

Monitoring poverty and social exclusion in Scotland 2008

Findings
Informing change

November 2008

The New Policy Institute has produced its 2008 edition of indicators of poverty and social exclusion in Scotland, providing a comprehensive analysis of trends and differences between groups. Based on the latest available data, its starting point is that, while child and pensioner poverty in Scotland has fallen over the last decade, poverty among working-age adults has remained the same.

Key points

- The child poverty rate in Scotland is now among the lowest in the UK, at 25%. The fall of one-fifth in the Scottish child poverty rate since the late 1990s is similar to that in Wales and the north of England. This rate has now remained at 25% for three years in a row.
- The number of pensioners in poverty in Scotland has come down by more than 100,000 since the late 1990s.
- The number of working-age adults in poverty has stayed roughly the same since the late 1990s. Within this group, however, 'in-work' poverty has gone up.
- Furthermore, the Scottish government's new focus on the bottom three tenths of the income distribution should mean that more importance is attached to the interests of lower-income working families.
- A majority of workless working-age adults are in poverty, and those without children have seen the value of their benefits frozen.
- Half of all those paid less than £7 per hour live outside the Central belt and Dundee. Since the areas with the highest risk of low pay are different to those with the highest risk of poverty, a twin-track approach with a different geographical focus is required.
- The extent to which working-age adults claiming out-of-work benefits are concentrated in particular 'pockets of deprivation' in Scotland has barely changed in the last decade.
- Life expectancy for both women and men in Scotland is lower than in any of the so-called 'arc of prosperity' countries, by up to three and five years respectively.

The research

By Peter Kenway, Tom MacInnes and Guy Palmer, New Policy Institute

Background

This *Findings* is an update of the *Monitoring poverty and social exclusion in Scotland reports* published in 2002, 2004 and 2006.

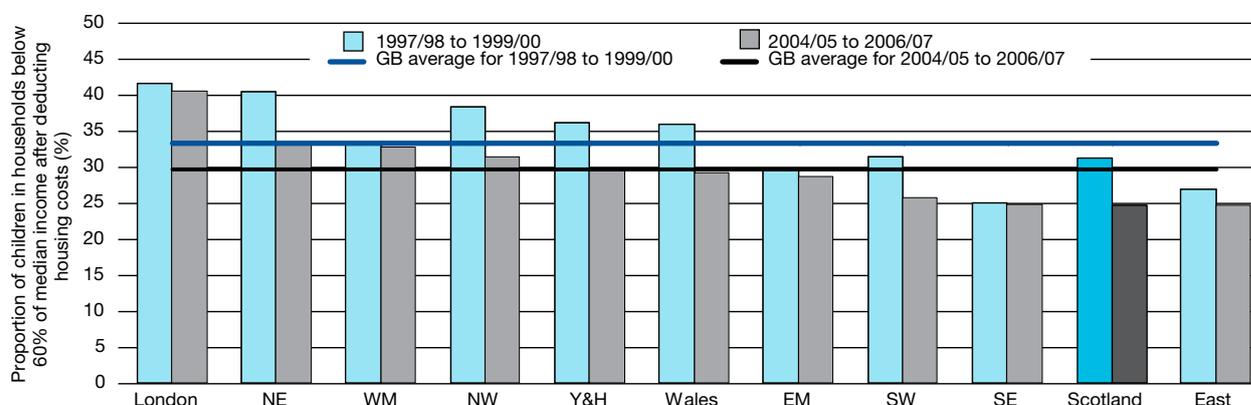
Children living in low-income households

The latest year for which official data on child poverty is available is 2006/07. In that year, around 250,000 children in Scotland were living in a low-income household, some 25% of all children and

the same proportion as in each of the previous two years. By contrast, the number of children in low-income households across the UK as a whole rose in 2006/07 for the second year in a row.

