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UC Universal Credit

Marks out of 10 on its 10th birthday

Introduction

This Saturday marks an important milestone in the evolution of the UK's benefit system. Ten years ago, on 29 April 2013, the first claims to Universal Credit (UC) were made by newly unemployed people living in the North West.

According to Iain Duncan Smith, Work and Pensions Secretary at the time and architect of the reform, these new claimants would enjoy a better, simpler system, with support from six different benefits combined into one. In particular, rather than switching benefits when entering or leaving work, there would be one system whatever an individual's employment status. Launching the benefit, he claimed that UC will "help people to move into and progress in work…it will be simple to understand and administer."

Since 2013 UC has been rolled out to all parts of the UK and 4.3 million households currently receive a payment[i]. Even so, around 2.5 million households are still on the old 'legacy' benefits that UC replaced[ii]. And it's true to say that UC had a mixed reception from recipients, at least during its first few years.

So where does UC stand now as a public policy reform?

We decided to mark UC's tenth birthday by providing an assessment of what's good, bad and indifferent in the way UC's been designed and implemented.

We've given it marks out of ten in each of ten categories: adaptability, administration, connectivity, durability, effect on poverty, effect on work incentives, scalability, simplicity, system migration and take-up.

As set out in Table 1 below, we've given UC top marks in relation to scalability but nothing for system migration, with a range of marks in between.

Overall, we give it four marks out of ten.

Our view is that Universal Credit is not a complete disaster, particularly compared to some other reforms introduced since 2010, but it's very far from a triumph. Social security policy definitely deserves better.

Criteria	Score out of 10	Summary of comments in the document below
Adaptability	2	Only works for ‘typical’ monthly-paid employees. Weekly-paid workers see awards systematically vary.
Administration	6	It’s got much better. But digital-only application is still a challenge to many.
Connectivity	3	The system was not set up to share data.
Durability	4	Might limp on to 15 years, the standard duration for means-tested benefits for working-age people.
Effect on poverty	2	The minimum income standard has fallen.
Effect on work incentives	4	Taper rate now down to 55%, but by getting rid of work hours rules UC has created a new ‘cliff edge’.
Scalability	10	The online system was proven to scale well in the Covid-19 pandemic.
Simplicity	4	If you are new to benefits it’s better, but as a whole the system is more complex.
System migration	0	Only 2/3 there after 10 years, and unlikely to ever be completed.
Take-up	5	Half marks as unknown.
Average mark	**4**	

Table 1: entitledto’s Universal Credit scores

Adaptability 2/10

One of the aims of UC was to centralise benefit administration in DWP, removing Housing Benefit from local authorities and tax credits from HMRC. This would allow the government to impose one set of rules and one computer system. In particular, employees' earnings would be measured in an automatic and consistent way through real-time HMRC payroll data, a superior alternative to annual tax data, as used by tax credits and inevitably out-of-date, or the cumbersome and expensive administrative mechanisms used by local authorities to assess Housing Benefit.

In terms of moving away from the over-payments associated with tax credits this worked like a dream. Unfortunately, as can often happen when a new system is imposed from above, it has had unintended consequences. In particular, when it came in contact with real world payment patterns UC's system had weird (and less than wonderful) effects.

In order to work with HMRC payroll data, UC entitlements are calculated with reference to an assessment period that runs from the date of claim (e.g. the 22nd of each month for people who claimed on 22/03/2020) to the date minus one the next month (e.g. the 21st of the month). For people paid on exactly the same day each month this works fine. But if you are paid on, for instance, the last Friday of the month or, even worse, on a weekly basis, this causes all manner of difficulties. Indeed, for weekly paid UC claimants it has the effect of artificially introducing variation in UC awards even when earnings are constant.

Figure 1 shows DWP's attempt to explain what is going on to UC claimants who are paid weekly, and if you want to know more you can see DWP's guide to UC and payment cycles[iii].

A benefit that systematically changes awards from month to month, for no reason apart from the number of pay days in that period, sounds and is ridiculous. But there's no way of working round it without breaking UC's central architecture.

