

# Budget briefing: Recommendations for better living standards

The November Budget and Industrial Strategy present opportunities to establish firm foundations for better living standards as the UK leaves the European Union, and to help those who are struggling to make ends meet. This briefing sets out recommendations in three key areas.

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## Recommended actions

### 1) An industrial strategy that delivers an economy that works for all

- Target productivity initiatives at low-pay sectors to improve earnings.
- Build local capacity to deliver a place-based industrial strategy.
- Deliver a Shared Prosperity Fund that matches the financial support given to left-behind areas by current EU structural and Investment Funds.
- Reform basic skills provision and double spending to meet all basic skills needs by 2030.

### 2) Fixing Universal Credit

- Reduce the six-week wait at the beginning of a claim by getting rid of seven waiting days and giving claimants choice over payment frequency.
- Enable people to keep more of what they earn under Universal Credit by restoring the original Work Allowances.
- Cancel or delay the increase in the Personal Tax Allowance and Higher Rate Threshold to fund measures better targeted at low-income families.
- Lift the freeze on working-age benefits so incomes keep up with prices.

### 3) Affordable housing to support higher living standards

- Reset Local Housing Allowance so it covers the bottom 30% of local rents and uprate with local rents.
- Deliver affordable housing for ordinary working families with a Living Rents Development Framework.

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## Introduction

The November Budget and the implementation of the Industrial Strategy present opportunities to establish firm foundations for better living standards as the UK leaves the European Union (EU), and to help those who are struggling to make ends meet.

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Family budgets are under serious pressure. Earnings are stagnant, most working-age benefits are frozen and inflation has hit a five-year high of 3%. The Institute for Fiscal Studies projects an additional 1.2 million children are likely to be in poverty by the end of this parliament unless the Government takes action.

Low productivity growth continues to be a problem for the UK economy, making room for manoeuvre tight at the Budget and meaning a lot rides on the success of the Industrial Strategy. What the Government chooses to prioritise will set the tone for the rest of the parliament. This briefing sets out recommendations in three key areas.

### 1. An industrial strategy that delivers an economy that works for all

The high level of employment in the UK is welcome, but poverty has not fallen as a result; indeed, poverty among working households has been rising. This is partly explained by the prevalence and stickiness of low pay – just one in six people escape low pay for higher pay over 10 years. Rising productivity and economic growth are needed to drive up wages and deliver higher living standards.

**“My wages are stagnant and have been for over 10 years. I try and cut my cloth accordingly but the cloth is getting a bit threadbare.”**

Man, online group, interviewed for Latter, J and Cam, J (2017) 'Social Attitudes in 2017 – Qualitative research into the issues that concern those on low incomes', London: YouGov

JRF recommends four actions for the Industrial Strategy:

- 1. Target productivity initiatives at low-pay sectors to improve earnings.**

The UK's productivity problem does not come from its market-leading firms or most vibrant local economies. There is a long tail of underperforming firms in all sectors, and greater concentrations of low-productivity firms in less prosperous places. Higher productivity drives higher pay, but productivity in low-wage sectors – such as retail and hospitality – lags behind the US, Germany, France and the Netherlands. These sectors also have the largest proportion of people in working poverty. Through the White Paper the Government should proactively seek to do a sector deal with a low-pay industry, focusing on skills, management quality and working practices.

2. **Build local capacity to deliver a place-based industrial strategy.** The UK economy is highly uneven, and people's prospects are influenced by where they live. As many as one in five of the workforce report a lack of jobs or not being able to find a job with enough hours in areas such as Greater Birmingham and Liverpool City Region. The prevalence of low-paid and insecure jobs is notable in areas such as Greater Lincolnshire and the Humber and Cumbria. Responding to these differing opportunities and challenges requires a place-based approach to the industrial strategy. In turn, this requires strong local institutions with the staff and skills necessary to respond – something the National Audit Office (NAO) has highlighted as a significant gap.
  
3. **Deliver a Shared Prosperity Fund that matches the financial support given to left-behind areas by current EU structural and Investment Funds (ESIF).** Between 2014 and 2020 ESIF has committed around £9 billion plus co-funding from UK public and private sectors to support growth and jobs in lagging areas. The Shared Prosperity Fund will replace ESIF as the UK leaves the EU. It should at least match this level of resource, and be coordinated with other policy interventions to support local growth.
  
4. **Reform basic skills provision and double spending to meet all basic skills needs by 2030.** Individuals with no formal qualifications are over-represented in economically weaker parts of the economy, and the 5 million people without basic literacy and numeracy are at a significant disadvantage in the modern labour market, as are the 12.6 million lacking basic digital skills. The basic skills of adults and their capacity to adapt is vital to economic success.

