



# CAPPED IN THE NEW YEAR

December 2020

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## Summary of findings

- 35,000 households will be capped in the New Year, as their grace period expired this month. 27,000 (77 per cent) of these are households with children.
- A further 41,000 households will be capped in the first few months of 2021, as their grace period expires from January to March.
- Households with children are set to lose on average £62 per week.
- CPAG is calling for the removal of the benefit cap – doing so would pull 50,000 children out of poverty, a further 100,000 children out of deep poverty (below 50 per cent of median income) and 150,000 out of very deep poverty (below 40 per cent of median income).

## Introduction

COVID-19 has led to a doubling in the number of households affected by the benefit cap, from 79,000 in February 2020 to 170,000 in August 2020.<sup>1</sup> This number is likely to keep rising in the near future for two reasons. Firstly, unemployment is predicted to peak in 2021, once the furlough scheme has been withdrawn, increasing the number of households whose earnings fall below the earnings exemption threshold of £604 a month.<sup>2</sup> Secondly, many households whose earnings have already fallen below the earnings threshold will be hit by the cap at the end of the 'grace period'.

The grace period gives claimants nine months' exemption from the cap, starting from when their earnings first fall below the threshold, if in the previous 12 months they have earned over £604 in every month.<sup>3</sup> The rationale is that households with strong work histories can find re-employment in the nine-month period before they are capped.

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<sup>1</sup> Author's calculations from Benefit Cap: UC Point-in-time Caseload and Housing Benefit Point-in-time Caseload, Stat-Xplore, Department for Work and Pensions

<sup>2</sup> [http://cdn.obr.uk/CCS1020397650-001\\_OBR-November2020-EFO-v2-Web-accessible.pdf](http://cdn.obr.uk/CCS1020397650-001_OBR-November2020-EFO-v2-Web-accessible.pdf)

<sup>3</sup> The grace period earnings threshold was increased from £569 in April 2020.

The logic behind the grace period has two big caveats. Firstly, the earnings requirement is unnecessarily restrictive. There are lots of flows in and out of work, particularly at the bottom of the labour market. People may only be able to find seasonal jobs, or parents may not work over school holidays as childcare costs cancel out their earnings. Secondly, when jobs are scarce, people are much less likely to be able to find employment during those nine months, regardless of their strong work history.

COVID-19 has meant that hundreds of thousands of households' earnings have fallen below the threshold. Some did not have a strong work history and were capped immediately, and some were able to find enough earnings to move above the cap. However, many households are stuck in limbo, where they are not yet capped due to the grace period, but are unable to find work as jobs are so scarce.

## Findings

There are no official figures on the number of households affected by the grace period, although a recent parliamentary question revealed that, in August, 160,000 households on universal credit had started their grace period in March (their grace period will therefore end in December, with payments being reduced from the next assessment period).<sup>4</sup> It is important to note two things about this figure. Firstly, this is only households which started their grace period in March. There will be many more households who lost earnings in subsequent months and whose grace period will therefore expire some time in 2021, including 184,000 households whose grace period will expire in the first three months of 2021. Secondly, not all of these 160,000 households will be subject to the benefit cap, as their universal credit entitlement will not be high enough.

The standard benefit cap for households with children or couples without children is £1,666.67 a month. There is a lower amount for single people without children (£1,116.67 a month), and the cap is marginally higher for households in London (£1,916.67 a month for families and couples; £1,284.17 for single people).<sup>5</sup> The fact that the benefit cap does not adjust for the number of children in the household means that families with children, and in particular large families, are disproportionately affected.

In August 2020, 85 per cent of all capped households were households with children, and nearly half were families with three or more children. The remaining 15 per cent were almost entirely single adults without children, as they face a lower cap than other household types. Only 170 of the 170,000 capped households were couples without children, as they face the same cap amount as households with children, despite their entitlement being lower.<sup>6</sup>

Therefore, in order to estimate the share of the 160,000 households whose grace period will end before Christmas, it is necessary to look at the characteristics of households whose earnings fell below the threshold because of COVID-19, which we can do using Understanding Society data.<sup>7</sup> Table 1 shows an estimated breakdown of the 160,000 grace period households by number of children. The majority of households have no children and there are 13,000 households who have three or more children.

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<sup>4</sup> <https://questions-statements.parliament.uk/written-questions/detail/2020-12-07/126047>

<sup>5</sup> There is a higher cap for London as a key component of total benefits received is a housing element. Rents are higher in London, which means the housing element is correspondingly greater.

<sup>6</sup> Benefit Cap, Stat-Xplore, Department for Work and Pensions

<sup>7</sup> <https://www.understandingsociety.ac.uk/>

Table 1: Estimated breakdown of December grace period expiring households by number of children

Number of children	Number of grace period expiring households
0	89,000
1	28,500
2	29,500
3+	13,000
Total	160,000

Source: Author's calculations from Understanding Society and <https://questions-statements.parliament.uk/written-questions/detail/2020-12-07/126047>

However, this still does not answer what share of different household types will have high enough entitlement to be hit by the cap. In order to calculate this it is necessary to simulate universal credit entitlement based on characteristics such as household composition, age and location.<sup>8</sup>

Table 2: Estimated breakdown of December grace period expiring households by number of children and likelihood of being capped

