Briefing

Short-term fixes will fail to be a lifeline for families on Universal Credit

At the start of the pandemic, the Government temporarily increased Universal Credit (UC) and Working Tax Credit (WTC) by £20 per week per household. This has been a lifeline to millions of families but is due to end at the beginning of April. Discussions about how to continue supporting families bearing the financial brunt of this pandemic are current and urgent. There have been several proposals that would be ineffective and inefficient, including extending the uplift until the summer or giving all current claimants a one-off lump sum payment.

We, along with many charities, think tanks and cross-party politicians, have argued that this uplift should be made permanent, and the majority of the public agree, but here we set out why it must be kept for at least the next fiscal year. Any shorter extension would be bad policy and work against the economic recovery.

Rebecca McDonald, Senior Economist

Recommendations:

1. The Government should make permanent the temporary £20-per-week uplift to Universal Credit and Working Tax Credit, or at the very minimum extend the uplift for the 2021/22 fiscal year.
2. The Government should also right the wrong of families on ESA, JSA and Income Support being excluded from this support, simply due to still being in the 'legacy' part of the system.

February 2021
www.jrf.org.uk

JRF JOSEPH ROWNTREE FOUNDATION

Summary

- There is growing consensus that it would not be right to cut the £20 UC and WTC uplift in the middle of this economic crisis, causing 6.2 million families to lose £1,040 from their annual income overnight and pulling money out of a weak economy.
- The number of people on UC has grown by around 3 million since the start of the pandemic (DWP, 2021) and sadly the worst in our unemployment crisis is yet to come.
- Reports of options being considered include three- or six-month extensions of the uplift, or one-off payments to all current claimants. These options fail to address the fact that unemployment is due to rise further and remain high for at least the rest of this year, likely not recovering to pre-pandemic levels for many years. It would not be right to cut the support now, but it certainly would not be right to cut it in six months' time when unemployment is expected to be even higher.
- There is a strong case for making the £20 uplift permanent (which we summarise at the end of this briefing) and a majority of the public agrees (Health Foundation, 2020). But it must, at a minimum, be kept at least for the 2021/22 financial year if it is to achieve its stated aim of protecting people's incomes when the worst happens (Sunak, 2020).
- Any extension of less than a year will fail to respond to the economic reality, instead hampering our recovery and trapping families in poverty.
- Extending the uplift for the next financial year would provide certainty for families and policymakers now and support the economy through another very difficult year. It will allow decisions about the future of support beyond that to be made at a more appropriate time, such as the autumn fiscal events where the Government can set out tax and benefit rates for the following April with reasonable notice.
- Extending it for a few months will mean inevitable last-minute extensions creating turbulence and wasting resources.

Support continues to be crucial to those at risk of being pulled under

Many families began the crisis living near or in poverty, facing these challenges with little or no savings. A year of the pandemic has eroded financial resilience and, despite the £20 uplift, the combined pressure of losing earned income and additional financial barriers due to lockdown means families are struggling with rent arrears, debt, and are turning to food banks.

Losing the uplift while the job market remains in crisis will accelerate debt, and risk rising destitution. People in low-paid jobs have been most at risk of redundancy and are expected to be hardest hit as the unemployment crisis continues (JRF, 2021a).

UC is, by design, well targeted at those on the lowest incomes and one of the simplest ways to get support to those who need it. It helps families both in and out of work and is designed to help people to move back into employment. The £20 uplift is supporting many low-paid workers such as the nurses, cleaners, refuse collectors, care workers and other front-line staff playing an essential role in this pandemic.

Whipping away this lifeline in April will cut incomes by £1,040 a year for 6.2 million families, resulting in 500,000 more people being pulled into poverty, including 200,000 children (JRF, 2021b). By extending the uplift for a few months, the Government would be doing nothing to prevent a surge in poverty but would simply delay it to a time when we are still in economic crisis and unemployment will be even higher.

