NEW ECONOMICS FOUNDATION

SOCIAL SECURITY FOR ALL

UNIVERSAL CREDIT AUTO-ENROLMENT AND A WEEKLY NATIONAL ALLOWANCE

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EXECUTIVE SUMMARY

The Covid-19 pandemic resulted in millions more people needing to turn to the social security system for support. During 2020, the number of people on universal credit more than doubled, and remained at these unprecedented levels throughout 2021. Although the Department for Work and Pensions (DWP) was rightly praised for managing this massive surge in demand, many people still struggled to access sufficient support during this period. The experience has highlighted some key problems with our social security system and brought these to the attention of a much wider cross-section of the public.

Much of the recent debate has rightly focussed on the adequacy of benefits, and in particular, the £20 universal credit uplift put in place during the pandemic. This uplift ended at the beginning of October 2021, a decision which was predicted to have a devastating impact: the Joseph Rowntree Foundation (JRF) found that 21% of all working-age families in Great Britain will experience a £1,040 a year cut to their incomes,[1] while Citizens Advice reported that it could push 2.3 million people into debt.[2] Cuts to the universal credit taper rate and tweaks to work allowances at the October Budget still leave around three-quarters of claimants (73%) worse off than they would have been had the uplift stayed in place.

NEF has been clear that, even with the £20 uplift, universal credit is inadequate and that we should be working towards a level of support that guarantees everyone a living income to reflect their circumstances, in line with JRF's Minimum Income Standard, to ensure that people can live in dignity, whether in or out of work.[3] Our previous modelling shows that around 32% of the UK population – 21.4 million people – were living below this minimum socially acceptable standard of income by the end of 2021.

However, benefit rates are only part of the equation – questions around eligibility, accessibility, and take-up are also critical in determining whether people get the support they need. Moving towards a guaranteed living income for all will require significant changes to the way our social security system operates.

There has been growing interest in approaches that could deliver this scale of change. A Universal Basic Income (UBI) would provide a regular unconditional payment to everyone, while a Minimum Income Guarantee (MIG) would top up everyone's income to a minimum level. Both approaches have their pros and cons. A UBI is elegantly simple but would be an expensive way to ensure a living income; an MIG would target resources at those who need them most but would be complicated to administer.

This report sets out two proposals that, through repurposing elements of the current tax and benefits architecture, would introduce key elements of both a UBI and an MIG, striking a balance between the universalism of the former and the efficiency of the latter:

- A Weekly National Allowance would replace the personal allowance of income tax with a weekly payment of £47.30 to all but the highest earners. This would effectively reinvest billions spent on a regressive system of personal tax allowances into a redistributive approach to ensuring that everyone has a basic level of income.
- Auto-enrolling everyone onto a reformed model of universal credit would mean that people receive additional financial assistance to top up their income to a minimum level whenever it drops below this, without them having to proactively apply for support.

These proposals would ensure more people have support when they need it. The Weekly National Allowance would provide everyone with the security of a consistent level of income they can rely on, as well as a collective stake in our social security system. It would also reduce inequality: the net distributional effect would be to take around £8bn currently spent on tax allowances for the 35% highest-income families and reallocate this to the remaining 65% of families. A more automated system of universal credit enrolment and payment would mean that we could all expect additional support to be provided when we are struggling, just as we expect our income to be taxed when we are earning.

Both proposals would also help to break down the divisions created by a toxic narrative that sets 'taxpayers' against 'benefit claimants' and, in doing so, reduce the stigma associated with receiving support. Together, the proposals would see net spending on cash transfers to families on low incomes increase by around £13.3bn, equivalent to around 83% of the cuts to welfare made between 2010 and 2019. This would increase disposable incomes for the poorest 10% of families by an average of around £2,000 per year (an increase of around 36%) and lift three-quarters of a million people out of poverty.

The proposals would not in and of themselves guarantee a living income for all. We have modelled the Weekly National Allowance at a rate that would render it cost-neutral compared to the personal allowance of income tax, and auto-enrolment for universal credit at current rates but with a greater level of uptake. One or both of these payments would need to be substantially increased to guarantee everyone a living income.

The proposals, however, would mean that more people have support to rely on when they need it, and would lay the foundations of a social security system capable of guaranteeing a living income for all. By demonstrating the potential of an alternative approach, we believe the proposals would help to build public investment in and support for the social security system. In turn, this could precipitate greater political will to increase payments to a level that ensures everyone has a sufficient income to thrive.

1. THE POST-PANDEMIC CONTEXT

The Covid-19 pandemic has highlighted the critical role our social security system plays in supporting people during times of need. Although many people will move off of universal credit as the labour market recovers, millions more will continue to need financial support due to unemployment or low earnings. The crisis in living standards we were experiencing before the Covid-19 hit will be further exacerbated by the economic impact of the pandemic.

Responding to this crisis in living standards requires a social security system that provides sufficient levels of financial support, but also ensures that everyone gets this support when they need it. In contrast, before the pandemic our social security system had provided a declining level of financial support and had demanded more of 'claimants' in return. These trends have generally been justified based on public opinion and a need to "protect taxpayers money".[4] But the national experience during the pandemic could offer a window of opportunity for a different conversation about the future of social security.

1.1 WE ARE IN THE MIDST OF A CRISIS IN LIVING STANDARDS

The effects of the Covid-19 pandemic followed a decade of stagnant growth in real earnings; rising housing costs for renters; and freezes, cuts, and caps to working-age benefits, particularly those received by families with children. This served to hold down the living standards of the poorest while widening inequalities across the population as a whole. Across the two decades leading up to 2020, the poorest 10% of families saw their income grow by just 3% after housing costs – six times slower than the average. As a consequence, nearly three in ten people were already living in households with incomes below the Joseph Rowntree Foundation (JRF) Minimum Income Standard (MIS), even before the pandemic began. Despite work being touted by politicians as "the best route out of poverty", an increasing proportion of working households are living in poverty.[5]

The pandemic has greatly accelerated this crisis of inequality and living standards. Extended lockdowns have prevented people from working for months on end, and despite large numbers of jobs being supported through the furlough scheme, there has been a significant toll on employment and earnings. The previous NEF forecast modelling estimated that without a change in government policy, 32% of the UK population – 21.4 million people – would be living below a socially acceptable living standard by the end of 2021, as measured by the MIS.[6] The measures at the 2021 October Budget will have done little to change this. For example, cuts to the universal credit taper rate and tweaks to work allowances still leave around three-quarters of claimants (73%) worse off than they would have been had the uplift stayed in place.[7]

Social security has the potential to play a crucial role in supporting living standards and alleviating this crisis, but only if it is at a sufficient level to support people in their time of need, and we can ensure it finds its way to those who need it.

