CeMPA Working Paper Series

CeMPA WP 9/21

Covid-19 and financial hardship in London

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September 2021

CeMPA
Centre for Microsimulation and Policy Analysis

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Abstract

Using UKMOD, the UK tax-benefit microsimulation model, we analyse the impact on Londoners of the Covid-19 crisis, of the emergency policies put in place since March 2020 and of some counterfactual policy options, including the continuation of the £20 weekly uplift in Universal Credit and Working Tax Credit. Our main results can be summarised as follows: 1) The emergency measures introduced by the Government in March 2020 proved very effective at protecting the incomes of Londoners, particularly some of the most disadvantaged groups. 2) Withdrawing the £20 a week uplift to Universal Credit and Working Tax credits will put 130,000 more Londoners in poverty, with some of the most disadvantaged groups, including 60,000 lone parents, being disproportionately affected. The number of Black Londoners living in poverty would grow by 8% compared to 6% for all ethnic groups. 3) Less well-off Londoners will be worst affected, with the poorest 10% experiencing an 8% decrease in their incomes.
4) While Londoners will be more affected than the rest of the country by the withdrawal of the £20 uplift; across the UK, the poorest 10% of people will see their incomes cut by 5%. 5) On the other hand, keeping the £20 a week uplift to Universal Credit and Working Tax credits and going further by removing all the Benefit Caps would cut child poverty in London by 10%, keeping more than 70,000 children out of poverty.

JEL: D3

Keywords: Covid-19, Universal Credit, Working Tax Credit, Legacy Benefits, Housing Allowance

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* Report commissioned to the Centre for Microsimulation and Policy Analysis from the Greater London Authority. We are grateful to Deborah Halling, Rachel Leeser, Nicholas MacAndrews, Elizabeth Mahoney, and Jonathan Schifferes for helpful comments on earlier drafts of this report, and for their support and assistance throughout the project. All errors and responsibilities remain our own.

UKMOD is supported by a Nuffield Foundation grant (grant WEL/43597 2018-2021). The Nuffield Foundation is an independent charitable trust with a mission to advance social well-being. The views expressed in the paper are those of the authors and not necessarily reflect those of the Foundation.

Executive Summary

- If no emergency Covid-19 policy measures were introduced in March 2020, the economic shock due to the pandemic would have wiped off 10.6% of Londoners' mean disposable household income (i.e. income after taxes and benefits), or £450 pounds monthly, a slightly higher figure than for the UK as a whole (-9.5%).
- After adjusting for family composition and removing housing costs – the basis on which all income changes are referred to in this report – losses in London would have been even higher (-12.6%).
- Losses would have been particularly heavy among the poorest 10% of Londoners (a loss in income of -13.4%), a bigger toll than for the UK as a whole (-8.1%).
- Thanks to the emergency policy response however, consisting of the Coronavirus Job Retention Scheme (CJRS), the Self Employment Income Support Scheme (SEISS), increases in Universal Credit (UC), Working Tax Credit (WTC) and Local Housing Allowance (LHA) rates, mean disposable incomes decreased in London "only" by 3.7% in 2020, compared to 2019, a slightly bigger reduction than for the UK as a whole (-3.1%).
- Wealthier Londoners were more likely to lose income, whereas Londoners in the lower half of the income distribution saw an overall increase in equivalised household income due to the increases introduced for certain benefits. The poorest 30% of Londoners gained on average 6% in their incomes. As a result, the poverty rate, including housing costs, fell in London from 27.2% before the crisis to 25.4%. Calculating the poverty rate before including housing costs, the fall was from 14.6% to 13.2%.
- These gains however were not spread equally, as claimants who remain on legacy benefits – benefits that haven't yet been replaced by Universal Credit – didn't benefit from the £20 uplift in standard UC allowances.[1]
- Overall, considering both the Covid-19 shock and the Government response, the number of Londoners in poverty decreased by 6.6% in 2020, compared to 2019, with more than 150,000 Londoners having been lifted out of poverty (with a poverty line fixed at a pre-pandemic level). The percentage reduction was higher among young Londoners (-8.0%), among couples with 1 or 2 children (-12.6% and -11.1% respectively), disabled Londoners (-14.5%) and Black Londoners (-8.4%). These are average figures that do not necessarily correspond to individual experiences - particularly for those households who were overstretched financially before the start of the pandemic.
- Maintaining the £20 weekly uplift in the UC standard allowance and the WTC basic element beyond the end of September 2021 would ensure that the gains for Londoners at the bottom of the income distribution are sustained. If the uplift were kept, equivalised disposable household income would be 8.1% higher in 2022 for the lowest decile of the income distribution, compared to the current planned withdrawal, which would especially benefit lone parents. This would ensure a reduction in poverty rates for children (0-17 years) in London of more than 9% (67,000 children lifted out of poverty), compared to the projections for 2022 based on the withdrawal of the uplift. Lone parents and couples with three or more children, as well as Black Londoners would benefit from a higher-than-average reduction in poverty from the continuation of the uplift (-10.7% for lone parents, -11.2% for couples with numerous children, and -8.2% for Black Londoners, versus an average of -6.3% for all Londoners).
- Removing the Benefit Cap to Housing Benefit, Child Tax Credit, Child Benefit, Income Support, Jobseeker's Allowance and Universal Credit, in addition to the continuation of the £20 weekly uplift in UC and WTC, would further increase the gains in mean equivalised disposable

[1] The six legacy benefits are Housing Benefit, Income-related Employment and Support Allowance (ESA), Income-based Jobseekers' Allowance (JSA), Child Tax Credits (CTC), Working Tax Credits (WTC), and Income Support.

household income. In the lowest decile, incomes would increase in London by 11.1% in 2022 with respect to a baseline without the uplift and with the Benefit Caps. As a consequence, child poverty in London would be 10% lower than it will be with the current policies, lifting a further 5,000 children out of poverty.

- To reduce poverty and inequality, there are more policy levers that could be used. For instance, the introduction of a revenue-neutral Universal Basic Income scheme consisting of three different stipends for adults, children and pensioners, funded by a 3 percentage points increase in all tax rates, and the abolition of the Personal Allowance (PA) and National Insurance Contribution (NIC) thresholds, would bring substantial income gains for poorer Londoners (+61.2% in the lowest decile of the distribution of equivalised disposable household income), decreasing poverty after housing costs in London by 5.7%, or more than 130,000 Londoners.

1. Introduction

The Covid-19 pandemic is by far the biggest global crisis in generations (OECD, 2021). Many advanced economies experienced double-digit recessions in the first half of 2020, only recovering slightly in the second half. Amongst advanced economies, the United Kingdom was one of the worst hit, with a contraction in real GDP of 9.8% in 2020 (OECD data), more than double the OECD average (-4.7%). The social impact of the crisis has exacerbated pre-existing inequalities (Bear et al., 2020; Arnold et al., 2021), although a robust policy response has attenuated, so far, its short-term economic fallout (HMT, 2021; confirming earlier independent results – see e.g. Bronka et al., 2020; Brewer and Tasseva, 2021). The aggressiveness of governments during the pandemic has however raised issues of fiscal sustainability and imminent needs for fiscal consolidation (de Mooij et al, 2020). In the UK, while some measures have become permanent – as the increase in Local Housing Allowance rates – the planned termination of the main support schemes (CJRS, Coronavirus Job Retention Scheme, and SEISS, Self Employment Income Support Scheme), and in particular the reversal of the £20 uplift in Universal Credit and Working Tax Credit – "the biggest overnight cut to the basic rate of social security since the modern welfare state" as the Joseph Rowntree Foundation put it[2] – might leave many exposed to economic conditions that are still far from normal.[3] Additional austerity measures, as with the 2008-2009 financial crisis, might prove as challenging as the crisis itself, in socio-economic terms.[4]

The Covid crisis has also spurred a renewed interest in more radical welfare reconfigurations. In particular, different types of Universal Basic Income (UBI) schemes, aimed at replacing a number of means-tested measures with a fixed and unconditional individual stipend, have been proposed by researchers to address the key problems of income insecurity, poverty and in-work poverty – see for instance Painter et al. (2018), Martinelli (2019), Torry (2021). Proponents of UBI have stressed that, in addition to the standard arguments, the policy would make societies more resilient to shocks like a global pandemic.

Against this background of dramatic economic and policy changes, the objective of this study is to provide some light on the effects of the Covid-19 crisis on the distribution of income on Londoners, in comparison to the rest of the UK.

