Briefing

Keep the lifeline: why the Government should keep the £20 uplift to Universal Credit

The next few weeks, in the lead up to the Spring Budget, will be one of the most crucial moments for our social security system for many years. The Government has a choice:

- It can go ahead with a cut to the incomes of millions of families during the middle of a recession, catalysing the worrying poverty trends we have seen in the lead up to and during this crisis.
- Or, it can keep this lifeline in place, supporting families who need it through the rest of the crisis, the following period of high unemployment and our recovery, as well as ensuring we have an adequate social security system for the future.

We are urging the Government to make this much-needed £20 per week uplift to Universal Credit and Working Tax Credits permanent, and extend to legacy claimants so that this group, who are mainly disabled, sick and carers, don't continue to be excluded.

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Recommendations

1. The decision to increase Universal Credit (UC) and Working Tax Credit (WTC) by £20 per week was the right thing to do at the start of the pandemic and it is the right thing to do now. Rather than cutting families adrift in April, the Government should make the uplift to UC and WTC permanent and extend this same support to those on legacy benefits.

2. Our new estimates suggest that keeping this lifeline for families on UC/WTC will cost around £6.4 billion in 2021/22, and a further £1.9 billion to extend it to legacy benefits. The legacy benefit cost will fall over the coming years as most people on legacy benefits migrate to UC, but for families struggling to stay afloat, the need is urgent.

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Summary

- The Government took bold and compassionate action at the start of this pandemic by temporarily uplifting the standard allowance in Universal Credit (UC) and the basic element in Working Tax Credit (WTC) by £20 per week per household.
- Prior to the pandemic, families had endured successive years of income stagnation caused in part by cuts and freezes to social security. Though the temporary uplift goes some way towards making up the shortfall, families will still receive significantly less help from the social security system than a decade ago and those who lose their jobs during the pandemic will still experience very significant reductions in income even if previously only paid at minimum wage level.
- The financial position of families is set to worsen as the uplift is due to end in April 2021. Our new modelling shows that if the lifeline of the £20 uplift to UC is whipped away in April, 6.2 million families will see an overnight loss of £1,040 and around half a million more people, including 200,000 children, will be pulled into poverty. Families on lower incomes, those with children (particularly single parents), BAME families, and families where someone is disabled are disproportionately affected.
- We face a long road to recovery, with unemployment projected to rise to 7.5% in Q2 2021 – just as the £20 lifeline is planned to be cut – and to remain high for many years. The Government must support families to get back on their feet, rather than increasing susceptibility to debt and harm to mental and physical health by cutting incomes at time of greatest need. The pandemic has shown that none of us know what is around the corner, and we all need an adequate social security system that we can rely on.
- Throughout this pandemic, people receiving 'legacy' benefits have been unjustly excluded from the £20 uplift despite most of them being disabled, sick or carers. The majority of people who claim disability benefits are on legacy benefits rather than UC. It is only right that people claiming legacy benefits should be thrown the same £20 lifeline as people in similar circumstances claiming UC.
- Over 60 organisations and religious leaders have publicly expressed deep concern about the Government's failure to give people certainty that their incomes won't be slashed by £1,040 in April. 59% of the public support making the uplift permanent, including 42% who strongly support it.
- Rather than cutting families adrift in April, the Government should make the uplift to UC and WTC permanent and extend this same support to those on legacy benefits. Our new estimates suggest keeping this lifeline for families on UC/WTC will cost around £6.4 billion in 2021/22, and a further £1.9 billion to extend it to legacy benefits.

The difference the lifeline makes to people

At the start of the pandemic, the Government did the right thing by uplifting the standard allowance in UC and the basic element in WTC by £20 per week per household. In doing so, they threw a lifeline to some of the country's lowest-income households and those newly arriving to the social security system as a result of job losses inflicted by the pandemic.

