

Response to the Budget on 11 March 2020

Legatum Institute

OVERVIEW

A range of announcements in the Chancellor's first Budget have paved the way for a comprehensive anti-poverty strategy, which will be central to the Government's ambitions to level up the economy and improve prosperity for all UK citizens.

The Legatum Institute welcomes measures in the Budget that seek to protect families at risk of or living in poverty from the economic fallout from COVID-19, and the range of measures on education, health, family support, affordable housing, rough sleeping, productivity, and pay that stand to lay the foundations for reducing poverty levels in the future.

The impact of these policies could be significant. For example, modelling by the Legatum Institute shows that if rental costs in the private and social rented sectors were to be one percentage point lower than earnings growth in the next five years, there would be 240,000 fewer people in poverty in 2024/25 than if rental costs increase in line with earnings.

Improving education, health services, and family support are also crucial to tackling poverty, because we know that:

- A third (34%) of people in poverty live in families where an adult has poor self-reported mental health;
- Nearly one in five (18%) of those in poverty live in a family where no adults have any formal qualification; and
- More than half (53%) of people in lone-parent families are in poverty.

The next step would be to use these foundations to create **a comprehensive anti-poverty strategy** that can then be used to tackle poverty and level up outcomes right across the UK.

“Budget 2020 lays the foundations for an anti-poverty strategy that could help level-up economic and social outcomes right across the UK.”

“Central to the Chancellor's announcements are policies that reduce the risk of the economic fallout from COVID-19 pushing families into poverty in the coming months. In the longer term, announcements on housing affordability, education, debt, health, pay, and productivity could prove significant for poverty reduction.”

“We now want to see the Government take this to the next level by introducing a comprehensive cross-departmental anti-poverty strategy. This needs to focus on reducing poverty rates and the depth and persistence of poverty across the UK, as well as tackling the resilience gap faced by many families in poverty.”

Baroness Philippa Stroud, CEO of the Legatum Institute

COMMENTARY

This briefing presents original analysis from the Legatum Institute which can be used to understand the likely impact of the Budget 2020 on poverty in the UK. The analysis is based on the ground-breaking poverty measure of the Social Metrics Commission (SMC). The Department for Work and Pensions is currently developing Experimental Statistics based on this approach.

UK poverty is a significant long-term issue

Before the Chancellor's Budget, the Legatum Institute highlighted the need to focus on poverty as a central part of the Government's strategy to level-up the UK. The reasons are clear:

- ***More than one in five people in the UK (22%) live in families in poverty*** and this has hardly changed over the last 20 years.
- ***Poverty is not spread equally across the UK:*** London has the highest rate of poverty in the UK (28%) while the South East and South West have the lowest rate (both 18%). Of those in poverty in London, 41% are more than 50% below the poverty line, compared to 23% of those in poverty in the North East.
- ***People in poverty suffer a resilience gap that entrenches and worsens their experiences of poverty:*** For example, they are more likely to have poor mental and physical health, to be living on their own, and to experience worklessness and indebtedness.

The following sections outline the extent to which Budget 2020 starts to address each of these areas.

Limited tax and benefit changes in the Budget

The focus of tax and benefit changes in Budget 2020 was on supporting individuals and businesses to navigate the economic disruption caused by COVID-19.

Announcements included:

- Reductions in business rates;
- More generous Statutory Sick Pay rules (and financial support for small firms to meet these);
- Easier access to Universal Credit for those needing to self-isolate; and
- A £500 million Hardship Fund for Local Authorities to support economically vulnerable people and households.

All of these policies will directly support those families affected by COVID-19 to maintain their incomes and reduce the risk that sickness absence, self-isolation, or financial disruptions leads to a situation where the family is in poverty.

However, aside from the potential to help families avoid slipping into poverty in the first place, there were relatively few tax and benefit changes in Budget 2020 that were focused on reducing poverty over the medium or long term.

In fact, only one major tax or benefit change was announced: a change in the Primary Threshold in National Insurance Contributions (the point at which people begin to pay NICs).¹

Modelling by the Legatum Institute² shows that, even with a cost to the Exchequer of £2.4 billion in 2024/25, this policy has a negligible impact on poverty. The main reason for this relatively limited impact is that, because it benefits all earners not just low earners, some 92% of the gains go to families that are not in poverty.

A wealth of measures to tackle poverty in the medium term

However, that does not mean that the Budget will have no impact on poverty. In fact, a wide range of announcements have the potential to boost incomes, reduce costs, and make significant inroads into the resilience gap that people in poverty face; helping them to move out of poverty now, or to avoid poverty completely in the future.

