



HM Treasury

From: NR

Team: WSR

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Briefing and final papers for welfare and poverty trilateral

For clearance

Issue

You (CX) are due to attend an evidence-focused trilateral with the PM and DWP SoS on 15 January to discuss welfare and poverty, including the future of the £20 uplift to UC and WTC. You have previously seen draft versions of the DWP papers attached which DWP have now finalised. DWP have also created the attached slidepack for use in the meeting which summarises the longer papers and will be presented by DWP in the trilateral. A proposed speaking note / supporting facts for use in the trilateral is below.

Recommendations:

- **That you do not object to DWP putting the slides and the final versions of the papers forward for discussion in the trilateral. As before, your office will make clear these are not HMT products.**
- **That you use the trilateral to set out your thinking around preferred options for ending the uplift and agree a process for DWP to urgently work up a deliverable proposition for one-off payment.**

Timing: urgent. No.10 have requested your clearance of these products by **Wednesday 13 January**. DWP SoS is reviewing in parallel.

Changes to DWP papers

1. Papers two and three have been combined, which is helpful as it presents a one-off payment alongside the other options. DWP maintain that a one-off payment would be complex to administer and would cause safeguarding concerns for some claimants.
2. In our meeting last week, you queried the chart on welfare spending as a percentage of GDP in paper one. This chart has now been updated in the paper and slides to align with the OBR numbers and our understanding that working-age welfare spending across the UK as a percentage of GDP, including the £20 uplift, is the joint highest (at 5.7%) it has been. Taking out the additional £20 uplift, UK working-age welfare spending this year is 5.4% of GDP and in 21-22 is forecast to be 5.2% of GDP.

Speaking note / supporting facts

Points in response to DWP slides

Slide 3: Fiscal Context

- The temporary £20 uplift is not the only thing that will prevent benefit spending continuing to fall after this year. The **benefit freeze ended in 2020** so many benefits are now being uprated by CPI each year, and **Local Housing Allowance** was significantly increased (by approximately £1bn) this year.
- There is substantial cyclical variation in welfare spending, for example around the last financial crisis. The right comparison to make is with **steady state welfare spending** rather than comparing welfare spending to this year or other spikes where there were recessions. On a like for like basis, in the decade prior to the financial crisis (1998/99 to 2007/8) GB welfare spending was **4.6% of GDP on average at £86bn per year in real (20/21) prices**, the same as the average for 2015/16 to 2019/20 (**4.6% GDP, £106bn real**). The current forecast, which assumes no £20 uplift, returns welfare spending to similar levels as the impacts of Covid are lessened (average for 2022/23 to 2025/26 is **4.5% GDP, £110bn real**).
- The mean spending on working age welfare from **1997/98 to 2010/11** was **4.8% of GDP**, at **£90bn per year in real (20/21) prices**. To note: these numbers are different from those given in paragraph 2 above, as they are on a GB rather than UK basis.

Working age welfare GB spending from 1997/98 – 2010/11															
£bn	97/ 98	98/ 99	99/ 00	00/ 01	01/ 02	02/ 03	03/ 04	04/ 05	05/ 06	06/ 07	07/ 08	08/ 09	09/ 10	10/ 11	Mean (from 97-11)
Nominal	44.6	44.8	46.2	48.6	50.9	53.4	61.4	64.6	67.1	69.4	72.9	79.9	90.1	93.2	63
Real (20-21 prices)	73.3	72.4	74.4	76.8	79.3	81.3	91.7	93.7	94.8	95.4	97.4	103.9	115.4	117.2	90
% of GDP	4.6%	4.4%	4.4%	4.4%	4.4%	4.4%	4.8%	4.8%	4.7%	4.7%	4.7%	5.1%	5.8%	5.7%	4.8%

Working age welfare GB spending from 2011/12 – forecast out to 2025/26															
£bn	11/ 12	12/ 13	13/ 14	14/ 15	15/ 16	16/ 17	17/ 18	18/ 19	19/ 20	20/ 21	21/ 22	22/ 23	23/ 24	24/ 25	Mean (from 97-25)
Nominal	95	97	93	94	94	94	95	95	97	113	110	108	110	112	83
Real (20-21 prices)	118	118	111	111	110	107	106	104	104	113	113	110	110	110	101
% of GDP	5.7%	5.6%	5.2%	5.0%	4.9%	4.6%	4.5%	4.4%	4.4%	5.5%	5.0%	4.6%	4.5%	4.4%	4.8%

Slide 4: Real Value of Welfare Support

- The case studies here compare welfare 19/20 to 09/10, which was around the peak of welfare generosity after the financial crisis, rather than making a comparison to welfare spending in a **steady state**.

