

Monitoring poverty and social exclusion in the UK 2006

The New Policy Institute has produced its ninth annual report of indicators of poverty and social exclusion providing a comprehensive analysis of trends over time and differences between groups.

- **Poverty among children.** Government has turned the tide on child poverty but has fallen short of its target of taking one million children out of poverty. Half the children in poverty are in families already doing paid work; this means the key proposition behind the anti-poverty strategy - that 'work is the route out of poverty' - does not apply for many people. The underlying problem is low pay: a low-paid couple can only avoid poverty if both are working.
- **Poverty among adults.** The big fall in poverty among pensioners, especially single pensioners, has been a major success of the anti-poverty strategy. However, poverty among working-age adults has not been reduced and this is a major weakness.
- **Inequalities in income and pay.** Three-quarters of the extra income created over the last decade has gone to richer households. While gender pay inequality has fallen somewhat, especially at the bottom, higher earnings have grown proportionately faster than the average.
- **Health inequalities.** Health inequalities by social class are pervasive and seem to be more impervious to change than other forms of inequality.
- **Minimum educational standards.** Progress in the numbers reaching 'headline' standards at age 11 and 16 diverts attention from the failure to improve outcomes for the quarter of 19-year-olds who fail to reach a minimum educational standard. Since these people face the highest risk of poverty in adult life, one of the major causes of future poverty is not being addressed.
- **Exclusion by institutions.** In a number of areas, from bank accounts to central heating, exclusion has fallen substantially where Government has taken a stand. Yet there remain many others, perhaps above all in the workplace, where people at the bottom are the least likely to benefit from support and services that are on offer.
- The researchers conclude that the overall picture is not so much a mixture of success and failure as one of success and neglect. Where Government has acted, change has happened. Where it has not, previous trends have continued.



Table 1: Summary of the poverty and social exclusion indicators

Indicator	Trends over time	
	Over the medium term (last 5 years or so)	Over latest year of available data
Income		
1. Numbers in low income	Improved	Improved
2. Low income and housing costs	N/A	N/A
3. Low income by age group	Mixed	Improved
4. Income inequalities	N/A	N/A
5. Lacking essential items	N/A	N/A
6. Out-of-work benefit levels	Mixed	Mixed
7. Long-term recipients of out-of-work benefits	Steady	Steady
Children		
8. In low-income households	Improved	Improved
9. In receipt of tax credits	Mixed	Mixed
10. In workless households	Improved	Steady
11. Low birthweight babies	Steady	Steady
12. Child health	Steady	Steady
13. Underage pregnancies	Improved	Improved
14. Low attainment at school - 11-year-olds	Improved	Improved
15. Low attainment at school - 16-year-olds	Steady	Steady
16. School exclusions	Steady	Steady
Young adults		
17. Without a basic qualification	Steady	Steady
18. School leavers	Steady	Steady
19. With a criminal record	Improved	Improved
20. Unemployment	Steady	Worsened
21. Low pay	Steady	Steady
22. Suicides	Improved	Improved
Adults aged 25 to retirement		
23. Low income and work	Worsened	Steady
24. Low income and disability	Steady	Steady
25. Low income and Council Tax	Worsened	Worsened
26. Concentrations of low income	N/A	N/A
27. Wanting paid work	Improved	Steady
28. Work and disadvantaged groups	Mixed	Mixed
29. Workless households	Steady	Steady
30. Low pay by gender	Improved	Improved
31. Low pay by industry	N/A	N/A
32. Pay inequalities	Mixed	Mixed
33. Disadvantaged at work	Steady	Steady
34. Support at work	Improved	Steady
36. Premature death	Improved	Improved
33. Limiting longstanding illness or disability	Improved	Steady
37. Mental health	Improved	Steady
Older people		
38. In low-income households	Improved	Improved
39. Benefit take-up	Worsened	Worsened
40. Excess winter deaths	Steady	Steady
41. Limiting longstanding illness or disability	Steady	Steady
42. Help from social services	Worsened	Steady
43. Anxiety	Improved	Improved
Communities		
44. Without a bank account	Improved	Improved
45. Without home contents insurance	Improved	Improved
46. Transport	N/A	N/A
47. Polarisation by tenure	Steady	Steady
48. Without central heating	Improved	Improved
49. Homelessness	Steady	Improved
50. Mortgage arrears	Improved	Worsened