Housing

The SMC's poverty measure clearly demonstrates the impact of housing costs on poverty, with poverty rates being highest in areas where housing costs are the greatest. Overcrowding and rough sleeping also contribute to high rates of poverty.

In this respect, the SMC poverty measure includes an estimate of **5,000 people who are treated as being in poverty because they are sleeping rough**. Another 86,000 households are living in temporary accommodation.³ The Budget continued to support the Government's ambition to tackle homelessness and end rough sleeping, with an announcement of a £650 million rough sleeping fund.

More broadly, the Budget included a £12.2 billion investment in the Affordable Homes Programme and £400 million to support development on brownfield land across the country. Anything that tackles the cost of housing, particularly in existing high cost areas, could have a significant impact on poverty across the UK.

¹ For self-employed people, the Lower Profit Limit was also increased by the same amount.

² Legatum Institute analysis using IPPR tax-benefit model.

³ See <https://commonslibrary.parliament.uk/research-briefings/sn02110/>

For example, modelling by the Legatum Institute shows that if the growth in rental costs (in the private and social-rented sectors) were to be one percentage point lower than earnings growth over the next five years:

- Close to a quarter of a million (240,000) people would be moved out of poverty;
- 350,000 people would move up a poverty depth band – meaning that they would see a significant improvement in their circumstances; and
- Another 170,000 would move from being very close to the poverty line to being more than 10% above it – significantly reducing their risk of poverty in the future.⁴

Tackling the resilience gap

The SMC's Lived Experience Indicators provide insights into the resilience gap faced by those in poverty compared to those not in poverty. Across a range of areas, the Indicators show that people in poverty experience disadvantage. For example:

- A third (34%) of people in poverty live in families where an adult has poor self-reported mental health (compared to 24% of people who are not in poverty).
- More than a quarter of people in poverty are behind paying the bills (compared to 8% of those not in poverty).
- Nearly one in five (18%) of those in poverty live in a family where no adults have any formal qualification (compared to 9% of those not in poverty).

Whilst the effects will not be seen overnight, action to tackle these issues could have a real impact on poverty: both by improving the experiences of those in poverty right now, and by increasing the likelihood that families will be able to lift themselves out of poverty or avoid poverty in the future.

A range of announcements in the Budget could have a serious impact on the resilience gaps identified above. For example:

- Investment in the NHS, which is expected to lead to 50 million more GP surgery appointments, more nurses, and new hospitals;
- Investment in education, including capital funding for Further Education colleges, funding for eight new Institutes of Technology, the removal of VAT on digital publications, and further support for maths, PE and sport, and the arts.

⁴ Legatum Institute analysis using IPPR tax-benefit model.

- Changes to rules in Universal Credit that increase the period over which advances can be paid back and reduce deduction rates which could lessen the impact of debt on claimants.
- Supporting families with £2.5 million for research and developing best practice around the integration of services for families, which include family hubs, and how best to support vulnerable children.

Driving growth, productivity and pay

Ultimately, work is still the surest way for a family to avoid poverty; just one in ten (10%) of those in families where all adults work full time are in poverty, compared to seven in ten (70%) of those in workless families.

However, with in-work poverty on the rise, it is also clear that people in work need to secure wages that can lift them out of poverty.

In this respect, with a focus on increasing productivity, providing future jobs in the green economy, levelling up activity across the UK, and investing significantly in infrastructure, the Budget had much to encourage people right across the UK.

One specific policy worth noting is the **increase in the National Living Wage** (NLW) to £8.72 from April (a rise of 6.2%) and the ambition for the NLW to reach two-thirds of median earnings by 2024. Such a rise would likely lift the NLW above £10.50 an hour and stands to benefit many low-wage workers.⁵

Even if the overall impacts on poverty are muted (as not all low-paid workers are in poverty; for instance, some are in families further up the income distribution as two adults are in work), we know that those closest to the poverty line are most likely to fall beneath it in future, so this measure will also reduce future poverty risks.

⁵ Note that the NLW is a statutory minimum wage for those aged 25 and over. The Living Wage Foundation calculates a 'real' Living Wage, which is calculated from an assessment of the cost of living, based on a basket of household goods and services. This is currently higher than the statutory NLW - at £9.30 an hour (or £10.75 in London). Firms can sign up to it voluntarily. See here: <https://www.livingwage.org.uk/what-real-living-wage> .

