



# Universal credit: cuts to work allowances

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Briefing by CPAG

May 2016

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## Universal credit: cuts to work allowances

### Key points

Cuts to work allowances are making working families on universal credit worse off.

A couple with children in rented accommodation will lose £234 per year, and a single parent in rented accommodation will lose £554 per year.

A single parent on the new 'national living wage' would have to work two extra months (46 days) each year just to make up what they have lost. A single-earner couple with children would have to work almost one extra month (19 days).

Transitional protection will cushion those transitioning from tax credits from an immediate loss, but is likely to run out quickly for most families, meaning that the loss is merely delayed.

The cuts will also damage financial work incentives for those on universal credit, in direct contradiction of the policy's stated agenda of making work pay and encouraging earnings progression.

### Background

In April 2016 the Universal Credit (Work Allowance) Amendment Regulations 2015 came into force. These significantly reduce, and in some cases remove completely, the work allowances in universal credit, i.e. they reduce the level of earnings after which a household's universal credit award starts to be withdrawn, to a lower level or to zero. This is very similar in scale (approx. £3bn) and impact to the cuts to the tax credits threshold which were recently reversed, although the exact pattern of impacts is different.

### The cuts

Work allowances have been cut from:

- £222 to £192 for a couple with children claiming housing costs, i.e. renting (£536 to £397 if not renting)
- £263 to £192 for a lone parent renter (£734 to £397 if not renting)
- £111 to £0 for a non-disabled single person or couple without children
- £647 to £397 for non-renters with limited capability for work

### Losses to working families

Claimants without children will now have no work allowance: universal credit will be withdrawn from the very first pound they earn. Families with children will have their universal credit withdrawn at the rate of 65p in the pound when they earn anything over £192 per month (or £397 per month if they receive no help with their housing costs as part of their claim, i.e. non-renters).

The changes hit only universal credit claimants who are in work, just like the changes to tax credits would have done. A working couple with children in rented housing will lose £19.50 per month, or around £234 per year, and non-renters £1,084 per year. Lone parents will be hit particularly hard, and

stand to lose £46.15 per month or around £554 per year if renting, or over £2,600 if not. The children of single parents are already at twice the risk of living in poverty as those in couple families,<sup>1</sup> and this will exacerbate their disadvantage.

#### Who will lose what?

##### Renters

- A working couple with children will lose £234 per year.
- A working single parent will lose £554 per year.

##### Home-owners / non-renters

- A working couple with children will lose £1,084 per year.
- A working single parent will lose £2,628 per year.

#### Can families offset the loss by working additional hours?

The government response to the Social Security Advisory Committee was that parents could '[work] three to four additional hours a week at the national living wage to which they are entitled' to make up for this loss.<sup>2</sup>

But in order to make up what they have lost:

- A **single parent**, already working full time on the 'national living wage' of £7.20 an hour, will have to work **46 extra days each year** – more than two additional working months.
- A **couple** with very young children, where one parent is at home and another working full time on the 'national living wage', will have to find **19 more days work a year** – almost one additional working month.

That's before taking into account the costs of childcare. Even with the very welcome 85% subsidy under universal credit, parents will still have to find 15% of childcare fees, further reducing the net gains from extra hours of work.

For renting couple families the threshold at which UC starts to be withdrawn is £30 a month lower; for single parents the threshold will be £71 a month lower. UC is withdrawn at the rate of 65p in the pound (65%) for all earnings above the work allowance, after tax and national insurance.

So couple families will lose 65% of £30 per month, i.e. £19.50 per month, and single parents will lose 65% of £71 per month, i.e. £46.15 per month.

A full-time worker earning £7.20/hour in 2016/17 will take home just £1.71 per additional hour they work, as:

- After deductions of 32p in the pound for income tax and national insurance, their net hourly wage is £4.90
- After UC deductions of 65p in the pound of their net earnings, their effective hourly take home pay is £1.71

In order to recoup £19.50 per month at £1.71 per hour, a couple would have to work 11.4 additional hours per month, adding up to 19 extra working days each year. A single parent would have to work 26.9 extra hours per month, or 46 extra days in the year, to recoup the £71 they have lost.

Some parents may be able to take on these extra hours. But for many, especially single parents who already work full time, it is clearly not a realistic proposition.

Nor may employers be able to offer extra hours. ONS figures show that 11% of workers already want to work more hours than they are able to find,<sup>3</sup> and CPAG's research and caseload shows that employers are often unable, or unwilling, to meet staff requests for more hours.<sup>4</sup> Some employers take on additional part-time staff in preference to increasing staff hours, perhaps to make savings on National Insurance or pensions, or to retain a pool of staff willing to work more, or anti-social, hours.

Many parents working full time in jobs paying more than the 'national living wage' (which is actually set significantly below the real living wage) would also have to work considerably more days to compensate for what they are going to lose, as the following table shows.