**Poverty among working people has  
risen by 600,000 in a decade.**



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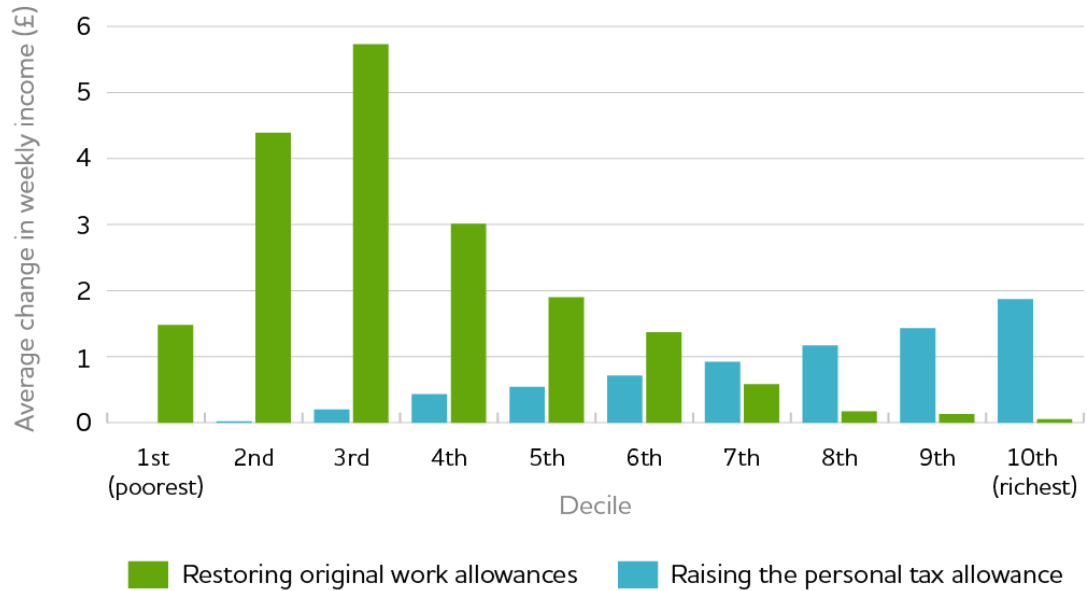
## 2. Fixing Universal Credit

Universal Credit (UC) has potential to dramatically improve the welfare system. If fully implemented and properly funded it should be simpler, help smooth people's transition into work, respond better to their changing circumstances, and make it easier for people to claim everything they are entitled to. But there is a significant risk UC will not meet this potential and current problems are undermining confidence in the new system.

JRF recommends three actions for the Budget:

- 1. Reduce the six-week wait at the beginning of a UC claim by getting rid of seven waiting days and giving claimants choice over payment frequency.** The six-week wait is the result of policy design rather than poor administration. It is simply too long for most low-income families to go without income – 69% have no savings and a further 10% have less than £1,500 to fall back on. Some 58% of new claimants moving onto UC after leaving employment were paid either fortnightly or weekly in their previous job. Allowing people more choice and control over their claim will enable them to responsibly manage their budget in a way that works for them. Those choosing fortnightly rather than monthly payments would also have a shorter waiting time at the beginning of their claim.
- 2. Enable people to keep more of what they earn under UC by restoring the original Work Allowances.** Work should be the path to higher living standards. Yet cuts to the Work Allowances in UC will result in an estimated 340,000 additional people in poverty in 2020/21. Other changes – such as the introduction of the National Living Wage, raising the Personal Tax Allowance and lowering the taper in UC – combine to benefit those who needed less help to begin with: single people working full-time and dual-earning couples. While more work helps reduce the likelihood of poverty, caring responsibilities make it difficult to work more hours: over four in ten people in working poverty have children of primary school age or below; three in ten have a disabled person in their family. Restoring the work allowances in full would cost £3.4 billion in 2020/21. Restoring them for lone parents only would cost £1.2 billion, and for couples with children £0.9 billion.
- 3. Cancel or delay the increase in the Personal Tax Allowance and Higher Rate Threshold to fund measures better targeted at low-income families.** The Office for Budget Responsibility estimates it will cost £1.3 billion in 2020/21 to increase the personal tax allowance (PTA) to £12,500 and the higher-rate threshold to £50,000. While the PTA is often presented as a way of helping people on low incomes, it is not an effective policy choice. Only £1 in £6 spent on raising the PTA goes to households in the bottom half of the income distribution. Its impact on poverty is negligible. Restoring the original work allowances is a far more effective way to support low-income families (figure 1).

