teaching them to budget as if they were a worker. However the concept of third party deductions, which already existed under the legacy benefit rules, was retained.

The Government justifies this by claiming that the deductions are for the benefit of the claimant, offering a 'safety net to protect claimants' who have debts for essential bills. They claim that third party deductions 'are only taken in the interests of the individual or family' (DWP, 2019a); the regulations reflect the fact that third party deductions should only be taken in these circumstances (The Claims and Payments Regulations 2013, 58(1)) as does the Government guidance. This says that where there is a history of misspending, a threat of eviction or where there is no other suitable method of managing the debt, a third party deduction would normally be reasonable, but if the claimant can prove that they can pay the debt themselves a deduction would not normally be necessary (DWP, 2019). However research suggests that debt recovery by the DWP is 'overzealous' and that this policy is not always applied correctly, which can be detrimental to the claimant (Cheetham *et al.*, 2018).

The impact

Methodology

In order to assess the impact of third party deductions on UC claimants, this article will use a case study approach, as well as drawing on existing literature and statistics on this subject. Using these mixed methods enables this article to look both at the wider regulatory framework of UC third party deductions and more closely at the impacts of this on a particular group (Simmons, 2009: 3).

Illustrative case study data will be taken from a sample of clients from Citizens Advice Gateshead, a local Citizens Advice office that advises approximately 13,000

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clients per year. Information about the charity and the work it does can be found at www.citizensadvicegateshead.org.uk.

Data sample

UC roll out in Gateshead began in October 2017 and the borough became a full service area for UC on 12th December 2018 following a phased roll out that was implemented in five stages. The sample used in this research is drawn from clients accessing the drop in advice service at Citizens Advice Gateshead in December 2018, during the final stage of the UC roll out in that area. This article will draw on quantitative data, routinely collected by advisers from their clients. This data was not generated specifically for this article.

Out of 279 clients attending for advice on all subjects (i.e. those who needed assistance from advisers at the office, rather than those who were signposted to other services or given initial information only), thirty-seven were UC claimants who specifically required assistance managing third party deductions from their UC payments. Examining the issues faced by this small sample provides a snap shot of the issues UC claimants face due to third party deductions from their benefit.

Findings

This article will now go on to examine in detail what the regulations about third party deductions from UC say, how this differs from the position under the legacy benefit rules and how this impacts on claimants, including our data sample.

What counts as a third party deduction? The regulations

The third party deductions allowable under UC are set out in the Regulations. Where the total amount of deductions requested exceeds the maximum deductions allowed, i.e. three per payment period or a total of 40 per cent of the claimants' standard element, they are applied in a priority order.

The allowable third party deductions and the priority order that applies between those third party deductions, are:

- ongoing housing costs;
- service charges and rent arrears (if the amount deducted is set at 10 per cent of the standard element of UC – the priority position differs for a 20 per cent deduction);
- fuel costs;
- council tax arrears;
- fines (if the amount deducted is set at a lower level – the priority position differs for a higher deduction);
- water charges;
- child maintenance payments;
- loans under the integration loans scheme for recent immigrants;
- Certain eligible loans.

(The Claims and Payments Regulations 2013, s.5)

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Other deductions for money owed to the DWP are also included in the priority list, though these are not strictly third party deductions and are not discussed here.

Similar deductions are also allowed from two of the legacy benefits (income related Employment and Support Allowance and income based Jobseekers Allowance), though the allowable deductions and the priority order is slightly different for these benefits. These payments are deducted from the legacy benefits at a fixed rate of 5 per cent per deduction, providing benefit payments of at least 10p continue. If deductions include rent arrears, fuels charges or arrears, water charges or arrears or loan repayments, the claimant's consent is needed if the deductions will exceed 25 per cent of their standard element for those claimants not in receipt of child tax credits, or 25 per cent of the total of their standard element, child tax credits and child benefit for claimants in receipt of those additional payments. No consent is needed for deductions for council tax arrears, fines, child support and current housing costs.

On UC, only 1p of benefit needs to remain payable after deductions and consent is needed in much more limited circumstances; only for direct payments for fuel costs and water charges if the total deductions including these charges would exceed five times 5 per cent of the claimant's standard element and child element combined. Up to 40 per cent of a claimant's standard element can be deducted through direct payments, other deductions (including debts owed to the DWP themselves) and sanctions. In addition the DWP has the power to increase that percentage if they consider it in the claimant's interests to do so (The Claims and Payments Regulations 2013 s.4 (1)-(4)). If they feel that there is reason to exercise this discretion to exceed the usual 40 per cent rule, the total amount they can deduct is unlimited.

