

Monitoring poverty and social exclusion in Wales 2009

Findings
Informing change

June 2009

This *Findings* is the second update of *Monitoring poverty and social exclusion in Wales*, following the original report in 2005, but is the first to be published in a recession. After reviewing ten-year trends in low income statistics, its focus shifts to unemployment and problem debt.

Key points

- Over the ten years to the mid-2000s, almost all the reduction in the number of children in low-income households ('low-income children') in Wales occurred among those in workless families. This leaves as many low-income children in working families as in non-working ones.
- Over the same period, single pensioners accounted for three-quarters of the reduction in the number of low-income pensioners.
- Unemployment is a major risk factor for low income in Wales, that risk rising from 5% for a full-working family to over 60% for a workless one. Even when another adult in the family remains in work, the family's risk of low income still rises to 25%.
- The latest 'headline' low income statistics, for 2007/08, show that even before the recession, the problem of low income was already rising sharply, to the extent that half of the previous improvement in child poverty had already been lost.
- For 2008, the young adult (16–24) unemployment rate was 16%. As a result, around half of the unemployed people in Wales are under 25.
- The six South Wales Valley local authorities, plus Newport and Bridgend, have the highest proportion of Jobseeker's Allowance claimants. This was not the situation before the recession. In five areas, claimant numbers have doubled over twelve months, including in Pembrokeshire, Monmouthshire and Flintshire.
- Measured by county court possession orders, the number of people experiencing severe mortgage difficulties already compares with the early 1990s.
- Among those seeking help with debt in Wales, many are in circumstances associated with poverty or exclusion, including high levels of reliance on social security benefits, ill-health and material deprivation.

The research

By a team at the
New Policy Institute.

Background

This *Findings* is the second update of *Monitoring poverty and social exclusion in Wales*, originally published in 2005, but is the first to be published in a recession. It looks at progress on low income since the mid-1990s, and examines unemployment and problem debt in the current recession.

Definitions

A *family* is a single adult or two adults living together as a couple, along with any dependent children (under 16, or under 18 if still in full-time education). Any other adults in the household (including non-dependent children) constitute a separate family.

A *self-employed* family is one where at least one adult is self-employed (irrespective of the work status of any partner). A *full-working* family is one in which all adults are employed, at least one full-time. Any other family in which someone is employed is *part-working*.

The value of the *low-income threshold* depends on how many people are in the household; for example, in 2007/08 it was £115 for a single adult, £194 for a lone parent with two children under 14, and £277 for a couple with two children under 14. These sums are net of income and council tax and after housing costs (chiefly rent, mortgage interest and water charges) have been paid.

Unemployment and poverty

Progress on low income before the recession

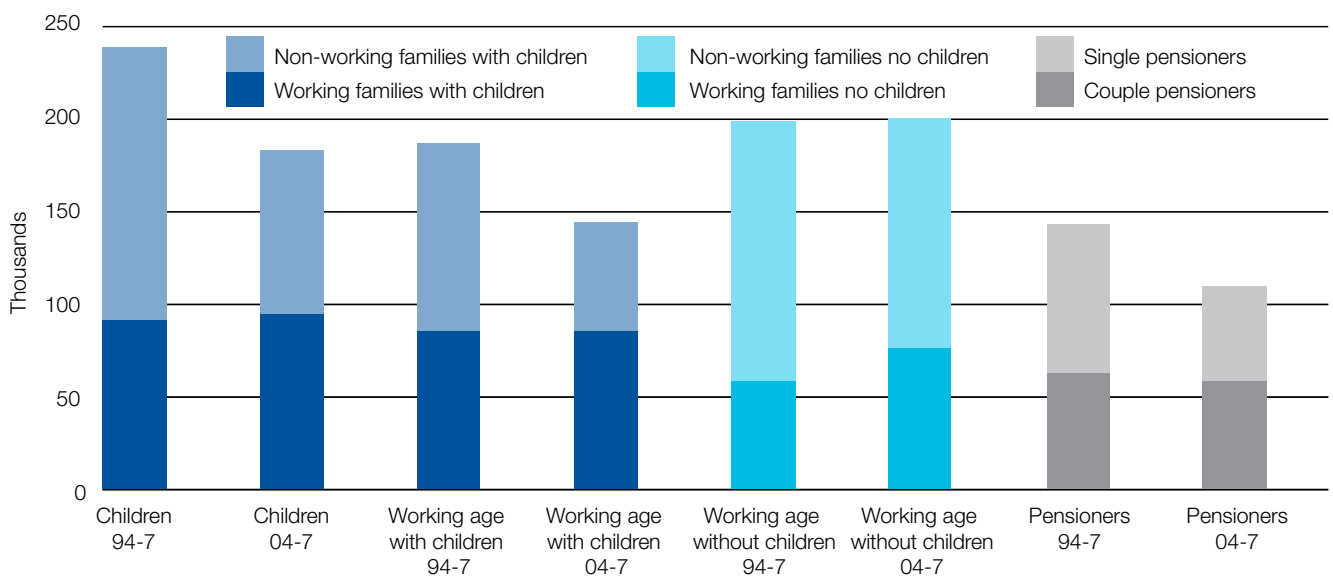
Figure 1 summarises the change in the number of people living in low-income households in Wales in the ten-year period from the mid-1990s to the mid-2000s. The numbers for working-age adults are shown for those with and without dependent children. Each statistic is further divided, either between *family* work status (for children and working-age adults), or between singles and couples (for pensioners).