Number of children	Number of grace period expiring households	Number of capped households	Share of households that are capped
0	89,000	8,000	9%
1	28,500	5,000	17%
2	29,500	12,500	42%
3+	13,000	9,500	74%
Total	160,000	35,000	22%

Source: Author's calculations from Understanding Society and <https://questions-statements.parliament.uk/written-questions/detail/2020-12-07/126047>

Table 2 indicates that 35,000 households (22 per cent) out of the 160,000 are likely to be capped in their next assessment period. Although households with no children make up the majority of the 160,000 grace period households, only 8,000 (9 per cent) are estimated to have high enough entitlement to reach the cap. This is because they do not receive any support for children and receive less help with their housing costs, as their housing costs will be lower. These capped households are composed of entirely single adult households, as they have a lower cap amount than couples without children. At the other end of the spectrum, households with three

<sup>8</sup> Non-housing universal credit entitlement was simulated by calculating the number of adults and the number of children in the households. The housing component of universal credit entitlement was calculated by assigning the average local housing allowance amount in a given region for a given category. Child benefit was simulated for households with children. For households with non-zero earnings, entitlement was reduced based on the work allowance and taper rate. Adjustments were made for the two-child limit and households who would not receive housing entitlement due to home ownership.

or more children are estimated to comprise only 13,000 out of the 160,000 households, but three in four are likely to have a high enough entitlement to be capped.

We can apply this same methodology to look at the number of households who are likely to be capped when their grace period ends in the first three months of 2021. Table 3 shows the number of households whose grace period will expire by month.<sup>9</sup> An estimated further 41,000 households will be capped in the first few months of 2021, as their grace period expires from January to March.

**Table 3: Estimated number of capped households by month**

Month	Number of grace period expiring households	Number of capped households
December	160,000	35,000
January	128,000	28,000
February	30,000	7,000
March	26,000	6,000

Source: Author's calculations from Understanding Society and <https://questions-statements.parliament.uk/written-questions/detail/2020-12-07/126047>

There is also a large regional divide in the likelihood of being capped. This is due to substantial variation in local housing allowance (which is based on the 30<sup>th</sup> percentile of market rents) across the country. About half of the estimated rise in capped households comes from households in London and the South East. Although London's cap is £250 a month higher than other parts of the country, rents in London for a two-bedroom property are several hundred pounds more – this means the benefit cap affects families more frequently in London.

## Conclusion

The financial impact of the benefit cap is substantial. In August 2020, the average capped household with children lost out on £62 a week as a result of the cap. This can have a big impact on family life.<sup>10</sup>

**FF** *“Before covid I was a full-time working mum of four children... due to covid I have lost my job, been forced to go to a food bank so I could feed my children, and had to rely on family members to help towards my bills. My 13-year-old son now has to cycle four miles to and from school as I cannot afford a bus pass or the fuel to take him daily. My 10-year-old has to walk to school, two miles each way. My two-year-old daughter no longer goes to her childminder as I cannot afford it. I have four children yet only get help with two of them even though I've worked full time for six years. Covid-19 is the reason I no longer have a job and it's wrong to penalise hardworking parents.”* (Single parent with four children, South East, previously working full time)

CPAG is calling on the government to scrap the benefit cap. The benefit cap was introduced to provide “fairness”, by ensuring that families in work do better than out-of-work families, to save money and to incentivise people to

<sup>9</sup> More households will be capped later in 2021 when their grace period expires, but in the absence of data about the total number of grace period households it is not possible to estimate this number yet.

<sup>10</sup> <https://cpag.org.uk/policy-and-campaigns/briefing/falling-through-net-briefing-1>

move into work. Even pre-COVID-19 these objectives were not met. In a world without the cap, families in work would always be better off than out-of-work families, the cap only saved 0.1 per cent from the total amount spent on social security and less than 5 per cent of people moved into work because of the cap.<sup>11</sup> It is not surprising that the cap has had so little effect on work incentives. The vast majority of capped households are not earning below the threshold by choice. Childcare is often a key factor, over half of capped households had a child aged 5 or under.<sup>12</sup>

During COVID-19 the cap makes even less sense. Despite the number of capped households doubling, scrapping the cap would only cost £500 million – less than the cost of Eat Out to Help Out.<sup>13</sup> In addition, when labour market opportunities are scarce, there is even less chance of people being able to earn enough to stop being capped.

Removing the benefit cap would lift 50,000 children out of poverty (most families would be substantially below the poverty line even with the cap lifted).<sup>14</sup> A further 100,000 children would be pulled out of deep poverty (below 50 per cent of median income) and 150,000 out of very deep poverty (below 40 per cent of median income). This would make a big difference to some of the poorest households in the country in their time of need.

## About CPAG

Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and solve poverty – for good. We provide training, advice and information to make sure hard-up families get the financial support they need. We also carry out high profile legal work to establish and protect families' rights.

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<sup>11</sup> <https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/1477/1477.pdf>

<sup>12</sup> Author's calculations from Benefit Cap Statistics: Households capped to August 2020, Department for Work and Pensions

<sup>13</sup> See note 12

<sup>14</sup> Author's calculations using UKMOD, Understanding Society, May 2020. Poverty refers to households whose income is less than 60 per cent of median AHC income, where the income distribution has been updated to reflect the effect of COVID-19.