Policy in Practice

EVIDENCE SUBMISSION

EVIDENCE TO THE LONDON ASSEMBLY: THE IMPACT OF UNIVERSAL CREDIT ON THE SELF-EMPLOYED

On 20 November the London Assembly Economy Committee met to look at the impact of Universal Credit on self-employed Londoners. Zoe Charlesworth, Head of Policy, and Dr Ben Fells, Senior Analyst, Policy in Practice, gave evidence to the committee.

Policy in Practice has previously presented evidence on the impact of Universal Credit on the volatility of self-employed earnings, and the introduction of the surplus earnings provisions under Universal Credit. This paper concentrates on other impacts; household income, the 2018 budget provision, and the opportunity for targeting of support to affected households.

This briefing note summarises some of the key points presented to committee members. The evidence presented is based on Policy in Practice's own data analysis of the impact of Universal Credit on low-income self-employed households, our analysis of the impacts of the 2018 budget, and information gathered from our partner organisations supporting households on the frontline.

KEY FINDINGS

Through our data analysis and work with frontline organisations, Policy in Practice finds that:

- 89% of low-income self-employed have been in self-employment for over a year and therefore may be affected by the introduction of the Minimum Income Floor under Universal Credit.
- The average income for self-employed households is £348.34 month. This compares to £454.98/month for employed households.
- A side-effect of the increase in the minimum wage announced as part of the 2018 budget is to make the self-employed in receipt of Universal Credit worse off compared to pre-budget income. 2018 budget provisions resulted in an average decrease in household income for low-income self-employed households of £2.42/week.
- The average reduction in support for self-employed households moving to Universal Credit is £50.86/week or £220.37/month.
- 640,000 low-income self-employed households will be worse off under Universal Credit. This is 72.4% of all low-income self-employed households.
- Proactive support targeted at low-income self-employed households can positively affect outcomes.

INTRODUCTION

Under Universal Credit support for the self-employed is assessed using a notional income, called the Minimum Income Floor (MIF). The MIF applies to all self-employed households that are expected to work who have earnings below this notional earnings level. The level of MIF is calculated as the number of hours a claimant is expected to work in a week, multiplied by the minimum wage. It will therefore vary dependant on the circumstances of the household; single-parent households with young children, or those with other barriers to work, may have their expected hours of work set at a much lower level than those with no barriers to work. Households that are not expected to look for work, for example because of illness, are exempt from the MIF. However, generally, the Minimum Income Floor is set at 35 hours a week creating a notional income of £1,187/month.

Our analysis shows this is over £500/month more than the average earnings of low-income self-employed households in our dataset. As the household income that is used to assess benefit support is higher using the MIF, the resulting benefit support is lower. These households therefore receive less support under Universal Credit than under legacy benefits.

This drop in benefit support results in a significant reduction in household income, on average over £50/week. This sudden income drop, to a level that is significantly below that which the household would receive if unemployed, risks causing crisis, spiralling debts, and the inability to meet priority outgoings such as rent and utility bills. For local authorities, support to these households is essential to prevent homelessness, poor wellbeing of residents, and increased costs to the council through support provision.

INCOME OF LOW-INCOME SELF-EMPLOYED HOUSEHOLDS

Policy in Practice's analysis shows that the average self-employed household would be £50.86/week, or £220.37/month worse off under Universal Credit in April 2019 than under legacy benefits. This can be compared to employed households that will, on average, be £9.13/week better off under Universal Credit.

The average earnings for full-time low-income self-employed households is £500/month less than that of employed households. Under legacy benefit systems, these self-employed households received benefit support based on actual income resulting in benefit income topping-up income from self-employment. Under Universal Credit, a notional level of income, the Minimum Income Floor, is used for assessment. This is based on the amount a person in employment would earn. This means that under Universal Credit 0.65m households will be worse off than if the current benefit system was retained.

Not all low-income self-employed households will be worse off. For 17% of low-income self-employed households (0.15m households), household income will increase under Universal Credit. These households are generally earning income above the Minimum Income Floor and, due to the more generous earnings retention under Universal Credit for those in work, will see their household income increase.

Low-income self-employed households that are better or worse off under Universal Credit

Nevertheless, for the majority of low-income self-employed households the reduced level of benefit support under Universal Credit risks being a shock. One of the key drivers of Universal Credit is to ensure that work pays, but our analysis shows that this objective is not met for most low-income self-employed households. The impact of Universal Credit on self-employed households can be compared to that of employed households that see incomes rise (by an average of £9.13/week) under Universal Credit.

