



Select Committee on Economic Affairs

Corrected oral evidence: The economics of universal credit

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10 am

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Lord Fox; Baroness Harding of Winscombe; Baroness Kingsmill; Lord Livingston of Parkhead; Lord Monks; Lord Skidelsky; Lord Stern of Brentford; Lord Tugendhat.

Evidence Session No. 8

Virtual Proceeding

Questions 62 - 78

Witnesses

I: Professor Mike Brewer, Deputy Chief Executive and Chief Economist, Resolution Foundation; Nicholas Timmins, Senior Fellow, Institute for Government and the King's Fund.

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Examination of witnesses

Professor Mike Brewer and Nicholas Timmins.

Q62 **The Chair:** Professor Brewer and Mr Timmins, welcome to the Economic Affairs Committee. We are very grateful to you for participating. Perhaps I might begin by asking the first question. To what extent is improving universal credit a question of increasing funding or of making fundamental changes to its design?

Professor Mike Brewer: It is both. The functioning of universal credit could certainly be improved. Since it was announced back in 2010, a lot of cuts have been made to it. What we have now is less generous than was originally intended. A lot of the cuts have come through the in-work benefits system, so the way it affects work incentives is perhaps not as originally designed.

Nicholas Timmins: It needs more funding. It was evident from the very beginning that, for universal credit to work in the way it was originally designed, it was going to cost more. In practice, it has been squeezed and cut. While a lot of that has been restored, other cuts in the benefits system have had an impact on universal credit itself. It depends a bit on what you mean by a fundamental change. More needs to be done to tackle the five-week wait, which has caused a lot of problems. There have been proposals for what might be done about that. There are other issues, which I suspect we will come to, such as people getting less than they are nominally entitled to because of the scale of the debt that has to be repaid from previous reforms to the benefits system.

Q63 **Lord Tugendhat:** What reforms would you like to see the Government make that would help the most vulnerable groups? We might think of the self-employed, the disabled, people with ill health and so forth. To what extent is your answer to this question influenced by what we have learned since the lockdown began? Would you answer the question in the same way before the lockdown as you will answer it now?

Professor Mike Brewer: In the run-up to the crisis, I would have highlighted the two-child limit as an aspect of universal credit that particularly harms large families, who we know are at serious risk of poverty. There are specific issues for claimants with ill health and women experiencing abuse, which are to do with the operation of it as much as the design. I am not well qualified to talk about those.

During the crisis itself, universal credit has performed extremely well. It has been hit by a crisis that is orders of magnitude bigger than any of its designers can have imagined it would have to face, but its systems have broadly coped. I am sure there will be rough edges and people who are finding things tough right now, but by and large the experience of the crisis so far has shown that the design and operation of universal credit is working well. It is functioning as our safety net benefit, as it should.

Lord Tugendhat: I have the impression from what you and others have said that when we started this inquiry, before the crisis began, the

reputation of universal credit was rather low. People were drawing attention to a number of its perceived disadvantages. Since the crisis began, the reputation of universal credit has rather risen. Even if there are continuing problems of the sort that existed before the lockdown, the way it has operated since the lockdown has, on the whole, been quite impressive.

Professor Mike Brewer: That is right. I would say two things. First, we do not have that much real data yet on how families on universal credit are coping. We know that the systems did not fall over, that 1.8 million families have managed to make a claim and that the money is getting out, but there is much that we do not know.

Secondly, a number of organisations have realised that at this time it is important not to bash universal credit too much, because we really want families to claim it. If families are going without, we do not want them to be put off from claiming it because they think it has problems or will be difficult or unpleasant. We do not want any stigma at all. This is our safety net benefit. This is our unemployment benefit. Families whose incomes are hit by the crisis really should be claiming it.

Q64 **Baroness Harding of Winscombe:** We have heard that people who are not digitally literate or digitally active really struggle with universal credit. Were the vast majority of people suddenly claiming in the crisis already digitally connected, so universal credit is working well for them? If so, is there any evidence for the small number of people who have needed to claim in the crisis and are not digitally connected? Are they really struggling? Is that the real issue, rather than pre crisis and post crisis?

Professor Mike Brewer: You could be right that the new claimants that universal credit has had over the last few weeks are probably less disadvantaged than its former client group. If there are people who are digitally disadvantaged right now, it is probably quite hard to find out about them. The kind of research that is being done at this moment in time by its nature tends to be done online or on the phone. We do not have face-to-face advice services in operation, so I suspect that it is an unknown and under-researched area.

Q65 **Lord Fox:** To facilitate this huge influx of new applicants, were any changes made to grease the wheels? If so, are those changes that we would want to retain post Covid to make things more straightforward for the more regular users of universal credit, if you can call them that?

