



DWP Department for
Work and Pensions

Universal Credit: welfare that works

Presented to Parliament by the Secretary of State
for Work and Pensions by Command of Her Majesty
November 2010

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Contents

Foreword by the Secretary of State	1
Executive summary	2
Chapter 1 Why do we need fundamental reform?	6
Chapter 2 Universal Credit: a new approach to welfare	13
Chapter 3 Conditionality and sanctions	24
Chapter 4 Delivering Universal Credit: a better deal for everyone	32
Chapter 5 Reducing fraud and error	41
Chapter 6 Universal Credit and the wider system	45
Chapter 7 The impact of Universal Credit	50
Annex 1 Consultation response	61
Annex 2 Options for reform	63
Annex 3 Treatment of earnings and income in Universal Credit	66

List of figures

Figure 1	Marginal Deduction Rate under the current system lone parent with two children	9
Figure 2	Benefit and Tax Credit Expenditure 1996/97 to 2014/15 – Spending Review 2010 at 2010/11 prices	12
Figure 3	The impact of Universal Credit lone parent with two children	15
Figure 4	Net income: Single person, no children	16
Figure 5	Net income: Couple with two children	17
Figure 6	Current conditionality levels in the main out-of-work benefits	25
Figure 7	Future conditionality levels within the existing system	27
Figure 8	Proposed future sanctions structure under the existing benefit system	30
Figure 9	A real-time payment system	35
Figure 10	Administration of Universal Credit claim	36
Figure 11	Average long-run impact from Universal Credit	53
Figure 12	Participation Tax Rate under Universal Credit lone parent with two children	57

Foreword by the Secretary of State

Successive governments have ignored the need for fundamental welfare reform, not because they didn't think that reform was needed but because they thought it too difficult to achieve.

Instead of grasping the nettle, they watched as economic growth bypassed the worst off and welfare dependency took root in communities up and down the country, breeding hopelessness and intergenerational poverty.

The scale of that failure can be measured in terms of a working-age welfare budget that has increased by 45 per cent in real terms over the last decade while poverty for working-age adults has increased and social mobility has reduced; the Government has spent vast sums of money but the poor have become relatively poorer and the rungs on the ladder to prosperity have moved further apart.

The welfare bill has become unsustainably expensive, but the real price of this failure has been paid by the poorest and the most vulnerable themselves. Today, five million people are on out-of-work benefits in the UK, and 1.4 million of them have been receiving out-of-work benefits for nine out of the last ten years. Not only that, but we now have one of the highest rates of workless households in Europe, with 1.9 million children living in homes where no-one has a job.

A life on benefits is a poor substitute for a working life but too much of our current system is geared toward maintaining people on benefits rather than helping them to flourish in work; we need reform that tackles the underlying problem of welfare dependency. That is why we are embarking on the most far-reaching programme of change that the welfare system has witnessed in generations.

Universal Credit: welfare that works marks the beginning of a new contract between people who have and people who have not. At its heart, Universal Credit is very simple and will ensure that work always pays and is seen to pay.

Universal Credit will mean that people will be consistently and transparently better off for each hour they work and every pound they earn. It will cut through the complexity of the existing benefit system to make it easier for people to get the help they need, when they need it. By utilising tried and proven information technology, we will streamline the system to reduce administration costs and minimise opportunities for error or fraud.

Our reforms put work, whether full time, part time or just a few hours per week, at the centre of our welfare system. As such it extends a ladder of opportunity to those who have previously been excluded or marginalised from the world of work.



**The Rt Hon
Iain Duncan Smith MP**
Secretary of State for Work and Pensions

Executive summary

1. The Coalition Government is determined to reform the benefit system to make it fairer, more affordable and better able to tackle poverty, worklessness and welfare dependency. We have already announced a range of measures in the Budget and the Spending Review to achieve this. Alongside these measures we made the commitment to overhaul the benefit system to promote work and personal responsibility.
2. This White Paper sets out the Coalition Government's plans to introduce legislation to reform the welfare system by creating a new Universal Credit. This Universal Credit will radically simplify the system to make work pay and combat worklessness and poverty. This publication outlines the need for change, how Universal Credit will work, how it will affect benefit recipients and its broader impact.
3. Our consultation document, *21st Century Welfare* (Cm 7913, July 2010), spelt out the problems of poor work incentives and complexity in the current benefits and Tax Credits systems. We invited contributions from the public and we received over 1,600 responses via post, email and through our online consultation site. There was general agreement on the need for reform with strong support for our objectives of streamlining the system and making work pay. The majority of respondents who commented on the specific options for reform recognised the attractions of moving towards a single benefit. A brief report on the responses is contained in Annex 1. A fuller report, *Consultation responses to 21st Century Welfare* (Cm 7971, November 2010), appears today alongside this publication.

"We broadly welcome the direction of welfare reform proposed by the Coalition Government and we support the intention to make the benefit system simpler and clearer for recipients, and to make work pay." **Citizens Advice**

“...there are substantial advantages to having a more integrated benefits and Tax Credits system: it would reduce the Government’s administration costs and the amount of money lost to fraud and error, and be simpler for recipients to understand, which might in itself encourage some to enter work. We agree with this assessment, and consider there to be a strong case for integrating all benefits and Tax Credits into a single benefit.” **The Institute for Fiscal Studies**

4. For people reliant on benefits the returns from work can be extremely low. In the current system, many have all or almost all of their earnings deducted from their benefits. This lack of any significant return from work is compounded by the complexity of separate out-of-work benefits and in-work Tax Credits and Housing Benefit, creating a disconnect between out-of-work benefits and in-work support. Taking a low-paid job means people running a large risk as Tax Credits are calculated and Housing Benefit adjusted over weeks and sometimes months. We know that many are simply not prepared to take that risk and remain trapped on benefits for many years as a result.
5. This has consequences for us all, not just those trapped on benefits who no longer see work as the best route out of poverty. The social and economic costs of the current system’s failures are borne by society as a whole, since worklessness blights the life chances of parents and children and diminishes the country’s productive potential. The UK has one of the highest rates of children growing up in homes where no one works and this pattern repeats itself through the generations. Less than 60 per cent of lone parents in the UK are in employment, compared to 70 per cent or more in France, Germany and the Netherlands.
6. Universal Credit will start to change this. It will reintroduce the culture of work in households where it may have been absent for generations.
7. Universal Credit is an integrated working-age credit that will provide a basic allowance with additional elements for children, disability, housing and caring. It will support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker’s Allowance and income-related Employment and Support Allowance.
8. The Government is committed to ensuring that no-one loses as a direct result of these reforms. We have ensured that no-one will experience a reduction in the benefit they receive as a result of the introduction of Universal Credit.
9. Universal Credit will improve financial work incentives by ensuring that support is reduced at a consistent and managed rate as people return to work and increase their working hours and earnings. People will generally keep more of their earnings for themselves and their families than is currently the case.
10. Universal Credit will also remove the distortions in the current system that tend to over-reward people for working a specific number of hours that may not suit them or their employers. Universal Credit will ensure that all amounts of work will be more financially rewarding than inactivity and remove the current barriers to small amounts of work.

4 Executive summary

11. Universal Credit will merge out-of-work benefits and in-work support. This means that people will no longer have to take a risk in moving from one system to another. For those in employment, Universal Credit will be calculated and delivered electronically, automatically adjusting credit payments according to monthly income reported through an upgraded version of the Pay As You Earn tax system (on which HM Revenue & Customs will be consulting shortly). The system will be simpler and will respond more quickly to changes in earnings so that people will not face the same complexities as they do now, particularly at the end of a tax year. As a result people will be much clearer about their entitlements and the beneficial effects of increasing their earnings by taking on more hours or doing some overtime.
12. This would involve an IT development of moderate scale, which the Department for Work and Pensions and its suppliers are confident of handling within budget and timescale.
13. The clear financial incentive provided by Universal Credit will be backed up by a strong system of conditionality; unemployed people who can work will be required to take all reasonable steps to find and move into employment. Conditionality will be responsive to an individual's circumstances – reflecting, for example, that whilst the majority should move into full-time work, for some people there may be temporary periods when part-time work is appropriate (for example, for some lone parents).
14. Strengthened conditionality will in turn be supported by a new system of financial sanctions. The new sanctions will provide greater incentives for people to meet their responsibilities.
15. Overall administration of the new benefit will be managed by one department – the Department for Work and Pensions – as opposed to today's complex delivery of current benefits through the Department for Work and Pensions, HM Revenue & Customs and Local Authorities. People will have one system to contact rather than having to repeat information to three separate bodies, so strengthening the connection between financial and labour market support.
16. As a simpler, streamlined system, Universal Credit will reduce the scope for costly errors on the part of recipients and administrators. By allowing recipients to benefit financially from doing small amounts of irregular work Universal Credit will reduce the incentive for people to commit fraud by failing to declare work. A simpler, more automated system linked to taxes and earnings will also make it easier to detect and prosecute serious organised fraud.
17. Over the Spending Review period £2 billion has been set aside as part of the Department for Work and Pensions settlement to fund the implementation of the Universal Credit.

18. In the long run we expect the impact of Universal Credit on society to be considerable. We expect as many as 350,000 children and 500,000 working age adults could be moved out of poverty by these changes, by virtue of the changes to entitlement and increased take-up of benefit.
19. Over and above this we know that work, and the improved incomes that flow from it, have beneficial effects in terms of people's health and well-being, the educational achievements of children and improvements in communities, such as reduced crime and anti-social behaviour. It is difficult to quantify these effects precisely but their existence is not in doubt.
20. The Government intends to introduce a Welfare Reform Bill in January 2011 to give effect to these changes. We will then adopt a phased approach to the introduction of Universal Credit with the first individuals expected to enter the new system from 2013, followed by the gradual closure of existing benefits and Tax Credits claims and their transfer to the new system.
21. Universal Credit represents a fundamental change for Britain's welfare system. It will create a leaner but fairer system administered by a single government department delivering support that is integrated and explicitly focused on ensuring that work always pays. It will substantially reduce poverty and, as well as being fairer, the system will also be firmer. The links between benefit payments, earnings and tax will in turn make the system more secure from fraud and error and conditionality will push people to do as much work as is reasonable for them.

Why do we need fundamental reform?

1

1. The Government is committed to reforming the welfare system to make it fairer, more affordable and to tackle poverty and welfare dependency, whilst continuing to support the most vulnerable in society. As a first step, the Government announced a number of measures in the Budget and Spending Review 2010.
2. The changes include:
 - capping household benefit payments so that families do not receive more in welfare than median after-tax earnings for working households;
 - withdrawing Child Benefit from families with a higher rate taxpayer;
 - measures to control the cost of Tax Credits, Housing Benefit and Council Tax Benefit; and
 - time-limiting contributory Employment and Support Allowance for those in the Work Related Activity Group.
3. In the Spending Review the Government made it clear that these and other measures were intended to create a fair and affordable platform on which to introduce a new and radically different system of support for people of working age – Universal Credit.
4. The background to this announcement is the commitment in the Coalition Agreement to investigate how to simplify the benefits system in order to improve incentives to work. This was reinforced in the Queen's Speech in May, where we announced that both the tax and benefits systems would be made fairer and simpler. In July of this year the Government published *21st Century Welfare* (Cm 7913), a consultation paper that laid out the problems of poor work incentives and complexity in the benefits and Tax Credits system and proposed a number of measures to tackle these.

The current system

5. Whilst the current system provides targeted support to meet specific needs, the net effect is an array of benefits, each with its own rules and criteria, interacting in complicated ways, creating perverse incentives and penalties, confusion, and administrative cost.
6. There are more than 30 benefits and many more potential combinations of benefits and additional premiums. Some simplifications have been made but much more can and must be done.
7. The current system provides a range of separate, and often overlapping, payments to meet a wide range of needs:
 - a. Income Support, Jobseeker's Allowance and Employment and Support Allowance provide basic income replacement, delivered through Jobcentre Plus;
 - b. Housing Benefit and Council Tax Benefit support rent and council tax, delivered by Local Authorities;
 - c. a range of payments meet the additional needs of disabled people and carers. Some of these (like Employment Support Allowance and disability premiums within Income Support) are paid via Jobcentre Plus; Disability Living Allowance and Carer's Allowance are delivered by the Pension, Disability and Carers Service;
 - d. Child Benefit supports parents with children, supplemented by Child Tax Credit for low-income families, paid by HM Revenue & Customs; and
 - e. Working Tax Credit supports certain low-paid workers and makes provision for childcare, also paid by HM Revenue & Customs.
8. Some of these are individually based (such as contributory Jobseeker's Allowance and Employment and Support Allowance), others are 'household' payments, assessed on the basis of the income and savings of both members of a couple.

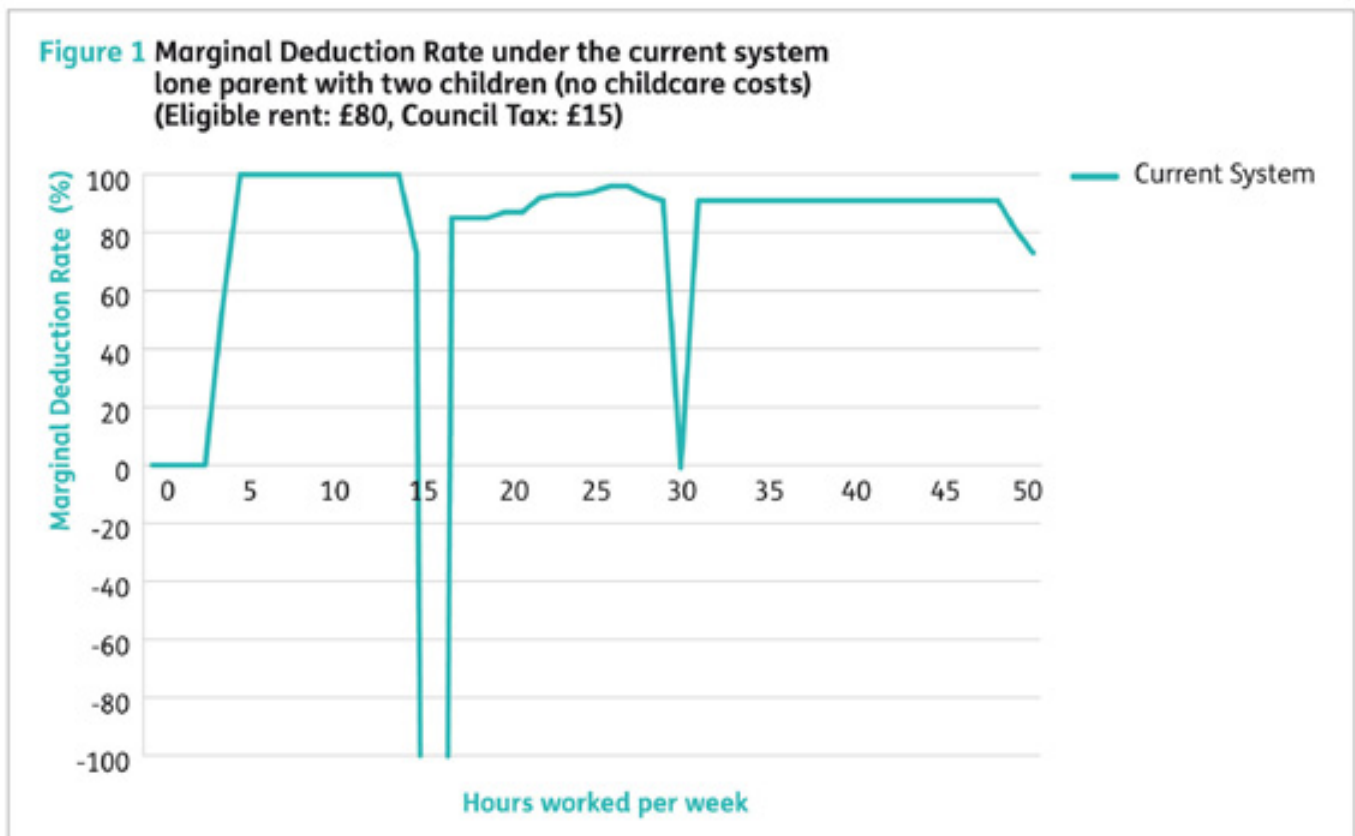
Poor work incentives

9. A key motivating factor for people going to work, doing extra hours and taking extra responsibility, is to earn money so that they can look after themselves and their family.
10. Income-related benefits are provided to people who cannot earn enough to meet their essential needs, such as food, housing and utilities. If people on benefits do earn some money it is only right that their income-related benefits are reduced so that they spend their own earnings rather than taxpayers'.

