Universal credit crunch: entitlements, disregards and tapers

DONALD HIRSCH

What do the UK government's crucial decisions about universal credit (UC) in 2021 tell us about social security policy? The government faced significant opposition to cutting the £20 which had been added to the UC standard allowance as the pandemic struck but went ahead anyway. The October 2021 budget then offered significant improvements to UC for those in work. These policy choices tell us a lot about current government priorities.

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For all the difficulties that UC has brought to families, it has at least made more transparent some overall features of government policy and where it is heading. In 2021, this highlighted very clearly the competing priorities of providing an adequate safety net and rewards for work. Ultimately coming down on the side of the latter, the government followed in the wake of a decade of policy changes bringing mixed results for low-income workers and severe negative consequences for out-of-work families.

What I mean by greater transparency is this: whereas the legacy benefit system has a complicated array of entitlements and allowances, UC revolves largely around three quantities. First, a baseline entitlement is set through a standard allowance for each single adult or couple, plus an additional allowance for each child. Second, the work allowance is the amount you can earn before your UC starts to be reduced (only available to those with children or limited capability for work). Thirdly, the taper rate determines the amount deducted from your UC entitlement for each pound earned above the work allowance. Additional entitlements for housing and childcare, and policies such as the bedroom tax, the benefit cap and the two-child limit have an effect, too, but these are superimposed on this relatively simple core structure of UC.

Changes in these three elements produce different winners and losers. An increase in the baseline entitlement such as the £1,000 a year increase brought in at the start of the pandemic, which ended last October, raises the safety-net income of non-earners, as well as helping working families receiving UC. An increase in the work allowance, such as the £500 a year rise announced in the budget, affects everyone eligible with earnings above the allowance by an equal amount but gives nothing to those with very low or no earnings. A cut in the taper, such as the budget reduction from 63p to 55p in the pound, is worth something to everyone earning above the work allowance but worth a greater amount the more you earn until your UC entitlement runs out. Thus, for a given cost, a policy change can focus on improving the guaranteed minimum for everyone (by raising baseline entitlements) or alternatively restrict help to working families with earnings above the work allowance, either by giving them all the same amount (by raising the allowance) or by giving more to those on UC with relatively higher earnings (by raising the taper).

In the five years before the pandemic, baseline entitlements fell in value, eroded by inflation during the 2015-19 benefit freeze. During the same period, the work allowance was increased by £1,000 a year (in 2019) and the taper was reduced from 65 per cent to 63 per cent (in 2017). Overall, this helped some working families but left those without work worse off. When, in March 2020, chancellor Rishi Sunak announced that the standard allowance was going up by £1,000 a year in order to 'strengthen the safety net', it felt like it had taken a momentous world event to cause the scales to fall from his eyes. What he saw was a safety net so weakened by recent government policy that families had barely half what they needed to live on, according to the Minimum Income Standard.[1] By summer 2021, there seemed to be a mini-avalanche of falling scales, as all six Conservative former secretaries of state for work and pensions who had presided over the benefit freeze signed a letter pleading for the £1,000 increase to be retained, in order to 'allow people to live in dignity'.[2]

Chancellor Rishi Sunak leaves 10 Downing Street to go to the House of Commons to make the Summer Budget Statement in 2020.

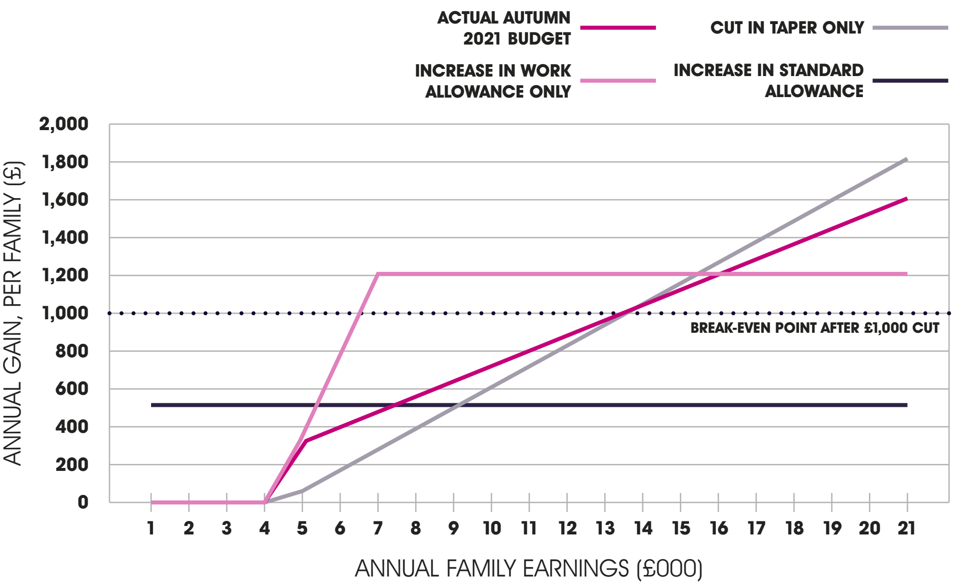
> **Thus, for a given cost, a policy change can focus on improving the guaranteed minimum, on helping (some) people on the lowest earnings or on providing a boost for those able to increase their earnings from work.**

