



MEASURING
POVERTY

A new measure of poverty for the UK

The final report of the Social Metrics Commission

Chaired by **Philippa Stroud**, CEO of the Legatum Institute

SEPTEMBER 2018



ABOUT THE SOCIAL METRICS COMMISSION

The Social Metrics Commission is an independent Commission formed and led by the Legatum Institute's CEO Baroness Stroud.

It is an independent and rigorously non-partisan organisation dedicated to helping policy makers and the public understand and take action to tackle poverty. Its ultimate goal has been to develop new poverty metrics for the UK which will have both long-term political support and effectively identify those who are in poverty. By doing so, we hope that Government and others will be better able to develop interventions that reduce the number of people experiencing poverty and improve outcomes for those people who do experience it.

This report summarises the Commission's work over the last two and half years and outlines its conclusions and recommendations for how poverty measurement should develop in the UK.

The Commission would like to thank both the Legatum Institute for hosting the Commission and making available the resources of its Centre for Metrics, and the Legatum Foundation for their significant support of this work. This report would not have been possible without that support, and the research, editorial and functional independence that has underpinned the Commission's work.

CONTACTING US AND CONTRIBUTING

We welcome discussion on these issues and would appreciate constructive feedback and comment on our approach. To contact the Commission's secretariat, please use the following email address:

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SUPPORTERS OF THE COMMISSION

The Social Metrics Commission would like to thank the following organisations and people for their generous support for the work of developing new poverty metrics for the UK.

- Joseph Rowntree Foundation;
- Calouste Gulbenkian Foundation (UK Branch);
- Garfield Weston Trust;
- Oliver Wyman;
- PF Charitable Trust; and
- Mr Sanjit and Mrs Sangeeta Talukdar.

Over the course of the Commission, Oliver Wyman have provided significant pro-bono technical support to the Commission. Without the support of both their talented consultants and analysts and their senior leadership team, this work would not have been possible.



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Thanks, of course, go to the technical team and members of the secretariat. Particular thanks go to Guy Miscampbell and Emily Harris, who have worked tirelessly on the data that underpins this work.

During the life of the Commission, two Commissioners had to subsequently move on. Thanks go to Sian Hansen and Alex Burghart MP, whose input was invaluable at the start of the Commission's journey.

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Finally, thanks also go to members of the team at the Oxford Poverty and Human Development Initiative. Their expertise on international models of poverty measurement and, in particular, multi-dimensional poverty measurement was incredibly helpful to frame the Commission's thinking.

ABOUT THE LEGATUM INSTITUTE

As CEO of the Legatum Institute Baroness Stroud has been proud to Chair the Social Metrics Commission and for the Legatum Institute to host the Commission and contribute to the vital work that has been undertaken. The Legatum Institute is a London-based think-tank with a global vision: to see all people lifted out of poverty. Our mission is to create the pathways from poverty to prosperity, by fostering Open Economies, Inclusive Societies and Empowered People.

We do this in three ways:

Our **Centre for Metrics** which creates indexes and datasets to measure and explain how poverty and prosperity are changing.

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Our **Practical Programmes** which identify the actions required to enable transformational change.

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PERSONAL THANKS FROM BARONESS STROUD

My thanks have to go to all the Commissioners for staying the course of a two and a half year journey, for listening and hearing one another, and for your commitment to those in poverty.

My personal thanks also have to go to Matthew Oakley and the secretariat team. Each one of us on the Commission knows that we would not be in this place without your steady, systematic, thorough commitment to excellence and intellectual rigour. You worked tirelessly to co-ordinate us, to build consensus, to find a way through and never took your eyes off the lived experience of those in poverty. Thank you.

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FOREWORD



I established the Social Metrics Commission with the sole aim of developing new measures of poverty for the UK. The need for an independent Commission was clear; much of the last decade of political and policy debate on poverty has focussed on whether and how we should measure poverty, rather than the action needed to drive better outcomes for the most disadvantaged in our society. If this is to change, I was clear from the start that developing a metric was not enough; we also needed to be able to use it to build a new consensus around poverty measurement and action in the UK.

To do this, over the last two years, I have brought together top thinkers from left and right, with policy and measurement experts with no political position. Each of us came to the question with our own experience, views and ideas for where poverty measurement in the UK should focus and how it could and should be taken forward. All of those views have been shared openly and we have undertaken significant analysis, research and stakeholder consultation to bring our views together.

This report marks the culmination of that work. It outlines a new approach to poverty measurement for the UK and provides original analysis that demonstrates the fundamental changes to our understanding of poverty it creates. Most importantly, the approach, results and recommendations in this report are supported by every Commissioner. They truly represent a consensus view of how we should measure and understand the incidence of poverty in the UK and the experiences of those who are in poverty.

Why is this so different?

This new metric accounts for the negative impact on people's weekly income of inescapable costs such as childcare and the impact that disability has on people's needs; and includes the positive impacts of being able to access liquid assets such as savings, to alleviate immediate poverty. The Commission's metric also takes the first steps to including groups of people previously omitted from poverty statistics, like those living on the streets and those in overcrowded housing.

The metric is also positioned within a wider framework that helps us to see a more detailed picture of exactly who is poor, and the range of factors that can detrimentally impact on their lives, their experience of poverty and their future chances of remaining in, or entering poverty.

Many of these sound like simple ideas, and our research with the general public shows strong support of the idea that poverty should take account of each of them. However, this is the first time that all of these ideas have been brought together into a coherent framework for poverty measurement, which can be applied to existing UK data.

What does it mean?

There are some areas of good news; far fewer pensioners are living in poverty than previously thought, with a significant fall in pensioner poverty over the last 15 years. This is a tribute to all the hard work done to improve the lives of pensioners over the last two decades and shows that concerted policy action can really make a difference.

However, there are also many other new findings that challenge us to sharpen our focus.

The report highlights that 7.7 million people are living in persistent poverty. These people have spent all or most of the last four years (and more) in poverty. Persistence rates are particularly high for children and working-age adults who live in workless families and families with a disabled person. Given that we know that long periods in poverty can be particularly damaging to people's lives and prospects, this is a significant concern.

The report also highlights a range of groups that have previously been under-represented in official measures of poverty. For example, our approach suggests that nearly half of the 14.2 million people in poverty live in families with a disabled person. Compared to previous measures, it also shows that those families struggling to make ends meet because of childcare and housing costs and those who lack a financial buffer to fall back on are much more likely to be in poverty.

A tendency to focus on incomes only has meant that we have previously failed to adequately consider the impact that a lack of financial resilience, and high essential costs have on families lives. The Commission's metric ends that trend by developing a clear methodology for understanding these issues.

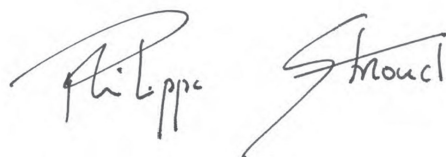
What next?

We want to put poverty at the heart of government policy-making and ensure that the decisions that are made are genuinely made with the long-term interest of those in poverty in mind. There are many ways in which these results can and should be taken forward to do this.

Personally, I was struck by the clear link between worklessness and the incidence of poverty and persistent poverty. The results show that close to nine in ten (88%) of those living in workless couple families with children are in poverty. This compares to just three in one-hundred (3.3%) of those in equivalent families where both adults work full time. The situation is echoed in statistics on persistent poverty; while 13.1% of children in working families are in persistent poverty, 48.7% of all children in workless families are in persistent poverty.

Of course, views on policy priorities will differ across the political spectrum. The most important thing now is that, as a country, we have a better understanding of the extent and nature of poverty, which we can all agree on. I truly believe that the Commission's approach provides that understanding.

For too long it has been possible to have a debate about the measurement of poverty. Now I call on people and organisations across, and outside of, the political spectrum to support this work so that we can all move on and put all our energy into creating pathways out of poverty.



Baroness Philippa Stroud
CEO of the Legatum Institute

EXECUTIVE SUMMARY

While various measures of income inequality and poverty exist, the UK no longer has an official measure of poverty for children, adults or pensioners.¹ This leaves a situation where policymakers and politicians are less able to track progress and it is more difficult to hold them to account for effectively tackling the causes of poverty or improving the lives of those in poverty.

The Social Metrics Commission was brought together to develop a new approach to poverty measurement that both better reflects the nature and experiences of poverty that different families in the UK have, and can be used to build a consensus around poverty measurement and action in the UK.

The Commission is a rigorously non-partisan organisation. Its membership is drawn from top UK poverty thinkers from different political and professional backgrounds, alongside data and analytics experts and those with experience of working with and supporting people living in poverty. This report summarises the work that the Commission has undertaken over the last two and a half years.

It presents a detailed articulation of how the approach to poverty measurement can be improved in the UK and elsewhere. The Commission's new measure:

- Takes account of all material resources, not just incomes. For instance, this means including an assessment of the available assets that families have;
- Accounts for the inescapable costs that some families face, which make them more likely than others to experience poverty. These include, the extra costs of disability, and costs of childcare and rental and mortgage costs;
- Broadens the approach of poverty measurement to include an assessment of housing adequacy. For example, by regarding those sleeping rough as being in poverty; and
- Positions the measure of poverty within a wider measurement framework, which allows us to understand more about the nature of poverty in the UK.

Following this, the report summarises the most comprehensive implementation of this framework that is possible with existing data and research in the UK. Summary results and findings are then presented.

What next?

Measuring poverty is essential if action is going to be taken to improve the lives of those currently in poverty in the UK or who, without action, would otherwise be in poverty in future. The Commission would like to see the measurement of poverty, including by Government, the ONS, policy makers and those researching and working with people in poverty, adopt the approach outlined in this report.

The Commission will do all it can to support this, including by publishing technical papers on the methodology and making available the programming code that underpins the measure to enable straightforward replication by other analysts.

The Commission's work is only the start of what needs to happen. The Commission hopes that its work will stimulate much needed further research and improvement in UK survey and administrative data. This would allow for a full practical implementation of the Commission's full measurement framework.

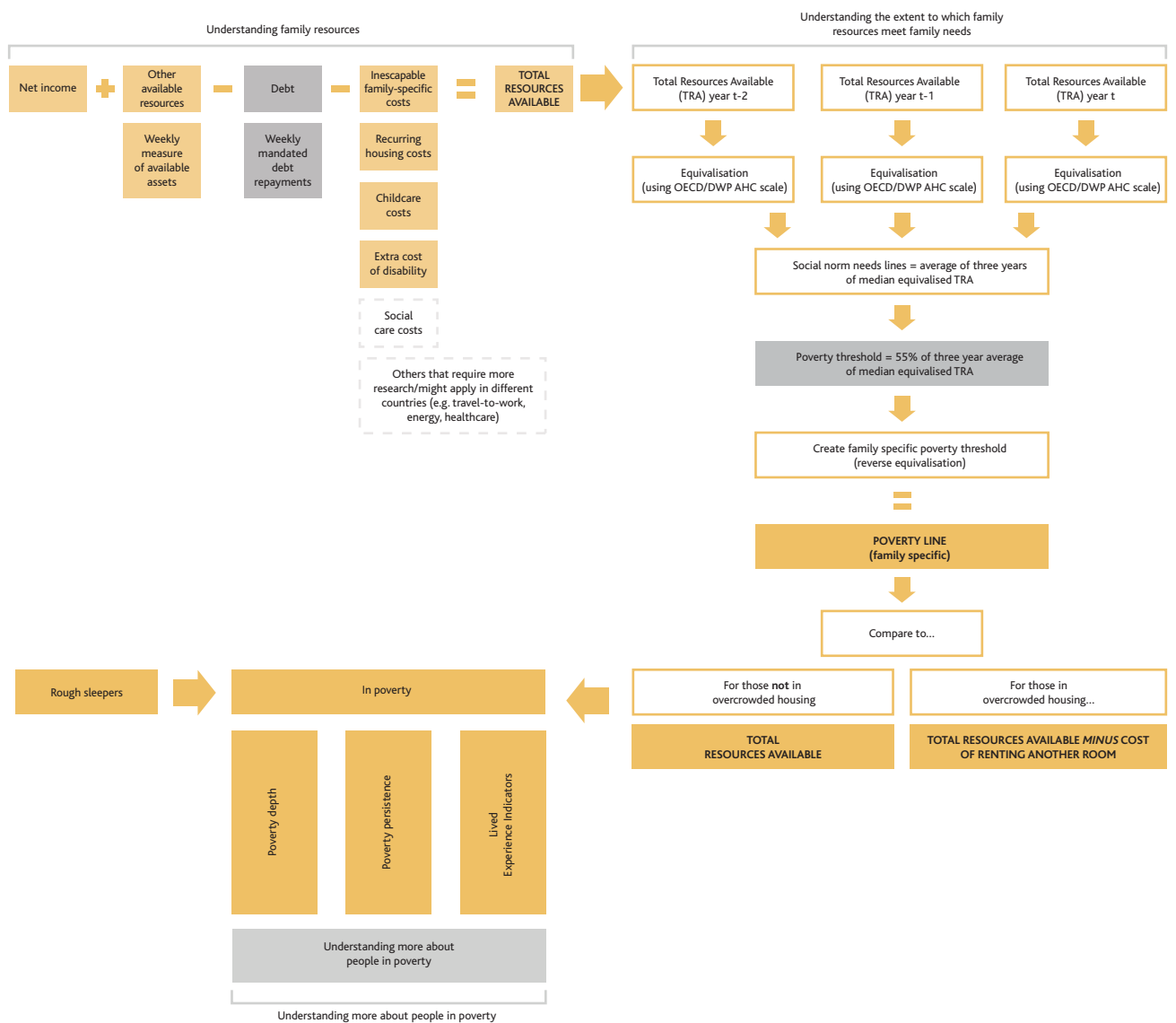
KEY FINDINGS

- Compared to previous measures, the Commission's new measure makes significant changes to our understanding of who is in poverty. In particular it:
 - Better identifies people in poverty in families that include a disabled adult or child;
 - Better identifies people in poverty in working-age families with children; and
 - Shows that fewer people in pension-age families are in poverty.
- This is because the measure takes account of both the way in which the costs of childcare and disability affect people's ability to make ends meet, and how those with significant liquid assets are able to use them to meet their current needs.
- The measure also includes a more comprehensive picture of how far people's housing needs are being met, particularly in relation to homelessness and overcrowding.
- The Commission's measurement framework also provides detailed insights into poverty depth and persistence and the wider factors that can impact on the lives of people in poverty.

Under the Commission's new measure:

- **14.2 million people in the UK population are in poverty:** 8.4 million working-age adults; 4.5 million children; and 1.4 million pension age adults.
- **12.1% of the total UK population (7.7 million people) live in persistent poverty,** (over half of those who appear in our new in poverty measure). This means that more than one in ten of the UK population are in persistent poverty.
- **More than six in ten working-age adults and children who live in families more than 10% below the poverty line, are also in persistent poverty.** For those less than 10% below the poverty line, the figure is four in ten.
- **Of the 14.2 million people in poverty, nearly half, 6.9 million (48.3%) are living in families with a disabled person.**
- **Far fewer pensioners are living in poverty than previous measures suggested.** Poverty rates amongst pension-age adults have also nearly halved since 2001 (falling from 20.8% in 2001 to 11.4% in 2017).
- **The majority (68%) of people living in workless families are in poverty.** This compares to just 9% for people living in families where all adults work full time.
- **Around 2.7 million people are less than 10% below the poverty line,** meaning that relatively small changes in their circumstances could mean that they move above it.
- **There are 2.5 million people in the UK who are less than 10% above the poverty line.** Relatively small changes in their circumstances could mean they fall below it.
- **There is a "resilience gap" between those in poverty and those not in poverty.** Across a wide range of factors that impact upon families' lives, there are measurable and significant differences between these two groups.

OVERVIEW OF THE COMMISSION'S APPROACH TO MEASUREMENT



SECTION 1: ABOUT THE COMMISSION

HISTORY OF THE COMMISSION

The Social Metrics Commission ('the Commission') was formed in early 2016, with the explicit goal of creating new poverty measures for the UK. The need for the Commission is clear; while various measures of income inequality and poverty exist, the UK no longer has an official measure of poverty for children, adults or pensioners.¹ This leaves a situation where policymakers and politicians cannot track progress or effectively be held to account for either tackling the causes of poverty or improving the lives of those who do experience poverty.

It was clear from the start that, to develop measures that could be successfully adopted, the Commission's recommendations would need to gain widespread support both from individuals and organisations across the political spectrum and from the widest range of people interested in poverty measurement. This includes charities representing specific individuals and groups, academics and researchers, the groups representing and working for people in poverty and civil servants across the UK's administrations.

To ensure that this is the case, the Commission is rigorously non-partisan. Its membership draws together top UK poverty thinkers from different political and professional backgrounds alongside data and analytical experts and those with experience of working with and supporting people living in poverty. The work has been led by an independent Secretariat and Technical Team, who have presented Commissioners with detailed analysis, research and advice, through which evidence-based decisions have been made. The Commission also chose not to make recommendations on current or future policy direction. The Commission's work and this report is solely focussed on the question of how poverty is measured.

The Commission published its Interim Report in Autumn 2016. Since then, much has changed. The conceptual framework that was presented in that report has been adapted significantly to reflect new analysis and insights into poverty measurement that have been explored since then. This report, the Commission's final report, is also a year later than planned. As a group, the Commission took the decision to take longer to get this work right. This report and the associated technical papers reflect the Commission's view on how poverty should be measured in the UK and how this should evolve over time so that, as a country, we are better able to understand the extent and nature of poverty in the UK and its four nations, and therefore better placed to tackle it.

STRUCTURE OF THE COMMISSION

Membership

Commissioners	
Philippa Stroud (Chair)	Legatum Institute
Helen Barnard	Joseph Rowntree Foundation
Dr Stephen Brien	Legatum Institute
Prof Leon Feinstein	Office of the Children's Commissioner
Deven Ghelani	Policy in Practice
Prof Paul Gregg	University of Bath
Dr David Halpern	Behavioural Insights Team
Dr Nick Harrison	Oliver Wyman
Oliver Hilbery	Making Every Adult Matter
David Hutchison OBE	Social Finance
Robert Joyce	Institute for Fiscal Studies
Carey Oppenheim	London School of Economics
Rt Hon David Laws	Education Policy Institute
Hetan Shah	Royal Statistical Society
Stephan Shakespeare	YouGov

Secretariat and Technical Team functions

The work of the Commission has been supported by a Secretariat and Technical Team delivered by WPI Economics and Oliver Wyman.

Advisors, Advisory groups and academic engagement

The Commission has also benefited from the support, insights and critique of a wide range of individuals and organisations. These include a group of around 20 poverty experts and leading academics that have been invaluable in helping the Technical Team and secretariat navigate the existing evidence and develop the detailed methodology. A group of Advisors including John Pullinger, the National Statistician, Baroness Hollis and Fraser Nelson, and the support and critique of officials in organisations including the ONS and the Department for Work and Pensions, have also been invaluable to the Commission's work. The Commission has also engaged with a wider range of stakeholders, including parliamentarians, policymakers in devolved administrations and a wide range of groups and individuals who research poverty and/or work with those in poverty. Their input has been invaluable in taking the Commission's work forward.

DECISION-MAKING PROCESS

It was also important that Commission decision-making was not constrained by a prior view of what the "right answer" would be. This means that, as well as being able to build on and learn from a long history of the measurement and analysis of poverty in the UK, Commissioners have considered a wide range of potential routes and forms of poverty measurement across the developed and developing world.

This approach has taken time. The full Commission has met over 20 times and there have been around 70 meetings of the Steering Group (around half of the Commission) over the last two and a half years. Over that time, collectively, the Commission has explored options that turned out to be inadequate, changed approach because of limitations of the available data and revisited decisions in light of new evidence and analysis. Where this has happened this report, and the associated technical papers, provide details of the evidence used to inform Commissioners and a summary of the reasons for taking these decisions.

There have also been differences in opinion. To deal with these, a set of principles were established and agreed by the Commission. These were then used to guide the decision-making process. In many areas, Commissioners have requested further research and analysis from the Technical Team before decisions could be made. This approach has meant that the measures recommended in this report are supported by all Commissioners.

NEXT STEPS FOR POVERTY MEASUREMENT AND THE COMMISSION

The Commission believes that the approach outlined in this report develops the best single measure of poverty that is feasible with existing data and research. The Commission hopes that the government and others will take on its approach, and that a range of organisations and individuals begin to use the measure proposed in this report. Alongside other measures, including those for inequality and life chances, it is hoped that the approach the Commission suggests will provide a deeper understanding of poverty and the experiences of people in poverty in the UK. The Centre for Metrics at the Legatum Institute has already committed to producing regular further analysis using the measure proposed in this report.

However, the Commission has also been clear that future work is needed to build on the evidence base and improve the collection and dissemination of data to ensure that the measure can develop and improve over time. Significant programmes of work have been identified and it is hoped that organisations including the Office for National Statistics (ONS), the Department for Work and Pensions (DWP), the Government Statistical Service (GSS) and the Government Economic Service (GES) and the wider academic and research community will continue to engage with the Commission and take this work forward.

As this work develops, choices will need to be made regarding the incorporation of new approaches into the methodology that underpins the measures outlined in this report. More broadly, as data improves, and approaches develop, a series of minor changes to methodology and approach are also likely to be needed.

To ensure that any potential changes are approached with the same rigour and cross and non-party critique and challenge, the Commission is considering how it will continue to play a strong role in leading the development of this poverty measure. More detail on the role and continued membership of the Social Metrics Commission will be confirmed in the coming months.

SECTION 2: POVERTY MEASUREMENT IN CONTEXT

WHAT IS POVERTY?

Poverty means different things to different people. While definitions may vary, as outlined in its Interim Report, an important first step for the Commission was to articulate how it would define poverty and to develop a framework that could help shape its work. We explain the decisions the Commission took around this framework in section three.

WHY IS THE CONCEPT OF POVERTY IMPORTANT?

The concept of poverty is important because of the impact that both the direct and indirect experience of poverty has on individuals, families and communities. The most obvious of these is that, where an individual or family is in poverty, some of their needs cannot be met.

In addition to the challenges people may face in putting food on the table or providing housing for their family, there are close links between poverty and many other aspects of people's lives, including relationships, health and future prospects. A significant body of research has shown some of the wider outcomes that can lead to, or are associated with, those living in poverty.²

Once in poverty, the evidence suggests that some can find it difficult to move out (and stay out) of poverty. Of course, this is often a function of the factors that led to poverty in the first place, which are themselves often persistent (e.g. low levels of education). Evidence, including that presented in technical papers that accompany this report, shows that the very same characteristics (for example poor education and/or lack of labour market experience) that make it likely that someone is in poverty in the first place are also strong determinates of the likelihood that the person remains in poverty in future. Moreover, research has established links between the experience of being in poverty and the future life chances of those who experience it.³

WHY IS THE MEASUREMENT OF POVERTY IMPORTANT?

An accurate measure of poverty is needed to understand:

- The overall extent, nature and dynamics of poverty in the UK;
- The causes of this poverty and the potential pathways out of it; and
- The interventions and support that can reduce the level of poverty and mitigate the impact of poverty for those who do experience it.

By doing so, decisions can be made nationally and locally over the extent and nature of support that should be provided to target poverty reduction; policymakers will have a much better chance of targeting the right interventions and support at the right individuals and groups; and local and national governments can be held to account over the extent to which they are effective in tackling the issue of poverty.

Without an agreed measure, this is made much more difficult; debates that should be about how best to improve the lives of the most vulnerable become debates about measurement and, at the same time, a large group of society risk being left further behind without the support that they need to improve their lives.

THE HISTORY OF POVERTY MEASUREMENT

The UK has a long history of poverty measurement, and analysis and research based on that measurement. This began in earnest with research conducted by Charles Booth and Seebohm Rowntree between 1886 and 1903, and 1899 and 1901 respectively. In the time since, the UK has adopted a range of different measures, targets and sets of indicators for tackling poverty. This includes the measures and targets adopted by the Labour Government in the late 1990s and early 2000s and legislated for by the Coalition Government in 2010 (box 1).⁴

Box 1: Poverty measures legislated in the Child Poverty Act 2010

The Act legislated for targets to reduce four different measures of child poverty:

1. **Poverty:** For less than 10% of children to live in relative low-income families. This was based on a poverty line based on 60% of equivalised net, before-housing costs, median income.
2. **Combined low income and material deprivation:** For less than 5% of children to live in material deprivation and low-income families. Here, the low-income threshold was defined as an equivalised net, before-housing costs, income below 70% of the UK median.
3. **Absolute poverty:** For less than 5% of children to live in absolute low-income families. Absolute low income was defined as an equivalised net, before-housing costs, income below 60% of an adjusted base amount, with the base year being 2010/11.
4. **Persistent poverty:** For fewer children to live in relative poverty for long periods of time, with the specific target to be set at a later date. For the purposes of this target, a long period is defined as three years or more.

Following a period of debate over the last decade, the UK as a whole no longer has official targets for the reduction of child poverty, and no officially agreed measures of poverty for the whole population exist. However, since 2016, the Governments of Scotland, Wales and Northern Ireland have all continued to produce progress reports on measures of child poverty based around the Child Poverty Act 2010 definitions as part of their national indicators of success (though note that the recent Scottish Act has explicitly moved to an after-housing costs measure).⁵ In England, whilst statistics on relative low incomes are still published each year, the Government has chosen to focus more heavily on measures of life chances.

THE NEED FOR NEW MEASURES

The sections above have outlined the importance of measuring poverty across the whole of the UK. They have also shown that, whilst three of the four UK nations continue to produce official statistics relating to poverty, there are currently no official measures of poverty in England, or across the UK as a whole.

This provides a vital opportunity to re-establish a robust and effective measure of poverty in the UK. This need not be simply recreating old approaches, but rather building on and improving them to ensure that our measure of poverty best reflects the experiences of people living in poverty. Doing so would ensure that:

- The extent and nature of poverty across different households, families and individuals in the UK are properly understood;
- Outcomes and experiences for families and individuals in the UK and England can be assessed and compared to those of families in Wales, Scotland and Northern Ireland;
- It is more likely that policymakers will make the right decisions on spending and investment focussed on alleviating poverty and tackling its underlying causes, as they have sufficient information to target resources effectively and monitor the impact of that spending; and
- Local and national politicians can be held to account by external organisations who have access to and can use the most accurate and up-to-date information on people in poverty in the UK.⁶

The Commission was formed to develop a metric or set of metrics through which poverty can be more consistently measured and understood across the UK and the countries and regions within it.

HOW CAN POVERTY BE MEASURED?

To guide the work of the Commission in creating poverty measures that can improve on the measures that have previously been used, a range of different approaches were considered.

Across the world, organisations and national and local Governments have been measuring poverty for decades and a variety of different approaches are used.⁷ Examples of approaches include that:

- A number of countries and organisations (OECD/EU) focus on assessing absolute and/or relative low income as a measure of poverty;

- The USA uses an absolute poverty approach that is based on assessments of family's needs developed in 1963/64 and updated annually for inflation. As a result, this measure establishes a lower threshold for poverty than most European countries. More recently, the USA has introduced a supplementary measure, that considers a wider range of needs and is pegged to spending between the 33rd and 36th consumption percentile;
- Some measures are based on qualitative and quantitative research to develop a consensual measure, that seeks to understand what the public believe is a minimum standard at which people should live. For example, in the UK, such measures include those created by the Poverty and Social Exclusion project,^{8,9} and the Joseph Rowntree Foundation's Minimum Income Standard (which measures public views of acceptable living standards rather than poverty directly); and
- A wide range of multidimensional measures also exist. These include measures that track a set of indicators, including the UN's Millennium Development Goals and Sustainable Development Goals, and previous and current UK measures including for Life Chances and the Opportunity for All indicators. Others bring together a range of measurement domains to create a single index, a key example is the approach developed by the Oxford Poverty and Human Development Initiative (OPHI).¹⁰

Commissioners considered the pros and cons of all of these, and other, measures. In taking forward its work, the Commission has ensured that the lessons and practical implications from these approaches have been built upon.

SECTION 3: A FRAMEWORK FOR MEASURING POVERTY

SETTING A FRAMEWORK FOR THE COMMISSION'S WORK

To ensure that the Commission approached decisions in a consistent manner, a set of key principles were developed and agreed by the Commission. These were used to frame the Commission's decisions and covered both the Commission's overall approach to measurement and the Commission's approach to measurement of resources and needs. These are outlined in box 2, and the key themes of these are summarised below to demonstrate the Commission's view on poverty.

A focus on poverty

As outlined in the Commission's Interim Report, the Commission has the objective of measuring poverty. There are a number of related concepts, which are all worthy of measurement, including:

- Income inequality;
- Social mobility; and
- The causes of poverty.

However, whilst there will undoubtedly be overlaps between these concepts and any measure of poverty (both in terms of the people covered by the metric and the approach to measurement), they are not measures of poverty itself. The Commission's aim was to create a measure that is explicitly about poverty, but which can be used alongside these measures to fully capture the range of circumstances and factors that contribute to wellbeing.

Poverty now

The Commission recognised that there are differences between needs conceived as being immediate (e.g. paying for daily costs of living) and a 'need' to save for the future. Commissioners took the view that they are concerned with measuring families' experience of poverty at a particular point in time. As a shorthand, the Commission used the phrase '*poverty now*'. This meant that as far as possible the Commission considered the ability that families would have to use the material resources currently available to them to meet their immediate material needs, rather than how they might manage in the future. Some practical examples of the implications of this include:

- **Not in poverty, but poorly prepared.** The need to put aside money for a rainy day and/or retirement are obviously important considerations for public policy. However, if a family currently has sufficient resources to meet their immediate needs, but are not saving, this would not mean that they are in '*poverty now*'. The impacts of this lack of preparation would be captured in later years of measurement (if they were to fall into poverty) and should be proactively monitored through measures of financial resilience and/or pensions adequacy.

- **Cash poor but adequately housed.** Whilst, over the long term, families might be able to downsize or rent out rooms to convert housing wealth into resources that can be used to meet other needs, the nature of housing markets mean that they are typically unable to do this immediately; they cannot buy food today with housing wealth, and so they should be classed as in '*poverty now*' if their non-housing resources are insufficient to meet their non-housing needs.

Overall, this meant that the Commission decided that its framework would centre around a measure of poverty, which assesses whether available material resources are sufficient to adequately meet immediate material needs.

With reference to society

The Commission was clear both that poverty should be assessed with reference to others in society and that these norms will change over time. In particular, Commissioners suggested that the concept of poverty should be related to the extent to which people have the resources to engage adequately in a life regarded as the "norm" in society.

Neutrality

Alongside the desire to measure '*poverty now*', Commissioners also felt that it was important that the measure viewed a family's experience of poverty in a neutral manner. This means that, for the purpose of measurement, it would only consider the experience now, and not consider how the family got into the situation. For example, when deciding who to classify as in poverty, no view would be taken as to whether a family could (or should) have avoided the situation (e.g. by tackling a gambling habit or spending less on credit cards). The purpose of the poverty metric was to capture the actual current experience.

Lived experience

The Commission wanted to be able to understand more than just who was classed as being in poverty, based on their material resources and material needs. Going beyond this would mean understanding the nature of that poverty (e.g. poverty depth and persistence) and the wider characteristics and factors that impact on a family's experience of poverty, their ability to move out of poverty in the future and/or their likelihood of being in poverty in the first place. For this reason, the Commission agreed that its measurement framework must include a consideration of these wider factors.

Ongoing measurement

The Commission wanted to create a new measure that could be readily captured using credible available data. The need to understand poverty alongside a range of demographic and societal questions meant that this data ideally needed to be contained within one source, or a number of sources that could be matched together accurately. Commissioners also wanted the measure to be updated regularly, meaning that the data needed to be refreshed and made available at regular intervals.

Box 2: Overview of the Commission's principles of measurement

Key principles informing the Commission's overall approach

1. The poverty metric will draw a clear distinction between indicators of poverty itself, the experience of poverty and risk factors or drivers of future poverty;
2. The poverty metric will be sensitive to depth and persistence of poverty; and
3. The metric will balance accuracy with simplicity. The goal is to measure the size, distribution and nature of the population that is in poverty. We will not add unnecessary layers of complexity to capture very small numbers of atypical families.

Key principles informing the Commission's approach to resources and needs

4. Poverty should be determined by whether resources can be used to meet a specified level of need. A family's level of needs should reflect the size and composition of the household and other relevant factors that impact on needs;
5. Needs and resources are compared in order to understand the lived experience of poverty at a particular point in time. That means that:
 - a. Needs are based on day to day requirements; they do not include factors like the need to build a buffer stock of savings or to save for retirement. These issues should be captured in wider measures of financial resilience and/or future life chances.
 - b. Resources must be available in the same timeframe over which needs have to be met. This might loosely be defined as "available resources".
6. Needs are determined with reference to all of society. The definition of needs will be related to the degree to which people do not have the resources to engage in a life regarded as the 'norm' in UK society; and
7. In understanding the level of poverty, the measure will create an objective view of a family's available resources and needs at a given point in time – independent of the choices that led them there.

These principles and the underlying views of the Commission regarding poverty led the Commission to create a central measure of poverty, which was supplemented by a range of wider measures, chosen to reflect the nature of poverty and the lived experience of those in poverty.

A MEASURE OF POVERTY

The Commission began its work by outlining how it would approach the measurement of poverty. As outlined in its interim report, the Commission viewed poverty as the experience of having insufficient resources to meet needs.

However, there are a number of different dimensions along which 'needs' and 'resources' could be characterised. For example:

- Resources could be focused purely on material resources or be taken to mean a wider view of 'capabilities' affecting someone's ability to change their own life. A wider approach might include education or mental and physical health as 'resources';¹¹ and
- There are also differences between needs conceived as being immediate (e.g. paying for things now) versus a 'need' to save for the future.¹²

Based on the principles outlined above, the Commission decided to focus its measure of poverty on the extent to which the material resources that someone has available to them are sufficient to meet the material needs that they currently have.

Commission decision on principle

The Commission views poverty as being the situation where a person's available material resources are insufficient to adequately meet their immediate material needs.

Unit of measurement

For the majority of individuals, needs and resources are shared across their immediate and broader family. For example, two people living together as a couple may pool their earnings to meet their shared costs of accommodation and food. Equally, a child's needs are typically met through the resources of one or more adults. However, the extent to which needs and resources are pooled or shared within different families will vary significantly (for example, some people living together as couples will, in fact, share relatively little). Previous measures of poverty have focussed on household measures and taken account of different sizes of household by using a process of equivalisation. Commissioners were open to using this or other approaches to ensure that assessments of poverty take account of the extent to which different individuals and families share their resources or needs.

Commission decision on principle

The Commission decided that resources and needs should be assessed with regard to how individuals share with those that they live with.

Available material resources

The Commission wanted to develop a measure of available resources that included all sources of income and non-income resources that can be immediately accessed (e.g. savings and liquid investments). This is because resources drawn from earnings, benefits or savings can all be used to meet material needs today; food, clothing or a bus ride can all equally be purchased with earnings as they can with money from cash savings. Conversely, resources that are not easily accessed in the short term (e.g. housing wealth and pension funds) cannot be used to meet day to day needs.

The Commission also wanted to take out of consideration resources that are committed to be spent on outgoings over which families have no immediate control (inescapable costs), to create a new measure of *total resources available*.