Figure 1 shows that, since the (UK) baseline year of 1998/99, child poverty has fallen further in Scotland than in Britain as a whole. But it also shows that, in achieving a fall of about a fifth, Scotland's performance is very similar to that in Wales, the three northern English regions and the south-west of England. The reason why Scotland's performance exceeds that of Great Britain as a whole is that the fall in the other English regions has been negligible. As a result, the Scottish child poverty rate is now among the lowest of any part of Great Britain.

Figure 1: Child poverty rates, now and a decade ago, for Scotland, Wales and the English regions



Source: Households Below Average Income, DWP

The definition of low income

A household is defined as having a 'low income' ('poverty' for short) if its income is less than 60% of the median UK household income for the year in question. The value of this 60% threshold in terms of pounds per week varies according to how many adults and children live in the household. For example, in 2006/07 (the latest year for which data is available) it was worth £112 for a single adult with no dependent children, £189 for a lone parent with two children under 14, £193 for a couple with no dependent children and £270 for a couple with two children under 14. These sums of money are measured net of income and council tax and after housing costs (AHC) have been deducted.

Although the official 2010 target for halving child poverty is defined using the alternative 'before housing costs' (BHC) measure, there are several reasons for using the AHC measure here. First, like income and council tax, housing costs are effectively a 'given' and must be met; it is the money left over which is therefore the measure of standard of living.

Second, the BHC measure treats a rise in Housing Benefit due to a rise in rent as an increase in income (rather than no change) so, perversely, any increases in rent levels lower the estimated number of people in low income

Third, the 2004/05 target, to reduce child poverty by one million, was pitched in both AHC and BHC terms, with comments on progress most often made using the AHC measure. Since no part of the UK has yet reached that target, clarity and consistency are served by the continued use of the AHC measure.

Being defined in relation to average income, these measures are relative. But that does not mean that it is only something called 'relative poverty' that is being measured. Rather, it reflects the view that poverty is something that is inherently relative, when someone is so short of resources that they are unable to attain the minimum norms for the society in which they live.

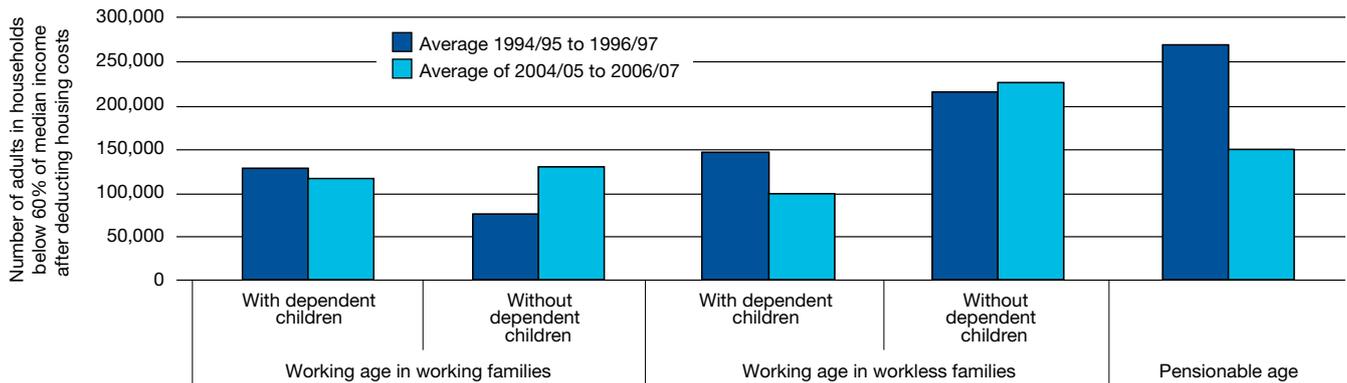
The number of adults living in low-income households

Figure 2 refers to adults living in low-income households in Scotland, according to whether they are of pensionable or working-age. If the latter, it shows whether their family is workless or not and whether or not they have dependent children. For each of these five groups, the indicator shows the average number living in low-income households in the three most recent years (2004/05 to 2006/07) compared with the average for a decade earlier.

