Policy in Practice

The impact of the COVID-19 welfare support measures on household income

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Foreword

The economic impact of the Coronavirus (COVID-19) pandemic was likely to be so significant that the government response had to match it. The measures the government has put in place up to and including Friday 20 March now make it more likely that people will take the necessary steps to control the virus because they know they're more likely to stay in work and able to meet their bills, and that they will be supported financially by this government.

Policy in Practice delivers welfare support through software, advice and analytics. The team has responded to the crisis by focusing on how we can support others.

- Your income and Coronavirus (COVID-19) is a free resource for people to know what welfare support is available to them. This has been open to comments, which we are responding to in an FAQ style, so the most common questions are answered.
- The Benefit and Budgeting Calculator has been updated with each of the changes as they were announced. We saw usage of the free calculator double, and double again in the first few days of the outbreak, highlighting how concerned people are about their finances.
- For our local authority data analytics clients, we have identified the six key groups likely to be impacted by the measures put in place to contain Coronavirus (COVID-19). These insights have been useful to senior leadership teams planning their response, to better target support.

We also seek to influence policy using data-led analysis. While these measures are timely, significant and very welcome right now, this report asks important questions about the type of welfare system we want in place when the extraordinary situation is over. We call for:

1. The increased **generosity of the welfare system to be maintained** after April 2021 to ensure we have a welfare safety net suitable for all.
2. The **savings limit in Universal Credit to be suspended for next twelve months**, and reassessed thereafter, particularly in relation to the self-employed.
3. Changes to introduce **greater flexibility into Universal Credit**, including backdating up to a month under reasonable circumstances, allowing others to act on behalf of the claimant, a separation of payments from the assessment of the monthly award, and real time responsiveness and flexibility to changes in personal circumstances.

We are optimistic that either as a result of this crisis, or to create a clean break from the past, the government recognises that people living in the UK need a welfare system that works for all of us - one that can provide an anchor strong enough to help us cope with the challenges ahead.

Key findings

The measures taken by the government in response to COVID-19 are timely, significant and very welcome. Many households will rely on Universal Credit to support them through the crisis and beyond. This report provides an analysis of the welfare benefit changes announced up to and including 20 March 2020.

As a result of the changes to Universal Credit, the number of households in receipt of Universal Credit whose bills are higher than their monthly income will fall from 16% of households to 10%. The average increase in Universal Credit awards as a result of changes coming into effect from April 2020 will be £98/month, an increase of 7.3%.

The impact of the three main changes announced up to 20 March 2020 are that:

1. **From April 2020 the basic allowance in Universal Credit and Tax Credits will increase by £20/week**

    - A single claimant aged over 25, and not working, will see their Universal Credit increase from £317/month to £410/month from April 2020, or from £499/month to £595/month for a couple. This is an increase of over £90 per month or 29%.
    - This rise more than covers the loss in real income caused by the benefits freeze for the standard allowance, but doesn't apply to other elements of Universal Credit which have been frozen from April 2016 to April 2020, introduced as part of austerity measures.

2. **To support private renters, the cap on rental costs, the Local Housing Allowance (the LHA), will increase to align with the 30th percentile of local rents**

    - The increase in benefit support as a result of this change will vary across local authorities, for example, rental support will increase by 21% in Manchester and 2% in Sunderland.
    - On average, private renters will see awards increase by an average of £123/month (8.4%).
    - The proportion of private renters with Universal Credit awards that are less than their outgoings falls from 13% to 7%.

3. **To support the self-employed, Universal Credit awards will be based on actual income rather than a notional income (the Minimum Income Floor)**

    - On average, self-employed households will see a significant increase in awards of £398/month (28%).
    - The proportion of self-employed households with Universal Credit awards that are less than outgoings falls from 44% to 7%.

