



THE BENEFIT CAP: AN UNHAPPY ANNIVERSARY

July 2023

Summary

- The benefit cap **limits the amount of social security entitlement some of the poorest households across the UK can receive** (although mitigations are in place in Scotland and Northern Ireland).
- When the cap was introduced, it affected a handful of families. **However, a decade of cuts mean the cap is now widespread, and children and families are being pushed into deep poverty** as a result.
- **Families are left with very little after paying their rent.** For instance, lone parents with three children are now likely to be capped across most areas of the country, and **can be left with as little as £44 a week to live on after paying their housing costs.**
- It is illogical to acknowledge that **families with higher costs in high rent areas deserve more financial support to help meet these costs**, and then issue a flat rate cap limiting this entitlement.
- We call on the UK **government to remove the benefit cap, substantially reducing the depth of poverty for the 250,000 children currently living in households affected by the cap.** In addition to abolishing the cap, the **government must increase local housing allowance rates so that they reflect at least the bottom 30th percentile (ie, the cheapest 30 per cent) of local market rents.**

Introduction

The benefit cap, introduced from 2013, restricts the total amount of support a working-age household can receive from the social security system for (1) households with no paid work and (2) households with earnings of less than the equivalent of 16 hours a week at the minimum wage. There are some exemptions, and people with recent earnings are not immediately capped, but the cap still serves to **limit social security entitlement to some of the poorest households across the country, and pushes children and families into deep poverty.**

The government claims that the benefit cap is needed as a work incentive. However, the government's own evaluation of the policy found that the **vast majority of capped households do not move into work**.¹ This is unsurprising as just **over a third (34 per cent)** of people on universal credit who are subject to the benefit cap are assessed by the DWP as **not required to look for a job because they are caring for very young children**.² A further 18 per cent are already in work but do not earn enough to reach the threshold for the cap to be lifted. These households are out-of-work or on very low earnings for deep structural reasons that the cap does not help to address. In addition, the **vast majority of capped households who have found work would have done so even in the absence of the cap**.³

The benefit cap applies to a wide range of working-age benefits including universal credit, child benefit and housing benefit. For households with children, it is set at:

- £486.98 a week in London
- £423.46 a week outside the capital

Capped households are much more likely to be families with children, in particular larger families, and live in areas with high housing costs. Their benefit entitlement is higher than the cap because the costs associated with raising children and covering housing are high. It is illogical to acknowledge that **families with higher costs in high rent areas deserve more financial support to help meet these costs**, and then issue a flat rate cap limiting this entitlement.

History of the benefit cap

The benefit cap came into force in April 2013. When the cap was introduced, it was set at £500 a week (£640 in today's money).⁴ Figure 1 shows that the cap was not widespread at first. Only a handful of families were affected, in areas with particularly high housing costs.

In autumn 2016, the level of the benefit cap was reduced to £383 a week for households outside London, and £442 a week for those in London.⁵ Until April 2023, the cap was frozen at this level meaning that, as costs have risen, capped families have been forced to cut back more and more. **The recent increase to the cap threshold in line with inflation is welcome, but it does not undo a decade of real cuts to the benefit cap threshold, which have been driving children and families into deep poverty.**

Although the benefit cap is a UK-wide policy, some devolved governments have decided that capped families should not lose out on their entitlement and so mitigate the benefit cap through elements of the social security system under their control. In Northern Ireland, the benefit cap for families with children has been mitigated since its inception through welfare supplementary payments. Since February 2023, the Scottish government has committed additional funding to discretionary housing payments (DHPs) to mitigate the impact of the benefit cap as fully as possible. Anyone who applies for a DHP because they are affected by the cap should now be awarded one.

