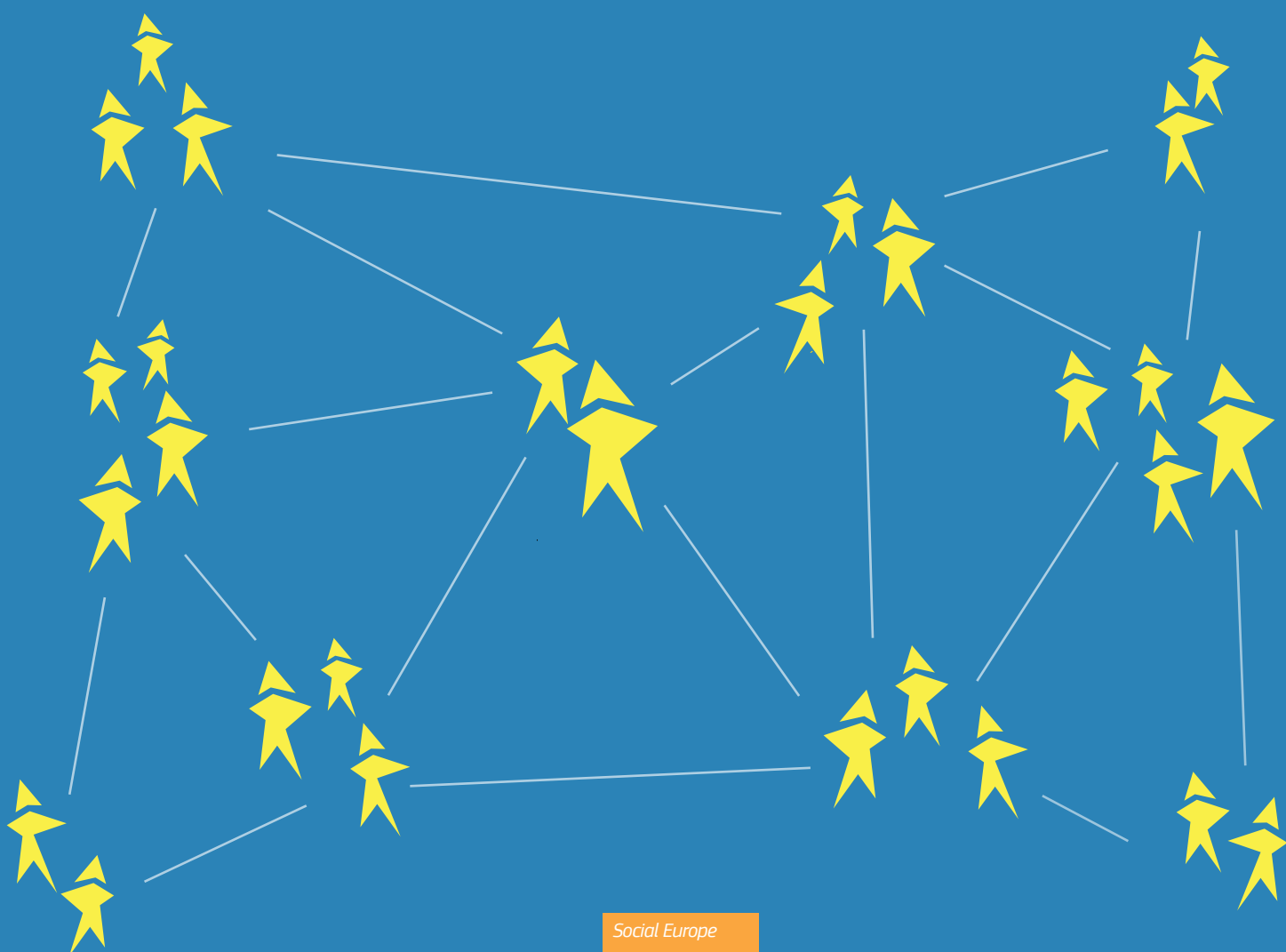




EUROPEAN SOCIAL POLICY NETWORK (ESPN)

In-work poverty in the United Kingdom

Jonathan Bradshaw and
Fran Bennett



Social Europe

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Directorate-General for Employment, Social Affairs and Inclusion

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European Social Policy Network (ESPN)

**ESPN Thematic Report on
In-work income poverty**

United Kingdom

2019

Jonathan Bradshaw and Fran Bennett

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Summary

Eurostat data report a slight increase in the in-work income poverty rate in the UK between 2012 and 2017. National sources indicate that the in-work income poverty rate has increased and that the proportion of individuals in households in poverty which have someone working full time has risen from 31% in 2012/13 to 35% in 2016/17 and working part time from unchanged at 14% over the same period. The proportion of children living in income poverty in households with someone employed has reached 67%.

The sources agree that the odds of being in in-work income poverty are higher for part-time workers, lone parents, large families and migrants from non-EU countries. The increase in in-work child income poverty is entirely attributable to the increase in lone parents in part-time work and couples not both working full time.

Employment rates are high and unemployment very low. Wages at the bottom end of the distribution have been rising faster, with improvements in the minimum wage. About half of the increase in employment has been in part-time work. Self-employment, and part-time, temporary and zero-hours contract work have all been increasing.

The main driver of increasing in-work income poverty has been the cuts in working age benefits since 2010. Working age benefits have been frozen for four years since 2016 and £37 (€40) billion, some 34% of what would have been spent, has been taken away.

Key challenges include low pay and non-standard work, but also the structure of the tax and benefits system, the concentration of in-work income poverty on children, costs such as housing and child care and the conditions and generosity of out-of-work benefits.

Policies since 2012 have included increases in the minimum wage, income tax cuts and benefit cuts, to achieve a 'higher wage, lower tax, lower welfare' economy. But this combination has meant many in in-work income poverty losing out overall. Despite some mitigation of the cuts to Universal Credit in the 2018 Budget, half of working families with children will be worse off when it is rolled out. The devolved administrations have tried to compensate for some losses from 'welfare reform'.

Housing and childcare costs are both burdensome, with recent policies exacerbating the first though somewhat mitigating the second. Cuts and tighter conditions for out-of-work benefits make one-earner families more at risk of in-work income poverty. Stringent conditionality in universal credit risks claimants taking on low quality short-term jobs. In-work progression is part of universal credit; but it is a new policy and may not fit with claimants' lives. And incentives for many 'second earners' in couples have been worsened, despite their importance for couples to escape in-work income poverty.

Indirect influences on in-work income poverty include childcare provision which, whilst a focus of policy attention recently, could still be improved in its quality and operation.

The government's focus in addition to reducing in-work poverty is to decrease dependence on state support. 'Active inclusion' is not usually used to describe government policies. Solutions to in-work income poverty must be multi-faceted and should not focus on the main earner's wage and/or in-work supplements alone. They should address not only aspects of wages and the nature of employment (and self-employment) but also other areas such as support for children and for caring; social protection for partners out of the labour market; the level of housing costs and assistance with them; and low work intensity as well as low pay.

The UK data might benefit from publishing a work intensity measure and there is scope for some multivariate analysis of the characteristics of in-work income poverty risk.

1 Analysis of the country's population at risk of in-work income poverty

For comparability purposes, we are requested to use data obtained by the NCT from Eurostat. We have several anxieties about this. First, the definition of 'in employment'¹ is based on an individual's most frequent activity status over a year (for most indicators), while the definition of income poverty² is based on a household's annual income.³ Second, for the UK we believe that this is not in fact annual income, but current income annualised.⁴ Third, the findings on trends are considerably different from the national data we have – Eurostat shows no increase in in-work income poverty, whereas UK national data show a considerable increase, especially after housing costs,⁵ and we believe this may have to do with the fact that Eurostat uses the household as the unit of analysis and the UK uses the family or benefit unit as the unit of analysis. Fourth, Eurostat counts only workers themselves in its measure of in-work income poverty, whereas most UK analyses focus on all adults (and sometimes also children) within working households. The UK counts "work" in the same way as the ILO definition – at least one hour in the last week (not 7 or more months within the year). Also, the ILO counts all household members, not just workers themselves – thus, people living in 'working households' (*sic*).

The UK data also give more information on the composition of households in in-work income poverty and child income poverty. The rationale for comparing 2012 and 2016⁶ is not obvious – 2012 was not the end of the financial crisis in the UK. So, we present below Eurostat data from 2012 to 2017 as requested and national data from 2007/8 to the latest date available.]

¹ A person is at risk of in-work income poverty if they are in employment and live in a household that is at risk of income poverty. A person is "in employment" when they worked for more than half of the income reference year.

² A household is "at risk of income poverty" (or "income poor") if its equivalised disposable income is below 60% of the national equivalised disposable household median income. The population covered is 18-64-year olds. For ease of reading, in the rest of this report we will refer to the notion 'at risk of in-work poverty', and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP).

³ Sophie Ponthieux has already pointed out this difficulty in a Eurostat methodological paper: <https://ec.europa.eu/eurostat/documents/3888793/5848841/KS-RA-10-015-EN.PDF/703e611c-3770-4540-af7c-bdd01e403036> It argues that the approach adopted in defining workers might be too narrow to take into account the variety of employment structures in EU Member States, and that the combination of individual and household in the definition makes it difficult to analyse the links between labour market status at the individual level and the risk of income poverty.

⁴⁴ The Family Resources Survey asks respondents about their current income (weekly or monthly) and the data provided to Eurostat for SILC purposes is that amount times the number of weeks/months as appropriate.

⁵ Looking at income poverty after housing costs also changes its composition, including increasing lone parent numbers.

⁶ For most EU countries, the figures are based on data about income for the previous year; for the UK, the income is for the current year. See note 4 above.

