INSTITUTE FOR GOVERNMENT

Universal Credit

Getting it to work better

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Summary

Universal Credit has a terrible reputation. An idea that many people supported in principle, and which enjoyed widespread cross-party support, suffered a seriously bungled start.

The biggest single reform of working-age benefits in decades, Universal Credit (UC) was given an impossible timetable, suffered from conflicts within government, hit major IT problems, and was launched into a social security system that was not in a steady state, in large part due to austerity.[1] In the wake of the 2007/08 financial crisis, big cuts were made to working-age benefits in general, and to the cost of the original design of UC in particular. Both of those have damaged the programme's reputation and made its operation harder.

Its launch caused real hardship for some claimants, its timetable has slipped spectacularly, and there are still big issues to solve. By the time of the December 2019 general election, Labour was promising to scrap it.

But the simple fact is that UC has reached the point of no return. It can no longer even be paused, and to scrap it and design something different would involve a similar upheaval to the launch of the programme itself – creating, on the way, a different set of winners and losers. Government now must get it to work better.

And, despite real ongoing problems, it is working better. The IT is no longer one of UC's greatest weaknesses. It has for some years now had stable official leadership after a period of immense turmoil, even if the turnover of political leadership – six secretaries of state in three years – has not helped. Many more people are now being paid on time. There is more help available for those who struggle with the standard online nature of UC. The use of sanctions for often low-level or minor infringements, which reached a high in the run-up to the launch of UC and in its early days, has, quite rightly, been reduced.

A series of measures, not all of them completed, have been taken to improve its workings. Advances – loans – are now routinely available to tide people over the standard five-week wait for the first payment. For those already in the benefit system, run-ons, or extensions, of existing benefits are becoming available as a grant, not a loan, to ease that initial wait. Once on UC, the period over which these advances have to be repaid is being gradually extended. A smaller percentage of monthly benefit is now being taken to repay benefit debt. Claimants can now have their rent paid direct to private as well as social landlords. They can choose fortnightly rather than monthly payments. And the reimbursement of child care costs is being made more flexible.

These and other improvements are helping. And while UC is far from perfect, it is worth remembering that there were plenty of imperfections in the six 'legacy' benefits that it is replacing.

However, there are many additional improvements that could be made to UC. This paper argues that the two most pressing are to take further steps to get money to the least well-off fast, and to tackle a mounting crisis of debt repayment within UC. At present, 60% of all UC claimants – some 1.5 million people – are living on less than its standard rate because they are paying back various forms of benefit debt.

Its key recommendations are:

- That the government introduces a two-week, non-repayable, 'silver hello' or 'welcome grant' for entirely new claims for UC and to those transferring onto the programme from tax credits.
- In addition, the government must reduce the impact of the repayment of a huge amount of historic benefit debt that is leaving growing numbers of UC claimants living on less than its standard allowance, and thus on very low incomes indeed. The largest part of this is around £6bn worth of old tax credit that many claimants do not realise they have. The best solution is to write it off, or to seek to reclaim it at a much slower rate.

These two measures would merely extend steps that have already been taken – in acknowledgement that the five-week wait for the first payment of UC is too long, and that the repayment of billions of pounds worth of social security debt is causing significant hardship.

Without such measures, the reputation of the government's flagship welfare reform will be damaged further, and its effectiveness undermined.

Introduction

Universal Credit (UC) has a dreadful reputation. So much so that there is there is good anecdotal evidence that people put off claiming it – the last thing anyone should do given the standard five-week wait for payment. Others do not apply at all.

There is no doubt that the introduction of UC by the Department for Work and Pensions (DWP) caused, and in some cases is still causing, real hardship. The nominal five or six weeks for payment too often turned out to be 10 or 12 weeks, or even more. Rent arrears rose. In the most extreme cases, people became homeless and even lost their jobs – the exact opposite of the policy's intention. Universal Credit has unquestionably been a factor in the rising numbers using food banks.

A policy originally scheduled to be fully up and running by 2017 will now not be completed until 2024 – and that is on the current timetable – and few people would bet that will in fact hold.

The basic idea behind UC – that six benefits would be rolled into one to simplify the means-tested benefits system for those of working age – started out with widespread cross-party support. It has now lost it, with Labour promising in the December 2019 general election to scrap it.

Almost a decade on from the original white paper that set the policy out,[2] it is worth taking stock of where UC is now, and what needs to be done to make it work better.

