Department for Work & Pensions

THE RT HON THERESE COFFEY MP
Secretary of State for Work & Pensions

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Dear Prime Minister,

TACKLING POVERTY

Last year, we stood on a manifesto which promised to improve the lives of millions of people, including by lifting people out of poverty. My Department's mission is to help make people's lives better tomorrow than they were yesterday. I think that is best done by helping people to be more independent, more resilient, and less reliant on the welfare state. Universal Credit, and the welfare system more broadly, provides people with a vital safety net, and we have ensured that people are better off in work than out of work, unless they cannot work. Since 2010, we have also lifted the take-home pay of everyone in this country with significant increases in tax allowances and a reduction in tax rates, even if salaries had not been rising at the levels previously enjoyed. I share your view that we need to do more to tackle poverty and address the cost of living, particularly in light of the difficult economic circumstances many people will be facing as a result of the pandemic.

Poverty measures

To deal with poverty, we need to understand and define the issue. The annual statistics report, Households Below Average Income (HBAI), is derived from a survey of 20,000 households and has four key measures. The Labour Government focussed primarily on relative poverty, which is measured as being below 60% of median household income, both before and after housing costs (BHC, AHC). The Coalition Government shifted focus onto absolute poverty; the absolute low income line is the 2010/11 relative low income line fixed in real terms. One of the drawbacks of using relative poverty is it tends to go down in recessions when everyone gets poorer and up in good times, as incomes grow. Absolute poverty is much more intuitive but still covers a very large group (around 13 million people), many of whom the general public would not consider poor. For example, one in ten of couples with two children underneath this poverty line has an income of £40K or more. More information on this is included in the annex.

Looking at these measures in depth was very revealing and somewhat undermined my faith in them, not least trying to properly analyse regional differences posed some challenges. There is also a significant time-lag in the analysis; the March 2021 stats will be based on 2019/20 survey data. Key to my work at DWP has been a more detailed data-driven analytical approach, using national and more localised analysis in our policy formation. I want to at least double the sample size for the HBAI survey (this is included in my SR bid) to build confidence in the analysis by cohort and region so that we can make better-informed policy decisions and proposals for future budgets. I think this is key to the levelling up agenda.

In trying to identify the right poverty measure, I have carefully considered the new Social Metrics Commission (SMC) measure, an income- and costs- based approach. While I think their approach was well-intentioned (for example by trying to move to disposable income and access to liquid savings) the measure has several fundamental flaws and has missed the opportunity to be a genuinely new measure. They considered access to liquid assets only, not other assets which may take a little more time to realise. Furthermore, it is my view that in order to achieve support for this measure, they force-fitted the statistics to closely align with the same number of people (c.14 million) who, according to the 2016-17 HBAI figures, were in relative poverty after housing costs. They then overlaid that on top of their revised income distribution data to establish where to draw the poverty line, which they have set at 54% of median income. The outcome is that the SMC has delivered a measure that is complicated, out of sync with public attitudes and does not help us to identify solutions for those struggling with the cost of living. By anchoring their poverty line to the relative poverty line, this measure takes us several steps back in the poverty debate to where the last Labour Government began. My predecessor had agreed for some joint working with the SMC to create experimental statistics but, in light of the above and our scarce departmental analytical resource, I have instructed my officials to stop work on the experimental statistics and I intend to formally stop the process by writing to the Commission, recognising their important contribution to the poverty debate.

I have also considered international measures. The UNECE Guide on Poverty Measurement[1] is extensive in its analysis; the report link and a sample of measures are included in the annex. There are quite different treatments, for example in Canada there is no official poverty measure but one of three measures uses 50% median income; OECD suggests 50-60%; other countries use quite a different approach. While food for thought, I stopped further work in this area, as I considered we would be accused of just shifting the goalposts which would be damaging reputationally.

Recommended approach

My view is that we need a simple and compelling measure that speaks to the general public's understanding of poverty. Initially, I considered linking to the income threshold used to ascertain eligibility for Free School Meals (crucially, an annual income of less than £16,190) as I think the public would accept that families who we consider cannot afford school meals would be considered poor. However, this has turned out to be rather complex. We already publish statistics regarding material deprivation. We know that nearly 90% of British people see this as not having enough to eat and live on without getting into debt (i.e. struggling to afford essentials) and do not associate poverty with relative income. I therefore recommend that we use a measure based on material deprivation, which tracks people's ability to meet essential living costs. This supports the Government's aim to help families with the cost of living, such as keeping food and fuel prices low and tackling problem debt. It supports our levelling up agenda – identifying a spread of struggling households right

[1] http://www.unece.org/index.php?id=47512

across the country, rather than overweighting those in London and the South East that have high housing costs.

Policy considerations

Of course, what I really want to focus on is supporting the millions of households negatively affected by COVID-19 and meeting the manifesto commitment to see poverty rates fall this Parliament. In my Spending Review bid, I have prioritised employment, which is key to economic recovery but is also the best way of helping people escape poverty and reducing AME spend. Outside of the SR, there are several policy priorities I would like to pursue to support this agenda, including making the £20 temporary uplift on Universal Credit permanent. My officials estimate this would lift 900,000 individuals, including 350,000 children, out of poverty. It would also incentivise migration from legacy benefits.

