

THE IMPACT OF WELFARE REFORM ON CHILD VULNERABILITY



“

The power of the underlying dataset makes this analysis really rich. People can have a tendency to think of this as abstract, a nice-to-have, but it's really powerful.

It makes it possible, in theory and in practice, to identify those households that are being put at risk of being at risk because of the two child limit or because of the move to Universal Credit. It also means we can intervene with particular families and track the impact of those interventions on children's outcomes.

Haroon Chowdry, Head of Analysis, Children's Commissioner's Office

”

EXECUTIVE SUMMARY

Local authority Children's Services departments typically use two main datasets, the Children in Need Census and the Children Looked After SSSDA903 return, to track children in care and those at risk of being in care.

These datasets typically record vulnerable children's interaction with statutory services but do not systematically hold any information about the family context, or their financial circumstances. This makes it difficult to link information on the relationship between poverty and child vulnerability, and it means local authorities can't easily identify the children who are at risk of being at risk, making preventative work very difficult.

The benefits datasets held by local authority Revenue and Benefits teams do hold social and economic information on low income families. Analysis of household level data is the missing link for Directors of Children's Services who want to prevent vulnerability and design effective early intervention strategies for the 1.2 million children who are at risk of being referred to Children's Services.

Policy in Practice works with these datasets on an ongoing basis for over thirty councils, helping them to identify and engage households, and track the impact of policy interventions on low income households. We were asked by the Children's Commissioner to use this data to assess the impact of Universal Credit and associated welfare reforms will have on children in low-income households.

FINDINGS

Our analysis finds that:

- **Universal Credit** broadly benefits families with children, with 56% of households better off by £172 per month, though 40% are worse off and lose £181 per month on average
- The **five week wait** for the first UC payment would push 70% of families currently facing a cash surplus into cash shortfall, 73% of families with savings would see them completely exhausted at some point during those first five weeks
- The Universal Credit **advance payment** provides a short-term boost to cashflow but also increases the percentage of households who would face a cash shortfall from 11.6% under Universal Credit, to 18.9% once the advance payment is deducted from UC awards
- Under the **two child limit** (applied to all families) 32.1% of children living in a cash shortfall would find their families in surplus were the policy removed. The policy is placing 15.6% of children who are already facing a cash shortfall further at risk
- The **Benefit Cap** affects 2.9% of households, who lose £2,832 per annum on average
- The **cumulative impact** of welfare reforms are considerably greater than the impact of each reform in isolation, affecting 48% of households losing £3,441 per annum on average
- When the effects of Universal Credit, the two child limit and the Benefit Cap are **combined**, 25% of children in low income families would be unable to make ends meet, doubling the number from 13% if these reforms were not in place

Administrative data allows us to carry out detailed analysis on the impact of welfare reforms, and the insights gained from such analysis can be operationalised to identify, support and track vulnerable households.

This analysis is based on non-nationally representative data from 128,119 families in nineteen local authorities. The DWP have access to national data on all Universal Credit recipients, and those on legacy benefits. The potential for sharing this data to drive targeted and effective interventions across central and local government, is immense.

BACKGROUND AND INTRODUCTION

The Children's Commissioner is a strong proponent of using data to drive government policy, resource planning and service provision.

Benefits data is typically only used to administer welfare payments, but it also has a wealth of actionable information that could be used for policy analysis, service design and resource management. Policy in Practice has leveraged this secondary use of benefits data to develop tools and analytic solutions focused on low-income vulnerability at both the individual and aggregate level. Policy in Practice uses household-level benefits data to improve the welfare system and target support to families most in need.

One such secondary use of household benefits data is to identify vulnerable children. A major driver of child vulnerability, as identified in the [Children's Commissioner's classification](#), is family social and economic context. Information on contextual vulnerability is missing from statutory care services' post-referral datasets, but a variety of relevant metrics can be found in administrative benefits data. As such, benefit extracts can be used to identify children living in households with a high risk of debt or homelessness, or those that will be negatively impacted by upcoming welfare reforms.

