# JRF Spring Budget 2021 analysis

## What does the Chancellor's Budget mean for poverty in the UK?

When he delivered his Budget the Chancellor promised to 'Continue doing whatever it takes to support the British people and businesses through this moment of crisis'. But ultimately, more people will be swept into poverty in the face of continued economic uncertainty and inadequate support.

Before the Budget we set out five tests to judge whether the measures announced would deliver for people living poverty. Our analysis shows that the choices made by the Chancellor on social security, housing, and the economy do not pass those tests and risk pulling people into poverty as a result.

## Loosening poverty's grip: five tests for the Government

1. Has the Chancellor extended the £20 uplift to Universal Credit and Working Tax Credit for at least another year?

   The Government's decision to cut Universal Credit and Working Tax Credit in six months – just as the furlough scheme ends and unemployment peaks – will pull 500,000 people including 200,000 children into poverty as we head into winter.

   The OBR's latest forecasts show that unemployment is expected to increase by a further 500,000 people between now and the peak towards the end of the year. Despite that, the Government has chosen to cut the main rate of unemployment support to its lowest level since 1990.

2. Has the Chancellor announced measures to protect jobs and help the unemployed back into work?

   The decision to extend furlough until the end of September is welcome and will continue to protect more jobs until the economy reopens. It is important that there is flexibility in the timings set out for unwinding the scheme, so that they can adapt to any potential changes in the roadmap ahead.

The Government did not add to the employment and training support programmes already announced last year and gaps remain, particularly for people who need to retrain in order to change sectors.

3. Has the Chancellor announced measures for England to support those in rent arrears and at risk of eviction?

The Chancellor was silent on support for the 700,000 households already in rent arrears. The Local Housing Allowance will be frozen from April too, piling further costs onto renters on low incomes as the link between local rents and support on offer is broken again.

Instead, the Chancellor extended the 'Stamp Duty Holiday' and launched a new 95% mortgage guarantee scheme. These policies will compound the UK's housing crisis, driving up house prices and making it harder to address the issues faced by people in poverty.

4. Has the Chancellor set us on a course for recovery that leaves no one behind?

Most of the new spending announced is targeted at supporting incomes while pandemic restrictions continue and as the economy begins to reopen, with little new fiscal stimulus focused on restoring growth afterwards. The Chancellor is instead gambling on a quick recovery driven by consumer spending and increased business investment.

The path the Chancellor has set also risks an unequal recovery that excludes low-income households. A spending-led recovery would be driven by wealthier households who have built up savings during the pandemic, while the bottom 40% of households have depleted savings or gone into debt to keep their heads above water. That also means that wealthier areas will see a faster recovery.

The Government has promised to 'level up' the country, but beyond some piecemeal funding and policies, this Budget did little to flesh out an overarching strategy to address regional inequalities.

5. What does the Chancellor's Budget mean for poverty in the UK?

In this Budget the Chancellor pledged to 'meet the moment'. We needed to see bold policy that ensures a strong recovery to match the compassionate moves taken to protect people's incomes at the start of the pandemic.

The Chancellor should have made the choice to build a different future. One that is characterised by good jobs and investment in people and their skills, where housing is genuinely affordable and where social security is there for us when we need it. The Budget fell far short of what the country requires and of the values we share.

## JRF's five tests for the 2021 Spring Budget

# 1. Has the Chancellor extended the £20 uplift to Universal Credit and Working Tax Credit for at least another year?

### A short-term extension

At the start of the pandemic, the Government recognised that existing levels of social security support were not adequate to meet the needs of families and implemented a temporary £20-per-week uplift to Universal Credit (UC) and Working Tax Credit (WTC). This intervention was a lifeline for millions of families, enabling many people to stay afloat and significantly improving the adequacy of our social security system.

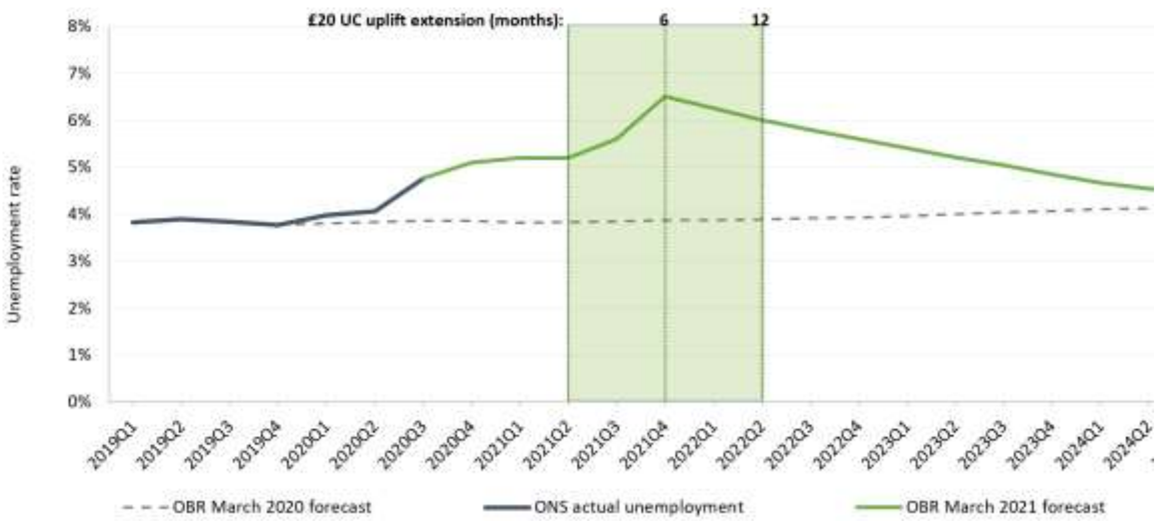
The Government's decision to cut UC and WTC at exactly the moment when the furlough scheme ends and unemployment peaks will lead to a winter of hardship, as around 6 million families on the lowest incomes lose the annual equivalent of £1,040 overnight this October.

The OBR now expects unemployment to rise by a further 500,000 people between now and the final quarter of 2021, when it will peak at 6.5% (2.2 million people) and remain above 2 million people until the middle of 2022. This compares to unemployment of 5.1% (1.7 million) now and 3.8% at the end of 2019 (OBR, 2021).

Despite this, the Chancellor has chosen to cut the main rate of unemployment support to its lowest level in real terms since 1990 (Maddison and Porter, 2021). The short six-month extension does nothing to prevent a surge in poverty, but simply delays it.

Cutting the adequacy of social security support just as unemployment is peaking, and well before demand for workers will be fully recovered, is the wrong thing to do and will suck money out of the economy when it's still weak, hampering our recovery.

**Figure 1: Unemployment rate projections from the OBR, March 2021**




Source: ONS, OBR

This was also a crucial opportunity for the Government to right the wrong of families on ‘legacy benefits’ (Employment and Support Allowance, Jobseeker’s Allowance and Income Support) so far having been excluded from the same £20 lifeline. The majority of disabled people receiving social security support are on legacy benefits (Maddison and Porter, 2021) and it is unjust that they have yet again been ignored.

