Impact of withdrawing emergency benefit measures

1. Executive Summary

This report estimates the impacts of withdrawing two emergency benefit measures which the UK Government introduced in March 2020: the £20 per-week uplift to Universal Credit and Working Tax Credits and the suspension of the Minimum Income Floor. It focuses on the impact on household incomes in Scotland in 2021/22, when the measures are due to be withdrawn.

The report estimates that:

- Withdrawing these measures would reduce spending on Universal Credit and Tax Credits in Scotland by **nearly half a billion pounds** in 2021/22 compared to if the measures were retained.

- Across the population, it is **poorer households, single parent families, families with children, and families not in employment** which would see their average incomes fall by the largest proportions. As these averages include people who are not affected by the cuts, they take into account the prevalence of losses as well as the magnitude and therefore provide an indication of how the impacts are distributed across society. For example, the poorest 10% of all households would lose 6% of their average income.

- To isolate the magnitude of losses, we can focus on people who are affected by the cuts. A similar pattern emerges using this method, except that losses would be greater for **people without children** – particularly **single adults**, who would lose over 6% of their average income. These individuals generally have lower benefit entitlements, meaning that a £20 reduction represents a larger percentage decrease.

- The poverty rate and child poverty rate would both be two percentage points higher in Scotland if the measures were withdrawn than if they were retained, moving **60,000 people**, including **20,000 children**, into relative poverty.

While there is a considerable degree of uncertainty associated with these estimates, the scale of cuts planned for April 2021 is undoubtedly large: if the cuts go ahead, hundreds of thousands of households in Scotland will see their incomes drop by more than £1,000 per year. These impacts are especially significant given the ongoing effects of the pandemic and the uncertainties surrounding the economic recovery.

2. Introduction

At the outset of the Covid-19 pandemic, the UK Government introduced a range of benefit measures to help mitigate the economic crisis. Among others, these included increasing Universal Credit (UC) standard allowances and the basic element of Working Tax Credits (WTC) by around £20 per week and increasing UC payments to self-employed workers with low earnings by suspending the so-called Minimum Income Floor (MIF).[1] At a time when economic recession has pushed record numbers onto the benefit system, these measures have gone some way to strengthening the social safety net, which had been significantly weakened by welfare reforms over the decade prior to Covid-19.[2]

However, the UK Government plans to reverse the £20 uplift and reinstate the MIF in April 2021, at the same time that the Job Support Scheme and the Self-Employment Income Support Scheme are due to end. Unless the UK Government changes course, hundreds of thousands of people in Scotland will therefore face a significant reduction to their benefit entitlements at a time when unemployment could well rise further.[3] What is more, the record so far indicates that the impacts of these cuts will not be borne equally across society, but will rather exacerbate existing inequalities.[4] This is particularly true during the Covid-19 pandemic, which has already had a disproportionate impact on some of the most vulnerable groups in society, including lone parents, children, and those who experience socio-economic disadvantage.[5]

This report uses the microsimulation model UKMOD to estimate the impacts of withdrawing the £20 uplift and reinstating the MIF on the incomes of Scottish households in 2021/22. The report examines how different groups of the population would be affected; the overall effects on poverty levels and poverty rates; and the total reduction in benefit expenditure. Annex A contains further details on our methodology.

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[1] For a full list of the emergency benefit measures introduced by the UK Government, see House of Commons Library, June 2020, Coronavirus: Support for household finances. For an indication of their withdrawal dates, see House of Commons Library, September 2020, Coronavirus: Withdrawing crisis social security measures.
[2] Joseph Rowntree Foundation, September 2020, Autumn Budget - why we must keep the £20 social security lifeline.
[3] Resolution Foundation, October 2020, Death by £1000 cuts? The history, economics and politics of cutting benefits for millions of households next April.
[4] Equality and Human Rights Commission, March 2018, The cumulative impact of tax and welfare reforms.
[5] Scottish Government, September 2020, Coronavirus (COVID-19): impact on equality (research).

3. Emergency benefit measures

Standard allowances are used to calculate UC payments for all claimants before specific elements are added for children, disability, and housing. They vary by the claimant's age and whether the claimant is single or in a couple. The WTC basic element is similar, except that it is a flat rate applied to all claimants, with additional elements reflecting family type, and is set as a yearly rather than monthly rate.

In March 2020, UC standard allowances and the WTC basic element were both increased by £20 per week – around £1,000 per year – compared with the previously announced rates for 2020/21.[6] These increases are shown in Table 1, with monthly UC rates converted from monthly into annual terms and rounded to the nearest pound. The table also shows what the rates would be in 2021/22 with and without the uplift, in both cases uprated using CPI forecasts from the OBR.[7]

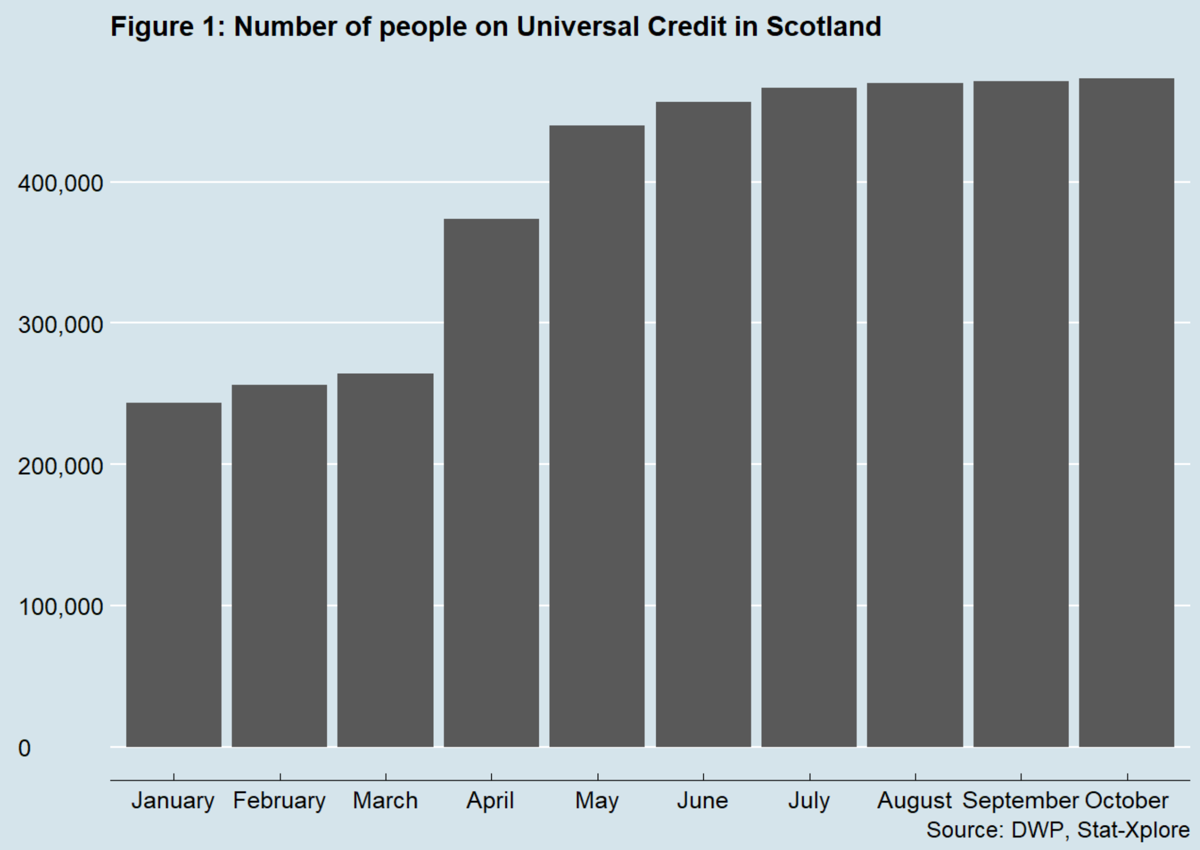
Table 1: Annual benefit amounts before and after £20/week uplift, £s