Professor Mike Brewer: There were some changes to the generosity and entitlement rules, and to the operation of UC. Those are both relevant to your question. The changes in generosity and entitlement included removing the minimum income floor for the self-employed, which is a policy that some have criticised and which is quite confusing for claimants. Removing it means that the system is simpler to understand. On the operational side, the Government removed the need for any sort of face-to-face meetings between claimants and DWP officials. They have also effectively stopped any kind of conditionality. If

they had not made those changes, I cannot see how they would have been able to process so many claims so quickly.

Should any of those last? I would like to see the extra generosity continue after this year. Of course, that is a matter for government. On the operational side, it is good that we do not need to have face-to-face meetings. Maybe that can carry on, but at some point we will need to introduce conditionality back into universal credit, although that could be many months away. At some point, that will have to restart. So, yes and no, to answer your question.

Nicholas Timmins: I broadly agree with that. If the legacy system had had nearly a million claims for jobseeker's allowance in two weeks, it would have fallen over. There would have been huge queues outside jobcentres and the virus would have been spreading faster. At that level, on the evidence we have so far, universal credit is due some credit.

Q66 Lord Stern of Brentford: Thank you both for coming. We have already begun to talk about the impact of the crisis on universal credit. I want to ask about the potential longevity of this crisis and the changes we are likely to see continuing in the labour market, including in the gig economy for informal work. There is more than one economist in the room; I am one of them. It seems to me that we have a very serious risk of a global depression. This crisis is different from 2008 in that it is global. It is deeper. Out of this, we have battered confidence and severe liquidity issues.

We can recognise how quickly and how well universal credit has responded, but we have to ask two questions. First, how will it cope with an extended period of unemployment? Secondly, it is likely that the move to the gig economy will continue and that this crisis may accelerate it, in the ways different people work. How can universal credit cope with an acceleration or at least a continuation of the shift to a different kind of labour market, when in many ways it seems to have been designed for people in regular employment who are paid monthly?

Professor Mike Brewer: Universal credit is well designed to cope with most of the challenges you have talked about, although that does not mean that the Government's economic policy as a whole is well designed to cope with them. I am sure that universal credit could cope with high case loads operating for months or even years. If that happened, the DWP would need to introduce an active labour market policy that is a little more supportive and intensive than its conditionality policies. Universal credit can cope fine, but it would need more policies around it to deal with unemployment problems. That is not a universal credit problem but an active labour market problem.

On your second issue, I agree with you. It looks like this crisis will push more people into the gig economy. Perhaps we will have more flexible work situations. We have had the idea that the lockdown might be turning on and off, or that people might have to work one week and stay at home the next week. In principle, universal credit can cope well with

those flexible labour market situations, and better than the previous systems.

Nicholas Timmins: I do not disagree with that. You have heard previous evidence that dealing with the self-employed in the benefits system is always difficult. We get a rise in the gig economy and more of this self-employment that is really not self-employment. The answer has to lie in the way you regulate the labour market, rather than expecting universal credit to somehow pick up all the problems that this causes. It is not entirely fair to expect the social security system to solve problems that lie in other parts of policy.

Q67 **Lord Stern of Brentford:** As a follow-up to that, one of our earlier witnesses pointed to the problem that when incomes are irregular, either because of the gig economy or because of the kinds of example you gave, universal credit could amplify variability. Would you like to comment on that?

Professor Mike Brewer: The issue is that, because of the lag in universal credit payments, universal credit can amplify volatility in incomes. Your previous witness was absolutely correct: you get a good month in your job, and that means next month you get very little universal credit. If that coincides with a fall-off in your work, you might get a double hit. That is true. It is difficult to know what to do about that. It brings to mind the question of assessment periods. The only way you can solve that issue is by having longer assessment periods, say a year.

If you decide to assess universal credit on annual income, you are then back into the world of tax credits. You have to decide whether to make payments a year in advance or have the complicated system that tax credits have, whereby they pay you based on what they think your income will be this year, with an end-of-year reconciliation. That will not work very well either.

Q68 **Lord Stern of Brentford:** The last question I want to come to is about place. The Government, very understandably, have emphasised the idea of levelling up the importance of place. Can you give us any guidance on how universal credit has operated differently, perhaps more or less problematically, in different parts of the country?

Professor Mike Brewer: There is no reason why its operation should vary across the country, but because of the way entitlements are structured and how that compares to legacy benefits, some parts of the country tend to do a bit better, and some a bit worse, as we move from legacy to universal credit. Because universal credit is particularly helpful to people who rent in high-rent areas, low-rent areas of the country tend to lose out slightly in the move from legacy benefits to universal credit, while high-rent areas of the country do rather well. That is probably the opposite way round to what the Government have in mind with their levelling-up agenda.

