

Severe Poverty in Scotland

Communities Analytical Services

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EXECUTIVE SUMMARY

Introduction

The most frequently used indicator of poverty is relative poverty which represents individuals who have household incomes below 60 per cent of the UK median income. However, within this, there are different 'depths' of poverty, which are referred to in this report as severe and extreme poverty. Exploring the numbers of individuals at these depths reveals how poor those in poverty actually are. Understanding this is important for policymakers and organisations involved in tackling poverty.

In the context of a decade when relative poverty has been falling in Scotland, this report investigates the extent of severe and extreme poverty and how it has changed over time for different population groups: children, working age adults and pensioners.

Key Findings

Note: key findings cover 2012/13, before housing costs, unless otherwise stated.

Six in ten people in relative poverty in 2012/13 were in severe or extreme poverty.

- Of the **820,000** individuals (16% of the population) in relative poverty in 2012/13, **510,000 individuals (10% of the population) were living in severe poverty.**
- **Of these, 230,000 individuals (4% of the population) were living in extreme poverty.**
- Severe poverty represents household incomes below 50 per cent of UK median annual household income – or less than £11,500 in 2012/13.
- Extreme poverty represents household incomes below 40 per cent of UK median annual household – or less than £9,200 in 2012/13.

Factoring in housing costs makes the considerable extent of severe and extreme poverty still more evident.

- **In 2012/13, 710,000 individuals (14 per cent) were living in severe poverty after housing costs (AHC)**
- **500,000 (10 per cent) were living in extreme poverty after housing costs.**

Working age adults and children were more likely than pensioners to live in severe poverty, particularly after housing costs.

- While factoring in housing costs increases severe poverty rates for working age adults and children, for pensioners they decrease, reflecting the lower housing costs of many pensioners.
- **In 2012/13, 330,000 working age adults (10 per cent) lived in severe poverty.** This increased to 500,000 (16 per cent) working age adults after housing costs.
- **100,000 children (10 per cent) lived in severe poverty.** This increased by half to 150,000 children (15 per cent) after housing costs.
- **80,000 pensioners (8 per cent) lived in severe poverty.** This decreased to 60,000 pensioners (6 per cent) after housing costs. This lower rate for pensioners (AHC) is because many have lower, or no, housing costs.

Working age adults were the group most likely to live in extreme poverty, particularly after housing costs

- **In 2012/13, 170,000 working age adults (5 per cent) lived in extreme poverty.** This increased to 370,000 working age adults (12 per cent) after housing costs.
- **30,000 children (3 per cent) lived in extreme poverty.** This increased to 90,000 children (9 per cent) after housing costs.
- **30,000 pensioners (3 per cent) lived in extreme poverty.** This increased slightly to 40,000 pensioners (4 per cent) after housing costs.

Poverty has deepened in recent years.

- Looking over the last decade, although relative poverty has fallen (despite a rise in the most recent year) a greater proportion of households in poverty are now in severe or extreme low income.
- Those in poverty in 2012/13 are more likely to be in extreme low income than in 2002/03. This is especially the case after housing costs: in 2012/13, 50 per cent of all people in poverty lived in extreme low income after housing costs, compared with 36 per cent in 2002/03.
- This has implications for policy – those who are in the lowest income groups are more likely to be furthest from the labour market, hardest hit by welfare reform, and least able to increase household income without help.

Employment is no guarantee against severe or extreme poverty

- While being in employment remains a protection against poverty, it is no longer a guarantee against poverty. In 2012/13, 43 per cent of working age adults in severe poverty lived in households where at least one adult was in employment, as did 55 per cent of children. Twenty-seven per cent of working age adults in severe poverty lived in households with one person in full time employment, as did 39 per cent of children.
- Other risk factors for severe and extreme poverty include larger families, being a member of a minority ethnic group and, for families with children, the age of the mother.

INTRODUCTION

About this report

Poverty analysis can sometimes appear to present those classed as 'living in poverty' as one homogenous group, experiencing poverty in similar ways. In reality, poverty is experienced very differently by individuals and households across Scotland, for a variety of reasons. One key difference relates to the depth of poverty people experience. So, while some households dip in and out of poverty or live just below the poverty threshold, others are having to make do with extremely limited resources.

This Scottish Government report investigates the extent of severe and extreme poverty in Scotland and how the depth of poverty has changed over the ten year period to 2012/13, the most recent year of data. The report also considers the influence of particular factors in determining the risk of severe and extreme poverty.

The analysis is focused on data from the Family Resources Survey (FRS), a continuous cross-sectional survey, sponsored by the Department for Work and Pensions (DWP). The FRS provides facts and figures about the living conditions of people in the UK and the resources available to them. It is an annual survey, and includes around 4,000 households in Scotland.

The report takes two main approaches to considering the depth of poverty.

Section A investigates the depth of poverty in Scotland in 2012/13, by considering the following poverty thresholds:

1. **Relative poverty** - all those individuals who have household incomes below 60 per cent of the UK median income
2. **Severe poverty** - all those individuals who have household incomes below 50 per cent of the UK median income. Note that this threshold also includes those in extreme poverty.
3. **Extreme poverty** - all those individuals who have household incomes below 40 per cent of the UK median income.

Section B investigates depth of poverty using a different, but complementary approach. Distinct income bands provide a more detailed analysis of the picture in 2012/13, looking at all individuals and population groups – working age adults, children and pensioners.

Section C uses the same income bands to track change in the depth of poverty over the ten years to 2012/13.

Section D provides an analysis of the risk factors of severe and extreme poverty, including employment status, family type, age of mother, family size, minority ethnic group and disability.

Section E draws out a range of conclusions from the analysis.

An **Annex** providing brief background on the FRS is also provided at the end of the report.

A note on equivalised incomes

The relative, severe and extreme poverty thresholds used in this report are based on 'equivalised household income'. This is a statistical process which adjusts household income to take into account of variations in the size and composition of the households in which individuals live. 'Equivalisation' thus reflects the common sense notion that, in order to enjoy a comparable standard of living, a household of, say, two adults and two children will need a higher income than a single person living alone. In short, adjusting the incomes of different households enables sensible comparisons to be drawn about them.

As the illustration below shows, equivalisation takes the incomes of a couple with no children as the reference point, and adjusts the incomes of households with fewer or more members, increasing or decreasing it:



SECTION A – SEVERE AND EXTREME POVERTY IN SCOTLAND IN 2012/13

Introduction

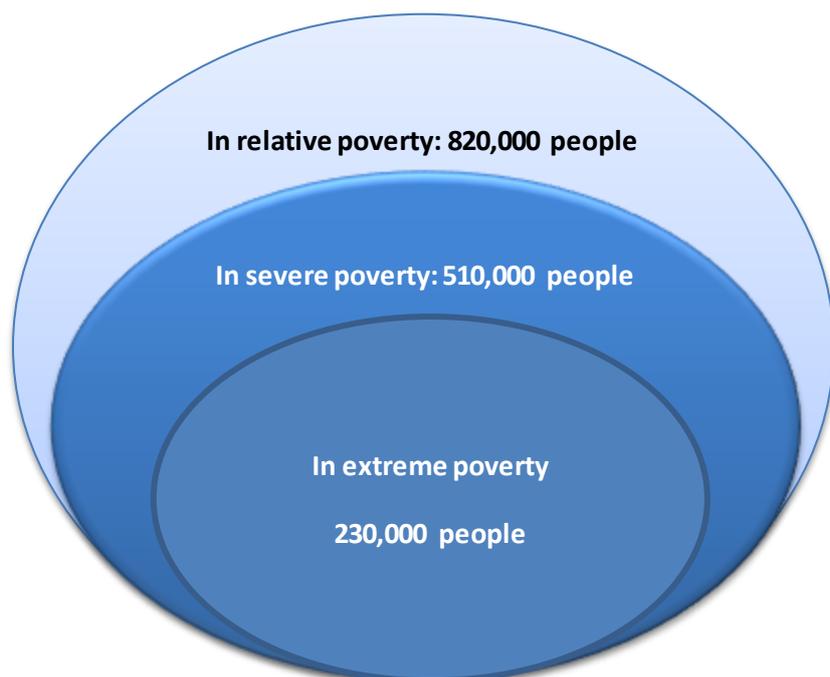
This section considers the extent of severe and extreme poverty in Scotland in 2012/13, the most recent year for which statistics are available. Figures are presented before housing costs (BHC) unless otherwise stated.

The relative poverty threshold covers all those individuals who have household incomes below 60 per cent of the UK median income. Here, two new thresholds have been produced - a severe poverty threshold and an extreme poverty threshold. The analysis below considers how many individuals, working age adults, children and pensioners would fall under these thresholds.

The two new thresholds are as follows:

4. **Severe poverty** – all those individuals who have household incomes below 50 per cent of the UK median income. This threshold includes those in extreme poverty.
5. **Extreme poverty** – all those individuals who have household incomes below 40 per cent of the UK median income.

Note that these are not distinct categories: the severe poverty threshold is a subset of all those in relative poverty, while the extreme poverty threshold a still smaller subset of the severe poverty group. The diagram below shows overlapping poverty thresholds.



It is important to make clear that there is no official or standard measure of severe or extreme poverty in Scotland or the wider UK. However, there are arguably a number of ways in which severe poverty is already being measured. For example, the Households Below Average Income (HBAI) series publishes, for all individuals and for children, a figure for households with income below 50% UK median income, which is consistent with the severe poverty definition applied here. It could also be argued that both the persistent low income and the combined low income and material deprivation measures in the Child Poverty Act 2010 already capture a more deprived population of children than the relative low income measure.

Note that there are no equivalent published statistics on extreme poverty rates for the UK and it is important to note that there is greater uncertainty around the extreme poverty threshold, due to the smaller sample sizes and income as a proxy for living standards for households on the lowest incomes. Household income may not represent living standards for those on very low incomes. A household may be in low income temporarily, rather than low income being a persistent state. This analysis does not track families' incomes over time and does not provide any information on the persistence of low income. More information about the FRS, and the limitations of the data, is provided in an Annex to this report.

Bearing in mind that the 50 per cent threshold is reported on at UK level and that there is some uncertainty about the 40 per cent threshold, there might be questions about the relevance of presenting these two thresholds here. Nevertheless, the lack of an official definition of severe poverty, the low profile of the 50 per cent threshold in reporting, and the lack of formal consideration of the extent of those on the very lowest incomes together serve to limit the discussion of the depth of poverty at UK level. The approach taken in this chapter therefore offers an opportunity to look in more detail at alternative conceptions of poverty and to develop a better sense of the depth of poverty in Scotland.

Poverty thresholds in 2012/13

The monetary values of equivalised household income for relative poverty, severe poverty and extreme poverty for 2012/13 are summarised below. Table 1 shows the equivalised weekly household, while Table 2 sets out the equivalent annual household income. The Scottish median income is also included in both tables, for reference.

Table 1: Weekly equivalised household income poverty thresholds before housing costs, 2012/13				
	Scottish median income	Relative poverty threshold	Severe poverty threshold	Extreme poverty threshold
single adult	£295	£177	£147	£118
single parent 2 children	£529	£317	£264	£211
couple 2 children	£674	£404	£337	£269
couple no children	£440	£264	£220	£176

Table 2: Annual equivalised household income poverty thresholds before housing costs 2012/13

	Scottish median income	Relative poverty threshold	Severe poverty threshold	Extreme poverty threshold
single adult	£15,400	£9,200	£7,700	£6,200
single parent 2 children	£27,600	£16,500	£13,800	£11,000
couple 2 children	£35,100	£21,000	£17,500	£14,000
couple no children	£23,000	£13,800	£11,500	£9,200

Source HBAI 2012/13, DWP

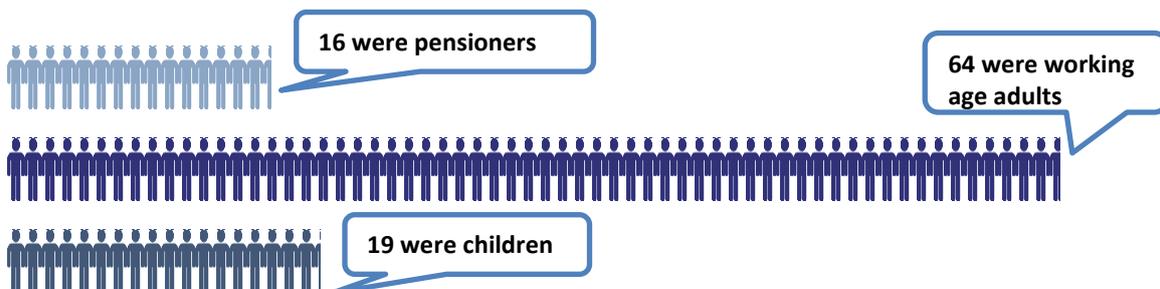
Note these are equivalised household income levels, *before housing costs* are taken into account. This is the income available to pay for all the household expenses including housing, heating, food, clothing, transport, and childcare. Of course, housing costs, depending on their level, can significantly affect whether individuals are living in relative poverty or not after housing costs. Housing costs can also determine whether households living in poverty are in severe or extreme low income after housing costs.

