Low-income Londoners: before and after COVID-19

Report to Trust for London

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Executive summary

Partnering with 17 London Boroughs, Policy in Practice has been working with administrative data on Housing Benefit and council tax support recipients to track the living standards of over 750,000 low income Londoners during the period 2016 to 2020.

We find that between 2016 and 2019, working-age low-income Londoners became increasingly financially vulnerable.[1] There are strong links between households affected by welfare reforms and households who became more financially vulnerable, with groups who were impacted by several reforms, such as families with children, lone parents out of work, and private renters, becoming increasingly likely to face a cash shortfall after costs.

This decline in living standards meant low-income Londoners were ill-prepared for the financial impact of COVID-19. However, April 2020's welfare reforms - most significantly increases to Universal Credit, tax credits and the LHA rate in response to COVID-19 - offered a boost to most working-age low-income Londoners. As a result, the proportion of low-income households who were financially vulnerable declined significantly - even if some groups did not benefit as much as others, and there are other groups new to benefits who can only be fully understood with more recent data.

Key findings:

- Almost a quarter of working-age low-income London households (24.4% of those tracked) were facing a cash shortfall in 2019, up from 15.7% in 2016.

- 39% of working-age households who were affected by at least one of five main welfare reforms were financially vulnerable, compared to just 17% among those not impacted by any of these reforms.

- Close to half (44%) of households on Universal Credit could no longer make ends meet by August 2019, while two-fifths (40%) of households impacted by the LHA were in cash shortfall.

[1] By comparing each household's expected costs with their take home income, the report identifies households where costs are higher than income as in cash shortfall. Because these households' outgoings are likely to be higher than their income, they are regarded as financially vulnerable.

- Almost two-thirds (61%) of families with children were worse-off after household costs by 2019 than they were in 2016. As a result, the proportion of families with children facing a cash shortfall had doubled from 11% to 23%. It is estimated that across London this could equate to 229,000 children living in households that could not make ends meet.

- As a result of April 2020's welfare reforms, the average working-age low-income London household's disposable income has been boosted by £85. This has meant an extra 6% of London's pre-existing working-age low-income households can make ends meet.

- 20% of private tenants who previously saw restrictions in housing support will no longer have their housing related benefits restricted as a result of the increases to the LHA introduced in April 2020. Among those who are still impacted, their disposable income will increase by £172, moving them on average from a significant cash shortfall (-£140) to a small surplus of £33.

- However, the benefit cap is still preventing some financially vulnerable Londoners from fully benefiting from the April reforms. Those who were already capped received no additional support and have an average cash shortfall of over £400, while those who are newly capped received some boost in income but remain with an average cash shortfall of £284.

With London's claimant count - particularly those on Universal Credit - quickly expanding since the onset of the COVID-19 pandemic in March 2020, those who began claiming since March are now of particular interest. New data from boroughs across London, as well as more comprehensive data on Universal Credit claimants from the DWP, will therefore be crucial if local authorities and policymakers are to understand and mitigate the quickly evolving financial impact of COVID-19. Consequently, Policy in Practice is launching a new phase of this research series to follow up this report with more analysis on the post-Covid situation.

Introduction

Over the last four years Policy in Practice, supported by Trust for London, has worked with London boroughs to track the living standards of low-income Londoners using administrative data. This research shows the last four years of welfare reforms have made many working-age London households, especially families, lone parents out of work, and private renters, financially vulnerable. This vulnerability meant they were at even higher risk from the fallout of COVID-19. However, this report also finds recent reforms to welfare support introduced in April 2020 are significant and could begin to undo the negative impact of several welfare reforms from the 2010s.

Using data covering working-age low-income Londoners from 2016 to 2019, this report finds:

- Almost a quarter of working-age low-income London households (24.4% of those tracked) were facing a cash shortfall[2] in 2019, up from 15.7% in 2016.

- Each of the 17 boroughs participating saw steady increases in the proportion of their residents who were financially vulnerable between 2016 and 2019.

- In Brent, Enfield, Redbridge, Hackney and Islington, one in every twenty working-age families in the borough had a cash shortfall by 2019.

- Reflecting this analysis across London as a whole, an estimated 228,000 working-age low-income households did not have enough income to make ends

[2] Their estimated household costs (adjusted for household size) were larger than their take home income. As a result, these households are identified as financially vulnerable.

meet by August 2019.

- The average household was better off by £39 after household costs compared to 2016. However, 42% of households were worse-off since 2016, and had on average £298 less income per month after household costs.

- Households impacted by welfare reforms were much more likely to be in cash shortfall than those not impacted. 39% of working-age households affected by at least one of five main welfare reforms were financially vulnerable, compared to just 17% of those not affected by these reforms.
- 69% of households on Universal Credit represented in the dataset were worse-off in 2019 than they were in 2016. As a result, 44% of these households could no longer make ends meet by August 2019

- Two-fifths (40%) of households impacted by the LHA were in cash shortfall by 2019.

- While in 2019 the benefit cap affected fewer households in total than other reforms, households affected by it were the most likely to be in cash shortfall - two out of three (68%) could no longer make ends meet.

- Several groups negatively impacted by more than one welfare reform were especially more likely to be financially vulnerable by 2019:

    - Almost two-thirds (61%) of families with children were worse-off after household costs in 2019 than they were in 2016. Consequently, the proportion of families with children who could no longer make ends meet had doubled (to 23%). Across London, an estimated 106,000 families with children were facing a cash shortfall. Within these families, there could be 229,000 children who are not having their needs met.

    - Lone parents out of work were five times more likely than the average low-income Londoner to be affected by the benefits cap, twice as likely to be on Universal Credit, and 1.8 times as likely to be impacted by the two-child limit. As a result, 38% of lone parents out of work were in cash shortfall by 2019 (up from 22% in 2016).

    - Almost half of private renters (47%) were affected by the LHA, and almost a third (31%) were in cash shortfall. Similarly, one in eight social tenants were financially impacted by the bedroom tax. Overall, a quarter of social tenants (25%) were financially vulnerable.

