Welfare reform and the Universal Credit

Standard Note: SN/SP/5782
Last updated: 16 February 2011
Author: Steven Kennedy
Section Social Policy Section

On 11 November 2010 the Department for Work and Pensions published a White Paper, *Universal Credit: welfare that works*. The White Paper – which follows the July 2010 Green Paper *21st Century Welfare* – sets out the Government's plans for a 'Universal Credit' to replace most in work and out of work benefits for people of working age. The intention is to introduce the Universal Credit for new claims from October 2013, with the aim of completing the transfer of all existing claimants to the new system by October 2017. The Government plans to introduce a Welfare Reform Bill shortly to give effect to the changes.

On 16 November the DWP published an initial *Impact Assessment for Universal Credit* which gives further background to the proposals, and details of the approach used to estimate the distributional impact of the reforms and the expected effects on employment. An *Equality Impact Assessment* was also published on 19 November.

A key feature of the Universal Credit is a single 'taper' for the withdrawal of the Credit for those in work. As earnings rise, the Universal Credit is to be withdrawn at a constant rate of 65 pence for each pound of net earnings, although for some groups an initial amount of earnings would be disregarded before the taper applies. For employees paid through PAYE, Universal Credit payments are to be calculated and adjusted automatically using a new system giving 'real time' information on earnings from employers.

The White Paper also announced, alongside the Universal Credit, a new 'conditionality' regime setting out what is to be expected of all working age claimants. Four levels of conditionality are proposed, ranging from 'full conditionality' for jobseekers to 'no conditionality' for those in the Employment and Support Allowance support group, carers and lone parents with a child under one. The new regime is to be backed up by 'strong and clear' sanctions for non-compliance.

This note gives an overview of the main features of the proposed Universal Credit and other related proposals in the White Paper, and looks at some of the issues they raise.

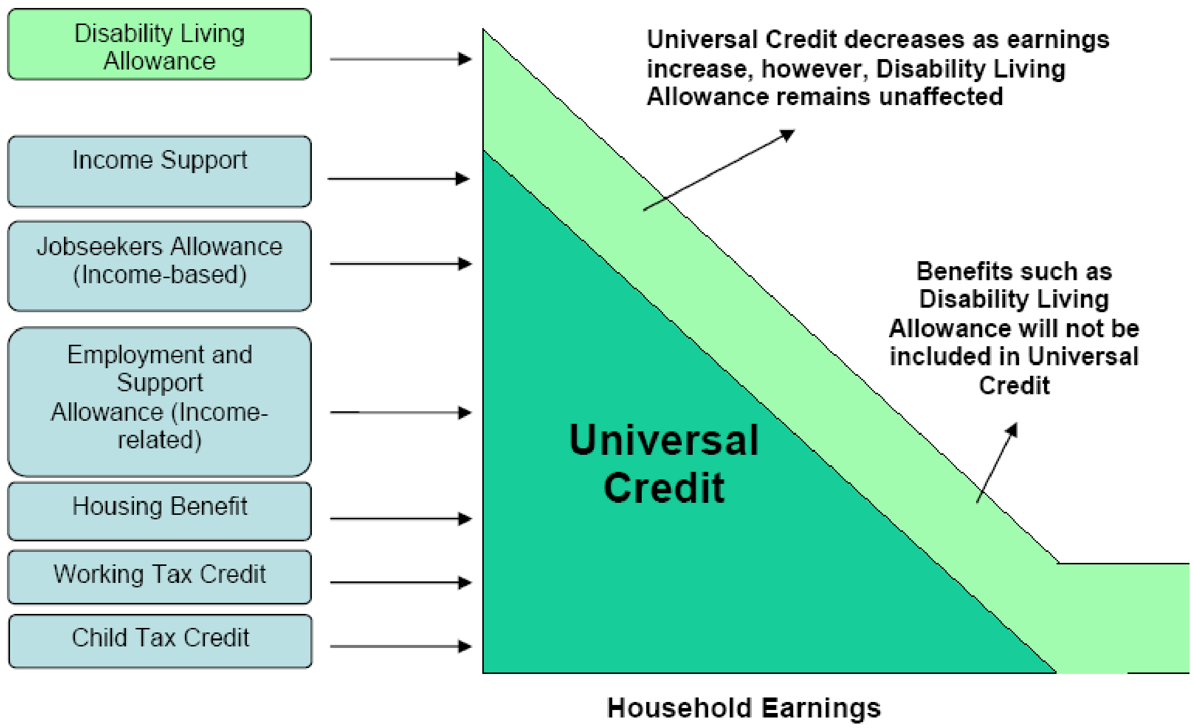
The Work and Pensions Committee has been holding a short inquiry into the Universal Credit proposals. Written and oral evidence can be found at the Committee's website.

Contents

1 Universal Credit at a glance

- Replaces a range of existing benefits and tax credits, including Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Housing Benefit, Child Tax Credit and Working Tax Credit.
- Basic allowance for adults with additions for children, disability, housing costs and caring.
- Assessed and paid on a household basis.
- For people in work, Universal Credit withdrawn at a uniform rate of 65 pence for each pound of net earnings, though for certain groups an amount will be disregarded from earnings before the taper applies.
- For employees paid through PAYE, payments calculated and adjusted automatically using information on earnings from new 'real time' information system.
- Four levels of 'conditionality', ranging from 'full conditionality' for jobseekers to 'no conditionality' for those in the ESA Support Group, carers and lone parents with a child under one.
- Government undertaking that no existing claimants will experience a reduction in cash terms in the amount they receive as a result of the introduction of the Universal Credit.

The following chart – from the DWP's *Impact Assessment for Universal Credit* – indicates which benefits are to be replaced by the Universal Credit and how it is affected by earnings.[1]



[1] The chart is however somewhat simplified; for example, it does not show the effect of an earnings disregard

2 General responses to the White Paper

Welfare rights organisations, pressure groups and think tanks have given a broad welcome to the Government's objective of reforming the benefit and tax credit systems to achieve greater simplicity, increase work incentives and tackle poverty. The concept of a single benefit, administered by one government department, is widely seen as attractive, given the current array of in-work and out-of work benefits and tax credits with their separate sets of rules, complicated and confusing interactions, administrative burdens, and problems of low take-up. The potential of the proposed single taper to make the financial gains from work more transparent, and to encourage more part-time work, is also recognised. The possibilities offered by "real time" income data - provided the system can be made to work - are also acknowledged.

However, the White Paper proposals have to be seen in the context of wider Government strategies aimed at reducing the current financial deficit, including the £18 billion package of benefit and tax credit cuts announced in the June Budget and 2010 Spending Review which, some argue, overshadow positive aspects of the Universal Credit. The Government has given an undertaking that there will be no cash losers at the point of transfer to Universal Credit but, organisations point out, many claimants will already have been affected by these wider changes by the time the new system is introduced.

There is also concern about the lack of detail in the White Paper about key issues including help with childcare costs, the new localised Council Tax Benefit, how carers will fit into the new system, and how entitlement to passported benefits is to be determined. Some have argued that the Government should not proceed with such massive reforms until these and other issues are resolved. Others argue that, with so many unanswered questions, it is difficult to say whether the proposals will in fact achieve the stated policy aims of simplifying the system and making work pay, and determine exactly who, in the long term, will be "winners" and "losers" from the Universal Credit. There are also doubts about whether a taper rate of 65% - significantly less generous than previous suggestions - would provide sufficient incentive to work, and some organisations would like the Government to commit to a review of the taper, with the long term aim of reducing it.

Concerns have also been voiced about more detailed aspects of the Universal Credit proposals, including the treatment of sickness and maternity benefits, savings rules, and how self-employment income will be determined. Other issues of concern include the frequency of payments, who within a family should receive the benefit, and the dangers associated with providing support for families in a single payment. It has been suggested that payments of Universal Credit should be "firewalled" into different components so that if payment of one component stopped, other elements would continue to be paid.

The Universal Credit depends crucially on the successful introduction of new IT systems - including the proposed "real time" PAYE system – in time for the planned roll-out in October 2013. Welfare rights groups believe that the Government should only implement Universal Credit when the supporting systems have been built, tested and proved fit for purpose.

While insufficient details of the propose Universal Credit are available to enable a detailed analysis of its likely impact, the Institute for Fiscal Studies has produced a preliminary analysis of the Government's proposals which considers, among other things, gains and losses from the new system, and the impact on work incentives.[2]

The remainder of this note looks in more detail at the proposals in the White Paper, and gives initial responses from interested organisations, drawing mainly on evidence given to the Work and Pensions Committee inquiry on the Universal Credit.