Severe poverty in Scotland in 2012/13

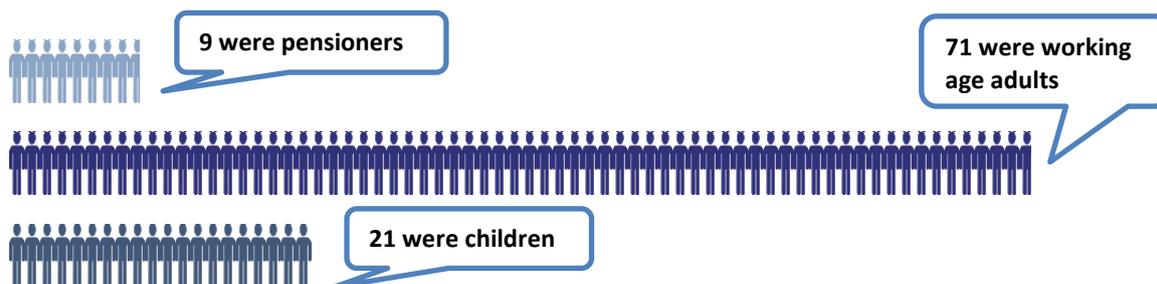
In this analysis, households in severe poverty are defined here as those with equivalised household income less than 50 per cent of UK median income. Analysis of the FRS 2012/13 for Scotland suggests the following:

- 510,000 **individuals** (10 per cent) lived in severe poverty (BHC). This increased to 710,000 (14 per cent) after housing costs.
- 330,000 **working age adults** (10 per cent) lived in severe poverty (BHC). This increased to 500,000 (16 per cent) after housing costs.
- 100,000 **children** (10 per cent) lived in severe poverty (BHC). After housing costs, 150,000 children (15 per cent) were living in severe poverty.
- 80,000 **pensioners** (8 per cent) lived in severe poverty (BHC). After housing costs, 60,000 pensioners (6 per cent) lived in severe poverty

For every 100 people in severe poverty before housing costs in 2012/13



For every 100 people in severe poverty after housing costs in 2012/13



Source: HBAI 2012/13, DWP

Comparing Scotland with the UK as a whole shows a broadly similar picture.

The percentage of all individuals in 2012/13 living in severe poverty in Scotland (10 per cent) was largely the same as that for the UK (9 per cent). After housing costs, the rate of severe poverty was 14 per cent in 2012/13 in both Scotland and the UK.

Similarly, the percentage of children living in severe poverty was largely the same in Scotland (10 per cent) in 2012/13 and the UK (9 per cent). However, after housing costs, the rate of severe child poverty in Scotland was 15 per cent, slightly lower than that for the UK (17 per cent).

Over the last decade, the rate of severe poverty in Scotland and in the UK remained largely unchanged. For the whole population, the rate of severe poverty before housing costs in Scotland has remained at 9-10 per cent, similar to the rate for the UK. After housing costs, the rate of severe poverty in Scotland fell slowly from 15 per cent in 2002/03 to 10 per cent in 2011/12, before increasing to 14 per cent in 2012/13. This differed from the UK trend, which saw an increase in the severe poverty rate from 13 per cent to 16 per cent between 2002/03 and 2007/08, followed by a decrease to 14 per cent in 2012/13.

There was a similar pattern in the rate of severe child poverty. Scotland saw a 2 percentage point decrease in the rate of severe child poverty before housing costs, over the last decade, as did the UK. However after housing costs, while the rate of severe child poverty for the UK decreased by 2 percentage points, the rate for Scotland decreased from 18 per cent in 2002/03 to 11 per cent in 2011/12 before increasing to 15 per cent in 2012/13.

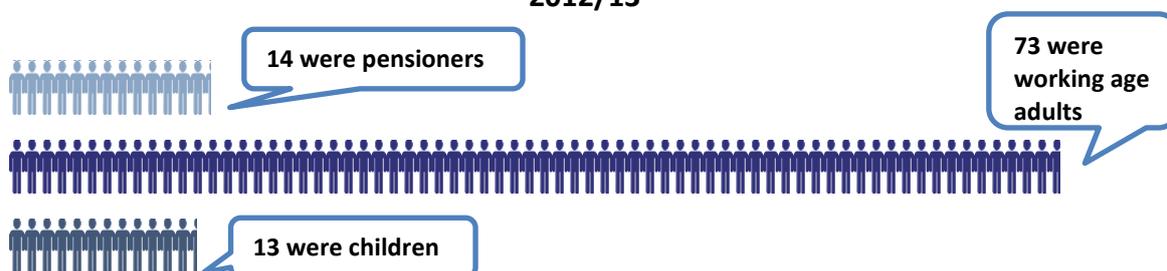
Extreme poverty in Scotland in 2012/13

In this analysis, households in extreme poverty are those with incomes below 40 per cent of UK median income. Note that this group is a subset of those in severe poverty.

Analysis of the FRS 2012/13 for Scotland suggests the following:

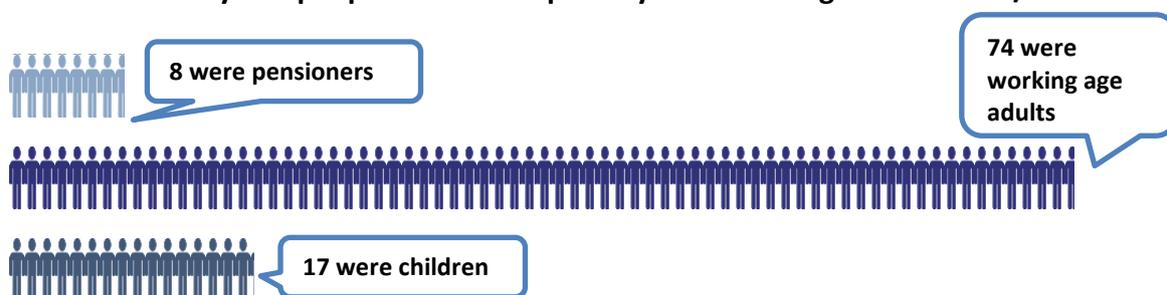
- 230,000 **individuals** (4 per cent of the whole population) lived in extreme poverty (BHC). After housing costs, 500,000 individuals (10 per cent) were living in extreme poverty.
- 170,000 **working age adults** (5 per cent) lived in extreme poverty (BHC). After housing costs 370,000 (12 per cent) working age adults were living in extreme poverty.
- 30,000 **children** (3 per cent) lived in extreme poverty (BHC). After housing costs, 90,000 children (9 per cent) lived in extreme poverty.
- 30,000 **pensioners** (3 per cent) lived in extreme poverty (BHC). This increased slightly to 4 per cent (40,000) after housing costs.

For every 100 people in extreme poverty before housing costs in 2012/13



Source: HBAI 2012/13, DWP

For every 100 people in extreme poverty after housing costs in 2012/13



Source: HBAI 2012/13, DWP

The number of people living in extreme poverty (before housing costs) has remained reasonably stable over recent years. However, the percentage of people living in extreme poverty in 2012/13, after housing costs, has increased in the latest year, after a decade of little change. This is particularly the case for working age adults and children.

SECTION B – DEPTH OF POVERTY IN SCOTLAND IN 2012/13

Introduction

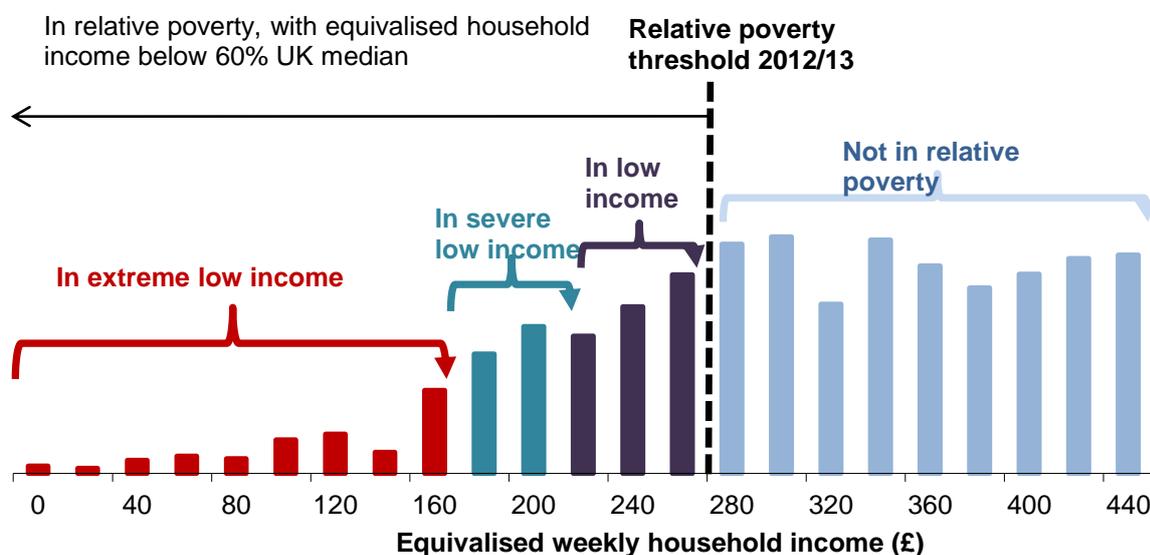
The relative, severe and extreme poverty thresholds are not, as noted in the previous section of this report, distinct categories.

Therefore, in order to understand differences in the depth of poverty, an alternative approach is needed. This analysis is based on three income bands – low income, severe low income and extreme low income, as follows:

- Low income – this is defined as households with equivalised income between 50 – 60 per cent of UK median income. In 2012/13, this was a household income of £11,500 - £13,799;
- Severe low income – defined as households with equivalised income between 40 – 50 per cent of UK median income. In 2012/13, this was a household income of £9,200 - £11,499;
- Extreme low income – defined as households with equivalised income below 40 per cent of UK median income. In 2012/13 this was a household income of below £9,200.

Note that all individuals with equivalised incomes within these bands would be classed as living in relative poverty in 2012/13, using the official definition.

The diagram below shows the bottom half of the income distribution for Scotland in 2012/13 – all households with income between zero and the Scottish median income (£440 per week in 2012/13).



All those with weekly household income less than £264 are in relative poverty (60% UK median income). Of those in relative poverty, households with income between 50% - 60% UK median income are classed as in low income; those with income between 40% and 50% UK median as classed as in severe low income; and those with income less than 40% UK median are classed as in extreme low income.

This section considers these income bands with specific reference to all individuals and the following population sub-groups – working age adults, children and pensioners.

Population groups living in severe and extreme low income in Scotland

Table 3 below shows, for people in poverty, the percentage of individuals and those within population sub-groups in the low income, severe low income and extreme low income bands in 2012/13, before housing costs.

Taking all individuals in relative poverty first, the largest group is in the low income band, closest to the poverty threshold. Nevertheless, over half of those in poverty are in severe or extreme low income.

Table 3: Of people in poverty, proportion of group in low income, severe low income and extreme low income BHC 2012/13

	Percentage in low income	Percentage in severe low income	Percentage in extreme low income	
All individuals	38%	34%	28%	100%
Children	46%	37%	17%	100%
Working age adults	32%	33%	35%	100%
Pensioners	46%	33%	21%	100%

Source: HBAI 2012/13, DWP

Looking at population groups gives a different picture. Working age adults were more likely than children and pensioners to have extreme low incomes and were significantly less likely to be in the low income band than the other groups. Two-thirds of working age adults in poverty were living in households with severe or extreme low incomes in Scotland in 2012/13.

