

# Can the comprehensive spending review deliver for 2010?

The Treasury has currently embarked on a frenetic spending round that will determine the Government's priorities for the next few years. This spending review offers the Government an opportunity to fulfil its promise to halve child poverty by 2010. If it does not deliver, it seems inconceivable that the target will be met. Paul Dornan looks at its options.



Bob Watkins/Photofusion

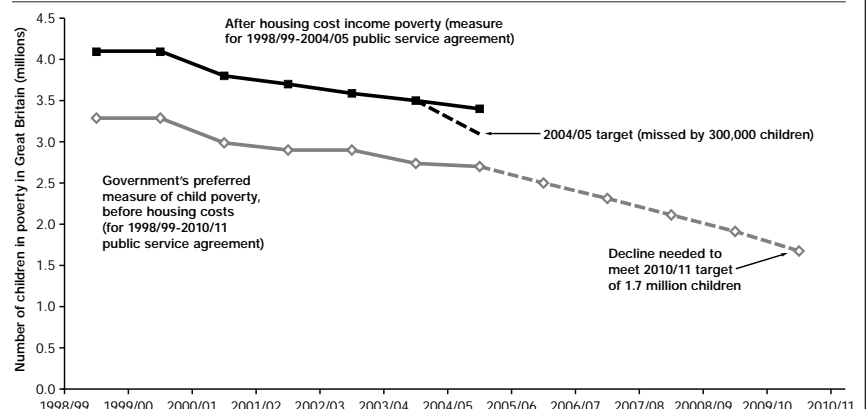
## Introduction

The comprehensive spending review, likely to be published in the middle of next year, will announce priorities for the years 2008/09, 2009/10 and 2010/11. It will shape departmental budgets to the target year for the public service agreement (PSA) commitment to halve the level of child poverty from the position in 1998/99.

The signs are that this is a tight spending round, with both HM Customs and Revenue and the Department for Work and Pensions (DWP) implementing significant staff cuts, and with the March Budget already having announced a 5 per cent reduction in both departments' budgets.

The seven years since Tony Blair's March 1999 commitment to eradicate child poverty have seen additional help to families and consequent reduced levels of child poverty. The figure below shows the progress made, as well as the challenge ahead. In 1998/99 child poverty ('after housing costs') stood at 4.1 million children in Great Britain (Northern Ireland is excluded from the government target, although it is covered by the policy). In 2004/05 this had been reduced to 3.4 million, or 27 per cent. Though welcome, it was insufficient to meet the first target to reduce child poverty (by a quarter by 2004/05). Although progress has been made, child poverty remains at a scandalously high level – higher in the UK now than in the past and higher than in most other European countries.

Numbers of children experiencing income poverty and the 2010/11 target



Source: Department for Work and Pensions, *Households Below Average Income: an analysis of the income distribution 1994/95 – 2004/05*, Corporate Document Services, 2006

## Context

In the past months, child poverty has been riding high in the political debate. Secretary of State for Work and Pensions John Hutton has made this the number one priority for his department, and has talked up the link between welfare reform and wider employment policies and the extent to which they should be better supporting this objective. A DWP strategy on child poverty is promised for the autumn and Hutton has announced that future policy will be 'poverty proofed'. We have also seen a commitment to the 'aspiration' of ending child poverty from the Conservative opposition, although we have had, as yet, scant detail as to how this

aspiration would be made a reality under a David Cameron premiership. The Liberal Democrats, despite discussing the problems of social injustice and of poverty, have so far refused to sign up to the pledge to eradicate child poverty. The political mood-music of the two key political parties, both committed to eradicating child poverty, is vital. From the Government we need reinvigorated attention and resources, and from the opposition parties realistic policy proposals for what they would do differently and better.

Not only politicians have been vying for the air time on this issue. The Fabian Society published the final report of its Life Chances Commission in March and made a series of practical policy recommendations to make greater use of life chances as a conceptual tool to drive policy to reduce poverty. This was followed in June by the Joseph Rowntree Foundation's *What Will it Take to End Child Poverty? Firing on all cylinders*. This report, together with the myriad of working papers and associated publications produced around it, presents very significant analysis on the problem – to families and to society – and discusses and models ways of reaching the 2010 target to halve child poverty and the 2020 target to abolish it. There is, therefore, no shortage of evidence, analysis and proposals for what needs to be done. What is needed is greater commitment.

The spending review is key to the halving target. As part of the process, the Treasury is conducting a 'Children and Young People' review, focused on improving service support to families with disabled children, young people, and families and children 'at risk of becoming locked into a cycle of low achievement, high harm and high cost'.<sup>1</sup> Although concentrating on the groups facing a high chance of being failed by education and other services, by focusing on services, it does not really engage with incomes. Other activity is, therefore, needed if the targets on reducing child poverty are to be met.

#### Measuring child poverty

A second child poverty target is expected either before, or as part of, the spending review. This measure will be defined in terms of both income level and material deprivation, and will affect the target itself and the policy required to meet it.

For the first PSA target to reduce child poverty by a quarter between 1998/99 and 2004/05, child poverty was defined as relative low income (living in a household with income below 60 per cent of the median), defined on

both before and after housing costs. In 2004/05 child poverty stood at 3.4 million (after housing costs) and 2.4 million (before housing costs).

