The interaction of COVID-19 measures and the Benefit Cap on low-income Londoners

Report to the Greater London Authority
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Executive summary

In March 2020, the UK Government announced a series of financial measures in response to the COVID-19 pandemic. As part of these measures the Government increased the level of support available to households receiving means-tested state benefits. The government increased support for those in receipt of Universal Credit or Tax Credits by increasing the personal allowances by £20/week. It also raised the maximum support available to private renters by aligning Local Housing Allowance (LHA) rates to the cheapest 30% of market rents.

Policy in Practice has been commissioned by the Greater London Authority to analyse the interaction between the benefit cap and the April 2020 COVID-19 increase in benefits introduced as part of the COVID-19 response.

Our approach

This analysis used Policy in Practice's microsimulation engine (the Benefit and Budgeting Calculator) to model the benefit awards of approximately 430,000 households, captured in administrative Housing Benefit and Council Tax Reduction data from 17 London boroughs.

The analysis compared numbers and incomes of households subject to the benefit cap both before and after the increase in benefits introduced in April 2020 as part of the COVID-19 response. These findings were extrapolated to provide estimates for the whole of London and for modelling a future scenario in 2021 based on predictions of increases in Universal Credit claims.

Caveats

The cap rates in this report are based on microsimulation of benefit awards based on administrative data. There are limitations in the accuracy of this administrative data, which the analysis has adjusted for wherever possible.

Future predictions are based on the best available data at time of writing.

Key findings

- The April 2020 COVID-19 increases in benefit awards have not fully reached the households who should benefit the most because of the benefit cap. Households who were already capped have not received increases worth £219 per month, on average. Private sector renters with children who were already capped will not receive increases worth £431 per month, on average. Households who have become capped will not receive increases worth £185 per month, on average. Private sector renters with children who have become capped will not receive increases worth £400 per month, on average.

- 22,300 existing claimants in London will not see an increase in income as a result of the new measures introduced from April 2020. 11,700 are on legacy benefits, 10,600 are on Universal Credit[1].

- 22,000 existing claimants became capped as a result of April 2020 COVID-19 increases. This means that 44,300 households in London are now subject to the benefit cap, following the new measures introduced. More households in outer London have been capped than inner London.

- The journey back to work for people recently unemployed may not be straightforward. If everybody who was furloughed returns to work then 173,000[2] could remain unemployed, 25,300 of whom would be subject to the benefit cap. If nobody who was furloughed returns to work then 436,000 could remain unemployed, 63,700 of whom would be subject to the benefit cap.

- Between 2,000 and 9,000 households on legacy benefits whose earnings fall due unemployment may become subject to the benefit cap in 2021.

Conclusions

By retaining the benefit cap, the government has limited the effectiveness of the benefit increases that formed part of the COVID-19 response. Households whose support is already limited by the cap will see no increase in income at a time of widespread financial vulnerability. A large additional group of current claimants will see their benefit awards reduced by the cap for the first time, curtailing the support provided to them by the April 2020 COVID-19 increases.

[1] All analysis in this report is based on households receiving legacy benefits, as these make up the majority of cases in Housing Benefit and Council Tax Reduction extracts. Extrapolations to those receiving Universal Credit, and to the low-income group as a whole are based on applying the proportional changes found in legacy data to DWP benefit cap statistics published on Stat-Xplore.
[2] Upper- and lower-bound unemployment projections based on published estimates from OBR and Blanchflower & Bell.

Households that move to Universal Credit who previously worked for a year are protected from the benefit cap for nine months. Once this protection ends, many more households will become subject to the benefit cap by 2021.

Removing or lifting the cap would ensure that more households in receipt of means-tested benefits would benefit from the measures introduced as a response to COVID-19. Local authorities have traditionally plugged the gaps in welfare support through DHPs, local welfare provision, and homelessness support. It is unlikely that councils could support households affected by the benefit cap if numbers were to increase substantially. In addition, local authorities' lack of access to detailed administrative data on households receiving Universal Credit limits their ability to proactively target households affected by the cap.

Reducing or removing the cap is also necessary if the Government is to fully commit to a coordinated public health and economic response. Amending the cap would help keep households from having to make difficult choices between maintaining their income and ensuring the safety of their families.

1. Introduction

The research

On 20 March 2020, in response to COVID-19, the Chancellor announced increases to Universal Credit, Tax Credits and Local Housing Allowance rates (which determine the Housing Benefit or Universal Credit housing support available for private renters in different areas). These increases are in addition to the uprating of benefit support from April 2020 in line with inflation. The inflationary increase already planned for April 2020 represented the end of a four-year freeze to most working age benefits[3].

For the duration of the benefit freeze, the LHA was also frozen. Over time, private rental support therefore became out of step with local market rental costs. Additional funding for specific housing provision in areas that saw higher than average rental increases was made through Targeted Affordability Funding (TAF awards). But in general, the inflationary increase planned for April 2020 would have maintained LHA rates at levels significantly below local rents.

The increases in benefit levels announced in response to COVID-19 are therefore welcome. The increased personal allowances, and realigning the LHA to the 30th percentile of market rents, together provide the potential to better support household finances during a period of limited choices around employment.

However, many households will not see these increases in support as a benefit cap limits the total amount of benefits a household can receive, and this benefit cap has not been increased in line with the new measures. Where the benefit cap applies, Housing Benefit and Universal Credit entitlement is reduced to ensure that total benefits do not exceed the cap.

There are a number of exemptions to application of the cap including household that earn above a threshold, households in which a person is in receipt of disability benefits, households in which the claimant or partner has been found to have limited capability for work related activity, and households in which the claimant or partner is a carer. There is also a time-limited exemption of nine months for households that previously earned the equivalent of 16 hours of minimum wage per week for 50 of the previous 52 weeks.

The Greater London Authority (GLA) has commissioned Policy in Practice to analyse the interaction between the April 2020 COVID-19 increases in means-tested benefits and the benefit cap. The GLA wishes to understand the impact across London and for the following groups:

[3] researchbriefings.files.parliament.uk/documents/SN06762/SN06762.pdf, https://www.gov.uk/government/statistics/abstract-of-statistics-2017

- claimants affected by the cap prior to the April 2020 COVID-19 measures
- existing claimants who will become subject to the cap as a result of COVID-19 means-tested benefit increases
- existing claimants of means-tested benefits who are subject to the cap for the first time due a reduction in earnings
- new claimants of Universal Credit claiming as a response to reduced income under COVID-19.

The GLA also wishes to consider the impact for different demographic groups and the different impact in outer London and inner London.

Analytic approach

Policy in Practice has access to anonymised household-level administrative data sets, principally the Single Housing Benefit and Council Tax Reduction extracts (collectively referred to as SHBE data), for 17 London boroughs. These data sets are processed using the Benefit and Budgeting Calculator, a policy microsimulation engine that models every mechanical element of the UK benefits system, as well as relevant economic trends (e.g., wage and rent inflation). By adjusting engine parameters, the Benefit and Budgeting Calculator can be used to isolate the impact of current and future policy scenarios.

Analysis is possible for demographic subgroups since the data sets include rich demographic information about household composition, location and current benefit status. This approach is therefore uniquely suited to analysing the interaction between the benefit cap and the April 2020 COVID-19 increases for benefit claimants in London. Results based on Policy in Practice's current group of 17 London boroughs can then be extrapolated to provide estimates for London as a whole.

These findings can also be combined with third-party caseload predictions for 2021, modelling the impact of the new measures and the benefit cap on the surge of households expected to become unemployed as a result of COVID-19.

Administrative data sets contain richly populated household information necessary for the calculation of a benefit entitlement. However, these data sets are maintained for the purpose of specific benefit calculations, so do not require all possible data fields to be kept up to date. For this reason, we have used the available data to identify capped and exempt households as accurately as possible.

