

COVER EMAIL:

To: Lindsey; Suzy; Beth; Joe Randall; Parag Vaghjiani; Ruth Hopkinson; Rob Montanari; Tom Hemingway; Kate Joseph; Jo Lee Morrison; DYS; [Name Redacted] Clare Lombardelli; James Benford; Dan Gallagher; Cat Little; Conrad [NR] GEP working level leads
Cc: [NR] Chris; Neil, Mike

Dear all

We wanted to update you on the temporary £20 uplift which ends on 5 October, our analysis of the impact on the 4.4m households currently receiving the uplift, and contingency options in light of the political pressure to extend the uplift (where ultimately the only option to extend the uplift without interruption is a permanent extension).

We're particularly keen for views on the following two questions:

- Notwithstanding CX's clear position that the uplift should end as planned, given our analysis of the impact on claimants and the political pressure from ending the uplift, should we begin advising CX more proactively on contingency options? In the immediate term, we're planning to update CX on DWP's operational next steps – our draft CX para is annexed below.
- How should we evaluate the £20 uplift against objectives on the CJRS/SEISS? On the one hand, keeping the uplift would soften the impact of the ending of the CJRS/SEISS and potentially facilitate exit from those schemes. There may also be significantly more political pressure to keep the £20 uplift in place than to maintain the CJRS/SEISS indefinitely. However, on the other hand, extending the £20 uplift without interruption would likely only be possible through a permanent extension, at a steady state cost of £6bn p.a.

[Given leave plans, we'd be grateful for views from this group in response to this note, although we'll also pick this up in various existing forums over the next couple of weeks.]

Thanks
Rob

NOTE TO ATTACH:

Background

1. In March 2020 CX announced a temporary £20 per week uplift to the Universal Credit (UC) standard allowance and the Working Tax Credit (WTC) basic element for 20-21. At SB21, the uplift was extended in UC for a further six months, meaning it will now expire on 5 October, with the last payments including the uplift made on 12 October. Because of the way the tax credits system operates, it was not possible to make a similar 6-month extension of the uplift in WTC, and so a one-off payment of £500 was made to eligible WTC claimants in April to provide a similar level of support.

2. The uplift to UC and WTC for 20-21 was forecast to have cost £6.1bn, and the six-month extension announced at SB21 is forecast to have cost £2.2bn, plus a further £0.8bn for the one-off payment to WTC claimants.
3. The expiry of the £20 uplift is the default legislative and operational position – no further decisions or legislation are needed to bring it about, and there is no route for its expiry to be directly challenged by Parliament.
4. DWP will begin informing claimants and the operational work to remove the uplift, over the summer:
 - a. DWP plan to begin informing claimants that the uplift is ending from the end of July, through the monthly e-statements that claimants receive. DWP are also developing a wider communications plan (e.g. involving gov.uk) to ensure claimants are made aware of the change ahead of October.
 - b. DWP will begin the operational work to remove the uplift from the UC system in late August (there is a roughly 6-week lead time).
5. There is already significant pressure to extend the uplift, and this is likely to increase further, given the uplift ends around the same time as the CJRS/SEISS and inflation is expected to peak:
 - a. On the government side, MPs in the Tory Reform Group and the One Nation caucus called in April for the uplift to be made permanent, and at the beginning of July the Sunday Times published a letter from six former DWP SoSs asking for the uplift to continue beyond September.
 - b. Across other parties, the chairs of the relevant UK and SWANI parliamentary committees wrote to CX earlier this week calling for the uplift to be made permanent and extended to legacy benefits.
 - c. We also expect calls from the main poverty stakeholders for the uplift to be made permanent, including the Joseph Rowntree Foundation, the Resolution Foundation, Save the Children, and Citizens Advice.
 - d. While there isn't a clear parliamentary moment around which pressure could crystallise, the Conservative Party Conference falls in the same week the uplift ends.
6. CX has been clear throughout that the uplift was a temporary measure designed to support those on low incomes impacted by the pandemic, and so pressure will to some extent depend on the economic and health situation in September.
7. As above, DWP will begin informing claimants that the uplift is ending from the end of July, so we might expect increased awareness of the change among claimants from then.