1.2 THE PANDEMIC HAS SHIFTED THE SOCIAL SECURITY DEBATE

Our social security system has rarely been out of the news during the pandemic, with unprecedented numbers turning to universal credit for support leading to high-profile debates about its sufficiency and accessibility.

A key reason these questions have received more attention and scrutiny is the shift in the socio-economic profile of people turning to benefits for support. The economic impact of the pandemic led to many people who would never previously have considered the possibility of applying for universal credit being forced by circumstance to do so. The Covid-19 cohort of universal credit recipients were more likely to be younger and from a higher 'social grade', and more likely to be university graduates and/or homeowner/occupiers than recipients were before the pandemic.[8]

There has been optimism that having a wider cross-section of the public exposed to the reality of life on benefits could lead to a shift in attitudes: a stronger sense of buy-in for our social security system, a diminishing of the stigma often associated with benefits, support for increases to payments, and greater empathy for the difficulties people face in applying for benefits and maintaining their claim.[9] Some initial evidence from the pandemic supports this, with research by the Fabian Society in February 2021 finding a significant decrease in the number of people who thought that benefits were too high,[10] and polling by The Trussell Trust in March 2021 suggesting that attitudes had softened around the idea that it was shameful or embarrassing to claim benefits.[11]

However, NatCen, who conduct the *British Social Attitudes* Survey, have heeded caution in predicting the long-term effects of the pandemic on public attitudes towards social security.[12] The *Welfare at a (Social) Distance* research project found that people were particularly sympathetic to those needing support due to the pandemic but that this didn't necessarily reshape their underlying views on social security.[13]

Even if the pandemic experience does not in and of itself transform public perceptions of social security, it certainly offers"discursive opportunities" to change the political debate.[14] For example, the prospect of the £20 uplift being removed led to many Conservative MPs calling for it to be made permanent. It is hard to imagine these same MPs, or even many Labour MPs, arguing for an uplift of this scale before the pandemic.

Although we should be mindful of public opinion on these issues, we should also recognise that it has been shaped by a narrow and highly politicised debate about social security and that new approaches, particularly if they resonate with people's experiences, have the potential to reframe how people perceive the system.

2. FACTORS LIMITING ACCESS TO SOCIAL SECURITY

Beyond the rates at which benefits are paid, a key barrier that stands in the way of our social security system being able to ensure that everyone receives a living income is that many people do not seek, or struggle to access, support when they need it. There are a variety of practical and cultural reasons for this.

2.1 POOR UPTAKE OF BENEFITS AND DELAYED CLAIMS PERSIST

Many people did not seek support in the wake of the pandemic despite experiencing financial difficulty. It is estimated that around 500,000 people who could have made a claim for universal credit in the early part of the pandemic did not do so because they either did not know they were eligible, or they thought they might be but were put off by the hassle and stigma associated with applying for and being on benefits.[15] As a result, people in this group were more likely to experience both financial difficulty and, in turn, poor mental health.[16]

The low uptake of benefits that people are entitled to receive has been a long-standing problem in the social security system. It is estimated that over £15bn of benefits went unclaimed in the most recent year for which data is available (2018/19), a figure that does not include universal credit, for which the Department for Work and Pensions (DWP) does not produce estimates of uptake.[17] Trends for jobseekers allowance, the predecessor to universal credit, suggested that poor uptake of the benefit was a growing problem, and only just over half of those eligible to claim did so in 2015/16 (the last year for which this data is available).[18]

This low uptake could be down to several factors, including the negative portrayal of benefits in the media, increased expectations and requirements placed on those receiving support, and the reduced availability of services offering advice and support to claim.[19,20,21] DWP expected universal credit to increase benefit take-up by consolidating multiple benefits into one,[22] but the evidence from during the pandemic as discussed suggests under-claiming is still a significant problem.

Even among those people who did claim universal credit during the pandemic, around half delayed doing so by at least a week, and many for longer, again often due to not knowing they were eligible or being reluctant to rely on benefits.[23] These sorts of delays, especially if they involve resorting to other sources of support, such as borrowing money, can lead to people ending up in greater financial difficulty. In a Parliamentary evidence session in March 2021, Will Quince MP, the DWP Minister for Welfare Delivery at the time, acknowledged this issue:

> One of the biggest problems that we find is that people are not making their application for Universal Credit at the point at which they become eligible but delay until they have exhausted their own financial resource and they hit crisis.[24]

The stigma associated with benefits and the misconceptions people may have about their likely eligibility are interconnected. Political and media rhetoric that has denigrated the status of people supported by benefits, and often questioned the validity of their claims, not only discourages people from applying but also creates stereotypes of the 'sort of people' who claim benefits.[25] In distancing themselves from these stereotypes, people may well assume that they are not eligible for this sort of support.

One example of the political and media narrative contributing to this stigma is the false distinction that is often drawn between taxpayers and benefit claimants. In fact, many people supported by benefits are also working and paying taxes. The most recent data shows that 37% of people on universal credit are in work.[26] Even those who are out of work in one snapshot measurement will nonetheless be taxpayers at other times during that financial year – the majority of unemployed people are out of work for a period of less than six months.[27]

The prevalence of this false distinction could lead someone who is working part-time, for example, to not realise that they may be eligible for universal credit. The in-work tax credits that universal credit incorporates were previously paid by Her Majesty's Revenue and Customs (HMRC) rather than DWP precisely to try to avoid the stigma associated with support from benefits.[28]

The automation of the tax system stands in stark contrast to the social security system. Under the pay-as-you-earn (PAYE) system in the UK, income taxes are automatically withheld from earnings and pensions. Around 85% of income taxes are collected through PAYE, sparing the majority of taxpayers from submitting a tax return: a much more efficient and simple system.[29] It is not obvious why it should be the case that taxes are automatically deducted while benefits must be proactively sought.

If the current system that relies on individuals to proactively seek support from benefits remains unchanged, we will continue to see people delaying or deciding against accessing financial support that they need because of shame or lack of knowledge.

2.2 MANY PEOPLE FACE PROBLEMS ACCESSING UNIVERSAL CREDIT

DWP has rightly received praise for how its staff and the universal credit system responded to the huge strain and pressures created by the Covid-19 pandemic. The redeployment of thousands of civil servants and the capacity to process claims entirely online meant that the hugely increased demand for universal credit was largely met. The majority of people reported being satisfied with the application process and the way their claim was handled.[30]

It is worth noting that reported satisfaction levels were lower for people who had applied before the pandemic, and therefore did not benefit from the streamlined process put in place in response to the unprecedented demand DWP faced from March 2020 onwards.[31,32] The shifting profile of applicants, discussed previously, may have also meant that people in the new cohort were more confident and able to navigate online processes.[33] Nonetheless, more than one in four applicants during the pandemic was not satisfied with the process, many people experienced long waits to make their applications, and almost 50% of people had difficulties verifying their identity online (in normal times there would be an option to do this in a jobcentre if needed).[34,35]

The accessibility of the universal credit system has been an issue historically. In 2018, the National Audit Office described how almost half of applicants struggle with making an online claim, particularly if they have an illness or disability, face a language barrier, or don't have access to additional support to help them through the process.[36]

One of the most significant problems with the universal credit application process, both before and during the pandemic, has been the five weeks people have to wait to get their first payment. This delay consists of a four-week assessment period to establish how much income someone has, and hence how much benefit they should receive, and a week's window for administrative processing of the claim.

