
Outcomes, Not Just Incomes

Improving Britain's understanding
and measurement of child poverty

Matthew Oakley and Matthew Tinsley



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Published by

Policy Exchange, Clutha House, 10 Storey's Gate, London SW1P 3AY

www.policyexchange.org.uk

ISBN: 978-1-907689-44-4

Printed by Heron, Dawson and Sawyer

Designed by Soapbox, www.soapbox.co.uk

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Acknowledgements

We are grateful to Neil O'Brien for input and comments. Any errors remain the authors'.

Executive Summary

The problems with the current measures and targets

Child poverty matters

Reducing child poverty is a vital part of improving the lives of some of the most disadvantaged children in society. Ensuring that families have resources to meet their needs will help to both provide all children with a good start in life and bolster their future life chances.

The last government's approach was based around a headline measure that defined child poverty as living in a household with less than 60% of median equivalised household income.¹ A combination of significant redistribution through the benefits and tax credits system and increased requirements and support to help families move at least one earner into work, meant that progress was made against this measure of relative income poverty. Today, 17.5% of all children live in households below the relative income poverty threshold, compared to over 25% in 1999.

Despite this progress we are still some 7.5 percentage points away from hitting the 2020 target. The costs of redistributing incomes towards families living in relative income poverty to meet this target are prohibitive.

However, this is not just a matter of finances. Even if the money were available to meet the targets set out in the Child Poverty Act, it is our belief that this would be an ineffective way of tackling the issue and would not deliver the outcomes that we all desire for children across all parts of society. In short, as well as the current targets being unrealistic, the way in which we measure child poverty is ineffective.

The current measure is too narrow

At the most basic level, the current measure does not even capture all those children that are classed as living materially deprived lives. Analysis in this report shows that 17.5% of children in the UK are classed as experiencing material deprivation but are not counted in the government's headline measure of relative income poverty.

There is also a much broader argument that children's needs are not only financial or material. Previous Policy Exchange reports have argued that a good education, safe and supportive family life, parental employment, access to public services and future life chances are all factors that could easily be defined as a 'need', if not a right, for all children in society.

Income is an important factor in achieving many of these needs. Without incomes sufficient to provide food, clothing, transport to school and work and to engage in many of the social activities that many families take for granted for their children, meeting these needs would be impossible. However, measuring income

¹ The process of equivalisation weights household incomes to account for differences in family sizes in an attempt to make incomes comparable between families of different sizes.

alone cannot tell you whether education, health care or housing has improved for the least well off children in society. It cannot tell you whether social mobility is improving or whether the money is helping the next generation of children to avoid the need for government support altogether.

All that it can measure is the level of income inequality at one point in time, not the use to which incomes are put to or the change in the outcomes which they should be driving. Most importantly, it cannot measure the impacts on children's lives.

The current measure incentivises short-term policy responses

The current approach, based on a headline measure of relative income poverty, also incentivises government to focus policy on short-term income redistribution rather than on improving broader outcomes that would improve children's lives.

A report recently published by the Institute for Fiscal Studies (IFS) has recently noted:

... that too much fixation on income-based measures may skew the policy response towards reforms that have immediate and predictable impacts on household incomes (such as tax and benefit changes) rather than those that most cost-effectively improve children's quality of life or reduce the risk of intergenerational transmission of poverty (such as improvements to education.)²

We can certainly see that most analysis focuses on the headline relative income measure. For instance, it is usually only this measure that appears in impact assessments for new policy announcements. We can also see that policy has focussed on reforms that will impact heavily on this measure of child poverty. For instance, some £170 billion was spent on tax credits between 2003 and 2010.³

From a family perspective, the net financial support available each year for the poorest half of households with children has increased by some £4,000 since 1998/99, over and above increases that would have come from changes in line with inflation.⁴ A specific example is the 2010 Emergency Budget and Spending Review. Based on a model of household incomes that bears little resemblance to actual outcomes that children are experiencing, these two fiscal events committed to spending some £8 billion through Child Tax Credit in order to ensure that there was "no measurable impact on child poverty for two years"⁵

At the same time, we know that education, health, quality of childcare, the incidence of teenage pregnancy, infant mortality rates and child development are all worse for children from more deprived areas and poorer families. It is clear that simply redistributing money to these families will not tackle the depth of the problems involved.

On a positive note, progress has been made against some of these areas. For instance, the Pupil Premium has targeted resources at disadvantaged students in an attempt to close the attainment gap between them and their peers.⁶ Significant levels of expenditure have also been targeted on childcare and Sure Start. However, the structure of the current measure means that government has little incentive to compare the costs and benefits of spending on direct income transfers and investment in services and support. When considering the commitments made at the Spending Review and Budget in 2010, the key question is whether it might have been more effective to commit to spending this £8 billion on

2 Cribb, J., Joyce, R., & Phillips, D., (2012). 'Living Standards, poverty and inequality in the UK: 2012.' *IFS Commentary C124*.

3 <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/chan100.pdf>

4 Cribb, J., Joyce, R., & Phillips, D., (2012). 'Living Standards, poverty and inequality in the UK: 2012.' *IFS Commentary C124*.

5 See http://www.hm-treasury.gov.uk/spend_sr2010_speech.htm and http://www.hm-treasury.gov.uk/junebudget_speech.htm. Also note that this policy was subsequently reversed.

6 The Pupil Premium was proposed by Policy Exchange in our 2008 report *School Funding and Social Justice*.

tackling disadvantage in education, health or employment. A key example is the relative impacts of expenditure on Child Tax Credit and childcare. Under the current system, short-term falls in child poverty from income redistribution are prioritised over investments in childcare provision that might boost long-term employment, increase wages, reduce dependency and lead to larger falls in relative income poverty in the medium term.

In short, a key problem with the current measure of child poverty is that it leaves government little room to focus on policies that would have an impact over a longer time period, but which might have a greater impact on children's lives.

Progress against the current measure has come largely through redistribution

Today 17.5% of all children live in households below the relative income poverty threshold, compared to over 25% in 1999. However, the focus on short-term redistribution of income has meant that the progress that has been made against the existing headline measure has not come through large changes in the working patterns of families. While it is true that progress has been made in helping lone parents into work over the last 15 years, recent research from the IFS shows that the majority (some 87%) of the fall in child poverty comes through channels that cannot be linked to changes in employment status. The report summarises that:

Overall, whilst factors such as changes in parental work patterns play some role in explaining recent changes in child poverty, it is clear that tax and benefit reforms have played the most significant role.⁷

This result is unsurprising given that the report also shows that increases in the state support available to families with children has increased faster than the rise in the poverty line in nine of the last 12 years (and often significantly so). Analysis in this report also shows that the balance between work-contingent and non-work-contingent tax credits has changed in this period. For a lone parent with one child, non-work-contingent Child Tax Credit has increased by 63% since 2003, while Working Tax Credit has risen by 28%. Given this, it is unsurprising that the largest factor driving the reduction in child poverty has been the fall in incidence of poverty amongst workless lone parent households. On its own this accounted for a 3.5 percentage point reduction in the headline child poverty rate (41% of the total change).

Table ES1 shows poverty rates for households split by family type and work status. It clearly shows that the largest falls in poverty rates between 1998/99 and 2010/11 were in workless households and those households with more children. For instance the poverty rate of workless lone parent households with four or more children fell by nearly 50 percentage points and for workless two-parent households with three children it fell by just over 20 percentage points.

Conversely, for two parent households with just one child, poverty rates increased for both in-work and out-of-work families. For couple families with two children, the only real reductions in poverty came from workless households.

“In short, a key problem with the current measure of child poverty is that it leaves government little room to focus on policies that would have an impact over a longer-time period”

⁷ Re-created from Cribb, J., Joyce, R., & Phillips, D., (2012). 'Living Standards, poverty and inequality in the UK: 2012.' *IFS Commentary C124*, p.88.

Table ES1: Rates of relative income poverty for children by household composition and work status

		1998/99 Poverty rate	2010/11 Poverty rate	1998/99 to 2010/11 Change in rate (ppt)
<i>Lone parent households</i>				
1 child	Workless	47.79	38.89	-8.89
	In work	13.75	11.87	-1.88
2 children	Workless	62.53	32.18	-30.35
	In work	20.82	9.33	-11.49
3 children	Workless	70.75	33.89	-36.86
	In work	38.95	15.90	-23.05
4 or more children	Workless	74.94	25.06	-49.88
	In work	33.31	14.27	-19.04
<i>Two parent households</i>				
1 child	Workless	59.28	67.48	8.20
	1 In work	16.75	21.78	5.03
	Both In work	1.45	3.60	2.15
2 children	Workless	69.44	59.11	-10.34
	1 In work	21.36	21.26	-0.10
	Both In work	3.09	3.07	-0.02
3 children	Workless	74.41	54.22	-20.19
	1 In work	37.13	27.96	-9.17
	Both In work	6.49	4.34	-2.16
4 or more children	Workless	85.17	50.96	-34.21
	1 In work	59.44	25.41	-34.03
	Both In work	7.40	6.39	-1.01

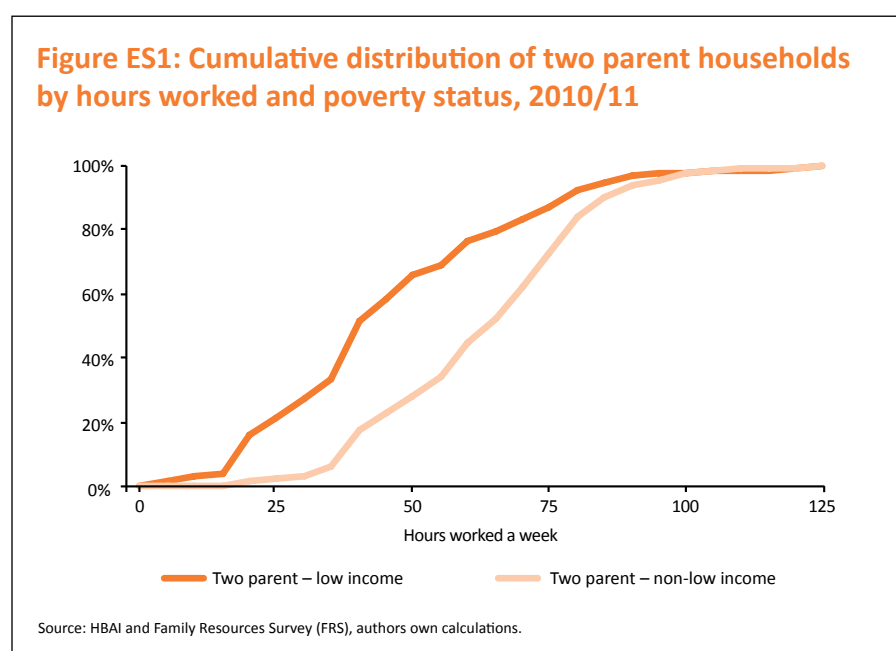
Source: HBAI, authors own calculations.

Overall we have seen the level of income available from non-work-contingent tax credits increase significantly faster than that available from work-contingent tax credits. This has focussed financial gains on workless households and those with larger families, pushing against the desire to increase incentives to work and doing little to tackle the underlying problem of worklessness. It also means that improvements in factors such as employment levels which would help families to support themselves have been limited in a way that the legislated poverty measures do not identify.

Responsibilities between the state and households have been blurred

In 2010/11, working households contributed around 60% of the 2.3 million children measured as being in relative income poverty.⁸ While this fact cannot be disputed, it is essential that policy responses are based on an analysis that looks beneath the headline figures.

There are significant differences between families in work who are classed as living in relative income poverty and those who are not. One of the clearest differences is the number of hours that the households work. Figure ES1 shows that over half of two-parent households in relative income poverty are working less than 40 hours, or less than one full time job, between them. This is in stark contrast to two-parent families not experiencing in-work relative income poverty where 82% work more than 40 hours a week and half work more than 64 hours a week.



Overall it is clear that the number of hours that households work is key to assessing the likelihood of poverty and, indeed, the policy response. Two obvious levers for reducing in-work relative income poverty are increased earnings and increased redistribution. However, the impacts of tax and benefit changes on relative income poverty occur much more quickly, and are relatively easy to model, compared to reforms that encourage families to increase hours and earnings. This means that the current measure has incentivised a short-term response through redistribution rather than helping and supporting families to increase their hours or earnings.

This raises important questions over the balance of responsibilities between the household and the state and has, at least implicitly, placed responsibility for tackling poverty in the hands of the state, rather than the household. In this respect, the current approach to child poverty is at odds with the government's broader welfare reforms: when Universal Credit is introduced, each claimant will be required to sign a 'claimant commitment' which outlines the hours that the household is expected to attempt to work in order to be eligible for state support.

⁸ Relative income poverty statistics from Households Below Average Income 2010/11, Department for Work and Pensions.

Legislating poverty targets⁹

There are a number of principles which an effective legislated target must uphold. This report shows that the current legislated target for child poverty does not meet any of these principles:

- The current framework cannot fully explain the problem or create a consensus for action;
- Government does not have the necessary tools to influence outcomes – an obvious example is the fact that the current headline measures of child poverty move in counter-intuitive ways across the economic cycle;
- The framework leads to unintended consequences, like large increases in Child Tax Credit undermining incentives to work; and
- No-one can effectively be held to account as a result of failing to meet the legislated targets.

What a new measure should look like

A measure that drives government action, not statistical debates

We believe that a broader approach to measuring and tackling poverty will address many of the problems that exist with the current measure. For this reason, it is encouraging that the government is now consulting on a new multi-dimensional approach to measuring child poverty. As our report *Tackling the causes of poverty* argued, an approach that measures outcomes not just incomes will allow us to better understand and tackle child poverty and all of its consequences.

The key purposes of this new measure should be threefold:

- Holding the government to account in its progress against a range of outcomes that define childhood poverty;
- Providing policy makers with a range of tools to tackle poverty; and
- Incentivising cross departmental working towards a common goal.

To do this, we put forward a new measure of child poverty that combines measures of incomes (both absolute and relative) with both an assessment of the work capabilities of the household and a broader range of disadvantage factors that suggest the presence of social poverty.

There will undoubtedly be a debate around the statistical properties of any new measure. In particular, for any measure that looks to combine a range of factors that define childhood poverty, there will be debates around what factors are included and how they are measured. In tackling these issues we have taken a pragmatic approach. The most important characteristic of a new measure is that it drives action from government and improves outcomes and lives for children across the UK. We hope that others keep this over-riding goal in mind when they engage with this debate.

Summary of recommendations

Reflecting our argument that the current targets for child poverty reduction were not met in past, will not be met in the future and do not meet the criteria for an effective legislated target:

⁹ Note that this section draws heavily on an insightful roundtable event held at the Institute for Government and the following paper: Rutter & Knighton (2012). *Legislated Policy Targets: Commitment device, political gesture or constitutional outrage?* Institute for Government (<http://www.instituteforgovernment.org.uk/sites/default/files/publications/Legislated%20policy%20targets%20final.pdf>). However, views expressed are solely the authors.

Recommendation: The current child poverty targets as set out in the Child Poverty Act 2010 should be repealed. No future targets should be legislated for.

