

# Quick guide

## Welfare in Wales series: Universal Credit

September 2011

### Introduction

The UK Government is intending to replace a number of welfare benefits with a single, tapered, household 'credit', to be known as Universal Credit. The aim of Universal Credit is to **simplify the welfare system, save money and improve work incentives.**

### At a glance

- **Universal Credit will replace a range of existing out of work benefits and in work tax credits**, including Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Housing Benefit, Child Tax Credit and Working Tax Credit;
- There will be a **basic allowance for adults, with additions for children, disability, housing costs and caring**;
- The Universal Credit will be assessed and paid on a **household basis**;
- For people in work, **Universal Credit will be withdrawn at a uniform rate of 65 pence for each pound of net earnings**, though for certain groups an amount will be disregarded from earnings before the taper applies;
- For employees paid through Pay As You Earn (PAYE), **payments will be calculated and adjusted automatically** using information on earnings from new 'real time' information system;
- There will be four levels of '**conditionality**', ranging from 'full conditionality' for jobseekers to 'no conditionality' for those in the ESA Support Group, carers and lone parents with a child under one;
- There is a UK Government undertaking that **no existing claimants will experience a reduction in cash terms** in the amount they receive as a result of the introduction of the Universal Credit;<sup>1</sup>
- The UK Government also intends to incorporate certain elements of the **Social Fund**<sup>2</sup> into Universal Credit, including Budgeting Loans, Sure Start Maternity Grant and Cold Weather Payment; and

<sup>1</sup> Hoc Library (2010) [SN/SP/5782 Welfare Reform and Universal Credit](#) [accessed 10/01/11]

- Universal Credit will be **administered by the Department for Work and Pensions (DWP)**, in contrast to the current system where HM Revenue and Customs (HMRC) manages tax credits and DWP administers most means-tested benefits.

## Benefits to remain outside of Universal Credit

Key benefits that will remain outside the Universal Credit include:

- **Contribution-based Jobseekers Allowance (JSA) and contributory Employment and Support Allowance (ESA)**. However, earnings rules are to be aligned with those for Universal Credit;<sup>3</sup>
- **Carers' Allowance**;
- **Disability Living Allowance (DLA)**;
- **Child Benefit**;
- **Council Tax Benefit** will be more localised, and local authorities will play a greater role in deciding how they help people on low incomes pay their Council Tax;
- Local authorities and devolved administrations will be given responsibility for the discretionary payments made from the **Social Fund**, such as **Community Care Grants** and **Crisis Loans**.<sup>4</sup> Those which can be automated will become part of Universal Credit, like **Budgeting Loans**; and
- Other benefits including **Statutory Sick Pay, Statutory Maternity Pay, Maternity Allowance, Industrial Injuries Disablement Allowance** and **Bereavement Benefits** will remain as under the current system.

## Amount

Claims will be made by **households rather than individuals** and the amount awarded will depend on the income and circumstances of all the household members. There will be a **basic allowance** with different rates for single people and couples, and lower rates for younger people. There will then be additional amounts available for **disability, caring responsibilities, housing costs and children**.

The disability amount is intended to mirror the two components of Employment and Support Allowance paid during the main phase of the benefit. The additional amount for children which forms part of Universal Credit will be paid as well as, rather than instead of, Child Benefit.

The UK Government have stated that **Carers' Allowance** will not be absorbed into Universal Credit, but that there will be an additional element within Universal Credit to recognise carers, similar to the carer premium currently payable within income-related benefits.<sup>5</sup>

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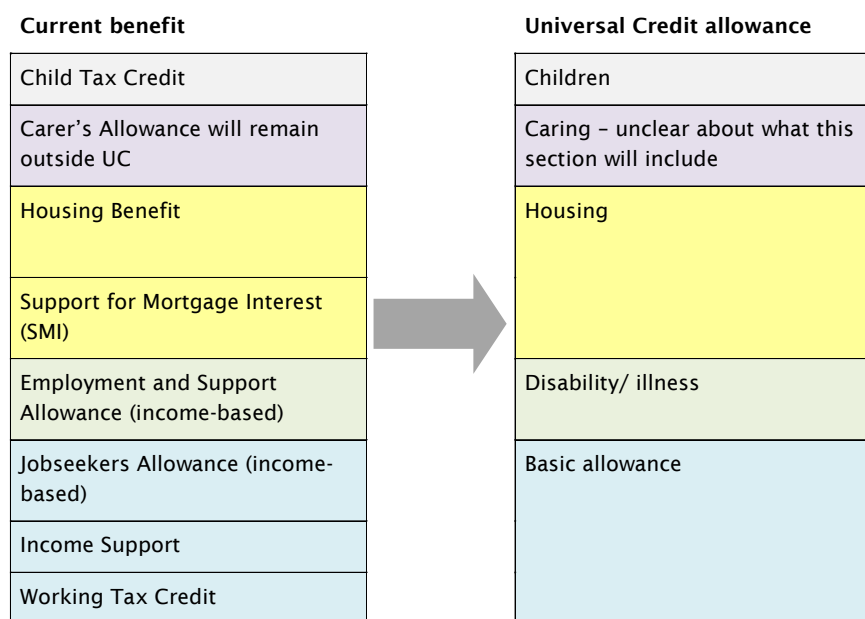
<sup>2</sup> The Social Fund is a UK Government scheme to help people with expenses that are difficult to meet on a low income.

