



Social Mobility &
Child Poverty
Commission

Response to the consultation on the Child Poverty Strategy 2014 to 2017

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About the Commission

The Social Mobility and Child Poverty Commission is an advisory non-departmental public body established under the Child Poverty Act 2010 (as amended by the Welfare Reform Act 2012) with a remit to monitor the progress of the Government and others on child poverty and social mobility. It is made up of ten commissioners and is supported by a small secretariat. Its members are:

- The Rt. Hon. Alan Milburn (Chair).
- The Rt. Hon. Baroness Gillian Shephard (Deputy Chair).
- Tom Attwood, currently a Non-Executive Director at the Centre for Social Justice and formerly Managing Director of the Intermediate Capital Group.
- Anne Marie Carrie, Chief Executive of Kensington and Chelsea Education Ltd.
- Paul Cleal, Government & Public Sector Leader at Price Waterhouse Coopers.
- Paul Gregg, Professor of Economic and Social Policy, University of Bath.
- Christian Guy, Director of the Centre for Social Justice.
- Douglas Hamilton, Director of the RS Macdonald Charitable Trust.
- David Johnston, Chief Executive of the Social Mobility Foundation.
- Catriona Williams OBE, Chief Executive of Children in Wales.

The functions of the Commission include:

- Monitoring progress on tackling child poverty and improving social mobility, including implementation of the UK's child poverty strategy and progress against the 2020 child poverty targets, and describing implementation of the Scottish and Welsh child poverty strategies.
- Providing published advice to ministers on matters relating to social mobility and child poverty.
- Undertaking social mobility advocacy.

Summary

1. The new strategy is the Government's opportunity to revise its plans for tackling child poverty to get back on track towards meeting its legal obligation to end child poverty by 2020: the Commission has a matching statutory duty, namely to assess likely progress against this goal.
2. Our key conclusion is that this opportunity has not been taken. While there have been improvements in the Government's strategic approach and in some policy areas, overall the strategy falls far short of what is needed. Our State of the Nation report last year concluded that the numbers of children in both absolute and relative poverty are set to increase significantly over the next few years, with the 2020 targets being missed by a considerable distance. Nothing in the strategy changes this finding.
3. This really matters: lower absolute income levels for large numbers of children are not just a statistical change but one that means more children will suffer real hardship that is likely to damage their wellbeing and their future life chances. Equally, if the living standards of children and young people at the bottom do not keep in touch with those in the middle, they suffer harm as they are increasingly less able to take part in society.
4. New research for the Commission emphasises the scale of the challenge: achieving the targets within current fiscal plans will require a combination of parental employment rates of almost 100% - far beyond what has ever been achieved anywhere in the world – together with increases in the hours parents work far beyond the requirements of Universal Credit. Achieving these outcomes - or even coming close to them - would involve radical changes to the labour market. Current policies will not deliver this change.
5. The Government's approach to tackling poverty essentially has two main parts. First, to engineer a shift away from supporting families through income transfers towards tackling the root causes of poverty by enabling more parents to enter work and earn more. Second, to break the intergenerational cycle of poverty through raising the attainment of poor children so that they will be better off as adults.
6. Progress has been made over the last decade on the second element of this, with, for example, twice as many children eligible for free school meals achieving five good GCSEs including English and Maths in 2012-13 than in 2005-06 and a closing of the attainment gap.¹ However, this is a long-term approach and any success here will take at least a decade – and probably longer - to show up in significant reductions in child poverty.
7. Our main concern with the strategy, and the focus of this response, is the first part – family incomes in the present. The Government needs to get far more parents into sustained full-time employment – especially lone parents and second

¹ Only 19.6% of children eligible for free school meals achieved at this level in 2005-06 compared to 38.9% in 2012-13. See Department for Education *GCSE and Equivalent Attainment by Pupil Characteristics*, various years

earners in couples – and boost their net earnings in work to offset the big falls in benefit and tax credit income that low-income families are seeing as a result of fiscal consolidation. It is this that will determine whether the Government will achieve its legal responsibility to end child poverty by 2020, and it will also strongly influence progress on improving educational outcomes and life chances to ‘break the cycle’

8. There has been progress in getting more parents into work. There are more parents in employment than ever before², with the proportion of children who live in workless households at its lowest level since records began in 1996.³ Increases in employment have been most marked for lone parents⁴. This is a real achievement. We expect parental employment to continue to increase as the economy recovers and Universal Credit is implemented.
9. However while getting more parents into work is a big step forward, it does not automatically bring reductions in child poverty. This is because, in too many cases, it simply moves children from low income workless households to low income working households. The hope of course is that working poverty today is the start of a trajectory towards better things tomorrow. The reality is that too many parents get stuck in working poverty, unable to command sufficient earnings to escape low income and cycling in-and-out of insecure, short-term and low paid employment with limited prospects. This is reflected in the fact that three quarters of those in low paid jobs in 2002 were still in low pay ten years later in 2012, with a quarter of those in low paid jobs in 2002 remaining in low pay during every single year of the following decade.⁵ This matters even more now that fiscal consolidation limits the scope for government to top up the wages of those who are stuck in low pay to lift them out of poverty. The key challenge is restoring the link between “working hard and doing the right thing” and having a life free of poverty.
10. The strategy does not rise to the difficult challenge – a cross party dilemma – of ensuring families at the bottom stay in touch with those in the middle in the face of profound structural changes in the labour market (like increased job insecurity and low pay) at a time when austerity means that the State has less capacity to achieve this goal through redistribution.

² 78.3% of working-age parents with dependent children were in work in the fourth quarter of 2014. See Office for National Statistics *Working and Workless Households*, various years

³ 13.3% of dependent children in working age households lived in workless households in the fourth quarter of 2014. See Office for National Statistics *Working and Workless Households*, various years

⁴ 61.4% of lone parents with dependent children were in work in the fourth quarter of 2014 compared to 56.2% four years earlier. See Office for National Statistics *Working and Workless Households*, various years

⁵ Hurrell, A. *Starting Out or Getting Stuck?* Resolution Foundation, November 2013

11. The Commission's research shows that ending poverty mainly through the labour market does not look remotely realistic by 2020. Getting more people into jobs and into higher pay would still leave – at best⁶ – over one in five children in absolute poverty by 2020, leaving more than four times as many children in poverty than is needed to meet the target set in the Child Poverty Act 2010. The research suggests that more progress would need the savings to the Treasury from improved parental employment and higher wages to be recycled to ensure those at the bottom can keep more of what they earn – for example, through increasing work allowances or reducing the taper rate in Universal Credit.
12. We acknowledge that there are some good things in the draft strategy like increasing the focus on cutting the cost of living for low-income parents, and we welcome policy developments like the extension of childcare support in Universal Credit announced in Budget 2014.
13. However, overall it falls far short of what is needed. Key problems include:
- **The lack of any clear measures**, with the Government continuing to distance itself from the statutory measures in the Child Poverty Act 2010 without suggesting any additions or alternatives. This is not acceptable - a strategy which cannot be measured is meaningless. In the absence of further measures and in line with our statutory duty, the Commission will continue to monitor progress against the legally binding targets.
 - **The absence of a step-by-step plan for meeting the statutory targets**, with the strategy presenting a list of policies rather than a detailed plan with impacts clearly delineated.
 - **A failure to engage with independent projections that poverty is set to increase substantially**. This leaves a credibility gap at the heart of the strategy.
 - **Lack of new action on in-work poverty**, with policies being insufficient to achieve the ambition set out in the strategy to tackle low pay and help parents progress into higher paying jobs. This is the central test of a strategy that wants to tackle poverty through labour markets rather than through the benefits system, but proposals here are too limited.
 - **Limited action to mobilise society-wide efforts to tackle poverty**, with only tentative steps being taken to guide the efforts of others such as business and the third sector and to provide clarity about the responsibilities of different actors in delivering a low poverty society – especially important in a time of austerity when the levers government has available to tackle poverty are seriously constrained.
 - **Ignoring the impact of additional welfare cuts**. The expected £12 billion of cuts to the welfare budget – equivalent to 13% of expenditure on working-age adults and children – from 2015 onwards will make achieving the targets even more challenging. This is the elephant in the room in the draft strategy.

