

# UK POVERTY: CAUSES, COSTS AND SOLUTIONS

#solveukpoverty

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# UK Poverty: Causes, costs and solutions

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# Foreword



**Julia Unwin CBE**  
Chief Executive,  
Joseph Rowntree Foundation

## We can conquer poverty

In 1929, former Prime Minister David Lloyd George made a pledge to the nation: **“We can conquer unemployment. We mobilised for war. Let us mobilise for prosperity.”**

In 2016, it is time we made a new pledge – we can conquer poverty.

Poverty in the UK is real, costly and harmful, affecting millions of people. We can do something about it if we choose to. JRF’s comprehensive, long-term strategy shows how governments, businesses, communities and citizens can all mobilise for a sustainable prosperity; for a UK free from poverty.

## Why fight poverty?

The level of poverty in the UK is shameful. This should be a place where everyone can achieve a decent, secure standard of living. Instead, millions of people – many from working families – are struggling to meet their needs.

People in poverty experience daily insecurity and uncertainty, and are excluded from the norms of a wealthy society, facing impossible decisions about money, and getting into debt. Poverty causes families significant harm, affecting people’s health and well-being, eroding confidence and capability, and damaging life chances. But it also damages wider society and the economy, depriving it of the skills and talents of people who could otherwise contribute.

People experiencing poverty are treated with pity, scorn or even disgust – emotions that prevent action. Together these emotions create a sense that poverty in the UK is about a group of people who are entirely different from the rest of us with different motivations and desires.

In reality, poverty can affect almost anyone. It fundamentally affects how communities work, and the ability of families to nurture and support. It affects the economy, costing the public purse £78 billion a year and £70 billion in benefits. The continued existence of high levels of poverty in this country is not a problem for ‘them’ – it is a problem for everyone who wants to see a stronger, safer, more sustainable society.

It is easy to be blinded by simplistic and superficial responses. You can blame individuals for the bad decisions they make, and fool yourself into believing it could never happen to you. Or you can blame national structures – if only the system of tax and benefits could be fundamentally redesigned, and structural inequality abolished, then poverty could be ended.

These two arguments have run their course. Neither argument is an accurate explanation of poverty in the UK, and neither offers a workable solution on its own. Instead they cancel each other out, and the resulting inaction is causing great harm. Structures and choices must be considered together for policy to be effective.

In an otherwise prosperous society, high levels of poverty indicate failure by community, market and state, and all of these must be involved in the solutions.

There have been many previous attempts to end poverty in this country, but these have been piecemeal and have only dealt with part of the problem – for example, focusing on reducing poverty for children, or on ending a particular type of poverty. In committing to develop a strategy across the different parts of the UK, JRF has also committed to developing a comprehensive approach that covers all generations, is based on the best available knowledge, and is as clear as we can be about the costs.

Our approach demands a consensus. Stop-start approaches to poverty have fallen short, just as initiatives developed by individual players frequently stall. The nature of poverty in the UK demands a non-partisan, long-term approach, marshalling all the skills and resources of governments (national, local and central), business, employers, voluntary organisations, broader civil society, families and individuals.

## Why now?

We live at a time of significant opportunity, change and uncertainty.

The vote to leave the European Union was a decision of momentous, long-term importance – a decision made by many of the people who live in some of the UK's most overlooked places.

It is too early to identify the underlying reasons behind the referendum result with certainty or in detail, but we can be confident that distrust, dissatisfaction and anger are significant factors. For too long, the worst-off people and places across the UK, particularly in the North of England, have been left behind by uneven economic growth and fewer opportunities.

The vote showed that addressing poverty is now not just a moral imperative, but a political and economic necessity. Should the UK fall into recession again, there is a risk that poverty will rise, due to fewer jobs and lower investment. At the very least, we can expect a period of political and financial volatility.

The volatile global economy shapes the lives of every one of us in the UK. Our population is ageing, and while this is a cause for celebration and opportunity, it also brings challenges. Living longer means that more of us are living with long-term medical conditions, fluctuating and life-limiting conditions, learning difficulties and mental illness. The population is changing, as we become more diverse, more mixed, and much more mobile.

Technological advances connect people better than ever before, and the new developments of robotics and further automation can both liberate

and challenge an already fast-changing labour market. Poverty weakens the UK's economy in the face of unprecedented global competition.

At the same time the structures for governance and administration in the UK are going through rapid and important change, while the housing crisis hits all tenures, and public expenditure is under enormous pressure. Along with the squeeze on the finances of the country, we face additional stress from the impact of climate change, which threatens certain parts of the country, and requires us all to better steward the nation's natural resources.

This is not a time for despair, nostalgia or panic. It is instead a time to reconnect with the founding values of JRF, and assess what they mean for the 21<sup>st</sup> century.

I began this foreword with a pledge from Lloyd George. That pledge was co-authored by Seebohm Rowntree, son of our founder. Seebohm's pioneering research into poverty at the turn of the 20<sup>th</sup> century moved Winston Churchill to say that Rowntree's book "fairly made my hair stand on end".

We have been researching poverty for decades, and our strategy is firmly based on evidence, the expertise of practitioners, and people's experience. This is a time of huge opportunity as we seek to shape a future in which poverty is no longer a scourge across the UK.

## Our vision of a poverty-free UK

A UK free of poverty is not a utopian vision. Our strategy is both practical and hard-headed. It proposes a new success measure for a prosperous society – one that recognises the costs, the risks and the waste of poverty, and determines that in the 21<sup>st</sup> century UK it is possible to ensure that, within a generation:

- no one is ever destitute
- less than one in ten of the population are in poverty at any one time
- nobody is in poverty for more than two years.

This vision recognises that there are life events and experiences that can dramatically reduce the income of a household or an individual, but that in a strong and successful society there are mechanisms in place to avoid that and ensure such experiences are short-lived.

Family breakdown can create poverty. A strong and successful society works to ensure that this does not become a scar on the life of the next generation.


Illness may well result in loss of income, and hence poverty. A strong and successful society intervenes to make sure this experience is short lived.

In a competitive and open economy, there will be job losses and industrial changes. A strong and successful society plans for these changes, and insures against their impact.

In a strong and successful economy, destitution is seen as the social evil it is, and there is no place for it in society.

There may always be people in poverty. The experience does not need to be either long-lived or devastating. We will never be able to ignore poverty. Neither should we tolerate it.

The shift to a prosperous, poverty-free UK will not happen quickly, but with commitment, co-ordination and vision, it is possible. This strategy explains how we can all work together – to mobilise for prosperity, and to conquer poverty once and for all.

A handwritten signature in black ink, appearing to read 'Julia Unwin'.

**Julia Unwin CBE**

**Chief Executive, Joseph Rowntree Foundation**



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# Background to the report

Four years ago, JRF set out to learn as much as we could about poverty in the UK, and how to solve it.

Bringing together the skills and resources of national and local governments, businesses, service providers and citizens, we want to solve poverty in the UK within a generation. Our vision is to make the UK fit for the children starting school this year – so that by the time they enter adulthood in 2030, they will be living in a UK where:

- no one is ever destitute
- less than one in ten of the population are in poverty at any one time
- nobody is in poverty for more than two years.

What would it take to solve UK poverty? This is the central question that JRF has set out to answer. We all have a vital role to play, as governments, businesses and employers, service providers, investors, and as citizens. Recommendations for how all of us can act to solve poverty are set out in this strategy. Over the past four years, JRF has worked with experts in research and practice, and commissioned and analysed evidence reviews to find out what works. We have worked with the public as well as employers and businesses, practitioners, civil servants and politicians from all parties, across all four nations of the UK. As an employer and a provider of housing and care services, we have also drawn on our own history and experience. Critically, we have involved people with first-hand experience of poverty in the development of the strategy. Alongside this in-depth report on poverty is a shorter strategy document, *We can solve UK poverty: A strategy for governments, businesses, communities and citizens*.

JRF is politically independent. But we are single-minded in our determination to defeat poverty. The world has changed a great deal since the social reforms proposed by our founder, Joseph Rowntree, and his family, were introduced. Their values, however, still guide us. All of us have both a stake in and a responsibility to work for a poverty-free society. Today, that means we believe – because evidence and experience tells us – that markets, families and individuals, as well as governments and service providers, have a role to play in delivering a prosperous society with lower levels of poverty. Unless we act now, the picture is likely to become bleaker still: on current trends, more children will fall into poverty in the near future,<sup>1</sup> and, over the longer-term, so will many of those of working age.<sup>2</sup>

In what follows, we set out our modern definition of poverty based on lacking the resources to meet minimum needs; examine recent trends and future projections in poverty; highlight the principal causes of contemporary poverty, which includes the corrosive effects of high costs; and describe a plan to reduce these costs. Then we examine in detail the shape of poverty

and the most promising solutions over the lifetime: children and young people; adults of working age; older people; and those with complex needs. It marks the end of a research programme; more importantly, it provides the basis for new solutions and real change.

We may be single-minded in our determination to end poverty, but we are not utopian. Solving poverty will not be quick or easy. But it is possible, starting with a vision and a clear plan.

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# What is poverty?

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# 1. What is poverty?

Poverty means not being able to heat your home, pay your rent, or buy essentials for your children. It means waking up every day facing insecurity, uncertainty, and impossible decisions about money. The constant stress it causes can overwhelm people, affecting them emotionally and depriving them of the chance to play a full part in society.<sup>3</sup>

“When I was at secondary school, I think I was able to get free school meals or something,” says a young woman from Newham.<sup>4</sup> “But I didn’t want to have that status, I didn’t want to be the one, ‘oh, her family can’t afford to ... whatever’. So I told my mum to stop it and I paid for my own meals and obviously it got tougher for my mum.”

At root, poverty is a gap between resources and needs. To be in poverty is to **have resources that are well below minimum needs**. Poverty is caused by a lack of resources – most obviously, income – but also by steep prices for minimum needs. Low resources *and* high costs cause poverty, separately or together.

Meeting minimum needs means improving income and other resources. But it also means reducing the costs of meeting those needs – including dealing with the ‘poverty premium’ whereby people in poverty pay more for the same services.<sup>5</sup>

The JRF definition puts individual experiences at the heart of poverty. These are affected by who we live with and how resources are shared and needs met within families, households and communities. Poverty is dynamic; individuals and families move in and out of poverty; people move in and out of households.

*“Nobody knows, til they’ve been in that person’s shoe, what life is like.  
A light could conk out, the gas could conk out, and they’ve got a choice –  
do I buy my kids breakfast tomorrow or do I put £5 in that gas meter?”*  
Mother, Scotland<sup>6</sup>

### DEFINITION OF TERMS

<b>Poverty</b>	When someone's resources, mainly material resources, are well below those required to meet their minimum needs, including participating in society.
<b>Resources</b>	Material resources, primarily income, are the most relevant for poverty but other financial assets and means of support (such as advice and relationships) are also important.
<b>"Well below..."</b>	Where the lack of resources is associated with much higher risks of harmful effects on people such as problem debt or deprivation.
<b>Minimum needs</b>	Includes food, clothing and shelter but also a basic level of participation in society, as defined by the Minimum Income Standard.
<b>Social participation</b>	Being able to have and do the things that people regard as necessary to be part of contemporary society, ranging from going on a school trip to communicating by phone.
<b>Costs</b>	The price of essential goods and services accessed through the market or public provision, such as housing, childcare and energy. Some groups, such as disabled people, face extra costs to meet their needs.
<b>Minimum Income Standard (MIS)</b>	Having sufficient income to afford a minimum acceptable standard of living, defined as something that "includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society." <sup>7</sup>
<b>Destitution</b>	<p>Definition developed with experts across the UK and from polling of 2,000 members of the public<sup>8</sup> as: "People are destitute if they lacked two or more of these six essentials over the past month, because they cannot afford them:</p> <ul style="list-style-type: none"><li>• shelter (have slept rough)</li><li>• food (have had fewer than 2 meals/day for 2+ days)</li><li>• heating their home (unable to do this for 5+ days)</li><li>• lighting their home (unable to do this for 5+ days)</li><li>• clothing and footwear (appropriate for weather)</li><li>• basic toiletries (soap, shampoo, toothpaste, toothbrush).</li></ul> <p>People are also destitute if their income is so low that they are unable to purchase these essentials for themselves."</p>

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It is important to distinguish poverty, in terms of achieving a decent living standard, from other concerns associated with inequality (either of income and wealth or of wider outcomes between different groups), well-being,<sup>9</sup> area deprivation, social mobility,<sup>10</sup> social justice<sup>11</sup> and social exclusion. All of these can be related to poverty, but they are not the same thing. Our focus is on poverty.

Poverty does not affect all people in the same way, however. Inequalities relating to gender, ethnicity, disability or age interact with poverty in particular ways. Poverty is more prevalent for certain groups and the experience of poverty can vary according to where people live, their kind of neighbourhood and the access it provides to jobs and services such as education, transport and social care. The support provided by communities and neighbourhoods can matter most where problems are sharpest.<sup>12</sup>

### WHO'S IN POVERTY?

#### Total number



#### Key stats



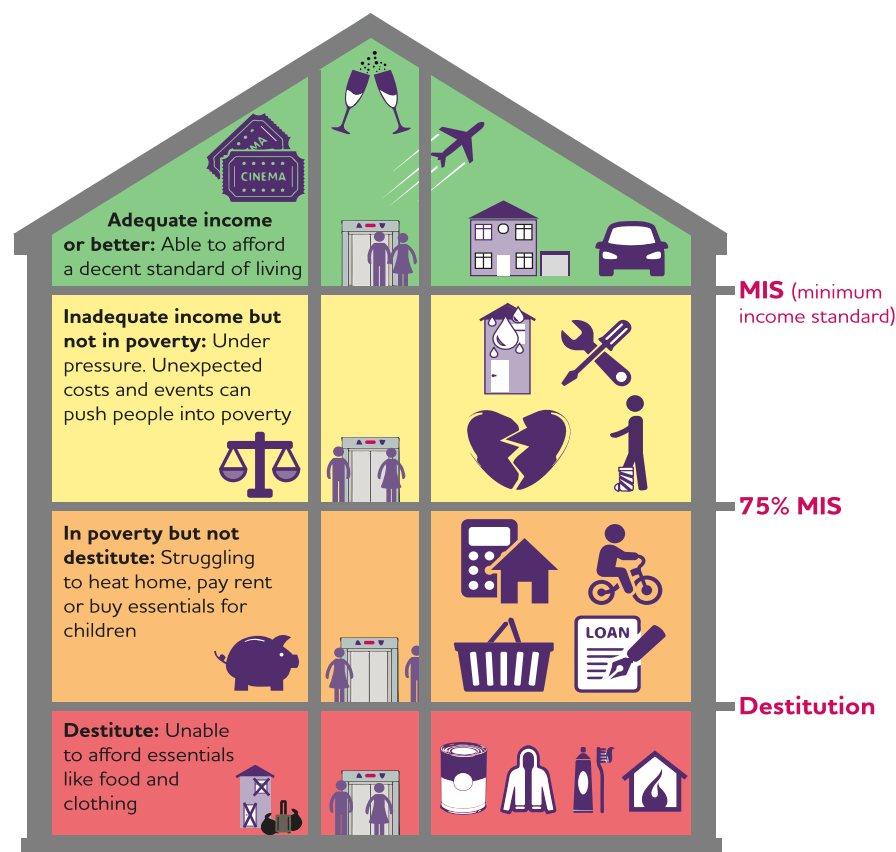
Poverty varies in depth and duration. Some will have resources close to meeting their needs but still struggle. Others will fall far into poverty, and may be destitute. All poverty is painful but it is more damaging to be in deep poverty and/or in poverty for long periods of time.

Regardless of the poverty measure used, the objective is to:

- a** end destitution
- b** reduce the number living in poverty, and
- c** reduce numbers living in poverty for a long period of time.

As charted by JRF's annual poverty monitor,<sup>13</sup> there has been a dramatic change in who is most at risk compared with a decade ago. There has been a big rise in poverty among young people, and a big fall among the over-75s. More people in poverty are living in working families and more in private rented housing.

### LEVELS OF POVERTY



The UK needs a broader approach to poverty prevention – one that reflects the changing nature of poverty and the roles of demography, housing and labour markets – and so needs a broader definition, too. As a start, **JRF recommends** extending the child poverty indicators outlined in the box below to working-age adults without children and pensioners, while maintaining wider indicators on worklessness and educational attainment.

### Current measures of poverty

The **relative income poverty** line is set at 60% of median household income, adjusted for family size. It changes each year according to median income, largely driven by earnings.

The fixed threshold poverty line (also called **absolute poverty** line) is set at the relative income poverty line in a particular year (2010/11 is the latest iteration) and changes annually with inflation.

Neither measure says much about specific costs. However, both can be presented after housing costs (rent or mortgage interest, buildings insurance and water rates) and after direct taxes, including Council Tax.

**Material deprivation** is measured by asking people if they lack essential items or cannot afford to do certain things. This directly measures whether people lack some of what they need due to insufficient resources. Combining deprivation with low income tightens the measure further by excluding people who have a higher income yet still say they

cannot afford some items. Unlike MIS, this covers only a selection of items and activities and there is no clear process for updating the list of items over time in line with social norms.

We supplement these measures of poverty with an indicator based on the Minimum Income Standard (MIS), our definition of minimum needs. Specifically, JRF uses an indicator of poverty based on 75% of MIS, as those with incomes below this level face a particularly high risk of lacking essentials. Everyone with incomes above MIS has on average a quarter the risk of everyone below 75% MIS of experiencing deprivation (such as falling behind on bills or not being able to replace broken household items).<sup>14</sup> **JRF also recommends** measuring and monitoring destitution, estimated directly through surveys since household data cannot be used to assess very low incomes accurately.<sup>15</sup>

Why retain the existing relative income poverty measures if the MIS approach is better? First, for practical reasons – these measures have data prior to 2008 that MIS lacks and which can be applied to various other datasets to measure poverty across the population. They are also understood and supported by some opinion formers and many academics, and can be used in comparisons between countries. Much of the existing evidence base relies on these measures and we draw on them in what follows. One technical but important feature of MIS is that it measures directly the economies of scale arising from living with other people rather than using arbitrary equivalence scales that currently underlie relative and absolute income poverty measures.<sup>16</sup> Such scales underestimate the needs of single people of working age and of families with children compared with childless couples and single and couple pensioners.

**JRF recommends** retaining and supplementing existing measures of poverty (such as 60% of median household income) with a measure based on the Minimum Income Standard, to better reflect how costs contribute to poverty.

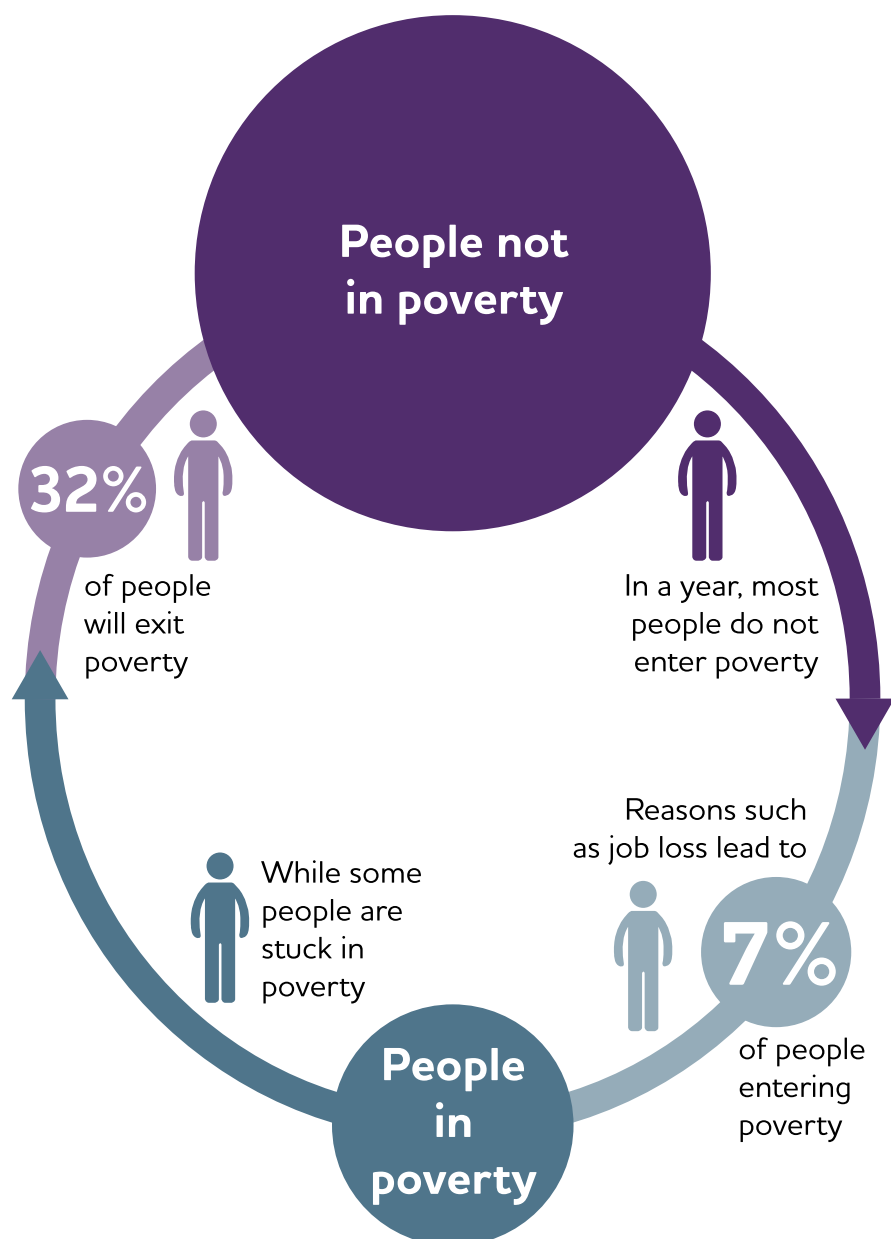
This is a dynamic view both of poverty and of its solutions. The number in poverty at any time depends on how many fall into poverty, how long they stay, and how many escape from it.

The goal of a poverty-free UK therefore requires action on three fronts:

- reducing rates of entry into poverty, for example by boosting skills or savings
- reducing the incidence of poverty, for example by increasing incomes or cutting the ‘poverty premium’ (the higher prices faced by people on low incomes)
- increasing the odds of escaping poverty, for example with opportunities for secure, paid work.



THE YEARLY DYNAMICS OF POVERTY



Data is the average entry and exit rates over the period 1991 – 2008

Source: *Low Income Dynamics*, DWP

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# Trends and projections

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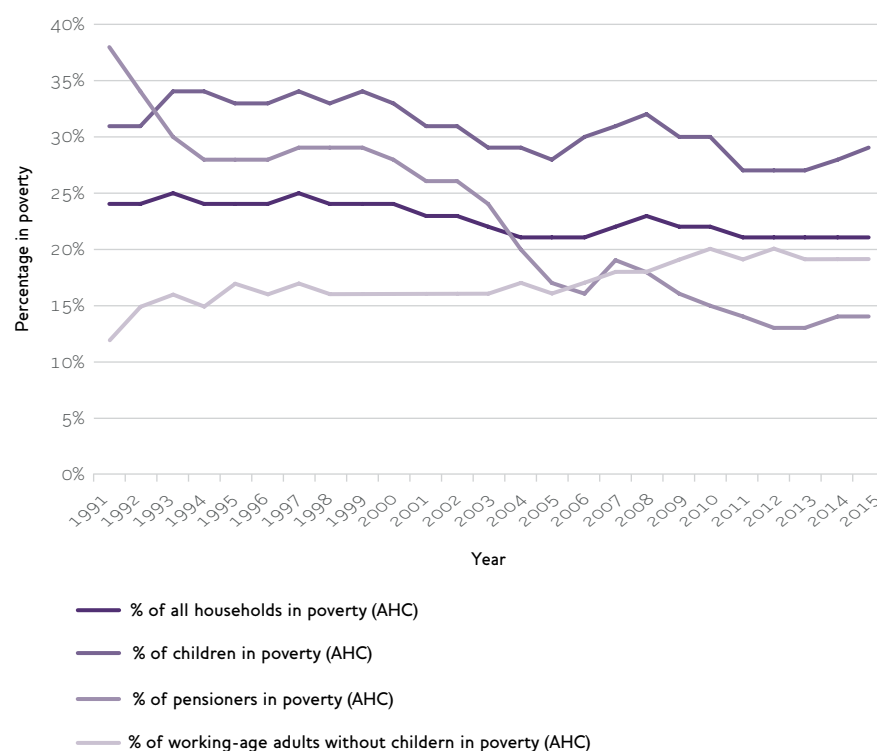
## 2. Trends and projections

The goal is a UK free of poverty. We are some way from that ambition; but there are reasons for optimism. The dramatic reduction in poverty in later life is proof that poverty is solvable.

### Divergent trends

In past decades, old age was virtually synonymous with poverty. This is no longer true; income poverty among pensioners plummeted from around 40% to 13% in 25 years. But over the same period, child poverty rates rose and fell twice and remain high at 29%. Poverty among working-age adults without dependent children has slowly but steadily risen from around 14% to around 20%:

**FIGURE 1: TRENDS IN UK POVERTY OVER 25 YEARS**

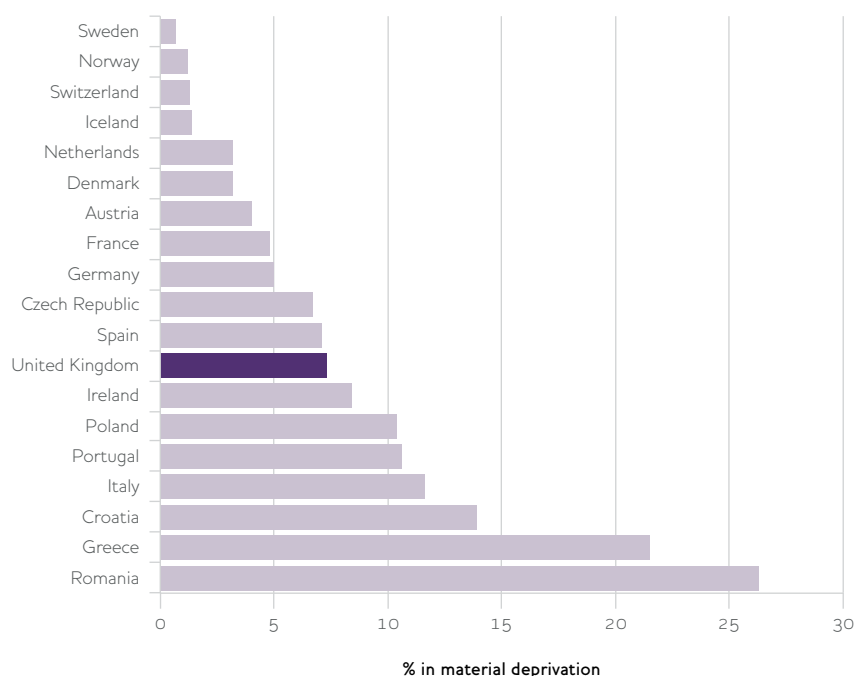


Source: IFS<sup>17</sup>

In 2014,<sup>18</sup> the UK was firmly in the middle of the European league table on material deprivation. The UK has higher levels than Spain, the Czech Republic, France and Germany among others. Deprivation is measured on the same basis in all countries as lacking four or more basic items such as a healthy diet, a TV or a washing machine. Despite the results of the referendum, the UK should still seek to compare itself to the developed nations of Europe – and the developed world generally – in poverty terms.

Following the vote to leave the European Union, there is a risk that economic uncertainty and volatility could result in lower business investment, fewer jobs and even a recession. This will exacerbate poverty. If the UK falls into recession again, the government should slow the pace of its planned spending cuts in the short term to avoid people and places in poverty bearing the brunt. This would mean that over the medium to longer term there will be a bigger budget deficit to close and it is essential that any associated spending cuts or tax rises are targeted where they will not make poverty worse. In this strategy, we set out the areas of spend that must be protected – those that protect the incomes of the worst-off people and support them to improve their prospects. We also set out some ideas about where some savings and revenue could come from without increasing poverty. Finally, if the economy does shrink, policies to mitigate the effects of recession will be needed, and preventing people getting stuck in unemployment will be particularly important.

**FIGURE 2: PERCENTAGE OF POPULATION IN SEVERE MATERIAL DEPRIVATION, 2014**



While poverty rates have fallen for pensioners and – inconsistently – for children in the UK, poverty has been growing in other nations.<sup>19</sup> There are no off-the-shelf approaches to borrow from other countries.<sup>20</sup>

It is worth digging deeper into the generally brighter trend for older age groups. Overall, pensioners have low risks of inadequate incomes. In 2014, just 4% are in poverty on our preferred indicator, having less than 75% of MIS. In fact, fewer than 12% of pensioners live below MIS itself. These rates have risen slightly since 2010. But there are gaps. Single pensioners are considerably more likely to have an income below MIS (13%) than couples (4%). The risks of relative income poverty and deprivation are also higher for certain sub-groups of pensioners, as Table 1 shows.<sup>21</sup>

**TABLE 1: RISK FACTORS FOR INCOME POVERTY AND MATERIAL DEPRIVATION AMONG PENSIONERS (2014/15)**

Pensioner characteristic	% in income poverty (After Housing Costs)	% in material deprivation
Private renters	32%	20%
No occupational or personal pension	30%	19%
Social renters	25%	23%
Black ethnicity	30%	33%
Indian ethnicity	24%	17%
Lives in Inner London	24%	22%
No savings	25%	23%
Aged over 85	21%	7%*
Single	18%	13%
Lives in Northern Ireland	14%	10%
Female	15%	9%
No workers in household	15%	9%
Disabled person in household	14%	11%
<b>Benefit receipt</b>		
Gets disability benefits	7%	16%
Gets Pension Credit	21%	24%
Gets Housing Benefit	24%	29%
<b>All pensioners</b>	<b>14%</b>	<b>8%</b>

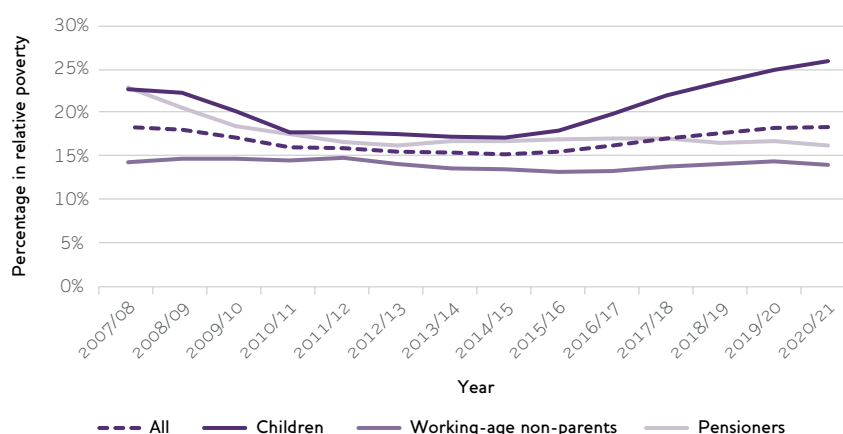
\*Material deprivation varies little by age across all older age groups.

## Future poverty trends

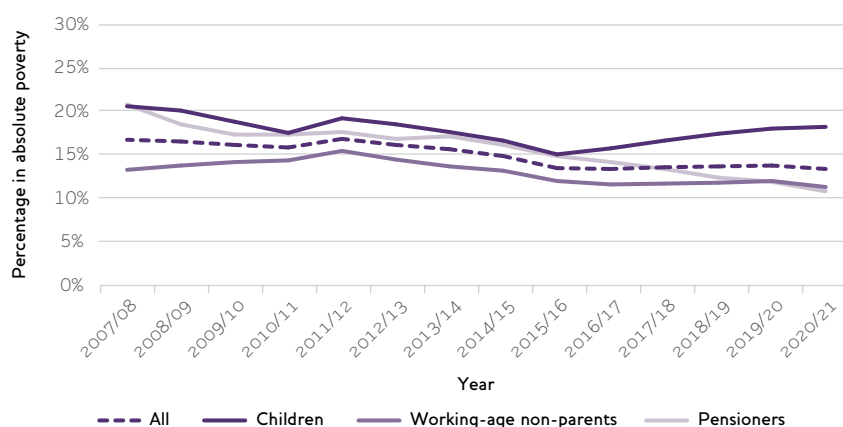
The picture for poverty in the rest of the population in future is bleak if there is no change. In the short term, according to the Institute for Fiscal Studies (IFS),<sup>22</sup> child poverty on relative and absolute measures is projected to rise sharply to the year 2020. The increase is driven by planned benefit reforms affecting families with three or more children.

Relative poverty for pensioners and working-age non-parents looks set to stay broadly unchanged over the next five years. In contrast, absolute poverty levels for pensioners should decline, while remaining static for working-age non-parents and rising for children. (The decline among pensioners is due to older people working more and private and State Pension income growing.)

**FIGURE 3: RELATIVE INCOME POVERTY PROJECTIONS (BEFORE HOUSING COSTS)**



### ABSOLUTE POVERTY



We have used the LINDA<sup>23</sup> model developed by the National Institute of Economic and Social Research (also funded, developed and used by HM Treasury) to produce projections of income poverty based on the 2011 Wealth and Assets Survey, and taking account of all announced policies up to the 2016 spring Budget. Projections from LINDA therefore differ from official poverty statistics drawn from the Family Resources Survey

(FRS), and from other projections based on FRS, such as those by the IFS referred to above.

LINDA calculates future poverty rates accounting for demographic changes, the state retirement age and Office for Budget Responsibility (OBR) projections for the economy and welfare spending. We have supplemented this with modelling of policies using the Institute for Public Policy Research (IPPR) tax-benefit model, which is similar to the one used by IFS.

Results from the LINDA model show that pensioner poverty continues to decline up to 2040. For those of working age, with or without children, the trend is a slow and steady increase. These projections reflect assumptions about the main influences on household incomes in the long term – differential earnings growth, and the uprating of pensions and benefits. The likely rise in poverty for people of working age reinforces the need to take an all-age approach to poverty reduction.

## Forces influencing poverty

Poverty is connected to a range of political, economic, social, technological, legal and environmental factors. Any attempt to solve poverty has to take these into account. Five trends have a particular impact on solving poverty: globalisation, the fiscal environment, climate change, demographics including immigration, and devolution within the UK.

### Globalisation

Globalisation significantly influences our lives.<sup>24</sup> It has created new markets for UK exports and aided international development. But it has come at the same time as market liberalisation, and the labour market has shifted towards contract and agency work, with managements often located in multi-nationals based outside the UK; jobs have moved to other nations and workers migrate both in and out of the country.

For some, the changes create uncertainty and fear for future generations. The global financial crisis and rises in food and fuel prices have increased the cost of living, in particular for people in poverty.<sup>25</sup> But global markets have also helped bring down prices of many consumer goods.

Global competition has driven other trends, such as an increase in higher-skilled and higher-paid jobs and a reduction in the lowest-skilled jobs. But more mid-skill jobs have become low-paid.<sup>26</sup> Such changes have a continuing impact on poverty.

Our strategy takes account of the effects of globalisation on poverty in the UK by:

- designing a UK welfare and employment support system fit for a 21<sup>st</sup> century labour market, including planning for changes that may increase poverty
- proposing ways to reduce the cost of essentials for people in poverty.

### The fiscal environment

Amid concern over public finances and ongoing austerity measures, the current UK Government has set out its aim to move from a “low wage, high tax, high welfare society” to one that is “high wage, low tax, low welfare”.<sup>27</sup> Prime Minister Theresa May said that her government’s mission will be “to make Britain a country that works for everyone”.<sup>28</sup>

Following the recession, employment surged but wage growth remains slow and the proportion of jobs that are low-paid and insecure is an enduring and deepening<sup>29</sup> problem. Households in poverty will need several years of improving incomes and lower costs to make up ground lost in the recession.<sup>30</sup> Longer-term economic dangers include the growing gap in wealth and opportunities between young and old.

The impact of such future changes has influenced our modelling and proposals. As well as setting out areas where spending is needed, we consider where money might be saved or reused. Our strategy looks where possible beyond government interventions to the contributions required from employers, businesses and individuals. Investing in prevention now is the only way to reduce the high costs of poverty in the long run.

### Climate change

There is a strong consensus that climate change is underway and is influenced by humankind through emission of greenhouse gases. The substantial risks from climate change<sup>31</sup> are greater for disadvantaged people and communities.<sup>32</sup> In the UK, people in poverty face ‘climate injustice’. They contribute less to climate change but are most likely to be negatively affected. As a proportion of income, they pay more towards policy responses such as carbon reduction – but benefit less. They are also less likely to be heard in decision-making.<sup>33</sup>

Direct impacts of climate change include sea level rise, coastal erosion, frequent and severe flooding, heat waves, water scarcity and drought. All have social consequences, the impacts of which would be compounded in communities with high levels of poverty.

The most vulnerable include:

- those sensitive to the impacts of flooding or heat, such as older people or those in poor health
- deprived communities in coastal areas are particularly vulnerable to flooding
- those facing increased exposure to floods or heat as a result of their built or natural environment; for example, living in areas with no green space to absorb flood water, or in high-rise flats during heatwaves
- families and individuals less able to prepare for, respond to or recover from extreme weather through poverty or social isolation.

Climate change is also expected to have an impact on costs, for example driving up food prices and insurance.<sup>34</sup>

Climate change compounds poverty, and poverty increases vulnerability to climate change.

The needs of low-income households should be addressed by:



- improving transparency of the burden they bear of climate change policies and taking remedial action to address this
- prioritising action on climate change to mitigate risks and ensure adaptation responses address the communities most vulnerable and exposed to flooding, heatwaves and other climate impacts
- achieving better outcomes from policies addressing carbon reduction, energy efficiency and fuel poverty and addressing climate disadvantage through other policies including public health, spatial planning and housing.

### Demographics (including immigration)

There is no clear evidence of a link between changes in population and poverty.<sup>35</sup> However, birth and death rates *are* affected by poverty (and by factors that also affect poverty, such as economic change). There are associations between poverty and demographic characteristics such as family type, but the connections are complex.<sup>36</sup>

More people are expected to live by themselves (particularly men in mid-life who have never co-habited or fathered children) and more men in young adulthood will return home post-partnership breakdown. At the time of writing, the number of people living in but born outside the UK was projected to rise (this is less certain following the EU Referendum), along with the number of lone parents, two groups that have currently higher-than-average risks of poverty.

Over the past few years the UK has seen historically high levels of net migration.

The European Union has been the main source of recent and current migration into low-skilled and low-paid sectors in the UK.

Migrants contribute to the economy, pay taxes, stimulate job creation, fill skills gaps and start businesses. Immigration has been an inevitable element of the UK's membership of the European Union.<sup>37</sup> Yet there are concerns about its impact on local communities, public services, housing costs and employment for UK nationals – particularly those on low wages – and the uneven distribution of the benefits and pressures of migration on different places across the UK.

We found no robust academic studies that look directly at poverty (as measured on a household basis) and immigration into the UK. The evidence we have reviewed shows that at the UK level immigration has a very small negative impact on the lowest wages and contributes to an increased demand for housing, which can push up house prices and increase competition for social housing; it has little or no impact on unemployment. However migrants have a higher risk of poverty than the UK-born population.<sup>38</sup>

There is a mismatch between national-level effects and local realities and perceptions – indicating the need for national and local governments to plan for and mitigate negative impacts on public services, especially when immigration happens at a rapid pace. This includes preventing exploitation of migrant labour, enforcing minimum wage legislation, and improving local planning and public finance responses to rapid increases in immigration in particular areas, with greater support from national governments.

### Devolution

The UK is in the midst of a movement to devolve power to the nations, cities and localities. Poverty will not be solved from Whitehall or by central government alone. The means to solve poverty lie increasingly in the hands of policy-makers closer to people experiencing it.

- Scotland is gaining many of the powers directly affecting household resources and potentially costs – especially social security and income tax rates.
- Wales is heading in a similar direction more slowly, though not as far as yet.
- Northern Ireland is exercising its devolved social security powers in earnest around welfare reforms, Universal Credit, housing and disability benefits.<sup>39</sup>
- Greater Manchester, Sheffield, Leeds and more city regions have increased powers and control of many of the factors affecting poverty.
- Local authorities, with reduced resources in most cases, control aspects of social security including what was the Social Fund, Council Tax Support and Discretionary Housing Payments.<sup>40</sup>
- Fiscal pressures, which have led to cuts in services in deprived areas in particular.<sup>41</sup>

Devolution creates opportunities for a more localised (or nationalised) response to the problem of poverty. But we should be alert to the dangers.

People with complex needs may be at risk of services being cut when local providers are under competing budgetary pressures. Where local responses are effective, strategies for poverty reduction need to be shared around the UK.

JRF research shows that getting local people into work or better-paid jobs has benefits for individuals and communities, as well as cutting government spending. In the Leeds City Region, for example, halving unemployment and moving people into Living Wage jobs could boost the economy by more than £950 million a year, including saving the government more than £400 million. Such savings need to be recycled into poverty-reduction initiatives.<sup>42</sup>

The role of central government remains important, for example for social security and other cyclical and redistributive benefits. By contrast, for Housing Benefit, employment programmes and certain social care payments, there is a case for considering further careful devolution.<sup>43</sup> The key is to determine at which level of governance efforts to reduce poverty are most likely to succeed.

Solving poverty is in the interests of all the UK's nations, cities and local authorities. Poverty matters to us all.

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# **Why poverty matters – to us all**

# 3

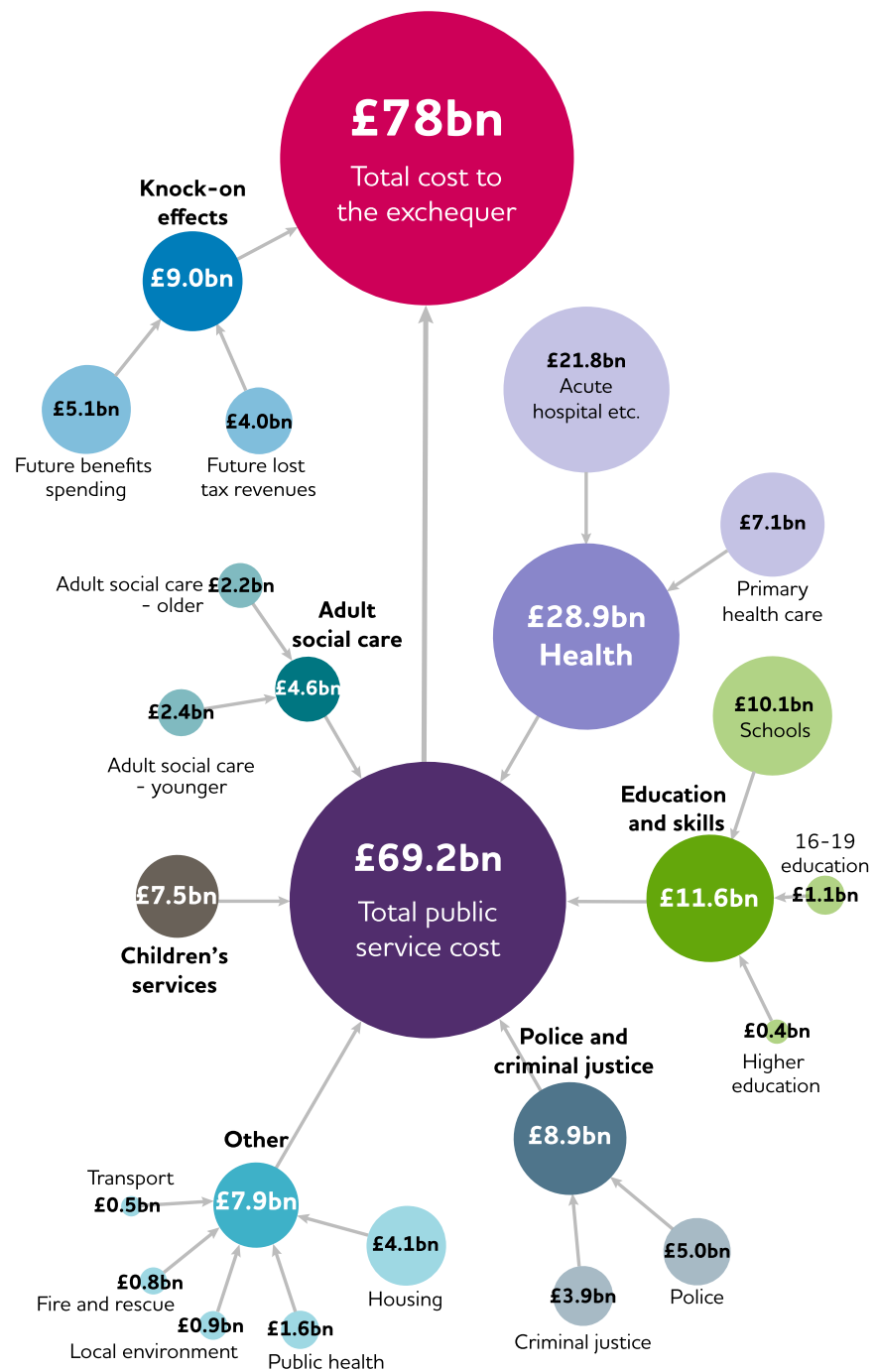
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## 3. Why poverty matters – to us all

Poverty is damaging. Not just to those directly affected, but to our society, our families, our education system, our taxes, and our economy.<sup>44</sup> Poverty is not an individual affliction but a social malaise. Poverty hurts us all.

Poverty costs the state £78 billion every year, through additional spending on healthcare, school education, justice, children's and adults' social services and housing, and lost tax revenue, new evidence from JRF<sup>45</sup> has revealed. It also leads to £70 billion of spending on social security dealing with poverty. That is more than we spend on education, and a fifth of public service spending overall.

#### COSTS OF POVERTY



Poverty has a particular impact on 1) the quality of family life, including parenting 2) child development 3) mental health 4) on education and learning; and 5) on the economy as a whole.

## Families and parents

*“It [having no money] may cause arguments between the parents over how they going to pay for everything, which might affect the children [who] are hearing this.”*

Girl, Selby<sup>46</sup>

For most of us, our family provides our most important relationships and defence against material and emotional hardship. Family stability – and having the emotional and financial support of parents – is the bedrock of children’s lives. Those raised in secure families have more chance to flourish and better future prospects.

Poverty puts considerable strain on family budgets and relationships. Whatever the type of family or its experience of poverty, they are all affected by not having the resources to meet their needs. Good parenting is achieved in families regardless of income. But living in poverty does make it undeniably more difficult.

Poverty can be accompanied by a lack of other resources: weak family ties and a lack of wider social networks; low levels of education; low self-esteem and confidence; inadequate services and community support. However, in many cases, families cope with low incomes through the strength of other resources – expertise in budgeting, reciprocal support with family, friends and neighbours, high-quality schools and health services, and strong community groups – along with their resilience and parenting skills.

Parents routinely sacrifice their own well-being to protect children from the effects of poverty – missing meals, not buying clothes or socialising, working long hours for low pay and little job satisfaction.<sup>47</sup> Children often play active parts in helping families manage<sup>48</sup> – not bringing home letters from school about activities that cost money, not asking parents for money to join friends in social activities, putting up with childcare arrangements they don’t like, waiting for replacement shoes or clothes until their parents can afford it.

Families interviewed for Getting By,<sup>49</sup> a study of 30 working-class families in Liverpool, described how they coped on low incomes, and the effects on their lives:

*“Well to be honest, it is a struggle; it’s a struggle, ’cos the kids’ shoes, they’re growing so fast. You find the shoes just don’t last. The coats, the uniforms, everything, the food, I just find it’s a struggle. A loaf of bread’s a pound now...and I’m thinking, ‘We work, my partner works his butt cheeks off and we’re always struggling’.”*

June, ‘Getting By’

*“Yeah, it gets you down, days that you, you know I’m working for nothing, nothing left, you know but it’s life you know. But I don’t let it get me down, just got to get on with it. To be honest, it’s a case of you have to isn’t it? Nowhere to turn, can’t keep turning to family members all the time for money – have to pay them back you see, so it’s hard. So I just try to avoid it if I can, you know, getting into debt. I try to budget, but it’s not easy.”*

Mary, ‘Getting By’

*“I’ve always tried to give them healthy fresh food, whereas now I’m thinking ‘Oh God’, so I’m buying more frozen stuff. I’ve noticed the difference in them because they never used to get sick – now all of a sudden, they’re catching every cough and cold and it’s just horrendous the price of the shopping that’s coming... But it’s a case of the kids eat fresh, I’ll eat a pack of noodles.”*

Carla, ‘Getting By’

Children in low-income families are often acutely aware of the impact of poverty on their lives and their parents’ lives and their own future opportunities.

#### The pain of poverty

***“When our friends come to our house, they never come back...They’ll be like, when you get a new house, I’ll have a sleepover there.”***

Two 11-year-olds

***“They gave us rubbish vouchers (to help afford the uniform)...The vouchers are just 10% off if you buy the whole kit... And then the socks!... And the tie is eight quid you know.”***

Two 14-year-olds

***“They still do (food banks) here. It’s povvie. It’s poverty. Like proper poverty-ridden. Do you know what I mean? You gotta provide for your family, and that’s the only way you can do it. You have to swallow your pride and deal with it. It’s just awful.”***

17-year-old

***“Some people have to pay like £1.60 on its own just to get to school. They can’t go to school if they don’t have the money.”***

14-year-old

*Source: 2014, All Party Parliamentary Group on Poverty published an Anti-Poverty Manifesto written by young people from the North East, London, Manchester and Liverpool<sup>50</sup>*

## Child development and lifelong health

Children who grow up in low-income households have poorer mental and physical health than those who grow up in better-off families. Children from disadvantaged families are more likely to have low birth-weight, and their mothers are less likely to breastfeed and more likely to experience depression.<sup>51</sup>



From an early age, children from more affluent homes score higher in tests of cognitive, social and behavioural development. In primary school, children from low-income backgrounds are more likely to have behavioural problems, and less likely to believe in their abilities or think that they can make a difference to their own lives. Teenagers from disadvantaged backgrounds are less likely to have access at home to a computer or the internet, less likely to participate in extra-curricular activities or to enjoy school.<sup>52</sup> They do less well in education, have lower self-esteem as teenagers and are more likely to become involved in risky or criminal behaviours.<sup>53</sup>

A psychological research review into poverty highlighted its impact on the mental and physical health of adults and children and on children's brain development.<sup>54</sup>

And the stress of poverty is associated with high levels of anxiety and depression. Children living in socio-economic disadvantage have as high a risk of developing mental health issues as children of parents with mental health or substance misuse problems.<sup>55</sup> Poverty can be a factor contributing to a small minority developing problems with alcohol and drugs and can be a significant risk factor associated with child abuse and neglect (although the vast majority of parents in poverty do not mistreat their children, and not all cases of abuse are related to poverty).<sup>56</sup>

Findings from studies of children born in different years indicate that the association between a family's income and the child's social and emotional skills has strengthened over the last 30 years. There is greater socio-economic inequality in levels of behaviour problems for children today than for those in the 1970s, and there is a widening gap in social and emotional skills between children who are living in poverty and those who are not.<sup>57</sup>

The impact of poverty can be seen at the end of life as well as at the beginning. If you have experienced poverty or live in a more deprived area, you are more likely to die sooner and to have fewer years free of ill-health or disability. While life expectancy has increased overall, the gap between places with the highest and lowest new-born life expectancy has increased over the past two decades. It is longest for boys in Kensington and Chelsea (83.3 years) and shortest in Blackpool (74.7 years). Life expectancy at age 65 shows a similar pattern, with the highest rate (for men) again being in Kensington and Chelsea (21.6 years) and lowest in Manchester at 15.9 years. Income deprivation is the major factor in these differences.<sup>58</sup>

The influence of poverty can be seen even after death. The average 'cost of dying' (which includes a funeral, a send-off and administering a will) has been calculated at more than £8,000.<sup>59</sup> Relatives can feel a huge sense of shame at having to rely on a free 'public health' funeral administered by local authorities. The number of these grew by 11% in the four years to 2015.<sup>60</sup>

## Stress and mental health

*“If you’re in poverty, or you don’t have much money and you’re just trying to get by, you suffer mentally, because you get bullied, unless you’re strong enough to shrug it off.”*

Boy, Birmingham

Poverty is stressful.<sup>61</sup> Research suggests that ‘cognitive capacity’ is a finite resource and that trying to do too much at once results in a loss of concentration and poorer decision-making. There is emerging evidence that dealing with poverty overloads cognitive capacity. Researchers found that people on low incomes who had been asked to think about financial problems then performed worse on a series of tests. Thinking about financial problems had an impact similar to losing a night’s sleep, leading to a reduction in measured IQ of 13 points.<sup>62</sup>

## Education

*“People from poorer backgrounds can’t afford to go to [the best local school], because they can’t afford to live in the catchment area.”*

Girl, Selby

*“Schools are becoming computer-oriented, and it can be a problem if you haven’t got that access, or you’ve got very limited access.”*

Boy, Birmingham [2011, Office of the Children’s Commissioner consultation]

Childhood disadvantage leads on to future poverty via low educational attainment. At every stage of education, in every part of the UK, children from better-off backgrounds achieve better results at school than those from disadvantaged backgrounds.

### CHILDREN FROM BETTER-OFF BACKGROUNDS DO BETTER AT SCHOOL THAN DISADVANTAGED CHILDREN

## England

	Age 5: ‘good level of development’ <sup>63</sup>	Age 11: expected level <sup>64</sup>	Age 16: 5 A* – C GCSEs, including English and maths <sup>65</sup>
Children eligible for free school meals	51%	66%	34%
All other children	69%	83%	61%
Attainment gap	18%	17%	27%

\*At age 5, eligible for free school meals

## Wales<sup>66</sup>

	Age 5: Expected level in language and communication skills	Age 11: Expected level in English and maths	Age 16: Level 2 including English/Welsh and maths
Children eligible for free school meals	77% (English) 80% (Welsh)	78% (English) 79% (maths)	31%
All other children	91% (English) 93% (Welsh)	92% (both)	64%
Attainment gap	14% (English) 13% (Welsh)	14% (English) 13% (maths)	33%

## Scotland<sup>67</sup>

- By age 5, the gap in development between children from better-off and disadvantaged areas is 10–13 months.
- By age 12–14 (S2), pupils from better-off areas are more than twice as likely as those from the most deprived areas to do well in numeracy.
- By 16 (S4), pupils from better-off areas achieved overall ‘tariff scores’ about 300 points higher than those from the most deprived areas. This is equivalent to an additional four A-grades in Higher-level exams.

## Northern Ireland

Equivalent attainment gap statistics are not available in Northern Ireland for children aged 5 and 11. There is research<sup>68</sup> illustrating attainment gaps at age 11, comparing the attainment of children in schools with less than 10% claiming free school meals, compared with schools with more than 60% claiming them.

These show that:

- in English, in 2011/12, only 63% of boys and 71% of girls in the most disadvantaged schools achieved level 4 or higher, compared with 87% and 94% in the least disadvantaged schools
- in maths, only 70% of girls and 69% of boys in the most disadvantaged schools reached the expected standard, compared with 93% and 91% in the least disadvantaged schools.

At age 16,<sup>69</sup> 46% of children eligible for free school meals in Northern Ireland achieved five A\* – C GCSEs including maths and English, compared with 74% of all other children; a gap of 28%.

The consistent relationship between childhood poverty and lower educational attainment increases the risk that poverty will be passed down from one generation to the next. Those with a low level of education are almost five times as likely to live in poverty as an adult as those with a high level of education.<sup>70</sup> Adults with low qualifications are also much more likely to be unemployed.<sup>71</sup> As a poverty-prevention strategy, education is hard to beat (see Chapter 6).

## Economic costs

Poverty is a structural weakness in the economy, and a brake on growth.

It wastes potential: growing up in poverty has a scarring effect on young people who are less likely to achieve their potential at school, reducing the pool of skilled labour available to employers. It increases their risk of future poverty and reduces their earning potential, affecting future Treasury tax revenues.

It is also costly: in 2012/13 an estimated £20.7 billion was spent on tax credits (both Working and Child Tax Credits) for working households.<sup>72</sup> The bill is higher if Housing Benefit for working households is included. Increasing the skills of low-paid workers and reducing the incidence of low pay would release these resources, for example for tackling the UK's problems of lagging productivity.<sup>73</sup>

Reducing poverty can release resources to boost economic growth. However, growth alone is not sufficient: the goal should be inclusive growth, which benefits all people and places.

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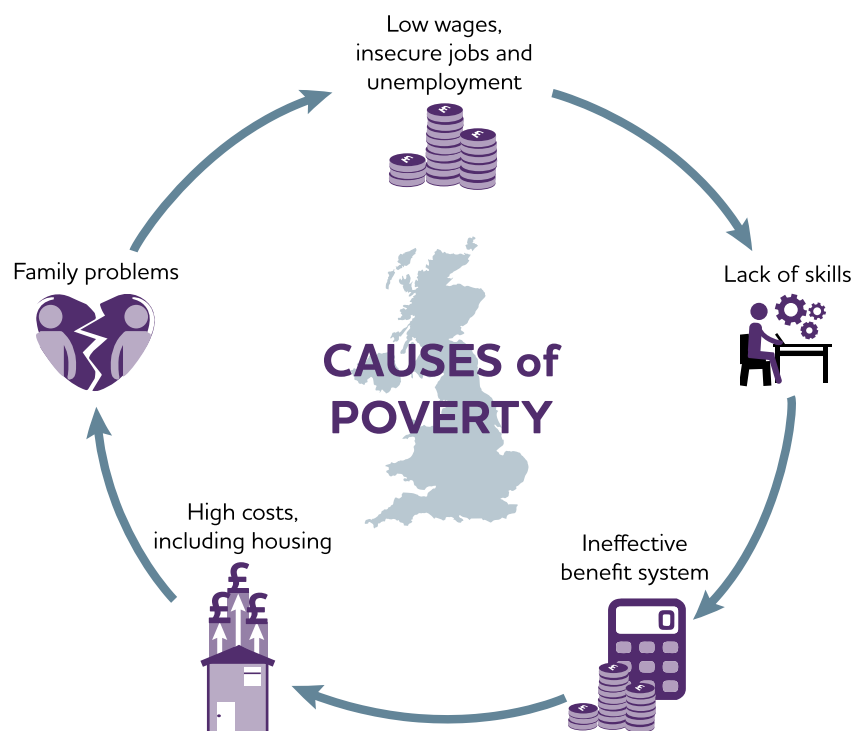
# Causes of poverty

4

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## 4. Causes of poverty

Poverty is a clear danger to the UK's prosperity and well-being. But to move to a poverty-free society, we need to understand its causes. Why is poverty still with us? What fuels it? Answering these questions can help us towards the solutions.



### Market, state and individual: all three matter

The processes that cause poverty are complex. Simplistic explanations may focus on one factor: the market, for example, for delivering poor wages or insecure work; or the state, for providing low levels of benefit; or the individual, for failing to acquire skills or take up job opportunities.

But poverty has structural causes, such as the shape of housing and labour markets, and the organisation of the social security system, and these interact with an individual's circumstances, capacities and choices. Solving

poverty requires an approach that takes into account the impact of these market and state structures – as well as of individual choice.

### Markets

People with less money and skills are generally in weaker positions in relation to markets. The result can be low pay and insecurity, unemployment, discrimination and paying more for essentials, like energy and credit. The housing and childcare markets have also failed people in poverty. The consequences are lower earnings and spending power, insecurity for workers, lower productivity and under-used skills.

### State

A key role for the state is to remedy market failures and promote public well-being but this objective can be missed through an ineffective benefits system, poor-quality education and discrimination against certain groups. Governments also have a role in fostering a prosperous economy with opportunities for all. High levels of poverty deprive the state of tax revenues, and of income it needs to spend on health, education and other services, and on countering uneven economic growth, civic decline and a lack of democratic engagement.

### Individual

Unemployment and low skills may keep individuals in poverty and can lead to long-term hardship. Trauma, abuse or poor parenting can increase a child's risks of experiencing poverty in adulthood. High stress is a major outcome of poverty for individuals and can contribute to family breakdown. Poverty can also result in poor educational outcomes for children, bring shame and stigma, lead to crime and disorder, health problems, drug and alcohol abuse, homelessness, child abuse and neglect, and family breakdown. These risks can be passed down through the generations in a vicious cycle.

While the recession highlighted how many of us may suddenly experience hardship, harsh attitudes towards those experiencing poverty persist<sup>74</sup> including the notion of the 'undeserving poor'. But few people, when they think about it, do blame personal choice as the *sole* cause of poverty. They understand that the quality of local jobs, the cost of housing and welfare reforms matter too. They do acknowledge that people in poverty are not somehow different.<sup>75</sup>

Poverty is seldom the result of a single factor, but almost always of an overlapping, shifting series of influences that include market opportunities, state support, and individual initiative.

In the UK today, five key factors need priority action:

- low wages, insecure jobs and unemployment
- lack of skills
- family problems
- an ineffective benefit system
- high costs, including housing.

## Low wages, insecure jobs and unemployment

Work is the main way for households to avoid or escape poverty, but for work to offer this protection against poverty, workers may need to earn more, either through higher wages or working more hours.

