

Anti Poverty Strategy 2014-2017

National Context – standards of living and poverty

Since the recession of 2009, research shows the standard of living in the United Kingdom has fallen, and whilst levels of poverty shown by some official measures have decreased, this does not necessarily reflect a return to prosperity or rising standards of living. The United Kingdom has been experiencing what has been termed a “cost of living crisis”, in which household incomes – for working and workless households have been squeezed by a decline in income and rising inflation.

The data provided in this document provides the national picture.

POVERTY AND THE STANDARD OF LIVING – UK CONTEXT

Two aspects of poverty have statutory definition – child poverty and fuel poverty.

1. Child Poverty

The Child Poverty Act 2010 set out four income-related targets for Government to reach by 2020. These targets are:

- **Relative low income (Relative Child Poverty):** The proportion of children living in households where income is less than 60 per cent of contemporary median household income (Before Housing Costs – the target is less than 10 per cent by 2020/21)
- **Absolute low income (Absolute Child Poverty):** The proportion of children living in households where income is less than 60 per cent of 2010/11 median household income (Before Housing Costs adjusted for prices; the target is less than 5 per cent by 2020/21)
- **Combined low income and material deprivation:** The proportion of children who are in material deprivation and live in households where income is less than 70 per cent of median household income (Before Housing Costs; the target is less than 5 per cent by 2020/21)
- **Persistent poverty:** The proportion of children living in households where income is less than 60 per cent of median household income, Before Housing Costs; for at least three out of the last four years

In addition a proxy measure for relative low income child poverty is utilised by HMRC – the Children in Low-Income Families Local Measure – the proportion of children living in families either in receipt of out-of-work benefits or in receipt of tax credits with a reported income which is less than 60% of national median income.

Recent national trends for child poverty indicate that relative child poverty has fallen from a peak of 27% in the mid-1990s to 17% in 2011/12. Absolute child poverty also fell in the early 2000s, but rose in 2011/12, with 20% of children considered to experience poverty by this measure.

Low income and material deprivation among children has fallen in recent years, and stood at 14% in 2011/12.

The proxy measure used by HMRC has tended to remain fairly stable since 2006, calculating child poverty to be at a level just over 20%. This HMRC measure is of particular value, as it does allow for analysis at a local authority and census ward level.

2. Fuel Poverty

In July 2013, the Department of Energy and Climate Change published a new definition of fuel poverty – the low income/high cost model. This model classifies a household as being in fuel poverty if their income is below the poverty line (taking into account energy costs) and their energy costs are higher than is typical for their household type. In addition, the definition includes a fuel poverty gap, which illustrates the depth of fuel poverty a household experiences by calculating the difference between a household's modelled bill and what their bill would need to be for them no longer to be fuel poor.

Based on this new definition, the national level of fuel poverty is 10.9% of all households, with an average fuel poverty gap of £458. Fuel poverty continues to be influenced by three main drivers: energy costs, household incomes and the energy efficiency of residential properties.

3. Income Poverty and the Standard of Living

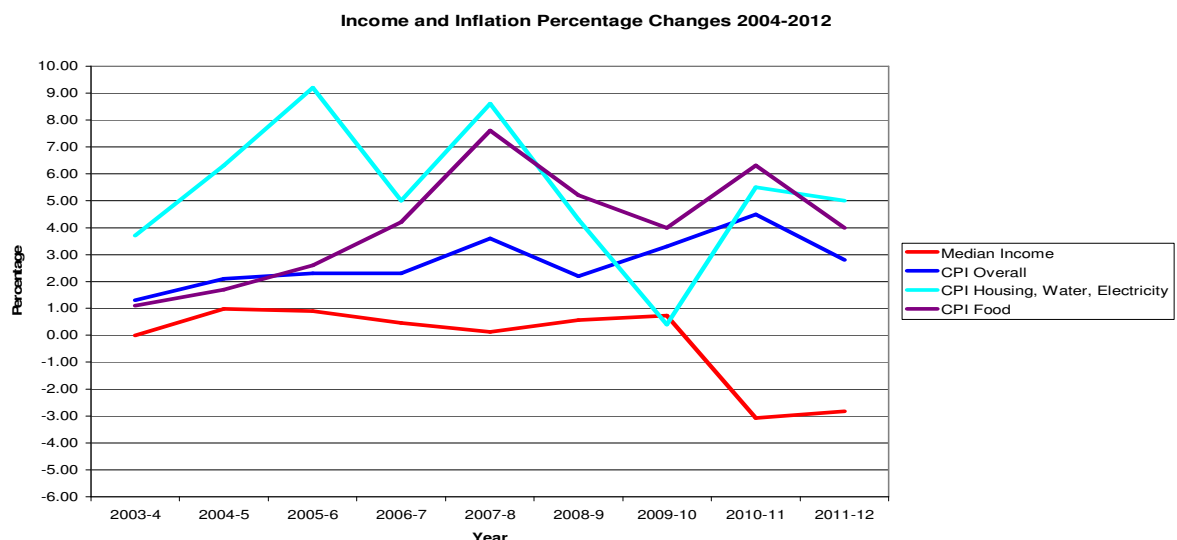
Beyond these two themes, there is no statutory definition of poverty. The income-related measures for child poverty are reported annually in the government's Households Below Average Income report along with a series of other low-income indicators for working age households and pensioners. As well including measures of poverty BHC (Before Housing Costs), this report also includes AHC (After Housing Costs) calculations too. The information contained in Households Below Average Income provides a bedrock for understanding national trends in low-income and the standard of living.