8 Chapter 1 Why do we need fundamental reform?

11. However, the current rules start to reduce benefit after a very small amount of earnings at the rate of a pound of benefit for every pound earned. This means that many who currently rely on benefits for all their basic needs would have to work for many hours at the minimum wage before they were noticeably better off. This provides little rational incentive to work legitimately for a few hours because every penny earned over a small 'disregard' is lost through reduced benefits. This tends to push work underground and undermines activity that we want to encourage.¹
12. Financial work incentives have been grafted onto the existing system, but distinct in-work benefits have failed to convince many people to make the transition to work. Working Tax Credit provides a substantial boost to income for people increasing their hours of work. However, this boost only occurs when hours worked are above 16, 24 or 30 hours, depending on family type.
13. Once in receipt of Working Tax Credit, greater effort also often receives little or no financial reward as Tax Credits, Housing Benefit and Council Tax Benefit are withdrawn at the same time as liability for Income Tax and National Insurance contributions increase.
14. The combined effect of benefit withdrawal rates and additional tax as earnings increase is called the Marginal Deduction Rate and has the same practical effect as a tax rate. Currently, when combined with tax and National Insurance payments, the withdrawal of Tax Credits, Housing Benefit and Council Tax Benefit can lead to Marginal Deduction Rates which are nearly 96 per cent, much higher than the highest rate of Income Tax.
15. The current system incentivises many people to work no more or less than the minimum hours required to qualify for Working Tax Credit. This fails to reflect the flexible working pattern that modern employers and individuals need.
16. Furthermore, the simultaneous withdrawal of different benefits at different taper rates creates uncertainty as it produces variable, unpredictable and often very high Marginal Deduction Rates, depending on how much the individual earns. Figure 1 shows typical Marginal Deduction Rates under the current system faced by a lone parent with two children.

¹ Barbour A, 2008, *Work Incentives in the Benefit System: Increasing Levels of Earnings Disregards*, Community Links Evidence Paper No. 12; SPARK Research, 2004, *A Review of the DWP Benefit Fraud Sanctions Regime*, Department for Work and Pensions In-house report.



Complexity as a barrier to work

17. Research shows that complexity means that it is difficult for people to know what benefits and Tax Credits they can get. This undermines trust in the system and stops people focusing on getting back to work.²
18. Nearly half of the six million working-age people getting benefits from the Department for Work and Pensions also get Housing Benefit from their Local Authority and around 1.6 million people receive both a Department for Work and Pensions benefit and some Tax Credits from HM Revenue & Customs. About a third of Housing Benefit recipients also receive Tax Credits and have to deal with both HM Revenue & Customs and their Local Authority. This includes virtually all families with children on Housing Benefit. In about 450,000 cases the Local Authority has to establish the amount of Tax Credits in payment so that this can be taken into account as income. This accounts for about a third of the cases where the Local Authority itself has to carry out its own means test rather than relying on one already carried out by the Department for Work and Pensions.

² Community Links, Low Incomes Tax Reform Group, 2007, *Interact: benefits, Tax Credits and moving into work*, CPAG; Royston S, 2007, *Benefit simplification and the recipient*, Department for Work and Pensions; Sainsbury R and Weston K, 2010, *Exploratory qualitative research on the 'Single Working Age Benefit'* Department for Work and Pensions Research Report No. 659.

19. The transition between out-of-work benefits and work can involve uncertainty in leaving the familiar security of the benefits system for the uncertainty of work, which is then further compounded by uncertainty over what support is available in work and whether it will be processed in time to replace out-of-work entitlements. This can cause severe financial hardship and emotional stress. For the poorest families there simply isn't any overdraft facility or spare money to cover delays or mistakes.
20. The net result of how different benefits and incentives stop and start puts pressure on people on low incomes to work no more or less than the number of hours at which they become eligible for Tax Credits. This does not reflect the needs of a flexible labour market or what should be the rational relationship between hours worked and financial reward received.

The administrative cost of complexity

21. The complexity of the system also generates inefficiency. In 2009, 2.3 million contacts to the Department for Work and Pensions were driven by people contacting the wrong agency and 1.4 million by people contacting the wrong office.³ This complexity prevents people taking up benefits to which they are entitled. For example, in 2008/09 only between 38 and 51 per cent of those in work and entitled to Housing Benefit actually claimed.⁴
22. People are currently required to communicate changes in their personal and financial circumstance separately to different organisations (for example, Jobcentre Plus, HM Revenue & Customs, the Pension, Disability and Carers Service or the Local Authority), so that adjustments can be made to benefit entitlement. The same information is often provided several times over. This increases the number of unnecessary contacts, at a cost to both the individual and the taxpayer, with each contact increasing the potential for fraud and error.
23. We estimate that £5.2 billion a year is wrongly paid out as a result of fraud and error: £2.1 billion of fraud and error in Tax Credits⁵ and £3.1 billion in Department for Work and Pensions benefits.⁶ Underpayments are also a problem, leaving people without legitimate entitlements estimated at £1.3 billion a year in benefits and £260 million a year in Tax Credits.⁷ The Government has set out a strategy⁸ to reduce significantly the level of fraud and error in the welfare system. Simplification of the system will help us to go even further in removing the structural propensity towards error.

3 Department for Work and Pensions management information gathered in 2009.

4 Department for Work and Pensions, 2010, *income-related benefits: estimates of take-up 2008-09*.

5 HM Revenue & Customs, 2009, *Child and Working Tax Credits Fraud and Error Statistics 2008-09*.

6 Department for Work and Pensions, 2010, *Fraud and Error in the Benefit System: October 2008 to September 2009*.

7 Ibid; HM Revenue and Customs, 2009, *Child and Working Tax Credits Fraud and Error Statistics 2008-09*.

8 HM Revenue & Customs and Department for Work and Pensions, October 2010. *Tackling Fraud and Error in the benefit and tax credit systems*.

24. The Government spends a further £3.5 billion each year on administration.⁹ The Department for Work and Pensions and its agencies spend around £2 billion a year, Local Authorities spend a further £1 billion to administer Housing Benefit and Council Tax Benefit, while HM Revenue & Customs spends £450 million administering Tax Credits. Multiple agencies use valuable resources to gather and manage essentially the same information.

The rising cost of welfare dependency and poverty

25. Welfare dependency is a significant and growing problem in Britain, with huge social and economic cost for individuals, their families and wider society. The welfare state has become a vast, sprawling bureaucracy that maintains, rather than really challenges, poverty:
- a. more than one in four working-age adults in the UK does not work, and at least 2.6 million people spent at least half of the last ten years on some form of out-of-work benefit;¹⁰
 - b. around a fifth of families with children are in poverty at any one time and around two-fifths experienced poverty at some time in a four year period;¹¹ and
 - c. 35 per cent of families remain in poverty when a parent enters work¹² yet 2.4 million households now receive Working Tax Credit.¹³
26. To be effective and sustainable, public investment in tackling poverty must be about more than transferring money from those who have to those who have not. In the last decade, expenditure on working-age benefits and Tax Credits has risen from £52 billion in 1996/97 to £74 billion in 2009/10¹⁴. Spending on working-age Housing Benefit has increased by more than 25 per cent to £14.2 billion.
27. We cannot continue with spending on welfare that all too often has a negative, rather than a positive, impact. Its complexity and poor financial incentives to work are key factors in trapping people on out-of-work benefits. The long-term effect on our society is particularly worrying given that a higher proportion of children grow up in a workless household in the UK than in almost any other EU country¹⁵ and children growing up in disadvantaged families are more likely to be disadvantaged themselves.¹⁶

9 Department for Work and Pensions, HM Revenue & Customs and Local Authority expenditure data.

10 Cabinet Office, May 2010, *State of the nation report: poverty, worklessness and welfare dependency in the UK*.

11 Browne J and Paull G, 2010, *Parent's work entry, progression and retention and child poverty*, Department for Work and Pensions Research Report No. 626.

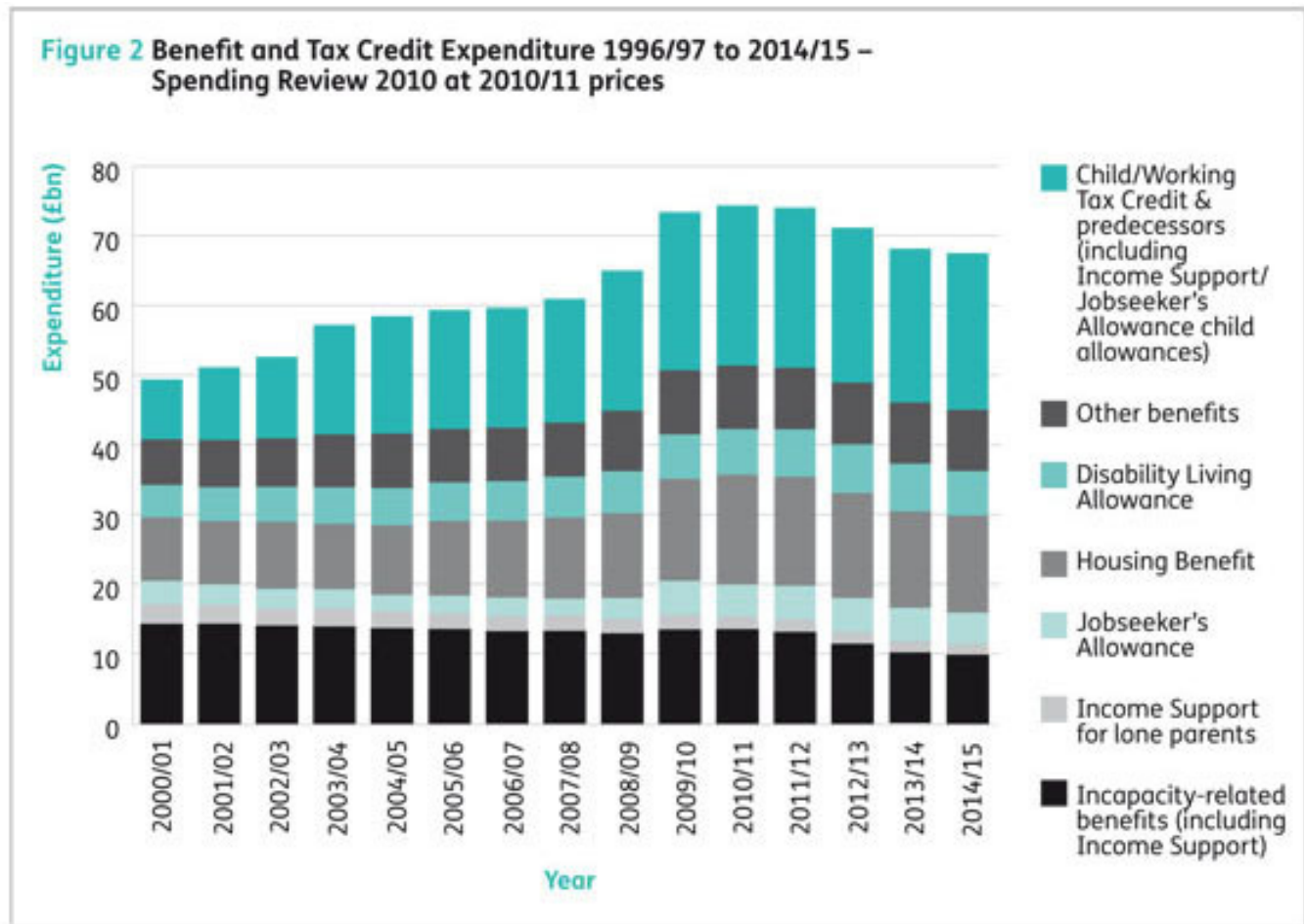
12 Ibid.

13 HM Revenue & Customs, April 2010, *Child and Working Tax Credits Statistics*, Office of National Statistics.

14 Department for Work and Pensions and HM Revenue & Customs expenditure data.

15 Eurostat, 2008 data.

16 Cabinet Office, 2009, *Understanding the risks of social exclusion across the life course: Families with Children*. Social Exclusion Task Force.



Conclusion

28. The benefits system was conceived mainly to protect people from poverty, but for many it has had the opposite effect of trapping individuals, families and whole communities in the very condition it was supposed to alleviate. The waste of human potential is immense and the cost to our country vastly exceeds the monetary benefits paid.
29. The Government wants to create a welfare system that provides people with the confidence and security to play a full part in society through a flexible labour market within a competitive modern economy. Progress has been made over the past 20 years. Britain is internationally recognised as having some of the most effective labour market policies in the world, helping people, including those previously written off as 'inactive' in the labour market, to move off benefits and into work through conditionality and support. We need to bring the parts of the system that are not working up to the level of the best.
30. The measures announced in the Budget and Spending Review will start the process of making the system fair and affordable. But more radical reform to improve work incentives and make the system genuinely simpler is essential to tackling the key underlying problems.

Universal Credit: a new approach to welfare

2

Universal Credit is a radical new approach to welfare:

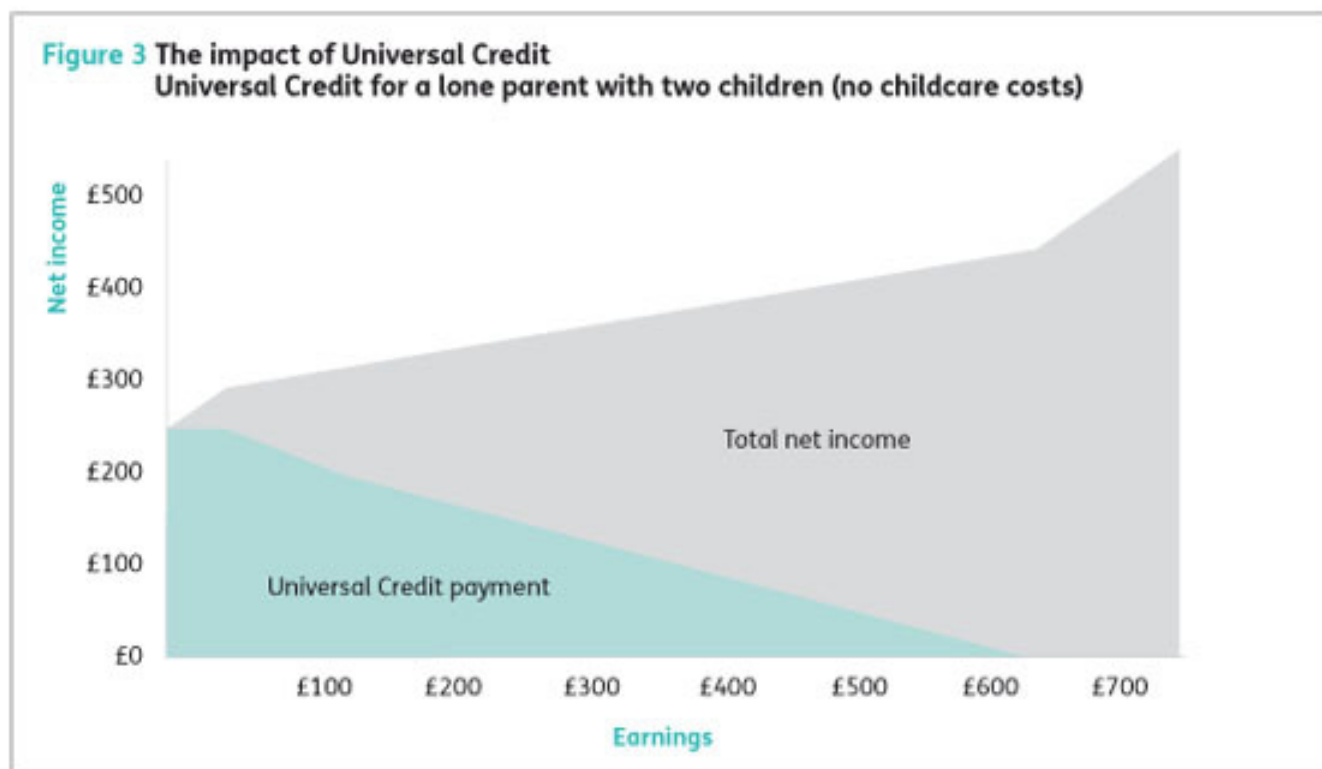
- It will bring together different forms of income-related support and provide a simple, integrated, benefit for people in or out of work.
- It will consist of a basic personal amount (similar to the current Jobseeker's Allowance) with additional amounts for disability, caring responsibilities, housing costs and children.
- As earnings rise, we expect Universal Credit will be withdrawn at a constant rate of around 65 pence for each pound of net earnings. Higher earnings disregards will also reinforce work incentives for selected groups.

When introduced, Universal Credit will initially apply to new claims. It will be phased in for existing benefit and Tax Credit recipients. There will be no cash losers at the point of change, ensuring that no one will see their benefits reduced when Universal Credit is introduced.

1. The Government is determined to introduce radical change to tackle the problems in the current welfare system. *21st Century Welfare* (Cm 7913) outlined several possible models of reform. The Government has concluded that the Universal Credit is the right approach to deliver the fundamental changes needed.
2. Universal Credit offers the greatest scope to improve work incentives. It is likely to be the most effective of the models in smoothing the transition to work, especially given the opportunity for greater automation. The majority of respondents to the consultation who expressed a preference said they preferred the Universal Credit to other options.

Key features of Universal Credit

3. Universal Credit will be an integrated benefit in place of Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Housing Benefit, Child Tax Credit and Working Tax Credit.
4. The amount of Universal Credit will depend on the level of income and other family circumstances. It will be payable in and out of work so the complicated rules that apply currently when people start and leave a job, including hours rules, will disappear, improving the incentive to work.
5. The Universal Credit will have a simple structure designed to:
 - provide a basic income for people out of work, covering a range of needs;
 - make work pay as people move into and progress in work; and
 - help lift people out of poverty.
6. Within Universal Credit, the key mechanisms for making work pay will be a single taper to withdraw support as earnings rise and a new approach to earnings disregards.



