The Universal Credit Uplift: The Way Forward

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Executive Summary

In March 2020, as part of its response to the impending economic impact of the Covid-19 outbreak in the UK, the Government announced that the standard allowance in Universal Credit (UC) would be increased by £20 a week for 12 months. This policy represents a £6.6 billion increase in annual welfare expenditure if retained on a permanent basis. It would amount to an unprecedented one-off uplift and is poorly targeted. However, withdrawing the uplift now it is in place is proving politically difficult.

There are a number of problems with ending the uplift in April. Claimants would not have sufficient notice of the change in income, and since there may still be significant Covid-19 restrictions in place the circumstances which led to the uplift being introduced will still persist.

From a fiscal perspective, the crucial point is not that the uplift ends in April but that it is not retained permanently, adding significantly to ongoing welfare expenditure.

Repackaging the uplift from April as a 'coronavirus hardship payment' would ensure claimants do not see a sudden fall in income while restrictions are still in place. At the same time, a repackaged support mechanism which is explicitly temporary in nature and lasts a further six months, perhaps with an additional three-month phasing-out period at half the value, could make it easier to prepare people for the eventual withdrawal of support.

This should be combined with a more generous one-off uprating of UC. Rates are currently set to be uprated by only 0.5 percent in April.

As and when the additional support is phased out, the Government should implement improvements to work incentives within UC through a cut to the taper rate and increased work allowances. This is desirable in itself and would complement a broader economic programme for increased employment post-pandemic.

This package of measures would still mean the UC system overall would be significantly more generous than it was pre-Covid, but the additional spending would be much less than the £6.6 billion cost of the £20 uplift and would significantly improve the way the system rewards work.

Why should the £20 uplift not be made permanent?

The case for the uplift was specific to the circumstances of the pandemic. It was clearly announced as a temporary measure. In hindsight it might have been wiser to implement the policy as a separate temporary element of UC, or even a separate payment altogether, to highlight the emergency nature of it.

What has changed? Advocates of keeping the higher allowance have not adequately explained what permanent socio-economic changes are likely to have occurred to justify such a policy. Discussion of whether to significantly increase standard benefit allowances, or pressure on the government to do so, was very low before the pandemic.

Cost – The uplift would cost £6.6 billion if retained permanently, and on its own would represent a 10 percent increase in UC expenditure. The Institute for Fiscal Studies have calculated that the uplift amounts to more than the entire cumulative real-terms rise in benefits over the last 45 years for out-of-work childless claimants.[1]

Poorly targeted – A blanket £20 increase is a very blunt welfare policy instrument. A cash increase means those who previously had relatively low entitlements (e.g. claimants who are single, childless and younger) benefited much more in percentage terms. The standard allowance for a single claimant under 25 increased by 36 percent compared to 19 percent for a couple over 25.[2] If the Government is opting to increase spending on social security, there are better ways to use the money.

Work incentives – Retaining the £20 uplift would damage work incentives by increasing out-of-work incomes relative to in-work incomes. By contrast, if additional expenditure were to be focussed elsewhere within the UC system by reducing the taper rate and increasing work allowances, work incentives could be substantially improved.

Replacing the uplift and extending support

The uplift in the standard allowance should be replaced in April with a separate element, which would be termed the 'coronavirus hardship' element/payment or some similar name. This could be introduced at the same £20 value, ensuring incomes do not fall in April.

[1] Bourquin and Waters, 'The temporary benefit increases beyond 2020-21', IFS, October 2020 link
[2] Kennedy and McInnes, 'Benefits uprating 2020', House of Commons Library, April 2020 link

These hardship payments should be clearly packaged as a temporary measure intended to last for six months, followed by a further three months with a reduced payment of £10 to phase out support.

This should be accompanied by a generous uprating of the standard allowance in UC in April. Currently the rates are set to rise by just 0.5 percent. If instead a one-off rise of 2.5 percent (the same percentage uprating being applied to the State Pension) were to be applied, this would amount to just under an extra £100 a year on the standard allowance for a single claimant over 25 compared to original 2020-21 rates (i.e. before the uplift was announced). This would cost around £500 million compared to current plans.

Recycling some of the savings into work incentives

In recognition of the need to move back towards labour market expansion once the economy is free from restrictions, some of the savings from discontinuing the £20 uplift should be reinvested into the UC system through improved work incentives.

The taper rate should be cut from 63p to 55p. This was the original taper rate proposed when the UC system was first conceptualised.[3] It would cost around £2.4 billion per annum.

