

Poverty in London: 2013/14

Intelligence Update 10 -2015

Key points

- The total number of Londoners living in poverty has seen little change over the last few years and remains at around 2.2 million people, or 27 per cent of all those living in the region, averaged over three years 2011/12-2013/14.
- More than a third (37 per cent) of all London's children are in households with income below the poverty line.
- Around 300,000 children in Inner London are living in poverty, with a further 400,000 in Outer London. The Inner London child poverty rate remains significantly higher than for any other region, at 46 per cent.
- The poverty rate for children in London has decreased over fifteen years, but not over the last three years and it remains higher than for any other region.
- The most significant change has been in the increasing proportion of children in poverty in a household with at least one adult in work. At the turn of the century around half of children in poverty were in workless households, now it is less than 40 per cent, and just a third in London.
- More than one in six pensioners in London lives in a household with income below the poverty level even before housing costs are taken into account. At 23 per cent, Inner London remains the only part of the UK where the pensioner poverty rate after taking housing costs into account is higher than using the before housing costs measure.
- Inner London also stands out as having high rates of material deprivation among pensioners – more than double the rate for any other region with more than one in four unable to have or take part in the social norms for that population group for reasons of poverty, health or isolation.
- More than one in four adults of working age in London lives in poverty. Renters, unemployed, disabled or those with no qualifications had the highest risk of poverty.

Measures of income and housing costs

Household income is the most widely used concept in measuring poverty, since for most people it is the key determinant of living standards. More specifically, poverty is often defined as those people living in households with disposable income below 60 per cent of the median (midpoint) of the national income distribution after equivalisation (taking account of differences in household size and composition). This Update provides the latest figures, based on the DWP's Family Resources Survey, as they relate to London.

Disposable income is presented in two ways – before housing costs (BHC) and after housing costs (AHC). This is because the costs of housing do not always reflect the standard of the housing. For example, two households could have very different costs for comparable standards of housing – it is still possible to buy a three bedroom house in the North East of England for less than £50,000, whereas within Greater London a similar property would cost at least five times that amount, and in many parts of London would be in excess of £600,000. Although rental costs may not reflect such differences exactly, there is a high level of correlation. It can be argued, therefore, that housing costs should be deducted from income to give disposable income figures. However, this would understate the relative standard of living of those people who achieved a better quality of life by paying more for better accommodation – a property with larger rooms, more outside space, closer to facilities such as parks, stations or particular schools or with better views might command a higher price. Conversely, not deducting housing costs would overstate the living standards of people in areas of high costs relative to the standard of their accommodation, such as most of London, particularly as support for these higher housing costs, such as Housing Benefit is included in the income calculations. Both sets of figures are therefore included in this Update, though because the relative costs of housing in London are so high compared to most other parts of the country and make a larger difference in a national context than any differences in the standard of the accommodation, the AHC figures are presented as the main set.

The income distribution

The figures published recently by DWP are for the financial year 2013/14. The average measures of the national (UK) income distribution - mean and median - for all individuals are presented in Table 1. The latest figures for London are also shown in the table but are not directly comparable as they relate to a three-year average rather than a single year.

Table 1 National average equivalised weekly household income for all individuals 2013/14

	UK		London*	
	Before Housing Costs	After Housing Costs	Before Housing Costs	After Housing Costs
Mean	£561	£487	£676	£550
Median	£453	£386	£500	£386
60 per cent of median (the "poverty line")	£272	£232		
10 th percentile	Approx. £240	Approx. £160		
90 th percentile	Approx. £910	Approx. £830		

Source: *Households Below Average Income 2013/14*, DWP

* London figures are based on 3 year average 2011/12-2013/14

The difference between median and mean is one indicator of inequality in the income distribution. Large differences indicate more households with very high incomes. Across the UK as a whole, both the before and after housing costs mean equivalised incomes are around 20 per cent higher than the median. In London, however, the BHC mean is closer to 35 per cent higher than the median, whereas the AHC measure is more than 40 per cent higher. This shows that not only is there a larger number of households with very high incomes in London, but also that they are spending proportionally less on housing than people on middle incomes.

Inequality of income across the distribution can be considered in different ways with information about the full income distribution, which is available only for the UK as a whole. The 10th and 90th percentiles are widely used as a measure of the range of incomes, as they give an indication of almost the full range, but take less account of a few individuals with extreme scores. In 2013/14, ten per cent of people in the UK lived in households where the equivalised income before housing costs was less than around £240 per week, while at the other end of the spectrum, ten per cent had more than around £910 to live on, or nearly four times as much. After taking housing costs into account, this ratio increases to more than five times as much. An alternative measure of inequality is the Gini coefficient. This shows a very similar pattern over time to the ratio of the 10th and 90th percentiles, revealing that the peak of inequality was in 2007/08 - 2009/10 for both before and after housing costs measures, and while it has fallen since then, it has been relatively stable for the last four years. The report does not include figures on the income distribution for London.

