Universal Credit: an introduction

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Starting from next year, Universal Credit (UC) will begin to replace a range of means-tested benefits and tax credits for working age families. The intention is to simplify and streamline the benefits system for claimants, making it easier for people to understand; to reduce the financial and administrative barriers to work; to tackle in-work poverty; and to bear down on fraud and error.

Universal Credit is means-tested and will be payable both in and out of work. A key feature is the "single taper" for the withdrawal of UC for those in work. As earnings rise, UC is withdrawn at a constant rate of 65 pence for each pound of net earnings (although an initial amount will be "disregarded" before the taper is applied). 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 financial support provided by Universal Credit is underpinned by a new "conditionality" framework setting out the responsibilities claimants may be required to meet. The level of requirements will depend on the claimants' circumstances. The conditionality framework is backed up by a new "strong and clear" sanctions regime for non-compliance.

Universal Credit is to be introduced nationally between October 2013 and 2017, although it will start in selected "pathfinder" areas from April 2013 in order to test that processes are robust and reliable before the national roll-out commences.

The *Welfare Reform Act 2012* provides the broad framework for Universal Credit, but the detailed rules will be set out in regulations. Draft regulations were published by DWP in June for scrutiny by the independent Social Security Advisory Committee (SSAC), which launched a public "call for evidence" on them. The deadline for responses was 27 July and SSAC has submitted its report to the Secretary of State.

It is expected that final versions of most of the UC regulations will be laid before Parliament, along with the SSAC's report and the Government's response, following the Chancellor's Autumn Statement on 5 December.

Contents

1 What is Universal Credit?

Universal Credit (UC) is a new benefit which will replace a range of existing means-tested benefits and tax credits for working-age families. It is to be introduced in selected areas from April 2013, and nationally starting from October 2013. By 2017 it will have completely replaced-

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

The aim is to simplify and streamline the benefits system for claimants and administrators, to improve work incentives, to tackle poverty among low income families, and to reduce the scope for fraud and error. The new benefit will be administered by the Department for Work and Pensions.

UC awards will comprise a **standard allowance with additional amounts** for children, housing and other needs and circumstances such as disability, childcare and caring. The actual amount a family receives will however depend on its income and savings. "**Unearned income**" – such as income from certain benefits, or an occupational pension – will usually reduce the maximum UC award on a pound for pound basis. **Earned income** – ie income from employment or self-employment – will reduce the UC award at a constant rate of 65 pence for each pound of net earnings (this is known as the "**single taper**"), although families will be able to keep some of their earned income (the "**earnings disregard**") before it begins to affect their UC.

Families already get means-tested assistance through tax credits, but while tax credit awards are based on annual income Universal Credit will be based on current income. UC awards will be calculated on an ongoing basis and will increase or decrease each month in response to changes in income and other factors. For employees paid through PAYE, a new "**Real Time Information**" system should allow DWP to automatically adjust their UC award if their wages change. Claimants will however have to notify DWP directly of other changes in circumstances affecting their award as they occur.

Claimants will normally be expected to make a claim for Universal Credit online and to manage their claim, including reporting changes in circumstances, via an **online account**.

UC will be **paid monthly** in arrears and, unless exceptional circumstances apply, as a **single payment** covering all the household's needs. Couples can choose which partner receives the payment, or nominate a joint bank account.

2 Why is UC being introduced?

Universal Credit is intended to address a number of drawbacks with the current benefits and tax credits system.

With the current system, the financial returns from moving into work – particularly part-time and low paid work – can be weak because a high proportion of earnings may be offset by reduced benefits and tax credits. For those already in work, there may be little incentive to increase hours of work because of the effect on benefits. For example, people in receipt of Housing Benefit, Council Tax Benefit and tax credits can lose up to 96 pence of each additional pound they earn.

The Government also believes that the complexity of the current system causes confusion about entitlements and about the gains from work. The current complex array of benefits delivered by three separate agencies – the Department for Work and Pensions, HM Revenue and Customs and local authorities – interact in complicated ways, creating perverse incentives and penalties. Having separate systems for out-of-work and in-work support entails recalculation of entitlements and possible delays and gaps in payment when people move into work. As a result people may be reluctant to take the risk of moving into work.

The Government argues that Universal Credit will make the financial gains from work clearer by introducing a smoother and more transparent reduction of benefits when people move into work or increase their earnings. A briefing at the DWP website, *Universal Credit – frequently asked questions*, states:

> Universal Credit simplifies and streamlines the benefits system for claimants by bringing together a range of benefits and credits into a single system. Universal Credit will help ensure that claimants will be financially better off in work, which will help them and their families to become more independent.
>
> The new Universal Credit system aims to:
>
> - improve claimants' incentive to work
> - make it easier for them to move in and out of work
> - be easier to understand than the existing system
> - reduce poverty among people on low incomes
> - cut back on fraud and error
> - be more cost-effective to run.
>
> Universal Credit claimants will be better off in work including irregular part-time work. This will reduce the incentive for people to fraudulently not declare paid work in case they lose their benefit.
>
> The new system is expected to have a considerable long-term impact on UK society. Increases in the take-up of entitlements that are currently unclaimed, together with the higher entitlements, could see as many as 350,000 children and 500,000 working age adults moved out of poverty.[1]

[1] Updated July 2012

3 Who will be able to claim UC?

As is the case currently with means-tested benefits and tax credits, Universal Credit will be claimed and paid on a household basis, where a "household" is a single person or couple (whether married, in a civil partnership, or cohabiting), along with any dependent children.

The "basic conditions" for UC are that the claimant:[2]

- is aged 18 or over (although, as now, some young people aged 16-17 will be able to claim UC – eg if they are a lone parent, disabled, or estranged from their parents);
- is under the qualifying age for Pension Credit;
- is in Great Britain;
- is not in education; and
- has accepted a "claimant commitment".

The draft *Universal Credit Regulations* published by DWP in June 2012 provide for the situation where a couple makes a claim but only one partner satisfies the basic conditions. For example, where one member of the couple is over Pension Credit age or is in full-time education, the couple will be treated as though both satisfy the conditions. However, if one partner is under 18 or not resident in Great Britain, they will be ignored when the UC maximum amount is calculated (see later below), although their income and capital will be taken into account.

"In Great Britain" means that the claimant is present (though temporary absences may be allowed), habitually resident and has a "right to reside". These requirements currently apply to claims for means-tested benefits, although it is not clear precisely how they will apply in certain situations; eg, the Government is still considering whether EU "work seekers" should be eligible for all the UC elements, or just the standard allowance.[3]

As in the current benefit system, most people in full-time education will not be eligible for UC. Students will not normally be able to claim UC if they are:

- young people in non-advanced education who would meet the qualifying criteria for a UC child element;
- in advanced education;
- other full-time students supported by loans, grants or bursaries; or
- undertaking any other course which is not compatible with their expected hours of work or any other work-related requirements.

However, as now, there will be a number of exceptions to the exclusion – eg students who are lone parents, foster parents, or whose partner meets the basic conditions for UC.

As regards the "claimant commitment", see the section below on "What will UC claimants be expected to do to get their benefit?"

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2 See the Part 2 of the draft *Universal Credit Regulations 2012* issued by DWP for consultation in June, and paras 7-37 of the accompanying DWP Memorandum

3 Ibid. para 17

4 How is UC calculated?

The Universal Credit calculation involves a number of steps.

Step 1 involves adding together the different elements a family qualifies for, to give the **maximum amount** of UC. The different elements are listed below. Except for the child care costs element, the Government has not yet announced the rates which will apply when UC is introduced in 2013.

- **Standard allowance** – the basic allowance for all. Amount depends on whether the claimant lives alone or has a partner. Lower rates apply for those under 25.
- **Child element** – for each child or qualifying young person. Different rates for the first child and for second and subsequent children. Additions payable for disabled and severely disabled children.
- **Child care costs element** – for working parents paying for registered childcare. Up to £532 a month for one child and £910 for two or more children.
- **Capability for work elements** – for those who satisfy the Work Capability Assessment (WCA). Lower rate for those with a "limited capability for work"; higher rate for those with a "limited capability for work-related activity."
- **Carer element** – for those with "regular and substantial caring responsibilities for a severely disabled person." Applies if the person satisfies the conditions for Carer's Allowance, whether or not a claim has been made.
- **Housing costs element** – for those who pay rent or have a mortgage. Help may also be available with certain service charges. For owner-occupiers, the rules will be similar to the current Support for Mortgage Interest scheme, but no housing element will be include if the claimant or their partner is doing any paid work (the "zero earnings rule").