The depth of poverty for children and pensioners is less marked than that for working age adults. The proportion of children and pensioners living in households in extreme low income was significantly lower than for working age adults, with nearly half of both these groups in low income. It is nevertheless worth emphasising that, in 2012/13, 17 per cent of children in poverty and 21 per cent of pensioners in poverty were in extreme low income.

Table 4 presents the same information, but after housing costs (AHC) are taken into account. Housing costs in Scotland include rent (gross of housing benefit); mortgage

interest payments (net of tax relief); structural insurance premiums (for owner occupiers); and ground rent and service charges.

Table 4: Of people in poverty, proportion of group in low income, severe low income and extreme low income AHC 2012/13

	Percentage in low income	Percentage in severe low income	Percentage in extreme low income	
All individuals	29%	21%	50%	100%
Children	34%	27%	39%	100%
Working age adults	24%	20%	56%	100%
Pensioners	46%	19%	35%	100%

Source: HBAI 2012/13, DWP

After housing costs, the picture for all individuals – and all population groups - is more stark. Half of all individuals in poverty were in extreme low income in 2012/13 after housing costs are taken into account.

Of the population sub-groups, working age adults in poverty are most likely to be in extreme low income, with over half of working age adults in extreme low income after housing costs. Four in ten children in poverty and just over one third of pensioners in poverty were in extreme low income after housing costs. However, pensioners in poverty are significantly more likely to be in the low income band than the other groups, after housing costs had been accounted for. In large part, this is because owner occupier pensioners tend to have either low mortgages or own their properties outright.

SECTION C - CHANGE IN THE DEPTH OF POVERTY 2002/03 TO 2012/13

Introduction

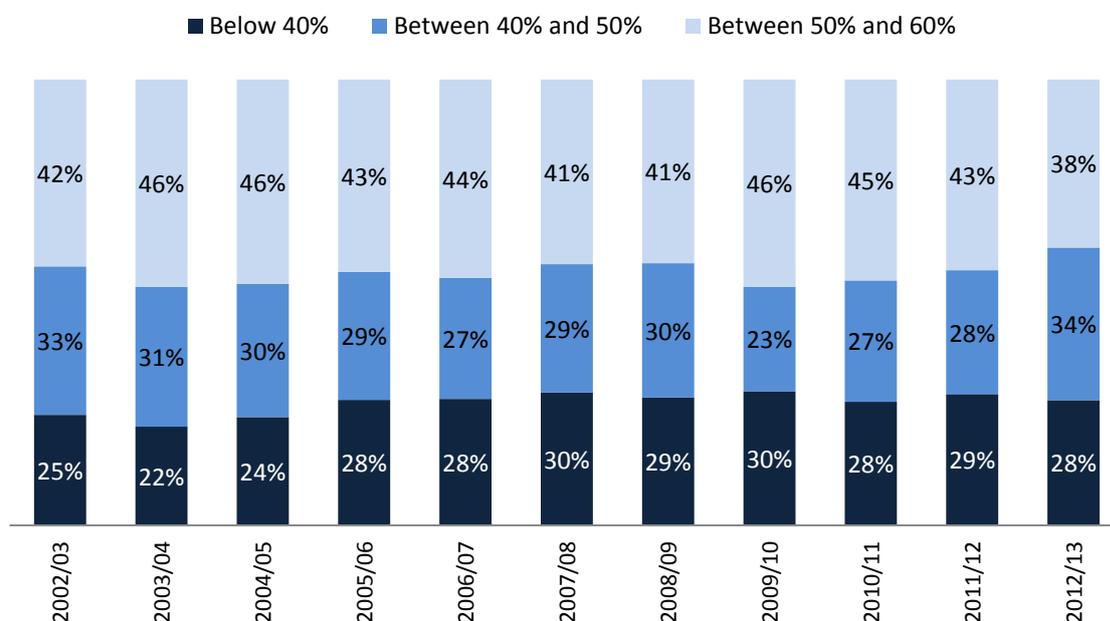
This section considers change in the depth of poverty over the ten years from 2002/03 to 2012/13. It uses the same income bands as in the previous section and again considers the whole population and population sub-groups.

Change in the depth of poverty over time for all individuals

Over the last decade, relative poverty has fallen: in 2012/13, 180,000 fewer people were in relative poverty (BHC) compared with 2002/03. More than half of this decrease was a fall in the number of people in the low income band. In 2012/13, there were 110,000 fewer people in low income than in 2002/03; 50,000 fewer people in severe low income; and 20,000 fewer people in extreme low income. The number and percentage of the population in low income, severe low income and extreme low income are available in Annex 1.

Chart 1 shows the change in the three income bands for all individuals in relative poverty, before housing costs.

Chart 1: All individuals living in relative poverty, BHC, Scotland



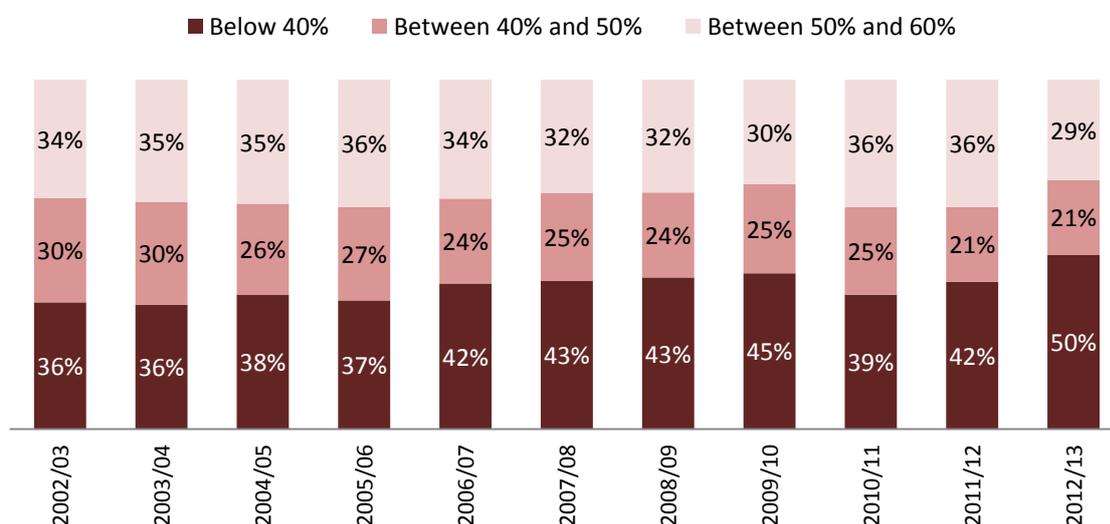
Source: HBAI datasets, DWP

The chart shows some fluctuation across the different income bands over the decade. In the most recent year, however, there was a noticeable reduction in the

proportions in low income closest to the poverty threshold, from the previous year, and a corresponding increase in the proportions in severe low income.

Chart 2 presents the same data, but after housing costs have been taken into account.

Chart 2: All individuals living in relative poverty, AHC, Scotland



Source: HBAI datasets, DWP

The depth of poverty after housing costs again shows some variation across the decade, but also a more obvious increase in the proportion in extreme low income with a large increase in the latest year. Certainly, the picture in 2012/13 is very different from ten years previously. In 2002/03, 36 per cent of people in poverty were living in extreme low income after housing costs, compared with 50 per cent in 2012/13.

Discussion: Severe and extreme low income after housing costs

The increase in the rate of severe and extreme low income after housing costs has been more rapid than that before housing costs particularly in the latest year. Median housing costs as a ratio of median income generally decreased in Scotland between 2002/03 and 2007/08 before increasing again. However, 2012/13 saw an increase in the proportion of people in poverty in extreme low income after housing costs which was not apparent in the before housing costs measure. For those in extreme low income, households are entirely or partially reliant of benefit and tax credit income, including housing benefit. Housing benefit makes a significant contribution to household income before housing costs. However, after housing costs are deducted, disposable income is significantly lower. Housing benefit makes up 20 per cent to 50 per cent of household income, dependent on household circumstances.

There have been a number of changes to housing benefit introduced since April 2011, and the impact on the divergence between income before housing costs and

after housing costs is dependent on individual households. Local Housing Allowance (LHA), which affects those in the private rented sector, determines the maximum amount of rent covered by housing benefit. In April 2011, LHA was reduced from the median (50 per cent) local rent level to 30 per cent local rent level, and national caps on LHA rates were introduced. This affected new claimants from April 2011 and existing claimants were mostly affected between January and December 2012. In addition, claimants can no longer keep the difference between their rent and the LHA rate (when rent is lower) – previously up to £15 per week. In April 2012, the age below which single people can only claim the shared-room rate increased from 25 to 35.

In 2010, across the UK, 55 per cent of tenants were renting a property that cost more than the maximum LHA entitlement, and therefore had to contribute to their own rent. Following the reforms this had increased to 62 per cent (and 68 per cent for new claimants)¹.

It appears that the impact of the changes to housing benefit have been felt by tenants rather than landlords, suggesting that the short term effect of reducing housing benefit to reduce rents has not occurred generally².

Further changes to housing benefit, made in April 2013, to index LHA to CPI rather than local rents, and capping of LHA increases to 1% in April 2014 and 2015, along with the introduction of the ‘bedroom tax’ in April 2013 for social sector tenants, could be expected to exacerbate the increases in extreme poverty after housing costs in the future.

The analysis now moves to consider the picture over time for working age adults, children and pensioners.

Change in the depth of poverty over time for working age adults

The rate of relative poverty (BHC) for working age adults in Scotland decreased by 5 percentage points between 2002/03 and 2011/12, from 18 per cent to 13 per cent, followed by an increase in 2012/13 to 15 per cent. However, working age adults experience the worst depth of poverty of the three population groups over time, particularly after housing costs. In 2012/13, over half of working age adults in poverty were in extreme low income after housing costs.

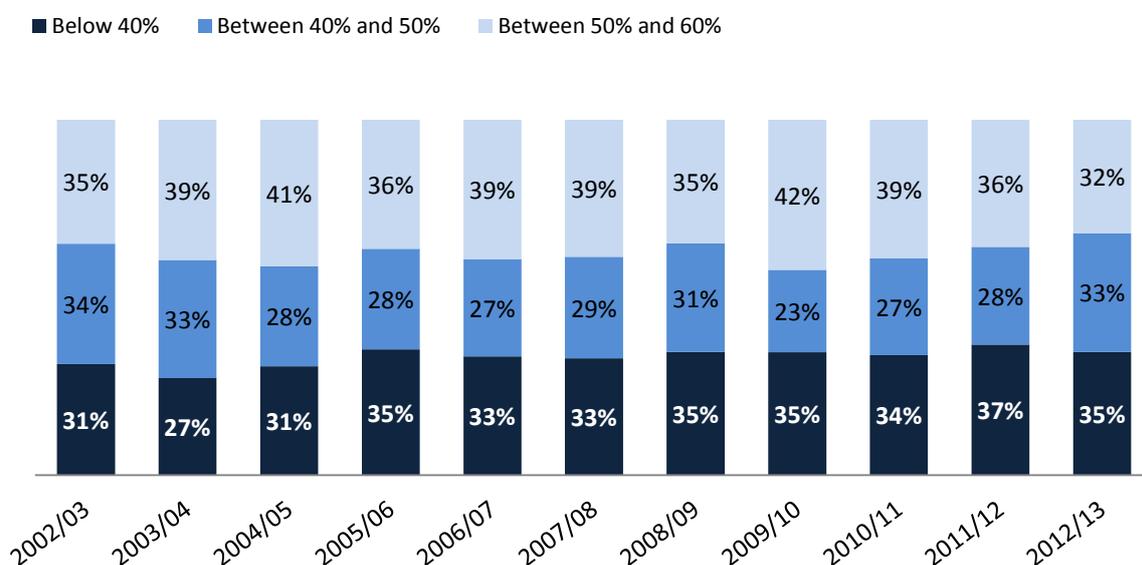
Chart 3 presents the change in income bands for this group across the decade. The depth of poverty for working age adults changed between 2002/03 and 2011/12. The proportion of working age adults in poverty living in extreme low income over this period increased; the proportion in severe low income decreased; and the

¹ <http://www.ifs.org.uk/publications/7277>

² <http://www.ifs.org.uk/publications/7277>

proportion in low income, while it fluctuated, was largely unchanged, although it has decreased over the last three years.