2. Background

COVID-19 and fiscal response

At the time of writing, COVID-19 has had a rapid and widespread impact on the UK economy. This is primarily the result of national lockdown measures that began on 20 March to abate the unfolding public health crisis. Survey results from 1 April confirmed the groups whose employment faced the hardest hit: the non-food retail sector (hospitality, clothing and transport), as well as younger, low-wage and female workers[4]. In the space of a month, the Department for Work and Pensions originally reported 1.4 million registrations for Universal Credit[5], more than four times the average number of successful claims made for Job Seeker's Allowance at its peak following the 2008 crash, as reported by the Resolution Foundation[6].

This unprecedented situation prompted a package of fiscal support. Beginning in April 2020, and for a limited period of 12 months, the Chancellor announced an increase of £20 per week to the basic allowances for Universal Credit and Tax Credits, and re-aligned the LHA rate to the cheapest 30% of market rents. The change to LHA rates is particularly significant since the last time that LHA rates were adjusted to market rents was in 2011.

One of the intentions of LHA rates, when they were introduced in 2008, was to provide an incentive for private renters to move to cheaper accommodation. From 2012, and before the 2016 benefits freeze took place, LHA rates ceased to be linked to market rents and were generally uprated according to CPI inflation[7]. In areas where rent increases were higher than average, Targeted Affordability Funding (TAF) awards increased the LHA for certain property types. This targeted funding has been limited and support for households in the private rented sector, a rapidly growing tenancy type, became increasingly out-of-step with real costs.

Research undertaken by Policy in Practice for the Local Government Association[8] showed that LHA rates were on average aligned to the cheapest 13% of market rents nationally and lower still in high rent areas like London. The analysis showed that six London Borough did not have a single rental property available at a cost below the LHA.

Many organisations had already voiced concerns over the financial support for households under current benefit levels; especially those receiving out-of-work benefits, who risked being

[4] https://abiadams.com/wp-content/uploads/2020/04/UK_Inequality_Briefing.pdf Note: these groups are not mutually exclusive; in fact, there is likely to be significant overlap. See also IFS: https://www.ifs.org.uk/publications/14791
[5] https://commonslibrary.parliament.uk/research-briefings/cbp-8898/
[6] https://twitter.com/resfoundation/status/1250724408664227840
[7] For areas experiencing steep rent increases (this included most of London), LHA rates received an additional uplift by means of Targeted Affordability Funding. This was limited to a maximum of 3% and considered negligible by the CIH, see http://www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/Missing%20the%20target%20final.pdf
[8] Evidencing the link between the Local Housing Allowance freeze and homelessness

swept into poverty[9]. With the new COVID-19 means-tested benefit measures, the Government response mirrored some of the requests from frontline organisations and poverty campaigners to increase benefit support, although their time bound nature suggests hesitation to increase benefit levels over the long term or the admission that previous levels were insufficient.

Benefit cap

A popular measure among the British public at inception[10], the benefit cap was announced by the 2010 Coalition Government and began to take effect in 2013. In tandem with other welfare reforms, the principles that gave impetus to the cap were to promote 'fairness between working and non-working households', incentivise entry into employment and produce wider welfare savings. True to the first principle, the cap was set at the then-average earnings of working households[11]: £26,000 per annum for a household with children or a couple and £18,200 per annum for a single person household. In 2015, the Conservative Government announced their intention to reduce the cap and distinguish between Greater London (£23,000/£15,410) and elsewhere (£20,000/£13,400). The reduced cap was rolled out in 2016 and has since remained unchanged (see Table 1).

Table 1. Benefit cap thresholds (source: GOV.UK)

	Greater London		Outside Greater London	
	Couple/lone parent	Single	Couple/lone parent	Single
Weekly benefit cap	£442.31	£296.35	£384.62	£257.69
Monthly benefit cap	£1,916.68	£1,284.18	£1,666.69	£1,116.66

The cap represents the final step to calculating a claimant's take-home benefit entitlement and applies only to claims from those of working-age. If total benefit income[12] exceeds the cap's threshold the claimant will see a reduction in their Housing Benefit or the housing support element of Universal Credit; bringing their take-home benefit amount in line with the cap. Exemptions aim to 'maintain work incentives' and protect disabled and carer households (determined on a passported basis, see Appendix for full list). To protect working households there exists an 'in-work exemption' for current workers and the 'grace period' for those that were previously working. The 'in-work exemption' includes those legacy claims that are in receipt of

[9] https://www.jrf.org.uk/report/where-next-universal-credit-and-tackling-poverty
[10] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/249005/rrep850.pdf
[11] https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/1477/full-report.html
[12] This includes most benefits, listed in full in Appendix Table A1.

Working Tax Credits, (even if it is zero) or Universal Credit claims earning at least the equivalent of 16 hours per week at the National Minimum Wage[13]. The 'grace period' is a nine month exemption from the cap (39 weeks for legacy claimants) for households that were employed in the previous 12 months, or 52 weeks. In 50 out of the 52 weeks, claimants must have earned at least the equivalent of 16 hours per week at the National Minimum Wage, as with the in-work exception.

Interaction between the benefit cap and April 2020 COVID-19 increases

The benefit cap will invariably limit the effectiveness of the April 2020 COVID-19 increases introduced as a response to COVID-19. Because the level of the benefit cap was not increased at the same time, many households will not see any change in benefit awards whilst others will see increases below that of non-capped households.

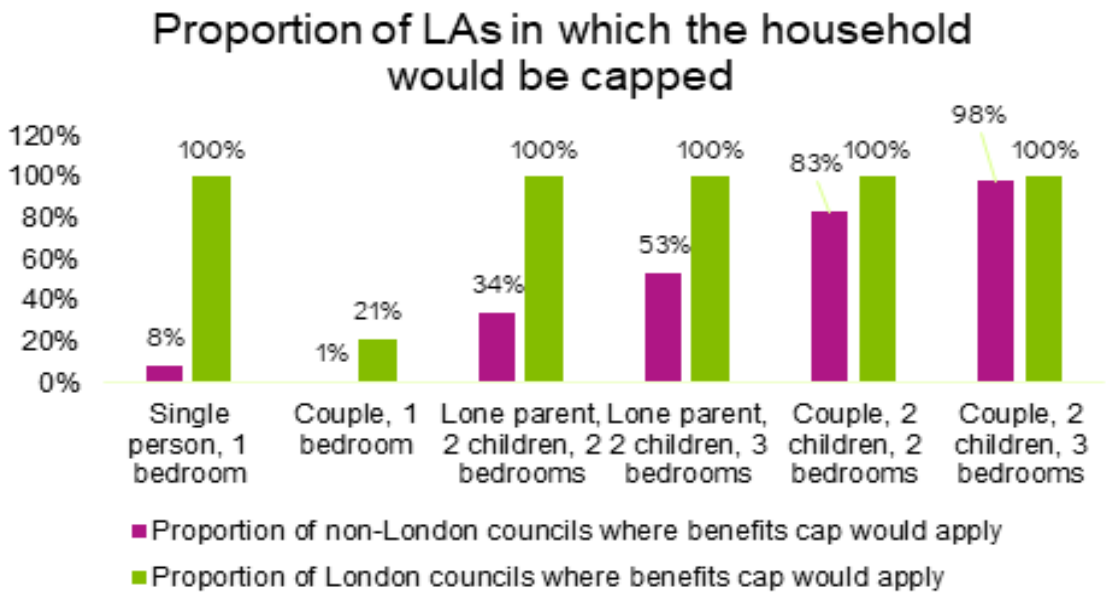
The benefit cap in London is currently set at £1,284.17 per month (£15,410 a year) for a single adult or £1,916.67 per month (£23,000 a year) for other households. The personal allowance for means-tested benefits is significantly below this at £409.89 per month for a single person over 25 years old, and £594.04 per month for a couple in which one member of the couple is over 25 years old. Therefore, in order for total benefits to reach a level to be capped, households generally require additional "elements" that increase benefit support. In other words, it is households with higher needs that are more likely to be capped.

