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Understanding the Impact of Universal Credit on the Council Tax Reduction Scheme and Rent Arrears in Wales: Final Report

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This document is also available in Welsh.

Understanding the impact of Universal Credit on the Council Tax
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Views expressed in this report are those of the researcher and not necessarily
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Glossary

Key word	Definition
Alternative Payment Arrangements (APAs)	A general term for three non-standard methods for paying Universal Credit to a claimant: • Paying the housing element of Universal Credit straight to the landlord • Paying Universal Credit fortnightly (or occasionally weekly) instead of monthly • Splitting Universal Credit payments between a couple, rather than paying to one of them.
Applicable Amount	Also known as ‘Needs Side’ or ‘Assessment of Need’, or in Universal Credit as ‘Universal Credit Maximum Amount’. This is the amount allowed for living expenses in the calculation of benefit entitlement. As such, it is the maximum possible award a person can receive given their circumstances before accounting for any income they may have. Different personal circumstances – such as a child, a disability, or if the claimant is a carer – add different amounts to the total applicable amount. The applicable amount is one half of the benefit entitlement calculation: see ‘Income’, for the other.
Assessment of Need	See ‘Applicable Amount’.
Benefit and Budgeting Calculator (BBC)	A calculation engine used by Policy in Practice for its analytical modelling.

Benefits Up-rating	The process by which benefit awards are increased annually, normally by a measure of inflation. Recently, some benefits up-rating has been prevented by the benefits freeze but has now been re-instated.
Child Element	Part of the calculation of the Universal Credit applicable amount. It is given to families who have a child. The 2020-21 value is £2,830 per annum per child. There are limits to this support - see 'Two Child Limit'.
Conditionality	A principle where the payment of benefits is conditional upon the claimant meeting particular obligations. For example, applying for a certain number of jobs in order to receive Jobseeker's Allowance. Conditionality also sets the number of hours a person is expected to work given their circumstances.
Council Tax Benefit (CTB)	A means-tested benefit which provided help with paying council tax before it was abolished in 2013. It was replaced in Wales and Scotland by Council Tax Reduction Schemes, designed by the devolved administrations, and by local Council Tax Reduction Schemes designed by individual local authorities in England.
Council Tax Reduction Scheme (CTRS/CTR/CTS)	Also known as council tax reduction (CTR) or council tax support (CTS), this is a type of support which provides for council tax to be reduced in certain defined circumstances. It is administered by local authorities separately from the benefit system, but the calculation depends on whether applicants receive legacy benefits (see below) or Universal Credit (see below).
Council Tax Band	Each domestic property in Great Britain (Northern Ireland uses a different system) is placed into a bracket of value, or band, which determines the council tax liability for that property.

CTR Extract	A dataset used by Policy in Practice for this analytical project.
Dependant	This is a household member who relies on another person, usually a family member, for financial support and is therefore not expected to contribute to household income. In the benefits system, a dependant is usually a child or a young person in education or training.
Disability Benefit	For the purposes of this report, this is a collective term for Disability Living Allowance (DLA), Personal Independence Payment (PIP), Armed Forces Independence Payment (AFIP), and Attendance Allowance (AA).
Disability Premium	An additional benefit component which can be added to certain legacy benefits (see below), but only if the claimant is under pension age, and either blind or receiving DLA (see below), PIP (see below), Attendance Allowance or certain other disability benefits.
Disability Living Allowance (DLA)	Disability Living Allowance. This is a non means-tested, non-taxable benefit paid to people who need supervision or help with their daily or nightly care, or who have mobility problems. It has now been replaced for most working-age people by Personal Independence Payment (PIP) but is still paid for children.
Department for Work and Pensions (DWP)	A UK Government department, responsible for most legacy benefits in the UK and leading on the delivery of Universal Credit.
Employment & Support Allowance (ESA)	A benefit paid to working-age people who have an illness, health condition or a disability which makes it difficult or impossible to work. Contribution-based Employment and Support Allowance (aka 'New-Style' ESA) is not means-tested but based on National

	Insurance contributions. Income-related Employment and Support Allowance (aka 'Old-Style' ESA) is means-tested and is one of the benefits being replaced by Universal Credit.
ESA Work-Related Activity Component	Also known as 'WRAG Premium'. This was a part of the applicable amount (see above) in legacy benefits and council tax reduction awards. It was a supplementary component of ESA (see above), intended to support those preparing to return to work. It was abolished for new claimants by the UK Government in April 2017. Whilst this is no longer added to the applicable amount in legacy benefits, in Wales a household's eligibility for WRAG Premium is still included in the council tax reduction applicable amount calculation for applicants receiving legacy benefits. However, it is not included if the council tax reduction applicants are receiving Universal Credit. The result is that council tax reduction applicants receiving legacy benefits are treated more generously than those receiving Universal Credit.
Enhanced Disability Premium	An additional benefit component which can be added to certain legacy benefits, but only if the claimant is under pension age, and receives either Disability Living Allowance (see above), Personal Independence Payment (see above), or Armed Forces Independence Payment.
Extended Payments	Also known as the 'run on', these are additional payments of council tax reduction award. When a claimant moves into work or increases working hours above 16 hours per week, subject to certain qualifying conditions, payments of benefit are made at the out-of-work rate for a four-week period. The Welsh Government allowed Welsh local authorities to extend this grace period for council tax reduction awards if they chose, but none have.

Family Premium	This was an additional component for families with children in the applicable amount for legacy benefits and council tax reduction. It was awarded to families on the birth of their first child (each family could receive only one Family Premium; additional children made no difference). It was abolished by the UK Government in 2016 for all new claims. NB Whilst the premium is no longer added to the applicable amount in legacy benefits, in Wales a household's eligibility for Family Premium is still included in the council tax reduction applicable amount calculations if that household is receiving legacy benefits. However, it is not included if the council tax reduction applicant is receiving Universal Credit. The result is that council tax reduction applicants receiving legacy benefits are treated more generously than those receiving Universal Credit.
Flat-Rate Non-Dependant Deduction	This is a type of non-dependant deduction. See 'non-dependant deduction' below.
Guaranteed Award	A minimum award guaranteed for all households in receipt of means-tested benefits and with income below a set threshold. This allows for easy communication of eligibility: 'if you earn below this much, you will receive at least this much'.
Housing Association	Not-for-profit organisations which own, let, and manage rental homes. Homes rented from housing associations are known as social housing, along with council-owned properties. Whilst both types of social housing offer accommodation at below market rates, housing association rents tend to be higher than council house rents.
Housing Benefit	An income-related (means-tested) benefit paid to tenants on low incomes (either in or out of work) to help pay their rent. The scheme

	is administered by local authorities in accordance with national legislation and is replaced by the housing element in Universal Credit.
Her Majesty's Revenue and Customs (HMRC)	A UK central government department responsible for tax calculation and collection. HMRC tracks information about earnings through the 'pay as you earn' system and this data is used by DWP (see above) in the calculation of Universal Credit.
Income	In the calculation of Universal Credit, most types of income a claimant receives are taken into account and subtracted from the applicable amount (see above). The remainder following this calculation is what the claimant receives as their UC award. The idea is that income that could be used to meet living costs should be subtracted from the applicable amount.
Income-Banded Scheme	An alternative way of calculating council tax reduction award for households and is increasingly popular with local authorities in England due to challenges with the current assessment process (see 'Universal Credit Assessment Period'). Schemes vary, but essentially involve placing applicants into one of several income bands to calculate their award, instead of making bespoke calculations using each individual's exact income. This makes award amounts more stable for the applicant month-to-month, and means reassessments are needed less frequently, which makes administration easier and less costly.
Income Support (IS)	An income-related (means-tested) benefit paid to working-age people on low income such as carers and lone parents. It is not usually paid to someone receiving Jobseeker's Allowance or Employment and Support Allowance. It is one of the benefits being replaced by Universal Credit.

Jobseeker's Allowance (JSA)	An income-related benefit paid to working-age people on low income who are out of work and actively seeking work. Contribution-based Jobseeker's Allowance is not means-tested but based on National Insurance contributions. Income-based Jobseeker's Allowance is means-tested, and is one of the benefits being replaced by Universal Credit.
Legacy System/Benefits	This is a general term for benefits and credits that have been or will be replaced by Universal Credit.
Limited Capability for Work (LCW)	A possible outcome of a work capability assessment (see below) in which a claimant is deemed to be too ill or disabled to work, but capable of undertaking 'work related activity'. These claimants are then placed into a WRAG (see below).
Limited Capability for Work Related Activity (LCWRA)	A possible outcome of a work capability assessment (see below) in which a claimant is deemed not only too ill or disabled to work, but also too ill or disabled to perform 'work-related activity', such as preparing to move into work in the future. Claimants who are deemed to have LCWRA receive increased benefits as a result, and these benefits have no conditionality (see above) attached to them.
Local Housing Allowance (LHA)	A way of calculating Housing Benefit or the housing element of Universal Credit for a claimant who rents property from a private landlord. LHA rates are based on the number of people in the claimant's household, and the area where they live. LHA amounts were based on the 30th percentile of rents in the local area before being restricted to inflation-related increases from 2013, and then subject to the benefits freeze from 2016. From 1 April 2020, as part of the measures to support people through the COVID-19 pandemic, LHA rates have again been paid at the 30th percentile of local rents. If the claimant chooses to rent a property which costs

	less than the appropriate LHA rate, the amount they receive is restricted to the actual rent they pay.
Managed Migration or 'Move to UC'	This is the process of actively moving claimants from legacy benefits to Universal Credit, despite nothing having changed in the claimant's circumstances. Managed Migration, now known as 'Move to UC' began with a pilot from July 2019 and is currently expected to start fully at the end of 2020. This is distinct from 'Natural Migration' (see below).
Maximum Amount (Universal Credit)	An amount used in council tax reduction calculations for applicants receiving Universal Credit. It is the theoretical maximum amount a person could receive under Universal Credit if they had no other income and is used as part of the calculation of council tax reduction.
Ministry of Housing, Communities and Local Government (MHCLG)	A central UK Government department, previously known as Department for Communities and Local Government (DCLG).
Minimum Award	See 'Guaranteed Award'.
Minimum Income Floor (MIF)	A mechanism used in the calculation of Universal Credit for self-employed claimants, and also in the calculation of council tax reduction award for Universal Credit claimants. It works by assuming a certain level of income after a year-long grace period. The level of income is calculated using the National Minimum Wage for the applicant's age group, multiplied by the number of hours they are expected to look for and be available for work.
Natural Migration	This is when a benefit claimant moves from legacy benefits (see above) to Universal Credit (see below), triggered by a change in

	their circumstances (e.g. the birth of a child). This is distinct from 'Managed Migration' (see above).
Non-Dependant	A person living as a member of the claimant's household, but who is not their partner, their child, or a young person for whom the claimant is responsible. There are certain exceptions, such as joint-occupiers, boarders, and paid carers.
Non-Dependant Deduction	A deduction made to benefit payments based on the expected contribution from other adults (i.e. non-dependants) in the household. Usually, the rate of deduction is based on the income and circumstances of the non-dependant, but an alternative approach is the 'flat-rate' non-dependant deduction, where the rate of deduction is the same for everyone deemed due to receive one.
Out-of-Work Benefits	This is a general term for benefits which apply only when the claimant is not in employment. This includes Jobseeker's Allowance (see above), Employment Support Allowance (see above), and parts of Universal Credit (see below).
Personal Independence Payment (PIP)	A replacement benefit for Disability Living Allowance (see above), designed to provide help to people over 16 who need care or who have mobility needs. It is not means-tested or taxable.
Run-On	See 'Extended Payments'.
Severe Disability Premium (SDP)	This is an additional benefit component which can be added to certain types of benefit, but only if the claimant receives either DLA (see above), PIP (see above), or Attendance Allowance. The SDP can be applied to IS (see above), JSA (see above), ESA (see above), Housing Benefit (see above), or Pension Credit. It is generally paid where a claimant has no one else living with them.

Single Housing Benefit Extract (SHBE)	A Housing Benefit dataset collected by local authorities and used by Policy in Practice for this analytical project.
Taper Rate	The rate at which benefits are withdrawn when a claimant has earned income above the level of the applicable amount. If a taper rate is 20%, for every £1 additional income earned, support reduces by 20p. The lower the percentage rate, the more generous the scheme. Taper rates are applied so that people feel the benefit of work and avoid the risk of being worse off when starting work, which could be the case if there was no taper and benefits were withdrawn pound for pound. A taper rate applies for most earned income, but there is an exception in some cases where a 'Work Allowance' applies (see below).
Two-Child Limit	A limit to the support provided by the child element of Universal Credit (and tax credits). The limit means the Universal Credit applicable amount recognises only the two eldest children in a household so that only the first two children receive the child element. This has a knock-on effect on council tax reduction award for Universal Credit claimants. This limit only applies to third (or subsequent) children born after 6 April 2017. This limit is not applied to council tax reduction award for those receiving legacy benefits in but is incorporated in the council tax reduction award calculations for Universal Credit claimants.
Universal Credit (UC)	An income-related (means-tested) benefit for people of working-age who are on a low income. It replaces four existing means-tested benefits, including Housing Benefit and two tax credits.
Universal Credit, assessment	The process determining how much Universal Credit claimants will get. This takes a household's applicable amount and subtracts their

	income from that amount. Whatever remains is the claimant's Universal Credit award. Universal Credit awards are calculated using exact income amounts. This can be administratively costly for council tax reduction applications and require regular reassessments.
Uprating	See 'Benefits Uprating'.
War Disablement Pensions (WDP)	Types of benefit available to those who were injured or disabled during service in the British Armed Forces. The Welsh Government allows Welsh local authorities to be more generous than the standard £10 disregard of War Disablement Pensions received by these claimants when calculating their income for the purposes of council tax reduction. All local authorities in Wales are as generous as possible; disregarding 100% of these pensions.
War Widow's Pensions	Types of benefit available to the widows, widowers or children of someone killed during service in the British Armed Forces, or from injuries thereafter. The Welsh Government allows local authorities to be more generous than the standard £10 disregard of War Disablement Pensions received by these claimants when calculating their income for the purposes of council tax reduction. All local authorities in Wales have chosen to be as generous as possible, disregarding 100% of these pensions.
Work Allowance	An amount of money households in certain circumstances can earn without it causing their Universal Credit award to reduce. The main circumstances are a household with children, or people with limited capacity for work.
Work Capability Assessment	This is a process where claimants who are ill or disabled are assessed on their capacity to work. There are three possible outcomes: claimants could be deemed fit to work, they could be

	deemed to have 'limited capability for work' (see above), or they could be deemed to have 'limited capability for work related activity' (see above).
Work-Related Activity Group (WRAG)	The Work-Related Activity Group is a category in which someone is placed after undergoing a Work Capability Assessment and being deemed to have Limited Capability for Work (see above). Until 2016, claimants in the WRAG received the WRAG premium (see below).
Work-Related Activity Group Premium	See 'Employment and Support Allowance Work-Related Activity Component'.

Executive Summary

This report reflects the outcome of a year-long research project, commissioned by the Welsh Government in January 2019, with the aim of further understanding the impact of Universal Credit in Wales.

Universal Credit (UC) is replacing most income-related social security benefits and tax credits for people of working age and is now being rolled-out across the UK. Over 120,000 households in Wales were on Universal Credit in November 2019 and numbers have been increasing since January 2019 at the rate of around 4,800 a month.¹ Around 400,000 households in Wales are expected to receive Universal Credit when fully rolled out, with a higher rate of increase as the 'Move to UC' (formerly 'managed migration') exercise gets underway.² This exercise involves transferring all those still receiving legacy benefits to Universal Credit and is scheduled to begin in late 2020 after completion of a pilot. (These estimates do not take account of increased claims resulting from the COVID-19 pandemic.)

The project undertaken by Policy in Practice includes a literature review, surveys and interviews with stakeholders and benefit claimants, analysis of local authority held administrative data, and analysis of data supplied by housing associations. The research is wide-ranging: all Welsh local authorities, fifteen housing associations, and several private-rented sector representatives have participated.

The Welsh Government published an interim report in January 2020.³ This focused on the impact of Universal Credit on the Welsh Council Tax Reduction Scheme and modelled several amendments to the scheme designed to mitigate the impact of Universal Credit and help maintain the numbers of households supported. This final report updates this analysis and examines further scheme amendments the Welsh Government could consider.

¹ Policy in Practice analysis of Universal Credit statistics for November 2019 on DWP Stat-Xplore

² [Analysis of the impact of the UK welfare reforms on households in Wales](#) (Welsh Government, January 2019)

³ [Understanding the impact of Universal Credit on the Council Tax Reduction Scheme and Rent Arrears in Wales: interim report](#) (Welsh Government, 9th January 2020)

The final report also provides new analysis that focuses on:

- The impact of Universal Credit on council tax arrears;
- The impact of Universal Credit on rent arrears;
- The experience of Universal Credit claimants; and
- The experience of stakeholders such as housing associations and Welsh local authorities.

This research on the relationship between Universal Credit and arrears involved tracking local authority and housing association data on household income and arrears over time. Private-rented sector landlords do not hold the household information necessary to participate in this aspect of the research, but they did take part in a survey to gather their views on the impact of Universal Credit.

Claimant and stakeholder views of Universal Credit were gathered through an extensive survey and follow-up interviews. See Appendices 1 (Demographics of survey respondents) and 2 (Methodology) for further details.

Universal Credit and the Welsh Council Tax Reduction Scheme

- 25% of respondents (83 out of 310) thought that council tax reduction was part of Universal Credit
- 29% of Universal Credit respondents (52 out of 182) did not know if they received council tax reduction (this compares to 14% of respondents in receipt of legacy benefits)
- 62% of respondents in receipt of legacy benefits (54 out of 87) said they would apply for council tax reduction if they moved to Universal Credit
- 16% of legacy benefit claimants (13 out of 80) did not apply for council tax reduction due to a fear of increased debt caused by overpayment recovery

(Survey findings)

The move to Universal Credit will have a significant impact on some council tax reduction awards. This is primarily due to differences in the assessment of support under Universal Credit and under the legacy benefit systems. These differences do not affect those receiving maximum council tax reduction awards who have no income, they continue to receive awards based on 100% of council tax liability. However, for other households the move to Universal Credit can result in significant changes in their council tax reduction award.

This difference in support between the two benefit regimes is heightened in Wales as the current Welsh Council Tax Reduction Scheme for households in receipt of legacy benefits does not include recent welfare reform measures, such as the introduction of the two-child limit or the removal of the family premium. These measures are, however, included in the assessment of council tax reduction for households in receipt of Universal Credit. This results in certain households in receipt of Universal Credit being entitled to a smaller council tax reduction. The Welsh Government is considering amendments to the Council Tax Reduction Scheme that will increase parity between applicants from the two benefit regimes.

A further concern for the Welsh Government is that the number of households supported by the Council Tax Reduction Scheme has been reducing over time (excluding any recent increases due to the effects of the COVID-19 pandemic on household circumstances). This trend started before significant numbers of residents moved to Universal Credit and is therefore related to other factors, such as changes in economic conditions. However, there is concern that caseload will reduce even further as more households move to Universal Credit, mainly due to the separation of the housing support and council tax reduction application processes. The Welsh Government is considering measures to maintain or increase caseload to ensure that council tax reduction reaches more of those who are eligible.

This report presents an analysis of both the current provision of council tax reduction across Wales, and the current scheme carried forward to the financial year 2021-22 when more of the population of Wales will have moved to Universal Credit. The report updates the interim

report ⁴ and provides analysis of the total cost of the scheme and the impact of a scheme amendment to reduce the rate at which council tax reduction is withdrawn as earnings rise (the taper rate). Patterns of council tax reduction differ slightly from the interim report as the final report includes data from all 22 councils in Wales (compared to 16 for the interim report) and provides the results of analysis derived from 2019 data compared to 2018 data for the interim report.

The Impact of Universal Credit on the Council Tax Reduction Scheme: Key Findings

Analysis in this study shows that the average council tax reduction award for Universal Credit households is currently £2.60 less per week than for households in receipt of legacy benefits.

This difference in council tax reduction support continues should the current scheme be retained into 2021-22. The average increase in council tax reduction of 9% across Wales between now and 2021-22 is in line with expected council tax rises. However, households in receipt of Universal Credit see a significantly lower rise in council tax reduction awards at around 5% over the same period. For a proportion of these households, this reduction is due to modelling having assumed migration to Universal Credit. For households in receipt of Universal Credit, the increase in council tax reduction is less than the expected increase in council tax liability, so this essentially amounts to a loss in council tax reduction for Universal Credit households between now and 2021-22.

To help mitigate the impact for those who lose under Universal Credit, the Welsh Government could introduce a scheme amendment to reduce the taper rate from the current 20% to 10%.

Households affected by the taper change in receipt of Universal Credit would see an increase in council tax reduction of 60% whilst those in receipt of legacy benefits would see an increase of 41%. At a cost of £8m (in 2021-22), this change would go some way to

⁴ [Understanding the impact of Universal Credit on the Council Tax Reduction Scheme and Rent Arrears in Wales: interim report](#) (Welsh Government, 9th January 2020)

restoring parity in awards between those in receipt of Universal Credit and those in receipt of legacy benefits. It would also improve work incentives.

Administration costs

Universal Credit increases Council Tax Reduction Scheme administration costs due to more frequent reassessments of awards in response to the monthly assessments of Universal Credit. This increased frequency of reassessment can result in claimants receiving a series of award notices and revised bills. The analysis in this research, based on data from one Welsh local authority, indicates that households in receipt of Universal Credit see four times as many changes in their council tax reduction entitlement over a year compared to households in receipt of legacy benefits.

The Council Tax Reduction Scheme in Wales could incorporate measures to reduce this need for reassessment, for example the adoption of a de minimis threshold. This involves ignoring changes in income below the threshold for reassessment purposes. The analysis indicates that this is likely to be a cost-neutral measure as underpayments and overpayments are offset against each other. If the Welsh Government were to introduce a de minimis threshold, modelling would be required to find the level at which the threshold would have a significant impact.

Caseload

Universal Credit may also have a direct impact on council tax reduction caseload. The claimant survey indicated that there is confusion amongst claimants about the relationship between Universal Credit and the Council Tax Reduction Scheme. A quarter of all claimant respondents believed that an application for council tax reduction was included as part of Universal Credit. They were unaware there was a separate application process for council tax reduction, or that it was administered separately. In addition, 29% of Universal Credit claimant respondents (52 out of 182) did not know if they received council tax reduction, compared to just 14% of legacy benefit respondents. This indicates that the Welsh Government and Welsh local authorities may need to consider further developing the range of initiatives to raise awareness of council tax reduction. It is also worth noting that 16% of legacy benefit respondents (13 out of 80) did not wish to apply for council tax reduction due to fear of debt arising from overpayments. The Welsh Government and Welsh local

authorities may wish to examine further whether council tax debt recovery practices have had any impact on the way some people perceive the Council Tax Reduction Scheme.

The Impact of Universal Credit on council tax arrears in Wales

"Due to my earnings and amount of Universal Credit I receive, the amount of help I receive from council tax reduction has decreased and I'm now having to pay a large amount of Council Tax each month."

"I've got nothing left at the end of the month ... I'm working now so it's going much better but initially it was horrendous ... No money for rent, no money for council tax, no money for gas and electric with paying with that, no money for food. I had about £50 left."

(Interviewed Universal Credit Claimants)

In Wales, the Council Tax Reduction Scheme maintains support based on 100% of council tax liability and so there are no households who are faced with a council tax bill for the first time directly as a result of cuts in the level of support by the UK Government in 2012. Statistics published by the Welsh Government⁵ each year show that council tax arrears have remained stable as a percentage of total council tax due. The decision by the Welsh Government to make up the shortfall related to the 10% funding cut (rather than risk local authorities passing it on to low-income households) appears to have resulted in positive outcomes, at least in the short-term. However, there is emerging evidence, from this study, of increased council tax arrears under Universal Credit.

The current analysis shows that council tax arrears were more common and more severe under Universal Credit than under legacy benefits, and this outcome appeared to be relatively consistent across different demographics and vulnerable groups.

The current analysis in this study indicates that both the move to Universal Credit and ongoing receipt of Universal Credit can lead to council tax arrears for some households, particularly those with arrears to start with. It is likely that elements of transition (such as the five-week wait) and ongoing factors (monthly budgeting, award levels) are contributing to

⁵ [Council Tax collection rates: April 2018 to March 2019](#) (Welsh Government, 11th June 2019)

council tax arrears. This is borne out by the claimant survey in which responding claimants attributed increases in arrears to changes in award levels under the new benefits system, debts incurred during the five-week wait, and difficulties budgeting with monthly payments.

The Impact of Universal Credit on Council Tax Arrears: Key Findings

- Council tax arrears were more prevalent amongst households in receipt of Universal Credit.
- Amongst those with arrears, Universal Credit is associated with a higher level of council tax arrears compared to legacy benefits.
- Most households that are not in council tax arrears under legacy benefits remained with no arrears under Universal Credit.
- Council tax arrears were more likely to increase under Universal Credit than legacy benefits.
- The pattern of council tax arrears for vulnerable groups was similar to the general population but differences between vulnerable groups indicated that some other factors affected arrears levels.
- Increases in council tax arrears when moving onto Universal Credit were most commonly attributed to:
 - being eligible for less support (56%, 58 out of 104 respondents);
 - debts incurred during the five-week wait (55%, 57 out of 104); and
 - difficulties budgeting with monthly payments (43%, 45 out of 104).

The Impact of Universal Credit on Rent Arrears in Wales

"We were not informed by our housing officer or the Jobcentre that we had to specify that we wanted a back payment for rent. We had just assumed that as our claim started two months before our first payment, it would automatically use the dates provided. Let down by our housing officer greatly, along with inexperienced staff at the Jobcentre."

"Universal Credit is paid 4 weeks in arrears with a 2 week "Waiting period". I am always 6 weeks in arrears. In addition, Universal Credit rent is calculated monthly and my rent is due weekly in advance. When there are 5 weeks in a month I drop back further into arrears."

"Because with Universal Credit we're already a month in arrears from the beginning. So, that caused me to be two months in arrears and I was threatened with eviction. I went to the Citizen's Advice, I went to the council. The council couldn't help with the payment scheme that they have because as far as they were concerned, the DWP paid my full rent."

(Interviewed Universal Credit Claimants)

"Some of them just won't pay. They just have that attitude ... Yes, it has been a big increase [in arrears]. Basically, it's a big risk when I take a tenant on, I wouldn't have had that risk if I was getting the money direct."

(Interviewed stakeholder, private landlord)

As with council tax arrears, the analysis found that rent arrears tend to be higher under Universal Credit compared to legacy benefits. However, the difference in the prevalence of rent arrears is not as clear cut with different results shown through the surveys and the longitudinal study of administrative data.

Survey data from both stakeholders and claimants showed greater prevalence of rent arrears under Universal Credit, with almost all stakeholders reporting that rent arrears levels and prevalence of rent arrears had increased as a result of the move to Universal Credit (around 90% of stakeholders in both cases). By comparison, the longitudinal study of administrative data showed rent arrears to be more common under legacy benefits than

Universal Credit (20% of households in receipt of legacy benefits were in rent arrears compared to 13% in receipt of Universal Credit).

The impact of Universal Credit on the level of rent arrears was more clear cut. From the analysis of administrative data, average rent arrears under legacy benefits were £206 compared to £495 under Universal Credit. In other words, lower rent arrears were more common in households in receipt of legacy benefits and higher rent arrears were more common for households in receipt of Universal Credit.

For most survey respondents, the move to Universal Credit was not associated with an increase in rent arrears (51%, 193 out of 381 respondents). When rent arrears did change as households moved onto Universal Credit, they were most likely to increase (or be reported as increasing).

Amongst respondents to the claimant survey, the most common explanations for increases in rent arrears caused by migration to Universal Credit were:

- Changes in award levels (46%, 74 out of 162 respondents);
- Debts incurred during the five-week wait (53%, 86 out of 162); and
- Difficulties budgeting due to monthly payments (44%, 71 out of 162).

73% of stakeholder respondents (152 out of 237) also reported that direct payments of the housing element to claimants was a factor in the growth in rent arrears. In addition, 66% of stakeholder respondents (138 out of 237) cited delays to payment and 43% of stakeholders (89 out of 237) cited difficulties with online claims as reasons for increased rent arrears.

The research clearly points to higher rent arrears under Universal Credit than under legacy benefits, but this is due to the amount of the arrears being higher rather than the total number of people with rent arrears. This suggests those who are not in rent arrears as they move across to Universal Credit retain their ability to pay their rent. However, those moving across to Universal Credit with existing rent arrears see those arrears increase significantly. The most cited reason for arrears by claimants was the five-week wait. One recommendation from the research is that it could be prudent for landlords to provide additional support for those already in rent arrears during this period. As award levels and

budgeting are also cited as reasons for debt, interventions around debt support and income maximisation may also be worthwhile.

The Impact of Universal Credit on Rent Arrears: Key Findings

- Rent arrears were more prevalent amongst households in receipt of legacy benefits within the administrative data sample.
- Amongst households in the administrative data with rent arrears, Universal Credit was associated with a significantly higher average level of arrears compared to legacy benefits.
- Households in receipt of legacy benefits in the administrative data were more likely to have some level of rent arrears, but these arrears tended to be smaller (between £1 and £100). Whilst fewer households in receipt of Universal Credit had rent arrears, their arrears tended to be relatively large (more than £100).
- Rent arrears were more likely to increase under Universal Credit than under legacy benefits.
- The pattern of rent arrears for vulnerable groups was similar to the general population but differences between vulnerable groups indicated that some other factor affected arrears levels.

The Experience of Universal Credit

The evidence from the various studies quoted in this report, and from our own surveys and interviews, suggest that many Universal Credit recipients have found it difficult to come to terms with some of the design features of Universal Credit (such as the five-week wait, monthly payments, and having to budget for and pay the rent). These difficulties are compounded where the Universal Credit entitlement is less than entitlement under legacy benefits. There is also evidence that a significant minority of surveyed claimants accept and value the additional responsibility that these arrangements involve.

Universal Credit advances are a mixed blessing. They are invaluable in helping people cope with the five-week wait but the monthly recovery of the advance can cause its own problems. For example, this survey indicates that a significant minority of claimants do not understand that the advance is recovered from subsequent payments.

Awareness of Alternative Payment Arrangements (APAs) is very low. DWP takes the view that they should be reviewed regularly and removed if possible. However, a balance needs to be struck between encouraging personal responsibility and protecting vulnerable people from indebtedness and homelessness. The evidence we have indicates that more people could benefit from APAs if they were more readily available, perhaps alongside more support with budgeting. Certainly, the results of our survey show that they would be valued highly by more Universal Credit recipients and could be instrumental in preventing people getting into crisis.

Conclusion

Universal Credit is a significant change in welfare support for low-income households. This report provides evidence that the move to Universal Credit is having an impact on household resilience and debt levels of low-income residents in Wales. There is evidence of lower council tax reduction awards, higher council tax arrears, and higher rent arrears, as households move to Universal Credit. There is also evidence that all forms of arrears could accumulate once households have moved to Universal Credit.

Aspects of Universal Credit, such as the five-week wait, monthly payments and levels of support, risk causing financial difficulty and debt for some claimants. However, it is worth noting that a minority of participating households preferred the control of their claim offered by Universal Credit.

The Welsh Government is looking to support low-income residents in Wales as they move to Universal Credit. The findings from this research will be used by the Welsh Government to further understand the impact of Universal Credit and decide where more support could be usefully provided.

1. Introduction

- 1.1 This final report reflects the outcome of a year-long research project, commissioned by the Welsh Government, with the aim of further understanding the impact of the introduction and rollout of Universal Credit in Wales.
- 1.2 Universal Credit is replacing most income-related social security benefits and tax credits for people of working age and is now being rolled out across the UK. Universal Credit full service has been available in all areas of Wales since January 2019, which means that all new income-related benefit claimants and those on legacy benefits whose circumstances change significantly, may claim only Universal Credit. The numbers receiving Universal Credit will increase considerably as the 'Move to UC' (formerly 'managed migration') exercise gets underway (which started with a pilot in July 2019 but has now been suspended because of the impact of the COVID-19 pandemic). This involves transferring all those still in receipt of legacy benefits to Universal Credit and is now unlikely to begin before the end of 2020, after completion of the pilot stage.
- 1.3 Support for council tax is not included in Universal Credit and, since 2013, the Council Tax Reduction Scheme in Wales has provided help for those in financial need. However, Universal Credit can have a significant impact on council tax reduction awards, and potentially caseload, and this impact needs to be fully understood. The Welsh Government also wishes to consider amendments to its Council Tax Reduction Scheme and requires impact models of possible alternative models in order to reach an informed decision.
- 1.4 In addition, various reports across the UK⁶ indicate that the design of Universal Credit is also having an adverse impact on arrears of both council tax and rents, and this report examines the position in Wales.

⁶ For example: [Universal Credit: Assumptions, Contradictions and Virtual reality](#), J Millar and F Bennett (Cambridge Core: Social Policy and Society, 16(2), 169-182, 2017) and [Intended and unintended consequences? A case study survey of housing associations and welfare reforms](#), P Williams, A Clarke and C Whitehead (Cambridge: Cambridge Centre for Housing & Planning Research, 2013)

- 1.5 The Welsh Government also wishes to have a better understanding of the impact of Universal Credit on residents and whether Alternative Payment Arrangements (APAs) could assist residents as they move to the new benefit.
- 1.6 In order to understand these issues, the Welsh Government commissioned Policy in Practice in January 2019 to undertake a comprehensive year-long study on impacts. The project includes a literature review, surveys and interviews with stakeholders and benefit claimants, analysis of local authority held administrative data, and analysis of data supplied by housing associations. Participants in the research include Welsh local authorities, together with housing associations, private-rented sector representatives, and Universal Credit/legacy benefit claimants, across Wales.

The Interim Report

- 1.7 The Welsh Government published an interim report⁷ on 9th January 2020: 'Understanding the Impact of Universal Credit on the Council Tax Reduction Scheme and Rent Arrears in Wales: Interim Findings'. This focuses solely on one element of the research: the impact of Universal Credit on the Council Tax Reduction Scheme in Wales, including possible amendments to the Council Tax Reduction Scheme to ensure the level of council tax reduction offered to citizens in Wales, and the numbers supported, are broadly maintained as households move across to Universal Credit.
- 1.8 The interim report looked at the current provision of council tax reduction across Wales, the current scheme as in 2021-22 when more of the population of Wales will have moved to Universal Credit, and the impact of introducing six different adjustments to the Council Tax Reduction Scheme. The interim report provided the Welsh Government with information on the estimated impact of adjustments on the total value of council tax reductions and the social implications of changing the

⁷ [Understanding the impact of Universal Credit on the Council Tax Reduction Scheme and Rent Arrears in Wales: interim report](#) (Welsh Government, 9th January 2020)

Council Tax Reduction Scheme, and was designed to inform decisions on further models, which are included in this report.

The Final Report 2020

- 1.9 The main focus of the project is a longitudinal analysis of the impact of Universal Credit over the period of the project. This involves tracking over time local authority and housing association data on household income and arrears. This final report presents results of all the research, including:
- An understanding of the migration rates to Universal Credit.
 - The impact of Universal Credit on rent and council tax arrears.
 - The impact of Universal Credit on council tax reduction caseload and potential changes to the Council Tax Reduction Scheme.
 - A view of the impact of Universal Credit on applicants and stakeholders, based on qualitative surveys and interviews, with a focus on arrears, accessing support, and alternative payment arrangements.

2. Background

Universal Credit

- 2.1 Universal Credit is a new benefit which replaces a range of existing income-related benefits and tax credits for working-age households. The UK Government's Department for Work and Pensions refers to the benefits and tax credits which Universal Credit is replacing as 'legacy benefits'. The Resolution Foundation predicted in a 2020 report⁸ that when it is fully rolled out, around 6.2 million households in the UK will receive Universal Credit and payments will total around £60 billion a year. This prediction was made prior to the COVID-19 pandemic and does not take account of the resulting economic fallout. Both the number of Universal Credit claimants, and the cost, are now likely to be substantially higher.
- 2.2 As of November 2019, there were 120,648 households on Universal Credit in Wales. Since Universal Credit full service was rolled out to all Jobcentres in December 2018, the number of households receiving Universal Credit in Wales has increased by an average of 4,792 a month.⁹ Although DWP considers that fewer households are migrating naturally (through changes in circumstances) than originally estimated, it is projected that the number will increase to 400,000 households by the end of managed migration, currently due to complete in September 2024.¹⁰ This means that, at the time of writing, less than a third of potentially eligible households in Wales are currently receiving Universal Credit.
- 2.3 This project has examined how the rollout of Universal Credit affects residents in Wales. The impact is wide-ranging, affecting council tax reduction awards, council tax arrears levels, council tax reduction caseload, and rent arrears.

