



Universal Credit: the UK's new working-age benefit

Jane Millar
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Overview

1. What is Universal Credit?

- Aims & antecedents
- Scope & costs
- Design

2. How is Universal Credit working?

- The roll-out
- DWP evidence
- The view from the ground
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‘Universal Credit: welfare that works’

“Universal Credit is an integrated working-age credit ... 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.”

A ‘simple’ structure aiming to:

- Smooth the transition to work (reduce complexity as a barrier to work)
- Make all work pay, including mini jobs (tackle the unemployment trap)
- Reduce high marginal tax rates (tackle the poverty trap)

And

- Reduce fraud and error
- Improve take-up

Antecedents

- UK has long history of in-work support - since 1970s
- Also ‘earnings disregards’ for some out-of-work benefits
- Four key factors behind introduction of UC:
 - previous versions of in-work benefits & tax credits
 - ideas of a ‘single working-age benefit’ for those out of work
 - concern about in-work progression, not just incentives to work
 - Centre for Social Justice - transformational cultural change

Source: Bennet and Millar, 2016

Transformational

According to the politicians leading the changes:

“... what Universal Credit is really about is a sweeping cultural change...

For **jobcentres** ... vastly improved administration ... reduced levels of fraud, error ... allowing Work Coaches to focus on the real task of helping people enter and progress in work...

For **local authorities** ... new local partnerships ... joining up services for the most vulnerable to deliver holistic support that helps people get online and better manage their money.

For **businesses** ... recruiting someone part-time, for extra shifts or over-time suddenly becomes a real possibility, in turn reinvigorating growth.

Source: Iain Duncan Smith MP & Lord David Freud, Preface to *Universal Credit at Work*, spring 2015

“And above all....



“ ... for **individuals**, Universal Credit marks a complete shift in the whole nature of welfare, no longer trapping people in dependency but providing the incentive and support to secure a better future for themselves and their families...

Most importantly of all, we know that each and every statistical shift marks a **life that has been transformed** – a person now with brighter prospects and hope renewed. “

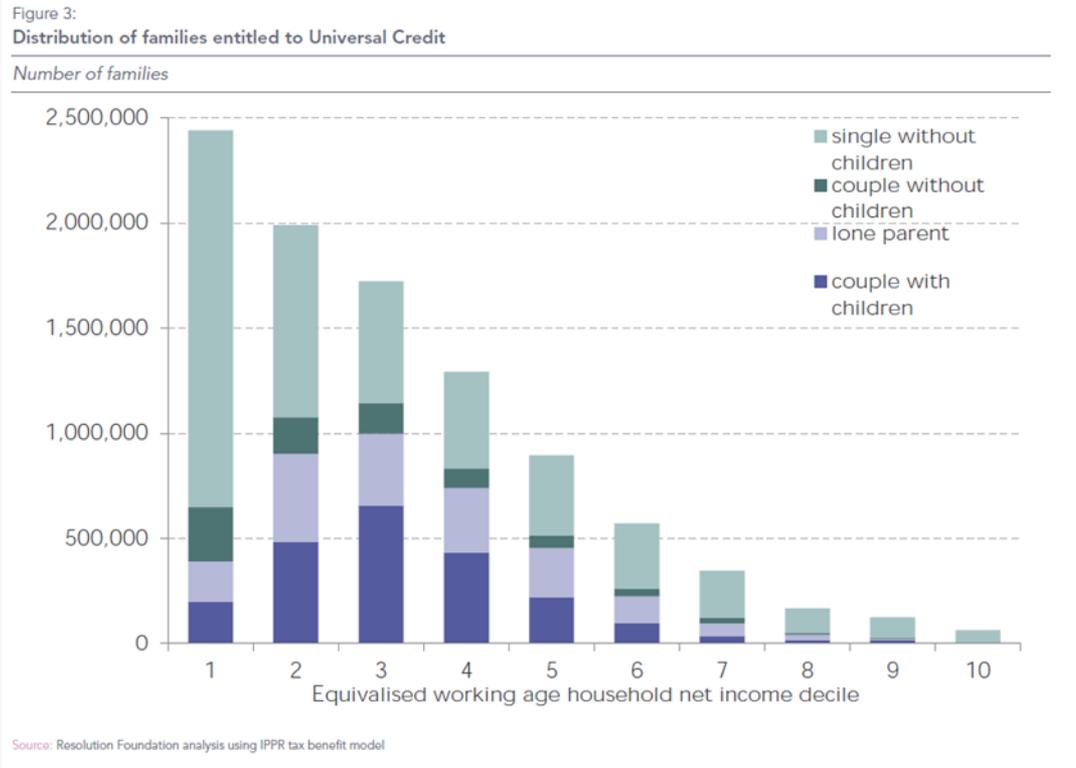
Source: Iain Duncan Smith MP & Lord David Freud, Preface to *Universal Credit at Work*, spring 2015