£20 may seem inconsequential to those who've been fortunate enough to retain a steady income throughout the pandemic but for families struggling with rising living costs and hits to income wrought by a loss of job or hours, it can be the difference between buying sufficient food or going without, turning on the heating or sitting in the cold:[i]

"That £20 is often the difference between light and heat or no light and heat. If you don't have gas, you can't cook."

Female, London

"I believe that those who set these laws don't see what a difference £20 makes. When you're on Universal Credit you know exactly what you're getting. You know exactly the figure for your bills and you know exactly where your money is going. When I was working full-time, I may not have noticed an extra £20 but now I'm on Universal Credit, I really feel it."

Female, London

Our polling of parents on UC (undertaken jointly with Save the Children) showed that 75% of those aware of the uplift said it had helped ease the financial pressure, though it was still outweighed by the greater drop in incomes or rising costs for at least 70% of families.[ii]

This lifeline has helped many families keep their heads above water and they are in real danger of being cut adrift if it is whipped away.

The impact on people and poverty of whipping the lifeline away[iii]

The uplift is due to end in April 2021, meaning that - in just a few months - 6.2 million families will have this lifeline whipped away overnight, reducing their incomes by £1,040 per year. This will pull 500,000 more people into poverty, including 200,000 children.

Our latest UK Poverty monitor shows that people who were already more likely to be in poverty were most affected by the economic storm caused by COVID-19: workers in low-wage sectors or part-time jobs, people living in areas with higher rates of deprivation, families with children, disabled people, or those from BAME backgrounds. Many of these groups will lose out the most as a result of cutting away the £20 lifeline.[iv]

The impact will be greatest in the North of England, Wales, the West Midlands and Northern Ireland, areas that already had high rates of poverty and have been worst affected by this economic downturn. This means many former 'Red Wall' constituencies that the Government has pledged to level up will instead see a large blow to their livelihoods and local economies.

Losses will disproportionately be shouldered by families on low incomes, with around 60% of the families who lose out being in the bottom 30% of the income distribution. Families with children will be disproportionately impacted, particularly single-parent families: around 60% of all single parent families in the UK will experience this overnight cut to their incomes.

Over half of families losing out contain someone who is disabled and a fifth are BAME families, meaning these groups are also disproportionately affected.

For more detailed modelling of who will be impacted by the withdrawal of the £20 lifeline in April see 'Incomes' section of JRF (2020) Spending Review 2020 - no plan to protect people from poverty in the economic emergency.

The need to strengthen the adequacy of social security support[v]

Recent history shows that, though employment reached a record high after the last recession, this still did not protect many families from poverty nor prevent child poverty from rising. Before COVID-19, incomes were falling – and falling fastest – for people with the lowest incomes, meaning they entered the pandemic financially exposed.[vi] A key driver of this trend was cuts to social security.

Despite the £20 uplift going some way towards offsetting these cuts, many families will still receive significantly less help than a decade ago. Even with the uplift, families unable to find work will on average receive £1,600 less per year in social security support than they would have done in 2011. Families with children will be hit even harder, receiving around £2,900 less – equivalent to around a year's worth of food shopping for a low-income family. Stacking another £1,040 cut on top of that will generate further hardship.

The country entered the pandemic with the main rate of unemployment support at its lowest level in real terms since around 1990 after a decade of cuts. As a proportion of average earnings, it was also at its lowest ever level and income replacement rates in the UK remain some of the lowest amongst OECD countries.

This inadequacy means that families who experience job loss will face difficult income cuts: without the £20 uplift, many families would see their income halved or worse, even if they were only being paid minimum wage. These levels of income shocks are hard to weather, increasing susceptibility to eviction, home loss and debt. We must not repeat the mistakes of the past by cutting social security when we need it the most.

For more detail on income loss for families moving from work to UC, without £20 uplift, see appendix in JRF (2020) Autumn Budget - why we must keep the £20 social security lifeline.