A single taper

7. The taper is the rate at which benefit is reduced to take account of earnings.
8. Currently, there are different tapers for benefits and Tax Credits and tapers can apply to either gross or net income. Housing Benefit has a 65 per cent taper on net income. Council Tax Benefit has a 20 per cent taper on net income. The Tax Credits taper of 41 per cent (from April 2011) on gross income is equivalent to a net income taper of about 60 per cent. The interaction of all these tapers can lead to Marginal Deduction Rates of almost 100 per cent.
9. The Government is determined to ensure that work pays. We believe that a withdrawal rate of around 65 per cent would deliver sufficient work incentives whilst also being affordable. This taper would apply to earnings net of tax and National Insurance meaning that the highest Marginal Deduction Rate for low-earning workers would be reduced from around 96 per cent to 65 per cent for those earning below the personal tax threshold and to around 76 per cent for basic rate taxpayers.

Disregards

10. We want to ensure that people are encouraged to take jobs of only a few hours a week if this is all that is possible for them in the short term. To achieve this we will allow some groups to earn significantly more before their benefit starts to be withdrawn. The level of these earnings disregards will reflect the needs of different families to ensure that work pays.

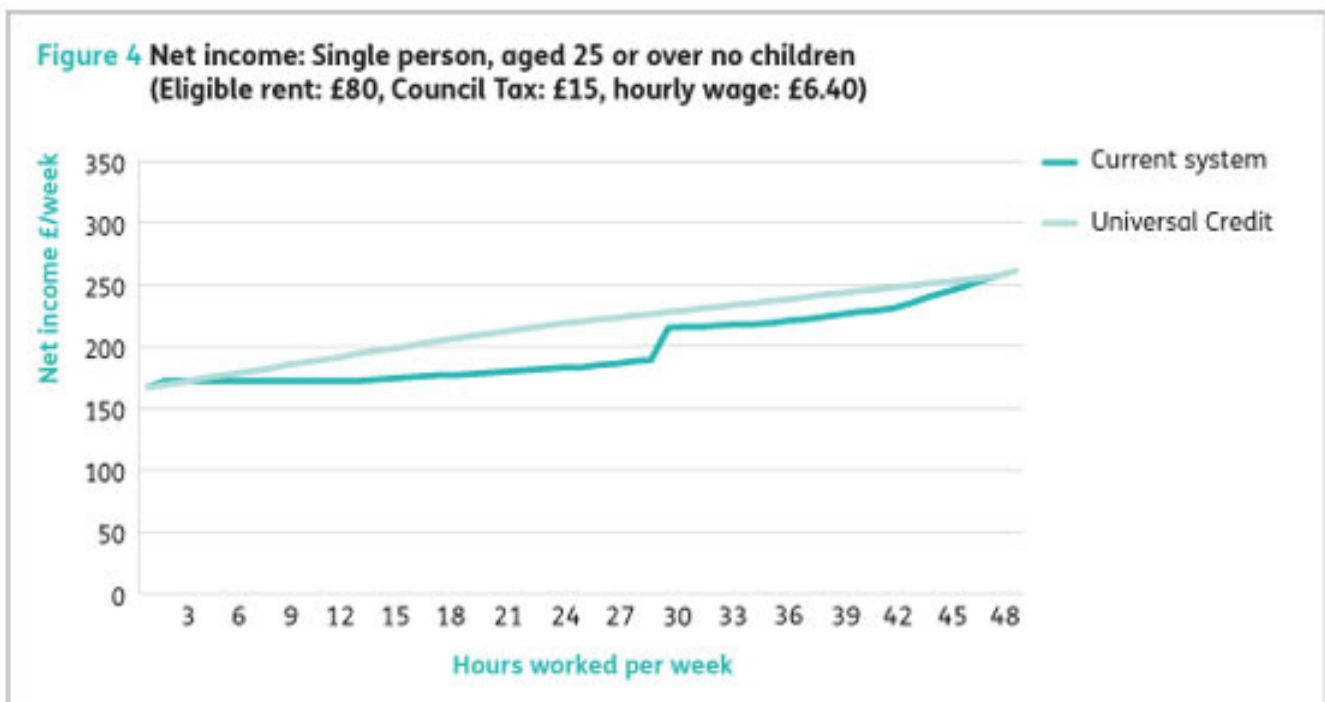
11. For example, a couple with children will get a higher disregard than a similar couple without children. There will also be a higher disregard for disabled people. These disregards will be reduced to reflect the amount of support being provided for rent or mortgage interest support. For details of the expected structure and amount of disregards see Annex 3.

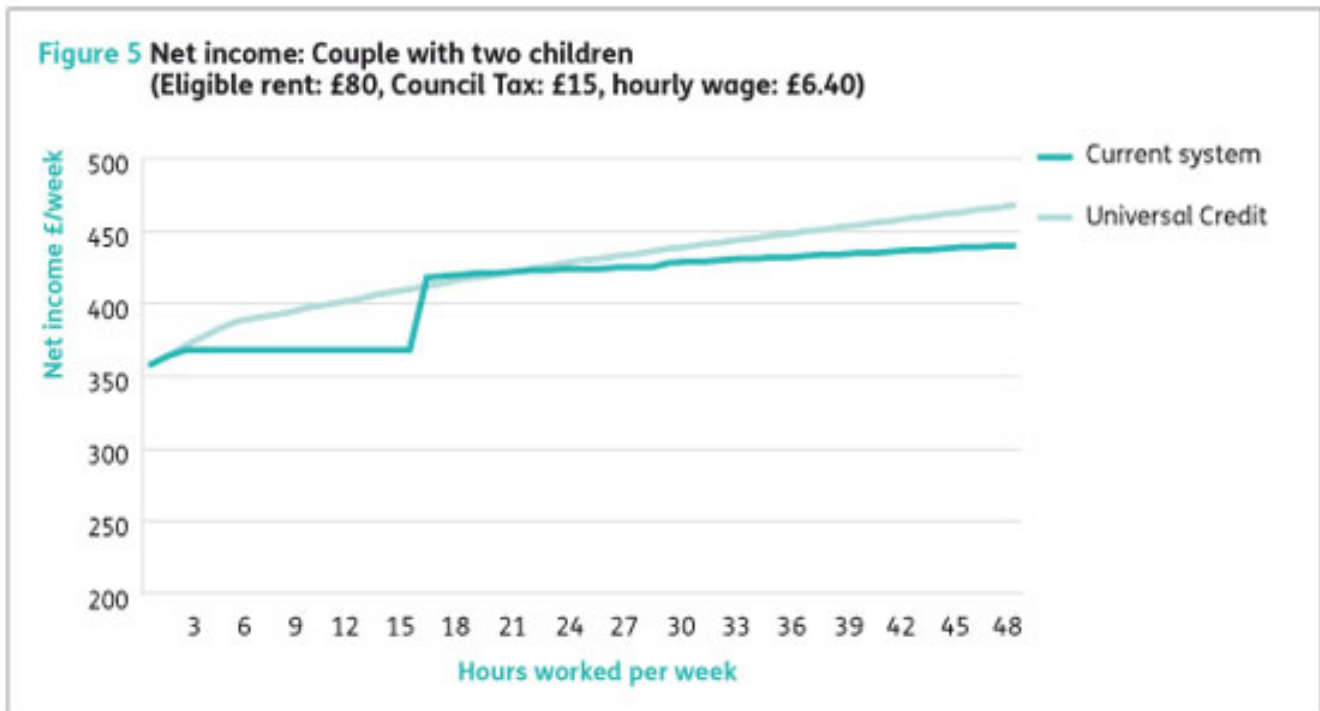
Impact on benefits in payment

12. 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.
13. The Government is committed to ensuring that no-one loses as a direct result of these reforms. If the amount of Universal Credit a person is entitled to is less than the amount they were getting under the old system, an additional amount will be paid to ensure that they will be no worse off in cash terms.

Impact on incentives

14. The two charts below illustrate how both individuals and couples with children can be better off when working with Universal Credit than currently, as a result of the earnings disregards and single taper.





15. The charts show how under the current system support jumps at particular points. This is because of the hours rules in Working Tax Credit. Under Universal Credit, net income increases steadily with each hour worked. This means that people are always better off in work than not working and provides certainty that increased effort will always result in increased reward.

Take-up

16. The Universal Credit should also improve take-up: a powerful tool in tackling poverty. There are two main reasons. First, Universal Credit will be much simpler than the current array of different benefits, so it should be easier for people to understand whether they have and entitlement. Second, as it is an integrated payment, there will no longer be any need to claim separately for different benefits.
17. However, the cost of this additional take-up cannot simply be inferred by looking at current published statistics on non-take-up. Any estimate needs to account for both the changing pattern of entitlements under the Universal Credit and the fact that many people who currently do not engage with the welfare system will continue to resist doing so.

Structure of Universal Credit

18. Universal Credit will consist of a basic personal amount with additional amounts where appropriate. These additions will be for: disability, caring responsibilities, housing costs, and children. We are also considering how best to support parents with childcare costs. For instance, this could be through an additional amount or a disregard (see paragraphs 41-46 below).
19. The personal amount is the basic building block of Universal Credit as it is in existing benefits. The purpose of the personal amount is to provide for basic living costs. It will broadly reflect the current structure of personal allowances in Income Support, Jobseeker's Allowance and the assessment phase of Employment and Support Allowance, with single people and couples getting different rates.
20. As now, there will be lower rates for younger people. The Government will consider the scope to simplify the current rules under which lower rates apply to some but not all those under the age of 25.

Disability

21. The Government is absolutely committed to supporting disabled people to participate fully in society, including remaining in or returning to work wherever feasible. The model introduced in 2008 for the Employment and Support Allowance has worked well. This provides additional benefit components for people in the Work Related Activity and Support Groups. We intend to mirror this approach in Universal Credit.
22. The Government believes the existing structure of overlapping disability premiums is overly complex and causes confusion. We are considering what extra support may be needed for disabled people in Universal Credit, over and above the additional components mentioned above and the benefits available elsewhere in the system.

Caring

23. Carers provide an invaluable service to some of the most vulnerable people in our communities and the Government wants to make sure they get the support they need.
24. For too long, the current system of carer benefits has failed to meet the different needs of carers and has trapped some people on benefits. The key issues are:
 - a. People receiving Carer's Allowance can only earn up to the earnings limit (currently £100 per week) – but above that limit all of the Carer's Allowance is lost.

- b. Carer's Allowance is paid at a lower rate than other income-replacement benefits (currently £53.90). All governments, since 1976, when Invalid Care Allowance was introduced, have faced the dilemma that increasing the level of benefit is neither affordable nor cost effective. Hence Carer's Allowance has stayed at this level, playing an ineffective role, neither effective in poverty prevention nor in meeting the wider needs of carers. 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.
25. Most carers of working age want to retain a foothold in the labour market, not just for their financial well-being, but also to enhance their own lives and the lives of those for whom they care. We intend as part of these reforms to provide support for carers and improve their opportunities to maintain links with the world of work.
 26. Carers will also continue to be eligible for National Insurance credits, to protect their financial position in retirement.
 27. 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.

Housing costs

28. An appropriate amount will be added to the Universal Credit award to help meet the cost of rent and mortgage interest. For those who rent their accommodation, this amount will be similar to the support currently provided through Housing Benefit. The intention is that this support for rent, currently delivered by Local Authorities, will over several years be replaced by Universal Credit.
29. Our aim is to simplify provision for rent support in Universal Credit as much as possible, while protecting potentially vulnerable people from unintended consequences, such as getting into arrears or being made homeless. As announced in the Budget, we will set the amount we pay to support people in the private-rented sector at a level that will generally make the lowest third of market rents affordable. Rates will be set and updated to ensure that the support received is fair but not excessive.
30. For social-rented sector tenants (including those who rent properties with the new shorter tenures and affordable rents), the housing component will build on the support currently provided by the current Housing Benefit system, based on actual rents in both housing association and Local Authority properties, including in the new 'affordable rent' tenure. We have already announced our intention to limit Housing Benefit payments to social-rented-sector tenants who under-occupy their properties. Other than this, we do not anticipate further changes in the short to medium term.

31. There are advantages in paying the housing component to individuals, rather than the current system of payments direct to landlords. This would encourage people to manage their own budget in the same way as other households. However, we also recognise the importance of stable rental income for social landlords to support the delivery of new homes and will develop Universal Credit in a way that protects their financial position. Options for achieving this could include some ongoing use of direct payments to landlords, use of direct debits, and a protection mechanism which safeguards landlords' income. We will work closely with the devolved administrations, providers and lenders in developing the new system.
32. There are many policy and operational issues to work through in respect of housing. The Government will work closely with Local Authorities and the housing sector as plans develop.
33. 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.

Council Tax costs

34. The Government has announced that Local Authorities will be given a greater say in decisions on helping people on low incomes pay their Council Tax alongside a 10 per cent reduction in Council Tax Benefit expenditure from 2013-14. The present system for providing help with Council Tax bills is Council Tax Benefit, which is administered by Local Authorities but on the basis of rules set centrally.
35. By reducing the amount of Council Tax that people on low incomes have to pay, Council Tax Benefit is, in effect, a rebate scheme. Indeed many, notably the Royal British Legion, have argued that it should be renamed the Council Tax Rebate.
36. The change the Government has now announced will go much further than that. The introduction of Universal Credit provides the opportunity to sweep away some of the centrally imposed complexities of Council Tax Benefit that make it difficult for people to understand. There is more work to be done on the practicalities of the new approach and the Department for Communities and Local Government and the Department for Work and Pensions will work closely together with local government and the devolved administrations to develop detailed proposals. In doing so the Government will aim to protect the most vulnerable, particularly pensioners, and should not undermine the positive impact of Universal Credit on work incentives.

37. Local Authorities will be given scope to take account of the priorities of their own local communities when determining the amount of support for vulnerable and low income households to meet their Council Tax bills. Local Authorities will be better able to provide a joined-up system of support for people on low incomes that dovetails with the various rebate and discount schemes which are already part of the Council Tax regime, while at the same time protecting vulnerable groups. While the aim is for a more cost effective system overall, any new administrative burdens on Local Authorities will, as a matter of principle, be funded by the Department for Work and Pensions in the usual way. It will be particularly important to ensure that, wherever possible, Local Authorities can make use of household data collected by the Department for Work and Pensions through the Universal Credit system, rather than asking people to provide details of their income and savings more than once.

Children

38. The Government is committed to providing the financial support less-well-off families need to cover children's living costs. We will therefore include fixed amounts within Universal Credit to provide for these costs. The amounts will be based on those currently provided through Child Tax Credit. They will be additional to Child Benefit.
39. The Government will consider the structure of support for disabled children in the Universal Credit as we look at the structure for disabled adults.
40. The Government intends to keep the current principle in benefits and Tax Credits that, where parents are separated and provide shared care, only one of them will be eligible to receive the child element of Universal Credit.

Childcare

41. Ensuring that parents continue to receive financial support with the costs of childcare is crucial if they are to have an incentive to work. Parents in receipt of Working Tax Credits can currently receive additional support through the Childcare Element which, from April 2011, will pay up to 70 per cent of costs up to a maximum of £175 a week for one child and £300 for two or more children.
42. We recognise that people often find the current childcare element confusing. The need to calculate average awards can be particularly complicated. Covering only a proportion of costs and paying this as part of the overall benefit award can cause uncertainty about how much support parents receive. The new system provides an opportunity to improve and simplify the way support is offered but we need to ensure that it remains fair, affordable and targeted to those most in need.

43. The Government would welcome views from key stakeholders and will work with them to establish how support for childcare could best be delivered as part of, or alongside, Universal Credit. In developing options, the Government will take account of the evidence collected from recent pilots designed to test different ways of accessing the childcare element of Tax Credits.
44. As a minimum, it would be feasible to pay an additional element for childcare on top of the basic Universal Credit award, at similar rates to those currently offered, but to simplify the way costs are calculated and support is paid. If information about costs was collected through a self-service process this could improve the timeliness of support and reduce the scope for under and overpayments.
45. But there may be better approaches. For example:
 - providing support for childcare through a voucher or discount system, rather than as part of the Universal Credit award;
 - recognising childcare through an additional earnings disregard rather than an additional payment.
46. Help with childcare for people on Universal Credit would be restricted to those in work. The aim would be to allocate some of the current support to those working fewer than 16 hours, so that all types of work are rewarded.

