POA2022/03256

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Andrew Boff AM
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5 May 2022

Dear Andrew,

Thank you for your letter of 14 February to the Chancellor of the Exchequer about cost of living concerns. I am replying as the minister responsible for public spending and I would like to apologise for the delay in sending this.

In your letter you request a delay to the planned increase in National Insurance Contributions (NICs). The Government is committed to responsible management of the public finances. That is why it has taken the tough but responsible decision to increase taxes, in order to fund a significant increase in permanent spending on the NHS and social care. It is important that this spending is fully funded, particularly in the context of record borrowing and debt to fund the necessary economic response to COVID-19.

The Health and Social Care Levy will allow the Government to implement necessary adult social care reform, tackle the elective backlog in the NHS as it recovers from COVID-19, develop the nation's pandemic response and preparedness, and ensure the NHS has the resources it needs throughout this Parliament. I would like to emphasise, however, that NICs is a progressive tax and the Primary Threshold means that the lowest earners do not pay any NICs.

From April 2022, the highest earning 17 per cent will pay over half the revenues and 6.1 million people earning less than the Primary Threshold will not pay the Levy. From July 2022, when the Primary Threshold will increase to the equivalent of £12,570 a year, the highest earning 18 per cent are estimated to pay over 60 per cent of the revenues from the Levy, and a further 2.2 million working age people are estimated to be taken out of paying the Levy.

Turning to your requests to reinstate the £20 a week Universal Credit uplift and increase the National Living Wage (NLW), the Government has always been clear that the £20 per week increase to Universal Credit was a temporary measure. The Government has put a wide range of support in place to help low-income households with the cost of living and is also focusing on supporting people to move into and progress in work.

The Government also recognises that the best approach to managing the cost of living in the long term is helping people into work, supporting them to increase their incomes and keep more of what they earn. The Government has supported this through an increase to the annual National Insurance Primary Threshold and Lower Profits Limit to £12,570.

The Government has also cut the Universal Credit taper rate from 63 per cent to 55 per cent, and increased Universal Credit work allowances by £500 per annum. This is essentially a tax cut for the lowest paid in society worth around £1.9 billion in 2022-23 and means that 1.7 million households will on average keep around an extra £1,000 on an annual basis making work pay.

Furthermore, the NLW is increasing by 6.6 per cent to £9.50 an hour for workers aged 23 and over in April 2022, which will benefit more than 2 million workers. This means a full-time worker on the NLW receives an increase of over £1,000 to their annual earnings.

The Government also recently announced the 'Way to Work' campaign to get 500,000 jobseekers into jobs by the end of June. Households on Universal Credit are at least £6,000 a year better off in full time work than out of work. A new In Work Progression offer will also mean more low paid workers on Universal Credit will be able to access personalised work coach support to help them increase their earnings.

Turning finally to the Benefit Cap, this is designed to encourage people into work. The Government firmly believes that there has to be a limit on working-age benefits the state should provide to households. Anyone who meets the work requirements is exempt from the Cap. For claimants on Universal Credit, this means earnings of at least £617 per month. All households which include somebody who is receiving the Disability Living Allowance, Personal Independence Payment, Attendance Allowance, Industrial Injuries Benefits, Carer's Allowance, Guardian's Allowance, or the support component of the Employment and Support Allowance are exempt from the Benefit Cap, as are those receiving War Widows and War Widowers pension.

The Government recognises that some people, particularly vulnerable families, face difficult transitions and will take time to adjust. In recognition of this, Discretionary Housing Payments are available for Local Authorities to support the most vulnerable claimants.

The Government is providing support worth over £22 billion across this financial year and next that will help families with the cost of living. As well as cutting the Universal Credit taper rate and increasing work allowances, the Government is providing an additional £500 million for the Household Support Fund from April 2022 in addition to the £500 million already provided since October 2021, bringing total funding to £1 billion. The Government has also frozen alcohol and fuel duties to keep costs down, and announced a £9.1 billion package in February 2022 to help households with rising energy bills.

Thank you for taking the trouble to write to me on such an important issue. I hope this response assures you that cost of living is a key priority for this Government.

Yours sincerely,

Simon Clarke

RT HON SIMON CLARKE MP