**Figure 1 Average gain to families in different parts of the income distribution (£ per week) of increasing work allowances and increasing the personal tax allowance.**



**4. Lift the freeze on working-age benefits so incomes keep up with prices.**

Inflation has hit a five-year high of 3% at a time when pay is stagnating and benefits to top-up low pay and out-of-work benefits are frozen. The rising cost of essentials is hitting low-income family budgets hard as a result. An estimated 500,000 additional people will experience poverty in 2020/21 because of the four-year benefit freeze. This will impact families in and out of work: a low-income family of four on Universal Credit will be over £800 a year worse off in 2020 compared to 2010 because benefits have not kept up with prices. Income-related benefits (such as tax credits, Universal Credit and Local Housing Allowance) should be prioritised over more widespread benefits such as Child Benefit. Uprating income-related benefits with CPI from 2018/19 would cost an estimated £2.8 billion in 2020/21. Focusing just on child-related elements of UC would cost about £1 billion.

“At the moment I’m just getting by, but I do worry about any extra expenses and how I’m going to pay for those because I’ve just got a limited income... I have laid awake at night thinking ‘how am I going to pay for this?’ better turn the heating right down, try and lower my heating costs...because there’s not a lot else you can reduce. You can’t shop around for your council tax, the only other things you can cut down on are food and fuel. What else do you do?”

Julie, Scarborough , interviewed for Latter, J and Carn, J (2017) 'Social Attitudes in 2017 – Qualitative research into the issues that concern those on low incomes', London: YouGov

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### 3. Affordable housing to support higher living standards

The affordability of housing is a key concern for voters, particularly those with low incomes. The problems are particularly acute in the private rented sector, where 4.7 million people experience poverty after paying for housing. Even with Housing Benefit, rents are eating into incomes, and the worst-off tenants in the private rented sector (bottom fifth) spend on average over a third of their remaining income on rent not covered by their Housing Benefit. The top fifth of private renters spend 19% of their income on rent on average.

To ensure homes are in reach of ordinary working families, the Budget should:

1. **Reset Local Housing Allowance so it does cover the bottom 30% of local rents and uprate it with local rents.** The Local Housing Allowance (LHA) helps those on low incomes to pay their rent in the private rented sector, but it wasn't rising with local rents even before it was frozen along with other benefits. Cuts to Housing Benefit since 2011 mean 600,000 more people in the private rented sector – 500,000 of whom are living in families with children – now face a shortfall between their Housing Benefit and their rent. For example, in Milton Keynes LHA only covers 86% of the rent for a two bed property with a 30th percentile rent (the limit of what LHA will cover), creating a shortfall of £117 per month. In Outer North East London it covers 80%, with a shortfall of £213 per month. Shelter estimates it would cost £1.2 billion to reset LHA to the 30th percentile in 2018.
2. **Deliver affordable housing for ordinary working families with a Living Rents Development Framework.** Ultimately only increasing the supply of genuinely affordable homes will sustainably solve the housing crisis. A Living Rents Development Framework would link rents to local lower-quartile earnings. This would ensure that rents are affordable for households with someone in full-time work – improving work incentives, easing the transition into work and reflecting wages available in the local labour market. The model, devised with Savills and the National Housing Federation, is designed to increase the supply of affordable homes, by delivering the additional 80,000 homes per year we need in England – half let at a Living Rent and half for shared ownership or other affordable tenures. A forthcoming update of the model for JRF by Savills shows the total cost for this 80,000 home package would be £3.7 billion per year. This is approximately £1.7 billion more per annum than current investment plans.

“... we just couldn't afford anywhere when we were at her mum's. That's why we'd save up. It's all the fees and deposits and everything else you've got to put down on houses. It's these private landlords. I'd love to move into a council house but the list system is ridiculous at the moment ... When we were at her mum's we bid every week for, I think it was a year and we got nowhere.”

John, younger cohort, single parent, PRS, Hull

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## About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent organisation working to inspire social change through research, policy and practice.

JRF is working with governments, businesses, communities, charities and individuals to solve UK poverty. See our [strategy to solve UK poverty](#) which contains analysis and recommendations aimed at the four UK governments.

All research published by JRF is available to download from [www.jrf.org.uk](http://www.jrf.org.uk)

If you would like to arrange a meeting with one of our experts to discuss the points raised please contact:

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