



### Policy briefing: Universal Credit and Working Tax Credit uplift

In March 2020, Action for Children launched a 'Coronavirus Emergency Fund' amid emerging signs of urgent financial needs among the children, young people and families that we support through our services. It is open to all families currently engaged in our support, in need of financial aid to meet the cost of daily essentials (such as food, utility bills, clothing and household items).

Anonymised data from grant applications has provided valuable insight into the financial insecurity of many low-income families with children at this time, and the importance of the £20/week increase in Universal Credit (UC) and Working Tax Credit (WTC).

#### Recommendations

- Permanently retain the £20 uplift in UC and WTC, and extend it to legacy benefits
- Announce the decision immediately
- Raise the benefit cap in line with the uplift

#### Impact of the uplift's removal on families with children

From April 2020, a **£20 per week increase** was applied to the 'standard allowance' in UC, and the 'basic rate' in WTC, for all claimants. The Chancellor introduced the uplift with the intention of helping "our most vulnerable households" by "strengthening the safety net" to "protect you if the worst happens".

The uplift was introduced for one year, so is due to be **withdrawn** at the end of March 2021. Based on Action for Children analysis of official UC and WTC statistics for Great Britain, this would result in a loss of £1,040/household across the 2021-22 financial year (or around £87/month), for an estimated 1.8 million UC households with children<sup>i</sup>, and an estimated 700,000 WTC families with children<sup>ii</sup>. That would result in a total of 2.5 million families with children losing a combined total of £2.6 billion.<sup>iii</sup>

Regionally, this would result in<sup>iv</sup>:

	Estimated number of households with children in receipt of UC or WTC in December 2020	Estimated amount of support lost (millions of £) in 2021/2
North East	113,944	119
North West	328,940	342
Yorkshire and The Humber	230,954	240
East Midlands	180,858	188
West Midlands	258,639	269
East of England	215,286	224
London	405,885	422
South East	282,394	294
South West	179,484	187

Normally, changes to benefit rates are announced in the autumn, before their implementation the following April. In this case, where the focus is on a significant reduction in entitlement, rather than a decision to uprate benefits in line with prices, families will have had **little time to plan** for the cut.

#### **Impact of other scenarios on families with children**

There has, however, been much **speculation** that the uplift will only be partially retained. These partial scenarios would similarly result in families with children losing crucial financial support in the coming months.

We have used **official UC and WTC statistics** to model the impact of three possible scenarios.

These are likely to **underestimate** the number of families with children who would be affected. The modelling assumes that the number of new UC starts remains stable over the coming months. However, the Bank of England projects unemployment to peak at 7.75% in the middle of the year – due to the imminent withdrawal of the Coronavirus Job Retention Scheme, and the economic impact of public health restrictions – which will lead to a further rise in the number of

UC claimants.<sup>v</sup> We also assume a lower proportion of new claims would be made by households with children, compared to the current rate.

Scenario A: 6-month extension (April 2021 – September 2021)

If a 6-month extension were only applied to existing (pre-April 2021) claimants, over that period an estimated 390,000 new UC households with children would miss out on a combined total of £202.8 million compared to existing claimants.<sup>vi</sup>

With the 6-month extension, an estimated 2.5 million families with children currently on UC or WTC would miss out on a combined total of £1.3 billion across the 2021-22 financial year.<sup>vii</sup>

This scenario would see the withdrawal of support coincide with when unemployment is expected to be at its highest.<sup>viii</sup>

Regionally, families with children currently on UC or WTC would miss out on a combined total of:<sup>ix</sup>

	Estimated amount of support lost (millions of £) in 2021/2
North East	59
North West	171
Yorkshire and The Humber	120
East Midlands	94
West Midlands	134
East of England	112
London	211
South East	147
South West	93

Scenario B: 3-month extension (April 2021 – June 2021)

If a 3-month extension were only applied to existing claimants, over that period an estimated 195,000 new UC households with children would miss out on a combined total of £50.7 million compared to existing claimants.<sup>x</sup>

With the 3-month extension, an estimated 2.5 million families with children currently on UC or WTC would miss out on a combined total of £1.95 billion across the 2021-22 financial year.<sup>xi</sup>

This scenario would see the support withdrawn at what is forecast to be a time of high and rising unemployment.<sup>xii</sup> It is also currently unclear whether public health restrictions will be fully lifted within this 3-month period.

Regionally, families with children currently on UC or WTC would miss out on a combined total of:<sup>xiii</sup>

	Estimated amount of support lost (millions of £) in 2021/2
North East	89
North West	257
Yorkshire and The Humber	180
East Midlands	141
West Midlands	202
East of England	168
London	317
South East	220
South West	140

### Scenario C: Lump-sum

This scenario would likely exclude new claimants. With the Coronavirus Job Retention Scheme scheduled to be wound up at the end of April, and unemployment expected to rise and peak in subsequent months, a further increase in UC claims is highly likely. Those new claimant households would be excluded from a lump-sum payment.

With a lump-sum payment of £1000, for example: each month, an estimated 65,000 new UC households with children would miss out on the equivalent of around £87.