It could be argued that the UK is in a strong position to reduce poverty through work, since it is the world's fifth-largest economy and its employment rate is at an all-time high.

But there are big differences in the types of work available. Many businesses trade successfully while offering reasonably-paid jobs with security and prospects. But alongside them are firms whose commercial strategies depend on low-paid, low-skilled, insecure work that does not provide a stepping stone to something better.

The high prevalence of low-paid work is shaped by a range of factors, including a plentiful supply of potential workers, the declining influence of collective bargaining, and technological and economic change, which has left many local labour markets stripped of higher-paying jobs. Additionally, outsourced business models will frequently contain low wages, insecure and casual work within the supply chain.

As a result, low-paid work is often the only option. That is especially the case where other considerations are pressing. For instance, caring responsibilities, disability and ill-health can all result in people being able to work only part-time, where low pay is more prevalent. Discrimination and racism can also trap people in low-paid jobs. And where people live can affect their ability to find work – certain areas of the UK have concentrations of unemployment and low-paid work.

## Lack of skills

In the 21<sup>st</sup> century, basic skills cannot simply be seen as literacy and numeracy. The internet is essential for all age groups, for accessing public services and better-value essential goods and services. Digital skills are basic to participating in society. Yet an estimated 5 million adults lack core literacy and numeracy, and 12.6 million lack basic digital skills. Not only does this make it harder to participate in society and get a good deal, it locks people out of better opportunities within the job market.

## Family problems

Families provide most people with their most important relationships and act as a major defence against material and emotional hardship. During difficult times, immediate and extended families are often the first and most reliable sources of support. Family stability is especially vital for children. Children raised in stable, secure families have a better chance to flourish and greater future prospects. A child who does not have secure



bonds with their parents, built through warm and supportive parenting, is at higher risk of poverty in later life.<sup>76</sup> Although family stability matters more than family structure in preventing poverty, having two parents who live together generally makes it easier to provide the financial support that children need. Conversely, separation can lead to higher living costs for families and reduced household incomes.

For a small minority of families and individuals, poverty can be caused or become entrenched because of other issues, for example, acute mental health problems, having to flee home because of violence or abuse, problematic substance use, or involvement in the criminal justice system. These can have devastating impacts on life chances. Neglect or abuse as a child or trauma in adult life can also cause poverty; the impact on mental health can lead to unemployment, low earnings, homelessness and exposure to substance misuse. Being in prison and having a criminal record can deepen poverty, making it harder to get a job and weakening relationships.

Boys and young men being raised in trying circumstances may respond to disadvantage and trauma by behaving in ways that get them excluded from school, involved in criminality or at risk of serious exclusion and homelessness. Girls and young women with similar early-life experiences are at risk of mental health problems, or entering into early sexual relationships, often characterised by further violence and abuse, and early parenthood.

## Ineffective benefit system

The benefits system is confusing and hard to engage with, leading to errors and delays. The system can also make it risky and difficult to move into jobs or increase working hours. Low take-up of some benefits also increases poverty. The level of welfare benefits for some – those in work, seeking work or unable to work because of health or care issues – is simply not high enough to avoid poverty, when combined with other resources and high costs.

## High costs, including housing

To live in poverty means having resources that fall well below those required to meet minimum needs. That means prices matter. The high cost of housing and essential goods and services (credit, gas, electricity, water, Council Tax, telephone or broadband) creates poverty. Some groups face particularly high costs related to where they live, or to their increased needs (for example, personal care for disabled people) or because they are paying a ‘poverty premium’ – whereby the worst-off people pay more for the same goods and services.

Over the past 30 years, freer trade, competition and innovation have pushed down prices for many consumer goods and services, boosting living standards. But these gains have not been experienced by all. Families and individuals on lower incomes still spend a larger proportion of their

budget on rent, food and energy, and prices for these have risen rapidly in recent years.

Between 2008 and 2014 the cost of essentials increased three times faster than average wages, adding to a widespread sense of insecurity. Falling oil and food prices in 2015 provided some respite but these trends are unlikely to be permanent. Other essential costs, such as for housing, remain high and continue to rise in some areas.

While the above five factors fuel poverty in the UK, certain life shocks – illness, bereavement, redundancy, relationship breakdown – may act as a sudden trigger for a fall into poverty when systems of support aren't enough. Preventing these life events resulting in poverty is a key weapon in fighting poverty. Another is helping people escape as soon as possible. Discrimination against people because of class, gender, ethnicity, disability, age, sexuality, religion or parental status also increases the risk of falling into poverty – and the risk of remaining there.

In the chapters that follow, we examine key factors relating to poverty over the lifetime: children and young people, adults of working age, older people, and those with complex needs. First, however, we turn to the side of poverty that is too often neglected: high costs.

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**High costs  
driving poverty,  
including  
housing**

**5**

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## 5a. High costs driving poverty

Bringing down the cost of essential goods and services is as important to sustainable poverty reduction as increasing individual and household incomes. If poverty is having insufficient resources to meet basic needs, then reducing the costs of those needs is a vital element in solving poverty.

Some needs arise from personal circumstances, such as a disability, or where people live. Those in rural areas often face higher costs.<sup>77</sup> Where people have additional costs *and* low incomes, their risk of poverty is increased. The benefits system compensates for some additional costs, such as some of the costs associated with disability, but not in full.<sup>78</sup>

Costs are influenced by how people access and pay for essential goods and services. In the UK, some essential needs are met collectively through publicly funded welfare services (for example health and education), while others (such as food, clothing and energy) are accessed through the market.

Of course the ability to manage money is important – and many people are bad at it, regardless of income.<sup>79</sup> Financial capability helps but does not make up for not having enough money. It is also a hard fact that some people in poverty have to pay more for the same goods and services. This ‘poverty premium’ can add as much as 10% to a minimum household budget, as measured by MIS.<sup>80</sup>

### Different forms of the poverty premium<sup>81</sup>

- **Paying in the ‘wrong’ way:** The clearest example of this type of poverty premium is pre-payment meters (PPMs) for gas and electricity when direct debit is likely to offer a better deal. Around 20% of PPM users are in fuel poverty, compared with 7% of direct debit users.<sup>82</sup> In markets like insurance, there are often discounts for purchasing annual cover rather than spreading payments over a year, disadvantaging those that cannot pay a lump sum upfront.
- **The tariffs people are on:** Low-income households are less likely to have ever switched energy supplier,<sup>83</sup> meaning they are more likely to be paying higher tariffs. Analysis by the Competition and Markets Authority estimates that between 2012 and 2015 dual fuel Standard Variable Tariff customers paying by standard credit (quarterly billing) could have saved £245 by switching.<sup>84</sup> Some are unable to switch because of their landlord, debt or the cost of having a PPM changed.

- **Where people live:** High insurance premiums in deprived areas make insurance unaffordable. Areas with limited food shops leave people without access to transport relying on more costly convenience shops.<sup>85</sup> Fee-charging ATMs and living off the gas network also increases costs.
- **The amount consumed:** Standing charges penalise customers with low demand. An example is landline telephone usage, where the fixed-cost element to bills has increased in recent years.<sup>86</sup>
- **Access only to high-cost credit:** Credit is a way to spread spending, especially for expensive items. Higher credit costs reflect the higher risk of lending to disadvantaged customers, and the cost of short-term small loans, but exploitation and lack of competition may be a factor.<sup>87</sup>
- **Lacking ‘enablers’ to find better deals:** Low-income households are less likely to have enabling goods such as a current account, private transport and internet access.

Our vision is of a UK in which:

- people in poverty are empowered consumers, with companies and social enterprises providing innovative and dynamic responses to their needs
- there is no ‘poverty premium’ (where people in poverty pay more for the same goods and services)
- essential products and services are accessible and good value
- the costs of social and environmental policies and developing infrastructure are distributed fairly
- when costs of essentials are unavoidably high, people in poverty are compensated through the benefit system or by companies
- people can access genuinely affordable, high-quality and energy-efficient housing. Given the importance of housing to preventing and reducing poverty, this is examined separately in the second part of this chapter.

## Spending more on essentials

People with lower incomes spend a higher proportion of their household budget than better-off households on items such as rent, food and energy (table 2).

**TABLE 2: GOODS AS A PROPORTION OF HOUSEHOLD BUDGETS**

	Budget share in 2014	
	Bottom 20% of income distribution	Middle 20% of income distribution
Food and non-alcoholic drink	16%	12%
Recreation and culture	10%	13%
Net rent	9%	7%
Electricity, Gas and other fuels	9%	5%
Miscellaneous goods and services	7%	8%
Household goods and services	6%	7%
Mortgage interest payments, council tax etc	5%	8%
Motoring	5%	7%
Clothing	5%	5%
Transport fares	3%	3%
Cigarettes and alcohol	3%	2%

Source: ONS 2015<sup>88</sup>

**TABLE 3: PERCENTAGE OF ADULTS BEHIND ON THEIR UTILITY PAYMENTS AND OTHER HOUSEHOLD BILLS 2013/2014**

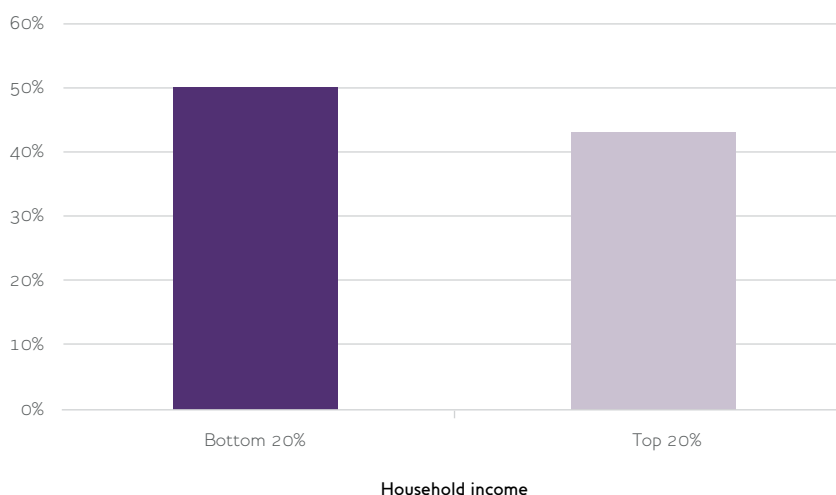
In relative income poverty	25%
Not in relative income poverty	5%

Source: DWP 2015.<sup>89</sup> Bills included are Council Tax, water, electricity, gas, and other fuel bills, telephone, insurance, hire purchase; figures do not include rent or mortgage arrears.

Between 2008 and 2014 the cost of essentials went up three times faster than average earnings. Between 2008 and 2014, the cost of essentials went up twice as fast as general inflation. At the same time, average earnings were stagnant and benefits that low-income households rely on (both in and out of work) were cut in real terms.<sup>90</sup> Since 2015, very low inflation has brought some respite. Nonetheless, there remains a substantial gap between income and the cost of meeting needs for many households.

Because essentials make up a larger proportion of low-income household budgets, their price has a disproportionate impact on these households. In the decade to 2013/14, prices of items such as food and energy – a higher proportion of low-income household budgets – increased rapidly. At the same time, items such as mortgage interest payments and leisure services – which make up a larger proportion of better-off household budgets – increased at a slower pace and even fell. The overall result was higher inflation for low-income households.<sup>91</sup>

**FIGURE 4: INFLATION RATE FOR HOUSEHOLDS ON LOWEST AND HIGHEST INCOMES (CUMULATIVE, 2002/03 – 2013/14)**



Source: Adams and Levell 2014

Higher needs also result in higher spending. For example, someone with a disability might face costs of adapting a house or flat, or a higher demand for energy if they spend more time at home. Others face high transport bills, for example if they live in a rural area. Some houses are hard to heat and insulate.<sup>92</sup> Poverty risk increases where higher need and low income overlap. Single adults on low incomes may be unable to benefit from cost-saving commercial deals aimed at couples and families.<sup>93</sup>

Some additional costs are partially compensated through the benefits system, for example Disability Living Allowance (DLA) or Personal Independence Payments (PIP). But these do not cover full additional costs, which vary widely, and can be as high as £1,513 per week.<sup>94</sup> If these costs are accounted for, the true poverty rate among disabled people could be as high as 60%.<sup>95</sup> Surveys report that 69% of disabled people either struggle or fall behind with bills.<sup>96</sup> Disability and ill-health increase the cost for some people, and so increase the risk that they will be in poverty.

The Minimum Income Standard sets out what the public thinks are essential goods and services for an adequate standard of living. Six areas stand out for their impact on poverty: energy, food, water, internet access, transport and financial services.

## Energy

The cost of energy increased 9.4% faster than general inflation between 2008 and 2016,<sup>97</sup> placing pressure on many households, including those in poverty. However, affordability of energy is not just about cost but about what people need to heat homes adequately, and whether their home is sufficiently insulated.

The measure of fuel poverty differs between England and the devolved administrations, but there are common characteristics that increase the risk of fuel poverty (table 4).<sup>98</sup>

TABLE 4: FUEL POVERTY RISK FACTORS

Characteristics of house:	Characteristics of household:
<ul style="list-style-type: none"> <li>• low energy-efficiency rating</li> <li>• not being on mains gas</li> <li>• older properties</li> <li>• larger properties</li> <li>• end terraces and buildings converted into flats</li> <li>• in a rural area.</li> </ul>	<ul style="list-style-type: none"> <li>• low income</li> <li>• unemployed</li> <li>• living in the private rented sector</li> <li>• paying for energy by prepayment meter (PPM) or standard credit.</li> </ul>
There are interrelationships between these factors: rural properties are more likely to be off-gas, private rented houses are more likely to have low energy-efficiency.	

Table 5 sets out latest data on people in fuel poverty, according to the measure used in each place.

TABLE 5: HOUSEHOLDS IN FUEL POVERTY

	Number of households (m)	%
England (low-income high-cost measure)*	2.4	11
Scotland (need to spend 10% of income measure)*	0.8	35
Wales (need to spend 10% of income measure)**	0.4	30
Northern Ireland (need to spend 10% of income measure)***	0.3	42

\* latest data from 2014

\*\* latest data from 2013

\*\*\* latest data from 2011

Source: Department of Energy and Climate Change (2016)<sup>99</sup>

*“If we have a cold spell I don’t have any heating on or anything. I just don’t have any money to put in the electric, it is quite sad. I have been sat there with loads of jumpers on and you can see your breath...but I would rather have food than heat. As long as you have got food inside you then you are heating yourself because you have got fuel.”*

Roger, in ‘Heat or Eat: Food and Austerity in Rural England’<sup>100</sup>

## Food

Changing food prices are acutely felt by households in poverty. People can and do substitute different food items<sup>101</sup> and spend time looking for good deals,<sup>102</sup> but shopping around takes time, sometimes requiring access to transport or the internet.

After 2007, food prices increased sharply before falling again from 2014, helped by competition among supermarkets and the rise of discount food retailers. Nonetheless, the use of food banks is rising. The Trussell Trust, the largest provider of emergency food assistance, reports that their banks supplied more than one million three-day food parcels in 2015/16.<sup>103</sup> Food bank use is more an extreme expression of household resources falling



short than a response to food prices. The most commonly reported reasons for food assistance were benefit delays (30%) and low income (22%) and benefit changes (which includes sanctions) (14%).<sup>104</sup>

Food banks can play an important role in alleviating immediate hunger, with some also providing opportunities for social interaction and expanding their remit to a 'Food Bank Plus' model, although this has yet to be fully evaluated.<sup>105</sup>

## Water

Since privatisation in 1989, the price of water and sewerage services has increased by more than 40% in real terms in England and Wales.<sup>106</sup> In Scotland and Northern Ireland, water and sewerage are not privatised. In Scotland, bills are, on average, £40 a year lower than England and Wales.<sup>107</sup> In Northern Ireland, charges are incorporated into domestic rates.

In England and Wales, the water industry measures affordability by the proportion of households spending more than either 3% or 5% of their income on water. Table 6 shows smaller households have a far higher risk of spending more than 3% or 5% of their income on water. Such households are likely to be better off on a water meter, unless they have special reasons for high water use.

**TABLE 6: WATER AFFORDABILITY RISKS BY HOUSEHOLD TYPE**

Water affordability risks by household type	Spending more than 3% of income	Spending more than 5% of income	Total number of households (m)
Lone parents	40%	17%	1.3
Working-age adults living alone	45%	30%	3.4
Single pensioners	38%	16%	3.4
Pensioner couples	14%	4%	2.9
Couples with children	15%	6%	4.5
Couples without children	13%	6%	4.0
Multi-unit and other	14%	6%	4.3
Total	24%	11%	23.9

*OfWat (2015) Affordability and debt 2014/15*

## Internet

Access to the internet – via a computer, tablet or a smartphone – is now seen by all age groups as essential to participating in society.<sup>108</sup> It enables people to compare prices, secure online discounts and access goods and services, increasingly including public services, which are becoming 'digital by default'.<sup>109</sup> Access to online payment methods also lowers costs.<sup>110</sup>

The proportion of low-income households lacking access to the internet has fallen, but they are still less likely to have access than better-off households (table 7).

**TABLE 7: HOUSEHOLDS WITHOUT INTERNET ACCESS**

Income group quintile	Without internet (%)
Lowest	35
Middle	11
Highest	3

Source: *Living Costs and Food Survey (2014)*<sup>111</sup>

Reasons for lack of access have shifted over recent years. In 2008, 5% of people did not have access to the internet at home because equipment costs were too high and 4% because access costs were too high; the same figures in 2015 were both under 2%. Not seeing the internet as useful or interesting remains the most common reason for no access.<sup>112</sup>

While only a small minority cite lack of skills as a reason for no access, a recent report by Ipsos Mori for Go ON UK found that around a fifth of the UK population lacks the required level of basic digital skills.<sup>113</sup>

## Transport

People with low incomes do not travel as far or as frequently as those with high incomes, and rely more on walking. But transport enables people to travel further to find a good deal, and gives access to jobs and essential services. Levels of car ownership are increasing. Over half of households on the lowest incomes own cars, but this is still way behind higher-income households, 90% of whom have a car. People in poverty are more likely to experience negative impacts of transport, such as pollution, pedestrian injuries and fatalities, or isolation if living near busy roads that are hard to cross.<sup>114</sup>

Transport costs are a barrier to access. Bus fares have increased faster than inflation, particularly in metropolitan areas,<sup>115</sup> and getting the best deal generally requires advance payment for multiple trips. In some areas reductions in subsidy are leading to services being withdrawn.<sup>116</sup> Low-income households spend a larger proportion of income on bus travel than better-off households (table 8). Car costs – especially insurance and road tax – have risen sharply in recent years but since 2014 have fallen back a little<sup>117</sup> and take up a smaller proportion of the budgets of low-income households, which are less likely to own cars, more likely to own cheaper ones and less likely to travel as far.

Disabled people face additional barriers to getting about. For some this has been compounded by recent changes in disability benefits. The Motability scheme reported in early 2016 that 14,000 disabled people lost their Motability vehicle as a result.<sup>118</sup>

TABLE 8: PROPORTION OF INCOME SPENT ON TRANSPORT

Decile	Purchase of vehicles	Operation of personal transport	Rail and tube fares	Bus and coach fares
Bottom 10%	1.9	4.6	0.4	0.9
Decile 2	2.5	6.1	0.6	0.6
Decile 3	4.2	7	0.5	0.3
Decile 4	3.6	6	0.4	0.3
Decile 5	2.7	6.8	0.6	0.4
Decile 6	3.7	7.3	0.5	0.3
Decile 7	5.4	7.3	0.5	0.2
Decile 8	4.8	7.3	0.7	0.3
Decile 9	7.6	6.3	0.7	0.2
Decile 10	5.1	5.2	1.1	0.1
<b>All</b>	<b>4.7</b>	<b>6.4</b>	<b>0.7</b>	<b>0.3</b>

Source: *Living Costs and Food Survey, 2014*<sup>119</sup>

## Financial services: banking, savings, credit and insurance

Financial services enable people to meet their needs, but not everyone has access to suitable financial services.<sup>120</sup>

### Banking

A bank account enables people to participate in society and get better deals, for example by paying bills by direct debit.

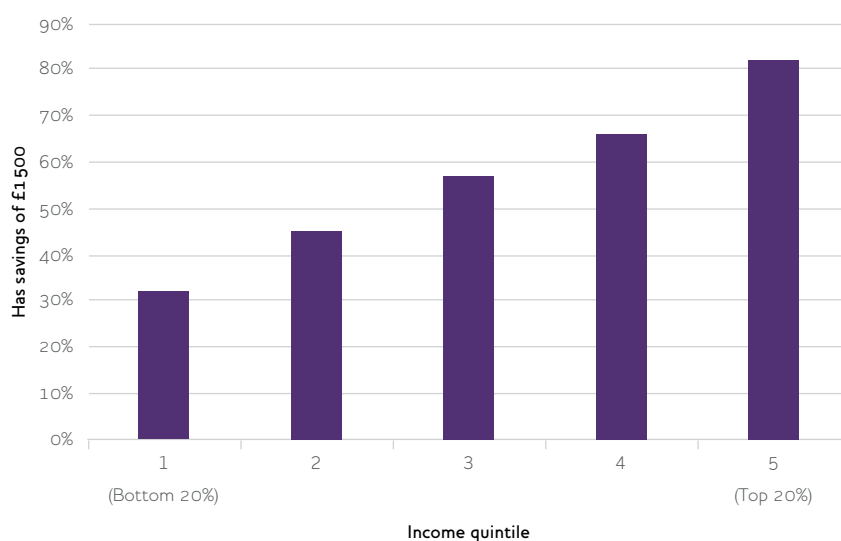
However, nearly 2 million adults in the UK do not have a bank account.<sup>121</sup> Among social groups A, B, C1, and C2, almost everybody has a bank account; only two-thirds of social group E have a bank account and one-fifth have no account whatsoever.<sup>122</sup> A statutory right to a basic bank account is being introduced.

### Savings

Savings increase a household's financial resilience, enabling them to cover unexpected costs or changes in income. Analysis by StepChange Debt Charity shows that having savings of just £1,000 almost halves the probability of problem debt.<sup>123</sup>

Attitudes to saving vary: among people on low incomes<sup>124</sup> one-fifth aged 25–55 actively and regularly saved into a formal account, while two-fifths were non-savers, and disinclined to save. The rest were inclined to save, having had savings in the past or by using informal methods (such as a loose change jar).<sup>125</sup> Overall, low-income households have a lower level of saving (see figure 5).

FIGURE 5: SAVINGS IN LOW-INCOME HOUSEHOLDS



Source: Family Resources Survey, 2013/14<sup>126</sup>

### Credit and debt

Access to credit can help people manage incomes and spread the cost of expensive items such as washing machines or a new bed. But StepChange estimates 4.1 million people in the UK rely on credit as a safety net.<sup>127</sup> A quarter of this group are from the lowest-income households (less than £14,999) and half are from low-to-middle-income households (£15,000 to £44,999). Debt advice providers are also reporting a shift in the profile of debt towards utilities and Council Tax and away from overdrafts, loans and credit.<sup>128</sup> Debt repayments to public authorities (rather than consumer credit or store cards) also emerged as one of the triggers for people who experienced destitution at some point in 2015.<sup>129</sup>

Overall, low-income households are less likely to use consumer credit than better-off households. When they do use credit, credit cards, loans and overdrafts are the most common forms; they are also over-represented among high-cost credit users (such as doorstep loans, pay-day loans, rent-to-buy and pawnbroker loans).<sup>130</sup> While better-off households have higher absolute levels of debt, lower-income households have higher unsecured debt repayments compared with income, putting them at greater risk of problem debt,<sup>131</sup> which can deepen or prolong poverty.

### Home insurance

The take-up of insurance rises as income rises (table 9), yet households with no contents insurance are three times more likely to be burgled as those with insurance.<sup>132</sup> A relatively high minimum value covered, and paying more to spread payments across a year, make it harder to afford.

**TABLE 9: PERCENTAGE OF HOUSEHOLDS WITH CONTENTS AND BUILDINGS INSURANCE BY INCOME DECILE**

Equivalised income decile (lower limit)	% with contents insurance	% with building insurance
<b>Decile 1 (£0)</b>	34.9%	22.5%
<b>Decile 2 (£152)</b>	55.1%	38.2%
<b>Decile 3 (£203)</b>	66.1%	50.8%
<b>Decile 4 (£245)</b>	72.7%	59.4%
<b>Decile 5 (£287)</b>	77.5%	63.1%
<b>Decile 6 (£334)</b>	82.5%	70.5%
<b>Decile 7 (£386)</b>	86.7%	74.9%
<b>Decile 8 (£448)</b>	85.0%	77.4%
<b>Decile 9 (£536)</b>	88.6%	79.1%
<b>Decile 10 (£692)</b>	90.4%	81.0%

Source: *Living costs and food survey, 2014*<sup>133</sup>

The perils of not having insurance are amplified in areas of heightened flood risk. In coastal areas these are more likely to be deprived communities.<sup>134</sup> Moves to more detailed risk assessments will make insurance more affordable for some, but even more unaffordable for others.<sup>135</sup>

**JRF recommends** a four-step approach to reducing costs of essential goods and services:

- 1 making markets work for low-income consumers – with competition and innovation resulting in new products
- 2 ensuring access to ‘enablers’ – such as the internet, transport and financial services – and the ability to use them to get value for money
- 3 reducing demand to reduce costs – for example through energy-efficiency programmes.
- 4 distributing policy costs fairly– such as social and environmental costs on energy bills – and effecting compensation when costs are unavoidably high, through the social security system or through discounts or rebates on bills.

## Step 1: Making markets work for low-income consumers

When markets function effectively, competition can drive innovation and choice, keeping prices low, and helping to ensure people have access to good-value essentials. But markets are not concerned with whether something is essential,<sup>136</sup> which is why there are universal service obligations in some areas (where providers are required to provide a basic level of service

to everyone, regardless of geography and cost). A strategy to reduce poverty cannot simply rely on the market. A balance needs to be struck between competition to drive innovation and low prices, transparency to ensure companies and consumers can make informed choices, and regulation to ensure those with the least economic bargaining power are able to access good-value essentials. Consumers, companies, competition authorities, regulators and the state all have a crucial role to play in reducing poverty and addressing disadvantage in the market.

### Summary of actions

- Regulators can tackle poverty premiums and the affordability of essentials with greater effect by:
  - having a clear mandate for decisive action on poverty premiums and affordability, including examining the distribution and depth of detriment, and the outcomes for low-income consumers
  - establishing an intelligence function like the Financial Conduct Authority's Strategy and Competition Division, and working with community and voluntary organisations to provide market and consumer insight into emerging areas of disadvantage for people in poverty, and effective responses
  - working with other regulators, businesses and consumer groups across essential services to develop shared responses to consumers in vulnerable situations, including those experiencing poverty.
- Providers of essential goods and services to share good practice on identifying and helping struggling customers, building on existing approaches to consumers in vulnerable situations.<sup>137</sup>
- Encourage social and wider investors to back products and services offering value to low-income consumers.
- Enable low-income consumers to get good deals through collective switching schemes run by trusted intermediaries (such as housing associations, community groups and local authorities) and support people who are switching to make sure they are genuinely getting a better deal.

### Regulators

Regulators are obliged to pay careful attention to particular categories of consumer, including those with low incomes, usually as part of their consumer protection role.<sup>138</sup> Each of the main regulators has explored the concept of consumers in vulnerable situations.<sup>139</sup>

Overall, regulators have tended to pay more attention to general detriment (harm, disadvantage or unfair cost) to consumers, and to monitor outputs like the number of providers, products and switching.<sup>140</sup> But the typical consumer experience is not a good guide to the experience of low-income consumers, and monitoring market outputs is not necessarily a good indicator for consumer outcomes.

**JRF recommends** regulators be given a mandate for decisive action. Their remits should include monitoring markets and company behaviour for signs of detriment, considering its distribution and depth, and outcomes for low income consumers specifically.<sup>141</sup>

Capacity to gather intelligence on this is crucial. The FCA's Strategy and Competition Division, for example, offers market and consumer insight, acting like a radar for upcoming issues and informing all other areas of the regulator's work. This work must be complemented by consumer organisations that can amplify the collective voice and experience of people in poverty. Doing this effectively requires access to information and data from both people in poverty and companies, alongside adequate funding and capacity.<sup>142</sup> The Scottish Working Group on Consumer and Competition Policy has proposed establishing a public body to perform this role.<sup>143</sup>

### **Examples of regulators and competition authorities investigating poverty premiums**

#### ***Pre-payment meters***

Charities and people in poverty have long argued pre-payment meters (PPMs) carry a poverty premium. A probe by Ofgem in 2008 found some customers were paying a higher premium than was justified by the additional cost of delivering energy via a PPM.<sup>144</sup> There was some reduction in prices as a result and switching was made easier. Concerns remained about wide variation in price and a lack of competition in the market.<sup>145</sup> Recently the Competition and Markets Authority (CMA) confirmed these problems, estimating a cost to consumers of £500 million in 2015, concentrated mostly among low-income households. It has recommended capping the price for PPM users until smart meters are rolled out, as they are expected to invigorate competition in this segment of the market.<sup>146</sup>

#### ***High-cost credit***

Investigations into the high cost credit market found that a lack of price competition along with irresponsible lending had led to unaffordable credit and a debt spiral for some borrowers.<sup>147</sup> Following the price cap implemented by the FCA, the CMA recommended a series of measures to increase the flow of information to consumers to help them choose lower-cost options.<sup>148</sup> Pressure is also mounting to investigate the rent-to-buy sector – firms specialising in supplying furniture and appliances to low-income households. An inquiry by the All Party Parliamentary Group on Debt has found a lack of competition and price transparency, in particular over opaque and costly compulsory warranties and insurances.<sup>149</sup>

**JRF recommends** a greater voice for people in poverty in markets for essential goods and services. This requires consumer organisations with access to funding and capacity to analyse data to identify areas of detriment, backed by statutory rights.

**JRF recommends** regulators establish an intelligence function like the FCA's to identify early signs of consumer detriment, complemented by funding for voluntary and community organisations to ensure the voices of people in poverty are heard.

**JRF recommends** regulators, businesses and consumer groups work together to build on existing strategies and develop coordinated responses to consumers in vulnerable situations, including people in poverty. This should include:

- a shared definition of consumers in vulnerable situations, including people experiencing poverty and relevant risk factors
- identified metrics that are regularly monitored and transparently reported on
- common approaches to the support and service that people in poverty can expect to receive, for example access to discounts or social tariffs, or how to respond to consumers that get into arrears
- provision of accessible information, designed with disabled people and other low-income customers who might benefit.

## Providers

Companies and social enterprises that provide essential goods and services can help to reduce poverty through the products and services they design and the way they treat their customers.

Some providers view low-income consumers as undesirable, and as a low-profit segment of the market<sup>150</sup> (although there are obvious exceptions such as discount retailers). Yet companies may be underestimating the size of the market. Analysis of expenditure surveys shows the bottom 20% of households spent £62 billion in 2013/14.<sup>151</sup> Similarly, Scope's Extra Costs Commission noted that the market for specialised equipment for disabled people is estimated to be worth £720 million a year.<sup>152</sup>

There is a tendency to blame consumers as inadequate for failing to access good information or to frequently switch suppliers, for example. But rather than focusing on how people ought to behave, providers need to respond to how they actually behave. Where essential goods and services are delivered through markets there is a moral responsibility on providers to ensure they serve all customers.

Progress is best made on a voluntary basis. But, should this not deliver, there may be a case to introduce mandatory reporting of social and economic impact for providers of essential goods and services. This would follow in the footsteps of environmental reporting to increase transparency and capacity for scrutiny. There is some evidence that introducing environmental reporting has changed the way companies think about their carbon emissions.

Some mainstream companies are spotting opportunities in the low-income consumer market. For example, some insurance companies have



developed specialist social housing contents insurance products while energy companies such as Ovo and Utilita have moved into the smart PPM market. Social businesses are also spotting opportunities and developing offers, such as Ebico in the energy sector, or Scot Cash and Fair for You in the affordable credit and rent-to-buy sectors.

Some local authorities and housing providers have also begun entering markets, for example purchasing energy from the wholesale market or partner suppliers to become energy providers, or developing local electricity generation capacity.

**JRF recommends** local authorities and housing providers experiment further with purchasing and providing essentials, with the objective of giving low-income consumers good value.

Investors also have a role in developing new products and services. JRF, as a social investor, is working with partner trusts, foundations and social investors, to develop a fund to test and scale social business ideas that target the needs of low-income consumers. **JRF recommends** that investors more widely back approaches to lowering higher costs experienced by this group.

How providers respond when people are struggling to afford essentials makes a significant difference. They add stress and detriment when their actions and processes fail, which can result in reputational damage. Failing to spot early warning signs and allowing arrears to build up and debt to spiral results in money lost to chasing bad debt.<sup>153</sup>

**JRF recommends** providers act early to support people in poverty through:<sup>154</sup>

- customer service and frontline staff training to recognise when people are struggling, and give people the opportunity and confidence to disclose this themselves
- data analysis to identify early warning signs of affordability problems, such as cancelling direct debits or missing payments
- proactive outreach to customers when they first get into arrears
- referrals to third-party organisations offering advice and help, such as debt charities, and establishing partnership-working arrangements with such organisations
- offer direct support, such as flexibility over tariffs, terms and conditions, and access to social tariffs and grant funds to pay off debt
- promoting help that is available, via media campaigns and other organisations, such as GPs, debt charities and foodbanks
- early engagement in debt recovery with personalised debt-recovery plans, rather than rapid escalation to debt recovery agencies
- working toward the voluntary British Standard 18477 for inclusive service provision, on treating customers fairly
- businesses should provide simple and transparent information about costs to customers; regulators can support this by requiring comparable information.

Companies in the water industry can play a particularly significant early warning role, as this is often one of the first bills people stop paying when they get into financial difficulty.<sup>155</sup>

## Consumer behaviour

Low-income consumers are not always in a position to make the most of good-value products, as shown in several of the examples of poverty premiums outlined above. There is an expectation that well-informed, rational consumers will actively shop around to reduce their costs, but this expectation is increasingly challenged by the findings of behavioural economics, and evidence from psychological studies showing the effects of the stress on decision-making (see box below).

Richer consumers are more likely to switch. In the energy market, the proportion of those switching supplier is 40% higher in the top than in the bottom quintile – although levels of switching are relatively low across the income distribution. For broadband connections, the proportion of households who have never switched providers is 50% higher in the bottom quintile than the top.<sup>156</sup>

Low-income households are more likely to shop around for some products, such as food.<sup>157</sup> This may be because food pricing is easier to understand, and making a mistake is less costly.<sup>158</sup> By contrast, in markets like energy, telecoms and financial services, the products are more complex and transactions less frequent.<sup>159</sup>

### Decision-making and the influence of poverty

Poverty causes stress and affects decision-making. Much of the time, the human mind uses fast, intuitive and automatic thinking, backed by slower, focused, effortful and more energy-intensive thinking – for example, when the first approach does not provide an answer or something surprising happens. It is a system that serves people well most of the time, although fast thinking can rely on rules of thumb and be subject to biases, such as loss aversion (when we are more sensitive to losing what we already own than to potentially gaining something we don't).<sup>160</sup>

These tendencies cannot be ignored. Many advertisers and successful businesses have grasped that it is more effective to present choices that work with our known strengths and weaknesses. The idea of 'nudging' individuals towards certain decisions has emerged<sup>161</sup> – for example, having to opt out rather than in to a pension, and making switching between suppliers simple, rather than offering countless options and detail.

Poverty influences decision-making – not just because it means a narrower range of choices, but because it affects mental resources and decision-making processes.<sup>162</sup> One example is a 'scarcity mindset': if you have scarce material resources, or time, your attention is focused on scarcity, leaving less mental capacity for other decisions. The impact is measurable: experiencing poverty has a larger effect on mental capacity than going one full night without sleep.<sup>163</sup>

A key effect of scarcity is 'tunnelling', which means people over-focus on the scarcity to the neglect of other things, shortening their horizons. Incentives for people to behave in a certain way need to be designed so they are visible in this 'tunnel'.

While the scarcity mindset cannot be fully explained by stress, there is evidence of a relationship between poverty and the physiological experience of stress – elevated cortisol levels (a neurobiological marker of stress) lead to temporal discounting (valuing the present more highly than the future), which has been observed among people living in poverty.<sup>164</sup>

Collective switching, where customers group together to secure a better deal, facilitated by a third party, is a promising way to deliver savings. Ofgem reports average savings of over £100 from collective switching schemes.<sup>165</sup> The few robust evaluations that exist indicate the characteristics of successful schemes that increase participation by vulnerable and disengaged customers, including those with low incomes.

**JRF recommends** using collective switching schemes to help people get a good deal. These should be run by trusted intermediaries, such as housing associations, community groups and local authorities, make use of on- and off-line channels and offer a simple, hassle-free and personalised service.<sup>166</sup>

Communities can also lead approaches to get better deals from providers or find other ways to share and reduce costs locally – often also building confidence, local relationships and networks. There is evidence from evaluations of local exchange schemes or community currencies that these can make a tangible difference to the material well-being of low-income households as well as developing employability and self-employment. Evidence is mixed on how far these can be sustained in deprived areas without voluntary sector infrastructure or ongoing funding.<sup>167</sup>

### MeadowWell Connected, North Tyneside

MeadowWell Connected is a community hub with a focus on people furthest from the labour market; in dependent care situations; and disadvantaged young people. The hub serves the two highest areas of deprivation in North Tyneside, where 63% of households experience deprivation. One of its services is a resident-led food cooperative set up in response to food poverty. Gaining 82 members in its first six months, Homestyle Food has gone from strength to strength and opens twice a week, selling the food that the community says it needs.

*Source: Locality (unpublished) in Crisp et al. (2016)<sup>168</sup>*

The development of community-led, charity, not-for-profit and municipal engagement in getting better deals from markets and developing alternative providers is promising, but scaling up this activity will require investment and support.

## Step 2: People have access to enablers

### Summary of actions

- Include basic digital skills as part of the basic skills programme, and set a target to meet all basic skills needs by 2030.
- Make poverty reduction an explicit part of local transport authorities' (LTAs) remits, prioritising affordability, accessibility and connecting people in poverty to opportunities. In England, increasing regulatory powers for LTAs must be backed by funding.
- Bank branches should work with local charities to increase basic bank account take-up.
- Establish task group led by banks and financial technology companies to develop free budgeting accounts and payment systems that put the account holder in control.
- Credit referee agencies to support increased access to mainstream credit by using more non-traditional data to build a more accurate picture of an individual's credit risk
- Expand the social finance market (credit unions, community development financial institutions – CDFIs) to increase access to affordable credit and affordable rent-to-buy for household appliances etc by:
  - local authorities coordinating local provision
  - employers developing partnerships with social finance institutions to offer staff access to savings and loans
  - social investors and governments investing in new and existing provision supporting loan capital and back-office infrastructure.
- Piloting access to low- or no-interest loans, similar to the Australian Good Shepherd model for those who cannot access credit through the market (in Australia, this involved a partnership between charities, business, the community sector and government).
- 'Rainy day' savings schemes combining auto enrolment with match funding for low-income households, rather than tax incentives

People in poverty will not automatically benefit from well-functioning markets. To be able to navigate markets successfully, people need access to enabling goods and services. A lack of access to these enablers can increase the costs of essentials.

This section considers three categories of enablers: internet access, transport, and especially financial inclusion. Information, advice and guidance are covered in Chapter 7.

## Internet access

Tackling digital exclusion becomes more urgent as more activities and services – including public services, access to benefits and applying for jobs – go online. This will become acute when Universal Credit is rolled out with its digital-first application process. Access to the internet is publicly regarded as necessary to participating in society.<sup>169</sup> The ownership of smartphones is also beginning to change the way people access online services.

Skills and not seeing the relevance of using the internet are the main barriers to getting online for people on low incomes. Cost does remain a problem for a small number.<sup>170</sup> Online access through libraries, community centres, social housing providers and integrated advice and support services (see Chapter 7) remains important, but the priority is skills.

Basic digital skills should be regarded as a core capability alongside literacy and numeracy. Chapter 7 sets out JRF's proposals for a new approach to meeting all basic skills needs by 2030.

## Transport

Transport can enable people to travel further afield to shop around for good deals and access essential services, job opportunities and social activities.

Bus networks are particularly critical for people with a high risk of poverty: 77% of jobseekers in cities outside London have no access to a motor vehicle, and 60% of long-term unemployed people are bus users.<sup>171</sup> Geography and time, as well as lack of accessibility to people with physical or mental challenges, can all be barriers to transport as well as cost.<sup>172</sup> To connect people in poverty to economic opportunities and essential services, transport must be affordable and connect people and places effectively.

The uptake and cost of public transport – particularly buses – varies across the UK. Bus use outside of London has fallen since deregulation in 1985, falling 32% by 2013 despite the introduction of free travel for older people. By contrast, bus use in London increased 99% over the same period, with a particularly sharp increase after the creation of Transport for London (TfL) in 1999/2000. The sharpest increase coincides with bus fares being reduced in real terms in the early days of TfL.<sup>173</sup> Overall however bus fares have been increasing faster than inflation across Great Britain.

The way buses are regulated is changing. TfL sets all the service routes, frequency, quality and fare levels. In return, providers do not bear any fare risk or reward from the service; they are incentivised instead by a system of bonuses and deductions for service performance. This increased regulatory control is being made available to more areas in England, and 'metro mayors', combined authorities and local transport authorities should use these powers to reduce poverty. Outside these areas, new powers for 'enhanced partnerships' can also be used to help reduce costs and connect people in poverty to economic opportunities. This should be standard practice when developing new economic sites.

But regulatory powers need to be backed by sufficient funding. Redirecting the Bus Services Operator Grant (BSOG) to local transport authorities would enable them to target subsidy to local priorities. The funding currently goes directly to bus operators.

**JRF recommends** making poverty reduction an explicit part of the remits to LTAs. They should prioritise connecting people in poverty to opportunities and make sure public transport – especially buses – is affordable and accessible. LTAs also have a duty to regulate the accessibility of taxis, with regard to disability.

### Financial inclusion

This section outlines four important ways to promote financial inclusion as an enabler:

- a** widening access to a transactional bank account and basic banking
- b** strengthening financial capability
- c** expanding access to affordable credit
- d** boosting savings.

#### **a Basic banking**

Half of those in the bottom half of income distribution manage their money primarily or entirely in cash, a figure that rises to two-thirds among households dependent on benefits.<sup>174</sup> As cashless methods of payment become more common they are likely to be increasingly disadvantaged. Part of the reason people prefer cash is it gives control. When operating on tight budgets, giving up control over access to money presents a risk,<sup>175</sup> explaining the aversion to transactional banking – especially direct debit. These concerns are well founded: people on low incomes are more likely to incur fees for insufficient funds and unauthorised overdrafts, and 26% of people new to banking incurred more in penalty fees than they gained in savings.<sup>176</sup> Everyone should have access to a transactional account that they can afford and are not afraid to use.

Recent improvements to basic bank accounts (BBAs) are a significant step in the right direction. Nine major providers now offer access to the Link Network of cash machines, use of a debit card and the ending of bank fees on failed direct debit and standing order payments (although there may still be a fee from the intended recipient).

There are concerns that some banks create artificial barriers to people opening accounts, regarding some customers as undesirable. The commitment to publish banks' share of the BBA market will make it easier to monitor whether banks are fulfilling their commitments, although publishing a wider range of metrics would make the task easier.<sup>177</sup>

Partnerships with local voluntary-sector organisations have been found effective in increasing the take-up of BBAs, as they provide support with paperwork and identity requirements.<sup>178</sup>

**JRF recommends** that bank branches work with local charities to promote BBAs to increase take-up.

Technological change is leading to rapid developments. Apps to help people manage their finances are emerging along with accounts that help people to budget through 'jam jar' banking, prepayment debit cards or the ability to prioritise, scale and flex the timing of payments around cash flow and competing needs.<sup>179</sup>

**JRF recommends** establishing a task group led by banks and financial technology companies to develop free budgeting accounts and payment systems that put the account holder in control.

### b Financial capability

Most people in poverty are painfully aware of how every pound is accounted for, carefully prioritising and re-prioritising spend.<sup>180</sup> For a minority, financial capability is a significant challenge.<sup>181</sup> The roll-out of Universal Credit (UC) – with monthly payments of benefits and the housing element being paid to the individual rather than the landlord – makes this urgent. Chapter 7 sets out recommendations for reforming UC. There is a lack of evidence about how to deliver effective financial education that has a lasting impact on behaviour.<sup>182</sup> As such, JRF has welcomed the establishment of the Financial Capability Evidence Hub to build the evidence base and evaluation capacity in this area; this work must continue despite the abolition of the Money Advice Service that helped establish it.

### c Affordable credit and debt

Affordable credit is not a substitute for sufficient income, but it does help people manage peaks in expenditure. Overall, people in poverty are less likely to use consumer credit than better off households, but they are more likely to need small, short-term loans quickly. This is an inherently expensive form of credit.<sup>183</sup> The high-cost credit market in the UK is estimated at £5 billion. Table 10 provides a breakdown of the two main forms of credit, and the characteristics of their customers. The remaining £0.7 to £1 billion of lending takes place through rent-to-buy and pawnbrokers.<sup>184</sup>

**TABLE 10: MAIN FORMS OF CREDIT AND THEIR CUSTOMERS**

Type of lending	Value of market	Estimated number of customers	Customer characteristics
Payday loans	£2.8bn	1.8m	Slightly better off and mostly working compared with the home credit market.
Home credit market (small loans with repayments collected from customers' homes in instalments)	£1.2–£1.5bn	2.4–3m	Worse off and less likely to be working compared with the payday loans market.

Source: Alexander et al (2015)<sup>185</sup>

Lending rules were tightened following the financial crash, resulting in less access to mainstream finance for those with low credit scores. This gap was filled by payday loans companies, although recent FCA rule changes have curtailed some of this provision. There is a risk that doorstep lending and illegal

lending will fill the gap.<sup>186</sup> The most effective way to reduce illegal lending is by ensuring other forms of credit are accessible, as outlined below.<sup>187</sup>

Another important way to widen access to credit is to enable people on low incomes to improve their credit rating. Credit reference agencies (CRAs) provide information about a person's creditworthiness based on public information and historical use of mainstream financial services. People in poverty don't always access such services, so data about them can be poor or non-existent, resulting in so-called 'thin files'. CRAs need to take a more individual, personalised approach to assessing creditworthiness of people on low incomes,<sup>188</sup> improving access to mainstream credit for some people. Non-traditional data, such as rent payment records, is starting to be incorporated into credit rating calculations, which is encouraging. **JRF recommends** that CRAs continue to develop these metrics and perhaps go further by including HMRC data on incomes and tax payments (with appropriate safeguards), to build a better picture of a person's financial situation.<sup>189</sup> More information when credit is refused would also help.

Even with more accurate credit rating, many people in poverty will not be able to access credit through the mainstream market, so **JRF recommends** improving access to the social lending market – for example through credit unions and community development finance institutions (CDFIs). However, these institutions are not currently equipped to meet this need. The credit union loan book is only about 10 per cent of the commercial high-cost lending market, and just ten CDFIs currently provide personal loans, lending £19 million to 40,600 people in 2013.<sup>190</sup> They struggle to respond to the quick loan turn-around, simple application processes, and professional branding and marketing offered by payday loans companies.

There is a role for governments (including local authorities), voluntary and community organisations, employers and investors in expanding the reach of the market and improving access to affordable credit. For those in deeper poverty, there is a strong case for piloting low- or no-interest loans (as developed in Australia, see below).

Local authorities, for example, can coordinate provision in their area, which can increase the take-up of social lending, and share good practice.<sup>191</sup>

### Innovation in social lending

StepChange Debt Charity identifies Glasgow and Sheffield Councils as innovators in coordinating social lending.

#### Glasgow developing credit unions

Glasgow City Council has provided a credit union development programme since 2001. It has included marketing and advertising initiatives, and the development of a credit union website. The council has also supported local credit unions by locating them in easily accessible shop-front premises, including using council-owned properties, and provided 100% business rate relief. Glasgow has the largest credit union membership of all cities in the UK – 25% of the city's population.



### **Sheffield Money**

Sheffield Money was developed in response to the city's Fairness Commission. It involves a council-funded broking service working with community lending partners to provide loans and other financial services to local residents. It provides a website, city-centre store and phone application, offering a range of services and quick access to loans (in as little as 15 minutes). Debt advice is embedded in the scheme with a debt adviser available at the store. Sheffield Money is a new initiative, so its impact is not known, but it is expected to save low-income residents £20 million a year by reducing their reliance on high-cost lenders.

*Source: Rodrigues 2016<sup>192</sup>*

Employers can develop a relationship with a social lender to offer their staff access to accounts, savings and loans as part of their fringe benefit offer (see below). Again, there is little evidence yet of the impact of such schemes on households in poverty, but the approach seems promising. Not least because more customers will help providers grow their savings and loans book and expand their offer.

### **JRF and JRHT's partnership with Leeds Credit Union**

The Joseph Rowntree Foundation and Joseph Rowntree Housing Trust have partnered with Leeds Credit Union to offer affordable borrowing and support for savings to all employees, regardless of contract type. JRF/JRHT underwrite lending to staff, which allows access to a reduced interest rate of 4% APR for loans of over £500. Loan repayments or deposits into Leeds Credit Union savings accounts are deducted automatically from their payroll.

Social investors and government can also work together to provide loan capital for new and existing organisations alongside infrastructure support such as electronic payments and online loan applications. This will increase access to affordable credit, building on initiatives such as the Credit Union Expansion Project. IPPR estimates £450 million would support 1.5 million loans of £250.<sup>193</sup>

Even if more providers enter the market offering more affordable credit, this will not be a suitable option for all households in poverty; some simply will not have their needs met through the market.

#### **Local welfare assistance schemes**

The discretionary Social Fund, which previously served low-income households, was abolished in 2013 and replaced by local authority-run welfare assistance schemes in England, the Scottish Welfare Fund,

Discretionary Assistance Fund in Wales and a new discretionary support scheme, spanning grants and loans in Northern Ireland.

The new schemes have moved away from providing loans, with most offering in-kind support (for example provision of furniture) or help with costs (for example through vouchers or referral to assistance from food banks). Local welfare funds were an important source of in-kind support for many people who experienced destitution at some point in 2015.<sup>194</sup> People can still apply for loans through the Department for Work and Pensions (DWP) but only once they have been receiving benefits for six months or more.

Local welfare assistance guides to good practice are beginning to be developed, and it is essential that providers use them to assess their practice.<sup>195</sup> In particular, overcoming fragmentation to create a single point of access to help and support is crucial (see chapter 7).

### Charity and business innovation in providing loans

Experience from Australia suggests businesses, through their corporate social responsibility function, could play a role in areas where provision is not meeting need, working in partnership with charities, communities and government. Good Shepherd Microfinance offers a revolving, no-interest loans scheme (up to \$1,200AUD) for low-income households in receipt of certain benefits and excluded from mainstream credit. Loans can be used for essentials such as white goods, furniture, computers and medical expenses. They are offered alongside financial inclusion programmes, with loan recipients given help with budgeting and cost saving. The scheme is not designed to try and compete with payday lenders, so the application process is slower.<sup>196</sup> Slightly larger loans (StepUp loans – up to \$3,000AUD) are also offered to a wider group of low-income households, on a not-for-profit basis.

**JRF recommends** piloting access to low- or no-interest interest loans for those who cannot access credit through the market (similar to the Australian Good Shepherd model of building a partnership between the community sector, charities, business and government).

#### d Boosting savings

Savings provide people with a buffer, helping them to weather shocks to their income or expenditure. Increasing savings among low-income households will help to prevent poverty. Savings of just £1,000 can reduce the probability of problem debt by almost half among households on low incomes, while £3,000 can cut it by two-thirds (see table 11).

**TABLE 11: REDUCTION IN PROBABILITY OF PROBLEM DEBT BY DIFFERENT LEVELS OF SAVINGS (CONTROLLING FOR OTHER FACTORS)**

	Savings of £1,000	Savings of £2,000	Savings of £3,000
Income less than £10,000	47%	59%	66%
Income less than £16,000	45%	57%	65%
Income less than £25,000	44%	56%	63%

Source: StepChange the Debt Charity<sup>197</sup>

Evaluations of savings schemes demonstrate that tax breaks (such as those offered through Individual Savings Accounts – ISAs) are not an effective way to increase saving rates among low-income households. The attributes of successful schemes include:<sup>198</sup>

- ‘soft compulsion’, for example auto-enrolment and auto-escalation
- simple incentives, such as match funding
- flexible access – people in poverty are also much less likely to save if their money will be inaccessible in a crisis.

The recently-announced Help to Save Scheme for working recipients of UC will be match funded and flexible. However, it is an opt-in scheme, and the government does not seem to anticipate wide take-up, as it has only earmarked £70 million in 2020/21 (equivalent to 115,000 people getting the full bonus). **JRF recommends** exploring auto-enrolment for the Help to Save Scheme.

## Step 3: Reduce demand where possible

Reducing demand can free up resources both by putting money in the pockets of people in poverty and helping to prevent future poverty. The most obvious example of this is energy, where improved energy efficiency can reduce the amount of energy that needs to be consumed. Demand for water can also be reduced, and savings made for some households by moving on to water metering.

### Summary of actions

- Reduce the amount of energy required through a new energy-efficiency programme that:
  - is free to households in poverty living in hard-to-heat homes, and offers low-cost loans to others
  - focuses on low-income areas with hard-to-heat homes first
  - offers benefits checks and switching advice
  - links to other local service provision
  - is locally delivered, building trust and putting money into the local economy
  - can be accessed through referrals from GPs and advice services.
- A higher standard for energy efficiency in the private rented sector of Band D, rising to Band C by the middle of the 2020s, supported by access to low-cost loans.
- Match the commitment to energy efficiency set out in the National Infrastructure Delivery Plan (2016–21) with a programme that can deliver it.
- Make energy efficiency a priority in the National Infrastructure Plan, as it is in Scotland.
- Promote moving small households on to water meters.

### Reducing demand for energy

Energy efficiency is an important part of mitigating climate change, with domestic energy consumption accounting for 26% of the UK's carbon emissions.<sup>199</sup> It is therefore an important factor in a long-term strategy to reduce poverty, since people in poverty are more vulnerable to the impacts of climate change.<sup>200</sup> Energy efficiency can also help to reduce poverty more immediately – and fuel poverty specifically – by reducing energy needs.<sup>201</sup> However, it does not always result in lower energy use. Sometimes the result is being able to heat a home to a safer and more comfortable standard.<sup>202</sup>

Smart meter roll-out should enable people to exercise more control over energy use, but must be complemented by energy-efficiency measures. This is in flux at the UK level. Low cost loans (through the Green Deal) have ended and the Energy Company Obligation (ECO) to install energy-efficiency measures is being replaced. While energy companies have been successful at delivering low-cost and simple-to-install measures, their record on more complex, difficult and expensive measures is poorer. With most of the easier measures already undertaken, the next programme will need to look different to reduce fuel poverty.<sup>203</sup> Home Energy Efficiency Programmes for Scotland (HEEPS) is a good example of evidence-based policy.<sup>204</sup>

**JRF recommends** a new energy-efficiency scheme that reduces poverty, based on the attributes of successful schemes:<sup>205</sup>

- targeting support at households receiving means-tested benefits living in energy-inefficient homes. Measures should be free to people in poverty, with low-cost loans available to others
- taking an area-based approach to increase efficiency of delivery, targeting areas with high levels of deprivation or concentrations of housing that carries a higher fuel poverty risk (such as pre-1945 housing, solid-wall housing or off-gas grid)
- developing data-sharing protocols with DWP to better target services at those in receipt of benefits and/or using local authority Housing Benefit and Council Tax Support data to target assistance
- locally delivered, building trust and putting money into the local economy, and involving local authorities so links are made to other local services
- combining benefits checks and switching advice with energy-efficiency advice
- encouraging referrals from advice services and from GPs when they see people with cold-related ill-health.

Getting all households to Band C efficiency would make a significant contribution to ending poverty. The Committee on Climate Change estimates this would cost £18 billion (£1.7 billion a year for 15 years).<sup>206</sup> This investment would reduce cold-related ill-health, which currently costs the NHS over £1bn a year<sup>207</sup> and return £3.20 of economic benefit for every £1 spent.<sup>208</sup> JRF welcomes the commitment to energy efficiency in the Scottish and UK infrastructure plans. **JRF recommends** the UK infrastructure plan matches the commitment to increased energy efficiency with a programme that can deliver it.

Poor energy efficiency is particularly common in the private rented sector (PRS), where an increasing number of people in poverty live. England and Scotland are introducing mandatory minimum standards, but were reliant on a link to Green Deal finance, which has now ended. In addition, the standard has been set at Band E in England, which is too timid since more than half of households in fuel poverty in England are already living in Band D properties.<sup>209</sup>

**JRF recommends** a higher standard for energy efficiency in the private rented sector of Band D, rising to Band C by the middle of the 2020s, supported by access to low-cost loans for landlords.

### Reducing demand and cost of water

Water metering has reached about 50% of homes in England and Wales.<sup>210</sup> Overall, having a water meter reduces the risk of unaffordable water bills. Single people without meters are at particular risk of unaffordable water.<sup>211</sup> The installation of a meter is shown to reduce demand by around 17%.<sup>212</sup> However, large households and those with high water needs, for example, for health reasons, are worse off with meters.

**JRF recommends** a campaign to move small households on to water meters, delivered by local energy-efficiency programmes working with water companies and charities.

## Step 4: Fair distribution of – and compensation for – cost

### Summary of actions

- Cumulatively assess the impact of infrastructure development on consumer bills.
- Ensure consistency in the eligibility for help with affordability across different essential goods and services.
- Cancel the freeze on benefits, tax credits and local housing allowance and uprate them in line with the cost of essentials.

Some national challenges, such as updating infrastructure and climate change adaptation and mitigation, carry major costs. How they are shared has a bearing on poverty.<sup>213</sup>

For example, while wholesale energy costs were the main driver of recent energy price increases, social and environmental policies have added to bills: the average electric bill was 17% higher in 2013 as a result.<sup>214</sup>

Funding measures through general taxation is the most progressive choice. Where costs are passed onto bills, doing so based on volume of consumption is less regressive than a flat charge per household.<sup>215</sup>

This is not simply about energy bills. Developing and maintaining water and sewerage infrastructure and energy distribution networks along with levies on the insurance industry (for example Flood Re) all pass through to bills.

**JRF recommends** implementing in full the National Audit Office's recommendations for a cumulative impact assessment on consumer bill and their affordability for low-income households, including:

- preparation of consistent data from each sector, which is both comparable and able to be aggregated
- the impact on vulnerable groups assessed explicitly, and used to inform compensatory mechanisms.<sup>216</sup>

Governments and businesses can also help people afford essentials through compensation.

Provider discounts and social tariffs – such as in the energy and water sectors – provide help with affordability but there is variation between providers in the assistance people receive,<sup>217</sup> and providers struggle to identify potential beneficiaries.

**JRF recommends** consistency in the eligibility for help with affordability across different essential goods and services. This would enable individuals

and voluntary and community sector organisations to know what to expect and what help they are entitled to. Government should assist providers to identify eligible customers through a secure data matching service, as is currently used for energy discounts.

Ultimately government has a crucial role to play by ensuring extra costs benefits (such as disability benefits) reflect the additional costs people face, and the value of benefits rises with the cost of essentials. This link has been broken in recent years with the freeze to most working-age benefits.

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## 5b. Housing and poverty

Housing is connected to poverty in a number of ways, including its influence on the costs driving poverty. The high cost of housing in the UK pushes an additional 3.4 million people into relative income poverty, a figure that has increased over the past two decades.<sup>218</sup> The security and quality of housing are significant for a family's long-term prospects, with a safe, secure home providing a foundation upon which people can build their lives and realise their potential. It matters for a household's health and for a child's development; affordable housing makes it easier for work to be worthwhile. Accessibility, space and adaptations are of growing importance for disabled children and adults and in an ageing society. The cost of housing also varies widely around the UK.

The UK housing system combines various elements of private and public involvement. It includes social housing, Housing Benefit and the homelessness safety net to try to protect against poverty.<sup>219</sup> But the system is undergoing significant change.

Social rented housing is in decline, and in many places is available only to those with very high levels of need. Homes bought under the Right to Buy schemes have not been replaced and social housing supply has failed to keep pace with population growth over several decades.

In England, this situation will get worse because of a government capital investment policy that focus on homes for sale,<sup>220</sup> and the extension of Right to Buy to housing association tenants, unless like-for-like replacement is prioritised and enforced.<sup>221</sup>

The nature of social housing is also changing – at least in some parts of England – as a result of the pressure to raise rents closer to market rates to fund new development, through the 'Affordable Rent' policy<sup>222</sup> This is worrying because relative income poverty rates are especially sensitive to social rent setting.<sup>223</sup>



## Summary of actions

### Increase the supply of affordable housing:

- Each UK nation to implement a development framework that meets objectively assessed need for affordable housing, with rents linked to earnings.
- Make better use of planning powers by improving the effectiveness of planning obligations, and increasing local powers over land assembly.
- Ensure Right to Buy does not increase poverty through local discretion and ensuring homes sold are replaced like-for-like.

