

What happened to poverty under the Coalition?

Hannah Aldridge, Peter Kenway and Theo
Barry Born

April 2015

Table of Contents

Summary and Commentary	3
Why this data is needed	3
What has happened to poverty?	3
Poverty in the party manifestos	4
The challenge for the next government	4
Detailed findings.....	5
Factors that influence income and poverty	5
How the poverty numbers have changed?	7
What can explain the change in poverty?	8
Summary table of poverty rates and numbers.....	10
Technical appendix	11

Summary and Commentary

This report presents NPI's estimates of the latest headline poverty statistics for the United Kingdom, for the financial year ending in March 2015. Starting with the latest published poverty statistics, for 2012/13, we have estimated the combined effects of the changes that have taken place since then in the size and mix of the population, the levels of employment and earnings, as well the value of benefits and tax allowances. The conclusion is clear: poverty in the UK is rising once more; it is rising among all age groups; and it is also deepening.

Why this data is needed

NPI, in conjunction with a number of other organisations, asked the government last summer to publish the 2013/14 poverty statistics before the general election. It declined on the grounds that decisions on publication were taken without regard to political considerations. Given the significance of recent policy changes and welfare reform to the poverty landscape, not publishing official statistics before the election is also political.

In support of our estimates, we point to the accuracy of the first set of estimates which we published last year¹. Although wider in scope (and calculated on a slightly different basis), they are also close to estimates published recently by the IFS².

What has happened to poverty?

Behind the overall headline that **poverty is both rising and deepening**, there are three specific points which mark 2013 as a turning point.

1. Incomes in the middle are rising once more; at the bottom they have fallen.
2. Pensioner poverty is rising after half a dozen years of steady and substantial falls.
3. Poverty among tenants in the social rented sector also rose, which can be linked to tax and benefit changes.

¹ <http://npi.org.uk/publications/income-and-poverty/what-will-latest-poverty-data-tell-us/>

² See technical appendix for discussion.

Poverty in the party manifestos

Poverty is mentioned in all the 2015 party manifestos. Both the Conservative and Labour ones cite headline poverty statistics. But they are badly out of date.

The Conservatives talk about child poverty being 300,000 lower than in the last year of the Labour government. This claim can be made only because the latest published data is for 2012/13. Our estimates show that child poverty has gone through three stages since 2009/10: falling in 2010/11, staying steady to 2012/13, and rising to 2014/15.

Our estimates also show that data for 2013/14 would have shown the shift. That is because April 2013 was a key moment, when many of the big welfare reforms took effect but also when the rest of the economy began to recover.

The Labour manifesto notes that half of those in poverty are in working families. Our estimates suggest that this is still broadly true – but the period during which in-work poverty was taking an ever rising share of total poverty has ended.

Labour also commits to keeping the child poverty targets and to asking the Office for Budget Responsibility to monitor progress. The OBR uses quarterly economic data that is typically available two months into the following quarter. It can't do much with annual poverty data that is more than two years old before it comes out.

The challenge for the next government

In past recoveries, this is the moment when those on the lowest incomes get left behind as the top and the middle start to pull away. Because this recovery has been so delayed, the estimated poverty rate in the final year of this government is the same as it was in the final year of the last one. If a recovery takes hold, the next government will need explicit pro-poor policies to stop poverty both rising and deepening.

Detailed findings

The latest official poverty statistics go up to March 2013, just before the main tax and benefit changes introduced by the last parliament were implemented in April 2013. The data showing how these changes have affected household income and poverty will not be published until after the election despite calls for it to be brought forward.³ In the absence of these statistics, this paper outlines NPI's estimates of poverty up to March 2015. In so doing, it provides a more complete picture of how poverty changed during the last parliament.

Factors that influence income and poverty

Income is made up of a number of elements (earnings, benefits, investments etc) and a fall in one could be countered by a rise in another. The Family Resources Survey is the primary source of data that reflects how such changes combined affect household incomes. The table below summarises the main economic and policy changes that have influenced incomes since the last poverty statistics were published two years ago.