There is an option for people to take an advance of their expected first universal credit payment, which is then repaid through deductions to subsequent payments over the next 24 months. However, only around one-third of people who claimed universal credit during the pandemic opted to take such an advance. Of those who didn't, around four in ten said they had enough income or savings to cover their costs, but another four in ten did not want to get into benefits debt, and one in ten said they didn't know the option was available.[37,38] Before the pandemic, closer to six in ten took the advance, probably reflecting lower levels of income and savings among this cohort.[39]

For people who decided against requesting an advance, the five-week wait for their first universal credit payment often exacerbated the financial difficulties that led to them seeking support. The delay causes many people to build up rent arrears, borrow money from a bank or credit card, seek loans or gifts from friends and family, resort to charitable support including foodbanks, and experience anxiety and poor mental health.[40,41,42,43] For those who did take the advance, the resulting reductions to their subsequent payments often caused further financial difficulties, and compounded the uncertainty and confusion many people experienced about how much they would receive each month.[44,45,46,47] Since accruing debt can trap people in poverty and have a huge impact on their mental health, the social security system should play a key role in helping people avoid debt, but often seems to have the opposite effect.[48,49] Having reduced what was once a six-week wait for the first payment down to five weeks, DWP claims that it cannot shorten the delay anymore within the current architecture of universal credit. It also argues that the wait is a positive and intentional feature of the system, as it prepares people for the world of work, where they will often have to wait until the end of the month to be paid.[50] Having considered this position, and a wide range of proposed approaches to addressing the five-week wait, the Work and Pensions Select Committee concluded that universal credit applicants should be given a non-repayable "starter payment", equivalent to three weeks' worth of the standard rate of the benefit, two weeks after they have made their application to allow for verification of identity.[51] We have echoed this proposal within our recommendations, alongside other measures to reduce the five-week wait.

2.3 UNIVERSAL CREDIT PRIORITISES CONDITIONALITY OVER GUARANTEEING INCOME

The processing of so many new universal credit claims during the pandemic was made possible in part because staff were no longer required to set conditionality requirements or provide back-to-work support for those in receipt of the benefit. The conditionality regime has since been restored, with people placed in different categories that determine the type and amount of activity they are expected to complete to continue to receive universal credit. This can extend to spending 35 hours per week applying for jobs.

There is limited evidence that this is an effective way of facilitating people's entry into or progression within the paid labour market over time.[52] When the National Audit Office reviewed universal credit in 2018, they suggested that DWP was overstating the impact of the system on employment outcomes and lacked the capacity to even measure this impact.[53] For many people, benefit conditionality and the associated threat of sanctions cause a significant amount of stress and anxiety that actually makes it harder for them to engage positively with support and progress towards employment.[54,55]

Rather than being driven primarily by evidence, the system of conditionality and sanctions exists in large part because of political conviction that people receiving financial support should be expected to do something in return. However, the flip side of this is the tacit assertion that it is okay to leave people destitute if they fail to fulfil these expectations. Measures such as hardship payments are often inadequate and put the onus on individuals to understand and navigate additional processes at a time when they are already struggling.

3. THE PRINCIPLES OF REFORM

Post-pandemic reform should be guided by clear principles that address the underlying problems with our economy, social security system, and broader social settlement that have been highlighted and exacerbated by the pandemic. Outlined in this chapter are the four key principles guiding the proposals set out in this report.

The overarching principle NEF is working towards is that a living income should be seen as a basic right. Achieving this means ensuring that work pays well, but also that the social security system supports those who are not able to work or cannot earn a living income from the work they can do.[56] The living income is based on the Joseph Rowntree Foundation's Minimum Income Standard (MIS), setting out what is needed for people to thrive rather than simply survive. This includes reflecting people's individual circumstances, for example, disability and illness, or housing costs.

The proposals in this report focus on increasing the uptake of support and repurposing the current tax and benefits system to make it capable of guaranteeing a living income for all. However, the proposals are modelled at current levels of support (although the Weekly National Allowance would redistribute support currently provided through the tax system). A guaranteed living income for all can only ultimately be fulfilled if levels of support are substantially increased.

1) People should get support as and when they need it, not just when they ask for it

A genuine safety net should be there for everyone when they fall, rather than depending on them to know what support is available and proactively seek it out. Support should be provided as automatically and as quickly as possible. We should err on the side of providing support when it appears it may be needed, rather than withholding it until it is demonstrated that this need is critical. Repayments, if any are required, should be made through subsequent tax and benefit payments, at an affordable rate and pace.

2) Guaranteeing a minimum level of income means support must be unconditional

Having access to sufficient income to live on should not be contingent on meeting specific demands and requirements in the form of benefit conditionality. Regardless of how we might think others should behave, forcing them to live on inadequate means is neither an ethical nor an effective way of achieving this. If we want to encourage people into employment, we should be engaging them based on their strengths and aspirations to help them find jobs they will want to keep, not using threats of withdrawing financial support to push them into any available job. Part of this is also about reconfiguring labour market dynamics to ensure employers are competing for workers based on improved pay and conditions, rather than the unemployed competing for insecure work on poverty-level wages. Giving those temporarily out of work the cushion and discretion to reject poor quality work may be a key part of building this new dynamic.

3) We should aim to build buy-in for social security and reduce the associated stigma

The degradation of our social security system over recent decades has been built on a divisive narrative focused on how deserving people are of support. This needs to be actively countered by making more people feel invested in the system through the support they receive and the narratives about why that support is there. This, in turn, will help to reduce the stigma of receiving support from the state. Onerous and demeaning application and assessment processes that contribute to this stigma should be redesigned.

4) Reform should be funded through a redistribution of post-tax income and lead to a more redistributive tax and benefit system overall

The changes required to create a more comprehensive and automated social security system should be funded through measures that redistribute income and wealth from the richest to the poorest. This is not only the fairest way to pay for these changes but is also a desirable end in and of itself, to help address the stark and growing levels of inequality that are pulling apart our social fabric. As such, the reformed social security system these changes create should also contribute towards redistribution on an ongoing basis.