Figure 1 shows that:

- The number of children living in low-income households fell by about 55,000 between the two periods. All the improvement was among children in workless families. By the middle of this decade, slightly more Welsh low-income children were in working than workless families.
- The picture for working-age adults with dependent children is similar, with a fall of some 40,000 concentrated among those in workless families. By the middle of this decade, a clear majority of low-income, working-age adults with dependent children were in working families.
- By contrast, the number of low-income, working-age adults without dependent children showed no overall fall. The small fall in the number in workless families was almost entirely offset by the higher number in working families.
- The number of low-income pensioners was about 35,000 lower; most of this fall occurred among single pensioners. This left the numbers of single and couple pensioners in low income about equal.

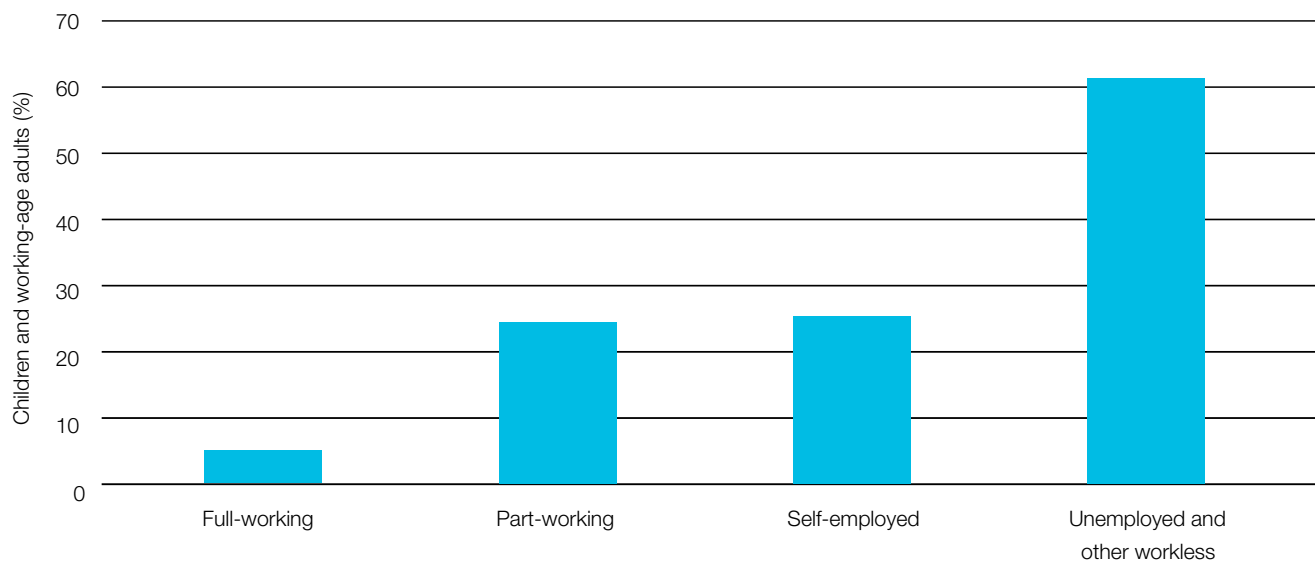
Noteworthy in Figure 1 is the lack of sustained reduction in the number of low-income people in working

Figure 1: Children, working-age people and pensioners in low-income households: 1994–7 to 2004–7



Source: New Policy Institute (NPI) analysis of *Households Below Average Income*

Figure 2: Risk of low income for members of working-age families, by family work status, 2004–7



Source: NPI analysis of *Households Below Average Income*, 2004/05 to 2006/07

families. As concern shifts to unemployment and its consequences, there is a risk that ‘in-work poverty’ gets forgotten. If that happens, when people start to find work again as the recession ends, that work will not necessarily provide an escape from poverty.

