Hidden holes: Deductions and sanctions for people on Universal Credit

Report for Lloyds Bank Foundation by Policy in Practice

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Executive summary

Context

Universal Credit will soon be the UK's main means tested benefit for working age people, with most remaining claimants moving over by April 2026. Once fully rolled out, over eight million households could rely on Universal Credit for financial support. Yet, while much debate has focused on whether payment levels are sufficient, the reality is that many claimants never receive their full entitlement.

Deductions for debt repayments and sanctions routinely reduce the amount of money that households actually receive, undermining financial security and pushing many households deeper into hardship. These deductions do more than lower income levels; they increase income volatility, making it harder for low income households to budget and plan ahead. This instability has far reaching consequences, particularly for housing affordability and the risk of homelessness.

To truly understand the impact of Universal Credit on poverty and financial insecurity, policymakers must look beyond headline award rates and consider what people actually receive in practice.

This report examines how deductions and sanctions shape household incomes, increase poverty and impact the ability to afford basic living costs, including rent. Without action, these hidden reductions risk entrenching hardship and fail to provide the safety net Universal Credit was designed to be.

Methodology

This research analysed the Universal Credit data share from eight local authorities. The DWP provides this data daily to local authorities for the administration of council tax reduction and other locally administered benefits.

Participating authorities want to understand the impact of deductions on the design and targeting of local welfare support including council tax support. The data set provides detailed information on household income, benefits and household composition. Household records contain full Universal Credit awards and how these are calculated, as well as deductions that are made prior to payment.

Findings

This research shows that poverty and an inability to afford housing costs are widespread amongst people who receive benefits and this is exacerbated by debt deductions and sanctions.

From April 2025, the Government has introduced a new cap on the level of debt deductions that a household can pay back. This has been reduced from the current 25% to 15% of the standard allowance and has been termed the Fair Repayment Rate.

This Fair Repayment Rate has been widely welcomed as a way of increasing household income for the lowest income households. As carers and single parents are the most likely to be repaying debt at above 15%, the policy also targets these groups.

Whilst this represents a welcome step forward and is a targeted policy that best supports single parents and carers, the failure to consider all reductions to a benefit award risks households being placed under multiple forms of reductions at once.

1. Spread of deductions

Millions of claimants don't receive their full Universal Credit award, with single parents and carers hit hardest

Households that receive child disability benefits or who receive the carer element of Universal Credit are disproportionately likely to see their Universal Credit reduced due to a deduction for debt repayment. Our analysis showed that over six in ten of these households are paying back a debt deduction. These households are likely to have significant barriers to increasing their income from sources other than welfare benefits. Because of this, these households are disproportionately likely to rely on debt to meet costs.

Examination of household composition showed that single person households, households with three or more children and those facing barriers to work, such as caring responsibilities, have a high likelihood of facing a debt deduction. Again, this signifies that those who face barriers in increasing their income often must rely on advances or wider debt to meet their costs.

Deductions for debt are applied alongside other caps to support such as caps to housing support and the overall benefit cap. Our analysis showed that those who are subject to policies reducing the level of support for their housing also were disproportionately likely to have debt deductions.

Half of households that face a housing support reduction, either through the bedroom tax or the Local Housing Allowance, also face a reduction through debt deduction repayments. This finding suggests these households may be reliant on debt to meet ongoing costs as their housing costs are not fully met.

The move to Universal Credit from legacy benefits such as Housing Benefit, Tax Credits, Employment and Support Allowance, Job Seekers Allowance or Income Support, does not appear to increase the risk of having debt deductions. However, this finding should be taken with caution given that it is the result of a single snapshot in time and managed migration is ongoing.

2. Spread of sanctions

The rate of sanctions visible in the data used for this research showed a low level of sanctions (1.4%) compared to the rate published by the DWP (6.2%). This is likely due to the underrepresentation of sanctioned households

Most sanctioned claimants lose 100% of their Universal Credit standard allowance, leaving them with no money at all

within our data. Sanctions are disproportionately applied to non-householders, and these are not included within our data set which only contains householders who are in receipt of council tax reduction.

Of those sanctions visible within our data, single people with no children make up the vast majority of those sanctioned with the overwhelming majority (94%) also being unemployed with no barriers to work.

Most sanctioned households in our data face a reduction in their Universal Credit that is equal to 100% of the monthly standard allowance, or 50% of the monthly standard allowance for couples.

This high level of reduction in income for these households suggests an indiscriminate policy that places households at a significant risk of financial hardship. It is worth noting that of those sanctions that are challenged, 81% of sanctions are overturned on appeal.[1]

3. Deductions and housing affordability

Our findings suggest that debt deductions have little direct impact on the proportion of households with unaffordable housing.

> **More than 8 out of 10 low income private renters on Universal Credit live in unaffordable housing**

Unaffordable housing is a way of life for many low income households, even before debt deductions, with over 84% of privately renting households in our data living in unaffordable housing and 43% of those in the social rented sector living in unaffordable housing.

Even though debt deductions do not significantly affect housing affordability, our research shows that debt deductions on housing affordability are not uniform. The greatest impact is on single parents and those with both caring responsibilities and ill health. These groups see a

[1] https://www.advicenow.org.uk/get-help/benefits/universal-credit-uc/challenge-universal-credit-sanction

two percentage point increase in the proportion living in unaffordable accommodation once debt deductions are applied.

For unemployed single parents, they see a three percentage point increase in the proportion living in unaffordable accommodation after debt deductions are applied.

When debt deductions are applied only a small additional percentage of households fall into unaffordable housing. Yet, for those households already in unaffordable housing, these reductions make meeting housing costs even more challenging.

Sanctions have a greater impact on the likelihood of housing becoming unaffordable with the proportion of households in our data living in unaffordable housing rising from 75% to 85% once sanctions are applied. The high proportion of households with unaffordable housing before being sanctioned suggests that housing crises may play a part in their ability to cope with the demands of the claimant commitment.

4. Deductions and poverty

Many low income households are already in crisis and at risk of deep poverty prior to the application of deductions. Approximately 10% of households are unable to meet their estimated costs before deductions are applied.

After deductions 1 in 4 couples with children can't meet their basic costs

Using estimated costs for households, we find that debt deductions and sanctions risk placing households further away from being able to afford the essential items of daily life.

Debt deductions can have a noticeable impact on the proportion of households that cannot meet costs. For couples with children the proportion unable to meet costs rises from 18% to 25%.

Councils have an obligation to support children and an increase in the proportion of households unable to meet everyday costs means that there is likely to be an increased need for local authority intervention. The cost of intervention following a crisis is likely to be greater than if the crisis had been prevented initially.

Unemployed households without barriers to work also face a steep rise in the proportion unable to meet costs following the application of deductions, with this increasing from 25% to 35%. The Government is currently focused on supporting more people into employment but it is important to consider whether greater financial hardship hinders people's ability to rejoin the workforce.

Recommendations for policymakers

The findings from this research inform a number of recommendations:

1. DWP should consider conducting affordability assessments, taking account of a claimant's full financial circumstances, before applying any debt deductions to a claimant's award. This is particularly needed for at risk and vulnerable groups such as those with the disabled child element

2. DWP could take a proactive approach to support those with debt rather than automatic application of deductions. This should include an offer of referral to the Money Advice Pension Service for debt advice

3. The cap on deductions within Universal Credit should cover all policies that reduce benefit support, including the benefit cap, bedroom tax, Local Housing Allowance, and two child limit

4. Sanctions should be reserved for serious infringements of contract and should only be applied following an impact assessment

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Introduction and background

The move to Universal Credit (UC) is reaching its final stages as most households receiving means tested benefits are already in receipt of Universal Credit, with the remainder set to move to Universal Credit by April 2026. There is ongoing concern amongst welfare rights organisations and other bodies that UC award levels are disaggregated from any measure of need and no longer enable households to afford basic requirements.

There have been a number of attempts to compare current benefit levels with need, most notably by the Joseph Rowntree Foundation and Trussell Trust leading to the development of the Essentials Guarantee[2].

However, analysis of the shortfall between benefit level and need often misses a vital aspect of welfare benefits which is the deductions taken from benefit awards, at source, due to debt repayments and sanctions.

With Universal Credit soon to be the only benefit for working age households, policymakers need to understand the real life impact of deductions from Universal Credit on household poverty and housing affordability.

Deductions can contribute to a household's financial insecurity not only because they reduce income from an already historic low point, but also by increasing income volatility. A constantly changing income poses a significant challenge for low income families to budget.

As its income changes a family loses the ability to plan for future costs or bills. In extreme circumstances, this can lead to a cycle of reliance on DWP debt and broader forms of credit, loans, or illegal money lending.

This research focuses on the distribution and impact of debt deductions and sanctions. It looks at both the distribution of impact and the effect on housing affordability and poverty. In

[2] https://www.jrf.org.uk/social-security/guarantee-our-essentials-reforming-universal-credit-to-ensure-we-can-all-afford-the

analysing housing affordability and poverty, this research examines both the spread and depth of impact.

In other words, it seeks to understand who is affected, whether deductions cause more households to face poverty and housing insecurity, and to understand the level of impact on those affected.

Understanding the distribution and impact of deductions and sanctions allows policymakers to account for real household income when reflecting on adequacy. It also enables those supporting households in crisis to understand the groups most affected by these deductions, and so most likely to need support.

This analysis aims to be a useful contribution to policy development in light of recent changes to the levels of deductions announced in the Autumn 2024 Statement and ongoing reviews into conditionality and sanctions, particularly for those with limited capability of work.

This analysis utilises the Universal Credit Data Share (UCDS) administrative data set held by eight local authorities geographically spread in Great Britain. This dataset is held by local authorities in the administration of their Local Council Tax Support Scheme for working age households who apply for Universal Credit. It includes demographic information on the make up of a household, information on earned and unearned income, as well as details of Universal Credit awards.

However, this dataset does not cover all households receiving Universal Credit within a local authority. It covers a subset of households who are receiving Universal Credit with either a corresponding Council Tax Support award or who have expressed an interest in being considered for a Council Tax Support claim.

Not all households receiving Universal Credit have a council tax liability or are eligible for council tax reduction, and data is not available on these households. The share of households receiving UC that also receive council tax reduction varies by local authority, ranging from 25 - 50% of all UC claimants. The largest unrepresented group are non-householders and those exempt from CT liability.

As Council Tax Support schemes are more restrictive than Universal Credit, some households in receipt of UC and that have a CT liability, will not be eligible for Council Tax Support and so will be not visible in the dataset. Nevertheless, even with these limitations, the dataset provides information on a wide ranging cohort of the lowest income households receiving Universal Credit.

Deductions: An overview

Households may have deductions made from their full Universal Credit award for the following reasons:

1. **Repayments of DWP debt**

These deductions are made to repay DWP loans. They include the repayment of advance payments, an interim payment made whilst a household waits for their first scheduled payment, and budgeting advances which are loans to meet unexpected costs. These loans are usually paid back over a period of 12 or 24 months.

2. **Repayments of third party debt**

Deductions from benefits are made to recover third party debt. They can include debt repayments for essential services such as rent, energy, water, or local authority council tax arrears or repayment of debt to other government departments such as HMRC.

3. **Conditional sanctions**

Conditional sanctions, often called simply ‘sanctions,’ are reductions in a Universal Credit award following a DWP decision that a household has breached its claimant commitment and obligations. This can be due to being late for an interview, not attending a mandatory interview with their job coach, or not completing a required course to support their job search.

4. **Managed payments to landlords, third party deductions or ongoing costs**

Deduction can be made for essential goods and services. For example, paying rent directly to a landlord or paying energy costs directly.

5. **Housing element reductions**

For households living in the Privately Rented Sector (PRS) or Social Renting (SR), the housing element may be reduced. Households in the PRS may see full housing awards reduced as rent is higher than the Local Housing Allowance (LHA). Households in SR may see housing awards reduced due to the Spare Room Subsidy (Bedroom Tax).