Analysis of household-level administrative data can also advance conversations around policy reforms, research reports and political statements, by providing concrete data to clarify and contextualise the issues at hand.

For this report, the Children's Commissioner has identified Universal Credit, alongside the two child limit to benefits, and the Benefit Cap as a focal area, in which there are concerns around the policy's impact on levels of child vulnerability. Sweeping policy reforms like Universal Credit can have substantial impacts on a family's financial well-being, with direct knock-on consequences for the vulnerability of their children.

As such, household-level administrative data can provide crucial visibility over the real-terms impacts of such welfare reforms, visibility that can drive positive policy change and targeted local support.

Policy in Practice has been commissioned by the Children's Commissioner to identify children who will become more vulnerable as a result of Universal Credit and associated reforms such as the benefit cap and two-child limit, as well as the impact of all reforms combined.

Our analysis has been created by applying a range of modelling methods to a centralised database of anonymised household benefits extracts. This provides a proof-of-concept for identifying vulnerable children on the basis of routinely collected, household-level administrative data. This report provides summaries of the various analytic methods used, headline figures from each analysis, and associated implications for both policy and practice.

DATASETS AND METHODOLOGICAL APPROACH

The analyses in this report are based on secondary analysis of existing micro-data in the form of the Single Housing Benefit Extract (SHBE) and Council Tax Reduction (CTR) datasets. These are a local authority-owned, standardised monthly record of every household in a local authority area in receipt of either Housing Benefit or Council Tax Reduction (CTR), used to administer over £24 billion in payments each year. This population captures the vast majority of low-income households in a given borough, typically around a third of the total population. The SHBE datasets contain all the household-level information needed to calculate Housing Benefit and CTR awards, including data on individual households' incomes, disability status and family circumstances.

Crucially, SHBE data also includes information on the number and ages of children in each household. Policy in Practice regularly processes SHBE data for local authorities as part of our LIFT dashboard and CTRS modelling services. As part of this service, we consolidate SHBE extracts from our partner local authorities into an anonymised central standardised database, which provides the data for this report.

For these analyses we have used the latest snapshot (one month's Housing Benefit and CTR data) for all local authorities who have provided data within the last 6 months. This includes data from 19 local authorities, providing a sample of around 128,119 households with 257,648 children. For all analysis except the impact of the Benefit Cap (Section 4) we have excluded households that have already migrated to Universal Credit.

We can reproduce all the statistics presented in this report for individual local authorities. This allows for some comparison of regional trends, for example comparing policy impacts between rural/urban or more/less deprived local authorities. It should be noted that the data in this sample are drawn from Policy in Practice's LIFT Dashboard clients, a large proportion of whom are London borough councils. It is also based on a dataset which includes only a subset of households who would receive Universal Credit. This analysis excludes households currently claiming Universal Credit, and the source dataset does not capture those only in receipt of tax credits or those without housing costs who do not receive council tax support. However, thanks to the presence of similar household level information, Policy in Practice is currently applying its policy modeling engine to the latest publicly available datasets from the Family Resources Survey which allows us to provide nationally representative equivalents of the statistics reported here.

VULNERABILITY MEASUREMENT

The key index of household vulnerability used in this report is Policy in Practice's measure of financial resilience. This measure compares total household income (earnings + benefits) to total household needs (known rent and council tax liability, plus estimated expenditure at the 30th percentile of ONS family spending figures).

Households whose total income meets or exceeds their needs are said to be 'coping', or in surplus. Those whose needs exceed income are designated 'at risk', or facing a cash shortfall. At risk households are likely to be unable to pay for all their unavoidable costs so are at increased risk of falling into debt. The financial resilience measure also identifies a group of households whose income is insufficient to cover their rent alone. Such households are labeled 'in crisis' and are at particular risk of falling into rent arrears or becoming homeless due to their inability to make rent payments. By capturing households without the means to meet their costs, and those at particular risk of arrears/homelessness, our financial resilience measure provides a useful proxy of vulnerability for children living in those families.

