Making work pay in London under Universal Credit

A report for London Councils

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centre for economic & social Inclusion

Contents

Executive Summary

1. This report presents the results of analysis commissioned by London Councils, which aimed to:

   - Understand whether households living in London are disadvantaged by the design of the Universal Credit, its level of provision and whether this inhibits options for moving into work
   - Understand whether household disadvantage affects specific income levels or household types
   - Identify whether there are solutions that are cost effective and straight forward to implement which could mitigate any differential impact on London households.

2. This report concentrates on the effects of the introduction of Universal Credit in 2013. The main focus is on:

   - The impact of the work incentives within Universal Credit on Londoners
   - Whether the work incentives are the same for both Londoners and the rest of the UK
   - Whether Londoners are equally better or worse off than the rest of the UK under Universal Credit.

3. We deal with the differences facing Londoners when the new system is in operation in 2013. Looking at how they will fare relative to how they fare under the current system.

Universal Credit

4. The Welfare Reform Bill, currently going through Parliament, sets out the plans for Universal Credit, which will be rolled out over a four-year period starting in October 2013.

5. Universal Credit is to create one single benefit for working age adults. It will bring together the current system of means-tested out of work benefits, Tax

Credits and support for housing. The Universal Credit aims to *'radically simplify the system to make work pay and combat worklessness and poverty'* [1].

6. Central to reform is the idea of tackling benefits dependency by making work pay. Universal Credit withdraws benefits at a set rate of around 65 per cent which, it is claimed, '*would deliver sufficient work incentives whilst also being affordable'*. As a further incentive, the government is proposing higher benefits 'disregards' which will allow claimants to keep more of their earnings before benefits are withdrawn.

7. Worklessness in London is high and persistent. There are 1.3 million economically inactive Londoners and London has the lowest employment rate (at 68 percent) among the English regions. A fifth of London's children are living in a workless household[2] and there are 100,000 households in London where no-one has ever worked. Consequently, there is an imperative that any reform of the current welfare benefit scheme addresses this issue.

Making work pay in London

8. In general, Londoners are less well off now when moving into work because:

- Higher childcare costs - childcare is 23% more expensive than the England average;
- Higher rents and mortgage payments in London - housing costs which are around 50% higher than the national average;
- Higher travel costs - London transport is 63% more expensive than in other metropolitan areas;
- Caps in the benefit system that disadvantage London
- Low pay in London
- Low gains to improving income

9. Londoners do worse when moving into work in the current benefit system. The Universal Credit is an opportunity to ensure that Londoners do not face that disadvantage any more.

[1] Department of Work and Pensions, (2010), *Universal Credit: Welfare that Works*, London, DWP.
[2] Data available from the London Skills and Employment Observatory

10. Our analysis shows that the Universal Credit helps some households, but it will also potentially leave many households worse off than in the current system.

Measuring the impact of Universal Credit

11. To assess the likely impact of Universal Credit in London we first identified the current additional costs in London for typical groups of selected households. We then used Ferret's Future Benefit Model for the Universal Credit[3], to calculate the 'spending power'[4] for these families both in London and elsewhere.

12. In this context, spending power is the money that a family has available to meet their living expenses once they have paid for their housing costs, fares and childcare - money for food and clothing.

13. The modelling consolidates the changes to tax and benefits rules announced in 2010, together with proposals in the Welfare Reform Bill. It includes the fall in the real value of benefits because of the change in the measure of inflation used to increase benefits each year.

14. Uniquely, our modelling has enabled us to identify, for different family types, what happens to spending power when household circumstances change. We can compare the change in 'spending power' between London and elsewhere – this we call the 'spending power gap'. This gap is measured from how much less spending power London families will have, in a range of different circumstances. But, critically it shows the reduced incentive to increase working hours, because Londoners gain less compared to others.

Headline findings

15. **Lone parents and couple families will be worse-off under Universal Credit** compared to the **current 2011 system**. The only exceptions are lone parents entering part-time employment of less than 16 hours per week, and couples where both of the partners move into part-time employment of less than 16 hours.

16. This finding is true for both London and the rest of the country but (as with the current system) families in London will have less spending power than families elsewhere.

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[3] Ferret Information Systems Limited. www.ferret.co.uk
[4] Spending power = take home pay less housing, childcare and transport costs

17. For example:

- The spending power **under Universal Credit** for a single parent with two children for a ‘mini’ job of 6 hours (at minimum wage) will be £8,434 per year in London. This compares to £9,482 per year nationally. The Londoner is worse off by £1,048 annually.

- For those entering full-time employment: **London lone parents** with two children will be **over £5,000 a year worse off** under Universal Credit if **in a full time job** on minimum wage, using childcare, than under the 2011 system. **Nationally** lone parents will be **£4,300** per year worse off – so the Londoner loses £700 more than the rest of the country.

18. The £5,000 cut comes from:

- the loss of childcare disregards in Housing Benefit

- a 10% cut in Council Tax Benefit when it becomes local (overall budget cut)

- the value of Child Benefit falls due to the 3-year real terms freeze

- the use of Consumer Price Index (CPI) for annual increases reduces the value of benefit payments, the value of the cap on childcare support in Working Tax Credit and the value of housing benefit.

19. As the employment rate of lone parents in London is only 48 percent (11 percent below national figures) these losses are a significant concern.

20. When Universal Credit is introduced, **all household types in London will have lower gains from working than in the rest of the country** when moving into low paid work.

21. **London families with two or more children are considerably** worse off under Universal Credit compared to the rest of the country.

22. In London there are roughly 78,000 workless lone parents with two or more dependent children. This is a large number, but only one quarter of all lone parents with dependent children. In addition, there are 33,000 workless couples with two or more dependent children and 156,000 couples with only one adult working. This is a total of 267,000 families and 689,000 children.

23. **There is less incentive for these families to increase the numbers of hours they are working.** This is true for single earner couple households but especially for two earner households because of the additional costs for using registered and inspected childcare.

24. Under Universal Credit **London couples with two children will be £2,000 per year worse off than for the rest of the country if both move into work after both being out of work.** This is because of childcare costs.

25. **When people are claiming Universal Credit work 'incentives' will rise.** This is because there will be lower out-of-work benefit payments in comparison to the current system. These 'incentives' will be higher for the greater number of Londoners that are caught by benefit caps.

26. **However, once in work Londoners will not only have less spending power compared to the current system but will have less spending power than those living outside London.** The exception are those moving into 'mini' jobs (under 16 hours), who unambiguously benefit.

27. Moving into work at the London Living wage rate (rather than minimum wage) will make the situation better for couples who both go into work, especially full time work. Lone parents with two or more children in London will need higher wages than the London Living Wage, even working full time, to be better off in work than their counterparts in the rest of the country.

28. The primary reasons for the larger impact on larger families are the costs of housing and childcare.

Rationale for recommendations

29. We start from two principles.

    - Firstly, that Londoners should have similar financial incentives to work as in the rest of the country.
    - Secondly, that Londoners needing Universal Credit should have a similar spending power to those in the rest of the country.

30. The pre-April 2011 system recognised high London housing costs through the Housing Benefit system. But, the childcare element of the Working Tax Credit did not recognise high London childcare costs.

31. London has a major issue of worklessness affecting mothers. London's male employment rate is the fifth highest among the twelve UK regions. However, its

female employment rate is the lowest of all regions. Any further weakening of financial support for childcare will only weaken the London economy.

32. Recognising higher housing costs meant that for the childless, ‘spending power’ while out of work was (to an extent) equalised with the rest of the country. But, working parents needing childcare had lower incentives to work in London. High housing costs meant that working Londoners had lower benefit from working than in the rest of the country.

33. These aspects of the old system were perverse in policy terms, and Universal Credit is an opportunity to correct it. However, based on the design of the Universal Credit as it currently stands, this opportunity has not been taken. Our recommendations are intended to improve current plans for Universal Credit.

Recommendations

Recommendations for change to the Welfare Reform Bill

34. A main finding is that the higher cost of childcare in London is a significant reason why Londoners lose out as they increase their hours of work.

35. **We recommend that childcare support should vary according to childcare costs in the area.** The current design of the Universal Credit calculation will recognise the housing market, and it should also recognise the childcare market. Different childcare market areas across the country should have differing support to enable working parents to have equal spending power.

36. We also recommend that childcare support through Universal Credit include holiday and wrap-around care for school age children. Wrap around childcare can range from parents buying ‘top up’ time from nurseries to extend provision for their child to all care outwith statutory care for school aged children up to 14 years old including breakfast clubs, lunch and care at the end of the school day**.**

37. The caps on total Universal Credit payment and the Housing element affect Londoners worse than others. **We recommend that the following options are considered.** Each could make significant improvements for London households, and provide some measure of stability to encourage new homes to be built. These are:

- **to raise the overall benefit cap for London as a whole.** We propose that a London cap is related to the earnings of Londoners in the same way as the GB cap is proposed to be related to earnings. This would be a fair way of assessing and updating a London total benefits cap.

- **Raising the housing element of the cap for London.** One of the aims of the welfare reform agenda is to influence the rental market and consequently reduce rent levels. However, because of the particular nature of the London market (London has essentially a limitless level of housing need and a chronic under supply of new build which results in an extremely active private rental market) these reforms are least likely to work in the Capital.

Recommendations to London employers

38. The London Living Wage makes a big impact on work incentives under Universal Credit. If London employers paid the London Living Wage, many of the negative effects of the benefit changes on spending power would be minimised or reversed.

39. At the same time, if London workers were paid the London Living Wage, the costs of Universal Credit payments in London would shrink dramatically.

40. **We recommend that London employers consider adopting the London Living Wage.**

1 The context for this report

1.1 This report presents the results of analysis commissioned by London Councils, which aimed to:

- understand whether households living in London are disadvantaged by the design of the Universal Credit and its level of provision and whether this inhibits the return to work options
- understand whether household disadvantage affects specific income levels or household types
- identify whether there are solutions that are cost effective and straightforward to mitigate any differential impact on London households.

1.2 The report concentrates on the effects on the introduction of Universal Credit in 2013. The main focus is on:

- the impact of the work incentives within Universal Credit on Londoners;
- whether the work incentives are the same for both Londoners and the rest of the UK;
- whether Londoners are better or worse off than the rest of the UK under Universal Credit.

1.3 We deal with the differences between Londoners and the rest of the country when the new system is in operation in 2013. We also look at how Londoners will fare relative to what they receive under the current system.

1.4 This report, also adds to London Councils' previous papers on the impact on Londoners of the introduction of caps in the Local Housing Allowance[5] and on the reduction in the market link of the Local Housing Allowance[6].

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[5] Housing benefit cap for London must be revised or nearly 15,000 families could lose their homes, 2011. http://www.londoncouncils.gov.uk/London%20Councils/LHAbriefingFINAL.pdf

[6] Up to 82,000 households in the capital could lose their homes due to housing benefit changes, 2011. http://www.londoncouncils.gov.uk/London%20Councils/LondonCouncilsHousingBenefitbriefingOctober10.pdf

Where we compare the 2013 Universal Credit position with the 2011 system we encompass these changes, but do not deal separately with them.

1.5 Previous reports by Inclusion[7] have demonstrated that the welfare benefits system before recent changes meant that Londoners who moved from benefits to work had lower spending power gains than their equivalents in other areas. This report is intended to show whether the Universal Credit will remedy this perverse impact.

[7] Making work pay in London, 2003, http://www.cesi.org.uk/Resources/CESI/Documents/Research/Completed%20projects/Making_Work_Pay_London.pdf

2 The Universal Credit

2.1 The Welfare Reform Bill currently going through Parliament sets out proposed changes to the tax credits and benefits system. Central to these reforms is the introduction of Universal Credit, which it is planned, will be rolled out over a four-year period starting in October 2013.

2.2 The proposal for a major change to the welfare support system stems from an analysis that the complexity of the current system is itself a barrier to the system meeting its desired aims. The original proposals were developed in opposition by the Centre for Social Justice[8], founded by Iain Duncan Smith. He has now been given the task by the Coalition Government of implementing such a system within a tighter cost envelope than had been originally envisaged.

2.3 The previous Government had an aspiration towards a single working age benefit, but successive reviews, in particular of Housing Benefit, had proved to be more complex than hoped.

2.4 The Parliamentary process for the Welfare Reform Bill leaves many detail items, such as benefit rates, to be implemented in regulations. The primary legislation creates the framework, which is then filled in by regulations. This affects the assumptions used in this report as we have had to combine legislative items (such as uprating various benefits by the Consumer Prices Index) with Ministerial statements on the likely content of regulations to identify 2013-4 Universal Credit levels.

2.5 The Universal Credit reforms are designed to create one single income-replacement benefit for working age adults. Wrapping up within a single benefit stream all the different forms of income related support for people of working age. The overarching aim of the Universal Credit is to *'radically simplify the system to make work pay and combat worklessness and poverty'*[9](DWP, 2010, p.2). It aims to do this by providing a basic income for people out of work, making work pay as people move into and progress in work; and helping people to move out of poverty.

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[8] Dynamic Benefits: towards welfare that works, 2009, Centre for Social Justice.
[9] Department of Work and Pensions, (2010), *Universal Credit: Welfare that Works*, London, DWP.

2.6 To achieve these objectives the Universal Credit combines different forms of income-related support to '*provide a simple, integrated, benefit for people in or out of work'* (DWP, 2010, p.14). More specifically, the Universal Credit will be delivered in the form of *'a basic allowance'* which will then be integrated with additional elements for children, disability, housing and caring. It will therefore support people both in and out of work, replacing the following benefits and tax credits:

- Working Tax Credit
- Child Tax Credit
- Housing Benefit
- Income Support
- Income-based Jobseeker's Allowance and income-related Employment and Support Allowance.

2.7 The payment regime for contributory benefits is to be brought in line with the Universal Credit[10]. This covers Jobseeker's Allowance and Employment and Support Allowance. Contributory Jobseeker's Allowance is to continue to be available on a time-limited basis for six months. Contributory Employment and Support Allowance is being limited in duration in the Welfare Reform Bill to twelve months.

2.8 Contributory benefits will continue to be available. In practice, this means that benefits will also be paid to those whose household income or savings are above the limit for income-related benefits, within the time limits. This will continue to have the greatest effect on women in couples.

2.9 Central to the rationale for reform is the aspiration of tackling benefits dependency by making work pay.

2.10 There is to be *'a single taper to withdraw support as earnings rise and a new approach to earnings disregards'* (DWP, 2010, p.14). In other words, the Government sets a withdrawal rate of around 65 per cent which, according to the Bill, '*would deliver sufficient work incentives whilst also being affordable'* (DWP, 2010, p.14). The government also set out higher

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[10] Department for Work and Pensions, Universal Credit Policy Briefing Note 4, sourced from http://www.dwp.gov.uk/docs/ucpbn-4-contributory-benefits.pdf, 24 May 2011.

benefits disregards[11] to make work pay for those that are seen as the most disadvantaged. For instance, couples with children will get higher (earned income) disregards than childless couples.

Tapering: as people have an increase in earnings, their benefit is reduced. The rate at which the benefit is reduced as the earnings increase is called the taper rate. For example, a taper rate of 80% would mean losing 80p of benefit for every £1 earned.

In the current system there are different taper rates and approaches to tapering. Some tapers apply to gross earnings and some to net earnings, making it difficult for a claimant to know exactly what effect an increase in earned income will have on their overall income.

Universal Credit will have one taper rate and this will be applied to net earnings after disregards, that is the amount of money that can be earned by those receiving welfare support without losing benefits.

In an attempt to make it affordable, but still offer people an incentive to work, the rate will be set at 65%.

2.11 The Government is proposing 'Transitional Protection' so that claimants at the date of Universal Credit introduction do not have their income cut in cash terms until their circumstances change. This practice is similar to previous changes to the benefit system. Transitional protection is intended to protect individuals from adverse effects of the introduction of the Universal Credit. This is true only as far as their circumstances do not change, such as trying out work, finding that childcare is not available when needed, and then re-claiming as out of work.

2.12 Transitional protection will apply to those who continue to receive benefits while they are moved onto Universal Credit. What will be protected is the 2012-13 benefit incomes, after the succession of changes to Housing Benefit, Council Tax support and the reduction in uprating of main DWP benefits to the Consumer Prices Index. However, it must be stressed that transitional protection does not protect the 2011 level of benefit income.

2.13 The transitional protection will only apply where there is not a change in circumstances. The focus of this report is on work incentives and

[11] The amount of money that a person can earn before their benefit starts to be withdrawn.

therefore on people changing circumstances by starting work. We also focus on working families, where changes in childcare and earnings that affect the Universal Credit occur regularly. Therefore, we have not dealt in more detail with transitional protection for those who remain dependent on welfare through the transition period.

2.14 The government has stated that the Universal Credit will increase the incentive to start work and work extra hours. There will be lower Participation Tax Rates (PTR) and Marginal Deduction Rates (MDR). These terms are explained in the box below. For those who go into 10 hours of work, the number of households facing PTRs of over 70 per cent falls by around 1.1 million under Universal Credit, according to the DWP Impact Assessment[12]. For those working 16 hours of work, the number of households who it is anticipated will face PTRs over 70 per cent falls by over 900,000. The PTR for second earners will generally be higher under the Universal Credit. Up to 330,000 second earners will see a weakening in their work incentives.

The **Participation Tax Rate (PTR)** is a measure of the extent to which the state claws back earned income when a person moves from out of work benefits into paid work at a particular level of earnings. It is expressed as a percentage; a high PTR (i.e. approaching 100%) would indicate that a person would benefit financially only very slightly from moving into a job from benefits, so there may be little incentive to seek employment. A low PTR, on the other hand, means there is a greater reward for working than remaining on benefits.

The **Marginal Deduction Rate (MDR)** [also referred to as the Marginal Tax Rate (MTR) or Marginal Effective Tax Rate (METR)] is a measure of the extent to which the state claws back in-work financial support for those working with low earnings as they increase their earnings by, for example, working additional hours. The higher the MDR, the less the incentive to work additional hours because the financial gain may be negligible.

2.15 No in-work households will face an MDR of above 76.2 per cent under the new Universal Credit system. 700,000 people, who currently have MDRs above 80 per cent, will see their MDR reduced to 76.2 per cent or lower. However, according to the DWP, some 2.1m individuals will have higher MDRs under Universal Credit.

[12] http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf

2.16 However, Universal Credit will not be taking into account the substantial differences in the cost of living and the cost associated with moving into work between London and the other regions. The higher childcare costs, house prices and rents and the greater travel times and distances to work make the incentives to work in the capital less effective than nationally.

3 Making work pay in London: the barriers

3.1 Worklessness in London is high and persistent. The London Story 2010[13] describes worklessness as a persistent problem in London that costs at least £5.1 billion per year in benefit and programme expenditure, and accounts for half of all child poverty found in the city. The estimate of the cost of worklessness was derived from a London Councils report by *Inclusion*[14].

- There are currently 1.3 million economically inactive Londoners[15].
- London has the lowest female employment rate among the UK regions at 61.2%.
- A fifth of London's children are living in a workless household.
- There are 100,000 households in London where no-one has ever worked[16].

3.2 Claimants in London will achieve a smaller income gain when moving from benefits to work than elsewhere. The reasons identified include the following:

- Caps in the benefit system disadvantage London – because of higher costs in London, including caps on childcare support.
- Low pay in London relative to a significantly higher cost of living in London.
- Higher rents in London – compared to the rest of the country.

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[13] The London Story 2010, London Skills and Employment Observatory, http://lseo.org.uk/the-london-story

[14] Centre for Economic and Social Inclusion (2010), Worklessness Costs Audit, London Councils

[15] London Skills and Employment Observatory 2011 http://lseo.org.uk/data/london-data

[16] Source: Office for National Statistics, January 2011: http://www.statistics.gov.uk/downloads/theme_labour/worklessness/hhldsneverworked.xls. This includes student households (nationally, 24% of households who have never worked)

- Low household gains to improving income - because of higher travel costs.

3.3 These costs are itemised in the Appendix to this report, and the impact of these is shown in the spreadsheet complement to this report.

3.4 The benefits systems now include a series of 'caps' that particularly disadvantage Londoners. These 'caps' have been put in place to stop possible excessive claims. However, they were set relative to national costs so that they negatively affect those areas, such as London, with consistently higher costs.

3.5 Entry level earnings in London differ very little from those of other areas. In 2010, 25% of Londoners in 'Elementary Occupations[17] (some 75,000 people) were paid less than £6.16 per hour. People who enter work from benefits frequently take up such jobs (hence the description 'entry level'). This is only 16p per hour more than the equivalent UK figure, a difference of 2.7%[18].

3.6 Analysis of Housing Benefit information also indicates that London has a higher proportion of private renters and proportionally higher rents[19].

3.7 For the design of the welfare system to be effective in meeting its aims of supporting people in need, while providing incentives to support themselves, it needs to take account of the costs families and households face as well as the earnings they can secure. London is a world city (and an expensive one) and plays a key role in driving the wider UK economy. Because of the position of London, a welfare system that is not effective in these terms in London, will not achieve its effects nationally.

[17] Elementary occupations include building labourers, cleaners, packers, postal workers, hospital and hotel porters, catering assistants and bar staff, security guards, shelf fillers and road sweepers, among others.
18 Source: Annual Survey of Hours and Earnings 2010, Table 3.
19 Sources: CLG Live tables – Local authority rents 2008/09, RSL rents 2009, private rents 2006-08 (Survey of English Housing), Labour Force Survey Household dataset, Q1 2009 (Inclusion analysis).

4 Measuring the impact of Universal Credit

4.1 This section describes the methods we have used to analyse the impact of Universal Credit and briefly shows the findings. Further details are provided in Appendix 1 to this report, and further tabulations are available in the spreadsheet complement to this report.

4.2 The Department for Communities and Local Government provides estimates of the rent levels for private and social landlords in London and a national comparator[20].

4.3 We have used statistics from the Department for Transport and the Greater London Authority to estimate the difference in actual transport costs between London and the rest of the country[21].

4.4 The Daycare Trust's survey of childcare costs is the standard source of estimates of childcare costs and their differences[22]. These include estimates of childcare costs for school-age children (wrap-around plus holiday care) as well as pre-school children.

4.5 We have used the Office for National Statistics' Annual Survey of Hours and Earnings to estimate the earnings levels of in-work individuals in elementary occupations[23]. We have additionally used the National Minimum Wage and the London Living Wage as earnings indicators.

4.6 In order to estimate the Universal Credit, tax and National Insurance impacts on earned income and on out of work income, we have used Ferret Ltd's Future Benefits Model to model the net incomes[24].

4.7 Ferret's benefit calculators are widely used by welfare rights advisers to advise their clients on their entitlements. They are also used by welfare to work providers in undertaking Better Off In Work calculations. Many local authorities use Ferret products in their online Housing Benefit calculators.

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[20] Appendix, Paragraph 7.1
[21] Appendix, Paragraph 7.5
[22] Appendix, Paragraph 7.10
[23] Appendix, Paragraph 7.13
[24] Appendix, Paragraph 7.16

Ferret have prepared the Future Benefits Model to assist policy-makers in ensuring that Universal Credit meets the needs of those who may need its support, as well as to be able to supply its customers in welfare rights support with a calculator that fully and faithfully reflects the new system upon its implementation.

4.8 In order to take account of the difference between inflation and the new benefit uprating system, we have down-rated future benefits by the compounded average annual difference between the Retail Prices Index and the Consumer Prices Index, the Government's preferred inflation measure[25].

4.9 Our assumption on Council Tax Benefit is that the announced 10% reduction in Council Tax benefit support applies to each household. Under the Localism Bill, this will be at the discretion of each local authority.

4.10 Our main findings relate to 'spending power'. This is the cash spending power of a family after tax, national insurance, Universal Credit, rent, childcare and transport costs.

4.11 Unlike the Governments' Impact Assessments[26], we have not calculated the impact separately of each of the set of welfare changes, but have looked at the overall impact of the set of welfare changes on London households. Therefore, when we refer to changes between the current 2011 system and Universal Credit, we are encompassing changes that appear within separate DWP Impact Assessments.

Main findings

4.12 **Lone parents and couple families will be worse-off under Universal Credit compared to the current 2011 system.** The only exceptions are lone parents entering part-time employment for less than

[25] The Consumer Prices Index is based on a European standard methodology. It has both coverage and formula differences from the older UK Retail Prices Index. The Consumer Prices Index was adopted by the last Government as its preferred measure, but the Coalition has implemented this status in annual benefit uprating. The CPI is usually lower than the RPI for the same period. We have identified the impact of this change by taking the average difference between the two indices, applied to each uprating year (compounded) between 2011 and 2013-2014 to measure the 'real (RPI-linked) loss from this change.

[26] http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-bill-2011/impact-assessments-and-equality/

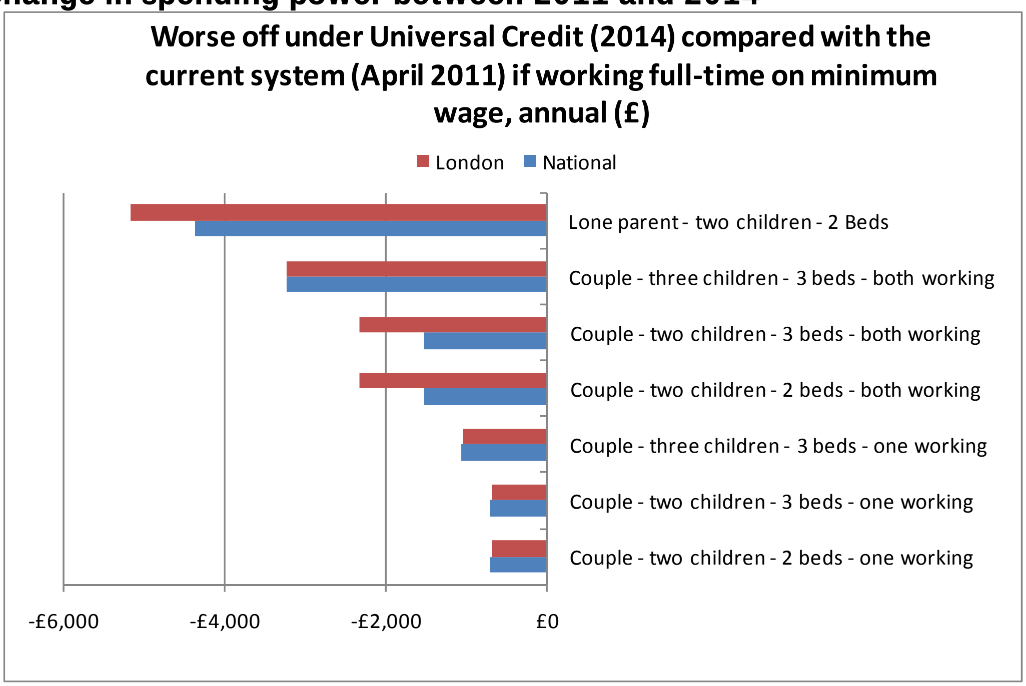
16 hours, and couples where both of the partners move into such mini-jobs, who will gain under Universal Credit in our examples.

4.13 This finding is true for both London and the rest of the country but, (as with the current system) families in London will have less spending power than families elsewhere. For example: our figures show that lone parents with two children will be over £5,000 per year worse off under Universal Credit compared to the 2011 welfare system if in a full time job on minimum wage. Nationally lone parents will be £4,300 per year worse off.

4.14 Tables 1 and 4 (at the end of the chapter) show the change in spending power between 2011 and 2014 under the changes to the welfare system for the household types analysed.

4.15 The net negative effects for working families derive from a series of changes, but include particularly childcare issues, housing support issues and the change to the uprating of benefits.

Table 1: Change in spending power between 2011 and 2014



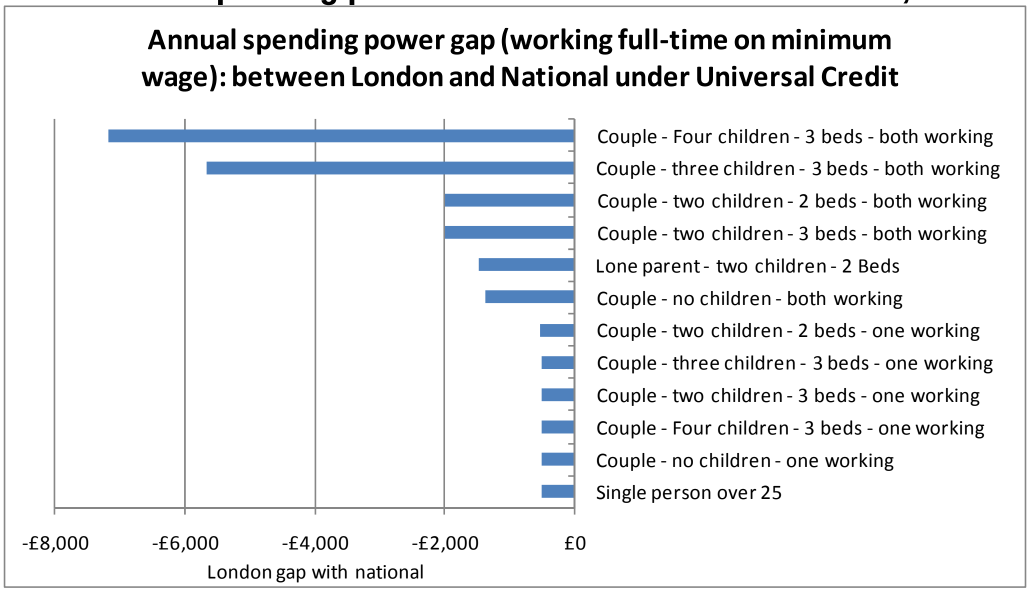
4.16 Tables 2 and 6 (at the end of the chapter) show the differences in spending power under Universal Credit in 2014 between working households with low incomes in London and the rest of the country.

4.17 However, as Table 2 shows, it is **London families with two or more children where both adults are working** who are considerably worse off compared to the rest of the country.

4.18 Tables 3 and 7 (at the end of the chapter) show the impact of the new system on spending power when moving from welfare to work, comparing London with the rest of the country.

4.19 When the Universal Credit is introduced **all** household types in London will continue to have less spending power when moving into low paid work, when compared with similar household types nationally.

Table 2: Difference in spending power between London and national, 2014

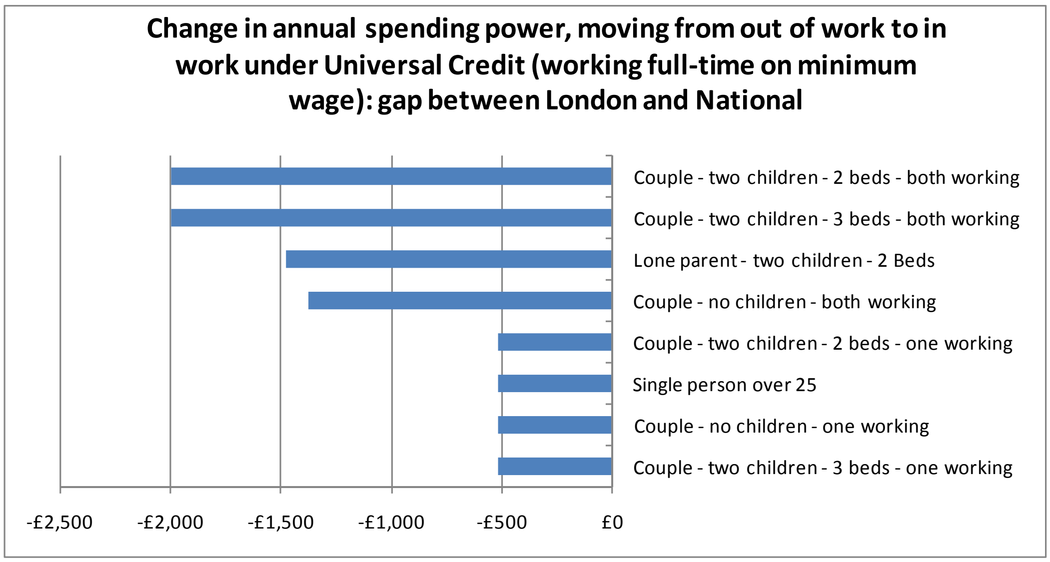


4.20 There is also less incentive for families with two or more children to increase the numbers of hours they work. This is true for single earner couple households but especially so, for two earner households because of the additional costs for using registered and inspected childcare.

4.21 London is worse off (compared to the country as a whole) for all family types by varying degrees when looking at the change in spending power from moving from out of work to in work. Under Universal Credit, **Workless couples with two or more children** will be worse off, but couples with one adult moving into work will not be as adversely affected. This is because of childcare costs. Our figures show that couples with two children will be £2000 per year worse off if both move into work after both being out of work.

4.22 There is a motivation in finding work under Universal Credit as there will be lower out-of-work benefit payments compared to the current system. However, once in work, most Londoners will not only have less spending power when compared to the current system, but will have less spending power than those living outside London. The exceptions are those moving into 'mini' jobs (under 16 hours), who will increase incomes. However, London has a lower percentage of part-time jobs and mini-jobs than the rest of the country, so the potential benefit from this change will affect fewer Londoners[27].

Table 3: Moving from welfare to work, difference in spending power between London and national



4.23 Moving into work at the London Living Wage (rather than minimum wage) will make the situation better for couples who both go into work, especially full time work. Although **lone parents with two or more children in London** will need higher wages, even working full time, to be better off in work. We have not estimated the break-even wage for lone parents with two or more children, needing childcare, in London[28], beyond finding that the London Living Wage is not sufficiently high.

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[27] Greater London Authority: A Profile of the Part-time Workforce Briefing 2011-05 http://www.london.gov.uk/sites/default/files/Briefing-2011-05%20Profile%20of%20the%20Part-time%20Workforce%20in%20London.pdf

[28] We have estimated the effects of the London Living Wage, the National Minimum Wage and the median wage for entry-level jobs, and these wage levels are insufficient to break even. However, as wage levels rise, the losses reduce.

4.24 The primary reasons for this larger impact on larger families are the disproportionately negative impact of the cost of housing and childcare.

4.25 The following three tables give the results for minimum wage (lowest earning levels used in the model) and the London Living wage (highest earning levels used in the model). Negative differences in each table are shown in red, and particularly large negative or positive differences (over £3,000 a year) are shown in bold. Further details are provided in the spreadsheet complement to this report.

Table 4: Better or worse off under Universal Credit?

Better off by annual amount (£)

Worse off by annual amount (£)

		Minimum wage (£5.93/hr)				London Living Wage (£7.85/hr)			
	No Work	Part-time - 6 hours	Part-time - 16 hours	Part-time - 24 hours	Full-time - 35 hours	Part-time - 6 hours	Part-time - 16 hours	Part-time - 24 hours	Full-time - 35 hours
London									
Lone parent - two children - 2 Beds	-£410	£402	**-£3,551**	-£4,485	**-£5,168**	£932	**-£3,824**	**-£4,007**	**-£4,476**
Couple - two children - 2 beds - one working	-£473	£502	-£1,067	-£946	-£687	£712	-£740	-£588	-£165
Couple - two children - 2 beds - both working	-£473	£1,151	-£2,843	-£2,442	-£2,333	£1,572	-£2,005	-£1,487	-£1,010
Couple - two children - 3 beds - one working	-£473	-£665	-£1,067	-£946	-£687	-£65	-£740	-£588	-£165
Couple - two children - 3 beds - both working	-£473	£1,151	-£2,843	-£2,442	-£2,333	£1,572	-£2,005	-£1,487	-£1,010
Couple - three children - 3 beds - one working	-£473	**-£3,926**	**-£3,612**	-£1,304	-£1,044	**-£3,325**	-£2,698	-£946	-£523
Couple - three children - 3 beds - both working	-£473	-£2,071	**-£4,186**	**-£4,555**	**-£3,229**	-£869	**-£3,348**	**-£3,600**	-£1,845
National									
Lone parent - two children - 2 Beds	-£424	£388	**-£3,444**	**-£3,949**	**-£4,364**	£917	**-£3,466**	**-£3,471**	**-£3,672**
Couple - two children - 2 beds - one working	-£487	£488	-£1,081	-£961	-£701	£698	-£754	-£603	-£179
Couple - two children - 2 beds - both working	-£487	£1,137	-£2,485	-£1,906	-£1,528	£1,558	-£1,648	-£951	-£389
Couple - two children - 3 beds - one working	-£487	£488	-£1,081	-£961	-£701	£698	-£754	-£603	-£179
Couple - two children - 3 beds - both working	-£487	£1,137	-£2,485	-£1,906	-£1,528	£1,558	-£1,648	-£951	-£389
Couple - three children - 3 beds - one working	-£487	£614	-£1,085	-£1,318	-£1,059	£825	-£1,212	-£960	-£537
Couple - three children - 3 beds - both working	-£487	£1,264	**-£3,650**	**-£3,424**	**-£3,229**	£1,684	-£2,812	-£2,469	-£1,845

Table 5: Comparison of annual spending power under Universal Credit - London to National

London worse off compared to national (£)	Minimum wage (£5.93/hr)				London Living Wage (£7.85/hr)			
	Part-time - 6 hours	Part-time - 16 hours	Part-time - 24 hours	Full-time - 35 hours	Part-time - 6 hours	Part-time - 16 hours	Part-time - 24 hours	Full-time - 35 hours
Single person over 25	-522	-522	-522	-522	-522	-522	-522	-536
Lone parent - two children - 2 Beds	-1,048	-1,064	-1,168	-1,479	-1,048	-957	-1,168	-1,479
Couple - no children - one working	-522	-522	-522	-522	-522	-522	-522	-536
Couple - no children - both working	-1,043	-1,043	-1,058	-1,380	-1,043	-1,058	-1,058	**-£4,478**
Couple - two children - 2 beds - one working	-523	-523	-523	-523	-523	-523	-523	-523
Couple - two children - 2 beds - both working	-1,570	-1,479	-1,689	-2,001	-1,570	-1,479	-1,689	-2,001
Couple - two children - 3 beds - one working	-1,689	-522	-522	-522	-1,299	-522	-522	-522
Couple - two children - 3 beds - both working	-1,569	-1,478	-1,688	-2,000	-1,569	-1,478	-1,688	-2,000
Couple - three children - 3 beds - one working	**-£5,077**	**-£3,064**	-522	-522	**-£4,686**	-2,023	-522	-522
Couple - three children - 3 beds - both working	**-£5,181**	-1,688	-2,330	**-£5,657**	**-£4,400**	-1,688	-2,330	**-£5,657**
Couple - Four children - 3 beds - one working	**-£5,821**	**-£5,821**	-522	-522	**-£5,821**	**-£5,240**	-522	-522
Couple - Four children - 3 beds - both working	**-£7,394**	-1,899	**-£5,262**	**-£7,190**	**-£7,394**	-1,899	**-£5,262**	**-£7,190**

Spending power = net income less rent, Council Tax, childcare and transport costs

Table 6: Change in spending power from moving from out of work to in work under Universal Credit

Better off by moving in work: annual amount (£)

Worse off by moving in work: annual amount (£)

	Minimum wage (£5.93/hr)				London Living Wage (£7.85/hr)			
	Part-time - 6 hours	Part-time - 16 hours	Part-time - 24 hours	Full-time - 35 hours	Part-time - 6 hours	Part-time - 16 hours	Part-time - 24 hours	Full-time - 35 hours
London								
Single person over 25	-£746	£103	£520	£959	-£536	£376	£801	£1,751
Lone parent - two children - 2 Beds	-£2,143	-£1,313	-£1,496	-£2,136	-£1,614	-£753	-£919	-£1,302
Couple - no children - one working	-£407	£672	£1,256	£1,354	-£197	£1,111	£1,536	£2,090
Couple - no children - both working	-£1,153	£284	£1,636	**£3,265**	-£733	£1,040	£2,790	**£4,933**
Couple - two children - 2 beds - one working	£101	£1,181	£1,608	£2,127	£312	£1,741	£2,066	£2,790
Couple - two children - 2 beds - both working	**-£3,248**	-£1,655	-£979	-£804	-£2,827	-£534	£175	£864
Couple - two children - 3 beds - one working	-£1,066	£1,181	£1,609	£2,127	-£465	£1,741	£2,066	£2,790
Couple - two children - 3 beds - both working	**-£3,247**	-£1,655	-£979	-£804	-£2,827	-£533	£175	£864
National								
Single person over 25	-£225	£625	£1,042	£1,481	-£14	£897	£1,322	£2,287
Lone parent - two children - 2 Beds	-£1,096	-£251	-£330	-£657	-£567	£204	£248	£177
Couple - no children - one working	£114	£1,194	£1,777	£1,875	£325	£1,632	£2,057	£2,626
Couple - no children - both working	-£110	£1,327	£2,693	**£4,645**	£310	£2,097	**£3,847**	**£9,411**
Couple - two children - 2 beds - one working	£623	£1,702	£2,130	£2,648	£833	£2,263	£2,587	**£3,312**
Couple - two children - 2 beds - both working	-£1,679	-£177	£709	£1,196	-£1,259	£944	£1,863	£2,864
Couple - two children - 3 beds - one working	£622	£1,702	£2,129	£2,648	£833	£2,262	£2,587	**£3,311**
Couple - two children - 3 beds - both working	-£1,680	-£178	£708	£1,195	-£1,259	£944	£1,862	£2,863

Out of work spending power is net income from benefits less rent and Council Tax

In work spending power is net income from work less rent, Council Tax, childcare and transport costs

5 How Universal Credit affects families starting work

5.1 We have estimated how Universal Credit will affect families starting work in London and elsewhere, given the differences in costs between London and the rest of the country for rents, for childcare and for the costs of being in work, including transport.

5.2 We report on a number of case studies of London and national families. These are drawn from the spreadsheet resources that are complementary to this report, which are summarised in Tables 4-6 in the previous chapter.

5.3 These case studies cover families with two children living in private rented flats or houses. The average rent reported by The Department for Communities and Local Government for such families is £229.30 a week in London and £146.73 in the rest of the country.

5.4 In London we have used the Household Labour Force Survey for April-June 2010 to estimate there are:

- 78,000 lone parents not in work with two or more dependent children (aged under 16) – one in four of all lone parents with dependent children.
- 33,000 couple families with two or more dependent children with both adults not working
- 156,000 couples with only one adult working and with two or more dependent children.
- These total 267,000 families and 689,000 children under 16, 10.3% of the 2,593,000 working age households in London and 42.3% of London children.

5.5 Our estimates for families include use of childcare for the hours that lone parents work (or both partners in a couple where both start work). Childcare includes either daycare or the combination of holiday care with wrap around care for school age children. The childcare proposals within the Universal Credit are not finalised at the date of writing (May 2011), but are subject to an overall financial limit.

Lone parents starting part-time work

5.6 Our first case is for a lone parent with two children who lives in a two bedroom privately rented house or flat. The children therefore have to share a bedroom.

Table 7

Lone parent with two children living in a 2 Bedroom property on private rent		
Working part time (16 hours) on minimum wage		
	London	National
Spending power under Universal Credit	£9,264	£10,328
Spending power: difference between out of work to in work under Universal Credit	-£1,313	-£251
Difference in spending power: present system (April 2011) compared with Universal Credit (2013-14)	-£3,551	-£3,444

5.7 If the lone parent is working 16 hours and being paid the minimum wage, then our estimate of the family's spending power is £9,264 per year in London and £10,328 in the rest of the country. This is the spending power after paying for rent, childcare and getting to work, and is the money available to pay for food, clothing, heating, lighting, cooking and everything else.

5.8 The London lone parent has £1,064 less spending power than the national equivalent, just over £20 a week. To put it another way, the national equivalent has 11% more spending power than the London lone parent.

5.9 Both the London and national lone parents are worse off when starting work than being out of work. This is because they are using childcare, costed at the hourly rate for London and the equivalent national case. However, the London lone parent has a bigger loss of spending power than their national equivalent on starting work.

5.10 Both the London and national lone parent families working part-time have lost substantial amounts of spending power compared with the 2011 welfare system. The London working lone parent has lost 28 percent of the original spending power, while the national equivalent has lost 25percent.

Lone parents working full-time

5.11 Lone parents with two children working full-time have lower spending power than their part-time equivalents. This is because of the cost of childcare for a 35-hour worker compared to a 16-hour worker.

5.12 In this case, we are still assuming the two bedroom privately rented house or flat, with the children sharing a bedroom.

Table 8

Lone parent with two children living in a 2 Bedroom property on private rent		
Working full time (35 hours) on minimum wage		
	London	**National**
Spending power under Universal Credit	£8,442	£9,921
Spending power: difference between out of work to in work under Universal Credit	-£2,136	-£657
Difference in spending power: present system (April 2011) compared with Universal Credit (2013-14)	-£5,168	-£4,364

5.13 The London lone parent family has £8,442 a year of spending power, £1,479 a year less than their national equivalent – or £28.33 a week.

5.14 The national lone parent working full-time has 17½ percent more spending power than the London lone parent.

5.15 Both the London and national lone parents are worse off when starting full-time work from being out of work – if they use childcare. The London lone parent is affected more than the national equivalent – losing a further £1,479 a year more than the national lone parent.

5.16 Both the London and national full-time working lone parents will have lost spending power between 2011 and 2013-2014. The London lone parent will have lost over £5,000 of spending power, with the national lone parent losing £804 less.

5.17 The London lone parent working 35 hours will have lost 38 percent of the family's spending power between 2011 and 2013-2014, while the national equivalent will have lost a little less, at 31 percent.

A couple with a single full-time worker

5.18 This case, a couple with a single full-time worker, does not use childcare for their two children. They rent a two bedroom house or flat privately. They have a two-bedroom property so the children have to share a bedroom. We have assumed a higher level of earnings than the minimum – the median earnings in London for an entry level job.

Table 9

Couple with two children living in a 2 Bedroom property on private rent		
One working full time (35 hours) on London median earnings for an entry level job (elementary occupations)		
	London	**National**
Spending power under Universal Credit	£15,192	£15,714
Spending power: difference between out of work to in work under Universal Credit	£2,673	£3,194

5.19 The London family's spending power is £15,192 after rent, tax and national insurance. This is £10 a week lower than the national equivalent.

5.20 Both the London and national family under Universal Credit have large gains in if one of the couple moves into work – £2,673 for the London family. However, this is £10 a week less than the national equivalent family.

A couple with both partners working full-time

5.21 The impact of childcare costs on spending power is shown by the estimate that the couple with both partners, and two children, working full-time have lower spending power after childcare and additional transport costs than the couple with just one worker. However, the difference for the national couple is small. The London couple has nearly £2,000 a year lower spending power if both partners work than if only one did – if they use registered and inspected childcare.

Table 10

Couple with two children living in a 2 Bedroom property on private rent		
Both working full time (35 hours) on London median earnings for an entry level job (elementary occupations)		
	London	**National**
Spending power under Universal Credit	£13,088	£15,088
Spending power: difference between out of work to in work under Universal Credit	£569	£2,568

5.22 The London couple has £2,000 a year lower spending power than the national couple, or £38 a week.

5.23 Both the London and national couples are better off in work under Universal Credit. However, the London couple is only very marginally better off in work – just over £10 a week after childcare and transport costs. If the transport costs were higher, then this would eliminate the gain from working. The national couple has nearly £2,000 higher incentive to work.

5.24 These examples are snapshots of the experiences of low-income families in London and nationally. Further examples could be drawn from the tables in this report and in the supplied spreadsheets. However, these few examples underline the effects of the welfare reforms on working low-income Londoners and their national counterparts.

6 Recommendations

Rationale

6.1 We start from two principles.

- Firstly, that Londoners should have similar financial incentives to work as in the rest of the country.
- Secondly, that Londoners needing Universal Credit should have a similar spending power to those in the rest of the country.

6.2 The pre-April 2011 system recognised higher London housing costs through the Housing Benefit system. However, the childcare element of the Working Tax Credit did not recognise high London childcare costs.

6.3 London has a major issue, in the way that worklessness disproportionally impacts on women with children. London's male employment rate is the fifth highest among the twelve UK regions. However, its female employment rate is the lowest of all regions. Any further weakening of financial support for childcare will only weaken the London economy and further increase the number of women with children who are workless.

6.4 Recognising higher housing costs means that the 'spending power' (while out of work), for childless households, was to an extent, equalised with the rest of the country. But, working parents needing childcare had lower incentives to work in London. High housing costs meant that working Londoners had lower benefit from working than in the rest of the country.

6.5 These aspects of the old system were perverse in policy terms, and Universal Credit is an opportunity to correct it. Our recommendations are intended to improve current plans for Universal Credit.

Recommendations for change to the Welfare Reform Bill

6.6 A main finding is that the higher cost of childcare in London is a significant reason why Londoners lose out as they increase their hours of work. London has an active childcare market, and the high costs reflect both an excess of demand over supply and the high opportunity costs of the space used by childcare organisations and businesses.

6.7 **We recommend that childcare support should vary according to childcare costs in the area.** The plans now recognise the housing market, and they should also recognise the childcare market. Different childcare market areas across the country should have differing support to enable working parents to have equal spending power.

6.8 **We also recommend that childcare support through Universal Credit include holiday and wrap-around care for school age children.** As the childcare regime under Universal Credit is not finalised, there is concern that the increased requirements on parents with school-age children to seek work may not be facilitated by childcare support.

6.9 The caps on total Universal Credit payment and the Housing element detrimentally affect Londoners to a much greater degree than others. **We recommend that the following options are considered.** Each could make significant improvements for London households, and provide some measure of stability to encourage new homes to be built. We present these as options, that could be employed either separately, or in combination. The choice would depend on political feasibility. If a combination was used, the interaction between the two must be considered. These are:

- **to raise the cap for London as a whole.** We propose that a London cap is related to the earnings of Londoners in the same way as the GB cap is proposed to be related to earnings. This would be a fair way of assessing and updating a London total benefits cap.

- **Raising the housing element of the cap for London.** One of the aims of the welfare reform agenda is to influence the rental market and consequently reduce rent levels. However, because of the particular nature of the London market (London has essentially a limitless level of housing need and a chronic under supply of new build which results in an extremely active private rental market) these reforms are least likely to work in the Capital.

Recommendations to London employers

6.10 The London Living Wage makes a big impact on work incentives under Universal Credit. If London employers paid the London Living Wage, many of the negative effects of the benefit changes on spending power would be minimised or reversed.

6.11 At the same time, if London workers were paid the London Living Wage, the costs of Universal Credit payments in London would shrink dramatically.

We recommend that London employers consider adopting the London Living Wage.

7 Appendix 1: Universal Credit model - methodology

Cost calculations

London has higher rents

7.1 Our analysis includes rent levels for those renting privately or through registered social landlords. The differences between London and National are shown in Table 11 below:

Table 11: Average weekly rents (£), used for Ferret modelling

	London		National		
Number of bedrooms	**Private**	**RSL**	**Private**	**RSL**	*Source: DCLG 2006 (Rents use current values and are assumed to fall below current and future LHA values)*
1 bedroom house	200.06	73.90	127.22	59.15	
2 bedroom house	229.30	84.70	146.73	68.22	
3 bedroom house	265.90	98.22	164.55	76.51	

7.2 We have analysed the gains to work for a range of family types in London and nationally, and we have used a set of average rents to do this. Individual circumstances will differ, but to simplify the policy options, we have looked at average rents.

7.3 Those renting privately are a highly significant group. A survey of private landlords by London Councils found that 60 per cent would refuse to lower rent (after Housing allowance changes) so their tenants could stay on. The changes to the local housing allowance — the benefit for tenants renting privately — were announced by the Government in June 2010 in a bid to prevent people on benefits renting in expensive areas.

7.4 But London Councils said the new caps would lead to even fewer homes being available. More than 25 per cent of landlords said they could just decrease the number of properties they rented to tenants on benefits.

7.5 Under government plans, changes to housing benefit include:

- for those in the private sector HB is to be restricted to the 30th percentile of the local market rents from April 2011;

- capped at £250 for a single bedroom property and £400 per week for a three bedroom house at the same time – which only affects London Broad Rental Market Areas (BRMAs);
- indexed to CPI rather than market rents (using LHA) from April 2013;
- for those in the social rented sector there will be new restrictions on the size of homes they can claim from April 2013;
- total household benefits will be capped at £500 per week from April 2013[29]. Any benefit excess over the new limit will be deducted from Housing benefits (subject to some exclusions for those in full-time work, disabled or receiving war pensions).

Higher travel costs

7.6 The Mayor sets fare levels for journeys within the zonal system, and has to balance the funding needs of the system with other considerations. One of those considerations is that the net effect of travel costs on incomes of low-wage households can be large. This issue of travel costs is not unique to London, but the distances travelled to work in London can be large, and therefore costs high, even when the fares per mile can be lower than in other areas.

7.7 Londoners spent, on average across all households, £10 more a week on 'transport services' than in England as a whole – at £20.20 a week.

7.8 According to a 2006 Department for Transport analysis of Train Operating Company fares: "Fares in London and the South East are 63% higher on average than fares for trips of similar distance in other cities"[30].

7.9 The GLA used the weekly equivalent cost of a monthly Zone 1-3 Travel Card to calculate travel costs as part of their annual London Living Wage calculations (see Table 12). There has been no price increase this year.

Table 12: Transport costs (£ weekly)

Couples with children	53.52	*Source: GLAEconomics, Based on Transport for London fares 2010*
Lone parents	26.76	
Couples without children	53.52	
Single individuals without children	26.76	

[29] http://www.parliament.uk/briefingpapers/commons/lib/research/rp2011/RP11-023.pdf
[30]http://www.dft.gov.uk/about/strategy/whitepapers/whitepapercm7176/railwhitepaperresearch/evidencepackfinancial/Page_156.ppt

Higher childcare payments

7.10 Recently conducted research by the Daycare Trust found nursery place prices rose, nationally, twice as fast as wages last year. However, the exact details of how childcare costs will be dealt with under Universal Credit have not been released. The following information has been released by the government to date:

- During the second reading, the government confirmed support for childcare costs will be provided by an additional element paid as part of the Universal Credit award. Significantly, it intends to invest the same amount of money as under the current system.
- From April 2011, the childcare element of working tax credits is being reduced from 80% to 70% of costs incurred.
- There will be support for parents making their first moves into work. Support will not be restricted to those working just 16 hours or more[31]. The move to extend childcare support for those working less than 16 hours is welcome, as it will improve incentives for those seeking to enter work part-time and do mini-jobs.

Under the current system, there is further support available with childcare disregards[32]. These allow childcare expenses to be disregarded from your income when claiming housing and council tax benefit. The Family Action group says some households can "currently receive help with up to 97% of their childcare costs"[33]. The importance of appropriate childcare support at a time of rising costs cannot be underestimated.

7.11 Table 10 presents the latest results of the Daycare Trust Childcare Cost Survey.

Table 13: Childcare costs per child (weekly) 2010

	London	England	
Nursery under 2 years	£109	£88	*Source: Childcare costs survey 2010, Daycare Trust*
Nursery 2 years and over	£97	£82	
Childminder under 2 years	£104	£83	
Childminder 2 years and over	£103	£83	
Out of school club (15 hours/week)	£45	£45	

[31] http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110309/debtext/110309-0001.htm#11030953000002
[32] http://www.dwp.gov.uk/local-authority-staff/housing-benefit/claims-processing/claims-guidance/calculating-hbctb/
[33] http://www.family-action.org.uk/uploads/documents/MDRs%20under%20UC.pdf

Total in-work costs

7.12 Table 14 presents the total in-work costs using these transport and childcare figures, modelled for family types and different hourly working patterns. These figures formed the basis for calculating the spending power levels presented in the next section.

Table 1: Total in-work costs used for the spending power calculations

Family type	London				National			
	PT - 6 hrs	PT - 16 hrs	PT - 24 hrs	FT - 35 hrs	PT - 6 hrs	PT - 16 hrs	PT - 24 hrs	FT - 35 hrs
Single person over 25	26.76	26.76	26.76	26.76	16.76	16.76	16.76	16.76
Couple - no children	53.52	53.52	53.52	53.52	33.52	33.52	33.52	33.52
Lone parent - two children	76.68	159.88	226.44	317.96	56.60	123.00	176.12	249.16
Couple - two children	103.44	186.64	253.20	344.72	73.36	139.76	192.88	265.92
Couple - three children	128.40	253.20	353.04	490.32	93.28	192.88	272.56	382.12
Couple - Four children	153.36	319.76	452.88	635.92	113.20	246.00	352.24	498.32

Source: Ferret Information Systems Ltd and Inclusion

Earnings in London

7.13 London has its appropriate share of minimum wage entry-level jobs into which many claimants will initially move. However, despite higher costs in London, entry-level earnings differ little from other areas. See Table 15.

Table 2: Median Hourly pay, Gross (£) - for full-time employee jobs, 2010

		Full time	Part time
United Kingdom	All	12.57	7.98
	Elementary	7.91	6.30
London	All	16.83	9.49
	Elementary	8.32	6.70

Source: Annual Survey of Hours and Earnings 2010

7.14 In 2010, Londoners in 'Elementary Occupations[34]' were paid (median) £8.07 per hour for full time positions and £6.70 per hour for part time positions. This is 41p per hour more than the equivalent UK figure for full time and 40p more for part time, a difference of 6%. The Mayor has tried to address this by promoting the London Living Wage, however it remains the case at the low end of the labour market there is less reflection of

[34] Elementary occupations include building labourers, cleaners, packers, postal workers, hospital and hotel porters, catering assistants and bar staff, security guards, shelf fillers and road sweepers, among others.

London's costs. This will mean that low paid Londoners are likely to have less spending power than counterparts elsewhere.

7.15 Minimum wage has been set at £5.93 per hour and the latest London Living Wage is set at £7.85 per hour (GLA Economics 2010).

Future Benefits Model for Universal Credit

7.16 The model incorporates sustainability and affordability assessments using the benefits and tax modelling for income data and expenditure figures.

7.17 The model draws on existing data taken from different sources described in section 2 above: including the annual GLA's 'A Fairer London – 'The Living Wage in London', the Daycare Trust's annual survey on childcare costs, Valuation Agency data, and transport cost analyses to provide family size linked living costs which enabled spending power values to be generated.

7.18 In modelling the estimated current values of Universal Credit the assessments consolidate the changes to tax and benefits rules announced in the Emergency Budget of June 2010 and the Comprehensive Spending Review October 2010 together with proposals embodied in the Welfare Reform Bill. These assessments include modelling for the effects of reductions in real values of benefits caused by government changes to up-rating methods.

7.19 Assessments start with the current values, rules and rates in force on uprating in April 2011 and progress from those.

7.20 Values used are based on starting figures and then adjusted in 3 ways:

- For earnings, other incomes, tax bands etc. current values are used;
- Benefits which are to be up-rated by CPI in future have their current values reduced by the cumulative year by year difference between RPI and CPI;
- Benefits, and elements of benefits that have been frozen, have had their current values reduced by the cumulative RPI.
- Rents used are current values and are assumed to fall below current and future LHA values.

7.21 This, crudely, allows comparison of the real future values of income to be compared with starting values.

7.22 The CPI and RPI forecast figures used are those produced by the Office for Budget Responsibility.

7.23 Universal Credit assessment has been modelled by using forecast benefit values together with the tapers and disregards proposed in the White Paper, Universal Credit: welfare that works Cm 7957.

7.24 The assessments are modelled for the tax year 2014/2015 as the intention of the government is that Universal Credit will be operating throughout that year.

7.25 Changes in Council Tax Benefit, outlined in the CSR and White Paper have not been included as no detail is yet available; instead the current rules are used with a 10% reduction from the proposed date.

7.26 Childcare costs are assumed only where single parents or both members of a couple are working. The costs are assumed to be incurred for the same number of hours as those worked. Where couples are working they are assumed to work the same hours, at the same time, and to incur childcare costs for those hours. Childcare is treated here in the same way for Universal Credit as for Working Tax Credit; the maximum eligible rate is taken as £169.50 a week for one child and £290.58 for two or more children (the current values reduced by the RPI/CPI factor) and 70% of the costs, up to the maximum, is added to the Universal Credit as a childcare element. This is tapered away as part of the general 65% tapering of the benefit.

7.27 In the current scheme, Housing Benefit also has a childcare disregard from earnings that is more generous than that in the Tax Credit system, and this is used in the current year assessments; it has been assumed that the lower WTC childcare allowance will be solely used in Universal Credit as has been indicated by government. Childcare costs, at the full rate, are deducted as costs when deriving spending powers.

Affordable rent – effect on the figures

7.28 Under the new 'affordable rent' regime, registered social landlords as a condition of bidding for grant from the Homes & Communities Agency (HCA) are actively encouraged to charge up to 80 per cent of market rent, (on new build and some relet homes) in a context where new tenancies could last as little as two years.

7.29 The affordable rent model is predicated on a significant shift of emphasis from a model where grant funding is paid direct to the Social Landlord (through the HCA) to a model where the funding for the construction of new homes comes through increased rents charged to the tenant.

7.30 Under the Universal Credit financial support to meet the rent charge will be included in the overall universal credit payment made to the tenant. This will require Social Landlords to significantly "beef up" their rent collection work. This is expected to increase rent transaction costs as well as introduce a higher level of risk and cost to borrowing, which it has been argued by some Social Landlords could impact adversely on the number of new homes delivered.

7.31 The 'affordable rent' regime will start during the late summer of 2011. This will be very shortly after Social Landlord new build bids have been agreed by the HCA, and Social Landlords begin to 'pump prime' their new build investment funding streams, by increasing the rent levels on existing homes which become vacant and available to rent.

7.32 Universal Credit is based around the needs figure (Maximum Credit), made up of all the components including eligible rent after any capping. The income side of it is made up of, 100% of (much) unearned income + ((earnings – disregard) * taper of 65%)

7.33 The tapered income is taken away from the Maximum Credit and, if there is anything left that is the UC payable.

7.34 What that means is, subject to caveats below, when an RSL rent is increased then you increase the Maximum Credit and hence the UC payable by the same amount; so there is no change in spending power.

Caveats:

- The RSL rent is not subject (in the short/medium term) to any rent limit like the LHA but there will be a percentage reduction for those with too many bedrooms.
- If people are not working enough hours for WTC then the overall benefits cap may apply

- This assumes that they start with an entitlement to some UC. If their income is too high under current RSL rents then they may acquire some UC by increasing their rent.

Changes to Local Housing Allowance (LHA) from April 2011

7.35 As the first part of a multi stage reduction in the overall cost of Housing benefit, Local Housing Allowance (LHA) rates were reduced nationally to a lower level in April 2011, resulting in a situation where 3 in 10 properties for rent in the area will be affordable to people on Housing Benefit rather than 5 in 10 properties as before.

7.36 The new LHA rates will be at what is known as the 30th Percentile. While the move to the 30th percentile from the 50th percentile will undoubtedly reduce benefits for many claimants.

7.37 The impact of the 50th percentile reduction in is, as would be expected, significantly greater for households renting properties with more eligible bedrooms but also varies, much more dramatically, across the different Broad Rental Market Areas (BRMA) in London.

7.38 Because of this the differential in the reduction within London is much greater than the differential across the country. In order to undertake more detailed modelling of the impact on Londoners, and to compare this with the rest of the country, it would be necessary to do this separately for each area BRMA and each property size, both within London and within each BMRA across the country which would be a substantial task.

7.39 For this reason the constant rent figure is least likely to distort the other effects of the benefit changes.

7.40 For information we have taken the Local Housing Allowance (LHA) figures for England from the Valuation Office Agency (VOA) and calculated the percentage reductions for the 30th.

7.41 Table 13 shows that the reduction in LHA rates varies greatly by property (bedroom size) and area. What makes it difficult for London in particular is the variation from BRMA area to BRMA area which makes the internal differences much greater than the differences with the rest of England.

Table 3: LHA rates: percentage reductions for the 30th percentile

	1 ROOM	1 BED	2 BED	3 BED	4 BED	5 Bed to 4 Bed	All sizes	All sizes ex 5 Bed
London	9.65%	9.04%	11.33%	14.65%	18.12%	37.56%	16.72%	12.56%
England	7.65%	6.63%	7.04%	8.17%	11.22%	30.90%	11.94%	8.14%
England ex London	7.47%	6.41%	6.64%	7.56%	10.58%	30.27%	11.49%	7.73%
Differential London vs England ex London	2.18%	2.63%	4.69%	7.09%	7.54%	7.28%	5.24%	4.83%
Variance within London	12.52%	30.03%	43.02%	52.69%	64.67%	63.33%	44.38%	40.58%