

No work, no pay

Supporting the unemployed through coronavirus

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This recession is a labour market recession, with the public health response to coronavirus swiftly shutting down employment-heavy sectors of the economy. Although the Government has rightly committed billions of pounds to support employers, encourage retention and bail out the self-employed, it is inevitable that unemployment will rise. For those who lose their job or fall outside the retention or self-employment schemes, the crucial cushion to soften falls in income and prevent hardship is Universal Credit (UC). This means that ensuring the new benefit swiftly gets that support to families must be a crucial focus.

To the Department for Work and Pensions' (DWP's) credit, Universal Credit's systems have not fallen over, despite being hit by a shock no one can have foreseen: claims for UC in the last fortnight were over five times higher than the equivalent peak volumes during the financial crisis. The DWP's triple goals going forward, having already increased the generosity of UC, should be to encourage claims, process them as quickly as possible, and make swift payments to families hit by this crisis.

To encourage families to claim, the Government should raise awareness of UC. It should also go further in ensuring that more families can claim UC by removing the capital rules that prevent those with savings from accessing support. Processing claims will require providing DWP with the resources it needs, and deprioritising previous roles that we have asked Jobcentre Plus to take on. To ensure payments are as swift as possible, the Government should make advance payments of UC widely available and suspend the repayment of these advances for six months for all new claimants to encourage their take up.

To see how this central plank of the economic response is performing, we need the same approach to regular data publication as we have in the medical response. DWP should publish, at least weekly, real-time information on the number of claims to UC, the time to process awards, and details of how quickly first payments are being made. If the DWP is not coping with the volume of new claims, then it should urgently be given more resources. But if the systems are coping as designed, then being open with this data will provide reassurances that the UK safety net is working as intended.

Despite the extraordinary new systems to support employees and the self-employed, Universal Credit is being hit by an economic shock no one could have foreseen

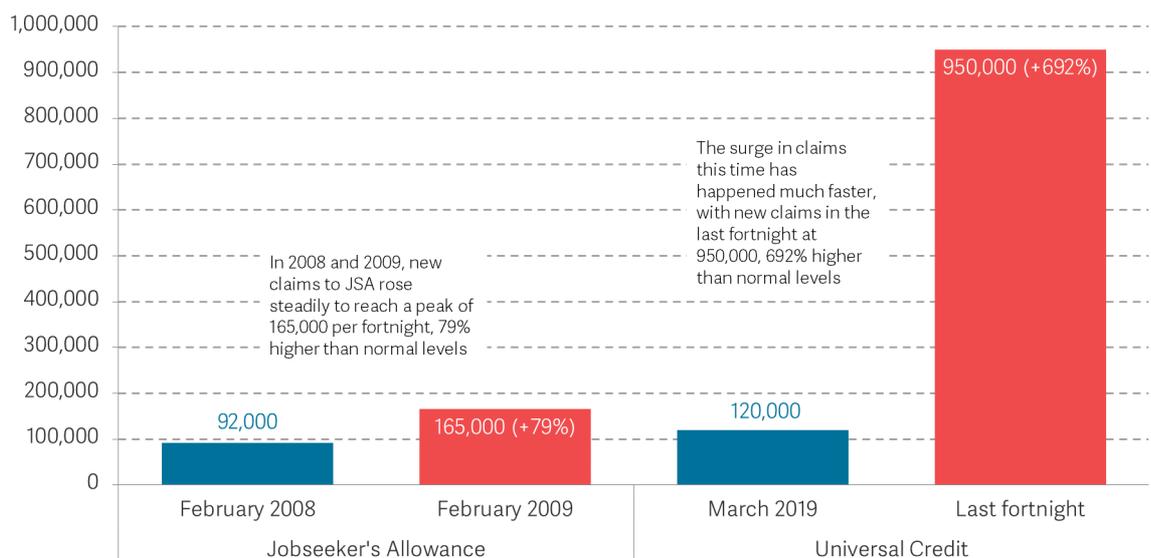
In the past two weeks, the Government has – quite rightly – announced billions of pounds of financial support for businesses and individuals in the face of the coronavirus crisis. This is money well spent, because putting the economy on life support today will mean a better recovery in the future. These include [government-backed loans or grants for certain businesses](#), a [job retention scheme](#) for firms who want to furlough their workers for the duration of the crisis, and a very large package of [support for the self-employed](#).