⁸ Laura Gardiner and David Finch, [The long and winding road](#): the introduction and impact of Universal Credit in Liverpool City Region and the UK (Resolution Foundation, January 2020)

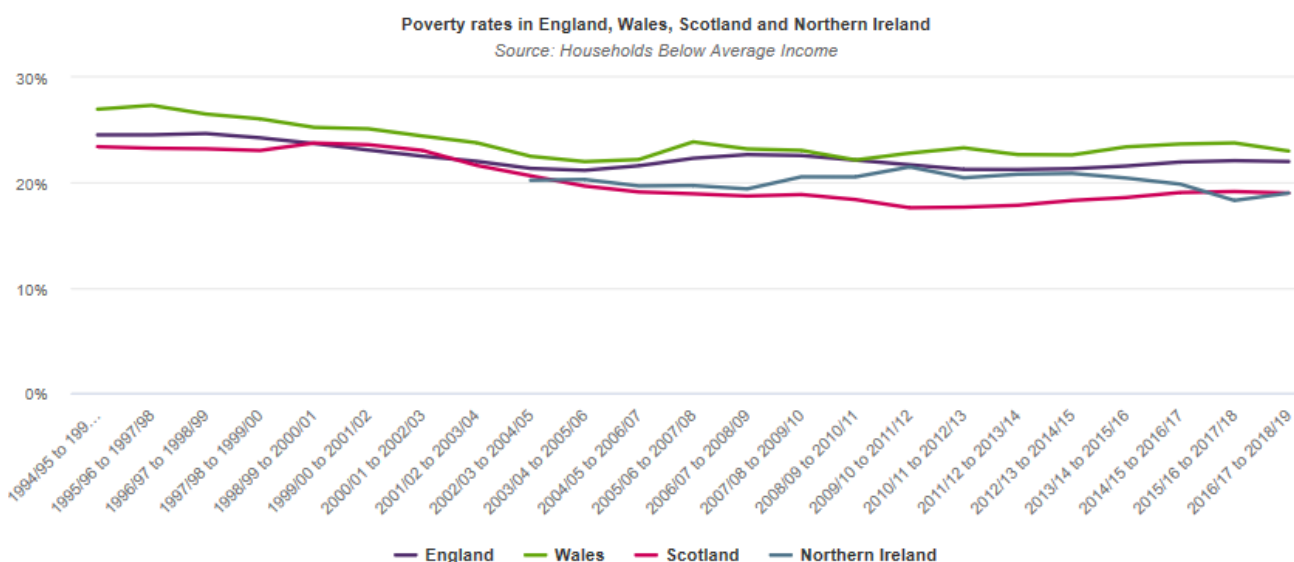
⁹ Policy in Practice analysis of Universal Credit statistics for November 2019 on DWP Stat-Xplore

¹⁰ [Analysis of the impact of the UK welfare reforms on households in Wales](#) (Welsh Government, January 2019)

Poverty in Wales

2.4 By way of context, it is helpful to briefly outline the key headline data in relation to poverty and employment in Wales. Data from the DWP 'Households Below Average Income' survey¹¹, the primary data source on low incomes and social security benefits in the UK, shows that Wales has a poverty rate that is similar to that in England and which is higher than that in Scotland or Northern Ireland, and that this has been reasonably consistent for much of the past two and a half decades. In the period 2016-17 to 2018-19, 23% of the population of Wales lived in poverty, where relative poverty was measured on an 'After Housing Cost' (AHC) basis. The latest estimates show that Wales has a poverty rate that is similar to that in England and is greater than that in Scotland for each of the three major life-cycle groups of children, working-age adults and pensioners.¹²

Figure 1 Relative income poverty rates in England, Wales, Scotland and Northern Ireland (AHC)¹³



¹¹ Households Below Average Income: An analysis of the UK income distribution: 1994-95 to 2018-19 (DWP, 26th March 2020)

¹² Based on analysis of Households Below Average Income data for Policy in Practice. See also [Poverty in Wales](#), Helen Barnard, (Joseph Rowntree Foundation, March 2018) for background

¹³ [Poverty levels and trends in England, Wales, Scotland and Northern Ireland](#) (Joseph Rowntree Foundation - undated)

- 2.5 Over the past 10 years the proportion of households without work has fallen across the UK but has fallen particularly fast in Wales (this trend does not take account of the impact of COVID-19 on employment in Wales). This reduction in worklessness, at the household level, is similarly reflected in a rise in the employment rate, whereas Wales, which has traditionally displayed lower employment rates than Scotland and England over the period shown here, has experienced the fastest rise, with the employment rate matching that of England and Scotland in 2018. Thus, poverty remains high in Wales despite a rising employment rate and a reduction in the proportion of working-age households where someone is not in work.
- 2.6 The coming years are likely to provide a difficult environment in relation to poverty trends. Research by the Institute for Fiscal Studies¹⁴ forecasts that the level of relative poverty, measured after housing costs, will rise over the period 2013-2015 to 2019-2021, with the expected increase in Wales larger than in many other parts of the UK. This same report forecasts that absolute (or ‘anchored’) income poverty, also measured on an after housing cost basis, will rise in Wales over this period, at a time when it is forecast to fall for the UK as a whole. Wales is forecast to experience particularly large increases in child poverty over this period. A report by the Equality and Human Rights Commission¹⁵ estimating the cumulative impact of tax and welfare reforms also forecasts significant increases in child poverty in Wales (by 8 percentage points), with a similar increase forecast for Scotland and an even greater increase anticipated in England (where child poverty is estimated to increase by 11 percentage points). The estimates in the report are for the financial year 2021-22.
- 2.7 Clearly, forecasts generated before the current COVID-19 pandemic must be read with some caution. However, these poverty trends mean that it is important to

¹⁴ [Living standards, poverty and inequality in the UK: 2017–18 to 2021–22](#), Andrew Hood and Tom Waters, (Institute for Fiscal Studies, November 2017). Forecasts relate to past years because there is a time lag before release of official figures.

¹⁵ [The cumulative impact of tax and welfare reform](#) (Equality and Human Rights Commission, 14th March 2018)

understand the impact of Universal Credit in Wales. Greater understanding could enable more accurate targeting of resources to those who need them the most.

3. Methodology

Administrative Data Analysis

- 3.1 Data analysis used in this report was undertaken at household level. Household data on current Housing Benefit and council tax reduction recipients has been supplied to Policy in Practice in the form of the Housing Benefit data extract (SHBE)¹⁶ and the CTR (council tax reduction) extract¹⁷ by all 22 Welsh local authorities. Data on households in receipt of Universal Credit is represented solely in the CTR extract¹⁸. Personal data has been excluded. Policy in Practice converts this data to a format that can be used by their software, the Benefits and Budgeting Calculator. The calculation engine enables global changes in benefit formulations, and modelled changes, to be applied to each household within the dataset. These are then summed up to arrive at aggregate values.
- 3.2 Rent arrears and council tax arrears data has also been supplied to Policy in Practice by some of the participating local authorities on a quarterly basis¹⁹. This data is matched with household level benefit data through a unique case identifier; the data provides a full picture of household circumstances including benefit income, rent and council tax arrears, on a quarterly basis. This allows for analysis at a specific point in time and analysis of impact over time.
- 3.3 For longitudinal analysis purposes, agreed annual rises in council tax have been included. The rate of council tax rises used are the same as the average for each council over the last three years. This assumption is applied separately to each

¹⁶ The Single Housing Benefit Extract (SHBE) is a monthly electronic scan of claimant level data direct from local authority computer systems for the Department of Work and Pensions.

¹⁷ The CTR extract is the electronic scan of council tax reduction data supplied to the Ministry of Housing Communities and Local Government.

¹⁸ Note that identification of households in receipt of Universal Credit is based on their recorded award amount. In some local authorities, there may be households that receive a flag for Universal Credit from DWP a number of weeks before receiving their first payment. All analyses in this report consider a household to be 'in receipt of Universal Credit' only once it has received its first payment.

¹⁹ 18 local authorities provided council tax arrears datasets, of which 9 were possible to match with SHBE data – see Part 2 of this report for details. 13 local authorities provided rent arrears datasets, of which 8 were possible to match with SHBE data – see Part 3 for details.

council's council tax charge prior to data analysis. The council tax increases used in the modelling are given at Appendix 3.

- 3.4 An agreed level of migration to Universal Credit is also included. Modelling will include an expected migration of an additional 15.5% of claimants to Universal Credit by 2021-22. This assumed (pre-COVID-19) level has been agreed with the Welsh Government and is based on current observed levels of 10% per annum carried through to the year 2020-21, and an assumption of falling migration levels to 5% per annum by 2021-22.
- 3.5 Modelling for 2021-22 includes probable changes to welfare support rates, the national minimum wage, tax allowances, Local Housing Allowance rates, rent costs, and known regulatory change. Benefit rates are in line with the inflation measure currently used for benefit uprating (the annual uplift applied by the UK Government to benefit rates, typically in April). Other changes are informed by the Office of Budget Responsibility's annually published predictions of inflation rates.²⁰ Local Housing Allowance rates are modelled on the basis that any uprating is applied from the current base level rather than from a return to alignment with the third decile of rental charges.
- 3.6 It is worth noting that modelling of future years cannot take account of macro-economic conditions or changes in policy resulting from a change of UK Government. In particular, the modelling does not take into account any economic impacts of exiting the European Union or any policy changes that may result from a change of Government between 2019 and 2022.
- 3.7 The modelling also does not take account of the changes to welfare provision announced by the Government in response to the COVID-19 virus, the anticipated increase in claims as a result, nor the potential economic impacts.
- 3.8 In addition, modelling can only take account of households currently represented in the datasets. It therefore cannot anticipate behavioural change in response to

²⁰ [Economic and fiscal outlook – March 2020](#) (Office for Budget Responsibility, 11th March 2020)

scheme adjustment. Specific measures that result in wider eligibility cannot model increases in caseload or the resulting increase in the total value of council tax reductions. Where this occurs, modelling may result in an underestimation of cost. However, where an adjustment may result in increased caseload this is noted in the text of this report.

- 3.9 Further information on data sources, data processing, modelling assumptions, and analytical process is supplied in Appendix 2 to this report.

Survey and Interview Data

- 3.10 Primary quantitative and qualitative data collected through online surveys and face-to-face interviews was analysed. This data collection targeted a range of sample populations: actual and potential benefit claimants; social and private landlords; local authority officials; and third-sector stakeholders. In using this approach, there were two key aims: answering research questions²¹ that could not be covered due to the limitations of the standardised structure of household-level benefits data; and providing quantitative estimates of awareness, comprehension and behavioural intentions regarding Universal Credit policies and procedures.
- 3.11 There were 490 respondents to the claimant survey, and 433 respondents to the stakeholder survey. The surveys took around 20 minutes to complete, and differed for stakeholders and claimants, with questions around demographics, financial circumstances, understanding and expectations about Universal Credit, and council tax reduction, and support systems.
- 3.12 The online survey served as the basis for follow-up recruitment for the qualitative interview segment of the research. After completing the survey, respondents were given the option to declare whether they were willing to be recontacted for a face-to-face interview.

²¹ See Appendix 5 for a list of research questions and how they have been answered.

- 3.13 A total of 23 claimants were interviewed, nineteen of them respondents to the survey, as well as four claimants from the 'National Survey for Wales' re-contact database. They were of different ages, ethnic backgrounds, working statuses and household types – on both legacy benefits and Universal Credit for various lengths. Thirteen stakeholders were interviewed, representing a range of stakeholders, from housing association employees to charity workers to private-rented sector landlords who had tenants on Universal Credit.
- 3.14 Interviews with both claimants and stakeholders were carried out by one of two trained interviewers. Interviews followed a semi-structured format and took place in a centralised location on local authority premises. They were structured to allow interviewees to qualify their answers and provide further details for those elements of the survey where closed-response options might not have captured the full nuance of particular topics.
- 3.15 The aim of the interviews with legacy benefit claimants was to find out what they knew about Universal Credit and what they felt about the new benefit.
- 3.16 The interviews with claimants lasted between 15 and 45 minutes. The interviews with stakeholders, explored some of the topics in the survey in more depth and lasted between 15 and 50 minutes.
- 3.17 The surveys and interviews provided a descriptive snapshot of the data on awareness, experience of and impact of Universal Credit. The survey data was used to examine the associations between predictors and outcomes for the claimant sample. The interviews were useful in exploring the topics of the claimant survey in more detail and pulling out unique insights that could not be captured by the survey.

4. Part One: Council Tax Reduction

Introduction

- 4.1 In 2012, the UK Government decided to abolish Council Tax Benefit and instead facilitate local Council Tax Reduction Schemes to support those households in financial need in England. The UK Government explained the rationale for localising assistance with council tax as giving English local authorities a greater stake in the economic future of their local area. A 10% cut in the budget was also made simultaneously, as a contribution to the UK budget deficit. The UK Government's aim was for English authorities to work on growing their local economies so that fewer residents would need to apply for a council tax reduction. The 10% funding shortfall was also applied to a fixed transfer of funding to the Welsh and Scottish Governments which resulted in the transfer of £222 million to Wales rather than meeting the full cost of Council Tax Benefit at the point of transfer of £244 million per annum.
- 4.2 Ministers in Wales took powers to make regulations which both required each billing authority in Wales to adopt a reduction scheme and prescribed what must or must not be included in a scheme. It is important to note that the Council Tax Reduction Scheme is not part of the benefits system – it forms an integral part of the council tax system.
- 4.3 Accordingly, Ministers in Wales set out their own priorities for Council Tax Reduction Schemes. The key principles are:
- Consistency and equity of treatment across Wales.
 - Affordability.
 - Minimising the risk of not having a replacement scheme in time.
 - Avoiding sudden shifts in the level of support provided.
 - Simplifying and improving on the previous Council Tax Benefit system where possible.

- 4.4 The design of the current Council Tax Reduction Scheme in Wales follows these principles in several ways.
- 4.5 Firstly, the Welsh Government decided that the current Council Tax Reduction Scheme in Wales would be closely aligned with the former Council Tax Benefit. The regulations therefore follow closely those governing the former Council Tax Benefit, and amendments since 2013 have mainly been technical or related to uprating benefit rates.
- 4.6 Secondly, the Welsh Government provided an extra £22 million in 2013-14 “to support local authorities in providing all eligible households with their full entitlement to support, despite the shortfall in funding transferred from the UK Government.” This additional funding was calculated to meet the full amount of the Council Tax Benefit system at the point of its abolition (£244 million) and the same level of support for councils has been maintained since then. Local authorities in Wales are expected to plan for any additional increase in the total value of council tax reductions arising from local increases in council tax. The Welsh Government says that this arrangement reflects the shared responsibility for the scheme.
- 4.7 Thirdly, the Welsh Government simplified the scheme by abolishing the Second Adult Rebate for all applicants including pensioners and making other administrative improvements (unlike English local authorities, Ministers in Wales have the authority to decide how its centrally-determined scheme operates for pensioners as well as working-age households).
- 4.8 Finally, the Welsh Government decided to create a national framework scheme with minimal local discretion. Each Welsh local authority is required to adopt its own Council Tax Reduction Scheme based on the prescribed requirements regulations, with only limited areas of discretion to enable them to “take account of the needs and priorities within their local areas”. The areas of discretion are:
- Extended payments - increase the period during which applicants are entitled to continue to receive a reduction in certain circumstances (the ‘run-on’), beyond the standard four-week period.

- War Disablement Pensions and War Widow's Pensions - disregard more than the statutorily prescribed £10 of the money received in respect of these pensions when calculating income.
- Backdating of applications - backdate applications for reductions beyond the standard three-month period.
- Notifications of decision - provide more than the minimum information prescribed as part of their notification of decision procedures.

4.9 In 2018-19, all authorities in Wales disregarded 100% of war pensions (such as War Widows Pension and War Disablement Pension), no authority changed extended payments, and one authority (Vale of Glamorgan) increased backdating, from 3 to 6 months.

4.10 Ministers in Wales have also provided for a default scheme which would apply if a local authority failed to set its own scheme, but this has not proved necessary to date. The default scheme regulations also closely follow the former Council Tax Benefit regulations.

4.11 Under the current Welsh Council Tax Reduction Scheme, the assessment to ascertain the level of council tax reduction for households in receipt of Universal Credit differs from the assessment process for households in receipt of legacy benefits. This means that a move to Universal Credit often triggers a change in the amount of council tax reduction for households. Although this is the case for most Council Tax Reduction Schemes within the UK, the difference in the level of council tax reduction between the two benefit regimes may be greater in Wales than in other parts of the UK. This is because the Welsh scheme for households in receipt of legacy benefits does not incorporate wider UK Government welfare reforms such as the two-child limit, the abolition of the Employment and Support Allowance Work Related Activity Group (ESA WRAG) additional component, and the abolition of the family premium. For households in receipt of Universal Credit these changes are incorporated into both the “needs” and income side of the assessment for council tax reduction.

4.12 The Welsh Government is considering adjusting the current scheme to ensure fairness between households under the two benefit regimes. An additional objective is to ensure that any revised scheme maintains, or increases, the number of households receiving support. This is of particular concern given the possible impact of Universal Credit on caseload. The interim report²² for the Welsh Government (published in January 2020) provided an analysis of the impact of six different scheme amendments. The results of these models are given in Appendix 4 of this report. Following an evaluation of the interim report, the Welsh Government wishes to understand the impact of the following further scheme amendments:

- Amendment of the taper
- Introduction of a “de minimis” rule

4.13 The interim report also contained an analysis of the current support in Wales and support in 2021-22, when more households will have migrated over to Universal Credit. This analysis is updated in this chapter, below.

Council Tax Reduction Caseload

Background

4.14 There is evidence that council tax reduction caseloads are falling across Great Britain, coinciding with the rollout of Universal Credit. The Institute for Fiscal Studies (IFS) states that caseloads across Great Britain have fallen 17% between 2012–13 and 2017–18.²³ These reductions represent a broader trend prior to any recent increases in caseload which may result from the economic effects of the COVID-19 pandemic.

4.15 In Wales, Council Tax Reduction Scheme caseload has also been reducing, although given the relatively small numbers receiving Universal Credit so far, this trend may be for other reasons (e.g. economic conditions). The Welsh Government

²² [Understanding the impact of Universal Credit on the Council Tax Reduction Scheme and rent arrears in Wales: interim report](#) (Welsh Government, 9th January 2020)

²³ [The impacts of localised council tax support schemes](#), Stuart Adam, Robert Joyce and Thomas Pope (Institute for Fiscal Studies, 29th January 2019, page 35)

publishes an annual report on the Council Tax Reduction Scheme in Wales which contains detailed information about caseloads and the total value of council tax reductions. The latest report²⁴ for 2019-20 shows that 275,042 households in Wales received a council tax reduction in 2019-20, compared to 277,989 in 2018-19, a fall of 2,947 cases (1.1%%).

Table 1.1: Change in Council Tax Reduction Caseload 2013 – 2020

CTRS caseload	March 2013	March 2014	March 2015	March 2016	March 2017	March 2018	March 2019	March 2020	% reduction 2014-20
Total	329,000*	316,732	307,137	299,185	291,891	284,581	277,989	275,042	13.2%
Pensioners	-	133,000	127,098	124,065	119,930	116,823	113,966	110,744	16.7%
Working Age	-	183,732	180,039	175,120	171,961	167,758	165,118	165,643	9.8%

*Caseload in March 2013 at the point of Council Tax Benefit abolition.

Source: Welsh Government Council Tax Reduction Scheme annual reports

4.16 The Council Tax Reduction Scheme 2018-19 Annual Report ²⁵ published by the Welsh Government suggests that the working-age caseload has reduced because of people exiting the benefits system altogether as a result of an improvement in the general economic situation and/or the cumulative effects of welfare reforms. It suggests that pensioner caseload reductions are caused by a combination of recent changes to the state pension age for women, and the fact that new cohorts of pensioners tend to have higher incomes, are more likely to be owner-occupiers, and are less likely to take up council tax reduction. Policy in Practice analysed 2019-20

²⁴ [Council Tax Reduction Scheme: annual reports](#) (Welsh Government)

²⁵ [Council Tax Reduction Scheme, Annual Report 2018-9](#) (Welsh Government, page 10-11 para 3.3, July 2019)

administrative data from all Welsh local authorities to provide a further breakdown of current caseload and the results are provided later in this section of the report.

Take Up and Awareness of Council Tax Reduction in Wales

- 4.17 A recent Wales Centre for Public Policy report²⁶ quotes a Welsh Government assessment of its Council Tax Reduction Scheme which suggests that uptake of council tax reduction for low-income households in Wales could have been between 55% and 65% in 2018. This is consistent with historic trends in Council Tax Benefit take-up²⁷ and means that a significant number of low-income households are not receiving the financial support to which they are entitled.
- 4.18 Universal Credit could reduce this relatively low take-up rate even further. Firstly, Council Tax Benefit was very often claimed at the same time as Housing Benefit, but council tax reduction must be applied for separately under moves to Universal Credit. So, some households simply may not apply. Secondly, potential Universal Credit claimants may get lost in the process. This is because local authorities depend entirely on receiving data about Universal Credit from DWP in order to calculate council tax reduction entitlement. As part of the Universal Credit claim, where liability for council tax is indicated, the claimant will be asked if they are already receiving, intend to apply for, or do not want to apply for, council tax reduction from their local authority. If a Universal Credit claimant states that they are claiming, or intend to claim, council tax reduction, an interest marker is set which triggers the transfer of data from DWP. If any of these arrangements break down, some households may not be told that they need to apply for council tax reduction separately.
- 4.19 To address low take-up of the Council Tax Reduction Scheme, the Welsh Government has raised awareness of the various different council tax reductions and discounts available to households – an ongoing campaign that includes

²⁶ [Responding to citizens in debt to public services](#) (Wales Centre for Public Policy, February 2019)

²⁷ [Income-related benefits: Estimates of take-up in 2009-10: National Statistics First Release](#), DWP (National Statistics), June 2013, page 2 (take-up of CTB by caseload estimated to be between 62% and 69%)

posters, content through the Welsh Government's digital channels and targeted social media. One of the aims of the campaign is to encourage households to refer to information on the Welsh Government's website, including a council tax reduction award eligibility checker. The Wales Centre for Public Policy report²⁸ argues that personal targeted contact works better than non-targeted advertising (such as leaflets or radio adverts), and that local partnership working (e.g. local authorities working with community groups and GPs) is vitally important.

- 4.20 In November 2019, the Welsh Government announced²⁹ that its 'Council Tax Help webpages and social media campaign have already helped over 60,000 people access the vital information they need on the many forms of council tax support available', since the launch in 2018.
- 4.21 The press release stated that the next phase of the campaign would specifically target low-income households, and those receiving or migrating to Universal Credit, by raising awareness of the Council Tax Reduction Scheme in Wales. Since November 2019, a further 15,000 hits have been recorded on the Welsh Government's Council Tax Help webpages.

²⁸ [Responding to citizens in debt to public services](#) (Wales Centre for Public Policy, February 2019)

²⁹ [Are you eligible for council tax reduction?](#) (Welsh Government, November 2019)

Survey Findings

- 4.22 The research presented in this report included a survey of stakeholders and claimants containing specific questions designed to inform an understanding of the awareness and take-up of council tax reduction and its relationship to Universal Credit.
- 4.23 Survey responses indicated that for some claimants there is confusion between the relationship between Universal Credit and the Council Tax Reduction Scheme. A quarter of all claimant respondents (83 out of 310) believed that an application for council tax reduction was included as part of Universal Credit. They were unaware of the separate claim process or separate administration of council tax reduction.
- 4.24 A significant proportion of claimant respondents showed a lack of general awareness of council tax reduction. Of those respondents in receipt of Universal Credit, 29% (52 out of 182) did not know if they received council tax reduction. This is significantly higher than the 14% (13 out of 90) of those in receipt of legacy benefits who were not sure if they received council tax reduction. For households that were aware of Council Tax Reduction Scheme but had not applied, the main reason given was not understanding the eligibility criteria (50% of respondents).
- 4.25 These findings indicate that both a lack of awareness of available support and a lack of knowledge of how council tax reduction fits with Universal Credit could affect council tax reduction caseload, and that any fall in caseload could increase as more households move to Universal Credit. Survey findings indicate that the Welsh Government should continue and enhance its awareness campaign, particularly the relationship between council tax reduction and Universal Credit, in order to maintain caseloads and maximise income for residents of Wales.
- 4.26 A further barrier to applying for council tax reduction is fear of increased debt. 16% of respondents not in receipt of Universal Credit (13 out of 80) who were aware of council tax reduction but did not apply stated that this was due to the risk of falling into debt due to recovery of overpayments. This indicates that raising awareness alone may not fully restore council tax reduction caseloads.

Survey Findings

- 25% (83 out of 310) of all claimant respondents thought that council tax reduction was part of Universal Credit.
- 29% (52 out of 182) of responding Universal Credit claimants did not know if they received council tax reduction (compared to 14% in receipt of legacy benefits).
- 62% (54 out of 87) of responding households in receipt of legacy benefits said they would claim council tax reduction if they moved to Universal Credit.
- 16% (13 out of 80) of responding legacy benefit claimants did not apply for a council tax reduction due to a fear of increased debt caused by overpayment recovery.

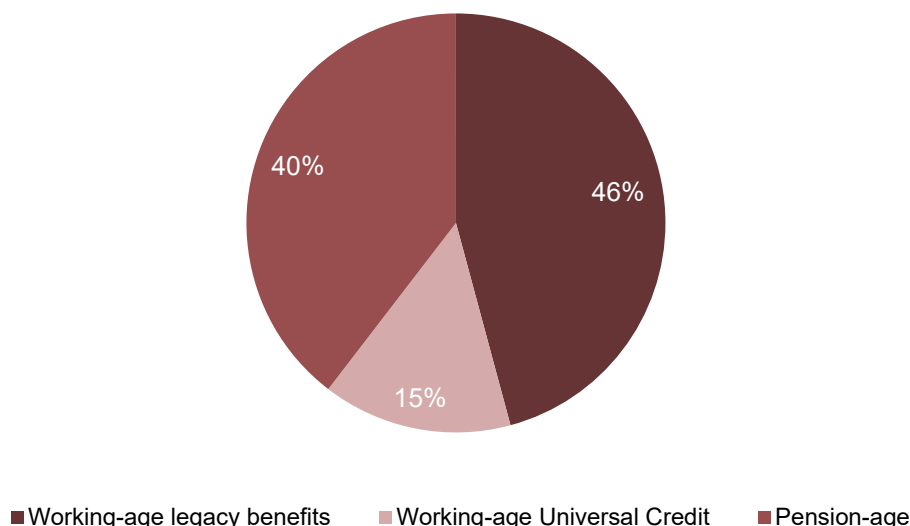
Current Caseload and Total Value of Council Tax Reductions

- 4.27 The caseload used for this analysis consists of 2019-20 council tax reduction data received from every local authority in Wales. The Interim Report (January 2020) contains analysis based on 2018-19 data from 16 local authorities extrapolated to provide aggregate impact across Wales. Analysis in this report updates the interim report findings with the 2019-20 data for all local authorities in Wales.
- 4.28 In 2019-20, 275,000 households received a council tax reduction in Wales, which indicates a further reduction in caseload from 2018-19. Amendments to the Council Tax Reduction Scheme being considered by the Welsh Government as part of this research are only applied to the 166,000 working-age households as the focus of the research is on those households affected by Universal Credit.³⁰ The 109,000 pension-age households are not affected by Universal Credit and so are modelled throughout this report under the current Council Tax Reduction Scheme.

³⁰ Couples who consist of one person of pension-age and one of working-age (generally referred to as Mixed Age Couples) remain in receipt of legacy benefits until a change of circumstances and so will mostly be included as pension-age for this report. However, any claims from mixed age couples made after 15 May are counted as working-age in line with the Universal Credit regulations.

4.29 Of the working-age households currently receiving support, 40,000 are in receipt of Universal Credit and 126,000 are in receipt of legacy benefits.

Figure 1.1: Proportion of Total Caseload in Wales by Age Group³¹



4.30 The total value of council tax reductions was £269m in 2019-20. £109m of this amount is for pension-age support and £160m for working-age support. The average council tax reduction award for working-age households in 2019-20 is £18.60 per week. Pension-age households receive a slightly higher average award of £19.30 per week.

4.31 Working-age households in receipt of Universal Credit receive lower weekly awards (£16.70 per week) than households in receipt of legacy benefits (£19.10 per week). This is due to two main factors:

- Taper rate and work allowances: Under Universal Credit, working households generally retain a higher proportion of earned income. This is due to support being removed at 63p for each pound earned. Under legacy benefits, support is removed at a faster rate (the rate depends on the benefit being received). In addition, Universal Credit includes work

³¹ Figure 1.1 raw values: working-age legacy benefits - 125,855; working-age Universal Credit - 40,183; pension-age - 108,735

allowances for households with children and for those that are too ill to work. These are amounts that the household can earn without any reduction in a Universal Credit award. This higher retention of earned income under Universal Credit, due to the taper rate and work allowances, means that household income for some earners is higher, resulting in a lower council tax reduction. This is not offset by those with reduced household income due to the ceiling of support which is 100% of liability.

- **Demographic Differences:** The data analysis undertaken as part of this project showed that the demographics of council tax reduction households in receipt of Universal Credit are currently different to those in receipt of legacy benefits. The latter includes a noticeably higher proportion of those in receipt of Employment and Support Allowance (ESA) Support group or those deemed to have limited capability for work-related activity (LCWRA). 14% of households receiving council tax reduction, and in receipt of legacy benefits, are carers and 60% are in the ESA support group (or equivalent). This compares to 6% and 15% respectively under Universal Credit. This is due to the nature of the rollout of Universal Credit with early rollout focused on a narrow range of claimants. Since then, movement to Universal Credit is reliant on a change of circumstances and this disproportionately affects single jobseekers.

Table 1.2: Total Value of Council Tax Reductions and Caseload: Current Scheme in Wales by Age Group

Age group	Number of households	Council tax reduction £ per week	Total value of council tax reductions £ per annum
All working age	166,000	£18.60	£160m
UC households	40,000	£16.70	£35m
Non-UC households	126,000	£19.10	£125m
Pension age	109,000	£19.30	£109m
Total	275,000	£18.90	£269m

Demographic Analysis of Current Total Value of Council Tax Reductions and Award Levels in Wales (Working-Age Households)³²

Household composition

4.32 Single-person households make up 49% of working-age households in receipt of council tax reduction, while 42% have children in the household. The remaining 9% are couples with no children. The proportion of households with children is broken down into lone-parent households (30%) and households with two parents (12%) (Figure 1.2). Figures for the proportion of the total value of council tax reduction

³² The analysis is based on local authority SHBE and CTR datasets from all local authorities in Wales in June 2019.

awarded to these subsets are similar, though naturally vary a little, as the monetary value of support will vary between households (Figure 1.3).

4.33 Average weekly council tax reduction is highest for couples without children at £22.80 per week, with lone parents receiving the lowest level of average council tax reduction (Figure 1.3). These differences can be explained by the circumstances of these households. Amongst the low-income households represented in the data set, households with children are more likely to be in work. Lone parents are therefore more likely to be in work than single-person households and consequently receive lower council tax reduction. The higher council tax reduction for couples without children is because many of these households consist of a person who is too ill to work, with the partner being a carer.

Figure 1.2: Proportion of Total Caseload in Wales, by Household Composition³³

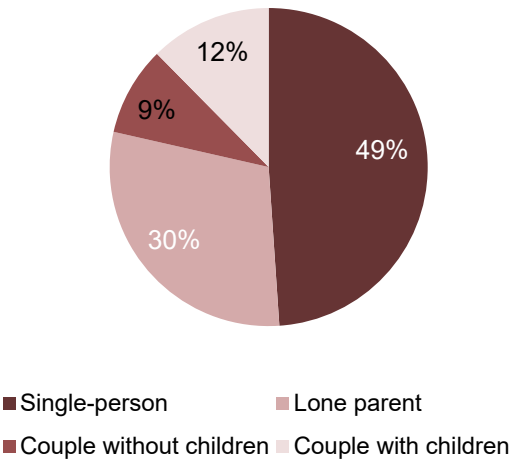
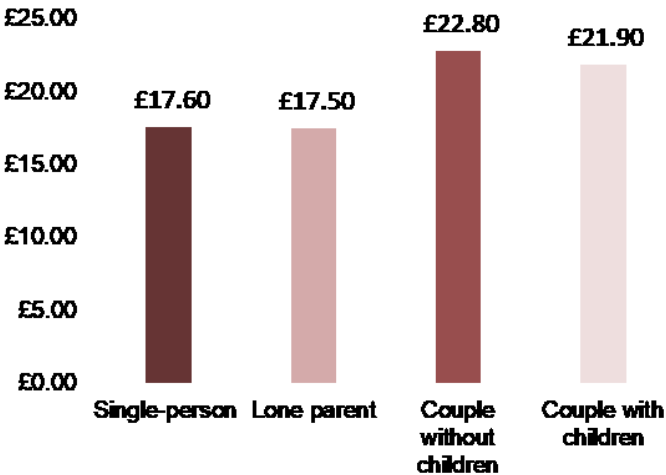


Figure 1.3: Average Weekly Council Tax Reduction 2019-20, by Household Composition



³³ Figure 1.2 raw values: Single-person - 81,238; Lone parent - 49,195; Couple without children - 15,021; Couple with children - 20,594

Economic status

- 4.34 Most council tax reductions for working-age households assist those who are not in work. 81% of the total value of working-age council tax reductions is for households in receipt of out-of-work benefits. 17% of support is for low-income employed households and 2% is for low-income self-employed households (Figure 1.4).
- 4.35 Average working-age weekly reduction is highest for self-employed households at £20.30 per week. This compares to an average of £13.40 per week for employed households (Figure 1.5). This is primarily due to lower earnings of self-employed households than employed households.

Figure 1.4: Proportion of Total Caseload in Wales, by Economic Status ³⁴

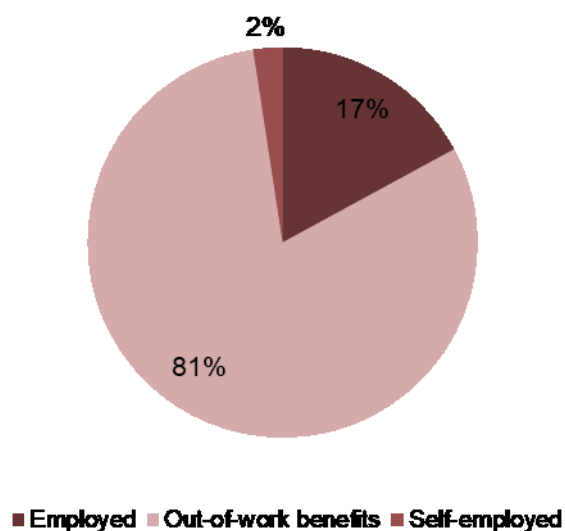


Figure 1.5: Average Weekly Council Tax Reduction 2019-20, by Economic Status



Council Tax Band

- 4.36 The majority of the total value of working-age council tax reductions is received by households living in properties in the lower council tax bands, with 67% of support going to households in bands A and B (Figure 1.6). Even so, whilst the majority of

³⁴ Figure 1.4 raw values: Employed - 28,356; Out-of-work benefits - 133,672; Self-employed - 4,010

council tax reduction support goes to lower-band households, the level of average weekly award for individual households increases with council tax band (Figure 1.7). This is due to awards being based on liability so those in higher bands with a higher council tax liability receive greater weekly support.

