A submission to the All Party Parliamentary Group on Poverty concerning the impact on poverty of maintaining the £20 uplift in Universal Credit

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Report to the All Party Parliamentary Group on Poverty from Policy in Practice

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Policy in Practice welcomes the opportunity to provide evidence to the All Party Parliamentary Group on Poverty. Policy in Practice aims to make the welfare system easier for people to navigate through our policy research, benefit calculation software and advanced analytics for the public sector. We provide data analysis and support tools to local authorities, charities and other agencies to assist them to support low-income households and identify trends in financial wellbeing.

This submission presents an analysis conducted by Policy in Practice on the impact of maintaining the Universal Credit £20 a week uplift on households ability to meet all their essential costs. It is based on household level data shared with us by 17 local authorities, which gives us a unique insight into the direct impact of policy changes on tens of thousands of households. More about our analysis methodology can be found in the appendix.

Summary of findings

- If the £20 uplift to Universal Credit is retained past April 2021, an extra 224,000 households, including 229,000 children, across Britain will be able to meet their essential costs
- If the uplift is removed in April, in total, 683,000 households, including 824,000 children, would no longer be able to afford their essential needs
- Those already negatively impacted by other policies, such as the two child limit, would be put at most risk by the removal of the uplift. An extra 11% of families affected by the two child limit would be unable to meet all their essential costs if the uplift was dropped
- If the Minimum Income Floor is reinstated alongside the uplift being removed, the situation for self-employed households will become especially dire, with almost half unable to meet their essential costs

We would be happy to provide further evidence at the request of the committee.

Maintaining the uplift will shield 224,000 households and 229,000 children from hardship

Our analysis shows an extra 224,000 households would be unable to meet all their essential costs in April 2021 if the £20 per week uplift to Universal Credit (UC) was taken away. If these households were not able to meet their essential costs, this would impact 229,000 children within these households.

Overall, we estimate 683,000 households across Britain who receive UC (including 824,000 children) would be unable to meet all their essential costs in April 2021 if the uplift was dropped. If the uplift is retained, this total will remain much lower with 458,000 households unable to meet their essential costs. While even this is still much too high, it is clear the £20 uplift does shield a large proportion of households from hardship.

The costs included in this analysis only represent essential outgoings such as rent, council tax, utility payments and estimates for essential groceries. They do not take into account other regular payments many households receiving UC may face, such as debts, advance repayments and payments for rent-to-own household goods. Therefore the real-life figure of households that would struggle to meet all their *actual* outgoings is likely to be even higher than that presented here.

The impact of having this many households unable to cover all their essential costs is twofold; financial and social. The financial impact for these households is that they are likely to make the choice every person would make which is to ensure they have enough food for themselves and their children. Therefore households are likely to fall behind on other regular payments such as rent, council tax and utilities. Not only may this lead to adverse consequences - potentially even homelessness - for the household, but it also results in a loss of revenue for local authorities if council tenants cannot pay their rent and wider residents cannot afford their council tax.

The social impact of being in a household that is continually unable to cover all their costs is less visible but equally, if not more, destructive. The damaging effects on children have been widely documented[1] but poorly actioned. As our analysis reveals, if the uplift is dropped it will result in 229,000 more children in households that cannot meet all their expected costs. The direct impact on these children's life chances is untenable, and moreover, will also result in increasing pressure and expenditure on child and adult social care services and the National Health Service.

[1] www.childrenssociety.org.uk/what-we-do/our-work/ending-child-poverty/effects-of-living-in-poverty

Families already affected by the two child limit will be hardest hit

Our analysis showed that an *extra* 11% of families, affected by the two child limit, would be unable to meet all of their essential costs if the uplift was dropped. This would result in a total of 29% of families affected by the two child limit unable to meet all their essential costs in April 2021. This further highlights the disproportionate negative impact of the Covid-19 crisis on larger, low-income, families, and shows how important the £20 uplift is to their financial stability.

