Universal Credit

Brighton & Hove City Council

What is it?

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 whether in or out of work. It will replace the following benefits:

- Income related Employment and Support Allowance
- Income based Jobseeker's Allowance
- Income Support
- Housing Benefit
- Working Tax Credit
- Child Tax Credit
- Parts of the Social Fund – budgeting loan elements will be automated and will be advancement of benefit rather than a loan.
- The current thresholds for passports - like free school meals will no longer exist. Instead it will gradually be withdrawn as your income rises and will be based on an income or earning threshold.

It will not replace:

- Disability Living Allowance – due to be replaced by a new benefit called Personal Independence Payment (PIP) from 2013
- Contributory Benefits – (although earnings rules will be aligned and the same time limits will apply JSA of 6 months and ESA contributory of 1 year)
- Child Benefit
- Pension Credit
- Bereavement payments
- Statutory Sick Pay
- Statutory Maternity Pay
- Maternity Allowance
- Industrial Injuries Disablement Benefit

Contributory Benefits

Contributory benefit will function only to facilitate a transition back to work and therefore will be paid for fixed periods.

JSA will have the same earnings rules and disregards and tapered withdrawal as Universal Credit.

Employment and Support Allowance Contributory will also have the same earnings and tapers as Universal Credit.

Proposed simplification of ESA in youth for people who are under 25 and have been unable to work due to a health condition or disability

Delivery

Universal Credit will be delivered by the Department of Work and Pensions. The intention is maximise on line channels to provide straightforward and accessible information about claims and better job search support whilst providing focused help for those unable

The objectives of the new credit are to make the benefit system:

- Fairer,
- More affordable
- Better able to tackle poverty, worklessness and welfare dependency.
- And reduce fraud and overpayments

Issues yet to be resolved

- Support for carers
- Support for disabled people
- Council tax benefit – proposal to move to a localised system, which will complicate the calculations and compromise the financial gain from working
- Passported benefits – based on an income or earning threshold
- Childcare support
- Upper age limit
- Other elements of the Social Fund- restriction of Budgeting loans to advances of benefits and devolution of Community Care Grants and crisis loan to local authorities

- Moves to monthly payments
- Any benefit that replicates all the pre-existing tests of entitlement will not be simple.

Timetable for implementation

- Pace – working to a tight delivery schedule
- Real time information - HMRC introducing an improvement to PAYE system. They will move to the new system in April 2012 – October 2013
- April 2013 Pilot
- October 2013 – new claims from out of work customers
- April 2014 – New claims from in work customers
- April 2014 – migration from old claims
- Fully implemented by October 2017

Current system

Encourages dependency, discourages work

- 28% of working age people receiving out of work benefits have done so for nine of the last ten years but
- Financial gains to work are slight

Complex

- 30+ benefits across 4 agencies with 10,000 pages of guidance
- Lack of transparency makes transition to work too risky

Expensive

- £95 bn forecast for working age spending in 2010-11
- Human cost – wise ranging and intergenerational
- £5bn a year is lost to error and fraud
- £3.5bn to administer

Marginal deduction rate (MDR)

This is the percentage of a small increase in salary (for example an extra hour worked) that a claimant loses to the government in the form of taxes and lost benefit.

Currently out of work benefits such as JSA are lost at a rate of £100%, there are no earning disregards applied and no taper

Therefore, there is no financial incentive to work whilst dependent on this benefit, until you on to in work benefits which use disregards and a taper.

The expected MDR for Universal Credit is expected to be 76% based on tax and loss of benefits but this is before childcare costs have been taken into account and whether council tax benefit will be assessed in the same way and will consider rebating the full 100%. Also this MDR does not consider the loss of current passports such as free school meals and other NHS services.

Under the current system the government estimate the MDR for low paid earners as 96%

Taper

Universal credit will have a single taper of 65% on net earnings. This means that every £1 they earn they will keep 35 pence.

(There are still questions that need to be answered around child care costs, passports and other matters which may impact on this.)

Transitional protection

- No-one whose circumstances remain unchanged is going to lose out at the time when Universal Credit is introduced.
- The government will top up the benefits of those who would be otherwise be entitled to less under the new system.
- The details of how this is going to work are still to be established.

Claiming Universal Credit

Claims will be made on the basis of households rather than individuals and both members of the couple will be required to claim Universal Credit. Claims for Universal Credit will normally be made through the internet and subsequent contact will also be made online. There will be a single application for all elements of Universal Credit.

People who are not able to make an application online may be able to receive help from the local authority. Some Housing Cost applications will remain with the local authority's housing benefit office, such as existing claims in supported housing.

Existing information will be used where possible avoiding the need for people to make repeat applications as their data will remain on the system even though entitlement has ended.

Changes of circumstances

Claimants will be expected to report any change of circumstance or income on line. Claimants earning will be assessed on real time earnings, through the PAYE system.

Claims will be automatically re- assessed for changes such as:

- moving into work,
- losing a job,
- having a child
- or becoming sick

Payment

It is proposed that payment of assessment and the frequency of payments should be monthly since 75% of all earnings are paid monthly. Rent and most household bills are also paid on a monthly cycle.