If UC can't adapt to create a sensible system for people paid weekly – hardly the most esoteric example – then clearly it's not very adaptable at all.

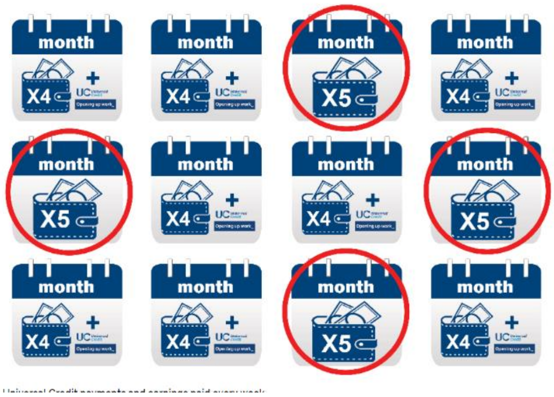

Figure 1: UC award for weekly earners

And the courts agree. The unfair treatment of people paid monthly but not in a 'UC-friendly' fashion was ruled illegal and the DWP were forced to amend the way it calculated earnings in such cases. Unfortunately, the courts stopped short of enforcing equivalent changes to protect people with other 'unusual' (or not so unusual) payment patterns, who continue to suffer from UC's bizarre eccentricities.

Administration 6/10

A few years after it was introduced UC appeared to be a classic case of a large government IT project gone wrong. However, over time that aura has quietly faded, and many of the technical issues it suffered at the start can be put down to teething troubles.

Though the competition is weak, UC is now probably one of the more efficient public services, and one of the more successful 'major projects' that the DWP has run. Criticism of the way UC's administered has certainly reduced. As exemplified by Nick Timmins' paper 'Universal Credit: from disaster to recovery?'[iv], a widely-accepted narrative is that UC has risen like a phoenix from the ashes of its ill-famed early days.

The problem of late payments shows the scale of improvement. Back in 2016, when the so-called 'full UC service' became available nationwide, barely half of new applicants to UC received their full payment on time. By 2018 this had already increased to 83%[v] and latest statistics for October 2022[vi] show that 88% of new UC applicants receive their full payment on time (with another 5% getting some money on time). It's not perfect but it's much better.

However, it's important to remember that in the context of UC a late payment means one made more than five weeks after the application has been made. That's because a five-week gap is built into UC's processes, in order to allow the first month's 'assessment period' to pass (and a week for calculation) before a payment is made.

For people used to the previous weekly or fortnightly payment system in benefits, the move to a monthly system with a five-week delay before the first payment is a significant design flaw (though latterly the availability of repayable advances has ameliorated the issue somewhat).

Unsurprisingly, the sort of things that mean you're entitled to claim benefits, like becoming disabled or losing a job, are the sort of things where getting support sooner than later would really help. The five-week wait between claim and payment is not bad administration, it's bad design, but most claimants probably don't care about the reason for the wait, they just know that it exists.

For some groups the combination of the five -week wait and the digital-only application system makes the benefit system almost impenetrable. To take just one group, prison leavers often struggle to apply online for UC and can be destitute until their five-week delay passes. It's difficult to think of a worse way of supporting their journey into mainstream society. More generally DWP have done little or nothing to make it easier for digitally-excluded groups to apply for UC and to maintain their claim using their online journal.

Connectivity

Perhaps the biggest claim made in favour of UC was that it would join-up a disjointed social security system, by merging six benefits in to one. The extent to which this made the system simpler is discussed in the 'simplicity' section below. But it is undoubtedly the case that through creating a single online application form DWP has gained not only from the efficiency of a 'digital-first' approach, with online self-service the only option, but also from gathering up-to-date data from claimants. From DWP's point-of-view, gathering data afresh helps reduce over- and under-payments, as well as fraud, and in itself constitutes an argument for policy reform of any variety.

However, when UC was invented, using this data to connect up with other departments wasn't really considered at all, and it shows. We will never have, and would never want to have, a social security system where one department delivers every aspect – there are too many means-tested policies and programmes for that to be possible.

