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Welfare that works better:

10 recommendations for improving the Universal Credit

Key problems & unresolved issues with the Universal Credit system

- The Government now concedes that more individuals will face increased than reduced Marginal Deduction Rates under the UC.
- Under suggested models for the introduction of childcare in the Universal Credit, some families could end up paying ten times more towards childcare costs from their own pocket under the Universal Credit compared to the current system (30% rather than 3%)
- Self Employed people struggling through a difficult period could lose thousands of pounds per year as a result of changes to how their income is treated.
- The abolition of Council Tax Benefit and its likely replacement with locally managed discretionary funds places further threats on the ability of the Universal Credit to make work pay.
- The introduction of savings rules in line with the rules for income support would place substantial pressures on households with savings who are currently entitled to Tax Credits. A household with £20000 of savings in a bank account with a generous 3% interest rate could lose just £2.25 per week from their tax credit entitlement. The same household would lose their entire Universal Credit entitlement – potentially several hundred pounds per week.
- Depending on how it is treated, income other than earnings could place substantial pressures on families in receipt of statutory maternity pay, maternity allowance and statutory sick pay, who are already struggling to cope with lower incomes as a result of moving out of employment.

Summary of Recommendations

- 1) *The overall withdrawal rate on the Universal Credit should be reduced to 55% in line with the original recommendations of the Centre for Social Justice. This would help to ensure work progression incentives were maintained or improved for a wider range of people than under the current proposals. (p4-6)*
- 2) *Help with childcare costs through the Universal Credit needs to cover at least 80% of childcare costs, to partially make up for the loss of help through HB/CTB. This still will leave some people in a worse off position than at present but is considerably better than 70%. (p6-15)*
- 3) *Council Tax Benefit needs to be included within the Universal Credit in order to avoid the introduction of a second benefit taper which would undermine work incentives. (p15-16)*
- 4) *Support for Mortgage Interest should be included as an element within Universal Credit entitlement to which entitlement would remain even once a household has moved into employment. This would help to ensure that incentives exist for families who own their own home to move into work. (p16-17)*
- 5) *Free School Meals and other Passported benefits should be included within the Universal Credit in a way which avoids benefit “cliff edges” caused by income points at which such benefits are lost - and as a result help to ensure smooth work progression incentives. (p17-21)*
- 6) *Statutory Maternity Pay, Statutory Paternity Pay, Maternity Allowance, Statutory Adoption Pay and Statutory Sick Pay need to be treated as earnings for calculating entitlement to Universal Credit. (p21-23)*
- 7) *The savings rules from Tax Credits need to be imported into the Universal Credit system. Using the Income Support rules will significantly penalise working families with significant savings who are currently entitled to Tax Credits, but would not be entitled to Universal Credit. (p24-25)*
- 8) *Help for people with disabilities needs to properly reflect current assistance: (p25-29)*
 - *Under the UC, claimant households should have Employment Support Allowance Work Related Activity Component included in their household applicable amount where their partner is working and they have a disability.*

- *The disregard floor for disabled people (set at £2080) should be available for each disabled person in the household who under the current system would be entitled to the disability element of Working Tax Credit.*
 - *The Disability Premiums need replication within the Universal Credit.*
 - *The elements of Child Tax Credit which help with disabled children need to be replicated within the Universal Credit.*
 - *There should be an additional disability test (primarily to allow access to the disability disregard of the Universal Credit), which would test not for work capability, but whether a person is at a disadvantage in finding work.*
- 9) *Help for self-employed people starting up, or struggling through a difficult period, in their business should reflect help currently provided through Working Tax Credit, by treating only actual profits from self-employment (i.e can be as low as £0 for people making no profit or losses.) Assuming minimum wage earnings from self employment will undermine the ability of people to set up and retain small businesses. (p29-31)*

10) *Universal Credit payment issues (p31-35):*

- *Different elements of the Universal Credit need to be “firewalled” to ensure that, payments with some parts of the credit can start before others to prevent hold ups on getting benefits into payment, also, where there is a problem with some parts of the credit, this would help to ensure that all payments do not stop at once.*
- *There should be the option of weekly payment periods for people for whom monthly budgeting would be difficult or impossible, and could create problems with debts.*
- *Payment of the child related elements of Universal Credit should be made to the main carer in the household.*
- *The Universal Credit award should make clear what different “elements” claimants are receiving help with through their Universal Credit – eg help with children, housing, childcare etc*

About Family Action

Family Action has been a leading provider of services to disadvantaged and socially isolated families since 1869. We work with over 45,000 vulnerable families and children a year by providing practical, emotional and financial support through over 100 community-based services across England. Additionally in 2009-2010 we distributed 4,218 grants totalling over £1,104,883 to families and individuals in financial hardship throughout the UK. Family Action won the 2009 Charity Awards Foundation award for effectiveness and jointly with CAB, Gingerbread and our sponsors Barclaycard the 2010 Third Sector Award for best corporate partnership for Horizons, an integrated welfare advice, training and educational grants package for lone parents. Find Family Action on the Web at www.family-action.org.uk.

Family Action works with vulnerable families in the home, providing early intervention services that strengthen families, assisting them to take more responsibility for their lives, parent their children, where appropriate, helping them to move towards employment.

As such we are very supportive of the Government's efforts to introduce a system which will improve the financial incentives to move into and progress in, employment. It is for this reason we think it particularly important for the Government to act now to address issues with the Universal Credit, which may undermine its progressive intentions.

We are very happy to further discuss any aspect of this briefing. To contact us please e-mail sam.royston@family-action.org.uk or telephone 02072 417604.

1) The overall withdrawal rate on the Universal Credit should be reduced to 55% in line with the original recommendations of the Centre for Social Justice. This would help to ensure work progression incentives were maintained or improved for a wider range of people than under the current proposals.

The Universal Credit White paper, and the Universal Credit impact assessment¹, propose the introduction of a single benefit taper rate of 65% of net income. For households with a worker paying Income Tax and National insurance, this creates an overall Marginal Deduction Rate of 76%² meaning that for each additional pound they earn they keep 24p.

¹ DWP (2011) "Universal Credit impact assessment" London: DWP

² To be precise, were the Universal Credit to be introduced now, maximum Marginal Deduction Rates would be 75.85%, following the 1% rise in National Insurance contributions, the rate would be 76.2%.

For many working households receiving a combination of Housing Benefit, Council Tax Benefit and Tax Credits, and paying Income Tax and National Insurance, the Universal Credit has the potential to substantially reduce their MDR from around 90% or more, to 76%. As the paper puts it:

“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.”³

Family Action is pleased that the Universal Credit should achieve this for some households with the highest Marginal Deduction Rates⁴. The Treasury estimate that around 270,000 households face marginal deduction rates in excess of 80%. The Universal Credit could substantially reduce MDRs for many of these households.

However, at present, people in receipt of tax credits (above the family element) and paying income tax and national insurance (a large proportion of low to middle income working households), currently pay a Marginal Deduction Rate of 70% (meaning that for each additional £1 they earn, they keep 30p).⁵ Since Marginal Deduction Rates for tax paying Universal Credit recipients would be 76%, then assuming they have their tax credit allowance replaced with some assistance through the Universal Credit, these households would face higher Marginal Deduction Rates under the Universal Credit than under the current system.

A large number of working households pay Income Tax and National Insurance, and receive tax credits but do not receive other means-tested benefits. As highlighted above, for these households, the Universal Credit changes are going to reduce their incentive to progress in work. Based on figures produced in the June 2010 budget⁶, it can be estimated that as many as 1,350,000 households currently face Marginal Deduction Rates of 70% caused by a combination of paying tax and receiving Tax Credits. Were they to receive Universal Credit instead of Tax Credits, these households would have their MDRs increased to 76%.

³ DWP (2010) “*Universal Credit: Welfare that works*”, page 15

⁴ As discussed in detail below, we would need to see the Government’s plans for help with council tax and childcare costs before we can confirm which households would benefit

⁵ This will increase to 73% after the 1p increase in National Insurance Contributions, and 2% rise in Tax Credit tapers from April 2011.

