Save the Children

BRIGHTER FUTURES

THE FUTURE PATH OF CHILD POVERTY IN NORTHERN IRELAND

EXECUTIVE SUMMARY

Without action, child poverty will rise over the next few years.

A slow labour market recovery, a weakened social security system, and a growing income gap between families are contributing to a rising tide of child poverty. New analysis in this briefing paper shows that by 2024/25 child poverty is projected to rise to over 25%.

But the analysis also shows that this isn't inevitable. The recent announcements of an increased work allowance and a lowered taper rate in Universal Credit means child poverty is slightly lower than it would have been, but by investing further in a stronger social security system for children, the Executive could secure a historic reduction in child poverty:

- Removing the two-child limit would mean 11,000 fewer children in poverty by 2024/25 and ensure child poverty in Northern Ireland stays below the pre-pandemic level.
- Introducing a £20 Child Payment for families eligible for means-tested benefits would lift 27,000 children out of poverty and secure a historic reduction.

Combined, these two steps would ensure that there are 38,000 fewer children in poverty than our projected scenario, with an overall rate of poverty of 17%, an historic low.

A rate of 17% should not be the extent of our ambitions for child poverty. But by making these changes, the Executive can set us on a path to a brighter future for children and help to build the foundations for a Northern Ireland where no child grows up in poverty.

Recommendations

The Executive should:

1. **Remove the two-child limit** from the social security system.

2. Introduce **a £20 Child Payment** for children in families eligible for means tested benefits.

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Save the Children

CHILD POVERTY ACTION GROUP

INTRODUCTION

During the pandemic, the £20 increase to Universal Credit and Working Tax Credits prevented 11,000 children from being plunged into poverty (Save the Children & Child Poverty Action Group, 2021). It showed what can be achieved when we invest in our social security system.

But this vital support has now been cut at the very same time that families are facing a rising tide of financial pressures – from a spiralling cost of living to a weakened social security system to an uncertain labour market, families are facing a perfect storm in the years ahead.

This paper shows that this will lead to a rise in child poverty. But it also shows it isn't inevitable. A labour market recovery alone won't prevent a rise in child poverty. However, tied with investment in social security, thousands of children will be lifted out of poverty in the coming years.

Throughout this paper are the stories of families Save the Children has worked with during the pandemic. It's their lives the findings in this paper speak to, and it's the choices that they must make daily that speaks most clearly to the urgent need for change.

Rachel's story

Rachel is a single parent, living with her three children. She is a full-time carer for a child with a disability. Rachel and her family receive financial support through Universal Credit, and they live in temporary accommodation in the private sector.

The house they live in is unfit for them. It's filled with damp, which has gotten so bad that it has ruined her children's rooms, their furniture, and their things. The children's rooms are unsafe for them to live in.

"…the damp in the house is really bad and trying to get us out. Then [child] had to move out of his bedroom, and we are finding more now, the baby had to move out of her room too, and her bed is wrapped in plastic in the bathroom."

Rachel is putting almost all the money she does have into heating her home to help prevent damp and to keep it warm for her children. This is stretching her budget to the breaking point. It's because of this that she must make choices between food and heating for her children.

"…because the damp is so bad in the house, and because it's so cold I could have the heating on all night and all day and it still wouldn't get warm."

The challenges Rachel is facing are putting huge pressure and worry on her and her family, but she is using the resources that she does have to keep her children's lives as normal as possible.