- Support for self-employed households remains considerably less than for employed households who are protected under the Coronavirus Job Retention Scheme. A single-earning family with one child, previously earning £30,000/annum would see a 17% reduction in take home income if they were an employee supported by the Coronavirus Job Retention Scheme and an 84% drop in income if they had previously been self-employed and were now supported by Universal Credit
- Self-employed households with over £16,000 in savings who can no longer work due to economic conditions will receive no support through the welfare system.

This report looks the impact of announced measures and makes three main recommendations:

1. For the generosity of the welfare system to be retained once the Coronavirus (COVID-19) crisis is over.
2. For the savings limit within Universal Credit to be suspended to ensure the self-employed are able to access adequate support.
3. For greater flexibility over the payment of and support to claim Universal Credit.

Introduction

On Friday 20 March the Chancellor, Rishi Sunak, announced a necessary and much welcomed financial injection into welfare support. The provisions announced provide a stronger safety net for households already reliant on welfare support as well as those newly reliant on the welfare system as a result of illness, self-isolation, and the economic fallout caused by the spread of the COVID-19 virus.

The rapid spread of COVID-19 is predicted to have an effect on the health and economic wellbeing of a significant proportion of the UK population. The government expects around 8 million people to be ill or self-isolating at the peak of the virus. This was already having a major impact on economic activity, before the closure of pubs, restaurants and other venues from the 21st March, many have already been hit by redundancy and many more will face ongoing reductions in income. YouGov polls found that a quarter of employees thought that their job was at risk due to the virus and 34% of respondents said that they would lose their job or not have enough money if they were to self-isolate.

The need to ensure that benefit levels are sufficient to meet costs is underlined by the fact that many low-income households do not have the savings necessary to see the household through a period of crisis. For many of these households, it will be their first interaction with a benefit system they believe is there to support them when their job or their income is at risk.

The government responded by announcing an unprecedented raft of measures to support businesses and households through this crisis. These include:

- Immediate access to statutory sick pay (SSP) or contributory Employment and Support (ESA) from the first day of illness.
- Support for self-employed workers who were ill or self-isolating through Universal Credit by removing the Minimum Income Floor.
- Arrangements for a three-month mortgage break.
- A stay on evictions.
- Arrangements to support those with pre-payment fuel meters.
- Support for households who rely on free school meals.
- Support for businesses through the Coronavirus Job Retention Scheme. This provides a grant to employers of 80% of salary to enable worker retention.

Additional measures that come into effect from April 2020 are:

- Support for all self-employed workers through removal of the Minimum Income Floor in Universal Credit for the period of the COVID-19 crisis.
- An increase in the basic allowances for Universal Credit and Tax Credits of £20/week to last for a year from April 2020.
- An increase in the amount of housing support available through the benefit system by increasing the Local Housing Allowance (LHA) to the 30 percentile of market rents to last for a year from April 2020.

The Chancellor stated that the aim of these changes is to strengthen the safety net as households navigate the economic fallout of COVID-19[1].

The increase in basic allowances

From April 2020 the basic allowance in Universal Credit and Tax Credits will increase by £20/week, for one year, in addition to the planned rise to reflect inflation. This measure will have a widespread impact and lift benefit awards for all households in receipt of Universal Credit or Tax Credits. The Chancellor predicted that the measure would assist over 4 million low-income households.

The increase is significant, and more than covers the loss in real income caused by the benefits freeze from 2016 introduced as part of austerity measures.

A single claimant aged over 25, and not working, will see their Universal Credit increase from £317/month to £410/month from April 2020, or from £499/month to £595/month for a couple, taking into account both the planned uprating and the measures announced in response to COVID-19.

If working-age benefits had been aligned with inflation since 2016 the personal allowance of a single person aged over 25 would now be worth £352 rather than the current £317/month. The post-April rate of £410/month therefore represents a significant real increase to the income of households in receipt of Universal Credit.

The higher level of support from April 2020 is set to provide a better cushion for households who may move to Universal Credit for the first time due to the economic effects of COVID-19.