### More help with unaffordable housing costs:

- Ensure assistance keeps pace with rising rent costs by uprating Local Housing Allowance in line with local market rents.
- Devolve decisions about rent smoothing and tenure length in the private rented sector to local areas.
- Provide a more effective safety net for homeowners through a new partnership between government, lenders and borrowers.

### Push up standards, particularly in the private rented sector:

- Return decisions on selective licensing in England to local areas.
- Develop integrated private rental sector services to assist tenants and landlords.
- Enable access to immediate tax relief on improvements towards Decent Homes standards in the private rented sector.

### A bigger role for social landlords:

- Tackling poverty should be an explicit aim in social landlords' business plans and strategies.
- Make home-ownership schemes more accessible through lower starting shares and options to sell back shares in the property.

Outside England, devolved governments are setting ambitious targets for the supply of genuinely affordable housing.

Welfare reform is affecting the whole of the UK, and there is evidence – within England at least – that it is causing some social landlords to rethink their traditional role of helping those with the greatest need. This risks a further decline in the availability of social housing.<sup>224</sup> At the same time, levels of home-ownership in Great Britain have reached a low of 63%<sup>225</sup> and more people live in the private rented sector (PRS), where rents are higher, and housing is less secure and of poorer quality. The number of people in poverty in the PRS has doubled in the past 10 years.<sup>226</sup>

Housing Benefit has played a significant role in supporting people with the cost of housing,<sup>227</sup> but the bill has ballooned with more people living in the PRS, higher rents and more people in work but on low incomes. Over the 2010–15 parliament, government cut the generosity of Housing Benefit

by about £2 billion a year, but increasing need meant real spending still increased by £1 billion.<sup>228</sup>

The upward trend of private renting looks set to continue as social renting declines, and the number of private renters in poverty is projected to grow.

The cost of private rents is forecast to rise by 90% in real terms between 2008 and 2040 – more than twice as fast as incomes.<sup>229</sup>

While poverty is found in all kinds of housing (see table 12), its nature varies. Half of those in relative income poverty live in owner-occupied or mortgaged properties. They experience above-average levels of temporary poverty, but relatively low levels of prolonged poverty. In contrast, social renters are far more likely to experience prolonged poverty.<sup>230</sup>

**TABLE 12: RELATIVE INCOME POVERTY BY TENURE**

	Before housing costs (BHC) (%)*	BHC (m)	After housing costs (AHC) (%)	AHC (m)
Owners	49	4.9	33	4.5
Own outright	28	2.8	14	1.9
Own with mortgage	21	2.1	19	2.6
Social rented sector	30	3.0	34	4.6
Private rented sector	22	2.2	33	4.5

\*Figures may not add up to 100% due to rounding.

Source: HBAI 2014/15<sup>231</sup>

More positively, the link between poor housing conditions and poverty has been at least partially broken.<sup>232</sup> Analysis shows 85% of people experiencing chronic poverty do not experience housing deprivation.<sup>233</sup> Nonetheless, poor housing conditions do remain an issue, particularly in the PRS, where one in three homes fail to meet the Decent Homes Standard, and one in ten have a damp problem.<sup>234</sup>

Many people aspire to own their own homes, and owning a home can offer security and enable people to build assets. However, this is an aspiration that is out of reach for many in the current housing market, and the housing crisis cannot be ended through a focus on home-ownership alone.

The projections to 2040 underline how unsustainable the current arrangements are. They suggest that levels of poverty caused by housing costs in England can only be contained if the rate of housing supply nearly doubles, rent rises are limited and people continue to receive support with their housing costs.<sup>235</sup>

What follows is a broad strategy involving four key steps:

- 1 increasing the supply of affordable homes
- 2 more help with unaffordable housing costs
- 3 pushing up standards, particularly in the PRS
- 4 a bigger role for social landlords.

## Step 1: Increasing the supply of affordable homes

Increasing the supply of housing cannot be achieved by the market alone. Current rates of house-building in England are at around half the level needed to meet existing and anticipated demand.<sup>236</sup> For decades, there has been a failure to build enough homes. Since private developers have no interest in flooding the market with new properties, increasing the supply of social and intermediate housing is critical.

Table 13 shows the most recent projections of affordable housing needs for each of the UK's four nations.

**TABLE 13: HOUSING NEED IN THE UK'S FOUR NATIONS**

	Affordable need per year	Recent delivery per year
<b>England</b>	78,500 <sup>237</sup>	52,472 <sup>238</sup>
<b>Northern Ireland</b>	1,500 <sup>239</sup>	1,540 <sup>240</sup>
<b>Scotland</b>	12,014 <sup>241</sup>	4,722 <sup>242</sup>
<b>Wales</b>	3,500 <sup>243</sup>	2,350 <sup>244</sup>

England needs to build 243,000 houses per year, at least 78,000 of which need to be social or intermediate housing.<sup>245</sup> In recent years, there has been a shift in funding for social housing, away from public subsidy and towards greater reliance on increasing rents and borrowing on the part of social housing providers. However, higher rents to finance new development are projected to increase poverty over the long term, as people's housing costs increase.<sup>246</sup> Many of the homes that are planned will be out of reach for people on the lowest incomes. Fewer than 3% of new social tenants could afford shared ownership or starter homes instead.<sup>247</sup> Outside England, ambitious targets are being set to increase the supply of affordable homes.

### Living Rents

**JRF has produced a costed plan**, with the National Housing Federation and Savills,<sup>248</sup> for delivering the required volume of affordable housing in England. It aims to keep rents more genuinely affordable than the 80% of market prices allowed under the current 'affordable rent' policy, which links rent to a dysfunctional housing market. The Living Rent gives social landlords some rent-setting flexibility to raise revenue for building more homes, but it does so with reference to earnings at the lower end of the local labour market. Such a policy should also ease transitions into work.

### **How the Living Rent would work**

Under a Living Rent policy, rents should be affordable for any household with someone in full-time employment.

The calculation begins with the lower-quartile earnings for people in the local area. At the time the model was developed, the base would be equivalent to a person working full-time on the then minimum wage. A rent is then set for each area, based on charging a fixed percentage (28%) of the net local earnings figure. Annual rent rises would be linked to inflation (Consumer Price Index (CPI)) but rebased periodically according to changes in earnings (we suggest every five years).

Rents would vary according to local labour market and pay rates. The figure of 28% is in line with the current share of income spent on rent by social renters, and substantially lower than the share of income spent by low-income private renters. Adjustments for property size are made using recognised equivalence scales.

Homes let at Living Rents would be suitable for those who have traditionally accessed social rented housing. Linking rents to lower-quartile earnings ensures affordability for those in, or seeking, low-paid work. It is not a product designed to meet the needs of those further up the income scale – this would be addressed via a supply of homes for shared ownership or intermediate rent.

The package would consist of 80,000 new homes each year in England, at least 40,000 of which would be let at Living Rent levels, with the balance for low-cost home-ownership or intermediate rent. At the time the model was developed, it was calculated that social landlords would be able to meet 70% of the cost, equating to £7 billion a year, but requiring a capital grant top-up of £3 billion per year – £1.14 billion more than current plans for investment in affordable housing. Moving from Affordable Rents to Living Rents would save UK Government £5.6 billion a year by 2040, at 2011 prices.

Outside England, **JRF recommends** that existing plans to increase delivery of affordable homes go further by linking rents to incomes in a similar way.

### **Making better use of planning powers**

Planning policy has a significant impact on housing supply. It shapes what places are like to live in, setting out requirements for infrastructure, tenure mix, building standards, accessibility and design, all of which can help or hinder people in poverty. Planning can limit knock-on costs of development to society, and enable sharing of the benefits of growth. It can also enhance private benefits, and limit private costs.<sup>249</sup>

Planning obligations have proved important ways of delivering an increase in the supply of affordable housing within the jurisdictions where they exist. The effectiveness of planning obligations can be improved by:<sup>250</sup>

- **defining affordability in planning legislation:** affordability should be defined in relation to local earnings (as in the Living Rents policy above)
- **making the viability process more transparent:** clarifying the parameters used to decide what represents an appropriate contribution, and ensuring planning officers have the information they need to be able to negotiate
- **capacity to negotiate:** local authorities should establish specialised viability officers or teams within planning departments, and provide additional training in viability for officers and members.

There is currently no equivalent planning obligation system in Northern Ireland. Research suggests that weak housing markets in the region might mean this is only currently viable in and around Belfast.<sup>251</sup>

International experience suggests the devolution of more funding and tax powers to the local level can increase incentives to approve development.<sup>252</sup> However, it is essential that this goes hand in hand with increasing skills and capacity, that decisions are made at an appropriate scale, and that communities have a voice.

Local areas can also be enabled to increase the supply of affordable homes through the following measures:<sup>253</sup>

- **Land assembly:** more sites for affordable homes could be created by lifting the requirement to dispose of public land at the highest price, making it easier to use compulsory purchase powers, and by making more use of special delivery vehicles (partnerships set up to develop a specific site or sites). Councils will be more likely to do this if they can capture increases in land value or retain some or all of the extra tax revenue generated as a result of development.
- **Green belt:** Planners should revisit green belt policies and boundaries more regularly especially in pressured housing markets, where they might enable a more flexible approach (such as swapping land plots) to the use of green belt for affordable housing development.<sup>254</sup>
- **Financing infrastructure:** allowing local areas to borrow against projected future tax revenues to fund infrastructure development

### Ensuring Right to Buy does not increase poverty

Since 1980, over 2.5million homes have been sold to tenants via the 'Right to Buy'.<sup>255</sup> Recent changes have produced a complex picture, with the availability and level of discounts being simultaneously extended and curtailed in different parts of the UK.

## Variations in Right to Buy (RtB) policy between the four nations of the UK

**England:** The RtB for local authority tenants was ‘reinvigorated’ in 2012. This increased the cap on discounts to a flat rate of £75,000. At the same time, government committed to one-for-one replacement of additional stock sold. Discount caps have since risen to £77,900 in England and £103,900 in London. The 2015 Conservative Manifesto committed the party to an extension of the RtB to housing association tenants, and in September 2015 a voluntary agreement was reached with the housing association sector to give all 2.3 million housing association tenants in England access to RtB discounts.<sup>256</sup> These discounts would be at the same level as those available to council tenants.

**Northern Ireland:** The House Sales Scheme for NI Housing Executive stock was introduced in 1979. Sales levels have reduced dramatically since the maximum discount was reduced to £24,000 in the mid-2000s.<sup>257</sup> Housing association tenants in Northern Ireland have been able to buy via the House Sales Scheme since 2004, but take-up is low and there are calls to scrap it due to loss of stock.<sup>258</sup>

**Scotland:** Following earlier revisions, which enabled the RtB to be suspended in pressured areas, or for particular types of stock, the RtB ended for all council and housing association tenants in Scotland on 1 August 2016.

**Wales:** Discount levels for RtB were reduced to £8,000 in 2015, and the RtB is currently suspended in two areas. The Welsh government has pledged to bring forward legislation to abolish the RtB altogether.

The impact of RtB has varied significantly across different housing markets.<sup>259</sup> There are variables to debate about discounts and eligibility criteria. More critical is whether and how homes sold through the RtB are replaced. The extension of RtB discounts to housing association tenants in England, funded by sale of higher-value local authority stock, has brought this into sharp relief.

It is expected that 128,000 tenants will exercise the right in the first five years.<sup>260</sup> If stock is replaced in like-for-like terms with social housing there will eventually be a positive impact on the availability of low-cost housing and on poverty. However, if houses are replaced with Affordable Rent homes, poverty and Housing Benefit costs can be expected to rise. If social rented homes are replaced with shared-ownership or ‘starter homes’, these will be out of the reach of those who would access social housing and will push more people into the PRS, further increasing poverty and Housing Benefit costs.<sup>261</sup>

**JRF recommends** that homes sold must be replaced with low-cost rented properties to avoid the extension of RtB increasing poverty. Policy should respond to the differing nature of housing markets by offering local discretion over the size of discount and eligibility for all types of RtB.

Consideration also needs to be given to the ability of those entering home-ownership to afford repairs and maintenance of their property. Leaseholders bear responsibility for their share of the costs of major repairs to blocks, with past bills for major works averaging £10,000 in some local authorities.<sup>262</sup> Steps have been taken to improve guidance for buyers and to cap service charges for council leaseholders. It is important that these lessons are carried forward to the housing association sector.

### Accessible as well as affordable homes

Chapter 6 shows how families with disabled children face greater costs and an increased risk of poverty. For disabled children and disabled adults, accessible housing is a significant enabler; housing that is unsuitable, expensive to adapt and to heat can add significantly to living costs and drive up poverty.<sup>263</sup> Therefore building new homes to Lifetime Homes Standards, which allows people to stay in their own homes, will only increase in importance as people live longer, including with complex medical conditions, but is unlikely to benefit the majority. Other approaches include maintaining registers of adapted and accessible social housing stock to support allocations; and supporting shared/home-ownership by disabled people so they can adapt to meet their needs.<sup>264</sup>

**JRF recommends** building new homes to Lifetime Homes Standard and ensuring up-to-date registers are kept of accessible and suitable social housing.

### Security of tenure within social housing

The security of tenure traditionally offered by social housing is viewed as one of its most important features, and one it shares with home-ownership.<sup>265</sup> This security is not generally offered by the PRS, and would be difficult to introduce given the sector's ownership structure.<sup>266</sup> For those who cannot own a home, social housing offers their only chance of obtaining secure, long-term accommodation.

Security of tenure provides a stable platform for work, learning and life. Evidence shows that frequent moves can result in behavioural problems and lower educational attainment among children;<sup>267</sup> and housing stability has been positively linked to employment.<sup>268</sup> Housing associations in England that have voluntarily adopted fixed-term tenancies have found that in practice they offer minimal scope to make better use of stock, due to the lack of attractive 'move-on' options, and the way this discourages tenants from working.<sup>269</sup> Low-income groups require greater, not less, security of tenure.<sup>270</sup> Security of tenure empowers strong mixed-income neighbourhoods and avoids the kind of rapid turnover that can prevent community cohesion.

**JRF recommends** that secure tenancies remain the norm in social housing.

## Homelessness

Chapter 9 considers homelessness among those with complex needs. However, structural factors in the housing market, and their interactions with benefits, expose a wider group to homelessness.

Here too, there is evidence of divergence in policy and in growing variation in demand for services across Great Britain. In England, homelessness cases have risen by 34% since 2009/10, though administrative changes mean this rise is not accurately reflected in official figures for statutory acceptances. In Scotland, while the total number of applications has fallen by 37% largely due to a prevention-focused 'Housing Options' service introduced in 2010, overall homelessness remains steady. In Wales, the Housing (Wales) Act 2014 placed a far stronger emphasis on prevention and relief, the positive effects of which were seen even before the strengthened Duty came into force, as local authorities geared up for it.<sup>271</sup>

The rise in statutory homelessness in England is largely due to a sharp rise in numbers made homeless from the PRS. This is now the largest single cause of homelessness, having almost quadrupled in recent years.<sup>272</sup>

Across Great Britain, welfare reforms impact both on homelessness, and local authorities' ability to tackle it. Two-thirds of local authorities in England identified welfare reforms as playing a role in increasing homelessness in their area. In Scotland, the shared accommodation rate of Housing Benefit for under-35s was already causing difficulties in fulfilling the nation's broader homeless duty to younger people, and the extension of the rate to the social sector will make this still more challenging.

**JRF recommends** three steps to tackle statutory homelessness:

- in England, adopting the recommendations of the recent Independent Review of the Legal Duties Owed to Homeless People.<sup>273</sup> Learning from the positive developments in Wales, this places a stronger duty on councils to prevent homelessness, provides them with more flexibility to tackle homelessness at a much earlier stage, and requires them to take reasonable steps to help secure accommodation for all eligible homeless households who have a local connection
- across the UK, greater supply of social housing to help prevent and relieve homelessness. Landlords should review their policies to ensure that lettings reach those owed a homelessness duty
- the impact of welfare reforms, particularly changes to Housing Benefit, need careful review in light of their impact on homelessness.

## Step 2: More help with unaffordable housing costs

UK social security benefits do not cover housing costs of people in rented accommodation. A separate Housing Benefit has played this role, becoming increasingly important over the past 30 years.<sup>274</sup> Housing Benefit spending reached £24.3 billion in Great Britain in 2014/15, outweighing housing association grants by a factor of 23 to 1.<sup>275</sup> Although it is a revenue subsidy



to tenants, the existence of Housing Benefit has played an important role in delivering capital investment. By effectively underwriting social landlords' income streams, it has enabled housing associations to borrow at lower rates,<sup>276</sup> and enabled significant capital investment in social housing (some £63 billion of private debt drawn down in England alone).<sup>277</sup>

For owner-occupiers, limited support with housing costs has been available, but this is changing in scope, and we look at this later in this chapter.

## Housing Benefit and the benefit cap

Housing Benefit makes the most important contribution to reducing poverty caused by housing costs.<sup>278</sup> There remain gaps in take-up, especially among working households (only around half claiming).<sup>279</sup> The current system of Housing Benefit traps some in poverty – the way it interacts with other benefits discourages people from working. Both of these problems (take-up and traps) should be reduced through Universal Credit, which will integrate Housing Benefit with other working and non-working benefits and create a single taper rate.

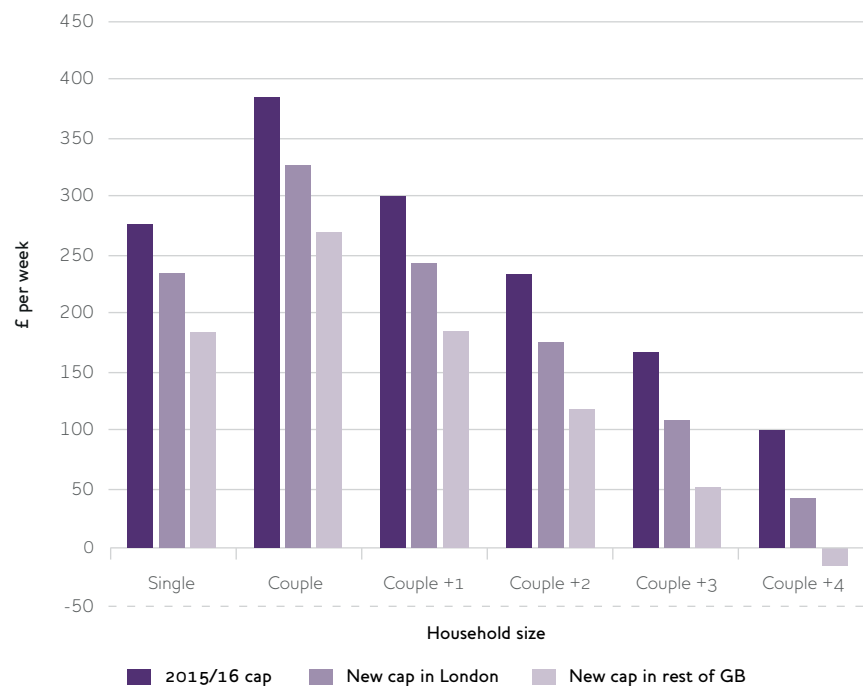
However, a growing number of people have to meet part of the cost of rent from other income, due to recently introduced changes to support with housing costs, specifically:

- The under-occupation penalty – a deduction to Housing Benefit for people living in a socially rented property that is deemed too large for their needs. It is intended as an incentive for people to move, so that social housing is better distributed according to need by family size.
- The benefit cap – an upper limit on the total benefits working-age people can receive in a year when out of work. The capped amount has to cover housing and living costs, no matter what the actual cost of their housing. It is intended as an incentive for people to move into work, move house and/or have smaller families.
- Extending the shared-accommodation rate to single people aged 25–34. This restricts younger people's eligibility for Housing Benefit to cover only a single room in a shared house, when renting from a private landlord. There has been a substantial decline in the number of younger single households in the PRS claiming Housing Benefit since this change was introduced.<sup>280</sup>
- Freezing Local Housing Allowance (LHA). The LHA is set at the 30<sup>th</sup> percentile of rents in a local area, which determines how much Housing Benefit people living in the PRS can claim. The 2015 Summer Budget froze the rates in cash terms for four years from 2016/17, meaning people will have to find the money to cover the increase from their other income if rents increase.<sup>281</sup>
- Extending LHA rates to the social sector. The Autumn 2015 Spending Review announced that from 2018, social-sector tenancies signed from April 2016 would be eligible only for the LHA rate of Housing Benefit. This 'cap' would have a significant impact on the provision of supported and sheltered housing,<sup>282</sup> where rents and service charges are higher to reflect the additional services provided.

Less than one in ten of those affected by the under-occupation penalty have moved to downsize.<sup>283</sup> The policy will effectively become redundant over time – new claimants are already subject to it. It will be abolished in Scotland and mitigated fully in Northern Ireland. In the meantime, **JRF recommends** a compensatory policy for people with specialist needs (for example disabled people who need adapted properties, people with shared parenting responsibilities) or those who wish to downsize but cannot find a suitable property.<sup>284</sup>

**JRF recommends** scrapping the benefit cap. It has not worked as an incentive to move<sup>285</sup> – people have ties to particular areas, and rely on social support networks and links to local services, like schools. The new lower cap is penalising a wider group of people, particularly those with children (see figure 6). Tackling the causes of the high benefits bill is a better strategy

**FIGURE 6: MAXIMUM BENEFIT AVAILABLE TO MEET HOUSING COSTS**



Source: Adapted from Wilcox, S. et al (2016)<sup>286</sup>

This chart shows the amount of benefit different-sized households will be able to obtain towards housing costs under the new caps. Modelling shows that couples with three or more children will not be able to get enough Housing Benefit for even a one-bed housing association property – in London or elsewhere.<sup>287</sup>

Local Housing Allowance needs to keep pace with rising rent costs.

**JRF recommends** uprating Local Housing Allowance in line with local market rents. The extension to the social sector from 2018 will be challenging for tenants and landlords, and the government should use the opportunity of the one-year deferral for supported and sheltered housing to find another way to fund these services, or exempt this type of accommodation from the cap altogether.

The shared accommodation rate of Housing Benefit has been extended in recent years. First, the age range for receipt of this rate was extended to adults aged up to 35 in the private sector, reducing the Housing Benefit payments of around 63,000 people by £41 per week. More recently the rate has been extended to the social sector for the first time, though only for new claimants.

**JRF recommends** that this cross-tenure approach of Housing Benefit is retained, but that the age ceiling for the shared accommodation rate is reduced to 25, to be consistent with the age at which young people begin to receive the National Living Wage, so can afford to live independently.

### Keeping costs down in the private rented sector

The PRS is a diverse sector. It is often seen as a stepping stone to home-ownership, and still performs that role for many. The sector is booming. The number of people aged 35–54 in the PRS has increased by 1 million in the last ten years in England.<sup>288</sup> Overall, the number of people in poverty in the PRS has doubled in the last 10 years, and is expected to continue growing.<sup>289</sup> There are acute affordability pressures.<sup>290</sup> The number of children living in poverty in the PRS has doubled in a decade, reaching 1.3 million in 2015.

Institutional investment in the PRS has been suggested as a way to change the sector and introduce greater stability, making it suitable for families and more groups (PRS landlords have legal obligations to make adaptations for disabled tenants under the Equality Act but this does not always happen; secure tenancies are a significant issue for many disabled people). JRF's Housing Market Taskforce concluded in 2011 that such attempts were unlikely to succeed.<sup>291</sup> Fresh efforts are now being made, and there are signs of growth in build-to-rent,<sup>292</sup> but until now institutional investment has only been successful when large-scale subsidy was involved.<sup>293</sup>

This backdrop has led to calls for rent controls. Evaluation of 'first generation' rent controls (controls on the rent value and the amount it can be increased by) are found to bring significant risk of underinvestment, disrepair and market exit by landlords.<sup>294</sup>

'Rent smoothing', which allows landlords to set the initial rent at market value but limits the rent increase within a tenancy, is less risky. A survey of more than 700 landlords found only 5% report raising rent annually, with the majority (57%) only doing so 'from time to time', 12% saying rarely and 7% never.<sup>295</sup> However, rent smoothing is often proposed as part of a package including longer tenancies (three or five years), bringing greater security and predictability. This combination would disproportionately benefit tenancies that are held for a longer period.<sup>296</sup>

**JRF recommends** decisions about tenure length and rent smoothing should be devolved to local authorities or combined authorities where these exist so they can take a locally-based approach.

### Owner-occupiers with mortgages

One-fifth of people in poverty have mortgages, so supporting home-owners with housing costs has a part to play in a strategy to reduce poverty. The recent downturn has resulted in lower rates of possessions than

anticipated, because of emergency measures introduced by government and forbearance by industry, combined with a period of very low interest rates. There are still concerns about what will happen as interest rates start to increase.<sup>297</sup> These concerns are heightened by evidence that suggests mortgage terms are extending to stretch affordability,<sup>298</sup> limiting opportunities to extend the term at a later date if home-owners experience life events that affect their incomes – like relationship breakdown, ill-health or loss of income.

Responsibility for protection against loss of income is currently shared, with home-owners expected to take out mortgage payment protection insurance. Help with interest payments for low-income households (Support for Mortgage Interest, SMI) now kicks in after 39 weeks. This had been reduced to 13 weeks as a temporary measure until 2016. Reducing the waiting period during the downturn is tacit admission that the earlier reduction in waiting times had not worked,<sup>299</sup> with low take-up of insurance. It is likely to be even lower since new sales rules were introduced.<sup>300</sup> From April 2018, new claimants will receive SMI as a loan rather than a cash benefit, with loans repaid upon sale of the house or when claimants return to work.

**JRF recommends** a new partnership between government, lenders and borrowers to provide a more effective safety net and private insurance for home-owners. Each party would pay in, and contributions would be compulsory. In response to designated risks (unemployment, the failure of self-employment, accident or sickness) there would be a non-means-tested payment to meet full mortgage capital and interest payments for ten months, after which payments could continue on a means-tested basis.<sup>301</sup>

The JRF Housing Market Taskforce<sup>302</sup> concluded that a three-tier system of protection is needed, based on the principle of shared responsibility, to protect borrowers from the consequences of housing market volatility. The safety net outlined above should be complemented by prudential lending and responsible borrowing. In the longer run, volatility can only be tackled by greater levels of supply of homes for sale and low-cost rent.

## Housing and taxation

Overall tax revenues from housing in the UK remain the highest in the OECD.<sup>303</sup> Rather than seeking to increase overall tax from property, attention should focus on rebalancing property taxation between tenures, creating a socially sustainable housing market and avoiding volatility, which hits people on the lowest incomes hardest.

**JRF recommends** further reform of stamp duty, making it counter-cyclical by introducing frequent uprating at the rate of consumer prices. Council Tax Support should be integrated with Universal Credit to reintroduce a single national system of support. This would address the work disincentives that Council Tax Support has introduced. In the longer term, attention should turn to phasing in a hybrid income and progressive property tax, allowing for deferred payment to aid asset-rich/income-poor households.

## Step 3: Pushing up standards, particularly in the PRS

The Decent Homes programme brought significant improvements to the quality of social housing.<sup>304</sup> It also created opportunities to link investment to the creation of apprenticeships and other opportunities. The big challenge with housing conditions is now found in the PRS, where more and more people in poverty live.

### Regulation of the private rented sector

The most comprehensive review of the PRS in recent years<sup>305</sup> proposed a 'light touch' licensing scheme, which would link to a tribunal system. Approaches to regulating and licensing the sector vary across the UK.

- Scotland has a private landlord registration scheme. A new private housing tenancy to be introduced from late 2017 will remove the 'no fault' grounds for repossession and limit rent increases to once every 12 months. It will also allow councils to ask ministers to cap rent increases in designated pressured areas.
- Northern Ireland has operated a centralised compulsory landlord registration scheme since 2014. The scheme is enforced by local councils.
- In Wales, landlord licensing was introduced in November 2015. The National Assembly for Wales has also passed legislation to simplify rental contracts, clarifying the rights and responsibilities of tenants and landlords.
- In England, councils have the power to introduce selective landlord licensing schemes. An increasing number of councils have introduced such schemes, some on a district-wide basis. Since 2015, councils must seek confirmation from the Secretary of State for any new selective licensing scheme that would cover more than 20% of their area, or involve more than 20% of the privately rented homes in their district. The recent Housing and Planning Act introduced a register of 'rogue landlords' who are prohibited from acting as landlords or letting agents.

**JRF recommends** prioritising research on the impact of these recent changes once they have bedded in. In the meantime, decisions on the implementation of selective licensing in England should be returned to local authorities, or to combined authorities, where these exist.

In England, councils already possess a number of relevant powers that could be extended and exercised to greater effect in areas where the quality of private rented homes is a problem. This is particularly important now they can fulfil their homelessness duty through the PRS.

**JRF recommends** that those authorities with a large proportion of Housing Benefit recipients living in the PRS could look to develop an

integrated service (whether run by the local authority or an agency on its behalf), which would:<sup>306</sup>

- proactively enforce environmental health standards across all housing
- operate a voluntary landlord accreditation scheme, to set and enforce quality standards
- provide a brokering service, matching tenants to suitable properties, operating on a no-let, no-fee basis
- give landlords access to information and training so they are aware of their responsibilities
- provide access to a low-cost rolling loan scheme to fund improvements to meet Decent Homes standards
- offer insurance services to cover damage, and a limited rent-guarantee service for tenants in receipt of housing benefit.

A lack of support services for tenants deters some private landlords from letting to low-income tenants, and they do not regard it as their role to offer such services,<sup>307</sup> with few having the scale to do so. An integrated service would therefore make it simple for them to signpost tenants to assistance where it is needed.

It makes sense to deliver this package at the local housing market level, where cross-local authority working is sufficiently mature.

To ensure that landlords have an incentive to engage in registration/licensing schemes, and to encourage progress towards the Decent Homes Standard, **JRF recommends** changes to tax relief available to landlords. Landlords should be able to offset capital expenditure on works towards the Decent Homes Standard against profits on rents, to provide an immediate incentive to raise quality.<sup>308</sup> Offsets should be more generous for those who are part of an accreditation or licensing scheme.

## Step 4: A bigger role for social landlords

UK poverty will not be reduced if housing costs are seen as simply the job of government. Landlords have a part to play – but there remains a question over how far they see reducing poverty as part of their mission.<sup>309</sup>

**JRF recommends** that tackling poverty should be an explicit aim in social landlords' business plans and strategies.<sup>310, 311</sup> Specifically, this should be reflected in development, rent setting and procurement policies. Social landlords aspire to link rents to local incomes and become Living Wage employers where possible.

Housing associations could play a role in delivering affordable credit to their tenants, as part of a wider financial inclusion strategy, working with credit unions where possible (see the last chapter), as well as playing a role in employment support.<sup>312</sup> Some landlords already provide these services, recognising that it is in their direct business interest to do so, particularly in light of recent welfare reforms.<sup>313</sup>

More landlords are already showing an interest in helping tenants find employment, and increase their earnings when in work. JRF welcomes this, especially as the move to UC is likely to increase the number of people actively seeking work. Additional research on landlords delivering employment support identified the following five challenges for housing providers:<sup>314</sup>

- ensuring service provision is strategic and links to broader programmes
- reaching those furthest from employment
- creating employment opportunities with external partners and networks
- embedding employment support work across the landlords' activities
- achieving greatest impact through targeted interventions, and careful monitoring.

### Home-ownership

Landlords can also support people's home-ownership aspirations. Although less than 3% of new social renters could afford supported home-ownership initiatives like shared-ownership or starter homes,<sup>315</sup> these tenures might provide an option for those whose circumstances change.

**JRF recommends** making tenures more accessible by:

- introducing lower starting shares – as low as 12% – to enable lower-income families to buy in more expensive areas<sup>316</sup>
- developing services that enable shared owners to plan financially throughout their time in the tenure<sup>317</sup>
- providing options for shared owners to 'staircase down' (sell back shares in the property) when their circumstances change.<sup>318</sup>

### Estate regeneration

There is little evidence that social mix has independently had a positive effect on households in poverty;<sup>319</sup> but good evidence that mono-tenure, highly deprived estates have negative impacts, particularly in relation to crime.<sup>320</sup>

Neighbourhoods can be a significant source of help and support that makes it easier to get by, such as access to informal childcare, and information on employment opportunities.<sup>321</sup>

Area-based initiatives like estate regeneration have had mixed success, with many more successful in changing areas than individuals' lives. A JRF-supported study of 20 'unpopular' estates over 25 years<sup>322</sup> found that they had managed to 'turn the tide'. Early progress was based on:

- sustained local housing management
- periodic capital investment
- resident involvement.

Resident involvement is critical to the long-term success of regeneration projects. Involving residents late – or in tokenistic ways – is ultimately damaging.<sup>323</sup>

While almost all the estates considered by the JRF study were significantly better places to live than when the study began, the lives of individual residents had not necessarily changed for the better, and signs of progress could be attributed to wider national trends, rather than local initiatives.<sup>324</sup>

**JRF recommends** that estate regeneration and other area-based initiatives must be based on more than just physical regeneration, and linked to wider economic strategies. When physical regeneration is considered necessary, resident involvement, and tailoring schemes to local circumstances is proven to improve outcomes. Resident ballots should be deployed to demonstrate support for proposals.

Housing problems faced by people on lower incomes are not only a significant consequence of poverty, but a significant cause of it. Even with no uplift in financial resources, serious inroads could be made into poverty by lowering the costs that low-income people face.

The costs of housing are a significant element in a cost-focused approach to solving poverty that could help all of the groups examined in the remaining chapters: children, adults, older people, and those with complex needs.



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# Childhood poverty

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## 6. Childhood poverty

A child's future prospects are strongly affected by their childhood experiences, the relationships they have with their parents and other significant adults in their lives<sup>325</sup> and by the relationships their parents have with each other. Parents raising children in poverty do an extraordinary job, raising children in very difficult and challenging circumstances. Financial difficulties can have a significant impact on the mental health and relationships of parents, which in turn can affect the development and mental health of the children.<sup>326</sup>

Childhood poverty can restrict educational achievement and disrupt a child's transition to an independent adult life. Growing up in poverty can mean being left out and left behind, wearing different clothes and not being able to go on school trips or outings that other families would take for granted, and growing up acutely aware of what poverty means.<sup>327, 328</sup> Poverty can also affect children's relationships (with their peers, parents and siblings) – with negative effects mainly arising from increased likelihood of other risk factors rather than poverty alone.<sup>329</sup>

Our vision is of a UK free of child poverty, in which all children get a strong start in life that equips them to avoid falling into poverty when they become adults. A childhood scarred by poverty is unacceptable, not only damaging children's lives and their future prospects but harming society as a whole.

Six vital steps can help us achieve this vision:

- 1 supporting family life and relationships
- 2 raising and protecting family incomes
- 3 helping parents balance work and parenting
- 4 strengthening early years childcare and education
- 5 providing all children with an excellent education
- 6 supporting the transition to adulthood.

Each step will have a positive impact on reducing poverty. Taken together, they have the potential to improve the lives and prospects of children in the UK.

## Step 1: Supporting family life and relationships

Family relationships are a vital defence against material and emotional hardship. During difficult times, immediate and extended families are often the first and most reliable sources of support. Families help to prevent poverty in many different ways. They provide childcare to enable one or both parents to work, train or recover from poor health. They can offer practical help when someone loses a job or a home or finds themselves without the resources to meet immediate needs. They can give advice and connections to help with education, work or starting a business.

Family stability is vital for children. Children raised in stable, secure families and living in good-quality homes have a better chance to flourish and better prospects for the future. Family stability matters more than family structure in preventing poverty. Parenting matters to children's development and attainment, which helps to prevent poverty in their future, but two parents, living together, are better able to earn enough for a decent standard of living and to provide 'good enough' parenting. Separation can lead to hardship for both parents, as well as for children, but the risk of persistent poverty is greater for resident parents, and therefore lone parents will often need additional support.<sup>330</sup>

Family breakdown increases the risk of poverty – 19% of lone-parent families are in poverty, compared with 16% of couple families (before housing costs – after housing costs it is 41% and 24%). The link is stronger for persistent poverty:<sup>331</sup> 23% of lone parents experience persistent poverty, compared with 9% of couples with children.

In the context of preventing poverty, the goal should be to help parents stay together where possible. When they cannot stay together, the goal should be to help them separate and parent well and to provide the right support for families after breakups. For example, a main carer needs backup, while parents not living with their children should be helped to continue to support them emotionally and financially.

### Summary of actions

- Revitalise and develop children's centres and family support services into family hubs, delivering the full range of support that families and couples need. Parenting and relationship support should be a priority.
- Central, devolved and local governments, and community and voluntary organisations should continue to fund trials of relationship support and advice for couples, and parenting support, with a strong focus on addressing and preventing poverty.
- Fund children's centres and family support services to support effective early intervention networks in every area. (Estimated cost £800 million a year across the UK).
- Provide additional funding to bring NHS perinatal mental health services to the level set out in National Institute for Health and Care Excellence (NICE) guidance. (In England this implies additional spending of £280 million a year).
- Focus additional funding on parenting programmes for which there is strong evidence of success in improving the behaviour of children with 'conduct disorders'. (Estimated cost for all 30,000 of the children in each year group – in England – who have such disorders £38 million per year).

Parental involvement in a child's earliest years has a very strong influence on development. There is no one model of 'good parenting' but a number of building blocks appear to be vital for children's development and success in later life.<sup>332</sup> One of the most important is warm, sensitive and responsive parenting, enabling children to become securely attached to parents or caregivers and to develop positive social and emotional skills. Another is acquiring good communication and language skills. This affects education and income later in life and is influenced strongly by parent-child interactions early in a child's life.<sup>333</sup> The vast majority of parents acknowledge that social and emotional development along with language and communication skills are important – as important to their children's future as literacy and numeracy.<sup>334</sup>

But living with limited access to financial and social resources, and with greater likelihood of stress, anxiety and depression, makes it hard for parents to support children's education and home-learning.<sup>335</sup> Measures to reduce the financial and other pressures on parents should sit alongside support for positive parenting practices.

### Family support services

The broad approach to family support taken in the UK is a combination of universal services with a strong focus on including those who are in most need but may be less likely to take them up, alongside targeted interventions, with referrals and coordination to ensure reaching those in need.

The evidence is that a mix of universal services and more targeted interventions is necessary.<sup>336</sup> Families on low and higher incomes are

generally able to maintain relationships and employment and to provide warm, sensitive parenting with minimal help. It is a mistake to assume that all parents on low incomes, or parents generally, need extensive help. But large numbers of families can benefit from *some* support, and some need help for specific difficulties. Relatively small numbers will also require intensive support. Low-income families with disabled children can often find it harder to access family support as well as help such as respite care and suitable childcare. Many family support services are used mainly by mothers; as services are improved they need to get better at engaging and supporting fathers.

### Current family support services across the UK

**England** reached its target of 3,000 children's centres in 2009 after substantial investment. Northern Ireland, Wales and Scotland have varying types of family support services. Since 2009, financial pressures have led to services becoming increasingly narrow and targeted. Recent investment in increased numbers of health visitors has been welcome. By 2015 there were nearly 50% more health visitors in England than in 2010.<sup>337</sup> However, the impact of health visitors depends in part on the other services they provide access to, such as parenting support and mental health services. Cuts to early intervention funding have meant that in many places health visitors find it hard to provide these when needed.<sup>338</sup>

In 2014 the **Scottish government** announced £40 million for 500 new health visitor posts.<sup>339</sup> It is committed to investing £41.6 million over four years for additional health visitors.<sup>340</sup>

In **Wales**, Flying Start<sup>341</sup> areas are providing more health visitors and a better quality of service than is possible in non-Flying Start areas. Integrated Children's Centres<sup>342</sup> aim to provide health visiting services providing parenting support, but there are only 40 of these centres to serve all of Wales. The Families First programme is an important resource in Wales.

In **Northern Ireland**, the overall number of health visitors increased by 6% between 2008 and 2014.<sup>343</sup> In Belfast HSC Trust (the largest health trust) the number declined by about 6% in 2010–2014, but there has been an increase in the number being trained in the past year or so.<sup>344</sup>

The Family and Childcare Trust proposals, outlined in the childcare section of this chapter, include plans and costs to provide an early intervention network in every local authority, underpinned by a reinvestment in children's centres. This is estimated to require £560 million per year in England, £130 million in Scotland, £74 million in Wales and £45 million in Northern Ireland. However, these are based on the same level of funding being needed per head of population.

### Family hubs

Networks of family support services vary widely across different parts of the UK.

**JRF recommends** that the devolved governments carry out their own detailed assessment of funding required to provide the services envisaged below. This funding could be used to develop children's centres into family hubs, as envisaged by the Centre for Social Justice (CSJ) in its report 'Fully Committed',<sup>345</sup> and drawing on proposals developed by Relate UK in its 2025 Vision 'All Together Now'.<sup>346</sup>

CSJ proposals include:

- using a 'hub and spokes' model, relying on larger children's centres with more community-based services to maximise access to services for those who might find it difficult to travel to a centre
- making family hubs the place mothers and fathers come to for family-related services and information
- locating as many services as possible in family hubs, including registering births, antenatal and postnatal services, childcare information, debt advice, relationship and parenting support, local activities for families and support for families who are separating
- providing links to local voluntary and community sector activities.

Offering more services in one place (co-location) maximises access to services and offers value for money, but it is not always possible. Family hubs can co-ordinate, integrate and join up services even where co-location is not the best option.

In its recently published '2025 Vision – All Together Now' – Relate UK sets out evidence and proposals to improve the quality of couple, family and social relationships in the UK; the case for strengthening relationships to improve child and adult outcomes; and for wider social and economic benefit (building on its previous research into social relationships, recession and recovery).<sup>347</sup> Relate UK's report includes the following proposed actions by the UK Government with local authorities:

- DWP, Department for Education (DfE) and Department for Communities and Local Government (DCLG) should work together with local authorities to pilot coordinating existing community-based family support into family and relationship centres to bring together a holistic, integrated, wrap-around system of support within the community.
- DfE should recast children's centres as family and relationship centres, with relationships at the core. Provision should be built upon a relational way of working throughout and include couple and family relationship support.
- Local commissioners should ensure that supporting parents' relationships with each other and as co-parents is at the heart of parenting support interventions.<sup>348</sup>

Relate UK's report highlights the importance of strengthening parental relationships in the core purpose of family and relationships centres to

maximise the potential for these to be ‘genuine one-stop shops in the community for families in the round’ and of ensuring these centres are accessible and affordable (whether physically co-located or not).

The compelling evidence about poverty as a source of pressure, stress and anxiety for individuals and relationships requires specific reference to reducing poverty – alongside relationship support – in the core purpose of any models to providing support for children and families. As is noted in the Relate UK report, the original vision for children’s centres included their role as non-stigmatising points of access to wider services from relationships support to debt advice and benefits take-up.

**JRF recommends** that governments give a strong lead in setting out the type and quality of services that all areas should provide, supporting needs and cost assessments and providing sufficient resources for the required level and quality of services. Each area should then choose its own delivery model, based on existing services and local needs.

**JRF recommends** that across all couple and family support initiatives, there is closer attention to how well they meet the needs of families who are often least well served, particularly ethnic minority families and families with disabled children and/or disabled parents.

In developing family hub networks, three specific types of service should be prioritised:

- relationship support
- parenting
- health in early years.

The local employment and income hubs recommended in Chapter 7 could potentially be linked up with the family hub network, although local areas would need to consider how best to meet the needs of the different groups likely to be involved in employment and income and family hubs.

### Relationship support

Parental conflict and mental ill-health can result in long-term negative outcomes for children, including damage to future employment and earnings.<sup>349</sup> The manner in which couples resolve conflict after separation will be a major influence on access for the non-resident parent and in setting up satisfactory maintenance arrangements, which directly affects poverty.

There has been some investment in the UK in relationship support interventions, including marriage preparation courses, relationship education for first-time parents, and couple counselling. The evidence from these initiatives is promising. Substantial proportions of couples who used the services reported improvements in well-being, communication, relationship quality and housing. Couple counselling has been found to create between £8 and £12 of benefits for every £1 spent.<sup>350</sup>

Relate UK’s 2015 report on relationship support before, during and after separation identified many challenges including the lack of a single, authoritative place to go for trusted advice that could be tailored to the family’s situation, and limited connectivity to wider services including for financial advice and support.

As an example of good practice, the report highlights the Australian government's initiative in providing a universal platform for family relationship support through an extensive network of family and relationships centres alongside the Family Relationships Online website.<sup>351</sup>

**JRF recommends** investment in relationship support and education services drawing on evaluations such as the Child Poverty Pilots for Separating Families.

### Relationship support activities currently funded by DWP

- Support contracts covering:
  - preventative support for couples during key transition points in their relationships
  - targeted support for parents with complex needs
  - work to promote healthy relationships and encourage take-up of support services
  - counselling for couples experiencing difficulties
  - training for health visitors to recognise and respond to signs of relationship distress
  - training for relationship support specialists
  - policy development work
- Piloting the inclusion of relationship education in perinatal classes to prepare expectant couples for the changes having a baby will bring to their relationship.
- Testing ways to maximise the role of local authorities in providing family-centred services, focusing on supporting and strengthening the couple or co-parent relationship.
- Funding and evaluating a range of projects across England, Wales and Scotland to help parents going through separation resolve conflict and work together to ensure better outcomes for children.
- Implementing the UK Government's Family Test to make explicit the impact of new policies on family functioning.
- Developing the evidence base via a review of good practice with the Early Intervention Foundation.

**JRF recommends** that DWP undertakes trials to establish a UK evidence base on relationship support. These should evaluate impacts for different types of families and provide transparent information about their reach, impact and cost-effectiveness.

### Parenting

Parenting has not traditionally been a major focus of policy or support.<sup>352</sup> It has become much more prominent recently but services for parents have been reduced in many areas of the country.<sup>353</sup> Low-income families are less likely to have access to support, despite being more likely to have children with behaviour problems.<sup>354</sup> The evidence on what is effective to support



parenting is weak. Programmes with the best results are generally intensive, targeted and expensive.<sup>355</sup> Some families need these, but many of those who would benefit from some support do not require this level of help. The evidence is also better for programmes focusing on very young children than those to support the parents of older children.

The Social Mobility Commission has recommended that central and devolved governments work with voluntary and community organisations to develop a parenting programme, underpinned by evidence-based approaches such as 'Five to Thrive'. The Commission has also recommended establishing an innovation fund to test ways of improving parenting skills and build up the evidence base of what works.

In relation to young children, the Early Intervention Foundation has assessed the effectiveness of programmes that aim to improve attachment, social and emotional skills and behaviour and communication and language skills. It makes a number of recommendations to improve parenting support including:

- clear messages for parents about the importance of sensitive, face-to-face interaction with children from birth onwards
- ante- and postnatal support with a strong focus on the quality of parent-child interactions<sup>356</sup>
- mandatory, broad-based assessment by early years workers of children's development at key ages (as recommended below in relation to early health and as part of reforming early years childcare).

Parenting programmes and relationship support must be non-stigmatising, accessible, affordable, appropriate and inclusive. For example, Race Equality Foundation's Strengthening Families, Strengthening Communities<sup>357</sup> programme is an evidence-based and inclusive parenting and family support programme, working with low-income parents, parents from ethnic minority groups, disabled parents and parents with learning difficulties.

There are well-evidenced parenting programmes<sup>358</sup> to improve the behaviour of children with 'conduct issues' and their parents' mental health. The cost of providing group parenting programmes for all of the parents of the 30,000 children in each year group (in England) who have conduct disorders would be £38 million per year. Research suggests that the benefits of parenting interventions are 14 times as great as their cost, over 25 years.

**JRF recommends** that the government invests £38 million per year in parenting interventions for the parents of children with conduct issues.

### Health in early years

Universal early years support is largely provided by health visitors, whose numbers have increased in England and Scotland. However, more need to be trained. Retaining health visitors remains problematic.<sup>359</sup> Key areas for which health visitors provide support include maternal mental health, quitting smoking, attachment, parenting, nutrition and promoting children's development including speech, language and communication.

A recent review of evidence for the Healthy Child Programme 0–5 in England<sup>360</sup> highlights the importance of health visitors identifying families

who need additional support, and of being properly trained, supported and supervised, both to deliver support and to identify additional needs. Local authorities are now taking over commissioning the Healthy Child Programme and delivering the universal health visiting service. Concerns have been raised over how far they will be willing and able to maintain funding for these services and for essential workforce training and support.

**JRF recommends** that local authority strategies include specific focuses on the role of these services in preventing poverty, use the best evidence available to determine what resources are needed, and ensure that they are used effectively. They should also monitor how far these services are meeting the needs of low-income families and those at risk of falling into poverty.

Living in poor-quality housing is known to affect some aspects of child health and development (e.g. living in cold or damp homes). Poor-quality and insecure housing can also affect children's education (making it harder to provide a good home learning environment), and put parental and family relationships under strain. Children from areas where housing is more affordable have been found to have better behaviour, physical and emotional health, and school engagement and performance.<sup>361</sup> Recommendations to improve access to good-quality, affordable housing are set out in chapter 5.

### **Mental health services for parents<sup>362</sup>**

Having a parent with a mental health condition can seriously affect a child's development. Poverty increases the risk of developing and continuing to have mental health problems. Parental mental health conditions were a factor in around 25% of referrals to social service departments. More than one-third of adults with mental health conditions are parents, and around two million children live in households where a parent has a mental health problem. Mental health conditions affect up to 20% of women at some point after giving birth.<sup>363</sup> Many new mothers experiencing depression are unable to access the recommended level of care. There are no specialist perinatal care services in 40% of areas in England and Scotland, 70% of areas in Wales and 80% of areas in Northern Ireland. Around half of cases of depression and anxiety around the time of giving birth go undetected.

**JRF recommends** bringing NHS perinatal mental health services to the level set out in National Institute for Health and Care Excellence (NICE) guidance, which would cost around £400 per birth. In England this implies additional spending of £280 million a year.

### Children's mental health<sup>364</sup>

A study of 11-year-olds in 2012 revealed that in the worst-off fifth of families, 17% of children had severe mental health conditions compared with 4% of children in the richest fifth.<sup>365</sup> Around 5% of children in England aged 5–10 have behaviour problems that lead to a diagnosis of 'conduct disorder' (around 30,000 children in each year group). Seventy per cent of conduct problems are found among children in the most deprived 40% of the population.

**JRF recommends** three main ways to address children's mental health within an anti-poverty strategy:

- 1 implement the recommendations from the English 'Future in Mind' and 'Five Year Forward View for Mental Health', which includes specific approaches to providing prevention, early intervention and treatment with a particular focus on children who are vulnerable, including coming from low-income backgrounds
- 2 implement a 'Whole School Approach' to children's social, emotional and mental well-being. This includes a broad range of interventions to improve children's emotional health and social skills, to address 'emotional-based learning problems' and to tackle problem behaviour such as bullying
- 3 include a focus on mental health when assessing needs or providing support for children who are outside the education system and are particularly vulnerable, for example homeless children, young offenders, looked-after children, Gypsy and Traveller children and refugee and asylum-seeking children.

In England, a new measure of child development at age 2–2½ should provide useful data to assess the impact of policies such as the Healthy Child Programme and Healthy Start.<sup>366</sup> It is important that this measure is robust, using the best evidence on child development indicators, and is linked to information about income and poverty. **JRF recommends** that data be made available locally and nationally to enable evaluation of policies and to highlight problems. Governments in England, Scotland, Wales and Northern Ireland should ideally adopt the same measure and methodology to enable robust data and evidence to be gathered across the UK.

Policy-makers locally and in the devolved and UK Governments can benefit by taking account of wider evidence on how to reduce health inequalities. A recent study by the Scottish Public Health Observatory<sup>367</sup> found that the most effective interventions were economic ones – increasing incomes for disadvantaged households through the Living Wage or the benefit system. Interventions aimed at encouraging healthier lifestyles had minimal or negative impacts on health inequalities, even when targeted at specific social groups. This suggests that addressing poverty may be a prerequisite for the success of such policies and that poverty reduction could reduce pressure on health services.

### Who is responsible?

Here we identify who should take responsibility for ensuring that all families have access to support appropriate to their needs, which is effective in preventing future poverty and addresses the needs of low-income families.

Across the UK different local structures fund and deliver appropriate family support.

- England – health and well-being boards bring together the main funding and delivery partners across local authorities and health agencies.
- In Scotland this is undertaken by NHS boards and health and social care partnerships.
- Wales – local health boards have responsibility for local health and well-being plans, linked to partnership arrangements with local authorities and the third sector under local service boards (soon to become public service boards).
- In Northern Ireland, the Department of Health, Social Services and Public Safety has responsibility in the integrated health and social care system for health delivery and social work/some family support services. These would be delivered/co-ordinated through the health and social care trusts in partnership with non-government organisations.

**JRF recommends** that these organisations have the primary responsibility for commissioning and ensuring the delivery of integrated, evidence-based, accessible services. The Early Intervention Foundation report ‘Getting it Right For Families’<sup>368</sup> makes detailed recommendations for focus and approach.

**JRF recommends** that each UK country takes steps to share information about children aged 0–5 between health, social care and early education. Our proposals for reforming childcare and early education systems will also require significant additional investment and the creation of new powers for local authorities to lead provision in this area.

The Care Quality Commission and Ofsted in England are currently considering joint inspections of services for families and young children.

**JRF recommends** that inspectorates across the UK consider single place-based inspection for early years services, as suggested by the Early Intervention Foundation.

### Teenage pregnancy

Teenage pregnancy is linked to poverty in two ways.<sup>369</sup> First, poverty is one of the strongest predictors of teenage pregnancy. Second, children born to teenage mothers have a 63% higher risk of living in poverty than children born to mothers aged 20 or over. Becoming a teenage parent makes

it harder for mothers and fathers to complete their education and find decently-paid work. By age 30, teenage mothers are 22% more likely to be living in poverty than women who gave birth aged 24 or over. By 30, young fathers are twice as likely to be unemployed than similarly deprived men who are not young fathers. It is therefore good news that teenage pregnancy in the UK is now at its lowest level for 70 years.<sup>370</sup> Nonetheless, the UK still has a higher rate of teenage pregnancy than many other countries, and the picture varies between areas. For example, the teenage conception rate is five times higher in Walsall than in Westminster.<sup>371</sup>

Policy-makers need to continue efforts to reduce the number of children born to teenage parents and to improve outcomes for teenage parents and their children.

Three kinds of intervention appear to have been successful in reducing teenage pregnancy:

- high-quality advice in schools and from parents on sex and relationships
- advice on and access to contraception, not just in health settings
- raising young people's expectations of their futures with increasing engagement in education and access to high-quality training, work experience and jobs.

There are also effective ways to improve outcomes for young parents and their children.

- Enabling and encouraging young parents to stay in school or high-quality training. This means addressing practical barriers, for example offering flexible start dates and covering costs of childcare and transport, and emotional barriers such as negative experiences of school and low expectations of the future
- Coordinating support for the wide range of needs experienced by young parents and their children. The Family Nurse Partnership programme has improved outcomes, but it is not active in all parts of the country, covers only first-time young parents and is voluntary. Local areas need to address the needs of all young parents in their area. The Sure Start Plus Pilot programme pointed towards the importance of young parents having a dedicated adviser who can identify needs early and coordinate a range of support.

The Teenage Pregnancy Knowledge Exchange highlights the high numbers of young offenders in custody who are fathers, and of young men who are not in employment, education or training (NEET). **JRF recommends** that professionals working with these young men, identify those who are fathers and offer specific support, including help to stay in education or training.

### The impact on poverty

The strategies outlined would improve the emotional, social and cognitive development and health of young children, and therefore their educational attainment and future prospects for relationships, employment and income. The actions recommended would also help to prevent families falling into

poverty as a result of mental health difficulties and relationship conflict and breakdown. Providing the recommended help for parents would improve their ability to support their children throughout their childhood.

Children from disadvantaged backgrounds are less likely to have experienced warm parenting and to have secure bonds with their parents.<sup>372</sup> This can affect their relationships, education and mental health throughout childhood and later life. Around 15% of children have the highest risk type of attachment problems, but this rises to 25% of children in disadvantaged families. Reducing stress on parents, providing more parenting support and better childcare would reduce this number and help more to overcome these difficulties.

Some emotional and social skills have been shown to have a direct impact on children's employment and incomes in adulthood.<sup>373</sup> Children from disadvantaged backgrounds are significantly less likely to have good levels of these skills by age 10 and to experience the language development that gives the best start in life. Improving children's social and emotional skills could help more children to achieve a higher standard of living later in life.

Reducing family breakdown would also be likely to help reduce poverty. Heriot-Watt modelling<sup>374</sup> suggests that a 10% reduction in the rate of relationship breakdown could reduce poverty on some measures, including children living in workless households, by around 3–4%. More significantly, it could also contribute to improving the Government's fiscal position, being worth up to £6.6 billion each year by 2041. Achieving such a reduction in rates of relationship breakdown would be challenging. However, these results demonstrate that helping more couples to stay together could contribute to reducing poverty and improving government finances.

## Step 2: Raise and protect family incomes

### Summary of actions

- Take action to increase employment and earnings among parents, as set out in Chapter 7.
- Review planned Universal Credit changes to ensure that lone parent and couple families who work the expected amount are not pushed into poverty and are moving toward the Minimum Income Standard (MIS).
- For families where parents are not working the expected amount, provide support to increase employment, hours and earnings where possible but also increase out-of-work benefits to move family incomes away from poverty and towards MIS.
  - Over time, raise Jobseeker's Allowance (as recommended in Chapter 7).
  - Also raise the child element of Universal Credit by 20% for families with children under 5, at a cost of £1 billion in 2020.

- Review the level of benefits received by young, single, pregnant women to ensure that they can eat healthily and meet other basic needs adequately.
- Reverse cuts to Universal Credit for parents aged under 25, at a cost of £150 million.
- Pay benefits and tax credits intended to support children for all children, instead of restricting them to the first two children in a family at a cost of £2 billion per year.
- Review the child support system to establish its impacts on poverty, work incentives and relationships for mothers, fathers and children.

Supporting families to achieve and maintain an income that enables them to meet their needs is a vital element in giving children a good start in life. This means improving parents' ability to earn enough to support their families. But the state also has an important role to play

Traditionally in the UK, the state has made a financial contribution to all families' incomes to help with the costs of raising children. This acknowledges that children bring benefits to the whole society, for instance as future workers and carers, and that supporting their development and well-being is important to all of us. State contributions to children's costs also acknowledge that employers cannot pay workers differently according to how many people they are supporting, but that a wage sufficient for a single person may not be enough to provide children with a decent standard of living. Detailed analysis presented in Chapter 7 shows that many families have incomes well below MIS. This is particularly the case for workless families and those with low hours of work.

This is a good reason for the state to carry on supporting families' incomes and contributing to the costs of raising children. In particular, it is important for this support to be given to families on low and middle incomes. Given the pressure on public finances, it would be sensible to focus resources on these families, since those on higher incomes are far less likely to need help meeting their children's (and their own) needs. The current system of Child Benefit and Child Tax Credits aims to achieve this but, in combination with low-paid work, unemployment, under-employment and other factors, leaves many low-income families with insufficient resources.

Child Benefit can be a valuable form of support for parents that is outside the system of means-testing. JRF supports continuing to pay Child Benefit to families separately from Universal Credit. However, since the main purpose of Child Benefit is not to reduce poverty (and it is arguably not the most efficient mechanism for doing so), our recommendations focus on Universal Credit and out-of-work benefits for families.

Under Universal Credit, the main earner in a family is expected to work full-time and the main carer to work part-time within school or childcare hours once their child is aged three. Lone parents are similarly expected to work during school hours. Opinion polling suggests that this is roughly in line with broader social expectations.<sup>375</sup> Therefore the UK Government should aim at least to ensure that parents working these hours have incomes that take them out of poverty. Currently, most lone-parent and couple families where parents work this amount have enough income to escape poverty

(as shown in Chapter 7), as long as their housing and childcare costs are not too high. It is important that this continues.

However, planned changes to Universal Credit in 2020 will reduce the incomes of low-paid, working lone parents, despite the projected increases in the National Living Wage (NLW) and the rising personal tax allowance. By 2020, lone-parent families are likely to drop into poverty (with incomes below 75% of MIS), even when they work full-time on the NLW. Couples where one person works full-time and one part-time on the NLW may also find that their incomes stagnate at around 88% of MIS. **JRF recommends** that changes to Universal Credit are reviewed to ensure that these families' incomes continue to move them out of poverty and towards MIS.<sup>376</sup>

The income levels that should be provided for families where parents are not in paid work, or work less than this amount, are more controversial. There is a tension between wanting to ensure that children have a decent childhood and good future prospects (which living on a low income can damage) and believing that families will be better off when parents are in work (which can bring benefits that go beyond income). Workless families' incomes have been decreasing and now fall well below what they need to stay out of poverty.

The needs of families with disabled children need specific consideration. They face higher costs, more difficulty finding childcare and often need or choose to have at least one parent providing full-time care for longer than other families. Likewise, the needs of families where parents are unable to work for long periods due to ill-health should be considered separately.

Recommendations in Chapter 7 include raising the level of Jobseeker's Allowance. This will benefit workless families and reduce poverty.

In addition, over time **JRF recommends** that the Government raises the child element of Universal Credit to move these families' incomes closer to MIS. Within this, priority should be given to families with children under 5, who are at higher risk of poverty and find it harder to balance work and caring. **JRF recommends** increasing the child element of Universal Credit for families with children under five by 20%. IPPR modelling shows this would take 100,000 children out of poverty in 2020 at a cost of £1 billion.

