



The 2004/05 child poverty target: What happened?

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The Government set itself a target to reduce child poverty by a quarter between 1998/99 and 2004/05. This was an initial step towards halving it by 2010/11 and an ultimate goal of 'eradicating' it by 2020.

This note outlines how the 2004/05 target was missed: by 100,000 on a before housing costs income measure, and 300,000 after housing costs. Also included is commentary around the target at the time these data were released in March 2006. A new three-part measure of child poverty is being used to judge the 2010/11 target and progress towards it (see [SN/EP/3314](#) for details). **It is not intended that this note will be updated, but for more information contact the specialist on x2042.**

Full background and methodology behind the statistics presented here is given in the *Poverty: Measures and Targets Library Research Paper* (RP04/23). The 2001/02 data in that paper are updated in [SN/EP/3314](#) (and for poverty more broadly in [SN/EP/4467](#)). For sub-national poverty statistics, see [SN/EP/4627](#). [SN/EP/3870](#) on *Income Inequality* may also be of interest.

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A. Introduction

The *Poverty: Measures and Targets Library Research Paper* (RP04/23) detailed the methodology behind and terms used in measuring income poverty.

Household income & 'equivalisation'

Because the make up of households varies, income is not a good measure of their actual living standards. 'Equivalisation' is a process that converts household income into a more accurate indicator of their standard of living. It effectively converts the incomes of households with varying compositions into the equivalent for a couple with no children. Larger households with the same income as smaller households, which you would expect to have a lower standard of living, have a lower equivalised income.

Using examples of three different households with before housing costs all with income of £100, the equivalised income for a couple with no children would be £100 (the same), but for a single person equivalised income would be £164. The equivalised income for a couple with two children (aged 4 and 7) would be £64.

B. The 2004/05 target: what happened?

The Government set a Public Service Agreement (PSA) target for reducing the number of children living in relative income poverty by a quarter by 2004/05 from 1998/99 levels (see part V of the *Poverty: Measures & Targets* paper).¹ The target is for Great Britain. Limited UK-wide data are available, and a [separate Northern Ireland HBAI report](#) is published.

The chart/table below show changes in the numbers of children in poverty, for income both before and after housing costs (BHC/AHC).

The dotted lines show the 'path to target' for both income measures. Please note that the table and graph numbers refer to those in the original research paper.

¹ Changes in the way survey results are 'grossed up' to the whole population have seen the 1998/99 baseline reduced from 4.2 million to 4.1 million (see also IFS, *Poverty & Inequality in Britain 2005*, March 2005, p28;).

