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Talking Universal Credit: In conversation with Lord Freud, Minister for Welfare Reform

Roy Sainsbury

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Abstract

This article draws on an interview with Lord Freud, the Minister of State for Welfare Reform since May 2010, and explores the origins of Universal Credit and how it was turned over the course of five years or so from an aspirational idea into a detailed blueprint for change and finally into legislation in the form of the Welfare Reform Act 2012. What emerges is an intriguing case study in British policy making. At the time of the interview in July 2013 the implementation of Universal Credit had just begun in a small number of pilot areas. Lord Freud also discusses the objectives of Universal Credit and when and how we will know whether these are being met.

Key words: Universal Credit, welfare reform, policy making, benefits

Introduction

David Freud must have one of the more unusual backgrounds for a senior politician in the UK. After retiring early from a career in investment banking he entered directly into the inner circles of policy making with his appointment in 2006 as adviser to the then Labour Secretary of State for Work and Pensions, John Hutton. He spent a second spell as an adviser in 2008 to a subsequent Secretary of State, James Purnell, a post he resigned in February 2009 to join the Conservative Party (then in Opposition). He was quickly made a peer in July 2009 and became a shadow welfare Minister in the Lords. In Opposition he helped write the policy document *Get Britain Working* (the blueprint for the Work Programme) and contributed to the 2010 Conservative Party election manifesto. He was appointed as Minister for Welfare Reform in the Department for Work and Pensions under Iain Duncan Smith as Secretary of State immediately after the establishment of the Conservative/Liberal Democrat Coalition Government in May

2010, a post he has continued to hold through two reshuffles, most recently in September 2013. He is the Government Minister with responsibility for the implementation of Universal Credit.

In the spring of 2013 Universal Credit had entered its initial phase of piloting whilst plans for the national rollout continued to be made. As a contribution to this Special Issue the Minister who has held the brief for introducing Universal Credit Lord Freud, agreed to be interviewed about the how aspirational ideas about simplifying the benefit system were transformed into Universal Credit and about the early days of piloting the new scheme. I met Lord Freud in his office in Whitehall on 2 July 2013 and digitally recorded our conversation. The extracts that appear in this article have been edited only minimally to remove the usual 'ers' and 'ums'.

What emerged in the course of the interview was a story of how policy making happens in modern government and the sheer volume of work that goes into it, and a picture of Universal Credit not as a fully and perfectly formed piece of social policy but more as an organic policy deliberately designed to allow it to be changed in order to meet its ambitious objectives.

Universal Credit – the first steps

The roots of Universal Credit can be found in *Reducing dependency, increasing opportunity* (DWP 2007), known as the Freud Report, produced when David Freud was an advisor to John Hutton. That report was produced to a very tight timetable and could not, he recognises, do everything.

'I had a matter of weeks to write a report on the welfare system.... I concentrated in that report on how to reform the welfare to work system and on how to tackle the real problem, which was not unemployment but inactivity, and a culture of inactivity. A third area, which I did not have a chance to consider in detail, was the benefit system which did not have the right incentive structures, so I wrote a short piece on trying to find something with the right incentive structures. I said there should be a Commission on the benefit system itself. I could see there was a huge problem here but I couldn't solve it in a matter of weeks. I thought a single system was the way to go but a Commission was my solution.'

The idea of a Commission to look into the benefits system did not find favour with the government, however, and he detected a lack of political support from the top. Although radical benefit reform was discussed as a possible way forward in Labour government policy documents in the years following the Freud Report (DWP 2008; 2009) it was the think tank the Centre for Social Justice, and in particular its Director Stephen Brien, that took the idea of benefit reform further forward.

'The only people who took up that challenge was Iain Duncan Smith in the Centre for Social Justice. And he employed Stephen Brien to write a report. Stephen said "we took up that challenge. We saw that was the hole and we decided to take up that challenge.'

Serendipitous policy making – from an idea to fruition

The account that David Freud gives of what happened between then and the passage of the Welfare Reform Act in 2012 provides a rare insight into policy making in the UK and the roles played by not only political will but also chance and good fortune.

