Universal Credit — The Children's Society key concerns

The first trial of Universal Credit starts on 29 April 2013, in parts of Cheshire and greater Manchester, with Ashton-under-Lyne the first job centre to accept claims for the new benefit system. Wigan, Warrington and Oldham job centres will join the pilot from July.

Despite the fact that millions of children and families will be affected by the introduction of the new benefit system, and form its largest constituency, these areas will focus on households without children. We believe they should be included in the pilots.

Although The Children's Society supports the principles of Universal Credit to simplify the complexity of the system and make work pay, we are concerned that many of the problems we have identified – including changes to childcare support, support for disabled families and free school meals – will not have been addressed before it begins to be rolled out across the UK in October 2013.

Furthermore, in many cases the progressive intentions of the system will be undermined by lack of investment, for example with childcare support, and issues around how support is structured. It is vital the government takes steps to make sure none of its measures leaves children worse off.

1. Support with childcare costs through Universal Credit

With the introduction of Universal Credit, many of the country's poorest working families will face reductions in support with childcare costs.

Currently the childcare element of working tax credit covers up to 70% of childcare costs for children in working families. But many low-income working families can get up to 96% of their childcare costs covered through the benefits and tax credits system. This additional support is provided through a "disregard" of childcare costs for Housing Benefit and Council Tax Benefit.

Around 100,000 families (20% of families who receive help with childcare through the benefits and tax credits system) receive this additional support. Under Universal Credit, this support will be lost.

Even though the government has made some improvements to childcare support, including extending eligibility to parents working fewer than 16 hours a week and increasing the childcare element of Universal Credit to 85% from 2016 (where all adults in the household are earning above the income tax threshold, which will be at least £10,000 by that year), it has not taken sufficient steps to close the gap for the 100,000 low-income working families that will be worse off.

Many of the families that will lose out from reduced support for childcare costs under Universal Credit as a result of abolishing the Housing Benefit disregard, will not gain from the additional support because it requires at least one parent to be earning more than £10,000 per year.

Some of the hardest hit families will end up paying up to **seven-and-a-half** times more towards their childcare costs out of their own pocket as a result. Even if they are entitled to the maximum of 85% childcare support[1], they could see the amount they contribute to their costs tripling under the new system. At worst, families could face a cut of up to £2320 per year from childcare support if they have one child or £3980 per year if they have two or more children. Working families living in poverty are **four times** more likely to be affected by this change than higher income families with childcare costs.

Low-income working families in areas with high housing costs -- in the South of England (London, South East, South West) -- are particularly likely to be affected.

Recommendation: All parents, whether single working parents or working couples, should be entitled to the higher level of 85% support for their childcare costs.

2. Changes to support for lone parents and couples aged 18-24

Under-25s:

Under the current welfare system, rates of personal allowance for income support or jobseeker's allowance may already depend on the claimant's age. For example, the personal allowance for income support for a single person without children is £71 if they are 25 or over, but £56.25 if they are under-25.

The current system also clearly differentiates between single under 25s with and without children, effectively putting young single parents in the same category as all adults over 25. As a result, a single parent aged between 18 and 25 receives the higher personal allowance rate (£71), rather than the young person's rate[2].

But under Universal Credit this will change. Single parents under 25 will instead only receive the same rate of allowance as an under 25 without children. This means that out of work single parents aged between 18 and 25 will receive £15 less per week than under the current system (£780 per year).

For example, an out of work 23-year-old single parent with one child would currently be entitled to around £153 per week if they have no other income or

[1] While households where all adults in work will be entitled to receive up to 70% of their childcare costs through Universal Credit, in cases where both parents earn above the income tax personal allowances (at least £10,000 a year by 2016,) they will be entitled to receive up to 85% of childcare costs.

[2] A different set of financial entitlements exist for single parents under the age of 18

savings. Under Universal Credit this will drop to around £138 per week – a loss of around 10% of their household entitlement.

The changes will affect at least **175,000 non-working single parents under 25**[3]. It will also affect single working parents, as under Universal Credit, these personal allowances form part of a household benefit entitlement in work.

A single parent with one child, working 16 hours a week and earning £115 a week with housing costs of £100 per week, would currently have an income after housing costs of about £235 per week. Under Universal Credit, this will fall to £219 per week – a loss of £16 per week[4].

Currently, about 67,000 working single parents aged 18-24 receive tax credits[5]. Assuming these families would all be affected, **a total of around 240,000 single parent families under 25 will be affected by this change**.

