Briefing

Briefing: Spending Review 2020 - no plan to protect people from poverty in the economic emergency

The Chancellor used this Spending Review to stress that the economic emergency facing our country has only just begun. Public concern about poverty is rising. Yet this Spending Review lacked bold action to tackle the threat of a rising tide of poverty.

Our analysis looks at the steps taken in the spending review and how they measure up to the challenges faced by the UK amid surging unemployment and an urgent need to level up the economy.

Key points:

1. Our new modelling shows that if the lifeline of the £20 uplift to Universal Credit is whipped away in April, 6.2 million families will see an overnight loss of £1,040 next year and around half a million more people, including 200,000 children, will be pulled into poverty.
2. Instead of levelling up, the Government's failure to maintain spending on local growth at current levels means that weaker local economies will receive less money.
3. The Government's new £2.9 billion Restart employment support programme is a significant intervention and recognises the economic and employment challenge facing the UK. But committing just £400 million to the programme next year risks underinvesting in the early stages and the £375 million adult skills announcement falls far short of the £600 million a year the Government promised at the 2019 general election.

November 2020
www.jrf.org.uk

JRF JOSEPH ROWNTREE FOUNDATION

Summary

This briefing measures the Spending Review against five tests:

1. Has the Chancellor given people on Universal Credit certainty about their income after April?

   The Chancellor chose to stay silent on whether the temporary £20 uplift to Universal Credit, a lifeline for millions of people, will be whipped away in April. Our new modelling shows that if it is, 6.2 million families will see an overnight loss of £1,040 next year and around half a million more people, including 200,000 children, will be pulled into poverty. The Government also seems to have definitively decided not to help disabled people and carers on legacy benefits, meaning 1.6 million families will continue to miss out.

2. Has the Chancellor done enough to help the weakest economies to level up?

   Instead of levelling up, the Government's failure to maintain spending on local growth at current levels means that weaker local economies will receive less money. The problems faced by those areas have only worsened since the pandemic hit. But the people who live in these communities will now have to wait even longer to see improvements to their job prospects and standard of living.

3. Has the Chancellor done enough to help the people who lose their jobs improve their skills to find work?

   The £375 million adult skills announcement falls far short of the £600 million a year National Skills Fund the Government promised at the 2019 general election. The Government's new £2.9 billion Restart employment support programme is a significant and welcome intervention at scale, and recognises the scale of the economic and employment challenge facing the UK in the months ahead. But committing just £400 million to the programme next year risks underinvesting in the early stages.

4. Has the Chancellor done enough to create sustainable, good quality jobs?

   Government is pinning its job creation hopes on the £100 billion capital investment programme, but without accompanied employment and skills support, jobs that are created will be out of reach for many people already swept into poverty or at risk of being pulled under. It is also unlikely that all of the investments will be as 'jobs rich' as the Government promises.

5. Has the Chancellor done enough to keep housing costs under control?

   Despite its positive rhetoric on ending homelessness, the Government plans to cut support with housing costs for people on low incomes, even though millions of renters are already worried about paying the rent and many risk eviction.
   No action was taken to invest in social housing to stem the tide of homelessness, despite the cost of borrowing to do so being at a historic low.

Introduction

The Chancellor used this Spending Review to stress that the economic emergency facing our country has only just begun. Despite painting a bleak picture and emphasizing that the economic stakes could not be higher, its inadequate response to this emergency means there is a real danger that people in poverty will pay the price.

Public concern about poverty is rising. Millions of people are anxious about their livelihoods and financial futures with large parts of our economy under restrictions and unemployment rising. This Government is at real risk of misreading the mood of the nation. Latest opinion polling finds almost one in five people now mention poverty and inequality as a major concern – notably ahead of the NHS and education – yet this Spending Review lacked bold action to tackle the threat of a rising tide of poverty.

Although the economic impact of this pandemic is far reaching, millions of people already trapped in poverty have been pulled further in by this emergency. Their situation has been made worse as they are being hit hardest by rising costs and redundancies. Lying behind the stark statistics are families struggling every day to buy food, pay their rent and cover essentials.

The Chancellor was not sanguine about the economic challenges ahead. The Office for Budget Responsibility now expects the unemployment rate to peak at 2.6 million next spring, a frightening prospect after an anxious year. A no-deal Brexit could prompt an even larger rise in unemployment which could take even longer to come down.

This peak of unemployment would be nearly as high as following the 2008 financial crisis but thankfully much lower than the 11.9% the OBR predicted in July, reflecting the success of the Government's bold, successful furlough scheme.

The Chancellor is also facing the challenge of reconciling his commitment to 'do whatever it takes' to deal with the health crisis whilst also delivering the promised infrastructure spending and managing the ever-increasing public debt. The result is a Spending Review that continues to commit tens of billions to coronavirus-related spending next year but pulls back on spending commitment elsewhere.

There were scant resources given to tackling many of our economic challenges that trap people in poverty. The Chancellor failed to deliver on promises in vital areas such as investment in skills, levelling up and creating new job opportunities. People living in places with weaker economies are likely to have less money spent on driving local economic growth, reducing their prospects of getting a good job which frees them from poverty.

With interest rates close to zero, cutting back on spending that would help overcome these challenges is a mistake. One key lesson from the last ten years is that fixing the public finances is much harder when we have weak economic growth. The Chancellor should have committed the resources needed to fix the weaknesses in our economy that trap so many people in poverty.