There are particular concerns about the low level of benefits received by young, single pregnant women who are out of work. Research on income adequacy suggests that these young women may well find it difficult to eat healthily on these incomes. Urgent attention should be paid to increasing the incomes of these young women, to enable healthy pregnancies and support children's development.

Benefits for claimants under 25 have recently been cut, which has a particularly negative impact on young parents. **JRF recommends** that families should receive the same level of support regardless of the age of the parents. Specifically, **JRF recommends** that the Government reverse the cuts to Universal Credit for young parents, at a cost of £150 million per year.<sup>377</sup>



### Families with disabled children and disabled parents

Families with disabled children can face additional barriers to avoiding poverty. Around 7% of UK children (around 0.9 million) are disabled and 10% of UK children (around 1.6 million) live in a family with at least one disabled child.<sup>378</sup>

- Disabled children are more likely to live in a lone-parent family (32% compared with 22% non-disabled)<sup>379</sup> and have an increased risk of parental separation during the first two years of life.<sup>380, 381</sup>
- Families with a disabled child are less likely than other families to live in a decent home and more likely to live in overcrowded accommodation, to rate their home as being in poor repair and to report problems with wiring, draughts and damp in a child's bedroom.<sup>382</sup>

Families with disabled children and more severe health conditions face higher risks of poverty as parents can be less able to work and have additional costs.<sup>383, 384, 385</sup> The worst-off families with disabled children may also receive fewer services than better-off families and have less access to short breaks/respite provision.<sup>386</sup>

Extra costs affect the ability of families with disabled children to manage their finances. For example, they:

- are more likely to report living in some form of financial difficulty<sup>387, 388</sup>
- are more likely to report difficulties accessing the services they need locally, and that trying to do so causes stress<sup>389</sup> and higher transport costs<sup>390</sup>
- are less likely to participate in sport both in and out of school, due to lack of money, the child's impairment, unsuitability of facilities and lack of transport.<sup>391</sup>

Support for disabled adults as parents is important and inadequate.<sup>392</sup> Additional costs and barriers faced by disabled adults are covered in other chapters.

### Benefits and tax credits for larger families

Families with more children are more likely to be in poverty than families with fewer children – 15% of families with only one or two children under 19 are in poverty, compared with 21% of families with three children, 19% of families with four children and 35% of families with five or more children. However, the number of families in poverty who have more than two children is relatively small: in 2013–14, over 160,000 families in poverty had three children, over 30,000 had four children and just over 20,000 had five or more children. These families are also disproportionately likely to be from some ethnic minority groups. This compares to just over a million families in poverty with one or two children.

Higher poverty among large families arises for two main reasons;<sup>393</sup>

- higher costs from having more people to support
- higher unemployment and lower hours of work, because it is more difficult for parents to work while children are very young, and harder to juggle childcare and work when they are older.

A question for policy-makers is therefore whether steps should be taken to encourage smaller families, particularly for those who are on low incomes and may struggle to support children. The current UK Government has restricted Child Tax Credit to only the first two children from April 2017. One argument used to support this is that it will encourage families to limit their numbers of children.

There is some evidence that increasing the generosity of benefits for children might increase the numbers of children born to families affected by those changes. This arises mainly from a study of the impact of a 50% increase in spending per child on benefits between 1999 and 2003, which found that it was associated with a 1.3 percentage-point increase in the probability of a birth among couples in the group most affected by the change.<sup>394</sup> However, there are a number of questions that this study does not answer, including:

- whether smaller changes in state financial support for children have a proportionate impact (the evidence is for quite large changes)
- the effect of people changing the timing of births – the evidence suggests that some of the increase in birth rate in the 2000s came from people changing the timing of births rather than the number of children. This could be positive if it meant that people delay having children until they are in a better financial situation, or it might mean that the effect is not as big as expected, since though parents delay children, support is still needed once they do have them.

There is strong evidence that restricting tax credits to only the first two children will increase poverty among families with three or more children and that this will drive a significant increase in overall child poverty.<sup>395</sup>

JRF believes that the high risk of damage from increased poverty outweighs the uncertain benefits of encouraging smaller families.

**JRF recommends** that benefits and tax credits intended to support children should be paid for all children, and not be restricted to the first two children in a family. IPPR modelling shows this would move 350,000 children out of poverty and cost nearly £2 billion per year by 2020.

### Child support when couples separate

The amount and stability of child maintenance can be very important for separated families.<sup>396</sup> Around one in five single-parent households exit poverty because of child maintenance payments. Child maintenance makes up as much as a fifth of total income for the lowest-income families. However, only a minority of lone mothers receive maintenance, and average amounts are low. One study suggests that only 37% of lone parents in

the UK receive maintenance.<sup>397</sup> Overall, separated fathers tend to recover financially from relationship breakdown more quickly than mothers, but unemployed or low-paid fathers can find it difficult to manage financially.

Formal child maintenance arrangements are more likely to be stable and enduring than informal ones. However, the UK's system of child maintenance has tended to achieve low levels of compliance from non-resident parents. A new system<sup>398</sup> of managing child maintenance was introduced by the Welfare Reform Act 2012 and began in 2014 with the Child Support Agency being wound down over the subsequent three years. It is unclear what impact the new system will have on poverty among children, mothers and fathers. **JRF recommends** that the new system is rigorously evaluated before suggesting changes to improve its impact on poverty.

### How the child maintenance system has changed

The new system introduced in 2014 has a similar structure to the previous scheme but there were significant changes including:

- greater encouragement for separating parents to make voluntary arrangements for child support
- a self-service Direct Pay system, allowing parents to administer the arrangements they choose
- a third option of a replacement statutory system in which the Child Maintenance Service will collect and pay maintenance. If parents are unable to reach an agreement and use the statutory system they pay a £20 application fee
- if parents do not meet their liabilities under the Direct Pay or statutory systems, the non-paying parent is charged a 20% fee on top of their child maintenance payment.

There are a number of poverty-related concerns with the new system:

- charging for the services of the Child Support Agency may prevent low-income couples accessing these arrangements<sup>399</sup>
- increased informal arrangements could lead to decreased or less reliable support for children and resident parents
- the formula used to calculate support could force low-earning, non-resident parents into severe poverty and put them off taking up or increasing work hours.<sup>400</sup>

The UK Government is committed to carrying out a '30-month review' of the impact of fees within the new system, by end of 2016 or early 2017. DWP has commissioned an evaluation study.<sup>401</sup> Independent quantitative and qualitative research on the following questions is essential:

- 1 What impact is the new system having on incomes among children, resident and non-resident mothers and fathers, and second families?
- 2 What impact is the new system having on relationships between parents, and between children and parents?

- 3 What effect does the system have on work incentives among both resident and non-resident parents?
- 4 How far are mothers and fathers able to access good-quality advice and support that enables them to reach and maintain stable arrangements (both financial and in relation to care and contact with children) that provide adequate financial and emotional support for all the children involved?

**JRF recommends** that the system's central focus should be on minimising poverty for all parts of the family, after further investigation to establish how it could be improved more fundamentally.

### The impact on poverty

In 2014, over 2 million families with children were living in poverty. This included around 780,000 single-parent families and over 1.3 million couples.<sup>402</sup> Improving the incomes of these families would have a direct impact on their standard of living and children's development, education and future prospects.

For example, research suggests<sup>403</sup> that raising the family income of children receiving free school meals to the average for the rest of the population could reduce the gap in educational attainment at age 11 by half.

## Step 3: Help parents balance work and parenting

### Summary of actions

- Continue to improve parental leave, maternity and paternity pay and other support to enable families with children under the age of one to maintain a decent standard of living while caring for them at home.
- Improve Maternity Allowance to provide better support for low-income families with young children.
- Improve flexibility at work (alongside childcare) to enable more parents of children older than 12 months to carry out some paid work.
- Increase the availability and affordability of out-of-school care.

One of the biggest challenges for many parents is balancing caring for children and earning enough to support them. Parents in low-income families often have jobs that give them little control over hours or location. It can also be harder for them to find and afford childcare to match their hours and that they and their children feel happy with. The goals will be

different depending on the age of the child and each family's choices. There are particular challenges for families with disabled children. These families often face more barriers to parents' working, find it harder to access childcare and may need and want to care for their children themselves for much longer or permanently.

**Birth to 1:** Ideally, most children would spend their time mainly with a parent or primary carer at home. There are developmental benefits for children in having this parental care when they are very young.<sup>404</sup> It is also important for fathers to be able to take leave during this year in order to develop a strong bond with the child, support the couple's relationship and promote the involvement of both parents in childcare and work from an early stage.<sup>405</sup>

**1 to 2:** There is inconclusive evidence on the benefits of formal childcare for children, but high-quality childcare does not appear to damage children's development. Research does suggest it is helpful for both parents to remain in touch with work during this time. Policies should aim to help a parent retain their job where possible, provide access to high-quality childcare where both parents wish to go back to work, and promote flexibility at work so that both parents can combine work and caring.

**2 to 5:** Research suggests that children benefit from attending some high-quality formal childcare from around the age of two. The evidence is strongest for benefits from regular, part-time attendance. As long as the care is good, children do not appear to be disadvantaged by longer hours, although experts suggest that a 'blended approach' may be best, with some centre-based care combined with home-based care, for instance with a childminder.

**School age:** To enable parents to work, they need access to out-of-school care during work hours and holidays and this care needs to be a positive experience for children. However, whereas high quality (defined in quite specific ways) is of over-riding importance for early-years childcare due to its developmental impacts, out-of-school care for school-age children does not need to provide similar educational benefits.

Recommendations for pre-school childcare are set out in detail in the next section. Here we set out recommendations for parental leave, maternity pay and wrap-around care for older children.

### Parental leave

Parental leave promotes children's prospects in two ways. It enables both parents to form close, warm relationships with their children when they are very young, and makes it more likely that both parents can remain in work.

The system of parental leave in the UK is moving in the right direction, aiming to provide shared parental leave for the first year of a child's life and to encourage both parents to take up part of this leave. This has a dual purpose of promoting bonding between young children and both parents, and enabling both parents to maintain their earning potential.

Evidence on the optimum length of parental leave and the best age for children to begin childcare is inconclusive and different families will vary in how they prefer to arrange this. There is evidence that equal,

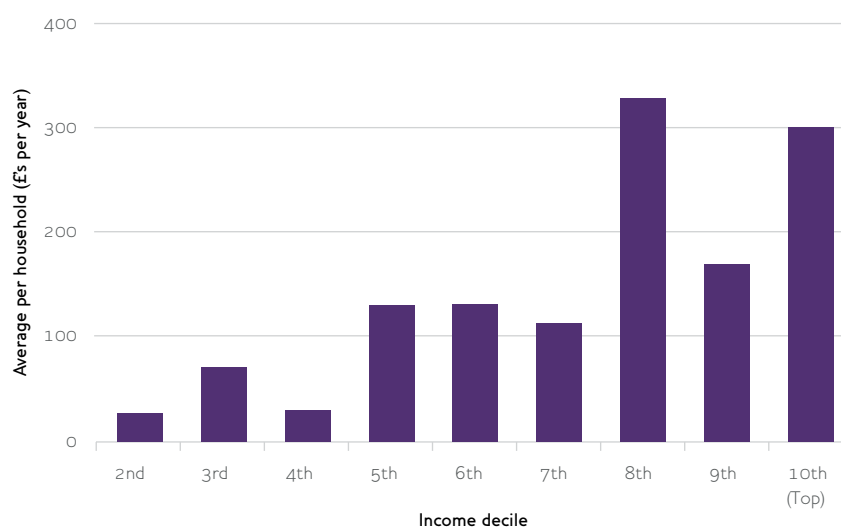
non-transferable, highly-paid (usually higher than 75% of previous earnings) parental leave encourages more fathers to take up the leave and reduces the obstacles to mothers returning to work.<sup>406</sup> The more similar in length the non-transferable leave is for both parents the better. Highly-paid leave increases the likelihood of both parents – particularly fathers – taking up their entitlement, but it can mean that large amounts of public funds are directed towards well-off families. Parental leave should be designed to increase fathers' involvement in childcare and mothers' connection to the while enabling families to make the choices that suit them.<sup>407</sup>

Funding for parental leave should prioritise low-income families, who are at greater risk of experiencing difficulties in bonding with their children, and of becoming unemployed and stuck in low-paid work.

## Statutory Maternity Pay and Maternity Allowance

In 2014/15, 270,000 women received Statutory Maternity Payment (SMP) and 60,000 received Maternity Allowance in Britain, with £2.32 billion spent on SMP (1.4% of total welfare expenditure) and £417 million on Maternity Allowance. Current spending on SMP is skewed towards better-off households, partly because it pays 90% of earnings for the first six weeks, even for highly-paid mothers.<sup>408</sup>

**FIGURE 7: STATUTORY MATERNITY PAY AND ALLOWANCE**



Source: ONS 2015<sup>409</sup>

The UK Government should look at ways to use this budget to provide more support for parents in low-income families, so they can spend time at home with children under one without falling into or deepening poverty.

For families on low incomes, the top priority should be to improve the support provided through Maternity Allowance. There is an anomaly within the current system whereby SMP is treated as 'earnings from employment' within the tax credit system, while Maternity Allowance is treated as 'unearned income'. The Citizens Advice calculated that this means that single

mothers on Maternity Allowance could receive £72 less than a lone parent who is entitled to SMP, and a couple could receive £48 less if the mother is receiving MA.<sup>410</sup>

**JRF recommends** that Maternity Allowance is treated as ‘earnings from employment’ within Universal Credit, as with SMP and other work-related payments.<sup>411</sup>

### Families with older children

Two key factors are needed for families of older children to balance work and caring: availability of good-quality part-time work (covered in Chapter 7), and accessible, affordable, good-quality childcare. This can be especially important for lone parents and those who do not have access to informal childcare arrangements, and families with disabled children and adults.

In England, 62% of parents of children aged five or over, where at least one parent was working or looking for work, said that they needed some wrap-around childcare.<sup>412</sup> Of those, two-thirds had been able to find it. However, only half of families with working parents had been able to find term-time childcare to match their working hours, and only 59% had found holiday childcare that did so.

Flexibility of childcare is a problem for around a fifth of working couples, and 27% of working lone parents. Affordability is a problem for 40% of working lone parents and 29% of working couples. Families with higher incomes are more likely to find childcare to match their working hours than those on lower incomes.

UK-wide research suggests that these difficulties with availability and affordability are also felt by parents across the rest of the country.<sup>413</sup> The Commission for Childcare Reform,<sup>414</sup> in Scotland, found that only 15% of local authorities in Scotland had sufficient childcare in 2015 for parents who worked full-time, and recommended that all parents should be able to access around 20 hours per week of childcare for primary school-aged children during term-time and sufficient holiday care.

**JRF recommends** applying the Commission’s proposal to all UK countries.

### Parents who work atypical hours

Three-quarters of parents on low – middle incomes work at weekend or outside usual office hours.<sup>415</sup> Around a third of those families say this causes problems with their childcare.<sup>416</sup> Only 15% of local authorities in England, 4% in Scotland and none in Wales have enough childcare for parents working atypical hours. Many families in these situations rely mainly on informal childcare and ‘shift parenting’ to manage, but this does not meet all of the need. There are examples of formal childcare that can support these families more effectively:<sup>417</sup>

- nurseries and wrap-around care that are open 7am–7pm
- sessional crèche provision for students and those with irregular work
- childminders, who can sometimes be more flexible.

Brent Council has developed a model of 24-hour childminder care<sup>418</sup> and My Family Care<sup>419</sup> is a digital platform that matches local childminder and nursery vacancies with parents who need short-term or emergency childcare. One Parent Families Scotland offers childcare services in Dundee and the East of Scotland, which can be booked in hour-long slots, seven days a week from early morning to late evening.<sup>420</sup> However, these remain small-scale isolated examples, and overall childminder numbers have continued to decrease, particularly in England. The investment in childminder networks and support, recommended below, would help to address some of these issues, but local authorities need to take action as well.

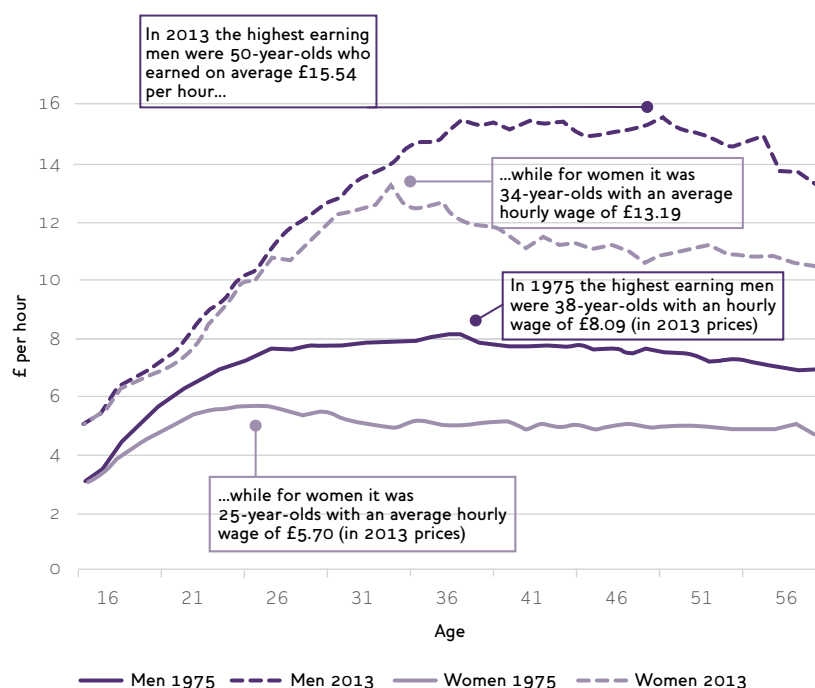
**JRF recommends** that local authorities assess the level of demand for formal childcare among parents working atypical hours in their areas and develop provision to meet this demand.

## The impact on poverty

Families with young children are at particular risk of poverty – 30% of families with a child aged one or under are in poverty, along with 23% of families with a child aged two to four. In comparison, 26% of families with a child aged five to ten are in poverty. Improving financial support for low-income families when children are young would directly reduce their poverty during that period, which would also therefore support children's development and educational prospects.

Lifetime trends in women's pay shows that it reduces around the age when they have children and often does not recover.

**FIGURE 8: EARNINGS PEAK AT OLDER AGE FOR MEN COMPARED WITH WOMEN**



Source: ONS 2014<sup>421</sup>



Many women work in jobs well below their skill levels to balance work and caring for children – 908,000 parents have the qualifications for good-quality jobs, want part-time or flexible jobs, and are either workless or working below their skill levels.<sup>422</sup> Improving the flexibility and quality of work available to those women could improve the living standards of these families, taking 113,000 households out of poverty. A further 87,000 people with lower qualifications who want part-time work could also benefit from better-qualified people being enabled to work in jobs that match their skill levels, reducing the competition for lower-paid work.

Enabling more women to stay in work after having children could reduce poverty in the short, medium and long term, with potential effects on women's incomes in later life. Heriot-Watt modelling suggests that reducing the gender pay gap would reduce poverty. For example, closing the gap by 2041 could lead to a reduction in poverty of between 3.6% and 9.5% (depending on the measure of poverty used). It could also lead to an improvement in the public finances of up to £15 billion per year.

## Step 4: Strengthen early years childcare and education

A consensus has developed around the importance of early intervention, especially in terms of early childhood education.<sup>423</sup>

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### Summary of actions

Implement a ten-year plan to transform early education and childcare systems across the UK.

- Keep the mixed market of private, voluntary and maintained sector providers, with childminders and centre-based care playing important roles.
- Invest in a social enterprise programme to develop business models that are proven to deliver quality and flexibility.
- Link childcare providers more closely to early intervention networks and improve their support for home learning, helping families to access services and giving children the best start at home.
- Over ten years, increase public funding for childcare to 0.85% of GDP (compared with 0.48% now), linked to greatly increased requirements for quality and links with other services.
- Fully devolve childcare funding to Scotland, Wales and Northern Ireland.

Childcare and early education can protect children against the negative effects of poverty and improve their development, contributing to better educational and employment outcomes later in their lives. Affordable childcare that can match parents' hours of work or education can reduce

pressure on families' incomes and help parents to work, participate in training or look for a job.

The UK has made great strides in the last 20 years in extending access to formal pre-school childcare. However, successive governments have failed to develop a coherent strategy to shape the provision of high-quality, flexible and affordable services. Separate funding streams have been set up at different times for different purposes. Relying on cash subsidies for parents gives national and local government limited influence over provision. The market tends to serve those with the lowest incomes least well.

There are three main problems with the UK's current childcare provision:

- 1 Many children do not experience childcare that is good enough to improve their development. Childcare has to be very high quality to deliver improvements to children's development. Most childcare across the UK does not meet this standard.
- 2 Families living in areas with high unemployment are less likely to have access to childcare that covers normal working hours (8 am – 6 pm most weeks of the year). Children in these areas are more likely to attend nurseries in schools, which tend to be higher quality but provide shorter and less flexible hours of care than nurseries in the private and voluntary sector.
- 3 State support for childcare costs is poorly targeted and poor value for money. The additional help with childcare costs promised by governments across the country does not address affordability problems such as deposits and up-front fees, is bureaucratic and difficult to navigate for many parents.

Some ethnic minority groups face additional barriers to accessing early-years childcare and education – reflecting a combination of affordability, awareness, concerns about culturally appropriate care, gendered expectations and personal preferences.<sup>424</sup>

At a workshop held as part of the preparation of our strategy, parents and childcare providers in Bradford described childcare as expensive, unaffordable and inflexible. They told us what would make a difference for childcare:

*“Affordability [is most important], because I can’t honestly afford it.”*

*“Our number one was free childcare for working parents.”*

*“Looking into the unemployed people and getting them back into work. Half of the problem is that people who are unemployed have problems with childcare or affording childcare to get back into work.”*

*“More availability and access to the childcare on certain times and days. Especially if you’re working shifts. So you can work extra.”*

*“More childminder networks, backup if your childminder is ill. I don’t understand that, if your childminder’s ill you’ve got to pay her sick pay and find someone else.”*

*“... Introduce quality criteria for childcare providers that are government funded. There should be more funding for that otherwise there is nothing you can do. For me this would make my life more easier.”*

Childcare providers in Bradford had similar worries:

*“When you only have your 15 hours, you are restricted in how you can use them. Parents can’t always match them to their hours. So they don’t work.”*

*“We work with a lot of private day nurseries who don’t offer that flexibility, it’s either a morning session or an afternoon session.”*

*“Now with the [National] Living Wage I’m going to have senior staff and new joiners on almost the same wage. How’s that going to work?”*

*“It is difficult, the overall income that is brought in from charging parents their fees wouldn’t cover the salary of a graduate. Do I put the fees up and make it more unaffordable for parents?”*

*“Quality, because high quality can make the biggest difference to children and if it’s not high quality it can do damage to children.”*

### Reforming the UK’s childcare and early education system

From 2017/18, the majority of childcare providers’ income will come from the state. However, the current system provides little accountability for this funding, with limited ability to ensure it provides childcare that delivers developmental benefits for children, or supports parents’ employment.

The Family and Childcare Trust has developed proposals for JRF,<sup>425</sup> setting out a ten-year plan to establish a system of early years education and childcare to meet the needs of children and parents, give the sector a secure basis and radically raise the quality of what is on offer. **JRF recommends** an approach that focuses in the short-term on neglected areas of investment, such as raising the quality of provision; moving to structural funding reforms to enable strategic investment in services and simplify funding for parents and finally increasing funding over ten years to meet more expensive goals such as improving wages.

The key recommendations are:

#### **1 A fundamental change to a high-quality childcare system**

- Move to a graduate-led, fully qualified workforce with wage levels across all types of provider similar to current wages in the maintained sector.
- Invest in early intervention networks and family support services in all areas, with all childcare providers linked to a children’s centre or family support service (as set out in our proposals for family hubs).

- Strengthen the requirements in regulations and inspection for factors that improve children’s development, including support for home-learning environments.
- Introduce a single, consistent, evidence-based development assessment for children when they enter and exit early education. This should incorporate and build on the two-year-old assessment proposed above.

### **2 *Improve access to childcare***

- Replace the Childcare Act 2006 sufficiency duty on local authorities with a funded entitlement for parents to be able to access childcare for a full day and 48 weeks of the year from when their children are one.
- Introduce a transparent statutory admission code of practice for centre-based childcare providers, similar to that in place for schools, to encourage more social mixing in parts of the UK where childcare is currently very segregated.
- Extend free childcare to 60% of two-year-olds, once high-quality places are available.
- Extend and increase funding for childminder networks, linking childminders to each other and to children’s centres and family support services, and providing brokerage and support to childminders and parents. Investigate further ways of enabling parents to access ‘blended care’, combining home-based care with centre-based early education, especially for younger children.
- Create a business development programme to support the development and expansion of social enterprises and providers that are most successful in expanding access to high-quality, flexible care in areas where many families have low incomes.

### **3 *Extend and reconfigure childcare costs to increase affordability for families on low incomes***

- Remove parental contributions to childcare costs for all childcare for families on low incomes where parents are in work, education, training or preparing for work.
- Establish a new funding system for pre-school childcare, which is primarily supply-led, with most funding going directly to providers and parental contributions channelled through accounts modelled on the current tax-free childcare accounts.

This plan can be rolled out in stages over ten years.

Within three years:

- increase funding for free early education to a level that supports high-quality care, including a graduate supplement
- increase the Early Years Pupil Premium to £600 per child and extend the two-year-old early education offer
- roll out a comprehensive inclusion programme for children with special educational needs and disabilities
- establish a social enterprise programme to promote and extend high-quality early years provider models
- total additional cost: £1.4 billion

Within five years:

- Replace local authorities' 'childcare sufficiency duty' with an entitlement for parents in work, education or training to a full-time childcare place for 48 weeks per year, supported by new capital and revenue grant for local authorities.
- Establish a new supply-side funding model for early-years childcare.
- Retain 15 hours of free childcare for all three- and four-year-olds but do not extend this offer to 30 hours as currently planned. Introduce income-based parental contributions for all additional hours whereby low-income families would not pay any childcare costs if parents were in work, training or jobseeking and families with incomes over an agreed threshold would pay fees starting at 50p per hour, rising to full fees for higher-income families.
- Total fees (parental contribution plus state subsidy) capped at a rate agreed by providers and central and devolved governments.
- Extend the free childcare offer to 60% of two-year-olds.
- Total additional cost (cumulative): £2.3 billion.

Within ten years:

- Implement a workforce strategy supported by a pay transformation programme to increase wages among private and voluntary sector childcare providers.
- Extend the free early education offer to all two-year-olds.
- Total additional cost (cumulative): £5.4 billion

Reviews of international evidence and examples of high-quality provision in the UK suggest that supply-led funding provides the best value for money and results for children's development and parents' participation in the labour market.

The Family and Childcare Trust suggests a number of costed ways to improve support – within Universal Credit – for childcare costs for low-income families:

- increase the childcare element of Universal Credit to 100% for families with an income below the Child Poverty Act 2010 relative poverty threshold: £150 million
- establish a facility to pay up-front childcare fees for parents eligible for the childcare element of Universal Credit: £30 million
- increase the Universal Credit childcare element cap to £1,000 per child and remove the two-child cap: £112 million
- extend the childcare element of Universal Credit to jobseekers and parents preparing for work, including education and training, who do not have access to another childcare support scheme: £170 million.

However, these are short-term improvements to a system that is not designed to deliver the childcare system the UK needs. A decisive shift to a supply-side funded system is set out in the box below.

### Simplifying childcare subsidies

A new childcare subsidy scheme should be simple, ensure that the parental contribution to childcare is controlled for those with low incomes and adequately provides for flexible, high-quality care.

With these parameters in mind, **JRF recommends** that the current plethora of schemes offering support with childcare costs should be replaced by a single funding scheme. The majority of childcare providers' funding would come from supply-side grants, building on the current funding they receive from local authorities. Families on low incomes would not pay anything for childcare if they were working, training or searching for a job. Other families would pay a contribution to their childcare costs. Parents would pay a simple income-based fee per hour for childcare using an online account (with telephone support). Parents with two- to four-year-old children would still receive 15 hours of free care each week and would use this scheme to purchase additional hours of care. The current plans to extend the free offer to 30 hours for three- and four-year-olds whose parents are in work would be reversed.

**JRF recommends** that care should be free for those with lower incomes and not consume more than 10% of disposable income for families with low-to-middle incomes. To achieve this, we suggest that fees should start at 50p per hour for families with an income over £16,200 and subsequently rise in 10p increments as income rises. Parents with an income above a certain threshold – we suggest £76,000 – would pay 100% of their childcare costs. The hourly fee should be reduced by 50% for each additional sibling attending care, up to three children, and income thresholds adjusted for single parents.

## SIMPLE FEE STRUCTURE

Family income	Up to £16,200	Up to £36,000	Up to £46,000	Up to £56,000	Up to £66,000	Up to £76,000	Over £76,000
Maximum fee per hour (first child)	Free	£0.50	£1.00	£2.00	£3.00	£4.00	£5.00
Maximum fee (second child)	Free	£0.30	£0.50	£1.00	£1.50	£1.80	£2.50
Maximum fee (third and any additional children)	Free	£0.10	£0.30	£0.50	£0.80	£0.90	£1.30

The state subsidy to providers would meet the actual cost of care. This subsidy would be provided directly to providers on a termly basis through a reformed early education and childcare grant. The amount each provider receives would reflect the number of children registered in a setting, the hours of care used and other factors, such as the relative needs of children. Unlike the planned Universal Credit and tax-free childcare schemes, this model would allow the Government to directly influence provision while controlling costs.

To ensure the state contribution adequately meets the cost of care and a sufficient supply of high-quality childcare is maintained, **JRF recommends** that an independent body is established to advise the government and local authorities on funding allocations. The success of a system with regulated fees rests on a properly resourced, responsive and flexible funding system, with a transparent relationship between provider costs and funding.

## Funding a high-quality childcare system

From 2017/18, the UK Government will spend around £7.4 billion of public money on childcare in England, about 0.48% of GDP. The total cost of the proposals set out by the Family and Childcare Trust would increase this funding to £12.7 billion in England, about 0.85% of GDP, with equivalent spending increases in Scotland, Wales and Northern Ireland.

Approximately £500 million of the additional £5.4 billion required can be found from poorly-used existing funding. This includes £200 million from tax relief for workplace nurseries and childcare contracted by employers; lowering the maximum eligibility threshold for the current tax-free childcare scheme from £150,000 to £65,000; and winding down the existing employer childcare scheme as soon as the new tax-free childcare scheme is rolled out.

The detailed costs of each element are provided in ‘Creating an anti-poverty childcare system’, a plan developed by the Family and Childcare Trust for JRF. This plan includes specific funding to support:

- the development of childminder networks with much better links to family hubs and family support services, to enable childminders to play a bigger role in delivering flexible care and the mix of group care and home-based care that can be particularly beneficial for younger children
- an inclusion programme to support mainstream pre-school settings to offer places to children with special educational needs and disabilities
- capital spending to develop more places for one- and two-year-olds and extend providers’ hours where necessary.

The fiscal benefits of making this step change in investment are difficult to quantify or guarantee. However, several studies suggest that investing in the right kind of childcare, as part of a wider strategy to solve poverty, would be cost-effective. The childcare improvements proposed would have benefits across the whole of society, improving children and family’s lives, as well as contributing to reductions in poverty.

Assuming that attending a pre-school on average increases the number of GCSEs a child attains at grades A\*–C by 0.8, Cattan and Crawford (2014)<sup>426</sup> estimate that lifetime earnings increase by an average 7.9% or £27,000 at current values, or £35,000 per household. Studies suggest that a 10% reduction in the cost of childcare leads to a 1 to 1.4% increase in the employment rate for mothers in couples. This compares to our theoretical investment of around £10,000 per child in high-quality free early education.

### Childcare reform in a devolved UK

Current provision in each devolved nation varies greatly, so reform needs to be developed individually within each nation.

**JRF recommends** that funding for childcare is fully devolved, so that each of the devolved administrations can develop childcare that meets the needs of parents and children and addresses specific strengths and weaknesses in their provision. Currently up to £439 million of childcare spending in the devolved nations is controlled by Westminster (including the childcare element of tax credits, employer-supported childcare vouchers and the tax-free childcare scheme). Table 14 shows the proposed new spending in each nation, compared with current estimated spending.



TABLE 14: PROPOSED DEVOLVED SPENDING (IN MILLIONS)

Nation	Graduate-led high-quality free early education	Children's centres and early years services	Pre-school childcare subsidies	Total proposed budget if 10-year plan implemented	Current estimated spending in 2017/18 <sup>356</sup>
Scotland	£434	£130	£708	£1,272	£756
Wales	£248	£74	£405	£727	£426
Northern Ireland	£150	£45	£244	£439	£257

Note: Detailed childcare spending figures for devolved nations are not available.

To estimate current spending, we have adjusted spending in England for the population of each devolved nation. These figures are therefore an estimate of the funding available to each devolved government.

Source: Family and Childcare Trust<sup>427</sup>

A number of recent initiatives show that each devolved government is well-prepared to pursue tailored solutions to childcare reform.

### Scotland

An independent review published in 2015 by the Scottish Government proposes steps to improve workforce training, development and support.<sup>428</sup> The independent Scottish Commission for Childcare Reform also recently set out a range of recommendations to ensure that parents have access to affordable, flexible childcare throughout the week.<sup>429</sup> The Commission recommended a review of the UK childcare funding system involving all UK Governments. The Scottish National Party set out its aspiration in the independence White Paper, Future Scotland, to move to a supply-funded system and increase free care for all children from age one to four in an independent Scotland.

Our proposals would allow the Scottish Government to implement the independent Childcare Commission's recommendation of a flexible childcare place for every child, using a supply-funded system consistent with the Commission's recommendation – a tapered fee model, keeping fees below 10% of a family's disposable income.

### Wales

Families in Wales are affected by particularly poor access to affordable, flexible childcare, largely due to the practical challenges of delivering childcare in Wales, with a dispersed population and pockets of severe deprivation.

The Welsh Government has worked to improve childcare provision, publishing 'Building A Brighter Future', a ten-year plan for childcare, in 2013 and a draft ten-year workforce strategy in 2015.<sup>430</sup> The Welsh Government has also recently acted to support local authorities in implementing the Childcare Act 2006 sufficiency duty, revising and updating statutory guidance and tools, and is expanding the early years Flying Start programme.

The Welsh Government is not currently empowered to develop policies that respond effectively to the magnitude of Welsh childcare challenges. Additional funding would allow Welsh policy-makers to address persistent sufficiency problems and promote the supply of places to halt rapid rises in costs. The Welsh Government would also be able to gradually expand Flying Start, addressing a key criticism that the current model reaches too few children.

### Northern Ireland

Centre-based childcare provision is less developed in Northern Ireland than elsewhere in the UK – the main form of early-years provision is maintained nursery classes in schools, which often lack flexibility. The Northern Ireland Executive published a new ten-year childcare strategy, *Delivering Social Change Through Childcare*, in 2015.<sup>431</sup> The strategy contains many positive proposals and commitments, notably investing to develop new places to address the most pressing gaps in provision. However, the strategy is modest in many of its aspirations, for example, having limited commitments to quality improvement and committing to fund just 1,000 new flexible pre-school places.

**JRF recommends** that Northern Ireland prioritises extending free care to two- and three-year-olds to develop sustainable early-years services beyond nursery classes. While in some respects childcare provision in Northern Ireland significantly lags behind provision elsewhere in the UK, this means that, with the benefit of investment, policy-makers have the opportunity to guide development of services more strategically than has been possible elsewhere in the UK.

### The impact on poverty

Radically reforming childcare can improve family incomes directly and children's prospects.

LINDA modelling suggests that provision of free childcare for families with children aged 0–4 and receiving Universal Credit would result in 100,000 fewer under-fives in poverty in 2030.

There is strong evidence that in addition to this, high-quality childcare can improve children's attainment at school and future prospects.

## Step 5: Provide all children with an excellent school education

### Summary of actions

- Focus on improving attainment for children from low-income backgrounds across all types of schools, rather than on particular kinds of school structures.
- Expand well-evidenced initiatives to improve the quality of teachers, especially those teaching disadvantaged children, and provide high-quality professional development to the current workforce.
- Accelerate action across the UK to support and require schools to take evidence-based steps to improve attainment for children from low-income backgrounds.
- Introduce a similar drive to improve outcomes for children with Special Educational Needs and Disabilities (SEND). This should include new funding and action to reduce the number of children with SEND who are excluded from school. The funding is estimated to be around £7 million across the UK.
- Commit to the steps shown by evidence to improve educational outcomes for Gypsy, Traveller and Roma children.

### School structures

The UK Government has announced plans for most schools in England to become academies (or be in the process of converting to academy status) by 2020.<sup>432</sup> Scotland, Wales and Northern Ireland are not following this route, with local authorities continuing to play a crucial role.

Evidence does not suggest that any of these approaches to school types will necessarily raise overall attainment or reduce the gap between children from better-off and disadvantaged backgrounds, or that increasing the numbers of academies, free schools, faith schools or parental choice will necessarily improve the educational prospects of children from disadvantaged backgrounds.

**JRF recommends** that governments should concentrate on the outcomes that schools of all types achieve for their pupils and should take similar approaches to supporting and inspecting schools of different types. Where schools are not achieving acceptable results and do not improve over time, it may be beneficial for them to be taken over by another organisation. This could be an academy chain, a local authority or another type of organisation. Governments should focus on the capacity of the new organisation to improve the school, rather than the category it falls into.

### **What is the evidence of the impact of school structures?**

A recent review of the links between poverty and primary and secondary education found little evidence that promoting particular types of schools or school structures improves the educational attainment of children from low-income backgrounds.<sup>433</sup> Investing in particular school types or structures appears to bring little in improvement in these children's attainment. Likewise, Ofsted has found that becoming an academy can help a school to improve, but does not necessarily prevent its performance from declining again.<sup>434</sup> DfE analysis of the performance of academy chains and local authority-run schools has shown that both local authorities and academy chains are capable of great performance and improvement, and of very poor performance and slow improvement.<sup>435</sup> Research into Academy Chains showed as much variation in outcomes for disadvantaged pupils, both between and within academy chains, as there is within and between local authorities.<sup>436</sup> On average, disadvantaged pupils' performance improved more in sponsored academies than the average for all schools between 2011 and 2013. However, only 16 out of 31 academy chains performed better than the average in 2013. In 2014, the contrast between the best and worst academy chains increased.<sup>437</sup>

### **How to improve school education**

There is considerable and growing evidence (some from the success of London schools<sup>438, 439</sup> and some from the wider evidence base being developed by the Education Endowment Foundation (EEF) and Institute for Effective Education) about how school improvement can be achieved, with a particular focus on narrowing the attainment gap between better-off and disadvantaged students. Two of the most important factors are effective leadership and high-quality teaching.

High-quality teaching is the most important school-level factor affecting attainment and is particularly significant for children from low-income backgrounds – having a good teacher compared with a weaker teacher leads to an additional year's progress.<sup>440</sup> Over the past two decades, the quality of teaching has been improving. Since 2009, the number of children in deprived areas in schools where the teaching 'requires improvement' or is 'inadequate' has reduced (although there has been less progress in increasing their access to 'outstanding' teaching). Schools in deprived areas find it harder to recruit teachers and to deliver this quality.<sup>441</sup> Similarly, good leadership is less common in more deprived areas: 23% of schools in deprived areas have leadership and management judged by Ofsted as less than good, compared with only 4% in the richest areas. Initiatives such as Teach First and Future Leaders aim to change this but are too small to radically change things.

A recent review for the Public Policy Institute for Wales highlighted the central role played by high-quality continuing professional development (CPD).<sup>442</sup> Research carried out by the Sutton Trust,<sup>443</sup> Centre for Social

Justice<sup>444</sup> and many other groups suggests that improving CPD for teachers is central to increasing the quality of teaching across the country for pupils from low-income backgrounds.

### A place-based approach

Education systems and experience are very different in the four nations of the UK, and vary in different parts of the countries. For example, there is growing evidence of the specific challenges facing schools in deprived coastal areas of England.<sup>445</sup> It is important to take a regional or area-based approach to overseeing and supporting schools, while ensuring they are able to access ideas and be challenged by the results of those outside their immediate areas, especially in places where overall standards are low.

### Improving education in England

Research suggests improving teaching quality is one of the most important factors in increasing attainment for children from low-income backgrounds.<sup>446</sup>

**JRF recommends** that the DfE continues to evaluate and expand successful initiatives to attract and recruit high-quality teachers and leaders to schools where they are most needed. It should also gather more robust evidence about the most effective incentives in attracting leaders and teachers to work in schools struggling to attract them. This should include considering the role of teachers' pay as a factor in raising performance and recruiting them to work in areas of high need.<sup>447</sup>

Polling and studies in the UK, United States<sup>448</sup> and elsewhere have suggested that offering bonus payments for high-performing teachers to move to schools that need them most could bring benefits. Dependent on further evidence on incentives, **JRF recommends** that the DfE trials a 'Teacher Pay Premium' pilot in which 2,000 high-performing teachers are given a 25% pay premium if they move to teach in challenging schools that are struggling to recruit. This would cost £20 million per year.

It is equally important to introduce a drive to improve teachers' CPD, while recruiting more and better teachers. The 2016 White Paper 'Educational Excellence Everywhere' recognised the importance of this, and set out steps including a new Standard for Teachers' Professional Development to help schools improve the quality and availability of CPD, and creating a new independent College of Teaching. The White Paper also recognised the importance of developing more and stronger school leaders, especially in the context of widespread or universal academisation.

**JRF recommends** that the inspection regime should be equal across different types of schools, with Ofsted able to inspect academy chains as they do local authorities. Ofsted should also place more emphasis on encouraging schools to use evidence effectively and support one another to improve the attainment of children from low-income backgrounds.

In England, the role of local authorities is declining fast and regional schools commissioners are playing an increasing role but their remit and capacity are not yet established to achieve greatest impact.<sup>449</sup> Their goal

should be to improve performance across the schools in their areas, rather than to promote any particular type of school. Multi-academy trusts and teaching school alliances have very varied quality and coverage across the country; regional schools commissioners should monitor how far schools have the right support and challenge and move quickly to fill gaps. As devolution continues it may be beneficial for control over regional schools commissioners to be given to elected Mayors from 2017.

**JRF recommends** that high priority is given to introducing the new 'Destination outcome' for schools, ideally looking at young people's destinations after six months, two years and five years. This should be used to drive greater investment by schools in careers advice, social and emotional skills and links with employers who can provide routes into decently-paid work.

### Improving education in Scotland

The National Improvement Framework provides an opportunity to harmonise assessment approaches across Scottish local authorities, in place of the current fragmented system. By enabling all authorities to draw upon common assessment methods and filling in gaps in assessment data, schools and families should have faster access to relevant data.

**JRF recommends** that the Scottish Government, Education Scotland and local authorities develop a strong framework in which this data is used to track the attainment of low-income pupils (where eligibility for free school meals (FSM) and being looked-after are two relevant measures). They should use this to evaluate the impact of interventions and Education Scotland should make this a centrepiece of its inspections in all schools.

Scottish Government and Education Scotland should accelerate attempts to pull together evidence of how to improve low-income pupils' attainment and support local authorities and schools to learn how to use it effectively. This should include presenting the evidence gathered by the EEF and Early Intervention Foundation in England as well as research evidence from the Attainment Challenge Fund in Scotland and internationally. The Scottish Government's new Delivery Plan for Education offers a promising basis for developing stronger impact evidence.<sup>450</sup>

### Improving education in Wales

A recent Inquiry<sup>451</sup> by the National Assembly for Wales's Children, Young People and Education Committee examined the steps currently being taken to improve educational outcomes for children from low-income households in Wales. A number of these initiatives have good links to evidence:

- directing additional funding towards low-income pupils through the Pupil Deprivation Grant. The use and accountability for this appears to have been inconsistent and weak so far, but schools will now be required to publish data about what this funding is being used for
- encouraging schools to use evidence, including the EEF's Toolkit
- Schools Challenge Cymru, now in its second year, is learning from the London and Manchester Challenges and from difficulties experienced

in transferring this model to some other parts of the country (for instance in the Black Country).

However, there are concerns over whether these steps are sufficient and, crucially, whether they are being delivered to a high enough standard to achieve the required improvements. The wider evidence base suggests that further action should focus on:

- a much stronger and more specific emphasis on schools using data and evidence and introducing specific interventions to raise attainment among low-income pupils
- greater action from Estyn (the Inspectorate for Education and Training in Wales) to hold schools and local authorities to account for delivering this
- robust and transparent evaluation of steps already taken
- renewed attention to the quality of leaders and teachers, and consideration of the types of actions discussed above for the English education system.

### Improving education in Northern Ireland

The Northern Ireland Government has introduced a new funding formula for schools, which is intended to support better outcomes for disadvantaged students. However, there does not appear to be a clear system for monitoring how schools are spending this funding or whether it is being used for evidence-based interventions that will raise the attainment of children from low-income backgrounds.<sup>452</sup> Measures to improve early years provision, support families at risk and improve literacy and numeracy are all welcome, but do not amount to a coherent programme to substantially raise attainment for low-income children.

**JRF recommends** that the Northern Ireland Government works with local authorities, school leaders and the Education Training Inspectorate to develop such a programme, including:

- giving all schools easy access to data about their own attainment gaps and how these compare to national gaps and attainment in schools with similar intakes
- developing a 'What works' centre to compile and promote high-quality evidence of ways schools can improve attainment for low-income students
- high priority for inspections assessing whether schools are using data and evidence in steps to raise the attainment of their low-income pupils, and are evaluating their success
- introducing greater accountability for how schools use funding linked to deprivation
- using the experience of the London Challenge (and other Challenges in England, Scotland and Wales) to inform the development of similar systems of support and challenge in Northern Ireland.

There is strong evidence<sup>453</sup> that selective systems of education have a negative effect on the attainment of children from low-income backgrounds.

Selective school systems tend to lead to slightly better results for the few who get into them, but worse results for far more children and particularly for children from disadvantaged backgrounds.<sup>454</sup> Research in Northern Ireland shows that its education system is highly segregated, according to religion, social class and gender.<sup>455</sup> Political parties in Northern Ireland should commit to developing an education system that improves the prospects of all of the nation's children – particularly those from low-income backgrounds. This should include ending selection in education at age 11.

### Inclusion and cost of the school day

The Children's Commission on Poverty,<sup>456</sup> led by young commissioners, shows that poverty makes it harder for children from low-income backgrounds to fully participate in school life. In particular, families struggle with the cost of: school uniforms, school meals (with some schools still administering FSM in a way that singles out children in poverty), transport, materials for homework and subjects such as art and cookery classes, and school trips and fundraising.

On average, families spend £800 a year on school costs; 70% of parents (95% of those who define themselves as 'not well off at all') say they have struggled with these school costs.

A range of recommendations and tools have been developed for schools and local authorities with many examples of schools adopting good practices to minimise the impact of poverty on children's experience of school. These include the report by Child Poverty Action Group Scotland,<sup>457</sup> on the cost of the school day and the online resource Poverty Proofing<sup>458</sup> on poverty proofing the school day.

The Scottish Government has announced plans<sup>459</sup> to establish a minimum clothing grant to ensure that children in all parts of Scotland can get help buying school uniform. In Wales, free school breakfasts in primary schools help parents with wrap-around childcare (since they generally open at 8am) as well as children's nutrition.

**JRF recommends** that schools and local authorities across the UK use these tools to assess their own practices and provide consistent support so that children are not excluded or stigmatised at school because of their families' low income.

### Special educational needs

Across the UK, around one in five children is identified as having some form of special educational need or disability (SEND):<sup>460</sup> 15% in England, 22%<sup>461</sup> in Scotland, 21% in Northern Ireland and 22% in Wales. A review of evidence about poverty and special educational needs and disability (SEND) found a strong link.<sup>462</sup> Children from low-income families are more likely to be born with inherited SEND, to develop some kinds of SEND as they grow older and are more likely to continue having them over their childhood. Children from low-income backgrounds are more likely to be identified as having some form of special educational need or disability, but less likely to receive support or interventions that address their needs. They are less likely to have parents who can take action to get them help or afford to pay for assessments or support. They are also less likely to get help from school and are more likely to drop out of education early or be excluded. Children with



SEND are also more likely to be in poverty as adults and achieve much lower results at school in all the UK nations. They are also six times more likely to be excluded from school, and 74% of all permanently excluded pupils have some form of SEND. Young people with SEND are more than twice as likely to become not in education, employment or training (NEET) and to go to prison – 15% of young offenders have a statement of special educational needs or disabilities compared with 3% of the general population. JRF research on families with a disabled child indicates that having a disabled child can be a cause of family poverty.

It is clear there is a lot more to do to achieve better outcomes for children with special educational needs and disabilities and reduce their risk of living in poverty as children and adults.

### **Achieving better outcomes for children with special educational needs and disabilities (SEND)**

#### **Early years**

- Good-quality pre-school education can reduce the risk of children from low-income families developing SEND.
- See the childcare section of this strategy for recommendations on funding to improve access to a SEND co-ordinator, training for non-specialist staff and adaptations to meet the needs of children with SEND.

#### **Access to different types of school**

- Some types of schools have disproportionately low numbers of children with SEND, particularly converter academies in England. The Academies Commission notes that there could be ‘covert selection processes’ in schools worried that pupils with SEND could reduce the school’s results.
- **JRF recommends** that the UK Governments review SEND admissions in schools responsible for their own admissions. In England, the DfE should change school admissions regulations so that all schools are part of the same admissions processes and have independent appeals. The move towards greater academisation in England needs to be urgently assessed for its potential impact on access. Ideally arrangements should be changed so that academies cease to be their own admissions authorities.

#### **Focus, confidence and skills among school leaders and staff**

- **JRF recommends** that school leaders ensure that the achievement of SEND pupils is seen as a priority across the whole school, and should target training at classroom teachers and heads of department. The priority for specialists should be identifying children with SEND, parental engagement, managing 1–1 support and developing support strategies.

- **JRF recommends** that in England, regional schools commissioners should be able to review the SEND information reports for all the schools in its area, and link struggling schools to appropriate support.

### Reducing exclusions

- The exclusion rate of pupils with SEND in special schools is half of the rate in mainstream schools. The evidence suggests that this is partly due to smaller class sizes, more specialist staff and greater funding per pupil.
- **JRF recommends** prioritising reducing the numbers of pupils with SEND being excluded from mainstream schools, given the enormous impact this can have on their future prospects.
- **JRF recommends** that schools, local authorities and organisations such as multi academy trusts and teaching schools alliances identify children with SEND who are at risk of exclusion. UK Governments should provide additional funding for these children, to support interventions that reduce the risk of exclusion.
- In England, funding per child in alternative and special schools increased from £8,000 to £10,000 in 2015. **JRF recommends** trialling offering mainstream schools similar additional funding of £2,000 for SEND pupils at risk of exclusion. Careful design and evaluation is needed to ensure that this does not create perverse incentives in how schools work with SEND pupils. This would be likely to cost around £7 million.

## Ethnicity

Education results vary among pupils from different ethnic groups. Pupils from some ethnic minority groups tend to achieve better results than those from White majority groups. Poverty also seems to have a more negative impact on the results of pupils from White majority groups than those from ethnic minority backgrounds.

A recent review<sup>463</sup> of evidence on improving the attainment of low-income White British pupils found that strategies developed to close the attainment gap between better-off and disadvantaged pupils overall can be expected to be effective for White British pupils (by far the largest group, dominating the general evidence base).

Such strategies can also work for low-income pupils from other groups but they may also face prejudice, stereotyping and exclusion. There is evidence<sup>464</sup> that teachers' expectations of pupils vary according to ethnic background and that this works to the disadvantage of pupils from Black groups in particular. The UK and devolved governments should fund new research into teachers' attitudes and how they affect attainment.

There is a strong connection between ethnic background and the likelihood of children being excluded from school: Gypsy, Traveller and Roma pupils are four times as likely and Black Caribbean pupils three times as likely to be excluded as White British pupils.<sup>465</sup> Statistics on this are weakened by

lack of information about exclusions in academies. **JRF recommends** that the DfE ensures all statistics include information from academies.

**JRF recommends** that the DfE reviews the current system for exclusions and independent review panels with an explicit focus on the system's impact on children and young people's prospects across different ethnic groups, boys and girls, and children with SEND. Governments in Scotland, Wales and Northern Ireland should review exclusion rates for pupils from different ethnic and social backgrounds.

A comprehensive review<sup>466</sup> of the experiences of Gypsy, Traveller and Roma people in the UK found that Gypsies and Travellers have persistently the lowest attainment in education, while Roma pupils are not included specifically in the available statistics. Children from these groups often miss out on being entitled to FSM and Pupil Premium funding (in England) and support. Nine out of ten Gypsy, Traveller and Roma pupils have suffered racial abuse; two in three have been physically attacked. Bullying is the most common reason for parents being reluctant to send children to school.

In all four nations, **JRF recommends**:

- government commitment to supporting and monitoring action on inclusion, bullying and attainment among Gypsy, Traveller and Roma children
- gather evidence of successful approaches and promote its use by local authorities and schools
- maintaining funding and support for effective Traveller education support services in Wales and Northern Ireland, developing it further in Scotland and restoring it in England
- consistent local authority leadership on developing relationships with Gypsy and Traveller families, including appointing designated staff, and helping these groups access the support they need including but not limited to education.

## Funding

Education is hard to beat as a poverty prevention strategy, or an investment in the UK's future. Funding for education in the UK increased greatly between 2000 and 2009. By 2009, Britain was well above the OECD average of spending on primary and secondary education, spending 4.5% of GDP compared with an average of 4% in OECD countries and 3.8% in the EU.<sup>467</sup> Between 2010–11 and 2014–15 spending rose by 0.6% in terms of real spending per pupil, compared with a real-terms cut of 13.6% to the age 16–19 education spending and a large cut to capital spending in education. Between 2016 and 2020, pupil numbers are expected to grow by 7%. Analysis suggests that the costs faced by schools are likely to increase by between 10% and 16% over that time.<sup>468</sup> The most recent evidence suggests that spending on education does affect children's outcomes, and that it has a greater effect on more disadvantaged pupils than on others.<sup>469</sup> However, the effectiveness of current or additional spending depends greatly on how it is used; additional resources do not guarantee better results.

**JRF recommends** the following key actions:

- Maintain overall spending on education across the different phases: increased investment in the early years should not come at the expense of investment in later education.
- Ensure that funding keeps up with increasing pupil numbers and inflation.
- Continue to direct additional funding towards children from disadvantaged families
- Provide additional funding to schools in the devolved nations for looked-after children and for pupils with low prior attainment (as is currently done in England).
- In England, Scotland and Wales, provide additional funding for Gypsy, Traveller and Roma pupils (as is already done in Northern Ireland).
- Provide additional preventative funding for pupils with special educational needs and disabilities who are at higher risk of exclusion.

### Impact on poverty

A young person leaving education with poor qualifications will be at a disadvantage in the labour market. Improving educational results for young people growing up in poverty would contribute to reducing their risk of being in poverty as adults. It would also reduce the risk of poverty for their children and future generations. For example, if all children achieved at least 5 or more A-C GCSEs, the LINDA model projects that there would be 110,000 fewer people in absolute poverty in 2030 and 540,000 fewer people in 2040. The impact would continue to increase after 2040.

Low educational attainment is also linked to broader social problems; nearly half of all prisoners say they have no qualifications.<sup>470</sup>

## Step 6: Support transition to adulthood

Young people making the transition into adulthood face opportunities and challenges. Gaining a good education is the first step towards moving successfully into the labour market and making a decent living. But other areas of additional support need significant improvement to help young people move into adulthood and achieve economic security, including:

- careers advice while at school
- apprenticeships
- post-16 advice and support.

Young people aged 17–21 in Leeds told us that moving out of school and into further training or work, and using post-16 services, was ‘challenging,’ ‘hard,’ ‘scary,’ ‘mysterious’ and ‘difficult’.

Disabled young people, young carers and care leavers moving into adulthood face additional barriers that have a significant impact on their future life chances and risk of poverty.<sup>471, 472</sup> Disabled young people are half as likely to be in paid work as non-disabled peers, and disabled children growing up in poverty generally achieve adult goals of employment, economic independence, personal autonomy and independent housing to a lesser degree and later than non-disabled adults. Families, schools and other agencies may treat some disabled young people as children longer because of their physical needs and perceived vulnerability.

They can be particularly vulnerable to poverty at this time. Of the 9 million young people aged 14–24 in the UK, 2.7 million (30%) are living in relative income poverty.<sup>473</sup> This is higher than any other age group and it is in this age group, too, that the poverty rate has grown the most over the last decade. They are also at higher risk of tipping into more extreme forms of poverty: young men under 25 are the group most likely to be destitute in the UK today.<sup>474</sup> Of the 9 million young people, 2.6 million live independently rather than with their parents or other family, and 370 000 young people are parents themselves, 95% of whom live away from their parents and over half (54%) are in poverty.

The numbers of young people not in education, training or work (NEET) started to increase in 2004 and continued to do so for much of the following decade. More recently levels have been decreasing slightly. In the first half of 2014, 16% of 18–24-year-olds were NEET, a reduction of more than two percentage points. In Scotland in 2013, nearly 12% of young people aged 16–19 were NEET (compared with 9% of the same group in England). In Wales 10.5% of 16–18-year-olds were NEET in 2013 (compared with 8% in England).<sup>475</sup>

### Summary of actions

#### Careers advice for young people at school

- The UK and devolved countries should invest in high-quality careers advice, delivered in school by expert advisers, alongside strong links between schools, local employers and training providers.
- There should be particular focus on enabling young people to enter high-quality apprenticeships:
  - funding of around £200 million would be required in England in the first year (less thereafter)
  - Scotland, Wales and Northern Ireland's governments should assess what funding they need to provide the same high standard of careers guidance in their schools.

#### Apprenticeships

- Governments across the UK should focus on improving the quality of apprenticeships and of access to high-quality opportunities for young people from ethnic minority groups, young disabled people, and for young women. This should be prioritised over further expansion.

- Governments should make providers responsible for the value their apprenticeships add to apprentices' careers. A proportion of apprenticeship funding should depend on whether apprentices are employed six months after the apprenticeship and on evidence of progression to higher-level training or more responsibility and pay at work.
- Governments should develop an Apprentice Charter, co-designed by employers and learners, to establish quality standards for each sector and level.
- Apprenticeship providers should ensure they are providing training that includes English/Welsh and mathematics skills where needed, and off-the-job training so that apprentices can develop skills that lead towards better job opportunities.
- Employers should ensure their apprenticeships do more than accredit existing skills and that they link to progression routes within their sector or industry.

### **Post-16 support – local careers/employer/apprenticeship hubs**

- Local authorities should set up hubs providing careers advice for post-16-year-olds, linking them to high-quality apprenticeships, training and employers.
- These should provide a personalised service and initial placement and include support to maintain jobs and training, and future steps.

## Young people, benefits and minimum wages

Lower rates for the national minimum wage and for some social security benefits for young people have been in place since the introduction of Income Support in 1988. Young people's weekly allowance is less than 80% of that for adults aged 25 and over,<sup>476</sup> and falls below the destitution line for single people living alone.<sup>477</sup>

Access to Housing Benefit is restricted for single young people, to cover only a single room in a shared house, when renting from a private landlord. The Government also proposes that out-of-work 18–21-year-olds cease to be eligible for housing support in new claims for Universal Credit from April 2017, unless they are deemed to be vulnerable, unable to live with their parent, are parents themselves or have been in work for six months prior to a claim.

Young people in employment often manage on low wages, with the minimum wage for under-18s from April 2016 being £3.97 per hour, £5.30 for 18–20-year-olds and £6.70 for 21–24-year-olds, compared with £7.20 for those aged 25 and over. The apprenticeship wage is £3.30 per hour.

The two reasons given by government for differences in social security and wage rates are (a) that most young people do not live independently and may therefore legitimately be regarded as having lower living costs than the over 25s; and (b) that young people have lower earnings expectations.<sup>478</sup> However, as shown in the statistics above, many young people do live independently and the evidence is that they face similar costs to other

people in society. In fact, even though young adults in the UK are more likely to be sharing a home with their parents than at any time since 1996, 48% of 20–24-year-olds still live independently.<sup>479</sup>

A recent international review<sup>480</sup> identified a gap in welfare protection for young people in the UK: state support for parents ends before full state support for young adults begins. In other countries reviewed, state support for parents ended only when the young person became eligible for the full rate of adult benefits, although details differ on how far age, housing or educational status determines this transition point.

**JRF recommends** that raising the basic levels of benefits in the UK for young people who live independently should be a priority, starting with JSA rates for the 10,000 young people living alone who are relying on this. This needs to be balanced against work incentives, wage expectations and the potentially negative effects on youth unemployment, in terms of minimum wage rates.

### Careers advice

Good-quality careers advice helps young people shape choices and motivates them to achieve. It can be especially important for those from low-income backgrounds and ethnic minority groups less likely to have informal social networks providing advice and opportunities.