1.1 Eurostat sources

Chart a: UK in-work poverty trends

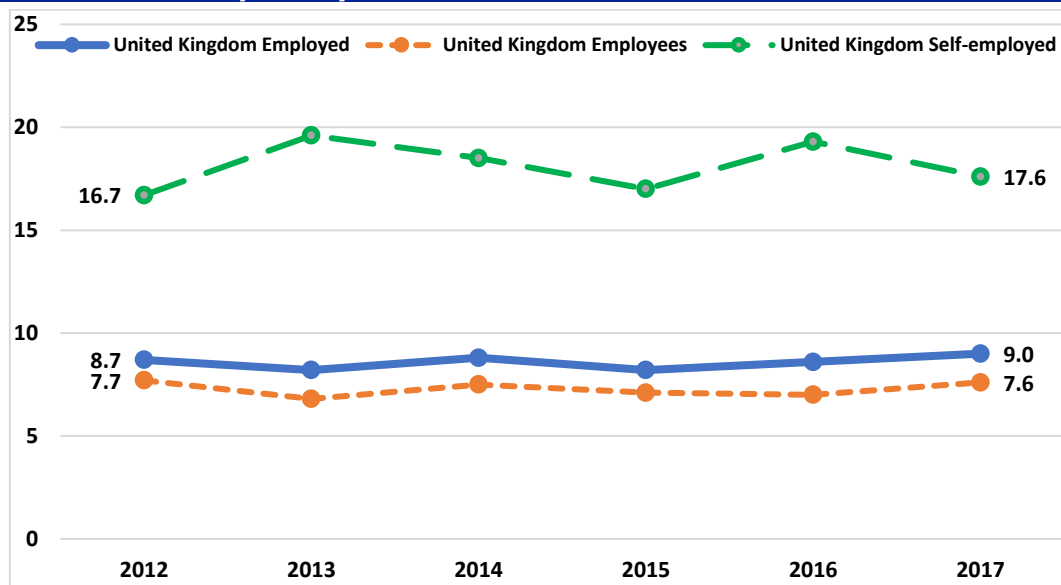
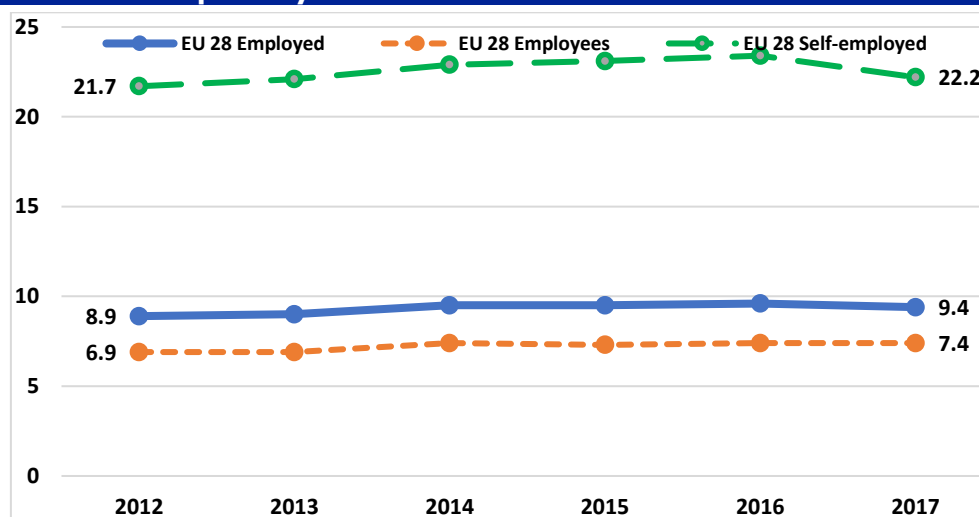


Chart b: EU in work poverty trends



1.1.1 Trends

- See chart a above. In-work at-risk-of-income-poverty rate of employed persons (employees + self-employed) increased from 8.7% in 2012 to 9.0% in 2017.
- In-work at-risk-of-income-poverty rate by most frequent activity status: in-work at-risk of income poverty of the employed fell from 7.7% to 7.6% for employees and increased from 16.7% to 17.6% for the self-employed between 2012 and 2017.
- In-work at-risk-of-income-poverty rate by sex: fell for males from 9.0% to 8.9% and increased for females fell from 8.4% to 9.1% between 2012 and 2017.
- In-work at-risk-of-income-poverty rate by age groups: fell for the 18-24 group from 11.7 % to 6.2%, increased for the 55-54 group from 8.0% to 8.5% and increased for the 55-64 group from 10.4% to 12.2% between 2012 and 2017.

- In-work at-risk-of-income-poverty rate by educational attainment level: fell for level 0-2 from 16.0% to 14.9%, increased for level 3-4 from 9.4% to 12.6% and increased for level 5-8 from 5.4% to 5.6% between 2012 and 2017.
- In-work at-risk-of-income-poverty rate by broad group of country of birth: for those from the EU27 it fell from 8.2% to 7.6%, for those from non-EU countries it fell from 16.5% to 14.8%, for foreign countries it fell from 13.7% to 11.8% and for UK workers it increased from 7.9% to 8.4% between 2012 and 2017. It is interesting that EU27 workers have slightly lower in-work poverty rates than natives. This may be because they have fewer family commitments and can work longer hours.
- In-work at-risk-of-income-poverty rate by type of contract: increased for those on permanent contracts from 6.4% to 7.1% and increased for those on temporary contracts from 9.2% to 12.9% between 2012 and 2017.
- In-work at-risk-of-income-poverty rate by full-/part-time work: increased for part-time workers from 14.3% to 15.5% and for full-time workers fell from 6.6% to 6.0% between 2012 and 2017.
- In-work at-risk-of-income-poverty rate by household type and parenthood: for single people it increased from 14.5% to 14.6%, and for lone parents from 16.1% to 24.4%, but for couples with children it fell from 7.0% to 5.6% and for couples without children rose from 9.3% to 9.8% between 2012 and 2017.
- In-work at-risk-of-income-poverty rate by work intensity of the household - all households: for very high work intensity households it increased from 4.5% to 5.1%, for high work intensity households it fell from 9.0% to 8.8%, for medium work intensity households it increased from 17.8% to 19.8% and for low work intensity households it fell from 44.0% to 36.3% between 2012 and 2017.
- In-work at-risk-of-income-poverty rate by work intensity of the household and parenthood (i.e. for households with dependent children): for very high work intensity households fell from 4.7% to 4.0%, for high work intensity households it increased from 8.8% to 11.0%, for medium work intensity households it increased from 16.1% to 28.1% and for low work intensity households it increased from 40.7% to 48.0% between 2012 and 2017.
- In-work at-risk-of-income-poverty rate by work intensity for households without dependent children: for very high work intensity households it fell from 4.3% to 3.1%, for high work intensity households it increased from 9.2% to 9.7%, for medium work intensity households it increased from 18.5% to 27.1% and for low work intensity households it fell from 42.5% to 32.1% between 2012 and 2017.
- The deprivation levels of people in-work-at-risk of poverty fell between 2014 and 2017.
- The UK has an in-work-poverty rate for the employed and employees as the EU28 rate but a lower rate for the self-employed.

1.1.2 Characteristics

From these numbers it is possible to identify the types of individual with the highest risks of being in in-work income poverty. Not surprisingly, low work intensity presents the highest risk. Other groups with a high risk are lone parents and single people, part-time workers, those on temporary contracts, non-EU migrants, those with educational level 0-2 and the self-employed. Age and gender do not appear to make much difference.⁷

⁷ Though gender wage differences are obscured in the Eurostat method. See footnote 3.

1.2 National sources on the population at risk of in-work income poverty

1.2.1 Trends

The best national source of data on income poverty in the UK is the annual Households Below Average Income statistical series.⁸ It provides detailed breakdowns of at-risk-of-income-poverty rates for the population and children and the composition of individuals living at risk of income poverty. Between 2007/08⁹ and 2016/17 (the latest year for which data are available), the percentage of the population living in households with incomes less than 60% of contemporary (at the time of the survey) median income (equivalent to the EU AROP measure, including equivalence scale) fell from 18% to 16% before housing costs (BHC) and remained unchanged at 22% after housing costs (AHC). However, it can be seen in Table 1 (all Tables in the appendix) that the at-risk-of-income-poverty rate for workless families (including the retired and inactive) fell both BHC and AHC and the income poverty rate of families with someone employed increased.

This is reflected in the changed composition of individuals living at risk of income poverty. The proportion of individuals living at risk of income poverty in families with someone employed increased from 41% in 2007/08 to 50% in 2016/17 BHC and from 48% to 55% AHC. It can be seen in Table 2 that all the groups with someone in employment increased as a proportion of those living at risk of income poverty, except the self-employed AHC.

The data are also available for children in income poverty. The child income poverty rate in workless families fell both BHC and AHC and stayed unchanged BHC and increased AHC in families with at least one adult in work (see Table 3a and 3b). The contrasting trends in the percentage of children in working and workless families can be seen in Figure 1. The income poverty risk if all parents are working full time is low - 23% for lone parents and 5% for couples AHC. But it is 38% for lone parents in part-time work and 13% if one parent in a couple is working part time and the other full time and 34% if both are working part time. Research by the Institute for Fiscal Studies¹⁰ found that one third of all children living in in-work income poverty in 2015 were living in one-earner couples. Of children of one-earner couples, 43% lived in relative income poverty AHC in 2015, compared with 33% for children of working lone parents, and 11% for children of two-earner couples. Of one-earner couples with children, 85% are reliant on male breadwinner earnings.¹¹ The child poverty rate for households with at least one adult in work has increased from 24% to 29% between 2012/13 and 2016/17

In 2007/08, 54% of children in income poverty lived in families with at least one person in work BHC, and 56% AHC; by 2016/17, this rose to 66% of poor children BHC and 67% AHC. 36% of children in in-work income poverty AHC were in lone-parent families and 64% in couple families. The increase in the proportions of children living in income poverty with at least one working parent is entirely due to increases in the numbers with lone parents working part time or couple parents not both working full time (see Table 4).

The Joseph Rowntree Foundation published a report in December that focused on in-work income poverty and child income poverty. It noted that almost four million workers are now in income poverty, the highest number ever and a rise of over half a million compared

⁸ <https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201617>

⁹ Before the financial crisis.