Overall, the picture between 2016 and 2019 was one of increasing financial vulnerability for working-age low-income Londoners. With multiple shocks to the economy from COVID-19 now ongoing, this vulnerability meant many households would have had very little leeway to cope with widespread upheaval such as unemployment, illness and school closures. However, for most households, the April 2020 welfare reforms will have improved their situation and reduced vulnerability.

Using uprated data from 2019, the impact of the new April 2020 measures on low-income London households was modelled:

- The average working-age low-income London household's disposable income has been boosted by £85 as a result of the increases to tax credits, Universal Credit and the LHA rate. Without these increases, the average working-age low-income Londoner would be much more likely to be financially vulnerable.

- The average working-age household in receipt of Universal Credit is £82 better-off after costs as a result of the changes, while the average household in receipt of legacy benefits has gained by £86 after costs.

- 20% of private tenants who were previously affected by the LHA will no longer have their housing related benefits restricted. Among those who are still affected, their disposable income will increase by £172, moving them from a significant cash shortfall (-£140) to a small surplus of £33.

- However, the benefit cap is still limiting the income of some financially vulnerable Londoners and preventing them from fully benefiting from the April reforms. Households in receipt of legacy benefits who were already benefit capped will have received no boost from the reforms and remain, on average, with a cash shortfall of over £400. Some households in receipt of legacy benefits benefitted somewhat from the reforms, but the boosts to their income from tax credits and the LHA rise mean their benefits will now be capped. They have therefore not received as big a boost as other similar households, and remain with an average cash shortfall of £284.

Financial vulnerability

Throughout this report, Policy in Practice defines living standards through the lens of financial vulnerability. This measure, introduced in the first phase of Trust For London findings in June 2017, assesses household income against the costs each family is expected to face, adjusted for household size. This examination of financial resilience is possible because 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.

This report divides households into two groups according to their modelled levels of financial vulnerability:

- Those facing a cash shortfall, who are deemed to be financially vulnerable because the household's expected costs exceed their take-home income. These households with negative disposable income are unlikely to be able to make ends meet.

- Those who are able to meet their household costs and be left with some disposable income.

As well as financial vulnerability, this report also looks at the precise level of each household's income after costs - their total take-home income minus their total expected costs. By comparing this over time and between modelled scenarios, the report is able to gauge how low-income Londoners' financial circumstances have changed between 2016 and 2020.

This approach takes the needs of the household into account and can therefore give a better assessment of which households most need support, compared to other measures such as relative poverty, which is based solely on 60% of national median income. From the perspective of local welfare provision, the financial vulnerability indicator can help to drive operational decisions by making visible families who may be in financial crisis, likely to fall into arrears or face eviction.

Administrative data from across London

The data used in this report comes from councils' anonymised Single Housing Benefit extracts (SHBE) and Council Tax Reduction extracts, which they collect to administer these two respective benefits. Policy in Practice has collected this data from 20 London boroughs across four years from 2016 to 2019, covering 743,975 low-income London households in that time, and giving an in-depth insight into their financial circumstances.

The most recent snapshot of data used in this report, August 2019, covers 468,841 households across 17 boroughs. This report focuses primarily on the 340,133 working-age households within this sample. The August 2019 data captures:

- 46% of London's total working-age low-income households (all households aged under 65 in London receiving Universal Credit or Housing Benefit).

- 24% of the total households within the 17 boroughs who participated in this research.

- 13% of all households in London.

Policy in Practice thanks each of the following boroughs for enabling this analysis by sharing their data with us: Barking and Dagenham, Brent, Camden, Croydon, Ealing, Enfield, Greenwich, Hackney, Haringey, Harrow, Islington, Kensington and Chelsea, Lambeth, Redbridge, Southwark, Sutton and Tower Hamlets.

Although these datasets do not cover all low-income households who may be on Universal Credit, it is estimated that in the eight boroughs where the dataset includes comprehensive data on Universal Credit council tax support claimants, 37% of Universal Credit claimants are covered. Policy in Practice is working with councils across the country to encourage the DWP to share more data on Universal Credit claimants in their area with local councils, so that support can be better targeted. We encourage councils who wish to add their voice to that of Royal Borough of Greenwich and others to get in touch via hello@policyinpractice.co.uk.

Because of the breadth of the dataset used, this report is able to estimate how trends would impact working-age low-income households across London. Without full data from other boroughs and comprehensive data on households on Universal Credit, the precise accuracy of these estimates cannot be guaranteed.[3] Nevertheless, we believe the estimates provide a useful indication of the scale of the problems facing low-income Londoners. Policy in Practice encourages local authorities who wish to understand the financial vulnerability of residents, now and in the future, and who are interested in adding their data to future waves of this project, or a similar project elsewhere, to get in touch via hello@policyinpractice.co.uk.

[3] For instance, it is possible that households receiving Universal Credit who also receive Council Tax Support (i.e. the households we can see in our data) are on average worse-off than those receiving Universal Credit who do not claim Council Tax Support.

Welfare reform 2016 to 2019

The Government has introduced a number of changes to the benefit system since Policy in Practice started tracking low-income Londoners' living standards in 2016. The impact of several reforms has been particularly significant for low-income Londoners. From 2016 to 2019:

- The Local Housing Allowance (LHA) for private renters remained linked to CPI, while actual rents rose much faster - average rents for low-income Londoners renting privately rose by 14% according to this report's data.

- Universal Credit began rolling out, slowly at first, but over 12,000 more households in London claimed each month in 2019, and even more are now migrating as a result of changes to circumstances caused by COVID-19.

- Social tenants were subject to the bedroom tax, reducing their housing benefit by up to 25% if they have more bedrooms than the Government deems are required by the household..

- The benefit cap initially restricted annual benefit income for working-age Londoners to no more than the UK's median family income. From November 2016, the limit was reduced to £23,000 for couples and single parents, and £15,410 for single adults, and has remained at this level since.

- The two-child limit to benefit support was introduced and means that third or subsequent children born after April 2017 are no longer supported by the benefits system.

- Most working-age benefits were frozen at April 2016 levels, causing an estimated 6% real terms cut to households

Welfare reform 2020

In April 2020, in response to the COVID-19 crisis, the Government implemented widespread, currently temporary, changes to welfare:

- The Government increased support for those in receipt of Universal Credit or Working Tax Credits by £20/week.