'No going back'

The programme can no longer even be paused. Universal Credit now operates in all 600+ Jobcentres in the UK, with the number of claimants rising by around 100,000 a month. As of December 2019, that number stood at 2.8 million. By the time UC is fully rolled out, there will be something in the region of 7 million recipients. Around one-in-three working-age households will be on UC, with roughly half of those being in work.[*]

The reasons that there is 'no going back' are as follows.

First, the machinery for new claims under the six 'legacy' benefits that UC is replacing – Jobseeker's Allowance (JSA), income support, housing benefit, child and working tax credits and the disability benefit Employment and Support Allowance (ESA) – has been dismantled.[**] This was a necessary part of the roll-out of UC, to reduce administrative costs.

At present, those already on these benefits who undergo a significant change of circumstance are moved across to UC – if, for example, they have a new child, a child becomes an adult, or there is a new partner or a family split, or a move to a new location. Those transfers are a key reason why claims for UC are rising.

* Assuming that unemployment remains broadly at its current level.
** For those who have paid sufficient national insurance contributions, new claims can still be made for the time-limited and non-means-tested versions of JSA and ESA.

Employment is at a record high and unemployment is at a near record low, so that entirely new claims to the unemployment part of UC are relatively low, certainly compared to some periods in the past. Transfers to UC are driving the numbers on it.

The plan, however, is to get all those on the 'legacy' benefits onto UC, given that UC is replacing them. In other words, to transfer to UC the 3 million-plus existing claimants of tax credits along with those still on JSA and income support whose circumstances have not so far changed: the so-called "managed migration" of the existing stock of claims. That process is currently being piloted. It will not be completed on the current timetable until 2024. Given UC's track record, it will clearly need to be undertaken with extreme care.

It would of course be possible, in theory, to put off indefinitely – to effectively cancel – the managed migration of the existing stock of claims. Were that to happen, however, the reality is that most of the existing claimants of these legacy benefits, unless they die or reach pension age, will in practice move on to UC as their circumstances change (although it would probably take until 2040 or even later for the last of them to do so).

To do that, however, would be the equivalent to introducing a £2bn benefit cut – given the costs of the already promised transitional protection for those who lose out as they move on to UC, and the often forgotten fact that the final move to UC produces 'winners', as well as a larger number of better-publicised 'losers'. Analysis by the Institute for Fiscal Studies points to around 17% losing at least £1,000 a year from the transfer to UC, and 14% gaining at least as much.[3]

It is equally true (again, in theory) that it would be possible to scrap UC and start again, as Labour appeared to be promising in 2019. But designing and implementing a new system – a true alternative to UC that would also make life simpler for claimants – would involve an upheaval on a similar scale to the introduction of UC itself. That has not been a happy story, and unless countless billions were poured into it, there would be a new and different set of gainers and losers.

If nothing else, that is the key message from this paper. Universal Credit can of course be tweaked, amended and even, conceivably, rebranded. But the time for pausing it, or (easily) dismantling it, has passed. The question now is how to improve it.

The rest of this paper sets out some of the context within which UC has been designed and has had to operate. It then asks whether improvements have been made. It then sets out three propositions for change – not the only ones that could be made, but the three absolutely pressing ones.

Universal Credit in context

There are three things worth saying here.

The social security system cannot solve all the problems in society

First, an important part of UC's task is to provide an income to some of the most vulnerable in society. This includes, among others, people with mental health, drug and alcohol conditions and ex-offenders. That it at times struggles to do so is due in part to the services for these clients themselves being inadequate. On top of that, the cost of privately rented housing is an issue all of its own, even outside the benefit system. These issues play into both the operation and perception of UC. But the social security system cannot, on its own, be expected to solve all of society's problems.[4]

There will always be trade-offs, and the 'legacy' systems UC replaced were far from perfect

Second, the goal should of course be to create something that functions perfectly, but there are inevitable trade-offs in the design of any benefit system. Just by way of illustration, the simpler the system, the rougher the justice that it will dispense.

A system that attempts to allow for the myriad different circumstances in which people find themselves will have more complex rules but will, as a result, be harder to navigate. The more rules-based it is, the clearer will be claimants' entitlements, but that will inevitably produce hard cases. The more discretion benefit staff are given to move beyond the rules to deal with hard cases, the more inconsistent it will be as different benefit officers faced with similar cases make different decisions: entitlements will be less clear cut.

Is the primary aim of the benefit system to get people into work – and if that is the primary aim, how far should it push people into work or assist them into it? Or is a more important aim poverty reduction (however poverty is defined), with the number of workless households being a lesser concern? Trade-offs like these have been part and parcel of the social security system for decades and will remain so.

