BRIEFING

Universal Credit White Paper

ippr response

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Institute for Public Policy Research
Challenging ideas – Changing policy

Coalition plans

- The White Paper paves the way for a Universal Credit to replace the existing complex system of benefits and tax credits. The aim is to improve work incentives, by ensuring that work always pays more than benefits, and to simplify the benefits system. The Credit will consist of a basic amount with additional payments for disability, children, housing and caring responsibilities.
- The Universal Credit has a taper rate of 65 per cent, meaning that someone on a low income will loose 65p for every extra £1 they earn – this is lower than the combined rate that many people on low incomes currently face.
- Some families will have a more generous 'earnings disregard' – the amount they can earn before any of their benefits start to be withdrawn – which should help some people take jobs of only a few hours.
- The White Paper also contains plans to enable advisers to compel jobseekers to undertake four weeks of full-time unpaid work if they think it would help their chances of finding a job, based on the US 'workfare' schemes. If jobseekers do not comply with this Mandatory Work Activity requirement, they risk losing their Jobseekers Allowance for three months, or for six months for a second offence and three years for a third offence.
- The Coalition believes that 2.5 million households will receive more benefits under the new system and that the number of workless households will fall by around 300,000. The plans are projected to lift 350,000 children out of poverty.

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The universal credit is a sound idea. Any reform that improves incentives to work and humanises the benefits system is welcome.

However, it faces several challenges in its ambition to 'make work pay' and reduce worklessness:

Universal Credit cannot address the real costs of work

- The Universal Credit will not be able to address the real cost of work because it cannot be adjusted to take into account local differences in childcare and transport costs. This could seriously undermine the assertion that people will always be better-off in work.
- Average childcare costs in England are currently £88 a week (£4,576 a year) for 25 hours of care. The average family spends £42.30 a week on transport costs. Some families will find that these costs are too high to make work affordable, even after the change to a Universal Credit.
- Costs are likely to rise considerably in the next few years. For example, the Spending Review announced that rail fares will be allowed to rise by 3 per cent above inflation. The Office for Budget Responsibility's central estimates predict that RPI will be between 3.2 and 3.5 per cent each year over the period covered by the Spending Review. This means that fares can be expected to rise by around 6.5 per cent each year, and be over 25 per cent higher at the end of the period.
- Costs also vary across the country in a way that cannot be taken into account by a national Universal Credit. Childcare costs, for example, are estimated at £11,050 a year in London for 25 hours a week for one child under five, compared to £4,368 in Scotland. Once these costs have been factored in, parents in some parts of the country could still find that work is not financially viable.
- The White Paper reveals that the government has not yet decided whether financial support childcare costs (currently provided by the tax credit system) will be included in the Universal Credit. The best way to support working families with childcare is to widen access to free or affordable early-years care and education, and this should remain a priority for the Coalition.

No solution to the most urgent challenge – a lack of jobs

- A lack of jobs is the real problem right now, not tapers and disregards. The UK faces an employment crisis, with record numbers of young people out of work and growing long-term unemployment.
- The number of long-term unemployed has more than doubled since 2008 to 797,000, while the number of vacancies has fallen to 467,000 – leaving a jobs deficit of 330,000.
- The £2 billion which is needed to fund the Universal Credit would be better spent on subsidising jobs so that jobseekers get a guarantee of work – one they would have to take up.

Promise to make work pay is undermined by benefit cuts

- The government's claim that work incentives are key is undermined by ippr analysis showing that at least half the benefit cuts announced in the Emergency Budget and Spending Review will hit working families.
- After factoring out the change in up-rating benefits by CPI rather than RPI, ippr analysis shows that more than half of the remaining £12.8 billion cuts affect working people. £5.3 billion of cuts will only affect working families.
- The amount of support that working families can claim for childcare costs through the tax credit system is being cut from 80 per cent of total costs to 70 per cent, making it harder for working families to afford the childcare that enables them to work. Families claiming the maximum support for childcare could lose up to £1,500 a year.
- Working couple families will have to work an extra eight hours a week between them to be eligible for working tax credits – but as this might not be possible in the current climate, they could see their entitlement cut, making work less worthwhile. Families could lose over £1,000 after this change.

Compulsory unpaid work: right principle, wrong reform

- The principle of rights and responsibilities that this policy aims to promote is the right one. Those receiving state support should be expected to take responsibility for finding work.
- Compulsory full-time work activity (also known as workfare) can ensure that many take up other solutions and leave benefits before going on the scheme. For the work activity to be effective however, it needs to offer genuine work experience that improves people's job prospects. Unpaid work of the kind being proposed under this scheme is unlikely to offer this and may not be well regarded by employers.
- A greater concern is the apparent discretion advisers will have to impose this option at will – under previous plans, this option would only be for those who have been receiving Jobseeker's Allowance for two years or longer, thus focusing it on those out of the labour market for some time. For those more recently unemployed it will be even less effective and consequently more punitive in nature.
- Subsidised job schemes that pay a proper wage can be more effective than workfare and this is where the Coalition should be prioritising investment.

Useful publications

Now It's Personal? The new landscape of welfare-to-work published by ippr in October 2010 is available at www.ippr.org.uk/publicationsandreports/publication.asp?id=775

A Comparative Review of Workfare Programmes in the United States, Canada and Australia, DWP Research Report No 533, published in 2008 by the Department for Work and Pensions is available from http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep533.pdf