⁶ HM Treasury (June 2010) “Budget 2010” p68-69

Table A3 on page 69 of the June budget shows that in 2010/11 330,000 households face MTRs of over 70%. In 2011/12 this would increase to 1,680,000 under changes introduced by the previous Government. The notes highlight that the increase of 1,350,000 households is the result of the 1% increase in National Insurance Contributions. It is reasonable to assume these households, currently facing MTRs of 70%, are paying Income Tax and National insurance, receiving Tax Credits at more than the family element, but no other means tested benefits.

Treasury figures are for working heads of families in receipt of income-related benefits or tax credits where at least one person works at least 16 hours per week, and the head of the family is not receiving pensioner or disability premia.

The impact assessment for the Universal Credit provides further support that substantial numbers of people will face increased MDRs under the Universal Credit. The assessment indicates that more individuals will face increased than reduced marginal deduction rates under the Universal Credit compared to the current system (with 2.1 million facing higher MDRs and 1.5 million lower MDRs⁷.) This will largely be due to the changes discussed above.

It is notable that in the reforms proposed in the Centre for Social Justice (CSJ) paper "Dynamic Benefits" a taper rate of 55% was proposed for the Universal Credit. The model the CSJ used suggests that this taper rate is very efficient since:

*"It reduces disincentives to work, while avoiding increasing the MTRs at higher earning levels in a counterproductive way."*⁸

Were the Government to implement this taper rate, households in receipt of the Universal Credit and paying income tax and national insurance would face an overall taper of 69.4% - almost exactly the same as current taper rates for households paying income tax and national insurance, and receiving tax credits.

As a result, the Government should reduce the proposed withdrawal rate on the Universal Credit from 65% to 55%.

It may be argued that it is more important for the Universal Credit to reduce extremely high Marginal Deduction Rates (those in excess of 80%) than it is to prevent high Marginal Deduction Rates (those of 70%) from rising. As currently envisaged the Universal Credit could improve work incentives for many of these households. However, in order to be sure of this, key problems of how Council Tax Benefit and help with childcare costs are integrated into the system would still need to be addressed.

2) Help with childcare costs through the Universal Credit needs to cover at least 80% of childcare costs, to make up for the losses through HB/CTB. This still will leave some people in a worse off position than at present but is considerably better than 70%.

Parents in can currently receive support for childcare costs through the childcare element of Working Tax Credit. They can currently receive additional support of up to 80% of help with childcare costs, (the Universal Credit White paper notes that from 2011 this reduces to 70%).

In addition (although this is not noted in the Universal Credit White Paper - and is very broadly unrecognised) childcare costs are currently disregarded

⁷ DWP (2011) "Universal Credit impact assessment" London: DWP p21

⁸ The Centre for Social Justice (2009) "Dynamic Benefits: Towards welfare that works" p229

for the purposes of calculating entitlement to Housing Benefit and Council Tax Benefit (so families with high childcare costs may receive more HB/CTB). As a result of this, some households can currently receive help with up to 97% of their childcare costs through the benefits and tax credits system.

The mechanics of this is as follows:

For £1 additional childcare costs:

- *The claimant receives an extra **80p** in the childcare element of WTC*
- *Income for HB/CTB purposes increases by 80p (to take account of the increase in tax credit income) but decreases by £1 (because of their additional childcare costs being disregarded for the purposes of HB/CTB) – overall it therefore reduces by 20p.*
- *The claimant gains the equivalent of 85% of this⁹ (equivalent to the combined taper rate of HB and CTB), meaning they receive an additional **17p** in HB/CTB.*
- *The claimant sees their overall income reduce by **3p***

The Universal Credit impact assessment indicates that the Government have not yet determined how help with childcare costs will be integrated into the Universal Credit. The white paper sets out two key possible options:

- 1. An additional amount for childcare on top of the basic Universal Credit award, at similar rates to those currently offered.**
- 2. Recognising childcare through an additional earnings disregard rather than an additional payment.**

As can be seen in the analysis below, both of these options could create a system which is considerably less generous than current assistance with childcare costs.

Option 1) An additional amount for childcare on top of the basic Universal Credit award, at similar rates to those currently offered

The key to the generosity of this first point regards what is meant by “similar rates to those currently offered”. It is extremely unlikely that this means a rate equivalent to 97% of childcare costs (this would be considerably more expensive than the current system because of the number of people who receive help with childcare costs through WTC but not through HB/CTB¹⁰.)

⁹ This assumes the claimant’s reduction in income for HB/CTB purposes does not take them below their applicable amount for HB/CTB.

¹⁰ Since the release of the White Paper it has been confirmed with officials that it would not be the intention to offer the current rate of assistance available to households receiving help through WTC and HB/CTB.

It appears likely that “similar rates to those currently offered” means equivalent to help offered through the childcare element in Working Tax Credit – which will be 70% at the point of introduction of the Universal Credit.

For many families this level of support would be considerably lower than the support currently offered to many families through the benefits and tax credits system. In fact, many families could end up paying *ten times more* towards childcare costs from their own pockets, because of a reduction in support for childcare costs from 97% to 70%.

The impact of this can be seen in the following case study. The example shows that whilst the example family is better off under the Universal Credit when they have no childcare costs, if they have £200 per week of childcare costs, they are considerably worse off under the Universal Credit.

Lone Parent, 2 children, £100 rent, £20 council tax. Earnings £15000pa (working 30 hours per week), no childcare¹¹¹².

Current system

Tax Credits = £123.01

HB = £23.07

CB = £33.70

Net work = £235.44

Rent and CT = -£120

Total = £295.22

Universal Credit

Max UC = £284.29

Disregard (reaches floor) = £45 per week

Net earnings = £235.44

excess income = £235.44 - £45

£190.44 * 0.65 = £123.79

284.29 – 123.79 = £160.50

UC = £160.50

¹¹ All calculations in this paper compare current entitlement (March 2011) to comparative entitlements under the Universal Credit system.

¹² Throughout this paper, calculations for the current system do not take into account additional incentives provided on moving into work (such as earnings disregards in the tax credit system, and the in-work credit,) which can provide additional support for the period following moving into work. Incomes under the current system may be considerably higher than those given for this initial period of employment.

Earnings= £235.44
CB = £33.70

Rent and CT = -£120

Total = £309.64

**Lone Parent, 2 children, £100 rent, £20 council tax. Earnings £15000pa,
(working 30 hours per week) childcare £200pw¹³.**

Current:

Tax Credits = £282.57
Housing Ben = £49.36
CTB = £4.42
CB= £33.70
Net earnings = £235.44

Rent/CT/Childcare = -£320

Total = £285.49

Universal Credit:

(Assuming 70% childcare element integrated into UC.)

Max UC = £284.29 + 140 (70% cccs) = £424.29
Disregard (reaches floor) = £45
Net earnings = £235.44
excess income = £235.44 – £45 = £190.44
£190.44*0.65 = £123.79 pw
424.29 – 123.79 = £300.50

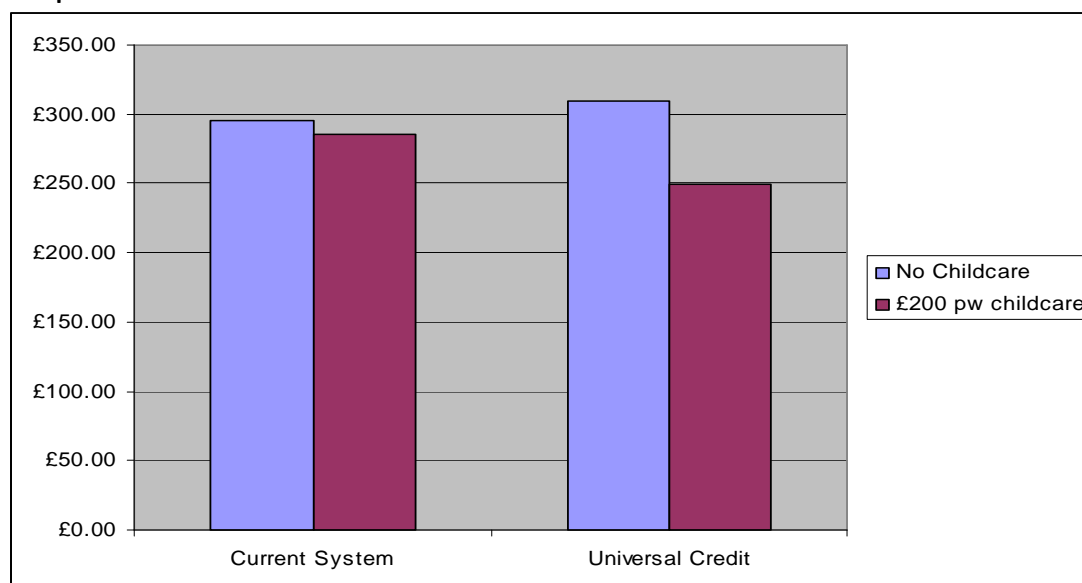
UC = £300.50
Earnings= £235.44
CB = £33.70

Rent/CT/Childcare = -£320

Total = £249.64

¹³ In this case the claimant receives help with slightly less than 97% of childcare costs because (for technical reasons) they lose an additional earnings disregard within their HB/CTB. In fact in this case they receive 95.1% of childcare costs.

