

Briefing: protecting people and places in poverty from the risks of a no-deal Brexit

The Government is taking steps to prepare the country for the possibility of the UK leaving the EU in March without a Withdrawal Agreement. There is widespread agreement that leaving without a Withdrawal Agreement would be likely to lead to economic disruption in the short-term. There is a serious risk that this will make life much harder for people living in poverty and parts of the country already locked out of prosperity. We know that's not right. People on low incomes must not pay the price from any economic shocks and government must take steps to protect struggling families in their no-deal contingency planning.

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Actions needed

1. Lift the freeze on working-age benefits and tax credits on 8 April 2019.
2. Make urgent improvements to Universal Credit (UC) to prevent destitution and ensure it provides the support we all expect from our public services. In particular, end the five-week wait for the first payment.
3. Bring forward an emergency stimulus package of funding and support for jobs and skills in parts of the country with low employment and pay; those that are particularly exposed to the impacts of disruption to trade.

What are the risks to people and places in poverty from a no-deal Brexit?

There are 14 million people locked in poverty in the UK. In recent years, more and more families with children have been swept into poverty; this is expected to continue without urgent action. The primary drivers of poverty are domestic decisions about housing, social security and the labour market. However, changes in the UK's relationships with the EU and other parts of the world are also likely to affect living standards and prospects for people on low incomes.

Despite debates about long-term effects, there is widespread agreement that leaving the EU without a Withdrawal Agreement makes economic disruption in the short term much more likely. We have identified (Heycoop et al, 2018) three major risks of this for people on low incomes and places with high levels of poverty:

- Rises in prices leaving people in poverty facing ever greater struggles to afford essentials.
- Increased numbers of new claims for Universal Credit if there are rises in unemployment or people having to work fewer hours.
- Job losses and reduced earnings for people in parts of the country with weak economies which are particularly exposed to disruption in trade with the EU and elsewhere.

We know it is not right to allow people and places in poverty to face these risks without proper support. We must act together to ensure that we protect all of our people and communities from any negative impacts of a no-deal Brexit.

What should the Government do to prepare the country for these risks?

We are calling on the Government to commit to three steps to protect people and places in poverty from the potential consequences of a no-deal Brexit.

Lift the freeze on working-age benefits and tax credits

Most working-age benefits and tax credits have been frozen for three years, whilst prices in the shops have continued to rise. The Benefit Freeze was introduced in April 2016. Between then and November 2018, the annual cost of living for people on low incomes had risen by £900. This has left many families facing greater and greater struggles to make ends meet and having to cut back on essentials. The Government currently intends to continue this freeze for a fourth year, starting on 8 April 2019.

Maintaining the freeze for another year will result in 10.7 million people in poverty missing out on £220 per year to help cover the increased cost of living, and 200,000 more people being locked in poverty.

The Bank of England's latest projections are for annual inflation at April 2019 to be 1.94% (which assumes a smooth exit from the EU at the end of March). However, leaving the EU without a deal could result in higher inflation, as happened after the EU referendum result in 2016. In this case, maintaining the freeze would substantially increase the pressure on families already struggling to make ends meet.

Wider action is also required to protect people from being locked in hardship by rising rents. Local Housing Allowance (LHA) rates have been frozen whilst costs rise, meaning that it does not cover the rents paid by people on low incomes in nearly all parts of England. To prevent more families being swept into rent arrears and homelessness, LHA rates need to be lifted and maintained so that they cover at least the bottom third of the rental market.

Make urgent improvements to Universal Credit to prevent destitution and ensure it provides the support we all expect from our public services

Universal Credit has the potential to loosen the grip of poverty across the country. However, its current design and delivery are causing serious problems for some claimants. Flaws in the system bring high risks of increasing hardship and driving some into destitution (Barnard, forthcoming). The Government has committed to some changes, but these do not go far enough and are not currently planned to take effect for most claimants during 2019.

A no-deal Brexit increases the likelihood of more people losing their job or having to reduce their hours, resulting in new claims for Universal Credit. The Government must commit to urgent improvements. In particular, it must end the five-week wait for an initial payment. Offering benefit advances is not a solution: repaying advances (like other debts to Councils and utility companies) is one factor driving some people into severe poverty and destitution.