As households in which a person has a disability or in which a person is a carer, are exempt from the cap, the benefit cap generally affects those with children (who receive additional support within benefits for their children) and tenants (who receive additional amounts within benefits to support rental costs).

Previous analysis by Policy in Practice applied the new Universal Credit awards and LHA rates to hypothetical households in which the only income is Universal Credit and rental costs are equal to the LHA rate post April 2020. This showed that, averaged across all London Boroughs, all household types were liable to be capped with the exception of a couple in a one bedroom property. Only 21% of this household type are liable to be capped.

Though based on hypothetical cases, this analysis illustrates the extent to which low-income households in the rented sector and with children, particularly those in London, will miss out on the support notionally offered by the April 2020 COVID-19 increases as a result of the benefit cap.

[13] This varies according to age: for 2020/21 it ranges between £315/month (under 18) to £604/month for those aged 25 and above.



This illustration examines the impact on the cap for different household types in the private rented sector. The actual impact on households across London, with different accommodation types and with different demographics, is provided in this report through the use of data on low-income households from more than 400,000 households across 17 London boroughs. LHAs are set at the Broad Rental Market Areas (BRMA) which do not map onto London boroughs. Household-level data analysis uses the actual BRMA of the household rather than averaging across boroughs.

3. Approach to analysing the interaction of the COVID-19 measures and the Benefit Cap in London

Method

Dataset

As part of an ongoing project with Trust for London[14] Policy in Practice has collated a large repository of SHBE data from 17 London boroughs, dating back to January 2016. The current analysis was based on a snapshot of data from August 2019 - the most recent time point for which extracts were available from all 17 boroughs. This dataset includes detailed information on the income, benefits and household composition of 432,785 households across London.

SHBE data contains limited information on households receiving Universal Credit. This analysis therefore focused primarily on the impact of the benefit cap for households in receipt of legacy benefits (Housing Benefit). The impact on households in receipt of Universal Credit were extrapolated from these findings, and as such should be interpreted with caution (see discussion below).

It should be noted that local authorities also lack access to detailed administrative data on households receiving Universal Credit. As a result, they will be less able to proactively identify households who could benefit from support via DHPs, for example in response to the benefit cap and its interaction with the April 2020 COVID-19 increases.

Data integrity

The benefit cap information recorded in SHBE is not 100% accurate. The operational use of SHBE data does not require rent or Tax Credit information to be regularly updated, and so these elements tend to be less accurate than other fields in the data. In particular, because private rents are capped to local LHA rates for benefit calculation purposes, rent amounts for private tenants are often recorded as lower than their true value. This means that raw SHBE data often underestimates the number of households subject to the benefit cap. This happens when rent is entered at the current LHA rate so rent support does not increase during modelling if the LHA rate is increased (since they are, according to the data, already receiving full support). In order to adjust for this, when modelling benefit awards and caps for households in this analysis, raw rent amounts for private tenants were replaced with the median rent value for properties of equivalent size (101,217 households; 23% of the sample). These median rent values were

[14] http://policyinpractice.co.uk/low-income-londoners-and-welfare-reform-2/

drawn from the Valuation Office Agency's List of Rents dataset for 2018/19, which was used to establish LHA rates prior to the COVID-19 response.

Policy modeling

In order to model the impact of the COVID-19 measures, the August 2019 snapshots were uprated to bring the data to a projected state for April 2020. The Benefit and Budgeting Calculator was then used to calculate overall income and the impact of the benefit cap under two policy scenarios. The first policy scenario applied a version of the UK benefits system as of March 2020, prior to implementation of the COVID-19 measures. The second policy scenario modelled the benefits system after implementation of April 2020 uprating and the COVID-19 measures (principally the increases in LHA rates and the rise in Universal Credit and Tax Credit rates). For each household in the dataset, this produced two sets of modelled benefit awards, one pre-COVID-19 and one post-COVID-19.

Outcomes of interest

Number of households affected by the interaction of the COVID-19 measures and benefit cap

The Benefit and Budgeting Calculator applies the benefit cap where applicable, calculates any resulting reduction in benefit income, and flags capped households for subsequent analysis. This provided the number and percentage of capped households for each of the 17 London boroughs in the sample, before and after implementation of the COVID-19 measures.

The incidence of the benefit cap among households (which can be understood as the percentage that are benefit capped) was averaged over 17 London boroughs, and extrapolated, to estimate the number of households that are subject to the benefit cap across the whole of London[15]. The same approach was taken in relation to inner and outer London estimates, namely averaging across eight and nine boroughs respectively. The analysis also identified boroughs showing particularly high or low impacts for a given outcome or subgroup.

The benefit cap has a nine month 'grace period' protecting people who recently lost their jobs. The grace period only applies to households whose change in circumstances causes them to become capped. For those newly capped households, it's not their circumstances that have changed but the benefit system itself.

Average income changes pre- to post-COVID-19 measures, accounting for the benefit cap

The analysis of the proportion of households subject to the cap ('cap rates') also included calculation of average changes in benefit income between the two modeled policy scenarios, in

[15] Excluding City of London

respect of current caseload. In particular, income changes were compared for households capped as a result of the COVID-19 measures versus those unaffected by the benefit cap. This analysis captured the level of benefits income households will lose due to the cap remaining in place.

Modeling is based on static household income in order to isolate the impact of the COVID-19 measures. It is worth noting that some working households that are currently exempt from the cap may also be capped due to reduced working hours. At present, the data is not available to predict which households will be affected. In order to fall in this group, the household must have been working sufficient hours to be exempt from the cap prior to seeing a reduction in income. This is a small group; most households working sufficient hours to qualify for exemption from the cap are not in receipt of means-tested benefits. Across London, we estimate only 78,000 households (13% of the low-income group) are at risk of losing this exemption. Excluding these households is therefore unlikely to have a significant impact on results.

Projected Universal Credit caseload in 2021

The increase in unemployment resulting from the economic impact of COVID-19 means that many new households will be making new benefit claims over the coming months. The scale and swiftness of the COVID-19 shock greatly limits the availability of official projections from bodies such as the Office of Budget Responsibility (OBR). This is partly due to a lag in the release of official data, and partly because there is no comparable recent scenario that could be used to inform predictions.

Because of this uncertainty, the current analysis made use of two estimation methods for future numbers of unemployed households (and by extension Universal Credit claims). These estimates come from the OBR as well as the work of David Bell and David Blanchflower for the National Institute Economic Review (henceforth abbreviated to BB)[16]. Since the two sources have adopted fundamentally different positions as to how unemployment will respond to the Self Employed Income Support Scheme (SEISS) and the Coronavirus Job Retention Scheme (CJRS), they were used to establish lower and upper bounds.

These national estimates of unemployed individuals were adjusted to the London household population using public data on the ratio of households to individuals in London, the rate of unemployment increase modelled by OBR/BB, and London's pre-COVID-19 (August 2019) unemployment levels (see table below).

The estimates from the OBR assume that social distancing measures impacting the economy will be in place for three months. Should these measures be in place for an extended period it is likely that unemployment levels will tend towards the upper limit.