The Chair: Professor Brewer, I am surprised you are so optimistic about the ability of universal credit to cope post the lockdown. We are heading

for probably many millions of people unemployed. The system is entirely geared up to putting people back into work and many of those jobs will have ceased to exist. It also depends on there being people in the jobcentres who act as coaches. Given the numbers, I am surprised you do not see more difficulties with the system coping, when it is so focused on getting people back into work, as opposed to dealing with their immediate security and financial needs, and so set around the job coaches and sanctions. Am I missing something?

Professor Mike Brewer: I was focusing more on universal credit as a way of getting money to people who are in desperate need in the crisis now. As a functioning part of the benefits system, it is working and will continue to work. Of course, the issues you raise are very important too. I was thinking of those as part of the wider policy for how the DWP helps people get back to work. On the issue of active labour markets, you are absolutely right. What to do about the likely several million case loads on universal credit throughout the rest of this year is a huge challenge. As yet, the Government have provided no answers to that.

We will need to come up with policies that help to get these high levels of unemployment down. Right now, it is incredibly hard to say what they might be. We do not know what the public health guidance and the employment situation are likely to be for the rest of the year. The officials in DWP will be reassured that they have got over the initial shock. Universal credit did not fall over, and millions of people got their payments on time. The next challenge they face is what to do with the high levels of unemployment or the people on universal credit. My optimism earlier was focused on the fact that it has not fallen over, people are getting their money, and as a safety net benefit it is working.

Lord Stern of Brentford: As Lord Forsyth has emphasised, and you have too, the design is to put pressure on people to get back to work. The testing and conditionality are about how actively they are pursuing work. In an environment where it is so much more difficult to find work, should the nature of that pressure change?

Professor Mike Brewer: Yes, it should. There is not a lot of point in pressuring people to look for work if there are no jobs available or the jobs available are not compatible with someone's family or health situation. I am not saying that it is right to put pressure on people to get back to work right now. We will need to monitor vacancy data very carefully over the next couple of months to see whether firms are indeed hiring people. Right now, they almost certainly are not, except in a certain few sectors that are booming. If the lockdown eases in the next few weeks or months, we need to pay very close attention to what firms do.

Yes, there will be very little point in requiring people to look for work if there are no jobs available. That would just be discouraging and dispiriting. Instead, you would need a different kind of active labour market policy, one where you do not just keep people on the rolls, because we know that long periods out of work are scarring. You would

need completely different kinds of policies. Lord Forsyth is absolutely right; the policies on universal credit and its approach to the labour market, with the idea that people would leave unemployment quickly, were designed for better times. That general system will need looking at and changing.

Lord Stern of Brentford: We could continue with this question, but, very quickly, does that mean that whatever the other policies are, the way in which universal credit is operated, the behaviour of the people who have to administer it and the notions of conditionality they bring might have to change?

Professor Mike Brewer: That would all need looking at, yes. Universal credit was designed in a world where the economy was booming, the labour market was fast moving and people spent short periods out of work. None of that looks likely to be the case for quite a considerable time now.

Nicholas Timmins: In the short-term, although we have no idea how long the short term is at the moment, conditionality will have to change. They have taken it away for the time being and there might be another huge surge of claims to UC at the end of June, if the furlough scheme ends with a cliff edge. If we end up with two metres' distance for months and months, how do you run work coaches in jobcentres? There are real challenges here, so that will have to change.

My one caution would be the big lesson from the 1980s, when huge numbers of jobs went and there were no welfare-to-work programmes worth the name. A whole generation of young and middle-aged people who were thrown out of coal and steel had their lives scarred permanently, because there were no programmes to help people get back into work. While there will have to be a big change in conditionality in the short term, if we do not want all that to happen again we will need some pretty active programmes to help people get back into work in the medium term, as we see how Covid-19 plays out.

The Chair: I was an Employment Minister in 1992. I am not sure there were no programmes to help people.

Nicholas Timmins: By 1992, there were. In the 1980s, there was hardly anything apart from the youth training scheme. By the early 1990s, we were starting to build welfare-to-work programmes.

Q69 **Lord Skidelsky:** Thank you very much for coming. A number of witnesses have said that a rational scheme was undermined by the circumstances of its introduction, including cuts and efforts to save money. Therefore, it was introduced in the worst possible circumstances for giving it a good reputation. Would you agree that the crisis has been a heaven-sent opportunity to reform the system, which would not have existed otherwise? Once additional sums of money are already being spent and have eased certain of the conditions, is it not now easier to make those permanent? I am thinking, for example, of the standard

allowance, housing allowances and so on. Would you agree that we should take this opportunity to get through the reforms you have been suggesting, especially Professor Timmins, whose testimony I read?