Annual change in the income distribution

Both the mean and median equivalised UK income figures rose again, for the year 2013/14, both before and after housing costs, but whereas the median increased only in line with inflation, the mean increased in real terms. This reflects a larger increase in incomes for people at the higher end of the income distribution than for the middle. Incomes at the lower end of the scale have not increased at all, with only a marginal increase (below the level of inflation) using the before housing costs measure and no increase (so a real terms decrease) in incomes for people at the 10th percentile in the income distribution.

The median of the latest equivalised household income figure before housing costs calculated across all individuals in London is £500 (based on a 3-year average 2011/12-2013/14) and is the lowest in real terms since the turn of the century, falling from a high of £528 just before the recession, in 2005/6-2007/8 (at 2013/14 prices). The pattern for the London median income after housing costs is similar, standing at £386 for 2011/12-2013/14. While the South East is the only region with a higher median BHC, the East of England, South West and Scotland also have higher median incomes AHC than London. That is because the differential in the medians calculated before and after housing costs for London is so much greater – over £100 in London, which is more than double the difference for most regions. The UK wide differential is £69.

The mean equivalised household income of individuals in London is now £676 BHC and £550 AHC – on a par with or lower than the South East, whereas from the turn of the century to the beginning of the recession, London levels both before and after housing costs were higher. This is because the mean income for the South East rose in the latest estimates whereas the mean for individuals in London has been falling using both before and after housing costs measures.

Poverty in London and UK

The main measure of poverty, the percentage of people in households with incomes below 60 per cent of the national contemporary median, is known as “relative poverty”. Due to sample size restrictions, at regional level, these are presented as a three-year rolling average to improve the robustness of the figures.

The overall figures for all Londoners in poverty, given in Table 2, are very close to the national average using the before housing costs measure. After housing costs, London again has the highest rate for any region, at 27 per cent, which is over 2.2 million people living in poverty. Both Inner and Outer London have higher poverty rates overall AHC than any other region of the UK, with no long term change in these overall poverty levels for Outer London.

Table 2 All ages poverty figures: 2011/12-2013/14

Percentage of individuals in households with income below 60 per cent of national median

	UK	London	Inner London	Outer London
Before Housing Costs	15	15	18	13
After Housing Costs	21	27	33	24