[16] https://doi.org/10.1017/nie.2020.14

Table 2. Upper/lower bound estimates of unemployment in 2021 for UK and London

Lower bound			Upper bound		
UK (individuals)	London[1] (individuals)	London[2] (households)	UK (individuals)	London[1] (individuals)	London[2] (households)
2.5m	428k	173k	6.3m	1.1m	436k

[1] London estimates derived from 17.1% of UK figures in line with unemployment ratio UK: London as of Aug-19
[2]Household estimates derived from 40.4% of individuals figures in line with ratio of individuals: households for London

In order to translate these unemployment projections into estimates for households affected by the benefit cap, the proportion of households subject to the cap were calculated for out of work households in the SHBE group. These proportions were then applied to the projected unemployment numbers for 2021.

As with any approach that relies on assumptions, there are several caveats to the estimation of future predictions. These are discussed below:

- Modeling assumes that all unemployed households will apply for Universal Credit. These projections will therefore slightly overestimate the number of capped unemployed households in 2021.
- This approach does not take into account predicted numbers of new employed benefit claimants with earnings below the level for exemption from the benefit cap. This would require specific projections on the make-up of the expected Universal Credit caseload, i.e. the proportion in work and predicted earnings levels), and these are not currently available.
- The method of capturing future Universal Credit is neither exhaustive nor dynamic (discussed in more detail in the next paragraph). It is not exhaustive because it assumes that unemployment is the only event that triggers a Universal Credit claim. It is not dynamic since it focuses on inflows, rather than inflows and outflows, over the specified timeframe.
- The projections for numbers of capped households in 2021 are likely to include somewhere in the region of 90% of households who will benefit from the nine month grace period when they become unemployed, meaning these estimates may overstate the number of households immediately impacted by the cap.

The OBR and Bell & Blanchflower have provided future unemployment estimates, but these are not accompanied with estimates for the possible reductions in hours, pay or income. However, it is expressly stated by Bell & Blanchflower that they consider furloughed employees to be, in

effect, unemployed[17] - in contrast to the OBR. This means that the upper estimate reasonably takes into account an increase in 'caseload' due to reduction in pay from being furloughed; an overestimate since some furloughed employees will not be eligible for Universal Credit. This leaves the proportion that have hours or pay reduced outside the furlough scheme as the group that is unaccounted for.

Although this information gap is addressed by the ONS Business Impact Survey[18], where it was reported that 29% of businesses continuing to trade had reported a need to decrease working hours[19], the survey's format means it is not possible to ascertain the number of workers affected or to distinguish between those whose hours were reduced via furlough compared to outside of furlough.

It is also important to bear in mind that our estimates have focused primarily on unemployment inflows, not on unemployment outflows or how this might be subject to temporal variation, in particular, once lockdown measures are relaxed. It is important to bear in mind that there are factors that affect estimates up (individuals that see income drop) and down (take-up, outflows and possible double-counting).

Overall, these caveats mean the unemployment-based projections used in this analysis are likely to underestimate the total number of households that will be affected by the benefit cap in 2021.

[17] This represents a large proportion of the business response; 27% of employees in trading/paused businesses, and 78% of workers in temporarily closed businesses, were reported furloughed in the period 23 March to 5 April 2020. See Briefing.
[18] Business Impact of Coronavirus Survey, ONS. Responses from 6,150 Businesses.
[19] Businesses could select multiple options. Percentages don't reflect the % of workforce affected; rather whether the business took this type of action. 40% reported lay-offs and 11% reported increased hours.

4. Impact of the interaction between April 2020 changes and the benefit cap on existing claimants

Part 1: The Interaction of the benefit cap and the April 2020 COVID-19 increases for households in receipt of Housing Benefit

Prior to April 2020, between 0.1% and 0.7% of households in the 17 London boroughs had their Housing Benefit limited by the benefit cap. The average cap rate across all 17 boroughs was 0.4%, leading to an estimated 11,700 benefit capped households in receipt of Housing Benefit across the whole of London. This estimate is slightly higher than the official figure published on Stat-Xplore, which records 10,000 households in receipt of Housing Benefit in August 2019. The reason for this discrepancy is explored in the earlier section 'Data Integrity'.

Key finding 1: Households already benefit capped prior to April 2020

Approximately 11,700 households across London in receipt of Housing Benefit were affected by the benefit cap before April 2020, and so would see no increase in income as a result of April 2020 COVID-19 increases.

Across the 17 boroughs in the sample, the number of households in receipt of Housing Benefit affected by the benefit cap increased by an average of 94% after April 2020. Across London, this results in an estimated 11,000 additional households in receipt of Housing Benefit becoming subject to the benefit cap as a result of the April 2020 COVID-19 increases.

Key finding 2: Households that become benefit capped after the April 2020 benefit changes

The number of households affected by the benefit cap increased by 94% as a result of the April 2020 COVID-19 increases. This represented an additional 11,000 households across London.

Data analysis used the LHA rate for the appropriate BRMA of the household and results were then aggregated by borough. This showed large differences between boroughs. The highest increase in the proportion of capped households in a borough as a result of the April 2020 changes was 161%. The lowest increase in capped households as a result of the April 2020 COVID-19 increases was 51%.

In terms of absolute increases in numbers of capped households, sampled boroughs ranged from 70 to 1,160 additional households capped as a result of the April 2020 measures. The borough with the highest percentage of the population capped after these measures had 1.7% of its population affected by the benefit cap (compared to 0.2% of the total borough population in the least affected case).

Outer London boroughs showed a 105% increase in capped households compared to a 80% increase for inner London boroughs.

Key finding 3: Comparison between inner London and outer London

There was a larger increase in the number of capped households in outer London (105%) compared to inner London (80%) as a result of the April 2020 COVID-19 increases.

Table 3. Impact of the benefit cap and April 2020 COVID-19 increases on legacy households

Cohort	Households capped **before April 2020** COVID-19 increases		Households capped **due to April 2020** COVID-19 increases			Households capped **after April 2020** COVID-19 increases		Total number households
	Number	% total pop/n	Number	% total pop/n	% increase	Number	% total pop/n	
All London	11,714	0.4%	10,983	0.3%	93.5%	22,696	0.7%	3.3m
Inner London	4,440	0.4%	3,596	0.3%	80.4%	8,036	0.6%	1.3m
Outer London	7,305	0.4%	7,653	0.4%	105.2%	14,958	0.7%	2.0m

*All London estimates based on averages percentages for 17 LAs, applied to total London (or inner/outer London) populations

Impact of the April 2020 COVID-19 increases on demographic subgroups in receipt of Housing Benefit

Data analysis examines the impact of the April 2020 benefit changes on households in receipt of Housing Benefit. This showed that approximately 10,500 additional children will be living in households affected by the benefit cap after April 2020. This represents an average increase of 46% in the number of children living in capped households. These children's families will receive less support from the April 2020 COVID-19 increases due to the benefit cap. 26,200 children across London already live in households affected by the benefit cap, meaning that their families will receive no increase in support as a result of the new measures.

The effect is highly variable across boroughs in both absolute and relative terms. The borough most affected by the benefit cap after April 2020 saw an 87% increase in children living in capped households, compared to a 13% increase in the least affected borough.

Correspondingly, the largest absolute increase in children living in capped households was about 637 in the most affected borough, compared to approximately 78 children in the least affected borough.

The borough with the highest proportion of impacted children had 3.1% of the total child population living in households affected by the benefit cap after April 2020, compared to 0.6% in the least affected borough.

The percentages of children living in capped households after the implementation of the April 2020 COVID-19 increases was slightly higher for inner London boroughs (1.9%) compared to outer London boroughs (1.7%)

Key finding 4: Children in households that become capped after April 2020

10,500 additional children across London became affected by the benefit cap as a result of the April 2020 benefit changes (a 46% increase).