April 2013 was the point at which the major benefit changes began: the bedroom tax, the overall benefit cap and council tax support cuts. All of these have caused a fall in income for those affected. Meanwhile the personal tax allowance increased by £1,300 to £9,400, increasing the income of those affected. Other benefits rose by 1% and average earnings by 1.6%, but both rose less than prices at 2.2% meaning that they fell in value. Finally the rise in employment increased the earned income of those families who started work.

In the next year these trends broadly continue. The benefit cuts were maintained and in the case of council tax support got deeper. There was a further, smaller increase in the personal tax allowance whilst the employment rate grew slightly faster. Nonetheless, earnings and benefit increases did not exceed prices.

³<http://npi.org.uk/media/press-releases/government-urged-release-official-income-statistics-ahead-ge/>

Changes in the economy and policy affecting household income

Factor	2013/14	2014/15
Prices (CPI inflation)	+2.2%	+1.3%
Employment/earnings		
Employment rate (age 16-64)	+0.7ppts	+1.0ppts
Gross annual earnings	+1.6%	+0.9%
Personal tax allowance	+£1,335	+£560
Pension/Benefit values		
State Pension	+2.5%	+2.7%
Child tax credit	+1%	+1%
Means-tested benefits	+1%	+1%
Benefit cuts		
Council Tax Support	-£2.70pw	-£0.30pw
Bedroom tax	-£15pw	no change
Overall benefit cap	-£68	no change

NB: Figures are the annual change to the mid-point of 2013/14 and 2014/15 (or as close as possible).

Taking all of these factors together, what has happened to household incomes and poverty? Official government data will tell us in June 2015 the impact for 2013/14, while we will have to wait another year for 2014/15 data. In the meantime NPI has developed a model to estimate what the poverty figures are.

At the end of this report we outline the assumptions behind and precautions taken when producing this data. The model we use builds on last year's model, which accurately predicted the poverty data for 2012/13.⁴

⁴<http://npi.org.uk/publications/income-and-poverty/what-will-latest-poverty-data-tell-us/>

Measuring income and poverty

All of the figures in this report refer to household income 'after housing costs' (AHC) have been deducted. Accounting for housing costs is NPI's preferred measure of income as these are an unavoidable expense and the AHC measure therefore provides a better reflection of actual disposable income. A person is in poverty if their household income is below 60% median, while if it is below 50% they are in 'deep poverty'.⁵

How the poverty numbers have changed?

The **median household income slightly increased** in 2013/14 and 2014/15, following three years of falls. But **at the bottom of the distribution incomes have continued to fall**.

Over the last two years **the total number of people in poverty in the UK has increased by 800,000**, from 13.2 to 14.0 million. This represents a 1 percentage point increase in the poverty rate, from 21% to 22%. **Deep poverty also increased** by 1 percentage point to 15%, with 700,000 more people in deep poverty rising from 8.9 to 9.6 million people.

Regardless of age, poverty rose over the two years to April 2015. The rise was highest for children with the poverty rate increasing by 2 percentage points to 29%. It rose very slightly among working age adults to 22% and among pensioners to 14%. The rise in pensioner poverty follows 6 years of falls.

The number in poverty in working families is up by 300,000 since 2012/13, while the number in workless families is up by 400,000. The increase in out-of-work poverty was concentrated in 2013/14 and is likely to be the result of the tax and benefit changes that were introduced in April 2013 (discussed below). The rise in working families in poverty is due to the increase in employment overall as the poverty rate for this group remains unchanged.

Poverty in the social rented sector (SRS) grew by 400,000, with the bulk of that change coming in 2013/14 which again is likely to reflect tax and benefit changes in that year. In the past decade, poverty in the SRS has fallen considerably. Poverty in the private rented sector (PRS) also grew by 350,000, a continuation of a long-term trend reflecting the growth of the tenure.