In the summer of 2009 the Centre for Social Justice published *Dynamic Benefits*, a radical plan to reform not just the benefits system but also the system of in-work tax credits (Centre for Social Justice 2009). Freud had found the key to tackling the part of the welfare system that he had not had space and time to develop in *Reducing Dependency*.

'For the first time, I saw a way structurally of having one benefit but having it sensitive to the individual, and having this idea of the taper to tie over between the benefit system and the tax credit system. That was where it was clever. You could never have invented Universal Credit in terms of affording it, unless you already had a tax credit system, which was inefficient. But the money was there, and you could tune it into Universal Credit.'

The task then began of turning the idea of a combined benefit and tax credit system into the reality of a workable policy. Freud described how, over the winter of 2009/2010, he tackled a number of different challenges. The first was political.

'What I had to do was make it politically acceptable and workable. My own view is, when you've got something like this, you cannot have it being politically contentious and whatever the shouting and yelling round the edges, it is basically not politically contentious. It is something that I would be most surprised if any future government, of any complexion, doesn't go on running with.'

One decision that was taken was to exclude Disability Living Allowance (DLA) from Universal Credit, recognising that DLA, as a non-means-tested benefit, had a different logic from out-of-work benefits such as Jobseeker's Allowance and Income Support:

'...there was a very strong argument to say that you needed the same amount of money to deal with a particular condition, regardless of your income ...and [incorporating DLA] would have been hugely resisted by the disability lobby. And I think when you are bringing in something new you have to have enough sensitivity to the key lobbies to do something that goes with the grain.'

Another challenge that almost stopped the whole project was initially technical but later turned into a political problem. It was recognised that Universal Credit would need a

totally new IT system, and that without up-to-date and accurate information about people's earnings it could take a long time to introduce.

'...we talked to people who knew how the different systems worked - in HMRC [Her Majesty's Revenue and Customs] in the Tax Credits and in DWP [Department for Work and Pensions] for the benefit system. And we were told this is a fabulous idea, you need to do it and it will take you eight years to introduce, to build a new system.'

This timeframe appeared to put the whole project at risk but, in what Lord Freud called 'a story of serendipity', hope was restored following his discovery that four years of the work had effectively already been done.

'...(a commercial organisation) had just spent the last four years building for HMRC, a real time system of PAYE. So clearly, I realised pretty fast that if we could get a feed of people's earnings on a monthly basis, we could have a live system which was responsive to people's real needs every month and that, of course, was the huge problem of any single benefit system ...you just have to have that information. I had not realised that they had done four years' work. Four years' work takes four years out of your eight. So suddenly we had a potential way of doing this...'

Lord Freud explained that the planning was too embryonic to allow for public announcements at that stage.

'There were just too many loose ends going around to open up what was a massive new thing - basically a re-build of the tax system and a re-build of the benefit system in one. But I got going on designing what we had to do to introduce it.'

The pace of development changed gear after the general election in May 2010.

'It was then essentially a race against time, and has been ever since. I didn't realise when you start quite how every day matters. We had until late July to get a Green Paper¹ out saying what our plans were. Which we did. In that process we had to persuade the Prime Minister, or explain to the Prime Minister, and others how the electronic system would work. Bring government on board with it. So astonishingly little time to do that. Every day mattered. Then you swing from that into producing a White Paper, which we did in the Autumn.² And then straight into a Bill.'

After its publication in February 2011 the Welfare Reform Bill began its parliamentary passage.

'The Bill takes all year and is the most astonishingly hard work. I think in the summer I had to spend 75 hours in Committee and report stage, and the interesting thing about the process was ... how orientated around the Lords it actually was. I think there was one change in the Welfare Bill done in the Commons stages, but I must have made 30

¹ 21st Century Welfare (DWP 2010a).