Upper age limit

47. Universal Credit will replace Housing Benefit and Child Tax Credit for people of working age. We therefore need to consider how best to support pensioners with the cost of rent and dependent children.
48. It is important to provide continuity for older people in getting the help and support they need. The Government therefore plans to make some changes to Pension Credit. These changes will consolidate support for rent with the help available for other housing costs within Pension Credit, and add a further element to provide income-related help for pensioners with dependent children.
49. However, Pension Credit may not be appropriate for all pensioners. Pension Credit is designed for the needs of the majority of low-income pensioners and is not intended to provide in-work support. As pensioners will no longer be able to access help from Working Tax Credit, we are considering an option of allowing those pensioners who choose to extend their working lives to claim Universal Credit, rather than Pension Credit, so that they can take advantage of the tailored in-work arrangements. We would welcome views on this approach.
50. Otherwise, the upper age limit for Universal Credit will be the age at which people are eligible for Pension Credit, which is currently linked to State Pension age for women and, on current plans, will be 65 for both men and women in 2018.

National Insurance credits

51. The Government will review eligibility for National Insurance credits towards State Pension for those in receipt of Universal Credit. Most people currently receiving credits will continue to do so during periods when they receive Universal Credit. Where people fail to meet some conditionality requirements there may be a case for preventing these people from gaining National Insurance credits.

Maximum award of Universal Credit

52. The cap on household benefit payments announced in the Spending Review will mean that the award of Universal Credit cannot exceed a maximum amount when combined with Child Benefit and other non-Universal Credit payments such as contributory Jobseeker's Allowance and Employment and Support Allowance. This maximum will be set on the basis of median earnings after tax and National Insurance for working families. As announced in the Spending Review, Disability Living Allowance recipients and War Widows will be exempt from this cap. Under Universal Credit there will also be an exemption for working families equivalent to the exemption announced in the Spending Review for families on Working Tax Credit.

What remains outside of Universal Credit

53. Universal Credit will replace most of the benefits and Tax Credits that currently provide means-tested support apart from Council Tax Benefit. As noted above, we are planning to give Local Authorities a greater say in the help that people on low incomes get with their Council Tax bills in ways that will protect the most vulnerable and complement Universal Credit.
54. It will not replace any of the following non-means-tested benefits:
- Contributory Jobseeker's Allowance and contributory Employment and Support Allowance. These will continue to exist but with the treatment of earnings aligned with the way earnings are treated within Universal Credit (see chapter 6);
 - Disability Living Allowance (see chapter 6);
 - Child Benefit, which will be available in addition to Universal Credit payments for children; and
 - We also believe that bereavement benefits, Statutory Sick Pay, Statutory Maternity Pay, Maternity Allowance and Industrial Injuries Disablement Benefit are not suitable for replacement by the Universal Credit.
55. We will need to consider the implications for payments, such as the In-Work Credit for lone parents and Job Grant, which provide additional financial incentives and help smooth the move into work in ways which may not be needed under Universal Credit.

Conditionality and sanctions

3

Individuals who are able to look for or prepare for work should be required to do so as a condition of receiving benefit, and those who fail to meet their responsibilities should face a financial sanction. This is known as conditionality.

We will introduce a 'claimant commitment' to clearly set out what is expected of each recipient. We will raise the requirements placed on some individuals and will introduce tougher sanctions to ensure recipients meet their responsibilities.

This approach will be introduced in existing benefits and Universal Credit.

Under Universal Credit, requirements will be set according to individual capability and circumstance. There will be four broad conditionality groups:

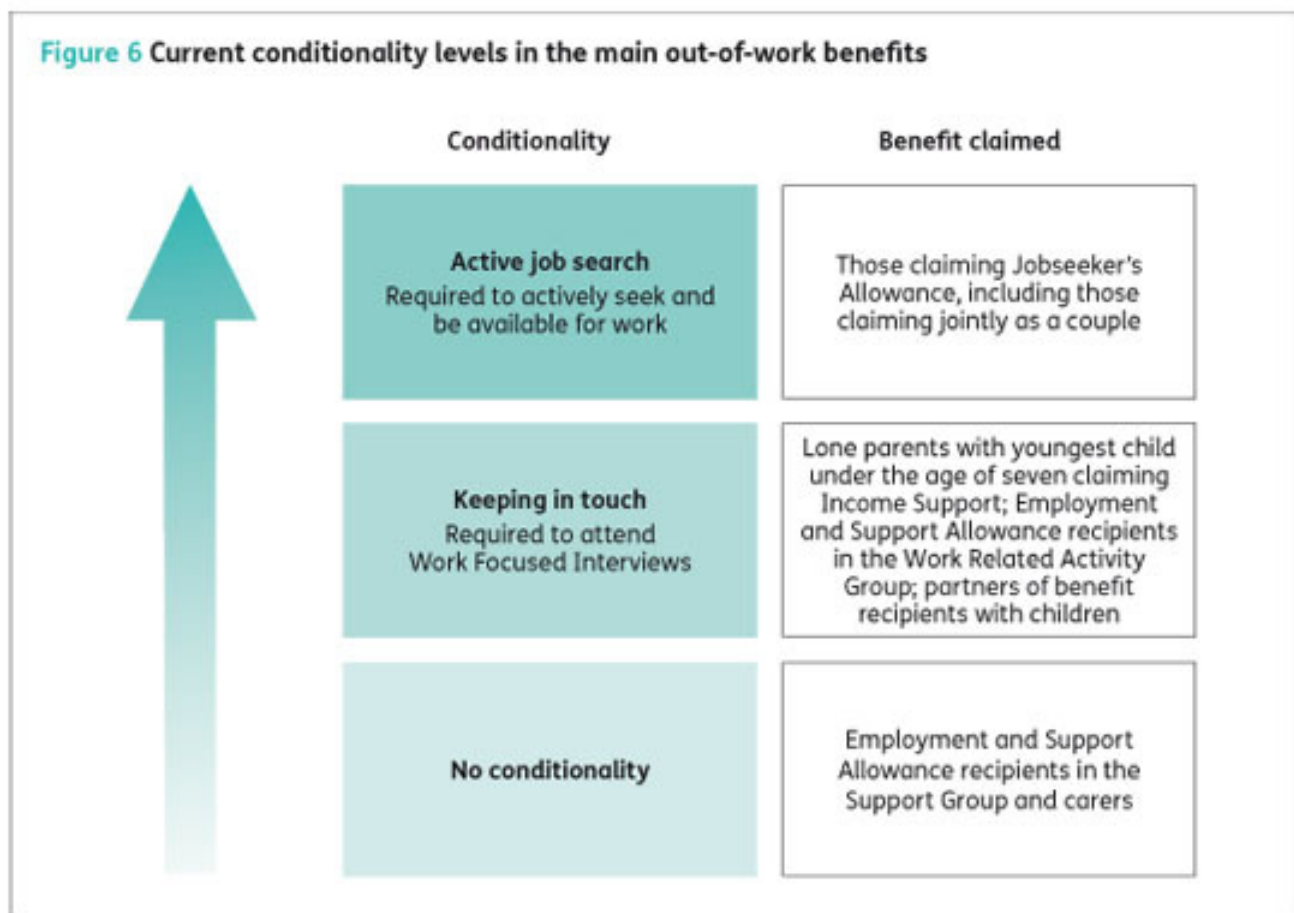
- full conditionality – jobseekers;
- work preparation – people with a disability or those with a health condition which means they have limited capability for work at the current time;
- keeping in touch with the labour market – lone parent or lead carer in a couple with a child over age one but below age five; and
- no conditionality – people with a disability or health condition which prevents them from working, carers, lone parents or lead carers with a child under the age of one.

Conditionality under Universal Credit will apply up to a threshold. Initially this threshold will be set at broadly the same point at which people lose entitlement to out-of-work benefits. In the future, however, it will be possible to raise the threshold to apply conditionality to greater numbers of recipients.

People receiving Universal Credit but earning above the relevant threshold would not be subject to conditionality. Those in work but earning below the threshold would be in the conditionality group applicable to their circumstances.

Conditionality

1. Universal Credit will make sure that work pays for benefit recipients and our package of employment support – including the new, integrated Work Programme – will allow us to respond flexibly to recipients’ needs. In return, we expect recipients to do everything that can reasonably be expected of them to find work or prepare for work in the future as a condition of receiving support.
2. Currently three levels of work-related conditionality apply to benefit recipients, determined by the benefit claimed.

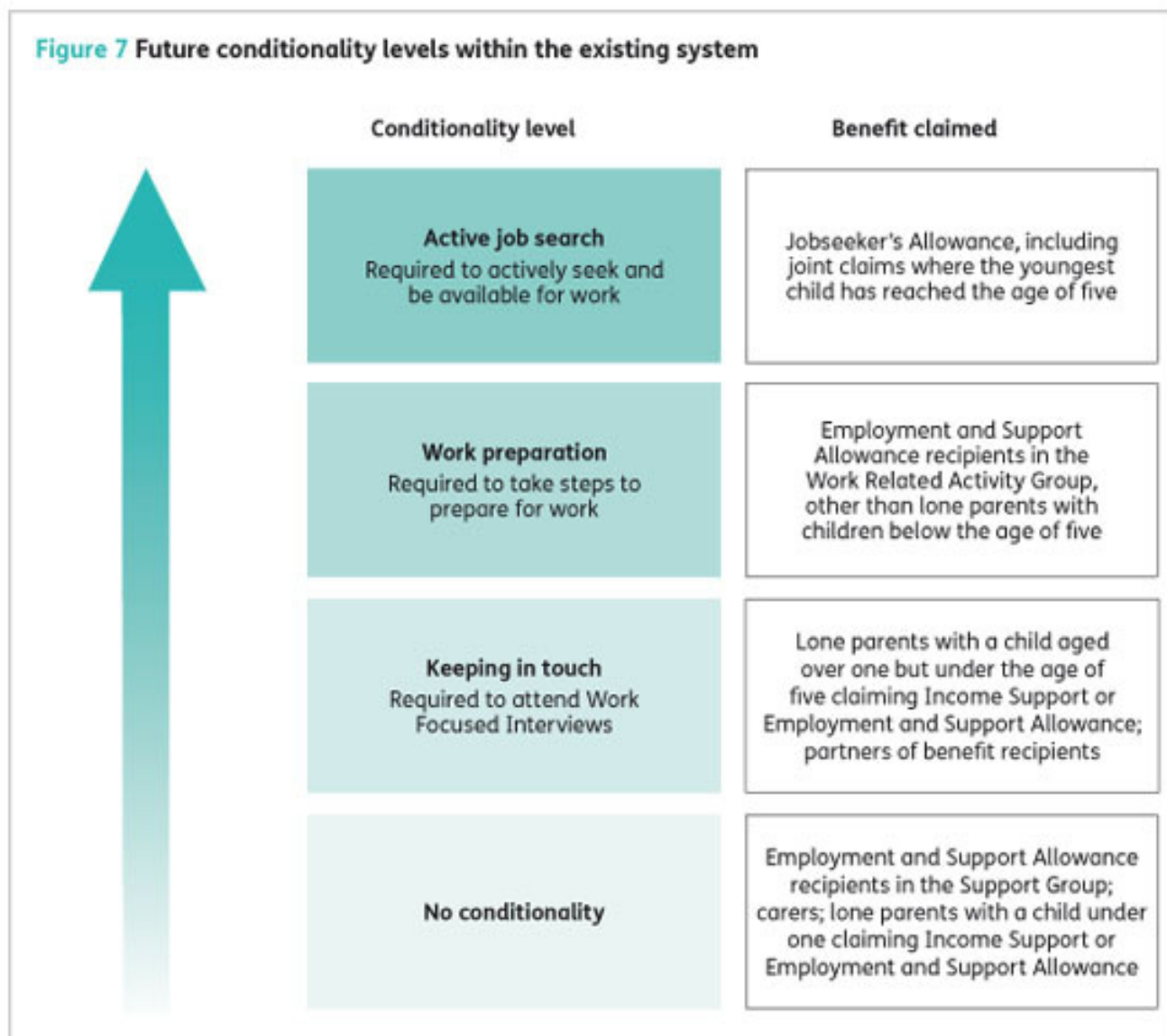


Changes to the existing regime

3. We will introduce important changes to the existing conditionality and sanctions regime to strengthen the link between people receiving benefits and meeting their responsibilities.
4. This will involve:
 - a. increasing the level of conditionality that is applied to some recipients;
 - b. ensuring recipients fully understand what is expected of them by introducing a claimant commitment;
 - c. improving the sanctions regime so that it more effectively encourages recipients to meet their responsibilities; and
 - d. introducing Mandatory Work Activity so that some recipients will be required to take part in full-time work activity for four weeks.
5. We will begin to make these changes in the existing benefits system and they will be carried forward under Universal Credit, with adjustments as necessary.
6. Financial support will remain unconditional for people who we do not expect to be able to work or prepare for work. None of the changes set out in this White Paper change that basic principle.

Increasing expectations

7. We believe we can ask some recipients to do more in return for receiving current benefits and have decided that ahead of the introduction of Universal Credit:
 - a. Employment and Support Allowance recipients who are capable of doing so may be required to take part in work-related activity to help them prepare to move into work;
 - b. as announced in the Budget, lone parents whose youngest child has reached the age of five will need to actively seek work unless they are disabled or have a health condition which prevents them working, or are a carer; and
 - c. couples with children whose youngest child has reached the age of five, and where neither partner is disabled or has a health condition which prevents them working or is a carer, will need to make a joint claim to Jobseeker's Allowance, requiring both partners to actively seek work.
8. Under existing benefits a person on low earnings could still be receiving one of the out-of-work benefits. People in this position have the same conditionality level applied to them as a person receiving that benefit and having no earnings.



Personalised conditionality

9. As now, jobseekers will be required to actively seek and be available for work and we will continue to carry out regular checks to ensure recipients are meeting their conditionality requirements.
10. 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.

11. In particular, we will enable advisers to: require some jobseekers to attend their local office more frequently to demonstrate the steps they have been taking to return to work; require some people to broaden their job search earlier in their claim; and raise the number of steps they expect a customer to take in any week to have the best prospects of finding work. Advisers will also be given clear powers to mandate people in both the work preparation and active job search categories to undertake activity to address a skills need, such as training, which will aid their movement into work. If people do not meet their responsibilities, a sanction will typically follow (see paragraph 14) but, as now, good cause must be taken into account so that where there are reasonable mitigating circumstances, a sanction will not be imposed.

Commitment and sanctions

12. 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.
13. Having strong and clear sanctions are critical to incentivise benefit recipients to meet their responsibilities. Currently, we believe that some sanctions are set at too low a level and the consequences of failing to comply with requirements are not always clear. We will introduce a new sanctions structure to apply across Jobseeker's Allowance, Employment and Support Allowance, and Income Support (as now, sanctions will not apply to associated benefits such as Housing Benefit).
14. Our current proposals for financial sanctions are:
- a. Failure to meet a requirement to prepare for work (applicable to jobseekers and those in the Employment and Support Allowance Work-Related Activity Group) will lead to 100 per cent of payments ceasing until the recipient re-complies with requirements and for a fixed period after re-compliance (fixed period sanctions start at one week, rising to two, then four weeks with each subsequent failure to comply).
 - b. Failure to actively seek employment or be available for work will lead to payment ceasing for four weeks for a first failure and up to three months for a second.
 - c. The most serious failures that apply only to jobseekers will lead to Jobseeker's Allowance payment ceasing for a fixed period of at least three months (longer for repeat offences). Actions that could trigger this level of penalty include failure to accept a reasonable job offer, failure to apply for a job or failure to attend Mandatory Work Activity.
 - d. Some types of recipient, such as lone parents with young children, are only required to attend work-focused interviews and their failure to attend is more often due to challenging circumstances than wilful evasion of the rules. Therefore, we are improving our methods of ensuring lone parents know about and are able to comply with their responsibilities. However, we will impose a financial sanction where necessary that is broadly in line with current arrangements.

15. Most people want to find work and will never be in the position of facing a sanction. The aim of our changes is to make the consequences of failure clearer and simpler. We anticipate that most people who are sanctioned will receive a lower level sanction and indeed the majority of people are only ever sanctioned once. For those who repeatedly fail to meet their responsibility to look for work there will be progression through the sanctions regime to the tougher penalties. Recipients in this category will have had many opportunities to demonstrate engagement and will have been clearly warned of the consequences of continued non-compliance. The penalty of losing three years of Jobseeker's Allowance will apply to the most extreme cases, where benefit recipients have serially and deliberately breached conditions, and where other sanctions have not worked to change their behaviour. Recipients will continue to be able to show good cause and, as now, after a sanction has been imposed, recipients will continue to have the ability to appeal. We will also maintain safeguards for vulnerable people and ensure that mental health and substance abuse problems are taken into consideration.
16. As now hardship payments will be available to benefit recipients in need who receive a sanction (and given the new sanctions structure we will ensure this includes Employment and Support Allowance recipients). 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.

Mandatory Work Activity

17. Mandatory Work Activity will be part of the toolkit that Jobcentre Plus advisers will have available to them. Where advisers believe a jobseeker will benefit from experiencing the habits and routines of working life, they will have the power to refer the recipient to Mandatory Work Activity. The placement will be for up to four weeks and aimed at helping the recipient develop the labour-market discipline associated with full-time employment such as attending on time and regularly, carrying out specific tasks and working under supervision.
18. Requiring a small group of recipients to engage in full-time activity will give them the opportunity to demonstrate their compliance with the Jobseeker's regime. If a recipient fails without good cause to attend or complete the placement, then we will impose a significant financial sanction. This could be, for example, withholding Jobseeker's Allowance for at least three months.