		2020/21 initial	2020/21 uplifted	Uplift	2021/22 uplift removed	2021/22 uplift retained
Universal Credit Standard Allowances	Single, under 25	3,073	4,113	+1,040	3,085	4,129
	Single, 25 or over	3,879	4,919	+1,040	3,894	4,938
	Couple, both under 25	4,823	5,863	+1,040	4,842	5,886
	Couple, one 25 or over	6,088	7,128	+1,040	6,112	7,157
WTC Basic Element		1,995	3,040	+1,045	2,005	3,050

The MIF represents a lower bound on the level of earnings used to calculate UC payments for self-employed workers who have received UC for at least a year.[8] It is determined by applying the relevant minimum wage rate to the number of hours which the claimant is expected to work. If a self-employed claimant reports earnings below the MIF, the MIF is used to calculate their UC payment rather than their reported earnings. Since UC payments decrease with earnings, this effectively reduces their payment. Annex B contains a worked example of how the suspension of the MIF could have helped support a self-employed worker whose earnings have fallen due to Covid-19.

The withdrawal of these measures, particularly the £20 uplift, will impact the majority of people on UC and WTC. Figure 1 shows that the number of people on UC had already surpassed 473,000 in October 2020, an increase of 93% since January when the caseload stood at 244,000. In addition, although the WTC caseload has been steadily falling since UC was first introduced in 2013, an estimated 83,400 families in Scotland still received WTC in April 2020.[9]

[6] Earnings disregards in Housing Benefit and Council Tax Reduction were also increased by £20 per week to ensure that the uplift was not offset by reductions in these benefits.
[7] Office for Budget Responsibility, July 2020, Fiscal sustainability report – July 2020.
[8] In order to allow a claimant to grow their business, the MIF is not applied for the first year of a claim (the 'start-up period').
[9] HMRC, July 2020, Child and Working Tax Credits statistics: provisional awards geographical analyses.



Although the withdrawal of emergency measures would affect most people on UC and WTC, the main exception would be families subject to the benefit cap. Since the benefit cap was not increased to reflect the uplift in benefit rates and other emergency measures, these families did not receive the full increase in the first place. Indeed, if they were already subject to the cap before the uplift, their benefit payments would not have increased at all. In May 2020, the benefit cap was already affecting over 6,000 families in Scotland, up from around 3,500 in January. Ninety-seven percent of these were families with children, the majority lone parents.[10]

Despite these historic increases in the benefit caseload, it is plausible that the full impacts of Covid-19 on the labour market have yet to be felt. The Job Retention Scheme has played an important role in curbing unemployment since it was introduced in March, with nearly a quarter of a million workers furloughed in Scotland as of 31 August.[11] However, the scheme is currently scheduled to finish in April 2021, at which point the benefit caseload could be expected to rise further.

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[10] DWP, Stat-Xplore.
[11] HMRC, October 2020, Coronavirus Job Retention Scheme statistics: October 2020.

4. The impacts of removing emergency benefit measures

4.1 Impact on expenditure

Cutting the main rates of UC and WTC by £20 week and reinstating the MIF would reduce spending on UC and Tax Credits in Scotland by an estimated **£476 million** in 2021/22, compared to if the emergency measures were retained. As shown in Table 2, UC makes up most of this reduction, with a smaller proportion coming from Tax Credits.

Table 2: Impact of removing emergency measures on benefit spending in Scotland, 2021/22, £s

Universal Credit	-451m
Tax Credits	-25m
Total	**-476m**

Source: UKMOD simulation

4.2 Impact on households

This reduction in expenditure is not spread equally across the population. Figures 2 and 3 show the impacts of reversing the £20 uplift and reinstating the MIF on households across the income distribution. Figure 2 includes all households, including those that do not lose out from the cuts. This gives an indication of how the impacts are spread across the whole population, since it takes into account the prevalence of losses as well as the magnitude. Figure 3 on the other hand only includes households which are affected by the cuts. This gives an indication of the average loss experienced by those households which do lose out.

The figures show that people in **lower-income households** – which are more likely to receive benefits and for which benefits make up a larger proportion of household income – would lose the most on average. For example, people in the poorest 10% of all households (i.e. Decile 1) would lose 6% of their average income, while people in the poorest 10% who are affected by the cuts would lose 15% of their average income. These figures should be treated with caution, however, as the data on households which report very low incomes may not always be reliable.[12]

[12] Mike Brewer et al., October 2017, 'Why are household incomes that the report the lowest incomes so well-off?', The Economic Journal, Volume 127, pages 24-49.