In December 2003, the DWP published *Measuring Child Poverty*, which proposed three new measures for the period after the first PSA had expired, each relying on before housing cost incomes data only (and using a different method to adjust incomes for different families' needs).

- **Relative low income** (below 60 per cent of median). This is the basis of the current target to halve child poverty by 2010/11. In 2004/05 2.7 million children were income poor on this measure.
- **Relative low income and material deprivation combined** (income below 70 per cent of median, before housing costs only). This is a new measure and will be used for a second PSA. We do not yet know how this measure will be constructed or, therefore, how many children will be 'counted' as poor.
- **Absolute low income** (below 60 per cent of the 1998/99 median uprated for price inflation, before housing costs). This is proposed for a 'tracker' measure rather than providing a PSA. In 2004/05, 1.6 million children were poor on this measure.

The shift away from housing costs potentially 'loses' 700,000 children defined as poor on the after housing cost measure, but not on the before housing cost measure. These children are those whose families face high housing costs – whose housing costs make them poor – and are more likely to be concentrated in London and the south east of England. CPAG is calling for there to be numerical continuity between the after housing cost measure and the new set of measures. Without this, the Government will face charges of fiddling the figures and damaged credibility.

What should the spending review deliver?

In 2005 CPAG published two documents: our manifesto, *Ten Steps to a Society Free of Child Poverty* and *At Greatest Risk*. Our manifesto sets out practical policy change needed to bring about reductions in child poverty, and, although there have been some improvements in policy and the political climate that surrounds it, the majority of the steps remain untaken. *At Greatest Risk* profiles the experience of groups of children who face a particularly high risk of poverty, with a poorer quality of life in childhood and poorer outcomes in adult life: children in large families, children with disabilities or a dis-

abled parent, black and minority ethnic children, traveller and gypsy children, those who have been in care and those who have sought refuge in the UK. The challenge for the spending review is to mainstream concerns about these children.

To reduce child poverty the Government has had recourse to two key mechanisms – increasing incomes through financial support and increasing gains from work, primarily by increasing the employment rate. Alongside this – to reduce future poverty – policy has sought to improve educational outcomes (through the education system, Sure Start and good quality childcare). More effort is clearly needed here, given the slow progress on narrowing the gap in educational attainment and this will be vital to reach the 2020 target and to sustain a much lower level of child poverty in the long term. But it is the more urgent former set of issues – on which education can build – to which this next section devotes its attention.

#### The role of paid work

On the back of relatively benign economic circumstances, for which the Government itself takes some credit, unemployment has fallen and the employment rate risen. We now have nearly 75 per cent of working-age adults in employment,<sup>2</sup> the fourth highest in the European Union and the highest of the larger nations.<sup>3</sup>

The official objective is to increase the employment rate to 80 per cent and the welfare reform legislation now before the House of Commons aims to contribute to this by getting more disabled adults into work by altering the structure of incapacity benefits. CPAG supports the objective of making sure that decent paid work is available to those who want and can do it, but as over half (54 per cent) of poor children live in a household with an adult in paid work,<sup>4</sup> employment does not work as a route out of poverty for all.

In recent months unemployment has also begun to creep up, though this trend is partly attributable to more adults looking for work as employment is also increasing. If unemployment levels continue to climb it is likely to be those who are most vulnerable in the labour market who will be worst affected. Nevertheless, children with no parent in work have a much greater risk of child poverty (a child living in a household with no adult in work is 6.3 times more likely to be living in poverty than one with all the adults in paid work), and so work clearly plays a significant role in anti-poverty policy.

#### Ten Steps to a Society Free of Child Poverty

- All political parties to commit to eradicate child poverty.
- Poverty-proof policies – make each consistent with eradicating child poverty.
- Uprate the combined value of child tax credit and child benefit at least in line with the fastest growing of either prices or earnings. The element of this that is child benefit ought to be maximised.
- Increase the adult payments within income support in line with those for children.
- Reform the administration of tax credits and benefits – ensure they provide the right amount to the right people at the right time.
- Ensure all children have full access to the requirements – meals, uniforms and activities – of their education.
- Provide benefit entitlements to all UK residents equally, irrespective of immigration status.
- Work towards better jobs, not just more jobs.
- Introduce free at the point of delivery, good quality, universal childcare.
- Reduce the disproportionate burden of taxation on poorer families.

For paid work to do more to reduce poverty, both decent job opportunities need to be available and financial returns from work increased. The spending review must address adult skills – to increase employability, to improve progression within work and to tackle wage inequality (both overall and between men and women). More needs to be done to improve the quality of support into and in sustaining work, and childcare, both to boost supply and to improve the operation of the childcare tax credit (which is only received by 0.37 million<sup>5</sup> families, is only paid for registered childcare and is of greater help to smaller rather than larger families).

The need is, therefore, to move beyond the ‘work-first’ emphasis and, to maximise anti-poverty policy, towards more of an investment model where those seeking work are better helped to access training options and support in overcoming barriers to work, and where the quality of jobs are as much an issue as the employment rate.

#### Financial support for children

In directing resources to children, the Government has two specific instruments – child benefit and child tax credit. Though child benefit for the first child was increased in 1999, it has received less attention than child tax credit. Introduced in April 2003, this brought significant redistribution towards families, particularly the poorest families. And whereas the amount of child benefit is increased in line with prices (and so falling as a