The Chancellor also had the opportunity to provide certainty to families enduring an uncertain and fearful winter. The decision to give the £20 uplift to Universal Credit (UC) was the right thing to do in March and it is the right thing to make it permanent now. As we are still in the foothills of the economic emergency there is no conceivable scenario in which this uplift will not need to continue, especially as the new wave of unemployment is likely to coincide with the very point it is currently due to be cut.

Alongside providing this certainty to families up and down the land we needed the Spending Review to:

- Set out an ambitious plan for a good jobs recovery with employment support and training to help people take up new opportunities.
- Deliver a levelling-up strategy that targets places where employment and pay are low to support local economic growth, spending £14 billion over three years on the Shared Prosperity Fund.
- Build more genuinely affordable housing to help close the affordability gap and prevent homelessness.

From the outset of this pandemic, the Government said it would do whatever it takes to protect lives and livelihoods. The first phase of the economic response has been bold and compassionate, and we must learn the lessons of what has worked well. It is utterly wrong that as we approach the next stage of our economic response, we undo the progress that has been made or withdraw vital support from those who need it most.

This Government will be judged on whether it rises to the challenges our country faces and achieves an economic recovery that is felt by everyone. Recent months have shown us what is possible when we invest properly in supporting families. As a society, we must not cut the people and places most at risk of poverty adrift in these turbulent times.

Incomes

Test 1: Has the Chancellor given people on Universal Credit certainty about their income after April?

The Chancellor's omission leaves millions of families deeply uncertain

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 took swift action, implementing a temporary £20 per week uplift to Universal Credit (UC) and Working Tax Credit (WTC) until April 2021. This bold and compassionate intervention was a lifeline for millions of families, enabling many people to stay afloat and significantly improving the adequacy of our social security system.

Despite sobering unemployment forecasts and recognition that the economic emergency has only just started, yesterday the Chancellor was silent on keeping this lifeline. The benefit uprating statement (Coffee, 2020) - also issued yesterday - instead only uprated benefits in line with inflation – just 0.5%.

Responding to questions afterwards, he said he wanted to wait and get a better sense of where the economy is in spring. But there is no conceivable scenario in which this support will not be needed, and inaction risks a sharp rise in poverty. Families, who have already lost so much this year, now face the Christmas period with the fear of a further devastating income cut in April.

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 £20 uplift. This decision had to be taken now to allow it to be implemented next Spring. The majority of disabled people receiving social security support are on legacy benefits. this lack of action from the Government means they now face a second year without sufficient support.

The OBR's new economic forecasts give a clear picture of the impact that whipping away this lifeline will have on families

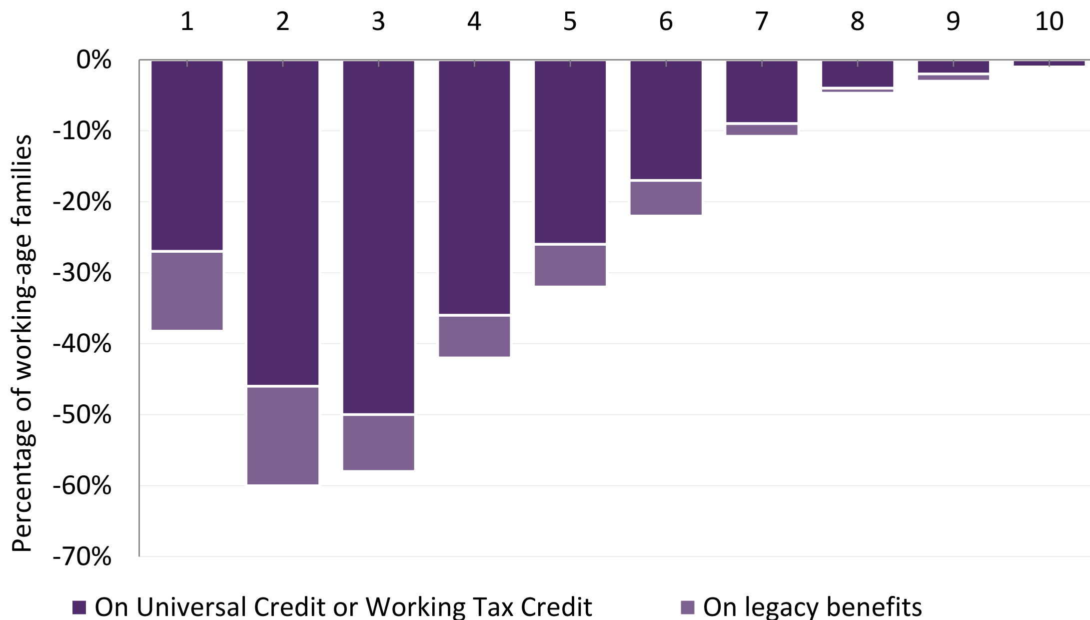
The OBR yesterday confirmed that unemployment will remain high for many years. We have used their forecasts to produce new estimates of the impact on families of cutting away the £20 lifeline in April.

In 2021/22, 6.2 million families on UC/WTC will see an overnight loss of £1,040. A further 1.6 million families on legacy benefits will continue to miss out on the lifeline.

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.

Losses will disproportionately be shouldered by families on low incomes, as demonstrated in figure 1.

Figure 1: % of all working-age families in each income decile that will lose £20 per week from their UC/WTC, 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 November 2020 forecasts. See Appendix for detailed assumptions.

Cutting away the lifeline will mean around 500,000 more people, including 200,000 more children, will be pulled into poverty. The Government could lift a further 200,000 people out of poverty by extending the £20 lifeline to those on legacy benefits.