Table 4. Impact of the benefit cap and April 2020 COVID-19 increases on children in legacy households

Cohort	Children in households capped **before April 2020** COVID-19 increases		Children in households capped **due to April 2020** COVID-19 increases			Children in households capped **after April 2020** COVID-19 increases		Total number of children
	Number children	% of all children	Number children	% of all children	% increase	Number children	% of all children	
All London	26,219	1.3%	10,553	0.5%	46.2%	36,772	1.8%	2.1m
Inner London	9,807	1.4%	3,057	0.5%	31.7%	12,864	1.9%	677k
Outer London	15,428	1.1%	7,829	0.6%	59.0%	23,257	1.7%	1.4m

The majority of households in which a person is too ill to work, or in receipt of disability benefits, are generally exempt from the benefit cap. The only exception to this are households on ESA in the work-related activity group (WRAG). The impact of the benefit cap and April 2020 COVID-19 increases on households in this group was relatively small.

Approximately 65% more households on ESA-WRAG saw their benefits capped compared to 94% for the whole group, see above. The contrast between inner and outer London for ESA-WRAG households followed a similar pattern to the overall population, with outer London boroughs seeing an average of 78% more households capped as a result of the COVID-19 measures compared to 49% in inner London boroughs.

Key finding 5: Households in which a person is in the ESA-WRAG group that become benefit capped after April 2020

A further 674 households in receipt of ESA-WRAG became capped as a result of the COVID-19 measures across London.

The range of impacts for boroughs was similarly wide, but this was once again partly due to small sample sizes and numbers of households capped before April 2020. The most affected borough saw approximately 64 additional capped households in the ESA-WRAG group after the introduction of the April 2020 COVID-19 increases, whilst the least affected saw only six more cases.

Table 5. Impact of the benefit cap and April 2020 COVID-19 increases on legacy households in the ESA-WRAG group

Cohort	Households capped **before April 2020** COVID-19 increases		Households capped **due to April 2020** COVID-19 increases			Households capped **after April 2020** COVID-19 increases		Total number households
	Number	% total pop/n	Number	% total pop/n	% increase	Number	% total pop/n	
All London	1,373	0.2%	674	0.1%	64.6%	2,047	0.4%	555k
Inner London	549	0.3%	198	0.1%	49.1%	747	0.4%	208k
Outer London	807	0.2%	502	0.1%	78.3%	1,310	0.4%	347k

Following the April 2020 changes, lone parent households saw the smallest proportional increase in the percentage of capped households (42%) compared to other household compositions. This was largely due to the high proportion of lone parents already subject to the benefit cap before April 2020 (1.6% of all lone parents in a borough, on average). The absolute numbers of families becoming capped due to the April 2020 COVID-19 increases were still high, with an additional 2,700 lone parents and an additional 2,200 couples with children.

The largest percentage change in households capped as a result of the April 2020 COVID-19 increases were single person households, where the estimated numbers for London as a whole rose from approximately 2,600 pre-April 2020 to 8,400 afterwards.

Amongst couples, the percentage increase in households capped as a result of the April 2020 COVID-19 increases was comparatively low due to the large proportion already being capped. An extremely low proportion of couples without children were benefit capped. This group are the least likely to be capped as they benefit from the couples cap threshold but have an LHA limited to one bedroom. There was also a very small sample size for these households across our sample of 17 boroughs (only 8% of the whole SHBE sample were couples without children).

Key finding 6: Demographic breakdown of the increase in capped households after April 2020

Large numbers of lone parents (7,000) and couples with children (1,700) were already capped prior to the implementation of COVID-19 measures and so saw lower increases in the proportion capped. The largest proportional increase in capped households was for single person households without children, which saw a 450% increase as a result of the new measures (5,800 additional households across London).

Table 6. Impact of the benefit cap and April 2020 COVID-19 increases on legacy households, by household composition

Cohort	Household composition	Households capped **before April 2020** COVID-19 increases		Households capped **due to April 2020** COVID-19 increases			Households capped **after April 2020** COVID-19 increases		Total number of households
		Number	% total pop/n	Number	% total pop/n	% increase	Number	% total pop/n	
All London	Lone parent	7,049	1.6%	2,686	0.6%	42.1%	9,734	2.3%	428k
	Single	2,620	0.2%	5,757	0.4%	444.6%	8,377	0.5%	1.6m
	Couple with children	1,723	0.3%	2,185	0.4%	167.7%	3,908	0.7%	582k
	Couple without children	12	0.0%	73	0.0%	97.1%	85	0.0%	617k

The impact of the benefit cap and the April 2020 COVID-19 increases was by no means limited to larger properties. In fact, the largest increase in capped households (both proportionally and in terms of absolute numbers) was for one bedroom properties (2,200 capped before the April 2020 changes, 7,300 after). The percentage increase in larger households becoming capped was relatively small (around 50% for properties with three or more bedrooms), as many of these households were already capped before the new measures came into effect.

Table 7. Impact of the benefit cap and April 2020 COVID-19 increases on legacy households, by household size

Cohort	Household size	Households capped **before April 2020** COVID-19 increases		Households capped **due to April 2020** COVID-19 increases			Households capped **after April 2020** COVID-19 increases		Total number of households *
		Number	% total pop/n	Number	% total pop/n	% increase	Number	% total pop/n	
All London	Bedroom in a shared house	293	0.0%	399	0.0%	131.0%	692	0.0%	3.3m
	One bedroom	2,173	0.1%	5,085	0.2%	546.2%	7,258	0.2%	
	Two bedrooms	3,156	0.1%	2,897	0.1%	102.0%	6,053	0.2%	
	Three bedrooms	3,992	0.1%	1,798	0.1%	49.3%	5,790	0.2%	
	Four or more bedrooms	2,100	0.1%	803	0.0%	49.0%	2,903	0.1%	

*No official breakdown available for HB caseload by household size, so estimates for London are based on proportions of total population

Part 2: The interaction of the benefit cap and the April 2020 COVID-19 increases on households in receipt of Universal Credit and on low-income Londoners

To estimate the impact of COVID-19 measures on benefit cap rates for households in receipt of Universal Credit, the percentage increase in capped households was assumed to be consistent across legacy benefits and Universal Credit. In reality this is unlikely to be the case as the basic allowance increase introduced in April 2020 applies to all households in receipt of Universal Credit but only those in receipt of tax credits who receive Housing Benefits (this group make up 28% of the SHBE caseload).

However, since local authorities do not have access to detailed data on all local Universal Credit claims, this analysis has applied the conservative assumption that the increase in the proportion of households capped will be consistent across households in receipt of both Universal Credit and Housing Benefits. Results reported below should therefore be considered a lower-bound estimate.

This method of estimating the impact on households in receipt of Universal Credit shows an additional 11,000 households (currently in receipt of Universal Credit) become capped as a result of the April 2020 benefit changes.

The Universal Credit sample numbers were drawn from August 2019 in order to remain consistent with the SHBE snapshot. In reality, the number of capped households receiving Universal Credit is likely to be higher due to the on-flow of new Universal Credit cases between August 2019 and April 2020.

Key finding 7: Households in receipt of Universal Credit that become benefit capped after April 2020

11,000 additional households in receipt of Universal Credit would be affected by the benefit cap as a result of the benefit increases from April 2020.