4. MOVING TOWARDS SOCIAL SECURITY FOR ALL

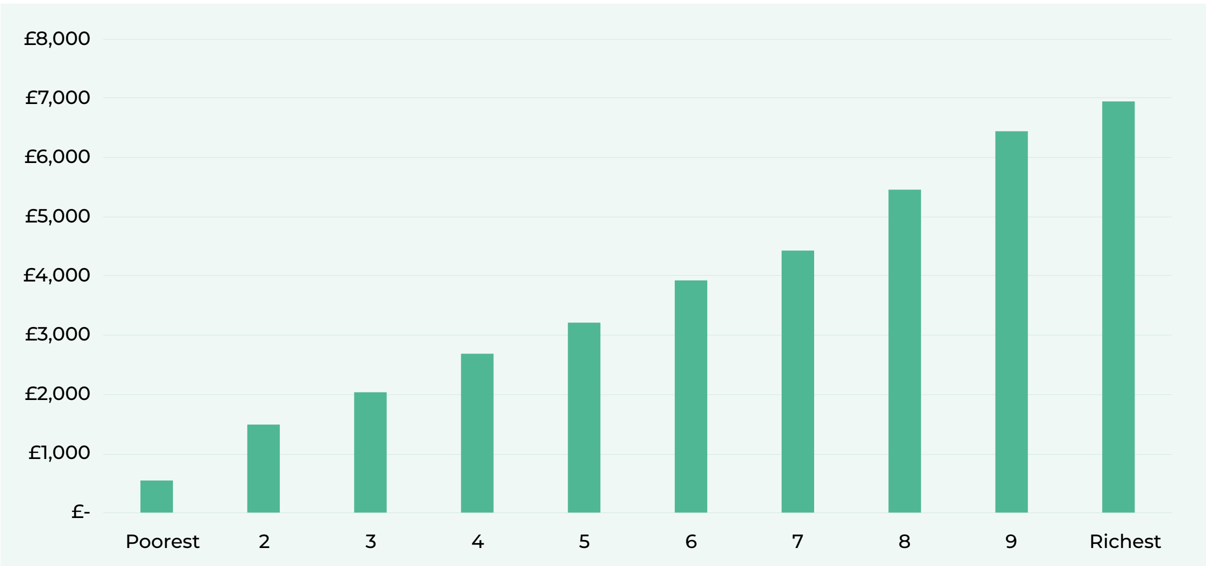
Many proposals for decreasing stigma around benefit claims and increasing uptake and access suggest expanding the universality of payments, such as the creation of a UBI. Such an approach gained significant support in the UK during the height of the pandemic, with 100 MPs calling for a 'recovery UBI'. Proposals for how a UBI could work vary, but at heart, all proposals make unconditional payments to all individuals or households. Variations of these proposals depend on whether these payments are subsequently taxed, as well as the level of the payment and whether it is as a replacement for or complement to, existing social security structures. A UBI approach is simple, proponents argue, and it pre-empts need rather than responding to it, binding everyone into the social security system. However, a UBI that guarantees a living income for all would be prohibitively expensive.[57] On its own, it also fails to reflect variations in circumstances such as disability and housing.

An alternative big idea in social security reform is an MIG, a temporary version for the Covid-19 pandemic was first proposed by NEF in March 2020[58] and also currently being explored by the Scottish government.[59] This is a means-tested approach, topping up everyone's income, in addition to what they receive from other sources so that all households have income above a certain minimum. This approach involves targeting payments at those who need them most but may not create the same level of buy-in as a more universal approach. Those who favour a UBI over an MIG argue that the act of means-testing is stigmatising, and the complexity of administration is unnecessary. However, an MIG could be a more affordable way to guarantee everyone a living income and would significantly reduce inequality. Furthermore, if everyone were to be covered by the scheme automatically, it could become seen as a natural corollary to taxing earnings, thereby reducing the stigma associated with receiving benefits.

We set out two proposals that borrow from both the UBI and MIG approaches – a Weekly National Allowance that would replace the personal allowance of income tax with an unconditional

FIGURE 1: THE PERSONAL ALLOWANCE OF INCOME TAX IS DEEPLY REGRESSIVE

Value of personal tax allowance in terms of foregone tax receipts for families by income decile, 2026/27



Source: NEF analysis using the IPPR tax-benefit model based on data from the Office of Budgetary Responsibility, Office for National Statistics, and Department for Work and Pensions' Family Resource Survey weekly payment for all, and a system of auto-enrolment for universal credit to ensure that everyone who needs support receives it as soon as possible after their income falls below a minimum level.

These proposals, which could work well alongside one another, would ensure more people have support when they need it. They would help to break down the divisions created by a toxic narrative that sets taxpayers against benefit claimants, thereby reducing the stigma associated with receiving support. The proposals would also repurpose the tax and benefits system so that it can guarantee a living income, though this would require further reform to ensure the components of support are raised to a sufficient level. This is something that NEF and our partners will return to in forthcoming work.

4.1 A WEEKLY NATIONAL ALLOWANCE

In 2019, NEF advocated replacing the personal allowance of income tax with a weekly payment equal to the value of tax that would otherwise be paid on the personal allowance.[60] The distributional effects of the personal allowance of income tax are deeply regressive. By 2026/27, the allowance will be worth £6,900 in reduced tax liabilities for the 10% highest-income families, but worth just £560 for the poorest 10% (Figure 1).

Our updated modelling shows that a Weekly National Allowance could be worth £47.30 a week (£2,466 a year) by 2026/27, assuming a de minimis allowance of £500 per person is retained (this £500 allowance would reduce administrative burdens by ensuring very small amounts of income do not need taxation).[61] Eligibility for the Weekly National Allowance would be extended to everyone over the age of 18 with a UK national insurance number who is currently in receipt of the personal allowance or does not earn enough to benefit from it (those earning more than £127,250 have already effectively had their personal allowance tapered away). The payments from the national allowance would be tax-free, but they would score in the means testing of other benefits, such as universal credit.

The proposal also included restoring child benefit to its real terms 2010/11 value (in other words reversing the effect of freezes to child benefit since 2010) and adding this to the Weekly National Allowance for those with children. This would increase the weekly payment from £23.25 to £28.25 for the first child and from £15.45 to £18.50 for additional children.

Table 1 shows the costs of the Weekly National Allowance and how it could be funded.

