

# Measures of Child Poverty

## Intelligence Update 05-2012

This *Update* is a technical note to lay out the main measures used in relation to child poverty and some of the strengths and concerns that go along with them.

### Measures of child poverty currently available

There are a number of measures of child poverty currently available. This note describes them in more detail.

- Relative poverty
- Absolute poverty
- Persistent poverty
- Material deprivation
- Low income and material deprivation
- Income Deprivation Affecting Children Index
- HMRC Child Poverty measure
- Free School Meals
- Children in Workless Households

The first five of these are all published annually in the publication Households Below Average Income (HBAI) from the Department for Work and Pensions (DWP).

### Relative poverty

The “standard” measure is (equivalised) household income before housing costs below 60 per cent of the national contemporary median. This is the one used by Government to measure progress against their target to halve and then eradicate child poverty. The idea of a relative measure is that the living standards of the poorest in society should change alongside those of the rest of society, so that as the general expectations of what constitutes a reasonable standard of living in contemporary society increase, the poorest are not left behind.

The details of the definition are published in the DWP Households Below Average Income report, but in essence, this measure of income is **net income** from all sources – earnings, investments, benefits, maintenance payments etc after the deduction of taxes, occupational pension contributions, outgoing maintenance payments etc. **divided by an equivalisation factor**, which adjusts for the household composition allowing for comparison of the living standards that can be achieved given a certain level of income and differing sizes and compositions of households<sup>1</sup>. The result of this calculation is called **Income Before Housing Costs**. Individuals in a household can be compared with individuals in all other households in the UK on this measure. In 2009/10, the median equivalised income was £413 per week and so people in households with equivalised income below £248 (60 per cent of £413) are described as “**in relative poverty before housing costs.**”

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<sup>1</sup> See Households Below Average Income reports from DWP for full details of equivalisation

The main variation on this is using a measure that deducts housing costs (ie, rent/mortgage interest and other essentials such as buildings insurance, water and service charges). While this includes some element of choice, so a family may choose to pay more for better quality or more desirable housing, this is not the full picture, as housing costs vary massively by area, and so living within accessible distance of a workplace or family, for example, may mean that housing costs are higher than in other areas. In 2009/10, the median equivalised income after deducting housing costs was £356 per week and so people in households with equivalised income below £214 (60 per cent of £356) are described as **“in relative poverty after housing costs.”**

Originally, the “poverty line” was to be half the average income, ie, 50 per cent of mean, but then people realised that in mathematical terms this was virtually impossible to achieve. During the 1990s, 60 per cent of the median figure was almost the same as half of the mean, so the definition was changed without changing the number of households “in poverty”. However, this figure is fairly arbitrary (people with an income after housing costs of £213 are deemed in poverty, while those with an income of £215 are not), so two alternative levels, but otherwise using the same definitions, are published in the HBAI report. These are households with income below 50 per cent of median (this is termed “severe” poverty in reports by Save the Children and others) and income below 70 per cent of median. These enable some measurement of how far away from the poverty “line” people are. These are published using both the before and after housing costs definitions.

The data resulting from these calculations are available for children, working age adults and pensioners by region and country within the UK, so are available for London. They are also published for Inner and Outer London, but not below regional level elsewhere. The main advantage of these data is that they are based on the most detailed survey of household income that exists in the UK, the Family Resources Survey, so the level of accuracy is good. However, because the sample size is limited, to obtain sufficiently robust regional figures it is necessary to combine several years’ data, usually three year averages.

One of the particular issues with this measure is around households with people receiving disability-related benefits. Such benefits, along with all income from all other sources are included as income, while the additional costs of living with a disability are not taken into account. This means that, while the principle behind these payments is to help with the additional costs, when it comes to poverty measures, which are intended to indicate living standards, the additional income may mean that people in such households are not counted as being in poverty, even though the living standard they are able to achieve may be similar to that of people deemed to be in poverty.

### **“Absolute” poverty**

This measure uses the same definition of income as outlined above, but takes a point in time and compares contemporary incomes (and therefore living standards) with UK incomes at that point, simply uprated for inflation. This means that whereas the relative poverty measure compares the gap between living standards among the poorest and those of the richest, this measure captures how many people fall below a standard held constant over time, disregarding any changes in living standards among the population as a whole. It uses the 60 per cent of median income at 1998/99 adjusted for inflation measures in the HBAI publication. Again, these figures are published at regional level, but not below (and not for Inner and Outer London).

One issue with this definition is that currently, the uprating for inflation uses the Retail Prices Index (RPI). Most welfare benefits are now increased annually by adjusting for inflation using the Consumer Prices Index (CPI). CPI has always been lower than RPI, so it is likely that even with all other things being equal, the proportion of children in absolute poverty using this definition will increase over time purely because of the inflation adjustments used.

For both relative and absolute poverty, although the overall figures for children are published at regional level, other characteristics, for example by ethnic group, family type, economic position and tenure, are only published at UK level. However, it is possible to produce these and other breakdowns from the original datasets, available under special licence conditions. This allows us to find out more about the characteristics of children in poverty and to see any changes over time.

### **Persistent poverty**

While many people have some time in their life when their income is low, for example when starting a new business, taking a break between jobs, as a student or after retirement, it does not always impact in a significant way on their standard of living. The measurement of those in persistent poverty is thought to be a potentially better indicator of living standards. Persistent poverty is defined in the HBAI report as being in low income (ie, below 60 per cent of median income) in three years out of four. The way it is calculated is (almost) consistent with that from the Family Resources Survey.

