Economic Report Series 2013

Will Universal Credit work?

Written for the TUC by the Child Poverty Action Group

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by Lindsay Judge, Child Poverty Action Group

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Introduction

The world of social security is set to undergo a number of significant changes over the course of 2013. There will be the introduction of the benefit cap, a policy that, for the first time since the 1970s, decouples support for those on low incomes from assessed need. Likewise, 2013 will see the deliberate delinking of key benefits and tax credits from inflation, and an erosion of the real value of social security payments as a result. But no change that we witness this year will be as significant as the introduction of universal credit (UC), the government's flagship programme that sits at the centre of its welfare reform agenda.

This short pamphlet is designed to set out the what, when and why of UC. It starts with an overview of the new benefit, focusing particularly on the differences between UC and the current system. It then looks briefly at the timeline for the introduction of UC, before turning to an examination of the new benefit's aims. Each of the three objectives the government has set out for UC – simplification, making work pay, and tackling worklessness and poverty – are examined in turn. The pamphlet then concludes with recommendations to government as to how it could reform UC to ensure that the benefit truly delivers.

What is universal credit?

Universal credit (UC) is the new, means-tested benefit that the government is introducing in 2013 for the working age population in the UK. It will replace many existing in- and out-of-work benefits with one single payment: income-based job seekers allowance (JSA), income support (IS), income-based employment and support allowance (ESA) and tax credits will all, over time, be subsumed into UC, as will housing benefit (HB) and support for childcare costs currently awarded under working tax credit (WTC).

By integrating in- and out-of-work support the government aims to smooth the transition from benefits to work for claimants. In contrast to the current cumbersome system whereby claimants have to sign off one benefit and claim another when they move in and out of employment, UC aims to provide seamless support. This, in turn, reduces the impediments to taking up any type of job as the risk of claimants leaving the system and then finding themselves without an income should their job fall through is reduced.

UC also aims to be a much more transparent benefit, enabling claimants to assess more easily the financial advantages of work. Up to a certain earnings point, claimants will be able to retain their entire UC award, and once this allowance is exhausted, UC will be tapered away at a steady rate (currently 65%).[1] Much of the confusion within the existing system, whereby claimants see their benefits withdrawn at different rates, and at varying points, is therefore removed.

Alongside its integrated nature, UC has other striking new features:

- The government anticipates that the vast majority of claims will be initiated and managed online.

- Rather than making individual claims as they do at present, couples who live together will be required to make a joint claim for UC. They will also receive a joint payment that must then be shared out at the household level.
- Assessments will be made on a monthly basis as opposed to the fortnightly (out-of-work benefits) or yearly (tax credits) basis used currently.
- Information on earnings will be transmitted by HMRC to DWP on a real-time basis rather than reported post-fact.
- This whole-month approach is also reflected in the payments system with awards being made on a monthly basis.
- Support for housing costs that is currently paid to landlords will normally, under UC, be paid direct to the claimant who must then pay their rent themselves.
- Expectations of claimants to ready themselves for, search for and take up work will increase under UC. Recipients are already expected to look for work sooner than previously – for example, as soon as their youngest child turns five – as well as further away from home – with a 90 minute commute being considered reasonable compared to the current 60 minutes – and requirements such as these are likely to become more stringent. These and other conditions of entitlement will be set out in a 'claimant commitment'.
- For the first time those who are in work will also be subject to conditionalities. They will be expected to look for more or better paid work until a certain income point is reached. Non-working partners will also be required to look for employment until the couple cross the income threshold at which conditionality is lifted.
- The penalties for failing to comply with the new conditionality regime will be tougher and imposed sooner than currently. Claimants can lose their benefits for up to three years, and sanctions can also be carried forward into new claims. Hardship payments that may be given in cases of sanction will be recoverable.

Altogether, UC represents a wholesale change to the social security system. The government has set aside £2bn for the design and implementation of UC, and expects that when up and running, it will spend £2.3bn more a year due in large part to the anticipated increased take up of the benefit.[2] However, the government also anticipates that these costs will be offset by savings of £2.2bn annually as a result of reduced fraud and error, as well as a potential £0.2bnper year reduction in administrative costs in the longer term.

