

## Finance Committee Consultation Response

The Bevan Foundation is Wales' most influential think-tank. We aim to end poverty and inequality by working with people to find effective solutions and by inspiring governments, organisations and communities to take action. We are grateful for the opportunity to respond to the Finance Committee's inquiry into the Welsh Government Draft Budget 2021-22. Our extensive work on poverty and inequality provides us with some insights into the impact that the Welsh Government's budget allocation can have on poverty. Our response draws on this experience and focuses on the first, second and sixth question raised by the Committee.

### Covid 19 and the causes of poverty

Poverty was a significant problem in Wales long before the arrival of Covid 19. The latest official poverty data released back in March showed that 700,000 people were living in poverty in Wales on the eve of the pandemic.<sup>1</sup> The situation is likely to have deteriorated significantly over recent months. While the root causes of poverty have remained largely unchanged, each has been exacerbated by the crisis.

Being in work significantly reduces the risk of living in poverty.<sup>2</sup> Despite this, prior to the pandemic, over half the people who were living in poverty in Wales lived in households where at least one person was in work.<sup>3</sup> Low pay and insecure work are just some of the factors that are pushing working families into poverty. The pandemic has significantly worsened this situation.

Thousands of Welsh workers have already lost their jobs with the number of people claiming out of work benefits doubling since March 2020.<sup>4</sup> Even those who have not lost their jobs have seen their incomes hit either as a result of working fewer hours or as a result of being put on furlough.<sup>5</sup> Concerningly, low paid workers have been amongst the least likely to see their pay topped up when placed on furlough.<sup>6</sup>

Another cause of poverty is the failings with the social security system. The weaknesses within the UK's social security system were well known long prior to the recent crisis, in particular the

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<sup>1</sup> Stats Wales, *Percentage of all individuals, children, working-age adults and pensioners living in relative income poverty for the UK, UK countries and regions of England between 1994-95 to 1996-97 and 2016-17 to 2018-19 (3 year averages of financial years)* available at - <https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Poverty/householdbelowaverageincome-by-year>

<sup>2</sup> In 2016/17 to 2018/19 12 per cent of working age adults and 15 per cent of children in households where all adults were in work lived in poverty. In households where no one was in work however, this leapt to 61 per cent of adults and 77 per cent of children.

Stats Wales, 'Working age adults in relative income poverty by economic status of household' available at - <https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Poverty/workingageadultsinrelativeincomepoverty-by-economicstatusofhousehold> and Stats Wales, 'Children in relative income poverty by economic status of household' <https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Poverty/childreninrelativeincomepoverty-by-economicstatusofhousehold>

<sup>3</sup> *ibid*

<sup>4</sup> ONS, *HI10 Regional labour market: Headline indicators for Wales* (Release date 10 November 2010) available at <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/headlinelabourforcesurveyindicatorsforwaleshi10>

<sup>5</sup> Bevan Foundation, *Reducing the impact of Coronavirus on poverty in Wales* (September 2020) available at - <https://www.bevanfoundation.org/publications/coronavirus-poverty-wales/>

<sup>6</sup> Annual Survey of Hours and Earnings (Accessed via Nomis, Bevan Foundation analysis)

shortcomings of Universal Credit. Issues such as the five week wait for the first payment, assessment periods and monthly payments, the benefit cap and sanctions have caused significant public concern. In the first few weeks of the crisis, the UK Government took some steps to temporarily address some of these weaknesses. Other issues, however, were not addressed and with the number of people claiming Universal Credit increasing sharply, will affect more people.

At a time that many families have seen their incomes decrease many living costs have increased. Families have had to find money to cover their rent or their mortgage, to pay utilities bills and to purchase food. This has put real pressures on families. Research undertaken by the Joseph Rowntree Foundation and Save the Children found that seven out of ten families with children who were claiming Universal Credit or Child Tax Credits have had to cut back on essentials such as food, utilities, nappies and activities for children (including books) as a result of the pandemic.<sup>7</sup>

Two recently published reports provide a more detailed exploration of the impact of Covid 19 on poverty in Wales and a breakdown of who is at greatest risk of poverty. These are the Joseph Rowntree Foundation's *Poverty in Wales 2020*<sup>8</sup> and the Bevan Foundation's *Reducing the impact of coronavirus in Wales*.<sup>9</sup>

### The links between Covid 19 and poverty

Covid 19 has not only pushed more people into poverty and made life harder for those who were already held in its grip, but, it has also cast a spotlight on the inequalities associated with poverty.

People living in Wales' most deprived communities have been significantly more likely to die from Covid-19 than people living in more affluent communities.<sup>10</sup> This is both a result of people on low incomes being more likely to have underlying health conditions that made them vulnerable to the virus and as a result of people on low incomes being less able to work from home, putting them at greater risk of catching Covid-19.<sup>11</sup>

Children trapped in poverty have been more greatly affected by the disruption to their education, with schools in Wales' most deprived communities being amongst the least likely to offer online learning opportunities.<sup>12</sup> Even where the opportunity for remote learning has been available, many children living in poverty have not been able to take advantage. A survey undertaken by the Child Poverty Action Group found that 40 per cent of low-income families were missing at least one essential resource to support their child's learning from home.<sup>13</sup> It seems inevitable that such

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<sup>7</sup> Joseph Rowntree Foundation and Save the Children, *A lifeline for our children: Strengthening the social security system for families with children during this pandemic* (June 2020) available at -

<https://www.jrf.org.uk/report/call-stronger-social-security-lifeline-children>

<sup>8</sup> Joseph Rowntree Foundation, *Briefing, Poverty in Wales 2020* (November 2020) available at -

<https://www.jrf.org.uk/report/poverty-wales-2020>

<sup>9</sup> Bevan Foundation n(5)

<sup>10</sup> ONS, *Deaths involving Covid 19 by local area and socioeconomic deprivation* (12 June 2020)

<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deaths-involvingcovid19bylocalareasanddeprivation/deathsoccurringbetween1marchand31may2020#welsh-index-of-multiple-deprivation>

<sup>11</sup> Bevan Foundation n(5)

<sup>12</sup> Sutton Trust, *Covid 19 impacts: Schools Shutdown* (20 April 2020) available at -

<https://www.suttontrust.com/our-research/covid-19-and-social-mobility-impact-brief/>

<sup>13</sup> Child Poverty Action Group, *The Cost of Learning in Lockdown* (18 June 2020) available at -

<https://cpag.org.uk/news-blogs/news-listings/cost-learning-lockdown>

differing experiences will widen the already significant attainment gap between children trapped in poverty and children who are not.

Housing is another area where the pandemic has cast a light on existing inequalities. Long before the pandemic there was a body of evidence that showed that people trapped in poverty were more likely to live in poor quality, overcrowded housing. The implications for people's health and wellbeing have been brought into focus in recent months. For people with symptoms of the virus the advice is to stay at home and to stay in a room away from the rest of the household and use a separate bedroom if possible. This advice is impossible for people who live in overcrowded housing to follow. Many people have also fallen behind on their rent and mortgage payment, putting their housing position in a precarious position.<sup>14</sup>

These inequalities matter not just because they are wrong, but they also have a budgetary impact. In 2016 the JRF estimated that poverty is linked to additional devolved expenditure of around £3.6bn such as extra health spending. The pandemic is likely to have significantly increased this budgetary impact.

In the short-term poverty is likely to have increased the cost of the pandemic for the Welsh Government. The prevalence of health conditions associated with poverty for example, has made more people vulnerable to the virus, placing them at greater risk of being hospitalised, stretching resources to the limit. The prevalence of poverty in Wales also means that thousands of people in Wales have little if any money to fall back on. This has placed extra demands on a range of public services including support for homeless people and on Welsh Government financial support schemes such as the Discretionary Assistance Fund.

In addition to poverty increasing the cost of the pandemic, the impact of the pandemic is likely to increase the prevalence of poverty in the longer term, which will put additional demands on the Welsh Government's budget. Any increase in poverty is likely to lead to more people developing long term health conditions, meaning that the demands on the health service are likely to increase even after the threat of Covid-19 itself has receded. Any fall in young people's educational attainment on the other hand is likely to reduce their opportunity to get a well paid job in future. This would not only increase their risk of living in poverty but could also have an impact on the Welsh Government's budget if the money it raises through income tax recovers less slowly than the other parts of the UK.

### The Welsh Government's spending can have an impact on poverty

The Welsh Government's budget, in particular the allocation of extra funds in response to Covid 19 has provided vital support to the 700,000 people who were already living in poverty prior to the pandemic and to the thousands of people who have been swept into poverty by its economic impact. Without this expenditure the past few months would have been even harder for families than it has been. Amongst the most welcome additional spending announcements have been:

- The allocation of more than £52m to continue to provide Free School Meals to families during the first lockdown, whilst children have to self-isolate and over the school holidays.
- The allocation of £16m to the Discretionary Assistance Fund.
- The introduction of a £500 payment for low income workers who must self-isolate.
- Allocation of extra sums to fund increased demand for the Council Tax Reduction Scheme.

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<sup>14</sup> Bevan Foundation n(5)

The support provided through this additional spending has had a significant impact on those trapped in poverty in Wales. As we outlined in our recent report, *Reducing the impact of Coronavirus in Wales* these schemes have afforded an additional safety net to families at a time they most needed the support.<sup>15</sup>

This additional spending by the Welsh Government has served to highlight the significant powers it has to assist those trapped in poverty. Prior to the pandemic the Bevan Foundation had embarked on a project to explore the way that the Welsh Government and Welsh local authorities provided means tested support to people on low income. Amongst the schemes we explored were the Council Tax Reduction Scheme, Free School Meals and the Education Maintenance Allowance.<sup>16</sup> Through this work we uncovered that the Welsh Government spends in excess of £400m on these various schemes annually.<sup>17</sup> To put this figure in context, this is about the same as the Department for Work and Pensions expenditure on Job Seekers' Allowance and Universal Credit in Wales in 2018/19.<sup>18</sup>

The provision of extra funds through its budget as a result of the pandemic has allowed the Welsh Government to expand some of these schemes in ways that were previously thought to not be possible such as the extension of Free School Meals across the schools holidays. This serves to highlight that the Welsh Government does have the power to significantly improve the support available for low income families if sufficient funds are made available.

New research also highlights that policy decisions taken by the Welsh Government where inadequate funding is made available can lead to a growth in the number of people who live in poverty.

In 2016 the Welsh Government set a target of constructing 20,000 affordable homes by the end of the current Welsh Parliamentary term in 2021. To meet this target the Welsh Government has been working with social landlords to increase the availability of social rented housing. Whilst the Welsh Government has invested significant funds into the construction of new social housing these have not been sufficient to construct the required number of homes on their own. Social landlords have therefore turned to private borrowing to finance the construction of new social housing and have also been permitted to put up their rents above inflation for a number of years.

Research undertaken by the Joseph Rowntree Foundation has uncovered that over the past five years, social rents in Wales have increased by 8% in real terms.<sup>19</sup> They estimate that this real terms increase in social rent has led to an additional 40,000 social housing tenants being pulled into poverty.<sup>20</sup>

The Joseph Rowntree Foundation's work also highlights a key lesson that we believe should underpin the Welsh Government's work on its budget and the work of this committee when scrutinising it, namely the need to explore who benefits and who is faced with additional costs as a result of budgetary decisions. Constructing more social housing is vital if we are to solve poverty in Wales, however, financing this construction by increasing the rents of social housing tenants undermines the policy. This lesson does not apply exclusively to housing. Prior research undertaken

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<sup>15</sup> Bevan Foundation n(5)

<sup>16</sup> Bevan Foundation, *A Welsh Benefits System, how it can help solve poverty* (September 2020) available at - <https://www.bevanfoundation.org/publications/a-welsh-benefits-system/>

<sup>17</sup> *ibid*

<sup>18</sup> UK Government, *Benefit expenditure and caseload tables 2019*, (24 April 2019) Bevan Foundation analysis, available at - <https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2019>

<sup>19</sup> JRF n(8)

<sup>20</sup> *ibid*

by the Bevan Foundation on public transport for example, has highlighted how the Welsh Government's Concessionary Fare Scheme means that services are skewed towards the concessionary market meaning that there are a lack of buses for low income commuters.<sup>21</sup>

We believe that it is vital that the Welsh Government draws on these lessons and ensures that solving poverty is the absolute priority for its budget in 2021/22.

### Priorities for the budget

With the impact of Covid 19 likely to continue with us well into 2021 it is vital that the Welsh Government's budget allocates sufficient funds for taking both short term and long term measures to reduce the number of people living in poverty.

As outlined above the Welsh Government have already taken some welcomed steps to increase the support that is available to people trapped in poverty as we enter what is set to be the most difficult winter in decades. Given that the Welsh Government still has some significant funds that are unallocated, we believe that there are further actions it should take.

In our *Reducing the Impact of Coronavirus on Poverty in Wales* report the Bevan Foundation outlined a number of steps that the Welsh Government could take to protect those in poverty this winter. Amongst the recommendations that have not yet been taken forward that we would like to see reflected in the Welsh Government's budget are:

- The allocation of extra funds to local authorities to ensure that every local authority top up all discretionary forms of local support including Discretionary Housing Payments to the maximum permitted.
- The allocation of extra funds to local authorities to carry out spot checks on premises to ensure that they are complying with Covid 19 regulations a right to engage with workers in at risk premises.
- Invest in a benefit take up campaign.
- Provide funds so that any requirement for a tenant who receives support through the Tenant Saver Loan Scheme to repay their loan is removed, to avoid trapping families in poverty into the medium term.<sup>22</sup>

In taking these measures we believe that it is vital that the Welsh Government invests in solutions at scale and with urgency. For example, there is much to welcome in the Welsh Government's recently published *Child poverty: income maximisation action plan 2020 to 2021*.<sup>23</sup> We believe, however, that the urgency of the current crisis and the fact that significant funds are currently at the Welsh Government's disposal means that there is more that could be done. One example includes the proposal to pilot projects to raise awareness of benefits. Whilst the pilot projects are to be welcomed the very fact that they are pilot projects means that there are likely to be thousands of people across Wales who don't benefit from the service this winter.<sup>24</sup> We believe that the scale of