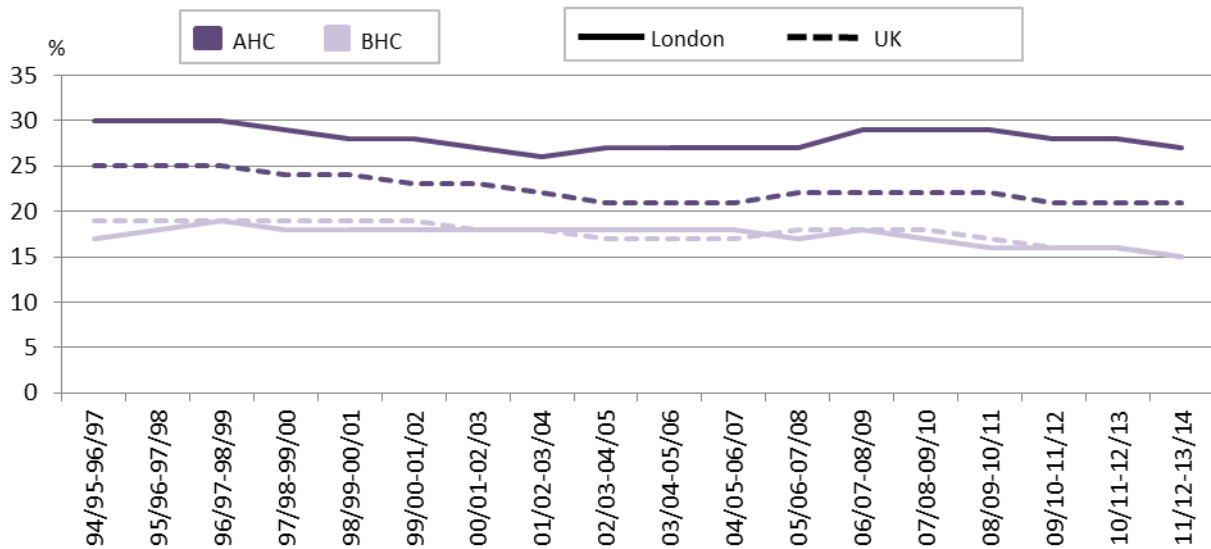
Source: FRS 2011/12 - 2013/14

The time series for all individuals in poverty in London and the UK¹, both before and after housing costs, are illustrated in Chart 1. The latest figures of 15 per cent BHC and 27 per cent AHC (2011/12-2013/14) in London show a slight decrease over the previous figures (2010/11-2012/13), and the levels of poverty measured BHC for London follow those of the UK very closely over the whole period since 1996/97-1998/99. However, it is clear that London has higher levels of poverty taking housing costs into account than the UK, with higher levels and differential during the years of the recession. The 60 per cent median level is fairly arbitrary and other income levels can be used alongside to give a wider picture. Quarter of London’s children live in households with less than half of national median income, and nearly half are in households with less than 70 per cent of the median.

Chart 2 gives both national and London time series for the percentage of children living in households with income below 60 per cent of the contemporary national median. Comparison with Chart 1 shows that on each measure, children are more likely than the general population to be in poverty. The London and UK figures have remained stable, at their lowest level since the series began on both before and after housing costs bases. While the percentage of London’s children in poverty before housing costs is now very close to the UK-wide figure, after housing costs are taken into account, the London child poverty level remains very high – still ten percentage points above those seen at any point in the last 16 years nationally. This is due to the high costs of housing impacting in two ways – first, the costs of the housing themselves are so much higher in London than the UK average, but second, a large proportion of people at lower levels of income receive support in the form of various welfare benefits, but particularly Housing Benefit which is set at a level determined by the costs of housing in the local area. This therefore artificially boosts the total income for those on low incomes living in areas of high housing costs. State support makes up half of all income for households with children in the lowest fifth of the total income distribution nationally. Figures are not published for London.

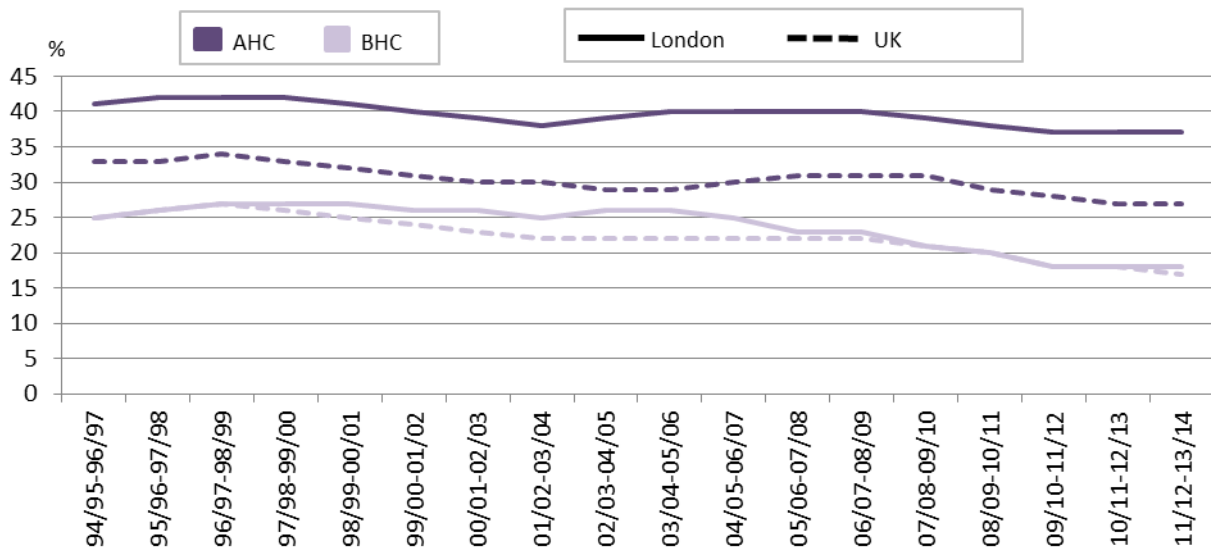
¹ The UK figures are also presented as three-year averages to give comparability with those for London.