As a result of this welcome additional funding, some groups will clearly gain under the new system. For example, in general, those working between one and sixteen hours a week will be better off under UC. Likewise, those currently not taking up their full benefit entitlement will also gain as all support elements will be claimed via one process, as opposed to the current system where each individual benefit must be claimed separately.[3] That said, identifying the winners under UC is far from straightforward, especially when the following is taken into account:

- Couples with children are entitled to only one income disregard and as a result, the incentives for second earners to find employment are diminished.
- The rate of support available for many children with disabilities under UC will be substantially less than under the current system.
- Adults with a disability will likewise see a cut to the levels of support. The government is ending the severe disability premium currently paid to disabled people who do not have another adult caring for them, resulting in a loss of £58 per week. Likewise, disabled claimants who work and currently receive the disabled workers element of WTC will be hard hit, losing £54 per week in support.
- In-work claimants will, until they reach a certain income point, be subject to conditionality and will be expected to look for more hours or better paid work. Failure to do so could result in a sanction.
- The awards of self-employed claimants will be made on the assumption that they are earning a 'reasonable' minimum income regardless of whether they actually are in receipt of this level of income or not. Vulnerable workers who may be classified as self-employed by their employer but would, if they challenged their status at tribunal, be found to be employees, will be placed in an even more insecure position as a result of this provision.
- The government has yet to clarify how passported benefits such as free school meals or free prescriptions will be managed under UC. If eligibility is set at lower income levels than currently, many will lose out on often substantial amounts of support.

TUC analysis, undertaken by economist Howard Reed,[4] has shown that when we look at the distributional impacts of Universal Credit many middle income claimants will become worse off as Universal Credit is introduced.

Moreover, the research shows that while across the lowest deciles the average impacts of UC are positive, once the impact of benefit and tax credit cuts since 2010 are included the average gains are significantly reduced. This shows how important future increases in UC's generosity will be if it is to provide real benefits to more households.

Table 1: Annual impacts of Universal Credit and wider tax credit and benefit changes on household incomes by income decile (whole population)

Income decile	Impact of UC on household income	Impact of cuts in benefits and tax credits prior to UC's introduction
1 (poorest)	£356.20	-£127.92
2	£6.76	-£513.76
3	£28.60	-£652.60
4	-£33.80	-£709.80
5	-£97.24	-£692.12
6	-£170.04	-£595.40
7	-£144.04	-£496.60
8	-£75.92	-£375.96
9	-£30.16	-£264.16
10 (richest)	-£93.08	-£407.68

As there is significant variation in the impacts for households within each income decile, the research also considers the proportion of households that win and lose as a result of both UC and wider benefit and tax credit changes. It finds that even in the lowest income group only 19 per cent of households gain overall, while 41 per cent lose out. In income deciles two to five, more than 75 per cent of households will be worse off.

Table 2: Proportion of winners and losers within each decile as a result of Universal Credit and wider tax credit and benefit changes (whole population)

Income decile	Losers	No change	Winners
1	41.3	39.9	18.8
2	75.6	11.0	13.4
3	78.4	9.5	12.1
4	78.6	10.0	11.4
5	74.4	15.5	10.1
6	71.1	22.5	6.4
7	63.1	32.1	4.8
8	53.1	44.1	2.8
9	42.7	56.3	1.0
10	37.3	61.8	0.9
average	61.6	30.2	8.2

The analysis also looks at the impacts of UC by household type, and shows the varied impacts it will have for different families. On average single adults with no children will be worse off under UC than the current system, while the biggest average gainers under UC are single earner couple households with children. While there are small average gains for lone parent working households, two earner working households with children will, on average, be slightly worse off as a result of Universal Credit's introduction. In addition, the impacts of cuts in benefits and tax credits that have already been announced are significant for all the groups who gain, with the average losses outweighing any new benefits UC brings.

Table 3: Impacts of Universal Credit and wider tax credit and benefit changes on household incomes by household type (whole population)

Household type	Impact of UC on household income	Impact of cuts in benefits and tax credits prior to UC's introduction
single adult, no children, not working	-£59	-£212
single adult, no children, working	£20	-£178
lone parent, not working	£90	-£817
lone parent, in work	£38	-£1,363
couple, no children, not working	-£778	-£517
couple, children, not working	-£7	-£1,267
couple, no children, 1 earner	£252	-£503
couple, children, 1 earner	£1,084	-£1,769
couple, no children, 2 earners	-£85	-£122
couple, children, 2 earners	-£52	-£1,233
single pensioner	-£16	-£223
couple pensioner	-£478	-£301

Again, as there will be significant variation within each household type group, the analysis also considers what proportion of households within each group win and lose from the combined impacts of Universal Credit and wider benefit changes. It finds that only eight per cent of households overall (and eleven per cent of working age households) gaining from the cumulative impact of the changes.