The £20 lifeline has not only supported families' incomes but has also provided an essential boost to the economy. By targeting those at the bottom of the income and wealth distribution, investment in this uplift is more effective at generating consumer spending than other options such as tax cuts (JRF, 2020a). The need for this economic stimulus is not over; the economic forecasts for GDP in 2021 are no rosier than for unemployment. Its removal will do the opposite, acting as a negative economic stimulus. We expect the impact to be significant as millions of families adjust their budgets and cut spending.

The impact of a cut would 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 (JRF, 2020b). This means many previous 'Red Wall' constituencies, where the Government has pledged to level up, would instead see a further large blow to their livelihoods and local economies, hampering recovery and any ambitions to level up.

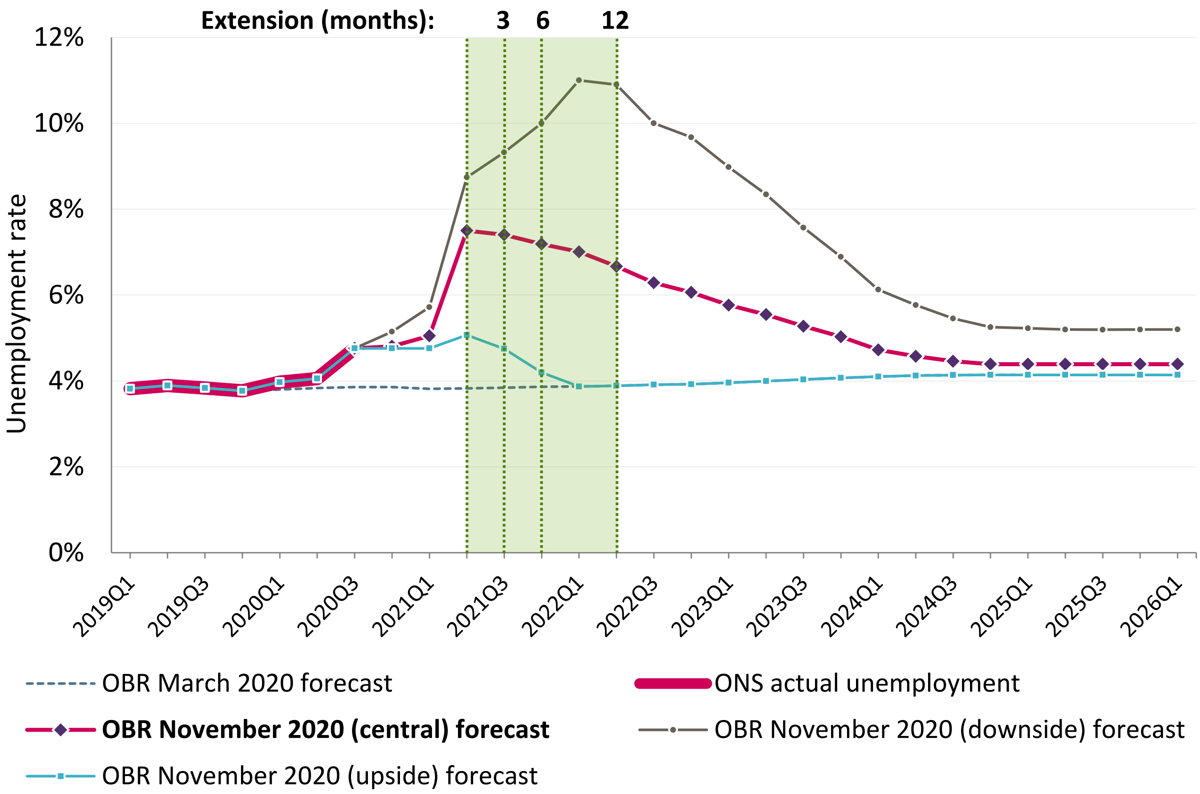
The worst of the unemployment crisis is still to come

Economic forecasts from the Office for Budget Responsibility (OBR) and others predict unemployment will peak later this year and remain very high for at least a year, gradually recovering to its current elevated level by the end of 2023. A full recovery to the pre-COVID-19 unemployment rate is not expected for many years.