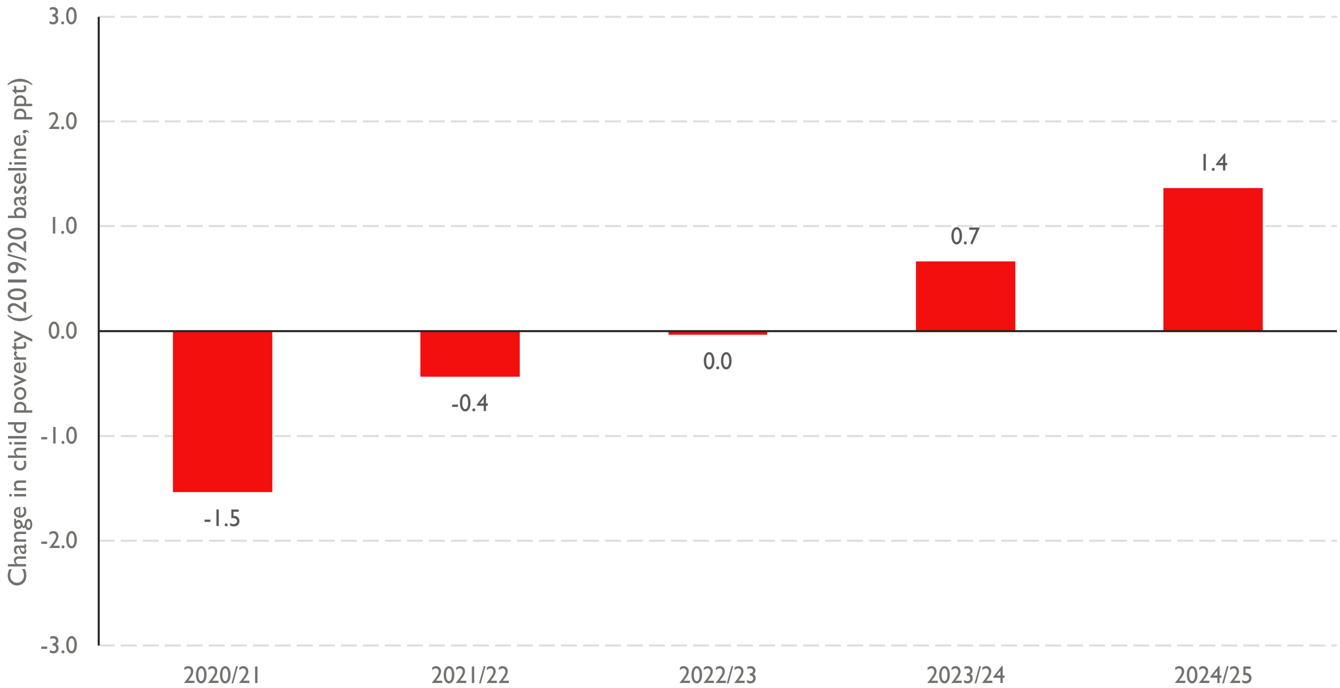
CHILD POVERTY IS SET TO RISE ABOVE PRE-PANDEMIC LEVELS

The analysis in this paper models the likely path of child poverty in the next five years (the full methodology is included in the appendix). These projections are benchmarked against pre-pandemic levels of poverty to help us assess what the years following the pandemic will look like for children in Northern Ireland.

Figure 1 presents estimates of child poverty from 2020/21 to 2024/25 relative to the baseline of 2019/20, showing that:[1]

- Child poverty is estimated to have fallen by 1.5ppt in 2020/21 to 23%, in large part due to the £20 increase to Universal Credit and Working Tax Credits. This has since been cut.
- In 2021/22 child poverty is slightly lower than before the pandemic, as the upcoming reduction in taper rate and increase in the work allowance will pull some families out of poverty.
- From that point onwards, child poverty is expected to rise, increasing by 1.4ppt in 2024/25 above pre-pandemic levels, reaching as high as 25%, or one in four children.

Figure 1 Child poverty projections, 2017/18 - 19/20 to 2024/25



Source: Author's calculations from Family Resources Survey 2018-19, UKMOD. For more details see the Methodology section

What is behind the rise in child poverty?

There are three drivers behind the projected increases in child poverty:

A growing number of families are affected by the two-child limit

An increase in families affected by the two-child limit will lead to a rise in child poverty in the coming years. Most large families on means-tested benefits are protected by the April 6th, 2017 cut-off for the two-child limit. However, as the number of families with three or more children grows, an increasing number of families will be affected. This will disproportionately affect families with newborns. Every additional year of the two-child limit pushes an estimated 1,500 children into poverty.[2]

[1] 2019/20 is the latest year for which we have official poverty statistics from Households Below Average Income
[2] Author's calculations from Family Resources Survey 2018-19, UKMOD

A slow labour market recovery in Northern Ireland

The labour market recovery in Northern Ireland is projected to be weaker than the rest of the UK. In 2022/23 the unemployment rate in Northern Ireland is estimated to be 4.7%, 80% higher than in 2019, whereas across the UK the unemployment rate is forecast to be 35% higher.[3] A key reason why Northern Ireland did not see the pre-COVID increases in child poverty seen in England is that the labour market performed relatively strongly compared to the UK from 2017 to 2020.[4]

A widening income gap between the poorest households and others

Real earnings growth across the UK will push up the median income.[5] The OBR forecast that real earnings will be 5.6% higher in 2024/25 than in 2019/20.[6] If benefits stay constant in real terms, then the gap between low-income households and the median increases, pulling more children into poverty. These two factors mean UK child poverty is projected to rise.[7]

These projections are not inevitable. The remainder of this paper shows how investment in the social security system will prevent a rise in child poverty.