Table 8. Estimated impact of the benefit cap and April 2020 COVID-19 increases on households in receipt of Universal Credit

Cohort	Universal Credit							Assumed % increase in capped households based on legacy cohort
	Households capped **before April 2020** COVID-19 increases		Households capped **due to April 2020** COVID-19 increases		Households capped **after April 2020** COVID-19 increases		Total number households	
	Number	% total pop/n	Number *estimate*	% total pop/n	Number *estimate*	% total pop/n		
All London	10,596	3.8%	10,980	3.6%	21,576	7.1%	302k	93.5%
Inner London	3,829	3.5%	3,358	2.9%	7,187	6.2%	117k	80.4%
Outer London	6,767	4.0%	7,985	4.3%	14,752	8.0%	185k	105.2%

The proportions and numbers of households capped through Housing Benefit and Universal Credit are used to estimate the number of low-income households affected by the benefit cap across London. Across the whole of London, an estimated 22,000 additional households become subject to the benefit cap as a result of the April 2020 benefit changes.

The number of low-income households affected by the benefit cap across London is set to rise from 22,300 to 44,300 as a result of April 2020 COVID-19 increases. Outer London saw a slightly higher proportion of capped households after the April 2020 COVID-19 increases (1.6% on average) compared to inner London (1.2%).

Key finding 8: Low-income households across London becoming benefit capped as a result of the April 2020 COVID-19 increases

An additional 22,000 low income households are estimated to be affected by the benefit cap as a result of the April 2020 COVID-19 increases. This brings the total number of benefit capped low-income households in London to 44,300.

Table 9. Estimated impact of the benefit cap and April 2020 COVID-19 increases on full low-income cohort

Cohort	Households capped **before April 2020** COVID-19 increases		Households capped **due to April 2020** COVID-19 increases			Households capped **after April 2020** COVID-19 increases	
	Number	% total population	Number	% total population	Assumed rate of increase	Number	% total population
All London	22,310	0.7%	21,962	0.7%	93.5%	44,272	1.4%
Inner London	8,269	0.7%	6,954	0.5%	80.4%	15,223	1.2%
Outer London	14,072	0.8%	15,638	0.8%	105.2%	29,710	1.6%

Part 3: The interaction of the benefit cap and the April 2020 COVID-19 increases on benefit deductions

The benefit cap limits the potential additional support to vulnerable households offered by the April 2020 COVID-19 increases. Households capped before the April 2020 COVID-19 increases will lose out on a larger amount of potential income as a result of the cap remaining in place. Households that become capped as a result of the April 2020 COVID-19 increases will see deductions to their final benefit awards for the first time. To capture this reduction in support, we calculated benefit cap deductions before and after the April 2020 COVID-19 increases for households already on the cap, as well as deductions for households capped as a result of the April 2020 changes.

Across the whole sample, benefit deductions rose sharply for households capped before the April 2020 COVID-19 increases. Deductions averaged £101 across all London boroughs before the April 2020 measures, but more than tripled to £320 after the changes came into effect. This rise was slightly larger in outer London (average £345 in deductions after April 2020) compared to inner London (£291 in deductions).

Benefit deductions were also substantial for households capped as a result of the April 2020 COVID-19 increases. Across London, newly capped households saw deductions of £185. It is important to note that these deductions were higher than the average level for capped households before the April 2020 changes.

Key finding 9: The impact of April 2020 COVID-19 increases on benefit cap deductions

Benefit cap deductions more than tripled for households already capped before the April 2020 changes, rising from £101 to £320 on average across London. Households newly capped as a result of the April 2020 COVID-19 increases saw average deductions of £185 as a result of the benefit cap**.**

Table 10. Benefit cap deductions due to April 2020 COVID-19 increases

Cohort	Households capped **before April 2020** COVID-19 increases				Households capped **due to April 2020** COVID-19 increases	
	Average deduction pre-April 2020 COVID-19 increases	Average deduction post-April 2020 COVID-19 increases	Number of households	% increase	Average deduction post-April 2020 COVID-19 increases	Number of households
All London	£101	£320	Total: 6,383 Mean: 375	310.5%	£185	Total: 5,953 Mean: 350
Inner London	£100	£291	Total: 2,856 Mean: 357	266.8%	£193	Total: 2,298 Mean: 287
Outer London	£101	£345	Total: 3,912 Mean: 435	349.4%	£178	Total: 3,483 Mean: 387

The benefit cap will disproportionately impact those households who should ostensibly gain more from the April 2020 COVID-19 increases. For example, the only households to benefit from the uplift to LHA rates are private tenants, who made up 23% of our SHBE group. Similarly, the £20 per week increase to tax credits will only apply to in-work households or those with children.

When restricting the sample to private rented sector households, the effects of the benefit cap on deductions were far more pronounced. Before the April 2020 COVID-19 increases, cap deductions were actually slightly lower for private tenants (£76) than for the general capped population (£101). This is likely because tax credit awards were lower on average for private tenants (£350/month) compared to the general capped population (£520).

After the April 2020 measures, cap deductions rose to £444 across the whole of London (£497 for inner London and £397 for outer London). Deductions for private tenants capped as a result of the April 2020 changes were also higher, £211 compared to £185 for all tenure types combined.

Finally, deductions rose still higher for private tenants with children. The average cap deduction for families in private rented accommodation rose from £106 to £532 for those capped before the April 2020 measures. Newly capped private tenants with children saw their benefits reduced by £399 on average after the introduction of the April 2020 changes.

Key finding 10: The impact of April 2020 COVID-19 increases on benefit cap deductions for private tenants and families:

Private tenants capped before April 2020 saw their average deductions rise from £76 to £444 after the new benefit increases. This effect was even larger for already-capped private tenants with children, who saw average deductions of £532 after the changes. Private tenants capped as a result of the April 2020 changes saw average deductions of £211, rising to £399 if they had children.

Table 11. Benefit cap deductions for private rented sector households due to April 2020 COVID-19 increases

Cohort	Households capped **before April 2020** COVID-19 increases				Households capped **due to April 2020** COVID-19 increases	
	Average deduction pre-April 2020 COVID-19 increases	Average deduction post-April 2020 COVID-19 increases	Number of households	% increase	Average deduction post-April 2020 COVID-19 increases	Number of households
All London	£76	£444	Total: 3,079 Mean: 181	674.2%	£211	Total: 4,620 Mean: 272
Inner London	£69	£497	Total: 969 Mean: 121	802.6%	£236	Total: 1,622 Mean: 203
Outer London	£82	£397	Total: 2,048 Mean: 228	560.1%	£189	Total: 2,706 Mean: 301

Table 12. Benefit cap deductions for private rented sector households with children due to April 2020 COVID-19 increases

Cohort	Households capped **before April 2020** COVID-19 increases				Households capped **due to April 2020** COVID-19 increases	
	Average deduction pre-April 2020 COVID-19 increases	Average deduction post-April 2020 COVID-19 increases	Number of households	% increase	Average deduction post-April 2020 COVID-19 increases	Number of households
All London	£106	£532	Total: 1,571 Mean: 92	748.0%	£399	Total: 1,021 Mean: 60
Inner London	£121	£619	Total: 302 Mean: 38	937.5%	£560	Total: 193 Mean: 24
Outer London	£94	£454	Total: 1,044 Mean: 116	579.5%	£255	Total: 553 Mean: 61

5. Impact of the interaction between April 2020 changes and the benefit cap on future claimants

The analysis presented above is based upon the legacy benefit (and Universal Credit) caseload as of August 2019. However, COVID-19 has caused an extreme spike in unemployment as well as reductions in hours and pay, resulting in unprecedented numbers of Universal Credit applications. The analysis therefore also calculated upper bound and lower bound estimates for the number of households in this incoming Universal Credit caseload likely to be affected by the benefit cap.

These projections were produced by combining published unemployment projection estimates for 2021 with benefit cap rates drawn from the out of work households in our SHBE sample. Note that this approach assumes the current COVID-19 response measures (change in basic allowances and increased LHA rates) will remain in place into 2021. The current legislation only applies the measures for one year, so unless the legislation is updated, this analysis will overestimate the number of capped households.