The two child limit was introduced with the aim of encouraging low-income families to consider the financial implications of having more children. However, with unemployment predicted to continue rising until at least June 2021, even on its own logic, this aim can no longer be met. Many of the families now being impacted by the limit may have had children while in employment, and therefore correctly assessed they had no problem meeting costs for three or more children. Unexpected circumstances beyond their control - not least the pandemic's impact on the economy - have resulted in decreased earnings for many and will have upended their previous financial sustainability.

The benefits system should be there as a lifeline for such circumstances, and yet the two child limit means this is not the case for these families. In a world where such seismic events can arise unanticipated at any time, the disadvantage caused by the two child limit as a result of the pandemic to these families does not seem fair. Policy in Practice has previously submitted evidence to the Work and Pensions Select Committee on the impact of the two child limit[2] and has joined calls for it to be scrapped or temporarily lifted whilst Covid-19 measures are in place.

The combination of removing the uplift and reinstating the Minimum Income Floor (MIF) would leave almost half of self-employed households unable to meet essential costs

For low-income self-employed households, the suspension of the MIF is even more important than the uplift, and how the two combine must be a crucial consideration for the government. The UC entitlement of self-employed households may be calculated using higher earnings than they actually have. This is called the 'minimum income floor'. This is set at the national minimum wage for the amount of hours the household would be expected to work. The policy objective of the MIF was that UC should not support unsustainable business, and instead encourage these self-employed households to seek alternative, more economically sustainable, employment. Consequently, by definition, these households with earnings below the MIF through self-employed work will be expected to be struggling to cover all their essential costs. A reduction in their UC entitlement is only going to compound this effect.

While the MIF remains suspended (our main assumption when modelling), the increase in self-employed households who cannot meet their essential costs is similar to other groups,

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2 https://policyinpractice.co.uk/two-child-limit-policy-in-practices-evidence-to-the-work-and-pensions-select-committee/

rising from 8% to 12%. However, if the MIF is reinstated in April 2021, our analysis shows the proportion who cannot meet their essential costs rises more steeply, and from a much higher baseline level. With the uplift and MIF reinstated, 40% of self-employed households are unable to meet their essential costs, while without the uplift almost half (47%) of self-employed households would be unable to meet their essential costs.

It may be that many of these self-employed businesses are sustainable in normal times, but are merely struggling with the pandemic and possible exclusion from the Self-Employment Income Support Scheme (SEISS). If the MIF is reinstated, many more of these self-employed households will struggle to meet their essential costs, which is likely, in turn, to significantly reduce their chances of maintaining their formerly sustainable businesses, even after the economy recovers. The option to find other sustainable employment is also less likely due to the pandemic, and therefore suspending MIF for as long as it takes for the economy to recover, as well as maintaining the £20 uplift, will be paramount to supporting self-employed households through the crisis.

Local authorities can help those who fall through the net, but they must be enabled

Retaining the uplift will continue to provide a welcome lifeline to low-income households, who would otherwise not be able to meet their essential costs. However, even with the uplift, our analysis estimates there will be 458,000 households across Britain, in receipt of UC, who will still face a shortfall at the end of the month. When these households struggle, it is often down to the local authority to step in as the last line of support, through discretionary housing payments, council tax support and the myriad of new COVID-19 related grants and discretionary support that they have been asked to deliver, to ensure households are not left destitute.

Local authorities have a statutory duty to support vulnerable households, and need to be enabled to identify and engage people who are struggling and need their support. Policy in Practice helps a number of local authorities to use administrative benefits data to target support to households who are struggling or in crisis, with income insufficient to meet their needs. The Low Income Family Tracker (LIFT) can help councils to proactively target Discretionary Housing Payments to families struggling to pay their rent. However, the current Department for Work and Pensions (DWP) guidance on COVID-19 related grants explicitly restricts the local authority ability to use benefits data for this purpose.

