Policy in Practice

Trust for London
Tackling poverty and inequality

PHASE TWO REPORT

LOW INCOME LONDONERS AND WELFARE REFORM

Policy in Practice is bringing councils together to change the way we think about poverty and homelessness. Funded by Trust for London, this work pools Housing Benefit and Council Tax Support data from 19 London Boroughs to track how the income, employment and housing circumstances of over half a million low-income Londoners will changedover the past two years.

Collaborative data sharing from London councils

Shared data from 19 London boroughs has allowed us to track over 574,000 households over the course of 19 months. Published in July 2017, the first set of findings gave a snapshot overview of the living standards of low-income Londoners. Building on this work, Phase Two sought to address a different set of more complex questions.

Bigger data set allows more in depth analysis

In Phase Two the focus moved on from the broad low-income population to specific subsets of households, namely households affected by the benefit cap or the self-employed. The sheer scale of the study allows this in depth analysis: a sample of 574,000 households means that subsets are large enough to yield meaningful conclusions. Neither survey data, such as the Family Resources survey, nor individual local authorities acting alone, would be able to yield the detailed insights made possible by combining multiple household level data sets.

The analysis also looks at the causal relationship linking the effects of government policies to the behavioural responses of households affected. The longitudinal nature of the dataset allows us to differentiate between causation and correlation. We track each household on a monthly basis to see how one change, for example the benefit cap, may impact on another, for example employment.

1. HOW HAS THE BENEFIT CAP AFFECTED LONDONERS?

In November 2016 the benefit cap was lowered to £23,000 per year for families, and to £15,410 for single households living in Greater London, with the intention of reducing welfare expenditure and incentivise people into work. The 10 week roll-out was concluded in February 2017.

Demography: households most impacted

By July 2017 the impact of the cap meant:

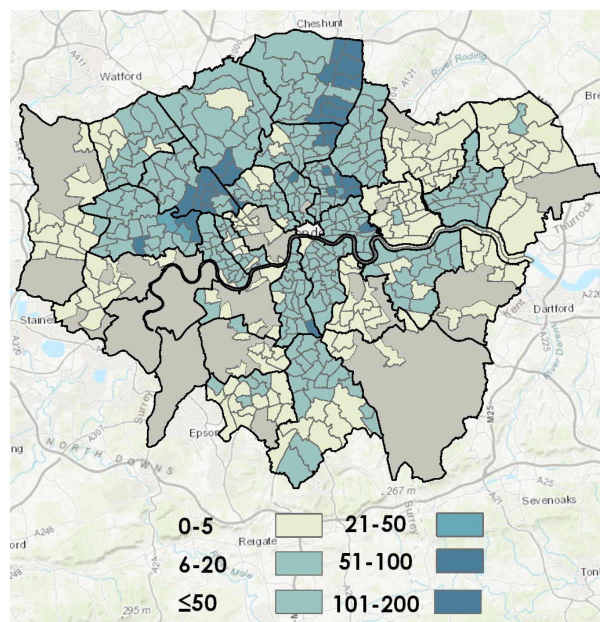
- 8,828 households see an average reduction in Housing Benefit entitlements of £60 per week
- 24% (2,083) of affected households are single-person households
- 79% (7,000) are households with children
- 18,362 children live in households affected by the cap

The majority of households affected are lone parents (62%), and a significant proportion are employed (13%). Over half of all families affected live in the private rented sector (52%), and a further 18% are housed either in temporary or emergency accommodation.

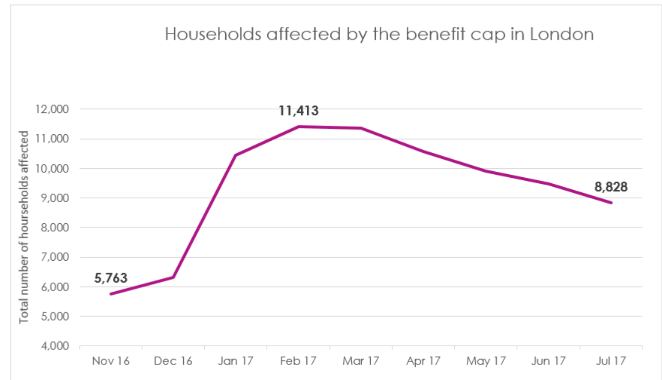
Geography: places most impacted

Brent, Hackney and Ealing are the most heavily impacted boroughs both in terms of absolute number of capped households and the proportion of the overall population affected by the policy (1% ca). The wards with the highest number of households capped are Harlesden, East Acton, Stonebridge, Dollis Hill, all counting over 90 families affected.