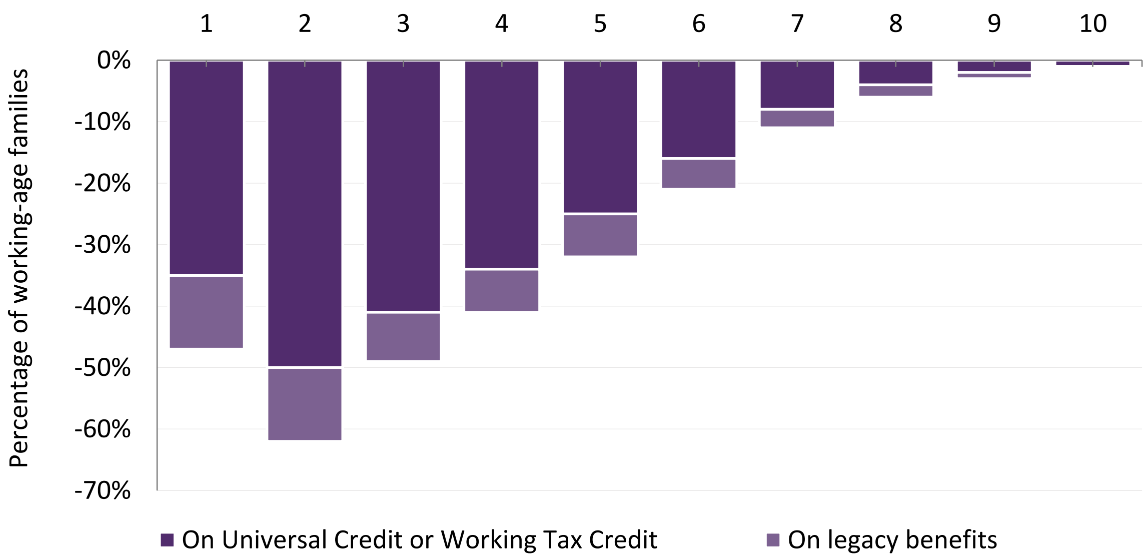
## Simply delaying pulling families into poverty until the run-up to winter

The OBR yesterday confirmed that unemployment will remain high for many years. We have used their forecasts to produce new estimates of the impact on families of cutting away the £20 lifeline in October 2021, after the six-month extension ends.

A total of 6.1 million families on UC/WTC will see an overnight loss of £20 per week (equivalent to £1,040 per year) when the lifeline is whipped away in October 2021. A further 1.6 million families on legacy benefits will continue to miss out on this lifeline.

Losses will disproportionately be shouldered by families on low incomes, as demonstrated in figure 2. The cut will impact families in and out of work alike, with 63% of families that lose out (3.9 million) being working families.

**Figure 2: Percentage of all working-age families in each income decile that will lose £20 per week from their UC/WTC when it’s withdrawn in October 2021, or not see an equivalent uplift to their legacy benefits (1 = lowest income)**




Source: Microsimulation by JRF using the IPPR Tax and Benefits Microsimulation Model and the OBR’s March 2021 forecasts. See Appendix for detailed assumptions.

Cutting away the lifeline from those on UC/WTC will mean around 500,000 more people, including 200,000 more children, will be pulled into poverty in October 2021. This rises to 600,000 more people in poverty by 2025/26. Had the Government chosen instead to keep this lifeline, it could have prevented these people being pulled into poverty. In addition, it could have lifted a further 100,000 people out of poverty this year if it had extended the £20 lifeline to those on legacy benefits.

Families with children will be disproportionately impacted, particularly single-parent families. Around 59% of all single-parent families will experience their income falling by the equivalent of £1,040 per year because of the cut in UC or WTC.

**Table 1: Families impacted when the £20 uplift is withdrawn in October 2021**

| **Family type** | **On Universal Credit or Working Tax Credit** | | **On legacy benefits** | |
|---|---|---|---|---|
| | Number of families losing the £20-per week-lifeline | % of all working-age families of that type who lose | Number of families missing out on equivalent lifeline | % of all working-age families of that type missing out |
| Families with someone in work | 3,900,000 | 18% | 200,000 | 1% |
| Families without someone in work | 2,300,000 | 34% | 1,400,000 | 21% |
| Single without children | 2,500,000 | 20% | 900,000 | 7% |
| Couples without children | 700,000 | 10% | 200,000 | 3% |
| Single-parent families | 1,100,000 | 59% | 400,000 | 20% |
| Couple-parent families | 1,800,000 | 30% | 100,000 | 2% |

Source: Microsimulation by JRF using the IPPR Tax and Benefits Microsimulation Model and the OBR's March 2021 forecasts. See Appendix for detailed assumptions.

Over half of families losing out from the withdrawal of the £20 uplift from UC or WTC contain someone who is disabled and a fifth are Black, Asian and minority ethnic (BAME) families, meaning these groups are disproportionately affected.

**Table 2:** BAME families and those containing a disabled person impacted when the £20 uplift is withdrawn in October 2021

| Family type | On Universal Credit or Working Tax Credit | | On legacy benefits | |
|---|---|---|---|---|
| | Number of families losing the £20-per-week lifeline | % of all working-age families of that type who lose | Number of families missing out on equivalent lifeline | % of all working-age families of that type missing out |
| BAME families | 1,200,000 | 29% | 300,000 | 6% |
| Non-BAME families | 4,900,000 | 21% | 1,400,000 | 6% |
| Families where someone is disabled | 3,200,000 | 40% | 1,100,000 | 14% |
| Families where no one is disabled | 2,900,000 | 15% | 500,000 | 2% |

Source: Microsimulation by JRF using the IPPR Tax and Benefits Microsimulation Model and the OBR's March 2021 forecasts. See Appendix for detailed assumptions.

The impact will be greatest in areas across the North of England, Wales, the West Midlands and Northern Ireland, areas that already had high rates of poverty and have been worst impacted by this economic downturn. This means that many 'Red Wall' constituencies where the Government has pledged to level up will instead see a significant blow to their livelihoods and local economies.

## The adequacy of our social security system

Recent history shows that, though employment reached a record high after the last recession, this still did not protect many families from poverty nor prevent child poverty from rising. Before COVID-19, incomes were falling – and falling fastest – for people with the lowest incomes, meaning they entered the pandemic financially exposed. Cuts to social security were one of the main drivers of this trend (JRF, 2021).

The country entered the pandemic with the main rate of unemployment support at its lowest level in real terms since around 1990 after a decade of cuts. As a proportion of average earnings, it was also at its lowest ever level and income replacement rates in the UK remain some of the lowest amongst OECD countries. Even with the £20 uplift, families unable to find work will on average receive £1,600 less per year in social security support than they would have done in 2011. Families with children will be hit even harder, receiving around £2,900 less – equivalent to around a year's worth of food shopping for a low-income family (Maddison and Porter, 2021). Stacking another £1,040 cut on top of that this October, as families are facing winter, will cause serious hardship.