1 Structure of the Universal Credit

1.1 The Universal Credit and existing benefits

The Universal Credit is to replace a range of existing benefits and tax credits for people of working age, including:

- Income Support
- Income-based Jobseeker's Allowance
- Income-related Employment and Support Allowance
- Housing Benefit
- Child Tax Credit
- Working Tax Credit

Benefits to remain **outside** the Universal Credit include contribution-based JSA and contributory ESA (although earnings rules are to be aligned with those for Universal Credit), Disability Living Allowance, Child Benefit, bereavement benefits, employer-provided benefits such as Statutory Sick Pay; Maternity Allowance, and Industrial Injuries Disablement Benefit.

The White Paper states that the Government will need to consider the implications of payments such as the In-Work Credit for lone parents and the Job Grant which, it states, 'may not be needed' since the Universal Credit will provide additional incentives to move into work.[3]

With regard to three other benefits – Carer's Allowance, Council Tax Benefit and childcare support – the White Paper is less clear about the implications of the Universal Credit. Some organisations have argued that the lack of clarity in the White Paper about how certain key elements will be taken into account means that some important questions remain unanswered.[4]

[2] Mike Brewer, James Browne and Wenchao Jin, *Universal Credit: a preliminary analysis*, IFS Briefing Note 116, January 2011

[3] *Universal Credit: welfare that works*, Cm 7957, 11 November 2010 para 55, p23

[4] See for example CPAG press release, *Welfare reforms must bring guaranteed reduction in child poverty*, 11 November 2010; Citizens Advice, *Citizens Advice response to the Welfare White Paper*, 11 November 2010

Carer's Allowance

The White Paper states that the Government is 'carefully considering whether changes to Carer's Allowance will be necessary to take account of the introduction of Universal Credit and provide clearer, more effective support for carers.'[5]

It is not clear what changes to Carer's Allowance might be under consideration. The White Paper acknowledges some of the perceived failings of Carer's Allowance – including the 'cliff edge' earnings limit and the low rate of the benefit – but gives little indication of the Government's thinking. It states: 'We can only deliver proper support for carers with the greatest financial burden by addressing the current confusing interactions between Carer's Allowance and other benefits.' The Government also intends, as part of any reforms, to 'provide support for carers and improve their opportunities to maintain links with the world of work.'[6]

The Labour Government had said that it would look at Carer's Allowance as part of its wider plans for welfare reform, but set no specific date. Both the Work and Pensions Committee and carers' groups, while welcoming the acknowledgement that Carer's Allowance needed to be reformed, called on the Labour Government to commit itself to a specific timetable.[7]

In response to the publication of the current White Paper, Imelda Redmond, Chief Executive of **Carers UK**, said:

> Carers will ask why their benefit alone has been left on the 'too difficult' pile.
>
> We understand that there are real challenges in reforming Carer's Allowance. Any system would need to retain a universal benefit which does not force people who are caring for loved-ones to look for work, or deliver a regressive means-test which would leave some carers with no independent income of their own. However carers are living in poverty and hardship now, and reform cannot be postponed any longer.
>
> The Government has said that it will now look carefully at what happens to Carer's Allowance. We urge them to bring forward urgent plans for a radical overhaul of the Allowance, to give carers a decent income and help those who are able, to juggle caring with work or study.[8]

In its submission to the Work and Pensions Committee, Carers UK, while welcoming the commitment in the White Paper to benefit simplification, making work pay and reducing worklessness, together with the undertaking that carers will not be subject to any 'conditionality', states that it opposed to any moves to introduce a means-test for carers' benefits which, it says, "would set carers' rights back in the 1970s."[9] It strongly opposes Carer's Allowance being drawn into the Universal Credit, but believes that moving carers in receipt of the carer premium of means-tested benefits onto Universal credit may be of benefit, by allowing those who can engage in paid work alongside caring to keep more of their earnings than at present. It notes however that the full impact is difficult to model, without precise details of amounts, additions and thresholds.

---

5 Cm 7957, para 27, p19

6 *Ibid* .paras 24-25, p19

7 Work and Pensions Committee press release, *Valuing and Supporting Carers: Government Response to the Committee's Fourth Report of Session 2007-08*, 17 December 2008; Carers UK press release, *MPs tell Government to support carers alongside banking system*, 19 December 2008

8 Carers UK press release, *Response to Welfare Reform*, 11 November 2010

9 UC35, *Written Evidence Submitted by Carers UK*

The Carers UK submission sets out a number of areas where it believes Carer's Allowance could be reformed, while remaining outside the Universal Credit. These include increasing the level of Carer's Allowance, introducing an earnings taper (instead of the current "cliff edge" when net earnings reach £100 a week) – possibly using earnings data from the proposed real-time PAYE system – and reforming the 21 hour study rule.

In oral evidence to the Work and Pensions Committee on 9 February, the Secretary of State, **Iain Duncan Smith**, said that he was not yet in a position to state publicly whether Carer's Allowance would be in or out of the Universal Credit., but that he would let the Committee know before publication of the Bill.[10]

Council Tax Benefit

The October 2010 Spending Review announced that responsibility for Council Tax Benefit is to be devolved to local authorities, alongside a 10 per cent reduction in expenditure on CTB from 2013-14. Local authorities are to be allowed to decide their own priorities when determining the amount of support for vulnerable and low income households. The White Paper states that the Government will work closely with local government and the devolved administrations to develop detailed proposals. It also states that changes 'should not undermine the positive impact of Universal Credit on work incentives.'[11]

The Council Tax Benefit changes arguably go against one of the central aims of the Universal Credit, which is to increase the transparency of the financial benefits of work. Claimants may face a different means-test for CTB according to where they are living. This could make it more difficult to determine the actual financial benefit from taking a job or increasing working hours. The analyses of marginal deduction rates in the White Paper assume that help with Council Tax is being provided, but the situation could vary from one locality to another if local authorities adopt different rules.

Welfare rights organisations have argued that Council Tax Benefit should be included within the Universal Credit, to avoid the introduction of a second taper which would complicate the system, and could undermine work incentives.

Age UK argues that "localising benefit alongside a 10 per cent reduction in expenditure could lead to uneven outcomes, hardship and increased complexity"[12], while **Disability Alliance** warns of a possible "postcode lottery."[13] While understanding the Government's wishes to give local authorities greater control over Council Tax Benefit payments, **Barnardo's** believes that this should not be allowed to undermine Universal Credit's principles and that, as a minimum, the Government should ensure that even if eligibility is to be decided at a local level, payments should be made as part of the Universal Credit.[14] **Citizens Advice** argues that if agreement cannot be reached between the DWP and Department for

10 HC 743-ii 2010-11 Q82-83. Please note however that **this is an uncorrected transcript of evidence taken in public and reported to the House. The transcript has been placed on the internet on the authority of the Committee, and copies have been made available by the Vote Office for the use of Members and others. Neither witnesses nor Members have had the opportunity to correct the record. The transcript is not yet an approved formal record of these proceedings.**

11 Cm 7957, para 36, p20

12 UC22, *Written Evidence Submitted by Age UK*

13 UC50, *Written Evidence Submitted by Disability Alliance*, para 3.3.2

14 UC59, *Written Evidence Submitted by Barnardo's*, para 18

Communities and Local Government on the inclusion of support for Council Tax within the single taper, the Government should rethink its decision to localise Council Tax Benefit.[15]

In the Work and Pensions Committee evidence session on 9 February, the **Secretary of State** said that he hoped the position regarding Council Tax Benefit would become clear at the time of the publication of the *Welfare Reform Bill*. Mr Duncan Smith said that he was in favour of localisation, provided it did not worsen work incentives. Pressed on whether individual local authorities would be able to change the rates of Council Tax Benefit, or if this would be set nationally, the Secretary of State said that these were matters under discussion.[16]

Childcare costs

The Childcare element of the Working Tax Credit currently provides help with up to 80% of eligible childcare costs up to a maximum of £175 a week for one child or £300 a week for two or more children. The October 2010 Spending Review announced that from 2011 the percentage of childcare costs covered by the childcare element would be reduced to 70% (the rate which previously applied from 2003-04 and 2005-06).

The White states that people often find the current arrangements for getting help with childcare costs 'confusing' and 'complicated', and that the Universal Credit provides an opportunity to 'improve and simplify the way support is offered' while ensuring it remains 'fair, affordable and targeted to those most in need.'[17] It seeks views on how help with childcare costs might be provided, either as part of, or alongside, the Universal Credit. As a minimum, help could be provided as part of the Universal Credit along similar lines to the current WTC childcare element (but with the way costs are calculated and support paid simplified). However, the White Paper suggests possible alternative approaches, such as providing help through a separate voucher or discount system, or via an additional earnings disregard. Whatever the approach, the aim would be to give some help with childcare costs to those working less than 16 hours a week, 'so that all types of work are rewarded.'[18]

How help with childcare costs is to be provided following the introduction of the Universal Credit, and the level of help that will be available, were major causes for concern for organisations responding to the Work and Pensions Committee call for evidence.

