

# Universal Credit Update: pandemic, uplift, and Universal Support

June 2021

## Background

The Government is currently due to end the £20 uplift to the Universal Credit (UC) Standard Allowance in September 2021.

Over 3 million more people are now reliant on UC than before the pandemic, many with pre-existing financial commitments, and have never experienced the old rate. The increase only partially reverses over a decade of benefit cuts under George Osborne's Chancellorship. Most importantly of all, the vast majority of the increase in welfare costs to the DWP has not come from the uplift, but from the increase in the caseload (over 100%).

The CSJ therefore supports making the uplift permanent. However, reforms should not stop there; the uplift will not help those most in need, and will not address the challenge of unemployment. Further investment in UC should focus on households with children, reducing the UC taper rate, linking the Benefits Cap to inflation, and increasing work allowances.

Finally, the CSJ recognises that, leaving the economic impact of the pandemic aside, the root causes of poverty are often social, and those facing the most complex obstacles to employment would be helped most through rolling out Universal Support (see below).

## About Universal Credit (UC)

UC was designed with two principal aims:

1. To simplify the complexity of the existing welfare system by combining six separate payment systems into one online system.
  - During the pandemic this has been incredibly successful, with the UC system successfully absorbing approximately 3 million new cases (an increase of around 100 per cent).<sup>1</sup>
  - 90 per cent of claimants have received their payments in full and on time in a period of unprecedented demand.<sup>2</sup>
2. To remove disincentives to work and ensure work always pays it removed the welfare "cliff-edge", in which withdrawal of benefits for a claimant who is now earning more, or has taken on more hours of work, could face Effective Marginal Tax Rates (EMTRs) of up to 100%. Instead, it introduced a system that gradually withdrew benefits as an individual increases their earnings. This is adaptable to need and so has seen significant changes this year.
  - It should be noted that prior to the pandemic employment levels in the UK hit a record high, reaching their highest level since 1971.<sup>3</sup>
  - Unemployment had been falling consistently since 2013, falling below 4 per cent in 2019, well below EU averages.<sup>4</sup>
  - Universal Credit treats claimants on a household basis in order to ensure that welfare is properly targeted at those most in need and does not go to individuals living in households that do not require welfare.

## Changes during the pandemic

An individual's ability to find and sustain work has been severely hindered by the government's approach to the Covid-19 pandemic so several measures were introduced at the start of lockdown in March to mitigate the effect of this on job seekers.

1. A suspension of conditional work-search requirements (it should be noted that this has had the effect of masking headline unemployment figures, which only count individuals who are out of work but are actively searching).<sup>5</sup>

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1 [stat-xplore.dwp.gov.uk/webapi/jsf/tableView/tableView.xhtml](https://stat-xplore.dwp.gov.uk/webapi/jsf/tableView/tableView.xhtml)

2 [www.politicshome.com/thehouse/article/universal-credit-is-one-of-the-success-stories-of-the-coronavirus-crisis](https://www.politicshome.com/thehouse/article/universal-credit-is-one-of-the-success-stories-of-the-coronavirus-crisis)

3 [www.bbc.co.uk/news/business-47622415](https://www.bbc.co.uk/news/business-47622415)

4 [www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/mgsx/lms](https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/mgsx/lms)

5 [www.understandinguniversalcredit.gov.uk/Coronavirus/](https://www.understandinguniversalcredit.gov.uk/Coronavirus/)

2. The Minimum Income Floor (MIF), which caps entitlements for low-income self-employed Universal Credit claimants, has been suspended until the end of July 2021. This is worth an average of £3,200 to 450,000 claimants.<sup>6</sup>
3. There has been an increase of the UC Standard Allowance by £20 per week for all recipients (worth around £1,000 per year).<sup>7</sup> This also applies to those on Working Tax Credit. The annualised cost of this was projected to be £6.6bn by HM Treasury, and represents an increase of 13% to the average UC recipient's entitlement.
4. The Government has temporarily re-established the link between rents and welfare, by setting the maximum housing support level so it covers rent of 30% of local rental properties in the private sector.<sup>8</sup>