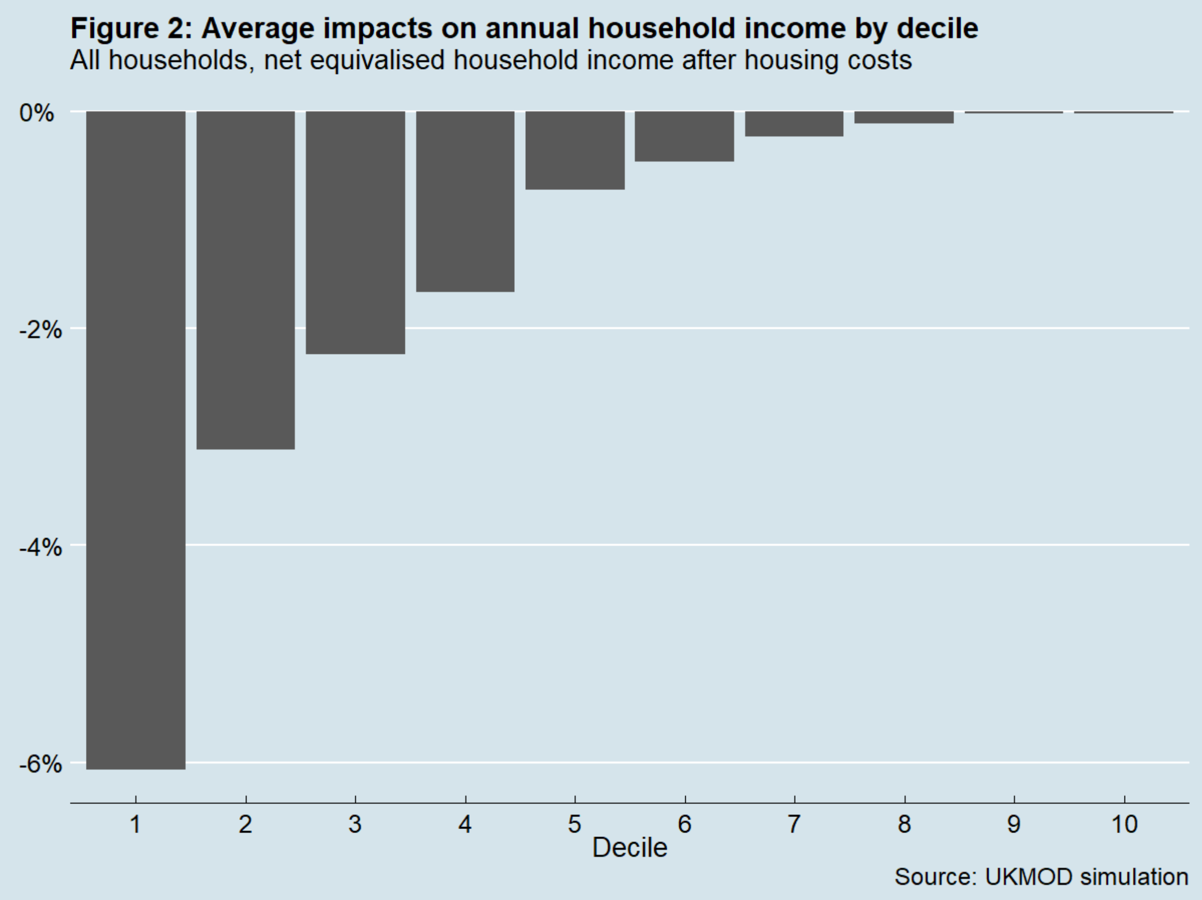


Figure 2: Average impacts on annual household income by decile
All households, net equivalised household income after housing costs
0%
-2%
-4%
-6%
1
2
3
4
5
6
7
8
9
10
Decile
Source: UKMOD simulation

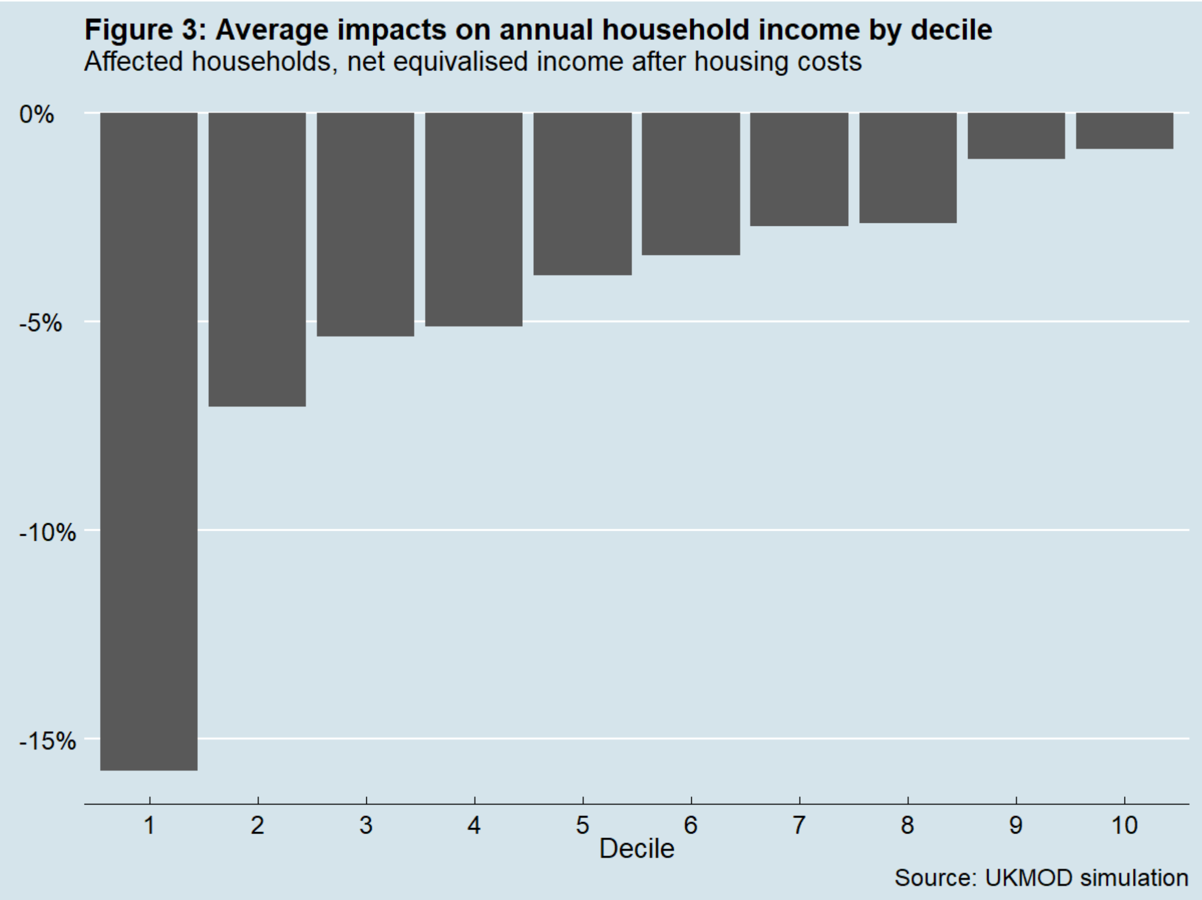
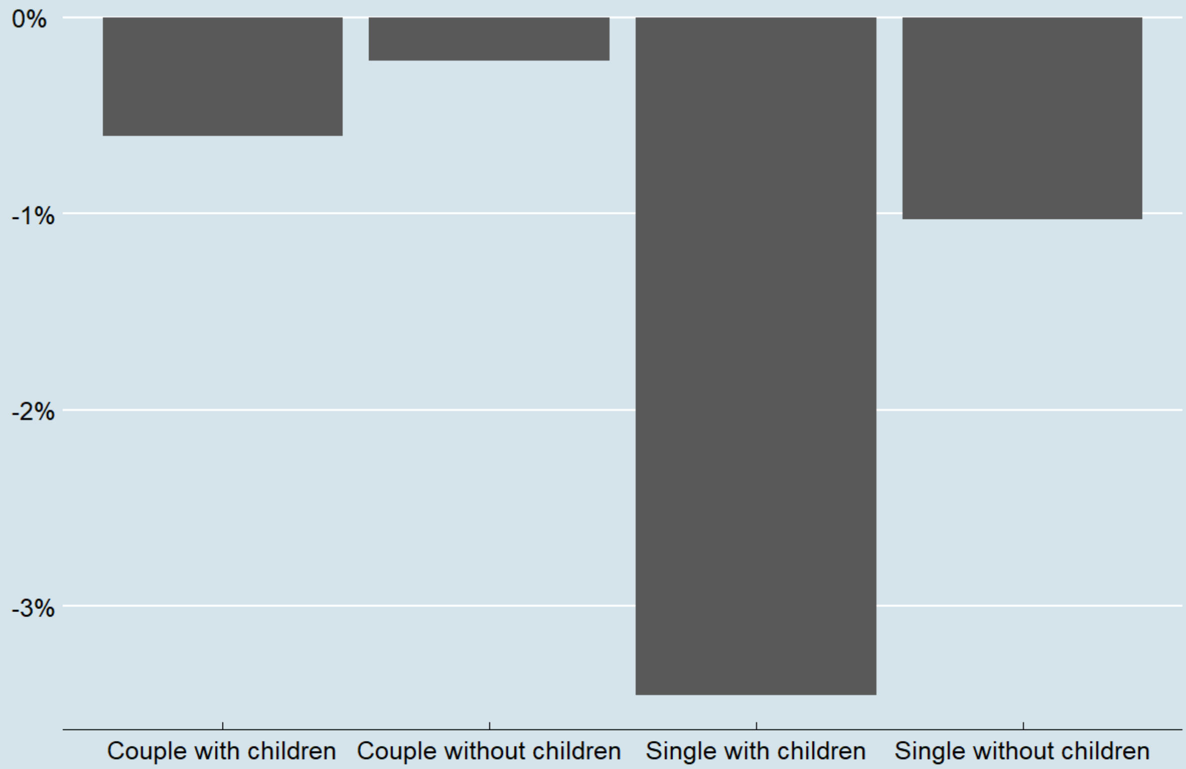