- The two most significant welfare savings referred to here are the benefit freeze, which has ended, and the two-child policy which has been shown in previous political polling to be popular with the public.
- Of all the reforms to control working-age welfare spending since 2010 HMT estimate **about half of these savings** (DWP may use the figure £34bn) **have been offset by subsequent increases and other changes to the forecast**. The SB15 planned cut to Tax Credits was reversed at the next fiscal event due to creating large numbers of cash losers—some of DWP’s proposals here recreate this problem.

Slide 5: Households receiving welfare

- As demonstrated later on in these slides those most struggling on UC are the unemployed, who are more likely to be shorter-term claimants.

Slide 6: Are benefits sufficient, “Standard Allowance” on UC is below the absolute poverty lines

- Even with the £20 uplift, the basic UC payment **will leave people below the government’s own absolute poverty line**. The bar chart in the slide shows the standard allowance **without the £20** uplift. Even **with the addition of the £20** a single person would be left at **64%** of the absolute poverty line, a lone parent with one child at **86%**, and a couple with two children at **79%** of the line.
- The footnote on this slide makes a point about debt **deductions** lowering the generosity of welfare further. We have already taken action on deductions – the maximum deduction from the UC standard allowance has reduced from 40% to 30%, and **from October 2021** twill fall further **to 25%**, and the £1bn **increase in Local Housing Allowance** this year has also reduced the proportion of claimants with a shortfall due to rent costs.

Slide 7: Are benefits sufficient, what families could buy with the UC Standard Allowance

- Considering a basket of goods is not historically the method by which benefit rates are calculated and is **necessarily subjective**. DWP’s paper one demonstrates in more detail some of the assumptions made here. For example this methodology assumes that:
 - a. **a lone parent with one child** would only be able to afford only **80% of their food budget**, while also paying for **house decorations, passports and haircuts** for a child and parent **every three months**.
 - b. **a single person** would only be able to afford **60% of their food budget**, but would pay for a **haircut every two months**, a TV license and regularly replace their TV.
- The basket of goods considered on this slide are put together using the same methodology as used by the **Joseph Rowntree Foundation (JRF)** when calculating their **Minimum Income Standard (MIS) measurement**, and the food budget is taken directly from this research. The MIS is designed to monitor what UK households need in order to have a ‘decent living standard, considered a minimum by the general public¹’ and is equivalent to a higher income

¹ <https://www.jrf.org.uk/report/minimum-income-standard-uk-2020>

threshold than the government's own measures of poverty. For example a single person would need **£203 per week** to meet the MIS, compared to **£147 a week** to be considered out of absolute poverty. As stated on the first slide, the government does not use the MIS or any other method based on a basket of goods to calculate benefit levels.

- The MIS food budget includes some things that could be considered discretionary. For example for a lone parent with a child aged 0-1 the JRF's food budget assumes they **eat out four times a year costing £25** and that they order **takeaways at a cost of £6 twice a month**.

Slide 8: Are benefits sufficient? How are UC claimants faring financially

- The chart on food security is from a new measure DWP are due to publish in March, so it is not possible to see how this has changed over time or see what difference the £20 uplift has made. The YouGov poll referenced here similarly seems to have been a one-off survey- it would be more helpful to look at a survey that has been repeated and look at how this compares to the amount spent on welfare.
- A previous version of these slides used data from an Understanding Society poll of those on UC from July 2020, which includes the £20 uplift (included below).



- We haven't been able to reproduce DWP's analysis, which might be why this was removed from the final version of the slidepack. It is difficult to make a valid comparison on the percentage of UC claimants reporting finding it difficult pre/post £20 uplift, since they are a very different population of claimants with varying levels of savings, at different stages in their UC claims and with more single adults who get relatively less generous benefits.
- In previous years, anywhere **between a quarter and a third of UC claimants** have declared themselves to be in a difficult financial situation (from Understanding Society 2016 – 2019), with movements in responses fluctuating over time in a way that looks largely random. This could be due to this being a **very subjective question** where the surrounding context (including news/commentary) likely to influence the answers.

Slide 9: Unemployment Forecasts

- Unemployment is due to return to **March 2015** levels by **March 2023**; it does not stay unprecedentedly high until 2025.

Slide 10: Public Opinion

- The charts don't show how welfare spending fits into the public's **overall priorities for spending**. The most recent YouGov poll data shows that only **18%** of people think the government should spend more on welfare, compared to **69% on the NHS and 41% on education and 32% on crime and policing**.
- This also doesn't take into account the public's attitudes to a benefits increase would be paid for. A YouGov poll of 1,744 adults in November 2020 showed that although **33%** of people think the government should increase the level of benefits available to families with children, most people (**50%**) would **not be willing to see the amount they pay in tax increase** for this².

