Department for Work & Pensions

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To: All Peers

My Lords,

Introduction of the Universal Credit Bill

Yesterday, the Universal Credit (UC) Bill has been introduced to the House of Lords. The Bill is the first legislative step in the Government's plan to fix our social security system, as set out in the Department for Work and Pensions *Pathways to Work* Green Paper. It is grounded in the principle that those who can work should work, and those who cannot work should be supported to live in dignity.

Following changes made in the House of Commons, the Bill is now focused solely on making crucial changes to Universal Credit to address work disincentives, protect the most vulnerable claimants, and put more money into the pockets of some of the poorest families in the country.

We have listened to concerns to ensure we make the right changes, at the right pace, and with the right protections. I believe the measures in this Bill, alongside our wider reform package - including £3.8 billion of health and disability employment support funding over this Parliament and the Timms Review of Personal Independence Payment (PIP) - strike the right and fair balance and will allow individuals to achieve their ambitions and live with the dignity and security they deserve.

<u>Universal Credit measures in the Bill</u>

The Bill rebalances the amounts of the standard allowance paid to all adults on Universal Credit and the extra payment given to those who are unable to work or prepare for work on health grounds. As it stands today, someone on the UC Health Element receives more than double a single person on the UC Standard Allowance alone and less than 1% of those placed in the health top-up group move into work in any month. There is a real risk that the low level of the Universal Credit standard allowance and the size of the gap between the main rate and the health top-up puts pressure on some people to define themselves as incapable of work just to make ends meet.

To address this, the Bill will rebalance the payments in Universal Credit and make equivalent changes in income-related Employment and Support Allowance. It will deliver the first ever sustained, above-inflation rise to the standard allowance, with a cash increase of around £725 a year for single claimants aged 25 and over by the end of the Parliament. This is around £250 higher than an inflation-only increase – and is the largest permanent increase in the headline rate of an out of work benefit for decades, according to the Institute for Fiscal Studies (IFS). The Bill also reduces the Universal Credit health top-up for new health claims from April 2026 and freezes this rate until the end of this Parliament.

Protections for the most vulnerable, and existing claimants

We are absolutely committed to protect those who will never be able to work and have put additional protections on the face of the Bill to support the most vulnerable claimants now and in the future.

We will provide financial protection for people with the most severe, life-long health conditions and those who are nearing the end of their lives. These protections will be written into law and mean that anyone who meets the Severe Conditions Criteria (existing criteria for people with life-long conditions, who we do not expect will ever be able to work); and/or the Special Rules for End of Life (existing rules for people with 12 months or less to live to get faster, easier access to certain benefits) will continue to receive the existing, higher health top-up in UC over the course of this Parliament.

We have included a guarantee on the face of the Bill that people who meet the Severe Conditions Criteria will never face a reassessment for UC, removing unnecessary stress, anxiety and uncertainty. As a result, we estimate 200,000 people with the most severe, life-long conditions will be protected by the end of this Parliament.

In addition to the protections originally included in the Bill when it was introduced, this legislation now contains an additional protective measure to ensure that, each year, the UC rates will be adjusted so that all existing recipients of the Universal Credit health element – and any new claimant meeting the Severe Conditions Criteria and those who qualify under Special Rules for End of Life – will see the combined rate of their Universal Credit standard allowance and Universal Credit health element rise at least in line with inflation every year of this Parliament.

Annex A to this letter provides a summary of each of the Bill measures in full. Clauses 1 to 5 and Schedule 1 will apply in England, Wales and Scotland. Clause 6 and Schedule 2 will apply in Northern Ireland.

On Wednesday 9 July the Speaker of the House of Commons designated the UC Bill as a ‘Money Bill’. I would like to reassure you that the House of Lords will still have the opportunity to debate the principle of the Bill at second reading, and the Government will continue to listen to parliamentarians as our social security reforms continue.

