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BRIEFING

A poverty of information

Assessing the government's new child poverty focus and future trends

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Summary

Measures announced at the Summer Budget are expected to significantly increase the number of children (and households) living in poverty (households with less than 60 per cent of median income). Despite positive action on low pay, cuts to working age benefits mean that most of this increase is expected to be among those living in working *households.*

Yet there is a danger that this deterioration slips under the radar. The Welfare Reform and Employment Bill removes the requirement on Government to meet the 2020 child poverty target established in the Child Poverty Act 2010. The target involves cutting the proportion of children living in poverty to less than 10 per cent. The rate has fallen steadily since 1996-97 dropping from 27 per cent to a 2013-14 level of 17 per cent. Despite this progress, the 2020 target had appeared increasingly unachievable. With this in mind, some form of reform was warranted as a means of ensuring the target remains meaningful.

However, the Bill goes beyond changing the timeframe or the target poverty level to instead removing the current measure of poverty itself from the suite of leading government metrics. Instead a new focus on 'Life Chances' introduces alternative measures of the number of children living in workless households and educational attainment for children by the age of 16.

It is clear that too narrow a focus on incomes has drawbacks when assessing poverty. Few would argue that income alone is a sufficient measure of disadvantage, hardship and lack of opportunity. There is therefore certainly a place for a wider basket of indicators capturing poverty. But removing any *focus on incomes makes very little sense. And the choice of replacement measures appears incomplete.*

While worklessness and educational attainment are correlated with poverty they are not the only factors worth focusing on. Indeed being in income poverty is itself likely to affect a household's likelihood of being in poverty in the future. Additionally, the focus on worklessness removes any focus on working poverty – despite two in every three poor children living in working households.

This matters not just because some measures may capture poverty better than others, but because it has implications for government policy. The risk is that the government will do little to improve incomes for the working poor by focusing on worklessness. The problem of worklessness, particularly among families with children, has been diminishing over time; making further significant progress difficult and likely to require new approaches. It is certainly a very different set of policy prescriptions to those needed to tackle working poverty – an issue set to be exacerbated by measures announced at the Summer Budget.

Indeed the removal of an income measure is likely to obscure the potential degeneration in the poverty picture we expect over the rest of this decade. Taking into account the tax and benefit measures announced at the Summer Budget, as well as the introduction of the national living wage, we estimate that a further 200,000 children (predominantly from working households) will fall into poverty in 2016.

In 2020 we estimate that at least an extra 300,000 children will be in this position, rising to 600,000 once all policy measures have taken effect (removal of both the family element and support for third children and beyond only affects the flow of new claimants (or additional births) rather than the existing stock). Two-thirds of this increase is among children in working households. Acting to reduce these numbers requires clear sight of low income trends.

1: Measuring poverty – the central role of income and the importance of wider measures

Poverty is a difficult concept to define, often meaning different things to different people. At its heart it considers the way in which resources match (or do not match) needs, but quite what constitutes 'needs' and 'resources' is a matter of debate. At a minimum it involves covering the most basic of needs – shelter, food and clothing. But in an advanced and rich economy it might also be taken to incorporate the full participation in society .[1]

Reflecting this problem of definition there are a number of different metrics cited in relation to poverty, all of which can provide an indication of living standards and the extent to which people experience inadequate resources.

Income poverty

Probably the most straightforward and easy to understand approach to poverty involves focusing on a household's income. Clearly, income is the chief resource by which families attempt to meet their needs: insufficient income will therefore be a sign of poverty.

It is not without its problems however. Income can vary over time for instance, meaning that a household can have a temporarily low income but be able to sustain a given standard of living by drawing down on savings or borrowing.[2] However, it is hard to imagine a family sustaining such a strategy over a prolonged period: low income is clearly a risk factor.

Perhaps the bigger problem with using income as a measure of poverty is determining how much is too little. This is especially true given that needs vary from family to family and what is considered acceptable shifts over time.

To account for these difficulties income measures of poverty 'equivalise' household incomes to adjust for the size and composition (and therefore need) of the family. And they are presented in two forms:

» **Absolute poverty** which establishes an income threshold at a given point in time and then fixes it (raising it with inflation each year); and

» **Relative poverty** which sets a threshold that relates to a contemporary measure of society's resources each year – contextualising poverty relative to current 'norms' of income.

Over time these two measures have been used together to determine how living standards have changed in general terms (absolute poverty) and the extent to which some parts of society have been left behind (relative poverty). Across countries the standard threshold that has been developed is 60 per cent of median household income (see Box 1 for more detail), though other thresholds are also published.

Ultimately the use of 60 per cent is somewhat arbitrary – with differences of just a few pence in income pushing families out of 'poverty'. Nevertheless, the use of a consistent measure allows comparisons to be made over time and across countries.

[1] A definition advanced in Townsend, P. (1979) *Poverty in the United Kingdom*, London, Allen Lane and Penguin Books

[2] Household expenditure surveys can show consumption, regardless of income. However, expenditure data may not easily capture where people choose to consume little or use free goods and services.

Box 1: Measuring the distribution of income

Income tends to be measured through household surveys, such as the Family Resources Survey (FRS).[1] These can provide a detailed account of the circumstances of a representative sample of households to reflect outcomes for the UK as a whole.

A number of steps are taken to ensure sensible comparisons of income are made between households:

- Incomes are calculated on a **net basis** taking into account taxes paid on income and earnings as well as benefits received
- Net income is presented on a **before** and **after housing costs** basis. The latter compares the available income left to a household once their housing costs are paid, highlighting the difference in resources between different housing tenures
- A process of **equivalisation** weights the income of each household by the number and type of people contained within it – providing a better assessment of how far a given amount of income can stretch. For example, with an income of £300 a week a single person would be deemed better off than a couple with one child, once equivalised the two families' income would be £448 and £250 respectively.[2]