Chart 3: Working age adults in relative poverty, BHC, Scotland

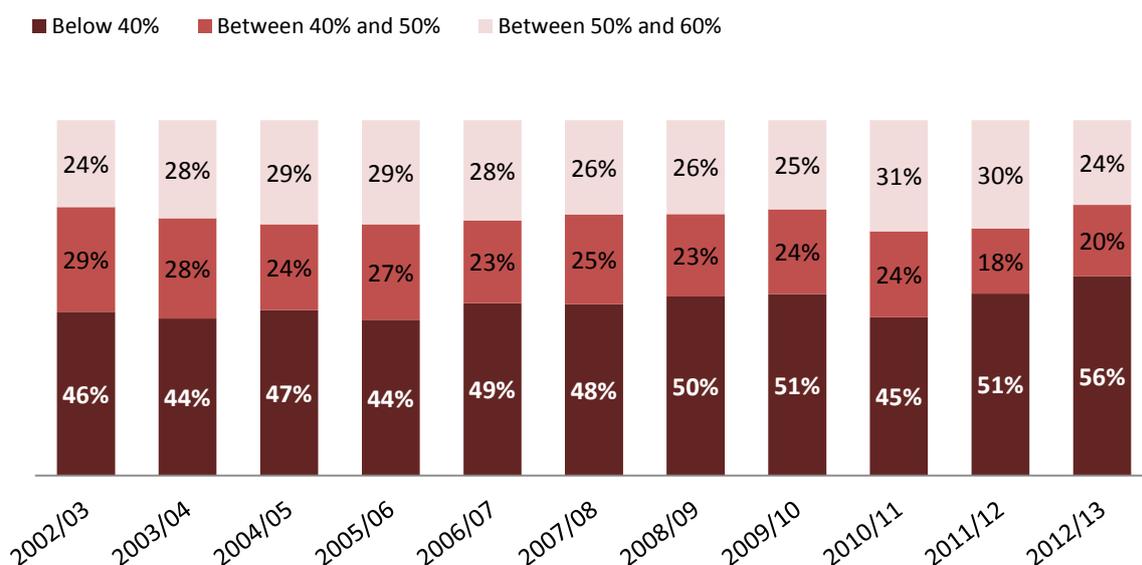


Source: HBAI datasets, DWP

In 2012/13, there was a decrease in the proportion of working age adults in poverty in the low income band (BHC), reflected by an increase those living in severe low income.

Chart 4 presents the same data, but after housing costs.

Chart 4: Working age adults in relative poverty, AHC, Scotland



Source: HBAI datasets, DWP

After housing costs are deducted, 24 per cent of working age adults in poverty were in low income, 20 per cent were in severe low income, and 56 per cent of working age adults in poverty were living in extreme low income. Of all population groups, working age adults show the largest increases in the proportions living in extreme low income, after housing costs, in recent years.

Discussion

Over the last decade, the growth in tax credits combined with modest improvements in wages has changed the composition of working household income sources³. For many working age households, disposable income rose in the decade to 2008. Following the introduction of tax credits in 2003/04, the proportion of working age adults with low income increased with a corresponding decrease in the proportion in severe low income and extreme low income. However, the proportions in extreme low income were increasing again by 2004/05 and have since remained higher than they were in 2002/03. In 2012/13 tightening of eligibility to tax credits, freezing some elements of benefits, changes to local housing allowance, along with low growth in earned income have resulted in a fall in median incomes for working age households, particularly for working age households with children.

Employment is the key driver for increasing household income, and while employment remains the best route out of poverty, it is no longer a protection against poverty. The capacity to move out of poverty is dependent on the rates of pay, the hours worked and the effects of the tax and benefit system. While the number and percentage of below national minimum wage jobs in Scotland decreased⁴ in 2013, 19 per cent of employees in Scotland were paid less than the Living Wage.⁵

Household income depends on family type, and the number of working age adults in the household. Single adult households have a higher risk of poverty, and the proportion of 'widowed, separated or divorced' people is around three times higher among those in poverty (24 per cent) than those outside poverty (7 per cent). Half of workers who are in poverty despite not being low-paid have children. For those not in low paid employment, with children, income needed to achieve the same standard of living is higher than for those without children. Equivalising income for family size results in these families with children, often with only one adult in employment, being in poverty. For low-paid workers who escape poverty this figure is under one third.

Historically, earnings have tended to rise in real terms and outstrip price-indexed benefit rates, boosting household incomes. However, welfare reforms made since May 2010 are likely to have had a negative impact on the lowest income

³ <http://www.jrf.org.uk/publications/wages-taxes-and-top-ups>

⁴ <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcM%3A77-328214>

⁵ KPMG Living Wage Research 2013

<http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/living-wage-research-2014.aspx>

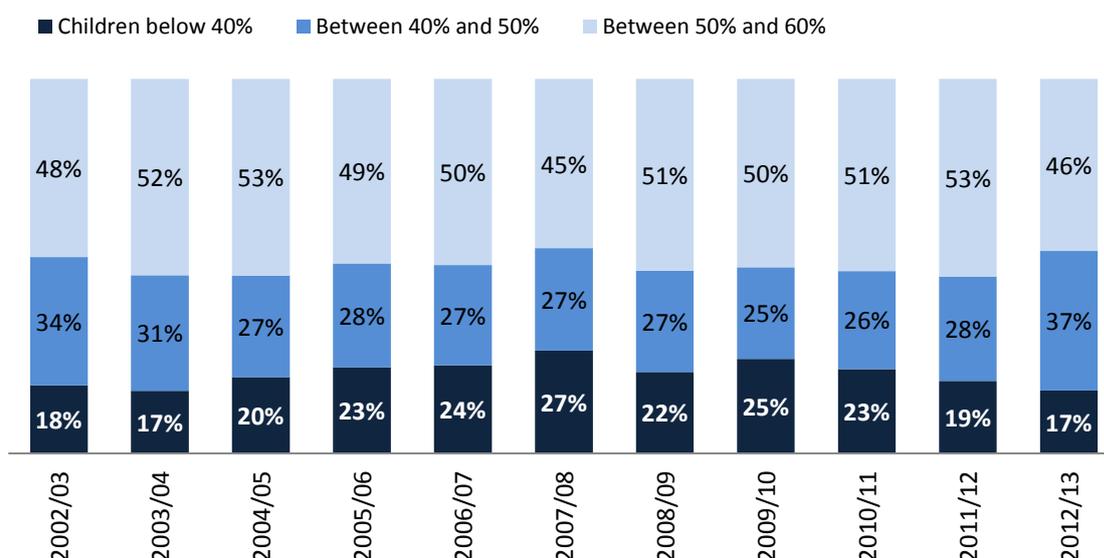
households⁶. By limiting rises in the value of most working-age benefits to 1 per cent for three years, as opposed to linking their increases to inflation, the amount of support given to low-income households in real terms will fall significantly. By 2017/18, reforms to personal taxes made in the 2012 Autumn Statement will provide the greatest benefit to those on middle incomes, but will not reverse the impact of real cuts to welfare. For households in the middle of the income distribution, the increase in the personal allowance will provide a small increase to incomes, but the poorest households gain less from this change.⁷

Change in the depth of poverty over time for children

Over the decade to 2012/13, the rate of relative poverty for children in Scotland saw a similar decline to that of working age adults, decreasing by 5 percentage points from 24 per cent in 2002/03 to 19 per cent in 2012/13. However, the picture as regards the depth of poverty for children is somewhat different. Children in poverty are less likely to be in the extreme low income band before and after housing costs and are more likely to be in the low income band before and after housing costs than working age adults.

Chart 5 below highlights that, over the period, around half of children in poverty were in the low income band just below the poverty threshold. In the latest year, this proportion has fallen, with a corresponding increase in the proportion in the severe low income band.

Chart 5: Children in relative poverty, BHC, Scotland



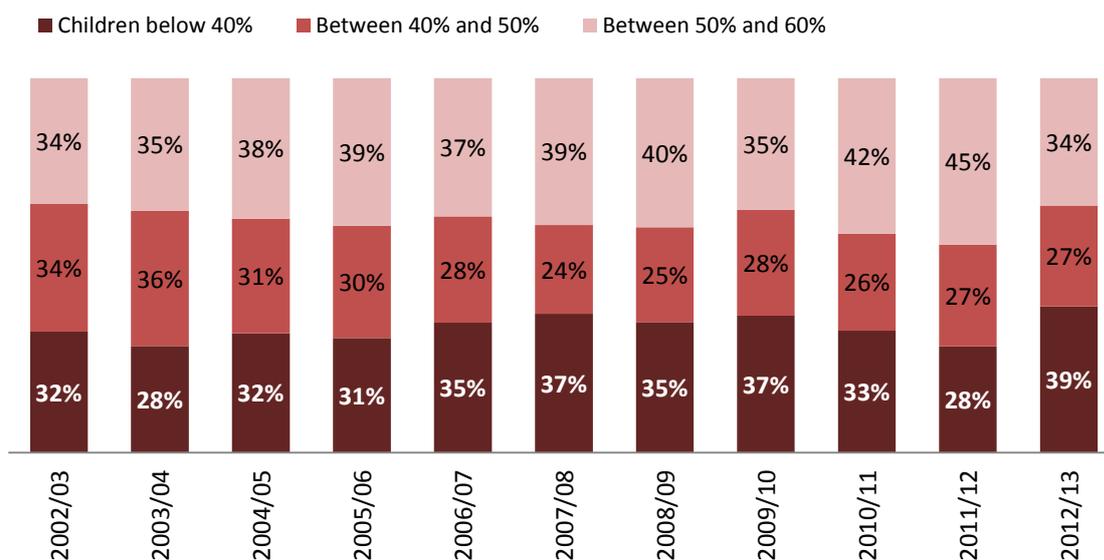
Source: HBAI datasets, DWP

⁶ See for example <http://www.ifs.org.uk/publications/7535> and <http://www.ifs.org.uk/publications/7534>
⁷ <http://www.ippr.org/publications/analysis-of-tax-and-benefit-changes-in-the-autumn-statement>

The proportion of children in poverty in the extreme low income band increased slowly until 2007/08, before decreasing since then. Nevertheless, in 2012/13, 17 per cent of children in poverty were in extreme low income. This equates to household income (before housing costs) of less than £269 per week for a couple with two children and £211 per week for a single parent with two children.

Chart 6 presents the same data, but after housing costs.

Chart 6: Children in relative poverty, AHC, Scotland



Source: HBAI datasets, DWP

After housing costs are accounted for, the proportion of children in poverty in the low income band was lower than before housing costs, but for most years, there were more children in this than other bands. However, in 2012/13, the proportion of children living in the low income band fell sharply to 34 per cent from 45 per cent in 2011/12, while the proportion in extreme low income rose to 39 per cent (from 28 per cent). The proportion in severe low income was unchanged in the latest year at 27 per cent.

For families with children, those in poverty are more reliant on benefit income to maintain household income, even if one or both of the adults are in employment. For example, housing benefit contributes around a third of household income for an unemployed single parent family, and around 22 per cent of household income for a single parent family in part time employment. For unemployed couple families, housing benefit contributes around 30 per cent of household income and 13 per cent if one adult is in full time employment⁸. After housing costs, disposable income is significantly lower for many families.

⁸ Analysis assumes employment at national minimum wage. Housing benefit is a means tested benefit so the contribution to income is dependent on actual earnings and local housing allowance. Analysis based on tax and benefits in 2012/13.

Discussion

For families with children, the positive impacts of tax credits (introduced in 2003/04) increased household incomes relative to households without children. This is reflected in the charts above, with the shift in the proportion of children in poverty from severe low income to low income households. While tax credits have had a positive impact on the group, increasing household incomes, the percentage of children in extreme low income before housing costs generally increased to 2007/08, before decreasing to 17 per cent in 2012/13. Children in families in extreme low income are significantly more likely to be living in households where benefit income is the sole source of income. Up to 2010/11, some benefits relating to children were uprated at a faster rate than other benefits; however these increases were still not as large as the increase in average earnings in real terms.

Employment is the key driver for increasing household income in families with children. Employment remains the best route out of poverty, but it is no longer a protection against poverty. Depending on the hours worked, this is enough to increase income, but not to levels to move the family out of poverty. If employment is low paid (at or below national minimum wage) even full time employment would not lift a single parent family out of poverty.

While employment does reduce the risk of severe and extreme poverty for families with children, where employment is low paid, or part time, families remain reliant on benefit and tax credit income to raise household income to levels close to the poverty threshold.