Table 1: Household income (After Housing Costs deducted) Lone Parent, 2 children, £100 rent, £20 council tax. Earnings £15000pa (working 30 hours per week), with and without childcare costs of £200pw



This substantial reduction in support for childcare costs also has implications for effective marginal deduction rates (taking into account childcare costs) under the new system compared to the applicable MDR without childcare costs.

The following calculation highlights the impact on effective Marginal Deduction Rates (including childcare costs as a deduction) if the Universal Credit were introduced with an element simply covering 70% of childcare costs (the same as the childcare element of WTC will cover at the point of transition to the Universal Credit).

On earning an additional pound, and paying an additional 58p¹⁴ in childcare costs:

- *The claimant earns an additional £1*
- *The claimant pays additional tax and national insurance of 32p.*
- *To take account of their additional childcare costs, the claimant gains 40.6p in maximum Universal Credit entitlement (70% of 58p).*
- *However, the claimant faces a means tested deduction of 44.2p from their Universal Credit entitlement.*
- *In addition, they pay an additional 58p out in childcare costs.*
- *The claimant **keeps 6.4p.***

¹⁴ *In England, childcare costs are an average of £88 for 25 hours per week (in some areas this could be considerably higher). Using this assumption gives an hourly average cost of around £3.50. For a parent earning £6 per hour, this makes childcare cost around 58% of earnings. Based upon this, in the following calculations it is assumed that for each extra £1 earned, childcare costs an additional 58p for one child.*

<http://www.daycaretrust.org.uk/pages/childcare-costs-surveys.html>

Under this situation, the claimant's effective Marginal Deduction Rate (including childcare costs) is **93.6%**.

The above calculation assumes childcare costs for one child of 58p for each additional £1 earned. Assuming 80p childcare costs to cover 2 children, the effective MDR is substantially higher:

- *The claimant earns an additional £1*
- *The claimant pays additional tax and national insurance of 32p.*
- *To take account of their additional childcare costs, the claimant gains 56p in maximum Universal Credit entitlement (70% of 80p).*
- *However, the claimant faces a means tested deduction of 44.2p from their Universal Credit entitlement.*
- *In addition, they pay an additional 80p out in childcare costs.*
- *The claimant **loses 0.2p.***

In this case, the claimant's effective MDR (including childcare costs) reaches 100% meaning that they keep none of their additional earnings from work.

Option 2) Recognising childcare through an additional earnings disregard rather than an additional payment.

An alternative to a childcare element within the Universal Credit system, is to increase the earnings disregard within the Universal Credit by an amount equivalent to the claimant's childcare costs. This is even less generous than the first option for dealing with childcare costs, since the maximum percentage of childcare costs covered by an income disregard is equivalent to the withdrawal rate at which that income would be tapered were it taken into consideration. This means that (assuming a 65% taper on the Universal Credit,) this option provides a childcare element worth at most 65% of childcare costs.

Lone Parent, 2 children, £100 rent, £20 council tax. Earnings £15000pa, (working 30 hours per week) childcare £200pw.

Current:

Tax Credits = £282.57
Housing Ben = £49.36
CTB = £4.42
CB= £33.70
Net earnings = £235.44

Rent/CT/Childcare = -£320

Total = £285.49

Universal Credit:

(Assuming childcare costs disregarded in full from UC entitlement.)

Max UC = £284.29

Disregard (reaches floor) = £45

Net earnings = £235.44

excess income = £235.44 - £45 - £200 = <£0

UC = £284.29

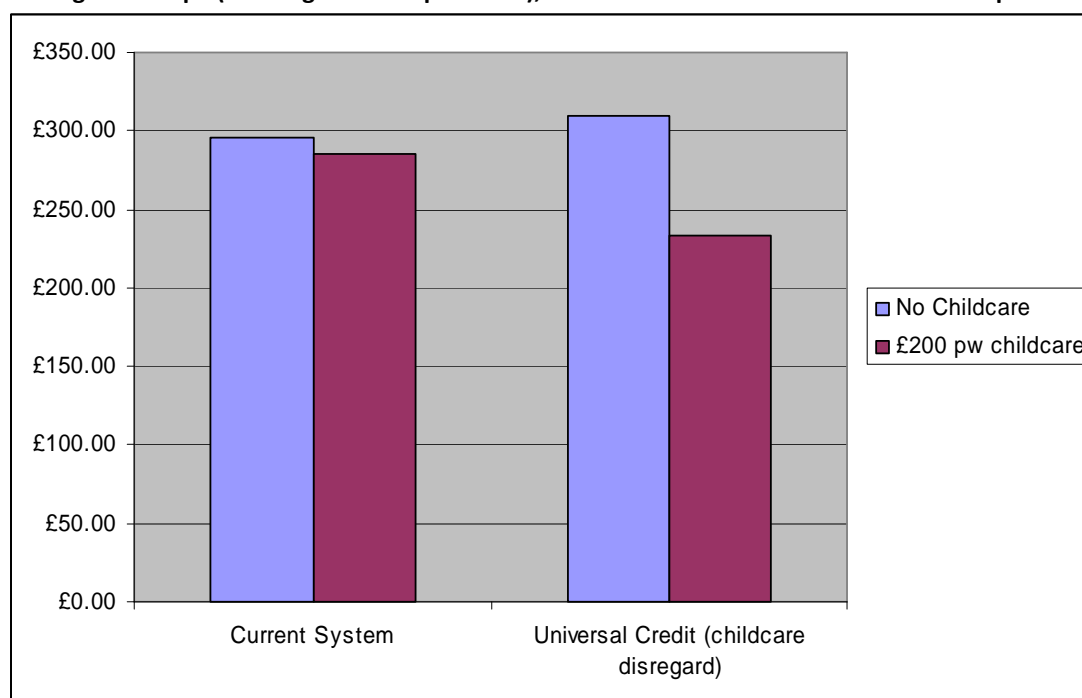
Earnings= £235.44

CB = £33.70

Rent/CT/Childcare = -£320

Total = £233.43

Table 2: household income (After Housing Costs) Lone Parent, 2 children, £100 rent, £20 council tax. Earnings £15000pa (working 30 hours per week), with and without childcare costs of £200pw



Similarly, the childcare disregard option has a pronounced affect on effective marginal deduction rates (including childcare costs.) The following calculation indicates the impact on Marginal Deduction Rates, were childcare costs to be disregarded for the purposes of the Universal Credit:

On earning an additional pound, and paying an additional 58p in childcare costs:

- *The claimant pays additional tax and national insurance of 32p.*
- *The claimant faces a means tested deduction of 6.5p from their Universal Credit entitlement (taking into account the disregarded childcare costs).*
- *In addition, they pay an additional 58p out in childcare costs.*
- *The claimant **keeps 3.5p.***

Under this situation, the claimant's effective Marginal Deduction Rate (Including childcare costs) is **96.5%**.

Again, the above calculation assumes childcare costs for one child of 58p for each additional £1 earned. Assuming 80p childcare costs to cover 2 children, the effective MDR is substantially higher:

- *The claimant pays additional tax and national insurance of 32p.*
- *The claimant gets an increase of 7.8p in their Universal Credit entitlement (taking into account the disregarded childcare costs).*
- *However, they pay an additional 80p out in childcare costs.*
- *The claimant **loses 4.2p.***

Again, in this case, the claimant's effective MDR (including childcare costs) exceeds 100%. This time reaching **104.2%**.

An improved alternative for dealing with childcare costs

We strongly believe that the Government needs to introduce a childcare element which covers at least 80% of childcare costs. Above it was mentioned that were a childcare element introduced at 70%, the effective Marginal Deduction Rate is around 100% for households with childcare costs at 80p in the £1.