Families with children will be disproportionately impacted, particularly single-parent families. Around 60% of all single parent families will experience their UC or WTC being cut by £1,040. If we include the effect of those on legacy benefits missing out, then around 80% of all single parents across the country are impacted.

Table 1: Families impacted in 2021/22

Family type	On Universal Credit or Working Tax Credit		On legacy benefits	
	Number of families losing the £20-per-week lifeline	% of all families of that type who lose	Number of families missing out on equivalent lifeline	% of all families of that type missing out
Single without children	2,500,000	20%	900,000	7%
Couples without children	800,000	10%	200,000	3%
Single parent families	1,100,000	61%	400,000	20%
Couple parent families	1,800,000	30%	200,000	3%

Source: Microsimulation by JRF using the IPPR Tax and Benefits Microsimulation Model and the OBR's November 2020 forecasts. See Appendix for detailed assumptions.

Over half of families losing out contain someone who is disabled and a fifth are BAME families, meaning these groups are disproportionately affected.

Table 2: BAME families and those containing a disabled person impacted in 2021/22

Family type	On Universal Credit or Working Tax Credit		On legacy benefits	
	Number of families losing the £20 per week lifeline	% of all families of that type who lose	Number of families missing out on equivalent lifeline	% of all families of that type missing out
BAME families	1,200,000	29%	300,000	7%
Non-BAME families	5,000,000	21%	1,300,000	6%
Families where someone is disabled	3,200,000	40%	1,100,000	13%
Families where no one is disabled	2,900,000	15%	600,000	3%

Source: Microsimulation by JRF using the IPPR Tax and Benefits Microsimulation Model and the OBR's November 2020 forecasts. See Appendix for detailed assumptions.

People's reaction to the Chancellor's statement shows this omission is devastating for families

People with lived experience of the social security system feel badly let down, having put their faith in the Government to help keep families afloat during the pandemic:

"The Government are failing to support the people that voted them in."

Female, London

"We should never have a system where anyone is not able to benefit when they are in need. The Government cannot keep believing that charity can do it all."

Female, London

What might seem a relatively small amount to some people, can be a lifeline to someone else struggling to stay afloat:

"I believe that those who set these laws don't see what a difference £20 makes. When you're on Universal Credit you know exactly what you're getting. You know exactly the figure for your bills and you know exactly where your money is going. When I was working full-time, I may not have noticed an extra £20 but now I'm on Universal Credit, I really feel it."

Female, London

With people already finding the level of UC inadequate to meet basic needs, many will go without essentials if the uplift is withdrawn:

"That £20 is often the difference between light and heat or no light and heat. If you don't have gas, you can't cook."

Female, London

"When you get close to the margins its surprising how significant decisions become – if an appliance breaks, you have to balance the decision around whether to replace it against whether something else will break that's more essential AND now we have to think about the fact that the £20 uplift is going to be withdrawn in April."

Male, London

The vestiges of support many have relied on through the pandemic are wearing thin:

"We've relied heavily on food banks, charitable donations and mutual aid but their funds are running out. People are holding onto their money as they're worried about the future."

Female, London

Many carers have had to lose work and income, as well as face additional costs, due to the pandemic:

"As my mother's care needs have increased, I've had to give up my job during this crisis to care for her. I cannot go back to my job whether the uplift is preserved or not, but I will still have to pay for the additional medical support she needs. The extra £1,000 a year in UC helps offset that – now they are going to take it away."

Male, London

The Government can still do the right thing

Rather than cutting families adrift in April, the Government should make the £20 uplift to UC and WTC permanent and extend this same support to those on legacy benefits. Whilst the Government has missed this opportunity to take bold action in response to the unfolding economic crisis, it still has time to do the right thing.

This pandemic has shown that none of us know what is around the corner, and we all need a social security system that we can rely on. Strengthening our social security system will provide stability and confidence to families in the years to come, allowing them to seize opportunities, retrain and fully participate in society.

Our new estimates suggest keeping this lifeline for families on UC/WTC will cost around £6.4 billion in 2021/22 and a further £1.9 billion to extend it to legacy benefits. The legacy benefit cost will fall over the coming years as most people on legacy benefits migrate to UC, but for families struggling to stay afloat, the need is urgent.

Jobs

The coming wave of unemployment threatens to sweep more people into poverty

The wave of unemployment that the OBR predict between now and next summer will hit people already struggling to stay afloat, pulling more people into poverty or deeper hardship.

Limiting the rise in unemployment and helping people who lose their jobs find work as quickly as possible is rightly a top Government priority. Work remains the best protection against poverty for most adults of working age.

But one in eight workers were experiencing in-work poverty prior to the COVID-19 pandemic. It's vital that we focus on creating more good jobs – with decent pay, hours, security and opportunities to progress – as the economy recovers.

Test 2: Has the Chancellor done enough to help the people who lose their jobs improve their skills to find work?

The promised large-scale employment support programmes are in place

The Spending Review set out a series of measures in relation to employment support. The majority are extending or confirming interventions announced in the Plan for Jobs. The one new initiative announced was significant - the £2.9 billion Restart Programme, a new employment support scheme targeted at people out of work for more than 12 months. Unlike other initiatives, funding for this has been committed over three years, however only £400 million has been made available for 2021-22.

The new Restart Programme is a significant and welcome intervention at the necessary scale, delivering on the Plan for Jobs' promise of a new large-scale employment support offer. The £2.9 billion that is committed is equivalent to the money spent on the Work Programme but is being spent over a shorter period of time. This level of support recognises the significant economic and employment challenge facing the UK in the months ahead.