¹⁰ Cribb, J., Hood, A., Joyce, R. and Norris Keiller, A. (2017) 'In-work income poverty among families with children', in *Living Standards, Income poverty and Inequality in the UK: 2017*, Institute for Fiscal Studies (by the same authors), 60-76: <https://www.ifs.org.uk/publications/9348>

¹¹ See also Bennett, F. (2018) 'Rethinking low pay and in-work income poverty', *Progressive Review* 24(4), 353-360.

with five years ago.¹² Another report investigates problems faced by workers who have several jobs but who are still struggling financially.¹³

1.2.2 Characteristics

Table 5 gives the proportion of in-work poor families by their characteristics. It also shows the relative odds ratios of being an in-work poor family. The odds of being a working poor family are higher in the north-east and lowest in the south-east region of England. They are much higher for tenants than for those buying a house with a mortgage. The odds of a family being working poor increases sharply when there are four or more children. They are also higher if there is only one adult, whether this is a lone parent or a single person, and if there is a disabled child in the family. Working poor families are more likely to have children who reach the deprivation threshold of 'lacking socially perceived necessities' in HBAI. The odds are also higher if the youngest child is aged less than 5 than when they are older. The odds of being working poor are higher for gypsies and all non-white ethnic groups except Indians.

There is of course a difference between risk and volume. Groups with elevated income poverty risks and which account for a large share of people in income poverty include: with only one worker in the household; living in rented accommodation; and with the worker in service sector employment. Groups with elevated risks which account for a small share of adults experiencing in-work income poverty, on the other hand, include: being a migrant; living in a household with 3+ children; and single parent households.¹⁴

1.3 Key challenges

The income poverty rate of households with someone in employment has been rising in the UK (despite what the Eurostat data show). The results are not strictly comparable; but the in-work poverty rate of individuals in households with one full-time worker rose from 15% in 2012/13 to 19% in 2016/17, according to HBAI. A higher proportion of children in income poverty have an adult in employment in their family. The risk of income poverty is much lower if both parents in a couple are working full time, but higher if there is only one parent working full time and higher still if parents are working part time. Indeed, the increase in in-work child income poverty is entirely attributable to the increase in lone parents in part-time work and couples not both working full time in this position.

Employment rates are very high in the UK (75.5% in October 2018). Unemployment is at very low levels (4.1% in the quarter ending September 2018).¹⁵ But the Joseph Rowntree Foundation reports that in-work income poverty is increasing faster than employment.¹⁶ About half of the growth in new jobs has been in part-time work. Self-employment, part-time, temporary and zero-hours contract work have all been increasing.¹⁷ **Non-standard work** of this kind tends to be low paid.

Low pay is certainly a challenge, although its relationship with in-work income poverty is complex.¹⁸ In part, low hourly gross pay may interact with low work intensity. In part, the impact of gross hourly wages depends on household composition, the earnings or other

¹² <https://www.jrf.org.uk/report/uk-income-poverty-2018>; see also <https://www.jrf.org.uk/blog/why-working-parents-are-struggling-repel-rising-tide-income-poverty>

¹³ McBride, J. and Smith, A. (2018) *The Forgotten Workers Report*, Durham: University of Durham: <https://www.dur.ac.uk/resources/business/research/235099ForgottenWorkersBooklet.pdf>

¹⁴ Hick, R. (2018) The measurement of in-work income poverty and why it matters: International approaches and UK evidence. Presentation at the Ministry of Social Development, Wellington, 23 October.

¹⁵ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2018#employment>

¹⁶ <https://www.jrf.org.uk/report/uk-income-poverty-2018>

¹⁷ Bradshaw, J. and Bennett, F. (2017) ESPN Thematic Report on Access to social protection of people working as self-employed or on non-standard contracts: United Kingdom, 2017.

¹⁸ See, for example, https://www.nuffieldfoundation.org/sites/default/files/files/Hick%20and%20Lanau%20_%20In-Work%20Income%20poverty%20in%20the%20UK.pdf

incomes of other members of the household if any, and the shape of the **tax and benefits system**. And the minimum wage in the UK (now known as the 'national living wage' for those aged 25 or over) has been rising faster than median wages and more workers are now covered by the higher minimum wage.

In-work income poverty is concentrated in **families with children**. Most single people and childless couples working full time on the minimum wage will not be in in-work income poverty. Lone parents and couples with children with a single earner working full time on the national living wage are very likely to be in in-work income poverty. The increasing number of dual earner households has pushed up the median income, making it harder for one-earner couples to escape income poverty. An important determinant of in-work income poverty in this situation is also in-work benefits (including child benefit) and tax credits, and a key driver of the increase in in-work income poverty is what has been happening to those benefits since 2010.

If it is in-work income poverty after **housing costs** that concerns us, another key challenge is the rising numbers in private rented housing, who may have difficulty in paying their rent, especially because of cuts in housing benefit.¹⁹ Housing costs are taken into account in after housing costs measures. The **cost of child care** is not included. But not only may this contribute to the numbers of parents in in-work income poverty; it can also be a decisive factor in whether a parent enters employment, which itself is likely to be a factor in couples' 'in-work' income poverty.²⁰

However, as noted by Hick and Lanau,²¹ there is more connection between in-work and out-of-work benefits when analysing in-work income poverty than may be thought. In single-earner couples it is necessary to ask whether the non-earning partner has an income of their own and, if not, to consider why this may be. Policies on the **conditions of entitlement for, and amounts of, non-means-tested benefits** for unemployment and sickness, and parental leave payments, are thus also relevant, as are the availability of **rights to return to work and flexible work opportunities** (and transport and suitably located housing) to enable parents and carers to access and retain good jobs.

To illustrate how some of these interactions work, in Table 6 in the appendix we have taken four "model" benefit units, each with one earner working 40 hours per week on the minimum wage in 2019. We show their net income after income tax, national insurance contributions, receipt of in-work benefits and after payment of rent and council tax. Then we provide an estimate of the income poverty threshold (calculated as the 60% median equivalent income in 2016/17 in HBAI, plus 10% as an estimate of the increase in the poverty threshold since 2016/17). The net income of all these units fails to reach the at-risk-of income-poverty threshold – only excepting the lone parent with one child. The model benefit units assume for couples that only one of the adults has any income.

2 Analysis of the policies in place

2.1 Direct influences on in-work income poverty

We follow the distinction between direct and indirect policies here but this is a somewhat artificial distinction. Several policy areas highlighted in the guidance do not correspond

¹⁹ https://www.nuffieldfoundation.org/sites/default/files/files/Hick%20and%20Lanau%20_%20In-Work%20Income%20poverty%20in%20the%20UK.pdf

²⁰ Hirsch, D. and Valadez, L. (2015) How much does the official measure of child income poverty underestimate its extent by failing to take account of childcare costs? Loughborough: Centre for Research in Social Policy, Loughborough University: <https://dspace.lboro.ac.uk/dspace-jspui/bitstream/2134/18244/1/Child%20Income%20poverty%20after%20Childcare%20Costs.pdf>; and see <https://socialmetricscommission.org.uk/social-metrics-commission-launches-a-new-measure-of-uk-income-poverty/>

²¹ https://www.nuffieldfoundation.org/sites/default/files/files/Hick%20and%20Lanau%20_%20In-Work%20Income%20poverty%20in%20the%20UK.pdf

with the key challenges for the UK highlighted in section 1 above, so we also deal with additional policy areas.

2.1.1 Regulation of wages, low pay and non-standard work

Low pay is identified above as a factor in in-work income poverty. The relationship of low pay and non-standard work to in-work income poverty is complex, however, and depends on characteristics of the earner and their household. The UK has equal pay legislation. However, women still have lower pay and are much more likely to work part time, be self-employed and work in non-standard jobs. In general, men are more likely to work part time when younger or older, whilst women's part-time work is more spread over the life-course. The Government Equalities Office is extending its work on the gender pay gap to focus on low-paid and low-skilled women. The Institute for Fiscal Studies, however, has highlighted recently the declining fortunes of low-educated men with low qualifications, whose hourly earnings have risen only marginally and whose weekly earnings are decreasing overall because more are working part time.²²

The UK has minimum wage legislation. The current minimum wage rates per hour are:

Year	25 and over	21 to 24	18 to 20	Under 18	Apprentice
April 2018 (current rate)	£7.83 (€8.85)	£7.38(€8.34)	£5.90(€6.68)	£4.20(€4.75)	£3.70(€4.18)
April 2019	£8.21(€9.28)	£7.70(€8.70)	£6.15(€6.95)	£4.35(€4.92)	£3.90(€4.41)

Minimum wage rates have been increasing faster than average wages. The minimum wage for adults aged 25+ received a boost with the establishment of the so-called 'national living wage' in 2016, which aimed to increase to 60% of median wages by 2020. There is also a voluntary living wage (£10.55 (€11.82) per hour in London and £9.00 (€10.1) elsewhere), based on minimum income standard costs and paid to an increasing number.²³ However, the minimum wage is not a very direct attack on in-work income poverty – most of those who benefit are not living in poor households, as they are rarely the only earner.²⁴ Many 'second earners', for example, are amongst the low paid, but not always living in a poor household.

Non-standard work: the significance of developments in non-standard work is disputed; the government says the majority of recently created jobs are full time. Non-standard work conditions were examined in the Taylor Review,²⁵ commissioned by the government, which set out proposals for all work to be 'fair and decent with scope for fulfilment and development'. These included primary legislation to define the boundary between self-employment and worker status; aligning tax and employment regulation categories; a new role for the Low Pay Commission exploring how to improve quality and progression in sectors with a high share of low-paid workers; and making it easier for employees to access rights to independent representation, information and consultation. There have been several recent legal cases about whether those working for 'gig' companies are employees, workers, or self-employed, resulting in some changes in employment rights. The government response to the Taylor Review emphasised the advantages of the UK labour market and the varied choices people make in working patterns, whilst recognising

²² <https://www.ifs.org.uk/publications/13706>

²³ <https://www.livingwage.org.uk/calculation>

²⁴ Swaffield, J., Snell, C., Tunstall, B. and Bradshaw, J. (2018) 'An evaluation of the living wage: identifying pathways out of in-work income poverty', *Social Policy and Society*, 17(3), 379-392.