Too much of the commentary and criticism of UC tends to ignore both these trade-offs, and the fact that the 'legacy' systems it is replacing were themselves far from perfect.

Tax credits, for example, generated huge amounts of debt for some. Jobseeker's Allowance (JSA) at times had a sanction regime so energetic that between 2010 and 2015, when few were on UC, almost a quarter of JSA claimants were sanctioned (having their benefits withdrawn or reduced for non-compliance with JSA work-search requirements or failure to attend interviews), in some cases for missing appointments for funerals or hospitals visits.[5]

Indeed, in 2013, when unemployment was in fact falling sharply, there were just over a million referrals for a sanction,[6] even if only 291,000 were eventually applied.[*] Sanction rates were double those of 2010 and, while they did decline, they remained high in the earlier days of the roll-out of UC.

Furthermore, one of the reasons UC was created in the first place was to address the way the legacy benefits could bounce claimants from Jobcentres to local authorities and on to HMRC – each with different means-tests and extensive forms to fill in. For all its travails, UC does not do that.

UC's reputation has suffered from wider cuts to the benefit system

Third, it is worth trying to reach at least an understanding of how far the problems are down to the intrinsic design of UC itself, and how much stems from extraneous factors that have had an impact on the growing number of claimants. Since 2010, these include:

- a four-year benefit freeze, which itself followed three years in which most benefit increases were limited to 1%
- repeated additional cuts to the generosity of UC (now largely restored)
- the arbitrary imposition of an extra seven-day wait for payment (now removed)
- the household benefit cap
- the two-child policy, under which any third or subsequent child born after 6 April 2017 does not receive child tax credit, or the child element of UC
- the 'bedroom tax'
- cuts to the local housing allowance, which determines the quality and quantity of accommodation available on benefit
- the devolution of council tax schemes to local government, which has seen some become less generous
- a sanctioning approach (now eased)
- the still-controversial work capability test, which decides whether existing ESA claimants retain that benefit or are moved to the less generous UC
- the creation of a debt-recovery machine in UC that is leaving many households – including those in paid work as well as non-working households – with an income well below that to which they are nominally entitled.

To varying degrees, and for varying parts of the UC population, all these reductions in the generosity of the benefits system have made life harder, sometimes much harder. None of them, however, is integral to the design of UC itself.

* Referrals may not result in sanctions for a range of reasons, including decisions not to proceed for lack of evidence, a claimant leaving JSA, and successful appeals. During an appeal, claimants lose money that is repaid if the appeal is successful.

Indeed, one of the big lessons of UC is that this major overhaul was delivered not into a benefits system that was otherwise in a steady state, but into one subject to a wide range of austerity measures – in other words, cuts. Even allowing for the restoration of the cuts originally made to UC, these add up to more than £30bn since 2010, all of them falling on working-age benefits.

Taken as a whole, the working-age benefit system is much less generous than it was. That alone made the task of UC much harder.

Is the performance of Universal Credit improving?

Here there is some good news. Overall, the performance of UC is improving, which is good for government, recipients and taxpayers. This section looks at some of the improvements.

Information technology (IT)

The dire days of the IT system that supports UC are over. It has taken a long time to build something that works, and changes are needed to automate some processes that still have to be done manually. But the 'test and learn' approach eventually adopted by the Department for Work and Pensions (DWP) has worked well,[7] even if the ability to make changes swiftly has slowed as the caseload has increased – chiefly because any new error that a change introduces will now affect large numbers of claimants, simply because UC is now going to many more people.

Furthermore, there is only so much capacity. Desirable changes have to be prioritised and introduced in stages: for example, the introduction of the run-ons of various benefits (more on which later). But IT is no longer one of UC's great weaknesses.

Stability of leadership

Stability at the top matters. Repeated reports from the National Audit Office (NAO), and from the Major Projects Authority and its successor, the Infrastructure and Projects Authority, point to the need to have the right people leading major projects. And not just having them in the first place, but then retaining them.[8] Universal Credit is, by definition, a major project.

Between 2010, when Iain Duncan Smith launched UC as secretary of state at DWP, and March 2016, when he resigned, he was the minister responsible. His minister of state throughout this period was also a constant in Lord Freud (who had also had a hand in designing UC). He remained in post until December 2016.

In its first four years, however, UC went through six senior responsible owners (SROs) – the permanent civil servant in charge of implementing the programme. That merry-go-round did immense damage[9] and only came to a halt in September 2014, when Neil Couling became the SRO. Couling joined after being director of work services, a task that involved the operational running of the UK's Jobcentres, including the introduction of the original (and now defunct) so-called 'live' version of UC. He had previously been director for working-age benefits and so came to the job with a deep knowledge of UC, warts and all.