ANNEX: POVERTY IN THE UK

Poverty across the UK

- There are 14.3 million people in poverty in the UK. This includes 8.3 million working-age adults; 4.6 million children; and 1.3 million pension-age adults.
- Nearly half (48%) of people in poverty – totaling 6.8 million people – live in a family where someone is disabled.
- A third (31%) of people in poverty – 4.5 million people – are more than 50% below the poverty line.
- Just under half (49%) of those in poverty – 7 million people – are in persistent poverty, meaning they are in poverty now and have also been in poverty for at least two of the previous three years.
- The poverty rate for people living in families where all adults work full time is just 10%, compared to 58% where all adults work part time and 70% in workless families.

Poverty across the UK's regions and countries

- At 28% of the population, London has the highest rate of poverty of all regions and countries in the UK.
- The lowest rates of poverty can be found in the South East and South West of England, both 18%.

Figure A1: Poverty rates in regions and countries across the UK

	Poverty rate (all) (%)
London	28
North East	25
West Midlands	25
North West	24
Wales	24
Yorkshire and the Humber	22
East Midlands	21
Northern Ireland	20
Scotland	20
East Of England	19
South East	18
South West	18
UK	22



Source: SMC analysis of Family Resources Survey, 2017/18

Notes: To ensure sufficient sample sizes, analysis is presented as three-year averages.

Table A1 shows the total number of people in poverty in each region and country. For example, 2.5 million people in poverty live in London, 1.7 million in the North West, and 1 million in Scotland.

Table A1: Poverty rates by region and country, 2017/18

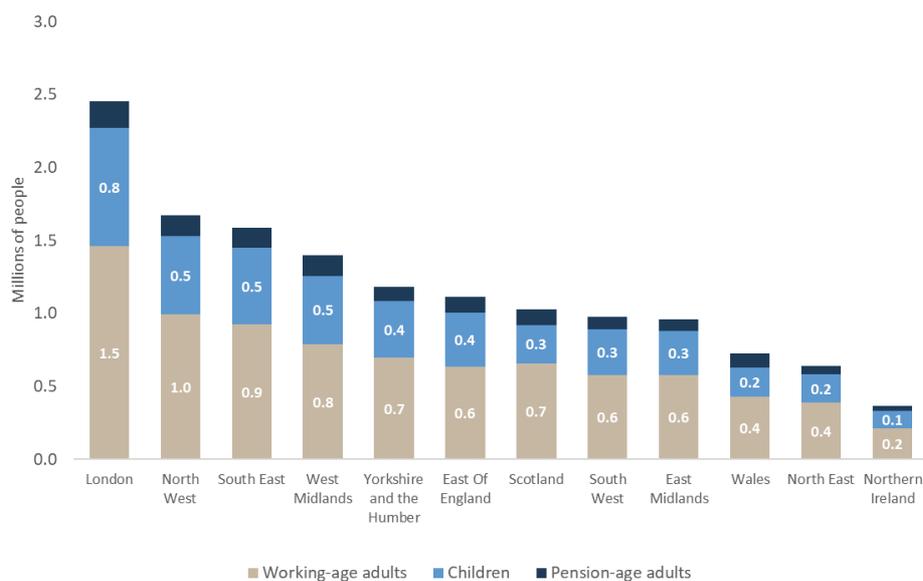
	All (millions)	All (%)	Working-age adults (%)	Children (%)	Pension-age adults (%)
London	2.5	28	26	41	18
North East	0.6	25	25	37	11
West Midlands	1.4	25	24	37	13
North West	1.7	24	23	36	11
Wales	0.7	24	24	32	15
Yorkshire and the Humber	1.2	22	22	34	10
East Midlands	1.0	21	21	31	9
Northern Ireland	0.4	20	20	27	11
Scotland	1.0	20	20	27	10
East Of England	1.1	19	18	29	9
South East	1.6	18	18	28	8
South West	1.0	18	18	29	7
UK	14.3	22	21	34	11

Source: SMC analysis of Family Resources Survey, 2017/18

Notes: To ensure sufficient sample sizes, analysis is presented as three-year averages.

Figure A2 breaks down the number of people in poverty, by age categories. For example, it shows that there are 700,000 working-age adults and 400,000 children in poverty in Yorkshire and the Humber.