Budget trade-offs: who gains?

Despite these pleas, the chancellor allowed the increase to lapse in October. He sought to calm the resulting political storm by putting slightly more than a third of the value of the cut (£2.3 billion out of £6 billion) back into UC by reducing the taper rate sharply, from 63 per cent to 55 per cent, and modestly increasing the work allowance, by a further £500.

These measures help working families but not people out of work. The emphasis on the taper gives less help to the poorest working families than if the money had been focused on raising the work allowance. This is illustrated in figure 1, showing how else the £2.3 billion put back into UC in the budget could have been spent, and who would have benefitted. It shows that a family with a part-time worker, earning say £8,700 a year (half-time on the minimum wage) would have gained nearly twice as much had the increase gone purely into raising the work allowance. The work allowance gives a flat-rate gain across working incomes in eligible households, whereas increasing the taper rate gives greater gains to those earning more. Had the £2.3 billion been spread across all UC households by raising the standard allowance, that would have benefited out-of-work families, too, albeit only restoring £500 of the £1,000 a year that had been cut in October. If families receiving working tax credit had also been included (as they were in the £1,000 a year increase from March 2020), £2.3 billion would only have been enough to restore £400 a year to all those who experienced the cut. The £2.3 billion would have gone even less far had other legacy benefits recipients (such as those on employment and support allowance) been included.

Figure 1: How to spend £2.3 billion on universal credit: who benefits



Source: author estimates based on policy cost data from Budget red books, 2021 and 2019

The longer view: making work pay creates sticks, not just carrots

In 2021, then, the government reverted to form, ignoring the pleas not to return the safety net to its pared-down level, and re-emphasising rewards for paid work. This followed a pattern set in 2015: a range of measures have cut baseline UC entitlements (freezing benefits, lowering the benefit cap, removing the family/first child element and introducing the two-child limit), while other policies seek to improve net incomes in work (raising the work allowance, lowering the taper, increasing the percentage of childcare costs covered and sharply increasing the minimum wage).

It would be simplistic to conclude that the net effect has been to make working families better off and out-of-work families worse off. Indeed, the risk of poverty for children with at least one working parent rose from 23 per cent to 26 per cent between 2015/16 and 2019/20.[3] Rather, the cuts in entitlements have created a net loss for the many working families with very low or sporadic incomes for whom UC is an essential lifeline and who gain relatively little from a lower taper or from a higher minimum wage because they work relatively few hours.

An overall picture of winners and losers is illustrated in figures 2 and 3. This shows that work incentives have increased greatly, not just by increasing the rewards for work but also by cutting out-of-work incomes – effectively through both carrots and sticks. If couple parents working full time on the minimum wage lose their jobs, their income falls by almost half (48 per cent), compared to just more than a third (36 per cent) in 2015. Typically, though, among families claiming UC, at least one parent does not work full time and those with part-time earnings do considerably worse. As the graphs show, despite higher pay, work allowances and support for childcare, families that are 'half employed' have at best stood still. Many others have lost out, especially those with three or more children, and those whose oldest child was born since 2017 whose baseline entitlements have fallen further.