Although some thinking on poverty has emphasised the significance of non-material factors such as levels of aspiration, family composition/stability, educational attainment, health and wellbeing; the importance of having the resources and income to attain the norms of contemporary society is central to the issue.

Income trends in the 21st Century

Incomes in the United Kingdom demonstrated an upward trend in the early 2000s, before levelling off and then falling from the late 2000s onwards. The average (median) income in 2011/12 was on a level comparable to the average income in 2001/2, with the modest income gains of the intervening decade having been diminished by the economic downturn.

At the same time however, changes in the rate of inflation have tended to outstrip any growth in income, and exacerbate the recent decline in incomes. Since 2003-4 median income has – at best – increased by 1% a year. Inflation (by the Consumer Price Index (CPI) measure) tended to increase by 2% to 3% a year in the early and mid-2000s, before increasing to over 4% in 2010-11, when incomes were falling by 3%. Furthermore, inflation for essential commodities such as food, housing and utilities has seen much greater increases over the past decade, with annual increases of 9% occurring on occasion. Unlike previous recessions this one has been marked by a slowing down of incomes at and below the median, and a continuing rise in the inflation rate for basic household commodities. This means that the gap between income and the cost of living is beginning to show a scissors effect, where income and costs are moving in an inverse direction; thus the standard of living in the United Kingdom has fallen for households at, or below median income.



Income Poverty in the United Kingdom

The stagnation and decline in incomes is of particular importance when interpreting levels of income poverty in the United Kingdom.

In 2011/12, 16% of the entire population was in relative income poverty before housing costs, and 21% was in relative income poverty after housing costs. Both levels of poverty were a little lower than they had been in the later part of the 2000s decade. However, absolute income poverty levels in 2011/12 were higher than they had been in 2009/10 and 2010/11 before housing costs, and under the after housing costs measure, absolute poverty had risen as high as 23%.

In numerical terms, while 9.8 million individuals were in relative income poverty in 2011/12 before housing costs, a further 1.3 million individuals who were in relative income poverty in 2007/8 had only moved out of poverty due to the fall in median household incomes in recent years. While no longer 'in poverty' by this measure, such individuals may not be better off now than they were previously.

A contrasting pattern is visible regarding levels of absolute poverty. In 2011/12 there were 1.5 million individuals in absolute poverty before housing costs than in 2009/10, and 2.4 million more individuals than in 2004/5 when housing costs are considered.

Welfare Reform, Employment Status and Poverty

At the same time as the stagnation and decline in household incomes, a far-reaching package of reforms is underway which is changing the system of welfare provision in England. The reform of Incapacity Benefit and introduction of Employment Support Allowance began in 2008, as did changes to Housing Benefit provision for private rented sector tenants. But the bulk of recent reforms were introduced under the Welfare Reform Act 2012 and its supporting regulations and instruments.

There are potential impacts upon household incomes as a result of these changes. Out of work benefits for example, are now subject to an uprating cap of 1% per year. This means that the value of benefits in real terms will decline over time. The under-occupancy reforms for social housing reduce Housing Benefit for households who are considered to be under-occupying their property. Reductions are 14% for tenants occupying one bedroom too many, and 25% for occupying two or more bedrooms too many.

