IPR Institute for Policy Research

All Party Parliamentary Group on Poverty

Call for evidence into the impact on poverty of maintaining the £20 uplift in Universal Credit

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Based on face to face and telephone interviews, our research explores the experiences and views of couples and families with children claiming Universal Credit, to identify issues in juggling work and care and in managing and negotiating household finances. Between June 2018 and January 2019, we conducted 123 interviews with 90 participants in 53 households, in four areas in England and Scotland. A majority of households had dependent children and just under half had at least one earner. In 31 households, Universal Credit was the main source of income. In September and October 2020, we re-interviewed over two thirds of the sample (63 participants) to find out how they had fared in the intervening two years, and how well they were managing in the context of the Covid-19 pandemic and suite of emergency measures put in place by the government. We would be happy to give evidence at the APPG meeting on 14th January 2021.

Our Response

Intended to mitigate the worst effects of job loss, sickness and reduced income as a result of the Covid-19 lockdown and pandemic, a £20 weekly increase in Universal Credit standard allowance rates and the basic allowance of working tax credit, was announced on 20th March 2020 by the Chancellor, Rishi Sunak. Equating to an additional amount of benefit of up to £1,040 per annum (or £86.66 per calendar month), the uplift came on top of removing the freeze on working age benefits, with an immediate 1.7 per cent increase - the first since 2015[1]. But there was a sting in the tail: the £20 uplift would be temporary, lasting only until 31st March 2021. Since this time, there has been a flurry of debate and lobbying about whether the £20 uplift should be maintained beyond the proposed end date, either until the end of the pandemic or preferably permanently.

As this measure provides targeted financial help to some of the households on the lowest incomes, much of the discussion argues strongly in favour of retaining the increase. The Joseph Rowntree Foundation, for example, says that the £20 uplift has been a crucial lifeline, bolstering the social security safety net during the Covid-19 pandemic by helping families keep their heads above water. The JRF, together with other third sector organisations, politicians and social commentators from across the political spectrum, believes that returning the standard allowance to pre-Covid levels would be "*a terrible mistake*". Pointing out that the uplift does not apply to the vast swathe of people still claiming legacy benefits, many further argue that, far from being withdrawn, the £20 per week increase should be extended to the legacy system. In November, a cross party coalition of over 60 organisations issued a public statement expressing their concern at the failure of the Government to announce that they are making the £20 uplift permanent and extending it to legacy benefits. Making the uplift permanent also enjoys wide public support. A Health Foundation survey of 2,000 people by Ipsos Mori in November 2020 indicated that 59% of respondents supported a permanent increase. In response to the lobbying, the government committed to review their decision early in the new year in the

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[1] Between 2015 and 2020, with the exception of disability and carer's benefits and elements, all working age benefits were frozen at their 2015/16 cash value, and for three-years before that, from 2013 – 2015/16, increases were limited to 1% per annum.

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light of the latest economic position and greater clarity regarding the health situation, before making any decisions. In meantime, they announced that benefits will be uprated annually again in April 2021.

Research by academics and policy think tanks provides strong support in favour of retaining the uplift. Using econometric techniques to model the financial and distributional effects and impacts of the uplift in aggregate across different types of individuals and families, the Resolution Foundation powerfully warned that the proposed reduction in April 2021 would be even bigger than George Osborne's 2015 benefit cuts: "Taking £1,000 off the annual income of over 6 million low-income households next April would cause a living standards crisis …. It makes no sense, politically or economically."

This kind of quantitative evidence is very useful for highlighting the effects of the policy in aggregate, over a fixed period of time, but this is very different from the actual effects of the uplift as experienced in real time by the people who are the intended beneficiaries. Based on face to face and telephone interviews with benefit recipients, our longitudinal, qualitative research, does just this. We asked our participants what they knew about the £20 uplift, if they had received it, how useful the increase had been, what difference it had made, and how the extra money had been used. Their responses and experiences were highly variable.

Some said they had received the uplift in full, benefitting significantly from the extra cash. The increase of £20 per week, alongside the annual benefit uprating of 1.7%, meant an increase in the standard allowance for couples (aged over 25) from £498.89 to £594.04 – a substantial difference of £95.15 per month. With entire families locked down at home, many had spent this additional money on the extra cost of food, heating, lighting and home schooling. A few, who found that household expenditure dropped during the first lockdown (due to lower travel to work costs, for example), had even managed, for the first time, to build up some modest savings. However, others reported that they had been paid much less than the publicised amount. Working families, in particular, were more likely to say they had not received a £20 per week increase in their payment. Indeed, some said that the amount of Universal Credit they got had actually decreased since the start of the pandemic. But the government confirmed that the £20 uplift applied to all new and existing Universal Credit claimants. So what is going on here?