Citizens Advice points out that the issue of childcare costs is critical in ensuring that low income parents gain financially from moving into work, or increasing their working hours. It believes that Universal Credit "will succeed or fail depending on whether work really does pay for parents with childcare costs." It argues that the White Paper significantly underestimates existing help with childcare costs, since it does not acknowledge that Housing and Council Tax Benefit can cover up to 17% of childcare costs, in addition to the 80% maximum covered by tax credits. Given this, Citizens Advice estimates that providing

---

15 UC54, *Written Evidence Submitted by Citizens Advice*

16 HC 743-ii 2010-11 Q137, 141-146. Please note however that **this is an uncorrected transcript of evidence taken in public and reported to the House. The transcript has been placed on the internet on the authority of the Committee, and copies have been made available by the Vote Office for the use of Members and others. Neither witnesses nor Members have had the opportunity to correct the record. The transcript is not yet an approved formal record of these proceedings.**

17 Cm 7957, para 42, p21

18 *Ibid.* para 46, p22

support only up to 70% of childcare costs would leave some parents worse off than under the current system, with some facing effective marginal deduction rates of over 100%.[19]

Family Action[20] suggests that help with childcare through the Universal Credit should cover at least 80% of childcare costs, but is concerned that some of the proposals it had seen since the publication of the White Paper had been "decidedly less generous". It adds:

> Were these options implemented some working parents could face considerably reduced work progression incentives compared to their current position, and, ...some may have to *pay* to work additional hours.[21]

Some have suggested that the maximum level of support for childcare costs would in fact need to be lower than the 70% under the Working Tax Credit from April 2011, since the White Paper also envisages extending help with childcare costs to those working under 16 hours a week, meaning that the existing expenditure would need to be spread more thinly.

During the oral evidence session on 9 February, Neil Couling, the **Universal Credit Director General** at DWP, said that the Department was still "wrestling" with how to extend help with childcare costs to those working fewer than 16 hours "within the current envelope of spending" and had not reached any conclusions on that. Questioned on whether the Government had decided on which of the three options for providing support would be taken forward, the **Secretary of State** replied: "Not exactly, no", adding that there was still an "ongoing discussion." Mr Duncan Smith also indicated that the *Welfare Reform Bill* would not itself contain detailed provisions relating to childcare, adding "but as the passage of the Bill takes place, we will become clearer about it and we will certainly let everybody know."[22]

1.2 Elements of the Universal Credit

The Universal Credit is to comprise a basic 'personal amount' plus additions for children, disability, carers and housing costs.

The **personal amount** is intended to provide for 'basic living costs' of single people and couples and the White Paper states that it will 'broadly reflect' the current structure of personal allowances in Income Support, income-based JSA and the assessment phase of ESA. As now, there will be lower rates for younger people. The White Paper states however that the Government will consider the scope to 'simplify' the current rules whereby lower rates apply to some but not all under-25s.[23]

Additions will be payable for **disability**, but the Government believes that the existing structure of overlapping disability premiums is 'overly complex and causes confusion'. It is

---

[19] UC54, *Written Evidence Submitted by Citizens Advice*. See also Citizens Advice Briefing, *Universal Credit: an exploration and key issues*, January 2011

[20] Family Action is a charity which works with disadvantaged and socially isolated families

[21] UC25, *Written Evidence Submitted by Family Action*, para 5.4

[22] HC 743-ii 2010-11 Q147-153. Please note however that **this is an uncorrected transcript of evidence taken in public and reported to the House. The transcript has been placed on the internet on the authority of the Committee, and copies have been made available by the Vote Office for the use of Members and others. Neither witnesses nor Members have had the opportunity to correct the record. The transcript is not yet an approved formal record of these proceedings.**

[23] *Universal Credit: welfare that works*, Cm 7957, 11 November 2010 para 19, p18

considering what extra support may be needed for disabled people in Universal Credit, over and above the additional components and other benefits elsewhere in the system.[24]

Additions for **children** will be based on those currently provided through Child Tax Credit, and will be in addition to Child Benefit. The Government is to consider the structure of support for disabled children as it looks at the structure for disabled adults.

An 'appropriate amount' will be added to help meet the cost of **rent or mortgage interest**. Amounts for rent will be similar to support provided by local authorities through Housing Benefit. The intention is to replace housing assistance through Housing Benefit with Universal Credit over several years. The White Paper states that there are many 'policy and operational issues to work through' in respect of housing.[25]

As regards support for mortgage interest, the White Paper states:

> We will consider whether changes are needed to the current approach to calculating help with mortgage costs to ensure it is consistent with Universal Credit principles. In the longer-term, we believe it should be possible to provide support more efficiently, and we will be exploring the full range of options.[26]

Comment

It remains to be seen how the level of support for different groups under Universal Credit will compare with the existing structure of personal allowances, premiums and additions for means-tested benefits. Organisations have already expressed concerns about the impact of the move from RPI to CPI indexation on the living standards of families reliant on benefits.

When the rates for the new Employment and Support Allowance were first announced, questions were asked about whether the Labour Government was fulfilling certain commitments made during the passage of *Welfare Reform Bill 2005-06* regarding the level of support in comparison with incapacity benefits.[27]

The Government has said that no one will experience a reduction in cash terms in the level of support they receive at the point of transfer to the Universal Credit, but for new claimants it is inevitable that some will receive more, and some less, than they would have done had the existing system remained in place.

The White Paper states:

> In most cases Universal Credit will provide a similar or higher level of support than the current system. In particular, benefit rates for people not in work will generally be the same as under the current system.[28]

An analysis of the long-run distributional impact of the Universal Credit in the White Paper suggests that the reforms will be clearly progressive, with average gains for households in the bottom five income deciles, but these averages will mask gainers and losers within income bands.[29]

---

[24] *Ibid.* para 22, p18
[25] *Ibid.* para 32, p20
[26] *Ibid.* para 33, p20
[27] See House of Lords Merits of Statutory Instruments Committee, HL 100 2007-08, 2 May 2008
[28] *Universal Credit: welfare that works*, Cm 7957, 11 November 2010 para 12, p16

1.3 Pensioners

Pension Credit is to be reformed to provide support for housing costs and for dependent children, alongside the introduction of the Universal Credit, since help through Housing Benefit, Support for Mortgage Interest and the Child Tax Credit will be subsumed within the Universal Credit.

The upper age limit for Universal Credit is to be linked to the State Pension Age for women (which, on current plans, will be 65 by 2018). The Government is however considering allowing pensioners who work beyond retirement age to opt into the Universal Credit.[30]

1.4 Maximum award

There will be a cap on a household's Universal Credit payment, when combined with Child Benefit and other benefits such as contribution-based JSA. It is proposed to set this at median earnings after tax and National Insurance for working families. Households in receipt of Disability Living Allowance and War Widows are however to be exempt. The White Paper also states that 'there will also be an exemption for working families equivalent to the exemption announced in the Spending Review for families on Working Tax Credit', but does not explain how eligible families are to be identified for these purposes.[31]

2 The single taper and earnings disregards

The Universal Credit is to be withdrawn at a constant rate of 65 pence for each additional pound of net earnings, after tax and National Insurance. Those earning below the personal tax threshold will gain 35 pence for each additional pound of earnings, while basic rate taxpayers will receive around 24 pence for each additional pound of earnings, until the Universal Credit is tapered to zero. For basic rate taxpayers, the 'Marginal Deduction Rate' (MDR) – the proportion of any extra earnings that is lost as a result of paying more tax and NI and losing benefits – will be around 76%.

To encourage people to take jobs of only a few hours a week there will be, as now, a system of earnings disregards. These will vary 'in order to reflect the needs of different families and ensure work pays.'[32] For each family, there will be a maximum disregard, reduced to reflect support received for rent or mortgage interest. The White Paper states that the actual disregard levels will be set closer to the date of implementation, but the maximum disregards currently envisaged are (annual figures):

> **Couples**: £3,000 plus £2,700 per household for a child (regardless of number of children);
>
> **Lone parents**: £5,000 plus £2,700 per household for a child; and
>
> **Disabled people**: £7,000 per household if a recipient or either partner in a couple is disabled.

---

29 *Ibid.* Figure 11, p53
30 *Ibid.* para 49, p22

31 *Ibid.* para 52, p23
32 *Ibid.* para 1, p66

The maximum figure would be reduced for those getting help with housing costs; it is envisaged that disregards would be reduced by one-and-a-half times eligible rent or mortgage interest support. The amount would not however be reduced below a 'disregard floor'. The Government's modelling assumed the following minimum disregards (again, annual figures):

> **Couples**: £520 per household plus £520 for the first child, £260 for each of the second and third children;
>
> **Lone parents**: £1,560 per household plus £520 for the first child, £260 for each of the second and third children; and
>
> **Disabled people**: £2,080.