Some of these third party deductions and the implications of those in practice are set out below.

Housing costs and rent arrears

Rent arrears are recoverable from UC at the rate of 10-20 per cent of the claimant's standard element (The Claims and Payments Regulations 2013, Schedule 6, paragraph 5). The 10 per cent rate is at the top of the deductions priority list and is usually applied where there are also other deductions from the benefit. The 20 per cent amount is lower down the list and is usually applied where there are no other deductions or the other deductions are smaller or have less priority.

In the data sample used for this article, ten of the thirty-seven clients who required help with UC third party deductions for this period reported deductions for rent arrears. The amount of the deduction varied from £31.78 – 10 per cent of the standard element for a single claimant – to £63.46 – 20 per cent of the standard element for a single claimant. All clients with rent arrears deductions also had other deductions from their UC in the same period.

Under the legacy benefit rules rent arrears are deducted at 5 per cent of the claimant's applicable amount rounded up to the nearest 5p, plus the amount of the ongoing service charge or water rates. Under UC the deductions can be significantly higher.

It is still the case that in possession proceedings the courts will usually order social tenants who claim benefits to repay rent arrears at the rate of 5 per cent of the standard allowance for single claimant aged over twenty-five (currently £3.70 per week). However if these payments are to be taken from UC the DWP would deduct the higher amount and claimants could end up paying more towards rent arrears/ongoing charges than the court has assessed as affordable (Drake, 2017: 21). The claimant's consent is not required for these deductions.

The scenario below sets out how this could affect claimants in practice.

Scenario
The claimant is a single jobseeker, aged thirty, entitled to £73.10 per week. They have arrears and are taken to court. The court orders them to repay those arrears at 5 per cent of their standard element. This is deducted from their JSA. The rate of the deduction for arrears (exclusive of service charges) is £3.70 per week. This leaves the claimant with income of £69.40 per week. This equates to £300.73 per month.
The claimant is now entitled to UC, again as a single jobseeker. They are entitled to £317.82 per month. They have arrears and are taken to court. The court orders them to repay those arrears at £3.70 per week as under the previous rules. A third party deduction is then set up from UC. The DWP will deduct the arrears at the rate of either 10 per cent (£31.78 per month) or 20 per cent (£63.46 per month). This leaves the claimant with either £286.06 or £254.26 per month to live off, significantly less than under the legacy benefit rules.

As the regulations state that the DWP 'may' make these deductions, it is possible to challenge decisions to apply higher amounts if the claimant's personal circumstances are not taken into account, but the decision is not appealable and is open to internal review only.

Fuel costs

When a claimant is in arrears with their fuel charges, a deduction can be made for ongoing fuel costs plus a deduction for arrears set at 5 per cent of the claimant's standard element (The Claims and Payments Regulations 2013, Schedule 6, paragraph 8(4)). The deduction for fuel costs (or fuel and water costs combined) cannot exceed 25 per cent of any personal and child elements of UC without consent, but otherwise consent if not required. This mirrors the rules applicable to fuel deductions from legacy benefits, so there is no further hardship to UC claimants in this respect.

Council tax

As under the rules for legacy benefit deductions for council tax arrears, a third party deduction can be made from UC for up to 5 per cent of the standard allowance under Regulation 20 of the Universal Credit Regulations, 2013. As the rate of deduction under UC is no different, there is no additional hardship to claimants. The claimant's consent is not required for these deductions. In our data sample there were three deductions for council tax arrears, all at the rate of £15.89 per month.

Fines

Fines and compensation orders are to be deducted from ESA and JSA at the rate of £5.00 per week, unless the claimant is on contribution based benefit with no underlying income based entitlement: the deductions would leave a payable benefit of less than 10p per week or, in combination with other deductions, this would raise the total amount deducted to

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more than three times 5 per cent of the personal allowance for a person aged over twenty-five. Based on the current benefit rates, this makes a maximum deduction for fines under the legacy benefit rules of £21.67 per month.

Under UC, fines can be deducted at the rate of up to £108.35 per month (Regulation 20 of the Universal Credit Regulations, 2013). UC claimants with fines being recovered from their benefits could therefore face deductions five times higher than claimants under the old rules. The claimant's consent is not required for these deductions. There were three claimants with deductions for fines in our data sample.