Chart 1 Change in overall poverty (all individuals) for London and UK (three year rolling averages) 1994/95 to 2013/14



Source: FRS 1994/95 - 2013/14

Chart 2 Percentage of children living in households with less than 60 per cent of contemporary median household income, for London and UK 1994/95 –2013/14



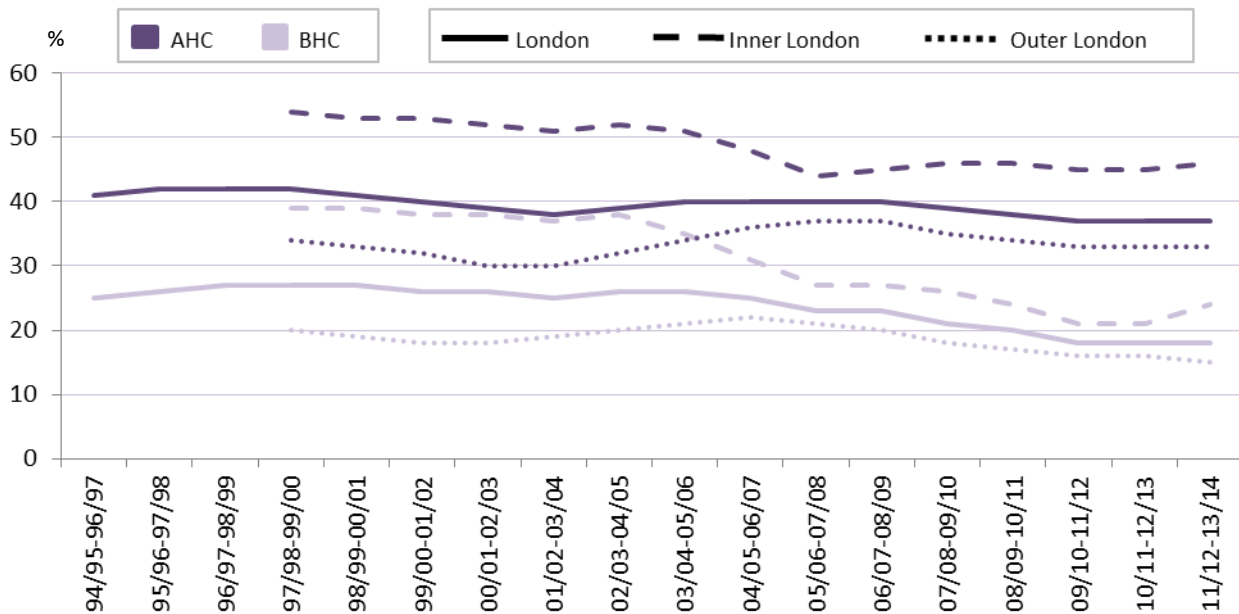
Source: FRS 1994/95 - 2013/14

Poverty within London

Chart 3 shows how the levels of child poverty within Inner and Outer London have shown quite different patterns over the period. BHC poverty rates had almost halved in Inner London, though the latest figures show a marked increase, whereas child poverty has continued to fall slowly in Outer London. In contrast, AHC rates fell in Inner London until around 2006, changing little since then whereas the proportion of children in poverty AHC in Outer London had been rising from its lowest level in 2002 to 2006 and has decreased since the start of the recession back to its original level, where it has been stable over the last few years. The decreasing rates have been mostly offset by rising numbers of children living in the capital, so the number of children in AHC poverty in Inner

London has remained at around 300,000 children throughout the 15 years for which data has been available. The number in Outer London has risen from 300,000 to 400,000 over the same period. The only number that has fallen is the number of children in poverty in Inner London without taking into account the rising costs of housing, but including any support towards those costs. On this basis, the number of children in poverty in Inner London has fallen in the last few years from 200,000 to closer to 100,000.

Chart 3 Change in child poverty for London: (three year rolling averages) 1994/95 to 2013/14



Source: FRS 1994/95 - 2013/14

Alternative measures of poverty

As well as the relative poverty measure, an "absolute" poverty measure is given, which adjusts only for inflation, rather than keeping pace with changing living standards. This is now calculated to 2010 living standards (to coincide with the first child poverty target set by the Government), and the figures show that in London, using the before housing costs measure, just over half the proportion of children are in poverty in the latest figures compared with the number that would have been in poverty if the same living standard had been applied in 1998/9. The fall was particularly dramatic for Inner London, although the increase in the latest figures is apparent, whereas the decrease in Outer London was less than for most regions. However, the difference after rising costs of housing have been taken into account is far less and has barely changed for London and its neighbouring regions over the last decade, with the increasing costs of housing (excluding any capital repayment costs for mortgage holders) meaning that most regions have seen an increase in the last two years, as shown in Table 3. There is a clear divergence in the change between Inner and Outer London, with a decrease in child poverty levels in these terms in Inner London prior to the recession, but a stark increase in recent years, whereas the Outer London figures have been quite volatile, with the latest figures only a little below those around the turn of the century. The gap between these figures decreased from more than 20 percentage points to around six before the recession and has since increased again to around 12 percentage points.