Families who have lost their job during the pandemic have faced serious hardship, but for those who do so after September, the income drop will be even more severe. Without the £20 uplift as the furlough scheme unwinds, many families will see their income halved or worse, even if they were only being paid minimum wage (Porter, 2020). Further, it is people in low-paid jobs who are expected to be hardest hit as the crisis continues.

Many families began the crisis living near or in poverty, facing the challenges that the pandemic has thrown at them with little or no savings. A year of the pandemic has eroded financial resilience and, despite the £20 uplift, the combined pressure of losing earned income and additional financial barriers due to lockdown means families are struggling with rent arrears, debt, and are turning to food banks. Losing the uplift while the job market remains in crisis will accelerate these financial difficulties.

### People's reaction to the Budget shows that the six-month extension does not go far enough to support people in poverty

The six-month extension simply delays hardship, pushing the issue further down the road and compounding anxiety:

> "This decision is another cliff edge to dread. It leaves us facing the winter months with uncertainty again. We don't know how the economy will recover, yet we face more insecurities for those on low incomes and on Universal Credit. It's just making our daily life – which is already so difficult – only harder still. I wish things could be different. I wish the Government would listen to us."
>
> Woman, Northern Ireland (part of the Covid Realities project)

People know that we face a long road to recovery, with unemployment set to peak as the uplift is withdrawn:

> "When that £20 is withdrawn, people will be in worse situations because there is going to be a lot more unemployment, so a lot more people on Universal Credit who won't have that extra £20. I just feel like the Government hasn't looked at it properly, they haven't solved anything."
>
> Man, London.

> "He said the economic forecast wouldn't start to stabilise until mid-2022 right, so why is he not allowing the £20 uplift to UC to continue until then? Rather than this September, why September? It's not when poverty ends is it?"
>
> Man, Wales.

It was felt that the Budget announcements suggest that the Government is predominantly concerned with providing certainty and support for businesses, rather than people, and that the impact on people had not been properly thought through.

> "I'm not a politician or a mathematician and I certainly haven't been to Oxford or Cambridge but I actually live on that money, so I know what it does and how it helps. But they haven't thought about it because they don't live it – they don't know."

Man, London.

"If you think of the furlough and everything, these things are being phased off slowly and yet UC just stops suddenly so it's almost like it doesn't really mean so much to them, the Government. It just feels like no thought or planning has gone into it."

Man, London.

For families and individuals who are already struggling to stay afloat, this cut to incomes will cause significant hardship:

"A lot of families are really struggling and getting into debt. Six months is not good enough, it should be a year. I am really quite concerned. Times are hard, food is expensive now, the cost of everything is going up. I just don't think the Government knows what it's like for working-class families at the moment."

Woman, London.

"The level of benefits, even after the uplift, is not enough to allow people to afford the basics. They're not as generous as some people would believe. In some ways one of the maybe positive sides of COVID is that people have had a bit of a wake-up call. When you actually see what comes in from the system, it really doesn't stretch very far."

Man, London.

Legacy claimants questioned why they were once again being excluded from the uplift, despite predominantly being disabled and sick people, and carers:

"I'm on ESA and legacy claimants just keep getting pushed aside. That extra £20 would help big-time – even if it was £10 it would help. With ESA, we get it because we can't work so I would say we need the money more. The focus, again, is only on people who maybe can do some work (UC claimants) and those who can't are just forgotten about. I find it really sad."

Man, London.

## Recommendation and cost

We urge the Government to urgently review their decision to cut this support in six months, and instead keep it in place for at least the next year, with a view to permanently improve the adequacy of our social security system for the long-term. It is not too late for the Chancellor to do the right thing by keeping this lifeline and extending it to families on legacy benefits.

Our new estimates suggest that keeping this £20 lifeline for families on UC/WTC for the second half of the fiscal year 2021/22 would cost around £3.3 billion, and a further £0.8 billion to extend it to legacy benefits over the same period. By 2025/26 the annual cost would be around £7.9 billion for UC/WTC as UC rollout nears completion, with the legacy benefit extension cost falling to £0.7 billion.

## 2. Has the Chancellor announced measures to protect jobs and help the unemployed back into work?

### Extending the furlough scheme will continue to protect jobs

The Chancellor made a very welcome commitment to extend the Coronavirus Job Retention Scheme (furlough scheme) until the end of September. This extension will continue to protect jobs while restrictions remain and then gradually wind down support as the economy reopens.

This approach should limit unnecessary unemployment that could have been caused by a premature or sudden end to furlough. The OBR estimates that extending the furlough scheme is one of the reasons why they have reduced their forecast of peak unemployment by 300,000 (OBR, 2021), meaning the highest rate is 6.5% rather than the previous prediction of 7.5%.

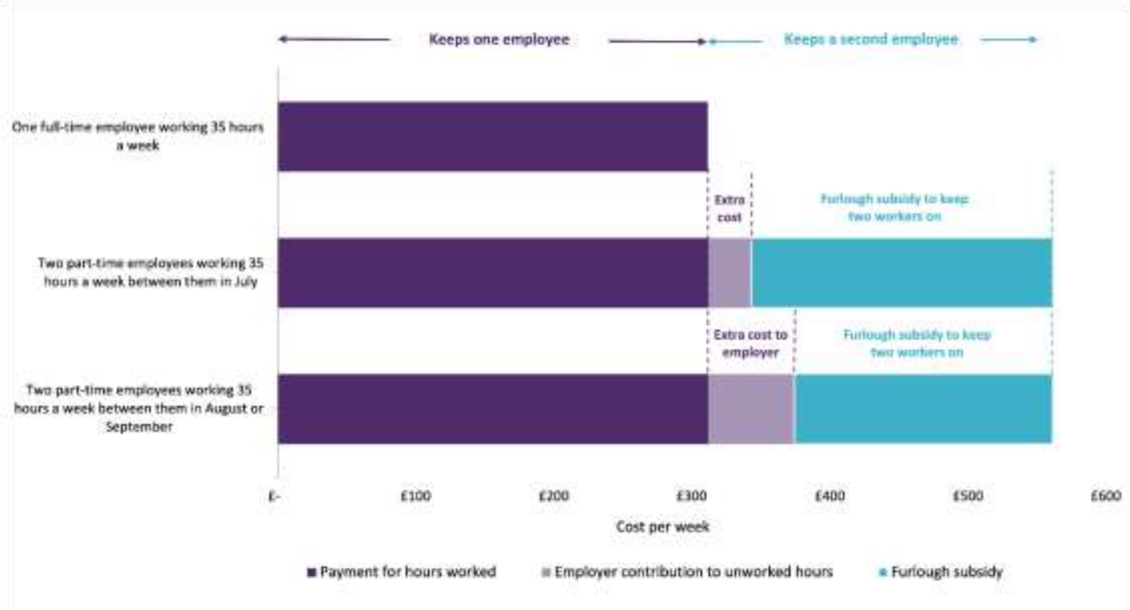
One of our experts from experience shared his reaction to the extension of the furlough scheme:

> "On the furlough, it sounds about right […] – it seems to fit with their schedule for unlocking us, so it sounds about right, sensible."
>
> Man, West Midlands.