Studies suggest that good-quality careers advice can raise people's 'human capital' (skills and qualifications) by helping them find work where their skills are best used. One study estimates that every one percentage point improvement in productivity through this improved matching of labour supply and demand could generate 'as much as £10.6 billion annually in increased production'.<sup>481</sup>

But numerous reports detail poor quality provision of careers advice in secondary schools in the UK.<sup>482</sup> Only 21% of schools take young people to two or more university open days; only 39% enable young people to have 'meaningful engagement' with an employer by age 16; less than half of British young people have access to a high-quality work experience placement.<sup>483</sup> Ofsted in England<sup>484</sup> and Estyn<sup>485</sup> in Wales have both highlighted the inadequate and poor-quality careers advice provided for many young people at school.

The Gatsby Foundation<sup>486</sup> has developed eight benchmarks that represent high-quality careers advice: only 2% of schools in England meet this standard.

**JRF recommends** that the UK and devolved governments dedicate funding to enable schools to give all young people good-quality careers advice, along with a programme ensuring access to trained advisers and taking account of diversity. This would cost an estimated £207 million in the first year in England, and less thereafter.<sup>487</sup>

### Apprenticeships

Apprenticeships are one of the most important policies to help young people into good-quality jobs and career paths. Government funding for apprenticeships has risen in the last few years to £1.6 billion in 2014/15. The Apprenticeships Levy is expected to raise £3 billion from businesses in 2020/21. This is intended to enable the Government to deliver its ambition of 3 million new apprenticeships by 2020.<sup>488</sup> JRF supports recent expansions of governments' ambition in this area. However, there are concerns about the quality of some apprenticeships and their providers. Ofsted rated 49% of apprenticeship providers in England as 'inadequate' or 'requiring improvement'.<sup>489</sup> Ofsted also found that:

- growth in apprenticeships over the past eight years has not focused sufficiently on sectors with skills shortages
- employers are not making adequate contributions to the costs of apprenticeships and small/medium enterprises (SMEs) are not sufficiently involved in them
- too many apprenticeships, especially in food production, retail and care sectors, simply accredit low-level existing skills, which add little value to the companies or to apprentices' wage progression these weaknesses undermine the status of apprenticeships and damage them as a brand.<sup>490</sup>

There are problems with access to apprenticeships. Young people from ethnic minority groups are particularly under-represented.<sup>491</sup> Success rates for apprenticeships also vary across ethnic groups. Disability Rights UK has raised concerns about falls in the numbers of young disabled people in apprenticeships, and outlined practical ways to enable young people to access these opportunities.<sup>492</sup> In Scotland, the Wood Commission led to the Developing the Young Workforce strategy to improve secure transitions for young people, including Modern Apprenticeships. An equalities action plan for apprenticeships has also been published.<sup>493</sup>

There are insufficient good-quality apprenticeship opportunities for young women. Research for the Young Women's Trust<sup>494</sup> found that 7% of young women who had completed or were doing apprenticeships had received no training at work, compared with 4% of men, and 23% of women had received no training outside work, compared with 12% of men. Sixty-one per cent of female apprentices work in five sectors that are typically female dominated and low paid.

JRF supported the development of detailed proposals to reform the learning and skills systems across the UK in order to better tackle poverty.<sup>495</sup>

These should inform the Government's new Post-16 Skills Plan, announcement following the Sainsbury review of technical education. Based on this work, **JRF recommends** two main changes in relation to apprenticeships:

- Governments should make providers responsible for the value their apprenticeships add to apprentices' careers. A proportion of apprenticeship funding should depend on whether apprentices are employed six months after the apprenticeship and on evidence of progression to higher-level training or more responsibility and pay at work.



- The UK central and devolved governments should develop an Apprentice Charter, co-designed by employers and learners, tailored to different sectors and setting standards. It could include employment and pay six months after completing the apprenticeship, whether someone is given a mentor and how much experience they gain in different parts of the business.

So far, young people from some ethnic minority groups, young women and young disabled people have not benefited sufficiently from the apprenticeships programme. Some steps are now being taken to change this but the National Apprenticeship Service, providers and employers need to move much faster. Flexible apprenticeships and appropriate entry requirements enable access for some young disabled people and young people with health conditions. For instance, doing an apprenticeship part-time over a longer period to accommodate health or caring needs; or not imposing unnecessary entry requirements (such as GCSEs at grade A–C). These changes could also support better take-up by some ethnic minority young people.

**JRF recommends** monitoring take-up of apprenticeships by ethnicity, disability and gender, and tracking outcomes where possible.

### Post-16 support – careers/employer/apprenticeship hubs

**JRF recommends** that all local authorities and combined authorities create a community-based service that links young people, local training providers, voluntary and community sector groups, and employers. Research evidence<sup>496</sup> and consultation with young people and providers suggest three core principles for this service:

#### 1 The service should be personalised

- providing an adviser who will regularly meet a young person, understand their background and know the opportunities available to them
- helping build a young person's aspirations and confidence.

#### 2 It should build basic skills and understanding

- helping young people understand and acquire the basic skills that employers look for (e.g. communications skills, phone manner).

#### 3 It should support young people and advocate on their behalf by

- acting as a liaison between jobseekers and employers
- educating them on the process of finding a job and building resilience
- supporting them once they have found work – to help them retain work (by understanding problems that may arise) and help them to progress.

*As developed by young people and service providers at our workshop in Leeds, October 2015*

**JRF recommends** that this service builds on existing networks of services in each local area offering young people the chance to access post-16 careers advice, high-quality training, job opportunities and additional support (for instance with transport advice and costs, housing and childcare).

The service should develop close relationships with training providers and employers. Ideally it should be delivered within the framework of the family hubs and/or integrated hubs discussed elsewhere in this strategy.

Research has found positive links between school-mediated employer contacts and adult earnings.<sup>497</sup> This probably reflects better access to timely, trustworthy information on careers and expanded social networks.

**JRF recommends** that hubs build on promising evidence of the value of school-mediated employer contacts, targeting opportunities at young people from low-income households or living in disadvantaged neighbourhoods.

Transitions to adulthood are not only about leaving full-time education and getting jobs – there are also issues about housing, relationships, perhaps starting a family and (for some) transition from children’s to adult services. Chapter 9 covers housing and homelessness for young people and the additional challenges facing young care-leavers. The next chapter focuses on adults of working age.

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# **Working-age poverty**

# **7**

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## 7. Working-age poverty

Work is the best protection against poverty for adults of working age. For those who can work, being in a job that offers good pay, enough hours, security and prospects reduces the risk of poverty. This means the labour market – and the type of jobs on offer – is central to solving poverty, giving businesses and employers a prominent role.

Many employers are already taking positive steps, the scale and shape of which reflects their size, the nature of their business, their bottom line and their stake in a community. But the efforts of businesses and employers need to be backed up by the state. Public policy sets the context for economic growth and good jobs, helps guard against economic shocks and provides services to support people with employment and training.

Through social security, the state also supplements people's resources when necessary, by topping up low earnings, assisting with extra costs – such as the cost of children or living with a disability – and supporting people at times when they are unable to work due to disability, ill-health, caring responsibilities or unemployment. A small number of people will never be able to work.<sup>498</sup>

But the working-age stage of life isn't just about work. Caring for others – young children or older relatives and loved ones – is central to many people's lives, and essential to the functioning of society. Reducing poverty will mean balancing measures to support people's living standards when they are unable to work with measures to ensure that work pays.

Our vision is for a UK where all adults can be free of poverty and contribute to society. Where productive businesses provide jobs with security and opportunities to get on, and people are equipped with the skills needed for work and to participate in society. Where people are incentivised to work, those who need extra support receive it and those unable to work are not left behind but supported to lead fulfilling lives. A UK where people are treated with dignity and respect, and are able to balance working life with family life.

Throughout this stage of life, common events – such as having a family, finding a home, caring for children, a partner or parents, experiencing ill-health or disability, redundancy, bereavement or relationship breakdown – can all suddenly hit people's incomes.

When people are operating on finely balanced margins, such events can tip a family or individual over the edge into poverty. Most people turn first to friends and family, social networks and wider community. The combination of these resources with those offered by the state and markets influences the chances of experiencing poverty.

The four key steps to solving poverty for working-age adults are:

- 1 better jobs with higher wages at the bottom of the labour market
- 2 place-based inclusive economic growth strategies
- 3 stronger support services to improve skills, opportunities and prospects
- 4 a more effective social security system to offer extra help when needed.

## Step 1: Better jobs

### Summary of actions

**Higher productivity in low-pay sectors:** Businesses and industry bodies in low-wage sectors work with governments to develop sector strategies to increase productivity.

**A rebalanced economy fund:** European funding has played an important role in promoting inclusive growth. An immediate priority is to secure funding allocated to 2020 as part of the negotiations about UK withdrawal. Longer term government to earmark at least an equivalent level of funding to create a Rebalancing Fund, allocated to LEPs and devolved administrations to support inclusive growth and employment in lagging towns and cities.

**Push up pay:** Every part of the UK public sector to set out a strategy and timetable for paying the voluntary higher Living Wage to their own staff and staff in their supply chain, and seek accreditation from the Living Wage Foundation.

**Better part-time jobs:** Government and employers promote flexible hiring – making quality job vacancies open to flexible or part-time working at the point of hire. Collect data on well-paid part-time work to monitor whether voluntary action is increasing opportunities for part-time workers.

**Reducing labour market exploitation:** Government must ensure the new Director of Labour Market Enforcement and Gangmasters and Labour Abuse Authority are sufficiently resourced. All businesses inspect their UK supply chains thoroughly and take swift action where evidence of forced labour and/or exploitation is found.

**Responsible businesses reducing poverty:** What is possible will vary from business to business. There is a range of actions businesses can take:

- **Training and progression:** ensuring low-paid employees receive training, can access development opportunities and working with employees to identify and overcome barriers to progression, such as shift patterns.
- **Good-quality part-time work:** making clear in recruitment materials a willingness to consider flexible or part-time working arrangements

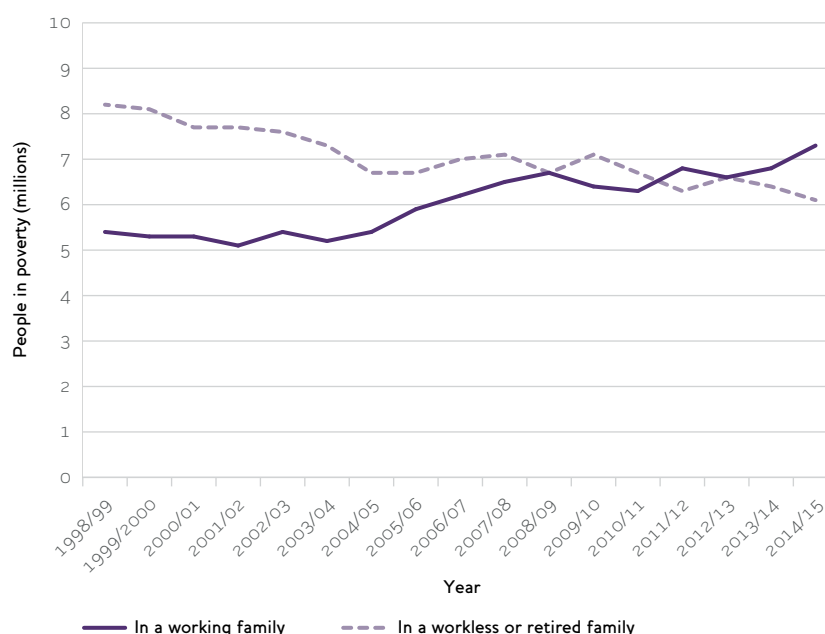
for the right candidate; analysing internal data on the proportion of good-quality flexible and part-time jobs across different pay scales and occupations, and whether training is accessible to part-time workers.

- **Fringe benefits targeted at low-income workers:** ensuring fringe benefits and in-kind support are offered to and taken up by workers on lower pay grades. Benefits designed to support people with living costs are valued by people in poverty.
- **Increased security and control:** zero-hours, short-hours and temporary contracts should be used only to manage fluctuating demand. Staff should have the choice of minimum-hours contract where they are regularly working a similar number of hours. Shift patterns and rotas should be drawn up in consultation with individual staff members.
- **Increasing pay:** move towards becoming accredited voluntary higher Living Wage employers wherever possible.

**Use institutional investors' influence:** investors should work together to start a dialogue with investment managers and investee companies about human capital management, data collection and monitoring.

Being in a job generally offers the best route out of poverty, but it does not guarantee it: the majority of people experiencing poverty live in working households, a proportion that has increased in recent decades.

**FIGURE 9: WORKING POVERTY OVER TIME**



The chances of escaping poverty are increased when a household has two adults in work, pay is higher and people are working full-time and consistently throughout the year.<sup>499</sup> However, it is not possible for all

households to meet these conditions all the time: caring responsibilities, disability and ill-health can all make full-time working impossible.

Other influences include where people live, the state of their local labour market, and the quality of their job. One in five employees in Britain is low paid.<sup>500</sup> Part-time workers are particularly likely to be low paid, disproportionately affecting those trying to balance family and working life – mostly women.<sup>501</sup> Once in low-paid work, the majority get stuck: four in five low-paid workers fail to fully escape low pay over a decade,<sup>502</sup> and employers are less likely to train low-skilled workers,<sup>503</sup> making it harder for them to get on at work. Insecure contracts (such as temporary or zero-hours contracts) leave people without a stable income.<sup>504</sup> Sometimes this is through choice, but too often it is not.

*“Sometimes it’s all right, but like I’ve had to give my shifts away for next week because they’ve given me shifts that I can’t do, so I’ve got no shifts next week and I’m only on like two shifts a week at the minute....I think if I had a job with a steadier income it would be a lot easier to save and know what I could put away each week.”*

Lone parent, working part-time<sup>505</sup>

Not all low-paid employees in insecure jobs are in poverty – that depends on the work status of other household members. But the risks are greater where they provide the main source of household income.<sup>506</sup>

Jobs that deliver better wages and conditions can be created in seven main ways:

- a** economic growth and higher productivity
- b** a higher wage floor
- c** better part-time jobs
- d** promoting equality and diversity
- e** reducing exploitation
- f** employment practice
- g** investor power

### a) Economic growth and higher productivity

The UK should be in a strong position to reduce poverty through work. It is one of the largest economies in the world and the employment rate has hit all-time highs in recent years. The proportion of entirely workless households has fallen from 21% in 1996 to 16% in 2015.<sup>507</sup> Yet poverty remains stubbornly high.

This shows that growth – including job growth – is necessary but will not reduce poverty without deliberate action.<sup>508</sup> Businesses require governments to create the context for economic growth and investment, and to ensure education, skills and welfare-to-work systems provide young people and adults with the skills and incentives employers need. National and local governments, together with business and industry leaders, should set a bolder vision for inclusive and sustainable growth.

As the UK negotiates its exit from the EU, we face uncertainty and a potential economic slowdown. It is vital that stimulus measures taken by the government are focused on minimising the impact on those on low incomes who have the least capacity to cope with a downturn.

Rebalancing the economy will require investment in infrastructure, research and development, and support for innovation and skills.<sup>509</sup> It must continue to be supported by funding and investment specifically designed to those ends.

The European Union currently provides considerable funding aimed at supporting growth and jobs in lagging areas of the UK economy, through the European Structural and Investment Funds (ESIF). Collectively, these funds have committed £8.9bn for local programmes between 2014 and 2020, and also leveraged co-funding from the UK public and private sectors.

There is evidence that European structural funding has boosted economic growth and employment in lagging regions.<sup>510</sup> But the funding is under threat following the decision to leave the European Union. As an immediate priority, **JRF recommends** funding allocated to 2020 is secured as part of the negotiations about UK withdrawal.

For the longer term **JRF recommends** the Government earmarks at least an equivalent level of funding to create a Rebalancing Fund. This would be allocated to LEPs to support inclusive growth and employment in lagging towns and cities. The size of an area's allocation would depend on need. Allocating the funding to devolved administrations, or in England at LEP level, will ensure programmes fit into the inclusive growth strategy for the wider area.

Economic policy must also support higher productivity. UK productivity lags behind that of other developed economies, and productivity in low-pay sectors – such as retail and hospitality – is part of the problem. While they constitute about 23% of the UK economy, they account for around a third of the productivity gap with leading Western European economies.<sup>511</sup>

Improving productivity could help to improve overall economic performance and curb working poverty.

Sector-based strategies look to increase productivity and growth by tackling common challenges such as filling skills gaps and developing new technologies. Typically these focus on high-value-added sectors, such as advanced manufacturing, and high-skilled engineering. But the importance of low-wage sectors should not be overlooked. Compared with their Western European counterparts, UK low-pay sectors have a smaller proportion of innovative firms, poorer management quality, and a short-term focus.<sup>512</sup>

**JRF recommends** businesses and industry bodies in low-pay sectors work with governments to develop sector strategies to increase productivity. Promising approaches in low-pay sectors include: taking a broader view of innovation, to include processes, design and marketing; improving management skills through training and business support services; and encouraging business models that ensure firms invest in employees' skills.<sup>513</sup>

But the drive for higher productivity must also acknowledge that there are trade-offs in some low-pay sectors, such as social care. Caring is intrinsically labour intensive. Productivity gains in the form of taking less time or caring for a larger number of people are not compatible with building good relationships, which is at the heart of good-quality care services.



Pay is not the prime motivator for many who work in care services, but it can be a prime demotivator and make it harder to recruit and retain the right people with the right attitudes and values.<sup>514</sup>

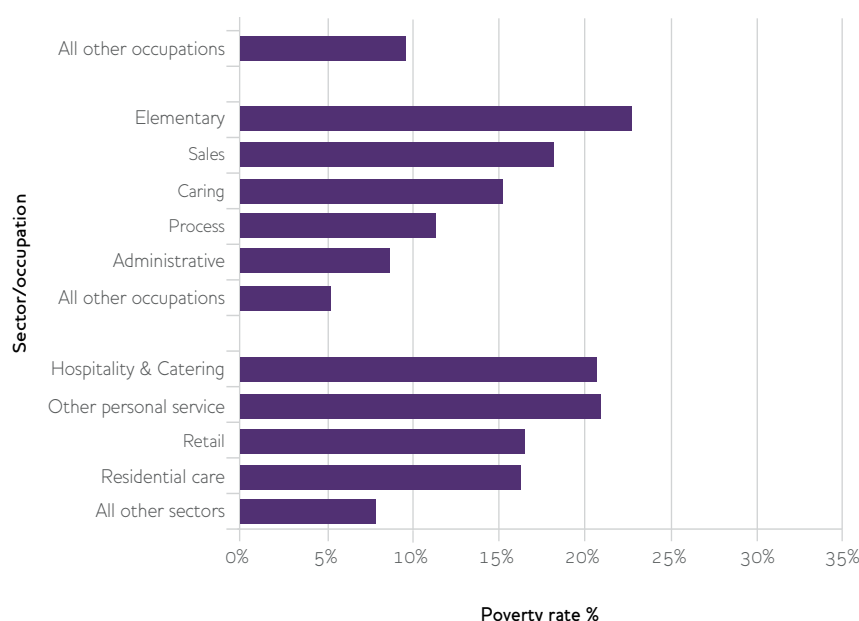
**JRF recommends** social care providers pay the voluntary, higher Living Wage (£8.25 an hour, or £9.40 an hour in London in 2016).

Paying the higher Living Wage to care home staff will cost an estimated £1 billion (including National Insurance and pension contributions) – split evenly between the public and private sectors. Costs to central government making more funds available to care home providers to pay the voluntary Living Wage would be partially offset by additional funds from increased tax revenue and reduced in-work benefits payments.<sup>515</sup> As a major purchaser of social care, governments can have a significant influence on this sector.

## b) Higher wage floor

Low pay is the strongest factor in working poverty in the UK, especially where the main earner in the household is low-paid.<sup>516</sup>

**FIGURE 10: POVERTY RATES BY SECTOR AND OCCUPATION (MAIN EARNER ONLY, AFTER HOUSING COSTS)**



Source: JRF calculations based on Family Resources Survey, 2012–13 and 2013–14

Currently, a large pool of potential labour exists for jobs in low-pay sectors. Older workers are looking to work longer, previously 'inactive' people, such as lone parents, are now subject to welfare-to-work activation policies, and there are more women, students and migrants active in the labour market. This plentiful supply puts downward pressure on wages.<sup>517</sup>

The decline of trade unions is associated with the increase in low pay<sup>518</sup> and with an increase in poverty.<sup>519</sup> In the UK, being a member of a union is associated with a 3% pay premium for men and 9% for women (controlling employer and individual characteristics), and with greater access

to training.<sup>520</sup> However, strong unions and employment protection can also have the effect of protecting people already in the labour market at the expense of those that are not.<sup>521</sup>

In an era of weaker collective bargaining, better pay for the lowest-paid workers helps prevent higher poverty. The introduction of the UK National Minimum Wage (NMW) was estimated to reduce the relative income poverty rate by 1.2 percentage points; a significant contribution.<sup>522</sup> The creation of the National Living Wage (NLW) for workers aged 25 and over is likely to make another significant contribution.<sup>523</sup> The NLW is expected to reach 60% of the median full-time hourly earnings rate by 2020.

The NLW will make it easier for more people to move out of poverty if they are working<sup>524</sup> (see figures 12 and 13), so long as essentials like childcare and housing are affordable, but often they are not. There is also an outstanding question about minimum wages for those under 25, as discussed in Chapter 6.

There are some downsides too. The Office for Budget Responsibility has estimated that the NLW could result in the loss of 60,000 jobs.<sup>525</sup> Also, as the pay floor has risen, pay differentials have become more challenging to maintain. About 1 in 50 employees were paid the minimum wage for their age group when it was introduced; by 2014 it had become the going rate for 1 in 20 employees.<sup>526</sup> Low Pay Commission projections suggest that by 2020 the NLW will be in line with the expected average wage in retail, hospitality and cleaning, and very close to it for hairdressing, childcare and food processing.<sup>527</sup>

Compressed pay differentials risk lessening the incentive for promotion and progression.<sup>528</sup> For this reason increasing pay must go hand in hand with increasing productivity.

*“I am always open to opportunity ... but it is very difficult because the job I am in, there is no training I can do to get any higher up the scale. There is no job there. There was one job that came up but that was a full-time job, the part-timers couldn’t even apply. We just have to accept it...We did feel we missed out because we were part-time.”<sup>529</sup>*

Woman working part-time

*“We can do NVQ levels 1, 2 and 3 but you only get 20p more an hour and you get so much more responsibility and hassle. I’d die if I was a manager. I’d spend all my time crying.”*

Care home worker, Essex<sup>530</sup>

More employers could support poverty reduction by signing up to the voluntary higher Living Wage. Heriot-Watt modelling shows that if all employers paid the higher Living Wage, poverty (after housing costs) would be 3.3% lower in 2041. However, given the risks to employment of pushing up minimum wages too quickly, we do not recommend this becomes a new legal minimum. **JRF recommends** the public sector continues to lead by example. Public sector employers should pay their staff the voluntary Living Wage, make sure it is paid by their suppliers, and seek accreditation by

the Living Wage Foundation. Each part of the public sector should set out a strategy and timetable for accreditation.

A study from 2013 showed this would cost an estimated £1.3 billion.<sup>531</sup> However, an estimated £0.8 billion would have been recouped in fiscal savings. They should be channelled back to public sector employers to compensate for increased workforce and commissioning costs. This would leave a net additional cost of around £0.5 billion.<sup>532</sup>

### c) Better part-time jobs

People with caring responsibilities,<sup>533</sup> disabled people and people with limiting health conditions<sup>534</sup> often seek part-time work. It enables them to increase household income and stay in touch with the labour market. For older workers it can top up an inadequate pension.

But there is a dearth of good-quality part-time work<sup>535</sup> of the kind that enables people to fit work around caring commitments, while earning enough to support a decent living standard.

Households with only part-time workers have a 32% risk of relative income poverty (after housing costs). Part-time workers also have a significantly higher risk of low pay – 42% are low paid compared with 13% of those working full-time.<sup>536</sup> It is harder for part-time workers in low-paid roles to progress in work<sup>537, 538</sup> since they are less likely to receive training from an employer, or be promoted.<sup>539</sup> Increasing income by moving jobs is also a dim prospect: just 6.2% of all jobs with a salary over £19,500 (full-time equivalent) are advertised as part-time or flexible.<sup>540</sup>

Increasing the availability of better-paid part-time jobs will make a significant difference to poverty and bring broader economic benefits. The current lack of part-time and flexible work means people take jobs for which they are over-qualified: 41% of flexible workers say they have taken a job below their skill or salary level to get the flexibility they need.<sup>541</sup>

Employers have done a lot to deliver flexible working; the next challenge is to increase flexible hiring – where employers make clear that they are open to considering flexible working arrangements for the right candidate for an advertised job.<sup>542</sup> This could be a simple ‘Happy to Talk Flexible Working’<sup>543</sup> strapline to job adverts, as promoted by Working Families.<sup>544</sup>

Transparency can also help. Government has announced plans to require employers with more than 250 staff to publish their gender pay gap. A significant element of the gender pay gap is the pay penalty for part-time jobs, which are clustered in lower-paid occupations.<sup>545</sup> Businesses analysing their ratio of full-time to part-time workers by pay band could help shed light on one cause of their gender pay gap.

**JRF recommends** government and employers promote flexible hiring and monitor data on well-paid part-time work to see if voluntary action can increase opportunities for part-time workers.

### d) Promoting diversity and equality

Discrimination shapes some people's experience of work and the opportunities open to them. The persistence of the gender pay gap, disability employment gap, ethnic penalties and segregation of some groups into different occupations has spurred government plans and initiatives, including the BME 2020 Challenge and Disability Confident campaign.<sup>546</sup>

Ethnic minority groups are over-represented in low-wage sectors and tend to be in the lowest-paid positions. About 49% of White employees in semi-routine occupations receive less than the voluntary Living Wage, rising to nearly 60% for Pakistanis and over 73% for Bangladeshis.<sup>547</sup> People become trapped by limited training opportunities, discrimination and racism.<sup>548</sup> Within workplaces, informal cultures and networks can make it harder for ethnic minority employees to progress.<sup>549</sup> Poorer educational outcomes for some ethnic minority groups help explain their concentration in low-skilled occupations, but they are also more likely to be over-skilled for the job they are doing.<sup>550</sup>

For disabled people, employment rates are rising over time – and only a small minority of disabled people have never worked – yet the disability employment gap remains around 30–34 percentage points.<sup>551</sup> Disabled people are overrepresented as a group among those who are 'economically inactive' but would like to work, and among the unemployed. Disabled people who are in work are more likely to do so part-time, be on low pay, and in less senior roles – even if they have the same level of qualification as a non-disabled person. There is a large 'skills gap' between disabled and non-disabled people across all age groups. The disability employment gap varies across different regions and countries within the UK.<sup>552</sup>

Employers that have made adjustments to accommodate disabled people generally cite wider benefits to their workforce and customers. Without this experience they are more likely to fear the cost.<sup>553</sup>

#### **JRF recommends:**

- monitoring employment outcomes for disabled people and ethnic minority groups by geographic area (e.g. local enterprise partnerships and devolved administrations)
- public sector and voluntary sector employers leading through their own employment practices, including the promotion of quality flexible work
- practical support and advice to businesses, for example on informal workplace cultures; retention of employees following disability, physical illness or mental health conditions; and making reasonable adjustments using the Access to Work fund
- employers taking positive action to counter discrimination, including support for staff networks so staff can build a collective voice; small employers could enable staff to be part of networks across employers.

### e) Reducing exploitation

Workers in lower-wage sectors and with low skills are at much greater risk of exploitation. Labour laws are only as good as the enforcement mechanisms that accompany them, and the need for enforcement will

grow as the National Living Wage is introduced. Failure will see legitimate businesses undercut.

The Low Pay Commission (LPC) has published<sup>554</sup> an assessment of compliance and operation of the National Minimum Wage. Its recommendations include sustaining and increasing resources to the NMW Inspectorate, more enforcement activity and tougher penalties for non-compliance. **JRF recommends** the LPC's recommendations are implemented in full. HM Revenue and Customs (HMRC) should also act as a first line of enforcement where people can report concerns about bogus self-employment.

### Types of exploitation in the UK

#### Forced labour

Forced labour and modern slavery is a crime notoriously difficult to measure.<sup>555</sup>

- According to a 2013 JRF study,<sup>556</sup> between 3,000 and 5,000 people were estimated to be in forced labour in the UK.
- The Home Office estimates that there were between 10,000 and 13,000 potential victims of modern slavery in 2013,<sup>557</sup> while 1,248 adult victims of trafficking for labour exploitation and domestic servitude were referred to the National Referral Mechanism in 2015.<sup>558</sup>

#### Bogus self-employment

'Bogus' or 'false' self-employment is when 'workers are told they are self-employed when the legal tests would likely define them as employees'.<sup>559</sup> This is possible as there is no sharp distinction between employment and self-employment, and there are financial incentives for employers to create bogus self-employment to get round higher National Insurance Contribution (NIC) rates and employment rights, such as the National Minimum Wage.<sup>560</sup>

Citizens Advice estimates that up to 460,000 people are in 'bogus' self-employment in the UK.<sup>561</sup> It is especially relevant to low-wage sectors such as construction, hospitality and social care.<sup>562</sup>

Although British workers do experience forced labour and exploitation, migrants are more vulnerable to both. Their immigration status may mean they do not have legal access to the labour market or safety net benefits; sometimes a lack of English language makes them vulnerable.

The UK Government has made positive changes to labour market enforcement. These include a strategic focus across enforcement agencies through the creation of a Director of Labour Market Enforcement, and reform of the Gangmasters Licensing Authority (GLA). The GLA has become the Gangmasters and Labour Abuse Authority (GLAA), with stronger powers and more sectors brought into the inspection regime. JRF has argued for

this and welcomes the development. However, it is essential the licencing regime is not weakened as a result.

**The GLA** licensing regime is one of the great strengths of the current model and should be maintained and developed rather than weakened as the GLAA takes on additional powers to investigate abuse allegations across the entire UK labour market. **JRF recommends** the new Director of Labour Market Enforcement and GLAA are sufficiently resourced to carry out their mission.<sup>563</sup>

Tackling exploitation also requires businesses (including public-sector organisations) to take responsibility for their product, service and labour supply chains. There is established good practice promoted by the Ethical Trading Initiative<sup>564</sup> and others in auditing and carrying out due diligence on suppliers for larger businesses – particularly those supplied by high-risk sectors.

**JRF recommends** monitoring and evaluating businesses' response to requirements on transparency in the Modern Slavery Act, particularly looking at the monitoring of suppliers within the UK.<sup>565</sup> All businesses should inspect their UK supply chains thoroughly and take swift action where evidence of forced labour and/or exploitation is found.

The government's Modern Slavery Strategy and the work of the Anti-Slavery Commissioner rightly emphasises improved law enforcement and a criminal justice response, which is essential in making forced labour a higher-risk crime for perpetrators. However, victims of forced labour should receive the same level of protection and assistance as victims of trafficking, with entitlement to assistance (including better access to legal redress and compensation) guaranteed in law.

### f) Employment practice

Solving poverty means more people with more disposable income. It is good business. The well-being of workers correlates with the performance of workplaces,<sup>566</sup> as does employee engagement.<sup>567</sup> But the experience of poverty is stressful and has a negative effect on well-being.<sup>568</sup> Many businesses already take steps that help to reduce poverty, and some have explicitly recognised the value to their business that lower poverty will bring.

The choices companies make about pay and conditions, managing the workforce and how they compete for business have a significant bearing on poverty. Their decisions influence productivity and job quality.<sup>569</sup>

The benefits for employees of better-paid jobs with greater job security and progression are clear. But research shows that business practices that create better jobs – such as high performance working, employee engagement or good work schemes – also benefit the businesses themselves, through higher productivity, better organisational performance, and lower labour turnover costs and absenteeism.<sup>570</sup> Employers introducing the voluntary, higher Living Wage have experienced a more motivated workforce as well as lower turnover, sickness and absenteeism.<sup>571</sup>

Employers may not know who among their workforce is experiencing poverty or is at risk of poverty, but they can try to ensure their employment practices do not increase the risks, and, where possible, put in place ways to

support staff. The box below sets out the kinds of support that low-income people working in retail, catering and care value from their employers.

### What do low-income employees value?

JRF commissioned a major poll of 5,000 low-income employees<sup>572</sup> and held focus group discussions with a further 100<sup>573</sup> to explore the experiences of low-paid employees living in low-income households, and what they would like from their employers. All the focus group participants worked in retail catering or care.

- Less than one in three of those polled could always meet household bills. Focus group participants reported this had an impact on their performance at work.
- The employer actions that people prioritised, after higher basic pay, were:
  - work-related training
  - contributions to pensions
  - flexible working
  - being paid for breaks, time in training and all overtime
  - paid sick leave
  - help with childcare.
- Despite the priority given to pay, only 25% of those polled would definitely apply for a promotion if one was available. The reasons given in the focus groups included being happy in their current role; a feeling that the small amount of extra pay would not compensate for the extra responsibility; for those with caring responsibilities, other factors included the disruption to a settled routine and a perception that they would have to work extra hours.
- Staff thought a happier, more secure workforce would translate directly into greater customer satisfaction and profit.

Some businesses already take steps that help to reduce poverty. And what is possible will vary from business to business. The following key categories have been identified by Business in the Community,<sup>574</sup> the Chartered Institute of Personnel and Development<sup>575</sup> and JRF.<sup>576</sup>

- **Training and progression:** ensuring low-paid employees receive training, including access to support with reading, writing, numeracy and digital skills where needed. Providing access to development opportunities that enable them to progress, and working with employees to identify and overcome barriers to progression, such as shift patterns. Analysing human resources data to identify people who are stuck, and types of workers not taking up employment opportunities. Improving the quality of, and access to, apprenticeships for women, disabled people, and people from ethnic minority groups; and reporting on progression to higher-level training, increased responsibility and higher earnings. Transparent and effective communication of job opportunities.

- **Good-quality part-time work:** making clear in recruitment materials a willingness to consider flexible working arrangements for the right candidate; assessing the proportion of good-quality flexible and part-time jobs and making training accessible to part-time workers especially in low-paid roles.
- **Fringe benefits targeted at low-income workers:** ensuring fringe benefits and in-kind support are offered to and taken up by workers on lower pay grades. Benefits designed to support people with living costs are valued by people in poverty, such as transport season ticket loans, access to savings schemes and affordable credit (through a Credit Union partnership, for example), staff discounts, providing meals and access to financial advice and rent deposits.
- **Increased security and control:** zero-hours, short-hours and temporary contracts should be used only to manage fluctuating demand. Staff should have the choice of minimum-hours contract where they are regularly working a similar number of hours. Shift patterns and rotas should be drawn up in consultation with individual staff members, as giving staff plenty of warning enables them to plan.
- **Increasing pay:** move towards becoming accredited voluntary higher Living Wage employers wherever possible.

The line management relationship is pivotal. Managers must have the skills to develop staff and have regular conversations about progression options. This includes promoting equality of opportunity for staff at all levels and addressing informal workplace cultures including conscious and unconscious bias and lack of transparency around training and promotion opportunities.<sup>577</sup>

The Scottish Government is using its convening powers to promote a Scottish Business Pledge.<sup>578</sup> Other governments could learn from this approach if it is successful.

After pay, stability is one of the most important contributions that employers can make to solving poverty. Households where workers lack year-round work are three times more likely to be in poverty than households that have year-round work.<sup>579</sup> The flexibility of the UK's labour market has positive attributes, including a lower-than-anticipated level of unemployment during the 2008 recession. But for those at the bottom, flexibility can breed insecurity, a lack of progression and, at the extreme, exploitation.<sup>580</sup>

Overall, 1.7 million workers (6.4% of employees) are on some form of temporary contract; more than a third (35%) of this group took temporary work only because they could not find a permanent position.<sup>581</sup> An estimated 0.75 million people are on zero-hours contracts, where no hours are guaranteed.<sup>582</sup>

The UK's flexible labour market also manifests itself in the low-pay, no-pay cycle. More than a fifth (23%) of low-paid workers are in and out of work repeatedly in a four-year period. Of this group, more than half, when working, were consistently in low-paid work.<sup>583</sup> This increases their risk of poverty but also makes the management of family life and household budgets more stressful.



*“My contract is 4 hours a week but I do 30 hours a week... They can’t offer me more than 4 hours even though I’m guaranteed 30 hours a week. So I don’t get a pension, and when I went on maternity leave I couldn’t take my full leave because of my 4 hour contract.”*

Female, retail worker, Slough<sup>584</sup>

*“I don’t feel comfortable with my debt and I feel quite precarious and I am on a fixed-term contract at work as well, which finishes in November. I’ve no idea what I will do after that.”<sup>585</sup>*

*“I am a waiter. Some weeks I will have one or two shifts the next I can have four or five... Can’t make plans in advance due to unsure working days and can be cancelled even an hour before work starts.”<sup>586</sup>*

### g) Investor power

Business can be influenced by managers, employees and customers – but also by their investors and shareholders. An estimated minimum of 2.5 million people (about 10% of the workforce) are directly employed by FTSE 100 and FTSE 250 companies. Many more work in their supply chains.<sup>587</sup>

Investors can influence the actions of PLCs, and there is growing interest among investors in being ‘active owners’, specifically over issues of how companies manage and develop their workforce.

A recent investor campaign to promote the voluntary Living Wage has demonstrated how shareholder activism can achieve positive outcomes for low-paid people in the UK (see box below). An estimated 13% of quoted UK shares are in the hands of investors who potentially have a strong interest in improving the quality of work.<sup>588</sup>

#### **Investors promoting the voluntary UK Living Wage<sup>589</sup>**

ShareAction began mobilising investors to call on the boards of FTSE 100 companies to adopt the Living Wage in 2011. A coalition of institutional investors, including socially responsible investment funds, faith investors and trade union pension funds, drew up a letter calling for the Living Wage to be on the agenda of boards in the FTSE 100. By 2015, this had evolved into engagement by mainstream asset managers with UK boards, asking questions and pressing for adoption of the Living Wage. Total assets managed by the investors signing up to the Living Wage investor letters currently stand at £50 billion, and this is supplemented by behind-the-scenes engagement with boards by asset managers with £1.2 trillion of assets under management. These efforts have resulted in dialogue and disclosure from 90 companies out of the FTSE 100. In 2011, two FTSE 100 companies were accredited Living Wage employers. In 2016, the figure was 30, with a further 14 stating they were fully compliant, although not accredited.

There are a number of barriers to investors and investment managers pursuing wider goals of better jobs, including short-termism in UK equity markets<sup>590</sup> and a narrow interpretation of fiduciary duties (acting in the best interest of the parties whose assets they manage). There is also a lack of simple and comparable data to provide pertinent information to investment in workforce development.

**JRF recommends** that institutional investors in the UK follow in the footsteps of the US Human Capital Management Coalition (which brings together 24 institutional investors with assets of over \$2.3 trillion) to build upon the dialogue beginning to take place with companies on workforce development.

### Technological change

There are a number of paths towards better jobs. But there is also a good deal of uncertainty about the future. Technological change offers the possibility of more flexible work and of home working, which could give people more autonomy in their work and open up opportunities to disabled people, and those with limiting health conditions and caring responsibilities.

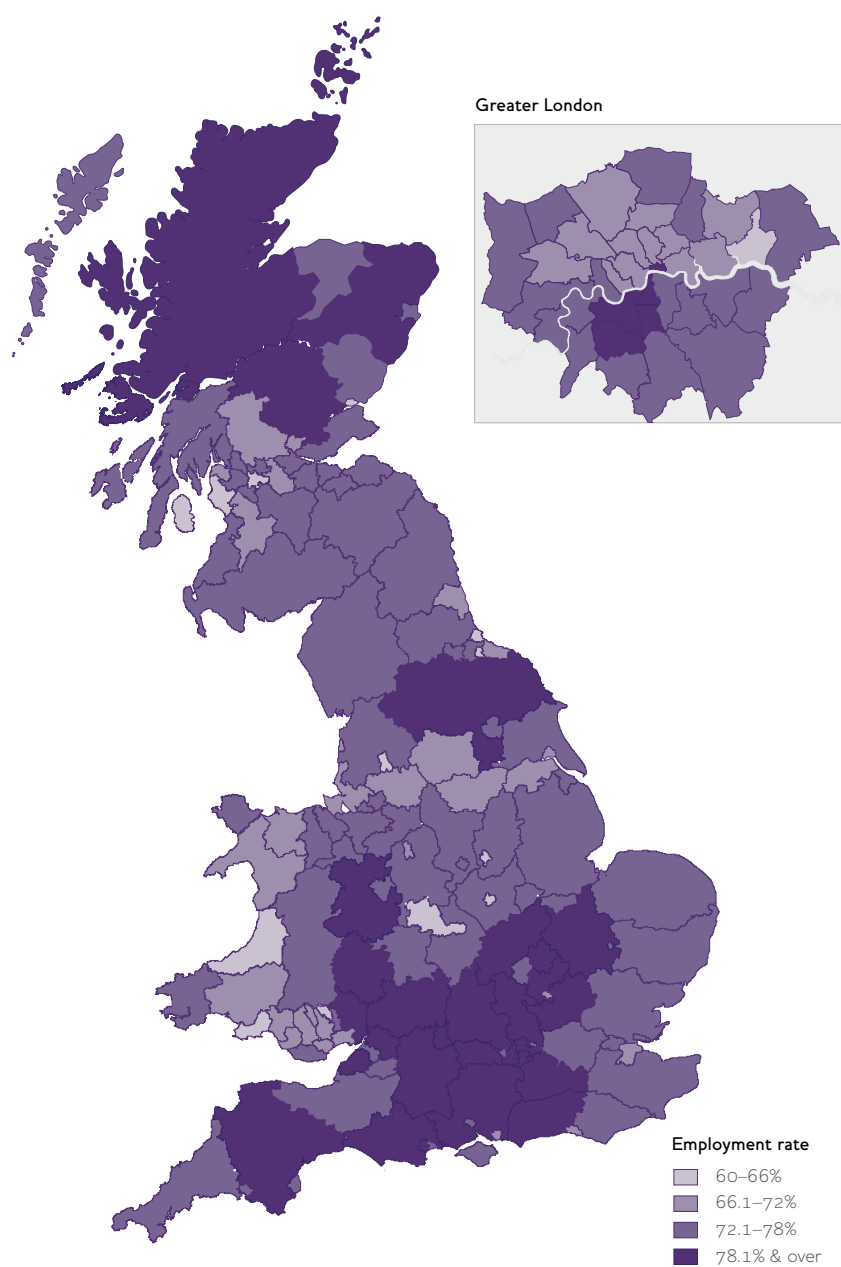
However, technological change is also expected to result in more low-skilled jobs being lost to robotics and machine learning. Along with globalisation it has already led to a decline in routine, mid-skilled, mid-paid jobs relative to low-skilled non-routine jobs (such as care work) and high-skilled jobs.<sup>591</sup> This ‘hollowing out’ of the labour market is expected to continue.<sup>592</sup> It has been estimated that 35% of jobs that exist in the UK today are at risk of being made redundant by technology over the next two decades, and jobs paying less than £30,000 are almost five times more likely to be at risk than those paying over £100,000.<sup>593</sup>

This means that skills are likely to become even more important.<sup>594</sup> Delivering better jobs in an era of technological change and climate change will also require a place-based approach to inclusive economic growth, the second cornerstone of our approach to solving working-age poverty.

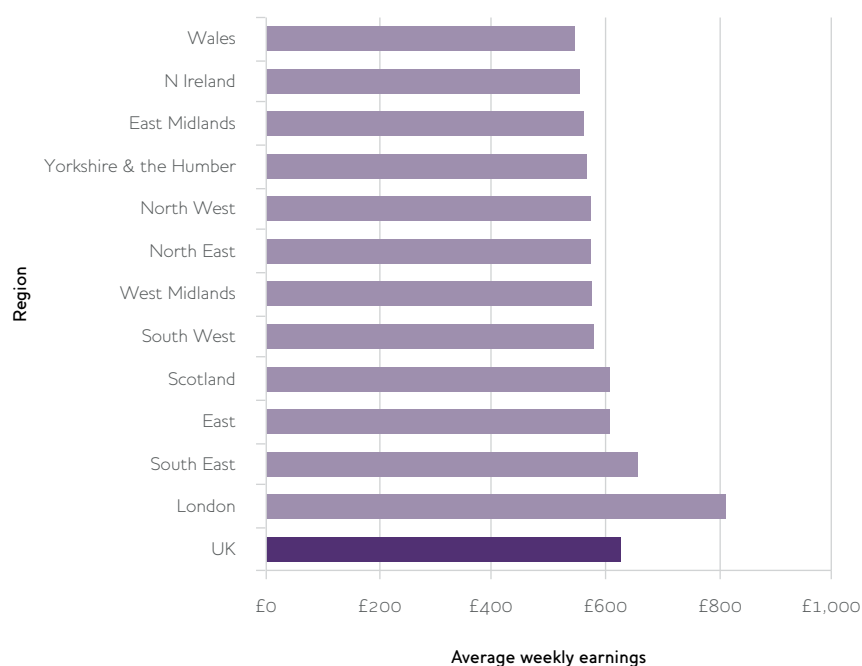
## Step 2: Place-based inclusive economic growth strategies

Where people live influences their job prospects and how effectively work can offer a route out of poverty, since the strength of UK’s labour markets and the productivity of local economies vary considerably. Some places have plenty of good jobs, while others lack opportunity (see map).

MAP OF EMPLOYMENT RATE BY LOCAL AUTHORITY AREA (UNITARY AUTHORITIES, COUNTIES AND METROPOLITAN COUNTIES)



Source: Annual Population Survey, April 2015–May 2016, Employment rate among 16–65-year-olds.

**FIGURE 11: AVERAGE WEEKLY EARNINGS BY REGION**


Note: Measure is average gross weekly earnings.

Source: *Annual Survey of Hours and Earnings (2015)*<sup>595</sup>

In recent decades some cities that had experienced declining populations and economies have seen a revival. Nonetheless, patterns of economic variation are deeply ingrained: 60% of economic disparities<sup>596</sup> between places can be explained by differences in the mix of sectors. Most of the rest (36%) is explained by differences in competitiveness within sectors.<sup>597</sup> This means a place-based approach to solving poverty, especially for working-age adults, is essential.

## Summary of actions

- **Empowering areas to tackle poverty:** local authorities, city regions and metro mayors, working with business and employers, should continue to demand powers, functions, fair funding and finance from national governments in order to deliver inclusive growth
- **An inclusive growth fund:** in England, the Local Growth Fund should evolve so that funding is allocated to programmes according to their contribution to inclusive growth.
- **Local anchor institutions (local authorities, universities and hospitals, for example) use their purchasing power** to secure from contractors more and better job opportunities for disadvantaged workers.
- **Connect economic development and poverty reduction:** Local authorities to use planning obligations more systematically, learning from good practice to ensure local people with barriers to the labour market benefit from new developments.

- **Develop enterprise zones:** the next wave of enterprise zones should trial offering companies tax breaks in exchange for providing good jobs for people at risk of poverty in designated areas.
- **Support growth sectors to reduce poverty:** devolved administrations and LEP areas should trial business support that brokers responses to shared problems within a sector (such as skills gaps), focusing on workforce development and career ladders to support people to move into better jobs.
- **Incentivising poverty reduction:** local authorities, city regions and metro mayors to keep some of the fiscal savings that result from supporting someone to get a sustained or better-paid job.

While no towns or cities in the UK are declining in absolute terms, some former industrial areas have declining populations and employment rates relative to other places. Ten of the twelve towns and cities that perform worst in these terms are in the North of England (the other two are in the West Midlands and Scotland).<sup>598</sup> The result is that young, economically active people move away, leaving behind populations that are older, lower skilled and more likely to be in poor health.

Rebalancing the economy and spreading the gains from economic growth is a priority for reducing poverty. Closing the gap in growth rates between regions (upwards regional convergence) would have a big impact on employment and income prospects. The largest gainers would be Northern Ireland, Wales and then the North, followed by Scotland and the Midlands. In the regions which benefit most, unemployment could be reduced by half or more in the medium term.<sup>599</sup>

### A rebalanced and inclusive economy

National and local governments, together with business and industry leaders, should set a bolder vision for inclusive and sustainable growth. This must be backed by funding and finance to deliver on the vision. The pending reform of local government funding and finance is crucial here. While JRF welcomes greater fiscal responsibility for English local government, there is a risk of disadvantaged areas with the weakest tax bases being left behind if reform is not backed by a well-designed redistribution system. In addition, the incentives should be geared towards inclusive growth, which benefits all people, and places

In England, the Local Growth Fund should evolve so that funding is allocated to programmes according to their contribution to inclusive growth.

The Local Growth Fund was created in 2013 to fund 'Growth Deals' between LEPs and the government. The fund provides £12 billion over six years from 2015–16 to 2020–21 for local leaders to encourage local growth, drawn from government departmental budgets for transport, education, adult skills, and housing. The fund is allocated based on competitive bidding, although there are questions about the transparency of the process.<sup>600</sup>

The fund followed the Heseltine report,<sup>601</sup> which recommended creating a single funding pot from departmental budgets that LEPs could bid for to

fund local growth. However, the current commitment is on a much smaller scale – the Heseltine report recommended a fund six times bigger, of £50 billion over four years.

**JRF recommends** expanding and redesigning the Local Growth Fund in England to form an Inclusive Growth Fund.

Its funding decisions should be guided by programmes that will make the greatest contribution to inclusive growth, using the framework set out in the box below. Below we outline some high-level recommendations about how the fund should be redesigned in terms of its scope, allocation and size:

- **Scope:** the Inclusive Growth Fund should cover the spending areas identified by the Heseltine report, including: employment support; business support; economic development activities such as innovation and export services; and housing. Spending by LEPs should not be limited to these areas. They should be able to submit bids for funding in any area that would contribute to inclusive growth. This may include spending in other ‘enabling’ policy areas, such as childcare, digital inclusion, and physical regeneration.
- **Allocation:** the fund should be allocated to LEPs on their contribution to inclusive growth (rather than the current focus on growth) against the framework of indicators set out below. All LEPs would be eligible to bid. The allocation should be undertaken by an independent panel or body to reduce the influence of political concerns.
- **Size:** the funding pot from departmental budgets should be rapidly expanded moving closer towards the Heseltine Single Funding Pot proposal (which was £12.5 billion per year).

In 2017, the arrival of metro mayors could be a watershed moment for some English city regions. Metro mayors will be at the heart of delivering local growth, and it will be in their interests to make sure it works for all people and places: inclusive growth should be at the core of their agenda. Each mayor will come into post with a Devolution Deal to deliver, but over time they will need a more sustainable funding arrangement than a competitive inclusive growth bidding fund can offer.

## Framework of indicators for inclusive growth

JRF has worked with researchers from the Centre for Regional Economic and Social Research to create a framework of indicators for inclusive growth,<sup>602</sup> so that cities can monitor their progress.

The framework includes 18 commonly available indicators, which aggregate into six dimensions and two themes, as shown in the table below. The indicators can be considered on their own or combined to create composite scores. All data is available at local enterprise partnership (LEP) level to capture outcomes.

**TABLE 15: A MULTI-LEVEL FRAMEWORK FOR INCLUSIVE GROWTH**

Theme	Dimension	Indicator
Inclusion	Income	Out-of-work benefits
		In-work tax credits
		Low earnings
	Living costs	Housing affordability
		Housing costs
		Fuel poverty
	Labour market exclusion	Unemployment
		Economic inactivity
		Workless households
Prosperity	Output	Output
		Private-sector businesses
		Wages/earnings
	Employment	Workplace jobs
		People in employment
		Employment in low-pay sectors
	Human capital	Higher-level occupations
		Intermediate and higher-level skills
		Educational attainment

### Local areas with the tools and incentives to deliver inclusive growth

The devolution and localism agendas are an opportunity for the nations, cities and local authorities to take a leading role and set the agenda on connecting economic growth and poverty reduction. Some Devolution Deals are already beginning to do this (see box below). Given wide variation in local economies (employment rate, sector mix, growth sectors and skills gaps) and local populations (skills mix and demographic profile), different responses are needed in different areas.<sup>603</sup>

Local authorities already have formal and informal powers for taking steps to reduce poverty. Some of the recommendations that follow are about building on and stretching approaches already demonstrated to be effective – others recommend further devolution. In addition, employment support and skills are discussed in step 3.

#### Examples of devolution deals targeting poverty reduction

In Glasgow, the city council and UK Government agreed to establish an in-work progression pilot scheme for people working in the retail, hospitality and care industries. The aim was to work with employers and employees in sectors with high concentrations of low pay, to boost pay and reduce the reliance on in-work benefits.<sup>604</sup>

The Southampton and Portsmouth City Deal created a Solent jobs pilot, targeting 1,000 very long-term unemployed people over two years. The scheme used a three-stage process to help people into work. The first was pre-employment and placement support; the second was the creation of a subsidised job for up to 25 hours per week paid at the national minimum wage for up to six months, alongside caseworker support, skills and job search advice; the third stage was intensive post-placement support and job matching with expert senior advisers/job brokers using a payment-by-results mechanism.<sup>605</sup>

### Connecting economic development and poverty

Local authorities can use their planning and economic development policies to help reduce poverty, but it requires deliberate action.

Leeds City Council has been successful in using Section 106 obligations to generate employment and skills outcomes on development projects such as the Leeds Arena, where significant opportunities for work experience and 60 apprenticeships were created. Southampton City Council has developed a bespoke approach to Section 106 employment and skills plans. In March 2014, it reported that 32 plans had created 150 new apprenticeships and 500 supported jobs for unemployed people.<sup>606</sup>

Broadly speaking, these approaches require businesses to take a proportion of their workforce from the local labour market, targeting



specific disadvantaged groups. A review of the evidence<sup>607</sup> outlined the attributes shared by successful local authority schemes. To ensure this works effectively means:

- making systematic use of planning obligations to ensure local employment requirements are written in, focusing tightly on those further from the labour market
- making it simple for employers by providing a single point of contact, joining up the services that are needed to supply employees, including training providers, employment support providers and other council departments
- understanding the employer's needs, then brokering a relationship between the employer and training providers to develop bespoke packages of training, ensuring prospective candidates are able to meet the employer's needs while gaining other skills of value in the labour market.

**JRF recommends** local authorities use their existing planning powers more systematically to harness the potential of new economic developments to reduce poverty through employment opportunities.

### Using capital spend and procurement powers to reduce poverty

Construction and infrastructure projects can offer well-paid work with good prospects for career progression. The UK Government alone has £128 billion of construction spending planned for 2014–2020,<sup>608</sup> and there should be a pipeline of local skills development to complement these projects. There are already good examples of social housing providers and local authorities using their capital investment to create opportunities for employment and apprenticeships, either through their own direct hiring or through the requirements set out in contracts.

Birmingham City Council introduced its Public Procurement Framework for Jobs and Skills (PPFJS) in 2010 to harness the power of procurement to tackle worklessness and improve skills in the city; creating employment and training opportunities for local people, particularly those living in deprived areas. The Framework requires that all contracts worth more than £200,000 per annum include community benefits, either through contract clauses, voluntary agreements or a charter.

This approach should be used more systematically, and need not be exclusive to capital spend. Since the introduction of the Social Value Act, those commissioning or buying public services can secure added economic, social or environmental benefits for their local area. This means the £242 billion spent by the UK public sector on procurement in 2013–2014 could be put to work in reducing poverty. The reach can be extended if non-public anchor institutions and other businesses adopt the same practice.

**JRF recommends** that local 'anchor' institutions (the biggest employers and spenders in an area, such as local authorities, universities, and large business headquarters) use their collective spending power, know-how and networks to better connect jobs and opportunities to neighbourhoods and businesses, to benefit the most disadvantaged people and places in the area.

The use of procurement to deliver social impact is inconsistent in England, but stronger in Wales and Scotland. The Procurement Reform (Scotland) Act 2014 requires each contracting authority to have a procurement strategy that includes a statement on the use of community benefit requirements. In Wales, the Procurement Policy Statement<sup>609</sup> expects the Welsh public sector to ‘apply community benefits to all public sector procurement where such benefits can be realised’ and report outcomes to the Welsh Government for all contracts over £2 million.<sup>610</sup> The UK Government should adopt a similar approach for England.

One approach, known as First Job Opportunities, seeks to use procurement to reduce poverty by creating one job with training for every £1 million in contract value spent on works and services. The jobs are targeted at people in or at risk of poverty, particularly those with barriers to the labour market. Service providers can be supported to respond to this challenge through the provision of links to existing training and job search providers in the local area. Providing this sort of support will minimise the impact on contract costs.<sup>611</sup>

JRF has developed a set of model clauses that can be used at each stage of the procurement process to make the delivery of jobs with training a condition of contract.<sup>612</sup> The model has already been piloted by local authorities across the UK in projects totalling £760 million.<sup>613</sup> It has been adopted by Wrexham and Flintshire Councils, the Northern Ireland Central Procurement Directorate and Belfast City Council, with other local authorities also exploring implementation.

**JRF recommends** more local authorities and anchor institutions learn from these practical examples.

### Supporting growth sectors and reducing poverty

Promising evidence from other OECD countries, particularly the USA, shows local business support for workforce development – known as sectoral employment programmes – can be an effective way of supporting people into better jobs, while supporting growth sectors to tackle problems such as skills shortages.<sup>614</sup> A randomised control trial in the USA found participants earned 18% more in the first year, and 29% more in the second year. Successful programmes share a number of characteristics.

- **Focused on the needs of a sector:** they are delivered by organisations that understand the needs of business in a selected sector. They are able to secure buy-in from businesses on the basis of identified problems such as skills shortages or high turnover.
- **Strong partnership working:** able to broker a bespoke response by working with training providers and employment support providers to design and deliver training to low-paid employees and unemployed people and match participants to jobs.
- **Personalised support for individuals:** for example to overcome transport and childcare barriers to work.

A key element is a ‘dual customer approach’ – whereby the same organisation is offering a service to businesses as well as low-paid workers and unemployed people. Successful programmes are often delivered by social

businesses. They have been implemented in a range of sectors including: hospitality, construction, healthcare<sup>615</sup> (including the National Health Service's 'Skills Escalator'), manufacturing and retail.<sup>616</sup>

**JRF recommends** devolved administrations and LEPs trial and evaluate a UK sectoral employment programme for local growth sectors. This could be catalysed through the Inclusive Growth Fund outlined above.

### Tax breaks for local job creation

Enterprise zones are designated areas that provide firms with tax breaks or other incentives, usually in the form of a tax credit or rebate. While there are longstanding concerns that they are more successful in moving or displacing economic activity than increasing it,<sup>617</sup> there is international evidence that they can make a contribution to poverty reduction when carefully designed.

Both France and the USA have experimented with a more selective approach to enterprise zones, with eligibility for the incentive conditional on firms hiring a certain proportion of the workforce from target population groups or areas.

A review of evidence on the impact of enterprise zones in the UK, US and France found reduced unemployment; half of the studies reviewed also found positive effects on employment. However, the review highlights the need for policy-makers to take potential displacement effects seriously, and for policy design to carefully consider which areas might be negatively impacted by displacement. It is thought displacement can be minimised by enterprise zones targeting firms that serve non-local markets rather than locally traded services.<sup>618</sup>

**JRF recommends** that enterprise zones currently being planned for England and Wales, and any further zones negotiated in future, focus on connecting job creation to poverty reduction.

### Incentivising local areas to reduce poverty

In the context of severe local government spending cuts, seeing more of the fiscal benefits of reducing poverty would give local governments a stronger incentive to act, and resources to devote to the task.

The government has recently built in some financial incentives for local leaders to boost growth. Business rate retention for local authorities is the clearest example. But, given there is no guarantee that encouraging growth will reduce poverty,<sup>619</sup> there is a need for financial incentives that encourage inclusive growth and tackling poverty specifically.

**JRF recommends** financial incentives for local leaders to tackle poverty, particularly by moving people into work and into better-paid work. These could take a number of forms, such as:

- **Payment by Results:** these mechanisms attach funding to specific outcomes<sup>620</sup> An example is the Greater Manchester Earn Back<sup>621</sup> agreement, which gives Manchester a share of additional tax revenues raised (above a baseline) as a result of infrastructure investment, incentivising local leaders to boost local growth. A similar earn-back

mechanism could be applied to let local governments keep more of the fiscal benefits from generating employment and job progression.

- Joint ventures: IPPR propose a specific form of welfare earn-back, whereby all public bodies (central and local) seeing a fiscal benefit from reduced worklessness finance a joint venture, and share the returns.<sup>622</sup> This would align the incentives of stakeholders to move people into sustained work.

### Supporting place-based and community approaches

Devolution of power and resources to address poverty does not stop at the level of national governments, city-regions or local authorities. There is a place for action at all levels including neighbourhood level, and there is a place for social action and community approaches.

The evidence base is less robust for community approaches outside of formal government-funded programmes.<sup>623</sup> There are powerful examples of large-scale change coming from co-ordinated citizen-led social action such as Citizens UK and the Living Wage campaign. More generally, community-led activities achieve a range of valuable results on poverty, albeit mostly for relatively small numbers. Some approaches tackle ‘material’ aspects of poverty (costs, credit, jobs) while others affect ‘non-material’ aspects such as confidence, networks, well-being<sup>624</sup> (which can improve people’s prospects for employability and earnings as well as improving quality of life).