That's why there is now an emphasis in government technology projects on data connectivity, allowing existing and new systems to communicate seamlessly, enhancing user experience and facilitating the development of novel IT solutions. UC's top-down approach is fundamentally opposed to this agenda.

UC's data dis-connect shows itself in two ways. First, there is only one way to get data into UC's system, through their own online form on the government's website. Instead DWP could adopt HMRC's approach to filling in a tax return, where it allows third parties to provide their own online forms and then transmit required data securely. The idea is to encourage third-party software developers to innovate, improving the customer experience and, perhaps, eventually saving the government money.

Second, re-use of the data DWP collects during the UC application process is limited. It's true that the DWP supplies UC data to local authorities to help with Council Tax Reduction (CTR) claims, and this now also includes some of the data underlying the UC claim. But that's still a long way from the kind of joined-up system we might achieve in the future, if data is made more central to welfare reform.

Durability 4/10

Benefit reforms come and benefit reforms go. For all the rhetoric around UC when it was launched, it will probably last about as long as previous reforms. In the UK this appears to be between 10 and 20 years from inception to abolition. To illustrate, Table 2 shows the duration of the main means-tested benefits for working-age people since 1948.

Benefit	Start	End	Duration (years)
National Assistance	1948	1966	18
Supplementary Benefit	1966	1988	22
Income Support	1988	1996	8
Income Support / Jobseekers Allowance / Employment and Support Allowance	1996	2013	17
Child Tax Credit and Working Tax Credit	2003	2013	10
Universal Credit	2013	???	???

Table 2: Main means-tested benefits for working age people 1948 onwards

According to historical precedent, it’s touch and go whether DWP’s plan to migrate Employment and Support Allowance (ESA) claimants to UC by 2028 will ever see the light of day. Indeed, as discussed in the system migration section, avoiding the need to migrate ESA claimants is in itself a very good reason to abandon UC. If a Labour government is elected next year then the end is in sight, and their promise to abolish UC might mean the final claim is made well before the end of the decade.

To be fair, UC is unlikely to fare any worse than other social security reforms. While a consensus has grown around support for pension-age people since the report from the Pensions Commission in 2005, no working-age benefit reform has achieved cross-party consensus in the last fifty years. Failing at the same rate as other reforms isn’t much to be proud of.

Effect on poverty 2/10

At least for the first few years of his tenure at the DWP, Duncan Smith saw UC's role in poverty alleviation solely through the lens of helping claimants enter work and improve earnings. Rhetorically at least, UC was presented as a new and better way of reducing poverty through work rather than, say, through increasing benefit rates.

The argument that work is the best route out of poverty is well-rehearsed in welfare reform. Certainly, the Blair/Brown governments repeated this mantra. But the truth is that the level of benefits really matters when it comes to reducing poverty. Quite apart from the fact that expecting some benefit claimants to enter work (or increase their earnings) is unrealistic, the minimum level of benefit affects in-work claimants too.

Whether or not it is the fault of DWP or the Treasury, the ten years since 2013 have seen the real level of benefits fall, due mostly to the four-year benefit freeze implemented from 2016 to 2020.

Though price-indexation has since been re-instated, the ease with which UC benefit rates could be reduced shows that UC was not designed with poverty-prevention in mind. As was the case in the 1950s and 60s, ways to 'dynamise' benefit rates to ensure minimum income standards keep pace with the general population are now central to the debate on social security reform.

In terms of official poverty rates, the effect of the decline in benefit rates for working-age claimants has not caused a sudden increase in poverty, due mostly to sluggish growth in economy-wide earnings. Nevertheless, as set out in full in the Joseph Rowntree Foundation's annual report[vii], poverty in the UK remains pervasive. It's not all down to the benefit system, but as an anti-poverty strategy UC is a non-starter.

Effect on work incentives

One of the perennial problems facing means-tested benefits is the perception (sometimes justified) that claimants don't enter work because they find that it doesn't pay. UC claims to have solved this problem, as illustrated by the graphic below in figure 2 from its launch. In truth the record of UC on work incentives is far more mixed than DWP's hyperbolic communications.