Table 3 Percentage of children living in households with less than 60 per cent of 2010/11 real terms median household income, by region, 1994/95 –2013/14

	94/5-96/7	97/8-99/00	00/1-02/3	03/4-05/6	04/5-06/7	05/6-07/8	06/7-08/9	07/8-09/10	08/9-10/11	09/10-11/2	10/11-12/3	11/12-13/14
Before Housing Costs												
England	38	34	25	21	21	21	21	20	18	18	19	19
North East	47	44	36	29	28	27	26	24	23	21	23	21
North West	42	41	29	24	23	25	24	23	21	21	22	23
Yorkshire and the Humber	44	41	30	25	24	25	25	24	24	24	25	24
East Midlands	40	34	27	22	23	24	23	21	18	17	17	19
West Midlands	40	37	30	27	26	27	28	27	26	23	22	22
East of England	31	27	16	15	15	15	15	15	15	14	14	16
London	39	36	28	26	24	22	22	20	19	18	18	19
Inner	..	49	42	35	30	26	26	25	23	22	22	25
Outer	..	28	21	21	21	20	19	17	16	16	17	16
South East	28	23	15	13	15	15	14	13	12	12	14	14
South West	36	32	21	17	16	16	16	15	15	15	16	17
Wales	44	39	31	23	24	26	25	23	21	24	24	25
Scotland	40	36	29	22	21	20	20	19	18	17	18	17
Northern Ireland	28	25	23	22	22	23	22	24	23	24
United Kingdom	38	35	26	22	21	21	21	20	19	18	19	19
After Housing Costs												
England	45	41	32	28	28	29	29	29	28	28	30	31
North East	52	48	39	31	31	31	31	29	28	28	31	30
North West	48	46	35	30	29	31	31	31	30	31	32	33
Yorkshire and the Humber	47	45	34	28	28	29	30	30	30	31	32	32
East Midlands	45	38	31	26	27	28	27	26	23	25	25	26
West Midlands	45	42	36	31	31	32	33	33	32	32	32	32
East of England	39	34	25	23	23	24	25	24	24	24	25	26
London	51	48	40	39	39	38	38	37	37	37	39	41
Inner	..	61	54	50	46	42	42	43	43	44	47	49
Outer	..	40	32	33	35	35	36	33	33	33	35	37
South East	37	32	25	21	23	24	24	22	22	22	24	25
South West	45	41	30	25	23	24	23	24	24	25	26	26
Wales	50	43	36	27	28	30	29	31	30	33	33	34
Scotland	45	40	32	24	23	22	23	23	22	22	23	24
Northern Ireland	29	25	23	23	23	24	25	26	26	28
United Kingdom	45	41	32	28	28	28	28	28	28	28	29	30

Source: FRS 1994/95 – 2013/14

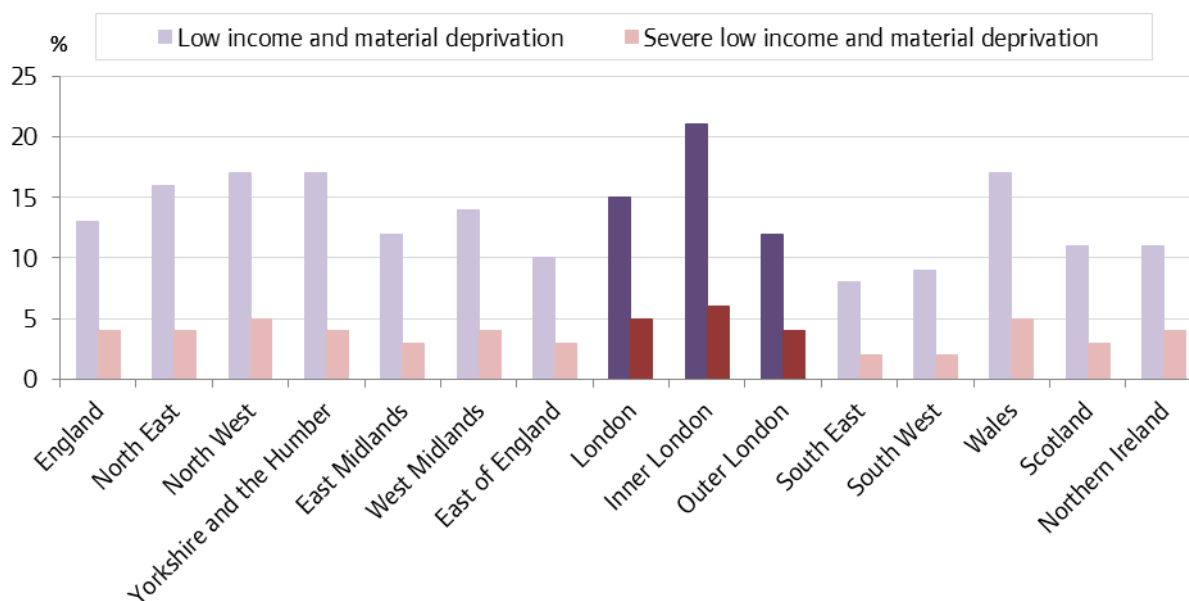
Note: Figures are for the United Kingdom from 1998/99-2000/01 onwards. Earlier years are for Great Britain only. Data for Northern Ireland has been imputed for 1998/99 to 2001/02.