Regional and local policy-makers should note how the wards and neighbourhoods most heavily impacted by the benefit cap tend to cluster around areas crossing borough boundaries. These areas can be defined as sub regional areas of deprivation, as shown on the map opposite.



The dynamic effects of the benefit cap



Pooling monthly benefit data allows us to track the impact that this policy has had longitudinally. Five months after the roll out of the lower cap, completed in February 2017, we observe a considerable drop in the caseload of impacted households. From a maximum of 11,413 households affected by this policy, the data show a decreasing trend, falling to a total of 8,828 households, equivalent to a 23% drop in caseload.

This trend is in stark contrast with the national picture, where, within the same time period, the total number of households affected by the benefit cap has actually increased slightly, starting to drop only after August 2017. Below we explore the potential drivers behind this.

Because the data is at a household-level we can track how the circumstances of individual families have changed since the policy came into effect. In other words, by analysing how people who were affected by the cap responded we can provide an assessment of the dynamic effects of this policy.

Since the lower benefit cap was introduced in London in November 2016 our data model shows that 5,211 households have been able to move off the cap and are no longer affected. Of this group we have identified three main sub-groups:

- 37% moved off the cap by taking up a job, or by increasing their hours worked
- 29% avoided a reduction in their benefit entitlement by moving property
- 28% are no longer present in the data-set

People who moved into work

A closer look at the first sub-group shows that the vast majority of households who have moved into work are lone parents with school-age children, while single people are significantly less likely to move into work once affected by the cap. This is most likely due to the large proportion (48%) of single capped households in receipt of ESA. Such findings are aligned with previous research conducted by Policy in Practice and others, highlighting how childcare represents less of a barrier to employment than the presence of illness, poor mental health and disability.

People who moved home

Within the second sub-group of families who have moved home in order to escape the cap, 70% of these households changed address but stayed within the same London borough. By contrast, 26% of households were moved into temporary accommodation in another London borough and a further 4% were placed in temporary accommodation outside Greater London.

People who left the data set

Little information is available on the sub-group of families who, following being capped, are no longer present in the data-model. These are (in order of likelihood) households who have re-located outside of London independently (but might well continue to be affected by the benefit cap), families who have started claiming Universal Credit, or households who have moved into work and are no longer claiming housing benefits.

The impact of the benefit cap on employment

Our analysis shows that a significant proportion of households were able to move into work – one of the stated intentions of the benefit cap policy.

However, this information alone does not provide a definitive answer to one of the key questions this project seeks to address, namely: has the introduction of the benefit cap incentivised families to move into employment, or has it pushed them into high cost temporary accommodation?

To answer this question, the analysis needed to isolate the single effect of the policy on employment outcomes from other factors which might play a role, such as a general increase in employment figures.

The method we used involved sampling two groups: the treatment and control groups. The analysis looked at changes in employment rates among those families affected by the cap before and after the introduction of the policy (the treatment group), and compared this with those of households with similar demographic characteristics not subject to the policy (control group).

We applied this method (Difference in Difference Regression model) to our data and obtained a statistically significant outcome at a 95% confidence interval. We find a 3.5 percentage point difference, higher in the treatment group of families affected by the Benefit Cap. This means that the benefit cap has led to 21% more families moving into work.

This is lower than the governments estimates for the policy, due to differences in methodology and sampling, but the findings are still statistically significant.

What this analysis doesn't capture, but our work with local authorities affected by the benefit cap clearly shows, is the critical work that goes into supporting families affected by the policy into work, and in helping them to sustain a tenancy, which plays such an important role in these findings.

The human costs of the benefit cap

Alongside the positive impact the policy has had on employment outcomes, our analysis also highlights significant associated human costs. The introduction of the cap risks bringing a considerable deterioration in the living standards of affected households.

For many people affected by this policy, such as those in receipt of ESA or single parents with children below the age of three, work may not be a feasible option.

In London, the findings are unequivocal:

- 293 households affected by the cap moved into temporary accommodation
- 1,825 children and 737 families have fallen into relative poverty due to reduced benefits
- 417 households saw income fall below expenses, putting them at financial risk

Local authorities are often left plugging the gap created by changes to the benefits rules and necessarily provide a safety net for their most vulnerable and disadvantaged residents, albeit with ever shrinking budgets and limited resources.