A worked example is given in the White Paper showing how the taper and disregard would apply:

> A lone parent with three children has rent of £80 a week.
>
> The assumed maximum disregard in her case is £7,700 and the disregard floor is £2.600 (annual figures). Reducing the disregard by 1.5 times the help with housing costs (£6,240 annual figure) would bring the disregard below the floor.
>
> So the disregard that applies is the floor of £2,600 = £50 a week. As a result of the 65 per cent taper she also keeps 35p for each £1 of net earnings over £50.
>
> Under the current system on Income Support the earnings disregard for a lone parent is £20 a week. Any earnings over that are deducted pound for pound.[33]

The White Paper does not however propose any disregard for single people without children; currently, most childless single people on Income Support or income-based JSA have an earnings disregard of £5 a week.

Comment

The 65% taper is less generous than the 55% taper proposed in the Centre for Social Justice report, *Dynamic Benefits*.[34] The Government believes that a withdrawal rate of around 65% 'would deliver sufficient work incentives whilst also being affordable.'[35]

Chapter 7 of the White Paper looks at the impact of the White Paper on work incentives. Further analysis is given in the *Impact Assessment for Universal Credit*. Looking at employees of working age currently in receipt of means-tested benefits or tax credits, the Government estimates that, as a result of the Universal Credit, around 700,000 fewer will have Marginal Deduction Rates in excess of 80%. However, the number facing MDRs of between 60% and 80% is expected to increase by about 1 million.

The White Paper also considers the possible impact of the Universal Credit on employment. The 'dynamic effects' of changes to the tax and benefit system can sometimes be predicted using labour supply modelling techniques. However, the White Paper states that:

> Given the fundamental nature of these reforms, no model or analytical technique exists that could enable us to quantify these effects with absolute precision.[36]

---

[33] *Ibid.* Box 1, p67

[34] Centre for Social Justice, *Dynamic Benefits: Towards welfare that works*, September 2009

[35] *Universal Credit: welfare that works*, Cm 7957, 11 November 2010 para 9, p15

It nevertheless gives a ‘plausible estimate’ of around 300,000 fewer workless households as a result of the introduction of the Universal Credit, and argues that there is no reason why this should not be achieved within three years. It estimates that the majority of the reduction (around 250,000) will be due to people in workless households moving into part-time work. A further 100,000 in workless households are expected to move into full-time work. Against this, the Government expects that some people currently in work will give up their job as a result of the changed financial incentives. The *Impact Assessment* acknowledges however that ‘the true impact [of Universal Credit] is highly uncertain.’[37]

3 Conditionality and sanctions

Chapter 3 of the White Paper sets out proposals to changes to the rules on what is expected of benefit claimants, and on the sanctions which may be applied for non-compliance with the requirements. Implementation of the changes is to start in advance of the introduction of the Universal Credit.

There proposals involve:

- Increasing the level of ‘conditionality’ for some claimants;
- A new ‘claimant commitment’ to ensure people know what is expected of them;
- A strengthened sanctions regime; and
- ‘Mandatory Work Activity’ for some claimants.

The White Paper proposes a new conditionality regime comprising for levels. The four levels – and the benefits claimants who would currently fall under each – are outlined below:

Conditionality level	**Benefit claimed**
“Full conditionality” Active job search; required to actively seek and be available for work	Jobseeker’s Allowance, including joint claims where the youngest child has reached the age of five
“Work preparation” Required to take reasonable steps to prepare for work	Employment and Support Allowance recipients in the Work Related Activity Group, other than lone parents with a child under five
	Lone parents with a child over one but under

[36] *Ibid.* para 37, p59
[37] p14

“Keeping in touch with the labour market” Required to attend Work Focused Interviews	five claiming Income Support or ESA; partners of benefit recipients
“No conditionality”	ESA recipients in the Support Group; carers; lone parents with a child under one claiming IS or ESA

In the case of couples, conditionality will apply to both partners individually.

The White Paper states:

> In setting conditionality, advisers will ensure that the requirements they place on a recipient are reasonable for that person, taking into account their particular capabilities and circumstances. In line with this personalised approach, we will continue to give advisers the flexibility to target stronger conditionality on some jobseekers where they think this is necessary to help move them into work.[38]

With regard to the ‘claimant commitment’, the White Paper states:

> We will require every Income Support, Jobseeker’s Allowance and Employment and Support Allowance recipient to have a claimant commitment. The commitment will set out our general expectations of recipients, and the requirements placed upon them; it will also be clear about the consequences for the recipient of failing to meet these agreed standards. This will be carried forward into Universal Credit.[39]

The Government believes that ‘Currently... some sanctions are set at too low a level and the consequences of failing to comply with requirements are not always clear.’[40] The White Paper sets out proposals for a new system of sanctions, with tougher penalties for those who ‘repeatedly fail to meet their responsibility to look for work.’ Claimants in this category who have ‘serially and materially breached conditions’ could face losing their JSA for three years.[41]

Hardship payments will be available for claimants who have sanctioned, but the White Paper states:

> We are considering replacing the current system of hardship payments with loans to the extent that is possible. We also want to consider ways of ensuring that those who persistently fail to meet the requirements imposed upon them cannot rely on these alternative sources of support for the entire duration of their sanction. This will help ensure a better balance in the system and should help incentivise people to meet their commitments, both within the current benefit system and Universal Credit. However, we remain committed to protecting vulnerable people and their dependants. Therefore, hardship payments will continue to be paid where relevant.[42]

[38] *Ibid.* para 10, p27
[39] *Ibid.* para 12, p28
[40] *Ibid.* para 13, p28
[41] *Ibid.* para 15, p29
[42] *Ibid.* para 16, p29

When the Universal Credit is introduced claimants may continue to be subject to the relevant conditionality if they move into part-time work. This will apply up to a 'conditionality threshold'. The White Paper states:

> To begin with, we intend to set the threshold at broadly the same point at which people lose entitlement to the current out-of-work benefits. However, once Universal Credit is established we will be able to raise or lower this threshold and apply conditionality to a greater number of recipients.
>
> This will enable us to encourage people to increase their earnings and hours in a way that we have never been able to do before, helping people along a journey toward financial independence from the state.[43]

Comment

Welfare rights groups and others – including the Social Security Advisory Committee – have for many years expressed concerns about increasing conditionality and the use of sanctions in the benefits system.[44] The proposals in the current White Paper regarding conditionality and sanctions are already controversial. Responding to the White Paper, Alison Garnham of CPAG said:

> Sanctions are an expensive red herring with no real evidence they work. Sanctions are better at wrapping claimants up in the red tape of bureaucracy than getting them into work. It is the Government that needs to be brought to book if it fails to deliver the training, support, childcare and job guarantees that parents who want to get into the workplace should be entitled to.[45]

The chair of the National Association of Welfare Rights Advisers, Alan Markey, said

> The plans [...] are supposed to create a simpler system that will help people without jobs get back into work. But a growing reliance on punitive sanctions will inevitably increases the administrative burden, won't help the hardest-to-reach get back into work and hurts the most vulnerable claimants and families hardest.[46]

Citizens Advice is concerned particularly with the impact of tougher sanctions on JSA claimants with health conditions and disabilities[47], while Gingerbread is worried about the impact on lone parent families.[48]

Few details are available as yet about the proposed 'claimant commitment', but from the description given in the White Paper it seems to share some features with the 'Jobseeker's Agreement' which all JSA claimants current have to sign.

The announcement that the Government is considering replacing hardship payments with loans is likely to be very controversial, especially given the possibility of JSA sanctions lasting three years.

It is not clear how claimants of the Universal Credit working part-time will be expected to fulfil their responsibilities while also undertaking paid work. The White Paper expects the main

---

43 *Ibid.* para 19, p31

44 See for example Library Research Paper 09/08, *Welfare Reform Bill 2008-09: social security provisions*, 23 January 2009, pp76-87

45 CPAG press release, *Welfare reforms must bring guaranteed reduction in child poverty*, 11 November 2010

46 NAWRA press release, *Benefit reforms risk making system even more complex*, 11 November 2010

47 Citizens Advice, *Citizens Advice response to the Welfare White Paper*, 11 November 2010

48 Gingerbread press release, *Gingerbread responds to welfare reform plan*, 11 November 2010

increase in employment as a result of the Universal Credit to be due to people in workless households moving into part-time work, but the prospect of having to combine paid work with other activities could act as a deterrent. Precisely where the 'conditionality threshold' is set is likely to be crucial, and the proposal to give the Government the power to raise or lower the threshold may also be controversial.

4 Claims, payments and administration

The Department for Work and Pensions will be responsible for the administration of the Universal Credit.