But this recession is going to be a labour market recession, with the public health response to coronavirus shutting down labour-intensive parts of our economy. And we already know that the measures that the Government has announced are not going to be enough to prevent unemployment from rising. This week, the DWP revealed that over five times as many people started a claim for Universal Credit in the last fortnight compared to the peak of successful new claims to Jobseeker’s Allowance payments during the financial crisis, as Figure 1 shows. People are losing their jobs now, either because firms are already going bust, or because they can’t afford to wait for the retention scheme to start making payments. Such is the scale of the shutdown to parts of our economy that it seems likely that the eventual rise in unemployment will be at least as large as, and much swifter than, that seen during the financial crisis, despite the unprecedented schemes put in place to halt its increase.

Figure 1

New claims to Universal Credit are almost 700 per cent higher than normal

Fortnightly new claims to Jobseeker’s Allowance and Universal Credit: GB



Notes: Universal Credit and Jobseeker’s Allowance not directly comparable, because UC includes other new claims. UC figures are not seasonally adjusted. JSA figures have been adjusted to be fortnightly. Latest figures represent the last fortnight of claims submitted rather than successful claims. Other figures represent an average for the given month.

Source: ONS, Nomis; DWP, Stat Xplore; Department for Work and Pensions.

For those made unemployed, those who have had their hours cut but not reduced to zero, and those who otherwise fall outside the scope of the retention scheme and the self-employment support package, the key cushion to prevent catastrophic falls in income is provided by UC. In months to come it will be important to help these people to find new work, but right now the focus must be on providing financial support to families who have no other means. It is crucial that those in need claim UC and any other benefits to which they are entitled, have their claims processed quickly, and get money into their accounts as soon as possible. How those things can happen is the focus of this note.

The Universal Credit system has not fallen over, despite huge volumes of new claims

Alongside the surge in claims for UC over the past two weeks have been stories about [on-line queues to access the DWP's claims system](#), or to go through the [on-line identify verification process](#) (which is provided by external contractors, including the Post Office). The DWP says that it has redeployed civil servants who have worked through weekends to process the extraordinary number of new claims (which will in part reflect the fact that staff numbers at DWP have [fallen by almost 40 per cent](#) since 2010). And to the Department's credit, its Universal Credit systems have not failed, despite being hit by a shock no one can have foreseen. Indeed, the fact that UC is much more digital than Jobseeker's Allowance means it is probably better able to cope with these sorts of volumes (Box 1 sets out what is involved in making a claim for Universal Credit).

It is likely that the extremely high levels of new claims during March have been caused mostly by the almost overnight impact of announcing restrictions on businesses and individuals. This should provide some hope that the volume of claims should soon fall from the current unprecedented highs, even if it remains elevated above both normal times or those seen during the financial crisis. But, it would be unwise to be complacent. We are only just [beginning to see the economic effect of coronavirus](#), meaning there will be more redundancies and many more UC claims to come. So, the DWP should continue to do what it takes to ensure that people can claim UC as easily, and as quickly, as possible, in particular by continuing to redeploy staff away from lesser priorities. The Department should also be clear that the conditionality regime will not apply, or will be only the very lightest of light touches, for the period during which normal economic life is on hold.

The DWP should make claiming an advance payment as easy and as automatic as possible, but also pause the repayment of advances for six months for all new claimants

We know that [many low-income households have no savings and high-interest debt](#). In such circumstances, asking families to wait five weeks for their first payment risks causing more

hardship, which is why the Government must continue to support the timely payment of UC advances for new claimants.

As we mention in Box 1, advances can be requested at the time someone initially claims UC and should be paid within a week of completing a claim. But UC advances do have a drawback: they are advances on future entitlements, and must at some point be repaid. The Government announced in the Spring 2020 Budget that it will extend the period over which advances can be repaid to 24 months from October 2021, but it can go further still. At present, claimants can defer repayment of their advance for three months under exceptional circumstances. Given the current crisis is an exceptional circumstance, repayments on all new claims should be paused for six months, to ease the financial pressures that come with unemployment and to encourage those who would benefit from them to take up advances.

Box 1: Claiming Universal Credit

Step One: The claimant(s) [complete a claim online](#), using the [help to claim service](#) if necessary, or apply [over the phone](#).