Three points stand out:

- The number of pensioners in low-income households has fallen substantially, by more than 100,000. As a result, the pensioner poverty rate has reduced from 31% to 16%.
- The number of working-age adults with children in low-income households has also fallen, both those in working families (down by 10,000) and those in non-working ones (down by 50,000).

Figure 2: Adult poverty numbers in Scotland, now and a decade ago, by work and family status



Source: Households Below Average Income, DWP

The 'solidarity' golden rule and the bottom three deciles

Alongside its commitment to ending child poverty, the Scottish government's Economic Strategy 'solidarity' golden rule is associated with a target of 'increas(ing) overall income and the proportion of income earned by the three lowest income deciles as a group by 2017'.

A third of those in the lowest three deciles (some 490,000 people) are working-age adults without dependent children. A further quarter are children (370,000) while about a fifth each are pensioners and working-age adults with dependent children (320,000 each).

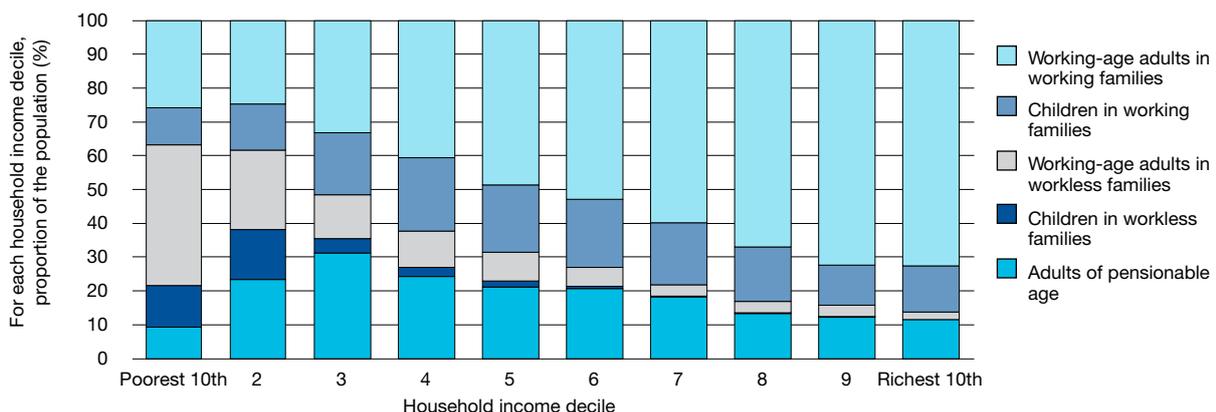
As Figure 3 shows, this shift of focus, to include the third decile alongside the lowest two (i.e. in effect

those in poverty, since the overall poverty rate is about 20%), alters the weights of the different population groups because the third decile is very different from the first two. In particular, in this third decile:

- around one-third are pensioners, about twice the proportion in the lowest two deciles;
- only around one-sixth belong to workless, working-age families, compared with nearly half in the bottom two deciles.

In short, the focus on the bottom three deciles will mean more focus on (a) pensioners and (b) lower-income working families than would be the case if the attention remained exclusively on 'poverty'.

Figure 3: Scottish population by household income decile and family work status



Source: Households Below Average Income, DWP; the data is the average for 2004/05 to 2006/07

- By contrast, the number of working-age adults without dependent children in low-income households has risen, both those in working families (up by 50,000) and those in non-working ones (up by 10,000). At 220,000, this last group now far exceeds the number of pensioners in low-income households, a complete reversal of the situation ten years ago.

Between them, these numbers highlight two key issues, both of which have been largely ignored until now. The first is the rise in the number of adults in low-income, working families. This rise is confined to those without dependent children.

The second is the situation of the large number of workless, working-age adults without dependent children for whom there has been no increase in the value of social security benefits relative to inflation for at least two decades. As the rest of society has got better off, so this group have sunk ever further behind. Over the last decade, the poverty 'risk' for this group has gone up from 40% to 50%.

As Figure 3 shows, many working-age adults in workless families (with or without dependent children) are not only in poverty (effectively those in the bottom two tenths (deciles) of the income distribution) but are actually more likely to be found in the lowest income decile of all, corresponding to what can properly be called 'deep poverty'.