The latest low income statistics, for 2007/08

New low income statistics, for 2007/08, were published as this *Findings* was being finalised. Although only ‘headline’ three-year average figures were available, they paint a bleak picture. In particular, the three-year average ‘child poverty’ rate of 32% means that half of the improvement achieved since the late 1990s has been lost. The statistic for 2007/08 alone, although more uncertain, suggests that the loss may be even greater than this.

Unemployment and the risk of low income

Understanding the link between the recession and poverty lies in what the data shows about how the risk of low income varies according to family work status. Official statistics allow identification of five family work statuses. Figure 2 shows that this poverty risk for each of the five groups (that is, the proportion of people in the group in low income) increases from 5% for members of a full-working family to around 75% for members of an unemployed one.

Since the groups comprise families rather than individuals, an unemployed person could belong to the part-working or self-employed groups, not just the unemployed group. If an adult becomes unemployed, their family’s work status shifts rightwards on the graph, a move associated with a substantial increase in the risk of low income.

Unemployment since the last recession

Figure 3 shows the number and percentage of unemployed people in Wales for each year since 1993 (the first year after the last recession). The two halves of 2008 are shown separately (H1 and H2). Figure 3 shows that:

- The sharp deterioration in unemployment only really started in the latter half of 2008, with the average for those six months approaching 100,000 (equivalent to 6.9%), a level last seen in 1996.
- Although unemployment was fairly steady during 2006 and 2007, the low point was in 2004 (63,000 people unemployed, a rate of 4.5%).
- In the long recovery from 1993, male unemployment fell much further than female unemployment – twice as many men as women were unemployed in 1993, compared with almost equal numbers in 2007. Although sub-divisions of six-monthly statistics need to be treated cautiously, the fact that the recent rise in unemployment has so far been concentrated among men suggests that the picture may be reverting to that of the early and mid-1990s.

Young adult unemployment

Even at the 2004 low point, the young adult (16–24) unemployment rate stood at 12% (source: LFS), compared with an all working-age rate of 4.5%. For 2008, the comparable figures were 16% and 6%. As a result, just under half (around 45%) of unemployed people in Wales were under 25. This unemployment rate of 16% equated to about one in ten of *all* young adults in 2008.

Although the accuracy of half-yearly figures for young adult unemployment is uncertain, nothing in them (for the second half of 2008) suggests that the sharp rise in unemployment has affected young adults

less than older adults; if anything, the opposite appears the case.

Claimant count across Wales

Being up-to-date and reliable at local level, the 'claimant count' – the numbers claiming Jobseeker's Allowance (JSA) – is the best source for showing how unemployment across Wales has changed over the last year as the recession has taken hold. Figure 4 shows the claimant count as a percentage of the total resident working-age population for each local authority in March 2008, just before the recession began, alongside the increase to March 2009.

Unemployment and the claimant count

In 2008, the number of people claiming JSA was only about half of the number who were unemployed. Although there are good reasons why the claimant count should be smaller, neither the size of the gap nor the downward trend over time (for example, in 1998, JSA claimants equalled about 75% of unemployed people) has been explained. The ratio of JSA claimants to unemployed people is also much lower for women (around one-third) than for men (around two-thirds). At UK level, the Department for Work and Pensions (DWP) has estimated that between 41% and 50% of those entitled to the means-tested version of the benefit do not claim it.

Source: DWP (2008) *Income related benefits: estimates of take-up in 2006/07*

The local areas in Figure 4 are ordered according to claimant count rate in March 2008, ranging from 4.6% in Blaenau Gwent (the only area above 4%) to 1.3% in Ceredigion and Monmouthshire. Merthyr Tydfil, Caerphilly, Newport and Isle of Anglesey were the only other areas with 3% or more. More generally, the highest rates were in some parts of the South Wales Valleys or in the North West.