² Universal Credit. Welfare that Work (DWP 2010b).

changes or commitments to get it through the Lords' processes. Because there is no majority in the Lords you have to carry enough Cross Benchers to get things through. At the beginning of every week of the Committee stage, we would have a session. We would go through it with the interested Peers, the Opposition, cross Benchers, exactly what we are trying to do, so we didn't spend a whole lot of time with someone waving the wrong end of the stick vigorously. You know people knew what the issue was, focused on it. We could address it. So it was argued through very thoroughly. Quite a lot of very good ideas from the Lords, including from the Opposition, which we incorporated. I think that that's a testament to what you can do in the Lords and the seriousness which Peers take to concentrate on issues and the value that they can add.'

After the Welfare Reform Act was passed in early 2012 the task of compiling a new set of regulations began.

'This was an immense labour for the Department and the risk in that period was that we just took the existing system, carbuncles and all, and just imported it over - so we took the opportunity to really have a hack at big areas of it... trying to get a simplified system; so the actual regulations I think are a quarter, if that, of the regulations they replace. And that was a huge labour. And then the final element was to get them to SSAC³ and SSAC did an extraordinary job. We adopted most of what they said.'

He concludes his account by summing up:

'We actually had a good process. We had built the structure of the system.'

Putting Universal Credit into practice

At the time of our conversation in early July the implementation of Universal Credit had entered only its most early stages of being piloted in one area of the North West, Ashton-under-Lyne. Although it was clearly early days, I asked Lord Freud when and how we will know whether Universal Credit could be considered a success. He answered initially with a note of caution. His view was that Universal Credit was such a huge policy change that it could not be fully tested in advance. It had to be introduced gradually and improved as and when necessary.

'...you can't test that, you've got to do UC and then you find out... But I think we will start off with a system, with an architecture which is OK, but an architecture which allows you to (a) optimise what you've got and (this will take you 20 years plus) keep the system moving with society, because if you are constantly testing all the parameters of it, you can keep it rolling, and we have never had an architecture like that before.'

³ SSAC is the Social Security Advisory Committee, the statutory body whose remit is to scrutinise most social security secondary legislation and make recommendations to the Secretary of State.

To enable Universal Credit to be responsive to new demands or priorities, there is provision within the legislation to allow DWP to vary some of the parameters (for example, the levels of the earnings disregards,⁴ or the conditionality and sanctions imposed on claimants) in local areas. Another parameter, the level of the taper at which benefit is withdrawn as income from wages rises, is one that Lord Freud wants to explore further in these experiments. In *Dynamic Benefits*, a taper rate of 55 per cent was recommended in order that claimants would experience a sharp rise in their income if they moved into work from benefits. However, the eventual taper implemented in 2013 was 65 per cent - a decision based at the time on affordability. Lord Freud did not express disappointment at this, recognising that he at least had the opportunity of experimenting with different rates in different parts of the country in the coming years.

Although he recognised the power of randomised controlled trials in evaluating the impact of Universal Credit experiments, he also acknowledged that what he called 'pure RCT' was probably not feasible. However, he was enthusiastic that the large data sets (of management information) that would naturally be built up in the course of implementing Universal Credit would enable him to use other, quasi-experimental techniques to measure impacts.

'... in Universal Credit it could be almost free to collect what happened to all these people. We should have it on the records; we have their earnings, were they in work, what is the pattern. It could almost be a free resource. Almost. So the only cost is setting up the people to do the different thing, watching what happens to them afterwards, free. So we can start thinking in terms of tens, hundreds, even thousands, of experiments.'

We talked about the expectations that Universal Credit will encourage more people back to work. I asked whether Universal Credit could ever be a major driver behind reducing unemployment, in comparison with other DWP policy levers, such as the Work Programme. In response, Lord Freud expressed his confidence that Universal Credit would remove some of the 'fear' about trying employment or moving into a new job. He referred to internal DWP projections that suggested that as many as 300,000 extra families would have someone in employment in 'the early stages' and that this would be an independent effect of the new benefit system.

'An element of it is simplicity, lack of fear, just the fact that I can do a bit of work but if I fail I don't have to reclaim to get back on my benefits. That's a removal of barriers to taking risk. My own view is I think we've under-egged that hugely. I think that's going to be a major attraction for people, particularly for people who have got fluctuating disabilities. I think that is going to completely transform their attitude to doing a bit of work.'