The government has invested considerably elsewhere, especially through the Chancellor's Job Support Scheme (JSS) and Bounce Back loans, but these are the main Universal Credit measures, costing around £9bn per year. These changes come alongside a large increase in the number of Universal Credit claimants which the Office of Budget Responsibility forecasts may add around £25bn onto the 2020-21 welfare bill.<sup>9</sup>

Combined with the contraction in GDP, the OBR forecasts welfare spending rising to approximately 12 per cent of GDP in 2021-22, in line with levels immediately following the 2008 financial crisis. In 2020-21, welfare spending as a proportion of GDP reached over 15 per cent, if the JSS and Self-Employed Income Support Scheme (SEISS) are included.<sup>10</sup>

2020-21 saw an increase in spending on UC and its predecessors of £15.1bn, a 23.5 per cent increase on the previous year, according to the OBR.<sup>11</sup>

## The £20 uplift

Attention has now focused on retaining the £20 per week uplift for all benefit claimants, indefinitely. A consortium of around 50 charities, led by the Joseph Rowntree Foundation, wrote to the Chancellor in September 2020 making the request.<sup>12</sup> Fifty Conservative MPs have also written to the Chancellor asking to keep the uplift until at least the end of lockdown.<sup>13</sup>

Although making the uplift permanent would not be without cost implications, in the CSJ's view the costs are not onerous when compared with other areas in which HM Government has been prepared to spend unprecedented amounts, and the consequences of removing it would outweigh the benefits from any saving.

## Reasons to keep the uplift

1. This pandemic follows a decade of cuts and freezes in welfare. The net fall in welfare spending in 2010-15 was about £17bn and the 2015 budget sought to save a further £12bn on the welfare bill through a range of further cuts, caps and freezes.<sup>14</sup> This is a partial return to former levels. Welfare levels, though higher during the pandemic, are historically quite low.
2. There have been roughly 3 million new claimants to UC between March 2020 and April 2021 (up from 2.9m to 6m)<sup>15</sup> for whom this will not be a temporary uplift but the only level of welfare payment they have ever known. £1,000 per year will be a very substantial blow.<sup>16</sup>

6 [www.gov.uk/government/news/government-extends-extra-welfare-support-for-self-employed-for-further-six-months](https://www.gov.uk/government/news/government-extends-extra-welfare-support-for-self-employed-for-further-six-months)

7 [www.understandinguniversalcredit.gov.uk/Coronavirus/](https://www.understandinguniversalcredit.gov.uk/Coronavirus/)

8 [www.ifs.org.uk/publications/15063](https://www.ifs.org.uk/publications/15063)

9 [www.ifs.org.uk/publications/15063](https://www.ifs.org.uk/publications/15063)

10 [obr.uk/wtr/welfare-trends-report-march-2021/](https://obr.uk/wtr/welfare-trends-report-march-2021/), p. 5

11 [obr.uk/wtr/welfare-trends-report-march-2021/](https://obr.uk/wtr/welfare-trends-report-march-2021/), p. 6

12 [www.jrf.org.uk/press/joint-open-letter-chancellor-keep-lifeline](https://www.jrf.org.uk/press/joint-open-letter-chancellor-keep-lifeline)

13 [www.thetimes.co.uk/article/red-wall-mps-in-north-of-england-and-midlands-push-rishi-sunak-for-help-v58wnw037](https://www.thetimes.co.uk/article/red-wall-mps-in-north-of-england-and-midlands-push-rishi-sunak-for-help-v58wnw037)

14 [www.bbc.co.uk/news/uk-politics-33221968](https://www.bbc.co.uk/news/uk-politics-33221968)

15 [www.gov.uk/government/statistics/universal-credit-statistics-29-april-2013-to-8-april-2021/universal-credit-statistics-29-april-2013-to-8-april-2021](https://www.gov.uk/government/statistics/universal-credit-statistics-29-april-2013-to-8-april-2021/universal-credit-statistics-29-april-2013-to-8-april-2021)