The rationale for this is that these inescapable costs reduce the resources that a family have available collectively to meet their day-to-day needs and that the level of expenditure is not common across all families of the same size and nature. For example, the recurring costs of housing and childcare costs are obvious examples within the UK. If this approach to measurement was adopted by other countries, the costs associated with medical costs (where there is little state provision, as in the US) might also be counted as inescapable costs.

Commission decision on principle

A new measure of total resources available...

...*should include*:

- Net income: All sources of income are included as a resource; this includes post-tax earnings (from employment and self-employment), benefits and unearned income (e.g. from rent or interest);
- Other available resources: Assets that can be freely accessed immediately should be included as an available resource;

...*from this we should deduct*:

- Costs that are inescapable in the short term: Outgoings that are obligated and family-specific should be deducted from available resources. The requirement to pay these means that the resources are not available to meet day-to-day needs. A range of costs might be included as inescapable, based on the features of the costs and where poverty is being measured.

Immediate material needs

In developing a measure of material needs Commissioners were clear that this should take account of the number of people who are sharing a given level of resources, and any economies of scale that are present when people share. This makes sense in intuitive terms:

- A two-person family will have a higher total level of needs than a single person; but
- The level of needs for the two-person family may not be twice as high, as they can share the costs of some items, including housing, food and utility bills.

The measure should assess needs once inescapable costs have been accounted for (for example, if housing costs were included as an inescapable cost, they should not also be assessed in the measure of needs). Where appropriate, it should also vary by the composition of the family and wider characteristics that might impact on their level of needs.

To understand whether the resources identified as being available to meet these needs are sufficient, Commissioners wanted to ensure that needs are assessed with reference to others in society. This was based on the principle that an understanding of poverty should reflect how societal expectations and living standards change over time and that, overall, those in poverty should not move further away from the "social norm" over time.

Commission decision on principle

A new measure of immediate needs should:

- Take account of the composition and number of people in the family; and
- Be tailored to take account of all needs that are outside of those judged to be inescapable costs.

Immediate needs should be judged with reference to others in society and social norms.

WIDER MEASUREMENT FRAMEWORK

As outlined, creating a measure that identifies the group of families and individuals judged to be in poverty is only part of the goal of the Commission. Commissioners also identified a large range of factors that also warrant consideration as they affect the experience of poverty, influence the future likelihood of poverty, or are consequences that flow from being in poverty.

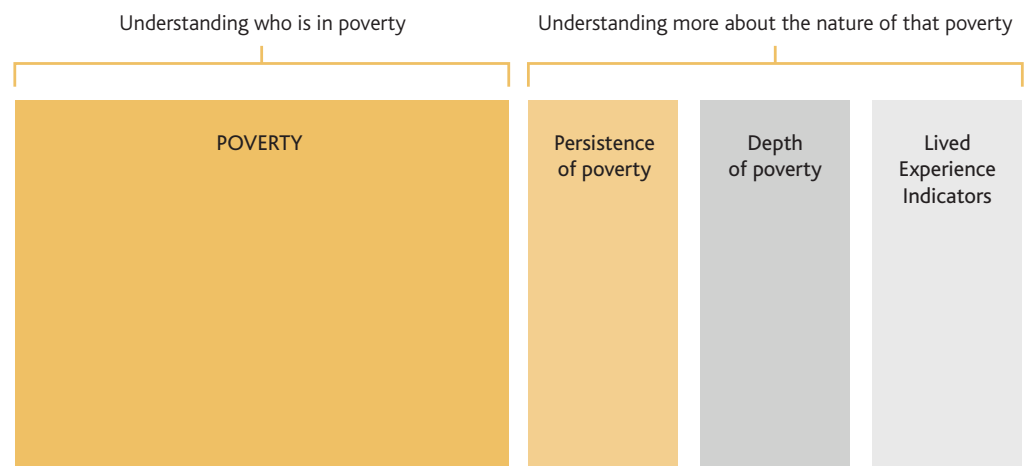
In practical terms, the wider measurement framework rests on measuring and understanding the factors that have the most impact on the lived experience of poverty for those who experience it and creating indicators of the depth and persistence of poverty.

Commission decision on principle

Alongside a measure of the number of families and individuals experiencing poverty, the Commission will also report on:

- **Depth of poverty:** this should assess how far below the poverty line families find themselves.
- **Persistence of poverty:** this should assess how long families in poverty have been in poverty for.
- **The Lived Experience of those in poverty:** this should include an assessment of a range of factors and characteristics that impact on a family's experience of poverty, make it more likely for them to be trapped in poverty and/or are likely predictors of their poverty experience.

Bringing all of those factors together, the Commission's core figure below demonstrates how the Commission decided to measure and report on poverty.



SECTION 4: WHAT THIS MEANS IN PRACTICE – POVERTY

STEPS TOWARDS MEASURING POVERTY

Once a framework for understanding poverty measurement and a definition of poverty had been created, the main part of the Commission's work was to develop a way of capturing this in practical terms, with the currently available data.

FOUR STEPS TO MEASURING POVERTY

Creating a workable measure rested on four distinct steps:

1

HOW DO PEOPLE SHARE?

What should we assume about how people share resources and combine needs?

2

AVAILABLE MATERIAL RESOURCES

What material resources are available?

3

IMMEDIATE MATERIAL NEEDS

What are the needs which these available resources should meet?

4

COMPARING RESOURCES AND NEEDS

How to create a poverty line and update this over time

DATA

As well as developing a methodology for each of these steps, data is needed in order to operationalise the measure. The Commission wanted this data to be based on actual information on individuals, families and households in the UK, updated regularly and comprehensive enough to allow a wide-ranging assessment of all of the factors outlined in section 3.

A number of avenues were explored. For example, the Commission considered using a range of national household surveys including the Family Resources Survey (FRS - which is the basis for the official Households Below Average Income measurements), Understanding Society and the Living Costs and Food Survey. It also considered whether and how administrative data could be used to develop a new measure.

The Commission noted that improvement programmes were underway in a number of these areas, and particularly on access to and use of administrative data.¹³ However, ultimately none of these sources (or combinations of sources) could be used to create a fully comprehensive version of the measure outlined in section 3. As such, for each of the four steps outlined above, the sections below outline both a principled decision (what a measure would look like with ideal data) and a practical operationalisation of the Commission's principled decision, which represents the best possible measure with existing data.

The Commission's practical application of its poverty metrics are operationalised through the Family Resources Survey¹⁴ (for poverty and poverty depth) and Understanding Society¹⁵ (for poverty persistence). A combination of these data sources will be used to report on Lived Experience Indicators.

Commission measurement decision

The Commission will base its measurement approach on data from the Family Resources Survey (for poverty and poverty depth) and Understanding Society (for poverty persistence). A combination of these data sources will be used to report on Lived Experience Indicators.

The Commission is aware that, in some cases, there are important issues of underreporting (e.g. of benefit income and self-employed income) that need to be considered. Recent work has demonstrated the potential impact of these issues on poverty measurement and it is something that the Commission believes should be tackled through improved data collection.¹⁶ In the interim, the Commission has mirrored the approach taken by other users of the Family Resources Survey (e.g. DWP, ONS) to minimise the impacts of these issues.

The Commission is also aware that the fact that these are household surveys means that they are not fully representative of the UK population. For example, the surveys will not include people living outside of a typical "household", including in prisons, children's homes and halls of residences, nor groups in supported housing, homeless people, those fleeing domestic violence and those sleeping rough. Many other groups may be under reported, including "sofa surfers".¹⁷

The size of some of these groups is sizeable. For example, official statistics show that close to 5,000 people were estimated to be sleeping rough in 2017.¹⁸ The Commission decided to regard all of these people as being in poverty. Official estimates of the total number of people who are statutorily homeless are significantly higher, and other research has suggested that two thirds of single homeless people may not show up in official figures.¹⁹

Whilst it is not necessarily the case that everyone in this wider group would be regarded as being in poverty, a fully comprehensive measure of UK poverty would assess the situation and outcomes of these individuals and families. Work commissioned by the ONS and JRF has begun to consider how this might be approached in the future.²⁰ In the meantime, as well as including those sleeping rough in headline poverty figures, the Commission notes that this is an important area for future exploration and recommends that further work is undertaken to include these groups in measures of poverty.

STEP 1: WHAT TO ASSUME ABOUT HOW PEOPLE SHARE

Why consider this issue?

To understand poverty, it is important to have clarity over how people share their resources in order to meet needs. If we did not assume that people shared their resources and combined needs, we would consider each individual separately. In practice, this would result in a situation where anyone with very low or no personal available resources would be judged to be in poverty, despite the fact that they could be being supported by a partner, parent or other family member. An obvious example is that, by considering each individual separately, all children and all non-working partners in a one-earner household would likely be classed as being in poverty.

Principled decision

Commission decision on principle

A poverty measure should take a full and accurate account of the relationships between different individuals and what these mean for how available material resources are shared and immediate needs met.

Measurement in practice

A significant body of literature has assessed some of the implications of intra-household sharing of resources and needs. However, to date, a fully comprehensive approach has not been incorporated into UK poverty measurement.²¹ There are three key levels of sharing that are typically used in social policy in the UK (and more widely). These are:

- Household: this focuses on sharing between all individuals/families within a particular physical household;²²
- Benefit unit: so-called as this has historically been the unit of assessment for UK benefits, this focuses on sharing between the nuclear family;²³ and
- Individual: this assumes no sharing at all as it focuses on each person in isolation.

In the context of poverty measurement, the Households Below Average Income (HBAI) series assesses poverty status at a household level. This means that it implies that the available resources of everyone resident in the household are shared to meet their combined needs. In broad terms, this means that the incomes of all occupants are summed and a comparison between total incomes and a poverty line is made (after adjusting for the number of people in the household).

Whilst in many cases this makes sense, in others it does not. For example, where a couple are living with a lodger or where a group of un-related young people are living together in a property, it is unlikely that these groups and individuals should be classed as a single unit, who share their incomes and needs. Taking this approach means that, for example, where a group of single people share a house, one who has a very low income is not classed as living in poverty if one or more of their housemates has a very high income.

This is not only a problem for measurement at the household level; in each of the other options outlined above, while there are examples of families and relationships where the sharing rule makes sense, there are also clear examples of where there are likely to be inaccuracies which would distort our understanding of poverty. For example, for many families, *within* benefit unit sharing will be regarded as the norm, but for others there is likely to be some *between* benefit unit sharing. For example, an adult living with their parents; a lone parent and child living with their own parents; and/or siblings who share accommodation. Ideally, the Commission would be able to accurately capture the nature of particular sharing relationships within each household. However, the data to do this is not available.

The Commission therefore needed to create a general rule that could be used as the best approximation to the extent of sharing within households, with the data available. To do this, the Commission created a new unit of assessment, based on a concept of a Sharing Unit that is wider than the nuclear family and includes all individuals within the household who are related. A technical paper will explore the Commission's decision in more detail.

Commission measurement decision

The Commission decided to create a new measure of intra-household sharing; the Sharing Unit. In practical terms this means that:

- Related* individuals within a household are deemed to share resources and needs – they represent one Sharing Unit. For example, a lone parent and child living with the lone parent’s own parents would be counted as one Sharing Unit.
- Non-related individuals within a household are deemed not to share resources and needs – they represent multiple Sharing Units. For example, a group of non-related students living in the same property would each be classed as a separate Sharing Unit.

*Note: that we also use “related” to refer to two people living together as a couple.

The Commission is clear that this approach would not capture perfectly all sharing relationships in all households. For instance, in some households, related benefit units, and individuals within the same benefit units, will not equally share their resources and needs.²⁴ However, whilst this is not a perfect measure, we believe it is the best that is possible using the available data, and an improvement on previous measures.

Note that the rest of this report uses “family” as a synonym for Sharing Unit. Where reference is made to a nuclear family (or benefit unit), this is made explicit.

STEP 2: A MEASURE OF TOTAL RESOURCES AVAILABLE

Section 3 outlined the Commission's decision to create a new measure of *total resources available*, which includes both income and non-income resources and takes account of inescapable costs. The following sections outline how each of these components will be measured.

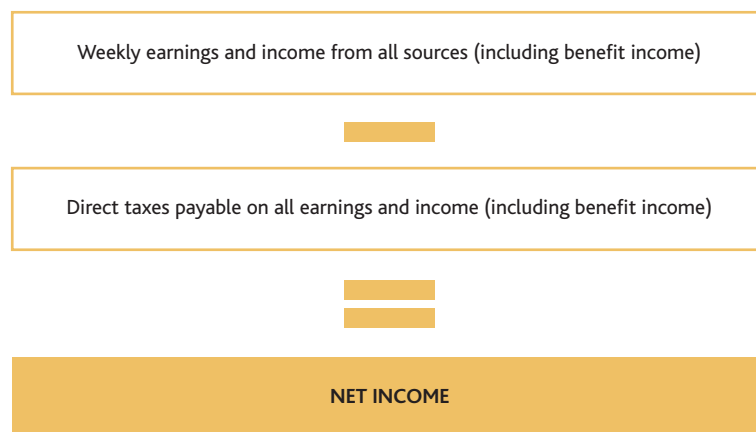
Income as a resource

The starting point when considering the total resources available is the earnings and income that people receive.

There are a number of elements to this, for example:

- Earnings from work as an employee;
- Income from self-employment;
- Income from dividends, and interest payments; and
- Income from the state from social security benefits and tax credits.

The extent to which these are available also depends on the impact that the income tax system has. This means that developing a baseline measure of available resources requires the creation of a measure of weekly net incomes.



Each of these elements is measured in the Family Resources Survey. As such, our definition of net income is consistent with that recognised in the HBAI publications. The Commission also identified a range of other non-income resources and inescapable costs that needed to be accounted for in a more complete measure of available resources. These are outlined below.

ASSETS

Why consider this issue?

As well as using net incomes, families can use accumulated assets to purchase goods and services. For example, if a family has £500 of weekly net income and no cash savings, in principle, they are able to undertake the same level of expenditure today as a family who has no income and access to £500 of cash savings.

Principled decision

Commissioners considered a range of options for how a measure of available assets could be added to net incomes. Many of the issues considered centred around the fact that net income is a flow measure, whereas assets are a stock. A range of areas were considered in detail, including:

- Type of assets to include as available/liquid;
- How to create a measure of assets that reflects what families might be expected to regard as “available” to use to meet immediate needs; and
- Whether to disregard a given level of savings as a “rainy day” need.

Overall, Commissioners decided to include all assets that could be freely liquidated into cash, but to exclude non-liquid assets, for example housing assets. The rationale for excluding non-liquid assets is that, while they might be sold in future, they typically could not be immediately used as a resource to fund day to day needs. For example, whilst housing assets are an important consideration for long-term financial resilience and wellbeing, if a family were struggling to buy food today, they would not realistically be able to access this money in the immediate short term in order to buy that food.

To be able to assess the stock of liquid assets in combination with measures of weekly net income, Commissioners decided to use a measure of liquid assets divided by 52 (since there are 52 weeks in a year, and our ‘flow’ measures of resources are measured on a weekly basis) and not to include a disregard for “rainy day savings”. Commissioners were clear they were not assuming that all families would use savings in a particular way; the decision reflects the intention to capture the extent to which people have the opportunity to meet their immediate needs, without suggesting that families should draw down all of their assets over a very short period.

Commission decision on principle

Assets that can be freely liquidated into cash should be included as an available resource, on the same weekly basis as with incomes.

There was an in-depth discussion about what this decision meant about the Commission's view of a families' financial resilience and/or pension adequacy. Overall, the Commission was clear that measures of financial resilience and pension adequacy are important, and that approaches to increasing families' overall financial wellbeing should include interventions to support and encourage these. However, the Commission decided that it was not appropriate to include these within a measure of '*poverty now*', but rather in a wider suite of measures reflecting financial wellbeing.

Measurement in practice

A measure of liquid assets is available in the FRS, meaning that it is possible to include the value of assets as a component of the measure of total resources available. However, as with income measurement, our understanding is that measures of assets in the FRS could be improved to make them more granular and more accurate.

Measures of assets are available in Understanding Society, meaning that they can be used in the Commission's measure of persistent poverty. However, they are available for only the fourth wave (2012–13) of data. To accommodate this data limitation, it has been assumed that, when measuring poverty persistence, families' position with regards to assets and debt remain constant over time. Whilst this is clearly not a true reflection of reality, it is the best available approach. The Commission strongly recommends that more work is undertaken to include robust measures of assets and wealth in both the FRS and Understanding Society in future.

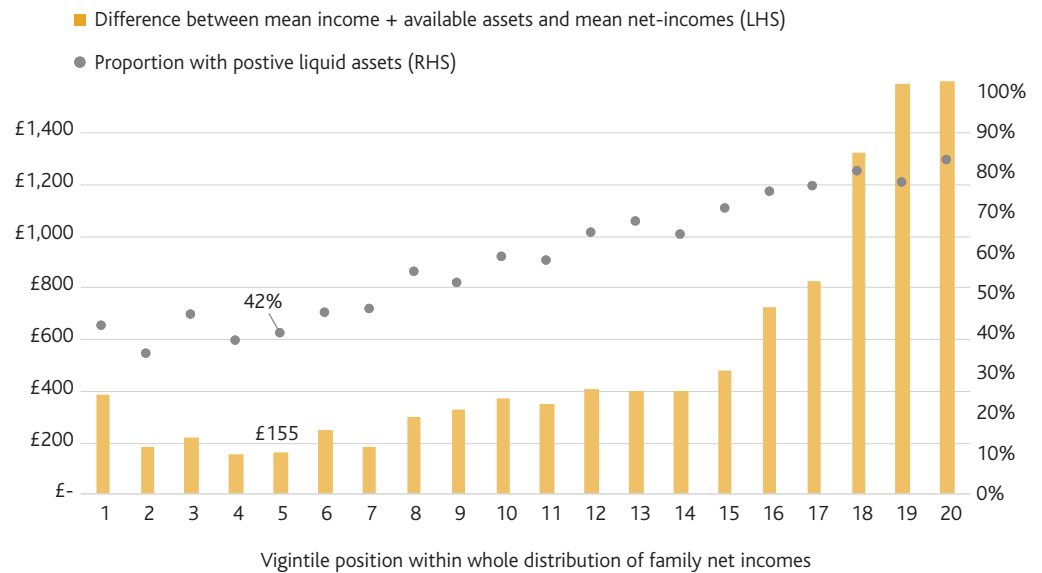
More detail on how the Commission approached this measurement question will be provided in a technical paper.

What impact does this have?

Figure 1 demonstrates how, compared to considering only net incomes, including a measure of liquid assets to create a measure of resources (incomes plus available assets) impacts on families across the net income distribution. For example, it shows that at the fifth quintile, 42% of families hold some available assets and that the average (mean) adjustment from these assets to the Commission's measure is £155.

Overall, the figure shows that families towards the top of the distribution of weekly net-income are more likely to hold assets (in the top six income quintiles more than 70% of families hold liquid assets). However, there is also a significant proportion of families towards the bottom of the net income distribution who hold liquid assets. In fact, between 30% and 50% of families in the bottom seven income quintiles hold some liquid assets.

Figure 1: Difference between mean weekly net income + available assets and mean net-incomes by vigintile, all families, 2016/17



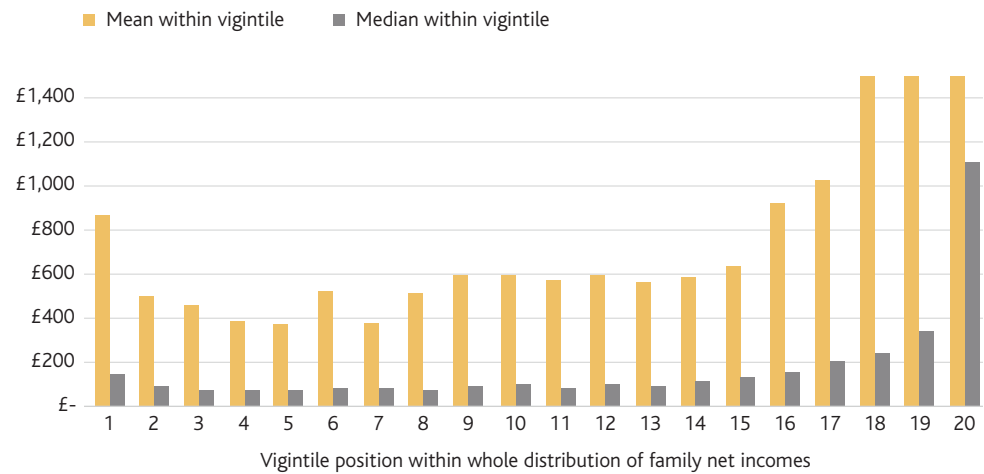
Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: The value for vigintile 20 is £3,234 which exceeds the y-axis. Median total liquid assets are defined using the total capitalisation of the sharing unit using information on their assets and accounts in the Family Resources Survey. This includes capital in current accounts, savings accounts, TESSAs, other accounts, gilts, trusts, stocks and shares, unit/investment trusts, SAYE, PEPs, national savings capital/deposit bonds, and other assets. It does not include income or total values of pension funds. Full information can be found in the Family Resources Survey Derived Variables Specification.

The figure also shows, that the average impact of including available assets is large across all income vigintiles. The average (mean) impact of including available assets (total liquid assets divided by 52) is close to or above £200 a week at all vigintiles.

Figure 2 shows the impact of including available assets, just for those families who have them. It shows that, within each net-income vigintile, the mean impact of including assets is close to (or significantly above) £400 a week. However, this is largely a result of a relatively small number of families with very large stocks of available assets, as the medians within each net-income vigintile are below £100 a week for the majority of families.

Figure 2: Difference between mean weekly net income + available assets and mean weekly net incomes by vigintile, families with assets, 2016/17



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

There is also significant variation in the level of liquid resources available to different family types. Table 1 shows that couples with no children and pension-age families are more likely than working-age families with children to have significant liquid (non-pension) assets.

Table 1: Prevalence and level of liquid assets, by family type, 2016/17

Family type	Percentage with liquid assets	Of those with liquid assets...	
		Median total liquid assets	Mean total liquid assets
Single, no children	41%	£3,400	£23,597
Lone parent	26%	£2,000	£21,286
Couple, no children	72%	£8,750	£52,527
Couple with children	59%	£5,333	£43,910
Pensioner, single	68%	£9,250	£44,633
Pensioner couple	80%	£24,551	£118,295
All disabled families	55%	£7,440	£51,896

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Median total liquid assets are defined using the total capitalisation of the benefit unit using information on their assets and accounts in the Family Resources Survey. This includes capital in current accounts, savings accounts, TESSAs, other accounts, gilts, trusts, stocks and shares, unit/investment trusts, SAYE, PEPs, national savings capital/ deposit bonds, and other assets. It does not include income or total values of pension funds. Full information can be found in the Family Resources Survey Derived Variables Specification.

DEBT

Why consider this issue?

Where families have accumulated debt and are obligated to pay this back based on a repayment schedule, the resources that go towards meeting these debt repayments are not available to spend on the day to day consumption. For example, where two families both have £500 of weekly net income, but one has £100 of weekly debt repayments that they have to pay, the family with debt repayments is left with only £400 of weekly available resources with which they can meet their immediate consumption requirements.

Debt – principled decision

When considering the extent to which immediate needs can be adequately met, Commissioners decided that obligated weekly debt repayments should be viewed as an inescapable cost, which reduces total resources available for other spending. A key distinction that Commissioners discussed was whether to include only the cost of servicing interest payments, or whether to also include repayment of capital. Commissioners decided that all obligated payments reduce the level of resources immediately available and, as such, obligated capital repayments should be included.

This is despite the fact that capital repayments are reducing the stock of debt and hence are adding to a family's net wealth. This means that they have different implications for a family's longer-term financial wealth than interest payments. This is a good reason to disregard capital repayments in certain contexts, but such an approach would not be consistent with the principles agreed by the Commission when measuring '*poverty not*'.

Commission decision on principle

Obligated debt repayments should be viewed as an inescapable cost that reduces the overall level of available resources that a family has.

Measurement in practice

Measures of debt are not available in the FRS, meaning that it was not possible to include a measure of obligated debt repayments in the measure of total resources available.

The Commission strongly recommends that more work is undertaken to include robust measures of debt in both the FRS and Understanding Society in future.

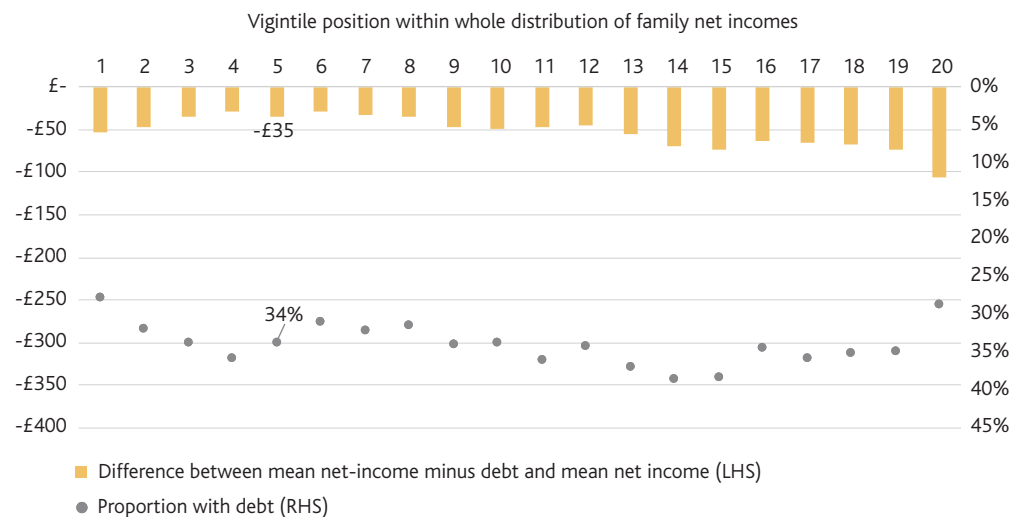
The impact of not using debt repayments

This shows that the inclusion of assets in the measure of resources has a large impact on the understanding of poverty. However, as already outlined, the Commission was unable to include an equivalent treatment of obligated debt repayments, because no information on obligated debt is collected as part of the FRS.

Measures of overall debt are, however, included in Understanding Society. Figure 3 uses this data to show how the incidence and level of debt varies across the net-income distribution. For example, it shows that, at the fifth vigintile, 34% of families hold debt, and that the mean adjustment for this debt would be £35 a week for the Commission's measure.

Overall, the figure shows that around a third of families at each income vigintile report outstanding debt balances. It also shows that the impact of including a weekly level of debt repayments is significant across all vigintiles.

Figure 3: Difference between mean weekly net-income minus weekly debt and mean weekly net-incomes by vigintile, all families, 2012/13

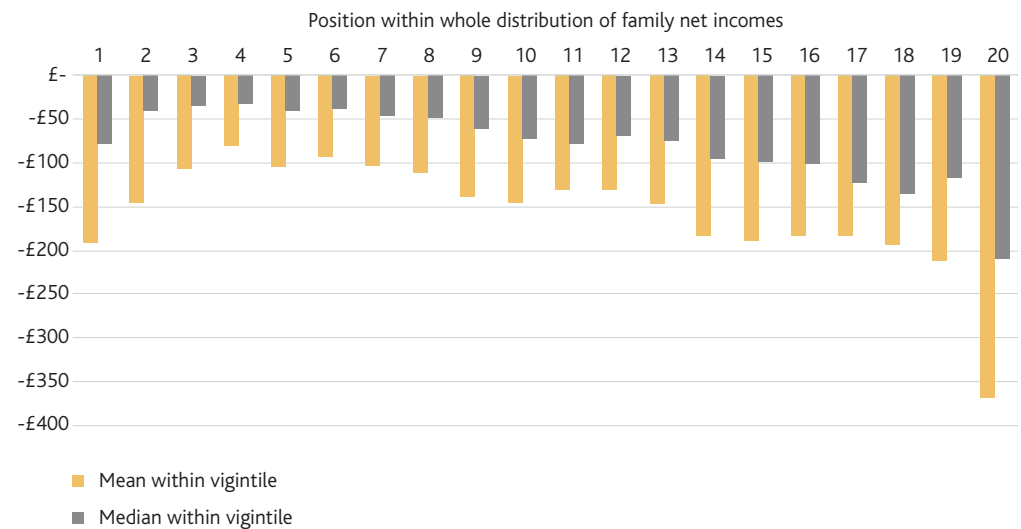


Source: Understanding Society (2012/13), SMC Analysis.

Notes: Wave four (2012/13) is the only wave of Understanding Society with full information about assets and is therefore used for this analysis.

Figure 4 shows the average level of adjustments within each net-income vigintiles only for those families that have debts balances.

Figure 4: Difference between weekly net income – weekly debt and weekly net incomes by net income vigintile, families with debt, 2012/13



Source: Understanding Society (2012/13), SMC Analysis.

Overall this demonstrates a strong justification for including a measure of debt repayment in future measures of poverty. This would require improvements in the data currently collected by the UK's household surveys, perhaps by incorporating more of the information captured in the Wealth and Assets Survey as part of the FRS and future waves of Understanding Society.

RECURRING COSTS OF HOUSING

Why consider this issue?

The recurring costs of housing vary significantly across the country and between different types of housing, particularly between those in social rented, private rented and owned homes. Table 2 demonstrates the regional averages of the recurring housing costs (including rent, mortgage payments and obligated payments such as council tax and water rates) that families in different tenure types pay.

Table 2: Regional average of weekly recurring housing costs, by tenure, 2016/17

Region	Tenure type				
	Social Renter	Private/ other rent	Owned with mortgage	Owned outright	Other
North East	£75.05	£99.94	£104.97	£9.85	£14.13
North West and Merseyside	£78.96	£98.13	£105.53	£10.92	£7.85
Yorkshire and Humberside	£73.14	£98.74	£105.00	£10.24	£6.21
East Midlands	£75.39	£104.61	£117.33	£10.66	£5.19
West Midlands	£79.58	£107.95	£107.91	£10.29	£8.19
Eastern	£88.56	£143.07	£141.10	£11.53	£3.94
London	£110.33	£194.09	£190.93	£17.85	£23.07
South East	£90.95	£153.73	£151.86	£13.93	£22.63
South West	£84.89	£133.16	£140.88	£13.73	£8.44
Wales	£79.23	£103.51	£105.69	£10.99	£7.07
Scotland	£67.10	£110.78	£111.25	£12.61	£10.11
Northern Ireland	£55.93	£77.27	£87.59	£4.57	£7.31

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Calculated at benefit unit level. Housing costs are calculated using HBAI derived housing costs plus an adjustment to account for capital repayment. Tenure type 'Social Renter' includes 'LA rented unfurnished' and 'Housing Association'. Tenure type 'Private/other rent' includes 'Other rented unfurnished' and 'Rented unfurnished'. Tenure type 'Other' includes 'Rent Free' and 'Other/Crown Estate'.

This means that it will cost more for a given family to meet their housing needs in some parts of the country. The implication is that, for any given level of net income, families in costly parts of the country would have less resources available to them to meet their other, non-housing needs.

Principled decision

In the short term, families typically have little or no say about whether or not to pay for recurring housing costs – moving to a different home or a different part of the country takes time. There are also big differences in the costs faced by families of different sizes. The Commission therefore agreed that they should be classified as inescapable costs, which are deducted from available resources. In essence, this meant creating an after-housing cost measure of weekly net incomes.

Commission decision on principle

Weekly recurring housing costs should be viewed as an inescapable cost that reduces the overall level of available resources that a family has. These costs should include:

- Costs of rental and mortgage payments (interest and capital repayment);
- Ground rents and service charges;
- Water rates, community water charges and council tax; and
- Structural insurance premiums.

It is worth noting that this decision moves away from the previous approach of the official headline measures of poverty. Whilst after-housing costs measures have been reported for a number of years, and these tend to be the measures of choice both for those reporting on UK poverty and those supporting people in poverty, the measures outlined in the Child Poverty Act 2010 were based on Before Housing Cost (BHC) incomes.

Measures of poverty based on BHC incomes are also typically used in international publications and comparisons of poverty between different countries. The Commission considered these issues before choosing to formally adopt an AHC measure. Ultimately, Commissioners felt that the costs of housing vary so significantly across different parts of the UK and between different families, failing to account for these in its measure of poverty would grossly misrepresent the actual experience of, and choices open to, those living on low incomes.

It is worth noting the Commission's principled decision that mortgage capital repayments should be included as an inescapable cost. This diverges from the typical approach to housing costs, which only include mortgage interest payments (for example in the HBAI publication of AHC income measures). The Commission acknowledged that these payments contribute to increasing illiquid assets. It is also clear that families have the option of asking the lender to change the terms of the repayment (for example to move to interest only) and that, in the longer term the accumulated assets could be used to meet needs. However, in the short term, for many families it will be impossible to change their repayment schedule very quickly, meaning that the payments have to be made and are not available to meet other needs. This latter consideration means that it is appropriate to treat mortgage capital repayments in this way for a measure of poverty.

Measurement in practice

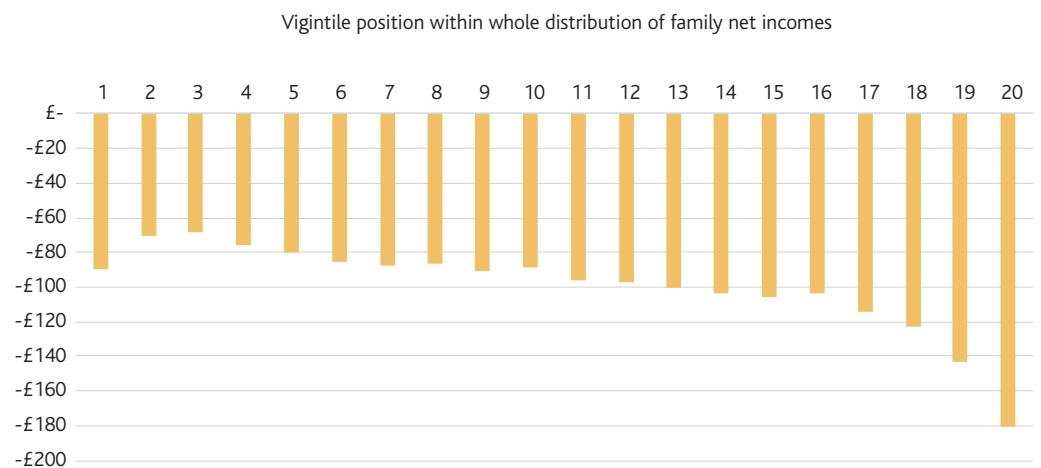
A measure of recurring housing costs is available in the FRS. The Commission adapted this measure to ensure that it included mortgage capital repayments as part of the measure of total recurring costs of housing. This is classed as an inescapable cost and deducted from the measure of net incomes to assess poverty.

A technical paper will outline in detail how the Commission approached this measurement question.

What impact does this have?

Figure 5 demonstrates that, compared to considering only net incomes, accounting for a measure of total recurring housing costs to create a measure of resources available (net incomes minus housing costs) has large effects across the net-income distribution. At the first vigintile, the average impact on family resources is a reduction of £89 a week. Between the fifth and tenth vigintile, the average impact is around £80 a week. Overall taking account of recurring housing costs reduces the value of median net incomes by just over £92.

