

In this second PSE UK project bulletin we provide an update on work in progress and summarise a number of key reports that have contributed to the debate on living standards in recent months. As issues, poverty and inequality are receiving more media attention, but often in ways that negatively stereotype people receiving state support whether in the form of tax credits or benefits. This is the flip side of the increasing public awareness of the growth of income inequality, the pay increases of the most highly paid and the scale of tax evasion and avoidance.

The Poverty and Social Exclusion in the UK study is progressing on three fronts. First, the Omnibus Survey covering what people in Northern Ireland think are the 'necessities of life' was successfully carried out. The first results will be published in the new year.

The PSE study is particularly interested in any changes from previous opinion surveys as 'austerity' may well be shaping expectations and polarising views on what people regard as the minimum standard of living that should be attainable by everyone. Another concern is whether popular opinion on basic necessities corresponds with the 'deprivation items' commonly used in poverty measures at national and EU levels.

The Poverty and Social Exclusion in the UK study is funded by the Economic and Social Research Council and involves researchers at six universities: Bristol, Glasgow, Heriot-Watt, The Open University, York and Queen's.

It is well-established that the needs of older people differ from those of younger people because they spend more time at home, eat less and are more likely to be socially isolated, sick and disabled. Staying warm becomes a serious issue when fuel prices race ahead of general inflation and homes are so poorly insulated.

Our second area of work involves in-depth interviews with people in low income households (as identified through the Family Resources Survey). This is proving

quite challenging in a number of ways. People are reluctant to discuss their circumstances and it is proving difficult to meet the target sample size. We are struck by the levels of anxiety at changes in benefit levels and entitlements. The interviews are revealing in detail the social impact of the £600 million cuts in N. Ireland's benefits budget, and how families are coping: initial indications from the interviews suggest a mixture of resilience and humour, as well as difficulty and despair.

The third area of work is the development of the questionnaire for the main PSE UK survey of living standards and social exclusion. In addition to questions on necessities, the PSE study will cover a broad range of domains including social networks and support, employment and working conditions, time, housing, health and disability, gifts, education and parenting, area deprivation, access to services, social and political engagement, and so on. Given declining living standards, there is particular interest in how people are economising across the household as well as within it.

There is a special N. Ireland module on experience of the conflict. This has been modified to include questions on when 'the worst thing that happened to you because of the Troubles' occurred and on whether the event was followed up in some way (eg seeking professional help, joining a campaign group, etc.).

After some delays, the main survey will now go into the field early in the new year.

OECD on Inequality

Inequality has risen to record levels in many countries, according to a new report from the OECD – *Divided We Stand, Why Inequality Keeps Rising*. The UK and Ireland feature in this story in rather different ways. Income inequality in Ireland declined slightly from the mid-1980s to 2000, due in part to the increase in women's participation in the labour market, but then rose until 2007 before the recession hit. It is now on a par with Germany and France but substantially above the Scandinavian countries. However, the share of total incomes going to the top 1% increased rapidly in Ireland from 6.6% in 1990 to 10.3% by 2007, a trend shared by the US, UK, Canada and Finland.

The UK takes the prize for increased inequality – it has risen faster than in any other OECD country since 1975. In 2008, the average income of the top 10% in the UK was £55,000 which was almost twelve times higher than the average income of the bottom 10% (£4,700). The ratio in 1985 was 8 to 1. The top 1% increased their share of all income from 7.1% in 1970 to 14.3 in 2005. By 2008, the very richest 0.1% of earners had a 5% of share of all earnings.

The UK's rapid increase in inequality is partly explained by the marked decline in marginal income tax rates. The richest 750,000 earners paid a marginal income tax rate of 83% in the 1970s. The Thatcher Government reduced this to 60% in 1980 and then to 40% in 1988. Overall, taxes and transfers through benefits and services became less redistributive from the mid-1980s onwards. Benefits declined in value and tighter eligibility conditions have been introduced. Public services, notably education and health, moderate the effects of income inequality to a greater extent in the UK than in most other countries.