In addition, changes to Tax Credit thresholds have raised the minimum working hours threshold for Working Tax Credit claimants, and reduced the maximum income threshold for Child Tax Credit claimants. Also, the income disregard for increases in income in the Tax Credit calculation has been reduced from £25,000 in 2011 to £5,000 with effect from April 2013.

The Welfare Reform Act 2012 also introduced Universal Credit, and this new benefit is gradually being rolled out nationally with a target date of 2017 for completion. This benefit will be available to some households which are in work as well as unemployed households. Although there is a transitional protection scheme to ensure that existing claimants are no worse off provided their circumstances remain the same; the circumstances of many benefit claimants do change over time, and the Universal Credit Impact Assessment has calculated that 2.8 million households will be worse off under Universal Credit.

A Universal Credit Local Support Services Framework has also been published which sets out the Government's expectations on local organisations – including local authorities – to work together to support claimants, particularly the most vulnerable, through the transition process. The framework places a requirement for local organisations to have an agreement in place on the services in place in respect of:

- Triage, communication and signposting
- Identifying the vulnerable who may need alternative arrangements
- Assistance with the online claims process
- Money management
- Into work support, and support for those in work to increase hours / earnings

The relationship between employment, unemployment and low-income poverty is complex. A significant number of welfare claimants will usually have low incomes, and will therefore be in poverty, but so too do many adults who are in employment, albeit part-time or low-paid employment. At present (2011/12 data), working-age adults in workless households are much more likely to live in low-income/poverty affected households than those in households with at least one adult in work.

Composition of household	% of adults in this type of household in poverty
All adults in work	6%
1 adult in work, but not all adults	21%
No adults in work	47%

However, although working age adults in households where at least one (or all) adults are in work have a lower risk of experiencing low income poverty, such adults from in-work households form approximately 60% of the total number of working-age households in poverty (both before, and after housing costs, are included in the calculation).

The fact that more working adults are in poverty than unemployed adults is one illustration of low income and poverty in the United Kingdom today, indicating that securing employment is not necessarily a route out of poverty. Wage levels and the extent of hours worked are crucial factors in escaping from low income, not necessarily employment in itself.

The UK has a particularly high share of low-paid workers, with one in five employees in low-paid work. After falling in the early 1970s, the rate of low pay has risen gradually for the past 30 years. It is most prevalent among women, part-time and younger workers and in some specific sectors - in hospitality, 69% of workers are low paid; in retail 41%. Recent years have also seen gradually rising rates of in-work poverty, in part the result of a public policy focus on “work first” that converted a significant minority of poor workless households into poor working households reliant on one or more low-paid jobs.

Since 2009, the number of workers earning less than a living wage – the amount considered adequate to achieve a minimum standard of living – has risen from 3.4 million to 4.8 million in April 2012.

An earlier measure to address low pay was the introduction of the National Minimum Wage, which came into force in 1999. At the same time the Low Pay Commission was established, as an independent statutory non-departmental public body to advise the Government about the National Minimum Wage, and make recommendations on its future level.

From 1 October 2013, the National Minimum Wage is currently set at the following rates:

- Adult Rate (workers aged 21+) - £6.31 an hour
- Development Rate (workers aged 18-20) - £5.03 an hour
- 16-17 Years Old Rate - £3.72
- Apprentice Rate - £2.68

The National Minimum Wage was introduced to help as many low-paid workers as possible without any significant adverse impact on employment or the economy. It was estimated that 1.5 million people benefitted from higher pay upon its introduction in 1999, and according to the Low Pay Commission’s estimates, 1.4M workers (5.3% of all employees) earned the National Minimum Wage in April 2012.

There is a growing body of research, together with ‘Living Wage Campaigns’ that argues that the National Minimum Wage is too low for an adequate standard of living, and that a Living Wage, should be introduced which aims to reduce in-work poverty where an individual’s earnings, despite having a job, are insufficient to take them above the poverty line. As a result, a voluntary London Living Wage was introduced in 2005.