Lord Freud was keen to return to one of his key aims from six years earlier when he first became involved in welfare reform – to reduce inactivity. Even without Universal Credit

⁴ I learned in the course of the interview that disregards had acquired a new name under Universal Credit. The new term is 'work allowances'.

he argued that government policy was having an impact by reducing the number of people on inactive benefits such as Incapacity Benefit and Income Support. He referred to two principal measures that had produced these effects – the reduction in the ages of children of lone parents that entitles them to Income Support and the reassessment of claimants on Incapacity Benefit. Both measures have produced a transfer of claimants from these inactive benefits on to active benefits.⁵

‘...we have roughly reduced inactivity by about half a million. That has been a massive move. Look at the contrast with what’s happened in America in the period. We used to level peg with America on employment figures. Today we are roughly 71.5% in work and America is down at 67% and their unemployment rate is better than ours, so they have seen inactivity go through the roof. And that has been in a time of the worst recession that we have ever seen. The current figures actually suggest that the recession in 2008/09 was probably worse than the 1930s. To have got through that recession without seeing disability go up half a million, which is the kind of figure you would expect in the 80s and 90s, but actually see it going the other way, is a remarkable achievement.’

I returned to the question of how we will know whether Universal Credit is working. What might be achieved by the next election in 2015? Lord Freud readily admitted the difficulties in measuring impacts.

‘The trouble is the statistics are hard to use and getting harder. They come out in arrears. There’s all kind of rules about when we can use them, so I’d like to feel we have a feel for it by the election. I think we will be able to have a much clearer idea of the poverty impacts. Just because we know where the money is gone. And that’s going to be much easier to measure. It’s always harder to measure the behavioural responses. I think it will take a little time to know the outcomes.’

As our interview approached its end Lord Freud re-stated the overriding aim of Universal Credit – to change people’s thinking about benefits and working and ultimately to change their behaviour.

‘I think what we want is a system that doesn’t act as a barrier to people in being independent and running their own lives. I also want a system where people know what will happen if they change their behaviours or if they do something. I think the worst thing about the existing system is a lot of people know very well exactly where they stand if they stay exactly in the same place with the same circumstances. They haven’t got a clue what would happen if they do something, take a job or something, and that actually, because the system is so complicated, and that stops people from doing anything and that I think is really dangerous not just for economic reasons, but for health reasons. Because I think if you take people’s freedom of action ... freedom away, freedom to change and try things, and you make them dependent in that way, which is what you are doing, you make them ill. I am following the theories of Aaron Antonovsky who says that people are healthy when they are resilient and understand what is happening round them, to them; they have control. So giving people back control of

their lives is something that will be hugely beneficial to people, to their physical and mental health, and their basic happiness and I think that is almost the most important thing about having a nice, comprehensible, simple, straightforward, personal benefit system.'

And reiterating a point made earlier, that Universal Credit would develop and change in the light of increasing understanding about its effects, Lord Freud concluded the interview with his view of the future:

'This is just the beginning.... Universal Credit will roll and roll.'

Notes

¹ 21st Century Welfare (DWP 2010a).

² Universal Credit: welfare that works (DWP 2010b).

³ SSAC is the Social Security Advisory Committee, the statutory body whose remit is to scrutinise most social security secondary legislation and make recommendations to the Secretary of State.

⁴ I learned in the course of the interview that disregards had acquired a new name under Universal Credit. The new term is 'work allowances'.

⁵ Economically inactive people are not in work and do not meet the internationally agreed definition of unemployment. They are people without a job who have not actively sought work in the last four weeks and/or are not available to start work in the next two weeks. Benefits for economically inactive people include long-term sickness benefits (such as Employment and Support Allowance) and Income Support. In contrast Jobseekers Allowance is paid to people deemed capable and immediately available for work.

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Roy Sainsbury
Social Policy Research Unit, University of York
roy.sainsbury@york.ac.uk