⁶ This uses the “optimistic” scenarios for employment and wages in Reed, H. and Portes, J. *Understanding the Parental Employment Scenarios Necessary to Meet the 2020 Child Poverty Targets*, Social Mobility and Child Poverty Commission, 2014. It assumes that benefit take-up reaches 100%, that the employment rate increases to reach OECD-best levels (significantly beyond OBR projections) and that real earnings recovering to reach pre-recession levels by 2020 (5% higher in real terms than OBR expect). The modelling suggests that – on these optimistic assumptions - 21% of children will be in absolute poverty in 2020

14. To ensure the final strategy is an effective and credible plan for tackling child poverty, the Government needs to:
- Clearly define what it considers success to look like and **set out clear measures** against which it accepts it can be held to account. These would supplement those in the Act.
 - Develop a **step-by-step plan** for how the 2020 targets will be met with transparency about underlying assumptions with regards to parental employment rates, earnings and hours of work.
 - **Engage with independent projections of increases in child poverty** over the next few years.
 - Resolve gaps in the strategic approach for tackling poverty by **taking action to address the structural as well as the individual-level causes of poverty** including ensuring there are enough full-time jobs for parents in every area of the country, addressing challenges posed by recent changes in the labour market and tackling structural drivers of in-work poverty.
 - Ensure the **strategy represents a clear plan for mobilisation and leadership of other actors in society**, giving a clear sense of what a low poverty society looks like and guiding society's efforts towards tackling poverty.
 - **Engage with the challenges posed for the child poverty strategy by continued fiscal consolidation** and the £25 billion spending cuts pencilled in for the first two years of the next Parliament.
15. More policy action will be required if the strategy is to achieve its objectives. Our report last year called for:
- **Action on in-work poverty** including clearer cross-government strategies on low pay and on pay progression.
 - **Action on making work pay** including integrating "passport benefits" into Universal Credit, ensuring sufficient childcare support to make work pay and ensuring that no family who "does the right thing" is in poverty.
 - **Action on the cost of living** including tackling the "poverty premium" faced by low income families, ensuring all families can afford the "basics" and helping more families to access stable housing.
 - **Action on future fiscal consolidation** including a fairer intergenerational sharing of welfare cuts, a new role for the Office for Budget Responsibility in assessing the social mobility and child poverty impacts of budgets and ensuring that cumulative impact assessments of future cuts are carried out.

Introduction

16. Child poverty is an urgent issue that matters profoundly to children's current lives and to their ability to fulfil their potential as adults.
17. The government has a statutory requirement under the Child Poverty Act 2010 to eradicate child poverty by 2020 and has restated its commitment to this goal in the draft strategy. This is very welcome.
18. The medium-term trend in child poverty has been encouraging: relative child poverty fell from a peak of 29% in 1992 to 17% in 2011/12 – the lowest level since 1984⁷. Though some of the more recent falls reflect declining median incomes rather than families getting better off, absolute child poverty has also fallen significantly over time. The evidence suggests that these reductions in child poverty have led to real improvements in the living standards of children in the poorest households in the United Kingdom.
19. Unfortunately recent trends are more concerning. With the latest statistics showing that 2.3 million children – more than one child in six – were in relative income poverty and that absolute poverty increased by 275,000 during 2011/12, there is clearly a long way to go if the Government's aspiration to eradicate child poverty is to become a reality. Independent experts predict that child poverty is set to increase significantly over the next few years against both the absolute and the relative measures.
20. In our first annual State of the Nation report last year⁸ we analysed the approach to tackling child poverty set out in the government's 2011-2014 child poverty strategy⁹, looked at the evidence to date on the impact that it was having and looked ahead to the likely trends in child poverty over the next few years. Our assessment of the new strategy builds on that work to try and establish if the Government's revised plans are likely to make a real difference to changing the direction of travel on child poverty.
21. The rest of this document summarises the key findings of our earlier work about the features a new strategy will need to have, establishes the extent to which the draft strategy has these features and then makes conclusions about how the draft strategy should be altered to maximise its chance of success.
22. The draft strategy refers to the actions being taken by the United Kingdom government to tackle poverty and we limit the scope of our comments to cover these. We will cover the actions being taken by the Scottish and Welsh governments in our second annual report later this year.

⁷ Institute for Fiscal Studies *Incomes in the UK*, <http://www.ifs.org.uk/fiscalFacts/povertyStats>, accessed 13 May 2014

⁸ Social Mobility and Child Poverty Commission *State of the Nation 2013: Social Mobility and Child Poverty in Great Britain*, 2013

⁹ HM Government *A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families' Lives*, 2011

Key features that a new strategy should have

23. We have rooted our assessment of the draft strategy in the conclusions we made in our first annual report last year¹⁰ about the government's strategic approach to tackling poverty, the evidence to date on the impact it was having and projections of likely trends in child poverty over the next few years.
24. This section gives a brief overview of our findings and, following on from this, identifies key features that the new strategy should have. A fuller summary of the findings of our first annual report is presented at Annex A.

The strategic approach to tackling poverty

25. Our key finding on the strategic approach taken in the previous strategy was that, while the strategic objectives were all sensible, there were a number of important omissions, including:
- An insufficient focus on the demand-side of the labour market
 - A lack of attention on the challenges posed by flexible labour markets
 - Not enough attention on the challenge of in-work poverty.
26. A crucial weakness of the previous strategy was the lack of a clear step-by-step plan for meeting the targets and a lack of clarity about the necessary parental employment outcomes – employment rates, hours of work and wages - required to meet the targets within the planned tax and benefit system.
27. Without this detailed plan, it is difficult for policymakers to design policies with sufficient impacts on parental employment outcomes or to take early action to change course if policies are not delivering. It is also difficult for policymakers and others to understand if the government is making sufficient progress to be on track to meet the targets.

The new strategy should:

- Focus more on the demand-side of the labour market and the challenges more flexible labour markets pose for tackling child poverty.
- Focus more on tackling in-work poverty, including through real action to tackle low pay, create more secure jobs and enable more people in low-paid jobs to progress in work.
- Develop a detailed step-by-step plan for meeting the 2020 targets, including clarity about the parental employment outcomes that would be required to hit the targets as well as the trajectory towards reaching them.

¹⁰ Social Mobility and Child Poverty Commission *State of the Nation 2013: Social Mobility and Child Poverty in Great Britain*, 2013

Measuring child poverty

28. A credible strategy to tackle poverty must clearly define what “success” is and set out measures against which progress can be monitored and government held to account.
29. The Government has been very clear that they do not consider the current measures of poverty set out in the Child Poverty Act 2010 to be sufficient to adequately measure success, with senior Ministers describing them as “discredited”.¹¹ The Government is currently in a no-man’s land where it has strongly criticised the measures it is legally required to make progress against but failed to provide an alternative set four years after taking office. This is unacceptable and must change.

The new strategy should:

- **Either** fully commit to the existing measures in the Child Poverty Act 2010.
- **Or** develop additional measures to supplement the four income targets in the Act (our earlier advice recommended that two new measures looking at “risks of poverty” and at “chronic disadvantage” would be useful additions to help improve incentives to tackle the long-term causes of poverty and the issues facing the most disadvantaged).

Tackling child poverty

30. Evaluating the success of the last strategy is difficult due to the significant time lag in the reporting of the key metrics. Current data against the income targets relates to 2011-12 and so only takes into account policy measures implemented by April 2011 – before the last strategy was published. We will need to wait until mid-2016 before we can make a final judgement on child poverty rates over the previous strategy period.
31. With that caveat, our assessment of recent progress in tackling child poverty was that the picture is mixed: there is evidence that the living standards of children from less advantaged backgrounds has been falling in recent years but there has been some progress in tackling some of the underlying causes of poverty.
- On **current living standards**, absolute poverty increased by 275,000 in 2011-12 and there is evidence that living standards elsewhere for children in low income households have been under significant pressure since the recession (e.g. diet, fuel poverty and shifts to more insecure housing)¹².
 - On **causes of poverty**, the proportion of children in workless households is at the lowest level since records began in 1996, and the employment rates of lone parents and mothers in couple households are at record highs.¹³ However, there is still much more to do – success in tackling worklessness has too often shifted children from workless to working poverty, driven by endemic low pay and low parental skills, and there is also wide regional variation in progress.

¹¹ Osborne, G. and Duncan Smith, I. *The Conservatives’ Child Poverty Plan Tackles Poverty At Source* The Guardian, 27 February 2014

¹² See, for example, the evidence cited in chapter 3 of Social Mobility and Child Poverty Commission *State of the Nation 2013: Social Mobility and Child Poverty in Great Britain*, 2013

¹³ Office for National Statistics *Working and Workless Households*, various years

The new strategy should:

- Reverse recent falls in the living standards of less advantaged families, including through ensuring that families are able to afford the “basics” of a nutritious diet and a decent, warm and stable home.
- Continue recent progress in tackling parental worklessness and ensure that progress on this is made in all areas of the country.
- Take real action to reduce working poverty risks: support lone parents and second earners into work, increase hours of work, tackle low pay and limited pay progress of those in low paid work, improve parental skills and ensure that parents who “work enough” are able to escape poverty.

Projected trends in child poverty

32. Our report found that the statutory targets for ending child poverty by 2020 are set to be missed by a considerable margin, with child poverty set to increase significantly over the next few years. We highlighted projections from the independent Institute for Fiscal Studies that suggest that there will be 2 million more children in relative poverty and 3 million more children in absolute poverty than required to meet the targets.
33. This pessimistic conclusion is given added weight by new research undertaken by the Commission (see Annex B) which found that even under very optimistic assumptions¹⁴ meeting the targets would require parental employment rates of close to 100% - far higher than has ever been achieved in the UK or in any other country in the world – as well as significant increases in parental hours of work beyond current Universal Credit requirements.
34. Achieving such ambitious parental employment outcomes would require radical change, including far tougher work expectations on mothers with very young children and those with disabilities and far greater support to allow parents with significant caring responsibilities to enter full-time employment. Realistically, it would also imply that significant new measures to enhance the net income of families in work beyond those that are currently planned are required.
35. Some argue that this expected lack of progress is driven by measurement issues rather than trends in actual poverty. For example:
- Wage increases can increase relative poverty as households in the middle tend to see a higher impact on net income than households around the poverty line. There are two reasons for this. Firstly, lower income households tend to have lower employment rates. Secondly, those in receipt of in-work benefits face relatively high effective marginal tax rates.
 - For the absolute target, the goal is made harder to reach by continued uprating by the RPI, which is considered by experts to overstate inflation rates and, as a result, is no longer recognised as a National Statistic.