For families in employment, much of the fall in poverty was due to an increase in employment rates for lone parents, and to an increase in employment rate for couple families, as more couple families moved into full employment (where both adults were in employment). However, in 2012/13, reduced eligibility for in-work tax credits has contributed to a fall in household income for those with lower earnings who were unable to increase the number of hours worked. In addition, other changes to benefits and tax credits in April 2012⁹, have affected household income for families with children.

For single parents, opportunities for employment as a route out of poverty are more limited. Over the last decade the employment rate for lone parents has increased¹⁰. However, analysis shows the work that lone parents had done since leaving income

⁹ Other changes to tax credits and benefits affecting families with children were freezing the basic element of working tax credits, increasing the minimum number of hours worked to qualify for tax credits for couple families, freezing the income threshold for child tax credits, abolishing the second income threshold for child tax credits, and the introduction of the income disregard for tax credits

¹⁰ In 2012 the employment rate amongst female lone parents, aged 16 to 64, stood at 54.9 per cent, compared to 74.8 per cent amongst all other female parents and 66.8 per cent for all women in Scotland. There has been a steady increase in the lone parent employment rate from 42 per cent in 1998, 48 per cent in 2000, 53 per cent in 2002, and 56 per cent in 2006. Labour market statistics are available at: <http://www.scotland.gov.uk/Topics/Statistics/Browse/Labour-Market/Publications>

support was generally low-skilled work at around the national minimum wage. Nearly all were working part-time. And while lone parents who had entered work or increased their hours were less likely to be in material deprivation and on low income, nearly four in ten remained in low income and material deprivation.¹¹

For couple families, the move to full employment can increase income enough to move above the poverty threshold. Again, it is hours worked and pay rates that determine whether a family can raise income enough to increase household income above the poverty threshold. Based on the tax and welfare reforms in place in 2012/13, single parent families remain reliant on benefit and tax credit income to raise household income beyond the poverty threshold¹². For a couple with one adult in full time employment and one adult in part time employment on low pay, earnings make up around three quarters of household income needed to meet the poverty threshold. Increasing the hourly rate of pay, and moving both adults into full time employment would allow the household income to increase beyond the poverty threshold¹³.

For families not in employment, there is little opportunity to increase income. Households in the bottom three income deciles are significantly more likely to be dependent on benefit income as the only source of income. Over the period, while increases to some benefits relating to families with children were uprated at a faster rate than other benefits, these increases were still not as large as the increase in average earnings in real terms. However since 2010/11, low wage growth has meant benefits have increased faster than earned income, reflected in the fall in the proportion of children in poverty living in extreme poverty households in these two years. However, poverty rates for children in workless families in Scotland remains high¹⁴.

In the last two years, low wage growth, combined with welfare reform, has contributed to the increase in the proportion of children living in severe low income, while the proportion in extreme low income has seen a decrease in the last two years. Prior to the recession, average earnings increased faster than benefit income, meaning families with children who were in employment were more able to increase household income relative to families who were not in employment.

This indicates policies to improve the incomes of the poorest children, while improving the financial circumstances of the less poor, have not had a positive impact on reducing the rate of extreme child poverty. It is these families with children at the bottom of the income distribution who are less likely to be in employment (or

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214372/818summ.pdf

¹² For a single parent with two children working full time on national minimum wage, earned income makes up around two thirds of the household income required to raise income to the poverty threshold. Increasing the hourly rate of pay means only small increases in household income, as increases in earnings are matched by decreases in benefit income (assuming no childcare costs).

¹³ Assuming no childcare costs.

¹⁴ <http://www.jrf.org.uk/publications/referendum-briefing-child-poverty-scotland>

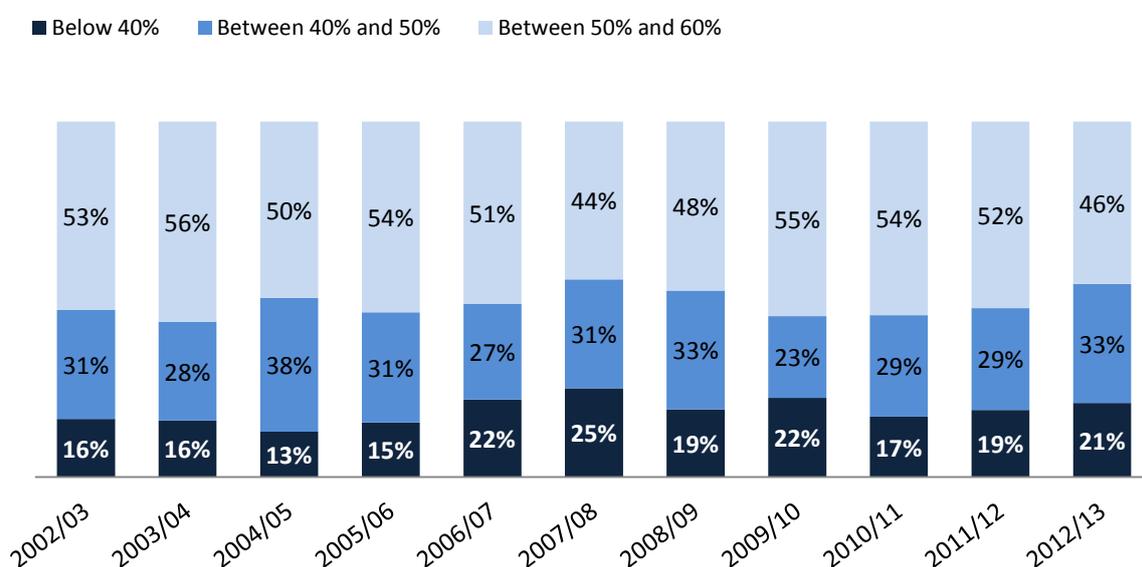
full employment), and who may face additional barriers to the labour market, who are least able to increase household incomes and move up the income distribution.

Change in the depth of poverty over time for pensioners

Between 2002/03 and 2011/12, relative pensioner poverty has decreased nearly 10 percentage points from 23 per cent to 14 per cent, followed by a small increase to 15 per cent in 2012/13. Analysis of the depth of poverty suggests that pensioners in poverty are more likely to be in the low income band closest to the poverty threshold, particularly after housing costs are taken into account. Of the three population groups considered in this analysis, pensioners were the least likely to live in severe or extreme poverty, particularly after housing costs.

Charts 7 shows change in the depth of pensioner poverty over time, before costs.

Chart 7: Pensioners in relative poverty, BHC, Scotland



Source: HBAI datasets, DWP

The chart shows that, over the last decade, around half of pensioners living in poverty (BHC) were in households with incomes just below the poverty threshold. Nevertheless it is still noteworthy that, in 2012/13, 21 per cent of pensioners in poverty were in the extreme low income band (£176 per week for a pensioner couple, and £118 per week for a single pensioner). The proportion of pensioners in poverty living in extreme low income has fluctuated over the last decade reaching 25 per cent in 2007/08 before falling to 17 per cent in 2010/11, with small increases in the last two years. The proportion of pensioners in extreme low income (BHC) in 2012/13 remains significantly higher than in 2002/03.

Chart 8 presents the same information, but after housing costs.

Chart 8: Pensioners in relative poverty, AHC, Scotland



Source: HBAI datasets, DWP

After housing costs there has been a large increase in the proportion of pensioners in poverty in extreme low income – an increase from 23 per cent in 2011/12 to 35 per cent in 2012/13.

There are a number of reasons why the depth of poverty for pensioners overall looks better than for other groups. First, taking a longer view, pensioner incomes have grown faster than average earnings across the economy as a whole since 1998-99 and net income after housing costs has grown more quickly. This is partly due to the fact that pensioners are now more likely to own their home outright than they were in 1998-99, and so have lower housing costs¹⁵¹⁶. Pensioners in the middle of the income distribution have seen faster growth than those in the upper end of the distribution.

Second, more recently, the rate of increase in the Basic State Pension has been higher than average earnings increases since 2009, which means pensioner income has increased faster than income for working age families, and at a faster rate than for most other benefit and tax credit income. The introduction of Pension Credit in 2003, which guarantees a minimum income for pensioners, has had a large impact in maintaining pensioner minimum income. However, take up rates remain below 80 per cent for the Guarantee Credit only in 2010¹⁷.

¹⁵ Households Below Average Income: An analysis of the income distribution 1994/95 – 2010/11 http://research.dwp.gov.uk/asd/hbai/hbai2011/pdf_files/full_hbai12.pdf).

¹⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223182/pi_series_1011.pdf

¹⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/222915/tkup_full_report_0910.pdf

There are, of course, differences in the depth of poverty in terms of different groups of pensioners.

Pensioner couples are less likely to be in extreme low income. Pensioner couples on average have around two-and-a-half times the level of occupational pensions and approximately three times the amount of investment income as single pensioners. Benefit income makes up less than half of all income for pensioner couples, while it makes up over 70 per cent of income for single pensioners.¹⁸

Older pensioners (aged 75 or older) on average have lower incomes across all pensioner age groups. Higher earnings and higher private pension income are the main sources of difference between younger and older pensioners' incomes. For the 75 or over group, the lack of earnings means that a greater proportion of gross income comes from benefits.

Female pensioners on average have lower incomes across all pensioner age groups. The main difference between the genders occurs for occupational pension income. In 2010-11, single men received £99 per week on average from this source, compared with £61 per week for single women¹⁹. Single men also received more investment and personal pension income, while average incomes from other sources were more consistent for single men and women.

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223182/pi_series_1011.pdf

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223182/pi_series_1011.pdf

SECTION D: FACTORS INFLUENCING THE RISK OF SEVERE AND EXTREME POVERTY

Introduction

This section considers the extent to which the following factors influence the risk of severe and extreme poverty:

1. Employment status
2. Family type
3. Adult disability
4. Age of mother and child poverty
5. Family size
6. Ethnic group

The factors identified below are dependent on characteristics available in the FRS, and that can be linked to the household, but their selection was also based on analysis published elsewhere on the drivers of poverty^{20 21}. However, the FRS does not contain any data on broader structural issues – the structure and accessibility of the labour market, the extent to which high quality affordable housing is available, the extent to which energy markets are providing low cost home energy for poorer consumers, and the cost of living more broadly. These are likely to be the key drivers of severe and extreme poverty in the UK over recent years.

This analysis uses three year pooled FRS data. It uses the poverty thresholds to investigate risk factors, as these provide larger sample sizes.

²⁰ For example see

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/285389/Cm_8781_Child_Poverty_Evidence_Review_Print.pdf ; <http://dera.ioe.ac.uk/14156/1/poverty-report.pdf>;
http://www.childrenssociety.org.uk/sites/default/files/tcs/measuring_child_poverty_final.pdf;
<http://www.savethechildren.org.uk/resources/online-library/policy-brief-measuring-severe-child-poverty-uk>.

²¹ One factor not directly included below is parental qualifications. This is an individual characteristic, and so difficult to categorise as a household characteristic. While low educational qualifications are linked to a higher poverty risk, this is also reflected in the economic status of a household and the income from employment. Note that other factors are known to affect the risk of poverty, such as parental mental health.

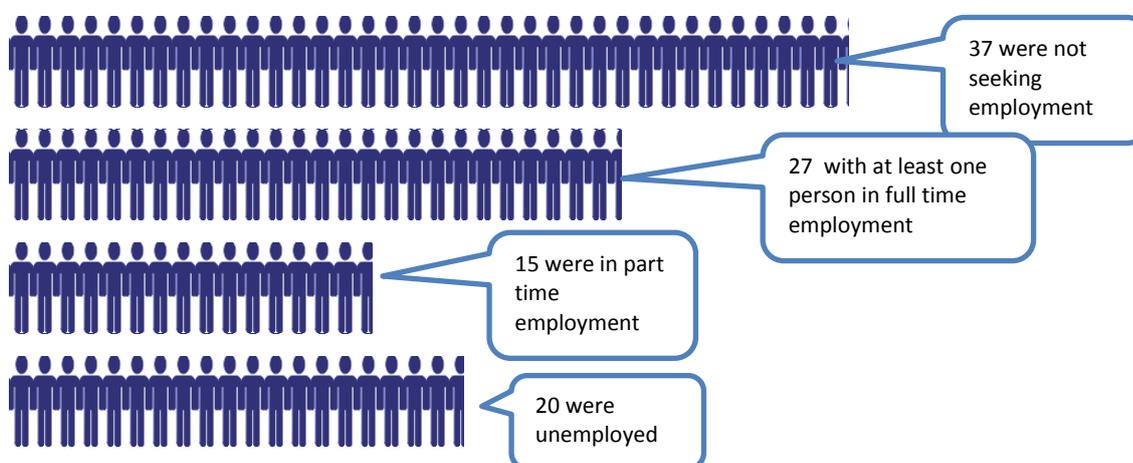
1. Employment status

Employment significantly reduces the risk of severe and extreme poverty. However, in-work poverty remains a problem for those in severe and extreme poverty. More than four in ten working age adults and more than half of children in severe and extreme poverty lived in working households in 2012/13.