Step Two: Individuals verify their identity through GOV.UK Verify or over the phone with a DWP advisor. Due to the long call wait times, DWP is actively phoning new customers.

Step Three: Those who need urgent financial support can apply for an advance of up to one month's UC payment online.

Step Four: Claimants will book and attend a new claim interview over the phone. They will agree to search work for work where appropriate (although no sanctions are being issued at present for failing to do so).

Step Five: The UC Award (minus any deductions for advances, overpayments and other debts) is paid five weeks after the initial claim was made. Payments continue every month, taking into account changes in earnings.

This pause in UC deductions should also apply to other categories of debt, including from previous benefit overpayments and rent arrears. The reason is simple: people are unemployed through no fault of their own, and in the current climate it is difficult to find new work, so they should not be financially penalised during this period. Those with mortgages are able to suspend payments until the pandemic is over, and firms have access to interest-free loans: UC claimants requiring a benefit advance should be treated no differently.

After big increases in Universal Credit generosity, making many more families entitled to receive some support, the Government now needs to raise awareness

The changes to benefits announced since the 2020 Spring Budget are estimated to have cost the Government £7 billion over the next year. As well as the increase in the standard allowance by £1,040 per year, which extends the range of income within which people can

receive UC by £1,650, the Government has made the support for renters within UC more generous, [especially in areas which have experienced rapid growth in rents since 2012](#). The Government has also made UC much more useful for the self-employed, by [scrapping the minimum income floor](#). Despite the record number of new claims to UC, it is possible that many households are unaware of the support available, particularly those who are in work. We don't have official estimates of take-up rates for UC, but the [latest estimates of Housing Benefit take-up](#) show that around 17 per cent of those entitled did not claim and 11 per cent of families with children [entitled to Working Tax Credit](#) did not claim either. The Government should therefore be promoting awareness of UC, and making clear that it is the third pillar of its package to support family incomes alongside the job retention scheme and the self-employment support package.

The Government should soften the impact of means-testing so that Universal Credit can act as a universal safety net

Like most means-tested benefits, entitlements to UC are assessed against both family income and savings, with payments reduced if a family has savings above £6,000, and falling to zero for those with more than £16,000 put aside. This means that a worker who has high levels of savings may not be able to access UC at all if they are made redundant (or if their self-employed business collapses and they cannot access the new support scheme for the self-employed). Again, at a time where many are experiencing income shocks through no fault of their own, this unfairly affects families who have been made unemployed, cannot find new work, and will see their hard-earned savings reduced. As an example, consider a family with two young children that has saved £24,000 or more to use as a deposit for a house. Under the current rules, they would be disentitled to a UC award of around £1,400 per month (based on typical housing costs). If the coronavirus restrictions continue for the next six months, and both parents are unable to find work, this family would have to use £8,000 of its savings to compensate for the lack of any UC award.

Within UC, the Government could limit, or temporarily suspend, the so-called capital test. Scrapping this test entirely would bring UC into line with the legacy system of tax credits, in which entitlements do not depend directly on capital at all. Although the UC IT systems would take a considerable amount of time to formally operationalise a suspension of the savings means-test, the Government could legislate to allow both claimants and Jobcentre Plus staff to say that a family has zero savings, whatever their actual savings levels.

To see how this central plank of our economic response is performing, we need the same approach to regular data publication as we have with the public health response

The recommendations set out above will ensure that Universal Credit delivers the support that many families will need. Alongside those, it is essential that DWP publishes real-time

information on the number of claims each day or week, how quickly and accurately it is processing new claims, and how long claimants are waiting for first payments (whether advances or not) to be paid. This data is available internally – as was [disclosed at the recent Work and Pensions Select Committee hearing](#) – but at present there is no routine information published on advances, and data on payment timeliness for March 2020 will not be published until August this year.

We do not make this suggestion because we think there is something to hide, but because timely data during a crisis is crucial to effective communications and decision-taking. If the DWP is not coping with the volume of new claims, then it urgently needs more resources. If the systems are coping as designed, then publishing more timely data will help dispel some of the bad news stories, and provide peace-of-mind for those who need to claim Universal Credit in the weeks ahead: they can be sure the UK safety net is working as intended.