¹ Department for Work and Pensions, [Evaluation of the lower benefit cap](#), 2023

² CPAG, ['FOI data debunks benefit cap 'work incentive''](#), 2 March 2023

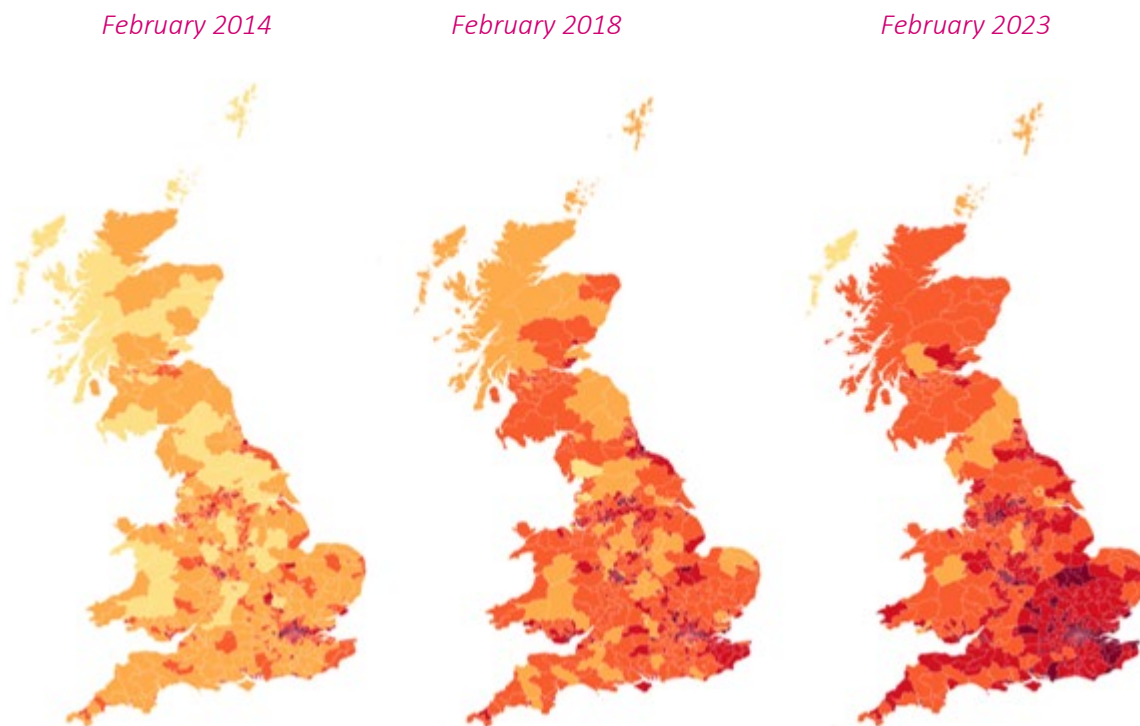
³ See note 1

⁴ The threshold was lower for single adult households at £350 a week.

⁵ For single adults without children the cap was reduced to £258 a week outside of London and £295 a week in London.

Figure 1 shows how, over time, **more and more children and families across the country have become affected by the cap.**

Figure 1: Number of children living in households affected by the benefit cap



Note: The darker the shade of red the more children affected. Source: Office for National Statistics (boundaries) and DWP Stat Xplore (data). A more detailed interactive version of the map can be seen at cpag.org.uk/policy-and-campaigns/benefit-cap-map. This analysis does not include Northern Ireland because the benefit cap for families with children has been mitigated through supplementary payments since its inception. The mitigations in Scotland are not reflected in the map because they only began in February 2023.

What are families left with to live on?

It is not only the increased number of capped families that is a concern. **The amount capped families can be left with after housing costs (AHC) has fallen over time as costs have risen substantially, while the cap has been frozen.** The analysis that follows looks at what capped families can be left with to live on after rent, based on their local area and household characteristics.

For the purposes of this analysis, it makes sense to split social security entitlement into housing and non-housing elements. In practice, where benefits come from is determined by whether a household is claiming universal credit or legacy benefits. Universal credit combines all means-tested benefits, therefore housing and non-housing

elements comes from the same source. With legacy benefits, housing benefit is separate from other benefits such as tax credits or jobseeker's allowance.⁶

Local housing allowance

The housing element depends on whether the household is a private renter, social renter or homeowner. More than one in three children in poverty live in privately rented accommodation, where the housing element of social security is determined by local housing allowance (LHA) rates.