Water charges

Where a UC claimant is in arrears with their water rates, a deduction can be made for ongoing water costs plus an arrears amount of 5 per cent of the standard element of their claim (The Claims and Payments Regulations 2013, Schedule 6, paragraph 9 (2)). The deduction for water costs (or fuel and water costs combined) cannot exceed 25 per cent of any personal and child elements without consent from the claimant, but otherwise consent is not required (The Claims and Payments Regulations 2013, Schedule 6, para 3 (3)). This position is unchanged from that under the legacy benefit rules.

Child maintenance payments

Child support/maintenance can be deducted from legacy benefits at between £5.00 and £7.40 per week, depending on when the claimant became liable to pay. Under UC the deduction is usually 5 per cent of the claimant's standard allowance, so the rate of deduction is variable and some claimants may pay a higher amount. (The Claims and Payments Regulations 2013, Sch 6, para 10(4)). The claimant's consent is not required for these deductions.

Which elements will third party deductions effect?

UC payments are treated as a whole for the purposes of deductions. Although the total amount that can be deducted is calculated with reference to the claimant's standard element, once calculated the deductions can be taken off any part of the award, including the housing element or any child elements. This works in the same way as sanctions for non-compliance with benefit rules, which are assessed with reference to the claimant's standard allowance amount, but, due to the nature of UC as one payment, are applied to the whole payment (Millar and Bennett, 2017: 177).

Therefore if a claimant's standard allowance amount is £317.82 per month and their housing element £200.00, £127.13 can be deducted under the third party deduction rules without reference to the discretionary criteria. This would leave a claimant with £190.69 per month as their standard element, plus £200.00 towards their housing costs. However if, because of earned income for example, the claimant only receives £100.00 as a standard element of UC, but they still receive a housing costs element of £200.00, £127.13 can still be taken. The claimant would therefore receive no standard allowance and only £172.87 towards their housing costs, leaving them with a higher rent shortfall to pay.

Under the old housing benefit/local housing allowance rules, amounts could be deducted to recover previous overpayments of those particular benefits at varying rates, but no debts or payments owed to third parties could be deducted from a claimant's entitlement to help with housing costs. This meant that a claimant would not lose any of the help they are entitled to with their rent because they owe council tax arrears or fines, for example. The UC rules change this.

Wider implications

Of thirty-seven clients in our data sample who were assisted with issues relating to third party deductions from their UC at Citizens Advice Gateshead in December 2018, thirty-one were single claimants, five were couples (two with children) and one was a single parent household. The average amount taken from the income of those claimants was £98.15 per month – 30.29 per cent of their total entitlement.

Twenty-five of those thirty-seven clients required specialist advice from a Money Advice Services accredited adviser to help them with budgeting and debt management; twenty had priority debts, including rent arrears and council tax arrears. All twenty-five of those requiring specialist money advice reported that these substantial deductions from their benefits contributed to their accruing debts.

These localised results are supported by findings published in a national report from Citizens Advice from 2017 which found that UC claimants are more likely to have priority debts (Drake, 2017). This report found that 79 per cent of UC claimants sampled reported priority debts as opposed to 69 per cent of those on legacy benefits.

This then becomes a self-fulfilling prophecy. UC claimants are more likely to accrue priority debts because the deductions from their income mean that they 'struggle to make ends meet' (Drake, 2017: 19), but those creditors to whom debts accrue are often then eligible to make an application for a third party deduction themselves – meaning that the claimant's income is reduced and ongoing expenses become less affordable still.

The assessment and payment period under UC also contributes to this issue. UC is paid monthly in arrears. This means that when a claimant makes a new claim for UC, their first payment does not fall due until at least five weeks after the date of claim. Their first payment is assessed based on the claimant's circumstances for the calendar month from the date of application and the payment is made seven days after the end of that period, or as soon as reasonably possible thereafter (Universal Credit Regulations, 2013 (The 2013 Regulations, s.21)). Backlogs in the system could increase that waiting time further. Future payments are then paid monthly in arrears on the same terms. This five week minimum initial waiting period leaves many claimants with no income from which to meet essential expenses. During this time they may accrue arrears that can then be recovered as a third party deduction when payments do commence.

Advanced payments are available during the initial waiting period if the claimant meets the criteria set out in the Social Security (Payment on Account of Benefits) Regulations, 2013, s.11, but this would represent a minimal payment that must then be paid back within a six month period through sizeable deductions from ongoing entitlement (DWP, 2015), causing further hardship.