IMPROVED FINANCIAL SUPPORT FOR SOME IN-WORK FAMILIES ALONE WILL NOT PREVENT A RISE IN CHILD POVERTY

In the 2021 Autumn Budget, the UK government announced a reduction in the taper rate and an increase in the work allowance in Universal Credit. This announcement followed the UK government's decision to cut the £20 increase to the standard allowance in Universal Credit and Working Tax Credits.

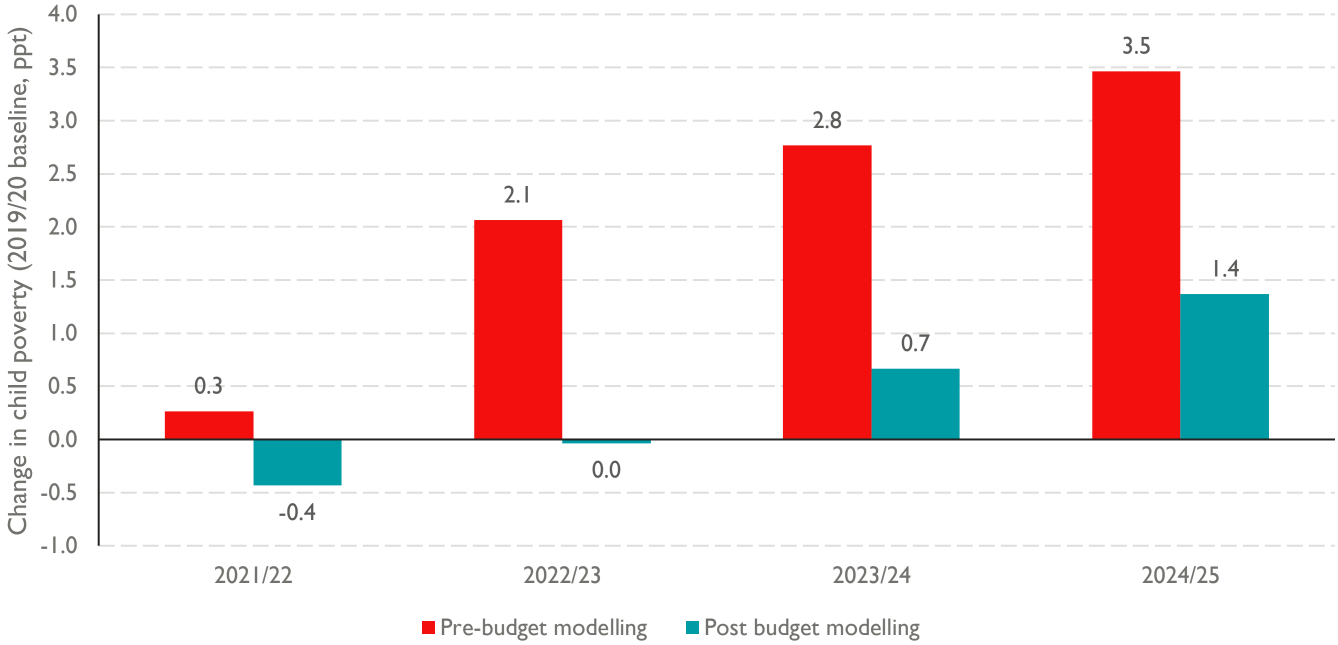
Children whose parents are in work, and earning enough to benefit from these changes, will see increased financial support in the system. Children whose parents are earning too little from work to benefit from these changes, or who aren't in work, will see cuts in support (Resolution Foundation 2021).