Figure 5: Difference between mean weekly resources (income – housing) and mean weekly net incomes by vigintile, all families, 2016/17



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Housing costs are derived from taking the overall housing expenditure of the household and then subdividing it amongst the various sharing units equivalisation scales to determine the appropriate ratio. There is only one sharing unit in a household and capital payments are excluded, this yields the same figures as the HBAI AHC variable for each household.

There is also significant variation in average recurring housing costs of different family types. For example, Table 3 shows that pensioner families face significantly lower housing costs than all other families. Larger families (e.g. couples and those with children) also generally have higher costs.

Table 3: Average recurring weekly housing costs, by family type (2016/2017)

Family type	Mean	Median
Single, no children	£49.50	£65.57
Lone parent	£104.00	£111.80
Couple, no children	£91.87	£106.87
Couple with children	£123.81	£151.27
Pensioner, single	£12.10	£38.95
Pensioner couple	£12.04	£30.77
All disabled families	£63.05	£70.69

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Housing costs are derived from taking the overall housing expenditure of the household and then subdividing it amongst the various sharing units equalisation scales to determine the appropriate ratio. There is only one sharing unit in a household and capital payments are excluded, this yields the same figures as the HBAI AHC variable for each household.

COSTS OF CHILDCARE

Why consider this issue?

As with the costs of housing, the costs of childcare vary significantly across the country and between different family types and are often one of the biggest expenses faced by families with children. They are also typically inescapable in the short term, as families have little choice but to pay them, given the working patterns they have chosen. In this respect they are work-related deductions from resources available, in much the same way as taxes on earned income are. Table 4 shows how childcare costs vary across the country and by families with different numbers of children. The implication is that a family with significant childcare costs would have less resources available to meet their non-childcare needs than an otherwise equivalent family without childcare costs.

Table 4: Regional average of weekly childcare costs, for families who pay for childcare, by number of children, 2016/17

Region	Number of Children		
	1	2	3+
North East	£60.94	£38.61	£24.33
North West and Merseyside	£57.39	£62.53	£70.49
Yorkshire and Humberside	£57.47	£54.66	£70.42
East Midlands	£58.67	£59.10	£54.53
West Midlands	£65.40	£86.27	£23.92
Eastern	£88.52	£76.86	£75.35
London	£155.34	£160.30	£105.90
South East	£78.49	£92.01	£110.58
South West	£56.99	£48.22	£33.94
Wales	£38.34	£85.34	£25.58
Scotland	£65.85	£64.68	£59.83
Northern Ireland	£78.40	£74.78	£53.57

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Childcare costs calculated using actual childcare spend recorded for each benefit unit in the Family Resources survey.

Childcare costs are also typically associated with families who are working (around one in four (23.8%) of working families report childcare costs in the FRS, compared to just one in ten (9.8% of workless families). If an assessment of childcare costs were not included in the Commission's measure of available resources, it would mean that the earnings from going to work would be included as a resource, but the associated extra costs of going to work would not be considered.

Principled decision

The Commission judged that the characteristics of childcare costs mean that they should be classified as inescapable costs, which are deducted from weekly available resources. In effect, this change creates an after-childcare cost measure of weekly net income.

Commission decision on principle

Childcare costs should be viewed as an inescapable cost that reduces the overall level of available resources that a family has.

Within this broad decision, the Commission considered a number of issues, including how to account for childcare quality and the use of informal childcare.

The Commission noted both the vital role that informal childcare can play in supporting many families to work and the importance of the quality of childcare. An after-childcare cost measure of net incomes implicitly assumes that childcare needs are met, without reference to the quality of the childcare being provided and/or the presence or need for informal childcare. The Commission judged that, with existing data, neither of these could be effectively captured within its measure of poverty.

Measurement in practice

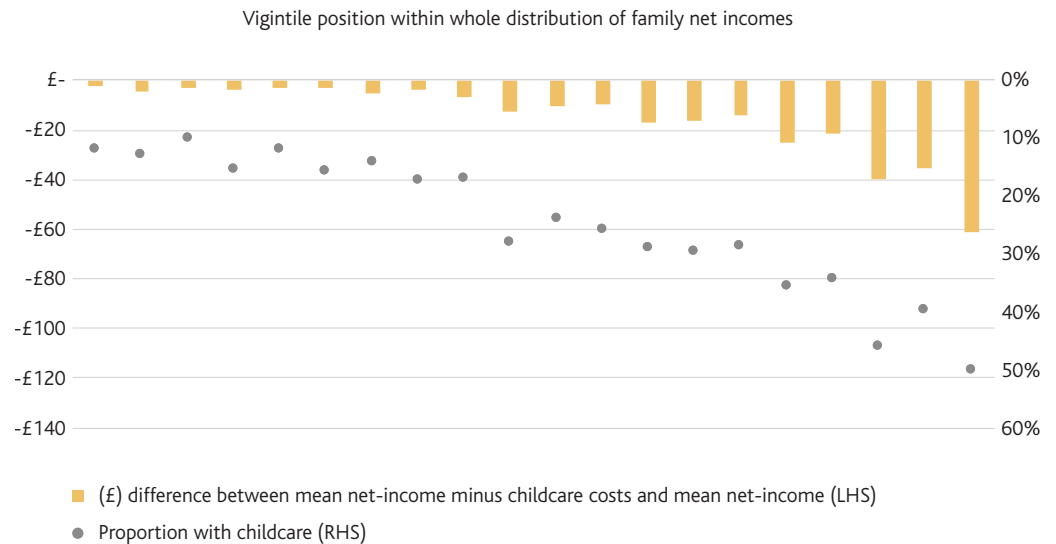
A measure of spending on childcare costs is available in the FRS. However, the Commission was aware of the potential limitations to using this data. In particular, stakeholders argued that these costs are under-reported in the FRS. The Commission considered other measures of childcare, including the use of the childcare costs survey from the Family and Childcare Trust. However, whilst there may be data limitations, the reported level of spending on childcare in the FRS is still the best available information on actual behaviour of individual families that can be linked into an assessment of overall resources for each family. For this reason, the Commission chose to use the FRS measure of actual spending on childcare as its measure of childcare costs.

A technical paper will outline in detail how the Commission approached this measurement question.

What impact does this have?

Figure 6 demonstrates the impacts of accounting for childcare costs to create a measure of resources available (net incomes minus childcare costs). Compared to accounting only for net incomes, at most parts of the net-income distribution, the average effects are quite small, with the average reduction amount to between £2 and £12 a week across the bottom half of the distribution. Overall, accounting for childcare costs for families with children reduces the value of the median by approximately £11. However, these relatively low impacts are driven by the fact that relatively few families report incurring any childcare costs; for most of the first half of the distribution, less than 20% of families report to have childcare costs.

Figure 6: Difference between mean weekly net-income minus childcare and mean weekly net-income by vigintile, all families with children, 2016/17

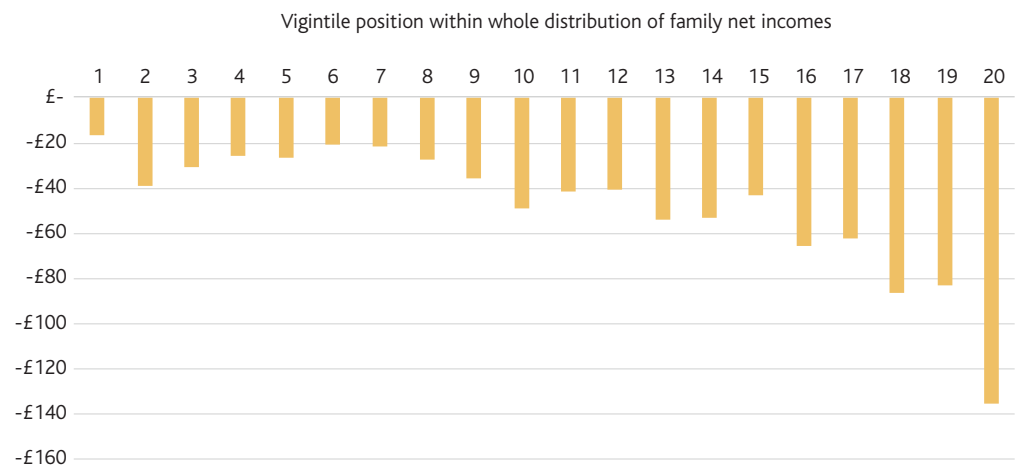


Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Childcare costs were calculated using actual childcare spend recorded for each sharing unit in the Family Resources survey.

However, once we consider only those who do report to have incurred childcare costs, the average impacts are significantly higher. For those families with childcare costs, figure 7 shows the average impact on family resources, from accounting for those costs.

Figure 7: Difference between mean weekly net-income minus childcare costs and mean weekly net-income by net-income vigintile, families with childcare costs, 2016/17



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Childcare costs were calculated using actual childcare spend recorded for each benefit unit in the Family Resources survey.

Table 5 shows that there is also significant variation in childcare costs faced by different families, again indicating why it is important to consider childcare costs when assessing poverty.

Table 5: Prevalence and value of childcare costs, by family type, 2016/17

Family type	Percentage with childcare costs	Of those with childcare costs...	
		Median weekly childcare spend	Mean weekly childcare spend
Lone parent	17.1%	£40.00	£66.53
Couple with children	24.8%	£46.02	£81.91
All working-age disabled families	5.6%	£30.00	£52.26

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Childcare costs were calculated using actual childcare spend recorded for each sharing unit in the Family Resources survey.

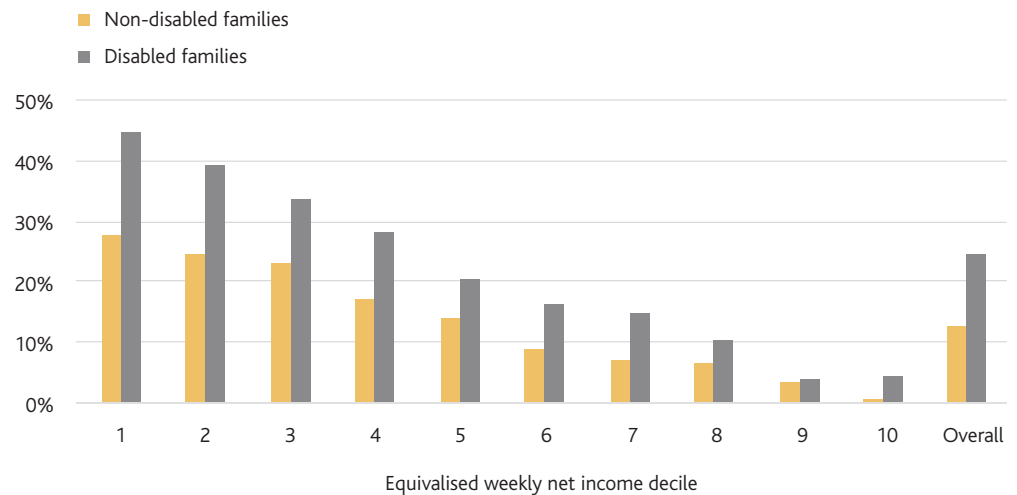
EXTRA COSTS OF DISABILITY

Why consider this issue?

The existing evidence demonstrates that disabled people face extra costs to do the same things as those without a disability. This means that they incur inescapable (and highly differentiated) costs that reduce their available resources.

It is also likely that these extra costs are, at least in part, responsible for the fact that measures of material deprivation are much higher for disabled families than for non-disabled families with the same level of income (figure 8).

Figure 8: Percentage of people in families with at least one benefit unit identified as materially deprived, by equivalised weekly net income and disability status, 2016/17



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Material deprivation is calculated using the pensioner and child material deprivation indicators contained in the HBAI dataset. In addition, we use the survey responses to, where possible, create an equivalent level of material deprivation for working-age adults without children.

In recognition of these extra costs, many disabled families are in receipt of extra-cost disability benefits like Personal Independence Payment (PIP), Disability Living Allowance (DLA) and/or Attendance Allowance (AA). These benefits are typically included in measures of net incomes, including those used in HBAI, without an offsetting recognition of the increased costs of disabled families that these payments exist to help with. This results in many disabled families incorrectly appearing to have resources sufficient to lift them above the poverty line.

Principled decision

The Commission considered a number of approaches to tackling this issue, including exploring the existing evidence on the extra costs of disability. Much of this work creates estimates of the typical or average extra costs that disabled families are likely to face.²⁵ However, given the fact that the extra costs of disability vary significantly both by type of disability and its severity²⁶ the Commission wanted, if possible, to use a direct assessment of the actual extra costs of disability that specific families face. These could then be classed as an inescapable cost to be deducted from available resources.

Commission decision on principle

The extra costs that families with a disabled person face should be viewed as an inescapable cost that reduces the overall level of available resources that a family has.

Measurement in practice

The existing evidence does not allow for an identification of how the extra costs of disability vary across individuals with different types or severities of disability. The survey data available in the FRS also does not allow for an accurate identification of the type and severity of disability that different individuals face. As such, with existing evidence, it is not possible to adopt a comprehensive approach accounting for the extra costs of disability in this version of the measure of resources available.

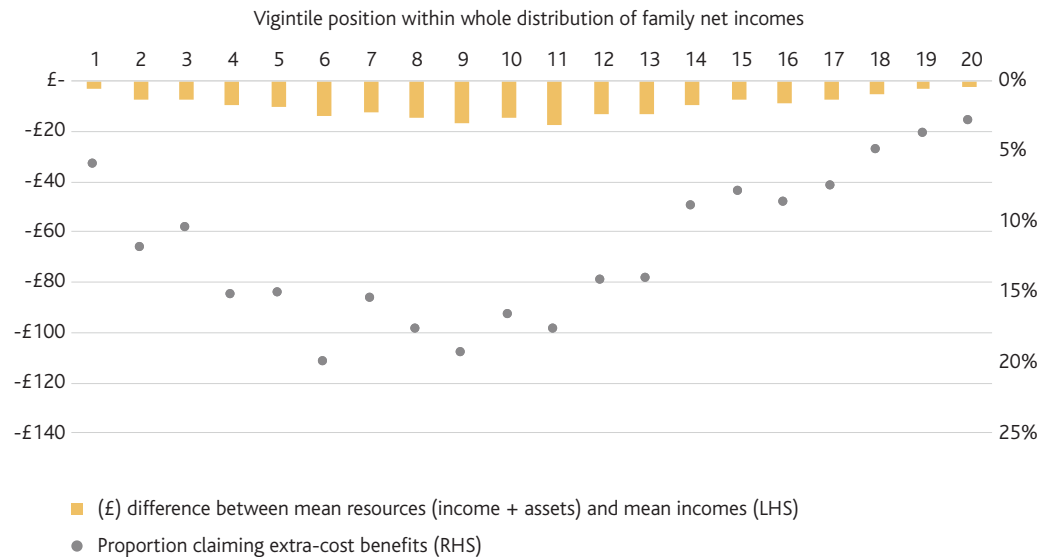
Instead, the Commission chose to use the value of extra cost disability benefits (DLA, PIP and AA) as the best available proxy for the extra inescapable costs of disability. In practice, this means that the financial value of these benefits is judged as not being able to be used to meet non-disability needs, and this amount is deducted from resources available as a best estimate of the inescapable cost. In effect, these are included in the measure of total resources and then the equivalent value is also deducted as an inescapable cost.

There are limitations to this approach, including that some families do not take up these benefits when they could. The amount payable may exceed extra costs for some families, whilst for others, they may be significantly too low. However, until further research has been undertaken to develop a more comprehensive method for measuring the extra costs of disability, it is the best approach available using existing data and a better reflection of reality than doing nothing to account for the extra costs of disability. A technical paper will explore the Commission's decision in more detail.

WHAT IMPACT DOES THIS HAVE?

Figure 9 demonstrates the impacts of proxying the extra-costs of disability with the value of extra costs disability benefits and how this varies across the net-income distribution. It shows that, while there are relatively few families impacted by this at the very bottom of the net-income distribution, a significant proportion of families towards the middle of the distribution are impacted (between the fourth and eleventh net-income vigintile, between 15% and 20% of families are impacted). When considered as an average within net-income vigintiles, these effects are relatively small; the overall median level of net incomes falls by £14 a week.

Figure 9: Difference between mean weekly net-income minus disability adjustments and mean weekly net-incomes by vigintile, all families, 2016/17

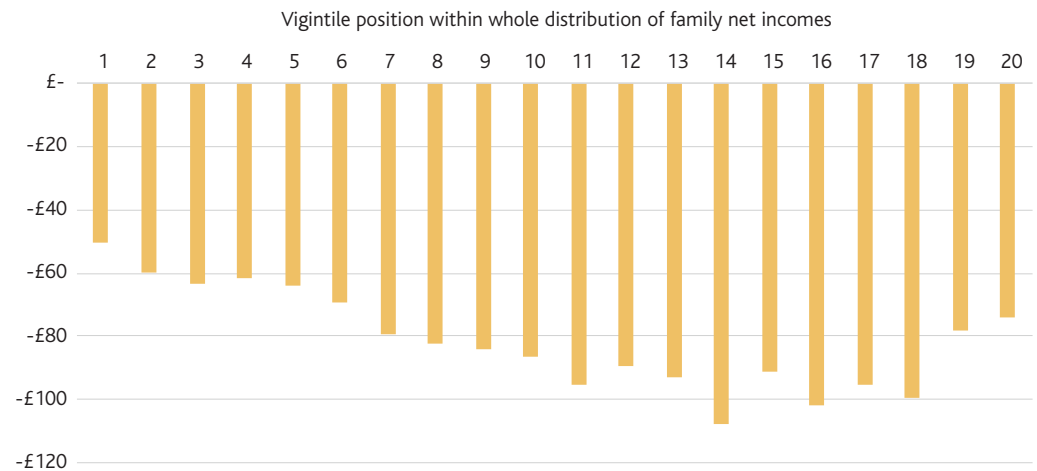


Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Removed benefits are DLA (self-care and mobility), PIP (self-care and mobility), and Attendance Allowance. Smaller sub-groups such as 'Future: DLA Self Care' were not removed.

However, this change makes a much larger difference to the net incomes of families with a disabled person. The median value of net incomes for these families falls by £82 a week and figure 10 demonstrates how this varies for families with disability-related resources adjustments across the net-income distribution.

Figure 10: Difference between mean weekly net-income minus disability adjustments and mean weekly net-incomes by net-income vigintile, families with disability adjustments, 2016/17



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Removed benefits are DLA (self-care and mobility), PIP (self-care and mobility), and Attendance Allowance. Smaller sub-groups such as 'Future: DLA Self Care' were not removed.

OTHER INESCAPABLE COSTS

The sections above have highlighted housing, childcare and disability costs as three inescapable costs that should be subtracted from net incomes to create a more accurate measure of total resources available. During the course of the last two years, the Commission has discussed a range of other areas that might equally be described as inescapable costs. These have included the costs of travelling to work and the costs of social care (particularly for those in later life).

Whilst there are strong arguments for each of these being included in a measure of total available resources for the UK, no information is available on these costs in the Family Resources Survey. For this reason, the Commission has been unable to fully consider the inclusion of these factors. Going forward, the Commission believes that these areas should be captured in survey data and consideration given to their inclusion in a measure of resources available.

The Commission is also aware that the range of costs classed as inescapable is, in part, a factor of government policy. For example, in countries with more limited provision of publicly funded healthcare (e.g. the United States) an argument could be made for healthcare costs as being inescapable costs. This means that, if government policy changes, or if the poverty measure is internationalised, the range of inescapable costs should be kept under review and, for other countries, it might be appropriate to include a different set of factors as inescapable costs. Amongst others, this might include, healthcare costs, energy costs, social care costs and travel-to-work costs.

OVERVIEW OF THE MEASURE OF TOTAL RESOURCES AVAILABLE

Summary methodology

Bringing together these factors creates a measure of weekly total resources available. This represents the resources families have available to meet non-housing, non-childcare, post-disability cost needs.

COMMISSION MEASUREMENT DECISION

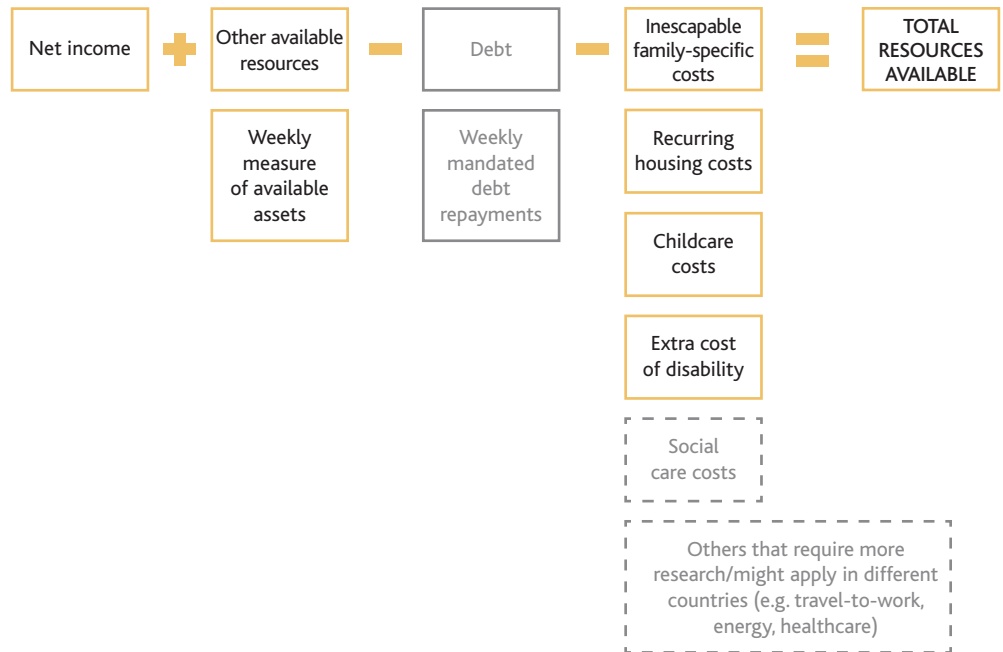
Overall, the Commission decided that the most appropriate approach to assessing the resources that families have available to meet their needs was to create a new measure of total weekly resources available. This includes:

- All sources of post-tax earnings and income, including all benefit and tax credit income;
- Liquid assets available for immediate use (judged to be total stock of liquid assets divided by 52);
- A deduction of inescapable family-specific recurring costs that families face from housing and childcare; and
- A deduction of inescapable extra costs of disability.

A measure of obligated debt repayments would also have been deducted if the data was available in the FRS and the Commission also recommends further work to explore whether other costs, including social care, energy and travel-to-work costs should be included.

Figure 11 outlines the component parts of the measure, along with highlighted areas that the Commission would have included if relevant data was available, and areas where the Commission has recommended further data capture and investigation to understand whether they should be included.

Figure 11: Creating a measure of weekly total resources available (all weekly)

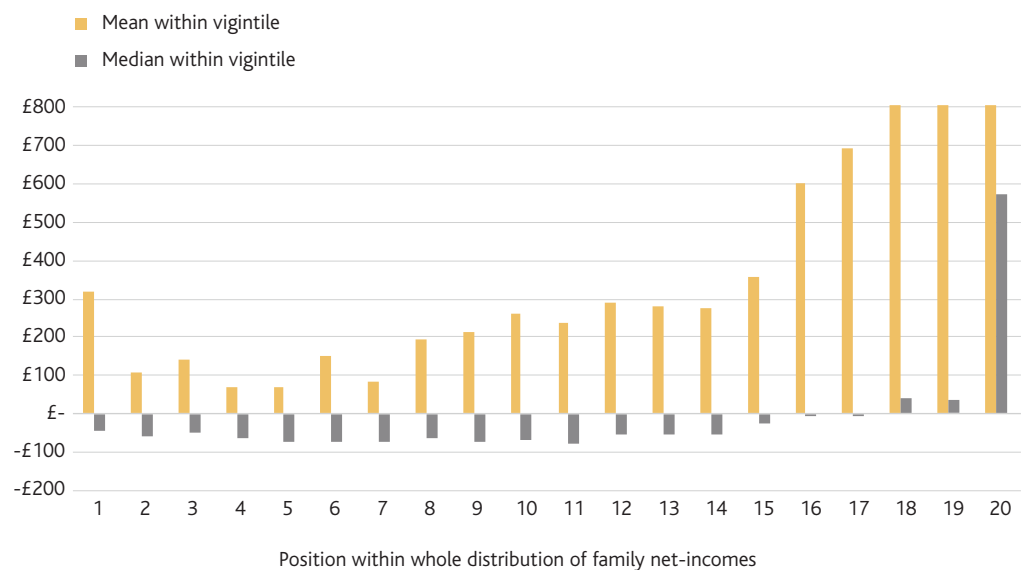


Notes: Factors outlined in orange are already included in the measure. Factors outlined in a grey solid line would have been included if the data was available. Factors outlined in a grey dash require measurement and assessment to understand whether they should be included.

What impact does this have?

Compared to considering only net incomes, taking account of the factors above leads to the Commission's new measure of total resources available. Figure 12 and table 6 show how these decisions impact on families at different points in the distribution of net income and for different family types. It shows that the median family in all vigintiles, up to vigintile 18, have a value of total resources available that is lower than their weekly net income. This reflects the fact that, for the majority of families, the impact of accounting for the inescapable costs that they face is greater than the positive impact of including available assets as a resource. On the other hand, the mean difference between total resources available and net income is positive (and often large) at all vigintiles. This reflects the fact that the value of available assets held by some people at all net-income vigintiles is very high.

Figure 12:
Difference between
weekly resources
(all adjustments) and
weekly net-incomes
by vigintile, all families,
2016/17



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Total Resources Available incorporates all changes outlined above, including housing, capital, assets, childcare, and disability adjustments at the sharing unit level.

Table 6: Mean and median values of net income and Total Resources Available, by family type, 2016/17

Family type	Income		Total Resources Available	
	Mean	Median	Mean	Median
Single, no children	£492.10	£434.47	£689.12	£350.85
Lone parent	£404.58	£370.41	£365.51	£252.12
Couple, no children	£749.91	£638.11	£1,365.42	£687.24
Couple with children	£584.17	£476.54	£797.16	£414.94
Pensioner, single	£507.22	£437.08	£1,417.89	£488.35
Pensioner couple	£586.81	£477.78	£2,347.79	£747.11

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Total Resources Available incorporates all changes outlined above, including housing, capital, assets, childcare, and disability adjustments.

Box 3: Summary of where future work is needed – available resources

The Commission has identified a wide range of areas where both future work/research and improvements to existing UK data are needed. This work and improvements to data would allow for a much fuller understanding of the financial standing of different families. The Commission has already engaged with a number of stakeholders on these areas. A summary of the key areas for consideration is shown below.

Resources

- Improvement in data captured on income by the FRS, including more systematic use of matching with administrative data, in order to get a more accurate picture of the earnings and benefits receipt of different families.
- Improvement in data captured on assets by the FRS, including for pensioners who have taken advantage of pensions “freedoms and flexibilities”. Starting to collect data on debt in the FRS.
- Beginning to capture data on assets and debt in future waves of Understanding Society.

Inescapable costs

- Significant work to understand and measure the extra costs of disability that different disabled families face.
- Improvements to data captured on disability in both the FRS and Understanding Society to allow for clearer identification of disability types and severity so that extra costs can be understood within the survey data.
- Beginning to capture data on social care costs within the FRS and Understanding Society.
- Beginning to capture data on energy costs and travel to work costs within the FRS and Understanding Society so that further research can be undertaken to determine whether they should be included as an inescapable cost.

STEP 3: A MEASURE OF IMMEDIATE NEEDS

In exploring an approach to measure immediate needs, Commissioners considered three questions:

- Which data to use to measure or proxy needs;
- How needs should be adjusted to reflect differences in family size and composition; and
- What other factors that drive differences in needs might be considered.

Which data to use to measure or proxy needs

The first step towards developing a measure of immediate needs is to develop a principled approach to measuring needs, and what that means for that data used to do so. In previous income-based measures of poverty, needs were not measured directly. Instead, net incomes were used to establish a social norm and poverty line under which incomes had to fall in order to be classed as being in poverty.

The Commission considered a range of different options for the data and approach that could be used in order to create a benchmark of social norms. These included:

- **Basket approaches:** measuring needs directly through research approaches that use qualitative and quantitative research to develop consensual baskets of goods that different families are judged to need to meet a given standard of living;
- **Detailed spending data:** Proxying needs based on social norms derived from what people actually spend, by looking at detailed breakdowns of consumption in household surveys (for example the Living Costs and Food Survey);
- **Aggregate spending data:** Proxying needs by looking at aggregate measures of family consumption; and
- **What families can spend:** Proxying needs based on social norms as defined by what people have available to them (total resources available).

In principle, the Commission was attracted to developing a measure of needs based on "basket approaches" or expenditure data. However, these approaches were ultimately dismissed. The Commission felt that the basket approaches were too subjective and could raise philosophical debates as to what exactly is included in the baskets (and why, for instance, particular goods or services were included or not). Approaches based on expenditure data were considered attractive, but ultimately rejected, as the data source was considered to be of uncertain quality.²⁷

The Commission therefore chose to base its measure of needs on the resources others in society have available to spend. Commissioners chose to operationalise this measure using its total resources available metric and how this varies across different families in society.

ADJUSTING NEEDS FOR FAMILY SIZE AND COMPOSITION

Why consider this issue?

It is apparent that families of different sizes and composition will have different levels of need. For example, a two-adult family will have a higher level of needs than a one-person family, and a family with two adults and one child will have greater needs than both. Overall, larger families tend to need more than smaller families. Therefore, to compare the living standards of these families on a consistent basis, it is necessary to take account of both the number of people in the family and composition of the family. In the existing measures of relative income poverty in HBAI, this is undertaken through a process of equalisation, using the OECD modified equivalence scales.

Principled decision

COMMISSION DECISION ON PRINCIPLE

To create a consistent basis for assessing the experience of poverty within different families, the Commission decided that it wanted to use a method of equalisation that included an accurate assessment of the extent to which needs vary between different families, based on the:

- Number of adults and children in the family; and
- Age of the adults and children in the family.

The Commission also decided that it wanted to create poverty lines for each family that reflect these differences (e.g. the poverty line for a two-person family would be higher than that of a one-person family). These poverty lines would then be compared to the actual total resources available that each family reports.

This approach is distinct from one that sets a single poverty line for all families (by comparing equalised needs with equalised resources). The Commission felt that creating distinct poverty lines for each family type would make it easier to communicate the differences in needs clearly to policymakers and the public.

Measurement in practice

In practice, an existing method of equalisation that meets these criteria fully, does not exist. Commissioners considered a range of existing options, including the OECD modified scale and the approach currently preferred by both the OECD and countries including Japan (creating an equivalence scale by taking the square root of the number of people within the household).

Ultimately each of these was found to be an arbitrary approach. Indeed, the 1994 report that proposed the OECD modified scale explicitly argued both that the approach was arbitrary and that more work was needed to create more accurate equivalence scales.²⁸ Unfortunately, that work has not been undertaken.








To address this gap in research, the Technical Team explored the potential of a new equivalence scale derived from the JRF's Minimum Income Standards (MIS) work. To do this, the team worked closely with academics at Loughborough University and were led by their previous work.²⁹ This was created from the observed differences between the MIS baskets created for different families.

This work led to a detailed matrix of equivalences. To be able to generalise the results, the team summarised the findings into a more simplified version. The results from this suggested that the existing OECD modified scale:

- Is likely to underestimate the needs of children;
- Does not differentiate adequately between the needs of children of different ages;
- Might overestimate the needs of pensioner families; and
- Could underestimate the needs of lone parent families.

Figure 13: shows what these differences mean for a set of example families.

Figure 13: Illustrative differences between the OECD modified equivalence scale and one derived from MIS research

		Equivalisation Factor		
Example family type		OECD Modified	MIS Derived	Explanation
	Single adult	0.58	0.58	The two scales treat single adults identically
	Couple, with no children	0.58 + 0.42 1.00	0.58 + 0.42 1.00	The two scales treat an adult couple identically
	Lone parent, one child	0.58 + 0.2 0.78	0.58 + 0.51 1.09	The MIS derived scale suggests that the needs of lone parent families are significantly higher
	couple, one child	0.58 + 0.42 + 0.2 1.2	0.58 + 0.42 + 0.33 1.33	The MIS derived scale suggests that the needs of families with children are slightly higher
	couple, two children	0.58 + 0.42 + 0.2 + 0.2 1.4	0.58 + 0.42 + 0.33 + 0.2 1.53	The MIS derived scale suggests that the needs of families with children are slightly higher
	Single pensioner	0.58	0.53	The MIS derived scale estimates the needs of pensioners as being slightly lower
	Pensioner couple	0.58 + 0.42 1.00	0.53 + 0.31 0.84	The MIS derived scale estimates the needs of pensioner couples as being slightly lower

Source: SMC analysis of HBAI Quality and Methodology Information Report (2015/16), Minimum Income Standards Results Tables & 'The Cost of a Child in 2017'.

Notes: In both MIS and HBAI the equivalisation factor of a child varies by age (over and under 14 in HBAI, and a different figure for each age in the MIS derived version). In these examples the oldest child is 12, and where there is a second child they are 10.

A technical paper will provide details of the work undertaken to develop these scales and the impacts that moving to an equivalence scale based on MIS would have. To understand whether we should move to using this equivalence scale we consulted extensively with the team that creates the MIS measures and undertook significant testing of the results in comparison to those using the OECD modified approach. This work concluded that:

- For any given level of poverty, the impacts on the distribution of poverty from moving from the OECD modified scale to one derived from MIS were as large as the impacts of all the changes implemented from moving from net incomes to total resources available;
- Some of the differences in equivalences between different families using the derived MIS approach could not be fully explained by existing research; and
- The MIS approach has not been explicitly designed to create relativities or equivalences between families of different sizes and composition.

Overall, this meant that, reluctantly, the Commission decided that it was not possible to move immediately to a new method of equivalisation based on existing research and evidence. However, the Commission is strongly of the view that significant work is needed to develop a new equivalence scale that accurately reflects the realities of how needs vary for different families in the UK. The Commission has already begun discussions with organisations including the OECD, DWP, ONS, the Government Statistical Service and research organisations about how that work might be taken forward.

Whilst this work is taken forward, the Commission decided that its equivalisation scale for adjusting needs, based on family composition, would be based on an AHC version of the OECD modified scale, first proposed by DWP in 2005.³⁰

ADJUSTING FOR OTHER FACTORS

A number of other potential factors that might impact the estimated needs of different families were also considered. These included the extent to which factors such as rurality and lack of access to public services including transport might increase the measured needs of families in those situations.

Overall, whilst important issues, the Commission felt that, based on existing evidence, the impact of these factors were too poorly defined to be taken on within the measure of poverty. In future, if data and research develop, there may be a case to include these issues. This could particularly be the case in specific areas where rurality and access to public services has been shown to be particularly problematic; for example, in the most rural parts of Scotland.³¹

OVERVIEW OF MEASURING NEEDS

As a first step to creating a poverty threshold, the decisions above mean using data on what others in society have to spend to understand how needs vary and adjusting this based on the number of adults and children in the family.

COMMISSION MEASUREMENT DECISION

Overall, the Commission decided:

- That the most appropriate data to use to create a benchmark level of societal norms, was a measure of what others in society have available to spend (the Commission's measure of total resources available).