Slide 11: Policy trade-off

- DWP's preferred options here still have high numbers of **cash losers**, for example a **permanent extension** of the £20 uplift just to UC would **cost £6.0bn** a year in steady state and create **1.5m households** (over 2.2m adults) on WTC as cash losers.
- DWP should set out their specific concerns and the scale of them on the **safeguarding** issue around **one-off payments**:
 - A key tenet of welfare reform over the last decade has been **encouraging personal responsibility**: UC is paid monthly to individuals and UC claimants can be paid up to a month's payment in advance; **this is frequently in excess of £1,000** and claimants in rented accommodation by default receive their housing element directly rather than paid to their landlord.
 - **DWP also regularly make large one-off payments** where they lose court cases or have to backdate benefit claims (LEAP exercises). Recent cases have involved some of the most vulnerable disability benefit claimants, and these sums are often in excess of £1,000.
 - The **average monthly payment** made to households with children on Universal Credit is **over £1000** (in the most recent data).
- Economic research in **low income countries** has found evidence that lump-sum cash transfers to low-income households have been spent productively and hasn't resulted in perverse effects that might be expected³.
- A one-off payment has the potential to **have a large impact on material deprivation**, which SoS has indicated she wants to move to as the government's main focus on poverty measurement. This measure asks if people can afford particular goods and activities, for example if people can afford **to replace worn out furniture, broken electrical goods or a warm winter coat**. These kinds of purchases may be made easier with a one-off payment.

² https://docs.cdn.yougov.com/k5ae44met3/Channel4_UCResults_201110.pdf

³ https://haushofer.ne.su.se/publications/Haushofer_Shapiro_UCT_QJE_2016.pdf

- The text on the slide around one-off payments raises a series of different issues, including fraud risks and potential work disincentive. We think many of these can be addressed through **design choices** in a similar way to the CJRS and SEISS.
- Providing a significant amount of money to local authorities will likely raise **as many delivery questions** as any of the welfare options under consideration and is not necessarily better targeted.

Slide 12: Annex – table of options

- A one-off payment would certainly have a material impact on low income families, though this table suggests it wouldn't. Could the impact of a one-off payment be factored into the Households Below Average Income Survey, or adjusted for before the data is released (which takes over a year)?
- Even accepting it may be difficult to capture the full effect on income measures of poverty, a one-off payment has the potential to **have a larger impact on material deprivation**, which SoS has indicated she wants to move to as the government's main focus on poverty measurement. This measure asks if people can afford particular goods and activities, for example if people can afford to replace worn out furniture, broken electrical goods or a warm winter coat. These kinds of purchases may be made easier with a one-off payment.
- Claimants may also be able to use a one-off payment in ways that will help them **overcome additional expenses** of living in poverty (the 'poverty premium') for example using it to pay off high-interest debt or paying for a larger purchase such as a laptop for their child's schoolwork in one go rather than in more expensive instalments. Evidence from the US stimulus payments suggests that lower-income households were significantly more likely to spend (rather than save) their stimulus checks, as were households facing liquidity constraints (i.e. those who would have insufficient financial resources to meet an unexpected expense)⁴.

Wider points to make

DWP's solution doesn't solve the problems here

- Working-age welfare spending this year (at **5.7% of GDP**) is the **joint highest ever** (including the £20 uplift). In **GB working-age welfare spending was £110bn this year**, equivalent to **£4,100 per GB household**.
- Even with the £20 uplift, the basic UC payment **will leave people below the government's own absolute poverty line**.
- Even if the £20 were permanently extended, **it would only result in a small overall reduction in absolute poverty of around 800,000 people or approximately 1.2ppt**.
- Poverty is not just about income; it is also about the underlying issues that cause people to have worse life-outcomes for example, educational attainment (which we have tackled through the **pupil premium at £2.4bn a year and the £350m national tutoring programme**)

⁴ https://www.nber.org/system/files/working_papers/w27693/w27693.pdf

and problems such as abuse and mental health problems (addressed through the **Troubled Families programme**).

- A 2014 DWP evidence review of the drivers of child poverty concluded that alongside parental worklessness and low earnings, the other main factors causing children to become stuck in poverty are **parental qualifications, parental ill health, family stability and family size**. The most influential factor increasing the risk of a poor child growing up to be a poor adult is **child educational attainment**⁵.