London, with its population of almost 9 million, or 13.5% of the whole British population, is younger than the rest of the UK. The fraction of the population aged under 30 is over 40% in London, more than 4 percentage points higher than in the rest of the UK. Londoners are also markedly more diverse – more than half of the population (51.6%) in London is non-white, against 30.6% in the rest of the UK.[5] Households in London have more children, with more lone parents and single people, and a markedly smaller number of pensioners. This should point to a bigger impact of the Covid-19 crisis in London, although mitigated by a higher level of education (the fraction of Londoners with tertiary education, above 30%, is almost double that of the rest of the UK, at 16.6%). Londoners also work more hours (36.2% work full time, against 30.4% in the rest of the UK), which exposes them more to the

[2] https://www.jrf.org.uk/blog/keepthelifeline-urging-government-not-cut-universal-credit.

[3] In addition, and not modelled for the present study, many Londoners may currently be at risk of eviction or currently undergoing one, as the Covid-19 related suspension came to an end on May 31, 2021. Research by the Greater London Authority shows that one in 12 Londoners reported they had fallen into rent arrears during the pandemic: https://www.london.gov.uk/press-releases/mayoral/quarter-of-renters-struggling-as-eviction-ban-ends To be noted, evictions have taken place in some limited cases (including in cases where arrears were deemed serious) throughout most of the pandemic, although the backlog in court cases has also acted to defer these somewhat.

[4] The first consolidation measure, the new Health and Social Care Levy announced as part of the 2022 Budget and involving a 1.25% increase in National Insurance Contribution rates, is expected to have a higher impact on higher earners, due to the effect of the minimum income threshold – see https://www.microsimulation.ac.uk/about/news/2021/09/11/the-new-health-and-social-care-levy-a-tough-but-progressive-measure.

[5] Children below 16 are not categorised in the FRS data used for this study.

employment effects of the crisis. Housing tenure also differs significantly, with more than half of Londoners either renting or in social accommodation, against a third in the rest of the country.

The poverty rate after housing costs (AHC), at 27.2%, was lower in London, before the crisis, than in the rest of the UK (21.8%), reflecting higher wages in London and the use of a single poverty line across the country, although the higher cost of housing in London should rebalance the comparison when looking at the AHC figure. Indeed, housing costs are much higher in London, with prices around twice the UK average, up from 30% higher in 1980.

In this study we consider how all the characteristics examined above have mediated the impact of the crisis in London versus the UK as a whole. In particular, we analyse how the crisis has unfolded between April 2020 and March 2021, and how it is likely to evolve in the next few years under a number of alternative policy scenarios.

2. Methods

Our analyses are based on UKMOD, a detailed tax-benefit microsimulation model for the UK and its constituent nations developed and maintained at the Centre for Microsimulation and Policy Analysis, with funding from the Nuffield Foundation (Richiardi et al., 2021). Tax-benefit models apply the fiscal rules and some behavioural assumptions (for instance with respect to benefit take-up, or in the UK transitions from legacy benefits to Universal Credit), to a representative sample of individuals and households, to determine tax liabilities, eligibility and amount of benefits. UKMOD undergoes annually a thorough process of validation against official statistics/projections and other available data, documented in a detailed report (Reis and Tasseva, 2020). The version of UKMOD used for this study is A2.51+, released in April 2021 and updated to include the latest policy changes announced in the spring 2021 UK and Scottish budgets.

The version of UKMOD we used is based on publicly available data from the 2018/2019 Family Resources Survey (FRS). In normal years we would assume that the population characteristics and the labour market do not change too much year on year, so that the same input data can be used to model later policy years (with monetary variables appropriately uprated, see Reis and Tasseva, 2020). However, in the wake of the Covid-19 pandemic this assumption becomes clearly untenable. The input data is therefore 'nowcasted', or updated, by artificially changing individual employment states to align to official data and the most recent projections from the Office for Budget Responsibility (OBR) – see Richiardi et al. (2021) for more details. This nowcasting takes place on top of the standard uprating, which modifies monetary values to take into account the passing of time between the date of the interview, and the policy system being used. This allows us to evaluate the distributional impact of Covid-19, distinguishing between the impact of the employment shock and the impact of the policy response, a major goal of this project.

The effects of the Covid crisis, or of a specific actual or hypothetical policy (in what follows referred to as a 'feature'), are assessed by comparing a simulation which considers the feature under evaluation with a benchmark simulation without that feature. For instance, the impact of the pandemic is evaluated with respect to a benchmark where Covid-19 did not happen, hence without the economic shock (i.e. the data is uprated but not nowcasted) and without the emergency policy responses (i.e. a pre-Covid policy system is used). The effects of the Covid crisis are then further analysed by distinguishing between the effects of the employment shock (without support measures), and the effects of the support measures. The benchmark in the first case is a simulation without employment shocks (and of course without support policies); in the latter case, it is a simulation with the employment shocks, but without the support policies. In all cases we refer to the benchmark as the 'baseline', which is compared to a 'reform' scenario.

3. Scenarios and outcomes

In the study we analysed 23 different counterfactuals. We report here results from seven main scenarios. The seven scenarios can be divided into three groups: (A) a first group aimed at understanding the effects of the Covid-19 crisis as it happened, (B) a second group aimed at understanding the implications of different decisions about the continuation of some of the Covid-19 support measures, and (C) a third group investigating new policy options centred around the implementation of a Universal Basic Income scheme. Table 1 details the scenario considered.

Group	Scenario
A. The distributional effects of the Covid-19 crisis	1. Changes in income distribution 2019 vs. 2020
	2. Effects of the Covid-19 employment shock
B. The distributional effects of continuing different policies	3. Continuation of the £20 weekly uplift in UC standard allowance and WTC basic element beyond September 2021
	4. Interaction with Benefit Caps on Housing Benefit, Child Tax Credit, Child Benefit, Income Support, Jobseeker's Allowance and Universal Credit
	5. Changes in LHA rates
	6. Changes in CA rates
C. New policy reforms	7. Introduction of a Universal Basic Income scheme

Table 1. Scenarios considered. UC – Universal Credit; WTC – Work Tax Credit; LHA – Local Housing Allowance; CA – Carer's Allowance.

For each of these scenarios, we report results for mean equivalised disposable household income and poverty rates, comparing London with the UK as a whole and disaggregating by some individual characteristics including age, household type, disabled status and ethnic background.[6] Unfortunately, we cannot provide disaggregation by local areas (e.g. Inner and Outer London) and migration status, as this information is not available in the input data.[7]

Equivalised disposable household income is computed using the modified OECD equivalence scale, which assigns a value of one to the household head, of 0.5 to each additional adult member and of 0.3 to each child. Total household income is therefore divided by the equivalence scale, and assigned to each household member (for instance, for a two-adult household total household income would be divided by 1.5).[8]

[6] The household types are defined as follows. *Children* are individuals aged below 18 years. *Pensioners* are individuals aged 65+ years. *Adults* are individuals aged 18-64 years. Among *households with children* we distinguish between *couples* and *lone parent* households. These may also include other household members (e.g. children over 18 years, grandparents). *Only adults* households are comprised of adults aged 18-64 years only (coupled or not). *Only pensioners* households are comprised of individuals aged 65+ years only (coupled or not). *Mixed* households are comprised of adults aged 18-64 years and pensioners aged 65+ years.

[7] More information is contained in the restricted version of the FRS, available through Secure Access with the UK Data Service. Using this restricted version would have required importing UKMOD into the Secure Lab, running all the simulations inside the Lab and then exporting the aggregate results after having obtained clearance by the data provider, something that was incompatible with the timing of this study.

[8] The scale used in this study is the standard equivalisation scale used in most of the academic/policy literature in Economics, Sociology and Social Policy. However, it is different from other scales used in the UK policy debate.

Poverty is computed using a fixed poverty line, where the poverty line is computed as 60% of median equivalised income in the baseline. Using the baseline poverty line to compute poverty in the reformed scenario ensures that changes in the poverty rates are not caused by the fact that the median equivalised income might also change. In the figures we report the percentage change in the number of individuals in poverty (or, equivalently, in the poverty rate) in each population sub-group considered, rather than the absolute change in the poverty rate for the sub-group. This is because poverty rates vary a lot among sub-groups: the same reduction of one percentage point in the poverty rate, for instance, has a different interpretation if it occurs in the White population, where the poverty rate (after housing costs) in our data is 19.4% (all White ethnic groups), or in the Black population, with a poverty rate almost twice as high (37%).[9] Reporting percentage changes in the number of people in poverty, on the other hand, allows to understand which sub-group was relatively most affected by the scenario considered.