Figure A2: People in poverty in UK regions and countries, by age category



Source: SMC analysis of Family Resources Survey, 2017/18

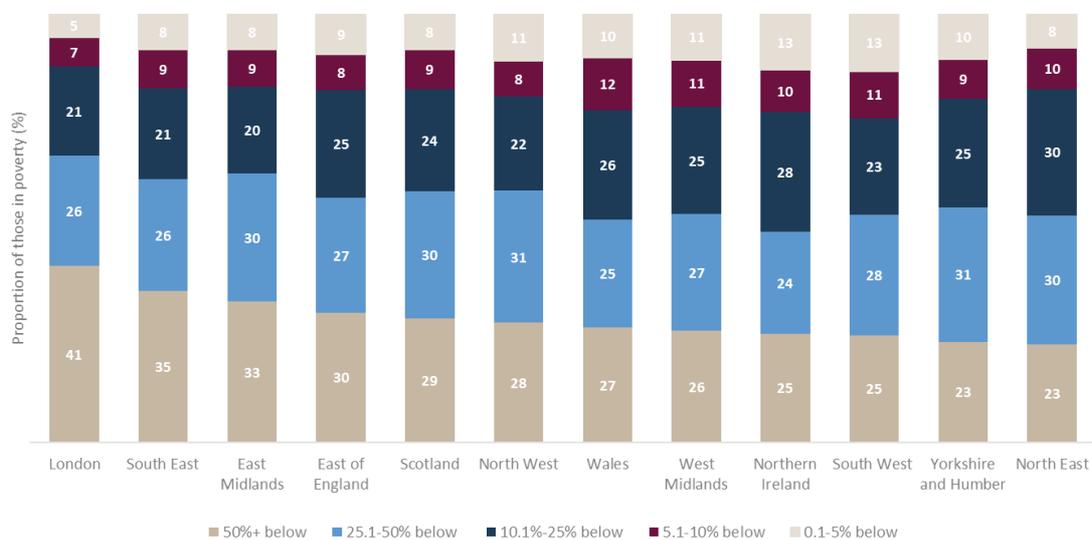
Notes: To ensure sufficient sample sizes, analysis is presented as three-year averages.

POVERTY DEPTH

Figure A3 shows the depth of poverty for those in poverty in each region and country of the UK. It shows that (apart from London), the proportions of people in poverty in each region who are more than 25.1% below the poverty line are broadly even (ranging between 53% and 59%), but that within that, the proportion of people living in families who are more than 50% below the poverty varies significantly more:

- Four in ten people (41%) in poverty in London are more than 50% below the poverty line.
- 35% of people in poverty in the South East and 33% of people in poverty in the East Midlands are more than 50% below the poverty line.
- Just 23% of people living in the North East are more than 50% below the poverty line.

Figure A3: Composition of poverty, by poverty depth and regions and countries, 2017/18



Source: SMC analysis of Family Resources Survey, 2017/18.

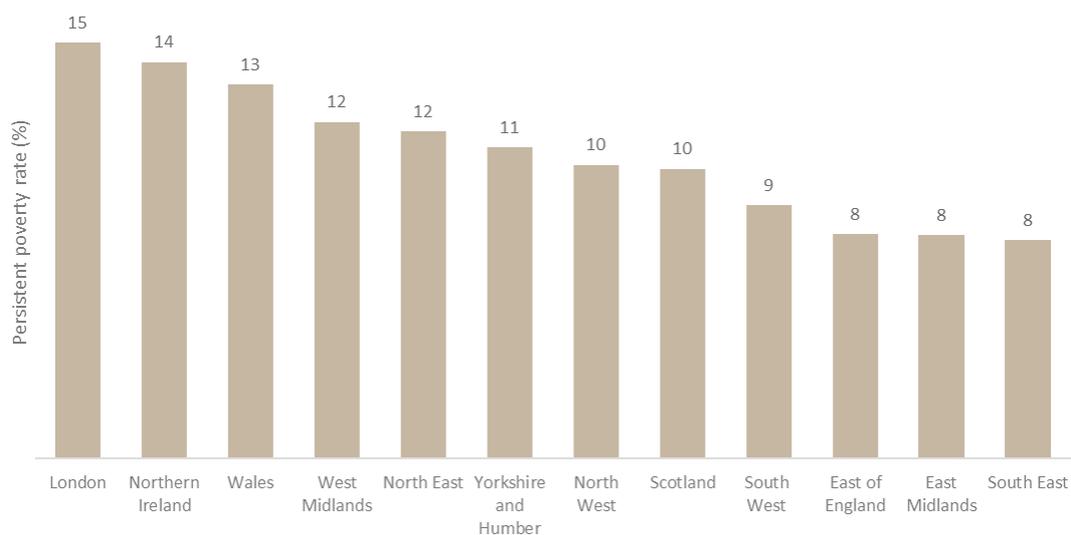
Notes: To ensure sufficient sample sizes, analysis is presented as three-year averages.