Step 2 involves calculating **unearned income**.

"Unearned income" is income other than from employment or self-employment.[4] It includes most income replacement benefits such as contribution-based Jobseeker's Allowance, contributory Employment and Support Allowance, Carer's Allowance and bereavement benefits.[5] Other benefits – including Disability Living Allowance, Personal Independence Payment and Child Benefit – are disregarded. State, private and occupational pensions also count as unearned income (although War Pensions and payments under the Armed Forces Compensation Scheme are disregarded). Unearned income also incomes "tariff income" from capital (ie savings and other assets) – see later in this note for details.

For families with no earned income, their Universal Credit award is their maximum amount (as calculated at step one) minus unearned income.

Where a family has income from earnings, there are a number of further steps in the UC calculation.

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4 For further information see regulations 61-65 of the draft *Universal Credit Regulations 2012* issued by DWP for consultation in June, and paras 189-194 of the accompanying DWP Memorandum

5 Statutory Sick Pay and Statutory Maternity Pay are however treated as earnings

<u>Step 3</u> involves calculating **net earnings**. This is earnings after tax, National Insurance, 100% of contributions to an occupational or private pension[6], and certain allowable expenses. Statutory Sick Pay, Statutory Maternity Pay and other statutory payments made by employers also count as earnings. Self-employed earnings are gross profits less income tax, NI contributions, pension contributions and certain permitted expenses. However, in certain circumstances the DWP may assume a higher level of self-employed earnings than is actually the case – see "What about the self-employed?" below.

<u>Step 4</u> involves subtracting an amount – the **earnings disregard** – from net earnings. This is the amount the household is allowed to earn before their maximum UC award starts to be reduced. Different disregards will apply to each of the following groups (only one disregard – whichever is the highest – will apply to a household):

- Single people and couples without children;
- Lone parents with one or more children;
- Couples with one or more children; and
- Disabled single persons or couples

For each of the above groups, there will be two different disregard levels; a higher rate will apply if the household's maximum UC does not include a housing costs element.[7] The exact amounts of the disregards have not yet been announced.

<u>Step 5</u> involves calculating the **amount to be deducted for earnings** from the UC award. This is 65% of the result from step 4 (ie net earnings minus the relevant earnings disregard).

The **Universal Credit award** for working families is therefore:

The **maximum amount of UC** (calculated as set out in step 1)

<u>minus</u> **unearned income** (step two)

<u>minus</u> the **amount to be deducted for earnings** (step 5)

Total household income will therefore comprise:

Net earnings

<u>plus</u> the **Universal Credit award**

<u>plus</u> any **unearned income** (eg pension income, cESA, PIP, Child Benefit)

A series of worked examples of illustrative Universal Credit awards were included in a briefing paper deposited in the House of Lords Library by the DWP in September 2011. The paper is available at the Parliamentary website.[8]

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6 Currently for benefits purposes only 50% of pension contributions are disregarded

7 This is a simpler arrangement than the Government originally proposed – see para 137 of the *DWP Memorandum on the draft Universal Credit Regulations*, June 2012

8 DEP2011-1462, 9 September 2011

5 What about the self-employed?

Provisions relating to self-employed claimants are in the draft *Universal Credit Regulations 2012* published by DWP in June 2012. The draft regulations, together with an explanatory memorandum, are available at the DWP website. DWP estimates that around 600,000 households on Universal Credit will have at least one individual whose main employment is self-employment.

The main provisions relating to the self-employed are in Part 6, Chapter 2 of the draft Regulations - see regulations 52-60 in particular. The effect of these provisions, and the thinking behind them, are covered in paragraphs 159-188 of the DWP explanatory memorandum.

Under the Government's proposals, UC for the self-employed would operate as follows:

- Self-employed people would be required to report their income to DWP each month - income would be reported on a simplified "cash income" basis
- Those starting out in self-employment would be required to attend a "Gateway Interview", to establish that they embarking on "gainful self-employment"
- If they satisfy the Gateway checks, they are eligible for a "Start-Up Period". For a period of 12 months, they will not be subject to any "conditionality" (although they will have to attend quarterly interviews with an advisor to check that they continue to satisfy the Gateway requirements)
- During the Start-Up Period, the UC award will be based on reported income, even if this is zero in any assessment period
- For most self-employed claimants not in a Start-Up Period, a minimum level of income will be assumed - if their actual income is lower than this, their UC award will still be based on this "Minimum Income Floor". The policy intent is to "encourage and incentivise individuals to increase their earnings through developing their self employment" (DWP explanatory memorandum, para 166). The level of the Minimum Income Floor is still to be decided

Tax experts, business and accountancy bodies and welfare rights organisations have been strongly critical about certain aspects of the Government's proposals regarding treatment of the self-employed.

A letter to the Minister for Welfare Reform, Lord Freud, on 12 July from the Low Incomes Tax Reform Group (also supported by 11 other organisations) set out concerns. LITRG also issued a press release:

> **Campaigners call for urgent rethink on self-employed rules under universal credit**
>
> ***Campaigners for those on low incomes are calling for an urgent rethink on how small businesses and the self-employed will be dealt with under universal credit.***
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> These views were set out in a letter to the Welfare Reform Minister, Lord Freud, from the Low Incomes Tax Reform Group (LITRG), supported by a number of tax, business and accountancy bodies and welfare rights organisations.
>
> LITRG's chairman, Anthony Thomas, commented that:

'The Government say that universal credit will ensure that work always pays. That will not be the case for many self-employed. There will be disincentives to taking up self-employed work, leaving some people unnecessarily trapped on welfare. There will also be a significant increase in bureaucracy for small business. Both of these are the opposite of what the Government want.'

The mechanics of working tax credit have so far worked well for small businesses in that they recognise the same profits and losses as for tax purposes. This means that where the tax system supports the self-employed through start-up or loss-making periods, or times when they are investing heavily to grow their business, tax credits do likewise.

Under the universal credit rules as currently proposed those advantages will be lost. Businesses will have to draw up two sets of accounts – one for HMRC, the other for DWP – and the latter will have to be done monthly, thereby massively increasing bureaucratic burdens. The basis of accounting favoured by DWP will not give full recognition to large items of expenditure in any one month, potentially heavily distorting the economic reality of how a business is doing.

Anthony Thomas also observed that:

'In many cases the income of self-employed earners will fall sharply making it, in some cases, uneconomic for them to continue to work. The proposed minimum income floor will further distort the picture and will mean that the self-employed will receive less benefit than employed claimants even though their income may be the same. Surely this cannot be right nor fair.'

Further comments were made by John Walker - Chairman of the the Federation of Small Businesses (FSB):

'The reason why the recession hasn't proved as devastating on employment as first feared is because huge numbers of people laid off from their regular jobs have turned to self-employment.

However, the government needs to be clear these proposed changes to Universal Credit could reverse this trend and remove a valuable route back into the labour market through self-employment. Entrepreneurs and small firms already find tax complicated to deal with and these proposed changes are completely at odds with Ministers' wishes to simplify the tax system.

Furthermore, both HMRC and DWP are placing too much faith on the ability for small firms to deal with their tax affairs online. It betrays a lack of understanding about the way small businesses operates. Moreover, the UK's digital infrastructure simply isn't able to cope.'

In evidence to the Work and Pensions Committee on 17 September, Ministers announced a concession regarding self-employed claimants during the "start-up period"; a DWP press release on 20 September gave further details:

Self-employment start up period

Ministers recognise the need for claimants who are setting up a business to be given time to establish themselves and find sources of support. Therefore where a claimant has been self-employed for less than 12 months, a start up period will be granted. This means that claimants will not be required to satisfy work-search or availability requirements, and the Minimum Income Floor will not be applied thereby giving them time to concentrate on developing their business.