One concern about the scheme is the decision to ask employers to contribute to unworked hours from July onward; this risks reducing take-up of the scheme during these later months. It also means it will be cheaper for an employer to bring fewer staff back full-time rather than more staff working part-time, as the chart below illustrates.

This choice will have reduced the overall cost of the furlough scheme, but it will also reduce the number of jobs the scheme protects, weakening its policy success. It seems unnecessarily risky to introduce these employer contributions and lower the chance businesses will make use of the scheme.

**Figure 3: Illustrating the employer contributions towards the furlough scheme between July and September**




Source: JRF analysis of details of the CJRS

Note: Employees in this example earn the National Living Wage (2021)

> "I thought that was a good idea […] But the problem is, is that their way of phasing it out is making the businesses pay, contribute towards the furlough payments, and for those businesses who have suffered for the past year, how are they going to pay, even contribute that 10%? So that's my worry for those who have been on furlough for the least amount of time, at the end of it they might - with the companies being forced to contribute, even a small amount - may be the decider between them having the job or not at the end of it."
>
> Man, London.

Better options were available to the Chancellor. We had suggested employees be required to work a minimum number of hours, with this minimum gradually increasing over time. Then the employer would only pay the wages of these worked hours. This would make it no cheaper to have fewer staff working more hours. However, the setting of employer contributions at a relatively small 10% and 20% of unworked hours should mean that many employers still opt to use the furlough scheme despite the disincentive.

By choosing to extend furlough beyond the end of social distancing, the Chancellor has acknowledged it will take time for the economy to recover and employers to get their businesses back up and running. It is important there is flexibility in the timings set out in this Budget. While we all very much hope to achieve the dates set out in the roadmap, if they change then the timing of the furlough scheme must change too. For example, if the end of restrictions is delayed beyond 21 June the full furlough scheme must be altered accordingly so that job protection continues to match the level of restrictions.

## Employment and training programmes must now deliver on their promises

The Chancellor chose not to add to the employment and training support programmes announced in last Summer's Plan for Jobs and the Autumn's Spending Review. Government is trusting that existing schemes such as Kickstart, aimed at providing funded job placements for young people, and the Restart programme, providing enhanced support to people out of work for at least 12 months, will be sufficient to support people back into work.

Given the Chancellor had billed his Budget as the next phase of the Plan for Jobs, it's surprising he didn't introduce any new substantive measures or boosts to existing schemes. Kickstart, for example, should have been extended beyond its proposed December end date to prolong the help available to young people. Additional support for people who already hold qualifications but still need to retrain should also have been made available.

Government did provide an additional £126 million for more traineeships aimed at 16 to 24-year-olds. It also increased the payments made to employers who hire new apprentices, from £1,500 to £3,000; however, no additional spending appears to have been committed to this.

The main challenge for the Government over the coming years is to work collaboratively with local partners to ensure that programmes deliver what they promise, and support people into good-quality, sustainable jobs.

The desire for additional support for retraining was noted by one our experts from experience:

> "In a world where increasingly, anyway, people are much more chopping and changing in careers and jobs and stuff […] it would have been nice to have something more about just supporting people generally for training off their own backs, or changing career."
>
> Man, West Midlands.

## 3. Has the Chancellor announced measures for England to support those in rent arrears and at risk of eviction?

The COVID-19 pandemic has exposed and compounded the issues in our housing market. Prior to the lockdown far too many of us lived in homes which were insecure, unaffordable and poor quality. Months of lockdown have only served to make this situation worse. Despite this, the Chancellor chose to take actions that will maintain high house prices while remaining silent on support for those most at risk: struggling renters.

### The pandemic and a lack of support through lockdown have caused rent arrears to soar

Too many are struggling to cover their housing costs. At the end of 2020 2.5 million households in Great Britain were worried about how they would pay their rent between November and January, and 700,000 households in England and Wales were already in rental arrears (Baxter et al, 2020).

Rent debt carries significant consequences, leading to eviction and homelessness, impacting access to future rental properties and affordable lending, and it also acts as a drag on economic recovery.

The impacts of being in arrears were noted by one of our partners with experience, a renter from Yorkshire:

> "You feel like you need to pay off the rent arrears but you just can't and you feel like you're letting the landlord down, or you think he's going to kick us out if you don't pay it off soon and then find someone else to move in. You don't want that feeling over your head, but at the same time you can't pay him because the money ... you're getting isn't covering the rent anyway and if you're in arrears you have to find money from somewhere to pay that off as well."
>
> Renter, Yorkshire.

These issues have not been experienced equally, with a higher proportion of renters from BAME backgrounds (42%), renters with children in their households (36%), and renters with an income under £25,000 per year (32%) more worried about paying their rent than the average renter (29%) (Baxter et al, 2020).

Without further action this situation will worsen, with recent JRF analysis finding that 28% of social renters and 22% of private renters currently in employment work in sectors where businesses are most likely to say they have little to no confidence they will survive the next three months (Earwaker, 2021).

## The Government took steps early in the pandemic to support renters with their housing costs, but these measures have been too limited

During the first lockdown the Government took several steps to support renters, banning evictions, and extending this in various forms throughout 2020 and into 2021. Local Housing Allowance (LHA) was also re-set in line with the 30th percentile of local rents, partially closing the gap which had emerged between local rents and the support on offer. The Government has also frequently pointed to £180 million in existing funding for Discretionary Housing Payments (DHPs), administered through local authorities, to support households when they need additional assistance in meeting their housing costs.

However, these measures have proved inadequate to support households during the last year and the Government has already begun to backtrack on support in a number of these key areas. Successive extensions to the eviction ban have been welcome but have added layers of complexity and have resulted in watered-down protections. Furthermore, at the Spending Review late last year the Chancellor announced a plan to freeze the Local Housing Allowance in cash terms from April 2021.

This LHA freeze is particularly galling as rents across the UK have already increased by an average of 2% since LHA rates were increased (ONS, 2021), a gap that will likely widen further over time. This is confirmed by new Universal Credit data which shows that LHA was not enough to cover the rent of 715,000 households in November 2020, up from 491,000 in March 2020 - an increase of 46% (DWP, 2021).

The experience of living with this shortfall was captured by one of our partners with experience, a renter from Yorkshire:

> "The housing element of Universal Credit doesn't cover the cost of our rent. It only covers £400, which means we have to pay the extra £85 on top and this has to come out of whatever we get. There's never anything left over at the end of the month to save."
>
> Renter, Yorkshire.

DHPs should be playing a key role but the system is both complex and insufficient in the face of rent debt that we estimate to stand at least £400 million. To provide the help people need, DHPs must be reformed to ensure they help those most in need. Key to this is ensuring those in need of support are effectively signposted to them. This is captured by one of our partners with experience:

> "I think there needs to be more information about what support is out there and who can help. There's that Discretionary Housing Payment but things like that, there's no information about it so people don't know it's there so people don't apply for it."
>
> Renter, Yorkshire.