Impact on claimants of ending of uplift

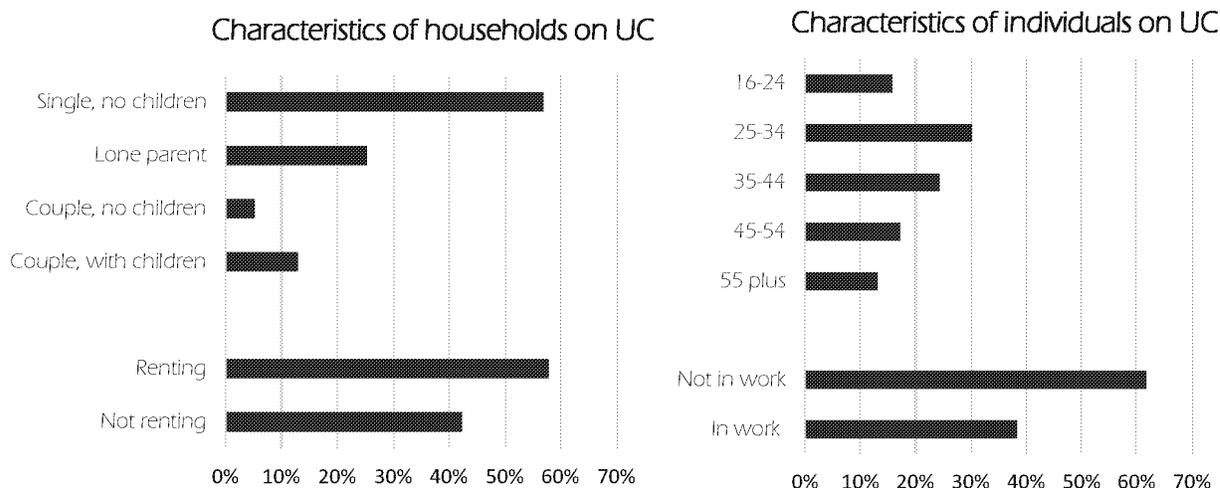
8. As of February 2021, there were 4.4m households in payment on UC. A further 1.5m claimants have benefitted from the one-off payment to eligible WTC claimants. The analysis here focuses on UC claimants.

9. Around 40% of households on UC have newly claimed UC since March 2020 (c. 2m of 4.4m households in payment as of February 2021), and will therefore only have received UC with the £20 uplift in place.

Claimant characteristics

10. The characteristics of UC claimants are shown in the chart below. It is worth noting in particular that around 37% of individuals receiving UC are in work (made up of 31% employed and 6% self-employed).

Impact of expiry of £20 uplift on awards



11. The average monthly award received by a household on UC is £773, and the £20 uplift is equal to around 11% of that amount. However, there are significant differences in award between households. In addition, the average award reflects the fact that c. 60% of households receive a housing element to help with their rent, meaning that the £20 uplift will make up a much larger share of the proportion of their award that they have left after housing costs.

12. The variation across households in the proportion of their award accounted for by the £20 uplift is illustrated below. It shows that for single claimants with no children and not in receipt of the housing element, of whom there are 1.6m, the expiry of the £20 uplift represents a 23% fall relative to the average award. For families with children the fall is lower although still significant – for example, for a couple with children but no housing element (200k households) the expiry of the uplift still represents a 12% fall relative to the average award.

