LEGATUM INSTITUTE

BRIEFING:

Impact of Universal Credit and WTC Changes on Poverty – Quarter 2, 2021

SEPTEMBER 2021

CONTEXT

This September 2021 briefing presents original analysis from the Legatum Institute using the Social Metrics Commission's approach to poverty measurement to demonstrate the insulating effect that Government policy has had on poverty throughout the Covid-19 pandemic and the risks that future changes to social security policy pose for poverty. It builds on our previous work on this issue[1], which provide more detailed methodological notes.

The results that follow should be regarded as our best assessment of the likely impact of changes to Universal Credit (UC) and Working Tax Credit (WTC), in terms of the insulating affect they have had. All of our modelling assumes that the Government's wider support programmes including the Coronavirus Job Retention Scheme (JRS) and Self Employment Income Support Scheme (SEISS), are in place.

The need for this analysis is clear; the survey data that underpins the measurement of poverty in the UK and covers the pandemic period will not be available until 2022. However, important decisions on the future of social security policy are currently being taken without a full understanding of the potential poverty impacts. As such, this briefing presents the results from a "nowcasting" exercise. This uses the most up-to-date data on employment, earnings and Government policy available (including the Coronavirus Job Retention Scheme (furlough scheme) and its likely distribution amongst different groups of employees), along with a range of assumptions to model poverty in Quarter 2, 2021. We do this in two ways, both for Q2 2021:

1) With the £20 uplift in UC and WTC and the suspension of the Minimum Income Floor (MIF) for self-employed people on UC in place; and

2) Assuming that the increases in UC and WTC are reversed and the MIF reinstated.

The difference in the results between the two scenarios shows how many more people would have been in poverty in Quarter 2 2021, without changes to UC and WTC made during the course of the pandemic. They also provide an indication of the potential poverty impacts of the removal of the existing levels of support in October 2021.

More detail on the assumptions used in this, and our other scenarios, along with full results for each scenario can be found in the main body of the report. Further detail on how our modelling approach works and the background to the Legatum Institute Policy Simulator, can be found in our earlier report.[2]

SUMMARY OF FINDINGS

Government Covid response policy has insulated many families from poverty. In an attempt to mitigate some of the financial impacts of the Covid-19 crisis, the Government has introduced a range of financial support for families and businesses. These include a temporary increase of £20 a week to Universal Credit and Working Tax Credits and the suspension of the Minimum Income Floor (that applies to self-employed people claiming Universal Credit).

> We estimate that these policies alone protected some 840,000 people from poverty in Quarter 2, 2021. In other words, without these changes, 840,000 more people would have been in poverty in Q2 2021 than was actually the case.

The Government's JRS and SEISS schemes as well as wider support for businesses and the economy, will have protected many more on top of this figure.

Impact across different groups. The table on the following page shows how the types of people and families that have been protected from poverty by the UC, WTC and MIF changes through the pandemic. For example, it shows that the majority of those protected are working-age adults (520,000) or children (290,000).

In other words, if current UC and WTC levels were reduced by £20 a week and the MIF were reinstated, some 520,000 more working-age adults and 290,000 children would have been in poverty in Quarter 2 2021.

PROJECTIONS OF HOW MANY PEOPLE THE CHANGES IN UC AND WTC WERE PROTECTING FROM POVERTY IN QUARTER 2, 2021

	Number of people being protected by UC & WTC uplift and suspension of the MIF
Age	
Children	290,000
Working-age adults	520,000
Pension-age adults	30,000
Family type	
Single, no children	190,000
Lone parent	200,000
Couple, no children	60,000
Couple with children	360,000
Single pensioner-age adult	0
Pensioner couple	30,000
Family work status prior to Covid-19 pandemic	
Full-work family (including those who subsequently lost their jobs)	320,000
Full/ part-time work family	300,000
Part-time work family	90,000
Workless family	120,000
Retired family	10,000

Source: Legatum Institute, Family Resources Survey and HBAI dataset (1998/99 – 2018/19), IPPR tax and benefit model. Quarter 1, 2021 is our central unemployment scenario.
Notes: Work status describes the family's situation prior to Covid-19.