Figure 3: Average impacts on annual household income by decile
Affected households, net equivalised income after housing costs
0%
-5%
-10%
-15%
1
2
3
4
5
6
7
8
9
10
Decile
Source: UKMOD simulation

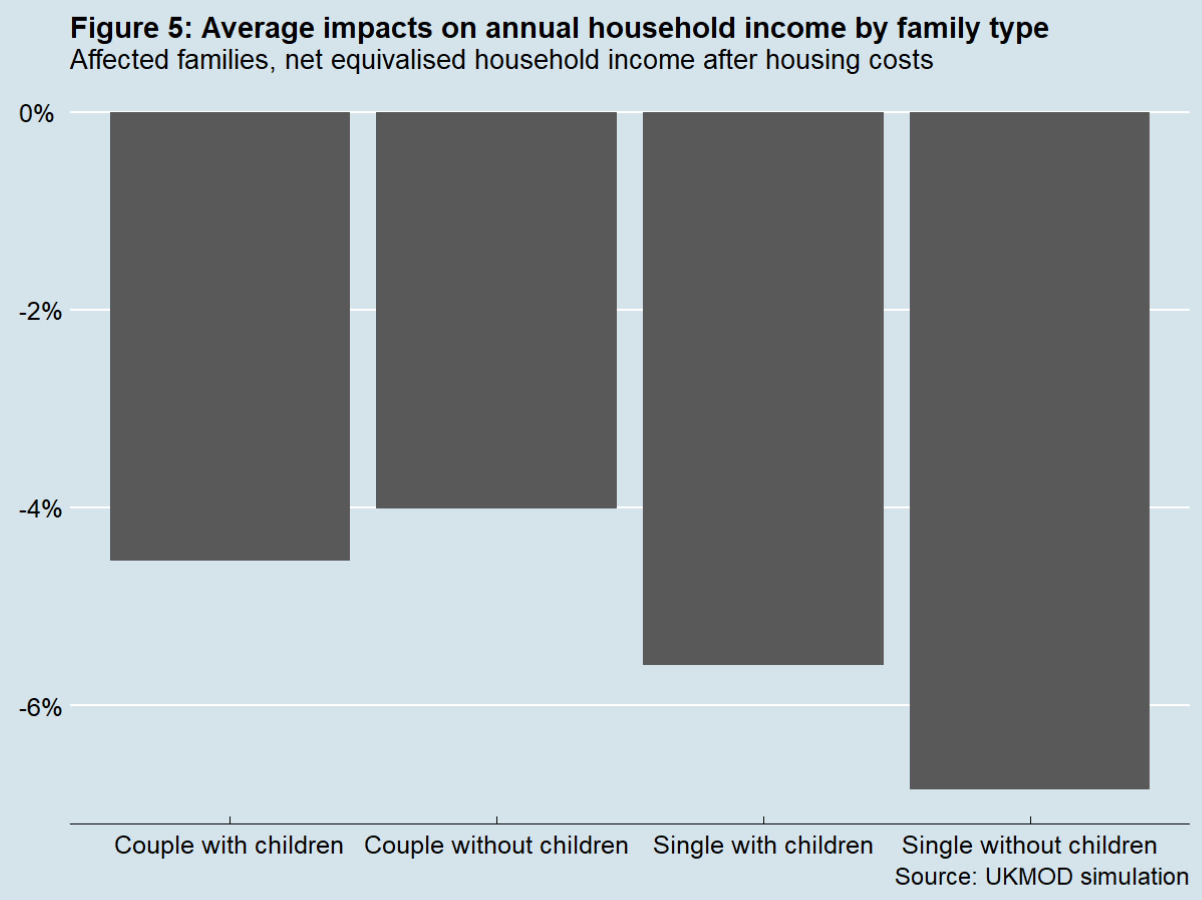
Figures 4 and 5 show the average impacts of withdrawing the emergency measures on different family types. The charts show that **lone parents, who are mainly women**, would experience the largest losses on average across the population. This reflects the fact that lone parents are particularly reliant on the benefit system, not least due to the range of obstacles they face in the labour market.

However, among those affected, average losses are slightly higher among **single people without children**. This could reflect the fact that these individuals have lower benefit entitlements, meaning the £20 uplift represents a larger proportion of their benefit income. Annex C presents a worked example of how a single person without children could be disproportionately affected by the removal of the uplift relative to a couple with children.

Figure 4: Average impacts on annual household income by family type
All families, net equivalised household income after housing costs



Source: UKMOD simulation



Figures 6 and 7 show the average impacts on families (i.e. benefit units) with and without children. Across the whole population, **families with children** would be disproportionately affected, reflecting the particular importance of social security for these families. The difference is within half a percentage point, but would be even greater without the benefit cap, which has prevented many families with children, especially lone parents, from receiving the uplift in the first place.

On the other hand, among those affected, average losses are slightly higher for **those without children**. Again, this could reflect the fact that the £20 uplift represented a larger percentage increase for those with lower benefit entitlements.