> Ministers have listened to the views of stakeholders and as a result have decided to allow a new start up period every 5 years rather than once in a claimant's lifetime.[9]

However, despite the concession groups including the Low Incomes Tax Reform Group still believe that the Government's proposed approach would still a retrograde step and act as a barrier to people pursing self-employment. In addition to the problems identified with the minimum income floor and the basis of assessment/accounting, there are also criticisms relating to the reporting requirements for self-employed claimants and the burdens on businesses. A report by the Centre for Economic and Social Inclusion for the Joseph Rowntree Foundation published in October 2012 states:

> The draft UC regulations also outline a different set of rules for self-employed recipients on reporting income to HMRC. Unlike employees, there will be no RTI feed for income from self employment – claimants will self report their earnings and it is expected that self-employed individuals will be required to complete an additional online report in order to calculate their UC entitlement (DWP, 2012k). Under the proposals, self-employed earnings will be reported on a monthly basis and failure to make a claim within seven days of this period will result in payment being suspended. The Institute of Chartered Accountants in England and Wales has described this requirement as 'wholly impractical' for self-employed individuals who are likely to be unable to gather the correct information on time (Institute of Chartered Accountants in England and Wales, 2012).
>
> There are clearly a number of major concerns among experts that UC could actually disincentivise individuals from starting their own business because of the administrative burdens that will be placed upon them. In May 2012, Lord Young's review of support for small businesses highlighted the need for simple advice and information and this will become ever more important if UC rules increase complexity for small business start ups (Young, 2012). It will be critical that the impact of the new regulations on numbers choosing to set up an enterprise are monitored and the government should look for ways in which existing programmes, such as the New Enterprise Allowance scheme, can provide assistance to self-employed service users to overcome the pressures of additional administrative burdens. Encouragingly, DWP has commissioned research to examine how UC implementation will affect self-employed people and, given that this group will not move onto UC until April 2014 at the earliest, there is still time to develop systems and support that take account of the concerns raised by stakeholder groups (Staniland, ongoing).[10]

6 How will savings affect UC?

For Universal Credit, capital (savings and other assets) will, broadly speaking, be taken into account in the same way as currently for means-tested benefits. Capital of up to £6,000 will be ignored. If capital is between £6,000 and £16,000, a "tariff income" of £1 a week will be assumed for every £250 of capital in excess of the lower limit; this is included in "unearned income" for UC and will reduce the maximum UC award on a pound for pound basis before the earnings taper applies – see "How is UC calculated?" above. Universal Credit will not be payable if a household has capital in excess of £16,000.

9 DWP press release, *Additional support for Universal Credit claimants announced*, 20 September 2012
10 Amy Tarr and Dan Finn, *Implementing Universal Credit: will the reforms improve the service for users?*, CESI/JRF, October 2012, p47

The proposal to carry over the existing capital rules for means-tested benefits to UC will impact on some families currently receiving tax credits. Capital is not currently taken into account in the tax credits calculation (although income from capital – eg interest on savings – is taken into account if it is in excess of £300 a year).

The DWP's *Universal Credit Policy Briefing Note 3: Treatment of Capital* (12 September 2011) set out the Government's position:

> **1. Policy Rationale**
>
> a) It is essential that the support offered by Universal Credit is focused on those with insufficient resources to meet their needs.
>
> b) People with substantial savings or other capital clearly have sufficient capital to meet their needs – it is right that they should draw on these resources before looking to the taxpayer for support, particularly as many taxpayers themselves have savings well below these limits. While nearly one in three pensioner households have savings in excess of £16,000, only 13% of households with a working age adult in them have this much savings. A typical working age household has only £300 in savings.
>
> c) A £16,000 cut-off with assumed tariff income from savings above £6,000 strikes the right balance between protecting people with modest savings and placing responsibility for their own support on those with substantial capital. We believe that £16,000 is an appropriate level, particularly since fewer than one in five families have higher savings.
>
> […]
>
> **3. Policy Considerations**
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> a) Savings intended for mortgage deposits – We have been asked whether provision can be made for people saving for a home but there are no ring-fenced deposit accounts for savings intended for a mortgage and there is no satisfactory way of confirming future intentions, which would make it impossible to frame an exemption to capital rules on this basis. The prospects for Universal Credit claimants seeking a mortgage will also be influenced by wider circumstances such as their expected income and the amount they want to borrow. For most Universal Credit claimants, following changes in lending policies subsequent to the problems caused by sub-prime practices, their income levels would not support a mortgage application.
>
> b) Capital rules are often criticised as penalising people who save. However, any changes in this area carry significant costs – for example, the difference in Universal Credit between setting the cut-off at £16,000 and at £25,000 would be around £60 million per annum. Additionally, removing the capital rules from the whole of Universal Credit will create substantial costs of around £500 million per year in 2010/11 prices. This would mean diverting resources which could otherwise be used to improve work incentives.
>
> c) Tax Credits – Tax Credits will be phased out when Universal Credit is introduced. While there are currently many people on Tax Credits with substantial savings, this reflects the fact that these credits are currently available to people high up the income scale [Of those with savings over 16k receiving tax credits, 52% earn over £40,000 per annum (and 30% earn over £50,000). [Source: FRS 2008/09]: planned changes, which began in April 2011, to make Tax Credits fairer and more affordable will reduce these numbers substantially.

d) There are no capital cut-offs or tariff income rules in Tax Credits, although taxable income from savings and other assets is taken into account subject to a disregard of £300 a year. This is therefore an area where the Tax Credits system is more generous than benefits and in some cases (such as where a person has substantial savings in an ISA or other tax-free product) much more generous. The impact of the alignment of capital rules is part of the reason we will provide transitional protection for existing claimants.

As to how many might be affected by the capital rules, the briefing note stated:

5. Who would be affected in practice?

Once Universal Credit is in steady state, we estimate that between 100,000 and 200,000 households in Great Britain would be eligible for Universal Credit if their savings fell below £16,000 and all of their other circumstances remained the same.

There will be 200,000 to 300,000 households with savings of between £6,000 and £16,000 who will have reduced eligibility for Universal Credit compared to their eligibility if they had capital below £6,000. These households may or may not be entitled to less Universal Credit than the sum of the relevant benefits in the current system – this is therefore not an estimate of the losers from capital rules in Universal Credit.

For current Tax Credit recipients, our estimates take account of the changes to Tax Credit caseloads ahead of the introduction of Universal Credit. We believe that in 2014/15 the Tax Credits population will include up to 100,000 households with capital over £16,000 and around 100,000 with capital between £6,000 and £16,000.

As stated above, transitional protection will ensure that none of these Tax Credit claimants will lose in cash terms at the point of transfer because of the introduction of Universal Credit where their circumstances have not changed.

The proposed capital rules were discussed a number of times during the passage of the *Welfare Reform Bill 2010-12*. Labour called the Government's proposals an "extraordinary punishment for saving" but Opposition amendments to disregard savings held in Individual Savings Accounts (ISAs) were defeated. For further information see pp24-25 of Library Research Paper 11/24, pp11-12 of Research Paper 11/48, and pp7-8 of Standard Note SN06034.

7 How will UC be affected by income changes?

Universal Credit will be assessed on a monthly basis and will increase or decrease in response to changes in income. Employees paid through Pay as You Earn (PAYE) should not need to inform DWP of any change in their earnings as employers (and pension providers) will be expected to provide HMRC with monthly information on payments to individuals using a new "Real Time Information" (RTI) system.[11] Payroll information will be forwarded to DWP which will automatically calculate how much UC an individual is to receive. Self-employed people, and employees not paid through PAYE, will not be covered by RTI and will have to submit information on earnings directly to the DWP. Employees covered by RTI will also have to report any changes in non-employment income directly to DWP.

[11] For further information see *Payroll reporting is changing - operating PAYE in real time*, at the HMRC website

Concerns have been voiced about additional burdens on businesses as a result of the introduction of RTI, but the Government estimates that RTI could deliver savings of around £300 million on administration costs for employers. It points out that RTI should remove the need for end of year returns (forms P35 and P14) and simplify the employee starting and leaving processes.[12]

Doubts have also been voiced about whether RTI will be fully rolled out by the time UC is due to be introduced nationally. In its report on HMRC's 2011-12 Accounts published on 27 June, the National Audit Office said that the timetable for full implementation of RTI was "challenging".[13] A report published by the All-Party Parliamentary Taxation Group (APPTG) published in July, *PAYE at the Crossroads*, argued that the timetable for implementing RTI was "potentially undeliverable" and that HMRC's business case had underestimated RTI's costs and overestimated its benefits. APPTG also voiced concern that HMRC's "interim solution" for delivering RTI "cannot guarantee real time accurate data and will not deliver Universal Credit the way the Government want it to work." It recommended that "business needs should be prioritised over the policy deadline for Universal Credit" and that migration to RTI be delayed until mid-2015. This would not, it argued, have a substantial effect on Universal Credit, given that self-reporting of income changes would be possible and the fact that the majority of tax credit claimants would still not have moved over to UC at this point.