<sup>3</sup> *Universal Credit: welfare that works*, Cm 7957, 11 November 2010, p45

<sup>4</sup> DWP (2011) *Social Fund localisation*, p3

<sup>5</sup> [HC Deb, 13 July 2011](#)

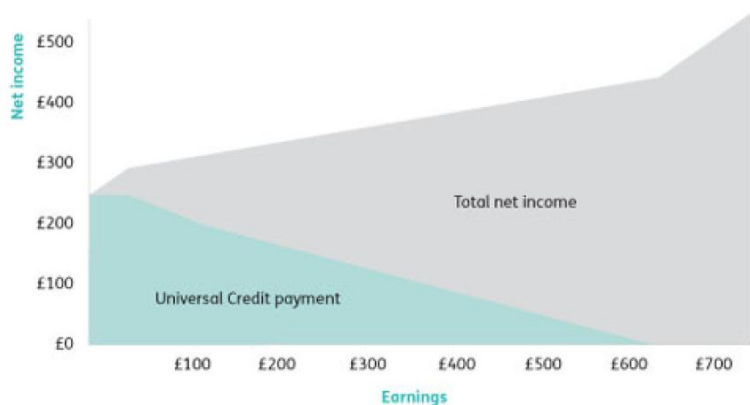
**Figure 1: Universal Credit and current benefits**



## Earnings

To ensure that some groups of people are encouraged to take up employment of just a few hours a week, the UK Government plans to introduce an **earning disregard**<sup>6</sup> to Universal Credit based on a person's needs. For example, a couple with children will have a higher disregard than a couple without children. This earning disregard, and the Universal credit taper rate of 65 per cent is illustrated in figure 2.

**Figure 2: Universal Credit for a lone parent with two children (no child care costs)**



Source: *Universal Credit: welfare that works*, Cm 7957, 11 November 2010, p15

The maximum disregard for each group will be reduced by **one and a half times the amount of support being received for housing costs**. There will be a disregard 'floor' imposed, which is an amount which the disregard cannot fall below.

## Maximum benefit

As announced in the Spending Review, there will be a **maximum cap** on the benefit payments a household can receive based on the median earnings (after tax and National Insurance) of a working family. The benefit cap is expected to be about **£26,000 per household**.

<sup>6</sup> A **disregard** is an amount of money that a person can earn before their benefit starts to be withdrawn.

## Conditionality and sanctions

Under Universal Credit, there will be stronger conditionality, with more expected from claimants in return for the credit. Each recipient will sign a '**Claimant Commitment**'. Those who are out of work, or in work but earning below the threshold, will be put into one of four conditionality group:

- **Full conditionality** – Jobseekers;
- **Work preparation** – People with a disability or health condition which means they have limited capability for work at the moment;
- **Keeping in touch with the labour market** – lone parent or lead carer with a child aged over one but below five. Couples with children will nominate one of them to be the lead carer; and
- **No conditionality** – People with a disability or health condition which prevents them from working, carers, lone parents or lead carers with a child under the age of one.

**Financial sanctions** for not complying with the relevant commitments will be harsher than those used in the current system. There will also be the use of **Mandatory Work Activity** placements for Jobseekers, which will be a full-time work placement for up to four weeks.

## Timetable for the introduction of Universal Credit

The UK Government's current intention is that new claims for Universal Credit will start from October 2013 and will involve **19 million individual claims and an estimated 8 million households**. The White Paper sets out a provisional timetable for completing the transfer to Universal Credit by October 2017:

### October 2013 to April 2014

All new claims for out-of-work support are treated as claims to Universal Credit. No new Jobseeker's Allowance, Employment and Support Allowance, Income Support and Housing Benefit claims will be accepted. Customers transitioning from out-of-work benefits into work will move onto Universal Credit if they are eligible.

### April 2014

No new claims are made to Tax Credits.

### April 2014 to October 2017

During this time we would begin to work through existing cases.<sup>7</sup>

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<sup>7</sup> *Universal Credit: welfare that works*, Cm 7957, 11 November 2010 para 21, p37

## Further information

For further information on the Universal credit, please contact **Hannah Johnson** ([Hannah.Johnson@Wales.gov.uk](mailto:Hannah.Johnson@Wales.gov.uk)), Research Service.

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