BENEFIT CAP: COST OF LIVING IN A CRISIS

September 2022

Summary

- The benefit cap was introduced in 2013 and further lowered in 2016. It has never been uprated to reflect the rising cost of living.
- The cap currently affects 120,000 households – 113,000 of which (94 per cent) are capped because of a failure to uprate with inflation.
- If the benefit cap is not uprated when benefits increase in April 2023, it will mean that 120,000 of the poorest households (and 300,000 children) across the country will receive no help with their higher costs. Also, an estimated 35,000 additional households will be subject to the cap.
- The benefit cap pushes households into deep poverty – an average capped couple with 2 children is £150 a week below the poverty line.
- Removing the cap would mean an additional £65 a week, on average, in the pockets of capped households, meaning an average capped couple with 2 children would be £85 below the poverty line
- The benefit cap would be cheap to remove – only costing £500 million, 0.2 per cent of total spending on social security.

Background

The benefit cap limits the amount of social security that households can receive, if they earn less than £658 a month. Households which were recently and consistently earning above the threshold, and some households where a person is disabled or a carer are exempt. The cap was announced in the October 2010 Spending Review by the coalition government, and was made law by the Welfare Reform Act 2012, The Benefit Cap (Housing Benefit) Regulations 2012 and The Universal Credit Regulations 2013. Roll-out began in April 2013, and it was fully implemented by September 2013.

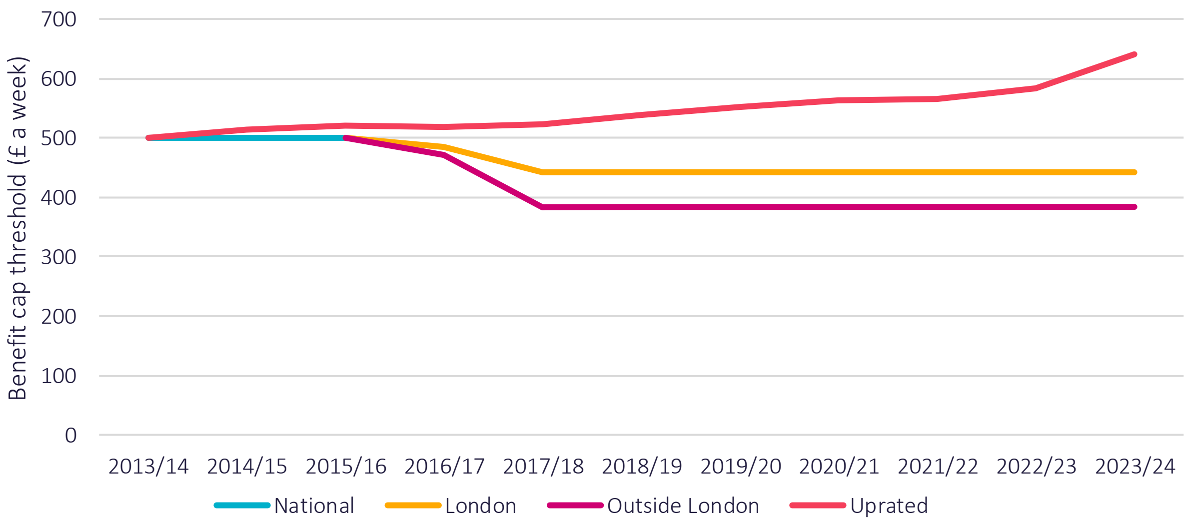
When the cap was introduced in 2013, the cap was £500 a week.[1] In autumn 2016 the level of the benefit cap was further reduced to £383 a week for households outside London, and £442 a week for those in London.[2] Since then, the cap has remained frozen meaning that, as the cost of living has risen, capped families have been forced to cut back more and more. Despite inflation reaching record highs this year, the benefit cap has not changed.

The cap is problematic for a variety of reasons. First, it breaks the link between the very basic level of social security families are entitled to, and what they get. Benefit levels are already at a forty year low and the benefit cap means that affected families receive even less.[3] Second, it was introduced to incentivise people to get into work, however initial evidence suggests that the cap had a very small impact on employment.[4] This is not surprising as families affected by the cap face a variety of barriers to entering employment.

The impact of freezing the benefit cap

Figure 1 shows how the benefit cap threshold for families with children has evolved since 2013/14 in London and outside of London, compared to what it would have been if the original threshold had increased annually with inflation. Since the cap was lowered in 2016, the gap between the inflated cap level and the actual cap level has widened markedly, growing bigger as inflation has risen.

Figure 1: Benefit cap threshold since 2013/14



Note: The counterfactual 'Uprated' series is calculated by applying the inflation rate in September of the previous year, the procedure for uprating many elements of social security. Inflation for 2014/15 to 2022/23 is calculated from the Consumer Price Index (CPI). The CPI rate for 2023/24 comes from the OBR projection for September 2022 from *Economic and Fiscal Outlook*, March 2022.The lower cap was rolled out in Autumn 2016 – therefore the values for 2016/17 are calculated as the monthly average across 2016/17.