Table 4: Proportion of winners and losers within each household type as a result of Universal Credit and wider tax credit and benefit changes (whole population)

Family type	Losers	No change	Winners
single adult, no children, not working	65.9	26.8	7.3
single adult, no children, working	20.3	68.9	10.9
lone parent, not working	91.2	0	8.8
lone parent, in work	75.6	0.2	24.3
couple, no children, not working	77.5	4.7	17.8
couple, children, not working	82.8	0	17.2
couple, no children, 1 earner	41.6	36.7	21.7
couple, children, 1 earner	67.5	0.1	32.5
couple, no children, 2 earners	11.1	86.9	1.9
couple, children, 2 earners	94.3	0.1	5.6
single pensioner	97.5	1.2	1.3
couple pensioner	92	6.9	1.1
total	61.6	30.2	8.2

(Note: Tables 1–4 compare new claims under UC with new claims under the entitlements they would have had had the previous system been retained and exclude transitional protection for existing claimants. They are based on whole population estimates from the Family Resources Survey. The analysis is based on the position that families will find themselves in by 2015, when the Government's full set of existing benefit and tax credit cuts will have been implemented and new claimants are presumed to be moving to UC).

When is UC being introduced?

Under current plans, universal credit (UC) will be piloted from April 2013 through four pathfinder projects all of which are taking place in the North West of England. Other aspects of the broader system are already being tested: 12 local authorities are currently assessing their preparedness to support claimants through the transition to UC, focusing especially on reaching out to the digitally excluded, for example, while direct payments of housing support to claimants has already been piloted in some areas.[5]

UC proper will be introduced in October 2013, but its roll-out will be gradual and some of the benefits it replaces are expected to stay in existence until 2017. Claimants can move onto UC in one of three ways: by making a new claim; as a result in a change of circumstances; or as part of the managed migration of each benefit caseload to UC.

At this point in time there is no clear timetable indicating which groups will be moved onto UC at which time. Ministers and civil servants have made somewhat contradictory statements on this subject. For example, it was initially announced that all new claims from October 2013 would be for UC, but recent comments suggest that this may now not be the case.

Instead, it appears that priority groups will be selected for both new claims and migration and the roll out will be slower than originally hoped. Who these early movers will be, however, is yet to be clarified: on different occasions, the financial winners from UC, those who are most disconnected from the labour market, or those with relatively simple claims have all been earmarked for the first wave.

All in all, the UC timetable is subject to much uncertainty as the government struggles to put in place all the pieces of the new IT system and supporting infrastructure. Given the political profile of the project, it seems likely that UC will be launched in October 2013 even if only to a limited extent. However, delays in developing the complex systems that underpin UC will arguably check the pace of the benefit's roll-out for some years to come.

Will universal credit work?

Alongside the concerns as to whether UC will work in technical terms is a much bigger set of questions with respect to UC's ability to deliver on its underlying policy objectives. The 2010 White Paper 'Universal Credit: Welfare That Works' sets out UC's aims quite clearly: to simplify the benefits system; to make work pay; and to combat worklessness and poverty.[6] This section considers each of these objectives in turn, and asks whether UC really can deliver.

Simplification

Simplification is a worthy goal and one that most claimants and advisors dealing with the current systems on a daily basis would readily endorse. But will UC be any simpler, or will it just introduce new complexities into claimants' lives?

It is worth thinking about simplification from three different perspectives: the claims process; the payment of an award; and the obligations that UC will place on recipients.