¹⁴ Including no welfare cuts in the next Parliament (compared to the expected £12 billion), 100% benefit take-up (compared to the current 70-80% for most income-related benefits) and 75% of parents in work meeting hours of work requirements within Universal Credit (compared to around 60% at present)

36. However, even against a goal without these potential issues – progress against a measure of absolute poverty uprated using CPI¹⁵ – there are limited prospects for improvement, with poverty set to rise over the next few years before gradually decreasing towards its current level by 2020, far above the target level.
37. The Commission has previously argued that the current child poverty measures should be considered as a suite rather than treating individual measures in isolation: interpreting them in this way avoids some of their potential weaknesses of a relative measure in periods of fast growth or recession.

The new strategy should:

- Engage with independent projections that child poverty against both the absolute and the relative targets are set to move in the wrong direction with the child poverty targets set to be missed by a long way.
- Develop policies that will have sufficient impact on parental employment outcomes and net household incomes in work to allow the child poverty targets to be achieved.

Policy challenges

38. Our report identified a number of specific areas where policies could be adjusted to support the Government's aspiration to eradicate child poverty, including:
- Developing a better understanding of the cumulative impact of benefit cuts on individual families to allow the (at least in the short-term) negative impact to be mitigated.
 - Maximising the positive impact that Universal Credit can have on child poverty, including through integrating passported benefits; extending childcare support and reconsidering monthly caps on costs; providing a guarantee that no family meeting their responsibilities in Universal Credit will be in poverty; and ensuring that the enhanced conditionality regime operates fairly with a sufficient safety net for sanctioned families.
 - Ensuring that future fiscal consolidation is progressive across the entire income distribution, with a fairer intergenerational share of the costs of adjustment. To support this, we recommended that the Office for Budget Responsibility be given a new role independently reporting on the distributional effects and likely impact on social mobility and child poverty of future Budgets, alongside its other analysis published on Budget Day.

¹⁵ CPI is used as an alternative metric of inflation here for illustrative purposes. Inflation against CPI tends to be lower than against other alternatives to RPI (such as CPIH and RPIJ). Therefore using CPI for uprating gives the most optimistic projections for absolute poverty. The Government will review whether RPI remains the most appropriate inflation measure to use in autumn 2014 following the publication of the Paul Johnson Inflation Review by the Office for National Statistics. See Department for Work and Pensions *Changes to the Households Below Average Income Statistics 2012/13*, 29 April 2014

The new strategy should:

- Commit to carrying out a cumulative impact assessment of any future welfare changes to ensure a better understanding of their impacts on poverty and to allow negative impacts to be more effectively mitigated.
- Commit to making adjustments to Universal Credit to make the most of the opportunities it will bring to make a transformative difference to child poverty.
- Commit to ensuring the next phase of fiscal consolidation is progressive against the entire income distribution with a fairer intergenerational share of the costs of adjustment.
- Give the Office for Budget Responsibility a new role in independently reporting on the distributional impacts, the social mobility impacts and the child poverty impacts of all future Budgets, alongside its other analysis published on Budget day

The Draft Strategy

The economic context for the strategy

39. The context for the new strategy is a significant improvement in the economic environment, with the economy performing better than was expected against a number of indicators. For example:

- GDP is estimated to have increased by 3.1% over the 2013-14 financial year. This means that the economy was only 0.6% smaller than before the recession in the first quarter of 2014 and is widely expected to reach pre-recession levels in the second quarter of 2014.¹⁶
- GDP per capita was an estimated 5.1% lower than before the recession in the first quarter of 2014¹⁷ and is expected to reach pre-recession levels by mid-2017.¹⁸
- Employment has continued to grow rapidly. Total employment is at record high levels and the working-age employment rate has recovered most of the lost ground in recession and currently stands at 72.7% (compared to a peak of 73.0% before the recession and a low of 70.2% at the start of 2010).¹⁹
- Unemployment has continued to fall from its mid-2011 peak of 8.4% and now stands at 6.8% (compared to 5.2% before the recession).²⁰
- Falls in real wages appear to have slowed down and have been halted against some measures. For example, including bonuses, mean weekly earnings of employees increased by 1.5% in the year to March 2014²¹, broadly constant in real terms on some measures of inflation.²²

40. However, there are clearly still a number of serious economic challenges that remain. For example:

- Real wages, GDP per capita and living standards are still significantly lower than before the recession and average wage growth figures hide wide variations across the income distribution.
- There are large regional differences in economic performance and recovery, with some regions risking being left behind by the strong recovery in London and the South East.

¹⁶ Office for National Statistics, *Gross Domestic Product: Preliminary Estimate, Q1 2014*, 2014

¹⁷ Commission analysis using Office for National Statistics, *Gross Domestic Product: Preliminary Estimate, Q1 2014*, 2014; Office for National Statistics, *Population Estimates for the UK, England and Wales, Scotland and Northern Ireland*, 2011; and Office for National Statistics, *National Population Projections: 2010-based Projections*, 2011

¹⁸ Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2014

¹⁹ Office for National Statistics, *Labour Market Statistics*, May 2014

²⁰ Ibid.

²¹ Ibid. Excluding bonuses, average weekly earnings increased by 1.0% in the year to February 2014

²² Office for National Statistics, *Consumer Price Indices*, April 2014. Inflation in the year to March 2014 measured by the headline measure, CPI, was 1.6%, though it was slightly higher at 1.8% on the Commission's preferred measure of the cost of living, RPIJ

- The youth employment rate (18-24 year olds) has recovered slowly having fallen from a pre-recession peak of 64.8% to a low of 56.5% in 2011 and currently stands at 59.1%.²³
- There have been a number of changes in the labour market that – while beneficial for flexibility and total employment - pose real challenges for child poverty, for example more underemployment, temporary work, short-hours contracts and self-employment.
- Longer-term structural problems in the United Kingdom economy such as housing and future fiscal challenges are still real challenges.

41. The upturn in economic performance is very welcome. The focus now must shift from recovery to how the proceeds of recovery and future growth are shared and ensuring those from less advantaged backgrounds are not left behind.

Recent policy developments

42. Alongside signs of recovery, there have been a number of important recent policy developments which will support the Government's aims of eradicating child poverty, including.

- **Introducing up to 85% support with childcare costs for all families on Universal Credit from April 2016** (reversing earlier cuts in childcare support in tax credits and extending previously announced support to every family. Note, however, that the total £400 million cost of this and the previously announced support will be funded from within the existing social security budget, which could undermine otherwise very welcome improvements in work incentives and family incomes. Support will also not be in place for another 2 years).
- **Continued increases in the income tax personal allowance** (Budget 2014 announcement of a further 5% cash rise to £10,500 in 2015-16).
- **Accepting the Low Pay Commission's recommendation of a real terms rise in the National Minimum Wage** (the 3% cash rise from £6.31 to £6.50 in October 2014 is likely to be higher than inflation).
- **Universal free school meals for children aged seven and under from September 2014** (boosting incomes of the working poor and improving incentives for parents to enter work and increase their hours).
- **Abolishing employer National Insurance contributions for the majority of under 21s from April 2015** (reducing costs for business and encouraging them to hire more young people).
- **Taking action to cut energy bills by an average of £50 per year** (making a contribution to cutting the cost of living for low-income families).
- **Introducing an Early Years Pupil Premium for 2015-16** (making £50 million available in 2015-16 to help support disadvantaged three and four year olds)

43. These are very welcome steps forward. The question is what degree of difference they will make, and how far they move us towards progress against the targets.

²³ Office for National Statistics, *Labour Market Statistics*, May 2014

The draft strategy: strategic objectives

44. The draft strategy is arranged around four key priorities, which in our view correctly cover key areas where action is needed:
- Supporting families into work and increasing their earnings.
 - Improving living standards by taking action to reduce the cost of living.
 - Preventing poor children becoming poor adults by raising educational attainment.
 - Working with others – including employers – as government action cannot, by itself, end child poverty.
45. These are clearly all important areas for activity. Equally encouragingly, it looks like the government has taken a broader and more structured approach than in the previous strategy. For example:
- The strategy is clearer on the labour market objective for government in relation to tackling poverty: getting parents into sustainable employment with decent earnings. This is very welcome.
 - There is greater recognition of the growing issue of in-work poverty and, for example, the strategy identifies “tackling low pay” and “helping people get better jobs” as key priorities for action, reflecting wider policy changes like Universal Credit, which removes the distinction made in the benefit system between those who are in-work and those out-of-work.
 - There is far more strategic focus on reducing the cost of living for poorer families, with this goal meriting a whole chapter in the draft strategy. With strong evidence of higher costs and inflation for those on low incomes, this is very welcome.
 - There is a lot more strategic focus on the role of employers in making progress against the child poverty targets, with the strategy making clear that “*action by employers is vital in order to help low-income families move out of poverty*”. As we have previously argued, if the taxpayer can no longer do the same amount of work in helping bridge the gap between earnings and living costs, employers will have to do more.
46. While there are few new policies in the draft strategy, the policy developments outlined in the previous section are welcome. Looking ahead, the key priority must be ensuring that Universal Credit is successfully implemented given the significant impact that this will have on child poverty.
47. However, overall we think that the positives are offset by the negatives. Despite steps forward in thinking and policy detail, action is required in a number of areas if the final strategy is to represent an effective and credible plan for tackling child poverty, reversing recent falls in the living standards of low-income families and ensuring that pessimistic projections of large increases in child poverty over the next few years do not come to pass.

