Uprating Universal Credit to tackle the cost of living crisis

Report to the Centre for Social Justice

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The Centre for Social Justice asked Policy in Practice to calculate the cost of three policy options to increasing Universal Credit, in order to protect low income households from high and rising inflation.

- **Option 1: Restoring the £20 weekly uplift to Universal Credit**
- **Option 2: Increasing elements of Universal Credit, as though they had been uprated by 10% in April 2022**
- **Option 3: Restoring work allowances to 2015 levels to help all Universal Credit households in work**

This was a rapid response policy costing. While we believe these estimates are reasonable and accurate, they were carried out largely using aggregate figures, rather than detailed micro-simulation modeling of survey or administrative data.

Findings

Option 1: Restoring the £20 weekly uplift to Universal Credit

4.2m households on Universal Credit would each gain by £1,000 per year, and the policy would cost £4.2bn.

Option 2: Increasing elements of Universal Credit, as though they had been uprated by 10% in April 2022

4.2m households on Universal Credit would gain, we estimate the policy would cost £3.1bn, the average gain per household would be £729 per annum.

Option 3: Restoring work allowances to 2015 levels to help all Universal Credit households in work

1.66m households in work and on Universal Credit would benefit from a policy costing £733m, so the average gain would be £442 per year for each household in work.

Each of these policies operate independently, and can be implemented on their own, or alongside each other.

Analysis

Option 1: Restoring the £20 weekly uplift to Universal Credit

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Option 2: Increasing elements of Universal Credit, as though they had been uprated by 10% in April 2022

4.2m households on Universal Credit would gain, we estimate the policy would cost £3.1bn, the average gain per household would be £729 per annum.

The table shows the number of households receiving each element of Universal Credit, and the increase had each element been uprated by 10% in April 2022.

	Number receiving	10% uprating	Cost £m
Single	3,457,000	£389.81	£1,348
Couple	709,000	£611.90	£434
LCW	24,884	£154.67	£4
LCWRA	809,271	£412.35	£334
One child	812,700	£337.54	£274
Two children	1,077,300	£622.21	£670
Total			**£3,064**

This policy costing was validated using an alternate approach, with 4.2m households receiving £790 per month in February 2022. Their annual increase would be £920 per annum, costing £4bn per year. However, this cost estimate is complicated as the housing element remains fixed at the local housing allowance level of 30% of market rents in 2021. Two-thirds of households (2.8m) get the housing element, and a reasonable estimate would be half the average award (£400), reducing the cost by £1.1bn, reaching a similar figure to the award shown in the table above.

While the annual cost is shown in the report, if the policy were to be implemented in July, and given benefits are likely to be uprated by this amount in April 2023, the cost would only be for nine months of the annual estimate, costing £2.3bn.

Option 3: Restoring work allowances to 2015 levels to help all Universal Credit households in work

1.66m households in work and on Universal Credit would benefit from a policy costing £733m, so the average gain would be £442 per year for each household in work.

The table shows the number of households in work for each household type, an estimate of how many of these households have a UC housing element, and the total cost increase after returning the work allowance to the 2015 levels.

Family Type	In Work	With housing element	Without housing element	Annual change in work allowance		Annual cost increase £M		
				With housing element	Without housing element	With housing element	Without housing element	Total
Single, no children	654,041	436,027	218,014	£1,332.00	£1,332.00	£580.8	£290.4	£871.2
Single, with children	479,897	319,932	159,966	£0.00	£1,932.00	-	£309.1	£309.1
Couple, no children	49,422	32,948	16,474	£1,332.00	£1,332.00	£43.9	£21.9	£65.8
Couple, with children	183,226	122,151	61,075	£0.00	£0.00	-	-	-
Disability	291,650	194,433	97,217	£0.00	£888.00	-	£86.3	£86.3
Totals	1,658,236	1,105,491	552,745			£624.7	£707.7	**£1,332.4**

The overall increase in work allowances would be £1.33bn. However, the earnings withdrawal rate in Universal Credit means that claimants currently keep 45% of each pound they earn below this level.

The actual gain to claimants is therefore 55% of the total increase in work allowances, making the cost of this policy £733M per annum (55% of the total £1.3bn). This amount shared across 1.66m households in work means it is worth £442 per year.

Implementation challenges

Policy in Practice was founded by one of the architects of Universal Credit, and we believe the Universal Credit system is capable of implementing each of these options in a matter of weeks.

The impact on people receiving legacy benefits is out of scope for this analysis. While these families undoubtedly also need targeted support, there are genuine implementation challenges with legacy systems. It isn't reason enough to limit support to households on Universal Credit, and may support the ongoing migration to Universal Credit.

Recommendations

These options are listed in our preferred order.

- Restoring the £20 uplift to Universal Credit gets the maximum support to the maximum number of households, and we know from the pandemic that it could be implemented quickly.

- Increasing elements as though they had been uprated by 10% in April should have happened in April. This lowers the cost to the treasury, if this is a concern it is a sensible alternative to restoring the £20 uplift.

- Households in work have already benefited from the welcome fall in the withdrawal rate in Universal Credit from 63% to 55%. If the government wants to continue to prioritise support to working people, this is a sensible alternative. However, households who are unable (and not expected) to work would continue to suffer from high and rising living costs.

Since the end of the £20 emergency uplift to Universal Credit, there has been no directly targeted support to the lowest income households. We believe that the chancellor should consider each of these options, and implement one (or all) of them, or propose a better alternative. Doing something is better than doing nothing.

About Policy in Practice

Government policy is complex, confusing and changing all of the time. Policy in Practice was founded by one of the architects of Universal Credit to make government policy easy for people to understand.

The policy engine we built drives our award winning Benefit and Budgeting Calculator which helps 10,000 people daily via GOV.UK. It also supports frontline advisors in their work to explain changes in government policy, including Universal Credit. By looking at the interaction of policies from multiple government departments, the engine can identify the impact on people with certainty and highlight what actions they can take to be better off. It also shows people on low incomes what extra help they could get with, for example, low cost utility tariffs and council tax support.

Our policy engine also drives our LIFT Platform which analyses household level administrative data for over forty local authorities across the UK, to identify households missing out on benefits and other support. The LIFT Dashboard is used by councils across the UK to **identify** households with low financial resilience; showing how future policies will affect them allows limited support resources to be targeted effectively. Then, using the built in Benefit and Budgeting Calculator, frontline advisors can **engage** people on the impact of taking steps such as reviewing household spend or moving into work could have on their financial resilience. Over time, the LIFT Dashboard can **track the impact** of interventions through low-cost case-controlled evaluations, in order to improve effectiveness.

We believe administrative data is the future of social policy analysis, and we want to work with partners to help them and their residents to navigate government policy and make active decisions that improve lives.

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CSJ The Centre for Social Justice

The Centre for Social Justice has commissioned this project as part of its response to the rising cost of living. The facts presented and views expressed in this report are, however, those of the author and not necessarily those of the CSJ.