How is it calculated

There are many questions remaining about what counts as income but we will keep you informed of what counts as it is announced and presume that it will work in the same way as current benefits but the capital limit of £16,000 will be applied which may affect some people's benefits who have been claiming tax credits.

Each household will be allocated a **personal allowance** based on current benefit rates. This will consist of an allowance for meeting weekly expenditure on food, utility bills, travel etc which we understand will match current rates for jobseekers allowance, income support or employment and support allowance, depending on the circumstances of the household. The personal allowance will also include an amount for housing costs (based on the local housing allowance rate where the claimant is a private tenant).

These calculations assume the personal allowance to include the same rates of benefit for the earnings replacement element of Universal Credit and the housing costs that are used at present.

It is also likely to include premiums for those in special circumstances

If someone has no other income and savings of less than £6,000 they should qualify for the full personal allowance.

Information about other income and capital will be collected when first applying online.

Claimants who have earnings will have them automatically taken into account; the DWP will use the HM Revenues and Customs real time information system to identify earning and to calculate the net Universal Credit payment due by applying the appropriate taper to the personal allowance.

Earning disregards:

There will earning disregards for everyone except non sick/or disabled single adults.

Different disregards will apply to earnings before the taper is applied

Maximum disregards annual figures:

- **Couple**: £3000 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 claimant or either partner in a couple is disabled

Reduction for housing costs

- **Couple:** £520 per household plus £520 for the first child, £260 for each second and third children:
- **Lone parent:** £1,560 per household plus £520 for the first child and £260 for each second and third children:
- **Disabled people:** £2,080

Example:

A lone parent with three children has a rent of £80.00 per week

The assumed maximum disregard in her case is £7,700 and the disregard floor is £2,700

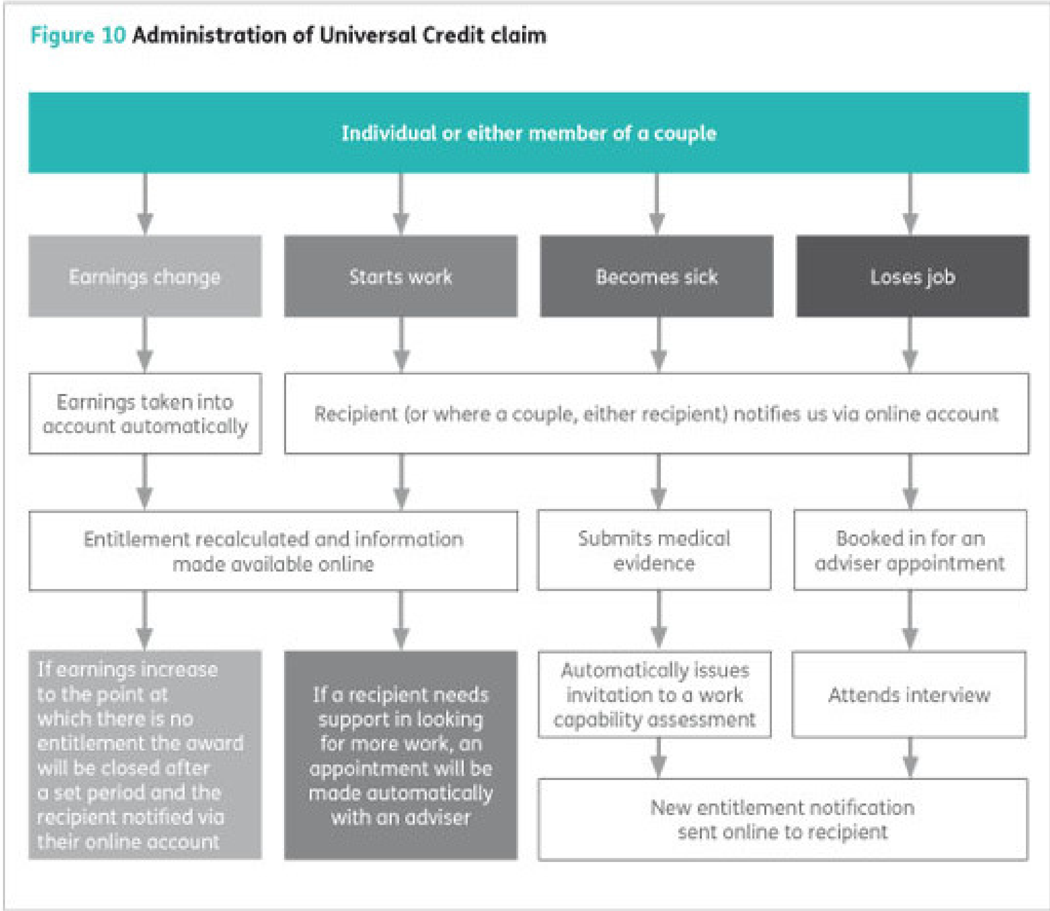
(*The disregard floor is £2,600 which is £1,560 plus £560 plus 2 times £260)*

However reducing the maximum by the disregard by 1.5 times the help with housing costs would bring the disregard below the floor, so you would use the floor. So the disregard is the floor of £2,600 = £50 per week. As a result of the 65% taper she will also keep 35 pence in the pound of her net earnings.