However, simply removing the targets will not be enough. The current measures of child poverty are too narrow, create policy distortions and have damaging effects on incentives:

Recommendation: The government should introduce a new measure of child poverty. This should be based on a number of outcomes that reflect the full range of needs that children have, rather than simply measuring incomes. The requirement to monitor and publish statistics relating to this measure should be legislated for in a new Child Poverty Bill. This should supersede the Child Poverty Act 2010 and replace, rather than supplement, the current legislated measures for child poverty and their associated targets.

When designing the new measure, we believe that the measurement of incomes must remain a part of the assessment of poverty. In particular, we believe that any household falling below an absolute level of poverty should continue to be classed as living in poverty.

Recommendation: The new framework should include a commitment to continue to monitor and publish a measure of absolute poverty based on the existing measure outlined in the Child Poverty Act 2010. Any household living below this absolute poverty line should be classed as being in poverty.

We also believe that, because of the unconditional commitment the state has made to supporting them, there are a number of groups that should be classed as living in poverty if they fall below a given level of income measured against other households in society.

Recommendation: Households where the state provides financial support without the requirement that the parents should either look for work at all, or increase their hours or earnings, should be classed as being in poverty if they fall below 60% of median equivalised household income. This commitment would require the monitoring of data (which is currently unavailable) on relative low income for families placed in the lower conditionality groups within Universal Credit (ESA claimants; those on Income Support and those with caring responsibilities which mean they are not expected to seek work). This may require additional questions to be included in the Family Resources Survey (FRS) or links to be made with administrative data as part of the new Universal Credit system.

Recommendation: Households working above the number hours expected in their claimant commitment should be classed as being in poverty if they fall below 60% of equivalised household median income. This measure could be relatively easily created within the existing FRS, but again, matching data from Universal Credit would be desirable.

As well as these income measures, we believe that a new multi-dimensional approach should be encapsulated in the measurement of social poverty. This would be built around a measure that shows, at a household level, how many children experience a given number of disadvantage factors. One of these factors should be low relative income.

Recommendation: As outlined in the government's consultation document, the new measure of child poverty must be multidimensional. This could be reflected in a measure of social poverty that reflects the number of disadvantage factors a household has. It should be measured at a household level either within the FRS or within other data sources that can be matched in the FRS. This measure should be combined with the measures of absolute and relative income poverty to outline a measure of the total number of children in poverty.

Once the range of disadvantage factors to include has been determined, the key question is how they should be combined to allow government to publish a headline figure of social and total child poverty.

Recommendation: In order to produce a measure that is understandable and transparent, the measure of social poverty should simply sum the number of disadvantage factors that a household is experiencing and set a benchmark for the number needed to be classed as being in poverty.

Recommendation: Changing the measure should not be about massaging down the headline measure of child poverty or reducing the costs of tackling the problem. This means that the number of disadvantage factors required to be classed as in social poverty should be set so that, once added to the children classed as being in absolute or relative income poverty, at least the same total number of children are classed as living in poverty as under the current measure.

While one may argue over the statistical validity of an approach which simply sums disadvantage factors and sets a seemingly arbitrary benchmark for poverty, we believe that it provides transparency over the government's progress on a range of measures and would act as a spur to government policy to improve the lives of children across the UK experiencing a range of dimensions of poverty. It would also provide a firm lever with which to consolidate action across Whitehall. This framework would make it clear how each department might feed into the reduction of child poverty and, as such, it would make it easier to hold each department to account.

As well as these obvious advantages, the arbitrary setting of a "social poverty line" can also be mitigated by requiring the government to publish a measure of the dimensions of poverty that households experience.

Recommendation: Alongside the measure of the level of poverty, the government should also publish a measure that takes account of the dimensions of poverty that households experience. This would involve publishing summary statistics that sum how many 'disadvantage factors' children are experiencing and splitting this by whether or not the household is classed as experiencing other types of poverty.

This might look like Table ES2, which could also be broken down by demographic groups.

Table ES2: Example of how reporting table on disadvantage factors might look

Number of disadvantage factors in household	Total number and proportion of children living in these households	
	Rate	Number
0	Q%	A
1	W%	B
2	E%	C
3	R%	D
4	T%	E
5	Y%	F
6	U%	G
7	I%	H
8	O%	I
Total	100%	Column sum

The final question is over the factors which we believe should be incorporated into a measure of social poverty. We have taken a pragmatic approach to this question in an attempt to drive government policy accountability and improve children's lives. This means that only disadvantage factors which are readily measurable or easy to incorporate or match into the FRS should be included in a measure of social poverty:

Recommendation: For those disadvantage factors that can already be captured by existing variables within the FRS, the government should immediately begin to publish data relating to the number of households experiencing these factors.

Recommendation: For those disadvantage factors that cannot be captured within the current FRS, the government must work with the data providers and statisticians to assess the potential for extra variables to be added to the FRS or for a data matching exercise to take place. As well as the potential for this exercise to require increased funding from the DWP and other departments, it is essential that any changes to the FRS do not undermine the current value of the FRS in providing information about the living conditions and resources of people in the UK.

Disadvantage factors which cannot be measured or incorporated into the FRS should not be used in a measure of social poverty.

Recommendation: Aspects of social poverty that it is deemed impossible to capture within the FRS, but that the government is interested in, should not be used in the measure of social poverty. Instead, the government should publish individual measures of these disadvantage factors alongside the headline poverty measure.

Given our belief that it should be possible to measure these factors within the FRS or with data that can be matched in to it, we believe it is desirable and possible to include the following disadvantage factors in a measure of social poverty:

- Household is in relative income poverty;
- Household is workless, but expected to work under Universal Credit conditionality;
- Child is themselves a parent;
- Quality of housing is poor or the family is living in temporary accommodation.
- Family are experiencing an unsustainable level of debt;
- Child has been taken into care in their lifetime;
- Child or parents have had engagement with the criminal justice system; and
- Child has low educational attainment.

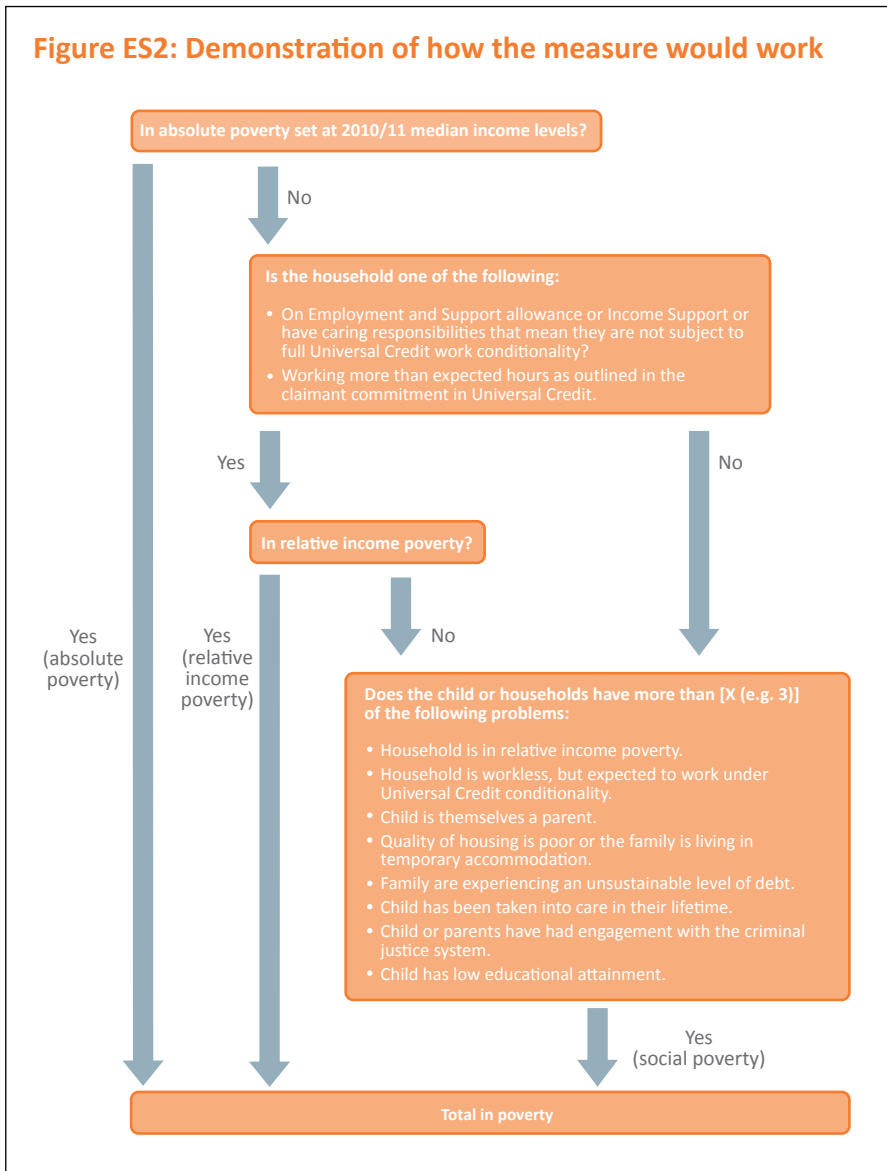
Figure ES2 demonstrates how a measure structured like this might be constructed in practice. Based on an assessment of household level survey evidence it would provide a straightforward and easily implementable approach to assessing child poverty.

We believe that a number of factors are more difficult to measure either at a household level or within the FRS, but would warrant inclusion in a publication that tracks performance against a range of measures. A wide range of measures should be included in this document and should include:

- Gaps between the incidence of infant mortality; levels of child development and unauthorised school absence between families at different points in the income distribution (for instance the 10th and 90th percentiles);
- The number and proportion of children living in households where a parent has a alcohol or drug dependence;
- Employment gaps for disadvantaged groups;
- The number and proportion of households relying on the state for more than 50% of their household income; and
- The number of children in “never worked households” and how these are split between those who are workless because of a disability, ill health or caring responsibilities and those who are workless, but could work.

Outcomes, not just incomes

Basing a new measure of child poverty on the approach we have outlined above would provide government with levers to tackle the full extent of child poverty in the UK. It would give stakeholders, interest groups and the public a fuller account of low income and social poverty in the UK and the progress that government is making in tackling them. By doing so it would be a catalyst to improving the lives of children across the UK.



1

Assessing Child Poverty in the UK

Very few people would argue that governments should not support the most disadvantaged and vulnerable children in society. The reduction of child poverty is a key tool in doing this and in improving these children's lives both now and in the future. However, approaches between countries and across time have been varied. A key driver of these differences has been that there are many possible measures of child poverty. Each of these has its own advantages and downfalls. No measure is perfect and, ultimately, each should be assessed on the basis of its success in improving the lives of children living in disadvantaged circumstances.

The Child Poverty Act framework

The current approach to tackling child poverty in the UK was initiated with the announcement in 1999 of the goal that the government would eradicate child poverty within a generation. Subsequent announcements committed the government to the intermediate goals of reducing child poverty by a quarter before 2004/5 and a half by 2010/11.¹⁰ These targets were set around a measure of poverty based on relative household incomes. A household would be classed as being in poverty if they were in receipt of less than 60% of net median equivalised household income. In 2002 the Department for Work and Pensions launched a consultation into additional and alternative measures.¹¹

This consultation began the process from which the current framework for measuring and addressing child poverty arose through the Child Poverty Act 2010. This committed the government to a number of targets based on four measures of poverty:

- **Relative low income** – An equivalised net household income less than 60% of the median net equivalised household income. The target is for this to be no more than 10% of children by 2020.
- **Combined low income and material deprivation** – Living in a household earning less than 70% of median equivalised household income and experiencing material deprivation, with a target of 5% by 2020.
- **Absolute low income** – Equivalised household net income below 60% of the 2010/11 median after adjusting for inflation. The Act set a target of 5% to be achieved by 2020.
- **Persistent poverty** – Living below the relative low income threshold in at least three of the last four years. The target is to be set with the consent of child poverty commission by 2015.

10 Kennedy, S. and Townsend, I. (2009). Child Poverty Bill, Bill No 112 of 2008–09. House of Commons Library Research Paper 09/62 30 June 2009

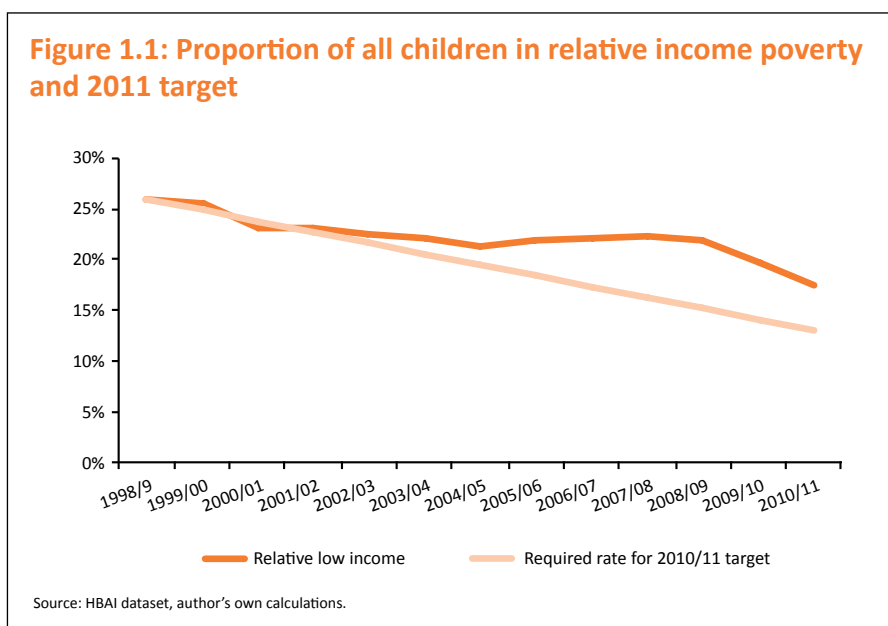
11 <http://www.dwp.gov.uk/docs/measuring-child-poverty.pdf>

However, while in practice there are four measures and targets contained within the legislation, historical and international precedent has meant that the relative low income measure is still regarded as the headline measure of child poverty in the UK. For instance, in impact assessments of policy reforms the government regularly only publishes data relating to the relative low income measure. For this reason, the rest of this chapter focuses its analysis most strongly on this measure and its associated target.

Child poverty in the UK today

There is no doubt that, since 1999, progress has been made. The numbers of children living in poverty, as defined by the headline figure, have fallen. Based on this measure, some 1.02 million children have been lifted out of poverty.¹² Significant policy reforms through tax credits and the reform of welfare and employment support have been introduced and billions of pounds spent on trying to achieve this goal. Today 17.5% of all children live in households below the relative income poverty threshold, compared to over 25% in 1999.

However, it has become startlingly clear that meeting the target as set out in the Child Poverty Act, is not achievable. Figure 1.1 demonstrates both the progress that has been made and the large gap between where we are now and where we would need to be on course to meet the headline target in 2020.



Recent estimates suggest that closing this gap and meeting the headline target would cost around £19 billion a year by 2020.¹³ Even outside of the context of the financial crisis and need for fiscal consolidation, it is unlikely that any government would have been able to pump that level of expenditure into tackling child poverty. This creates a major problem with the legislated target.

Problem with the current framework 1: The costs of meeting the 2020 child poverty target are too great for any government to meet. They are unrealistic and will be missed.

¹² Figures from Households Below Average Income dataset, author's own calculations. These do not match perfectly with official HBAI statistics, however we choose to use the raw data as this allows greater analytical flexibility.