²⁵ <https://www.thersa.org/discover/publications-and-articles/matthew-taylor-blog/2017/07/the-taylor-review>

continuing inequalities and putting forward a 'good work for all' plan²⁶ (see the 2017 Industrial Strategy).²⁷ This includes extra protections for 'workers' (or 'dependent contractors'). But the government is consulting on its proposals, and there may be undue delay due to Brexit. In the meantime, a Carnegie UK Trust / RSA Working Group developed a quality of work measure.²⁸ Oxfam explored what those in low-paid and/or non-standard work themselves see as 'decent work'.²⁹

The legacy benefits³⁰ for families with someone in employment are mainly based on an income test and employment hours. If such work exceeds 16 hours per week for a lone parent, or someone who is aged 60 or more or disabled, and 30 hours per week for others, if income is low enough they can claim working tax credit. Couples with children must work at least 24 hours between them (if both are working, one must do 16 hours minimum per week); couples with children and one partner who is incapacitated or a carer or in hospital or prison qualify at 16 hours per week. Under universal credit (UC), however, these rules on minimum hours will change. The government says explicitly that it wants people to extend their jobsearch to include non-standard employment (short-term and/or short hours). But this is problematic for families in particular;³¹ as Citizens Advice also points out, they need stability, and can find arrangements for transport and child care hard to change.³²

2.1.2 Taxation

In-work income poverty is influenced by the income tax threshold and rates and employee national insurance contributions. Recent governments have wanted to create a 'higher wage, lower tax, lower welfare' economy. Thus, as well as the increase in the minimum wage, and cuts in working-age benefits, the income tax threshold or personal tax allowance, the point at which income tax begins to be paid, has been increased annually since 2010 and will be £12,500 (€14,000) per year from April 2019. That is the equivalent of 29.3 hours of work per week on the minimum wage rate for those aged 25 or more. So, whilst those on the lowest wages and/or with low working hours initially benefited from income tax cuts, increasingly they no longer do so. The income tax rate paid at this threshold is 20%. In Scotland, given the partial devolution of tax powers recently, developments have been different, with those on under £26,000 (€29,000) per year paying less tax than elsewhere in the UK.

A transferable tax allowance means married couples and those in civil partnerships can transfer up to 10% - or in 2018-19 £1,185 (€1,327) - of personal allowance to their partner. At this level, it is probably too small to operate as a disincentive for second earners in couples, and in any case suffers from low take-up. But, combined with the worsened incentives for many second earners in UC, it is a move in the wrong direction in tackling in-work income poverty.

An employee pays National Insurance contributions (NICs) of 12% on earnings of more than £162 (€181.44) per week (for 2018-19, going up to £166 (€185.92) in 2019-20) up to £892 (€999) per week (for 2018-19, going up to £962 (€1,077) in 2019-20). That is the

²⁶ <https://www.gov.uk/government/publications/government-response-to-the-taylor-review-of-modern-working-practices>

²⁷ <https://www.gov.uk/government/topical-events/the-uks-industrial-strategy>

²⁸ <https://www.carnegieuktrust.org.uk/project/measuring-job-quality/>

²⁹ <https://policy-practice.oxfam.org.uk/publications/what-makes-for-decent-work-a-study-with-low-paid-workers-in-scotland-600955>

³⁰ Universal Credit is replacing the following legacy (means-tested) benefits and tax credits: Income based Jobseekers Allowance, Income related Employment and Support Allowance, Child Tax Credit, Working Tax Credit, Housing Benefit and Income Support.

³¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/643952/understanding-how-universal-credit-influences-employment-behaviour.pdf

³² <https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/Universal%20Credit%20and%20Work%20Incentives.pdf>

equivalent of 19.7 hours at the April 2019 minimum wage rate for those aged 25 or more. Thus, the gap between the levels of earnings that attract liability for employee NICs and income tax is widening significantly. This may also exacerbate the temptation for employers to create self-employed contract work rather than employee jobs.

2.1.3 In-work benefits

The label 'in-work poverty' may suggest the policy focus should be on the wage-earner(s), i.e. on either increasing wages or supporting low income with in-work benefits. The same is true of 'hardworking families', often used in UK debates from the mid 1990s on, especially by recent Coalition and Conservative governments. But this would be a misleading reading of the complex situations that those in households in in-work income poverty may be living, and suitable policy solutions must be correspondingly multi-faceted. In addition, focusing on wages and/or in-work supplements in couple families may take for granted the idea that this additional income will be shared equally.³³ And, whilst it is often argued that in-work support subsidises low-paying employers, it could also be said to be subsidising low work intensity (especially for families) and inadequate social protection for those out of work. Arguably, it thus acts as a substitute for adequate arrangements to support caring and decent benefits for those unable to be in the labour market. In addition, it may disincentivise second earners.

Discussion of this policy area is also complicated by the fact that the UK has been shifting from a system of 'legacy benefits'³⁴ – to universal credit (UC) which will incorporate all these benefits except child benefit and help with council tax.³⁵ The main drivers of the increase in child income poverty have been the cuts in public expenditure. These have affected social security, amongst other areas, and especially family and working age benefits. Initially after 2010 some benefits were abolished. Other benefits were uprated by less than the rate of inflation, and the inflation measure was changed. Support for housing costs has been restricted by local rent limits set for the private and social housing sector, the so-called 'bedroom tax',³⁶ and the benefit cap. Since a Conservative Government succeeded the Coalition Government in 2015, further substantial cuts have been made, including most working-age benefits being frozen for four years, a new (lower) benefit cap and the two-child limit in tax credits and UC.³⁷

UC – which, when proposed, promised a modest reduction in child income poverty – has also suffered cuts, to the work allowance (income disregarded before benefit is reduced in relation to earnings received), and new claimants and eventually most recipients would have been worse off when transferred from legacy benefits. However, those 'managed migrated' from the legacy benefits to UC would be protected from losses by transitional (cash) protection, until their circumstances changed. While new claims are now assessed for UC throughout the UK, the 'managed migration' of existing claimants has been delayed and will now begin in summer 2019, with 10,000 claimants as a pilot, and high numbers only in 2020. Many 'managed migrated' claimants will be moved from tax credits, and thus include many in in-work income poverty. The business case for UC³⁸ highlights the loss of the disregard of additional earnings in tax credits. However, the autumn 2018 Budget announced that the largest UC cut – to the work allowance – would be reversed for families

³³ Bennett, F. (2013) 'Researching within household distribution: overview, developments, debates, and methodological challenges', *Journal of Marriage and Family* 75(3): 582-597

³⁴ For those in households on low incomes with an earner these are child benefit, child tax credit, working tax credit, housing benefit and council tax benefit now 'support',

³⁵ Benefits for those out of work (which for some people could include very low levels of earnings, either for themselves or their partner or both) are also being replaced by universal credit: income support, income based jobseeker's allowance and income related employment and support allowance.

³⁶ Called by the government the abolition of the spare room subsidy for those in social housing.

³⁷ See Bradshaw, J. (2017) 'UK benefits restricted to two children in a family likely to increase child income poverty', ESPN Flash Report, [file:///Y:/NAP/ESPN%20-%20Flash%20Report%202017-20%20-%20UK%20-%20April%202017.pdf](https://www.espn.com/flash-report/story/_/id/1944444/uk-benefits-restricted-to-two-children-in-a-family-likely-to-increase-child-income-poverty). The Work and Pensions Committee is currently conducting an inquiry into this policy.

³⁸ <https://www.gov.uk/government/publications/universal-credit-programme-full-business-case-summary>

with children and those with limited capability to work and that it would be increased by £1000 (€1,120) per year.³⁹

Households on low incomes, including those with someone in work, have suffered the greatest cash losses. The House of Commons library estimated that since 2010/11, £37 (€42.8) billion per annum (real terms, 2018/19 prices) will have been taken from social security and tax credits spending, excluding the state pension and pension credit, by 2020/21 – roughly 23% of what total expenditure might have been had these measures not been implemented.⁴⁰ The Equality and Human Rights Commission (EHRC) commissioned a cumulative impact assessment of tax and benefit changes,⁴¹ and a second assessment combining this with public spending changes.⁴² Both reports focus on groups with protected characteristics, overlapping with those likely to be in in-work income poverty.

As the first EHRC impact assessment noted (p11): 'Overall, groups with particularly large losses from the reforms tend to be those who are most reliant on means-tested transfer payments – benefits, tax credits and (where rolled out) UC. Groups who gain tend to be those who are less reliant on means-tested transfers and who benefit from the cuts to income tax (notably the increase in the tax-free personal allowance) and the introduction of the National Living Wage (NLW) for employees aged 25 and over.' So the lack of equivalence between increasing individual elements of income in real terms (minimum wage and personal tax allowance) and freezing or cutting family-based elements (including in-work benefits and tax credits) resulted in many families in in-work income poverty losing. In addition, the *Social Policy in a Cold Climate* research calculated that from 2010-2014/15, in comparison with inflation-proofing, the amount saved from cuts in benefits/tax credits was spent on direct tax cuts, with those on low incomes losing overall and those on higher incomes gaining. So the cuts did not reduce the deficit.