However, by choosing to commit just £400 million of the funding for 2021-22, the Government risks underinvesting in the early stages of the programme. The Learning and Work Institute has estimated that long-term unemployment could be twice as high in 2021-22 as in 2023-24 (Learning and Work Institute, 2020). It is possible that the payment by results model likely to be used for this programme could mitigate the risk of doing too little next year, but Government must keep a close watch on this.

The other employment support measures announced are mostly welcome extensions and confirmations of existing schemes and programmes. The KickStart programme, offering paid work placements for 16 to 24-year-olds, is a positive intervention to prevent the long-term scarring effects of youth unemployment. The Spending Review confirmed the £2 billion budget announced in A Plan for Jobs.

Table 3: Selected COVID-19 Employment Support Spending

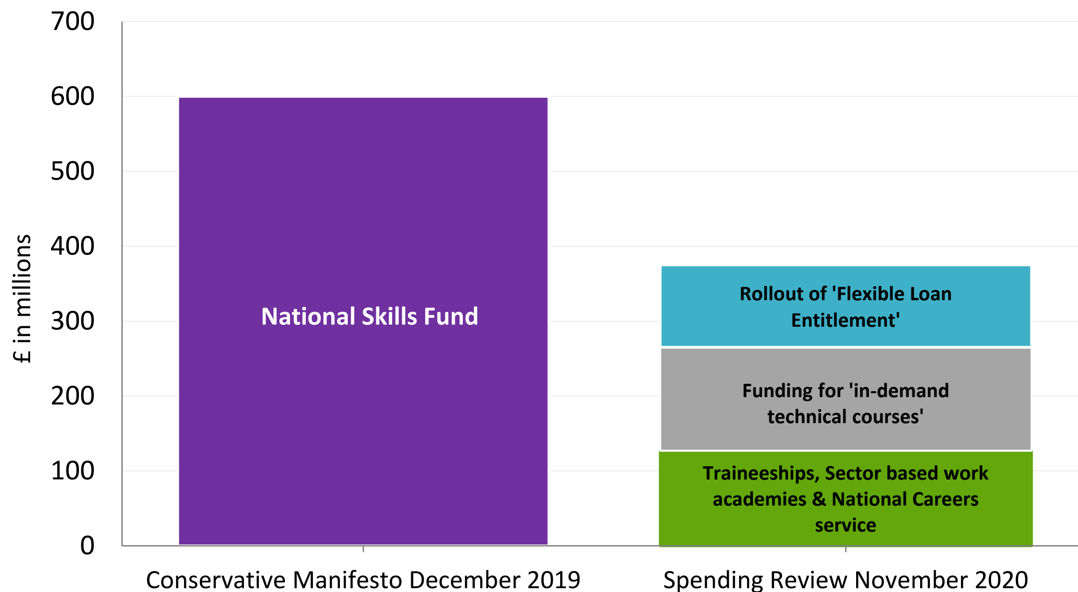
Initiative	Detail	2020-21	2021-22	2022-24
Restart Programme	Employment Support programme for people out of work for 12 months or more		£400 million	£2.5 billion
Increase Capacity of Job Centre Plus	Investment to doubling the number of work coaches	£1.1 billion	£1.4 billion	
Kick Start Scheme	Subsidised work placement scheme for 16 to 24-year-olds on Universal Credit	£200 million	£1.6 billion	
Other employment support announced in A Plan for Jobs	Including: Targeted Support and Job Finding Support schemes, the Youth Offer and Sector-based Work Academy Programme placements	£500 million	£300 million	
Total Spend		£1.8 billion	£3.7 billion	£2.5 billion

Source: HM Government (2020a)

The funding committed to adult skills fell short of what was promised

The Government's headline skills announcement was investing £375 million from the National Skills Fund in 2021-22, confirming some of the commitments for a Lifetime Skills Guarantee made by the Prime Minister in his speech in September 2020 (HM Government, 2020b). This includes £127 million committed to extending programmes and initiatives announced at the Summer Statement including traineeships, sector-based work academy placements and the National Careers Service.

Figure 2: The funding for skills announced fell £225 million short of the amount promised in the 2019 Conservative Manifesto



Improving skills is a proven way to support people into a good quality jobs, but the £375 billion committed falls some way short of the commitment to a £600 million annual National Skills Fund pledged in the Conservative's 2019 Manifesto and promised at the Budget in March 2020 (HM Government 2020c). Funding for adult education (excluding apprenticeships) has been cut by £1.3 billion a year since 2009/10, contributing to a 49% fall in the participation rate since 2004 (Bhattacharya et al, 2020).

Of particular concern is the lack of additional funding for, and access to, level 2 qualifications, which can support people with fewer formal qualifications trapped in poverty to access better-paid work. This was one of the key recommendations of the Augar review and should be implemented by the Government.

Overall, the package is insufficient to meet the skills-challenge facing the country, limiting people's opportunities to find work and change jobs, and limiting potential for productivity growth.

Test 3: Has the Chancellor done enough to create sustainable, good quality jobs?

There were few new announcements on creating new jobs and little focus on improving job quality

The Spending Review contained surprisingly little commitment to creating new jobs that could help bring unemployment down. As expected, the Chancellor did announce £100 billion in capital spending next year, which he promised would 'kick start growth and support jobs'.