¹³ Cost of cutting child poverty rises as families fall further below poverty line, Institute for Fiscal Studies press release, 2009.

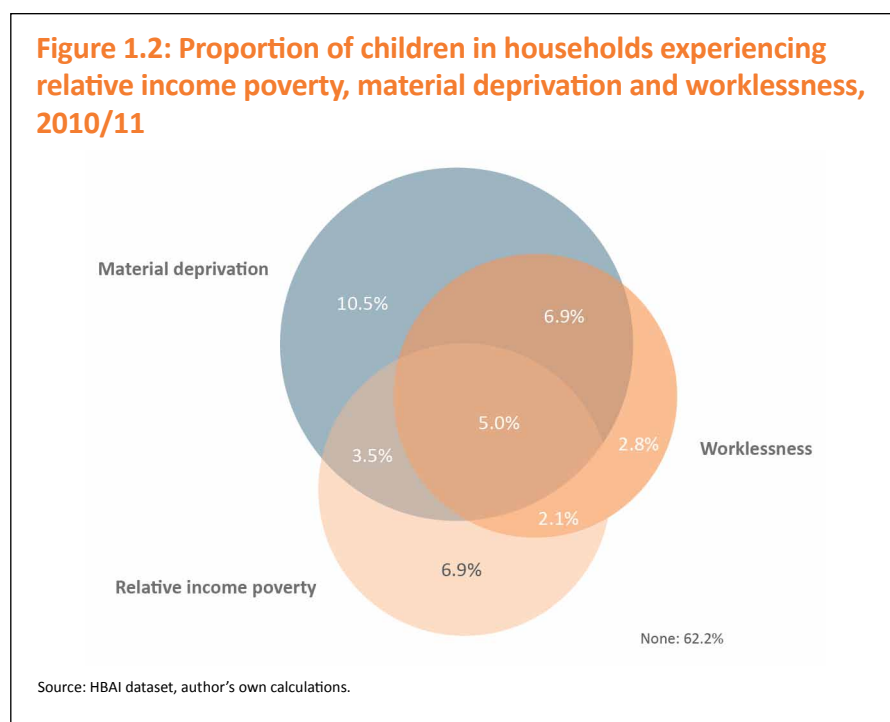
The problems with the current framework are not confined to the fact that the targets are unrealistic. We believe there are also underlying problems with the way in which we measure child poverty.

Comparing different measures

Given the various definitions of child poverty that exist, a key question is how they interact and overlap. If each measure identified the same groups of people and families, then the choice of measure would not be a matter of contention. However, this is not necessarily the case.

On a positive note, relative income poverty, material deprivation and worklessness are, to some extent, correlated. Figure 1.2 shows how the three concepts overlap. Of the 38% of children living in households that experienced at least one of these three in 2009/10, 46% experienced more than one.

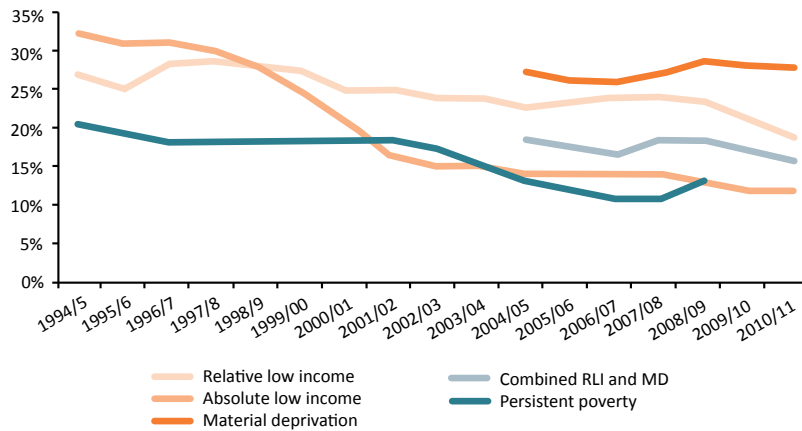
However two thirds of the children experiencing material deprivation are not classed as experiencing relative income poverty. This means that 17.5% of children in the UK are classed as experiencing material deprivation but are not counted in the government’s headline measure of relative income poverty.



Problem with the current framework 2: The focus on relative income poverty means that a number of children and families that we might think are living materially deprived lives are not picked up by the measure. The measure does not capture the full nature of child poverty in the UK.

These differences in definitions also become problematic when we compare progress over time. Figure 1.3 shows the proportion of children judged to be in poverty between 1998/99 and 2010/11 based on the different measures.

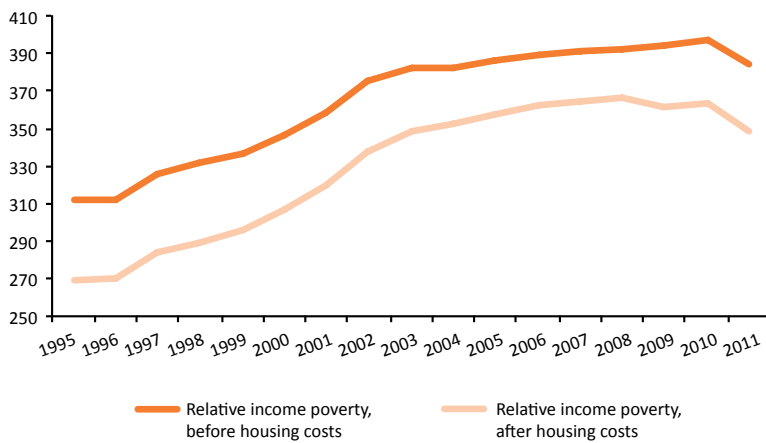
Figure 1.3: Proportion of children in poverty judged by different measures over time



Source: HBAI dataset, with exception of Persistent Poverty and Absolute Low Income which used HBAI release.

As outlined above, relative income poverty has fallen significantly since the late 1990s. The fact that median incomes were rising significantly during this period of time makes this progress even more impressive. Rises in median incomes have meant that the poverty threshold rose (see Figure 1.4) and that we have been aiming for a moving target.

Figure 1.4: Value of different income thresholds for a two child household over time (£)



Source: HBAI release.

This is not a problem experienced when tracking the absolute poverty measure. Since the absolute poverty threshold is fixed at 60% of the 1998/9 median equivalised income and wages have risen across the income distribution in real terms, this measure has seen the greatest fall. This trend is clearest in the late 1990s and early 2000s where the absolute low income rate was halved to 14% in the

space of five years. Only 11% of children now live in households that fall below the 1998/9 poverty line. It is now at a similar level as the persistent poverty measure. The fact that persistent relative income poverty is much lower than overall relative income poverty measured in any one year is a reflection of the fact that large numbers of families move in and out of poverty between different years as their circumstances change. This reflects the fact that poverty is not a static issue. It has a dynamic nature.

These three measures can therefore offer quite different perspectives on what is happening to the poorest families, despite all focussing directly on income. This makes it difficult to build a consensus around even just the income measures of poverty.

Impact of the recession

The recession has had large scale impacts on the labour market and households standards of living. Unemployment has risen sharply, real wages for those still in work have fallen and the Office for National Statistics have recently demonstrated that household's real disposable incomes have fallen to their lowest levels since the second quarter of 2005. It is natural to assume that these changes in living standards should have increased the measured level of child poverty.

It is true that some of the most significant changes in the number of children measured to be in poverty have happened in the last few years as the recession squeezed incomes and unemployment rose. However, the problem is that, while median income has fallen in real terms, benefits have tended to track inflation and this has meant that a large number of households have been lifted above the relative low income threshold. In the most recent HBAI releases the proportion of children falling below the relative income poverty threshold fell by another two percentage points to 17.5%.¹⁴ In short, rather than rising when living standards have fallen, measured child poverty has fallen.

This clearly indicates that measuring child poverty based on a relative income measure has odd cyclical effects. When the economy is weak and median incomes and standards of living are falling, relative income poverty is also falling. The measure fails to identify the effects of economic downturns on the living standards of deprived families or those close to being deprived.

This is not the case with other measures of poverty. At the same time as relative income poverty has been falling, the material deprivation measure has shown an increase in the proportion of children measured as being in poverty (Figure 1.5).

If each of the four measures within the existing framework were regarded equally, this would not present a problem. However, given almost all of the political and media attention falls on the relative income measure, this cyclicity presents a major problem in effectively holding government to account and incentivising policy responses that will improve children's outcomes and lives.

Child poverty or income inequality?

At the core of this criticism of the headline measure of relative income poverty is the fact that it measures income inequality, rather than a broader view of what poverty constitutes. When incomes fall, but the bottom of the distribution compresses, poverty also falls. When incomes rise across the board, but inequality remains the same, the headline measure of child poverty does not fall. This criticism can also be levelled at the two other targets that rely on a measurement of current median household incomes.

¹⁴ Households Below Average Income dataset, author's own calculations.

In short, the current measures can mean that at the same time as everyone is becoming worse off, the government can be celebrating falls in child poverty.

Problem with the current framework 3: Three of the existing measures are based heavily on income inequality, rather than a broader reflection child poverty. This means that falls in median incomes, like we have seen during the recession, tend to be associated with falls in measured child poverty. The framework fails to effectively measure changes in childhood deprivation and disadvantage.

Beneath the headline figures

Family type and work

Figure A1 in Annex 1 shows how children classed as being in relative income poverty are split between different family types. It shows that, in 2010/11, 29% of all children defined as in poverty lived in lone parent households, with 71% living with two parents. 60% of children experiencing relative low income poverty had at least one parent in work. Of those children in relative income poverty in two parent households, only 27% have both parents either unemployed or inactive. However, many two-parent households are completely dependent on part time work (15%), a single full time earner (23%) or self employment (24%). This means that a large majority of two-parent households experiencing in-work relative income poverty are relying on income from only one earner.

Among children in lone parent households that are in relative low income poverty, 73% do not have a parent in work. Only 8% have a full time earner (excluding self employment) and more than half of children from lone parent households experiencing in-work poverty are reliant on part time work.

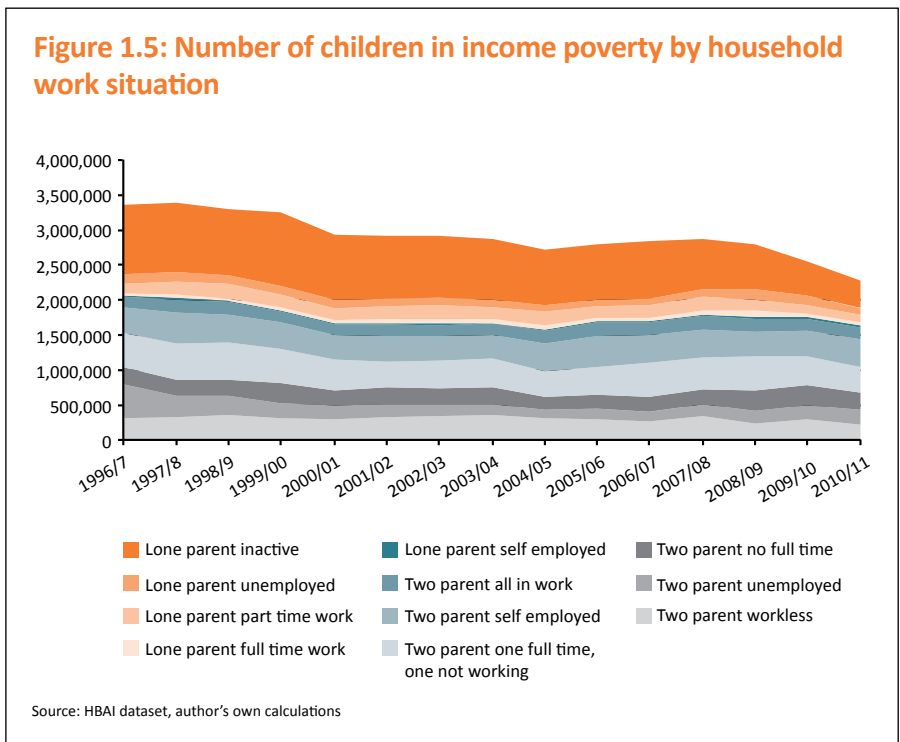
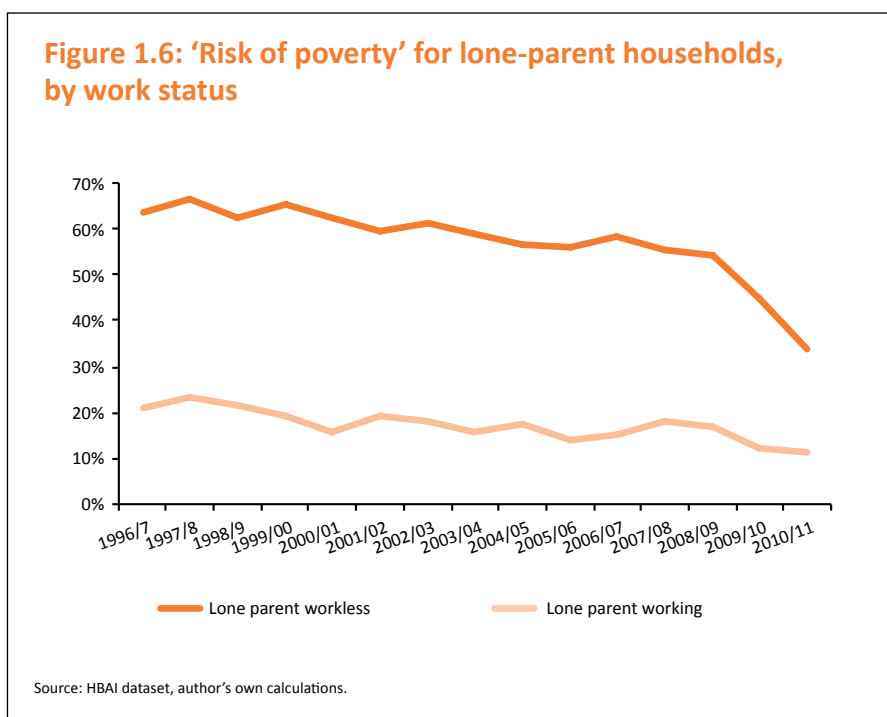


Figure 1.5 shows how these figures have evolved over time. The clearest trend has been the large fall in the number of children in relative income poverty living in inactive lone parent households. However, these changes to the number of children in inactive lone parent households who experience poverty can be driven by two key factors:

- Inactive lone parents moving into work; or
- Inactive lone parent households beginning to receive levels of out-of-work incomes which move them over the poverty line.

To start to assess the relative importance of these factors we can compare the changes in the total population of children in each category to the changes in the numbers in relative income poverty. For instance, all else equal, if the reduction in the number of children in inactive lone parent households is smaller than the reduction in the number of children in poverty living in inactive lone parent households, it shows that reductions in poverty have come both from lone parents moving into work and from a reduced incidence of poverty in inactive lone parent households.

Table A1 in Annex 1 presents this information for a range of household types. It shows the total number of children in inactive lone parent households has fallen by nearly 300,000 since 1998/99. Since the number of children in poverty in inactive lone parent households has fallen by nearly 550,000 over the same period this implies that, as well as having success in moving lone parents into work, there has been a large reduction in the incidence of poverty in inactive lone parent households. This is demonstrated in Figure 1.6 that shows that the incidence of poverty in inactive lone parents has plummeted from around 62% in 1996/97 to around 34% in 2010/11.