Given the association between household size and in-work income poverty, the two-child limit in child tax credit and UC is one of the most significant recent changes. From April 2017, new claims from parents in or out of work could not include an addition for a child born after that date. Families with three or more children could not claim UC. The estimated increase in child income poverty is affected significantly by this measure and affects parents in work too.⁴³

Scotland has used its devolved powers to mitigate the impact of some benefit changes, and Northern Ireland has some mitigations in place until 2020. The Scottish Government's Social Security Committee is conducting an inquiry into social security and in-work income poverty.⁴⁴

³⁹ The Resolution Foundation estimates: 'By letting qualifying UC recipients earn an extra £1,000 (€1,120) a year before they face the withdrawal of their benefits, the Budget 2018 work allowance increase boosts the 'static' generosity of the system by £630 a year. It means that the number of working families that gain from the switch to UC increases by 200,000 – from 2.2 million families previously to 2.4 million families now. And among working families with children, the number (1.5 million) expected to be better off under UC now matches the number (1.5 million) expected to be worse off.' See <https://www.resolutionfoundation.org/app/uploads/2018/11/Back-in-Credit-UC-after-Budget-2018.pdf>

⁴⁰ 'Welfare savings 2010-11 to 2020-21', *House of Commons Library Briefing paper CBP 7667*, 26 July 2017 <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7667>

⁴¹ <https://www.equalityhumanrights.com/en/publication-download/cumulative-impact-tax-and-welfare-reforms>; and see evidence review: <https://www.equalityhumanrights.com/en/publication-download/impact-welfare-reform-and-welfare-work-programmes-evidence-review>

⁴² <https://www.equalityhumanrights.com/en/publication-download/cumulative-impact-living-standards-public-spending-changes>

⁴³ <https://www.ifs.org.uk/publications/10029>. (Note, however, that the expected extension of the limit in February 2019 to third or subsequent children born at any date in the past is now not going to happen, which will affect these estimates. See later publication from IFS: <https://www.ifs.org.uk/publications/13804>.)

⁴⁴ <http://www.parliament.scot/parliamentarybusiness/CurrentCommittees/109240.aspx>

2.1.4 Housing and childcare costs

Housing policies have focused recently on helping first-time buyers with house purchase (e.g. through Help to Buy) and have failed to provide enough new social housing. The proportion of people, including children, in private rented housing has been increasing (although the latest policies on buy-to-let may be slowing or reversing this trend).⁴⁵ Cuts to housing benefit, the benefit cap and freezes to working-age benefits, have meant that increasing numbers of people find a gap between their **housing costs** and their benefit levels. There is also still a take-up problem with housing benefit (HB): between 2012/13 and 2016/17, only an estimated 69% of private tenants entitled took up HB, and only 74% of the relevant expenditure was claimed by couples with children.⁴⁶ The 'bedroom tax'⁴⁷ is now hitting people in social rented housing as well as private tenancies (except in Scotland); there are discretionary housing payments (and in Northern Ireland a mitigation package) to help compensate for this and other cuts, but these are discretionary and/or only short term.

Policies on **childcare costs** have become increasingly complicated. For those on low incomes in work, the most relevant policies are extension of free early years education for 3-/4-year-olds to 30 hours per week in term-time and the reimbursement of childcare costs in UC. The latter improves on the childcare element of working tax credit in giving 85%, not 70%, of costs up to certain limits (though this was 80% before being cut in 2011). It provides help for those working under 16 hours per week, as well as giving support for up to a month before a job starts.⁴⁸ However, the maximum limits per child have not been increased in recent years, and they are limited to two children. And the operation of the UC childcare element has been heavily criticised⁴⁹ for payment in arrears, and for strict demands for evidence. Although a work allowance supports parents getting into work, the treatment of childcare costs still leaves them at a disadvantage.

People in income poverty may face high costs in other areas, including (e.g.) utilities; indeed, the 'poverty premium'⁵⁰ can mean they pay more (e.g. through pre-payment meters, not having direct debits etc.). The government suggested monthly payment of UC meant claimants might no longer suffer from the 'poverty premium'; but this would be unlikely to tackle its major cause, which as the name suggests is poverty.

2.1.5 Out-of-work benefits

Out-of-work benefits may seem irrelevant to in-work income poverty. But in families with two adults but one earner, the other adult's income can be crucial. And if that income is non-means-tested, it can potentially lift, or keep, the family out of income poverty. Bennett and Sutherland (2011)⁵¹ demonstrated the impact of the (simulated) abolition of individual non-means-tested earnings replacement benefits on in-work income poverty amongst couples. Such benefits make up a lower proportion of household income today, due to tightening contribution conditions and conditionality, abolition of some benefits and

⁴⁵ For example, the English Housing Survey (Private Rented Sector 2016-17) states: 'In 2016-17, the private rented sector accounted for 20% of households in England. The proportion of private rented sector households has doubled since 1996-97 and the overall size of the private rented sector has increased over this time from 2.1 million households in 1996-97 to 4.7 million households in 2016-17'. But it notes that growth appears to have slowed in more recent years: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723880/Private_rented_sector_report.pdf

⁴⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/757268/income-related-benefits-estimates-of-take-up-2016-17.pdf

⁴⁷ See earlier footnote explaining this

⁴⁸ The government says help may also be available from the Flexible Support Fund at Jobcentres, especially for UC claimants who have to pay for childcare costs upfront before being reimbursed.

⁴⁹ <https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries1/parliament-2017/childcare-17-19/publications/>

⁵⁰ See the report of the Financial Inclusion Commission: http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf. The All-Party Group on Poverty is conducting an inquiry into the poverty premium.

⁵¹ https://www.iser.essex.ac.uk/files/iser_working_papers/2011-09.pdf

dependants' additions, and cuts in survivors' benefits – a pincer movement in which women are often caught. In addition, parental leave payments are less generous than in many countries, and carer's allowance is lower than other benefits (except in Scotland). These factors may contribute to one-earner couples having insufficient income to escape income poverty. The generosity of out-of-work benefits also matters to in-work income poverty, including limited entitlements for part-timers.⁵²

2.1.6 ALMPs that improve or aggravate in-work income poverty

If active labour market policies (ALMPs) are too harsh and insufficiently tailored, they will force people to take up unsustainable and badly-paid jobs, thus failing to lift them out of income poverty. Legacy benefits had an hours cut-off (e.g. jobseeker's allowance ended if someone worked for 16+ hours per week). But itax credits were more generous and kicked in at 16 hours per week for some groups (and higher hours for others). And the way UC claimants are now being prevented from depending long term on marginal jobs plus benefits is by imposing in-work conditionality, rather than by a bonus for longer hours jobs.

The focus of government policy has recently shifted more towards sustainability of employment and progression (in a similar way to the 1997-2010 Labour governments). This should help to tackle in-work income poverty. But the UK's approach can still be characterised as primarily 'work first', and sanctions are given for (e.g.) non-attendance at interviews and failure to report sufficient work-seeking activities.⁵³ Scotland has taken a rather different approach to employment support from April 2018,⁵⁴ and there are also reports that Northern Ireland officials do not sanction as readily.

Steady state operational cost savings in the transfer to UC will be devoted to labour market support for an extra 1 million claimants, according to the UC business case.⁵⁵ The government emphasises that one work coach follows a claimant throughout their journey on UC, and work coaches seem very satisfied with UC. But 'case managers' and 'decision makers' make decisions on payment and sanctions, and do not deal personally with the claimant. The Work Programme has given way to the Work and Health Programme (rolled out from November 2017), with more focus on disabled people (to meet the government pledge of increasing employment in this group), but with lower overall resources.⁵⁶

2.1.7 Policies to tackle labour market segmentation

See above for policies on low pay and non-standard work.

2.1.8 Policies to tackle in-work income poverty in non-standard employment

See above for policies on low pay and non-standard work.

2.1.9 Policies to facilitate upward transitions to decently paid and decent quality jobs

See above for recent moves to improve the quality of work. The government has emphasised the reduction of effective marginal tax rates in UC (though this applies most to those on tax credits and housing benefit, often one-earner families). The transition to UC includes the introduction of in work conditionality (or in work support or progression), intended to facilitate progression to better-paid and/or longer hours work. Partners who are main carers in couples with children on UC will for the first time be subject to

⁵² Horemans, J., Marx, I. & Nolan, B. (2015) 'Hanging in, but only just. Part-time employment & in-work poverty throughout the crisis', *CSB Working Paper 15/03*, Antwerp: University of Antwerp

⁵³ <https://publications.parliament.uk/pa/cm201719/cmselect/cmworkpen/955/955.pdf>; Dr David Webster produces regular briefings on sanctions: <https://www.gla.ac.uk/schools/socialpolitical/staff/davidwebster/> - e.g. see <https://policyscotland.gla.ac.uk/tackling-britains-misleading-benefit-sanctions-statistics/>

⁵⁴ <https://www.gov.scot/policies/employment-support/>; <http://www.employabilityinscotland.com/>

⁵⁵ <https://www.gov.uk/government/publications/universal-credit-programme-full-business-case-summary>

⁵⁶ <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7845>

conditionality (modified, as for lone parents, with the age of their youngest child); the other partner has no recognition of their caring responsibilities.⁵⁷

UC work coaches will expect part-time workers to increase their hours/earnings, in line with their conditionality; the same is true for couples earning less than a certain level, who can only be transferred to 'light touch' conditionality if they reach this combined earnings threshold.⁵⁸ If UC claimants are not seen to be trying hard enough to increase hours or earnings, sanctions can be imposed.

Whether UC results in increases in hours and/or earnings may depend in part on its structure.⁵⁹ But research suggests that for families there is also a trade-off between time with children and in-work requirements.⁶⁰ Research with lone parents showed that sometimes they see stability for children as more important than their own progression.⁶¹

Under UC self-employed workers, after a year, will be assumed to be working their required hours on the minimum wage and their UC will be assessed on that income, whatever their actual income (the 'minimum income floor'). Secondly, if someone's UC is stopped because they are earning over the maximum, and their monthly earnings are more than £2,500 (€2,800) over this, this becomes 'surplus earnings'. These are carried forward to the following month, and if earnings (including surplus earnings) are then still over the amount at which UC stops, there will be no UC payment. If earnings fall below the UC maximum, the surplus decreases. Once the surplus has gone, UC can be resumed. UC must be reclaimed every month until the earnings amount has reduced enough to get UC again.