Government investment will undoubtably create some jobs, but the number of jobs created depends on the type of investment. Some of the funding included in this capital spend is on equipment for the NHS which will not be very 'job rich', whilst other funding, such as on construction, will be more likely to produce jobs. The key test is whether they are accessible and suitable for people who are looking for work.

But notably missing were ideas to either create jobs directly – as we had called for through increasing funding for Social Care – or by creating the right incentives for the private sector to create more jobs – such as through reducing National Insurance Contributions for new hires. The Chancellor has repeatedly shown willingness to return with new measures when necessary this year, he should consider these measures early next year to hold down rising unemployment.

The Government continued a welcome focus on improving low pay but there was little focus on job quality

The Chancellor rightly recognised the need to deliver pay rises for the lowest paid where possible. It was vital to keep the commitment to increasing the National Living Wage to two thirds of the median wage by 2024, and the Chancellor was right to accept the Low Pay Commission recommendation of a just-above-inflation increase of 2.2% next year to balance progress towards that goal whilst avoiding making it much more costly for businesses to create jobs next year.

Whilst public sector pay has been frozen for all but NHS workers, the Government recognised the need to support lower-paid public sector workers, promising those who earn less than £24,000 a year a minimum £250 increase.

Yet, there is much more the Chancellor could and should have done to create better jobs in the post-COVID-19 economy. A more important issue than public sector pay is improving pay and job quality in the private sector, where low pay and in-work poverty are much more common. Just 7% of public sector jobs are paid less than the Living Wage compared to nearly one in five in the private sector. The Spending Review did nothing to improve pay and conditions in Social Care, which is publicly funded but most jobs outsourced to the private sector, meaning that care workers will not see the increase in salary received by their NHS colleagues.

Levelling up

Test 4: Has the Chancellor done enough to help the weakest economies to level up?

Why we need to level up to keep people afloat

Levelling up has been a key ambition of the Government since its election in December 2019 and it was a central theme of the 2020 Spending Review. This is the right priority: it's simply not right that where you live can reduce so greatly your chances of finding a good job and a decent living.

The UK faces urgent living standards and productivity challenges which levelling up must address. The north of England, Midlands, Wales and Northern Ireland lag far behind the south-east of England in economic performance and have done since the 1960s (Zymek and Jones, 2020). London's productivity is now 50% higher than any other region or nation of the UK (UK 2070 Commission, 2020).

Between 2015 and 2019, child poverty rose fastest in areas of the north of England, many of which already had unacceptably high levels of poverty. In Middlesbrough, End Child Poverty Coalition estimated that more than 4 in 10 children (41%) were in poverty in 2018/19, up from 29% in 2014/15.

COVID-19 stands to make these problems worse. Nowhere has been unaffected by the economic impacts of this pandemic, but many of the people and places hardest hit by the economic fallout are those that started in the weakest position. Places with the highest child poverty rates in 2019 have seen the largest increases in unemployment (as measured by claimant count).

As the UK continues to fight COVID-19, levelling up the economy is more important than ever. To fully unlock opportunities and prosperity across the UK requires bold action. The Government's commitment to levelling up speaks to these challenges, but what was announced in the Spending Review fails to live up to the scale of the task.

Two major announcements on levelling up funding

First, the Chancellor set out some more details on the UK Shared Prosperity Fund (SPF) which has been promised to continue the investment previously given to the UK via European Union Structural Funds. We will have to wait until next year for full details on the scheme, but the new announcements included:

- In 2021 there will be £220 million available UK-wide to trial new pilots and programmes in lieu of the full introduction of the SPF.
- The funds available through the SPF will rise to £1.5 billion a year in 2022.
- Part of the fund will be allocated to 'places most in need' across the UK, such as deprived communities. The rest will be designed for 'people most in need', for example targeting those facing the most labour market barriers to support them into better employment opportunities.

- Secondly, there was an announcement of a £4 billion Levelling Up Fund for England. This is to provide additional investment to tackle the challenges faced by ‘places in need’ who have been underinvested in historically. The details are:
    1. £4 billion worth of funding for England across the parliament, equivalent to approximately £1 billion per year.
    2. £0.8 billion funding for the devolved nations.
    3. Cross-departmental delivery to provide more holistic policy responses to levelling up challenges, rather than siloed investments.
    4. The initial funds available to England in 2021-22 will be £600 million, which places can bid for.

In addition, the Spending Review committed to around £100 billion of capital investment in 2021/22 for transport, research and development and NHS infrastructure in particular. This is important for levelling up if targeted in the right way, but alone will not do the job.

The levelling up strategy is still not clear

Despite being heralded as the ‘levelling up’ Spending Review, it is still not clear what the Government means when it talks about levelling-up. There is mention of people and places ‘in need’ but the priorities – which needs, which people, which places – remain undefined, and it is not clear what successful levelling up would look like.

JRF has called for a focus on places with the lowest employment and pay, with a view to seeing them start to close the gap with the rest of the country. The immediate priority must be to prevent COVID-19 making the levelling up challenge even harder. In the longer-term the goal is to strengthen and grow the weakest local economies across the UK.

Funding for local growth is falling as the scale of the challenge increases

More concerning still, today’s announcements fail to even maintain levels of spend on local growth, let alone increase it.