By March 2009, the picture had changed to one in which the six South Wales Valley areas, plus Newport and Bridgend, had the highest rates – all bar one over 5%. The North West areas were around the middle of the range. Apart from Blaenau Gwent (with an 8% rate) and perhaps Merthyr Tydfil, it is too early to draw definitive conclusions about the areas of Wales which will end up with the highest unemployment. Indeed, with three of the five areas whose claimant count rate doubled over the year being Pembrokeshire, Monmouthshire and Flintshire, it could be argued that this recession is having a big impact across most of Wales.

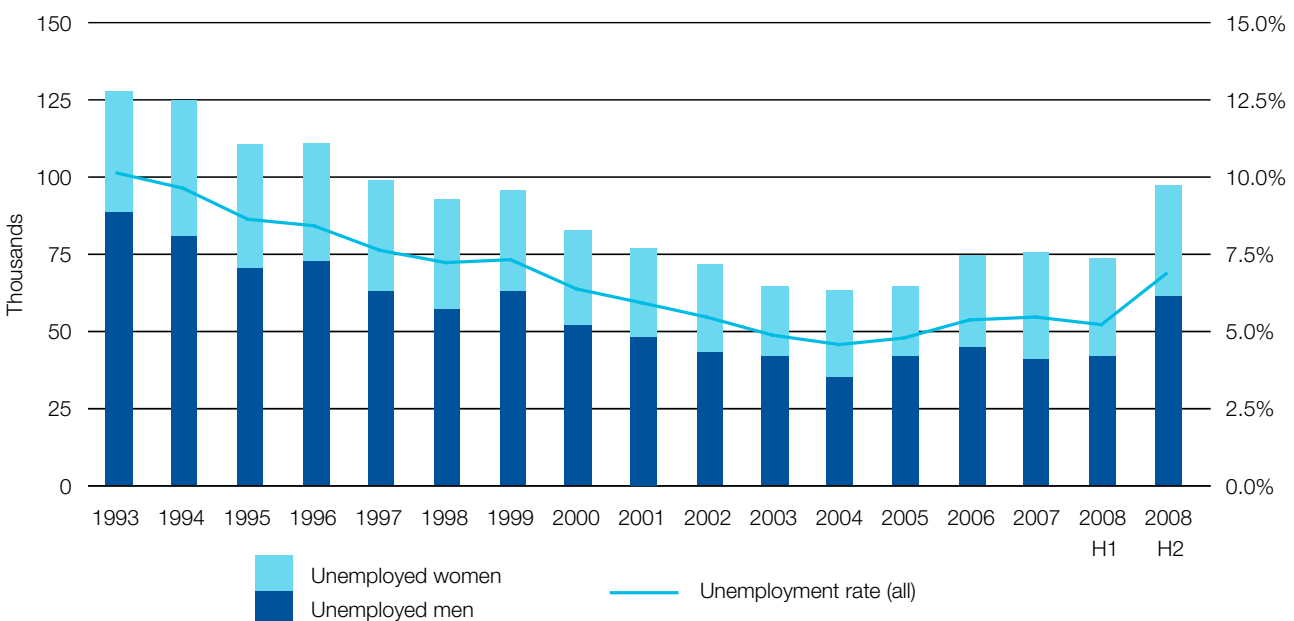
Problem debt and repossession

Home repossessions

Repossession of homes for mortgage non-payment has also been worsening after a long period of recovery. A lack of data makes it impossible to present the kind of detailed picture that can be shown for unemployment. In particular, no figure for Wales alone is published.

For England and Wales together, the Council of Mortgage Lenders (CML) has estimated that some

Figure 3: Unemployed men and women and unemployment rate, 1992–2008



Source: Labour Force Survey (LFS); half-year figures seasonally adjusted

40,000 homes were repossessed in 2008 (CML, *Arrears and possessions in 2008*, press release, 20 February 2009). This was a 50% increase on the previous year (26,200) and a nearly fivefold increase on the low point for this statistic (8,200) recorded in 2004; 40,000 is also just over half the peak figure (75,500) recorded in 1991.

County court actions

Official data on county court possession orders is available for Wales. Possession orders and repossessions are not the same thing; nearly half of possession orders are suspended, while repossession can happen without court involvement. The possession order statistics, shown in Figure 5, should therefore be taken as indicative of the trend in repossessions, rather than their actual number.

Like the repossession figures for England and Wales, possession orders in Wales were lowest in 2004 (2,600 cases), since when they have risen almost threefold (to 7,700 in 2008). Being slightly above the previous peak in 1991, this suggests that the current situation in Wales is already comparable to the early 1990s. In practice, given the scale of buy-to-let mortgages in recent years, the situation will be different to the extent that landlords, not just owner occupiers, are in difficulties. The experience across England and Wales in the early 1990s suggests that

even when possession orders eventually peak, high levels of home repossessions can be expected to persist for several years to come.