Figure 1.6: Proportion of Total Caseload in Wales, by Council Tax Band ³⁵

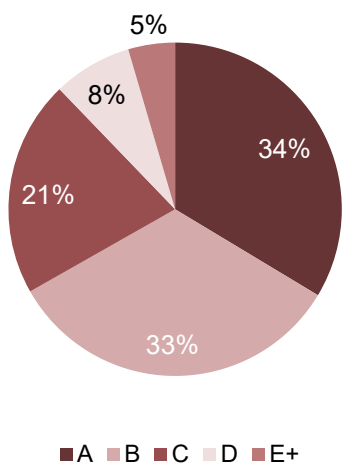
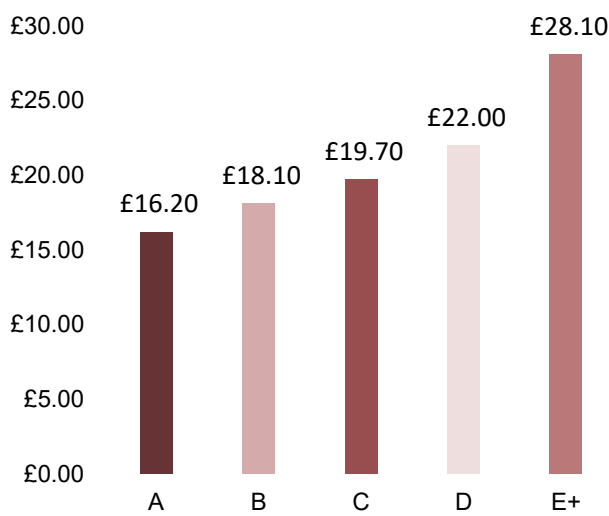


Figure 1.7: Average Weekly Council Tax Reduction 2019-20, by Council Tax Band



Tenure

- 4.37 The greatest proportion of working-age council tax reductions supports households who are renting their properties. Within this group, households in the social-rented sector receive 49% of all support and those in the private-rented sector receive 22% of all support.
- 4.38 29% of all support goes to owner-occupiers and households whose tenure is unknown. Nevertheless, average weekly awards are slightly higher for owner-occupiers. This reflects the greater likelihood of owner-occupiers living in properties in the higher council tax bands (Figure 1.8 and Figure 1.9).

³⁵ Figure 1.6 raw values: A 55,827; B 55,075; C 34,881; D 12,715; E+ 7,540

56

Figure 1.8: Proportion of Total Caseload in Wales, by Tenure ³⁶

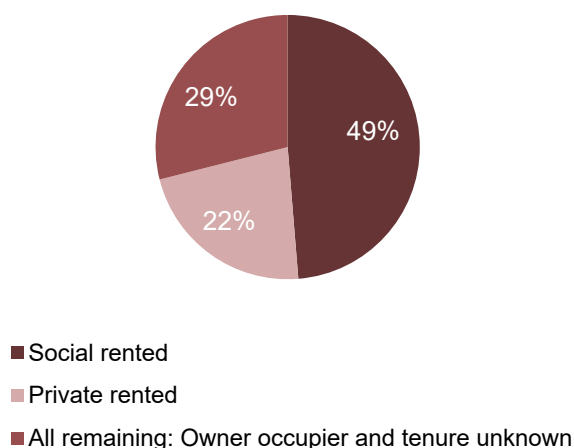


Figure 1.9: Average Weekly Council Tax Reduction 2019-20, by Tenure



Vulnerable Households

- 4.39 Households in which a working-age person is living with a disability or illness, or in which a person has care of an infant under five years old, are disproportionately represented among low-income households. This is likely to be due to challenges and personal choices in accessing work, or the greater likelihood of part-time work. 66% of the value of current council tax reduction support for working-age households is received by households falling within these categories (Figure 1.10).
- 4.40 Lone parents with a child under the age of 5 receive lower weekly council tax reduction awards than the average award across all working age groups, with an average award of £17.40 per week (Figure 1.11). This is lower than council tax awards to those who are ill, live with a disability, or have caring responsibilities. This is due to the higher likelihood of lone parents being in work than other vulnerable groups. In addition, the assessment of needs for other vulnerable groups is higher than for lone parents as it incorporates specific additional amounts due to illness or caring.

³⁶ Figure 1.8 raw values: Social rented 80,878; Private rented 37,099; All remaining: Owner occupier and tenure unknown 48,061

Figure 1.10: Proportion of the Total Value of Council Tax Reductions 2018-19 for Vulnerable Households, by Vulnerable Household Type³⁷

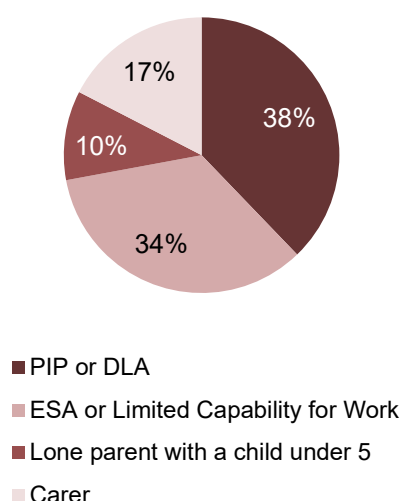
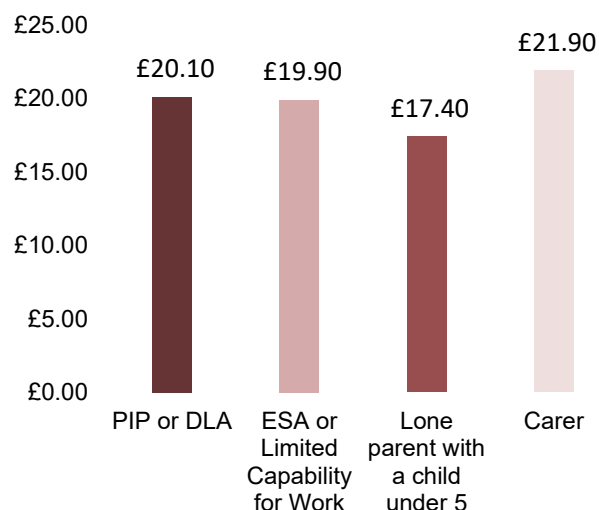


Figure 1.11: Average Weekly Council Tax Reduction 2019-20, by Vulnerable Household Type



Council Tax Reduction in 2021-22

- 4.41 Predictions for 2021-22 are based on current caseload. It is worth noting that large increases in caseload are expected due to the economic effects of the COVID-19 pandemic. This is likely to have a significant impact on caseload (and therefore cost). Between 1 March 2020 and 5 May 2020, there were two million new claims for Universal Credit across the United Kingdom.³⁸ It is not possible to predict how many of these claims will continue once the economic effects of COVID-19 begin to recover. In light of this, 2020-21 modelling is based on the caseload prior to the effects of the pandemic were beginning to materialise. Measures to increase the generosity of Universal Credit, introduced in April 2020 in response to COVID-19, have also not been included in the analysis. This is because these are currently scheduled to end before April 2021, with benefits reverting to previous levels.

³⁷ Note that a household may fall into several vulnerable categories. For this reason, Figure 1.10 represents the proportion of the total value of council tax reductions that are represented within each category rather than the caseload. If caseload figures were used it would overestimate the number of vulnerable households in the council tax caseload in Wales.

³⁸ [Universal Credit management information tables: 1 March to 5 May 2020](#) (DWP, 12th May 2020)

- 4.42 Based on pre-COVID-19 caseload levels, maintaining the current scheme into 2021-22 would increase the total value of council tax reductions for working-age and pension-age households from £269m in 2019-20 to £294m in 2021-22, due to increases in council tax liability. This is an increase in the total value of council tax reductions of £25m or 9% (Table 1.3).
- 4.43 If the Welsh Government were to retain the current scheme into 2021-22, the number of working-age households receiving a council tax reduction would reduce slightly compared to 2019-20, with an estimated 1,660 households losing support altogether. Loss of support results from a combination of factors, including the increase in the national minimum wage and the reduction in support for households as they migrate to Universal Credit.

Table 1.3: Maintaining Current System into 2021-22: Annual Total Value of Council Tax Reductions

Total value of council tax reductions if the current scheme was retained into 2021-22 <i>Note: totals may not sum due to rounding</i>		Comparison to current scheme's total value of council tax reductions <i>Note: totals may not sum due to rounding</i>	
Group	£ per annum	Change (£ per annum)	Change (%)
All working age	£173m	£13m	8%
Pension age	£120m	£11m	10%
Total	£294m	£25m	9%

- 4.44 The total value of council tax reductions would increase in 2021-22 by 8% for working-age households compared to 10% for pension-age households. The difference in increase between working-age and pension-age households is primarily due to the reduced council tax reduction for working households under Universal Credit, reflecting the higher retention of earned income in the Universal Credit system. In addition, the planned increases in the national minimum wage and personal tax allowance by 2021-22 will increase earnings and so reduce the number of working-age households receiving council tax reduction awards (Table 1.3).
- 4.45 Average weekly council tax reduction for working-age households in 2021-22 is £1.70 per week more than 2019-20 levels (Table 1.4). This does not necessarily mean households will be better off in terms of council tax reduction, primarily due to council tax rises (this is explored below).

Table 1.4: Maintaining Current System into 2021-22: Weekly Reduction Levels

Group	Council tax reduction under the current scheme in 2021-22 (£ per week)	Change compared to 2019-20 (£ per week)	Change (%)
All working age	£20.00	£1.40	8%
Universal Credit	£18.40	£0.90	5%
Legacy benefits	£21.00	£1.90	10%
Pension age	£21.40	£2.10	11%
Total	£21.00	£1.70	9%

- 4.46 Households in receipt of legacy benefits see an average 10% rise in council tax reduction (£1.90 per week). By comparison, households in receipt of Universal Credit see their council tax reduction increase by an average of 5% (£0.90 per week). The increase for legacy benefit households is in line with the increase in council tax between 2019-20 and 2020-21 (an average of 10% across all local authorities). However, households in receipt of Universal Credit see an increase of 5% below that of the council tax rise. This difference is due to many of these households being modelled as migrating to Universal Credit from legacy benefits, and therefore being assessed under the Universal Credit provisions for the first time.
- 4.47 An average decrease in council tax reduction is expected as households move to Universal Credit due to:

- The higher retention of earnings and more generous work allowance under Universal Credit, which results in more of the council tax reduction being reduced by the taper rate.
- Differences in the 'needs' element of the assessment under Universal Credit. Disability premiums have been removed and other welfare reform provisions, such as the two-child limit, the removal of the Employment and Support Allowance Work Related Activity Group (WRAG) premium, and the removal of the equivalent of the family premium have been introduced.
- The introduction of the Minimum Income Floor for self-employed households. This measure has been removed for 2020-21 in response to COVID-19 but is expected to be re-introduced by 2021-22.
- Removal of earnings disregards for assessment of council tax reduction for households in receipt of Universal Credit.

4.48 It is worth noting that, for some households, particularly those who are earning and not affected by other welfare reforms, the increased retention of earnings under Universal Credit means that they may not be worse off overall.

Impacts of Maintaining the Current Scheme into 2021-22

4.49 If the current scheme were maintained into 2021-22, on average, working-age households would see an increase in council tax reduction of 8%. This takes account of the expected council tax increases in each local authority by 2021-22.³⁹ The overall average council tax increase across Wales is 5% per year and 10% over the two years.⁴⁰ Compared to this average council tax rise of 10%, the working-age average increase of council tax award of 8% represents a small real reduction in average support.

³⁹ Council tax rises for 2019 to 2021 are calculated for each local authority based on the previous 3-year council tax rise.

⁴⁰ Note that in the interim report the average increase in liability was 16%. This was due to projecting council tax rises over three years (2018 to 2021) whereas the modelling used in this report only projects two years into the future (2019 to 2021) as additional data was included.

- 4.50 The difference between expected increases in council tax reduction and council tax liability is marginal (<1%) for those in receipt of legacy benefits and those already in receipt of Universal Credit in 2019-20. However, households migrating to Universal Credit from legacy benefits between 2019-20 and 2021-22 will see an increase in support that is 4% below the rate of council tax liability increase. This difference is because those moving to Universal Credit for the first time will, on average, receive lower council tax reduction awards. This is due to differences in the assessment of council tax reduction under Universal Credit and the greater retention of earned income.

Differences in impact by economic status

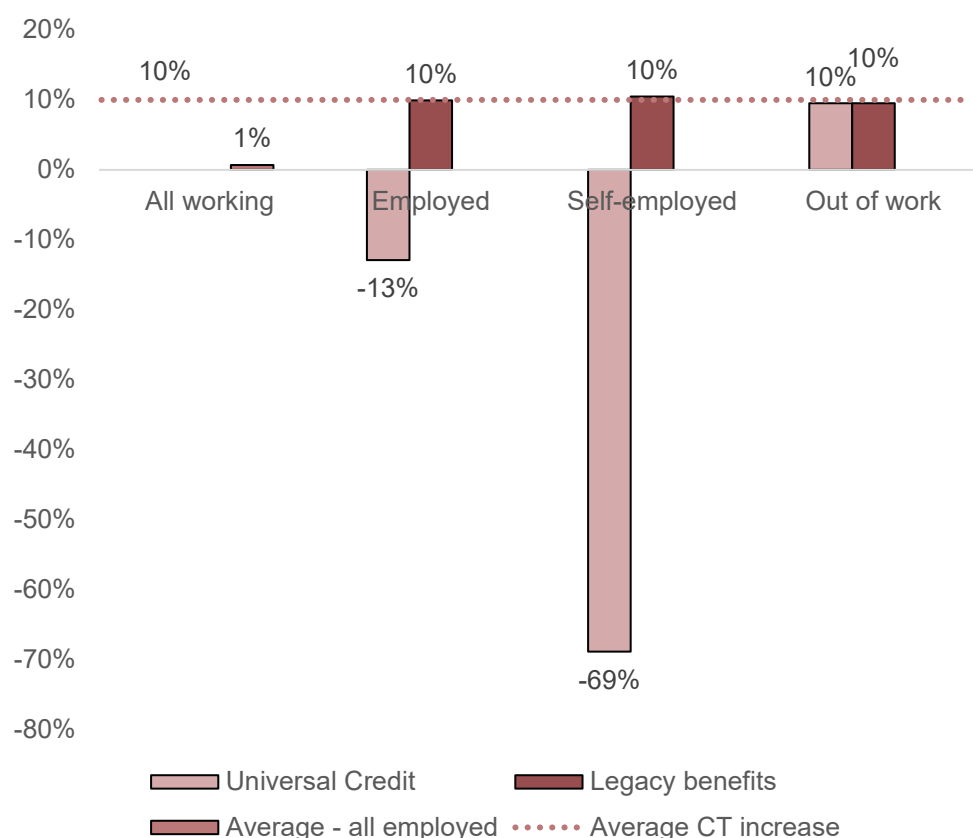
- 4.51 Working-age households across Wales in employment or self-employment would see an average increase in council tax reduction of 1% which is significantly lower than the expected average council tax increase of 10%. However, the average council tax reduction for working households in receipt of Universal Credit will reduce compared to current levels. Employed households in receipt of Universal Credit would see a decrease of £1.40 per week, or 13%. By comparison, employed households in receipt of legacy benefits would see an increase of £1.50 per week or 10%. This difference is due to the different assessment of both the amount for living expenses and income between the two benefit regimes.
- 4.52 The overall average for working households in Wales shows a small increase and this is because those receiving legacy benefits greatly outnumber those receiving Universal Credit.
- 4.53 Self-employed households in receipt of Universal Credit see an average decrease in council tax reduction of £14.00 per week or 69% (Figure 1.12).⁴¹ This is because 82% of the self-employed households modelled as being in receipt of Universal Credit in 2021-22 will have migrated across to the benefit between 2019-20 and

⁴¹ The interim report found that self-employed households in receipt of Universal Credit would see a reduction in award of 79%. This is primarily due to higher earnings amongst those in receipt of Universal Credit in the 2021-22 scenario compared to the interim findings. As a result, households will be less impacted by the Minimum Income Floor as they transition to Universal Credit.

2021-22. As a result, these self-employed households are subject to the Minimum Income Floor for the first time. For these households, income is based on a notional amount derived from the national minimum wage which is higher than reported self-employed earnings which are used for the assessment of legacy benefits. Self-employed households who receive legacy benefits and are thus not subject to the Minimum Income Floor, will see an average increase in council tax reduction of £2.10 per week or 11%.

- 4.54 Working-age households in receipt of out-of-work benefits, whether in receipt of legacy benefits or Universal Credit, will see an increase in council tax reduction awards roughly in line with council tax liability increases (Figure 1.12). These households will retain council tax reduction based on 100% of their council tax liability, minus any non-dependant deductions.
- 4.55 The large proportion of out-of-work households in the working-age dataset means that, on average, working-age households will see an increase in council tax reduction awards by 2021-22, despite the decrease experienced by those who are employed and self-employed and receiving Universal Credit, as discussed above.

Figure 1.12: Percentage Change in Council Tax Reduction Awards from Current to 2021-22, by Economic Status for Working-Age Households

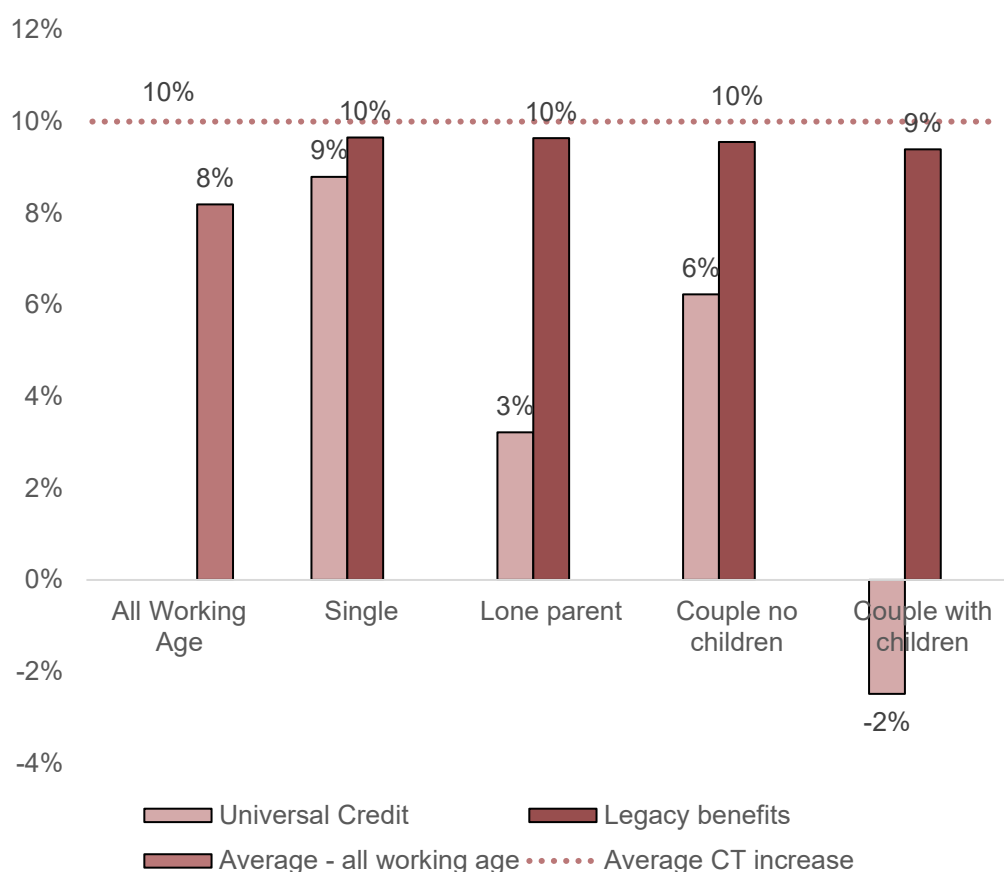


Differences by household composition

4.56 Working-age households in employment (this includes both those who are employed and self-employed together) will see the greatest loss of support as they move to Universal Credit (Figure 1.13). Amongst low-income households in receipt of council tax reduction represented in the available data, households with children are more likely to be in work than households without children. Therefore, couples with children are more likely to see an average loss of support as they move to Universal Credit. For many of these households, the loss in council tax reduction will be offset by higher income from Universal Credit.⁴²

⁴² When split by household type, changes to awards in 2021-22 for households in receipt of Universal Credit differ in this report from that of the interim. This is primarily due to modelling two years ahead as opposed to three years (2019 to 2021 as opposed to 2018 to 2021). The remaining difference between reports is due to a changing caseload. There were an

Figure 1.13: Percentage Change in Council Tax Reduction Awards from Current to 2021-22, by Household Type



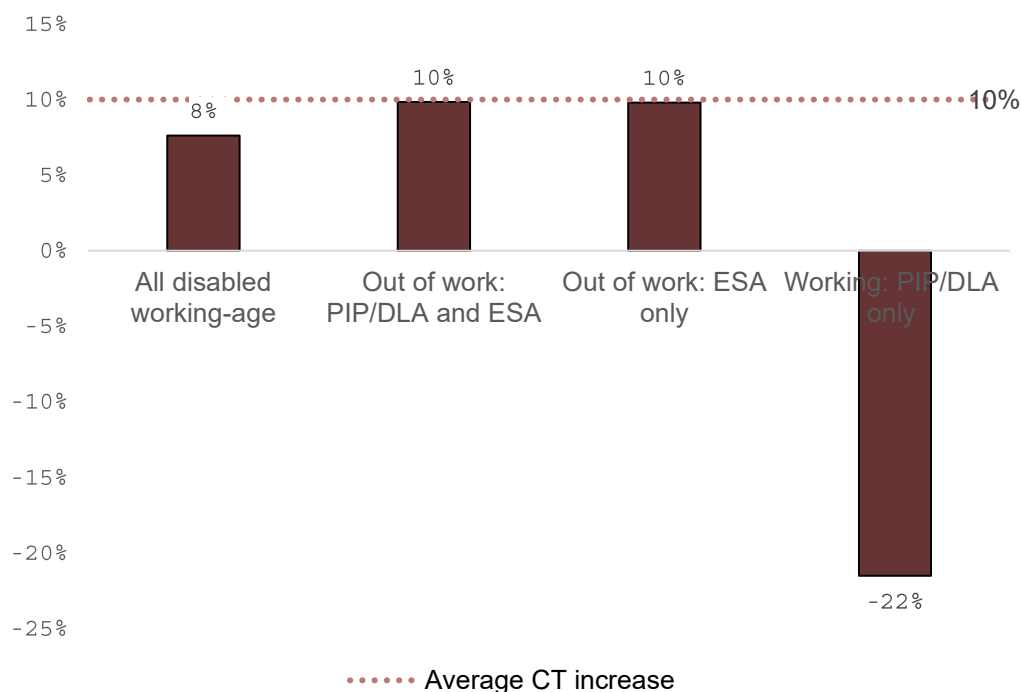
Differences in impact by illness or disability status

- 4.57 In 2021-22, the average change for all working-age households receiving Universal Credit in which a person is too ill to work, or is in receipt of a disability benefit, will be an increase of 8% on current council tax reduction levels. This is slightly higher than the working-age average for Universal Credit households (5%). Both are below the average increase in council tax (10%) (Figure 1.14).
- 4.58 By 2021-22, most households in which a person is classed as too ill to either work or to prepare for work (i.e. households in the Employment and Support Allowance support group or under Universal Credit deemed to have Limited Capability for

Work Related Activity (LCWRA)), will also see their average level of council tax reduction increase. However, many households in work and in receipt of Personal Independence Payment or Disability Living Allowance will face a decrease in council tax reduction. This is because assessment of living expenses under Universal Credit does not replicate additional amounts (disability premiums) that are included in the assessment for those in receipt of legacy benefits. Those in receipt of disability benefits who are working will not be classified as having Limited Capability for Work, and so will not benefit from the LCWRA component within Universal Credit that will offset the loss of disability premiums for other households. This will result in households in receipt of a disability benefit seeing council tax reduction awards decrease by 22%.

- 4.59 Currently, there is provision in place to ensure that those who are both in receipt of a disability benefit and for whom nobody provides care are not moved to Universal Credit until transitional protection is in place. This provides protection for those currently in receipt of the Severe Disability Premium. However, this protection is not extended to those who are in receipt of other disability premiums (such as the disability premium, the disabled child premium or the enhanced disability premium) under legacy benefits.

Figure 1.14: Percentage Change in Council Tax Reduction Awards from Current to 2021-22, by Disability Status



Council Tax Reduction Scheme Adjustments

4.60 The Welsh Government is considering amending the current Council Tax Reduction Scheme to maintain entitlements to support where possible. In order to inform scheme design, the Welsh Government requested an impact analysis of six different scheme amendments; these were provided in the Interim Report⁴³ and are summarised and updated at Appendix 4. The six models were selected to meet one or both of the objectives set by the Welsh Government: to ensure fairness of support and to maintain council tax reduction caseload for low-income households. The Welsh Government has considered the findings of the interim models and used these to inform the design of the two models presented in this report.

⁴³ [Understanding the impact of Universal Credit on the Council Tax Reduction Scheme and rent arrears in Wales: interim report](#) (Welsh Government, 9th January 2020)

- 4.61 The Welsh Government is considering scheme changes primarily in response to the impact of Universal Credit in Wales. It wishes to ensure fairness between council tax reduction awards for households in receipt of Universal Credit and households in receipt of legacy benefits, as well as to ensure caseload is maintained. This is of particular concern given the possible impact of Universal Credit on caseload.
- 4.62 Modelling relates to the year 2021-22. The Welsh Government has selected this year in order to provide the best estimate of the total value of council tax reductions and to take account of the impact of migration to Universal Credit.
- 4.63 For all models, income, benefit rates, rents, council tax liability and Universal Credit migration have been uprated in the same manner as with modelling of the current scheme into 2021-22⁴⁴:
- To enable comparison of modelled schemes against the current scheme in 2021-22, an assumed annual increase in council tax has been included. The rate of council tax rises used is the same as the average for each council over the last three years. This is applied separately to each council's council tax charge prior to data analysis. The council tax increases used in the modelling are given at Appendix 3.
 - An assumed level of migration to Universal Credit is also included. Modelling will include an expected migration of an additional 15.5% of households to Universal Credit by 2021-22. This estimate was agreed with the Welsh Government in January 2020 and is based on observed levels of 10% per annum at the time carried through to 2021-22, and an assumption of falling migration levels to 5% per annum by 2021-22. The impact of the COVID-19 pandemic on Universal Credit caseload is not taken into account.

⁴⁴ All modelling for future years is based on the current year's caseload (2019-20). As such, modelling does not consider any change in the proportional representation of different household types or households that may become entitled to support between 2019-20 and 2021-22.

- Modelling for 2021-22 includes probable changes to welfare support rates, the national minimum wage, tax allowances, Local Housing Allowance rates, rent costs, and known regulatory change. Benefit rates are in line with the inflation measure currently used for benefit uprating (the annual uplift applied to benefit rates, typically in April). Other changes are informed by the Office of Budget Responsibility annually published predictions of inflation rates⁴⁵. Local Housing Allowance rates are modelled presuming that any uprating is from the current base level rather than from a return to alignment with the third decile of rental charges.

4.64 The key findings for the six models presented in the Interim Report have been updated to include 2019-20 data from all Welsh local authorities and are included in Appendix 4 to this report.

4.65 This report provides additional analysis of further modelling Council Tax Reduction Scheme amendments. These are:

- Amendment to the taper rate.
- Amendments to prevent re-assessment under Universal Credit for small income changes (“de minimis” changes).

Amending the Taper

4.66 The Interim Report provided an impact assessment of amending the taper rate. This amendment is revisited in this report using more current data and including data from all 22 Welsh local authorities.

4.67 Currently, maximum council tax reduction for households in Wales is reduced using a taper rate set at 20%. In other words, for every pound of income a household has which is above their assessed ‘needs’, council tax support reduces by £0.20. This

⁴⁵ [Economic and fiscal outlook – March 2020](#) (Office for Budget Responsibility, 11th March 2020)

decrease in council tax reduction sits alongside other tapers applied to other means-tested benefits:

- **Legacy Benefits:** Households in receipt of Housing Benefit will see their Housing Benefit reduced by £0.65 for every additional pound of income they have. Households that are also in receipt of tax credits would see their tax credits reduced by £0.41 for every additional pound. These work alongside various protective thresholds and disregards but even so, some households in receipt of legacy benefits will see no increase in household income with increased earnings.
- **Universal Credit:** Households in receipt of Universal Credit see Universal Credit reduced by £0.63 for every additional pound. This applies only if earnings are above the work allowances (these are amounts that can be earned before benefit is reduced and are applicable to households with children or those that are not expected to work due to illness).

- 4.68 The Welsh Government may want to increase scheme generosity and ensure that low-income working families retain more of their income. This model amends the taper rate at which council tax reduction is withdrawn from the current 20% to 10%, so that support is withdrawn more slowly as earnings rise. This model will also increase work incentives.
- 4.69 This model applies to working-age households in receipt of both Universal Credit and legacy benefits. It will only affect those with income above their assessed 'needs' (i.e. almost exclusively working households) and will have no impact on the level of council tax reduction for households in receipt of out-of-work benefits.
- 4.70 Analysis applies to working-age households only, as the research focuses on the impact of Universal Credit which only affects the council tax reduction of working-age households. The Welsh Government could consider extending changes in taper rates to pension-age households, but this is outside the scope of this report.

The Total Value of Council Tax Reductions

Table 1.5: Total Value of Council Tax Reductions of Model (£ per annum) with Taper Reduced to 10%

	Total value of council tax reductions	Comparison to the total value of council tax reductions of current scheme		Comparison to current scheme in 2021-22	
Group ⁴⁶	£ per annum	Change £ per annum	Change %	Change £ per annum	Change %
All working age	£182m	£21m	13%	£8m	5%
Total	£302m	£33m	12%	£8m	3%

4.71 Reducing the taper rate to 10% will mean that the total value of council tax reductions for working-age and pension-age households would be £302m per annum by 2021-22. This is £8m per annum more than if the taper was kept at the current level (Table 1.5).

Caseload

4.72 Changes to the taper rate affect working-age households in receipt of both legacy benefits and Universal Credit with income above their assessed needs.

4.73 This measure is estimated to affect 26,700 working-age households across Wales (Table 1.6).

⁴⁶ Scheme amendments apply to working-age households only as the research focuses on the impact of Universal Credit. All models produce a 10% (£11m) increase in the total value of council tax reductions for pension age households compared to the current scheme. However, there is no difference when the current scheme is uprated to 2021-22.

- 4.74 This measure increases scheme generosity and it is probable that caseload will increase.⁴⁷ Working households whose income is too high for current support may be eligible for support with a reduced taper rate.

The Impact on Weekly Council Tax Reduction Awards for those Affected by this Measure

- 4.75 Reducing the taper rate affects working-age households in receipt of both legacy benefits and Universal Credit with income above assessed needs.
- 4.76 If the taper rate was reduced to 10%, affected households would see an average increase in support of £6.00 per week (50%) compared to retention of the current scheme into 2021-22 (Table 1.6).

⁴⁷ Modelling is carried out on those households that are already represented in the SHBE and CTS datasets held by local authorities in Wales. Modelling cannot therefore take account of any additional caseload that may result from a scheme amendment. Cost estimates may therefore be underestimates.

Table 1.6: Average Weekly Council Tax Reduction £ per week with Taper at 10% (Affected Households Only)

	Number of households impacted	Average household reduction	Comparison to current scheme retained into 2020-21	
Group		£/week	Change £/week	Change %
Universal Credit	14,300	£16.70	£6.30	60%
Legacy benefits	12,390	£18.90	£5.50	41%
All working age	26,690	£17.70	£5.90	50%

4.77 Universal Credit households affected by this change see a slightly higher proportional increase in council tax reduction (60%) than those in receipt of legacy benefits (41%). This difference is because households in receipt of Universal Credit retain a higher proportion of their earnings so will have more income above assessed needs subject to the taper. Even with this redistribution of council tax reduction towards households in receipt of Universal Credit, households in receipt of legacy benefits affected by this measure have higher council tax reduction awards at an average of £18.90 per week compared to an average of £16.70 per week for households in receipt of Universal Credit. A breakdown of results by local authority is at Appendix 5.

4.78 As changes to the taper rate affect only households with income above assessed needs, these are overwhelmingly working households. Self-employed households in receipt of Universal Credit see a significant rise in support of 161%, on average. This is due to the very low council tax reduction awards these households receive if the current scheme is retained into 2021-22 (due to the application of the Minimum Income Floor). The increase in council tax reduction as a result of the reduced taper is therefore proportionally greater than for other working households. Even with this increase, council tax reduction for self-employed households in receipt of Universal

Credit (an average of £13.50 per week) remains substantially lower than for self-employed households in receipt of legacy benefits (an average of £21.90 per week).

- 4.79 Employed households in receipt of Universal Credit also see a significant average increase in council tax reduction of 70% compared to an average increase of 45% for employed households in receipt of legacy benefits. Again, this differential is due to the proportional impact of the increase on lower starting awards.

The Impact on Vulnerable Households

- 4.80 Households in which a person is ill, disabled or has caring responsibilities are less likely to be in work and so council tax reduction for these groups is less likely to be affected by the change in taper rate. However, for those vulnerable households who are working, and so affected by this measure, increases in awards of council tax reduction are significant. Affected households in which a person is ill or disabled, or a carer, see increases of over 35% on average. Even so, these increases are lower than that across all households affected by this measure. By contrast, lone parents with a child under the age of 5 in receipt of Universal Credit see greater increases (79%) than the average for all affected households (50%).

The Impact of Universal Credit on Households Affected by this Measure

- 4.81 The taper measure applies equally to working-age households in receipt of Universal Credit and households in receipt of legacy benefits. It will increase council tax reduction awards, and therefore household income, for all working households in receipt of Universal Credit and the majority of working households in receipt of legacy benefits.
- 4.82 Employed households are likely to gain benefit support as they move to Universal Credit due to the higher retention of earned income. If this measure were introduced, these households will gain income through both Universal Credit and council tax reduction.
- 4.83 Self-employed households may be subject to the Minimum Income Floor when they move to Universal Credit and could see a decrease in both council tax reduction

and Universal Credit. A reduced taper rate will offset some of this loss in council tax reduction.

The Impact Across all Working Age Households

- 4.84 Across all working-age households council tax reduction increases by 5%. This measure does not affect households in receipt of out-of-work benefits and so the average increase across all working-age households is significantly lower than that for households affected by this measure (an average increase of 49%).
- 4.85 Amongst the low-income households represented in the dataset, households with children are more likely to be in work than households without children. As a reduction in taper rate increases support for working households, it therefore has a secondary impact of increasing the average award to working-age households with children. Across all working-age households, couples with children see an increase of 10% and lone parents see an average increase of 7%.⁴⁸

⁴⁸ Under this model, couples with children would see an increase of 10%. This was expected to be 7% in the interim report. The difference between reports is due to couples with children having higher incomes in the data for the final report and so the taper having a greater impact than originally thought.

Table 1.7: Model 2: Households Affected by the Change in Taper Rate – Key Findings

Number of households	26,700 households
Who is affected?	Universal Credit and legacy benefit households with income above assessed needs. Primarily working households.
Average change in award for affected households	• Universal Credit households see an increase of £6.30 per week compared to retention of the current scheme into 2021-22 • Legacy benefit households see an increase of £5.50 per week compared to retention of the current scheme into 2021-22
Change in total value of reductions	Increase of £8m per annum in 2021-22
Caseload	Households with earnings above the level for current eligibility may become eligible for support and the caseload may increase. ⁴⁹
Universal Credit and legacy households	• This measure applies to Universal Credit and legacy benefit households equally. • Households in receipt of Universal Credit gain more (£6.30 per week) than those in receipt of legacy benefits (£5.50 per week). This difference is due to households receiving Universal Credit retaining higher levels of earned income and so having more income affected by the taper rate. Universal Credit households in employment may see higher household income through both Universal Credit and council tax reduction if this measure is introduced. Universal Credit households who are self-employed are likely to see lower household income under both Universal Credit and council tax reduction. This measure will offset some of this loss.

⁴⁹ Analysis is undertaken on those households for which local authorities currently hold data. The analysis cannot predict households that may become eligible for support following introduction of change as these households are not represented within the dataset.

Preventing Reassessment of Small Income Changes under Universal Credit

- 4.86 Under Universal Credit, income is assessed on a monthly basis, based on data received by DWP from HMRC in an assessment period (a calendar month). By comparison, income for legacy claims is averaged across the most appropriate period.⁵⁰ This difference results in a greater frequency of income change under Universal Credit. As income change triggers a reassessment of council tax reduction, this means that there are more frequent reassessments of council tax reduction under Universal Credit than under legacy benefits.
- 4.87 For councils, this increased number of reassessments for council tax reduction awards under Universal Credit results in higher administration costs. The increase in cost is felt throughout the process, from reassessment to additional billing and additional enquiries from residents. For those in receipt of council tax reduction under Universal Credit, this can lead to confusion about their residual council tax liability.
- 4.88 In England, some councils have dampened down this effect by introducing de-minimis rules. This means that changes in income below a set threshold are ignored for council tax reduction purposes. Most councils that have introduced de-minimis rules have set the level at around £5 per week.
- 4.89 The Welsh Government wishes to understand the additional administrative burden caused by more frequent reassessment under Universal Credit and the likely impact of a de-minimis threshold.