6. **Benefit cap**

Full benefit awards may be reduced due to the benefit cap. This is a limit on how much benefit a household can receive. The cap will depend on the household size and whether the family lives inside or outside Greater London. Households on Universal Credit can be exempt from the benefit cap if they have a disability or health condition and their award includes a Limited Capability for Work Related Activity Element, or if they are a carer and their Universal Credit award includes a carer element, or if they and their partner, if relevan, work and have earnings that are equal or above sixteen hours at the minimum wage.

For this research, managed payments and deductions for ongoing costs are excluded from the analysis as these are to cover costs that the household would otherwise have to meet.

The amount by which Universal Credit can be reduced for payment of debt and for sanctions is governed by regulation. Universal Credit regulations originally allowed for Universal Credit deductions to be taken of up to 40% of the standard allowance in a set order. In October 2019, this was reduced to 30% before being reduced further to 25% in the March 2021 budget. This aimed to support households with repayments to keep more of their Universal Credit award in response to the financial hardship of households and following COVID19.

Since 2021, the debt recovery cap has been retained at 25% of the standard allowance, which is £98 a month for a single person over 25, if recovery is due to fraud, or if the claimant has earned income, and 15% of the Universal Credit standard allowance in other cases, which is £59 a month for a single person over 25.

In the Autumn 2024 Statement a Fair Repayment Rate of 15% for all cases was announced and will come into effect from April 2025. At the time of this report, it is uncertain whether a higher rate for fraud recovery will be retained, or whether this percentage may be breached in certain circumstances, such as when a household is at threat of eviction. This will be clearer once regulations are published. The impact of this recent change is discussed further in this chapter.

The downward trend in the deduction cap reflects DWP's recognition of the financial challenges faced by low income households. The introduction of a Fair Repayment Rate represents a further step forward for the support of low income households and should be welcomed. However, although this targeted response is effective, it risks being insufficient to lessen financial strain on households due to wider factors which are discussed elsewhere in this report.

The amount of reduction from full awards due to sanctions can be considerably higher than deductions to recover debt, although affecting fewer households. The level will depend on the circumstances leading to the sanction and the household circumstances of the claimant.

Sanctions are set at different levels depending on the activities that a person has agreed to in their claimant commitment and depending on the activity that a person has failed to do. The maximum amount that a person can lose due to a sanction is the full value of their Universal Credit personal allowance. The most common reason is for a failure to attend or participate in a mandatory interview, comprising over 90% of all sanctions.

The DWP will take deductions from a Universal Credit award according to a priority list. In general, these are taken sequentially. However, up to three debts of lower level priority can be recovered at once, generally at 5% of the standard allowance for each debt.

Firstly, deductions are made for any DWP debt; fraud penalties are deducted first followed by sanctions and then loan repayments. Once DWP debt has been recovered, broader debts will be taken from the Universal Credit claim. These are for essential goods, other benefit debts such as local authority or HMRC, and other payments. Again, these are recovered in a set priority order, as outlined in Appendix 1.

Recent information has also be revealed that deductions taken for child maintenance payments are now being raised in the priority order to the top of the list for third party deductions.[3] This change is said to be help support the recovery of payments due to help children, and due to a concern raised that the lowering of deduction rates would lead to a reduction in child maintenance payments made through the deduction process. This regulatory change has meant that the Fair Repayment Rate will now not come into force until the 30th of April to allow for child maintenance to be increased in the priority list.

In addition to being raised to the top of the priority list, child maintenance payments will now also be exempt from the deductions cap in certain cases and this may lead to some parent households receiving a higher deduction rate to make these payments. Due to the limited data discussed below, analysis into this group is not included within this report.

Types of deduction visible in the Universal Credit data used for this analysis

The reason that a deduction is made is not always visible in the Universal Credit data that has been used for this analysis. Data for this analysis is the daily Universal Credit data share (UCDS) provided by the DWP to local authorities for the purposes of local benefit administration. This dataset contains only a subset of the data held by the DWP and currently does not cover all deduction categories.

The most common category of deduction in the data is "Unknown deductions" representing over 50% of deductions visible in the data. The next most common deductions is recovery of first month advance repayments, representing 41% of visible deductions.

It is probable that deductions marked as Unknown Deductions are multiple, simultaneous debt deductions which are not separately defined by the DWP within the data provided to councils.

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3 https://www.gov.uk/government/publications/the-universal-credit-personal-independence-payment-jobseekers-allowance-and-employment-and-support-allowance-claims-and-payments-modification-r

The DWP is intent on improving the data provided to councils and the depth of information available. Once DWP data changes are rolled out, it may be possible to undertake a more in depth analysis of deduction type.

Deduction type	Proportion of all debt deductions
First month advance	41.5%
Budget advance	1.6%
Short term advance	2.5%
Unknown deduction	54.3%

Figure 1: The proportion of debt repayments by deduction type

The impact of the Autumn Statement 2024

Changes to the level of deductions were announced in the 2024 Autumn Statement[4] with the introduction of a Fair Recovery Rate. This change will reduce the cap on deductions from 25% to 15% of the standard allowance from April 2025. It is currently unclear whether a higher rate will be retained for recovery of fraud or in other circumstances.

This change will primarily affect households with earnings who currently face a recovery rate of 25% of the standard allowance.

The impact on affected households will be significant. This change in debt recovery cap will provide a greater increase in income than the annual uprating of benefits that occurred in April 2025.

As benefits have been uprated by only 1.7% in April, this can constitute an increase of only less than £6.69 a month for single households over 25. However, if this household was also receiving a deduction at the maximum rate of 25%, this reduction to 15% would lead to a real

[4] https://www.gov.uk/government/publications/autumn-budget-2024/autumn-budget-2024-html

terms increase of £31.70 a month, almost five times as much as their standard benefit uprating.

This is illustrated in Figure 2.

Household type	Standard allowance rate 2024/25	Standard allowance rate 2025/26	Uprating increase in April 2025	Reduction at 25% of the new rate	Reduction at 15% of the new rate	Relative increase in take home income
Single, under 25	£311.68	£316.98	£5.30	£79.25	£47.55	£31.70
Single, 25 or over	£393.45	£400.14	£6.69	£100.04	£60.02	£40.02
Couple, joint claimants, both under 25	£489.23	£497.55	£8.32	£124.39	£74.63	£49.76
Couple, joint claimants, one or both 25 or over	£617.60	£628.10	£10.50	£157.03	£94.22	£62.81

Figure 2: Impact of the change in debt recovery threshold announced in the Autumn Statement 2024

The reduction in the recovery cap has been widely welcomed and the increased income for affected households will be significant. The downside of this change is that households will need to subsist on a reduced level of benefits for longer as debt will be recovered over a longer period.

There is also the risk that organisations recovering a debt low on the priority list, such as water charges or council tax debt, may look to alternative collection practices. As the amount of repayment is reduced, debts will take longer to repay. For a lower priority debtor, the wait for their turn to receive payment may not be acceptable.

Organisations that currently see a realistic chance of their debts being paid back through Universal Credit deductions could seek alternative debt recovery methods outside of the deduction process.

Which households benefit from the Fair Recovery Rate

The reduction in the debt recovery cap will primarily affect households with earnings whose recovery cap is currently 25%. Data analysis indicates that the most affected households within our dataset are those with children or in receipt of the carer's element. These households are most likely to currently have debt deductions of over 15%.

Figure 3 shows that of households in our dataset that are paying back deductions, 72% of single-parent households and 63% of couples with children currently pay back debt at over 15% of their standard allowance. Amongst low income households, households with children are the most likely to be in work so it is not surprising that these households benefit most from this change.

With limited space to make broader changes to support low income households, and in advance of the publication of the Child Poverty Strategy, this measure will increase the incomes of households with children in a targeted manner.

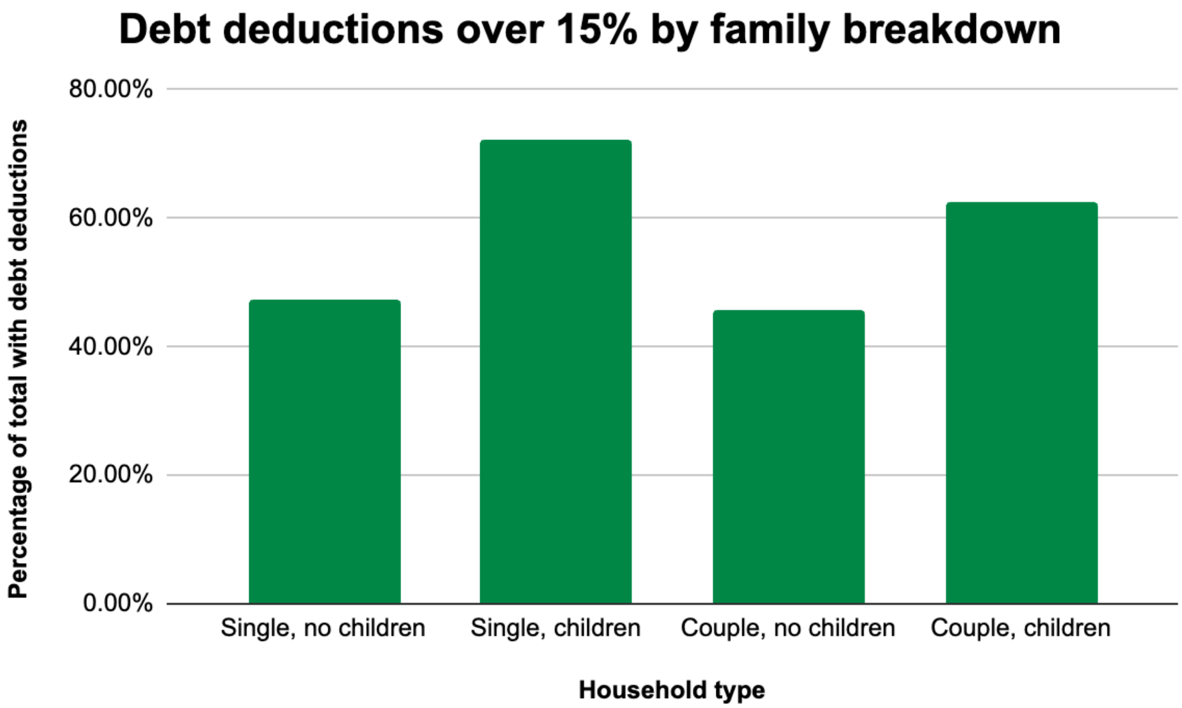

Figure 3: Percentage of households paying back debt with a deduction of over 15% from those currently receiving a debt deduction on their Universal Credit claim by family breakdown

Recovery from households without earnings is currently capped at 15% apart from in specific circumstances or with agreement of the debtor. However, data analysis shows that many in this group currently repay debt at a higher rate than this. For unemployed lone parents and carers, the proportion paying back debt at over 15% is over 50%. These groups will also benefit significantly from this reduction in the recovery cap.