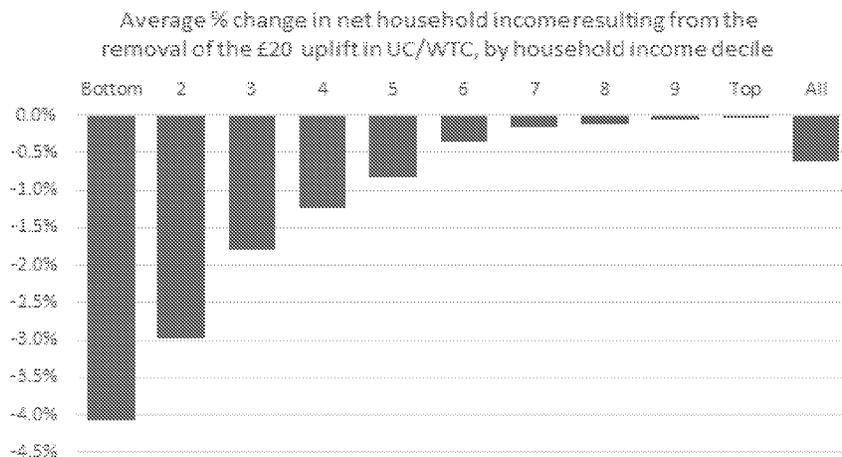
	Number of households	Average award (monthly)	Uplift as % of average award
Renters			
Single, no children	1.3m	£743.51	12%
Lone parent	1.0m	£1080.74	8%
Couple no children	200k	£783.41	11%

Couple with children	500k	£1154.55	8%
Non-renters			
Single, no children	1.6m	£381.46	23%
Lone parent	300k	£679.59	13%
Couple no children	80k	£496.87	17%
Couple with children	200k	£705.45	12%

Impact of expiry of £20 uplift on incomes and poverty

13. DWP analysis ahead of SB21 suggested that the removal of the £20 uplift would mean an additional 800,000 individuals, including an additional 300,000 children, in poverty (absolute, before housing costs). This is in the context of 9.2m individuals and 2.4m children in poverty (absolute, before housing costs) in 2019-20 (although these numbers are likely to be slightly lower in 2020-21, partly as a result of the uplift).

14. As shown in the chart below, the expiry of the £20 uplift will have a disproportionate effect on those households with the lowest incomes, and particularly those in the lowest three income deciles (where c. 60% of UC households reside). This can be seen in the context of reductions in working-age benefits between 2013-14 and 2018-19 meaning that lower income households (the bottom quintile) already saw almost no change in household income (BHC) during that period, whilst all other quintiles saw growth. Low income households are also particularly affected by inflation spikes.



15. The impact of the ending of the £20 uplift will vary depending on households' circumstances (e.g. family composition, where they live, whether they have a disability). However, as an example, for an unemployed single adult, with no children and privately renting in Ipswich, their net income would currently be above the absolute poverty line if they were working full time at the NLW, whereas without the £20 uplift they would fall below that line.

16. However, across various family types, it is clear that, for many families, UC is insufficient to keep them above the absolute poverty line, with or without the £20 uplift.

Interaction with ending of CJRS/SEISS

17. Some existing UC claimants have been benefitting from both the CJRS/SEISS and the £20 uplift, but DWP do not know how many. The table below shows what the impact of the expiry of the £20 uplift could be for those who have also benefitted from the CJRS. For example, it shows that a single adult who is currently furloughed at the NLW could see their net income fall by 32% as the furlough ends if they move into unemployment, and by a further 6% if the UC £20 uplift also expires.

2021-22, current prices	Current policy, furloughed	End UC £20, in work	End £20, end CJRS, not in work	Keep £20, end CJRS, not in work
Single adult working 37.5hrs pw on NLW, private renting 1 room at non-London median				
Gross earnings	£267.30	£334.13	£0.00	£0.00
Income tax + NICs	£15.24	£36.63	£0.00	£0.00
Net earnings	£252.06	£297.50	£0.00	£0.00
Total UC	£43.50	£0.00	£182.29	£202.29
Net income	£295.56	£297.50	£182.29	£202.29
% change in income		1%	-38%	-32%
Single parent working 37.5hrs pw on NLW, one child, no housing costs				
Gross earnings	£267.30	£334.13	£0.00	£0.00
Income tax + NICs	£15.24	£36.63	£0.00	£0.00
Net earnings	£252.06	£297.50	£0.00	£0.00
Total UC	£75.68	£27.05	£160.96	£180.96
Net income	£348.89	£345.70	£160.96	£180.96
% change in income		-1%	-54%	-48%
Couple working 37.5hrs at £10ph and 20hrs at NLW, 2 young children, private rent 2 rooms at non-London median				
Gross earnings	£478.20	£553.20	£178.20	£178.20
Income tax	£20.88	£44.88	£0.00	£0.00
Net earnings	£457.32	£508.32	£0.00	£0.00
Total UC	£145.13	£93.00	£300.97	£320.97
Net income	£637.64	£636.51	£514.37	£534.37
% change in income		0%	-19%	-16%
		(*only main earner furloughed)	(*only main earner out of work)	