POVERTY PERSISTENCE

Persistent poverty is where a family is in poverty today and has also been in poverty for at least two of the previous three years. Figure A4 shows how the rate of persistent poverty varies across UK regions and countries.

It shows that the South East, East Midlands, and East of England have the lowest rates of persistent poverty (8% of the population of each region). London has the highest rate of persistent poverty at 15%.

Figure A4: Persistent poverty in UK regions and countries, 2016/17



Source: SMC analysis of Understanding Society (2013/14-2016/17)

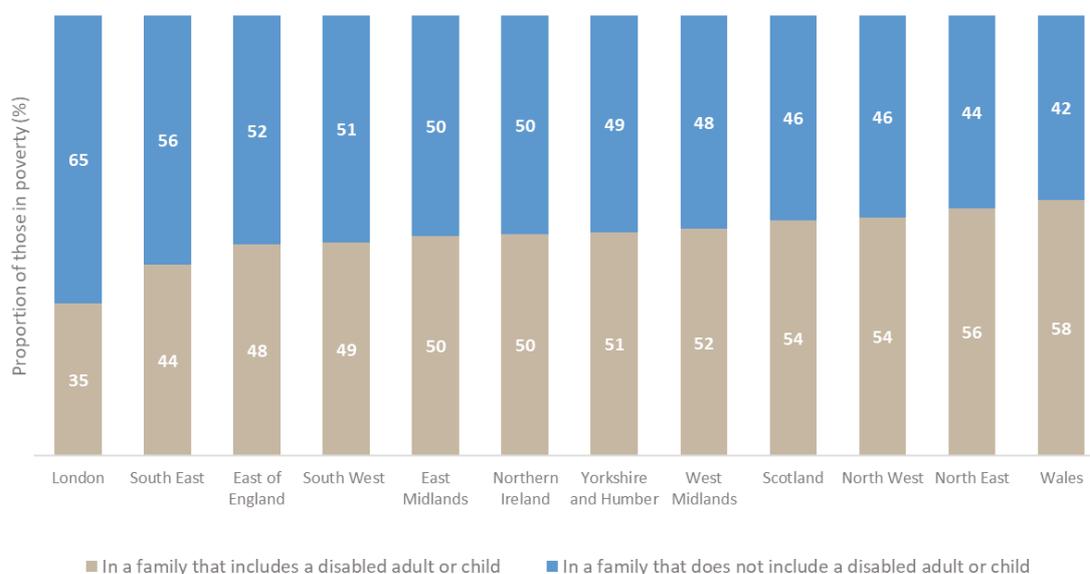
LIVED EXPERIENCE INDICATORS

The SMC's Lived Experience Indicators provide insights into the resilience gap people in poverty face compared to those not in poverty. Across a range of areas, the Indicators show that people in poverty experience disadvantage and factors that limit their ability to move out of poverty and avoid future poverty. For example:

- A third (34%) of people in poverty live in families where an adult has poor self-reported mental health. This compares to 24% of people who are not in poverty.
- One in five (18%) people in poverty live in a family where no one has any formal qualifications. This compares to 9% of those not in poverty.
- One in five (20%) people in poverty are in lone-parent families. This compared to just 5% of those who are not in poverty.
- Over two thirds (69%) of people in poverty live in families where no adult saves, compared to 38% of those in families not in poverty.

Significant resilience gaps are even more apparent amongst those living in families in the deeper levels of poverty. They also vary across the UK. For example, Figure A5 shows the proportion of people in poverty in each UK region and country who live in a family that includes a disabled person.

Figure A5 Composition of poverty in each UK region and country by whether family includes a disabled person



Source: SMC analysis of Family Resources Survey, 2017/18

Notes: To ensure sufficient sample sizes, analysis is presented as three-year averages

ABOUT THE LEGATUM INSTITUTE

The Legatum Institute is a London-based think-tank with a global vision: to see all people lifted out of poverty. Our mission is to create the pathways from poverty to prosperity, by fostering Open Economies, Inclusive Societies and Empowered People.

We do this in three ways:

Our Centre for Metrics creates indexes and datasets to measure and explain how poverty and prosperity are changing.

Our Research Programmes analyse the many complex drivers of poverty and prosperity at the local, national and global level.

Our Practical Programmes identify the actions required to enable transformational change.

Modelling of poverty impacts in this briefing note are Legatum Institute analysis using the IPPR tax-benefit model.