In order for the policy to continue to meet its objective of improving work incentives while limiting the collateral damage on the pockets and prospects of low-income households, the DWP may need to consider applying the cap only to those households subject to active conditionality regime.

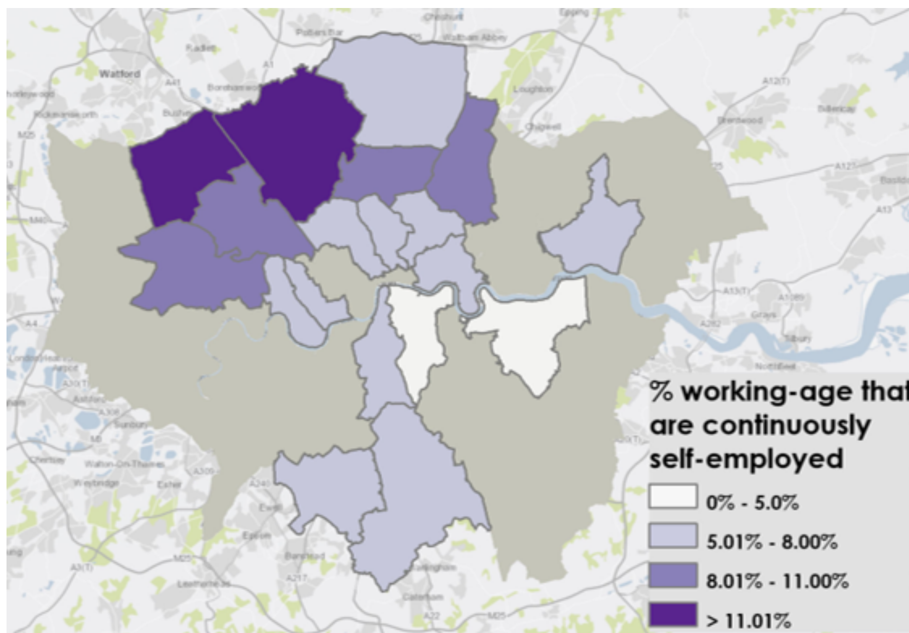
In line with this argument, a recent High Court judgment ruled against the application of the policy to lone parents with children below the age of two. The ruling may need to be added into the DWP's own regulations.

2. WHAT CHOICES WILL SELF-EMPLOYED PEOPLE HAVE UNDER UC?

Self-employment is a popular option for low-income Londoners

Benefits data collected on a monthly basis since January 2016 shows that a high proportion of Londoners on low incomes choose self-employment. One in ten working-age households report earnings from self-employment, making up a quarter of all households in work. This is a much higher proportion than in the rest of the country.

More than half of self-employed people are couples with children (51%) and they are more likely to live in the private rented sector, compared to the rest of the working-age cohort. They earn 20% less than other households in work, with reported lower monthly earnings of £672.47 vs £840.79.