The Government expects that claims for Universal Credit will normally be made via the internet and that most subsequent contact between claimants and the DWP, including the reporting of changes in circumstances, will also be conducted online. Recipients will have access to an 'online account' through which they can access information about their claim.[49]

Where a person claiming Universal Credit starts earning an amount sufficient to extinguish their entitlement, the White Paper suggests that their details would not immediately be removed from the Universal Credit system but would instead be kept open for a fixed period (three months is suggested), so that their award can be 'reactivated' should their circumstances change subsequently.[50]

The White Paper envisages that payments will be made on a monthly basis, but says that there would be 'appropriate budgeting support to ensure recipients are supported effectively.'[51]

The Universal Credit is to be assessed and paid on a household basis and it is assumed that, in the case of couples, only one partner would receive the payment. The Government will however 'consider the scope to arrange payments to parents in couples, so that support for children goes to the mother or main carer, as now in Tax Credits.'[52]

2.1 Payment issues

Welfare rights organisations and pressure groups have identified three main areas of potential difficulty regarding the proposed arrangements for paying the Universal Credit:

- Monthly payments
- Having a single recipient for the whole household
- The dangers associated with providing support through a single payment

[49] *Universal Credit: welfare that works*, Cm 7957, 11 November 2010 paras 5-11, p34
[50] *Ibid.* para 11, p34
[51] *Ibid.* para 13, p34
[52] *Ibid.* para 10, p68

Frequency of payment

A number of submissions to the Work and Pensions Committee suggested that monthly payments could cause budgeting problems for low income households and that claimants should have the option to receive Universal Credit payments on a more frequent basis.[53]

At the Committee's oral evidence session on 9 February, the **Secretary of State**, while acknowledging concerns about the impact of the move to monthly payment on vulnerable groups, said that he did not believe it would be a problem, noting that the move from weekly to fortnightly benefits had caused few problems. The Department would however keep the matter under review.[54]

The benefit recipient

Some respondents voiced concern about the default position that the entire Universal Credit payment should be received by one partner only, in the case of couples. It was argued that this went against the long-standing principle that benefits for children should be paid to the "main carer", usually the mother. This raised concerns about a "purse to wallet" redistribution of income, potentially exacerbating intra-household poverty. **Professor Ruth Lister** noted:

> The last time a Conservative government attempted this with its family credit proposal, it was forced to back down in the face of widespread opposition. Similarly, the New Labour government attempted initially to pay the working family tax credit through the pay-packet. Again it faced widespread opposition and conceded that child tax credit should be paid to the caring parent. This was, in part, in response to the evidence in a Joseph Rowntree Foundation study conducted by Jackie Goode, Claire Callender and myself, which demonstrated the continued importance of paying benefits for children to the caring parent and the continued significance of the intra-household distribution of benefits.[55]

RNID argued that giving one household member sole responsibility for the claim-

> …may run the risk of disempowering those household members other than the designated 'claimant'. This could see disabled people (and many women) lose access to their main or only source of independent income. We would seek clarification as to how this policy is aligned with the government's stated support of greater choice and control for disabled people.[56]

In the Work and Pensions Committee's oral evidence session on 9 February, the **Secretary of State** said that while he wanted couples to decide themselves who should receive the Universal Credit payment and that he wanted to keep the payment arrangements as simple as possible, he understood the concerns voiced by those who submitted evidence. The Government was still looking at the issue, but he said that "there should be scope within the system to make alterations, where a change is required on specific payments".

Terry Moran, DWP Universal Credit Director General, added:

---

53 See for example the submissions from Professor Ruth Lister, Fran Bennett, and RNID

54 HC 743-ii 2010-11 Q128. Please note however that **this is an uncorrected transcript of evidence taken in public and reported to the House. The transcript has been placed on the internet on the authority of the Committee, and copies have been made available by the Vote Office for the use of Members and others. Neither witnesses nor Members have had the opportunity to correct the record. The transcript is not yet an approved formal record of these proceedings.**

55 UC11, *Written evidence submitted by Ruth Lister*, para 10

56 UC13, *Written evidence submitted by Royal National Institute for the Deaf*, para 16

> The system will present the opportunity of payment to either of the couple or, if we see a real need to do so - at the moment we're not designing it, because it's been a default scenario - we could split the payment if we wanted to.[57]

"Firewalling" payments

The Government's intention is for the Universal Credit should be paid to claimants at the same time as a single, unified award. This has however prompted concerns from welfare rights organisations that delays in verifying entitlement to one element could potentially hold up payment of the entire amount. There are also concerns that problems with an award (e.g. due to IT or administrative error) could cause payments to cease entirely, leaving some households with no income whatsoever to live on until the problem is resolved. At the moment, the fact that families receive benefits from different sources and at different times affords some protection, since cessation of one payment does not necessarily result in all payments stopping.

It has been suggested that payments of Universal Credit should be "firewalled" into different components so that if payment of one component stopped, other elements would continue to be paid. This would also allow payments of Universal Credit to start even if calculation of one element is delayed.[58]

The issue of firewalling was raised in the Work and Pension Committee's oral evidence session on 9 February. Commenting on payment issues, the Secretary of State said that he had noted submissions suggesting that elements of Universal Credit should be firewalled, and had read them with interest. However, he added:

> The trouble with things such as firewalling and the way payments are made within the individual elements is that you then, almost immediately, start to lose the whole point of the Universal Credit, and you start subdividing again. The reason why people who currently receive benefits through the present system say that they have got it sorted out so that they get a payment here and that helps, and a payment over there, is because, frankly, they have to do it like that. Quite often the very complexity right now means that these issues are not settled at the same time.
>
> We are certain that because the Universal Credit is being done in the same place, we should reach a conclusion about this pretty much at the same time, with all the evidence in front of us. Now, I understand the concern about what happens if one element is still not settled, because it is one payment. But we do have, and will have, scope within the payment of the Universal Credit to make advance payments on the basis that most of the evidence, or a large chunk of the evidence that is available to us, indicates that this is a correct assessment, but we are still waiting for some. So, there will be scope to be able to do that.
>
> It should not be, and we certainly would not want it to be, the case that anybody would simply be without money because they are still waiting for the settlement of some of

[57] HC 743-ii 2010-11 Q128. Please note however that **this is an uncorrected transcript of evidence taken in public and reported to the House. The transcript has been placed on the internet on the authority of the Committee, and copies have been made available by the Vote Office for the use of Members and others. Neither witnesses nor Members have had the opportunity to correct the record. The transcript is not yet an approved formal record of these proceedings.**

[58] See for example the submissions from Fran Bennett, Family Action, Save the Children and Citizens Advice

> the evidence that is necessary to be able to decide whether they are on the right benefit. So, we think that should cover it.[59]

2.2 Adjusting for income, capital and earnings

Chapter 4 of the White Paper gives details of how Universal Credit is to be calculated and paid. Assessment for Universal Credit will involve two stages. At the first stage, DWP calculates a household's gross entitlement, taking into account the information given by the claimant including details of any income other than earnings they receive. Claimants who are not in work will receive this amount.

For those in work, there is a second stage where data on earnings is applied to calculate the net amount of the Universal Credit award. For employees, the Government proposes to use HM Revenue and Customs' proposed 'real time information system' to identify earnings and to calculate the award. Those paid through Pay As You Earn (PAYE) should not need to inform DWP of changes in income since under this system employers would provide monthly data on earnings to HMRC who would, in turn, pass it to DWP via an earnings data feed. The household's award would then be adjusted automatically.

The White Paper is however less clear about how self-employed people will fit into the system. For those who have just started self-employment the Government is considering a 'floor of assumed income' set at the National Minimum Wage for the reported hours of work, in recognition of the fact that it can be some time before a new business is profitable[60], but for others the White Paper merely states:

> We will also provide for those who are outside the Pay As You Earn system, such as the self employed, to ensure that Universal Credit payments take into account all household earnings.[61]

The White Paper states:

> The new IT required for Universal Credit is of similar scale to that needed for the recent introduction of Employment and Support Allowance which was successfully delivered on time and within budget. The Department for Work and Pensions and its suppliers are confident of delivering the systems needed for Universal Credit to meet the implementation timetable.[62]

However, the Government also recognises how much work will be involved in introducing the Universal Credit and states that work is ongoing to assess how best to deliver the system. The White Paper adds:

> This will be a substantial change programme and full implementation will be carefully managed over several years. Each component of the programme will build on existing experience of successfully delivering projects both for transferring people from one benefit to another and for implementing new IT for benefit processing. It will require two

---

[59] HC 743-ii 2010-11 Q128. Please note however that **this is an uncorrected transcript of evidence taken in public and reported to the House. The transcript has been placed on the internet on the authority of the Committee, and copies have been made available by the Vote Office for the use of Members and others. Neither witnesses nor Members have had the opportunity to correct the record. The transcript is not yet an approved formal record of these proceedings.**

[60] *Ibid.* para 5, p67

[61] *Ibid.* para 16, p35

[62] *Ibid.* para 33, p39

moderate scale IT developments to link into HM Revenue & Customs' reformed Pay As You Earn system. In doing this the Department for Work and Pensions will work closely with colleagues in HM Revenue & Customs and Local Authorities, as well as partners in the private and voluntary sectors.[63]

Comment

The White Paper argues that the Universal Credit will make error and fraud easier to prevent and detect. It also states that the move to real-time earnings and the removal of end-of-year reconciliation (a feature of tax credits) will reduce the scope for overpayments. However, for changes in circumstances other than earnings changes, households will still need to notify DWP directly as they occur. Question marks also remain about how the system will deal with those outside the PAYE system, such as the self-employed (see below).