Take home income	Number of households	Percentage of households
Shortfall	17,491	13.7%
Surplus	110,628	86.3%

Figure 1. Breakdown of Dataset 1 by take-home income

1. IMPACT OF UNIVERSAL CREDIT

By passing households' SHBE data through our micro-simulation engine, Policy in Practice can determine benefits eligibility under different policy scenarios. For the first analysis in this report, we modelled all the legacy benefit claimants in Dataset 1 as if they had migrated to Universal Credit. We then recalculated Financial Resilience, taking into account the change in net income associated with migration to Universal Credit.

FINDINGS

- 56.1% of households (135,160 children) are better off, gaining on average £172 per month
- 39.7% of households (50,879 children) are worse off, losing on average £181 per month
- 37.5% of households (12,904 children) facing a cash shortfall under the current system would no longer face a cash shortfall under Universal Credit
- 3.6% of households (7,680 children) with a cash surplus under the current system will face a cash shortfall under Universal Credit

This modelling process allowed us to identify households whose take-home income would be higher or lower under Universal Credit compared to the current benefits system. We could therefore identify households who, following migration to Universal Credit, would find their financial resilience status changed. By filtering for households with children this shows, for example, the number of children in households who would be at risk of falling into debt following migration to Universal Credit.

Based on this analysis, we were able to show that a substantial proportion of households with children would have a higher take-home income under Universal Credit. Around 38% of households currently facing a cash shortfall would move into surplus under Universal Credit.

This finding must be qualified, however, because the financial status improvements associated with migration to Universal Credit are based on the assumption of claimants receiving their full Universal Credit award. Two core features of the policy, the five week wait and the Universal Credit advance payment, potentially undermine this assumption. As such, our next set of analyses isolate the impact of these two policy mechanics on financial resilience.

Take home income: current system	Take home income: Universal Credit	Number households (with children)	Number children	Percentage households (with children)	Percentage children	Average change in take home income
Surplus	Surplus	106,674	210,517	96.4%	96.5%	£15
Surplus	Shortfall	3,954	7,680	3.6%	3.5%	(£384)
Shortfall	Surplus	6,564	12,904	37.5%	32.7%	£455
Shortfall	Shortfall	10,927	26,547	62.5%	67.3%	£9

Figure 2. Impact of Universal Credit

Take home income	Households				Children			
	under the current system		under Universal Credit		under the current system		under Universal Credit	
Shortfall	17,491	13.7%	14,881	11.6%	39,451	15.3%	34,227	13.3%
Surplus	110,628	86.3%	113,238	88.4%	218,197	84.7%	223,421	86.7%

Figure 3. Total families in surplus / shortfall under Universal Credit and the current system

2. IMPACT OF THE FIVE WEEK WAIT AND UNIVERSAL CREDIT ADVANCE

Although Universal Credit awards may be comparable to, or even more generous than legacy benefits for certain groups, analysis based purely on Universal Credit eligibility does not capture the full picture of the migration process. Due to the five week wait for the first Universal Credit payment, migrating claimants experience a gap in benefits income that presents a significant financial shock. In order to capture this one-off shock we recalculated households' Financial Resilience assuming a five week loss of DWP benefits and tax credits, and a three week loss of housing benefit (due to the two-week run on).

FINDINGS: FIVE WEEK WAIT

- 69.7% of households and 62,397 children with a cash surplus under the current system would experience a cash shortfall during the five week wait
- If households dip into their savings to cover costs during the five week wait their savings will be reduced by £681 on average
- This would completely exhaust the savings of 73.7% of households with savings (46,527) households, placing 98,075 children severely 'at risk of being at risk'

The financial shock of the five week wait can be mitigated by taking an interest free advance payment. However, should claimants elect to take a Universal Credit advance payment, the early payment will be recouped from subsequent Universal Credit payments over the next 12 months (or 16 months from October 2019 onwards). As such, households' take-home income will be reduced compared to their maximum Universal Credit eligibility. Around [60% of UC claimants](#) currently opt to take this advance.