Impact of Universal Credit on self-employed and employed households

THE IMPACT OF AUTUMN BUDGET 2018

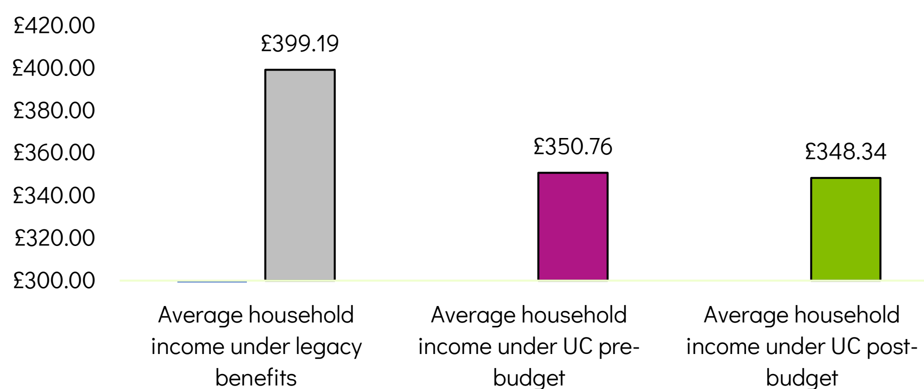
The budget introduced three measures of particular relevance to low-income self-employed households:

- The minimum wage increased to £8.21/hour.
- Work allowances (the amount that is ignored for benefit purposes before support is reduced) increased for those with children or illness.
- The budget provided additional transitional protection to self-employed households. The 12 month grace period for self-employed households currently applies to those that started their business in the last 12 months. The Chancellor announced that this is to be extended to all self-employed households migrating to Universal Credit. These households will have income assessed on actual income for 12 months before the Minimum Income Floor applies. This provision is to be introduced from July 2019.

The increase in the minimum wage

Analysis by Policy in Practice shows that the impact of the increase in the minimum wage has an unfortunate side effect on the income of low-income self-employed households. As the Minimum Income Floor is based on the minimum wage, the increase in the minimum wage leads to a higher level of notional income for the self-employed. The result of this is that the provisions of the budget, including a £2.7bn injection of cash to Universal Credit, has a negative impact on the self-employed.

Our analysis shows that, on average, households affected by the Minimum Income Floor (MIF) will be a further £2.42/week worse off as a result of the Budget.

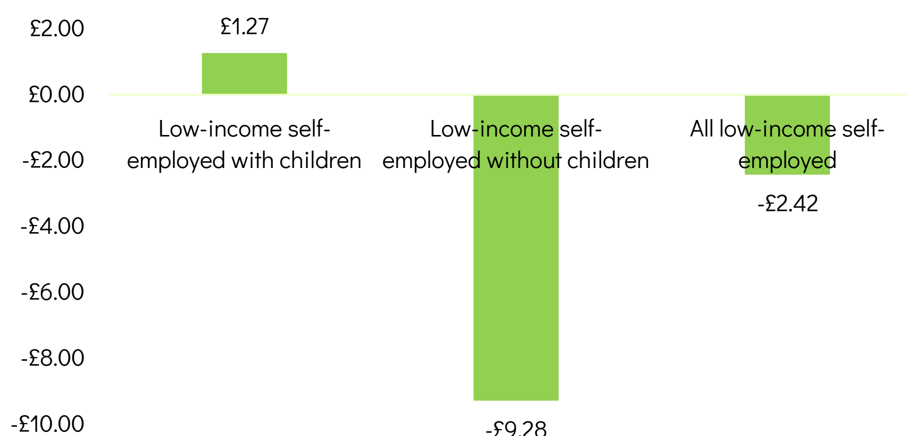


Income of low-income self-employed households; legacy benefits, Universal Credit pre-budget, Universal Credit post-budget

The increase in work allowances

Under the budget, Universal Credit work allowances for households with children, and those in which the claimant or partner has limited capability for work, will increase in April 2019 by £1,000 per year. The Chancellor stated in the budget that this affects 2.4 million households. Analysis by Policy in Practice shows that this provision affects 1.9m households with children and 0.6m households that have limited capability for work. This increase in work allowances does not affect self-employed households without children, or those without limited capability for work.