National debt charity Step Change has also published statistics on the impact of UC and of third party deductions in particular, stating in a press interview in 2019 that third party deductions are 'making it harder for families to pay for essentials, forcing many to use credit to keep on top of bills'. These findings were based on a survey of 800 of their customers, which found that 71 per cent of those who have third party deductions from benefit (not limited to UC but including UC claimants) considered that it caused their family hardship; 25.7 per cent had cut back on buying food, 24.6 per cent struggled to pay for heating, 19.4 per cent had to borrow to avoid missing essential payments and 39.9 per cent fell behind on essential bills; all cited the deductions as a factor (Step Change Debt Charity, 2018). The charity stated that third party deductions are 'harmful for a significant minority' and acknowledged that, although this applied to claimants of both new and legacy benefits, 'the total amount that can be deducted under UC is much higher compared with the other eligible benefits' (Step Change Debt Charity, 2018: 7). Furthermore DWP guidance makes it clear that the responsibility for ensuring that the amount of a third party deduction is correct and that deductions end when the debt is cleared falls on the creditor, which could lead to adverse consequences for the claimant who is not empowered to correct any errors.

Further information from the data sample analysed in this article showed that as well as struggling to manage priority payments as a result of third party deductions from their UC, eighteen of the thirty-seven clients in the data sample also had to be referred to their local foodbank for free food to support their household. All eighteen of those clients reported that the deductions from UC were a factor in their inability to afford sufficient food. This confirms previous research findings which state that 'welfare reform is the backdrop for the dramatic rise in food bank usage since 2010' (Loopstra *et al*., 2018: 441). An inability to buy essentials such as food is a recognised indicator of poverty. Research published in 2018 went further than that, and cited an inability to buy food as evidence of destitution if coupled with an inability to afford at least one of a list of other essentials; namely shelter, heating, basic toiletries, clothing and footwear and lighting (Fitzpatrick *et al*., 2018).

If, as research indicates, third party deductions from UC are contributing to poverty or destitution among claimants, then they are clearly worse off. The Government has recognised that there are issues with UC, as they delayed the roll out several times and have introduced changes in response to criticism; however, the area of third party deductions is yet to be addressed. This research shows that it is time that this was reconsidered.

Conclusion

After a significant period of policy continuity in relation to welfare entitlement (Edmiston 2017: 261), UC was supposed to implement changes in the benefit system that would prepare people for work, simplify the system and provide the flexibility to give 'people back control of their lives . . . ' (Sainsbury, 2014: 43). The Government was adamant that no one would be worse off under UC, but UC is 'too far removed from the realities of life on a low income' (Millar and Bennett, 2017: 174) and it is clear that some claimants are in fact worse off under the new rules.

This article has focused on just one element of UC to demonstrate this – third party deductions. As a result of the third party deduction rules, which are far from simple but instead employ a complicated system of priority and tapers, claimants are often uncertain about what amounts will be taken from their UC, what these deductions are for and how long they will last. Commentators state that 'this is a very complex

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area and there is a need for clarity on the guidance and law that underpins this area' (Drake, 2017: 20).

The rules allow a third party to request a deduction, which is then applied if approved by a DWP decision maker, wresting control about repayments for debts and essential costs from the claimant and making it more difficult for them to budget. The policy statement behind the third party deduction rules states that the intention is to safeguard claimants and act in their best interests, but as a result of the deductions and the consequent reduction in income an alarmingly high percentage of claimants struggle to meet ongoing priority payments and need charitable assistance to feed their household, which is clearly detrimental.

In relation to the third party deductions from UC at least, claimants are often worse off. And this is not the whole picture; there are many other aspects of UC that could cause a detriment to claimants, which have not been discussed here. Royston discusses in detail many of these problem areas in his 2012 article. These include, for example, the fact that UC is subject to a capital limit whereas some of the legacy benefits (child tax credits and working tax credits) were not; that on UC self-employed claimants must choose whether to class themselves as full time self-employed, in which case they are not required to seek work but there is an assumed minimum income so they may not qualify for financial help even if they actually earn less than this, or alternatively choose to submit their actual income to the DWP, in which case they may be required to seek work on a full time basis, even though they are actively self-employed; and the fact that UC is almost an exclusively online system which could cause detriment to those with low levels of computer literacy who may be penalised for failing to engage fully with the system.

During the roll out of UC to increasingly wider areas and with managed migration of existing legacy benefit claimants looming, concerns about UC and its impact on claimants have grown. The evidence presented here, which builds on previous research in this area, demonstrates that at least some claimants are losing out under the new rules, something which the Government explicitly stated that they wished to avoid. Therefore, this article concludes, now is the time to properly review and, where necessary, reform the third party deduction rules.

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