Nicholas Timmins: The additional amount on the standard allowance should remain, because the system has been very heavily squeezed over the last decade. There has been a four-year benefit freeze and it has become much meaner. That should remain, and the housing element should remain. They should both become permanent. That makes sense. There may be opportunities to make other changes. We will need to be a little careful in the sense that the IT is clearly under huge strain at the moment. You need to choose the moment when you make other changes. You do not want the thing to fall over because you are making big changes to the system, but there must be opportunities to improve other parts of the design.

Lord Skidelsky: Has anyone worked out what it would cost to make some of these changes permanent, assuming that the number of claimants returns more or less to normal after the crisis is over, which is a big if? On the basis of the claims hitherto, do you have any sense of how much more it would cost to make some of these changes permanent?

Nicholas Timmins: The Government have said that the changes they have made right now cost about £6 billion. I presume that is on the case load as it was just before the increase. That is presumably what it would cost for the housing allowance and the additional £20 a week. If you made other changes that some of us have advocated, that would clearly cost more. Do we want to talk about those now or later?

Lord Skidelsky: Maybe Lord Forsyth would like to do that later. I know about your silver bullet and things like that, but we have that lined up for later.

Q70 **Baroness Kingsmill:** I want to ask, while we are talking about changes, whether you think there is any likelihood or possibility—or, indeed, whether it is a good thing—to change the entitlement from an entitlement to households to an entitlement to individuals.

Professor Mike Brewer: That would be a colossal, gigantic change. It would be moving universal credit towards a negative income tax or even a universal basic income programme, albeit a means-tested one. That is not something we have looked at. It would be an extraordinarily expensive change to make and would go against the principle on which UK Governments have designed safety net benefits for decades. That is all I can say. That is not the sort of small change we could make to get us through the crisis. That is almost like starting again on a different benefits system.

Baroness Kingsmill: That is not entirely true, because family allowance was an individual benefit. That is the sort of thing I am talking about. I did not want to bring it up, because we will talk about it later with other speakers, but it seems that women are potentially significantly

disadvantaged by the payment of universal credit to households as opposed to individuals.

Professor Mike Brewer: There are certainly issues to do with the fact that universal credit is paid as a single payment. Under tax credits, payments were split so that some went to the man and some to the woman. That is a very important operational issue that could be looked at, while keeping the fact that universal credit is still a means-tested benefit assessed on the joint income of the family. Undoing that would be the sort of major change I was referring to.

Baroness Kingsmill: I leave it there, but I put it on the record that there is a very significant disadvantage to many women in the way in which it is paid out.

The Chair: We have had evidence that it can create a system where abuse is encouraged in relationships. We have also had evidence that in some circumstances people can apply, which of course is extremely awkward if you are being subject to control or controlling abuse of some kind. It seems to be quite an important question. Mr Timmins, do you have a view on this?

Nicholas Timmins: It is not my particular area of expertise, I have to say. To the point Mike made, there is a difference between individual assessment and the way people are paid here. You can still have the household assessment, but you can split the payments. There are areas where that should be possible or made more possible.

The Chair: Expressing a personal view, I get the feeling, listening to your answers and some of the other evidence we have had, that there is a tendency to think about the system and people having to fit in with it, rather than the other way round.

Q71 **Lord Monks:** This is a question about the capital rules. As you know, if you have more than £6,000 in savings, it is taken into account. If you have more than £16,000, you get nothing. With the arrival in large numbers of the Covid cohorts, as I call them, of unemployed and claimers of UC, many of them are likely to get quite a nasty shock when their savings are taken into account. Should the capital rules be suspended? I know the Resolution Foundation has called for a temporary suspension, but how relevant are they to the present situation?

Professor Mike Brewer: We at the Resolution Foundation have called for them to be got rid of in the current situation, precisely for the reasons you have just gone through. There are many millions of families being hit by unemployment. Some of them will have savings. It seems particularly harsh to have these capital limits when the alternative to universal credit, which is the contribution-based jobseeker's allowance, is itself very ungenerous and did not get that £20 per week rise. If we were in a world with a fairly generous contributory benefits system, I might be more relaxed about having capital limits on universal credit. We do not, so in the current crisis there are very good arguments for getting rid of capital limits.

Whether we should have capital limits at all in universal credit is a slightly different issue. There had been capital limits in the British means-tested safety net benefits for decades and decades, but there are not any under the in-work tax credits. When the Government merged the two together, effectively, they had to choose one, and they went with the less generous way of assessing against capital. Universal credit needs a way of taking people's financial capital into account; otherwise it will be possible for some very wealthy people not working very much to claim something. That might undermine public trust in it. But the capital rules we currently have are extremely harsh towards those who have their own savings.

Lord Monks: Are there any international comparisons that help? Do other social security systems have the same kind of kickback on any savings people have when they are claiming benefits? Do we know?