To understand how needs vary across different families the Commission decided:

- To equalise needs using the AHC version of the OECD adjusted equivalence scales; and
- To note the urgent need for further work to develop equivalence scales that reflect the experience of families in the UK.

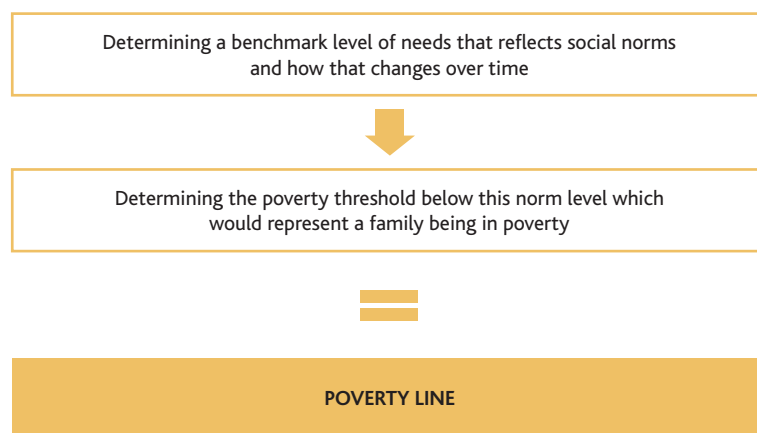
What impact does this have?

The impacts of these choices are difficult to view in isolation, before a poverty threshold is set. As such, the impact of these changes is considered in more detail in the following sections.

STEP 4: CREATING AND UPDATING A POVERTY LINE

Once a decision on the data and framework used for measuring needs was taken, the Commission then needed to create a poverty line against which families' experience of poverty could be judged. Doing this involved two steps, demonstrated in figure 14.

Figure 14: How the Commission developed a poverty line



Setting a benchmark level of needs allows us to understand what the social norm level of needs is for any family type. Setting a poverty threshold with reference to that allows us to understand how far below this social norm families would have to be before being classed as being in poverty.

HOW TO SET A BENCHMARK FOR SOCIAL NORMS

Why consider this issue?

As outlined above, the Commission decided that the needs of families should be judged with reference to others in society. To do so, a point of reference (or benchmark level) needs to be set. Commissioners believed that the best way to do this was to set the benchmark level to reflect the social norm level of needs in society.

Principled decision

In developing an approach to setting this benchmark level, a range of options were considered. For example, Commissioners considered whether the approach under existing measures of relative income poverty used in HBAI could be used. Here, the net income of the median household is judged to be the benchmark level of needs.

Commissioners were also presented with alternative options including creating an essential or "core" needs level of the norm, linked more to a concept of subsistence needs. An example of such an

approach, might be taking the benchmark level of needs as being the 35th percentile of resources and then creating a poverty line by setting the poverty threshold as a particular percentage of this benchmark level.

Compared to using the median as the benchmark, this would lead to very different results over time. For example, if the typical family in society (the median family) became significantly richer, but the gap between the median family and families around the 35th percentile grew:

- Under the approach of setting the median as the social norm benchmark, poverty would be likely to increase; but
- Under the approach of setting the 35th percentile as the social norm benchmark, poverty may not increase. In the extreme, if the income of the family at the 35th percentile fell, poverty could also fall.

This means that pegging the social norm level of needs to a point below the median, could lead to a situation where, over time, families with low resources are less able to engage adequately in a life that most people in society are able to, but this is not reflected in the measure of poverty.

Commission decision on principle

The Commission decided that the benchmark of social norms should move with the experiences of the median family in society.

Measurement in practice

This means that, over time, the norm level of needs in society is judged to move in line with the median of total resources available.

UPDATING THE BENCHMARKS OF SOCIAL NORMS OVER TIME

Why consider this issue?

Determining how the benchmark of social norms changes over time is essential in understanding poverty, both in any given year and in tracking how it changes over time. This is because, as the benchmark of social norms changes, the poverty line will also change.

A range of different approaches are used in updating benchmarks over time. For example, the USA's headline measure simply takes account of inflation in each year. Relative low-income measures tend to create a new social norm each year, based on the income distribution observed in that year.

Principled decision

As already highlighted, Commissioners viewed poverty as being assessed with reference to others in society, meaning that the benchmark of social norms will change over time as the experience

of others in society changes. For example, if overall living standards rise or fall over a sustained period, the social norms would also evolve to reflect these movements. However, Commissioners did not believe that these changes in the experiences of others should necessarily be reflected immediately in the benchmark.

Commission decision on principle

Commissioners decided that the benchmark of social norms would be updated so that it reflected ongoing changes in societal norms and expectations, as well as recognising that social norms and expectations will take time to adapt to changes in overall economic conditions.

Measurement in practice

The Commission considered a range of approaches to considering how the benchmark of social norms might be developed to reflect this principle. The most effective way of doing this is to use a smoothed measure of the benchmark.

Doing so means that the benchmark of social norm needs is not just based on the distribution of total resources in one year, but instead also reflects what has happened in the past. The result is that shocks to the resource measure do not feed immediately through in full into the benchmark of social norms. However, if the changes are sustained, they will feed through fully given enough time.

A choice was then needed to be made about the length of time over which to smooth. This choice determines how long it takes for a sustained change in average resources to feed through in full to the benchmark of social norms (and therefore, the poverty line). A range of options were considered, including three, five and ten years.

Overall, the Commission found little solid evidence to guide a decision about the length of time that it takes societal expectations to respond to changes in resources. Indicative evidence was available from MIS research, which suggested that families began to revise down their basket of needs between three and five years after the financial crisis.

Commissioners took the decision to adopt a three-year smoothing period, meaning that the benchmark of social norms is a lagged three-year rolling average of the median total resources available.

What impact does this have?

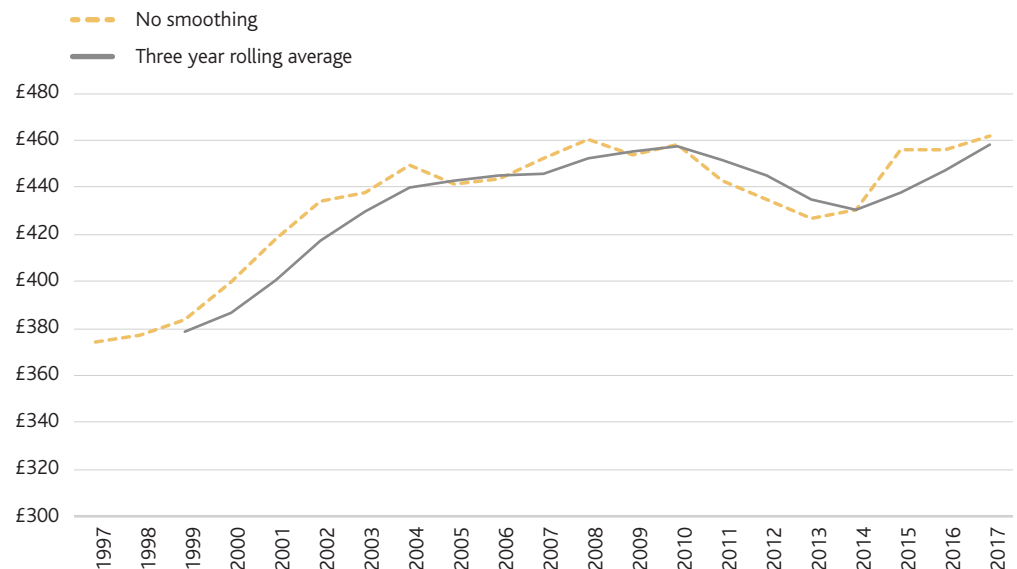
The clearest example of the impact that this decision has is to consider what happens to the benchmark of social norms during periods of rapid economic growth and significant negative shocks.

Figure 15 compares what would have happened based on two scenarios:

1. The Commission setting the benchmark of social norms to be the median of the current year's total resources available distribution,
2. The Commission's choice of setting the benchmark of social norms to be the rolling average of median of total resources available in the previous three years.

In the first scenarios, the benchmark of social norms would have fallen very sharply during the post financial crisis period. Commissioners did not believe that would effectively reflect the movement of social norms over that period. Neither would it reflect the evolution of needs for families over that period: their incomes may have fallen rapidly, but their needs were likely to have remained much more fixed in the short term. Conversely, the figure shows that the fall in the smoothed benchmark for social norms would have fallen both later and more slowly than was the case using the raw threshold.

Figure 15: The impact of using smoothing on the benchmark of social norms



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Deflators provided by the Institute for Fiscal Studies were used to compare median TRA levels in real terms. The methodology (using a rolling average) means that it is not possible to estimate results for the years 1997–1998 for the smoothed benchmark.

A technical paper will provide more detail on the Commission's decision.

CREATING A POVERTY THRESHOLD

Why consider this issue?

Once a benchmark level of needs that reflects societal norms has been established, the Commission then needed to set the threshold beneath that which would determine whether a family was judged to be in poverty. In other words, when their resources fall so far behind those available to the rest of their society that they are not able to meet their needs.

Principled decision

Overall the Commission found that there was little evidence to inform a decision on where this threshold was set. A number of different thresholds are used across the world, often in reference to median household incomes. For example, the UK and EU have previously used 60% of median income and the OECD uses 50% of median income.³² Discussions with those involved in establishing and continuing to operationalise these measures, and a range of academics and experts highlighted that, despite international comparability and use, there is no clear or documented rationale to choose a particular threshold.

To tackle this lack of evidence, the Commission considered a number of different approaches, including analysis to assess whether a point exists where changes in available resources are linked to distinct deterioration in a family's experience of material deprivation. However, these approaches proved unsuccessful as there is no point of the distribution of income/resources where there is a clear and noticeable 'jump' in levels of deprivation.

With a lack of existing evidence to inform deliberation, this was a challenging decision for the Commission. This was made more difficult by the fact that the Commission's measure of resources available is not a measure of net income. The inclusion of assets and removal of family-specific inescapable costs means that the measure has a wider distribution than that of net income.

As this is the case, simply mirroring the existing threshold point of 60% would have led to a significant increase in the number of people estimated to be in poverty in the UK. This would come about entirely because of a change in the measure of poverty being used, rather than being a result of new evidence to suggest that poverty had in fact risen. As such, the Commission decided to set a new value for the poverty threshold for its measure.

However, in the absence of new evidence, and based on consultation with a wide range of stakeholders, the Commission viewed the choice of threshold as largely arbitrary. It viewed the refinements such as the inclusion of assets, as necessary to identify more accurately the types of people who are in poverty, but not as a judgement about the overall number of people in poverty.

Commission decision on principle

The Commission took the decision not to make large changes to the understanding of the number of people judged to be living in poverty in the UK. Instead, the major contribution of the Commission is to improve the understanding of the different types of people who fall beneath any given threshold and to explore the lived experience of these people.

For this reason, the Commission was presented with a range of options for where a poverty threshold might be set. The Commission decided to make a choice based on:

- Accepting the arbitrary nature of setting poverty thresholds and ensuring that in setting the threshold, the Commission does not convey a false sense of accuracy;
- Wanting to ensure that the threshold could be easily communicated; and
- Wanting to ensure that the decision did not lead to a large shift in the measured rate of poverty in the UK.

Measurement in practice

Overall, Commissioners judged that setting the threshold at 55% of the median level of total available resources was the approach that was most consistent with these considerations.

What impact does this have?

Table 7 compares the overall number of people judged to be in poverty and the corresponding poverty rates under various threshold choices. The Commission's choices lead to a measure that falls between those previously estimated using the HBAI AHC and BHC relative low-income measures.

Table 7: Poverty rates and numbers under different threshold choices, 2016/17

Threshold of median total resources available	Poverty rate	Number of people in poverty
50.0%	18.1%	11,672,000
52.5%	20.2%	13,001,000
55.0%	22.0%	14,198,000
57.5%	23.8%	15,343,000
60.0%	25.6%	16,521,000

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Other thresholds were considered both between these data points, and/or to match different historic poverty levels. These will be explored more in a technical paper.

A technical paper will provide more detail on the Commission's decision, including a full assessment of the impacts of choosing different poverty thresholds.

It is important to reiterate that the Commission does not believe that its choice of threshold reflects either an increase or a fall in the number of people estimated to be in poverty in the UK. Instead, it is a benchmark that will allow us to understand whether poverty has increased or decreased over time and how the composition of people in poverty has changed.

Commissioners were also clear that, in choosing a threshold, consideration needs to be given to those individuals and families that fall just above the poverty line. In all likelihood, their experiences and overall standards of living are likely to be very similar to those whose available resources put them just below the poverty line. The need to understand and provide support to this group of individuals and families is captured in the Commission's approach to measuring the depth of poverty, which is outlined in section 5.

OVERALL POVERTY LINE MEASUREMENT

Bringing these decisions together has led the Commission to set the poverty line by taking 55% of the three-year rolling average of the median of total resources available.

Commission measurement decision

The Commission decided to:

- Set the three-year rolling average of the median of total resources available as the benchmark of the social norm level of needs.
- Create the poverty line by setting a poverty threshold of 55% of this three-year smoothed figure.

What impact does this have?

As already outlined, these decisions lead to a total number of people in poverty that is between the previous AHC and BHC relative low-income measures of poverty. The major impacts are seen in both a significant change in poverty rates for different family types and a difference in how poverty rates move over time. These are explored when full results of the Commission's measure of poverty are outlined in section 6.

HOUSING ADEQUACY

Why consider this issue?

By creating a measure of resources that is net of recurring housing costs, the approach outlined above explicitly accounts for the fact that the cost of housing is a large drain on many family budgets. It also addresses the fact that the cost of renting housing or servicing mortgage payments varies significantly across the country.

However, Commissioners also wanted to be able to account for the fact that, separately to the impact of cost of housing on the resources left over for other needs, some families are unable to meet their housing needs, either in terms of the quality or size of property that they occupy. Other families may not appear in household surveys like the FRS (e.g. homeless people).

Principled decision

To address this, Commissioners decided to include those officially regarded as sleeping rough in the overall measure of poverty. Commissioner's also decided to account for overcrowding in housing for those that are included in household surveys, and who would otherwise be above the poverty line. For this group, despite having resources above the poverty line and hence having enough to meet non-housing needs, they are unable to meet all of their core needs as housing is one of those needs. For some families, this may simply be a choice over which goods and services they prioritise. However, for others the fact that their housing needs are not met is a consequence of a resource constraint which means that, if they did meet their housing needs, they would not be able to meet other needs (i.e. their remaining resources would fall below the poverty line).

Commission decision on principle

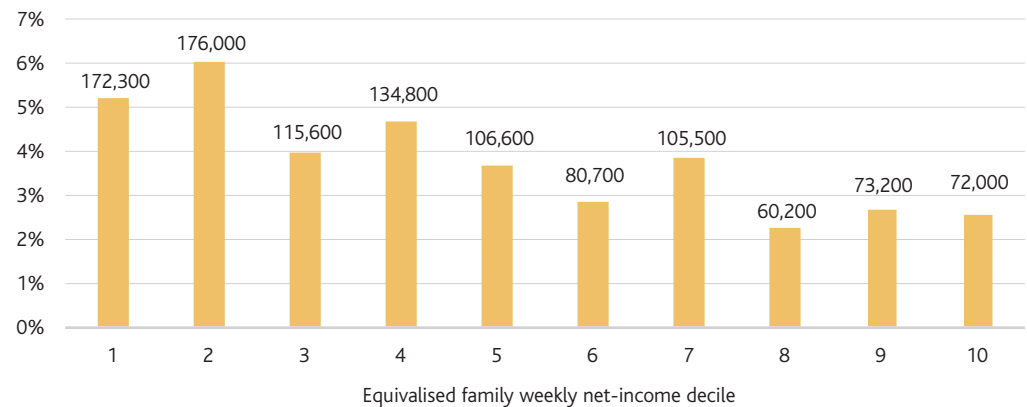
The Commission will include all those officially regarded as sleeping rough in its measure of poverty. It will also make an adjustment to ensure that some families whose material resources put them above the poverty line, but whose financial position means that they are unable to meet their housing needs, are counted as being in poverty.

Measurement in practice

Data on the quality and broader adequacy of housing is available from various sources in the UK, including the English Housing Survey, but it is not available in the FRS. However, the FRS does have information regarding the number of bedrooms that a property has and family size.

This meant that the Commission chose to take account of one aspect of housing adequacy: the extent to which families are living in overcrowded accommodation (i.e. based on the bedroom standards, they have too few rooms for the number of adults and children in the family). Figure 16 shows the proportion of families judged to live in overcrowded accommodation at different points on the resources available distribution.

Figure 16: Percentage and number of families in overcrowded housing, by equivalised family weekly net-income decile, 2016/17



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Families are defined as overcrowded using the bedroom standard established in the Housing (Overcrowding) Bill of 2003. Where this is the case, an overcrowding flag is applied to all sharing units in the household.

This demonstrates that families across the distribution of resources available are judged to be in overcrowded accommodation. The Commission took the view that families towards the top of the distribution had sufficient income to be able to afford to pay higher housing costs and increase the number of rooms they use, without being pushed below the poverty line. As such, it was important that the Commission's approach only considered those in this position because of a financial constraint to be in poverty. To do this, the following approach is taken:

- Where families are living in overcrowded accommodation the prevailing market rate for renting an extra room (in the region in which they live) is estimated;³³
- The cost of this extra room is split between the families and deducted from their total resources available; and
- If this adjustment moves the family below the poverty line, they are judged to be in poverty.

A technical paper will explore the Commission's decision in more detail.

Commission measurement decision

Overall, the Commission decided that the most appropriate approach to ensuring that the measure captures families who are unable to meet their housing needs, but would otherwise be judged to be above the poverty line, was to:

- Judge as being in poverty those families who are currently above the poverty threshold, but whose available resources would fall below the poverty line if they rented another room to meet their housing needs.

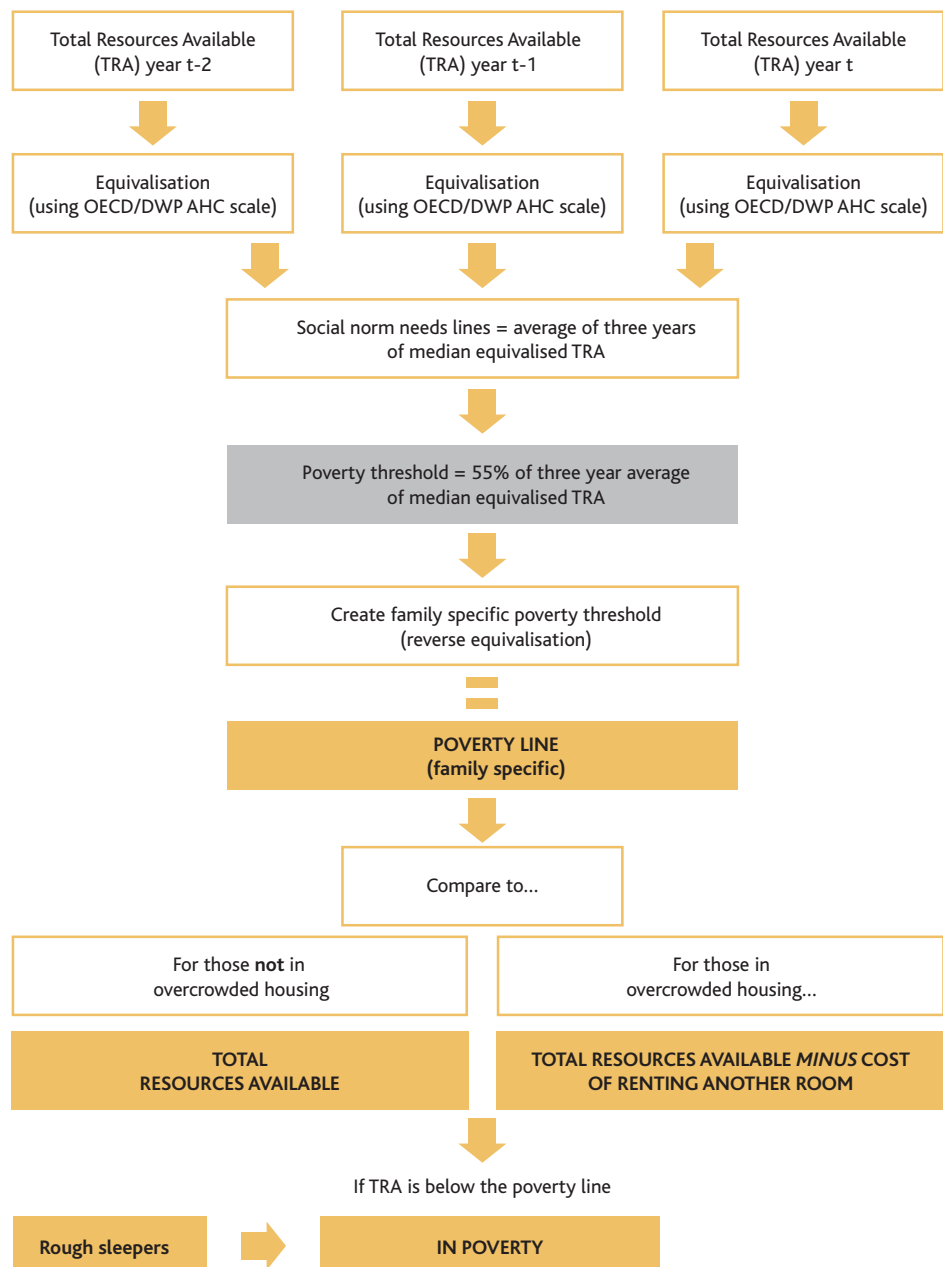
What impact does this have?

Adjustments are made to resources for overcrowded families in each government office region based on the regional average cost of renting an extra room. Where the size of this adjustment results in overcrowded families moving below the poverty line, they will be judged to be in poverty. This adjustment will also be made when determining persistence and depth of poverty. However, this adjustment is not made when determining the median resources and hence poverty threshold.

PRACTICAL MEASUREMENT OF POVERTY

Figure 17 provides a representation of how the measure of needs is used to create a poverty line, which can be compared to total available resources for each family and how this is adjusted to account for families that are living in overcrowded accommodation. The Commission regarded this approach to measuring poverty as *Available Resources Poverty*.

Figure 17: Overview of the Commission's approach to measuring Available Resources Poverty



Box 4: Future work – material needs and equivalisation

The Commission believes that, with the available data and existing research, the approach outlined above is the most appropriate method of identifying a family's immediate material needs. However, it strongly believes that this could be improved in future.

Throughout the course of the Commission's work it became apparent that many of the approaches towards measuring poverty have been adopted based on a desire to ensure international comparability and/or the need to make pragmatic choices in the absence of accurate information.

A prime example is the approach to equivalisation. A range of different equivalence scales are used across the world and tend not to be based on in-depth research into the relative levels of need of different types of family in different countries. Many also have significant omissions (for example having no regard to the increased level of needs of families that include someone with a disability or impairment).

This is true of the OECD adapted equivalence scale, which when developed (in 1994) was highlighted as being "... as arbitrary as the original OECD scale", with the authors commenting that "... more research efforts should be devoted to the choice of equivalence scales". The OECD does not, and has not ever, used the scale when compiling poverty statistics (instead choosing to use the square root of household numbers).

The Commission's work has developed and tested alternative approaches. The detail of this work, and the conclusions drawn from it can be found in the technical papers that run alongside this report. However, developing a new, comprehensive evidence base with which to develop better approaches to equivalisation that reflects the reality in the UK today was beyond the scope of this commission.

Instead, the Commission strongly recommends that relevant government departments (including DWP), the ONS and academic/research organisations work together to urgently develop a new UK-specific approach to equivalisation. Doing so would provide a better understanding of the needs of different families and what this means for poverty measurement as well as government policy more generally.

It will be essential that this work starts with an open mind of how the needs of different families can be conceptualised and how this can best be translated into a measurable scale.

SECTION 5: WHAT THIS MEANS IN PRACTICE – THE WIDER MEASUREMENT FRAMEWORK

Once a working measure of poverty had been created, the Commission then turned attention to developing the wider measurement framework. As outlined above, this focussed on measuring the depth and persistence of poverty as well as understanding a wide range of factors that might impact on a family's likelihood of entering or remaining in poverty, or their wider experience of poverty.

The Commission therefore decided to create a set of metrics to enable the experience of those judged to be in poverty to be compared to those not in poverty.

DEPTH

Capturing the depth of poverty is one element that contributes to understanding the severity of poverty that families are experiencing. However, measures of deep poverty have typically been challenging to compute because of anomalies in survey data at the very bottom of the income distribution.³⁴ For example, some self-employed people will report no income, hence appearing at the very bottom of the distribution, despite potentially having significant profits from their work. To some extent, the Commission's measure of total resources available is likely to tackle some of these issues (as it considers available resources, including liquid assets, rather than just income). However, there are still likely to be challenges in measuring incomes at the bottom of the distribution, based solely on survey data (note this is one reason why the Commission is recommending further work to explore and link administrative data to readily available survey data).

These challenges have led to a range of responses to measuring the severity of poverty. In the UK, approaches have tended to focus on the combination of low income and material deprivation. For example, following a review by Frank Field, a non-statutory measure of severe poverty was added to the four measures previously legislated for in the Child Poverty Act 2010.³⁵ This considered children to be living in severe poverty if the household in which they lived:

- Reported equivalised income below 50% of median equivalised income (before housing costs); and
- Was judged to be materially deprived.

However, this approach was unsuitable for the Commission's needs for a number of reasons. For example, because of limitations in what the FRS captures with regards to material deprivation, the measure could only be applied to households with children and extended to pensioner households. Working-age households with no children would not be captured by the measure. It was also unclear whether the 50% threshold was based on a strong evidence base of where the experiences of families in poverty become significantly worse.

The Commission also considered other approaches. For example, the Joseph Rowntree Foundation publishes estimates of the number of people living in destitution in the UK. These estimates consider whether households have lacked two or more of a group of six essentials over the last month, because they could not afford them or have extremely low income, meaning they would be unlikely to afford them in the immediate future.³⁶

However, overall, none of these measures met with the Commission's objectives for measuring depth of poverty. As such, Commissioners wanted to build on previous approaches and develop a methodology which:

- Did not create an arbitrary threshold for deep poverty;
- Allowed an objective assessment of the depth of poverty, which would create an understanding of "how far below" the line each person in poverty was;
- Incentivised policymakers to improve the situation of anyone in poverty, by supporting a movement above the line or closer to the line; and
- Was focussed on the measure of poverty itself, rather than bringing in wider assessments of material deprivation.

The Commission also wanted to understand more about those families who are found just above the poverty line. In part, this reflects the Commission's acceptance that any threshold is an arbitrary one, so it is important to consider those above the poverty line because of where that threshold is set. It also reflects the Commission's understanding that, of those not currently in poverty, the families most likely to be in poverty in the future are those who are closest to the poverty line.

To deliver each of these objectives, the Commission developed a reporting framework which assesses how far below the poverty line each family in poverty is.

Commission measurement decision

The Commission decided to create a measure of the depth of poverty that:

- Reflected how far each family in poverty is below the poverty line; and
- Also captured and reported on families that were just above the poverty line.

For ease of reporting, this is split into categories as outlined in table 8.

Table 8: Illustrative example of reporting on depth of poverty

Distance below poverty line	Number of people	% of UK population
0.1%–5% below	# people	...%
5.1%–10% below	# people	...%
10.1%–25% below	# people	...%
25.1%–50% below	# people	...%
More than 50.1% below	# people	...%
Distance above poverty line	Number of people	% of UK population
0.0%–5% above	# people	...%
5.1%–10% above	# people	...%
10.1%–25% above	# people	...%
25.1%–50% above	# people	...%
More than 50.1% above	# people	...%

The Commission recognises that the data limitations outlined above will be likely to continue to present a biased picture of the situation of some of those at the very bottom of the total resources available distribution (i.e. some of those who are judged to be more than 50% below the poverty line). However, this was judged to be the most comprehensive approach possible with the available data. For this reason, the Commission will be clear about the caveats associated with the proportion of people reported in this group.

PERSISTENCE

Another important element of the severity of poverty that people experience is the length of time that they have been in poverty.³⁷ Commissioners wanted a measure of the length of poverty to reflect families that had been continuously in poverty and also those who may have dipped in and out of poverty.

In the UK context, there are two main measures of poverty persistence which capture this:

- The approach adopted by the DWP in its HBAI publication, which regards a household as being in persistent poverty if they have been in poverty in at least three of the last four years; and
- The OECD/ONS definition, which regards families as being in persistent poverty if they are in poverty this year, and have been in poverty for at least two of the previous three years.

The DWP approach means that a family can be in persistent poverty, whilst not being classed as being in poverty this year (e.g. where they were in poverty for three continuous years but moved out of poverty in the current year of assessment). Commissioners judged this to be an undesirable feature for a measure of persistent poverty.

As a result, the Commission chose to match the OECD/ONS definition of persistent poverty, based on the measure of Available Resources Poverty.

Commission measurement decision

The Commission decided to create a measure of poverty persistence that matched the approach used by the OECD/ONS. This means that family would be judged to be in persistent poverty if:

- They were in Available Resource Poverty this year; and
- Had also been in Available Resource Poverty for two of the previous three years.

Operationalising this measure of persistent poverty requires the use of longitudinal data. As outlined above, Commissioners chose to use Understanding Society as the data source for this. As far as possible, the Commission has developed measures of poverty in the FRS and Understanding Society that are equivalent. However, there are differences in the two surveys, both in terms of the data collected and the specific structure of the questions asked.

This has meant that, the two measures are slightly different, in particular in their approach to assets (which are captured only in the fourth wave of Understanding Society). The overall impact of these differences is relatively small. The technical papers accompanying this report will provide more detail on this issue. To ensure consistency in the overall numbers affected by persistent poverty, estimates of the proportion of families experiencing persistent poverty are derived from Understanding Society and these proportions are applied to population estimates using the FRS.

LIVED EXPERIENCE OF POVERTY

Why consider this issue

As highlighted above, as well as understanding the nature of poverty by measuring the depth and persistence of poverty, the Commission decided that it was essential to be able to regularly say more about some of the factors that affect the lived experience of people in poverty. A key reason for the importance of this is to ensure that policy makers can consider the widest range of policy tools available to them to tackle the impacts and reduce the incidence of poverty.

One of the first discussions that Commissioners had at the start of the Commission was used to identify the 'universe of indicators' that Commissioners believed were important to understand in terms of how they might impact on or be related to the incidence and experience of poverty. For example, alongside immediate material resources and material needs, Commissioners expressed a desire to understand a wide range of issues, including:

- **Health:** the extent to which people have good mental and physical health;
- **Education and skills:** the extent to which people have the education and skills they need;
- **Working life:** whether families are in work and the extent to which they are able to enter or progress in work by engaging in and accessing labour markets;
- **Social participation:** the extent to which people are able to engage in activities that others in society would regard as the norm;
- **Material deprivation:** the extent to which people are financially constrained in their ability to buy basic essential goods and services;
- **Family life and relationships:** whether people have stable and supportive family relationships and a strong network of contacts to gain support; and
- **Access:** the extent to which people are constrained (either financially or through other barriers) to use and engage with public and private services (e.g. transport, recreation facilities and healthcare).

The Commission was able to include a range of these factors in its measure of Available Resource Poverty. For example, the measure makes reference to social norms, which will include social participation, and includes adjustments for childcare costs, housing costs and adequacy and the costs of disability. However, there are many other factors that are likely to be important.

A wide range of options for how these wider issues might be measured and related to poverty were explored. For example, during the course of the Commission, a number of multidimensional measures were considered, including measures of the risk of poverty, the risk of entrenchment and wider measures of wellbeing. Each of these brought together a range of factors measured in survey data in an attempt to better understand the current or future experience that a family might have.

Results from this work have been essential to informing the Commission's work and wider measurement framework. For example, the research found that, above all else, the most important factors in predicting whether a family would move into poverty in future is how close to the poverty line they currently are and their past experiences of poverty: those who had previously

been in poverty and were currently close to (but above) the poverty line are by far the most likely to be observed in poverty in future. Equally, those who are currently in poverty, have a significant history of poverty and who are a long way below the poverty line, are the least likely to escape poverty in future. More detail on the Commission's work on these measures will be provided in a technical paper.

Whilst each was found to be important, the Commission ultimately decided that the most important immediate task was to provide a more descriptive analysis of a range of factors that could impact on or be related to the lived experience of poverty. To do this, Commissioners wanted to be able to compare a wide range of characteristics, circumstances and experiences of those in poverty (and at different depths of poverty) to those who are not in poverty. Doing so will allow for a fuller understanding of the lived experiences of people in poverty and how they compare to others in society.

Principled decision

Based on Commissioners' experience, existing research and input from a range of experts, the Commission used the 'universe of indicators' outlined above and narrowed this down to a number of factors that were not captured by the Commission's measure of Available Resource Poverty, depth and persistence. Figure 18 outlines the factors Commissioner's felt to be most important.

This is not meant to be a fully-comprehensive list of potential factors, there are others that are important now, or might be important in the future, and the Commission encourages future work to understand the exact nature and linkages of these factors (and others) with poverty.

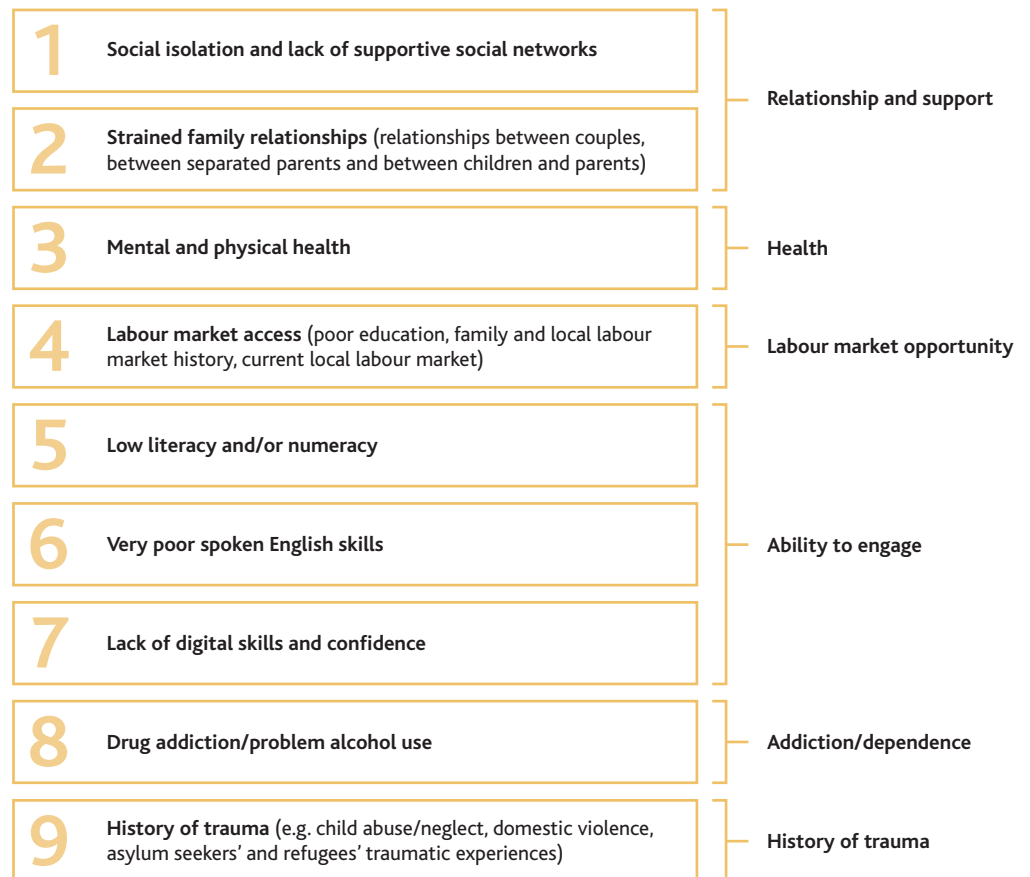
However, Commissioners wanted to develop a manageable framework for understanding and reporting on some of the wider experiences of people in poverty and how they compare to those not in poverty. It is hoped that this will improve understanding and stimulate more research and analysis to develop a deeper assessment of the experiences of people in poverty and some of the potential routes of entry and exit.