Since Duncan Smith's departure, UC has suffered the mirror image of the earlier period's personnel problems. Having gone through six SROs in four years, DWP has since gone through six secretaries of state in three: Duncan Smith having been followed by Stephen Crabb, Damian Green, David Gaucke, Esther McVey, Amber Rudd and, currently, Thérèse Coffey. An average tenure to date of less than six months.

Each has had to learn about UC pretty much from scratch, and has had different priorities in terms of what they wanted to fix. Throughout that period, Couling has remained in place as SRO – he will have been in the post for six years in September 2020 – as has the leadership of the in-house team that took over the IT system and is still amending it.[10]

Ideally, both political and managerial leadership would remain stable. But given the improvements in the operation of UC, it is tempting to conclude that the post-2016 managerial stability has proved more important than political leadership (even though it is the politicians who have taken on board the department's policy options and recommendations, and have then taken the decision to implement the improvements that have been made).

Sanctions

Sanctions are a policy that might fairly be said to have gone mad but become saner.

Any social security system has to be able to enforce penalties on those either abusing it or failing to comply with its stipulations at the time – which can include a failure to attend interviews without good reason, or a failure to meet reasonable criteria for work search. The international evidence that sanctions can increase the numbers moving into work is contested – there is evidence both ways. But excessive use of sanctions hits, by definition, the living standards of those who are already among the least well-off.

DWP has always insisted that there have never been official targets for sanctions. But older hands in Jobcentres acknowledge privately that in effect there were.[11] In the early to mid-2010s, staff with low referral rates for sanctions were subject to performance review and possible loss of pay improvement.[12]

As noted, there was a big increase in sanctions between 2010 and 2015, peaking in 2013. That followed legislation that introduced a three-year – up from six-month – suspension from benefit for persistent offenders, and a letter from Chris Grayling, then employment minister, to staff emphasising the importance of sanctions. In one month in 2013, more than 7% of JSA claimants were sanctioned; the year's monthly average was around 5%.

DWP's sanctioning regime came under such severe criticism that the government commissioned an independent inquiry into it by Matthew Oakley, published in 2014. That was followed by a report from the House of Commons Work and Pensions Committee in 2015, and a NAO study in 2016, which also questioned their scale and effectiveness.[13] Since then, the maximum length of sanction has been reduced back to six months, and sanction rates have fallen sharply as UC has been rolled out.

The switch to UC makes a direct comparison of sanctioning rates difficult. But the sanction rate for those currently on UC is around 2.4%[14] – despite a difference in the regimes that will tend to make the UC rate look higher.[*] Sanctions are needed. But they must operate reasonably (as now appears to be more the case) and continue to do so if UC is to be seen as fair by those receiving it. High rates of sanctioning are not evidence of a system that is working well.

Payment timeliness

Payment timeliness for new applicants has improved significantly. In January 2017, barely half of new claims were being paid in full and on time. By July 2019, 89% were paid in full, and 93% received at least a part payment, on time.

That is due, among other factors, to the IT system maturing, the questions asked of applicants being refined[**] and Jobcentre staff, aware of the damage long waits can do, working hard to ensure claimants do get paid on time.

The figure will never reach 100%, for a number of reasons. First, the process of claimants proving their identity is tougher in UC than it was for some of the legacy benefits. This was done in a bid to reduce fraud and error.

UC is simpler because claimants have only to prove their identity once, rather than to potentially three separate authorities under the old benefit system. But all the information needed for a successful claim has to be assembled at one go – and that can include income, rent and childcare costs – where in the past each of these could be done at different times, staggering the process.

Thus assembling all the information is more of a challenge – more akin to filling in an income tax return for someone with multiple income sources and legitimate expenses – and not everyone does it promptly. The challenge is greatest for those born outside the UK who need to pass the habitual residence test. This test has been made more stringent, and can include assembling proofs of date of arrival as well as multiple proofs that the UK is their main home. That can take time.

Second, there are more general administrative challenges that can cause delays. Some people are paid late because they fail to sign on time the 'claimant commitment' to look or prepare for work. Claimants have to have a bank account – and open one if they do

* Under JSA, if people lost contact (which could include them having got a job but not telling their Jobcentre) and did not respond in a timely fashion, DWP would simply halt the claim: disallowing it. In UC a sanction is applied rather than the claim being disallowed because UC claimants could still be entitled to other elements for children, housing or disability, for example. This will tend to make the sanction rate in UC look higher than it was for JSA.