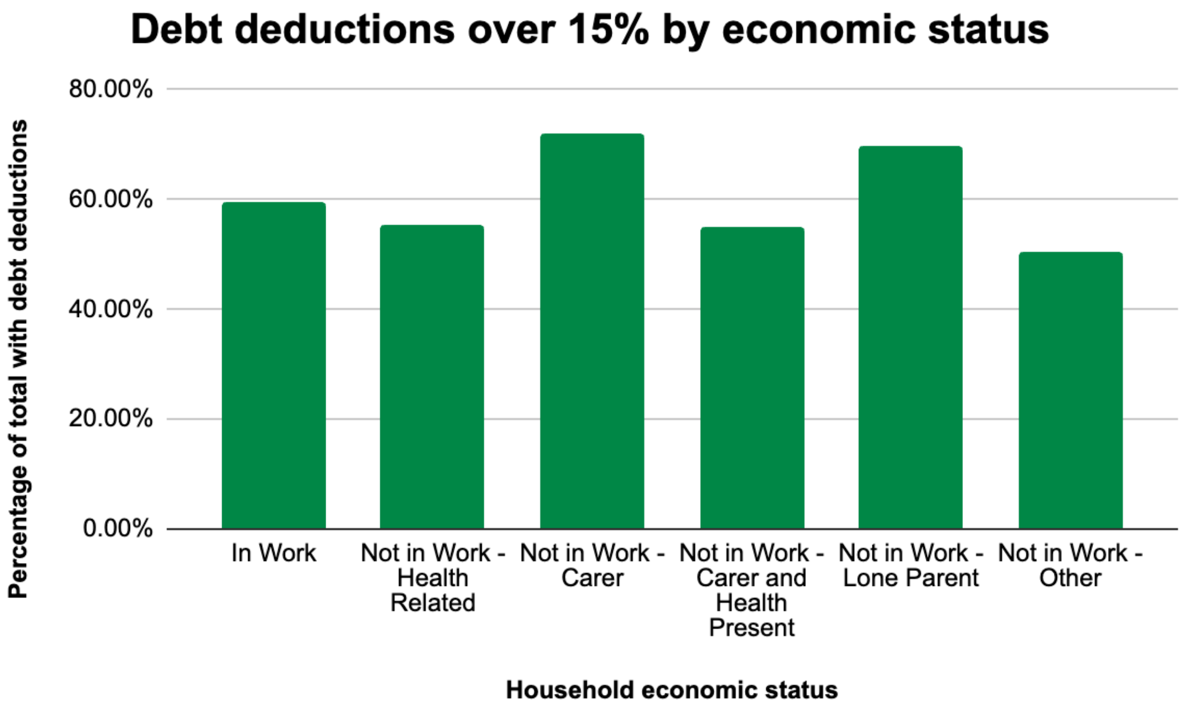

Figure 4: Percentage of households paying back debt with a deduction over 15% of their standard allowance compared to those currently receiving a debt deduction on their Universal Credit claim by economic status

Debt deductions

Distribution of debt deductions

54% of households within our dataset pay back debt through deductions made to their Universal Credit award. This is a higher rate than found in official Universal Credit statistics, with the latest rate being 45% in England overall[5].

Our dataset consists of households receiving both Universal Credit and Council Tax support. It does not cover non-householders without housing costs, either through renting, owning a property, or other housing circumstances with a council tax support claim. The additional cost of housing is likely to be the reason that the dataset shows a higher proportion repaying debt.

Distribution of deductions by household composition

Single households and those with three or more children are more likely to receive a debt deduction than other household types.

Households with children are most impacted by debt deductions (Figure 5). In our dataset, almost 60% of single parent households experience debt deductions and just under 50% of couples with children receive a debt deduction. For both single and couple households, having children increases the likelihood of experiencing a deduction.

[5] Universal Credit Statistics - deductions, September 2023 to August 2024. Department for Work and Pensions, updated 28 November 2024: https://www.gov.uk/government/statistics/universal-credit-statistics-29-april-2013-to-10-october-2024/02064108-7347-4e56-a5ad-5af71a9a0288

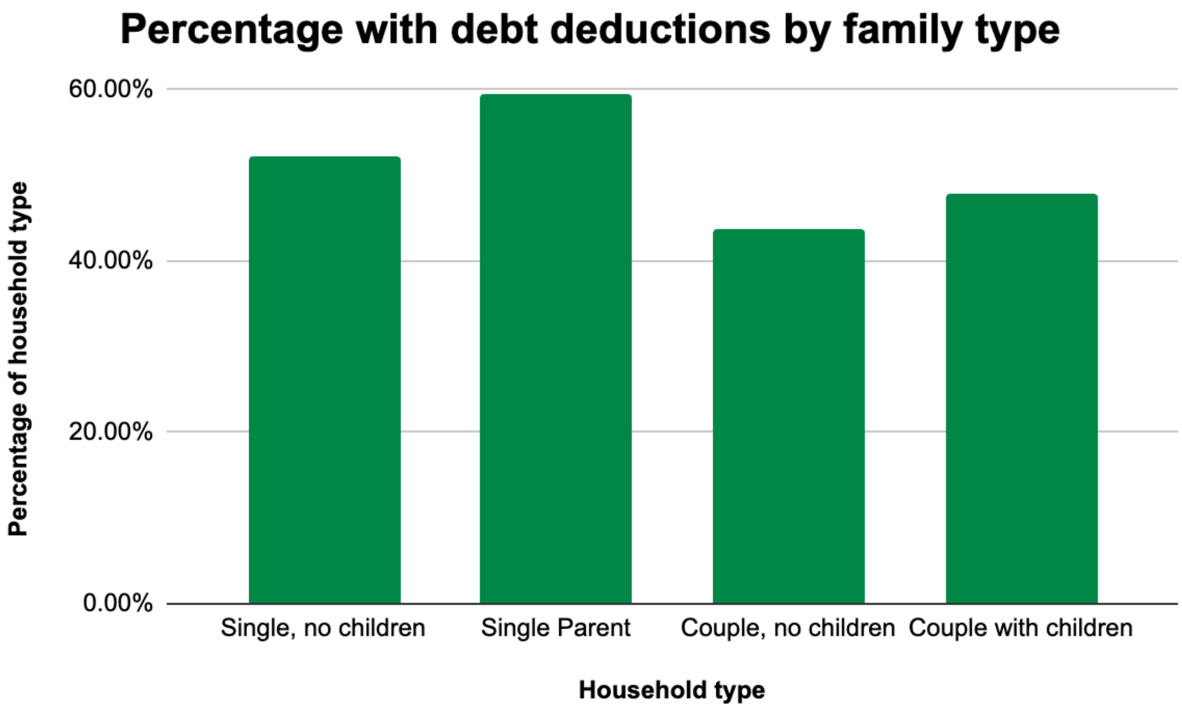

Figure 5: Percentage paying back a debt through a deduction to their Universal Credit award by family breakdown

Although having a child increases the likelihood of receiving a debt deduction, a claimant's relationship status is the most significant predictor of receiving a Universal Credit deduction. Single people are more likely to have a deduction, with or without children.

For those with children, the likelihood of receiving a debt deduction increases with the number of children. The most significant jump in proportion affected occurs between those with two children and those with three or more children.

As those with three or more children are likely to be affected by the two child limit, benefit awards for these households are further detached from the level of need. This may mean that the household is more reliant on loans from the DWP, or external creditors, for daily living or to absorb financial shocks.

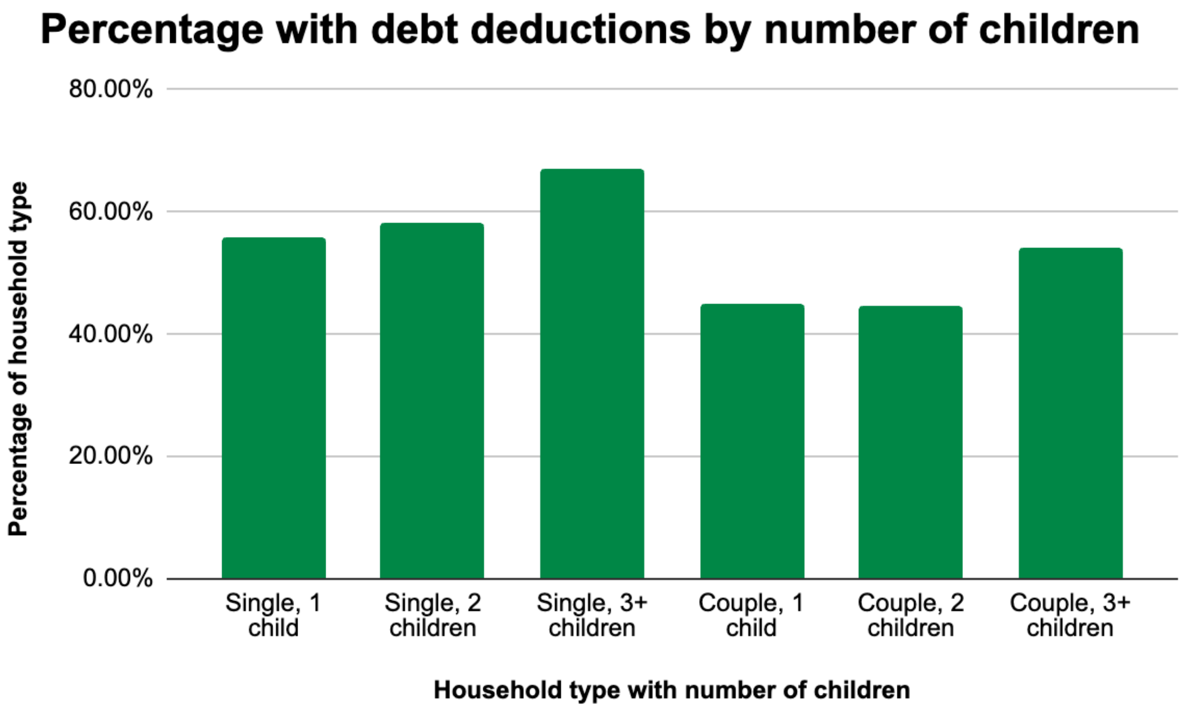

Figure 6: Percentage experiencing a debt deduction to their Universal Credit award by number of children

Distribution of debt deductions by economic status

Out of work households are more likely to experience a deduction than those in work. It is not simply the makeup of a family household that indicates whether a debt deduction will impact a household, but also their economic status.

As Figure 7 shows, out of work households in our dataset are more likely to experience a deduction. The likelihood of a deduction varies in respect of the reason for unemployment. Households that are unemployed due to caring responsibilities have the highest levels of deduction (over 64%).

It is not surprising that households with barriers to work are more likely to face deductions; many of these households have limited options in meeting increased cost or coping with financial shocks. They are also likely to be reliant on means-tested benefit for significant periods of time and therefore reliant on either DWP advances or external credit to meet costs.

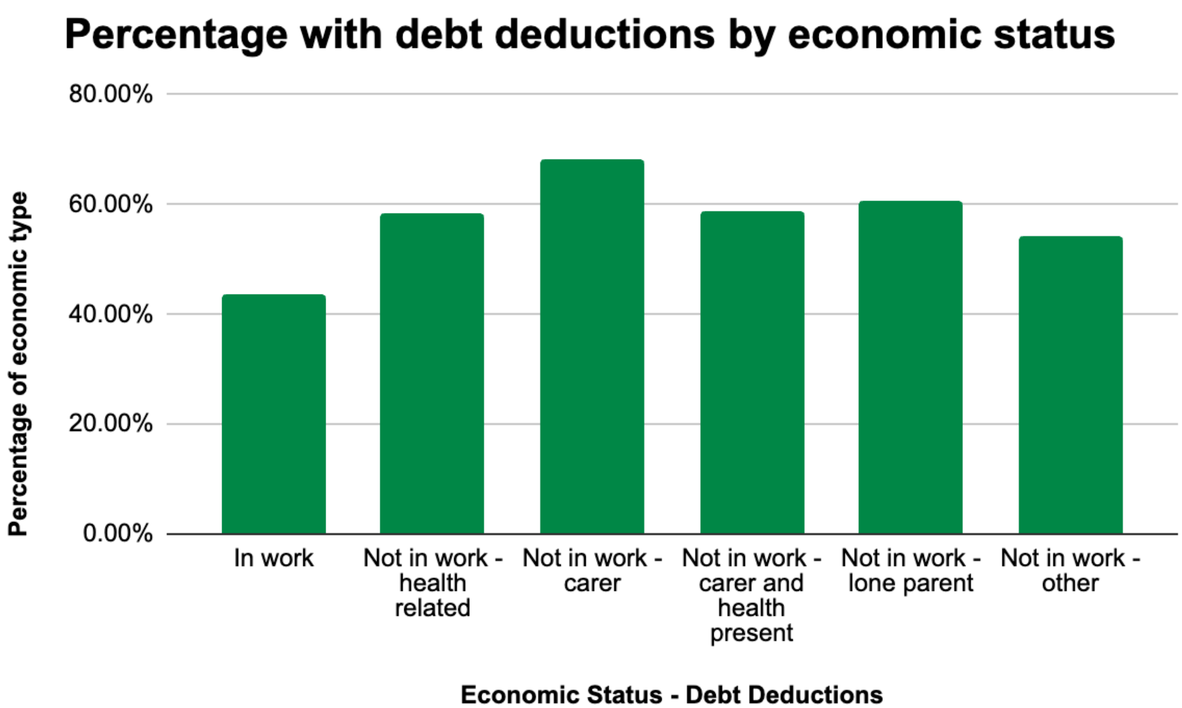

Figure 7: Breakdown of those with debt deductions by economic status and barriers to work

Distribution of debt deductions by Universal Credit element

Universal Credit awards include additions for specific circumstances of the claimant or household members, these are the Universal Credit elements. The presence of these elements in the data provides information on household circumstances and allows for analysis of impact by circumstances.