Since 2011, a Living Wage for outside of London has been calculated by the Centre for Research in Social Policy (CRSP) at Loughborough University. This calculation is based upon the Minimum Income Standard for the United Kingdom, the product of research by CRSP, funded by the Joseph Rowntree Foundation. The research looks in detail at what households need in order to have a minimum acceptable standard of living. Decisions about what to include in this standard are made by groups comprising members of the public. As of January 2014, the non-London Living Wage is £7.65 per hour.

Minimum Income Standard

Although the Minimum Income Standard is factored into calculations of the Living Wage, it also calculates that a higher level of hourly pay is required for households to fully participate in society. For a single person household, the 2013 Minimum Income Standard has been calculated at £8.62, £1.18 above the Living Wage, and £2.63 above the National Minimum Wage. Furthermore, when the additional costs of rural living are factored into Minimum Income Standard, the equivalent required full time hourly wage for a single person to achieve Minimum Income Standard is £10.05 in rural areas.

Low Paid Individuals and Households

There are a series of common characteristics and themes which allow for the identification of individuals and households most at risk of being low paid. Certain types of employee, employment and industrial sector are especially prone to low pay. As of April 2012, the chief features of low pay were:

Employee Profile:

- 26% of women employees are low paid
- 78% of those workers aged 16-20 are low paid
- 38% of those workers aged 21-25 are low paid
- 20% of workers aged 61-65 are low paid

Job Profile:

- 43% of part time workers are low paid
- 33% of workers on temporary contracts are low paid
- 59% of workers in elementary occupations are low paid
- 56% of workers in sales and customer services are low paid
- 34% of workers in personal services are low paid
- Elementary, sales and customer services, and personal services account for 73% of all low paid jobs

Industrial Sector

- 68% of workers in the hotels and restaurants sector are low paid
- 41% of workers in wholesale and retail are low paid
- 36% in admin and support services are low paid
- Health and social work, and education account for 22% of all low paid jobs
- 27% of workers in the private sector are low paid, accounting for 85% of all low paid jobs
- Just 6% of workers earning less than a living wage are employed in the public sector

These characteristics are reinforced by Minimum Income Standard analysis which demonstrates the greater likelihood of social housing and private rented sector households being low paid. The most recent estimates are that 43% of social housing tenants, and just under 40% of private rented sector tenants have household incomes below Minimum Income Standards. For both housing sectors, the likelihood of having a household income below 75% of

Minimum Income Standard (this equates to an hourly wage of £6.47 – considerably below the Living Wage) is 1 in 4.

The Low Pay Commission considers the following occupations to be low paying: retail; hospitality; social care; food processing; leisure, travel and sport; cleaning; agriculture; childcare; textiles and clothing; hairdressing; office work; transport; non-food processing; and storage.

Further Information:

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Sources of Information

Child Poverty

Her Majesty's Revenue and Customs

Children in Low-Income Families Local Measure

<http://www.hmrc.gov.uk/statistics/child-poverty-stats.htm>

http://webarchive.nationalarchives.gov.uk/20121103084242/http://www.hmrc.gov.uk/stats/personal-tax-credits/child_poverty.htm

Department of Work and Pensions

Households Below Average Income (1994/5 – 2011/12)

<https://www.gov.uk/government/publications/households-below-average-income-hbai-199495-to-201112>

Fuel Poverty

Department of Energy and Climate Change

Fuel Poverty Statistics 2011

<https://www.gov.uk/government/collections/fuel-poverty-statistics#2011-statistics>

Incomes

Department of Work and Pensions

Households Below Average Income (1994/5 – 2011/12)

<https://www.gov.uk/government/publications/households-below-average-income-hbai-199495-to-201112>

Institute of Fiscal Studies

Living Standards, Poverty and Inequality in the UK: 2013

<http://www.ifs.org.uk/publications/6759>

Office of National Statistics

Consumer Price Inflation Reference Tables, December 2013

The Resolution Foundation and Institute for Public Policy Research

Beyond the Bottom Line (2013)

Low Pay Britain (2013)

The Low Pay Commission

National Minimum Wage 2013 Report

<https://www.gov.uk/government/publications/national-minimum-wage-low-pay-commission-report-2013>

Centre for Research in Social Policy

Minimum Income Standard

<http://www.lboro.ac.uk/research/crsp/mis/>

Joseph Rowntree Foundation

A Minimum Income Standard for the UK in 2013

<http://www.jrf.org.uk/publications/MIS-2013>