- It raised the maximum support available to private renters by realigning Local Housing Allowance (LHA) rates to the cheapest 30% of market rents.

- The Minimum Income Floor for self-employed Universal Credit claimants was suspended.

Understanding how all of these developments have impacted, and will impact, low-income Londoners's living standards is crucial to preventing and mitigating the worst effects. By understanding both who has been affected and who will be affected, policymakers and councils can improve future policy and better tailor support to protect the most vulnerable Londoners from the financial impacts of COVID-19.

Declining financial resilience for low-income Londoners

The proportion of working-age low-income Londoners with a cash shortfall increased significantly between 2016 and 2019, indicating declining financial resilience for a significant number of Londoners. Each of the 17 boroughs who have shared data throughout this project saw an increase in the number of financially vulnerable households (i.e. those facing a cash shortfall) from 2016 to 2019. Within these boroughs, in total 82,000 working-age households were experiencing a cash shortfall by August 2019, up from 66,000 in January 2016. Projecting this trend across London, it is estimated that by August 2019, 228,000 working-age low-income London households were financially vulnerable.

Figure 1: The proportion of working-age low-income Londoners in our dataset in cash shortfall increased significantly in under four years

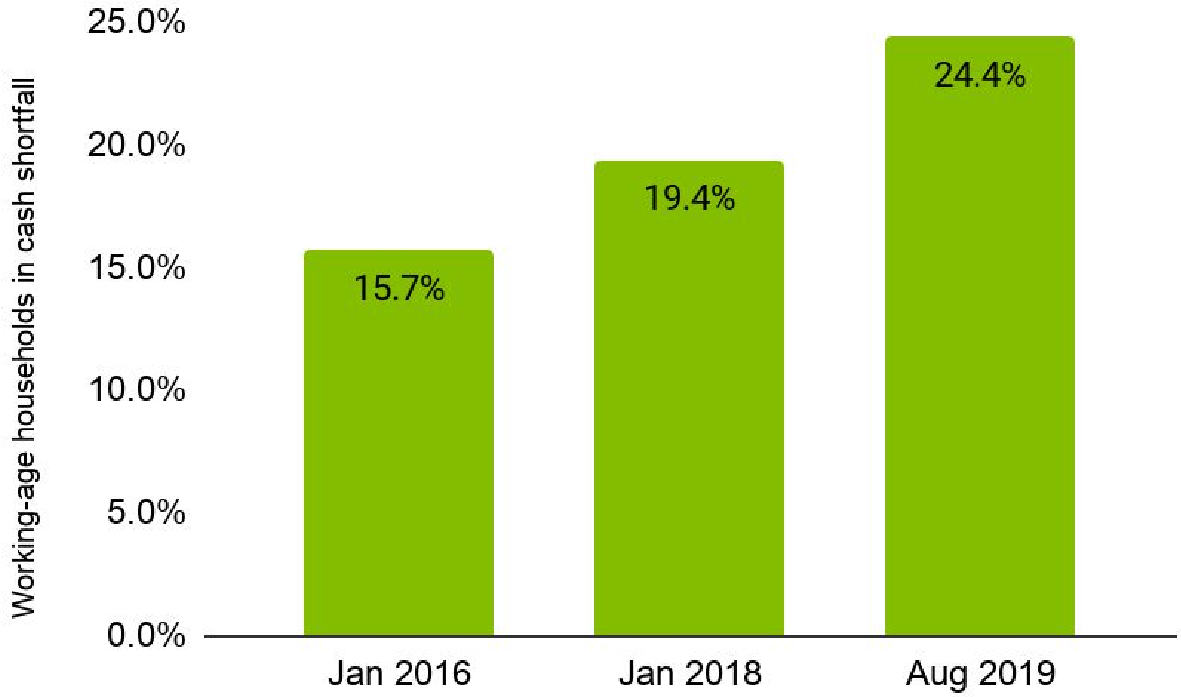
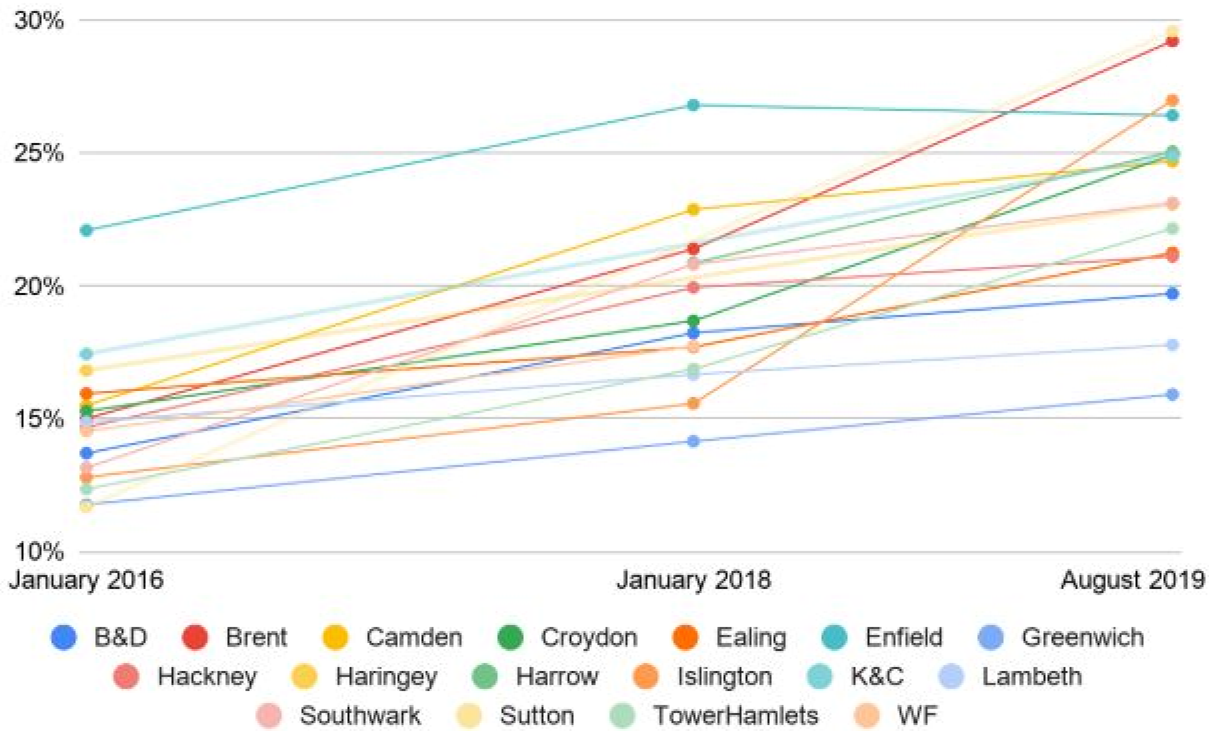