The stark falls since the financial crisis again demonstrate the impact of falling median incomes. However, in the period between 1996/97 and 2007/08, falling median wages cannot explain the large falls in the incidence of poverty in these families and it is likely that a large part of these changes are a result of increased generosity of out-of-work benefits and tax credits that have pulled inactive lone parent households above the poverty line. The impact of changes in state support are also highlighted in Table 1.1, recreated from a recent IFS report.

Table 1.1: Decomposition of the fall in relative child poverty (BHC) in Great Britain, 1998–99 to 2010–11, by family type and work status^{15, 16}

	Child poverty rate (%)		Fraction of child population (%)		Compositional effect (ppts)	Incidence effect (ppts)	Total change in poverty rate (ppts)
	1998–99	2010–11	1998–99	2010–11			
Lone parents							
Full time	9.7	9.4	4.2	6.1	-0.2	0.0	-0.3
Part time	31.4	13.0	5.1	6.0	0.0	-1.0	-18.4
Workless	62.4	34.3	13.5	11.1	-0.6	-3.5	-28.1
Couples with children							
Self employed	26.2	23.5	12.0	12.6	0.0	-0.3	-2.6
Two full time earners	1.4	2.4	12.4	16.2	-0.8	0.1	1.0
One full time, one part time	4.7	4.4	25.8	21.7	0.7	-0.1	-0.3
One full time, one not working	24.9	17.9	16.8	16.3	0.0	-1.1	-6.9
One or two part time	55.2	44.2	3.4	4.4	0.3	-0.4	-11.0
Workless	73.7	58.7	6.7	5.7	-0.5	-0.9	-15.1
All children	26.0	17.6	100.0	100.0	-1.1	-7.3	-8.4

This shows that changes in work patterns (shown by the “compositional effects”) do account for some of the reduction in child poverty over the period. Overall, reductions in the number of children without working parents account for around 1.1 percentage points of the 8.4 percentage point fall in the headline child poverty rate. However, that clearly leaves the vast majority of the work to be done by changes in the risk of poverty for given family and work types. These “incidence effects” account for some 87% of the reduction in child poverty over the period. By far the largest factor was the fall in incidence of poverty amongst workless lone parents. On its own this accounted for a 3.5 percentage point reduction in the headline child poverty rate (41% of the total change). The authors conclude that:

Overall, whilst factors such as changes in parental work patterns play some role in explaining recent changes in child poverty, it is clear that tax and benefit reforms have played the most significant role.¹⁷

15 Re-created from Cribb, J., Joyce, R., & Phillips, D., (2012). ‘Living Standards, poverty and inequality in the UK: 2012.’ *IFS Commentary C124*.p.84.

16 Note: Poverty rates are measured as the percentage of the group with income below 60% of the population-wide BHC median income.

17 Re-created from Cribb, J., Joyce, R., & Phillips, D., (2012). ‘Living Standards, poverty and inequality in the UK: 2012.’ *IFS Commentary C124*.p.88.

When we consider changes to the level and composition of state support over this period, this conclusion is unsurprising. Table 1.2 shows the how state support has changed since 1998–99. It demonstrates that for each of the family types, in nine out of the twelve years, increases in nominal entitlements to state support increased by more than increase in the poverty line.¹⁸

Table 1.2: Annual growth in nominal entitlements to state support for three types of families with children since 1998–99 (%)^{19, 20}

	Couple, 3 children, no work	Lone parent, 1 child, no work	Lone parent, 1 child, part time work	Poverty line (BHC)
1999–00	9.3	8.6	9.3	5.0
2000–01	13.4	8.8	12.7	5.9
2001–02	9.1	6.4	6.8	6.3
2002–03	4.1	3.2	7.0	3.7
2003–04	8.6	6.6	10.1	2.4
2004–05	6.0	4.5	5.0	4.0
2005–06	2.5	2.0	3.1	3.5
2006–07	3.1	2.7	3.0	4.1
2007–08	3.6	3.3	3.7	4.3
2008–09	7.0	5.4	6.2	3.5
2009–10	6.4	6.1	5.5	1.3
2010–11	2.2	2.0	1.9	1.8

18 Note for the no-work lone parents this is 8 out of 12 years.

19 Re-created from Cribb, J., Joyce, R., & Phillips, D., (2012). 'Living Standards, poverty and inequality in the UK: 2012.' *IFS Commentary C124*. p.87.

20 Notes: The table shows annual changes in maximum entitlements to benefits for various family types with no private income (except the working lone parent, who is assumed to earn an amount that is below the personal income tax allowance and the primary threshold for National Insurance contributions) ignoring Housing Benefit and Council Tax Benefit and the value of free school meals. The lightly shaded cells indicate percentage changes in nominal entitlements that exceed the percentage change in the BHC relative poverty line. The darker shaded cells indicate reductions in the rate of relative BHC child poverty.

21 Author's own calculations from *Tax benefit reference manual 2009/10 edition* (held in the parliament library and produced by the Treasury) and *Tables confirming tax and tax credit rates and thresholds for 2011–12 and 2012–13* from the Treasury website.

Within these rises, we also saw a shift in the balance between Working Tax Credit (WTC) and Child Tax Credit (CTC). Between 2003/04 and 2012/13, for a lone parent with one child, the maximum entitlement to WTC rose by 28%, whereas for CTC it rose by 63%.²¹ This means that the level of income available from non-work-contingent tax credits increased significantly faster than that available from work-contingent tax credits. Such large increases push against the desire to increase incentives to work and do little to tackle the underlying problem of worklessness.

Problem with the current framework 4: The focus on relative income poverty has led to large transfers to non-work-contingent tax credits. This has drawn focus away from tackling the incidence of poverty for working families and has impacted on work incentives. It has also meant that reductions in child poverty have largely been driven by redistribution, rather than by increased employment or earnings.

In work poverty

The analysis above demonstrates that a large part of the falls in child poverty have come from reductions in poverty in workless households and that progress

in reducing poverty for in-work households has been less convincing. This is a concern since, in 2010/11, working households contributed around 60% of the 2.3 million children measured as being in relative income poverty.²²

While this fact cannot be disputed, it is essential that policy responses are based on an analysis that looks beneath the headline figures. The first point to note is that the incidence of poverty is considerably lower in working households. Just 12% of working households have children classed as being in relative income poverty. The same figure for workless households is 44%. This demonstrates that fact that working households account for a larger share of child poverty because there are five and half times the number of working households than workless households, not because poverty is more likely in these households.

We can also see that there are significant differences between families in work who are classed as living in relative low income poverty and those who are not. One of the clearest differences is the number of hours that the households work. Figure 1.7 shows the distribution of hours worked by two-parent households by whether they are classed as being in poverty or not. It is apparent that those experiencing in-work poverty are working considerably fewer hours than those not classed as being in relative income poverty.²³

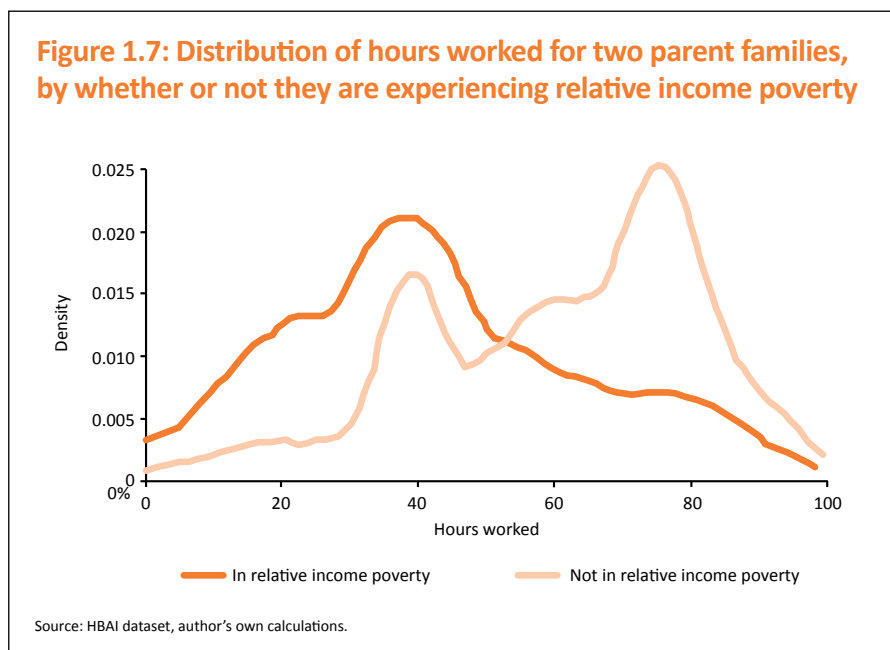


Figure 1.8 builds on this to show that over half of two-parent households classed as being in relative income poverty are working less than 40 hours a week, or less than one full time job, between them. This is in stark contrast to two-parent families not experiencing in-work relative income poverty where 82% work more than 40 hours and half work more than 64 hours per week.

Figure 1.9 shows a similar situation for lone parents and also shows the impact of the 16 hour rule in Working Tax Credit. Almost 30% of working lone parent households not in relative income poverty are working between 16 and 20 hours a week.

22 Relative income poverty statistics from Households Below Average Income 2010/11, Department for Work and Pensions.

23 Linking the Households Below Average Income dataset to its source in the Family Resources Survey allowed us to identify the number of hours worked by in-work households with different levels of income and material deprivation.

Figure 1.8: Cumulative distribution of two parent households in in-work poverty by hours worked, 2010/11

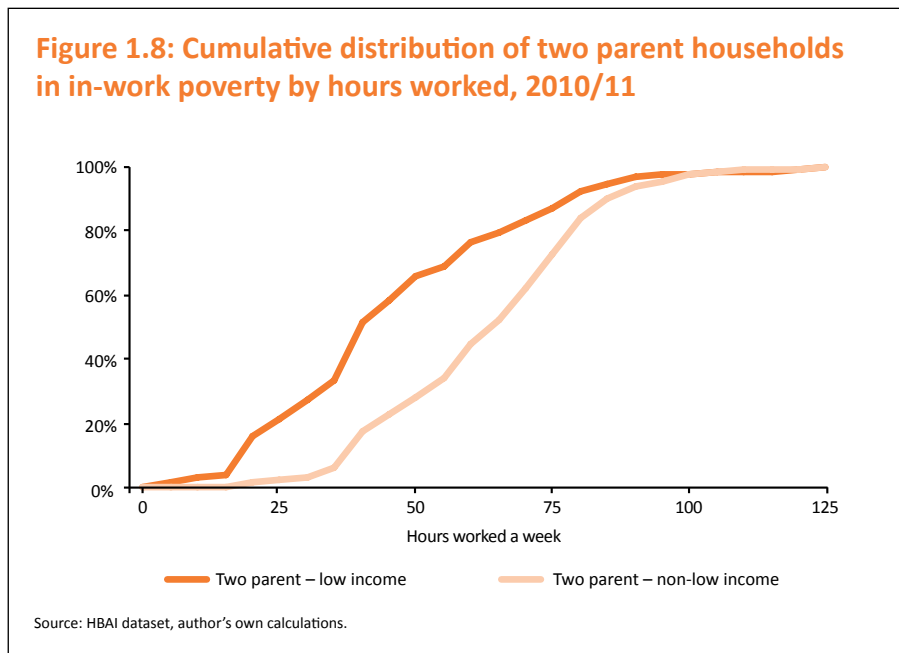
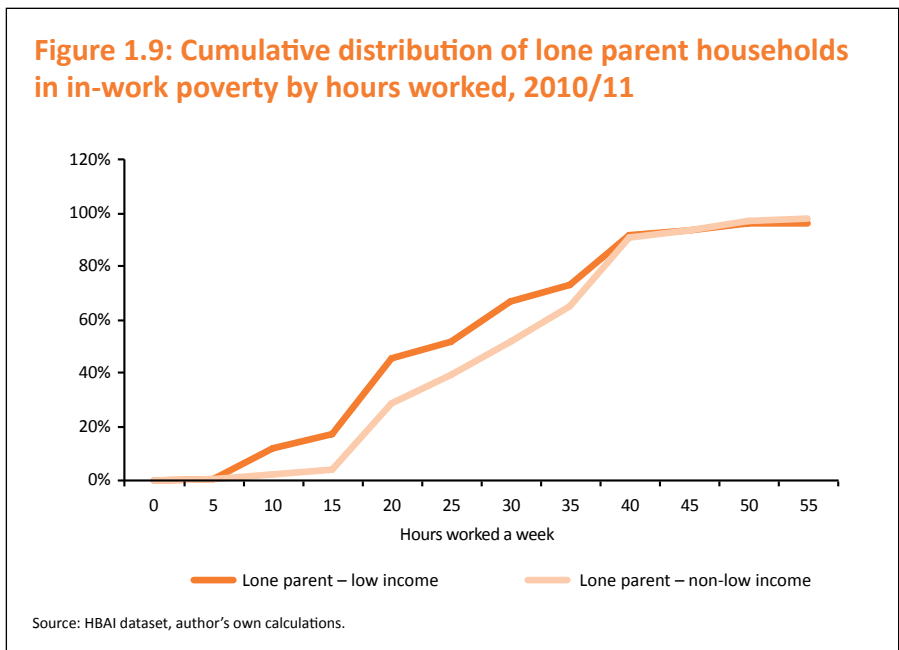
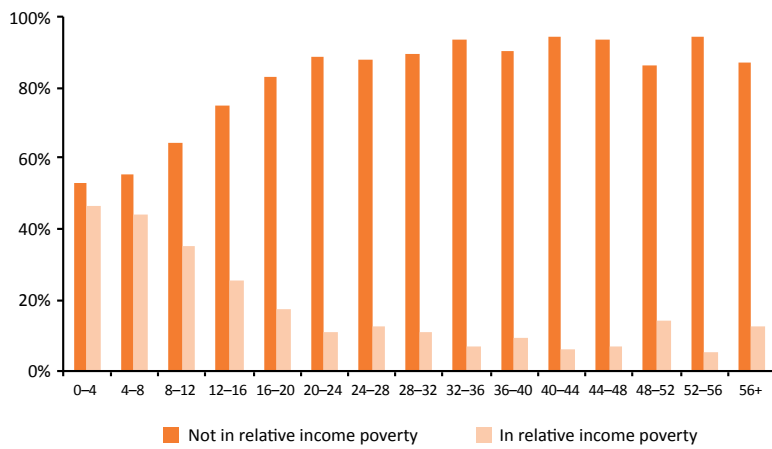


Figure 1.9: Cumulative distribution of lone parent households in in-work poverty by hours worked, 2010/11



Looking at this another way, we can assess the proportion of families working different numbers of hours who are classed as being in relative income poverty. Figure 1.10 shows the situation for lone parents. It shows that around half of children in lone parent households working between one and around eight hours are still in poverty. However, once a lone parent begins to work more than 16 hours a week, this figure drops dramatically. Only around 10% of children in lone parent households working more than 20 hours a week are in relative income poverty.