Methodology

- 4.90 In order to understand household income change over time, and therefore the related frequency of reassessment of council tax reduction, monthly SHBE and CTR data was required. One Welsh council offered to provide data at this frequency to

⁵⁰ Usually this is over 2 months for monthly pay frequency, over 5 weeks for weekly pay frequency and annually for seasonal earnings. However, this can vary depending on the uniformity and frequency of pay.

provide an understanding of potential impact. It is worth noting that this data may not be representative of all Welsh councils. It does however, inform whether reassessment of applications is more likely under Universal Credit.

- 4.91 The study analysed the longitudinal monthly data of the participating council. Counts were made of the number of changes in income for those receiving council tax reduction under legacy benefits and those receiving council tax reduction under Universal Credit over a 10-month period. The data was extrapolated to cover a full financial year.
- 4.92 Further analysis applied a de-minimis threshold of £5 per week. In effect, all income changes below this amount were ignored. This provided an illustrative net cost of introducing such a measure as well as an understanding of the impact on the number of reassessments.

The impact of a de-minimis measure

- 4.93 Analysis showed that, over 12 months, 21% of Universal Credit households experienced a change of income compared to just 5% of legacy benefit households. In other words, Universal Credit council tax reduction applications required four times as many assessments over this period as legacy benefit applications.
- 4.94 Legacy benefit income changes are not only less frequent than those under Universal Credit but are on average for a lower amount. Introduction of a £5 de-minimis threshold prevents reassessment of 15% of those legacy applications that show a change in income, but only 8% of Universal Credit applications that show a change in income. This suggests that a de-minimis set at £5 per week does not prevent the majority of additional reassessments of council tax reduction under Universal Credit. Further investigation would be required to understand the de-minimis level that would prevent an increase in the number of applications requiring reassessment.
- 4.95 Ignoring changes in impact of less than £5 per week led to an increased cost to the Council Tax Reduction Scheme of just £210 over the 12 months of the study. This

small impact is due to the small decreases in awards being netted off against small increases in awards.

Summary of a de-minimis measure

- 4.96 The fourfold increase in reassessment of council tax reduction applications under Universal Credit risks both increased administrative costs and claimant confusion.
- 4.97 A de-minimis threshold goes some way to dampening down the increased reassessment of council tax reduction claims under Universal Credit. However, based on the sample of data analysed, the £5 per week threshold introduced in this study would only prevent 8% of these reassessments of council tax reduction.
- 4.98 If the Welsh Government were to introduce a similar measure, the threshold would need to be set at a level to ensure that prevention of reassessment was sufficient to prevent a rise in administrative costs. It is likely that any such measure would be cost-neutral.

Conclusion

- 4.99 In 2019-20, 275,000 households received a council tax reduction in Wales with a total value of £269m. 61% of these households are working-age and so will see a reassessment of support as they move to Universal Credit. Currently, 40,000 working-age households in receipt of council tax reduction have already moved to Universal Credit with 126,000 still to move over.
- 4.100 The move to Universal Credit has a significant impact on council tax reduction awards for working households who do not receive support based on 100% of liability. The average council tax reduction award for Universal Credit households is £16.70 per week in 2019-20, compared to £19.30 per week for those that are yet to transfer to Universal Credit.
- 4.101 Should the current scheme be retained into 2021-22, the projected total value of council tax reductions will increase to £294m, primarily due to the increase in council tax liability. This 9% increase in the total value of council tax reductions is roughly in line with expected council tax rises of 10% from 2019-20 to 2021-22.

- 4.102 Across all working-age households in 2021-22, council tax reductions increase by 8%, roughly in line with council tax increases. However, households in receipt of Universal Credit will see a significantly lower rise in council tax reduction awards at 5%. As this is below the level of council tax rises, it is essentially a loss in support.
- 4.103 If the Welsh Government were to introduce a scheme amendment to reduce the taper rate to 10%, this would support households effectively as they move to Universal Credit. For the working-age households to whom this measure would apply, the increase in awards is significant. Households affected by the taper change in receipt of Universal Credit would see an average increase in council tax reduction awards of 60% whilst those in receipt of legacy benefits would see an average increase of 41%. The total value of council tax reductions in 2021-22, including this amendment, would be £302m. This is £8m more in 2021-22 than if the current scheme was retained.
- 4.104 The move to Universal Credit may also affect scheme administration costs for local authorities. This is due to the need for more frequent reassessments of council tax reduction awards in response to the monthly assessments of Universal Credit. This increased frequency of reassessment can result in households receiving a series of council tax bills in a short space of time. As a result, this analysis indicates that households in receipt of Universal Credit see four times as many changes in council tax reduction over a year compared to households in receipt of legacy benefits. Council Tax Reduction Schemes can incorporate measures to reduce this need for reassessment. One such measure is the adoption of a de-minimis threshold. Changes in income below the threshold are ignored for reassessment purposes. This analysis indicates that this is likely to be a cost neutral measure as underpayments and overpayments are offset.
- 4.105 Universal Credit may also have an impact on council tax reduction caseload which has an estimated take-up rate of 55% to 65% of eligible applicants⁵¹, similar to

⁵¹ [Responding to citizens in debt to public services](#) (Wales Centre for Public Policy, February 2019)

historic rates of take-up under Council Tax Benefit. The rollout of Universal Credit is expected to affect take-up of council tax reduction as the automatic assessment by local authorities of council tax reduction alongside Housing Benefit ends.

Households now need to know that they will often be required to submit a separate application for council tax reduction. In addition, councils rely on notification from DWP that someone has moved onto Universal Credit in order to assess them for a council tax reduction, and this notification may get lost in the application process.

- 4.106 The survey undertaken as part of this research certainly indicated that there is confusion about the relationship between Universal Credit and the Council Tax Reduction Scheme amongst claimants/applicants. A quarter of all claimant respondents believed that an application for council tax reduction was included as part of Universal Credit. They were unaware of the separate application process or separate administration of council tax reduction. In addition, 29% of Universal Credit claimants did not know if they received council tax reduction, compared to just 14% of legacy benefit recipients. This indicates that the Welsh Government may need to consider developing further their initiatives to raise awareness of council tax reduction and its relationship to Universal Credit. It is also worth noting that 16% of legacy benefit claimant respondents did not wish to apply for council tax reduction due to fear of debt arising from overpayments. The Welsh Government and Welsh local authorities may wish to examine further whether council tax debt recovery practices have had any impact on the way some people perceive the Council Tax Reduction Scheme.

5. Part Two: Council Tax Arrears

Introduction

- 5.1 In England, a report by the Institute for Fiscal Studies (IFS)⁵² concluded that reducing a household's council tax reduction entitlement has led to sizeable increases in the amount of council tax uncollected. Where cuts in support are made, the rate of non-collection is around 10 times higher than the typical rate of non-collection of council tax. However, because cuts to council tax reduction are small relative to the total council tax due, the effect on the aggregate rate of non-collection has still been relatively modest – increasing it from 2.5% to 2.7% on average (from 2012-13 to 2018-19). The main issue giving rise to the increase seems to be requiring households to pay some council tax when they would otherwise have had no bill, rather than the size of those bills.
- 5.2 In Wales, there are no households faced with a council tax bill for the first time directly as a result of cuts in the level of support by the UK Government in 2012, as entitlements to support have been maintained. In contrast to England, council tax arrears levels in Wales, expressed as a % of the total council tax due, remained steady from 2014 to 2017, with some authorities showing an improvement. Indeed, the overall trend has seen an improvement in arrears levels since 2010-11, and most authorities in Wales now have arrears levels between 2% and 8%.⁵³
- 5.3 The figures for council tax collection rates,⁵⁴ published annually by the Welsh Government, show a very slight deterioration in 2018-19 and, in absolute terms, the total amount of arrears has increased (from £36 million at the end of 2014-15 to £42 million by the end of 2018-19), as shown in Table 2.1 below. This indicates that although arrears have remained stable as a percentage of total council tax due, the total amount of arrears has increased as total council tax liabilities have increased.

⁵² [The impacts of localised council tax support schemes](#), Stuart Adam, Robert Joyce and Thomas Pope, (Institute for Fiscal Studies, 29th January 2019)

⁵³ [Arrears of council tax by billing authority](#), StatsWales (Welsh Government, June 2019)

⁵⁴ [Council Tax collection rates: April 2018 to March 2019](#) (Welsh Government, 11th June 2019)

Table 2.1 Council Tax Collection Rates and Arrears in Wales 2014-2019⁵⁵

Date	Collection rate	Arrears collected £m	Arrears outstanding at year-end £m	New arrears in- year £m
2014-15	97.2%	28	85	36
2015-16	97.2%	29	86	37
2016-17	97.4%	29	84	37
2017-18	97.4%	27	87	38
2018-19	97.3%	27	94	42

5.4 The decision by the Welsh Government to make up the shortfall related to the 10% funding cut by the UK Government (rather than risk local authorities passing it on to low-income households) appears to have resulted in positive outcomes, at least in the short-term. The Welsh Government has also improved council tax collection practices, including by removing the sanction of imprisonment for non-payment⁵⁶ and endorsing the Money Advice Trust's 'six steps' for local authorities⁵⁷. There is also a Council Tax Protocol⁵⁸ which sets out good practice.

5.5 An independent three-year review of Council Tax Reduction Schemes⁵⁹, which covered Wales as well as England, states that the arrangements in Wales have meant that local authorities had fewer administrative burdens, collection rates have held up, and the number of appeals are low compared to England.

⁵⁵ [Council Tax collection rates: April 2018 to March 2019](#) (Welsh Government, 11th June 2019)

⁵⁶ [Removal of sanction of imprisonment for non-payment of council tax](#) (Welsh Government, 2018)

⁵⁷ [Stop the Knock - 6 steps for local authorities](#) (Money Advice Trust, September 2019)

⁵⁸ [Council Tax Protocol for Wales – Good Practice in Collection of Council Tax](#) (Welsh Government and Welsh Local Government Association, January 2019)

⁵⁹ [Three years on: an independent review of local council tax support schemes](#), Eric Ollerenshaw (pages 88-90, March 2016)

- 5.6 However, data from Citizens Advice⁶⁰ indicates that, in 2014-15, council tax arrears became the largest single debt-related problem seen by their network in Wales. This trend continued in 2015-16 with over 16,000 problems reported, an increase of 7% on the previous year. By 2017-18, the number of problems had reduced slightly (to 13,100) but it remained the most common debt problem. So, although overall arrears levels have remained constant, it is clear that some households are experiencing increased debt and financial hardship.
- 5.7 It is difficult to pinpoint exactly the impact of Universal Credit on council tax arrears. General austerity is likely to have played a part in the growth of household debt and the historically low take-up of council tax reduction (outside any specific Universal Credit impact) will have also contributed.

Administrative Data Analysis

Methodology

- 5.8 Council tax arrears extracts were requested from all participating local authorities. These arrears extracts included information on the level of council tax arrears, but no other information on household circumstances. In order to explore the relationship between Universal Credit and council tax arrears, the extracts were matched with SHBE data from each local authority using Housing Benefit reference numbers. Council tax arrears extracts were successfully matched to between five and nine local authorities⁶¹ (depending on the wave of data collection); there were four waves altogether, in March, June, September and November 2019. This sample included 73,278 unique households in receipt of legacy benefits, 24,443 in

⁶⁰ [Fairness for All: Improving Council Tax Debt collection in Wales](#), (Citizens Advice, pages 13 and 15, 2016) and [Advice Trends in Wales](#), Liz Williams (Citizens Advice, October 2018)

⁶¹ We were able to gather council tax arrears extracts from a total of 18 local authorities. However, several of the datasets did not include the necessary unique identifiers needed to link them with SHBE data, and only a small number of local authorities were able to provide additional linking datasets with the SHBE and council tax arrears identifiers. Furthermore, when linked with the core SHBE datasets, a number of local authorities whose data did include the necessary identifiers nevertheless showed overall rates of council tax arrears below 1% (of the HB/CTR cohort). We believe that these low arrears rates are more likely to reflect issues with the raw data than the true state of arrears in those local authorities. We therefore elected to exclude the datasets from local authorities showing less than 1% of the HB/CTR cohort in council tax arrears. If a more comprehensive study of council tax arrears in Wales were to be conducted in future, we would recommend a program of data standardisation (including the recording of Housing Benefit reference numbers) across the extracts recorded by local authorities to facilitate analysis of this kind.

receipt of Universal Credit, and 4,276 households who migrated from legacy benefits to Universal Credit during the data collection window. The proportion of households in council tax arrears within each wave ranged from 9% to 12%.⁶² Because of this variation in arrears rates, where possible all subsequent analyses have been structured to aggregate findings across waves.⁶³

Impact of Universal Credit on the prevalence of council tax arrears

- 5.9 To explore prevalence of council tax arrears, households were coded as ‘in arrears’ if they recorded a non-zero level of council tax arrears at any point during their time on each benefits system. This meant households moving from legacy benefits to Universal Credit during the data collection period recorded two ‘in arrears’ scores, one for each system. In this analysis therefore, households that migrated from legacy benefits to Universal Credit during the period of data collection were counted towards the rates of council tax arrears for both benefits systems. This approach was chosen to provide rates of council tax arrears specifically associated with each benefits system. Subsequent analysis delved into patterns of council tax arrears for households as they moved from legacy benefits to Universal Credit.
- 5.10 Across the whole sample and all four waves, council tax arrears were more prevalent amongst households in receipt of Universal Credit. 28% (7,979 out of 28,719) of households in receipt of Universal Credit recorded some level of council tax arrears at some point during data collection compared to 12% (9,526 out of 77,554) of households in receipt of legacy benefits. Note that in these rates,

⁶² March: 9 local authorities matched, 83,642 households, of which 9,155 in council tax arrears, average of 12% of households in council tax arrears per local authority ; June: 9 local authorities matched, 81,067 households, of which 7,117 in council tax arrears, average of 9% of households in council tax arrears per local authority; September: 5 local authorities matched, 45,138 households, of which 4,527 in council tax arrears, average of 10% of households in council tax arrears per local authority; November: 7 local authorities matched, 73,489 households, of which 8,364 in council tax arrears, average of 11% of households in council tax arrears per local authority. Of the 10 local authorities that provided data at some point, 2 were located in North Wales, one in Mid Wales and the remainder in the south.

⁶³ Note that this means that some analyses are based on aggregation across unique households, whilst others aggregate across individual records. In some cases, this means that individual households are counted more than once in a given comparison (for example if they were recorded as being on both legacy benefits and Universal Credit during the data collection period). Where this occurs, it is noted in the results.

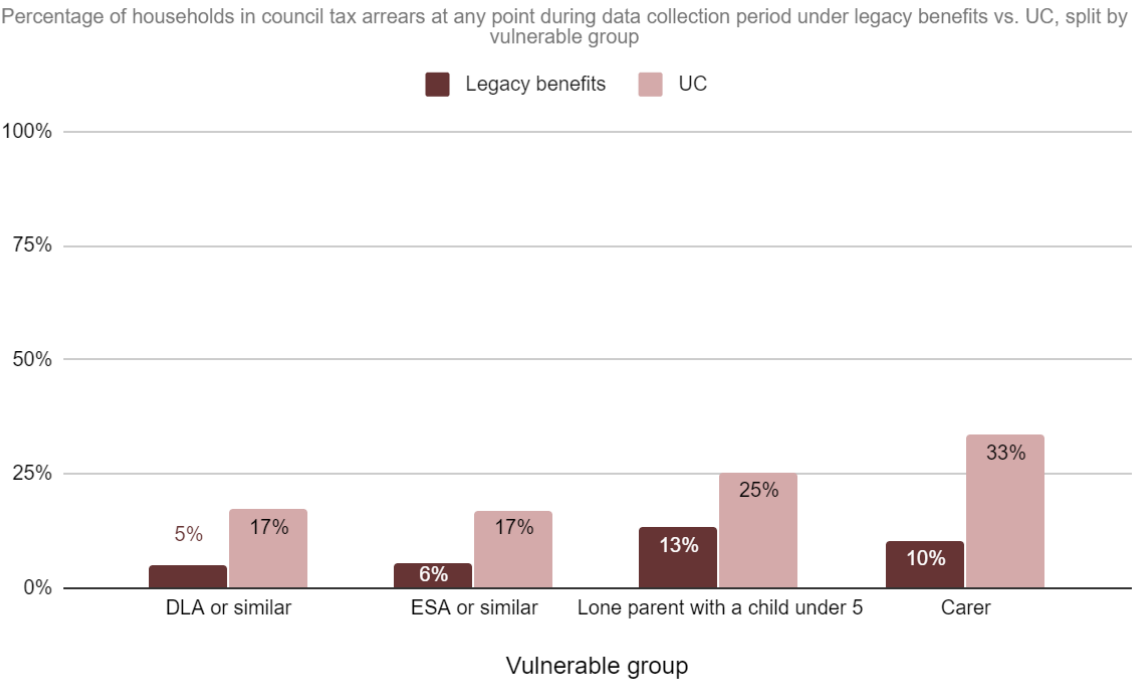
households that migrate from legacy benefits to Universal Credit are counted in the totals for both benefits systems.

Prevalence of Arrears by Vulnerable Groups

- 5.11 For this (and all subsequent) analysis, the impact of Universal Credit on arrears was explored for types of households expected to be particularly vulnerable to change or disruption of benefits. The four subgroups of vulnerability (from a benefits perspective) were households claiming DLA (or similar benefits, e.g., Personal Independence Payment, Disability Living Allowance, Applicable Amount or Armed Forces Independence Payment), households claiming ESA, carers, and lone parents with children under the age of five.
- 5.12 There was a higher proportion of households receiving Universal Credit with council tax arrears, compared to legacy benefits, across all vulnerable subgroups.⁶⁴ Overall prevalence of arrears was higher amongst carers and lone parents with young children, but carers receiving Universal Credit showed a disproportionately higher rate of arrears compared to similar households in receipt of legacy benefits. Note that this analysis considers only households whose vulnerability category remains the same across all their data points, and that some households may fall into multiple categories of vulnerability. See Figure 2.1.

⁶⁴ DLA or similar: n (legacy) = 31,995 of which 1,613 in council tax arrears, n (UC) = 3,837 of which 662 in council tax arrears; ESA or similar: n (legacy) = 42,089 of which 2,318 in council tax arrears, n (UC) = 3,397 of which 579 in council tax arrears; Lone parent with a child under 5: n (legacy) = 5,981 of which 794 in council tax arrears, n (UC) = 3,448 of which 869 in council tax arrears; Carer: n (legacy) = 9,711 of which 1,007 in council tax arrears, n (UC) = 1,159 of which 388 in council tax arrears

Figure 2.1 Proportion of Households in Council Tax Arrears by Vulnerable Group



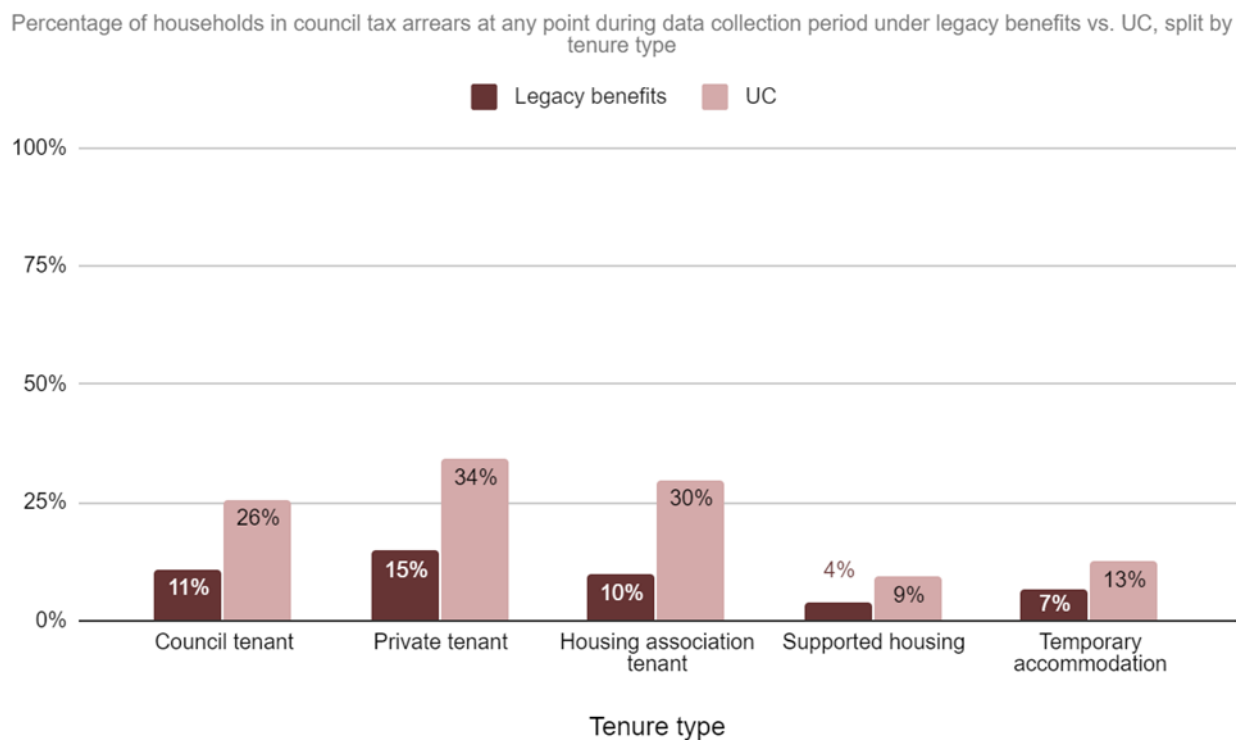
**For sample sizes, see footnote 64*

Prevalence of Arrears by Tenure Type

5.13 Rates of council tax arrears were higher for households in receipt of Universal Credit across all tenure types.⁶⁵ Note that this analysis considers only households whose tenure remains the same across all their data points. See Figure 2.2.

⁶⁵ Total sample sizes:
Council tenants: n (legacy) = 16,903 of which 1,852 in council tax arrears, n (UC) = 113 of which 29 in council tax arrears;
Private tenants: n (legacy) = 18,142 of which 2,686 in council tax arrears, n (UC) = 1,954 of which 669 in council tax arrears;
housing association tenants: n (legacy) = 22,358 of which 2,188 in council tax arrears, n (UC) = 2,041 of which 610 in council tax arrears;
supported housing: n (legacy) = 915 of which 33 in council tax arrears, n (UC) = 203 of which 20 in council tax arrears;
temporary accommodation: n (legacy) = 598 of which 41 in council tax arrears, n (UC) = 234 of which 30 in council tax arrears;

Figure 2.2 Proportion of Households in Council Tax Arrears by Tenure Type



For sample sizes, see footnote 65

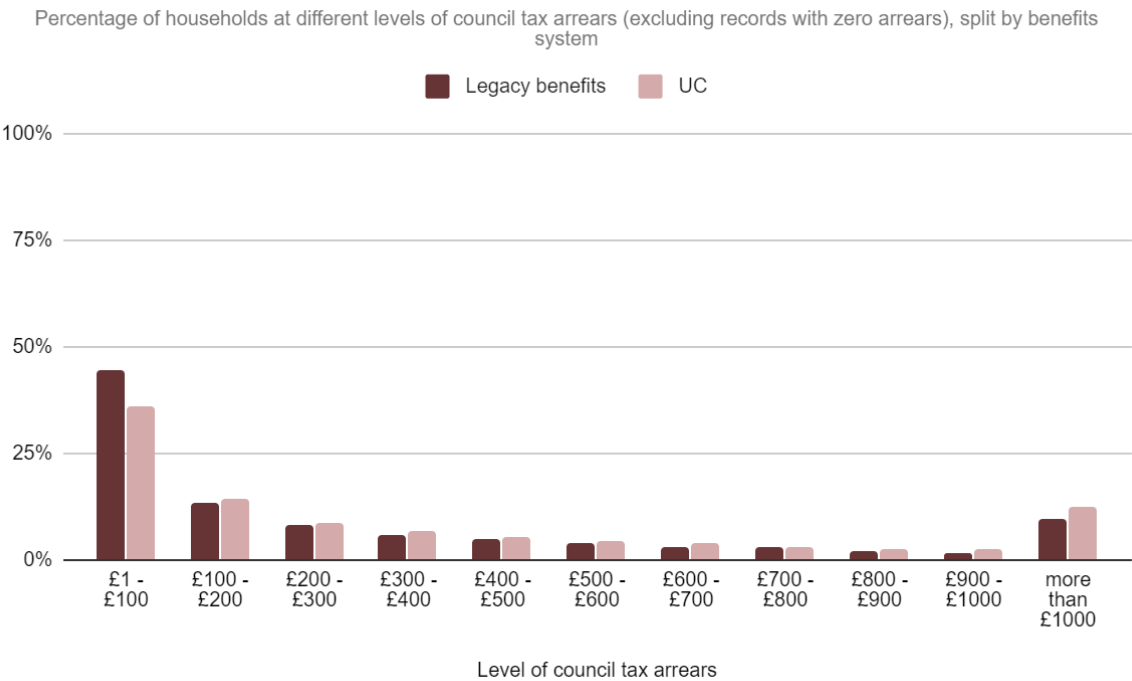
Impact of Universal Credit on the Level of Council Tax Arrears

- 5.14 In order to assess levels of council tax arrears for legacy benefits vs. Universal Credit, average arrears levels were calculated across all individual records for each benefit system. Note that this approach differs from the previous analysis, which aggregated across records to identify households in council tax arrears 'at any point'.
- 5.15 The level of council tax arrears is highest amongst households in receipt of Universal Credit. Across all households and time points recorded as having some level of arrears within the administrative data, records of households in receipt of Universal Credit had average arrears of £89 (across 13,056 records with some level of arrears, out of 66,707 records of households claiming Universal Credit) whilst records of households in receipt of legacy benefits had average arrears of £29 (across 16,105 records with some level of arrears, out of 216,629 records of

households claiming legacy benefits). Note that this analysis is based on averages across records, rather than unique households, and that these averages and all subset averages presented later in this section are based on records from all four waves of data collection.

- 5.16 In addition to calculating average arrears, it is important to also consider the distribution of arrears levels across the sample. Of those in council tax arrears, over 40% of households had arrears below £100. Households in receipt of legacy benefits were more represented at this low level of arrears, reflecting the greater number of households in receipt of legacy benefits. However, once council tax arrears climbed above £100, households in receipt of Universal Credit were more prevalent (see Figure 2.3 below, n = 29,161).
- 5.17 Across the whole sample, council tax arrears were higher on average for households in receipt of Universal Credit. The exception to this was households with arrears between £1 and £100. These small amounts of arrears were more common for households on legacy benefits.

Figure 2.3 Proportion of Household Records that have Council Tax Arrears by Level of Arrears and Benefit Type



Sample size = 29,161

- 5.18 The average arrears and arrears distributions reported above reflect all records across all four waves of data. When the same analysis was applied to each wave individually, the pattern of higher average arrears for households in receipt of Universal Credit remained across all four waves of data.⁶⁶ See Figure 2.4.
- 5.19 For households with council tax arrears, the level of arrears under Universal Credit was higher than under legacy benefits. Universal Credit households had average arrears of £452 compared to £388 for legacy benefit households.

⁶⁶ Wave 1: n (records of households claiming legacy benefits) = 68,198, of which 6,004 in council tax arrears, n (records of households claiming UC) = 15,444, of which 3,151 in council tax arrears
Wave 2: n (legacy) = 63,320 of which 4,102 in council tax arrears, n (UC) = 17,747 of which 3,013 in council tax arrears
Wave 3: n (legacy) = 32,758 of which 2,133 in council tax arrears, n (UC) = 12,380 of which 2,394 in council tax arrears
Wave 4: n (legacy) = 52,353 of which 3,866 in council tax arrears, n (UC) = 21,136 of which 4,498 in council tax arrears

Figure 2.4 Average Level of Arrears for Household Records Showing Council Tax Arrears by Wave of Data Collection



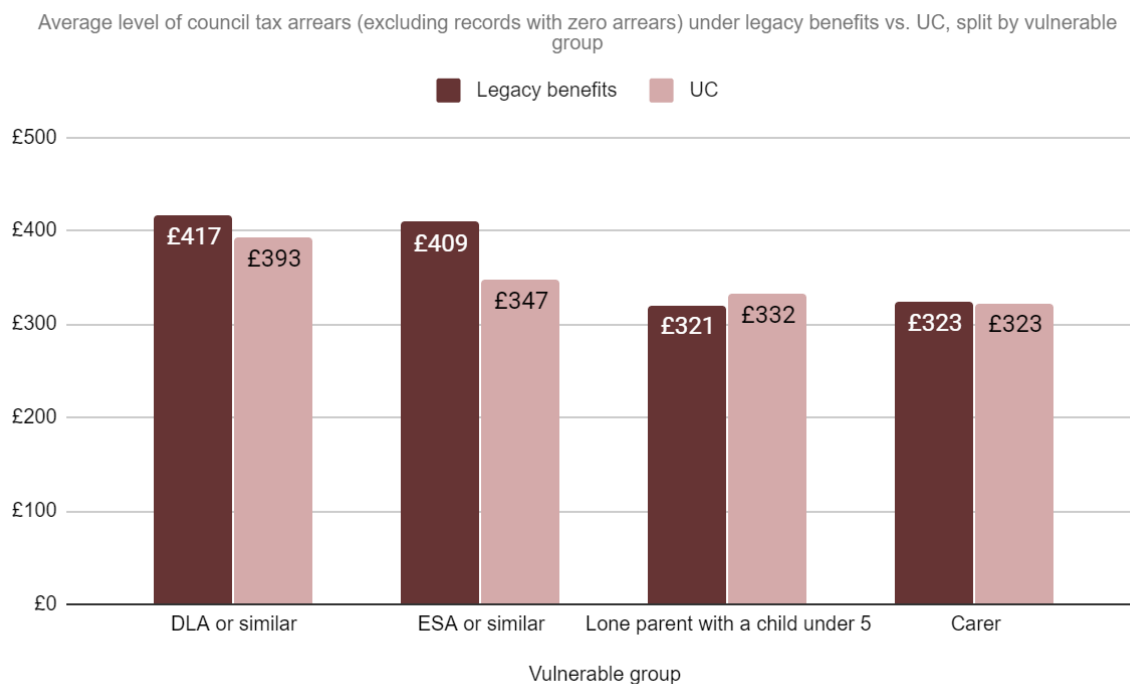
For sample sizes, see footnote 66

Level of Arrears by Vulnerable Groups

5.20 Amongst vulnerable groups, arrears levels were not always highest for Universal Credit households. Households in receipt of Disability Living Allowance and Employment and Support Allowance (or equivalent) and legacy benefits showed higher levels of average arrears compared to those in receipt of Universal Credit. For carers and lone parents with young children, there was little difference between average level of arrears under the two benefit systems. For vulnerable groups, the type of benefit system does not appear to be the determining factor for arrears levels⁶⁷. See Figure 2.5.

⁶⁷ DLA or similar: n (records of households claiming legacy benefits) = 97,687 of which 2,871 in council tax arrears, n (records of households claiming UC) = 11,315 of which 1,346 in council tax arrears; ESA or similar: n (legacy) = 126,461 of which 4,208 in council tax arrears, n (UC) = 10,425 of which 1,193 in council tax arrears; Lone parent with a child under 5: n (legacy) = 17,337 of which 1,343 in council tax arrears, n (UC) = 8,755 of which 1,508 in council tax arrears; Carer: n (legacy) = 29,684 of which 1,767 in council tax arrears, n (UC) = 3,307 of which 845 in council tax arrears

Figure 2.5 Average Level of Council Tax Arrears for Universal Credit and Legacy Benefits by Vulnerable Group



For sample sizes, see footnote 67

The Impact of the Transition to Universal Credit on Council Tax Arrears

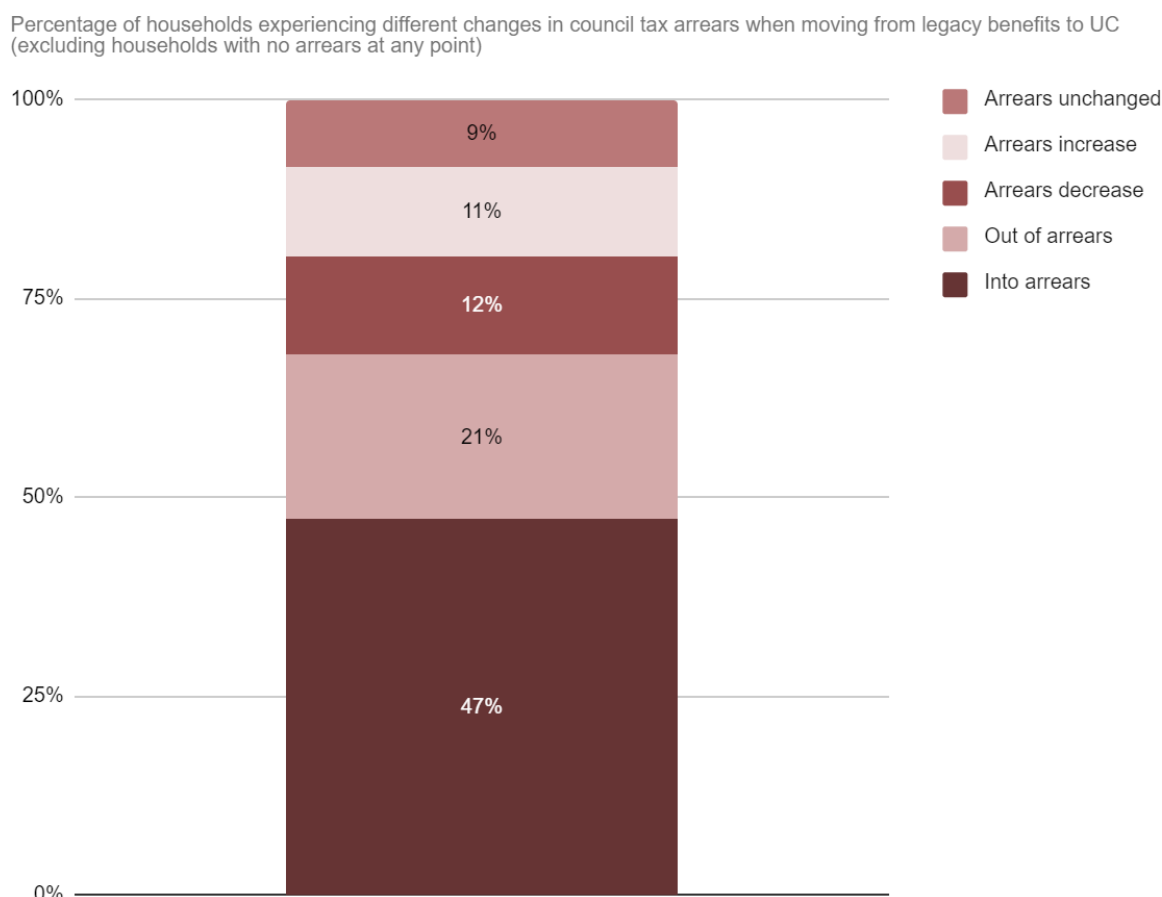
5.21 Transition to Universal Credit carries risks of interruption to household finances as one benefit ends, and another starts. Although transitional protection will smooth the change in income for households subject to managed migration, the move to Universal Credit also contains a period that is not covered by the benefit (the 5-week wait) during which bills need to be met through other resources. Households may take out advances to cover their costs during the five-week wait, but may also experience significant disruption to their financial affairs as they move to a single monthly payment, payment of housing elements to the claimant, setting up new bank transfers etc. This financial disruption can present a risk of accruing arrears even for those households benefiting from transitional protection and supported by an advance.

5.22 Analysis of the impact of arrears following transition to Universal Credit will provide an understanding of whether it is Universal Credit itself that is causing the higher council tax arrears seen in Universal Credit households, or whether it is due to

some other factor affecting the households that have transitioned to Universal Credit (for example, the type of household that is most likely to move to Universal Credit could be the type with greater prevalence of arrears).