Figure 8 Proposed future sanctions structure under the existing benefit system

To note that in all circumstances sanctions will not apply where there is good cause

Conditionality	Failure	Sanction		
Low Jobseeker's Allowance and Employment and Support Allowance Work Related Activity Group	Includes failure to: <ul style="list-style-type: none"> • Attend an appointment • Carry out a jobseekers direction • Attend employment-related programme • Attend a Work Focused Interview (Employment and Support Allowance) • Carry out work related activity (Employment and Support Allowance) 	100 per cent Jobseeker's Allowance/Employment and Support Allowance open ended until re-engagement then fixed minimum period (1, 2 then 4 weeks) Advisers will retain the ability not to impose a sanction for first and subsequent failures where good cause applies		
Medium Jobseeker's Allowance only	Failure to: <ul style="list-style-type: none"> • Actively seek work* • Be available for work* 	1st failure: 100 per cent Jobseeker's Allowance fixed for 4 weeks	2nd failure: 100 per cent Jobseeker's Allowance fixed for 3 months	
High Jobseeker's Allowance only	Failure to: <ul style="list-style-type: none"> • Apply for a job • Accept job offer • Take part in Mandatory Work Activity 	1st failure: 100 per cent Jobseeker's Allowance fixed for 3 months	2nd failure: 100 per cent Jobseeker's Allowance fixed for 6 months	3rd failure: 100 per cent Jobseeker's Allowance fixed for 3 years

For benefit recipients only required to attend Work Focused Interviews

Income Support and Employment and Support Allowance lone parents with a child aged over one but below the age of five	Failure to attend Work Focused Interview	1st failure – 20 per cent (of the over-18 lone parent personal allowance) open-ended until re-engagement 2nd and subsequent failures – additional 20 per cent (capped at 40 per cent total for any subsequent failures) until re-engagement
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* will remain a condition of entitlement under Jobseeker's Allowance. Sanctions will follow new claim (subject to expiry period), and any loss of benefit at the point of disentanglement will count towards the fixed sanction period.

Conditionality under Universal Credit

19. The structures outlined above will provide the basis of the conditionality and sanctions system under Universal Credit. People will be placed into groups mirroring the four conditionality levels being introduced under existing benefits:
 - a. **Full conditionality.** This will be the default option for recipients including lone parents and couples with older children. Recipients in this group will be subject to the same requirements to actively seek work and to be available for work as they would under Jobseeker's Allowance.
 - b. **Work preparation.** Recipients will be in this group if they are disabled or have a health condition which means they have limited capability for work at the current time. They will be expected to take reasonable steps to prepare for work.
 - c. **Keeping in touch with the labour market.** Recipients will be in this group if they are a lone parent or lead carer in a couple with a child over one but below age five. They will be expected to attend periodic interviews to discuss their plans for returning to the labour market.
 - d. **No conditionality.** Recipients will be in this group if they are: disabled or have a serious health condition which prevents them working and preparing for work; a lone parent or lead carer in a couple with a child younger than one; or have intensive and regular caring responsibilities. People receiving Universal Credit but earning above the relevant threshold would also not be subject to conditionality.
20. Each adult in a household will have conditionality applied to them as an individual; that is they will be placed into their own conditionality group with appropriate requirements. In the case of a couple with children, the couple will need to nominate which of them is the lead carer.
21. Conditionality under Universal Credit will apply up to a 'conditionality threshold'. Recipients above the threshold will be placed into the no-conditionality group. 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.
22. 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.
23. The amount sanctioned under Universal Credit will be broadly equivalent to the amount that will be sanctioned under the current benefits system, that is, an amount equivalent to Jobseeker's Allowance or Employment and Support Allowance.

Delivering Universal Credit: a better deal for everyone

4

Summary

Universal Credit will transform existing labour market and benefits services to deliver a more efficient, informative and streamlined experience for people. The Department for Work and Pensions will be responsible for the delivery of Universal Credit and will make extensive use of online technology to allow people to better manage their claim and understand the benefits of entering paid work. We expect to start taking claims for Universal Credit from October 2013.

Introduction

1. The existing benefit system is characterised by overlaps and duplication. It can be cumbersome and inefficient to administer and confusing and onerous for individuals to navigate. Many recipients have to deal with several different national and local government bodies, providing the same information multiple times. The Department for Work and Pensions will be the single government department with responsibility for the delivery of Universal Credit.
2. The shortcomings of the current system are as frustrating for those who operate it as they are for those who depend upon it. These reforms will allow resources to be targeted more effectively, providing more help to those who need it most.
3. The proposed delivery system will lessen bureaucracy and reduce the risk for people moving from benefits to work by making the system more responsive to fluctuations in earnings. People will be able to access information and job search support directly, without the form filling and delays that characterise much of the current system.

Delivery design principles

4. The introduction of Universal Credit provides the opportunity to transform the delivery of in- and out-of-work benefits into a service fit for the 21st century. The Government's principles of increasing access to online services and maximising service efficiency lie at the heart of our delivery proposals for Universal Credit. Our approach to delivery aims to:
 - minimise the need for recipients to contact government, unless integral to managing conditionality, preventing fraud or error or providing support;
 - maximise use of online channels to provide straightforward and accessible information about claims and better job search support whilst providing focused help for those unable to use online channels;
 - ensure the continuous delivery of high-quality, joined-up, effective and consistent service;
 - minimise disruption to recipients and organisations during the transition to Universal Credit;
 - work closely with partner delivery organisations to develop a service to meet the diverse needs of recipients;
 - build in flexibility to allow for delivery of wider services in the future; and
 - maximise overall government efficiency.

Claiming Universal Credit

5. Claims will be made on the basis of households rather than individuals and both members of a couple will be required to claim Universal Credit. Claims for Universal Credit will normally be made through the internet and we expect that most subsequent contact between recipients and the delivery agency will also be conducted online. People will be able to obtain all elements of Universal Credit through a single application, ending the excessive form filling of the current system, reducing scope for error and reducing administration costs.

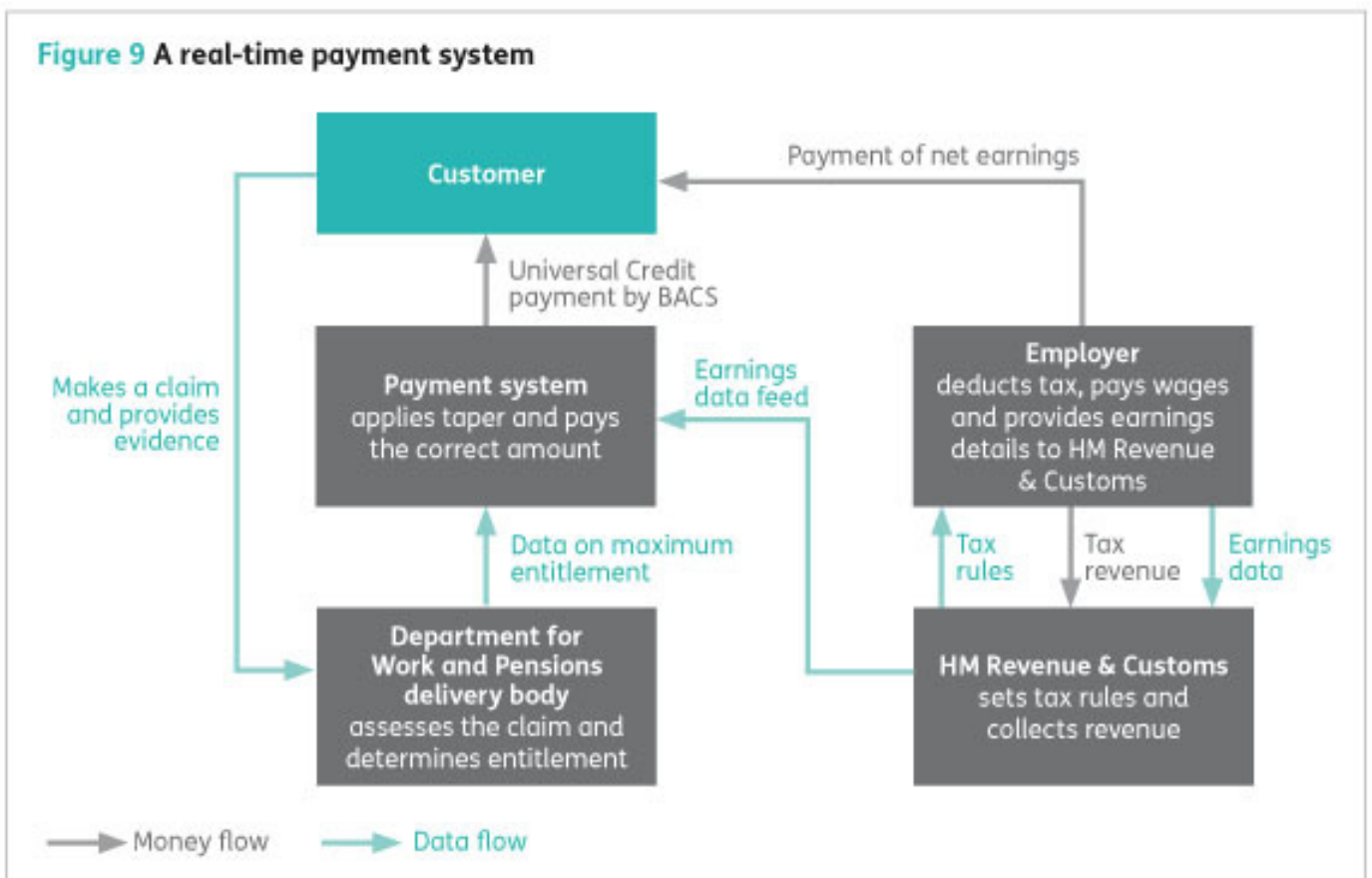
6. This approach builds on existing plans to develop full online services that will deliver a more automated, informative and responsive service for recipients. These changes will enable the targeting of resources to support vulnerable people with additional needs.
7. Claim, assessment and award calculations will usually be made automatically so will be quicker and more efficient to process, allowing staff to focus on dealing with complex cases or those where there is a risk of fraud or error.
8. Recipients will have an online account through which they will be able to access information about their claim and Universal Credit payments, much like the options that online banking services currently offer. The financial rewards from work will also be made clearer, with recipients able to view online the positive effect of increased earnings on their household income.
9. Recipients will report significant changes of circumstance online. For changes of circumstance such as moving into work, losing a job, having a child or becoming sick, in most cases there will be an automatic re-assessment, providing a faster and more reliable experience than at present.
10. We will use existing information from relevant sources as much as possible to avoid people having to repeat themselves when making a claim or reporting a change in circumstance providing information. During the transition period, however, recipients may be asked to provide us with greater levels of information to ensure that all data in the new system is correct from the outset.
11. If members of a household claiming Universal Credit find their total earnings increase to the point that they no longer receive any benefit, it is likely that we will not remove them from the Universal Credit system. Instead, the award will remain open for a fixed period, perhaps three months, so that it can be reactivated and payment made without the need for a new claim if the household becomes eligible for Universal Credit within that time.

Payment periods

12. Universal Credit focuses on encouraging personal responsibility. In line with this approach and the need for consistency with the real-time earnings approach that we are proposing, we are considering whether the period of the assessment and the frequency of payments should be monthly. About 75 per cent of all earnings are paid monthly, including most of those in the lower-earnings brackets. Rent and other major household bills are also usually paid monthly, rather than weekly.
13. We understand that many people on low incomes will be used to managing fortnightly payments of benefits and will ensure that, whatever the period of payment, there will be appropriate budgeting support to ensure recipients are supported effectively. We want families to be able to manage their financial affairs in a manner that best reflects the demands of modern life, whether in or out of work.

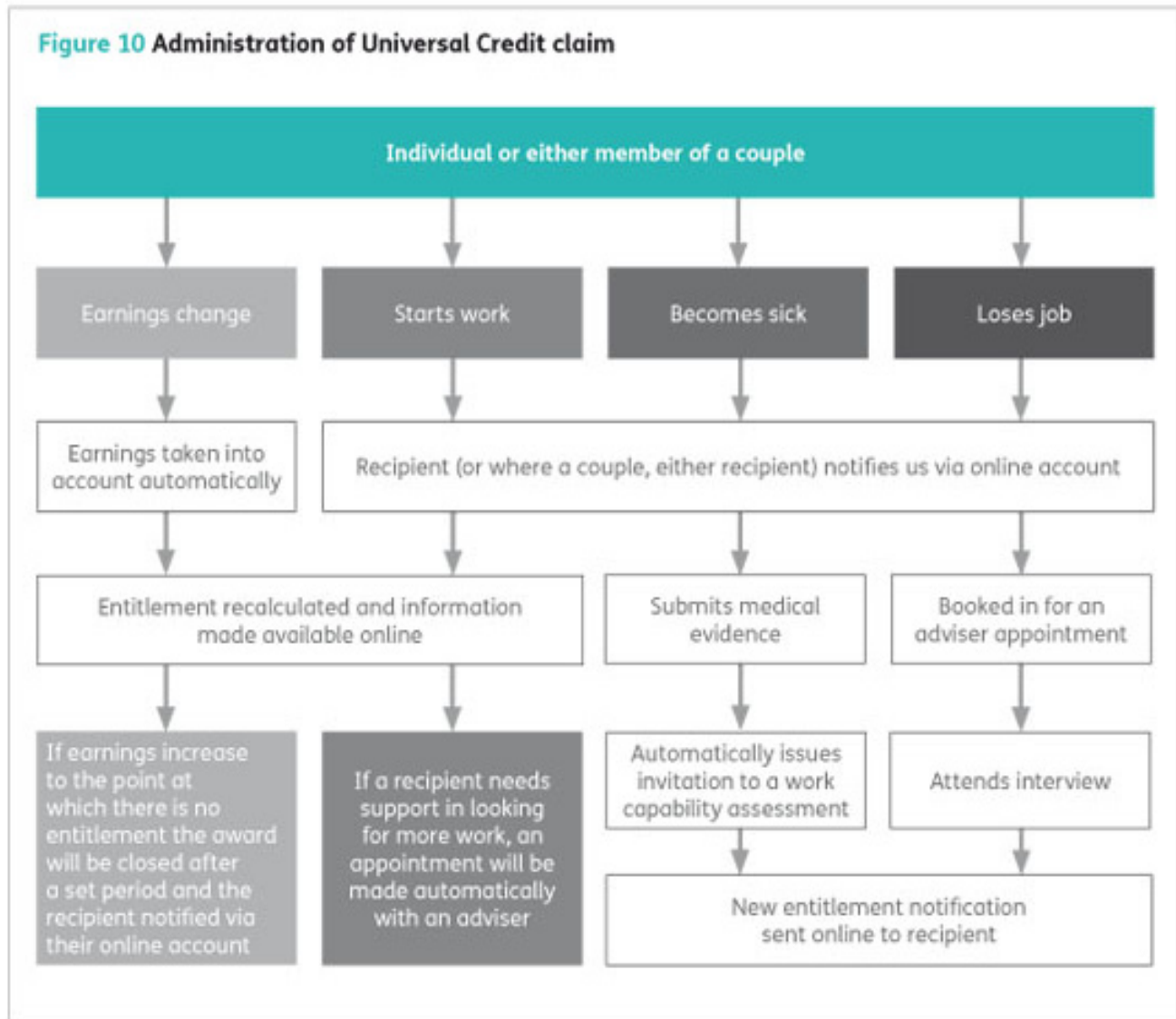
How Universal Credit will be calculated and paid

14. The assessment of Universal Credit will have two stages. A gross entitlement will be calculated by the Department for Work and Pensions based on information already held or provided by the recipient including information about any income they have, other than earnings. For recipients who are not working and who satisfy all the conditions of entitlement, this is the amount they will be paid.
15. Recipients who have earnings from employment will have those earnings automatically taken into account. We intend to use HM Revenue & Customs proposed real-time information system to identify earnings and to calculate the net Universal Credit payment due by applying the appropriate taper to the gross payment. This means that those recipients who receive earnings through Pay As You Earn will not need to inform us for payment purposes if the amount of their earnings change. Recipients will, though, still need to tell us about other changes to their circumstances which affect their entitlement to benefit, or the conditions they must meet.
16. 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.



How Universal Credit will work in practice

17. Figure 10 shows how a Universal Credit award might be administered under different circumstances, once a claim has been made online, has been awarded and is then in payment.



Moving existing recipients onto Universal Credit

18. Our current intention is that we will start to take new claims to Universal Credit from October 2013. We want to ensure that the transition process is conducted as smoothly and efficiently as possible. This is a significant project, affecting 19 million individual claims and an estimated eight million households. In planning the transition to the new system we are being guided by principles of simplicity, fairness and affordability.
19. Some existing recipients will move to Universal Credit by a process of natural transition, where in the current system they would otherwise have moved between existing out-of-work benefits and Tax Credits. Other existing awards will form part of a managed transition.
20. When an existing award to a current benefit ends and the recipient is to be instead awarded Universal Credit, that award will be a household award. In couple households, therefore, the other member will cease to be entitled to existing benefits and will become part of the household award for Universal Credit.
21. A provisional timetable has been developed with a view to 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.