Measurement in practice

There are existing datasets and measures that report on a wide range of these dimensions and factors. Many of these were included in previous approaches, including the Opportunity for All Indicators, which were formally tracked between 1999 and 2007. However, to understand how the incidence and nature of these factors relate to the lived experience of poverty it must be possible to measure these factors in the same data as is being used to measure poverty. Commissioners also noted significant gaps in the data around experiences of homelessness, substance misuse, criminal justice and mental health, which are also made more difficult by the household surveys not covering many people facing these problems.

In practice, this meant that the Commission had to focus on a relatively limited set of lived experience indicators that are already measured within the FRS or Understanding Society. Whilst this does limit the range of factors that the Commission can report on, an important range of factors can still be measured.

Figure 18: Potential dimension and factors of the lived experience of those in poverty



The Commission will begin to report on indicators grouped into four domains: health; labour market opportunity (including educational attainment); family, relationships and community; and family finances. Each domain will have a number of sub-indicators and the prevalence of each indicator amongst the population in poverty (and at different depths of poverty) will be compared to the prevalence amongst the population not in poverty. More detail, and different domains and indicators should be added to this reporting framework as more and better data on these issues becomes available.

Commission measurement decision

The Commission has created a set of Lived Experience Indicators that explore the nature of poverty and families' experience of poverty. These needed to be reported alongside data to measure poverty. As such, the range of factors that could be considered was limited and more work will be needed to strengthen these indicators in the future. The Commission will report on indicators that span four domains: health; labour market opportunity (including educational attainment); family, relationships and community; and family finances.

It will report the prevalence of the indicators and compare this to families not in poverty and will update its approach as more data becomes available.

SECTION 6: POVERTY IN THE UK

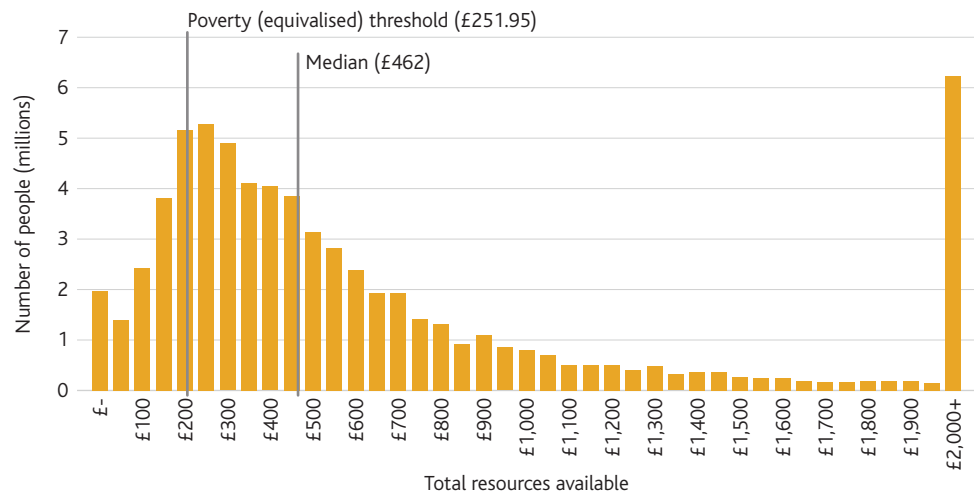
UNDERSTANDING HEADLINE POVERTY NUMBERS

This section provides an overview of the headline results from the Commission’s new measure of Available Resource Poverty. It shows how poverty rates and numbers have changed since 2001, both overall and for different types of individuals and families. It then goes on to decompose the results, to understand poverty for families by disability and work status and by housing tenure. Section 7 provides more detail on these issues for working-age adults, pensioners and children.

Total resources available distribution

The Commission has created a new measure of total resources available that includes liquid assets and excludes inescapable costs (recurring housing costs and the costs of childcare and disability). Figure 19 shows the distribution of equivalised total resources available for the whole population in 2016/17. Using the equivalised version allows us to compare all families’ resources to those of a base family (a couple family with no children).

Figure 19: Distribution of families’ equivalised weekly total resources available, 2016/17



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Total Resources Available (TRA) calculated at the sharing unit level and equivalised to a couple household.

The figure shows that the median of families’ equivalised weekly total resources available was £462 in 2016/17.

Poverty lines for different families

Figure 19 also shows the equivalised version of the Commission's choice of poverty threshold, at 55% of the median of total resources available. However, in practice, when determining who is in poverty, the Commission's approach is to set a poverty line specific to the needs of each family. This means that each family's unequivalised available resources can be compared directly with their poverty line to determine whether they are in poverty.

Table 9 demonstrates these poverty lines for a range of example families. It shows that in 2016/17 a single childless person with less than £146 a week of available resources would be judged to be in poverty. The threshold for a childless couple would be £252 a week and, for a couple with two children aged under 14, would be £353 a week.

Table 9: Poverty lines for different example family types

Family type	2016/17 poverty line (£ available resources per week)
Single, no children	£146.13
Lone parent	
One child	£196.53
Two children	£302.35
Couple, no children	£251.95
Couple with children	
One child	£302.35
Two children	£408.17
Pensioner, single	£146.13
Pensioner couple	£251.95

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

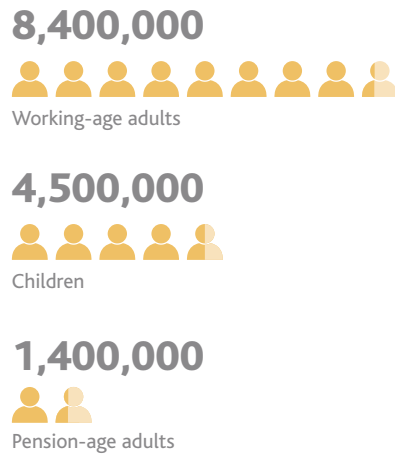
Notes: Poverty thresholds calculated by typical family type. In one child cases the child is assumed to be under 14. In two child cases one is assumed to be under 14 and one is assumed to be over 14.

POVERTY – HEADLINES IN 2016/17

Based on these poverty lines, the Commission’s approach to measuring poverty, suggests that 14.2 million people in the UK are living in family judged to be in poverty (22.0% of the UK population). Within this, there are 4.5 million children (32.6% of children), 8.4 million working-age adults (21.6% of working-age adults) and 1.4 million pension-age adults (11.4% of pension-age adults).

Figure 20: Composition of poverty and poverty rates in the UK, by age, 2016/17

14.2 million people in poverty in the UK (2016/17), comprised of:



Poverty rates in the UK (2016/17):

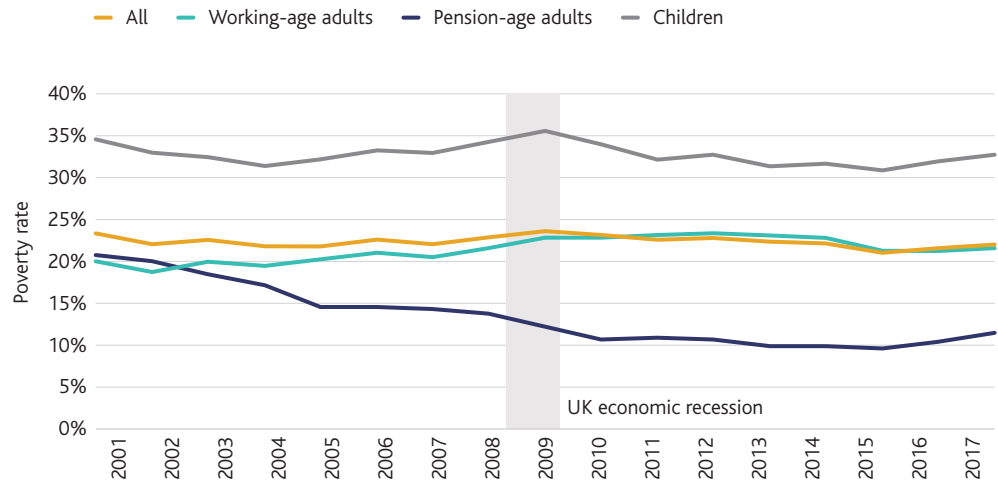


Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Figures have been rounded so may not sum perfectly.

Figure 21 shows how poverty rates have changed over the last 15 years. Overall, it shows that poverty rates for the UK population have been consistently between 21% and 24%. Over the same period, there has been a significant fall in poverty amongst pension-age individuals. The poverty rate for working-age adults has increased slightly over the last 15 years, while the poverty for children has fallen slightly.

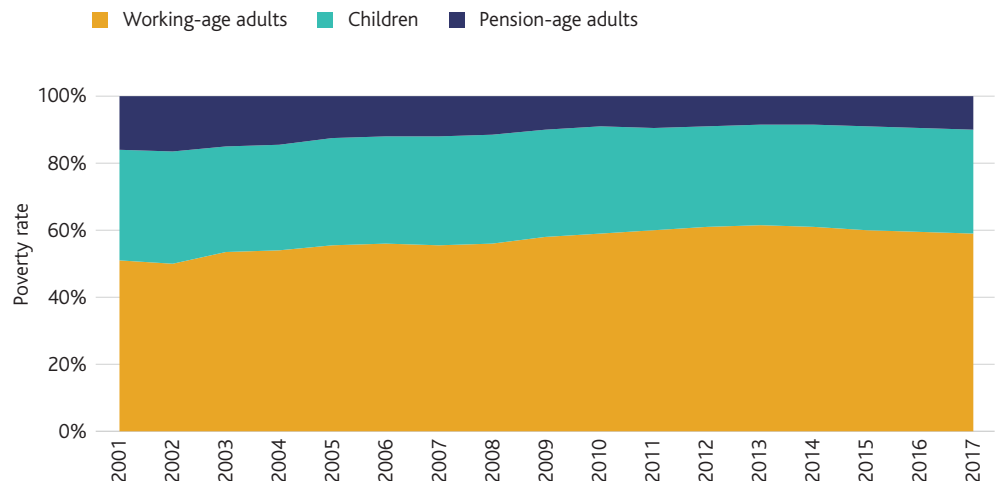
Figure 21: Change in poverty rates since 2001, by age



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Overall, this means that the composition of the total population in poverty in the UK has changed over the last 15 years; working-age adults now take up a larger proportion of the group, while pension-age adults represent a lower proportion of the total.

Figure 22: Composition of poverty over time, by age



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Notes: Categories refer to individuals who are working-age adults, children, or pensioners, rather than individuals in different family types.

POVERTY BY FAMILY TYPE

As well as considering working-age, child and pensioner poverty, poverty can also be assessed based on the types of family within which people live.

Figure 23 demonstrates how people in poverty are split between different family types. The largest group is people living in couple families with children. There are 5.6 million people in poverty in this group and they represent nearly four in ten (39.6%) of all of those in poverty. Single people with no children represent the second largest group of people in poverty. There are 3.1 million people in this group. This means that despite having by far the highest poverty rates (see below) people in lone-parent families are the third largest group (2.6 million) of people in poverty.

Figure 23: Composition of UK poverty by family types people live in, 2016/17

14.2 million people in poverty in the UK (2016/17), comprised of:

3,100,000



People in single families, no children

5,600,000



People in couple families with children

2,600,000



People in lone-parent families

700,000



People in pension-age single families

1,400,000



People in couple families, no children

800,000



People in pension-age couples families

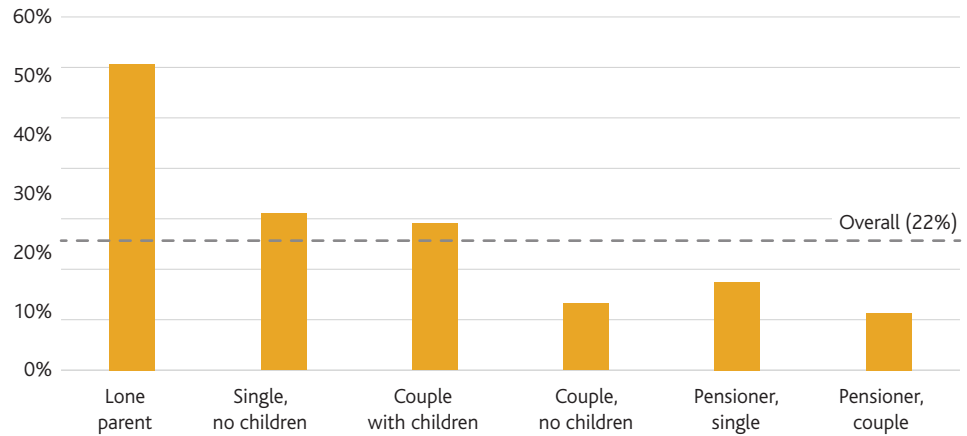
Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Figures refer to total people in poverty in different family types. Family types taken from the HBAI dataset once SMC poverty indicators (assessed at the sharing unit level) have been allocated to each benefit unit.

Figure 24 shows that poverty rates vary significantly between people in different family types. For example, more than half of people in lone parent families are judged to be in poverty. For people in pensioner couples and working-age couples with children, this figure falls to approximately one in ten (11.1% and 9.7% respectively).

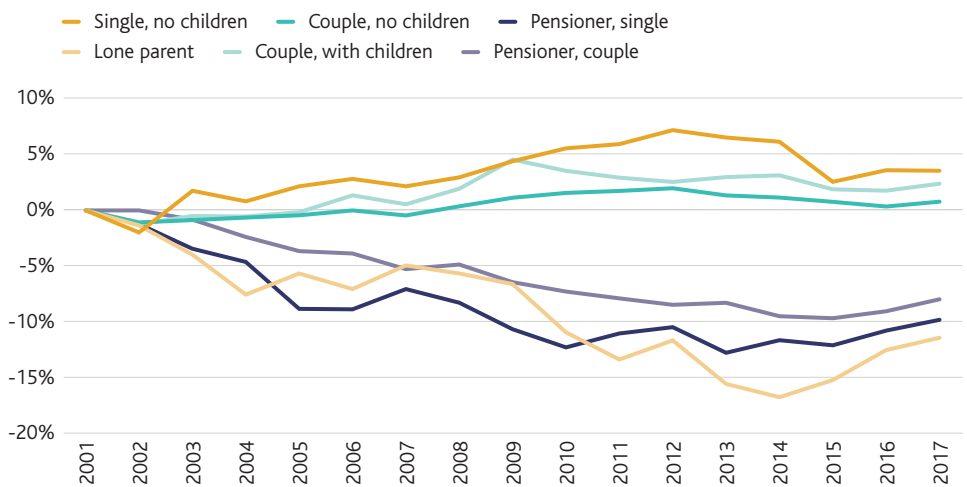
Figure 25 demonstrates that poverty rates for individuals in particular family types have changed over time. There has been a large fall in poverty rates of people in (single and couple) pensioner and lone-parent families. However, for single people without children and people in couple families (with and without children), poverty rates have increased over the last fifteen years.

Figure 24: Poverty rates for the UK population, by family type, 2016/17



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

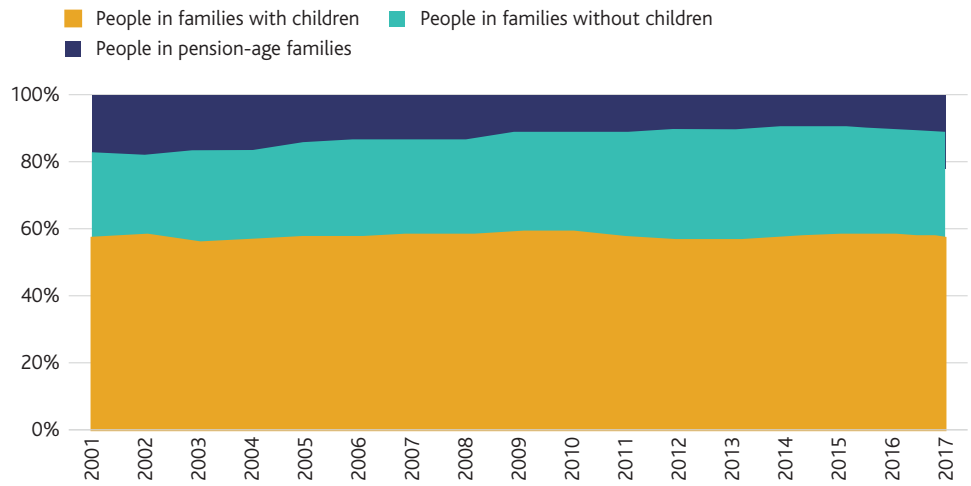
Figure 25: Change in poverty rates since 2001, by family type



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

The composition of poverty by family type has also changed over time. Figure 26 shows that, since the early 2000s, there has been a shift in the composition of poverty from those families aged over the pension age³⁸ (falling from 17% of the population in poverty in 2000/01 to 11% in 2016/17), to working-age families without children (increasing from 28% of the population in poverty, to 35% in 2016/17). The proportion of the total population in poverty accounted for by people living in families with children has remained fairly constant at around 55% of the total population in poverty.

Figure 26: Composition of poverty over time, by family type



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Notes: Family types created using HBAI family designations and number of children.

ANALYSIS OF POVERTY BY FAMILY CHARACTERISTICS

There are also characteristics, beyond family type, that are associated with different rates and levels of poverty. This section considers poverty by whether the family includes a disabled person, family work status and housing tenure.

Disability

This section considers how the incidence of poverty differs between families with someone with a disability, and those families where no-one has a disability.

Figure 27 shows that of the 14.2 million people in poverty in the UK, 6.9 million are living in families with a disabled person. This means that, while across the whole population, only 35% of families have someone with a disability, 48.3% of people in poverty live in a family where someone is disabled. This shows that, compared to their overall representation in the UK population, families with someone with a disability are significantly over-represented within the population in poverty.

Poverty rates also vary across people living in families with different disability statuses. The poverty rate for those people living in a family with a disabled adult or child stands at 27.6%, whereas for those living in a family where no-one is disabled, the poverty rate is 16.3%.

Figure 27: Composition of poverty and poverty rates in the UK, by whether the family includes a disabled person, 2016/17

14.2 million people in poverty in the UK (2016/17), comprised of:

6,900,000



People in families that include a disabled adult or child

7,300,000



People in families that do not include a disabled adult or child

Poverty rates in the UK (2016/17):

27.6%

Of people in families that include a disabled adult or child are in poverty

16.3%

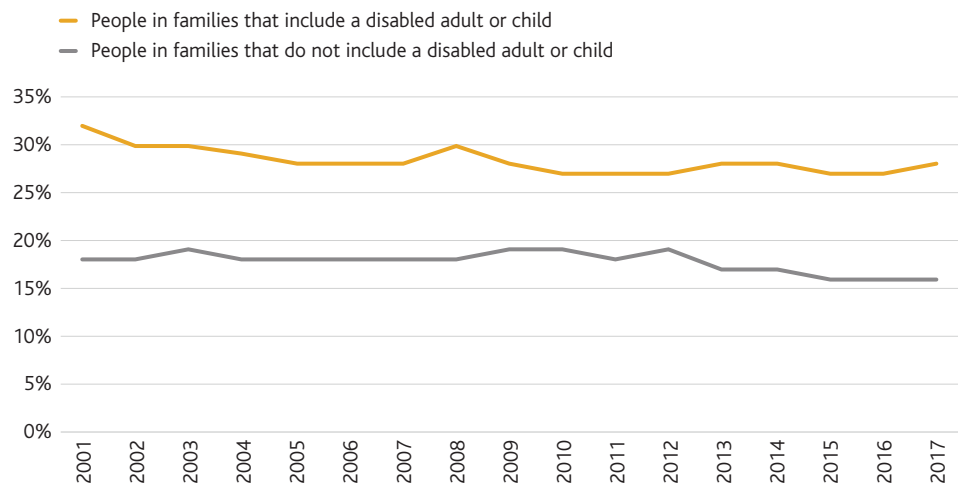
Of people in families that do not include a disabled adult or child are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Families are classified as having a disabled person if one or more benefit unit within the family has a disabled person according to the variable "disability within the family (benefit unit)." This variable changed to align with Equality Act definitions in 2013, but is otherwise consistent across years.

The rates of poverty of the UK population, whether the family includes a disabled person, have also changed significantly over time. Figure 28 demonstrates that poverty rates for people in families with a disabled person fell for over a decade (2001–2012). The sharp rise in 2013 is driven by a change in the definition of disability in the FRS and does not reflect a change in the underlying understanding of poverty for this group. Since 2013, poverty rates for those in families with a disabled person have stabilised.

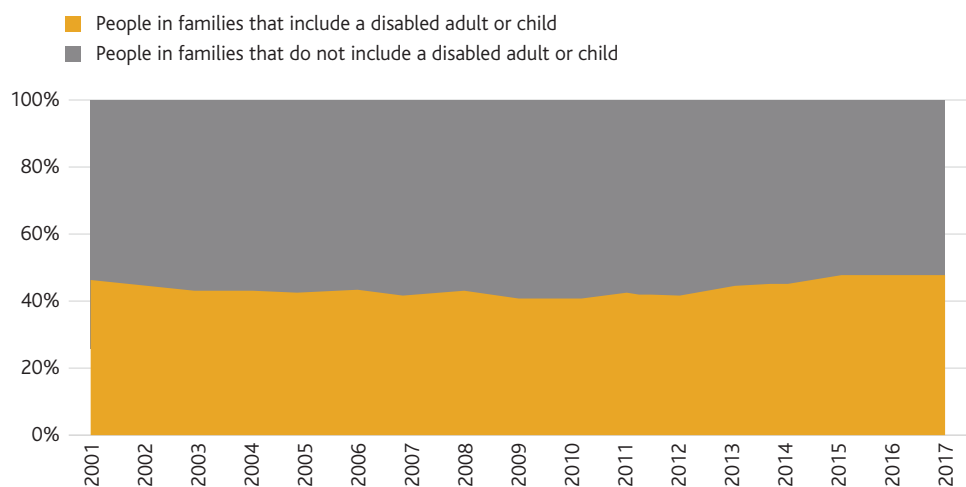
Figure 28: Poverty rates for UK population, by whether the family includes a disabled person



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 29 demonstrates how the composition of people in poverty has changed between those who live in families where someone is disabled, and those who live in families where no-one is disabled. It shows that the proportion of people living in families with a disabled person is broadly the same as it was in 2001. Note that definitions of disability in the Family Resources Survey have changed over this period, so any changes should be taken with caution (particularly post 2010).

Figure 29: Composition of UK poverty, by whether the family includes a disabled person



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Work status

Figure 30 demonstrates how people in poverty in the UK are split between retired, working and workless families. Nearly six in ten (58.5%) of people in poverty in the UK live in a family where someone works. However, the experience of poverty within the overall population in "working families" varies significantly between families with different levels of work intensities. To understand the poverty status of families with different work intensities, the following classifications are used:³⁹

- Full work family: all adults in the family work full time;
- Full/part-time family: Some adults in the family work full-time, others work part-time;
- Part-time family: some adults in the family work part-time, others do not work;
- Little work/workless family: there may be some work in the family, but the majority of adults do not work. Those that do, work very few hours.

Based on these definitions, we can see that the majority of people in poverty in working families live in families who either mix part – and full-time work or work solely part-time. Another 4.8 million people in poverty in the UK live in families where there is very little work or where the family is workless.

Poverty rates fall significantly as work intensity increases. The poverty rates amongst people living in workless families (68.0%) is seven and a half times higher than the rate amongst people in families where all adults work full time (9.0%). Where all adults work the equivalent of part-time hours, the poverty rate is 53.2%.

Figure 30: Composition of poverty and poverty rates in the UK, by family work status, 2016/17

14.2 million people in poverty in the UK (2016/17), comprised of:

2,800,000



People in a full-time work family

4,000,000



People in a full/part-time work family

1,500,000



People in a part-time work family

4,800,000



People in a little work/workless family

1,100,000



People in a retired family

Poverty rates in the UK (2016/17):

9.0%

of people in families where all adults work full-time, are in poverty

28.0%

of people in families where all adults work a mixture of full-time and part-time, are in poverty

55.3%

of people in part-time working families, are in poverty

68.0%

of people in workless families are in poverty

12.4%

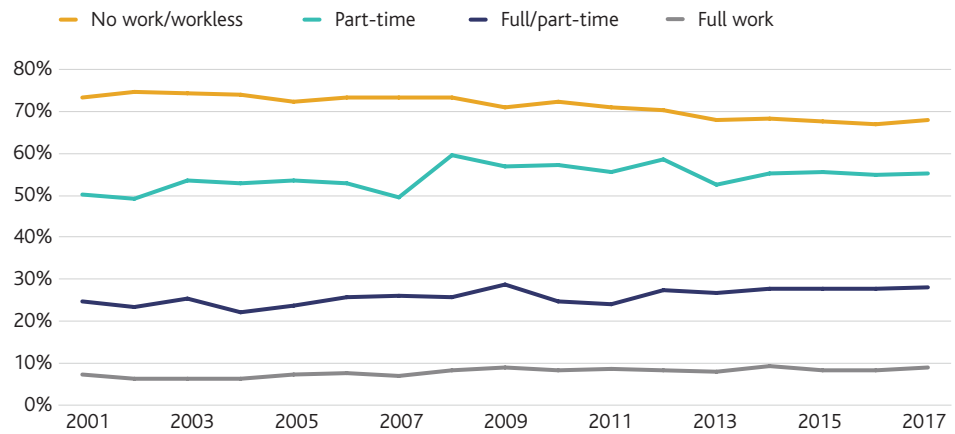
of people in retired families are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Family work status allocated in accordance with the approach summarised below.

Figure 31 shows how the poverty rate for people in working-age families, split by family work status has changed over time. It shows that, whilst still relatively low, the rate of poverty for people in full-work families has risen by nearly two percentage points since 2001. The rates of poverty for people in workless families have declined by over five percentage points over the same period.

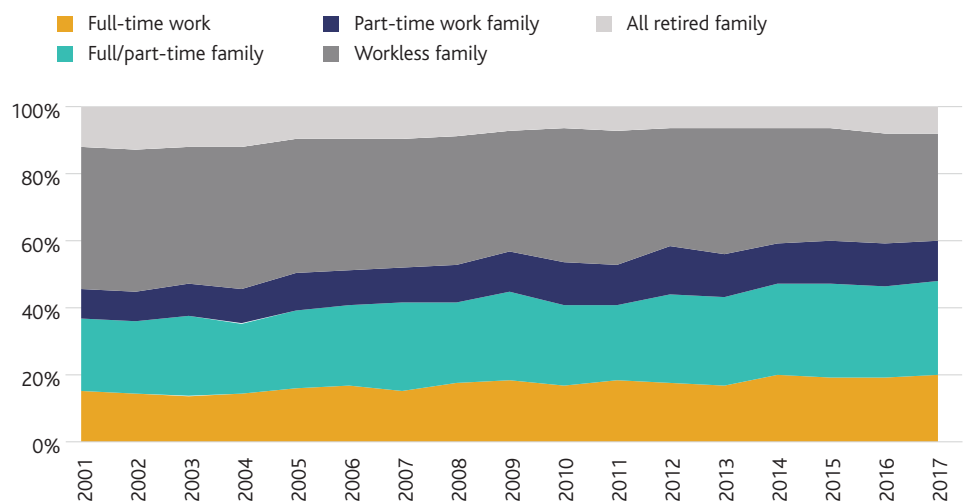
Figure 31: Poverty rates for people in families with different work intensities



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

However, the fact that employment has been rising in the UK (other than during the financial crisis) means that there are more in-work families and fewer workless families in the population. Hence, the composition of poverty among working-age adults and children has been shifting towards families where someone works at least part-time.

Figure 32: Composition of poverty, by family work status







Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Notes: Includes pensioner benefit units, where they are in a sharing unit with a working-aged adult who is not retired. This is because the sharing unit is therefore classed as at least partially active in the workforce.

Figure 33 demonstrates how poverty rates vary for working-age adults and children living in different family types and by family work status. Nearly nine in ten (88.4%) people in working-age, out-of-work couple families are in poverty. Around one in four (26.0%) of people in full-time working lone-parent families are in poverty. This rises to 63.3% when the lone parent works part time. At the other end of the scale, just 3.3% of people living in couple families with no children, where both adults work, are in poverty.

Figure 33: Poverty rates for people in working-age families, by family type and work status, 2016/17

People in...	Full working families	Full/part-time working families	Families working part-time	Workless families
 Single families, no children	8.8%	21.3%	49.0%	66.2%
 Lone parent families	26.0%	41.0%	63.3%	79.4%
 Couple families, no children	3.3%	16.8%	44.8%	68.5%
 Couple families, with children	11.5%	37.1%	67.7%	88.4%

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Full/part-time working families refer to the overall mix of adults in the sharing unit. As such, single person families or lone parents could be in a sharing unit with other adults leading to their allocation into this group, depending on the work status of the other adults.

Housing tenure

Figure 34 demonstrates how people in poverty in the UK are split between families in different housing tenures. The majority of people in poverty are in the social – or private/other rented sector.

Figure 34: Composition of poverty and poverty rates in the UK, by housing tenure, 2016/17

14.2 million people in poverty in the UK (2016/17), comprised of:

5,500,000



People in families living in social rented accommodation

4,400,000



People in families living in private/other rented accommodation

2,800,000



People in families living in mortgaged-owned accommodation

1,400,000



People in families living in owned-outright accommodation

Poverty rates in the UK (2016/17):

51.3%

of people in families living in social rented accommodation are in poverty

35.4%

of people in families living in private/other rented accommodation are in poverty

12.4%

of people in families living in mortgage-owned accommodation are in poverty

7.8%

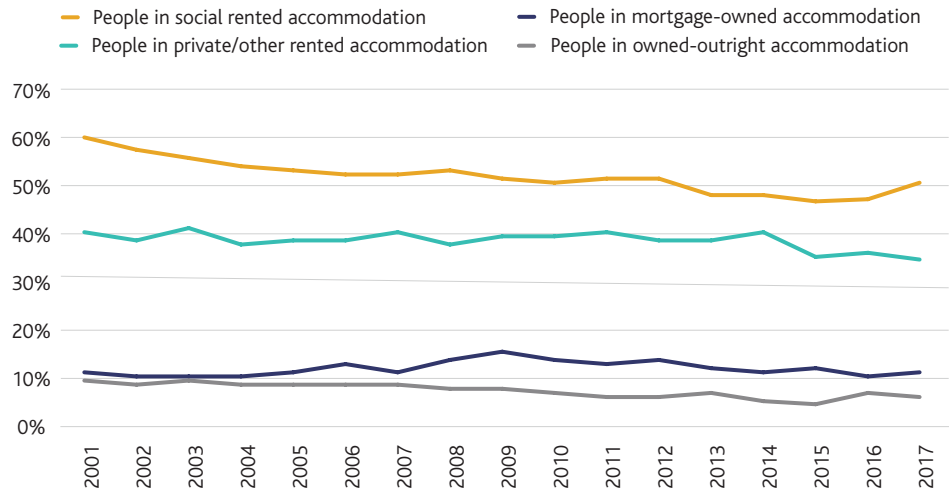
of people in families living in owned-outright accommodation are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Tenure is derived from HBAI tenure type variables at the benefit unit level. This allows groups within the sharing unit (e.g. someone renting a room in a house their sibling owns) to be classified separately from the main homeowner. Social rented accommodation includes LA housing and housing association housing.

There have also been changes in the overall poverty rates for people living in different housing tenures. Figure 35 shows that, poverty rates amongst those in social – and private-rented accommodation have fallen over the last 15 years, they remain significantly higher than for people in owner-occupied accommodation.

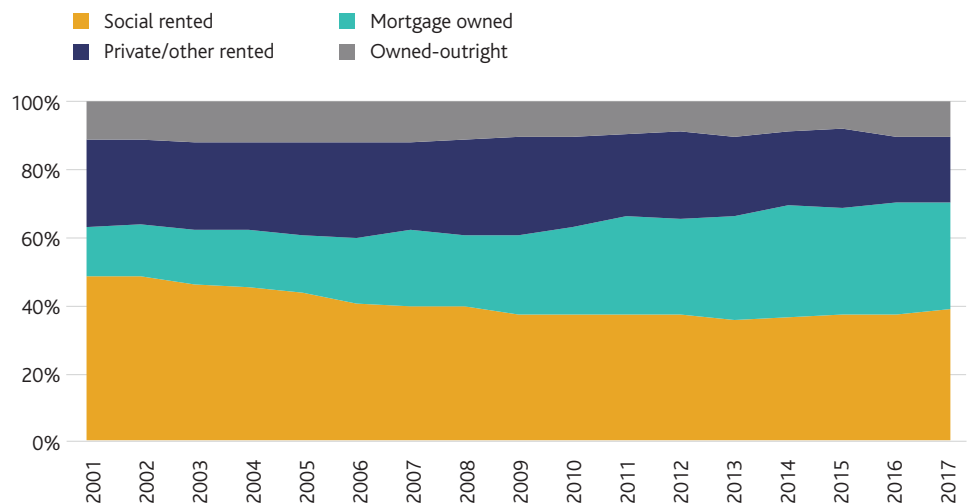
Figure 35: Poverty rates of people living in families in different housing tenures



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 36 demonstrates how the population in poverty are split between families living in different tenures of housing and how this has changed over time. Despite falling poverty rates amongst private/other renters, this shows that the major trend has been a shift in the composition of poverty towards people living in private/other rented accommodation. Having only accounted for 14% of the population in poverty in 2001, this group now account for nearly a third (30.7%) of the population in poverty.

Figure 36: Composition of people in poverty, by housing tenure



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

This change in composition towards people in private/other rented accommodation is, in part, a result of the significant shifts in the proportion of the overall UK population that are in private rented accommodation. While in 2001, 8.1% of the population lived in private rented accommodation, in 2016/17 this figure stood at 19.2% of the population. However, this also shows that those living in private rented accommodation are still over-represented amongst the population of people in poverty.