- 5.23 The analysis includes only those households captured in the administrative data sample that moved to Universal Credit at some point between March and November 2019 (n = 4,276). It compared each household's highest recorded arrears when in receipt of legacy benefits with their highest recorded level of arrears when in receipt of Universal Credit.
- 5.24 Note that due to the requirement to apply, or reapply, for council tax reduction upon migration to Universal Credit, some households may have left the dataset at the point of migration. Although the proportion of households in this situation is likely to be relatively small, it is an unfortunate limitation of the SHBE/CTRS data available to local authorities. At present, DWP does not share full Universal Credit data with local authorities in such a way as to allow tracking of households across the migration from legacy benefits to Universal Credit if they do not continue claiming council tax reduction.
- 5.25 71% (3,022 out of 4,276) of households in the sample experienced no council tax arrears under either system, 14% (588) moved into arrears and 6% (254) moved out of arrears after the move to Universal Credit. Greater clarity is provided by examining just those households with some type of council tax arrears, at some point, during the data collection period (see Figure 2.6).

Figure 2.6 Proportion of Households in Council Tax Arrears Experiencing Changes in Council Tax Arrears after Moving to Universal Credit



Sample size = 1,254

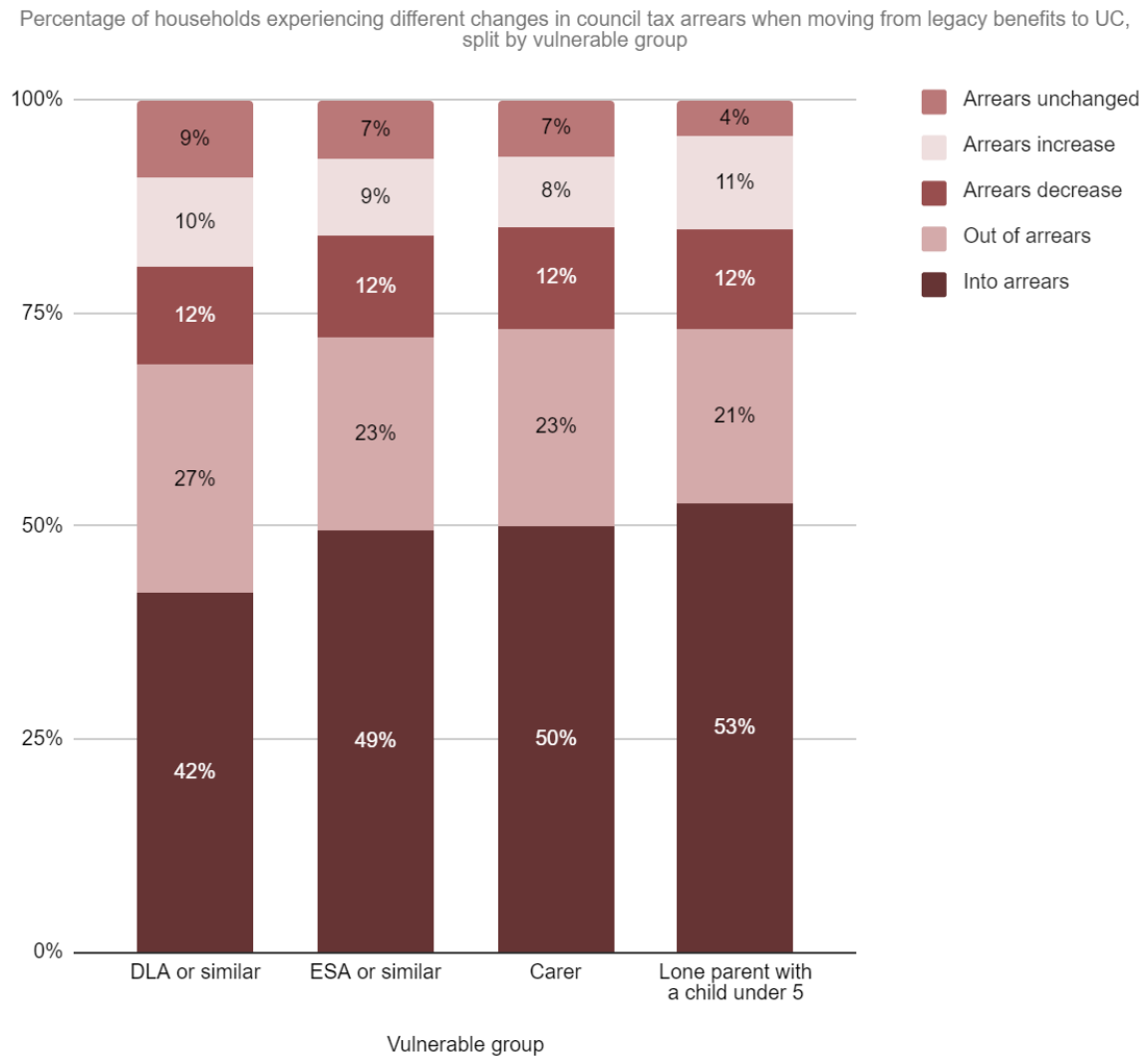
- 5.26 Amongst households that moved from legacy benefits to Universal Credit and recorded some level of council tax arrears in the administrative data (n = 1,254), 47% (588) showed some level of council tax arrears after migrating to Universal Credit, having had no arrears when in receipt of legacy benefits. Of those households that were in council tax arrears before and after transition to Universal Credit, roughly equal proportions of the sample saw their council tax arrears increase (11%, 161 households), decrease (13%, 254 households) or remain the same (a change of less than £5 - 9%, 143 households).

- 5.27 Vulnerable groups showed similar patterns of council tax arrears to the overall population during the transition to Universal Credit. 80% of DLA households, 79% of ESA households, 73% of lone parents with young children and 71% of carers experienced no arrears at any point.
- 5.28 Of those households that were in council tax arrears at some point between March and November 2019, carers and lone parents of young children had slightly higher rates of movement into council tax arrears (51%, 83 out of 164 households; and 52%, 99 out of 189 households, respectively) compared to the overall sample rate (47%). However, Disability Living Allowance and Employment and Support Allowance (or equivalent) households showed lower rates of movement into council tax arrears (41%, 68 out of 164 households; and 45%, 121 out of 247 households, respectively). Note that the sample sizes for these groups are relatively small,⁶⁸ so the results should be interpreted with some caution. Some households also appear in multiple vulnerability categories. See Figure 2.7.
- 5.29 Transition to Universal Credit for vulnerable groups appears to vary between types of vulnerability. There could be a number of reasons:
- Where vulnerabilities result in higher means-tested benefits (such as those receiving disability benefits or with the additional ESA Limited Capability for Work Related Activity, LCWRA, component), the higher rates of support may be sufficient to create a buffer against debt.
 - The length of time that a household is in receipt of means-tested benefits may affect the level of risk of debt as households adapt to living on reduced income.
 - Income from another source (such as DLA, PIP, or contributory ESA) may provide protection against income loss during the five-week wait and facilitate budgeting between monthly Universal Credit payments.
 - Differences in benefit awards levels between legacy benefits and Universal Credit may affect financial resilience. For example, some groups of lone parents will see

⁶⁸ DLA or similar: n = 164 (households moving from legacy benefits to Universal Credit during data collection period with some level of arrears); ESA or similar: n = 164; Lone parent with a child under 5: n = 247; Carer: n = 189

income fall as they move to Universal Credit whereas those in the LCWRA group for ESA may see benefit levels rise.

Figure 2.7 Proportion of Vulnerable Households in Council Tax Arrears Experiencing Changes in Council Tax Arrears after Moving to Universal Credit

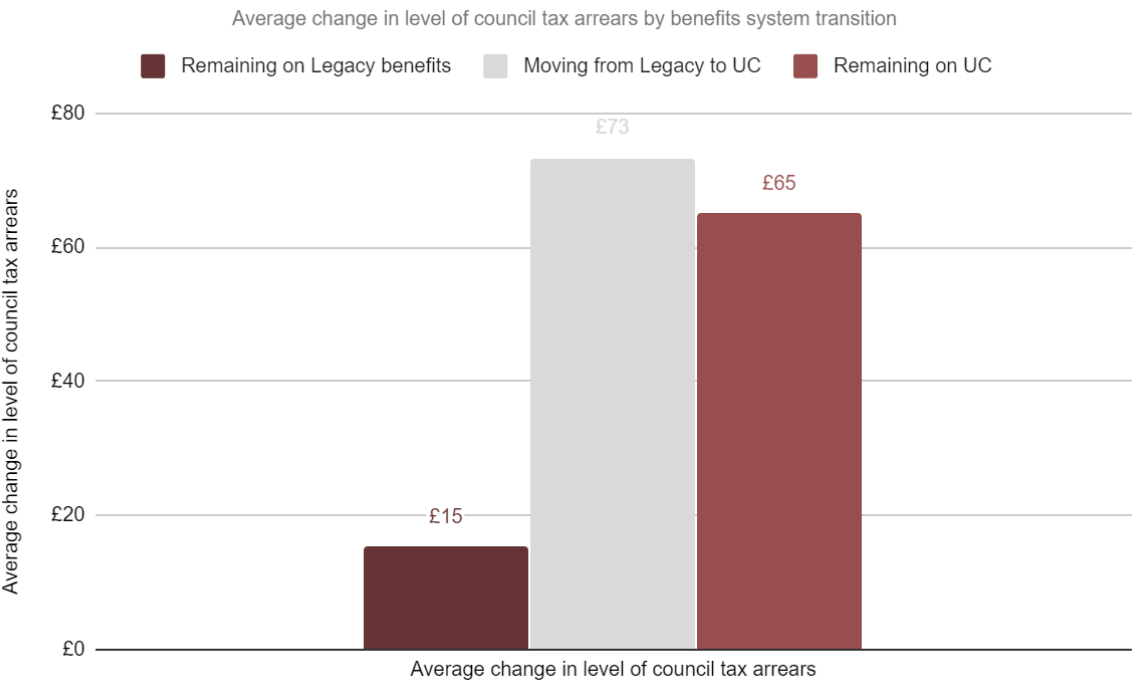


For sample sizes, see footnote 68

The Impact of the Benefit System on Trends in Council Tax Arrears

- 5.30 A move to Universal Credit is triggered by a change in circumstances. Examination of council tax arrears levels before and after transition to Universal Credit, as shown above, cannot divorce the impact of Universal Credit from the impact of the change of circumstance that triggered that move. Job loss, change in relationship status or birth of a child could all lead to changes in arrears levels, as well as triggering a move onto Universal Credit.
- 5.31 From the data used in this analysis, is not possible to fully disentangle the effect of triggering changes in circumstances from migration to Universal Credit per se. However, it is possible to look at wave-to-wave change in council tax arrears and compare these rates of change for households receiving legacy benefits versus those receiving Universal Credit. This allows change in arrears to be at least partially isolated from changes in household circumstances (at least those changes in circumstances that would trigger a move to Universal Credit between waves of data collection).
- 5.32 This analysis included all households that were in council tax arrears at some point between March and November 2019. Each data point in this analysis represents a household's status tracked from one wave to the next. For example, a household that was in receipt of legacy benefits in the March snapshot, but was recorded as claiming Universal Credit in the June snapshot would provide a single data point coded as 'Moving from Legacy to UC'. These wave-to-wave changes in council tax arrears were averaged for each transition type. A comparison was then made between the average change in arrears for transitions where households remained in receipt of legacy benefits across consecutive waves; the average change in arrears for transitions where households remained in receipt of Universal Credit across consecutive waves; and the average change in arrears for transitions where households moved from legacy benefits to Universal Credit between consecutive waves.

Figure 2.8 Average Change in Council Tax Arrears between Consecutive Waves of Data Collection, by Benefit Status during the Transition



For sample sizes, see footnote 69

5.33 Across the whole sample, households in receipt of legacy benefits showed, on average, a small increase (+£15) in council tax arrears from wave to wave. Conversely, households receiving Universal Credit showed, on average, a larger increase in council tax arrears from wave to wave (+£65). Households transitioning from legacy benefits to Universal Credit showed the largest increase in council tax arrears from wave to wave (+£73).⁶⁹ See Figure 2.8.

⁶⁹ Remaining on legacy benefits: n = 7,860 (households with some level of council tax arrears during data collection period); Moving from legacy benefits to Universal Credit: n = 981; Remaining on Universal Credit: n = 5,886

The Impact of Benefit System on Trends in Arrears by Vulnerable Groups

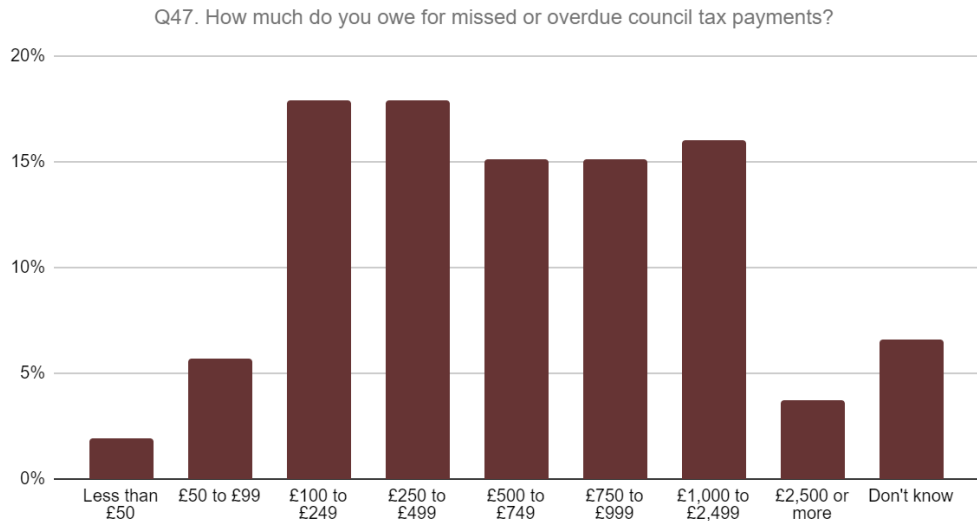
- 5.34 Given the small sample size for households moving from legacy benefits to Universal Credit, detailed breakdowns by demographic subgroup have not been reported.

Surveys and Interviews

A Snapshot of Self-Reported Council Tax Arrears

- 5.35 The claimant survey enabled the research team to get a clear snapshot of how the incidence of council tax arrears falls across the population surveyed, as well as how moving to UC affected people's finances.
- 5.36 28% of respondents (106 out of 383) to the survey reported being in council tax arrears - defined as being two or more consecutive payments behind.
- Respondents who were not in work and not currently seeking work (people who were ill, injured or disabled, students, homemakers, etc.) reported slightly higher council tax arrears than households in some kind of work (be they self-employed, full-time or part-time), at 39% (34 out of 88 respondents) to 33% (53 out of 163 respondents) respectively.
 - Respondents with severe disabilities or long-term illnesses are just as likely to be in council tax arrears as those without such conditions - at 33% (69 out of 207 respondents) and 34% (31 out of 92 respondents) respectively.
- 5.37 Of the 106 claimant survey respondents declaring themselves as having council tax arrears, 20% reported having council tax arrears over £1000, and 7% didn't know how much they owed in council tax. See Figure 2.9.

Figure 2.9 Survey Findings: How Much Council Tax Do You Owe?



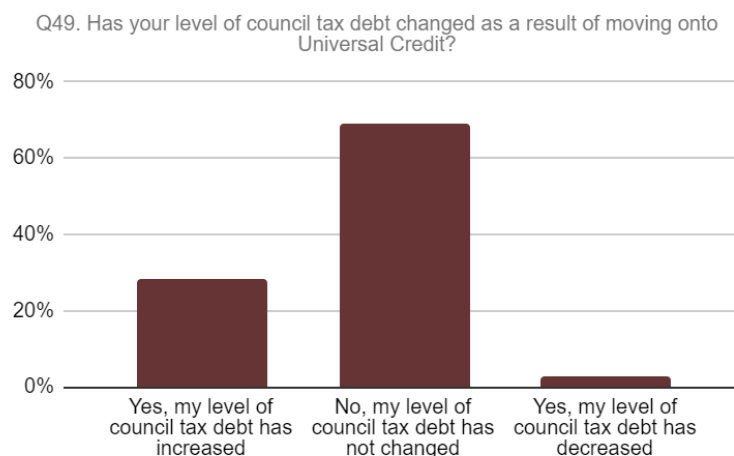
Sample size = 106

Universal Credit and Council Tax Arrears

- 5.38 30% of claimant respondents (60 out of 262) who weren't in council tax arrears before moving onto Universal Credit⁷⁰ said that they fell into council tax arrears after moving onto the benefit. However, this figure should be tempered by the fact that many households claim Universal Credit when undergoing life changes, such as losing employment or separating from a partner, so the increase in arrears could, indirectly, capture households undergoing significant change and trying to come to terms with a lower income.
- 5.39 While 69% of claimants surveyed (252 out of 366) report no change in their council tax arrears as a result of moving onto Universal Credit, 29% (104) reported their arrears increasing. Only around 3% (10) of respondents reported their council arrears decreasing as a result of moving onto Universal Credit. See Figure 2.10.

⁷⁰ Excluding respondents who selected "Don't know"

Figure 2.10 Survey Findings: Has Your Level of Council Tax Debt Changed as a Result of the Move to Universal Credit?



Sample size = 366

- 5.40 According to the claimant survey respondents, the increases in council tax arrears when moving onto Universal Credit were most commonly attributed to being eligible for less support (56%, 58 out of 104 responses), debts incurred during the five-week wait (55%, 57 responses) and difficulties budgeting with monthly payments (43%, 45 responses).

“Due to my earnings and amount of Universal Credit I receive the amount of help I receive from council tax reduction has decreased and I'm now having to pay a large amount of Council Tax each month.”

(Universal Credit respondent)

- 5.41 One claimant interviewed reported that after making their Universal Credit claim they initially fell into council tax arrears, but these were cleared once they had applied for council tax reduction and the local authority backdated this to the date of their initial Universal Credit claim.
- 5.42 Some of the Universal Credit claimants interviewed reported that they had fallen into council tax arrears due to financial difficulties in the past, including having to wait for the initial Universal Credit payment, although some had used an advance payment to cover this. A few other claimants said that they were behind with their

council tax because even when the Universal Credit payments started coming in, they could not afford to pay this as well as all their other outgoings

"I've got nothing left at the end of the month... I'm working now so it's going much better but initially it was horrendous... No money for rent, no money for council tax, no money for gas and electric with paying with that, no money for food. I had about £50 left."

(Universal Credit Claimant)

- 5.43 One way to measure this is to compare overall prevalence of council tax arrears amongst recipients of legacy benefits to those on Universal Credit. 32% of respondents on Universal Credit (94 out of 298) stated that they were in council tax arrears, versus 28% of respondents on Housing Benefit (24 out of 87).⁷¹

Comparison of Survey and Administrative data

- 5.44 The patterns of reported prevalence and severity of council tax arrears for households in receipt of legacy benefits compared to households in receipt of Universal Credit were relatively consistent across both the claimant survey and administrative data. Survey respondents reported that arrears were more prevalent, and more severe, under Universal Credit.
- 5.45 However, the overall rates of council tax arrears found in the administrative data were substantially lower than those self-reported by claimants. This may be attributable to self-selection bias in the survey recruitment, which relied upon sign-up from Universal Credit and legacy benefit claimants. The survey was advertised as assessing the impact of Universal Credit on the Council Tax Reduction Scheme and rent arrears in Wales. As such, claimants with direct experience of being in arrears may have been more likely to sign up. Survey respondents were more likely to report arrears over £1000 than would be expected based on the administrative

⁷¹ Note that this analysis specified survey respondents on Housing Benefit (rather than any legacy benefit) to better align the results with those of the administrative data analysis, as SHBE data only includes households in receipt of Housing Benefit.

data (20% of survey respondents compared to 11% of households in the administrative data). This could support the idea that the survey sample represented a group of claimants with more extreme experiences of arrears than the general claimant population.

- 5.46 Alternatively, it may be that the cohort from whom the research team were able to obtain administrative council tax arrears data had consistently lower levels of overall arrears than the average for households in receipt of means-tested benefits. Data analysis captured council tax arrears data for households in roughly one third of Welsh local authorities. The sample was limited to those households receiving Housing Benefit and/or council tax reduction. The sample did not cover households only receiving tax credits under the legacy system, or those claiming Universal Credit but not receiving council tax reduction. Further research, on a more comprehensive sample of legacy benefit and Universal Credit claimants across all Welsh local authorities would be required to determine whether the discrepancy between the administrative and survey findings reflected a genuine sampling bias.
- 5.47 The survey and administrative data were aligned in their results relating to impacts arising from the transition from legacy benefits to Universal Credit. Even so, there was once again a more extreme (negative) picture emerging from the survey data:
- 69% of survey respondents reported no change in arrears, matching closely to the 74% of households found in the administrative data.
 - 28% of survey respondents reported an increase in council tax arrears when moving from legacy benefits to Universal Credit, compared to 17% in the administrative data.
 - 3% of survey respondents reported a reduction in council tax arrears when moving to Universal Credit, compared to 10% of households in the administrative data.
- 5.48 Once again, these differences could result from self-selection amongst survey respondents, a degree of systematic bias in the cohort of administrative data, or the relatively small sample sizes in the survey data.

Conclusion

- 5.49 The results from both the self-reported claimant survey and administrative data presented a consistent picture that council tax arrears were more common, and more severe, under Universal Credit.
- 5.50 The transition to Universal Credit itself appears to be consistently associated with an increase in arrears, indicating that the gap in support during the five-week wait may be instrumental in the development of council tax arrears.
- 5.51 For those households with arrears at some point, Universal Credit appears to increase the level of arrears indicating that the ongoing impact of Universal Credit, such as the monthly award or the level of support, is problematic.
- 5.52 However, across the overall population of the analysis, the majority of claimants reported no change in arrears as a result of migration to Universal Credit. Where a change in arrears was reported, it most commonly came as an increase in arrears. The survey suggests that these increases were attributed to changes in award levels under the new benefits system, debts incurred during the five-week wait, and difficulties budgeting with monthly payments.
- 5.53 Overall levels and the effects of Universal Credit on council tax arrears appeared to be relatively consistent across different demographics and vulnerable groups. Differences in impact across vulnerable groups suggests that some other variable may be the major determinant of council tax arrears.

Key Findings: Council Tax Arrears

Council tax arrears were more prevalent amongst households in receipt of Universal Credit.	
% Universal Credit households in arrears	Administrative data 28% (survey 32%)
% Legacy households in arrears	Administrative data 12% (survey 28%)
Amongst those with arrears, Universal Credit is associated with a higher level of arrears compared to legacy benefits (administrative data)	
Average arrears for UC households	£89
Average arrears for legacy households	£29

Levels of council tax arrears differed between the data analysis and survey results	
Administrative data showed the majority had arrears	under £100
The majority of survey respondents reported arrears	over £250
Most households that are not in arrears under legacy benefits remained with no arrears under UC	
% with no arrears before and after moving to UC	Administrative data 71% (survey 69%)
A small but significant proportion of households moved into arrears with the transition to Universal Credit.	
% with arrears following move to UC	Administrative data 14% (survey 20%)
Council tax arrears were more likely to increase under Universal Credit than legacy benefits (administrative data)	
Level of increase during the period on UC	+£65
Level of increase during the period on legacy	+£15
The pattern of council tax arrears for vulnerable groups was similar to the general population but differences between vulnerable groups indicated that some other factor affected arrears levels.	
Increases in council tax arrears when moving onto Universal Credit were most commonly attributed to: (survey data)	
● Being eligible for less support (56%) ● Debts incurred during the five-week wait (55%) ● Difficulties budgeting with monthly payments (43%).	

6. Part Three: Rent Arrears

Introduction

6.1 Several recent studies suggest that the design of Universal Credit could be creating household rent arrears.⁷² The main features of Universal Credit that are thought to be contributing to this trend are:

- the initial wait for the first Universal Credit payment;
- rent being paid directly to the claimant (rather than the landlord); and
- claimants moving from weekly or four-weekly benefit payments to a monthly payment.

6.2 UK-wide studies include:

- A report by the National Audit Office, 'Rolling out Universal Credit',⁷³ which stated that local authorities, housing associations and landlords have seen an increase in rent arrears since the introduction of Universal Credit full service. The rent arrears can take up to a year to recover.
- Surveys undertaken by the Scottish Federation of Housing Associations, England's National Housing Federation, and the Northern Ireland Federation of Housing Associations. For example, the survey in England found that while tenants may have existing rent arrears, tenants on Universal Credit were more than twice as likely to be in rent arrears compared to all other tenants, with nearly three quarters (73%) of surveyed Universal Credit tenants in rent arrears, compared to less than a third (29%) of all other surveyed tenants.⁷⁴

⁷² Some of these studies are mentioned in an analysis of the impact of welfare reform on households in Wales, published in March 2019: [Analysis of the impact of the UK welfare reforms on households in Wales](#) (Welsh Government, March 2019)

⁷³ [Rolling out Universal Credit](#) (National Audit Office, June 2018)

⁷⁴ [UK housing bodies warn 'flawed' Universal Credit is causing debt and hardship for families in social housing](#) (Scottish Housing News, 2018)

- Research by Citizens Advice⁷⁵ found that, of those seeking advice for debt problems and receiving benefits, 43% of those receiving Universal Credit had rent arrears compared with 29% of those receiving legacy benefits.
- A survey by the BBC who contacted every local authority in the UK that has council homes about their arrears⁷⁶. The results from the 129 councils that responded showed the average amount owed by tenants claiming Universal Credit across the UK is £662.56. For those on legacy benefits and so still receiving Housing Benefit it is £262.50.

- 6.3 There is a similar picture in Wales. Community Housing Cymru, the membership body for housing associations in Wales, stated in 2018 that housing association tenants on Universal Credit in Wales are already in over £1 million of rent arrears debt, according to their survey of a sample of 29 housing associations in Wales.⁷⁷ Their survey was conducted with 3,475 people living in housing association homes in Wales and shows each person had an average of £420 in rent arrears.
- 6.4 A more recent study, in 2019, for Community Housing Cymru⁷⁸ supported these findings though the authors put several caveats on the results of their research. Results from this latest Community Housing Cymru survey suggested that 84% of Universal Credit tenants are in arrears. The total arrears reported was £4.6 million with around £1.1 million starting from the beginning of the Universal Credit claim. The average arrears per Universal Credit tenant is £415 but rose to £556 per tenant for those currently in arrears. In common with other studies, arrears were lower for tenants not in receipt of Universal Credit (an average of £219 for those still receiving legacy benefits).

⁷⁵ [Achieving income security for all](#) (Citizens Advice, September 2019)

⁷⁶ [Universal credit: Rent arrears double for benefit claimants](#), BBC News (12th November 2018)

⁷⁷ [Joint call to change the flawed Universal Credit system as tenants are already in over £1m debt](#) (Community Housing Cymru, July 2018)

⁷⁸ [Monitoring the impact of Universal Credit on rent arrears in Wales](#) (Opinion Research Services for Community Housing Cymru, October 2019). The survey was undertaken in three waves between January 2018 and May 2019. The number of housing associations responding ranged from 22 to 29. The number of tenants represented at wave 3 was 84,300 of whom 11,350 (around 13%) were receiving Universal Credit.

- 6.5 Again, the Community Housing Cymru study supported other research as it showed that the main reasons for Universal Credit tenants falling into arrears were the five-week wait and the shift to monthly payments of benefit, with the need to budget monthly. There was also some evidence that tenants managed to reduce their arrears over time, assisted by new support and monitoring procedures introduced by the housing associations.
- 6.6 Local studies may or may not be representative, but they do add vivid illustrations:
- Bron Afon Housing Association has reported⁷⁹ concerns about the impact of Universal Credit on rent arrears in Torfaen. Of the 525 people who were claiming Universal Credit by January 2018, rent arrears were reported to have increased in a significant proportion of cases, with computer and literacy skills mentioned as big issues.
 - In Flintshire, North Wales, one of the first counties to test Universal Credit, the local authority says rent arrears have gone up by £1m in the 18 month period from April 2017.⁸⁰ Tenants receiving Universal Credit in the county owed on average four times as much rent as those on the legacy benefits, with those on Universal Credit in the county owing an average of £1,473 as opposed to tenants in receipt of legacy benefits, who owe £334. By early 2020, rent arrears stood at £2.04m but there was evidence that the position had stabilised, with rent arrears reducing slightly. This was explained by better and earlier intervention to support tenants.⁸¹
- 6.7 Other relevant findings include evidence from Scotland. As of March 2019, rent arrears on all council properties in Scotland was £74m, up £9m (14.0%) on the previous year, representing 6.2% of Standard Rental Income from these properties. These arrears have been rising steadily year on year since March 2013.⁸² The

⁷⁹ [Universal Credit rollout could affect up to 1,200](#) (South Wales Argus, January 2018)

⁸⁰ [BBC Panorama](#) (12th November 2018)

⁸¹ [Flintshire council tenants still owe more than 2m in rent but arrears are no longer increasing](#) (Deeside.com, 13th February, 2020)

⁸² Scottish Council Housing Income and Expenditure 2018-19 (actuals) and 2019-20 (estimates) (Scottish Government, 15th October 2019)

housing revenue account showed that, on 31 March 2017, in the five council areas where Universal Credit full service had rolled out in 2016-17, rent arrears had increased by an average of 14.1% compared with an average of 4.1% across the remaining councils.⁸³

- 6.8 Research by the Smith Institute⁸⁴ found that rent arrears were a greater problem under Universal Credit than under the Housing Benefit (one of the legacy benefits) system. They found that whilst Universal Credit tenants were no more likely to miss payments of rent than Housing Benefit tenants, the level of missed payments varied widely. 39% of cases of missed payments in Universal Credit cases were by more than 75% of the total rent due. The Housing Benefit figure was just 8%. They note that arrears built up quickly, in a period of 3 months, and then stabilised. A follow-up report by the Smith Institute⁸⁵ found that whilst arrears were generated in the initial weeks of a claim, a pattern of missed payments re-emerged over the longer term. They noted: 'At week 20, overall, tenants are paying the rent owed. However, as time progresses, a pattern of underpayment re-emerges...The findings suggest that those with multiple claims for Universal Credit have higher arrears and that multiple claims could be a cause of persistent arrears'.
- 6.9 Whilst it is clear from these studies that Universal Credit claimants generally have more rent arrears than those still in receipt of legacy benefits, it is more difficult to pin down what part of the arrears is directly due to Universal Credit, as it is clear that many claimants had rent arrears before switching to Universal Credit. Existing evidence has been unclear on the extent to which arrears stabilise over time. Also, existing research studies are inevitably a little out of date and do not necessarily reflect the rapid increase in rollout of Universal Credit since December 2018, nor the policy changes introduced by DWP in 2018, including reducing the wait before payment from 6 to 5 weeks, the two-week run-on of Housing Benefit, advances of 100% (rather than 50%) of entitlement with more automatic payment, and doubling

⁸³ Housing Revenue Account (HRA) statistics: income and expenditure (Scottish Government, 31st October 2017)

⁸⁴ [Safe as houses: the impact of Universal Credit on tenants and their rent payment behaviour in the London boroughs of Southwark and Croydon, and Peabody, London](#), P Hunter (The Smith Institute, 2017)

⁸⁵ [Safe as Houses 2: A follow-on report into the impact of Universal Credit on Southwark Council's housing tenants rent payment behaviour](#) (The Smith Institute, 2018)

the repayment period for advances to 12 months. However, a study, covering 1000 tenants, by Peabody housing association in September 2019 concluded that 76% of tenants receiving Universal Credit were in arrears and that the reforms introduced by DWP had not gone far enough.⁸⁶

6.10 DWP studies have also touched on the issue of Universal Credit and rent arrears:

- DWP commissioned IFF Research⁸⁷ to undertake two waves of quantitative research with Universal Credit full-service claimants. This survey was conducted in 2017 and included questions on managing housing costs. In both waves (March and September 2017), just over a third were experiencing housing payment arrears. Among those who were in arrears, around two thirds (65%) said they fell into debt after they made their claim for Universal Credit. There were signs of the situation deteriorating over time for some claimants. Seven out of ten (71%) of those in arrears at three months into their claim were still in arrears at the eight to nine-month point and 44% said the amount they owed had become larger. However, three in ten (29%) of those still in arrears said the amount had become smaller and a quarter (27%) of those in arrears in the first wave of the survey were up to date with their payments by the second wave.
- DWP has also considered the impact of Universal Credit on rent arrears in their research with families.⁸⁸ The research comprised two waves of surveys in 2016 and qualitative in-depth interviews. In early 2016, the quantitative research involved telephone interviews with 1,039 Universal Credit family claimants, 464 of whom were re-interviewed later in the year. The research found that at wave 1, just over two in five (41%) renters were in arrears with their rent payment, falling to 31% at wave 2. Most Universal Credit families reported that this was the first time they had been in rent arrears in their current accommodation (77% at wave 1, 82% at wave 2). At wave 1, half of family Universal Credit claimants reported that their rent arrears started after they made their current claim (49

⁸⁶ [The impact of Universal Credit](#) (Peabody, September 2019)

⁸⁷ [Universal Credit Full Service](#) (IFF Research, 2018)

⁸⁸ [Universal Credit Test and Learn Evaluation: Families](#) (Ipsos Mori for DWP, September 2017)

percent). There were a variety of reasons for being in arrears, but the five-week wait was highlighted. Most of the reasons for being in arrears were related to the claimant's personal situation and limited income.

- 6.11 Although DWP has published the above survey evidence, the National Audit Office reports that DWP has not undertaken any national, representative analysis of whether Universal Credit is creating additional rent arrears. In October 2018, the DWP Minister, Justin Tomlinson, said: 'we are currently carrying out further analysis of this issue with a number of housing providers, to investigate and understand the true level of rent arrears for their tenants, what is causing them and any impacts Universal Credit may be having. It will be published when complete'.⁸⁹
- 6.12 In June 2019, the then DWP Minister, Alok Sharma, stated that DWP were investigating the link between Universal Credit and rent arrears.⁹⁰ He went on to quote a July 2018 report by the National Federation of Arms-Length Management Organisations that 75% of claimants with rent arrears were already in arrears before their Universal Credit claim started and mentioned DWP findings in early research⁹¹ that after 4 months the number of claimants in arrears had fallen by a third. A similar response to a Parliamentary question was given in 2017.⁹²

⁸⁹ [Response to written question 181576](#) (Hansard, 29th October 2018)

⁹⁰ [Universal Credit and debt](#) (Debate in the House of Commons, 5 June 2019)

⁹¹ [Universal Credit: test and learn evaluation - families](#) (DWP, Sept 2017)

⁹² [Response to a Parliamentary Question on rent arrears and Universal Credit](#) (House of Commons, 13th November 2017)

Administrative Data Analysis

Dataset

- 6.13 Rent arrears extracts were requested from all participating local authorities, as well as housing associations for those authorities without their own social housing stock. Note that data was only available on rent arrears for those in social housing.
- 6.14 These arrears extracts included information on level of rent arrears, but no other information on household circumstances. In order to explore the relationship between Universal Credit and rent arrears, the arrears extracts were matched with SHBE data from each council using housing benefit reference numbers. This matching process was successful for between 6 and 8 local authorities⁹³, depending on the wave of data collection, with a total sample size of 101,833 unique households in social housing for whom matched data was available (70,437 in receipt of legacy benefits, 27,963 in receipt of Universal Credit and 3,433 households that migrated from legacy benefits to Universal Credit during the data collection between March and November 2019). The proportion of households with rent arrears within each wave ranged from 11% to 21%.⁹⁴ Because of this, where

⁹³ Rent arrears extracts were received for 13 of the participating local authorities (either from their own housing teams or from the housing associations managing the housing stock in that area). Where housing associations held stock in multiple local authorities, these were matched to the appropriate local authority's SHBE data based on the region coding for each household. However, some of the arrears extracts received did not include sufficient identifiers to match households to the demographic information included in the housing benefit and council tax extracts. In addition, as with the council tax arrears data, amongst those arrears extracts that were successfully matched with the core SHBE datasets, a number of local authorities showed overall rates of rent arrears below 1% (of the HB/CTRS cohort). We believe that these low arrears rates are more likely to reflect issues with the raw data than the true state of arrears in those local authorities. We therefore elected to exclude the datasets from local authorities showing less than 1% of the HB/CTRS cohort in rent arrears. These matching issues reduced the total sample of local authorities from the 13 providing raw data to the 6-8 reported in the body text. If a more comprehensive study of rent arrears in Wales were to be conducted in future, we would recommend a program of standardisation across the rent arrears extracts recorded by local authorities and housing associations to facilitate analysis of this kind.