Figure 2: DWP poster to accompany the launch of Universal Credit

Work incentives for benefit claimants are set predominantly by the 'taper rate' at which support is withdrawn (though the level of work allowances is more important for very low earners). In November 2021 the taper rate in UC was reduced to 55%, the rate originally proposed when the benefit was first envisaged by Iain Duncan Smith in 'Dynamic Benefits' twelve years previously[viii].

However, while the reduction in the taper rate undoubtedly means work incentives in UC are better than they've ever been, wider developments in social security have moved in the opposite direction.

One of Iain Duncan Smith's main criticisms of tax credits was how the system's rules affected work incentives. As he described it, the problem was Labour's attempt to tackle the 'work doesn't pay' issue by setting a minimum number of hours to qualify for Working Tax Credit (set at, variously, 16 hours, 24 hours or 30 hours a week depending on the household's circumstances).

So long as the work you did conformed to this definition then it was always the case that entering work made you better off, with Working Tax Credit boosting incomes at that point. Unsurprisingly, that meant a spike in average work hours at exactly the qualification limits.

This unintended consequence was easy to ridicule as an arbitrary labour market distortion. Moreover, as Duncan Smith argued, small micro-jobs, with few weekly work hours, are exactly the kind of route into employment that suits some claimants. Smoothing out incentives through a single in-and-out of work benefit, like UC, looked like the obvious solution.

The problem is that the pendulum has now swung the other way, with the lack of a boost to earnings for ‘workers’ (however defined) shifting the focus of the work incentives problem. The issue is policy-wonkish but important. The wider policy environment has adapted to UC by changing the way some ‘passported’ benefits work, with receipt of UC now being used in some policy areas as a marker for eligibility. As set out in our cliff edges blog[ix], the effect is that a household’s income can go down by hundreds of pounds as a result of having a small increase in earnings that tips them over the threshold for UC eligibility.

The issue of passporting was recognised in DWP’s first iteration of UC ‘Universal Credit: Welfare that Works’[x], published a few months after Duncan-Smith took office. It proposed putting a value on each of these passported entitlements and then “replacing the current rules with an income or earnings-related system that gradually withdraws entitlements to prevent all passported benefits being withdrawn at the same time.”

It never happened. The result is that the ‘pinch point’ in terms of incentives has shifted from people with work hours just short of a qualification threshold to households further up the income distribution, particularly where a passported entitlement has significant value.

Scaleability 10/10

When UC was invented its ability to scale rapidly must have been low on the list of its advantages. It turned out to be its finest moment.

Unlike many IT programmes, DWP had explicitly incorporated a gentle roll-out as part of its test and learn approach. But fortunately, the system had just about reached maturity by the time the Covid-19 pandemic came along, the ‘full service’ version of the roll-out having completed the year before. It turned out the online-only approach adopted by UC was amazingly robust, allowing millions of people to apply successfully almost overnight. Without doubt, UC passed the pandemic test with flying colours.

At the risk of sounding churlish, any benefit system that was digital-first could only fare better than the Jobcentre-based system used for Jobseekers Allowance, Employment and Support Allowance and Income Support. Arguably, this is another good reason for having a bit of deliberate ‘policy churn’.

Like many government departments DWP knows it needs to update its IT systems, but equally it knows that it’s difficult to get any politician to sign up to a massive and risky IT project. The arrival of Duncan Smith, with UC pre-packed, was too good an opportunity to be missed, and the department has certainly reaped dividends through having a new benefit backed by new technology.

The lesson is that, even if the reform itself is no better or worse than the previous policy, investment in new IT systems might be worth it anyway. In the case of UC, the business case for an online-only system turned out to be bolstered, unexpectedly and massively, by the onset of the pandemic. It may well be a case of right time, right place, but at the end of day UC’s pandemic response was a triumph.

Simplicity 4/10

One of the key aims of UC was to simplify benefits, by abolishing six existing benefits and merging them into one. For many UC claimants, particularly people claiming benefits for the first time, it's probably true that it's easier to manage one claim instead of a combination of benefits and tax credits. But is the overall benefits system simpler than before UC? Definitely not.