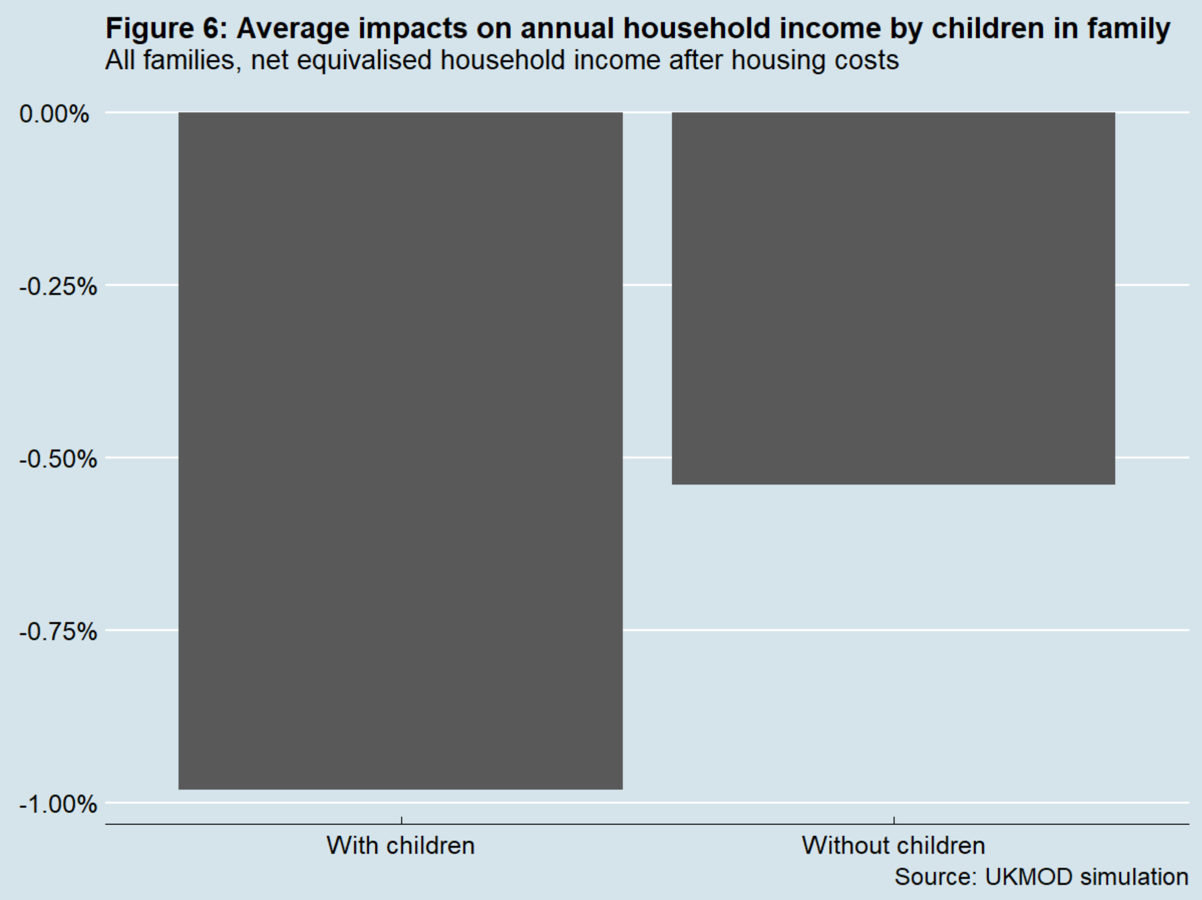


Figure 6: Average impacts on annual household income by children in family
All families, net equivalised household income after housing costs
0.00%
-0.25%
-0.50%
-0.75%
-1.00%
With children
Without children
Source: UKMOD simulation

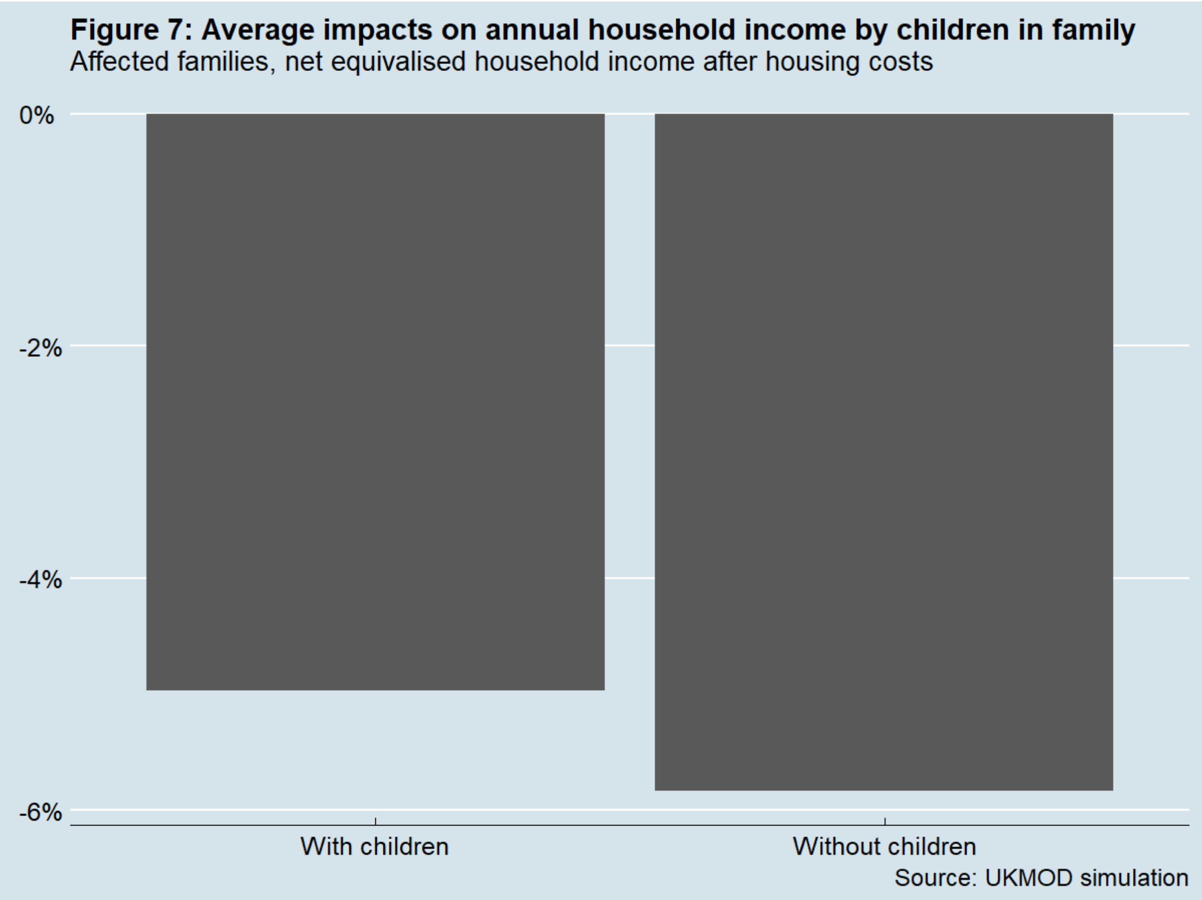
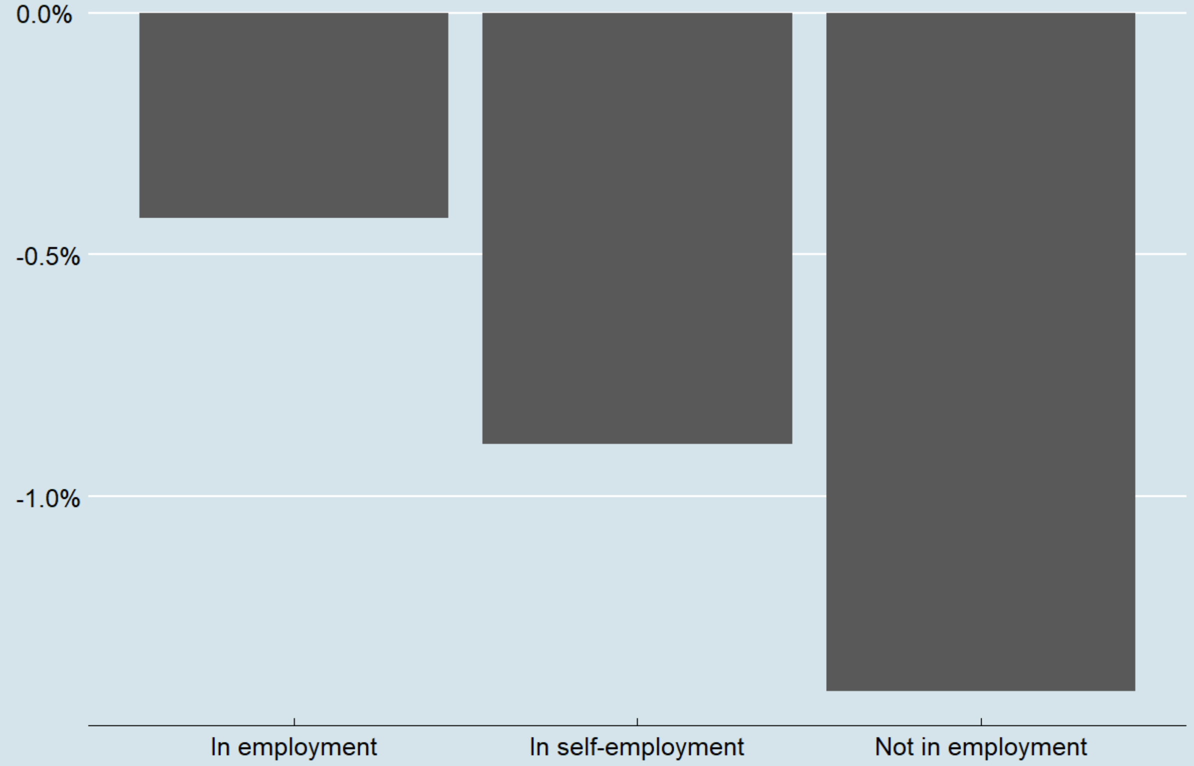