Clearly defining what the Government considers “success” to look like and setting out clear measures against which it can be held to account

48. We are extremely concerned that the strategy does not clearly define what the Government considers “success” looks like or set out any clear measures against which the Government considers it can be held to account.
49. A strategy which cannot be measured is meaningless. As we highlighted earlier in this response, senior Government Ministers restated their strong criticism of the current measures in a newspaper article on the day that the draft strategy was launched, saying that they are “discredited”.²⁴
50. It is not sustainable – or acceptable – for the Government to continue to strongly criticise the current measures of child poverty while failing to produce an alternative. It is essential that, in the final strategy, the Government clearly commits to the measures in the Child Poverty Act 2010 or, alternatively, sets out how it will be supplementing the current measures to address its concerns and clearly commits to making progress against them.
51. In line with our statutory obligations, the Commission will continue to hold the government to account against the existing measures, which – taken as a suite rather than in isolation – remain a coherent framework that enjoys international recognition and tell us something meaningful about the living standards of children (though, as our response to the child poverty measurement consultation argued, poverty is about more than income alone and the current measured could usefully be supplemented).
52. In the absence of further measures, the government should consider continuing to track progress against the wider set of indicators relevant to child poverty within the 2011-2014 strategy.

Developing a step-by-step plan for how the 2020 targets will be met

53. It is important that the child poverty strategy produces a step-by-step plan for how the government will meet the 2020 targets which makes clear its underlying assumptions about parental employment rates, earnings or hours of work
54. However, the draft strategy fails to do this – it is, in truth, a list of policies that the strategy asserts will allow progress to be made rather than a detailed plan that makes clear the impact it needs and expects its policies to have on employment, income and, ultimately, the rate of child poverty.
55. This leaves a “credibility gap” at the heart of the strategy. For example, it is unclear whether the government has prioritised understanding what parental employment outcomes are required to eradicate poverty within the current tax and benefit system, risking leaving it unable to design policies with sufficient impact or to test whether its current policies can deliver the required outcomes.

²⁴ Osborne, G. and Duncan Smith, I. *The Conservatives’ Child Poverty Plan Tackles Poverty At Source* The Guardian, 27 February 2014

56. Research we have commissioned (see Annex B) shows that achieving the target within the planned 2020 tax and benefit system – even if there were no further welfare cuts and benefit take-up reached 100% - would require parent employment of close to 100% (implying mothers with very young children would need to work) as well as significant increases in the number of hours parents work, beyond the current requirements of Universal Credit.
57. This new analysis suggests that higher employment and higher wages can contribute to progress, but in different ways. Higher employment is directly beneficial to progress on both relative and absolute poverty – raising incomes, and delivering savings in tax credits and other benefits. Higher wages are directly beneficial to progress on absolute poverty but only indirectly beneficial to progress against the relative measure because they tend to raise the median more than the bottom, as high effective marginal tax rates on poor families means they lose most of the gains from higher wages to the state. With higher wages meaning the middle pulls away from the bottom, measured relative poverty will increase unless offsetting action is taken. Improved parental employment and higher wages would lead to significant savings the Treasury through increased tax revenue and reduced expenditure on benefits and tax credits, which could be recycled to ensure those at the bottom can keep more of what they earn – for example, through increasing Universal Credit work allowances.
58. The lack of a step-by-step plan also leaves the trajectory towards the targets unclear, meaning it is difficult to hold the government to account for whether it is making sufficient progress.

Engaging with independent projections of increases in child poverty over the next few years

59. The draft strategy does not engage at all with projections made by the Institute for Fiscal Studies and others that child poverty is set to increase significantly over the next few years and that the targets set out in the Child Poverty Act 2010 are set to be missed by a long way.
60. Not engaging with these projections at all – even to explain in detail why the government considers them to be wrong (if that is indeed the case) – is a serious omission that weakens the strategy.

Resolving gaps in the strategic approach to tackling poverty by taking action to address structural as well as individual-level causes of poverty

61. In our Annual Report, we identified three key gaps in the current strategic approach that the government should address in its new strategy:
- The demand-side of the labour market (ensuring there are enough full-time jobs at the right skill levels in every area of the country to enable every parent to work sufficient hours).
 - The impact of increased labour market flexibility (positive for employment levels but less stable employment, short-hours contracts, temporary work, self-employment and irregular hours that require parents to access flexible

childcare available at short notice pose challenges for parental employment and so the child poverty strategy).

- The challenge of in-work poverty (some steps have been taken but, overall, more needs to be done given twice as many poor children now live in working homes than in workless homes).

62. While the last of these has been clearly acknowledged as an issue, the two other areas have not been recognised so strongly. The draft strategy has very little consideration of structural drivers of poverty and this is a very important gap which makes it more challenging for it to succeed.

63. As the evidence review supporting the draft strategy²⁵ notes:

“This evidence review only considers individual and family characteristics and events associated with current and future poverty. It does not take account of the macroeconomic context, in terms of the number and quality of available jobs or the returns to qualifications. This review also does not examine the impact of the institutional framework (e.g. the current educational system) or culture of society. Nor does it consider the interaction between the benefits system and incentives to work, although this will obviously have a role in ensuring work pays. These factors are important as they may limit the extent to which individuals are able to improve their situations through their own agency and changes in these factors could affect the future stability of the associations reported”

Ensure the strategy represents a clear plan for mobilisation and leadership of other actors

64. It is crucial – especially in a time of fiscal consolidation when the levers that government has available to tackle poverty are severely constrained – that the strategy reaches out beyond government, providing leadership to guide society’s efforts towards tackling poverty and mobilising the efforts of other actors – such as business and the third sector – towards this goal. While the new strategy makes some tentative steps in this direction, there is still a lot more that needs to be done: clarifying what the end point of a low poverty society looks like, what the responsibilities of different actors are for getting there and being more ambitious about the “asks” being made.

Engaging with the challenges posed for the child poverty strategy by continued fiscal consolidation and the £25 billion of spending cuts pencilled in for the first 2 years of the next Parliament

65. The draft strategy is silent on the potential impact of the next stage of fiscal consolidation. It is inevitable that the further £25 billion fiscal consolidation required in the first two years of the next Parliament to meet the government’s fiscal targets will affect spending on income transfers and public services and so affect the lives of children in poor families. The Chancellor has stated his intention to achieve this additional consolidation entirely through spending cuts,

²⁵ HM Government *An Evidence Review Of The Drivers Of Child Poverty For Families In Poverty Now And For Poor Children Growing Up To Be Poor Adults*, 2014

with £12 billion savings to be found from the welfare budget.²⁶ While the specific measures through which these savings will be generated have not yet been identified, it will be challenging to make such savings without an adverse impact on child poverty, especially if welfare spending on pensioners continues to be protected. These savings are not factored into independent projections that are predicting big rises in poverty, raising the possibility that even these bleak projections are too optimistic. This is the “elephant in the room” in the draft strategy. The final strategy needs to explain how savings on this scale – equivalent to 13% of the 2014-15 non-pensioner benefit and tax credit budget²⁷ - can be made while avoiding a sharp increase in absolute and relative child poverty, let alone while making progress towards meeting the statutory child poverty targets.

The draft strategy: the policy offer

66. There are few new policies in the draft strategy. It is clear that, if the next strategy is to have a real impact in changing the direction of travel on child poverty, there needs to be further action in a number of areas. However, new action in the draft strategy is limited and unlikely to make enough of a difference.

While some tentative steps have been made, the “asks” being made of employers are relatively unambitious and are unlikely to lead to significant change

67. While there is increased focus on the role that employers will need to play in tackling child poverty and all of the suggestions the draft strategy makes for action are sensible, some of the “asks” are relatively unambitious. For example, while it is important that all employers *pay at least the National Minimum Wage* (and it is true that there are real compliance issues in some sectors, for apprentices and for interns²⁸), this is already a legal requirement and something the vast majority of employers already do²⁹.

68. A more ambitious strategy would do more to encourage employers to go a lot further than this basic set of actions, such as considering whether they can afford to pay staff a Living Wage. It would also provide a lot more detail about the actions the government want employers to take by, for example, linking to guidance and support provided by the UK Commission for Employment and Skills to help and encourage business increase progression opportunities.