FINDINGS: UNIVERSAL CREDIT ADVANCE

We have modelled the medium term impact of the advance by assuming that one full month's Universal Credit award will be recouped over 12 months, and recalculated Financial Resilience accordingly.

- 10.6% of households (23,445 children) who have a cash surplus under the current system move to facing a cash shortfall when the advance repayments are deducted from Universal Credit awards
- By migrating onto full Universal Credit 37.5% of families move from shortfall to surplus. However, once the advance repayment is deducted that number drops to 28.6%
- Advance deductions also increase the number of households who will lose out by migrating to Universal Credit. When migrating onto a full Universal Credit award only 3.6% of households move from a cash surplus to a shortfall. When advance repayments are deducted that number rises to 10.6%
- 13.7% of households currently face shortfall under legacy. This would fall to 11.6% under Universal Credit, but when advance repayments are deducted the proportion of households facing a cash shortfall rises to 18.9%.

Our data finds that many low-income households are only just making ends meet. If households were evenly distributed across the income spectrum we would expect the application of Universal Credit advance reductions to move a relatively small proportion of households across the threshold from surplus to shortfall.

For example, given that the (near) total loss of benefit income incurred during the five week wait moves ~70% of households from surplus to shortfall we would expect the Universal Credit advance repayment to similarly affect only ~5.8% ($70\% \div 12$) of households, because it incurs only a 1/12 loss of benefit income (one month's Universal Credit award deducted evenly over 12 months).

Instead, we find almost twice that number of households (10.6%) pushed into shortfall, because incomes are clustered just above the surplus/shortfall threshold. As such, a 1/12th loss of benefit income equivalent is enough to represent a major financial shock to the large proportion of households who were just about making ends meet under the legacy system.

Take home income: current system	Take home income: during the five week wait	Number households (with children)	Number children	% households (with children)	% children	Average change in take home income	Average reduction in savings to cover the five week wait	% households whose savings would be exhausted by the five week wait
Surplus	Surplus	33,535	62,397	30.3%	28.6%	(£262)	(£1,220)	11.6%
Surplus	Shortfall	77,093	155,800	69.7%	71.4%	(£1,076)	(£211)	23.2%
Shortfall	Surplus	0	0	0.0%	0.0%	-	-	-
Shortfall	Shortfall	17,491	39,451	100.0%	100.0%	(£821)	(£541)	26.9%

Figure 4: Impact of the five week wait

Take home income: current system	Take home income: Universal Credit with advance	Number households (with children)	Number children	Percentage households (with children)	Percentage children	Average change in take home income
Surplus	Surplus	98,908	194,752	89.4%	89.3%	(£76)
Surplus	Shortfall	11,720	23,445	10.6%	10.7%	(£285)
Shortfall	Surplus	4,998	9,840	28.6%	24.9%	£407
Shortfall	Shortfall	12,493	29,611	71.4%	75.1%	(£70)

Figure 5: Impact of the Universal Credit advance

Take home income	Households				Children			
	under the current system		under UC with the advance deducted		under the current system		under UC with the advance deducted	
Shortfall	17,491	13.7%	24,213	18.9%	39,451	15.3%	53,056	20.6%
Surplus	110,628	86.3%	103,906	81.1%	218,197	84.7%	204,592	79.4%

Figure 6. Total families in surplus / shortfall under Universal Credit with the advance deducted and the current system

This analysis focuses on the income surplus threshold as the key measure of financial wellbeing. However, it should be noted that in terms of cashflow, the Universal Credit advance payment provides an improved situation for households compared to the five week wait, offering more cumulative cash from benefits over the first six months. This can benefit households already in a position of relative financial stability, though for more vulnerable households, such as those in debt, the advance is unlikely to resolve medium or long term issues with cashflow.

For our local authority clients, Policy in Practice currently appends the datasets used in this report with information on debt (social rent and council tax arrears) to capture these additional elements of vulnerability.