The court figures reflect a *flow* of households experiencing serious mortgage difficulties. Whether they end up with their home repossessed, or whether the order against them is suspended, these households remain liable for their debts. The total number of households coping with such debt is therefore likely to be a lot higher.

Multiple debts

Mortgage arrears that can lead to repossession comprise one element of 'problem debt'. Unlike mortgage arrears and their consequences, regular, official statistics on problem debt are not available, so it is necessary to use other sources of information. Recent reports from Citizens Advice (for England and Wales) and Citizens Advice Cymru, based on surveys of their clients, provide an insight into this issue.

A Citizens Advice profile of debt clients in 2008 (*A life in debt: the profile of CAB debt clients in 2008*) provides key background statistics, including the scale of the problem (the number of debt enquiries has doubled over ten years); overlaps with other problems (for example, nearly half were in fuel

Figure 4: Claimant count as a percentage of working-age population, March 2008 and 2009

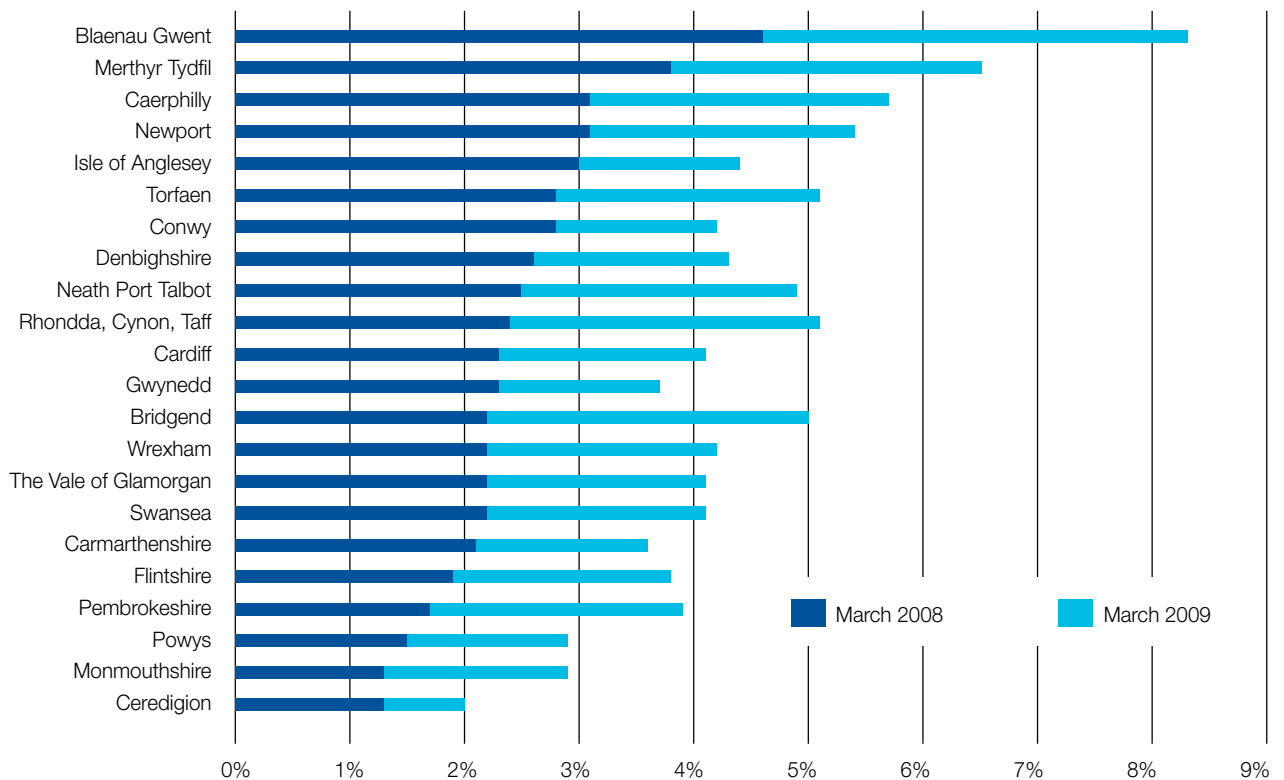
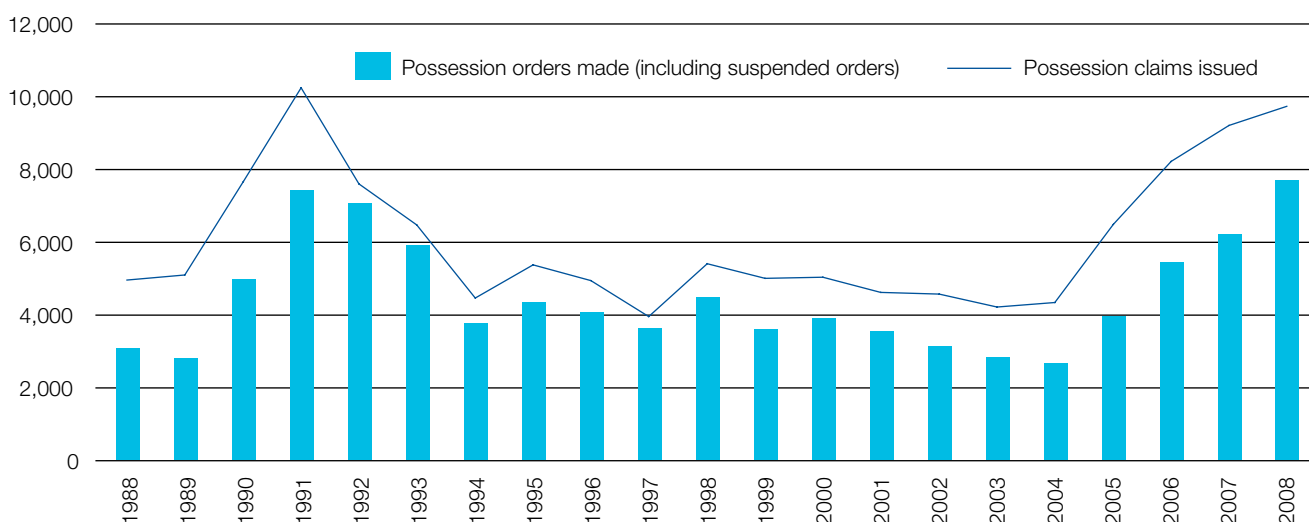