General support for the principle

‘The principles behind Universal Credit have widespread support, which we share. The Government has made significant progress in designing a system which will help ease the transition from benefits to work and it deserves to be congratulated for the progress it has made in this respect.’ *HC Work and Pensions Select Committee, 2012*

‘JRF supports the principles behind UC, of simplifying the welfare system and of making work pay.’ *Goulden, 2015, for Joseph Rowntree Foundation*

Scope: 6 to 7 million households



‘...40 per cent of UK working age families will be eligible for UC. predominantly in the bottom half of the income distribution but stretch all the way to the highest ... At any given point in time, half of all children will be living in families eligible for UC....’

Resolution Foundation, 2014

Costs

‘At a cost of more than £60 billion a year it will make up around a quarter of all welfare spending and around two-thirds of working-age welfare spending’.

However, in terms of change:

- The implications for public finances look ‘modest’
- £1.0 billion less than legacy system in 2022/23
- Gross cost of £9.6 billion, gross savings of £10.7 billion

Value for money?

Office for Budget Responsibility, 2018

The context of welfare ‘austerity’

Key measures include:

- A freeze in the level of means-tested benefits for working-age people
- The benefit cap - sets a maximum that can be received out of work
- The ‘bedroom tax’ - reduces benefit for ‘over-occupancy’ of bedrooms
- The ‘two-child limit’ - the child element of child tax credit limited to two children (for those born after April 2017).
- Cuts to tax credits – to the family element, first child premium, thresholds
- Specific elements of Universal Credit - work allowance, disability

Estimated cumulative impact (Equality and Human Rights Commission, 2018)

- Families with children lose most – on average lone parents lose £5,250 (19% of net income); couples lose £3,000 (6% of net income)
- Households with at least one disabled adult and a disabled child lose £6,500 (13% of net income)