### Legacy benefits

It is also unclear whether **legacy benefit claimants** (including Employment and Support Allowance, Jobseeker's Allowance, and Income Support), who haven't received the uplift, would benefit from any of these options.

### Case study

*We have changed names to protect identities.*

Kate and her husband have two children, Lucy and Sam, aged 6 and 2. Sam has received speech support from Action for Children during the pandemic.

The family runs a café in a UK seaside town, which has been affected by public health restrictions during the crisis. The financial impact was immediate, because March-April is normally the café's busiest period.

They applied for a government business grant, which "did help a little but not a lot". Following that, they decided to make a claim for Universal Credit, but that also left them unable to cover their costs.

Kate said: "Eventually we had to go onto Universal Credit. I think people think that you go on that by choice and that you can live off it, but it covered our rent and then we didn't have any more money [left over]."

"...Then, after we applied...it then took us eight weeks before we got any money, and that whole time we didn't even know if we would get it...It wasn't about how we, as parents, were going to eat, but [instead] we didn't want the children to notice anything different. You just kind of want things to be as normal as possible [for the children]..."

As the pandemic continued, and the restrictions remained in place, the family's financial pressures intensified. When schools re-opened, they had to request a school uniform grant. And then when they shut again, they couldn't afford the resources needed to home-school their children. "...We didn't have a laptop or tablet or computer. We have smart phones but the kids can't learn off of that."

Over the course of the crisis, Action for Children has provided the family with food vouchers, and a tablet for online home learning.

The experience has affected Kate and her husband's wellbeing. "We were so embarrassed, we still haven't been able to tell our family how much we are struggling...It's hard to explain what this last year has been like. People have such stigma around those on Universal Credit, it's not as easy and straight forward as people make out."

### **Recommendations**

- Permanently retain the £20 uplift in the UC standard allowance and WTC basic rate, and extend it to legacy benefits

The uplift should be applied, on a permanent basis, to existing and new UC claimants, and WTC claimants. It has been a lifeline to many low-income families with children during the pandemic, and will **continue to be needed** during the ongoing financial effects of the crisis – including job losses, pay cuts, and high household costs.

It is important to note that the pandemic has occurred at a time when many **low-income families had little financial resilience** to manage its impact. Our April 2020 analysis of official household income statistics showed that, going into the crisis, 63% of children in the UK were living in families with savings less than the average monthly income (around £1,500), meaning that they were a 'pay cheque away' from being unable to afford everyday essentials.<sup>xiv</sup> Furthermore, 51% were living in families with no savings at all.

The crisis has followed a long period of low wage growth, benefit cuts (including the benefits freeze), and rising living costs (most notably, housing costs). Low-paid, insecure work was restricting the incomes of many families, leaving them dependent on a social security system that was often unable to meet their basic everyday needs. For that reason, the uplift should be retained; its **permanent retention would go some way towards realigning benefit rates with present day living costs**.

Withdrawing the uplift, whether from April 2021 or after a short extension period, would result in families receiving **inadequate financial support** to manage the pandemic's impact, and would in turn undermine their ability to recover from it when the crisis abates.

Many families new to UC since April 2020 will have joined – following a job loss or pay cut – at the new (higher) standard allowance rate. Most will have already experienced a **drop in their living standards** moving on to social security, and would suffer a further drop if the uplift were withdrawn.

Furthermore, its withdrawal would **carry mental health risks**, as it would likely compound existing stress and anxiety among low-income families – including that related to family budgets, health, and their general wellbeing.

- Announce the decision immediately

A decision on the uplift should be announced immediately. Ongoing uncertainty about the possible outcome is likely to **affect families' ability to plan and budget** for future months (particularly those who are private renters), which could in turn generate high levels of **anxiety**.

- Raise the benefit cap in line with the uplift

The **interaction between the benefit cap and the uplift should be reviewed**, to ensure that all claimants can benefit from the increase. Currently, many capped families – by definition, those identified as most in need, due to their eligibility for significant levels of financial support - do not receive the increase.

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<sup>i</sup> Estimation based on estimated number of households with children on Universal Credit in December 2020.

<sup>ii</sup> Estimation based on estimated number of families with children on Working Tax Credit in 2020-21.

<sup>iii</sup> Estimation based on estimated number of households with children on Universal Credit in December 2020, and estimated number of families with children on Working Tax Credit in 2020-21. Estimation assumes that claims would be made for the whole financial year. Estimation assumes payments are not affected by the benefit cap.

<sup>iv</sup> *ibid*

<sup>v</sup> Bank of England (February 2021), Monetary Policy Report, available at: <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/february/monetary-policy-report-february-2021.pdf>

<sup>vi</sup> Estimation based on estimated 65,000 new Universal Credit starts per month by people in households with children. Estimation assumes that claims would be made for the whole financial year. Estimation assumes payments are not affected by the benefit cap.

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<sup>xiv</sup> Action for Children (April 2020), Most UK children 'a pay cheque away' from going without essentials like food, available at: <https://www.actionforchildren.org.uk/media-centre/most-uk-children-pay-cheque-away-going-without-essentials-like-food/>