

The UK Benefits System: How generous is it?

The Universal Credit increase ended on 6th October. The government said that it was only ever meant to be a temporary measure to help people through the Covid pandemic. The increase of £20 a week had been introduced in April 2020 at a cost of £6bn as the UK went into lockdown. Analysis suggests that the impact of the £20 a week cut could be severe with a further 840,000 people being pushed into poverty including 290,000 children. 1 Instead the government introduced a £500 million Household Support Fund. The money will go to councils for distribution and will be used for small grants to meet the needs of struggling families for things such as food, clothing and energy bills. 2

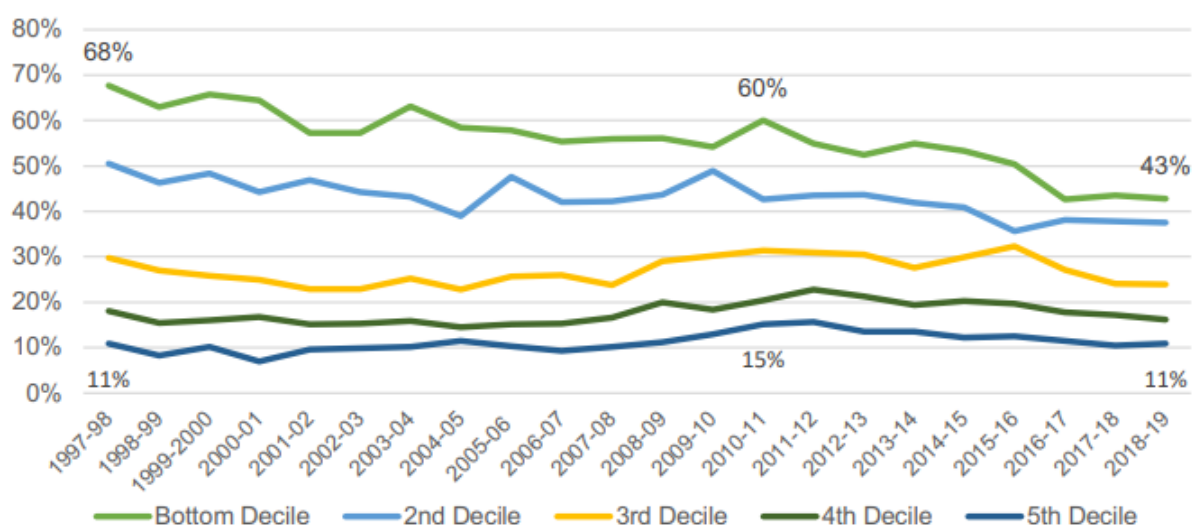
The first term of the Conservative/Lib-Dem coalition government from 2010 saw the beginning of significant changes to the benefits system. 3 The raising of most working-age benefits and tax credits was limited to 1% and child benefit was removed from families which had a higher rate taxpayer. The benefit cap was introduced to limit total household benefits and was set at £26,000 a year, the average family income at the time. In 2016 it was reduced to £20,000 - average income in 2020 was £29,900. 4 The under-occupancy penalty or 'bedroom tax' was also introduced and applied to council and social housing tenants with a 'spare' room – tenants face a reduction in their housing benefit as a consequence. In 2016 this was extended to pensioners.

During their second term in office the Conservative government announced a series of further cuts to social security, the main elements of which were the benefits freeze and the two-child limit. The benefit freeze meant that most in-work benefits would not be increased in line with inflation. The two-child limit was imposed on the child element of Universal Credit, restricting benefits to only the first two children born. 5

The chart shows that since 2010 the poorest households in the UK, the bottom 10 per cent of the income distribution have seen the average amount they receive in cash benefits fall from 60 per cent to 43 per cent of gross incomes. 6 By April 2021 the poorest 20% of households were £750 a year or 6% worse off than they would have been back in 2010. Even with the £20 increase, the poorest households were still £260 a year or 2% worse off than they would have been under the 2010 system. 7 Surveys of benefit claimants during the pandemic found that despite being in receipt of benefits, 27% were not able to keep up with bills and regular debt payments, 23% were behind with housing costs, 19% had to skip meals in the previous two weeks and 64% would not be able to replace or repair major electrical goods if needed. 8

In the light of this, it is not surprising to discover that the UK benefits system is much less generous than that of many other advanced economies. For example unemployment benefits are exceptionally low in the UK. However when family and housing benefits are included differences in income are much less marked, although "*the UK remains at the less generous end of the scale.*" 9 A single adult in the UK, who had previously earned two-thirds of the average wage, would find that his or her income from unemployment benefit came to just 17% of his or her previous earnings. 10 The same person in Germany would receive a benefit income of 59% of his or her previous earnings and 64% if they lived in France. The gap narrows when other benefits are included, with the UK's benefit rate rising to 46% of previous earnings. However this is still significantly less than the 59% in Germany and 64% in France.

Average cash benefits as a proportion of gross income, 1997-2019:



Two recent and authoritative reports have recommended fundamental changes to the benefits system. The cross-party House of Lords economic affairs committee, chaired by conservative peer Lord Forsyth, says that benefit rates are not generous enough. For a start the committee wanted the £20-a-week increase in the standard allowance made permanent. It was critical of the five-week wait for a first universal credit payment, which it says pushes people into debt, food bank use and rent arrears. It also calls for the removal of the unfair two-child limit on benefits, and a review of the level of the benefit cap. It wants less emphasis placed on benefit sanctions, saying they push people into extreme poverty and there is little evidence that they encourage people to move into work. 11 The Social Mobility Commission wants the two-child limit on benefits scrapped and recommends raising child benefit by £10 a week to cut poverty. It too called for a reassessment of the benefit cap. 12

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Additional notes:

Universal credit had been introduced by the Coalition government in 2013 and replaced six means-tested benefits for working-age households: jobseeker's allowance, income support, housing benefit, employment support allowance, working tax credit and child tax credit. Anyone who moves onto it must wait at least 42 days before receiving their first payment. This results in about 45% of claimants receiving less than they are supposed to because they have to pay back the loan needed to cover the 42 days.

Benefit sanctions were suspended for three months during the pandemic but have since been re-imposed. Claimants can be docked at least 4 weeks benefit income if they break their agreement to attend the job centre for interview or are judged to have not spent enough time looking for jobs.