16 [www.gov.uk/government/collections/universal-credit-statistics](https://www.gov.uk/government/collections/universal-credit-statistics)

3. The economy could be sluggish for some time and money supporting people on low incomes is both necessary in a suppressed employment market and is more likely to be spent back into the economy (UC recipients are likely to spend all of their income on consumer goods, rather than this money going into static savings).
4. HM Treasury's figures do not match those given by the Office for Budget Responsibility (OBR), which estimates the annualised cost of the £20 uplift to be £4.4bn, rising to £5.9bn once the increases to Working Tax Credit.<sup>17</sup>
5. Given that HM Treasury's principal objection to retaining the £20 uplift appears to be one of cost, it should be noted that the vast majority of the increase in DWP spending on UC since the beginning of the pandemic has been caused by the increased caseload, not by the uplift in base rate generosity.<sup>18</sup>
6. In fact, it seems that HM Treasury's £6.6bn cost forecast made an underlying assumption of zero improvement in the labour market. Clearly as the post-Covid economy recovers, jobs are created and the UC caseload goes down, this spending liability will decrease. In fact, the DWP's liabilities could be cut by successfully moving some of the long-term unemployed off benefits and into work (see Universal Support, below).
7. The cost of the uplift is very small when compared with the cost of the Chancellor's Job Support Scheme (JSS, or furlough), which has cost the taxpayer over £60bn so far,<sup>19</sup> with a potential fraud / error margin of 5-10%, according to the HMRC.<sup>20</sup>

However, although the CSJ supports the retention of the current £20 uplift as a partial reversal of previous cuts to UC's generosity, when considering investment in UC in the future the government should not look to the base rate. This is because increases to the base rate are poorly targeted, going to single unemployed claimants without children and to households with dependents equally.<sup>21</sup>

Targeted investment could make much more sense in the long term. **There are several areas in which UC would benefit from further investment:**

- **The taper rate could be cut further to 55p**, allowing recipients of UC to keep more of their money when they earn more or take on more hours of work by reducing the rate at which benefits are withdrawn.
- **The Child Element to UC could be made more generous**, since children have been very negatively affected by the pandemic.
- **The cost of childcare available through UC could be increased** from a maximum of 85 per cent to 100 per cent, thus covering the full costs of childcare for parents in receipt of UC while freeing them up to work.
- **The Benefit Cap, which is frozen, could be re-linked to inflation**, meaning that the maximum amount of welfare a household can claim would once more be linked to the cost of living.
- **Work allowances could and should be increased**. As the pandemic ends and the economy slowly begins to recover it will take time for the labour market to return to pre-March 2020 levels. Many may find themselves in lower paid or part-time work where they were previously in better paid and / or full-time work; increasing work allowances would help those claimants who are highly motivated to re-enter a weakened labour market to have their incomes supported.

Retaining the uplift and increasing work allowances in particular will be of particular help to UC claimants who are reliant on the benefits system as a function of the pandemic. However, simple increases to generosity will not help UC claimants with complex and overlapping needs (the cohort most at risk of falling into long-term unemployment).

It is important to distinguish between those newly reliant on welfare due to the pandemic and consequent lockdown and the pre-existing cohort of claimants. There is, of course, a risk that a longer-term economic contraction and the effect of the experience of unemployment may push some of those who were previously employed into longer-term unemployment, and into the social problems that tend to prevail alongside this.