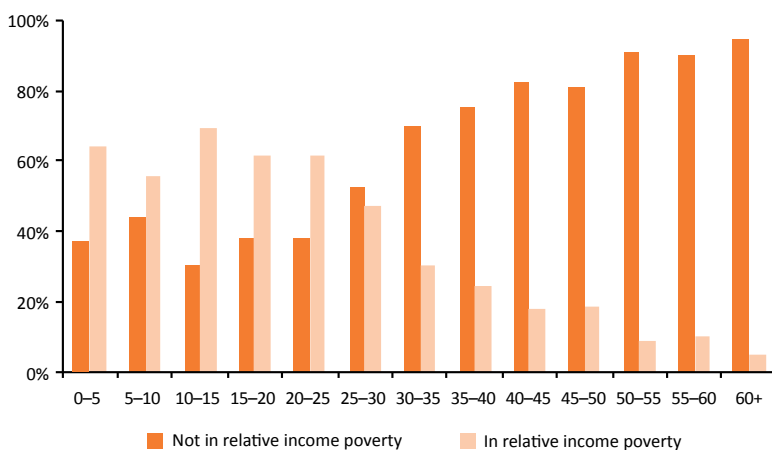
Figure 1.10: Incidence of poverty for lone parent households by number of hours worked, 2010/11



Source: HBAI dataset, author's own calculations.

The situation for couples is shown in Figure 1.11. It shows that over 40% of couple families working up to around 30 hours are classed as living in in-work poverty. Once the couple are working for a combined total of over 40 hours, the proportion of children in these households in relative income poverty falls to below 20%.

Figure 1.11: Incidence of poverty for couple households by number of hours worked, 2010/11



Source: HBAI dataset, author's own calculations.

Overall it is clear that the number of hours that households work is key to assessing the likelihood of poverty and, indeed, the policy response. Two obvious levers for reducing in-work relative income poverty are increased earnings and increased redistribution. This raises important questions over the balance of responsibilities

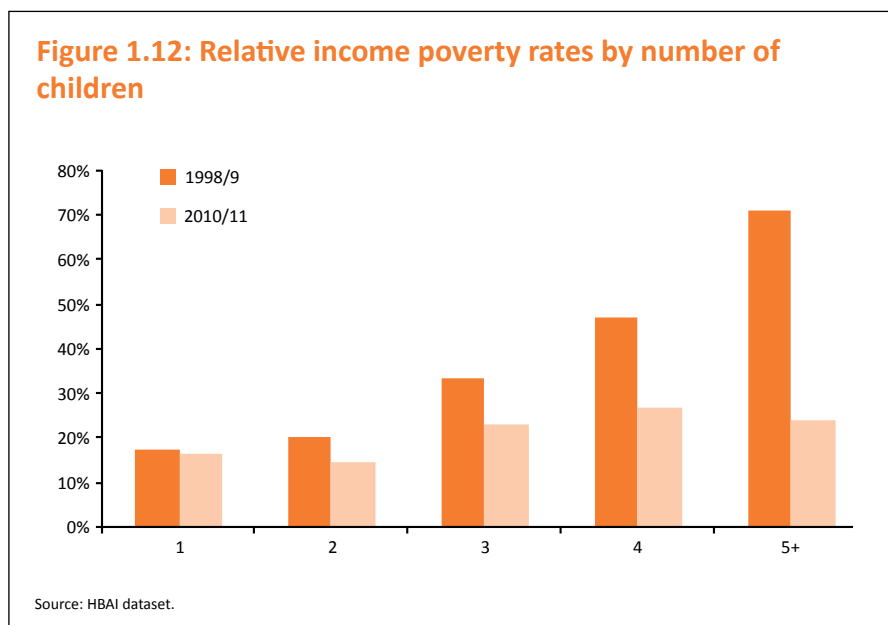
between the household and the state. However, the impacts of tax and benefit changes on relative income poverty occur much more quickly, and are relatively easy to model, compared to reforms that encourage families to increase hours and earnings. This means that the current measure has incentivised a short-term response through redistribution even where increased hours are possible, either by a second earner entering work or the primary earner increasing their hours.

This has, at least implicitly, placed responsibility for tackling poverty in the hands of the state, rather than the household. In this respect, the current approach to child poverty is at odds with the government’s broader welfare reforms: when Universal Credit is introduced, each claimant will be required to sign a ‘claimant commitment’ which outlines the hours that the household is expected to attempt to work in order to be eligible for state support.

Problem with the current framework 5: Measures of relative income poverty suggest many families working very few hours are in poverty despite the fact that they could work more hours. However, the current measure incentivises policy makers to redistribute incomes rather than to help and support families to work more hours or increase their earnings. This damages work incentives. In doing so, it also implicitly puts the responsibility for tackling low incomes in the hands of the state, rather than the household.

Family size

We can also look at what has happened to measures of poverty for different sizes of families. Figure 1.12 shows how the incidence of relative income poverty has changed over time for families with different numbers of children.



It shows that while the proportion of families living in relative income poverty with just one child has stayed broadly constant since 1998/99, the proportion of families with more than one child living in poverty have reduced significantly.

One explanation for this is the growth in the amount of Child Tax Credit (CTC) and Working Tax Credit (WTC) that families were eligible for. The most significant growth in the maximum amount that can be claimed from these two benefits came from CTC, however within this the most significant increase came from the amount a family is eligible for per child within that benefit unit. The child element of CTC rose by nearly 60% to £2,300 between 2003/4 and 2010/11 and has continued to rise since.²⁴ Meanwhile the basic element of CTC remained the same and most aspects of WTC rose by approximately a quarter.

Among families out of work or earning low incomes, the most significant growth in tax credit income would therefore have been seen by larger families. This could have played a major role in pushing a greater proportion of families with more children above the low income threshold compared to families with fewer children. This is clearly seen in Table 1.3. It shows that the largest falls in poverty rates between 1998/99 and 2010/11 were in workless households and those households with more children.

Table 1.3: Rates of relative income poverty for children by household composition and work status

		1998/99 Poverty rate	2010/11 Poverty rate	1998/99 to 2010/11 Change in rate (ppt)
Lone parent households				
1 child	Workless	47.79	38.89	-8.89
	In work	13.75	11.87	-1.88
2 children	Workless	62.53	32.18	-30.35
	In work	20.82	9.33	-11.49
3 children	Workless	70.75	33.89	-36.86
	In work	38.95	15.90	-23.05
4 or more children	Workless	74.94	25.06	-49.88
	In work	33.31	14.27	-19.04
Lone parent households				
1 child	Workless	59.28	67.48	8.20
	1 in work	16.75	21.78	5.03
	Both in work	1.45	3.60	2.15
2 children	Workless	69.44	59.11	-10.34
	1 In work	21.36	21.26	-0.10
	Both in work	3.09	3.07	-0.02
3 children	Workless	74.41	54.22	-20.19
	1 in Work	37.13	27.96	-9.17
	Both in work	6.49	4.34	-2.16
4 or more children	Workless	85.17	50.96	-34.21
	1 in work	59.44	25.41	-34.03
	Both in work	7.40	6.39	-1.01

Source: HBAI, authors own calculations.

24 Sources: "Tax Benefit Reference Manual 2009" and "Tables confirming tax and tax credit rates and thresholds for 2012-13", HM Treasury.

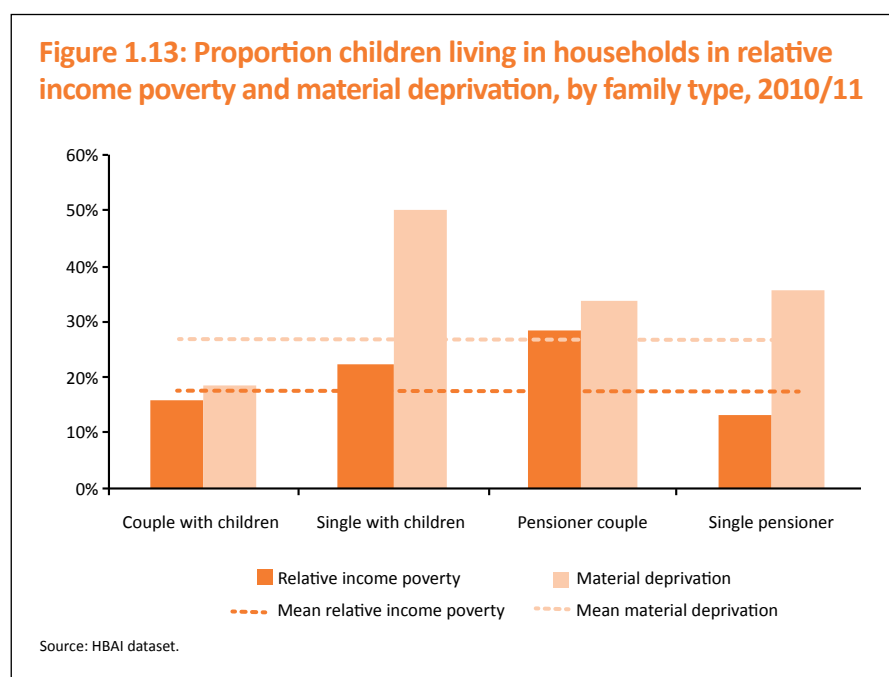
For instance the poverty rate of workless lone parent households with four or more children fell by nearly 50 percentage points and for workless two-parent households with three children it fell by just over 20 percentage points. Conversely, for two parent households with just one child, poverty rates increased for both in-work and out-of-work families. For couple families with two children, the only real reductions in poverty came from workless households.

Translating incomes into living standards

Figure 1.2 demonstrated the fact that relative income poverty and material deprivation do not map perfectly onto each other. We can also assess how this looks between different parts of the UK and between families of different sizes. Differences between the two measures indicate a difference between the level of income assumed to be needed for each family to hit a given standard of living and whether that family is living in material deprivation.

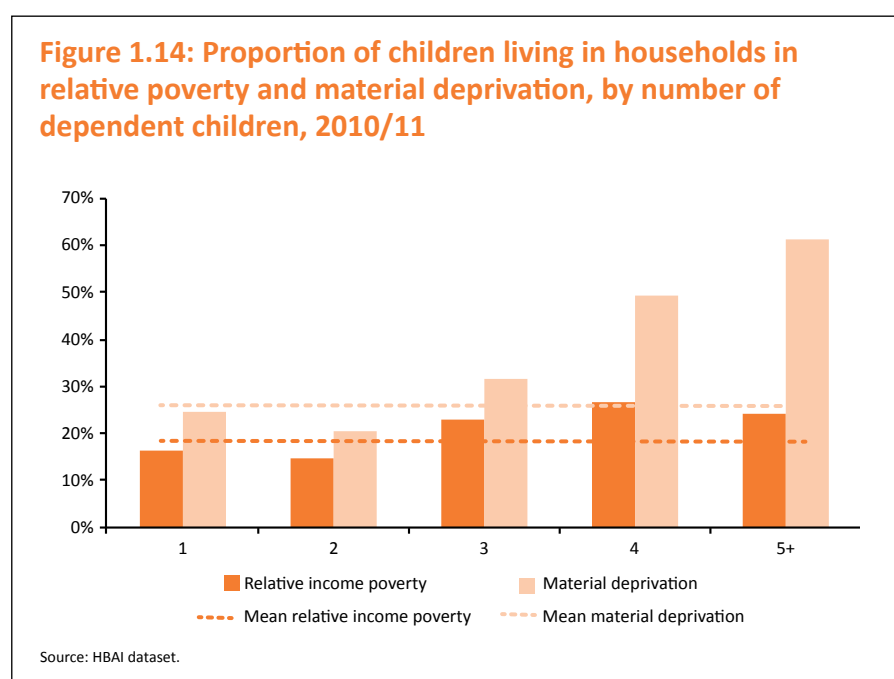
Household type and size

Figure 1.13 shows the proportion of different household types that are estimated to be either in relative income poverty or who are materially deprived. It demonstrates that the relative income measure is much lower than the material deprivation measure for children in lone parent and couple pensioner households. There could be a number of reasons for this; perhaps the most obvious is that income differences do not go far enough to explain the differences between families. If lone parent households disproportionately face issues other than income then we would expect to see relative income poverty underestimate the number of children living in genuine poverty.



Another problem with the income measures of poverty can be seen when we look at the circumstances of families with different numbers of children. As shown above, we have seen significant decreases in the proportion of the families with the most children who are in poverty. However, this improvement is not reflected in the FRS/HBAI material deprivation measure. Figure 1.14 shows significantly higher relative income poverty rates among families with more children.

This suggests that the relative income measure underestimates the problems of the largest families, with a measure based purely on income unable to observe other negative characteristics. It also suggests that the decreases in child poverty among larger households that have been seen over recent years might not reflect genuine successes.



Regional Variation

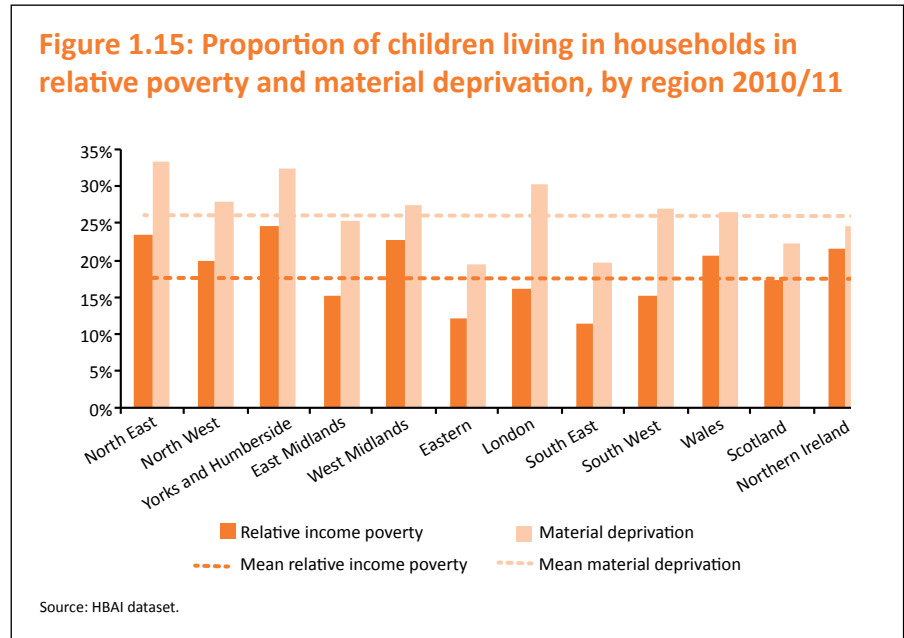
There will also be a difficulty in estimating the income level necessary to achieve a given standard of living because of the variation in prices that exists between different areas. Failing to adjust for different costs of living could mean that these poverty measures underestimate the problems in some areas and exaggerates them in others.

In practical terms, Office for National Statistics data show that prices are close to 10% higher in London than they are in Northern Ireland, meaning that a family living on the child poverty line will be able to afford a lower standard of living in London.²⁵ Other recent research has shown that costs of living might vary even more than this, with variations between regions outside of London and the South East equally as large. For example, research by the Resolution Foundation shows that the cost of living is 12.6% higher in the South West than the North East, and 13.5% higher than in Wales.²⁶ To show the impact that

²⁵ Office for National Statistics: UK Relative Regional Consumer Price Levels for Goods and Services for 2010

²⁶ Calculations by the Resolution Foundation for ITV Tonight 'Divided Britain' programme.

these differences might have on our assessment of poverty, Figure 1.17 shows the level of both relative income poverty and material deprivation for different regions of the UK.