3. IMPACT OF THE TWO CHILD LIMIT

Similar to the five week wait, the Two Child Limit on the Child Element of Universal Credit and Child Tax Credits will cause a substantial financial shock for families who have a third (or more) child. Under the Two Child Limit, the Child Element of Universal Credit and Child Tax Credits will only be paid for the first two children in each family. This means that the Two Child Limit will result in a sizable reduction in take home income for households with more than two children.

In our analysis, we applied the Two Child Limit to all families with two or more children (removing the current exemption for children born before April 2017). This demonstrates the full eventual impact of the policy once the transitory protection has expired. In the second scenario, we remove the Two Child Limit entirely, giving full tax credit eligibility for every child in a family.

FINDINGS

- 21.4% of households (encompassing 32.1% of children) facing a cash shortfall under the Two Child Limit would no longer face a cash shortfall if the policy were removed, gaining £366 on average

This analysis can be used to identify children at risk of being at risk. 15.6% of families already facing a cash shortfall would have their incomes further reduced as a result of the Two Child Limit being fully applied, putting these already vulnerable children at greater risk.

Take home income: with Two Child Limit (applied to all 3rd+ children)	Take home income: without the Two Child Limit	Number households (with children)	Number children	Percentage households (with children)	Percentage children	Average change in take home income
Surplus	Surplus	106,544	201,757	100.0%	100.0%	£45
Surplus	Shortfall	0	0	0.0%	0.0%	-
Shortfall	Surplus	4,610	17,968	21.4%	32.1%	£366
Shortfall	Shortfall	16,965	37,923	78.6%	67.9%	£33

Figure 7. Impact of the Two Child Limit

4. IMPACT OF THE BENEFIT CAP

The lower benefit cap introduced in November 2016 was intended to improve work incentives for benefit claimants. However, the policy poses a greater risk to already vulnerable children because it disproportionately affects larger families such as families that tend to have access to more benefits, face higher rents and work fewer hours (especially if they are lone parents).

As with the Two Child Limit, we modeled the impact of the Benefit Cap by recalculating Financial Resilience under a hypothetical scenario in which the policy was not applied. The effect of removing the Benefit Cap was less pronounced than many of the other policies modelled in this report, because fewer households, 2.9% of our sample, are affected losing £236 per month on average, or £2,832 per annum.

Take home income: under the Benefit Cap	Number households (with children)	Number children	Percentage households (with children)	Percentage children	Average change in take home income per household	Average change in take home income per child
Same	124,383	245,894	97%	95%	£0	£0
Worse off	3,736	11,754	3%	5%	(£236)	(£77)

Figure 8. Impact of the Benefit Cap

5. COMBINED IMPACT OF WELFARE REFORMS

Welfare policies do not exist in a vacuum. One of the key advantages of policy modelling using household level data is our ability to capture the total impact of multiple interacting policy elements on household finances. To illustrate this, we calculated Financial Resilience under a 'no welfare reform' scenario (the legacy benefit system, with the Two Child Limit and Benefit Cap removed) and a full welfare reform scenario (under Universal Credit, including the Two Child Limit, and the Benefit Cap).

Under Universal Credit, the full Two Child Limit and the lower Benefit cap combined, 17.5% of households in our dataset would face a cash shortfall, compared to 12.3% if these reforms were not in place.

Because some of these reforms disproportionately affect households with more children, the number of children whose families would face a cash shortfall nearly doubles, from 13.0% under no welfare reforms to 24.8% under all reforms combined.