TABLE 1: HOW THE WEEKLY NATIONAL ALLOWANCE COULD BE FUNDED

Breakdown of government costs, receipts and savings, 2026/27

Expenditure	£Billion
Weekly National Allowance	129.5
Of which	
New cash payment	127.5
Restored child benefit	2.0
Savings	
Savings from universal credit (and other means-tested benefits) due to Weekly National Allowance being included in means testing	12.7
Receipts	
Abolish personal tax allowance (leaving £500 de minimis allowance)	119.4
Total expenditure	**129.5**
Total savings and receipts	**132.1**
Total cost	**-2.6**

Source: NEF analysis using the IPPR tax-benefit model based on data from the Office of Budgetary Responsibility, Office for National Statistics, and Department for Work and Pensions' Family Resource Survey

In combination, this policy would be:

- **Redistributive:** the net distributional effect of the Weekly National Allowance is to take around £8bn currently spent on tax allowances for the 35% highest-income families and reallocate this to the remaining 65% of families (Figure 2). It would reduce the number of people in households with incomes below the MIS by 570,000.

- **Fiscally neutral:** the total cost of the Weekly National Allowance is met by the combined savings from abolishing the personal allowance and from reduced overall costs in means-tested benefits.

- **Supportive of macroeconomic stabilisation:** the Weekly National Allowance would significantly improve the UK's recession-fighting toolkit. Converting the personal allowance into an equivalent, weekly payment alone would represent a 57% increase on the main element of universal credit for a single person over 25. Evidence shows that people on lower incomes are more likely to spend additional earnings than those on higher incomes. This means a higher proportion of the weekly payment would be spent during a recession than in normal times, leading to an automatic boost to the economy when it is most needed. The Weekly National Allowance would also give the government a powerful discretionary tool to boost spending further during a recession by temporarily increasing the value of the weekly payments when required. One of the challenges in providing stimulus during the pandemic was a lack of access to the public's bank accounts, but this would provide infrastructure to facilitate access for future recessions.

Before the pandemic, inequalities of wealth and income were already creating huge challenges. These inequalities are likely to be exacerbated in the wake of Covid-19.[62] In this context, the shift from the regressive model of the personal allowance to the redistributive model of a Weekly National Allowance is exactly the kind of action needed to rebalance our economy and society, as well as increase buy-in for the social security system.

FIGURE 2: THE NET EFFECT OF THE WEEKLY NATIONAL ALLOWANCE PACKAGE IS TO REDISTRIBUTE AROUND £8BN FROM THE HIGHEST INCOME THIRD TO THE LOWEST INCOME TWO-THIRDS

Average (mean) change in disposable household income due to the Weekly National Allowance package and compared to current government policy, by equivalised income percentile, 2026/27

Source: NEF analysis using the IPPR tax-benefit model based on data from the Office of Budgetary Responsibility, Office for National Statistics, and Department for Work and Pensions' Family Resource Survey

Note: Figures show 5 percentile rolling averages to smooth out effects. Figures for the poorest percentile are not included due to inconsistencies in the data. The modelling is based on universal credit design and medium-term economic forecasts as of the March 2021 budget.

Although it would initially only constitute a small payment, the security of guaranteed regular income from the Weekly National Allowance would bring some of the benefits of a UBI and allow for the potential of increased payments in the future if the approach proved popular and helped to galvanise support for the social security system. These increased payments could form part of a guaranteed living income for all, along with wages for those in employment and additional support from universal credit and other benefits.

To implement the Weekly National Allowance, HMRC would need access to bank accounts to provide the payments. In many cases, the existing infrastructure could be used. For those already in the benefits system, the DWP has bank details; for those on the PAYE system, employers already provide employee pay details to HMRC to determine tax payments. Providing bank details (as long as this is approved by the employee) would be a simple extension of existing systems and could be built into existing PAYE tools. Those not in the PAYE or benefits system would have to register their details with HMRC. The incentive of receiving the Weekly National Allowance should ensure that a strong level of uptake is achieved. The policy should be accompanied by a concerted information campaign to ensure uptake and buy-in. Because the Weekly National Allowance is provided on an individual basis, this would be relatively simple.

The key challenge is the unbanked – who in many cases are likely to be the most in need – but this is also a challenge of the current social security system. One solution could be cash cards provided to local government and local organisations that support those in need in the community, but this would be complex to administer and keep track of. An alternative option would be to create bank accounts for the unbanked.

4.2 AUTO-ENROLMENT FOR UNIVERSAL CREDIT

Universal credit already embodies the basic principle of an MIG, in that it responds to someone's changing earnings and tops their income up to a defined level. However, in addition to the level of payments being significantly inadequate, universal credit falls short of the requirements of a true MIG in two key regards: it depends on people proactively claiming support, and it doesn't provide the minimum rate of income until five weeks after the initial claim is made.

To create the foundations for a true MIG within the current architecture of benefits and tax, everyone would need to be automatically enrolled onto universal credit and given financial support as soon as possible after a drop in earnings indicates they may need it. It may seem disproportionate to go to such lengths when many people will never fall to a sufficiently low level of income to trigger support. However, even before the pandemic, it was expected that, once fully rolled out, around a third of working-age households would be receiving universal credit at any one time, with far larger numbers moving on and off the system over an extended period.[63] The pandemic has shown that even people in seemingly secure employment can end up in need of support. It has also demonstrated how important it is to get money to people who need it as soon as possible, and how reluctant many people are to seek support from the current system.

Implementing such a system would increase the cost of our welfare system by around £7bn, according to our modelling (Table 2). Part of this could be funded by reducing other personal tax allowances and effective allowances in income tax – namely the personal savings allowance and personal dividend allowance, as well as the starting rate for savings, which currently allows up to £5,000 to be earned in interest from savings without being taxed. Our modelling shows these measures combined could be expected to raise £1.4 billion in 2026/27. In addition, we propose removing similar allowances and reliefs in capital gains tax. Namely, the annual exempt amount, which currently allows up to £12,300 to be earned from gains without being taxed, and the much-criticised entrepreneurs' relief in capital gains tax as well, which is widely viewed to carry a significant and regressive deadweight loss for the government.[64] Research from the Institute for Public Policy Reseach (IPPR) shows that the former would raise around £4bn per year in nominal terms, and the latter around £2bn per year, after taking into account behavioural effects.[65]

Our modelling shows that the auto-enrolment of universal credit would have a material effect on the incomes of millions of people. It would boost incomes for the poorest 10% of households by £1,200 per year on average and lift 320,000 people out of poverty (Table 3). Making UC payments automatic for those eligible would boost annual incomes for 390,000 families by £7,300 on average,

TABLE 2: HOW UNIVERSAL CREDIT AUTO-ENROLMENT COULD BE FUNDED

Breakdown of government costs, receipts and savings, 2026/27

Expenditure	£Billion
Auto-enrolment of universal credit	7.0
Receipts	
Abolish the personal dividend, personal savings allowance, and starting rate for savings in income tax	1.4
Abolish the annual exempt amount on capital gains	4
Remove entrepreneurs' relief	2
Total expenditure	**7**
Total savings and receipts	**7.4**
Total cost	**-0.4**

Source: NEF analysis using the IPPR tax-benefit model based on data from the Office of Budgetary Responsibility, Office for National Statistics, and Department for Work and Pensions' Family Resource Survey

NB: For capital gains tax estimates, we carry forward projections for nominal tax receipts beyond IPPR's forecast period. In practice, receipts may actually rise in nominal turns with wider growth in the economy.

affecting 1.3 million people in 2020/21. It would lift 380,000 people out of poverty, including 140,000 children. These numbers rise further once UC is fully rolled out by 2026/27. The number of families missing out on payments they are entitled to is expected to be 660,000, or 2.3 million people, worth an average of £7,400 per family per year. Among the poorest 10% of families we estimated that one million people will live in families missing out on payments worth £10,000 per year on average.