The lower bound estimates used the more conservative OBR unemployment projections, which assume that the Government CJRS and SEISS will mitigate the unemployment effect of lockdown substantially (indeed, that furloughed workers will return to employment after the CJRS ends). This model predicts 2.5m unemployed individuals in 2021 (a 190% increase from August 2019). The upper bound estimate used less conservative projections from BB, which assume that furloughed workers will become unemployed in 2021.

This approach predicts an increase to unemployment by 5m by 2021, which would bring total unemployment to a total of 6.3m (a 480% increase from August 2019). These rates for the upper and lower bounds of change were applied to the out of work household numbers from August 2019 for each of the 17 boroughs in our group, and for London overall.

In addition to calculating the number of unemployed households that would be subject to the benefit cap in 2021, the analysis estimated the number of households that would fall within the nine month exemption from the cap due to previous employment (the benefit cap “grace period”). Again, this analysis applied lower and upper bound estimates, based on two different methods of assessing eligibility for the grace period. The lower bound estimate used a less conservative calculation for the proportion of households eligible for the grace period at any given point in time based on the earnings distribution of households in the UK.

According to this estimate, approximately 93% of households becoming unemployed from a general population sample would fall within the nine-month grace period from the benefit cap based on their level of earnings. The upper bound estimate used a more conservative calculation based on the distribution of working hours in the UK labour market (specifically, the

proportion of households working at least 16 hours per week[20]). According to this estimate, approximately 88% of households would benefit from the grace period.

Both estimates assume that the population of households moving out of work due to COVID-19 will follow the normal income distribution for the UK population. This distribution is likely to be skewed towards lower-income households. As a result, these estimates may overestimate the number of households that will be eligible for the nine-month grace period.

According to the lower bound estimate, 173,000 households will be out of work in London by 2021. 51% (25,300) of these will be subject to the benefit cap, of which 23,600 will be eligible for the nine-month grace period.

According to the upper bound estimate, 435,000 households will be out of work in London by 2021, if those furloughed under the Coronavirus Job Retention Scheme do not return to work. This will mean 63,700 households being subject to the benefit cap across London, of which a conservative estimate of 55,700 will be eligible for the nine-month grace period.

Key finding 11

Unemployment rates in 2021 could range from 173k to 435k households, depending on the economic forecast used. This could result in between 23,600 to 55,700 more households being subject to the benefit cap.

[20] This includes among the self-employed (estimated, assuming the same part-time/full-time split that is seen among employees). It is deemed that workers on temporary contracts and unpaid family workers will also not receive a grace period and are thus added to the group working below 16 hours.

Table 13. Estimated impact of the benefit cap and April 2020 COVID-19 increases on projected UC caseload in 2021

Cohort	Out of work households capped after April 2020 COVID-19 increases		Total out of work pop/n	Projected number of out of work households by 2021		Projected number of capped households by 2021			
	Number households	% total out of work pop/n		OBR projection	BB projection	OBR projection	Number in grace period*	BB projection	Number in grace period**
All London	13.3k	14.6%	90.8k	172.7k	435.2k	25.3k	23.6k	63.7k	55.7k
Inner London	4.5k	11.6%	39.0k	74.2k	187.0k	8.6k	8.0k	21.8k	19.0k
Outer London	9.0k	17.3%	52.3k	99.4k	250.6k	17.2k	16.0k	43.3k	37.9k

* based on earnings ** based on hours

In addition to newly unemployed households becoming capped as they claim out of work benefits for the first time, COVID-19 may cause some households currently receiving means-tested benefits and working full time to lose earnings, and therefore become subject to the benefit cap. This is a relatively small group (only around 13% of the low-income households in our sample).

Based on OBR and BB projections for changes in unemployment rates, the number of households currently claiming legacy benefits and working full time who could become capped due to a change in earnings as a result of COVID-19 ranges from 2,000 (OBR lower-bound estimate) to 9,600 (BB upper-bound estimate).

Note that these estimates are based on changes in unemployment rates. At the time of writing, no projections were available for the number of households likely to see reduced earnings or hours without becoming unemployed due to COVID-19. As such, the figures reported here are likely to underestimate the total number of households who lose their exemption from the benefit cap due to reduced earnings.

Key finding 12

Between 2,000 and 9,600 households currently claiming legacy benefits and working full time are projected to lose their exemption from the benefit cap due to reduced earnings as a result of COVID-19.

Table 14. Estimated impact of the benefit cap on working households due to change in earnings as a result of COVID-19

Cohort	Households claiming legacy benefits			Projection for number of households out of work by 2021	
	Number of households working full time	% of working households	Total working households	OBR projection	BB projection
All London	78,920	38.9%	203,106	2,081	9,632
Inner London	25,740	36.2%	71,113	679	3,141
Outer London	54,389	41.2%	131,940	1,434	6,638

6. Summary and conclusions

The benefit cap will substantially limit the beneficial impact of the government's April 2020 COVID-19 increases in benefit support introduced as a response to COVID-19. The benefit cap was originally introduced as a means of increasing fairness between those in work and those not in work, and as an incentive to out of work households to increase working hours.

Currently, work is no longer an option for some households due to distancing measures, and households may not have the opportunity to immediately change their circumstances due to the economic fallout from COVID-19. The objectives of the cap are therefore not obvious during the COVID-19 crisis. In light of this, it is questionable whether it is fair that some households do not see benefit increases intended to help the most vulnerable through the economic fallout of COVID-19.

Prior to April 2020, an estimated 22,300 households in London were subject to the benefit cap. 11,700 of these households were in receipt of legacy benefits (Housing Benefit) and 10,600 households were in receipt of Universal Credit. These households will not see an increase in income as a result of the new measures introduced from April 2020.

After April 2020 the total population of benefit capped low-income households in London is estimated to be 44,300. There is a larger proportionate increase in the number of capped households in outer London (105%) compared to inner London (80%)

Reductions in benefit awards for households already affected by the cap are expected to triple, from £101/month to £320/month on average. Households that become capped as a result of the April 2020 COVID-19 increases will see average reductions in benefit awards of £185/month.

- Outer London boroughs are more affected by the benefit cap than inner London boroughs (including among demographic subgroups such as children and ESA-WRAG)
- Households in the private rented sector are most affected, due to the increase in LHA rates, and are set to have their benefits reduced by £400/month on average due to the cap.
- Private tenants with children that were already capped prior to April 2020 will see reductions in their benefits averaging £532/month. Lone parents and couples with children were the most likely type of household to have been capped prior to April 2020.
- Single households experience the largest proportional increase (450%) in numbers affected by the cap.

The unprecedented surge in unemployment and resulting benefit claims as a result of COVID-19 also means that the number of households whose incomes are limited by the benefit cap is set to increase dramatically. Depending on the level of economic recovery (especially the employment trajectories of furloughed workers leaving the Coronavirus Job Retention Scheme),

our modelling suggests that London could see anywhere between 25,300 and 63,700 households subject to the benefit cap in 2021.

As well as households that become unemployed for the first time, there will also be households currently in receipt of means-tested benefits that will experience a loss in earnings, making them subject to the benefit cap as they will no longer meet the earnings threshold. It is estimated that between 2,000 and 9,600 of current legacy households could become capped as a result of this.

At present, much of the financial burden imposed by the benefit cap is shouldered by local authorities via Discretionary Housing Payments (DHPs). With anything from a 190% to 480% increase in projected unemployment due to COVID-19, DHP awards alone are unlikely to counteract the full impact of the benefit cap on household incomes.