Community initiatives cannot tackle area-wide disadvantage in isolation but more targeted, sustained investment in community-led approaches (especially in low-income neighbourhoods) could increase the scale of outcomes. This will require appropriate levels of resource (in some cases, on-going subsidy) as well as an active and supportive infrastructure.<sup>625</sup>

Local governments and the voluntary sector have a clear role, but diminished resources. Wider collaboration focused on reducing poverty will be needed. This includes faith groups, colleges and universities, local businesses, social enterprises, community businesses, charitable trusts and individual philanthropists.

The participation of people with first-hand experience of poverty can also create energy and opportunities for place-based approaches to poverty, drawing on the expertise and understanding that comes from lived experience. Examples of this sort of approach include Poverty Truth Commissions (such as in Scotland<sup>626</sup> and Leeds<sup>627</sup>) which bring people in poverty together to work with civic, business and faith leaders locally, or fairness commissions (such as in Fife,<sup>628</sup> Blackpool,<sup>629</sup> London,<sup>630</sup> Dundee,<sup>631</sup> Renfrewshire<sup>632</sup>).

**JRF recommends** enabling community-led action on poverty, supporting participatory and place-based approaches to poverty.

- Facilitate community-led solutions to poverty, with local authorities providing (in-kind and/or financial) support and strategic co-ordination to support communities to come together on improving prospects.
- Foster connections between voluntary, community and faith groups, social enterprises, schools, colleges, housing associations, local companies and public service providers – galvanising energy to solve poverty locally.

For example, working together to develop innovative low-cost housing solutions for young people.

- Involve people with first-hand experience of poverty in shaping policies and approaches on preventing poverty or enabling people to get out of poverty.

This activity can be supported by more philanthropists and charities following in Rowntree's footsteps and supporting poverty reduction.

**JRF recommends** wealthy individuals establish funds to foster solutions to poverty, particularly those designed and implemented by or with people experiencing poverty. Existing charities, and particularly grant making trusts and foundations, are also urged to recognise poverty and prioritise it where possible.

### Step 3: Stronger support services to improve skills, opportunities and prospects

Better jobs and a stronger place-based focus on inclusive growth must be complemented and connected by advice, support and services that are geared up for poverty reduction. These fall into three main categories:

- advice and support services to prevent and escape poverty
- services to help people stay in touch with the labour market and secure a job
- skills, training, careers advice and support to get on at work.

#### Summary of actions

- Local authorities, or groups of local authorities, work with the voluntary and community sector (VCS) and commercial advice sectors to audit local advice and support provision, and jointly **develop a local advice and support plan**.
- **Dismantle Jobcentre Plus (JCP) in its current form** by speeding up the process of co-locating Jobcentres with local authority services. These two services should form the core of an employment and income hub in each local area, providing a single, non-stigmatising gateway to a range of public and voluntary sector services and benefits.
- **Focus all employment support services on reducing poverty**, with a target to deliver higher employment and earnings.
- **Develop a segmentation tool to identify an individual's strengths and barriers to work**, to be carried out as early as possible during a claim to determine the type and intensity of support they need:
  - light-touch support for people expected to return to work quickly

- more intensive face-to-face and personalised support for those with some barriers to work or at risk of moving in and out of low-paid work
- specialist support delivered through the new Work and Health Programme trialling approaches such as peer support, and individual placement and support, and providing support to employers to make adjustments in the work place.
- **Involve people with experience of poverty** in designing a training module for employment support providers.
- Doubling investment in order to **meet all basic skills needs by 2030**, including basic English for Speakers of Other Languages and digital skills as well as literacy and numeracy.
- Local areas to use the forthcoming **devolution of the full adult skills budget** to some areas in England to bring together employers, employees and training providers, and make connections between training, employment support and job creation. The focus should be on employment and earnings outcomes.
- **Local areas should trial different approaches to supporting progression at work** in their area to help deliver on the ambitions of in-work progression in Universal Credit (UC). Trials should combine coaching and support from advisers able to foster links with employers, well-targeted training linked to realistic career progression and financial incentive payments.

Most of these services currently do not explicitly focus on poverty reduction, but many make a contribution to reducing poverty, and some could make a bigger contribution with some adjustment.

### Advice and support services to prevent and escape poverty

Many people turn to family and friends for advice and support when they need it.

Social networks can provide a lifeline of financial, material and emotional support for people in poverty, including help with childcare, informal borrowing, and advice on services and the benefits system. But poverty can have a negative impact on networks, as people shy away from accepting support for fear of not being able to reciprocate, or are excluded because they cannot reciprocate.<sup>633</sup>

But not everyone has networks they can turn to. This is why advice and support provided by organisations such as Turn2us and Citizens Advice, along with countless voluntary and community groups, faith organisations and public services is essential. VCS organisations and community-led activities play a crucial role supporting people to develop networks, address social isolation and build confidence.<sup>634</sup>

### Community support – Murton Mams, County Durham<sup>635</sup>

Murton Mams is a social group in the village of Murton set up to provide enjoyable and supportive activities for single mothers, who were vulnerable to isolation and low well-being. A number of participants say the increased confidence, networks and well-being that they have experienced since beginning to attend the group have brought significant improvements in their life circumstances. These include paid employment for some, and a return to further and higher education for others.

Need is most apparent when household circumstances change. Relationship breakdown, the arrival of children, redundancy, the onset of a disability and bereavement can all trigger a slide into poverty. Offering advice and support in step with such life events is found to increase access to and take-up of advice on offer.<sup>636</sup>

People experiencing poverty commonly need advice on issues of social security benefits, debt, housing, childcare and employment. They are also likely to need advice on public services and how to navigate the system.<sup>637</sup> Effective advice benefits individuals and their family; systematic use of feedback from users, advocacy organisations and frontline staff also helps improve policy-making and service delivery.<sup>638</sup> However, there is currently insufficient evidence of the impact of advice and support on poverty specifically – an area where the quality of evidence needs improving.<sup>639</sup> Two areas where the evidence base is stronger are welfare advice and debt advice (see box below).

**Welfare advice:** benefit checks are a key way that welfare advice can improve income. Low take-up of some benefits stems from people not knowing – or misunderstanding – whether they are eligible, combined with the perceived cash value of the benefit, and transaction costs involved in claiming.<sup>640</sup> Evidence from specific projects found:

- welfare rights advice delivered in a healthcare setting increased incomes by £1,026 per year on average
- 57% of participants in a take-up campaign for attendance allowance successfully claimed benefit payments averaging £60.70 per week.

**Debt advice:** these services can improve income through benefit checks; help getting grants to clear arrears with essential service providers; and improved budgeting and lower repayments negotiated with creditors. Evidence from specific projects found:

- those that sought debt advice were 93% more likely to be out of unmanageable debt within a year than those not seeking advice
- a randomised control trial found debt advice services significantly increased the likelihood of improvement in financial circumstances.<sup>641</sup>

In England, the advice and support sector has been shrinking during a period of high demand. The Low Commission on the future of advice and legal support attributes this to the combined effect of changes to legal aid (which are not covered here) and reductions in local authority budgets.<sup>642</sup> The Low Commission set out a number of recommendations for providing access to advice and support services in the context of budget constraints. Two areas are picked up here: integrating advice and support services and developing local commissioning strategies.<sup>643</sup>

### Local strategic commissioning of advice services

Longstanding concerns about the duplication of services in local areas are now superseded by concerns about gaps in advice and support provision.<sup>644</sup> In line with the Low Commission, **JRF recommends** local authorities, or groups of local authorities, work with the voluntary and commercial advice sector in their area to:<sup>645</sup>

- audit existing provision
- identify areas and groups with the greatest needs
- collectively develop a plan for local advice and support
- ensure maximum use of existing national provision of advice and support through websites and helplines to avoid duplication
- marshal other local resources – such as the NHS and housing associations – to deliver the plan
- commission services to fill gaps
- monitor local provision.

These plans should shape the commissioning of services, but it is vital that VCS advice services continue to be – and are seen to be – independent of local authorities. Given the limited evidence base, different approaches should be tested and evaluated. Local plans for advice and support should pool local authority funding with funding from other sources. In 2015 funding from local authorities, the Money Advice Service (MAS), Big Lottery Fund and the legal aid that remained for social welfare law amounted to £400 million. A further £100 million was estimated to be needed to provide a basic level of service.<sup>646</sup>

In Scotland and Wales<sup>647</sup> national funding for the social welfare advice sector has increased. In Northern Ireland, the Welfare Reform Mitigations Working Group<sup>648</sup> chaired by Professor Eileen Evason proposed to strengthen independent advice services with an extra £8 million over four years.

### Delivering advice and support through integrated hubs

Advice and support can be made more accessible when embedded in services that people in poverty already use (for example GP surgeries, employment support providers, services provided by social landlords or community organisations).

**JRF recommends** bringing together a range of services related to work and income,<sup>649</sup> such as employment support – including self-employment



advisers<sup>650</sup> – careers advice, advice on transport and childcare, local welfare assistance schemes, benefit checks and debt advice. Cost-reduction services – such as help in switching utility providers and energy-efficiency programmes – could be included.

Offering a range of services in one place (physical or virtual) makes it simpler for people to access what they need,<sup>651</sup> and helps overcome barriers people in poverty can face when accessing support – such as bureaucratic referral processes, or lack of trust or familiarity with service providers.<sup>652</sup> The idea of joined-up service delivery, integrated service centres, hubs and one-stop shops is not new, and has been tried in various ways around the UK and elsewhere. There are few good-quality impact evaluations.

There are challenges in creating hubs. Evidence shows that local government funding reductions have fragmented services and created barriers to collaboration<sup>653</sup> – the reverse of what is needed.

The most appropriate model for hubs will differ between places, as will arguments for family hubs (see Chapter 6) and employment and income hubs being provided jointly or separately. The geography and characteristics of a place, along with the history and depth of partnership working, will determine a suitable model. These decisions should therefore be taken at local level, although central government can help, for example by removing barriers to data sharing

**JRF recommends** speeding up the process of co-locating Jobcentres with local authority services, since these two could form the core of the hubs. Savings from a reduced government estate should be channelled to local government to support the creation of hubs and local advice and support plans.

### Employment support

Meeting aspirations of full employment, reducing the disability and ethnic minority employment gaps and encouraging better living standards via work will require a re-imagining of the employment support system.

A number of changes are underway. The Work Programme (a contracted-out service for longer-term unemployed) and Work Choice (a voluntary programme of employment support for disabled people) are coming to an end. A smaller specialist programme, Work and Health, is being designed for disabled people and those who have been unemployed for more than two years. This means some people who were receiving more intensive support through the Work Programme will now receive support through Jobcentre Plus (JCP).

The Work Programme had significant shortcomings. It failed to assist those with complex barriers to work; the amount of money spent on ESA claimants was lower than expected;<sup>654</sup> and it performed poorly for those aged 50+<sup>655</sup> and in parts of the country with a less buoyant labour market.<sup>656</sup>

But it also had successes. It achieved good outcomes for people with modest barriers to work, particularly JSA claimants, and provided better value overall than previous employment support programmes.<sup>657</sup> To return to supporting JSA claimants who have some barriers to work through JCP is a surprising decision.

In parallel to these changes, responsibility for employment support is being devolved to Scotland, and the new Work and Health Programme will be co-designed with some English city regions. This presents an opportunity to better integrate specialist employment support with other local services and employment programmes, skills, economic development and business support. In Northern Ireland, the creation of a new Department for Communities has seen the responsibility for employment support and benefits brought together.

### Capacity to deliver employment support that reduces poverty

JCP sits at the heart of the Government's approach to employment support and its role is undergoing significant change: in the coming years its case load is expected to double<sup>658</sup> due to:

- more JCP appointments because of more frequent meetings in the early stages of a benefit claim
- the end of the Work Programme meaning an estimated 1.6 million extra people over four years will use JCP,<sup>659</sup> some with complex employment support needs
- the roll-out of UC extending conditionality to non-working partners and people in receipt of Housing Benefit only. Parents, including lone parents, will be expected to start preparing for work when their children are younger<sup>660</sup>
- the implementation of in-work conditionality potentially bringing up to 1 million more people into the conditionality regime, and requiring services to progress in work as well as move into work.<sup>661</sup>

There are real questions about JCP's ability to rise to these challenges, not least because the DWP day-to-day spending budget has been cut by 41% since 2010–2011. It will be reduced by a further 19% by the end of this parliament, albeit with an increase over the next two years.<sup>662</sup>

In February 2016 there were 11,000 full-time (equivalent) work coaches across the network, with a case load of about 100 claimants each.<sup>663</sup> Even with the additional 3,000 work coaches being trained to help claimants into work it is not clear that this will be sufficient. There has also been a shift towards generalist advisers at a time when people with more specialist needs will be using the service.

### Changing incentives in the system to reduce poverty

Currently, JCP has one goal: moving people off benefit, into employment, as quickly as possible. Its performance is measured by the rate at which people leave benefits (the 'off-flow rate').

This is inadequate – it is not clear from the measure whether people are even entering employment (as opposed to moving on to another benefit or dropping out of the system), and neither the measure nor the goal place a focus on the type of work people secure, or whether it will help to reduce poverty. It has resulted in:

- **Not enough focus on outcomes that matter:** While the majority (75%) of JSA claimants claim for less than six months, the record is less positive when their progress is tracked over time. In 2012 fewer than four in ten people moved into a job that lasted more than seven months.<sup>664</sup> Simply measuring people flowing off a benefit is not a good measure of success; it is blind to the low-pay no-pay cycle.
- **Skills needs are going unaddressed:** The ‘work first’ approach of JCP prioritises moving people into work quickly over improving their longer-term employment prospects, for example through enhancing skills.
- **Blindness to getting stuck in low pay:** In 2014, three in five people leaving unemployment entered a job that pays less than the voluntary, higher Living Wage.<sup>665</sup> This would be less of a concern if a period of low pay was a fleeting rather than an enduring experience.<sup>666</sup> The introduction of in-work conditionality under Universal Credit aims to change this.
- **A lack of dignity and respect:** This is the most significant failing from the point of view of people using employment support services, as the quotes below demonstrate.

*“I just don’t feel comfy when I go into the Jobcentre. I feel as though I’m on edge all the time.”*

Jobseeker’s Allowance recipient, Welfare Conditionality Project<sup>667</sup>

*“The Jobcentre is such an intimidating place. They treat you like a number and they just want to sanction you!”*

Member of the public<sup>668</sup>

*“You feel intimidated, bullied, your self-worth is like nothing because you’re not doing enough. But it’s not because you’re not trying. It’s because there’s no jobs in your area or hours you need. The ones you apply for, you don’t hear back from.”*

Member of the public<sup>669</sup>

The recommendations developed for this part of the JRF strategy were tested with members of the public with experience of poverty, who had also used welfare-to-work services. The principles they wanted to see reflected in employment support services are set out below.

### Principles that matter to employment support service users

- 1 It should be a positive experience, where I trust the person has my best interests at heart and they freely volunteer the full range of help available. Everyone should be welcomed and treated with dignity and respect.
- 2 There should be free and easy-to-access support with clear and transparent, ongoing communications. For example, being able to contact a local Jobcentre rather than a national call

centre, not having to pay for phone calls, and having a range of communication options.

- 3 Personal to me and my needs, run by people specially trained to help me achieve a goal that's realistic for me. Support to begin with a shared assessment of needs and assets.

**JRF recommends** that all employment support services should be given the same core target: to reduce poverty through higher employment and earnings.

Measures to track progress should balance incentives to help the household maximise their income with the need to ensure each adult in the household is helped to maintain contact with the labour market where appropriate.<sup>670</sup> There are signs that the government is willing to reform the incentives. The success measures for UC focus on claimants moving into work, sustaining work and increasing their earnings. These are a significant improvement, but must apply to all claimants, not just those in receipt of UC.

Targets send a signal about priorities. A high employment and earnings target will focus providers on work that pays and jobs people are well suited to. It will also increase the incentives to make links with other local support services.<sup>671</sup>

### Identifying barriers to work

Currently, the level of support on offer to those out of work is determined by the type of benefit claimed, the length of claim and a few other characteristics. This is not an effective means of judging the support someone needs to move into work.

**JRF recommends** developing a segmentation tool to identify an individual's distance from the labour market, carried out as early as possible during a claim, and building on the experience of countries such as Australia, the Netherlands, USA and Ireland.<sup>672</sup> It should incorporate a wide range of information, including: household circumstances, previous benefit, unemployment and employment history, skills and qualifications including English language skills, proximity to centres of employment, transport arrangements, parenting and caring arrangement, any specific workplace needs related to disability or health conditions, any history of complex needs and criminal record. It should include discussion about what the jobseeker is good at, and the type of work they would prefer.

Effective assessment relies on building trust.<sup>673</sup> In the current JCP setting, this is difficult, despite good intentions of many JCP staff. Changing the high-level incentive and moving to integrated employment and income hubs as outlined above should help change the culture.

### Providing tailored support

Overall, there is strong evidence that active labour market policies (ALMPs) which offer support with job search backed by sanctions are effective at helping people into jobs, especially those with few barriers to work. But

moving quickly into work is not the same as reducing poverty. Trials in the United States demonstrate a personalised and flexible approach, where services are tailored to individual needs and can include training, is more effective in raising people's income over five years than either mandatory work-first or mandatory education-first programmes.<sup>674</sup>

### Effective employment support for different groups<sup>675</sup>

**Young people:** smoothing the transition between education and work with high-quality apprenticeships and vocational education.

**Disadvantaged young people, and other disadvantaged jobseekers who are long-term unemployed:** incentive schemes (such as subsidising the wages of jobseekers to encourage employers to take them on) are effective, but need to be carefully targeted to be efficient. Evaluation of the Future Jobs Fund for unemployed people aged 16–24 in Great Britain found a positive impact on future employment prospects (11 percentage points more likely to be in unsubsidised employment two years later). Cost-benefit analysis found the sum of net benefit to individuals, employers and the Exchequer ranged from £1,100 to £15,350 under different scenarios. Incentive schemes are a priority for these groups during a downturn.

**Older jobseekers:** opportunities to retrain are vital if changing health circumstances result in a need to change occupation.

**Long-term unemployed, economically inactive people and disabled people:** personal advisers play an important role in building confidence and motivation. Different forms of peer support – from small groups to one-to-one and online – have been found effective. Work experience is also effective when people have been out of work for a long time. Work trials, where an employer can try out a prospective employee who is long-term unemployed for a short period before taking them on, has resulted in employment in 50% of cases.

Intermediate Labour Market (ILM) programmes combining work experience (often for community benefit) with ongoing support and job search activity are intended as a bridge to the mainstream labour market. This differs from Workfare, which offers little training, support or incentive for providers to help the person move on to mainstream employment. The up-front cost is high, estimated at £13,960 per job in 2000, and £11,000 per job in 2003. There are few good quality evaluations, but those that exist indicate higher employment, retention and earnings compared with other schemes targeting this group.

**Disabled people and those with a limiting health condition:** whether a person's condition is longstanding or acquired, fluctuating or stable will influence the employment support that is likely to be effective. Specialist condition management support will be important for some people. There is strong evidence that Place, Train and Maintain (PTM) schemes are effective for people with **learning disabilities**, where a

mainstream job is brokered, focusing on the individual moving quickly into work with training on the job and ongoing support to sustain employment. For people with **severe and enduring mental health problems** individual placement support (IPS) is effective. This is similar to PTM but includes full integration with mental health support services. IPS clients are twice as likely to gain employment compared with other interventions targeting this group (55% compared with 28%) and sustain work for significantly longer. It can also be adapted for people with **drug and alcohol dependency**. The cost is estimated at £2,700 per individual. Creating an additional 20,000 places would double the provision, and cost an estimated £54 million.

Formal and informal volunteering and caring roles can also offer a route to building skills, social networks and confidence, as well as contributing to society. This is especially the case for long term unemployed people, and this should be recognised by welfare to work services.<sup>676</sup>

### Accessing support through employment and income hubs

Our proposal is that all new claimants would initially come to an employment and income hub for assessment using the segmentation tool. Those expected to return to work quickly with minimal support would be able to access job search resources, such as computers, skills and careers advice, help with accessing public transport and information about childcare options (see section on integrated employment and income hubs above). Those wanting to start up, sustain or formalise<sup>677</sup> a business should be able to access support from a specialist adviser and networking opportunities with other self-employed people.<sup>678</sup> Jobseekers would still be expected to check in periodically with an adviser to discuss how they were getting on and make sure their support needs hadn't changed. This light-touch service could free up some resources to reinvest in more intensive support to those with greater barriers to work. For this to be effective, Universal Jobmatch (a DWP job database) would need continued and extensive improvement, as set out by the Work and Pensions Select Committee.<sup>679</sup>

### Moderate support needs: personalised employment support

**JRF recommends** that people with low-to-moderate barriers to work should quickly start working with a personal adviser to get more intensive support. The likely client group would include the JSA claimants who are currently being quite well served by the Work Programme,<sup>680</sup> along with those who are moving repeatedly in and out of work.

Under the government's reforms, jobseekers would be out of work for two years before they would be eligible for more intensive help. Waiting this long will damage their future prospects.<sup>681</sup>

Given the cost effectiveness of the work programme for this group, there is a case for this support to be contracted out and delivered on a payment-by-results basis (whether that is by the public, private or voluntary sectors).

A number of lessons from the experience of the Work Programme can be learned:

- robust minimum service standards should be clearly set out and enforced<sup>682</sup>
- any element of payments by results should be differentiated according to the depth of barriers a claimant actually faces, drawing on the segmentation tool, rather than differentiated by the type of benefit being claimed
- any element of payment by results should focus on outcomes required: high employment and earnings.<sup>683</sup>

There is also a strong case for this provision to be designed and commissioned locally, underpinned by a national framework setting out standards and outcomes.<sup>684</sup>

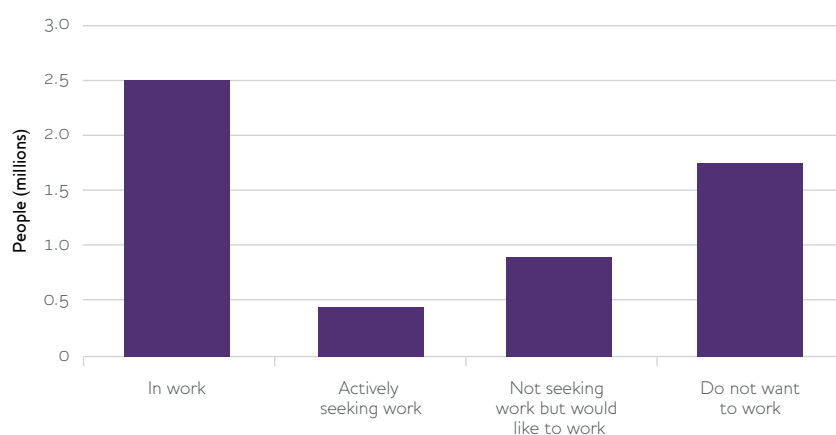
**JRF recommends** employment support for people with moderate barriers to work as part of the next wave of devolution negotiations.

### A specialist service for people with intensive support needs

The current government has highlighted a 30% gap in employment rates between disabled and non-disabled people, and pledged to halve it. While many disabled jobseekers with long-term health conditions won't require intensive support, some will. The new Work and Health Programme is a welcome development. JRF (along with others) has called for the creation of a specialist employment support programme for disabled people, people with health conditions and the very long-term unemployed.<sup>685</sup>

Most disabled people want to work (see figure 11), and expectation has shifted among young disabled people, who want and expect to be able to play a role in mainstream society.<sup>686</sup>

**FIGURE 12: LABOUR MARKET ENGAGEMENT AMONG PEOPLE REGARDING THEMSELVES AS HAVING A WORK-LIMITING HEALTH CONDITION**



Source: Oakley 2016<sup>687</sup>

Given the scale of the challenge – and the cost of some of the interventions that are evidenced to work (see box below) – it is questionable whether the government is investing enough to get the outcome it desires. Funding for the Work and Health programme is planned to be £130 million per year by 2020. Using cautious estimates of unit costs of £2,000 per participant, this implies only 65,000 people per year will be able to access the service.<sup>688</sup> In Scotland, devolution of services currently offered by the Work Programme and Work Choice will take place in 2017. The Scottish Government has pledged to spend £20 million on employment support in 2017–2018, in addition to the £7 million it is expected to receive from the UK Government at the point of devolution.<sup>689</sup> **JRF recommends** other governments follow Scotland's lead and increase the budget so more people can benefit.

Employer engagement will also be crucial for success. The Evidence Based Review of the Work Capability Assessment (WCA), which is used to determine whether disabled people are expected to look for work, found 83% of claimants deemed fit for work would need on average two or three adjustments to be able to return to work, with 50% needing flexible working hours and 24% needing a support worker.<sup>690</sup> Supporting employers to prevent people dropping out of work in the first place is also crucial. The Access to Work fund is important here – it offers practical and financial support for employers to make adjustments, but its impact is undermined by lack of awareness (especially among smaller employers, and for people with mental health conditions and learning disabilities).<sup>691</sup>

**JRF recommends** that the new Work and Health Programme trials a range of approaches to providing support for employers to retain people in work or help prospective employees take up a job. This could include integration of the Access to Work fund and the Fit for Work service (which provides occupational health services).

Lessons about contracting should be learnt from the Work Programme. Small, specialist and VCS organisations must be able to participate; links with wider services should be prioritised; and the payment structure should combine upfront funding and minimum standards with an incentive payment for good outcomes.<sup>692</sup>

Where local areas are involved in the design and commissioning of the programme through devolution deals, central government should be clear about the outcomes it seeks and its expectations about data transparency and evaluation standards. This will support learning about what works. This could be complemented with a fiscal incentive mechanism of the sort outlined in the better jobs section.

### A workforce that can deliver

Advisers will need to deliver more specialist and personalised services for the moderate and intensive support outlined above. The employment support workforce will need the right skills and level of reward for the job.

Negative attitudes towards service users<sup>693</sup> need to be challenged through line management and performance management practices, with a view to developing a culture of shared endeavour to support people to move into work.



**JRF recommends** exploring ATD Fourth World's 'The Right Trainers' scheme for social workers (see box below), as a potential model for training work coaches.

### **Involving service users in social worker training: The Right Trainers Project**

In order to improve social workers' understandings of poverty, and to involve service users themselves in the training of professionals, a joint project by ATD Fourth World, the Family Rights Group, and Royal Holloway, University of London developed a module for social workers on the realities of family poverty. Its learning outcomes and content were both developed through a series of workshops with individuals living in poverty who were receiving support from social services, with a focus on: real-life stories of experiencing poverty, the limits on the choices families in poverty can make, feelings of discrimination described as 'povertyism,' and practical actions social workers can take to improve their service for and relationships with users.

The module – targeted at both qualifying and practicing social workers – was delivered in a course of face-to-face sessions by the service users involved in the project, and is currently available free online<sup>694</sup> via the Social Care Institute for Excellence.<sup>695</sup>

### **Skills, training, careers advice and support to get on at work**

The UK's flexible labour market requires workers to be highly adaptable, meaning access to training and re-training throughout working-age life is important. So too is training that responds to the needs of employers, carries value in the labour market, and helps people participate in society.

As discussed in Chapter 6, poor educational attainment and no or low formal qualifications puts people at higher risk of poverty. It also puts people at a significant disadvantage in today's labour market: half the people with no formal qualifications are out of work.<sup>696</sup> As a group they are over-represented among people experiencing poverty.<sup>697</sup> Compared with other countries, the UK has a poor record on low skills, and ranks in the bottom half of the OECD league table for basic skills like literacy and numeracy.<sup>698</sup>

Training, where linked to employer need and used in the workplace, has a demonstrable impact on earnings and employment. Moving from a level-two to a level-three qualification is associated with between a 2 and 15 percentage point increase in the chances of employment, and between a 9 and 11 percentage point increase in earnings.<sup>699</sup> When in work, people with low qualifications remain disadvantaged. Not only do they have lower earning potential, they are less likely to receive training from their employer compared with employees that already have some qualifications.<sup>700</sup> This increases the risk of getting stuck in low-paid work. People from ethnic minority backgrounds are more likely to take part in adult learning than

the majority White communities but the effectiveness of this training and returns from it (measured by employment and pay) varies greatly.<sup>701</sup>

The skills system does not respond adequately to the following challenges:

- In most parts of the UK, access to training and re-training is rationed according to age and existing qualifications. In England, someone over the age of 25 who has a level-two qualification is not eligible for public assistance to update their skills or change occupation, even if they are experiencing working poverty. Their only option is to take out a learning loan, but the offer has not proved popular and there has been a reduction of a third in the number of learners over 25.<sup>702</sup>
- There is little advice and guidance available. Across the UK, more intensive support is focused on under-25s. In England, intensive, face-to-face support from the National Careers Service is largely reserved for out-of-work people, those facing redundancy and those with qualifications below level two. In 2014, only 14% of meetings were with people in work.<sup>703</sup> To reduce poverty – and with in-work conditionality within Universal Credit on the horizon – this must be rectified.
- There remain concerns about the quality of some low-level qualifications.<sup>704</sup>

Progressing in work can require changing employers. This can help reduce poverty, particularly where people are over-qualified for the job they are doing. But the dearth of well-paid part-time jobs advertised traps some employees, especially those with caring responsibilities. These are problems for businesses as well as individuals. People working in jobs for which they are over-qualified deprive businesses of talent. Employers also report shortages in skills they need, and the proportion of skills shortage vacancies in the economy is rising<sup>705</sup>

### Acquiring the skills to participate

In the 21<sup>st</sup> century, basic skills cannot simply be understood as literacy and numeracy. The internet is seen as a need by all age groups,<sup>706</sup> as public services increasingly take a 'digital first' approach and access to good-value essential goods and services is often online. Digital skills should be seen as essential for participation in society. An estimated 5 million people lack core literacy and numeracy skills,<sup>707</sup> while an estimated 12.6 million adults lack basic digital skills.<sup>708</sup>

With high levels of immigration into the UK, **JRF recommends** that **basic English for Speakers of Other Languages (ESOL)** should be seen as a basic skill. Speaking English helps migrants to integrate and participate in society, and can help prevent poverty by reducing the chances of labour market exploitation.<sup>709</sup> Being able to speak English clearly influences employability,<sup>710</sup> while accessing quality provision ESOL courses can also extend social networks.<sup>711</sup> An estimated 850,000 people living in the UK have basic ESOL needs.<sup>712</sup>

Currently, basic skills training is inflexible and too focused on individual qualifications rather than outcomes. The most effective training is delivered

in community or employer settings in ways that are engaging and relevant to people's lives. A new 'Citizen Skills Entitlement', as proposed by the Learning and Work Institute, should be developed offering:<sup>713</sup>

- an individually tailored, programmatic approach, where people undertake the modules they need to develop literacy, numeracy, digital and/or English language skills
- learning in the context of 'real-life' applications, such as budget management, finance planning and health information.

It should be judged on outcomes achieved, such as progress made, whether participants find work, increase earnings or go on to further learning, rather than by qualifications gained.

**JRF recommends** setting an ambitious target to meet all basic skills needs including digital skills by 2030. This would require doubling the current rates of participation from around 100,000 people per year for literacy and numeracy to 200,000. Priority should be given to people experiencing or at risk of poverty.

Delivering this ambitious target would require refocusing the existing £200 million per year investment in literacy and numeracy in England, plus a further £200 million per year of new funding. Responsibility for basic skills provision is devolved in Scotland, Wales and Northern Ireland. While progress has been made in some areas – for example The Big Plus in Scotland<sup>714</sup> – there remains major unmet need to be addressed in each country.

### Adult training and skills provision that meets the needs of individuals and employers

Beyond basic skills provision, the wider adult skills system should play a more significant role in reducing poverty by supporting people to get on and working with employers to meet their business needs. It also plays a vital role in engaging people in communities and building community cohesion.

**JRF recommends** refocusing the wider adult skills and training system to better address poverty by:<sup>715</sup>

- **targeting resources** – allocating public resources based on need and income, rather than age and previous qualification level
- **focusing on outcomes** – including helping those without work find a job, and boosting the incomes of those in work and the productivity of employers
- **being person-centred** – focusing on individual needs and outcomes
- **integrating services** – learning and skills services must be integrated with the employment system and work with businesses to meet local skills needs
- **being transparent** – data on outcomes achieved by providers should be made available to individuals, employers and commissioners to enable informed choices.

Short, targeted training courses delivered in conjunction with employers outperform longer, classroom-based training programmes in terms

of increasing employment and earnings.<sup>716</sup> However, longer training programmes can be more effective when the content is skill-intensive, with the benefits typically playing out over a longer period.

Responsibility for the adult skills budget was included in the latest wave of devolution deals with some areas in England taking full responsibility for the adult skills budget from 2018/19. This creates a significant opportunity for these areas to align the provision of skills with the needs of employers and growth sectors, and make connections between employment support, job creation and support for businesses to grow and develop their workforce. The local labour market level – or city region – is a practical level at which to broker relationships between employers, employment support providers, training and skills providers and business support to design course content that meets business needs and connects people in poverty to economic opportunities.<sup>717</sup>

**JRF recommends** devolved administrations and city regions in England involve employers and trade union representatives in designing course content to increase the labour market value of training. Some funding should be contingent on outcomes such as employment, higher earnings or further training.

Improving prospects by improving skills will help to reduce poverty. To illustrate the scale of the effect, LINDA modelled a scenario where half the people in poverty without GCSEs (or equivalent) have their skills upgraded to five GCSEs grade A-C. This results in 530,000 fewer people in poverty in 2020 (260,000 of whom are children), and 690,000 fewer in 2030 (380,000 of them children). These shifts provide a net increase in the tax take to the Exchequer of £4.3 billion in 2020 and £8.4 billion in 2030.

### Services supporting progression in work

Under UC there will be a focus on in-work progression, backed by in-work conditionality, potentially extending the reach of conditionality and sanctions to around 1 million working people.

Supporting people to progress will require a significant shift in the service offering by Jobcentres. More complex careers advice and coaching will be needed, including providing high-quality labour market intelligence and advice to individuals and brokering support directly with employers.<sup>718</sup> Experience from the USA shows this requires independent skilled intermediaries that can speak the language of businesses.<sup>719</sup>

Getting this right could bring substantial savings to government: increasing the earnings of in-work tax credit recipients by just £30 per week would deliver an estimated £4.1 billion saving to the Exchequer.<sup>720</sup>

Alongside trials within JCP, a small number external providers, councils and city regions are experimenting in this area (for example targeting part-time workers or the retail and hospitality sectors).

**JRF recommends** sharing the data from these trials and carrying out further trials specialising in a wider range of population groups and sectors of the economy.

There has been one major randomised control trial on work progression in the UK – the Employment Retention and Advancement pilot. It found a

positive impact on the retention and progression of lone parents and long-term unemployed people from a combination of:<sup>721</sup>

- ongoing support from an adviser who is able to foster links with employers offering good-quality jobs
- well-targeted training that is linked to realistic career progression
- financial incentive payments.

The DWP's approach allows for the first two approaches, but not the third. Future trials should also test the effect of incentive payments.

**JRF recommends** devolved administrations local authorities, LEPs, and combined authorities (and in future metro mayors) take the lead, negotiating with DWP to develop structured trials of different service offers and different forms of delivery to support in-work progression.

It is estimated that in England, £210 million would enable 500,000 people to participate in services supporting progression in work by 2020. The funding could mostly be found by reorienting existing budgets.<sup>722</sup> UC data could provide a means of identifying and prioritising participants who are in working poverty.

## Step 4: More effective social security

An ineffective benefits system, which is complex, confusing, traps some in poverty and makes it all too easy for others to fall through the cracks, is one of the causes of poverty in the UK today. The working-age social security system should incentivise people to work when they are able and provide a decent standard of living when they are not. Social security is not just for working-age people; it supports children and older people, as discussed in chapters 6 and 9.

### Summary of actions

- **Make Universal Credit (UC) a poverty-reduction tool:** governments should persevere with the implementation of UC, but make it contribute more to poverty reduction by:
  - increasing the work allowance whenever income taxes are cut, so that low-income workers get the full benefit of the tax cut
  - giving claimants choice about how they receive payments
  - returning the work allowances to their levels in the original design of Universal Credit and allowing second earners in a household to keep more of their earnings by introducing a second earner work allowance
  - when working as much as society expects, the combination of in-work benefits, minimum wages and tax policy should mean people are able to escape poverty.
- **Protect against destitution:** increase the level at which JSA is paid to reduce the risk of destitution. In the short term, increases

should be in step with the National Living Wage to maintain work incentives. Longer term increases should be in line with the cost of essentials.

- **Maintain the value of benefits:** uprate annually in line with the cost of essentials.
- **Ensure people receive what they are entitled to:** governments should organise take-up campaigns, undertaken in partnership with trusted intermediaries. DWP to monitor take-up rates for UC, and set a target to increase take-up.
- **Reform disability benefits and support:** in the short term, reverse the reduction of the benefit level for people in the Work Related Activity Group of Employment Support Allowance, implement in full the independent reviewer's recommendations for improving the Work Capability Assessment (WCA), and adopt a real world assessment of work capability as part of the WCA.
- **Reform the sanctions regime:** in the short term move to a stepped approach with early warnings built in and clear communication, using non-financial sanctions first and improving access to hardship payments. Final sanctions should be less severe and should not result in destitution.

A 21<sup>st</sup> century social security system must be designed to work with the labour market we now have: one that has a large proportion of low-paid, low-skilled jobs, is flexible and sometimes insecure.

The system is also there for times in life when full-time work (or any work) is not possible; for example, for parents when children are young, for those caring for other adults or experiencing ill-health or disability. It also helps people meet additional costs such as those associated with disability or having children.

Being unable to work is a state that, for many, changes over time: children grow up, adults being cared for pass away, and long-term health conditions can fluctuate. Keeping in touch with the world of work is important for their future prospects, as is help in moving back into work when they are able.<sup>723</sup> For people who will never be able to work, and people experiencing a period when they are unable to work, social security, along with support from family friends and neighbours, is crucial.

The four key elements of reform of social security aimed at ending poverty are:

- a** making benefits work
- b** making Universal Credit a poverty reduction tool
- c** providing more support for parents, carers and disabled people
- d** modernising the benefit sanctions regime.

Social security is devolved to Northern Ireland, although the system tends to mirror that of Great Britain. Scotland will soon have responsibility for disability and carers benefits, along with the power to top up benefits.

### a) Making benefits work

Social security has multiple aims. When thinking about poverty reduction, the appropriate levels of benefits must be judged in light of the costs people face, interactions with tax and wages, and assessments of work incentives. This requires explicit value judgements about the responsibilities of state, market and individuals in reducing poverty. It is also important to start by understanding the living standard that is delivered by the current system.

Benefit levels set too low increase the risk of severe poverty and destitution, especially for those with no option for increasing income from other sources, such as people caring for very young children or unable to work due to disability or ill-health. If benefit levels are set too high, they risk blunting the incentive to work. JRF believes no one in the UK should be destitute, but beyond this, the level of security the state should offer varies, depending on people's circumstances and the decisions they make.

In working age there are three main elements to social security: contributions-based benefits, which are paid to the individual and not means-tested (for example, contributory JSA and Employment Support Allowance (ESA), based on National Insurance contributions); benefits to help with additional costs (for example Child Benefit, disability benefits); and means-tested benefits (such as Housing Benefit or tax credits). The majority of people draw on the system at some point in their life.<sup>724</sup>

The introduction of Universal Credit (UC) has the potential to make a significant difference for working-age people. It brings together six means-tested benefits into one integrated system.<sup>725</sup> JRF has consistently argued that the principles underpinning UC – simplicity, work that pays, and smoother transitions in and out of work – are right. UC has potential to help prevent poverty, increase the money in people's pockets and enhance their prospects. However, recent changes to the design and generosity of the system risk undermining its potential.

Ultimately decisions about social security require compromises and negotiation between competing aims. The box below sets out how the social security system can support poverty reduction, providing a framework for thinking about benefit reform.

### Social security and poverty reduction

- 1 prevent poverty – particularly when deep or long-term – and end destitution
- 2 maximise the financial gains from paid work compared with not working
- 3 smooth risks of poverty over the lifetime by supporting people during periods when they are unable to work or unable to work full-time because of old age, health problems, disability and caring responsibilities, while contributing to the associated costs
- 4 treat people using the system with dignity and respect and give them a voice in how the system is run
- 5 contribute to economic success, by supporting people to develop, facilitate social and economic change and act as an automatic stabiliser for the economy
- 6 be fiscally sustainable, recognising that this cannot be divorced from the tax system. The sustainability of both social security and tax rely on public support, which is not fixed.<sup>726</sup>

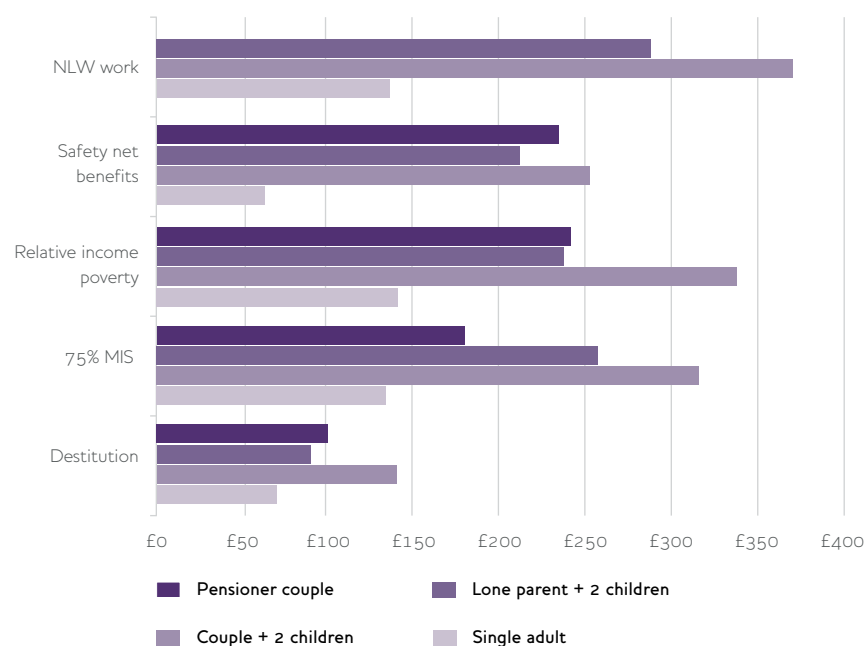
Given these aims, priority support should be for those in or at risk of poverty, especially those in severe and/or long-term poverty or who are destitute. People on the lowest incomes or with highest costs should receive the most help when it is not possible or not practical for them to reduce their costs.

People in less severe or long-term poverty should also get help when they cannot adequately provide for themselves through earnings or savings, to prevent them slipping into more severe poverty. Similarly, there should be assistance for those on the margins of poverty to get on, and build a buffer against the risk of future poverty.

To get a sense of the combined effect of UC, minimum wages and taxes on the income of different types of families, we can compare their income against benchmarks for destitution, the relative income poverty line, and JRF's poverty indicator of 75% of MIS<sup>727</sup> (figure 12).



**FIGURE 13: INCOME FROM BENEFITS AND WORK ON MINIMUM WAGES COMPARED TO POVERTY LINES (2016, AFTER HOUSING AND CHILDCARE COSTS)**



Notes: for working, 'Single' assumes working full-time on NLW; 'Couple + 2 children' one full-time NLW and one part-time NLW; 'Lone parent + 2 children' assumes part-time NLW. Relative income poverty data is for 2014/15.

Source: analysis by Donald Hirsch for JRF, supplemented with data from *Households Below Average Income, 2014–15* and Fitzpatrick, S. et al. (2016) *Destitution in the UK*.

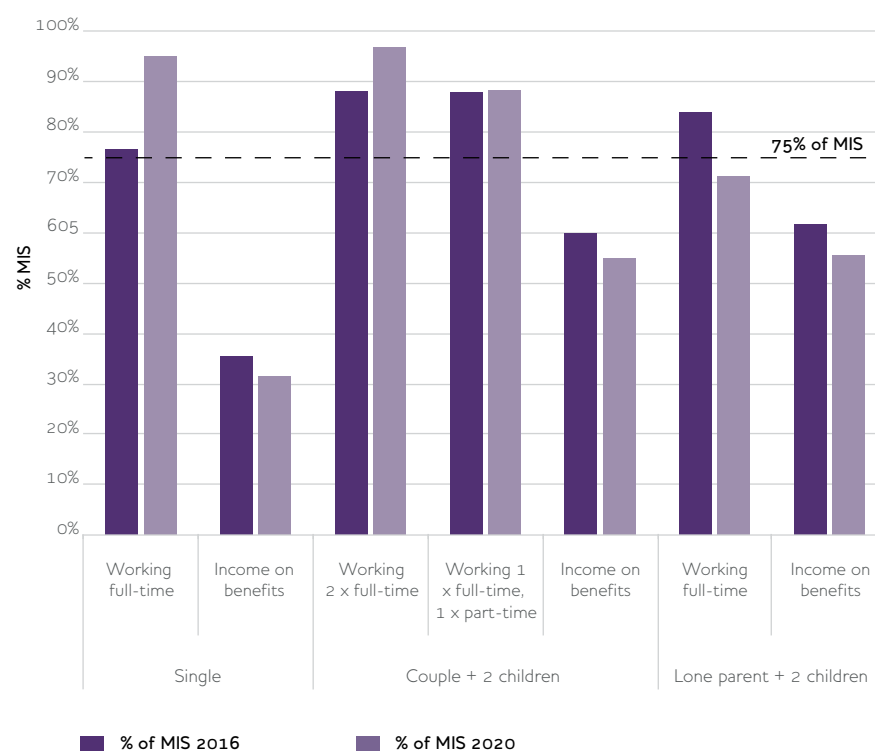
Pensioners claiming Pension Credit escape poverty (although the costs of disability are not accounted for, which would significantly change the picture for some – see Chapter 8).

Working-age people reliant on safety net benefits are likely to experience poverty. Couples with two children, where both adults are out of work, are around £65 short of the poverty line. Lone parents are around £45 short. People without children are in an even more precarious situation. A single adult barely escapes destitution. Young people living independently receive lower benefits, leaving them facing destitution.

The National Living Wage (NLW) has made a significant difference for working people aged over 25 from low-income households: it provides people with enough income to avoid poverty, although in practice this will depend on their housing and childcare costs, and other responsibilities such as child maintenance payments. For families with young children, the assumption is couples have one full-time worker and one part-time, while lone parents have one part-time worker. They are working as much as society expects while caring for their children (see Chapter 6). While they have enough income to avoid poverty, they remain some way short of meeting MIS. A couple with two children remains £50 per week short even if both parents work full-time; for a lone parent with two children the shortfall is £55. Single earner couples with two children hover at 75% of MIS, around £100 per week short of an acceptable living standard.

However, welfare reforms, changes to childcare and tax policy and ongoing increases in minimum wages mean this balance is going to change in the near future, particularly for working-age people, as Figure 13 shows. Single people and dual-earning couples working full time on the National Living Wage will stand a good chance of escaping poverty and meeting MIS by 2020 – although as above, in practice this will depend on costs they face. Families with two children where one parent works full time and the other part time on the NLW will see their living standards stagnate, with enough income to escape poverty but not enough to afford MIS. Lone parents will actually see their living standards decline, and even working full time will struggle to escape poverty. Those who are out of work and reliant on safety net benefits will also see their living standards decline.

**FIGURE 14: COMPARING INCOMES IN 2015 AND 2020 (ALL WORKERS ON THE NMW)**



Source: Analysis by Donald Hirsch<sup>728</sup>

**JRF recommends** the basic rate of out-of-work benefits increases to reduce the risk of destitution. Increasing benefit levels at the same rate as minimum wages would maintain the current incentive to work. This would be a short-term measure to increase the value of out-of-work benefits; we are not proposing out-of-work benefits should always rise with minimum wages. Increasing the Jobseeker's Allowance rate (known as Standard Allowance in UC) in line with the National Living Wage between 2016 and 2020 would see it rise from £73 per week to £91 per week, in 2016 prices. IPPR Modelling for this strategy estimates this will cost net £250 million in 2020.

Altering benefits to be more or less generous requires choices about how to move to new benefit levels (quickly or slowly; increasing, freezing or decreasing). Once a new level is achieved, decisions have to be made about how to uprate benefits in order to maintain their value against the right yardsticks, as measured by MIS.

Poverty is about meeting needs, so the value of benefits needs to keep pace with the cost of essentials. Currently most working-age benefits are frozen; this will be highly detrimental if the cost of essentials starts to rise. Recognising that low-income households spend a larger proportion of their budgets on essential items (see Chapter 5), and what is regarded as essential slowly changes with social norms, **JRF recommends** benefits are uprated annually with the cost of essentials.

To illustrate the impact, JRF modelled a scenario using LINDA where working-age benefits are uprated by price inflation +1% (as a proxy for the cost of essentials). There would be 320,000 fewer individuals in poverty in 2020, 1.5 million fewer in 2030 and 1.8 million in 2040 compared to a central scenario in which benefits are frozen throughout 2016–2020 and uprated with price inflation from 2020 to 2040. The biggest effects are among working-age adults with children and children. This would cost (net) £4.6 billion in 2020 and £11.9 billion in 2030.

### b) Making Universal Credit a poverty-reduction tool

Moving to a simpler, more integrated benefit system like UC, along with HMRC's new Real Time Information system, was intended to make a contribution to reducing poverty.

It will smooth people's transitions between jobs and in and out of work, which is crucial given the flexibility and insecurity of the UK labour market. Delays and errors when people re-apply for benefits due to changed circumstances are one of the main reasons people resort to food banks.<sup>729</sup> Uncertainty and what might happen if a job does not work out can deter people from taking up employment under the current benefits system.<sup>730</sup>

Under its original design, UC was good for the incomes of most households because of higher take-up and higher entitlements, particularly for those in work. And while the impact varied by household type, households with the lowest incomes were set to benefit the most.<sup>731</sup> The original design improved financial incentives for first earners (the main breadwinner in a household) and those working up to 16 hours, although there would have been a small decrease in incentives for a larger number of second earners.<sup>732</sup>

However, UC has been a casualty of deficit reduction. Successive fiscal events have seen the uprating of the benefit first capped at 1%, and then frozen; the work allowances (the amount that can be earned before the benefit starts to be withdrawn) frozen, and then sharply reduced in the 2015 Summer Budget. Where work allowances previously varied depending on a household's circumstances (single or couple, children, disability), they have been consolidated to two: one for those who rent, and one for those who do not. Childless people without a disability no longer receive a work allowance. This has drastically reshaped the work incentives within the system.

The Resolution Foundation has calculated the reduction in work incentives by looking at the number of hours someone can work before UC starts to

be withdrawn.<sup>733</sup> Lone parents, especially those who do not rent, are the biggest losers. Another way to think about work incentives is to look at the difference between out-of-work benefit income and income when working full-time on the minimum wage. Thought about in this way, the incentive to work for most groups increases, as figure 14 shows. As pointed out above the problem with this approach is that it pushes childless people close to destitution when they are not working.

The following adjustments could enable UC to achieve the goal of reducing poverty.

### Ensuring people claim what they are entitled to

UC will help reduce poverty by making it easier for people to claim the benefits to which they are entitled through the creation of a single application process. To date, the low level of take-up for some benefits has not been addressed with sufficient determination. Take-up rates for the benefits that will be incorporated into UC vary from 60–67% for JSA up to 77–89% for ESA.<sup>734</sup>

A reduction in poverty can be achieved simply by people claiming what they are entitled to. LINDA modelling finds 100% take-up of working age benefits would result in 1.2 million fewer people in poverty in 2030 with a net cost of £17.6 billion in that year.

Optimism about the impact of UC on take-up is based on the assumption that take-up rates will converge towards higher rather than lower rates. This may not happen automatically. Proactive take-up campaigns delivered by trusted intermediaries such as charities, GPs and social housing providers are effective in increasing the numbers claiming their entitlements, with a positive impact on poverty reduction.<sup>735</sup>

**JRF recommends** that take-up campaigns are undertaken in partnership with trusted intermediaries, such as voluntary-sector organisations.

**JRF recommends** DWP monitors take-up rates for UC, and sets a target to increase take-up.

### Making sure it pays to work

Working significantly reduces the risk of poverty, and the social security system plays an important role in ensuring it pays to work, helping people provide economic security for themselves and their families. There is strong evidence that topping up the pay of working households on low incomes (for example through Working Tax Credits) has an impact on poverty.<sup>736</sup> It is effective because top-ups are targeted directly at households on low incomes. While JRF sees better jobs as a priority, improvement will take time.

UC has two ways of making work pay: the work allowance (the amount that can be earned before UC starts to be withdrawn) and the taper (the speed with which UC is withdrawn). There are trade-offs: the higher the work allowance and the lower the taper, the larger the number of people captured by the system and the longer they receive UC. A consequence of the cut in work allowance and the increase in the minimum wage is that those without children working full-time and couples with

children where both partners work full-time (an uncommon model of family life) can exit the UC system altogether, allowing them to keep all of any post-tax income from working additional hours or higher pay. These competing goals need to be carefully balanced.

Modelling a reduced taper rate (to 50%) using LINDA showed that 100,000 people could be prevented from being in poverty in 2020 and 50,000 in 2030, half or more of which are children (50,000 and 30,000 respectively). This would cost (net) £1.5 billion in 2020 and £1.4 billion in 2030.

LINDA was also used to model returning the work allowances to their original design. This resulted in 130,000 fewer people in poverty in 2020 and 160,000 fewer in 2030. It would also result in fewer children experiencing poverty: 50,000 fewer in 2020 and 70,000 fewer in 2030. The net cost is estimated at £1 billion in 2020 and £1.5 billion in 2030 (on average £1.1 billion each year throughout 2016–2040). Given the larger impact on poverty and the lower cost, **JRF recommends** increasing work allowances rather than lowering the taper.

Policy has focused on minimising the tax burden on low earners, and the personal Income Tax allowance has risen from £6,475 in 2010–2011 to £10,600 in 2015–2016. This has resulted in 1 million people no longer paying Income Tax. Clearly this benefits low earners and those moving into work (three in five people moving from unemployment into work in 2014 were paid below the voluntary higher Living Wage). But once the Income Tax threshold is lifted beyond a person's earnings, they receive no further gains from subsequent tax cuts. As such, a policy-maker looking for tax cuts that benefit low earners might look to National Insurance rather than Income Tax.<sup>737</sup>

However, increasing tax allowances is an inefficient way to put money in the pockets of low-income households. Most of the money (85%) goes to households in the top half of the income distribution.<sup>738</sup>

The way tax cuts interact with the benefit system should also be considered. The positive effect of tax cuts is blunted for households receiving UC because eligibility for support is assessed on an after-tax basis. This means a low-earning household in receipt of UC will lose 65p for every £1 gained from a tax cut.

**JRF recommends** that the work allowance should be increased every time personal taxes are cut, to make sure recipients of UC get the full benefit of a tax cut. However, JRF does not consider further rises to the personal Income Tax allowance to be a priority.

### Second earners

While topping up earnings through wage supplements like tax credits has been found to have a significant, positive impact on employment rates for lone parents, it can have a small, negative effect on incentives to work for second earners.<sup>739</sup> This is because support is withdrawn more quickly when a second person in a couple finds work. Getting a second earner into work makes a significant contribution to reducing working poverty. Incentivising second earners to work also helps each person in a couple to maintain a connection to the labour market, improving their future prospects.<sup>740</sup>

To test the impact of incentivising each parent in a couple to work, a second earner disregard (£1,300 per year) was modelled (using LINDA) for couples with children. This was in addition to returning the work allowances to their original levels. This scenario had a similar net cost to restoring the work allowances and similarly fewer people in poverty, but there were fewer parents and children under five in poverty. **JRF recommends** the creation of a second earner disregard.

Finally a combined scenario was modelled using LINDA where the old work allowances were restored; a second earner disregard introduced and benefits uprated by inflation +1%. This resulted in 480,000 fewer individuals in poverty in 2020 and 1.7 million fewer in 2030, a third of which are children. The net cost is £5.8 billion in 2020 and £13.6 billion in 2030.

A final feature of UC is its focus on progression in work and the development of an in-work conditionality regime. If developed and implemented in the right way this has potential to help reduce poverty by supporting people to improve their prospects. The section above on services supporting progression in work makes recommendations about this.

### Enhance protection for self-employed people

There has been a sharp rise in self-employment in recent years, reaching 15% of the workforce (4.6 million people) in 2016. Data limitations mean income measures are unreliable for self-employed people; material deprivation paints a more accurate picture. Overall, two-fifths of households in absolute income poverty experience material deprivation. This falls to a sixth when the household contains someone who is self-employed, compared with just under a third for households with at least one employee.<sup>741</sup>

Self-employment is associated with greater autonomy, enjoyment and flexibility in work, but it can also be associated with insecurity, volatile earnings and poverty. This group will move onto UC in the coming years, where they will be particularly affected by two changes:

- UC introduced a Minimum Income Floor (MIF), based on the National Living Wage or National Minimum Wage, which will mean that if a self-employed individual's earnings fall below the MIF they will not be given any more UC to make up the difference (as would happen under Working Tax Credits). Consequently they can be left with a very low income.
- UC entitlements will be assessed on a monthly basis, including applying the MIF.

The UK Government should redesign Universal Credit so that it better reflects the reality of self-employed work. Specifically:

- extend the 'Start-up period' for the MIF from one to two years:<sup>742</sup> to provide additional protection against risks for new businesses<sup>743</sup>
- ensure those with varying incomes are not disadvantaged: the monthly assessment period disadvantages those with varying incomes. The MIF should be redesigned to satisfy the principle that 'over an annual business

cycle, the amount received in UC support by individuals with similar profits and the same personal circumstances should be roughly the same.<sup>744</sup>

- explore options for automated saving schemes within the UC system to allow claimants to automatically channel a portion of their benefits into a savings account, to protect from volatile income.<sup>745</sup>

As well as these reforms to UC, the UK Government should establish a more progressive National Insurance contributions system to fund entitlements for self-employed people. Self-employed people on low incomes currently have little access to contributory benefits that would protect them from temporary losses of income. A more progressive system could reduce the burden falling on those on low incomes while raising £280 million. The money raised could be used to extend contributory benefits to self-employed people.<sup>746</sup>

### Other ways UC can help solve poverty

There are other design features of Universal Credit that can have an impact on poverty.

- There are concerns about the practicalities of joint payments to couples into a nominated account. **JRF recommends** the child-related elements of UC should go to the main carer by default or the payment should or be split so that a proportion goes to each individual.<sup>747</sup>
- UC will be paid monthly, which could throw some household budgets into disarray.<sup>748</sup> **JRF recommends** that UC recipients be offered a choice over the frequency of benefit payments. In Northern Ireland payments will be fortnightly by default, in Scotland claimants will be offered a choice. The outcomes in different countries should be carefully monitored.
- Under UC, payments for housing costs for people in social rented housing will be paid to the claimant, rather than the landlord. The majority of claimants will cope with this change.<sup>749</sup> Scotland has proposed to make it easier for tenants to request that housing payments are made direct to their landlord, and **JRF recommends** England, Wales and Northern Ireland follow Scotland's lead.
- The seven-day waiting period before entitlement for UC can begin risks pushing some into debt and hardship. In line with the view of the Social Security Advisory Committee,<sup>750</sup> **JRF recommends** people in need of and eligible for income support should be able to access it immediately.
- Separate Council Tax Support (CTS) schemes in England mean there are different levels of CTS for low-income working-age people.<sup>751</sup> Having CTS sit outside of UC undermines work incentives<sup>752</sup> and makes the system more complicated for the claimant.<sup>753</sup> In the short term **JRF recommends** local authorities adopt the schemes that have been identified as more progressive.<sup>754</sup> In the longer term, there is a case for looking to integrate CTS with UC.

### c) Support for parents, carers, and disabled people

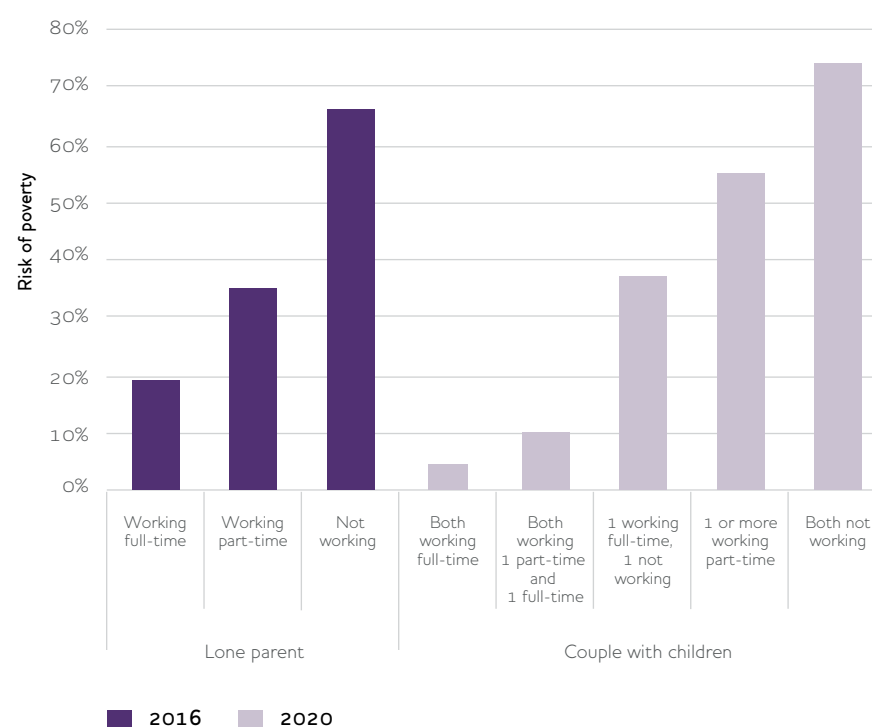
Life is not just about paid work. Sometimes other priorities take precedence, such as bringing up children and caring for disabled, sick or dying relatives, friends and neighbours. These are contributions that should be recognised and valued – they bring meaning and fulfilment for people, and save the state considerable sums in the cost of care. There are also times when people are unable to work for health or disability reasons, or need to work part-time or flexibly.

