

Lord Forsyth
Economic Affairs Committee
House of Lords
London
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Director: Paul Johnson

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Re: The cost of turning Universal Credit's advance payments into grants

Dear Lord Forsyth,

You enquired as to what it might cost the government to replace Universal Credit's (UC) advances (for those waiting for their first payment) with non-repayable grants.

The annual cost of this policy will be determined by the number of people who begin a UC claim each year and how much they are entitled to in their first month.

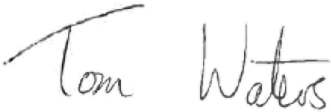
As an approximation of this, I have calculated the equivalent statistic for each of the 'legacy' benefits that UC replaces, in 2015-16. I used this year because very little of the UC rollout had happened at that point, and so almost all new benefits claims were for legacy benefits rather than UC. At that point, the annual cost of the first month of benefits for each new claimant across all six legacy benefits summed to around £1.4 billion.¹

The cost of turning UC's advance payments into non-repayable grants is likely to be less than this figure because the structure of UC means that there is likely to be less 'churning' on and off benefits than under the legacy benefit system. For example, under the legacy system a working family claiming tax credits who then fall out of work might begin a new claim to Jobseekers' Allowance. Under UC, no new claim would be required. It is difficult to say how

¹ This figure is largely derived from publicly available DWP benefits data. The one exception is for tax credits, where the number of new claimants each year and their average award does not appear to be available in HMRC statistics. Instead I used Understanding Society survey data, which surveys the same people each year. From this we can calculate the number of families that report claiming tax credits in one year but did not the year before, and their average award.

important this effect is without access to Department for Work and Pensions administrative benefits data.

Best wishes,



Tom Waters
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