Source: Monitoring poverty and social exclusion in the UK 2006

Summary of key points

1. 700,000 fewer children are now in income poverty than in 1998/99, a fall of 17%. On the alternative 'before deducting housing costs' measure, the fall is 23%. The Government's target for this period was a fall of 25%.
2. Half the children in poverty have someone in their family doing paid work. Four-fifths of those in working families live with two parents. Among children in poverty in workless families, two-thirds live with one parent.
3. Tax credits now help more than a million children in working households out of poverty, but the number needing such help has risen sharply.
4. Although the number of children in workless households has fallen by a quarter over the last decade, the UK still has a higher proportion than any other EU country.
5. The poverty rate for pensioners has come down from 27% in the late 1990s to 17% in 2004/05. Among single pensioners, the rate has halved over the period, from 33% to 17%. Pensioners now account for just one-sixth of all the people in poverty.
6. The poverty rate for working-age adults has remained unchanged at 19%. Around half of working-age adults in poverty live in households where someone is doing paid work.
7. At 30%, the poverty rate for disabled adults is twice that for non-disabled adults, a difference markedly higher than a decade ago. The main reason for this high poverty rate is the high levels of worklessness. A graduate with a work-limiting disability is more likely to be lacking but wanting work than an unqualified person with no disability.
8. Relative to earnings, out-of-work benefits for working-age adults are now worth 20% less than in 1997.
9. The proportion of workers aged 22+ who are low paid (£6.50 an hour in 2005) has fallen from 37% in 2000 to 29% in 2005 for women and from 17% to 14% for men. Though still substantial, the pay gap between men and women has narrowed at every level of pay, though more so at the bottom.
10. Pay at the bottom has moved in line with average pay over the last decade while pay at the top has gone up faster.
11. Except for households in the top and bottom tenths of the income distribution, households with below average incomes have enjoyed bigger proportional increases over the last decade than households with above average incomes. In terms of the extra money, however, three-quarters has gone to those with above average incomes, and a third has gone to those in the richest tenth.
12. Health inequalities associated with class, income or deprivation are pervasive and can be found in all aspects of health, from infant death and the state of children's teeth to the risk of mental ill-health. The limited information on progress over time (infant death, low birthweight) shows no sign that inequalities are decreasing.
13. There is a steady downward trend on a number of statistics where there is known to be a considerable degree of inequality (premature death, young adult suicides).
14. Over the last decade, the proportion of 11-year-olds failing to reach level 4 at Key Stage 2 has continued to fall, from 43% to 21% for English, and from 46% to 25% in Maths. These proportions are also falling for schools with a high number of children from deprived backgrounds, from above 60% to around 35% for both English and Maths.
15. Despite continued progress in the proportion of 16-year-olds failing to reach the 'headline' level of five GCSEs at grade C or above (from 57% in 1994/95 to 44% in 2004/05), the proportion failing to get five GCSEs at any level has been stuck at 12% since 1998/99.
16. The proportion of 19-year-olds who fail to reach the level of NVQ2 or equivalent is, at 27%, the same as in 1996/97 and slightly higher than 2001/02. The proportion of 16 year-olds not in education or training has remained unchanged at 15% since 2000.
17. At both 11 and 16, deprived white children are as likely to fail to reach educational thresholds as deprived children from minority ethnic groups.
18. The proportion of low-income households without a bank account fell to 10% by 2004/05, down from well above 20% in the late 1990s. The proportion of low-income households without central heating has fallen at an equally rapid rate. In both cases, the gap between low income households and households on average incomes is now small.
19. The proportion of households in poverty paying full Council Tax has gone up steadily, from 45% in 1998/99 to 58% in 2004/05. 1.5 million children in poverty live in households paying full Council Tax.
20. In 2005, 13% of employees earning £6.50 an hour or less belonged to a trade union, compared with 43% for those earnings between £15 and £21 an hour, and 28% for those earning £21 an hour and above.

The current measurement of income poverty

A household is defined as being in income poverty ('poverty' for short) if its income is less than 60% of the contemporary Great Britain median household income. In 2004/05, the latest year for which data is available, this was worth £100 per week for a single adult with no dependent children, £183 per week for a couple with no dependent children, £186 for lone parent with two dependent children and £268 per week for a couple with two dependent children. These sums are measured after deducting income tax, council tax and housing costs (including rents, mortgage interest, buildings insurance and water charges). The money left over is therefore what the household has available to spend on everything else it needs, from food and heating to travel and entertainment.