The government has itself acknowledged that changes to personal allowances for under-25s under Universal Credit will push 100,000 more people into poverty[6].

Recommendation: The amounts of standard allowances under Universal Credit should reflect the structure of personal allowances under the current system. In particular, lone parents aged 18-24 must not be allowed to lose out as a result of the structure of standard allowances.

3. Support for people with disabilities

a. Disabled children

With the introduction of Universal Credit, the amount of support for disabled children, other than those on the high rate care component of Disability Living Allowance or those who are severely visually impaired, will be substantially reduced. The maximum rate is to be cut by £28 per week. Many families with disabled children are deeply concerned about the impact this will have on their ability to afford childcare for their children.

Recommendation: The government should reconsider cuts to support for disabled children and provide a disabled child element within Universal Credit, which is equal to that currently provided by the disability element of child tax credit.

[3] Latest DWP data available shows that there were 170,260 single parent claimants of income support aged 18-24 (as of February 2012), and a further 7,180 single parent claimants on jobseeker's allowance aged under-25 (as of November 2012)

[4] Based on net monthly earnings of £498, monthly standard allowance of £246.81, child addition of £272.08 and housing component of £433 and a (lower) work allowance of £263. Note, entitlements for current system based on rates for 2012-13, entitlements for Universal Credit based on rates announced for 2013-14. Benefit uprating of current entitlements will mean the losses are slightly higher than those given.

[5] http://www.hmrc.gov.uk/statistics/prov-main-stats/cwtc-dec12.pdf

[6] http://www.theyworkforyou.com/wrans/?id=2013-01-15a.137238.h&s=benefit+uprating+section%3Awrans+section%3Awms#g137238.q0 . In addition to single parents, this measure will also affect couples where both partners are under 25 and single people without children receiving employment and support allowance due to ill health or disability.

The overall amount of support a family receives is clearly crucial. In some cases, additional support received through improved work incentives under Universal Credit may help offset losses as a result of the cuts to support for children with disabilities. However, as shown in the report *Disability and Universal Credit*, by The Children's Society, Citizen's Advice and Disability Rights UK, while many couples with disabled children may be able to offset much or all of the loss, lone parents with disabled children will struggle with childcare costs when moving into work.

The report found that, as a result, *"many families with disabled children will, in fact, lose more than this £28 a week... However, some families with disabled children, who can work without incurring childcare costs, will be better off under Universal Credit, despite the £28 a week cut."*[7]

Despite the government's announcement that it will extend support with childcare to cover 85% of costs where the parent(s) are working and earning above the income tax threshold, many working parents of disabled children will not gain, since additional care responsibilities make it impossible in many cases for the parent(s) to earn more than £10,000 per year.

Recommendation: If the 85% rate of support with childcare costs is not extended to all families, it should, at a minimum, be extended to families with disabled children where the parent(s) cannot earn more than £10,000 a year.

b. Disabled lone parents

We are very concerned that the Severe Disability Premium is being abolished with the introduction of Universal Credit. This vital support currently provides additional support to disabled adults who do not have anyone to care for them (or only a young carer who is not entitled to receive carer's allowance). This additional support is vital for parents in order to cover the additional costs of living with a disability but no carer. It also significantly helps to reduce the pressure on children acting as carers for their parent.

This change will cost families with a young carer up to £59.50 per week (£3100 per year), which could equal 20% of household income after housing costs. In addition, the Enhanced Disability Premium is also being abolished. This means that families with a young carer looking after a disabled parent could lose up to £74.65 per week - nearly £3900 per year.

The Department for Work and Pensions (DWP) reports that **25,000 lone parents** are currently receiving the Severe Disability Premium, meaning around **42,000 children** are likely to be affected. We are concerned the cut in support will place substantial pressure on these children to take on additional care responsibilities, because the parent can no longer afford to pay for the additional costs of care for themselves.

[7] The Children's Society, Citizens Advice and Disability Rights UK (2012) "*Disability and Universal Credit*" p4

In total, we estimate this change will take around **£50 million a year** away from support for young carers who are caring for a disabled parent. Worryingly, no additional funds are being given to local authorities to address this loss.

Recommendation: Universal Credit should provide a self-care element to provide additional support to disabled adults who do not have another adult to look after them. This will help them with the additional costs and avoid the burden of additional care being placed on children.

4. Passported benefits

The government has not yet made key decisions about how so-called passported benefits, such as free school meals and free prescriptions, will operate under Universal Credit.

The Children's Society is particularly concerned about which households will be entitled to receive free school meals. These have a considerable cash value – worth around £370 per year per child.