These periods out of the labour market put people at risk of poverty if they cannot rely on other resources. Life experiences also lead to changes in basic needs, and the costs of meeting needs. To reduce poverty, the social security system must strike a balance between incentivising work where people are able to, providing security when people are not, and helping them to meet extra costs they may face as a result of children, a disability or long-term condition.

#### Parents

Figure 14 shows a strong relationship between the risk of relative income poverty, the number of working people in a household and the number of hours worked. It is becoming increasingly difficult for low-earning single breadwinner couples and lone parents working anything less than full-time to avoid poverty. Even having two full-time workers does not guarantee an escape from poverty.

**FIGURE 15: RISK OF RELATIVE INCOME POVERTY (AFTER HOUSING COSTS) FOR CHILDREN, BY PARENTS' WORK STATUS**



Source: Households Below Average Income



In the earliest years of a child's life it is important to have a parent as a full-time carer if possible (see Chapter 6). As children grow older, the goal should be for both parents (or a lone parent) to do some work. Sharing caring responsibilities – within families, between parents and between families and society generally – is pivotal to making this reality.<sup>755</sup> Both parents having some contact with the labour market increases household income, and protects against future poverty, particularly for women in couples should the relationship break down.

The UC roll-out is likely to result in parents who are in couples – many of whom have not previously experienced employment support services – having to work if their partner is unable to increase their earnings.

JRF recognises that parents should be expected and supported to maintain contact with the labour market, and work in a suitable job once their youngest child is of school age. In practice this could mean one parent working full-time and one part-time (or a lone parent working part-time) from when the youngest child starts school, with the number of hours rising when children are older. This aligns with the current conditionality regime, and with what the public thinks is reasonable.<sup>756</sup> It also enables most families to escape poverty (figure 13). However, this finding is tempered by two points.

- The situation is different for lone parents and larger families. For example, a lone parent would have 71% of MIS in 2020 even if they worked full-time (see figure 14). A lone parent would have 71% even when working full-time.
- The above analysis is after housing and childcare costs. Where people face high housing, childcare and transport costs, or have additional costs as a result of a disability, their income may not be enough to meet their needs.

When working as much as society expects, people should be able to escape poverty and be moving toward an acceptable living standard. Where there is a gap, changes to the work allowance or extra costs benefits (including the child element) should be considered.

The current conditionality regime and the Flexible Support Fund provide building blocks for personalised support to claimants but it needs to be carefully implemented. Early evidence showed that the range of support available was not being communicated to benefit claimants.<sup>757</sup> Subsequent evaluation has shown the funds being used with increased confidence by advisers. Nonetheless, the budget continues to be significantly underspent, with only £72 million of a possible £136 million being spent in 2014/15.<sup>758</sup> Evidence also suggests flexibilities in the conditionality regime for parents are not always being applied.<sup>759</sup> Conditionality and sanctions are discussed below.

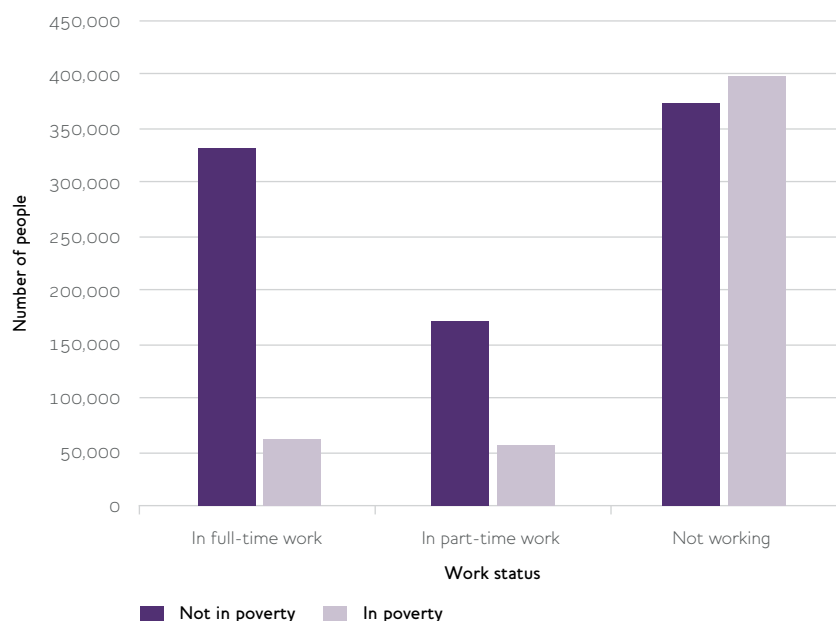
### Carers

Working-age people caring for others have an increased risk of poverty. Of the 510,000 working-age people caring for their spouse, 28% are in poverty – seven percentage points higher than working-age non-carers.<sup>760</sup> Unsurprisingly, the poverty rate climbs the more hours per week spent caring. High-intensity carers (20+ hours a week) are more likely to be

workless (see figure 16). The same number of men and women provide care for a spouse or partner (270,000 each), but twice as many women as men provide care outside the home (1.6 million compared with 860,000).<sup>761</sup>

There is an employment gap for people providing informal care. Among women the employment rate is 61%, 9 percentage points lower than for non-carers. For men the employment rate is higher, at 68%, but it is 10 percentage points lower than for non-carers.

**FIGURE 16: HIGH-INTENSITY WORKING-AGE CARERS BY WORK STATUS AND POVERTY**



Source: Aldridge and Hughes (2016)<sup>762</sup>

Carer's Allowance can be claimed when caring for a person on qualifying benefits for at least 35 hours a week, so long as the carer does not have net income from earnings above £110 per week, the equivalent of about 15 hours on the NLW. Carer's Allowance is not means-tested, but is set at a low rate of £62.10. People in receipt of income-related out-of-work benefits can claim a carer premium of £34 per week. UC will mark a substantial improvement for carers who are able to work. Eligible carers will get the standard element plus a carer's element, and while they will not be subject to conditionality they will be eligible for the same work allowances and taper if they choose to work.

High-intensity carers who are not eligible for the carer element (because they are not caring more than 35 hours per week) should be encouraged to move towards working a few hours a week, but conditionality should be carefully applied as work must fit around caring responsibilities. For this group, social security or support through the social care system are critical to escaping poverty.

### Disabled people

Health conditions that limit everyday activities, and disability, sharply increase poverty risk – 25% of individuals in households with a disabled person are in relative income poverty (after housing costs) compared with 20% where no one has a disability.<sup>763</sup>

The figures hide the true extent of poverty as they count disability benefits such as DLA and PIP as income, even though they are designed to help with the additional costs associated with disability. If these benefits are discounted as income, 600,000 more working-age adults would be in poverty.<sup>764</sup> Even this is likely to be an underestimate but until we have a better understanding of the true additional cost of disability it is difficult to be more accurate.

For mental health, the relationship with poverty operates in both directions. Anxiety and mood disorders (including post-traumatic stress disorder, depression and bipolar disorder) are significantly associated with low socio-economic status. Stress is a key trigger in these disorders, particularly chronic, long-term stress, which is more likely to be part of life for people living in poverty. Reducing poverty will help reduce the prevalence of mental health conditions. There is also evidence that the onset of depression is followed by downwards mobility in socio-economic terms.<sup>765</sup>

Most disabled people want to work,<sup>766</sup> and the right sort of job is good for people's health and well-being.<sup>767</sup> Where work is not the solution, the focus needs to be on involving people in decisions about how they are supported and enabled to live independent lives.<sup>768</sup>

Currently the Work Capability Assessment is used to determine whether or not disabled people and people with long-term conditions are expected to look for work, make preparatory steps towards work (the Work Related Activity Group, WRAG), or are not expected to work at all (the Support Group, SG). Benefit payments and conditionality vary accordingly. However, the higher benefit level for the WRAG is being abolished for new claimants from April 2017.

This reform should not go ahead. JSA is designed to be a short-term stop-gap, and is set low to incentivise a quick return to work. Yet, with the disability employment rate below 50% (and barely 10% for those with a learning disability) a quick move into work is not possible for many. Disabled people are discriminated against, more likely to have other labour market disadvantages (such as low skills) and have a more limited choice of suitable jobs. This is not to suggest that significant reform is not needed, but reform will be a slow process and people in the WRAG group risk destitution in the meantime.

The system of support for disabled people has come under sustained criticism.

- The WCA has become a source of enormous stress and distress for those undergoing assessment,<sup>769</sup> and the high rate of appealed and overturned decisions indicates the system is failing.<sup>770</sup> The validity of the test – the link between the points system and the likelihood of employment – is not evidenced.
- It works especially poorly for people with mental health conditions, learning disabilities, fluctuating or progressive conditions.<sup>771</sup> These conditions are likely to become more common in future.

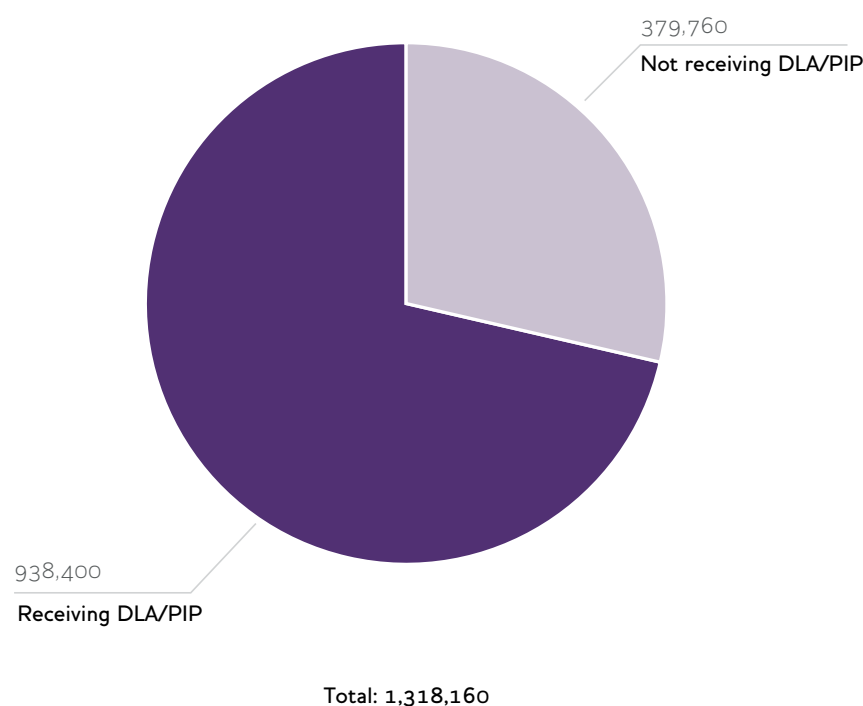
- The independent reviewer<sup>772</sup> of the WCA has questioned whether assessors are adequately trained and whether a sufficiently wide range of professionals, such as social workers, psychologists and allied healthcare professionals, are involved in the process.<sup>773</sup>
- DLA/PIP do not effectively reflect the additional costs of disability. The application of aids and appliances criteria has been questioned<sup>774</sup> and evidence indicates the true costs of disability are often underestimated.<sup>775</sup>
- PIP is only available to those with the highest levels of assessed needs, meaning the transition from DLA to PIP is resulting in some people losing their entitlement. These are 'gateway benefits' (providing streamlined access to other assistance) so there is a knock-on effect on other support.
- The support provided is piecemeal, and spread across local authority social services, a number of different benefits for disabled people plus carers benefits, with multiple assessment processes.

The Scottish Government has pledged to abandon PIP and keep DLA, while the UK Government is planning fundamental reform to the WCA. Questions about the future of the WCA have also been raised by the independent reviewer. He queried whether assessing functional capability is the most appropriate way to determine eligibility for benefit, and whether decisions about benefits should be uncoupled from activity geared to helping people find employment.<sup>776</sup> This important question is worth exploring. It has been followed by calls for the creation of a single out-of-work benefit.<sup>777</sup> While recommendations vary, they generally involve:

- a tool to assess how extensive an individual's barriers to work are and, if returning to work is possible, the development of a personalised return-to-work plan
- an end to higher income-replacement benefit payments for all disabled people and those with long-term conditions, bringing benefit rates into line with unemployment benefits
- compensating disabled people for their lost income by reforming extra-costs benefits, such as DLA/PIP.

Making such a policy work without increasing poverty among disabled people is difficult because:

- there is an imperfect overlap between groups found 'not capable for work' by the WCA and those that claim extra cost benefits (figure 16). Nearly all the non-recipients of DLA/PIP had a 'mental or behavioural disorder'. It is not clear whether they are ineligible or under-claiming.<sup>778</sup> If extra-costs benefits were not considerably reformed to be more generous, targeted on high levels of need, and take-up improved, almost a third of people not currently expected to be able to work at all would find themselves close to destitution.

**FIGURE 17: NUMBER OF PEOPLE IN THE ESA SUPPORT GROUP WHO DO AND DO NOT RECEIVE DLA/PIP**

Source: FOI Request by Reform

- DLA/PIP is non-means tested and available both in and out of work. Increasing the rates sufficiently to compensate people who were unable to work or expected to be out of work for a long time would be costly. An alternative would be to means-test or tax it. This would target the available funding at people on low incomes, but would change the nature of the benefit as one that recognises extra costs affecting all disabled people in society.

There is a case for a fundamental reform of benefits and support for disabled people. **JRF recommends** this is carried out following proper consultation with, and involvement of, disabled people, the organisations that represent them and health professionals. This will take time, so in the meantime **JRF recommends** the reduction of the benefit level for people in the Work Related Activity Group be reversed until the system of disability benefit is reformed. This will cost £0.6 billion in 2020–2021.<sup>779</sup>

**JRF recommends** the independent reviewer's recommendations for improving the WCA are adopted in full.<sup>780</sup>

In addition, **JRF recommends** real-world assessment of the type of work people would actually be able to do is incorporated into the WCA. This involves considering the individual's motivation, qualifications, skills, work experience and age, as well as the condition they have and the employment and skills support they would need to get and keep a job. Such approaches are used in the USA and Netherlands.<sup>781</sup> This information is then incorporated into an employment support plan where a person is found capable of work.

### **d) Reform the benefit sanctions regime**

It is not unusual for a benefits system to require activities in return for benefits, with a backstop of sanctions to prevent abuse.

The UK's active labour market policy, which combines employment support services with conditionality and sanctions, is well-founded in evidence of what gets people into a job, although the impact on overall incomes and poverty reduction is less certain.<sup>782</sup> Conditionality and sanctions do, however, form an important part of public trust in the benefits system.

While there is strong evidence that sanctions are needed for a welfare-to-work system to function, the detail of how to apply sanctions, and to what activities, is less clear. Where people do not have significant barriers to work, regular signing-on and face-to-face meetings with an adviser are known to be effective in helping people move back into work;<sup>783</sup> sanctions for appointments missed without good reason make sense for this group.

However, there are many unknowns, such as how effective it is to sanction people on the basis of the number of jobs per week they have applied for. Such conditions can have negative consequences, including overwhelming employers with inappropriate applications, or people taking jobs for which they are ill-suited and are unlikely to sustain. Research on young people seeking low-paid work shows employers preferred local candidates, and rapid response to job vacancies increased success.<sup>784</sup>

There is significant concern about how the sanctions regime is currently administered in the UK and the rate of sanctioning. In 2013/14 18% of JSA claimants received at least one sanction at some point in the year.<sup>785</sup> The severity of the regime has also increased, with the maximum period for which a JSA claimant's benefit can be stopped up from six months to three years.<sup>786</sup> This can result in destitution.

Fairness relies on the system being understood and administered effectively.<sup>787</sup> There is evidence of shortcomings, with anecdotal reports of sanctions inappropriately applied, particularly to socially vulnerable claimants.<sup>788</sup> Of the ESA claimants being referred for a sanction decision, around 60% are being turned down.<sup>789</sup> This causes huge distress and is a waste of public resources. DWP has acknowledged some of these concerns and taken some steps to respond to them, which JRF welcomes.

JRF's participatory sessions with people in poverty who had experience of the welfare-to-work system revealed fear of sanctions, and a belief they were being used in an unpredictable and sometimes vindictive manner. However, people did not want to see them abolished entirely and believed they could be used legitimately when people were trying to play the system.

***“When you go down it seems their main concern is to get you to quit welfare, not even about getting a job. If there's no job then you always worry you are about to get sanctioned because they say you haven't tried hard enough. If you're sanctioned it's scary because you'll have to go to the food bank.”***

Service user<sup>790</sup>

It is clear that a large majority of out-of-work people want to work. DWP's own research on motivation and attitudes showed that eight in nine

people out of work were doing all they could to find work or felt prevented from working by their circumstances. Only one in nine were happy with life on benefits, and were not particularly motivated to find work.<sup>791</sup> Despite this, there is a sense among much of the public, the media and some politicians that this small group is the majority. This should be turned on its head, and sanctions should be regarded in part as a failure of employment support.

**JRF recommends** a number of reforms:

### Short term: improve the current system of sanctions

- Good communication is central to a better system. People must understand what is expected of them, be able to fulfil the conditions, and understand the consequences of not meeting them. Conditionality should be tailored to individual and household circumstances and based on ongoing evidence of what is effective in achieving the longer-term goal of being free from poverty.
- Introduce a stepped approach with early warnings. **JRF recommends** returning to the principles of the Gregg<sup>792</sup> and Oakley<sup>793</sup> reviews, with a series of intermediate steps prior to sanctions being imposed. This should include warnings when people are likely to breach their claimant commitment, and support being offered at an early stage to find out why conditions are not being met. In addition, rather than going straight to a financial sanction, non-financial sanctions should first be tried, such as more frequent signing-on.<sup>794</sup> At every stage there should be strong communication of what is happening and why, and support offered. This should result in fewer financial sanctions, with only persistent offenders subject to financial sanction.
- Financial penalties of sanctions should be reduced. Removing 100% of a claimant's JSA payment leaves people destitute. The sanctioning regime for Income Support is less harsh. Adopting this approach would mean a sanctioned individual loses 40% of their main benefit payment. In practice this would mean a single person over 25 on JSA would have £43.86 a week to cover essentials like food, gas, electric, water, Council Tax and travel expenses.
- Improve access to hardship payments. Some socially vulnerable groups are automatically eligible, while others need to know to ask.
- Continue to develop the evidence base. There should be a commitment to monitor and evaluate whether and when sanctions are effective as part of a strategy to move people into sustained employment.<sup>795</sup>

### Longer term: nobody destitute by design

Implementing the short-term changes above will significantly reduce the number of financial sanctions and improve the effectiveness and fairness of the system. However, in a context where income-replacement benefits are so low and, for young people in particular so close to or below what the public consider destitution,<sup>796</sup> any form of financial sanction risks pushing people into unacceptable levels of hardship.

The current level of JSA means that it is impossible to sanction people effectively without pushing them into destitution. Over time, the rate of JSA needs to rise above destitution level – then it will be possible to apply a financial sanction without driving someone into destitution.

A more effective social security system combined with better jobs, a stronger place-based focus on inclusive growth and stronger support services: together these four steps have the potential to solve poverty for working-age adults. They could also help them prepare for their later years. While poverty among older people has dropped, there is still work to do, as we show in the next chapter.



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# Poverty in later life

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## 8. Poverty in later life

Being old used to mean, for many, being in poverty. No longer. Thanks to more generous state pensioner benefits and growth in wealth from housing, savings and other pensions, the risks of income poverty are now similar to – or even lower than – at other stages of life, a demonstration that poverty can be taken on and solved. It shows that successful outcomes can be achieved if there is sufficient political consensus, a set of effective policies, broad public support and a long-term approach.

The value of the full new State Pension (nSP) for people reaching the State Pension Age from April 2016 is £155.65 per week, more than double the rate in the 1970s in real terms<sup>797</sup> and more than twice the current basic rate of working-age benefits. However, recent changes to pension policy will create losers as well as winners, and the outlook remains uncertain, especially regarding how well private pensions can help support living standards in the future.<sup>798</sup>

Our vision is of a UK in which older people can meet their broader needs, including for care, and poverty in later life is prevented as a result of boosting savings and pensions among working-age adults. We still have some way to go to achieve this vision.

Research consistently shows that the things older people value most include: meaningful relationships; having input into decisions about their lives; having the opportunity to mix with other people; living somewhere pleasant and accessible; and being able to get out and about.<sup>799</sup>

Poverty can act as a barrier to these things. The uneven availability of transport can restrict older people's movements. The experience of poverty can act to exclude older people from social networks because they cannot participate in the 'give and take' of resources or because they are ashamed of the stigma of poverty.<sup>800</sup> When poverty restricts meaningful relationships and opportunities to mix with other people, it can contribute to loneliness and isolation in older age (as indeed at any age).

Later life can also be a time of transitions. Moving home, retirement, bereavement, becoming a carer or needing care and becoming a grandparent all have the potential to increase older people's risk of poverty.<sup>801</sup>

Many older people face the effects of extra costs and care needs, especially older disabled people. There are other groups of older people with higher risks of poverty than others due to factors beyond their age – for example, pensioners who are single, female or from ethnic minority groups. These factors may interact: those over 75 are more likely to be women; and single older women are more likely to be in poverty than single older men. Divorced older women are particularly at risk of poverty even though they may not have been when married.<sup>802</sup> This highlights the importance of taking

an individual lifetime perspective on poverty as well as a cross-sectional household one.<sup>803</sup>

The picture of future health trends is complex, with the prevalence of some conditions, such as dementia, decreasing.<sup>804</sup> Rising inequality in the experience of disability among older people seems likely, as there has been a sharp increase among those on low incomes compared with stabilisation for richer groups.<sup>805</sup> Health inequalities between ethnic groups vary (also by gender and geography) with marked inequalities in later life.<sup>806</sup> This only adds to the importance of disability as an issue for poverty in later life, and reinforces the fact that the affordability, accessibility and quality of health, social care and other services make a big difference to older people. By 2020/21, the share of government spending going to older people and health could reach 43%, rising from 34% in 1997/98.<sup>807</sup>

There is also great inequality of private pension, housing, investment and other wealth. This inequality may well increase among future generations given the large differences in wealth among younger people now.<sup>808</sup> The resources people have on reaching retirement are crucial in preventing and coping with shocks that could lead to them being unable to meet their needs as they grow older. A further factor is the growing number of people reaching state pension age with outstanding mortgage debts.

Two areas are of particular importance in relation to the longer-term wealth of pensioners. One is the effect of new pension freedoms and the other is the impact of paying for long-term care (lessened in Scotland)<sup>809</sup> on people's income and assets. Both need to be considered as part of an anti-poverty approach because of the way they can affect people's resources in the longer term.

### Key facts on later life

- 11.4 million people in the UK are aged 65 and over.
- 1.5 million people are aged 85 and over.
- 19% of pensioners live in social housing, 6% in private rental property and 75% are home-owners.
- 1.1 million people aged 65 or over provide informal care.<sup>810</sup>
- 4 million older people have a limiting long-standing illness.
- About 30% of people use some form of local council-funded social care in the last year of life.
- Ethnic inequalities in health are most pronounced at older ages: 56% of all women aged 65 or older reported a limiting long-term illness, but over 70% of Pakistani, Bangladeshi and White Gypsy or Irish Traveller women at this age reported a limiting long-term illness.<sup>811</sup>

*Source: 2011 Census and Age UK Factsheet<sup>812</sup>*

Qualitative research<sup>813</sup> indicates that factors unrelated to income can help to alleviate deprivation, or create and worsen it. These include help to maintain the standard of the home, provision of in-kind goods and services, compensation for the costs of ill-health and care needs, informal support, budgeting assistance, small amounts of savings, good transport connections

and lower prices for basic goods, services and utilities. Many of these relate to recommendations in this strategy.

Poverty risks have come down over time for most sub-groups of pensioners. For instance, in 2001/02, 30% of female pensioners and 45% of those receiving Housing Benefit were in poverty; both rates double what they are now. However, some risks have not declined to the same extent: the proportion of pensioners in inner London who live in poverty today is the same as in 2003/04.

The income poverty statistics (see table 1) highlight risk factors encompassing: the lack of an occupational or personal pension, renting rather than owning a home, coming from an ethnic minority group, being older, single or female (or all three) and being disabled (see box below).

### **Risk factors for pensioner poverty and material deprivation**

- Lack of an occupational or personal pension and a reliance on the State Pension and means-tested benefits. Even if they claim, more than one in four Pension Credit recipients is materially deprived, reflecting inequalities during working life.
- A concentration of poverty in social and private renting, likely to be related to higher housing costs, especially in London, and low levels of savings among older renters likely to have experienced poverty during working life. However, because most pensioners do own their own homes, nearly half of those who are materially deprived are also home-owners.
- Nearly four in ten Black pensioners are materially deprived, and Indian and Asian pensioners also have higher rates than average.
- In general, the combination of being older, single and female increases the risk of poverty. Just over half of all materially deprived pensioners are single people living alone.
- Pensioners are less likely than average to be classed as being in income poverty if they receive disability benefits, however official statistics underestimate poverty experienced by disabled people because they include disability benefits in full as income but take no account of the costs of disability, which these benefits are intended to help with. In fact, the numbers of pensioners in poverty more than trebles if income from Attendance Allowance (AA) and Disability Living Allowance (DLA) is removed.<sup>814</sup> Material deprivation is therefore a better measure of poverty for demographic groups with high levels of disability (hence, three in four materially deprived pensioners live in a family where someone is disabled).
- Among households getting Pension Credit, poverty is higher than average, even after accounting for the income gained from this benefit, reflecting other risk factors.

In the short term, pensioner poverty looks as if it will continue to fall up to 2020/21. Longer-term modelling using LINDA shows that these patterns are likely to continue on current trajectories, with:

- relative income poverty among single pensioners falling up to the year 2030 before levelling off by 2040 and absolute poverty declining to a very low rate by 2040
- for couple pensioners, a steady decline in both relative and absolute poverty rates to near zero by 2040.

The latter is arguably as close to ending poverty as it is possible to get. This doesn't come without a cost – in the model, spending on contributory benefits, primary pensions, is projected to double by 2040. Nonetheless, a substantial minority of pensioners still have a low standard of living, with concentrations in particular groups and places. Many have high costs if they are renting in expensive parts of the private sector or are struggling to afford to heat and maintain large or badly-insulated homes. The number of older people overall, and as a proportion of the population, will grow in the future across the UK. As well as increasing the ratio of older to working-age people, this will put extra pressure on state spending to maintain and extend the progress that has been achieved. As people are living ever longer, the prevalence of some health conditions in the older population is growing, adding to pressures in the health and social care systems in particular.<sup>815</sup>

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### Summary of actions

- **JRF recommends** building on reforms to the State Pension, with a reinvigorated effort, co-ordinated between national and local governments and the voluntary sector, to increase take-up of Pension Credit, Housing Benefit, Council Tax Reduction, Carers Allowance and Attendance Allowance.
- The UK Government should explore the idea of a 'Universal Pension' that pulls together all means-tested pensioner benefits into a single payment. This would be paid on top of the State Pension, building on the model of Universal Credit, to improve take-up, align taper rates and reduce complexity.
- **JRF recommends** raising the level of higher-rate Attendance Allowance (AA) to close the gap between the needs of more severely disabled older people and the resources they have access to from benefits and care provision. In the longer term, the twin systems of social care for older people and disability benefits should be aligned to provide support for all older disabled people with a focus on those with highest needs and costs and the lowest incomes.
- **JRF recommends** continuing auto-enrolment (whereby employers must automatically enrol eligible employees into a pension scheme) but gradually reducing the earnings limit so that more low earners can be included. Those who earn over the threshold in total from more than one job should also be included.

There are three key steps towards the goal of ending poverty for older people:

- 1 continue to push down the rate of income poverty among the current generation of pensioners
- 2 deal with the effect of extra costs and care needs faced by older people, especially older disabled people
- 3 increase the savings and pensions of working-age people to prevent poverty in retirement

### Step 1: Reducing current pensioner poverty

The new State Pension is being introduced at a higher rate than the current State Pension for those who retire from April 2016. The earnings-related part of the current system (the Additional State Pension), has been abolished. Pension Credit eligibility is forecast to fall from 35% to 5% by the 2060s<sup>816</sup> and the Savings Credit is being ended for those reaching State Pension age (SPA) from April 2016. Auto-enrolment of all eligible employees into a workplace pension will be fully in place by 2018. This policy direction reflects JRF evidence that means-testing of pensions should be avoided and that the most effective schemes internationally<sup>817</sup> are based on a generous flat-rate basic pension with a relatively high retirement age, equalised between men and women.<sup>818</sup>

The remaining groups needing Pension Credit will include those with disabilities that qualify them for AA and then the Severe Disability Allowance (giving them a higher allowance) and those lacking sufficient National Insurance Contributions (NICs) to achieve the nSP in full. To get this, 35 qualifying years of NICs or Credits<sup>819</sup> are required. At least 10 years' worth of contributions is needed to get any nSP at all. However, over 80% of people are expected to get full nSP by the mid-2030s.<sup>820</sup> Those with fewer than 35 years can make top-up payments, but many people approaching retirement after a life on low wages may not be able to afford to do this.

Projections of the effects of the nSP on future cohorts of pensioners show that some reaching SPA before 2020 will receive a significantly higher State Pension than currently, particularly carers, disabled people and long-term self-employed people. That is potentially good news for poverty but low-income renters are set to lose out unless they get some transitional protection.<sup>821</sup> In the longer term, however, the nSP will be less generous than the current pension system for the majority. Self-employed people and those getting credits for the first time under Universal Credit will benefit most.<sup>822</sup>

The State Pension ages for men and women are being equalised and increased over time, partly to ensure the affordability of the State Pension system in light of demographic pressures.

A final part of the policy framework is the 'triple lock' on the value of both the basic and the nSP, meaning that they will increase in line with earnings, prices or 2.5% (whichever is highest) every year. The lock has made

sure that pensions have kept rising, contributing to growth in pensioner incomes when other groups have experienced deterioration.<sup>823</sup> But the lock creates a 'ratchet' effect, so that in the longer term, pensions will be higher than any of the three indices used to uprate it.<sup>824</sup> It is possible therefore to maintain some progress on reducing pensioner poverty through revising the triple-lock uprating regime for basic pensions (potentially recycling the savings to increase pensioner disability benefits). For example, Institute for Financial Studies (IFS) projections show that absolute pensioner poverty would fall from 14.9% in 2015/16 to 13.0% in 2020/21 if the State Pension increased in line with Consumer Price Index (CPI) inflation instead.<sup>825</sup> This could save £6 billion in 2020/21 but would slow down the fall in pensioner poverty, as maintaining the triple lock during the same period would see absolute pensioner poverty fall to 10.8%.

### Policy proposals for the State Pension

**JRF recommends** reviewing the triple lock on the value of the State Pension as a potential route to raising revenue which could be redirected to groups facing higher poverty risks.

**JRF recommends** reducing the years of contributions required for a full pension from 35 to 30 years. LINDA modelling suggests this would lead to 220,000 fewer pensioners in poverty in 2020, 150,000 fewer in 2030 and 60,000 fewer in 2040 at a net cost of £4.2 billion, £2.8 billion and £1.7 billion respectively.

### Access to welfare benefits

Means-tested benefits will be important for some people in later life for some time because not everyone will be eligible for the full rate of nSP: older pensioners will remain on the basic State Pension and levels of private pension savings are still low. The scale of need is large: £2.86 billion of Pension Credit went unclaimed in 2013/14 with 1.34 million people losing out on their entitlements.

Pension Credit take-up rates are similar by age and sex (among single pensioners) but lower for couples. Overall, three in ten eligible pensioners do not claim Guarantee Credit and half do not claim Savings Credit. About 40% of eligible pensioners do not claim Council Tax Reduction and about 20% do not claim Housing Benefit.<sup>826</sup> Current rates of take-up of Carer's Allowance and Attendance Allowance are not known but are likely to be low – models of take-up of (working-age) disability benefits from the late 1990s<sup>827</sup> indicate a rate of just over 50%.

Older people from ethnic minority groups need greater awareness and knowledge of Carer's Allowance, Attendance Allowance and other disability benefits as these are not well understood generally, and are likely to have poor take-up among those who may be entitled.<sup>828</sup>

**JRF recommends** that governments should estimate, publish, set targets for and improve rates of take-up for Carer's Allowance and disability benefits across all ethnicities.

When means-tested support was initially extended in the 2000s to cover more pensioners, many may not have claimed because they had relatively higher incomes and smaller entitlements. This in-built mechanism helps to

target, to a certain extent, even benefits that are already means-tested on those who need it most.

Initiatives at a local level, whether by local authorities or voluntary agencies, are among the most effective ways of increasing take-up. Investment in local campaigns typically generates far more in additional benefit income to the area than they cost to deliver, although this costs money at a national level, where benefits are administered by DWP, other departments or by devolved governments.

**JRF's recommendations** for improving benefit take-up among pensioners are:

- reducing the need for means-tested benefits in the first place by widening access to and contributions towards the value of state and private pensions, alongside cheaper rents and a progressive Council Tax system (see Chapter 5)
- better joining-up with service providers (such as GPs, nurses, housing and advice providers), voluntary and community sector groups, local post office, pub or shop workers – to support awareness and take-up. This can be through basic training for non-specialists, enabling better referrals to specialists, or by providing outreach services. There needs to be care, however, in preventing incorrect advice being given by those with only basic training, given the complexity of pensions and benefit eligibility. This highlights the need for funding of advice services to include expertise on older people's benefits and services
- building on existing good practice of housing providers who already provide help by employing – or subscribing to the services of – benefits advisers and providing access to benefits calculators<sup>829</sup>
- simpler and smoother claim processes
- in the longer term, moving towards online claims, rolling out a 'smartphone state'<sup>830</sup> approach to public services across social security including pensions and pensioner benefits (this should dovetail with proposals to improve the digital literacy of the whole population, where a majority of over 75s still do not use the internet)
- reducing benefit stigma – politicians and government departments and the media changing the way they talk about benefits and people who use benefits
- rolling out a national campaign, led by DWP and the Pension Service,<sup>831</sup> advertising Pension Credit and other benefits for pensioners, complemented by targeted local campaigns in 'hot spots' of the country or for groups of older people at higher risk of poverty
- greater direct engagement with some older people from ethnic minority groups, addressing language barriers, literacy issues, apprehension about contact with statutory agencies and worries about residency status: frequent changes to the system, lack of National Insurance numbers and reluctance to use the telephone can also reduce take-up.<sup>832</sup>

Several of these recommendations highlight the challenging and valuable roles played by independent and voluntary-sector advice services, providing information, raising awareness and encouraging people to take up support they are entitled to – for example, voluntary sector agencies like Citizens Advice, Independent Age, or Turn 2 Us.<sup>833</sup>



### Improving benefit take-up in Wales

- The Welsh Assembly Government provided £4.5 million funding per year<sup>834</sup> for local authorities to run Housing Benefit and Council Tax Benefit take-up schemes.
- Effective practices included employment of benefit take-up officers, partnership working with other agencies such as the Pensions Service, targeted advertising, and home visits, especially for older people using trusted intermediaries.
- The outcomes were an increase of 18% in Housing Benefit and 17% in Council Tax Benefit claims from 2005 to 2010.

### A Universal Pension?

Looking further to the future, **JRF recommends** that the UK Government considers designing a 'Universal Pension', seeking the views of current and future generations of pensioners and building on the model of Universal Credit, which would align pensioner benefits to improve simplicity and take-up. This would incorporate Pension Credit, a reformed and centralised Council Tax Reduction scheme, Housing Benefit and other means-tested pensioner benefits. These would mirror the changes to working-age benefits under UC, aligning taper rates and providing a single point of engagement for older people through the Pension Service. As an additional part of this, **JRF recommends** a disregard of a fixed amount of pension income in the Housing Benefit means test to provide extra help for retired social and private renters on low incomes.

## Step 2: Lowering costs and meeting needs

Alongside ensuring adequate resources for pensioners, the most pressing challenge for now and for the future is the cost of care and support related to rising ill-health and disability in old age. The Health Foundation forecasts that combined pressures on health and social care funding will lead to a funding shortfall of £8 billion in 2020/21 and £22 billion by 2030/31.<sup>835</sup> Importantly, the extra costs of disability are not taken into account in standard income poverty measures, so the level of pensioner poverty is much higher than it appears looking at income alone.<sup>836</sup>

### Resources

The financial resources of older people include state, private and occupational pensions; means-tested, extra cost, in-kind and disability benefits; housing and other wealth and employment earnings.

### Support and non-financial resources

Access to social care (albeit with a charge for some), health services, and advice and support from voluntary and community organisations are all resources relevant to poverty in later life. The resources people need as they get older are shaped by relationships and the communities they live in. Relationships with partners, friends, family and neighbours can provide important everyday help and support.<sup>837</sup> While loneliness and social isolation are known to affect people of any age, they are particularly associated with later life – often linked with bereavements, living alone, and finding it harder to get out and about.<sup>838</sup>

There is a ‘social gradient’ element to help and support resources. Less wealthy older people (data from those aged 50 or over) say that they have fewer close relationships on average than the better-off (6.6 compared with 7.0 for men and 7.2 compared with 8.0 for women). They also say they find it harder to reach services than wealthier older people (for example, 13% of men from the least wealthy fifth of the population find it difficult to get to a Post Office compared with 4% of the richest fifth).<sup>839</sup>

Among ethnic minority groups, there are no generic attitudes to caring. Personal and family preferences, awareness, availability and appropriateness of formal social support, gendered expectations, and the role of voluntary organisations can all play a part.<sup>840</sup>

Evidence indicates that people are reluctant to accept help and support beyond close friends and family members if they feel they cannot reciprocate.<sup>841</sup> The support older people provide for each other, and for others, is often overlooked: for example, the informal childcare given by grandparents<sup>842</sup> (who may not yet be of pension age). Older people report benefits to their quality of life from informal and mutual support initiatives and these can provide an important addition to the care and support services available in later life.<sup>843</sup>

### Needs and costs

In terms of basic needs and the costs of meeting them, evidence from the MIS research programme shows that older people agree that their needs, when in good health, are slightly lower than younger adults in some areas of spending.<sup>844</sup> This could be partly due to genuine physiological differences between younger and older people, and generational effects (where older people’s reference for living standards is weighted towards the past).

However, expectations for living standards of future cohorts of pensioners may continue to rise and it is hard to say whether social (as opposed to physiological) differentials between younger and older people will persist. There is also a chance that the trend might reverse, so that future cohorts of older people have lower expectations than current generations, given the relatively poorer fortunes of younger people now. Looking in the other direction, research on older pensioners (aged over 80, also in satisfactory health) using the MIS methodology indicates that they do not have fewer or cheaper needs and only have some minor additional costs.<sup>845</sup>

According to MIS, the overall weekly minimum budget for a single younger pensioner in good health in 2016 is £187 compared with £199 for a working-age single person, a gap of only £12. For couples, the gap

between pensioners and working age is bigger, at £63 per week. However, more important than such differences is the higher likelihood of disability and ill-health in later life that can add greatly to the costs of meeting basic needs.<sup>846</sup> This includes things such as transport, personal care, adaptations or equipment.

### The cost of care

The cost of care – and who will provide it – particularly long-term care, is an increasingly important consideration. Reform has been on the agenda for well over two decades.<sup>847</sup> Those with moderate or even considerable resources on retirement can see these eroded by the costs of long-term care. Not everyone will need care in later life but we need to find effective ways of sharing and insuring against these risks and costs, both as individuals and as a society.

Social care policy in the UK is complex and in flux, delivered in different settings in a variety of ways. It varies from support around the home and personal care, to nursing and continuing care, in homes, care homes, hospitals, sheltered accommodation and housing with care schemes.

Support includes benefits, such as AA, DLA and now Personal Independence Payment (PIP). AA is only for older people, but DLA and PIP can be paid to them too if they first claimed during working age. Around two in five DLA recipients in Wales are aged 65 or over, compared with about a third of recipients in the rest of the UK. Eligibility for benefits is defined by what activities people can do and what they need. Reassessments of eligibility among older people are rare, if they happen at all.

Support is also provided by the local authority for domiciliary care. Before April 2015, people were assessed as having low, moderate, substantial or critical needs (or none). The 2014 Care Act established a national minimum standard, in force since April 2015, intended to be equivalent to the old ‘substantial’ needs category. This specifies a level of need that has a significant impact on well-being by preventing the achievement of at least two from a list of ten basic outcomes.

In England and Wales, the amount of savings and a level of ‘residual’ income – the money that is assumed to be left after essential costs are considered – are normally taken into account in a means test. Since April 2015, services are all provided as personal budgets. Personal budgets can be taken as direct payments or as a ‘virtual budget’ where the council manages the money. Few services are provided directly by the council as most providers are in the private sector. In Wales, there is a £60 per week limit to what the person pays for home care and other non-residential social care costs. In Scotland, care at home (assessed by a council as required) is given for free without a means test. This has led to some concerns about coverage<sup>848</sup> and whether this has raised the bar for eligibility in terms of care needs instead. The level of assets and income that people have is also a consideration for those moving into a care home.

Among people already on a low income or with modest assets, those who qualify for local council care have to spend most of their cash on care home fees, keeping less than £25 per week to spend on themselves. While most essential items (but not clothing) are covered in the fees, having to relinquish

assets and income – keeping only limited discretion over spending – can be a significant loss of dignity.

**JRF recommends** that the personal expenses allowance that applies to those who qualify for local council care in care homes is raised to reflect what older people need in terms of essentials beyond what is covered by fees.

If a person wants to move, or is judged to need to move, into residential care, then the value of their home is taken into account unless a partner is still living in it. Proposals accepted by government for reform of long-term care<sup>849</sup> focused on raising the capital limit from £23,000 to £118,000 with a lifetime limit of £72,000 to be spent on care only (not accommodation). A review of the proposals for JRF<sup>850</sup> concluded that the new system would provide more certainty for people needing residential care, but those receiving domiciliary care would be unlikely to ever reach the cap. The choice would remain between depleting savings in the long term and coping on a low income in the short-term. Due to changes and disagreements over the sources of funding, implementation of reforms has been delayed until at least 2020.<sup>851</sup>

Continuing care for a primary health need is paid for with public money, while recipients continue to receive a full pension when in an institution (compared with social care provided in a care home). This is linked to the historic division between the NHS and social care from the origins of the welfare state. The fairness and affordability of this division are increasingly being called into question. Overall, the current system of care builds in a fair amount of support and consideration for the needs and resources of older people with the lowest levels of income and assets, but there are some important gaps.

### Disability and care needs

As outlined earlier, the UK has a dual system of public support for older disabled people where the UK Government (currently) pays disability benefits (mainly AA, DLA and PIP) and local councils manage social care service provision. These are separate with modest overlaps: of those older people receiving social care, about two in three also get some disability benefit but only 13% of higher-rate AA/DLA recipients also receive local council-funded social care.

Merging benefits and social care into a single, local system has been suggested<sup>852</sup> on the grounds that it would be simpler and saves some administrative costs, but there is a risk, given the above figures, that more people would miss out completely.

Disability brings with it additional living costs, often large, and some social security benefits are designed to meet part of these. Older people are more likely to be disabled and/or have healthcare needs that increase costs. If the costs of disability are accounted for (by comparing levels of deprivation among matched groups of older disabled people), the percentage of pensioners below the Guarantee Credit (GC) level increases from 7% to 36%, and from 7% to 54% among disabled pensioners only.<sup>853</sup> This is a huge difference.

Introducing means-testing of disability benefits is often suggested as a way of spending the budget more effectively, but it is not necessarily as cost-

effective as it seems because the benefit is already partially targeted on need and income – people with low incomes are more likely to be affected by severe disability and have a stronger need for (and are therefore more likely to claim) support.

To reduce deep poverty, **JRF recommends**:

- adapting the amounts of benefit paid to claimants to match the costs of disability more closely
- increasing the reach of the system among people with more severe disabilities by increasing take-up of entitlements and/or improving the quality of initial adjudication of claims. In particular, most of those receiving social care should also be eligible for AA – at present 35% do not receive it. **JRF recommends** better communication and use of data between DWP and local councils to improve take-up of AA among older people receiving social care.

Achieving this while maintaining current spending would mean reducing the average amounts paid to people with less severe disability. This might have adverse consequences. Doubling current spending on AA – an extra £5 billion – could effectively end poverty among disabled older people, taking account of their extra costs.

### An affordable, warm and decent home

Poor-quality housing conditions can contribute to physical and mental health conditions in later life, while good housing can limit the effects or incidence of poor health.<sup>854</sup> Across age groups, poor-quality housing is more likely among ethnic minority groups.<sup>855</sup> Living in a cold or unsuitable home can also compound social isolation, especially for older disabled people.<sup>856</sup> Around a third of all pensioners live in homes that would not meet the government-set Decent Homes Standard.<sup>857</sup> Older home-owners who have little cash or equity have few options for repairing, improving or adapting their properties and may find it hard to afford retirement housing.<sup>858</sup>

While some owner-occupiers have no or low housing costs in later life, the quality of their home can deteriorate during retirement, stacking up potentially large costs arising from lack of maintenance. These costs are not typically covered through direct state financial support. There is, however, a UK-wide (albeit patchy) network of Home Improvement Agencies, paid for by a mix of charity and local council provision, equity release, charges paid against the house value upon death, or insurance schemes. Non-statutory provision has to be expanded in light of pressures on local council spending, unless Council Tax is to increase.

A national UK Government evaluation of the Handyperson Service<sup>859</sup> concluded that low-cost repairs and adaptations could help improve health, prevent falls, increase security, promote early discharge from hospital and reduce spending. These findings were confirmed by a review in Wales.<sup>860</sup>

**JRF recommends** that each local council in the UK reviews, sets up where necessary, and promotes care and repair services in its area, working with local partnerships, GPs and voluntary and community organisations.

Retirees who own their homes may also have outstanding mortgage debt, either from deliberate financial planning or from unforeseen events

that prevented them from paying it off. Where individuals do experience unplanned mortgage debt in retirement that they cannot afford, several policy options are available to prevent income poverty.

For some, **JRF recommends** that government should encourage shared-ownership schemes, whereby housing associations take an equity stake in a retiree's home, thereby removing their mortgage debt, and allowing them to remain living in the property.

For retirees who have paid off their mortgage but are on a low income, what can be done to use their housing wealth to fund a higher income?

**JRF recommends** the following:

- **Help with downsizing:** some older people on low incomes don't make best use of their housing wealth because they experience difficulties 'downsizing' their accommodation to release capital. An older person's health (also their access to wider support and relationships) can benefit from a move to more suitable housing as long as it is an informed choice and they remain in control.<sup>861</sup> Governments together with voluntary sector organisations should provide information and advice services to help.
- **Increase supply of specialist accommodation:** older people may also not move to release capital because of a lack of attractive homes. Governments should implement measures to increase the supply of specialist accommodation (e.g. sheltered housing) and general-needs accommodation<sup>862</sup> through strengthened planning guidance to local councils and tax exemptions for developments. There is potential here as currently only 77,000 older people live in sheltered accommodation in England.<sup>863</sup>

## Step 3: Preventing poverty for future pensioners

The third big challenge is the low level of pension and other wealth, and, for some, partial National Insurance contribution records among people currently of working age, especially women. We are right to celebrate the gains that have been made, but the current uncertain labour market, and possible falls in home-ownership, both threaten these gains for future pensioners.

Many may be risking relying on means-tested benefits in retirement when it is uncertain whether current levels of state support can be sustained. Given the pressures outlined above that will affect the state system, a strategy to solve poverty also needs to consider how people can improve their protection against falling into poverty when they retire. There needs to be a mixed solution that combines state and private pensions with individual responsibility to save for retirement.

The forthcoming policy mix for pensioner incomes, combining the nSP with a Pension Credit top-up, should deal with much of the financial 'resources' side of poverty for future generations of pensioners (if take-up can be improved and if they do not have high-cost care needs). Since April

2016, the nSP has been £155.65 per week. However, this does not mean that private and occupational pension savings can be ignored in a strategy to solve poverty. Given the likely pressures on State Pension spending in the longer term,<sup>864</sup> such savings enable people to rely less on state support, become more self-reliant for a standard of living above the poverty level, and protect them against future changes in pension policy. Recommendations in Chapter 5 about savings and access to credit will also help.

Personal and occupational pension savings can also help people to cope with lower-level additional needs from poor health that are not currently provided through the state system (and are not included in relative income poverty measures). While one option might be to make all care needs free, the scale of need and its likely growth in future make this an extremely unlikely prospect. Where care is provided for free in Scotland, this is still rationed on the level of need rather than income, so that more intensive support is being provided for fewer people.<sup>865</sup>

It is important to encourage people on lower incomes to save for additional non-state pensions during working age.

### Making more of auto-enrolment

Since it began in 2012, the automatic enrolment of people aged over 21 and earning over £10,000 a year into workplace pensions has largely been a success. It provides a foothold for people to save for a decent pension if and when they can afford it. Once fully implemented in February 2018, the policy aims to increase the number of people starting to save (or saving more) by nine million, and the total amount saved by £15 billion per year.

It is predicted to reduce the proportion reaching SPA with no private pension income at all from 27% to 12% by 2050, turning around the longer-term falling trend. Median private pension income is projected to be £3,700 per year by 2050, compared with £2,200 if auto-enrolment had not been in place.<sup>866</sup> These improvements are concentrated among low-to-median earners. Earners in the lowest quartile are expected to see an increase of nearly 60% in their median private pension income at retirement. While these amounts will help boost the retirement incomes of low earners somewhat, given that it is an increase from a very low base, auto-enrolled private pensions will never be enough by themselves to prevent poverty in retirement. However, as is the case across this whole strategy, there needs to be a balance between state, market and individual responsibilities.

The rate of opting out from auto-enrolment is around 10%, with 3% ceasing membership, but it is higher for those aged over 50 and for part-time workers. Employers report that they believe younger workers and lower earners are also more likely to opt out. So, while some make the decision to opt out because they already have enough savings, others do so because they cannot afford the contributions, which directly affect their disposable income.

As auto-enrolment extends to small and micro employers, there will be a need to carefully monitor whether opt-outs are increasing overall and the participation rates of low-wage employees in particular.

**JRF recommends** that auto-enrolment should continue, supplemented by new initiatives to reduce opt-out rates, particularly among those at higher risk of poverty in later life. Opt-out rates for low-wage women, older

workers, part-time workers and people from ethnic minority groups should be reduced through:

- greater advertising of the value of schemes to employees and employers
- additional incentives not to opt out for high-risk groups – for example unpaid employer contributions could be used as a ‘bonus’ incentive for workers who commit to rejoining the scheme after a fixed period of time<sup>867</sup>
- initiatives to promote auto-enrolment among workers living in social housing. This needs government, employers, employees, unions, scheme providers, local councils, social landlords and others to work together.

There should also be regular statements of the value of lost (employer) contributions for those who opt out of their workplace pension to encourage re-engagement and awareness.

The growing number of people who are self employed will also need to be encouraged to plan for their old age.

**JRF also recommends** considering a reduction in the earnings threshold for auto-enrolment to below £10,000 per year while, as at present,<sup>868</sup> being kept under annual review to bring more part-time workers into its scope. This would help women and other groups over-represented in part-time work. Reducing the rate to £8,060 (the NI primary threshold) would bring in nearly one million more workers, 71% of them women, saving between them an extra £30 million.

### Increasing the State Pension age

The logic behind raising the State Pension age (SPA) in line with life expectancy is that it will prevent the funding that is being put into increasing the State Pension from becoming unaffordable. It also maintains a balance between periods of contributing through National Insurance and drawing out a pension. An alternative would be to increase the SPA in track with growth in healthy life expectancy as a better reflection of the quality of growing longevity.<sup>869</sup>

There is an important difference between the recent sudden rise in the SPA for women born from 1952–55 as part of cutting public spending and the sensible long-run link between the SPA (with a long notice period) and life expectancy. The danger of a rising SPA is that there will be a growing group of people at risk of poverty in their late 50s and early 60s, especially if they are, or have a history of being, unemployed, disabled or carers, or of working in manual or physical occupations. Our proposals for a personalised welfare-to-work system, skills advancement and in-work support and progression will help to deal with the higher risks of unemployment among this growing group.

Our proposals in the last three chapters, aimed to curb poverty for children, working-age adults and older people, cover the overwhelming majority of the population. But there is a group that needs special attention: those with deep, often overlapping problems. These complex needs are the focus of the next and final chapter.



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# Poverty and complex needs

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## 9. Poverty and complex needs

Many of the problems associated with poverty addressed so far in this report have been straightforwardly material: low pay, lack of work, high costs, inadequate savings, and so on. Millions of UK residents face poverty of this kind. But there is a relatively small group of people in poverty who face additional, complex challenges. This may include mental health conditions, homelessness, experiences of violence, substance misuse or involvement in the criminal justice system. When these are long-lasting or overlap they can present significant barriers to escaping poverty, requiring a tailored policy response. These ‘complex needs’ are the ones we turn to now.

Adults experiencing combined problems of homelessness, substance misuse and/or contact with the criminal justice system account for around 3% of all those living in poverty in the UK.<sup>870</sup> But while the numbers are fairly small, the implications for society, as well as for individuals, are big. These people often have an exceptionally poor quality of life and their behaviour can, in some cases, cause significant harm to others, mainly other people also living in poverty in their households and communities.<sup>871</sup> They are also among the groups most vulnerable to absolute destitution.<sup>872</sup>

The structural roots of these complex needs are indicated by their strong concentration in areas of long-term economic decline.<sup>873</sup> The most effective prevention measure is therefore to reduce material poverty itself, especially among families with children (including where there are additional concerns about child maltreatment and/or domestic violence). Another priority group is unemployed young people living in disadvantaged areas, whose needs have so far been neglected in policies to reduce poverty.<sup>874</sup>

National leadership is vital in policy responses to unpopular groups such as those with complex needs,<sup>875</sup> who are likely to lack influence in local politics. At the same time, local flexibilities are required to take account of differences in the scale and composition of relevant populations, as well as allowing space for programme details to be co-produced with service users and a sense of local ownership.<sup>876</sup>

The following five principles underpin our recommended approaches for groups facing poverty combined with complex needs:

- **Personalisation:** open-ended, persistent, flexible and co-ordinated support. ‘Whole-person’<sup>877</sup> and ‘whole-family’<sup>878</sup> approaches are vital, taking into account the underlying causes of complex needs and the challenging behaviours that can be associated with them.

- **Deinstitutionalisation:** as far as possible, people should have the option of staying in mainstream housing, rather than specific, separate institutions.
- **Reintegration:** enabling people to go to work and other ordinary social settings.
- **Asset-based:** interventions focusing on an individual's strengths, including 'recovery' models in mental health and substance misuse (building a meaningful and fulfilling life in the face of ongoing challenges), and 'desistance' models in criminal justice (supporting offenders to realise their potential).
- **Poverty-informed:** dealing with the financial and material hardship that people face, rather than only focusing only on their social or personal needs or behavioural issues.

# 1. Poverty and complex needs: the scale of the problem

The following problems, which are often closely interrelated, can impede a person's ability to avoid or exit poverty:

- a child neglect and abuse
- b domestic violence and abuse
- c homelessness
- d problematic drug use
- e alcohol abuse
- f involvement with the criminal justice system
- g mental health conditions
- h overlapping challenges
- i asylum seeker or refugee status

## a) Child neglect and abuse

More than 56,000 children were on a child protection register (or child protection plan in England) at 31 March 2014, i.e. around 1 in 200 children under 18,<sup>879</sup> with an additional 42,000 being looked after away from home due to abuse or neglect.<sup>880</sup> According to recent data, concern about abuse or neglect has been recorded by social workers for one child in nine in England by the age of five.<sup>881</sup>

International evidence repeatedly shows a strong association between child neglect and abuse (including physical, sexual and emotional abuse) and family socio-economic circumstances.<sup>882</sup> This relationship takes the form of a gradient across the whole of society, but the more intense the economic hardship the greater the likelihood and severity of child maltreatment.<sup>883</sup> Although there is evidence of 'bias' in child protection systems influencing the extent to which children in different socio-economic circumstances are

brought to the attention of child protection services, this does not explain the core association between family poverty and child maltreatment.<sup>884</sup>

The number of children living in poverty in the UK (4.2 million, or 31% of all children under 18, in 2012) is relevant here.<sup>885</sup> Recent estimates indicate that more than 300,000 children were living in households affected by destitution at some point in 2015.<sup>886</sup> Most of these children will not experience abuse but they face a heightened risk of it alongside material deprivation. Studies in the US show that raising the income of families in poverty reduced child maltreatment rates.<sup>887</sup> Childhood abuse and neglect are also linked to poverty in adulthood, although it is very difficult to disentangle the impacts of the abuse or neglect from the effects of being 'looked after'.

There is a variety of explanations for the relationship between family socio-economic circumstances and prevalence of child abuse and neglect. Most suggest either a direct effect through material hardship or lack of money for investment in support, or an indirect effect through parental stress and neighbourhood conditions.<sup>888</sup> These poverty effects frequently interact with other factors affecting parenting capacity, such as mental health conditions or physical ill-health, domestic violence, or drug or alcohol problems, which themselves may be provoked or exacerbated by family stress and poverty.