Figure 2 examines the impact of these measures on our projections. It does this by comparing their impact on child poverty compared to a scenario where they hadn't been introduced, benchmarked against pre-pandemic levels, and shown from the year they are introduced, 2021/22. This shows that:

- The introduction of a reduced taper rate and an increased work allowance means child poverty is estimated to be slightly lower in 2021/22 than in 2019/20. If the policies had not been introduced, the poverty rate would be slightly higher than 2019/20.
- Going forward, poverty rises in both scenarios, but the level is lower because of the policies announced at the budget,
- Despite these measures, in 2024/25 child poverty is still expected to be 1.4 ppts higher than pre-pandemic levels. This means that over 1 in 4 children will be in poverty in 2024/25.

[3] National Institute UK Economic Outlook 2021, NIESR
[4] Northern Ireland Labour Market Report – October 2021, NISRA
[5] Describing variables in real terms means that inflation has been accounted for. This is ultimately what matters for household incomes.
[6] Author's Calculations from Economic and Fiscal Outlook – October 2021, OBR
[7] Living Standards Outlook 2021, Resolution Foundation

Figure 2 Impact of increased support for in-work families on child poverty projections



Source: Author's calculations from Family Resources Survey 2018-19, UKMOD. Calculations are based on estimates for the impact of COVID and the recovery on household earnings. For more details see the Methodology section

John's story

John and his partner were expecting their first child at the start of the pandemic. John worked full time and his partner worked part-time.

Early in the pandemic, John's working hours were reduced, and the family budget became tight.

"…you were getting your bare minimum amount of shifts. So, you lost £300-400 every month before you ever started and then the fact that we both ended up having covid which is 6 weeks to 2 months wages each, pulled out of a years salary which is a big lump."

Both John and his partner contracted COVID-19. John ended up in hospital, and both he and his partner had to take months off work, which only added to the financial challenges.

"The same money wasn't coming in, she works part-time and I worked full time. The bills were still going out and stuff got tight."

When John was getting better, his partner gave birth prematurely, and they had their first child. Between the pandemic, John's spell in the hospital, and the potential risk for his newborn child, John's doctor advised him not to go back to work.

This decision was made harder for the family because of the limited support they received. When they tried to access support through Universal Credit, they found that the support they were eligible for was hardly enough for them to live.

> *"When you ring the Universal credit thing and the girl more or less said we are entitled to nothing…. they are cutting the land from under your feet."*

REMOVING THE TWO-CHILD LIMIT WOULD PREVENT A RISE IN CHILD POVERTY

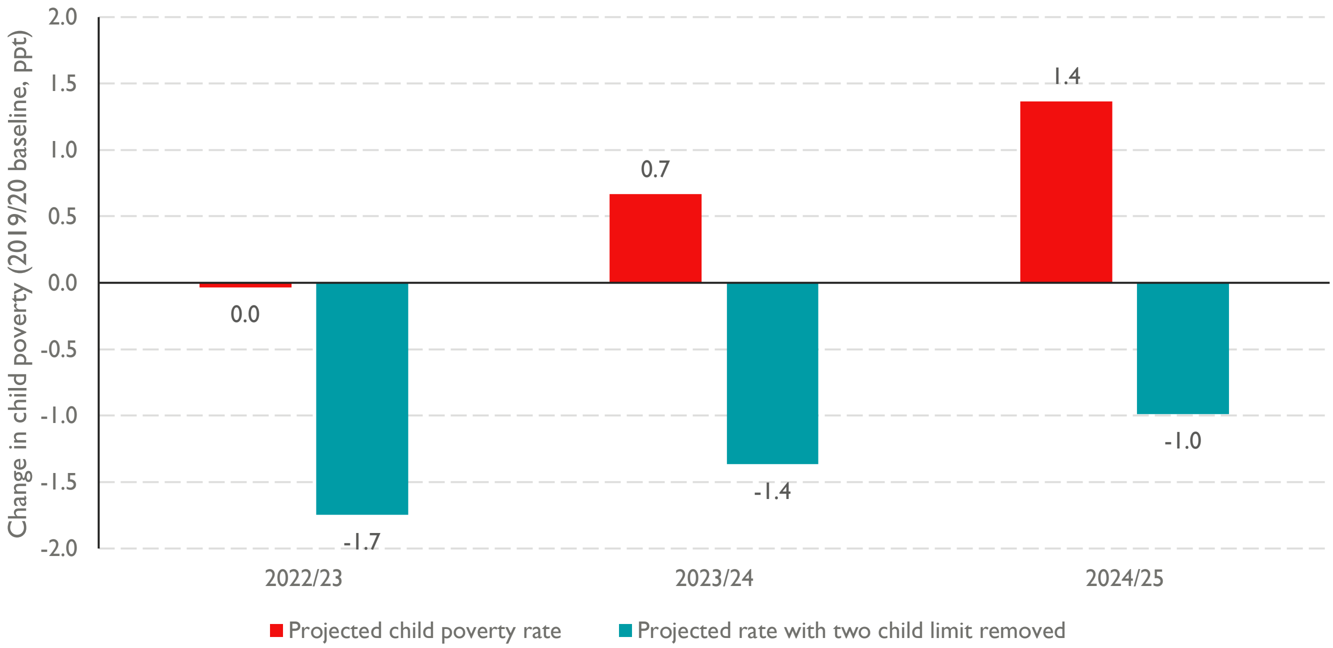
Introduced on April 6th, 2017, the two-child limit restricts support in the system to the first two children in a family. It affects families whose children were born on or after April 6th, 2017, with some limited exceptions. As the number of families with three or more children increases, due to the birth of a child, more and more families, especially families with newborns, will be affected by the rule in the coming years.