17 [obr.uk/wtr/welfare-trends-report-march-2021](https://obr.uk/wtr/welfare-trends-report-march-2021) p. 19

18 [obr.uk/wtr/welfare-trends-report-march-2021](https://obr.uk/wtr/welfare-trends-report-march-2021) p. 20

19 [www.statista.com/statistics/1122100/uk-cost-of-furlough-scheme/](https://www.statista.com/statistics/1122100/uk-cost-of-furlough-scheme/)

20 [www.politicshome.com/news/article/furlough-scheme-up-to-35bn-lost-through-fraud-and-error](https://www.politicshome.com/news/article/furlough-scheme-up-to-35bn-lost-through-fraud-and-error)

21 [www.ifs.org.uk/publications/15063](https://www.ifs.org.uk/publications/15063)

Those facing the most complex and overlapping obstacles to gainful employment, and those most at risk of falling into long-term unemployment, would benefit most from **the roll-out of Universal Support**.

## Universal Support

It is a long-standing position of the CSJ that individuals with complex and overlapping needs, which provide significant barriers to employment, need interventions that go further than just increasing the generosity of welfare. These complex social obstacles include, but are not limited to:

- Alcohol and drug addiction
- Gambling addiction
- Problem debt and difficulties budgeting
- Abusive relationships and / or family breakdown
- Poor educational prospects or outcomes, including poor literacy (including digital literacy)
- Habitual worklessness and benefit dependency (NB this is a long-term factor and not linked to Covid or the downturn in the economy, which are very much separate and contingent phenomena).

The CSJ therefore recommends that the HM Government should roll out Universal Support, an intervention successfully piloted in 2014 by Lord Freud. The purpose of Universal Support (US) is to:

- Identify individuals in need of support with multiple barriers to work.
- Refer them to a Local Authority assigned Key Worker who is independent of the DWP.
- Provide a bespoke “wrap-around” support plan for the vulnerable individual, including triage and sign-posting and triage to the organisations and groups best able to help them overcome complex and overlapping barriers.

Initial points of referral to Universal Support can include the DWP / Job Centre Plus, GP surgery, Citizens’ Advice, third sector organisations such as Step Change Debt Charity, mental health and addiction support groups, local housing association.

The CSJ estimates that implementing Universal Support would cost £460 million, but with an expected return on investment of 1.5-2, matching the funding for the Work & Health Programme & Intensive Personalised Employment Support (IPES) programme for the disabled.

As a point of comparison, the Troubled Families programme showed a £448m investment gained a return of £1.2 billion.<sup>22</sup>

Similarly, the Work Programme, which ran from 2011-16, was very successful. 1.8m people claiming Employment and Support Allowance (ESA) and Jobseekers’ Allowance (JSA), who were between 3 and 12 months into their claim, were referred during this period. 26 per cent reported that at the end of the 2-year programme they were in sustained employment (above the DWP’s expectations).<sup>23</sup>

This provides a powerful example of how investment in comprehensive support for those in longer term unemployment or at risk of it can cut worklessness and provide a reduction in DWP liabilities.

Finally, although the UK is still experiencing a lockdown-induced slump in demand, the anticipated rise in consumer spending after lockdown restrictions are fully lifted may mean some sectors suffer from labour shortages, according to the Chartered Institute of Personnel & Development (CIPD).<sup>24</sup> Helping individuals who are long-term benefits-dependent back into a labour market-ready state will increase the supply of labour at a time when employers may be hiring at an unprecedented rate.

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22 [www.centreforsocialjustice.org.uk/library/unfinished-business-next-steps-for-welfare-reform-in-post-covid-britain](http://www.centreforsocialjustice.org.uk/library/unfinished-business-next-steps-for-welfare-reform-in-post-covid-britain)

23 [www.centreforsocialjustice.org.uk/wp-content/uploads/2020/10/CSJJ8435-Universal-Credit-Universal-Support-201012.pdf](http://www.centreforsocialjustice.org.uk/wp-content/uploads/2020/10/CSJJ8435-Universal-Credit-Universal-Support-201012.pdf)

24 [www.theguardian.com/business/2021/may/17/uk-faces-labour-shortage-as-covid-and-brexit-fuel-exodus-of-overseas-workers](http://www.theguardian.com/business/2021/may/17/uk-faces-labour-shortage-as-covid-and-brexit-fuel-exodus-of-overseas-workers)