The Government insists however that RTI is on course and is confident that all employers will re routinely reporting PAYE in real time by October, when the national roll out of UC begins. In a letter to the Work and Pensions Committee dated 28 August, the Director of the DWP Universal Credit Programme stated:

> …I am pleased to say that RTI is on track and the pilot is going very well.
>
> The pilot started in April 2012 with 10 volunteer employers. It was expanded on schedule in May to a further 310 PAYE schemes. Following the success of the first pilot stage, HMRC expanded the pilot again and by the end of July, almost 1.8 million individual records were being reported in real time by 700 PAYE schemes.
>
> So far, the quality of data in the pilot has been good, with the numbers of individual records matching to a National Insurance number exceeding expectations. Where a PAYE scheme pays using Bacs, HMRC uses an automated cross-referencing process to match the amounts shown on the RTI return with the amount actually paid. This process is producing high rates of matching.
>
> HMRC is on track for around 1,300 schemes to be reporting PAYE in real time by the end of September with a further expansion in November. By March 2013, around 6 million individual records will be reported in real time by up to 250,000 PAYE schemes.
>
> HMRC are seeing external confidence in the pilot and have therefore offered more large employers, payroll bureaux, new employers and software developers the opportunity to join the pilot or to expand existing involvement in advance of the launch date of April 2013. This approach will bring more individuals into RTI, and will help ensure that HMRC is well placed to support the early stages of Universal Credit.
>
> The remaining employers and pension providers will come on board from April 2013. HMRC are on track to have all employers and pension providers reporting PAYE in real time by October 2013 – in time for the introduction of Universal Credit.

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12 HMRC website, *Payroll professionals and employers FAQs*
13 *HM Revenue & Customs 2011-12 Accounts: Report by the Comptroller and Auditor General*

8 How will UC be claimed?

The intention has always been that the "default" method of managing a claim for Universal Credit will be via the internet. However, from the outset the Government has said there will be alternative "access routes" for individuals if they don't have or can't use the internet, including telephone and face to face contact.

The DWP's *Universal Credit – Frequently asked questions* (July 2012), states:

> **How will claims to Universal Credit be made and managed?**
>
> We want to make the process of claiming Universal Credit as simple as possible for claimants. Universal Credit is being designed so that each claimant can make a claim online and then personally manage their claim directly through an online account. Wherever possible, we want claimants to notify us via their online account of any relevant information and changes of circumstance as soon as possible after the change occurs.
>
> This online self-service approach will ensure that Universal Credit is more responsive to a claimant's circumstances and will promote behaviours that help to prepare the claimant for work. Claimants who cannot get online or use a computer; will get support to complete their online claim for Universal Credit.
>
> **What about claimants who cannot get online or use a computer?**
>
> Universal Credit has been designed so that claimants can personally manage their claim directly through an online account. However, claimants who cannot access the internet or use a computer will be helped to complete their online claim for Universal Credit. This may be in a high street outlet or via a telephone service. For claimants who require a little bit more support, face to face help and a one to one telephone service will be available and an adviser will complete an online form on the claimants behalf, checking for accuracy as they proceed.
>
> To help more people get online, we will continue to take part in digital inclusion campaigns such as the Government's Go ON UK campaign.
>
> Go ON UK
>
> To further assist claimants, 'Digital Champions' are already in every Jobcentre, and will help staff support and encourage claimants to take their first steps online and see the benefits of being able to use the internet.

In a speech on 30 May to the National Digital Conference, the Minister for Welfare Reform Lord Freud told delegates that Universal Credit had been designed to be "digital by default" and that, while there would still be face to face and telephone support in place, that support would be geared towards helping people to use the online channel. He went on to say:

> I am determined to make the most of the opportunity – and the financial incentive – presented by universal credit to identify claimants who lack computer skills and to help them to become digitally independent.
>
> This is about work as much as it's about welfare. As you know, employers expect digital skills for almost all jobs. It also opens up opportunities for managing money better via online banking or budgeting support. Or accessing money saving services like internet-rates and paper-less billing.

> DWP cannot do this alone. We're still looking at options – but there are a number of external organisations that are well placed to help people to make a universal credit claim online and to stay online.
>
> The more I think about it the more I realise that digital and financial inclusion go hand in hand. Both are at the heart of universal credit.

Precise details of the Universal Credit "delivery model" are however still being finalised.

A recent report on implementing UC by the Centre for Economic and Social Inclusion for the Joseph Rowntree Foundation looked at the wider question of the "digital channel shift" in benefits delivery, at the continuing problem of "digital exclusion" affecting vulnerable groups and people in certain rural areas, and at the DWP's progress in tackling it. The authors comment:

> The importance of resolving issues around digital exclusion, service user willingness to use online channels, and digital competence among staff cannot be underestimated. The Draft Regulations for UC make it clear that online claims and channels will be the only option available unless a service user falls within a class of claims for which telephone applications will be acceptable, such as for ESA and Personal Independence Payment (PIP) (DWP, 2012i). Mandating claimants to manage their claim using electronic means raises important questions around freedom of choice that should be addressed if the user voice is to be adequately accounted for in the development of new delivery channels.[14]

The report argues that while DWP has made progress towards developing a "coherent digital strategy" it should go further in demonstrating how it will ensure that no "service user" is excluded by the proposed arrangements for UC. It goes on:

> Drawing on the considerable evidence to suggest that certain groups are more likely to be digitally excluded, DWP should learn from the existing evidence on why there is not more digital take up among some groups and develop clear plans to tackle this. In particular, the department should consider what incentives might be used to encourage changes in behaviour that lead to more users' accessing services online.
>
> It will also be important that service users whose claims are not processed and managed electronically have access to face-to-face or telephone support that is as simple, efficient and accessible as that available through digital channels. Local authorities will be expected to provide face-to-face services for those claimants unable to manage their benefit claim electronically but tight deadlines have left only limited time for these services to be designed and, where services are being piloted, little funding has been made available for service delivery.[15]

The DWP's *Universal Credit – Frequently asked questions* (July 2012) gives information on the local authority pilots:

> **How will Universal Credit be delivered locally?**
>
> The DWP and the Local Government Association (LGA) have been working together on pilot schemes for the development of Universal Credit. These pilots will ensure that local authorites are ready to support claimants in preparing for the implementation of

14 Amy Tarr and Dan Finn, *Implementing Universal Credit: will the reforms improve the service for users?*, CESI/JRF, October 2012, p31

15 Ibid. pp7-8

Universal Credit from 2013. Pilots are also being developed to test models for the delivery of Universal Credit after 2015.

We anticipate that there will be 12 local authority led pilots across the UK. These are expected to start in autumn 2012 and will focus on the face to face support that people may need to make a claim for Universal Credit. They will look at:

- encouraging claimants to access online support
- improving financial independence and managing money
- reducing fraud and error and delivering savings
- reducing homelessness.

For further information see DWP press release, *Freud announces successful Local Authority led Universal Credit pilots*, 31 August 2012.

9 How will UC be paid?

The DWP's default position is that the whole of Universal Credit, including any amount for children, will be paid to the household on a monthly basis, and as a single payment. The thinking behind this is that Universal Credit should mimic work and receipt of a salary. Couples can decide which partner should receive the payment, or choose to have the payment paid into a joint account.

A number of concerns have been voiced about this approach including:

- The challenge this will present for families not used to budgeting on a monthly basis, eg because they are paid wages on a weekly or fortnightly basis
- The possible impact on individuals within families – women and children in particular – if the money coming into the household is not shared in such a way as to meet the needs of all its members
- A single payment risks becoming a "single point of failure" – disruption or delay to a claim could leave a household with no support at all

Further information on these and other issues is given below. The discussion relates to the payment proposals in Great Britain. In Northern Ireland, it has been decided that claimants will have the option to receive their UC as a twice-monthly payment, and that the payment may be split between two parties in the household (see "What's happening in Northern Ireland?" below).

9.1 Monthly payment

The DWP's *Universal Credit – Frequently asked questions* (July 2012) states:

Why is Universal Credit paid monthly?