The Universal Credit depends crucially on the successful introduction of new IT systems involving not only DWP but also other agencies including HMRC. The Government has said that it is confident that the necessary systems can be put in place on time and within budget, but the scale of the task at hand is considerable and the timetable tight. In his statement to the House of Commons on 11 November, the Secretary of State for Work and Pensions said that the introduction of the system to provide real time earnings data is not dependent on HMRC's wider plans to upgrade the PAYE system.[64]

In an evidence session of the Public Accounts Committee on 16 November, Dame Lesley Strathie, Permanent Secretary and Chief Executive of HMRC, and Sarah Walker, Director of PAYE, Self Assessment and National Insurance at HMRC, were questioned about the Revenue's plans for the real time information system for PAYE.[65] Dame Lesley said that she believed the technology would "be the lesser of all the challenges", adding "I believe that we need to work with businesses for probably two years and have a plan incrementally to bring them on board this system, if we want to do it well." Questioned further about how this timeframe could be reconciled with DWP's plans to introduce the Universal Credit from October 2013, Dame Lesley said "We have a big job to do and DWP has a big, hard dependency on HMRC."[66] The exchange continued:

Q242 Matthew Hancock: You said you want to do it eventually. How quickly do you think you will be able to fully integrate real-time information into the PAYE system?

Sarah Walker: The idea is that the IT for real-time information should be in place by April 2012.

Q243 Matthew Hancock: In HMRC as well as DWP?

Sarah Walker: In HMRC. But we won't put all employers straight on to it at that point. There will be a period over which we will gradually bring employers on to it and make sure that it is working and testing it. The information will then be available and can be used by DWP and can be used by the PAYE system. There is then a phased period during which we will start to use that information to change tax codes. So although it

---

[63] *Ibid.* para 36, p40

[64] HC Deb 11 November 2010 c451

[65] Public Accounts Committee, UNCORRECTED TRANSCRIPT OF ORAL EVIDENCE To be published as HC 502-ii. **This is an uncorrected transcript of evidence taken in public and reported to the House. The transcript has been placed on the internet on the authority of the Committee, and copies have been made available by the Vote Office for the use of Members and others. Any public use of, or reference to, the contents should make clear that neither witnesses nor Members have had the opportunity to correct the record. The transcript is not yet an approved formal record of these proceedings.**

[66] *Ibid.* Q237-241

will be coming in from employers, the timing with which we make use of it in PAYE will be flexible and phased in.

> **Q244 Mrs McGuire:** Does that mean that the DWP time frame is predicated on HMRC getting its act together? The Secretary of State says that he has a two-year time frame for introducing something. I am just getting the impression that that cannot be introduced unless HMRC gets the foundation stones laid and the building halfway built.
>
> ***Dame Lesley Strathie:*** I think it is important that I don't answer for DWP any longer.
>
> **Q245 Mrs McGuire:** But you have sown a seed of doubt in terms of the time scale.

Dame Lesley reassured the Committee that HMRC were planning to deliver to support the Universal Credit, and that it was being addressed as part of the Revenue's joint work programme with DWP.[67]

The self-employed

A number of organisations have been critical of the proposals regarding the treatment of self-employed people, and in particular the assumption that people starting out in self-employment earn an amount equal to the National Minimum Wage for the hours they work.[68]

The **National Association of Welfare Rights Advisers** comments:

> NAWRA has serious concerns about the proposals concerning self-employed particularly the assumption that claimants will have earnings equivalent to the minimum wage for the number of hours they are working. It is well accepted that small businesses can often run at a loss for the first year or two. To assume a minimum wage will cause real hardship and act as a massive disincentive to people using their initiative and setting up on their own. NAWRA believes a system is needed whereby self-employed claimants can submit an estimate of their income for the year and be able to adjust this easily as circumstances change.[69]

The **Low Incomes Tax Reform Group** observes:

> This proposal seems to work against policies of other Government departments, such as the Annual Investment Allowance, which encourage self-employment. We are concerned that those starting in business, or experiencing a difficult year, will not receive the support that they would have under the current tax credit system where income definitions are better aligned with the tax system. This would seriously diminish the work incentives in working tax credit.[70]

LITRG adds: "Further consideration must be given to how income information and working hours will be obtained for the self employed, as they will be outside of the PAYE real time data information."[71]

Treatment of savings

For most people claiming means-tested benefits, capital (i.e. savings) of up to £6,000 is ignored.   If capital is between £6,000 and £16,000, a "tariff income" of £1 a week is assumed for every £250 of capital in excess of the lower limit; this is included in the income calculation

---

[67] *Ibid.* Q245

[68] See for example the submissions from The National Association of Welfare Rights Advisers, the Low Incomes Tax Reform Group, and Citizens Advice

[69] UC26, *Written Evidence Submitted by National Association of Welfare Rights Advisers*

[70] UC38, *Written Evidence Submitted by Low Incomes Tax Reform Group*, para 3.1.2

[71] UC38, *Written Evidence Submitted by Low Incomes Tax Reform Group*, para 3.1.3

and can therefore reduce or extinguish entitlement to benefit. Means-tested benefits are not payable if capital exceeds £16,000.

Tax credits are not affected by capital, but any income from capital in excess of £300 a year will be taken into account in the tax credits calculation.

In a Lords written answer on 15 December, Lord Freud said:

> The universal credit will replace the above benefits, along with child tax credit and working tax credit for working-age households, and the £16,000 savings threshold would extend to all households eligible for universal credit.
>
> We have committed to providing protection to ensure that no households in receipt of the relevant benefits and tax credits at the point of transition will lose in cash terms as a direct result of the introduction of universal credit. New cases or those whose circumstances change will be subject to the £16,000 threshold.[72]

The proposal regarding the treatment of savings will affect some families currently in receipt of tax credits. In its report *Universal Credit: a preliminary analysis*, the Institute for Fiscal Studies comments:

> In tax credits, there are no mechanical limits on the level of financial capital that families can own and still receive tax credits. Investment income below £300 per year is ignored altogether, and investment income above £300 per year, as well as all other unearned income, is subject to, at most, a 41% taper. The most extreme difference between this and the Universal Credit treatment of investment income and capital is for families with financial assets in excess of £16,000: such families will never be entitled to any Universal Credit, but currently could be entitled to tax credits; indeed, with an interest rate of 3%, savings of £16,000 would reduce tax credit entitlement by £1.42 a week, but the same level of savings would mean that a family will lose all entitlement to Universal Credit. Having capital limits in Universal Credit limits the payment of Universal Credit to those who have both a low income and low levels of savings. But the mechanism will give some families a strong incentive to lower their financial capital to below £16,000 and will give others a strong incentive not to accumulate more than this amount.[73]

Citizens Advice is particularly concerned the impact on three groups in particular:

- Couples who, having saved for a mortgage deposit over a number of years, become parents but lose out greatly from support through the tax credit system. Better off couples who either have relatives who can help with the deposit and so have already bought their house will still be able to access that support as they are less likely to have savings.

- Parents of disabled children who at present get a lot of extra help through the tax credit system to cover the extra costs of having a disabled child. They will lose very significantly if they have savings. The only help they will be eligible for is DLA.