In addition, many women have progressed within public sector employment in the past, in part because of terms and conditions often more favourable to those with caring responsibilities, and opportunities for on the job training (more effective for progression) and promotion prospects. However, public services cuts since 2010 have resulted in not only job losses but also fewer progression opportunities and thus less chance of escaping in-work income poverty.⁶²

2.1.10 Policies to increase work intensity at individual and/or household level

A major aim of UC is to encourage people into work, as well as support them to take up more and/or better-paid work – i.e. to increase work intensity. The government has been clear, however, that its primary goal is to get one person into work in a family, arguing that giving relatively more to one-earner families would increase choices about work-life balance.⁶³ And, given that UC results in worse incentives for some second earners to enter employment and/or to progress – and that benefit calculations are not the only element involved⁶⁴ – this group risks finding themselves in a pincer movement, caught in in-work conditionality but being little or no better off if they enter work or increase their pay. Yet having a second earner in the labour market is one crucial way for a couple family to exit

⁵⁷ See IFF Research (2018) *Universal Credit Full Service Survey* p19 for a summary of conditionality groups.

⁵⁸ A report by the Social Security Advisory Committee attempts to explain the complex rules for couples in relation to in-work progression: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/657842/ssac-occasional-paper-19-in-work-progression-and-universal-credit.pdf

⁵⁹ See, for example, the Institute for Fiscal Studies on the choice between increasing work allowances or reducing the taper rate: <https://www.ifs.org.uk/publications/10334>

⁶⁰ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/643952/understanding-how-universal-credit-influences-employment-behaviour.pdf

⁶¹ E.g. see evidence from Jane Millar and Tess Ridge: http://data.parliament.uk/writtenevidence/committee_evidence.svc/evidencedocument/work-and-pensions-committee/universal-credit-inwork-progression/written/26597.htm

⁶² See briefings from the Women's Budget Group: www.wbg.org.uk

⁶³ See, e.g., Equality Impact Assessment of UC in 2011 (not updated since then): <https://www.gov.uk/government/publications/universal-credit-equality-impact-assessment>

⁶⁴ <https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/Universal%20Credit%20and%20Work%20Incentives.pdf>

in-work income poverty.⁶⁵ The recent increases in work allowances in the autumn 2018 Budget improve the incentive to have one (first) earner, but relatively disadvantage families with two.⁶⁶ As the Resolution Foundation (2018: 4) notes, arguments about (dis)incentives tend to be too broad to be useful.⁶⁷ This suggests that there should be much more focus on what is important to second earners in entering employment – including childcare costs, flexibility that works for them, and accessible location; and that single parents and second earners should be prioritised in terms of their potential to improve their earnings and/or increase their hours. The new focus by the Government Equalities Office on low-paid and low-skilled women is thus welcome. But single parents were incentivised in tax credits to work at least 16 hours per week (and got a bonus at 30 hours per week), whilst, as the Resolution Foundation points out, in UC they are incentivised to reduce weekly hours below 16. There is an urgent need, as they say, to make UC ‘more female-friendly’. They suggest increasing single parent work allowances and introducing second earner work allowances for couples with children. They also favour a lower taper rate and more ambitious support for progression.

2.2 Indirect influences on in-work income poverty

2.2.1 Child care

See above for childcare costs. In terms of supply and affordability of child care, although this is something of a government priority the UK’s system is complex, and the 2018 UK country report said ‘childcare supply concerns linger’. In addition, child care and early years education are devolved, so policies may differ. The Childcare Survey 2018 says the ‘confusing hotchpotch of seven different types of support’ means parents risk missing out.⁶⁸ Yet child care is seen as crucial for single parents’ and second earners’ participation in the labour market – though difficult to evaluate.⁶⁹ The Treasury Committee carried out an inquiry into child care, issuing a critical report.⁷⁰ And the Institute for Fiscal Studies found that, whilst spending on free early education had more than doubled in real terms since 2009–10, spending on childcare subsidies fell by 13% and Sure Start spending by 67%,⁷¹ and many nurseries are saying their viability is threatened by its extension. The 2018 Childcare Survey says affordability remains an issue, and some parents are still worse off in work having paid for child care, particularly larger families or those with young children.⁷²

2.2.2 Health care and long-term care

Health care is free at the point of demand, paid for out of general taxation. There are charges for prescriptions in England, and for spectacles and dental treatment. Exemption from these charges is based on age or an income test; but the income test is likely to

⁶⁵ <https://www.ifs.org.uk/publications/9348>

⁶⁶ IFS Submission to the Work and Pensions Committee’s Universal Credit rollout inquiry, 11 January 2018, <https://bit.ly/2z5cs9Z>, cited in Women’s Budget Group (2018) A ‘*Jam Tomorrow Budget*’, p12: <https://wbg.org.uk/analysis/autumn-budget-2018-wbg-full-analysis/>

⁶⁷ ‘When it comes to work incentives, there are good reasons to support the prioritisation of some of these groups over others. For example, primary earners in couples with children tend to be fairly unresponsive to interactions with the benefit system – typically working full time in any instance ... by contrast, single parents and second earners in couples with children – both very likely to be women – are most responsive to work incentives’: <https://www.resolutionfoundation.org/publications/back-in-credit-universal-credit-after-budget-2018/>

⁶⁸ <https://www.familyandchildcaretrust.org/childcare-survey-2018>

⁶⁹ <https://www.ifs.org.uk/uploads/Presentations/Public%20Economics%20Lectures/Christine%20Farquharson%20050118.pdf>

⁷⁰ <https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries1/parliament-2017/childcare-17-19/publications/>

⁷¹ <https://www.ifs.org.uk/publications/13306>

⁷² <https://www.familyandchildcaretrust.org/childcare-survey-2018>. Childcare costs are not income tested.

exclude many in employment, however low paid, and with the introduction of UC⁷³ problems with exemptions have multiplied.

Long-term care is income-tested on the benefit unit needing care by local authorities. The low level of carer's allowance for those caring for elderly/disabled people at home makes it less likely they/their families can exit in-work income poverty (though in Scotland this is now the same level as jobseeker's allowance – higher, though still inadequate). The lack of statutory policies on leave for carers means this is left up to employers, often causing carers to give up their employment. In a couple, this may lead to in-work income poverty if just one earner remains. (In a single adult household it may result in out-of-work income poverty.) Women are more likely to give up employment entirely (women aged 45-54 more than twice as likely), or reduce their working hours.⁷⁴ Women have a 50:50 chance of providing care by the time they are aged 59, compared with men (these odds by age 75). Policies for carers, not just parents, would help tackle in-work income poverty.

2.2.3 Inclusive workplaces (mentally and/or physically disabled)

Workplaces that allow disabled workers to have a well-paying job of good quality also contribute to tackling in-work income poverty. In 2015, the government abolished the Independent Living Fund⁷⁵ which helped disabled people with expenses in work, and local councils are now responsible (except for Scotland and Northern Ireland, where ILF Scotland does this,⁷⁶ and also has a new discretionary fund, initially to help young people). Local authority funding has been cut dramatically since 2010. Access to Work funds help with adapting workplaces for disabled people to do their jobs.⁷⁷

2.2.4 (Social) housing, and housing costs assistance

Social housing is provided on the basis of housing need by local authorities. Housing benefit is available to tenants based on an income test and is being absorbed into UC. Housing benefit depends on income not employment status, although this is not always widely understood by potential claimants – one reason for incomplete take-up. The government hopes that UC will mean 700,000 people no longer missing out on benefits they could claim.

There has been a shift in tenure in recent years away from owner-occupation towards private renting and the risk of in-work income poverty has been rising in rented accommodation, especially in the private sector.⁷⁸ This is likely to be associated with cuts, including rent limits in housing benefit, the so-called 'bedroom tax' and the benefit cap.

2.2.5 Energy cost assistance

Following concern about energy prices, and ministers' intention to impose an energy price cap, Ofgem, the energy regulator, proposed a cap of £1,136 (€1272) per year for 'typical' usage. This started on 1 January 2019, and is meant to stay in place until 2023. It would save 11 million households on default deals about £75 (€84) in a year.⁷⁹ Suppliers are meant to cut their costs accordingly. (Customers in Northern Ireland already have a price cap.) Warm home discount (electricity bill discount) and cold weather payments

⁷³ See <https://revenuebenefits.org.uk/universal-credit/guidance/entitlement-to-uc/passported-benefits/>

⁷⁴ <https://www.carersuk.org/news-and-campaigns/features/10-facts-about-women-and-caring-in-the-uk-on-international-women-s-day>

⁷⁵ <https://www.gov.uk/independent-livingfund>

⁷⁶ <https://www2.gov.scot/Topics/Health/Support-Social-Care/Independent-Living/ScottishIndependentLivingFund>

⁷⁷ <https://www.gov.uk/access-to-work>

⁷⁸ https://www.nuffieldfoundation.org/sites/default/files/files/Hick%20and%20Lanau%20_%20In-Work%20Income%20poverty%20in%20the%20UK.pdf

⁷⁹ <https://www.bbc.co.uk/news/business-45422218>; <https://www.gov.uk/government/news/victory-for-consumers-as-cap-on-energy-tariffs-to-become-law>

(automatically given when the area temperature is consistently low) are available to people on low income.⁸⁰

2.2.6 Life-long learning and skills improvement opportunities

The Industrial Strategy vision includes 'good work and greater earning power for all', with 'progression' as a key element.⁸¹ But lifelong learning is less developed than apprenticeships; and a National Retraining Scheme to equip the workforce with skills for the new economy is yet to be implemented. Post-16 area-based reviews of education and training are focusing largely on further education and sixth form colleges.⁸² In its response to the Taylor Review, the government said it was supporting working adults' learning through the Flexible Working Fund. Many areas of skills policy are devolved, and local industrial strategies are meant to be developed, including skills. But part-time and mature student numbers have decreased in recent years,⁸³ and public sector job cuts mean opportunities for training on the job are reduced.

3 Policy debates, proposals and reforms on in-work income poverty and recommendations

3.1 In-work income poverty high on the policy agenda since 2012?

In-work poverty is mentioned in the UK's National Reform Programme 2018 (p33).⁸⁴ The next mention of it (p34), however, gives the policy context very clearly: the government's aim is to: 'reduce in-work poverty, promote social mobility, and reduce individual dependence and state expenditure on benefits through more or better work'.