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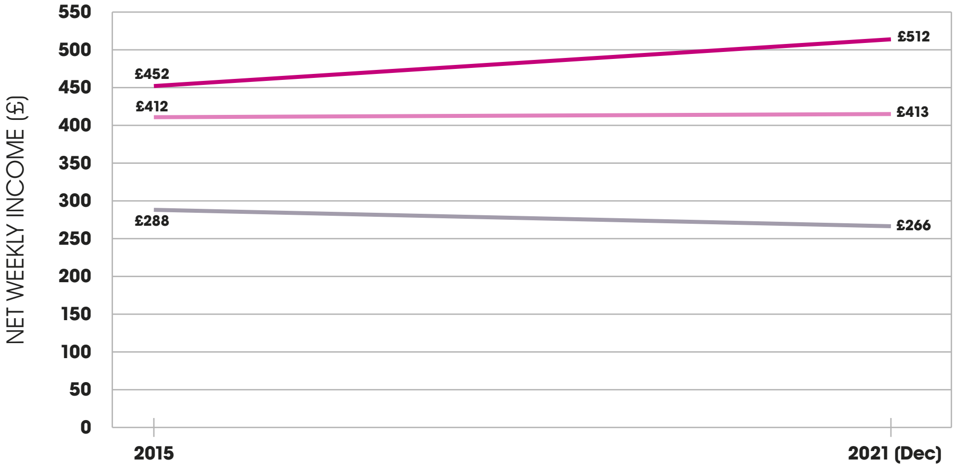
Figure 2: Net weekly income of couple with children aged three and seven, 2015 and end 2021, by work status (adjusted to late 2021 prices)*

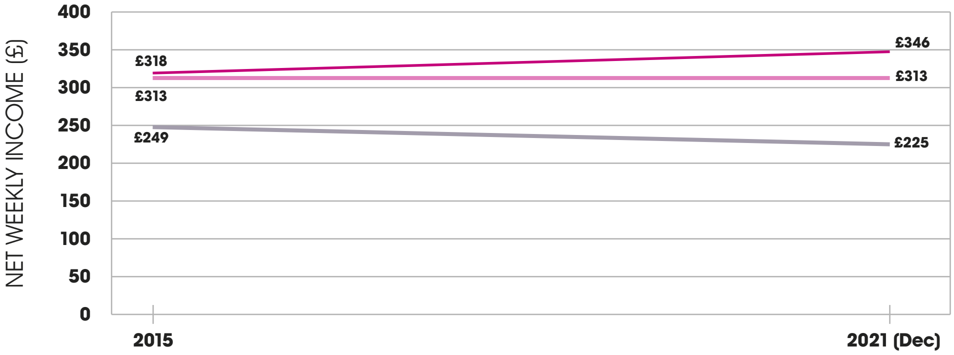
FULLY EMPLOYED ON MINIMUM WAGE
"HALF EMPLOYED" ON MINIMUM WAGE (ONE PARENT FULL TIME)
NOT EMPLOYED



*Note: After rent, childcare and council tax

Figure 3: Net weekly income of lone parent with children aged three and seven, 2015 and end 2021, by work status (adjusted to late 2021 prices)*

FULLY EMPLOYED ON MINIMUM WAGE
'HALF EMPLOYED' ON MINIMUM WAGE (LONE PARENT WORKS HALF TIME)
NOT EMPLOYED



*Note: Net of rent, childcare and council tax

The two lenses of UC: protection when you fall and support when you rise

An instructive aspect of the past two years is how the debates about UC changed when seen, by the chancellor and many others, through the lens of people losing their jobs in a crisis, rather than through that of 'getting people back to work'. The first perspective is one of social security: a system that protects you when things go wrong. The second is that of 'welfare' – the need to ensure that a group of people characterised as long-term claimants find ways of re-engaging with the labour market. While measures to encourage and reward paid work are important, the tragedy in our usual discourse in the 21st century is that we too rarely think in terms of social security as a form of insurance for us all. The postwar welfare state was established following the national traumas of depression and war, when collective security obviously made sense. The vulnerabilities of the past two years have rekindled that acceptance of the need for social protection. Time will tell whether the public realisation of how weak our safety net has become will create a commitment to strengthen it permanently.

At the heart of this needs to be a realisation that low-income families are not separated neatly into the categories referred to in this article but can move frequently between them, notably those who move in and out of unstable work. What people need most from a social security system is some stability, reducing fluctuation of incomes between better times and worse times. Whatever else we think about UC, it at least provides a clear-cut mechanism for doing so: the baseline entitlements which should form the bedrock of an adequate income, on top of which additional income from earnings can build. Ensuring that these are set at a level that allows families to live in dignity should now be the top priority. If six Conservative former secretaries of state have acknowledged that the rates are currently below this level, what are we waiting for?

Professor Donald Hirsch is director of the Centre for Research in Social Policy, Loughborough University

Footnotes

1. D Hirsch, *A minimum income standard for the United Kingdom in 2019*, JRF, 2019
2. 'Six former Tory welfare chiefs demand Universal Credit cut is cancelled', Daily Mirror, 5 July 2021, mirror.co.uk/news/politics/six-former-tory-welfare-chiefs-24459498
3. Department for Work and Pensions, *Households Below Average Income, 1994/95–2019/20*, 2021, table 4.20ts – below 60 per cent median after housing costs