** For example, UC originally asked if people paid rent. It turned out that some claimants whose housing benefit was paid direct to their landlord replied "no". It now asks "do you pay rent or receive housing benefit?"

not. Save in very particular circumstances, UC is designed to operate online, and some struggle with that – although support given through Citizens Advice[15] and Jobcentres, as well as other measures, has helped.

Lastly, there will inevitably be some administrative errors on DWP's part, even with the improvements outlined here. All that can still leave some claimants waiting much longer than the nominal five weeks, despite the big improvement in the timeliness of first payments.

Once over the hurdle of getting onto UC in the first place and starting to receive regular payments, 95% were receiving their full payment on time in October 2019, and 98% received at least a part payment.[16]

There have also been other changes in the way UC operates that have made life easier for some claimants. For example, it is now possible to be paid fortnightly rather than monthly, the rent element of UC can be paid direct to private as well as social landlords, and there is more flexibility around claims for childcare costs.

Getting money to those who most need it fast: an ongoing challenge

A core aim of UC was to make the transfer into work easier and more rewarding. Then, if necessary, to make the transfer back out of work and into it again, a smooth one. That goal remains achievable.

But in doing so, it is important to grasp that UC marries benefits that in the old system had two very different purposes. Means-tested JSA and income support were designed to go to those with no or very few resources, and no income. The aim was to prevent destitution, and claimants needed money fast.

The working tax credit goes to those who *have* a job, and thus an income.[*] Parliament has decided that their low pay needs topping up. For people in this category, the wait to get the calculation of their precise entitlement right is more manageable, if not ideal.

Universal Credit operates on a monthly assessment of income. That period was chosen for ideological and practical reasons. The background is that most people – around three quarters of employees – are paid monthly. Those in lower-paid jobs, and who are the most likely to be recipients of UC, are more likely to be paid weekly – around half of those earning less than £10,000 a year, for example.

But even among tax credit claimants, some 57% are paid monthly, around 12% four-weekly, 3% fortnightly and 28% weekly.[**] The longer-term trend (even with the rise in zero-hours contracts) is for people to be paid monthly, not least because it makes payroll easier for employers to handle.

* Currently around 35% of claimants are in work. But that proportion is set to rise to 50% as more people on the legacy benefits are moved across – assuming that unemployment remains at current levels.

** The figures for households will be lower, given that in some one member may be paid monthly and another on a shorter cycle.

The ideological aspect to the monthly payments is based in UC's stated aim of easing the transfer from out-of-work benefit into work. To do this, ministers wanted to reflect a world of work where most people are paid monthly, with monthly benefit payment helping them adjust to such a cycle. It is possible to hold different views as to how far that is a good idea, but to this author at least, it does not appear to be a particularly right-wing or left-wing proposition.

The practical reasons are that a weekly or fortnightly assessment period would not work for those paid four-weekly or monthly – none of the in-work predecessor benefits of UC have used anything like such a short assessment period as one or two weeks. A monthly assessment, however, could be made to work for the weekly, fortnightly or four-weekly paid, and the payment could be automated.[*]

Currently, for entirely new claims for UC, and for those being moved to it from the legacy benefits, there is the four weeks over which income is assessed to establish entitlement, to which another week is added to allow DWP to process the payment – a five-week wait in total, assuming all goes well. For those with no money in the bank, that is a real challenge.

To counter that, advances on estimated likely benefit were available from the very start, but were a somewhat well-kept secret as they had to be handled manually. The IT was not up to it. As it has become more capable, advances have been offered much more automatically – initially at up to 50% of likely benefit, and then up to 100%. With that has also come a gradual extension of the period over which advances are repaid (the repayments are taken off the benefit once delivered). First from six months to 12; from October 2021, it will become 16 months.

These advances get money to the most vulnerable fast, and they clearly help: some 60% of new claimants now take advances that tide them over until UC first pays out. But they are repayable – they are effectively a loan against future benefit payments.

More significantly, 'run-ons' of existing benefits have also been introduced. From April 2018, those already on housing benefit have been given a two-week extension or 'run-on' of their existing benefit. These are not repayable so are in effect a grant. This housing benefit run-on is already having an impact on rent arrears.[17] But such measures don't come cheap. The average payment is around £230 and the cost is around £550m a year.

From July 2020, similar non-repayable, two-week run-ons for those already on JSA, income support and ESA will take effect, at a cost that is expected to peak in the 2020/21 financial year at around £250m a year.[18]

JSA and income support had a two-week wait from claim to payment; under the new scheme there will be an initial up-front two-week payment that does not have to be repaid. There will still be the remaining three weeks of the standard five-week wait to get through, but with a repayable advance also still available.