The present situation will require us to look afresh at established positions. For example, we will need to consider whether the benefit cap grace period should be extended temporarily to reflect the reality of the current labour market. As things stand, people who lost their jobs in the early stages of the pandemic will be subject to the benefit cap from December. Until economic conditions improve, many people who are desperate to work will be unable to do so. In light of this, welfare controls and incentives should be reconsidered. I am also keen to explore what more we can do to support homeowners, recognising the high eligibility threshold for Support for Mortgage Interest. I also intend to refocus on making work pay and supporting in-work progression. In-work progression is critical to the levelling up agenda - London has the highest employment rate, hours worked and earnings, whilst the North-East has the lowest.

Even before the COVID emergency, high levels of debt and low levels of savings were undermining financial resilience, leaving people poorly equipped to withstand financial shocks. For benefit claimants this can make the burden of debt repayment unmanageable. Currently, 15 per cent of UC claimants see their award reduced as a result of a third party deductions, while 28 per cent are repaying Government debts. Research suggests that over 20% of the population have less than £100 savings, and in the North East, West Midlands and Wales, it is more than half of the population. Financial education and debt advice are a key part of the solution, but they are not a solution in themselves.

I am particularly concerned by the 16% of UC claimants repaying Tax Credit debts – a significant proportion of which is more than 10/15 years old. As the UC roll out accelerates, this proportion will only increase. While we have already taken steps to break this cycle, including capping deductions at 30 per cent of the standard allowance, this nonetheless stretches claimants' resources and makes it even harder for those already facing a drop in income to manage their finances. It is not right that DWP should not be made to play the role of Government bailiff. With Tax Credit entitlement calculated annually, overpayment was a common feature of the system, but it is for HMRC or Indesser – a private debt collection agency working with the Cabinet Office – to address this. More radically, we should consider reducing or even writing off very old Tax Credit debt, as happens with student loan debt, which many people only realise they owe when they start to claim UC.

Cross-Government approach and next steps

Over the past few months, issues around poverty and the cost of living have gained traction, with the help and support of celebrity endorsements. While DWP is the champion for speaking up for the poor and most vulnerable, there needs to be a collective approach across Government to tackling poverty, with a number of Departments owning aspects of the wider picture - DfE own policy around Free School Meals, BEIS own fuel poverty, MHCLG on housing and DEFRA on water and food poverty. It is crucial that departments work together to redefine the debate, enabling us to focus our resources on those who need our help most.

We have already sought to work with MHCLG on housing and we continue to actively work with DfE on the response to free school meals. With your support, I intend to convene a roundtable of Secretaries of State across relevant Departments, including the territorial offices, to develop a cross-Government plan to address these key issues.

As we come into Q4 of 2020, the economic effects of the COVID-19 emergency are yet to be fully realised. I am keen to put a stake in the ground, ahead of the next HBAI stats release in March next year, highlighting all that this Government has done to help people and explain our strategy for building back better, ensuring people are more resilient for whatever the future may hold. My officials and advisers will work with yours to develop our public messaging and narrative.

I look forward to discussing these issues with you.

Personal Data

Annex

Income levels and numbers in poverty

These tables show the median income, which is published in the HBAI series.

Median Income (couple, no children, per week)	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Median Before Housing Costs - real terms (18/19 prices)	£498	£491	£480	£482	£486	£503	£510	£519	£519	£514
Median After Housing Costs - real terms (18/19 prices)	£430	£422	£412	£412	£416	£431	£440	£449	£447	£447
Median Before Housing Costs - nominal terms	£410	£418	£426	£439	£453	£474	£481	£494	£507	£514
Median After Housing Costs - nominal terms	£352	£358	£365	£375	£387	£404	£413	£425	£437	£447

Relative low income line (60% median)	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Median Before Housing Costs - real terms (18/19 prices)	£299	**£295**	£288	£289	£292	£302	£306	£311	£312	£308
Median After Housing Costs - real terms (18/19 prices)	£258	**£253**	£247	£247	£249	£259	£264	£269	£268	£268
Median Before Housing Costs - nominal terms	£246	£251	£256	£264	£272	£284	£288	£296	£304	£308
Median After Housing Costs - nominal terms	£211	£215	£219	£225	£232	£243	£248	£255	£262	£268

Absolute low income line is 2010/11 relative low income line fixed in real terms

Number of people in low income	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Relative - Before Housing Costs	10.4m	9.8m	9.8m	9.7m	9.6m	10.1m	10.4m	10.4m	11.1m	11.0m
Relative - After Housing Costs	13.6m	13.0m	13.1m	13.2m	13.2m	13.5m	14.0m	14.3m	14.0m	14.5m
Absolute - Before Housing Costs	9.9m	9.8m	10.6m	10.2m	9.9m	9.4m	9.3m	8.9m	9.5m	9.7m
Absolute - After Housing Costs	13.1m	13.0m	13.6m	13.9m	13.6m	12.9m	12.8m	12.4m	12.5m	12.9m
Social Metrics Commission	14.4m	14.2m	14.5m	14.3m	14.1m	13.4m	13.8m	14.1m	14.1m	14.4m