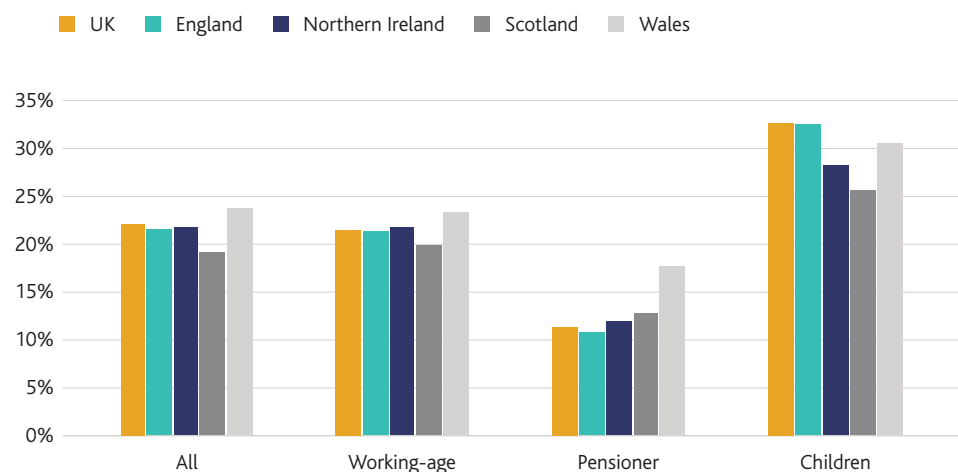
POVERTY ACROSS THE UK

UK countries

The results above have all focussed on UK-wide measure of poverty. This section considers how these results vary across different parts of the UK. Note that, to ensure that sufficient sample sizes and comparability of methodology across countries, these results are based on the approach currently taken by the Welsh and Scottish Government's, which averages three-years of annual poverty results.

Figure 37 shows poverty rates overall for each country and also split by working-age adults, children and pensioners. The main differences are in the poverty rates for Wales and Scotland, where, compared to the UK average, poverty rates are generally higher for people living in Wales and lower for those living in Scotland. The only exception for Scotland is in pensioner poverty, which is higher in Scotland than the UK average.

Figure 37: Poverty rates, by country and age, 2016/17

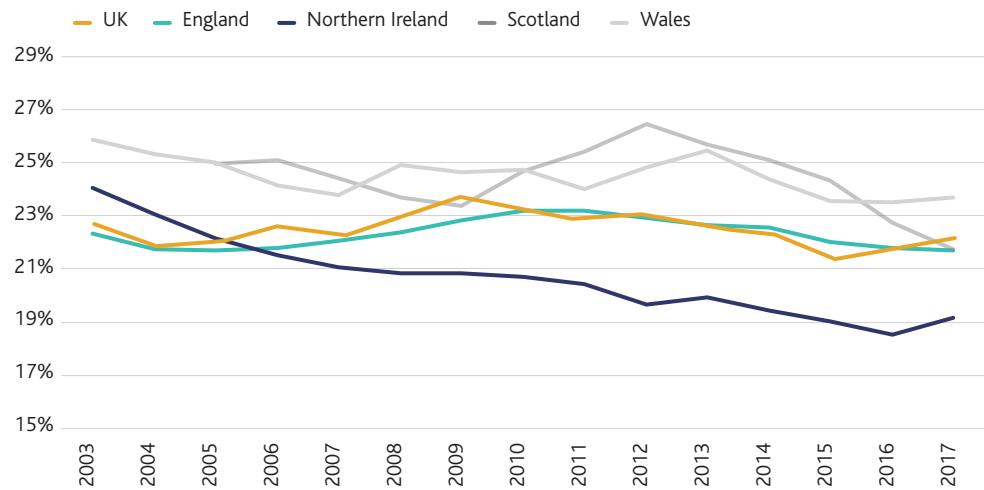


Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: To provide a sufficient sample size, three year averages have been pooled for Northern Ireland, Scotland, and Wales in line with current HBAI approaches. As such the 2016/17 figure represents averages of figures from 2014–2017. This applies to all sub-national estimates in this section.

Figure 38 shows how poverty rates in each of the four nations have varied over time. Overall poverty rates in England, Northern Ireland and Wales have broadly followed the overall trends in the UK poverty rate; falling slowly in the early 2000s, rising during the financial crisis and recession and then falling post-recession. In contrast, until 2017, the overall poverty rate in Scotland had been on a steady downward trend since 2003. However, in the most recent year of data, the poverty rate in Scotland was seen to rise.

Figure 38: Overall poverty rates in four countries over time



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Table 10 shows how the poverty rates for people living in different types of families vary across the countries in the UK.

Table 10: Poverty rates for individuals in different family types, by country, 2016/17

	UK	England	Northern Ireland	Scotland	Wales
Single, no children	25.0%	25.7%	24.0%	26.4%	28.2%
Lone parent	52.3%	51.6%	48.6%	42.8%	44.1%
Couple, no children	12.0%	11.4%	14.3%	11.0%	14.1%
Couple with children	24.9%	24.7%	21.4%	19.1%	25.8%
Pensioner, single	16.3%	14.0%	16.0%	12.6%	20.4%
Pensioner couple	9.6%	8.4%	11.6%	10.2%	15.5%

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Areas within England

Figure 39 shows that differences in poverty rates between English regions are larger than between the countries of the UK. For example, the overall poverty rate in London (28.0%) is more than 10 percentage points higher than that in the South East (16.6%), East of England (17.8%) and the South West (17.9%).

Figure 39: Poverty rates, by region and age, 2016/17



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

SECTION 7: UNDERSTANDING THE NATURE OF POVERTY

POVERTY DEPTH

The Commission's approach to measuring the depth of poverty ensures that it is possible to understand the distribution of poverty underneath the poverty line. The Commission's research also demonstrated that those only just above the poverty line were some of the most likely families to be in poverty in future, and are likely to be experiencing a similar standard of living as those who are beneath it. For this reason, the Commission's approach to measuring depth of poverty also identifies those who are just above the poverty line.

Depth below the poverty line

Table 11 shows that more than eight million people in the UK (12.8% of the population) are more than 25% below the poverty line, meaning that their total resources available would need to increase significantly for them to be out of poverty. Around 2.7 million people are less than 10% below the poverty line, meaning that relatively small changes in their circumstances could mean that they are above the poverty line.

Table 11: Breakdown of depth of poverty for those in poverty, 2016/17

Distance below poverty line	Number of people	% of UK population
0.1–5% below the poverty line	1,300,000	2.1%
5.1–10% below the poverty line	1,400,000	2.2%
10.1%–25% below the poverty line	3,300,000	5.1%
25.1–50% below the poverty line	4,100,000	6.4%
50%+ below the poverty line	4,100,000	6.4%

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: For depth calculations, where families were directly on a given threshold they were treated as being above it, as their resources would be defined as equal to their needs. This applies to all depth calculations in this section.

Clearance above the poverty line

Table 12 shows that, as well as those under the poverty line, another 4% of the population (close to four million people) are less than 10% above the poverty line, meaning that small changes to their situation could mean that they fall below the poverty line.

Table 12: Breakdown of those above the poverty line, 2016/17

Distance above poverty line	Number of people	% of UK population
0.0–5% above the poverty line	1,200,000	1.9%
5.1–10% above the poverty line	1,300,000	2.1%
10.1–25% above the poverty line	3,800,000	5.9%
25.1–50% above the poverty line	5,200,000	8.1%
50%+ above the poverty line	38,600,000	60.0%

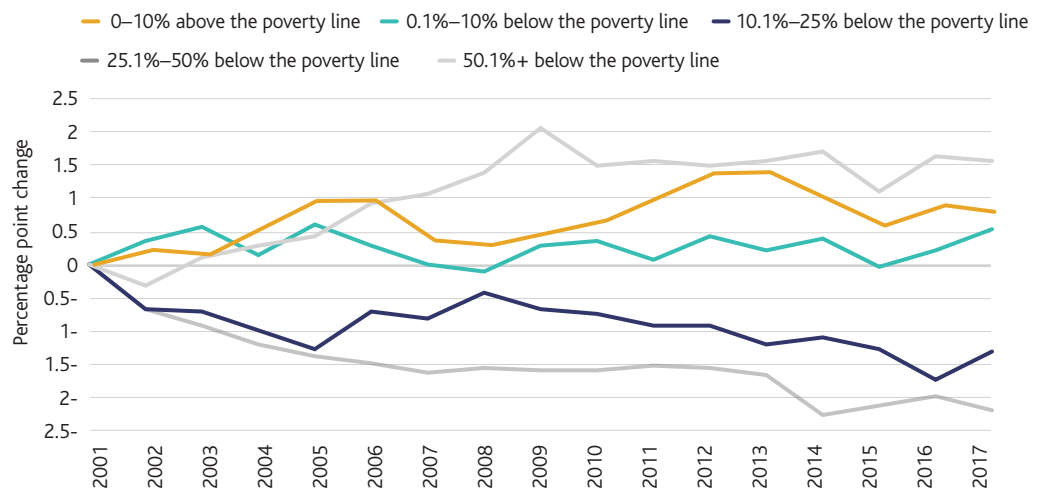
Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Changing poverty depth over time

Figure 40 shows how the proportion of the total population at various depths of poverty have changed since 2001. Positively, it shows that there has been a reduction in the proportion of the UK population who are between 10.1% and 50% below the poverty line. There has also been an increase in the proportion of the population in a 10% band above and below the poverty line.

However, there has also been a significant increase in the proportion of the population who are more than 50% below the poverty line. As highlighted earlier, the results for those more than 50% below the poverty line should be treated with caution, as they may capture a range of families whose standard of living is not accurately reflected by the measure of Total Resources Available (or net income). For example, it could be associated with a rising proportion of self-employed people. This trend warrants further research.

Figure 40: Change in proportion of UK population at different depths of poverty depth since 2001



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

POVERTY PERSISTENCE

The Commission has defined persistent poverty as the situation where a person lives in a family currently regarded as being in poverty and, as well as that, the individual would also have been regarded as being in poverty for at least two out of the last three years. A range of research has shown that those experiencing longer spells of poverty can be more detrimentally impacted by the situation. As more waves of data from Understanding Society become available, a fuller account of long-term poverty persistence will become possible, as will an analysis of those who move repeatedly in and out of poverty, who may not be captured by the measure of persistence outlined here.

Persistent poverty in 2015/16

Based on this definition, 58.2% of those in poverty in 2015/16 were in persistent poverty. That means that 12.1% of the whole population, 7.7 million people, were in persistent poverty in 2015/16.

Figure 41: Persistent poverty in the UK, 2015/16

14.2 million people in poverty in the UK (2015/16), of which:

7,700,000



People in persistent poverty

Persistent poverty rates in the UK (2015/16):

58.2%

of all people in poverty are in persistent poverty

12.1%

of the whole UK population are in persistent poverty

Source: Understanding Society (2009/10–2015/16), SMC Analysis.

The Commission's approach to measuring persistent poverty relies on Understanding Society. Given the relatively few waves of data available for Understanding Society, it is only possible to report on persistent poverty for 2014/15 and 2015/16. Persistent poverty has increased marginally between those two years, rising from 11.1% of the UK population in 2014/15 to 12.0% in 2015/16.

Persistent poverty for different groups

Table 13 shows the proportion of various groups who are in persistent poverty. It shows that some groups in poverty are more likely than others to be experiencing persistent poverty. For example, 13.1% of children in working families are in persistent poverty. In contrast, 48.7% of all children in workless families are in persistent poverty and 18.5% of working-age adults in a family with a disabled adult are in persistent poverty.

Depth of poverty also has a significant impact. For example, more than six in ten working-age adults and children who live in families more than 10% below the poverty line, are also in persistent poverty.

Table 13: Persistent poverty for different groups, 2016/17

Characteristics of family where people live	All		Children		Working-age adults		Pension-age adults	
	% of those in group in poverty	% of group	% of those in group in poverty	% of group	% of those in group in poverty	% of group	% of those in group in poverty	% of group
Single family, no children	61.9%	14.9%	-	-	61.9%	14.9%	-	-
Lone parent family	63.0%	30.0%	62.2%	30.8%	64.8%	29.0%	-	-
Couple family, no children	56.2%	7.9%	-	-	56.2%	7.9%	-	-
Couple family with children	57.2%	14.8%	56.1%	15.9%	58.4%	13.9%	-	-
Single pension-age adult family	46.5%	4.3%	-	-	-	-	45.3%	4.1%
Couple pension-age adult family	48.2%	3.3%	-	-	47.0%	5.4%	48.2%	3.0%
All retired family	43.4%	2.7%	-	-	56.6%	6.6%	41.4%	2.4%
Family where all adults work full-time	44.5%	2.9%	43.3%	4.1%	44.8%	2.5%	61.0%	1.2%
Family where adults work a mixture of full and part-time	56.8%	14.8%	57.3%	21.5%	56.9%	13.9%	42.0%	1.7%
Family working part-time	56.3%	29.9%	56.4%	38.7%	56.9%	28.6%	35.4%	8.8%
Workless family	67.2%	40.6%	64.6%	48.7%	69.7%	43.3%	59.3%	15.9%
Family including someone with a disability	61.7%	14.4%	61.0%	25.2%	65.0%	18.5%	45.4%	3.7%
Family where no-one is disabled	56.4%	11.0%	56.9%	17.0%	56.6%	10.6%	49.5%	3.1%
Living in social rented accommodation	68.2%	30.5%	65.7%	40.4%	72.2%	32.7%	50.3%	9.2%
Living in private/other rented accommodation	57.5%	21.5%	58.6%	26.9%	57.9%	21.1%	45.3%	9.0%
Living in mortgage-owned accommodation	47.3%	7.1%	47.6%	8.7%	47.3%	6.4%	44.0%	6.2%
Living in owned-outright accommodation	47.8%	3.1%	43.2%	6.5%	50.5%	4.6%	44.6%	1.6%
0–5% below the poverty line	40.0%		38.6%		43.3%		30.0%	
5.1–10% below the poverty line	49.3%		50.1%		50.1%		41.6%	
10.1–25% below the poverty line	60.9%		60.2%		63.1%		49.4%	
25.1–50% below the poverty line	61.3%		62.9%		62.4%		44.5%	
50%+ below the poverty line	60.8%		59.0%		61.6%		60.6%	

Source: Understanding Society (2009/10–2015/16), SMC Analysis.

Notes: Full/part-time working families refer to the overall mix of adults in the sharing unit. As such, single person families or lone parents could be in a sharing unit with other adults leading to their allocation into this group, depending on the work status of the other adults. Disability figures in the table only cover individuals aged 16 and over as the data doesn't contain information on children's disability status.

LIVED EXPERIENCE

As well as understanding the incidence, depth and persistence of poverty, Commissioners wanted to be able to say more about a wider set of measures of some of the factors that affect the lived experience of people in poverty. A key reason for the importance of this is to ensure that policy makers can consider the widest range of policy tools available to them to tackle the impacts and reduce the incidence of poverty.

The Commission's approach to this task has been limited by extent to which data on these factors can be linked to the measure of poverty. However, a range of indicators have been developed under four domains:

- Health;
- Labour market opportunity;
- Family, relationships and community; and
- Family finances.

Within each of these, a number of indicators has been analysed to understand the differences between families in poverty and those not in poverty. The results are shown in table 14. It shows that, across a wide range of indicators, those families in poverty are experiencing disadvantage, or a number of factors that are likely to negatively impact on either their experience of poverty today, or the likelihood that they can move out of and avoid poverty in future.

For example, nearly half of people in poverty live with a family with a disabled person, compared to one in three people who are not in poverty. Nearly twice the proportion of people in poverty (23.8% compared to 12.2%) live in a family where no-one has formal qualifications equivalent to, or better than, five A*–C GCSEs. The proportion of people in poverty living in a family where no-one has any formal qualifications is 17.6%, compared to just 7.5% for people not in poverty. Fewer people in poverty participate in social and neighbourhood activities and, on average, they have a narrower social network. People in poverty are also more likely to be in a lone-parent or single family.

Perhaps unsurprisingly, a far higher proportion of people in poverty live in families who are behind on paying bills (25.0% compared to 7.9%) and/or are in families where no-one saves (63.4% compared to 34.2%)

However, not all of the indicators suggest disadvantage for families in poverty. For example, people in families in poverty are less likely to report the use of illegal drugs. People in poverty are also no more likely to worry about being affected by crime and, whether or not young people are in poverty, the vast majority feel that they are supported by those that they live with.

Overall, these statistics begin to paint a picture of the wider experiences and challenges that people in poverty face, as well as the potential routes into and out of poverty. However, they are by no means comprehensive. More work is needed to develop a full suite of indicators that can comprehensively and regularly capture a better picture of the life experiences of people in poverty and how they compare to those who are not in poverty. As this happens, the Commission will review, build upon and adapt its approach to measure the lived experience of poverty.

Table 14: Lived Experience Indicators, by poverty status

	People in poverty	People not in poverty
Health		
In a family that includes a disabled adult or child	48.3%	35.1%
At least one adult in family with poor self-reported physical health	27.2%	21.7%
At least one adult in family with poor self-reported mental health	36.1%	24.4%
One or more adult in family with low life satisfaction	15.9%	10.8%
One or more adult in family with low health satisfaction	22.7%	17.3%
One or more youths in family has drunk to excess in last four weeks	47.3%	65.1%
One or more adults in family has drunk to excess in the last year	58.6%	67.6%
One or more adults in family smokes cigarettes (not incl. e-cigarettes)	37.1%	20.2%
One or more youths in family has used or taken illegal drugs at least once in the last year	13.3%	22.3%
Labour market opportunity		
Employment rate of working-age adults	43.8%	87.5%
No-one in family has any formal qualifications	17.6%	7.5%
All adults have highest qualification that is below 5a-c GCSEs or equivalent	23.8%	12.2%
Average time spent travelling to work for working adults in family (minutes)	22.8	26.2
All full-time students in family are aiming for post 16 qualifications	76.6%	85.2%
Family, relationships and community		
Single adults	22.0%	17.1%
Lone parent families	18.2%	4.7%
Couples with no children	9.8%	21.7%
Couples with children	39.6%	33.7%
Single pensioners	4.8%	7.7%
Pensioner couples	5.8%	15.1%
All adults in family feel close to others most of the time	39.3%	43.5%
Youth in family feel supported by their family/people who they live with	96.1%	96.8%
At least one adult in family feels unsafe walking alone at night	29.5%	22.1%
Family, relationships and community		
At least one adult in family worries about being affected by crime	50.2%	50.8%
All adults in family like living in current neighbourhood	86.9%	93.7%
One or more adults in family spends time caring for someone	29.2%	28.9%
All adults perceive the majority of local services as good	43.8%	40.4%

	People in poverty	People not in poverty
Family, relationships and community, continued		
All adults in family think people in their neighbourhood can be trusted	46.0%	62.4%
One or more adults in family are members of at least one organisation	45.1%	71.2%
All adults in family are willing to improve neighbourhood	52.9%	58.6%
Average size of social network for adults in family (mean number of close friends)	5.3	6.4
Family finances		
Household is behind in paying bills	25.0%	7.9%
People in workless household	29.0%	3.5%
People in families reporting material deprivation	38.7%	7.3%
One or more adult in family with low income satisfaction	28.6%	13.8%
One or more adults in family has felt embarrassed by low income	43.7%	21.5%
One or more adults in family saves	36.6%	65.8%

Source: Family Resources Survey and HBAI dataset (2016/17) and Understanding Society (2014/15–2015/16), SMC Analysis.

Notes: Lived Experience indicators were selected based on data availability and the themes that the Commission wanted to capture as important to fully understanding lived experience.

SECTION 8: DETAILED FACTSHEETS ON POVERTY FOR CHILDREN, ADULTS AND PENSIONERS

WORKING-AGE ADULTS

There are 8.4 million working-age adults in poverty in the UK. This means that the poverty rate for working-age adults (21.6%) is slightly below the poverty rate for the whole population (22.0%).

Figure 42: Composition of working-age adult poverty and working-age adult poverty rates in the UK, 2016/17

14.2 million people in poverty in the UK (2016/17), of which:

8,400,000



Working-age adults

Poverty rates in the UK (2016/17):

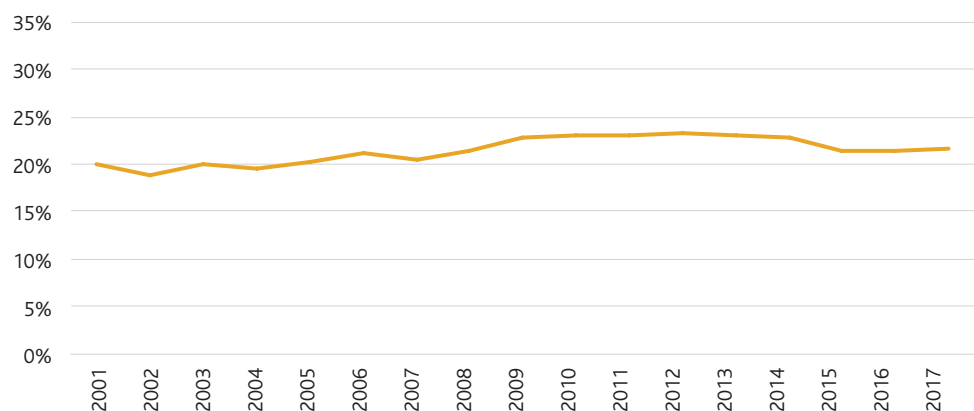
21.6%

of working-age adults are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Figure 43 shows that the poverty rate for working-age individuals peaked at 23.3% in the post-recession period (2012), before falling back down to the 21.6% rate in 2016/17. Overall, this means that the rate has risen by 1.5 percentage points since 2001.

Figure 43: Poverty rates for working-age adults



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

WORKING-AGE ADULTS: FAMILY TYPE

Figure 44 shows how the poverty amongst working-age adults varies by the type of family in which they live. It shows that the most prevalent family type for working-age adults in poverty is a single family with no children. Together with those in couple families with no children, this means that more than half (54%) of working-age people in poverty live in families without children.

Rates of poverty for working-age adults also demonstrate the very different experiences of those in different family types. The lowest poverty rate for working-age adults is for those living in couple families with no children (11.3%). The rate of poverty amongst working-age adults in lone-parent families is nearly four and a half times as high (50.3%).

Figure 44: Composition of poverty and poverty rates in the UK for working-age adults, by family type, 2016/17

8.4 million working-age adults in poverty in the UK (2016/17), comprised of:

3,100,000



People in single families, no children

900,000



People in lone parent families

1,400,000



People in couple families, no children

2,800,000



People in couple families with children

Poverty rates in the UK (2016/17):

26.6%

of working-age people in single families with no children are in poverty

11.3%

of working-age people in couple families with no children are in poverty

50.3%

of working-age people in lone parent families are in poverty

23.4%

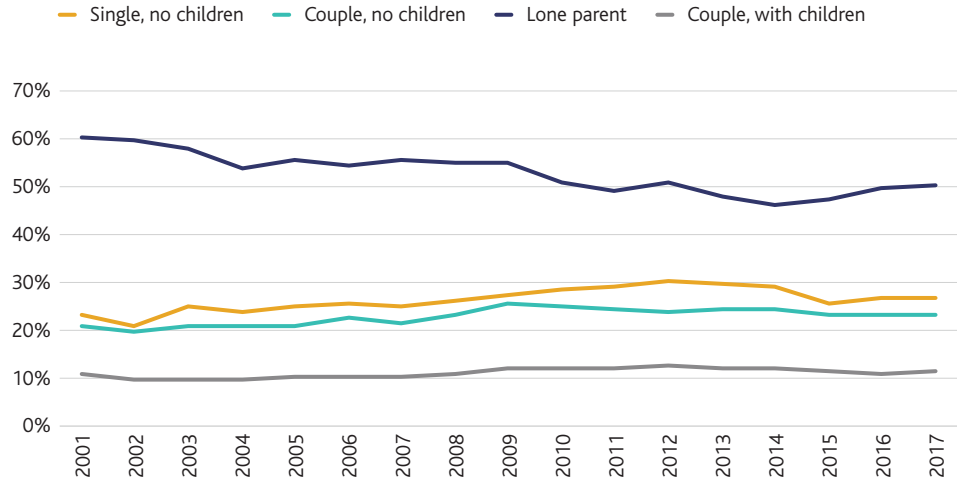
of working-age people in couple families with children are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Family types derived from HBAI. In the cases where there are working-age adults in pensioner families they are included in the aggregates, but not displayed in the breakdown above.

Figure 45 shows how poverty rates for working-age adults in different family types have changed over time. It shows that poverty rates for working-age adults in lone-parent households have fallen considerably since 2001 (by ten percentage points). Poverty rates for working-age adults in single (no children) families and couple families with children have both risen since 2001 (by 3.6 and 2.5 percentage points respectively).

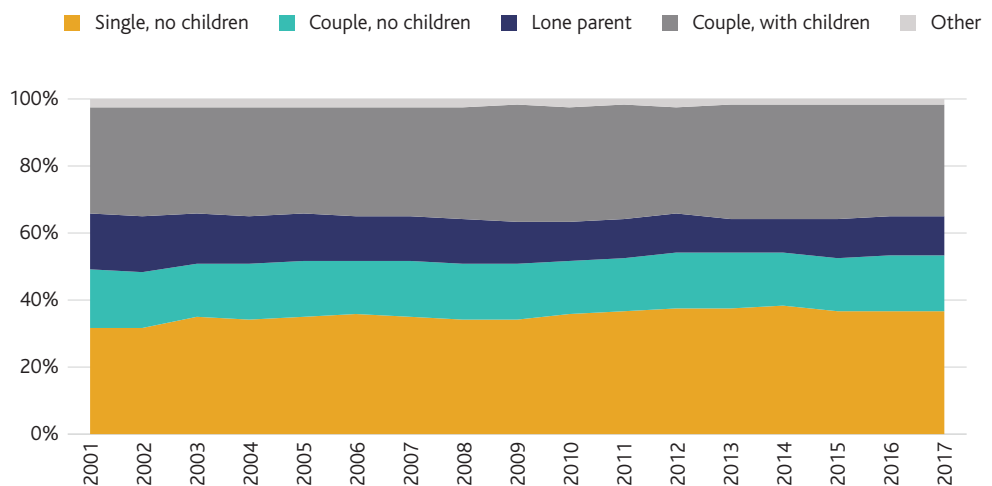
Figure 45: Poverty rates for working-age adults, by family type



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 46 shows what this means for the composition of working-age adults in poverty by family type and how this has changed over time. It shows that, over the last 15 years, working-age adults in childless families have accounted for around half (or just more than half) of the total population of working-age adults in poverty. The main changes have been seen in the proportion of overall working-age adults in poverty in lone-parent families (reduction of five percentage points) and in single childless families (increase of five percentage points).

Figure 46: Composition of working-age adults in poverty, by family type



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Working-age adults: family work status

Figure 47 shows that 63.2% of working-age adults (5.3 million people) in poverty are in families where at least one person works. However, the overall poverty rate for working-age individuals in workless families is far higher (70.0%) than that of those in families where someone works. Just 7.7% of people in families where all adults work full time, are in poverty.

Figure 47: Composition of poverty and poverty rates in the UK for working-age adults, by family work status, 2016/17

8.4 million working-age adults in poverty in the UK (2016/17), comprised of:

1,800,000



Working-age adults in full-time work families

2,400,000



Working-age adults in full/part-time work families

1,100,000



Working-age adults in part-time work families

3,000,000



Working-age adults in workless families

Poverty rates in the UK (2016/17):

7.7%

of working-age adults in families where all adults work full-time, are in poverty

26.3%

of working-age adults in families where all adults work a mixture of full-time and part-time, are in poverty

52.4%

of working-age people in part-time working families, are in poverty

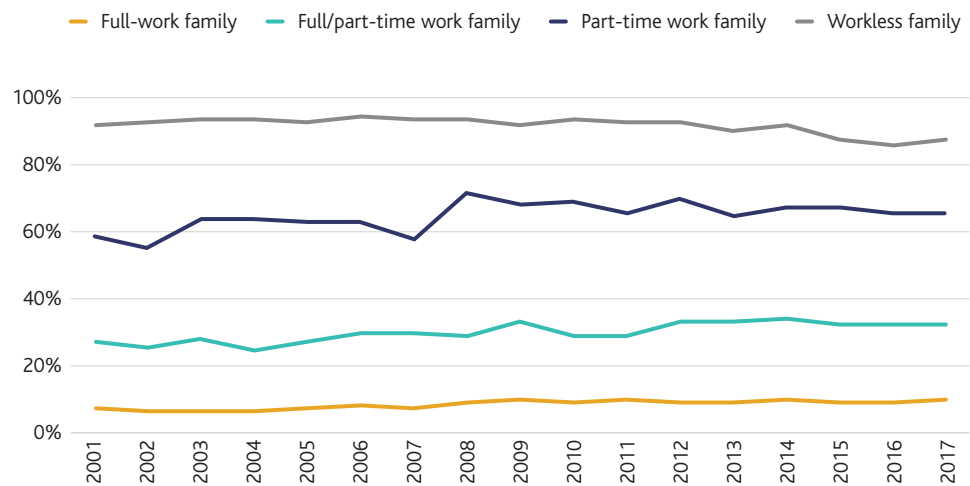
70.0%

of working-age people in workless families are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

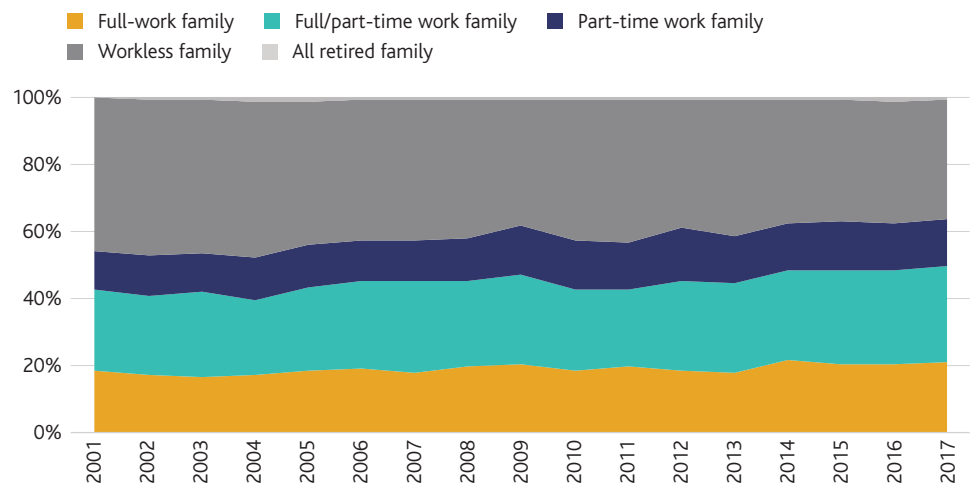
Poverty rates for working-age adults in both workless and working families have remained relatively constant since 2001. However, because of a rising number of people in employment, the composition of working-age poverty has shifted towards those in working families (figure 49).

Figure 48: Poverty rates for working-age adults, by family work status



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 49: Composition of poverty amongst working-age adults, by family work status



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Working-age adults: housing tenure

Figure 50 shows how the population of working-age adults in poverty are split between different tenure types. Seven in ten (70%) of working-age people in poverty live in families in social rented or private/other rented accommodation. Poverty rates for working-age adults are also highest amongst families in these tenure types. With 53.9% of working-age adults in social rented accommodation being in poverty, and 31.0% of those in private/other rented accommodation.

Figure 50: Composition of poverty and poverty rates in the UK for working-age adults, by housing tenure, 2016/17

8.4 million working-age adults in poverty in the UK (2016/17), comprised of:

3,200,000



People in social rented accommodation

2,700,000



People in private/other rented accommodation

1,600,000



People in mortgage-owned accommodation

700,000



People in owned-outright accommodation

Poverty rates in the UK (2016/17):

53.9%

of working-age people in social rented accommodation are in poverty

31.0%

of working-age people in private/other rented accommodation are in poverty

10.6%

of working-age people in mortgage-owned accommodation are in poverty

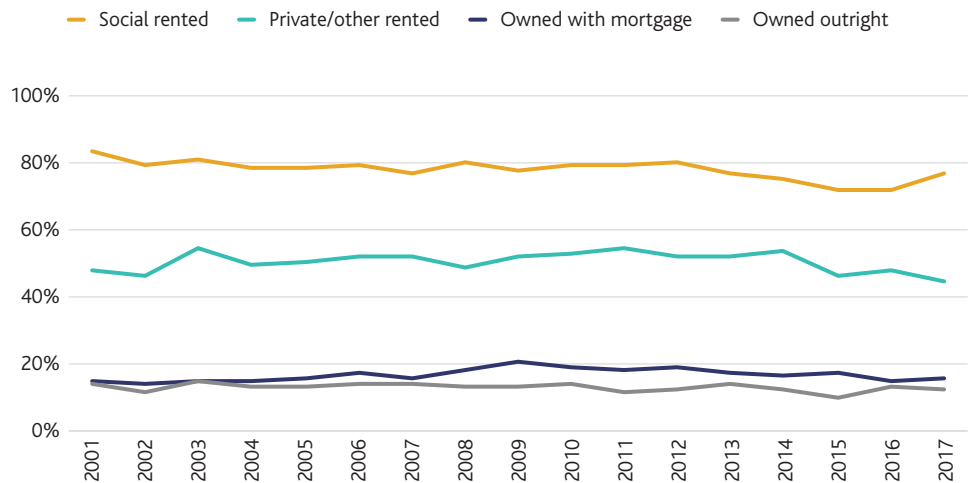
8.2%

of working-age people in owned-outright accommodation are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

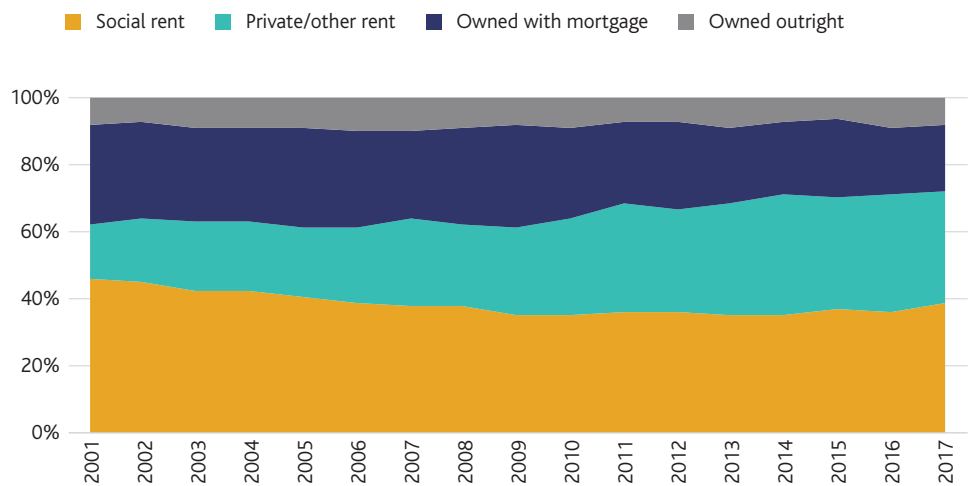
Figure 51 shows that poverty rates for working-age adults in social rented accommodation have fallen since 2001. Poverty rates for working-age adults in private/other rented accommodation have also been falling since 2014. As with the overall population in poverty, working-age adults in private/other rented accommodation have been taking up a larger proportion of the population in poverty over time.

Figure 51: Poverty rates for working-age adults, by housing tenure



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 52: Composition of working-age poverty, by housing tenure



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Working-age adults: family disability

Figure 53 shows that, of the 8.4 million working-age adults in poverty, 4.1 million live in a family that includes a disabled adult or child. Rates of poverty for working-age adults living in disabled families are far higher (31.3%) than those in non-disabled families (16.6%).