Recent reforms to UC announced at the October 2021 budget – including a lower taper rate and higher work allowances – worsen this problem as many are unaware that they are newly entitled to a UC payment. Following the October reforms, a further 150,000 people will be living in working families that are missing out on UC payments, and this number will rise to 300,000 by the time UC is fully rolled out.

We set out proposed changes that would move universal credit closer to acting as a true MIG. We have sequenced these proposals in order so that they build on one another. The earlier proposals entail less radical reform but would still improve the current system and help chart a course towards a true MIG. These are initial, headline proposals, which we recognise may require further technical refinement to implement. However, we believe that these challenges would be surmountable with sufficient political will to achieve the end objectives.

Keep existing universal credit accounts open permanently

In the current system, someone will only have a universal credit account if they claim the benefit. If this claim is successful, their account will stay open until they are earning above the threshold for receiving any benefit payment, at which point their claim will close. If their earnings fall within six months, they can re-apply for universal credit by confirming that their details are still correct on their existing account. During the pandemic, a claim could be restarted without an application during these six months. If it has been more than six months since a payment was made, a new application is required.

A key step in increasing accessibility and moving towards a system that can act as an MIG would be for universal credit accounts to remain open permanently. Just as someone's Personal Tax Account with HMRC doesn't close simply because of a period of no earnings, universal credit accounts should sit dormant when people are earning above the threshold for payments. This would allow people to reopen a claim more quickly when their earnings fall by simply confirming their current circumstances, such as their household make-up and savings, without the need to repeat the full application process and identity checks. It would also reduce the administrative disincentives for people to make a claim, meaning they would be more likely to seek support sooner and should face a shorter wait for their first payment.

Create a basic universal credit profile for everyone

Most working-age adults are known to HMRC so that their earnings can be taxed as and when necessary. We propose extending this principle to universal credit, having as many people as possible registered on the system so that financial support can be provided as quickly as possible. This approach would facilitate subsequent proposals to move towards greater automation of claims for universal credit.

In its most basic form, this could involve populating a simple profile with information sourced from HMRC data, such as names, dates of birth, address, and verified identification. People could then be encouraged to provide the additional information needed to establish a full account, their household make-up for example, on the basis that it will help them to get support as soon as possible if and when they need it. People could be prompted to provide or update their information as part of other touchpoints with the state, such as filing a tax return. People would also need to provide a bank account to make any potential universal credit payments into, although accounts for the unbanked could be created, as discussed in the Weekly National Allowance section.

The more automated the system for assessing and paying universal credit can become, through the implementation of subsequent proposals in this report, the more attractive it would be for people to provide the information necessary to create a full account to benefit from the security of a guaranteed minimum income. If our proposal to better integrate and align DWP and HMRC systems was realised, it may be possible to fully enrol people onto universal credit automatically.

For most people, even a fully automated opt-in process wouldn't lead to the government as a whole holding much additional information on them, just an increased sharing of that information between departments. These steps could be taken in the name of acting in people's legitimate interest as was the case for pensions auto-enrolment. A similar public information campaign could be launched to give people the option to opt out.

Use HMRC data to flag when someone's earnings have dropped

Rather than relying on individuals to self-report when their earnings have fallen to a level that might entitle them to support from universal credit, the links between DWP and HMRC systems could be used to flag such a situation automatically. This could trigger communications to encourage people to consider a claim, or even automatically instigate a claim once sufficient information is available to verify eligibility.

DWP uses HMRC data to assess what someone on universal credit should receive each month based on their earnings. If this capability were expanded, the earnings of everyone registered with HMRC could be automatically monitored on a rolling basis to identify when someone falls to a level that may entitle them to universal credit.

The threshold for this would depend on an individual's circumstances, including if they are responsible for a child, and if they have a disability or illness that limits their ability to work.[66] For people who just have a basic profile on universal credit and have not voluntarily provided additional information to enrol in advance, these variables may well be unknown. In these cases, the threshold should be assumed to be the maximum a single person of their age could earn while remaining on universal credit. They should be prompted to provide the additional information needed to establish whether they are currently eligible, such as their household make-up and level of savings. For people with a full universal credit account because they have claimed previously or have enrolled in advance, falling below the relevant threshold based on the circumstances recorded on their account could result in a prompt to simply confirm these details to start a claim.

These automated checks on people's earnings could treat the previous four weeks at any given moment as the de facto assessment period for universal credit eligibility. This would help to significantly reduce the wait for a first payment, as it would replace the post-application four-week assessment period that is currently required after someone decides to apply. As discussed previously, this can often be some time after they experience a fall in earnings. In fact, the National Audit Office has reported that in the four years up to mid-2018, "nearly half of claimants (49%) had no earnings in the three months before they applied for universal credit."[67]

Provide better support and integration for self-employed people
It will be more difficult to monitor people's earnings to introduce a degree of automation to their support from universal credit when some or all of it is accrued through self-employment. This is a particularly important consideration given the growing numbers of people who are self-employed or are both self-employed and an employee.[68]

People who are claiming universal credit alongside self-employment are required to report their earnings each month to calculate their benefit payment. It would be onerous and disproportionate to require all self-employed people to report their earnings every month to monitor whether they might be entitled to universal credit. However, measures could be introduced to encourage and support individuals to do so.

More could be done to inform people who are self-employed of the potential benefits of being enrolled in universal credit. Touchpoints such as when someone submits their self-assessment tax return could be used to encourage people to consider this option, particularly if their income for the previous year suggests there may have been months when they would have been eligible for support. People could be encouraged to submit the additional information needed to turn their universal credit profile into a full account.