Design: supporting & requiring work

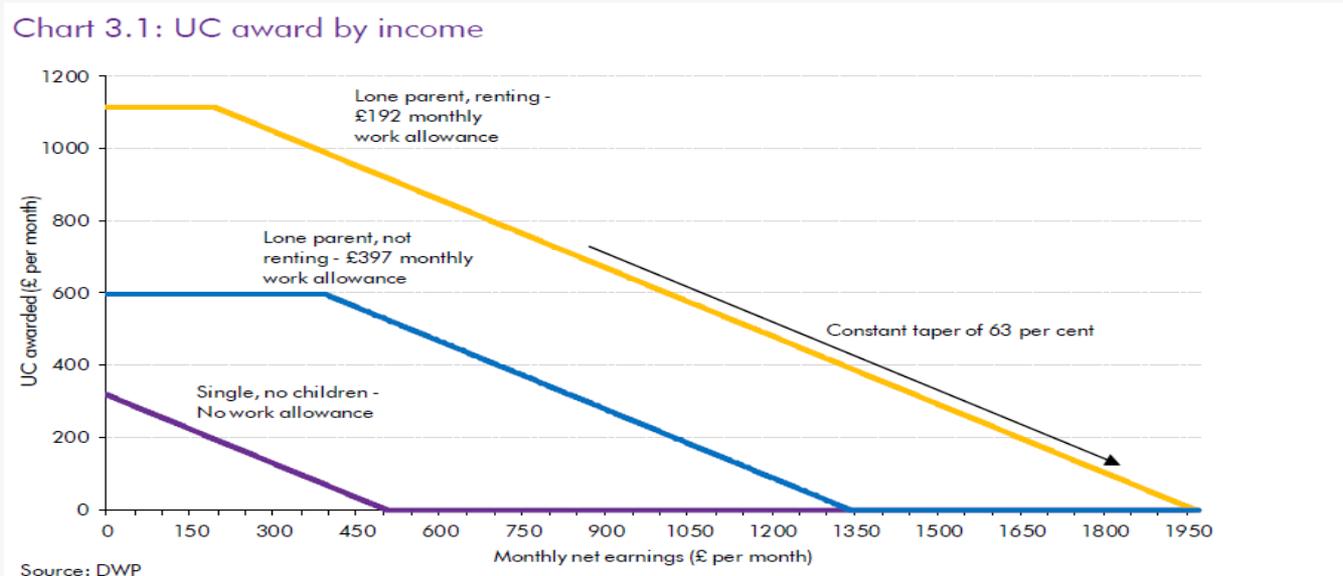


The 'claimant commitment' - both partners in a couple

- 1) No work-related requirements
 - 2) Work-focused interview requirement only
 - 3) Work preparation requirement
 - 4) All work-related requirements
- These requirements also apply to people in work
 - The concept of 'lead carer'
 - Special rules for the self-employed
 - Work coaches to support people into work and progression
 - Sanctions for non-compliance, maximum up to 3 years

Design: the means-test

- **Means-tested** on family income, threshold for capital
- A **standard allowance and additions** for children, disability, housing
- **Work allowance** – part of earnings disregarded for some claimants
- **Taper rate of 63%**



Assessment and payment periods

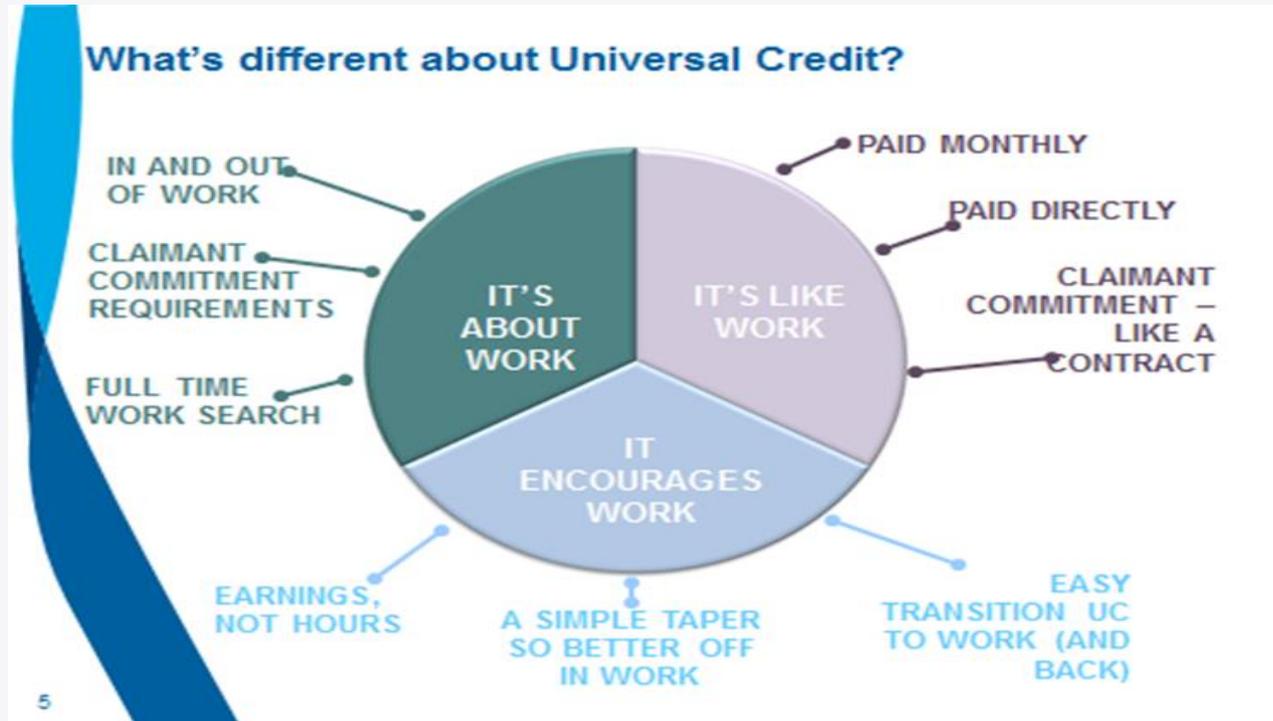
- **Assessed** on basis of previous month
 - net earnings reported directly by employers
 - changes in circumstances by claimant
 - the 'whole' month
- **Paid** monthly in arrears into one account
 - some options for 'alternative payment arrangements'