The measures announced by the Chancellor focus on maintaining house prices, while offering no support to renters who are in arrears or struggling with their rent

This Budget was a missed opportunity to support struggling renters, like those captured in the quotes above. Instead, the Chancellor focused on two main housing policies, an extension to the 'Stamp Duty Holiday', and a new mortgage guarantee scheme, which will direct support to those on higher incomes.

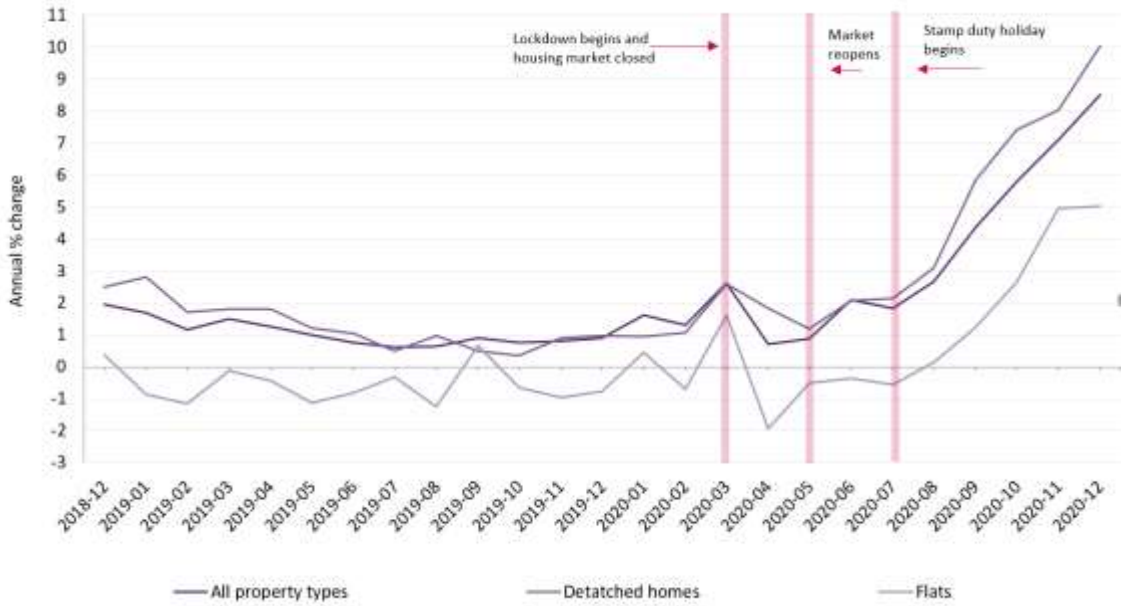
The temporary increase in the residential Stamp Duty Land Tax Nil Rate Band to £500,000 will be extended until 30 June 2021, and then phased out until 1 October 2021. This extension comes at a cost of £1.6 billion, on top of the £3.2 billion that the holiday has cost so far.

The 95% mortgage guarantee scheme will come into effect from April 2021 until 31 December 2022. This scheme will provide a guarantee to lenders across the UK who offer mortgages to people with a deposit of just 5% on homes with a value of up to £600,000.

These policies have two key flaws. First, they are poorly targeted, providing greater benefit to higher-income households purchasing higher-priced houses. They will do little to meet the Chancellor's stated aim of turning 'Generation Rent into Generation Buy'. The average first-time buyer (FTB) property in England is valued at £225,000, well below the regular Stamp Duty tax threshold of £300,000 for FTBs, and less than half of the current holiday threshold of £500,000. Most first-time buyers and households on low incomes who aspire to homeownership will not be purchasing homes above the usual threshold. The policy will provide greater benefit to higher income households purchasing higher priced houses.

Second, these policies are inflationary and will serve to drive up house prices. Following four years of slowing house price growth, since the stamp duty holiday was introduced in July 2020, house prices in England have increased by an average of 6% up until December 2020 (JRF analysis of Land Registry UK House Price Index, 2021), with annual house price inflation reaching 8.5% in December, the highest rate since 2014 (OBR, 2021). While the holiday will not have been the sole reason for this surge, the OBR has signalled that the extension to the holiday will likely continue to push prices up (OBR, 2021).

**Figure 4: Annual house price change in UK by type of dwelling 2020 (monthly)**



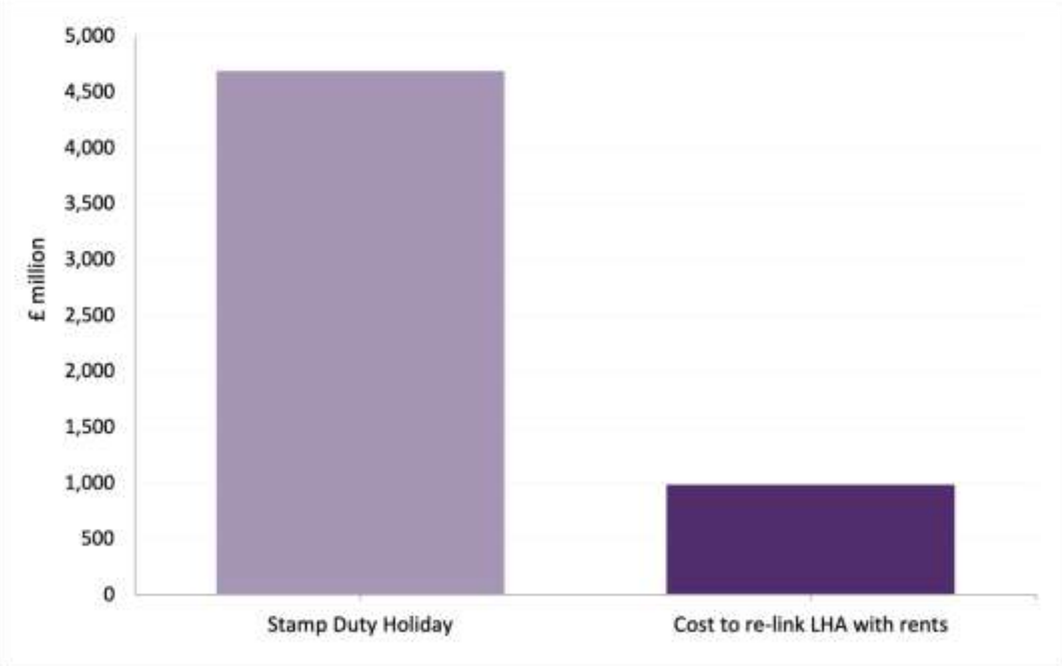

Source: JRF analysis of Land Registry House Price Index 2021

Inflating house prices perpetuates intergenerational inequality, and shuts non-homeowners out of the market. It also makes the delivery of social housing more costly, through increased land values.

## The Chancellor has chosen to ignore renters in need

These policies are being announced against a backdrop of rising rent arrears, a homelessness crisis and a social housing shortfall. Addressing rent arrears or making sure LHA actually tracks rent increases would have cost a fraction of the almost £5 billion that the Stamp Duty Holiday is estimated to cost, as shown in Figure 5 below.

