Inflexibility in an integrated system? Policy challenges posed by the design of Universal Credit

It is now over a decade since Universal Credit was first proposed – thus, time to assess what it means for the future of the UK's social security system. **Fran Bennett** *and* **Jane Millar** *investigate the limitations imposed on future reforms to Universal Credit by its monthly assessment, its unitary nature, and its automated calculation. They argue that developing an integrated and automated Universal Credit has created a juggernaut of mass means testing, which is difficult to halt in its tracks or steer in different and more desirable directions, and which limits policymakers' bandwidth for focusing on other crucial elements of a comprehensive social security system.*

When Universal Credit was proposed in 2010, its architects were convinced that workless households were the policy priority and that to address this, claimants must alter their attitudes and behaviours. But the 'legacy' system of benefits and tax credits did not help them do so. And so all this must change, in order to combat 'welfare dependency'.

These arguments underlay the integration of support for those in and out of work brought about by Universal Credit. There was widespread support for the simplification it promised – to be achieved through bringing together six means-tested benefits and tax credits into one simple, 'straight-forward' system, with automated calculation. Claimants would only have one authority to deal with. Take-up should improve. Poverty should be reduced. More people would be helped to enter work and move on up. But this integration can also be seen as an iron cage limiting the flexibility of Universal Credit and its potential to fulfil key social policy goals.

It is true that there have been some changes to Universal Credit. The work allowance – the amount of earnings ignored before benefit is reduced – has been restricted to certain groups only and its amount has fluctuated. The taper – reducing the award as net earnings increase – has been lowered. These have always been seen as the major flexibilities in the system. Other changes have been made (and some later unmade) in response to political and public pressure or the pandemic. But so far, none has altered the basic structure and calculation of Universal Credit. So core design features continue to constrain its capacity to meet wider policy goals.

This came about because an amalgamated, automated benefit, claimed in one go and calculated in one process, required simple rules – 'bright lines', as they were described in one legal judgment. These lead to, first, the way the monthly assessment period works and, second, the insistence on Universal Credit being a 'unitary concept'. These two key features create areas of inflexibility. In addition, the automated nature of the calculation increases policymakers' resistance to change.

Universal Credit involves a repeated means test at the end of every month of a claim, with a rigid 'cash flow' based calculation of income and a 'whole month approach' to needs. So any income, including earnings, received in one assessment period is taken into account in calculating the award, regardless of the period for which it is paid. And the assessment includes a month's worth of any new circumstances, regardless of the date of change.

This means that the way earnings are treated – and the 'super-responsive' nature of Universal Credit as it changes potentially every month – can lead to income volatility for those in work whose pay may vary and whose pay cycles may not match assessment periods. The way changes of circumstances are handled can result in an arbitrary relationship between benefit and needs. And the amount of the award is known only a week in advance.

Thus, instead of helping claimants to budget, as its creators said it would, Universal Credit makes this harder. Leaving aside a minor change for some monthly paid workers forced on it by a court case, however, the government has resolutely refused to change the operation of the monthly assessment period – in part, it argues, because the cash accounting treatment of income and the whole month approach to changes of circumstances made automation of Universal Credit feasible.

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But one desirable policy goal which this design feature clearly makes it very hard to achieve is security of income. Thus the requirements of automated assessment appear to be over-riding this aim, despite research showing how important income security is for low-income claimants.

The second area of inflexibility concerns the unitary nature of Universal Credit. Although it is composed of different elements, the official position is that there are no specific components. Income is assessed against the whole award, meaning that no complex rules for reductions are needed. Elements cannot be ring-fenced or separated. But this potentially creates serious obstacles to adjusting Universal Credit to suit the needs of different claimant groups and to pursue other important policy objectives, such as gender equality or children's welfare.

There are in practice arrangements for housing costs to be paid direct to landlords, to protect security of tenure, even if the calculation is still integrated; and in Scotland, this option is more widely available than elsewhere. But the integrated nature of the benefit necessitates some distortion of the system to achieve this.

And the government has refused to make similar arrangements for childcare costs, which must usually be paid upfront and are not reimbursed until month's end. (Northern Ireland has invented an ingenious 'work-around', but only by distorting reality, supplying a grant and then in effect pretending it has not been paid.) So more effective support for groups facing significant obstacles to employment – single parents and 'second earners' in couples – is ruled out by adherence to the 'unitary concept' of Universal Credit.

Similarly, separate payments to partners are resisted, despite the Scottish government being committed to this in principle. Separate payments could ensure access to some income for both partners, and could leave the 'main carer' with some resources as other household income increased, as in the 'legacy' system. But the integrated nature of Universal Credit creates significant obstacles to achieving this – and thus arguably works against measures which could further gender equality and children's welfare.

The single taper rate is meant to convey a simple message about the financial advantages of work, and more work. It is known that single parents and 'second earners' in couples may be more sensitive to financial incentives. But the government argues that differential taper rates could complicate the simple design of Universal Credit. This again blocks measures helping those with more obstacles to employment and promoting gender equality.

Finally, automation increases resistance to change, as amendments to the core design may compromise it and manual interventions instead are more staff-intensive and costly. The algorithm governing the Universal Credit calculation poses particular barriers to change.

Thus, structural changes seem impossible without driving a coach and horses through core features – the operation of monthly assessment, and Universal Credit as a 'unitary concept' – and/or undermining automation. The government has set its face firmly against this. This inflexibility is rooted in ideological imperatives.

Instead, ministers now describe Universal Credit as the foundation of the benefits system. But whatever one's view of its aims, the price of trying to achieve them seems too high. In addition, a juggernaut of mass means testing has been created, which is difficult to halt in its tracks, or even to steer in more desirable directions. And disproportionate attention is being paid to one part of the social security system, with limited bandwidth amongst policy makers for others. The creation of this 'hyper means-tested benefit' was based on a strikingly narrow view of the purposes of benefits. And an over-emphasis on Universal Credit therefore limits the necessary thinking about other crucial elements of a comprehensive social security system that fulfil broader goals.

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