* It does, however, create a real budgeting challenge for those paid four-weekly as in one month they will be paid twice, leading to a big drop in their UC payment for that month, and there can be a similar, though much less dramatic, effect for those with regular weekly or fortnightly pay.

These run-ons are relatively generous as people in effect get paid twice – they are given the run-on of these benefits but also get paid for the same period once their UC payment kicks in. These changes will do much to solve the problem for those already on benefit – getting money to the most vulnerable quickly, and thus reducing the need for, and scale of, advances, and thus easing the transition to UC. All these run-ons are all already being used in the so far very small pilot of "managed migration" in Harrogate, with the initial impression being that they make a difference in easing the transition on to UC.*

What these measures will not do, however, is solve the problem for entirely new claims from those not already in the benefit system. There is no run-on for those on tax credits because of their annualised nature, and the inability of HMRC's IT to 'talk to' the DWP systems. So those on tax credits who transfer across, and those making entirely new claims, will still face the five-week wait, with an advance their only option if they need money fast.

Propositions for change

It cannot be in the interest of any social security system to create debt for new claimants. Under the current rules, debt can potentially stand at one twelfth of a claimant's annual income (for those who need or take a repayable 100% advance).

The run-ons – which might be dubbed a 'silver hello' or a 'stepping stone' onto UC – do much to tackle the issue for those transferring from four of the six legacy benefits being merged into UC. The Treasury sees the cost of these as time-limited. They are a one-off in each case at the point of transfer; and once that has happened, the cost will evaporate.

But it must be stressed that what these measures do not do is solve the problem for entirely new claims or for those on tax credits transferring across, who face – at best – a five-week wait. This is the subject of this paper's first proposition.

Introduce a Universal Credit 'welcome payment'

Universal Credit should provide a two-week grant of likely benefit as a sort of 'welcome to UC' payment for entirely new claims and for those moving across from tax credits.**
This would in effect match what the other run-ons will provide from summer 2020.

One practical difficulty concerns UC's monthly assessment period. For entirely new claims it would mean that pretty much anyone could apply, even if they knew they had earnings sufficiently large as not to qualify. In other words, it would create a huge risk of fraud.

The answer to that might be to leave the payment as an advance, but use existing deferral powers to not start to reclaim it straight away. After a given period, say three months, the advance would be written off – that is, turned into a grant – if someone proceeds with their UC claim and is entitled. Those who made a claim when they were plainly not entitled would be pursued for repayment using the existing machinery, thus deterring such claims in the first place.

* Impression gained from the Harrogate Jobcentre where the pilot is being run.
** The amount could, of course, be larger or smaller.

During the design of UC, and in the earlier stages of implementation, Lord Freud argued repeatedly for a two-week 'welcome grant' to UC to reduce the impact of the five-week wait.[19] But with the chancellor at the time cutting the benefit bill in general, and the cost of UC in particular, that did not happen. It should now.

There would be a cost to this. With unemployment at its current level perhaps something over £1bn a year. Clearly, if unemployment were to rise sharply, that bill would rise (and then fall again assuming unemployment fell). But given UC's overall cost of £65bn a year, an additional £1bn or so seems a small price to tackle what has been one of UC's worst flaws – leaving people with either no money for weeks on end, or a repayable loan.

Address the mounting issue of debt

The second proposition addresses not the issue of the repayment of advances of benefit in UC but large amounts of historic debt that have built up within the social security system.

This is a much bigger problem than the repayment of advances – because the individual sums involved can be much larger. The issue is set to get much worse, threatening to wreck again both the reputation of UC and its effectiveness.

Around 60% of UC claimants – more than 1.5 million people – are paying back debt, and thus living on a lower income than the standard rate of UC. About half of those are repaying an advance, which under the current rules they pay off in the first year. For someone who takes a 100% advance – and not all claimants do – and pays it off over a year, that is equivalent to an 8% drop in their monthly income. From October 2021, that will fall to around 6% as they will be given 16 months rather than 12 to repay it.

However, some 30% of all claimants are receiving larger deductions than that to repay past benefit debt. Until late 2019, claimants could see up to 40% of their standard allowance withheld to repay not just their advance but also other more historic elements of benefit debt. In recognition of the real hardship this was causing, that figure has now been reduced to 30% – a proportion that remains significant. Almost a fifth of UC claimants are having 30% or more of their standard allowance deducted.[*]

As an illustration of the impact of that, the standard allowance for a single unemployed person without health conditions is around £73 a week, and the combined allowance for a couple without children is £115. A 30% deduction leaves around £50 a week for a single person to cover food, clothing and all bills other than rent, and around £80 for a couple without children – and some in the private rented sector are having to top up their rent out of these sums, thanks to past cuts in housing benefit. These are very low incomes indeed.

