

Poverty figures for London: 2005/06

Summary data from the Households Below Average Income series.

Introduction

This *Update* presents a summary of the figures from the Households Below Average Income data series published in 2007, as they relate to London. The figures were originally published on 27th March, but were withdrawn due to a processing error and new figures were released on 22nd May. This Update uses the latter figures and replaces the Update published in March.

The Government's Poverty Target

The Government's stated aim is to eradicate child poverty in the UK by 2020. This is measured by the proportion of children living in households with disposable income below 60 per cent of the median (midpoint) of the national income distribution for households, after taking account of differences in household size and composition.

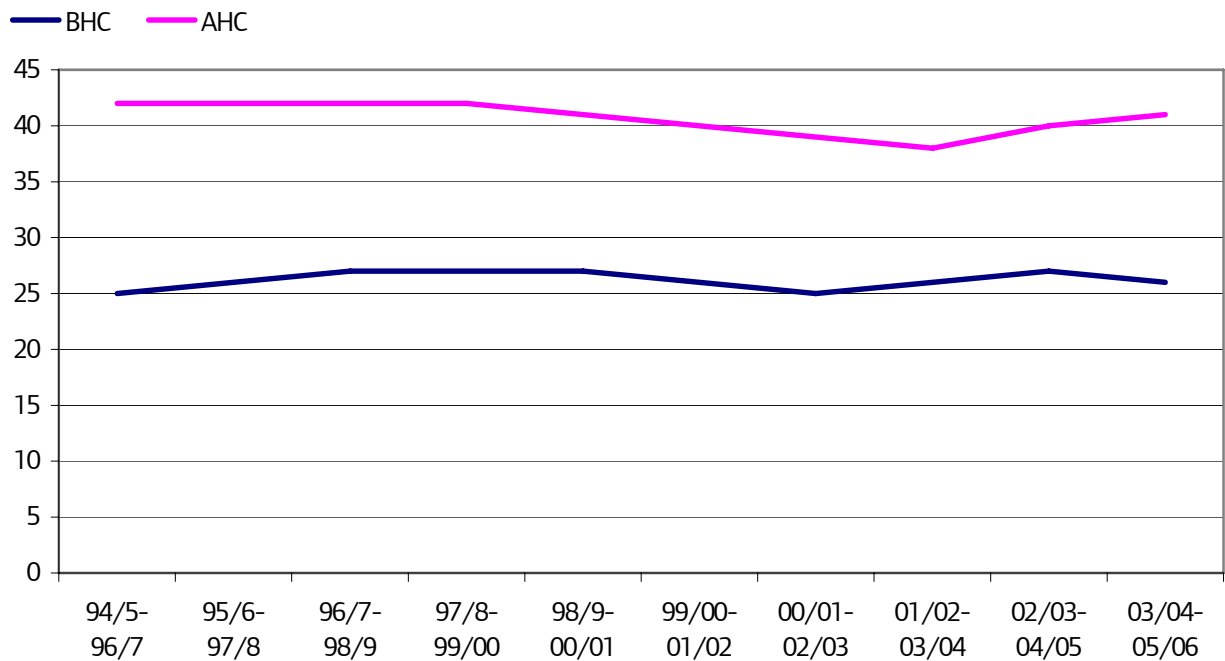
Disposable income is presented in two ways – before (BHC) and after housing costs (AHC). This is because the costs of housing do not always reflect the value of the housing. For example, two households could have very different costs for comparable standards of housing. It can be argued, therefore, that 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. 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.

Based on three year averages, in 2005/06 Greater London had the highest rate of child poverty on an AHC basis of any region or country in the UK (see Table 1). While on a BHC basis the child poverty rate in London was lower than in the North East (26 per cent compared to 28 per cent), on an AHC basis child poverty in London was far higher than in other regions at 41 per cent compared to the next highest at 32 per cent (the North East and West Midlands). Chart 1 shows how these figures have changed over time from 1994/5.

Chart 2 shows single year figures over time. Child poverty After Housing Costs in London peaked at 43 per cent in 1996 to 1998 and fell to 40 percent in 1998/9. There has been little in the way of consistent improvement in child poverty in London since 1998/9 on either an AHC or a BHC basis, with no significant change on either measure.