Figure 2: Across London, the proportion of working-age households in cash shortfall increased



In Brent, Enfield, Redbridge, Hackney and Islington, one in every twenty families was struggling to make ends meet. Focusing just on low-income households (those in receipt of Housing Benefit or Council Tax Support), more than a quarter in Redbridge, Sutton, Brent, Islington, Enfield and Harrow were facing a cash shortfall.

Table 1: Working-age households with a cash shortfall in 2019

London borough	Total	% of working-age low-income households	% of total households in the borough
Brent	7,969	29.2%	6.6%
Enfield	8,273	26.4%	6.3%
Redbridge	6,137	51.0%	5.5%
Hackney	6,181	21.1%	5.4%
Islington	5,616	27.0%	5.3%
Haringey	5,654	23.1%	4.9%
Tower Hamlets	5,966	22.2%	4.8%
Croydon	6,236	24.9%	3.9%
B&D	2,826	19.7%	3.6%
Ealing	4,777	21.3%	3.6%
Southwark	4,803	23.1%	3.6%
K&C	2,780	24.9%	3.5%
Camden	3,580	24.7%	3.3%
Sutton	2,633	29.6%	3.1%
Harrow	2,574	25.1%	2.8%
Lambeth	3,902	17.8%	2.7%
Greenwich	2,984	15.9%	2.6%

Those worse off compared to 2016 lost a large amount of disposable income

Once households' costs were taken into account, the average household had £39 less disposable income compared to 2016. Beneath this headline figure though there were big divides, with 95,000 households better-off, and almost 130,000 worse-off. Amongst the households whose income after costs was lower in 2019 than in 2016, the surplus declined by £324. With such a large average decline for these households, a rising proportion could no longer make ends meet.

Table 2: Average change in income after costs between 2016 and 2019

Working-age households		% of working-age low-income households	Average change in income after costs
All households	225,828	100.0%	-£39
Those better-off	95,836	42.4%	+£312
Those worse-off	129,992	57.6%	-£298

If these figures were reflected across the whole of London, it is estimated 428,000 working-age low-income households would be worse-off since 2016, with 316,000 better-off.

Welfare reforms contribute to increasing financial vulnerability

Focusing solely on those affected by specific welfare reforms suggests being impacted by these reforms increases the likelihood of a household being financially vulnerable.

- 63% of working-age households impacted by one of five main welfare reforms were worse-off than they were in 2016, with 39% of households impacted financially vulnerable. This is compared to just 17% in financial vulnerability among those not affected by any of these reforms.

- Two-fifths of low-income Londoners (40%) affected by the LHA were in cash shortfall, up from 30% in 2016. During this period the LHA fell to just the 13th percentile of market rents, and research showed housing benefit did not cover the rent of most private sector renters who received it, so this increasing financial vulnerability is not surprising. With more than 16,000 households in the dataset whose income is limited by the LHA in cash shortfall in 2019 - and an estimated 31,000 across London as a whole - recent changes to restore the LHA to the 30th percentile are very welcome.

- Those affected by the bedroom tax were similarly struggling - 32% were in cash shortfall by 2019, up from 29% in 2016.

- Among those low-income Londoners who had so far moved to Universal Credit (and were in receipt of council tax support), an alarming 69% were worse-off after household costs than they were in 2016. This loss of disposable income meant 44% of the households on Universal Credit in the dataset were financially vulnerable. If these same trends were seen across all households in London receiving Universal Credit, 132,000 households could have been facing a cash shortfall in August 2019.

- 36% of families affected by the two-child limit were no longer able to make ends meet. Although the two-child limit impacted relatively few households in 2019, since it took effect in April 2017, it has quickly risen from 0.6% of households impacted in January 2018 to 3.3% of households by August 2019. If this trend holds across London, it is estimated that by August 2019 8,000 families were unable to make ends meet and that, within these families, there were 32,000 affected children. With more and more third or subsequent children being born after April 2017, the number of children affected by the two-child limit is likely to grow over the coming years

- Proportionally, households affected by the benefit cap were the most likely to be financially vulnerable. More than two-thirds of low-income Londoners (68%) affected by the benefit cap did not have enough money to pay their bills. This is a slight increase on the 65% of households affected by the benefits cap who were in cash shortfall when this research series previously reported in 2018.

- Behind all of these reforms, all working-age benefit recipients were also affected by the benefits freeze. While household costs continued to rise, the benefits freeze meant incomes stalled.

Table 3: Low-income Londoners impacted by welfare reform in 2019 were much more likely to have lower income after costs compared to 2016 and as a result, many were financially vulnerable

		% of households worse-off in 2019 than they were in 2016	% of those impacted by reform in cash shortfall in 2019	Households across London impacted and in cash shortfall*
Working-age low-income Londoners		57.6%	24.4%	228,934
Impacted by…	LHA	59.9%	40.1%	31,785
	Universal Credit	69.3%	43.7%	132,080
	Bedroom tax	58.3%	32.2%	21,033
	Benefit cap	84.1%	67.6%	8,507
	2 child limit	71.8%	36.2%	8,581
	Any of the above	63.4%	39.2%	171,313

*Estimates based on applying trends from 17 boroughs across all of London's low-income households

Some groups lost out more than others

Each of these reforms impacts certain categories of household more than others. For those groups negatively affected by more than one reform, the cumulative effect was particularly severe.