People opting-in to universal credit enrolment could also be supported to declare monthly earnings through the provision of free accounting software that can submit data to HMRC and DWP systems. This would mean their monthly earnings could be monitored and a universal credit payment could be triggered if appropriate. Providers of existing accounting software for self-employed people could also be supported to add this feature. HMRC already recommends free and paid-for payroll software for employers (depending on their size) that has been tested to ensure it is compatible with their PAYE system.[69]

Reconcile the tax and benefit systems to allow more auto-enrolment
Differences between how the tax and benefits systems operate create barriers to a more fully automated system of enrolment and payment for universal credit, and therefore a true MIG. The most significant difference is that taxes are assessed on an individual basis, whereas universal credit is assessed on a household basis.

The commonly accepted rationale for assessing benefits based on household income is that the government should not be spending money on benefits for people who have access to adequate financial support from a partner.[70] However, assessing tax on an individual basis means that some people benefit disproportionately because of their household composition. For example, a couple who both earn £35,000 face a much lower combined tax bill than a couple where one person earns £70,000 and the other person is unemployed.[71]

Assessing taxes and benefits on a common basis would mean that the information needed to auto-enrol somebody onto universal credit would be more readily available, by either HMRC collecting more data or DWP requiring less. It would also allow for closer alignment and integration of HMRC and DWP systems, which could make it easier to adjust for any potential overpayments resulting from the principle of providing support to people as soon as it appears they may need it. While a change in either direction would pose considerable technical and political challenges that are beyond the scope of this report to explore, the benefits of this reconciliation could be considerable.

Remove conditionality and sanctions from universal credit
Universal credit cannot act as a true MIG while people are threatened with the withdrawal of that income if they fail to meet certain demands. The core principle of an MIG – that we should not allow anyone to fall below an agreed level of income – is simply incompatible with the current use of benefit conditionality and sanctions in our social security system.

For universal credit to be repurposed into an MIG, the conditions that are currently placed on people's receipt of benefit would need to be removed. Such conditions mean that their benefits can be stopped if, for example, they fail to attend an appointment or conduct a certain amount of 'work search activity' in any given period. Expectations and activities could still be encouraged through 'behavioural contracting' approaches, such as a mutually agreed plan. But failing to fulfil such an agreement should not result in someone's income being cut so that it falls below an acceptable minimum level.

TABLE 3: THE TWO PROPOSALS COMBINED WOULD LIFT THREE-QUARTERS OF A MILLION PEOPLE OUT OF POVERTY

Change in poverty, and average change in disposable household income for the 10% lowest-income households (based on equivalised income), compared with current government policy, 2026/27

	Weekly National Allowance	Universal credit auto-enrolment	Weekly National Allowance plus universal credit auto-enrolment
Change in the number of people in relative poverty compared to the current system	-550,000	-320,000	-760,000
Change in the average disposable income for the poorest decile compared to the current system (to the nearest £100)	£1,200	£1,200	£2,000

Source: NEF analysis using the IPPR tax-benefit model based on data from the Office of Budgetary Responsibility, Office for National Statistics, and Department for Work and Pensions' Family Resource Survey

Even if conditionality in the social security system was an effective way of encouraging people into sustainable employment, plunging people who do not comply into destitution is no answer to poverty and unemployment. In reality, the current system tends to push people into short-term and low-paid employment with little prospect of progression, and the threat and application of benefit sanctions often lead to "profoundly negative personal, financial, health and behavioural outcomes".[72] The best route to encourage people into employment is through the provision of high quality, personalised support, built around trusting relationships, alongside fostering an economy that offers well-paid, good quality jobs for all.

4.3 COMBINING THE WEEKLY NATIONAL ALLOWANCE WITH UNIVERSAL CREDIT AUTO-ENROLMENT

In combination, these two policies would help to move us towards a social security system for all. The Weekly National Allowance would mean that everyone always has some income to fall back on, and universal credit auto-enrolment would ensure that everyone's income is topped up to a minimum level as soon as possible after falling below it. The effect of this is to bring 760,000 people out of poverty and boost incomes for the poorest 10% by £2000 (Table 3). After the reform of the personal allowance of income tax and tax increases on dividends, savings and capital gains, the package is fully cost-neutral (Table 4). We estimate a surplus of £2.7bn, which allows for a margin of error in the modelling and some behavioural effects. Overall, this would see net spending on cash transfers to families on low incomes increase by around £13.3bn (after taking account of the lower personal allowance but before increased taxes on savings, dividends, and capital gain), equivalent to around 83% of the cuts to welfare made between 2010 and 2019. Both systems are highly redistributive (Figure 3) with the lowest income 10% of families seeing an average increase in disposable incomes of around £2,000 per year (an increase of around 36%) and lifting three-quarters of a million people out of poverty when the two reforms are combined.

The two policies are mutually supportive in several ways. In practical terms, the Weekly National Allowance would be a good vehicle and incentive for people to register their details with HMRC, including providing a bank account to make the payment into. Until enrolment in universal credit is fully automated, this touchpoint would also provide a good opportunity to encourage people to provide additional details that could be used to open a universal credit account with DWP. Identity validation for the Weekly National Allowance could be linked to someone's universal credit profile or account to avoid this process having to be repeated for them to receive universal credit payments.

TABLE 4: HOW THE WEEKLY NATIONAL ALLOWANCE AND AUTO-ENROLMENT COULD BE FUNDED

Breakdown of government costs, receipts and savings, 2026/27

Expenditure	£Billion
Weekly National Allowance	129.5
Of which	
New cash payment	127.5
Restored child benefit	2.0
Auto-enrolment of universal credit	7.0
Savings	
Savings from universal credit (and other means-tested benefits) due to the Weekly National Allowance being included in means testing	14.4
Receipts	
Abolish the personal tax allowance (leaving £500 de minimis allowance)	119.4
Abolish the personal dividend, the personal savings allowance, and the starting rate for savings	1.4
Abolish the annual exempt amount on capital gains	4
Total expenditure	136.5
Total savings and receipts	139.2
Total cost	-2.7

Source: NEF analysis using the IPPR tax-benefit model based on data from the Office of Budgetary Responsibility, Office for National Statistics, and Department for Work and Pensions' Family Resource Survey