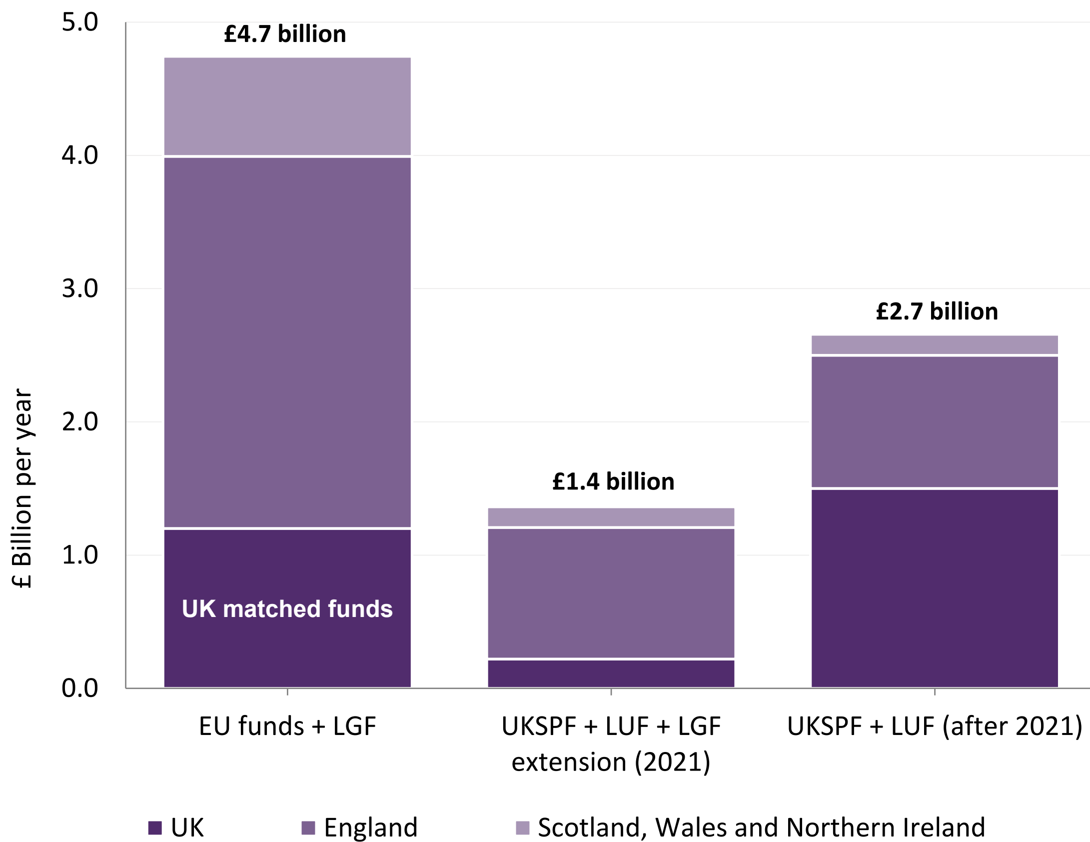
The planned £1.5 billion a year for the SPF falls short of the level of spend that has been available to the UK via the EU Structural Funds. This averaged £1.2 billion a year and was doubled by match funding meaning that yearly funds were approximately £2.4 billion. Instead, the size of the fund plummets to just £220 million in 2021/22. From then on, the yearly target of £1.5 billion represents a decrease of nearly 40%.

As the money available via the Local Growth Fund draws to a close, the introduction of a new Levelling up Fund could have been used to ensure the same level of funding was maintained. Over the last six years, £2 billion (on average) has been available each year via the Local Growth Fund in England. While £387 million will be extended into next year, just £600 million will be added from the levelling up fund.

Detail on how the Levelling Up Fund will be allocated is currently lacking, but to provide context: if £1 billion a year of the levelling up fund for England is divided out evenly among the 20% most disadvantaged local authorities the amount would total around £67 per person per year.

Combined, we expect spending on local growth to fall from £4.7 billion per year in recent years to just £1.4 billion in 2021/22. The following years will see some improvement, but funding will still be a very significant £2 billion lower.

Figure 3: Comparing current and announced levelling up spend



Source: JRF analysis of: Tinker (2018) - EU funds, Spending review and autumn statement 2015 and Budget 2020 - Local Growth Fund (LGF), Spending Review 2020 - UK Shared Prosperity Fund (SPF) and Levelling Up Fund (LUF).

Note: In addition to LGF and LUF spend in England, additional funds have been assigned to devolved nations for each via the Barnett formula. For the LUF (after 2021) this was given in Spending Review 2020. For the LFG and LUF (2021) this was calculated by JRF using population proportions based on ONS mid-2019 population estimates.

As well as the underwhelming support for levelling up investment, there is very little change to the wider infrastructure programme from the March position. In particular, the Fraser of Allander Institute at the University of Strathclyde has highlighted that capital funding being passed to the Scottish Government has in fact dropped from the 2020-21 position.

More, not less, investment is urgently needed to address the levelling up challenge

Given existing problems have been deepened by the pandemic, these commitments needed to be much bolder. Such tentative steps will mean people in these communities have to wait even longer to see improvements to their opportunities to get good jobs.

At a bare minimum, the Chancellor should have maintained current funding on local growth. We called for him to go further and increase funds to prevent the levelling up challenge getting any harder during COVID-19 and enable the large investment in skills and local growth required to truly level up the UK.

Housing

Test 5: Has the Chancellor done enough to keep housing costs under control?

Too many households are worried about meeting their housing costs this winter, yet the proposed action to control housing costs is limited

The coronavirus pandemic has exposed the insecurity in our housing system. Prior to the pandemic too many were facing high housing costs. In the UK, 14.5 million people were trapped in poverty after housing costs were taken into account (Bourquin et al, 2020) and around 4 million households in the UK were in housing need due to homelessness or because they were living in unaffordable, indecent, and/or overcrowded accommodation (Bramley, 2018).