- Many aspects of UC will plausibly make it easier to claim the benefit: one form rather than multiple forms, for example, or the fact that the real-time exchange of earnings information will make self-reporting a thing of the past for most. However, other features of the new benefit will militate against a simpler claims process. Making a joint claim is likely to be cumbersome; managing the entire process online is a daunting prospect even for those who are computer-savvy, and even more so for those without access to their own internet connection; and regular self-reporting will still be a necessity for the self-employed or for those claiming help with childcare costs.
- Many claimants are concerned about how UC awards will be paid, and about possible new problems that may emerge as a result.7 Joint payments will require discussions about the division of money within a household: it is not difficult to envisage tension over, for example, control of funds for children. The shift to monthly payments alongside the end of direct payment to landlords may test low income families' and individuals' budgeting skills as the discipline imposed by the current system is removed. Likewise, a single unlabelled payment incorporating support for living costs, housing, children and childcare, and any additional needs will require effort on the part of claimants to allocate carefully across their family budget. The fact that the government is considering support for jam-jar accounts that allow holders to allocate funds to different budget items alongside the roll-out of UC illustrates awareness that lack of labelling can be a problem.8
- By setting out the requirements to prepare for or find work in the claimant commitment the government aims to make what it sees as the contractual nature of benefit receipt more explicit than ever before. But UC opens up areas of greater discretion in the system as Job Centre Plus (JCP) staff decide what is reasonable to expect from each claimant as part of their commitment. In the absence of adequate training, oversight and support for JCP staff, claimants are likely to find themselves in an increasingly arbitrary zone, subject to requirements that are burdensome and do not fully take account of their circumstances.[9] The situation is likely to be worsened further by the fact that the independent advice sector has been subject to swingeing cuts, and is unlikely to have the capacity to support claimants adequately in understanding and potentially challenging the conditionalities to which they are subject.[10]

While integration does have some benefits then, UC will still import many of the complexities of the current systems as well as introduce new difficulties into claimants' lives. As ever, it will be the most vulnerable who will find the system hardest to manage: from the digitally excluded to the family that struggles with budgeting, those in relationships with unequal power balances to claimants with mental health problems, all will be expected to navigate a complex new system with as yet unspecified support. For such claimants, UC is likely to prove anything but simple.

Making work pay

Making work pay in order to tackle what is regarded by the government as the widespread incidence of 'welfare dependency' is arguably the key objective of UC. By integrating in- and out-of work benefits, introducing a disregard so that many claimants keep all of their UC up to a certain earnings point, and tapering UC away at a transparent and predictable rate, the government wants to ensure all employment options make financial sense for claimants.

But will it always be so? It is worth bearing in mind the following points:

- People who go out to work face extra costs and, for families, one of the biggest is childcare. Support with childcare costs will be available to all who are working under UC – a welcome loosening of the rule under WTC that only those who work more than 16 hours a week can claim help with childcare. It has recently been suggested that, from 2016, those families who earn enough to pay income tax may be eligible for support with 85% of their childcare costs. However, UC will import the decision made by the government in 2010 to reimburse only 70 per cent of childcare costs in most cases as opposed to the previous arrangement, which covered a more generous 80 per cent, leaving families to make up the shortfall. Those in receipt of housing benefit (HB) and council tax benefit (CTB) are particularly hard hit: the interaction between their various benefits currently results in 95% of their childcare costs being covered.
- Passported benefits such as free school meals (FSM) are an important source of support for low income families: FSM for three children, for example, are worth approximately £1,158 a year. The government has yet to make clear how it will integrate FSM and other passported benefits into UC, but claimants are likely to encounter a 'cliff edge' at the point of withdrawal. As a result, at certain income points they will be worse off earning more.
- Those claimants who are homeowners will get help with their mortgage interest payments under UC when they are out of work. However, this support will cease as soon as they have any earnings, creating another margin where working may not make good financial sense.
- Council tax benefit (CTB) will not be integrated into UC but instead, from April 2013, will become the responsibility of local government. However, the CTB budget has been cut by 10 per cent at the same time that authorities have been mandated by central government to ensure that the full benefit is maintained for pensioners. As a result, local authorities will have no choice but to pass this cut onto the working age population. Many low income households who currently do not pay council tax will therefore be required to do so when they reach a certain income point. This, too, effectively introduces a 'cliff edge' into UC when earning more will not make economic sense because the claimant will then need to pay council tax. And with 300 different schemes and therefore potentially 300 different thresholds at which liability begins across the country, the interaction between CTB and UC is far from simple.
- The financial rewards of work under UC will be even more limited for second earners who will not benefit from an income disregard.

For many, then, the suggestion that work will always pay under UC will be untrue. And for those who will be a few pounds a week better off than under the current system, the gains they net are so underwhelming that one has to wonder whether the government truly expects to achieve its second objective through UC. In fact, analysis that focuses on the award amounts and work incentives embedded in UC misses a crucial point: that a key way the government is making work pay – no matter how sporadic, insecure or poorly paid it is – is by driving down the value of benefits.