### Extra days required per year to make up for work allowance cuts

Job	Hourly wage (gross)	Couple (single earner)	Single parent
National Living Wage	£7.20	20	46
Bricklayer	11.66	12	29
Undertaker	£11.28	12	29
Security guard	£8.69	16	38
Roofer	£10.74	13	31
Bank clerk	£10.78	13	31
Hospital porter	£9.40	15	35
Glazier	£9.38	15	35
Van driver	£8.85	16	38
Care worker	£7.86	18	42
Teaching assistant	£8.80	16	38
Fishmonger	£7.29	19	46
Cleaner	£7.24	19	46

\*This analysis does not include the effects of any other planned changes to Universal Credit such as: the removal of the first child premium worth £45 per month; the restriction of awards to two children per family; the increase in the minimum income floor affecting self-employed claimants; the increase in support available for childcare from 70% to 85% of childcare costs.

<sup>3</sup>

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/underemploymentandoveremploymentemp16>

<sup>4</sup> See among others [http://cpag.org.uk/sites/default/files/CPAG\\_Round\\_the\\_clock.pdf](http://cpag.org.uk/sites/default/files/CPAG_Round_the_clock.pdf)

### Won't transitional protection stop people losing out?

The work allowance cuts create an overnight loss for all working universal credit claimants, and all new claimants will be affected by the cuts immediately. The government will provide transitional protection for those currently receiving tax credits when they move on to universal credit, so they will not see an immediate cash loss. However, it is evident that this protection is expected to be quickly lost and people will soon face the cut in full: transitional protection in relation to the work allowance cuts is budgeted at £200 million, against a cut of £3 billion. And government forecasts are that by 2020/21 virtually the same savings will be made from universal credit thanks to these cuts, as if the tax credit cuts had never been reversed.

People's total awards will be frozen at the point of transition, and will not increase until their universal credit award catches up. If a family's income drops or they have a child, for example, which should increase their universal credit award, the increase will first 'eat into' their transitional protection top-up so that their overall award may not go up. Transitional protection will also be lost completely if a family's circumstances change significantly, for example if they lose employment, separate or form a new couple, or move off universal credit for more than six months.

As changes in income and family circumstances are very common life events, most families are expected to lose their transitional protection quickly via one or other of these mechanisms.

### Won't universal credit help people into better-paid work?

The government has argued that universal credit will help people find better-paid work, which will help to make up for these cuts.<sup>5</sup> But support for in-work progression under universal credit (and the associated conditionality regime) is still in the pilot stage and training of work coaches is not yet complete, so this promise is, as yet, an untested aspiration. The work allowance cuts will also work in the opposite direction, by reducing the financial incentives to work and to increase earnings.

### The cuts will reduce financial work incentives

The reduction in work allowances reduces the gains from entering work, or taking on additional hours or earnings. 65p is lost for every pound of net income earned above the work allowance. Lone parents are particularly affected, seeing the biggest cut in work allowances, yet they are the group for whom it is hardest to start work or increase hours.

The Resolution Foundation notes that non-renting single parents will see their incentive to *enter work* particularly reduced, but that renting single parents will also face lower incentives to enter work or to increase their hours, with the risk that both groups could end up reducing their hours. Resolution Foundation's analysis shows that a single parent non-renter with one child, paid the 'national living wage', will take home £240 per week in earnings and universal credit if they work ten hours per week, but only £36 more (£276) if they increase their hours to 22 hours per week.<sup>6</sup> That's a 15% increase in income for a 120% increase in working hours.

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<sup>5</sup> [https://hansard.parliament.uk/Commons/2015-11-19/debates/ee7deb60-be83-4747-8067-2ed4a0451ba8/UniversalCredit\(WorkAllowance\)AmendmentRegulations2015](https://hansard.parliament.uk/Commons/2015-11-19/debates/ee7deb60-be83-4747-8067-2ed4a0451ba8/UniversalCredit(WorkAllowance)AmendmentRegulations2015)

<sup>6</sup> Resolution Foundation (2015) [A budget for workers? The impact of the Summer Budget on work incentives in Universal Credit](#)

For a single parent renter, the current work allowance allows around just five hours work a week at the new 'National Living Wage' next year before earnings are reduced.

There is a clear mismatch between this cut and the professed purpose of universal credit: to make work pay and incentivise increased hours and/or earnings. For the majority of claimants, the Resolution Foundation further notes, the increase in the minimum wage 'is unlikely to do enough to offset poorer work incentives'. A single parent renter with one child, who last year worked full time on the minimum wage and has seen this rise to the 'National Living Wage', is still worse off now than they were before the cuts.<sup>7</sup>

The only group for whom work incentives can be said to increase is those who earn almost enough to move out of universal credit entitlement altogether – because once they move out of universal credit, they will no longer lose 65p for every £1 they earn. This is likely to include families with second earners in particular. However many of these will still be worse off overall.

### Where should universal credit go from here in its treatment of work?

If work is to offer a genuine route out of poverty, the relationship between universal credit and work needs to be right.

CPAG calls for:

- Restoration of work allowances, in particular for single parents.
- A second earner work allowance for couples, to support second earners to get into work without facing an immediate withdrawal of universal credit.
- Investment in high-quality employment support which recognises people's individual circumstances, so that universal credit can meet its aspiration to promote in-work progression through the provision of high-quality advice, rather than through the threat of sanctions.

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<sup>7</sup> Resolution Foundation (2015) [A budget for workers? The impact of the Summer Budget on work incentives in Universal Credit](#)