Under the current system the earning disregard for a single parent on income support is £20. Within Housing Benefit is £25.00 with an additional earning disregard if she works 16 hours or more of £17.10.

£80 multiplied by 52 and times by 1.5 = £6240 So the disregard that applied is the floor which is:

Earnings and income that is taken into account that is above the personal allowance will be subject to a tariff of 65%. This means that for every £10 net income they will earn they be £3.50 better off.



A single adult who is living in rented accommodation costing £85 per week and paying council tax of £15 per week

Personal allowance

£65 basic JSA

£100 housing costs (HB + CTB)

Total personal allowance = £165

Unemployed and earning nothing will get Universal Credit of £165

Earns £10 no earning disregard he will lose 65% of £10 = £6.50 from his UC

UC = £165 - £6.50 = £158.50 + £10 wages.

Total income £168.50 ie. He will be £3.50 better off

Earns £100 he will lose £65 off his universal credit and qualify for £100 and have earnings of £100 which means his income will be £200 and he will be £35 better off.

There are questions still to be answered about how council tax will be paid and whether it will be included in the personal allowance.

What counts as earnings

- Net earnings after tax and national insurance
- At the moment if you become ill whilst on tax credits you can still continue to claim for six months and be treated as still in work.
- Under Universal Credit, people who are self employed will be assessed on an income equivalent to the minimum wage whether they are able to take a wage from the business or not.
- In Work Credit for lone parents and Job Grant – may no longer be needed as such incentives may not be required under Universal Credit

Conditionality

Each adult in the household will have conditionality applied to them as an individual. In the case of a couple with children they will need to nominate the lead carer.

There are different levels of conditionality:

- *Full conditionality* – JSA claimants this includes Lone parents and joint claims where there is a child who is 5 or over
- *Work Preparation* – ESA claimants who are in the work related component group and lone parents with children below the age of 5
- *Keeping in touch with the labour market*- single parents with a child between 1-5 and claimants who are getting Income support or ESA or are the partner of this person
- *No conditionality* – ESA and in the support group, lone parents with a child under 1 and carers

Conditionality under Universal Credit will apply up to a 'conditionality threshold'. Claimants above the threshold will be placed in the no conditionality group.

To begin with conditionality will be set at the point where out of work benefits such as JSA are lost.

However once Universal Credit has been established we will be able to lower this threshold and apply conditionality to a greater number of claimants.

Sanctions

The amount sanctioned under Universal Credit will be broadly equivalent to the amount that will be sanctioned under the current system.

The sanction will not apply to the housing cost element of Universal Credit

Requirement to prepare for work – Claimants of JSA, and ESA in the work related group, failure will mean the total loss of the amount up to the JSA or ESA level. Benefit will only be resorted after the person has compiled but there will be a fixed period when they do not receive benefit after complying. This could be for one, two or 4 weeks with each subsequent failure to comply.

- **Failure to accept a reasonable job –**
- **Failiure to apply for a job** ◄ 3 months
- **Failure to attend mandatory work activity**

If a claimant repeatedly fails to meet their responsibilities JSA can be stopped for 3 years

How will housing costs be assessed?

Currently if you are claiming JSA as unemployed and claiming mortgage interest, you are only able to claim after 13 weeks, up to a maximum of £200,000 at the standard interest rate and it is limited to a period of 2 years. You are only able to claim this help through JSA income based and ESA income based or Pension Credit. People who move into work can claim tax credits to top up low pay but there is no help with mortgage interest. With the introduction of Universal Credit the question is will there be a cut off once a person is working full time or over 16 hours or will it be awarded because there income is below their personal allowance which includes the mortgage interest? Also will the two year limit apply?

Council tax benefit – may become a local benefit which each local authority can decide what maximum amount they wish to pay.

Useful contacts: There will be opportunities to feed into the ongoing development:

- Universal.creditcomms@dwp.gsi.gov.uk

Concerns

- Payments that are currently paid to the main carer through the tax credit system will under universal credit be paid to the main earner because of the IT system, and this is a concern that has been raised by Child Poverty Action Group because they believe this could lead to less spending on children's needs.
- How will childcare costs be incorporated into the universal credit? CAB have stated that households who depend on childcare
- Claimants will face major budgeting problems if the housing element of the UC does not accurately reflect their housing costs.
- In the last tend years to 2007/8, the median private rents increased by almost 70%, whole CPI increased by less than 20%. In the social sector benefit is currently calculated on the basis of the rent paid. To move away from this approach would risk significant financial instability for social landlords

Answers from the workshops:

What's changing?

What have people been doing so far?

What things could people do in the future?

How can we help people?

Make sure you have factsheets that explain the rights people have to appeal

Attend medicals with clients who are unable to advocate for themselves

Help people apply online

Keep up to date with the changes

Engage with doctors on client's behalf

Ensure claimants are aware and agree with what is in the JSA agreement

Ensure they are aware of the consequences of conditionality

Ensure they are aware sanctions can be challenged on the ground of good cause