Figure 5: Possession claims made and orders issued in the county court



Source: Ministry of Justice (2009) *Statistics on mortgage and landlord possession actions in the county courts – fourth quarter 2008*, Table 2A

poverty); and the wider significance of housing debt (for example, two-thirds of those with arrears were in priority need for re-housing).

Among the clients in Citizens Advice Cymru's study (Jones, K. (2009) *Outcomes of a longitudinal study of Citizens Advice service clients in Wales*), more than half sought advice on debt and just under half on social security benefits. Most important is the extent to which those seeking advice displayed many of the classic symptoms of poverty and social exclusion. For example:

- Three-quarters of clients were not in paid employment.
- Nearly two-thirds relied for their main source of income on social security benefits.
- Nearly two-thirds regarded their financial situation as 'quite difficult' or 'very difficult'.
- More than half reported that they had gone without clothes or shoes on occasions in the previous year because of lack of money.
- A quarter had even gone without food.
- Just under half reported a health problem.

Conclusion

While it will be at least a year before the first definitive evidence of the recession's effects on poverty will be available, it seems clear that these effects will worsen, the only question being by how much.

Among actions that could be taken to lessen the recession's impact on poverty, there would appear to be considerable scope for promoting JSA take-up, in particular the contribution-based (National Insurance) version. Like the state retirement pension, this version of JSA is part of Beveridge's non-means-tested Welfare State, which came into being in 1948. It is well suited to providing support at a time of sharply rising unemployment, including for those people who are unemployed but have a working partner.

From the evidence presented here, the most significant aspect of the current recession is the high level of unemployment among young adults. If this situation persists, the risk may be of a new generation lacking the experience, qualifications and self-belief to provide for themselves and their families. Yet many of the parents of 2020's children will come from this very generation.

For further information

All the underlying analyses for this *Findings* can be found at the poverty statistics website: www.poverty.org.uk

Detailed technical definitions of each of the bars in each of the graphs can be found at www.poverty.org.uk/wales%20graphs.htm

Published by the Joseph Rowntree Foundation, The Homestead, 40 Water End, York YO30 6WP. This project is part of the JRF's research and development programme. These findings, however, are those of the authors and not necessarily those of the Foundation. ISSN 0958-3084

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