This conundrum reveals the hidden complexity that lies at the heart of Universal Credit. What our research illustrates is the complicated way in which the Universal Credit payment is put together and calculated each month, and the variable effects that this can have on the amount claimants actually get. In fact, our evidence shows that what claimants are entitled to and what they actually receive each month can be two very different amounts. Unlike the structure of most legacy benefits, the UC payment integrates the standard allowance with supplements for housing, children, childcare costs and disability (where relevant). Also unlike legacy benefits, Universal Credit is assessed and means-tested monthly. Earnings (including those of both the partners in a couple) reduce entitlement to Universal Credit by 63 per cent for each pound of net monthly wages above any work allowance. What this means in practice is that if claimants are in paid work, or their circumstances change during the month, the £20 uplift does not necessarily or automatically translate into a £20 per week increase in the Universal Credit payment they receive.

Also crucial to understand is that, as a benefit that is assessed and means-tested monthly, the Universal Credit payment can fluctuate from one payment cycle to the next, sometimes dramatically. In our research, fluctuations in the payment in response to monthly changes in earnings and other household circumstances sometimes obscured the visibility and financial impact of the £20 uplift. In addition, Universal Credit interacts with other benefits and means-tested financial help. An increase in the standard allowance – in effect an increase in household income - can affect entitlement to payments under Council Tax reduction schemes, for example, with an increase often likely to lead to a reduction in these other payments.

Deductions, taken at source from the Universal Credit payment for benefit and tax credit overpayments, advance loan repayments and council tax and rent arrears, could also erode the perceived (and actual) benefit of the £20 increase. This is because deductions are calculated according to a set percentage of the standard allowance, regardless of the payment amount– so the higher the standard allowance, the higher the amount deducted from the Universal Credit payment. In response to the lockdown, repayments for most types of deduction were suspended from 3rd April for three months. However, repayments for advance loans continued and from July 2020, deductions and debt recovery were reinstated in a phased manner. For some participants in our research with advances or budgeting loans to repay, the £20 uplift in the standard allowance triggered a higher amount deducted from their monthly payment. Although this meant that claimants thus affected would be likely to repay their loans faster than might otherwise have been the case, the downside for them was a reduction in their benefit, leaving them worse off precisely at a time when they were experiencing additional strain on their finances.

Another important consideration is the flat rate of increase which applies to all types of claimant regardless of the number of adults and/or children in the household. A £20 weekly uplift is worth a lot more proportionately to single people living with their parents, for example, than to a two-parent family with children who are already at the upper limit of the amount of benefit payable. Nor do claimants subject to the benefit cap gain much or at all financially from the £20 per week increase. Most of those affected by the cap are lone parents with high rental costs and larger families with three or more children – who are among some of the poorest groups in society. Finally, only one Universal Credit payment is made to couples. Not only is this worth proportionately less than the same payment is to single people, as noted; but also there is no guarantee that both partners will have access to or benefit from the £20 uplift. Some of our participants had experienced domestic abuse in their relationships, including financial coercion, which meant their partner had taken full control of the Universal Credit payment.

Thus, it is important for those lobbying for change, and for policymakers themselves, to be clear about the variable effects on poverty levels for individuals and families in different sets of circumstances. Having said this, the case for retaining and extending the £20 per week uplift remains compelling; many more people would have struggled harder to cope over the past year without this uplift. Losing this extra money would not only be a blow to the incomes of some of the poorest families, but would also send a clear message that reducing poverty and maintaining living standards – of working people as well as those out of work - is not a priority.

It is also worth remembering that Universal Credit is but one of a number of social security measures with the potential to reduce poverty. Child Benefit has been subject to freezes and below inflation uprating since 2011. Paid to the main carer and in full for the vast majority of families, Child Benefit is currently worth £21.05 per week for the first child and £13.95 per week for subsequent children. The 1.7 per cent increase in April this year was worth a paltry 35p for families with one child. Families with children have borne the brunt of the decade-long austerity-driven cuts to social security. A more substantial increase of £10 per child, as suggested by the Child Poverty Action Group (CPAG), is long overdue, would not be subject to the problems associated with means testing that can undermine UC, and may be a more effective way of getting extra money directly into the pockets of more of the poorest families.

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