JOSEPH ROWNTREE FOUNDATION

The Rt Hon Stephen Timms MP
Chair, Work and Pensiosn Committee
House of Commons
London
SW1A 0AA

5 October 2021

Dear Stephen

JRF assessment of the impact of the £20 cut to Universal Credit

Many thanks for your letter of 29 September regarding JRF's modelling of the impact of the government's decision to cut Universal Credit, which is due to come into effect on 6 October 2021.

Over the last year, JRF has undertaken a series of assessments of the impact of this cut using the well-respected and widely used IPPR tax-benefit model, each time comparing the poverty impact of removing £20 a week from the standard allowance of Universal Credit compared to retaining it (while holding all other factors constant). The results of these assessments have consistently found that the consequence of this decision will be to increase the number of households with income below the poverty line by around 500,000 (including an increase in child poverty of around 200,000).

The tax-benefit model we use to generate these assessments is based on the DWP-owned Family Resources Survey and is very similar to the Policy Simulation Model developed by DWP and used across Whitehall and by the OBR (including to model the impact of announced government policy). The model is regularly updated with policy changes and the latest OBR employment and economic forecasts.

In your letter you quote Will Quince MP's evidence to your Committee where he states that our July 2021 assessment of the impact of the £20 cut is invalid because, he argued, "the JRF made that assessment before the Spring budget, so this was before the Government announced the six-month extension to the uplift". This is inaccurate on two counts. First, the July 2021 assessment was made *after* the Spring budget in March. Second, and more importantly, that assessment was looking ahead to the impact of the temporary extension *ending* and the cut coming into effect. Clearly while the six-month extension was in place the impact of the cut did not take effect.

The former DWP Minister is right to say that the actual course of poverty rates depends on a range of wider factors, including patterns of employment and earnings. However, that does not change the fact that, all other things being equal, the impact of this cut – compared to not proceeding with it – is half a million more households living in poverty. Of course, what has actually happened since the 16 September evidence session referred to in your letter is that the headwinds of cost of living pressures for low-income families have intensified, in particular from rising inflation and pressures in the energy market.

The cumulative poverty impact of these economic trends, in addition to the £20 Universal Credit cut, will not become clear for some time, but the scale of the hit to the living standards of low income households as a direct result of this government decision cannot be disputed.

I hope this helps clarify the matter.

Best Wishes,

Paul Kissack
Chief Executive
Joseph Rowntree Foundation | **Joseph Rowntree Housing Trust**

Work and Pensions Committee
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From the Chair

Paul Kissack
Group Chief Executive
Joseph Rowntree Foundation

29 September 2021

Dear Paul,

JRF assessment of the impact of the removal of the £20 Universal Credit uplift

The Joseph Rowntree Foundation (JRF) has estimated the impact on people in poverty following the removal of the £20 a week Universal Credit uplift. Your statement from July 2021[1] calculates that around 500,000 more people (including 200,000 children) will be in income poverty following this benefit change. At the Committee's oral hearing on 16 September, Will Quince MP, then Minister for Welfare Delivery and Neil Couling, Change Director General at the Department for Work and Pensions, challenged the basis of JRF estimates. Will Quince said that he did not recognise these figures because:

> "[…] the JRF made that assessment before the spring Budget, so this was before the Government announced the six-month extension to the uplift. At that point the country was still living under Covid restrictions and job vacancy rates were at a record low... It would be fair to say that the situation is completely different now. With the economy opening up, restrictions being eased, vacancies at an all-time high…we are in a completely different place."

Mr Quince added that poverty projections like this are complex and "inherently speculative" and he concluded that it was "simply not possible" to estimate these things "in what is a hugely dynamic labour market."

I am very keen to hear your response to this challenge—both in relation to JRF's Universal Credit reduction calculation, and in relation to the wider principle of using forecasts to assess the real-world impact on poverty and inequality of planned policy changes.

I look forward to hearing from you shortly.