If the childcare element in the Universal Credit is increased, the problem is reduced. The following table illustrates Marginal Deduction Rates for a household with high childcare costs, of 80p in the pound:

Table 3: Effective MDR for working family paying income tax and national insurance, with childcare costs of 80p for each additional pound earned.

Percentage of childcare costs covered by Universal Credit childcare element	70%	80%	90%	100%
Effective MDR for working family paying income tax and national insurance (taking into account childcare costs at 80p in the £1)	100.20%	92.20%	84.20%	76.20%

As a result of reducing effective marginal deduction rates, the income difference between families with significant childcare costs in the current system, and under the Universal Credit is also reduced. As can be seen in the calculation below, the Lone Parent example given above has their income increase by £20 per week, leaving a considerably smaller reduction on income compared to under the current system (around £15 compared with £35 with a 70% childcare element).

Universal Credit:

(Assuming 80% childcare element integrated into UC.)

Max UC = £284.29 + 160 (80% cccs) = £444.29

Disregard (reaches floor) = £2340 (pa)

Net earnings = £235.44

excess income = 12242.88 – 2340 = £9902

9902*0.65 = £6436.3 (£123.78 pw)

444.29 – 123.78 = £320.51

UC = £320.51

Earnings= £235.44

CB = £33.70

Rent/CT/Childcare = -£320

Total = £269.65

To summarise, a childcare element of the Universal Credit which covered 80% of childcare costs, would help to:

1) *Reduce the impact of childcare costs on work incentives for families, which at lower rates of support could lead to families being substantially worse off under the Universal Credit compared to the current system.*

2) *substantially help in reducing effective Marginal Deduction Rates (taking into account childcare costs) for working families in receipt of Universal Credit compared to a 70% childcare element.*

It is notable that even at 80% many families (such as the one above) would still lose out. A rate above 80% would obviously offer further improvements by offering increased support to families with childcare costs.

3) Council Tax Benefit needs to be included within the Universal Credit in order to avoid the introduction of a second benefit taper which would undermine work incentives.

The Welfare Reform Bill legislates for the abolition of Council Tax Benefit.¹⁵ It is unclear exactly what the Government plans to replace it with. The Universal Credit White Paper (p23) simply states:

“Universal Credit will replace most of the benefits and Tax Credits that currently provide means-tested support apart from Council Tax Benefit... 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.”¹⁶

Were the Government to replace Council Tax Benefit with a locally managed fund, it is difficult to see how this could both be fairly targeted at the poorest households, and avoid introducing some form of means testing which would act as a second taper alongside withdrawal of the Universal Credit, creating a work progression disincentive.

The withdrawal rate on Council Tax Benefit is currently 20%, meaning that for each £1 of eligible income above the personal applicable amount for a CTB recipient, the claimant loses 20p of Council Tax Benefit.

Were a withdrawal rate of 20% to be maintained for income net of tax and Universal Credit, a tax paying, Universal Credit recipient who also received

¹⁵ Clause 34, (1)(e)

¹⁶ DWP (2010) “The Universal Credit: Welfare that Works” London: The Stationery Office

Council Tax Benefit would have a Marginal Deduction Rate of not 76% but 81%.¹⁷

Family Action strongly recommends that Council Tax Benefit is maintained within the Universal Credit to ensure work progression incentives are maintained.

4) Support for Mortgage Interest should be included as an element within Universal Credit entitlement to which entitlement would remain even once a household has moved into employment. This would help to ensure that incentives exist for families who own their own home to move into work.

Under the current system, loss of Support for Mortgage Interest on moving into work is a significant work disincentive. Under the current system, income in work for a household renting and entitled to Housing Benefit may be significantly greater than an equivalent household in work but who own their own home with a substantial mortgage. This is because on moving into work, the family can keep claiming Housing Benefit, but would lose their support for mortgage interest.

The Welfare Reform Bill indicates Support for Mortgage Interest is to be included as an element within the Universal Credit,

“Clause 11 provides for an amount to be included for housing costs. A person’s maximum amount may include an amount for housing costs if the claimant is liable to make payments on their home. This could be in the form of rent, mortgage costs or other housing-related costs.”¹⁸

However, the detailed rules for calculating the amount of help with housing costs households will be eligible for will be set out in regulations.

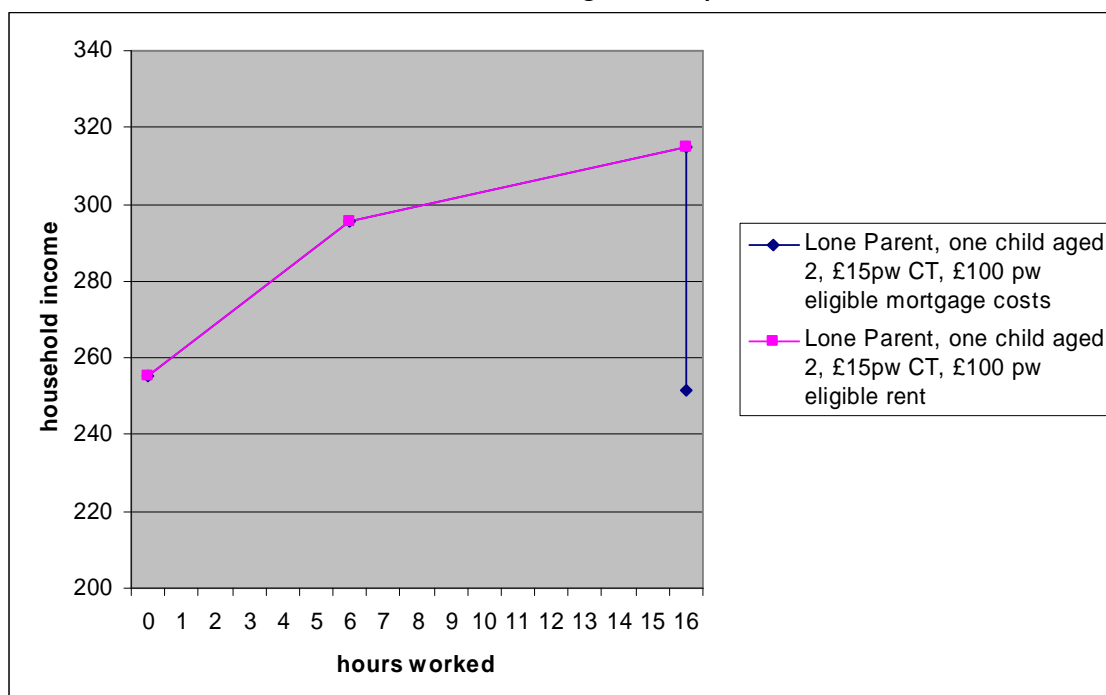
It is important to ensure that help with mortgage costs remains once the household moves into employment. To do otherwise would recreate a significant work disincentive that exists within the current system.

The following graph shows household income under the Universal Credit system, for a lone parent with one child aged 2, earning £6 per hour, council tax of £15 per week, with £100 per week eligible (1) rent and (2) mortgage interest costs. It indicates the impact on income were entitlement to help with mortgage interest to be withdrawn on working 16 hours per week.

¹⁷ MDR for individual paying Income Tax and National Insurance, and receiving Universal Credit is 76.2%, leaving a claimant 24p in each extra pound they earn. 20% of 24p is 4.8p, so after council tax paid at 20% net of tax and UC, the claimant keeps 19p in each additional pound they earn.

¹⁸ Welfare Reform Bill (explanatory notes) page 10

Table 4: Lone parent with one child aged 2, earning £6 per hour, council tax of £15 per week, £100pw rent or mortgage interest. Household income (Before Housing Costs deducted) under Universal Credit if household loses SMI when working 16 hours per week.



This loss of income takes into account the household with mortgage payments receiving a substantially higher income disregard since housing costs are not taken into account for the household. In this case, for a lone parent household working 16 hours and losing £100 per week support with mortgage interest, they are slightly better off out of work (where they have an income of £255) than in employment (income of £251).