LHA rates are based on private market rents being paid by tenants in the broad rental market areas (local rental area). There are 192 local rental areas across Britain.⁷ LHA is not a benefit in its own right, rather it sets maximum amounts claimants of universal credit and housing benefit can get in housing support for private rented properties of different sizes within specified areas. Maximum support is determined by:

- The location – each local rental area has different rates **based on market rents in that area**
- The size of property a household is entitled to, with **bedroom entitlement based on family size and characteristics**

Before April 2011, LHA rates were based on median rents in each local rental area. From April 2011 to April 2013, LHA rates were based on the 30th percentile of local market rents. From April 2013 to April 2020, rates were not updated in line with rental values, instead they were frozen, increased by 1 per cent, or increased by CPI. In April 2020, LHA rates were reset to the 30th percentile of local market rents, but have been frozen since, despite large increases in rents and inflation in recent years.

Bedroom entitlement is based on family size and characteristics. The larger the family, the more bedrooms (and therefore higher rates) a household is entitled to. Not all children are expected to have their own bedroom.⁸

It is important to note that the rent a household pays may not equal the corresponding LHA rate. If rent is below the LHA rate, the household will only be entitled to a housing element equal to their rent. If rent is above or equal to the LHA rate, the household will receive the maximum LHA rate. In fact, many households claiming benefits are spending more on rent than they receive in housing support, leaving them with a shortfall and even less money to meet other essential costs. **Sixty percent of families who claim universal credit and privately rent pay rent that exceeds the maximum LHA rate for their area.**⁹

Nonetheless, in the calculations that follow we assume that rent equals the LHA rate as this is the amount the government thinks should be provided for low-income households of different sizes in different areas.

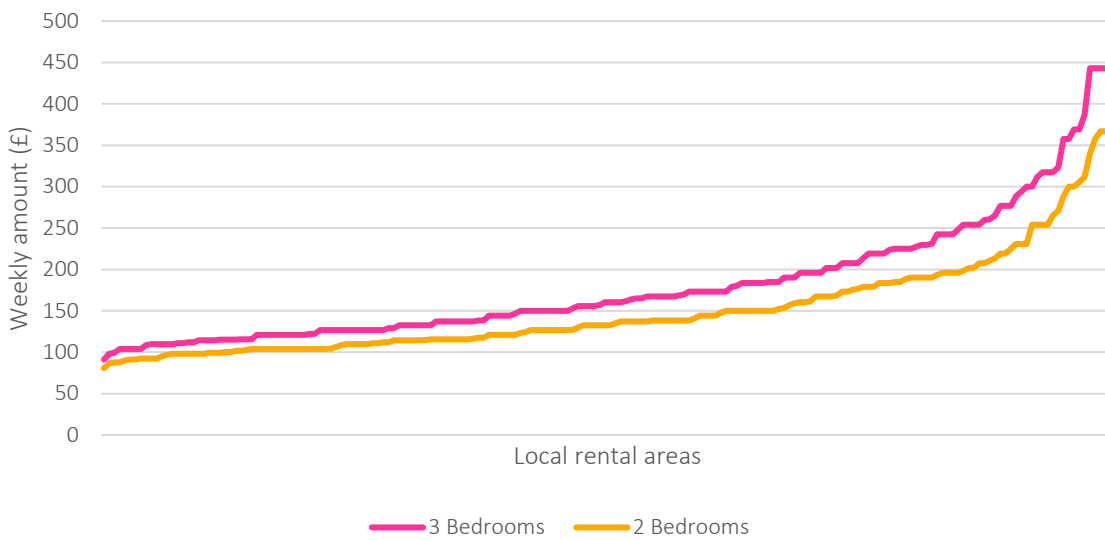
⁶ Calculations used in this analysis will focus on universal credit as the majority of capped households are on universal credit, but the same principle applies for capped households on legacy benefits (housing benefit and others).

⁷ We did not include Northern Ireland in this analysis because supplementary payments fully offset the benefit cap for families with children.

⁸ For more details see entitledto.co.uk/help/calculating-your-bedroom-entitlement.

⁹ Department for Work and Pensions, *Stat Xplore, Number of Households on Universal Credit*, September 2022 (the most recent data available)

Figure 2: Weekly LHA rates (2 and 3 bedrooms) from cheapest local rental area to most expensive



Source: Department for Work and Pensions, *Universal Credit Local Housing Allowance rates, 2023*

Figure 2 shows the LHA rates in different local rental area across Britain, ranging from lowest value (areas where rents are cheapest) to highest value. We can see that, unsurprisingly, the LHA rates are always **higher for more bedrooms**. It is also clear that there is **substantial variation in LHA rates**, by area of the country.