If local authorities are to support an increased caseload through DHPs, it is likely many will be required to increase the size of their DHP pot. Local authorities have received some additional discretionary funding through the COVID-19 hardship fund, but for many this will be entirely spent topping up Council Tax Support payments. For those local authorities that do have some remaining hardship fund, the amounts left over are unlikely to be sufficient to cover the increasing number of households subject to the benefit cap.

Even if DHP pots were increased, the scheme primarily relies on claimants applying for additional support, meaning that support is distributed amongst those that request it and not necessarily distributed to those most in need. For local authorities, the discretionary nature of DHPs can be administratively cumbersome and allocation can be subjective.

Local authorities may be able to use their own administrative data to identify and support households eligible for a DHP. However, local authorities have very limited access to Universal Credit data. With over one million new claims for Universal Credit since the outbreak of COVID-19, local authorities will be limited in their ability to proactively support the vast majority of households now in receipt of Universal Credit.

Finally, DHPs are intended to be a temporary measure that help households cover rent costs whilst finding more affordable accommodation. With COVID-19 lockdown restriction in place, households are not in a position to move to cheaper housing. As a result, DHPs risk becoming an ongoing benefits top-up drawn from Local Authority funds, rather than the short-term discretionary support fund they were intended to provide.

The April 2020 COVID-19 increases in benefit support offer many households a much-needed income boost at a time of extreme financial vulnerability. Unfortunately, the continued presence of the benefit cap means that for an increasing number of households, the effects of these measures will be limited, or never felt at all.

Policy in Practice would recommend that the government remove or lift the benefit cap. This would help ensure that low-income households are not forced to choose between financial stability and personal safety. A government response to the limitations imposed by the benefit cap would also reduce the burden of support placed on London boroughs, allowing them to concentrate resources on protecting their most vulnerable residents.

Appendices

A1. Benefits included or disregarded in 'benefit income' subject to the benefit cap

Benefits included	Benefits that are disregarded
Universal Credit	Housing costs for supported exempt accommodation
Bereavement Allowance/Widowed Parent's/Mother's Allowance	Special Guardian's Allowance
Child Benefit	Child maintenance payments from absent parents
Child Tax Credit	
Employment and Support Allowance	
Housing Benefit	
Jobseeker's allowance	
Maternity Allowance	
Severe Disablement Allowance	
Widowed Parent's Allowance	
Widowed Mother's Allowance (Widowed Mother's Allowance or Widow's Pension if the person started getting it before 9 April 2001)	

Source: UK Parliament Work and Pensions Committee, 2019[21] (originally GOV.UK, Department for Work and Pensions (BEC0023)).

[21] https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/1477/1477.pdf

A2. Exemptions from the benefit cap

Exempt if either claimant or partner receives:	**Exempt if either the claimant, partner or children aged below 18 (that live the in the household) receives:**
Working Tax Credit	Armed Forces Compensation Scheme (AFCS)
Employment and Support Allowance (Support Group)	Armed Forces Independence Payment (AFIP)
Universal Credit and in the Limited Capability for Work and Work-related Activity (LCWRA) group	Attendance Allowance
Universal Credit and Carer's Allowance	Carer's Allowance
Universal Credit and has earned income equivalent to 16 hours of work at the national minimum wage (£8.72; £8.20; £6.45 and £4.55 depending on age and whether doing an apprenticeship)	Disability Living Allowance (DLA)
	Employment and Support Allowance (Support group)
	Guardian's Allowance
	Industrial Injuries Benefits
	Personal Independence Payment (PIP)
	War pension
	War Widow(er) Pension

Source: UK Parliament Work and Pensions Committee, 2019 (originally GOV.UK)

A3. London Boroughs represented in the dataset

London Boroughs represented	London Boroughs not represented
Barking and Dagenham	Barnet
Brent	Bexley
Camden	Bromley
Croydon	Hammersmith and Fulham
Ealing	Havering
Enfield	Hillingdon
Greenwich	Hounslow
Hackney	Kingston
Haringey	Lewisham
Harrow	Merton
Islington	Newham
Kensington and Chelsea	Richmond
Lambeth	Waltham Forest
Redbridge	Wandsworth
Southwark	Westminster
Sutton	
Tower Hamlets	

Glossary

Term	Definition
Standard Allowance (Universal Credit)	Fundamental component of Universal Credit, used to establish the maximum benefit that a household can claim before deductions are made.
Local Housing Allowance (LHA)	Used to calculate Housing Benefit or the housing element of Universal Credit for a claimant who rents property from a private landlord. LHA rates are based on the number of people in the claimant's household, and the area where they live. LHA rates were introduced in 2008 and aligned to the cheapest 50% of market rents as a benchmark. This benchmark was reduced in subsequent years; to the cheapest 30% in 2011, then CPI inflation in 2013 and frozen in 2016. Before the COVID-19 measures were announced LHA rates were due to increase by CPI (1.7%) from April 2020.
COVID-19 measures	Throughout this report, COVID-19 measures will relate specifically to the measures put in place to increase benefit allowances and LHA rate. This covers the increase to the standard allowance in Universal Credit, the increase to Tax Credits and alignment of LHA rates to the cheapest 30% of market rents.
Legacy benefits (vs Universal Credit)	Term used to refer to benefits (or claims) that are subject to the 'old' world of benefits, before Universal Credit was first introduced in 2013. Its introduction has been gradual, meaning that some households continue to receive legacy benefits, rather than UC.
Passporting	When benefit eligibility is determined by receipt of other benefits, this is called passporting. It is usually done for administrative ease. An example is the Working Tax Credit exemption of the benefit cap for legacy claimants.
Personal Independence Payment (PIP)	Working age disability benefit paid to those living with long-term disability or illness. There are two components, which can both be claimed: a 'mobility' and a 'daily living' component. Each component can be paid and at different levels (middle/higher). It is gradually replacing DLA for claimants that were of pension-age or older on 8 April 2013.
Disability Living Allowance (DLA)	Working-age disability benefit paid to those living with long-term disability or illness. There are two components, which can both be claimed: a 'mobility' and a 'care' component. Each component can be paid and at different levels (lower/middle/higher or middle/higher). This benefit is being replaced by PIP for claimants that were pension-age or older on 8 April 2013.
Employment and Support Allowance (ESA)	Working age benefit paid to those whose ability to work is impacted by illness or disability. Naming conventions vary slightly between legacy and Universal Credit benefits systems but with the same principle - ESA is split into two

	mutually exclusive groups: contribution-based (dependent on NICs) and income-based (means tested). Within these groups' claimants are assigned to either the 'Limited Capability for Work' group (also known as the Work-Related Activity Group (WRAG)) or the 'Limited Capability for Work and Work-Related Activity' (LCWRA or 'Support') group. The distinction is important for the benefit cap, since only those in the LCWRA/Support group are exempt.
ESA-WRAG	Acronym used for individuals receiving ESA that have been placed in the 'Limited Capability for Work' group, following their Work Capability Assessment. WRAG refers to the expectation that these individuals should engage in 'work-related activity' despite being currently unable to work.
ESA-LCWRA (or ESA 'Support')	Acronym used for individuals receiving ESA that have been placed in the 'Limited Capability for Work and Work-Related Activity' after their Work Capability Assessment. This means that their disability or illness is severe enough to limit work as well as any work-related activity. As such, unlike the ESA-WRAG group, ESA LCWRA are not expected to engage in work-related activity. In the legacy benefits system, the equivalent is the ESA 'Support' group.
Working age (as opposed to pension age)	These terms are used throughout the report to distinguish by broad age group in line with its benefits definition. The main claimants in working-age households are usually aged below 65 while in pension-age households they are usually adults aged upwards of 65. Working-age households are the focus of this report since pension-age benefits have been protected from welfare reforms (such as the benefits freeze and benefit cap).

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