UC awards will import many of the current benefit levels but the value of these has been reduced significantly in the last two years. A cap is being placed on out-of-work benefits,[11] ceilings have been introduced on housing support;[12] and just recently, the idea of restricting the child element of benefits to two children has been mooted.[13] All these cuts will be compounded by the decision made in the 2012 Autumn Statement to uprate key in- and out-of-work benefits, and going forward UC rates, at a sub-inflation 1 per cent over the next three years. The government's promise that there will be no losses at the point of change, then, is of little consolation in light of prior cuts to benefit levels.

Taken together, this raft of changes serves to reduce the support available to both in- and out-of-work individuals and families to ever-more paltry levels. Given this, the question arises whether it is impoverishment, and not UC, which will truly 'make work pay'.

Combating worklessness and poverty

The third objective of UC, that of tackling worklessness and poverty, is as laudable as the previous two aims when taken at face value. But again, an interrogation of what the government is doing to achieve these ends provides some cause for concern.

Consider the goal of combating worklessness, which will be tackled in three ways: by increasing work incentives; through helping claimants connect with the world of work, and by sanctioning those who fail to engage sufficiently with the labour market.

- The previous section has already shown that for many, the financial rewards under UC are often disappointing and for some groups, the marginal benefit of taking on additional work will be less under UC than the current system. This is particularly the case for two specific groups: those higher up the income scale who will be treated less generously under UC than they are under tax credits, and second earners in a household who will have no disregard under UC. Instead, it is primarily first earners and those who take on 'mini-jobs' of up to 16 hours a week who will see financial incentives improve.
- The Work Programme is a critical corollary of UC in that it aims to provide tailored support to claimants on out-of-work benefits to help them reconnect with the labour market. To date, however, results have been disappointing: a recent assessment showed that in its first year, only 3.53% of participants in the programme found work for more than 6 months.[14] While the figures

indicate that participants often move off benefits for short periods of time under the programme, finding sustained employment remains a much greater challenge.

- Improved incentives and assistance to find work go hand in hand with an increasingly stringent sanctions regime under UC. The default assumption is that claimants spend 35 hours per week looking for employment regardless of their circumstances or the local economy.[15] Alongside this, what will be considered a reasonable job for groups such as lone parents, the main carers of children and people with disabilities to take up will also be less flexibly interpreted.[16] If claimants fail to abide by the terms of their claimant commitment, their award can be docked for anything from four weeks to three years.

The government's programme for reducing worklessness through UC, then, can perhaps be described as some small carrots and a large stick. But should such a strategy work, would it also have the desired effect of reducing poverty at the same time? Worklessness is, of course, strongly correlated with poverty but the fact that 50 per cent of the working age population living in poverty today is in work tells us that employment is not a simple solution to poverty.[17]

Instead, of course what is needed to tackle poverty is not just work but good work: adequately paid, with regular hours and a degree of security, and prospects for progression. Without taking steps to address the low-pay no-pay sector of our economy, it is hard to see how the government can deliver on its claim that UC will combat poverty in any sustainable way.

Finally, it also worth reflecting on five other aspects of UC that could undermine the poverty reduction promises being made for the new benefit:

- The decision to uprate UC at a sub-inflation 1% for the next three years significantly undermines the benefit's poverty-reducing potential. The government had previously estimated that 550,000 adults and 350,000 children would be lifted out of poverty as a result of UC,[18] figures it has recently had revise down to 250,000 and 150,000 respectively.[19]
- The government's own assessments of the poverty impacts of UC are based largely on assumptions around increased take up of the benefit.[20] While it is fair to assume that some who are baffled by the current system and fail to take up available benefits will find it easier to access their full entitlement under UC, countervailing factors are also at work. The introduction of in-work conditionality, for example, could quite easily damp down take up as claimants further up the income scale decide that the gains under UC do not offset the conditionalities imposed.
- The risk of child poverty drops dramatically when both parents work yet in the absence of a second earner disregard and the only partial covering of childcare costs, UC does little to incentivise non-earning partners to take up employment.
- The government's impact assessment has shown that 2.8 million current claimants will have lower entitlements under UC than the existing systems.[21] While it has promised to smooth this shock by providing transitional protection at the point of migration, it will not extend this to those who move onto UC by

virtue of a change in circumstances. In addition, the real value of transitional protection will be eroded over time, and claimants will lose it entirely if there is a change in their circumstances.