The eligibility criteria for this key support will have to change substantially in 2013. This is because key benefits which determine whether a family is entitled to them, including Income Support, Job Seekers' Allowance and Child Tax and Working Tax Credits, will not be received by Universal Credit claimants[8].

Under the current system, the loss of free school meals for children whose (single) parent works at 16 hours a week (24 for couples) is partially alleviated by gaining substantial additional benefit income (through Working Tax Credit) at the same hours threshold. This means that, although the benefit of working 16 hours a week is reduced by the loss of free school meals, the family will almost always gain income overall at the point where they lose their free school meal entitlement.

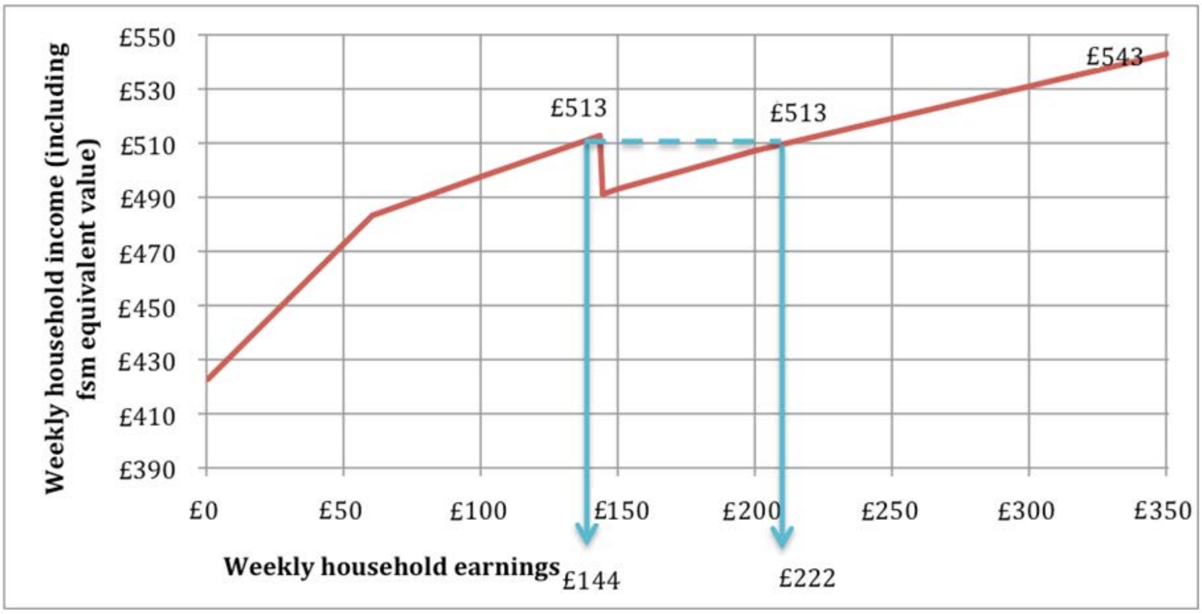
Under the new system, there is no threshold (either of hours or earnings) at which the family gains a substantial increase in benefit income. Instead, household income increases gradually as earnings increase. This means that there is no point at which the loss of free school meals is covered by other benefits. As a result, a small increase in earnings could cause a family to be significantly worse off, making the aim of always making work pay fail.

The government has indicated that it is considering how to replace the current entitlement criteria, perhaps through an income threshold at which entitlement to free school meals is lost [9] (although the final decision for how this will be dealt with remains under consideration).

[8] Existing claimants will be transferred onto the Universal Credit between 2013 and 2017.
[9] *Universal Credit: Welfare that works* London, DWP (2010), (p48)

The figure below illustrates the potential impact on the income of a lone parent with three school-aged children with an earnings limit of £7500 per year (£144 a week) to be imposed on entitlement.

Household income under Universal Credit[10] for a lone parent with three children with an earnings limit of £144 per week for free school meal entitlement.



(Where rent is £100 per week, council tax is £15 per week the family are in receipt of free school meals which is included as equivalent cash value[11])

It is clear that this will make the aim of making work always pay impossible. A family earning £143 per week would be substantially better off than a family that (as a result of taking on additional hours or receiving a pay rise) earned just over the £144 threshold.

Because of how Universal Credit entitlement is structured – with high rates of benefits being withdrawn when recipients earn more or work longer hours – many of the families affected will have to earn considerably more before they recover the loss, in value, of free school meals.