²⁶ Osborne, G. *New Year Economy Speech by the Chancellor of the Exchequer* – HM Treasury, 6 January 2014

²⁷ Department for Work and Pensions *Benefit Expenditure and Caseload Tables*, 2014 projects total expenditure in Great Britain on tax credits and benefits for working age people and children will be £93.6 billion

²⁸ For example, Department for Business, Innovation and Skills *Apprenticeship Pay Survey 2012, 2013* found that 29% of apprentices were paid below the appropriate National Minimum Wage rate, with the non-compliance rate for apprentices reaching 69% in one sector

²⁹ Low Pay Commission *National Minimum Wage Report*, 2014 estimated that there were around 100,000 adults aged over 21 who were not paid the appropriate National Minimum Wage rate and cite other evidence suggesting that around 0.6% of adult earners were not paid the appropriate National Minimum Wage rate between 2000 and 2011

Action on the cost of living is not as well targeted at low income families as it could be and there is little that is new

69. The inclusion of a chapter in the strategy on supporting families' living standards is very welcome and there are several measures which will have a positive impact. However, many of the measures are not well targeted at low income families. For example, freezing fuel duty and holding down regulated rail fares, are unlikely to make much of a difference to *child poverty* and, whatever the merits of the removal of the spare room subsidy, it is not clear it is helping to reduce living costs, with some estimates suggesting that 94% of affected tenants have not yet been able to move to a smaller home meaning most of those affected have seen their living costs rise as a result of the policy.³⁰ There is also little that is new in the strategy.
70. A more ambitious strategy would target further action on low income families to help reduce pressures on the living costs. For example, it would do more to tackle the "poverty premium"³¹ faced by low income households such as building on the steps in the draft strategy to improve access to affordable credit and taking steps to reduce the higher cost of energy faced by low-income households reliant on pre-payment meters (among other things).

Further action is required on in-work poverty to meet the scale of the challenge and make the most of the new opportunities given by Universal Credit

71. There is clearly a far greater focus on in-work poverty in the draft strategy than there has been previously with more priority given to the goals of tackling low pay and helping people move on to better jobs that pay more. The Government is implementing some major programmes which will help: for example, the introduction of Universal Credit which will allow working families who are in poverty and in receipt of in-work tax credits to benefit from targeted support to help them progress in work.
72. However, our assessment is that current policies are likely to be insufficient to achieve the ambitions of the strategy. Tackling working poverty is very difficult, especially in a time of austerity when in-work benefits and earnings are under severe pressure and structural changes in the labour market are bringing new challenges. A lot more needs to be done if these challenges are to be addressed. For example³²:
- Most children in working poor households live with parents who would be considered to be "working enough" under Universal Credit requirements. Our report showed that 75% of working poor children lives with at least one parent who works full time. New analysis suggests that, even ignoring

³⁰ British Broadcasting Corporation *Housing benefits: Changes 'see 6% of tenants move'*, 28 March 2014. See <http://www.bbc.co.uk/news/uk-26770727> accessed 13 May 2014

³¹ See for example Save the Children and The Family Welfare Association *The Poverty Premium: How Poor Households Pay More For Essential Goods and Services*, 2007

³² See Social Mobility and Child Poverty Commission *Social Mobility: The Next Steps*, 2013 and Social Mobility and Child Poverty Commission *State of the Nation 2013: Social Mobility and Child Poverty in Great Britain*, 2013

issues around sickness and disability, around 60% of children in working poor households live with parents who meet Universal Credit in-work conditionality requirements.³³ This raises questions about the potential to tackle working poverty through increasing parental hours of work under existing work conditionality requirements.

- In-work conditionality is not yet well developed and is likely to be very challenging for Job Centre Plus to deliver given the significant expansion in the number of potential clients (for example, there are a total of 3.7 million working families with children in receipt of tax credits³⁴). Given this, support will, in the first instance, only cover those not meeting their claimant commitment³⁵ and focus more on increasing hours of work rather than the more difficult challenge of increasing hourly earnings.
- Adult skills programmes are not currently as well integrated with active labour market programmes as they could be and have a mixed track record in improving the hourly pay of those who engage in them. It is likely that closer collaboration between the Department for Business, Innovation and Skills and the Department for Work and Pensions would help to use resources more effectively to support pay progression goals.
- Incentives for Jobcentre Plus and for the Work Programme are heavily focused on rewarding providers on a binary in/out of work basis rather than on helping clients progress into more highly paid work that would, ultimately, be the optimal long-term solution for both the taxpayer and the client.
- Tackling working poverty cannot happen without the active engagement of employers. Over recent decades, trends such as the hollowing out of mid-level jobs, more flexible employment conditions and the collapse of internal careers ladders (in part due to increased outsourcing) have all impacted on opportunities for low paid workers to progress. Government has initiated some action to increase progression opportunities, including the Employer Ownership of Skills Pilots, but these are still relatively small scale and much more needs to be done to allow the UK to break out of the negative equilibrium of low skills, low employee responsibility, low productivity and low reward that exists in many low-paying industries.
- While significant progress has been made on supporting low-income families with their childcare costs – notably the extension of free childcare to disadvantaged two year olds and extending 85% support with childcare costs to all Universal Credit claimants from April 2016 – there is still further to go in developing a system where there is sufficient high-quality, affordable and flexible childcare for more parents to return to work.

³³ Bradshaw, J. and Main, G. *How Many Poor Parents Might be Able To Work More*, 19 March 2014, <http://spruyork.blogspot.co.uk/2014/03/how-many-working-poor-parents-might-be.html> accessed 13 May 2014

³⁴ HM Revenue and Customs *Child and Working Tax Credits Statistics: Finalised Annual Awards: 2011 to 2012, 2013*

³⁵ For example, Department for Work and Pensions *Extending Labour Market Interventions to In-Work Claimants*, 2013 identified 1 million Universal Credit claimants who they described as “working could do more”: expected to work full-time but not earning the equivalent of 35 hours work at the National Minimum Wage rate (£216/week at the time of publication of the consultation)

- The increasing focus on tackling low pay, with the Chancellor setting out the Government's medium-term aspiration for the level of the National Minimum Wage and getting the Low Pay Commission to consider the conditions under which such a rise could take place is welcome. Developing new mechanisms that actively work to create the conditions which will enable wage increases without harming employment outcomes, for example broadening the remit of the Low Pay Commission, could help in achieving the Government's objectives here.³⁶

Ensuring that work always pays

73. The introduction of Universal Credit is a very important step forward in improving work incentives. The simplification it will bring – integrating in-work and out-of-work benefit systems, making the system more responsive to fluctuations in income and improving predictability about financial gains from working – is a potentially transformative change from the current system. Recent policy developments, such as the expansion of childcare support in Universal Credit and introducing free school meals for all under seven year olds, will help to further improve work incentives.

74. However, there is still more to do, both in ensuring Universal Credit is successful implemented and in ensuring that work always pays. Our report last year highlighted a number of issues where attention is required. For example:

- Once local Council Tax Support is factored in, many parents will keep as little as 17p out of each additional pound they earn.
- There are long-standing issues around lack of integration of passported benefits such as free school meals which lead to cliff edges within the benefit system, meaning that many parents would lose out financially from increasing their hours from part-time to full-time work.
- The current monthly limits for childcare support in Universal Credit are the same in cash terms now as they were in April 2005 despite significant increases in the cost of childcare over the period. This could become an increasing issue in high-cost areas such as London, especially from April 2016 once 85% childcare support is rolled out.

Our report last year made a number of recommendations for further action which could help resolve these issues

75. Our report last year³⁷ called for:

- Action on in-work poverty to make a reality of the new strategic focus on in-work poverty³⁸ including:
 - **a clearer cross-government strategy on pay progression**, including better joint working between the DWP, BIS and their agencies, local authorities and business; more sophisticated metrics of success for Jobcentre Plus and Work Programme

³⁶ See for example, Resolution Foundation *More Than A Minimum: The Review of the Minimum Wage*, 2014

³⁷ Social Mobility and Child Poverty Commission *State of the Nation 2013: Social Mobility and Child Poverty in Great Britain*, 2013

³⁸ See also Social Mobility and Child Poverty Commission *Social Mobility: The Next Steps*, September 2013

providers to increase focus on pay progression; and working with business to upgrade skills and rebuild career ladders to allow low-paid staff more opportunities to progress.

- **a clearer cross-government strategy on low pay**, including broadening the remit of the Low Pay Commission; taking proactive action to create the right conditions for a higher National Minimum Wage; encouraging employers to use the Living Wage; setting an example to others as an employer; using procurement to drive up pay; and introducing more “muscular transparency” on low pay.
- Action on making work pay to increase the financial returns for parents from entering employment and increasing their hours, including:
 - **Integrating “passport benefits” such as Free School Meals, Council Tax Support and free prescriptions into Universal Credit** to reduce effective marginal tax rates and avoid cliff-edges with effective marginal tax rates in excess of 100%.
 - **Ensuring there is sufficient childcare support to make work pay**, building on the welcome decision to extend 85% support with costs to all parents on Universal Credit e.g. considering whether monthly caps need to be increased in high-cost areas and taking further steps to ensure that there is sufficient high-quality, affordable and flexible childcare for low-income families in every area.
 - **Ensuring that no family who “does the right thing” is in poverty**, providing a “poverty guarantee” for all families who meet their responsibilities in the Universal Credit Claimant Commitment.
- Action on the cost of living to help families who are in poverty to have a higher standard of living, including:
 - **Tackling the “poverty premium” faced by low income families** where they face higher prices for many goods and services and have seen higher inflation than others over the last decade.
 - **Helping more families access stable housing** including through taking action to create more family-friendly tenancies in the private rented sector so short-term tenancies for families with children become the exception rather than the norm.
- Action on future fiscal consolidation to ensure that social mobility and child poverty are given higher priority and there is a fairer sharing of the burden of future adjustment across the income distribution including:
 - **Fairer intergenerational sharing of welfare cuts** with a rebalancing in public resources from the old to the young over time.
 - **Giving the Office of Budget Responsibility a role in independently assessing the social mobility and child poverty impact of Budgets** including analysing distributional impacts by household
 - **Carrying out cumulative impact assessments** of future cuts to allow the government to better understand – and mitigate - the cumulative consequences of its decisions around social security cuts on individual families.

