Policy in Practice

A submission to the All Party Parliamentary Group on Poverty inquiry into in-work poverty

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

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Policy in Practice welcomes the opportunity to provide evidence on in-work poverty to the All Party Parliamentary Group on Poverty.

Through our work with frontline organisations, and through our analysis and research, we understand some of the challenges that low-income households face, including those who are in work.

We would be happy to provide further evidence on the areas mentioned if this would assist the APPG.

Summary:

- Our analysis of low-income Londoners found that three in ten low-income working families are in relative poverty.
- In-work poverty is likely to rise by 2022 due to the removal of the £20/week uplift to Universal Credit, the introduction of the Health and Social Care Levy and rising living costs.
- Aspects of Universal Credit increase in-work poverty by reducing the benefit income of working households. For example, the monthly assessment periods within Universal Credit mean that self-employed households, or households on zero hours contracts, do not receive Universal Credit support when they need it.
- Self-employed households are more likely to be in poverty than low-income households who are in regular employment. Our analysis of a Welsh local authority found that 86%

of low-income self-employed households were in relative poverty, compared to 55% of low-income households in regular employment.

In-work poverty: the picture in 2021

- **Three in ten low-income working households are living in relative poverty.** A household is in relative poverty when their household income is below 60% of median household income, adjusted for family size and composition. We count a household as being low-income if they are in receipt of either Housing Benefit or Council Tax Support.

  Our analysis of data from 14 London boroughs, covering 400,000 low-income households, found that 29% of low-income working households were living in relative poverty in 2021.[1]

- **Welfare reforms affect low-income working households, reducing their income from benefits and increasing their risk of poverty.** For example, although households on Universal Credit who earn £617 or more per month are exempt from the benefit cap, working families who earn less than this amount are affected.

  Our analysis of one London borough found that out of the 5,407 households receiving Universal Credit who were in work, 475 (9%) were affected by the benefit cap. We also found that two-thirds of households who are benefit capped for more than six months face a cash shortfall, meaning that their income does not meet their essential costs.[2]

  In addition, we found that 627 of these working households (12%) saw their benefit income reduced as a result of having to repay their Universal Credit advance loan taken out to cover costs during the five week wait for Universal Credit.

In-work poverty: looking ahead to 2022

- The percentage of low-income households who are in relative poverty has remained relatively stable throughout the Covid-19 pandemic so far, despite rising unemployment. This is due in part to the £20/week increase to Universal Credit, and because the medium income has fallen.

[1] https://policyinpractice.co.uk/lsi-london/

[2] https://www.theguardian.com/society/2018/nov/03/benefit-cap-leaves-poor-families-with-mounting-debt-study-shows

- **In-work poverty is likely to increase by 2022** due to the combination of falling net incomes (due to the end of the £20/week Universal Credit uplift and the introduction of the Health and Social Care Levy) and rising living costs (energy, food and rent costs are expected to increase). Support from benefits will not increase in line with these rising living costs - for example LHA rates (which determine the maximum amount of Housing Benefit or Universal Credit awarded to households in the private rented sector) were frozen in April 2021 and are expected to remain frozen in 2022. The rate at which relative poverty increases will depend on the extent to which the median income increases.

  Our analysis found that a single parent working full-time on the National Living Wage will be worse off by £1,035/year by April 2022, despite their gross earnings increasing by £686/year due to the planned increase to the National Living Wage. This is because the removal of the Universal Credit uplift, introduction of the Health and Social Care Levy and rising living costs offset their higher earnings.[3]

- **Reducing the taper rate by 3p would not offset a working household's loss of income due to the removal of the £20/week Universal Credit uplift.** For example, for a single parent working part-time on the National Living Wage, reducing the taper rate from 63p to 60p benefits them by only £4.50/week. They will still be £15.50/week worse off if the £20/week uplift is removed.

  We recommend that the government retains the £20/week uplift to Universal Credit to support working households whilst living costs are expected to increase.

The interaction between Universal Credit and earnings means that some low-income working households receive little income from benefits

- **Monthly Work Allowances do not respond to fluctuating earnings.** Work Allowances are the amounts that households with children or with limited capability for work can earn before their Universal Credit is reduced. Households with regular earnings will see an application of the Work Allowance in each monthly Assessment Period. For those with fluctuating earnings, the full Work Allowance is only applied in the months where earnings are greater than this allowance. This means that if two households, one with regular and one with irregular earnings, earn the same amount over a two month period, the household with irregular earnings can receive less Universal Credit support.

[3] https://policyinpractice.co.uk/how-the-health-and-social-care-levy-will-affect-care-workers/

For example, if Household A earns £1,000 per month, a Work Allowance of £515 is applied each month and the remaining £485 is taken into account to assess Universal Credit in each month. Each month Universal Credit is reduced by 63% of the remaining income. i.e. £305.50. Over the two months full Universal Credit is reduced in total by £611.10. If Household B earns £2,000 in one month and nothing in the following month, in the first month, the Work Allowance of £515 is applied. Universal Credit is reduced by 63% of the remaining income. As there is no reduction in the second month, over the two months full Universal Credit is reduced in total by £935.50. Household B is £324.45 worse off compared to Household A.