Non-housing benefits

Non-housing benefits include means-tested elements for adults and children as well as child benefit. Table 1 shows weekly non-housing entitlement by number of children and adults in the household for households on universal credit, claiming child benefit when applicable. Unsurprisingly, the more people in the household, the higher benefits are, as costs are higher.

Table 1: 2023/24 Weekly non-housing entitlement (£) by number of children and adults in the household

Number of children	Weekly non-housing entitlement	
	Couple	Single/Lone parent
0	£134	£85
1	£230	£182
2	£308	£260
3	£324	£278

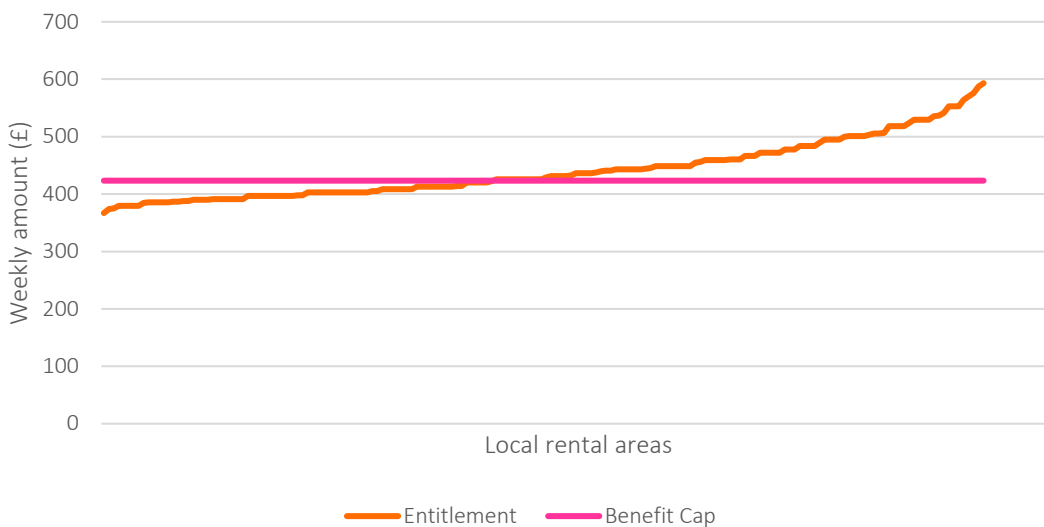
Note: Author’s calculations based on benefit rates. Amounts refer to claimants receiving universal credit where at least one of the adults is over 25. Where there are three children, we include the two-child limit, as capped families are disproportionately likely to have a young child and therefore be affected by the two-child limit.



Combining LHA and non-housing benefits

There are thousands of possible combinations of household characteristics and local rental areas. It is therefore impossible to look at all household types. In what follows, we look at the effect of the benefit cap across local rental areas for a lone parent with three children. **Lone parents are disproportionately affected by the benefit cap**, as they face more barriers to work, and the cap affects households who are out of work or with only limited earnings. **Larger families are more likely to be affected**, as their benefit entitlement is higher but the cap is the same for all households with children.

Figure 3: Weekly total entitlement by non-London local rental area for a lone parent with three children