5) Free School Meals and other Passported benefits should be included within the Universal Credit in a way which smoothly tapers entitlement – this would avoid benefit “cliff edges” caused by income points at which such benefits are lost, and as a result help to ensure smooth work progression incentives.¹⁹

Entitlement to Free School Meals for working age families is currently normally associated with receipt of a means tested work replacement benefit²⁰. As a result Free School Meals are typically lost on moving into full time paid work. Loss of Free School Meals can therefore currently form a significant disincentive to moving into work.

¹⁹ Particular thanks to the Welfare Reform Consortium sub-group on Free School Meals (including Citizens Advice, CPAG, Save the Children and Sustain) for their assistance with this section.

²⁰ Children are entitled to FSM if their families receive Income Support/ income-based JSA/income related ESA. There are limited other circumstances in which families may be entitled to FSM. Typically families will not be entitled to FSM in full time paid work.

School meals currently cost an average of £1.83 in LA catered primary schools, and £1.93 in LA catered secondary schools²¹. The following calculations assume an average across the two of £1.88. Based on this, for each child, Free School Meals are worth approximately:

$$£1.88 * 5 \text{ (days per week)} * 39 \text{ (weeks per year)} = £366.60 \text{ averaged over the course of the year.}$$

Currently, the loss of Free School Meals may coincide with gains in overall benefit entitlement through the payment of Working Tax Credit. As a result, so called benefit “cliff edges” where exceeding a certain income point would lead to a loss of benefit which means that a household loses money as a result of earning more.

Under the Universal Credit, the lack of income additions at certain hours related points, and the smooth removal of entitlement, mean that benefit cliff edges could be introduced into the system.

For instance the graph below illustrates the potential effective income impact were an earnings limitation of £7800 per year (£150 per week) to be introduced for a Lone Parent family with three children (rent £85, Council Tax £15), in receipt of free school meals.

Table 5: Household income (Before Housing Costs) under Universal Credit for Lone Parent with three children (rent £85 pw, Council Tax £15 pw) in receipt of FSM (included as equivalent cash value)



²¹ Michael Nelson, Jo Nicholas, Lesley Wood, Ellen Lever, Laura Simpson and Beverley Baker (2009) “Fifth annual survey of take up of school lunches in England” School Food Trust/LACA

As can be seen, the loss of free school meals (assumed to be worth £1100 for three children over the course of the year) creates a severe benefit cliff edge. As a result of tax and Universal Credit withdrawal the claimant does not achieve a similar equivalent level of income (after paying for school meals) until they earn approximately an additional £87 per week (more than £4500 per year). This substantially undermines any work incentives to earning above the rate of income at which free school meals is withdrawn.

Similar to Free School Meals, loss of free prescriptions at any particular income point would create a further benefit cliff edge. Family Action have heard suggestions that different benefits in kind could be withdrawn at different income points to give a “waterfall” effect on entitlement, and reduce the impact of withdrawing benefits at any one income point. Whilst this would reduce the impact of moving over one particular income threshold, it would introduce additional income thresholds into the system, giving a number of different points at which people would effectively pay to take on additional working hours, or to get a pay rise.

In order to avoid these substantial benefit cliff edges, some form of smooth withdrawal needs to be applied to school meals and prescription entitlements, in order to ensure that households in receipt of these meals do not face substantial benefit withdrawals at any particular income point.

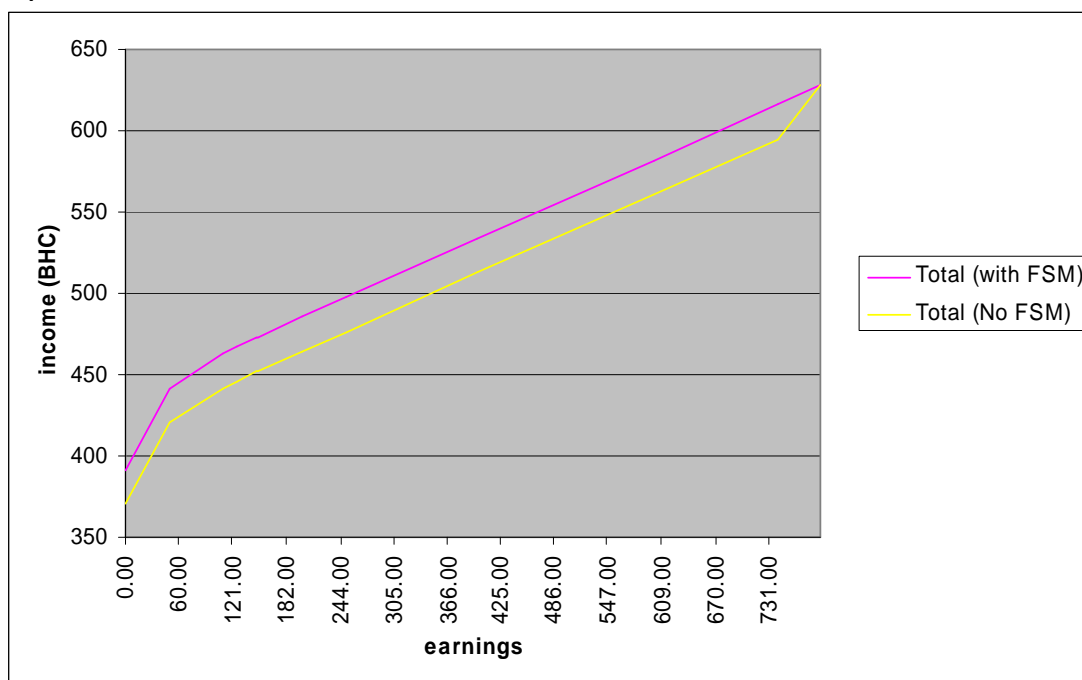
One possibility would be to exchange entitlement for Free School Meals for an imputed cash value on the Universal Credit. This way the benefit could be withdrawn from Universal Credit entitlement along with other benefits.

(Similar schemes to those outlined below could also be introduced for help with prescription costs, but detailed discussion of this is outside of the scope of this paper.)

Including free school meals within Universal Credit entitlement would lead to the following entitlement for the Lone Parent family, through to the point where they receive no help through the Universal Credit. As can be seen, the family with no school meals entitlement (eg they choose to provide packed lunches to their children) receive £21.15 per week (an approximate weekly value for FSM for three children spread across the course of a year) less than the equivalent family who take school meals for their children. This continues until the point when the family without School Meals lose all entitlement to UC, at which point (as a result of no longer being subject to the UC taper,) their income starts to catch up with that of the other household.

Crucially at all points in the income distribution, the claimant household receives smooth work progression incentives, with no benefit cliff edge.

Table 6: Weekly household income (Before Housing Costs deducted) against earnings for Lone Parent with three children (rent £85 pw, Council Tax £15 pw) with and without FSM entitlement as imputed cash value



However, one concern with this system would be that it replaces entitlement to Free School Meals, with an income substitute. This could lead to concerns about 1) determining who would be entitled to this additional component and 2) determining some way of ensuring that the additional payment is used to pay towards the cost of school meals.

One way of dealing with this would be to run the system on a similar basis to childcare costs within the current tax credits system. Households would need to confirm they are taking school meals (and how many children are taking them) with the DWP on an occasional basis. This information would then be used to calculate an additional element within the Universal Credit entitlement. Some acknowledgement from the school that the children are actually taking school meals may also be required.

Another concern would be cost, since effectively this mechanism would extend some level of assistance with school meals to all Universal Credit recipients.

The cost could be reduced by introducing some level of reduction in income disregard for families in receipt of a school meals “element”. This reduction would need to be dependent on number of children within the household, and it could not be too large a reduction, in order to avoid undermining work incentives.

An alternative approach could be to include Free School Meals as an entitlement as it is at present (rather than as a imputed cash value). This would be more in line with the current system since it would preserve Free

School Meals as a benefit in kind. However, as a condition of entitlement, parents could be asked to contribute towards the cost through reduced Universal Credit entitlement, as their incomes increased. This would enable them to receive partial assistance with the cost of school meals whilst keeping FSM as a benefit in kind.

Claimants could also have the option of opting out of Free School Meals altogether, and their Universal Credit entitlement would be adjusted accordingly.

If this system was used, anyone entitled to their full amount of Universal Credit would receive an entitlement to Free School Meals as part of their maximum allowance. As their income increased over their income disregard, they would retain FSM entitlement, but would be asked to contribute towards it from their Universal Credit entitlement (at a rate of 65% of their income – in line with the taper rate of Universal Credit.)