Example: A two-parent household with two children in which the sole earner with a salary of £30,000/year is made redundant

Income in work	£2,177/month
Income using current personal allowances	£1156/month (-47%)
Income using post-April 2020 personal allowances	£1,252/month (-42%)

Households moving to Universal Credit from average salary levels will still see a significant income shock. However, the increase in support announced as a response to COVID-19 will enable more households to avoid the further crisis and debt that is caused by income not being sufficient to meet basic household costs.

[1] *https://www.gov.uk/government/speeches/the-chancellor-rishi-sunak-provides-an-updated-statement-on-coronavirus*

Support for renters

In order to provide security for private renters, the COVID-19 measures include funding to increase the amount of support that low-income households in receipt of means-tested benefits can receive towards their rental costs. Support for private rental costs, the Local Housing Allowance (LHA), will from April 2020 be capped at the higher level of 30% of the local median rents.

The benefit freeze has until now led to the current lower level being ever more divorced from housing costs locally. This growing gap between benefit support for housing costs and actual rents has meant that many private renters have not been able to afford to cover their rent.

Research by Policy in Practice for the Local Government Association (LGA) found a relationship between the LHA freeze, and rising levels of homelessness[2]. The current LHA effectively sits at the 13th percentile of market rents, this means that 95% of privately rented households in receipt of means-tested benefit do not receive full housing support and are required to supplement rent costs from income intended for day-to day-living. Restoring the LHA to the 30th percentile would reduce the proportion of households with a gap between the LHA and their rent to 77%.

Policy in Practice, along with many other organisations working with low-income households, has consistently called for the LHA to be returned to the 30th percentile of market rents. The announcement by the Chancellor that this will happen from April 2020 is therefore extremely welcome. It is certainly a sensible response to the financial insecurity that will result from COVID-19. Many of the households affected will be in rental properties significantly higher than the current LHA and would struggle to meet their rent.

In addition, the effective shut-down of the UK means that these households will not have the option to move to alternative cheaper accommodation in other areas. At a time of heightened anxiety, and when the government is requiring the population to remain in their homes in order to contain the virus, security of accommodation for renters is vital.

The increase in benefit support as a result of this change will vary across local authorities and will be dependent on rental cost rises from the time of the benefit freeze (2016) to now. This is illustrated in the table below, showing the impact that this measure will have on rental support for a two-bedroom property across a sample of local authorities.

[2] *The link between the LHA Freeze and Homelessness: http://policyinpractice.co.uk/wp-content/uploads/Evidencing-the-link-between-the-LHA-freeze-and-homelessness-Full-report-pub5Feb20.pdf*

Table 1: Comparison of current rent support and support with the LHA set at the 30th percentile of market rent

	Current support level (£/month)	Support level after April 2020 (£/month)[3]	Increase (£/month)	Increase (%)
Manchester	£537	£650	£113	21%
Lambeth	£1,223	£1,350	£127	10%
Sunderland	£425	£434	£9	2%
South Norfolk	£521	£560	£39	7%

The impact on overall household income will obviously vary depending on the local authority area, size of property, and original salary. The example below shows that a typical family, made redundant from a job with a salary of £30,000/year, renting a 2-bedroom property, would have seen an income drop of 23%. Post-April, this measure reduces the income drop to 20%.

Example: A two-parent household with two children in which the sole earner with a salary of £30,000/year is made redundant. The family live in a rental property in Reading.

Income in work	£2,177/month
UC income using current LHA	£1,667/month (-23%)
UC income using post-April 2020 LHA	£1,749/month (-20%)

Help for the self-employed

For most self-employed households earning a low amount the key source of support is Universal Credit. However, those with savings over £16,000 are not eligible. This is particularly significant for self-employed households who may have put aside earnings to cover future bills of VAT, tax and National Insurance. Without any further changes, self-employed households with income above £16,000 will not qualify for any welfare support.

Prior to these measures, self-employed households that are eligible for Universal Credit had their support based on the 'Minimum Income Floor', a term used to describe a notional income equivalent to working full time at the national minimum wage. Our analysis finds that actual incomes for the vast majority of self-employed households seeking support through the benefit system is significantly less than this. Application of the Minimum Income Floor results in many self-employed claimants not being eligible for Universal Credit, or eligible for substantially reduced awards[4].