Table 4: Some groups were much more likely to be impacted by welfare reforms

	% working-age households impacted by welfare reform					
Welfare reform	All low-income Londoners	Families with children	Lone parents out of work	Private renters	Social tenants	18-24 year olds
2 child limit	**3.3%**	**6.2%**	**5.8%**	**5.5%**	2.5%	1.8%
LHA	**12.3%**	**16.2%**	5.8%	**47.1%**	0.0%	10.7%
Benefit cap	**2.1%**	**3.0%**	**10.6%**	**3.8%**	1.3%	**2.9%**
Bedroom tax	**6.4%**	2.1%	1.7%	0.0%	**13.1%**	0.3%
Universal Credit	**11.5%**	11.0%	**24.3%**	3.8%	**15.3%**	**19.7%**

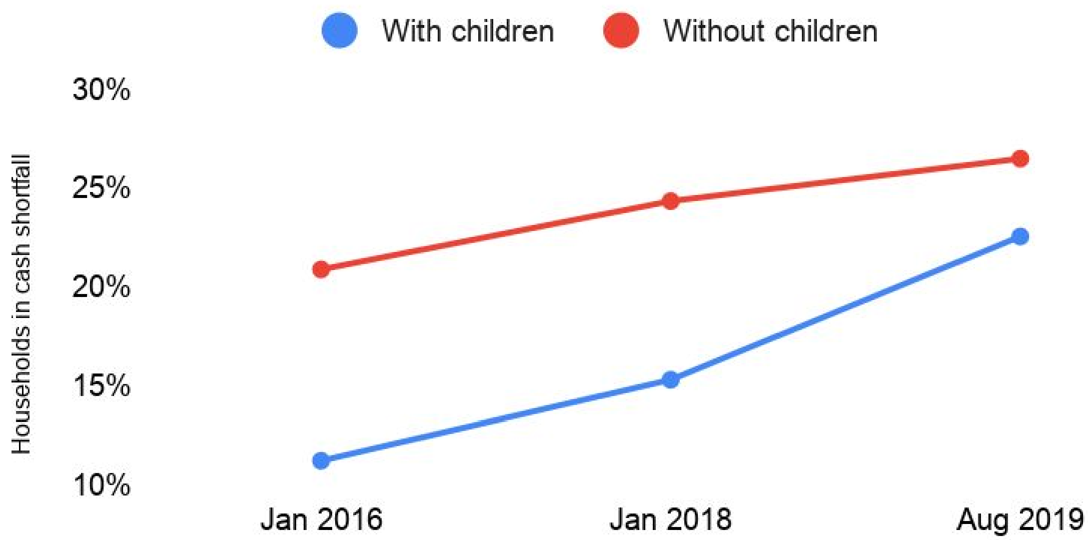
*Pink means more likely to be impacted than the average household

Families with children became increasingly vulnerable from 2016 to 2019 - more than one in five faced a cash shortfall

The proportion of families with children in cash shortfall doubled between 2016 and 2019, from 11% to 23%. Across London, it is estimated 106,000 families were financially vulnerable by 2019, including 229,000 children within these households. Households without children were considerably more financially vulnerable than those with children in 2016, but the gap between the two quickly narrowed, so by 2019 families with children were almost as likely to struggle to make ends meet as those without children, as figure 3 shows. While households without children were slightly less likely than the average household to be worse-off in terms of income after costs since 2016 (53%), those with children were significantly more likely to be worse off - almost two-thirds (61%) had less disposable income by 2019.

As table 3 shows, 36% of those affected by the two-child limit were financially vulnerable by 2019 (compared to 24% across all working-age households), so this is likely to be a significant factor behind the financial vulnerability of households with children. Moreover, households containing children were 1.3 times as likely to be impacted by the LHA, and 1.4 times as likely to be impacted by the benefit cap. Given each of these reforms increases the likelihood of someone being in cash shortfall, the combined impact is likely to have contributed to many households with children struggling to make ends meet.

Figure 3: Financial vulnerability has risen quicker for households with children



Lone parents out of work became especially financially vulnerable

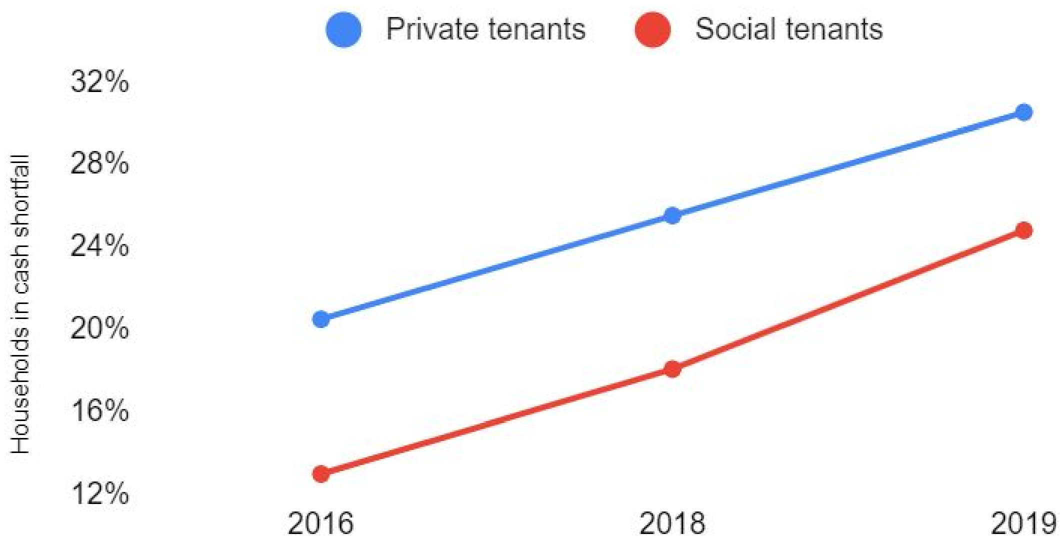
In 2016, 22% of lone parents out of work were already in cash shortfall, and the situation significantly deteriorated up to 2019 - 38% of such households were then in cash shortfall. Not only were some of these households impacted by the two-child limit, but lone parents out of work were also five times more likely than the average low-income Londoner to be affected by the benefits cap (11%), and twice as likely to receive Universal Credit (24%).