People claiming Universal Credit must currently wait a minimum of five weeks for their first payment. Aside from one week 'processing time' this is caused by the insistence on Universal Credit being paid monthly in arrears. Many people on low incomes have no or very low savings. Five weeks is simply too long for them to wait for money they need to cover essentials and stay out of debt. The Government must commit to provide all claimants with a payment within two weeks. It should also quickly fulfil its intention to allow all claimants to choose how often they want to receive payments and to move payment dates if they clash with their work paydays. If necessary, the Government should provide the Department for Work and Pensions with additional resources to enable them to offer this flexibility.

Bring forward an emergency stimulus package for areas with high poverty and economies exposed to disruption in trade

Some parts of the country are more exposed to potential disruption in trade with the EU and elsewhere, particularly parts of Northern England, the Midlands, Wales and Northern Ireland. Jobs and earnings could be disproportionately affected in these areas, some of which are already locked out of the wider picture of employment success and have high levels of poverty. Places such as Derry City and Strabane, www.jrf.org.uk

Causeway Coast and Glens, Sandwell, Wolverhampton, Middlesbrough and Birmingham already have employment rates that are 10 percentage points or more behind the national average (Tinker, 2018). The Government has committed to creating a Shared Prosperity Fund which will replace the funding economically worse-off places receive from EU Structural Funds from 2020 onwards. However, a no-deal Brexit could lead to increased need in these areas before this date.

The Government should therefore bring forward some of the funding for the Shared Prosperity Fund to provide a stimulus package of support for jobs and skills that is ready to deploy immediately. It should target places that had weaker economic performance to begin with and that see any deterioration in their employment rates or pay rates for those worst off. It should be provided with a clear remit to focus on protecting and improving living standards for those on low incomes.

Methods

Modelling was done using the latest version (v01_63) of the IPPR Tax-Benefit Model with the following assumptions made:

- Benefits unfrozen in April 2019 in line with the CPI inflation rate in September 2018.
- Universal Credit rolled out to 25% of benefit claimants (with the remaining 75% of claimants continuing to claim under the legacy benefit system).
- The rates of take-up of legacy benefits are set using calculated entitlement in the IPPR Tax-Benefit Model and reported receipt of the benefit in the Family Resources Survey. Take-up of Universal Credit is set at the highest take-up of the six legacy benefits it replaces.

Figures used:

- The change in the number of people in poverty is rounded to the nearest 100,000. People are considered to be in poverty if they live in a household where household income after housing costs would be less than 60% of the median household income if the freeze on benefits was not lifted in 2019/20.
- A household is deemed to have lost out from the benefit freeze if their annual income is likely to reduce by at least £10.
- The average loss in income is calculated as the median annual loss in household income amongst people in poverty, rounded to the nearest £10.

Take-up rates of benefits used for modelling:

Benefit	Take-up rate
Pension Credit	61%
Housing Benefit	77%
JSA, IS and ESA	77%
Tax Credits	74%
Universal Credit	77%

References

Barnard, H (forthcoming) Where next for Universal Credit and Tackling Poverty? York: Joseph Rowntree Foundation.

Heykoop, L, Barnard, H and Kumar, A (2018) How could Brexit affect poverty in the UK? [Online] Available at: <https://www.jrf.org.uk/report/how-could-brexit-affect-poverty-uk> [Accessed 12 February 2019].

Tinker, R (2018) Designing the UK Shared Prosperity Fund. [Online] Available at: <https://www.jrf.org.uk/report/designing-shared-prosperity-fund> [Accessed 12 February 2019].

About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent social change organisation working to solve UK poverty. Through research, policy, collaboration and practical solutions, we aim to inspire action and change that will create a prosperous UK without poverty.

We are working with private, public and voluntary sectors, and people with lived experience of poverty, to build on the recommendations in our comprehensive strategy - [We can solve poverty in the UK](#) - and loosen poverty's grip on people who are struggling to get by. It contains analysis and recommendations aimed at the four UK governments.

All research published by JRF, including publications in the references, is available to download from www.jrf.org.uk

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