



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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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.

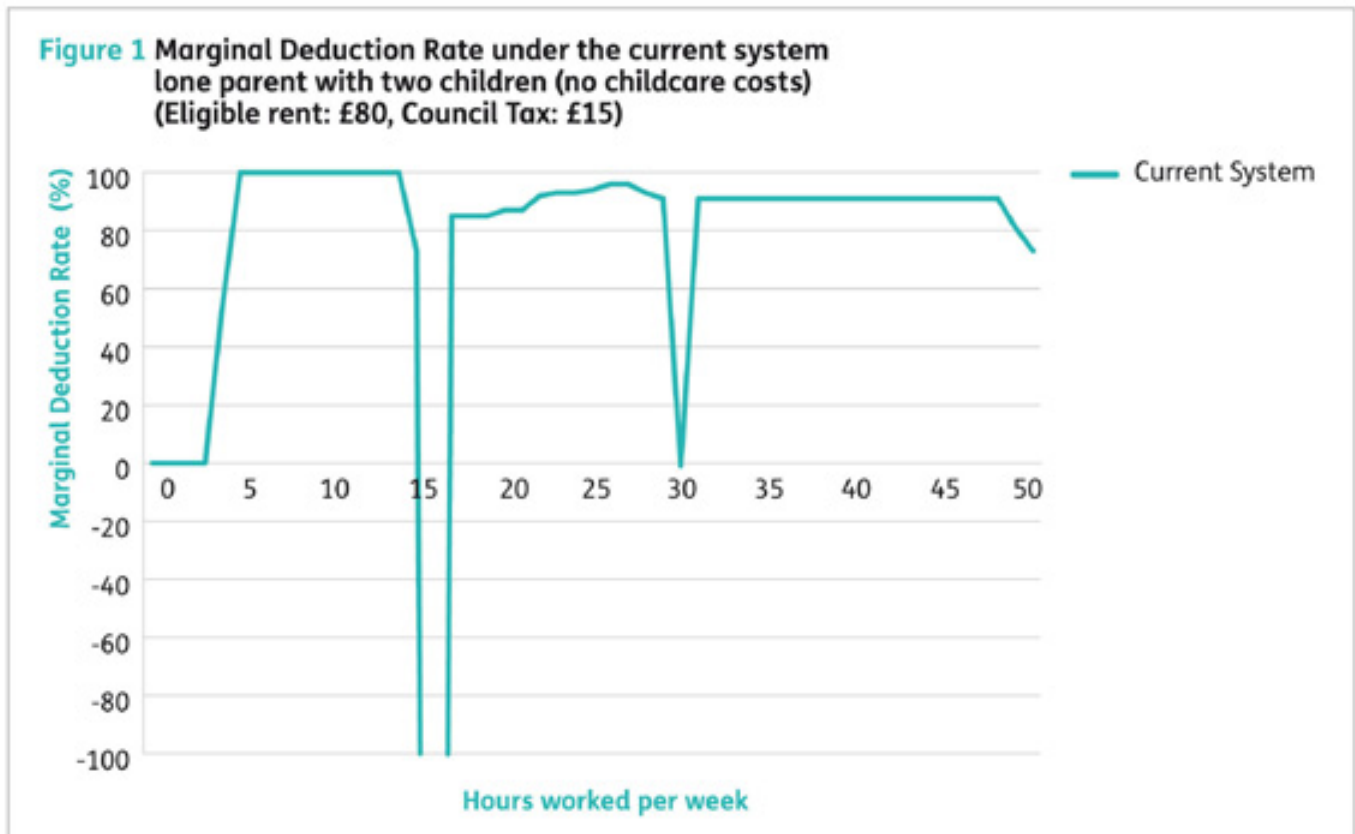
Poor work incentives

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.