In practice, however, in-work income poverty has not been high on the agenda since 2012. The mantra has been that work is **the** route out of poverty, so the priority is to get as many people as possible into the labour market. This has included extending the assumption of being 'active' well into the incapacitated/disabled population, with another mantra that work is good for you. Worklessness, including among families with children, has decreased significantly. However, not as much policy attention has been paid to in-work income poverty.

Indeed, the policies for a 'higher wage, lower tax, lower welfare' economy, whilst helping some in in-work income poverty, were never going to be a comprehensive solution. This was because they included major cuts to social security, in particular for parents (especially women) and children – the groups among whom in-work income poverty has been increasing most.

3.2 Is there an active inclusion approach?

The UK government does not use the term 'active inclusion' and it is not well-known in the UK, though some calls for EU Social Fund projects employ it.⁸⁵ Supporting access to quality employment tends to take second place to 'work first' approaches, and a primary motivation behind in-work progression policies is to move people from state 'dependence'. There is a disjuncture between work coaches' and claimants' experiences of UC system,

⁸⁰ E.g. see https://england.shelter.org.uk/housing_advice/money_problems_and_energy_costs/government_help_with_heating_costs for a summary.

⁸¹ <https://www.gov.uk/government/topical-events/the-uks-industrial-strategy>

⁸² <https://www.gov.uk/government/collections/post-16-education-and-training-area-reviews>; and see <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7357>

⁸³ <https://www.suttontrust.com/newsarchive/decline-part-time-mature-students/>

⁸⁴ <https://ec.europa.eu/info/sites/info/files/2018-european-semester-national-reform-programme-uk-en.pdf>

⁸⁵ E.g. <https://www.gov.uk/european-structural-investment-funds/active-inclusion-ip-1-4-project-call-in-cheshire-warrington-oc03s18p1134>

with work coaches very positive and some claimants feeling the same, but others not finding the services 'enabling'.

The government claims that many people have entered work and increased their labour supply because of UC. The Office for Budget Responsibility (OBR) is sceptical of these claims.⁸⁶ Additional employment due to UC alone is unable to be estimated accurately. In addition, there is a gap in relation to the impact of UC on in-work income poverty and work incentives. With an in-work benefit system in flux, and not due to be fully rolled out now until late 2023, we are awaiting further evidence.

As the Resolution Foundation has said, the impact of UC 'still hinges on the extent to which it increases benefit take-up. If the full take-up gain assumed by the OBR is achieved, then the new system is set to be £1.6 (€1.8) billion more generous than the legacy system would have been by 2023-24, with gains for 700,000 families. However, if this take-up boost isn't forthcoming, then UC will be £1.5 (€1.7) billion less generous than the current system. Such a difference adds further weight to the case for continuing to improve the way in which UC matches the reality of recipients' lives.'⁸⁷ (The OBR, however, has said it believes UC take-up may be affected negatively by conditionality.)

The Resolution Foundation also argues that, relative to the pre-Summer Budget 2015 UC system, the changes to UC work allowances and taper rates of recent years have:

- 'Restored or improved incentives to enter work at low earnings for the 1.3m renting single parents and the first earner in the 1.3m renting couples with children eligible for UC.
- Reduced incentives to enter work at low earnings for home-owning parents who are either single (300,000 eligible for UC) or first earners in couples (540,000 eligible for UC), and non-parents without disabilities.
- Continued to overlook incentives to enter work at low earnings for (potential) second earners in the 1.9m couples with children eligible for UC, only 600,000 of which are currently dual-earning.
- Continued to offer relatively weak (although slightly improved) incentives for all UC recipients to progress to higher hours or earnings levels, especially once the UC taper rate interacts with employee National Insurance and income tax (when only 25p of each additional £1 (€1.12) earned is kept).'⁸⁸

3.3 EU funds and in-work income poverty

EU Structural Funds are allocated for 2014-20 regardless of Brexit. Few projects employ the term 'in-work poverty',⁸⁹ although several current project calls clearly focus on relevant policy areas (e.g. building skills, life-long learning, active inclusion etc.).

The UK Shared Prosperity Fund will aim to reduce inequalities between communities across the four nations once the UK has left the EU and £2.4 (12.7) bn of EU Structural Funds. It is not yet clear whether this will replicate the dedicated percentage for social inclusion obligatory in some of this funding.

⁸⁶ Bradshaw, J. (2018) 'The Office for Budget Responsibility is sceptical about the DWP claims for the labour supply effects of Universal Credit.' Blog <http://jonathanbradshaw.blogspot.co.uk/2018/02/the-office-for-budget-responsibility.html>

⁸⁷ <https://www.resolutionfoundation.org/app/uploads/2018/11/Back-in-Credit-UC-after-Budget-2018.pdf>

⁸⁸ Note that the 25p would be less if they are also paying for child care and if the reduction in local council tax support is included.

⁸⁹ One recent project call did so, for example: <https://www.gov.uk/european-structural-investment-funds/helping-people-in-work-income-poverty-call-in-cornwall-and-isles-of-scilly-lep-area-oc05s18p1144>

3.4 Further reforms/policies

We have suggested further reforms/policies in the relevant sections above. In general, we would argue that, as in-work income poverty is a multidimensional problem, it requires a multifaceted approach that addresses not only aspects of wages and the nature of employment (and self-employment) but also other areas such as support for children and for caring; social protection for partners out of the labour market; the level of housing costs and assistance with them; and low work intensity as well as low pay.

4 Assessing data and indicators

In section 1 above we have made some criticisms of the Eurostat data.

It is our view that the UK national data derived from the Households Below Average Income (HBAI) series is better. One criticism of it, however, compared with the Eurostat data, is that it does not provide a work intensity indicator. Hours worked are not available in the HBAI micro data set; but they are available in the Family Resources Survey (FRS) and should perhaps be incorporated into HBAI.⁹⁰ Whether the work is for a zero hours contract is not available in the FRS. The Eurostat definition of 'in work' is based on whether an individual has worked for more than half the reference year. This is quite a severe test and it is difficult to understand how it is derived from the UK data whilst not being the definition used in the UK.

We have produced some descriptive analysis of the odds of being in in-work income poverty. The risk factors interact and there is clearly a case for some multivariate analysis of risk. We do not know of anyone who has done this either in the UK or elsewhere.⁹¹

The Social Metrics Commission⁹² has proposed a new measure of income poverty, based on income AHC and taking account of the costs of child care, discounting benefits given for the additional costs of disability, and proposing that both assets and debt should be included. It also includes an income poverty gap indicator. The recommendation is to 'smooth' the application of the measure over three years, and to apply a threshold of 55% of the median income instead of 60%; but the latter is not integral to it. It merits attention and could be incorporated into the HBAI series in addition to the existing measures.

⁹⁰ They are computed by DWP for the EU SILC series

[https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_statistics_on_income_and_living_conditions_\(EU-SILC\)_methodology_%E2%80%93_concepts_and_contents#Work_intensity_.28WI.29](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_statistics_on_income_and_living_conditions_(EU-SILC)_methodology_%E2%80%93_concepts_and_contents#Work_intensity_.28WI.29)

⁹¹ We understand that there is a logit model forthcoming in Hick, R. and Lanau, A. (2018), 'Tax credits and in-work income poverty in the UK: An analysis of income packages and anti-income poverty performance', *Social Policy & Society*; Hick, R. and Lanau, A. (2018), 'Moving in and out of in-work income poverty in the UK: An analysis of transitions, trajectories and trigger events', *Journal of Social Policy*.

⁹² <https://socialmetricscommission.org.uk/social-metrics-commission-launches-a-new-measure-of-uk-income-poverty/>

APPENDIX

Table 1: Percentage of individuals living in households with less than 60 % of contemporary median household income, by economic status of the family, United Kingdom

	07/ 08	08/ 09	09/ 10	10/ 11	11/ 12	12/ 13	13/ 14	14/ 15	15/ 16	16/ 17
Before housing costs										
One or more full-time self-employed	20	20	20	20	19	20	19	20	19	19
Single/couple all in full-time work	3	3	3	3	3	3	4	3	4	3
Couple, one full-time, one part-time work	4	5	4	4	5	3	4	5	4	6
Couple, one full-time work, one not working	17	19	16	15	17	15	17	19	20	19
No full-time, one or more in part-time work	26	27	22	21	22	21	21	22	24	23
Workless, one or more aged 60 or over	26	23	21	20	19	19	20	20	22	21
Workless, one or more unemployed	66	62	61	55	53	55	54	56	55	62
Workless, other inactive	47	45	41	36	36	32	33	37	37	38
All individuals	18	18	17	16	16	15	15	16	16	16
After housing costs										
One or more full-time self-employed	25	25	24	26	23	25	24	25	24	25
Single/couple all in full-time work	6	6	6	6	6	6	7	6	7	7
Couple, one full-time, one part-time work	7	8	7	7	8	7	7	9	8	10
Couple, one full-time work, one not working	25	27	25	24	26	24	26	30	29	29
No full-time, one or more in part-time work	32	33	30	29	31	31	30	32	33	33
Workless, one or more aged 60 or over	22	19	19	18	17	17	18	17	21	20
Workless, one or more unemployed	77	73	75	71	72	72	71	72	70	75
Workless, other inactive	63	60	60	54	54	52	56	54	55	55
All individuals	22	22	22	21	21	21	21	21	22	22

Source HBAI Table 3.11ts

Table 2: Composition of individuals living in households with less than 60 % of contemporary median household income, by economic status of the family, United Kingdom