Design: other aspects



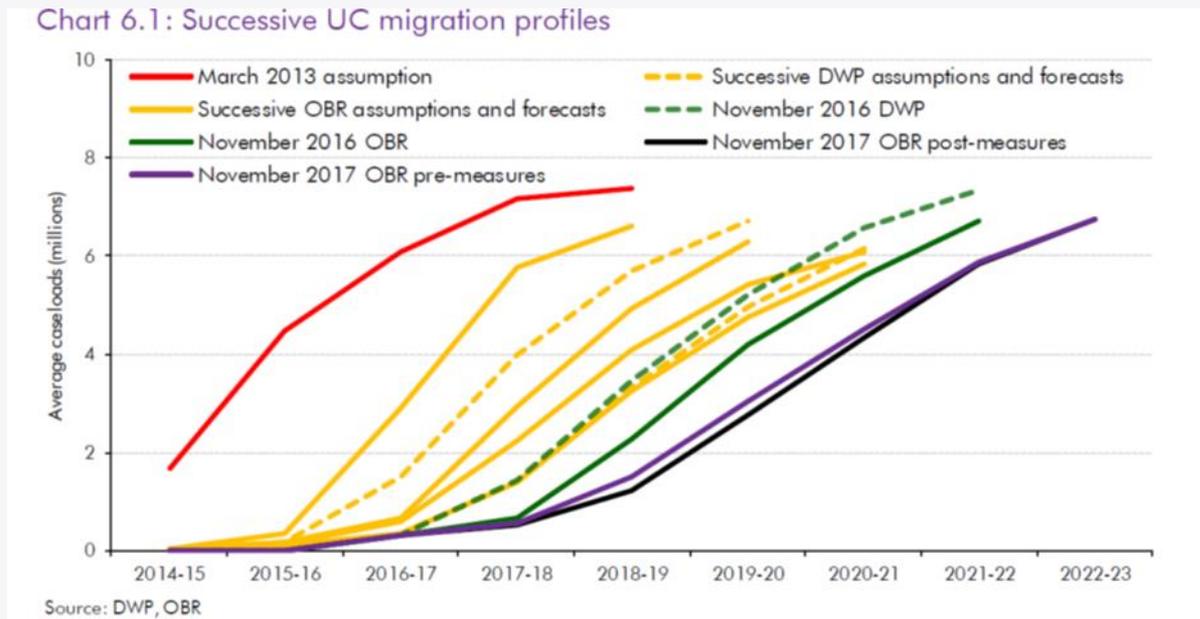
- Digital system: online claim, report changes, fulfil job search requirements, mandatory journal
- Childcare: up to 85%, to a maximum, for those in paid work (both in a couple), for payments in the assessment period
- Third party deductions: for rent and some other arrears (could be up to 40% of standard allowance)
- Universal Support: advice, assistance and support on digital claims and budgeting from partners (e.g. Local Authorities, Citizens Advice, credit unions, registered social landlords, relevant registered charities)

Transforming 'welfare' into 'work' ...