⁹⁴ March: 6 local authorities matched, 50,080 households, of which 10,603 in rent arrears, average of 21% of households in rent arrears per local authority ; June: 6 local authorities matched, 48,719 households, of which 8,628 in rent arrears, average of 15% of households in rent arrears per local authority; September: 8 local authorities matched, 78,082 households, of which 8,784 in rent arrears, average of 11% of households in rent arrears per local authority; November: 7 local authorities matched, 58,557 households, of which 11,052 in rent arrears, average of 19% of households in rent arrears per local authority. Of the 11 local authorities that provided data at some point, 4 were located in North Wales and the remainder in South Wales.

possible all subsequent analyses have been structured to aggregate findings across waves.⁹⁵

Impact of Universal Credit on the Prevalence of Rent Arrears

- 6.15 To explore the prevalence of rent arrears, households were coded as ‘in arrears’ if they recorded a non-zero level of rent arrears at any point during their time on each benefits system. This meant households that moved from legacy benefits to Universal Credit during the data collection period recorded two ‘in arrears’ scores, one for each system. This means that in this analysis, households that migrated from legacy benefits to Universal Credit during the period of data collection are counted towards the rates of rent arrears for both benefits systems.
- 6.16 This approach was chosen to provide rates of rent arrears specifically associated with each benefits system. Subsequent analysis delved into patterns of rent arrears for households as they moved from legacy benefits to Universal Credit.
- 6.17 Across the whole sample of household records from all four waves of data, prevalence of rent arrears was higher for households in receipt of legacy benefits than for households in receipt of Universal Credit.
- 13% of Universal Credit households recorded rent arrears above zero at some point between March and November 2019 (3,999 households out of 31,396).
 - 20% of households in receipt of legacy benefits recorded some level of rent arrears between March and November 2019 (14,503 out of 73,870 households).

Prevalence of Rent Arrears by Vulnerable Groups

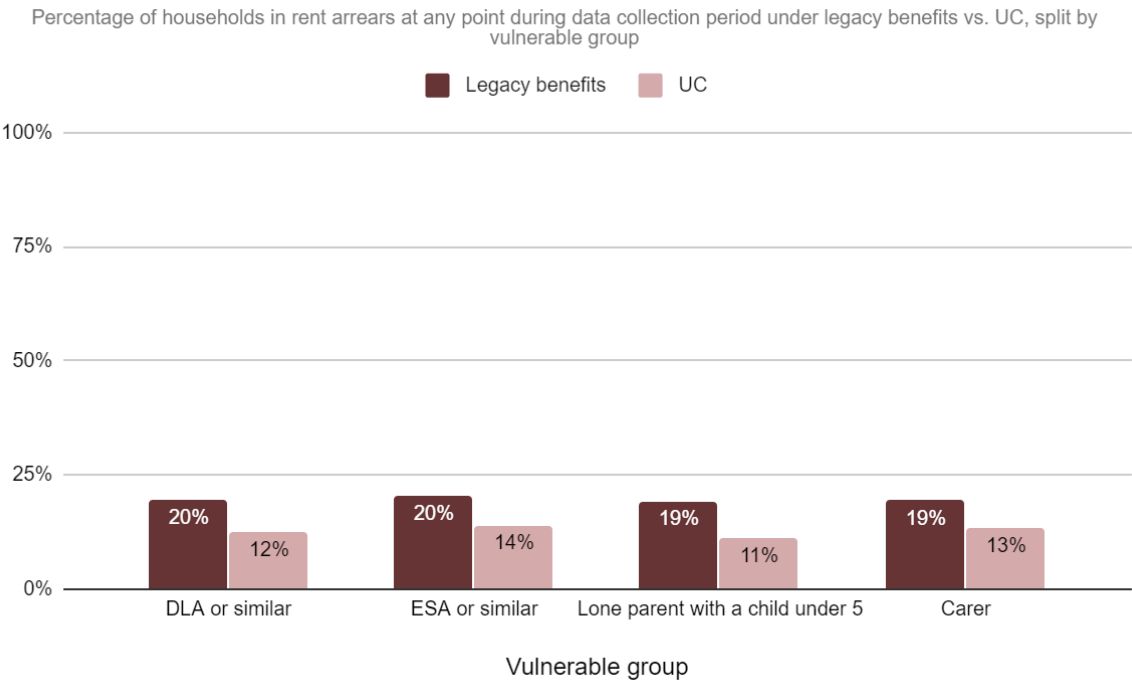
- 6.18 As with the analysis of council tax arrears, vulnerability factors were those relating to benefit change or disruption. The same four subgroups of vulnerability (from a benefits perspective) were used for this and all subsequent analyses: households

⁹⁵ Note that this means that some analyses are based on aggregation across unique households, whilst others aggregate across individual records. This does, in some cases, mean individual households are counted more than once (for example if they were recorded as being on both legacy benefits and Universal Credit during the data collection period).

claiming DLA (or similar benefits, e.g., PIP), households claiming ESA, carers, and lone parents with children under the age of five.

6.19 The patterns of prevalence of rent arrears seen across the whole sample was preserved across vulnerable subgroups, with a greater prevalence of arrears seen for those in receipt of legacy benefits.⁹⁶ See Figure 3.1.

Figure 3.1 Proportion of Households in Rent Arrears by Vulnerable Group



For sample sizes, see footnote 96

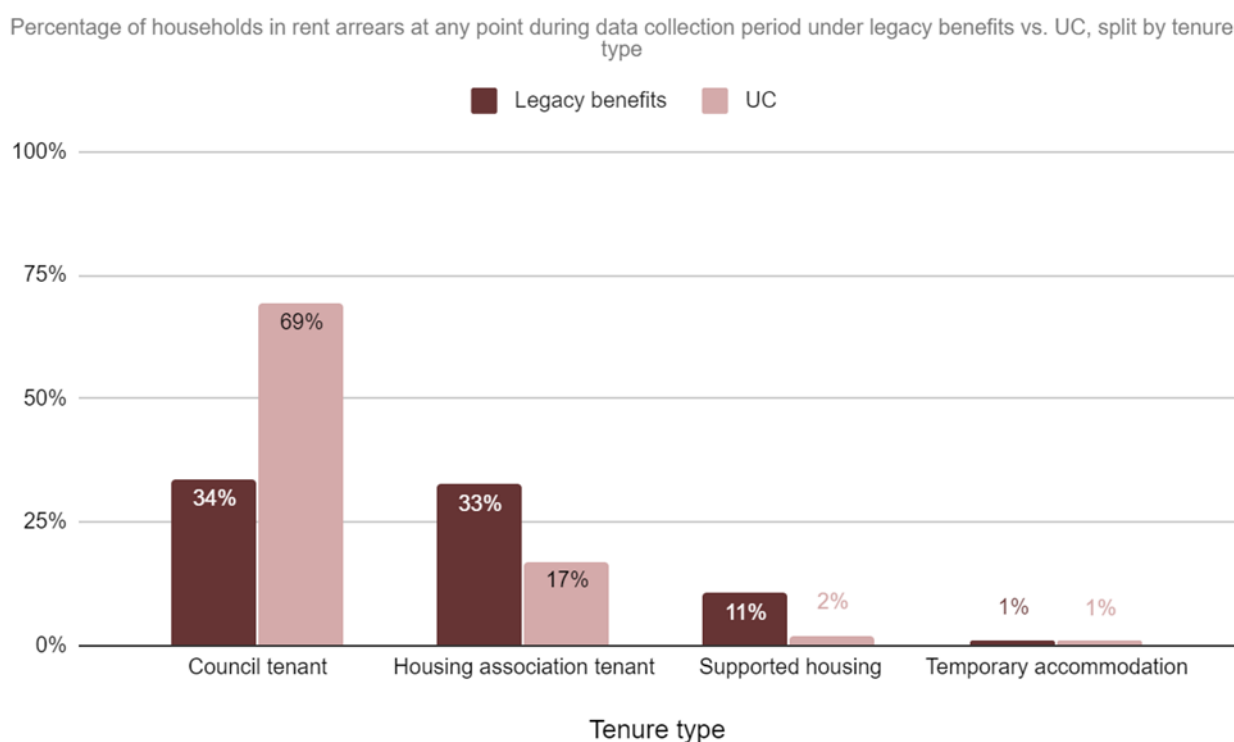
6.20 This higher prevalence of rent arrears for households in receipt of legacy benefits compared to Universal Credit was in marked contrast to the equivalent comparison for council tax arrears. This is likely due to differences in the distribution of council tax vs. rent arrears levels. This explanation is discussed in more detail below.

⁹⁶ Total sample sizes:
DLA or similar n (legacy) = 29,729 of which 5,817 in rent arrears, n (UC) = 4,497 of which 559 in rent arrears;
ESA or similar n (legacy) = 42,402 of which 8,659 in rent arrears, n (UC) = 4,193 of which 586 in rent arrears ;
Lone parent with a child n (legacy) = 5,666 of which 1,094 in rent arrears, n (UC) = 3,710 of which 419 in rent arrears;
Carer n (legacy) = 9,612 of which 1,863 in rent arrears, n (UC) = 1,517 of which 204 in rent arrears

Prevalence of Rent Arrears by Tenure Type

- 6.21 Amongst council tenants, rent arrears were substantially more prevalent for those in receipt of Universal Credit (69% of households) compared to those in receipt of legacy benefits (34%). This pattern was reversed (though overall prevalence levels were lower) for housing association tenants (33% of households claiming legacy benefits vs. 17% of households claiming Universal Credit), with a similar pattern for those in supported housing (11% legacy vs. 2% Universal Credit)⁹⁷. See Figure 3.2.

Figure 3.2 Proportion of Households in Rent Arrears by Tenure



For sample size, see footnote 97

⁹⁷ Total sample sizes:

Council tenants: n (legacy) = 5,524 out of 16,464, n (UC) = 641 out of 924;

Housing association tenants: n (legacy) = 7,878 out of 24,197, n (UC) = 661 out of 3,858;

Supported housing: n (legacy) = 105 out of 988, n (UC) = 3 out of 142;

Temporary accommodation: n (legacy) = 5 out of 429, n (UC) = 2 out of 211.

Impact of Universal Credit on the Level of Rent Arrears

- 6.22 In order to compare levels of rent arrears between legacy benefits and Universal Credit, average arrears levels were calculated separately for all individual records associated with each benefit system. This approach differs from the previous analysis above, which aggregated across records to identify households in rent arrears 'at any point'.
- 6.23 As with council tax arrears, rent arrears levels were found to be higher for those households in receipt of Universal Credit. Average rent arrears were £495 for records of households in receipt of Universal Credit (across 8,195 records showing some level of arrears, from the total sample of 63,670 records of households in receipt of Universal Credit). This was substantially higher than the £206 average rent arrears (across 30,872 households showing some level of rent arrears, from the total of 171,768 records) for records of households in receipt of legacy benefits.
- 6.24 This pattern was consistent across all four waves of data collection,⁹⁸ as well as across all four vulnerable sub-groups⁹⁹. See Figures 3.3 and 3.4 respectively.

⁹⁸ Wave 1: n (records of households claiming legacy benefits) = 39,872, of which 9,086 in rent arrears, n (records of households claiming Universal Credit) = 10,208 of which 1,517 in rent arrears

Wave 2: n (legacy) = 35,520 of which 6,839 in rent arrears, n (UC) = 13,199 of which 1,789 in rent arrears

Wave 3: n (legacy) = 56,007 of which 6,447 in rent arrears, n (UC) = 22,075 of which 2,337 in rent arrears

Wave 4: n (legacy) = 40,369 of which 8,500, n (UC) = 18,188 of which 2,552 in rent arrears

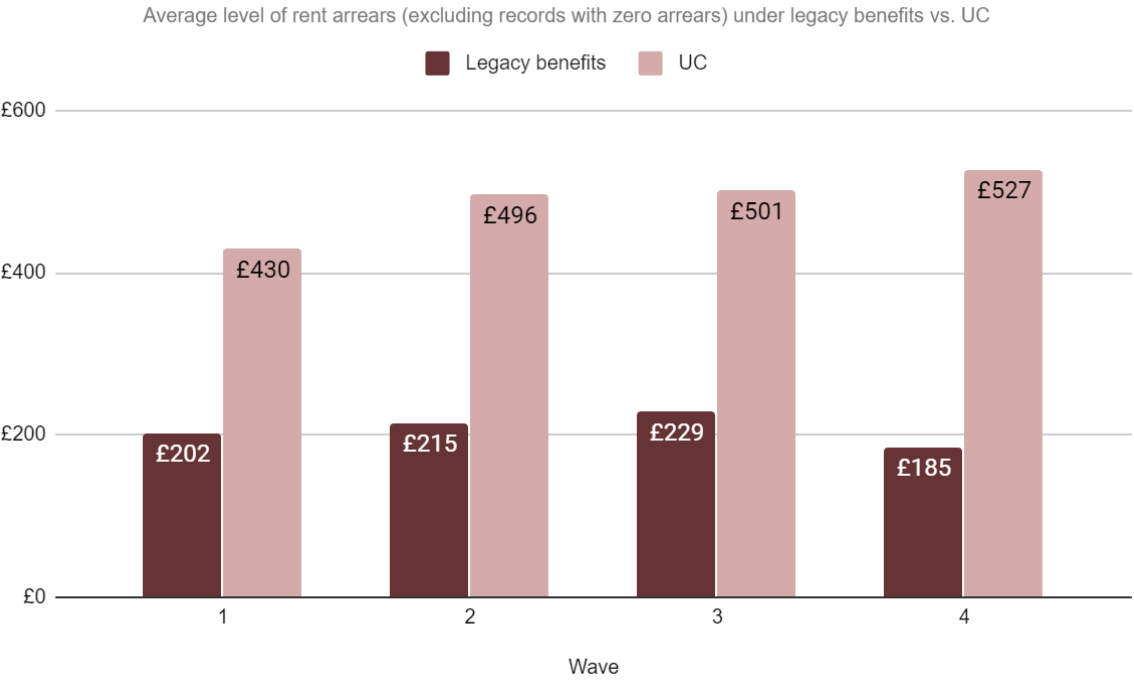
⁹⁹ DLA or similar: n (records of households claiming legacy benefits) = 75,851 of which 13,246 in rent arrears, n (records of households claiming Universal Credit) = 11,384 of which 1,456 in rent arrears

ESA or similar: n (legacy) = 106,596 of which 19,470 in rent arrears, n (UC) = 10,743 of which 1,500 in rent arrears

Lone parent with a child under 5: n (legacy) = 12,933 of which 2,563 in rent arrears, n (UC) = 8,377 of which 1,152 in rent arrears

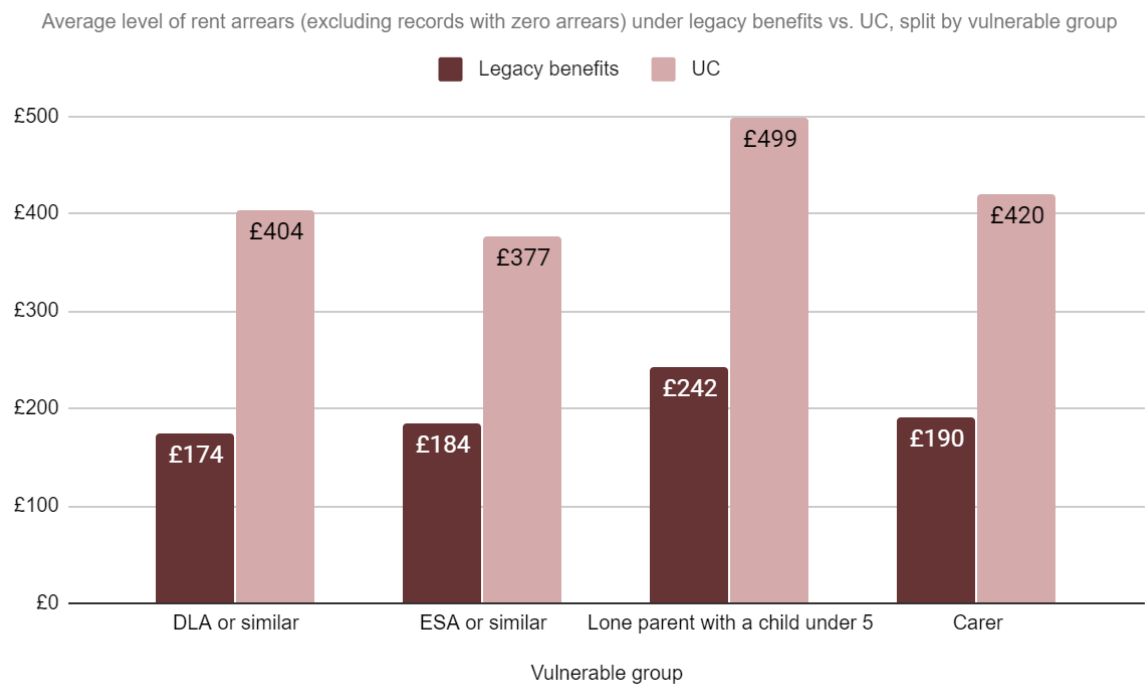
Carer: n (legacy) = 22,822 of which 4,058 in rent arrears, n (UC) = 3,515 of which 505 in rent arrears

Figure 3.3 Average Level of Arrears for Household Records Showing Rent Arrears by Wave of Data Collection



For sample sizes, see footnote 98

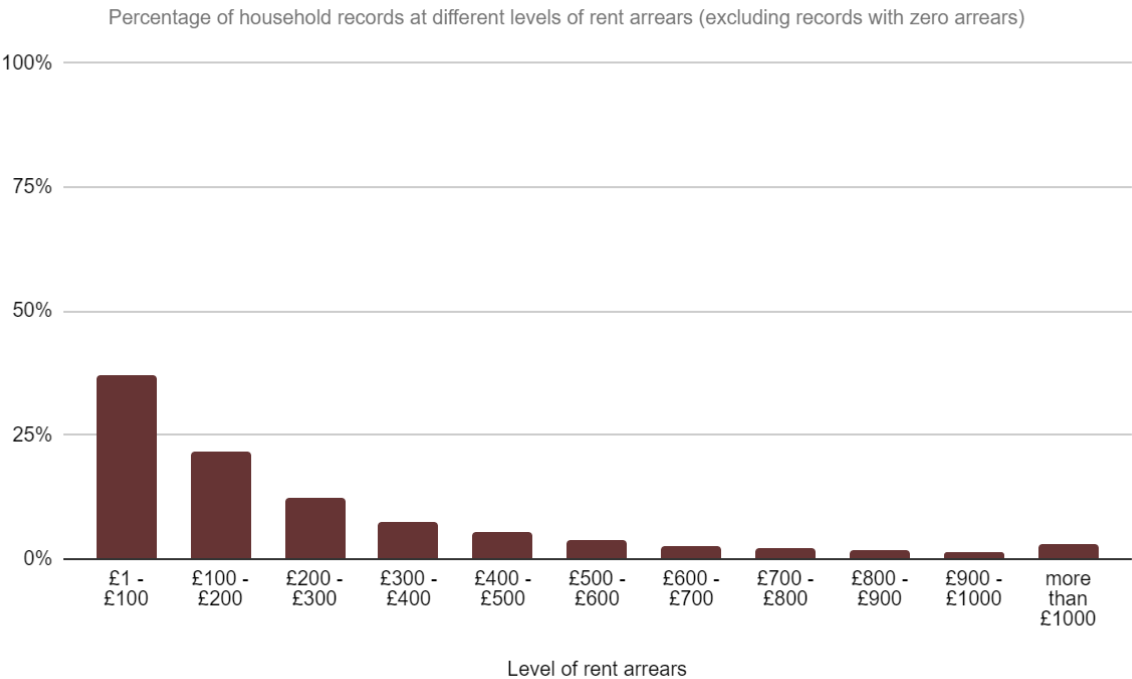
Figure 3.4: Average Level of Rent Arrears for Universal Credit and Legacy Benefits by Vulnerable Group



For sample sizes, see footnote 99

6.25 As with council tax arrears, 37% of records showing some level of rent arrears during the data collection period showed households having rent arrears between £1 and £100 (14,563 of the 39,067 records showing some level of arrears). See Figure 3.5.

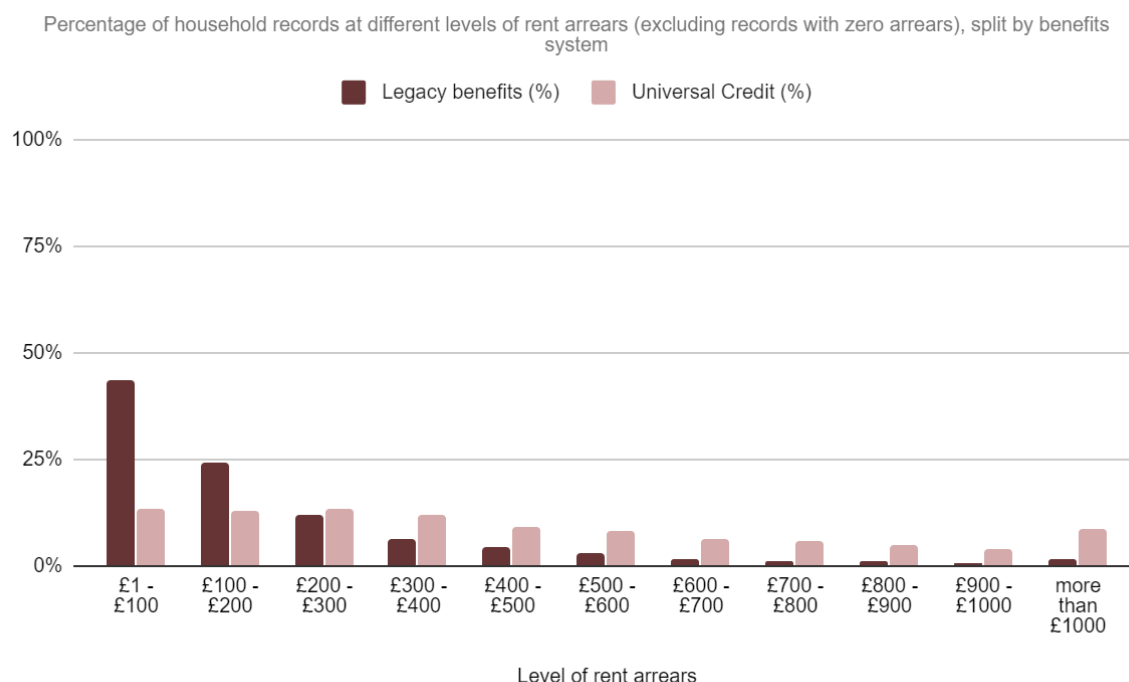
Figure 3.5: Proportion of Household Records That Have Rent Arrears by Level of Arrears



Sample size = 39,067

6.26 However, as with council tax arrears, the distribution of rent arrears was different for households in receipt of legacy benefits and Universal Credit. When rent arrears for the two benefits systems were disaggregated, households in receipt of legacy benefits generally had lower levels of arrears than households in receipt of Universal Credit. See Figure 3.6.

Figure 3.6: Proportion of Household Records That Have Rent Arrears by Level of Arrears and Benefit Type



Sample size = 39,067

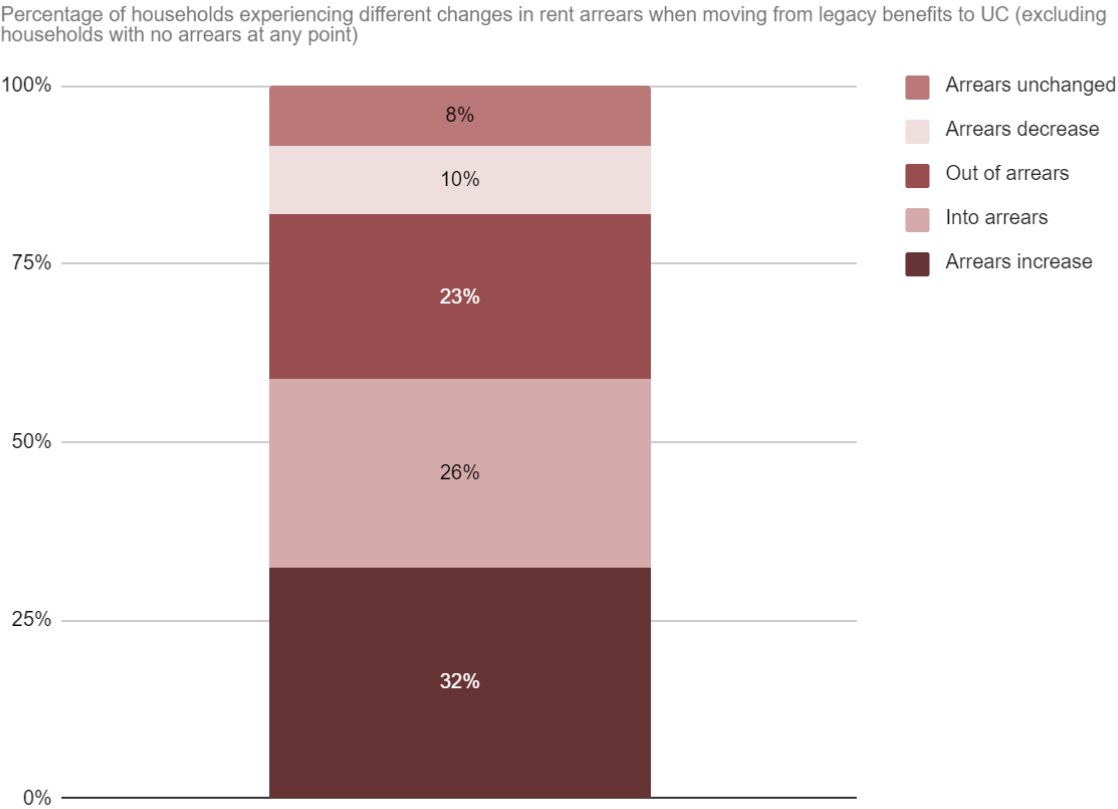
- 6.27 These results indicate that a higher proportion of households in receipt of legacy benefits were likely to have rent arrears, but these were at a low level. By comparison, a lower proportion of households in receipt of Universal Credit had rent arrears, but those who did have arrears experienced a higher level of arrears.
- 6.28 Note that this difference in the distribution of arrears levels between legacy benefits and Universal Credit was more pronounced for rent arrears than it was for council tax arrears. For council tax arrears (see Figure 2.2), the largest proportion of records showed arrears in the £1-£100 category for both legacy benefits and Universal Credit. Although the proportion of records with council tax arrears in the £1-£100 range was slightly higher for legacy benefits than Universal Credit, the proportions of records with council tax arrears in all other ranges was higher for Universal Credit than for legacy benefits. This explains why the overall average rate of council tax arrears was higher for Universal Credit than for legacy benefits.

- 6.29 However, the picture was slightly different for the distribution of rent arrears. The largest proportion of records for legacy benefits showed arrears in the £1-£100 range. For Universal Credit however, the distribution of arrears levels was more consistent across the range of arrears levels. This meant that there was a higher percentage of records with arrears in the £1-£100 (and £100-£200) range for legacy benefits compared to Universal Credit. This explains why the overall average prevalence of rent arrears was higher for legacy benefits than for Universal Credit (see Figure 3.6).

The Impact of the Transition to Universal Credit on Rent Arrears

- 6.30 As with council tax arrears, the majority (66%, 2,282 out of 3,433 households) of households that moved from legacy benefits to Universal Credit at some point between March and November 2019 did not fall into rent arrears at any point.
- 6.31 Amongst households with some level of rent arrears during transition to Universal Credit, 8% saw their arrears unchanged (i.e. change by less than £5; 96 out of 1,151 households). A higher percentage of households saw some increase in the level of rent arrears (58%, 677 households including both those moving into arrears and those with an increase in previous arrears) than those who saw some decrease (33%, 378 households) including both those moving out of arrears and those with a decrease in previous arrears). See Figure 3.7.

Figure 3.7 Proportion of Households in Rent Arrears Experiencing Changes in Rent Arrears after Moving to Universal Credit



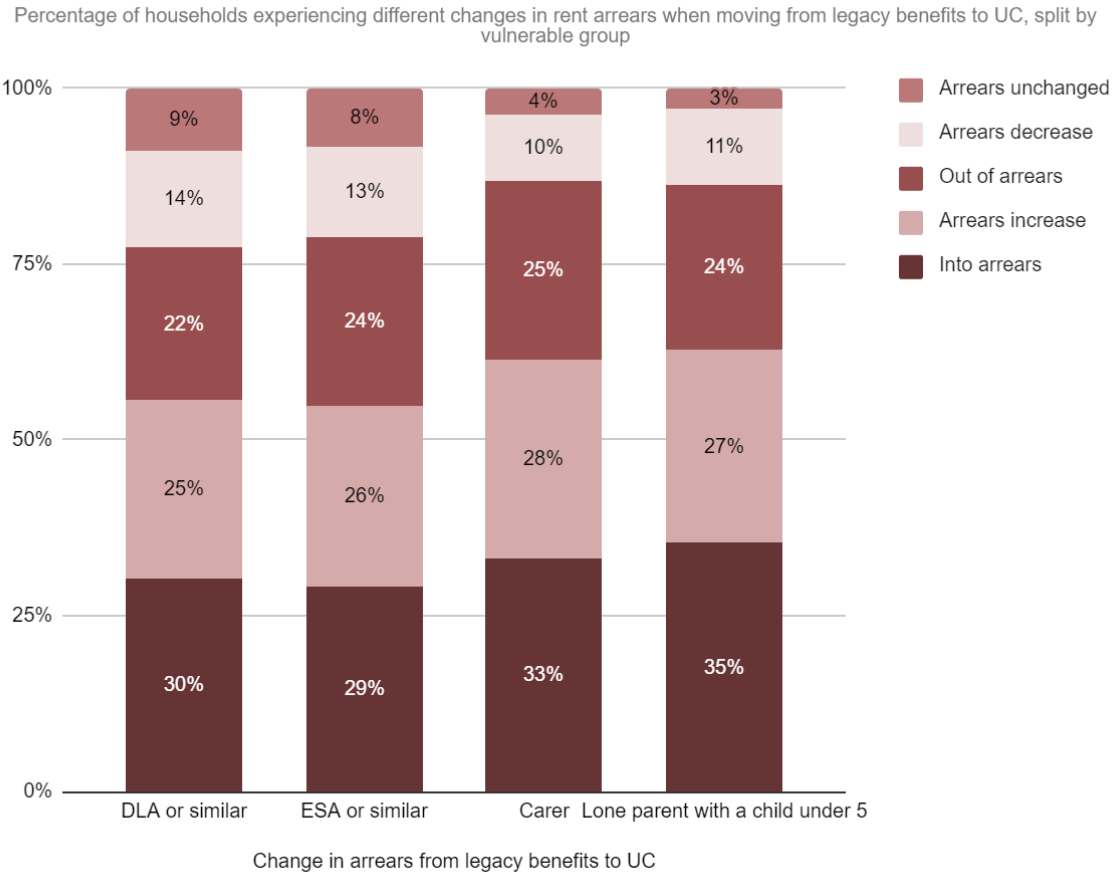
Sample size = 1,151

Impact of transition to Universal Credit on rent arrears, by vulnerable groups

6.32 The patterns of change to rent arrears with the move to Universal Credit was broadly consistent across vulnerable sub-groups. 60-63% of households experienced no rent arrears at any point during transition, depending on the subgroup. Of those experiencing some level of rent arrears during transition¹⁰⁰, 55-62% of households experienced an increase in arrears (either movement into arrears, or an increase in existing arrears) depending on the subgroup. See Figure 3.8.

¹⁰⁰ DLA or similar: n = 340 (households moving from legacy benefits to Universal Credit during data collection period with some level of arrears)
ESA or similar: n = 494
Lone parent with a child under 5: n = 204
Carer: n = 220

Figure 3.8 Proportion of Vulnerable Households in Rent Arrears Experiencing Changes in Rent Arrears after Moving to Universal Credit



For sample sizes, see footnote 100

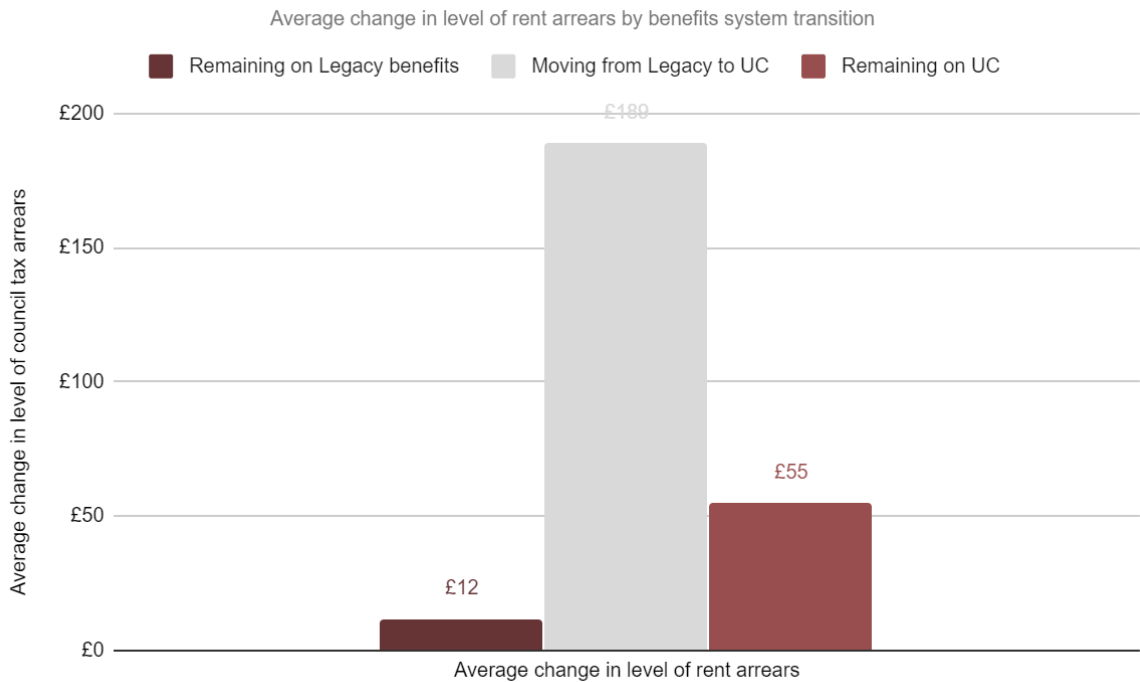
The Impact of the Benefit System on Trends in Rent Arrears

6.33 This analysis included all households that were in rent arrears at some point between March and November 2019. Each data point in this analysis represents a household’s status tracked from one wave to the next. For example, a household that was in receipt of legacy benefits in the March snapshot but was recorded as claiming Universal Credit in the June snapshot would provide a single data point coded as ‘Moving from Legacy to UC’. These wave-to-wave changes in rent arrears were averaged for each transition type. A comparison was then made between the average change in arrears for transitions where households remained in receipt of legacy benefits across consecutive waves; the average change in arrears for transitions where households remained in receipt of Universal Credit across consecutive waves; and the average change in arrears for transitions where

households moved from legacy benefits to Universal Credit between consecutive waves.

- 6.34 As with council tax arrears, households in receipt of Universal Credit saw a larger average increase in rent arrears between waves (£55) than households in receipt of legacy benefits (£12)¹⁰¹. See Figure 3.9.
- 6.35 As with council tax arrears, households migrating from legacy benefits to Universal Credit showed a large average increase in rent arrears (£189). However, the sample size for the legacy benefits to Universal Credit groups was once again relatively small (only 932 households), so this finding should be treated with caution.