- UC will introduce new capital rules for working claimants, penalising those with savings over £6,000 and withdrawing the benefit entirely from those with £16,000 or more in their banks. Workers who received a compensation payment for an industrial injury or a lump sum for redundancy are likely to be hit by this rule. The new system will also do little to enable claimants to save up a deposit for a house, for example, or to put away funds for university fees for their children. As a result, this rule sits uncomfortably with the government's social mobility agenda, which asserts that children can escape the poverty that mars their parents' lives.
- There will be a much more limited safety net for claimants in the event that payments are delayed or suspended because of sanctions. Payments on account and discretionary housing payments may be available in the event of administrative delay, but neither are available as of right; hardship payments that can be made in cases of sanction will be recoverable and may leave claimants with less than the minimum income provided by UC for months or years; and the localisation of, and cuts to, the social fund will leave claimants in a crisis with even scarcer sources of support than currently.

All in all, rather than providing a route out of poverty UC begins to look like the classic poverty trap, conspiring to limit claimants to lives characterised by poor quality work, low-grade housing and limited opportunities. Without changes to both the UC model and the broader environment in which it will operate, combating poverty is likely to remain little more than a distant promise.

Conclusions and recommendations

Taken in isolation, the UC model represents a real advance on the current social security system on many counts. It can only be a good thing that claimants deal with one rather than multiple agencies; that they do not face cumbersome and time–consuming procedures when they move in and out of work; and that they fill in only one form for their living costs, children, housing and disability payments. The smooth single taper means that they will know how much they gain from work, and together with the earnings disregard, this ensures that some claimants will be better off than under the current system.

But UC, of course, will not operate in a vacuum. It is being developed in the midst of an austerity programme that will have cut over £18bn a year from the social security budget by 2014/15, and threatens to take a further £10bn from welfare spending in the subsequent two years alongside wider cuts to DWP and HMRC staffing levels. UC will be launched in the face of a weak economy characterised as much by underemployment as unemployment, a real challenge for a benefit whose success is premised on people moving into (more) work. In the longer term, structural conditions such as the hollowing out of the labour market, which limits progression opportunities for those in lower paid work, may also jeopardise the ability of UC to deliver on many of its promises.

In addition, there are weaknesses in the model itself. If UC truly wants to simplify life for claimants, it needs to recognise that many complexities will remain in the UC system and take steps to address them. If UC is to incentivise work, the government needs to think hard about the lack of a second earner disregard, the limited support provided for childcare costs, and the continuing existence of cliff edges in the system as a result of localising CTB and the as yet unresolved question of FSM. And if UC is to tackle worklessness and poverty, it needs to ensure that the real barriers to employment are removed at the same time that awards are set at sufficient levels to protect claimants from destitution.

To these ends, we make the following recommendations to government:

- Introduce a second earner disregard to ensure that non-earning members of a couple have the same work incentives as primary earners.
- Increase support for childcare from 70% to at least 80% of costs for all, thereby going some way to reduce the barriers to employment for parents.
- Recognise the real costs of disability by ensuring that levels of support for adults and children with disabilities under UC are not lower than those provided under the current system.
- Base assessments of self-employed claimants on their actual as opposed to presumptive incomes.
- Extend transitional protection to those who move on to UC because of a change in circumstances such as the birth of a child, separation or partnering, or moving home.

- Draw up an exceptions policy that is informed by evidence to ensure that the needs of those who cannot manage online applications, joint claims, monthly payments or direct payments are accommodated.
- Ensure that local budgets to support claimants with the transition to an on-line system and monthly budgeting are generous enough to meet demand adequately.
- Invest in specialist training for Job Centre Plus (JCP) staff to ensure they understand the real constraints faced by groups such as lone parents, those with disabilities and those with caring responsibilities when drawing up the claimant commitment.
- Ensure that robust independent systems are put in place to monitor and review decisions to sanction.