Our analysis found that this measure had little effect on the income of self-employed households with limited capability for work as these households are generally exempt from the Minimum Income Floor and are less likely to be working above the current work allowance. However, this provision protected low-income self-employed households with children from the impact of the increased Minimum Income Floor, and even led to a small increase in household income of £1.27/week. This compares to a loss of £9.28/week due to budget provision for those not affected by the work allowance changes.



2018 budget impact on low-income self-employed households with and without children

Extension of the "grace period"

Prior to the budget, self-employed households within the first year of self-employment were exempt from the Minimum Income Floor. This provided a "grace period" at the start of self-employment in which these households could grow businesses and increase self-employed income. Beyond a year, the Minimum Income Floor is applied as businesses that are not generating income equivalent to the minimum wage are deemed unsustainable. Under 2018 budget provisions, this grace period is extended to all those in self-employment migrating to Universal Credit. In other words, households moving to Universal Credit under

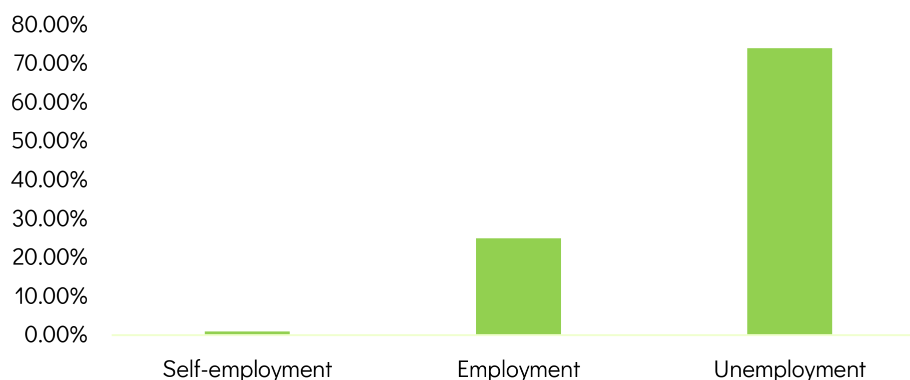
managed migration will, from July 2019, have a year in which benefit is assessed on actual income rather than a notional income.

Analysis by Policy in Practice indicates that this will extend the grace period for approximately 90% of self-employed households. Our analysis also indicates that for the vast majority of self-employed households, income does not grow after a year. Our longitudinal analysis tracking self-employed households over 18 months shows that self-employed earnings remain flat for the overwhelming majority of low-income self-employed households. This extension of the grace period therefore provides a breathing space in which proactive support can inform low-income self-employed households of the likely impact of Universal Credit and give these households time to make choices about their economic status.

OUTCOMES FOR LOW-INCOME SELF-EMPLOYED HOUSHEOLDS

Self-employed households to which the Minimum Income Floor applies are one of the groups most negatively affected by the introduction of Universal Credit. Income reduction for this group is significant and for many of these households, the sudden withdrawal of benefit support is likely to be unexpected and for which the household is not prepared. This view is supported by information gathered by Policy in Practice from frontline organisations who report significant arrears and growing debt for self-employed households moving to Universal Credit. For housing associations and local authorities this reduction in support for the 17% of all low-income households that are self-employed, risks escalation of rent arrears and an increased risk of homelessness.

Our analysis indicates that of 670 low-income self-employed households moving to Universal Credit, less than 1% maintained their self-employment. The majority (74%) moved to unemployment and a quarter moved to employment. Our analysis has so far tracked these households over 18 months and does not yet provide evidence of the final outcome. In other words, we do not yet know whether this move to unemployment is temporary whilst these households seek longer term employment. The DWP defends the introduction of the Minimum Income Floor as a way to move households out of poverty; households relying on self-employed income that is below the minimum wage are at risk continuous poverty if those businesses are unsustainable. Tracking of outcomes for these household over a longer period will indicate if these households eventually move into employment and out of poverty. However, in the transitional period, whilst households respond to this drop in income, there is the substantial likelihood of hardship.