SUMMARY OF METHODOLOGICAL APPROACH

The measurement of poverty in the UK, including the Social Metrics Commission's measurement framework, is typically based on the Family Resources Survey (FRS). This is a long-standing household survey, conducted each year. However, whilst this provides users with a rich picture of the extent and nature of poverty across the UK, the data is published with a significant time lag. This means that survey data covering the Covid-19 period, will first become available in 2022. This is obviously too late for decision makers who are seeking to ensure that the most vulnerable are shielded from the worst impacts of the pandemic.

To tackle this, this briefing presents the results from a "nowcasting" exercise. This takes the most recently available data (from the FRS, 2019/20) and updates that data based on what we know about changes in the economy (including employment, earnings, incomes and prices) as well as changes to Government policy. To understand the impacts of the economic fallout from Covid-19 we do this to create a "baseline" and a set of "reform" scenarios:

- A baseline scenario updates the FRS as if Covid-19 had not happened; and
- Reform scenarios update the FRS including changes that we think have happened as a result of Covid-19 (to both the economy and Government policy).

Comparing results from reform scenarios to the baseline allows us to create projections, or nowcasts, of the potential impacts of Covid-19 on poverty in the UK. Creating realistic nowcasts relies on creating an accurate set of assumptions on what has happened to key features of the economy, including unemployment and wages as well as Government policy. Here we focus on:

- Reduced employment and increased unemployment;
- The number of employees on the Government's Coronavirus Job Retention Scheme (furlough) and the likely wage impacts;
- The number of self-employed on the Self-Employed Income Support Scheme and the likely earning impacts;
- Changes in benefits policy resulting from the Covid-19 crisis; most notably £20 a week increases in basic allowances of Universal Credit and Working Tax Credit and the suspension of the Minimum Income Floor that applies to self-employed people on Universal Credit.

For each of these, it is also important to understand how they might have been differentially felt by different segments of the population. For example, have those with low incomes seen largest impacts? This is particularly important when measuring poverty impacts because the Social Metrics Commission's poverty measure creates a poverty threshold that is taken with reference to others in society.

CREATING ESTIMATES OF THE HEADLINE IMPACTS OF COVID-19 ON THE ECONOMY

The table below summarises the approach taken to creating assumptions for each of the main aspects of economic changes that we are modelling.

	Existing evidence	What have we done?
Change in employment / unemployment	Statisticians, including the ONS, have faced real challenges in plotting the course of employment and unemployment during the crisis. These challenges include accounting for the effects of the JRS, conducting household surveys in the course of a global pandemic and difficulties in interpreting new claims data for benefits (when usual conditionality regimes have been suspended).[3]	We have accepted a degree of uncertainty and chosen to create "low" "central" and "high" unemployment scenarios. These are based on: · Estimates of unemployment from the Labour Force Survey (low scenario);[4] · HMRC real time PAYE data, showing falls in employment, which are translated into equivalent rises in unemployment (high scenario).[5] · A rounded mid-point between these two is used for the central scenario.
Number of people on the JRS (furlough)	Official statistics exist on the number of "employments" that are on the JRS. Note that this is different from the number of people, since one person can hold multiple jobs ("employments").	Used official statistics, adjusted for the number of people in the UK economy holding more than one job.[6]
Reduced earnings for those on JRS (furlough)	Scheme rules are that employees must receive at least 80% of their pay, up to a monthly limit of £2,500.	All those on JRS receive 80% of previous earnings, up to a monthly limit of £2,500.
Number of people on the SEISS	Official statistics exist on the number of self-employed people who have applied for, and been subsequently given, a grant as part of the SEISS.	Based on analysis of official statistics.[7]
Reduced earnings for those on the SEISS	There have been three waves of the scheme and rules depend on the wave of the grant that is applicable at the time.	Used scheme rules applicable for Quarter 2 2021.
Changes in the benefit system	A number of changes have been introduced by the Government, in response to the Covid-19 crisis.	Focussed on £20 a week increases in basic allowances of Universal Credit and Working Tax Credit and suspension of the Minimum Income Floor that applies to self-employed people on Universal Credit.