Which workers are low paid?

Taking £7 an hour (approximately 60% of male median full-time earnings) as its measure of 'low pay', Figure 4 shows how 500,000 low-paid workers are spread by sector, area, gender and job tenure (part-time or full-time).

Low-paid workers are twice as likely to be female as male, and there are equal numbers of low-paid

part-timers and low-paid full-timers. This is despite the fact that part-timers only make up a quarter of the workforce (in other words, the 'risk' of low pay among part-timers is three times that of full-timers).

Less well-known, but for policy purposes deserving of greater prominence, is the fact that just over a fifth of all low-paid workers are employed directly within the public sector, reflecting the substantial size of the sector.

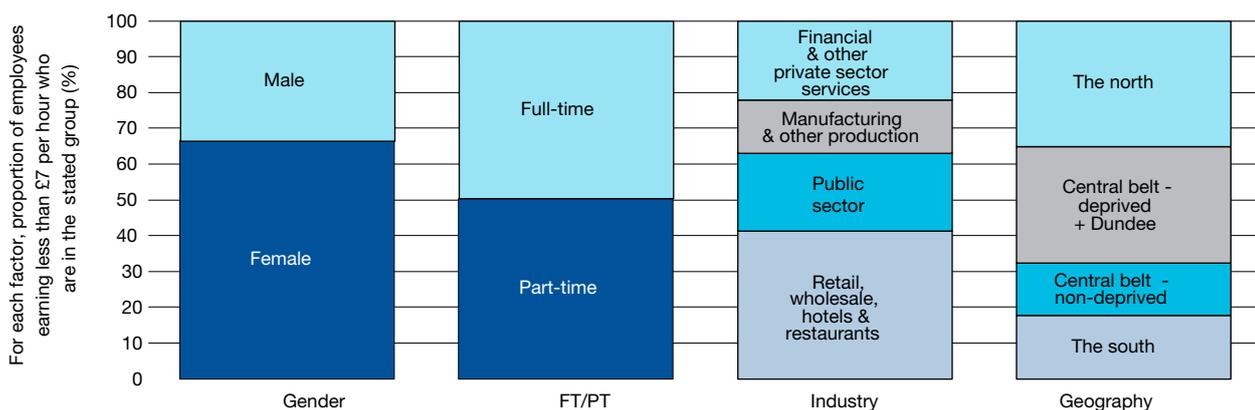
It should also be noted that low-paid workers are spread fairly evenly across Scotland. In particular, about half are in the Central belt region and Dundee, and half are elsewhere. As a proportion of all workers employed, the areas with the highest *proportion* of low-paid workers are Clackmannanshire and Dumfries and Galloway (both 35% for 2005 to 2007).

The continuing high concentrations of adults claiming out-of-work benefits

Over a period of almost nine years, since 1999, the total number of working-age adults claiming out-of-work benefits in Scotland has fallen by a fifth, down 130,000 to 480,000. Figure 5 shows how this fall was distributed across Scotland according to the degree to which those claimants are concentrated in small local areas (data zones). The four groups in which the local areas are presented – namely the 10% with the highest concentration, the 15% with the next highest concentration, the 25% with the next highest concentration, and the other 50% – each had about 150,000 claimants in 1999. What the graph shows is that nine years later, the equivalent four groups (using the 2008 concentrations) each had around 120,000 claimants.