10,000 families are currently affected by the policy. Removing it tomorrow would lift 6,000 children out of poverty, for £27 million (Save the Children & Child Poverty Action Group 2021).

Figure 3 shows the impact of this on our projections, assuming that it is removed from 2022/23 onwards:

- Removing the two-child limit next year would reduce child poverty by 1.7 ppts, as well as ensure less deep poverty for thousands of families too far below the poverty line to escape even with the limit lifted.
- After that point, it would not only prevent a rise but secure reductions in child poverty in subsequent years: by 2024/25 child poverty would be 1ppt lower than pre-pandemic levels, 2.4ppt lower than our projections, helping to prevent a rise above pre-pandemic levels.

Figure 3 Impact of removing the two-child limit on child poverty projections



Source: Author's calculations from Family Resources Survey 2018-19, UKMOD. Calculations are based on estimates for the impact of COVID and the recovery on household earnings. For more details see the Methodology section

Removing the two-child limit should be one of the first steps the Executive takes to ensure that child poverty remains below pre-pandemic levels. But to secure a significant reduction in child poverty, we will need to increase the amount of financial support for children in the system.

Siobhan's story

Siobhan is a single parent with one child. She worked for ten years before her child was born but has since struggled with anxiety and depression. She has had to leave her job as a result. She is getting support through Tax Credits, but it isn't enough to cover the cost of essentials.

She has found herself getting into debt to cover the cost of living and has bills that leave little for basics.

"Because something like buying fruit, it's embarrassing to even say but you go into a food shop and it's so expensive you know. Like Peter picked up the other day, we were in a shop, a small pack of strawberries and they were like £3.50 and I had to whisper in his ear "Mummy hasn't got enough money Peter, put that down"."

Because of the challenges she faces with getting by on a tight budget, she has had to make decisions between keeping the house warm during the winter months and covering the cost of food.

"Yeah I find it really difficult. It's like a tenner a week I put in, and even the likes of something as simple as that I have to put an extra layer of clothes on the child, in the bed, he's in with me, and his wee duvet on top of mine for extra heat because I'm finding it hard to top up my gas."

Throughout it all, Siobhan has had incredible support from her family and friends, and she's focused on giving her child the best start. But the financial support she receives just isn't enough to cover the basics.