Chart 4: Children living in poverty, 1996/7 to 2004/05

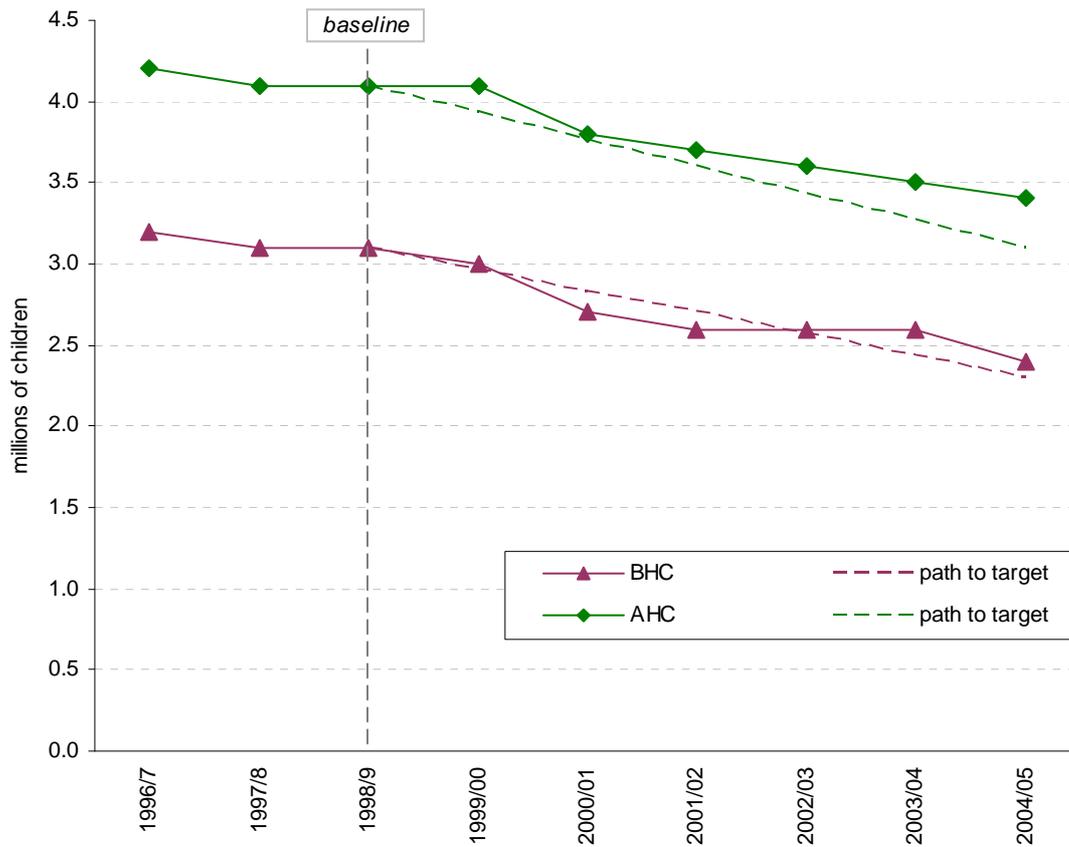


Table 14: Children in relative poverty, 1996/7 to 2004/05

below 60% of contemporary median income, % & numbers (millions)

Year	BHC		AHC		All children (m)
	%	m	%	m	
1996/7	25	3.2	33	4.2	12.7
1997/8	25	3.1	32	4.1	12.7
1998/9 (baseline)	24	3.1	33	4.1	12.7
1999/00	23	3.0	32	4.1	12.7
2000/01	21	2.7	30	3.8	12.7
2001/02	21	2.6	30	3.7	12.6
2002/03	21	2.6	28	3.6	12.6
2003/04	21	2.6	28	3.5	12.5
2004/05 (out-turn)	19	2.4	27	3.4	12.6
2004/05 (target)		2.3		3.1	
difference (estimate) (a)		0.1		0.3	
<i>Changes:</i>					
1996/7 - 2004/05 (OfA)		-0.7		-0.8	-0.2
1998/9 - 2004/05 (PSA)		-0.7		-0.7	-0.1

Notes: (a) based on figures pre-rounded to nearest 100,000

Source: DWP, HBAI 2004/05: First Release, 9 March 2006, tables 3.1 & 3.2

By 2004/05, the final year for judging the PSA target, the number of children in poverty had fallen by 700,000 compared with 1998/99 levels on both the BHC and AHC measures. In percentage terms, the reductions were of 23% and 17% respectively.²

In a press release the DWP said that the target “was only narrowly missed before housing costs”.³ The out-turn data show that the child poverty was close on the BHC measure, around 100,000 away from the target (based on rounded figures). On the AHC measure, the gap between the out-turn data and the target was larger, at around 300,000 children (again based on rounded data).

C. Commentary on the 2004/05 target

1. Forecasts before data was released

Forecasting poverty levels is difficult, given the broad range of factors involved. However, the broad consensus based on the 2002/03 poverty data was that the 2004/05 target would probably, at least partially, be met. A June 2004 Institute for Fiscal Studies (IFS) report found that:⁴

[...] the introduction of the child tax credit in 2003/04 and the extra spending announced for 2004/05, neither of which is reflected in the most recent data, suggest that the government is on course to meet its target.

In December 2004, then DWP Minister Chris Pond said that the Government’s “assessment is that we are broadly on course to meet our PSA target.”⁵ However, the 2003/04 figures saw lower than expected reductions in child poverty than had been expected, particularly, said the IFS “given the generosity of the child tax credit and other payments to families with children in 2003/04.”⁶ Jonathan Shaw of the IFS said that:⁷

To meet the government’s short-term target, the number of children in poverty will now have to fall by 300,000 before housing costs and 500,000 after housing costs in 2004/05. The former still looks likely to be achieved, but the latter does not. Having said this, sampling error means that there is always considerable uncertainty around the data in any given year.

The Guardian warned that the Government “is about to fail to meet its key anti-poverty target”.⁸ The then Secretary of State for Work and Pensions, Alan Johnson, said:⁹

² www.dwp.gov.uk/asd/hbai/hbai2004/first_release_0304.pdf; see also the [full HBAI report](#).

³ “New figures show good progress on poverty – Hutton”, [DWP Press release](#), 9 March 2006

⁴ Brewer et al. “Poverty & Inequality in Britain: 2004”, [IFS Commentary 96](#), 2004; *Inequality* pages: www.ifs.org.uk/inequalityindex.shtml, p38

⁵ HC Deb 2 December 2004 c256W

⁶ www.ifs.org.uk/pr/hbai05pr.pdf

⁷ *ibid.*

⁸ John Carvel & Larry Elliott, “Child poverty defies government targets”, *The Guardian*, 31 March 2005

⁹ The press release also stated that: “The data underlying today’s report captures more than a million extra families claiming tax credits at the end than the start of the year. Detailed analysis of the data underlying today’s figures suggests there may have been a reduction in child poverty from 3.6 million to 3.3 million between the first and second half of the financial year.” (from www.dwp.gov.uk/mediacentre/pressreleases/2005/mar/cfd310305-hbai.asp)

During this year the new tax credits were introduced, and their take-up grew rapidly. Again, detailed analysis suggests that the decline is bigger in the last six months when more people were getting their credits. A big increase in Child Tax Credit rates – combined with further increases in take-up – will show up in next year's figures, keeping us broadly on track to hit our targets, on our way to eradicating child poverty within a generation.

