

Universal credit

Universal credit is a new benefit that will be introduced from October 2013, replacing current means-tested benefits and tax credits for working-age people.

The basic provisions to implement universal credit are set out in the Welfare Reform Act 2012, which was passed on 8 March, and more detail has been provided in draft regulations issued in June 2012.

When will it be introduced?

October 2013 to April 2014	New claims for universal credit, to be introduced over this period, possibly on a gradual basis by area. No new income-based jobseeker's allowance, income related employment and support allowance, income support or housing benefit claims are accepted once universal credit has been introduced in an area. People moving from out-of-work benefits into work transfer onto universal credit.
April 2014	No new claims for tax credits (except for people over pension credit qualifying age)
April 2014 to October 2017	Existing claimants transfer to universal credit.

Which benefits will go?

The following benefits will be abolished and replaced by universal credit:

- Income support;
- Income-based jobseeker's allowance;
- Income-related employment and support allowance;
- Housing benefit;
- Child tax credit and working tax credit;
- Budgeting loans and crisis loan alignment payments – to be replaced by payments on account (an advance of universal credit) in cases of need.

Council tax benefit, crisis loans for other needs and community care grants are also being abolished – responsibility for an equivalent will be passed to local authorities or devolved governments.

Disability living allowance for adults of working age is being abolished and replaced by personal independence payment (PIP) – see separate factsheet.

Which benefits will stay?

Benefits other than those listed above will remain. In particular, people will still be able to claim:

- Contribution-based Jobseeker's Allowance. The earnings rules will be aligned with Universal Credit;
- Contributory Employment and Support Allowance. The earnings rules will be aligned with Universal Credit
- Child Benefit
- Carer's Allowance
- Bereavement Allowance, Bereavement Payment and Widowed Parent's Allowance (subject to separate reform proposals)
- Maternity Allowance
- Industrial Injuries Disablement Benefit
- Statutory Maternity/Adoption/Paternity Pay
- Statutory Sick Pay
- Maternity Grants, Funeral Payments and Cold Weather Payments – to be extended to people on Universal Credit, according to the information available.

Who will be able to claim Universal Credit?

Universal Credit will replace means-tested benefits and tax credits for working-age people up to pension credit age. It will be paid to people in or out of work. Details in the Act include the following basic conditions:

- Claims may be made by a single person or members of a couple jointly.
- You must be at least 18 years old (regulations may prescribe a different minimum age in special cases).
- You must be under the qualifying age for pension credit (this will be 61 years and 10 months in October 2013 – rising to 65 by 2018). Where one member of a couple reaches the qualifying age for pension credit and the other is of working age, they must continue to claim universal credit until both have reached pension credit qualifying age.
- The capital rules will be the same as for income support, with lower and upper capital limits and tariff income assumed for capital between the limits. This will exclude people with savings over £16,000.
- Some income will be disregarded – eg, disability living allowance (and its replacement, personal independence payment), while other income will be taken into account in full – eg, occupational and personal pensions. Net earnings above the earnings disregard (see below) will be deducted from universal credit amounts at the proposed rate of 65 per cent – ie, 65p for every pound of extra earnings. Claimants will keep 35p for every pound earned above their disregard.
- A new minimum income will be assumed for self-employed claimants (see below).

How much will universal credit be?

Universal credit will be made up of:

- personal amounts for a single claimant or couple;
- additional amounts for:
 - children (or qualifying young people), with additional amounts for disabled and severely disabled children;
 - rent or a mortgage (support for mortgage interest will only be available to people who are not doing any paid work, and may include a waiting period and time limit);
 - limited capability for work;
 - limited capability for work-related activity;
 - regular and substantial caring responsibilities for a severely disabled person.

The maximum award will be subject to the 'benefit cap' based on median net earnings – the government has projected this will be set at £500 a week for couples or lone parents in April 2013. The cap will include other benefits such as child benefit, but will be implemented by reducing the amount of universal credit someone gets.

There will be exceptions to the cap for:

- households where someone gets disability living allowance (or personal independence payment) or industrial injuries benefits;
- those with limited capability for work-related activity;
- war widows;
- working families (earning at least £430 per month); or
- unemployed after working for at least 12 months (exempt from cap for 9 months).

The universal credit amounts will be at a 'similar level of support than the current system', except the proposed amount for most disabled children is halved, and the amount for most disabled adults will be reduced due to the abolition of disability premiums.

What will be the earnings disregards?

