THE CASE FOR STRENGTHENING UNIVERSAL CREDIT WORK ALLOWANCES

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CSJ The Centre for Social Justice

www.centreforsocialjustice.org.uk

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This short note sets out why strengthening Universal Credit (UC) work allowances is the most effective way of supporting those who are just about managing and how this will help more people to find work and make the most of their potential.

At the heart of this is the fact that all the money invested in UC work allowances will go directly to people who are reliant on in-work benefits, those who are just about managing. In comparison, as little as 25 pence of every £1 invested in increasing the income tax personal allowance will go to this group[1]. By choosing to invest in UC work allowances more people will find work and those in relatively low-paid work will be better supported.

As a result, the Centre for Social Justice (CSJ) is recommending that the Government, in the forthcoming Autumn Statement, reinstate UC work allowances to their status before the reductions in the 2015 Budget. This would cost up to £3.4 billion from March 2022, depending on how this change was made[2]. If it is necessary to generate commensurate savings elsewhere, this could be done by adjusting the planned increases in the income tax personal allowance or even by slowing down the planned increases, which should generate sufficient savings.

In her first speech as Prime Minister, Theresa May MP, promised to those who are just about managing that: "When it comes to taxes, we'll prioritise not the wealthy, but you."[3] This change will help to achieve this, ensure that the just about managing get the support they need, and ensure that work always pays.

1 Resolution Foundation, Five things you need to know about the personal allowance increase, March 2017 [accessed via: http://www.resolutionfoundation.org/media/blog/five-things-you-need-to-know-about-the-personal-allowance-increase/] and Institute for Fiscal Studies, Options for increasing tax, 2015 [accessed via: https://www.ifs.org.uk/uploads/gb/gb2015/ch10_gb2015.pdf]

2 Institute for Fiscal Studies, Benefits Changes and Distributional Analysis, 2015 [accessed via: https://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributional_analysis.pdf]

3 Prime Minister's Office, 10 Downing Street, Statement from the new Prime Minister Theresa May, July 2016 [accessed via: https://www.gov.uk/government/speeches/statement-from-the-new-prime-minister-theresa-may]

CSJ

MAKING WORK PAY

Work is one of the surest routes out of poverty. Not only does it provide an income, it is also proven to improve people's self-esteem, and their physical and mental health.[4]

Long-term worklessness is one of the most influential factors that drives poverty in the United Kingdom. Staying out of work has been found to cause increased difficulties for individuals getting back into work through issues such as skill loss, employer bias and changing attitudes to work.[5] Moreover, a child in a workless household is almost three times as likely to be in poverty as a child living in a family where at least one adult works.[6]

In short, it is crucial that Government ensures that it always pays to work, rather than being on benefits. This is something UC work allowances, which are the maximum a claimant can earn before their benefit award starts to be withdrawn, are specifically designed to do.

Supporting more people into work is particularly important in the context of the Government's manifesto commitment to halve the disability employment gap. The employment rate among disabled people stood at 46.7 per cent at the end of 2015, compared with 80.3 per cent for non-disabled people; and disabled people are almost four times as likely to be economically inactive.[7]

To meet the commitment to halve the disability employment gap, the Government will need to ensure that people with disabilities and health conditions are properly supported and incentivised to move into employment over the coming parliament. Universal Credit has a pivotal role to play in achieving this.

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4 For example see The Royal College of Psychiatrists, Improving the lives of people with mental illness, 2016 [accessed via: http://www.rcpsych.ac.uk/healthadvice/treatmentswellbeing/physicalactivity.aspx] and Waddell G. and Burton A., Is work good for your health and well-being, 2006 [accessed via: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214326/hwwb-is-work-good-for-you.pdf]

5 Department for Work Pensions, An Evidence Review of the Drivers of Child Poverty for Families in Poverty Now and for Poor Children Growing Up to be Poor Adults, January 2014 [accessed via: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/285389/Cm_8781_Child_Poverty_Evidence_Review_Print.pdf]

6 Lord Freud, Speech in the House of Lords on the Welfare Reform and Work Bill, January 2016 [accessed via: https://hansard.parliament.uk/Lords/2016-01-25/debates/16012510000385/WelfareReformAndWorkBill]

7 Papworth Trust, Disability in the United Kingdom 2016, December 2016 [accessed via: http://www.papworthtrust.org.uk/sites/default/files/Disability%20Facts%20and%20Figures%202016.pdf]

THE CHALLENGES AHEAD

The Government has had significant success over the past six years at supporting more people into employment, in part driven by welfare reform (the Monetary Policy Committee noted this connection in 2014).[8] In what has been widely described as a "jobs miracle", the unemployment rate has fallen to 4.9 per cent, the lowest it has been for 11 years[9] and 11 per cent of children are growing up in workless households, compared with 19.8 per cent when records began 20 years ago.[10]

Yet significant challenges remain. The Prime Minister, Theresa May MP, has been right to highlight the importance of supporting those who are just about managing. Those in relatively low-paid work, but with little job security. People who have felt the squeeze, year on year from weak income growth and rising costs, in areas such as childcare, housing and utilities.

