

# 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](http://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.<sup>37</sup>
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.

<sup>37</sup> 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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