Yours sincerely,

[1] UK heading for the biggest overnight cut to the basic rate of social security since World War II | JRF

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee

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Chair, Work and Pensions
Committee

From: Marcial Boo, Chief Executive

Thursday 21 October 2021

Dear Mr Timms,

Forecasting the impact of policy changes on future income poverty and inequality

Thank you for your letter of 29 September, and for your congratulations on my appointment. I want first, in my reply, to offer my sympathy to you and colleagues following the terrible murder of Sir David Amess. I have written similarly to the Leader of the House. I hope that, in my new role, I can support you and other parliamentarians in fostering greater understanding between different groups, including those of different religions and beliefs. Please do get in touch on these issues should you wish.

In your letter, you asked for the Commission's view on the assertion of a DWP official, Neil Couling, to your Committee on 16 September that the forecasting of real-world impacts on people of planned policy changes is of limited value. We contend that economic modelling and forecasting can indeed be effective tools in understanding the effect of policies on different groups.

Our Cumulative Impact Assessment of Tax and Welfare Reforms, for example, was based on a distributional analysis of tax and spending reforms, and has been widely used. Other helpful forecasting models use different assumptions, including those produced by the Treasury, the Institute for Fiscal Studies, and the Department for Work and Pensions itself.

There are of course limitations to any modelling approach. For some policies, sufficiently granular data may not be available, or it may be difficult to distinguish the effect of one policy over another when both are acting simultaneously, etc. It may be that Mr Couling had such limitations in mind. Yet all models can set out any assumptions or data gaps that might limit their value without wholly compromising their ability to identify and explain the potential impact of proposed policies on different groups.

You also asked about our work with government departments on their assessment of the economic and social impacts of planned government policy changes. We have trained many departments on the Public Sector Equality Duty, including the Treasury, Cabinet Office and the Department for Education, outlining the importance of assessing the cumulative and possible future impact of policies. We are keen to provide more such training to other civil servants.

The National Audit Office and Home Office have welcomed our interventions, including, in the latter case, by producing a shared action plan following our assessment of 'hostile environment' immigration policies. This is a good example of a consideration of the likely impact of policies on different groups. Another example would be from the DWP itself, with whom we concluded a legally binding agreement in August 2021 requiring them to improve the quality of their equality analysis in the design and delivery of policy changes in order for them to comply with the equality duty.

We are keen to help all government departments to comply with their legal responsibilities under the public sector equality duty. We would welcome any support that you and your Committee may wish to give in this regard.

Meantime, with all best wishes.

Yours sincerely,

Marcial Boo
Chief Executive

Equality and Human Rights Commission

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From the Chair

Marcial Boo
Chief Executive Officer
Equality and Human Rights Commission

29 September 2021

Dear Marcial,

Forecasting the impact of policy changes on future income poverty and inequality

Congratulations on your recent appointment. I look forward to working with you over the remainder of this Parliament.

At the Committee's oral hearing on 16 September, Will Quince MP, then Minister for Welfare Delivery and Neil Couling, Change Director General at the Department for Work and Pensions, challenged the basis of recent Joseph Rowntree Foundation (JRF) estimates of the impact on poverty of removing the £20 uplift to Universal Credit. The JRF has forecast that the change in benefit rate will lead to 500,000 additional people being in income poverty.

In his evidence to the Committee, the Minister said that poverty projections of this nature are complex and "inherently speculative" and he concluded that it was "simply not possible" to estimate these things "in what is a hugely dynamic labour market." He added that his Department had not conducted any assessment of the impact on people of the decision to remove the £20 uplift to Universal Credit because it was difficult to do robustly.

I am aware that the EHRC has previously carried out cumulative impact assessments of changes to public spending and welfare reforms. I am therefore very keen to hear your response to the Minister and Mr Couling's suggestion that the forecasting of real-world impacts on people of planned Government policy changes ahead of their implementation is of limited value because of concerns about their accuracy. I would also be very interested to hear more about EHRC's work with, and advice to, Government Departments on their assessment of the economic and social impacts of planned government policy changes. I would be particularly interested to hear about any recent support the EHRC has given to DWP to ensure that it is adopting best practice in its use of impact assessments for claimants likely to be affected by changes to welfare benefits.

I would be grateful for your reply by 14 October.