Universal Credit is paid monthly to help people budget effectively and reflect the world of work, where 75% of all employees receive wages monthly. This will help smooth the transition into monthly paid work, encourage claimants to take personal responsibility for their finances and to budget on a monthly basis which could save households money. For example, monthly direct debits for household bills are often cheaper than more frequent billing options.

The Government is exploring access to financial products for those on low incomes and is working with providers of financial services, the British Bankers and Building Society Associations, credit unions and the Post Office to help people budget effectively with a monthly payment.

A series of demonstration projects is being run in six local authority areas to test how claimants manage their money when their housing benefit is paid directly to them rather than to their landlords. The Direct Payments Demonstration Projects started in June 2012 and will run until June 2013. The findings will be used to help shape the financial advice and support that Universal Credit will offer claimants.

Concerns voiced by organisations responding to the recent Work and Pensions Committee inquiry into implementation of UC included:

- Monthly payment could present major budgeting challenges for households currently paid on a weekly or fortnightly basis, leading to debt problems
- Not all claimants will be able to access affordable credit and might be forced to have recourse to alternative sources of finance such as door stop lenders
- Women might suffer disproportionately, as women are more likely to go without if household finances are under pressure

While there was widespread support for the aim of developing budgeting skills and financial capability, a number of the organisations responding to the Work and Pensions Committee also felt that UC claimants should have the option of receiving more frequent payments, eg twice monthly. The Government has said that there will be scope for “payment exceptions”, but the main emphasis will be on budgeting support and alternative payment arrangements will only be available in exceptional circumstances, if certain criteria (to be set out in guidance) are met. The DWP Explanatory Memorandum accompanying the draft Universal Credit claims and payments regulations published in June stated:

Payment exceptions [CP44], [CP55]

The move to single monthly household payment is a significant change to the way most benefits are currently paid and we understand that support will be required for some claimants to help them manage that change. We envisage that this personal budgeting support will include a mix of budgeting advice services (delivered across all channels) and financial products that offer automated payment facilities such as direct debit. Detailed proposals for how this support will be developed and delivered are currently being developed.

For a minority of claimants however, an alternative payment arrangement may be required in addition to the above support. This includes making more frequent than monthly payments of Universal Credit to households, splitting payment between both joint claimants, paying Universal Credit to only one of the joint claimants or paying housing costs directly to the landlord. These exceptional payment arrangements would be time-limited and implemented in conjunction with the appropriate support to ensure claimants successfully transition to monthly budgeting.

> In order to provide greater flexibility, the detailed circumstances about when payment exceptions will be appropriate will be set out in guidance, rather than in regulations. This approach will enable cases to be assessed on their individual merits.[16]

On 17 September DWP announced that the Government was working with private sector organisation to develop "new financial products" to help people budget when they move to UC. It would explore the feasibility of making accounts with "budgeting tools" available to Universal Credit claimants. Details were given in a press release:

> **Freud: New financial products to help Universal Credit claimants manage money**
>
> Ministers are calling for a range of suppliers to explore the feasibility of new financial products to help benefit claimants budget and manage their money.
>
> The Government is seeking providers who can supply products with extra budgeting functions to support claimants as they move to the new benefit Universal Credit.
>
> The Government expects interest from a wide range of financial providers, including high street banks, mobile phone operators and pre pay card providers.
>
> Lord Freud, Minister for Welfare Reform, said:
>
> "Accounts that provide people with extra budgeting services could help to ensure people's essential bills are covered – helping them to build up their credit rating and break the cycle of financial exclusion.
>
> "We are anticipating the call for new financial products may open up a new market place, where competition is strong. And we are looking for a range of diverse providers to step forward to express an interest, as we work towards the introduction of Universal Credit in October 2013."
>
> As part of the criteria any potential new accounts must have a series of essential features to help people on low incomes to budget, but the final design will be left open to the market to devise, including:
>
> - Support for claimants to budget and manage their money
> - Regular payments for housing and other main bills
> - Options for multiple income streams from work and benefits
> - Access to all claimants, irrespective of credit history
> - Options to build up a credit rating
> - Availability to people once they have moved off Universal Credit
>
> This is merely one of a range of options that the Government will be exploring to support UC claimants budget and manage their money.

A report by the Centre for Economic and Social Inclusion for the Joseph Rowntree Foundation published in October 2012 comments:

.

16 *Explanatory Memorandum for the Social Security Advisory Committee: Claims and Payment Regulations for Universal Credit, Personal Independence Payment, Jobseekers Allowance (Contributory) and Employment Support Allowance (Contributory)*, 13 June 2012

> It is critical that the DWP defines the scope and scale of money advice services and any intermediary financial assistance that will be provided to UC claimants. The shift to monthly payments may be a difficult transition for many service users, not just those who struggle to budget ordinarily, simply because budgeting on a low income is challenging; it may be much harder for low income households to reduce their weekly expenditure in the short-term as they prepare to budget over a monthly period because a large proportion of it goes towards essential items (such as food and fuel) (Levell and Oldfield, 2011, p.51). If no financial assistance will be available to bridge the gap, it is important that service users are prepared well in advance for the shift to monthly payments so they can start to make provisions for any shortfalls and this means implementing advice and support now. If financial assistance will be available, but requires service users to borrow money – through an advance payment, for example – this may lead to many UC recipients beginning their claim in debt. In this key transitional stage, the government should improve the availability of financial advice and support – the lack of clarity around what this will look like and when services will be established gives much cause for concern.[17]

9.2 Single, unified payment

The DWP Explanatory Memorandum accompanying the draft Universal Credit claims and payments regulations published in June stated:

> **Couples**
>
> Under Universal Credit, couples living in the same household may make a joint claim for benefit. Evidence suggests that only 7% of cohabiting couples and only 2% of married couples keep their finances completely separate. In line with this, Universal Credit will be paid as a single monthly payment, and it will be for the family to decide whose account Universal Credit is paid into or whether it should be paid into a joint account. It is for them to decide how to manage their finances in a way that best meets the needs of the family. However if a joint claim couple do not nominate an account into which their Universal Credit should be paid the Secretary of State may nominate one.

As noted above, there will be scope for alternative arrangements – including split payments – but only in exceptional circumstances.

Some organisations have serious concerns about the proposal to pay Universal Credit as a single payment.[18] A recent briefing paper produced by the Northern Ireland Assembly Research and Information Service summarises the concerns voiced by organisations responding to the recent Work and Pensions Committee inquiry:[19]

> **Payment to one person in the household**
>
> - DWP state that exceptions to payments made directly to the household are not detailed in the Regulations, but will be **in guidance**.
> - Concern that nominating one person in the household to receive payment will impact on the **economic autonomy of women**. A particular issue for people in **domestic abuse situations** in which control and financial abuse are issues.

[17] Amy Tarr and Dan Finn, *Implementing Universal Credit: will the reforms improve the service for users?*, CESI/JRF, October 2012, p33-34

[18] The Women's Budget Group has been particularly vocal – see their memorandum to the Work and Pensions Committee, 8 August 2012

[19] Eleanor Murphy, *Work and Pensions Committee Inquiry: The Implementation of Universal Credit*, NI Assembly Research and Information Service Briefing Paper 154/12, 27 September 2012

Evidence suggests that in low incomes households money spent on children's needs tend to be **via the purse** rather than the wallet.

- May **interfere with the equality balance of relationships** and result in one partner not gaining or practicing financial capability. Equality and sharing of resources cannot be assumed to be a feature of all households even those with joint bank accounts.

- Couples should be able to **choose to split the UC payment** with payments relating to children given to the **main caregiver**.

- **Joint claims** – will cause difficulties in e.g. situations in which **one partner refuses to sign the claimant commitment,** this will have a detrimental impact on the whole household; situations in which one partner provides incorrect information without the knowledge or endorsement of the other; or situations in which a claimant has left an abusive partner and does not want them to have access to their financial details.

- **Joint claims and bank accounts** – some households lack a bank account or do not have a bank account from which direct debits can be deducted (e.g. post office accounts).

- A payment to the household may **disempower women** and where one partner in the relations is **financially irresponsible**; it will remove the safeguards that ensure that payments for children and housing costs are used for those purposes.

- Concern about the **level of discussions between DWP and the advice sector** on UC and the **absence of an advice strategy** to accompany the implementation plans for UC. Urgent attention is needed to **build the capacity of face-to-face advice** services to meet increased demands.

- At the very minimum UC **should be split between couples** and that payments for children should be paid directly to the **main carer.**

- **Social Market Foundation –** found that the majority of interviewees in their research welcomed the introduction of a single payment as a means of simplifying the system. However. The single payment would **aggregate the risk of a systems failure**, i.e. as it currently stands the multiple income streams in the benefits and tax credits system means that if one part of the system fails, claimants are not exposed to so much financial risk.

The Government originally planned to lay the final version of the Universal Credit *Claims and Payments Regulations* before Parliament at the same time as the main UC Regulations. The latter are expected to be laid before Parliament following the Chancellor's Autumn Statement in December 2012, but it is now understood that a further draft of the *Claims and Payments Regulations* will be published in December, with the final version being laid before Parliament in February or March 2013 – see "what happens next?" below.

10 What will claimants be expected to do in return for their UC?

All claimants will be required to accept at the start of their claim a **"claimant commitment"** as a condition of receiving Universal Credit. This will set out the claimant's responsibilities, the requirements placed on them according to their circumstances, and the sanctions that would apply for failure to meet their responsibilities and satisfy the requirements.

Claimants will be placed in one of **four conditionality groups**, according to their circumstances. The four groups are

- **No work-related requirements** - ie claimants in this group will not be expected to undertake any additional activities to receive UC;

- **Work-Focused Interview requirement** - claimants in this group will be expected to attend periodic interviews to discuss their plans for returning to the labour market;

- **Work Preparation requirement** - in addition to attending Work Focused Interviews, claimants in this group will be expected to take reasonable steps to prepare for work, such as attending a skills assessment, improving personal presentation, or participating in the Work Programme; and

- **All work-related requirements** - claimants in this group will need be available for, and actively seeking work, as people currently in receipt of Jobseeker's Allowance are. Claimants may be expected to spend a specific amount of time undertaking certain activities, eg carrying out work searches, making applications and registering with employment agencies.

A key feature of Universal Credit is that conditionality will also apply to certain people who are already in work. This is a new development in the benefits system. "**In-work conditionality**" will apply to single persons or couples below a certain "**conditionality threshold**" set at a level of earnings equal to the National Minimum Wage for 35 hours' work a week (or less if it has been agreed that the person can reduce their availability). Those below the conditionality threshold will be expected to look to increase their hours, take a second job, or look for a different job with better pay.

Underpinning the new conditionality regime is a new, stricter **sanctions regime** under which benefits may be reduced for failure to comply with requirements. "Higher level sanctions" - potentially lasting up to three years for repeat failures - may be imposed on claimants subject to all work-related requirements. Other sanctions may be imposed on claimants subject to work preparation requirements for failure to undertake work-related activity, or in the Work-Focused Interview group for failure to attend an interview. These could be for up to 26 weeks.

Reduced rate "**hardship payments**" will be available for some people who are subject to sanctions if they would otherwise experience hardship, as is currently the case. However, while under the current system claimants subject to a benefit sanction can qualify automatically for hardship payments if they are in a "vulnerable group", under UC there will be no automatic entitlement to hardship payments and claimants must justify their need for them on an ongoing basis. Payments will only be made to those who cannot meet their most basic and essential needs (eg accommodation, heating, food or hygiene). Furthermore, hardship payments will be recovered from the claimant at a later date (although recovery may be suspended if the claimant finds work at or above their earnings threshold, and the outstanding amount written off if the work lasts more than six months).

For further information on conditionality and sanctions under UC, see the *DWP Explanatory Memorandum for the SSAC on the draft Universal Credit Regulations*, 13 June 2012, paras 210-305.

11 How will UC be introduced?

A claimant will move onto Universal Credit in one of three ways:

- by making a **new claim** for benefit;
- by "**natural migration**" – where the claimant is already receiving a benefit but experiences a change in their circumstances such that they would have had to claim a different benefit or tax credit. They will instead claim UC; or
- by a "**managed move**" – where the claimant has no change of circumstances, and are notified by DWP that they need to transfer to UC.

UC will be introduced in a number of phases.

From April 2013 there will be "**early roll out**" of UC in four "**Pathfinder**" areas in North West England – Tameside, Oldham, Wigan and Warrington.[20] The intention is to "test a wide range of capabilities underpinning the end to end service in a live environment", such as monthly assessment and award, single benefit payments, elements of the online service, handling of changes in circumstances, operational support and relationships with local authorities and third parties, operational resilience, Real Time Information, and the new claimant commitment.[21] It is expected that early roll out will involve around 1,500 new claimants per month, comprising new claims and natural migrations from a subset of the Jobseeker's Allowance caseload.

Phase one of the national launch is to begin **from October 2013** – UC is to be introduced simultaneously across all seven DWP regions in Great Britain, initially in one district per region. This will cover both new claims from those who would otherwise have claimed Jobseeker's Allowance, and natural migrations following a change in circumstances.

Phase two is due to begin **from April 2014** when DWP will start taking new claims from in-work claimants, eg those who would have previously made a claim for tax credits – and the remaining out of work claimants.

Phase three – managed migrations of existing benefits claimants, not triggered by a change in circumstances – is due to **start in Autumn 2014** and finish by the end of 2017. Around 4 million households are expected to transfer to UC following a managed move.[22]

By the end of 2017 it is expected that the full caseload of "legacy benefit" claimants will have transferred to Universal Credit, and approximately 8 million households will be receipt of UC.

12 What if a household would get less under UC than they do now?

The DWP estimates that, compared with the existing benefits system, at the point of change to Universal Credit 2.8 million households will have a higher entitlement under UC, 2.7 million

20 See DWP press release, *Iain Duncan Smith: Early roll out of Universal Credit to go live in Manchester and Cheshire*, 24 May 2012

21 *DWP memorandum to the Work and Pensions Committee inquiry into progress towards the implementation of Universal Credit*, 17 August 2012

22 DWP, *Universal Credit Policy Briefing Note 15: Managing the build up of claims to Universal Credit*, November 2011

households will see no change in the amount they receive, and 2 million would have a lower entitlement.[23]

However, this does not mean that all 2 million households will see a reduction in the amount of financial support they receive when they transfer to UC. The Government has said that there will be "transitional protection" for those who, at the point of transfer to UC, are receiving more than they would be entitled to under the new system. The DWP's *Universal Credit – Frequently asked questions* (July 2012) states:

> To ensure there are no cash losers as a direct result of the move to Universal Credit, where circumstances remain the same, the Government will provide transitional cash protection to claimants whose Universal Credit award would be less than it was under the old system. This only applies when the DWP moves the claimant and if their Universal Credit is lower than their total current amount of benefit and tax credit. The maximum amount is fixed and will be paid until their Universal Credit award overtakes the value of their pre-Universal Credit entitlement.
>
> The DWP will continue to provide transitional protection depending on a claimant's personal circumstances. Details regarding these circumstances are currently being defined by the DWP but could include starting or leaving work. Transitional protection will of course stop if entitlement to Universal Credit ends.

It is important to note however that:

- transitional protection only applies to those moving onto UC following "managed migration"; and
- it ceases if the household subsequently experiences a significant change in circumstances.

Draft regulations setting out the detailed rules for transitional protection have not been published – they are expected to be laid before Parliament following the Chancellor's Autumn Statement in December – but on 4 July 2012 DWP released a *Universal Credit Policy Briefing Note on Transitional Protection* which set out its intentions. This stated:

> The following occurrences are defined as a significant change in circumstance.
>
> - A partner leaving/joining the household
> - A sustained (3 month) earnings drop beneath the level of work that is expected of them according to their claimant commitment
> - A sustained (3 month) increase in earnings which would lift the claimant out of Universal Credit means-tested support
> - The Universal Credit claim ending
> - The loss or gain of any of the elements that make up the Universal Credit award (for example, the childcare element, the housing element etc)

[23] *Universal Credit Impact Assessment*, October 2011

13 What about 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 payments, free school meals, and help with health costs such as free prescriptions. There are however many other schemes where eligibility is conditional on receipt of particular benefits/tax credits. No single agency has responsibility for all passported benefits – a number of government departments, the devolved administrations, local authorities and utility companies offer passported benefits and it is up to each to decide who is eligible for what. Passported benefits have evolved in an uncoordinated and piecemeal fashion over the years; the rules on entitlement vary from scheme to scheme, can be complex and difficult to understand and do not always have a clear rationale.