Debt deductions are disproportionately applied to households that receive either the disabled child element or the carer element, both over 60%. Households with a disabled child element are 15% more likely to be paying back a debt deduction compared to the sample overall.

Households receiving the disabled child element are likely to be in a vulnerable position and face significant barriers to work and have limited options on increasing their income. Therefore, it is perhaps not surprising that these households need to rely on debt from the DWP to meet household costs. The resulting debt repayments mean that these households risk ending up in an even more precarious financial situation.

Receipt of the transitional protection element of Universal Credit indicates that a household has moved to Universal Credit from legacy benefits. The term "legacy benefits" refers to benefits which were replaced by Universal Credit. These include Housing Benefit, Job Seekers Allowance, Employment and Support Allowance, and Tax Credits.

Following the introduction of Universal Credit, these households were moved over to Universal Credit in a process called managed migration. For these households, if their new payment on Universal Credit is lower than their payments on legacy benefits, they receive a temporary additional payment within their Universal Credit award called 'transitional protection'.

Of those receiving a transitional protection element, 56% also receive a debt deduction. This figure indicates that low income households moving to Universal Credit through managed migration are no more likely to receive debt deductions than those who claim overall. In other words, the move to Universal Credit and debts from legacy benefits do not appear to be significant factors in the likelihood of having debt deductions. However, due to this data being taken from a snapshot in the process of managed migration, this finding should be viewed with caution.

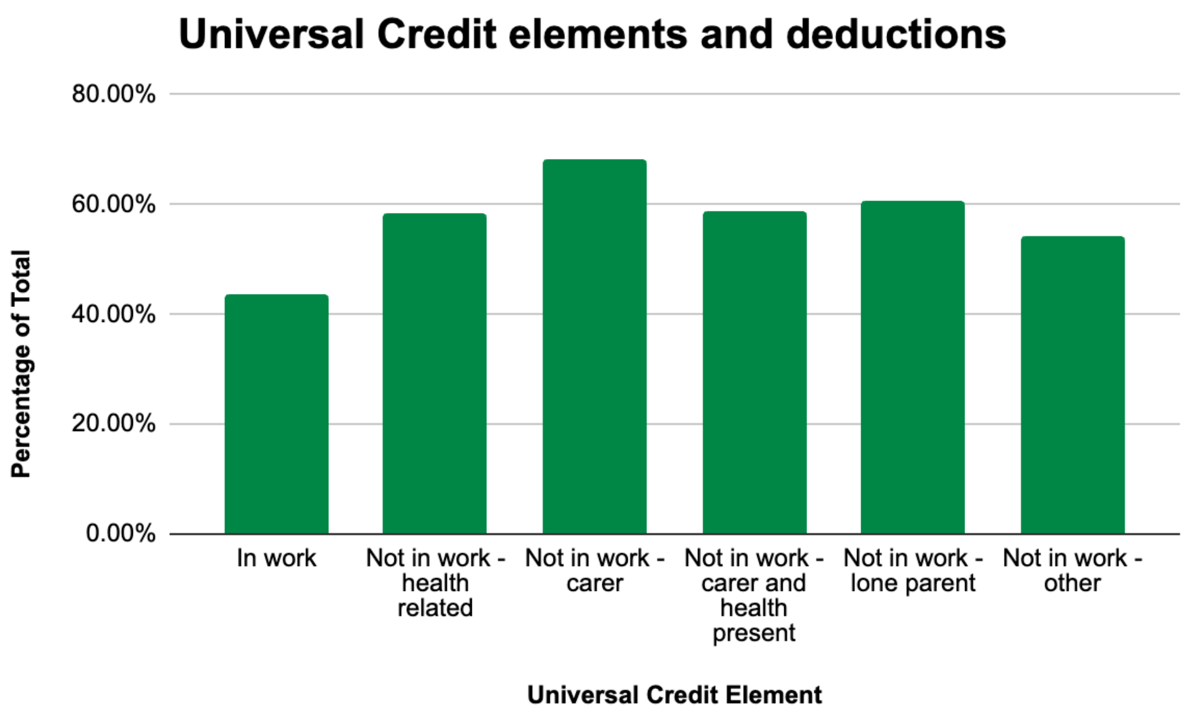

Figure 8: Breakdown of those paying back a debt through a deduction to their Universal Credit award by Universal Credit Element

Distribution of debt deductions by tenure

Households in the social rented sector are more likely to be subject to debt deductions with 60% of those households showing deductions for debt. This contrasts with 47% of those in the privately rented sector.

The interaction of debt deductions and benefit restrictions

Although there is a cap set on the amount that can be recovered for debt recovery in any month, this deduction sits alongside other deductions from full awards that were introduced to cap housing costs (LHA and bedroom tax) and to cap the total benefit received by a household (the benefit cap). This means that the total deduction from benefits, which are at historically low levels[6], can be significantly higher than the debt reduction cap of 15% of the standard allowance. Debt deductions are taken from full benefit awards after reductions due to housing caps and the benefit cap have been applied.

Since 2013 and the introduction of welfare reform, benefit levels have fallen below both the level of need of households and the cost of essentials.

Work by the Joseph Rowntree Foundation illustrates how the amount received for the standard allowance falls below that of the costs of essentials[7]. Indeed, the Universal Credit standard rate is currently at its lowest ever level as a proportion of average earnings at 13%.[8] This proportion does not factor in any reductions due to debt deductions or sanctions, so this may be a lot lower.

Debt deductions and housing support restrictions

55% of households that have a housing element lower than their total eligible rent and service charges also receive a debt deduction indicating that they are impacted by the Local Housing Allowance (LHA) or bedroom tax.[9]

Households in work are most likely to receive a housing element less than their total rent. Just over 44% of working households affected by a debt deduction also receive a housing element less than their total rent. For these households, the average reduction in housing costs is £240 and the average debt deduction is £71.

This means these households will receive a Universal Credit payment that sees both the standard allowance and the housing costs element reduced. On average, these households see their Universal Credit reduced by about 25% of the full award.

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6 https://neweconomics.org/2021/02/social-security-2010-comparison
7 https://www.jrf.org.uk/social-security/guarantee-our-essentials-reforming-universal-credit-to-ensure-we-can-all-afford-the
8 https://www.jrf.org.uk/social-security/inadequate-universal-credit-and-barriers-to-work
9 Internal reviews of the UCDS data indicates that ineligible service charges can occasionally be included within this data. Furthermore, this likely also underestimates the scale of the issue as often when a claimant's total rent is higher than the relevant Local Housing Allowance, this capped amount can often be entered as the total rent rather than the true figure.

Debt deductions and the benefit cap

52% of households that are benefit capped also have a debt deduction. Amongst these households, the average reduction for the benefit cap is £290 a month and the average debt deduction is £74, a total decrease of £364 from their full award.

Multiple deductions

45% of households affected by both the benefit cap and rent restrictions also have debt deductions. These households experience three reductions from full awards leaving the amount of support received significantly lower than set benefit levels.

Distribution of debt deductions: Summary of findings

The introduction of a Fair Repayment Rate, capped at 15% of the standard allowance, will have a significant positive impact on affected households. It is also an effective way of getting more money to households with children. Although this measure is welcome it does not address the issue of deductions being made from low levels of benefit awards increasingly separated from need and different forms of welfare reform.

Benefit award levels have, over time, been disaggregated from need and it is generally accepted that current levels do not meet basic costs for many households. Any amount of reduction from full awards will undoubtedly cause hardship for many families and the reduction in the repayment cap will lead to many households living on these reduced awards for extended periods of time.

This analysis shows that 54% of households in our dataset had deductions from full awards and distribution is not uniform across household types.

Single person households and households with three or more children are most likely to see a deduction. These cohorts have been disproportionally affected by benefit reforms, such as through the two child limit, and so their benefit is likely to be most disaggregated from need.

The analysis indicates that deductions disproportionally affect those that have seen reduced benefit levels or face barriers to work. For these groups, there is little option but to rely on debt to meet costs.

Given the long term nature of most barriers to work, reduction from benefits to cover repayment is likely to lead to a spiral of income reduction due to debt repayment leading to further borrowing and more debt.

In order to prevent the development of crises for households in debt, the debts recovered by DWP would need to sit within a debt recovery plan that takes account of the full financial picture, including debts not visible within their data.

In addition, the high proportion of those with barriers to work being affected by debt deductions suggests that a minimum level which income cannot fall below, aligned to need and including all forms of reductions from a benefit award, would be more beneficial than retaining the reduction cap which risks pushing some households into crisis. The full depth and breadth of impact in relation to poverty and housing affordability is explored later in this report.

Given the current restrictions on government spending it is unlikely that the Government would increase benefit levels to align with need any time soon and a capped deduction is likely to be retained.

Our analysis of the interaction of debt reductions with other benefit deductions, housing cost deductions and the benefit cap, indicate a significant proportion of households affected by multiple deductions. In this context, the cap on deductions doesn't work as it applies to only one of these deductions. If other deductions are to remain within the benefit system, it is crucial to have a reduction cap which covers all deductions from full awards.

Conditional sanctions

The proportion of households affected by a sanction visible within the sample dataset differs significantly from the official DWP figures. The sanction rate in our data was 1.4% of households, compared to the official DWP figure of over 6% for the same time period.

The dataset used in this report consists of households that receive Universal Credit and Council Tax support. Sanctions disproportionally affect single non-householders under 25 and these are not visible within our dataset. Sanction rates also vary regionally, varying from a low of 4% in Scotland and Wales to a high of 11% in London.

As sanctions are arguably behaviorally driven, geographical differences could be expected and natural. General trends of sanctions are also said to be maintained regionally with the largest variation coming within regions compared to cross-regionally, with this variation decreasing over time since a full roll out of Universal Credit in 2018.[10] Yet, the high degree of variation in sanction levels raises concerns that policies are not being consistently applied across all job centres.

Although our dataset seeks to contain a geographically representative combination of local authorities from all areas of Great Britain, this may mean that regions with a higher proportion of sanctions are underrepresented in our data.

Sanctions: Distribution by demographic groups

Single households without children are most likely to be impacted by conditional sanctions, with an effective sanction rate of 1.9% whilst making up over six in ten (60%) of the total number sanctioned.

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[10] Variation in the Universal Credit sanction rate between jobcentres from January 2017 to August 2024, Department for Work and Pensions, https://www.gov.uk/government/publications/variation-in-the-universal-credit-sanction-rate-between-jobcentres-from-january-2017-to-august-2024/variation-in-the-universal-credit-sanction-rate-between-jobcentres-from-january-2017-to-august-2024

Household type	Sanction rate for group	Percentage of total number sanctioned
Single, no children	1.9%	60.3%
Single parent	0.9%	26.8%
Couple, no children	1.1%	3.0%
Couple with children	1.4%	10.0%

Figure 9: Sanction rate by household type and percentage of total sanctioned

Level of sanction

The level of reduction through sanctions that a household will receive is based on the level of sanction that they have been given. This is related to which work related activity group a household is in. Unless the recipient of a sanction is aged 16 or 17, then a claimant's Universal Credit standard allowance will be reduced by 100% a day for the length of the sanctioned period.

Most Universal Credit claimants receive 'low level' sanctions for failing to complete an activity 'without good reason'. These sanctions last from when a person failed to do the activity they were sanctioned for until they complete the activity, plus a fixed number of days. This fixed number of days is normally 7.

This means that a person is likely to receive a sanction that is a high percentage of their standard allowance for a month. Indeed, when issuing a sanction, the DWP are more likely to sanction households such that they lose a majority or all their monthly standard allowance.

Sanctioned couples are most likely to have a sanction rate of 40% to 50% of their monthly standard allowance and most sanctioned single people are likely to have a sanction set at 90% of their monthly standard allowance. The maximum sanction for a couple with one member sanctioned is 50% of the couple's standard allowance. For a single person it is 100% of the standard allowance a day.

The latest DWP release of statistics states that over 90% of the sanction decisions given in the quarter to July 2024 were for a failure to attend or participate in a mandatory interview[11]. This may be part of a policy to increase the pressure on claimants to find any job and to increase the chance of a claimant stopping a claim.

Percentage of sanctions	Percentage group, single households	Percentage of couple
=>0, <10	2.0%	6.38%
=>10, <20	2.8%	9.22%
=>20, <30	5.9%	11.35%
=>30, <40	5.5%	8.51%
=>40, <50	7.0%	50.35%
=>50, <60	5.8%	5.67%
=>60, <70	5.6%	1.42%
=>70, <80	4.7%	0.71%
=>80, <90	5.5%	0.71%
=>90, <100	52.7%	4.26%
100	2.6%	1.42%

Figure 10: Rounded percentage of standard allowance grouped by 10% by relationship status

94% of sanctions are applied to households that are unemployed and without barriers to work.

Distribution of sanction deductions: Summary of findings

The conditionality regime and inclusion of sanctions within a Universal Credit award is seen as the underlying ‘stick’ or the enforcement of an agreement that a person makes to receive

[11] Benefit sanctions statistics to August 2024, Department for Work and Pension, Updated November 15th 2024: https://www.gov.uk/government/statistics/benefit-sanctions-statistics-to-august-2024/benefit-sanctions-statistics-to-august-2024

welfare benefits. Successive governments, including the current Labour government, often see this conditionality as key to the public acceptance of welfare provision. However, this research contributes to a growing body of research highlighting how conditionality risks being punitive and may be applied without consideration of individual circumstances.[12]

Although not as widespread as debt deductions, affecting only 1.5% of households within our data, as shown later in this report, the impact of sanction deductions is considerable.

Sanctions are primarily applied to unemployed households without barriers to work and are typically given following non-attendance at a DWP meeting or interview. They are usually applied at the maximum possible level (100% of standard allowance for a single person and 50% of the couples allowance for a couple). These are significant reductions leaving the affected household with no income for day to day costs.

The analysis shows that sanctions often result in households seeing their standard allowance reduced by a significant amount. This reinforces the impression that they are likely to be applied without any individual assessment of need and likelihood of crisis. This attitude is even more unreasonable given that over 81% of sanction decisions taken to appeal are overturned[13].

It would be preferable if sanctions were capped, and levels set individually, taking account of household needs and circumstances. In addition, if these households are forced into deep poverty and/or homelessness by the removal of any means to pay for living costs, it is likely to cause a cost impact to other areas of public expenditure.

Sanctions may therefore be a false economy, representing a large reduction in support in the short term, followed by a higher likelihood of additional support costs for local authorities or other organisations at a later date.

[12] Benefit Sanctions: A Presumption of Guilt, Public Law Project, https://publiclawproject.org.uk/resources/benefit-sanctions-a-presumption-of-guilt/
[13] https://www.advicenow.org.uk/get-help/benefits/universal-credit-uc/challenge-universal-credit-sanction

Impact of debt deductions on housing affordability

This report uses the Office of National Statistics (ONS) definition to measure housing affordability. This measure determines that a property is affordable when a household's contractual rent is 30% or less of the total income[14].

Affordability is related to several aggravating factors that lengthen the distance between the support a household receives and its level of need. These factors include welfare reforms such as the bedroom tax or the Local Housing Allowance, whether the benefit cap or the two child limit affects a family, or whether a household is in council or rent arrears.

Is housing affordability affected by debt deductions?

Overall, the application of debt deductions has a limited direct impact on the proportion of low income households deemed to be in unaffordable accommodation.

This is as unaffordability of housing is a reality for many low income households before any debt deductions are applied. As Figure 11 shows, 52% of households live in unaffordable housing before any deductions are taken from a family's Universal Credit payment indicating that wider factors such as total levels of income or the cost of rent has an inherent influence on the affordability of housing.

In this case, as most households are already in unaffordable housing, debt deductions rather play a role of increasing the depth of unaffordability rather than pushing households into unaffordable housing.

[14] This report uses total contractual rent as receiving in the Universal Credit Data Share. However, an internal review indicates that where a household is privately renting with a total rent above the Local Housing Allowance (LHA), the LHA cap can be entered as the maximum LHA rather than the true rent. This would mean that results within this report could underestimate the true issue of housing affordability for those in privately rented properties.

Housing affordability and debt deductions by housing sector

Housing sector is the most important factor in determining affordability; 43% of households in the social rented sector live in unaffordable housing, and this rises significantly to 85% in the private rented sector.

Housing affordability - Rent 30% or more of total income	Percentage of total with housing element	Percentage of those in social housing	Percentage of those in PRS housing
Unaffordable before deductions: Overall	56.8%	43.4%	84.7%
Unaffordable after deductions: Overall	58.5%	45.5%	85.3%

Figure 11: Housing unaffordability of rent being 30% or more of total income by housing sector before and after any deductions

Although those in social housing are less likely to be in unaffordable housing before any debt deductions than those in the private rented sector, they face the largest increase once debt deductions are taken into account. For those in social housing, there is an increase of 2.1 percentage points, compared to 0.6 percentage points for those in the private rented sector.

As low income families in the privately rented sector face higher rents than those in the social housing sector, the majority of families already live in unaffordable housing. Further reductions in support through debt merely deepen the unaffordability.

Housing affordability and debt deductions by household composition

Household affordability and the impact of debt deductions varies with household composition. Single people have the greatest likelihood of living in unaffordable housing both before and after the application of debt deductions. 69% of single claimants with no children live in unaffordable housing before any deductions are made, and this number increases to over seven in ten following deductions.

Couples without children are the least likely to live in unaffordable housing, with less than four in ten living in unaffordable housing before any debt deductions, compared to 49% of single parents.

The impact of debt deductions is greatest amongst single parents who see an almost 2 percentage points increase in the proportion living in unaffordable accommodation. Couples with children are the most resilient with a rise of less than 1 percentage point in the number of households with unaffordable housing following the application of debt deductions.

Household type - Family	Percentage of total in unaffordable housing before deductions	Percentage of total in unaffordable housing after deductions
Single, no children	69.1%	70.7%
Couple, no children	40.0%	41.3%
Single parent	48.7%	50.6%
Couple with children	46.2%	46.6%

Figure 12: Percentage of total with housing element paying more than 30% of income on rent before and after deductions are taken from Universal Credit award by family make up

Housing affordability and debt deductions by economic status

Unemployed households without barriers to work have a high likelihood of living in unaffordable accommodation (86%). Over 40% of these households pay more than half their income on rent. This increases by 2 percentage points following the application of deductions. Yet, unemployed single parent households face the largest increase in those living in unaffordable housing following debt deductions, almost three percentage points.

Households where both the carer element and a health related element are present are the least likely to live in unaffordable housing and are also the least likely to be impacted by deductions of any kind.

Household type - Economic status	Percentage paying more than 30% before debt deductions	Percentage paying more than 30% after debt deductions
In work	63.0%	63.8%
Not in work: Health related	42.2%	44.2%
Not in work: Carer	45.1%	47%
Not in work: Carer and health present	14.1%	14.9%
Not in work: Lone parent	63.6%	66.8%
Not in work: Other	86.7%	87.6%

Figure 13: Percentage of households living in unaffordable housing by paying 30% of their income on rent by their economic status

Aggravating factors for housing affordability

Aggravating factors such as the benefit cap, two child limit, the bedroom tax or Local Housing Allowance, and arrears are significant predictors of household unaffordability before any debt deductions are considered.

Almost six in ten households facing a reduction in their Universal Credit award due to the benefit cap, the bedroom tax or LHA rate, the two child limit, or who currently have rent, or council tax arrears live in unaffordable housing.

Indeed, these households are more likely to live in the socially rented sector, placing them at the intersection of multiple structural factors limiting their income and increasing rents. Over six in ten of these households live in the private rented sector indicating that this issue is more prevalent here than in other sectors.

As Figure 14 shows, the more a household is impacted by welfare reform or wider financial circumstances the more likely a family is to live in unaffordable housing. Where households have multiple aggravating factors, the impact of debt deductions is minimal on whether housing is affordable as this has already been decided by the additional factors.

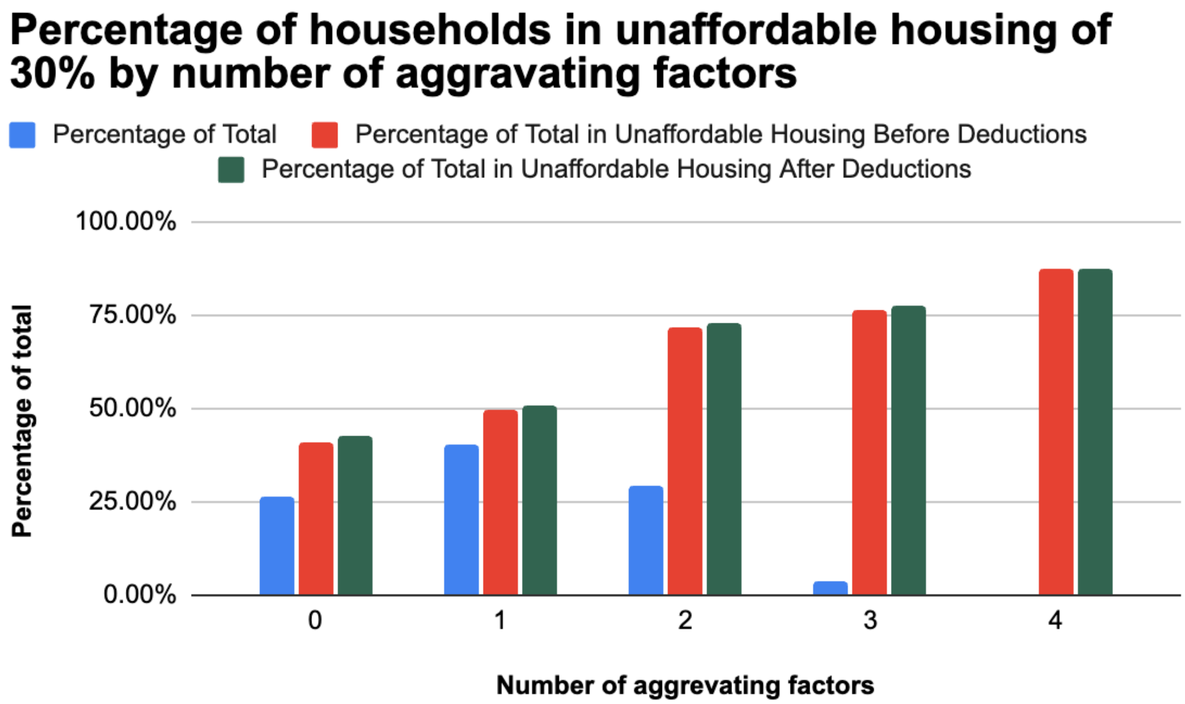

Figure 14: Housing affordability of spending 30% or more of income on rent by the number of aggravating factors

Sanctions and housing affordability

Those who receive sanctions are more likely to be in unaffordable housing before any sanctions or deductions are taken. Over 75% of households that are sanctioned and receive a housing element are already in unaffordable housing before the sanction is applied. For those households already living in unaffordable housing, sanctions push affordable housing further out of reach.

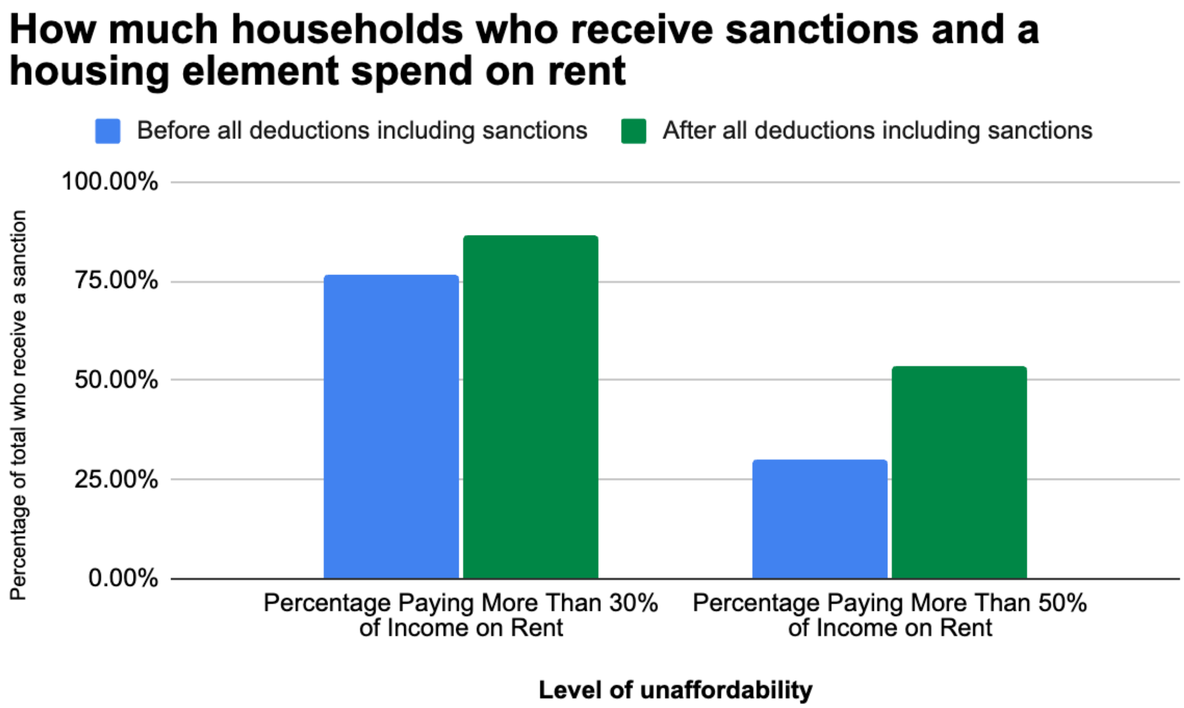

Figure 15: Percentage of total income spent on rent for those who receive a sanction and also receive a housing element

The impact of debt deductions on the depth of unaffordability

Debt deductions have little impact on making housing unaffordable with unaffordability determined by numerous other factors. However, for those already in unaffordable housing, the impact of debt deductions increases the depth of unaffordability and with it the risk of eviction and homelessness. As can be seen from the table below, the deductions for a single person household and for unemployed households without barriers to work represent approximately 5% of their rent costs.

Household type	Average rent	Average total deductions	Percentage of total rent lost through deductions
Single, no children	£706.56	£38.48	5.45%
Single parent	£1,114.56	£43.72	3.92%
Couple, no children	£1,046.84	£41.35	3.95%
Couple with children	£1,488.53	£44.97	3.02%

Figure 16: Average rent and average total deductions by family make up for those in unaffordable housing after deductions

Economic status	Average rent	Average total deductions	Percentage of total rent lost through deductions
In work	£1,476.47	£41.23	2.79%
Not in work: Health related	£804.41	£35.12	4.37%
Not in work: Carer	£950.66	£45.68	4.81%
Not in work: Carer and health present	£1,361.18	£53.01	3.89%
Not in work: Lone parent	£1,111.39	£42.31	3.81%
Not in work: Other	£777.13	£42.73	5.49%

Figure 17: Average rent and average total deduction by economic make up for those in unaffordable housing after deductions

The impact of deductions on locally administered benefits

Debt deductions and sanctions undoubtedly have an impact on the depth of poverty and the ability of households to meet housing costs. They also have an impact on a claimant's ability to meet council tax charges. Council tax charges are inherently linked to housing affordability as they are an additional cost derived from living, and renting, in a local authority area.

Since 2012, councils have been able to design their own council tax support schemes for working age households. This has led to a wide range of support offerings. In some areas, an unemployed claimant would not be expected to pay any council tax charge, in other areas, they may have to pay up to 50% of their council tax liability.

Sanctions and deductions limit the amount available for household bills and are likely to have a significant impact on the ability of claimants to meet any residual council tax liability after the application of any council tax reduction. This will be exacerbated in those council areas with the least generous support schemes.

It is worth noting that this localisation of council tax liability is not considered in the calculation of benefit levels nor in the setting of the deduction cap or sanction levels. These are all set nationally.

Councils do have the ability to take account of actual income, rather than full Universal Credit within certain localised support schemes. Working age council tax support and Local Welfare Allowance schemes are locally designed and therefore could account for actual income received. Other local provisions, such as Discretionary Housing Payments and the Household Support Fund explicitly state that income pre deductions should be considered.

However, councils are unlikely to design local schemes that take account of income after deductions and sanctions as it may be deemed to reward those who do not budget or do not meet their claimant commitment.

Nevertheless, councils should be encouraged to take account of the ability of a household to meet a council tax charge based on how much income would be available *after* application of debt deductions at the Fair Repayment Rate.

In particular, the maximum liability for groups with the greater likelihood of deductions, such as households with child disability should be carefully considered. Not doing so risks households already in debt accumulating further debt.

Debt deductions and housing affordability: Summary of findings

Debt deductions have a minimal effect on the proportion of households in unaffordable accommodation. This is due to housing affordability being determined by other factors such as the rental sector and aggravating factors such as the two child limit, the benefit cap, and housing support restrictions.

Unaffordable housing is a way of life for many low income households, even before debt deductions, with 85% of households in the private rented sector living in unaffordable housing and 43% of those in the social rented sector living in unaffordable housing. Nevertheless, the impact of debt deductions on housing affordability is not uniform.

The greatest impact is on single parents and those with both caring responsibilities and ill health. Those with caring responsibilities see an increase of over 2 percentage points, whilst unemployed single parents see an increase of 6 percentage points once debt deductions are taken.

Sanctions have a greater impact on the likelihood of housing becoming unaffordable with the proportion living in unaffordable housing rising from 75% to 85% once sanctions are applied. The high proportion of households with unaffordable housing prior to being sanctioned suggests that individual housing crises may play a part in a person's ability to cope with the demands of the claimant commitment.

Even though debt deductions have little direct impact on whether housing is affordable, it is likely to have an impact on the ability of the claimant to cover the rent. Shortfalls in rental costs must be made from a claimant's standard allowance. Reductions in this allowance reduces the ability to make up the shortfall. In some instances, debt deductions equate to 5% of rental costs. For a household that is likely to be facing a significant housing shortfall, the need to find an additional 5% of their rent from any remaining benefit may prove impossible.

Reduced Universal Credit awards following applications of debt repayments and sanctions will also have an impact on the ability of a household to meet council tax charges. Council tax support levels are set locally, and councils should be encouraged to take account of residual income after deductions when setting the council tax contribution expected from Universal Credit claimants. Council tax schemes that do not take account of the ability of households to pay, after deductions have been taken from Universal Credit, risk pushing those in debt into further debt.

Policy in Practice

LLOYDS BANK FOUNDATION England & Wales

Impact of sanctions and debt deduction repayments on poverty levels

A significant proportion of low income households will be deemed to be in poverty under all poverty measures. The impact of debt deductions on poverty is likely to be more relevant to the depth of poverty than the breadth. Policy in Practice's LIFT platform uses household income and estimated outgoings to determine the shortfall in income. Households with income below expenses, those in a negative budget, are deemed to be in crisis.

The impact of debt deductions on households in crisis

Before any deductions are taken from a Universal Credit award, many low income households are already in crisis and at risk of deep poverty. Deductions from awards at this level push households further into financial hardship and crisis.

Impact by family composition

Single person households without children are most likely to already be in crisis; 18% of these households have an income below their estimated costs before any debt deductions are made. Once deductions are made for debt repayments, this figure increases to almost 25%.

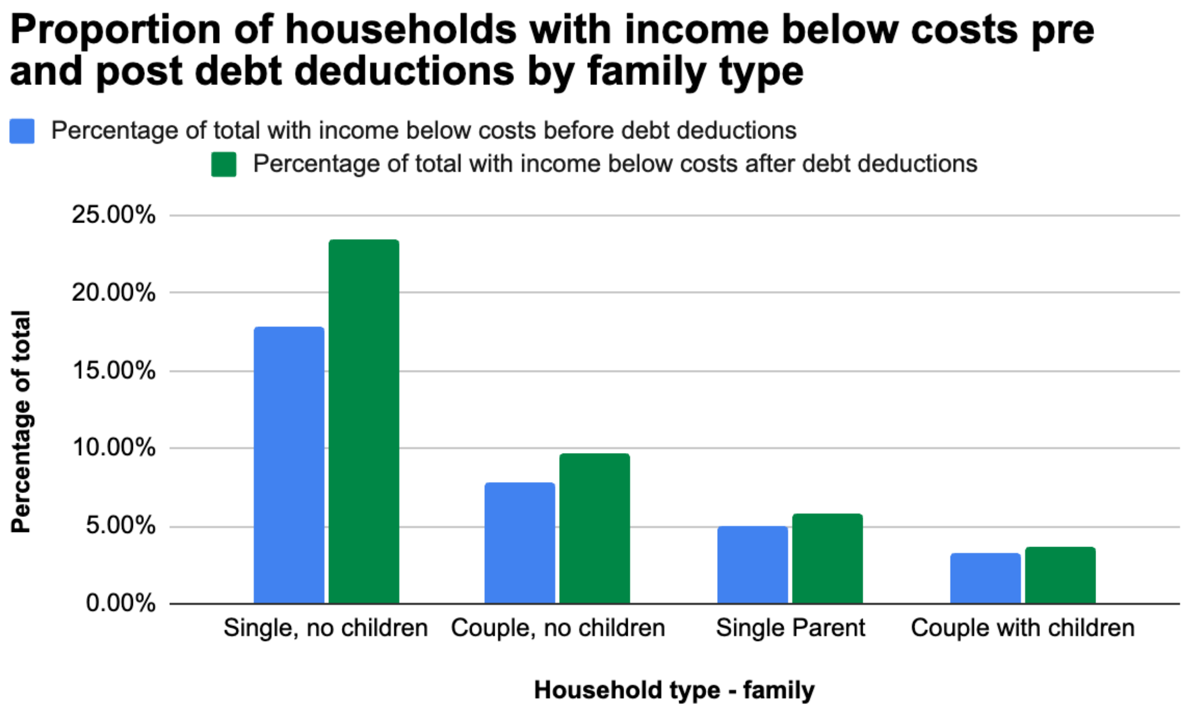

Figure 18: Percentage of households with incomes below their estimated costs by family type before and after deductions for debt repayments

Impact by economic status

32% of households that are unemployed without barriers to work have costs above their level of income. Once debt deductions are taken, this increases to 43%. A household in poverty and facing financial hardship is at a much greater risk of both developing and worsening health conditions [15] which may push them further from the labour market.

[15] Poverty taking a heavy toll on UK's health and NHS services, The King's Fund, 18 March, 2024: https://www.kingsfund.org.uk/insight-and-analysis/press-releases/poverty-health-nhs-services

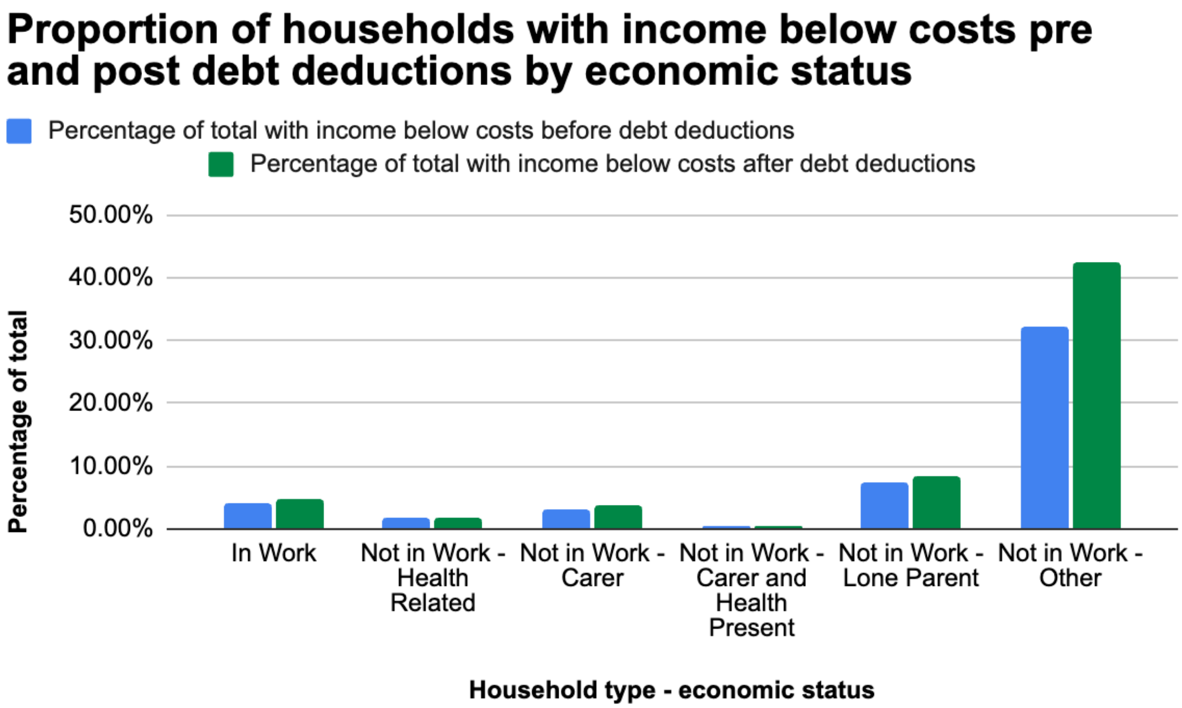

Figure 19: Percentage of households with incomes below their estimated costs by economic status before and after deductions for debt repayments

Impact by tenure

Almost one in four households living in the privately rented sector have costs higher than income, even before deductions for debts are taken from their Universal Credit awards.

Those in the socially rented sector face both a lower likelihood of debt deductions pushing them into crisis, and a lower chance of having an income below costs before debt deductions are taken. Yet, after debt deductions are taken, over one-in-ten households living in the socially rented sector face costs above their level of income.

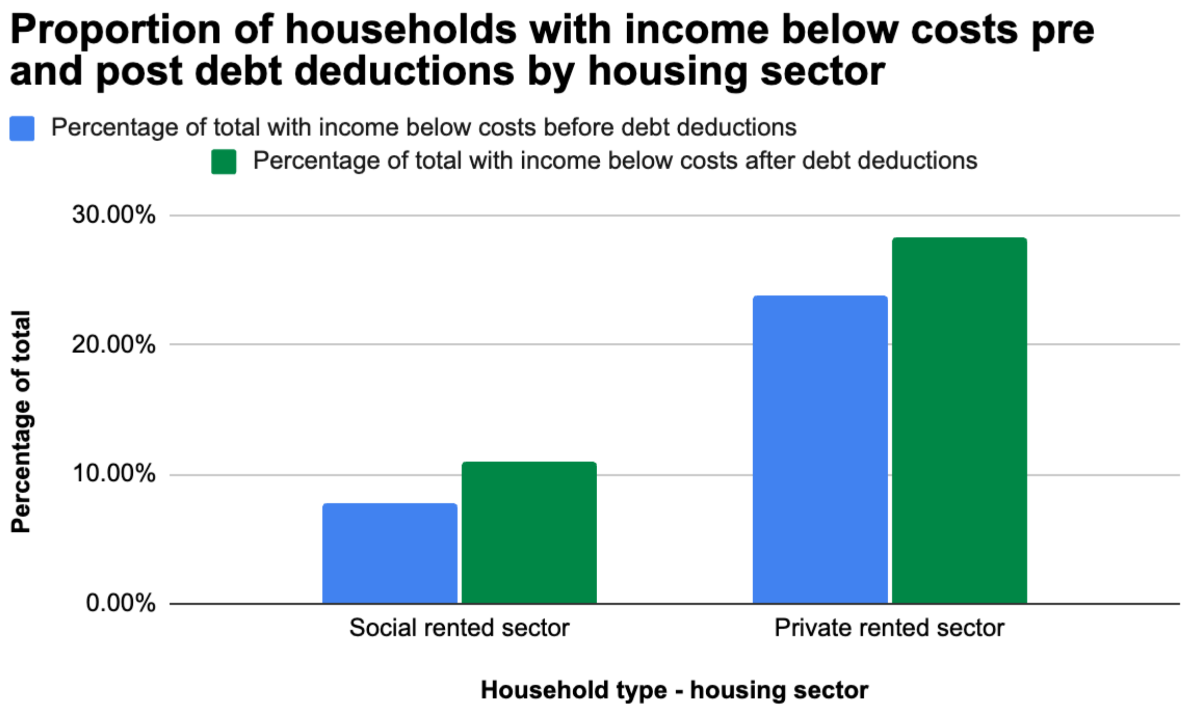

Figure 20: Percentage of households with incomes below their estimated costs by housing sector before and after deductions for debt repayments

Impact by number of aggravating factors

Negative budgets are correlated with the number of aggravating factors in play. Aggravating factors are additional reductions to benefit support and wider visible arrears. These include rent or council tax arrears, the benefit cap, reductions in support due to the two child limit and reductions in housing support through either the bedroom tax or the Local Housing Allowance.

Over 50% of households with four of these pressures will be in a negative budget.

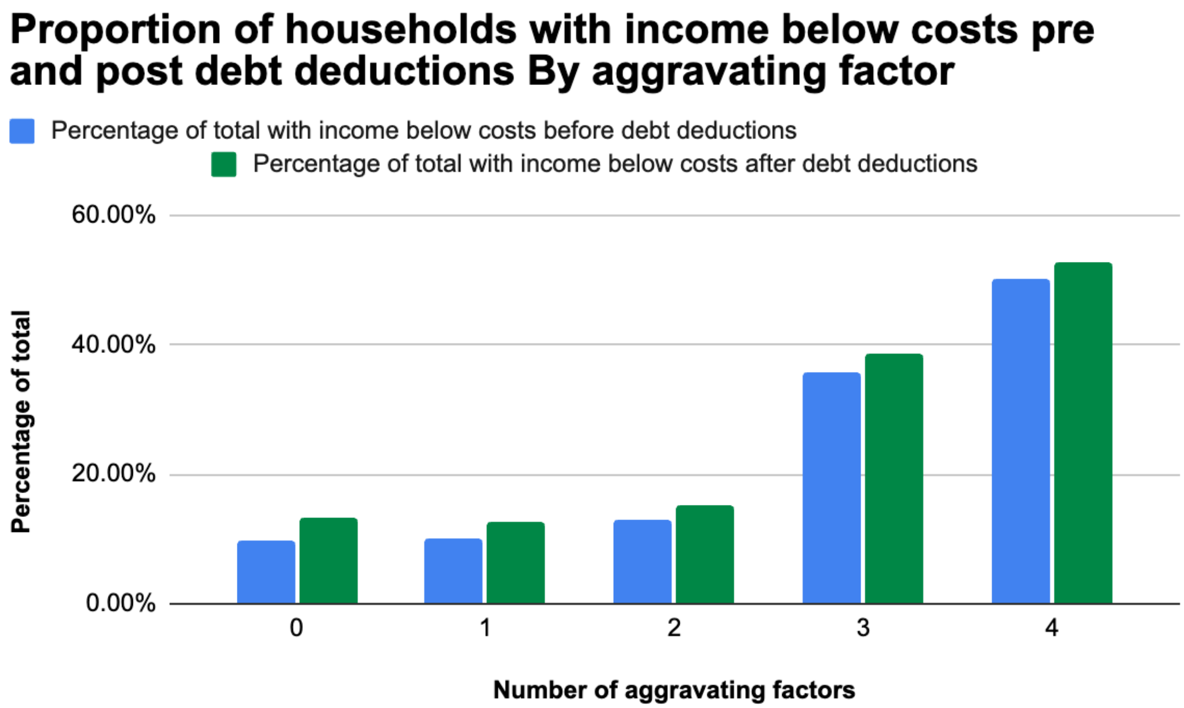

Figure 21: Percentage of households with incomes below their estimated costs by number of aggravating factors before and after deductions for debt repayments:

Depth of income shortfall before and after debt deductions

The depth of a household's negative income is a significant predictor in whether they can find a way to meet any shortfall. A household that moves to a negative income following deductions will have an average negative income of £234 a month following deductions. For those who are in a negative budget before any deductions being made, the average shortfall is £292 a month after deductions.

Amongst households with a negative budget prior to deductions being applied, most have income just below costs. However, a significant number have estimated costs of £200 a month or more greater than their income, with some facing deficits of over £500 a month.

Households with children see a deeper shortfall between income and costs than those without children. As seen in Figure 22, for households in a negative budget prior to debt deductions, these deductions push them deeper into crisis.

Household type - Family	Average negative income before deductions	Average negative income after deductions	Increase
Single, no children	-£226	-£268	-£42
Single parent	-£337	-£380	-£43
Couple, no children	-£282	-£326	-£44
Couple with children	-£429	-£466	-£37

Figure 22: Average income after costs for households in a negative budget before debt deductions by family composition

When a household receives a health related benefit and is in a negative budget, it is likely that they are already facing a large deficit in their budget. Further debt deductions push them deeper into crisis and puts them at. Surprisingly, for households in work negative budgets are at similar levels to non-working households and they face a decrease of an average of £34 to their income following debt deductions.

As Figure 23 shows, households across all categories of economic status who are in a negative budget move deeper into crisis following the application of debt deductions. For those who are unemployed, and either receiving a carer element or a lone parent, debt deductions result in an increase of over 10% in their initial negative budget.

Household type: Economic status	Average negative income before deductions	Average negative income after deductions	Increase
In work	-£379	-£413	-£34
Not in work: Health related	-£474	-£502	-£28
Not in work: Carer	-£359	-£401	-£42
Not in work: Carer and	-£525	-£553	-£28

health present			
Not in work: Lone parent	-£323	-£366	-£43
Not in work: Other	-£215	-£258	-£43

Figure 23: Average income after costs for households in a negative budget before debt deductions by economic status

Impact of sanctions on the depth of poverty

Sanctions significantly impact both the likelihood of a negative budget and the severity of the crisis for affected households once implemented. Almost one in three (30%) sanctioned households face a negative budget before a sanction is implemented. Once a sanction is taken, this increases to almost two thirds of households (60%).