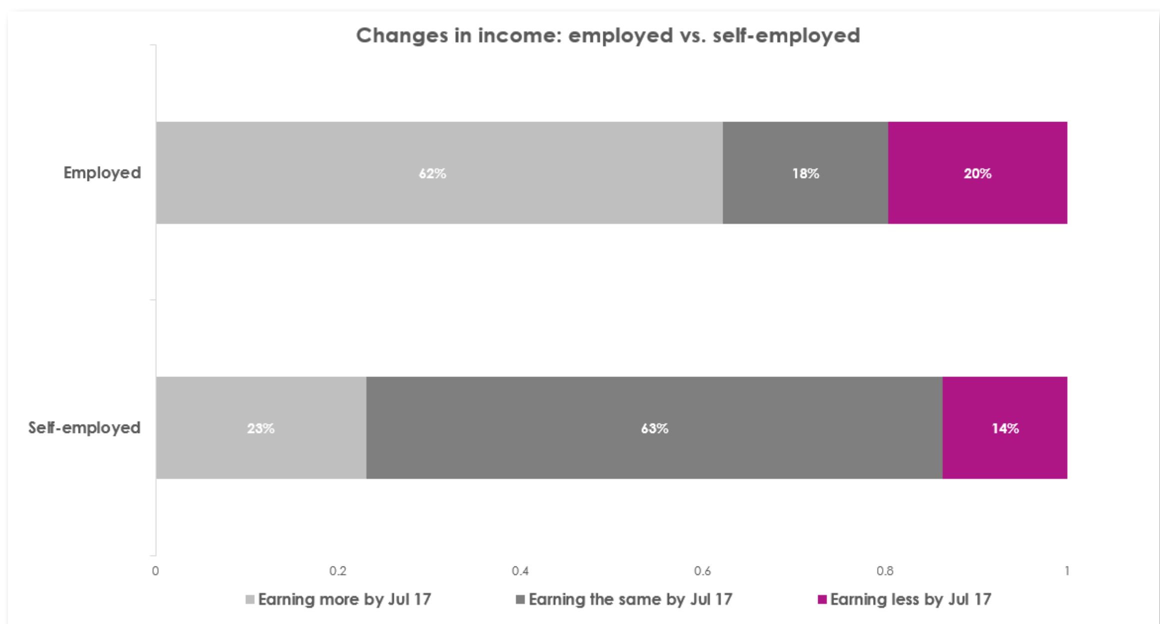


The borough-by-borough distribution of low-income households in self-employment shows how outer boroughs, in particular in North West London, have the highest concentration of self-employed workers on low incomes. Harrow, Barnet and Ealing are the boroughs with the highest proportion, reaching up to 15%.

Lower wage growth among self-employed households

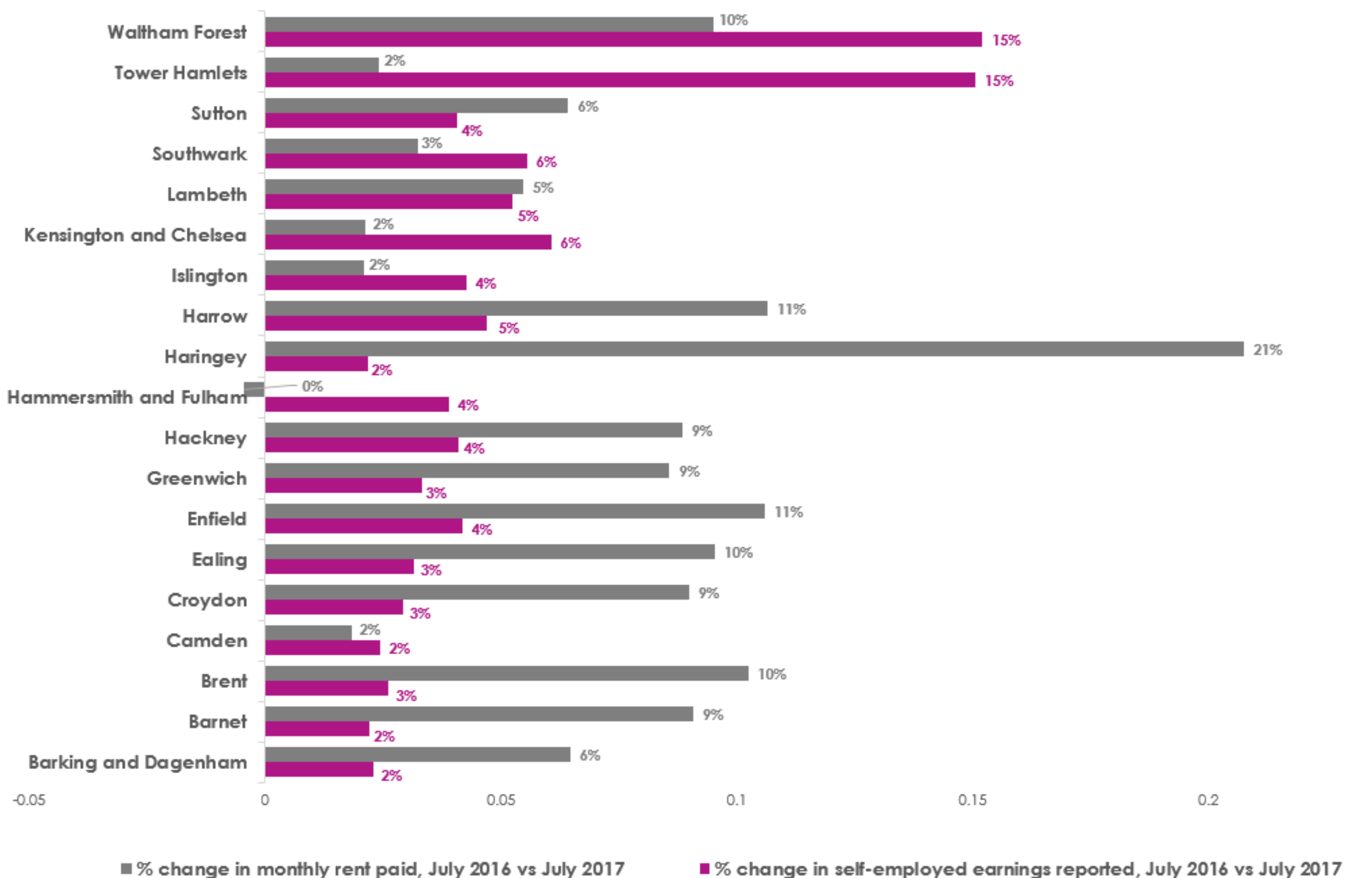
The longitudinal analysis of this data allows us to track how households' income and earnings have changed over the course of 18 months. In this way, we can compare the extent to which fluctuations in earnings among self-employed households differ from those of employed families.