**Figure 5: The forgotten support for renters by re-linking rents to LHA is dwarfed by the cost of Stamp Duty Holiday**




Source: JRF analysis of OBR Economic and fiscal outlook March 2021 and November 2020

Instead of inflating house prices, Government action must ensure that everyone has security and stability to meet their current housing costs. This was put most clearly by one of our experts by experience, a renter in London:

> "I think they're … promoting what a lot of people, and their voters, would appreciate - which is the support for ... those wanting to own their own houses. But again, … those who are most vulnerable, who they claim to really put at the heart of their decisions, have just been ignored. Those private renters, and those paying extortionate rates, not getting any respite …"
>
> Renter, London.

An effective start would have been to use this Budget as an opportunity to tackle the issue of high levels of rent arrears, effectively re-setting the housing market in advance of restrictions lifting. The Government could have done this by targeting support for rent arrears while providing renters with security by urgently reinstating a watertight eviction ban until the lockdowns are over, and ensuring that LHA rates continue to rise in line with local rents, rather than freezing them from April as currently planned.

Looking ahead to the Comprehensive Spending Review later this year, Government must set out plans that support a housing market recovery which puts the interests of those on low incomes at its heart. Attention must be focused on fixing the shaky foundations of the housing system which have been so exposed by the pandemic. At the centre of this should be bringing forward plans for reforms to the private rented sector to offer renters greater security, alongside much greater investment in building the social housing we so urgently need.

## 4. Has the Chancellor set us on a course for recovery that leaves no one behind?

The Budget had to do two things. First, ensure the emergency support put in place last year protects people for the remainder of the economic storm. Second, deliver bold policy that ensures a strong recovery to match the compassionate moves the Government took to protect people's incomes last March.

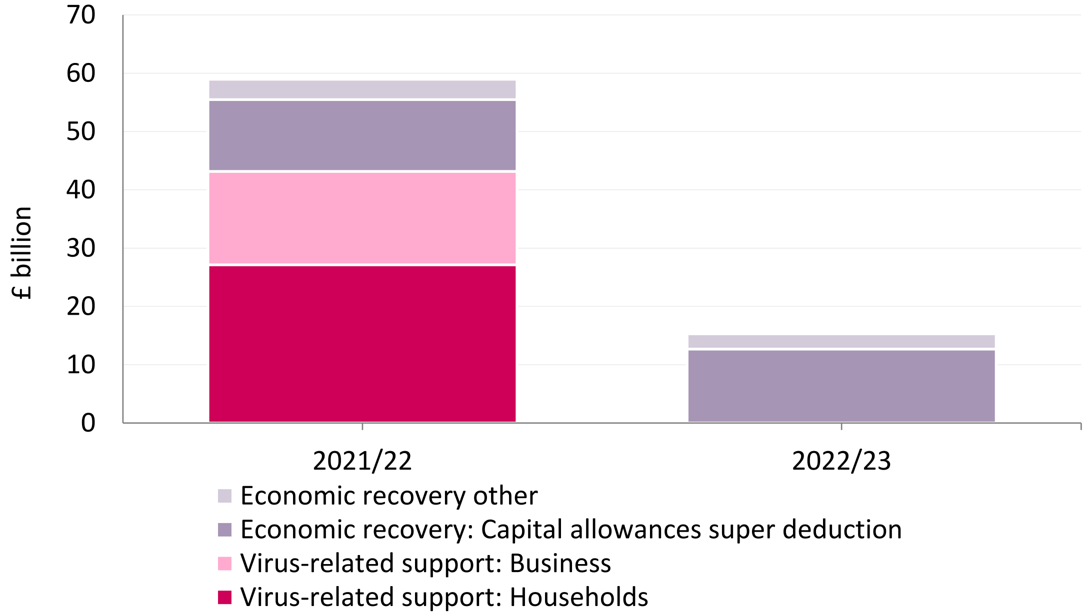
The roadmap out of the pandemic finally gives us the chance to contemplate economic recovery. If this recovery falters we will see a rapid increase in unemployment, and it will be people in and at risk of poverty most affected by the storm. Sadly, this Budget appears to be at best sending us back to the old normal, rather than seizing the opportunity to build a different future.

### The Chancellor's additional COVID-relief funding provided useful short-term support through restrictions, but little stimulus thereafter

The Chancellor announced a further package of £65 billion COVID-relief funding this year. Of this, the vast majority the OBR describes as 'virus-related fiscal support' to households and businesses, and it includes the furlough scheme, the Universal Credit uplift and grants to businesses. There was also around £15 billion in economic recovery measures both this year and next, the vast majority of which comes from the capital allowances 'super deduction'.

Much of the new spending is therefore targeted at supporting incomes through the pandemic restrictions and the following few months, with relatively little on restoring growth afterwards. Overall, this support is very frontloaded – support for households through UC, furlough and the Self-Employment Income Support Scheme (SEISS) comes entirely in the first half of 2021-22, as does much of the support to businesses. In doing so, the Chancellor has created a cliff edge for household incomes and business support just as we go into winter.

**Figure 6: Most of the fiscal measures in the Budget were continuing fiscal support to businesses and households; there was little new fiscal stimulus**

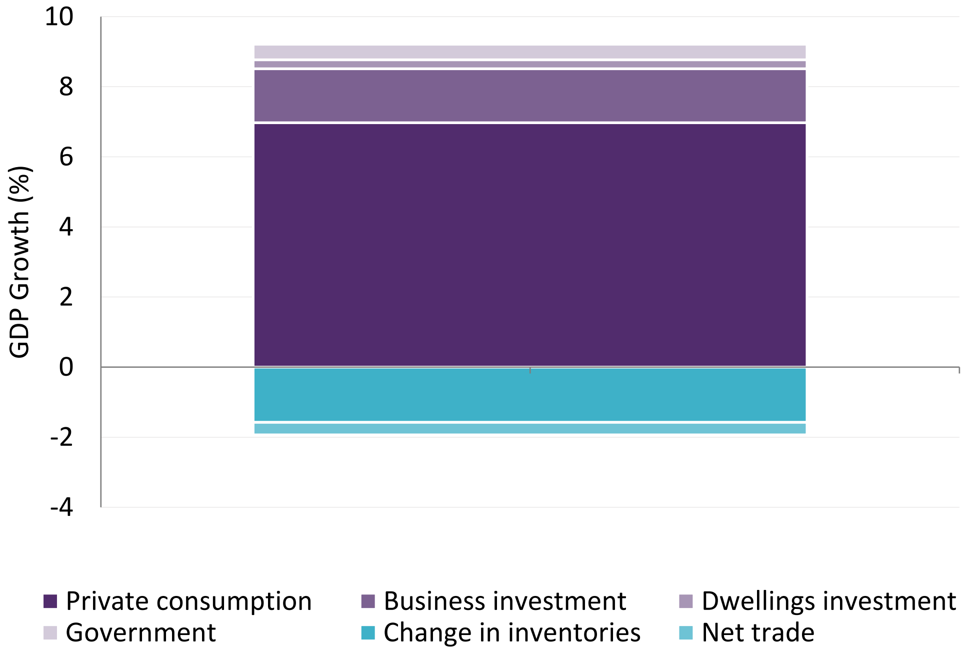



Source: JRF analysis of OBR Economic and fiscal outlook March

## The Chancellor is taking a gamble that there will be a quick recovery driven by consumer spending and increased business investment

The OBR's central scenario predicts a relatively quick recovery given the size of the recession, driven by private consumption and business investment. But the OBR recognises huge uncertainty about both: we don't know how much of people's savings will turn to spending as the economy opens up, and they rate the impact of the super deduction on investment as 'highly uncertain'.