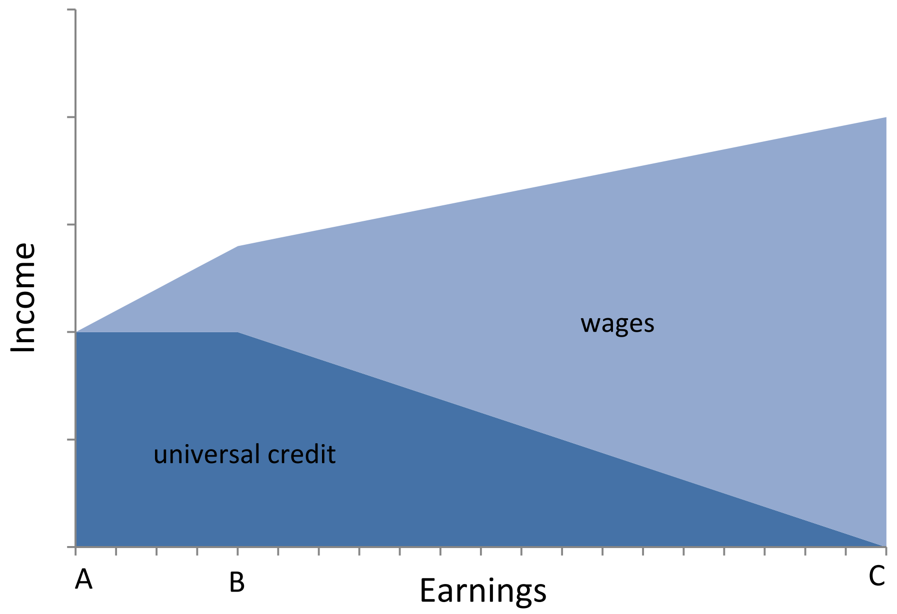
ANNEX 1: THE TECHNICALITIES

How UC will work

Figure 1 below illustrates how UC will interact with earnings as claimants move into work.

Point A represents an out-of-work claimant where the only income they have is their UC award. Between point A and point B, the claimant is earning but they retain the full value of their UC award until their earnings disregard limit is reached (point B). Point B will be set at different levels of earnings, according to claimants' particular circumstances. From point B to point C, as their earnings increase, their UC award is tapered away at a rate of 65p for every £1 earned. At point C, their earnings are such that their eligibility for UC ends.

Figure 1: Universal credit



Earnings disregards

Table A1 below sets out the various disregard rates for 2013/14. Rates are dependent on three factors: whether a claimant has children, whether they have been assessed as having limited capability for work, and whether they receive housing costs as part of their UC award.

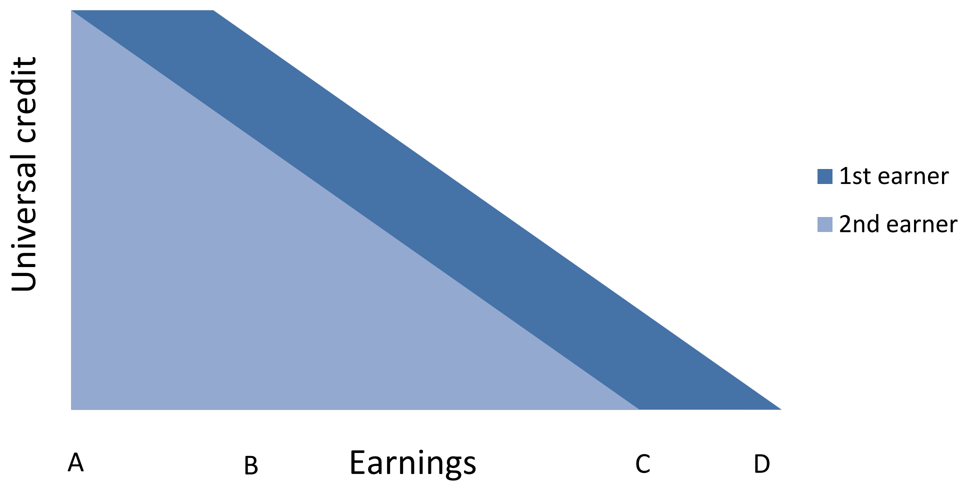
Table A1: Earnings disregard levels, 2013/14 (monthly)

	without housing costs	with housing costs
Single claimants		
not responsible for a child or qualifying young person	£111	£111
responsible for one or more child or qualifying young person	£734	£263
has limited capability for work	£647	£192
Joint claimants		
not responsible for a child or qualifying young person	£111	£111
responsible for one or more child or qualifying young person	£536	£222
has limited capability for work	£647	£192
Source: DWP, UC Impact Assessment December 2012		

These disregard levels will be uprated by 1% for the years 2014/15 and 2015/16.