This demonstrates that, despite the proportion of children living below 60% of median household income being below line the national average in London and the South West, we see significantly higher than average material deprivation. This is most likely as a result of the higher cost of living in these areas which are not measured by the measure of poverty.

Conversely, in some areas we see significantly higher rates of relative income poverty than we would expect to. In Northern Ireland we see above-average relative income poverty but below-average material deprivation. In Wales, Scotland and the West Midlands we also see material deprivation not being as high as their relative income poverty would suggest.

“Despite the fall in the percentage of children in workless households, the number and proportion that are in households that have never worked has been rising steadily over the last 15 years”

This represents a failure to adjust for the differences in the amount of income needed to achieve a given standard of living across the country. These distortions present a number of problems for the analysis, with some regions of the UK appearing worse

than they actually are. Meanwhile we underestimate the problems in areas such as London, which has one of the highest proportions of children experiencing material deprivation by a significant distance, despite having a lower relative income poverty rate than the North and Midlands of England, Wales and Northern Ireland.

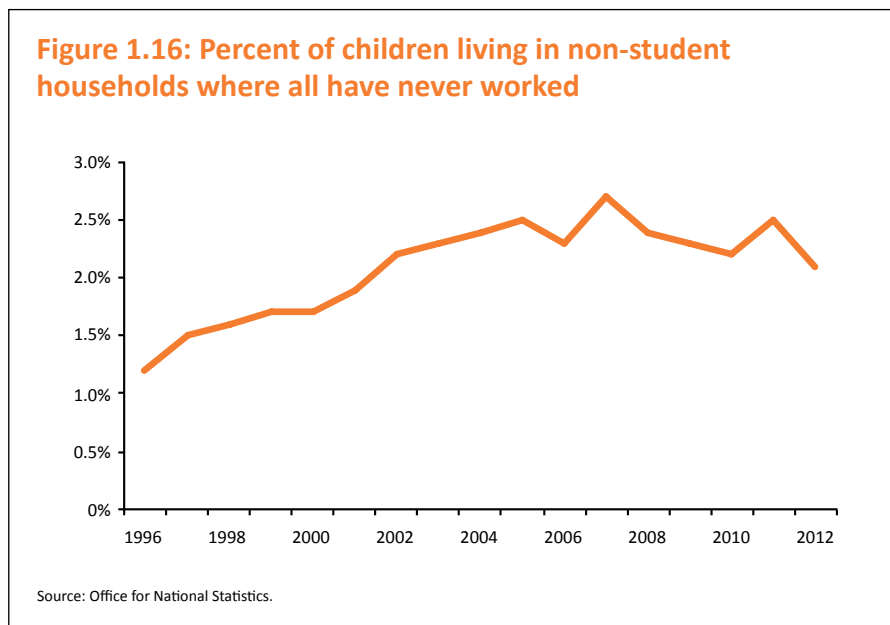
Problem with the current framework 6: Relative income measures fail to take account of the material needs of larger families and those families in high-cost areas.

Outcomes matter too

Measuring income alone will never fully capture the range of things we want a child poverty strategy to achieve. Children have a range of needs that we should be looking to meet, including quality of education, healthcare and housing. All of these things matter both for current living standards and future life chances. While income is an important input into a number of these needs, they are also influenced by the use to which incomes are put to and wider societal factors. This means that simply measuring income inequality will give an inadequate measure of child poverty. A number of key factors are highlighted below.

Never-worked households

Despite the fall in the percentage of children in workless households, the number and proportion that are in households that have never worked has been rising steadily over the last 15 years, reaching over 300,000 children living in households where nobody has ever worked, with the proportion of children living in such a household doubling (Figure 1.16).



Education

Large attainment gaps still exist between children eligible for free school meals (FSM) and the rest of the population. At age 16 the results, measured as the percentage of individuals achieving 5 A* to C GCSEs including English and Mathematics, the gap between FSM and non-FSM students stands at 27.4 percentage points.²⁷

Child Development

Child development has been a focus in both the Opportunity for All and 2011–2014 Child Poverty Strategy Indicators. The Early Years Foundation Stage Profile Results in England show improvement in the average scores achieved over a range of measures between 2008 and 2012, with a small narrowing of the gap between the development scores of children in the 30% most deprived areas and the rest of

²⁷ Department for Education: GCSE and Equivalent Attainment by Pupil Characteristics in England.

the country.²⁸ However, this gap still stands at 12 percentage points, with 54% of children in deprived neighbourhoods now reaching the threshold level.

Looked After Children

It is still the case that around two thirds of foster carers do not work and are much more likely to have low incomes. The GCSE attainment gap between looked after children and non-looked after children has risen significantly over recent years, with a 37.9 percentage point gap in the number achieving 5 A* to C grades including English and Mathematics in 2007, growing to 44.7 percentage points in 2012.²⁹

Teenage Pregnancy

Teenage pregnancy peaked at 47 conceptions per 1000 women under the age of 18 in 1998. The conception rate still stood at 35.5 per 1000 in 2010.³⁰ This is extremely high by international standards the World Bank report a fertility rate of 30 per 1000 women aged 15 to 19 in 2008–12, much higher than the 6 per 1000 seen in France and 7 per 1000 in Germany.³¹ The proportion of teenage mothers in employment, education or training stood at 31.5% in 2005–07.³²

Health

Low birth weight is a key indicator of child development outcomes. There is a higher occurrence of low birth weight among children born into more disadvantaged socioeconomic groups compared to higher socioeconomic groups. Some 7.3% of children from more disadvantaged backgrounds were born with low birth weight in 2010, a 1.1 percentage point deficit on the rest of the population.

Outcomes, not just incomes

These few examples show that outcomes for children from more deprived areas and families tend to be much worse than comparators in better-off families or those living in less deprived areas. Many of these outcomes have improved over the course of the last two decades and the gaps that previously existed have shrunk. However, there is a real question over whether we might have done better if we had taken a longer-term view of what could improve the circumstances and lives of the most deprived children. The Institute for Fiscal Studies have recently noted:

... that too much fixation on income-based measures may skew the policy response towards reforms that have immediate and predictable impacts on household incomes (such as tax and benefit changes) rather than those that most cost-effectively improve children's quality of life or reduce the risk of intergenerational transmission of poverty (such as improvements to education).³³

A clear example of this approach was the commitment at the 2010 Emergency Budget and Spending Review to spend some £8 billion through Child Tax Credit in order to ensure that there was “no measurable impact on child poverty for two years”.³⁴ It is clear that simply redistributing money to these families will not tackle the depth of the problems involved and our contention is that there are more effective interventions towards which this £8 billion could have been committed.

28 Early Years Foundation Stage Profile Results in England. Department for Education 2012.

29 Outcomes for children looked after by Local Authorities in England, as at March 2012, Department for Education.

30 LA under-18 conception statistics 1998–2010. Department for Education.

31 World Bank, Adolescent fertility rate (births per 1,000 women ages 15 to 19)

32 Opportunities for All, Department for Work and Pensions, 2007. Pages 23–24.

33 Cribb, J., Joyce, R., & Phillips, D., (2012). ‘Living Standards, poverty and inequality in the UK: 2012.’ *IFS Commentary C124*.

34 See http://www.hm-treasury.gov.uk/spend_sr2010_speech.htm and http://www.hm-treasury.gov.uk/junebudget_speech.htm. Also note that this policy was subsequently reversed.

More broadly this means that the existing framework biases policy towards redistribution since this is the government's primary policy lever in the short-term.

Problem with the current framework 7: It does not provide a clear framework through which progress in factors that materially impact on children's lives (such as education, health and housing), but which are not related to incomes, can be measured.

Legislating poverty targets³⁵

The final concern with the current framework for child poverty in the UK surrounds the legislated targets themselves. There are a number of advantages to creating targets: they can help to focus resources internally and promote long-term thinking; generate a more focussed response; or increase external awareness of the government's strategy to help it to achieve its goals.

However there are a number of potentially serious problems with setting targets. These include that: if the target is not correctly structured there could be large unintended consequences; spending priorities might be distorted; and political game-playing may dictate the nature of the target. Larger problems exist where policy targets are legislated for. These include that: it is unclear who would hold the government to account should they fail to meet the target (should the relevant Minister be held to account in a court of law?); they can take a long time to implement or change should they prove ineffective; and, in extremis, they can be viewed as un-constitutional given they commit future Parliaments to a course of action that they may not have been voted into power to fulfil.

With these issues in mind, there are a number of principles which an effective legislated target must uphold. Annex 2 outlines why the current targets fail to meet any of the principles of a good legislated target. It shows that:

- The current framework cannot fully explain the problem or create a consensus for action;
- Government does not have the necessary tools to influence outcomes – an obvious example is the fact that the current headline measures of child poverty move in counter-intuitive ways across the economic cycle;
- The framework leads to unintended consequences, like large increases in Child Tax Credit undermining incentives to work; and
- No-one can effectively be held to account as a result of failing to meet the legislated targets.

Problem with the current framework 8: It does not meet any of the principles of a good legislated policy target.

Progress with poverty?

This chapter has shown that the current framework of measuring and tackling child poverty as legislated for in the 2010 Child Poverty Act has significant downfalls. While progress has been made against the headline relative income poverty measure, this focus has distorted policy and led to a focus on redistribution. It has marginalised policies that attempt to improve the outcomes that are key to determining quality of current and future life. The main problems are summarised as:

³⁵ Note that this section draws heavily on an insightful roundtable event held at the Institute for Government and the following paper: Rutter & Knighton (2012). *Legislated Policy Targets: Commitment device, political gesture or constitutional outrage?* Institute for Government (<http://www.instituteforgovernment.org.uk/sites/default/files/publications/Legislated%20policy%20targets%20final.pdf>). However, views expressed are solely the authors.

Problem with the current framework 1: The costs of meeting the 2020 child poverty target are too great for any government to meet. They are unrealistic and will be missed.

Problem with the current framework 2: The focus on relative income poverty means that a number of children and families that we might think are living materially deprived lives are not picked up by the measure. The measure does not capture the full nature of child poverty in the UK.

Problem with the current framework 3: Three of the existing measures are based heavily on income inequality, rather than a broader reflection child poverty. This means that falls in median incomes, like we have seen during the recession, tend to be associated with falls in measured child poverty. The framework fails to effectively measure changes in childhood deprivation and disadvantage.

Problem with the current framework 4: The focus on relative income poverty has led to large transfers to non-work-contingent tax credits. This has drawn focus away from tackling the incidence of poverty for working families and has impacted on work incentives. It has also meant that reductions in child poverty have largely been driven by redistribution, rather than by increased employment or earnings.

Problem with the current framework 5: Measures of relative income poverty suggest many families working very few hours are in poverty despite the fact that they could work more hours. However, the current measure incentivises policy makers to redistribute incomes rather than to help and support families to work more hours or increase their earnings. This damages work incentives. In doing so, it also implicitly puts the responsibility for tackling low incomes in the hands of the state, rather than the household.

Problem with the current framework 6: Relative income measures fail to take account of the material needs of larger families and those families in high-cost areas.

Problem with the current framework 7: It does not provide a clear framework through which progress in factors that materially impact on children's lives (such as education, health and housing), but which are not related to incomes, can be measured.

Problem with the current framework 8: It does not meet any of the principles of a good legislated policy target.

The coalition has recognised these problems and launched a consultation for how the measurement of child poverty might be improved so that more effective policy making might be incentivised and better outcomes achieved. The next chapter outlines our view of how these changes should be approached.

2

Child Poverty – A New Approach

Chapter 1 outlined that the UK's current approach to measuring and setting targets for child poverty fails to accurately identify the problems of children growing up in some of the most deprived environments. It also encourages a very narrow response to child poverty that focuses on income rather than the wide array of negative outcomes that children can experience. This chapter outlines our view of how child poverty should be assessed and makes recommendations for how government should reform its child poverty framework following its current consultation.³⁶

The future of targets

Legislated poverty targets are inappropriate

Chapter 1 outlines that both the current child poverty measure and the targets that were set in the Child Poverty Act 2010 are inappropriate. The targets will not be met and the current measures often tell us very little about living standards and needs of children. Both the income-focussed measure and unrealistic targets also create perverse incentives for policy makers to focus on short-term income redistribution rather than tackling the full range of disadvantages that children in poverty experience. In recognition of this, the targets outlined in the Child Poverty Act 2010 should be repealed.

Recommendation: The current child poverty targets as set out in the Child Poverty Act 2010 should be repealed.

A new headline measure is needed

In place of the existing targets, we believe that the government should create a legislative commitment for the government to monitor and report on a headline measure of child poverty. Given the inadequacies of the current headline measure, a new headline measure should be created. It is essential that this new measure can incentivise government to focus on policies which are most effective at improving the lives of the most disadvantaged and deprived children in society.

It is also important that the government does not tie itself to a legislated target based on this new measure. We have seen the distortions that this creates and we believe that a legislated requirement to report on an agreed measure of child poverty would provide sufficient transparency for the government to be held to account over its progress in tackling child poverty.

36 'Consultation' and 'consultation document' in this chapter refers to HM Government, (2012), *Measuring child poverty: a consultation on better measures of child poverty*. Cm 8483. Available at: <http://media.education.gov.uk/assets/files/pdf/m/measuring%20child%20poverty%20consultation%20document%20final.pdf>

Recommendation: The government should introduce a new measure of child poverty. This should be based on a number of outcomes that reflect the full range of needs that children have, rather than simply measuring incomes. The requirement to monitor and publish statistics relating to this measure should be legislated for in a new Child Poverty Bill. This should supersede the Child Poverty Act 2010 and replace, rather than supplement, the current legislated measures for child poverty and their associated targets.

It is also important that the government continues to measure and report on narrower concepts of child poverty. The existing range of income-based measures provide a useful tool for comparisons both between different countries and over time and should be kept. However, they should not be the focus of government policy.

What should be measured

The commitment to report on a new measure of child poverty brings the question of what exactly should be measured. We believe that the new measure should be based around three different groups of poverty measures: absolute income poverty; relative income poverty; and social poverty.

Absolute income

In some circumstances, the strong links between the level of income a family enjoys and the basic items they can afford, mean that income can and should be seen as an end in itself. This is also a view shared by the public. In a recent survey we conducted some 70% of respondents agreed with a definition of poverty that stated: “You are in poverty if you don’t have a place to live, or enough to eat or live on”.³⁷

This means that identifying families living below this subsistence level of income should be a key goal in assessing progress on tackling poverty.

Relative income

As well as a certain level of income being viewed as an end in itself, income is also an important input into a wide range of factors determining the standards of living that children experience. For instance, without sufficient income, children would struggle to engage in school, take part in activities that other children enjoy and could be classed as socially excluded. In this respect, the measurement of relative income is important as it measures the extent to which households are able to afford (whether they choose to or not) to engage in activities viewed as social norms. However, we also believe that there is a joint responsibility between the state and households themselves to ensure that this is the case. This means that this situation cannot be achieved through redistribution alone.

Our analysis of the group of families classed as experiencing in-work relative income poverty showed that many of them were working far fewer hours than those who were above the poverty line. As well as working fewer hours, it tends to be the case that pay rates in these sorts of jobs is low compared to jobs with longer hours. It should not be the overarching goal of government to redistribute income to those working low numbers of hours in order to lift them above an arbitrary relative income poverty line. Instead, where possible, they should be

37 O’Brien, N. ‘Just Deserts? Attitudes to fairness, poverty and welfare reform’, p. 13, Policy Exchange, 2011.

supported and encouraged to increase their hours and earnings. The government will lay out expectations of the number of hours which families are expected to try to work in order to be eligible for Universal Credit. It seems appropriate to use similar expectations when we consider poverty.