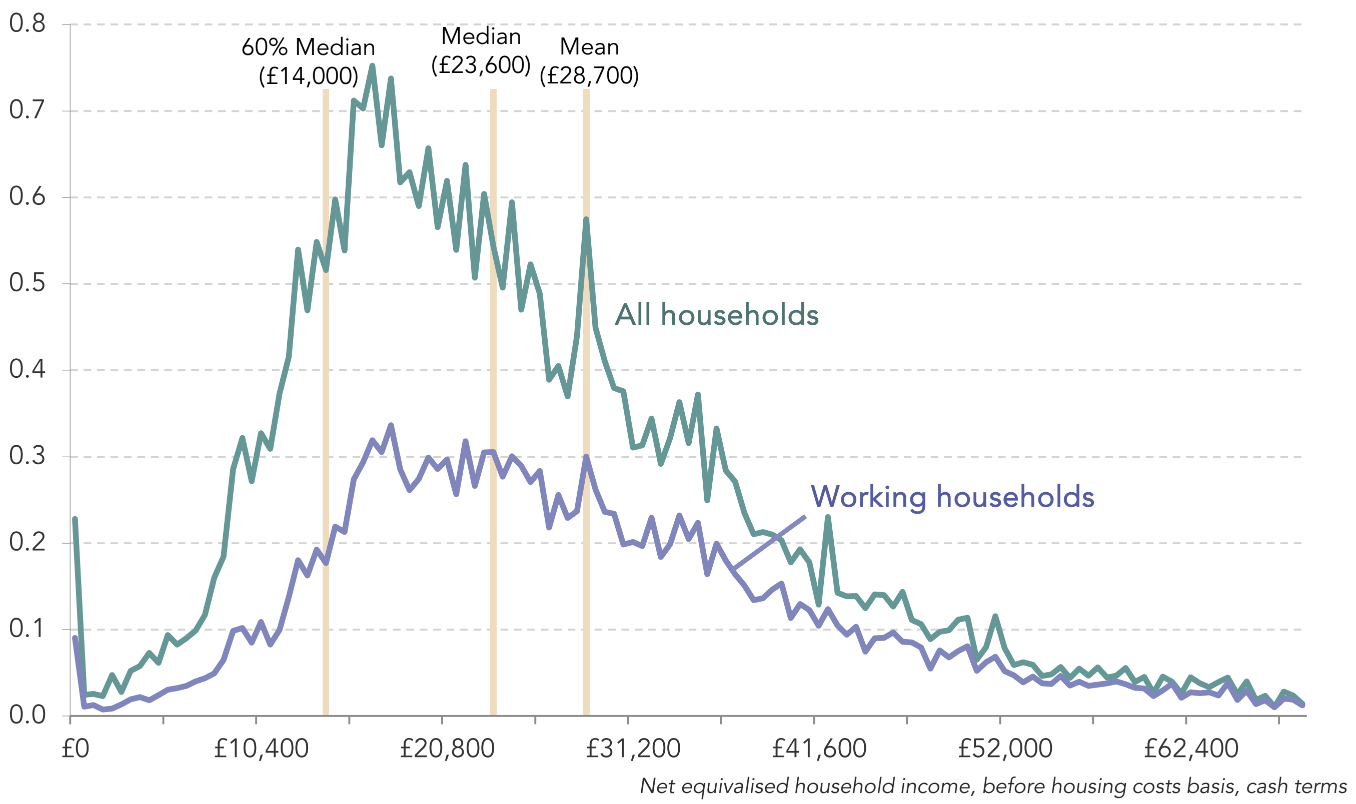
The **median** is calculated by ranking all households by their income and taking the income of the household in the middle. This is a better measure of the 'typical' household than the **mean** (the average derived by summing all incomes and dividing by the number of households). As Figure 1 shows the mean can be skewed by a smaller number of households having high incomes.

[1] The annual National Statistic 'Households Below Average Income', which provides various measures of low income is based on data from the FRS

[2] Equivalisation factors are additive, under the OECD scale a single adult has a factor of 0.67,and a couple with one child under the age of 14 a factor of 1.2, which is then used to divide net household income.

Figure 1: Household income distribution, UK, 2013-14

(Millions of households)



Source: Resolution Foundation analysis of Households Below Average Income microdata, 2013-14

Notes: "Working Households" includes those in which at least one person is in employment. To focus on the majority of the distribution income is capped at £69,000 a year, capturing 96 per cent of households.

Deprivation and poverty

Deprivation measures go beyond income or direct measures of consumption to instead relate to how people *live*. Relative deprivation assesses the extent to which different groups of the population have access to different activities and services (such as eating out); have certain possessions that impact on their standard of living (all-weather shoes for instance); and are able to take part in society (regularly socialising with friends or family, for example).

When combined with measures of low income such questions can provide a much richer understanding of poverty.

Income and deprivation measures can be linked via **minimum budget standards**. These identify the income necessary to purchase a 'typical' basket of goods and services that are considered to be the minimum standard by society. Joseph Rowntree took this approach in his poverty study all the way back in 1899.

A similar approach has been used since 2006 to produce a **Minimum Income Standard.**[3] Through a mix of both expert and public opinion, the goods and services seen as necessary to provide a minimum standard of living in the UK are identified. Items in the basket include food, clothing, fuel, childcare, leisure and holidays. The income required to purchase that basket is considered the minimum income threshold. This threshold is also used to calculate the Living Wage (outside London).[4] Undoubtedly this is a useful approach, but it results in a threshold some way above the 60 per cent of median income poverty line as used across other countries. And there is some controversy over what is in and outside of the minimum basket.

Factors associated with poverty

Capturing poverty by focusing on incomes and deprivation inevitably pushes towards policy solutions designed to boost incomes (via earnings and/or state support) and ease access to goods and services. For some this places insufficient emphasis on tackling underlying drivers of poverty.

A wide body of literature has therefore built up to consider the factors most associated with people falling or remaining in poverty – with poverty *defined* as being on low income or deprived. Included among such factors are low skills levels, unemployment, worklessness, housing tenure and ill health or disability.

It is important to understand that these are all factors *associated* with being in poverty but they are not of themselves measures of *actually being in* poverty. Instead they are factors that help to explain a household's circumstances and why they have low income. Crucially, however, it is not clear the extent to which the various factors identified in studies actually *cause* poverty. It is quite possible that they are correlated but not causal. With earnings a key source of income, factors that relate strongly to low earnings or being out of work tend to also be associated with low income.

2: How the government has measured poverty

Having considered various approaches to the measurement of poverty, in this section we focus specifically on the metrics favoured by different UK governments over the past 50 years.

A focus on low incomes

Historically, governments have kept track of the number of families with low income. From the early 1970s a publication called 'Low Income Families' captured the number receiving Income Support (and the forerunner Supplementary Benefit) as well as families with incomes below those levels.

[3] A project funded by the Joseph Rowntree Foundation, see here for further detail

[4] See here for further detail

While relatively easy to measure this approach implies that the level of support on offer from the government automatically equates to an income level that is sufficient to escape poverty. Historically, out-of-work benefit rates have tended to provide an income lower than the 60 per cent of median income threshold.

From 1988, the **Households Below Average Income** (HBAI) series has been produced by the Department for Work and Pensions (and its predecessors). It is the main source of information about the income distribution in the UK, providing estimates of low income and deprivation. Capturing wider information about the characteristics of all households[5] across the UK, HBAI gives a much broader picture of living standards and allows for comparisons across different groups to be made.

A measure of **material deprivation** is also provided in HBAI. Developed over a number of years to identify appropriate indicators,[6] questions include whether a person can keep their home adequately warm; afford two pairs of all-weather shoes for each adult and have friends or family over to visit for a drink or meal at least once a month.