Progress on the child poverty target

The latest official figures on child poverty are for 2004/05, the Government's target year for its first milestone for abolishing child poverty, namely, reducing child poverty by a quarter compared with 1998/99. This target was not reached whichever measure of income poverty is used (the Government was ambiguous about which target it was using). On the more commonly used measure 'after deducting housing costs', the number of children in poverty in Britain fell by 700,000, or 17%, from 4.1 million in 1998/99 to 3.4 million in 2004/05. On the alternative 'before deducting housing costs' measure, the proportional fall was greater, at 23%, but still slightly short of the target.

The only way to characterise what has been achieved so far has to be 'mixed': on the one hand, steady and solid progress, unequivocally reversing what had been a long upward trend in child poverty beginning at least as long ago as the end of the 1970s; on the other, equally unequivocally, falling short of a target that itself is still a long way from the eventual goal of abolition.

Why has child poverty not fallen further?

Table 2 compares the poverty status of children in 1998/99 (the base year chosen by the Government against which to measure progress) and 2004/05.

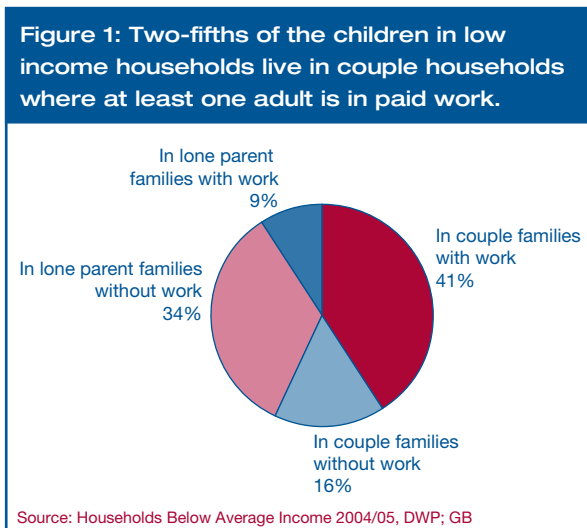


Table 2: Children by family work status, 1998/99 and 2004/05

		1998/99	2004/05
<i>Children in working families</i>	Total number	10.0m	10.2m
	Number in poverty	2.0m	1.7m
	Poverty 'risk'	20%	17%
<i>Children in workless families</i>	Total number	2.6m	2.4m
	Number in poverty	2.1m	1.7m
	Poverty 'risk'	80%	72%
<i>All children</i>	Total number	12.6m	12.5m
	Number in poverty	4.1m	3.4m
	Poverty 'risk'	33%	27%

It shows that the reduction in child poverty is due to a combination of three factors:

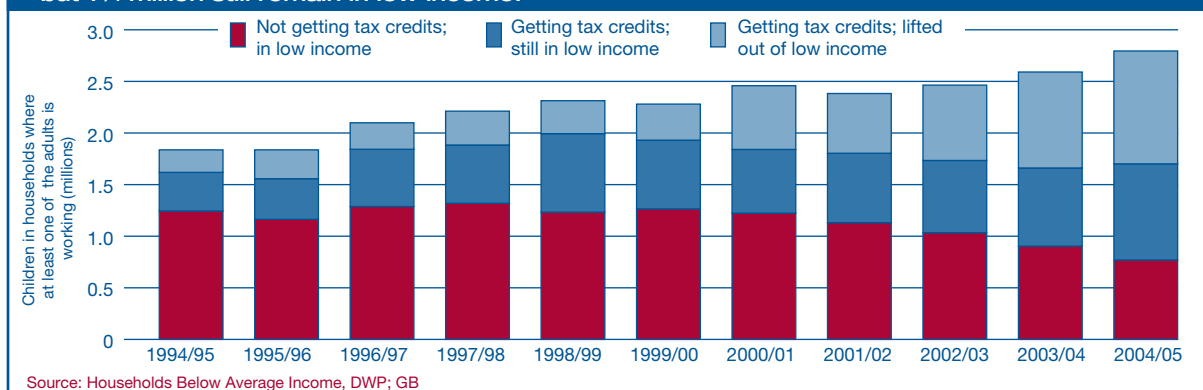
- The risk of children in workless families being in poverty has come down, from 80% to 72%.
- The risk of children in working families being in poverty has come down, from 20% to 17%.
- The number of children who are in workless families has come down from 2.6 million to 2.4 million.