Professor Mike Brewer: I do not have too many facts and figures at my fingertips at the moment. It is common in many European countries for the social assistance schemes to have rules that take savings into account. Many European countries will have a twin-track benefits system, whereby if you have made past contributions you get the contribution-based benefits, which tend to be quite generous. If not, you fall on social assistance, which is always a bit less generous and tends to have capital limits in it. Capital limits are not unique to the UK.

Q72 **Lord Fox:** Professor Brewer, you seemed to argue two things in your statement. At the start, you talked about not having capital limits, and then towards the end you implied raising capital limits. Has any sensitivity study been done on the effect of raising capital limits on both cost and social benefit? In a sense, capital limits are disincentivising saving for some people, assuming they have a choice between saving and not saving. Of course, some of the most desperate clients of universal credit have no money to save in the first place. Are you saying that the capital limits should be higher or that there should be no capital limits and some other assessment of wealth?

Professor Mike Brewer: I am sorry if I was not clear. In the current coronavirus crisis, I am arguing that there should be no capital limits at all, so that universal credit can function more effectively as a universal safety net for people who have lost their jobs. Frankly, people who have lived for many years with very little risk of unemployment at all, who never even dreamed they might be in this situation, now find themselves, through no fault of their own, due to global crisis and health shocks, with no job at all. For those families, it seems very harsh to say, "Unfortunately, you have saved up £10,000. That means we will give you hardly any universal credit". That is a particular argument for the crisis.

Lord Monks then asked me to think in general, when we return to normality, whether there is a role for capital limits in universal credit or in a benefits system. There is some role for them, yes.

Lord Fox: What is normality? The effect of the virus will leave a legacy of unemployment for many years. Are you saying that those people become

exempt from that limit for the duration of their unemployment? It starts to become quite a difficult definition. There is no hard line between virus and non-virus in the effects on employment. If we are trying to redesign the system that will cope with the future situation, which now includes the effects of the virus, what are we doing with capital limits? Are we leaving them in, raising them, or doing away with them completely?

Professor Mike Brewer: I am perhaps better at the policy principles than the detailed recommendations for DWP. You are absolutely right that it will be hard to tell when the crisis stops. We could think about when caseloads get back to their February 2020 levels as one indication. As a practical suggestion, let us abolish capital limits for a couple of years and perhaps use that as an opportunity to review whether there should be capital limits at all.

It is worth reflecting that, at the time, the Centre for Social Justice, which dreamed up universal credit under Iain Duncan Smith, thought there should not be capital limits. He thought they were a discouragement to saving and discouraged people from saving precisely in the group you would like to save more. He originally did not think there should be capital limits. We do not really know enough about what effect capital limits have in practice on people's incentive to save, but one can make a principled argument for having no capital limits at all, precisely because it is important for low-income households to have that incentive to save for themselves.

Nicholas Timmins: I am not aware of any sensitivity analysis about what level they should be set at. You need something in the system that prevents very well-off people with very little income claiming. If you do not have a capital limit, you need some rule that prevents that. Otherwise, you get a chunk of abuse. Quite where you pitch it is a matter for debate. It would make sense to suspend it for the time being. That would give an opportunity to think longer and harder about whether we want them, or whether there might be another way of controlling potential abuse by having some measure of wealth or assets. It is quite difficult to design a system without any tests like that somewhere in it.

Q73 **Baroness Bowles of Berkhamsted:** To have capital limits fixed so much lower than what you can put into an ISA each year is not training people to save for a rainy day. In particular, should there be some differentials for age? What about people who have put away a couple of rainy-day ISAs ready for retirement? If they are older, and so are chopped out of the workforce sooner, they are expected to burn through their provisions for retirement before they can get anything. Does age come into it as well?

Nicholas Timmins: You could consider that. You could make the capital limits much higher so that they addressed many of those issues, but you would still retain a capital rule that prevented very well-off people with negative income claiming. You could work out what it would cost and decide whether that was where you wanted to spend your money.

Q74 **Lord Livingston of Parkhead:** I have a question addressed primarily to Mr Timmins. One of the common themes through a lot of witnesses' evidence that we have had, written and oral, has been the five-week wait and the issues that causes. You proposed, in your very constructive report, this concept of the silver hello; Lord Skidelsky referred to it. I would be interested, first, if you could say a little more about the barriers to it. Is it just cost? How would you deal with issues such as fraud? Should it apply to everybody or only a subset? Would there be limits? Give us an overview as to how you think it could work.

Nicholas Timmins: In a sense, it is only taking further what the Government have already done in acknowledging that the five-week wait is a genuine problem. For people already in the benefits system, there is now a two-week run-on of housing benefit. From July, there will be a two-week run-on for JSA, income support, and employment and support allowance. That just leaves people transferring from tax credits and genuinely new claims, who do not get this two-week run-on. The effect of the two-week run-on is that, in practice, the five-week wait becomes a three-week wait and you have an advance to cover that. The advances are smaller; the problem of repaying them becomes smaller. That all makes a lot of sense.