[3] Local Housing Allowance (LHA) rates applicable from April 2020 to March 2021

https://www.gov.uk/government/publications/local-housing-allowance-lha-rates-applicable-from-april-2020-to-march-2021

[4] What choices will self-employed people have under Universal Credit? *http://policyinpractice.co.uk/what-choices-will-self-employed-people-have-under-universal-credit/*

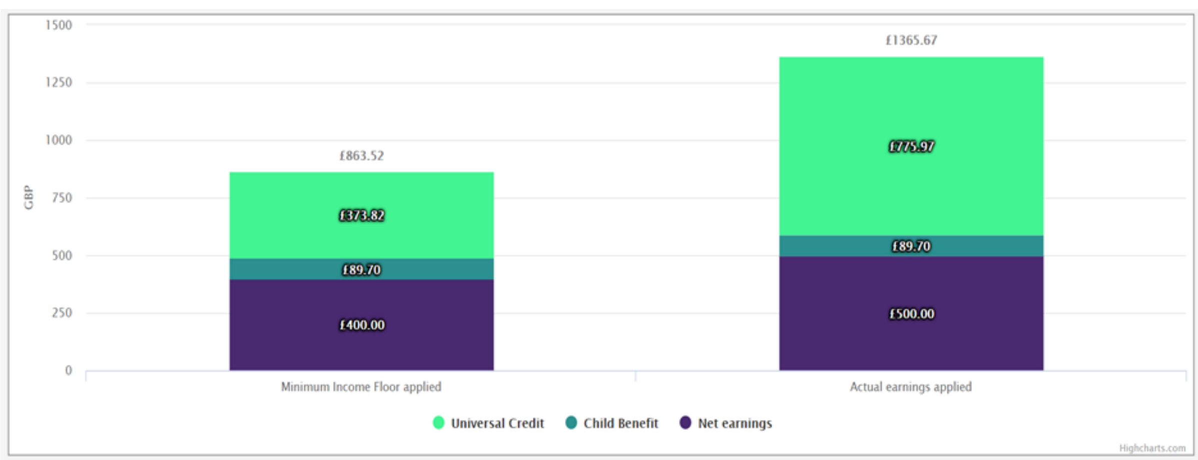
In the first set of COVID-19 support measures introduced, the Minimum Income Floor was lifted for those who were ill or self-isolating but was still applicable for those whose income had been affected by COVID-19.

On Friday 20 March the government announced that, from April 2020, the Minimum Income Floor will not apply to any self-employed claimants in receipt of Universal Credit. This will mean that the self-employed facing severe income reduction during the COVID-19 outbreak will be able to access benefit support if they have savings below £16,000. For the vast majority of self-employed workers, Universal Credit is the only means of support through crisis. The removal of the Minimum Income Floor is necessary to ensure these families can access a basic income.

The impact of this measure on self-employed households that are eligible for Universal Credit is significant. The illustration below shows how this measure affects the take home income of a typical self-employed household in receipt of Universal Credit.

Example: A household with one child in which the sole earner is a self-employed taxi driver. The taxi driver sees his earnings reduce from £30,000/year to £4,800/year due to the economic impact of COVID-19

Income with earnings of £30,000/annum	£2,177/month
Income under UC based on earnings of £4,800 and with Application of the Minimum Income Floor (pre-April 2020)	£864/month (-60%)
Income under UC based on earnings of £4,800/year with Removal of the Minimum Income Floor (post-April 2020)	£1,366/month (-37%)



Comparison of support for the self-employed and employees

The self-employed do not qualify for statutory sick pay and they are not included within the Coronavirus Job Retention Scheme, announced as part of the COVID-19 response, that supports employers to cover 80% of the wages of their employees. This creates a huge disparity between the support available to an employee and that available to a self-employed person facing income loss due to COVID-19. The difference in support levels is shown below.