Conclusions

76. There is much that we welcome in the draft strategy. For example, the strategic framework has been improved in a number of important respects. There are several policy areas where progress has been made - notably treatment of childcare costs under Universal Credit. And, while challenges still remain, the economic situation has significantly improved since we reported last year.
77. However, our conclusion is that the actions in the new strategy will not be sufficient to halt the projected rise in child poverty, let alone to reduce levels of child poverty to achieve the statutory target to eradicate child poverty by 2020. The strategy is a missed opportunity.
78. The final strategy will need to take more action in a number of areas if it is to be a credible strategy for turning the tide on child poverty, including:
- Developing a set of measures, including the current income targets, which the Government clearly commits to making progress against.
 - Engaging with independent projections of rising poverty.
 - Setting out a step-by-step plan for meeting the 2020 targets, including making clear the underlying assumptions on parental employment rates, earnings, hours of work and in-work poverty risks.
 - Addressing weaknesses in the strategic framework by further acknowledging the structural causes of poverty as well as the (very important) individual-level drivers. It also needs to take real action to address them.
 - Engaging with the challenges posed for the child poverty strategy by continued fiscal consolidation and the £25 billion spending cuts – including £12 billion of welfare cuts - pencilled in for the first two years of the next Parliament.
79. The final strategy will also need to come forward with new policies to ensure that the Government's stated strategic objectives are underpinned by further action to make progress on reducing, let alone eliminating, child poverty.

Annex A – Summary of key findings on child poverty from State of the Nation 2013: Social Mobility and Child Poverty in Great Britain

The Strategic Approach to Tackling Poverty

80. Our report made a number of conclusions about the lessons the government can learn from the successes and failures of previous approaches to tackling poverty and about the strengths and weaknesses of the current strategic approach.

An effective child poverty strategy needs to learn the right lessons from the successes and the failures of previous approaches to tackling poverty

81. The commitment to abolish child poverty is a highly ambitious one. Poverty is the result of powerful social and economic forces that are challenging for government to influence, including: changes in technology; the impact of globalisation; changes in demography; changes in industrial structure; and geographical patterns of economic growth.

82. There are grounds for optimism. The big reductions in child poverty seen in the United Kingdom over the last 15 years – and the very low rates of child poverty seen in some other countries - suggests that it is possible to buck the social and economic trends driving child poverty.

83. We identified five key lessons from previous approaches to tackling poverty that the government needs to learn from to allow it to make progress in the future.

Reductions in child poverty require improvements in the incomes of low-income families to ensure they lead to real improvements in living standards

84. Poverty cannot be said to be truly falling at the same time as living standards for the poorest families are getting worse – it is essential that there is progress against the absolute poverty target. However, we believe that poverty is an inherently relative concept – over the long-term, the Commission considers falls in relative poverty to be the critical test of whether income poverty is falling.

Reliance on income transfers will not by itself deliver sustainable long-term reductions in child poverty

85. While income transfers will remain essential to tackling child poverty, reliance on continued increases in income transfers alone to meet the targets is not sustainable due to affordability concerns, the potential damaging impact on work incentives and the fact that no mainstream political party is willing to make such a large spending commitment.

86. We are clear that the best way in which child poverty can be ended is through a strategy which has getting parents into sustainable employment with decent earnings at its heart.

Child poverty targets will not be sustainably met without a focus on tackling the underlying causes of poverty

87. In previous approaches to tackling poverty there was a disconnect between policies aimed at tackling the underlying causes of poverty and the key levers driving short-term improvement.
88. Progress in the short-term relied too much on incremental increases in tax credits rather than adherence to a long-term plan with clearly defined levers, milestones and goals. Annual decision-making around Budgets drove the child poverty strategy rather than the other way round.
89. We believe that a holistic long-term strategy focused on tackling the underlying causes of poverty is required to achieve the goal of eradicating poverty.

Reductions in child poverty require action on the part of wider society and not just by government – eradicating child poverty is not a task that government can achieve alone

90. The UK Government's over-reliance on action via incremental increases in tax credits meant there was too little effort put into building public support for the goal of reducing child poverty. The debate became too technocratic and too focused on benefits and tax credits.
91. To be sustainable for the long-term, efforts to reduce child poverty have to involve the whole of society and command widespread public support. For example, reform of the social security system must be an important priority – if the benefit system is to command continued public support it is essential that public concerns about people shirking their responsibilities are tackled.

The working poor have to be the focus of future efforts to eradicate child poverty

92. Two thirds of children in relative poverty in 2011/12 live in a working family. There is an urgent need to focus on how work can pay better, including higher wage levels, better security and more opportunities for progression.
93. While plans for tackling entrenched poverty are crucial to an effective child poverty strategy, approaches that focus on poverty only as something experienced by a distinct group of families who are dependent on out-of-work benefits for long periods of time and are persistently in poverty will not be effective. The wider problems of low incomes and daily struggle for a far larger group of families need to be a central part of any future strategy designed to eradicate child poverty.

The strategic approach in the 2011-14 strategy has a number of strengths but some important weaknesses

94. The Government's strategic objectives set out in its 2011-2014 strategy³⁹ are all sensible and, while there is a lot of debate about how these objectives can and should be delivered and whether the policies set out in the strategy will achieve them, there is a lot of consensus that these objectives should all be key features of any strategy to eradicate child poverty:

- **Focusing on work as the main route out of poverty:** Making work pay as a sustainable route out of poverty and ensuring that those "who do the right thing" have an income that lifts them and their families out of poverty.
- **Ensuring that those who cannot work are lifted out of poverty:** Making sure children of parents who are not expected to work can live with dignity.
- **Tackling the root causes of poverty to transform lives:** Tackling the ultimate causes of poverty rather than only its symptoms.
- **Focusing on living standards rather than income.** Ensuring tackling poverty results in sustained improvements in people's lives.
- **Focusing on the most disadvantaged groups:** Focusing efforts on families in deep and persistent poverty whose situation has the most severe impact on their lives.
- **Breaking the intergenerational cycle of poverty:** Breaking the link between poverty, poor educational attainment and poor employment prospects so the poor children of today do not become the poor parents of tomorrow.

95. However, there are a number of important omissions in the strategic approach set out in the last strategy. We believe that the three main ones are:

- **An insufficient focus on the demand-side of the labour market:** The current strategy relies on an assumption of full employment in every region of the country to enable every parent to meet the expectation placed on them in terms of the number of hours per week they should work.
- **A lack of attention on the challenges posed by flexible labour markets:** The UK's flexible labour market is clearly positive for employment levels but it does pose challenges to efforts to reduce child poverty: less stable employment, shorter-term contracts, more temporary work and irregular hours that require parents to be able to access flexible childcare at anti-social hours at short notice.
- **Not enough attention on the challenge of in-work poverty:** It is very difficult for parents who are in low-paid work to earn enough to be able to escape poverty "under their own steam" – full-time earnings at the National Minimum Wage are far below what many parents require to escape poverty without state support.

³⁹ HM Government *A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families' Lives*, 2011

A crucial weakness of the 2011-2014 strategy's approach is that it does not produce a clear step-by-step plan for tackling poverty

96. It is essential that the child poverty strategy sets out a clear long-term step-by-step plan for how the government intends to meet the 2020 targets, including being clear about what its underlying assumptions are about parental employment rates, earnings, hours of work and in-work poverty risks.

97. There are two main reasons why this is so important:

- Firstly, policymakers must have a clear understanding about what their ambitions to reduce child poverty imply for parental employment outcomes given the parameters set by the design of the tax and social security systems. If this is not the case, it will be very difficult to design policies with sufficient impact on employment outcomes and poverty risks, test whether current policies can deliver the necessary outcomes or take early action to change course if policies are not delivering.
- Secondly, there needs to be a clear sense of trajectory towards meeting the 2020 targets to allow policymakers to sense-check whether or not it is realistic and to allow the government to be effectively held to account for whether it is making sufficient progress to be on track to meet the targets.

98. Our new research demonstrates why this clarity is needed: meeting the targets within current plans for the tax and benefit system will require parental employment close to 100% - far higher than predicted by the Office for Budget Responsibility and far higher than ever achieved in the UK or any other country – as well as significant increases in parental hours of work beyond the requirements of Universal Credit. Radical change will be required to get even close to these employment outcomes.

99. A key weakness of the last strategy was that it did not set out this detailed plan, with no clear trajectory towards meeting the targets or any clear goals for the employment outcomes it would need to achieve. This meant that there was a credibility gap at the heart of the strategy – while there were lots of good policies like Universal Credit which would clearly have positive impacts on parental employment outcomes, it was impossible to judge whether or not these would be sufficient to make progress against the child poverty target.