There is also a specific challenge in supporting people with significant barriers to work, in particular those with disabilities and health conditions. While one in every five JSA claimants moves off benefit each month, just one per cent of Employment Support Allowance claimants in the work-related activity group does.[11] This is despite 61 per cent of those in this group saying that they want to work.[12] If the Government are to halve the disability employment gap, this will have to change. Again, Universal Credit is the vehicle through which this will need to happen.

This context, as well as significant parliamentary pressure contributed towards a reversal of the 2015 Budget decision to reduce the tax credit thresholds and generosity of the withdrawal rate, which would have led to those affected experiencing an average loss of around £1,300 a year.[13]

The Prime Minister has committed her Government to ensuring that our economy and society work for everyone. Ensuring that the just about managing are sufficiently supported, and that those furthest from the labour market are given every opportunity to move into work, will be crucial in achieving this mission.

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8 Bank of England, Minutes of the Monetary Policy Committee Meeting, April 2014 [accessed via: http://www.bankofengland.co.uk/publications/minutes/Documents/mpc/pdf/2014/mpc1404.pdf]

9 ONS, UK Labour Market Statistics, October 2016 [accessed via: http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest#unemployment]

10 ONS, Working and Workless Households in the UK, September 2016 [accessed via: http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/workingandworklesshouseholds/aprtojune2016]

11 Former Minister of State for Employment, Priti Patel MP, February 2016 [accessed via: http://www.publications.parliament.uk/pa/ld201516/ldhansrd/text/160229-0001.htm]

12 House of Commons Library, Abolition of ESA Work Related Activity Component, July 2016 [accessed via: researchbriefings.files.parliament.uk/documents/CBP-7649/CBP-7649.pdf]

13 Centre for Social Justice, Reforming Tax Credits, November 2015 [accessed via: http://www.centreforsocialjustice.org.uk/core/wp-content/uploads/2016/08/Reforming-Tax-Credits-full-report.pdf]

THE WAY AHEAD

To build upon the Government's employment record and, in particular, to support more people with disabilities into work, there must be sufficient investment in Universal Credit.

The blueprint for Universal Credit was designed in the 2009 CSJ paper, Dynamic Benefits. Its founding principle was to re-design the welfare system to ensure that people are always better off in work than they are on benefits. Universal Credit was designed to simplify a welfare system that had become incredibly complex over the course of many years. It achieved this by combining six welfare programmes (income-based JSA, income-based Employment Support Allowance, Income Support, Child Tax Credit, Working Tax Credits and Housing Benefit) into one. Strong work allowances were always a fundamental part of the design, necessary to ensure people are appropriately incentivised to move into employment.

Universal Credit is steadily rolling out across the country and the evidence so far shows that it is working as more people move into work faster, stay in work longer and they earn more. A 2015 Department for Work and Pensions study found that universal credit claimants were, compared with JSA claimants in the first nine months of their claim:[14]

- 13 per cent more likely to have been employed;
- On average, working 12 days more;
- On average, earning more;
- More than twice as likely to be trying to work more hours if they were working less than 30 hours a week.

As UC rolls out over the coming years, its effect – if invested in and supported – could be substantial. As originally designed, UC was expected to boost employment by 300,000, in large part because of the work incentive it provided.[15] It is important that this coming Autumn Statement is used as an opportunity to invest in UC, and ensure that those who are just about managing are given the support they need.

14 Department for Work and Pensions, Universal Credit at Work, December 2015 [accessed via: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/483029/universal-credit-at-work-december-2015.pdf]

15 Department for Work and Pensions, 7 ways Universal Credit will be a better deal, Mach 2014 [accessed via: https://www.gov.uk/government/news/7-ways-universal-credit-will-be-a-better-deal]

THE CASE FOR STRENGTHENING UNIVERSAL CREDIT WORK ALLOWANCES

In the 2015 Budget, the generosity of UC work allowances was reduced, alongside a reduction in the generosity of working tax credits. These measures came into force from March 2016. Together, they were designed to save £3.4 billion a year from 2020-21.[16]

It is crucial that Government controls costs and reduces the deficit to put this country on a stable financial footing. When it comes to welfare this must be done in a way that protects the poorest and most disadvantaged and gives people every opportunity to make the most of their potential. At the heart of this is the need to ensure that work always pays. People must be incentivised and rewarded for doing the right thing and working, when they can, to provide for themselves and their families.