To solve this problem, DWP could introduce a form of ongoing reconciliation. Annual earnings could be assessed with the accumulated Work Allowances over twelve months, with additional support being paid to households who did not have a Work Allowance applied in each month.

- **People who are not paid monthly, including those on zero-hour contracts, do not see support when they need it.** Since Universal Credit is paid monthly in arrears, the Universal Credit award based on a month's income is received the following month. This can result in a claimant receiving both low earnings and low Universal Credit (calculated on the previous higher earning month) in the same month. This can make budgeting on a low income difficult.

  For example, if a single parent earns £1,100 in January, £1,500 in February and £1,100 in March, they will receive their lowest amount of Universal Credit in February. This means that the month when they receive less income from work is also the month when they receive less income from Universal Credit. Their combined monthly income in February is £1,401, compared to £2,053 in March. This is a difference of £652.

- **Conditionality and sanctions risk pushing people into unskilled and low-paid work.** Sanctions can cause significant financial hardship and this overarching threat undermines the trust required for work coaches to support claimants to move to appropriate and skilled employment. For some claimants the threat of sanctions may lead to disengagement with support. The National Audit Office found in 2016 that while sanctions slightly increased employment rates, the impact on earnings and longevity of work were negative. Among those sanctioned, there was also an increased trend of claimants ending their claims prematurely while remaining economically inactive.[4] Easing the use of sanctions may enable people to undertake training or voluntary work to

[4] https://www.nao.org.uk/report/benefit-sanctions/

increase skills leading to longer-lasting and better paid employment, and reduce the risk of future in-work poverty.

- **Universal Credit does not support claimants in education.** Universal Credit is not available for most full-time students in advanced education. As a result, people who do not have significant savings nor financial support from their parents face a significant barrier to further study and a number of vocations which require higher education. Extending benefit eligibility to those in further education and easing restrictions on suitable work under a claimant commitment could help to empower claimants to make the right decisions for their long-term career prospects, and reduce the number of households in low-skilled jobs who are at risk of in-work poverty.

Self-employed households are especially likely to be in poverty

- **Although the number of low-income self-employed households is less than the number of low-income households in regular employment, self-employed households are especially likely to be in poverty.** This can be explained by low-income self-employed households receiving both low levels of earnings (often below the National Living Wage) and low levels of benefit income.

  Our analysis of a local authority in Wales found that 86% of low-income self-employed households were in relative poverty, compared to 55% of low-income households in regular employment.[5]

- **Self-employed households are affected by the application of a notional income (the Minimum Income Floor or MIF).** The MIF was suspended at the beginning of the Covid-19 pandemic but was reintroduced in April 2021. This means that support through benefits does not account for actual household income and can leave households relying on low self-employed earnings together with low Universal Credit support. Households in regular employment receive Universal Credit based on actual earnings and, in many instances, this leads to substantially increased Universal Credit support compared to households in self-employment.

  Our analysis found that the reintroduction of the MIF in April 2021, combined with the loss of the £20/week Universal Credit uplift in October 2021, will mean that almost half

[5] https://policyinpractice.co.uk/policy-dashboard/

(47%) of self-employed households will be unable to meet their essential costs.[6] We also found that self-employed households on Universal Credit are worse off by £50.86/week on average compared to people on legacy benefits[7].

- **Self-employed households are not eligible for benefits linked to National Insurance contributions.** To qualify for New Style JSA, the contribution-based benefit for people who are out of work, a claimant must have paid Class 1 National Insurance. This means that self-employed people who pay Class 2 National Insurance are excluded. We have heard from many self-employed users of our online benefits calculator who have been affected by Covid-19 and were surprised and disappointed when they heard that they didn't qualify for support when they needed it, despite paying tax and national insurance.

- **Employer-administered support is treated unequally to the equivalent support for self-employed households.** Employer-administered support such as Statutory Sick Pay (SSP) or Statutory Maternity Pay (SMP) and the equivalent for those who do not qualify for employer-based support (ESA and Maternity Allowance) are treated differently under Universal Credit. Employer-based support is treated as earnings under Universal Credit and so subject to a Work Allowance, meaning that Universal Credit is reduced by 63% of the remainder. In contrast, the equivalent benefits for those not receiving employer-administered support do not attract a Work Allowance and are deducted from Universal Credit on a pound for pound basis. This means that a self-employed person receives less income from benefits than an equivalent person in regular employment.

  For example, a single adult receiving £151.20/week Maternity Allowance is £41.62/week worse off compared to an identical household receiving £151.20/week Statutory Maternity Pay.

  We recommend that self-employed households who pay Class 2 National Insurance should be eligible for contribution-based benefits like New Style JSA. We also recommend that Maternity Allowance should be treated as earned income so that it is not deducted from Universal Credit pound-for-pound.

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6 https://policyinpractice.co.uk/wp-content/uploads/The-impact-on-poverty-of-maintaining-the-20-uplift-in-Universal-Credit_report-to-APPG-Poverty_Jan-2021.pdf

7 http://policyinpractice.co.uk/wp-content/uploads/Autumn-Budget-report_0811.pdf

About Policy in Practice

Policy in Practice believes the welfare system can work better.

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

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

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