The proposal is simply to have a two-week benefit payment for new claims and those transferring from tax credits. I am not an expert on this. I gather that they did not do tax credits in the first place because the DWP and HMRC computers will not talk to each other, but presumably you could do a rough and ready sum that said, "You have got your award for tax credits, so we take two weeks of your award and we pay you that". For new claims, you would simply say, "Well, there is a JSA rate and if you are likely to be on housing benefit we pay you this". We can estimate these things. That is how they do advances. You estimate that and make a two-week payment.

For new claims, there would be a fraud risk. There are probably two ways you can tackle that. One would be to say, "We give you this money as an advance, technically speaking, but we do not try and reclaim it. Two or three months in, when we know your claim is genuine, we then just write it off". The alternative might be to give the extra two weeks' money with the first payment, after the five-week wait, which would give you money to pay off debts you have accumulated during the five-week wait. That would reduce the fraud risk, but it is a much less satisfactory approach. I hope that is clear.

Lord Livingston of Parkhead: Yes, and I agree with you; it sounds like a much less satisfactory approach. Are there other options here, such as when people return to work it is repaid over time? I hesitate to say this, given how imperfect the student loan situation is, but if at some point people attain a level of income, these grants could become repayable, albeit over time. We talked at another point about the cost of writing off debt, but making these pure grants certainly has drawbacks. Particularly with the Covid-19 cohort, as it was called earlier, people may come into the system having earned quite a substantial amount of money, and

maybe in a few months go back to that and an extra grant may then not be appropriate. Are there ways of looking at it as an income-related repayment?

Nicholas Timmins: I suppose you could think about that, but I suspect it will not be easy to do rapidly what we are proposing here. You have to change all the IT. Doing that in the middle of a system that is under enormous strain at the moment would be difficult. It will not happen instantly. This would have to come in a bit later, at which point, with a bit of luck, we might be a long way through the Covid crisis so it becomes less of an issue.

Should it be repayable later? You could take a view on that. One of the major problems with universal credit has been the five-week wait. If you want to run this system on a monthly assessment, and there are a lot of arguments in favour of that overall, there is a price to be paid for making sure that people get money quickly and do not get into debt. You just have to say, "This is part of the price of making the system work well".

Lord Livingston of Parkhead: The cost, I think I saw, was about £1 billion.

Nicholas Timmins: If you are talking about new claims, it depends how many are coming on and what the unemployment rate is.

Lord Livingston of Parkhead: It is the run rate.

Nicholas Timmins: Yes, exactly. This is my very rough estimate; I am not the Institute for Fiscal Studies. At the levels we were running at pre Covid, we were talking somewhere in the region of £1 billion to £2 billion a year, in an overall benefit bill for universal credit of £63 billion to £65 billion. It is a sum of money, but it is not overwhelming.

Lord Livingston of Parkhead: It is always good to separate off what one would like to do and then decide whether the systems can do it, as opposed to confusing these issues. At least it tells you what a lot better looks like.

Professor Brewer, do you have any addition to the idea of the silver hello or any other way of dealing with this five-week problem? It now seems to be universally considered an issue, including by the Government it would appear.

Professor Mike Brewer: There are a lot of things in favour of a monthly system and paying in arrears. As Nick says, we just have to get it right the very first month. I have been surprised by how few people are claiming advances at the moment. It is running at about one-fifth of the number of people claiming universal credit.¹ It would be really interesting

¹ On 12 May 2020, Mr Brewer provided a correction to this evidence—DWP's latest management information revealed just under half as many claims for advances in March and April compared to the number of claims for Universal Credit.

to know, and we are trying to find out right now, why people are not claiming advances.

Advances are a perfectly sensible way of getting round the five-week wait problem. I have sympathy with the way the Secretary of State described it. If you are getting universal credit for a year, you would normally get 12 payments, and with an advance you get 13 payments. Of course, each payment will be smaller than if you had 12 payments. Advances are a way forward. If advances are not being claimed because for some reason people do not like them, the only real solution I see is one like the silver hello that Nick is proposing.

The Chair: Might they not be claiming because they do not want to get deeper into debt? This takes us to Baroness Kingsmill's question.

Q75 **Baroness Kingsmill:** I would like to talk about a general debt amnesty. Is that a good idea? Would it be helpful in the circumstances? As an ongoing part of that, should public sector debts be treated differently from private sector debts?

Nicholas Timmins: The level set in the benefits system is what the Government of the day think is the minimum people should be expected to live on. If you are knocking large percentages off that, you are expecting them to live on very little indeed. Because of the debts built up in the system, about 30% of claimants are living on 25% or 30% less than the standard rate of UC. That seems extremely harsh. There is something like £10 billion worth of debt in the system. The debts have arisen for different reasons.

