

# 3. The scale of the task

## Where we are now and where we need to be

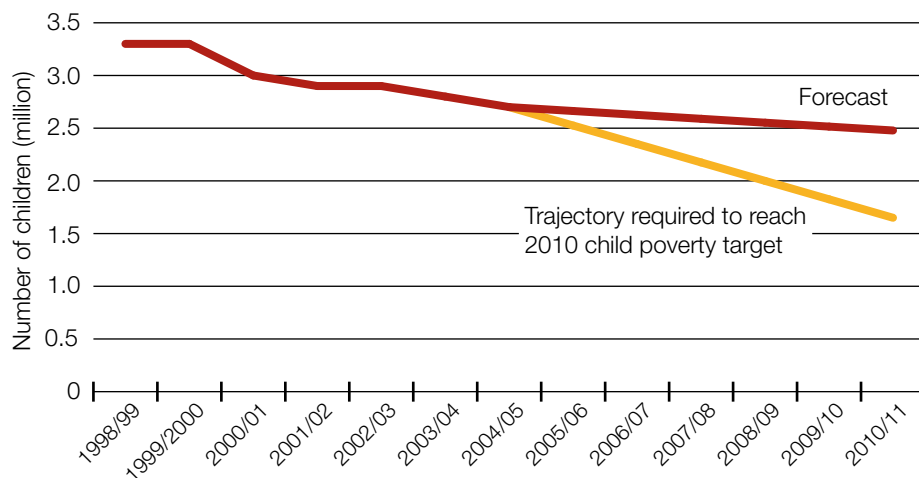
Child poverty has fallen substantially in recent years – some 700,000 children have been lifted out of poverty since 1998/99. Given that child poverty rates tripled during the 1980s and then remained persistently high during the 1990s, this sharp fall in child poverty has been a remarkable achievement. The child poverty rate is now at a 15-year low and the UK no longer has the highest child poverty rate in the European Union.

Nevertheless, the progress has not been sufficient to reach the Government's target to reduce child poverty by a quarter between 1998/99 and 2004/05 – a crucial milestone in the Government's efforts to eradicate child poverty within a generation. The failure to meet this target also makes the task of reaching the next milestone – a 50 per cent reduction by 2010 – more difficult.

A further 1.1 million children need to be lifted out of poverty between 2004/05 and 2010/11 in order to meet the 2010 target.<sup>2</sup> However, projections suggest that, if no further action is taken on policy, the child poverty rate is unlikely to fall significantly. Simply sustaining the progress so far will be challenging. Child poverty is measured in relative terms; it is defined in relation to median income which changes over time. The number of children in poverty could rise by up to 100,000 per year as a result of median income growth between now and 2010, so in practice the number needed to be lifted out of poverty may be higher than 1.1 million.

<sup>2</sup> The PSA target is to halve the number of children in relative low-income households between 1998/99 and 2010/11. There were 3.4 million children in poverty in 1998/99; the target for 2010 is 1.7 million. Relative low-income households are defined as those with income below 60 per cent of contemporary equivalised median income before housing costs. The Government has also set a target (although not a PSA target) of there being fewer than 1 million children living in absolute low income by 2010/11. In addition, the Government has made a commitment to set an additional target to halve the number of children suffering a combination of material deprivation and relative low income (at 70 per cent of median income before housing costs) – to provide a wider measure of children's living standards.

## Graph 1: Number of children in poverty: trend and forecast



Source: Chung R et al, 2006, *Family Resources Survey 2004/05*, Office for National Statistics.

Note: Poverty is defined as living in a household with income below 60 per cent of the median after housing costs. The forecast is based on the Department for Work and Pensions' simulation model. It includes take-up modelling.