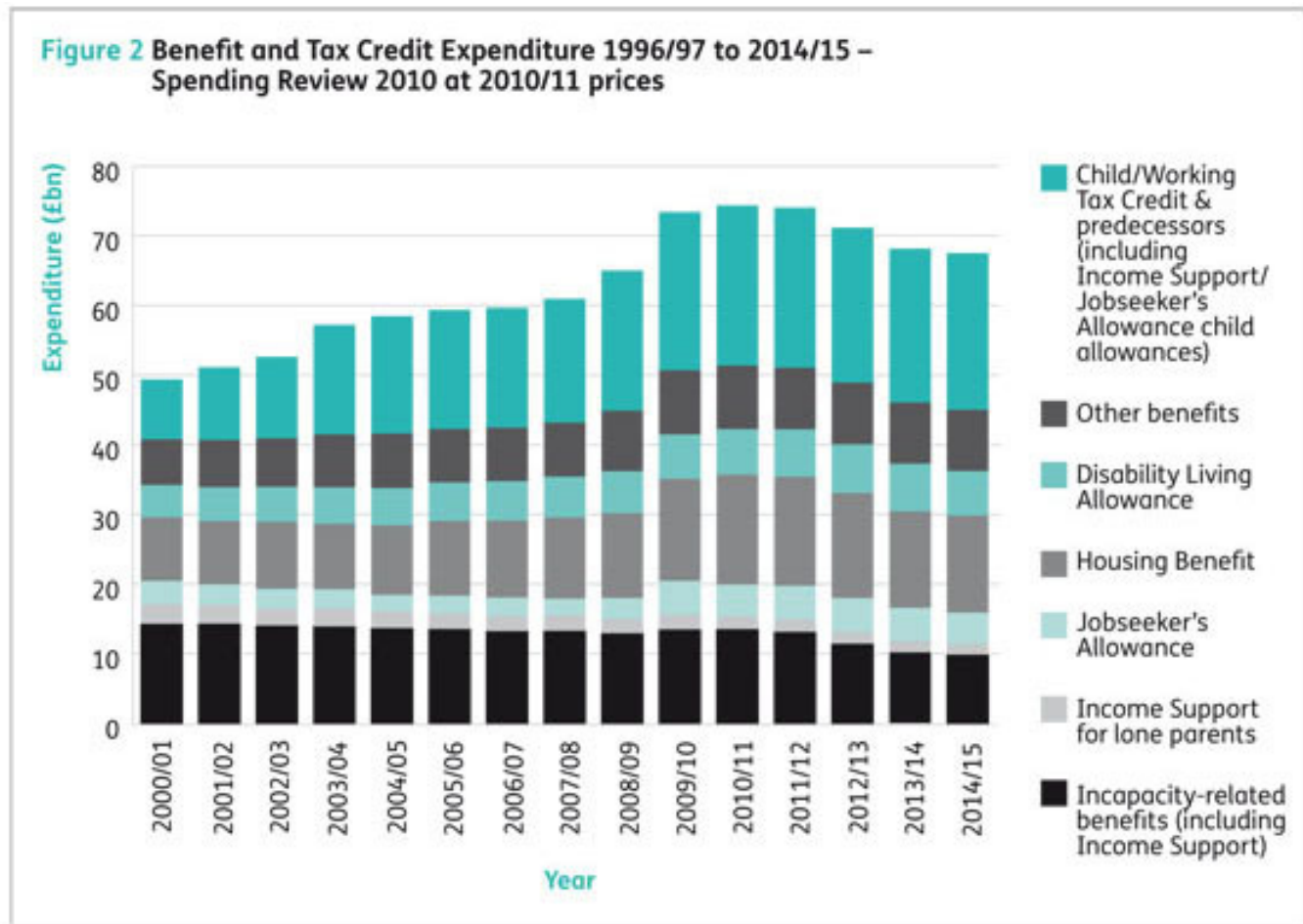
12 Ibid.

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:

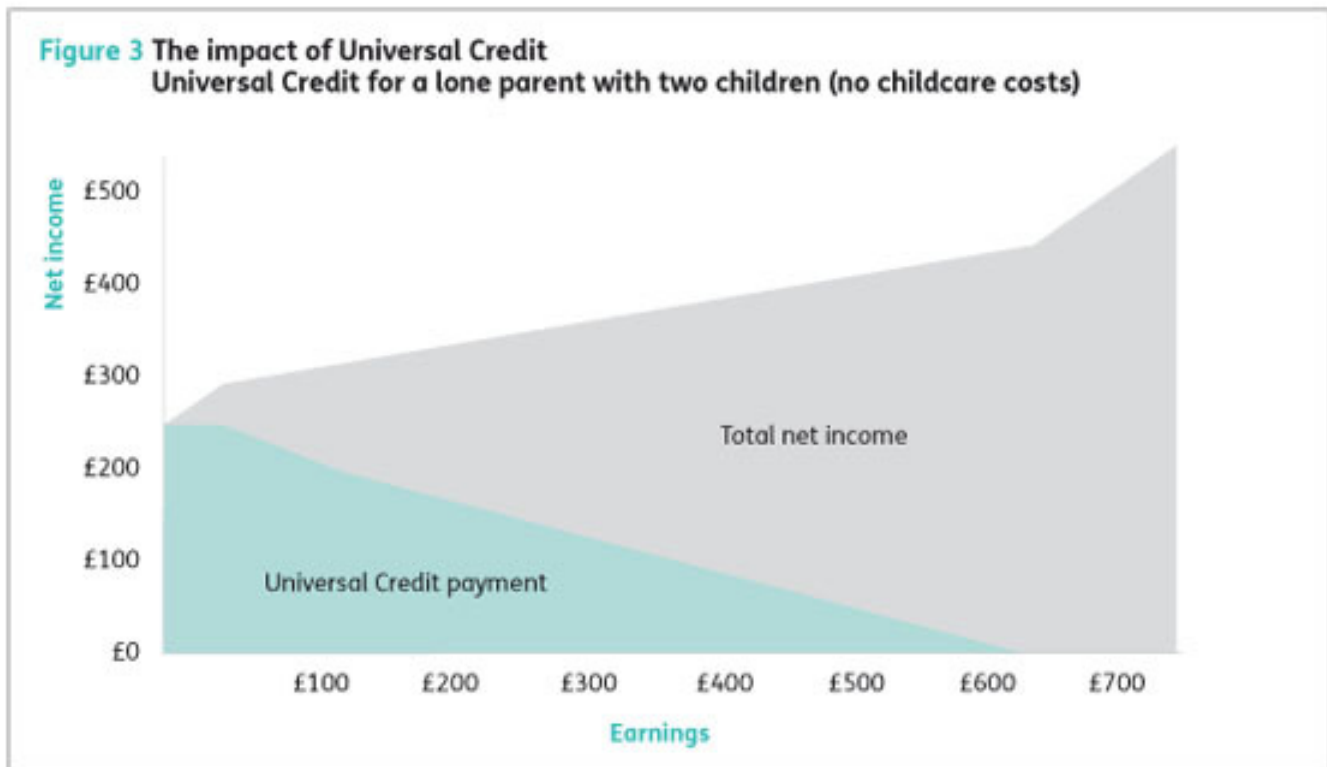
- It will bring together different forms of income-related support and provide a simple, integrated, benefit for people in or out of work.
- It will consist of a basic personal amount (similar to the current Jobseeker's Allowance) with additional amounts for disability, caring responsibilities, housing 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.

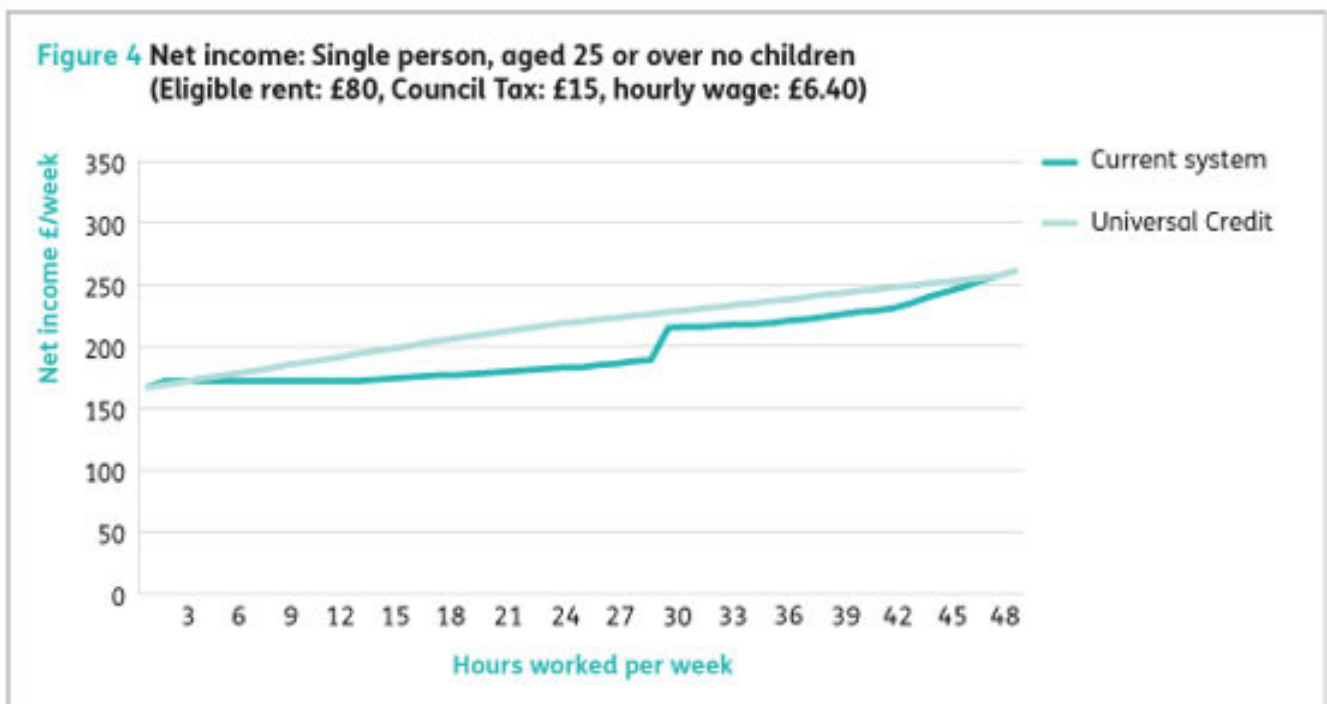
- 11. For example, a couple with children will get a higher disregard than a similar couple without children. There will also be a higher disregard for disabled people. These disregards will be reduced to reflect the amount of support being provided for rent or mortgage interest support. For details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

