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3 December 2014

Dear Bruce

Universal Credit and the Smith Commission

Many thanks for your enquiry on the Smith Commission proposals in relation to Universal Credit.

You refer to Para 55 of the Smith Commission report which states:

“Any new benefits or discretionary payments introduced by the Scottish Parliament must provide additional income for a recipient and not result in an automatic offsetting reduction in their entitlement to other benefits or post-tax earnings if in employment”.

You have asked, via the Clerk,

1. Does this mean that if the Scottish Parliament reduces the income for a more poorly paid recipient then universal credit remains unchanged and, conversely, if the Scottish Parliament were to provide more income, universal credit would be reduced?
2. In essence, will it be possible to provide more income to the less well-off people in society without an automatic fall in their benefits, which would mean no net gain?

As you will know the benefits system is incredibly complex. How a system might work on the basis of a proposal with little detail is difficult to predict. However, based on knowledge of the current system and an assumption of what the Smith proposals mean I have provided a response.

I have broken your question down into two parts:

- 1) An individual's Universal Credit (UC) award varies according to circumstances, but broadly speaking, the less a person earns the more UC they would be entitled to. An increase in income, through some other benefits and earnings, would mean a reduction of the UC award. Smith has proposed that UC remains reserved, apart

from varying the housing cost element and the method of payment. Therefore, the current structure of UC and how it is calculated for recipients will remain unchanged.

- 2) The text of Para 55 suggests that the power to make discretionary payments would not result in an automatic offsetting reduction in their entitlement to other benefits or net earnings. My understanding is that there is an intention that no-one would be worse off, if anything, they should be better off. However, if this power is used it will have to be worked through carefully.
- a) Earned income – claimants of UC have a ‘work allowance’ which entitles them to keep a certain amount of earnings each month, before their UC is reduced. The work allowance varies according to individual circumstances, eg for single person with no children it is £111 per month. The UC award will be reduced by 65p for every pound earned above their ‘work allowance’. Smith proposes in para 46 that the earnings taper remains reserved. If the Scottish Parliament increased the UC award through a discretionary power, it would not have the power to vary the work allowance or the taper rate. So people on low incomes could be financially better off.
 - b) Some benefits are taken into account as income and affect the UC award pound for pound. These are listed below. It is proposed the Scottish Parliament will have total control over certain devolved benefits and a power to ‘top-up’ the reserved benefits. If a UC claimant is receiving any of the reserved benefits below, and they have been increased by the Scottish Parliament, then they will get a reduction in their UC award, pound for pound. This could mean a UC recipient is worse off. However, this eventuality could be offset if the Scottish Parliament decided to increase the UC award as well. A similar situation might arise if the Scottish Parliament introduced a new benefit, and in this case there would need to be a discussion between the two governments about how the new benefit would interact with UC.
 - Of those that are proposed for devolution:
 - Carer’s allowance
 - Industrial injuries benefit except constant attendance allowance and exceptionally severe disablement allowance which are disregarded
 - Severe disablement allowance
 - Of those that will remain reserved:
 - Bereavement allowance
 - Employment and support allowance
 - Incapacity benefit
 - Jobseekers allowance
 - Maternity allowance
 - Retirement pensions

- Widow's pension, widowed mother's allowance, widowed parent's allowance
- Foreign social security benefits that are similar to the benefits listed above.
- Statutory sick pay, maternity pay, paternity pay, and adoption pay count as earnings so may benefit from the work allowance.

I hope this is helpful

Best wishes
Nicki

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