Final economic status of 670 low-income self-employed households moving to Universal Credit tracked over 18 months

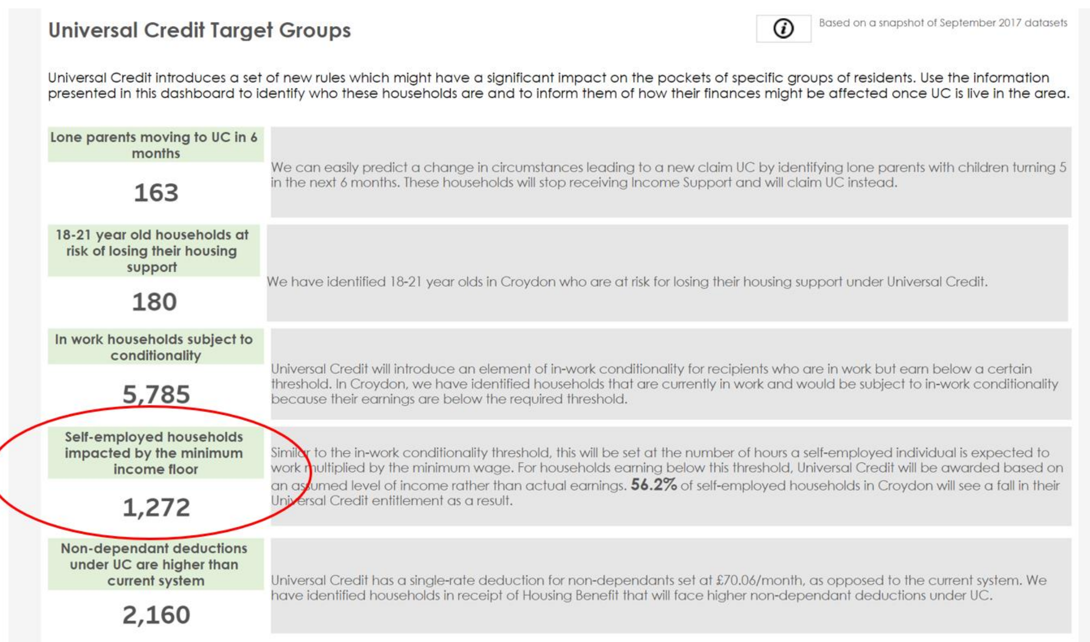
The extension of the grace period announced in the 2018 budget provides a breathing space for support organisations to engage with low-income self-employed households and to provide the information that these households need in order to make informed choices about their economic status. Many frontline organisations that Policy in Practice works with are already responding to welfare reform by offering proactive support to those affected.

PROACTVIE SUPPORT OF SELF-EMPLOYED HOUSEHOLDS

Policy in Practice supports frontline organisations that work with low-income households. The extension of the grace period for the self-employed provides an opportunity for these organisations to identify those that are affected, engage with these households, and provide the information and support for households to make informed decisions about their economic status.

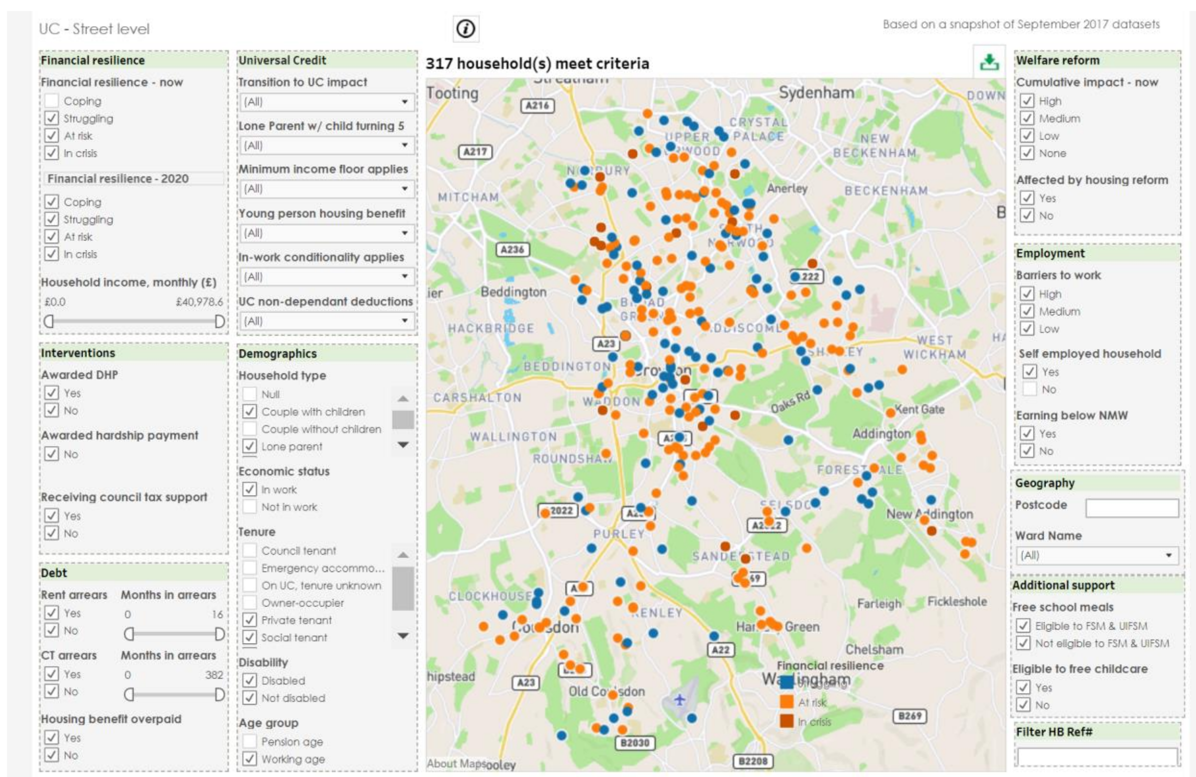
Identification and targeting of low-income self-employed households

