

Executive summary

1. The Coalition Government is determined to reform the benefit system to make it fairer, more affordable and better able to tackle poverty, worklessness and welfare dependency. We have already announced a range of measures in the Budget and the Spending Review to achieve this. Alongside these measures we made the commitment to overhaul the benefit system to promote work and personal responsibility.
2. This White Paper sets out the Coalition Government's plans to introduce legislation to reform the welfare system by creating a new Universal Credit. This Universal Credit will radically simplify the system to make work pay and combat worklessness and poverty. This publication outlines the need for change, how Universal Credit will work, how it will affect benefit recipients and its broader impact.
3. Our consultation document, *21st Century Welfare* (Cm 7913, July 2010), spelt out the problems of poor work incentives and complexity in the current benefits and Tax Credits systems. We invited contributions from the public and we received over 1,600 responses via post, email and through our online consultation site. There was general agreement on the need for reform with strong support for our objectives of streamlining the system and making work pay. The majority of respondents who commented on the specific options for reform recognised the attractions of moving towards a single benefit. A brief report on the responses is contained in Annex 1. A fuller report, *Consultation responses to 21st Century Welfare* (Cm 7971, November 2010), appears today alongside this publication.

"We broadly welcome the direction of welfare reform proposed by the Coalition Government and we support the intention to make the benefit system simpler and clearer for recipients, and to make work pay." **Citizens Advice**

“...there are substantial advantages to having a more integrated benefits and Tax Credits system: it would reduce the Government’s administration costs and the amount of money lost to fraud and error, and be simpler for recipients to understand, which might in itself encourage some to enter work. We agree with this assessment, and consider there to be a strong case for integrating all benefits and Tax Credits into a single benefit.” **The Institute for Fiscal Studies**

4. For people reliant on benefits the returns from work can be extremely low. In the current system, many have all or almost all of their earnings deducted from their benefits. This lack of any significant return from work is compounded by the complexity of separate out-of-work benefits and in-work Tax Credits and Housing Benefit, creating a disconnect between out-of-work benefits and in-work support. Taking a low-paid job means people running a large risk as Tax Credits are calculated and Housing Benefit adjusted over weeks and sometimes months. We know that many are simply not prepared to take that risk and remain trapped on benefits for many years as a result.
5. This has consequences for us all, not just those trapped on benefits who no longer see work as the best route out of poverty. The social and economic costs of the current system’s failures are borne by society as a whole, since worklessness blights the life chances of parents and children and diminishes the country’s productive potential. The UK has one of the highest rates of children growing up in homes where no one works and this pattern repeats itself through the generations. Less than 60 per cent of lone parents in the UK are in employment, compared to 70 per cent or more in France, Germany and the Netherlands.
6. Universal Credit will start to change this. It will reintroduce the culture of work in households where it may have been absent for generations.
7. Universal Credit is an integrated working-age credit that will provide a basic allowance with additional elements for children, disability, housing and caring. It will support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker’s Allowance and income-related Employment and Support Allowance.
8. The Government is committed to ensuring that no-one loses as a direct result of these reforms. We have ensured that no-one will experience a reduction in the benefit they receive as a result of the introduction of Universal Credit.
9. Universal Credit will improve financial work incentives by ensuring that support is reduced at a consistent and managed rate as people return to work and increase their working hours and earnings. People will generally keep more of their earnings for themselves and their families than is currently the case.
10. Universal Credit will also remove the distortions in the current system that tend to over-reward people for working a specific number of hours that may not suit them or their employers. Universal Credit will ensure that all amounts of work will be more financially rewarding than inactivity and remove the current barriers to small amounts of work.

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11. Universal Credit will merge out-of-work benefits and in-work support. This means that people will no longer have to take a risk in moving from one system to another. For those in employment, Universal Credit will be calculated and delivered electronically, automatically adjusting credit payments according to monthly income reported through an upgraded version of the Pay As You Earn tax system (on which HM Revenue & Customs will be consulting shortly). The system will be simpler and will respond more quickly to changes in earnings so that people will not face the same complexities as they do now, particularly at the end of a tax year. As a result people will be much clearer about their entitlements and the beneficial effects of increasing their earnings by taking on more hours or doing some overtime.
12. This would involve an IT development of moderate scale, which the Department for Work and Pensions and its suppliers are confident of handling within budget and timescale.
13. The clear financial incentive provided by Universal Credit will be backed up by a strong system of conditionality; unemployed people who can work will be required to take all reasonable steps to find and move into employment. Conditionality will be responsive to an individual's circumstances – reflecting, for example, that whilst the majority should move into full-time work, for some people there may be temporary periods when part-time work is appropriate (for example, for some lone parents).
14. Strengthened conditionality will in turn be supported by a new system of financial sanctions. The new sanctions will provide greater incentives for people to meet their responsibilities.
15. Overall administration of the new benefit will be managed by one department – the Department for Work and Pensions – as opposed to today's complex delivery of current benefits through the Department for Work and Pensions, HM Revenue & Customs and Local Authorities. People will have one system to contact rather than having to repeat information to three separate bodies, so strengthening the connection between financial and labour market support.
16. As a simpler, streamlined system, Universal Credit will reduce the scope for costly errors on the part of recipients and administrators. By allowing recipients to benefit financially from doing small amounts of irregular work Universal Credit will reduce the incentive for people to commit fraud by failing to declare work. A simpler, more automated system linked to taxes and earnings will also make it easier to detect and prosecute serious organised fraud.
17. Over the Spending Review period £2 billion has been set aside as part of the Department for Work and Pensions settlement to fund the implementation of the Universal Credit.

18. In the long run we expect the impact of Universal Credit on society to be considerable. We expect as many as 350,000 children and 500,000 working age adults could be moved out of poverty by these changes, by virtue of the changes to entitlement and increased take-up of benefit.
19. Over and above this we know that work, and the improved incomes that flow from it, have beneficial effects in terms of people's health and well-being, the educational achievements of children and improvements in communities, such as reduced crime and anti-social behaviour. It is difficult to quantify these effects precisely but their existence is not in doubt.
20. The Government intends to introduce a Welfare Reform Bill in January 2011 to give effect to these changes. We will then adopt a phased approach to the introduction of Universal Credit with the first individuals expected to enter the new system from 2013, followed by the gradual closure of existing benefits and Tax Credits claims and their transfer to the new system.
21. Universal Credit represents a fundamental change for Britain's welfare system. It will create a leaner but fairer system administered by a single government department delivering support that is integrated and explicitly focused on ensuring that work always pays. It will substantially reduce poverty and, as well as being fairer, the system will also be firmer. The links between benefit payments, earnings and tax will in turn make the system more secure from fraud and error and conditionality will push people to do as much work as is reasonable for them.