Figure 7: Average impacts on annual household income by children in family
Affected families, net equivalised household income after housing costs
0%
-2%
-4%
-6%
With children
Without children
Source: UKMOD simulation

Finally, Figures 8 and 9 show the impacts on families by employment status. We distinguish between families in employment and those in self-employment based on which form of employment represents their largest source of earnings, and categorise families as not in employment if they have no earnings.

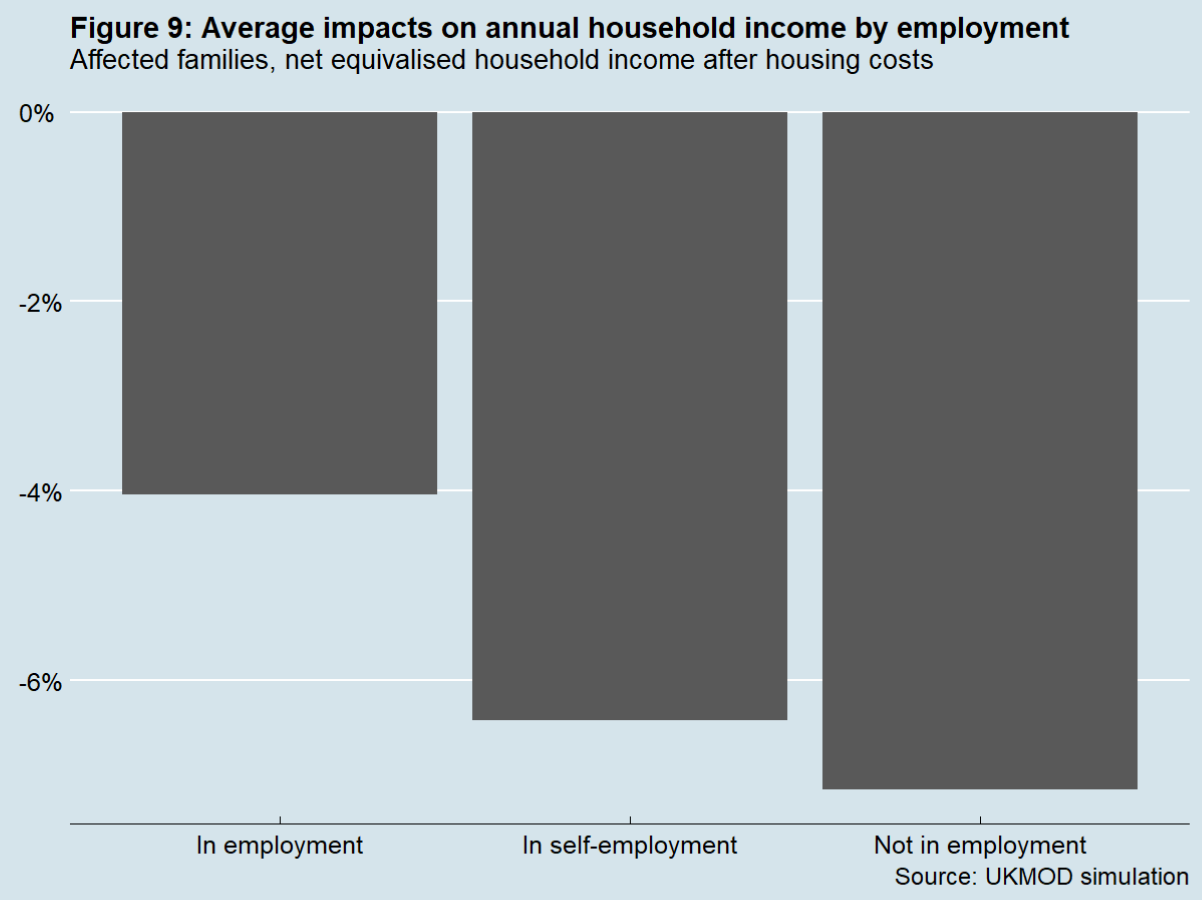
Across the population and among those affected, **families with nobody in employment** would be hardest hit, followed by families which derive most of the earnings from **self-employment**. This reflects the overall wage distribution, as families with no earnings tend to have the lowest incomes, as well as the elevated levels of unemployment expected next year. The relatively high impacts on families in self-employment also reflects the reinstatement of the MIF, which only affects self-employed workers with low earnings. Indeed, these workers would face a double blow: not only would their maximum UC amount be cut due to the removal of the £20 uplift, but more of that amount would be reduced due to the reinstatement of the MIF. Many self-employed workers would therefore see their annual incomes fall by over £1,000 if the UK Government goes ahead with its plans. This is in addition to the planned termination of the Self-Employment Income Support Scheme, which supported 137,000 Scottish workers in the last round of grants.[13]

Figure 8: Average impacts on annual household income by employment
All families, net equivalised household income after housing costs



Source: UKMOD simulation

[13] HMRC, October 2020, Self-Employment Income Support Scheme statistics: October 2020.



4.3 Impact on poverty

The combined effect of withdrawing the emergency measures is to increase poverty. Table 3 shows that the cuts are estimated to push **60,000 more people** into relative poverty after housing costs, including **20,000 children**, compared to if they were maintained. This would increase the poverty rate and the child poverty rate by 2 percentage points. Note that this analysis isolates the effect of the benefit measures and does not project the actual poverty rate in 2021/22, which will be influenced by a wide range of factors.

Table 3: Impact of removing emergency benefit measures on relative poverty after housing costs in Scotland, 2021/22[14]

	All people	Children
Number moving into poverty	60,000	20,000
Change in poverty rate	2 ppts	2 ppts

Source: UKMOD simulation

[14] Calculations are based on a fixed poverty line set at the Scotland level. In reality the poverty line is set at the UK level and will shift with median income, but the level of uncertainty involved in incorporating these factors in 2021/22 is likely to outweigh any gains in precision.

5. Conclusion

While our estimates come with an inevitable degree of uncertainty, it is clear that the impacts of withdrawing emergency benefit measures would be significant. If the cuts go ahead in April 2021, most people on UC and WTC will be affected, and many will see their annual incomes drop by over £1,000. This report estimates that the reduction in benefit spending in Scotland would total nearly half a billion pounds in 2021/22, compared to if the measures had been retained. This reduction, in turn, would have knock-on effects across the economy as cash-strapped households cut back on spending.[15]

It is also clear that the impacts of the cuts will not be borne equally across society. Poorer households and families with children – particularly lone parents, who are mainly women – are more reliant on the benefit system and would thus be disproportionately affected. Withdrawing the emergency measures would therefore exacerbate poverty and inequality at a time when some of the most vulnerable groups in society have already been hit hardest by Covid-19 and the attendant recession. Furthermore, while this report has focused on the direct impacts to household incomes, the full consequences may be much wider, extending to other domains such as health and wellbeing.[16]

This report has focused on the withdrawal of two existing measures, namely the £20 uplift to UC and WTC and the suspension of the MIF. It has not analysed the potential impacts of new policy proposals, such as extending the uplift to legacy benefits or reforming the MIF, nor has it analysed policies such as the benefit cap and the two-child limit which have become more significant than ever during the pandemic.[17] A wider range of issues will also be important as the economy recovers, including the interaction between earnings and benefit entitlements. Nevertheless, decisions surrounding the retention of emergency measures are time-critical and, as examined in this report, will have significant implications for households in Scotland.