This would continue, with the household contributing increasingly to their school meal entitlement as their income increased, until their award is reduced to such an extent that they are paying for all of their School Meals from their Universal Credit.

The remainder of the household's Universal Credit entitlement would only begin to taper away once all free school meal assistance had been lost. However, the family would retain Free School Meals until they receive no UC, at which point they would pay for school meals as usual.

Fundamentally, Family Action believes that a mechanism needs to be introduced which leads to a smooth withdrawal of passported benefits. This could involve the use of an imputed cash value for these benefits, or it could involve some mechanism by which Free School Meals entitlement is paid for through reduced Universal Credit entitlement.

6) Statutory Maternity Pay, Maternity Allowance, Statutory Paternity Pay and Statutory Sick Pay need to be treated as earnings for calculating entitlement to Universal Credit.

The Universal Credit White Paper does not sufficiently account for how income other than earnings will be treated under the new benefit. It is suggested that unearned income

“will be taken into account in calculating the entitlement before earnings are deducted. Some income will be disregarded - for example, Disability Living Allowance will be fully disregarded. Other income, for example an occupational pension, will be taken into account in full.”²²

²² DWP (2010) “Universal Credit: Welfare that Works” London: The Stationery Office, p67

By calculating entitlement before earnings are deducted, households relying substantially on unearned income may (1) not have this income subject to the same earnings disregard as earnings, and (2) have this money deducted in calculating their Universal Credit maximum award, potentially at a pound-for-pound rate; rather than tapered at the same rate as earnings. The Welfare Reform Bill does not substantially help to clarify this.

In particular, it is unclear how Statutory Maternity Pay and Statutory Paternity Pay, Maternity Allowance and Statutory Sick Pay could be treated within the new system.

For example, the current system treats parents on maternity leave relatively generously in order to recognise their reduced income when they are off work. In addition, they are entitled to Working Tax Credit whilst on SMP (including a £100 per week disregard from their SMP.)

Lone Parent 1 child (aged 2 months), on SMP (at £124.88 per week, left work (where had been working more than 30 hours per week) at the start of financial year, planning to return to work following end of SMP, but not expecting to earn in excess of tax credit earnings threshold), rent £70, CT £15

Current system:

Tax Credits: £153.44
Housing Benefit: £14.76
SMP (net of tax): £124.88
Child ben: £20.30

Total: £313.18

Universal Credit

(If SMP is treated as unearned income and deducted in full from UC entitlement)

Max entitlement: £215.55

Entitled to SMP of £124.88 but loses pound for pound from max UC entitlement.

Child Ben: £20.30

Total: £235.85

In this case the claimant loses nearly **£80 per week** under the Universal Credit system, compared to under the current system.

The situation is very similar for a Lone Parent (one child aged 2) who has recently left work as a result of illness, and is currently receiving Statutory Sick Pay (rent £70. council tax £15). Again in the current system they are entitled to full Working Tax Credit for the period they are in receipt of SSP.

Current System:

Tax Credits: £143.01
Housing Benefit: £44.24
CTB: £7.08
SSP (net of tax): £79.15
Child Ben: £20.30

Total: £293.78

Universal Credit

(If SSP is treated as unearned income and deducted in full from UC entitlement)

Max entitlement: £205.12

Entitled to SSP of £79.15 but loses pound for pound from max UC entitlement.

Child Ben: £20.30

Total: £225.42

In this case the claimant loses nearly **£70 per week** under the Universal Credit compared to the current system. It is important therefore that income from Statutory Maternity Pay, Maternity Allowance, Statutory Paternity Pay, and Statutory Sick Pay are all treated as earnings under the Universal Credit, and so are subject to the same disregards and withdrawal rates as earnings, otherwise families (already in a very difficult financial period as a result of lost earnings) could be considerably worse off under the Universal Credit.

Even if they are treated as earnings, in some cases households could lose out because under the current system they may be entitled to full Working Tax Credit, which is not sufficiently made up for through the increased personal allowances and income disregards within the Universal Credit system.

7) The savings rules from Tax Credits need to be imported into the Universal Credit system. Using the Income Support rules will significantly penalise working families with significant savings who are currently entitled to Tax Credits, but would not be entitled to Universal Credit.

The Universal Credit White Paper indicates that the capital rules for income support will be imported into the Universal Credit system. Crucially, this means that households with savings in excess of £16000 per year will lose their entitlement to the benefit.

The Welfare Reform Bill indicates that this rule will be retained. The Bill notes that the financial conditions for entitlement to benefit include that:

“the claimant’s capital, or a prescribed part of it, is not greater than a prescribed amount”²³

The capital rules for Tax Credits are considerably more generous than for Income Support or for Housing Benefit and Council Tax Benefit – both of which (for instance) have a savings limit of £16000 per year²⁴.

In Tax Credits there is no capital limit. The value of savings is ignored completely. Instead gross income from savings is taken into account, with the first £300 of such income ignored²⁵.

Assuming a household has £20000 of savings in an account with an interest rate of 3%. The income from these savings would be £600 per year. Because the first £300 of this is disregarded their actual income from savings for tax credit purposes is just £300. At the current withdrawal rate of 39%, (if they are earning over the tax credit income threshold) the amount they will actually see deducted from their tax credit award is just **£117 (£2.25 per week)**. Under the Universal Credit (if a capital limit of £16000 were introduced) they would lose their full award whilst their savings remained in excess of the capital limit. Even if their savings fell slightly below the capital limit they would face substantial deductions as a result of the ungenerous tariff income rules.

For a Lone Parent with two one year old children, working 30 hours per week, earning £10000²⁶, and with childcare costs of £200 per week, and savings of £20000, their tax credit award would be around £318 per week (a little over **£16500 per year**) enabling them to stay in work and avoid spending their savings. Under the Universal Credit they would lose their entire Universal Credit award if they had over £16000 of savings – they would receive only

²³ Welfare Reform Bill 2011 Chapter 1, clause 5, subsections 1 and 2

²⁴ They also use ungenerous tariff income rules which mean that for each £250 of savings over £6000, but below the capital limit, the claimant is assumed to have an income of £1.

²⁵ CPAG (2010) *Welfare benefits and tax credits handbook 2010/11* London: CPAG p1313

²⁶ Assuming same income for tax credit purposes in the previous tax year – if the previous year’s income was lower than this, then the award would be higher.

their earnings and their child benefit - £202.98 per week – leaving them only £2.98 per week after they have paid childcare costs.

This system penalises savers, making it considerably harder for low income working families to save, for instance for a deposit on a house. It particularly penalises those families with high tax credit awards (such as families with high childcare costs, or disabled children) since it is the loss of the equivalent of tax credits which is affected by the change.

As a result we propose that the savings rules from the Tax Credit system are imported into the Universal Credit system, to ensure that families in receipt of UC are still able to save for their future.

8) Help for people with disabilities needs to properly reflect current assistance²⁷.

(a) Under the UC, claimant households should have income based Employment Support Allowance WRAC or support component included in their household applicable amount where their partner is working and they have a disability.

Currently, for a household where one partner is in full time paid work, and the other is off work as a result of ill health or disability, the household loses their entitlement to Income Based ESA.

Under the Universal Credit, everything will work slightly differently. What currently counts as out-of-work benefit receipt will be rolled into maximum Universal Credit entitlement, and will be smoothly withdrawn as household income increases.

As a result what happens when a person with an illness or disability moves into work is unclear. It is assumed in this paper that if the person with an illness or disability and in the Work Related Activity Group for ESA moves into work, they retain their ESA Work Related Activity Component (WRAC) until they are found to be fit for work through a medical assessment.

However, if the partner of a person who is off work as a result of illness or disability and who (for example) is in the Work Related Activity Group for ESA moves into work, it is unclear whether the household will retain the work related activity component. If they lose the component when the partner of a person with a disability moves into work, this would be a considerable earnings disincentive, creating a benefit cliff edge at whatever income or

²⁷ Particular thanks to the Welfare Reform Consortium Disability sub-group for assistance with this section. In particular, thanks to Citizens Advice, the Low Incomes Tax Reform Group, Disability Alliance and RNIB.

hours threshold is used to determine the end of entitlement to the partner's WRAC.