Policy in Practice's Low Income Family Tracker (LIFT) Dashboard uses local authority Housing Benefit and council tax support data gives councils visibility over their low-income residents. Councils use the Dashboard to identify low-income households, target appropriate support, and track the effectiveness of interventions over time. The LIFT Dashboard gives councils the ability to easily identify low-income self-employed households that are likely to be affected by the Minimum Income Floor 12 months after they migrate to Universal Credit.



Using the LIFT dashboard to identify local low-income self-employed households at risk from the application of the Minimum Income Floor

Councils can then select to target support and interventions at the most vulnerable households, such as those with children, or with low-financial resilience.

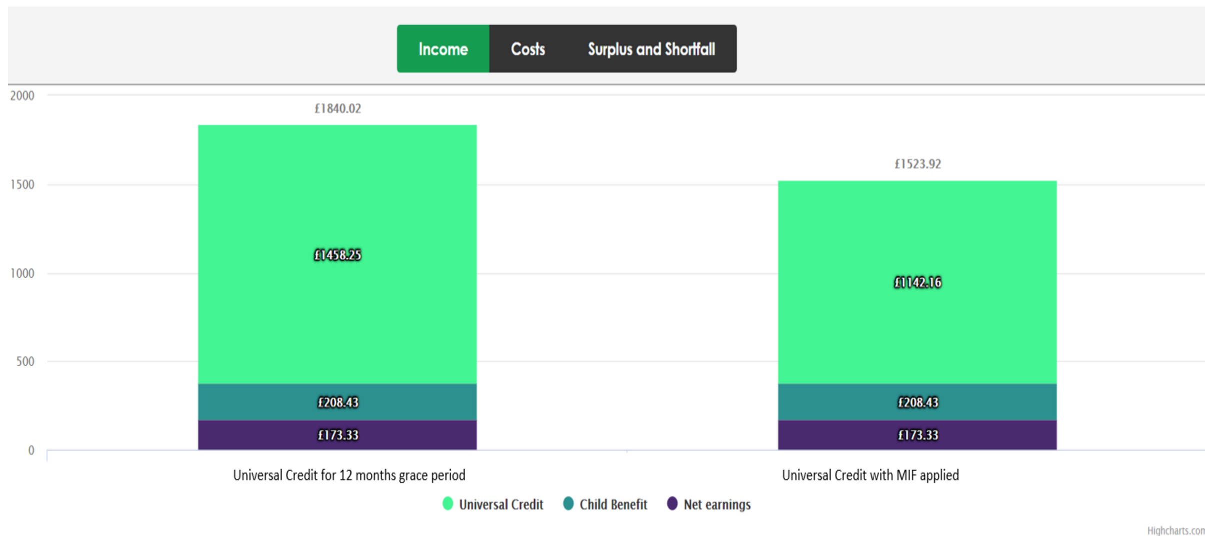


Using the LIFT dashboard to target support at vulnerable low-income self-employed households

