

# Universal credit

Updated January 2014

Universal credit is a new benefit being gradually 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, and more detail has been provided in regulations made in February 2013.

## When is it being introduced?

29 April 2013	'Pathfinder' pilot in four Jobcentres in selected areas of Ashton-under Lyme, Oldham, Warrington and Wigan for limited group.
28 October 2013 to April 2014	New claims for universal credit can be made by a limited group of single jobseekers in six more areas; Hammersmith from 28 October; Inverness and Rugby from 29 November; Shotton, Bath and Harrogate in the spring of 2014.
Summer 2014	Universal credit claims in these areas to include couples and, in the autumn, families with children.
End of 2014	Once safely tested in the ten live areas, universal credit to expand to cover more areas of the north-west of England.
2016	All new benefit claimants to claim universal credit. New claims to income support, income-based jobseeker's allowance, income-related employment and support allowance and housing benefit to be closed nationwide.
2016 & 2017	Most existing benefit claimants to be moved onto universal credit. Taking a little longer for existing employment and support allowance claimants.

## Which benefits are going?

The following benefits are being 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 –being 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 have also been abolished – responsibility for an equivalent has been 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 are staying?**

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

- contribution-based jobseeker's allowance;
- contributory employment and support allowance;;
- 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.

### **Who can claim universal credit?**

Universal credit replaces means-tested benefits and tax credits for working-age people up to pension credit age. It can be paid to people in or out of work. To claim, you must meet 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 (16/17 year olds can claim in special cases such as lone parents, disabled people or if they are estranged from their parents).
- You must be under the qualifying age for pension credit (this is 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 are the same as for income support, with lower and upper capital limits and tariff income assumed for capital between the limits. This excludes people with savings over £16,000.
- Some income is disregarded – eg, disability living allowance (and its replacement, personal independence payment), while other income is taken into account in full – eg, occupational and personal pensions.

Net earnings above the work allowances (see below) are deducted from universal credit amounts at the rate of 65 per cent– ie, 65p for every pound of extra earnings. Claimants are better off by 35p for every pound earned above their work allowance.

- A new minimum income can be assumed for self-employed claimants (see below).

### **How much is universal credit?**

Universal credit is 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 is only available for a month in which the claimant does not do any paid work, and after a waiting period of three months);

- limited capability for work;
- limited capability for work-related activity;
- regular and substantial caring responsibilities for a severely disabled person;
- 70 per cent of registered childcare costs, within limits.

The maximum award is subject to the 'benefit cap' based on median net earnings – this is set at £2167 a month for couples or lone parents and £1517 for single claimants without children. The cap includes other benefits such as child benefit, but is implemented by reducing the amount of universal credit someone gets.

There are 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;
- those receiving a war disablement pension or war widow's/widower's pension;
- 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 are mostly at the same level as the means-tested benefits and tax credits it replaces, except:

- the amount for most disabled children is halved;
- the amount for most disabled adults is reduced due to the abolition of disability premiums;
- the lower allowance for people under 25 includes lone parents and couples.

### **What are the work allowances?**

Universal credit allows most people to earn higher amounts than under the old benefits system before their payment is reduced. The amount you are allowed to earn before your universal credit is reduced is known as a 'work allowance' ('earnings disregard' under the old system). Work allowances are 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
- people with limited capability for work.

Only one work allowance, whichever is highest, is available in each household. There are two levels of work allowances for each group, depending on whether or not they are getting help with rent. There are substantially higher work allowances for households with no rent.

### **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, equal to the minimum wage for the hours you are expected to work. This does not apply during the first twelve months of starting a new business. Self-employed people have to report profits every month.

### **What happens to existing claimants?**

Existing claimants on old benefits should not lose out at the point of change. There is transitional protection in the form of additional payments, although this is frozen and may be lost when circumstances change.

### **How do you claim and get paid?**

Universal credit is administered by the DWP. Couples must make a joint claim. Claims must normally be made online with alternative access by telephone accepted in specified cases. Subsequent contact must usually also be online, including claimants having access to an online account with details of their award and a facility for reporting changes of circumstances. Face-to-face support for those that need it will be provided in partnership with local authorities.

Universal credit uses HMRC's 'real-time information' system to identify earnings when they are paid. Those paid through PAYE should have no need to report changes to their earnings.

Payments are monthly, paid directly by the DWP into a claimant's bank account, including amounts for rent. There is provision to pay amounts differently if it appears necessary to protect the interests of the claimant, partner to child. Certain groups are considered a high priority for budgeting support or alternative payment arrangements.

### **What about conditionality and sanctions?**

There is extensive conditionality and a tough sanctions regime for universal credit. All claimants must accept a '**claimant commitment**' as a condition of receiving universal credit. They are then 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 main carer in a couple with a child under one;
- carers with regular and substantial caring responsibilities for a severely disabled person;
- people earning above a set threshold.

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

- lone parents or the main carer in a couple with a child over one but below the age of five
- lone foster carers or the main carer in a fostering couple, with a foster child under the age of 16
- people who have become the main 'family and friends carer' for a child in the past year

This group are 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 are 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 the main carer in a couple with children over the age of five.

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

There are other circumstances that are also included in each group. Each adult in a household is placed into her/his own conditionality group depending on her/his individual situation.

There is a new concept of 'in-work conditionality' where working claimants may be 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 sanctioned is the adult personal allowance, and does not include additional amounts 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'. Hardship payments are at 60 per cent of the amount reduced, and are effectively in the form of a loan that may be recovered in future.

#### **Is there a right of appeal?**

There is 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, you must first request a reconsideration before you can appeal.

## Further information

CPAG information at: [www.cpag.org.uk/universalcredit/](http://www.cpag.org.uk/universalcredit/).

Read the Welfare Reform Act 2012, Universal Credit Regulations and other documents on the DWP welfare reform webpage:

<https://www.gov.uk/government/collections/universal-credit-toolkit-for-partner-organisations>

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