The Report runs to 400 pages and is accompanied by 55 tables and 90 charts with access to related spread sheets. Like most OECD reports, information comes at a price – £67 in this case. (See www.oecd.org)

The PSE Northern Ireland research team:

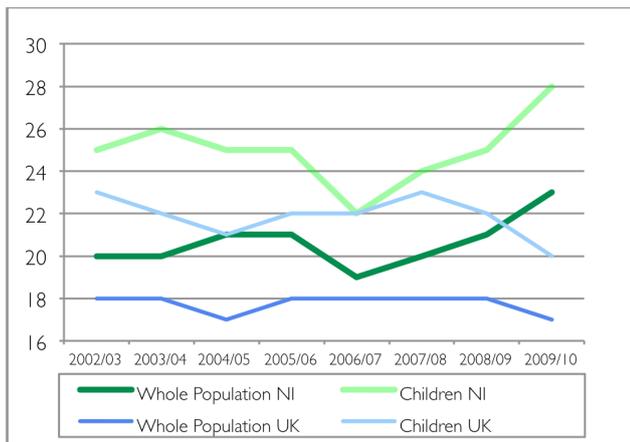
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Income poverty on the increase

Figure 1: Percentage of individuals living in poverty, 2002-03 to 2009-10



The latest report on 'Households Below Average Income' (HBAI) shows that income poverty in Northern Ireland has increased steadily over the four years to 2009-10. The HBAI report is one of two published by the Department for Social Development using data from the Family Resources Survey (FRS).¹ The HBAI series has been running in Britain since the early 1990s but FRS data for N. Ireland only became

available from 2002-03. The series provides the most reliable statistics showing the numbers and proportion in poverty across the UK. Poverty is defined in terms of the number of people who fall below 60% of the median UK income and figures are given for income before and after the deduction of housing costs.

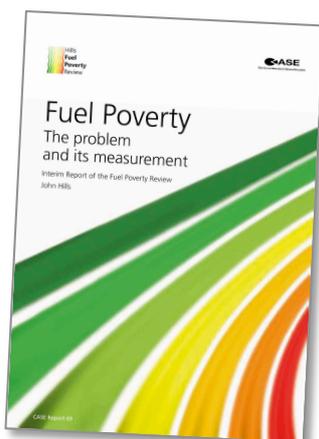
Figure 1 shows the proportion of the total population and children

living in households with incomes below 60% of the UK median household income (before housing costs are deducted). While the proportion of individuals in poverty in the UK has remained constant between 2005-06 with a slight drop in 2009-10, in N. Ireland the proportion in poverty has been steadily increasing from 18 to 23 per cent. For children, the poverty rate remained fairly constant between 2002-03 and 2005-06 at around 25 per cent. It then dropped by 3 percentage points, but from 2006-07 it has been steadily rising, reaching the highest level since the series began at 28 per cent. There are now an estimated 121,000 children living in income poor households in N. Ireland.

1. The two reports are: [Family Resources Survey 2009-2010](#) and [Households Below Average Income Report 2009-2010](#).

Fuel Poverty

John Hills' *Interim Report on Fuel Poverty* was published in October. A household is defined as 'fuel poor' if more than 10% of its income is spent to keep the home adequately warm (21C in the living room). The report argues that fuel poverty is a 'distinct and serious' problem requiring specific attention. Fuel poverty arises from a combination of high fuel costs, low incomes and poorly insulated homes. Cold homes produce physical and mental ill-health and result in excess winter deaths. These are the excess deaths that occur December to March as compared with the other months of the year. In N. Ireland winter deaths are on average 19% above the

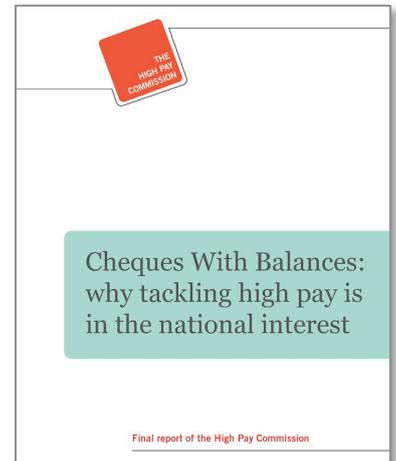


number of deaths occurring in non-winter months. Hills says that it is essential to improve the energy efficiency of the housing stock but that people on low incomes are often living in the least energy efficient properties and are not in a position to invest in remedial measures. Hills proposes a new method of measuring fuel poverty which combines low incomes with high costs.

Although N. Ireland has a fuel poverty strategy – *Warmer Healthier Homes* – there is no statutory requirement to address fuel poverty. According to the FRS 2009-10, 8% of 'benefit units' cannot afford to keep their accommodation warm enough. This is double the figure for 2004-05.

High Pay Commission

[Cheques with Balances: why tackling high pay is in the national interest](#) is the final report of the High Pay Commission published in November. In Britain the top 1% had a 5.93% share of national income in 1979. By 2007 the share



had grown to 14.5%. Almost three-quarters of people in Britain agree or strongly agree that differences in income are too large. One of the arguments used to justify high pay is that it is a reflection of international competition for top executives. But the High Pay Commission shows that there is a 0.2% chance in any year of losing a CEO to a national competitor and zero chance in the case of an international competitor.