The economic case for keeping the lifeline[vii]

Whilst the arrival of the vaccine offers hope in terms of eliminating COVID-19, we know that we face many more years of economic and social turbulence and a slow road to recovery. Indeed, the Chancellor acknowledged this in November's Spending Review, with the Office for Budget Responsibility's central projections showing unemployment peaking at 7.5% (2.6 million people) in Q2 2021 - just as the withdrawal of the £20 uplift is planned to take effect – and remaining high for many years after that.[viii]

As the number of claimants per vacancy continues to rise, people are facing greater competition for fewer jobs[ix]. We must ensure our social security system keeps families afloat, reducing the damaging consequences of unemployment and financial hardship, which can hamper people's capacity to secure a job or progress, increase debt, impact mental and physical health and set back local economies. A strong social security system would provide families with the security and stability they need to seize opportunities as our economy recovers.

The £20 uplift provided an effective stimulus to our economy at the start of the pandemic. By targeting low-income households, it significantly strengthened the expected economic impact of the Chancellor's emergency support package. Modelling by the National Institute of Economic and Social Research estimated that only half the increase in household consumption would have been achieved if the package had not been targeted in this way.

Social security spending boosts consumer spending more effectively than other policies because it is quick to administer and targets money towards those at the bottom end of the income and wealth distribution. Families on low incomes need to allocate more of their budgets to essentials so they spend a higher share of any additional income than those earning more, who can afford to save a greater proportion. This means that investment targeted towards the lower end of the income distribution is more likely to end up back in the economy than measures targeted towards those at the mid-to-higher end (for example, tax cuts).

In fact, a stimulus targeted at those in the bottom half of the wealth distribution, or the unemployed, is two to three times more effective at increasing spending in the economy than the same stimulus focused on the whole population.

Withdrawing the £20 uplift in April will act in the opposite way to the initial stimulus. Families will see their monthly incomes fall and will likely need to cut back their spending. This means families going without essentials or getting behind on bills and a contraction in economic activity. Evidence suggests a drop in income can have a greater impact on spending than an increase, especially for low-income households who tend to be more credit constrained.
Not only will this weaken the social security lifeline when it is needed most, it also takes money out of the economy at a time when it is far from recovered. While the economy remains so weak, we would not expect the Government to announce tax rises or cut planned infrastructure projects. For the same reason, it does not make economic sense to cut social security.

For further detail on social security as an economic stimulus, see [JRF (2020) Strengthen social security for a stronger economy.]

Strong public and stakeholder support for keeping the lifeline

This Government has made strong promises during the election and throughout this pandemic to protect livelihoods, level up the country and increase prospects, and it has taken bold steps to do this by protecting many jobs during the pandemic and investing in levelling up measures in local communities. However, the plan to so significantly cut the incomes of around 6 million low-income families, against a backdrop of mounting economic damage, would be a significant step back in that ambition.

Public concern about poverty is rising. Millions of people are anxious about their livelihoods and financial futures. New polling shows that 59% of the public support making the £20 uplift permanent (including 42% who strongly support) whilst only 20% would oppose it (including 10% who strongly oppose).[x]

Following the Chancellor's silence on the £20 uplift in November's Spending Review, 60 organisations and religious leaders issued a joint statement warning that cutting the £20 uplift would be a 'terrible mistake' and expressing deep concern at the Government's failure to give people certainty that their incomes won't be slashed in April.

The letter points out that the Government has cited the uplift as one of their flagship methods for supporting families to keep their heads above water, implying that they recognise that previous levels of support were inadequate at protecting families from poverty and debt and that cutting the uplift would undo the progress that has been made towards strengthening our social security system.[xi]

It also notes that maintaining the £20 uplift already commands considerable cross-party support, including from Parliament's Work and Pensions Committee, Treasury Committee, Lords Economic Affairs Committee, former Conservative Work and Pensions Secretaries, as well as almost all opposition parties and faith leaders.