For one, the benefits system is now split between UC and a substantial rump of legacy claimants, with the prospect of full merger receding (see the migration section below). Moreover, we have endured a sustained period of 'natural migration' (an arcane set of rules that determine whether or not a change of circumstance triggers a claim to UC). Hundreds of thousands of people who migrated from legacy benefits to UC will have lost out because of the complexity of these rules.

Second, the detail of benefit reform has been completely ignored, with the social security system remaining ragged at the edges. By way of example, alongside UC came two 'New Style' versions of contribution-based Jobseekers Allowance and Employment and Support Allowance. Clearly DWP has no commitment or interest in such contribution-based benefits, which for a long time have been more-or-less redundant, and the number of claimants (and expenditure on them) remains vanishingly small.

Sorting out the underlying architecture of National Insurance, both in terms of benefits and contributions, remains the most obvious way of making taxes and benefits substantially simpler.

Third, UC has brought with it some crazy complexities of its own. For example, a little-known aspect of UC (outside the world of benefits) is that it changes the rules relating to when couples move from working-age to pension-age benefits. It sounds minor but in fact the change has resulted in an entire new class of benefit claimants: 'mixed age couples'. It's too complicated to even explain why they are so complicated, but they really are. And have we mentioned UC's surplus earnings rules[xi]?

Last, and most fundamentally, gains in simplicity from merging some benefits can be mirrored by greater complexity in other benefits. And that applies in spades to Council Tax Reduction, the local schemes for providing help with Council Tax that were created in 2013 when Housing Benefit was included in UC. Up until that point most claims had been made to the national Council Tax Benefit scheme alongside Housing Benefit, and rules and regulations spanned the two schemes.

For benefit claimants this means there is now an extra form to fill in on top of UC (though increasingly LAs are using the data they get from DWP), undermining the idea of a single claim. And in terms of policy, it's topsy-turvy, with local councillors being allowed to invent (sometimes illegally) new minutiae for the benefits system while not being allowed to set the single person's discount in their area. It may not be part of UC, but the effect it has had in 'orphaning' help with Council Tax needs to be included in any assessment of the reform.

System migration

0/10

Ten years after UC's introduction there are still around 2.5 million households on the old legacy benefits that UC replaced. That's over a third of the total number of households claiming working-age means-tested benefits.

It wasn't meant to be this way. The original timetable proposed by DWP is shown below in figure 4, with the whole thing intended to be done and dusted by October 2017, four and half years after those first claims in April 2013. Laughable.

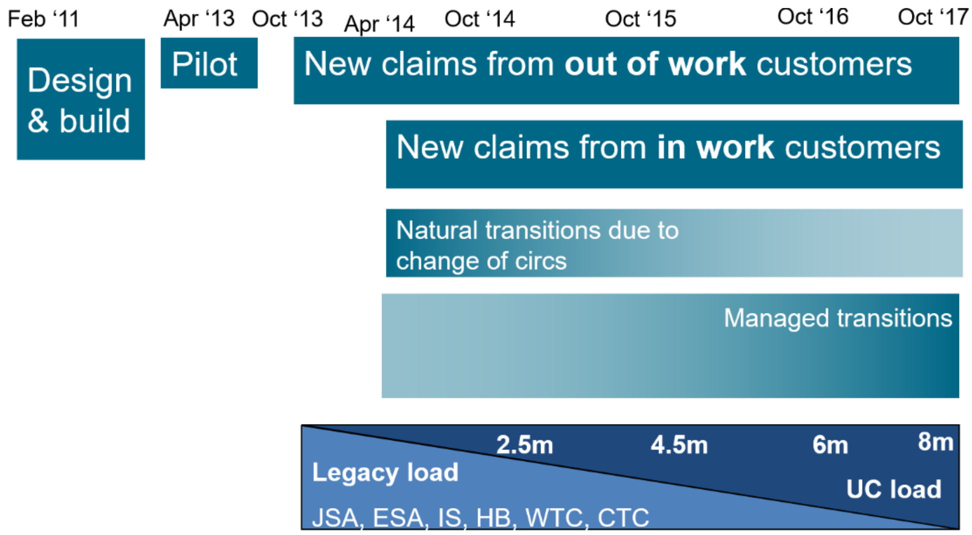

Figure 3: Original timetable for roll-out of UC

Of course, it's easy to think of other government projects where the timetable moves inexorably backwards, from the channel tunnel's 100 years delay through to the HS2 rail line. Even so, it's never good when official government forecasters have to explain why they don't believe DWP's forecast, as the Office for Budget Responsibility's analysis of UC migration plans showed[xii].