It is intended that universal credit will allow most people to earn higher amounts than under the current benefits system before their payment is reduced.

Disregards will be set at different levels for each of the following groups:

- single people and couples without children;
- lone parents with one or more children;
- couples with one or more children; and
- disabled singles or couples.

Only one earnings disregard, whichever is highest, is to be available in each household.

It is proposed that there will be two levels of disregards for each group, depending on whether or not they are getting help with housing costs. There will be higher earnings disregards for households with no housing costs. The rates of the disregards will be set in line with Government spending commitments.

What about income from self-employment?

If you are self-employed and on a low income, you may be assumed to have a certain level of earnings. This will not apply during the first twelve months of starting a new business. It appears that self-employed people will have to report profits every month.

What will happen to existing claimants?

It is intended that existing claimants will not lose out at the point of change. There will be transitional protection in the form of additional payments.

How will you claim and get paid?

Universal credit will be administered by the DWP. Couples will make a joint claim. Claims will normally be made online with alternative access kept to a minimum.

Subsequent contact will also be online, including claimants having access to an online account with details of their award and a facility for reporting changes of circumstances.

Universal credit will use HMRC's planned 'real-time' IT system to identify earnings when they are paid. Those paid through PAYE will have no need to report changes to their earnings.

Payments will change from the current fortnightly payments to monthly, paid directly by the DWP into a claimant's bank account, including amounts for rent. There will be provision to pay amounts differently if it appears necessary to protect the interests of the claimant, partner to child.

What about conditionality and sanctions?

There will be more conditionality and tougher sanctions for universal credit and for existing benefits. All claimants must accept a '**claimant commitment**' as a condition of receiving universal credit. They will then be placed into one of the four following groups:

A. Claimants subject to no work-related requirements:

- people with limited capability for work-related activity because of health or disability – ie, those in the support group for employment and support allowance;
- lone parents or the lead carer in a couple with a child under one;
- carers with regular and substantial caring responsibilities for a severely disabled person.

B. Claimants subject to the work-focused interview requirement only:

- lone parents or the lead carer in a couple with a child over one but below the age of five
- lone foster carers or the lead carer in a fostering couple, with a foster child under the age of 16

This group will be expected to attend periodic interviews to discuss their plans for returning to the labour market.

C. Claimants subject to the work preparation requirement:

- people with limited capability for work because of health or disability – ie, those in the work-related activity group for ESA;

This group will be expected to take reasonable steps to prepare for work, such as attending a skills assessment, improving personal presentation, participating in training or an employment programme, and undertaking work experience or a work placement.

D. Claimants subject to all work-related requirements:

- everyone else - the default for claimants including lone parents and couples with children over the age of five.

This group will be subject to a work search requirement (including making applications and registering with employment agencies) and a work availability requirement (subject to limitations to be prescribed), as they would under jobseeker's allowance.

Other qualifying conditions for each group may be prescribed. Each adult in a household will be placed into her/his own conditionality group depending on her/his individual situation.

There will be a new concept of 'in-work conditionality' where working claimants are required to look for more work unless they are earning at least the minimum wage x 35 hours a week (or less if reduced availability for work has been agreed)

Sanctions

'Higher level sanctions' may be imposed on claimants subject to all work-related requirements. This includes failure for no good reason to comply with the requirement to prepare or apply for work, take up an offer of paid work; and ceasing work voluntarily or through misconduct.

This may result in a reduction of the award, for a period up to a maximum of three years, depending on the number and regularity of such failures. The amount will be the value of the adult personal allowance, and will not include additional amounts, such as for children or housing.

Other sanctions may be imposed on claimants subject to work preparation requirements for failure to undertake work-related activity, or in the work-focused interview group for failure to attend an interview.

These may be imposed for a period until a claimant meets the compliance condition, or for up to 26 weeks.

Hardship payments may be available for claimants who have been subject to sanctions and are, or will be in 'hardship'. Regulations will prescribe the circumstances and matters to be taken into account, the amount, duration and whether such payments are recoverable.

Is there a right of appeal?

It is expected that there will be a right of appeal to the First-tier Tribunal (Social Entitlement Chamber) against decisions concerning entitlement to universal credit, as with the current benefits and tax credits system. However, the Act includes a power to require consideration of a revision before an appeal, so that the right of appeal is only effective after the Secretary of State has reconsidered the issue.

Further information

Read the Welfare Reform Act 2012 and earlier documents on the DWP welfare reform webpage: <http://www.dwp.gov.uk/policy/welfare-reform/universal-credit>