Figure 53: Composition of poverty and poverty rates in the UK for working-age adults, by whether the family includes a disabled person, 2016/17

8.4 million working-age adults in poverty in the UK (2016/17), comprised of:

4,200,000



People in families that include a disabled adult or child

4,100,000



People in families that do not include a disabled adult or child

Poverty rates in the UK (2016/17):

31.3%

of working-age adults in families that include a disabled adult or child are in poverty

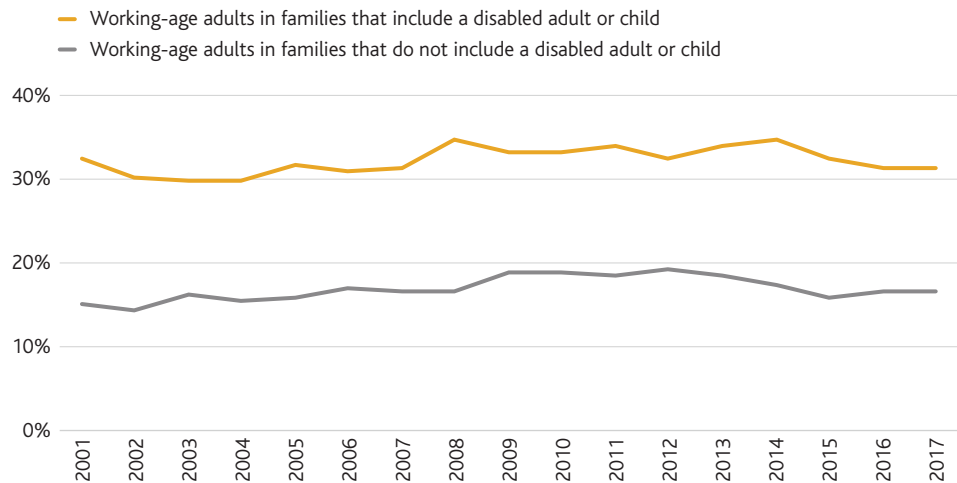
16.6%

of working-age adults in families that **do not** include a disabled adult or child are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

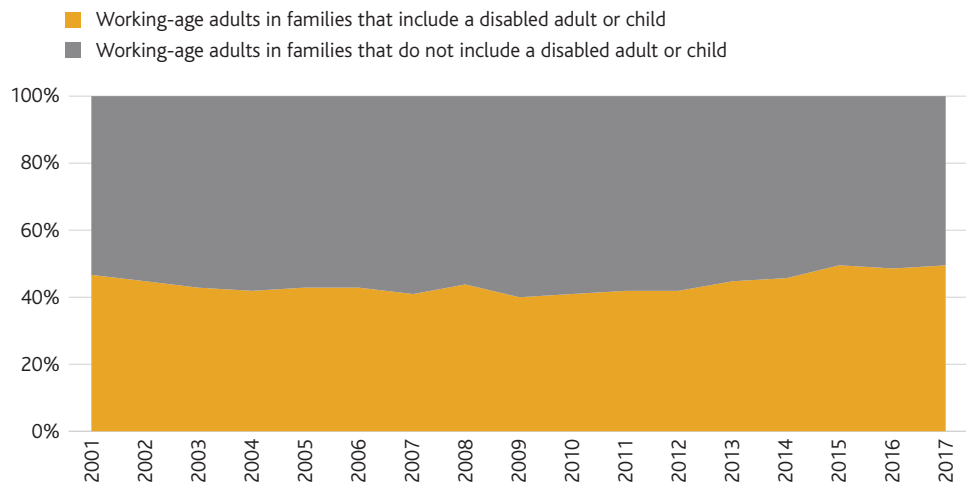
Poverty rates for working-age adults living in disabled families have fallen since the financial crisis, when they peaked at 34.8% (2008). However, they remain higher than the rates seen in the early 2000s (30%). In 2016/17, just under half (49.4%) of working-age individuals in poverty lived in a family where someone was disabled. One reason for the measured rise of this proportion in recent years is the fact that the HBAI disability variables changed in 2012, so the trend in the years immediately after this should be treated with caution.

Figure 54: Poverty rates for working-age adults, by whether the family includes a disabled person



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 55: Poverty rates for working-age adults, by whether the family includes a disabled person



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

CHILD POVERTY

There are 4.5 million children living in poverty in the UK. This means that the child poverty rate (32.6%) is significantly above the poverty rate for the whole population (22.0%).

Figure 56: Change in child poverty rates since 2001

14.2 million people in poverty in the UK (2016/17), of which:

4,500,000



Children

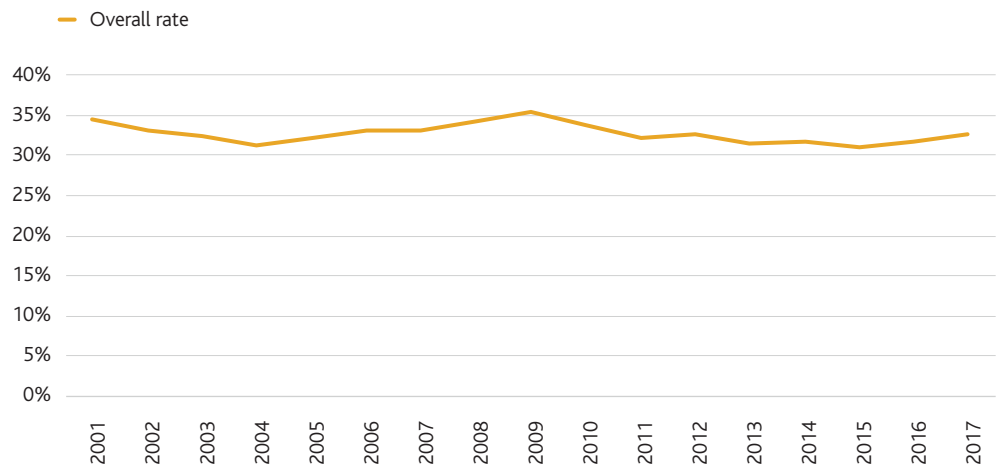
Poverty rates in the UK (2016/17):

32.6%
of children are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Figure 57 shows that the overall child poverty rate in the UK has fallen by around two percentage points since 2001 and three percentage points since the highest rate seen (2009).

Figure 57: Child poverty rates and numbers of children in poverty, 2016/17



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Child poverty: family type

Figure 58 shows that, of the 4.5 million children in poverty, just under two thirds (63%) live in couple families. However, poverty rates for children living in lone-parent families (52.8%) are almost twice as high as those living in couple families (26.7%).

Figure 58: Composition of child poverty and child poverty rates in the UK, by family type, 2016/17

4.5 million children in poverty in the UK (2016/17), comprised of:

1,600,000



Children in lone-parent families

2,800,000



Children in couple families

Poverty rates in the UK (2016/17):

52.8%

of children in lone-parent families are in poverty

26.7%

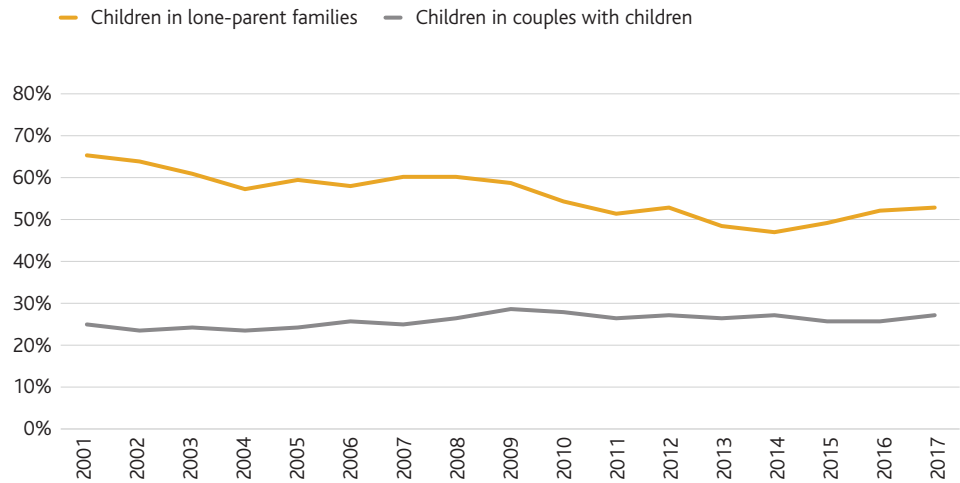
of children in couple families are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Where one or more adult is pension age, the family type of the child is designated as 'pensioner couple' or 'pensioner single'. For this analysis these groups were folded into couple and lone-parent families.

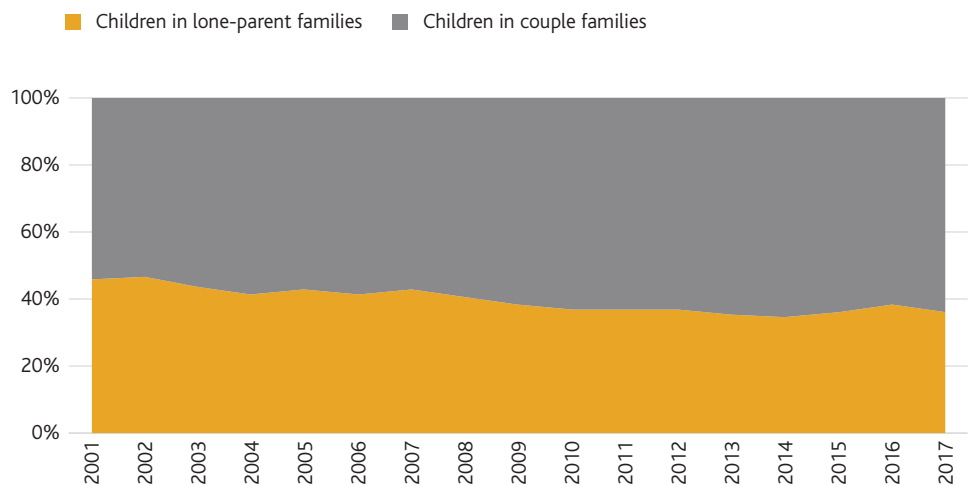
Within the overall slight fall in child poverty seen in figure 59, different family types have different experiences. One of the major changes in UK poverty over the last 15 years has been the fall in poverty amongst children living in lone-parent families. This fell from 65.3% being in poverty in 2001, to just over half (52.8%) being in poverty in 2016/17. At the same time, poverty rates amongst children in couple families rose from 24.5% to 26.7%. Together, these two trends mean that the overall number of children in poverty was at a similar level in 2016/17 as it was in 2001. The trends outlined above have also meant that the overall composition of child poverty has changed since 2001. Figure 60 shows that children living in couple families have formed an increasingly larger overall proportion of children in poverty. Experiences also vary significantly by the work status of the household, with those children in working households far less likely to experience poverty – this is considered in later sections.

Figure 59: Change in child poverty rates, by family type



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 60: Children in poverty, by family type



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Child poverty: age of youngest child

More than half of the 4.5 million children in poverty in the UK live in a family where the youngest child is under the age of five. Poverty rates for this group of children are also higher, standing at 37.9% compared to between 28.1% and 28.7% for children living in families where the youngest child is over the age of five.

Figure 61: Composition of child poverty and child poverty rates in the UK, by age of youngest child in family, 2016/17

4.5 million children in poverty in the UK (2016/17), comprised of:

2,300,000



Children in families with youngest child under 5

1,500,000



Children in families with youngest child 5–11

600,000



Children in families with youngest child 12+

Poverty rates in the UK (2016/17):

37.9%

of children in families where the youngest child is aged under 5 are in poverty

28.1%

of children in families where the youngest child is between 5 and 11 are in poverty

28.7%

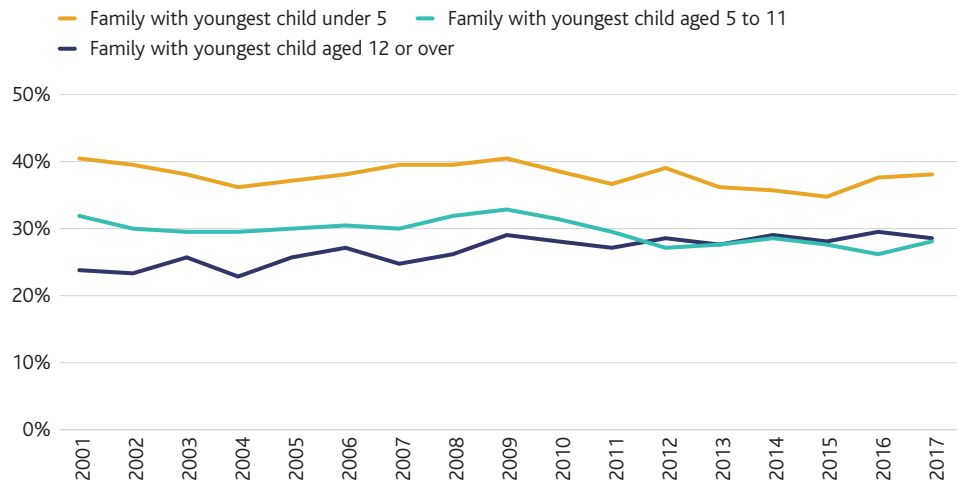
of children in families where the youngest child is aged over 12 are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Youngest child allocated by determining the youngest child in the sharing unit.

Figure 62 that child poverty rates for children in families with youngest child aged less than 12 have fallen since 2001. However, child poverty rates have risen by 4.6 percentage points for children who live in families where the oldest child is aged 12 or over.

Figure 62: Child poverty rates, by age of youngest child in the family



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Child poverty: number of children

Just under half (44.4%) of the 4.5 million children in poverty in the UK live in a family where there are three or more children. Poverty rates for this group of children are also higher, standing at 45.5% compared to 26.2% and 28.5% respectively for children living in families where they are the only child, or there are two children.

Figure 63: Composition of child poverty and child poverty rates in the UK, by number of children in family, 2016/17

4.5 million children in poverty in the UK (2016/17), comprised of:

1,000,000



Children in families with one child

1,700,000



Children in families with two children

1,700,000



Children in families with three or more children

Poverty rates in the UK (2016/17):

26.2%

of children in families with one child, are in poverty

28.5%

of children in families with two children, are in poverty

45.5%

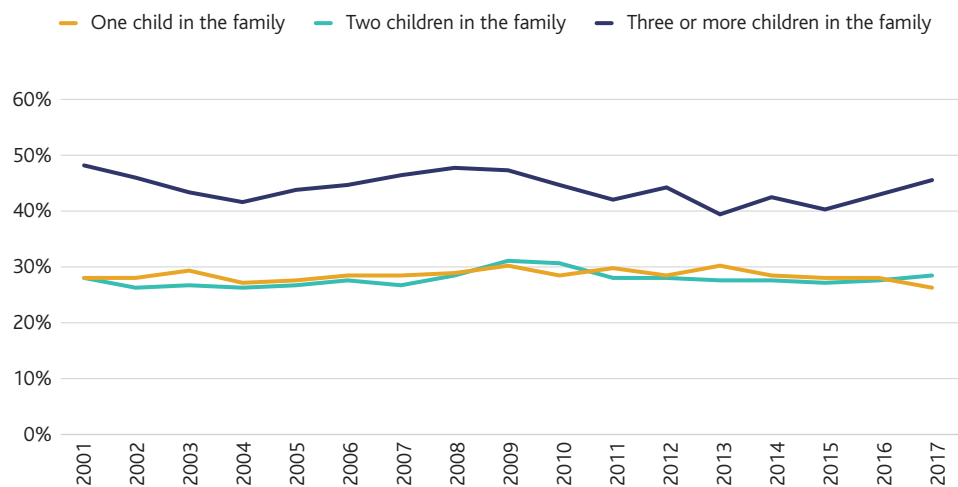
of children in families with three or more children, are poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Number of children reported at the benefit unit level.

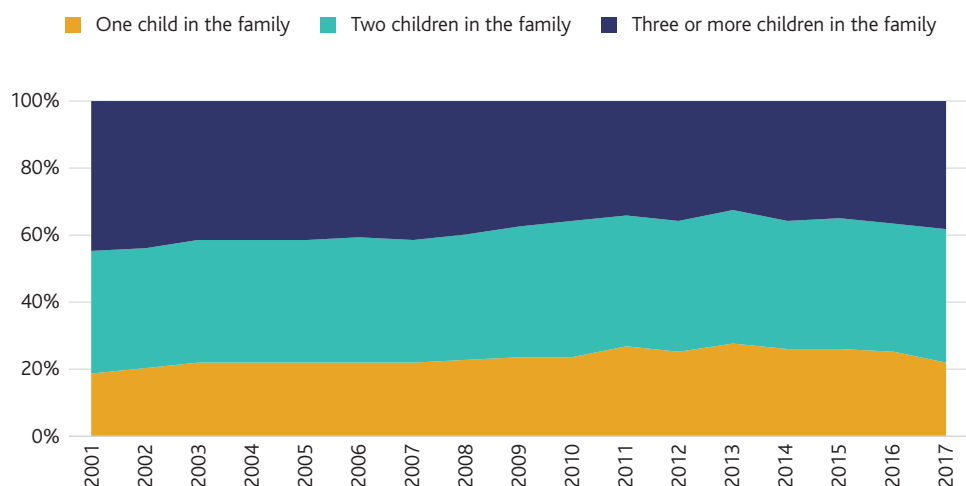
Figure 64 shows that child poverty rates vary depending on the number of children in the family. Over the last 15 years, children in families with more than three children have consistently had higher rates of poverty than those in families with fewer children. The poverty rate of these children has also fluctuated more over the period, particularly during the financial crisis, and have seen large increases over the last few years.

Figure 64: Child poverty rates, by number of children in the family



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 65: Composition of child poverty, by number of children in family



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Child poverty: work status

Figure 66 shows that one in four (22.7%) of the 4.5 million children in poverty, are in families where all adults work full-time. The remaining 3.5 million children in poverty are in families that either mix full and part-time work, or where no-one is in work. The poverty rate amongst children in workless families stands at 80.6%, whereas for children in families where all adults are in full-time work, 14.0% are in poverty.

Figure 66: Composition of child poverty and child poverty rates in the UK, family work status, 2016/17

4.5 million children in poverty in the UK (2016/17), comprised of:

1,000,000



Children in full-time working families

1,600,000



Children in full-time/part-time working families

500,000



Children in part-time working families

1,400,000



Children in little-work/workless families

Poverty rates in the UK (2016/17):

14.0%

of children in families where all adults work full-time, are in poverty

39.2%

of children in families where all adults work a mixture of full-time and part-time, are in poverty

69.4%

of children in part-time working families, are in poverty

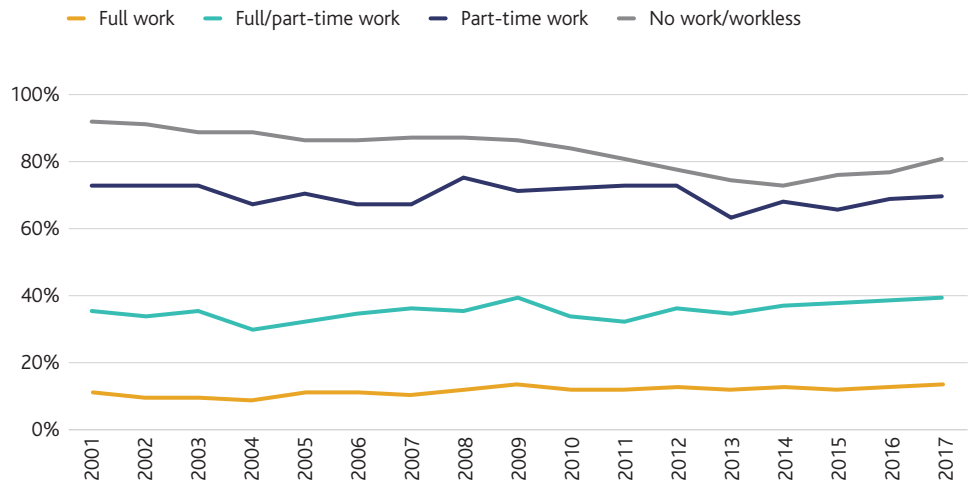
80.6%

of children in workless families are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

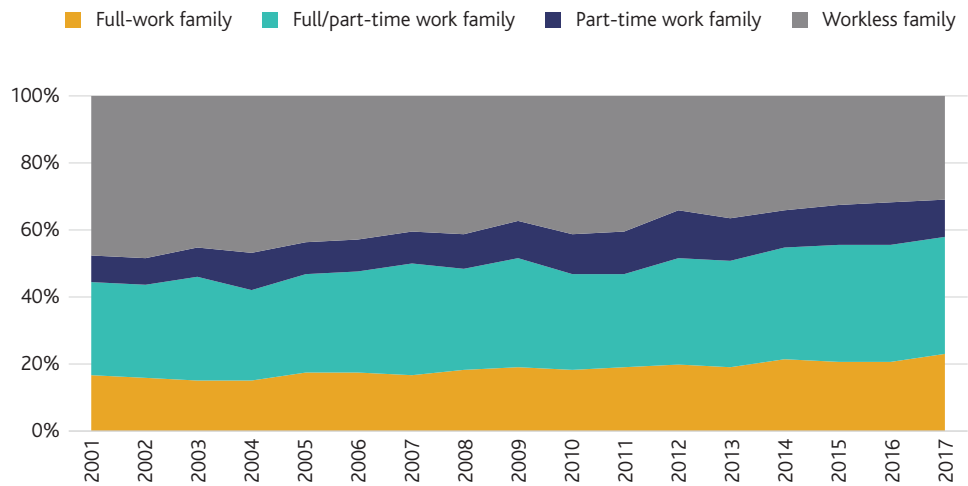
Figure 67 shows that poverty rates for children in workless households have fallen since 2001 (although have been rising for since 2014). As is the case with poverty amongst working-age adults, a rising overall employment rate has led to the proportion of children in poverty who are in families with someone in work increasing over time. Our analysis shows that, in 2001, 52.3% of children in poverty lived in a family where someone was in work. By 2016/17, this figure had risen to 69.0%.

Figure 67: Child poverty rates, by family work status



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 68: Composition of child poverty, by family work status



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Child poverty: family disability

Of the 4.5 million children in poverty in the UK, 1.8 million (40.8%) are living in a family where someone is disabled. Amongst children living in a family where someone is disabled, 40.8% are in poverty. In non-disabled families, this figure is 28.6%.

Figure 69: Composition of child poverty and child poverty rates in the UK, by whether the family includes a disabled person, 2016/17

4.5 million children in poverty in the UK (2016/17), comprised of:

1,800,000



Children in families with a disabled person

2,600,000



Children in families with no-one who is disabled

Poverty rates in the UK (2016/17):

40.8%

of children in families that include a disabled adult or child are in poverty

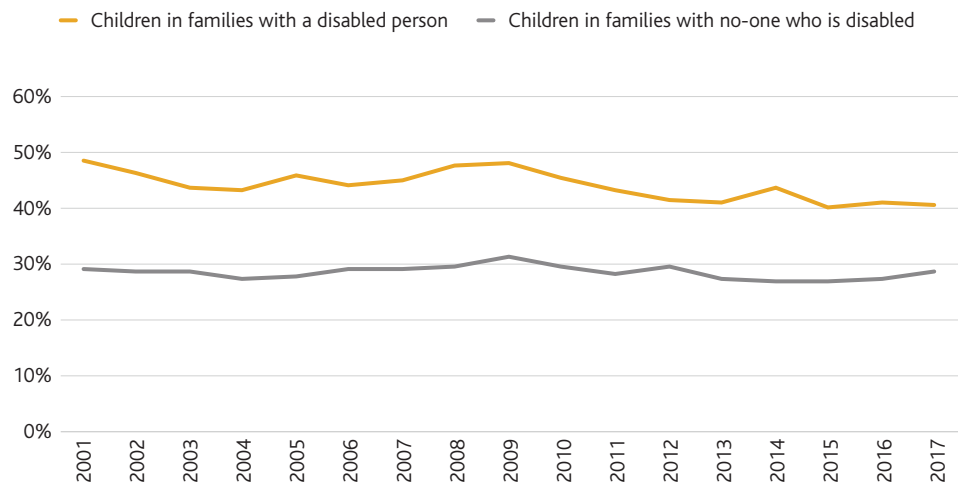
28.6%

of children in families that do not include a disabled adult or child are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

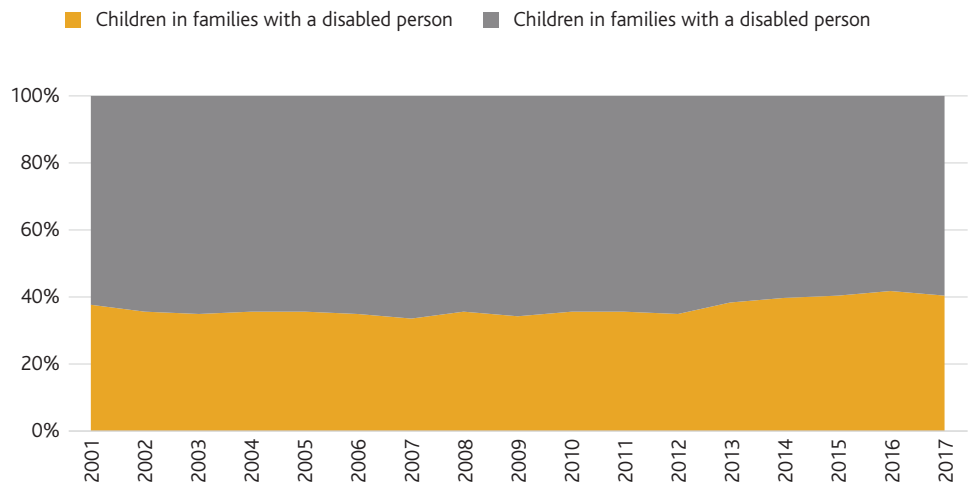
Figure 70 shows that poverty rates for children in disabled families have fallen by eight percentage points since 2001, while poverty rates for children in families where no-one is disabled remain similar to those seen in 2001. Figure 71 shows that the proportion of all children in poverty taken up by children living in families where someone is disabled, has increased slightly over the last 10 years (by around three percentage points).

Figure 70: Child poverty rates, by whether the family includes a disabled person



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 71: Composition of child poverty, by whether the family includes a disabled person



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Child poverty: housing tenure

Figure 72 breaks down child poverty in the UK by the housing tenure of the child's family. It shows that nearly three-quarters of children in poverty live in families in social – or private/other rented accommodation. The rates of poverty for these two tenures are also significantly higher than for children who live in families in owner-occupied accommodation. For example, nearly six in ten (57.9%) of children living in families in social rented accommodation are in poverty.

Figure 72: Composition of child poverty and child poverty rates in the UK, by housing tenure, 2016/17

4.5 million children in poverty in the UK (2016/17), comprised of:

1,800,000



Children in social rented accommodation

1,500,000



Children in private/other rented accommodation

1,000,000



Children in mortgage-owned accommodation

100,000



Children in owned-outright accommodation

Poverty rates in the UK (2016/17):

57.9%

of children in social rented accommodation are in poverty

48.4%

of children in private/other rented accommodation are in poverty

16.7%

of children in owned with mortgage accommodation are in poverty

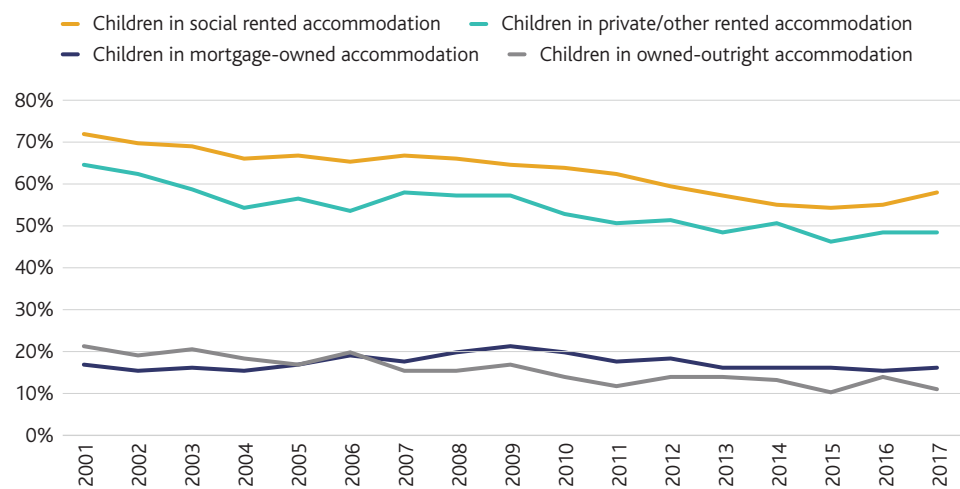
11.7%

of children in owned-outright accommodation are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

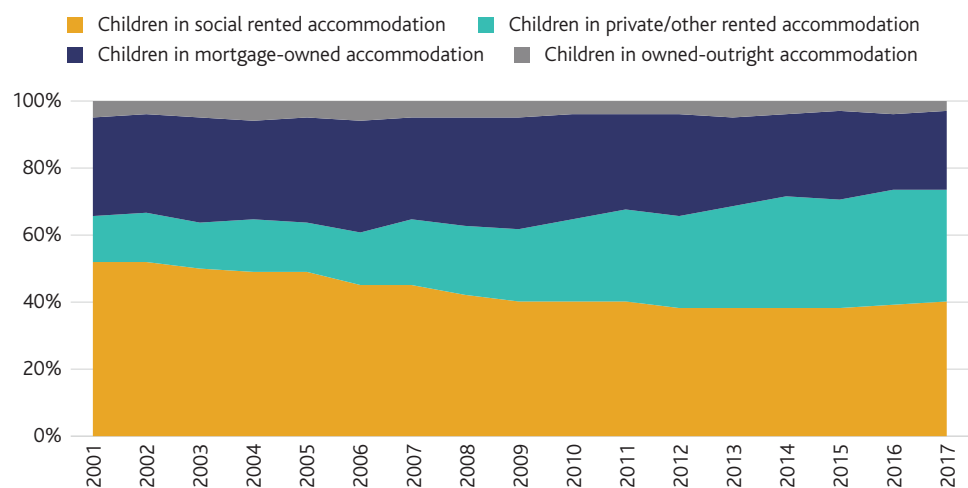
Figure 73 shows that child poverty rates have fallen for children in all housing tenures since 2001. However, the most recent data (2016/17) suggests that poverty rates for children in social rented accommodation have started to rise. Figure 74 demonstrates significant shifts in the composition of child poverty since 2001, with a significant rise in the proportion of children in poverty who live in private/other rented accommodation.

Figure 73: Child poverty rates, by family housing tenure



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 74: Composition of child poverty, by family housing tenure



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

PENSION-AGE ADULTS

There are 1.4 million pension-age adults in poverty in the UK. This means that the poverty rate (11.4%) for pension-age adults is significantly below the poverty rate for the whole population (22.0%).

Figure 75: Pension-age poverty and poverty rates in the UK, 2016/17

14.2 million people in poverty in the UK (2016/17), of which:

1,400,000



Pension-age adults

Poverty rates in the UK (2016/17):

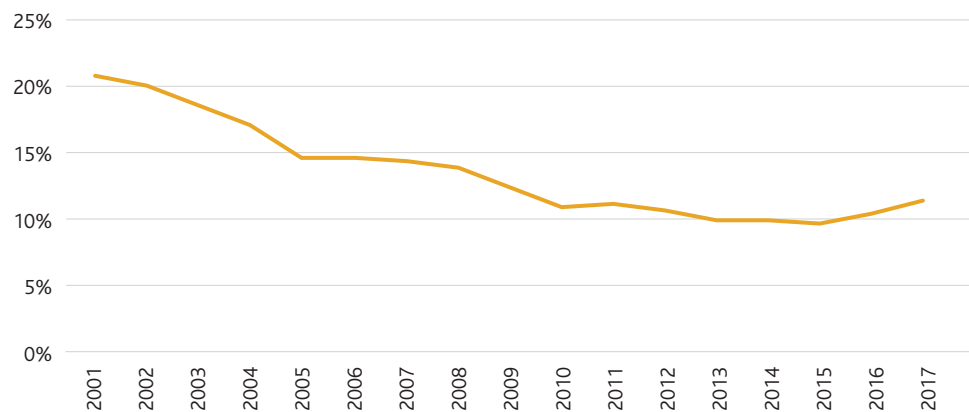
11.4%

of pension-age adults are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Since 2001, the overall rate and level of pension-age adults in poverty have fallen significantly. From a rate of over 20% in 2001, the overall pensioner poverty rate fell below 10% between 2013 and 2015 (inclusive), before rising to 11.4% in 2016/17. The overall fall in the poverty rate between 2001 and 2016/17 stands at 9.3 percentage points.

Figure 76: Poverty rates for pension-age adults



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Pension-age adults: detailed breakdown by age

Poverty amongst pension-age adults can also be split by pension-age families of different ages. This section considers the composition of pension-age poverty and rates of poverty by the age of the oldest adult in the pension-age family. Figure 77 shows that more than four in ten (43%) of pension-age adults in poverty live in families where the eldest member is aged over 75. It also shows that poverty rates are highest amongst the youngest and oldest pension-age families.

Figure 77: Composition of pension-age poverty and pension-age poverty rates in the UK, by age of oldest person in family, 2016/17

1.4 million pension-age people in poverty in the UK (2016/17), comprised of which:

100,000



Eldest person aged 60 to 65

300,000



Eldest person aged 66–70

300,000



Eldest person aged 71–75

200,000



Eldest person aged 76–79

400,000



Eldest person aged 80+

Poverty rates in the UK (2016/17):

13.1%

of pension-age adults aged 65 or below are in poverty

9.4%

of pension-age adults aged 66–70 are in poverty

12.1%

of pension-age adults aged 71–75 are in poverty

10.9%

of pension-age adults aged 76–79 are in poverty

12.9%

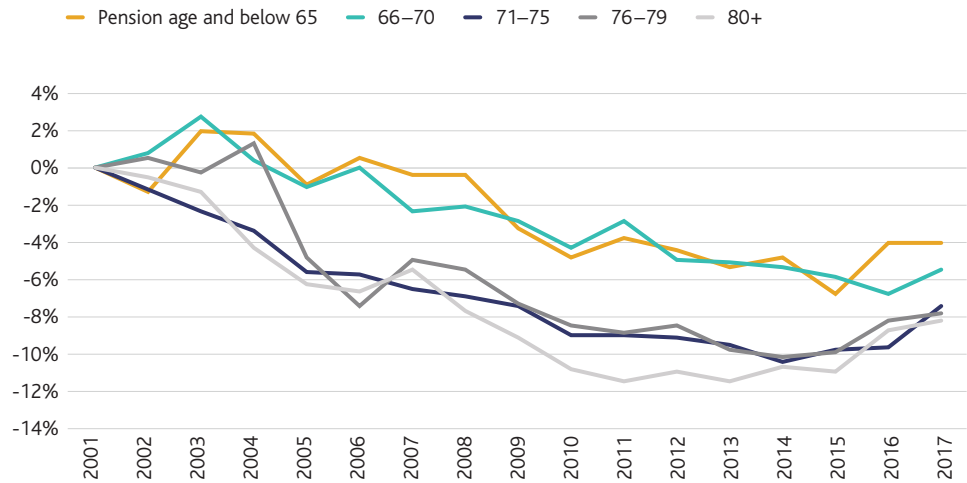
of pension-age adults aged 80+ are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Adults under 65 can still be classified as pension-age due to the gradual increase of the pension age for women.