The Commission argues for greater transparency in company reporting. This would include for example an annual 'distribution statement' showing how resources are distributed between the workforce, executives, shareholders, reinvestment and tax paid. Companies should produce Fair Pay statements, publishing the ratio between top and bottom pay (or top and median company earnings). The Commission calls for a permanent body to monitor high pay and public opinion on the issue.

Table 1: Percentage of all persons living in households with incomes below 60% UK median (before housing costs) and lacking items, 2004-05 to 2009-10

All persons, Northern Ireland	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Enough Money to keep home in decent décor	16	13	13	24	18	20
Hobby or Leisure Activity	25	19	14	17	14	19
Holidays away from home one week a year (not staying with relatives)	50	50	48	50	43	49
Household Contents Insurance	24	25	26	25	19	23
Have friends / family round for drink/ meal at least once a month	23	25	23	29	24	26
Save £10+ a month	49	50	55	49	46	49
2 pairs of all weather shoes per adult in household	14	11	9	12	9	10
Replace any worn out furniture	39	36	36	37	33	35
Replace/repair broken electrical goods	32	29	29	31	29	34
Money to spend on yourself each week (not on your family)	39	36	38	35	34	40
Able to keep accommodation warm enough	11	8	15	12	13	18
Behind in one or more household bill	16	13	13	13	10	13

Table 2: Percentage of people of pension age living in households with incomes below 60% UK median (before housing costs) and lacking items, 2004-05 to 2009-10

All pension age, Northern Ireland	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Enough Money to keep home in decent décor	30	24	28	30	46	56
Hobby or Leisure Activity	29	33	26	24	38	34
Holidays away from home one week a year (not staying with relatives)	32	26	40	39	38	31
Household Contents Insurance	25	32	34	20	44	13
Have friends / family round for drink/ meal at least once a month	30	29	42	27	48	51
Save £10+ a month	32	34	40	29	40	34
2 pairs of all weather shoes per adult in household	50	36	39	18	-	-
Replace any worn out furniture	38	36	44	29	39	53
Replace/repair broken electrical goods	31	31	39	26	40	34
Money to spend on yourself each week (not on your family)	31	30	42	27	50	46
Able to keep accommodation warm enough	34	36	45	23	29	44
Behind in one or more household bill	25	10	25	30	23	15

FRS Deprivation Items

The recently published results of the Family Resources Survey 2009-10 show the extent to which people say they cannot afford certain items and activities. Tables 1 and 2 above show the results for the deprivation items in the FRS over the last six years. The figures are for all persons (Table 1) and people of pension age (Table 2) living in income poor households.

The item that might be expected to show the biggest change since the 2007-08 recession began is 'Able to keep accommodation warm enough'. Table 1 shows that 12% of persons living in low income households could not afford to keep their accommodation warm in 2007-08. The figure jumps to 18% by 2009-10 (a 50% increase). Table 2 shows an even greater increase for people of pension age. The rate goes from 23% to 44% between 2007-08 and 2009-10.

All persons and pensioners differ markedly on the 'Holidays away from

home' item. In most years the proportion of all persons lacking the item is around 50% above the figure for pensioners.

It has long been established that pensioners respond much more conservatively than non-pensioners to surveys about living standards. They are more likely to say they are managing alright and to identify different items and activities as important for their needs.

Such concerns led to a new suite of survey questions in the Family Resources Survey (from May 2008) specifically aimed at measuring the living standards of older people. There is now a discussion about how best to combine the items into a pensioners' deprivation index (see McKay 2010).

The implementation of the Child Poverty Act raises similar questions about how to combine low income with deprivation items to produce one of the required measures (see next page).

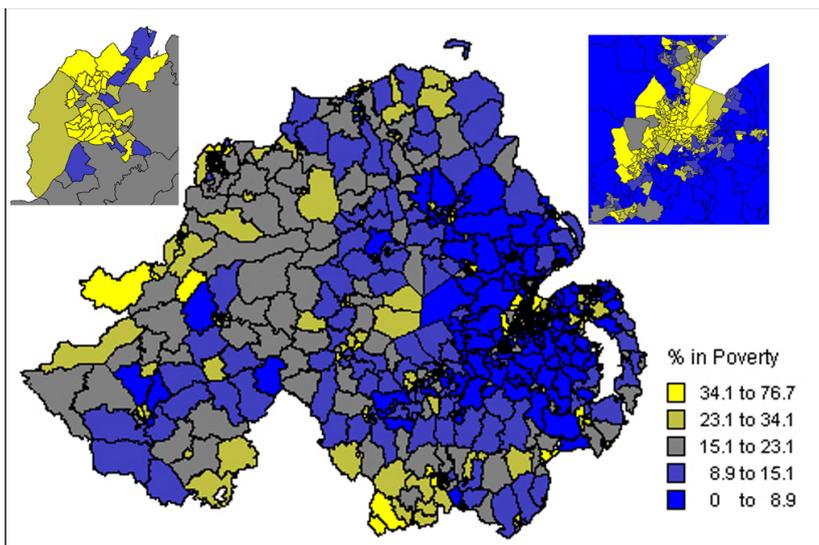
Equivalising Income

Unit	Value	60% median (2009)
First adult	0.67	£166
Spouse	0.33	£81.80
Other adult	0.33	£81.80
Child (<14)	0.2	£49.60
Child (≥14)	0.33	£81.80