- Couples in their fifties who have worked all their lives and collected modest savings. One becomes too ill to work, and they experience a large drop in income which is financially very difficult to cope with. The one who is still working would have been eligible for help through the tax credit system. When the effect of this

[72] HL Deb 15 December 2010 c204WA
[73] IFS, *Universal Credit: a preliminary analysis,* January 2011, pp22-23

> measure is combined with the removal of ESA(contribution-based) after one year, the total impact is likely to be devastating, with people losing all their life savings.[74]

The **Social Market Foundation** estimates that the savings rules could penalise more than 600,000 savings. The following is an extract from an SMF press release issued on 16 February:

> The SMF's new figures, released ahead of the publication of a Welfare Reform Bill, show that around 400,000 families with children – currently receiving tax credits - will lose their entire eligibility for financial support under the Universal Credit. New rules for the Universal Credit mean that families with £16,000 or more in savings are disqualified. At least a further 200,000 families with savings of between £6,000 and £16,000 will lose some of their entitlement under the new regime.
>
> "The Universal Credit will punish working families trying to save for the future, such as those trying get a foot on the property ladder," said Ian Mulheirn, Director of the SMF.
>
> The SMF's analysis of the savings penalty shows that a family with two children and a combined income of £25,000 per year could lose out to the tune of around £50 per week depending on the ultimate design of the Universal Credit. In addition, many thousands more working families receiving support for childcare could be disqualified from eligibility.
>
> Ian Mulheirn continued: "These reforms will save the Government a lot of money, but they send all the wrong signals to working families. The Government should reassess these punitive proposals and support working families on low incomes seeking to save for the future."[75]

Sick pay, and maternity pay and benefits

Citizens Advice highlights potential problems with Universal Credit if benefits such as contractual sick pay, Statutory Sick Pay, maternity, paternity and adoption pay are not treated as earnings for Universal Credit purposes. For example, at present, people in work who become ill remain entitled to Working Tax Credit for the first six months, helping cushion against the drop in income. Citizens Advice gives an example of how someone would fare before and after Universal Credit, if SSP is *not* treated as earnings:

> Consider a couple in which one is at home looking after a two year old child, and the other works fulltime. They own their own house and pay council tax of £20/week. If the person who works gets cancer and has to be off work for a long period, s/he receives SSP and they will receive full WTC and CTC for the first six months of illness. Their total income will be £259/week. If SSP is not treated as earnings under UC, a couple in this situation would only be entitled to £198.[76]

Citizens Advice also notes it will be crucial whether Statutory Maternity Pay and Maternity Allowance are treated as earnings, or as income other than earnings, under Universal Credit. It comments:

> Will there be any concessions within the universal credit for mothers on maternity leave to match the extra help currently available through the tax credit system? Currently, they are counted as being in work and entitled to receive WTC as well as CTC. £100 of their statutory maternity pay is disregarded as income. For this group, it will be very

---

[74] Citizens Advice Briefing, *Universal Credit: an exploration and key issues*, January 2011, pp10-11

[75] Social Market Foundation, *Hundreds of thousands of families saving for the future will lose out under plans for Universal Credit, says think tank*, 16 February 2011

[76] Citizens Advice Briefing, *Universal Credit: an exploration and key issues*, January 2011, p5

significant whether statutory maternity pay is treated as earnings (as in the tax credit system and HB/CTB) and thus qualifies for an earnings disregard, or is treated as income other than earnings (as in the income-based earnings replacement benefits such as income support).

It then presents a number of scenarios illustrating potential losses (compared with the current system), including one indicating that a lone parent previously in work who has a new baby could lose nearly £90 a week if her maternity payments are not treated as earnings.[77]

5 Introducing the Universal Credit

The Government's current intention is that new claims for Universal Credit will start from October 2013. It wants to ensure that the transition to Universal Credit – which will involve 19 million individual claims and an estimated eight million households – is conducted 'as smoothly and efficiently as possible.'[78]

Some existing claimants will move to Universal Credit by a process of 'natural transition', where they would otherwise have moved between existing out of work benefits and tax credits. Other existing claimants will form part of a 'managed transition.'[79]

The White Paper sets out a provisional timetable for completing the transfer to Universal Credit by October 2017:

> **October 2013 to April 2014**
>
> All new claims for out-of-work support are treated as claims to Universal Credit. No new Jobseeker's Allowance, Employment and Support Allowance, Income Support and Housing Benefit claims will be accepted. Customers transitioning from out-of-work benefits into work will move onto Universal Credit if they are eligible.
>
> **April 2014**
>
> No new claims are made to Tax Credits.
>
> **April 2014 to October 2017**
>
> During this time we would begin to work through existing cases.[80]

The Government has said that there will be transitional protection for people who, at the point of transfer to Universal Credit, are receiving more than they would be entitled to under the new system. The White Paper states:

> No-one will experience a reduction in the benefit they are receiving as a result of the introduction of Universal Credit. At the point of transition onto the new system, those households whose circumstances remain unchanged and who would otherwise experience a reduction in income will receive cash protection.[81]

---

77 Citizens Advice Briefing, *Universal Credit: an exploration and key issues*, January 2011, pp5-6
78 *Universal Credit: welfare that works*, Cm 7957, 11 November 2010 para 18, p37
79 *Ibid.* para 19, p37

80 *Ibid.* para 21, p37
81 *Ibid.* para 13, p53

Comment

The introduction of Universal Credit is, as noted above, dependent upon both DWP and HMRC having the necessary systems in place.

Transferring existing claimants of benefits and tax credits to Universal Credit will be a huge and complicated task. Welfare rights organisations and others will be interested in the precise terms of the undertaking to provide transitional protection.

6 Other issues

6.1 Passported benefits

People receiving certain social security benefits or tax credits may also be entitled to other forms of assistance by virtue of their receipt of a qualifying benefit or tax credit. The main 'passported benefits' include Social Fund grants and loans, free school meals, and free prescriptions. There are however many other schemes where eligibility is conditional on receipt of particular benefits/tax credits, including schemes operated by the devolved administrations and local authorities.

No single Government department has responsibility for all passported benefits, and the rules on entitlement can vary from scheme to scheme.

The White Paper acknowledges that the move to Universal Credit will mean a complete overhaul for the rules on access to passported benefits:

> 14. With the merger of in- and out-of-work payments, the current criteria for access to a range of passported benefits (for example, free school meals and health benefits such as exemption from prescription charges) will no longer exist.
>
> 15. We will replace the current rules, which base entitlement on receipt of certain benefits, to a simpler and fairer system that bases entitlement on an income or earnings threshold. We, along with the other relevant government departments, will consider the appropriate level for these thresholds, but will aim to ensure that the benefits are awarded to broadly the same number of people as currently, whilst looking to graduate the thresholds to ensure individuals do not have a number of passported benefits reduced at the same time.
>
> 16. The Universal Credit will be a Great Britain-wide scheme, with national rules as with current out-of-work benefits like Jobseeker's Allowance. However, some elements of support relevant to the Universal Credit – such as passported benefits – could be within the remit of the devolved administrations. We will explore these issues further over the coming months.[82]

Comment

This will be a far from straightforward task. Securing agreement on how benefits and services are to be withdrawn as income increases will be difficult enough for those schemes which are the responsibility of central government, but if consistency is to be maintained across the United Kingdom agreement will have to be reached with each of the devolved administrations and with local authorities.

[82] *Ibid.* p48

The White Paper suggests that passported benefits may be reduced in some kind of order of priority as income increases, but no further details are given.

In the past, passported benefits have not received great attention when reforms to the welfare system have been under consideration.[83] Responses to the July Green Paper emphasised the need to consider the impact of the withdrawal of 'auxiliary' benefits on claimants' decisions to move off benefit and into work.[84]

In its submission to the Work and Pensions Committee, the **Low Incomes Tax Reform Group** comments:

> ...although the White Paper contains limited detail, it seems to suggest that there will remain a series of income levels at which passported benefits are lost and therefore cliff edges will continue to exist (although the actual income levels at which the benefits are lost will be staggered). As well as creating complexity by having different cut offs, we are concerned that the impact of passported benefits on Marginal Deduction Rates (MDR) has not been considered. In our experience, passported benefits can be responsible for increasing MDR significantly. If this continues to happen in Universal Credit, work will not necessarily pay once account is taken of the loss of these benefits.[85]

In its response, **Citizens Advice** said that it would welcome further consideration of the proposals for dealing with passported benefits set out in the Centre for Social Justice report, *Dynamic Benefits*.[86] This suggested that, in order to reduce the barrier to work, passported benefits would no longer be withdrawn beyond a certain earning or hours threshold. But if a household above the threshold chose to receive a passported benefit, a notional financial value would be imputed to them, which would taper away as income increased, avoiding a "cliff edge" problem.[87]

At the Work and Pensions oral evidence session on 9 February, the **Secretary of State** said that dealing with passported benefits was complicated, because it was necessary to get the agreement of different departments. Neil Couling, the **Universal Credit Director General** at DWP, added:

> What we are trying to avoid is a kind of bundling up. There are about five or six different main passported benefits. If we were to adopt the same trigger point for that, they would have a big disincentive effect for individuals and families considering work. We are engaged in various discussions across Whitehall, and we are trying, effectively, to stagger the points of withdrawal, so that they act less as disincentives to work-if that makes sense.[88]

Mr Duncan Smith added that the Government had not yet reached an "absolute conclusion" on how to deal with passported benefits.[89]

---

[83] See library standard note SN/SP/3802, *Passported benefits*, 16 November 2005

[84] *Consultation responses to 21st Century Welfare*, Cm 7971, November 2010, p9

[85] UC38, *Written Evidence Submitted by Low Incomes Tax Reform Group*, para 3.6.2

[86] Centre for Social Justice, *Dynamic Benefits: Towards Welfare That Works*, September 2009

[87] *Ibid.* section 16.6.1

[88] HC 743-ii 2010-11 Q154. Please note however that **this is an uncorrected transcript of evidence taken in public and reported to the House. The transcript has been placed on the internet on the authority of the Committee, and copies have been made available by the Vote Office for the use of Members and others. Neither witnesses nor Members have had the opportunity to correct the record. The transcript is not yet an approved formal record of these proceedings.**