**Figure 7: The OBR's central scenario is of private consumption and business investment driving a recovery in 2022**




Source: JRF analysis of OBR Economic and fiscal outlook March 2021 chart 2.7

As a result the Chancellor is putting all his eggs in the basket of potential increased consumer spending and business investment. He has powerful fiscal tools at his disposal that he has chosen not to use.

A consumer-spending driven recovery might happen, but it's a big risk to rely on it. Implementing too much stimulus would have been a much smaller risk to take than implementing too little. Too much stimulus would mean slightly higher inflation in the short term, which could be corrected via higher interest rates in future if necessary. Too little stimulus means a slower recovery, higher unemployment and more damage to the public finances in the long run. This is a big gamble.

## We are heading for an unequal recovery

To compound this risk, the Chancellor may also end up excluding low-income households from the recovery. Even if we do have the quick spending-led recovery we are hoping will emerge, this will not be a recovery felt by everyone. While on average people across the country have built up savings during the pandemic, this saving has been done by well-off households. The bottom 40% of households have actually, on average, drawn down savings or gone into debt during the last year (Vlieghe 2021).

Low-income households will face a perfect storm of the peak in unemployment, the winding-up of furlough and the withdrawal of the UC uplift in the second half of the year, cutting them further adrift. That's without factoring in the debt and arrears that many low-income households have been forced into by the pandemic.

In short, low-income households are already spending, in the height of a pandemic, all of the money they have. It is very unclear how they will benefit from the return to 'normal' as their spending power will at best be the same as it was pre-pandemic in more challenging economic conditions, and in many cases worse.

The reliance on savings turning to spending will also mean a recovery that is uneven across the country. Areas of the country with a higher proportion of wealthier households that have built up savings will see a faster recovery. But areas of the country with higher proportions of people relying on our social security system will see very little of the same spending boost. This might help growth return quickest to London when wealthy commuters return, but will leave an even bigger challenge to levelling up in the coming years.

## There were many options for the Chancellor to announce new fiscal policy that would also directly support people in poverty through the next phase of the storm

JRF has recommended several policies that could have made up part of an expanded stimulus. Getting cash in people's pockets through our social security system would increase the incomes of those most likely to spend any increases, rather than save it (McDonald and Earwaker 2020). The Chancellor could have announced policies to create jobs indirectly through reducing National Insurance Contributions for new hires, and directly through new social care and green jobs (Bestwick et al, 2020). Investing in building social housing now would create jobs and stimulate the economy in the short term as well as tackle the rising housing costs that have pulled more and more renters into poverty in recent years (Baxter and Earwaker 2020). These are just some of the policies that could have formed part of a bold, expanded stimulus programme that also tackles some of the drivers of poverty.

**Table 3: Stimulus measures the Chancellor could have announced**

| Policy | Estimated Cost in 2021-22 (£ billion per annum) |
|---|---:|
| UC and WTC uplift extended for at least 12 months and extended to legacy benefits | 8-9 |
| Build enough social housing to meet demand | 18 |
| National Insurance Contributions cut for new hires | 2 |
| Expansion in social care jobs | 5 |
| Energy efficiency retro-fitting | 3 |
| Bringing forward spending for investment in skills | 0.5 |

## The Chancellor was right to avoid tax rises this year, and the tax rises in future years are broadly sensible

Now would not have been the right time for tax rises, and the Chancellor avoided making any this year in the Budget. Emergency spending to deal with the pandemic has greatly increased public debt. But there is a wide consensus among economists that we face no immediate pressure to address this debt now. Low interest rates mean that the cost of servicing this debt is currently very low. The risk that immediate tax rises or spending cuts would lead to a longer and more damaging recession far outweigh any benefit we would have from reducing this public debt now.

However, it is notable that council tax, one of the most regressive taxes, will go up across England – which local authorities have been able to increase by 5% this year – raising an estimated £0.8 billion this year.

When the time is right to repair the public finances, people in poverty must not bear the brunt. This means that the majority of fiscal consolidation should come through tax rises rather than spending cuts. It is not right that the incomes of people most at risk of hardship were hardest hit by spending cuts to repair the public finances following the financial crisis.

The Chancellor announced big rises in Corporation Tax in future years, and freezing income tax thresholds. Raising Corporation Tax in future years was a sensible move as it has little direct impact on people in poverty. While the majority of the revenue raised from freezing income tax thresholds is from wealthier households, it does increase the tax paid by many households in poverty. The effect of the tax threshold freeze could have been more than mitigated by retaining the £20 uplift to Universal Credit and Working Tax Credit. Instead, with the lifeline being withdrawn halfway through the year this is a double injustice for those households losing out on both.

## Levelling up needs to become more than the sum of its parts

Levelling up was the promise on which the Government was elected. It is simply not right that people's life chances are affected by where they live. But this is yet to be turned from a catchy political slogan into a transformative plan that will address regional inequalities. This Budget includes a series of individual policies and funds that will deliver small-scale interventions for some places. But they are piecemeal, and do not yet come together into a single, overarching strategy to address long-term structural economic challenges facing much of the UK.

The three new funds detailed at the Budget – the UK Community Renewal Fund (a pilot for the UK Shared Prosperity Fund); the Levelling Up Fund; and the Community Ownership Fund – will no doubt support many worthwhile local projects. Funding of £1 billion for 45 new Town Deals in England (£22.6 million each) as part of the Towns Fund was also announced.

All of the above are examples of centralised funding pots, inviting local areas to compete for relatively small amounts of money, and expecting them to deliver on extremely short timescales. They are unlikely to fund interventions which address the long-term underlying problems within those local economies such as low skill levels and private sector investment.

The Levelling Up Fund Prospectus was published with a list of local authorities 'most in need of levelling up', set into three tiers. However, the metrics used have not been published. This lack of transparency is troubling as some of the results are puzzling. For example, the North Yorkshire borough of Richmondshire was in the first tier despite being ranked the 251st most deprived local authority (out of 317), while Barnsley was in the second tier, despite being ranked the 38th most deprived local authority (MHCLG, 2019).

Eight freeports were also announced in England to bring investment, trade and jobs to places that need them most using a series of tax reliefs, customs benefits and lighter-touch planning regulations. However, evidence suggests that freeports (as with enterprise zones) are more likely to re-locate rather than create new jobs (UKICE, 2021; Swinney, 2019). This may be viewed as a success, but if those jobs are relocated from elsewhere in the local economy, the impact of a freeport is likely to be severely limited.