The nature of poverty has changed in Scotland and in the UK. While employment remains the best route out of poverty, the last decade has seen a steady increase in working poverty. In 2012/13, the majority²² of children and working age adults living in poverty in Scotland were in 'working' households²³.

The graphic below shows the employment status of working age adults in severe poverty.

For every 100 working age adults in severe poverty:



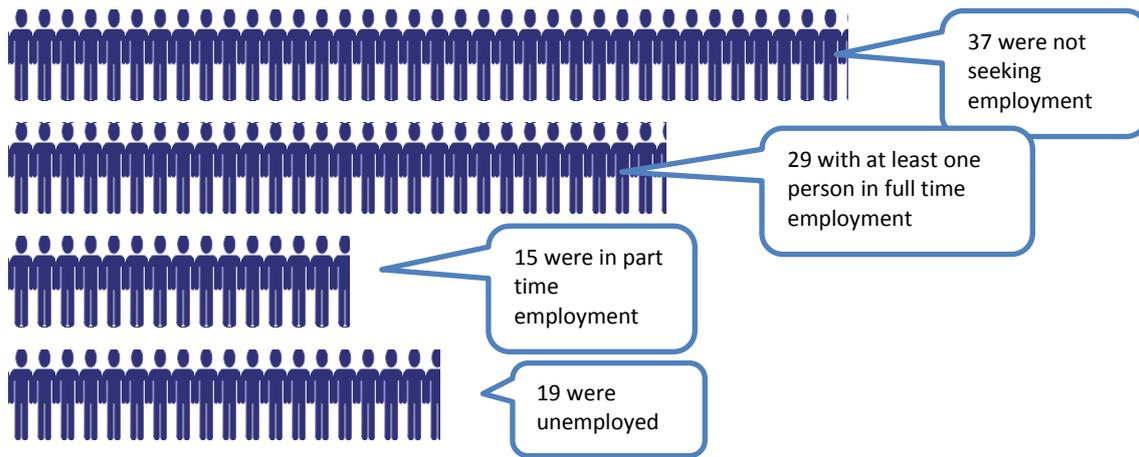
The graphic makes clear that over half of working age adults in severe poverty were not in employment in 2012/13 - either unemployed or not actively seeking employment. Note, however, that over four in ten of this group (43 per cent) were in households where at least one adult was in employment, and 27 per cent were in households where at least one adult was in full time employment.

The composition of working age adults in extreme poverty mirrors this picture – see graphic below - with very similar numbers in employment, unemployed, and not seeking employment.

²² 52 per cent of working age adults in poverty were living in a working household in 2012/13, as were 59 per cent of children living in poverty.

²³ Working households are defined as households where at least one person is in employment, either full-time, part-time, or self-employment.

For every 100 working age adults in extreme poverty:

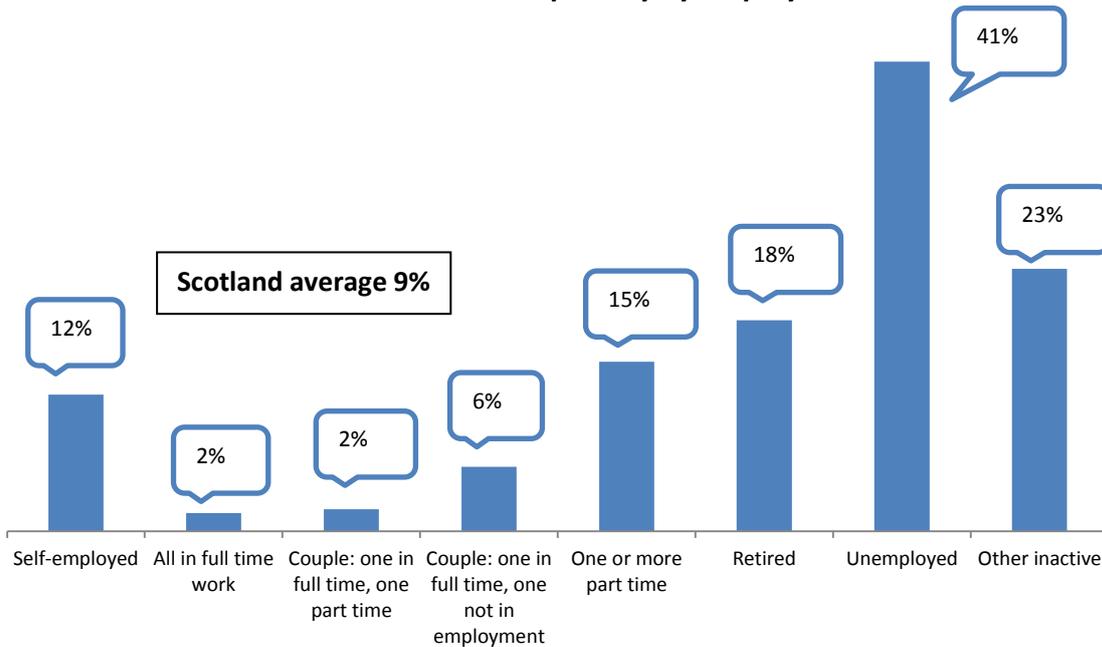


Analysis of the FRS shows that households not in employment have a higher risk of severe poverty and extreme poverty; this is especially the case for unemployed households. However, while households in employment are significantly less likely to be in severe or extreme poverty, a significant percentage of people in severe and extreme poverty live in households where at least one adult is in employment. For example, in 2012/13:

- 10 per cent of working age adults (330,000) lived in severe poverty households, of which 43 per cent of lived in working households.
- 5 per cent of working age adults (170,000) lived extreme poverty households, of which 44 per cent lived in working households.

Chart 9 below shows the risk of severe poverty for working age adults by employment status.

Chart 9: Risk of severe poverty by employment status



Source HBAI 2010/11, 2011/12 and 2012/13, DWP

The chart makes clear that **the risk of severe poverty increases significantly as household work intensity decreases, and particularly when households move into unemployment.** The risk of severe poverty for unemployed households was 41 per cent, compared with 2 per cent for working age households with at least one person in full time employment.

Table 5 below shows the percentage of people in relative, severe and extreme poverty who are in employment. For families with children in severe poverty, 55 per cent were in some form of employment, and 39 per cent had at least one adult in full time employment. For families with children in extreme poverty, 60 per cent were households with at least adult in employment, and 50 per cent had at least one adult in full time employment. However, this does not account for family type or hours worked and pay rates. The higher percentage of children in extreme poverty households in employment and full time employment reflects households where one adult is in full time employment while the other is not in employment. Analysis for the UK shows around two-thirds (65 per cent) of all parents in low income who enter work move out of low income. This varies by work pattern: 46 per cent move out of low income for part time work and 80 per cent for full time work.²⁴

²⁴ The DWP research report [Parents' work entry, progression and retention and child poverty](#)

Table 5: Per cent of households in poverty in employment

	Below 60% threshold	Below 50% threshold	Below 40% threshold
Working age adults in households with at least one adult in employment	45%	43%	44%
Working age adults in households with at least one adult in full time employment	30%	27%	29%
Children in households with at least one adult in employment	53%	55%	60%
Children in households with at least one adult in full time employment	39%	39%	50%
People in households with at least one adult in employment	39%	39%	42%
People in households with at least one adult in full time employment	27%	25%	29%

Source HBAI 2010/11, 2011/12 and 2012/13, DWP

While being in employment reduces the risk of being in poverty, being in full-time employment significantly reduces the risk of poverty. For working age households, both with and without children, where at least one adult is in full time employment, the risks of severe poverty and extreme poverty were small. However, for those in severe and extreme poverty, over 40 per cent were in working households.

The risks of severe and extreme poverty are increased as household work intensity decreases. Full time employment by at least one adult in the household significantly reduces the risk of relative poverty, severe poverty and extreme poverty. This is reduced further as a household moves towards full working – with one adult in full time employment and the other in at least part time employment²⁵. The risk of relative poverty, severe poverty and extreme poverty increases quickly for working age households where adults are in part time employment only.

For households in employment, those in self-employment had the highest risk of severe poverty, and extreme poverty²⁶.

Households not in employment may be so for differing reasons, and the reason for not being in employment determines the risk of severe and extreme poverty. For working age households with a retired head, the risk of relative poverty, severe poverty, and extreme poverty is lower than that for households in part time employment only (but higher than for households in full time employment). Working

²⁵ The risk of severe and extreme poverty for households with all adults in full time employment and those with one adult in full time employment and the other in part time employment are largely the same. This may reflect the contribution of benefits and tax credits for households with a second adult in part-time employment (especially households with children) in increasing household income.

²⁶ The majority of self-employed households in Scotland are working age households without children. Although there were self-employed people in extreme poverty, the majority are in low income rather than extreme poverty. There are data issues in reporting the income of self-employed people. For detailed analysis on the link between hardship and income see <https://ideas.repec.org/p/esx/essedp/736.html>

age households who are unemployed had the greatest the risk of low income, severe poverty and extreme poverty, and this was significantly higher than for any other households.

2. Family type

While single parent families have the greatest risk of relative poverty, single adult households without children had the greatest risk of severe and extreme poverty.

Table 6 below, is based on three years of pooled data, and considers the risk of relative, severe and extreme poverty by family type. This shows that, while single parent households had the highest risk of relative poverty, single adult households without children had the highest risk of severe poverty and extreme poverty. Single parent households and single pensioner households also had a higher risk of severe poverty, although there was no difference in the risk of extreme poverty. Couples without children and pensioner couples had the lowest risk of severe poverty.

Table 6: Risk of poverty by family type			
	Below 60% threshold	Below 50% threshold	Below 40% threshold
Pensioner: Couple	13%	6%	2%
Pensioner: Single	18%	10%	4%
Couple: Dependent children	13%	7%	3%
Single parent: Dependent children	25%	11%	4%
Couple: no children	8%	6%	4%
Single: No children	19%	14%	8%
TOTAL	15%	9%	4%

Source HBAI 2010/11, 2011/12, and 2012/13, DWP

For **single adults without children**, the risk of severe and extreme poverty differs by age and gender. Single males without children aged between 30 and 49 years had a higher risk of severe poverty than single females without children in this age group. The risk of severe poverty is not significantly different for younger (aged less than 30) single males and females without children.

For **single adults without children in employment**, the increases in the personal allowance have helped to increase earnings. However, this only applies to those adults earning more than the tax threshold. Since 2001/02 there has been a rise in the number of working age adults without children in in-work poverty, and no change in the number in workless families without children.

For **unemployed single adult households without children**, basic out-of-work benefits are less generous than for families with children. Up to 2010/11, some benefits relating to households with children were uprated faster than other benefits, meaning smaller increases in benefit income for single adult households compared with other households. Further, unemployment rates have been higher for younger

age groups. With the onset of recession in 2008, unemployment rose for all age groups. But since 2010, the only subsequent rise in unemployment has been among young adults. By mid-2012, the unemployment rate for under-25s (unemployed people as a proportion of those either in work or unemployed) was 21%. The rate for over-25s was 6%.²⁷

The Joseph Rowntree Foundation's Minimum Income Standard analysis²⁸ reveals that basic out-of-work benefits provide well under half of the minimum income (net of rent and council tax) required for an adult with no children, and around 60 per cent of the requirements of families with children, and 95 per cent of the budget for pensioners.

Of **families with children**, single parent households have a significantly higher risk of low income than couple families. There is a strong association between being the child of a lone parent and the parent not being in employment. Lone parents can face significant barriers to finding employment that is appropriate to their circumstances and to accessing and paying for the support required to stay in employment²⁹.