## What would it take to get there?

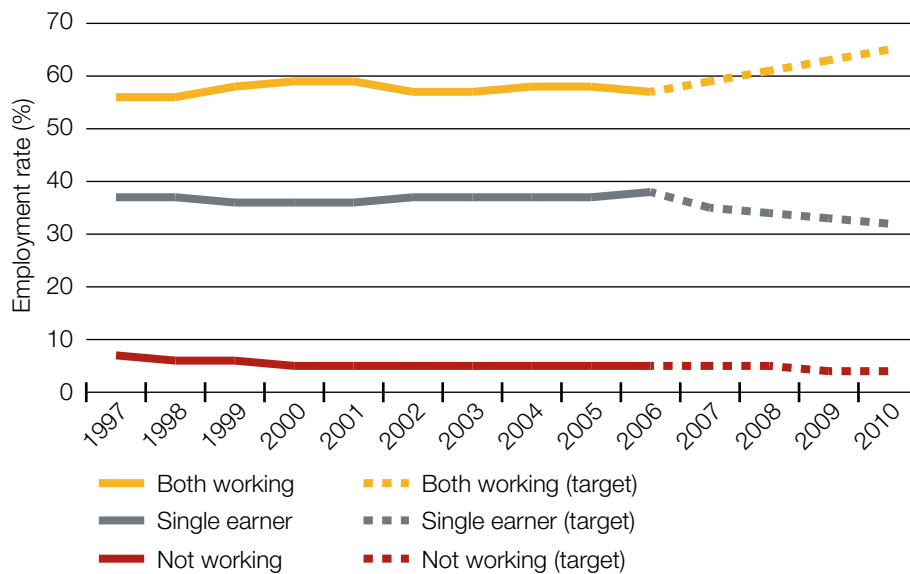
Work undertaken for the Joseph Rowntree Foundation<sup>3</sup> has estimated that the 2010 target could be met if a further £4.3 billion per annum was invested in benefits and tax credits. While this has revealed the scale of the task, there is wide recognition that relying solely on benefit/tax credit increases to reduce child poverty would be undesirable since, for many families, an income through paid employment offers a more effective and sustainable route out of poverty.

<sup>3</sup> Hirsch D, 2006, *What would it take to end child poverty? Firing on all cylinders*, Joseph Rowntree Foundation.

At the same time, the 2010 and 2020 targets cannot be met by increases in employment alone. For example, if we relied solely on employment to halve the number of children in lone-parent families living in poverty, we would need to reach a lone-parent employment rate of around 86 per cent by 2010<sup>4</sup> (which would require the UK to leap from having one of the lowest to one of the highest lone-parent employment rates in Europe).

Even if the current 70 per cent lone-parent employment target was reached by 2010, the percentage of dual-earner couple families would need to rise from 57 per cent to 65 per cent and couple unemployment would need to fall from 5 per cent to 4 per cent if the 2010 target is to be met.<sup>5</sup> Although such changes in employment rates appear small, they would represent a dramatic shift in recent trends (see graph below) and assume that all the increase in the couple employment rate benefits poor couples. In other words, it would require a 20 per cent increase in the employment rate of poor couples with children and one or no earner in just four years.

Graph 2: Changes in employment rates for couples with children required to meet the 2010 child poverty target



Source: *Labour Force Survey January–March 2006* (SN 5369), Office for National Statistics.

Note: This graph illustrates the scale of change required to reach the 2010 child poverty target if the strategy relies solely on increases in employment. It assumes a 70 per cent lone-parent employment rate by 2010.

<sup>4</sup> This is an estimate: 1.1 million children need to be lifted out of poverty by 2010. Thirty-nine per cent of poor children currently live in one-parent families, so at least 429,000 children in lone-parent families need to be lifted out of poverty. If this was achieved solely through entries into work, it would require a 29 percentage point rise in the lone-parent employment rate – each 1 per cent rise is equivalent to lifting approximately 15,000 children out of poverty.

<sup>5</sup> These are rough estimates – we can only estimate the child poverty impact of increasing the number of dual-earner couples.