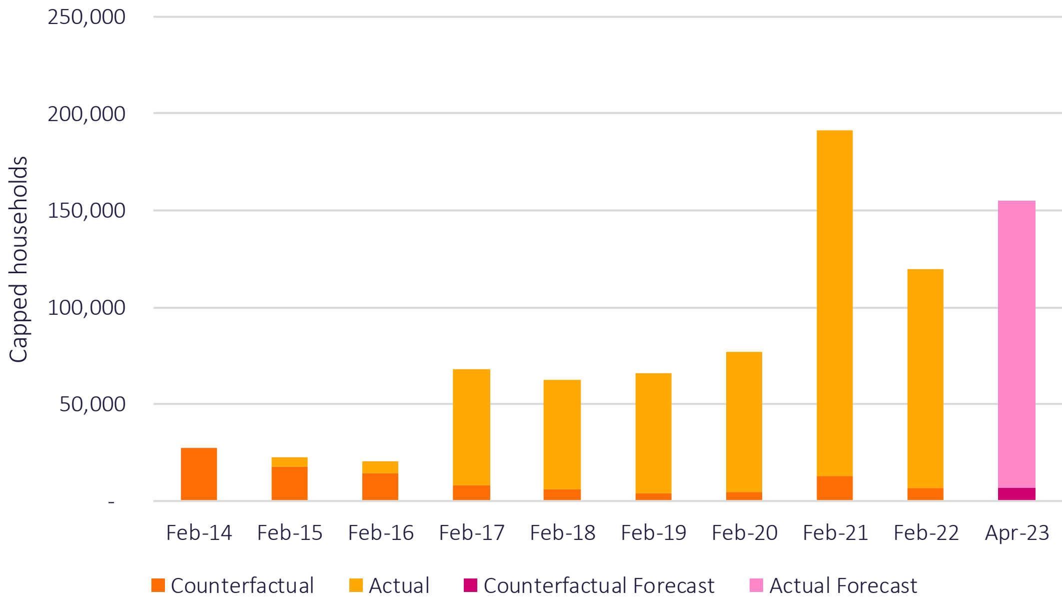
[1] The threshold was lower for single adult households at £350 a week.
[2] For single adults without children the cap was reduced to £258 a week outside of London and £295 a week in London.
[3] https://www.jrf.org.uk/press/family-finances-under-major-strain-benefits-hit-40-year-low
[4] The benefit cap: a review of the first year, Department for Work and Pensions, 2014.

With inflation rising sharply during 2022, the gap is set to grow even more than normal. The size of the gap between what an uprated benefit cap would have been and what the cap actually is will grow by £60 a week from 2022/23 to 2023/24 alone.

If the benefit cap had been increased with inflation from its implementation, the cap in 2023/24 would be £640 a week, £200 a week higher in London and £260 a week higher outside of London.[5]

Figure 2 shows the number of households capped, and how many of those households are only subject to the cap because it has not increased in line with the cost of living.

Figure 2: Actual capped households, and the estimated number of capped households if the cap had been uprated since February 2014 (the counterfactual)



Note: The 'Actual' series is calculated as the sum of the monthly average of *Benefit Cap: UC Point in Time Caseload - Number of Households Capped* and *Benefit Cap: HB Point in Time Caseload - Number of Households Capped*, Stat Xplore, Department for Work and Pensions, 2022. The 'Counterfactual' series is calculated from the same datasets as well as the *Benefit Cap Amount datasets*. Households were assumed to be uniformly distributed within the Benefit Cap Amount bands. April 2023 forecasts come from *Falling Further Behind, Hardship among benefit capped families as prices rise*, CPAG, June 2022

In February 2022, 94 per cent of capped households would not have been subject to the cap if it had been increased in line with inflation – meaning that 113,000 households out of 120,000 would no longer be capped, and the remaining 7,000 would be capped by much less. **A failure to uprate or remove the cap also means that, in April 2023, 120,000 of the poorest households (and 300,000 children) across the country, will not receive any extra money from annual benefit uprating**, despite the soaring cost of living. At the same time, an estimated

[5] For single adults without children the cap would be £190 a week higher outside of London and £150 a week higher in London.

35,000 additional households will be subject to the cap as social security entitlement increases while the cap remains frozen.

Removing the benefit cap would increase the income of affected households by, on average, £65 more each week, invaluable during the current cost of living crisis.[6] Capped households are some of the poorest across the country – **a capped couple with 2 children is on average £150 a week below the poverty line.**[7][8] Removing the cap would significantly reduce the depth of poverty among affected households. If it remains in place, capped families will be pushed even deeper into poverty as prices rise.

Conclusion

A failure to uprate the benefit cap has led to 120,000 of the poorest households across the country being pushed deeper into poverty. If the cap is not uprated this April, it will mean that these households will not receive any additional financial support at a time of great need, and an additional 35,000 households will become capped.

Removing the cap would put an additional £65 a week into the pockets of some of the poorest households across the country, a lifeline in the current cost of living crisis. This would substantially reduce the depth of poverty for these households – the depth of poverty for an average capped couple with two children would fall from £150 to £85. **Removing the cap would only cost £500 million, 0.2 per cent of total spending on social security.**[9]

There is widespread consensus that the government's response to the cost of living should prioritise the poorest. Any attempt to support those most in need will be undermined as long as the benefit cap is in place.

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.

[6] The results presented here are based on UKMOD version A3.5+. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The process of extending and updating UKMOD is financially supported by the Nuffield Foundation (2018-2021). The results and their interpretation are the author's sole responsibility. All calculations are for financial year 2023/24 and the poverty measure used is relative after housing cost (AHC).

[7] See note 6

[8] The poverty line adjusts for household size. Therefore a capped couple with more than 2 children would on average more than £150 below the poverty line, in cash terms, and vice-versa. However, the amount households stand to benefit from the cap being removed also depends on household size. As entitlement is higher for larger families, they will on average gain more, in cash terms, than smaller families

[9] See note 6