As a result we believe that it is important that when one partner moves into work, the other retains their ESA WRAC (or support component) to ensure that smooth work progression incentives are maintained.

(b) The disregard floor for disabled people (set at £2080) should be available for each disabled person in the household entitled to the disability element of Working Tax Credit.

The Universal Credit White Paper indicates that some people with illness or disability will be entitled to an additional "disability disregard" on their earnings – it is suggested that this would be worth £2080.

However, the White Paper does not make clear who will be eligible to receive this support.

It is important that this disability disregard is available to households currently entitled to the disability element of Working Tax Credit, in order to ensure that they receive additional support in order to stay in work.

If households currently entitled to the disability element of working tax credit lost this additional support under the Universal Credit, they could be considerably worse off compared to under the current system:

Lone Parent, 1 child aged 8, rent £100, CT £15, in work of 30 hours per week, earning £12000, and in receipt of disability element of working tax credit:

Current system:

Tax Credits: £150.63
Housing Benefit: £11.70
CB: £20.30
Earnings: £195.74

Total: £378.37

**Universal Credit
(No additional disability disregard)**

Max UC: £235.12
Disregard (reaches floor): £40

Deduction from UC = $(195.74 - 40) * 0.65 = £101.23$

CB: £20.30

Earnings: £195.74

Total: £349.23

**Universal Credit
(With additional disability disregard)**

Max UC: £235.12

Disregard (reaches floor): £80

Deduction from UC = $(195.74 - 80) * 0.65 = £75.23$

CB: £20.30

Earnings: £195.74

Total: £375.93

As can be seen, where without the additional disability disregard in work income is considerably lower under the Universal Credit than the current system, once a disability disregard is included income is similar under the Universal Credit to under the current system.

Under the current system the disability element of working tax credit is payable for each individual within the household who has a disability and is in work. This should be mirrored within the Universal Credit by adding an additional disability disregard for each working household member with a disability, to help ensure that households are as well off in work under the Universal Credit as they are under the current benefit system.

(c) The disability premiums need replication within the Universal Credit.

Currently, many people both out of, and in work, are entitled to disability premiums²⁸ on a number of both in and out of work, means tested benefit entitlements.

These premiums need to be included within their maximum Universal Credit entitlement in order to ensure that families affected by disabilities retain a decent level of basic income out of work, and to ensure that incentives to move into employment are also preserved.

²⁸ The disability premium, severe disability premium and enhanced disability premium. Each have different conditions of entitlement.

(d) The elements of Child Tax Credit which help with disabled children need to be replicated within the Universal Credit.

Currently, child tax credit includes a number of elements of support for children with disabilities. It is unclear how these are to be replicated within the Universal Credit. To ensure a decent level of basic support for families with disabled children it is important that the disability elements of child tax credit are reproduced within a claimant's maximum entitlement to Universal Credit.

We welcome that the Government appears to intend to provide some replication of this support. The Welfare Reform Bill notes that:

Regulations may make provision for the inclusion of an additional amount if such a child or qualifying young person is disabled.²⁹

It needs to be ensured that the level of this additional provision fully replicates the additional support available for families with disabled children within the current benefits and tax credits system.

(e) There should be an additional disability test (primarily to allow access to the disability disregard of the Universal Credit), which would test not for work capability, but whether a person is at a disadvantage in finding work.

Eligibility for the disability disregard within the Universal Credit could be determined according to a similar set of criteria as are currently employed to determine eligibility for the disability element of Working Tax Credit.

However, given tightening rules for entitlement to Employment and Support Allowance, and the changes from Disability Living Allowance to the Personal Independence Payment (also legislated for in the Welfare Reform Bill) – which is predicted to reduce caseload for DLA by 20%³⁰ - it is clear that increasing numbers of families are likely to lose entitlement to the disability element of WTC through two of the key qualifying benefit routes³¹, who nonetheless have a disability which puts them at a substantial disadvantage in getting a job – which is the principle behind the disability element of Working Tax Credit.

We therefore propose that an additional test be introduced within the benefits system which tests for disadvantage in getting a job. This test could build on the “*disability which puts a person at a disadvantage in getting a job*” criteria already utilised in determining eligibility for the disability element of working

²⁹ Welfare Reform Bill, Clause 10, subsection 2

³⁰ http://www.hm-treasury.gov.uk/d/junebudget_costings.pdf

³¹ Receipt of DLA or recent receipt of ESA are two qualifying benefit routes to getting the disability element of WTC. The claimant also has to have a disability which puts them “at a disadvantage in getting a job”. (CPAG (2010) *Welfare Benefits and tax credits handbook 2010-11* London: CPAG p1286-1287)

tax credit.³² These criteria might need reconsideration to ensure a suitable system was created.

The test would replace, or supplement, the qualifying benefit criteria for gaining access to the disability disregard within the Universal Credit (so that if the claimant passed the test they would not need to meet the qualifying benefit criteria).

The details of such a test would need to be addressed in detail. However, with medical assessments already in place for Employment and Support Allowance, and likely to be introduced within the new Personal Independence Payment (which replaces DLA), there could be potential for an additional test to be conducted alongside these other assessments.

9) Help for self-employed people starting up, or struggling through a difficult period, in their business should reflect help currently provided through WTC, by treating only actual profits from self-employment (i.e can be as low as £0 for people making no profit or losses.) Assuming minimum wage earnings from self employment will undermine the ability of people to set up and retain small businesses.

Currently, self employed people who make no profit from their business over the course of a tax year (despite working full time in it,) may not only receive full entitlement to Housing Benefit and Council Tax Benefit, but they may also be entitled to their full entitlement to Working Tax Credit.

Under the Universal Credit, the Government is considering introducing “a floor of assumed income from self employment for those registering as such. The floor will be set at the National Minimum wage for the reported hours.”³³

This issue is made no clearer in the welfare reform bill, with no specific mention of earnings from self employment in either the welfare reform bill or the explanatory notes.

If self employed people are treated as having such notional income would have a substantial impact on the ability of a self employed worker to be able to survive through difficult times in order to allow the chance for their business to recover.

The following example illustrates the potential impact of this change:

³² Schedule 1 Regulation 9(1) to the Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002. (See CPAG (2010) p1504)

³³ DWP (2010) Universal Credit, p67

Single (over 25), no children, self employed, working 30 hours per week, earning £0. Rent £70 per week, Council Tax £15 per week.

Current income:

Tax Credits = £52.08
Housing Benefit = £70
CTB = £15

Total = £137.08

Under UC

Max UC = £150.45

(notional) income = £5.93 * 30 = £177.90

No income disregard, so income tapered directly from maximum UC entitlement. Therefore:

$150.45 - (177.90 * 0.65) = £34.81$

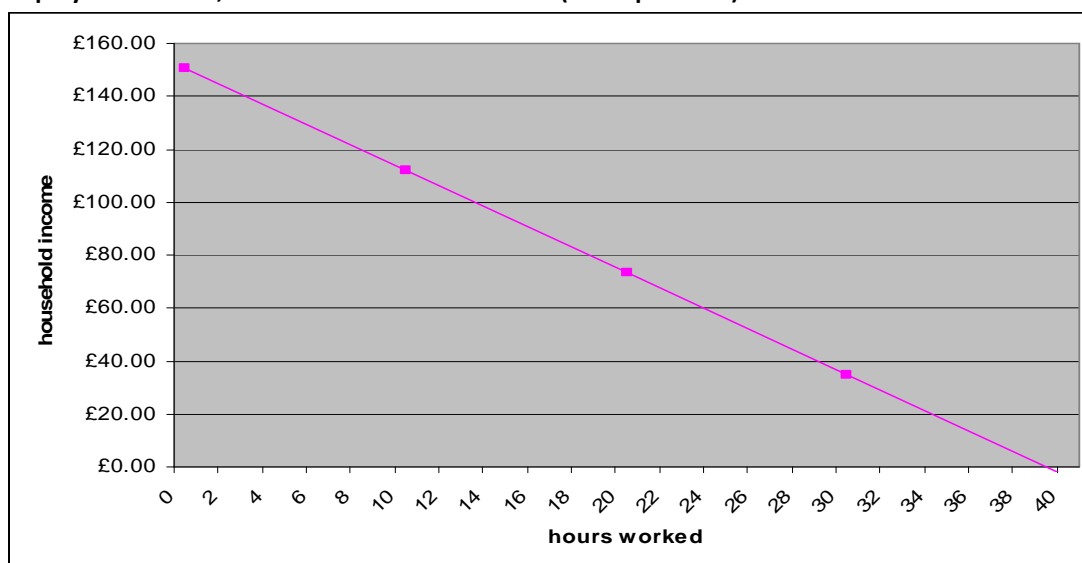
Total = £34.81

As can be seen in this case, although under the current system this household is worse off in than out of work if their business makes no profit, they are left with an income which can cover their rent and council tax, and may be enough for them to struggle through the difficult period.