All the results in this report are after housing costs (AHC), where we remove for each individual the cost of housing as reported in the input data.[10] This definition of housing costs has obvious implications, as for instance it deducts lower amounts for households living in social housing, who pay lower rents than households in private rented accommodations. The report assumes average rents in each of the private rented and social rented sectors, and averages deductions resulting from the Benefit Cap across all claimants. This means that the situations of Londoners subject to the Benefit Cap who experience a severe shortfall between their benefits and the costs of their rents is not always immediately apparent from the findings displayed here.[11]

Our analyses consider fiscal years, from April to the next March. For simplicity however, in this report we refer to fiscal years using single (calendar) years. Hence, for instance, the fiscal year 2020-21, going from April 2020 to March 2021, is referred to simply as 2020.

Finally, as discussed above the original FRS data gets uprated to the policy year used. For simplicity, in the text we refer to the year to which the input data is uprated, without further mentioning the uprating. So, for instance, 2019 data means input data from the 2018/19 FRS survey, uprated to 2019. For 2020, we make it explicit whether the data is also nowcasted or not. Hence, 2020 nowcasted data means input data uprated to 2020 and nowcasted to consider the Covid-19 employment shock, while 2020 non-nowcasted data means the data have been uprated but not nowcasted and hence represent a counterfactual situation where the Covid-19 employment shock did not happen in 2020. For 2021 onwards the input data always include nowcasting. Hence, 2021 data means input data uprated and nowcasted to 2021. Table 2 summarises.

The purpose of all those scales is the same, namely to account for savings in per-capita consumption for larger families, and the specificities of the coefficients used for different household members, while modifying the absolute values for equivalised household disposable income coming from the analysis, have little impact on how different scenarios affect changes in income, poverty and inequality.

[9] The respective figures before housing costs are 10.5% and 19.5%.

[10] Information on housing costs comes from the Household Below Average Income (HBAI) component of the FRS, and it refers to the total amount spent on water and sewerage rates, rent, mortgage interest, household rent, structural insurance and service charges.

[11] However, other reports commissioned by the GLA show this – for example the report from Policy in Practice which shows that many Londoners would not benefit from the increases in UC standard allowances and/or LHA rates because they were subject to the Benefit Cap: https://policyinpractice.co.uk/new-analysis-benefit-households-set-to-double/#:~:text=Policy%20in%20Practice%20recommends%20that,financial%20stability%20and%20personal%20safety. We also know that the number of households in London subject to the Benefit Cap increased by almost 3.3 times between February 2020 and February 2021, compared to the increase of 2.36 times seen in the rest of England: https://www.gov.uk/government/statistics/benefit-cap-number-of-households-capped-to-february-2021

Reference	Meaning
2019 data	Data from 2018/19 FRS uprated to 2019
2020 data, pre- or post-nowcasting	Data from 2018/19 FRS uprated to 2020, with or without the Covid-19 employment shock
202x data, x>1	Data from 2018/19 FRS uprated and nowcasted to 202x

Table 2. Input data

4. Results

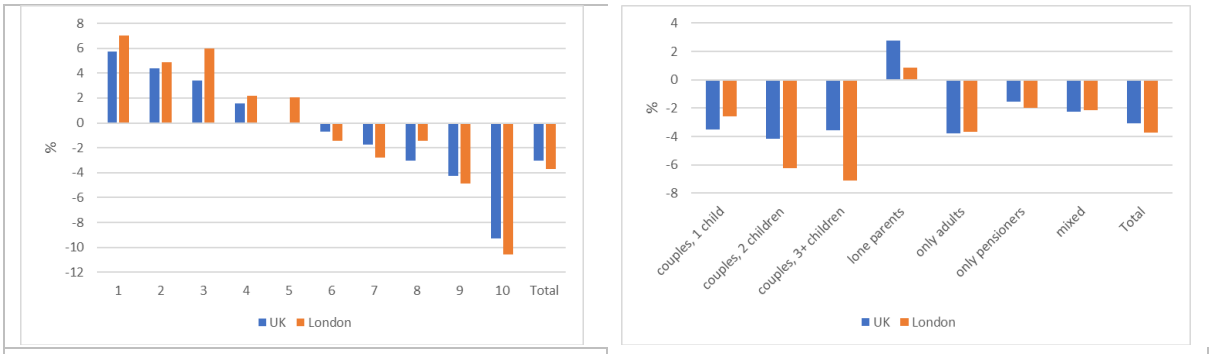
Scenario 1: Changes in income distribution 2019 vs. 2020.

Baseline	Reform
2019 data, 2019 policies	2020 (nowcasted) data, 2020 policies

This first scenario compares the income distribution for 2020 (referred to as 'reform'), considering the Covid-19 employment shock and all the policies in place in 2020, with the income distribution for 2019 ('baseline'), before the Covid-19 shock happened and with 2019 policies.

This scenario offers a description of how the income distribution evolved in the past year, and involves no counterfactuals: both the 'baseline' and the 'reform' scenarios are actual rather than hypothetical scenarios, though the reform scenario is estimated from external aggregate statistics. The comparison therefore identifies changes to Londoners' incomes due to (i) the Covid-19 employment shock, (ii) the emergency Covid-19 policy measures put in place in 2020, and (iii) all other policy changes that took place in 2020 (including, for instance, the progression in the transition from legacy benefits to Universal Credit).

Our results show that the mean equivalised disposable household income decreased in London by 3.7% in 2020, compared to 2019, a slightly bigger reduction than for the UK as a whole (-3.1%). However, the reduction was concentrated in the upper half of Londoners/households by income distribution, while the lower deciles saw an increase in equivalised household income (left panel of Figure 1).[12]



Disaggregation by decile | Disaggregation by household type

Figure 1: Mean equivalised disposable household income, % change 2020 vs. 2019.

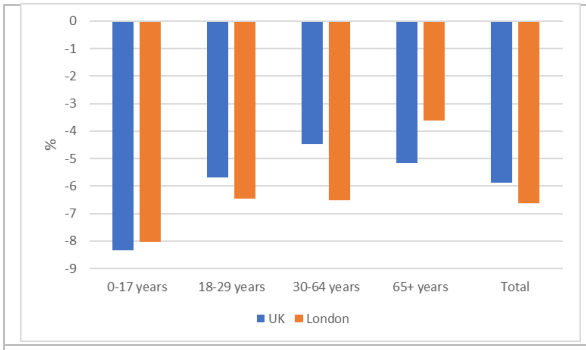
This result confirms and reinforces earlier studies that focused on the first months of the crisis only (Brewer and Tasseva, 2021), made early projections on the likely evolution of the Covid-19 crisis (Bronka et al., 2020) or used survey data to analyse the impact of the crisis on a sub-period (HMT,

[12] To be noted, survey data capture high incomes only poorly, so the picture at the top of the distribution might be distorted.

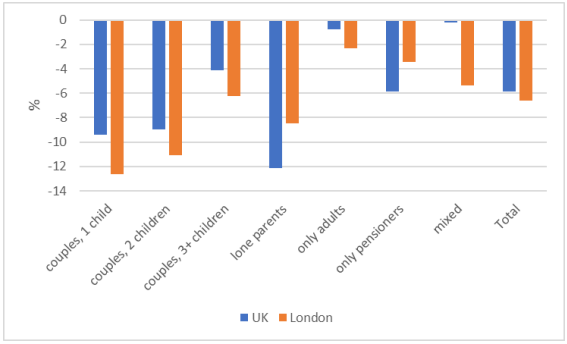
2021). The improvements at the bottom of the income distribution are mostly attributable to the £20 weekly uplift in UC and WTC, and to the more generous LHA rates. In particular, the flat increase in UC and WTC was relatively more important for individuals with lower incomes, which contributes to explain the progressivity of the effect. To be noted, this increased generosity benefited not only those individuals who were negatively affected by the employment effects of the crisis, but also those who were already on benefits before the crisis, although individuals on legacy benefits and/or subject to the Benefit Cap were put at a disadvantage. This also explains why the gains at the bottom of the distribution have become more widespread over time, as the economy slowly climbed up from the deepest points of the recession.

Overall, the Covid-19 policy response meant that disposable incomes improved on average, despite households facing widespread income losses due to the economic shock (see Scenario 2). However, the effect was not homogenous across households. The right panel in Figure 1 shows the impact on disposable income for different household types. The losses are concentrated in households with two or more children, where the situation for Londoners is significantly worse than for the whole of the UK. Lone parents – which in the vast majority of the cases are lone mothers – are the only group exhibiting an overall gain from the crisis, due to the fact that a higher proportion of them were already on benefits, and gained more from the increased generosity of the tax-benefit system.