This information relies on longitudinal data (data that tracks the same people over time) and has not been available below national level. It was derived from the British Household Panel Survey. This is now part of a much bigger survey, so it may be possible to derive figures for regions in the future, though there remain questions to address around how that might be defined, as people may move between regions over the relevant time period.

### **Material deprivation**

The above measures all relate to income and not assets and what people can afford, although the persistent poverty measure assumes a closer relationship. This type of measure, on the other hand is a more direct, though to some extent subjective measure. It asks people whether they have a particular item (items thought essential or available to the majority of the population) and if they do not have the item, whether this is through choice or because they can't afford it. The Family Resources Survey includes a series of questions on access to specific items, ranging from tangible goods, such as decent shoes and two meals a day to participating in social norms, such as celebrating special occasions, inviting friends for a meal, participating in leisure activities or hobbies and having a holiday.

The subjective element comes from different people's priorities, so that, for example, some people may consider weekly social activities with friends or family most important and this may make something else unaffordable. This means that a list of items considered essential may match some people's priorities, but not others'. The list of essentials is different for children, working age adults and pensioners. Regional figures for material deprivation are not currently available.

### **Low income and material deprivation**

It is possible to combine some of the above measures, where they are available from the same data source: so, for example, to consider those in both low income and material deprivation. The current HBAI publication includes measures of low income and material deprivation for children, meaning in households with income below 70 per cent before housing costs and a material deprivation score of 25 or more, derived from a weighted calculation of what they cannot afford.

**Alternative measures and indicators used elsewhere, not included in the HBAI report** include two closely related measures, built mainly from administrative records, and some proxy information sometimes used as indicators of child poverty.

### **Income Deprivation Affecting Children Index (IDACI)**

Published as part of the CLG Indices of Deprivation, this is a measure of child poverty based on benefit claims. It counts children in families dependent on out of work benefits and children in families who are in work and receiving state support in the form of Child Tax Credit with incomes

below a certain level, roughly equivalent to 60 per cent median income, but with certain adjustments. It also includes children of asylum seekers receiving state support. It is a simple measure in that it is a count of children in families with low income (as defined by these benefits claims) as a proportion of all children in the area. This total number of children is taken from an independent estimate of population. This measure has the advantage of being available at borough level and even for very small areas, enabling small pockets of child poverty to be identified, but the disadvantage of not being linked to any other characteristics, such as tenure or ethnic group. The other disadvantage of this measure is that children in families not claiming benefits, but who may be entitled to them, and therefore may have among the lowest incomes are not included. This measure is not produced annually, and there is no commitment to continue it into the future, and even when it has been produced it has been already out of date, so the IDACI published in 2011 (named IDACI 2010), used data relating to 2007/8.

### **HMRC Child Poverty statistics**

This measure is based largely on the IDACI method detailed above, but is produced annually, so is kept more up to date. However, the figure for the total number of children in an area used to calculate the rates for children in poverty is the number of children receiving child benefit. While nationally this is almost a full count of children, in certain small areas, such as parts of Westminster particularly, this can fall well short of the actual number of resident children, again giving a distorted picture of child poverty, although these tend not to be the areas of most interest for child poverty. It does not include children of asylum seekers.

The particular strength of this measure is that it allows changes in levels of child poverty to be tracked in a timely fashion for small areas across the whole of England (and now extended to the whole of the UK). However, as it is based on administrative data, it is susceptible to changes in the benefits system. Changes in child benefit entitlement are likely to mean that fewer children are included in the total count of children for this measure in the future. An alternative denominator would therefore be needed. Additionally, an increase in take-up rates for benefits can appear as if more children are in poverty, while in truth, they may be better off. This has the perverse characteristic that if there are changes to the benefit system which mean that fewer families are entitled to benefits, the number of children counted as "in poverty" on this measure is reduced, while in reality the number of children not receiving state support and thus worse off is increased.

Note that researchers at the Centre for Research in Social Policy at Loughborough University have produced "updated" estimates of child poverty at small area level for the End Child Poverty campaign group. These estimates use the HMRC statistics as a starting point and update those using Labour Force Survey data on children in workless families to produce new estimates. The technique they use is to simply take away or add the percentage point change observed at regional level (down to Inner/Outer London) to the HMRC statistics for all areas falling within the region. Users should be aware that applying this method would lead to figures at one geographical level (eg wards) that would be inconsistent with those derived at a different level of geography (eg boroughs).

### **Free School Meals**

Another benefit-based indicator is the number of children entitled to free school meals, on the basis of their families claiming certain means tested welfare benefits. This has the great advantage of providing a link to information on educational attainment and other characteristics of individuals as recorded in school Censuses etc. However, it is not necessarily a full count of all children entitled to school meals and again children in families entitled to but not claiming the relevant benefits, who may be the worst off, are not included.

## **Children in Workless Households**

Another measure sometimes used as a proxy for child poverty is children in workless households – households with at least one working age adult where no one is in work. While such households do have a strong chance of being in poverty, this is far from a complete measure of child poverty, since only around 40 per cent of all children in relative poverty in London are in workless households. The remaining 60 per cent of children in relative poverty are in households with at least one person in work. This measure is based on Labour Force Survey data, so the largest continuous survey in the UK. It allows for the information to be produced annually with a good degree of reliability for London and Inner and Outer London, and is available down to borough level, although the variability from year to year means that change at this level would need to be treated with caution.

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