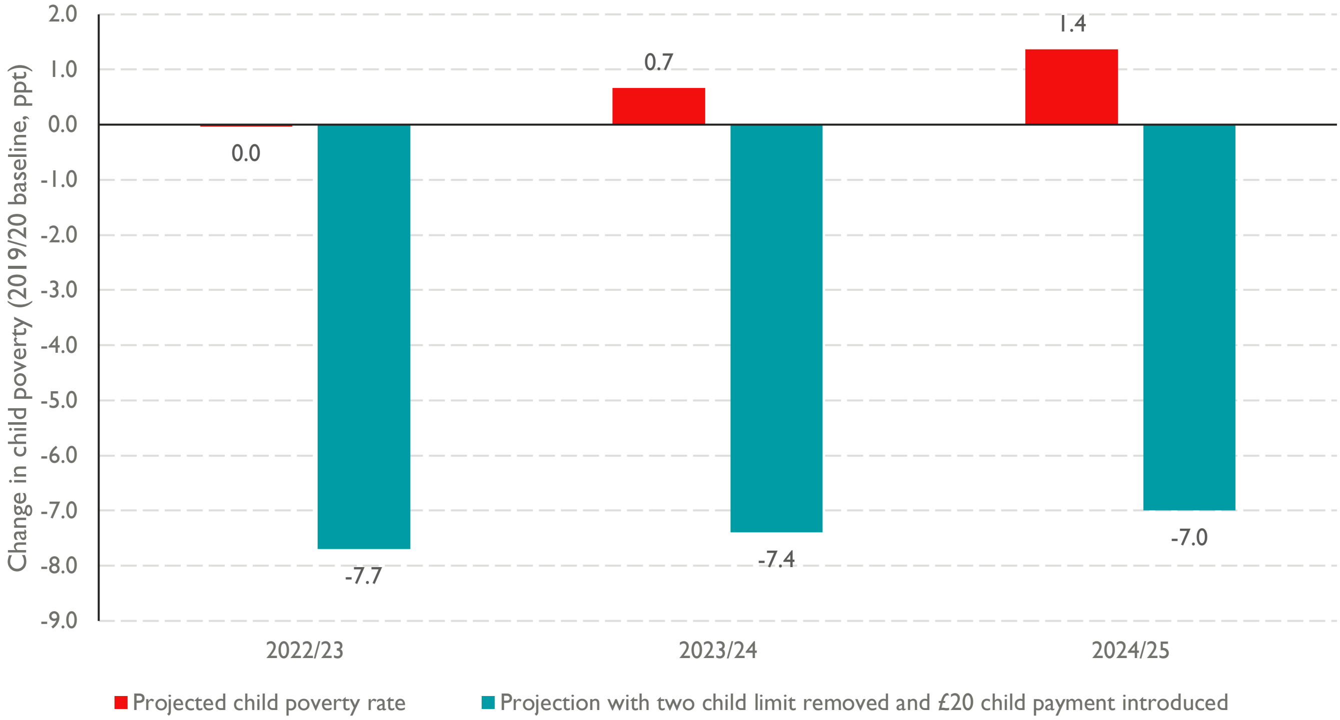
A £20 CHILD PAYMENT WOULD LEAD TO HISTORIC REDUCTIONS IN CHILD POVERTY

Modelled on the Scottish Child Payment, introducing a £20 Northern Irish Child Payment for children in families eligible for means tested benefits would lift 27,000 children out of poverty at a cost of £210m (Save the Children & Child Poverty Action Group 2021).

Figure 4 shows the impact this would have on our projections, alongside removing the two-child limit:

- Removing the two-child limit and introducing a £20 child payment would reduce child poverty by 7.7 ppts. This means 35,000 fewer children would be growing up in poverty.
- Poverty would continue to rise above the 2022/23 level but would be much lower than our projected status quo child poverty rate.
- In 2024/25 the child poverty rate would be 7.0 ppts below the 2019/20 level and 8.4 ppts below our projected status quo, meaning 38,000 fewer children in poverty. This would also mean that the overall child poverty was 17%, meaning fewer than 1 in 5 children would be growing up in poverty in Northern Ireland, compared to over a quarter if nothing more is done.

Figure 4 Impact of removing the two-child limit and introducing a Northern Irish Child Payment on child poverty projections



Source: Author's calculations from Family Resources Survey 2018-19, UKMOD. Calculations are based on estimates for the impact of COVID and the recovery on household earnings. For more details see the Methodology section

17% of children growing up in poverty should not be the end of our ambitions. However, it would signify a historic decline in child poverty and prevent thousands of children from being swept into poverty.

Sara's story

Sara is studying full-time to work in the health service. She lives with her two young children and is receiving support through Universal Credit. Sara moved to Northern Ireland several years ago, and her partner has just moved over to re-join the family.