Figures for interim years are available but have not been included for clarity of the table.

A further measure of poor living standards for families with children is the percentage living in low income and material deprivation. Two measures are produced: low income (below 70 per cent of median BHC) and material deprivation and severe low income (below 50 per cent of median BHC) and material deprivation. Nationally, 13 per cent of children were in material deprivation and low income in 2013/14, with four per cent in severe low income. For London overall the latest figures are 15 per cent and five per cent (for 2011/12-2013/14). There is, however, a clear difference between Inner and Outer London, with Outer London figures close to the national levels, whereas more than one in

five children living in Inner London (21 per cent, or in the region of 100,000-150,000 children and down slightly on the previous year) lived in low income households that could not afford the basic norms of society. The other parts of the UK with the next highest levels, as shown in Chart 4, were North West England, Yorkshire and the Humber and Wales, where 17 per cent of children fell into this category. Six per cent of Inner London children lived in severe low income households and material deprivation, again higher than for anywhere else in the UK, and the same as for the previous year.

Chart 4 Low income and material deprivation levels among children by region: (three year average) 2011/12 to 2013/14



Source: FRS 2011/12 - 2013/14

Characteristics of children in poverty

There are particular characteristics that are associated with higher levels of child poverty. Children living in workless households are, not surprisingly, at high risk of poverty; nationally, close to 40 per cent of such children are in poverty BHC, but this is lower for London at around 30 per cent. After housing costs are taken into account, nearly two thirds of the 2.2 million children living in workless households in the UK are in poverty, while the rate is even higher, at 70 per cent in London (around 200,000-250,000 children). However, this also means that around two thirds of children living in poverty have at least one working adult in the family in London, compared with just over 60 per cent nationally. As many children in poverty lived with someone who was self-employed as in a workless family, and more lived in a household with one full-time worker. Living with a disabled adult, particularly where they are not receiving disability benefits also increases the risk of poverty for children – up to 40 per cent AHC nationally. No figures are available for London, as changes to the questions used to derive disability status mean that it is not possible to produce statistics for more than one year.

Poverty rates were also much higher among children from some ethnic groups than from others. Nationally, children from all ethnic groups other than Indian or White had a risk of poverty at least one and a half times the average with children in Bangladeshi households having particularly high poverty rates at close to 60 per cent. The pattern in London broadly followed the national picture, though the

higher overall rate meant that the rate was only more than 50 per cent higher for Bangladeshi and Pakistani children, but rates for most other groups were higher than the national average, and nearly all more than 50 per cent. The lowest rate was among children in households with an Indian head, at 25 per cent.

Children living in families receiving certain types of state support (welfare benefits and/or tax credits) were also particularly likely to be in households with total income below the poverty line. Four in five London children in families in receipt of Jobseeker's Allowance were in poverty AHC and around two thirds of those in families receiving Income Support or Housing Benefit also had below 60 per cent of average income AHC, though this was a little lower nationally. The difference between London and the rest of the country in the poverty rate among children in families receiving tax credits is particularly noticeable – London children in families receiving Working Tax Credit or Child Tax Credit were at least 50 per cent more likely to be in poverty than those living in the rest of the UK.

Children living in both social and private rented housing had much higher risk of poverty too, at well over 50 per cent in London (over ten percentage points higher than for those outside London). Each sector accounts for around quarter of a million of London's children living in poverty. For social sector tenants, the risk was higher both before and after housing costs are taken into account, whereas for tenants renting privately, the poverty rates were lower than average in London counting all income, but without taking the cost of renting into account, but well above average, both for London and UK-wide, after rent and other essential housing costs are deducted. Nevertheless, one in six of London's children living in owner-occupied housing had income below the poverty line after adjusting for housing costs, (counting only interest payable on any mortgage, not repayment of the amount borrowed). Children living in this tenure accounted for approximately half of all children in London, and a fifth of all those in poverty. Nationally, almost 30 per cent of children in poverty and 60 per cent of all children lived in owner occupied housing.