Take home income	Households				Children			
	under no welfare reforms 1		under all welfare reforms 2		under no welfare reforms 1		under all welfare reforms 2	
Shortfall	15,742	12.3%	22,345	17.4%	33,551	13.0%	64,006	24.8%
Surplus	112,377	87.7%	105,774	82.6%	224,097	87.0%	193,642	75.2%

1 The current system without the Two Child Limit or the Benefit Cap

2 Universal Credit, the Two Child Limit and the Benefit Cap

Figure 9. Households' take-home income with or without all modeled welfare reforms

Households worse off under ...	Percentage of all households	Average loss in take home income per household	Average loss in take home income per child
Universal Credit	39.7%	(£181)	(£109)
Lower Benefit Cap	2.9%	(£236)	(£77)
Two Child Limit	21.1%	(£259)	(£70)
All welfare reforms combined	47.8%	(£287)	(£125)

Figure 10. Combined impact of all welfare reforms

When all welfare reforms are combined we see the almost half of all households with children are negatively impacted, with those that lose out being more heavily impacted, losing on average £287 per month, or £125 per child. It should be noted that other reforms such as the benefit freeze, changes to housing support and reforms to council tax mean the real terms impact on each family is likely to be even greater.

6. CONCLUSIONS AND APPLICATIONS

The two core conclusions from this research are as follows.

Firstly, it is possible to model the impact of welfare reforms on low income families' level of financial resilience. Our analysis finds that:

- **Universal Credit** broadly benefits families with children, with 56% of households better off by £172 per month, though 40% are worse off and lose £181 per month on average
- The **five week wait** would push 70% of families from a cash surplus to cash shortfall and 73% of families with savings would see them completely exhausted at some point during those first five weeks
- The **Universal Credit advance payment** increases the number of households who would face a cash shortfall by 63%, from 11.6% under Universal Credit to 18.9% once the advance payment is deducted from Universal Credit awards
- The **two child limit** will ultimately impact 32.1% of children. The policy is pushing 15.6% of children who are already facing a cash shortfall, further at risk
- The **Benefit Cap** affects 2.9% of households who lose £2,832 on average per annum
- The **cumulative impact of welfare reforms** is considerably greater than the impact of each reform in isolation, affecting 48% of households who lose £3,441 on average per annum

This shows how the impact of complex policy instruments like Universal Credit and other reforms can be broken down into their constituent parts to reveal their real-terms impacts. For example, our analyses show that many families are eligible for a higher take home income under Universal Credit compared to the legacy system. However, the substantial financial shock posed by the five week wait means that families may be left in worse financial health after migrating to Universal Credit as a result of having to dip into savings or repaying a Universal Credit advance payment.

Take home income	under the current system	under Universal Credit	during the five week wait	under Universal Credit with advance deducted
Shortfall	13.7% households 15.3% children	11.6% households 13.3% children	73.8% households 75.8% children	18.9% households 20.6% children
Surplus	86.3% households 84.7% children	88.4% households 86.7% children	26.2% households 24.2% children	81.1% households 79.4% children

Figure 11. Comparison between take home impact of Universal Credit policy elements

Secondly, this analysis is carried out on anonymised data from 128,119 real families. This means that it can be used to intervene with households adversely affected (or likely to be adversely affected) by government reforms.

For example, council staff can use derived measures like Financial Resilience to proactively identify and support vulnerable children, such as those living in households already facing a cash shortfall who are set to lose out further because of the two child limit.

Many of Policy in Practice's LIFT Dashboard clients are doing just this, leveraging the vulnerability factors captured through Housing Benefit data to drive early intervention.