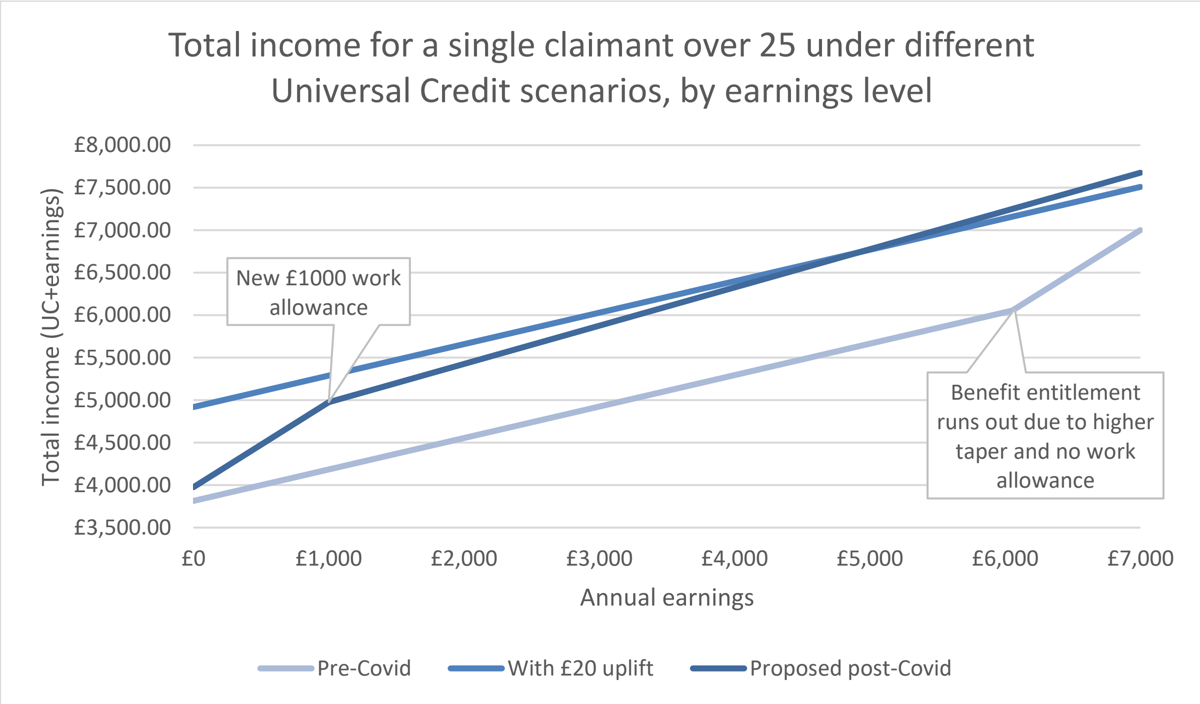
Claimants who are childless (and especially single childless claimants) benefitted most from the £20 uplift and will thus see the biggest proportional drop in their income if it is withdrawn. There is currently no work allowance for this group. A £1,000 increase in work allowances was announced in 2018 but this only applied to those who already had a work allowance (i.e. only claimants with children or a disability). A new £1,000 work allowance for childless households could be implemented. Assuming a reduced taper rate of 55p, this would be worth £550 per year per household and benefit roughly 1.4 million households (the number of childless households on UC pre-pandemic). A realistic costing for such a move would be £700-800 million a year.

This package of measures combined (the more generous uprating, taper rate cut, and changes to work allowances) would leave around £3 billion of ongoing structural 'savings' from the welfare budget, compared to the alternative of retaining the £20 uplift.

The graph on the next page illustrates the impact of the £20 uplift on the incomes of people at different earnings levels, and compares this to both the pre-Covid regime and our proposed new model including a 2.5 percent uprating in April, a £1,000 work allowance and an 8p cut in the taper rate.

[3] 'Dynamic Benefits', Centre for Social Justice, September 2009 link

As the graph illustrates, out-of-work claimants would be slightly better off than pre-Covid due to the increased uprating, and claimants who are in work would be significantly better off. In fact, most would either be only slightly worse off or even slightly better off than they would with the £20 uplift. Someone working eight hours a week at £9 an hour would be more than £1,000 better off compared to pre-Covid – roughly the same income as they would have with the £20 uplift.



Note: 'total income' refers only to earnings plus the UC standard allowance. It excludes any support for housing costs. Calculations are the author's own.

Someone working 16 hours a week at £9 an hour would be eligible for around £400 a year of UC to top-up their income, whereas pre-Covid they would have been earning too much to be eligible for anything. They would also be more than £200 better off than with the £20 uplift, because their new work allowance and the lower taper mean they keep more of the money they earn.

What does this achieve?

It seems inevitable that some form of support will need to be maintained after the end of March (when the £20 is currently due to end). Replacing the uplift with an emergency hardship payment of a clearly temporary nature, and with a specified lifespan, would make it easier to communicate that the support will eventually be withdrawn once restrictions have been lifted. It would mean the phasing out of the payments would not be characterised as a 'cut' to benefits but rather as an expected part of the return to normality. Nobody would be under any illusion that the 'Coronavirus Hardship Payment' is a permanent feature of the welfare system.

If this was coupled with more generous uprating, it would also mean claimants receive a slight increase in income in April compared to current plans, which would mean the UC system post-Covid would still be more generous for all claimants (including those out of work) than it was before the pandemic.

Some increase in the generosity of work incentives within the UC system is desirable in itself, and has been since the system was created. The need for an alternative policy to just maintaining the £20 uplift presents a welcome opportunity to do this, and such measures could complement a broader pro-jobs programme for the post-pandemic recovery.

Even if Ministers conclude that any fiscal savings from ending the £20 uplift are not politically possible, the £6.6 billion should at least be redistributed within the system to improve work incentives and better target the extra expenditure. However, the pandemic has opened up a large structural deficit and the Treasury are reportedly considering tax rises to address this. With this in mind, we would favour a balanced approach of finding a fair and politically feasible way to eventually withdraw the £20 uplift, while maintaining a slightly more generous system than before and with much improved work incentives.