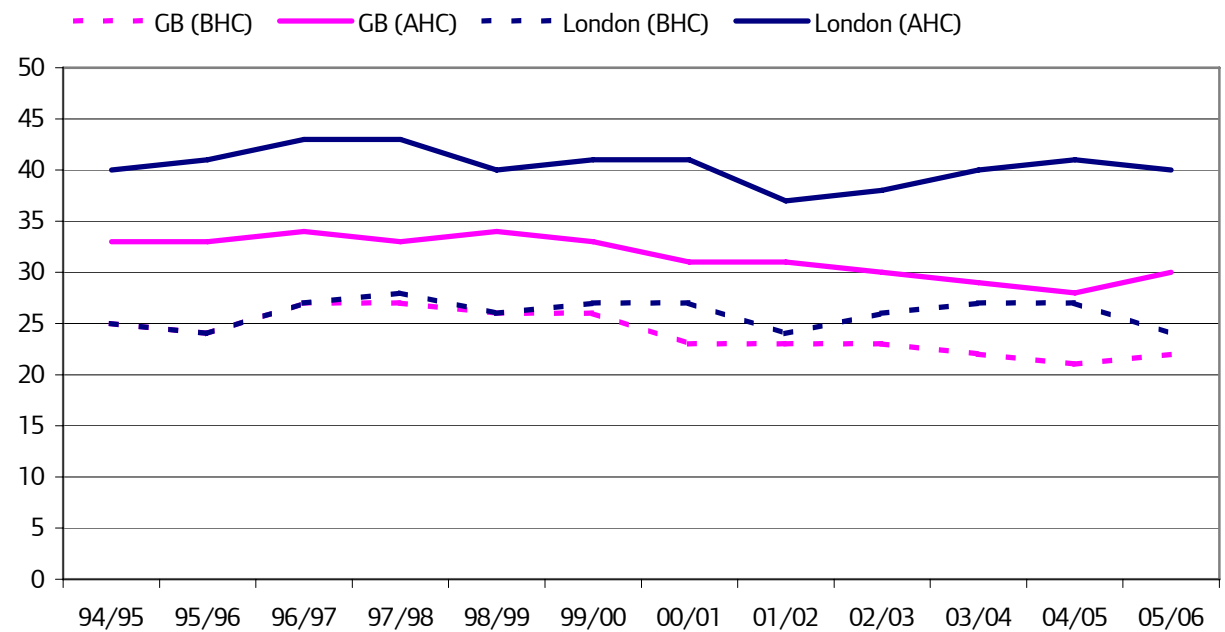
Single year figures should be interpreted with caution as there are wide margins of error around year on year changes at regional level – three year averages are more reliable. Either way the rates remain stubbornly high especially for AHC.

Chart 1: Change in child poverty for London: (three year rolling averages) 1994/5 to 2005/6



Source: DWP, Households Below Average Income, (based on three-year rolling averages and using the OECD scale for equivalisation)

Chart 2: Change in child poverty for London: (single year figures) 1994/5 to 2005/6



Source: DWP, Households Below Average Income, (based on single year figures and using the OECD scale for equivalisation)

Table 1: Risk of falling into low-income groups of children by region, 2003/04 - 2005/06

Percentage of children in households with income below 60% median

	Before Housing Costs	After Housing Costs	All children (millions)
England	22	29	10.8
<i>of which</i>			
North East	28	32	0.5
North West	24	31	1.5
Yorkshire and the Humber	25	30	1.1
East Midlands	23	27	0.9
West Midlands	26	32	1.2
Eastern	16	24	1.2
London	26	41	1.6
<i>of which</i>			
Inner	35	51	0.5
Outer	21	35	1.0
South East	13	22	1.7
South West	17	26	1.0
Scotland	22	25	1.0
Wales	24	28	0.6
Northern Ireland	25	27	0.4
UK	20	28	12.8 ¹

Source: FRS 2003/04 - 2005/06

Note: ¹UK figure is based on a single year 2005/06

This table uses OECD equivalisation scales

The Inner London poverty rates are particularly high with over half of all children living in Inner London in households with incomes below 60 per cent of median income after housing costs, and over a third in poor households before housing costs - higher than any Government Office region. Outer London also has a poverty rate for children higher than any region outside London after housing costs are taken into account.