Conditionality

22. Requiring recipients of benefit to meet conditionality appropriate to their circumstances and earnings will remain a key part of delivery under Universal Credit. As outlined in the conditionality and sanctions chapter, each recipient (whether an individual or each member of the couple) will have conditionality applied to them as an individual.

Customer contact and access

23. Previous sections have described how the usual methods for making and maintaining claims will be online. This is entirely consistent with wider reforms to transform the way individuals access public services through online channels.

24. The Government has been clear in stating its commitment to providing better, more transparent and efficient services that allow individuals greater control and influence over their interactions with government. Enabling recipients to access services online is central to this agenda and so digital channels will become the default option for the delivery of Government services. This will help to ensure that essential services are easier to access and cheaper to provide.
25. In delivering Universal Credit the Department for Work and Pensions will adopt the 'digital first' principle and meet the growing demand for flexible and comprehensive online services. For people making Universal Credit claims, notifying changes or checking their payments and responsibilities, the digital channel will be the primary contact route. This will free up more adviser time to deliver valuable face-to-face back-to-work support.
26. When Universal Credit is introduced, many people will already be familiar with using online services to contact us. The Department for Work and Pensions already receives claims for Jobseeker's Allowance through Directgov and will soon be launching online services for recipients to check information and notify us of changes. We will be increasingly expecting people to use these services prior to introducing Universal Credit. So, although we do not underestimate the challenge of changing customer behaviour to use new channels (which will include smart phones and automated telephony as well as PC-based access), the intent is entirely consistent with existing plans both in the Department for Work and Pensions and broader government. The quality of the online service will be important to get right. The Department for Work and Pensions will build on its growing experience of delivering these channels to ensure that the Universal Credit online systems are simple, secure, intuitive and attractive to people.
27. The Department for Work and Pensions recognises that there will continue to be a minority of people who cannot use online channels. For these people we will offer alternative access routes, predominantly by phone but also face to face for those who really need it. We expect these alternative access routes to be reserved for the minority who can't use, or be helped to use, online services and therefore kept to a minimum. For face-to-face help in particular, we will consider how best to work with partners to meet this need. There are also circumstances when conditionality interventions are more effective when delivered face-to-face. Where this is the case, we will continue to deliver these interventions through this channel.

Labour market services

28. A strong and supportive labour market service will be an integral part of the new welfare system. Jobcentre Plus support for getting people back into work is internationally acclaimed. As set out in previous chapters, the Government expects Jobcentre Plus to continue delivering this part of the system, strengthened by a range of new measures focused on getting people back to work. In addition, Jobcentre Plus advisers will be given greater freedom to determine what help recipients need to return to work.

29. The new Work Programme will replace many of the current back-to-work programmes and will provide personalised help to people based on their needs. Alongside the Work Programme the Government will introduce a number of additional support options which will:
- encourage and support people to move into self employment;
 - enable unemployed people to share skills and experiences;
 - encourage and support volunteering as a way of developing and maintaining work skills; and
 - provide more work experience, apprenticeships and further education places.
30. In order to provide local solutions to local labour market challenges, Jobcentre Plus will further empower its district managers. They will be given greater autonomy on how to allocate their resources and design their services, including a greater say in how they work with other local partners. The Government expects greater partnership working, so Local Authorities, charities and voluntary groups can work together with Jobcentre Plus managers.

Impact on current delivery organisations

31. Universal Credit will transform the service standards in the welfare systems leading to a significant reduction in administration costs and better value for money for the taxpayer. These changes will have significant impacts on those organisations currently administering benefits and Tax Credits. As these benefits and credits make way for Universal Credit, the roles and responsibilities of Jobcentre Plus and the Pension, Disability and Carers Service within the Department for Work and Pensions, HM Revenue & Customs and Local Authorities throughout the country will all change.
32. Within the current system many different functions are duplicated across these organisations, including recipient contact and validation, benefit processing, payments, and fraud and error policing. A single organisation will deliver Universal Credit, enabling this waste and inefficiency to be eliminated. The Government has decided that the administration of Universal Credit should be organised by the Department for Work and Pensions. The Department for Work and Pensions already administers the main out of work benefits and operates employment and labour market services, and this link between so called 'active' labour market measures and the benefit system is widely recognised as vital.
33. The Department for Work and Pensions will be responsible for the implementation and administration of Universal Credit, but there remain a variety of options for operational arrangements. 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.

34. The potential implications and opportunities for Local Authorities are significant. The Department for Work and Pensions will hold further discussions with Local Authorities and their associations about the detail and implications of Universal Credit for their Housing Benefit operations and of the new approach to Council Tax costs. This will include considering whether there may still be a role for Local Authorities in dealing with non-mainstream Housing Benefit cases (for example, people living in supported or temporary accommodation). Local Authorities may also have a role to play in delivering face-to-face contact for those who cannot use other channels to claim and manage their Universal Credit.
35. Currently many people also look to voluntary sector organisations for advice and support in dealing with the system, and these organisations often devote effort to chasing progress on benefit claims and correcting errors. Improved service delivery and greater transparency and certainty resulting from Universal Credit should help voluntary organisations to perform this role more easily and effectively.
36. These welfare reforms are significant and will transform the way welfare services are delivered. This chapter has described the broad outlines of this transformation and detailed work is ongoing to assess how best to organise the new system. 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 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.

Reducing fraud and error

5

Summary

The current welfare system is prone to fraud and error because:

- it is complex and difficult to understand and navigate;
- we rely on customers to keep us informed about their financial and non-financial circumstances;
- it can encourage fraud as for many work simply doesn't pay; and
- there is a lack of suitable IT, training and incentives for staff.

Universal Credit will reduce the scope for fraud and error as it should be simpler and easier to understand; will enable us to know people's circumstances better through the real-time earnings system; and will make work pay by allowing those moving into work to keep more of what they earn.

While the Universal Credit will have a significant impact on levels of error and fraud in the welfare system, it will not be able to eliminate all wasteful expenditure. The Department has already announced a new programme to both protect the integrity of the new system and tackle fraud and error which sits outside the scope of Universal Credit.

1. The design of the current welfare system makes it highly susceptible to fraud and error – the total level of fraud and error overpayments in the benefits and Tax Credits system is estimated at £5.2 billion a year, accounting for three per cent of total welfare spending.
2. Both over and underpayments undermine public confidence in the benefits and Tax Credits system.
3. A simpler system will reduce the scope for error by both staff and recipients and, by allowing people to keep more of their money as they move into work, will make legitimate work a rational choice for recipients.

Causes of fraud and error in the current system

4. Fraud and error in the current welfare system derive from:
 - a. The complex and fragmented nature of the system: this causes errors amongst staff and the public and enables people to represent themselves differently to different parts of the system, often inadvertently.
 - b. Means-testing rules: we rely on people to let us know about their earnings, savings and non-financial circumstances and this creates opportunities for fraud and error. In Tax Credits, the lack of real-time earnings data means that people are only assessed annually, often resulting in overpayments which are difficult to repay.
 - c. The system incentivises fraud: the design of the current system means that, for a number of recipients, work simply doesn't pay. This is reinforced by damaging social and media perceptions which suggest that 'everyone is at it' and by perceived weaknesses in the sanctions regime for those who do commit fraud.
 - d. IT, training and incentives for staff: administrative staff are not always equipped with the standard of IT or level of training they need to do their job as effectively as possible and can face an incentive system which promotes other priorities over processing accuracy.

Impacts of a Universal Credit system

Reducing complexity and supporting staff

5. The replacement of an array of working-age benefits with a single Universal Credit should drive down complexity in the welfare system. It will become much easier for recipients and staff to understand and establish entitlement to payments, meaning much of the error which is currently caused by the complicated interactions between different benefits will be reduced.
6. It is also expected that the Universal Credit will be processed and administered using an integrated computer system and integrated processing teams, thus driving out much of the fraud and error which arises due to complex interactions between such systems.

Knowing people's circumstances

7. Currently, misreported earnings are one of the largest causes of error and fraud in the benefits and Tax Credits system. This misreporting can be deliberate and fraudulent, or often accidental as a consequence of the complexity of the current system.
8. The real-time earnings system presents us with a real opportunity to reduce misreported earnings by giving us timely and accurate information on most people's earnings, rather than relying on cumbersome paper-based self-reporting.
9. As well as reducing the scope for fraud and error, the real-time earnings system will free recipients from the worry of filling in lengthy income and earnings forms while helping to ensure that they receive the correct level of support.

Making work pay

10. For long-term benefit recipients, small amounts of work can be a very positive way in which to refresh skills, gain valuable experience and rebuild confidence. However, small amounts of work are discouraged by the current benefits system.
11. While fraud can never be condoned, we must also recognise that the current system can incentivise fraud as the most rational option for those who are on benefits but want to work.
12. Universal Credit will disincentivise this behaviour by allowing those moving into work to keep more of what they earn. It will encourage people on benefits to work as a route off benefits and will reduce support gradually as earned income increases. It will not alter the behaviour of all of those committing earnings fraud, but will play an important role for those on the margins between committing fraud and complying with the rules.

Continuing the fight against fraud and error

13. While the Universal Credit will have a significant impact on levels of fraud and error in the welfare system it is not a panacea, and will not be able to eliminate all wasteful expenditure. This is why the Government published on 18 October,¹⁷ a new fraud and error strategy which outlines a new programme of work that will tackle areas falling outside the scope of Universal Credit, as well as providing the Department with the infrastructure needed to help protect the integrity of the Universal Credit system.
14. A key driver of this will be a renewal of the Department's programme to deter fraud. Under our new programme we will look to introduce a £50 civil penalty which can be administered quickly to those who fail, without good excuse, to report changes to personal circumstances. This penalty will be employed to make it clear that the Department expects recipients to take their claim seriously.

¹⁷ HM Revenue & Customs and Department for Work and Pensions, October 2010, *Tackling Fraud and Error in the benefit and tax credit system*.

15. Where there are grounds for instituting criminal proceedings against a person in lower level benefit fraud cases, we will consider offering the recipient a tough penalty they would have to agree to pay to avoid criminal prosecution. If accepted, the recipient would also be subject to four weeks' loss of benefit payments.
16. In the case of recipients who are convicted of criminal fraud, in addition to any sentence imposed by the court, the offender will also be subject to 'one strike' and 'two strike' regimes, which impose benefit deductions on recipients. We will seek to impose a loss of benefits for three months for a first conviction and six months for a second. For the most serious and organised cases of fraud we will look to ensure that a benefit loss of at least three years can be applied.
17. As part of this strategy we also intend to put in place a number of mechanisms for recovering our debts more effectively. We intend to increase the maximum rate at which fraud debts can be recovered through deduction from benefits by almost 25 per cent.
18. For those debtors who are already subject to a court-authorized deduction from benefits, but who have moved off benefits, we will introduce a fast-track system for requiring money to be deducted from an employee's earnings, known as Direct Earnings Attachment. Further to this, we will seek powers to share data more effectively with HM Revenue & Customs to help us better recover tax and benefit debts.
19. Finally, reflecting the greater simplicity of the Universal Credit payment system, we will seek powers to enable us to widen the range of debts we can recover, to include those resulting from official error. While the Department must take responsibility for payments made mistakenly by our staff, that does not give recipients the right to hold on to public money not intended for them.

Universal Credit and the wider system

6

Universal Credit is a major reform and will involve changes in other parts of the welfare system:

Contributory benefits

- **Contributory Jobseeker's Allowance and Employment and Support Allowance will remain in their present form but will be administered through the same system as Universal Credit.**
- **They will be paid in most cases for a limited period only (the Employment and Support Allowance Work Related Activity Group component will only be paid for one year).**

Social Fund

- **Elements that can be automated, such as budgeting loans, will become part of Universal Credit.**
- **More discretionary elements, such as community care grants and crisis loans, will be devolved to Local Authorities.**

Passported Benefits

- **The current benefit dependent thresholds for access to a range of passported benefits (for example, free school meals and health benefits) will no longer exist.**
- **We will replace the current rules with an income or earnings-related system that gradually withdraws entitlements to prevent all passported benefits being withdrawn at the same time.**

Disability Living Allowance will not be part of Universal Credit. We have already announced changes to Disability Living Allowance and we intend to consult on this separately later in the year.

1. Whilst protecting people in the most vulnerable circumstances we also want to ensure that the state support we provide is properly targeted. We recognise the importance of Beveridge's insurance-based principle and the need to build up pension entitlement over time. We also recognise the need for benefits that recognise specific needs such as disability.
2. To ensure this support is properly targeted, we will be reforming contributory benefits to ensure consistency with Universal Credit. We will also reform Disability Living Allowance to ensure that severely disabled people can participate more widely in society.
3. Universal Credit will also prompt other changes in the wider system. This includes the Social Fund and a range of benefits that the Universal Credit may give access to, known as passported benefits.

Contributory benefits

4. Contributory benefits, which are paid on the basis of National Insurance contributions, will be reformed but will continue to exist in parallel to the Universal Credit.
5. Governments have wrestled with what to do with the contributory principle for working-age benefits ever since the Beveridge system was introduced. Piecemeal reforms have followed, such as the abolition of earnings-related supplements in the 1980s, restricting the period of entitlement to unemployment benefits in the 1990s and means testing Incapacity Benefit from 2001 in respect of income from occupational pensions. These proposals are consistent with that direction of travel and recognise the fact that we need to allocate limited resources where they will have the best effect.
6. Under the new system, contributory benefits would retain an insurance element, but in most circumstances would only be paid for a fixed period, only to facilitate a transition back to work.
7. Contributory Jobseeker's Allowance will continue in its current form but with the same earnings rules (such as disregards and tapered withdrawal) as Universal Credit, as well as sharing the payment mechanisms and modernised administrative systems. This will ensure a seamless service for people who are entitled to both contributory Jobseeker's Allowance and Universal Credit.
8. Contributory Employment and Support Allowance will also continue, with administration and earnings rules aligned with Universal Credit. However, for those in the assessment phase and those assessed as being in the Work Related Activity Group their contributory Employment and Support Allowance will now be time-limited to a maximum of one year. After this time, qualifying recipients may be able to receive Universal Credit instead. We also intend to simplify the support for people aged under 25 who have been unable to pay the normal amount of National Insurance contributions as a result of their disability or health condition.

Social Fund

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.

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.

Disability Living Allowance

17. As noted above, the Government has already announced in the Budget that it will fundamentally reform Disability Living Allowance from 2013/14.
18. We intend to retain its role, outside the Universal Credit, as a non-means-tested cash benefit. It will continue to be paid to people in and out of work.
19. However, spending on Disability Living Allowance has been growing at an unsustainable rate, so we do need to ensure that future support is targeted on people who face significant barriers to participating in society. At the heart of the benefit will be an objective assessment, which we are developing with the help of medical experts and disabled people. This will allow us to assess more accurately and consistently who would benefit most from additional support.
20. We plan to consult shortly on our proposals, which will complement the support provided to disabled people by Universal Credit.

Pension saving and Universal Credit

21. In calculating the amount of earnings to be taken into account in Universal Credit, 50 per cent of contributions to an occupational or personal pension will be disregarded, as now under Income Support.
22. Once the 2012 pension reforms¹⁸ and Universal Credit are fully in place, based on a withdrawal rate in Universal Credit of 65 per cent, each £1 that goes into the pension pot of an employee who is a basic rate taxpayer and in receipt of Universal Credit will only reduce take-home income by 34 pence after minimum employer contributions, tax relief and increased Universal Credit payment are taken into account.
23. This makes pensions more affordable for those with the lowest incomes, providing a clear incentive for individuals to put money into a pension and benefit from forthcoming pension reforms in 2012.

The Devolved Administrations

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.

¹⁸ The Pensions Act 2008, introduced measures aimed at encouraging greater private saving which includes work-place pension reform due to come into effect in 2012.

The impact of Universal Credit

7

Summary

- 1) This chapter sets out the nature of the impact we expect Universal Credit to have. The Universal Credit design as outlined in this paper will make work pay in two important ways:
 - a. the financial reward for entering work will be improved, particularly for those on lowest earnings. We will reduce by 1.3 million the number of workless households facing Participation Tax Rates of over 70 per cent¹⁹.
 - b. The financial reward for low earners seeking to increase their earnings would be improved through the introduction of a single taper rate of about 65 per cent. We expect the highest marginal deduction rate, including tax and National Insurance contributions, for low-earning workers will be reduced from around 96 per cent to around 76 per cent, thereby improving the work incentives of around 700,000 people.
- 2) There will be substantial increases in the take-up of entitlements that are currently unclaimed. This, together with the higher entitlements, will lift many working age adults and many children out of poverty.
- 3) The new system will make error and fraud easier to prevent and detect. The move to real-time earnings and the removal of end-of-year reconciliation will reduce the scope for overpayments.
- 4) A more work-focused benefit system will have wider benefits for society, in terms of better health outcomes, higher educational achievements, and reduced crime.
- 5) In the long-run we anticipate that there will be savings from the dynamic labour supply effects, with Universal Credit reducing the number of workless households by as much as 300,000, and an annual flow of savings due to the greater administrative simplicity of the new system. Before taking account of these savings, we expect total support provided through the working-age benefit system to increase substantially through the introduction of Universal Credit, in particular for those in work.