### b) Domestic violence and abuse

Domestic violence and abuse can affect both men and women, but the majority of cases involve female victims of male perpetrators.<sup>889</sup> More than a quarter (28%) of adult women in England and Wales have experienced domestic abuse.<sup>890</sup> An average of more than 90 women are killed by partners or former partners each year.<sup>891</sup> About one in 20 women in England has experienced extensive physical and sexual violence and abuse, compared with one in every 100 men.<sup>892</sup>

Survey evidence conclusively establishes that women on low incomes have a heightened vulnerability to violence and abuse. In 2012/13, 17% of women in England and Wales living in households with an income of less than £10,000 per annum reported domestic abuse in the previous 12 months, compared with 4% of women living in households with more than £50,000 per annum.<sup>893</sup> In the UK-wide Poverty and Social Exclusion Survey, respondents living in poverty were four to five times more likely than better-off respondents to report recent physical partner abuse.<sup>894</sup>

Financial strain can have strong negative effects on intimate relationships, while economic dependency can trap people in abusive relationships; those who seek to escape can face a significant financial penalty.<sup>895</sup> This effect can work the other way round: the risk of poverty can be increased by the experience of domestic violence, for example, where a woman is prevented from engaging in the labour market by ill-health or by a controlling partner.<sup>896</sup>

### c) Homelessness

Almost one in ten UK adults (8.5%) report having been homeless (self-defined), with 2% saying this has happened in the five years before they were surveyed.<sup>897</sup> The main structural causes of homelessness are poverty, pressured housing markets, and the long-run effects of weak labour markets<sup>898</sup> (see also Chapter 5b). Experience of homelessness is heavily concentrated among low-income households<sup>899</sup> who lack the financial and social resources to protect their home, or to find another one, when they face a life crisis (such as relationship breakdown) or a housing crisis (such as the ending of a private tenancy).<sup>900</sup> The relationship between income and homelessness is particularly strong for people in households that do not manage well financially, have financial difficulties or are in deep financial trouble: this group is 56 times more likely to have had experience of recent homelessness than those living in other households.<sup>901</sup>

Single working-age people, lone parents and younger people are at greatest risk of homelessness, mainly because of their disproportionate exposure to poverty.<sup>902</sup> Most forms of homelessness are experienced by men and women at similar rates, other than rough sleeping, which is overwhelmingly reported by men.<sup>903</sup> People of Black and Mixed ethnicity face higher risks of homelessness than other ethnic groups.<sup>904</sup> Some groups of homeless people, especially rough sleepers, typically have long histories of social as well as economic disadvantage, including childhood trauma.<sup>905</sup> Many homeless or formerly homeless people face formidable labour market barriers, including poor physical and mental health, low educational attainment, limited work experience, low self-esteem and employer discrimination.<sup>906</sup>

### d) Problematic drug use

One in 12 of the working-age population in England and Wales have taken an illicit drug in the last year (one fifth of 16–24-year-olds),<sup>907</sup> mainly cannabis.<sup>908</sup> However, it is the extremes of problematic drug use – particularly use of opiates and crack cocaine – that are most associated with poverty and deprivation.<sup>909</sup> It is estimated that around 380,000 adults in the UK are addicted to either heroin or crack,<sup>910</sup> mostly living in deprived urban areas, including some major regional cities and poorer London boroughs, and declining port cities and seaside resorts.<sup>911</sup> The highly addictive nature of these drugs, and the chaotic lifestyles associated with their use, makes it extremely difficult for users to get out of poverty,<sup>912</sup> or hold a steady job.<sup>913</sup> Labour market obstacles are exceptionally high for this group, with over 80% of employers saying they would not employ a current or former crack or heroin user.<sup>914</sup>

Social networks of problem drug users can emerge in deprived neighbourhoods,<sup>915</sup> particularly for young people with little hope for the future or other ways to spend their time,<sup>916</sup> and drug dealing can become an established way of earning money in the absence of lawful work opportunities.<sup>917</sup> However, while a very high number of problem drug users come from deprived areas or backgrounds, it is important to emphasise that only a tiny minority of adults facing poverty in the UK are problem drug users (estimated to equate to around 7% of people claiming out-of-work benefits).<sup>918</sup>

### e) Alcohol abuse

The relationship between poverty and alcohol abuse is complex. Average consumption levels can be highest in better-off households, but, as with problematic drug use, alcohol abuse tends to cause most damage in the most deprived households and communities.<sup>919</sup> Adults in the most deprived neighbourhoods are two to three times more likely to die from an alcohol-related condition than their counterparts living in the least deprived places,<sup>920</sup> even though there is little difference in overall consumption.<sup>921</sup> Research suggests that this is explained by riskier drinking patterns in deprived communities albeit that we are still at an early stage of understanding why deprived communities suffer greater harm from alcohol.<sup>922</sup> However, only a very small minority of people living in poverty are dependent drinkers (estimated to equate to around 4% of all claimants of out-of-work benefits).<sup>923</sup>

### f) Involvement with the criminal justice system

The great majority of people living in poverty have no involvement in criminal activities, but living in poverty or in a deprived neighbourhood makes both offending and being the victim of a crime involving property or violence (including homicide) much more likely.<sup>924</sup> The group most likely to commit crimes are deprived young men living in depressed parts of the country.<sup>925</sup> While a large proportion of young men commit a crime of some sort (over half of 10 to 25-year-olds),<sup>926</sup> most grow out of offending by the end of their teenage years.<sup>927</sup> When they reach early adulthood, the availability of secure and stable employment becomes a more important protection against young men persisting in their offending behaviour than the quality of parental relationships.<sup>928</sup>

The average prison population in 2014 was 85,307 in England and Wales and 1,830 in Northern Ireland. The average prison population in Scotland for the financial year ended March 2014 was 7,731.<sup>929</sup> Across the UK, around 95% of prisoners are men. There is a high prevalence of complex needs among the prison population. A quarter of adult prisoners were looked after (in care) as children, and 29% reported childhood emotional, physical or sexual abuse.<sup>930</sup> It is estimated that up to 90% of prisoners have a mental health condition, and 10% of male prisoners and 30% of female prisoners have experienced a psychiatric acute admission to hospital.<sup>931</sup> Around two-thirds of those passing through the criminal justice system in 2010/11 also had contact with homelessness and/or substance misuse services that year.<sup>932</sup> The link between crime, poverty and complex needs is strongest among low-level offenders serving short sentences,<sup>933</sup> who often have a more 'disrupted lifestyle' than those serving longer sentences for the most serious crimes, some of whom will be 'high functioning'.<sup>934</sup> Imprisonment worsens poverty for the families of those serving custodial sentences.<sup>935</sup>

### g) Mental health conditions

Mental health conditions directly affect about a quarter of British adults and one in ten children in any one year. Depression and anxiety are the most frequently experienced conditions.<sup>936</sup> They can affect anyone, but social characteristics associated with greater prevalence include:

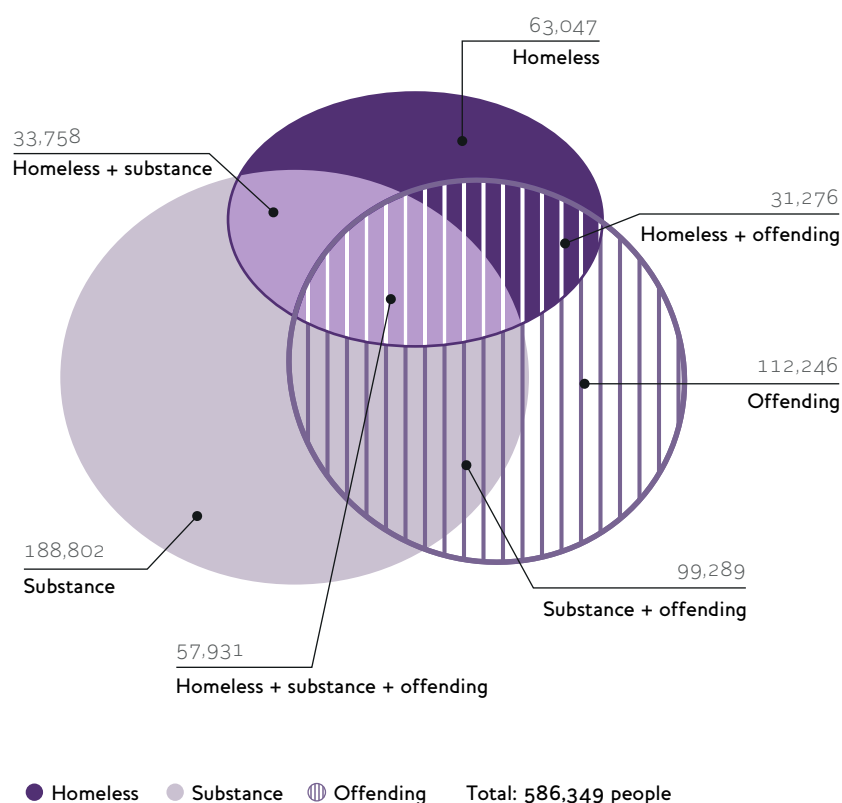
- gender – women are more likely to report a common or longstanding mental health condition (15%) than men (11.5%)<sup>937</sup>
- ethnicity – people from mixed ethnic backgrounds are more likely (21%), while those from Asian and ‘other’ ethnic groups are less likely (8–9%), to report these problems<sup>938</sup>
- age – isolated older people have a heightened risk of mental health conditions<sup>939</sup>
- disability – particularly those with learning disabilities.<sup>940</sup>

Across the UK, both men and women in the least well-off fifth of the population are twice as likely to develop mental health conditions as those on average incomes.<sup>941</sup> Poverty produces an environment that is extremely harmful to individuals’, families’ and communities’ mental health,<sup>942</sup> and the main health impacts of economic downturns are on mental health (including the risk of suicide).<sup>943</sup> Mental health conditions make escaping poverty more difficult: people with severe and enduring mental health conditions have the lowest employment rate (10%) of all disability groups.<sup>944</sup>

There is a broad political consensus in the UK that historical under-investment in mental health services, data and research should be addressed.<sup>945</sup> There is extensive evidence that people with the complex needs discussed above have much higher levels of mental health conditions than the rest of the population,<sup>946</sup> and often face additional barriers in accessing the tailored mental health interventions that they need.

### h) Overlapping challenges

Complex needs very often result from a combination of factors, rather than one in isolation. For example, in a given year, 58,000 people in England<sup>947</sup> face combined problems of homelessness, substance misuse and contact with the criminal justice system, and a further 164,000 experience an overlap of two of these issues<sup>948</sup> (see Figure 18). At least 40% of people affected by these forms of severe and multiple disadvantage (SMD) also experience mental ill-health, which has a particularly strong interrelationship with problematic drug use.

**FIGURE 18: OVERLAP BETWEEN GROUPS OF PEOPLE EXPERIENCING SEVERE AND MULTIPLE DISADVANTAGE**

Source: *Hard Edges report*<sup>949</sup>

Long-term poverty is almost universal among this population. Childhood trauma and poor educational experiences are also common, and the quality of life is much worse than that reported by other low-income and vulnerable groups.<sup>950</sup> Around two in five people in this population have attempted suicide at least once, and almost one-third have self-harmed.<sup>951</sup> A third of all those affected by destitution in the UK in 2015 were adults with a mix of complex needs (defined in this case as anyone born in the UK who was destitute and had either slept rough or received money from begging or was sampled from a homelessness or complex needs service).<sup>952</sup>

A mapping exercise in England demonstrated the high prevalence of this form of severe and multiple disadvantage in northern cities and former industrial towns, declining seaside resorts, and some London boroughs, with lowest prevalence found in southern affluent commuter suburbs and semi-rural areas. It was estimated that a working-age adult in Middlesbrough is ten times more likely than one in Central Bedfordshire to experience two of the relevant hardships (homelessness, substance misuse and/or contact with the criminal justice system).

Most adults facing severe and multiple disadvantage are white, but people from black ethnic and mixed-race groups are over-represented among those experiencing homelessness and contact with the criminal justice system.<sup>953</sup> Around 80% of the overall group is male,<sup>954</sup> but the relatively smaller number of women with this particular set of disadvantages tend to have even more extreme experiences of trauma and violence, including sexual abuse and exploitation.<sup>955</sup> A recent report on homeless women with complex needs



highlighted the very high prevalence of mental health conditions among this population, and the shame and trauma associated with having children taken into care or adopted.<sup>956</sup>

### i) Asylum seekers and refugees

The issues faced by asylum seekers and refugees (also some economic migrants) are quite distinct, but they are included here due to the additional and complex challenges they often face including higher risks of deep poverty, homelessness and indeed destitution.<sup>957</sup>

Asylum seekers face disproportionate risks of destitution due to 'extremely low levels of benefits and lack of access to the UK labour market'. Research on destitution in the UK estimates that 314,306 migrants are destitute annually, of which 38% were current or former asylum seekers (approximately 119,436 people).<sup>958</sup>

At the end of 2014, refugees and asylum seekers accounted for 0.24% of the UK population (117,161 refugees, 36,383 pending asylum cases and 16 stateless people).<sup>959</sup> By the end of June 2015, the UK received 25,711 new asylum applications,<sup>960</sup> some of which will have included additional dependents, and 90% of which were received from within the country rather than at port of entry; 11,600 applicants were granted some form of asylum or humanitarian protection.<sup>961</sup>

An extensive review (2014) of poverty among refugees and asylum seekers in the UK<sup>962</sup> concluded that poverty in this group has deepened over recent years due to a reduction in welfare entitlements and restriction on access to the labour market. It argued that the UK's asylum process itself (including insufficient level of financial support) is the main cause of poverty for this group. This is also reflected in the 2013 Home Affairs Committee report on asylum and in substantial evidence gathered for this report.<sup>963</sup>

## 2. Children and families

The cumulative impact on children born into and raised in poverty is evident throughout their lives (see Chapter 6). Causes of stress, such as the experience of poverty during sensitive early development periods, affect biological regulatory systems, neural mechanisms that regulate stress responses in the brain,<sup>964</sup> with profound implications for both physical and mental health.<sup>965</sup> Recent studies have also found that children adapt genetically to cope with stressful developmental environments with long-term health consequences.<sup>966</sup> This neurobiological evidence has supported the now strong policy focus on very early years intervention (first 18 months),<sup>967</sup> however the nature of these policy responses varies across the four UK countries,<sup>968</sup> and policy commitments are not always matched by funding commitments (see below). Significant emphasis has also now been placed on intervention with primary school-age children exhibiting 'conduct disorders' or other signs of mental health vulnerability.<sup>969</sup>

Exposure to neglect, direct physical and psychological abuse in early childhood is particularly damaging, as is domestic violence.<sup>970</sup> As the Government's child poverty evidence review found, problem drug and alcohol

use among parents affects a relatively small proportion of all children,<sup>971</sup> not all of whom live in poverty, but where they do take effect the impacts can be devastating on children's prospects and well-being.<sup>972</sup> Parental mental health conditions are estimated to be a significant factor in around a quarter of all new child referrals to UK social services/social work departments, and it is estimated that two million children live in households where at least one parent has a mental health condition, although many of these will not be living in poverty.<sup>973</sup>

### **Children and families with complex needs: Summary of actions**

#### **Child neglect and abuse:**

- services that directly address the role played by poverty in families where there are concerns about child maltreatment
- a review of training for social workers and other relevant professionals to increase understanding of poverty and its alleviation
- sufficient funding for early intervention services to ensure improved prevention of child maltreatment and outcomes for children

#### **Domestic violence and abuse:**

- sanctuary schemes should be an option for all women and children fleeing domestic violence
- increasing funding for domestic violence perpetrator programmes, with explicit government support
- domestic abuse victims should be supported to regain control over their own finances
- DWP should assess all welfare reform changes for their implications for those at risk of domestic violence and abuse, and take steps to remove or lessen any potential negative impacts.

#### **Families with complex needs:**

- national programmes of support for families with complex needs should be based on established components of success, including workers dedicated to a family and a 'whole family' approach
- these interventions should focus on bringing about necessary changes in local service systems, as well as any behavioural change needed on the part of targeted families
- workforce planning and development is important in successful interventions. There must be a commitment to invest in, support and value people who work with families, and individuals, with complex needs.

As noted above, children living in poverty have a heightened risk of maltreatment, and are also more likely to be living with the consequences of parental mental health conditions, substance misuse, and domestic violence (sometimes known as the 'toxic trio',<sup>974</sup> or the 'toxic quartet' alongside learning disability).<sup>975</sup> The cost to the public purse of child abuse and neglect

are substantial, and it has been estimated that two-thirds of all personal social services costs for children may be attributed to poverty effects.<sup>976</sup> This equates to around £5 billion per annum in England, without taking into account public sector costs beyond the immediate demands on children's services.<sup>977</sup> Given the great pressures on social care budgets, it is important that the common denominator of low income is acknowledged when allocating funds.

This highlights the potential economic benefits of early support to families struggling to make ends meet where there are concerns over child maltreatment.<sup>978</sup> The cost effectiveness of early intervention in cases of child abuse and neglect has been demonstrated in Scotland,<sup>979</sup> England and Wales.<sup>980</sup>

Despite widespread acceptance of this case, however, funding for early intervention has decreased in recent years, especially in England; all English local authorities saw their early interventions allocation from central government cut by at least half between 2010/11 and 2015/16.<sup>981</sup> This comes alongside an increase in the demand for children's services and care applications, and a focus on early removal of children and quick adoptions. The evidence suggests that greater support (including financial, material, social and therapeutic help) for these families at a much earlier stage could reduce the need for such interventions.<sup>982</sup>

**JRF recommends** sufficient funding for services that provide early intervention in families where there are child maltreatment concerns, to ensure they are resourced to provide better prevention and outcomes for children.

While many early intervention programmes focus on parenting skills and rapid decision-making to move children to alternative families when preventive interventions are deemed to have failed, there is little or no evidence of interventions that directly confront the socio-economic difficulties faced by families where abuse and neglect is a concern.<sup>983</sup>

**JRF recommends** that the Government, local authorities and voluntary sector partners ensure that early intervention services – and child protection services and strategies more generally – pay direct attention to the role played by material poverty, and its alleviation, in families where there are concerns about child maltreatment.<sup>984</sup>

**JRF recommends** a review of social work and other professional training to promote understanding of the impact of poverty on families where there are a child maltreatment concerns, and of the range of ways in which these families can be supported to overcome the challenges associated with material deprivation (see the ATD 4<sup>th</sup> World example in chapter 7).

Boys and young men may respond to childhood disadvantage, abuse and trauma by behaving in ways that get them excluded from school, involved in criminality and place them at risk of serious exclusion such as street homelessness.<sup>985</sup> Girls and young women with similar early life experiences, on the other hand, will tend to internalise distress and develop mental health conditions, enter into early sexual relationships, often characterised by further violence and abuse, and early parenthood.<sup>986</sup> Sexual exploitation in childhood and prostitution in adulthood can be linked,<sup>987</sup> which can in turn be linked with other complex needs such as addiction, offending behaviour, and experience of domestic violence. More generally, being a victim of domestic

violence is a dominating factor in multiple and complex needs among women.<sup>988</sup>

There has been a high-profile movement against domestic violence in the UK since the early 1970s. Since the mid-late 1990s, the UK Government and devolved administrations have been developing policy responses to various forms of gender-based violence, including domestic violence and abuse.<sup>989</sup> There is now a wide array of interventions for those experiencing (and perpetrating) domestic violence and abuse, spanning policing and criminal justice responses, health and mental health interventions, multi-agency approaches, and specialist support for victims and survivors of abuse,<sup>990</sup> but these services have a very insecure funding base.<sup>991</sup> It is essential that all of these interventions, while addressing the major emotional and behavioural issues, also focus clearly on the poverty of both the victims and, frequently, the perpetrators.

Sanctuary schemes, which aim to enable households at risk of violence to remain safely in their own homes via enhanced security measures, have been evaluated in England as providing a safe and cost-effective intervention. Sanctuary measures should be part of a multi-agency response to households at risk of domestic violence, offered to women as an option after a full risk assessment, combined with ongoing support.<sup>992</sup>

Based on the positive evaluation, **JRF recommends** that governments ensure sanctuary schemes are available as options to all women and children at risk of domestic violence in every local authority area in the UK.

Domestic violence perpetrator programmes (DVPPs) remain controversial, with some taking the view that violent men cannot or will not change.<sup>993</sup> However, there is encouraging evidence that DVPPs are associated with male participants ceasing to be physically or sexually violent, although there seems to be less progress on financial abuse and everyday controlling and belittling behaviours towards their partners.<sup>994</sup>

Few interventions for survivors of domestic violence in the UK focus on practical financial, employment or educational skills.<sup>995</sup> Victims are more likely to receive counselling intended to increase confidence and self-esteem.

**JRF recommends** that central and local government (and domestic violence service providers) do more to offer domestic abuse victims support in regaining control over their finances, including help with financial literacy, where required, and advice on disentangling financial arrangements from an abusive partner while remaining safe.<sup>996</sup> For women living in poverty, it is particularly important to recognise the financial aspects and implications of abuse.

Some women's vulnerability to financial and other forms of abuse may be heightened by aspects of welfare reform, such as the introduction of a single household payment under Universal Credit.<sup>997</sup> While some allowances have been made for those at risk of domestic abuse, for example with respect to JSA conditionality requirements, these concessions are not part of a coherent policy on the interrelationship between welfare and domestic abuse policy.<sup>998</sup>

**JRF recommends** that the DWP assesses all welfare reform changes for their implications for those at risk of domestic violence and abuse. It is crucial that attempts to reduce disadvantaged women's reliance on the state do not unintentionally replace this with increased dependence on violent or abusive partners.<sup>999</sup>

The UK, alongside most western European countries, has a long history of interventions on ‘problem families’.<sup>1000</sup> There have been initiatives such as Family Intervention Projects (FIPs, introduced in 2006) and nurse family partnerships. There is a substantial body of evidence demonstrating positive outcomes associated with FIPs. More recently, the Troubled Families Programme has been introduced in England. It has a wider focus and a stronger emphasis on addressing worklessness. Intended to turn around 120,000 of England’s most ‘troubled families’, £448 million of centralised funds was made available from 2012 to 2015, partly on a payment-by-results (PbR) basis, on the understanding that councils would invest £600 million from their own budgets. At the Spending Review 2013, it was expanded to work with up to 400,000 more families from 2015–2020, with domestic abuse explicitly now included as an entry criteria. The independent evaluation of Troubled Families has not yet been published, with only an interim report published so far. However, there is evidence, derived from numerous FIPs evaluations, to support the core components of the model recommended in the good practice and evidence guide issued to accompany the Troubled Families programme.

**JRF recommends** that national programmes of support for families with complex needs should be based on the established components of success:

- workers dedicated to a family
- practical ‘hands on’ help (including devolved personalised budgets to help families in very practical ways)
- a persistent, assertive and challenging approach
- a ‘whole family’ approach (but sensitive to any concerns about domestic violence and coercive control)
- having a common purpose and agreed action.

Local authorities and local voluntary sector partners should ensure that these interventions focus on changing local service systems where required, as well as any behavioural changes needed on the part of families.<sup>1001</sup> Measures to address the poverty and material deprivation that many families face should be embedded elements of all such programmes. It is also critical to ensure that workers can facilitate access for families to a range of specialist support services.

Both central and local government need to understand the importance of workforce planning and development in successful interventions. FIP evaluations show that the relatively low status of FIP and similar workers can reduce their influence with other local professionals, making it difficult to coordinate services and provide the flexible responses required.<sup>1002</sup> There must be a commitment to invest in, support and value people who work with families, and individuals, with complex needs.

### 3. Young people

Younger single people, especially if they are not living in the family home, face highly disproportionate risks of poverty<sup>1003</sup> (see also Chapter 6). The dramatic deterioration in young people's fortunes<sup>1004</sup> associated with unemployment, declining benefit protection and rising private sector rents is arguably the most prominent poverty evidence to emerge in the UK in recent years. Young single men under 25 are the group most likely to be destitute in the UK today.<sup>1005</sup>

#### Young people and complex needs: Summary of actions

##### For children at risk of becoming vulnerable young adults:

- investment in family-centred early interventions targeted at pre-teens and young teenagers.

##### For young people in or leaving care:

- entitle them to remain in, or return to, care until their 22nd birthday. Provide them with a flexible spectrum of housing and support options until they are ready to live fully independently, and make this available at least until they reach age 25
- better support through cross-government strategies that include improved monitoring of outcomes
- consider a Social Justice Premium, qualifying care leavers for proportionately favourable funding in terms of both payments and services – for example, government top-ups for looked-after young people's savings.

##### For homeless and other vulnerable young people:

- government and charitable funders should invest in demonstration projects and robust evaluation on the merits and cost-effectiveness of promising non-institutional interventions to meet housing and support needs
- local practitioners should work together to develop good quality low-cost housing solutions for young people
- service providers should build partnerships with local employers to promote access to supported opportunities in workplaces.

This is the difficult economic backdrop faced by young people with complex support needs, many of whom have had troubled childhoods. Some have argued that interventions in the teenage years are at least as important as in early childhood for the most vulnerable young people,<sup>1006</sup> but there are reduced opportunities for such interventions given the impact of local authority budget cuts on youth services, which were reported to have lost at least £60 million of funding between 2012 and 2014.<sup>1007</sup>

Evidence on the effectiveness of universal forms of prevention, such as generic school programmes, is relatively thin<sup>1008</sup> – although there is support

among practitioners for ‘peer educators’ programmes, which may also have developmental benefits for the young educators.<sup>1009</sup> However, there is now a clear picture of the groups of young people most likely to experience complex need in early adulthood,<sup>1010</sup> enabling policy and investment to be targeted to those who need it most. These groups include young people who have experienced child abuse or neglect, or lived with domestic violence, mental health or substance issues within the family home;<sup>1011</sup> who have run away as a child;<sup>1012</sup> truanted or been suspended from school; or left school with no qualifications.<sup>1013</sup> An exceptionally vulnerable group are young women, and some young men, who have experienced sexual abuse as children and are at risk of further sexual exploitation, including involvement in prostitution, in adulthood.<sup>1014</sup>

**JRF recommends** that services working with children, young people and their families – including schools, colleges, other youth services, care providers, health service providers, Jobcentres and the police – should be trained to recognise and respond to early warning signs of young people at risk of developing complex needs as adults.

One interesting model to consider may be the Geelong Project in Australia, which involves population screening in schools to identify at-risk young people and families, combined with long-term monitoring, case work and/or wrap-around family support depending on the level of risk.<sup>1015</sup>

There is robust evidence from the US in particular to support the efficacy of family-centred early interventions, especially those which include a focus on parenting skills, in reducing both substance misuse<sup>1016</sup> and offending behaviour amongst at-risk young people.<sup>1017</sup> Deterrence or intensive supervision models are not as effective, or can make things worse.<sup>1018</sup> There is also strong evidence to support ‘motivational interviewing’ as a technique to prevent early-onset substance misuse among young people.<sup>1019</sup> Here, a trained interviewer discusses potential drug use and associated consequences using a structured ‘motivational interviewing’ guide, which often includes the development of some form of mutually agreed action plan. These interventions seem to be most effective when targeted at pre- or early teens (for instance, between the ages of 11–13).<sup>1020</sup>

**JRF recommends** investment in family-centred early interventions with at-risk young people in the pre-teen and early teenage years, and the use of evidence-based techniques, like motivational interviewing.

In 2015, 10,830 young people aged 16 or over left foster or residential care in England,<sup>1021</sup> and 1,285 young people over 16 ceased to be looked after in Scotland.<sup>1022</sup> The closest comparable numbers are 715 in Wales<sup>1023</sup> and almost 500 in Northern Ireland.<sup>1024</sup> The number of children in care, and young people leaving care, has been rising for almost a decade in England and Wales.<sup>1025</sup> Care leavers form an exceptionally disadvantaged group, even within the wider cohort of vulnerable young people.

- In 2015, 38% of care leavers in England aged 19, and 40% of 20-year-old and 21-year-old care leavers, were not in education, employment or training (NEET),<sup>1026</sup> almost three times the NEET rate for all young people.<sup>1027</sup>
- In 2014, 22% of female care leavers became teenage parents,<sup>1028</sup> three times the national average.<sup>1029</sup>

- A majority of looked-after children have special educational needs,<sup>1030</sup> and almost half have diagnosable mental health needs associated with experiences of trauma and abuse.<sup>1031</sup>
- Around half (49%) of young men under the age of 21 who had come into contact with the criminal justice system in 2008 had experienced care.<sup>1032</sup>
- Around 20%–30% of young homeless people have been in care.<sup>1033</sup>
- Almost one in five adults with combined experiences of homelessness, substance misuse and offending have been in care as a child.<sup>1034</sup>

There have been positive policy and legal developments relevant to young care leavers and other vulnerable young people over the past decade or so.<sup>1035</sup> Notably, the 2009 Southwark Judgment has led to important improvement in responses to homelessness among 16- and 17-year-olds in England, Wales and Northern Ireland, as they should now be treated as ‘children in need’ with a full social services assessment.<sup>1036</sup> Each of the UK nations has introduced extensions to corporate parenting (local authority and other official obligations to looked after young people) in recent years.<sup>1037</sup> The ‘Staying Put’ policy or similar arrangements are now in place for young people wishing to stay with foster carers after age 18 in England,<sup>1038</sup> Northern Ireland,<sup>1039</sup> and Wales.<sup>1040</sup> The Children and Social Work Bill in England is set to extend the entitlements of some care leavers (those who are in education or training or are not in education, employment or training) to include on request access to a personal adviser up until age 25.<sup>1041</sup> Extensions to corporate parenting duties have gone furthest to date in Scotland, where all looked-after children are entitled to remain in care until their 22nd birthday and to receive after-care support until their 26th birthday.<sup>1042</sup>

Despite these developments, outcomes for looked-after children remain extremely poor, and care leaver services are frequently inadequate.<sup>1043</sup> A recent National Audit Office report concluded that the 2013 Care Leaver Strategy in England was not set up as an effective programme, with no strong evidence of integrated working, limited implementation capability, and no regular reporting of progress or outcomes.<sup>1044</sup>

**JRF recommends** that all jurisdictions in the UK strengthen legal duties to looked-after young people through entitling them to remain in, or return to, care up until their 22nd birthday. They should also have the right, until they are 25 years old, to move back and forth along a spectrum of accommodation and support options, including foster care, supported lodgings, supported accommodation, and independent tenancies.

**JRF recommends** that this strengthening of legal duties towards looked-after children should be accompanied by cross-government strategies to better support care leavers in all four UK countries. This should include enhanced monitoring to assess whether outcomes for care leavers are improving and to assess the impact of relevant initiatives.<sup>1045</sup>

**JRF recommends** considering a Social Justice Premium for care leavers<sup>1046</sup> at UK and devolved government levels. This policy holds the state responsible for compensating for the disadvantages faced by vulnerable groups. Based on calculations of harm over their lifetime, those affected would qualify for proportionately favourable funding in terms of both payments and services. One practical application is government top-ups for



savings accounts to ensure that looked-after young people accumulate assets at least at the median rate for their peers.<sup>1047</sup>

In recent years there has been investment in specific funds to develop accommodation options for young homeless people in England, including one targeted at those with the most complex needs (Fair Chance Fund).<sup>1048</sup> The Positive Pathway framework<sup>1049</sup> now informs the development of homelessness prevention and housing services for young people in around two-thirds of local authorities.<sup>1050</sup> In Scotland, virtually all homeless people, including homeless young people, are entitled to rehousing by their local authority,<sup>1051</sup> and Welsh local authorities have recently been given stronger homelessness prevention duties.<sup>1052</sup> Prevention-focused approaches should now operate in local authorities across Great Britain, employing a range of tools to help young people stay in the family home or, where necessary, secure alternative accommodation without becoming homeless.<sup>1053</sup>

This targeted policy attention may explain why youth homelessness appears not to have risen substantially as a result of the last recession,<sup>1054</sup> despite young people's disproportionate exposure to unemployment (the unemployment rate for 16–24-year-olds is 13.7% compared with 5.1% overall)<sup>1055</sup>, benefit restrictions and sanctions (the JSA sanctioning rate for 18–24-year-olds is approximately double that for older age groups)<sup>1056</sup>, and their especially vulnerable position in the housing market<sup>1057</sup> (see also Chapter 6).

That said, young people are still at a far higher risk of homelessness than older adults,<sup>1058</sup> and more than half of young people living in homeless accommodation are reported to have complex needs, such as mental health conditions, a learning disability, substance misuse, or offending behaviour.<sup>1059</sup> A quarter of all adults experiencing severe and multiple disadvantage involving a combination of homelessness, offending and substance misuse are aged 18–25.<sup>1060</sup> There have been increasing calls for services targeting vulnerable youth to be psychologically and trauma-informed (see further below under adults section).

### Family mediation

Family mediation is viewed as a core element of early intervention responses to prevent youth homelessness, and/or ensure that moving out of a family home is planned and that young people maintain positive relationships with their family as far as possible.<sup>1061</sup> Available data on effectiveness is encouraging<sup>1062</sup> but limited, with no clear evidence on the specific models that work best and longer-term outcomes (though see the more extensive evidence based noted above on family-focused early interventions). In a recent review, practitioners working in the youth homelessness sector felt that mediation offered by specialists before crisis was reached (including for under-16s) was desirable, and that an improvement in the uptake of mediation services among young people and their families was needed.<sup>1063</sup>

### Emergency accommodation

Good-quality and safe emergency accommodation for young people, which offers flexible respite and time out for struggling families, is an essential complement to mediation and whole-family support. One promising non-

institutional model is to provide young people with a room in a private community host's home, such as Nightstop.<sup>1064</sup>

### Longer-term accommodation

It would be especially valuable<sup>1065</sup> to develop longer-term accommodation models that minimise or avoid the negative consequences some hostel-type accommodation can have for vulnerable young people – including negative peer pressure, institutionalisation, and work disincentive effects.<sup>1066</sup>

The success of the 'Housing First' model, encompassing rapid access to ordinary housing coupled with tailored support, has been clearly demonstrated for homeless adults with complex needs (see below). Only one substantial study (in Denmark) has shown similar levels of success with young homeless people,<sup>1067</sup> with some youth homelessness experts arguing that the model requires specific adaptation for use with those in this transitional phase in life.<sup>1068</sup> There is a strong case to develop and evaluate the model for youth with complex needs.

Another potentially promising option for young people is supported lodgings (see box below), developed for care leavers but also used to accommodate homeless young people. Supported lodgings have tended not to be used for young people with complex needs, though there is potential to explore adaptations to the model (e.g. specialist host training and premium payments) to enhance its capacity in this regard.

#### Supported lodgings

Supported Lodgings offers young people a room in a private home with trained hosts and support from professionals for up to several years. A government-funded evaluation in 2008 compared outcomes for supported lodgings to other forms of supported accommodation (supported housing, foyers and floating support).<sup>1069</sup> It found that supported lodgings was associated with better outcomes on a range of dimensions, including young people being in paid work at the point of leaving the service, participating in work, training and/or education while in receipt of the service, and better management of substance misuse. Supported lodgings placement failure rates also compared favourably to those in supported housing and foyers, although were higher than in floating support. It is considered cost-effective because of the absence of building-related costs, and its flexibility.<sup>1070</sup>

**JRF recommends** that government and charitable funders should invest in demonstration projects and robust evaluation studies of promising 'non-institutional' interventions for homeless and other vulnerable young people, including Housing First, Nightstop, supported lodgings, and family mediation.

### Lower-level support needs

Providing good-quality longer-term accommodation at a rent that young people with lower-level support needs can afford,<sup>1071</sup> and that does not discourage them from working, is another major challenge. Potential solutions include 'light touch' support schemes, such as via the peer landlord scheme, which involves a lead tenant in a shared property offering advice and guidance to other tenants.<sup>1072</sup> Other possible approaches include design-and-build options that minimise the costs of new accommodation, such as repurposing of former student accommodation, refurbishment of empty properties and use of prefabricated temporary housing units.<sup>1073</sup> Involving social investors and securing in-kind contributions from local practitioners has been another facet of this kind of approach, as pursued in St Basils Live and Work scheme (see box below).<sup>1074</sup>

#### St Basils live and work scheme

Launched in 2015, the live and work scheme<sup>1075</sup> aims to enable young people to live benefit-free on an apprenticeship wage. Using a grant from the Empty Homes Community Grant Programme to renovate empty properties in partnership with Sandwell and West Birmingham Hospitals NHS Trust, the scheme offers 27 young apprentices working with the Trust the opportunity to live and work on the site, with support provision built in. Rent and service charges are minimised through an agreement for the Trust to lease the properties to St Basils for free, with a 'whole community approach' used to bring in contributions and support from a range of local partners.

**JRF recommends** that local practitioners, including employers, housing associations, voluntary sector partners and local authorities, consider how they can work together to develop good-quality low-cost housing solutions for young people. Government welfare policies should ensure that low-income young people have the help they need with housing costs to enable them to access sustainable accommodation options.

### Homelessness and employment services

Aligning and integrating youth homelessness and employment-focused services is seen as increasingly important by practitioners in the field. Youth homelessness providers endorse tailoring these to young people's strengths and interests to engage them in learning, training and employment opportunities (an 'asset-based' approach).<sup>1076</sup> This requires the development of closer partnerships with local employers and the provision of both pre- and in-work support.<sup>1077</sup> The available evidence indicates that job coaching – an approach that has features in common with the Individual Placement and Support (IPS) model discussed below (and see Chapter 7) – is positively associated with gaining and sustaining employment, particularly among young people (see box below).<sup>1078</sup>

**JRF recommends** that service providers working with vulnerable young people build partnerships with local employers to promote access to supported opportunities in workplaces.

### Job coaching

Business in the Community's Ready for Work programme aims to help people who are homeless or at risk of homelessness into employment. It works with businesses across 20 large towns and cities in the UK and Ireland, providing training, work placements and post-placement support. In post-placement support, clients are able to access job coaches – trained volunteers from participating companies who provide support and advice, help with job applications and aim to develop clients' self-confidence and resilience. Job coaches aim to meet with clients weekly for eight weeks, followed by fortnightly for four months.

A 2014 study<sup>1079</sup> evaluated the impact of this coaching. It found that re-integration into the labour market was 3.7 times higher among those supported by a job coach compared with those who were not. The association between job coaching and gaining employment was stronger among 18–24-year-olds than older age groups. Those with a job coach were more likely to sustain their employment.

## 4. Adults

Around two-thirds of those passing through single homelessness services and the criminal justice system have multiple needs, and this is also the case for around half of those receiving drug treatment services.<sup>1080</sup> This means that these services are very often working with the same individuals, but from different professional perspectives.<sup>1081</sup> There have been repeated calls from voluntary sector practitioners for a more integrated approach<sup>1082</sup> and a national strategic focus,<sup>1083</sup> but while the issue does appear to be on the Government's agenda,<sup>1084</sup> practical progress has been slow.

The case for intervention is strengthened by the significant cost burden associated with the disproportionate, yet often ineffective, use of public services by people facing severe and multiple disadvantage. Estimates of these additional costs vary between an additional £14,735<sup>1085</sup> to £41,124 per individual every year<sup>1086</sup> for those experiencing combined homelessness, substance misuse and contact with the criminal justice system. This form of severe and multiple disadvantage is conservatively estimated to cost the UK Exchequer £1.2 billion per year,<sup>1087</sup> with a higher estimate available of £2.4 billion.<sup>1088</sup> Looked at on a lifetime basis, preventing just one of these disadvantages developing at an early intervention stage could save the public purse £350,000 per person.<sup>1089</sup>

There are also very significant social costs associated with these complex needs, including potentially negative impacts on the children with whom 60% of these adults live or have ongoing contact.<sup>1090</sup> A very high proportion

(around half) of offenders affected by severe and multiple disadvantage are domestic violence perpetrators.<sup>1091</sup> Vulnerable women experiencing severe and multiple disadvantage may resort to prostitution to survive.<sup>1092</sup>

### Adults with complex needs: Summary of actions

#### To address housing needs:

- scale up the Housing First model as the default option for homeless adults with complex needs in the UK
- retain transitional accommodation for the minority of this group for whom the model may not be suitable
- estimated saving: £200 million per annum after two years in relation to the current group of homeless adults in England with the most complex needs.<sup>1093</sup>

#### To address work and reintegration needs:

- invest in national programmes of Individual Placement Support (IPS) for people with severe and enduring mental health conditions to help them to gain and sustain employment<sup>1094</sup>
- consider developing similar programmes for other complex needs groups, including those with chronic homelessness, substance misuse, or offending backgrounds
- estimated saving: £6,492 for each individual (with mental health conditions) assisted by IPS.<sup>1095</sup>

#### To address support needs:

- central and local governments should invest in a suitably qualified, supported, trained and paid workforce to take on the demanding ‘link worker’ role with adults facing the most complex needs – but even this cannot compensate for structural underinvestment in local specialist services
- voluntary and statutory service providers should consider learning from Psychologically Informed Environments (PIE) – called Psychologically Informed Planned Environments (PIPE) in criminal justice – when planning their service settings
- a more coherent funding strategy for specialist services working with women involved in prostitution.

### A strategic focus on recovery

Any actions for the group of adults facing severe and multiple disadvantage should be rooted in what can broadly be termed the ‘recovery’ model,<sup>1096</sup> which builds upon people’s strengths and assets to lead a meaningful and fulfilling life. The importance of fostering a positive self-identity, alongside a sense of agency and self-determination, is emphasised in the recovery approach, building upon people’s strengths and assets, as well as recognising their problems and needs. However, as well as addressing people’s complex needs, steps need to be taken to address the associated income poverty.

‘Recovery capital’<sup>1097</sup> is a key concept – constructive social networks that offer support and an opportunity to ‘give something back’,<sup>1098</sup> as well as a means of addressing the person’s housing, employment, educational, health and other needs.<sup>1099</sup>

### Promising interventions consistent with a recovery philosophy

A fundamental change is taking place in homelessness services across much of the developed world, inspired by the Housing First model first developed in New York City for chronically homeless people with severe mental health conditions.<sup>1100</sup> Housing First involves rapid access to ordinary (private or social) rental housing for homeless people with complex needs, coupled with intensive and flexible support, provided on an open-ended basis.<sup>1101</sup> Consumer choice is central to Housing First: participants must want their own tenancy. This contrasts with the treatment-first philosophy of traditional transitional models, which seek to promote ‘housing readiness’ in a hostel-type setting, and have been criticised for their high placement failure rate<sup>1102</sup> and unintended consequences (e.g. institutionalising homeless people),<sup>1103</sup> though there is UK evidence that this model works for some.<sup>1104</sup> Homeless people often strongly dislike hostels,<sup>1105</sup> and many of those who remain on the streets cite fear of hostels as the principal reason for their reluctance to accept help.<sup>1106</sup> Difficulties in managing challenging behaviour in these congregate environments also means that hostels, like women’s refuges, sometimes exclude those with the most complex needs.

*“Some people I spoke to that are homeless actually prefer to be homeless cos they hate the system so much, they don’t want nothing to do with it.”*

Male service user

Robust international evidence has demonstrated impressively high housing retention rates in Housing First projects (often 90% at the one-year mark).<sup>1107</sup> The broader affects on health and quality of life are less uniform, but still positive on the whole.<sup>1108</sup> The results for Housing First are much less encouraging on overcoming poverty and worklessness, but no worse than for transitional models. Some European projects<sup>1109</sup> claim considerable cost savings for Housing First, which have been demonstrated convincingly in the US,<sup>1110</sup> particularly for those with the most complex needs, and are consistent with findings in the limited UK evidence base.<sup>1111</sup> Homeless Link has recently received funding from the Lankelly Chase Foundation and Comic Relief to run a Housing First England project to create and support a national movement of Housing First services, in recognition of the fact that it is not widely used in the UK as yet.<sup>1112</sup>

**JRF recommends** scaling up the Housing First model as the default option for homeless adults with complex needs in the UK,<sup>1113</sup> retaining transitional accommodation for the minority of this group (estimated to be up to 20%)<sup>1114</sup> for whom the model may not be suitable. We estimate that this could save around £200 million per annum after two years in relation to the current group of homeless adults in England with the most complex needs.<sup>1115</sup> Such a large-scale roll-out should be accompanied by a robust monitoring and evaluation framework.

*“I think Housing First is an absolutely fantastic option, as there are people in our group who need the alternative from getting into hostels. In hostels you get some people who are extremely chaotic, with extreme needs and addiction. All of these together become normalised. If you think that’s normal, you spend two years there and that’s not normal life.”*

Male service user

*“For women with complex needs, there is a huge lack of appropriate housing. The traditional women’s refuge won’t take women like this. There are very few that will house a woman with substance abuse issues, because they’re also housing children. So she’ll go into a hostel, they’ll go through that pathway and cycle in and out. A Housing First model to break that revolving door, that would be very interesting.”*

Practitioner

*“I’ve done that a couple of times, taking people from long-term hostels, because the hostel environment for people with complex needs is terrible, [in these hostels] they have been financially or sexually abused. Breaking that down, de-institutionalising people, getting them into decent accommodation.”*

Practitioner

While practitioners welcomed the principles of Housing First, they identified some barriers to implementation. One obvious concern is the shortage of affordable housing, especially in London, but also the reluctance of some housing providers to accommodate those with complex needs. Ways forward would include identifying housing associations committed to this agenda as part of their ‘social mission’, and reassuring landlords of the reliable support package available.

The potentially costly nature of the wrap-around support is also a concern, especially given the recent severe cuts in Supporting People revenue funding in England.<sup>1116</sup> Also, there is a fear that most forms of supported accommodation (particularly for under-35s) will be rendered unviable by the proposed extension of the Local Housing Allowance rate of Housing Benefit to the social rented sector.<sup>1117</sup> This reinforces the need to make the economic case for change, given the relatively small size of the target population, and the potential for cost savings.<sup>1118</sup> There was also a reminder at our consultation event that Housing First will not work for everyone<sup>1119</sup> and retaining a choice of supported accommodation options is vital:

*“Some hostels are necessary for some people because they need that step and support.”*

Male service user

The Individual Placement and Support (IPS) model of supported employment for people with severe mental health conditions, discussed in Chapter 7, bears a striking resemblance to the ethos of Housing First.

*“[Housing First is] very similar to a model of employment support that exists for people with mental illness and is very well evidence-based. Rather than the model of constant training until someone is ready to take a step into employment, you put them in employment and wrap the support around them.”*

Practitioner

Like Housing First, IPS was first developed in the United States, and has since been trialled in a number of other settings, including the UK.<sup>1120</sup> There is now strong evidence to support the ‘place, support and train’ approach of IPS, in which people with severe mental health conditions are supported in a real job in an ordinary work setting, which contrasts with ‘train, place and (perhaps) support’ approaches, in which the person is ‘trained’ for an abstract job.<sup>1121</sup> The IPS model has also been successfully adapted for people with drug or alcohol addictions.<sup>1122</sup> IPS is underpinned by evidence-based principles, which strongly echo those of Housing First:

*“...competitive employment is the goal, job search occurs rapidly, eligibility is based on client choice, job choice follows client preference, support is ongoing and is based on client need, employment and mental health services are integrated, and personalised welfare benefits advice and guidance is provided. IPS is a direct, individualised search for competitive employment that avoids lengthy pre-employment preparation or training and does not screen people for work ‘readiness’ or ‘employability’.”<sup>1123</sup>*

A study comparing the IPS model to vocational rehabilitation (which provided vocational training and job preparation before looking for competitive employment) in six European countries,<sup>1124</sup> including the UK, found that IPS participants were twice as likely to gain employment (55% as against 28%), to sustain employment for longer, and to earn more than those supported through traditional models. The total costs for IPS were also generally lower over the first six months.<sup>1125</sup>

**JRF recommends** that the UK Government and devolved administrations invest in national IPS programmes for people with severe and enduring mental health conditions to help them to gain and sustain employment.<sup>1126</sup>

The IPS approach needs to be properly resourced, as it involves potentially long-term and/or intense in-work support, and some level of employer subsidies, particularly to smaller employers.<sup>1127</sup> Nonetheless, with estimated savings of £6,492 per year per person assisted by the IPS, we calculate that the total number of programme entrants could rise from the current level of approximately 15,000 to over 50,000, with employer subsidies in the range 10–25%, achieving 34–53% more FTE job outcomes and still remaining within the existing public spending envelope.

**JRF recommends** that the devolved administrations and local authorities develop programmes similar to IPS for other complex needs groups, including those with chronic homelessness, substance misuse, or offending backgrounds,

UK evidence on how best to provide support more broadly to people with complex needs<sup>1128</sup> is consistent with the international evidence on Housing First and IPS. Key features of effective interventions with this group have been identified by evaluations of the government-sponsored Adults facing



Chronic Exclusion (ACE) pilot initiatives in 12 areas in England,<sup>1129</sup> and the Making Every Adult Matter (MEAM) voluntary sector coalition pilots in three English localities<sup>1130</sup> (see box: Tackling multiple needs in York using the MEAM Approach).<sup>1131</sup>

### Effective support for people with complex needs:

- taking a holistic approach, rather than dealing with issues in isolation
- coordinating local services, taking steps to make local systems easier to navigate at organisational and individual level
- recognising financial hardship and intervening to alleviate it long term
- flexible local response across multiple areas of support with services able to work together to meet a range of needs (including those they might currently judge to be below their threshold)
- offering intensive and open-ended support where needed, rather than time-limited interventions
- consistent client identification and referral
- building positive, one-to-one relationships between a client and a specific worker, who sticks with the client
- listening to the user, including their preferences
- working pro-actively and assertively, even in the face of challenging or abusive behaviour, and persisting even when clients disengage
- delivering the service in community settings where appropriate, rather than in offices or institutions, to promote ordinary living
- building on client assets, such as support from families and communities where available
- robust monitoring and measurement of outcomes
- a gender-sensitive, poverty-informed and trauma-informed approach.

These principles are encapsulated in the link worker model, which has evolved from service settings in the UK since the 1990s.<sup>1132</sup> Link workers act as ‘service navigators’,<sup>1133</sup> advocates and consistent sources of support for their clients, using creative means to try to overcome barriers to engagement.<sup>1134</sup> While the evidence is limited, results from the ACE pilots suggest it is a “simple but effective”<sup>1135</sup> approach, while the MEAM pilot evaluation shows improvements in clients’ housing situations, mental health, involvement in substance misuse, and engagement with the criminal justice system, as well as a significant (up to 26%) reduction in service-use costs over two years.<sup>1136</sup> The success of link workers, as with Housing First case managers, depends on the availability of relevant specialist services in the local area, especially drug treatment and mental health services.<sup>1137</sup>

***“We work with three or four areas that use navigators or coordinators or something like that, and where there have been evaluations, which are small-scale, they have been very positive.”***

Practitioner

While practitioners also welcomed the link worker model, they noted the importance of combating the mistaken impression that these workers would duplicate existing work in the sector. Making the economic case for what might be perceived as an expensive, open-ended service was viewed as vital, as was investing in the training of a suitably skilled workforce, avoiding the unwarranted assumption that peer volunteers were an inexpensive alternative.

***“The workforce we have is not the one that we need to work with some of these people, it’s quite a tall order to have someone who can work with someone with this multiplicity of need.”***

Practitioner

***“Peer support is something which is being advocated for in mental health work, and so people can hear that and think, ‘volunteers, cheap labour’ but it’s not, people need to be supported in that role, and that’s not factored into a lot of these models.”***

Practitioner

**JRF recommends** that central and local governments invest in a suitably qualified, supported, trained and paid workforce to take on the demanding link worker role with adults facing the most complex needs. But even a very highly qualified and motivated workforce of link workers cannot compensate for structural underinvestment in mental health, drug treatment and other local services that people with complex needs require.

In 2014, the Big Lottery Fund launched its £112 million multiple-needs programme, ‘Fulfilling Lives’, focused on people experiencing some combination of homelessness, problematic substance misuse, reoffending and mental health conditions.<sup>1138</sup> The programme, informed by the ACE and MEAM pilots, is working with 12 local areas across England over five to eight years to promote coordinated services for this group<sup>1139</sup> (see box below). The first-year interim report for the national evaluation emphasised how important workforce development was in achieving the cultural and systems change needed to deliver a whole-person approach. Forming multi-disciplinary teams and inter-sectoral secondments is among the strategies being used to achieve this.<sup>1140</sup>

### Fulfilling Lives projects

#### Fulfilling Lives Islington and Camden (FLIC)

The FLIC model encompasses many of the components advocated in this chapter, including Housing First, psychologically informed working, flexible and assertive outreach, and unconditional, long-term support. All were viewed as vital to the positive evaluation of the project’s first year: ‘there was a strong sense that the FLIC project is transforming the landscape for people with multiple and complex needs in Islington and Camden’.<sup>1141</sup> Securing practical benefits for service users, facilitated by the availability of modest personal budgets (£1,000 a year) was also

important. However, the evaluators cautioned that lottery funding is enabling FLIC to deliver the kind of best-practice support that other (underfunded) local agencies can only aspire to. They also note that FLIC needs a clearer mandate as lead coordinating agency, to avoid the multiplicity of coordination that leads to service users having to continually retell their story.

### **Tackling multiple needs in York using the MEAM Approach**

York is one of 15 areas using the MEAM Approach,<sup>1142</sup> a non-prescriptive framework developed by the Making Every Adult Matter coalition. The coalition supports these areas to better coordinate existing services for people with multiple needs, rather than developing new standalone interventions. In this project, a dedicated specialist worker engages directly with clients, identifies their support needs and explores why they don't currently receive effective support from services. Their work is overseen by strategic and operational steering groups drawn from multiple agencies, to ensure that barriers to individuals' progress are overcome and prevented in the future. A key feature of the project's success has been encouraging services to be flexible when working with these clients. A recent evaluation indicated that progress has been made by clients and also that the average cost of delivering services to these clients had fallen by 27% in the first year of the project.

Other areas of growing consensus include the benefits of developing Psychologically Informed Environments (PIE) – called Psychologically Informed Planned Environments (PIPE) in criminal justice – for people with multiple needs,<sup>1143</sup> which includes providing 'trauma-informed care'.<sup>1144</sup> **JRF recommends** that voluntary and statutory service providers working with a range of populations with complex needs should consider learning from PIEs/PIPEs when planning their service settings. The existing evidence base on PIEs/PIPE is promising but more systematic research on the impacts of these models would be beneficial.

***“There’s this movement to enabling environments... people with high complex needs having a psychologically informed environment.”***

Practitioner

Assertive and proactive outreach to raise awareness of, and access to, services is now a broadly accepted intervention principle in this field.<sup>1145</sup> Additionally, there is growing interest in the use of peer support, whereby people with personal experience of multiple needs work with clients, either on a paid or volunteer basis, including as peer mentors.<sup>1146</sup> While the existing research would indicate that some caution is required with the peer mentoring approach,<sup>1147</sup> there is emerging evidence that properly supported peer workers in homelessness services can add value. Their 'shared histories' with service users seem to help break down barriers and can provide positive role models.

*“It’s about having someone to talk to who understands what you’re going through.”*

Man, London

Women with complex needs involved in prostitution are an extraordinarily vulnerable group and more needs to be done to reduce the harm they experience and to support them to exit when they want to do so. At the time of writing, the Home Affairs Committee in the UK Parliament is conducting an inquiry into how prostitution is treated in legislation and the Committee is clear in its interim report<sup>1148</sup> that more evidence is needed on how different legal models might impact on the vulnerability of people involved in sex work. A support-based approach<sup>1149</sup> should be taken to women with complex needs involved in sex work, whatever the legislative framework on prostitution. A strategic approach is required in every local area to ensure the commissioning and provision of enough good quality provision of services and good multi-agency working.

**JRF recommends** that there should be greater financial support for specialist services working with women involved in prostitution and a more coherent funding strategy.

Scaling up all of the promising work on complex needs is a challenge, and will require national leadership in all four UK countries.<sup>1150</sup> In England in particular, it will need to take account of the ongoing devolution to city regions, and the phasing out of the local government block grant.<sup>1151</sup> This means using innovative ways to incentivise local authorities and city regions to support people with complex needs.<sup>1152</sup>

*“[A key challenge is the...] lack of fit between who is expected to make the investment and who is going to reap the benefits. It will save £2.1 billion for the NHS, to the national offender management service and to the police, none of which you are responsible for, so why should you have to spend your money, for the theoretical benefit for other bits of the system?”*

Practitioner

## 5. Asylum seekers and refugees

Wholesale policy and practice reform of the asylum system has the potential to address poverty and destitution among asylum seekers and refugees. A strategy to solve poverty needs to focus on what can increase incomes and reduce costs. However, legal reform, better access to justice (including legal education, advice and legal aid) and better decision-making will contribute to reducing vulnerability.

### Refugees and asylum seekers: Summary of actions

- Give asylum seekers permission to work six months after making their initial asylum claim.
- Increase asylum support to better meet the needs of claimants and families and relate it to mainstream benefits.
- Reform the model for provision of housing for asylum seekers to ensure safety, stability and security.
- Introduce better transitional arrangements and integrated support for refugees.
- Enable access to good-quality legal advice to enable resolution of legal status
- the rights and needs of children are addressed at every stage every stage including antenatal and postnatal care (including when asylum is refused and appeals are unsuccessful).

Asylum seekers and refused asylum seekers do not have permission to work in the UK. Technically, if a decision on their application is delayed (and they are not to blame) they are able to work in occupations on the shortage occupation list after 12 months. The 2016 Immigration Act<sup>1153</sup> makes working illegally (including while seeking or having been refused asylum) a criminal offence.

**JRF recommends** giving asylum seekers permission to work six months after making their initial asylum claim.

Arguments for giving asylum seekers permission to work include:<sup>1154</sup>

- reducing labour exploitation and forced labour, and the damaging consequences for individuals, legitimate businesses and the state
- reducing the burden to the taxpayer by reducing the cost of asylum support and possibly reducing additional costs to public services
- consistency with mainstream welfare policy, which views work as a route out of poverty for individuals and families, ensuring that those seeking asylum also contribute
- providing asylum seekers with a route out of poverty and destitution, particularly as asylum support is currently set below destitution levels
- avoiding negative consequences of prolonged economic exclusion, forced inactivity, de-skilling and the indignity felt by many asylum seekers in not being able to support themselves or their families
- improving prospects for integration and self-sufficiency for those who are eventually given protection in the UK.

For a crude comparison, a single asylum seeker working in a full-time National Living Wage job would earn £136 per week. This is 3.6 times greater than asylum support (£36.95). Crucially though, a proportion of asylum seekers would be able to undertake work far above the minimum wage and ensure that they were not in poverty at all, since some asylum seekers have the skills and experience to enter higher-paid roles in the labour market.

Asylum seekers are entitled to support<sup>1155</sup> while their application is being considered. Asylum seekers receive £36.95 in cash per week per individual

in their household. Some additional support is available for pregnant women, babies under a year and children between one and three years old (£3, £5 and £3). Changes in August 2015 lowered asylum support for many people:<sup>1156</sup> for example a lone parent with one child over three receives £73.90 and used to receive £96.90 (see figure 12 for a comparison of mainstream benefits and 75% of MIS).

Making a direct comparison to mainstream benefit levels for low-income households in receipt of benefits is difficult because housing, utilities and Council Tax are covered by housing arrangements as part of the Home Office's provision for asylum seekers. However, there is evidence that even when these extra provisions are taken into consideration they do not account for the gap between support for asylum seeking families and families on mainstream benefits. A number of organisations have suggested a minimum level of 70%<sup>1157</sup> of income support. However, this could be reviewed in line with revision of mainstream welfare reform, such as the introduction of Universal Credit and the recommendations on uprating covered in Chapter 7.

The system of support for those who cannot return home also needs to be improved; there is also a case for reviewing card-based systems which do not enable people to manage their finances effectively.

**JRF recommends** that asylum support better meets the needs of claimants and families.

**JRF recommends** reforming the model for provision of housing for asylum seekers to ensure safety, stability and security. This model should also facilitate integration for those who receive a positive decision.

Housing support for asylum seekers is provided by suppliers under contract to the Home Office. Asylum seekers do not have a choice about the location of this housing and are very unlikely to be housed in the South East. This has resulted in asylum seekers being dispersed to areas of higher levels of deprivation due to the lower costs of housing in these areas.

There is extensive research<sup>1158</sup> on the importance of housing for successful reception and resettlement of refugees and asylum seekers. A number of improvements have been suggested.

- Good standards of procurement and monitoring in the contracts awarded by the Home Office, including effective monitoring of the quality of accommodation under sub-contracted arrangements. A review is required to decide what acceptable standards are before further procurement takes place.
- Meeting the needs of vulnerable women and children (including victims of domestic violence and abuse), including offering suitable self-contained accommodation for women and families so that they are not living with strangers.
- Preventing homelessness through better transitional housing arrangements for those moving on to mainstream support (see below).

**JRF recommends** better transitional arrangements and integration support for refugees.

### Transitions

The government should audit the provision of, and co-operation between, support services to ensure that administrative delays and errors do not lead to destitution, debts, arrears or hardships at points of transition.<sup>1159</sup>

**JRF's specific recommendations** include:

- issuing National Insurance numbers more rapidly so that refugees can start earning and contributing as soon as their legal status is resolved
- reducing administrative delays and providing support to claim mainstream benefits, so that refugees do not fall through a gap in the two systems when Home Office asylum support ends and mainstream benefits begin
- enough time and support for refugees in Home Office-arranged accommodation to find suitable new accommodation, including support with deposit (this must also be coordinated with the start of Housing Benefit). This is particularly important for the vast majority of refugees who move into the private rented sector. At present, former asylum seekers with a positive decision can remain in this accommodation for only 28 days, posing a real risk of homelessness.
- Coordination of local support by statutory and voluntary sectors, working refugee and migrant community groups, to improve support, protect against destitution and enable people to resolve their legal status.

### Improving employment support for refugees

Refugees can increase their incomes and move out of poverty by working, but they may need bespoke support to do this, especially to reach their earnings potential. Policy developments should include:

- appropriate design of Universal Credit and employment support programmes to meet the needs of refugee families
- improving access to English for Speakers of Other Languages (ESOL) to improve employability, in-work progression and to be able to enter higher-paid professions or jobs that match their skills
- better recognition of qualifications gained in other countries, including bridging courses or requalification opportunities. This could move refugees out of the benefits system and poverty altogether, as they will be in higher-paid jobs
- access to other mainstream support covered elsewhere in this strategy, such as good-quality childcare.

### Children

**JRF recommends** that the rights and needs of children in the system are addressed at every stage including antenatal and postnatal care (including when asylum is refused and appeals are unsuccessful). The vision for childhood, set out for children in the UK in Chapter 6 of this strategy should apply equally to asylum-seeking children.

Successive governments have committed to improve the lives of people who fall into this group of 'complex needs'. As well as focusing services on their outcomes, there needs to be a better connection to the material and social conditions that will enable them to escape poverty.

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**Conclusion:  
the solvable  
problem  
of poverty**



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# Conclusion: the solvable problem of poverty

We can solve UK poverty if we choose to. And why would we choose not to?

We know that UK poverty is real. We know this from a wealth of evidence built up over many years. We know it from what people have told us about their experiences. We should be ashamed that in our country today, millions of people are struggling to get by – they simply do not have enough to make ends meet.

We know that poverty is harmful, and can affect any of us. This is not a problem for a fixed group of ‘other’ people. Poverty hurts families, society, the education system, and the economy, and affects quality of life, damaging health, well-being and prospects.

We know that poverty is costly. It costs the public purse £78 billion a year.

Projections show that poverty is likely to get worse in the future if we do not act.

So what are we going to do about it?

In this comprehensive strategy, we have shown that there is a lot that everybody can do.

It will not be quick or easy, but with vision, commitment and collaboration, we can all play a part in creating a society in which prosperity is more equally shared and the worst-off people and places are not left behind.

We can solve poverty by strengthening family life, ensuring all citizens have the skills they need to operate in the 21<sup>st</sup> century, fixing flaws in the benefits system, taking practical action to contain rising costs, and moving to more progressive employment and business practices.

Solving poverty relies on economic growth, but the proceeds need to be distributed more fairly, and the underlying causes, such as low pay, low skills and high costs, need to be reduced. Where possible, we have costed our policy recommendations and shown where there could be savings in the long term.

We hope that those who can make change happen will start to see they are part of a wider movement for social change. We hope some will be inspired to try out these recommendations in practice.

We are calling on national and local governments, businesses, employers, providers of essential goods and services, housing providers, public service providers, investors and philanthropists, community, faith and voluntary sector groups and citizens to work together, to reduce the risk of people falling into poverty, mitigate their experiences when they are in poverty and make it easier for them to escape from it.

We believe this country will be stronger if we act together to solve poverty. Join us. Let’s mobilise for prosperity. Let’s conquer poverty.

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# Notes and references

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# Notes and references

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## Background to the report

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## Chapter 6

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## Chapter 7

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## Chapter 8

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## Chapter 9

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