Yours sincerely,

Stephen Timms

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee

Institute for Fiscal Studies
London, WC1E 7AE

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee

House of Commons, London SW1A 0AA

16 November 2021

Forecasting the impact of policy changes on future poverty and inequality

Dear Stephen

My apologies for missing this request. And thank you for the opportunity to respond.

Let me take first the issue of our own work in modelling poverty. It may be helpful to point out up front that we have always tried to be assiduous in calling these “projections”, not “forecasts”. This might sound pedantic but it is instructive about the nature of the exercise. To actually produce a “bottom-up” forecast of poverty, one would of course need to forecast everything relevant to poverty trends, including the evolution of the macroeconomy. Instead, OBR forecasts of labour market developments were a crucial input into our modelling of what might happen to poverty. Our results were therefore better thought of as an attempt to use modelling to reveal the implications of forecasted labour market scenarios – combined with stated tax and benefit plans – for poverty.

Our most recent poverty projections were higher than the outturns, as Neil Couling correctly stated, mostly because OBR estimates of employment growth turned out to be too pessimistic. Wage and employment growth at the bottom end of the income distribution have consistently surprised on the upside in recent years. It is also true to say that we have not revisited poverty projections in recent years. It is not something that we would rule out forever, but reflects the usual balancing of competing priorities with constrained capacity. It also reflects a judgement that, with so much uncertainty about the evolution of the macroeconomy in recent years, the value of projections which relied crucially on external macroeconomic forecasts has been more limited relative (for example) to analyses that focus specifically on furthering our understanding of the role of specific policy tools.

With reference to the wider discussion from which Neil Couling’s remarks were made, I would end by saying that just because the evolution of the macroeconomy is uncertain does not mean that any attempt to *assess* the impacts of specific policies on poverty are hopeless. We might understand rather well whether a particular policy is likely to be increasing or reducing poverty, irrespective of whether other trends in the economy are pushing overall poverty up or down at the same time. Clearly measures such as the two-child limit will increase poverty among larger families above what would have happened in the absence of that policy. If UC were £20 a week higher then, all else equal, poverty would be lower. So, we *can* say something about the effects of policy on levels of poverty. That, however, is different from *forecasting* overall poverty levels. That requires a forecast of what is happening at the bottom end of the labour market in terms of changes in earnings and employment, as well as a forecast of which people in which households might see their labour market income change in different ways, as well as an understanding of both the mechanical and behavioural effects of policy.

With best wishes

Paul Johnson
Director
Institute for Fiscal Studies

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From the Chair

Paul Johnson
Director
Institute for Fiscal Studies

29 September 2021

Dear Paul,

Forecasting the impact of policy changes on future income poverty and inequality

At the Committee's oral hearing on 16 September, Will Quince MP, then Minister for Welfare Delivery and Neil Couling, Change Director General at the Department for Work and Pensions, challenged the basis of recent Joseph Rowntree Foundation estimates of the impact of removing the £20 uplift to Universal Credit.

In his evidence to the Committee, Neil Couling referred to past IFS forecasts of income poverty. He said that:

> "[…] in 2017 [the IFS] forecast that our poverty after housing costs, which was 27% in 2014-15, would rise to 30% in 2019- 20. The outturn was a fall from 27% to 25% and it [the IFS, has] given up trying to forecast poverty, because what you must do, as the Minister was outlining, is create a series of assumptions and almost assumptions on assumptions. I appreciate the good intentions of JRF in trying to forecast this, but it is not something that is easy to do."

Will Quince added that poverty projections of this nature are complex and "inherently speculative" and he concluded that it was "simply not possible" to estimate these things "in what is a hugely dynamic labour market." He said that the IFS had stopped forecasting or modelling future poverty rates because "it deemed it not to be sufficiently robust." I would be grateful if you could tell us in more detail why you have decided not to pursue these.

I am also keen to hear your views in response to the Minister and Mr Couling's wider suggestion that the forecasting of real-world impacts of planned Government policy changes—even over a very short time period—is of limited value because of the complexity it entails.

I would be grateful for a reply by Thursday 14 October.

Yours sincerely,

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee