EXPLANATORY MEMORANDUM TO

THE UNIVERSAL CREDIT (WORK ALLOWANCE AND TAPER) (AMENDMENT) REGULATIONS 2021

2021 No. 1283

1. Introduction

1.1 This explanatory memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 This instrument amends the Universal Credit single earnings taper rate and the lower and higher work allowances which apply to earnings used in the calculation of Universal Credit awards. These changes mean that almost 2 million Universal Credit claimants will be able to keep more of their earnings.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments.

3.1 The Chancellor of the Exchequer announced these changes to Universal Credit in the Budget on 27 October 2021. To ensure that working Universal Credit households have the benefit of these measures reflected in their Universal Credit payments from 1 December 2021, this instrument must come into force on 24th November and will therefore breach the 21 day rule. It is important to bring this forward at the earliest opportunity to benefit more people sooner. We recognise the Committee's previous reports[1] and the expectation to reduce the time between making and laying regulations. We have done what we can to reduce the time between making and laying.

3.2 These two measures will directly benefit 1.9 million working households[2] and Departmental analysts have estimated that these measures will allow these working households to keep, on average, around an extra £1,000 a year. They will enable these working households to keep more of what they earn and strengthen the incentives to move into and progress in work. These measures represent an increase in benefits for low income working households in receipt of Universal Credit worth £2.2 billion a year in 2022-23[3].

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[1] https://publications.parliament.uk/pa/jt201719/jtselect/jtstatin/151/151.pdf https://publications.parliament.uk/pa/jt201719/jtselect/jtstatin/424/424.pdf

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1029973/Budget_AB2021_Print.pdf

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1029973/Budget_AB2021_Print.pdf

4. Extent and Territorial Application

4.1 The territorial extent of this instrument is Great Britain.

4.2 The territorial application of this instrument is Great Britain.

4.3 Northern Ireland will make their own reciprocal arrangements to introduce these regulations.

5. European Convention on Human Rights

5.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

6. Legislative Context

6.1 This legislation amends The Universal Credit Regulations 2013[4] to provide for a reduction to the taper rate on earned income received by claimants to 55% from 63% and to increase both the lower and higher work allowances by £500 per annum (rounded up to £42 per month). The lower work allowance is to be increased from £293 to £335 per month and the higher work allowance is to be increased from £515 to £557 per month.

7. Policy background

What is being done and why?

7.1 The Chancellor's Autumn Budget and Spending Review of 27 October 2021 announced that the taper rate applied to the earned income received by working claimants of Universal Credit would be reduced from 63% to 55%. This means that for every £1 earned the claimant would retain 45p rather than 37p. It was also announced that both the lower and higher work allowances would be increased by £500 per annum (rounded up to £42 per month). A work allowance is the amount of net earnings an eligible household with responsibility for a child/children or qualifying young person and/or a household member with limited capability for work can earn before the taper applies and their Universal Credit award is reduced. These measures help to make work pay for low income households on Universal Credit by allowing them to keep more of what they earn, strengthening incentives to move into and progress in work.

7.2 Reducing the taper from 63% to 55% and increasing both the lower and higher work allowance by £500 per annum will have an impact on Universal Credit as follows:

7.3 These measures will directly benefit 1.9 million working households[5], and Departmental analysts have estimated that these changes will allow these working households to keep, on average, around an extra £1,000 per year. Gains will vary dependent on the household circumstances.

7.4 The reduction to the taper rate means more people will be eligible for Universal Credit higher up the income distribution, i.e. those whose income would have previously

[4] https://www.legislation.gov.uk/uksi/2013/376/contents?_sm_au_=iVV30ZjMd85d3QLVW2MN0K7K1WVjq

[5] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1029973/Budget_AB2021_Print.pdf

been too high to qualify. Departmental analysts estimate this will increase the Universal Credit caseload by around 300,000 households.

8. European Union Withdrawal and Future Relationship

8.1 This instrument does not relate to withdrawal from the European Union or trigger the statement requirements under the European Union (Withdrawal) Act.

9. Consolidation

9.1 Informal consolidated text of instruments is available to the public free of charge via 'the National Archive' website legislation.gov.uk.

10. Consultation outcome

10.1 These measures were announced on 27 October 2021 as part of the Autumn Budget and Spending Review 2021. In accordance with her obligation under section 172 of the Social Security Administration Act 1992, the Secretary of State has consulted the Social Security Advisory Committee, who have agreed that a formal referral is not required.

11. Guidance

11.1 Guidance will be issued to Department for Work and Pensions staff during the normal course of business, in the period before the legislation comes into force. Existing online information about the taper rate and the lower and higher work allowances will also be amended to reflect the new rates[6].

12. Impact

12.1 There is no, or no significant, impact on business, charities or voluntary bodies.

12.2 There is no, or no significant, impact on the public sector.

12.3 An Impact Assessment has not been prepared for this instrument because there is no impact on business. Our assessment is that this is a positive measure and no or no significant impact is foreseen on the private, public or voluntary sectors.

13. Regulating small business

13.1 The legislation does not apply to activities that are undertaken by small businesses.

14. Monitoring & review

14.1 There are no plans to formally review the impacts of these amendments above and beyond that which is already in place as part of the Department's routine data collection.

15. Contact

15.1 Trevor Pendergast at the Department for Work and Pensions, telephone: 0207 449 5639 or email: trevor.pendergast@dwp.gov.uk can be contacted with any queries regarding the instrument.

[6] https://www.gov.uk/government/publications/universal-credit-work-allowances/universal-credit-work-allowances?_sm_au_=iVVjt5N5L11JRQpMW2MN0K7K1WVjq

15.2 Graeme Connor, Deputy Director for Universal Credit, at the Department for Work and Pensions can confirm that this Explanatory Memorandum meets the required standard.

15.3 The Secretary of State, The Rt Hon Thérèse Coffey MP, at the Department for Work and Pensions can confirm that this Explanatory Memorandum meets the required standard.