Most passported benefits are linked to receipt of means-tested benefits and tax credits. Since these will be replaced entirely by Universal Credit, a new basis for determining entitlement to each passported benefit will have to be decided. While the Government identified some possible alternative approaches to passporting under UC, it had not come to any firm conclusion on the best way forward by the time the *Welfare Reform Bill* was introduced.[24] In May 2011 the independent Social Security Advisory Committee (SSAC) was commissioned by DWP to undertake a review of the current system of passported benefits and to give advice on how these benefits might be provided under UC. The terms of reference for the review stated that possible solutions should not involve either an increase or decrease in expenditure and should not compromise the key objectives of welfare reform, including simplification and making work pay.

The SSAC report – together with the Government's response to it – was published on 27 March 2012.[25] The Committee put forward some possible options for passporting but did not make specific recommendations about the best way forward. It did however set out some fundamental objectives for passported benefits:

> Any option for the future should:
>
> - promote simplicity
> - avoid limiting eligibility in order to retain cost-neutrality
> - avoid cliff-edges
> - keep administrative costs to a minimum
> - make it as easy as possible to identify potential entitlement, make and process applications, and demonstrate and verify eligibility
> - consider how rapidly advancing technology might reduce administration costs and streamline processes for claimants and delivery agents[26]

The SSAC report put forward a number of options for avoiding the "cliff-edge" problem when passported benefits are withdrawn at a particular income threshold, including:

[24] See pp35-37 of Library Research Paper 11/24, *Welfare Reform Bill: Universal Credit provisions*
[25] DWP, *Universal Credit: the impact on passported benefits*, Cm 8332
[26] Ibid. para 4.3

- reducing the UC earnings disregard for families in receipt of passported benefits;
- allowing the passported benefit to "run-on" for a period of time once a family exceeds the particular threshold; and
- withdrawing passported benefits in a "stepped taper", beyond the income threshold.

Another radical solution suggested was "cashing-up" passported benefits – this approach would involve including passported benefits as elements within the UC award, which would then be withdrawn gradually as income rises by the operation of the taper. However, the SSAC acknowledged that there were pros and cons with this approach, and that cashing up would not be appropriate for some types of passported benefits.[27]

In its response to the SSAC report, the Government recognised that while radical reform of passported benefits was probably not possible in the initial stages of UC, in the long-term it would like to explore the possibility of a "generic approach" involving cashing-up passported benefits:

> 34. Many passported benefits, and their associated administrative functions, have been in place for many years and in some cases, modernisation is long overdue. The Government recognises that, given the legislative and administrative change that would be required, radical reform of passported benefits may not be achievable for the initial stages of Universal Credit and that the first challenge will be for Departments and organisations to review their entitlement criteria for 2013.
>
> 35. The Department for Work and Pensions' aspiration is to explore further welfare reform by offering a generic approach for the current suite of passported benefits. This could mean that people would be able to claim their usual Universal Credit award, but with added components for a range of other suitable benefits and public services. Claimants would be able to self-certify they have, or will, make payment from their Universal Credit from a list of agreed services. The total award, including the additional component would then be withdrawn gradually as income rises. The Government will consider this alongside other priorities for the next Spending Review.
>
> 36. The Government recognises that a pure cash allowance for services or benefits may not be appropriate for some passported benefits. However, mirroring the childcare model that will be used for Universal Credit would deliver the advantages of a cash award whilst preserving the benefit-in-kind principle that guarantees the provision of a specific service. This is because, as with the childcare model, costs will only be paid for the actual cost of the good and checks would be in place with providers to verify that the funds are spent appropriately. Put simply, the payment would be made contingent on funds being spent on the actual service.
>
> 37. The Department for Work and Pensions believes that this approach could underpin the clear advantages of Universal Credit whilst supporting the policy intent of specific passported benefits. In particular, a streamlined one-stop service is more likely to deliver a better service to claimants.[28]

In the meantime however government departments, the devolved administrations, local authorities and other bodies will have to decide interim eligibility criteria for their passported benefits. It is expected that eligibility for most passported benefits will be determined by reference an income/earnings threshold which corresponds most closely to that implied by

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[27] Ibid. pp99-101
[28] Ibid. pp6-7

the current passporting rules. In a memorandum to the Work and Pensions Committee in August 2012, the DWP stated:

> 142. Work is under way to determine how this will work but essentially Universal Credit will provide the earnings level to Government Departments, as a proxy equivalent of current eligibility criteria, and it will be up to each passported benefit to decide their criteria based on their rules and budget.[29]

Decisions on alternative eligibility criteria will have to be decided before the national roll-out of UC commences in October 2013, but there will also have to be arrangements in place in the "Pathfinder" areas in North West England from April 2013 (see "What happens next?" below).

Whatever decisions are taken on interim eligibility criteria, it is clear that it will not be possible to replicate entirely the existing coverage of passported benefits on the basis of an income threshold or thresholds. A further complicating factor is that the interim criteria will have to coexist alongside the existing passporting rules, since the "legacy benefits" will not be abolished entirely until 2017.

Further information regarding free school meals and help with health costs in England is given below. Developments in Scotland and in Wales are also discussed.

13.1 Free school meals (England)

In its response to the SSAC report, the Government said:

> 54. The provision of free school meals to all recipients of Universal Credit would almost treble the numbers currently eligible. Although the Government is sympathetic to the arguments for extending eligibility to free school meals, this is simply unaffordable in the current economic climate. In England, the Department for Education is, therefore, likely to propose defining eligibility in relation to a fixed income threshold assessed within Universal Credit and will be consulting on new eligibility criteria later this year. The focus of the consultation will be on setting criteria which can be put in place for the change to Universal Credit from October 2013.
>
> 55. In relation to the longer term strategy for free school meals, the Government notes the SSAC's discussion around 'cashing up' free school meals. A change of this magnitude would require substantial legislative and administrative change and could only be considered as part of the Government's longer term strategic approach to passported benefits. Whilst the focus of the Department's consultation is in relation to the approach for free school meals from 2013, it will also seek comments on the longer term strategy. The Department for Education has not decided whether free school meals would be included in any future generic approach to passported benefits. Any model used will need to ensure there is a positive impact on the take up of free school meals and would need to ensure school's could identify children who attract the Pupil Premium.

It is understood that the Department for Education hopes to begin consultation on interim eligibility criteria for free school meals in December 2012. It may become clearer at that stage whether or not the Department for Education sees merit in the "generic approach" as a possible long-term solution.

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29 *DWP memorandum to the Work and Pensions Committee inquiry into progress towards the implementation of Universal Credit*, 17 August 2012

13.2 Help with health costs (England)

In its response to the SSAC report, the Government said, in relation to health-related benefits in England:

> 71. The Department of Health welcomes the SSAC's discussion on options for Help with Health Costs and will explore options based on an income threshold, and will also consider the affordability and feasibility of offering a short run-on to cushion families no longer meet the entitlement criteria as a result of moving into work or increasing income.
>
> 72. In developing on any new eligibility criteria for Help with Health Costs under Universal Credit, the Department of Health will have regard to the following principles:
>
> - protecting those on the lowest incomes, in particular families with children to support the wider Government objective of lifting children out of poverty
> - maintaining access to treatment, by protecting the ability for a patient to claim entitlement to at the point of need e.g. collecting a prescription without charge from the pharmacy
> - supporting the Department for Work and Pensions benefit reform programme by encouraging people to take up work
> - having due regard to the aims of the equality duty
> - removing complexity where possible
> - creating no additional pressure on Department of Health and National Health Service budgets, at a time of financial constraint.[30]

Details of the Department's proposals are awaited.[31]

13.3 Scotland

At the end of June the Scottish Government published a consultation paper, *Scottish Passported Benefits: Consultation on changes required as a result of the introduction of Universal Credit and Personal Independence Payment*. The public consultation ran until 28 September, and the Scottish Government has not yet issued its response.