Lone parents face additional barriers to the labour market, such as lack of affordable and flexible childcare which pushes them into part time work, with part time employment more likely to be low paid than full time employment³⁰. Oxfam research³¹ at the UK level has shown single mothers are more likely to take insecure low paid employment which fits around their caring responsibilities.

For couples with children, mothers are still less likely to be in work and much less likely to be in full-time work than women without children, or men. The UK is behind the top performers in the following three areas: mothers of children aged three to five; single mothers; and mothers with three or more children.³²

The combination of low work intensity and low pay for many parents results in severe poverty which is difficult to move out of until children do not need childcare (typically secondary school age). Analysis of the Growing Up in Scotland (GUS) dataset

²⁷ Monitoring Poverty and Social Exclusion in Scotland 2013

<http://www.jrf.org.uk/publications/monitoring-poverty-scotland-2013>

²⁸ Minimum Income Standards 2014 <http://www.jrf.org.uk/publications/minimum-income-standard-2014>

²⁹ In Scotland in 2012, the employment rate amongst female lone parents, aged 16 to 64, stood at 54.9%. This compares to 74.8% amongst all other female parents and 66.8% for all women in Scotland. The rate of females in Scotland not in employment and not seeking employment in 2013 was 27.9%. Of these 28.6% were not seeking employment because they were "looking after family/home". This compares with 6.6% of economically inactive men in Scotland.

³⁰ Despite accounting for just under 30 per cent of all jobs, part-time workers held over 60 per cent of minimum wage jobs. Around 11 per cent of part-time jobs were minimum wage jobs compared with 3 per cent of full-time jobs.

³¹ <http://www.oxfam.org.uk/uk-poverty-blog/blog/2013/12/challenges-facing-single-parents-in-the-uk>

³² OECD 2011 Doing Better for Families: United Kingdom <http://www.oecd.org/els/soc/47701096.pdf>

highlights that, for families, childcare is a significant factor in securing employment³³. Such findings suggest that parents are likely to use childcare in order to work, and that when childcare is not available or affordable, this acts as a barrier to seeking employment.³⁴

3. Adult disability

While households with a disabled adult have a greater risk of relative poverty, there are no significant differences in the risk of severe and extreme poverty.

Households which include a disabled adult³⁵ have a higher risk of relative poverty than those that do not. One in five people living in households with a disabled adult are in relative poverty, compared with one in seven for households that do not have a disabled adult.

Table 7 compares the proportion of households which include a disabled adult with households with no disabled adults, in relation to their risk of severe and extreme poverty. In 2012/13, one in ten people living in households containing a disabled adult was in severe poverty, and one in twenty were in extreme poverty. The risks of severe or extreme poverty were broadly similar for households which include a disabled adult and those that do not.

Table 7: Risk of Severe and extreme Poverty 2012/13: Disability of adult			
	Below 60% threshold	Below 50% threshold	Below 40% threshold
Family with an adult with disability	20%	11%	4%
Family with no adults with a disability	14%	9%	5%
Total	16%	10%	4%

Source HBAI 2012/13, DWP

Note: In 2012/13 the Family Resources Survey (FRS) disability questions were revised to reflect new harmonised standards. Comparisons between the 2012/13 figures in this report and past data should be made with caution, as they may be affected by the change in the definition of disability. For this reason, the table above is based on 2012/13 FRS data only

³³ GUS analysis showed amongst unemployed parents, 55% reported that they would prefer to work or study if they were able to afford good quality, reliable and convenient childcare; similarly 62% of non-working parents and 53% of working parents in a separate Scottish Government report identified childcare as a major factor in their decision to work.

³⁴ Child Poverty in Scotland: a brief overview of the evidence
<http://www.scotland.gov.uk/Resource/Doc/304557/0107230.pdf>

³⁵ The FRS defines disabled people as those who report any physical or mental health condition(s) or illness(es) that last or are expected to last 12 months or more, and which limit their ability to carry out day-to-day activities a little, or a lot.

One of the main reasons that disabled working-age adults are more likely to be in low-income households is because they are less likely to be in work. The employment rate for disabled people remains at around half of that for people without disabilities. Within this, there are significant differences. For people with work-limiting disabilities³⁶ only, the employment rate in 2012 was 60.5 per cent. For people who are disabled in terms of the Disability Discrimination Act (DDA) and had work limiting disabilities, the employment rate was 28 per cent. These figures compare with nearly eight in ten people who have no disability. There is also a higher incidence of low paid employment for people with disabilities.³⁷

Households with a disabled adult who are not receiving disability benefits³⁸ face a higher risk of low income than those who do receive disability benefits³⁹.

4. Age of mother and child poverty

For families with children, age of the mother affects the risk of poverty. The risk of relative poverty, severe poverty and extreme poverty where the mother is aged less than 25 is nearly double that for any other age group.

Analysis of the FRS, using three year pooled data, suggests that the risk of children living in poverty is influenced by the age of the mother.⁴⁰ The risk of relative poverty increases significantly if the mother is less than 25 years old. For families where the mother is over 25, the risk of relative poverty is similar across the age bands. This is also the case for the risk of severe poverty and extreme poverty. This pattern holds whether we look at all individuals in families with children, only children, or family units.

³⁶ 'Work-limiting disability' is a LFS classification and comprises those people who stated that they have had health problems for more than a year and that these problems affect either the kind or amount of work that they can do. LFS also records whether or not someone is disabled in terms of the Disability Discrimination Act (DDA). Those who are disabled according to the Disability Discrimination Act but not according to the work-limiting definition have work rates which are similar to those who are not disabled under either definition. Note that there is a high overlap between the two groups and that both are of similar size.

³⁷ At the UK level, accounting for 8.1 per cent of total employee jobs, disabled workers held 10.2 per cent of all minimum wage jobs. Around 10.9 per cent of jobs held by disabled workers were minimum wage jobs compared with 7.8 per cent for non-disabled workers. National Minimum Wage Low Pay commission Report 2014.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/288847/The_National_Minimum_Wage_LPC_Report_2014.pdf

³⁸ Disability benefits include Disability Living Allowance; Armed Forces Compensation Scheme; Attendance allowance (for those over 65 years); Industrial Injuries Disablement Benefit.

³⁹ HBAI: UK analysis shows in 2012/13 the rate of low income (BHC) for working-age adults living in families containing one or more disabled member and not receiving disability benefits was 23 per cent compared 17 per cent for those in receipt of disability benefits.

⁴⁰ The FRS Age analysis includes only benefit units with children (families, not households). Where there were two adults in the benefit unit and one was female, age of the female is used. Where it was a single parent family or there was no female adult for whatever reason the age of the parent was used regardless of gender. Around 3% of households with children had no female adult.

For families with children, the risk of relative poverty where the mother is aged less than 25 is nearly double that for any other age group. Young mothers have a 38 per cent risk of relative poverty; a 17 per cent risk of severe poverty, and a 9 per cent risk of extreme poverty.

Table 8: Risk of severe and extreme poverty: Children 2010/11 - 2012/13: Maternal age

Age of mother	Below 60% threshold	Below 50% threshold	Below 40% threshold
<25	38%	17%	9%
25-29	18%	10%	4%
30-34	18%	6%	3%
35-39	16%	9%	3%
40-44	14%	7%	3%
45-49	12%	7%	3%
50+	16%	10%	5%
Total	17%	8%	3%

Table 9: Risk of severe and extreme poverty: Families with children 2010/11 - 2012/13: Maternal age

Age of mother	Below 60% threshold	Below 50% threshold	Below 40% threshold
<25	37%	18%	9%
25-29	17%	10%	4%
30-34	16%	6%	2%
35-39	15%	8%	3%
40-44	13%	7%	3%
45-49	11%	6%	2%
50+	16%	10%	5%
Total	16%	8%	3%

Source: HBAI dataset DWP

This analysis confirms that by Save the Children, who found (based on 2009 FRS data) that children living with adults aged 25 and under were at higher risk of severe poverty: 30 per cent of children in this group were living in severe poverty – although they account for only 14 per cent of children in severe poverty.

Younger mothers have had less time to gain progression in their employment, and are also more likely to have younger children, which impacts on their ability to take up employment opportunities. Many mothers also choose to take time out of employment while their children are very young. This means for these households, many will only have one income, increasing the risk of low income.

5. Family size

The risks of relative poverty and severe poverty increase sharply if a family has three or more children. However, the risk of extreme poverty is broadly similar in smaller family sizes, and it is lower than that for households without children.

Table 10 shows that the risks of relative poverty and severe poverty increase sharply if a family has three or more children. However, the risk of extreme poverty is broadly similar in smaller family sizes, and it is lower than that for households without children. There is little difference in the risk of relative poverty, severe poverty and extreme poverty for working age households without children and those with one and two children.

Table 10: Risk of severe and extreme poverty: Number of children

Number of children	Below 60% threshold	Below 50% threshold	Below 40% threshold
0	14%	9%	5%
1	14%	8%	3%
2	15%	7%	3%
3	23%	11%	2%
More than 3	24%	12%	3%

Source: HBAI Dataset 2010/11, 2011/12, 2012/13 DWP

Couple families with children are more likely to be in employment. Of those in poverty, couple households with children below the poverty threshold were more likely to be in employment than those without children⁴¹. The combination of earned income and tax credit and benefit income, while below the relative poverty threshold, moves families with children out of extreme poverty.

Again, **access to flexible and affordable childcare is a particular issue for larger families**, which acts as a barrier to taking up employment opportunities. While 50 per cent of households with children in extreme poverty contained at least one adult in employment, the pattern was for one adult in employment with the other adult not in employment. The risk of extreme poverty fell significantly for couple families with children when both adults were in employment with one in full time employment.

⁴¹ 72% of the couple households with dependent children with household income below the 60% income threshold had at least one adult in work, 67% for couples without children. SG analysis.

6. Ethnic Group

Minority ethnic groups have a higher risk of severe and extreme poverty than the white British population.

Table 13 shows the risk of severe and extreme poverty, using three years of pooled data, for ethnic groups in Scotland. Particular ethnic groups are grouped together in order to enable sufficient numbers for reporting.

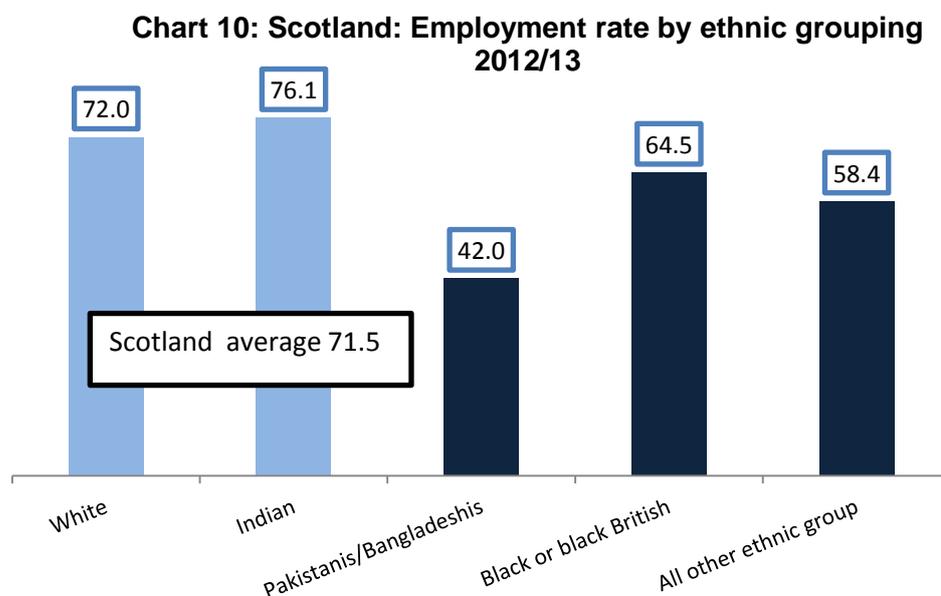
Table 11: Risk of severe and extreme poverty 2010/11 - 2012/13: Ethnicity

	White - British	White - other	Asian or Asian British	Mixed, Black, Black British, Chinese and Other	Total
60% threshold	14%	19%	22%	27%	15%
50% threshold	8%	13%	15%	21%	9%
40% threshold	4%	8%	6%	15%	4%

Source: HBAI Dataset 2010/11, 2011/12, 2012/13 DWP

The ethnic groupings set out here show higher risks of severe poverty for minority ethnic groups than the white British population. However, the risks of extreme poverty vary across the groups set out. The 'Mixed, Black, Chinese and other ethnic' grouping has the highest risk of relative poverty (27%), severe poverty (21%) and extreme poverty (15%), while the White British group has the lowest risk (14%, 8% and 4%).