Supporting low-income self-employed households

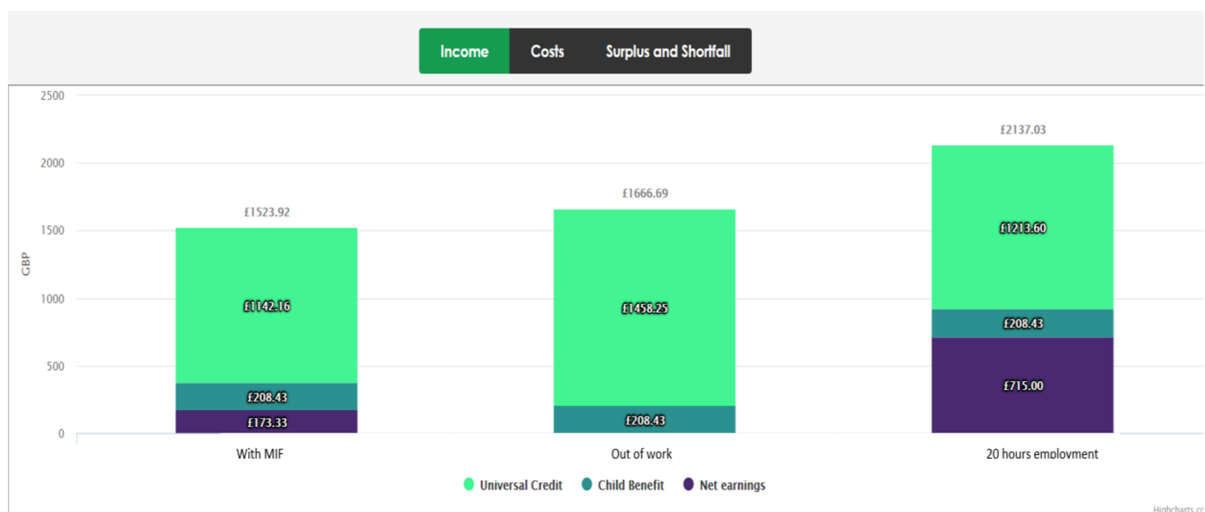
Policy in Practice's Benefit and Budgeting Calculator is used by frontline organisations to inform households of benefit eligibility, to maximise household income through benefit take-up, and through budgeting and employment advice. The calculator can be used by frontline organisations as a standalone support tool but councils that also use the LIFT Dashboard can select any household targeted for support, and immediately see current income and how this will be affected by Universal Credit.

For self-employed households affected by the Minimum Income Floor, the council can engage and inform households of the expected impact on household income following the ending of the 12 month grace period. This provides households with a window in which to make informed choices.



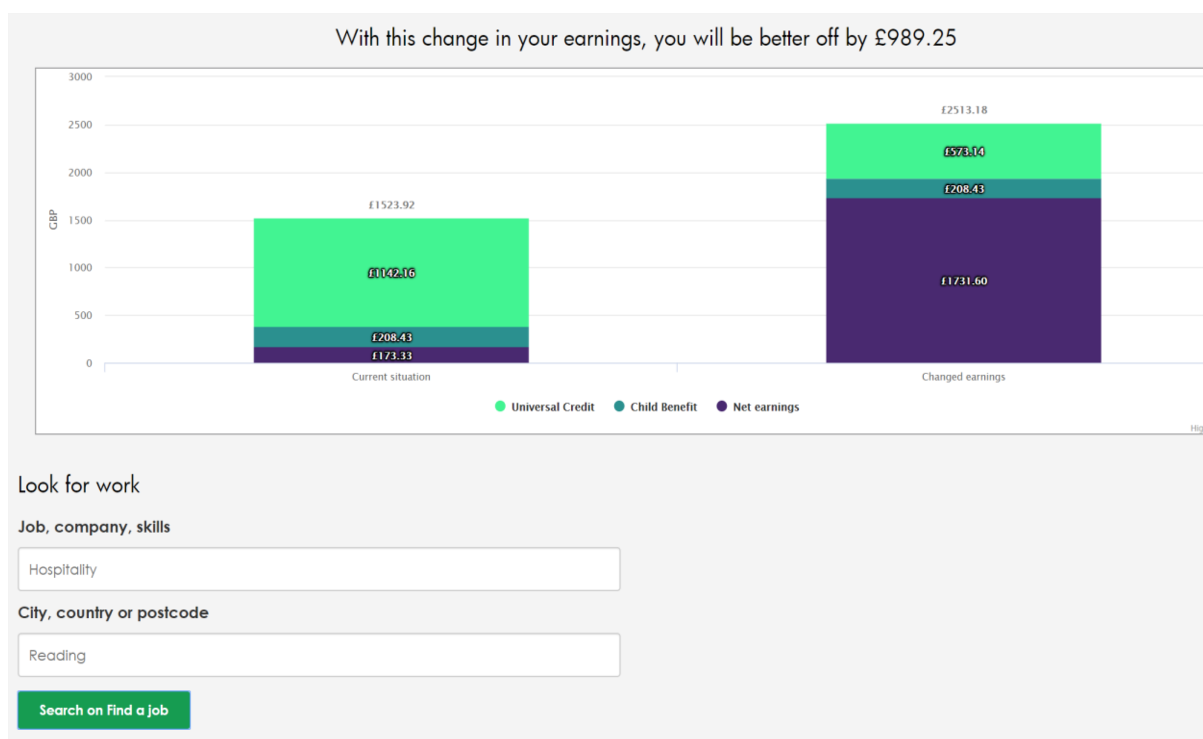
The Benefit and Budgeting Calculator; illustration of impact of the Minimum Income Floor