Further interventions included plans to locate the new National Infrastructure Bank in Leeds and the new 'Treasury North' in Darlington. While both are welcome, they are unlikely to provide a significant economic boost to those local areas in and of themselves. Moving those who have influence over economic decisions to a different part of the country is no substitute for devolving real economic powers to local institutions.

But perhaps most significantly of all, these piecemeal measures are unlikely to counteract the widening of regional inequalities likely to result from a consumption driven recovery. A different approach to the recovery was needed in order to assist the goal of levelling up.

# 5. What does the Chancellor's Budget mean for poverty in the UK?

The Chancellor pledged to 'meet the moment' and do 'whatever it takes to support the British people', but in our assessment he failed his own tests, and ultimately more people will be swept into poverty as a result. The last year has shown us that people want to look out for and care for each other, and these should have been the values underpinning the Budget.

This Budget should have been the moment where the Chancellor seized the opportunity for change, and avoided a return to the pre-pandemic normal. We came into the pandemic in bad shape following a decade of deprivation where living standards fell, and fell fastest for those at the bottom. The pre-pandemic normal is one where people were pulled into poverty by crippling housing costs, jobs that lacked security, dignity and decent pay, and a social security system that did not do enough to keep people afloat. The pandemic then hit those with the least the hardest.

The health restrictions may be beginning to ease, but the economic storm caused by the pandemic is still raging. The Chancellor extended some schemes for six months, including furlough, further rounds of the self-employment support scheme and the extension of the uplift to Universal Credit and Working Tax Credit. After that he is gambling with the recovery, hoping the best-case scenario will play out, and taking little positive action to drive a good recovery. If that gamble does not pay off those with the least will pay a high price.

We needed a Budget that provided families with stable support that enables them to build a decent life. Instead, the £20 uplift to Universal Credit and Working Tax Credit, that has been a lifeline to so many, is being whipped away at the end of September, leaving 6 million families over £1,000 per year worse off overnight. This will cut the adequacy of our social security support just as furlough is ending and unemployment peaks at 2.2 million, creating a perfect storm for those on the lowest incomes as we head into the winter.

We needed a Budget that headed off a wave of evictions brought about by a decade of insufficient help with housing costs, compounded by the effects of the pandemic. It was also an opportunity to create jobs and make housing truly affordable with an ambitious plan to build more social housing. Instead, billions were committed to measures that will further inflate house prices and help relatively wealthy people buy expensive houses, while there was nothing for the 700,000 renters in arrears who risk losing their homes entirely, or for the millions trapped in poor quality homes, struggling to keep up with unaffordable rents.

We needed a Budget that took an active approach to the recovery, stimulating the creation of new jobs in ways that would also address problems that pull people into poverty – for example by investing in energy efficiency measures to tackle fuel poverty or by building social housing to lower housing costs, and expanding the number of jobs in social care while improving their quality and pay. Instead, the Chancellor has gambled on a recovery driven almost entirely by people spending the money they have saved over the last year. He hasn't lined up significant fiscal stimulus to kick in as furlough ends, to ensure a strong recovery and spread it to all parts of the country. This is a high-stakes bet and the OBR has made clear there is a lot of uncertainty around their forecasts. Those with the least have the most to lose if the gamble doesn't pay off and unemployment rises further. It also risks an uneven recovery, with worse-off places recovering more slowly, acting against the goal of levelling up – an effect that won't be countered by the piecemeal and short-term funding announced for levelling up.

One brighter spot was the extension and phasing out of furlough and the support announced over the last year for people to get back into work, although there remain gaps in the retraining offer. However, these policies will be of less consequence if the underpowering of the stimulus means the jobs aren't there for people to move into.

We needed to see bold policy that ensures a strong recovery to match the compassionate moves taken to protect people's incomes at the start of the pandemic. The Chancellor should have made the choice to build a different future. One that is characterised by good jobs and investment in people and their skills, where housing is genuinely affordable and where social security is there for us when we need it. This Budget fell far short of what the country requires and of the values we share.

# Acknowledgements

The quotes are from a discussion held with JRF partners with direct experience of poverty made up of people from London Unemployment Strategies, the JRF In-Work poverty co-design project, the Holiday Hunger project in Caia Park (Wales) and the On Road Media Peer Support group. A group discussion was held in advance of the Budget to give an overview of the predicted statements in the Budget to gauge thoughts and feelings, and this was followed up with individual phone calls straight after the Government announcement to record people's immediate responses. The aim was to ensure that people also had a platform to respond to Government decisions that have a direct impact on their lives.

Producing this analysis involved effort from many JRF staff, notably Paola de Agostini, Harriet Anderson, Lucy Bannister, Helen Barnard, Darren Baxter, Chris Birt, Patrick Calver, Rachel Casey, Morgan Bestwick, Rachelle Earwaker, Mike Hawking, Grace Hetherington, Becky Holloway, Julie Hulme, Dave Innes, David Leese, Francesca Maddison, Peter Matejic, Calum Masters, Rebecca McDonald, Iain Porter, Alina Sandor, Daisy Sands, Katie Schmuecker and Andrew Wenham.

# Appendix

## Tax-benefit modelling assumptions

Figures on the impact on families and poverty of withdrawing the £20 uplift from Universal Credit and Working Tax Credit, and of not extending this uplift to legacy benefits, were derived from modelling completed using the IPPR Tax and Benefits Microsimulation Model.

The analysis is based on data from the Family Resource Survey (FRS) 2018/19 updated to account for inflation and earning changes between the time of collection and the current time.

Because of the significant impact that COVID-19 is having on the labour market decisions, modelling of 2021/22 accounts for a rise in unemployment rate to 6.4% - based on average unemployment rate 2021Q4-2022Q1 from the OBR's March 2021 Economic and Fiscal Outlook, table 1.6 (OBR, 2021).

UC rollout is based on the OBR's March 2020 projections (OBR, 2020), adjusted for the effect of modelled unemployment. Although the OBR has not published new rollout projections since March 2020 it did reaffirm in March 2021 (OBR, 2021) that it expects UC rollout to be complete by September 2026 as per its March 2020 projections. When workers are made unemployed, if they are eligible for means tested benefits, they are automatically moved on to UC in addition to the target roll out %.

The model allows for partial take-up of means-tested benefits, with Universal Credit take-up set at the highest of the six legacy benefits it replaces. Benefits take-up rates are based on latest DWP estimations (DWP, 2020).

To maintain the uplift beyond 2021/22, it is assumed that the 2021/22 uplifted amount is increased by CPI (of the previous September, like most other means tested benefits). For those years we also assume that Scottish tax thresholds will be uprated by inflation as they would normally be.

Local Housing Allowance (LHA) is not modelled – instead, actual household rent is used in the housing benefit/element calculation.

All analysis is done based on families and the people within them, so gains and losses are not assumed to be shared by other families living in the same household.

The poverty line is 60% of equivalised household net income after housing costs (AHC) and is re-calculated in each scenario.

Impacts of less than 100,000 individuals are not considered significant as the sample sizes are very small and results could hide high variation.

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## 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.

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