Delivery: slow roll-out

- Roll out in stages, timetable revised several times, to 2023
- From ‘disaster to recovery’ – Timmins, 2016



- July 2018, about one million in receipt, mainly without children

How is Universal Credit working?

Some DWP findings

- Labour market effects **for single people** - UC between 3-6 percentage points more likely to be in work than JSA matched sample.
- Qualitative research **with families** - understood the conditionality better than the work incentives, claimant commitment fails to recognise individual circumstances, job search hours set too high.
- **Full service survey** - About 1,800 UC claimants, March to Sept 2017, a few headlines:
 - Almost all claimed online, just over half without any help.
 - About a third found it difficult, especially the verification of identity online.
 - Most understood their work requirements.
 - Two-thirds felt confident in managing their Universal Credit.
 - Around half experienced financial difficulties.
 - About half were exceeding their job search requirements.
 - Of those in part-time jobs, two-thirds wanted to increase their hours
 - 23% in work at point of claim, 40% at eight months.
- **Randomised Control trial** - 2015 to 2018, administrative earnings data
 - *Moderate & Frequent* support participants earned about £4/£5 more per week than *Minimal* support participants.

The view from the ground

Getting into the system

- Access and use of IT
- Verification of claim
- Timeliness of first payment
- Communication with DWP

Receiving Universal Credit

- In-work conditionality
- Work coaches – vary across the country
- Variable monthly payment amounts

Hardship

- Rent arrears & eviction
- Debts
- Foodbank use
- Reliance on family

National Audit Office 2018

Current experience

- Claimant satisfaction same as legacy benefits, good relationships between work coaches and claimants, systems have improved
- Some claimants struggling to access, delays in payments, hardship and limited help
- Extra costs falling on local organisations
- DWP 'unresponsive' and unwilling to work with external bodies on evidence base

Future prospects

- Lots to do to improve efficiency
- Lots still unknown about impact
- Will 'never be able to measure' employment outcomes
- It is 'not value for money now and its future value for money is unproven'.

Fit for purpose?

- Teething problems?
- Managed migration

Fit for the 21st century?

‘We are building a benefits system fit for the 21st century, helping more people into work by providing tailored support and more financial support for the most vulnerable.

These changes are designed to reflect not only the technological age we live in, which is having a significant impact on work and communications, but people’s working lives. We are providing extra support for childcare costs, and offering flexibility to look after children or elderly parents.

Our reforms take into account flexible working, self-employment, multiple jobs, the gig economy and societal changes, particularly the growing awareness of mental health conditions, which is strongly linked to the changing pace of life and the barrage of constant communications.’

Esther McVey, Secretary of State Work and Pensions, June 2018

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Selected blog posts

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- Jane Millar, [Universal Credit managed migration: the next big challenge](#) (2018)
- Alison Garnham (CPAG), [Universal Credit discriminates against women by design](#) (2018)
- David Finch (Resolution Foundation), [With the benefits of benefit reform diminishing, Universal Credit needs a new direction](#) (2018)
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- Jane Millar, [Universal Credit. Can we fix it? Should we fix it?](#) (2017)
- Jane Millar & Fran Bennett, [Giving back control? A contradiction at the heart of Universal Credit.](#) (2016)

And our ongoing research project

[Couples balancing work, money and care: exploring the shifting landscape under Universal Credit](#)