Chart 10 below shows the differences in employment rates for Scotland the year to March 2013⁴².



Source: Annual Population Survey 2013

⁴² Annual population Survey. Data extract from NOMIS

All ethnic groups considered here, with the exception of Indians, have significantly lower employment rates than those of White ethnicity. Pakistani/Bangladeshi groups have particularly low employment rates.

Even where minority ethnic groups were in employment, evidence suggests this is more likely to be low paid, and while the rates of low paid employment vary between minority ethnic groups, all were higher than the white ethnic group. For those in work, the greater prevalence of low pay means families in employment remain in poverty.⁴³

Research⁴⁴ into the links between poverty and ethnicity has shown, at UK level, that differences in age structure, family type and family work status together account for around half of the 'excess' income poverty rates suffered by minority ethnic groups compared with white British people. Of these three factors, work status had the biggest effect for the Bangladeshi and Pakistani population. Family type had the biggest effect for the black Caribbean population, with both family type and work status having an effect for the black African population: the prevalence of lone parents within these two ethnic groups was an important factor.

However, differences in age structure, family type and family work status do not account for the other half of the 'excess' income poverty rates among minority ethnic groups, which must therefore be due to other factors.

⁴³ National Minimum Wage Low Pay commission Report 2014
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/288847/The_National_Minimum_Wage_LPC_Report_2014.pdf

⁴⁴ Joseph Rowntree Foundation Report Poverty among ethnic Groups: How and Why does it differ?
<http://www.poverty.org.uk/reports/ethnicity.pdf> 2007

SECTION E: CONCLUSIONS

This analysis has shown that, **while relative poverty has decreased over time, the poverty that remains has deepened**. Policies to increase the income of households in poverty, while improving the financial circumstances of the less poor, have not succeeded in decreasing the proportions in severe or extreme low income, particularly after housing costs where the proportion of those in poverty in extreme low income has increased. There are a number of reasons for this deepening picture of poverty.

Since 2010/11, employment patterns have continued to change and economic inactivity has increased. **In addition, there have been decreases in real earned income, a rise in insecure employment (including zero hour contracts), and increases in the numbers in low pay**. The combination of these factors is likely to increase the numbers living in severe and extreme poverty, and reduce the chances of those in low paid work to lift their families out of poverty.

In addition to low income, **the recent past has seen a rise in concerns about the cost of living, which are not reflected in income-based measures**. The challenge here is that inflation has over time seen costs rise faster than wages, adding to the pressures being experienced by low-income families. Between 2007 and 2012, food became 30 per cent more expensive and gas 57 per cent more expensive. These costs weigh more heavily on low-income families, who pay a 'low income premium' linked to lack of affordable credit, use of pre-payment meters and lack of internet access. Housing costs, water, electricity and gas take up nearly 60 per cent of total income for the poorest tenth, compared with less than 30 per cent of that of the richest 10 per cent.⁴⁵

Welfare reform is another key factor. The Institute for Fiscal Studies estimates that an additional 50,000 children and 150,000 working age adults will be living in poverty by 2020 due to welfare reform. The Scottish Government estimates that the cumulative impact of welfare reform over the six years to 2015/16 could result in a £6 billion decrease in the Scottish welfare bill, with £1 billion of this relating directly to children. The impact of these reforms is not evenly felt. Scottish Government analysis notes, for example, that disabled people in Scotland face a disproportionate loss of income from UK welfare reform. Households with both disabled adults and children are facing the highest reductions in income, but carers will also be affected⁴⁶.

⁴⁵ <https://www.gov.uk/government/publications/state-of-the-nation-2013>

⁴⁶ Many unpaid carers of working age disabled people will potentially lose Carers Allowance (if the disabled adult loses eligibility for DLA/PIP).

For low income working families reliant on benefits and tax credits, cuts combined with changes in eligibility, have seen household income decrease in 2012/13. The largest reduction in expenditure is from the 1% cap on uprating benefits, followed by the changes to tax credits. While the impacts of some welfare reforms were already being felt in 2012/13, the majority of the decrease in welfare expenditure is expected to be in the two years to 2015/16. Continuous, cumulative real-terms cuts in benefit levels are expected, affecting both working households and households not in employment. These changes are expected to have the largest effects on household income for lower paid working families, particularly those with children.

One factor not captured in the FRS is the extent of benefit under-claiming. This analysis has highlighted evidence about the extent to which Pension Credit may be being under-claimed. This is important for pensioners in poverty, as Pension Credit is intended to provide a minimum level of income for older people. However, all means-tested benefits are subject to a degree of under-claiming and certainly improving benefit uptake would appear to be one way in which the depth of poverty could be improved.

In short, poverty is changing; work is no longer a guarantee of a life free of poverty; people in poverty face increasing costs; and those in receipt of benefits and tax credits – which of course includes many in work - are finding their incomes squeezed. While policies targeted at reducing poverty have reduced relative poverty over time, the depth of poverty has not improved. Those in poverty are now more likely to be further away from, not closer to, the poverty threshold. It is these poorest children and adults who are likely to live in prolonged financial and material deprivation, with the poor outcomes associated with persistent poverty.

Annex 1: Number and percentage of people in low income, severe low income and extreme low income bands, 2002/03 – 2012/13

Tables A1 and A2 below set out the number of people in relative poverty, and of those, the number (and percentage) in low income, severe low income, and extreme low income before housing costs and after housing costs.

Table A1 All individuals: income before housing costs							
	In relative poverty	In low income		In severe low income		In extreme low income	
		%	000s	%	000s	%	000s
2002/03	1000	42%	420	33%	330	25%	250
2003/04	910	46%	420	31%	290	22%	200
2004/05	860	46%	390	30%	260	24%	210
2005/06	870	43%	370	29%	250	28%	240
2006/07	840	44%	370	27%	230	28%	240
2007/08	870	41%	360	29%	250	30%	260
2008/09	860	41%	360	30%	260	29%	250
2009/10	870	46%	400	23%	200	30%	260
2010/11	770	45%	350	27%	210	28%	210
2011/12	710	43%	300	28%	200	29%	210
2012/13	820	38%	310	34%	280	28%	230

Source: HBAI datasets, DWP

Table A2 All individuals: income after housing costs							
	In relative poverty	In low income		In severe low income		In extreme low income	
		%	000s	%	000s	%	000s
2002/03	1,120	34%	380	30%	330	36%	410
2003/04	1010	35%	350	30%	300	36%	360
2004/05	960	35%	340	26%	250	38%	370
2005/06	980	36%	360	27%	260	37%	360
2006/07	940	34%	320	24%	230	42%	390
2007/08	960	32%	310	25%	240	43%	410
2008/09	960	32%	310	24%	230	43%	420
2009/10	970	30%	290	25%	250	45%	430
2010/11	900	36%	330	25%	220	39%	350
2011/12	860	36%	310	21%	180	42%	360
2012/13	1000	29%	290	21%	210	50%	500

Source: HBAI datasets, DWP

ANNEX 2: THE FAMILY RESOURCES SURVEY

The Family Resources Survey (FRS) is a continuous cross-sectional survey, sponsored by the Department for Work and Pensions (DWP). It provides facts and figures about the living conditions of people in private households in the UK and the resources available to them. It is an annual survey, and includes around 4,000 households in Scotland.

The FRS is wide ranging and asks households about the following issues that may affect everybody at some time in their lives: income and benefits; tenure and housing costs; assets and savings; occupation and employment; health and disability; pensions; family structure; and carers and those needing care.

This information is used to derive household disposable income, after adjusting for the household size and composition, as a proxy for material living standards. More precisely, it is a proxy for the level of consumption of goods and services that people could attain given the disposable income of the household in which they live.

In order to allow comparisons of the living standards of different types of households, income is adjusted to take into account variations in the size and composition of the households in a process known as equivalisation. A key assumption made is that all individuals in the household benefit equally from the combined income of the household. This enables the total equivalised income of the household to be used as a proxy for the standard of living of each household member.

There is some uncertainty around estimates derived from it because not every household in the country is interviewed as part of the survey, and there is a possibility that those households that *are* interviewed contain a greater fraction of (for example) households below the poverty line than the general population.

Relative to administrative records, the FRS is known to under-report benefit receipt. However, the FRS is considered to be the best source for looking at benefit and tax credit receipt by characteristics not captured on administrative sources, and for looking at total benefits receipt on a benefit unit or household basis. It is often inappropriate to look at benefit receipt on an individual basis because means-tested benefits are paid on behalf of the benefit unit⁴⁷.

The income recorded in the FRS series is simply a 'snap-shot' measure – reflecting actual, or in some cases 'usual', income around the time of the survey. Over an individual's lifetime, income (correctly measured) and spending (correctly measured) must equal each other, but the fact that individuals can shift their resources over time mean that this need not be the case at any one part of an individual's life-time.

Comparisons of household income and expenditure suggest that those households reporting the lowest incomes may not have the lowest living standards. Results for the bottom 10 per cent are also particularly vulnerable to sampling errors and income measurement problems. This will have a relatively greater effect on results where

⁴⁷ See DWP working Paper 115 for further detail.

incomes are compared against low thresholds of median income. For this reason, the thresholds used in the extreme poverty analysis are subject to greater uncertainty.

Previous research has indicated income and expenditure are not closely correlated for households with very low income (defined as 10% of median income), due to under-recording of income, difficulties in income recording for those with fluctuating incomes, and consumption smoothing (where low income is a transition rather than a persistent state, for example for households temporarily out of employment)⁴⁸. While expenditure exceeding cash income for those with very low income is particularly evident for self-employed, it is also apparent for employed households and households not in employment. Similarly, previous analysis suggests that some children in households with low income do not have commensurately low living standards (based on hardship measures). Evidence from the FRS indicated that, without taking account of any other factors, children from households with the lowest incomes do not have the lowest average living standards (as measured by material deprivation). Instead, in general, average living standards first fall as income rises, and then rise creating a 'U-shaped' profile between income and other measures of living standards. Equally, levels of deprivation rise then fall as income rises, creating a 'hump-shaped' profile. The lowest living standards were found to correspond to households with children with income at 30%-50% of median income. The problems of low income and living standards as measured by material deprivation were apparent in the FRS data.

Because of this, while this analysis uses income only, **there remains greater uncertainty around the extreme poverty threshold applied in this analysis**⁴⁹. Applying an extreme poverty threshold remains relevant, given the link between lack of financial resources and the lack of ability to take up opportunities, and the link with outcomes. For example, low income impacts on the ability of children to be able to participate in activities such as school trips, after school study classes etc. which their peers participate in⁵⁰.

It is important to note that this is not a longitudinal study – this means that the same households are not tracked through time. The survey provides an estimate of the percentage of individuals in poverty in any one year. These then show the changes in the rate of poverty through time.

All analyses in this publication include the self-employed. A proportion of this group are believed to report incomes that do not reflect their living standards and there are also recognised difficulties in obtaining timely and accurate income information from this group. This may lead to an understatement of total income for some groups for

⁴⁸ See Brewer et al <https://ideas.repec.org/p/esx/essedp/736.html> ;

⁴⁹ For further detail see DWP Research report 557 The Living Standards of Families with Children Reporting Low incomes
http://webarchive.nationalarchives.gov.uk/20130128102031/http://research.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_577.asp

⁵⁰ For example see <http://www.jrf.org.uk/publications/impact-poverty-young-childrens-experience-school>

whom this is a major income component. In general, self-employed families with children have higher living standards than employed families with children with similar incomes, who in turn have higher living standards than workless families with children with similar incomes. However, the difference in the living standards between self-employed and employed families is greatest at the bottom of the income distribution.

Analysis for Scotland shows the majority of self-employed households in poverty are not in households with the lowest incomes (defined in this analysis as severe and extreme poverty). There are few differences in the overall picture of proportions in low-income households when analysis is performed either including or excluding the self-employed. This analysis includes self-employed households, as their inclusion does not significantly change the results.

This analysis provides an indication of the depth of poverty and how this has changed over time, rather than exact numbers of people in severe and extreme poverty.

Further detail on the FRS is available in the Households Below Average Income Quality and Methodology Information Report 2012/13

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325492/households-below-average-income-quality-methodology-2012-2013.pdf



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