Sizeable though HBAI is, it has a recognised weakness in the extent to which it underreports benefit receipt. The survey data fails to match administrative data on benefit expenditure. This might not matter if the underreporting was consistent, but it varies year-to-year, making it hard to draw firm conclusions about annual changes to poverty.

The use of administrative data offers a potential route to improve such data, particularly as data collection and storage improves and more comprehensive information potentially becomes available through the roll out of Universal Credit and use of real time earnings data.

However, considerable barriers remain to more widespread use of administrative data given the legal restrictions in how such data can be used and linked. There is also a lack of data collection covering many of the household characteristics that are useful to understand outcomes and inform policy development.

Eradicating child poverty

While poverty has long been measured the establishment of targets is a more recent development. The Labour governments of the late-1990s and 2000s placed a strong emphasis on poverty reduction particularly for pensioners and children committing, in 1999, to halve child poverty by 2010 and eradicate it by 2020.

The Child Poverty Act of 2010 enshrined this latter commitment in law setting out detailed targets (based around measures of income and deprivation) for the end of this decade (see Table 1 below). The Act also created a new poverty commission tasked with the provision of expert advice to government in reaching those targets.

This followed a period in which the proportion of children in poverty had fallen from 26 to 18 per cent (on a relative measure). Such apparent policy success – which is likely in part to have been a direct consequence of concerted policy action driven by the explicit focus on poverty – appears to have been the result of a combination of factors. These include: strong economic growth; legislation to better support maternal employment; and employment and income effects associated with the introduction and development of tax credits (especially among single parents).[7]

[5] Excluding people living in institutions, for example nursing homes, barracks or prisons and homeless people.

[6] S McKay (2011) *Review of the child material deprivation items in the Family Resources Survey*, DWP

[7] M Brewer (2012) *Child poverty and financial support for children*, part of Child Poverty Action Group, Ending child poverty by 2020: Progress made and lessons learned

However, progress slowed both because of the financial crisis and – even before it hit – because of reduced headroom for further employment gains and state support top-ups. The chances of achieving the 2020 targets were slim even when set out. Without a radical shift in policy and the structure of the tax and benefit system, today they appear near-impossible.

Table 1: Targets set out in the Child Poverty Act 2010

Places a duty on the Secretary of State to meet four child poverty targets by 2020/21:

- Relative low income– to reduce the proportion of children who live in relative low income (in families with incomes below 60% of the median, before housing costs) to less than 10%
- Combined low income and material deprivation – to reduce the proportion of children who live in material deprivation and have a low income (below 70% of the median, before housing costs) to less than 5%
- Absolute low income – to reduce the proportion of children who live below an income threshold fixed in real terms (60% of median income in 2010/11) to less than 5%
- "Persistent" poverty – to reduce the proportion of children that experience long periods of relative poverty; this was set at a specific target of less than 7% following a consultation in 2014

These measures are currently published annually by DWP, the latest edition is: *Households Below Average Income 2013-14'*

Moving beyond income measures: 'Life Chances'

Given the need to review the 2020 target and the inadequacies of a narrow focus on income, a variety of attempts have been made to establish appropriate government measures.

In the previous parliament the coalition government explored a combined measure that placed greater importance on wider indicators of disadvantage such as worklessness, family breakdown, and drug and alcohol addiction. While all useful measures of disadvantage in their own right, it's clear that tackling such issues does not necessarily reduce income poverty. The government therefore retained an income measure alongside these new metrics, effectively broadening the policy focus in this area.

However, in this parliament the government is pressing ahead with legislation to *remove* the income-based targets and instead replace them with 'Life Chances' measures of worklessness and educational attainment at the age of 16 (set out in Table 2). Both factors are to some extent associated with poverty, disadvantage and poorer social outcomes, but neither can be considered as direct substitutes for a measure of poverty:

- » **Worklessness** is a potential driver of poverty as someone without work is likely to have a limited income. There is an additional link to an increased risk that children growing up in a workless household may be more likely to be in poverty in the future.
- » Measures of **educational attainment** provide a further indication of the risk of poverty or a child's future opportunity as qualifications have a strong bearing on future earnings potential. Higher qualification levels tend to lead to higher earnings levels.

Table 2: Life Chance measures

Places a duty on the Secretary of State to report annually on data relating to:

- Children living in workless households in England
- Children living in long-term workless households in England
- The educational attainment of children in England at the end of Key Stage 4 (GCSE level)
- The educational attainment of disadvantaged children in England at the same stage

The Bill explanatory notes suggest these measures will be based upon the ONS release *Working and working households* and the DfE publicaton *GCSE and equivalent attainment by pupil characteristics*

There appears to be a fundamental incoherence in targeting two factors considered to be potential drivers of the outcomes of income poverty and deprivation while rejecting the measurement of these outcomes themselves.

While it could be argued that a too-narrow focus on near-term outcomes can lead to less consideration of the structural causes of persistent poverty (leading to sticking plasters rather than the more radical surgery that might be required) it appears odd to ignore these outcomes altogether. This is particularly true given income poverty itself is likely to be a key driver of future poverty risks.

And to the extent that 'life chances' are an important supplement to income poverty measurement, it's not obvious that the currently selected measures are comprehensive enough. For example, while important, the educational attainment measure makes no link to conditions in the labour market.

Similarly while worklessness tends to increase the risk of being in poverty, focusing on this ignores the growing trend towards working poverty. Two-thirds of poor children live in families in which at least one person works. We consider the link (or lack of it) between worklessness and poverty in more detail in Annex A.

3: Estimates of poverty to 2020

In this section we consider how income poverty might evolve over the remainder of this decade, in the light of the various minimum wage and working-age benefit changes announced in the Summer Budget. Our findings highlight the extent to which shifting the focus away from income towards worklessness and educational attainment is likely to obscure a potential degeneration in the poverty picture over the coming years.

The impact of the Summer Budget on the income distribution

The level of relative poverty will depend on how incomes grow among different groups of households. The two key sources of income for working age families are benefits and earnings. Both play an important role in how the shape of the income distribution, and numbers in poverty, will change by the end of this parliament. In terms of earnings:

» The **national living wage** (NLW), an enhanced minimum wage for those aged 25 and over, will help boost incomes for those earning around the minimum wage (NMW) by up to a projected £1.10 an hour in 2020.[8]

This move is projected to boost wages by £4.5 billion before tax, but will be more than offset by some £13 billion of cuts to various working-age benefits, of which key are:

» **Cuts to Working Tax Credit** – an increase in the rate at which tax credits are withdrawn as earnings increase from 41 pence in the pound to 48 pence in the pound, and a reduction in the threshold at which this taper starts to apply from £6,420 to £3,850 – will leave many working families worse off in 2016, creating an overnight shock to income (carried forward in Universal Credit through a reduction in work allowances);

» **A four year freeze to working-age benefits** – as opposed to the default uprating with CPI inflation – will reduce their value by a projected 4.7 per cent by 2020;

» **Measures affecting the 'flow'** (new claimants or new births among existing claimants) of tax credit or Universal Credit from April 2017 – removal of the family element (up to £545 a year) and restricting support from the child element to two children (up to £2,780 per child) – will further reduce incomes for families with children.