We must also recognise when families are not able to achieve an acceptable standard of living because of an inability to work. We believe that when circumstances such as disability prevent parents from working it should be the responsibility of the state to provide for them.

Multi-dimensional or “social poverty”

A key lesson from the existing approach to child poverty in the UK is that focussing solely on (direct or indirect) measures of income draws attention away from outcomes that drive life experiences of children. A relative income measure is often defended with the argument that it represents some level of a socially acceptable income, or a level of income needed to avoid social exclusion. However, it is clear that children’s needs are not only financial or material. Previous Policy Exchange reports have argued that a good education, a safe and supportive family, parental employment, access to public services and future life chances are all factors that could easily be defined as a ‘need’, if not a right, for all children in society. In this respect, if children do not have these needs provided for, one could argue that they should be classed as being in social poverty.

For this reason we believe that, as part of its new measure of child poverty, the government should monitor and publish data that capture the number of children classed as being in social poverty. This could be built around a measure that shows at a household level how many children experience a given number of disadvantage factors. One of these factors should be low relative income.

How to structure the measure

The section above outlines the principles of poverty which we believe the new measure of child poverty should reflect. The consultation document outlines that a new multidimensional measure of child poverty should:

- Give us a total number of children in the UK currently growing up experiencing multiple dimensions of poverty which we can track through time; [and]
- Show us the severity of a child’s poverty so that we can tell which groups need the most help.

This raises the pressing question of how the dimensions are combined and structured in order to create a headline measure that reflects the total number of children experiencing poverty. The ultimate goal should be that the measure reflects a broad view of poverty including both relative and absolute income poverty and social poverty. It should also be transparent, such that it provides policy makers with a range of tools with which to improve the lives of deprived children. It should also be an effective tool for holding government to account.

To do this, we propose a two stage assessment of household poverty.

Relative and absolute income poverty

In the first stage, we believe it is essential to continue to monitor and reduce the number of households who are experiencing severe levels of poverty. This would allow us to capture progress against the goal of increasing absolute levels of living standards. For this reason, and in line with the public's view of poverty, we believe that any family falling below a given level of income should be classed as being in poverty.

Recommendation: the new framework should include a commitment to continue to monitor and publish a measure of absolute poverty based on the existing measure outlined in the Child Poverty Act 2010. Any household living below this absolute poverty line should be classed as being in poverty.

For some groups, the state should be willing to play a larger role in providing income. In line with the introduction of Universal Credit and the expectations placed on claimants, we believe that two groups of households should be classed as being in poverty if they have less than 60% of median equivalised household income. These are:

1. Households that the state has explicitly committed to supporting without work requirements placed on the household. For instance households where parents are claiming either Employment and Support Allowance (ESA) or Income Support (IS); or where there are caring responsibilities meaning that no work requirements are placed on the family; and
2. Households that are working at or above the number of hours deemed acceptable in the claimant commitment under Universal Credit.

Recommendation: Households where the state provides financial support without the requirement that the parents should either look for work at all, or increase their hours or earnings, should be classed as being in poverty if they fall below 60% of median equivalised household income. This commitment would require the monitoring of data (which is currently unavailable) on relative low income for families placed in the lower conditionality groups within Universal Credit (ESA claimants; those on IS and those with caring responsibilities which mean they are not expected to seek work). This may require additional questions to be included in the Family Resources Survey (FRS) or links to be made with administrative data as part of the new Universal Credit system.

Recommendation: Households working above the number hours expected in their claimant commitment should be classed as being in poverty if they fall below 60% of equivalised household median income. This measure could be relatively easily created within the existing FRS, but again, matching data from Universal Credit would be desirable.

Social poverty

The second stage would assess, for those families deemed not to be in poverty in stage 1, whether they are classed as being in social poverty. This would be assessed based on the presence of a number of disadvantage factors in the household. A family with a certain number of these factors would then be classed as living in poverty.

Recommendation: As outlined in the government’s consultation document, the new measure of child poverty must be multidimensional. This could be reflected in a measure of social poverty that reflects the number of disadvantage factors a household has. It should be measured at a household level either within the FRS or within other data sources that can be matched in the FRS. This measure should be combined with the measures of absolute and relative income poverty to outline a measure of the total number of children in poverty.

Two key questions raised in the consultation document surround the types of disadvantage factors which might be included in a measurement of social poverty and how each of these factors might be measured.

What factors should be included and how should they be measured

There are a wide range of factors that could be included in the measurement of social poverty. The consultation document outlines eight areas that the government is considering:

1. Income and material deprivation
2. Worklessness
3. Unmanageable debt
4. Poor housing
5. Parental skill level
6. Access to quality education
7. Family stability
8. Parental health

These are all factors that could impact upon the lives of children. However, we believe that some are more important than others and that, in some cases other factors not included in the government’s list are more important than those which are present. In particular, measuring parental skill and access to quality education both seem less important than measuring the child’s education performance. In a similar fashion, the measurement of parental health also seems less important than the measurement of the child’s health.

In addition to these factors, our publication, *Tackling the causes of poverty*, used the previous government’s *Opportunity for All* indicators to outline a basket of indicators that might be classed as representing social poverty. These included measures of the incidence of teenage pregnancy; school attendance; outcomes for looked after children and infant mortality.

Many of these indicators can be, and already are, measured at a national level using administrative data from various government departments or by using surveys designed to collect the information. However, the key to creating a measure of social poverty which can readily be incorporated into a headline measure of child poverty is to have all of these factors available in one survey that can also be linked to the existing measures of household incomes.

This is challenging since the main source of data for the estimation of income poverty is the FRS, which has limited or no coverage of many of these areas. It is clearly impractical to attempt to add everything we would like to measure to this survey. Doing so would risk reducing the sample size (households would be less

willing to take part in a longer survey) and a number of the factors are not readily measurable through such a survey. For instance, it might be difficult to assess the prevalence of parental drug or alcohol dependence because of potentially severe under-reporting.

For this reason we believe that a pragmatic approach must be taken. Those aspects of social poverty that can be readily incorporated into the FRS, or that can be matched in from alternative data sources at a household level, should be included in the measure of social poverty.

Recommendation: For those disadvantage factors that can already be captured by existing variables within the FRS, the government should immediately begin to publish data relating to the number of households experiencing these factors.

Recommendation: For those disadvantage factors that cannot be captured within the current FRS, the government must work with the data providers and statisticians to assess the potential for extra variables to be added to the FRS or for a data matching exercise to take place. As well as the potential for this exercise to require increased funding from the DWP and other departments, it is essential that any changes to the FRS do not undermine the current value of the FRS in providing information about the living conditions and resources of people in the UK.

For those factors that we have an interest in but which are unsuitable for inclusion in the FRS, the government should collect headline measures of these individual factors and publish them alongside the new headline measure.

Recommendation: Aspects of social poverty that it is deemed impossible to capture within the FRS, but that the government is interested in, should not be used in the measure of social poverty. Instead, the government should publish individual measures of these disadvantage factors alongside the headline poverty measure.

We believe that the factors below are already measurable within the FRS or that they could be relatively easily added or matched into the FRS for use in the construction of an assessment of social poverty.

Already achievable with existing variables within the FRS:

- Household is in relative income poverty.
- Household is workless, but expected to work under Universal Credit conditionality.
- Child is themselves a parent.
- Quality of housing is poor or the family is living in temporary accommodation.
- Family are experiencing an unsustainable level of debt.

Would require new variables in the FRS or data matching:

- Child has been taken into care in their lifetime.
- Child or parents have had engagement with the criminal justice system.
- Child has low educational attainment.

We believe that a number of factors are more difficult to measure either at a household level or within the FRS survey, but would warrant inclusion in publication that tracks performance against a range of measures. Many of these were covered in the report *Tackling the causes of child poverty* and are also part of the Opportunity for All indicators or the coalition’s social mobility strategy. This publication should be wide-ranging and cover a broad range of outcomes for children and families. Measures that we believe are particularly important include:

Gaps between households at different points in the household income distribution, in terms of:

- The incidence of infant mortality.
- Levels of child development.
- Levels of unauthorised school absence.
- Child’s health.

Overall levels of:

- The number of children living in households where a parent has an alcohol or drug dependence.
- Gaps between employment rates of:
 - Lone parents;
 - Ethnic minority groups;
 - The lowest qualified; and
 - Those with a disability or long-term illness.
- The number of households relying on the state for more than 50% of their household income.
- The number of children in “never worked households” and how these households are split between those who are workless because of a disability, ill health or caring responsibilities and those who are workless, but could work.

Who should be counted as being in social poverty

This approach raises a number of more detailed questions as to who might be classed as being in social poverty.

Should some factors act as ‘gateways’

The consultation asks:

In creating a multidimensional measure we can combine different dimensions in a number of different ways. If one dimension is particularly important it can be set as a ‘gateway’. This means someone is not counted as in poverty unless they have this characteristic. We are interested in your views about whether any dimension should be a gateway.

The most obvious factor that might act as a gateway would be relative income poverty. For instance, the measure might require that a family experiences relative income poverty and a number of other disadvantage factors to be counted as in poverty. Any family not in relative income poverty would not count as being in social poverty.

While we considered this approach, ultimately, we felt that it was inappropriate. The key reason is that families located just above any arbitrary relative income poverty line might be facing significantly higher levels of deprivation and disadvantage based on the other dimensions of poverty than a family that is placed below the relative income poverty line. This failure can be seen in the 17.5% of all children who are measured as in material deprivation but are not in relative income poverty.

For this reason we believe that families experiencing many different dimensions of poverty should be classed as being in poverty regardless of whether or not they are below the relative income poverty line.

How should the disadvantage factors be combined to assess social poverty

The consultation asks:

The new measure will combine a range of indicators into a single number. There are a variety of ways in which this could be done. In particular, it is possible to give certain indicators greater weight to reflect the fact that they play a more important role in child poverty.

At one end of the scale, an attempt could be made to construct an intricate weighting system to reflect the importance of different ‘disadvantage factors’ and create an index of poverty. This index might be bounded between 0 and 1 and a poverty line then set to reflect that a score over a given level means that a household is in poverty. However, there are a number of serious problems with this approach. Firstly, it would lack transparency as it would be very difficult to assess what was driving a reduction in measured child poverty. Secondly, views over the relative importance of each of the disadvantage factors would be widely spread and this would make it very hard to form a consensus. Finally, academic evidence has shown that aggregating a range of measures into a single value could be difficult. As the variety of measures increases they become less well correlated with each other and any child wellbeing measure derived from it can lose strength.³⁸ These limitations would severely reduce both buy-in to the new measure and its effectiveness as a tool to drive government to use a range of policy measures to tackle childhood deprivation.

For these reasons, we believe that a more straightforward and pragmatic approach should be adopted. This should be focussed on driving policy to improve children’s lives across a range of factors and, as such, should simply sum the number of disadvantage factors each household has and set a benchmark for the number required for the family to be classed as in poverty.

Recommendation: In order to produce a measure that is understandable and transparent, the measure of social poverty should simply sum the number of disadvantage factors that a household is experiencing and set a benchmark for the number needed to be classed as being in poverty.

How many disadvantage factors would a household need to be classed as being in social poverty?

The problem with this approach is that it is difficult to determine in a scientific fashion the number of factors needed to be classed as in social poverty. It is clear that the choice of the number of factors required will dramatically alter the

38 Fernandes, Mendes and Teixeira. 2012. Assessing child well-being through a new multidimensional child-based weighting scheme index: An empirical estimation for Portugal.

number of children classed as being in poverty and, ultimately, any choice of number will be somewhat arbitrary.

It is also clear that any changes in the measure should not be about driving a reduction in our estimation of the scale or depth of child poverty in the UK. It should also not be about cutting the government's financial commitments to tackling the problem. For this reason, we believe that the number of disadvantage factors that are required to be classed as living in social poverty should be set such that at least as many children are classed as living in poverty as is currently the case.

Recommendation: Changing the measure should not be reducing our estimation of the scale or depth of the problem or reducing the financial commitment to tackling it. This means that the number of disadvantage factors required to be classed as in social poverty should be set so that, once added to the children classed as being absolute or relative income poverty, at least the same total number of children are classed as living in poverty as under the current measure.

While one may argue over the statistical validity of an approach which simply sums disadvantage factors and sets a seemingly arbitrary benchmark for social poverty, we believe that it provides transparency over the government's progress on a range of measures and would act as a spur to government policy to improve the lives of children across the UK experiencing a range of dimensions of poverty.

Such an approach would also provide a clear lever with which to consolidate action across Whitehall. Within this framework, it will be clear how many children are classed as being in poverty because they have a combination of different disadvantage factors, for instance: low educational attainment, poor housing quality and relative income poverty. This means that it would be clear how each department might feed into the reduction of child poverty and create an ability to hold each department to account.

For instance, progress against child education would be 'owned' by the Department for Education and measures of the quality of housing jointly 'owned' by the Department for Communities and Local Government and the Department for Work and Pensions. This could unite Whitehall in its efforts to improve children's lives and tackle deprivation. As well as creating a clear framework for cross-departmental working, this would also highlight the real trade-offs between spending on different aspects of poverty.