It is therefore obvious that a combination of a higher employment rate and enhanced benefit/tax credit support will be necessary. The key question is therefore: what balance of employment support and benefit/tax credit support would maximise the chances of meeting the 2010 and 2020 targets?

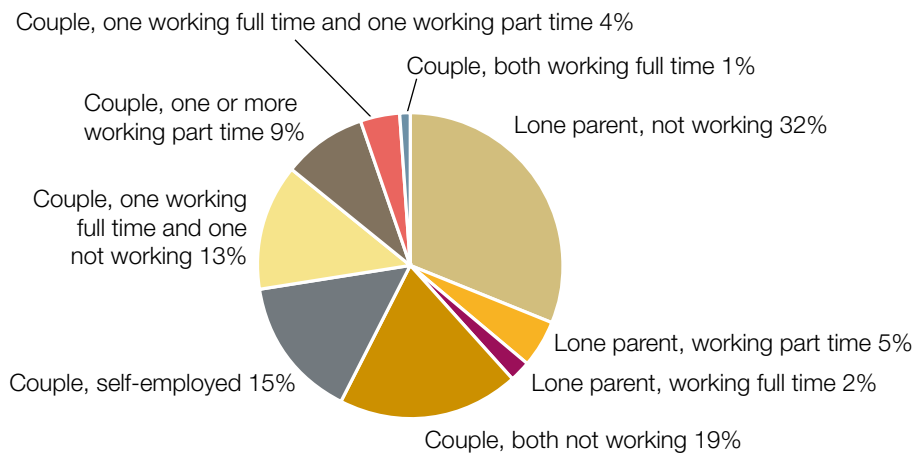
The contribution that employment has made to reducing poverty since 1997 has decreased over time. Indeed, while substantial gains in employment were seen between 1997 and 2001, since 2001 most of the fall in child poverty can be attributed to increases in tax credits.<sup>6</sup> Continuing with current Welfare to Work policy is, therefore, very unlikely to achieve a significant reduction in child poverty by 2010 or 2020.

The Government has made considerable progress in supporting parents into work – there has been an 11.3 per cent increase in lone-parent employment since 1997, for example. Progress may have recently slowed: the spring 2006 lone-parent employment rate is unchanged on spring 2005 and the partnered mothers' employment rate fell over the same period. Nevertheless, there are strong grounds for believing that parental employment rates could rise further. The UK has a high proportion of children living in workless households (15.3 per cent). There remains a 15 percentage point difference in the lone-parent and partnered mother employment rates. The UK has low lone-parent labour market participation and low proportions working full time compared with European Union counterparts. And the employment patterns for two-parent families also suggest room for change – while 69 per cent of all couple families where someone is in work are dual earning, only 24 per cent of poor couples where someone is in work are dual earners.<sup>7</sup>

<sup>6</sup> Brewer M, Goodman A, Shaw J and Sibieta L, 2006, *Poverty and inequality in Britain*, Institute for Fiscal Studies.

<sup>7</sup> Chung R et al, 2006, *Family Resources Survey 2004/05*, Office for National Statistics.

## Chart 1: Who's poor?: child poverty by family type and economic status



Source: Department for Work and Pensions, 2006, *Households Below Average Income 1994/5–2004/05*, Corporate Document Services.

### What needs to change?

To increase parental employment rates, the Department for Work and Pensions would need to:

- align the package of support that parents get across Department for Work and Pensions programmes;
- maximise the chances of every parent currently supported via Welfare to Work programmes to find employment (see pages 16 to 21);
- improve the package of support that parents get – to increase the effectiveness of the support provided to parents and meet the needs of particular groups (see pages 22 to 46);
- extend support both to those not currently participating in Welfare to Work programmes and to the in-work poor, to reach the 48 per cent of children in poverty who are living in a household where someone is already in work (see pages 47 to 52); and
- consider the contribution of other policies to reducing child poverty (see pages 53 to 58).