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<sup>21</sup> Bevan Foundation, *Maintaining free bus travel for older people, disabled people and veterans*, (29 January 2018) available at - <https://www.bevanfoundation.org/publications/consultation-maintaining-free-bus-travel/>

<sup>22</sup> Bevan Foundation n(5)

<sup>23</sup> Welsh Government, *Child poverty: income maximisation action plan 2020 to 2021* (2 November 2020) available at - <https://gov.wales/child-poverty-income-maximisation-action-plan-2020-2021.html#section-54005>

<sup>24</sup> *ibid* point 1.2

the crisis we face means that such a service should be immediately rolled out across the nation to assist families this winter.

In the longer term, the need to take action to solve poverty has never been greater. The Welsh Government spends approximately £2bn on schemes it views as at least in part, designed to solve poverty.<sup>25</sup> This significant investment is to be welcomed but we think more could be done to ensure that these funds are invested effectively, in particular, the Welsh Government should prioritise its spending on tackling the root causes of poverty rather than on sticking plaster solutions. There is also a case to increase funding for a number of policies that can help reduce the number of people trapped in poverty in Wales.

Our proposals for policies and programmes that would achieve a step-change reduction in poverty were set out in our recent report *Transforming Wales: how Welsh public services and benefits can reduce poverty and inequality*.<sup>26</sup> Some of our proposals could be taken forward within existing spend by better targeting resources, others would involve the investment of additional sums.

The report is focused around two key ideas.

The first is universal essential services. This centres on the idea that investing in meeting people's basic needs by providing essential services could transform people's lives and prospects. They would ensure that nobody in Wales is left without the basics of life and that everyone can flourish. The services include:

- A decent home
- Care and development of children
- Good health and social care
- Good education
- Money
- Connection with others.

We believe investing in these services could not only improve the lives of people in poverty but could also stimulate the economy and create decent jobs in Wales.

The second idea is the establishment of a Welsh Benefits System. As noted, the Welsh Government spends £400m annually on various schemes that provide cash or in-kind support to complement the assistance provided to people on low income through the UK social security system. Despite the valued support these schemes provide the current disjointed nature of these schemes means that it is difficult for people to access all the support they are entitled to, people are locked out of support due to arbitrary eligibility and the support on offer is not always sufficient. We believe that by pulling all of these schemes together into a co-ordinated Welsh Benefits System and reforming them, the support available to Welsh households could be dramatically improved.

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<sup>25</sup> Welsh Government, *Child Poverty Progress Report 2019, Welsh Government Programmes that are making a difference* (December 2019) available at - <https://gov.wales/sites/default/files/publications/2020-01/child-poverty-strategy-2019-progress-report-annex.pdf>

<sup>26</sup> Bevan Foundation, *Transforming Wales: how Welsh public services and benefits can reduce poverty and inequality* (October 2020) available at - <https://www.bevanfoundation.org/wp-content/uploads/2020/10/Transforming-Wales-through-public-services-and-benefits-FINAL.pdf>

This new system would offer cash or in-kind services that reach the people who need them, are easy to access, are efficiently and consistently administered and, crucially, improve people's lives by lifting them out of poverty. The key features of our proposed Welsh Benefits System are:

- It focuses on households on low incomes, defined as being eligible for Universal Credit, and uses the same criterion across all schemes.
- It provides cash or in-kind help that is sufficient to make a real difference to households' incomes or costs.
- It has a single point of access for several benefits, using online, phone or postal methods.
- It is based on eligibility for and an entitlement to assistance, not discretion.
- Applicants are treated with dignity and respect

Below these two overarching ideas the report contains some specific policy recommendations that we believe that the Welsh Government should support in its next budget. These include:

- A significant increase in Social Housing Grant so that the social housing sector can construct 20,000 social homes by the end of the next Welsh Parliamentary term in 2026.
- The allocation of extra funding to establish a new "school start scheme". The scheme would incorporate two existing schemes, Free School Meals and Pupil Development Grant – Access but extra funds should be made available to ensure that all children in receipt of Universal Credit access the support, ending the current position where children living in poverty are missing out on support.
- The reprioritising of existing funding for the Welsh Government's 30 hour free child care programme so to that child care is provided universally to all children over 9 months regardless of whether parents are in work or not on a part time basis.
- Increase investment in primary and social care to secure better access.
- Reallocate fund currently provided to the Discretionary Assistance Fund to a new Welsh Emergency Fund, a rights based scheme to support families in need as opposed to the current discretionary approach.<sup>27</sup>

Whilst investing in these additional services would come at a cost for the Welsh Government, we believe that the pandemic has highlighted that the cost of inaction is even greater.

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<sup>27</sup> ibid