As previously noted, the high levels of unaffordable housing before sanctions were imposed suggest that a household's financial instability may significantly impact a person's ability to meet their claimant commitment, increasing their risk of being sanctioned.

The household type that a family lives in also plays a role in the depth of the hardship that sanctions place on them. Although households with a negative budget before sanctions have a slightly lower negative budget on average, the increase in their shortfall is significant with households with children falling to a shortfall of over £500 a month.

Household type - Family	Average negative income before deductions	Average negative income after deductions	Increase
Single, no children	-£164	-£439	-£275
Single parent	-£216	-£503	-£287
Couple, no children	-£142	-£381	-£239
Couple with children	-£320	-£574	-£254

Figure 24: Average income after costs for households in a negative budget before sanctions are taken by family composition

The depth of impact that sanctions have on household costs also changes depending on the economic status of a household. This is likely due to the small number of households who are in work and receive a sanction, and the availability of other income which leads to less reliance on Universal Credit.

As most households being sanctioned are currently unemployed with no other barriers to work, or unemployed lone parents, these households face the largest increase in hardship once sanctions are applied. Both these groups see an increase of £300 a month to an already large deficit.

It remains to be seen whether sanctions are the correct policy for supporting these households back into employment, or whether these sanctions push households that are already in financial hardship further away from the labour market.

Household type: Economic status	Average negative income before deductions	Average negative income after deductions	Increase
Not in work: lone parent	-£216	-£503	-£287
Not in work: other	-£165	-£439	-£274

Figure 25: Average income after costs for households in a negative budget before sanctions are taken by family composition

Summary of findings: Impact of deductions on poverty

Before any deductions are taken from a Universal Credit award, many low income households are already in crisis and at risk of deep poverty. Approximately 10% of households are unable to meet costs prior to deductions. Deductions from awards push these households further into financial hardship.

Debt deductions have a noticeable impact on the proportion of households that cannot meet costs. For couples with children the proportion unable to meet costs rises from 18% to 25%. This is a significant finding for policy makers as the local council will have an obligation to look after the children and house the family.

The cost of intervention following a crisis is likely to be greater than if the crisis had been prevented. Unemployed households without barriers to work also face a steep rise in the proportion unable to meet costs following deductions, with this increasing from 25% to 35%. For these households, deeper poverty may impact their ability to move back to work.

For households with a negative income, the extent of the shortfall plays a crucial role in determining whether they can find a way to fix it. Our analysis shows that the increase due to deductions can be significant, with shortfalls increasing by up to £44 a month, on average, for couples with children. If the shortfall becomes too large for a household to meet by other means, such as borrowing, the cost of supporting the family will fall to the local authority.

Conclusion and policy recommendations

Debt deductions and sanctions have a significant impact on households' incomes and their ability to manage costs. They increase the depth of poverty and the unaffordability of housing and risk pushing households already living in unaffordable housing closer to homelessness.

The government's move to a Fair Repayment Rate of 15% is an encouraging step and, as households with children were the most likely to be repaying debts at a rate higher than 15%, it targets some of the households most in need.

The Fair Repayment Rate will lead to an increase in household income from April 2025, but this comes with a side effect; households face a longer period to repay so they must manage for longer periods on reduced amounts of income.

The Fair Repayment Rate applies to debt deductions only and does not consider other reductions introduced as part of welfare reforms, such as the bedroom tax, the local housing allowance, the two child limit and the overall benefit cap. This can mean that households face multiple caps or reductions on their award at once, all reducing the level of income that they receive.

The occurrence of debt deductions is not proportionate and impacts certain groups of people more than others. This analysis indicates that those groups with the highest occurrences of debt deductions are also the most vulnerable and face the largest barriers to increasing their income from sources other than welfare benefits. This is especially true for households that receive the disabled child element and carer element of Universal Credit, both of whom see disproportionate application of debt deductions.

Debt deductions play a limited role in the proportion of claimants facing housing unaffordability. This is because the lowest income households are already living in unaffordable housing before debt deductions are applied. This is especially true in the privately rented sector. Therefore, rather than increasing the spread of housing unaffordability, debt deductions simply increase the depth of unaffordability that households face.

The impact of sanctions on the ability to meet housing costs is hugely significant because the majority of sanctions result in the full loss of the personal allowance. Where sanctions are applied, claimants may have no other option than to use their housing element to pay for food and heating, leaving the housing costs unmet or only partially covered. This risks homelessness for the claimant and additional costs to councils.

Current sanction policy risks being indiscriminate and forcing households into deep poverty, often due to small or trivial issues. Previous and current research has shown that sanctions are often overturned when challenged.

Recommendations for policymakers

1. The DWP should consider conducting affordability assessments, taking account of a claimant's full financial circumstances, before applying any debt deductions to a claimant's award. This is particularly needed for at-risk and vulnerable groups, such as those with the disabled child element, who could be placed in a 'protected group' where no deductions or financial impactful decision is taken without an assessment of its impact

2. As the DWP sponsors the Money Advice Pension Service (MaPS), the DWP could take a proactive approach to support those with debt rather than automatic application of deductions. This should include an offer of referral to MAPs for debt advice, consideration of all debts, and a sustainable repayment rate. This would bring debt recovery of public sector debts more in line with recovery practices for private sector debts

3. The cap on deductions within Universal Credit should cover all policies that reduce benefit support, including the Benefit Cap, Bedroom Tax, Local Housing Allowance, and Two Child Limit. Ensuring all deductions are included within the cap would result in a minimum guaranteed level of Universal Credit

4. Sanctions have a significant impact on depth of poverty and the ability to meet housing costs. Their application should be reserved for serious infringements of contract and should only be applied following an impact assessment

Appendix 1: Debt deductions in priority order

1. Fraud penalties
2. Conditional sanctions
3. Short term advances for a new claim or a change of circumstances
4. First month advance for a transfer to Universal Credit from another benefit
5. Budgeting advance
6. Owner-occupier service charges
7. Rent and/or service charges arrears (minimum of 10%)
8. Gas and electricity arrears (either one of these can take priority over the other depending on the urgency of the payment)
9. Council tax or community charge arrears
10. Fine or compensation orders
11. Water charges arrears
12. Old scheme child maintenance
13. Flat rate maintenance[16]
14. Social fund loans
15. Recoverable hardship payments
16. Housing Benefit and DWP administrative penalties
17. Housing Benefit, tax credit and DWP fraud overpayments
18. Housing Benefit and DWP civil penalties

[16] Child maintenance is being increased up the priority order to the top of third party deductions from the 30th of April, and will also be exempt from the Fair Repayment Rate of 15% in certain circumstances.

19. Housing Benefit, tax credit and DWP normal overpayments
20. Integration loan arrears
21. Eligible loan arrears
22. Rent and/or service charges arrears
23. Fine or compensation orders

Appendix 2: Methodology

Our dataset is selected from a geographically spread number of local authorities across Great Britain. Therefore, although these findings may not be representative of all areas, it will give a good indication of the reality of low income households across Great Britain. Local authorities currently receive a Universal Credit Data Share (UCDS) dataset from national Government which gives information on the Universal Credit claims of households who also claim Council Tax Support including other income.

It is important to note that although this sample is of Great Britain, the data available in this study does not include additional devolved benefits or income that households could receive, such as the Scottish Child Payment. In devolved areas with additional benefits such as these, the impact felt by households may be reduced and therefore the depth and spread of unaffordability and poverty may be less severe or slightly different. This report does not quantify this but seeks to inform of the situation of households after Universal Credit deductions and wider income.

It is also important to note that the Universal Credit dataset that is used in this report contains only households receiving Universal Credit council tax reduction (CTR) and or who have an intention to claim CTR. The share of households receiving Universal Credit that are claiming or indicate an intention to claim CTR varies by local authority (ranging between 25% and 50% of claimants).

Therefore, there are a range of claimants that are not accounted for in the sample, including those without liability for council tax. However, the dataset is representative of some of the lowest income working age households as these households are likely to be claiming CTR and Universal Credit concurrently. The family makeup of our sample dataset matched the proportions of families claiming Universal Credit as seen through official statistics.

This data was analysed in combination with wider local authority administrative data, such as arrears information. This data gave a picture of the make up of households, their income, and the elements and deductions that they currently receive on their Universal Credit claims.

Furthermore, analysis of this report uses estimated costs of households. This data is taken from Policy in Practice's Low Income Family Tracker (LIFT) platform and is based on spending from the Office of National Statistics (ONS) family spending workbook.

Throughout this report, we aim to explore who gets a deduction in their payments and why. While the DWP recognises over 20 types of deductions, including deductions for rent arrears, utility bills, child maintenance payments, and overpayments of benefits, the dataset has only six types of deductions visible:

1. Conditional sanctions are a type of sanction that can be deducted from a Universal Credit award if a work coach deems that a claimant has breached their claimant commitment. There is a maximum daily rate that a single or joint claimant can see deducted from their allowance, depending on the household composition. However, in general terms, a conditional sanction should not be more than the standard allowance if a single person household is sanctioned, and it should not be more than half of the standard allowance for one sanction in a joint claim.

2. First advance payments correspond to a deduction due to a first month advance. A first month advance, or simply 'advance', is taken between a claimant claiming Universal Credit in the 5 week wait before their first payment. Claimants can choose how long to repay this over (up to 24 months), and this will be deducted proportionally from their Universal Credit payments.

3. Short term advance payments are deductions due to the repayment of a short term advance, which aim to help claimants in the short term due to a change in circumstances. Claimants must pay back in 6 months' time.

4. Budgeting Advance payments are deductions due to the repayment of a budgeting advance, which are loans taken by claimants to cover specific expenses. Claimants get reduced Universal Credit payments until they repaid the amount that they borrowed, up to a maximum of 12 months.

5. Payments to landlord, in some cases, Universal Credit payments for housing costs are paid directly to the landlord rather than to the claimant. Claimants who are in arrears with their rent or who have difficulty managing their finances may choose to have their housing costs paid directly to their landlord to ensure that their rent is paid and to avoid any potential eviction. Alternatively, a claimant's landlord may request a managed payment if they have concerns about the tenant's ability to manage their finances.

6. Unknown deductions, there is no record of why the deduction was made.

In this analysis, payments to landlords were excluded, as they are not technically a deduction from benefits but rather a direct payment made to a landlord to cover housing costs. This exclusion is important to ensure that the analysis focuses on the deductions that directly affect claimants' incomes and financial wellbeing.

Overall, the limited number of types of deductions identified in the dataset suggests that there may be gaps in the DWP's recording and monitoring of the various types of deductions that can be applied to Universal Credit payments. It is important to note that this is about to change as the DWP expands the types of deductions that will be visible in the datasets.

About Policy in Practice

Policy in Practice is a social policy software and analytics company that helps hundreds of thousands of people each year to access nationally administered benefits, local support including Council Tax Support, a range of discretionary support schemes, support offered by the Scottish, Welsh and Northern Ireland devolved administrations, and a wide range of social tariffs offered by companies in regulated industries.

We believe it should be easy for people to access support. We built the award winning Better Off platform to close the unclaimed support gap we identified.

Better Off Calculator

A smart, easy calculator to help you maximise your customers' income, increase engagement and save time and resources

Low Income Family Tracker

Intelligent data analytics software to help you maximise your resident's income and reduce your costs

Multi Agency Safeguarding Tracker

Simply clever software to help safeguarding professionals securely share headline data and make more informed safeguarding decisions

Policy analysis

Essential expert social policy analysis to help you make better evidenced decisions

Each tool is powerful alone, and they're even better together, making it easy for organisations to get support to their residents. Contact hello@policyinpractice.co.uk to learn more.