Poverty amongst working age adults

The proportions of people of working age in households with incomes below 60 per cent of the national median, after adjusting for household composition, are lower than for children, which is not surprising, given that some live with children (decreasing living standards for the same level of income) and some without. The latest figures for the London proportion of working age adults living in poverty using both the Before and After Housing Costs measures, given in Table 4, are down marginally from those for the previous year but have barely changed since the data series began for 1994/5-1996/7. The number of working age adults in London has increased with the growing population, so that the latest estimates for the number of working age adults living in poverty are 0.7 million BHC (down by 0.1 million) and 1.4 million AHC, which is the same as for the previous year, split almost equally between Inner and Outer London.

Within London, there are differing patterns in the changing number of working age adults living in low income households. Using the BHC measure, the number of this group has stayed broadly consistent in Inner London, so this represents a decrease in proportion over 15 years (from the first date when Inner and Outer London figures are available) as the population has increased. Over the same time, Outer London saw a slight increase in both the number and proportion of poor working age residents, while nationally a ten per cent increase in the number of working age poor meant no change in the poverty rate using this measure. After housing costs, the poverty rates and numbers are higher in the

midlands, South East and East of England as well as Outer London than 15 years ago, and only the North East has a lower poverty rate for this age group, so in all, there has been only a marginal increase in the proportion of working age people in the UK below the poverty line, but this reflects 1.4 million more people in poverty. Overall, this means the gap between the child and working age poverty rate has narrowed, and all but disappeared, both before and after housing costs are taken into account at London level and below as well as nationally. This does not mean that all those in poverty live with dependent children. The rates are higher for those that have children – particularly for lone parents, but, for example more than a quarter of single adults without children have incomes below the 60 per cent median level AHC, both nationally and in London. For lone parents, the comparable figures are over 40 per cent nationally and over 50 per cent in London.

Table 4 Working age poverty figures: 2011/12-2013/14

Percentage of people of working age in households with income below 60 per cent of national median

	UK	London	Inner London	Outer London
Before Housing Costs	15	13	16	12
After Housing Costs	21	26	31	23

Source: FRS 2011/12 - 2013/14

The characteristics of those most likely to be in poverty – social housing tenants, unemployed or in other workless households etc – are similar to those noted above for families with children. Additionally, working age adults with no qualifications are more likely to be in low income households, particularly in London. In real terms, the percentage of the working age population in poverty has decreased since 1994/5-1996/7, but by far less than the percentage of children, just five percentage points using the AHC measure, whereas the proportion of children in poverty fell by 9 percentage points in London and 12 percentage points nationally.

Poverty amongst older people

Around 200,000, or more than one in six Londoners of pensionable age² are living in poverty in London, with the poverty rate a little higher than among children or people of working age on a before housing costs basis but significantly lower than for others using the AHC measure. There is little difference between the rates for Inner and Outer London, and they are also quite close to the UK level BHC, but again differences are larger AHC. There has been very little change in poverty levels for this group since the previous year's figures either using contemporary measures or in real terms, although they have fallen over the longer term. For the UK as a whole, and for all other regions, this is the only group for whom poverty levels are lower using the AHC than using the BHC measure. In Outer London the rates are still the same, but in Inner London, the AHC rate is still significantly higher than the BHC poverty rate for pensioners. Wales stands out as the part of the UK that saw increases in poverty among pensioners using both measures. Associations with characteristics are less strong for pensioners, though social tenants remain more likely to be in poverty than those who own their homes outright and rates for white pensioners are lower than for those from other ethnic groups. The clearest distinction is, not surprisingly, that those with no occupational or personal pension are more likely to have low incomes than those with such provision.

² Pensionable age is based on the state pensionable age at the time of data collection, so for women will be different ages for each of the three years' data. Material deprivation is calculated for all people aged 65 and over.