[15] Joseph Rowntree Foundation, October 2020, Strengthen social security for a stronger economy.
[16] NHS Scotland, September 2018, Working and hurting? Monitoring the health and health inequalities impacts of the economic downturn and changes to the social security system.
[17] Child Poverty Action Group, June 2020, Supporting families during the Covid-19 pandemic.

6. Annex A: Methodology

The analysis in this report uses **UKMOD**, an open-access microsimulation model developed by Institute for Social and Economic Research (ISER) at the University of Essex. The model applies tax and benefit rules to a set of individual- and household-level data, allowing the user to simulate and compare alternative scenarios. In this report, we simulate two scenarios for 2021/22: one in which the MIF remains suspended and the £20 uplift is retained, uprated using CPI forecasts from OBR's July Fiscal Sustainability report; and one in which the MIF is reinstated and the uplift is removed, with the pre-Covid rates also uprated by CPI.[18] The associated increase in the Housing Benefit earnings disregard is also retained in the first scenario and removed in the second scenario.

The **input data** in UKMOD is derived from DWP's Family Resources Survey (FRS). The analysis in this report uses the latest three years of FRS data, namely 2016/17, 2017/18, and 2018/19. To pool the data, the grossing weights used to scale the FRS sample to the whole population are divided by the number of data years, in this case three. The model uprates income components and other monetary variables from each year of data to the year of analysis using a range of sources, including historical data and forecasts, but no adjustments are made for demographic change. A full list of uprating indices, along with further information on the model, can be found in the UKMOD Country Report.[19]

UKMOD models the transition to **Universal Credit** by setting a target for the proportion of all claimants projected by the OBR to be on UC in each year of analysis and randomly selecting individuals to transition based on this target.[20] In 2021/22, this is 66%. For those individuals who meet the eligibility criteria for both legacy benefits and UC, published take-up rates are used for the legacy benefits in question. For individuals who are only eligible for UC, the take-up rate for Income Support for people without children (87%) is used. Again, take-up is based on random selection. We assume that this take-up behaviour remains constant, i.e. it is not affected by the increase in unemployment or the increase in benefit rates. However, we impose an additional condition that households containing an individual who is made unemployed as a result of the unemployment adjustment are only able to receive UC, not legacy benefits. Similarly, we ensure that anyone who becomes eligible for tax credits as a result of the £20 uplift is only able to receive UC, since in reality most of these individuals would not be able to apply for tax credits.

To account for the change in **unemployment** between the years of data collection and the year of analysis, we compare the outturn Labour Force Survey (LFS) unemployment rate in each year of data with the average unemployment rate in 2021/22 as projected in recent scenario modelling by the Scottish Government. Based on the difference between these two rates, we calculate the implied percentage change in the number of people employed/self-employed and apply this percentage change to the employed/self-employed sample in the FRS using random selection. We do not calibrate the actual number of people unemployed and do not take into account changes in labour force participation. Nor do we control for

[18] Office for Budget Responsibility, July 2020, Fiscal sustainability report – July 2020.
[19] Centre for Microsimulation and Policy Analysis, September 2020, UKMOD/EUROMOD Country Report.
[20] Scottish Government, September 2020, State of the economy: September 2020.

characteristics such as age, industry, or earnings level. The evidence suggests that these and other factors have influenced the probability of becoming unemployed in the context of Covid-19, but at the time of writing no precise estimates are available which relate to the time period of our analysis. Finally, we assume Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Schemes (SEISS) end in April 2021 as planned and therefore do not model these in 2021/22.

The unemployment projections on which the analysis is based are modelled as a range, with a central scenario surrounded by lower and upper bounds to reflect the **uncertainty** involved in the estimates. In this report, we use the central scenario for 2021/22, but any differences in our results are marginal if we use the upper or lower bound instead. As an example, Figures 2a, 2b, and 2c respectively compare the results in Figure 2 if the central scenario, lower bound, and upper bound are used to model unemployment.

Figure 2a: Average impacts on annual household income by decile
Unemployment set at central scenario