Example: A person previously earning £30,000/year whose income ends due to COVID-19	
Original take home income	£1,995/month
Employee whose work ends, and their employer accesses the 80% Coronavirus Retention Scheme grant (take home income)	£1,654/month (-17%)
Self-employed person whose work ends (take home income)	£318/month (-84%)

For self-employed households with savings over £16,000 there remains no means of welfare support. The government has indicated that it is currently considering further measures to support self-employed households affected by COVID-19. It would be sensible to remove the savings limit for a year from April 2020 to allow households with savings set aside facing a steep loss in income, particularly households with higher support needs, to receive some form of income support or protection.

The aggregated impact of COVID-19 measures on financial resilience

The three key welfare measures introduced as part of the COVID-19 response; the increase in basic allowances, the support for renters, and the removal of the Minimum Income Floor for self-employed people, will increase the household income of all those that will newly need to rely on the welfare net to support them through the COVID-19 crisis. The measures will also support the majority of low-income households already in receipt of welfare support.

It is worth noting that, at the time of this report, there are some groups who will be unaffected by these measures, namely those already in receipt of legacy means-tested Jobseekers Allowance or Employment and Support Allowance who do not rent their property. It is presumed that the measures have not been extended to these groups as they are currently out of work and will therefore not face the income shock of those moving to welfare support for the first time.

Households in receipt of means-tested JSA and ESA may now be better off claiming Universal Credit. Our calculator will be updated with the changes when they come into effect (from 6 April 2020) and can be used by claimants to check if a move is advantageous.

Many households will see income rise due to more than one of these measures, and the impacts will vary depending on where you live in the country. It is therefore useful to look at the combined impact of these provisions in your local area.

In order to model the change in Universal Credit support before and after April 2020 (when the COVID-19 measures are to be introduced) we applied the changes to over 80,000 low-income households held in a demographically and geographically representative sample of local authority SHBE and CTS datasets.

Our analysis shows that the average increase in support as a result of changes in April 2020 would be £98/month (7.3%) for households already in receipt of Housing Benefit, or Universal Credit and council tax support.

This is lower than the isolated impact of the increase in the personal allowance and the increase in LHA rate, as Universal Credit also includes other elements (for childcare, caring, children, and illness) that are unchanged. The increase across all elements of a Universal Credit award is therefore proportionally lower. Working households also see 63% of the increase tapered away which would result in a lower percentage increase. Even so, this average increase of 7.3% is significantly higher than the planned increase in April 2020 of 1.7%.

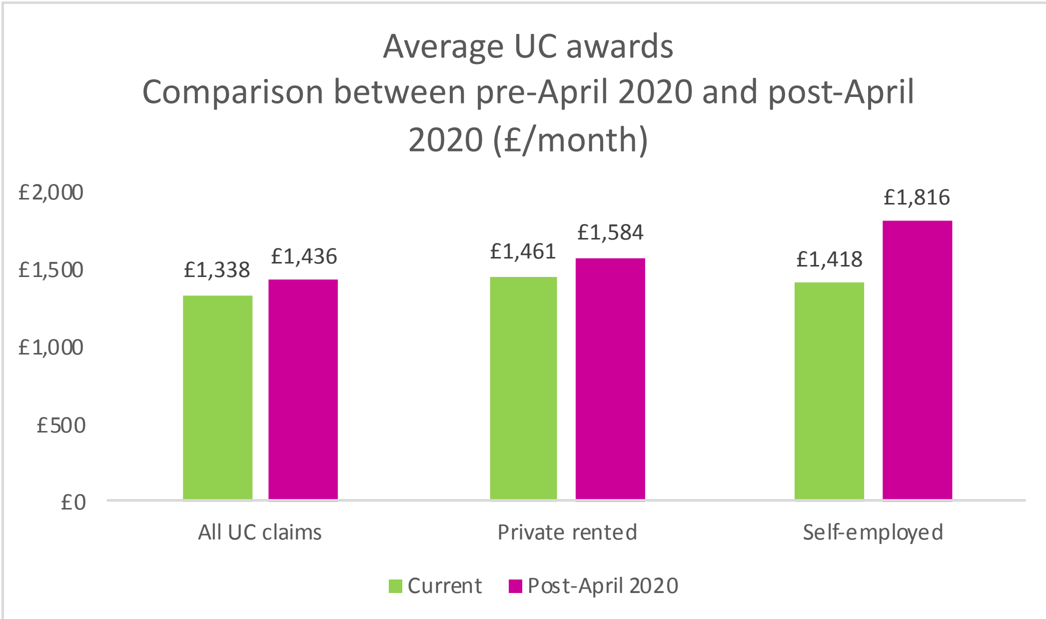
Policy in Practice carried out aggregate analysis using anonymised local authority administrative datasets (Single Housing Benefit (SHBE) and Council tax reduction extracts from across seven councils to illustrate the impact of these measures to councils, so they can better support residents.