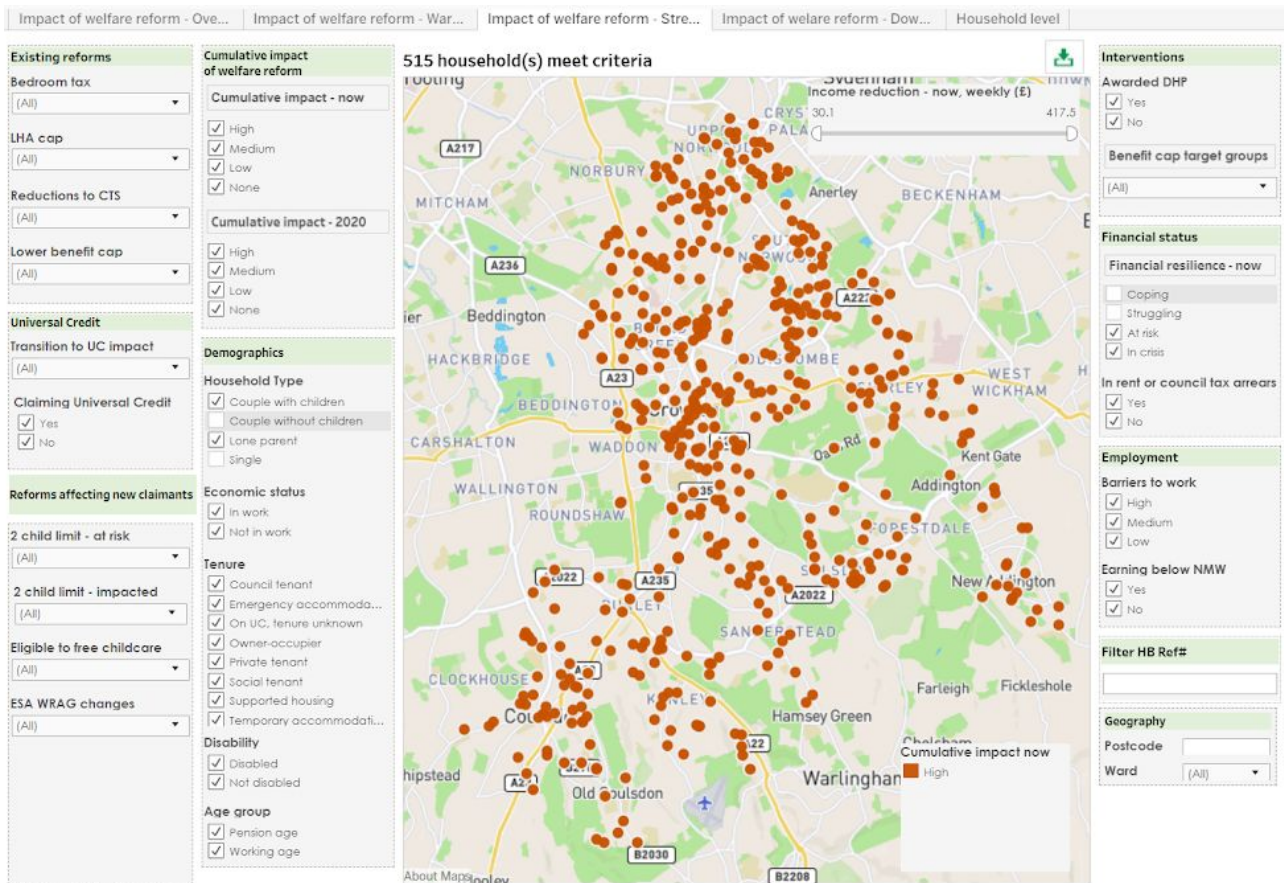


Figure 12. LIFT Dashboard view of families in an income shortfall highly affected by welfare reforms

The Children’s Commissioner believes that central and local government should be doing more to use administrative data to better understand the drivers of vulnerability in children, and to proactively use data like this to help families. Whilst this research uses Housing Benefit and Council Tax Support data from nineteen local authorities, Universal Credit gathers detailed information on a national basis on the living standards of over six million low income families.

- The data be used to **identify vulnerable children**, including those put at greater risk as a result of government reforms to the benefit system
- Linking this data on a pseudo-anonymised basis to other datasets, such as information on children in care, or those at risk of being in care, can help to **identify the drivers of vulnerability**
- Longitudinal analysis can help to identify what types of intervention are most effective at **preventing vulnerability**, or at stopping children from moving into care

The DWP have access to national data on all Universal Credit recipients, and those on legacy benefits. The potential for sharing this data to drive targeted and effective interventions across central and local government, is immense.

FURTHER INFORMATION

Authors

Dr Ben Fell, Head of Analysis, Policy in Practice
Deven Ghelani, Director and Founder, Policy in Practice

Contact

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