¹⁹ Estimated on the basis of work of 10 hours per week, at the National Minimum Wage.

Universal Credit model and the baseline

1. The publication has set out the Government's intended design for Universal Credit. In the coming months, we will finalise policy on those aspects we have said we are still considering and assess the interaction it has with other recently announced reforms. However, we are now in a position to set out the impact we expect Universal Credit to have.
2. This analysis is based on the design set out in the rest of the publication. It includes the costs, distributional impacts and changes to work incentives. Our analysis compares the effect of this new system with the current benefits and Tax Credits system, incorporating the changes set out in the June 2010 Budget.
3. We present our estimates on the basis of the pre-Spending Review position because Universal Credit was the centrepiece of the welfare reforms the Government announced in that Review. Some of the other Spending Review measures will affect the detail of the impact shown here. Future decisions on some elements of the design the Government is still considering, as covered in earlier chapters, may also affect the precise results. We will provide further analysis in the impact assessment we publish with the Welfare Reform Bill.

Overall financial impacts

4. The introduction of Universal Credit will enable the Government to increase and better target the support that is provided through the benefit system in order to ensure that work always pays and the most vulnerable are protected.
5. The increased support comes from greater generosity for in-work households with low earnings and more consistent support as households increase their earnings. In addition, the simplification of the system will lead to significantly improved take-up of benefit entitlements among this group. Alongside this, there will be substantial savings due to reduced fraud and error.
6. The costs²⁰ of Universal Credit will build up over a number of years. The Spending Review set aside £2 billion to fund the implementation of Universal Credit over the Spending Review period.
7. The greater simplicity of the Universal Credit system will lead to a streamlined administration, which we anticipate will lead to savings of more than £0.5 billion a year.

²⁰ Costs and savings are quoted in 2010/11 prices.

Take-up and poverty

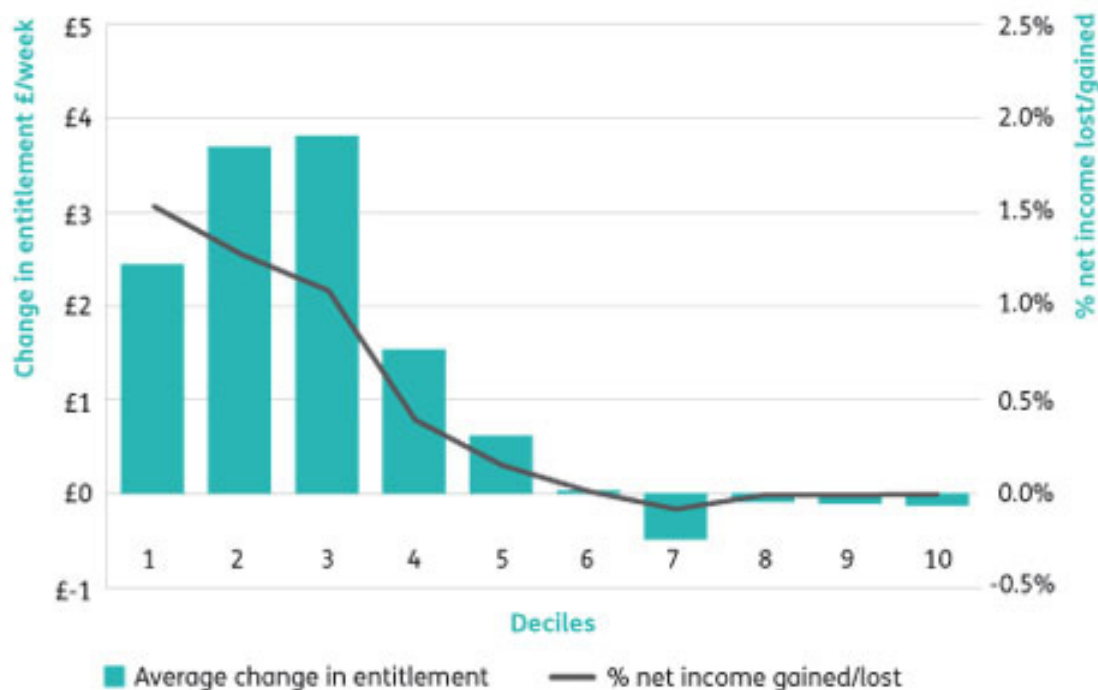
8. By creating a single, integrated benefit, households who claim Universal Credit will now automatically receive everything they are entitled to. The new system ensures that someone either claims everything (because they are eligible) or nothing (because they are ineligible). In effect, there will be ‘automatic passporting’ for people who currently claim some, but not all, of the benefits or Tax Credits to which they are currently entitled. Hence with this much simpler system, households will be more likely to claim their full entitlement.
9. By virtue of the changes to entitlement and improved take up, Universal Credit will have a substantial positive impact on poverty, for both children and adults: Universal Credit could lift as many as 350,000 children and 500,000 working-age adults out of poverty. This is before we consider the positive impact of more people moving into work.

The distributional impact of Universal Credit

10. This radical restructuring of the benefits and Tax Credits system is strongly progressive. It enables the Government to focus support more heavily and more consistently on those at the lower end of the income distribution.
11. Many households will receive more under Universal Credit than under the current system. These higher entitlements arise primarily for three broad groups of working households with low earnings:
 - households not entitled to Working Tax Credit under the current system, for example, because they are working less than 16 hours a week or are childless and aged under 25, who gain entitlement to in-work support under Universal Credit;
 - households receiving Housing Benefit and Council Tax Benefit under the current system who benefit from a significant reduction in the rate at which their benefit is withdrawn as earnings increase; and
 - other households who benefit from the higher earnings disregards and, for most people, lower withdrawal rate the Government is building into Universal Credit.
12. Figure 11 (opposite) shows the average net financial impact we would expect Universal Credit to have by income²¹ decile. In the bottom decile, the average impact of Universal Credit will be to increase net incomes by around 1.5 per cent – a cash value of £2.40 per week. In decile two this figure is around 1 per cent, which equates to more than £3.60 per week. This is before we take the impact of increased take-up into account, so is likely to significantly understate the gains to those on the lowest incomes.

²¹ Equivalised for household size.

Figure 11 Average long-run impact (proportion of weekly income gained/lost and average change in entitlement) by decile from Universal Credit reform



Source: Department for Work and Pensions Policy Simulation Model (based on Family Resources Survey 2008/9), 2014/15.²²

13. 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.
14. Universal Credit will remove the complexities and inconsistent support available in the current benefits and Tax Credits system and replace it with increased support for low-income families and consistency in support as income rises. This simplification means that, in the long term, some households will be entitled to less under Universal Credit than they would have been had the current benefits and Tax Credits system continued. These distributional losses will also arise gradually over time, as new people come into the system and the circumstances of existing cases change. Figure 11 shows this long-term impact. We expect to see average net incomes reduce in the long term in only deciles 7 to 10, and even there the average reduction will be small – less than 15 pence per week in deciles 8 to 10.²³

²² Modelling captures the effects of changes to entitlement, but does not include the impact of take-up, fraud and error effects, nor the removal of the earnings disregard currently applied to changes of circumstances in Tax Credits.

²³ The small average losses in deciles 7-10 come from the removal of the 30 hour premium of Working Tax Credit for higher earners. The losses arise in the long term only and are higher in decile 7 because a greater proportion of people in that decile would have been in receipt of Working Tax Credit.

Earnings Incentives

15. We expect the impacts on earnings incentives to be large. Universal Credit will improve earnings incentives for 700,000 current low earning workers. It increases their financial reward to work more hours or increase their wage rate, and as such it creates a more flexible workforce.
16. The expected Universal Credit withdrawal rate of 65 per cent means that to all intents and purposes, the highest Marginal Deduction Rate²⁴ for low-earning workers would be reduced from around 96 per cent to 65 per cent for those earning below the personal tax threshold and to around 76 per cent for basic rate taxpayers.
17. The following table 1 shows how the earnings incentives of people earning below the personal tax threshold are improved under Universal Credit compared with the current system.

Table 1: Marginal Deduction Rates²⁵ for those in work (working age only), earning below the tax threshold

Marginal Deduction Rate for non-taxpaying earners	Current system millions	Universal Credit millions	Difference millions
Up to 60%	0.3	0.1	-0.3
60%-70%	0.0	0.5	0.5
70%-80%	0.0	0.0	0.0
80%-90%	0.1	0.0	-0.1
Over 90%	0.1	0.0	-0.1

Source: Department for Work and Pensions Policy Simulation Model (based on Family Resources Survey 2008/9), 2014/15 – Figures may not sum due to rounding.²⁶

18. For taxpaying benefit recipients, Marginal Deduction Rates would typically be 76 per cent as a result of an expected withdrawal rate from post-tax earnings of 65 per cent.

²⁴ The Marginal Deduction Rate is the proportion of any extra earnings that is lost as a result of paying more tax and National Insurance and losing benefits. It is a useful measure of the incentive to increase earnings (for example, by working more hours). A higher Marginal Deduction Rate implies there is less incentive to increase earnings.

²⁵ Marginal Deduction Rates for those receiving income-related benefits or Tax Credits in the current system or receiving Universal Credit. Self employed and students are excluded.

²⁶ Modelling is based on entitlement changes only.

Table 2: Marginal Deduction Rates²⁷ for those in work (working age only), earning above the tax threshold

Marginal Deduction Rate for taxpaying benefit recipients	Current system millions	Universal Credit millions	Difference millions
Up to 60%	0.9	0.8	0.0
60%-70%	0.2	0.4	0.2
70%-80%	1.7	2.0	0.3
80%-90%	0.4	0.0	-0.4
Over 90%	0.1	*	-0.1

Source: Department for Work and Pensions Policy Simulation Model (based on Family Resources Survey 2008/9), 2014/15 – Figures may not sum due to rounding.²⁸

* denotes fewer than 50,000 people

19. Establishing a single withdrawal rate, and eliminating the hours rules currently present in Working Tax Credit, has the potential to create a much more flexible labour market. Workers will be able to work the number of hours that most suits their needs and those of their employer, without being constrained by the structure of the benefits system. Employers will find that their workforces become more flexible and open to opportunities for progression.
20. For example, it will now be financially rewarding for a lone parent to work 15 hours per week, or 17 hours per week (both of which would not have been financially rewarded under the existing system which only recognised 16 hours per week); and should more hours be available, the extra earnings will no longer face a Marginal Deduction Rate of 96 per cent. Under the current system a lone parent working 16 hours at the National Minimum Wage would only increase their take home pay by £5 a week if they increased their hours to 25 hours. Under Universal Credit the same lone parent would increase their take home pay by £17.
21. Under the current system parents whose spouses work full time do not face the same financial incentives and constraints as lone parents – and as a result they are able to, and do, work a wide range of different hours – to suit their situation. We believe the same opportunities should be available for all.
22. Hence, Universal Credit will match more closely the structure of today’s labour market,²⁹ where part-time jobs and flexible working are much more common than they once were. Furthermore, this reform will increase the range of viable jobs in the economy.

²⁷ Marginal Deduction Rates for those receiving income-related benefits or Tax Credits in the current system or receiving Universal Credit. Self employed and students are excluded.

²⁸ Modelling is based on entitlement changes only.

²⁹ In the three months June to August 2010, the increase in employment was 178 thousand. Of this increase 143,000 (80 per cent) were in part-time jobs. Office for National Statistics, Labour Markets Statistics, October 2010.

Employment incentives

23. Universal Credit will increase the financial rewards to enter, and retain work for low earners. It will reduce the highest Participation Tax Rates³⁰ they currently face, and will create a genuinely progressive set of Participation Tax Rates.
24. The number of households facing Participation Tax Rates over 70 per cent in this situation would reduce by around 1.3 million under Universal Credit – increasing dramatically the financial reward from entering work, especially at low earnings. Table 3 shows the Participation Tax Rates for workless households if they were all to enter work at 10 hours per week at National Minimum Wage.

Table 3: Participation Tax Rates for the first earner in a workless household if they were to enter work at 10 hours per week (working age only)

Participation Tax Rate for first earners	Current system millions	Universal Credit millions	Difference millions
Up to 60%	1.2	3.0	1.8
60%-70%	1.5	1.0	-0.5
70%-80%	0.2	0.2	-0.1
80%-90%	0.6	*	-0.6
Over 90%	0.6	*	-0.6

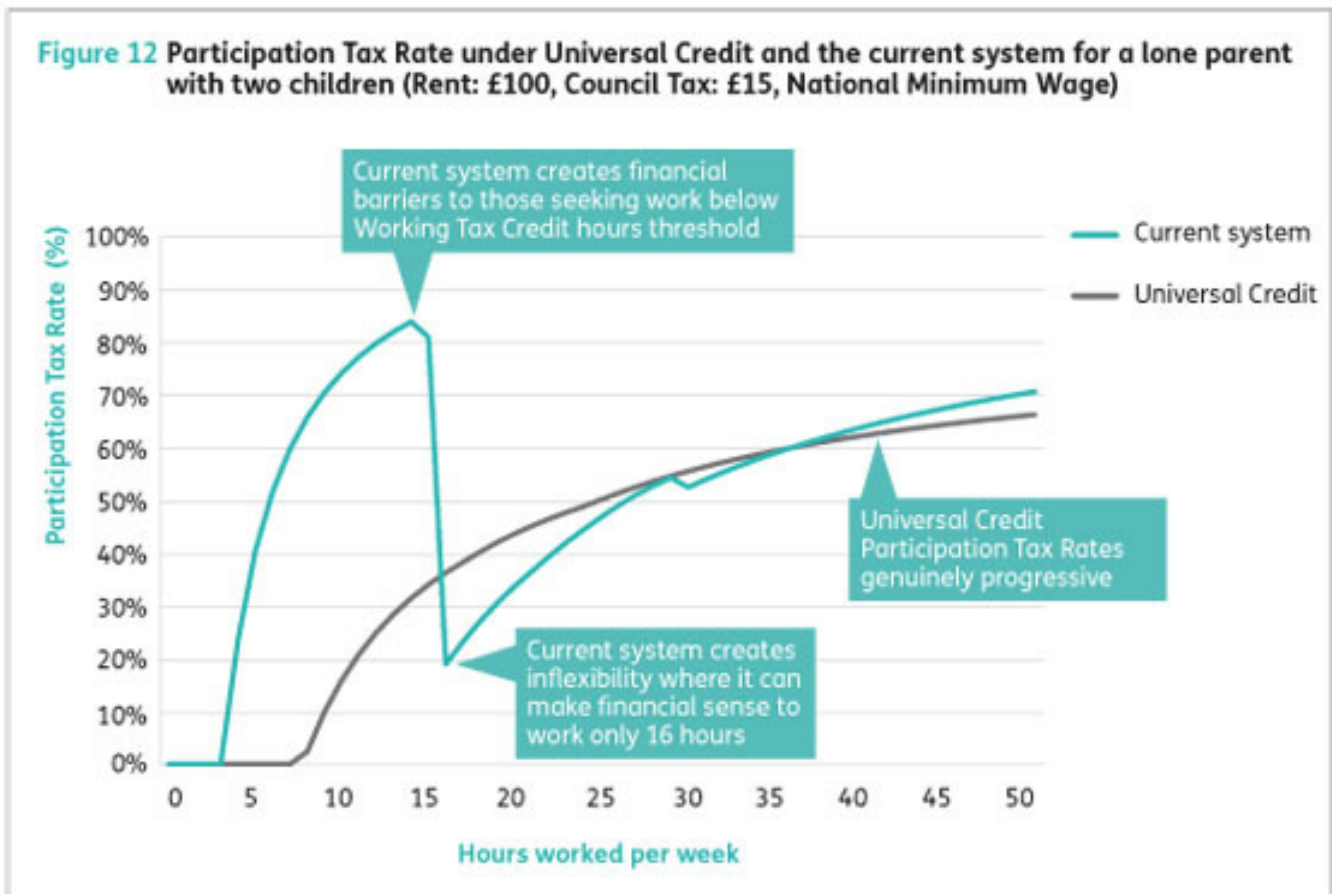
Source: Department for Work and Pensions Policy Simulation Model (based on Family Resources Survey 2008/9), 2014/15³¹ – Figures may not sum due to rounding.

* denotes fewer than 50,000 people

25. The introduction of more generous earnings disregards in Universal Credit, when combined with a single taper rate, creates a genuinely progressive Participation Tax Rate. This means that the combined withdrawal of benefits and taxes from the lowest earners (who tend to have the least secure employment prospects) is always less than from higher earners.
26. The improvement in Participation Tax Rates is illustrated in Figure 12 which shows the Participation Tax Rate for a lone parent with two children. In this example, the higher disregards for lone parents in Universal Credit mean that benefit is not withdrawn until around seven hours of work at the National Minimum Wage, whereas the current system withdraws benefit earlier.