Wider reforms

The measures in the Bill are part of a wider package of reforms, including our major investment in employment support for sick and disabled people – with a total of £3.8 billion of health and disability employment support funding over this Parliament. Further information on our employment support can be found in Annex B.

We will also bring forward our ‘Right to Try’ regulations, which guarantee that work in and of itself will never lead to someone being called for reassessment in UC.

You may know that this legislation originally proposed to make changes to the eligibility criteria for PIP. We have listened carefully to concerns about those proposed changes and amended the Bill so that it does not contain any measures that will impact PIP. No changes will be made to PIP until we have had the chance to consider the conclusions of a wider review of the PIP assessment which will be led by the Minister for Social Security and Disability, and co-produced with disabled people, organisations that represent them, other experts and parliamentarians. This will be known as the Timms Review.

We will engage widely over the summer to design the review process, making sure that we draw on a range of expertise and perspectives. We are committed to conclude the review by Autumn 2026, with any changes implemented as soon as possible afterwards. Our aim is to make sure PIP is fair and fit for the future in a changing world and helps support disabled people to achieve better health, higher living standards and greater independence.

I hope this information is helpful. My department will shortly be writing to colleagues with an opportunity to hear more about the Bill ahead of Second Reading. I will also place a copy of this letter in the House library for reference.

Yours ever,

Baroness Sherlock OBE
Minister of State for Work and Pensions

Annex A: Clause by Clause Explainer

Clause 1:
Increase Universal Credit standard allowance above inflation.

The Bill requires the Secretary of State to increase the four rates of Universal Credit standard allowance above the rate of inflation in each of the years between 2026/27 and 2029/30. The Bill defines the formula for how the Universal Credit standard allowance will be calculated each year from 2026/27 to 2029/30. The actual rates will be defined in secondary legislation, either in the up-rating order or in separate secondary legislation. The Bill removes the Universal Credit standard allowance rates from the Secretary of State's statutory annual up-rating review.

Clause 2:
Reduce the Universal Credit Limited Capability for Work and Work-Related Activity (LCWRA) rate from April 2026.

The Bill will reduce, by roughly half, the payments received by Universal Credit claimants who have been found to have LCWRA from 6 April 2026 - and keep the element frozen at this rate until 2029/30. Together with Schedule 1 this clause distinguishes new claimants from existing "pre-2026 claimants", and those who are Severe Conditions Criteria claimants or are terminally ill. A more comprehensive description of "pre-2026 claimants" will be set out in separate secondary legislation.

<u>Protection through Special Rules for End of Life (SREL) and Severe Conditions Criteria</u>
This clause, and Schedule 1, ensure that new claimants (and existing claimants who newly undergo an assessment) who are nearing the end of life, or who fulfil the Severe Conditions Criteria, i.e. they have severe, life-long health conditions, have no prospect of improvement and will never be able to work, will receive the higher rate of LCWRA (see below), providing parity with the protection that pre-April 2026 LCWRA claimants will receive. People who meet the Severe Conditions Criteria will never be reassessed (unless there is evidence of fraud, error or a change in circumstance).

Clause 3:
Freeze Universal Credit LCWRA and Limited Capability for Work (LCW) rates.

The Bill removes these rates from the Secretary of State's statutory annual up-rating review for four tax years. This enables the LCWRA for new LCWRA claimants to be frozen at the lower rate as well as a freeze to the legacy payment of Limited Capability for Work rate. It also enables the increases specified in clause 4.

Clause 4: Protected LCWRA amount for tax years 2026-27 to 2029-30

This Clause ensures that existing UC LCWRA claimants, and new UC LCWRA claimants who fulfil the Severe Conditions Criteria or are nearing the end of life, will see the combined amount received from the UC Standard Allowance plus their UC LWCRA rate rise at least in line with inflation in each of the next four years until 2029/30. People in receipt of UC health element prior to 6 April 2026, with a continuous claim, will continue to receive the higher rate.