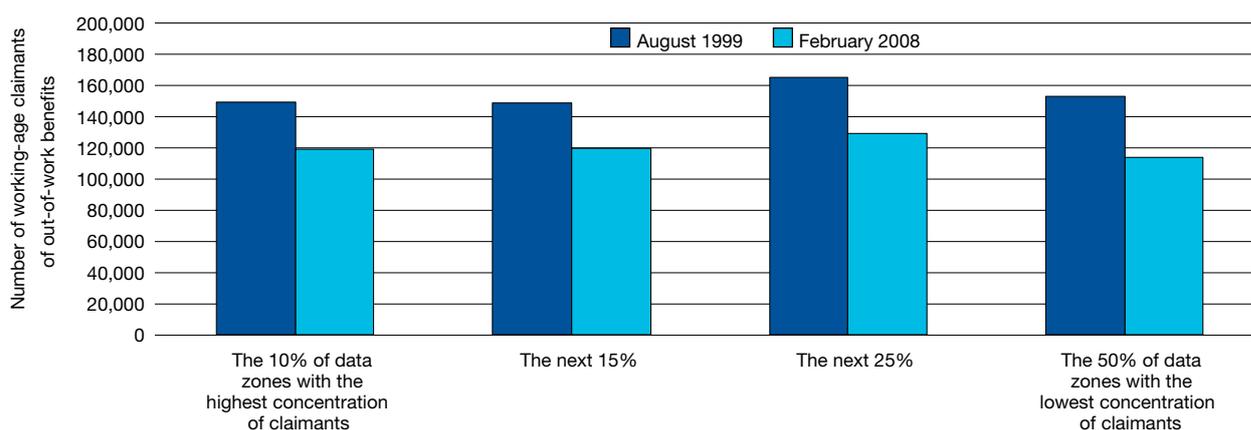
The implication of this is that the extent to which workless adults are concentrated in particular

Figure 4: The spread of low-paid workers in Scotland by gender, job type, industry and geography



Source: Annual Survey of Hours and Earnings 2007, ONS and Labour Force Survey 2007

Figure 5: The number of claimants of working-age out-of-work benefits by the proportion of claimants in the local area



Source: DWP Work and Pensions Longitudinal Study

'pockets of deprivation' has not really changed over the last decade. Although this does not show the success or otherwise of area-based initiatives to lift particular deprived areas relative to others, it does show that these programmes have left the overall degree of area-based concentration unchanged – when the aim was that it would be reduced.

Two-thirds of the small areas with the highest concentration, (measured by the number of claimants) are in 'large urban areas', in effect, in the four main cities.

Do low-income households suffer a higher rate of price inflation?

Recent rises in prices provoke the question as to whether low-income households face a higher rate of inflation than those with average or above incomes. The answer based on an analysis of Scottish expenditure patterns is that they do, but not, so far, by very much. Over a four-year period, up to summer 2008, the consumer prices underlying the Consumer Price Index (CPI) for the poorest fifth of Scottish households rose by 12½%, compared with 11½% for those with average and above-average incomes.

The basic reason why this difference is so small is that, of the three main elements of expenditure currently particularly affected by inflation, namely food, domestic fuel and transport, low-income households spend proportionately more on the first two, while average and above-average income households spend proportionately more on the third. As a result, most households have ended up facing similar rates of overall inflation, even if the particular aspects of inflation that hit them hardest have differed. Furthermore, even the poorest fifth of households only devote around a quarter of their total 'consumptive expenditure' on the high-inflation

food and fuel items. The lower price inflation of most other items over the last four years has therefore kept their average down.

But even though the overall differences are small, that does not invalidate the original question. For one thing, these estimates do not include the rises in domestic fuel costs announced by energy companies in the summer of 2008. These will have a disproportionate impact on the poorest households. For another, the CPI, unlike the better known RPI (Retail Price Index), does not include mortgage interest payments, which have gone up a lot compared with four years ago.