With earnings rising, median income should also rise,[9] and with it the poverty threshold (which is 60 per cent of median income). However, benefit income will stand still, if not fall.

[8] In practice, some employers will pass the NLW onto younger workers in the same way that some pay the adult NMW rate to those under-21. But, given the costs associated with such a move, it is likely that such pass through will be relatively limited and lower given the difference in the relevant levels of the NMW and NLW.

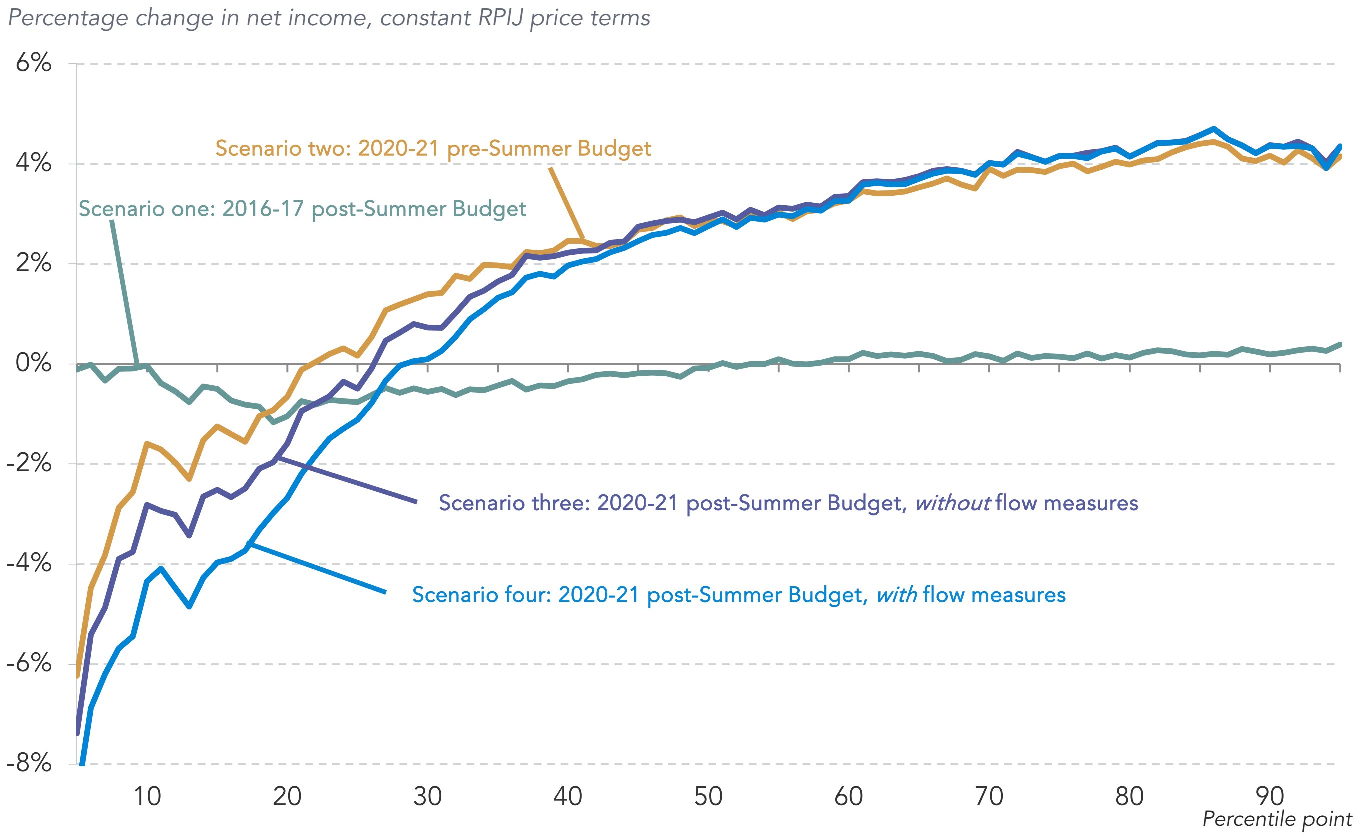
[9] Though this is not always the case, and median income tends to grow more slowly than earnings.

As such, we might expect a growth in income inequality resulting in more families falling into poverty and the 'depth' of that poverty (ie the distance from the poverty threshold) growing.

Figure 5 shows how household incomes are projected to grow across the income distribution relative to a 2016-17 baseline that assumes no Summer Budget changes. It sets out four scenarios:

- **Scenario one:** 2016-17 after Summer Budget measures are accounted for;
- **Scenario two:** 2020-21 before the Summer Budget measures are put in place, to show how existing policies were expected to affect incomes. This is also the baseline for judging the impact of the Summer Budget in 2020;
- **Scenario three:** 2020-21 after Summer Budget measures are in place, but excluding the policies affecting the flow of new claimants; and
- **Scenario four:** 2020-21 after the budget measures, including those policies affecting the flow of new claimants are in place (in practice we expect flow measures to have had around half their eventual impact by 2020-21, implying an outturn somewhere between these final two scenarios).

Figure 2: The change in net income under different policy scenarios from a 2016-17 pre-Summer Budget baseline



Source: Resolution Foundation analysis using the IPPR tax-benefit model

Notes: Flow measures refer to the removal of the family element to new claims to tax credits or Universal Credit from April 2017 and the limiting of the child element to two children for new claims and births for families entitled to tax Credits or Universal Credit.

Taking each scenario in turn:

- **Scenario one:** In 2016-17 the Summer Budget measures are expected to reduce incomes by up to around 1 per cent, mainly among households with the 20 to 40 per cent lowest incomes– who are more likely to be working and entitled to tax credits. The benefit freeze will have a limited impact because low inflation means that benefits were only set to rise by 0.1 per cent. The impact of the NLW is also smaller in its first year of introduction.[10]
- **Scenario two:** By 2020-21 (where we assume UC has been fully rolled out), before the Summer Budget measures are applied a significant fall in real term income was expected among households in the bottom quarter of the income distribution. The primary driver of this fall is the uprating of benefits by CPI inflation, which grows more slowly than RPIJ (and earnings).
- **Scenario three:** The Summer Budget benefit freeze further reduces income in the bottom quarter of the distribution, with incomes growing by less than in scenario two in the rest of the bottom half following cuts to in-work support (the reduction in the value of work allowances in UC).
- **Scenario four:** Finally, the inclusion of the measures affecting the flow of UC recipients leads to a significant further drop in incomes among those towards the bottom of the income distribution. In this scenario with all Summer Budget measures fully implemented, income falls of more than 4 per cent in the bottom fifth contrasts with income rises of 4 per cent for the top third of the distribution.

More generally income growth is higher in households towards the top of the income distribution. This is driven by expectations of rising earnings (mostly through general earnings growth though some benefit from the NLW) with little or no offset from falling benefit receipt or additional gains from the increase to the personal tax allowance and basic rate threshold announced at Summer Budget.

The balance of the impact of the NLW against cuts to in-work support will vary on a case by case basis, but it is clear from our previous reports that most households will be made worse off by the Summer Budget, with the NLW doing little overall to offset the impact of cuts to income.[11]

The future path of poverty

Table 3 translates our projected changes in income under different scenarios into poverty estimates. These estimates provide an indication of the scale and direction of future changes in poverty but are necessarily uncertain. They should not be interpreted as definitive forecasts of future poverty levels. Our projections are based on a number of assumptions relating to both the future path of earnings and inflation, and the extent to which households claim the benefits they are entitled to. There is inherent uncertainty about both.

As with our projections for changes to income, our poverty projections consider the impact of the Summer Budget in 2016-17 and then in 2020-21 covering the same four scenarios as above.

In the 2016-17 **baseline** (before the Summer Budget changes are taken into account) we estimate that 3.3 million working-age households would be in poverty. This number corresponds to 2.7 million children. Taking each scenario in turn:

- Under **scenario one** (2016-17 after the Summer Budget changes are taken into account) we estimate that the number of poor children increases to 2.9 million, that is the Summer Budget measures produce an overnight rise in poverty of 200,000.
- In **scenario two** (2020-21 before Summer Budget measures are taken into account) the number of children in relative poverty is 3.3 million. So even before the Summer Budget poverty was projected to rise by 600,000 over four years;

[10] In 2016 the NLW is set to be equivalent to 55 per cent of the 25 plus median wage, growing to 60 per cent by 2020.

[11] C D'Arcy et al (2015) *Higher ground: who gains from the National Living Wage?*, Resolution Foundation

» Under **scenario three** (2020-21 after Summer Budget measures, but *with no* flow effects) the total reaches 3.7 million, implying a 300,000 effect associated with the Budget measures.

» Under **scenario four** (2020-21 after Summer Budget measures, and *with all* flow effects) the number of children in poverty is estimated to reach 3.9 million. This is 1.2 million higher than the 2016-17 baseline and 600,000 higher than was previously projected for 2020.

We can therefore conclude – tentatively – that the Summer Budget measures are set to raise child poverty by between 300,000 and 600,000 by 2020. More generally child poverty looks certain to rise in the coming years under all scenarios. These increases will come despite the introduction of the NLW. Indeed Table 3 shoes that in-work poverty is also set to rise, from 1.6 million in the 2016 baseline to between 2.2 million and 2.3 million in 2020 – accounting for around half of the overall rise in child poverty and the majority of the rise due to the Summer Budget measures.

Table 3: Change in numbers in relative income poverty to 2020 under different policy scenarios

Scenario	Working age households				Children			
(millions)	All	In-year impact	Working	In-year impact	All	In-year impact	From working hholds	In-year impact
2013-14								
Latest outturn data (HBAI)	3.0	-	1.7	-	2.3	-	1.5	-
2016 -17								
Baseline: Pre-Summer Budget	3.3	-	1.6	-	2.7	-	1.7	-
Scenario 1: Post-Summer Budget	3.4	0.1	1.7	0.1	2.9	0.2	1.9	0.2
2020-21								
Scenario 2: Pre-Summer Budget (baseline for 2020 in-year impacts)	3.8		1.8		3.3		1.9	
Scenario 3: Post-Summer Budget without 'flow' measures	3.9	0.1	1.9	0.1	3.7	0.3	2.2	0.3
Scenario 4: Post-Summer Budget with 'flow' measures	4.0	0.2	2.0	0.2	3.9	0.6	2.3	0.4

Source: Resolution Foundation analysis using the IPPR tax-benefit model, Households Below Average Income, 2013-14

Notes: Flow measures refer to the removal of the family element to new claims to tax credits or Universal Credit from April 2017 and the limiting of the child element to two children for new claims and births for families entitled to tax Credits or Universal Credit. Rounding means that changes may not match the difference in totals.

The level of poverty is projected to rise with or without the Summer Budget changes because the indexation of benefits by CPI will mean benefit income grows by considerably less than earnings over the period.[12] To give some context to the scale of these changes, it is worth noting that between 2015 and 2020 CPI (which is used for benefit uprating purposes) is projected to grow by 6.7 per cent, while average earnings are projected to grow by 21.5 per cent.

Measuring the poverty 'gap'

The post-Summer Budget path set for the tax and benefit system will lead to an increasing disparity between incomes of those reliant on state support (including those in work) and those who are not. It is clear from Figure 2 that the largest falls in income are among the poorest third of families. However, many of these households will already be below the poverty threshold, meaning that the full extent of these effects will not be shown by the poverty prevalence statistics.

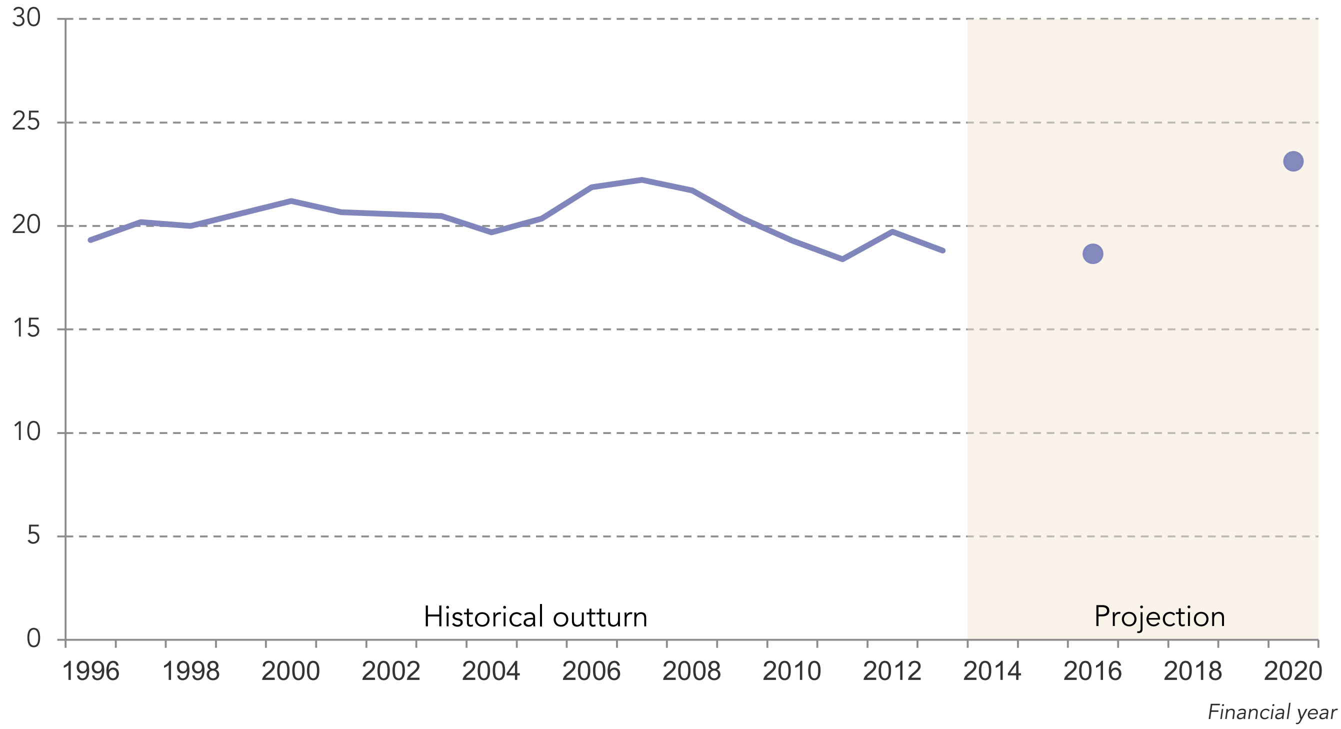
We can instead consider the poverty 'gap'. In 2013-14, 17 per cent of UK households were in poverty, with their income on average 29 per cent below the poverty threshold. These figures combine to give a poverty gap for all households of £18.8 billion. If the depth and prevalence of poverty in 1996-97 had remained unchanged the same figure would have been £19.3 billion – despite a greater proportion of households being in poverty (20 per cent), the depth of poverty was lower (25 per cent).

[12] A similar finding was shown in M Brewer, et al, (2011) *Child and working-age poverty from 2010 to 2020*, IFS

If the projected post-Summer Budget rates for 2016-17 were to apply the gap would remain fairly stable at £18.7 billion, but by 2020-21 it could rise to £23.1 billion.

Figure 3: Changing size of the poverty 'gap', 1996-97 to 2020-21

Gap in income to the poverty line for households below 60 per cent of median income (£ billions)



Source: Resolution Foundation analysis using the IPPR tax-benefit model, Households Below Average Income, 2013-14

Notes: Flow measures refer to the removal of the family element to new claims to tax credits or Universal Credit from April 2017 and the limiting of the child element to two children for new claims and births for families entitled to tax credits or Universal Credit. The gap is calculated by taking the proportional distance from the poverty line, and proportion of the population in poverty each year while holding the total population and income constant.

The interaction between targets and policy

The removal of the legislative requirement to meet income-based child poverty will not mean the end of the publication of such measures. Current plans suggest that the HBAI will continue to be produced providing a means by which government can be held to account by external organisations for any deterioration in the position of lower income families, or indeed celebrated for any improvement.

However, the Child Poverty Act worked as a significant lever on government to initiate policy to improve those measures. Governments tend to be more inclined to improve outcomes they measure or are held directly accountable for than the things they are not. The switch in measures is indicative of a wider focus on worklessness as the major problem of today (also reflected in the design of incentives in UC, which risk trapping parents at low levels of earnings).[13]

[13] D Finch (2015) *Making the most of UC: final report of the Resolution Foundation review of Universal Credit*, Resolution Foundation

Yet this approach appears misguided. There is a significant danger that the government places too much emphasis on dealing with a problem that has to a large extent already been fixed (the proportion of workless households is at an all time low), while ignoring the larger underlying difficulties families face. The policy prescriptions to tackle the former are very different to those needed for the latter.

It might be argued that the NLW will 'fix' the problem of low pay and therefore make a significant contribution to tackling working poverty. In this context the government might feel justified in cutting state support for families alongside a determination to reduce levels of worklessness. However, only around 60 per cent of the £4.5 billion boost to the nationwide wage bill in 2020 from the NLW is expected find its way into families' pockets. Clearly not enough to offset the losses to income from the expected £13 billion cuts to welfare.[14] There will no longer be a clear target designed to push government to improve *incomes* of the low paid (rather than just earnings).

5: Conclusion

While it appears eminently sensible to consider a wider set of measures than income alone in assessing poverty – and indeed some of the chosen 'Life Chances' indicators will provide a welcome focus on reducing poverty in the short and longer term – it is clear that the removal of *any* focus on income poverty is a mistake.

Income is, and should remain, at the heart of poverty measurement and targets. In switching its focus the government may still find itself tackling very difficult issues for disadvantaged families who are in need of support. But these are at best a subset of a far larger group of families with low incomes, both in- and out-of-work, too many of whom will be excluded from consideration.

This is particularly difficult to accept at a time when child poverty looks set to significantly rise. A coherent anti-poverty strategy requires clear sight of low income trends.

[14] C D'Arcy et al (2015) *Higher ground: who gains from the National Living Wage?,* Resolution Foundation

Annex A: Child poverty trends

In this Annex we chart recent trends in official child poverty measures – in terms of relative and absolute income poverty and material deprivation. For context we also consider shifts in worklessness.

In 'normal' times the incomes of households dependent on benefits tend to grow more slowly than households where people work. Benefits tend to be increased by inflation. Earnings generally rise faster than inflation. This means that working households usually see their incomes improve faster than workless households and are less likely to have low income. Using worklessness as a proxy for poverty might therefore be considered sensible. However, policy over the last two decades and for the next five years has altered, and will alter, this pattern.

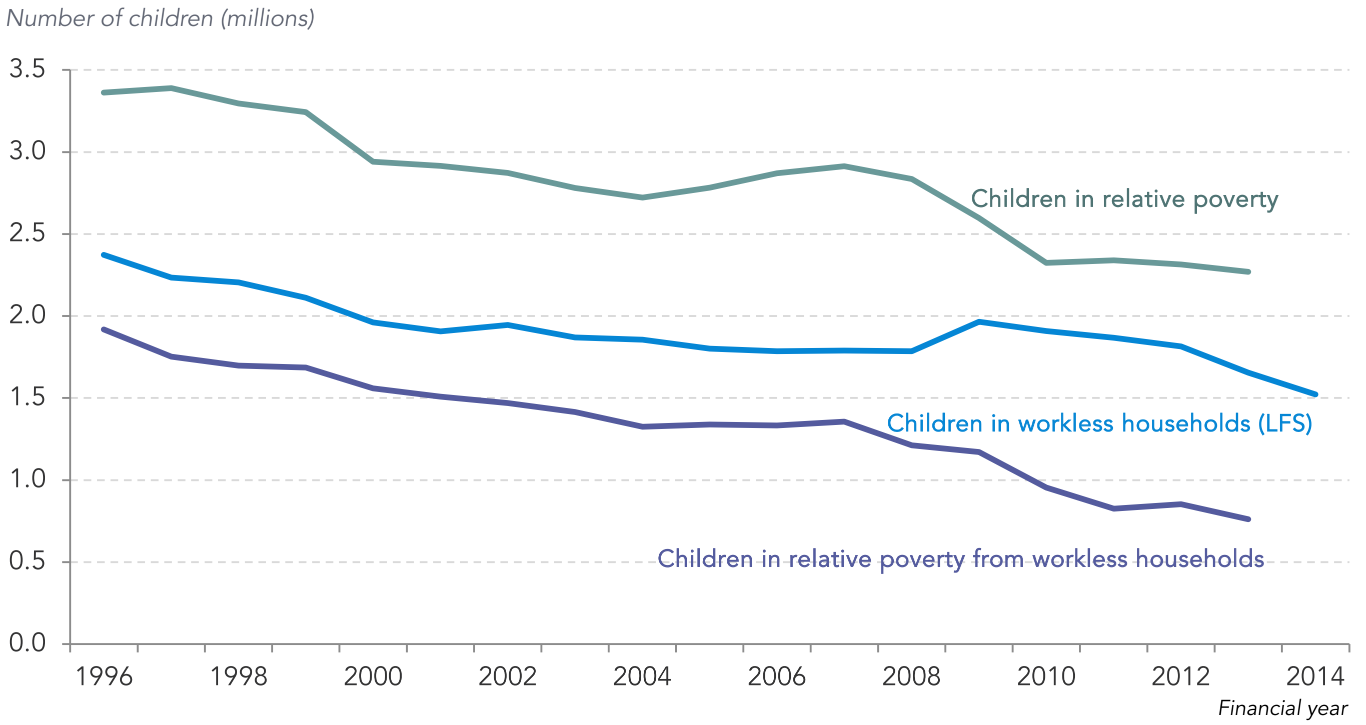
A policy focus of reducing poverty among households containing children (and also pensioners) contributed to sharp falls in the proportions in income poverty in the 2000s. In 1996-97 around one-in-four children lived in a household with income lower than 60 per cent of the contemporary median, 2013-14 it had fallen to around one-in-six. Over the same period the number of children in workless households also fell, but to a greater extent than the number in poverty.

Trends in child poverty and worklessness

Figure A.1 shows the change since 1996-97 in the overall number of children in relative income poverty; the overall number of children living in workless households and the number of children in poverty from workless households.

Between 1996-97 and 2007-08 the number of children in poverty fell from 3.4 million to 2.9 million – a 14 per cent fall. Over the same period the number of children in workless households fell from 2.4 million to 1.8 million – a 25 per cent fall. This fed through fairly uniformly to a fall in the number of children in poverty from workless households.

Figure A.1: Falling numbers of children living in poverty and workless households



Source: HBAI, 1996-97 to 2013-14 & workless households ONS release based on Labour Force Survey

However, in the period since 2007-08 the fall in the number of children from workless households has been outstripped by the fall in the number of children from *poor* workless households. The implication is that worklessness has become less associated with poverty in recent years. At the same time, children in poverty have become increasingly likely to come from working households.

A key determinant of the relationship between worklessness and poverty has been the generosity of the child element of Child Tax Credit (CTC) – the support paid to workless (and lower income working) families with children.[15]

Figure A.2 shows how the proportion of children in poverty from workless families fell from around half in 2002-03 to almost a third in 2013-14 (the latest year for which we have data). At the same time the value of the child element of CTC grew significantly relative to median earnings, stalling in recent years; it is set to fall over the remainder of this decade.

Figure A.2: Children in poverty from workless families and the value of Child Tax Credit

Source: HBAI, 1996-97 to 2013-14, OBR Economic and Fiscal Outlook July 2015

[15] Child Tax Credit has two core components a 'family element' (currently £545 a year) paid to all families with children and a 'child element' (currently £2,780 a year) paid for each child in a family. The level of support received is reduced the more a family earns.

Between April 2002 and April 2012 the value of the child element of CTC as a proportion of average earnings grew by almost a half from around 8 per cent to 12 per cent. The proportion of children in poverty from workless families fell as the value of Child Tax Credit rose. However, recent changes mean that such increases relative to earnings may be a thing of the past:

- Growth in relative CTC generosity slowed from 2012 with uprating of the child element capped at one per cent for three years – although this followed a relatively large one off boost in April 2011.[16]
- The Summer Budget 2015 announced that, along with other working-age benefits, the child element will be frozen in cash terms for four years from April 2016. The value of CTC is therefore expected to fall relative to earnings over the remainder of the decade.
- Larger families will see their incomes fall far more dramatically relative to the same sized families today because support will be limited to only two children for new claims (and new births for current claims) from April 2017.[17]

Overall it is likely that the reduction in the value of CTC will re-strengthen the link between worklessness and income poverty. Over time as the gap between the value of out-of-work support and earnings grow, the depth of poverty – that is the amount of income needed to move above the poverty line – is likely to grow.

The working poor

As the proportion of children in low income from workless households has fallen, the proportion of children in poverty from working households has, of course, risen:

- In 2013-14 63 per cent of children in poverty lived in working households compared to 43 per cent in 1996-97;
- Despite one million fewer children now living in low income compared to 1996-97, the number from working families (around 1.4 million) is unchanged.

But what is behind this relative growth in the working poor?

A number of factors help to explain this trend, but the key underlying reason relates to weak real wage growth before the downturn in 2008 and the fall in real wages for the seven years to 2015. It is only from the turn of this year that real growth in wages has returned, and much of that has been weak nominal wage growth propped up by very low rates of inflation.

Absolute poverty

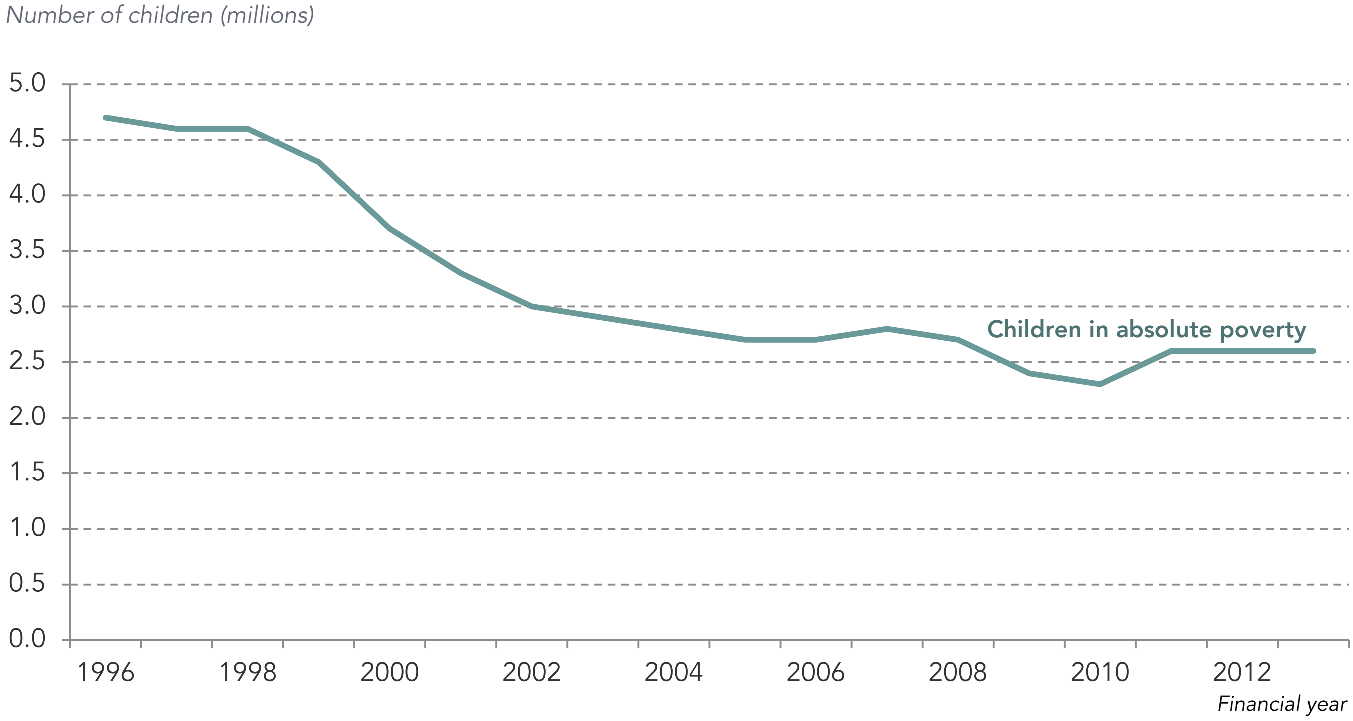
The number of children in absolute poverty fell quickly until around 2006-07 (see Figure A3), largely driven by an improvement in incomes each year compared to in 2000-01 (the historical point to which a comparison is made for the purposes of 'absolute' poverty) both from earnings and benefits.

The number of children in absolute poverty has risen since 2010-11 suggesting that while relative poverty has fallen – the gap between the lowest income families and middle income families has narrowed, driven by bigger income falls at the middle than at the bottom – the overall level of income, and therefore living standards, have fallen compared to previous years.

[16] As part of a package of measures that overall reduced the generosity of tax credits in the previous parliament.

[17] The family element will also cease to be paid for new claims. Equivalent changes will apply to the child allowances in Universal Credit.

Figure A.3: Children in absolute poverty, 1996-97 to 2013-14



Source: HBAI, 1996-97 to 2013-14

Material deprivation

Current child poverty measures also include an aspect that accounts for use and engagement with goods, services and activities that most of the population can access. These are called 'material deprivation' measures and are combined with a measure of low income to provide a broader view of poverty.

The extent of low-income and material deprivation has slowly fallen over time although estimates from 2011-12 must be treated with caution as they use a different set of questions to determine deprivation (that is, there is a break in the data series so direct comparisons cannot be made either side of the break) and there are relatively few data points to consider a trend. Key trends are that:

» Without taking income into account the extent of material deprivation appears to have increased since 2008-09;

» There has been a gradual increase in the proportion of children from working households in poverty on a material deprivation measure – combined with severe low income the proportion of children from working families increased from 40 per cent in 2004-05 to 46 per cent in 2010-11.

Table A1: Number of children in families with material deprivation by whether family member works

Year	Children in low income and material deprivation			Children in severe low income and material deprivation			High material deprivation score regardless of income		
	millions	% in-work	% workless	millions	% in-work	% workless	millions	% in-work	% workless
2004-05	2.2	43%	57%	0.7	40%	60%	3.3	55%	45%
2005-06	2.1	42%	58%	0.7	39%	61%	3.2	55%	45%
2006-07	2.0	40%	60%	0.7	36%	64%	3.2	54%	46%
2007-08	2.2	46%	54%	0.8	46%	54%	3.3	56%	44%
2008-09	2.3	49%	51%	0.8	46%	54%	3.6	59%	41%
2009-10	2.1	44%	56%	0.7	41%	59%	3.6	57%	43%
2010-11	2.0	43%	57%	0.6	46%	54%	3.5	56%	44%
2011-12	1.6	49%	51%	0.4	53%	47%	2.9	59%	41%
2012-13	1.8	47%	53%	0.5	46%	54%	3.2	57%	43%
2013-14	1.7	52%	48%	0.5	54%	46%	3.1	61%	39%

Source: HBAI microdata, 2004-05 to 2012-13

Even when moving away from a purely income measure of poverty and instead looking at a wider indication of the ability to meet basic living standards, working families are a key – and in some instances increasingly important – part of the population.

Annex B: Methodology and assumptions

In our analysis of the overall impact of the Summer Budget on household incomes we include the impact of the following key measures: the reduction of the income threshold from £6,420 to £3,850 and increase in the taper rate from 41 per cent to 48 per cent in tax credits; the four year freeze to working age benefits from April 2016; reducing UC work allowances; removal of the family element and limiting the child element to two children; reduction in the benefit cap and increases to the personal tax allowance in April 2016 and April 2017.

Some policies are not included partly as their effects are difficult to model, largely due to the quality of data that is at our disposal. In most cases, we expect these unmodelled impacts to be small relative to overall changes in incomes or changes in overall spend and potentially work to further increase levels of poverty.

We include scenarios in 2020 with and without the full impact of the Summer Budget measures to reduce support for families with children that will initially only apply to the flow of new cases. These cuts form a significant part of the overall package of spending reduction and will be taking effect for many families already by 2020, for instance around half of the total expected savings from the two-child limit will be realised in 2020 – the year in which our modelling occurs.

For more detail of how we have incorporated changes to earnings following the introduction of the national living wage see our previous report *Higher ground: Who gains from the National Living Wage?*.

To estimate the impact on child poverty we have applied assumptions relating to the extent to which recipients actually claim the benefits they are entitled to and the extent to which these claims are reported to the Family Resources Survey, comparing outturn survey data with modelled outcomes at an individual level. An additional adjustment is made to take account for remaining differences in income to produce an estimate of household income in line with HBAI.

A final adjustment is made to the population of households and children in poverty to account for population growth to 2020 using ONS population projections. Projections of earnings growth and inflation are taken from the OBR assumptions published at the Summer Budget.

Resolution Foundation

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- » *undertaking research and economic analysis to understand the challenges facing people on a low to middle income;*
- » *developing practical and effective policy proposals; and*
- » *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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