The restrictions and economic uncertainty we have faced this year further exposed and worsened this insecurity. Recent research conducted by JRF found that around 2.5 million households are worried about how they will pay their rent over the winter months, with 700,000 households already in rental arrears.

This Spending Review was an opportunity to offer protection to those facing a winter of uncertainty and worry about losing their home, and to take the longer-term actions to deliver a housing system which frees households from poverty. However, the Chancellor has offered little to address the high cost of housing locking households in poverty, and much of that which has been announced is not new investment.

Support for house building

Investment in infrastructure to unlock the delivery of new homes played a key part in the Chancellors pitch to 'deliver once-in-a-generation returns for our country'.

The largest chunk of this money, £12.2 billion, is for the Affordable Homes Programme which will run from 2021-22 to 2025-26 and is a reannouncement of funding set out by the Chancellor in the 2020 Budget.

The Chancellor also announced a £7.1 billion National Home Building Fund which will support local councils and communities to build homes and deliver infrastructure. The various components of this fund aim to 'unlock up to 860,000' homes over the next four years. Only £2.3 billion of this is new money with the largest share being loan finance to the home building industry. However, it is noted that further funding will follow in the next multi-year spending review.

Addressing rough sleeping and homelessness

The Chancellor made a welcome announcement of an extra £254 million of resource funding to support local authorities to address rough sleeping and homelessness. The

£254 million figure includes £103 million announced earlier in the year for accommodation and to address substance misuse.

Local Housing Allowance

The Spending Review included the decision to freeze the Local Housing Allowance (LHA) rate in cash terms. The Government had in March increased LHA to match 'the 30th percentile' of rents in local housing markets. This followed the benefit being de-linked from local rents in 2010 and increased in line with inflation instead, before being frozen altogether in 2015.

LHA will be frozen at current rates when benefits are uprated in April 2021 and increased in line with Consumer Price Inflation (CPI) in future years, meaning that the gap between rental costs and the support available to households, closed by the Chancellor in March, will open up again.

The Chancellor's proposals will offer little comfort to the millions of households who are worried about how they will pay their rent.

While it is welcome that the Chancellor is taking action to address homelessness the Government's 'moral mission' to end rough sleeping by the end of the current parliament will not be met if greater action is not taken to keep housing costs under control by directing support to those struggling, and if it is not backed up with an increase in the supply of social housing.

Analysis from Generation Rent shows a marked increase in the number of private renters who are claiming social security benefits. Between February and August the number of private renters claiming benefits increased by 36% - or 507,000 households (Generation Rent, 2020). Now one in four private renters, or around 2 million households, are relying on the Housing Element of Universal credit or Local Housing Allowance to meet some or all of their rent (Ibid.). It is simply unacceptable that the Government would cut this benefit when it is needed by so many.

This is particularly the case as JRF analysis shows that the twelve-month price change in rents from September 2019 to September 2020 across Great Britain is 1.5%. That means that on average, across Great Britain, rents have already increased by 1.5% more than is reflected in the LHA rates. Some areas in Great Britain have faced still higher increases. The East Midlands and the South West have seen a rise of 2.6% over the same period, and the West Midlands has seen a 2.3% rise. It is clear that the Government's decision to freeze LHA rates will begin to open a gap between the cost of housing and the support on offer once more.

A more effective way to reduce the Government's expenditure on LHA would be to invest in social housing.

However, the Government's current budget of £12.2 billion for the Affordable Housing Programme is insufficient to meet the scale of the housing challenge. The Spending Review confirms that this funding will deliver around 180,000 homes over this five-

year period, with previous announcements setting out that half of these homes will be for Affordable Home Ownership. This number of homes, 180,000, is a reduction in the scale of delivery seen in the current AHP, which is aiming to deliver 250,000 homes over five years. Ministers note that this is because this programme will aim to deliver a higher number of homes for social rent, which require a higher level of grant.

While it is welcome that a higher proportion of homes delivered through the AHP will be for social rent, the tenure most in need, the overall scale of the Affordable Homes Programme falls far short of the ambition needed to lift households out of poverty and to solve homelessness.

JRF analysis of the Government's current projections for the Affordable Homes Programme suggest that the current programme will fall short of the number of social homes that independent analysis shows to be needed by 545,000 units over the five-year period. Most of this shortfall (510,000) is in homes for rent.

Figure 4: Current plans will fail to deliver enough social housing

Source: JRF analysis of Bramley (2018) and MHCLG targets for the AHP from 2021/22 to 2025/26

The choice not to increase spending on social housing is particularly disappointing given that, as the Chancellor himself acknowledges, borrowing is at a historic low, and therefore 'paves the way for record levels of capital investment across this parliament and beyond' at a time when boosting spending could provide much needed economic stimulus.

The profile of the Affordable Homes Programme is also a missed opportunity for a Government looking at investment in infrastructure to create jobs and revitalise local economies. Spending on the AHP is currently set at £2 billion for 2021-22, increasing to £2.5 billion in 2022-23 and to £2.6 billion in future years. This could have been front-

loaded to provide a strong fiscal boost to the economy, with future years topped-up in the upcoming multi-year Spending Review.

Government can still do the right thing

More action is needed to hold back the rising tide of homelessness.

To properly fix the housing crisis the Government needs to increase the supply of social housing, with a particular focus on homes for social rent: 145,000 affordable homes a year (including 90,000 for social rent) for the next five years. The upcoming multi-year Spending Review is the ideal opportunity for this investment, which would also act as a significant fiscal stimulus, kick-starting our post-COVID-19 economic recovery, and answers the Government's call for 'shovel-ready' projects.