Single parent families are now reported to be among the worst financially hit by COVID-19. If many lone parents in work have lost earnings as a result of COVID-19, they may end up in a similar situation to those out of work identified here.

Private tenants were more likely than other tenures to be in cash shortfall

Private tenants are another group who lost out over these four years, with almost a third (31%) in cash shortfall by 2019, compared to 20% in 2016. 47% of low-income Londoners renting privately were impacted by the LHA, so this is likely to be a significant factor behind their lack of resilience, particularly in the face of steeply rising rents. Social tenants were on a similar trajectory, albeit starting from a lower point, with a quarter (25%) in cash shortfall by 2019, up from 13% in 2016. Their increasing financial vulnerability is likely linked to the fact one in eight social tenants was financially affected by the bedroom tax, as well as that they were more likely than the average low-income Londoner to have moved to Universal Credit already.

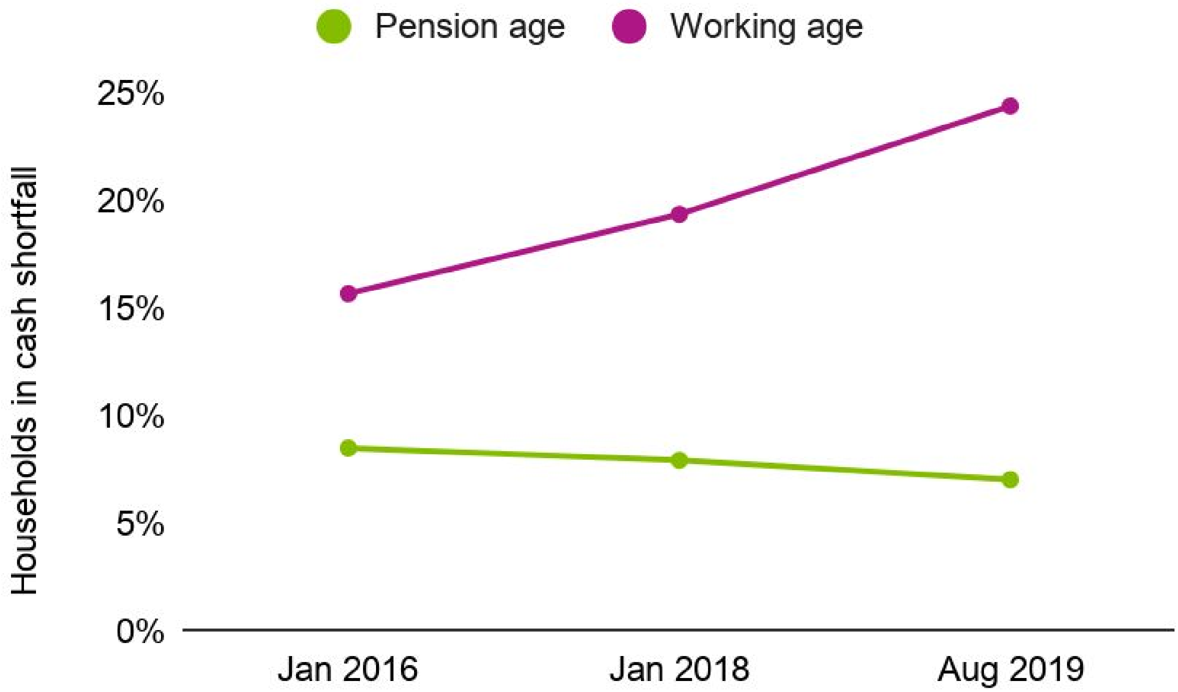
Figure 4: Private and social tenants became increasingly financially vulnerable



Diverging outcomes for working-age and pension-age households

Looking at differing impacts across age groups, welfare policies for pension and working-age households have been treated very differently, so differing outcomes should not be a surprise. Nonetheless, as figure 5 shows, the contrast between increasing financial vulnerability for working-age households and slightly declining vulnerability for pension-age households is stark.

Figure 5: Diverging living standards between working and pension-age households



Within this age breakdown, it is also noticeable 18-24 year olds fared particularly badly, with almost half of young low-income households (44%) in cash shortfall by 2019, compared to 25% in 2016. Again, it is notable that this age group was much more likely to receive Universal Credit - one in five 18 to 24 year olds in the dataset (20%) were in receipt of Universal Credit, compared to 12% across all working-age groups. They were also more likely to feel the impact of the benefit cap, and much more likely to be in temporary accommodation - 23% of 18 to 24 year old households in 2019 were in temporary accommodation, compared to just 8% in other working-age groups.

Table 5: Some groups have seen large increases in financial vulnerability since 2016

Demographic group	% in cash shortfall		
	2016	2018	2019
Families with children	11.20%	15.28%	22.54%
Lone parents out of work	21.92%	33.01%	38.42%
Private tenants	20.49%	25.53%	30.54%
Social tenants	12.98%	18.06%	24.82%
18-24 yos	24.65%	33.07%	44.12%

From 2019 to 2020: Low-income Londoners post-COVID-19

From January 2016 to August 2019 low-income Londoners became increasingly financially vulnerable - but 2020, and in particular COVID-19, brought significant changes. Aside from the severe health effects, the pandemic has caused widespread economic disruption. The increasing financial vulnerability from 2016 to 2019 meant low-income Londoners were ill-prepared for this economic turbulence.

However, modelling in this report suggests the recent welfare reforms introduced in response to the pandemic - including increasing Universal Credit and Working Tax Credit personal allowances by £20/week, raising the maximum support available to private renters by aligning Local Housing Allowance (LHA) rates to the cheapest 30% of market rents, and suspending the Minimum Income Floor for self-employed Universal Credit claimants - could help strengthen many households' financial circumstances.

Modelling assumptions

In order to produce modelling which accurately represents the impact of the recent welfare changes, it was necessary to change several assumptions which have underlined previous analysis in this Trust for London series. For example, because some local authorities tend to record private sector rents at the level of the LHA, rather than at the actual level of rent paid, in order to factor in the impact of the raise to LHA rates, this model replaces the rents of private tenants with the median rent for households of equivalent size, drawn from the Valuation Office Agency's List of Rents dataset (the same dataset used to set LHA rates themselves). Similarly, the above analysis uses housing benefit payments as recorded by local authorities. Here, to calculate housing benefit as it would be under the new benefit rules, in particular the increased LHA rate, this model uses Policy in Practice's policy engine to estimate housing benefit payments for each household.