Table 5 Pensionable Age poverty figures: 2011/12-2013/14

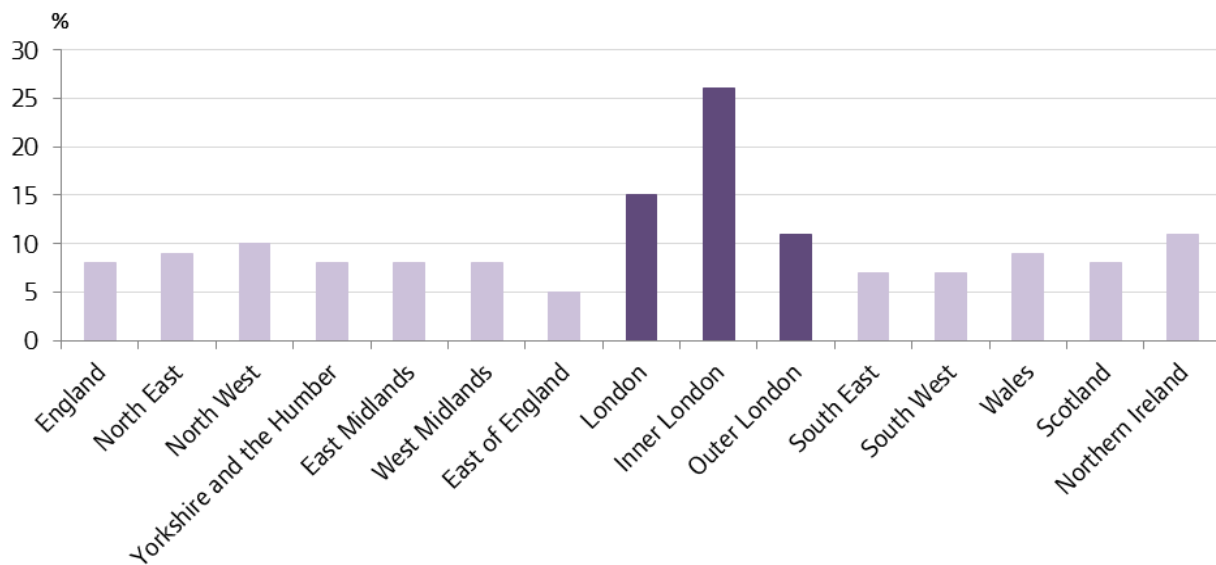
Percentage of people of pensionable age in households with income below 60 per cent of national median

	UK	London	Inner London	Outer London
Before Housing Costs	16	17	16	17
After Housing Costs	13	18	23	16

Source: FRS 2011/12 - 2013/14

A measure of material deprivation is also produced for pensioners, similar to that for children, but using different criteria (see explanation of terms section for more detail) and without the criterion that they must also be in a low income household. These figures, illustrated in Chart 5, clearly show that pensioners in Inner London are at a much higher risk of material deprivation (almost one in four, representing over 100,000 people) than those elsewhere in the UK, double that for Outer London and Northern Ireland, which were the next highest regions, and more than five times that of the East of England.

Chart 5 Material deprivation levels among people of pensionable age by region: (three year average) 2011/12 to 2013/14



Source: FRS 2011/12 - 2013/14

Explanation of terms

Before Housing Costs

The Before Housing Costs measure of net income is taken as the total income from all sources (including earnings, all social security benefits, pensions, maintenance payments, educational grants and cash value of payments in kind such as free school meals) for all members of the household, less income tax, national insurance, pension contributions and maintenance or support payments made to people outside the household.

After Housing Costs

The After Housing Costs measure is derived by deducting certain housing costs from the Before Housing Costs measure. The housing costs include rent, mortgage interest payments, water charges and structural insurance premiums.

Equivalisation

Equivalisation is the process of adjusting income to take into account variations in the size and composition of households in which individuals live. This reflects the notion that a larger group of people, such as a family with children, needs more income than a person living alone to enjoy a comparable standard of living. The process takes a couple living with no children as a reference point and adjusts the incomes of larger households downwards relative to this benchmark (ie assumes that a higher income would be needed for a larger household to have the same standard of living). The incomes of smaller households are adjusted upwards relative to the reference household type, recognising that the same income would allow smaller households a better standard of living.

Material deprivation for children

Material deprivation is derived from asking about a set of 21 goods and services, including child, adult and household items that are typical in Britain. If they do not have a good or service, they are asked whether this is because they do not want them or because they cannot afford them. The items are various and include being able to afford birthday and other celebrations for children, a warm winter coat, managing to pay bills/debt repayments, having household contents insurance and having a week's holiday each year. The set of questions changes periodically in order to stay current and changed in 2010/11, so the 2012/13 publication was the first to include regional figures using these new questions. The material deprivation score is a weighted score calculated on a range of 0 to 100. A family is said to be in material deprivation if they achieve a score of 25 or more on this scale.

Material deprivation for pensioners

Pensioner material deprivation is similar in concept to that described above but covers different items, such as having a damp-free home, access to a telephone when needed, having hair done or cut regularly. As well as not being able to afford them, reasons for not having these things can include too much trouble/too tiring, no one to do this with or help me, my health/disability prevents me. All these are considered deprived. Only those who don't want something or say it is not relevant are not considered deprived. A pensioner achieving a score of 20 or more is said to be in material deprivation.

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