In addition, support organisations can use the calculator to model numerous scenarios to assist the household in making choices that are right for them.



The Benefit and Budgeting Calculator: illustration of scenario modelling

The calculator is further used to assist households to take steps to employment. The increase in the grace period to 12 months provides low-income self-employment households with a transition period in which to seek employment, if self-employment is not sustainable, rather than move to unemployment.



The Benefit and Budgeting Calculator; supporting self-employed households into employment

POLICY IN PRACTICE'S VIEW

The introduction of the Minimum Income Floor for the self-employed under Universal Credit results in a significant reduction in income for self-employed households. Our analysis shows that for most low-income self-employed households, income is significantly below the Minimum Income Floor, and that the low-level of income from self-employment is likely to be long-term. Our analysis also shows that most low-income self-employed households respond to the introduction of the Minimum Income Floor by moving to unemployment, at least in the short-term. The reduction in income for the self-employed under Universal Credit, in many cases to levels below that which would be received if the households was not working, means that the transitionary period for households as they move to a different economic status may cause increased hardship.

The 2018 budget provision of a grace period of 12 months for all self-employed households migrating to Universal Credit under managed migration, provides an opportunity for support organisations to identify these households, target support, and prevent crisis. Policy in Practice has produced tools that enable frontline organisations to effectively support these households. In our view, these tools should be used to ensure all self-employed households are informed of the forthcoming changes in income and supported in making the choices that are best for them.

Policy in Practice

EVIDENCE SUBMISSION

ABOUT POLICY IN PRACTICE

Government policy is complex, confusing and difficult to navigate. It tends to focus on the impact of individual policies in isolation, rather than the overall impact it has on each individual citizen.

Policy in Practice is a policy-led software and analytics business founded by one of the architects of Universal Credit. We help people toward independence by making government policy and the benefit system easier to understand and navigate.

Our policy engine models over 4,000 pieces of legislation, updated in real-time, across four government departments. This helps people to understand the combined impact of policy changes on them, and they can identify the choices they can make to become better off, and to lead more fulfilling lives.

We help over 150 local organisations, and over 10,000 people each day to navigate the benefit system, to take control steps toward independence. We have built an analytics platform that tracks the living standards and the changing lives of over a million low-income households over the past two years.

Our analysis shows how each individual household is affected by all policy changes, now and in the future. Our work has had an impact on national policy, and is helping local authorities to target resources, meet their statutory obligations and spend money more effectively. A scientific approach to data visualisation drills down from national analysis to individual households, and links into engaging, tailored support to help people to take control and become better off.

We believe that administrative data is the future of social policy analysis, and can help the public sector to deliver more with less. We look forward to working with you to make this vision a reality.

FURTHER INFORMATION

Authors
Zoe Charlesworth, Head of Policy, Policy in Practice
Dr Ben Fells, Senior Analyst, Policy in Practice

Contact
0330 088 9242
hello@policyinpractice.co.uk
www.policyinpractice.co.uk