In the above case, the parent would need to earn an additional £78 per week (more than £4000 per year) before the value of losing free school meals could be met. Their earnings would need to increase from £7500 to more than £11,500 a year before their overall income, including the value of free school meals, reached the level it was when their earnings were below £7500.

In losing free school meals families are also likely to suffer the loss of the right to additional entitlements that are provided locally with this support, including uniform allowances and reduced price access to leisure facilities. Once these are taken into account the full amount lost may be even greater.

[10] Based on out of work benefit levels for Feb 2012

[11] £1130 annual value for three children (£376 per child) is worth slightly under £22 per week when divided equally across the course of the year.

Recommendation: The government needs to consider alternative options for providing free school meals which would ensure that low income families are not left worse off as a result of earning more. We believe that the best way to achieve this is by extending free school meals to children in all families receiving Universal Credit.

There are a number of key benefits gained by extending entitlement:

1) All children in poverty in working families would receive free school meals.

2) Extending entitlement to children in low income working families could help to reduce stigma for all recipients, since free school meals would be available to a significantly increased proportion of children, and would not be associated with worklessness.

3) Incentives to work would be substantially better for parents with school-aged children compared to use of an earnings threshold for the provision of free school meals under Universal Credit.

The cost of this would be about £500 million a year[12].

Recommendation: In order to reduce the cost of extending entitlement, the government could ask those families previously not entitled because they work, for a contribution in the form of a part-payment.

5. Self-employment and the minimum income floor

The Children's Society is concerned about the use of a minimum income floor for parents who are self-employed under Universal Credit. This rule will mean that these claimants are treated as having earnings of at least the level of a "minimum floor", even if their actual earnings do not reflect this.

For many parents who are making the move into work, self-employment can offer the flexibility to enable them to structure their work in a way that fits with their arrangements for the care of their children. However, any business can go through difficult periods, and in order for self-employment to be sustainable Universal Credit needs to reflect this – providing more support when earnings from self-employment are low.

We welcome the decision to allow a one-year "start up" period for self-employed Universal Credit claimants where a minimum income floor will not be applied.

[12] For the full costings of these recommendations see our Fair and Square: A policy report on the future of Free School meals: http://www.childrenssociety.org.uk/sites/default/files/tcs/fair_and_square_policy_report_final.pdf

And that this will be available more than once, as long as a further period relates to a different vocation, and that the periods are at least five years apart.

However, since the government seeks to limit exemption to this scheme to the business's first 12 months, it is denied those who experience difficulty after that time. The exemption from the minimum income floor should be available to anyone who sets up in business, not just those who fail to make a significant profit within the first year.

We are also concerned about the level at which the minimum income floor is being set. A single claimant could see this set as high as 35 hours at national minimum wage - £220 per week, or around £11,500 per year.

The minimum income floor could risk making it impossible for parents to sustain self-employment through a difficult period. This could push parents out of work, making it much harder for them to support their children independently in the mid to long-term.

Recommendation: If there is to be a minimum income floor for self-employment, this should be set at £430 per month. This would align it with the regulations determining whether someone is "in work" for the purposes of the household benefit cap.

6. Support for mortgage interest

We are very concerned by the "zero earnings rule" to be introduced within the Support for Mortgage Interest regulations. In effect this will mean that these regulations can only be applied where no one in a household is undertaking paid work. This is considerably less generous than under the current system where its attachment to out of work income replacement benefits means that households may receive support on working up to 16, (some cases 24-hours) a week.

The regulations note that for those working part-time, the removal of support for mortgage interest will "in part be compensated by the operation of the full disregard". However, for households undertaking very small amounts of paid work, this compensation will be extremely limited or non-existent.

Many parents work part-time as a route back into longer-term employment. This may particularly be the case for parents who have moved out of work as a result of sickness or disability and are considering returning to work.

This new rule risks creating enormous complexity in accepting money for any period of employment. In the worst cases, families may find that they lose significant amounts of money as a result of a parent taking on a couple of hours of work, and losing the entitlement to this support as a result. We are concerned about the impact this could have on children with home-owning parents.

Recommendation: Households earning up to their maximum earnings disregard should be entitled to receive support for mortgage interest payments as part of their Universal Credit claim. This would ensure that only those households that can make full use of their additional earnings disregard would lose entitlement to this support.

7. The implications of a substantial shift to claiming online

We are concerned that the implications of a shift to claiming online for the most vulnerable claimants who are not able to use the internet, or do not possess the means to do so, has not yet been sufficiently addressed. Many of the most vulnerable families require other routes to access their benefits. The quality and accessibility of telephone and face-to-face advice on establishing and maintaining a benefit claim must not be undermined by a presumption of benefit claims being made and administered online. Failure to do so could risk meaning that children and families do not receive the benefits they are entitled to.