The big problem, it seems to me, is tax credit debt. It is in the design of tax credit that there will be overpayments and underpayments. They have been around for 15 years now and we know that people end up with overpayments that they have very little control of and can become unaware that they even have. These are now being knocked off their benefit rates. The Government have already acknowledged it as a problem, because initially they were taking 40% off the standard allowance. They then dropped it to 30%. They are now reducing it to 25%, from some date I am not sure of—I think 2021. The Government recognise there is a problem here. I think you should go further.

The debts arise for different reasons. There is about £1 billion worth of debt from JSA. If you have a debt for JSA, it may be because you have been earning while on JSA and not told the DWP, so you owe the DWP money, or you went back to work and did not tell the DWP, and the DWP carried on paying you JSA for a little while. Those are debts that have been incurred because of very active actions by the claimant. A lot of the tax credit debt has been driven by the nature of the tax credit system. There is an argument for writing off chunks of that.

The alternative would be to continue seeking to claim this money, but to knock a much, much smaller percentage off as the debt repayment from the standard allowance. That just means that people would be paying these debts off for years and years. I hope that is clear.

Baroness Kingsmill: I wonder if there is an argument for saying that, in the particular circumstances we find ourselves in at the moment with the pandemic, we could take temporary measures over the forgiveness of debt and not get too excited by it.

Nicholas Timmins: The Government have already stopped pursuing these sorts of debts during the Covid-19 crisis.

Baroness Kingsmill: I was thinking of housing debt, for example. We have had evidence to suggest that that can be a major problem for claimants.

Nicholas Timmins: I may be wrong, but I thought they had suspended debt repayment for the time being. They are still reclaiming the advances but not pursuing the other forms of debt, in my understanding. I might be wrong.

Lord Monks: As far as I know, action to recover debts has been suspended for three months, as part of the Covid response.

Q76 **Baroness Harding of Winscombe:** How do we improve the incentives to work in universal credit, granted that we are highly likely to have a very large number of people unemployed and be in very different circumstances from where we were when universal credit was designed. None the less, I would argue that we will also see an acceleration of some of the shifts in the economy that we were all expecting, such as the shift to digital. Therefore, making sure that we have real incentives for everyone to get into work when it is right for them will be important.

What changes should we make to improve the incentives to work in universal credit? Are there any specific groups, such as single parents, second earners or others, that we should look to make changes to, to make it more attractive for them to work?

Professor Mike Brewer: Yes, right now is really not the time to worry about people's own incentive to work, but this will become important as the crisis goes away. At the Resolution Foundation, we have pointed to the relatively weak work incentives in universal credit for those two groups: lone parents and second earners.

The issue for single parents comes about because of the way legacy benefits compare to universal credit. It just seems that universal credit does not give very much money to lone parents compared to legacy tax credits, which were quite generous for lone parents and gave them strong incentives to work. As a group on average, they have really lost out in the move from legacy to universal credit, particularly if they work. Their incentives have become materially weaker and should be strengthened.

Second earners' incentives to work have never been great. They have always been weakened under in-work support systems that look at the joint income of the family. Under universal credit, those incentives have additionally been weakened because of the fairly high taper rate compared to legacy benefits. We at Resolution Foundation also think that

those incentives should be strengthened. Probably the easiest way to do that would be to give second earners their own work allowance. Universal credit has one single work allowance for the family, and that will get used up by the first earner. That means that any pound earned by the second earner will effectively be taxed away at 63%. If they had their own work allowance, that would help to ensure parity between the two people in a couple.

Baroness Harding of Winscombe: What would be the trade-offs, as well as the downsides or unintended consequences, of doing that?

Professor Mike Brewer: A consequence would be that spending on universal credit would go up, because you would extend entitlement to families further up the distribution. You would have to decide whether that was an intentional or unintentional consequence.

Another consequence would be that, as more families are brought into universal credit, on average that would weaken work incentives, you could argue, because it means that more people face that universal credit taper as their earnings go up. There is a trade-off there between giving people an incentive to work at all and giving people an incentive to work a little more. At the moment, second earners in universal credit families can face very weak incentives to work at all, because all their earnings are effectively being taxed away at at least 63%.

Baroness Harding of Winscombe: What about the Australian system? Do you see any advantages in the targeted system of different withdrawal rates and work allowances that the Australians have?

Professor Mike Brewer: That sort of thing tends to excite policy wonks such as me. It is very important that any system we have can be understood by the population at large. There can be cases for targeting certain people. It might be worth looking at those with very young children. They might face different incentives and choices to those with older children. Overall, we need a system that is understandable.