The IFS highlighted administrative problems with the introduction of the new tax credits in April 2003. Noting that previous projections may have been overoptimistic on take-up of tax credits, it calculated that without these issues 80,000 (BHC) or 90,000 (AHC) fewer children could have been in poverty than suggested by the 2003/04 data. The IFS also suggested that increasing numbers of children living in workless households could be a further explanation, noting that “other data sources suggest that worklessness has continued to fall, suggesting this may be sampling error.” Again, this could account for over-estimates of 80,000 (BHC) or 90,000 (AHC) children in poverty.¹⁰

On 2 March 2006, the Treasury announced that tax credit take-up had increased, with 79% of families that were entitled to tax credit claiming them in 2003/04 (amounting to 87% of the total value).¹¹ Also, in February 2006 the Prime Minister announced that a Cabinet Minister would be appointed to tackle exclusion.¹²

2. Responses to the 2004/05 figures

In a written statement, the Secretary of State for Work and Pensions, John Hutton, said:¹³

We have made significant progress on our journey to eradicating child poverty by 2020, the historic target we set in 1999. However, these figures also show how much more there is to do. We must now redouble our efforts in the years ahead; to focus relentlessly on the remaining barriers that hold people back in a new drive against social exclusion that will enable everyone to share in the nation's growing prosperity.

Seven years on from setting the target of eradicating child poverty within a generation, we remain absolutely committed to our goal. By continuing to target support for those who need it most; by ensuring work for those who can; breaking the cycle of deprivation and working to deliver high quality public services we are building a long-term approach to deliver long-term change. Not just to tackle child poverty - but to offer every individual and every generation the opportunity and support to raise, and fulfil, their aspirations.

In a DWP press release, the then Secretary of State said that:¹⁴

¹⁰ For further details, see Brewer et al, “Poverty and Inequality in Britain: 2005”, *IFS Commentary* 99, March 2005, esp. part 3.2 (pp34-45)

¹¹ It also noted that “For families with children earning less than £10,000 the level of take up was 93 per cent, while 91 per cent of working lone parents claimed”, *HM Treasury press notice* 13/06, 2 March 2006

¹² See news.bbc.co.uk/1/hi/uk_politics/4745562.stm, www.cpag.org.uk/campaigns/press240206.htm, and www.guardian.co.uk/guardianpolitics/story/0,,1716647,00.html.

¹³ HC Deb 9 Mar 2006 cc80-2WS

¹⁴ “New figures show good progress on poverty – Hutton”, *DWP press release*, 9 March 2006

The level of child poverty in Britain was the worst in Europe. Now child poverty is falling faster than in any other European country. The changes this government have made, such as tax credits to make work pay and our decision to invest in and reform key public services, have helped lift 2.4 million people out of poverty since 1997 – including 800,000 children and a million pensioners.

Despite these achievements, we have not quite reached our first target on child poverty - but we remain absolutely committed to the goal the Prime Minister set back in 1999 of eradicating child poverty within a generation.

Now we must redouble our efforts to ensure we reach our goal, focussing on all the drivers of social exclusion that hold people back from achieving their true potential.”

The DWP also published a report, *Making a difference: Tackling poverty – a progress report*, alongside the HBAI report.¹⁵ This summarised trends since 1996/7 and outlines future policies to combat poverty.

The Institute for Fiscal Studies (IFS) said the target was missed “despite having increased tax credits sufficiently in 2004 to persuade most experts inside and outside Whitehall that it had probably done enough to achieve its goal.”¹⁶ Mike Brewer from the IFS said:

The government will be very disappointed to have fallen short of its target, although child poverty has fallen significantly in recent years – a decline for which it can claim considerable credit. The Chancellor has dramatically increased the amount he spends on tax credits for families with children, but it has not been quite enough

The IFS also noted that:

The failure to meet the government’s first child poverty target now means that it will be tougher to meet its second target – to reduce child poverty by 50% between 1998/99 and 2010/11. This will be judged on a slightly different child poverty measure, focusing on incomes before housing costs and adjusting for family size in a different way. On this measure, the drop in child poverty over the first six years was 600,000 and over the next six years will need to be 1 million.