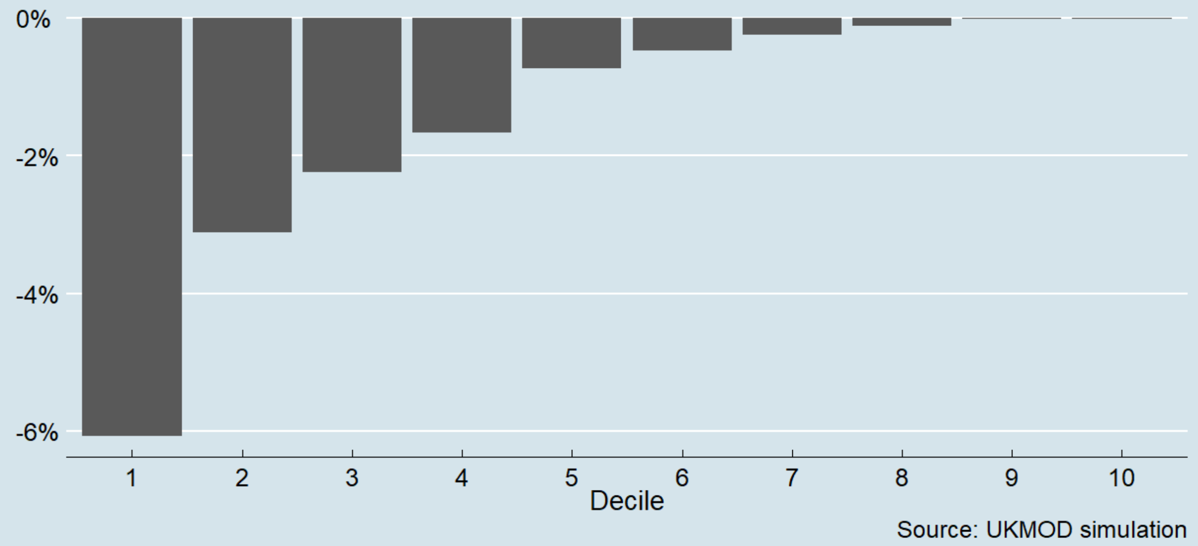
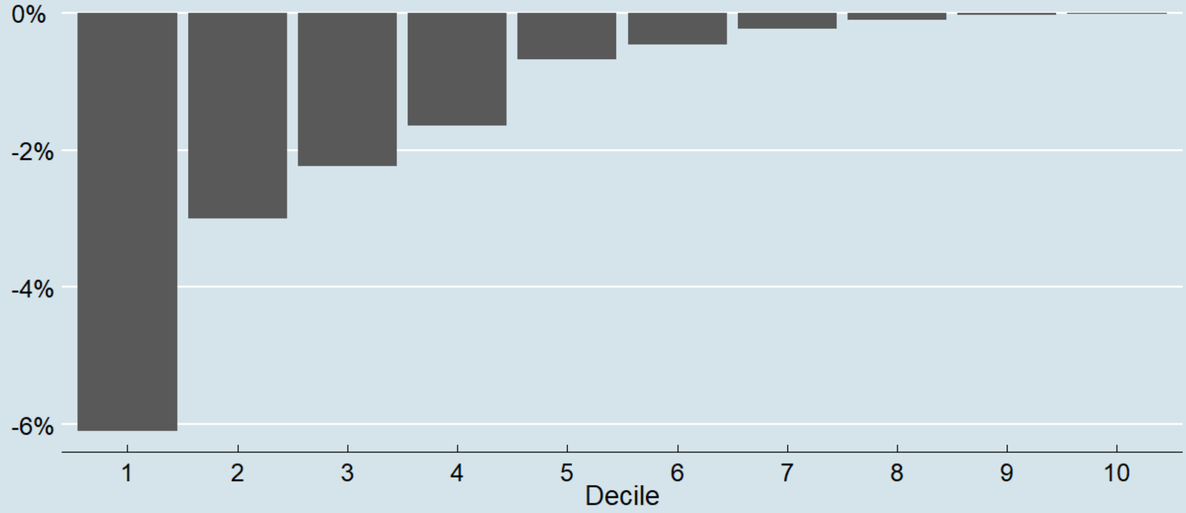
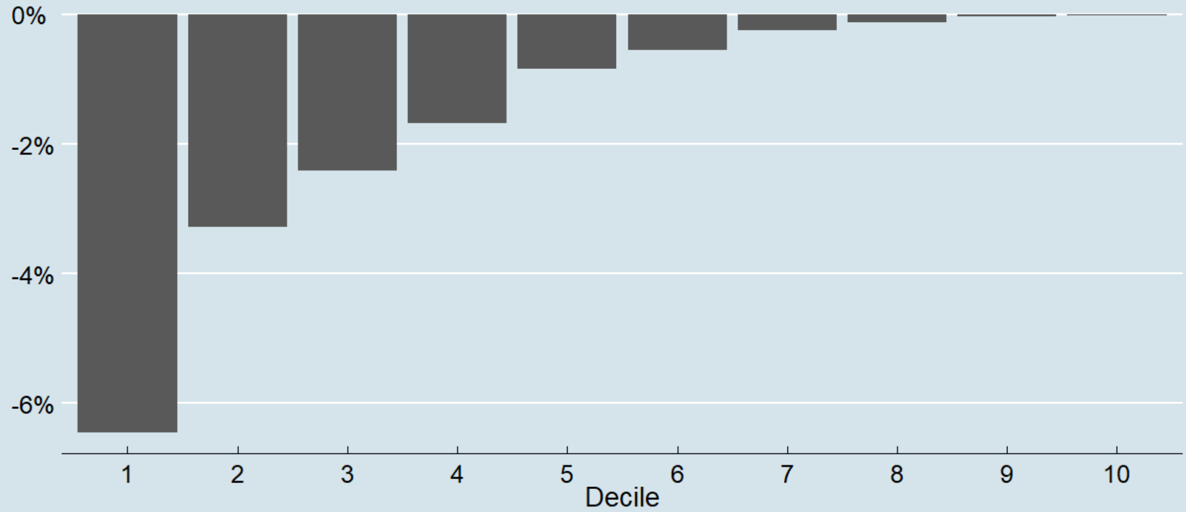


Figure 2b: Average impacts on annual household income by decile
Unemployment set at lower bound



Source: UKMOD simulation

Figure 2c: Average impacts on annual household income by decile
Unemployment set at upper bound



Source: UKMOD simulation

7. Annex B: Worked example of Minimum Income Floor

Table 4 illustrates the impact of reinstating the Minimum Income Floor on a single, self-employed parent who has been receiving UC for over a year. In addition to their standard allowance, they receive a child element, a childcare element, and a housing element. Their maximum UC entitlement comes to £1,679 per month, but since they earn £2,000 per month their UC entitlement reduces to £419. Their total income is therefore £2,419.

During Covid-19, their business suffers and their earnings drop to £500 per month. This is below their Minimum Income Floor, which is £1,205 per month (£8.72 National Living Wage at 35 hours per week, minus tax). Table 4 shows that, with the MIF suspended, their income only drops to £1,864, or 77% of their normal income. By contrast, if the MIF is reinstated, their income would drop to £1,419, or 59% of their normal income.

We have not considered the interaction between Universal Credit and the Self-Employment Income Support Scheme (SEISS) in this example. However, grants from the SEISS are treated as earnings for the purpose of calculating Universal Credit. The termination of the SEISS could therefore push some self-employed workers below the Minimum Income Floor.

Table 4: Self-employed worker with maximum UC entitlement of £1,680 per month experiencing a drop in earnings, monthly, £s

	Normal earnings	**Earnings reduced, MIF suspended**	**Earnings reduced, MIF reinstated**
Actual earnings	2,000	500	500
Earnings used in UC calculation	2,000	500	1,205
UC payment	419	1,364	919
Total income	2,419	1,864	1,419
Percent of normal income	100%	77%	59%

8. Annex C: Worked example of impacts on families with and without children

Table 5 illustrates the impact of removing the £20 per-week uplift on the income of two hypothetical families: a single person without children and a couple with two children. In this example, the single person and the two adults in the couple each earn £150 per week and receive Universal Credit. All amounts have been converted into weekly terms.

As the single person starts with a lower standard allowance than the couple (£94.59 versus £137.09) the removal of the £20 uplift represents a larger percentage decrease in their standard allowance (21%) compared to that of the couple (15%). This difference is magnified when we consider their maximum entitlements, since the couple is additionally entitled to a child element and a higher housing element.[21] The couple also receives a work allowance which the single person does not, so although they earn twice as much as the single person their UC award is not reduced by twice as much.[22]

By the time we consider their final UC payments, the removal of the uplift represents a 91% reduction in the single person's payment, compared to 16% for the couple. Finally, when we add earnings to their UC payments, the net effect of removing the uplift is reduce the single person's total income by 12%, compared to 5% for the couple.

[21] Maximum housing elements (i.e. Local Housing Allowances) vary by local authority. In this example they are based on the unweighted average LHA across local authorities in Scotland. We assume that the couple claims for a two-bedroom property while the single person claims for one bedroom.
[22] The taper rate is 63%, meaning that a claimant's UC payment is reduced by 63p for every pound they earn above their work allowance.

Table 5: Impact of removing £20 uplift on single person without children and couple with two children, weekly, £s

	Single person without children			**Couple with two children**		
	With uplift	Without uplift	Change	With uplift	Without uplift	Change
Standard allowance	94.59	74.59	-21%	137.09	117.09	-15%
Child elements	0.00	0.00		108.84	108.84	
Housing element	21.80	21.80		27.78	27.78	
Maximum entitlement	*116.39*	*96.39*	*-17%*	*273.71*	*253.71*	*-7%*
Earnings	150.00	150.00		300.00	300.00	
Work allowance	0.00	0.00		67.38	67.38	
Reduction	*94.50*	*94.50*		*146.55*	*146.55*	
UC payment	*21.89*	*1.89*	*-91%*	*127.16*	*107.16*	*-16%*
Total income	**171.89**	**151.89**	**-12%**	**427.16**	**407.16**	**-5%**