The Government must also take swift action to address the growing problem of rent arrears. Recent JRF polling found that 700,000 households are already behind on rent, with 2.5 million households worried about paying rent over the next three months. We need a watertight ban on evictions, together with targeted support for rent arrears, to prevent a surge of evictions in the spring.

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.

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.

All results are for 2021/22, assuming a 7.3% unemployment rate (based on the OBR's central projection made in November 2020). To maintain the £20 uplift in 2021/22, the £20 is added to the uprated 2020/21 amount pre-uplift. Local Housing Allowance (LHA) is not modelled – instead, actual household rent is used in the housing benefit/element calculation.

UC rollout is based on the OBR's March 2020 projections, adjusted for the effect of modelled unemployment. 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 rollout percentage. We assume partial take-up of means-tested benefits, with Universal Credit take-up set at the highest of the six legacy benefits.

The poverty line is 60% of median equivalised household net income after housing costs, and is recalculated in each scenario.

References

Bhattacharya, A, Corfe, S and Norman, A (2020) (Adult) education, education, education. Social Market Foundation [Online] Available at: (Adult) education, education, education - Social Market Foundation (smf.co.uk) [Accessed: 25 November 2020].

Bourquin et al (2020) Living standards, poverty and inequality in the UK: 2020. [Online] Available at: https://www.ifs.org.uk/publications/14901 [Accessed: 31 July 2020].

Bramley, G (2018) Housing supply requirements across Great Britain: for low income households and homeless people. London: Crisis and National Housing Federation. [Online] Available at: https://www.crisis.org.uk/media/239700/crisis_housing_supply_requirements_across_great_britain_2018.pdf [Accessed: 27 July 2020].

Coffey, T (2020) Statement: Social Security Benefit and Pension Up-rating 2021/22. UK Parliament [Online] Available at: Written statements - Written questions, answers and statements - UK Parliament [Accessed: 25 November 2020].

Eiser, D, Spowage, M and Roy, G (2020) Spending Review 2020 and Scotland. Glasgow: Fraser of Allander Institute. [Online] Available at: https://fraserofallander.org/uk-economy/uk-budget/spending-review-2020-and-scotland/ [Accessed: 25 November 2020].

End Child Poverty Coalition (2020) Child Poverty in your area 2014/15 – 2018/19. [Online] Available at: http://www.endchildpoverty.org.uk/child-poverty-in-your-area-201415-201819 [Accessed: 25 November 2020].

Generation Rent (2020). Benefits system leaves renters footing the bill for coronavirus. London: Generation Rent. [Online] Available at: https://d3n8a8pro7vhmx.cloudfront.net/npto/pages/7401/attachments/original/1606149561/Benefits_System-Covid_Report.pdf?1606149561 [Accessed: 25 November 2020].

HM Government, (2020a) Spending Review 2020. [Online] Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938052/SR20_Web_Accessible.pdf [Accessed: 25 November 2020].

HM Government, (2020b) PM's skills speech: 20 September 2020. [Online] Available at: https://www.gov.uk/government/speeches/pms-skills-speech-29-september-2020 [Accessed: 25 November 2020].

HM Government, (2020c) Budget 2020. [Online] Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871799/Budget_2020_Web_Accessible_Complete.pdf [Accessed: 25 November 2020].

Innes, D and Earwaker, R (2020) Levelling up the economy: we can't afford not to. York: Joseph Rowntree Foundation. [Online] Available at: https://www.jrf.org.uk/report/levelling-economy-we-cant-afford-not [Accessed: 25 November 2020].

JRF (2016) UK Poverty: Causes, Costs and Solutions. York: Joseph Rowntree Foundation. [Online] Available at: https://www.jrf.org.uk/report/uk-poverty-causes-costs-and-solutions [Accessed: 25 November 2020].

Learning and Work Institute (2020) Work and Skills for the long-term unemployed. [Online] Available at: https://learningandwork.org.uk/resources/research-and-reports/work-skills-for-the-long-term-unemployed/ [Accessed: 25 November 2020].

Pincher, C (2020) Response to Clive Betts, MP, on the Select Committee report into long-term delivery of social and affordable rented housing. [Online] Available at: https://committees.parliament.uk/publications/3574/documents/34505/default/ [Accessed: 25 November 2020].

Tinker, R (2020) Designing a Shared Prosperity Fund. York: Joseph Rowntree Foundation. [Online] Available at: https://www.jrf.org.uk/report/designing-shared-prosperity-fund [Accessed: 25 November 2020].

UK 2070 Commission (2020) Make no little plans. London: UK 2070 Commission. [Online] Available at: http://uk2070.org.uk/wpcontent/uploads/2020/04/Declaration_of_Intent_Brochure.pdf [Accessed: 16 June 2020].

Zymek, R and Jones, B (2020) UK regional productivity differences: an evidence review. London: Industrial Strategy Council. [Online] Available at: https://industrialstrategycouncil.org/sites/default/files/attachments/UK%20Regional%20Productivity%20Differences%20-%20An%20Evidence%20Review_0.pdf [Accessed: 16 June 2020].

About the Joseph Rowntree Foundation

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

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

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

To meet one of our experts to discuss the points raised please contact:
Katie Schmuecker: Head of Policy and Partnerships
Katie.Schmuecker@jrf.org.uk
07581 371198 | 01904 615940