20/05/2019

Re: Universal Credit’s impact on household incomes

Dear Frank,

Many thanks for your letter dated 14th May 2019. You asked about whether IFS’s recent analysis of UC underestimated the amount of money in the system as suggested by Alok Sharma.

The minister suggests that we have underestimated the amount of money in the system by around £4 billion. I presume that comment arises because we estimated the impact of UC on entitlements to benefits, rather than their actual receipt. As explained below, it is likely that UC will change the take-up of benefits; the Office for Budget Responsibility (OBR) estimates that UC will result in around £2½ billion higher take-up relative to the legacy system. Because we focus on benefit entitlement, our analysis does not account for that.

On the other hand we also do not account for the fact that the OBR also estimates a net saving of £1½ billion a year as a result of a reduction in fraud and error, nor do we account for an estimated £1 billion a year net saving from abolishing income disregards and run-ons.1 If these estimates are right then incorporating all of these factors into our analysis together would have (roughly) no net impact on the total UC spending that we model, and hence the scale and broad patterns of winners and losers would be very unlikely to be much affected either.

The government might reasonably argue that reductions in fraud and error (which reduce spending) and increases in take-up (which increase it) both have the positive effect of focusing benefits spending more on those it is intended for. One could arguably make that case for the abolition of disregards and run-ons too. But that is different from the amount of money in the system and the numbers of winners and losers it creates.

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The issue of what might happen to take-up under universal credit deserves some expansion.

Our analysis compares entitlements to benefits under the legacy system to benefit entitlements under UC. Of course some people who are entitled to benefits do not take-up their entitlement, and the switch to UC will affect take-up rates in a number of ways. Some of these should increase take-up. For example:

- By integrating together multiple benefits, UC makes ‘partial’ take-up of benefits harder. For example, under the legacy system it is not uncommon for someone entitled to housing benefit and tax credits to only take-up one of them. Under UC, as long as a household completes their application in full, they should receive all of their entitlement.

- Under the legacy system, a claimant of one benefit who becomes entitled to another for a short period of time (for example, they move temporarily out of work and become entitled to Jobseekers’ Allowance) might not make an application for the benefit to which they are newly and temporarily entitled. Under UC their benefit receipt changes more automatically when their circumstances change, obviating the need to do a new application.

But other changes that UC makes might reduce take-up. For example:

- For some people claiming benefits when out of work is less attractive under UC. Under the legacy system it was possible to claim housing benefit and child tax credit when out of work without having any conditionality applied. Again because of integration, UC means that unless the claimant is in an exempt group (e.g. a lone parent with a young child), the entirety of out of work benefit receipt is subject to conditionality. Similarly, as the government starts applying in-work conditionality, claiming may be less appealing for those affected, again reducing take-up.

- The ‘five week wait’ also reduces the attractiveness of claiming, especially for those who are only entitled for a short period of time.

As mentioned above, the OBR build in assumptions about take-up into their forecasts of spending under UC. As I understand it, they build in only the two features above that might increase take-up, and they estimate that these would act to increase spending by £2½ billion per year.

Of course no-one knows with much certainty how UC will affect take-up, and how its effect will differ for different groups. Rather than trying to predict how UC will affect take-up, our analysis looked at benefit entitlements, not benefit receipt. If UC does increase take-up, that would no doubt make the reform more of a giveaway than our analysis suggests. However, the bigger picture – that UC creates lots of winners and losers, some of whom see substantial changes – would not be drastically changed by an additional £2½ billion of spending (and, as discussed above, there are also savings from UC that we do not incorporate). There would be
more winners and fewer losers, but the patterns and general scale of the changes would be similar to what our analysis shows.

You asked whether the department has raised the issue of take-up directly with us. They have not, though we did informally briefly discuss it with a DWP analyst since the release of our report.

Yours sincerely,

Carl Emmerson
Deputy Director