The FRS uses the OECD equivalence scale to adjust household income for different household sizes and composition – an income of £300 per week for a single person is not equivalent to £300 for a single parent with two children. The table above shows the values used in the OECD scale to adjust incomes before the calculation of the 60% median income threshold, the commonly accepted income poverty threshold for EU countries. It also shows the weekly income at the 60% median threshold for 2009.

For example, for a single parent with a child under 14, the threshold was £215.60 per week (before housing costs). For a couple with two children aged 10 and 15, the threshold was £379.20 per week.

Figure 2: Proportion of children in poor households by super output area, HMRC estimates 2009



Child Poverty Act 2010

The Child Poverty Act 2010 places obligations on the UK Government and devolved administrations to measure child poverty and to reduce it. The Act begins by specifying a target for 2010 that 1.7 million children, or fewer, will be living in households defined as income poor. The Secretary of State (DWP) must provide Parliament with a report not later than 30th June 2012 on whether or not the target has been met. If the target has not been met, the report must explain why it has not been met.

There are other targets in the Act. By 2020, the proportion of children living in low income households (less than 60% UK median income) must be less than 10% of all children. Less than 5% should be in the 'combined low income and material deprivation' category by the same date. There is also an 'absolute low income' target of less than 5% of all children. Finally, a 'persistent poverty target' has been set for 2015 and this will be further elaborated in regulations. Persistent poverty is defined in the Act as being in income poverty for the previous three years.

The UK Government published a [Child Poverty Strategy](#) under the Act in April 2011. This sets out a 'new approach' which, instead of 'simply throwing money at the symptoms', will tackle worklessness, debt, educational failure, and poor health. In addition the strategy is based on 'enhancing relationship and parenting support to strengthen family relationships and the home environment'. The devolved Governments have also produced child poverty strategies.

In preparing a UK strategy, the Secretary of State was obliged under the Act to consult with a Child Poverty Commission (and others). However, no such Commission was established within the required timeframe. Instead, the Government has decided to set up a Social Mobility and Child Poverty Commission and provision for this is made in the Welfare Reform Bill currently working its way through the House of Lords.

Northern Ireland will have a place on the Commission but, unlike in the other devolved administrations, it will be the responsibility of the 'relevant Northern Ireland Department' rather than a Minister to make the appointment.

HMRC small area child poverty measure

HM Revenue & Customs publish data on personal tax credits from which child poverty statistics are derived. These can be published for relatively small areas as shown in Figure 2 above.

The HMRC measure of child poverty is based on two administrative sources: a) the number of children in families receiving out-of-work means-tested benefits and b) the number of children in families receiving tax credits where the income is less than 60% of median income. Across Northern Ireland the proportion of children in low income households, as defined in this way, was 22.6% of all children in August 2009. HMRC used the OECD equivalence scale to calculate the median household income but used a different measure of income than that used by FRS. The result was that the HMRC 60% threshold was considerably lower than the FRS measure. It was £214 for a couple with no children compared to £248 for the FRS.

Even with this lower income poverty line, some small areas have very high child poverty rates. The highest, at 76.7%, was Whiterock2, followed by Colin Glen2 and 3. Creggan Central in Derry scored 70.5%. Taking Westminster constituencies as the geographical unit, Belfast West is the highest in N. Ireland (46.2%) and the sixth worst constituency for child poverty in the UK (behind three London constituencies, Manchester Central and Birmingham Ladywood.) Bethnal Green and Bow has the highest child poverty rate (52.3%) of all the Westminster constituencies.

Not only does the HMRC dataset provide a lower poverty threshold, it is also very limited in what it can say about the social characteristics of child poverty households. The FRS on the other hand provides a much richer insight into incomes and deprivation, and how these are shaped by labour market position, gender, religion and other dimensions of inequality.

PSE UK project team responses to Government consultations:

- D. Gordon (2011) *Consultation response: Social Mobility and Child Poverty Review* (17 pages).
- M. Daly et al (2011) *Response to Northern Ireland's Draft Child Poverty Strategy* (3 pages).

PSE-UK working papers can be found on the project website: <http://www.poverty.ac.uk>