We are also concerned about the interaction between an online first system, and having no automatic backdating of Universal Credit claims. Claimants who struggle to use the online system may need to seek alternative support in order to help them to establish and access their claim, which is likely to delay them in making their claim – no backdating allowance is made for those who need to seek this type of support.

Recommendation: Automatic backdating for one month would help ensure claimants had the time to seek the additional support they need to make an online claim.

Because childcare costs will require regular reporting, it is particularly important that support is given to families with children in childcare. It should be recognised that these families are among the busiest households with the least time to administer their claim.

Recommendation: The government should consider how they can ensure that online facilities for managing Universal Credit claims are available through nurseries, in order to enable parents to administer their claim, and make any changes to childcare costs, at the point of dropping off or collecting their children from childcare.

8. The date of claim and backdating

We are concerned that the Department for Work and Pensions as indicated that Universal Credit claims will not typically be able to be made in advance of the point of entitlement, and that the claim cannot be backdated as standard.

Claimants will only be able to get up to one month backdating if they face specific circumstances which make it difficult for them to make a claim on the date they become entitled. For example, if the claimant experienced a health condition that prevented them from making a claim on the required day or supporting medical evidence for the relevant period is provided. If they were unable to claim online due to system failure or planned maintenance.

We are concerned that there will be no backdating as standard for a number of reasons including: It may be difficult to prove that a claim made online faced “system failure” whilst making the claim. And, as previously highlighted, many claimants may find they have to delay their claim for Universal Credit in order to get help in using the online system.

These claimants should not lose out as a result, nor should they be being encouraged to rush to make a claim without appropriate support, since this could cause errors resulting in the wrong payments being made.

Claiming concerns for a new baby

Many claimants will become entitled to Universal Credit when they have a baby. It is unlikely parents will be able to make a claim for Universal Credit on the day they have a baby. Expecting new parents to provide medical evidence that they were unable to make their claim on the day of the baby’s birth seems unnecessarily complicated.

The current Sure Start Maternity Grant rules recognise this, and so allow a claim within three months of the birth. We would like to see this replicated under the Universal Credit application process by providing automatic backdating.

Recommendation: Households should be entitled to at least one month, and ideally of three, backdating. This should be automatic in order to reduce the complexity of the claims process for the claimant.

9. The payment period

We remain concerned that the payment period for Universal Credit will, in most cases, be monthly, as many claimants may struggle to manage their money effectively on a monthly basis because they have not previously been expected to budget in this way. Where parents are unable to budget on the required monthly basis, there is a risk that money runs out too early, and they will not be able to buy what their children need.

Universal Credit will set a fixed monthly “pay date” for individual claimants. Many people working on a low income do not receive monthly payments from their employers, so this may be a significant change from how they are routinely paid.

We are pleased that the introduction of Universal Credit provides the opportunity to ensure that what is currently a range of different benefit entitlements, often paid on different days, are paid together at the same point and in one sum. This will help simplify family budgeting. However, the period of the payments needs to be addressed to ensure it is appropriate to household needs.

We welcome that the government is to retain the provision to vary the frequency of payments, but remain concerned that this may only be used in the most extreme circumstances, and for a time-limited period.

Recommendation: The government should ensure that budgeting support is provided to families that struggle to budget monthly. Where they are not able to do this, even with support, more frequent payments should be available to make sure they can continue to manage their finances successfully.

Conclusion

Universal Credit has the potential to provide many benefits for families with children, making work pay, helping parents to progress in work, and simplifying the system to ensure that families get what that they are entitled to.

However, a number of issues threaten to undermine its potential. Reductions in support for many disabled people and their families, lower personal allowances for parents under 25, and key problems with the provision of passported benefits under the new system, all raise concerns.

To ensure that Universal Credit really works for children and families, the government needs to address these concerns before the system is rolled out nationally.

For more information about this briefing, please contact Sam Royston, poverty and early years policy adviser at The Children's Society on sam.royston@childrenssociety.org.uk or on 07969 291251.

The Children's Society supports nearly 50,000 children and young people every year through our specialist services and children's centres. We believe in achieving a better childhood for every child but have a particular focus on children who have nowhere else to turn, such as children living in poverty, young refugees, children at risk on the streets, disabled children and children in trouble with the law. We seek to give a voice to children and young people and influence policy and practice so they have a better chance in life.