The background to all this is that, at the time UC started to roll out at scale, there was around £5.9bn of tax credits owed.[20] In addition, local authorities are owed around £2bn of housing benefit debt; there is some £600m of debt for budgeting loans for the likes

* Some are still having deductions at more than 30% because the reduction in the percentage reclaimed was not backdated. So some 12% are still receiving deductions of between 30 and 40%.

of cookers and beds from the old 'social fund'; plus more than a billion pounds' worth of overpayments in JSA and other benefits that are technically still repayable. Together these approach £10bn.

One of the Treasury conditions for UC going ahead was that the programme would seek to recover past overpayments of tax credits and other DWP debt. As a result, the department has built a very efficient debt-recovery machine into UC.

The largest single element of this debt – some £5.9bn of it – relates to tax credits. Administered by HMRC rather than DWP, these undoubtedly improved the lot of those on lower wages but were not without their problems. Assessed on earlier earnings, they were awarded for a year and adjusted – that is, finalised – on actual income at the end of the year. In theory, claimants were meant to report any change of circumstance that would have either raised or lowered their award in-year. Many, however, did not grasp that, and there is a range of other reasons why overpayments occurred, not all of them the fault of claimants themselves.* These overpayments could be small, but they could also be very large.

Initially, any overpayment up to £5,000 was ignored – i.e. written off. However, the scale of overpayments, and the individual amounts involved, became so large that that write-off figure was raised to £25,000. Since 2010 it has been cut, initially back to £5,000 and now down to £2,500.

HMRC sought to reclaim the overpayment through the tax system. As people earned more, they would, in effect, pay a higher rate of tax to settle the debt. But they only did so once their income exceeded the income tax personal allowance. To improve the post-tax income of low earners, since 2010 the personal allowance has virtually doubled to £12,500 a year. But an unintended side-effect has been that many of those on low earnings, with tax credit debt, have been repaying little or none of their past overpayments. Many no longer realise that they have the debt. And there are other reasons – for example people moving into and out of work over the years – why people can have old tax credit debt without knowing about it.

As soon as they move onto UC, however, that debt cyrstallises. It becomes very real – because it starts to be reclaimed. So far, £1bn of tax credit debt has been transferred into UC, helping produce those big deductions of 30% or more from the standard allowance. But another £5bn or more of tax credit debt will move across once the managed migration – the transfer of current tax credit claimants – takes effect.**

Recipients will find themselves living on substantially less than the minimum for a very long time. That will hurt claimants and cause further damage to UC's reputation.

* Reporting income changes is a serious challenge for those whose income or employment pattern changes frequently (for example those on zero-hours contracts or with multiple jobs that come and go), an issue that, incidentally, UC addresses. It anyway took HMRC a month or more to make the adjustment. Other reasons for overpayments include claimants reporting a change in circumstance late, HMRC being slow to process the reported change, HMRC making an error, and if income rises during the annual renewal process (which can take eight weeks, making UC look reasonably speedy). If that happens, the annualised award will be too large.

** The amount of debt will rise as overpayments of tax credits will continue while people remain on them. How much that sum will be will depend on how fast people move, or are moved, from tax credits to UC.

What to do about it?

It is tempting to say just write it all off. In the 2000s, when the amount of overpayment that was ignored rose to £25,000, large amounts of tax credit debt were written off. There may be a legal difficulty in formally writing it off, as that would involve unequal treatment between those who have paid their debt back and those who are forgiven for it. There may, however, be a simpler solution, which is simply to ignore it.

Much of this debt has been sitting on the government's books for years* – money that has been owed, but has not in practice been reclaimed, and some of which is already in an accounting category where it is technically owed but unlikely to be repaid.** It could just sit there (with a similar approach being adopted to some other parts of benefit debt, certainly the oldest parts).

Writing off, or ignoring, £5–6bn may sound extreme. But such a sum represents only around a fifth of the £30bn or so that has been cut from working-age benefits since 2010.

One way or another a solution to the issue of debt needs to be found. A less radical approach would involve continuing to pursue such debt, but at a vastly slower rate of recovery. There are a number of ways that could be done. DWP already has powers to defer and prioritise debt repayments, but the maximum deduction from the standard allowance is still 30%.