Second earners in a couple will, however, receive no income disregard. The effect of this is illustrated in figure 2 on the next page. At point A, as the second earner begins to earn, his/her UC award begins to diminish immediately. This is in contrast to the first earner who keeps all of his/her UC award until earnings point B is reached. As a result, a second earner sees their UC award end at the earlier income point C compared with the first earner who sees their award terminate at point D.

Figure 2: Earnings disregards for first and second earners in a couple



Universal credit rates (monthly)

Element	Amount
Standard allowance	
single claimant aged under 25	£246.81
single claimant aged 25 or over	£311.55
joint claimants both aged under 25	£387.42
joint claimants where either is aged 25 or over	£489.06
Child element	
first child or qualifying young person	£272.08
second and subsequent child or qualifying young person	£226.67
Additional amount for disabled child or qualifying young person	
lower rate	£123.62
higher rate	£352.92
LCW and LCWRA elements	
limited capability for work	£123.62
limited capability for work related activity	£303.66
Carer element	£144.70
Childcare costs	
maximum amount for one child	£532.29
maximum amount for two or more children	£912.50
Source: UC Regulations 2013, R 36	

These award levels will be uprated by 1% for the years 2014/15 and 2015/16.

Notes

[1] See Annex 1 for further explanation and UC rates for 2013/14
[2] DWP, *Universal credit impact assessment*, December 2012 available at http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf
[3] M Brewer, J Browne and W Jin, *Universal Credit: A preliminary analysis*, Institute for Fiscal Studies 2011
[4] TUC, *A bleak future for families*, March 2013 available at http://www.tuc.org.uk/tucfiles/549/BleakFutureForFamilies.pdf
[5] See http://www.dwp.gov.uk/policy/welfare-reform/universal-credit/latest-on-universal-credit/ for more information
[6] Department for Work and Pensions, *Universal Credit: Welfare that Works*, Cm 7957, 2010
[7] See for example, N Keohane and R Shorthouse, *Sink or swim? The impact of universal credit*, Social Market Foundation 2012
[8] See http://www.dwp.gov.uk/local-authority-staff/universal-credit-information/universal-credit-updates/ for further information
[9] See, for example P Lane et al, *Lone parent obligations: work, childcare and the Jobseeker's Allowance regime*, Centre for Social Inclusions, December 2011 which shows that lone parents are subject to less onerous obligations if dealt with by a member of staff who has been trained in lone parent issues
[10] J Griggs and M Evans, *A review of benefit sanctions*, Joseph Rowntree Foundation, December 2010 shows, for example, that many of those who are sanctioned simply do not understand the requirements they are under.
[11] From April 2013 the government will introduce an overall cap on benefits so that no single claimant will be able to receive more than £350 a week in support while couples' and lone parents' benefits will be restricted at £500
[12] From January 2012 tenants in the private rented sector can only claim housing benefit up to the 30th percentile of median rents(as opposed to the previous ceiling which used the 50% percentile; local housing allowance (LHA) rates have been capped and are only available on properties with 4 or fewer bedrooms; and excess payments of LHA have ceased. From April 2013, social tenants will only receive housing benefit for a certain number of bedrooms (the 'bedroom tax').
[13] See, for example, George Osborne's speech to the Conservative party conference, 8th October 2012 available at http://www.newstatesman.com/blogs/politics/2012/10/george-osbornes-speech-conservative-conference-full-text
[14] DWP, *The Work Programme: The First Year*, November 2012 available at http://www.dwp.gov.uk/docs/work-programme-first-year.pdf
[15] The Universal Credit Regulations 2013, regulation 88(1)
[16] Ibid, regulations 89-92
[17] DWP, Households Below Average Incomes An analysis of the income distribution 1994/95 – 2010/11, June 2012, Table 3.3db
[18] DWP, Universal Credit Impact Assessment, October 2011
[19] Disability minister Esther McVey in response to parliamentary question 137237 available at http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130115/text/130115w0003.htm
[20] DWP, Universal Credit Impact Assessment, December 2012
[21] Ibid

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Tel: 020 7636 4030
Fax: 020 7636 0632
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