Under the Universal Credit the same person is likely to find it impossible to cope through this period. They would be left with less than £35 per week – before paying their rent and council tax.

The additional irony is that since income is to be based upon reported hours, the harder they work to get their business on its feet, the more they would lose from their Universal Credit entitlement. The following graph illustrates how hours worked would relate to overall household income for the same single person, who fails to make a profit from their business in the course of one year:

Table 7: Weekly household income by hours worked under Universal Credit system, (Single, no children, Rent £70 per week, Council Tax £15 per week.) where actual earnings from self employment are £0, but assumed income is NMW (£5.93 per hour)



It is important that self employed people are provided the protection to enable them to cope through difficult periods, in order to ensure that they are able to protect and preserve their business if this is at all possible. As a result, it is very important that the Universal Credit uses the same income rules for self employed people as are currently used within the tax credits system.

10) Universal Credit payment issues:

- **Different elements of the Universal Credit need to be “firewalled” to ensure that, payments with some parts of the credit can start before others to prevent hold ups on getting benefits into payment, also, where there is a problem with some parts of the credit, this would help to ensure that all payments do not stop at once.**

Family Action service users have told us of occasions where problems occurred with their benefit payments. This can have an immediate and substantial impact on family finances. In some cases a combination of different benefits may stop being paid altogether. For example:

One service user had their benefit claim interrupted as a result of a fraudulent claim made for Housing Benefit in their name.

As a result of the fraudulent claim, their Housing Benefit stopped for 3 months, and at one point their Income Support also stopped for one month, and because the claimant received the child premium on her Income Support rather than Child Tax Credit, she was left with only her Child Benefit to live on (about £20 per week). This created intense

financial problems and led to worsening mental health problems. As she put it when asked how she coped in the month her Income Support was stopped:

“I didn’t. I was constantly crying- depressed. Constantly at the GPs. It was hard with my son- that was the worst point. That was around the time he started counselling. He was such an emotional child and by November he was far gone. I had to move him from his school to another school in December 08. It was just rough. That is when he started seeing a therapeutic social worker. Everything just went. The school was having difficulties with him. The school rang me everyday.”

Family Action is concerned that problems with benefits being stopped could become more severe under the Universal Credit. The current system provides partial protection for claimants, through having several different benefits, so that even if there is a problem with one benefit, others may continue in payment. By simplifying the benefits system by wrapping several different benefit payments into one single Universal Credit payment, households facing a problem with the payment of the Universal Credit could lose almost all of their benefit income at once (This would not affect child benefit or DLA since these are likely to be kept outside of the system.)

The Universal Credit needs to ensure that different elements are “firewalled” to ensure that a problem with one element does not mean that all elements of the credit stop at the same time.

This would mean separating the administration of different elements of the Universal Credit so that different parts can be paid independently of each other. Doing this would also help with the problem (explored below) of ensuring that different parts of the Universal Credit go to the most appropriate recipient within the household (e.g. the child element to the main carer, the housing element to the tenant.)

- **There should be the option of weekly payment periods for people for whom monthly budgeting would be difficult or impossible, and could create problems with debts.**

Some Family Action service users have already noted problems with dealing with the timing of benefit payments. In particular it was noted by interviewees that they received their benefits at different times during the course of the month, and this made it difficult to budget.

One service user noted that she receives her Income Support fortnightly, her Tax Credits weekly, her DLA every four weeks, and her Child Benefit every four weeks. She noted that it is complicated to know what you are getting when, and that this makes it difficult for her to plan in advance. She said it would be much better if everything was paid together, and that this would help her to stay out of debt.

Such problems can be particularly severe for people with mental health problems, since in many cases, these can lead to problems with dealing with personal budgeting, as another service user noted:

“A: You get your ESA every two weeks which is annoying.

Q: Why is that? How often would you like it?

A: Every week. I just feel money coming in every week is just so much more useful. For people who can't budget. Because I know how much money I am supposed to spend every week, but it is very hard for me to keep it in that. I always forget something.

Q: Is that to do with your mental health problem?

A: It is unfortunately. One thing with Bipolar is a lack of judgement... I go through phases getting obsessed with buying all sorts of foods. At one point my husband had to tell me to stop buying butter because I was buying it every time I went out thinking we were running out. Because I couldn't judge how much was being used.”

The same service user went on to explain that they thought that weekly benefit payment periods would help them to better manage their money:

Q: So with all of that you think money weekly would help?

A: Oh god it would make a big difference. The way it is at the moment, I have ESA every other week. One of the weeks I do not have ESA, I have the DLA which kind of covers. So three weeks I have roughly the same amount of money coming in and I have one week where I am actually £300 short. Which for any normal person it wouldn't be a problem because all they would have to do is take a bit out of those weeks and leave it for the last week. Some months I am actually quite good and I manage to do but the next month I am... you know? And then I get afraid to look at the bank account and that is when it gets bad.”

The Government have suggested that when it is introduced the Universal Credit should have monthly payment periods³⁴. We are concerned that this could exacerbate budgeting problems already faced by many of our service users, particularly those with mental health problems.

We believe that it is important that when it is introduced, the new Universal Credit should have to option of being paid weekly for any claimants who would otherwise find it difficult to budget. This would help claimants to manage their budgets more easily, and to stay out of debt.

³⁴ DWP (2010) “*The Universal Credit: Welfare that Works*” London: The Stationery Office, p34

- **To better ensure that spending of the Universal Credit reflects the intentions of the payment, the child related elements of Universal Credit should be paid to the main carer in the household. Similarly, any housing proportion should be paid to the tenant or mortgage holder. The need to address issues such as these may mean that Universal Credit payments need to be split between different members of the claimant household.**

The Universal Credit rolls a number of different benefits into one payment. These include payments currently paid on account of having children, a disability, and to help with housing costs.

It is important that the different elements of the benefit can be paid to the most suitable recipient. For instance, any child elements should be paid to the main carer, housing support should be paid to the tenant, help for coping with a disability should be paid to the disabled person. Ensuring this could help to make sure that the money is spent in the most suitable way possible. (For instance it has been noted elsewhere that money for children is more likely to be spent on the children if it is paid to the main carer in the household. Similarly, concerns may be raised that if money for help with housing costs is not paid to the tenant or mortgagee, there may be risks that the money is not spent on housing costs as intended, risking the tenant getting into arrears on their rent.)

In some cases, the most suitable recipient of one part of the benefit may not be the most suitable recipient of another part of the benefit. For this reason, different elements of a household's Universal Credit entitlement may need to be paid to different members of the household.

This may reduce the simplicity of the administration of the Universal Credit, but it is necessary to ensure all parts of the benefit are paid to the most appropriate recipient(s).

- **The Universal Credit award should make clear what different "elements" claimants are receiving help with through their Universal Credit – eg help with children, housing, childcare etc.**

It is important that claimants are clear what different elements of the Universal Credit they are entitled to within their award. This is currently a problem within the tax credit system where the order of the tapers (Working Tax Credit followed by Child Tax Credit) means that people who have had all of their Working Tax Credit withdrawn may think that they do not receive any assistance in work (including help with childcare costs.) In fact, this group may still receive assistance with their childcare costs and so forth, since if they did not receive the WTC elements within their maximum Tax Credit award, they may receive a reduced amount of Child Tax Credit as a result.

Under the Universal Credit, the rolling of a number of different benefits into one payment could make this issue even more important. There is a need to ensure that claimants are clear what assistance they are receiving with what different costs.

For this reason it is proposed that different elements of the Universal Credit are tapered simultaneously and at a rate proportional to their total value. This would help to ensure that recipients get some proportion of all of the different elements to which they are entitled (rather than all of one element, but none of another.)

Any award notices sent to claimants should also specify the different elements of the benefit with which they are receiving assistance.