Measuring Child Poverty

100. In our report, we broadly agreed with the Government's position on poverty measurement as set out in its consultation on poverty measures in 2012⁴⁰ - that lack of income is at the heart of what it means to be poor but poverty is about more than income alone.

101. We agreed that there would be a number of benefits from supplementing the existing poverty measures set out in the Child Poverty Act 2010 with new ones.

⁴⁰ HM Government *Measuring Child Poverty: A Consultation on Better Measures of Child Poverty*, 2012

We argued that there should be three sets of measures: the income targets in the Act, a set of measures looking at risks of poverty and a set of measures looking at “chronic disadvantage”

102. In our response to the consultation on measuring child poverty⁴¹, we argued for a three-fold solution to the issues raised by the Government.

- **Maintain the four existing measures set out in the Child Poverty Act 2010:** Income is at the heart of what it means to be poor and there are good arguments that, considered together rather than in isolation, the four different measures set out in the Act provide a good guide to what is happening to living standards for those with low incomes, especially when supplemented by the wider measures available in Households Below Average Income. However, we concluded that there was scope to improve the definition of “income” used in the current measures by to better incorporate additional benefits-in-kind (for example, childcare support or sub-market rents in social housing) and to look at developing a new measure looking at depth of income poverty (e.g. looking at the potential of the median “poverty gap”).
- **Create a new measure looking at risks of poverty:** A new multi-dimensional measure looking at risks of poverty would be useful in allowing poverty measures to better track progress in tackling the root causes of poverty such as getting more parents into work and helping them increase their hours or helping adults improve their skills.
- **Create a new measure looking at the number of children in “chronic disadvantage”:** The current income measures do not effectively capture the issues faced by families facing chronic disadvantage e.g. where parents are addicted to drugs and alcohol or children have chaotic home lives. While the majority of children in poverty do not experience these issues it is very important for the Government to collect better information about their extent to allow it to better address the issues these children face.

It is crucial that the next strategy resolves the issues around measurement – a strategy with no measures has no teeth

103. Any credible strategy to tackle child poverty must clearly define what “success” looks like and set out measures against which progress can be monitored and assessed and the Government held to account against. A strategy which cannot be measured is meaningless.

104. The Government has been very clear that they do not consider the current measures of poverty set out in the Child Poverty Act 2010 to be sufficient to adequately measure “success” and have heavily criticised the current measures which they are statutorily required to make progress against. The Secretary of State for Work and Pensions and the Chancellor have restated this criticism

⁴¹ Social Mobility and Child Poverty Commission *Response to “Measuring Child Poverty: A Consultation on Better Measures of Child Poverty”*, 2013

recently⁴², saying that the measures in the Act are “*discredited*”, that they are the “*wrong measures based on inadequate data and simplistic analysis*” and that they “*drive misguided and ineffective policy*”.

105. While we do not share these criticisms of the current measures, it is clear that, unless the next strategy resolves these issues and develops measures that the Government are truly committed to, the Government will be left in a no-man’s land where it has strongly criticised the current measures (which had cross-party support in the Child Poverty Act 2010) but has failed to provide an alternative set four years after taking office. This is unacceptable and must change.

Recent progress in tackling child poverty

106. A key issue in evaluating the success of the current strategy in tackling poverty is the significant time lag that there is in the reporting of the most important metrics. Many of the available indicators relate to before the current strategy was published in April 2011.

107. For example, the most recent data on the income targets in the Child Poverty Act 2010 relates to 2011-12 and so only takes into account fiscal consolidation measures implemented by April 2011. This means that it does not take into account the full impact of recent social security changes. We will need to wait until 2014-15 figures are available in mid-2016 to be able to make a final judgement on trends in child poverty rates over the current strategy period.

108. With that caveat, our assessment of recent progress in tackling poverty concluded that, while there was evidence that the living standards of children from less advantaged backgrounds have been falling in the last few years, there was progress in tackling some of the underlying causes of poverty.

There is evidence from both the income measures in the Child Poverty Act 2010 and from broader indicators that living standards of children from poorer backgrounds has been falling in recent years

109. Our headline conclusion on living standards was that there is evidence both from looking at income measures and from looking at broader indicators that the living standards of children from less advantaged backgrounds have been falling:

- After significant reductions in poverty against both the absolute and the relative measures following the recession, progress has begun to stall in the last couple of years, with absolute poverty increasing by 275,000 in 2011-12.
- There is some evidence that diets of poor families in the UK have worsened since the recession: since 2007 there have been big declines in purchases of fresh fruit and vegetables and big increases in purchases of processed meat products, ready meals and chips.

⁴² Osborne, G. and Duncan Smith, I. *The Conservatives’ Child Poverty Plan Tackles Poverty At Source* The Guardian, 27 February 2014

- There has been a big increase in usage of food banks – while there are clearly a number of reasons for this⁴³, we are concerned that increasing underlying levels of need play a significant part.
- Poorer families are spending significantly more of their income on energy costs than in the past with over half a million households with children spending more than 10% of their incomes on heating their homes.
- There has been a radical shift in housing: one in five households with children now live in the Private Rented Sector - a doubling in the importance of the sector in only five years. There is evidence that the rise in insecurity this brings can have negative impacts on families.

The good news is that there has been progress in tackling some of the underlying causes of poverty, notably through cutting the numbers of children who live in workless households. But there are a number of areas where there has been less progress

110. Our headline conclusion on the causes of poverty was that there has been progress in tackling some of the underlying causes of poverty, particularly in reducing the rate of worklessness among families with children but there is still a lot more to do:

- According to the ONS, the proportion of children living in workless households in mid-2013 was 13.6% - the lowest level since comparable records began in 1996 representing a 15% fall since 2010, though there are large regional variations.
- There has been less progress in reducing poverty risks among children in working families, meaning that two thirds of children in poverty now live in working households.
- Three quarters of children in working poverty live with at least one adult who is in full-time work. While this does not necessarily equate to “working enough”, new analysis by Professor Jonathan Bradshaw and Dr Gill Main at York University⁴⁴ suggests that at least 58% of children in working poor households live with parents who would be considered to “working enough” under Universal Credit rules.
- Analysis by the IFS suggests that low pay is now a stronger predictor of poverty than low hours. The UK is at the wrong end of the low pay league table internationally with more than one in five full-time workers being paid less than two thirds of average earnings.
- Earnings were stagnating before the recession, with median real earnings static since 2004 with tax credits the only substantial source of real income growth between 2003 and 2008. Since the recession, annual earnings of the bottom 20 per cent have fallen by 13% in real terms (against RPI).
- Those most at risk of low pay are female, young, low-skilled, in temporary or part-time work and in the hospitality, retail and care sectors of the economy. There is a big overlap between jobs with a high incidence of low

⁴³ See Lambie-Mumford, J., Crossley, D., Jensen, E., Verbeke, M. and Dowler, E. *Household Food Security in the UK: A Review of Food Aid* Department for the Environment, Food and Rural Affairs, 2014

⁴⁴ Bradshaw, J. and Main, G. *How Many Poor Parents Might be Able To Work More*, 19 March 2014, <http://spruyork.blogspot.co.uk/2014/03/how-many-working-poor-parents-might-be.html> accessed 13 May 2014

pay and the work that many mothers end up doing when they return to the labour market after having children.

- Employment rates of lone parents are still low compared to other developed countries despite improving significantly over the last decade.
- Parental skill levels – a key driver of employability and earnings – increased significantly over the last decade but there remains a very long way to go.

Projected trends in child poverty

Independent experts are predicting that child poverty will increase significantly over the next few years meaning the targets in the Child Poverty Act 2010 will be missed by a long way

111. Our main conclusion in our report was that the statutory targets for ending child poverty by 2020 set out in the Child Poverty Act 2010 are likely to be missed by a “considerable margin” with child poverty set to increase significantly over the next few years:

“The United Kingdom is clearly not on track to meet its statutory goal of ending child poverty. Things looks set to move in the wrong direction over the next few years and the best projections available suggest that the targets will be missed by a considerable margin”

“Although we know that it is probable that any government would be finding it hard to remain on course in the face of the economic situation and the widely accepted need for fiscal consolidation, we are deeply concerned that a decade or more of reductions in child poverty could be coming to an end”

112. Analysis by the independent Institute for Fiscal Studies, cited in our report, projects that child poverty will increase over the next few years such that, in 2020/21 (the target year), 23.5% of children will be in poverty against the relative income target and 27.2% of children will be in poverty against the absolute income target. This compares to the 2020/21 targets that less than 10% of children be in relative poverty and less than 5% of children be in absolute poverty. As our report stated:

“If the projections prove even remotely accurate, the targets in the Child Poverty Act 2010 will be missed by a long way: the IFS projects that there will be 2 million more children in relative poverty and over 3 million more children in absolute poverty than required to meet the target

113. Of course, these are projections and there are significant uncertainties around the economic situation and the impact of the radical welfare reforms currently being implemented. One key unknown is the potential scale of the dynamic effects of the UK Government’s reforms on employment and hours of work. Many parents may respond to changes such as reductions in generosity of out-of-work benefits, greater conditionality of benefits including the introduction of the Universal Credit Claimant Commitment, simplification of the benefit system, improvements in work incentives and policies aimed at reducing barriers to work by entering work or by increasing their hours. But based on the Government’s

own estimates of the scale of the behavioural impacts of its reforms⁴⁵, it is not plausible that they will be anything like sufficient to reverse the forecast rises in poverty.

