

Restoring the universal credit promise to make work pay

February 2017

The government can make work pay and fulfil its aim to help the 'just managing', by:

- Reversing cuts to universal credit (UC) work allowance
- Restoring promised support for 85 per cent of childcare costs.

Single parents – two-thirds of whom work – are hit particularly hard by the work allowance cut and delay to childcare support. Low-paid working families face poorer work incentives and far lower incomes as a result.

These changes must be urgently addressed; without action:

- The average working single parent will lose at least £800 a year from the work allowance cut – some will lose well over £2,000 a year
- A postcode lottery in support will persist until UC is fully rolled out (in 2022)
- Families must bear income cuts while now also facing an uncertain future in the aftermath of the EU referendum.

While the government undertook a tax credit U-turn in 2015 to avoid an overnight income cut for low income working families, it did not stop a similar cut to universal credit (UC).ⁱ With a new government agenda, Gingerbread is calling on policymakers to ensure the promise to make work pay and help 'just managing' families is fulfilled.

Reverse work allowance cuts to support those moving into work

Work allowance cuts: the impact

As with the overturned tax credit cuts, the work allowance¹ cut will solely affect low income working households. At September 2016, there were around 140,000 UC claimants in workⁱⁱ, most of whom will be struggling on the lower work allowance. This also now means families on UC will be **significantly worse off compared to their neighbour on tax credits**.

With 1 million working single parents expected to claim UC, single parents are hit hard:

- The average working single parent will lose **at least £800 a year on average** (3.9 per cent of income) in real terms by 2020/21
- The **poorest working single parents lose most** as a share of income – the poorest fifth will lose at least 7 per cent – nearly a month – of their incomeⁱⁱⁱ
- The Resolution Foundation and the IFS found single parents face weaker incentives to be in work as a result; the former estimates some single parents will lose around £2,800 a year^{iv}
- By comparison, the **average working single parent gains almost nothing from income tax cuts and £100 from the national living wage** (£50 for the poorest fifth).^v

Why the work allowance cut matters

- This cut undoes a central way in which UC was meant to improve on the work incentives
- Work alone is already not enough – despite record numbers of single parents working (64.4 per cent), many struggle to make ends meet^{vi} and around a quarter of children with a working single parent lives in poverty^{vii}
- There is no evidence that proposed support (increased work coach support and flexible support fund provision)^{viii} has been provided or will be sufficient to make up lost income.

¹ How much you can earn before your UC starts to be withdrawn – similar to the tax credit 'income threshold'.

Make promised extra childcare support for UC claimants available to low-income working families facing further UC delays

Delay in universal credit childcare support: the impact

The government committed to supporting 85 per cent of childcare costs for working UC claimants from April 2016 to help make work pay – up from 70 per cent under working tax credits.^x With UC's slow roll-out, many parents **will not see the extra support until 2022**.

The delay to increased childcare support means low-paid single parents working long hours **will miss out on improved work incentives and incomes**.^x For example, under tax credits, a low-paid single parent with two pre-school children and average childcare costs, will:

- Lose £3 a week by moving from part-time to full-time work, instead of gaining £20 a week
- Miss out on an extra £37 per week (nearly £2,000 per year) if working full-time.

Why the childcare delay matters

- Making childcare more accessible matters for single parent employment: 31 per cent of single mothers would work more hours if they had good quality and accessible childcare
- Costs can be prohibitive; some single parents spend half their income on childcare^{xi}
- Childcare costs are not just expensive – they increase the risk of child poverty: paying for childcare pushes over 130,000 children into poverty; for families paying for childcare, the risk of child poverty increases by a third once childcare costs are taken into account^{xii}
- The promised 30 hours of free childcare for three and four year olds will not fill the gap
 - The policy is in jeopardy, with doubts about provision because of a shortfall in funding^{xiii}
 - It is likely to exclude those that most need the extra support – 20,000 working single parents will miss out because they do not meet revised eligibility criteria,² excluding those who are low-paid, or working short/variable hours (eg those on zero-hours contracts or self-employed), who could most use extra support to make progression in work viable.^{xiv}

Costs

- Reversing the work allowance cut would mean the intended £3 billion saving will be lost; if equivalent savings are needed elsewhere, there are options available – for example:
 - Personal tax allowance and higher rate threshold increases (costing around £2 billion,^{xv} benefitting middle/high earners) can be delayed or scrapped
 - DWP spending can be redistributed from pensioners to working families, eg through moving to a 'double lock' or reforming pension tax relief
 - The marriage tax allowance (costing around £700 million, benefitting relatively few couples)^{xvi} can be scrapped
- Increasing the working tax credit childcare element from 70 per cent to 85 per cent of costs would cost around £300 million^{xvii} – this equals the sum already promised in public but not yet spent; as noted above, other spending can also be adjusted if further funding is needed.

ⁱ <https://www.gov.uk/government/news/spending-review-and-autumn-statement-2015-key-announcements>.

² Changed from working at least the equivalent of eight hours a week at the national living wage to at least 16 hours.

-
- ii DWP (2016) [Universal credit statistics: 29 Apr 2013 to 6 Oct 2016](#).
- iii Gingerbread (2015) [Paying the price: the impact of the Summer Budget on single parent families](#).
- iv Ibid.
- v Browne, J et al. (2016) [The \(changing\) effects of universal credit](#). Finch, D. and Whittaker, M. (2016) [Under new management: options for supporting 'just managing' families at the Autumn Statement](#). Table 4.
- vi Rabindrakumar, S. (2014) [Paying the price: the long road to recovery](#).
- vii Gingerbread analysis of [HBAI data](#).
- viii HC Deb. [6 January 2016, c21337](#). The Flexible Support Fund is locally administered and is not subject to DWP evaluation or monitoring.
- ix DWP (2014) [Universal credit: increasing the childcare offer](#).
- x Rabindrakumar, S. (2015) [Paying the price: the childcare challenge](#).
- xi Gingerbread (2016) [High cost of childcare locking many single parents out of work](#).
- xii Gingerbread (2015) [The real cost of childcare: the impact of childcare costs on child poverty](#)
- xiii Public accounts committee (2016) [Entitlement to free early years education and childcare](#).
- xiv Gingerbread (2016) [Thousands of single parents will miss out under Childcare Bill](#).
- xv Whittaker, M. (2016) [Changing tax: pressing reset on the UK's tax policy](#).
- xvi Joyce, R. (2013) [The new tax break for some married couples](#).
- xvii Gingerbread analysis based on [April 2016 average tax credit childcare costs and total number of recipients](#).