	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17
Before housing costs										
One or more full-time self-employed	11	11	11	13	12	13	13	14	11	12
Single/couple all in full-time work	5	5	5	5	6	5	7	6	6	6
Couple, one full-time, one part-time work	3	4	3	3	4	3	3	4	3	5
Couple, one full-time work, one not working	10	12	11	10	12	10	12	12	13	12
No full-time, one or more in part-time work	12	13	13	12	14	14	13	14	14	14
Workless, one or more aged 60 or over	24	22	21	22	20	21	22	22	24	22
Workless, one or more unemployed	9	10	13	13	12	14	10	10	7	7
Workless, other inactive	26	24	24	22	20	20	19	20	21	21
All individuals	100	100	100	100	100	100	100	100	100	100
After housing costs										
One or more full-time self-employed	12	11	11	12	11	12	12	12	11	12
Single/couple all in full-time work	7	7	7	7	8	7	9	8	9	8
Couple, one full-time, one part-time work	4	5	4	4	5	4	5	5	5	6
Couple, one full-time work, one not working	12	14	13	12	13	12	13	14	14	14
No full-time, one or more in part-time work	12	13	13	13	15	15	13	15	15	15
Workless, one or more aged 60 or over	16	14	14	14	13	14	15	14	17	16

Workless, one or more unemployed	8	9	12	12	12	13	10	9	7	6
Workless, other inactive	28	26	27	25	23	23	24	22	23	23
All individuals	100	100	100	100	100	100	100	100	100	100

Source: HBAI Table 3.5ts

Table 3a: Percentage of children living in households with less than 60 % of contemporary median household income, by family type and economic status of the family, United Kingdom

	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17
Before Housing Costs										
At least one adult in work	15	15	13	13	14	13	13	14	15	15
Workless families	58	56	50	41	40	38	38	44	46	50
Lone parent:	36	35	27	22	23	22	20	25	27	27
In full-time work	11	14	9	10	8	12	10	11	15	11
In part-time work	24	20	15	12	17	16	17	19	19	17
Not working	54	53	43	33	33	30	27	37	41	44
Couple with children:	18	18	18	16	16	16	16	17	18	17
Self-employed	24	23	24	24	24	26	23	27	23	24
Both in full-time work	4	2	3	2	3	2	3	3	3	3
One in full-time work, one in part-time work	4	5	4	4	6	4	5	6	5	8
One in full-time work, one not working	21	24	19	18	20	18	20	23	26	21
One or more in part-time work	56	55	48	42	39	37	40	34	52	49
Both not in work	65	62	62	57	53	54	57	60	55	62
Married or Civil Partnered	17	17	17	15	15	14	15	16	16	16
Cohabiting	26	25	23	24	20	23	21	21	22	21
All children (%)	23	22	20	18	18	17	17	19	20	19
After Housing Costs										
At least one adult in work	22	22	20	19	20	20	21	22	23	24
Workless families	77	73	73	66	64	63	64	69	68	73
Lone parent:	52	49	46	41	42	42	41	44	47	49
In full-time work	21	22	18	18	18	22	20	19	29	23
In part-time work	36	32	25	22	30	30	32	35	36	38

Not working	76	73	71	62	63	59	58	66	68	72
Couple with children:	25	24	25	23	23	23	24	24	24	25
Self-employed	32	30	29	30	29	31	29	32	30	33
Both in full-time work	6	5	5	4	5	4	5	4	5	5
One in full-time work, one in part-time work	8	8	7	7	10	8	9	10	10	13
One in full-time work, one not working	31	34	29	29	30	29	33	37	37	34
One or more in part-time work	62	65	63	60	58	55	56	55	62	63
Both not in work	78	73	76	73	67	71	76	74	68	76
Married or Civil Partnered	23	22	23	21	21	20	22	23	22	23
Cohabiting	36	36	33	34	29	36	32	33	32	33
All children (%)	31	30	30	27	27	27	28	29	30	30
BEFORE HOUSING COSTS										
All adults in work	8	8	7	7	7	8	8	8	9	9
At least one adult in work, but not all	30	31	27	24	27	24	25	29	31	29
After Housing Costs										
All adults in work	13	13	11	12	12	12	13	14	14	16
At least one adult in work, but not all	39	41	38	36	38	37	38	43	43	42

Source: HBAI Table 4.14ts

Table 4: Composition of children living in households with less than 60 % of contemporary median household income, by family type and economic status of the family, United Kingdom

	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17
Before housing costs										
At least one adult in work	54	57	54	59	65	63	64	66	67	66
Workless families	46	43	46	41	35	37	36	34	33	34
Lone parent:	37	37	32	29	29	30	27	31	32	31
In full-time work	3	4	3	3	3	4	3	4	5	3
In part-time work	7	5	5	4	6	6	7	8	7	6
Not working	28	28	24	22	20	20	17	20	20	22
Couple with children:	63	63	68	71	71	70	73	69	68	69
Self-employed	14	13	14	17	16	17	16	18	13	16
Both in full-time work	2	2	2	2	3	2	3	2	3	3
One in full-time work, one in part-time work	4	5	4	5	8	5	6	6	5	8

One in full-time work, one not working	16	18	16	17	18	17	19	18	21	18
One or more in part-time work	8	11	11	10	11	11	10	9	12	12
Both not in work	18	15	21	19	15	18	19	14	13	13
Married or Civil Partnered	49	49	54	52	55	51	55	54	51	52
Cohabiting	14	14	14	19	16	19	18	15	17	17
All children (%)	100	100	100	100	100	100	100	100	100	100
After Housing Costs										
At least one adult in work	56	59	55	58	63	61	62	66	67	67
Workless families	44	41	45	42	37	39	38	34	33	33
Lone parent:	39	38	36	35	36	36	35	35	38	36
In full-time work	4	4	4	4	4	5	4	4	6	4
In part-time work	7	6	5	5	7	7	8	9	9	9
Not working	28	28	28	26	25	24	22	23	22	23
Couple with children:	61	62	64	65	64	64	65	65	62	64
Self-employed	13	12	12	14	12	14	13	14	12	14
Both in full-time work	3	2	3	2	3	2	3	3	3	3
One in full-time work, one in part-time work	6	6	5	6	8	6	6	8	7	9
One in full-time work, one not working	17	19	16	17	18	17	19	19	21	18
One or more in part-time work	6	9	10	10	11	10	9	9	9	10
Both not in work	16	13	18	16	12	15	16	11	11	10
Married or Civil Partnered	47	47	49	47	49	45	48	49	46	46
Cohabiting	14	15	14	17	15	19	17	16	16	17
All children (%)	100	100	100	100	100	100	100	100	100	100

Source: HBAI Table 4.6ts

Figure 1: Proportion of children who live in working and workless households
Source: Torsten Bell Resolution Foundation Tweet.



Table 5: Percentage of in-work poor families. After housing costs.

		% working poor (AHC) households	Relative odds ratio All=1.00
Region	North East	14.8	1.22
	North West and Merseyside	13.4	1.11
	Yorks and Humberside	13.9	1.15
	East Midlands	12.7	1.05
	West Midlands	14.0	1.16
	Eastern	9.2	0.76
	London	13.6	1.12
	South East	8.8	0.73
	South West	9.4	0.78
	Wales	13.4	1.11
	Scotland	12.6	1.04
	Northern Ireland	11.3	0.93
Tenure	Owns outright	10.0	0.83
	Buying with mortgage	2.4	0.20
	Part own part rent	7.9	0.65
	Rents	21.3	1.76
	Rent free	15.4	1.27

Number of children	0	12.8	1.06
	1	10.6	0.88
	2	8.3	0.69
	3	11.6	0.96
	4	18.8	1.55
	5	28.2	2.33
	6	65.3	5.40
	7+	51.0	4.21
Number of adults in family	1	18.1	1.50
	2	5.3	0.44
Number of disabled adults	0	8.8	0.73
	1	19.4	1.60
	2	14.1	1.17
Family type	Couple with children	3.3	0.27
	Single with children	27.2	2.25
	Couple without children	3.5	0.29
	Single male	16.9	1.40
	Single female	14.1	1.17
Disabled child	None	12.0	0.99
	At least one	15.7	1.30
Child deprivation	No	4.9	0.40
	Yes	30.2	2.50
Age of youngest child	0-1	10.9	0.90
	2-4	10.8	0.89
	5-7	7.2	0.60
	8-10	6.6	0.55
	11-12	7.8	0.64
	13-15	8.4	0.69
	16-19	9.8	0.81
Ethnicity	White British	11.5	0.95
	White Irish	11.9	0.98
	White -gypsy/traveller	44.9	3.71
	Other white	10.6	0.88
	Mixed White and black Caribbean	16.8	1.39
	Mixed White and black African	22.9	1.89
	Mixed white and Asian	20.3	1.68
	Other multiple background	20.6	1.70
	Indian	7.1	0.59
	Pakistani	18.2	1.50

	Bangladeshi	17.7	1.46
	Chinese	17.1	1.41
	Other Asian	17.3	1.43
	Black African	26.0	2.15
	Black Caribbean	27.2	2.25
	African Scotland	26.4	2.18
	Other African Scotland	24.9	2.06
	Arab	19.2	1.59
	other	4.1	0.34
All		12.1	1.00

Source: own analysis of HBAI microdata.

Table 6: Model family calculations for April 2018 Analysis by the York Welfare Benefits Unit

	Single	Couple	Couple plus 2	Lone parent plus 1
Gross monthly earnings	1358.08	1358.08	1358.08	1358.08
Less income tax	-74.12	-74.12	-74.12	-74.12
Less NI contributions	-78.73	-78.73	-78.73	-78.73
Child benefit monthly	-	-	149.48	89.95
Universal Credit monthly	123.53	304.60	994.16	1,189.17 ⁹³
Council tax support ⁹⁴	17.64	21.98		
Total before housing costs ⁹⁵	1,346.40	1,531.81	2,348.87	2,484.35
Total after housing costs and council tax	648.87	834.28	1,651.34	1,786.82
Total after housing costs, council tax and childcare				1,071.82
60% median equivalent income threshold after housing costs	706	1213	1967	1040

⁹³ This includes a childcare element of UC at £607.75 (€680.6) pm. Child care at £715 (€801) pm assumed.

⁹⁴ Assumed council tax = £1,590.40 (€1781) per year (band D) = £132.53 (€145)pm. Assumes no single person discount (i.e. another person lives at address).
and local scheme covers 77.5% of Council Tax liability (no national scheme).

⁹⁵ Assumed rent = £130pw (€146)/£565 (€633) pm in the social housing sector. Assumes no under-occupation.