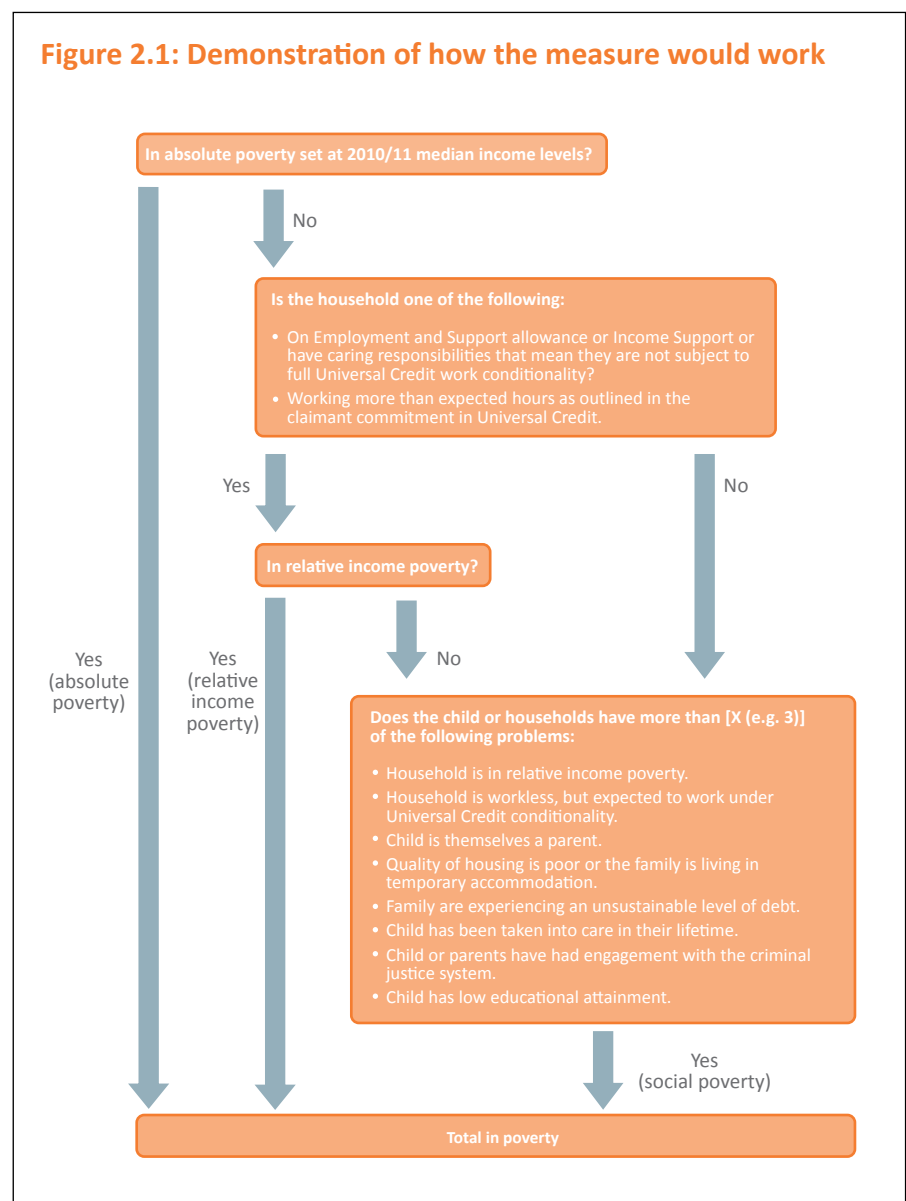
As well as these obvious advantages, the arbitrary setting of a "social poverty line" can also be mitigated by requiring the government to publish a measure of the dimensions of poverty that households experience. This would present the number of children experiencing each possible number of disadvantage factors and could be split by whether they are experiencing other types of poverty and by different demographic groups (for instance for ethnic minorities or disabled children).

“The measure of social poverty should simply sum the number of disadvantage factors that a household is experiencing and set a benchmark for the number needed to be classed as being in poverty”

Recommendation: Alongside the measure of the level of poverty, the government should also publish a measure that takes account of the dimensions of poverty that households experience. This would involve publishing summary statistics that sum how many ‘disadvantage factors’ children are experiencing and splitting this by whether or not the household is classed as experiencing other types of poverty.

How this looks in practice

Figure 2.1 outlines how an approach like this would look in practice. Based on an assessment of household level survey evidence it would provide a straightforward and easily implementable approach to assessing child poverty. Table 2.1 and Table 2.2 present an overview of how the government might report results from this approach to measuring child poverty.



How the government could report on this

Table 2.1 shows how government might report on the number and proportion of children who are living in poverty in the UK and how that has changed over time.

Table 2.1: Example Child poverty in the UK

Group	2010		2011		2012	
	%	Number	%	Number	%	Number
Absolute poverty		a		a		1,400,000
ESA/IS group in relative income poverty		b		b		200,000
In-work full time and in relative income poverty		c		c		250,000
Social poverty (having X number of disadvantage factors)		d		d		450,000
Total in poverty		a+b+c+d		a+b+c+d		2,300,000

Table 2.2: Example Children in the UK by the number of disadvantage factors associated with social poverty that they experience.

Number of disadvantage factors	Social poverty and absolute poverty		Social poverty and ESA / IS group in relative income poverty		Social poverty and in-work full time and in relative income poverty		Social poverty		Not in poverty		Total	
	Rate	Number	Rate	Number	Rate	Number	Rate	Number	Rate	Number	Rate	Number
0	10%	120,000	10%	15,000	10%	20,000	–	–	A	X	Q%	Row sum
1	20%	240,000	20%	30,000	20%	40,000	–	–	B	Y	W%	Row sum
2	25%	300,000	25%	37,500	25%	50,000	–	–	C	Z	E%	Row sum
3	18%	210,000	18%	26,250	18%	35,000	38%	168,750	–	–	R%	Row sum
4	15%	180,000	15%	22,500	15%	30,000	30%	135,000	–	–	T%	Row sum
5	8%	90,000	8%	11,250	8%	15,000	20%	90,000	–	–	Y%	Row sum
6	3%	30,000	3%	3,750	3%	5,000	10%	45,000	–	–	U%	Row sum
7	2%	18,000	2%	2,250	2%	3,000	2%	6,750	–	–	I%	Row sum
8	1%	12,000	1%	1,500	1%	2,000	1%	4,500	–	–	O%	Row sum
Total	100%	1,200,000	100%	150,000	100%	200,000	100%	450,000	100%	Column sum	100%	Row sum

Note: These tables are not designed to reflect reality. It is meant as an example of how a table might look once completed.

Outcomes, not just incomes

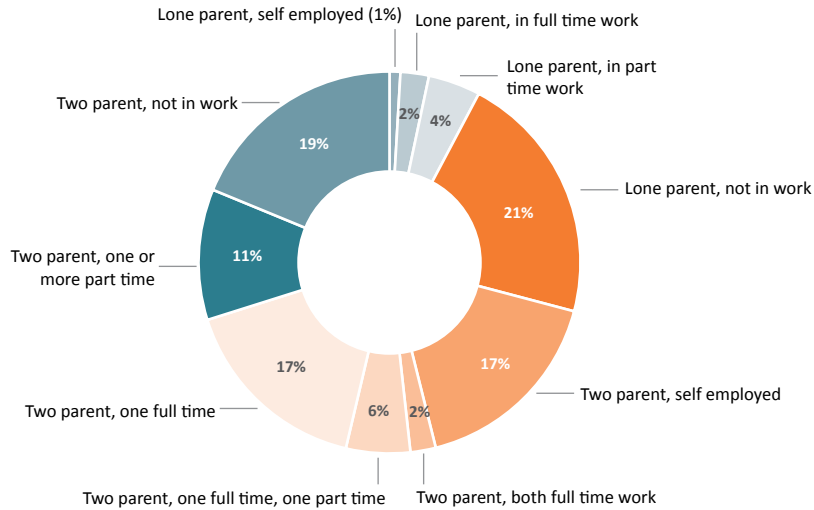
This report has outlined our belief that the current legislated targets and measures of child poverty in the UK are ineffective in driving the improvements in the lives of children that we want to see. We have proposed that the targets as set out in the Child Poverty Act 2010 should be repealed. The current set of measures should be replaced with a broader legislated measure of child poverty that attempts to capture a wider range of factors that reflect the needs of children and whether or not they are being met.

This is driven by the observation that children have far greater needs than just household income. Focussing the child poverty measure on some of these factors, as well as income, will both allow policy makers to focus on a broader set of policy levers for improving children's lives and make it easier for the public to hold government to account for their performance.

Ultimately, any measure of child poverty will need to be based on seemingly arbitrary choices. However, the defining purpose of the measure should be to spur government action and improve the lives of disadvantaged and deprived children across all parts of society. By focussing on outcomes and not just incomes, our proposed measure does that. If taken on it would finally allow government to focus policy on the full extent of factors that define child poverty in the UK and, in doing so, would improve children's lives.

Annex 1

Figure A1: Child poverty by family type and work status



Source: HBAI dataset, author's own calculations.

Table A1: Changes in the number of children in population and number of children in relative income poverty between 1998/99 and 2010/11 by family type and work status

	Children in income poverty		Children in whole population	
	Net change	% of total change	Net change	% of total change
Lone parent				
Self employed	-300	0.0%	20,100	-2.0%
Full time work	24,300	-2.4%	229,300	-22.4%
Part time work	-100,700	9.8%	135,500	-13.2%
Unemployed	-34,400	3.4%	30,700	-3.0%
Inactive	-549,100	53.7%	-298,700	29.2%
All	-660,200	64.6%	116,900	-11.4%
Two parent				
Self employed	-11,400	1.1%	139,500	-13.6%
Both in work	-4,200	0.4%	84,400	-8.3%
One full time, one out of work	-153,800	15.0%	-21,900	2.1%
In work no full time	5,200	-0.5%	126,200	-12.3%
Unemployed	-57,500	5.6%	-12,700	1.2%
Workless	-140,900	13.8%	-99,000	9.7%
All	-362,400	35.4%	216,500	-21.2%
Total working	-240,800	23.5%	713,100	213.9%
Total workless	-781,800	76.5%	-379,700	-113.9%
Total	-1,022,600		333,400	

Source: HBAI dataset, author's own calculations.

Annex 2: Legislating Poverty Targets³⁹

There are a number of principles which an effective legislated target must uphold. Each of these is considered below with reference to the child poverty targets and we show, based on the analysis above, why the targets fail to meet any of the principles of a good legislated target.

Principles 1 and 2

- **Capturing the essence of the problem:** Achieving a target must solve the problem that it sets out to. Reaching a target without actually influencing the broader problem that the target looks to rectify would represent a significant failure of the target.
- **Consensus on what the problem is:** Government targets should seek to solve something that is widely recognised as a problem. Targeting outcomes that are not supported by other parties or the public will see focus on hitting the target fading.

The child poverty targets fail to match either of these principles.

The complexities that we have identified with measuring child poverty mean that there is not a single measure which can identify all of the causes of child poverty. The current targets encompass four different forms of poverty. All of these measures are anchored in a view of poverty as a function of income, with even material deprivation requiring individuals to be below a given relative income threshold in order to be considered.

If the government wishes to legislate for reductions in child poverty then it needs to target a range of measures in order to identify the breadth of issues that are involved in child poverty. The focus of these measures on relative income means that problems beyond income are not considered. In this respect the current child poverty targets fail to capture the problem by focussing on a key influence over living standards rather than looking at outcomes, whether that means measuring living standards directly (e.g. with a thorough material deprivation measure) or identifying outcomes more likely to have long-term benefits in areas such as education.

This focus could draw incentives towards policies that will target getting families above the relative low income threshold. In an environment where the government is operating with limited resources and there is significant scrutiny over expenditures, income transfers used to reduce the number of children living below the relative low income poverty line may be judged to be substitutes for services which target support at supporting children's' life chances. This would

³⁹ Note that this section draws heavily on an insightful roundtable event held at the Institute for Government and the following paper: Rutter & Knighton (2012). *Legislated Policy Targets: Commitment device, political gesture or constitutional outrage?* Institute for Government (<http://www.instituteforgovernment.org.uk/sites/default/files/publications/Legislated%20policy%20targets%20final.pdf>). However, views expressed are solely the authors.

mean that policies to support children in the most deprived environments could be significantly distorted because of the measures that focus purely on relative incomes.

This failure also lies in an inability to correctly identify the problem that these targets aim to rectify. This in part represents a failure to create a consensus over what poverty is and therefore how targets should be set in order to tackle it. As we have identified, a significant majority of people consider poverty to be an issue of families not being able to satisfy their basic needs. This is at odds with the current child poverty targets which places a primary focus on a measure that is strictly relative and income-based.

This focus is also at odds with the view made by Iain Duncan Smith, the current Secretary of State for Work and Pensions:

... the previous government created perverse effects around an arbitrary focus on the 60 per cent median income line. By transferring cash to make good on short-term relative income effects they entrenched benefit dependency, delivering both poor outcomes for society and a poor return for the taxpayer.⁴⁰

This highlights the lack of consensus around this target. If genuine progress is to be made, a key focus of any new set of child poverty targets must encompass what more people see as poverty, rather than being focussed on a narrow definition of poverty which suits a given political philosophy.

Principle 3

- **Government can influence the necessary outcomes:** It is crucial that the government can actually play a role in influencing the targets that are set. If a government lacks the tools to make a difference to outcomes then a target is of little use and success or failure may come as a result of factors outside of the government's control.

The government have an ability to influence the outcomes of relative income poverty, through methods such as the re-distribution of income using tax credits. These transfers allow the government to lift families out of relative income poverty. However, as we have discussed, the incentives that the current focus on relative income create surround income levels, with little focus placed on the need for supporting life chances. It therefore seems likely that, whilst the government is able to influence this, it might only influence a narrow range of problems.

The changes in measured child poverty that have come about as a result of the recession and a fall in median incomes also clearly demonstrate that the government's influence and control over achieving this target can be very weak.

As was discussed earlier in this report, the costs of meeting the target are large, making the target unrealistic. The government therefore remain attached to a child poverty target that they are not expected to achieve, leaving mixed incentives surrounding the government's child poverty policies.

40 A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families' Lives. Iain Duncan Smith, Foreword.

Principle 4

- **Avoiding unintended consequences:** It is paramount that both the target and the steps taken to achieve it create positive outcomes. Creating a target which seek an outcome or encourages interventions that have negative influences elsewhere could see the target do significant damage.

Transferring income to individuals experiencing relative income poverty clearly creates distortions elsewhere. For example a disproportionate amount of children in relative income poverty also live in workless households (53% compared to 20% of those families not in relative income poverty). If not targeted correctly, increasing incomes could have an effect which discourages work further among a group where worklessness is already a problem.

A clear example of this approach was the commitment at the 2010 Emergency Budget and Spending Review to spend some £8 billion through Child Tax Credit in order to ensure that there was “no measurable impact on child poverty for two years”.⁴¹ It is clear that simply redistributing money to these families will not tackle the depth of the problems involved and our contention is that there are more effective interventions towards which this £8 billion could have been committed.

Principle 5

- **Creating sanctions for failure:** A government will be less likely to take the necessary steps to achieve a target if it does not expect any cost of failing to do so. A suitable framework for identifying and explaining failure must therefore be maintained.

Each year it is the responsibility of the Secretary of State to outline the progress made towards the target and the implementation of the strategy.⁴² A report must be produced containing details of the implementation of the strategy and an explanation of any targets that have not been met in a relevant year. This puts some pressure on the government to explain any failure to implement a strategy for child poverty, as well as some accountability for the outcomes of their strategies, however it falls short of any genuine punishment for failing to achieve their targets.

One of the most significant problems is the disconnection between who is responsible for the outcomes and who is to explain them. The 2012 child poverty announcement was about the targets set for 2010. As the current Coalition government only came into power in May 2010 they will have had little influence over these outcomes. Despite much of the time before the change being under a Labour government, the current Secretary of State has the responsibility for explaining the failure to meet the target. This creates a significant lack of accountability or sanctions for failure among the individuals who are responsible.

Much of this problem lies in having legislated targets set out by governments over time periods that could stretch into other governments. An Institute for government report into legislated policy targets highlights the problem that governments face when trying to repeal legislation that they do not support:

⁴¹ See http://www.hm-treasury.gov.uk/spend_sr2010_speech.htm and http://www.hm-treasury.gov.uk/junebudget_speech.htm. Also note that this policy was subsequently reversed.

⁴² Child Poverty Act 2010, HM Government, 2010. Sections 14,15.

It was noted that there is an “asymmetry” in legislation; it is easier to legislate than to repeal legislation.

Rutter and Knighton. Legislated Policy Targets: Commitment device, political gesture or constitutional outrage? Institute for Government, 2012

This limits a government’s options as they look to implement the policies and achieve the goals because of a target set by a previous party. This risks a focus on policies which are not government policy but have instead been imposed upon it, placing the priorities of previous governments above the policies that the sitting government have an electoral mandate to implement. Instead it would make sense for political parties to set targets as a part of their campaigns, allowing public scrutiny over their proposals whilst only committing governments to targets that they themselves have promised.