

UNIVERSAL CREDIT - A BRIEFING ON THE WHITE PAPER

The White Paper on Welfare Reform 'Universal Credit: welfare that works' was published in November 2010. This sets out in more detail the system of Universal Credit flagged up in the previous consultation. This will be laid before parliament in the form of a Welfare Reform Bill in January 2011 to effect the changes. Universal Credit will then be phased in for new claimants from 2013 and then a gradual move over to the new system for existing claimants to be completed by 2017. This paper summarises the main points as they will impact on homeless people and the agencies that work with them.

Principles

- Universal Credit is an integrated working age credit that will provide a basic allowance with additional elements for children, disability housing costs 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.
- No existing claimant will experience a reduction in the benefit they receive as a result of the introduction of Universal Credit. If the amount they are entitled to is less than the amount they were getting under the old system an additional amount will be paid to ensure they are not worse off.
- However claimants may experience cuts in housing benefit or be subject to sanctions in which case they could be worse off. There is also a cap on household benefit payments meaning that the award of Universal Credit cannot exceed a maximum amount. This will mainly affect large families.
- For new claimants it is inevitable that some will receive more and some less than if the existing system had remained in place. The move from the Retail Price Index to the Consumer Price Index will adversely affect the up rating of benefits, meaning that they are likely to lose their 'real' value particularly in respect to rent.
- 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.
- Universal Credit will be calculated and delivered electronically, automatically adjusting credit payments according to monthly income.
- Unemployed people who can work will be required to take all reasonable steps to find and move into employment. Financial sanctions will be applied to people not taking the steps required of them.

Tapers

Currently there are different tapers for different benefits and tax credits. The Universal Credit has a taper rate of 65 per cent, meaning that someone on a low income will lose 65p for every extra £1 they earn – this is lower than the combined rate that many people on low incomes currently face. Under Universal Credit net income should increase steadily with each hour worked.

Disregards

Some groups, including couples, lone parents and people with disabilities will be able to earn significant amounts before their benefit is withdrawn. The disregards will be set nearer the time of implementation but indicative amounts are between £3,000 and £7,000 a year, reduced for those getting help with housing costs. There are no disregards for single people. Currently most single people without children have an earnings disregard of £5 a week.

Claims

The introduction of Universal Credit depends crucially on the successful introduction of new IT systems involving not only the Department of Work and Pensions (DWP) but Her Majesty's Revenue and Customs (HMRC) and others. There will no longer be a need to make separate claims for separate benefits or to inform a number of agencies about changes in circumstances. The exception to this is likely to be for Council Tax Benefit which will be administered at a local level. Claims will generally be made online and that will be the primary communication route about the claim. Alternative arrangements will be made for people who cannot use online services. It is proposed that the period of assessment and frequency of payment is monthly. This could cause major problems in budgeting for people on low incomes.

Housing Costs

Support for rent currently paid by local authorities will be replaced by Universal Credit over several years. The amount paid for renting in the private rented sector will generally cover the lowest third of market rents in an area. For those in the social rented sector the support will cover actual rents including those in the new social rent tenancies offered at 'affordable rents', i.e. up to 80% of private sector market rents. This could trap people on benefit who are unlikely to find work to cover those rents. The other exception is people who are under-occupying properties who will only have the rent covered for a property appropriate to the size of their household. Rent will be paid direct to claimants. Exceptions may be made to pay rent direct to social landlords where a specific case is made.

Dealing with housing costs for people living in supported or temporary accommodation is still under discussion and may be devolved to local authorities.

Council Tax Costs

Overall expenditure on Council Tax Benefit will be reduced by 10% from 2013 and local authorities will have greater discretion over the rules. Therefore this is one part of

the benefit system which will not be universal, though local authorities will be expected to make use of the data provided by households for Universal Credit rather than asking for details of income and savings again.

Conditionality and Sanctions

Individuals able to do will be required to look for, prepare for and accept work. If they fail to do so increasingly heavy financial penalties will be applied. A claimant commitment will set out what is required of each claimant. These changes will begin to be made in the existing benefit system and will be carried forwards into Universal Credit.

There will be four 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;
- No conditionality – people with a disability or health condition which prevents them from working, carers of a disabled person, lone parents or the lead carer in a couple with a child under the age of one.

Advisers will be able to compel jobseekers to undertake four weeks of full-time unpaid work if they think it would help their chances of finding a job. If jobseekers fail to apply for a job, fail to attend an interview, to accept a reasonable job offer, or do not comply with this Mandatory Work Activity requirement, they risk losing their Jobseekers Allowance for three months, for six months for a second offence and three years for a third offence.

The paper states that the penalty of losing three years of Jobseekers Allowance will only happen after claimants have been clearly warned and given lots of opportunities to be compliant. Hardship payments will be available to people who have lost benefit but they may be in the form of loans and the Government are considering not making them available for the duration of the sanction. Welfare rights groups continue to express significant concern about these aspects of the changes. There is very limited evidence that sanctions work,¹ particularly for people who have unsettled histories and experience complex needs. These may increase the administrative burden and will hit vulnerable people the hardest. As a result, the sanction of withdrawing benefit for up to three years and not providing alternative sources of support is likely to prove very controversial.

¹ <http://www.cpag.org.uk/press/2010/111110.htm>

Fraud and Error

A £50 civil penalty will be imposed on those who fail to report changes in circumstances without good reason. If people are overpaid by official error the overpayment will be recovered from them.

Passported benefits

The move to Universal Credit will mean a complete overhaul of the rules on access to passported benefits such as free school meals and free prescriptions. Entitlement will be based on a graduated earnings or income threshold which will aim to ensure that individuals do not have a number of passported benefits withdrawn at the same time. This is an area where details are still unclear.

Social Fund

Budgeting loans will become an advance payment facility. It is suggested that community care grants and crisis loans will be administered by local authorities who will tailor the support to local circumstances and need. It is not yet clear what local authorities' response is to taking on these responsibilities.

Unanswered questions

Various other elements of the welfare reform proposals remain unclear. These include how childcare costs will be supported through the system, what changes might be introduced to Carer's Allowance and how localism principles can be introduced to Council Tax Benefit without undermining one of the main aims of Universal Credit, i.e. increasing the transparency of the financial benefits of work and having one agency to report to. Those paid through Pay as You Earn (PAYE) should not need to inform DWP of changes as employers will provide monthly data on earnings but there is currently a lack of clarity about self employed people and how they will fit into the system.

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