⁵ IFS have produced some estimates of poverty using the BHC measure. See technical appendix for discussion.

What can explain the change in poverty?

The table above summarised some of the major economic and policy changes that have affected household incomes in the last two years. But which of these are able to explain the shifts in poverty seen above?

In the last two years earnings and benefits rose less than prices so it might seem surprising that the median income increased in value. The driving factor behind this is change in the personal tax allowance which we estimate benefited 42 million people (tax payers and their household members). The additional income provided through the increased tax allowance, along with the rise in employment, lies behind the rise in median income.

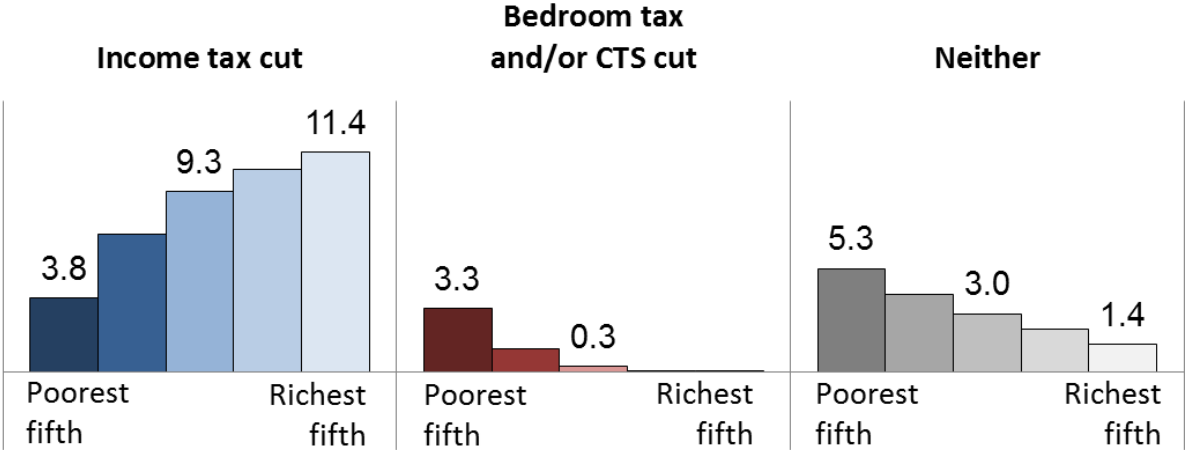
However, to benefit from the increased personal tax allowance a household has to contain someone in work and earning at least £8,100 per year. Most households in the top half of the income distribution meet this requirement, but the number is far fewer in the bottom half. Those who do not benefit are much more likely to see their incomes increase by less, or even fall.

Those households at the bottom of the distribution are also more likely to have seen their benefits cut through lower levels of council tax support or the introduction of the bedroom tax. Their incomes have fallen as a result, hence the finding that poverty is deepening.

But these cuts only affect a minority of households. Even within the poorest fifth, more people benefited from the increased personal tax allowance (3.8M) than an absolute benefit cut (3.3M). The biggest group in the poorest fifth are those that were unaffected by both (5.3M) and whose earnings and/or benefits have hardly changed. In these households incomes grew less than prices and less than those in the middle.

The change in the personal tax allowance explains why incomes in the middle have risen slightly while those at the bottom have not. Incomes for the poorest fifth have not kept pace with prices and have therefore fallen in value, while for those affected by benefit cuts it has fallen even further. This is behind our estimate that two years after April 2013 poverty is now both higher and deeper.