³⁰ The Participation Tax Rate measures the proportion of total earnings lost from withdrawal of benefits and taxation. It is a measure of the financial reward for entering work. A high Participation Tax Rate means the financial incentive to work is low, and a low Participation Tax Rate means that the incentive is higher.

³¹ Modelling is based on entitlement changes only.



27. Such a lone parent in these circumstances would gain more from a move into work under Universal Credit than under the current system. This is true for most hours levels, and especially so for low-hours work. The viable options for entering work have expanded well beyond the current 16-hour option.
28. Hence, under Universal Credit not only is the current labour force more flexible, but there are many more financially rewarding job opportunities for workless households.

Impact of simplification

29. Universal Credit will radically simplify the current system of benefits and Tax Credits. This will improve work incentives in three ways: increased transparency of the financial benefits of work, reduced administrative burden on entering work, and reduced risk associated with an initially unsuccessful attempt at entering work.

30. Under the current system, there is clear evidence that many people are unaware of their full benefit entitlements and potential gains from moving into work. Latest statistics show that the take-up rate of Housing Benefit for people in work is low – between just 38 per cent and 51 per cent. There is also evidence that this means that many are deterred from entering work.³² The simplification of the system under Universal Credit will reinforce the transformation of the financial incentives to participate in work by helping people to see clearly that work pays.
31. Currently, somebody moving from an out-of-work benefit to work of 16 hours or more will typically cease a claim for benefit and start a new claim for Tax Credits with HM Revenue & Customs, as well as informing their Local Authority of a change in circumstances. This can be a daunting process, and people may face some delay in receiving their full entitlement – in some cases, delays in handling the change to Housing Benefit can leave tenants with arrears of rent. Universal Credit will smooth the current transition between benefits and work, and in the process remove much of the burden from taking that step.
32. Many people perceive the process of moving between benefits and work as a risky one. They may perceive a substantial risk of a delay in receiving new entitlements, possibly as a result of their own previous experience or the experience of friends and family. Similarly they may fear that should they later lose their job, it would take some time to re-establish their entitlement to out-of-work benefits.
33. Universal Credit is a single system supporting those in and out of work. Hence, as people's earnings increase or decrease, their Universal Credit amount will adjust smoothly to reflect this – thereby eliminating this risk.

Dynamic effects

34. This scale and scope of the Government's Universal Credit reform is unprecedented in recent times – it is the most significant change to the welfare system since the Beveridge reforms in 1947. However, even those pivotal reforms were ultimately the source of a good deal of today's complexity and the simplification that Universal Credit will bring is without parallel in UK history.
35. This chapter has set out the scale of the static impacts the Government expects Universal Credit to have. However, we believe that these impacts will be even more positive in practice because of the dynamic effects.
36. The introduction of Universal Credit will drive dynamic labour market effects as a result of many factors:
 - a. increased financial rewards to work;
 - b. increased transparency of these rewards;
 - c. reduced administrative complexity associated with a move into work and, related to this, reduced risks of interruptions in benefit payments occurring;

³² Turley C and Thomas A, September 2006, *Housing Benefit and Council Tax Benefit as in-work benefits: Claimants' and advisors' knowledge, attitudes and experiences*, Department for Work and Pensions Report 383.

- d. reinforcement of the conditionality regime; and
 - e. in the long-run, the reinforcement of pro-work social norms.
37. Given the fundamental nature of these reforms, no model or analytical technique exists that could enable us to quantify these effects with absolute precision. However, the scale of the Universal Credit measures is such that we can be very confident that they will have a significantly greater impact than any previous reforms, examples of which are provided in table 4, below.

Table 4: Employment gains from recent labour market reforms

Recent labour market reforms	Employment impact
Tax Credits, New Deal for Lone Parents and childcare strategy	80,000 Lone parents ³³
New Deal for Young People	30,000 ³⁴
Working Families Tax Credits	25,000-59,000 ³⁵

38. Based on available evidence, a plausible estimate is that the Universal Credit reform will reduce the number of workless households by around 300,000.³⁶ We believe that there is no reason why this increase should not be brought about within two to three years of implementation.
39. The majority of the reduction in workless households will be brought about by an increase in the number of currently workless people who will choose to engage in part-time work. The design of Universal Credit is specifically targeted to achieve this and the improvement in the incentives for currently workless people to move into part-time work is substantial. The improved financial incentives to move into work will be reinforced by the Work Programme and the completion of the transfer of Incapacity Benefit recipients to the Employment and Support Allowance.
40. We also believe that Universal Credit will create new opportunities for people to combine part-time work with benefit receipt and that this will significantly reduce the incentives for people to behave fraudulently and to “work and claim”.
41. In addition to the increase in part-time working among currently workless people, we also expect that more people will be prepared to move into more substantial jobs as a result of the greater clarity of work incentives, the simpler administrative procedures, and the reduced risk of experiencing an interruption in benefit payments when moving into work.

33 Gregg P and Harkness S, June 2003, *Welfare reform and lone parents employment in the UK*. CMPO working paper. series no. 03/072.

34 Riley and Young, December 2000, *New Deal for Young People: Implications for Employment and the Public Finances*, Employment Service Research Report 062.

35 Blundell R, Brewer M and Shephard A, 2005, *Evaluating the labour market impact of Working Families Tax Credit using difference-in-differences* HM Revenue & Customs Working Paper 4.

36 Based on internal analysis using the Department for Work and Pensions’ Policy Simulation Model. It combines a set of plausible assumptions about the impact of improved incentives to work in a Universal Credit world with evidence of the impact of previous initiatives to improve incentives to work. Further evidence is set out in the Impact Assessment that accompanies this White Paper.

42. Looking further ahead, the reduction in workless households should act to reduce worklessness further as a culture of work becomes the norm amongst a greater number of households and communities.
43. Although the number of workless households will reduce, it is possible that, in some families, second earners may choose to reduce or rebalance their hours or to leave work. In these cases, the improved ability of the main earner to support his or her family will increase the options available for families to strike their preferred work/life balance.

Fraud and error

44. The greater simplicity of the Universal Credit scheme will generate savings by reducing the scope for fraud, error and overpayments. For example, one category of fraud and error in the Tax Credit system is the incorrect reporting of hours worked. Because hours worked play little or no role in the Universal Credit assessment this should largely disappear under the new system.
45. Taken together with the impact of the planned use of real-time earnings on overpayments of Tax Credits, we anticipate that these measures will reduce losses from fraud, error and overpayments by more than £1 billion per year in the long term.
46. In the longer term we also expect the greater simplicity of the Universal Credit system to reduce administrative costs by more than £0.5 billion a year.

Equality impacts

47. Some of the design and operational issues have the potential to affect the protected groups under the public sector equality duty. We will be carrying out a full Equality Impact Assessment which we will publish in January 2011 as part of a broader set of Impact Assessments for the Welfare Reform Bill. In the meantime we are publishing, an outline of the Equality Impact Assessment explaining the evidence which is available on potential equality impacts, and how we will monitor and evaluate these equality impacts in the Welfare Reform Bill.

Annex 1

Consultation response

21st Century Welfare: summary of consultation responses

The consultation document, *21st Century Welfare* (Cm 7913), asked people to send their views on the problems with the current benefits system, on the Government's principles for welfare reform and on its proposals to simplify the system and make work pay.

The consultation period ran from 30 July to 1 October and received 1,668 responses via telephone, post, email and through our online consultation site.

Table 5 Breakdown of consultation responses

Origin of response	Number of responses
Members of the public	776
Department for Work and Pensions Staff	567
External Organisations	325
Total	1,668

A formal report of the responses is being published alongside this publication, *Consultation responses to 21st Century Welfare* (Cm 7971). This report details the main points raised by respondents and summarises the responses to the 12 specific questions posed in the consultation document. It also includes the Government's responses to the points raised.

Both the original consultation document and the report are available at www.dwp.gov.uk/consultations/2010/21st-century-welfare

Paper copies can be obtained from:

**Department for Work and Pensions
Benefit Reform Division
1st Floor
Caxton House
Tothill Street
London SW1H 9NA**

Leading themes from the responses

Respondents agreed that fundamental reform of the benefit system is needed and supported the basic tenets of our proposals:

- Of the five options for reform suggested in *21st Century Welfare* there was widespread agreement with the principles underpinning the Universal Credit proposal.
- There was overwhelming support for simplifying and streamlining both the benefit structure and the delivery process.
- There was a strong belief that people should be clearly better off in work than on benefits.
- Respondents wanted more details on our proposals before they could fully endorse them.

Other leading themes to emerge included:

- There were concerns about what the reforms might mean for people in vulnerable circumstances and those unable to work. Many stressed the importance of putting appropriate safeguards in place for these people.
- Most respondents agreed it was reasonable to apply conditions to the receipt of benefit. Some felt that for those able to work, the existing requirements to be available for and actively seeking work could be extended to include working within the local community.
- If conditionality is to be increased, protections must be put in place to ensure that people in vulnerable circumstances are not penalised.
- Concern whether there would be insufficient sustainable jobs available to support our reforms.
- The complexity of the system is not the only problem preventing people looking for work, equally important are issues such as personal health, child care, and skills shortages.
- Work is not necessarily the most appropriate immediate option for everybody. For some, education, training, or voluntary work might be a more beneficial first step, before starting work.
- Concerns about the implications of housing costs being met from a single award. It was feared that paying the housing element directly to the Universal Credit recipient could have a negative impact on landlords' rent collection whilst causing individuals to fall into debt.
- Local Authorities who responded were keen to remain involved in benefit administration to make use of existing infrastructure and trained staff with a knowledge of local issues.

Annex 2

Options for reform

1. In *21st Century Welfare* (Cm 7913), the Government outlined seven principles to guide reform (page 18). These are:
 - a. ensure that people can see that the clear rewards from taking all types of work outweigh the risks;
 - b. further incentivise and encourage households and families to move into work and to increase the amount of work they do, by improving the rewards from work at low earnings, helping them keep more of their earnings as they work harder;
 - c. increase fairness between different groups of benefit recipients and between recipients and taxpayers;
 - d. continue to support those most in need and ensure that interactions with other systems of support for basic needs are considered;
 - e. promote responsibility and positive behaviour, doing more to reward saving, strengthening the family and, in tandem with improving incentives, reinforcing conditionality;
 - f. automate processes and maximise self-service, to reduce the scope for fraud, error and overpayments. This could include a responsive and immediate service that saves the taxpayer significant amounts of money and ensures compliance costs for employers, at worst, are no worse than under the current system; and
 - g. ensure that the benefits and Tax Credits system is affordable in the short and longer term.

2. The paper went on to consider five broad options:

Universal Credit

3. This approach merges out-of-work benefits with in-work Tax Credits in a single credit system, increasing the amount recipients can earn before their benefits are affected and withdrawing support at a single transparent rate thereafter. It would maintain income-related benefits at a similar level to the current system.

A Single Unified Taper

4. The Single Unified Taper model retains the current systems and agencies but unifies the rate at which support is reduced when people go into work.

Single Working Age Benefit

5. The Single Working Age Benefit would replace existing out-of-work benefits, including Income Support, Incapacity Benefits, Jobseeker's Allowance, Employment and Support Allowance and Carer's Allowance, giving all working-age recipients a single, flat rate, fully means-tested income replacement benefit with no contributory entitlement and no premiums, regardless of whether they were jobseekers, lone parents, sick or disabled. All existing premiums for additional costs would be transferred to other redistributive vehicles such as Tax Credits or Disability Living Allowance.

Mirrlees model

6. This approach uses optimal tax theory to design an efficient system of household tax and transfer programmes. The new system would replace Jobseeker's Allowance, Income Support, Housing Benefit and Tax Credits with a single 'Family Allowance' which would then be tapered through the tax system.

Single benefit/negative income tax model

7. This would replace current income replacement benefits and Tax Credits and incorporate them within the tax system (reducing the level of the tax until all support was exhausted).

Comparing the options

8. Responses to *21st Century Welfare* (Cm 7913) showed a consensus for an integrated benefit that would be simpler and render the current interactions between benefits more transparent.
9. By far the greatest number of those respondents who expressed a preference for one of these models supported the Universal Credit (though with concerns about the level of detail that appeared in the consultation document). Nevertheless, many of those responding believed that the Universal Credit model appeared to be the fairest and simplest to understand. People felt that it could create a simpler and far less opaque system that would increase awareness of their in and out-of-work incomes and considerably ease the transition between being wholly supported by benefit and entering and moving forward within the labour market. People also welcomed the more generous disregards and single taper within Universal Credit and felt this model was the most likely to deliver an increase in benefit take-up.

10. The Government is convinced that the Universal Credit, which draws on the best features of the other options, is the way forward. Specific problems with the other options include:
- The **Single Unified Taper**, while improving the treatment of income and avoiding the high Marginal Deduction Rates which bedevil the current system, retains the split between in and out-of-work benefits. This would mean that much of the complexity of the current system would remain. Claiming and leaving out-of-work benefits would still involve a daunting paper chase. Further, by doing away with the earnings disregard, this proposal would worsen the incentives for some to try out work.
 - The **Single Working Age Benefit**, also retains the split between in and out-of-work benefits. By providing a single flat rate of benefit for all groups, this option would fail to recognise the additional needs of disabled people and carers. By doing away with contributory benefits, this option would also undermine the principle that benefits should be paid in return for contributions paid while in work.
 - The structure of the **Mirrlees model** is very similar to the Universal Credit, it combines out-of-work benefits with Tax Credits and housing support in a single family-based assessment. However, this option would provide lower rates of support for families with no earnings (for example, the proposed Personal Allowance for a couple would be £80 per week). However, by providing more generous disregards and tapers, this option is estimated to cost £9 billion a year – substantially more than the Universal Credit.
 - The Taxpayer’s Alliance proposal for a **negative income tax** also shares much of the structural detail with the Universal Credit. This option would combine most in and out-of-work benefits in a single payment. However, some of the detail would represent a more radical departure from existing provision, in particular, basing the amounts available to families who are out of work on a proportion of median income. The effect is difficult to predict but it would either substantially increase the cost of the system or result in substantial numbers of people in vulnerable situations losing entitlement.

Conclusion

11. The Government believes that the Universal Credit is the most appropriate model to pursue as it offers the most scope to improve work incentives and rewards even small amounts of work. It is also likely to be the most effective in smoothing the transition to work, especially compared with models that retain distinct out-of-work benefits and Tax Credits. A further advantage of this smoother transition is the greater opportunity to automate processes and self-service. Universal Credit is also the model which received the most support from the individuals and organisations responding to the consultation.

Annex 3

Treatment of earnings and income in Universal Credit

Earnings disregards

1. In Universal Credit, as explained in chapter 2, different amounts will be disregarded from earnings before the taper applies in order to reflect the needs of different families and ensure that work pays. The amount to be disregarded will be reduced to reflect support people receive for rent or mortgage interest support.³⁷
2. The actual disregard levels will be set closer to the date of implementation. We currently envisage maximum disregards (annual figures) of around:
 - **couple:** £3,000 plus £2,700 per household for a child (regardless of number of children);
 - **lone parent:** £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.
3. The reduction for housing costs goes as far as a 'disregard floor'. The annual amounts we have modelled are:
 - **couple:** £520 per household plus £520 for the first child, £260 for each of the second and third children;
 - **lone parent:** £1,560 per household plus £520 for the first child, £260 for each of the second and third children; and
 - **disabled people:** £2,080.
4. We do not expect to include a disregard for a single person without children – any earnings would be tapered off straight away.

³⁷ We envisage that disregards will be reduced by one-and-a-half times the recipient's eligible rent or mortgage interest support.

Box 1 Example

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.

Income from self-employment

5. Some self-employed people under Tax Credits report very low levels of income. We know that in starting up a business that it can take some time before it becomes profitable. But once established we would expect to see a reasonable income from the business activity. So for Universal Credit we are considering introducing a floor of assumed income from self-employment for those registering as such. The floor will be set at the National Minimum wage for the reported hours; clearly profits above this limit may be received and reported. For those self-employed people who engage in only a few hours of activity, and do no other form of paid employment then we will expect them to engage with the conditionality requirements as set out in Chapter 4.

Other income and capital rules

6. A new feature of the Universal Credit is that it will detach the assessment of earnings from the assessment of other income, using an automated system that feeds the calculation of Universal Credit with information on the payment of earnings through the BACS payment system.
7. Other income will be taken into account in calculating the entitlement before earnings are deducted. Some income will be disregarded – for example, Disability Living Allowance will be fully disregarded. Other income, for example an occupational pension, will be taken into account in full.
8. Universal Credit will have the same capital rules as currently apply to Income Support. There will be an upper capital limit above which there is no entitlement and a lower limit below which capital is fully disregarded. An income will be assumed for capital between the lower and upper limits.

Family Assessment

9. Universal Credit will be assessed on a 'household' basis taking account of the income and capital of a single adult or two adults who live as a couple (whether married or in a civil partnership or living together as if married or in a civil partnership). Any income or capital of a dependent child will be disregarded.
10. We assume that ordinarily with a joint claim, only one of the partners would receive the Universal Credit payment. However we will 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.



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