

# Budget 2018: tackling the rising tide of in-work poverty

As a society, we believe work should provide a route out of poverty. Yet despite record employment rates in the UK, the number of people trapped in poverty in working families has risen by over one million in the three years to 2016/17. This means almost three million children are now locked in poverty despite living in a working family. The situation is set to worsen further in future. This is simply not right.

As Britain prepares for Brexit, we need to make sure working families have a firm foundation from which they can build a better life. Redesigning Universal Credit (UC) so it boosts the incomes of almost 10 million parents and children in low-income working families is a vital first step.

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### Recommended action

- Reform Universal Credit so families with children can keep more of what they earn. Increasing the work allowances to their original level for working families would boost the budgets of 9.6 million parents and children, half of whom are in working poverty (4.9 million).

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## The current situation

### Where are we now?

In-work poverty is the problem of our times. Whether you look at the absolute or relative poverty measure, two thirds of children in poverty live in a working family.

- In the three years to 2016/17 the number of people living in poverty in working families has risen by over one million.
- Jobs that are low paid and insecure, offering only a dead-end and not a stepping stone to a better job, trap people in poverty. Five in every six people in low-paid work [fail to escape low pay](#) over 10 years.
- Barriers to increasing pay can be even greater for those with family responsibilities. Caring for children can limit the number of hours you can work and the distance you can travel for work. This is particularly acute when children are young, and just 7% of people think a mother should be expected to work full-time before her youngest child goes to school.

### Where are we currently headed?

If the Government does not act it will preside over in-work poverty rising further as working people transfer to UC and find themselves worse-off.

- Cuts announced in the 2015 July Budget mean [3.2 million households](#) will typically be around £50 a week worse off on UC compared with tax credits – most of them are families with children.
- The Government has promised transitional protection for those worse-off, but many will slip through the net. The [Office for Budget Responsibility \(OBR\)](#) estimates just 400,000 households previously receiving tax credits will be receiving transitional protection in 2022/23.

### A better way forward

UC should be reformed so families with children can keep more of what they earn, reducing in-work poverty. This can be done by increasing the work allowance (which operates like a personal tax allowance, letting parents keep every extra pound they earn, up to a threshold) or reducing the taper (which operates like a tax rate, withdrawing UC as earnings rise).

JRF recommends the 2018 Budget increases the work allowances to their original level for families with children, giving a much-needed budget boost to low-income families. In a scenario where Universal Credit is fully rolled out in 2019/20, some [9.6 million parents and children](#) in working families would benefit, half of whom are in working poverty. It would cost £2 billion.

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- Announcing this at the 2018 Budget and implementing it in April 2019 would mean working families on UC would feel the benefit just one week after Brexit.
  - It would mean, for example, that a lone parent with one child who works full-time on the National Living Wage would be £500 per year better off.
  - The public expects work to offer a route out of poverty and [supports the idea of topping-up working family incomes](#) to make sure this happens: 7 in 10 (70%) support wage top-ups for lone parents and 6 in 10 (58%) support them for couples with children. These views are consistent across the income spectrum.
  - Increasing the work allowance puts more money in the pocket of families in in-work poverty and helps more families exit working poverty [compared to reducing the taper](#).
  - The work allowance is over five times more effective at getting money into the pockets of low-income working families than increasing the Personal Tax Allowance. The OBR estimates it will cost [£1.4 billion](#) to raise the Personal Tax Allowance (PTA) to £12,500 and the Higher Rate Threshold to £50,000 in 2020. This money would be better spent helping to pay the lion's share of increased work allowances.

## Conclusion

A fifth of our population are being locked out and left behind by poverty, the majority of them in working households. That is simply not right. As the UK prepares for Brexit it is essential we see action to loosen the grip of poverty. Reforming Universal Credit by increasing the work allowances for families with children is one step that would help address the rising tide of in-work poverty.

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## About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent social change organisation working to solve UK poverty. Through research, policy, collaboration and practical solutions, we aim to inspire action and change that will create a prosperous UK without poverty.

We are working with private, public and voluntary sectors, and people with lived experience of poverty, to build on the recommendations in our comprehensive strategy - [We can solve poverty in the UK](#) - and loosen poverty's grip on people who are struggling to get by. It contains analysis and recommendations aimed at the four UK governments.

All research published by JRF, including publications in the references, is available to download from [www.jrf.org.uk](http://www.jrf.org.uk)

To meet one of our experts to discuss the points raised please contact:

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