Full details of the approach taken, and the Legatum Institute Policy Simulator can be found in our November 2020 publication.[8]

ANNEX 1: THE SOCIAL METRICS COMMISSION'S MEASURE OF POVERTY

This briefing uses the Social Metrics Commission's measure of poverty as the basis of its analysis. The SMC was established in 2016, as a response to the fact that the UK no-longer has official poverty measures agreed and used by Government. It is hosted by the Legatum Institute and is dedicated to helping policymakers understand and take action to tackle poverty and build prosperity. Its membership includes people from across the political spectrum as well as poverty and measurement experts. The Commission's primary goals have been to develop new poverty metrics for the UK which both:

- Have long-term political support; and
- Effectively identify both those who are in poverty and their experiences of poverty.

The SMC's landmark report in 2018 outlined a new approach to measuring poverty. As well as looking at incomes, this approach allows us to account for a range of inescapable costs that reduce people's spending power, and the positive impact of people's liquid assets on alleviating immediate poverty. These inescapable costs include rent or mortgage payments, childcare and the extra costs of disability. Liquid assets include savings, stocks and shares. The measure also takes account of overcrowding in accommodation. As well as a more accurate reflection of a family's ability to make ends meet, the SMC's poverty measure tracks:

- The degree to which a family is below the poverty line
- The length of time that a family is below the poverty line
- The experience of living in poverty.

Following the 2018 report, and an update in 2019, the Commission's approach received support from across the political spectrum and from a wide range of experts and people involved in taking action to tackle poverty.

In the summer of 2019, the Government committed to establishing Experimental Statistics for poverty based on the SMC's approach; this is the first step to developing new national statistics on poverty.

DATA USED IN THIS BRIEFING:

Family Resources Survey: Department for Work and Pensions, Office for National Statistics, NatCen Social Research. (2019). Family Resources Survey, 2017-2018. [data collection]. UK Data Service. SN: 8460, http://doi.org/10.5255/UKDA-SN-8460-1. Department for Work and Pensions. (2019). Households Below Average Income, 1994/95-2017/18. [data collection]. 12th Edition. UK Data Service. SN: 5828, http://doi.org/10.5255/UKDA-SN-5828-10.

SMC methodology: More details of the SMC's approach to poverty measurement can be found here: http://socialmetricscommission.org.uk

1. Legatum Institute, (2020). Poverty during the Covid-19 crisis. Available here: https://li.com/reports/poverty-during-the-covid-19-crisis/ Accessed 20/06/21.
2. Legatum Institute, (2020). Poverty during the Covid-19 crisis. Available here: https://li.com/reports/poverty-during-the-covid-19-crisis/ Accessed 20/06/21.
3. See, for example, https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/coronavirusanditsimpactonthelabourforcesurvey/2020-10-13 and https://www.resolutionfoundation.org/publications/the-truth-will-out/ . Accessed 15/11/20.
4. ONS, (2021), see Unemployment rate (aged 16 and over, seasonally adjusted) - Office for National Statistics (ons.gov.uk) Accessed 23/06/21.
5. ONS, (2021), see Earnings and employment from Pay As You Earn Real Time Information, UK: March 2021 - Office for National Statistics (ons.gov.uk) Accessed 23/06/21
6. HMRC, (2021), see HMRC coronavirus (COVID-19) statistics - GOV.UK (www.gov.uk) Accessed 23/06/21.
7. HMRC, (2021), see HMRC coronavirus (COVID-19) statistics - GOV.UK (www.gov.uk) Accessed 23/06/21.
8. Legatum Institute, (2020). Poverty during the Covid-19 crisis. Available here: https://li.com/reports/poverty-during-the-covid-19-crisis/ Accessed 20/06/21.