Clause 5:
Equivalent measures for Income-Related Employment and Support Allowance (ESA-IR)

The Bill will make commensurate changes to recipients of ESA-IR – a ‘legacy benefit’ for people with disabilities and health conditions. This is needed because it is possible that not all ESA-IR cases will be moved onto Universal Credit by April 2026.

ESA-IR personal allowance rates will be increased over and above inflation each year until 2029/30, by analogy with the changes to the Universal Credit standard allowance.

The Bill removes these rates from the Secretary of State’s statutory annual up-rating review for four tax years and will ensure that the sum of the ESA IR support group component, Personal Allowance and severe and enhanced disability premia rise at least in line with inflation each year. This change is analogous with the protections applied to Universal Credit in Clause 4.

Clause 6: Equivalent changes for Northern Ireland

This clause confirms that the equivalent changes will be made in Northern Ireland. Full details of the changes to Northern Ireland Legislation are set out in Schedule 2.

Annex B: Further information on the wider reforms

Employment Support

We are acutely aware there are millions of disabled people, and people with health conditions, up and down the country who could work are being held back. The scale of the challenge is clear: Around 1 in 10 people of working age are on a sickness or disability benefit, a near record 2.8 million people are out of work due to long-term sickness, and around 1 million young people are not in education, employment or training. That is why, we have set out wider measures that will support people into work.

We are increasing spending on employment support for disabled people and those with health conditions to £3.8 billion over the course of this Parliament, up £300 million from the £3.5 billion announced at the spending review. This will nearly quadruple annual spending to support sick and disabled people to work – rising from the £275 million a year we inherited in 2024/25, to well over half a billion pounds next year, and then to over £1 billion a year by the end of the Parliament. This will mean we will be able to offer a guarantee of high-quality work, health and skills support to any sick or disabled person benefits who needs it. The total of £3.8 billion funding includes an additional £2.2 billion secured towards our Pathways to Work employment support across the Parliament.

And already we are delivering:

- Connect to Work – our supported employment programme helping disabled people, those with health conditions, and people with complex barriers to employment into work, which is expected to be live across England and Wales by the end of this year.
- 17 new trailblazing programmes across the country – led by Mayors and local areas – joining up work, health and skills support, and delivering our Youth Guarantee so every young person is earning or learning and to tackle the scar of economic inactivity.
- The WorkWell programme – trialling new approaches like GPs referring people to health and employment support.
- Freeing up work coaches to support sick and disabled people, with 1,000 Pathways to Work advisers in place across Britain by the end of the year.

There is clear evidence that this kind of active support makes a real difference:

- Work Choice, a specialist employment programme for disabled people and those with health conditions, saw people receiving tailored support 11 to 14 percentage points more likely to be in work eight years after starting.
- For economically inactive claimants on the European Social Fund, which aimed to boost employment and skills, they were 7 to 9 percentage points more likely to be in work three years after starting support.
- And a DWP pilot offering additional Work Coach time resulted in those on the heath top-up in Universal Credit who took part 3 percentage points more likely to be in work, one year after starting.

Alongside the biggest package of employment support for sick and disabled people, we are also:

- Giving people the confidence to try work by introducing in legislation a 'Right to Try Work' so work in and of itself will not trigger an award review or reassessment. We published draft regulations during the passage of the Bill and will look to implement from April 2026.
- Creating more good jobs in every part of the country – from clean energy to construction and through our modern industrial strategy.

- Improving the quality of work, with our reforms to Statutory Sick Pay and Flexible Working, while making work pay – with April's rise to the National Minimum Wage and National Living Wage.
- Getting people back to health and back to work by investing an additional £26 billion this year, which is already driving down NHS waiting lists.
- Working with employers to create healthier, more inclusive workplaces through our Keep Britain Working review.

We know good work is the fastest – and surest – route out of poverty. A disabled person in work is less than half as likely to be in poverty as someone out of work. That is why, as part of our plan to Get Britain Working, we are giving disabled people the chances and choices they need and deserve to start and stay in work – a crucial part of closing the disability employment gap – while protecting those with the most severe, life-long conditions who will never work.