The consultation paper stated that Scottish Ministers proposed to tackle the issue of passported benefits in two stages:

- Introduce revised eligibility criteria for April 2013 "once the UK Government provides full details of how UC and PIP will operate"; and
- "To consider from April 2013 onwards a) what the ramifications of UC and PIP are once actual behaviour and budgetary impact is clearer, and b) whether we in

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30 DWP, *Universal Credit: the impact on passported benefits*, Cm 8332,

31 On 8 November Michael McCann tabled a question for written answer: "To ask the Secretary of State for Health, how the qualifying conditions for each passported benefit for which he is responsible will change under universal credit." The date for answer is 12 November 2012

> Scotland wish to create a more coherent system of passported benefits, while maintaining access to those groups who currently benefit."

It also states:

> 14. The Scottish Government intends to maintain access to each of its passported benefits along the principles of current eligibility. There is no policy intention to restrict access by narrowing the eligibility criteria or to cut the budgets as a result of the welfare reform changes in Westminster.
>
> 15. Equally, it cannot be assumed that there is scope at this time for increasing the overall budget for such entitlements in Scotland, e.g. by extending eligibility to all those who receive Universal Credit. We simply do not have the money to do this, as Universal Credit covers those in work who previously received tax credits, as well as those out of work.

It also sought views on the desirability of exploring a "cashing up" approach in the long term.

The *Welfare Reform (Further Provision) (Scotland) Act 2012*, which received Royal Assent on 7 August, enables Scottish Ministers to introduce regulations to amend devolved legislation to take account of changes to the benefits system as a result of measures in the *Welfare Reform Act 2012*. This will in the main involve changes to the rules governing access to passported benefits in Scotland. Further information can be found in SPICe Briefing 12/21 prepared for Second Reading, *Welfare Reform (Further Provision) (Scotland) Bill* (26 March 2012).

13.4 Wales

In a written statement to the National Assembly on *The Impact of UK Government's Welfare Reforms: Amendments to Welsh Government Passported Benefits and Other Legislation* on 8 October 2012, Leighton Andrews, Minister for Education and Skills, said:

> The Welsh Government is endeavouring to deal with the challenge of amending its own legislation in response to these radical welfare reforms. In summary, as a result of the UK Government's changes, we are required to develop new eligibility criteria for passported benefits. Details about how Universal Credit will operate are still being developed and we have yet to receive sufficiently detailed data at a Wales level to enable us to assess the impact of new eligibility criteria.
>
> There is currently no confirmation from DWP as to the scale and scope of the Pathfinder for Universal Credit, detailed agreements are yet to be worked through on DWP capacity to support eligibility checks for passporting, and comprehensive information is needed on the final arrangements regarding award notifications for Universal Credit. We understand that the information is not yet available or is under review..
>
> The need for further detailed information from DWP, confirmation of the Universal Credit regulations, which are yet to be laid before Parliament, and demanding timescales make this an increasingly challenging task. Despite this, we will continue our efforts with a view to ensuring that the amendments are in force by 1 April 2013.
>
> As Welsh Government develops its approaches, we will continue to work closely with our partners and take action wherever possible, to mitigate the negative impacts of UK Government's Welfare reforms in Wales.

14 What happens next?

The *Welfare Reform Act 2012* received Royal Assent on 9 March 2012. The Act sets out the broad framework for Universal Credit, but the detailed rules will be set out in regulations. In June, DWP published draft versions of three sets of regulations on Universal Credit, along with explanatory memorandums, for the independent Social Security Advisory Committee (SSAC) to scrutinise.[32]

The draft ***Universal Credit Regulations 2012*** are the main regulations setting out the detailed rules for UC, covering the basic conditions that claimants must satisfy, the UC elements, the definition and measurement of income and earnings, capital rules, calculation of awards, conditionality, sanctions and hardship payments.

The draft ***Universal Credit, Personal Independence Payment and Working-age Benefits (Claims and Payments) Regulations 2012*** include the detailed rules on how claims for UC to be made, and arrangements for payments (eg the frequency, the payee, and form).

The draft ***Universal Credit, Personal Independence Payment and Working-age Benefits (Decisions and Appeals) Regulations 2012*** update provisions on how decisions on claims for UC are made, including requirement for mandatory reconsideration before appeal.

All three sets of draft regulations, and the accompanying DWP explanatory memorandums prepared for the SSAC, are available at the DWP website.

The SSAC launched a public "call for evidence" on these and other draft regulations on 15 June. The deadline for responses was 27 July and in August submitted its report to the Government. It is expected that final versions of most of the UC regulations will be laid before Parliament, along with the SSAC's report and the Government's response, following the Chancellor's Autumn Statement on 5 December.

The final versions of the *Universal Credit Regulations* and the *Decisions and Appeals Regulations*, together with other regulations concerning the migration of claimants to UC and transitional protection, are expected to be laid before Parliament following the Autumn Statement. These will be subject to the "affirmative procedure", and will therefore be subject to a vote in both Houses.

It is expected that a further draft of the *Claims and Payments Regulations* will be published alongside these regulations in December, but the final version of these regulations is not expected until February or March 2013.

15 What's happening in Northern Ireland?

The Universal Credit provisions in the *Welfare Reform Act 2012* only extend to England, Scotland and Wales. Social security in Northern Ireland is a devolved matter, but there is a long-standing policy of maintaining parity with Great Britain in this area. "Parity" in social security between Northern Ireland and Great Britain is more than just a convention. The Belfast Agreement specifically cited social security as an area where parity is normally

32 The *Claims and Payments* and *Decisions and Appeals* regulations were subject to formal referral to SSAC – ie the Government were required under section 172 of the *Social Security Administration Act 1992* to refer drafts of the regulations to SSAC for scrutiny. The draft *Universal Credit Regulations 2012* were not subject to formal referral, but the Government decided to referred them to SSAC on an in

maintained, and the principle is enshrined in section 87 of the *Northern Ireland Act 1998*. There are some differences in social security provision in Northern Ireland compared with Great Britain, but these are relatively minor and as regards the range of benefits available, conditions of entitlement and benefit rates, the two systems essentially operate as one.

The parity principle recognises the fact that Northern Ireland could not fund a social security system equivalent to that in Great Britain without a substantial financial subsidy from the United Kingdom. In short, the UK Government is committed to meeting the shortfall in social security spending in Northern Ireland, on condition that people in Northern Ireland pay the same rate of income tax and National Insurance, and enjoy the same rights and benefits as people in Great Britain. Northern Ireland *could* decide to follow different policies from the UK Government, but the expectation is that any costs involved would fall to be met by the Executive.

After much deliberation, the Northern Ireland Executive's *Welfare Reform Bill*[33] was introduced in the Northern Ireland Assembly on 1 October 2012. The Second Stage debate was on 9 October. The Bill makes provision for Universal Credit in Northern Ireland, mirroring the arrangements in Great Britain. It is planned to introduce Universal Credit in Northern Ireland from April 2014, as part of the UK-wide roll-out.

Introducing the Bill at the Second Stage, the Minister for Social Development, Nelson McCausland, said that in considering amendments to the Bill, the Assembly would have to bear in mind the costs that might be involved were parity to be broken, and the implications for the funding of other public services in Northern Ireland. He continued:

> That does not mean, however, that we blindly implement all the changes that were introduced at Westminster under the GB Welfare Reform Act 2012. Together, we must identify and implement changes that take account of our particular needs in Northern Ireland but are consistent with the constraints of parity. Through the Assembly, the Executive and the Executive subcommittee on welfare reform, we can decide on the type of changes that it is within our remit to make, and I will comment on some of those later in the speech. Of course, I am working hard to achieve changes through ongoing discussions with Department for Work and Pensions Ministers. Those meetings with Ministers and officials at Westminster have been going on for a considerable time since I came into the Department, and the next meeting with David Freud is scheduled for next Tuesday.

On 22 October 2012 the Mr McCausland announced that agreement had been reached with the UK government on "changes to the way Universal Credit can be paid to protect the most vulnerable in our society and reflect Northern Ireland's unique circumstances." The changes agreed are:

- The housing cost element of Universal Credit is to be paid direct to landlords, rather than to the claimant;
- Payment of Universal Credit may be split between two parties in the household; and
- Universal Credit may be payable twice each month, rather than once a month

Further details are given in a Northern Ireland Executive press release, *Tailoring Welfare Reforms for Northern Ireland: McCausland*, 22 October 2012

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33 Bill 13/11-15

Information on the Universal Credit provisions in the Bill as introduced can be found in NI assembly Research and Information Service Briefing Paper 144/12, *A Guide to the Welfare Reform Bill*, 4 October 2012.