Getting by on Universal Credit, while studying, is challenging, and meant that when things went wrong, the family didn't have enough to fall back on. When something as basic as a wheel falling off a pram happened, the family just didn't have enough money to cover fixing it.

"…the front wheel just came off, we were on a bus trying to get off, it was really embarrassing, even though I had paid good money for it."

That mattered for the family; without a pram, it meant they couldn't go out as easily with their youngest child, let alone with all the children, and limited opportunities for play for her children.

Like many other parents over the past year and a half, the whole world sometimes felt like it was chaos, but Sara always tried to focus on the positives with her children, talking, playing, and reading with them.

"…because whenever we do something if I read a book… or if I sit down and make up a story he comes back to me he goes mummy you told me that story… and I feel that his speech and sentences has improved very well his speaking did improve very well."

RECOMMENDATIONS

Without action, child poverty in Northern Ireland will rise in the coming years. This comes after a decade where no real progress has been made in reducing child poverty (Save the Children 2021).

But this paper shows that this isn't inevitable. With the right investment, we can not only prevent a rise in child poverty but lift tens of thousands of children out of poverty.

To do this, we recommend that:

1. The Executive should immediately remove the two-child limit from the social security system, meaning 11,000 fewer children would be in poverty in 2024/25. This would crucially ensure that child poverty rates stay below the pre-pandemic level,
2. The Executive should introduce a £20 Northern Irish Child Payment: this would lift 27,000 children out of poverty and help to secure a historic reduction in child poverty.

References

Brewer, M., Handscomb, K. & Try, L. (2021) *Taper Cut: Analysis of the Autumn Budget changes to Universal Credit.* London: Resolution Foundation.

Save the Children (2021) *Ten years too long: A decade of child poverty in Northern Ireland*. Belfast: Save the Children Northern Ireland.

Save the Children & Child Poverty Action Group (2021) *Children Can't Wait: Investing in social security to reduce child poverty in Northern Ireland*. Belfast; Save the Children Northern Ireland.

Appendix – methodology

In order to estimate the poverty reduction effect of different policies it is necessary to use tax-benefit microsimulation software. This analysis was carried out using UKMOD, currently the only tax-benefit model for the UK entirely open and accessible to policy makers, researchers, and the interested public, with regional disaggregation and timely updates.

UKMOD uses the Family Resources Survey 2018-19 as the basis for its input data. This provides information on various factors such as household composition, earnings, hours worked and location. However, these data, are from 2018-19, it is therefore necessary to modify the underlying data, to make it applicable to future years.

COVID has had a massive labour market effect. Therefore, in order to get reasonable estimates of who has been affected, Understanding Society Covid-19 study was used. The probabilities of different people losing their job/hours or become furloughed on observable characteristics was estimated from the data. It is important to note that these probabilities have estimated from UK wide data as detailed regional data does not exist. These estimates can then be used to change the labour market status of some people in the Family Resources Survey 2018-19, calibrated so that aggregate economic variables (e.g., unemployment) match the estimates from the OBR.[8] For future years real earnings and unemployment is assumed to follow the projections of the OBR, with some adjustments for regional variation estimated by NIESR.[9] Social security entitlement is assumed to stay constant in real terms.

This augmented dataset can then be passed through the tax-benefit model to simulate benefit entitlement (+ tax liability) based on their underlying household composition and labour market status. The underlying post-tax and transfers income distribution (and therefore also the poverty line) are then calculated.

To look at the effect of different policies, new policies were created within the UKMOD software (or modified the parameters of existing policies), to create a new income distribution for a state with or without certain policies. The difference in the number of children in poverty and overall expenditure between the estimated current status quo and the estimated world with a modified policy gives the poverty reduction and cost of different policies.

[8] Economic and Fiscal Outlook – October 2021, OBR
[9] National Institute UK Economic Outlook 2021, NIESR

ABOUT

Child Poverty Action Group

Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and solve poverty – for good. We provide training, advice, and information to make sure hard-up families get the financial support they need. We also carry out high-profile legal work to establish and protect families' rights.

Save the Children

Founded in the UK in 1919, Save the Children is a global organisation helping children to survive and thrive in 120 countries, including here in the UK, where our mission is to reduce the number of children living in poverty. Save the Children's work in the UK focuses on tackling poverty during children's earliest years, as the roots of some of the deepest educational and social divides lie in these critical first few years.