Reducing UC work allowances was not the most effective way of controlling welfare expenditure and, moreover, it goes against the key principles set out above. Given the clear evidence of the effectiveness of UC as a reform that supports those who are just about managing by increasing their chances of finding and thriving in employment, we ask the Government to consider whether it may be time to look again at the reduction in the generosity of the UC work allowances.

The Government sought to ameliorate the effects of the work allowance reduction by introducing transitional protection for those moving from the tax credit system into the Universal Credit system. The CSJ believes, however, that there is a strong argument that the Government should go further than this, as it does not affect those who claim UC for the first time or those who have a significant change in their circumstances.

By March 2022, UC will have been fully rolled out and the planned reduction will affect more than three million people, reducing their income by an average of over £1,000 per year.[17] This will reduce people's incentive to move into work, and the level of financial support Government provides to those in relatively low-paid work.

In November 2015, the Government decided to reverse the reduction in the generosity of working tax credits. It is now time to do the same to the UC work allowance changes. The CSJ urges the Government to return them to the level set out before the 2015 Budget.

Strengthening UC work allowances is the most effective way of supporting those who are just about managing. It is, for example, much more effective than raising the income tax personal allowance, for which an estimated 72 to 75 per cent of the gains are received by people in the top half of earners in this country.[18]

16 Institute for Fiscal Studies, Benefits Changes and Distributional Analysis, 2015 [accessed via: https://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributional_analysis.pdf]

17 Institute for Fiscal Studies, Benefits Changes and Distributional Analysis, 2015 [accessed via: https://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributional_analysis.pdf]

18 Resolution Foundation, Five things you need to know about the personal allowance increase, March 2017 [accessed via: http://www.resolutionfoundation.org/media/blog/five-things-you-need-to-know-about-the-personal-allowance-increase/] and Institute for Fiscal Studies, Options for increasing tax, 2015 [accessed via: https://www.ifs.org.uk/uploads/gb/gb2015/ch10_gb2015.pdf]

The current Government policy is to increase the income tax personal allowance from £11,000 to £12,500. Estimates of the cost of doing so depend highly on the level of inflation and the speed with which the threshold is changed, but regardless it will be significantly more than what was saved from the UC work allowance cuts.[19]

In summary, all the money invested in UC work allowances will go directly to people who are reliant on in-work benefits, those who are just about managing; whereas as little as 25 pence of every £1 invested in increasing the income tax personal allowance will go to this group.[20] By choosing to invest in UC work allowances more people will find work and those in relatively low-paid work will be better supported.

As a result, the CSJ recommend that the Government reverse the decision to reduce the generosity of UC work allowances. If it is necessary to generate commensurate savings elsewhere, this could be done by adjusting the planned increases in the income tax personal allowance or even by slowing down the planned increases, which should generate sufficient savings.

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19 For instance see New Statesman, Raising the personal allowance: more expensive than you'd think, and not as progressive as they say, March 2015 [accessed via: http://www.newstatesman.com/politics/2015/03/raising-personal-allowance-more-expensive-youd-think-and-not-progressive-they-say]

20 Resolution Foundation, Five things you need to know about the personal allowance increase, March 2017 [accessed via: http://www.resolutionfoundation.org/media/blog/five-things-you-need-to-know-about-the-personal-allowance-increase/] and Institute for Fiscal Studies, Options for increasing tax, 2015 [accessed via: https://www.ifs.org.uk/uploads/gb/gb2015/ch10_gb2015.pdf]

CONCLUSION

The first steps someone makes into the job market are often the most difficult, and yet they are the most important. For someone who has been out of work for a while, the work environment can be a daunting place. These people need to be encouraged and supported to make this transition well. Moreover, those in relatively low-paid work need to receive appropriate support. This is precisely what the UC work allowances were designed to do when the CSJ first developed this reform. This is why they are so important.

The Prime Minister has made it clear that those who are struggling most and those who are just about managing will be front and centre of her social policy agenda. Cutting tax credits and the UC working allowances were not the most appropriate away of managing welfare expenditure and disproportionately affect those in low paid work. The Prime Minister has an opportunity to change that.

The strengthening of UC work allowances is an extremely efficient way of supporting the people who need it most, and more than three million people would feel this change directly in their pocket. What is more, they would be rewarded for doing the right thing and working hard to provide for themselves and their families. The CSJ strongly urges the Government to consider this proposal, which will help ensure that the UK remains a society that works for everyone.

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