Source: Author's calculations from benefit and LHA rates

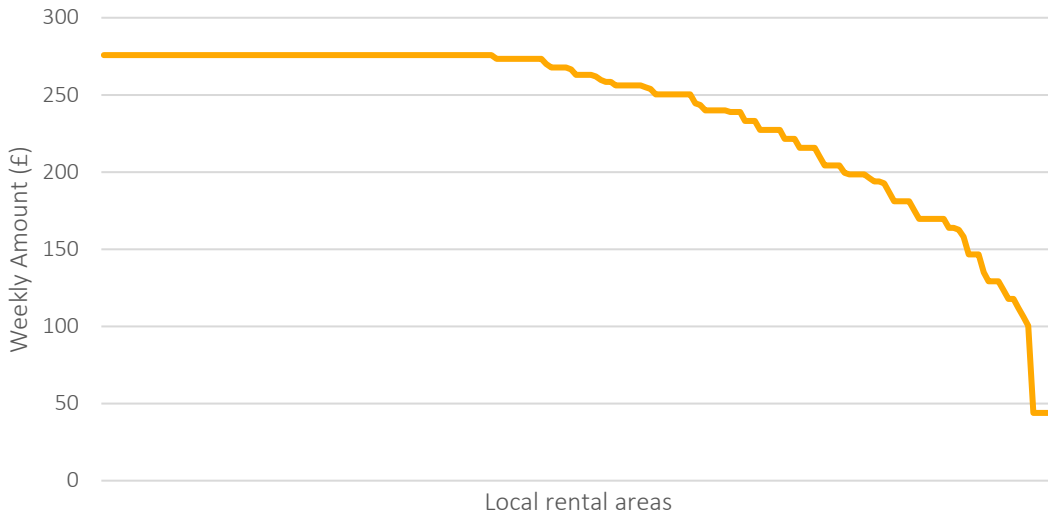
Figure 3 shows how weekly total entitlement for a lone parent with three children varies by (non-London) local rental area, and how this amount corresponds to the benefit cap.¹⁰ We can see that **lone parents with three children would be subject to the benefit cap in over half of all local rental areas**. The vertical distance between the total entitlement and benefit cap lines after they intersect shows the weekly capped amount (the amount of benefit entitlement that is lost each week as a result of the cap). In some local rental areas this amount is small, but in the most expensive local rental areas families lose over £100 a week.

Rent is an unavoidable cost for households, therefore it makes sense to subtract rent from the total post-benefit cap entitlement to see what families are left with to live on. Figure 4 shows the weekly after housing costs, post-benefit cap entitlement by local rental area. We can see that in local rental areas where the benefit cap does not come into effect for a lone parent with three children, the entitlement is the standard non-housing entitlement of £276 a week. For areas affected by the benefit cap, the weekly amount is much lower. **In some areas of London, despite the cap being higher, a lone parent with three children has to cover all non-housing costs on just £44 per week**. The benefit cap is not just a London issue though, Table 2 shows selected cities and how much families can

¹⁰ Later analysis will include London but as the cap is higher in London it makes sense to exclude it from this graph.

be left with, illustrating how widespread the cap is. Although nowhere fares as badly as London, it is clear that capped families all across the country can be left with very little after paying their housing costs.

Figure 4: Weekly AHC entitlement by local rental area for a lone parent with three children at risk of being capped



Source: Author’s calculations from benefit and LHA rates

Table 2: Selected local rental areas and weekly AHC entitlement for a lone parent with three children

Local rental area	Weekly non-housing entitlement
Inner London	£44
Guildford	£106
Brighton and Hove	£147
Oxford	£170
Lothian	£170
Bristol	£204
Exeter	£233
Northampton	£239
Harrogate	£240
Cardiff	£245
Southern Greater Manchester	£250

Note: Author’s calculations from benefit and LHA rates

Conclusion

The rationale for the **benefit cap is flawed**. The government's own analysis shows it does not work as a work incentive. Instead, it just takes income away from some of the poorest households across the country and drives children and families into deep poverty. It also flies in the face of a long established principle of the social security system, which is to link entitlement to need.

Over time, the cap has affected a growing number of families, taking away more and more from the worst affected over time. **The amount left for families to meet their needs after paying their housing costs is very low everywhere, but in many parts of the country it is alarmingly inadequate**, especially for larger families. Worryingly, some families will be left with even less to live on, as their rent may exceed LHA rates.

We call on the **government to remove the benefit cap, which would substantially reduce the depth of poverty for the 250,000 children currently living in households affected by the cap** without harming work incentives. Removing the cap would only cost £300 million, 0.1 per cent of the total amount spent on social security.¹¹

In addition to abolishing the cap, the government must increase local housing allowance rates so that they reflect at least the bottom 30th percentile (ie, the cheapest 30 per cent) of local market rents.

¹¹ The results presented here are based on UKMOD version B1.03 UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The process of extending and updating UKMOD is financially supported by the Nuffield Foundation (2018-2021). The results and their interpretation are the author's sole responsibility.