The latest statistics (September to November 2020) show unemployment has reached 5% or 1.7 million people (ONS, 2021). This is already a very worryingly high rate, requiring serious attention from policy makers, but the worst is most likely yet to come.

Figure 1 shows the most recent OBR central forecast from November 2020 (OBR, 2020) is for a steep acceleration in job losses following the end of the Coronavirus Job Retention Scheme (CJRS), up to a peak of 7.5% (2.6 million people) as, inevitably, any job losses it is only postponing will be realised. It also shows the expected long tail of unemployment, remaining above 7% (2.4 million people) until the spring of 2022. Since these forecasts were published the CJRS has been extended for another month so we expect the steep rise in unemployment to be postponed a month.

Figure 1: Unemployment rate projections from the OBR, November 2020



Source: ONS, OBR
Note: We expect all three OBR forecast charts to have shifted slightly to the right due to the further extension of the CJRS which was announced after the forecasts were published.

The economic impact of the pandemic will last well beyond the point where the health situation starts to improve because incomes, businesses and jobs cannot bounce back overnight. Once restrictions are lifted (and it is currently unclear how long restrictions of some kind will need to be in place), the same jobs will not be there. Many businesses will go under and changes in consumer and worker behaviour will see some industries contract and others grow. This will cause both job losses and a delay in new job creation. It will take time for workers to be matched with or trained for jobs in new industries.

A short extension of the £20 uplift (such as the three- or six-month extensions reportedly under consideration) would very likely see this support cut during the period of highest unemployment. It would not be right to cut this lifeline away in April, and it certainly would not be right to cut it later this year.

Cutting the uplift and replacing it with a one-off lump sum payment (another option reportedly being considered) would be particularly ineffective and poorly targeted for similar reasons. The large number of people losing their jobs in the period after the one-off payment is made will miss out on this support completely.

Recessions lead to significant long-term damage in employment and wage prospects for those worst affected (Bell et al, 2020), so we therefore welcome the Government's plans for stimulating job creation and skills programmes. But even the most ambitious investment in jobs and skills will take time to deliver results. The income support provided by the uplift provides a vital lifeline to those awaiting these results, keeping people afloat so that they can seize opportunities as they arise rather than being swept under by poverty.

Investment in jobs and skills must be a complement, not a substitute, for the £20 lifeline. The more successful the employment recovery, the lower the cost of the £20 lifeline as fewer people will need the support of UC.

Security for families: realistic planning by policymakers

The economic picture is currently full of uncertainty, illustrated by the range of scenarios in Figure 1. Something like the central forecast described above is most likely, but the forecasts show that things could easily end up even worse. In the OBR's downside forecast, unemployment peaks at a huge 11% at the beginning of 2022. On the other hand, the best-case scenario would see a lower peak. These predictions from November are already considered out of date with the new strains and the latest lockdown, so it is clear there is no security in the year ahead.

A short extension of the £20 lifeline (for example six months) would be gambling on a very challenging and uncertain best-case outcome, turning a blind eye to the most likely economic reality of high unemployment for some time to come. The Government has been heavily criticised in other areas of pandemic policymaking for being overly optimistic in forward planning, then having to make last minute policy changes to correct course, at the expense of likely gains from early intervention.

The Government must not take this approach with the £20 uplift, rolling the dice for millions of our lowest-income families. The Chancellor needs to be realistic that unemployment is likely to get much worse later in 2021 and remain very high for at least a year, rather than having to inevitably make last minute extensions to the uplift in the months ahead, creating huge amounts of turmoil for families and work for DWP.

Cutting this lifeline at the wrong time would be extremely damaging to families, communities and the economy. Extending it for an inadequate length of time would be short-sighted, ineffective, unlikely to achieve the Government's aims, and leave people facing more uncertainty when what they need is stability and security.