The analysis shows an overall wage growth among self-employed households of 4.3%, almost half of the increase in earnings among employed households on low incomes (7.3%). While the 62% of employed households reported an increase in their wages in the last 18 months, this figure drops to 23% among self-employed on low-income.



Wage growth alone, however, does not provide a comprehensive enough insight into how living standards have changed. In a city like London, living costs, and rent in particular, must be accounted for in an accurate analysis of living standards.

A comparison of the wage growth rate with the increase in rent prices faced by self-employed households shows an alarming picture. In 12 of the 19 participating boroughs, the increase in rents has outdone the rise in wages among the self-employed. Haringey represents the most extreme case, where in the face of a 2% increase in wages, the same self-employed households faced a 21% spike in rent prices. In general, outer London boroughs show the widest gap between rent increases and wage growth for self-employed households.



The data collected and the analysis conducted so far shows how, in London, earnings of self-employed households on low-incomes are generally lower and have grown less than those of other employed households.

We identify two key drivers behind this trend:

- The boost in the National Living Wage in April 2016 and 2017 increased the wages of employed households earning below £7.20 and £7.50 p/h respectively, but did not apply to the wages of self-employed households.
- Accurately reporting earnings from self-employment has always presented a challenge when administering benefits. This is due to the lack of incentives for claimants to do so and the difficulty in cross-checking this information with other government data sources.

At this stage it's important to note how the gap in earnings discussed so far is compensated by the means-testing applied to most in-work benefits under the Tax Credits system. Through this mechanism, the income and living standards of self-employed households who report lower earnings are mitigated by higher support from Housing Benefit and Tax Credits. The roll-out of Universal Credit will change the rules for many self-employed people. In the next section we explore what the effect of this in London is likely to be.

Universal Credit and the Minimum Income Floor

Universal Credit introduces the Minimum Income Floor (MIF) a new way to treat earnings from self-employment for the purposes of calculating benefit.

The MIF sets a notional earning threshold for self-employed households against which their Universal Credit entitlement is then assessed. The amount of the MIF is broadly equivalent to the national minimum wage for each hour that the claimant is expected to work.

For UC purposes, if the earned income from self-employment amounts to less than the MIF, the claimant is treated as having earned income equal to the MIF. While the current benefits rules compensate for reported earnings below the national minimum wage through Tax Credits and/or Housing Benefit, under Universal Credit this happens only up to a certain threshold, set at the National Living Wage. As a result in London, 78% of self-employed households on low-incomes will be £344 worse off under Universal Credit.

Policy in Practice has modelled the impact that Universal Credit is likely to have on self-employed households. The following analysis is based on administrative data collected by councils on self-employed households and Policy in Practice's Benefit and Budgeting calculator.

91% of self-employed households currently report earnings below the MIF. 78% have been reporting earnings from self-employment for 13 months or more, and would thus be affected by the MIF, should UC be rolled out today in their borough. The average gap between their level of earnings and the MIF threshold is £845 p/m, the equivalent of an additional 26 hours per week, at the hourly rate of £7.50 (NLW)

Self-employed households are clearly among the most heavily impacted by the new rules introduced through Universal Credit. If the Minimum Income Floor were fully rolled out across the capital today, the impact on benefit income would be significant. Self-employed households would receive £344 per month (£4,128 per year) less under Universal Credit, compared to Tax Credits.