Policy changes were modelled using our Benefit and Budget Calculator’s policy engine the following section shows the combined impact of these measures, averaged across these datasets.

The data chosen for this analysis is from councils covering a mix of urban and rural areas, across differing levels of deprivation and regions throughout England and Wales. However, the sample size and selection criteria for the councils involved means that the data is not necessarily nationally representative.

The increase in the basic allowance affects all recipients of Universal Credit. Additional measures are targeted at private renters and the self-employed and our analysis shows that these groups see higher average increases in awards as a result.

Chart 1: Comparison of average UC awards before and after the COVID-19 measures (April 2020)



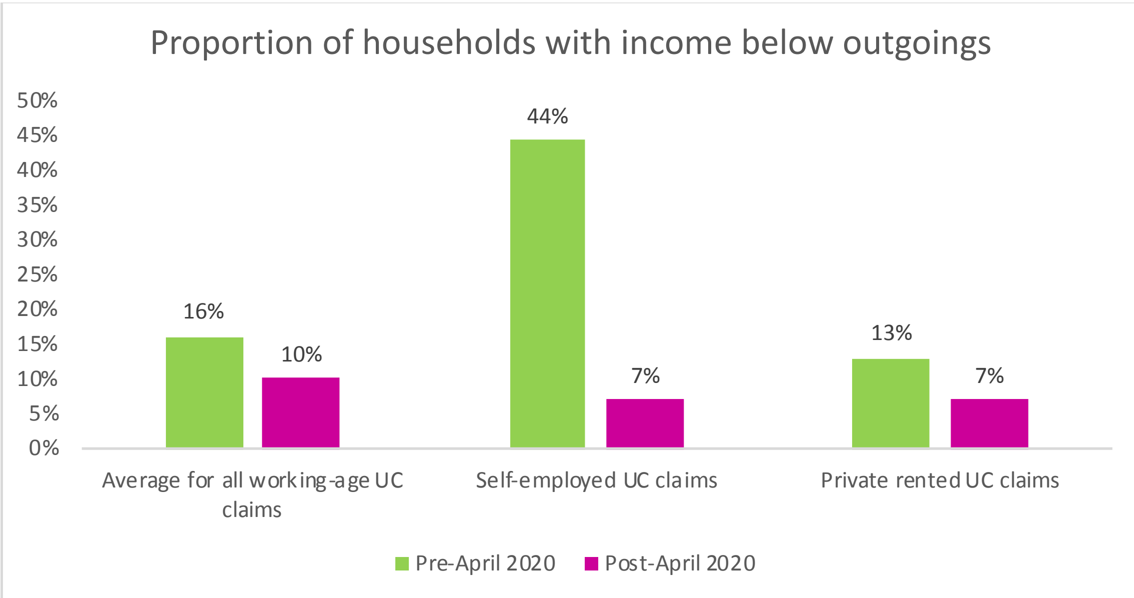
Private renters see awards increase by an average of £123 per month (8.4%), slightly higher than the average increase of 7.3%. The change in award for private renters will vary substantially between (and sometimes within) local authorities as the Local Housing Allowance, the cap on private rented housing support, is set regionally according to broader Rental Market Areas (BRMAs).