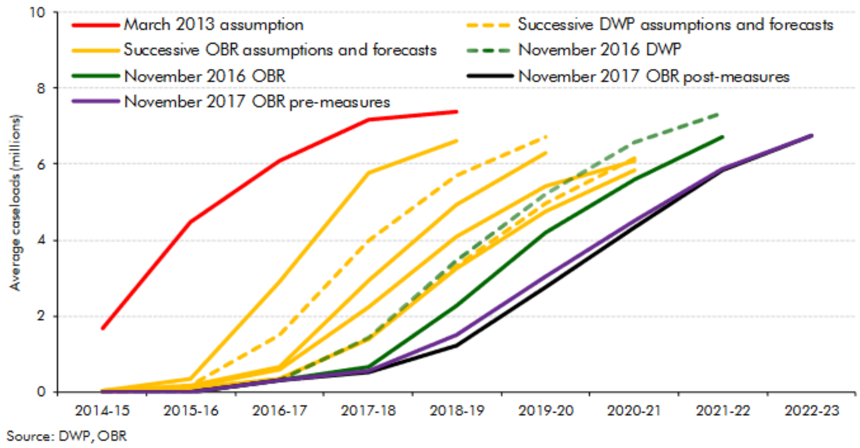

Figure 4: Successive UC migration profiles (last updated 2017)

The truth is that it's far more likely that UC will be abolished than completely rolled-out to all benefit claimants. Managed migration (DWP's name for the final phase of UC where existing claimants are actively moved onto the new benefit) has been left to last for a reason. It's the most difficult, and almost certainly most destructive, element of the UC programme.

The problem is that UC creates winners and losers, but these have not been evenly distributed as the benefit was rolled out. The groups that are most likely to be better-off under UC, such as higher-earning renters, have mostly migrated already.

The legacy benefit claimants that have been left to last are ESA claimants, many of whom are worse-off under UC. Resistance to moving to UC is likely to be strong among this group, and it is hard to see any gain to them or to the DWP from enforcing migration. We predict that it will never happen.

Take-up 5/10

One of the main benefits of UC claimed in its business case that more people would take-up their entitlement than under the legacy system. The argument was that under UC rather than having to apply for several benefits, with the extra costs of claiming that involves, people would be able to claim everything (well, up to six things) in one go.

It follows that people who were claiming one of the six legacy benefits in UC, but were entitled to and not claiming one of the other five, will automatically get entitlement to everything under UC.

The Office for Budget Responsibility were convinced by this argument. They wrote[xiii]:

> *"so long as claimants complete their UC application in full, it is not possible for them to claim only part of their entitlement. This contrasts with the legacy system, where significant numbers of people claim tax credits but not other benefits to which they are entitled. Some people in the legacy system might also choose not to apply for out-of-work benefits for what they expect to be a short period, when they had previously been claiming tax credits. Higher take-up among these 'partial legacy claimers' is expected to cost around £2½ billion."*

We are not so sure about the effect of UC on take-up. For one, people may be put off claiming by some of UC's design features (digital-only, must sign a claimant commitment, sanctions, etc.). Moreover, because it merges support for the household with support for rent it may be perceived as riskier. But most importantly, by merging six benefits into one, UC has orphaned Council Tax Reduction and it's likely that take-up of this benefit is lower.

At the end of the day, however, this is all just speculation. Our blog entitled 'Don't take away our take-up stats'[xiv] provides more of our thinking on this but, overall, we just don't know what the effect of UC has been on take-up. Nothing's been published.

Unless or until we get official statistics we will just have to wait and see, so there is little alternative other than to award half marks to UC in terms of its effect on take-up, though TBC might be more appropriate.

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