Quantitatively, the first two factors have been more important than the third. In other words, *most of the fall in child poverty has been due to reduced poverty risks for both working and workless families rather than from the shift into work*. Given the growth in employment (especially among lone parents), this is surprising. The driving forces behind these reduced risks are tax credits and increases in out-of-work benefits for families with children.

As *Figure 1* shows, half of the children in poverty in 2004/05 belonged to households where someone is doing paid work. Most of these are in two-parent families. In-work poverty on this scale is a real problem because, if half of children in poverty are in households already doing paid work, work cannot be the route for these families to escape poverty.

Despite the reduced risks of poverty for both working and workless families, the 2004/05 target was not achieved. A major reason for this is that the number of children *needing* tax credits in order to escape from in-work poverty has been going up. More specifically,

Figure 2: Tax credits now take around 1 million children in working households out of low income – but 1¾ million still remain in low income.



as shown in *Figure 2*, the number of children in working families who were either in poverty despite tax credits, or would have been in poverty but for the credits, went up from 2.3 million in 1998/99 to 2.8 million in 2004/05. Figure 2 also shows that tax credits lifted 0.8 million more children out of poverty in 2004/05 than their predecessor did in 1998/99. This implies that the target was missed *not* because the Government did too little but because the underlying problem got much worse.

Poverty among adults

For pensioners, the record has been very good, with the overall pensioner poverty rate falling from 27% in the late 1990s to 17% in 2004/05. Over the same time, the rate for single pensioners fell by a half from 33%.

By contrast, the 19% poverty rate among working-age adults has barely changed for at least a decade. At 6.2 million, the number of working-age adults in poverty now exceeds the pensioner poverty and child poverty combined. Within the overall total, there have been some changes in the mix: for example, the number of adults in in-work poverty has risen and now accounts for nearly half the total.

Working-age disabled adults are especially at risk: the 30% poverty rate among disabled adults aged 25 to retirement is not only twice the non-disabled rate but is also higher than a decade ago. The main reason for this is that most are not in paid work. Yet it is also clear that disabled people face formidable barriers in finding work. The most striking evidence of this is that graduates with a work-limiting disability have a higher chance of being out of, but wanting, work than a non-disabled adult who has no qualifications at all. Neither a willingness to work, nor self-improvement through education, are therefore sufficient to give disabled adults anything like the same economic prospects as their non-disabled peers.

What accounts for the contrasting experience of pensioner and working-age adult poverty? As with child poverty, part of the explanation is the scale of in-work poverty meaning that the assumption of 'work as the route out of poverty' is simply not true for many. There is an additional reason, however, which relates to the second key proposition of the Government's anti-poverty strategy, namely, 'security for those who cannot (work)'. This proposition raises two questions: first, who counts as being 'unable' to work; and second, what would constitute 'security' for them? For pensioners, both answers are clear, namely, 'all of them' and 'a level of income support close to, or above, the poverty line'. This has provided the basis for an effective policy delivered through the Pensioner 'Minimum Income Guarantee', beginning in 1999, and 'Pension Credit', beginning in 2003. Such means-tested benefits do not address the root of the problem, but used as here to deliver big increases in benefits to those with the lowest incomes, they can have rapid and substantial effects.

For working-age adults, neither answer is clear. Whereas benefits for pensioners and households with children have at worst kept up with earnings since 1997, benefits for working-age adults without children have fallen 20% further behind earnings.

Educational outcomes at the bottom

At age 11, the evidence suggests a steady and sustained improvement. By contrast, the story at age 16 and beyond is one of stagnation from around 2000 onwards, following an earlier period of slight improvement. Wider awareness of this is clouded because the proportion in England and Wales failing to reach the headline measure at age 16 - achieving at least five GCSEs at grade C or above - has declined steadily from 57% in 1994/95 to 44% in 2004/05.

Figure 3: One in ten 16-year-olds still obtains fewer than 5 GCSEs, the same as in 1999/00. This lack of improvement contrasts with the continuing improvement in 5 GCSEs at grade C or above.