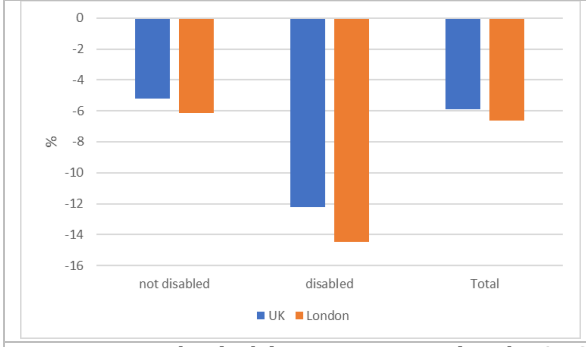
Figure 2 shows the effects on poverty rates by age, household type, disability status and ethnicity. The general reduction in poverty, which stems from the compression in disposable income documented above, is similar in London (-6.6%, or almost 160,000 Londoners) and in the UK as a whole (-5.9%). As a reminder, this figure is the percentage reduction in the number of individuals in poverty in each population sub-group, not the change in the poverty rate (see Section 3). The percentage reduction in the number of poor Londoners is higher among the young (-8.0%), among couples with one or two children (-12.6% and -11.1% respectively), the disabled (-14.5%) and the Black population (-8.4%).



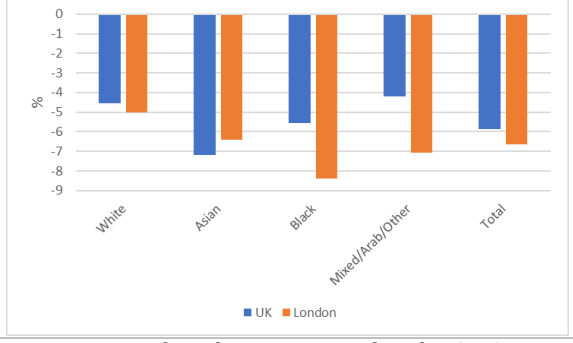
Disaggregation by age. In London the AHC poverty rates in 2019 were 37.7% (0-17 years), 22.2% (18-29 years), 24.0% (30-64 years), 27.5% (65+ years).



Disaggregation by household type. In London the AHC poverty rates in 2019 were 18.4% (Couples, 1 child), 24.1% (Couples, 2 children), 50.6% (Couples, 3+ children), 55.7% (Lone parents), 20.0% (Only adults), 31.7% (Only pensioners), 15.9% (Mixed).



Disaggregation by disability status. In London the AHC poverty rates in 2019 were 26.5% (Not disabled), 45.7% (Disabled).



Disaggregation by ethnicity. In London the AHC poverty rates in 2019 were 19.4% (White), 29.5% (Asian), 37.0% (Black), 30.8% (Mixed/Arab/Others).

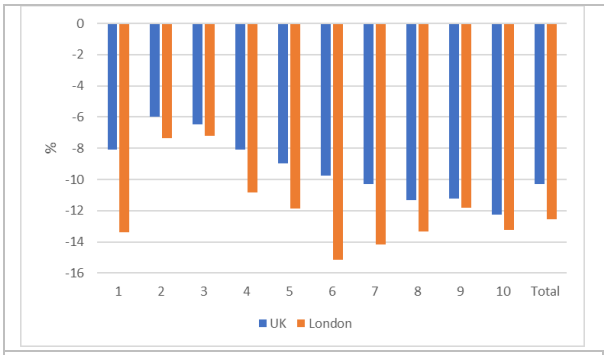
Figure 2. Poverty rates, % change 2020 vs. 2019.

Scenario 2: Effects of the Covid-19 employment shock

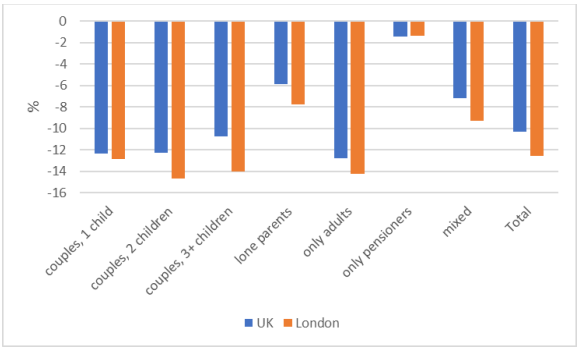
Baseline	**Reform**
2020 pre-nowcasting data, 2020 pre-Covid policies	2020 post-nowcasting, 2020 pre-Covid policies

The second scenario looks at the impact that the Covid-19 employment shock would have had, in the absence of the income support policies put in place by the Government. We therefore compare a 'baseline' where the employment shock did not happen (pre-nowcasting) with a 'reform' where the employment shock did happen (post-nowcasting). In both cases we abstract from the Covid-19 emergency policies. Therefore, both the baseline and the reform are counterfactual in this case.

Figure 3 shows that the losses in equivalised household disposable income due to the employment shock would have been massive (-12.6%) in London, and widespread along the income distribution. Only pensioners and lone parents would have been relatively less affected, due to their lower reliance on the labour market. The losses would have been significantly higher in London than in the rest of the UK, especially at the very bottom of the income distribution (the losses for the first decile would have amounted to -13.4% in London, and -8.1% in the UK as a whole). This is explained by the different characteristics of Londoners with respect to the UK population, which we described in the Introduction: Londoners are younger, more diverse, work more, and often in sectors (e.g. restaurants and catering) more hardly hit by the pandemic.



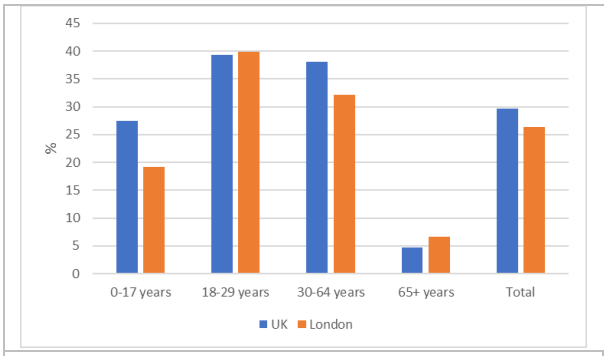
Disaggregation by decile



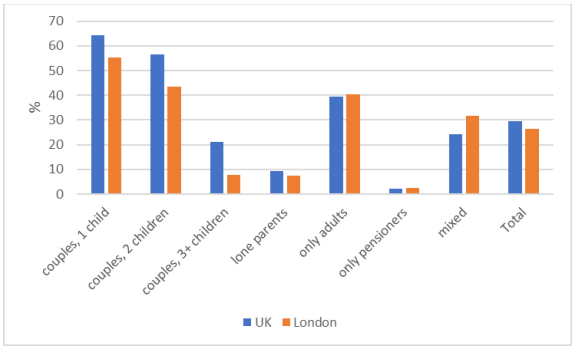
Disaggregation by household type

Figure 3: Mean equivalised disposable household income, % change due to the Covid-19 employment shock; counterfactual exercise for 2020.

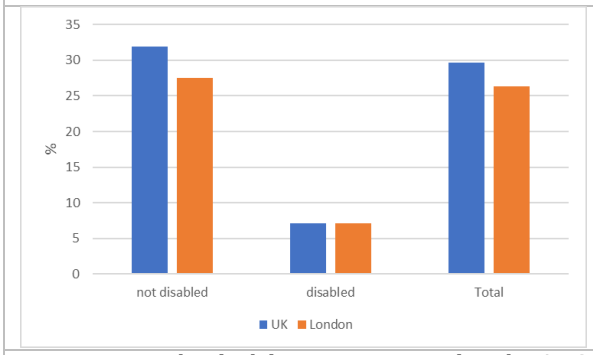
The implications in terms of poverty rates of such an unmitigated crisis would also have been devastating, with poverty rates increasing by more than a quarter (+23.3% in London, and + 29.7% in the UK as a whole). Again, the sub-groups less reliant on market incomes (pensioners, lone parents) would have seen lower percentage increase in the poverty rates. Interestingly, couples with three or more children would have seen a relatively small increase in their poverty rate, although a large reduction in disposable household income (see Figure 3 above). This is because the poverty rate for this group was already very high to start with (50.6% in London in 2019), and the poverty rate as an indicator does not measure the intensity of poverty.