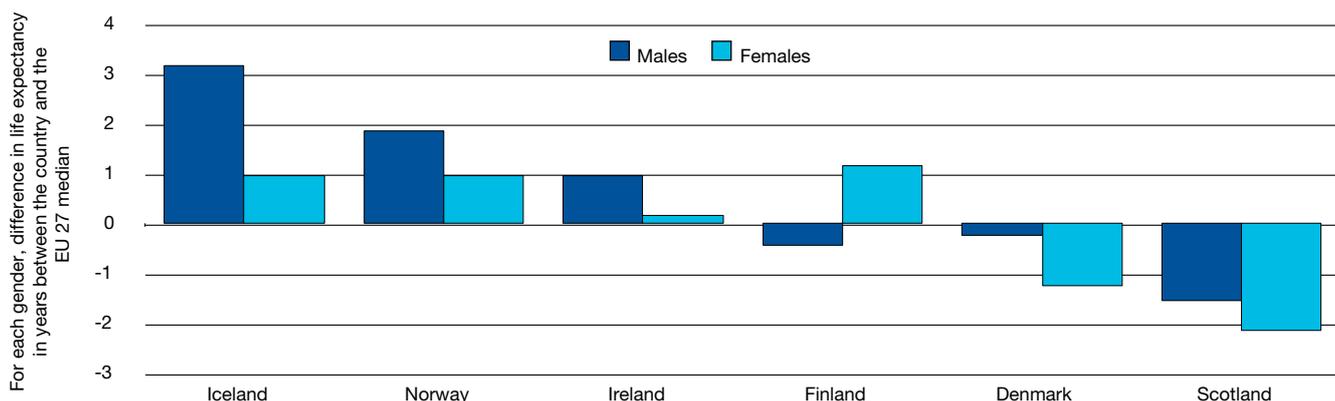
Furthermore, even if the difference is small, it is easy to underestimate how much difference that can still make. For example the 1% higher rate of inflation for the poorest fifth of households translates into something like £2 a week or £100 a year, enough (until recently) to pay a quarterly utility bill.

Finally, even if the inflation rates for low-income households have not been that different from those for other households, that is no comfort if the price they were paying for many goods and services was proportionally higher in the first place – that is, that 'the poor pay more'.

Premature death and the 'arc of prosperity'

The Scottish government used the phrase 'arc of prosperity', and the five countries within it (Denmark, Norway, Iceland, Finland and Ireland), to provide a benchmark against which to compare Scotland (before the financial events of autumn 2008). In view of the fact that ill-health and premature death is such an important aspect of deprivation – and the Scottish record so poor – Figure 6 employs

Figure 6: The number of years by which male and female life expectancy at birth differs from the European Union median



Source: Eurostat (all bar Scotland) and GAD (Scotland); the data is for 2006

this measure to provide an overall illustration of how Scotland's health compares. To be precise, the graph shows how life expectancy at birth for men and women separately differs from the EU average (median) for Scotland and for each of the individual 'arc of prosperity' countries.

Two points stand out. First, life expectancy in Scotland for both men and women is lower than the EU averages, by between one and two years. (By contrast, the UK as a whole is similar to the EU average, being slightly better for men and slightly worse for women.)

Second, life expectancy for both men and women is worse in Scotland than in any of the 'arc of prosperity' five, with especially big gaps compared with Iceland (five years and three years respectively) and Norway (three years for both men and women).

Conclusion

The Scottish government's future focus on those in the bottom three income deciles, and not just those in poverty, should mean that more importance is attached to the interests of low-income, working families than has been the case previously. Given the rise in in-work poverty, this is the right direction to reduce poverty generally.

But it is vital, too, to attend to the interest of workless working-age adults receiving social security benefits. For those without dependent children, the level of those benefits has effectively been frozen for many years. A majority of them are in poverty.

Since the areas with the highest risks of low pay are not the same as those with the highest risks of low income (i.e. poverty), a twin-track approach, with a somewhat different geographical focus, is required.

For further information

Updated versions of the more than 170 graphs in *Monitoring poverty and social exclusion in Scotland* reports in 2002, 2004 and 2006 can be found at www.poverty.org.uk. They form part of a larger set of some 850 graphs for the UK as a whole and regions within it.

This year's full UK report, **Monitoring poverty and social exclusion 2008** by Guy Palmer, Tom MacInnes and Peter Kenway, is published by the Joseph Rowntree Foundation (ISBN 978 1 85935 689 0, price £16.95). It is available as a free download from www.jrf.org.uk or www.poverty.org.uk. Printed copies from York Publishing Services Ltd, 64 Hallfield Road, Layerthorpe, York YO31 7ZQ, Tel: 01904 430033, Fax: 01904 430868 (please add £2.00 p&p per order).

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