DWP's preferred options create large numbers of cash losers

- **A permanent extension** of the £20 uplift just to UC would **cost £6.0bn** a year in steady state and create **1.5m households** (over 2.2m adults) on WTC as cash losers;
- Permanently increasing the UC **Child Element** by £20 would cost **£5.2bn** a year in steady state and create **4m households** on UC and WTC who are cash losers;
- **A reduction in the UC Taper Rate** (from 63% to 55%) would cost **£2.2bn** a year in steady state and create **4m households** on UC who are cash losers.

Significant tax increases would be necessary to fund continuation of £20, equivalent to

- **1p increase** in the basic rate of **income tax**, plus a **3p increase** in **fuel duty**;
- **1p increase** in the main rate of **VAT**, to 21%;
- **10p increase in fuel duty** and a **12% increase** to **beer and cider, wine, and spirits duties**;
- Extension of **VAT to children's clothes, books and food** at the 5% rate;
- More than **doubling the inheritance tax rate**, to c.85%;
- Standard rate **gas, electricity and water bills at 20%**.

The best poverty strategy is a jobs strategy

- The Resolution Foundation found that those entering work in 2014/15 experienced falls in poverty rates from **35% to 18%**. Pre-Covid, employment gains had been key to supporting lower-income households' living standards. DWP's paper one shows the significant increase in employment amongst lower income families since 2010.

⁵ *An evidence review of the drivers of child poverty for families in poverty now and for poor children growing up to be poor adults*. Presented to Parliament by the Secretary of State for Work and Pensions, January 2014

- Children in households where all adults are in work are **five times less likely to be in poverty** than those in workless households (Before Housing Costs).

One-off payment

- A one-off payment **could be announced at budget** and then delivered within weeks.
- DWP have made four key objections to this:
 - a. *Behavioural and fraud risks*: We have established that it would be possible to limit eligibility to those on UC prior to any announcement, which would significantly reduce these risks.
 - b. *Poverty impact*: DWP have said a one-off payment would have no measureable poverty impact. We are pushing them on why a way couldn't be found to reflect the payment in poverty statistics, but this clearly demonstrates the limits of those measurements – giving £1000 to those on low incomes will obviously have some impact on poverty.
 - c. *Legislation*: DWP maintain that primary legislation would be needed for a one-off payment. We are still exploring this with HMT and DWP lawyers but there may be a way for this to be done through secondary legislation, making use of Section 86 of the Coronavirus Act. We are trying to better understand the risks attached to doing so.
 - d. *Safeguarding*: DWP have raised a concern that a large one-off payment could cause significant safeguarding issues around particularly vulnerable claimants. We have not seen evidence on this, but many households receive UC payments that are larger than the proposed one-off payment, and DWP have operational structures in place to mitigate these sorts of risks already.
- We also think that the merits of a one-off payment have not been fully reflected by DWP:
 - a. A boost to the economy through the early demand stimulus.
 - b. An arguably higher impact than the equivalent weekly uplift on the material deprivation poverty measure, as a one-off payment would enable low income households to make savings and larger purchases that they are otherwise not able to.
- In order to progress this, we still need to push DWP SoS to provide:
 - a. A clear understanding of what the implications of the different one-off payment options would be for other DWP programs in terms of resourcing (including DWP delivering a one-off payment to WTC claimants).
 - b. Clarity on the lead times for delivery of the different one-off payment options (including DWP delivering a one-off payment to WTC claimants).
 - c. A clear final drop-dead deadline by which a decision on any short-term temporary extension to the £20 uplift must be made.
- We suggest that you propose a joint HMT-DWP team reporting to CX and SoS is set up to work on this, as was done for the Plan for Jobs.

If needed: other support for the most vulnerable

- Uplifted Local Housing Allowance rates for private renters on Universal Credit or Housing Benefit to the 30th percentile of market rates. Meaning **over 1.5 million**

households have gained just over **£600 per year** on average this year in additional support. These rates will be maintained in cash terms at their current level in 2021-22.

- **£254 million** extra for **homelessness** during COVID-19 – taking total 21-22 funding to £676 million, a 60% cash increase compared to SR19.
- This year a **£500 million Hardship Fund** to support **3m vulnerable households**. Councils are expected to discount bills by £150 for working age people already receiving council tax support.
- Next year: **£670 million** for councils to support the **4m households** least able to afford their council tax.
- A **£229 million Holiday Activities and Food Programme** for disadvantaged children. Healthy Start payments will increase from £3.10 to £4.25 a week from April 2021.
- Free School Meal vouchers during school closures for over 1.4 million children from the lowest income families.
- Through **Troubled Families 400k families** supported already with intensive key worker, whole family approach.