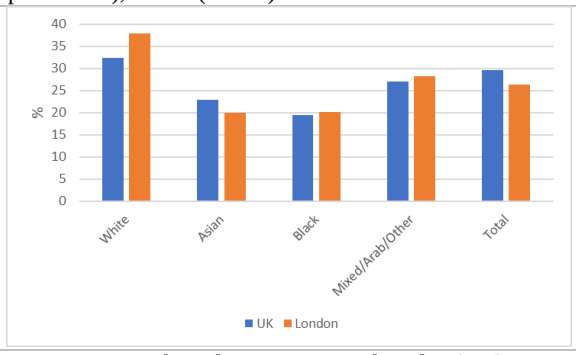
Disaggregation by age. In London the AHC poverty rates in 2019 were 37.7% (0-17 years), 22.2% (18-29 years), 24.0% (30-64 years), 27.5% (65+ years).



Disaggregation by household type. In London the AHC poverty rates in 2019 were 18.4% (Couples, 1 child), 24.1% (Couples, 2 children), 50.6% (Couples, 3+ children), 55.7% (Lone parents), 20.0% (Only adults), 31.7% (Only pensioners), 15.9% (Mixed).



Disaggregation by disability status. In London the AHC poverty rates in 2019 were 26.5% (Not disabled), 45.7% (Disabled).



Disaggregation by ethnicity. In London the AHC poverty rates in 2019 were 19.4% (White), 29.5% (Asian), 37.0% (Black), 30.8% (Mixed/Arab/Others).

Figure 4. Poverty rates, % change due to the Covid-19 employment shock; counterfactual exercise for 2020.

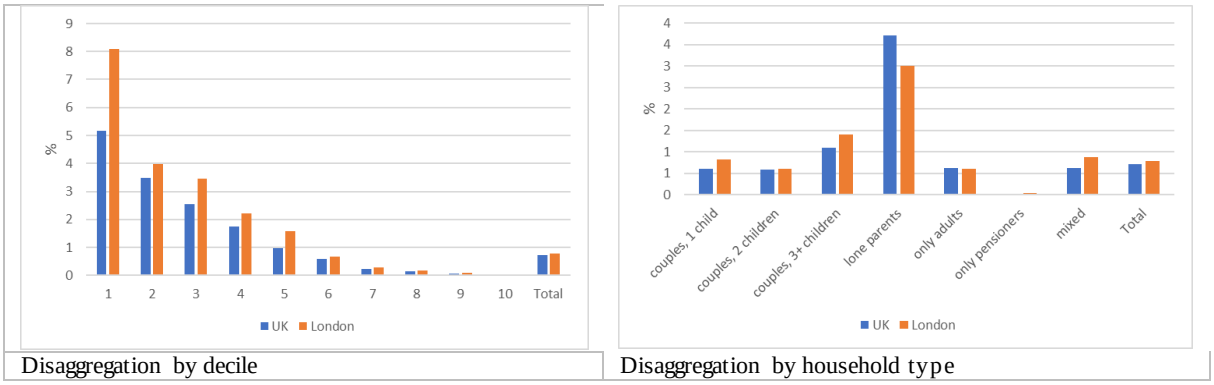
Scenario 3: Continuation of the £20 weekly uplift

Baseline	**Reform**
2021-24 data and baseline policies	2021-24 data and reform policies (£20 weekly uplift in UC standard allowances & WTC basic element)

Our third scenario considers the effects of continuing the £20 weekly uplift in the Universal Credit (UC) standard allowance and the Working Tax Credit (WTC) basic element beyond the end of September 2021, when they are currently set to expire. The analysis is carried out for the 4 years 2021-2024, where of course the impact for 2021 is only limited to the second part of the year (October 2021 -March 2022). The 'baseline' is the projected data for 2021-24 and policies as currently envisaged by the legislation, while in the 'reform' we extend the £20 uplift. The baseline is therefore projected, while the reform is counterfactual. We report the results for 2022, as this would be the first year fully affected by the policy change, and comment on the projected impact in the longer term.

The continuation of the £20 weekly uplift would be highly progressive, with bigger gains in the poorest decile of the distribution of equivalised disposable household income (+8.1% in London, + 5.2% in the UK as a whole), declining almost to no gains in the upper half of the distribution (Figure 5). The groups

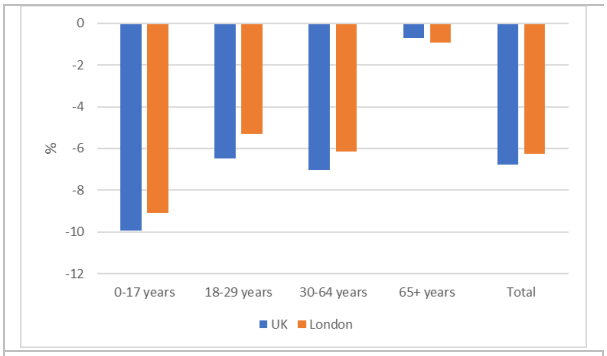
most affected would be lone parents (+3.0% in London, against an overall effect of +0.8%), with pensioners the least affected (as they do not qualify for UC). These gains would slightly increase in later years, as the transition to Universal Credit is completed (the projected increase for lone parents in London would be +3.3% in 2024).



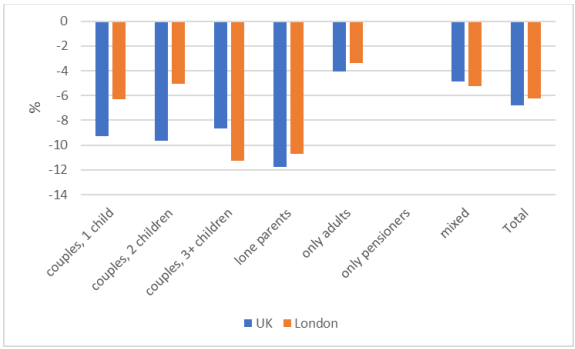
Disaggregation by decile | Disaggregation by household type

Figure 5: Mean equivalised disposable household income, % change brought about by the continuation of the £20w uplift; projections for 2022.

The continuation of the £20 weekly uplift would lift 6.3% of Londoners out of poverty (6.8% in the UK as a whole) in 2022, or more than 130,000 Londoners, with bigger reductions for the young (-9.1% in London, or 67,000 children), couples with three or more children and lone parents (-11.2% and -10.7% respectively) and the Black population (-8.2%), while individuals with a disability would benefit only marginally more than those without (-7.5%), as they are more likely to rely on legacy benefits with respect to other vulnerable groups. As already noted, the gains would slightly increase over time, as more people transition to UC.



Disaggregation by age. In London the AHC poverty rates in 2019 were 37.7% (0-17 years), 22.2% (18-29 years), 24.0% (30-64 years), 27.5% (65+ years).



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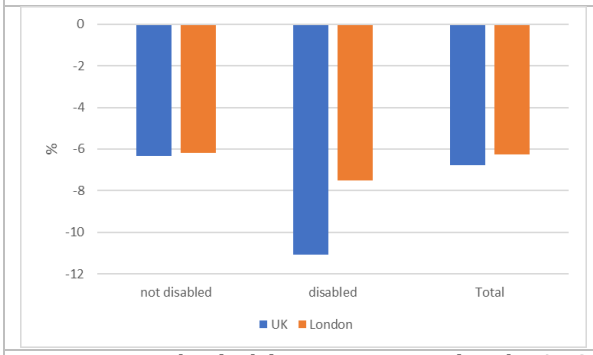
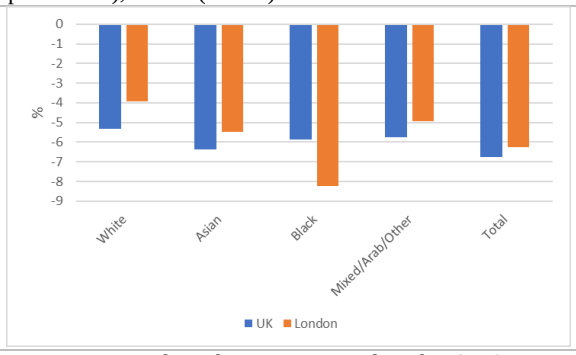


Disaggregation by disability status. In London the AHC poverty rates in 2019 were 26.5% (Not disabled), 45.7% (Disabled).



Disaggregation by ethnicity. In London the AHC poverty rates in 2019 were 19.4% (White), 29.5% (Asian), 37.0% (Black), 30.8% (Mixed/Arab/Others).

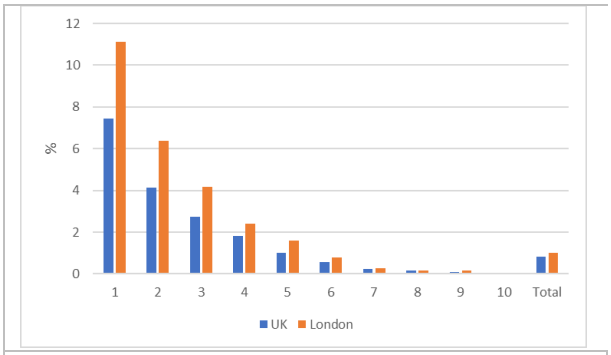
Figure 6. Poverty rates, % change due to the Covid-19 employment shock, % change brought about by the continuation of the £20w uplift; projections for 2022.

Scenario 4: Interaction with Benefit Caps

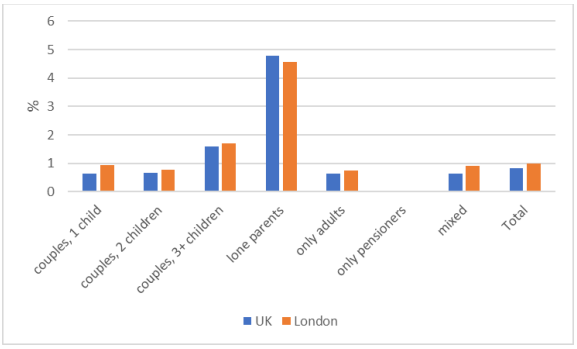
Baseline	**Reform**
2021-24 data and baseline policies	2021-24 data and reform policies (£20 weekly uplift in UC standard allowances & WTC basic element + removal of Benefit Caps)

The fourth scenario explores how the existing Benefit Cap (for Housing Benefit, Child Tax Credit, Income Support, Child Benefit, Jobseeker's Allowance and Universal Credit) impacts on the hypothetical extension of the £20 uplift of Scenario 3. We therefore use the same 'baseline' as in Scenario 3, but we also remove the Benefit Cap, on top of extending the £20 uplift, in the 'reform'.

Removing all Benefit Caps would further increase the gains in mean equivalised disposable household income. In the first decile, incomes in London in 2022 would go up from 8.1% in Scenario 3 to 11.1%, with similar percentage gains in the other deciles. Lone parents would still benefit the most from this reform scenario, as in Scenario 3 (Figure 7).



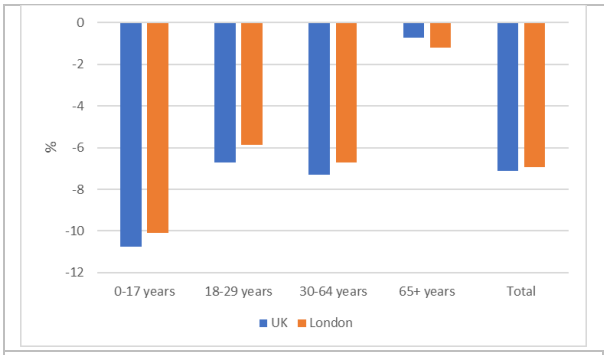
Disaggregation by decile



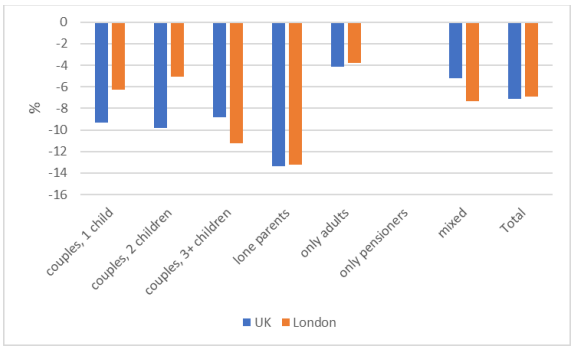
Disaggregation by household type

Figure 7: Mean equivalised disposable household income, % change brought about by the continuation of the £20w uplift and the elimination of the Benefit Caps to Housing Benefit, Child Tax Credit, Income Support, Child Benefit, Jobseeker's Allowance and Universal Credit; projections for 2022.

The same holds for the reduction in poverty rates, from -6.3% (London 2022, see Scenario 3) to -6.9%, or more than 140,000 Londoners (Figure 8).



Disaggregation by age. In London the AHC poverty rates in 2019 were 37.7% (0-17 years), 22.2% (18-29 years), 24.0% (30-64 years), 27.5% (65+ years).



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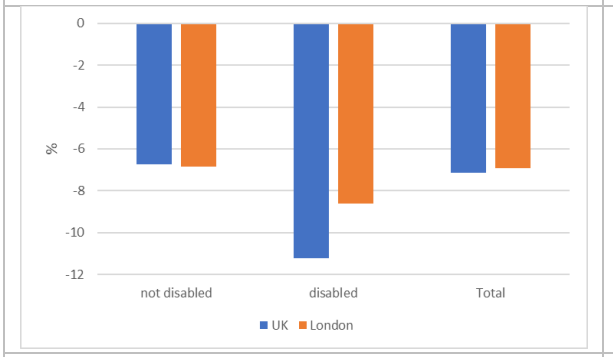
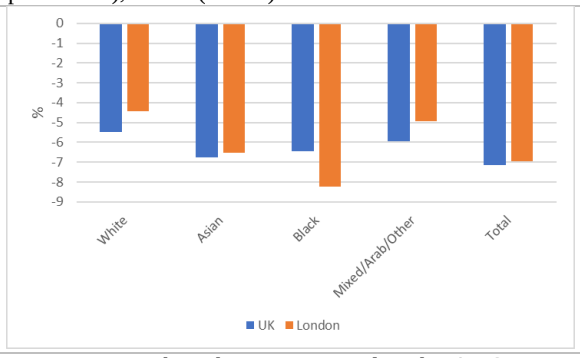


Disaggregation by disability status. In London the AHC poverty rates in 2019 were 26.5% (Not disabled), 45.7% (Disabled).



Disaggregation by ethnicity. In London the AHC poverty rates in 2019 were 19.4% (White), 29.5% (Asian), 37.0% (Black), 30.8% (Mixed/Arab/Others).

Figure 8. Poverty rates, % change due to the Covid-19 employment shock, % change brought about by the continuation of the £20w uplift and the elimination of the Benefit Caps; projections for 2022.

Other research commissioned by the GLA has shown that many Londoners would not benefit from the increases in UC standard allowances and/or LHA rates, because they were subject to the Benefit Cap,

because deductions applied to enforce the Benefit Cap are made from Housing Benefit or the housing support element of UC. For example, research carried out by Policy in Practice in May 2020 showed that the changes to UC and LHA rates had doubled the number of households subject to the Benefit Cap to 44,300 and that the number of households in this position was set to double by 2021.[13]

Because of this report's methodology and use of averages, as described in Sections 2 and 3 above, the situations of Londoners who don't benefit from the changes to UC and LHA rates are not immediately apparent from the findings of this report. However, we know that the Benefit Cap, London's high private sector rents, and the reliance of many low-income Londoners on the private rented sector because of the shortage of social-rented housing, mean that many Londoners remain unable to cover housing costs for the lowest rents available in the private sector. This report should be viewed alongside other research, such as the Policy in Practice report described above, to appreciate the interaction of the UC and WTC uplift with the Benefit Cap, and the impact this has on households accruing arrears that put them at risk of homelessness or living in precarious situations.

Scenario 5: Changes in LHA rates

Baseline	**Reform**
2021-24 data and baseline policies	2021-24 data and reform policies (LHA rates reverted to 2020 pre-Covid levels, or alternative options)

In the fifth scenario we explore the effect of the increased Local Housing Allowance (LHA), and other options for LHA rates. LHA rates were restored to the 30th percentile of rents as part of the Covid-19 rescue package, everywhere in the UK with the only exception of some areas in London, where the LHA rates are still capped below the 30th percentile of rents.[14] We first analyse the effect of this policy measure by comparing simulations with the new rates to simulations where the old rates (appropriately uprated) are reinstated. We then report some results of additional simulations where the link to the 30th percentile of rents is extended to all areas in London. In all the simulations we assume that changing the LHA rates has no impact on the rents charged.

To be noted, the geographical disaggregation available in the UKMOD input data goes only to the 12 administrative regions, while LHA rates are defined for broad rental market areas (BRMA, e.g. there are 152 BRMAs in England, but only nine administrative regions). We therefore consider, for each accommodation category, arithmetic averages across BRMAs.[15]

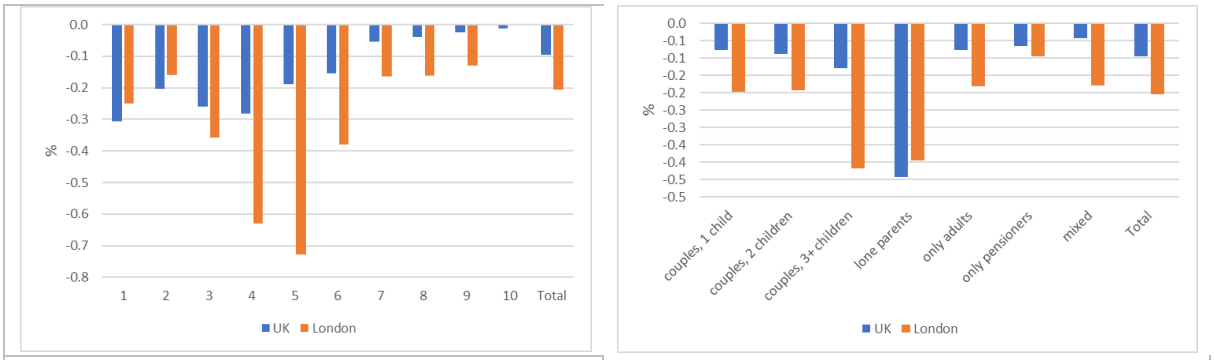
Reverting to the pre-Covid LHA rates would cause a reduction in equivalised disposable income, especially for the middle of the distribution, with the 4th and 5th deciles projected to experience a drop in income of 0.6% and 0.7% respectively, in London in 2022 (Figure 9). This is because (i) individuals belonging to the middle class are more likely to work over 16 hours per week paid at or above the National Living Wage, so are less likely to be affected by the Benefit Cap, (ii) they are less likely to be

[13] https://policyinpractice.co.uk/new-analysis-benefit-households-set-to-double/#:~:text=Policy%20in%20Practice%20recommends%20that,financial%20stability%20and%20personal%20safety

[14] The capped areas are Central London (categories B C D E), Inner East London (categories B C D), Inner North London (categories B C D E), Inner South West London (categories B D E), and Inner West London (category D). The categories are: one room, shared facilities (cat. A), one room, self-contained (cat. B), two room (cat. C), three rooms (cat. D), four or more rooms (cat. E).

[15] See footnote 11 for a description of the different categories of dwellings.

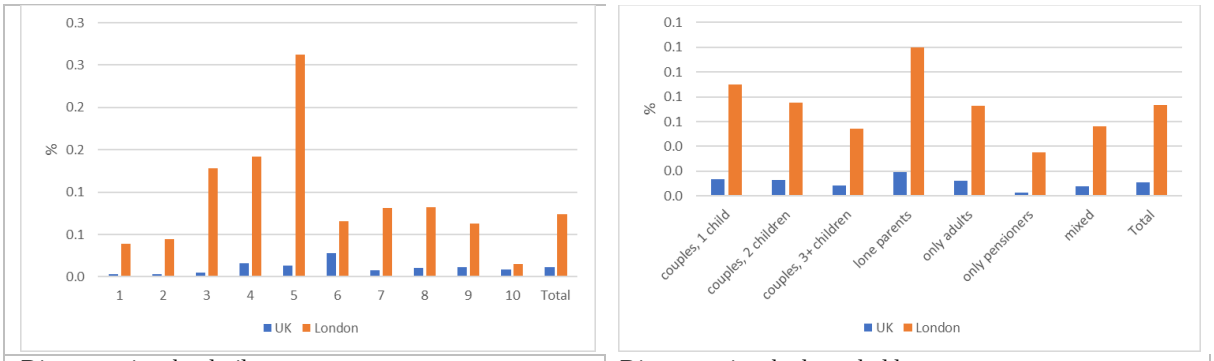
in social housing, and (iii), they are more likely to live in more expensive housing with respect to lower incomes, so more of their rent would be covered by the uplifted LHA rates. The rest of the UK would be less affected (alternatively, benefited less from the recent changes in LHA rates), as the rates in London were further away from the 30th percentile there.



Disaggregation by decile | Disaggregation by household type

Figure 9: Mean equivalised disposable household income, % change brought about by a reversal to the pre-Covid LHA rates; projections for 2022.

On the other hand, removing the remaining LHA caps in some London BMRAs would increase incomes of Londoners up to +0.3% in 2022, with the middle deciles again benefiting the most (Figure 10).



Disaggregation by decile | Disaggregation by household type

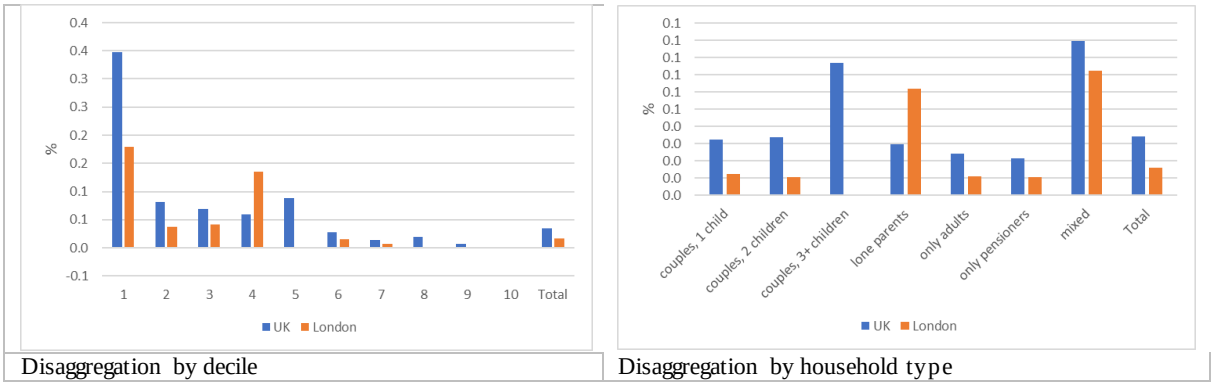
Figure 10: Mean equivalised disposable household income, % change brought about by fully aligning LHA rates to the 30th percentile of rents; projections for 2022.

Scenario 6: Changes in CA rates

Baseline	Reform
2021-24 data and baseline policies	2021-24 data and reform policies (CA rates increased by £20 or £30 a week)

This scenario analyses the impact of increasing Carer's Allowance (CA) rates by either £20 or £30 a week, over the period 2021-24. Because it is not possible to check the eligibility conditions in the input data due to lack of information on the actual caring needs, Carer's Allowance is not simulated in UKMOD. However, the receipt of the benefit is recorded in the input data. Therefore, we assume that all those eligible are already claiming CA and simply replace the amount of the benefit recorded with the revised amount.

An increase of £20 a week in the CA rates would mostly benefit those in the lowest decile of the income distribution, with an average increase in income of 0.2% in London in 2022 (Figure 11), and a reduction in the poverty rate for disabled individuals of 0.2%).[16]



Disaggregation by decile | Disaggregation by household type

Figure 11: Mean equivalised disposable household income, % change brought about by an increase in CA rates of £20 a week; projections for 2022.

A £30 a week increase would increase incomes for Londoners in the first decile of the income distribution by 0.3%.

[16] It should be noted that the simulations, focussing on the income side rather than the expenditure side of household budgets, do not account for the costs of disability. Once accounting for such costs, the poverty rate for households with disabled household members would surely go up. However, it is not *a priori* clear whether an increase in CA rates would lift more or less individuals out of poverty, once the full costs of disability were accounted for.

Scenario 7: Introduction of a Universal Basic Income scheme

Baseline	**Reform**
2020 pre-nowcasting data, 2020 pre-Covid policies	2020 pre-nowcasting data, 2020 reform policies (UBI + 3 ppts increase in tax rates + abolition of PA and NICs thresholds)

Our last scenario looks at the effects of the introduction of a Universal Basic Income (UBI) scheme, replacing some of the existing benefits and complementing others. Following the principles for UBI identified by the Citizen's Basic Income Trust[17], we model a scheme which is:

- *unconditional*, meaning that it can vary only by age and not according to people's social or economic circumstances;
- *automatic*, meaning that it does not need to be applied for, so a full take-up rate should be expected;
- *non-withdrawable*, meaning that it cannot be withdrawn for any reason and in particular that it is not means-tested; and
- *individual*, meaning that it is paid to the individual and not on a household or couple basis.[18]

We adopt the scheme proposed by de Henau et al. (2021), who envisage a UBI differentiated by age, so that:

- working-age adults get the *Standard BI*;
- everyone above state pension age, regardless of their contribution record, gets their state pension (if any), possibly topped up to reach a *Pensioner BI*;
- children receive a *Child BI*, a fixed proportion of the Standard BI.[19]

The Standard, Pensioner and Child BI are taxable and enter the respective benefit unit's means-test, meaning that a household might fail a means test for some other benefit due to the increase in household income caused by the BI. The Child BI replaces Child Benefit.

Funding of this UBI scheme comes from:

- the abolition of Personal Allowance (since this effectively functions as a restricted form of Basic Income received by only those with other income);
- the abolition of the upper and lower limit for National Insurance contributions (NICs), so that NICs effectively become a flat tax on employment (the lower limit is abolished because with BI no one should be so dependent on their earnings that they cannot afford to pay NICs; the upper limit is also abolished to make the NI system less regressive and help pay for UBI);
- an increase in tax rates of three percentage points in each tax band.

Therefore, quoting de Henau et al. (2021), this BI scheme augments but does not replace the existing social security system, "so that means-tested or other benefits can still support the incomes of any for whom the BI is insufficient, including crucially those with specific additional costs like for disability,

[17] Citizen's Basic Income Trust (n.d.) What is UBI? https://citizensincome.org/citizens-income/what-is-it/. Accessed 4 August 2021.

[18] The last principle identified by the Citizen's Basic Income Trust is that UBI should be *a right of citizenship*, meaning that everybody legally resident in the UK should receive it, subject to a minimum period of legal residency in the UK, and continuing residency for most of the year, a condition which we cannot control in the data. We therefore assume that all individuals in our sample would receive it, thus over-estimating the number of recipients.

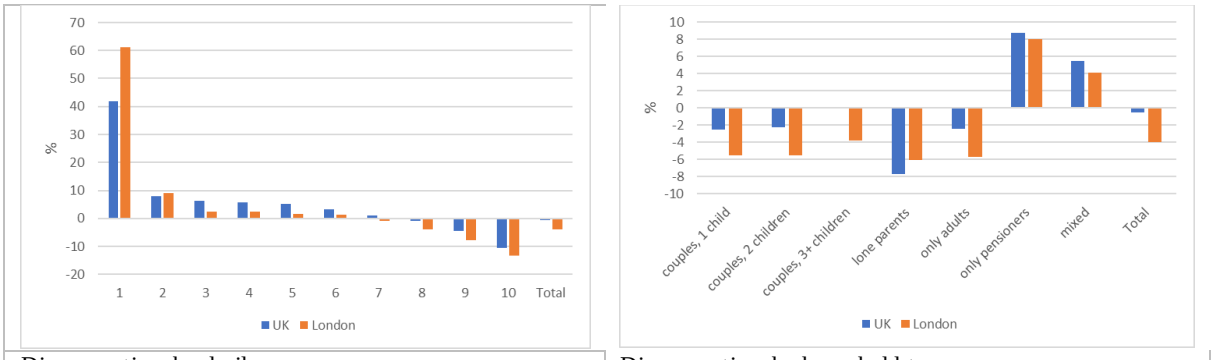
[19] Whether the children receive their BI directly, or the parents receive it on their behalf, is a matter of implementation and is irrelevant for the distributional analysis conducted here.

housing and child rearing. This is done by: (i) Maintaining existing means-tested benefits and their means-testing (although the existence of BI reduces reliance on them); (ii) Keeping existing non-means-tested benefits at unchanged levels (with the exceptions for children and pensioners)".

The level of Child BI is fixed at 45% of the Standard BI (see De Henau et al., 2021 for a discussion of this parameter). The Pensioner BI is fixed so that all pensioners, after cumulating the BI with their state pension, receive post-tax the maximum current state pension for basic rate taxpayers. Crucially, in our analysis we assume for simplicity that the wage structure would not change as a consequence of the introduction of the BI scheme. Under this assumption, the Standard BI is fixed so as to achieve budget neutrality. The resulting yearly levels are £4,120 net (£5,350 gross) for the Standard BI, £1,854 net (£2,408 gross) for the Child BI and £9,110 net (£11,831 gross) for the Pensioner BI (see De Henau et al., 2021 for more details).[20]

It's important to note that the Universal Basic Income scheme modelled here is one of several versions of universal basic income that could be adopted. The results of the modelling would be more or less effective on minimising poverty rates, depending on the version of UBI chosen. We have selected this version of UBI, which is fiscally neutral, but other versions could be considered which would have an even more pronounced impact on alleviating poverty, though trade-offs would arise when we consider how this would be funded.

Adopting the Universal Basic Income scheme proposed by de Henau et al. would provide a substantial boost in income to the poorest households and reduce poverty overall. The results of this scenario show a strong increase in the progressivity of the tax-benefit system, with an increase of more than 60% in equivalised disposable household income in the first decile in London (a little bit over 40% in the UK as a whole), going down to 9% in the second decile, 2.5% in the third and fourth deciles, between 1% and 2% in the fifth and sixth decile, for Londoners. The figures turn negative for the upper deciles, with the 8th decile losing almost 4% of income, the 9th decile almost 8%, and the 10th decile more than 13% (Figure 12). These results are consistent with the principles of UBI, which aims at offering an income floor to all citizens. The main gainers from this scheme would be pensioners (+8%), as by construction their income can only go up.

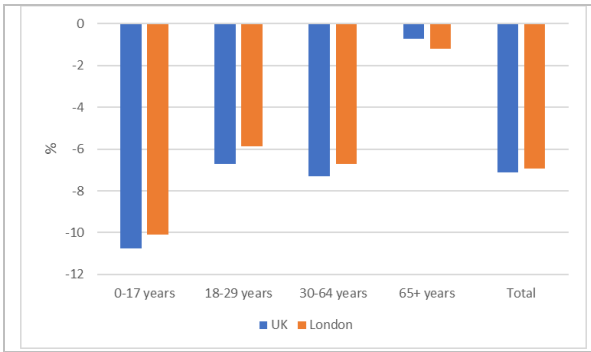


Disaggregation by decile | Disaggregation by household type

Figure 12: Mean equivalised disposable household income, % change brought about by a fully costed UBI scheme consisting of UBI payments, a 3 ppts increase in all tax rates, and the abolition of PA and NICs thresholds; counterfactual exercise for 2020 pre-Covid.

[20] As a comparison, the basic amount of UC for a single person over 25 (no children, no disability, no housing costs) is currently £3,900 a year (excluding the £20 uplift), reducing to £3,060 each if in a couple; Child Benefit is currently £1,100 a year for the first eligible child and then £728 for additional children – see https://www.turn2us.org.uk/Benefit-guides/Universal-Credit/How-much-Universal-Credit-will-I-get.

Figure 13 shows the effects of the UBI scheme on poverty rates. Poverty would decrease by 5.7% in London (12.1% in the whole of the UK), equivalent to more than 130,000 Londoners being lifted out of poverty, with the big winners being pensioners – for the reasons discussed above – and other population sub-groups less reliant on benefits, due to the diminished importance of means testing.



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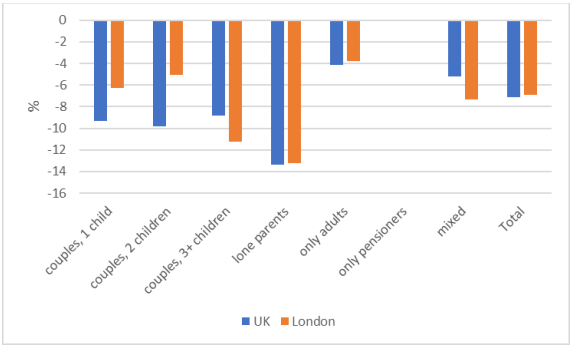

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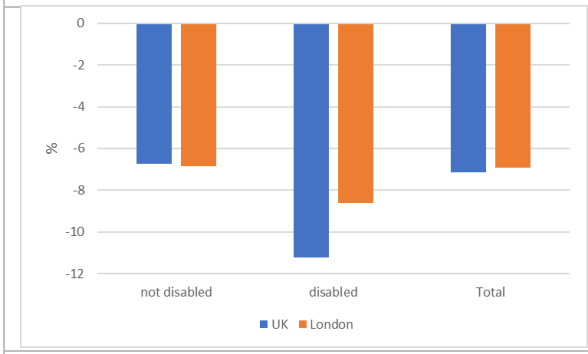

Disaggregation by disability status. In London the AHC poverty rates in 2019 were 26.5% (Not disabled), 45.7% (Disabled).

Disaggregation by ethnicity. In London the AHC poverty rates in 2019 were 19.4% (White), 29.5% (Asian), 37.0% (Black), 30.8% (Mixed/Arab/Others).

Figure 13. Poverty rates, % change brought about by a fully costed UBI scheme consisting of UBI payments, a 3 ppts increase in all tax rates, and the abolition of PA and NICs thresholds; counterfactual exercise for 2020 pre-Covid.

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