Ahead of these changes, it is key for local authorities to ensure all potentially affected households are aware of how the new system will impact on their finances. Policy in Practice's modelling capabilities, applied to detailed household-level information, allows every local authority in the country to do that.

Is self-employment really a choice?

The policy intent behind the introduction of the MIF is *to reduce the number of people who do not progress from low earning activity and who participate in activities that are not self-sufficient in the long term*, according to the DWP . The argument is that those who opt for self-employment as their work choice, but struggle to make end meets after one year of activity, should not see their income subsidised by the public purse through benefit entitlements, and should instead reconsider their employment choices.

Policy in Practice has argued in front of the Work and Pensions Select Committee that it is hard to oppose the Minimum Income Floor and for the minimum wage at the same time. Anecdotal feedback from local authorities suggests that under-reporting of income is more common among self-employed people than among people in PAYE employment. There are also currently high profile cases where the use of self-employed 'agents' by delivery companies is being used to evade minimum wage legislation and distort competition, all of which build the case for the Minimum Income Floor.

While these arguments are based on fairness for taxpayers and the competition, the reality behind people's employment choices is more nuanced. In the context of a dynamic labour market:

- Some people have little choice but to become self-employed. The growing flexibility required in many jobs, for example, is perhaps best highlighted by the booming gig-economy in many cities around the country. In rural areas, farmers and fishermen may work as self-employed with no real employment alternative.
- Self-employment can be a stepping stone to formal employment, or it can be important to those unable to work full-time, such as carers or the disabled. Creating barriers to self-employment could impact on initiatives such as the Work and Health programme and the government's objective of halving the disability gap.
- Because of the Minimum Income Floor, self-employed people are one group that could be better off not working than working, undermining the aim of Universal Credit.

Government, parliament and the judicial system are aware of these challenges. The definition of workers in the gig-economy is being investigated by parliament, and challenged through the courts. The grace-period for self-employed people to reach the Minimum Income Floor means that, while some argue it needs to be longer than 12 months, it need not be a barrier to gainful self-employment. Yet, the Minimum Income Floor is seen as a blunt measure, which fails to account for the specific circumstances of self-employed households on low-income and the various factors driving their employment choices.

Further research to understand the impact of the Minimum Income Floor on the choices made by self-employed households as the policy rolls out should be used to guide policy-makers. Specifically, analysis should track whether:

- The introduction of the MIF will reduce the number of people in low-earning self-employment.
- People affected by this policy will move in to higher earning employment or self-employment, or whether some people will instead choose not to work at all.

Causal analysis using the longitudinal administrative data model that Policy in Practice has developed can help to determine whether the policy delivers on its objectives, providing the evidence base for the government to revisit the definition of self-employment, and the quality and type of support available to affected individuals. The richness of Universal Credit data also offers a unique opportunity to understand the impact of this and other policies.

A unique approach to the study of social policy outcomes

The findings outlined here follow the second round of analysis from our Low-income Londoners and Welfare Reform project. Together with the analysis on the impact of the benefit cap in London we have demonstrated the power of using administrative data has to understand social policy outcomes, and better support people.

- Firstly, the sheer scale of the data collected has allowed us to carry out analysis on very specific sub-sets of households while at the same time maintaining a large enough sample size for our findings to be statistically significant.
- Secondly, benchmarking data across different geographies allows regional and local policy-makers to recognise similarities in the challenges they face and to co-ordinate activities and efforts to successfully tackle them.
- Thirdly, the longitudinal nature of the data not only provides a way to track how income, employment, and living standards of households on low incomes vary over time, but also enables us to draw the causal link between the effect of a policy and the behavioural responses of households affected.

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Policy in Practice's unique modelling capabilities can forecast what the combined impact of future policy changes can be on each individual household included in the sample.

Armed with this information, policy makers can determine how best to support residents, and provide mitigating support to those households likely to lose out from a particular policy.

We hope this leads to better strategic decisions and operational action.

Find out more

Visit our Low Income Londoners project page for more information and to download the Phase One reports.

Register to receive the full Low Income Londoners and Welfare Reform final report in May 2018 by emailing hello@policyinpractice.co.uk.

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