[89] *Ibid.* Q155

6.2 Social Fund

Chapter 6 of the White Paper announces reforms to the Social Fund, linked to the introduction of Universal Credit:

> 9. The Social Fund has been part of the benefits system since 1988. The Fund was designed to help people meet exceptional costs that were difficult to budget for out of mainstream benefits. However, the Fund has not kept pace with wider welfare reform. This has led to complex administration and parts of the scheme are poorly targeted and open to abuse. For example, Crisis Loan awards have almost tripled since 2006, with little evidence of an underlying increase in need. To ensure that the right support is offered to those in genuine need, we intend to reform the Social Fund.
>
> 10. Reform will be in two parts. Firstly, those elements that lend themselves to simple automated delivery will be incorporated into Universal Credits. Budgeting Loans will become an advance-of-benefit facility available in certain circumstances.
>
> Sure Start Maternity Grants and Cold Weather Payments will be paid automatically when the qualifying criteria are met.
>
> 11. Secondly, we will reform and devolve those elements of the Fund that require more intensive scrutiny and discretion.
>
> 12. It is difficult in a centrally administered system for staff to exercise a high degree of discretion. For example, in the case of Crisis Loans, where it is necessary to determine if there is a severe risk to the applicant's health or safety. These services can be more effectively run locally where they are linked to other support services.
>
> 13. The current system of Community Care Grants and Crisis Loans will therefore be reformed. In England, Local Authorities will be responsible for administering much of the reformed system – ensuring this support is tailored to local circumstances and targeted only at genuine need. Local Authorities will be consulted on the design of the new system. If there are new administrative burdens on Local Authorities they will be funded by the Department for Work and Pensions in the usual way. However, we expect Local Authorities to utilise existing delivery mechanism and structures where possible. The Devolved Administrations will determine the most appropriate arrangements for Scotland and Wales.[90]

Comment

These plans – in particular the proposal to transfer responsibility for the help currently provided through Community Care Grants and Crisis Loans to local authorities – are likely to be very controversial. It is not clear whether local authorities would be willing to take on these responsibilities.

The Work and Pensions Committee has been gathering evidence on the White Paper on Universal Credit. In his written submission to the Committee, the **Social Fund Commissioner** comments:

> I support in principle the conclusion that help may be better targeted if delivered locally. However, there is no detail in the White Paper to show how this would work in practice. There appear to be two options. Funding could be given to Local Authorities to use at their complete discretion; alternatively, national criteria could be drawn up to ensure a

[90] *Universal Credit: welfare that works*, Cm 7957, 11 November 2010 para 18, p47

consistency in approach to the exercise of discretion, whilst still allowing for outcomes that reflect local circumstances.

One of the fundamental principles in relation to any welfare benefits scheme, whether delivered centrally or locally, is the need for consistency of approach in relation to the application of the scheme so there is fairness between different groups of citizens. Outcomes may differ across localities or communities where this is appropriate to reflect local needs and circumstances. But any difference in outcome should relate to the needs of individuals using the local service, rather than where the individual lives or the needs or preferences of the organisations delivering that service.[91]

The **RNIB's** submission comments:

5.2 The White Paper proposes (in England) to transfer aspects of the Social Fund to local government, which will administer "much of" a reformed system of crisis loans and community care grants. It is not clear exactly what this means, but the DWP and its predecessors have made discreet overtures to local government in the past regarding a transfer of problematic aspects of the Social Fund and have been rebuffed. The current climate of major change has doubtless been seen as an opportunity at last to pass this unwanted parcel. Local authorities would thus inherit a difficult rationing task, with limited resources both for payments to applicants and for administration. Moreover, if there were no ring-fencing, this service would be exposed to the effects of local government spending cuts. We believe that the Social Fund should stay where it is.[92]

The memorandum submitted by **Association of Charity Officers** (a representative organisation for about 140 charities including national, local, occupational and general charities which make grants to individuals in need) lists a number of concerns regarding the proposals to transfer responsibility for Crisis Loans and Community Care Grants to local authorities:

1. Assessment Criteria

Will English local authorities adopt common principles/criteria taken from what is currently a national system, or will they be able to set up separate individual systems with no common reference points?

The Welsh and Scottish Assemblies will decide on their own arrangements and the same question applies.

2. Accountability

How can decision makers be held accountable and what transparency will there be?

Will there still be a right of independent review (a fundamental right in a discretionary system)? We hope applicants and decision makers will continue to benefit from the wealth of expertise within the Independent Review Service.

3. Customer Response

Will there still be targets for decision times (currently 9 days for CCGs)?

When local authorities took over the administration of housing benefits from the DWP, some authorities had delays of many months in processing claims over a period of

---

91 UC 39 Social Fund Commissioner
92 UC 01 Royal National Institute of Blind People

> several years. Jobcentre Plus currently passes backlogs in one office to other office(s) to deal with, which has greatly reduced waiting times but this facility would not exist in the proposed system.
>
> 4. Service Delivery
>
> What are the "existing delivery mechanism and structures" which authorities are expected to utilise where possible?
>
> 5. National Distribution
>
> Will geographical distribution of the budget be reviewed (currently mostly based on actual expenditure in the mid-1980s)?
>
> 6. Security of Funding
>
> Will funds be effectively ringfenced?
>
> 7. Previous legislation
>
> What effect will the White Paper's proposal have on provisions in the last round of welfare reform legislation, for example payment as of right of a resettlement grant for rehousing in certain circumstances. Many CCGs are given for needs such as being rehoused into an unfurnished property, which have no particular local dimension.
>
> 8. Effective Consultation
>
> We are told that there will be a consultation on the Social Fund but how can there be time for this when the next Welfare Reform Bill, based on this White Paper, is due to be published in January?[93]

Age UK's submission voices similar concerns:

> Age UK believes the Government should be cautious about localising financial benefits and take forward reforms only when there is clear evidence that a local system would provide better support. Although the current payments are discretionary they are awarded on the basis of national guidance and subject to an independent review procedure. It is essential that under any reformed system crisis payments are available quickly for people with emergency needs, the availability and procedures for applying for help are clear and well publicised, and any money transferred to local authorities for cash payments is not subsumed into other local budgets.[94]

The **Disability Alliance** is concerned that devolving responsibility for Community Care Grants and Crisis Loans to local authority risks exacerbating existing problems with the CCG scheme highlighted recently by the Public Accounts Committee, including an uneven distribution of funding, variations in success rates for applicants with similar needs across the country, poor standards of decision making, and unacceptably high administrative costs.[95] The Disability Alliance submission states:

> 3.2.5 DA believes that devolving CCGs and CL's to local councils would reinforce these problems. Access to help could become an even more significant postcode lottery if each local authority has its own version of CCGs and CLs and criteria for awards.

---

93 UC 04 Association of Charity Officers

94 UC 22 Age UK

95 Public Accounts Committee, *The Community Care Grant*, HC 573 2010-11, 16 December 2010

3.2.6 We believe this proposal requires further development and scrutiny – and are particularly keen to know if there will be a right of independent appeal (and where from) if refused a CCG/CL as this may be harder to achieve under a more localised system.[96]

6.3 Devolved administrations

The White Paper states:

> 24. Social Security is a devolved matter in Northern Ireland. The Government will continue to work closely with the devolved administration in Northern Ireland to seek to maintain a single system across the United Kingdom.
>
> 25. Social Security is not a devolved matter elsewhere in the United Kingdom but the Government recognises that there are interactions with policy areas that are the responsibility of the devolved administrations in Scotland and Wales. It will therefore be important to work closely with the devolved administrations to deliver the reforms set out in this White Paper.[97]

Following his statement to the House of 11 November, the Secretary of State for Work and Pensions was asked whether the Universal Credit would be introduced in Northern Ireland:

> **Mark Durkan (Foyle) (SDLP):** I am sure that we all want to be assured by the Secretary of State's best attempts at a "Somewhere Over the Rainbow" version of his reforms, but we have to test them for the people in the places we know where low employment is an enduring problem. Do the projections for the universal credit include Northern Ireland? In answer to the Chair of the Select Committee, the Secretary of State mentioned bringing the tax credit systems and the DWP systems together. Has he factored in the Social Security Agency in Northern Ireland and discussed the implications with the Minister responsible?
>
> **Mr Duncan Smith:** As the hon. Gentleman knows, I have been over there and discussed these matters with my opposite number. I want the reforms to apply to Northern Ireland, and they will. The area has particular problems, as he knows, and we need other devices to overcome those. However, people are unemployed and without work for much the same reason as over here, and I therefore look forward to being able to implement these reforms in Northern Ireland.[98]

---

[96] UC 50 Disability Alliance
[97] *Ibid.* p49
[98] HC Deb 11 November 2010 c450w