Figure 3.9 Average Change in Rent Arrears between Consecutive Waves of Data Collection, by Benefit Status during the Transition



For sample sizes, see footnote 101

¹⁰¹ Number of wave-to-wave transitions in which households...
...remained on legacy benefits: n = 11,880
...moved from legacy benefits to Universal Credit: n = 932
...remained on Universal Credit: n = 3,042

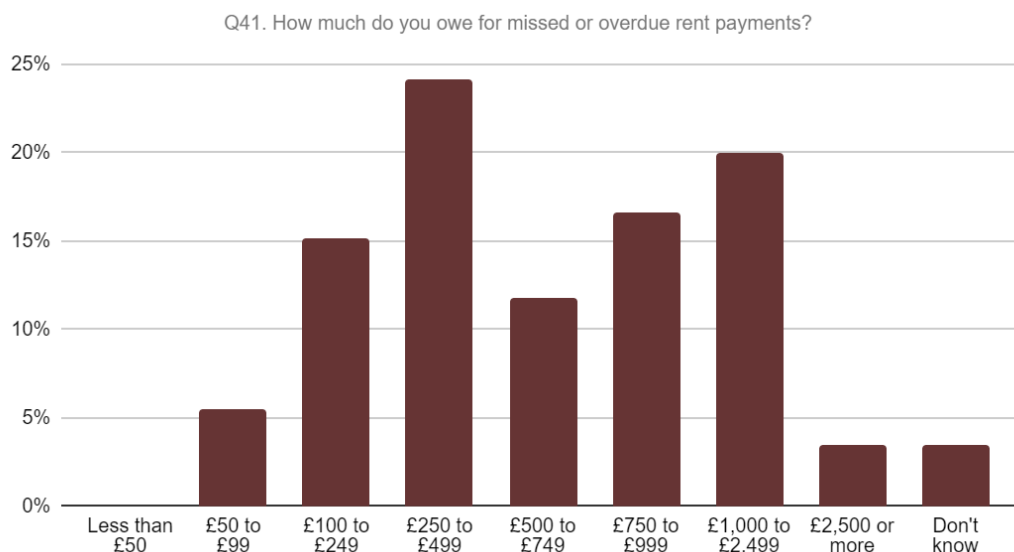
The Impact of the Benefit System on Trends in Rent Arrears by Vulnerable Groups

- 6.36 Given the small sample size for households moving from legacy benefits to Universal Credit, detailed breakdowns by demographic subgroup have not been reported.

Survey and Interviews

- 6.37 According to the claimant survey, 37% of respondents (146 out of 393) said they were currently in rent arrears, defined as being two or more consecutive payments behind. Of the respondents with rent arrears, 23% (34 respondents) had rent arrears exceeding £1000, and 3% (5 respondents) did not know the amount of rent arrears they had. See Figure 3.10.

Figure 3.10 Survey: How Much Do You Owe in Rent Arrears?



Sample size = 145

Universal Credit and Rent Arrears

Claimants

- 6.38 Before moving to Universal Credit, 80% of respondents (309 out of 388) reported no rent arrears. Of this 80%, 35% (107) of the respondents fell into rent arrears when moving onto the new benefit.

- 6.39 Overall, 45% of respondents on Housing Benefit (39 out of 87) were in rent arrears, compared to 43% of respondents (131 out of 303) in receipt of Universal Credit who were in rent arrears.
- 6.40 44% of all respondents (166 out of 381) reported increased rent arrears as a result of moving to Universal Credit, compared to 6% (22) who reported decreased rent arrears.
- 6.41 Of those whose rental debt had increased as a result of Universal Credit, the most common causes cited by claimant respondents were being eligible for less support (46%, 74 out of 162 responses), debts incurred during the five week wait (53%, 86 responses) and difficulties budgeting due to monthly payments (44%, 71 responses, respondents were able to select multiple explanations).

Stakeholders

- 6.42 Stakeholders' view of rent arrears under Universal Credit was even more stark than that of claimants. 91% of stakeholder respondents (219 out of 242) reported seeing an increase in the prevalence of rent arrears as a result of Universal Credit rollout.
- 6.43 Explanations for this pattern were mixed. More than 70% of respondents attributed the change to debts incurred whilst claimants are waiting for their first Universal Credit payment (77%, 168 out of 218 respondents), claimants having difficulties budgeting due to the monthly payment structure (70%, 153 responses), or the direct payment of the housing element to claimants (77%, 167 responses). A large proportion of stakeholders also referenced changes in award levels under Universal Credit (45%, 97 responses), delays to payments (68%, 148 responses) and difficulties with the online claims process (50%, 110 responses) (as with the claimant survey, respondents were able to select multiple explanations).
- 6.44 Similarly, 90% of stakeholders (213 out of 237) reported increases in the severity of rent arrears as a result of Universal Credit rollout, with similar explanations offered to the change in prevalence (38% or 79 responses, cited award changes, 73% or 153 cited debts incurred during the five week wait, 65% or 136 cited budgeting difficulties with monthly payments, 73% or 152 cited direct payment of housing

costs, 66% or 138 cited delays to payment and 43% or 89 cited difficulties with online claims).

- 6.45 Several of the issues identified by survey respondents relating to an increase in arrears under Universal Credit were also raised by interview respondents. For example:

Issues with Lack of Support

"We were not informed by our housing officer or the job centre that we had to specify that we wanted a back payment for rent. We just assumed that as our claim started two months before our first payment, it would automatically use the dates provided."

(Universal Credit Claimant)

The Five-Week Wait

"Universal Credit is paid 4 weeks in arrears with a 2 week "waiting period". I am always 6 weeks in arrears. In addition, Universal Credit rent is calculated monthly and my rent is due weekly in advance. When there are 5 weeks in a month, I drop back further into arrears."

(Universal Credit Claimant)

- 6.46 A claimant interviewed, who had previously been in work, found that when their job ended, the wait for Universal Credit to be awarded, along with the payment in arrears, meant that she was two months in arrears with her rent.

"...because with Universal Credit we're already a month in arrears from the beginning. So, that caused me to be two months in arrears and I was threatened with eviction. I went to Citizens Advice, I went to the council. The council couldn't help with the payment scheme that they have because as far as they were concerned, the DWP paid my full rent."

(Universal Credit Claimant)

- 6.47 Stakeholders from local authorities and housing associations reported a higher level of rent arrears overall (compared to private landlords and other organisations), and most said rent arrears were affecting a larger proportion of their tenants in receipt of Universal Credit than had been the case for tenants in receipt of legacy benefits. There were several cited reasons for this, including the wait for the initial Universal Credit payment, or changes in circumstances and working hours, hence changes in the level of Universal Credit making it more difficult for tenants to pay their rent. Several social landlord stakeholders (from local authorities and housing associations) also explained how further rent arrears had arisen because of a mismatch between the payment cycle for direct payments of rent to the landlord from DWP, and the payment cycle for the rent itself.

Issues with Timing of Payments

"[That] has a huge impact. The missed payment schedule occurs because we get our payments from Universal Credit every 28 days, so there are 13 times a year where we will get paid, whereas Universal Credit claimants are getting paid 12 times a year. So, there will be one payment schedule each year, for each Universal Credit claimant, where we won't receive any of the housing cost element, and what that results in, is a period of eight weeks on the rent account with no payment. So, you can imagine, if, say, rent is £100 a week, on average, the escalation in arrears during that period, it's huge, you'll go up to £800 arrears."

(Stakeholder, local authority)

- 6.48 The payment cycle mismatch has also made it difficult for landlords to tell the difference between technical arrears caused by payment misalignments and actual arrears caused either by tenants' failure to pay their rent or incorrect payments of Universal Credit. Social landlords reported in interviews that resolving these issues now consumed a lot of their resources (five of the stakeholders interviewed were private-rented sector landlords, five worked for local authorities or housing associations, and four worked for other third sector organisations involved with supporting benefit claimants).

- 6.49 Private landlords interviewed believed that rent arrears had also increased under Universal Credit because some tenants did not prioritise paying their rent when they received the housing element of their Universal Credit themselves. Landlords felt it was riskier to take on tenants receiving benefits if housing payments were made to the tenant rather than the landlord, and that the previous system, where direct payments to the landlord were made more often, was better. One said that they would not take in Universal Credit tenants again as a result of a negative experience with a Universal Credit tenant who accrued arrears.

“Some of them just won’t pay. They just have that attitude... Yes, it has been a big increase [in arrears]. Basically, it’s a big risk when I take a tenant on, I wouldn’t have had that risk if I was getting the money direct.”

(Stakeholder, private landlord)

Comparison of Survey and Administrative Data

- 6.50 As with council tax arrears, the broad patterns of findings were similar for the self-report surveys and administrative data analysis. Overall rates of rent arrears were higher in the surveys (especially in the stakeholder survey). As with council tax arrears, this could be attributable to self-selection amongst survey respondents (particularly stakeholders), or sample bias in the administrative cohort. It is also worth noting a key difference between the (claimant) survey and administrative cohorts is that the administrative data only captured rent arrears for those in social housing. It may therefore be the case that levels of rent arrears under Universal Credit are higher for those in private-rented sector accommodation. Indeed, this is likely to be the case given that the housing element of Universal Credit is not always sufficient to cover rent costs in the private-rented sector.
- 6.51 In the analysis of administrative data, we found that households in receipt of legacy benefits showed higher rates of rent arrears than those in receipt of Universal Credit. This difference was present, though less marked, in the survey data. Again, this may be attributable to self-selection for claimants with higher levels of arrears

(on either system) in the survey cohort, or the fact that the claimant sample included those in private rented accommodation.

Conclusion

- 6.52 As with council tax arrears, both the self-report surveys and the analysis of administrative dataset suggested that rent arrears tend to be higher under Universal Credit compared to legacy benefits.
- 6.53 The survey data from both stakeholders and claimants indicated a greater prevalence of arrears under Universal Credit. This is in contrast to the analysis of the administrative data that showed rent arrears to be more prevalent under legacy benefits.
- 6.54 Under the legacy system, rent arrears were most likely to be low with around a third of all arrears under £200. Larger levels of rent arrears were increasingly less likely; only 2% were greater than £1000. By contrast, under Universal Credit, the distribution of rent arrears levels was comparatively flat. Rent arrears under Universal Credit were almost exactly as likely to be greater than £1000 as they were to be less than £100. Overall, lower rent arrears were more common in receipt of legacy benefits, higher arrears more common in receipt of Universal Credit.
- 6.55 It should be noted that the results of the stakeholder survey were particularly extreme, with almost all stakeholders reporting that rent arrears levels and prevalence of rent arrears had increased as a result of Universal Credit rollout.
- 6.56 As with council tax arrears, the patterns of change in rent arrears for households moving onto Universal Credit were consistent across the survey and administrative data. Most households showed no change in rent arrears (mostly due to the majority of households not having any arrears under either system). When rent arrears did change as households moved onto Universal Credit, they were most likely to increase (or be reported as increasing).
- 6.57 Amongst claimants, the most common explanations for increases in rent arrears caused by migration to Universal Credit were changes in award levels, debts

incurred during the five-week wait and difficulties budgeting due to monthly payments. These are similar explanations to those reported for council tax arrears.

- 6.58 Amongst stakeholders, the most commonly cited reasons for rent arrears increases were debts incurred whilst claimants are waiting for their first Universal Credit payment, difficulties budgeting due to the monthly payment structure, and direct payments of the housing element to claimants. A sizable percentage of stakeholders also cited changes in award levels as a causal factor, as with the claimant cohort.

Key Findings: Rent Arrears

Rent arrears were more prevalent amongst households in receipt of legacy benefits	
% Universal Credit households in arrears	Administrative data 13% (survey 43%)
% Legacy households in arrears	Administrative data 20% (survey 45%)
Amongst those with rent arrears, Universal Credit is associated with a significantly higher average level of arrears compared to legacy benefits (Administrative data)	
Average arrears for UC households	£495
Average arrears for legacy households	£206
Households in receipt of legacy benefits were more likely to have some level of rent arrears, but these arrears tended to be small. Whilst fewer households in receipt of Universal Credit had rent arrears, their arrears tended to be relatively large (Administrative data)	
A small but significant proportion of households moved into rent arrears with the transition to UC	
% with no arrears following move to UC	Administrative data 9% (survey 44%)
Rent arrears were more likely to increase under Universal Credit than legacy benefits (Administrative data)	
Level of increase during the period on UC	+£55
Level of increase during the period on legacy	+£12
The pattern of rent arrears for vulnerable groups was similar to the general population but differences between vulnerable groups indicated that some other factor affected arrears levels (Administrative data)	
Increases in rent arrears when moving onto Universal Credit were most commonly attributed to (survey data):	
● Being eligible for less support (claimants 46%, stakeholders 38%) ● Debts incurred during the five-week wait (claimants 53%, stakeholders 73%) ● Difficulties budgeting with monthly payments (claimants 44%, stakeholders 65%) ● Direct payment of housing costs (stakeholders 73%) ● Delays to payments stakeholders 66%) ● Difficulty with the online claim process (stakeholders 43%)	

7. **Part Four: Experience of Universal Credit**

Introduction

- 7.1 In this section, we look more generally at the impact of Universal Credit on claimants and stakeholders. The section is arranged thematically, and the analysis of each theme draws on existing literature as well as the qualitative surveys and interviews conducted for this research project. In particular, we examine the impact of Universal Credit on the financial resilience of claimants and the support available to help them, including advance payments and alternative payment arrangements.
- 7.2 Universal Credit is designed to mimic the world of work. Payments are made monthly in arrears into a nominated bank account. If a housing element is included, the claimant is normally expected to pay the rent to the landlord. Claims are made online, so a certain level of computer literacy is expected. The first payment is normally paid within 5 weeks of the date of claim.
- 7.3 Therefore, the way Universal Credit is designed can have a significant impact on claimants in several ways:
- Some households are worse off under Universal Credit compared with their entitlement under legacy benefits;
 - It may be difficult for some people to wait 5 weeks before their payment;
 - Some households may find it difficult to manage their budget over a month;
 - Some households may find it difficult to pay their rent to their landlord, particularly if they are used to having their rent paid directly to the landlord: and
 - Some households may find that the fact that payments are made on a household basis causes them difficulties.
- 7.4 Of course, some Universal Credit claimants may be simultaneously affected by several or all of these factors.

7.5 These issues were covered in the recent research by Community Housing Cymru.¹⁰² Housing associations report that many Universal Credit tenants struggle because of the monthly payment cycle, distance from the labour market, the impact of the five-week wait and other issues such as more restricted backdating. On the other hand, it was also reported that in some cases Universal Credit had empowered tenants to take more responsibility and had encouraged people into work. This polarisation in the experience of Universal Credit claimants is reflected in other recent research such as the Resolution Foundation's study of Universal Credit in the Liverpool area.¹⁰³

Gainers and Losers under Universal Credit

7.6 Research by Policy in Practice¹⁰⁴ after the Autumn 2018 Budget showed that around 2.8 million households across the UK will be worse off under Universal Credit, with an average loss of £59 a week. Around 2.1 million households in the UK will gain, with an average gain of £44 a week, and just over 2 million households will see no change. The Institute for Fiscal Studies¹⁰⁵ report similar findings: around a third of working-age households (around 7 million¹⁰⁶) will be entitled to some Universal Credit in the UK. Of those, around a third (2.4 million) will be at least £1,000 a year worse off under Universal Credit than under the legacy system while about a quarter (1.7 million) will be at least £1,000 a year better off. By family type, almost all of those in work gain or lose something (i.e. more than £100 a year). Those in work and with children are particularly likely to gain. For those out of work, very few gain by more than £100 a year, and a large proportion lose fairly substantial amounts (more than £1,000 a year).

¹⁰² [Monitoring the impact of Universal Credit on rent arrears in Wales](#) (Opinion Research Services for Community Housing Cymru, October 2019)

¹⁰³ [The long and winding road: the introduction and impact of Universal Credit in Liverpool City Region and the UK](#), Laura Gardiner and David Finch (Resolution Foundation, January 2020)

¹⁰⁴ [Budget 2018: how will the incomes of people on Universal Credit be affected?](#) Juan Alvarez Vilanova (Policy in Practice, 7th November 2018)

¹⁰⁵ [Universal Credit and its impact on household incomes: the long and the short of it](#), Mike Brewer, Robert Joyce, Tom Waters and Joseph Woods (Institute of Fiscal Studies, 24th April 2019)

¹⁰⁶ A recent study by the Resolution Foundation gives an estimate of £6.2m. [The long and winding road: the introduction and impact of Universal Credit in Liverpool City Region and the UK](#), Laura Gardiner and David Finch (Resolution Foundation, January 2020)

- 7.7 Those households who move to Universal Credit because of a change of circumstances, and who are entitled to a lower amount of benefit as a result, will be cash losers. When the exercise to move people to Universal Credit whose circumstances have not changed begins, they will get transitional protection so will not lose out in cash terms at the point of change. But transitional protection does not apply to households who have already moved to Universal Credit ('naturally migrated') after a change of circumstances or who will do so in the coming months.
- 7.8 Research by the Trussell Trust has highlighted the links between Universal Credit, financial hardship and foodbank use.¹⁰⁷ Using referral data for 2017-18 from Trussell Trust foodbank vouchers in the UK, the research found that on average, 12 months after Universal Credit rollout in an area, foodbanks saw a 52 percent increase in demand compared to an increase of 13 percent in areas that had not yet gone live with Universal Credit or had been live for 3 months or less. The research claims that their counterfactual analysis supports the view that this increase cannot be attributed to randomness in the selection of foodbanks and exists after accounting for seasonal and other variations. It is acknowledged that Universal Credit is not the only issue driving an increase in foodbank use, but the Trussell Trust regard it as a significant factor in many areas. Their analysis of more detailed foodbank referral data shows that benefit transitions (most likely due to people transitioning onto Universal Credit) are increasingly accounting for more referrals. The wait for the first payment was found to be a key cause, along with a lack of support to apply online, the inability of payments to cover the cost of living, and poor administration. More recently, in September 2019, the Trussell Trust reported¹⁰⁸ that the longer Universal Credit full service had been live in a local authority area, the more foodbank use increased.
- 7.9 62% (147 out of 238) of respondents to the claimant survey reported an increase in their overall level of debt as a result of moving onto Universal Credit. Of those who reported increased arrears, over half (83 out of 144) said the number one cause of

¹⁰⁷ [The next stage of Universal Credit](#) (Trussell Trust, 2018)

¹⁰⁸ [#5weekstoolong- why we need to end the wait for Universal Credit](#) (Trussell Trust, September 2019)

this increase was debt incurred while waiting for their first Universal Credit payment. In that same vein, 63% of respondents (91 out of 144) cited being eligible for less money under Universal Credit than legacy benefits as the second biggest cause of their increase in arrears.

- 7.10 Poor financial resilience is likely to be more the result of wider welfare reform measures rather than the introduction of Universal Credit as such. The four-year freeze, which has recently ended, kept affected benefits and tax credit elements at the same cash amount as in 2015-16. The freeze does not include disability/carers benefits and premiums, statutory payments and the support component of Employment and Support Allowance (payable to those with the severest work-limiting conditions). Cumulatively, if there had been no four-year freeze and affected benefits had been allowed to rise in line with CPI, affected benefits would have risen by 6.5% in nominal terms by 2019-20 compared with 2015-16. The converse way of expressing this is that the affected benefit/tax credit rates in 2019-20 are worth 6.1% less than if the freeze had not been introduced.¹⁰⁹

The Five-Week Wait and Advances

- 7.11 The five-week wait is undoubtedly a challenge for those claimants who have no savings or earnings to fall back on. The UK Government has recognised this and has made it possible for claimants to apply for an advance of their first Universal Credit payment. The advance is in the form of a loan and is recovered over 12 months, starting with the first payment.
- 7.12 One of the stakeholders interviewed for this project by Policy in Practice, who worked for an organisation supporting ethnic minority women, said that all of the people she supported who were in receipt of Universal Credit had debt. This included younger people in employment who received Universal Credit top-ups and older people who were not in work.

¹⁰⁹ Roderick McInnes [Benefits Up-rating 2019](#) (House of Commons Library, 1st March 2019)

“Every single person I’m dealing with [who is] receiving Universal Credit is complaining of debt.”

(Stakeholder, Support Organisation)

- 7.13 The take-up of advances is high among survey respondents, with around 70% (226 out of 321) taking an advance. Some stakeholders said in interviews that they had seen considerable use of advance payments, but that they believed that using advance payments can make recipients worse off overall as they receive reduced Universal Credit payments later on.

"We've encouraged them not to take full advantage of the full advance because of the payments that they've got to make back, so just taking what they actually need to get them through."

(Stakeholder, Housing Association)

Low Awareness About How Advances Work

- 7.14 There is clearly an issue about lack of awareness of how advances work, as a sizeable number of survey respondents - upwards of 20% (out of 310) of those receiving Universal Credit - don't know or are unsure whether advances need to be repaid.
- 7.15 The survey results indicate a lack of understanding about the advances repayment method. Of the respondents on Universal Credit, 13% (39 out of 310) were not aware that advances needed to be repaid through their future Universal Credit payments, and an additional 8% (24 out of 310), were not sure. Respondents not receiving Universal Credit were less familiar with the way advances work, with 30% (28 out of 94) unaware or unsure whether advances are repaid through future payments. Of those respondents receiving Universal Credit who actually took an advance 10% (22 out of 215) didn't know (11) or weren't sure (11) that advances need to be repaid through their future Universal Credit payments.

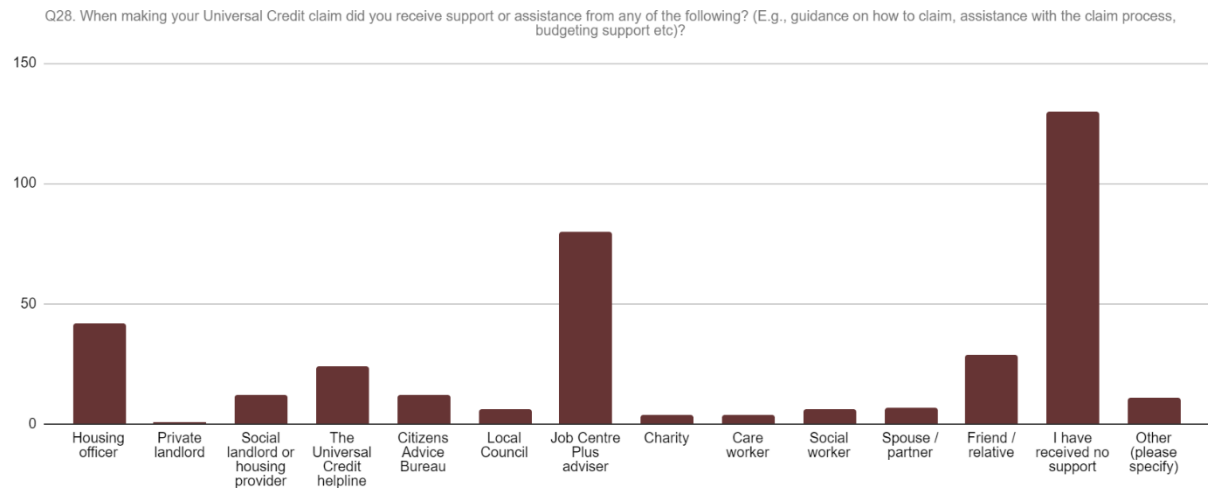
Do Advances Help or Hurt?

- 7.16 77% (103 out of 133) respondents who received an advance said that moving to Universal Credit made their finances worse, whereas 71% (35 out of 49) of respondents who did not take an advance said the same. These findings indicate that a repayable advance is not the full solution to the problems caused by the five-week wait. Surveyed landlords cited "Debts incurred whilst clients/tenants wait for their first Universal Credit payment" as being the single largest cause of rent arrears as more tenants move over to Universal Credit, with more than three quarters of landlord respondents (168 out of 218) citing this reason. While this does not necessarily refer to advances, it does indicate the role of deductions from future Universal Credit awards in creating hardship.
- 7.17 Advances offer temporary respite and, as they are the only significant help on offer, it is not surprising that many Universal Credit claimants take them up. However, given that deductions from payments start straight away and for most will last for 12 months, the advance can make it more difficult for those already struggling to manage on Universal Credit, particularly if there are other deductions as well.

Budgeting Advice and Application Support

- 7.18 Both access to and awareness of available support and budgeting advice seemed to be low among those claiming Universal Credit, according to the claimant survey findings undertaken as part of this research project.
- 7.19 Only 12% of respondents on Universal Credit, or 40 out of a sample of 321, received support for budgeting and money management as part of their application. Of those that received support, there was broad agreement that this support was helpful. According to the same survey results, 87% of those that received this support found it helpful, or 35 out of 40 respondents.
- 7.20 The survey also shed light on the access to support for the digital application process. According to the claimant survey, 21% of respondents, or 68 out of a sample size of 321, received support for the digital application process as part of their Universal Credit application. Of those that did not receive support, 76% of respondents, or 190 out of 249, said they were not aware of it.
- 7.21 43% of respondents who applied for Universal Credit, or 130 out of 300 respondents, received no support when making their application. This includes no support during the claim process, no guidance on how to claim, and no budgeting support. Figure 4.1 reflects the responses of these 300 claimant survey respondents.

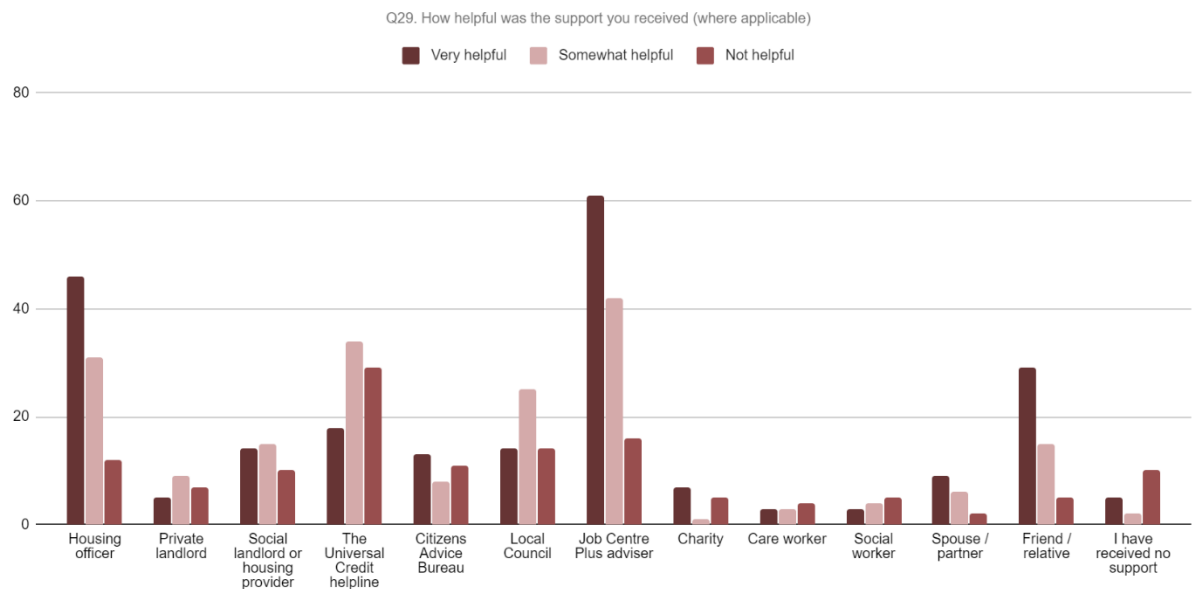
Figure 4.1 Survey: Source of Assistance with Claim



Sample size = 300

7.22 Of those respondents that received support, Jobcentre Plus advisers, housing officers and friends and relatives were listed by respondents as providing the most helpful support. It is notable that 40%, or 29 out of 71 respondents who used the Universal Credit Helpline considered it to be unhelpful. Figure 4.2 below lists these results, taken from a sample size of 178 Universal Credit claimants who received support of some kind.

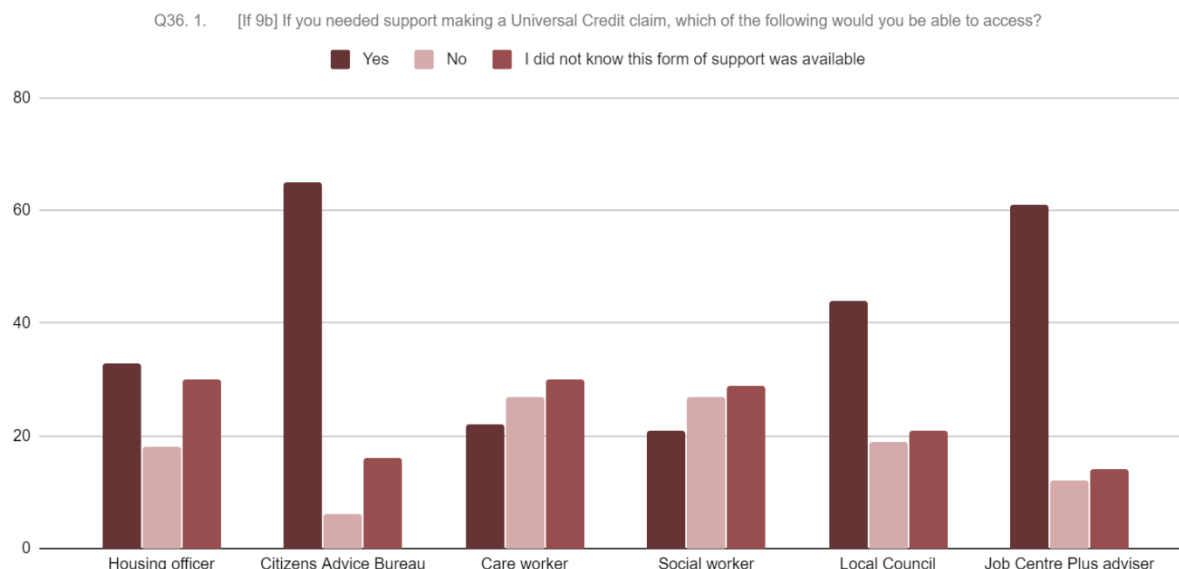
Figure 4.2 Survey: How Helpful Was Support?



Sample size = 178

7.23 According to the same survey results, of the respondents that are not receiving Universal Credit, the most accessible forms of assistance would be Citizens Advice Bureaux, Jobcentre Plus advisers and local authorities. Figure 4.3 below reflects these results from a sample size of 94 respondents not on Universal Credit.

Figure 4.3 Survey: Access to Sources of Assistance for Those Not on Universal Credit



Sample size = 94

- 7.24 Ensuring that claimants are able to access sufficient support during the application process can enable them to avoid simple errors that lead to delays in payments, or help them to understand the way Universal Credit works to maximise their ability to budget around it.

Budgeting and Payment of Rent

- 7.25 43% (62 out of 144) of respondents to the claimant survey receiving Universal Credit cited difficulties budgeting due to the monthly cycle of Universal Credit as a reason for increased overall arrears. During the interviews conducted as part of this research project, interviewees discussed how they found it difficult to cope with monthly payments when they are used to budgeting weekly or fortnightly. This can be aggravated by the way earnings are treated in Universal Credit. For example, claimants who are paid weekly and may therefore be paid five times in one month, or those who receive their wages on the last working or banking day of the month sometimes receive two months' wages during one assessment period. As a consequence, Universal Credit awards can change suddenly from month-to-month in ways which are difficult to predict and budget for.

7.26 Claimants interviewed in this study who were working, or who had time in work and out of work, said that the amounts received in their Universal Credit payment varied considerably from month to month and that they had found this difficult. Some said that this had caused them to get into council tax arrears, and often into rent arrears and other debt too. For example, one claimant took on a temporary job for six months and while she was in work, her Universal Credit payments went down, which was manageable for her as she was earning. She was better off for the six months that she was in work, and she expected that she would get full Universal Credit again as soon as the job ended. She did not anticipate having to wait five weeks after finishing work before her Universal Credit payments went back to the full amount. Because of this she got into arrears with her council tax, rent and bills.

"It should be explained to people when they're going into work... when you're paid a month in arrears, realise what happens. You can see, after experiencing it and especially as it was only for six months. I was better off overall in work but you didn't know that this was going to happen. So, it needs to be told to people, this is what happens when you finish work."

(Universal Credit Claimant)

7.27 Similarly, the interviews with claimants showed that it has proved difficult for some Universal Credit recipients to get used to the idea of budgeting for and paying the rent themselves. Interviewees discussed how under legacy benefits, virtually all social-rented housing tenants had their Housing Benefit paid directly to the landlord or credited to their housing account. Interviewees who were tenants in the private-rented sector were more used to paying rent themselves as the principles of the Local Housing Allowance are similar to Universal Credit, but many did have their rent paid to the landlord.

7.28 Private landlords interviewed believed that rent arrears had also increased under the Universal Credit regime because some tenants did not prioritise paying their rent to their landlord when they received it as part of their Universal Credit payment.

They felt it was riskier to take on tenants on benefits if housing payments were made to the tenants rather than the landlord, and that the previous system of direct payments to the landlord was better. One landlord interviewed said that they would not take in tenants in receipt of Universal Credit again as a result of a negative experience with a Universal Credit tenant who accrued arrears.

Alternative Payment Arrangements

- 7.29 In England and Wales, it is possible to request three different forms of Universal Credit Alternative Payment Arrangements (APAs): direct payment of the housing element to the landlord (or Managed Payments to Landlord), more frequent payments, and split payments across the household. However, APAs are considered only where a person is unable to manage single monthly payments, resulting in a risk of financial harm to them and/or their family. Decisions are discretionary and there is no right of appeal against a refusal by DWP to agree to an APA (though as with all discretionary decisions DWP must act in a fair and reasonable way in making its decisions). Once an APA has been agreed, DWP will review the person's need for it on an ongoing basis.

Managed Payments to Landlord (MPTL)

- 7.30 Managed Payment to Landlord APAs are set up by DWP if a claimant is in arrears for two months or more, or if the claimant has continually underpaid their rent and has accrued arrears of an amount equal to, or more than, one month's rent. Of the households in Wales receiving a payment of Universal Credit with entitlement to support for housing costs, DWP statistics show that, in January 2019, 19.5% had their housing costs paid directly to a landlord (via an APA), and that this had increased to 22.7% by November 2019.¹¹⁰ This finding is supported by the October

¹¹⁰ Policy in Practice analysis of data from DWP's Stat-Xplore tool, April 2020. In January 2019, 7818 claimants had their housing costs paid to the landlord, out of a total of 39,979 claimants with housing costs. By November 2019 the respective figures were 16,579 out of 73,119.

2019 research for Community Housing Cymru which suggests that 'at least 20%' of Universal Credit tenants had a Managed Payment to Landlord APA in place.¹¹¹

- 7.31 Similarly, a survey of full-service Universal Credit claimants in Great Britain commissioned by DWP shows that among those receiving Universal Credit payments towards their housing costs, one fifth of claimants (22 percent) had an APA put in place.¹¹² Those with an annual household income of less than £10,000 were more likely to have an APA. Nearly half (48%) of those with an APA in place said they requested it themselves, with women more likely to say they had requested an APA (56 percent of women compared with 33 percent of men). Just over a third (37%) said it was their landlord who suggested an APA, while a further eight percent said it was their work coach who suggested this arrangement.
- 7.32 Overall, the survey results undertaken as part of this research project show that Managed Payments to Landlord are popular with both landlords and Universal Credit recipients, but that support could be improved.
- 7.33 Most Universal Credit respondents said they would prefer direct payment of the housing element to the landlord - over three-quarters of respondents (200 out of 259) said they would find it somewhat helpful or very helpful. According to the stakeholder survey, having the housing cost element of Universal Credit paid to tenants was listed as being the second biggest cause of increasing rent arrears, with 77% of stakeholder respondents (168 out of 218) indicating this as a cause, just behind 'debts incurred whilst tenants wait for their first Universal Credit payment'.
- 7.34 26% (68 out of 260) of survey respondents receiving Universal Credit have the housing element paid directly to their landlords. This is higher than DWP's Universal Credit statistics for November 2019 (see above) which show that around 22% of

¹¹¹ [Monitoring the impact of Universal Credit on rent arrears in Wales](#) (Opinion Research Services for Community Housing Cymru, October 2019)

¹¹² Universal Credit Full Service (IFF Research, 2018). These findings relate to the wave 2 survey undertaken eight to nine months after the beginning of their claim. Fieldwork took place in August and September 2017. Wave 2 of the survey involved interviews with 1,004 claimants.

awards in Wales included a housing element paid via a Managed Payment to Landlord.

- According to the stakeholder survey, 51% (54 out of 106) of private-rented sector landlords do not offer their tenants any support with managing their rent, compared with 98% (40 out of 41) of social landlords and housing associations.
- Of the private-rented sector landlords that offered support, 70% (44 respondents of 63) say that less than half of their tenants made use of the support they offered.
- Of the social landlords and housing associations that offered support, 73% (24 respondents of 33) say that less than half of their tenants made use of the support they offered.
- 75% (117 out of 157) of all stakeholder respondents said that demand for support with managing rent has increased under Universal Credit, compared to legacy benefits.