Gross income tables: Gross family incomes of people in poverty

Table shows Gross Annual Family Income of those in relative poverty, before housing costs

	Percentile			
Family Type	**25th**	**50th**	**75th**	**95th**
Pensioner couple	£12,900	£15,000	£16,700	£18,500
Single pensioner male	£ 7,800	£ 9,300	£10,800	£12,300
Single pensioner female	£ 8,200	£ 9,800	£11,000	£12,400
Couple with children	£18,200	£23,200	£28,000	£40,000
Couple with one child	£13,000	£20,300	£24,900	£38,500
Couple with two children	£16,000	£21,900	£26,100	£37,900
Couple with three or more children	£20,600	£26,700	£31,700	£41,900
Single with (any) child	£12,700	£15,900	£20,200	£26,900
Single with one child	£ 9,200	£13,100	£14,500	£22,600
Single with two or more children	£15,300	£18,600	£22,200	£27,800
Couple no children	£ 9,000	£14,400	£19,500	£46,800
Single male without children	£ 500	£ 6,500	£10,000	£16,300
Single female without children	£ 1,600	£ 7,000	£10,100	£15,000
All	£ 8,900	£14,500	£21,800	£34,500

Debt: third party deductions (TPDs)

Each table shows the number/proportion of live UC claims with a live third party deduction of the relevant type.

Number of claims with a payment due in each month with a given TPD

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
owner occupied service charges	<500	<500	<500	<500	<500	<500	<500	<500	<500	<500	<500	<500
rent or service charges	116,000	122,000	127,000	132,000	139,000	145,000	149,000	156,000	161,000	86,000	93,000	202,000
gas arrears	2,000	2,000	2,000	2,000	3,000	3,000	4,000	4,000	5,000	2,000	2,000	5,000
gas ongoing consumption	2,000	2,000	2,000	2,000	3,000	3,000	4,000	4,000	4,000	2,000	2,000	5,000
electricity arrears	2,000	2,000	3,000	3,000	4,000	4,000	5,000	5,000	6,000	3,000	3,000	6,000
electricity ongoing consumption	2,000	2,000	3,000	3,000	4,000	4,000	4,000	5,000	6,000	3,000	3,000	6,000
council tax	73,000	80,000	85,000	90,000	90,000	96,000	102,000	110,000	118,000	63,000	68,000	144,000
fines	103,000	114,000	118,000	115,000	110,000	114,000	117,000	124,000	127,000	68,000	72,000	140,000
water arrears	15,000	17,000	18,000	19,000	20,000	21,000	23,000	24,000	25,000	13,000	14,000	30,000
water ongoing consumption	14,000	15,000	16,000	17,000	19,000	20,000	22,000	23,000	24,000	13,000	14,000	29,000
child maintenance	14,000	15,000	16,000	16,000	15,000	16,000	17,000	18,000	19,000	11,000	16,000	35,000
mortgage interest	<500	<500	<500	<500	<500	<500	<500	<500	<500	<500	<500	<500

Proportion of claims with a payment due in each month with a given TPD

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
owner occupied service charges	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
rent or service charges	5.91%	5.94%	5.97%	5.97%	6.06%	6.11%	6.14%	6.23%	6.18%	2.81%	2.30%	4.70%
gas arrears	0.08%	0.09%	0.10%	0.11%	0.13%	0.13%	0.15%	0.16%	0.17%	0.08%	0.06%	0.12%
gas ongoing consumption	0.08%	0.09%	0.09%	0.10%	0.12%	0.13%	0.15%	0.16%	0.17%	0.08%	0.06%	0.11%
electricity arrears	0.10%	0.11%	0.12%	0.13%	0.16%	0.17%	0.19%	0.21%	0.22%	0.10%	0.07%	0.14%
electricity ongoing consumption	0.10%	0.11%	0.12%	0.13%	0.16%	0.17%	0.19%	0.20%	0.21%	0.09%	0.07%	0.14%
council tax	3.71%	3.89%	4.01%	4.06%	3.94%	4.05%	4.21%	4.41%	4.51%	2.05%	1.68%	3.34%
fines	5.27%	5.56%	5.57%	5.20%	4.81%	4.81%	4.85%	4.94%	4.87%	2.22%	1.77%	3.26%
water arrears	0.77%	0.81%	0.83%	0.84%	0.87%	0.88%	0.94%	0.96%	0.96%	0.44%	0.35%	0.69%
water ongoing consumption	0.71%	0.75%	0.78%	0.79%	0.83%	0.84%	0.90%	0.93%	0.93%	0.43%	0.33%	0.67%
child maintenance	0.71%	0.73%	0.76%	0.73%	0.64%	0.66%	0.69%	0.72%	0.74%	0.36%	0.40%	0.81%
mortgage interest	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%