When thinking about incentives, it is also important to remember that universal credit has within it the option of applying in-work conditionality. This was quite a big deal when it was first announced, but the Government have not pursued it very much since then. They have been fairly relaxed about applying in-work conditionality. Overall, the incentives that people on universal credit face to work, or to work more, come about because of both the financial incentives or disincentives, such as the high taper rate, and whatever is the in-work conditionality scheme. I am a bit more excited about the idea of having quite targeted in-work conditionality applying to certain groups, rather than playing with tapers, withdrawal rates and work allowances for different groups.

Q77 **Lord Burns:** I was very struck by the discussion of the extent to which changes have been made in response to the crisis. In the course of it, it seems that the Government have made changes that many people have been arguing for as a long-term part of the system. I would like to

explore what it is about the present circumstances and the crisis that has made these changes necessary. What can we learn about them and the way they have operated for the longer term? For example, should there be special arrangements for people who are coming on to universal credit for the first time, even when the overall numbers are smaller? Has it really just been an issue of the overload on the system that has created the improved generosity of terms?

Professor Mike Brewer: One reason why people called for the extra generosity of universal credit when the crisis struck was that they saw how generous the Coronavirus Job Retention Scheme was. What seems to be the Government's strategy at the moment for preventing the hit to family incomes is partly the job retention scheme and partly the self-employment grant. If you are not eligible for either of those, which basically means that you have been made redundant, all you have to go on is the benefits system and universal credit. The inequities between getting 80% of your earnings covered through a job retention scheme and getting £75 a week on universal credit were so extreme that it was widely recognised that the Government had to do something.

Lord Burns: What about lessons for the future?

Professor Mike Brewer: It is too early to say, but a lot of the increase in generosity we have had from the Government—that extra £6 billion or £7 billion per year, as Nick was saying—was undoing four years of the benefit freeze. If you compare the generosity of universal credit to median earnings, we do not look very generous historically or internationally. We took a system that was quite pared down, pretty mean, and made it 20% more generous. It does not leave us with a fantastically generous scheme.

Nicholas Timmins: I agree with that. The housing measure in particular has been very important. In theory, your housing costs get covered. We were reaching a stage where people with not very generous standard allowances had to top up their rents out of those. The housing allowance change has been particularly important. It will be a very brave politician who tries to take away the extra £20 in the standard allowance at the end of the day, I suspect.

Q78 **Viscount Chandos:** If we took ourselves forward three or more years and looked back, would it be fair to characterise universal credit as having been a successful platform? Will the changes needed, which we have been talking about as being on a temporary basis now and which are suggested should be on a permanent basis, mean that, beyond the platform, universal credit will be almost unrecognisable from the initial design?

Nicholas Timmins: I am not sure that it will be unrecognisable. We may find that some of it will end up closer to what you might call its original, original design. There were proposals at the very beginning for a welcome payment to get people on to it. You have to remember that universal credit was introduced right into the teeth of austerity and that

£30 billion has been cut out of the working-age benefits system over that period.

The generosity of UC itself was cut at the very beginning. It was not as generous as Iain Duncan Smith wanted it to be, to be fair. We might end up with something that looks closer to the original conception, because it has been squeezed, trimmed and hit by other changes in the benefits system that are not integral to the design of UC but have made its operation meaner.

Professor Mike Brewer: The unknown is how the DWP copes with the millions of people who will be on universal credit in a year or so, and what sort of active labour market policies we put around that. As your questions to me have pointed out, the design of universal credit was based on the idea that people would be moving into work quickly, with a bit of light-touch conditionality. That will not be the case. We will need a very intensive active labour market policy on universal credit, maybe like a future jobs fund or the things we had in the depths of the financial crisis last time round. I do not yet know how that will work with universal credit. That is the next challenge.

Lord Skidelsky: What do you mean by active labour market policy? It can mean many different things. It is very important that any universal credit system be backed by some active labour market policy. What should it be? You can have a government-sponsored active labour market policy, or you can provide incentives to employers. How would you see it developing? What is it, in other words?

Professor Mike Brewer: I was using the term quite broadly to cover any sort of policy, from people having a personal adviser who helps them look for work, encourages them and provides support where necessary, to something at the other extreme that is more like subsidised work or government-provided work. As for what the correct response should be to the crisis, I just do not know yet. It is too early to say. We need to see the scale of the unemployment problem and in what circumstances businesses can operate towards the end of this year.

I do not yet know, but it seems likely to me that the scale of the problem will be very large and that the Government will have to think very broadly and imaginatively about what sort of support they provide to unemployed people, including in effect providing government-subsidised jobs of some kind. We cannot let millions of people sit on universal credit until a vaccine is available. That is just not sustainable. That would write off a generation. As for precisely what they should do, it is too early to say. I encourage the Government to think big.

The Chair: That concludes this particular session. I would like to thank you, Professor Brewer and Mr Timmins, for your very helpful answers. This session reinforces how timely the Committee's consideration of this subject has become. Thank you very much.