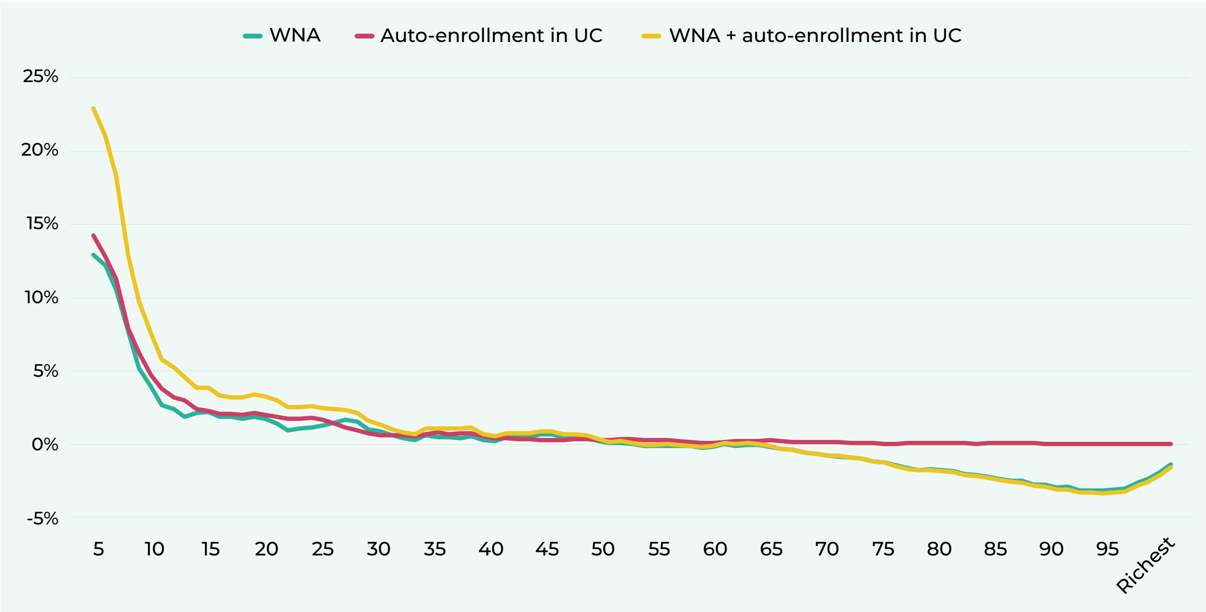
NB: Due to the surplus on the Weekly National Allowance, and lower cost of auto-enrolment of universal when rolled out alongside Weekly National Allowance due to means testing, making the package as a whole cost-neutral would not require the removal of entrepreneurs relief in capital gains tax

If these policies had been in place during the pandemic, there would not have been the same bottleneck of universal credit applications, with the associated strain this put on DWP systems and staff, because most people would already have either a profile or a full account set up. People who needed support from universal credit but were reluctant to seek it would have received it automatically, and any wait for payments to begin would have been cushioned by the Weekly National Allowance they would already have been receiving.

The two policies could also help to foster a longer-term cultural shift in how people perceive and relate to the social security system, creating a greater sense of buy-in by providing a level of support to all and reducing benefits stigma by making the receipt of support the default option. This shift could in turn help to build a consensus for funding a guaranteed living income, using the mechanisms these policies have put in place to ensure that every household can meet the MIS through a combination of earnings from employment and support from the social security system. Depending on the appetite for a more universal versus a more targeted approach, the Weekly National Allowance and/or universal credit could be increased over time so that they are eventually sufficient in combination to guarantee a living income.

FIGURE 3: BOTH REFORMS SEE GAINS CONCENTRATED AT THE LOWER END OF THE INCOME DISTRIBUTION

Average (mean) change in disposable household income, comparing the Weekly National Allowance, universal credit auto enrolment and the two proposals combined with current government policy, by equivalised income percentile, 2026/27



Source: NEF analysis using the IPPR Tax-benefit model based on data from the Office of Budgetary Responsibility, Office for National Statistics and Department for Work and Pensions' Family Resource Survey

Note: Figures show 5 percentile rolling averages to smooth out effects. Figures for the poorest percentile are not included due to inconsistencies in data. Modelling based on universal credit design and medium-term economic forecasts as of the March 2021 budget.

5. CONCLUSION AND NEXT STEPS

By taking the steps set out herein to implement the two proposals put forward in this report, the government could ensure more people have financial support when they need it. The Weekly National Allowance would give everyone the security of a consistent level of income they can rely on, which would help foster widespread buy-in for our social security system. A more automated system of universal credit enrolment and payment would mean that we could all expect support when we are struggling in the same way we expect our earnings to be taxed. Both would help to break down the divisions created by a toxic narrative that sets taxpayers against benefit claimants and, in doing so, reduce the stigma associated with receiving support.

These proposals would introduce key benefits of both a Universal Basic Income (UBI) and a Minimum Income Guarantee (MIG) into our tax and benefits system and lay the foundation for a social security system that can guarantee a living income for all. Fulfilling this guarantee will depend on making the case for increasing levels of support provided via one or both of universal credit and a Weekly National Allowance.

Although the cost of introducing these two proposals might seem significant, the Weekly National Allowance can be funded primarily by repurposing the personal tax allowance. Auto-enrolment into universal credit can be funded by abolishing personal allowances and reliefs for dividends, savings, and capital gains.

Furthermore, the social costs of deprivation, which our current social security system does little to alleviate, are significant. In the long run reducing poverty will lead to savings to the public purse. In short, poverty is expensive. People in poverty are more likely to be made homeless, fall into ill health, or require interventions from social services.[73] Providing support through social security should be seen as an investment in people rather than just a sunk cost. Money in the pockets of the lowest income households is also more likely to be pumped back into local economies.

Other issues with our social security system will also need to be addressed to fulfil the promise of a living income, including the universal credit taper rate and work allowances; the savings limit; the Minimum Income Floor for people in self-employment; the benefit cap; and the two-child limit. NEF will be developing further proposals to address these issues.

RECOMMENDATIONS

2. Introduce a Weekly National Allowance

a) Replace the personal tax allowance with a weekly payment for individuals.

b) Restore child benefit to 2010 levels, taking into account the rise in living costs.

c) Explore the creation of bank accounts for the unbanked to ensure everyone can receive the Weekly National Allowance.

2. Auto-enrol people into an adapted model of universal credit to move towards an MIG

a) Introduce 'starter payments' of non-repayable grants to cover the gap between the initiation of a claim and the first payment (the length of this gap will depend on how much progress has been made towards auto-enrolment).

b) Leave universal credit accounts open permanently once someone has stopped receiving payments, so claims can be quickly restarted.

c) Establish a universal credit profile for everyone whose details are held by Her Majesty's Revenue and Customs (HMRC) and encourage people to provide additional information so that these profiles can be converted into full accounts.

d) Use HMRC data to identify when someone's earnings have dropped to a level that might warrant support from universal credit and, if required, prompt them for more information before initiating payments.

e) Make it easier and more attractive for people who earn income through self-employment to report their income regularly so that universal credit payments can be started automatically if they fall below an income threshold.

f) Consider assessing tax and benefits on a common basis (ie household or individual) so that assessing eligibility for universal credit payments can be more automated.

g) Make universal credit payments unconditional so that people cannot fall below a minimum level of income as a result of sanctions.

h) Fund a more auto-enrolled system through abolishing the personal dividend allowance, personal savings allowance, the starting rate for savings, the annual exempt amount, and entrepreneurs' relief on capital gains.

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