

Rent arrears deductions in Universal Credit

The third party deduction (TPD) scheme in Universal Credit (UC) works on a similar basis to the arrangements for existing benefits (e.g. Income Support, Jobseeker's Allowance). The main difference is that there is a single Priority Order for deductions, which includes all deductions that can be made from UC (e.g. utility arrears, child maintenance, Social Fund loans, benefit overpayments). The Priority Order is applied when there is insufficient UC in payment to meet all deductions, or if the total amount of deductions that have been requested would exceed the overall maximum deduction rate. The overall maximum deduction rate is an amount equal to 40% of the claimant's UC standard allowance.

Housing-related deductions, such as rent arrears, are top of the Priority Order, to protect the claimant and their family from being made homeless. The current deduction rate for rent arrears is set at 5% of the claimant's UC standard allowance.

We are considering whether to increase the deduction rate for rent arrears, in order to recover them more rapidly. This could help both safeguard claimants' tenancies and stabilise landlords' income streams. One option we have identified would be to increase the deduction rate to 40% of the claimant's UC standard allowance (which is equivalent to the overall maximum deduction rate in UC). If however any other deductions were required on the award, e.g. utility arrears, fines etc, we would reduce the 40% for rent arrears by the amount of the other deductions, but only down to the current rate of 5%. We could also make a Financial Hardship decision if the claimant or a third party, such as a representative from the Advice Sector or a Social Landlord, contacted us to say the claimant was struggling because of the amount being deducted. This option would apply to existing cases, as well as new referrals for rent arrears deductions.

The monthly deduction rates are set out below (based on April 2014 benefit rates):

	UC standard allowance	Current 5% rate	40% option
Single under 25	£249.28	£12.46	£99.71
Single 25 or over	£314.67	£15.73	£125.87
Couple both under 25	£391.29	£19.56	£156.52
Couple one/both 25 or over	£493.95	£24.70	£197.58

In our discussions of this proposal with the Social Security Advisory Committee, they recommended that we obtain the views of specific stakeholders, including organisations that provide debt and money advice. We would welcome your views on the following questions.

Do you agree that the deduction rate should be increased from the current rate of 5% of the claimant's UC standard allowance? Please give reasons for your response.

We agree that there is a case in principle for increasing the rate for housing-related deductions from the current rate of 5% of the claimant's UC standard allowance. Increasing the rate of deduction could reduce the risk of eviction, and could help claimants to clear their rent arrears more quickly, enabling them to take greater control of their finances.

Would a deduction rate of up to 40% of the claimant's UC standard allowance be an appropriate rate? If not, what would be an appropriate rate and why?

We feel that deducting 40% of a claimant's UC standard allowance for Third Party Deductions is always excessive, regardless of whether this is made up of multiple arrears or simply housing-related arrears, and risks creating or exacerbating significant financial hardship. Government states that "The standard allowance is a basic amount of Universal Credit for your day to day living expenses" – we would question whether claimants will be able to meet these day to day living expenses on 60% of this "basic amount" without resorting to, for example, taking out unaffordable debt, which could ultimately compound the financial difficulties that led to the arrears building up.

With reference to the proposal to impose a deduction rate of up to 40% for housing-related arrears, therefore, we feel this would be considerably too high. Given that, in the proposals, a rate of 40% would only apply if rental arrears were a claimant's only relevant arrears, this also seems disproportionate.

Additionally, if a claimant has rental arrears of more than 40% of the value of their standard allowance, they would, under these proposals, always have 40% of their standard allowance deducted (whether the deduction consists solely of rental arrears or of rental and other relevant arrears). This would greatly increase the number of people losing 40% of their standard allowance as Third Party Deductions.

The impact of wider reforms should also be taken into account, including the under-occupation deduction and the move to direct payment of the housing element of UC, both of which are likely to increase rental arrears in some cases, and therefore the number of people with rental arrears above the proposed 40% rate.

A maximum deduction rate of 20% for housing-related arrears would strike a more appropriate balance between increasing repayments and ensuring that these repayments do not have unintended negative consequences.

How would an increased deduction rate impact on claimants?

An increased deduction rate would, by definition, reduce the amount of money available to claimants in rental arrears. However, as noted above, this in itself is not unreasonable if carefully weighed against the desire to stabilise landlords' income streams and reduce claimants' housing arrears.

We are particularly concerned that the proposals for rent arrears deductions do not appear to take into consideration the total amount of rent arrears. This means that claimants could see their post-deduction allowance fluctuate greatly month to month, reducing their ability to stay on top of their money and heightening the risk of developing further financial problems.

For example, a couple receiving the maximum standard allowance with rent arrears of £195 would, under the 40% deduction rate, repay the entire amount in one month, then nothing the next month. Such variations in income make it extremely difficult for a claimant to budget, and can have knock-on effects on their ability to repay other regular monthly outgoings.

To mitigate against this, we would suggest a 'lock', whereby the total amount deducted in a given month to cover housing arrears will not exceed either of the following: 1) 20% of a recipient's Universal Credit standard allowance 2) 10% of the recipient's total outstanding housing arrears at the point at which the initial decision is made that a Third Party Deduction for housing arrears will apply. This lock could then be re-calculated periodically to take into account changes in the recipient's level of housing arrears.

If no additional rent arrears became due, this would mean a claimant would repay their arrears within a year, and would spread the repayment more evenly, giving claimants a more regular income. We feel that this would provide landlords with stability of income while not unduly disadvantaging the claimant. A similar lock could also be designed to cover all Third Party Deductions.

We believe that the design of the proposed deduction policy will inevitably lead to more claimants requiring a Financial Hardship decision. There are two risks here. Firstly, claimants who would be eligible for such a decision might not apply, for example through a lack of awareness, compounding their financial difficulty. Secondly, increased numbers of claimants requiring Financial Hardship decisions would put significant stress on the system and increase the administrative costs of the Department, potentially leading to delays for claimants. The solution we propose here would go some way towards reducing both of these concerns at an early stage, which we feel is a preferable approach to dealing later on with the unintended consequences of a policy.

How would an increased deduction rate impact on landlords?

We have no comment on this at this time.

If we increase the deduction rate, the new rate would be applied to both new applications for rent arrears deductions and to claimants who are currently having 5% deducted from their UC. Have you any suggestions on how we could reduce the impact on claimants when the new rate is initially applied to their claim?

As per our earlier responses, setting the deduction rate at 20% rather than 40%, together with implementing the lock we suggest, would reduce the impact on claimants – this would be the case when the new rate is initially applied and as it continues to apply.

Any changes in deductions from UC need to be clearly explained to claimants, so they understand what they will receive and can manage their money accordingly. It is also important to ensure claimants understand the implications of changes in deductions for their level of rent arrears and their overall level of debt.

Is there anything else you wish to add about how we could improve the process for deducting rent arrears in UC?

We have no further comment on this at this time.

Questionnaire completed by (on behalf of which organisation):

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Please include contact details

Please return the completed questionnaire to the following email address:
UNIVERSALCREDIT.POLICYCORRESPONDENCE@DWP.GSI.GOV.UK

Please ensure your response reaches us by **11th April 2014**.