In 2005/06 the published results are based on OECD equivalisation scales for the first time. Previously the results have used the McClements equivalisation scale, therefore results in this Update are not comparable with those shown in previous HBAI Updates. Another change is the inclusion of Northern Ireland figures which means the base geography is now the UK and not Great Britain. These changes are in line with the child poverty target, as stipulated in the 2004 Spending Review, which is for the UK and based on OECD scales.

Table 2 shows a time series using both equivalisation scales. All other charts and tables in this Update are based on the OECD scale. In all cases the figures resulting from using the OECD scale are higher than those from using the McClements scale.

Table 2: Percentage of children living in households with less than 60 per cent of contemporary median household income, for London and Great Britain for the years 1994 –2006

	OECD equivalisation scales		McClements equivalisation scales		OECD equivalisation scales		McClements equivalisation scales	
	BHC	AHC	BHC	AHC	BHC	AHC	BHC	AHC
	London ¹		London ¹		Great Britain ²		Great Britain ²	
94/5-96/7	25	42	23	39	25	33	23	32
95/6-97/8	26	42	24	41	26	33	24	32
96/7-98/9	27	42	25	41	27	34	25	33
97/8-99/00	27	42	24	41	26	33	24	32
98/9-00/01	27	41	24	40	25	33	23	32
99/00-01/02	26	40	23	39	24	32	22	31
00/01-02/03	25	39	23	38	23	31	21	29
01/02-03/04	26	38	23	38	23	30	21	29
02/03-04/05	27	40	24	39	22	29	20	28
03/04-05/06	26	41	24	39	22	29	20	28
	London ³		London ³		Great Britain ⁴		Great Britain ⁴	
94/95	25	40	23	39	25	33	23	31
95/96	24	41	22	39	24	33	22	31
96/97	27	43	25	40	27	34	25	33
97/98	28	43	25	43	27	33	25	32
98/99	26	40	24	39	26	34	24	33
99/00	27	41	23	40	26	33	23	32
00/01	27	41	25	41	23	31	21	30
01/02	24	37	21	36	23	31	21	30
02/03	26	38	23	37	23	30	20	28
03/04	27	40	26	40	22	29	20	28
04/05	27	41	23	39	21	28	19	27
05/06	24	40	22	39	22	30	20	29

Source: FRS 1994/5 - 2005/6

Notes:

¹ London figures are expressed as three-year rolled averages

² GB figures are expressed as three-year rolled averages

³ London figures are expressed as single year

⁴ GB figures are expressed as single year

Single year figures for 03/04 and 04/05 have been revised.

Poverty amongst other groups

The proportions of people of working age in households with incomes below 60 per cent of the national median are lower than for children, which is not surprising, given that some live with children and some without. The figures for London are generally closer to the national figures (see Table 3).

There is very little evidence of change in the proportion of people of working age in poor households either for GB as a whole or for London. Inner London rates remain higher than for Outer London and as high as any region on the before housing costs measure, but very much higher than for any region on the after housing costs measure.

Table 3: Working Age poverty figures: 2005/06

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	15	18	14
After Housing Costs	20	24	29	22

Source: FRS 2005/06

Note: Figures for London are based on a three-year rolling averages. UK figure is based on a single year.

Poverty among pensioners is higher than among people of working age but had been declining in London – as DWP now publish three year averages for regions (instead of single year figures) it is difficult to gauge the trend.

Table 4: Pensionable Age poverty figures: 2005/06

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	21	20	21	19
After Housing Costs	17	21	27	19

Source: FRS 2005/06

Note: Figures for London are based on a three-year rolling averages. UK figure is based on a single year.

The three age groups above (pensioners, working age people and children) combine to give overall figures for Londoners in poverty just above the national average using the before housing costs measure. Using the after housing costs measure, London had the highest rate for any region with 27 per cent.

Table 5: All ages poverty figures: 2005/06

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

	UK	London	Inner London	Outer London
Before Housing Costs	18	18	22	16
After Housing Costs	22	27	33	24

Source: FRS 2005/06

Note: Figures for London are based on a three-year rolling averages. UK figure is based on a single year.

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.

The Households Below Average Income series up to 2004/5, used the McClements scales for equivalising household income for the main results. The Government's first Public Service Agreement target on child poverty also employed the McClements scales. The 2004 Spending Review stated that future child poverty measurement should use the Modified-OECD scale. In line with this, and following user consultation, mainstream HBAI results for the 2005/06 publication switched from McClements to Modified OECD.

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