Announcing that the £20 uplift will be extended for the full financial year 2021/22 would provide that policy certainty now, whilst allowing decisions about the future of support beyond that to be made at a more appropriate time, such as the autumn fiscal events where the Government can set out tax and benefit rates for the following April with reasonable notice. It would be simple to implement, slotting in with the usual annual benefit uprating process and would avoid the need to change systems to enable unusual in-year benefit rate variations.

The £20 uplift to Universal Credit and Working Tax Credit should, at a minimum, be extended for the full fiscal year 2021/22. Any shorter extension would be bad policy and work against the economic recovery.

However, we have also consistently set out the evidence (see full details in JRF, 2021b) for why **the £20 uplift to UC and WTC should be made permanent and extended to people on legacy benefits**.

By implementing this uplift, the Government recognised that our social security system was no longer adequate to keep families out of poverty or support them when faced with job or income loss. Cuts and freezes to social security were one of the main drivers of falling incomes for low-income families in the decade leading into the pandemic, falling fastest for those on the lowest incomes. Child poverty and in-work poverty were rising and destitution had increased by 54% from 2017 to 2019.

Even with the £20 uplift in place, families unable to find work will on average receive £1,600 less per year in support than they would have done in 2011 and those with children will receive around £2,900 less. If the uplift is cut, the main rate of unemployment support would return to its lowest level in real terms since around 1990. As a proportion of average earnings, it would be at its lowest ever level, and income replacement rates in the UK would be some of the lowest among OECD countries.

We also urge the Government to right the wrong of people on 'legacy benefits', mostly people who are disabled, sick or carers, being left behind. These groups have faced mounting financial pressure, greater risk of redundancy and further barriers in the labour market but have not received an equivalent lifeline to those on UC and WTC, in effect creating a two-tier benefit system. (See more on this in JRF, 2020c).

Notes

Bell, B, Codreanu, M and Machin, S (2020) What can previous recessions tell us about the Covid-19 downturn? [Online] Available at: https://cep.lse.ac.uk/_new/publications/abstract.asp?index=7219 [Accessed: 28 January 2021].

DWP (2021) Universal Credit statistics, 29 April 2013 to 10 December 2020 [Online] Available at: https://www.gov.uk/government/statistics/universal-credit-statistics-29-april-2013-to-10-december-2020 [Accessed: 28 January 2021].

Health Foundation (2020) Public perceptions of health and social care in light of COVID-19 [Online] Available at: https://www.health.org.uk/publications/public-perceptions-of-health-and-social-care-in-light-of-covid-19-november-2020 [Accessed: 28 January 2021].

JRF (2020a) Strengthen social security for a stronger economy [Online] Available at: https://www.jrf.org.uk/report/strengthen-social-security-stronger-economy [Accessed: 28 January 2021].

JRF (2020b) 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: 29 January 2021].

JRF (2020c) 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: 28 January 2021]

JRF (2021a) UK Poverty 2020/21 [Online] Available at: https://www.jrf.org.uk/report/uk-poverty-2020-21 [Accessed: 28 January 2021].

JRF (2021b) Keep the lifeline: why the Government should keep the £20 uplift to Universal Credit [Online] Available at: https://www.jrf.org.uk/report/keep-lifeline-why-government-should-keep-20-uplift-universal-credit [Accessed: 28 January 2021].

OBR (2020) Economic and fiscal outlook – November 2020 [Online] Available at: https://obr.uk/efo/economic-and-fiscal-outlook-november-2020/ [Accessed: 28 January 2021].

ONS (2021) Labour market overview, UK: January 2021 [Online] Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/january2021 [Accessed: 28 January 2021].

Sunak, R (2020) The Chancellor Rishi Sunak provides an updated statement on coronavirus [Online] Available at: https://www.gov.uk/government/speeches/the-chancellor-rishi-sunak-provides-an-updated-statement-on-coronavirus [Accessed: 28 January 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 is available to download from www.jrf.org.uk

To meet one of our experts to discuss the points raised please contact:

Rebecca McDonald: Senior Economist
Rebecca.McDonald@jrf.org.uk
07866 171358