Because of the changed assumptions underlying the analysis, this report avoids direct comparisons of levels of financial vulnerability between 2020 and the analysis above. Instead, the focus is on general trends in financial vulnerability and income after costs which the recent welfare reforms look to be driving.

Much needed COVID-19 reforms should ease financial vulnerability

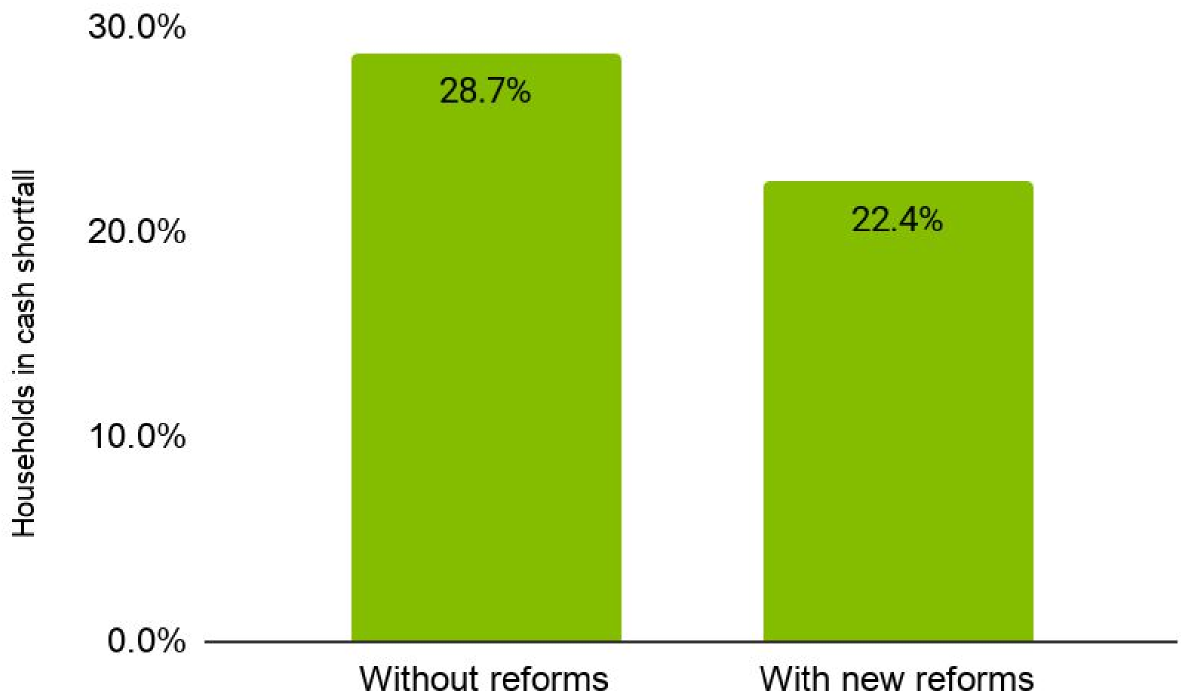
Looking solely at existing claimants from 2019, recent reforms should improve the financial situation of working-age low-income Londoners (notwithstanding direct negative impacts of the pandemic such as decreased earnings).

Over 21,000 more (6%) working-age low-income Londoners from the 17 participating councils could have been financially vulnerable, if the Government had not introduced its new package of reforms - and that is before taking into account the expected rise in caseload which will come as a result of rising unemployment. Extrapolating across London, an estimated 46,000 working-age low-income London households may have avoided financial vulnerability because of the reforms.

The average working-age low-income London household will see their income after costs boosted by £85 as a result of the increases to tax credits, Universal Credit and the LHA rate, as well as the suspension of the Minimum Income Floor. Figures 6 and 7 show how these changes significantly affect financial vulnerability. As a result, Policy in Practice, like many organisations, is urging the Government to retain these measures beyond April 2021.

Figure 6: Recent welfare reforms have given the average working-age low-income Londoner a significant financial boost

Figure 7: Without recent reforms, far more working-age low-income Londoners could be financially vulnerable



Households receiving Universal Credit were among the most likely to be in cash shortfall in 2019, but these reforms would see these households income after costs increase significantly, with the average household receiving Universal Credit £82 better-off than they would have been without the suspension of the Minimum Income Floor and increases to the Universal Credit standard allowance and the LHA rate.

Households receiving legacy benefits have also seen large boosts to income after costs, with an average increase of £86 coming from both increased tax credits and higher housing benefit under the increased LHA.

Despite these average gains, it should be remembered that there is a narrow but significant section of households who may not have benefitted at all from the new reforms. There is nothing in the measures to increase the income of those receiving legacy benefits who are not private renters or in receipt of tax credits.

The raise to the Local Housing Allowance has been crucial for private tenants

The increase of the LHA rate has been very significant for private tenants. The increase to the rate means an estimated 20% of working-age private tenant households will no longer have their housing related benefits restricted. Among those who are still impacted by the LHA, average income after costs will increase by more than £172 per month, bringing the average household impacted from a monthly £140 cash shortfall to a small surplus of £33.

Figure 8: The average private tenant impacted by the LHA will no longer face a cash shortfall

The benefit cap is limiting the effectiveness of these reforms

Recent increases in benefit awards have not fully reached many of the households who would otherwise benefit the most, because the benefit cap limits their income. Policy in Practice's recent research for the GLA showed:

- Households who were already capped have not received increases worth £219 per month, on average.
- Private sector renters with children who were already capped will not receive increases worth £431 per month, on average.

- Households who have become capped will not receive increases worth £185 per month, on average.

- Private sector renters with children who have become capped will not receive increases worth £400 per month, on average.

- Across the whole of London (not just the boroughs participating in this study), an extra 22,000 existing claimants became capped as a result of the new measures, with 44,300 households in total now impacted.