Self-employed households see a significant increase in awards of an average £398 per month (28%) post-April 2020. This is because Universal Credit awards are calculated on the basis of actual self-employment income. The increase in awards indicates that, on average, actual income is substantially lower than the Minimum Income Floor, which is used as the basis of the award pre-April 2020.

The more generous provisions introduced in response to the Coronavirus also reduces the proportion of households with insufficient Universal Credit to meet their outgoings.

Prior to these measures, 16% of households were unable to meet their outgoings, and were at risk of debt building up cumulatively, as costs exceed income each month. Post-April 2020, 10% of households will be unable to meet their outgoings. The greatest impact is on the self-employed who see the proportion who cannot meet bills fall from 44% to 7%.

Chart 2: Proportion of households with income below outgoings before and after April 2020



Conclusion

The spread of COVID-19 is understandably causing anxiety for many households. This anxiety is not solely about health but is also caused by economic uncertainty. The expected impact on household finances and living standards will last beyond the time necessary to contain the virus.

The government has acted quickly and generously by providing an unprecedented package of support to mitigate impacts. Support for businesses will help them to retain workers and allow for a more rapid a resumption of economic activity as the crisis lifts. Even so, many businesses will fail, and many workers will need to rely on the welfare safety net for the first time, primarily through Universal Credit.

The spread of COVID-19 has highlighted some of the key concerns about how the welfare safety net is currently operating. There have been concerns about the adequacy of support levels since the introduction of austerity measures in 2013, and again in 2016. Through this package of support, the government has rightly acknowledged that the system in its current state is not sufficient to support households through crisis.

Through these provisions the government has ensured the welfare system can better support households affected by COVID-19. Importantly, they have mitigated against ongoing economic crisis by helping people retain their jobs, and their incomes.

There remain some areas of concern.

- Firstly, the difference in support for self-employed households compared to employed households, and the lack of support for low-income self-employed households with high savings. The government has indicated that it is likely to introduce further measures to assist the self-employed, so this may change soon. We call on the government to suspend the savings limit in Universal Credit, so more self-employed people seeing a sharp drop in their income are able to access support that more closely matches their past earnings.
- Secondly, there is a concern about how the DWP will manage to process the expected level of new claims. The DWP and CAB were already working at capacity advising and supporting claimants before the COVID-19 crisis. There is little spare capacity to extend personal support to additional households who will need to navigate a system that is new to them. Related to this is concern about how DWP will provide the necessary flexibility of claim support to those who are too ill to engage. The DWP could provide this flexibility through the introduction of a provision to back date support for those too ill to claim and by allowing claims to be dealt with by family members or support workers.

At the moment, many local authorities, Housing Associations, and charities are plugging this gap and providing support to claimants. Policy in Practice is currently working with local authorities to analyse their household level data[5] and to supply them with the information they need to target support to those most vulnerable to the impacts of COVID-19. As the economic fallout of COVID-19 increases, local authorities may need further financial support to continue these interventions.

Long term change to welfare support is needed

The three key measures introduced to support those in receipt of benefits are programmed to only last one year. Policy in Practice and other organisations supporting low-income households have repeatedly called for similar measures to ensure security for those households who are reliant on the welfare system and are unlikely to be able to work in the immediate future.

Many of these are living with illness, or disability that prevents economic integration, or are caring for others. This increase in generosity of the system is an opportunity to reassess the impact of a more supportive welfare net.

Policy in Practice will continue analyse existing datasets to provide evidence to show the longitudinal impact of these changes on household income, debt, wellbeing, homelessness, and capacity for work. The impact of this increase in welfare support will provide a useful evidence base to inform the development of a welfare support system that not only assists households through the current crisis, and the subsequent period of economic rebuild, but continues to provide adequacy of support into the future.

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[5] *http://policyinpractice.co.uk/policy-dashboard/*