For example, paragraphs 12-17 of the COVID Winter grant scheme guidance expressly prohibits use of the DWP Universal Credit (UC) Local Council Tax Reduction data share for Local Welfare Provision, even when there is a legal gateway to do so.[3] This lowers the impact of local authority support and ultimately has an adverse effect on households that are most in need. With effective data, councils are enabled to target their support more efficiently and

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3 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938204/covid-winter-grant-scheme-guide.pdf

ensure their stretched resources go to those who need them most. We would welcome the opportunity to discuss this further with the APPG.

Finally, councils will need to spend more to protect those who fall through the safety net, meaning that any savings to central government from withdrawing the uplift to Universal Credit is very likely to drive up the costs of homelessness prevention, temporary accommodation and childrens and adult services, driving knock-on costs for local authorities. Any fiscal savings that are realised are likely to arise as economic costs faced by households through rising arrears, or the social costs of homelessness, poverty and destitution.

Conclusion

The £20 a week uplift to UC will be the difference between being able to pay rent, bills and have enough money for food for nearly a quarter of a million households come April 2021. The government has recognised the importance of protecting large parts of the working population from unemployment and dramatic reduction in earnings by introducing and extending the furlough scheme. This has kept workers' income at a similar level to what it would have been if they had continued in work. However, for those who have slipped through the net and are now in receipt of UC, with little prospect of moving into work due to Covid-19 restrictions, they have been surviving on the bare minimum. If this support is not maintained at its current level hundreds of thousands of households containing hundreds of thousands of children will be looking at a bleak future with little opportunity to increase income levels through work.

Benefits for the unemployed were historically designed as a stop-gap measure for those that found themselves out of work for a short time before moving into another job. In times of high employment, most households would not be impacted for very long before they found themselves back in work. However, given the OBR forecast unemployment to rise to 7.5% (central scenario) by mid 2021,[4] it is clear many households will be relying on UC for much longer periods. To cut UC levels at such a volatile time would push these households into severe economic hardship, with little prospect of escape through work, and potentially mounting arrears for as long as they rely solely on UC. The £20 uplift has been a crucial lifeline for hundreds of thousands of households throughout the pandemic, and its retention is essential if they and their children are not to be forced into hardship in the coming months.

In addition to the data presented here, we also have breakdowns by disability, tenure, region, household type and employment status which we would be happy to provide more information on if required.

[4] https://obr.uk/efo/economic-and-fiscal-outlook-november-2020/

Appendix

This submission presents aggregate analysis of 72,717 households conducted by Policy in Practice using anonymised local authority administrative datasets (Single Housing Benefit (SHBE) and Council Tax Reduction (CTR) extracts) shared by 17 Local Authorities across Britain, along with discussion about the real world implications of these findings and relevant policy decisions. We have extrapolated from our findings to everyone on UC in Britain, also taking into account the expected rise in claimants from higher predicted unemployment in April 2021.

Our unique analysis of poverty assesses household income against the costs each household is expected to face, adjusted for household size. This examination of financial resilience is possible because income data is collected at the household level. The needs of each household are based on spending by the lowest third of households from the ONS family spending figures and actual costs, where available. Both incomes and costs have been adjusted to be representative of April 2021. Using this method, this report divides households into two groups according to their modelled levels of income after costs:

- Those facing a cash shortfall, who are considered unlikely to be able to make ends meet because the household's expected essential costs exceed their take-home income.
- Those who are able to meet their essential household costs and be left with some disposable income.

About Policy in Practice

Policy in Practice believes the welfare system can work better.

We're a socially-minded software company that works with councils, government, housing and community organisations to target and improve welfare support for people. Combining cutting-edge technology, insightful data and expert analysis, we're the leader in helping organisations to understand what's working, what can be improved, and how.

Our award winning Benefit and Budgeting calculator helps around 10,000 people each day find out what support they may be eligible for. Our data analytics services help organisations find relationships in datasets and visualise the drivers of poverty. We use our policy expertise to drive change via evidence, publications and media.

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