Millions of people affected by a cut in benefit or tax by household income



Summary table of poverty rates and numbers

		2009/10	2010/11	2012/13	2014/15	Change
		Last year of Labour	1st year of Coalition	Latest published year	Last year of Coalition	2012/13 to 2014/15
Weekly income after tax and housing costs						
Median	£pw	£425	£410	£392	£395	£3.10
Poorest 10th	£pw	£174	£173	£163	£160	-£3.20
Total population						
In poverty	%	22%	21%	21%	22%	1 pt
	Ms	13.5	13.0	13.2	14.0	0.8
In deep poverty	%	15%	14%	14%	15%	1 pt
	Ms	9.2	8.8	8.9	9.6	0.7
Poverty by age						
Children	%	29%	27%	27%	29%	2 pt
	Ms	3.9	3.6	3.6	4.0	0.3
Working-age	%	22%	21%	21%	22%	0 pt
	Ms	7.9	7.7	8.0	8.3	0.3
Pension-age	%	15%	14%	13%	14%	1 pt
	Ms	1.8	1.6	1.6	1.7	0.1
Poverty by tenure						
Social rent	%	46%	43%	42%	45%	3 pt
	Ms	4.6	4.3	4.3	4.7	0.4
Private rent	%	39%	38%	37%	37%	1 pt
	Ms	3.7	4.0	4.2	4.6	0.35
Owner-occupier	%	13%	11%	11%	11%	0 pt
	Ms	5.2	4.7	4.7	4.7	0.0
Poverty by family work status						
In work	%	15%	15%	15%	15%	0 pt
	Ms	6.4	6.3	6.6	7.0	0.3
Not in work	%	39%	36%	34%	37%	2 pt
	Ms	7.1	6.7	6.6	7.0	0.4

Technical appendix

The estimates produced in this report are based on a model developed by NPI. The model estimates income and poverty levels for 2013/14 and 2014/15 based on the data for 2012/13 which is then adjusted to reflect changes in the population mix, employment, earnings, tax, benefits and prices.

This model has been tested on previous years of data and has produced an accurate estimate of median income and the poverty rate for different family types. However, not all adjustments could be tested on previous years as they had not occurred before (such as the introduction of the bedroom tax).

IFS have produced their own estimates of household incomes in 2014/15⁶. Their estimates correspond with those produced by NPI's model. However, this report uses the after housing cost measure of income which is not published by IFS. It also uses a different inflation measure to the IFS (NPI use an inflation measure consistent with DWP's statistics whilst IFS use RPIJ).

NPI's model makes the following adjustments to the 2012/13 data to produce the estimates in this report:

- Population size: the model assumes a consistent year-on-year increase in the population in 2013/14 and 2014/15. Alternative methods based on ONS population estimates and DCLG household estimates produced similar results but were found to be less accurate for earlier years of data, possibly due to Census re-weighting.
- Employment: Adjustments to the level of employment were based on *Working and Workless Households* and the *Labour Market Statistics*, produced by ONS.
- Earnings: Adjustments to the level of earnings were based on the Average Weekly Earnings measure produced by ONS.
- Benefit income: Adjustments to the level of benefit income was based on changes in entitlement to different benefits from April 2013 and April 2014.
- Personal Tax Allowance: the amount of tax paid by households was reduced accordingly for those that would have benefited from the increased personal tax allowance.
- Housing costs: as interests rates were unchanged in 2013/14 and 2014/15 the housing costs of owner-occupiers are assumed to be fixed. For social renters, housing costs are assumed to rise in line with housing benefit for households

⁶ <http://www.ifs.org.uk/publications/7616>

entitled to the full amount. For private renters, housing costs were assumed to rise in line with the *Experimental Index of Private Housing Rental Prices* produced by ONS.

- Inflation: the level of inflation used by DWP in its poverty statistics is bespoke (based on RPI with a slight variation). The equivalent inflation level for 2013/14 and 2014/15 has not been published by DWP so NPI have used an estimate of what it is expected to be.
- The bedroom tax: the amount of housing benefit received was reduced accordingly for working-age households in the social rented sector with a 'spare bedroom'.
- Council tax support cuts: only some English local authorities cut Council Tax Support so the model increases the amount of tax paid by a proportion of working-age households in receipt of council tax benefit.
- As 2013/14 was the first year that the bedroom tax and council tax support cuts occurred we have been unable to "road test" this aspect of the model on data from earlier years.