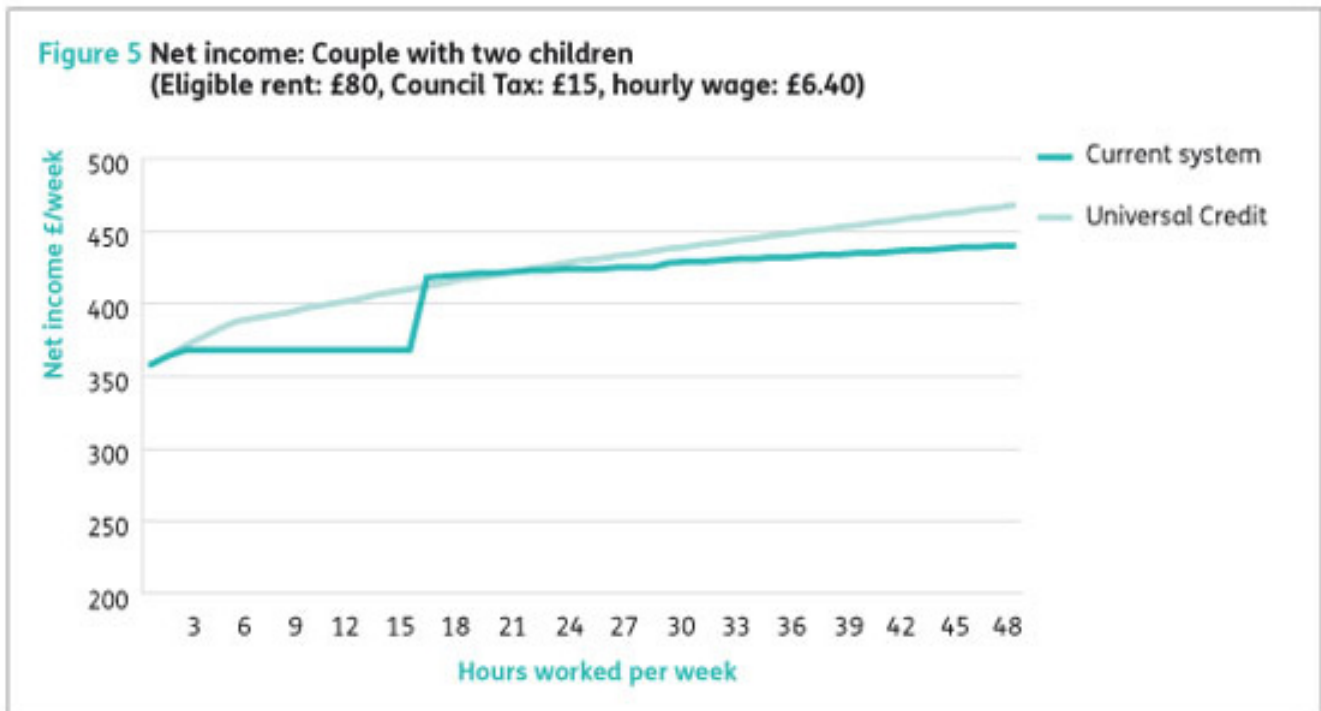
Impact on benefits in payment

- 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 uprated 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.