One approach, for example, would be to deduct the advances in UC first. These typically take around 8% or less of the standard allowance a month. And only then would DWP start to pursue the more historic debt, while doing so at a much slower rate – say at 10% of the standard allowance, rather than the current 30%. That would leave claimants living on less than the standard allowance for longer – much longer – but with a higher standard of living than the big reductions that debt repayment is currently inflicting on some, and will soon inflict on many more.

A move like that would create its own issues – including more of the current stock of debt eventually being written off as unrecoverable. For the sake of UC's effectiveness and reputation, it would be better to bite the bullet and ignore it, or at least ignore the most historic elements of this debt.

These two measures – a more generous start as people claim UC, and action to tackle the debt issue – would only extend the steps that the government has already taken. In tacit acknowledgement that the five-week wait for payment is too long, it is introducing run-ons of benefit for many, but not all, claimants. Providing a 'welcome grant' for the remainder – for entirely new claims and for those transferring from tax credits – would both complete that process, and reduce the need for advances.

* In 2007, by which time tax credits were fully up and running, some £85m of debt was owed by people with no active tax credit claim, by 2017/18 that annual figure was £552m. The total owed by those in that category was almost £4.5bn in 2018/19. See HMRC, *Annual Report and Accounts 2018-19,* Figure 21.

** In 2018/19, £232m of tax credit debt was written off as uncollectable. See HMRC, *Annual Report and Accounts 2018-19,* Figure 59.

On debt, the government has already acknowledged the problems it is causing – by reducing the maximum deduction from 40% of the standard allowance to 30%. It is clear, however, that this needs to be taken further, not least because the repayment of debt is going to become a yet bigger issue within UC as more former tax credit claimants move onto the benefit.

Prioritise Universal Credit over tax cuts

When announcing his party's plan to raise the national insurance threshold during the 2019 general election campaign, Boris Johnson said "the priority must be to help those who need help with the cost of living".[21] But if the government is serious about helping those on lower earnings – and delivering on its manifesto commitment to continue "efforts through the tax and benefits system to reduce poverty" – it would be more effective to target support through UC rather than tax cuts.

The Royal Statistical Society has an award for the "statistic of the year". Last year it went to the Institute for Fiscal Studies for the disclosure that, among households in relative poverty, 58% are now in work, against 37% in the mid-1990s. Some of that increase is due to positive trends: fewer pensioner households are in relative poverty thanks to a combination of state and private pensions, and more types of typically low-earning households such as lone parents are now in work. Thanks to tax credits and UC, these households are better off in work than being purely 'on benefit' in the old world of JSA and income support.

However, both these lone parents and other households in low-paid work can remain in relative poverty until their earnings rise significantly, and it must be remembered that a third or so of current UC claimants are already in work. If unemployment remains broadly static, the proportion of UC claimants in work is likely to rise to more than half as those currently on tax credits are transferred across.

Making UC more generous to those in low-paid work would have a much bigger impact on in-work poverty than further tax cuts.

Conclusion

The messages from this paper are as follows.

First, that without another costly and time-consuming upheaval, there is no easy retreat from Universal Credit. The challenge is to make it work better.

Second, that while far from perfect, UC's performance is improving and measures have been taken that reduce, and will further reduce, some of the worst aspects of its early days.

Third, that more needs to be done to ensure that UC gets money fast to the most vulnerable, without burdening them with significant repayments out of benefit levels that no-one would describe as generous.

The best way to do that would be to provide a 'silver hello' or 'stepping stone' two-week grant for entirely new claims for UC, and for those transferring across from tax credits. That would mirror grants already being introduced for those who are already receiving JSA, income support and housing benefit, as they transfer to UC.

Fourth, there is a huge problem of debt repayment looming – the largest part of which is around £6bn worth of old tax credit debt that many claimants do not realise they have. Reclaiming that at current rates of repayment will cause real hardship. The best solution, given the way it has arisen, would be, in effect to write off all of it, or much of it, by ignoring it. Or to seek to reclaim it at a much, much slower rate. Failure to tackle the issue will not just further damage UC's reputation, it will undermine its effectiveness.

The first of these propositions – a 'welcome grant' for all claimants – merely completes the steps that have already been taken in recognition of the fact that the five-week wait for benefit is too long. The second – ignoring some or all of past benefit debt, or reclaiming it at a much slower rate – only takes further a measure the government has already taken in recognition of the fact that debt repayment in UC is causing hardship.

Finally, if there were to be money available for tax cuts, it would do more to reduce the rise in in-work poverty if it went into UC rather than into cuts in the headline rates of tax.

About the author

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