114. Our new research explored what parental employment would be required to allow the 2020 child poverty targets to be met. The pessimistic conclusion was that even under very optimistic assumptions (including no further welfare cuts in the next Parliament, 100% benefit take-up and a far higher proportion of parents working full-time) parental employment would need to be close to 100% and, in addition, there would need to be significant increases in parental hours of work beyond the work conditionality requirements Universal Credit. These parental employment outcomes are extremely ambitious and are far higher than have ever been achieved in the UK or in any other country. They would, for example, imply far tougher work expectations of parents including on mothers with very young children and those with disabilities, as well as additional support to allow parents with significant caring responsibilities to enter full-time employment. Realistically, it would also imply significant new measures to enhance the net income of families beyond those that are currently planned.

115. If the Government is to develop a credible strategy to meet the targets they need to come forward with a serious plan which acknowledges this challenge and develops radical policies that are able to deliver the massive increases in parental employment rates and hours worked required.

Policy Challenges

116. Our report identified a number of specific areas where policies could be adjusted to support the Government's aspiration to eradicate child poverty by 2020.

The Government needs to take action to better understand the cumulative impacts of welfare reform to allow it to mitigate its impact

117. Our key conclusions about the impacts of welfare reform were that:

- In the short-term, it is clear that cuts in social security budgets are having a significant negative impact on the incomes of affected families and are the key driver of projected increases in poverty over the next few years. People we spoke to in writing our report expressed a lot of concern about the impact of some of the individual reforms on individual families (notably the removal of the spare room subsidy in social housing, the benefit cap and the new benefit sanctions regime) as well as their cumulative impact.
- In the long-term, the impact of cuts in social security budgets is unclear: it depends on whether affected families are able to replace their lost benefit income through increased earnings from entering employment or

⁴⁵ The government has reported to Parliament that it estimates 150,000 parents will move into work, with around half moving into jobs of more than 16 hours per week, leading to an increase in total hours worked in the UK economy of up to 2.5 million (or 0.3%). See UK Parliament *Reply from Esther McVey to Chris Skidmore*, House of Commons Written Answers for 15 January 2013 Column 715W, 2013

increasing their hours of work as the government hopes that they will be able to.

- The cumulative impact of benefit cuts on individual families is poorly understood. If the potential negative impacts of benefit cuts are to be mitigated effectively, a better understanding of cumulative impact must be developed.

Universal Credit has the potential to be a transformative reform but its design can be improved in a number of areas to maximise the positive impact it can have on child poverty

118. We agree with the Government that Universal Credit has the potential to be a transformative reform and represents a real improvement from the current system. We strongly support the objectives of the programme and agree that it can be expected to encourage many people to enter employment and to increase hours of work.

119. However, it is important to be clear on the nature of the impact: while work incentives will improve for many – especially for workless couples and for lone parents working a few hours a week – they are less positive for others, especially second earners, and most parents in work will continue to face very high effective marginal tax rates as they do in the current system.

120. We believe that a more important driver of increased employment will be the significant simplification that Universal Credit represents – integrating in-work and out-of-work benefits, making the system more responsive to fluctuating income, mitigating financial risks associated with entering employment (e.g. if work is short-term given likely delays in being able to reclaim benefits if so) and radically increasing the scope to introduce policies to tackle in-work poverty compared with the current tax credit system.

121. We made five key recommendations about how Universal Credit could be adapted to allow it to fully support the Government's child poverty goals:

- Integrating Council Tax Support and passported benefits such as free school meals.
- Extending 85% support with childcare costs to all families in receipt of Universal Credit and reconsidering monthly caps on eligible costs.
- Guaranteeing that no children in families who meet their Claimant Commitment under Universal Credit will be in poverty.
- Ensuring that conditions attached to Universal Credit claims are reasonable and that sanctions are only applied on claimants who are clearly, wilfully and persistently failing to meet their commitments without good cause and that there is a sufficient safety net in place for families who are sanctioned.
- Ensuring that a range of operational risks that have been highlighted to us are resolved before Universal Credit is rolled out.

While the highest earning 20 per cent of households have made the biggest contribution, fiscal consolidation is regressive once the highest earners are excluded and much more of the burden has been borne by working age families than by pensioners

122. Our analysis of official data on fiscal consolidation in our report shows that:

- The highest earning 20 per cent of households have made the biggest contribution.
- Fiscal consolidation has been regressive once the highest earners are excluded, with families in the poorest families making a larger contribution than anyone except the richest 20 per cent, both as a proportion of their incomes and in absolute terms.
- Much more of the burden has been borne by working-age families than by pensioners.

123. We concluded that: *“The process by which fiscal consolidation has been implemented is placing an unfair burden on the poorest households – including those in low-paid work”*

124. Our report noted that, if the next phase of fiscal consolidation is to minimise any potential negative impacts on social mobility and child poverty, it would need to ensure that central and local government spending on the early years and young people is protected and that the burden of social security cuts is not borne by children and working-age adults alone.

125. We recommended that the Office of Budget Responsibility are given a new role in independently reporting, alongside the Chancellor’s Budget statement, what the likely impact on social mobility and child poverty would be, including publishing independent analysis on distributional impacts of budget measures.

Annex B – Summary of Understanding the Parental Employment Scenarios Necessary to Meet the 2020 Child Poverty Targets

126. To support our response, we commissioned research⁴⁶ looking at the impact of different parental employment scenarios on the prospects for hitting the targets set out in the Child Poverty Act 2010.
127. The objectives of the research were to:
- Explore whether changes in parental employment outcomes alone could enable the UK Government to achieve the absolute and relative income targets set out in the Child Poverty Act 2010.
 - Assess the potential contribution of different aspects of parental employment (e.g. employment rate, hours worked, wage levels etc.) to the reduction of child poverty in realistic scenarios.
128. The research uses a microsimulation model (the IPPR/Landman Economics tax-benefit model) and data from the Family Resources Survey to simulate net incomes for individuals and families under various assumptions about the tax-benefit system in place, employment rates, work intensity, wages and other variables.
129. A number of different scenarios for the evolution of parental employment, hourly earnings and work intensity were developed and used to forecast absolute and relative child poverty in 2020. An additional “goal seeking” scenario was developed to look at how much parental employment would need to increase under various assumptions to allow the absolute and relative targets to be met in 2020.
130. The main finding of the research was that, even with very optimistic assumptions (including no further welfare cuts in next Parliament, 100% benefit take-up) meeting the targets would require parental employment rates close to 100%⁴⁷ together with a significant increase in parental hours of work far beyond the requirements of the Universal Credit Claimant Commitment.
131. These employment outcomes are considerably higher than have ever been achieved in the UK or any other developed country and would – for example – imply far more mothers with very young children entering employment.
132. The research suggests that the targets will not be met unless the economy and labour market performs far better than the Office of Budget Responsibility anticipates over the next few years – with far higher parental employment rates than they expect – or there are significant improvements to the net income of

⁴⁶ Reed, H. and Portes, J. *Understanding the Parental Employment Scenarios Necessary to Meet the 2020 Child Poverty Targets* Social Mobility and Child Poverty Commission, 2014

⁴⁷ Meaning almost all parents – including mothers of very young children and those with disabilities not currently expected to work – would need to work at least part-time

parents in low-income households relative to other households through some combination of higher wages, lower taxes and higher benefits.

133. Other key findings include:

- Increases in the parental employment rate and increases in the number of hours parents work have a significant impact in reducing rates of child poverty, just not realistically enough to hit the targets.
- The direct impact of wage increases on absolute poverty is limited and even slightly negative for relative poverty in many scenarios. This is due to a combination of the high marginal deduction rates faced by poorer families on in-work benefits and the fact that employment rates tend to be higher among middle income families.
- Higher employment, increased hours of work and wage increases will lead to a significant Exchequer dividend through additional tax revenues and reduced expenditure on benefits and tax credits. This could have a significant impact on child poverty if some of these gains were recycled into anti-poverty policies.

134. The authors conclude that achieving – or even approaching – the parental employment outcomes that are required to meet the poverty targets will require a radical reshaping of the labour market and the support offered to parents, perhaps including:

- More extensive and flexible childcare provision to allow parents to combine caring for young children with full-time work.
- A tougher Universal Credit Claimant Commitment, including greater expectations of work from mothers with young children and increasing requirements on those expected to work full-time to encourage them to work longer hours than the current expectation of 35 hours.
- Working with employers to help support parents of young children to combine full-time jobs with their parenting responsibilities.
- A macroeconomic environment which generates sufficient labour demand in the right places and at the right skill levels for the types of jobs that parents moving into work could be expected to do.
- Steps to improve net incomes of parents in work, targeted at low-paid parents (e.g. lower taxes or more generous support through Universal Credit such as a lower taper rate or higher work allowances), will be necessary. Success in increasing employment and wages beyond what the Office for Budget Responsibility forecast would have significant Exchequer benefits, some of which could be recycled into such policies without jeopardising the Government's debt reduction strategy.