It is already too late for the government to influence child poverty rates in 2005/06 and 2006/07 by changing benefit and tax credit rates, so a third of the next target period has in effect already elapsed – and we do not know if progress will have improved or worsened over this period. In practice, the last opportunity on which the government can significantly affect its chances of hitting the target will be the Pre-Budget Report of 2009, in which it will set benefit and tax credit rates for 2010/11.

The *Financial Times* said that:¹⁷

The close call will complicate the already difficult budgetary arithmetic for Gordon Brown, the chancellor, potentially adding billions of pounds to the costs of

¹⁵ DWP, *Making a difference: Tackling poverty – a progress report*, March 2006

¹⁶ “Government misses child poverty targets”, *IFS press release*, 9 March 2006. Note: The IFS state that the AHC target should be 3.0 million rather than 3.1 million. This is because HBAI data are published rounded to the nearest 100,000 persons, and so to achieve the 25% reduction it is likely that the 2004/05 out-turn would have to have been 3.0 million, rather than 3.1 million (as $\frac{3}{4}$ of the 4.1 million baseline would be 3.075, which is below 3.1 million).

¹⁷ “Government misses target on child poverty”, *Financial Times*, 8 March 2006, p2

redistribution to poor families with children. One option the chancellor may take is to concentrate in-cases in benefits more on large families where child poverty tends to be most concentrated.

The Institute for Fiscal Studies argued last year that even if the government hit the 2005 target, an extra £1.4bn a year would be needed for it to be on track in 2008 to hit the 2010 target of halving the numbers in poverty. That figure would rise, the IFS said, if last year's target were missed.

It also noted that the 2004/05 data would "put fresh impetus behind" reform of the Child Support Agency and maintenance payments, and "to get more lone parents into work."

The Guardian also reported the Secretary of State as identifying "helping more single parents and disabled people into work through welfare reform programmes" and that "better public services, based around choice, can reduce poverty." Like the *Financial Times*, it noted that the 2004/05 data would "place more pressure on the chancellor, Gordon Brown, to come up with extra cash in the budget."¹⁸

A *BBC News* article summarised the responses of opposition parties:¹⁹

The Conservatives' David Ruffley, spokesman on welfare reform, said it was "disappointing". He said his party agreed on the aim but not the means of reducing child poverty.

"Child poverty is a scourge in society. And the numbers are too high. But what I think needs to be done is more creative and imaginative thinking. "

David Laws MP, Liberal Democrat Shadow Work and Pensions Secretary, said the figures were "extremely disturbing" and called for an urgent review of the child poverty target.

"It is no surprise the Government is failing to deliver when the CSA is in chaos, tax credits are a mess and our lone parents employment rate is one of the lowest in Europe," he said.

The Chief Executive of the Child Poverty Action Group, Kate Green, said:²⁰

We're disappointed that the Government has fallen short of its target, but we should not forget that in the last six years 700,000 children have been lifted out of relative poverty. It's not enough, but without this ambitious target and the extra resources the Government has committed to tackling child poverty, it's unlikely that such progress would ever have been made.

If Ministers are to meet the goal of halving child poverty by 2010, they must redouble their efforts and make much faster progress. The Government must now use the upcoming Budget and next year's spending review to outline what more will be done to meet their child poverty pledge. We also call on the Conservatives and Liberal Democrats to sign up to the child poverty target and adopt policies that would help to meet it.

¹⁸ "Ministers miss target to cut child poverty", *The Guardian*, 9 March 2006, p16

¹⁹ "Government misses poverty target", *BBC News Online*, 9 March 2006; see also www.conservatives.com/tile.do?def=news.story.page&obj_id=128420 and www.libdems.org.uk

²⁰ www.cpag.org.uk/campaigns/press090306.htm

The deputy director of the Institute for Public Policy Research (IPPR), Ian Kearns, said that the data were “likely to be disappointing but they certainly do not represent failure. The child poverty agenda needs renewed political commitment.”²¹ The IPPR called for additional expenditure on tax credits and benefits to help meet the 2010/11 target.

PLEASE NOTE: It is not intended that this document will be updated. For further information on poverty and child poverty targets see *Poverty: Measures and Targets Library Research Paper* (RP04/23). The 2001/02 data in that paper are updated in [SN/EP/3314](#) (and for poverty more broadly in [SN/EP/4467](#)). For sub-national poverty statistics, see [SN/EP/4627](#). See also [SN/EP/3870](#) on *Income Inequality*. Alternatively please contact the specialist.

²¹ “Renewed political will needed to meet child poverty pledge”, IPPR Press Release, 9 March 2006; www.ippr.org/pressreleases/?id=1998 The press release notes that “With a relative definition of poverty, spending on benefits and tax credits for families must rise faster than the rate of growth in average earnings if poverty is to continue falling.