Figure 78 shows that, since 2001, poverty rates have fallen for pension-age adults in all ages of family. The most significant improvements were seen amongst those families with the eldest member aged over 70 and, particularly for those families with someone aged over 80. However, for this latter group, poverty rates have increased by 3.3 percentage points since 2011.

Figure 78: Change in poverty rates since 2001 for pension-age adults, by age of eldest person in family



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Pension-age adults: family type

Overall pensioners in poverty are evenly split between those living alone and those living in couples. However, figure 79 demonstrates that, while rates of poverty for each group have fallen, single pensioners continue to have a significantly higher rate of poverty than those in couples.

Figure 79: Composition of pension-age poverty and pension-age poverty rates in the UK, by family type, 2016/17

1.4 million pension-age people in poverty in the UK (2016/17), of which:

700,000



Pension-age adults in single families

700,000



Pension-age adults in couple families

Poverty rates in the UK (2016/17):

15.0%

of pension-age adults in single families are in poverty

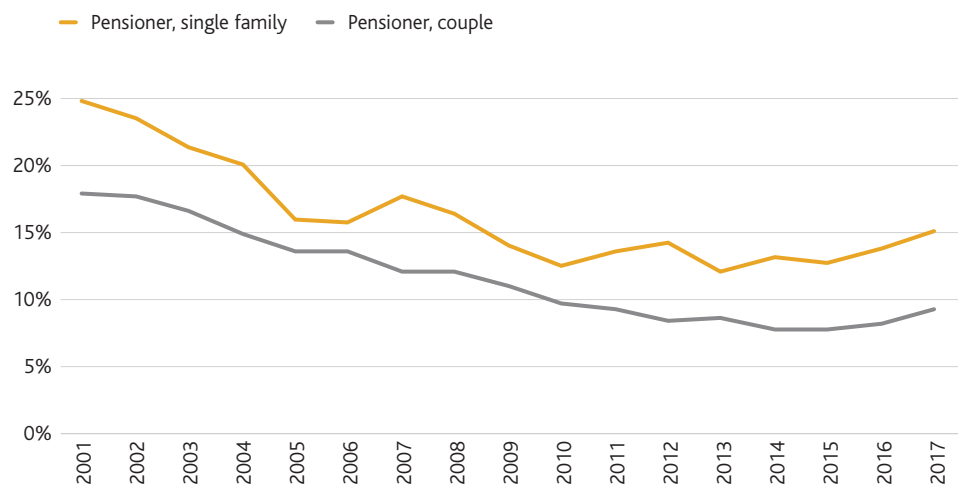
9.3%

of pension-age adults in couple families are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

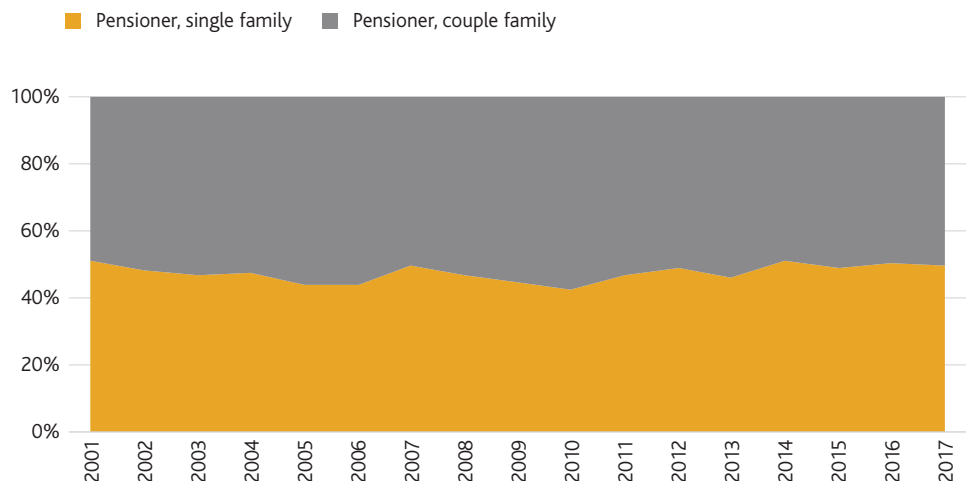
Figure 80 shows that poverty rates for pension-age adults living in all family types have fallen significantly since 2001. However, since the financial crisis, rates have begun to rise slightly, particularly for pension-age adults living alone. For this group, poverty rates in 2016/17 (15.0%) are the highest that they have been since 2008.

Figure 80: Pensioner poverty rates, by family type, 2016/17



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 81: Composition of pension-age poverty, by family type, 2016/17



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Pension-age adults: housing tenure

Poverty rates for pension-age adults are far higher for those living in social rented (29.5%) or private/other rented accommodation (34.2%) than they are for those in owner-occupied accommodation. The low number of pension-age adults in poverty live in private/other rented and mortgage-owned accommodation is a result of the fact that close to three in four (74%) of pension-age adults live in owned-outright accommodation and another 14.2% in social rented accommodation. This means that there are relatively few pension-age adults living in private/other rented accommodation (4.1%) and mortgage-owned accommodation (6.4%). Together this means that the vast majority of pension-age adults in poverty live in families in social rented or owned-outright accommodation.

Figure 82: Composition of pension-age poverty and pension-age poverty rates in the UK, by family housing tenure, 2016/17

1.4 million pension-age people in poverty in the UK (2016/17), of which:

500,000



Pension-age adults in social rented accommodation

200,000



Pension-age adults in private/other rented accommodation

100,000



Pension-age adults in mortgage-owned accommodation

600,000



Pension-age adults in owned-outright accommodation

Poverty rates in the UK (2016/17):

29.5%

of pension-age adults in social rented accommodation are in poverty

34.2%

of pension-age adults in private/other rented accommodation are in poverty

12.6%

of pension-age adults in mortgage-owned accommodation are in poverty

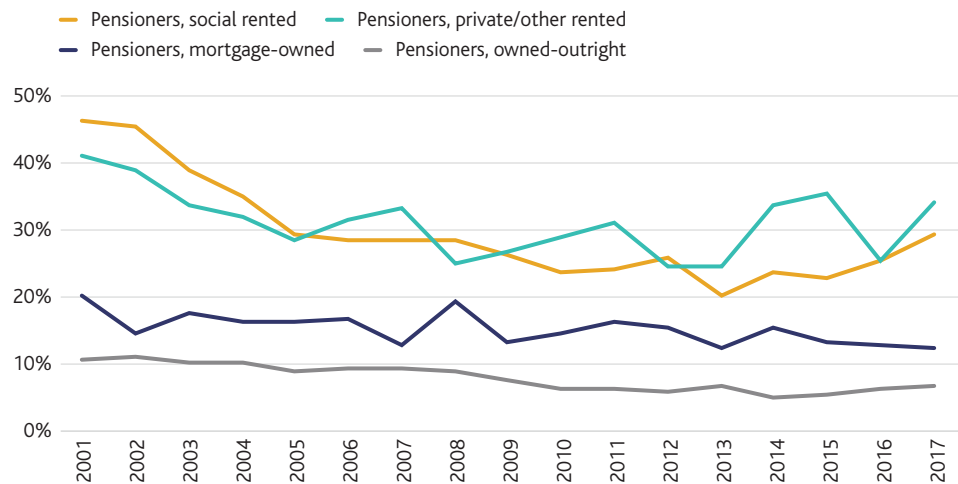
6.9%

of pension-age adults in owned-outright accommodation are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

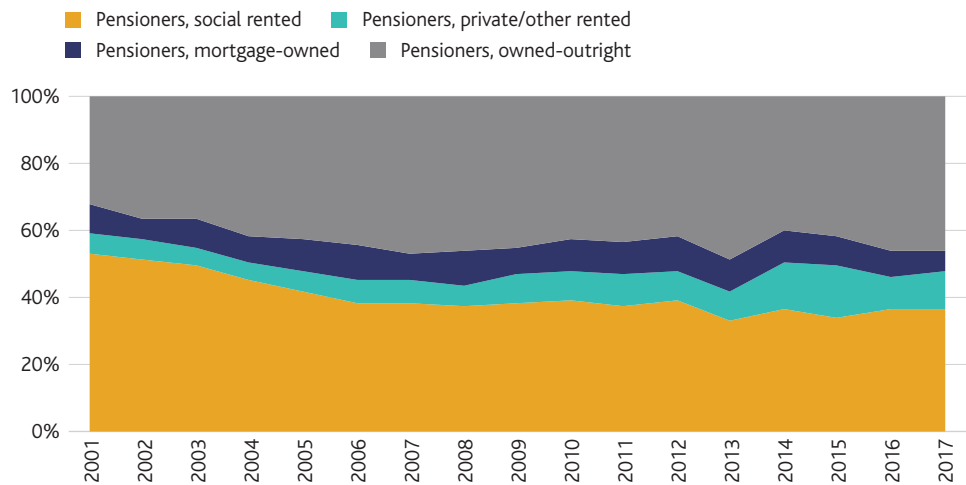
Figure 83 shows that the largest fall in poverty rates for pension-aged adults has been for those living in social rented accommodation.

Figure 83: Poverty rates for pension-age adults, by family housing tenure



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 84: Composition of pension-age poverty, by family housing tenure



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Pension-age adults: family disability

Of the 1.4 million pension-age adults in poverty, 900,000 live in families where someone is disabled. As with working-age adults and children, pension-age adults who live in a family where someone is disabled have significantly higher poverty rates (13.4%) than those who live in a family where no-one is disabled (8.9).

Figure 85: Composition of pension-age poverty and pension-age poverty rates in the UK, by whether the family includes a disabled person 2016/17

1.4 million pension-age people in poverty in the UK (2016/17), of which:

500,000



Pension-age adults in families with no-one who is disabled

900,000



Pension-age adults in families with someone who is disabled

Poverty rates in the UK (2016/17):

8.9%

of pension-age adults in families that **do not** include a disabled adult or child are in poverty

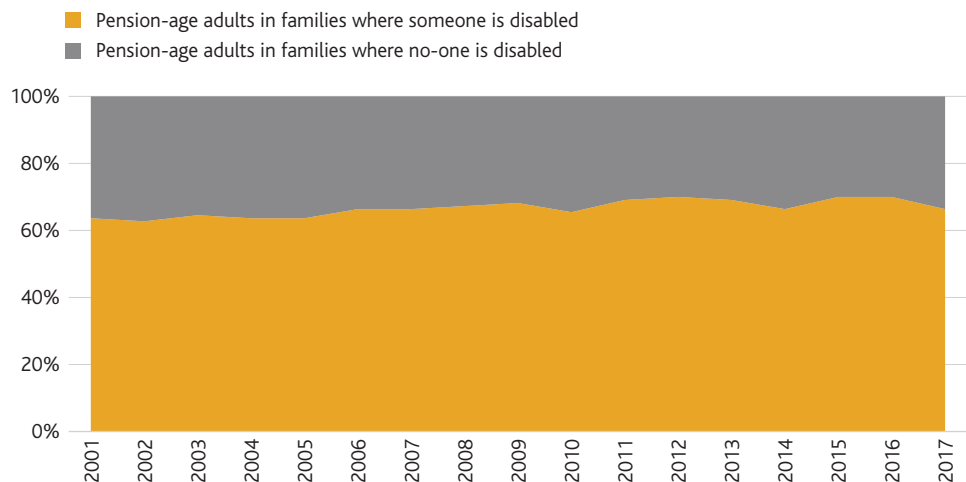
13.4%

of pension-age adults in families that include a disabled adult or child are in poverty

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

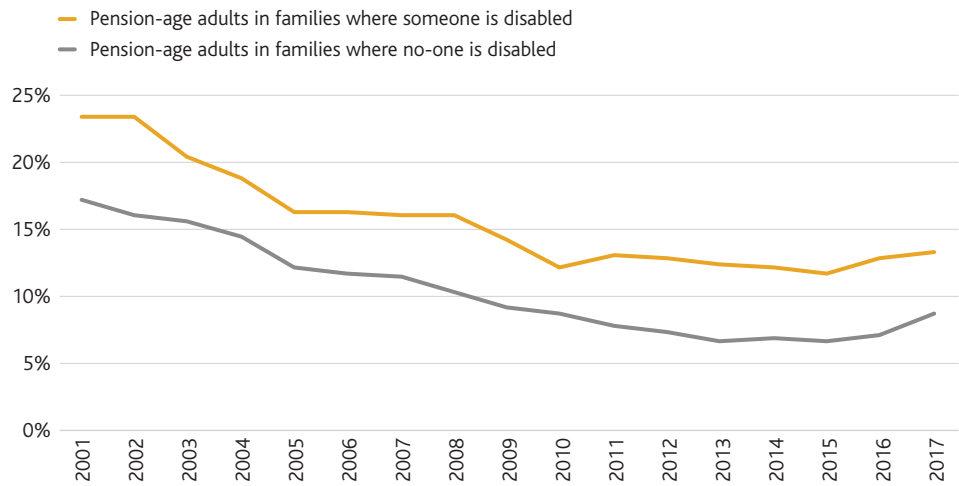
Two thirds (66.6%) of pensioners in poverty live in families with someone who is disabled. Figure 86 shows that this has risen from 63.8% in 2001. Poverty rates for pensioners living in both disabled and non-disabled families have fallen significantly since 2001. For those living in families where someone is disabled, poverty rates have fallen by 10 percentage points.

Figure 86: Composition of pensioner poverty, by whether the family includes a disabled person



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

Figure 87: Poverty rates for pension-age adults, by whether the family includes a disabled person



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

SECTION 9: HOW DOES THE COMMISSION'S MEASURE COMPARE?

OVERVIEW OF THE COMMISSION'S AVAILABLE RESOURCE POVERTY MEASURE

Over the course of the last two and a half years, the Commission has created a new measure of poverty for the UK. Other measures of low incomes, poverty and inequality provide valuable insights into particular aspects of the experience of people living on low incomes. However, the results above demonstrate what the Commission believes is the most accurate and comprehensive description of the experience of people and families most impacted by poverty, with the data that is currently available.

To understand how the Commission's results impact on and improve the understanding of poverty in the UK, it is important to compare the results with measures of poverty that have previously been used. This section uses the after-housing costs (AHC) relative-income poverty measure to do this.

How does the Commission's methodology compare?

The table below highlights the key features of the Commission's measure of poverty and how they compare to the features of the relative low-income measures in HBAI. It shows that while the data source and starting point of net incomes are the same, the Commission's approach to measuring poverty provides a much more detailed assessment of the extent to which families have the resources available in order to adequately meet their needs.

The major new features of the Commission's measure include:

- Including available assets as a resource that people can use to meet their needs;
- Using an after-housing costs measure of resources as the headline measure and including a measure of mortgage capital repayments;
- Taking account of inescapable costs (including childcare costs, the extra costs of disability and housing costs) which impact on people's ability to meet their day-to-day needs;
- Broadening the approach of poverty measurement to include an assessment of housing adequacy. For example, by including those sleeping rough, to be in poverty and including an adjustment to account for overcrowding of housing;
- Moving to a Sharing Unit measurement to better-reflect intra-household sharing;
- Creating a three-year rolling measure of the benchmark of societal needs, which means that the poverty line does not move as quickly in an economic downturn or upturn; and
- Positioning the measure of poverty within a wider measurement framework, which allows us to understand more about the nature of poverty in the UK. This includes measuring the depth and persistence of poverty as well as a range of indicators that start to provide a fuller picture of the factors that impact on the lives of those in poverty.

Table 15: Key differences between the Commission's measure of poverty and methodology for the relative low-income measures

Data	Relative low-income poverty uses...	The Commission decided to use...
Data source	Family Resources Survey	Family Resources Survey
Measuring resources		
Income	Weekly net income	Weekly net income
Assets	Not used	Liquid assets, divided by 52
Inescapable costs – housing	Two versions (AHC and BHC) – headline measure (BHC) does not take account of housing. AHC does not include mortgage capital repayments and imputes mortgage interest for those on repayment mortgages	Weekly housing costs, including full reported mortgage payments
Inescapable costs – childcare	Not used	Actual weekly spending on childcare used
Inescapable costs – disability	Not used	Proxied by weekly DLA/PIP/AA received
Measuring Needs		
Benchmark for social norms	Median of weekly net income – taken each year	Three-year rolling average of median of weekly total resources available
How needs vary by different households	Equivalisation – OECD modified scale (DWP derived AHC version)	OECD modified scale (AHC) Recommend significant further work
Comparing resources and needs		
Unit of assessment	Household	Sharing Unit
Poverty threshold	60% of benchmark for social norms (net AHC or BHC income)	55% of benchmark for social norms (total resources available)
Taking account of overcrowding of housing	Not used	Adjustment to reflect overcrowding
Understanding the nature of poverty		
Poverty depth	No formal measure of depth used	Full reporting of the position of families with respect to the poverty line – both those in poverty and those above the poverty line
Poverty persistence	Measures persistent poverty as being in poverty in any three of the previous four years. Measured and reported in a separate publication	Persistent poverty defined as being in poverty this year and any two of the previous three years (OECD/EU definition). Measured and reported as part of one publication
Lived Experience Indicators	No assessment	Identification, analysis and publication of a wide range of factors that can tell us more about the experiences of people in poverty and the potential pathways in to and out of poverty

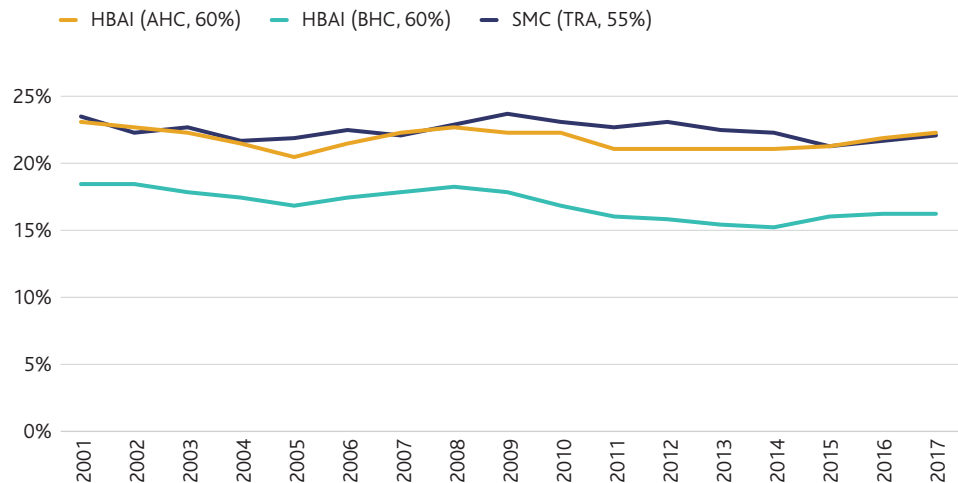
HIGHLIGHTING WHERE THE UNDERSTANDING OF POVERTY HAS BEEN IMPROVED

This section demonstrates the differences between results derived from the Commission’s poverty measure and those from the relative low-income measure of poverty used in HBAI. The drivers of these differences are also explored. More detailed information can be found in the technical papers that accompany this report

Overall levels of poverty

Figure 88 shows how the rate of poverty measured by different approaches to measurement in the UK has changed since 2001. The Commission’s approach and choice of poverty threshold at 55% of median total resources available leads to an overall rate of poverty that is very similar to that of the AHC relative income poverty measured in HBAI. The Commission’s measure responds very differently during the course of and following the financial crisis; whereas poverty rates were seen to fall under the relative low-income measures of poverty, the Commission’s measure continues to rise during the financial crisis. This is considered in more detail later in this section.

Figure 88: Comparison of different measures of poverty over time



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

It is important to highlight that Commissioners do not believe that this choice of threshold reflects a shift in the understanding of the overall number of people in poverty in the UK. The Commission made a firm decision to focus on ensuring that the measure better reflected the types of individuals, families and household below any given line, rather than where the poverty line was set. As highlighted above, this means that the Commission chose a threshold that was both easily communicable and led to an overall number of people in poverty that broadly matches previous measures. While the Commission has chosen this threshold (55% of median total resources available), users will be able to choose which of these thresholds they prefer to use in future.

A technical paper will also show a range of other results using different threshold levels.

Improvements in the understanding of poverty

The choices the Commission has made have a significant impact on the composition of poverty, for any chosen threshold. Commissioners believe that this leads to an understanding of poverty, which is more reflective of the lived experience of those living in poverty in the UK.

The composition of poverty

Overall, for a given level of poverty, the decisions taken by the Commission have meant that, compared to relative-income measures, the composition of poverty shifts:

- Towards working-age families with children. This is driven by a range of factors, accounting for available assets (which are lower amongst younger families); and including the childcare costs and the full range of obligated mortgage payments as inescapable costs (these are all higher amongst working-age families with children);
- Towards families where someone has a disability. This is driven by the fact that the extra costs of disability are classed as an inescapable cost (proxied by the value of extra-cost disability benefits); and
- Away from older adults and particularly, pension-age families. This is predominantly driven by the inclusion of available assets as a resource, and partly offset by taking account of the extra costs of disability.

This is shown in table 16, which compares the composition of poverty under the Available Resources Poverty and the after-housing costs relative-income poverty measure. It shows that that the proportion of those in poverty who are in pensioner families is considerably lower under the Commission's measure of poverty (11%) than under the relative low-income measure (14%). Conversely, the proportion of the in-poverty group accounted for by working-age families, is higher under the Commission's measure (89%) than the relative low-income measure (86%).

Table 16: Composition of poverty, by family type, 2016/17

		Available Resources Poverty (55%)		AHC relative low-income poverty (60%)	
Working-age families	People living in...				
	Single families, no children		22%		21%
	Lone-parent families	89%	18%	86%	17%
	Couple families, no children		10%		11%
	Couple families with children		40%		37%
Pension-age families	Pension-age families, single		5%		7%
	Pension-age couple family	11%	6%	14%	7%
		100%	100%	100%	100%

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Table 17 shows the composition of poverty, by whether family includes a disabled person for the Commission’s measure of poverty and the after housing-costs, relative low-income measure. It shows that the composition of the Commissions measure is more heavily weighted towards people living in a family where someone is disabled (48% of the total) than under the relative low-income measure (44% of the total).

Table 17: Composition of poverty, by whether family includes a disabled person, 2016/17

		Available Resources Poverty (55%)		AHC relative low-income poverty (60%)	
Presence of a disabled person	Those living in families where no-one is disabled		52%		56%
	Those living in families where someone is disabled		48%		44%
			100%		100%

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

When looking at these statistics, the scale of difference to the composition of poverty may seem relatively small. However, when we consider the difference in terms of numbers of people, it becomes clear that the difference is significant. Figure 89 provides a Venn diagram of the populations judged to be in poverty under the Available Resource Poverty measure and the AHC relative low-income poverty measure:

- The central portion shows that 18.01% of the population are judged to be in poverty under both the Available Resource Poverty and AHC relative low-income measures of poverty ("AHC and Commission poverty");
- The left-hand portion shows that 4.13% of the population were judged to be in poverty under the AHC relative low-income measure of poverty, but are not judged to be in poverty based on the Available Resource Poverty measure ("AHC poverty only"); and
- The right-hand portion shows that 4.13% of the population were not judged to be in poverty under the AHC relative low-income measure of poverty, but are judged to be in poverty based on the Available Resource Poverty measure ("Commission poverty only").

Overall, this demonstrates that significant scale of the impacts on our understanding of poverty. It means that 2.7 million people in the AHC relative low-income measure of poverty are not considered to be in poverty under the Commission's measure. Equally, another 2.6 million people are considered to be in poverty under the Commission's measure, but would not have been regarded as being in poverty under the AHC relative low-income measure.

Figure 89: Venn diagram of those judged to be in poverty under the SMC and AHC relative low-income measure of poverty



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

Notes: Figures rounded so many not total perfectly when added.

Table 18 also shows various characteristics of each of the three groups. These confirm that, compared to those no longer judged to be in poverty under the Available Resource Poverty measure, those newly judged to be in poverty are younger, more likely to have a disability and live in larger families with far lower levels of liquid assets.

Table 18: Selected characteristics of groups judged to be in poverty under different measures

	AHC poverty only (no-longer judged to be in poverty)	AHC and Commission's poverty (in poverty in both measures)	Commission's poverty only (newly judged to be in poverty)
Average age of oldest adult	55	43	45
Average number of children (those families with children)	2.08	2.39	2.36
Average family size	2.2	2.83	2.71
Mean total liquid assets	£52,551	£732	£393
Median total available wealth	£11,040	£0	£0
Proportion disabled	41.2%	49.4%	67.1%
Number overcrowded	1.9%	11.4%	10.8%
Proportion with childcare costs	11.4%	11.2%	32.9%

Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

WHY THESE RESULTS IMPROVE THE UNDERSTANDING OF POVERTY

Given the scale of differences between the Available Resource Poverty measure and the AHC relative low-income poverty measure, it is important to consider whether they have a positive impact on our understanding of which groups in society are struggling to make ends meet. One way of doing this is to consider the rates of material deprivation amongst each of the groups in figure 90 above.

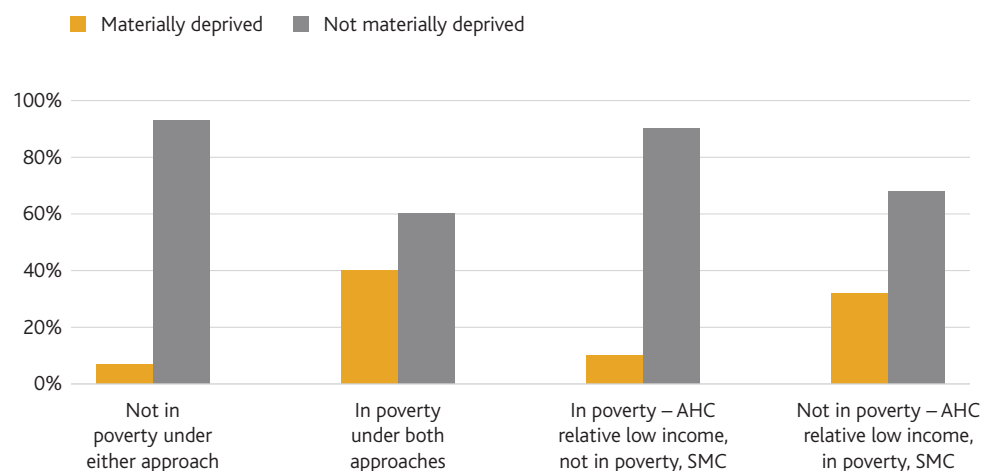
While measures of material deprivation are not the same as measures of poverty, it is intuitive that, if the SMC measure is better at capturing those in poverty, the group that are judged to be moved out of poverty should display levels of material deprivation that are lower than those remaining in poverty. Equally, those moved in to poverty should display higher levels of material deprivation.

Figure 90 demonstrates that nine in ten (90%) of those not judged to be in poverty based on the Commission’s measure, but who would have been on the AHC relative low-income measure, do not report being materially deprived. Conversely, of those regarded as being in poverty based on the Commission’s measure, but not on the AHC relative low-income measure of poverty, around a third report to be materially deprived. This is three times as high as those who the Commission's measure no longer regards as being in poverty.

Overall this suggests that the SMC poverty measure is moving a group of families out of poverty, who have relatively low net incomes, but other characteristics (including significant liquid assets and/or low inescapable costs) which mean that they are still able to meet their immediate material needs.

Conversely, the SMC measure moves a group of families into poverty who, compared to those under the HBAI AHC poverty line, have relatively high net incomes, but a combination of low liquid assets and high inescapable costs means that they are unable to meet their immediate material needs.

Figure 90: Reported material deprivation rates of each group



Source: Family Resources Survey and HBAI dataset (2016/17), SMC Analysis.

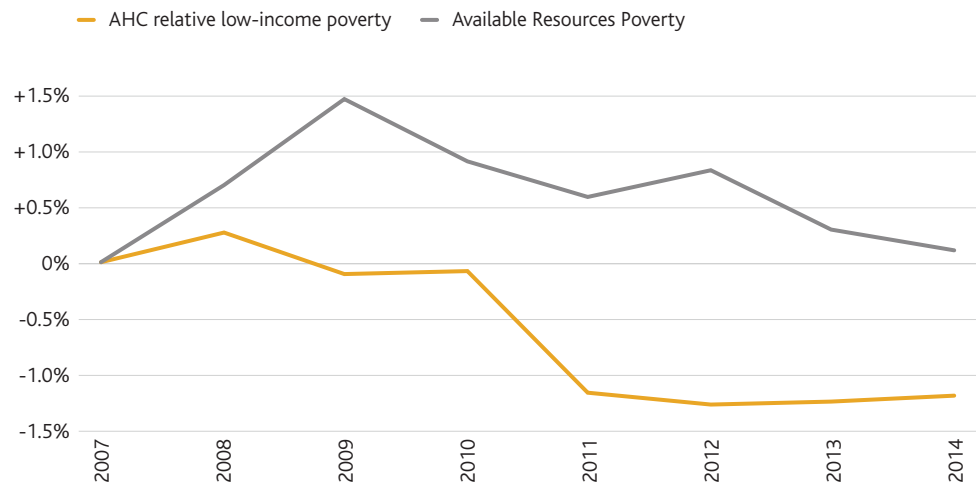
Notes: Material Deprivation is calculated using definitions in the HBAI dataset combined with a recreation of material deprivation calculations for adults without children. Full details can be found in the supporting technical papers.

POVERTY DYNAMICS

Figure 88 at the start of this section demonstrated that the overall dynamics of the Commission’s measure of poverty and the AHC relative net-income measures were broadly similar over the last 15 years. However, it also showed that the dynamics of the measures did differ during and after the financial crisis.

Figure 91 compares the dynamics of the Commission’s measure of poverty to the AHC relative low-income measure over this period. It demonstrates that, while the AHC relative low-income measure suggested that poverty fell in the period immediately following the financial crisis, the Commission’s measure shows that poverty rates initially increased during the financial crisis and start of the recession, and then began to fall slowly over the period 2009–2014. This means that, while overall poverty rates in 2007 are estimated to be slightly lower under the Commission’s measure of poverty, they finish this period 1.9 percentage points higher, better reflecting the experience of families over the financial crisis and in the years afterwards.

Figure 91: Change in poverty rates between 2007 and 2014



Source: Family Resources Survey and HBAI dataset (1998/99–2016/17), SMC Analysis.

SECTION 10: CONCLUSIONS

OVERVIEW

This report has summarised the work that the Social Metrics Commission has undertaken over the last two and a half years. It presents:

1. A detailed articulation of how the approach to poverty measurement can be improved in the UK and elsewhere. This includes a detailed specification of how poverty should be measured and a new framework that can be used to understand more about the nature of poverty, the lived experience of those families in poverty and how poverty might be tackled.
2. The best possible implementation of this approach possible with existing data and research in the UK.

Whilst the Commission is clear both that more research is needed and that the collection and use of UK survey and administrative data needs to improve, until that happens, the approach here provides the most comprehensive picture of poverty in the UK today. The Commission's approach fundamentally changes our understanding of poverty in the UK. In particular, it shows that the measures previously used to measure poverty have systematically:

- Underestimated poverty amongst families with someone who is disabled;
- Overestimated poverty amongst families with significant available assets, and particularly pension-age families;
- Failed to adequately account for the impact that inescapable costs have on families, in terms of their ability to make ends meet;
- Misrepresented the lived experience of families at or around the poverty line when economic shocks impact on the economy; and
- Failed to create a full picture of the nature of poverty that families experience in the UK and the range of factors that impact on these families and those at or close to the poverty line.

The Commission's approach improves understanding in each of these areas and allows us to better understand poverty in the UK today.

WHAT NEXT?

Embedding the measure

After many years of disagreement about how and whether poverty should be measured in the UK, the Commission hopes that this publication can signal the start of a new discussion and consensus on poverty in the UK and the need to take action to tackle it.

A significant engagement exercise has been undertaken during the course of the Commission and we hope that those involved, as well as those we are yet to reach, will see the benefits of the approach we have outlined and adopt this as their preferred measure of poverty in the UK.

Ultimately, the Commission would like to see the measurement of poverty in the UK move to the approach outlined in this report. That will mean the Government (including DWP, HM Treasury and other departments), Office for National Statistics, policy makers and those researching and working with those in poverty, adopting the measure and results outlined in this report.

The Commission will do all it can to support organisations to understand and develop their approach to poverty measurement. In the months following the publication of this report, the Commission is committed to:

- Publishing detailed technical papers that outline more detail on many aspects of the Commission's approach, the detailed analysis that has been undertaken and the challenges that we have faced;
- Making available the code that underpins the creation of the poverty metric in the Family Resources Survey and Understanding Society; and
- Subject to agreement of the data owner, making available the variables derived from our approach, so that other users of the FRS and Understanding Society can easily access and explore our results.

Further work needed

The Commission also hopes that its work will stimulate much needed further research. This would allow for a full practical implementation of the measurement framework that the Commission outlined in the first half of this report. There are many areas where urgent work is needed.

For example, the Commission's work has uncovered serious limitations in the measurement of poverty in the UK. For example, Commissioners were surprised by the seemingly arbitrary nature of many of the assumptions that underpin the existing approach to poverty measurement, and the significant impact that very small changes to these assumptions make to our understanding. The Commission believes significant (urgent) work is needed to tackle the lack of rigour in these areas. A key example of this is the approach to equivalisation used in the UK and internationally, which needs urgent research to create a better approach to understanding the difference in needs between families of different sizes and compositions.

Commissioners were also frequently frustrated by the failure of national datasets to adequately capture the data needed to understand one of the most important social issues of our time. There are a number of examples, including:

- The lack of consideration of assets, debt and housing adequacy;
- The lack of measurement of the extra costs faced by disabled families; and
- Potential deficiencies with the measurement of earnings, benefits, childcare and housing costs.

Many of these could be improved within nationally collected survey data, and the Commission is aware of the significant work currently being undertaken by the ONS to refresh and improve its approach. This should provide a vital opportunity to tackle some of the issues outlined above. However, as well as improvements in survey data, the Commission believes that far more must be done to improve, connect and use administrative data to understand the incidence and experience of poverty for families across the UK.

Call to action

Measuring poverty is essential if the UK is to take action to improve the lives of those currently in poverty in the UK or who, without action, would otherwise be in poverty in future. The Commission's work is only the start of what needs to happen. We hope that others, including the ONS, Government, charities, researchers and statistical and economics organisations take on the work we have begun to ensure that the Commission's measurement framework can be fully implemented and used to guide future policy. Without this, a large group of society risk being left further behind without the support that they need to improve their lives.

ENDNOTES

1. There was a UK-wide official measure of poverty, with associated targets, contained in the Child Poverty Act 2010. Targets based on reducing child poverty in the UK were abolished in 2015. Note that Scotland, Wales and Northern Ireland have retained measures of poverty based around the Child Poverty Act 2010 definitions.
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13. For example, see: <http://policyinpractice.co.uk/data-analytics/> Accessed 22/08/18.
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39. Work intensities were allocated by taking all non-retired adults in the sharing unit, and allocating full-time workers a value of 1, a part-time worker a value of 0.5, and someone who is unemployed, inactive, or studying a value of 0. The average of these scores is then taken for the family. Full work families have an average score of greater than 0.75, full/part-time families have a score of between 0.75 and 0.5, and Part-time families have a score of between 0 and 0.5. Families with little work/who are workless have scores of 0.



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