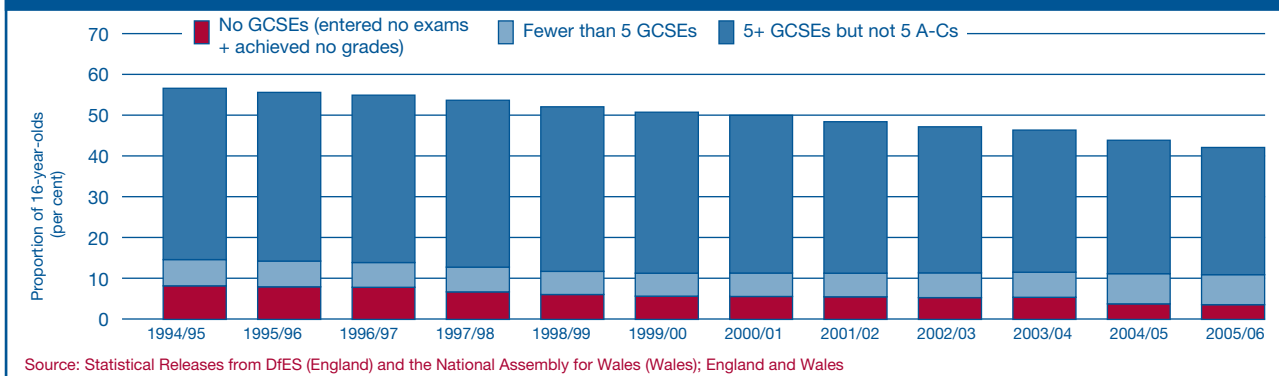
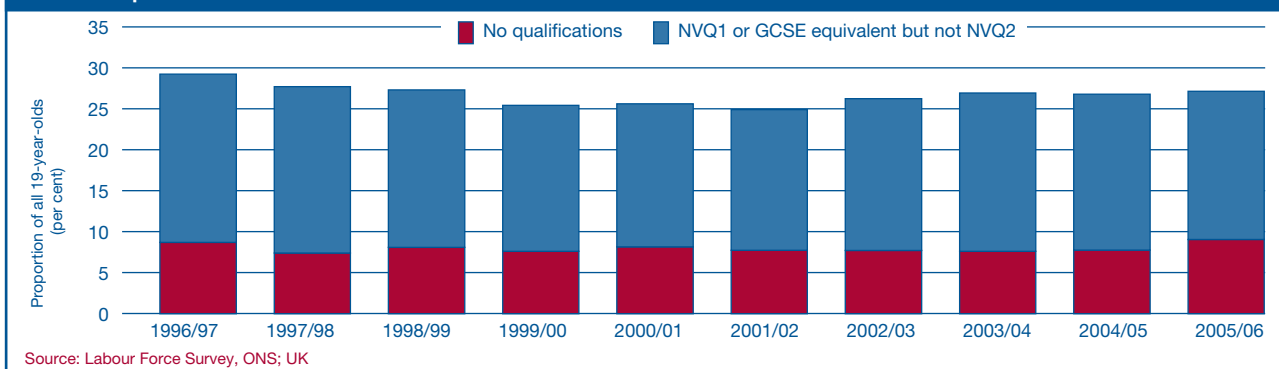


Figure 4: One in four 19-year-olds still fails to achieve a basic level of qualification and up to one in ten have no qualifications at all.



The vast majority of 16-year-olds achieve five GCSEs at any grade and this therefore seems a better candidate for a minimum standard at 16 than five GCSEs at A to C. *Figure 3* shows that, in the mid-1990s, 14% of 16-year-olds failed to reach that level. By 1998/99, that proportion had dropped to 12%, where it has remained ever since. This picture of stagnation can also be seen in levels of attainment for 19-year-olds. As *Figure 4* shows, 27% of 19-year-olds in 2005/06 lacked qualifications to NVQ2 or equivalent. This is the same as in 1998/99. Substantial and sustained reductions in poverty depend

on raising the level of qualifications among older teenagers and young adults in the bottom quarter of educational achievement. Lack of progress here is a major concern for longer term progress on reducing poverty.

For more information

The full report, **Monitoring poverty and social exclusion 2006** by Guy Palmer, Tom MacInnes and Peter Kenway, is published by the Joseph Rowntree Foundation (ISBN 978 1 85935 535 0, price £16.95). You can also download the report from either www.jrf.org.uk or www.poverty.org.uk. Separate reports by the same team, looking specifically at Scotland (2006), Northern Ireland (2006) and Wales (2005), are also available from www.jrf.org.uk. All the indicators and graphs can also be viewed at www.poverty.org.uk where the graphs are updated as new data becomes available.

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