People on legacy benefits left behind without an equivalent lifeline[xii]

Despite facing increasing financial pressure, greater risk of redundancy, and further barriers in an already challenging labour market, people on 'legacy' benefits (Jobseekers Allowance, Employment and Support Allowance and Income Support) have been unfairly excluded from the £20 uplift. Most are disabled, sick or carers, and the majority of people claiming disability benefits are in receipt of legacy benefits rather than UC.

Our latest modelling shows that 1.6 million families on legacy benefits will continue to miss out on the £20 lifeline in 2021/22. The Government could lift an additional

200,000 people out of poverty in 2021/22 by extending the £20 lifeline to those on legacy benefits.

Even pre-pandemic, nearly half of all individuals in poverty were living in a household where someone is disabled, and a quarter of unpaid carers were living in poverty. Households that were already struggling have been pushed into an even more precarious financial position. Around two-thirds of disabled workers have had their employment affected by the pandemic, with disabled workers more likely to be facing redundancy.

The health challenges generated by the pandemic have meant that disabled people have also been disproportionately affected by rising costs, with 31% reporting that household outgoings have increased compared with 12% of non-disabled people. For many, care needs increased throughout the pandemic, whilst others have had to find alternatives when the person who cares for them falls ill with COVID-19. We've heard examples of people having to pay around £30 per hour for privately-sourced care in order to make up shortfalls. As their existing benefit entitlements often can't satisfy these additional costs, people are falling into debt or chipping away at already low levels of savings.

Around a quarter of carers have seen an increase in caring responsibilities as a result of the pandemic. This has meant that 9% of carers have had to give up paid employment and 11% have had to reduce their hours. This work will be difficult to recover for people seeking work that can accommodate a disability, illness or caring requirements.

"As a carer, it was already very hard to find a job which would provide flexibility around caring responsibilities. COVID-19 has made that so much worse, coupled with the additional threats to the person I care for's health"

Female, London

The significant costs that families with a disabled person or caring responsibilities have faced trying to deal with this virus in their lives, along with the increased likelihood of losing work, makes it particularly shocking that many have been excluded from the £20 lifeline that families on UC have received. A two-tier benefit system, with the majority of disabled claimants losing out, cannot be right and it is unjust that families with the same entitlement are left behind simply due to being in a different part of the system.

For further detail on the impact of the pandemic on disabled people and carers and the exclusion of legacy benefits from the £20 uplift, see JRF (2020) The financial impact of COVID-19 on disabled people and carers.

Recommendation

The decision to increase UC and WTC by £20 per week was the right thing to do at the start of the pandemic and it is the right thing to do now. Rather than cutting families adrift in April, the Government should make the uplift to UC and WTC permanent and extend this same support to those on legacy benefits.

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Notes

[i] JRF (2020) Spending Review 2020 - no plan to protect people from poverty in the economic emergency. [Online] Available at: https://www.jrf.org.uk/report/spending-review-no-plan-protect-people-poverty [Accessed: 6 Jan 2021].
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[xi] JRF (2020) Coalition warns it would be a terrible mistake to cut the £20 uplift to Universal Credit [Online] Available at: https://www.jrf.org.uk/press/coalition-warns-it-would-be-terrible-mistake-cut-20-uplift-universal-credit [Accessed: 6 Jan 2021].
[xii] JRF (2020) The financial impact of COVID-19 on disabled people and carers [Online] Available at: https://www.jrf.org.uk/report/financial-impact-covid-19-disabled-people-and-carers [Accessed: 14 Jan 2021].

About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent social change organisation working to solve UK poverty. Through research, policy, collaboration and practical solutions, we aim to inspire action and change that will create a prosperous UK without poverty.

We are working with private, public and voluntary sectors, and people with lived experience of poverty, to build on the recommendations in our comprehensive strategy - We can solve poverty in the UK - and loosen poverty's grip on people who are struggling to get by. It contains analysis and recommendations aimed at the four UK governments.

All research published by JRF, including publications in the references, is available to download from www.jrf.org.uk

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