Contingency options

Extending the uplift

18. Operationally, DWP would be able to extend the uplift beyond 5 October if a decision were taken to do so by mid-September. Extending the uplift could be achieved through secondary legislation, however, **a temporary extension would likely require primary legislation, meaning that, in practice, it would be extremely difficult to extend the uplift further unless it was made permanent.**

19. This is because primary legislation would be needed to ensure that the uplift can be disregarded for the purpose of setting UC rates for 22-23 in DWP SoS's statutory review

of benefits (which must be conducted before the end of November for operational reasons). Passing primary legislation before the end of November would be extremely challenging, and there would be substantial amendment risk.

20. Alternatively, it would be possible to disregard the uplift from the uprating review without primary legislation, LPP

LPP

21. If ministers wished to reintroduce the uplift after it had ended, then this could be done with secondary legislation only, provided the extension started after after DWP SoS's review and ended before before DWP SoS's next review (which will take place in October/November 2022).
22. **The bottom line, therefore, is that the only plausible option to extend the £20 uplift in UC beyond 5 October without interruption is to make it permanent .**

Alternatives

23. WSR and LMDA are working together on low-cost alternative measures that could support our narrative and exit from the £20 and other support in both an upside and downside scenario. We're advising CX on these next week in response to a commission for options to support the cost of living and women, children and families. However, by their nature, low-cost options will not offset the loss of the £20 for claimants and are unlikely to address pressure to keep the uplift, particularly in a downside scenario.
24. We have also considered alternative AME options, such as tapering the uplift away rather than allowing it to end at once. However, the legislative barriers are similar to those set out above for a further temporary extension of the uplift (i.e. would require primary legislation), and any options that would significantly mitigate the impact of the ending of the uplift would, by definition, represent a cost similar to the £6bn cost of making the uplift permanent.

Annex – draft CX update para

- As you know, the six month extension announced at Budget to the £20pw uplift in Universal Credit ends on 5 October (with the last payments including the uplift being made on 12 October). This is the default legislative and forecast position, and will be irreversible from mid-September.
- DWP have now begun to split out the £20 uplift in claimant's UC statements, and plan to begin in August to communicate with claimants through their UC accounts about the ending of the uplift. DWP SoS has also asked her officials to develop a wider communications plan (e.g. gov.uk) to ensure claimants are aware of the forthcoming changes to their award.
- The aim of this communications plan is to mitigate an expected spike in contact from existing claimants in the autumn, when DWP are also expecting to see an increase in

new claimants (the ending of the CJRS in particular is forecast to lead to 100,000 new UC claims). However, raising awareness of the expiry of the uplift is also likely to contribute to pressure to retain it.

- Of course, we expect sustained pressure to extend the £20 uplift from external stakeholders and within Parliament regardless. Further, DWP SoS is planning to launch a media campaign in the autumn promoting the benefits of UC, as part of her priority to move all c. 3.5 million legacy claimants over to UC by the end of 2024 (what DWP call "Move to UC"). This risks exacerbating criticism. We are advising CST separately on this and DWP's wider plans for Move to UC.
- We are engaging closely with DWP on their handling plan for the expiry of the uplift, which will emphasise the government's comprehensive strategy to help people find jobs, increase their earnings and develop their skills. We will ensure that they work closely with your (CX) private office and special advisers.