Applying this report's financial vulnerability measures further demonstrates the impact of the benefit cap restrictions on households in receipt of legacy benefits, as figure 9 shows. While households receiving legacy benefits whose income is not restricted by the benefit cap, on average, have enough income to meet their costs, partly as a result of the increase to incomes from the COVID reforms, those who are affected by the cap still have a significant shortfall. It is these households who have not seen the benefit of the COVID reforms and are now likely to be among the most financially vulnerable in London.

Because those who are newly unemployed will receive a nine month grace period where the benefit cap doesn't apply, the reforms will succeed in reducing lost income for those who lost work as a result of COVID-19. However, there is a significant group currently on benefits who might usually be able to find work.

Record low job vacancies across the UK mean COVID-19 is making finding work much harder for many of these households, and with the benefit cap still in place they do not receive the same protection as those who became unemployed more recently. This leaves these households at high risk of crisis and with limited opportunity to find work, which might, in normal times, have protected some from financial vulnerability.

Given the likelihood of these households being financially vulnerable, and the impact of COVID-19 on their chances of finding work, Policy in Practice would support the Government lifting or temporarily removing the benefit cap.

Figure 9: The benefit cap is keeping some households in receipt of legacy benefits in cash shortfall

Conclusions

2016 to 2019 left low-income Londoners vulnerable to an economic shock

From the start of this project in 2016, low-income Londoners have become increasingly financially vulnerable. Between 2016 and 2019, the percentage of working-age households who could not make ends meet rose from 16% to 24%. This left many low-income households ill-prepared for potential economic shocks such as COVID-19.

The Government's April 2020 reforms were welcome but more can be done

However, the Government's welfare response to the onset of the pandemic was extremely welcome. Broadly, the boosts to personal allowances and the LHA have helped to alleviate some of the financial vulnerability which low-income Londoners were facing and protected them during a COVID-19-related period of rising unemployment. There are though pockets of low-income Londoners who have not received these increases to income and for whom it is more difficult than usual to find work, such as those impacted by the benefit cap. Policy in Practice would urge the Government to consider extending the protection provided in April's reforms through removing or lifting the benefit cap.

In the medium term, Policy in Practice believes the wider boosts to Universal Credit, tax credits and the LHA should be continued beyond their current expiry date of April 2021, if low-income Londoners are to avoid returning to their pre-crisis trajectory of increasing financial vulnerability.

Administrative data will continue to be a vital tool in protecting low-income Londoners from financial vulnerability

The impact of economic change on low-income households, such as from COVID-19 and Brexit, can only be fully understood with administrative data from local councils. From research and policymaking perspectives, understanding how the trajectory of financial vulnerability evolves in light of ongoing economic turbulence will be crucial. The number of low-income Londoners in receipt of Universal Credit is highly likely to increase as employment declines, while there is uncertainty about the impacts of winding down the furlough and Self Employed Income Support schemes, as well as the potential end of the April 2020 welfare reforms in 2021.

New and up to date administrative data will be crucial for policymakers to make informed decisions in the face of this widespread uncertainty. Working with councils across London, Policy in Practice has begun collecting such data for the Low Income Family Tracker dashboard, allowing individual councils to target support in response to the needs of their residents during the crisis.

As well as this local level approach, a cross-London view of the situation is needed. Policy in Practice is therefore seeking to launch a new phase of this Trust for London series focused on tracking the recovery of low-income Londoners from the impact of COVID-19, looking at both the pre-existing claimants from this report, and all those new households who have moved on to Universal Credit since the beginning of the crisis, as well as monitoring any potential impacts of Brexit.

By examining administrative data from across London boroughs, policymakers can get a full and in depth understanding of how welfare policy is impacting low-income Londoners, and inform the national debate on support to ensure financial vulnerability declines. This data will be more important than ever to track the crisis's ongoing impact. With it, patterns of vulnerability can be identified as they emerge and London's potential progress back towards a new normal can be tracked.

More data on Universal Credit claimants is needed

Of equally vital importance will be full data on Universal Credit claimants. Whilst Council Tax Reduction data gives a good snapshot of some Universal Credit claimants, tracking the thousands of new claimants from the last few months, and understanding their situation in depth, will only be possible when Universal Credit claimant data is fully shared with local authorities.

Findings from Policy in Practice's previous Trust for London research

Phase one findings

In June 2017, the first phase findings focused on the power of bringing data together across London, on a single analytical platform. The key findings were that:

- Outer London boroughs were more heavily impacted by welfare reforms.
- Tracking employment patterns showed disability was the greatest barrier to finding work.
- An effective measure of living standards should take household needs into account.

Read the full phase one report here

Phase two findings

In December 2017, second phase findings showed the power of household level data, analysed over time. Linking household records meant it was possible to analyse the causal link between the benefit cap and employment. Following 57,000 self-employed households across London also allowed the research to assess the impact of the 'Minimum Income Floor', introduced alongside Universal Credit, and deliver findings that were more representative than traditional analysis using survey data. Key findings included:

- The benefit cap had a positive impact on the employment outcomes of households affected, with families subject to the cap 21% more likely to move into work than similar households who were not affected.
- One in ten of all working-age low-income Londoners were self-employed, representing a quarter of all low-income households in work. The Minimum Income Floor was expected to hit four in five low-income self-employed Londoners, with an average loss of over £4,100 per household per year.

Read the full phase two report here

Phase three findings

In August 2018, the third round of analysis looked at how factors including employment, housing and changes to benefits helped shape living standards over the previous two years. It also looked at the outlook for the next two years as Universal Credit was rolled out and the benefit freeze took hold. Key findings included:

- Low-income Londoners were becoming less financially resilient. The proportion of Londoners with low financial resilience had grown by 20% in the previous two years, and was expected to continue to grow through to 2020.

- Employment was helping to build financial resilience. Employment was the main driver of people improving their financial resilience; for people affected, welfare reforms were a driver of lower resilience, but they didn't tell the full story.

- Fluctuating living standards. Over two years a quarter of low-income households in work lost their jobs at least once, while improving job stability helped to build resilience.

- The future wasn't bright. Londoners on low incomes faced a bleak future, with an average expected drop in their disposable income of £100 p/w if rents and other living costs continued to rise as expected.

Read the full phase three report here

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