7.35 While many landlords do offer support, the amount of support and take-up could be improved, especially to meet growing demand.

7.36 Some of the stakeholders interviewed felt that Universal Credit tenants who were unable to manage money well should have a managed payment to their landlord. The five private-rented sector landlords that were interviewed felt that the housing element should be paid directly to them rather than the tenant. This was because some of their Universal Credit tenants who received the housing element had in the past not paid their rent on time. These private-rented sector landlords had lost money as a result of this.

"The effect it's [the housing element being paid to the tenant] had on me is... this is why I'm... I lost about £30,000 due to Universal Credit, is that they [Universal Credit] continue, for a month or two, to send the payment to the tenant, who promptly spend it, so, invariably, I lose about one or two months more [of rent money] than I should, which is... and I'm pulling my hair out, basically, to get them [the tenants] to behave in a competent and reasonable way"

(Stakeholder, private-rented sector landlord)

- 7.37 Claimant respondents had differing opinions on this change from legacy benefits. Some respondents found they liked the independence they gained from having the housing element paid directly to themselves

"It actually makes me feel slightly more independent, because, you know, I am almost paying it myself, because it is coming out of my account, even though it isn't technically my money, because it has come from Universal Credit. But I quite like it, and I think, in some ways it could encourage people to become more independent, doing it that way."

(Universal Credit claimant)

- 7.38 Another respondent raised the issue of claimants who were ill or living with severe disabilities. The interviewee, who suffered from Crohn's disease, had their Housing Benefit paid directly to their landlord under legacy benefits, and worried about it not being automatic when moving over to Universal Credit:

"If I do fall severely ill and I end up in hospital, there's no-one then on my behalf would contact the Housing Association and pay, if I do receive the money in my bank account, to take that full responsibility. So, I think that's a disadvantage for somebody's who's got a long-term disability. It would be advisable to send the money directly to the Housing Association because if I do fall ill they still will receive the money."

(Universal Credit claimant)

More Frequent Payments

- 7.39 DWP statistics show only 1.7 percent (2,072) of households in Wales receiving a payment of Universal Credit in November 2019 had their payment divided over the month to be paid in two, or four, instalments, via a More Frequent Payment APA. There are several reasons for this: DWP see them very much as the exception rather than the rule, so they are not automatically considered and not given much publicity;¹¹³ and they can only be considered after managed payments to landlords, so have lower priority.
- 7.40 Survey interviewees were split on the effectiveness of more frequent payments. One of the legacy benefit claimants, who received their Employment and Support Allowance and Personal Independence Payments fortnightly, felt that it would be better to receive Universal Credit payments monthly *"because then you've got... you can work out your finances better"*. While other interviewees talked about the financial shock of moving from fortnightly payments from different benefits into one lump sum benefit.

¹¹³ See [Alternative Payment Arrangements - Guidance](#) (DWP, updated March 2020) and Frank Hobson, Emily Spoor and Lindsey Kearton [Managing Money on Universal Credit](#) (Citizens Advice, February 2019)

"...obviously being in between jobs and being on and off benefits when you're on income support it was weekly, so having that drips and drabs of money at different points you... when you can't budget it's... it's easier to know, 'I've got X amount coming in, in a couple of days' and that's kind of a continuous thing. So, you have child benefit on one day, a couple of days later you used to get your tax credits and then you'd get your income support and that would be your fortnightly payment... so when I went on to Universal Credit that was a shock actually having that monthly..."

(Universal Credit Claimant)

Split Payments

- 7.41 A negligible number of households (6) in Wales had their Universal Credit payment divided between both members of a couple, via a Split Payment APA, in November 2019.¹¹⁴ This reflects the picture in England (81 households) and Scotland (6 households).
- 7.42 There are calls to split Universal Credit couple payments by default rather than only in exceptional cases as at present (as reflected by the negligible number of Split Payments via an APA). The UK Parliament's Work and Pensions Committee has also warned that as part of their inquiry, they heard compelling evidence that single household payments of Universal Credit could put claimants living with domestic abuse at risk of harm.¹¹⁵ They report that under Universal Credit, claimants living with domestic abuse could see their entire monthly income paid into their abusive partner's bank account. This may include money meant for their children. There is a risk that this money will not reach them meaning they could be reliant on their abusive partner for all their basic needs, which in turn would make it harder for them to leave. They also make the point that Universal Credit is intended to mirror the world of work. However, neither male nor female employees are obliged to have their wages paid into the bank account of their partner, and therefore DWP must do

¹¹⁴ Policy in Practice analysis of data from DWP's Stat-Xplore tool, April 2020

¹¹⁵ [Universal Credit and domestic abuse](#) (House of Commons Work and Pensions Select Committee, 2018)

more to ensure that Universal Credit payments are received fairly by everyone in the claimant household.

- 7.43 One of the Universal Credit claimants who were interviewed as part of this research project had a split Universal Credit payment. This claimant did not consider this to be helpful because he and his partner had to be together to pay the rent because they took the payment from his and his partner's card. The claimant said that they would prefer that the Universal Credit payment went to only either him or his partner.

"Again, it's [splitting the household payment between him and his partner] not really that helpful. Not for me, anyway. It just comes down to the side of things that I have to be here for me to be able to do it [pay the rent]"

(Universal Credit Claimant)

- 7.44 25% (81 out of 321) of claimant respondents said they would find split payments somewhat helpful or very helpful. There is some gender difference between preference for split payments: 12% of female respondents (30 out of 245) find this option to be very helpful, compared to 8% of male respondents (5 out of 66). However, the majority of respondents across all genders said that split payments were not helpful.

Accessing Alternative Payment Arrangements (APAs)

- 7.45 In a report in February 2019,¹¹⁶ Citizens Advice argued that APAs are "not available widely or used effectively." It believes that the arrangements: "[...] have design issues which means they don't work as they should." Rigidity in the system and lack of awareness on the part of some people means that APAs are often accessed only once significant arrears have built up. Take up of some APAs is very low. The

¹¹⁶ [Managing Money on Universal Credit](#), Frank Hobson, Emily Spoor and Lindsey Kearton (Citizens Advice, February 2019)

Citizens Advice report, with survey findings from England and Wales over 2018, states that only 3% of people who claim receive more frequent payments and just 20 households currently receive split payments to different family members. Citizens Advice state that “Only 4 in 10 of the people we help are aware of managed payments to landlords. Just 1 in 6 know payments can be made more frequently, but 6 in 10 would take this option if they knew about it and could. This suggests they are not being widely offered to people who might benefit from them”. Citizens Advice recommends expanding access to APAs and urgent action to ensure direct payments to landlords fit around actual rent patterns.

- 7.46 The Community Housing Cymru report¹¹⁷ also suggests that there are considerable delays in paying APAs and that major problems have arisen because of the APA payment cycle (4 weekly) being out of sync with the Universal Credit payment itself (monthly). Interestingly, housing associations reported that APAs were not always the answer and that many tenants should be able to cope without them if they were well supported.
- 7.47 In the stakeholder survey undertaken as part of this research, some landlords cited long delays and errors when setting up the Managed Payment to Landlord alternative payment arrangement.

“Tenant wants direct payment, I want direct payment, I've completed the form and yet 3 months later, it still isn't happening. Also, why is a refugee family not considered automatically to be a vulnerable eligible group for direct payments?”

(Landlord with tenants on Universal Credit)

- 7.48 However, there are other issues of access for setting up this alternative payment arrangement. In their survey of landlords of properties in the private-rented

¹¹⁷ [Monitoring the impact of Universal Credit on rent arrears in Wales](#) (Opinion Research Services for Community Housing Cymru, October 2019)

sector,¹¹⁸ Simcock and Kaehne found that six in ten landlords who had applied for Managed Payments to Landlord found the process of applying to DWP to be difficult, with a similar proportion saying that they were dissatisfied with the communications they had with DWP. The interviews with private-rented sector landlords in this research confirmed these experiences, as they cited increased difficulties in reaching someone or getting into contact with the DWP.

- 7.49 Some research has pointed towards limitations of setting up APAs and how these can accentuate problems in relation to debt. A study by Citizens Advice¹¹⁹ notes that, in the case of Managed Payments to Landlord:

“The managed payment doesn’t come into effect immediately. The DWP notes that “the first APA managed payment to landlord payment... is normally received within 6 to 8 weeks from the date deductions commence, for example, from the end of the assessment period in which managed payments commenced”. Since people must be struggling to pay their rent to be considered for the managed payment APA, and so many of them will have growing rent arrears, this additional delay of up to two months puts people and their homes at significant unnecessary risk.”

¹¹⁸ [State of the PRS \(Q1 2019\): A survey of private landlords and the impact of welfare reforms](#), Dr Tom Simcock and Dr Axel Kaehne (Edgehill University and Residential Landlords Association, August 2019)

¹¹⁹ [Managing Money on Universal Credit](#), Frank Hobson, Emily Spoor and Lindsey Kearon (Citizens Advice, February 2019)

- 7.50 Given that the risk of rent arrears appears to be greatest in and around the point of an initial claim, the six to eight week wait to transfer to a managed payment may aggravate rent arrears during this period, even if it then makes payments more straight-forward thereafter. As Hobson et al. (2019: 38) note:

“Some of the advisers that we interviewed told us they’d seen people threatened with eviction as a result of the problems with the managed payment APA [i.e. the 6-8 week delay caused by moving to a managed payment], even when the housing provider knew that the arrears weren’t the tenant’s fault.”

- 7.51 Stakeholders working for local authorities and housing associations who were interviewed for this research also said that, with managed payments to landlords, sometimes they did not receive their client’s rent money on time and therefore, the client would have rent arrears.

"So, we look at the managed payments but we kind of do it as a last resort, really. We're finding it difficult with it being on like a payment run that by the time it comes through to us, depending on when somebody's assessment period is, it can be quite a number of weeks until we physically get it, so it's creating rent arrears that could be avoided if the tenant's capable of paying themselves."

(Stakeholder, Housing Association)

- 7.52 92% (35 out of 38) of respondents to the claimant survey for this study who have the housing element of Universal Credit paid directly to their landlord said that their financial situation has become worse since moving to Universal Credit, versus 71% (79 out of 111) of respondents who have all their benefit paid to them. The difference between these two groups could be more related to the way they experience Universal Credit differently. Those with direct payments in place must have had rent arrears or difficulty meeting rent costs in order to have this payment option put into place; and those are the households that are more likely to have had some problems with Universal Credit.

- 7.53 A report by the National Audit Office¹²⁰ noted that, even when Managed Payments to Landlord were made, data were provided to local authorities in such a manner as to require administrative work by local authorities to match payments to claims and that ‘Social housing providers also told us that the misalignment between claimants’ payment cycles and when the Department makes direct payments to landlords can result in missed payments’. They note, however, that there are plans to improve the administrative systems underpinning Universal Credit, so that these issues are not necessarily inevitable.

Low Awareness of APAs

- 7.54 The claimant survey showed that there was generally low awareness of APAs across respondents, with more frequent payments and split payments having the lowest awareness.

¹²⁰ [Rolling out Universal Credit](#) (National Audit Office, June 2018)

Managed Payments to Landlord: • 42% of those in receipt of Universal Credit were aware (81 out of 192 respondents) • 59% of those not in receipt of Universal Credit were aware (55 out of 94 respondents)
More Frequent Payments: • 20% of those in receipt of Universal Credit were aware (61 out of 304 respondents) • 37% of those not in receipt of Universal Credit were aware (35 out of 94 respondents)
Split Payments: • 24% of those in receipt of Universal Credit were aware (73 out of 301 respondents) • 32% of those not in receipt of Universal Credit were aware (30 out of 94 respondents)

7.55 Increasing awareness and support would almost certainly increase applications for APAs, as they were popular among respondents to the claimant's survey:

- 77% of respondents in receipt of Universal Credit with housing element (200 out of 259) said Managed Payments to Landlord would be helpful.
- 85% of respondents in receipt of Universal Credit (273 out of 322) said more frequent payments would be helpful.
- 25% respondents in receipt of Universal Credit (81 out of 321) said split payments would be helpful.

7.56 It is unclear why respondents receiving Universal Credit have less knowledge of APAs than respondents not receiving Universal Credit, but this could indicate various things. Respondents in receipt of legacy benefits may have been on benefits for longer and be more familiar with the system under legacy benefits which

offers more possibilities in payments such as fortnightly payments and split payments. Perhaps these different understandings of APAs under Universal Credit reflect anticipations that the system more closely reflects legacy benefits than it actually does. This also could indicate a lack of clarity in the claim process, as claimants are not automatically offered these payment arrangements.

- 7.57 Research by think tank Bright Blue¹²¹ has found that claimant awareness of the possibility of paying the housing element directly to landlords was low, but also that:

“A clear majority of our interviewees (40 people were interviewed) felt that the housing element of Universal Credit should be the reverse of the new status quo and be paid directly to landlords. This was true even of interviewees who did not personally struggle to pay their rent. There was a strong belief that, in this respect, the legacy system is better.”

- 7.58 There have been recent calls for APAs to be more widely publicised and used – for example, by End Hunger UK,¹²² the Trussell Trust,¹²³ and Citizens Advice.¹²⁴

Do APAs Help?

- 7.59 Very few recipients of Universal Credit have payments more frequently than on a monthly basis, and even fewer have split payments.¹²⁵ It is therefore not possible to reach any meaningful conclusions about their effectiveness from this research or indeed more generally. Managed Payments to Landlord undoubtedly help many claimants who would otherwise become more indebted and possibly be evicted. But it is unclear whether more payments direct to the landlord would result in lower levels of debt.

¹²¹ [Helping Hand - Improving Universal Credit](#), Ryan Shorthouse, Sam Lampier and Anvar Sarygulov (Bright Blue Campaign, 2019, page 88)

¹²² [Local Groups and campaigners End Hunger UK 2018-19](#)

¹²³ [The next stage of Universal Credit](#) (Trussell Trust, 2018)

¹²⁴ [Managing Money on Universal Credit](#), Frank Hobson, Emily Spoor and Lindsey Kearton (Citizens Advice, February 2019, pp41-42)

¹²⁵ In Wales, 2072 claimants had more frequent payments and 6 split payments in November 2019

- 7.60 While the existing sample sizes are too small from the claimant survey to evaluate the effectiveness of APAs, the findings do indicate that they are popular, and this is supported by other research. According to a survey of 792 service users across England and Wales by Citizens Advice¹²⁶, awareness of APAs may be low, but the perceived benefits of them, had they been offered, were high:

“Of the Universal Credit claimants we surveyed in full service Universal Credit areas, just 8% were aware that more frequent payment schedules were possible under Universal Credit, with nearly 60% believing they would have benefitted from this had it been offered. Similarly, less than one in three were aware that housing costs could be paid direct to a landlord under Universal Credit, and just one in five had been offered budgeting support.”

Conclusion

- 7.61 The evidence from the various studies quoted in this report and from our own surveys and interviews suggest that many Universal Credit recipients have found it difficult to come to terms with some of the design features of Universal Credit (five-week wait, monthly payments, having to budget for and pay the rent). This is compounded where the Universal Credit entitlement is less than under legacy benefits (although this will be mitigated by transitional protection under the ‘Move to UC’ exercise). On the other hand, there is also evidence that some claimants accept and value the additional responsibility that these arrangements involve. Some recipients who have migrated to Universal Credit because of a change of circumstance have a lower entitlement and this will have made them less financially resilient but the wider welfare cuts in recent years have probably had more impact than Universal Credit itself.
- 7.62 Universal Credit advances are a mixed blessing. They are invaluable in helping people cope with the five-week wait but the monthly recovery of the advance can cause its own problems. For example, the claimant survey for this study indicates

¹²⁶ Beth Foley [Delivering on Universal Credit](#) (Citizens Advice, 2017)

that some claimants do not understand that the advance is recovered from subsequent Universal Credit payments.

- 7.63 From the survey data and literature review, Alternative Payment Arrangements are a good way of offering protection to vulnerable claimants, but they are tightly circumscribed and awareness of them is very low. DWP takes the view that they should be both exceptional and temporary.¹²⁷ A balance needs to be struck between encouraging personal responsibility and protecting vulnerable people from indebtedness and homelessness. Such evidence that we have indicates that more people could benefit from APAs if they were more readily available, perhaps alongside more support with budgeting. Certainly, the results of the surveys conducted as part of this research show that they would be valued highly by more Universal Credit recipients, whilst other studies suggest they could be instrumental in preventing people getting into debt or, in the case of split payments, becoming victims of domestic violence.
- 7.64 A significant proportion of Universal Credit claimants will need support not only during the initial claim process but also during the period they are receiving the benefit. The UK Government is providing support in some respects, and to some extent, but our study shows that more will need to be done to protect vulnerable households. The Welsh Government and Welsh local authorities may wish to consider how they can play their part in ensuring that the necessary help is provided.

¹²⁷ See [Alternative Payment Arrangements - Guidance](#) (DWP, updated March 2020) and Frank Hobson, Emily Spoor and Lindsey Kearton [Managing Money on Universal Credit](#) (Citizens Advice, February 2019)

8. Conclusion

- 8.1 The impact of Universal Credit on households in Wales is wide-ranging, affecting levels of benefit entitlement in some cases, as well as council tax reduction awards. The change in award levels, together with different claim and payment mechanisms, are having an impact on council tax reduction caseload, council tax arrears levels, and rent arrears.

The Impact of Universal Credit on Council Tax Reduction

- 8.2 The move to Universal Credit can have a significant impact on council tax reduction awards for working households who do not receive support based on 100% of liability in Wales. The average council tax reduction award for Universal Credit households is £2.60 less per week than for households in receipt of legacy benefits, and this trend is set to continue in future.
- 8.3 The Welsh Government may wish to amend its Council Tax Reduction Scheme to achieve greater parity between Universal Credit claimants and those on legacy benefits. *This report offers the Welsh Government options to consider, including reducing the taper rate from 20% to 10% at an annual cost of £8m.*
- 8.4 Universal Credit increases Council Tax Reduction Scheme administration costs due to more frequent reassessments of awards in response to the monthly assessments of Universal Credit. It also means households receive a series of revised council tax bills. *This research suggests the Welsh Government could look to introduce a de minimis threshold, at no cost, to mitigate this impact, although further work may be required to assess the impact of a de minimis threshold on a larger subset of households across a larger number of local authorities.*
- 8.5 Universal Credit may also have an impact on council tax reduction caseload. This research indicates that some claimants did not realise that the application process for a council tax reduction was separate to applying for Universal Credit. *The Welsh Government and Welsh local authorities may need to consider developing further the range of initiatives to raise awareness and take-up of council tax reductions.*

- 8.6 The claimant survey found that 16% of legacy benefit claimants did not wish to apply for council tax reduction due to fear of debt arising from overpayments. *The Welsh Government and Welsh local authorities may wish to examine further whether council tax debt recovery practices have had any impact on the way some people perceive the Council Tax Reduction Scheme.*

The Impact of Universal Credit on Council Tax Arrears

- 8.7 In Wales, since 2013, council tax arrears have remained stable as a percentage of total council tax due. The decision by the Welsh Government to introduce a national Council Tax Reduction Scheme and make up the shortfall related to the 10% funding cut (rather than risk local authorities passing it on to low-income households) appears to have resulted in positive outcomes, at least in the short term. However, there is emerging evidence of increased council tax arrears under Universal Credit.
- 8.8 Our study showed that council tax arrears were more common, and more severe, under Universal Credit than under legacy benefits and appeared to be relatively consistent across different demographics and vulnerable groups.
- 8.9 Most households who had no arrears under legacy benefits had no arrears during and after the transition to Universal Credit. However, a proportion of households (14%) moved into arrears following the transition to Universal Credit, and the rate of arrears accrual under Universal Credit appears higher than for legacy benefits. This research suggests that it is elements of transition (such as the five-week wait) and ongoing factors (monthly budgeting, award levels) that can contribute to arrears.
- 8.10 Any increase in council tax arrears arising from the rollout of Universal Credit may not yet be reflected in official statistics on council tax collection rates and arrears. *However, in the light of this emerging evidence, the Welsh Government may wish to review its debt recovery and income maximisation strategies.*

The Impact of Universal Credit on Rent Arrears in Wales

- 8.11 As with council tax arrears, this analysis found that rent arrears tended to be higher under Universal Credit compared to legacy benefits, although evidence on the

number of people with rent arrears receiving Universal Credit (compared with those still receiving legacy benefits) is mixed.

- 8.12 The impact of Universal Credit on the level of rent arrears was more clear-cut. Average arrears under legacy benefits were £206 compared to £495 under Universal Credit. Again, the most common explanations for increases in rent arrears caused by migration to Universal Credit were: changes in award levels, debts incurred during the five-week wait and difficulties with budgeting due to monthly payments. Most stakeholders also reported that direct payment of the housing element to claimants was a factor in the growth in arrears.
- 8.13 Our findings suggest that those who are not in arrears as they move to Universal Credit generally continue to pay their rent, while those moving to Universal Credit with arrears may see those arrears increase significantly. This suggests the Welsh Government and Welsh local authorities may wish to target interventions to support vulnerable claimants.

The Experience of Universal Credit

- 8.14 The evidence from the various studies quoted in this report and from this project's surveys and interviews suggests that many Universal Credit recipients have found it difficult to come to terms with some of the design features of Universal Credit (such as the five-week wait, monthly payments, and having to budget for and pay the rent). These difficulties are compounded where the Universal Credit entitlement is less than entitlement under legacy benefits. That said, there is also evidence that other claimants accept and value the additional responsibility that these arrangements involve.
- 8.15 Universal Credit advances are a mixed blessing. They are invaluable in helping people cope with the five-week wait but the monthly recovery of the advance can cause its own problems.
- 8.16 The claimant survey in this study shows that awareness of Alternative Payment Arrangements is very low, and DWP takes the view that they should be both exceptional and temporary (though Managed Payments to Landlord have been

made easier to obtain). However, a balance needs to be struck between encouraging personal responsibility and protecting vulnerable people from indebtedness and homelessness. Such evidence available from this and similar studies indicates that more people could benefit from APAs if they were more readily available.

- 8.17 Universal Credit is a significant change in welfare support for low-income households. Overall, this report provides evidence that the move to Universal Credit is having an adverse impact on the household resilience and debt levels of low-income residents in Wales. There is evidence of lower council tax reduction awards as a consequence, higher council tax arrears, and higher rent arrears, as households move to Universal Credit. There is also evidence that arrears could accumulate once households have moved to Universal Credit.
- 8.18 *In summary, the Welsh Government is looking to support low-income residents in Wales as they move to Universal Credit. The findings from this research could be used by the Welsh Government to further understand the impact of Universal Credit and highlight where more and targeted support could be usefully provided.*

9. Appendices

Appendix 1: Demographics of Survey Respondents

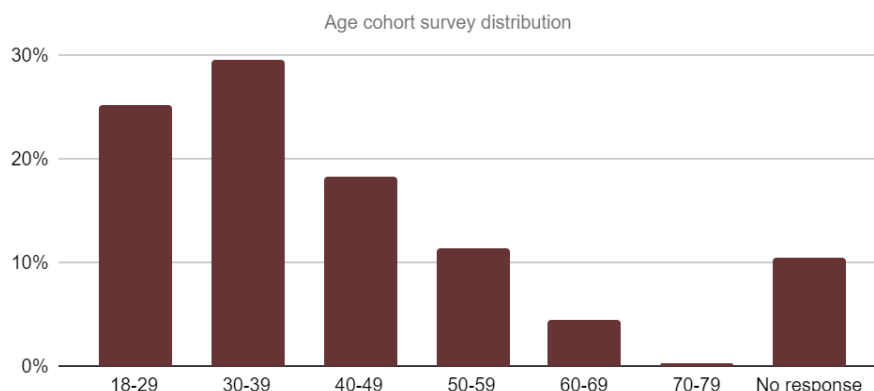
Claimant Survey (n=496)

23% (103) of respondents reported being male and 76% (344) reported being female.

58% (265) of respondents described themselves as being single, while 19% (85) and 18% (83) respectively reported as being married, or in a civil partnership, or living with a partner.

78% (352) of respondents shared a household with another adult aged over 16, and 82% (373) lived in households with children, reporting an average of 1.56 children.

The chart below shows the age distribution of the respondents, out of a sample size of 496.



21% (98) of the respondents were in full time employment, 23% (105) were in part time employment, 2% (10) were self-employed, 15% (70) were unable to work due to a long-term sickness or disability, and 17% (77) were unemployed and looking for work.

16% (73) of the respondents were renting from a private landlord, 53% (239) were renting from a local authority, 10% (47) were renting from a housing association, 15% (70) were owner-occupiers and 2% (8) were in temporary accommodation.

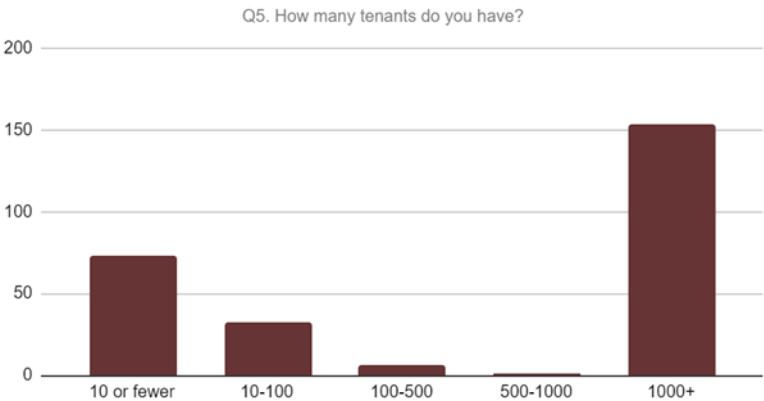
73% (334) of the respondents had received Universal Credit payments in the previous three months.

Stakeholder Survey (n=432)

74% (230) of the respondents work directly with people claiming welfare benefits as part of their role.

49% (157) of the respondents were private rented sector landlords, 19% (62) were social rented sector landlords or worked for housing associations and 11% (34) were welfare advisers.

The following chart represents the number of tenants reported by landlord (private and social rented sector) or housing association respondents, out of a sample size of 266.



Appendix 2: Methodology

Data Sources

Single Household Benefit Extract (SHBE) data.

This is a local authority-owned, standardised monthly record of every household in a local authority area in receipt of either Housing Benefit or council tax reduction. These datasets contain all the household-level data that is needed to calculate council tax reduction awards, including information on individual households' incomes, family circumstances and disability status.

For the project, SHBE data was gathered from Welsh local authorities across four waves, corresponding to March, June, September and November 2019. Nineteen local authorities provided SHBE data in March, all 22 in June, 21 in September and 20 in November.

Data sets were sent with names and full addresses redacted. Individual households were tracked across waves using Housing Benefit Reference Numbers combined with local authority codes. The final SHBE dataset included 274,773 households, including 166,038 classed as working age.

Council Tax Arrears Data

In addition to SHBE extracts, local authorities and housing associations also regularly record data on levels of council tax and social housing rent arrears. Council tax arrears extracts were requested from all participating local authorities. Datasets were received from 13 local authorities in the March 2019 wave, 15 in June, 18 in September and 16 in November.

However, it should be noted that some of these datasets lacked the necessary common identifiers needed to link with SHBE extracts. The process for achieving the final sample for the council tax arrears analysis is discussed in the relevant section of the main report.

Rent arrears extracts were requested from all participating local authorities that retained their own social housing stock. Rent arrears extracts were also provided by 9 housing associations with stock in Wales. Rent arrears datasets were received from 5 local

authorities and 5 housing associations in the March 2019 wave, 8 local authorities and 5 housing associations in June, 8 local authorities and 9 housing associations in September, and 8 local authorities and 8 housing associations in November. As with the council tax arrears data, full linkage with SHBE extracts was not possible for all gathered rent arrears files. The details of this matching, and the final sample achieved are discussed in the main report.

Claimant and Stakeholder Surveys

Policy in Practice provided all participating local authorities and housing associations with recruitment materials for the online survey portion of the research. These materials included information and sign-up links for both claimant- and stakeholder-oriented surveys. The claimant survey recruitment materials were distributed by participating local authorities (and some housing associations) to their mailing lists of households in receipt of Universal Credit or legacy benefits. The stakeholder recruitment materials were circulated internally amongst the frontline and strategic teams at participating local authorities and housing associations. The stakeholder recruitment materials were also distributed by Rent Smart Wales to their mailing list of private sector landlords. Finally, recruitment information and links to both the claimant and stakeholder surveys were hosted publicly on Policy in Practice's website.

494 claimants and 432 stakeholders signed up to participate in the surveys. There was a relatively high drop-off of respondents throughout the surveys, especially in the shorter stakeholder survey. The claimant survey was split into a core element, and a short supplement. 259 of the claimants agreed to continue completing the supplemental survey. Detailed breakdowns of survey questions, responses and sample sizes can be found in the supplementary data tables provided alongside the main report.

Claimant and Stakeholder Interviews

Recruitment for the claimant and stakeholder interviews was primarily carried out via the pool of survey respondents (supplemented by the National Survey for Wales' re-contact database to selectively distribute further interview invitations). Via this method, 23 claimants and 14 stakeholders were interviewed by two trained interviewers. Interviews were conducted via telephone, recorded and transcribed, and the results tabulated in a thematic

grid. This thematic grid was used to produce a full written report, which has been included as a supplemental document alongside the main report.

Analytic Procedure

SHBE data

Policy in Practice has developed a comprehensive policy modelling engine, the Benefit and Budgeting Calculator, which extracts the relevant variables from SHBE data and calculates household-level benefit awards (including entitlement to council tax reduction) to a high degree of accuracy, factoring in wider policy changes and economic trends. The parameters of this policy engine can be adjusted to provide hypothetical scenario modelling, for example by adjusting elements of local Council Tax Reduction Schemes or recalculating household benefit awards under Universal Credit versus legacy benefits.

Figure A2.1: The Benefit and Budgeting Calculator Generates Accurate Benefit Entitlements at the Household-Level, Under Different Policy Scenarios

— Detailed breakdown

Current system		
Means-tested IS, JSA, ESA or Pension Credit	£0.00	?
Pension Credit	£0.00	
Working Tax Credits	£0.00	
Child Tax Credits	£277.08	?
Housing Benefit	£350.00	?
Carers Allowance	£0.00	
Child Benefit	£89.70	
PIP / DLA	£0.00	
Council Tax Support	£69.49	?
Net earnings	£468.00	?
Contributory ESA/JSA	£0.00	
Other Income	£0.00	

The analysis of CTRS scheme changes was achieved by processing SHBE data through versions of the calculator that reflected specific scheme adjustments as specified by the Welsh Government.

Council Tax and Rent Arrears

For the arrears analysis, fields from the SHBE data were used to identify which households in the rent arrears and council tax arrears datasets were in receipt of Universal Credit, and which were in receipt of legacy benefits. The rich household information from SHBE also provided the basis for disaggregating patterns of arrears by different demographic subgroups. Information on the specific methodology for analysing the council tax and rent arrears data is included in the main report.

Claimant and Stakeholder Surveys

The claimant survey took around 20 minutes to complete (10 minutes for the core survey and 10 for the supplementary survey), and the stakeholder survey took around 10 minutes. Survey questions were arranged into thematic blocks, with introduction text on technical terminology (e.g., Council Tax Reduction Scheme, rent arrears etc) for the claimant sample. A full list of survey questions and responses are included with the report in the form of data tables.

Claimant and Stakeholder Interviews

Interviews lasted 45 minutes. The interview questions followed the same thematic block structure as the surveys, with more opportunities for interviewees to elaborate, and for the interviewers to explore new issues in more detail. Details of the interview methodology and the full results are provided in a supplementary document alongside the main report.

Appendix 3: Council Tax Rises

Table A6.1: Council Tax Rises Used in Modelling

Yearly Council Tax rise used for modelling council tax reductions in 2021-22, by local authority.¹²⁸ Modelling was over two years so average CT rise has been applied twice.

Local Authority	Council Tax Rise Average %
Average	5.00
Blaenau Gwent	4.40
Bridgend	4.80
Caerphilly	4.30
Cardiff	5.00
Carmarthenshire	4.50
Ceredigion	5.60
Conwy	6.10
Denbighshire	4.70
Flintshire	5.90
Gwynedd	4.60
Isle of Anglesey	5.50
Merthyr Tydfil	4.70
Monmouthshire	5.00
Neath Port Talbot	3.90
Newport	4.80
Pembrokeshire	8.80
Powys	6.60
Rhondda Cynon Taf	3.70

¹²⁸ Council tax increase is calculated as the average of the last three years per LA (Source: [StatsWales](https://stats.wales.gov.uk/))

Swansea	5.10
Torfaen	4.90
Vale of Glamorgan	4.40
Wrexham	4.20

Appendix 4: Summary of Options in the Interim Report

	Model 1: Flat-rate non-dependant deduction	Model 2: Taper change to 10%	Model 3: Guaranteed award	Model 4: Minimum Income Floor in CTRS based on 16 h	Model 5: Removal of two-child limit in CTRS	Model 6: Income-banded
Group affected	Legacy & UC with working non-dependants	Legacy & UC with earnings above needs (working households)	Legacy & UC with award less than 15% of liability (working households)	UC self-employed households expected to work more than 16 hours per week	UC working households with 2 children + and a child born after April 2017	All working-age
Number households affected	1,217	26,689	927	503	365	All working age
Change in award (£/week) for affected households: UC	+£7.60 (+60%)	+£6.30 (+60%)	+£1.60 (+85%)	+£8.30 (+192%)	+£10.98 (+135%)	-£0.80 (-4%)
Change in award (£/week) for affected households: Legacy	+£7.50 (+53%)	+£5.50 (+41%)	+£1.60 +(73%)	No impact	No impact	-£1.10 (-5%)
Impact on total CTR (£/annum)	+£0.5M (+0.2%)	+£8M (+3%)	+£0.1M (+0.0%)	+£0.2M (0.0%)	+ £0.2M (+0.0%)	-£8M (-3%)
Impact on caseload	Likely to increase Some households with non-dependants may become eligible	Likely to increase Some households with income in excess of needs may become eligible	Likely to increase due to simple eligibility criteria	Likely to increase Some self-employed households in receipt of UC may become eligible	Likely to increase Households in receipt of UC with a child born after April 2017 may become eligible	19,515 households are no longer eligible Some households may become eligible
Household types most likely to gain compared to retention of the current scheme into 2021-22*	Fairly even spread across different demographic groups UC slightly better off than legacy	UC self-employed +112% UC employed + 64% Legacy employed + 22%	UC self-employed + 1% UC employed + 1%	UC self-employed +97%	Couple with children + 2% Impact will increase over time as more children are born after April 2017	Households receiving out of work benefits + 1% All other household groups lose support

Council Tax Reduction amendments considered by the Welsh Government for the Interim Report, updated using 2019 data

Appendix 5: Taper Rate Options by Local Authority

Average Weekly Council Tax Reduction £ per week with Taper at 10% by Local Authority (Affected Households Only)

Local Authority	Legacy		Universal Credit	
	Number of households impacted	Comparison to current scheme retained into 2020-21 (additional £ per week)	Number of households impacted	Comparison to current scheme retained into 2020-21 (additional £ per week)
ALL WALES	12,390	£5.50	14,300	£6.30
Blaenau Gwent	273	£4.71	411	£5.24
Bridgend	735	£6.17	768	£5.98
Caerphilly	505	£4.68	434	£5.62
Cardiff	2,010	£5.09	2,049	£7.08
Carmarthenshire	716	£5.22	648	£5.74
Ceredigion	340	£6.37	185	£7.81
Conwy	476	£5.29	332	£6.78
Denbighshire	248	£6.10	1,124	£6.46
Flintshire	564	£6.03	25	£6.24

Gwynedd	533	£5.86	414	£7.14
Isle of Anglesey	259	£5.83	176	£4.89
Merthyr Tydfil	229	£3.83	298	£5.48
Monmouthshire	291	£6.16	530	£5.75
Neath Port Talbot	645	£5.90	919	£6.78
Newport	595	£4.43	557	£6.15
Pembrokeshire	401	£5.29	509	£6.11
Powys	467	£6.66	507	£7.07
Rhondda Cynon Taf	803	£5.11	937	£6.26
Swansea	896	£5.98	1,064	£6.25
Torfaen	320	£5.20	1,060	£5.10
Vale of Glamorgan	629	£5.98	388	£7.76
Wrexham	456	£5.96	963	£5.29

