



Measuring child poverty



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Foreword

Our commitment to eradicate child poverty in a generation is an ambitious and inspiring mission of this Government.

This document sets out the criteria that we will use to assess progress for the future. It is based on wide consultation, and I am personally grateful to everyone who has given their time, and effort, to make this happen.

Poverty is a blight on the lives of those children affected, and denies them the opportunities in the future that others often take for granted. It has many facets, and so the Government's annual *Opportunity for all* report charts progress on many indicators, but at the heart of poverty is low income. Our new measure reflects this – recognising the centrality of incomes but also capturing broader aspects of poverty.

I am proud of the action that we have taken to date. Work is the best route out of poverty, so we've been making work possible – with the New Deals and improved childcare – as well as making it pay – through the minimum wage and new

tax credits. The result is that more than half of lone parents are working for the first time and 350,000 fewer children now live in households where no one works than in 1997.

Where work is not possible we're also increasing security: the poorest families are on average £2,900 a year better off as a result of our tax and benefit measures. Sure Start is transforming children's lives – joining up action and support on a range of fronts.

All of this is making a difference. There are at least half a million fewer children living in low income poverty than in 1997. Our current target remains to cut the number of children growing up in low income poverty by a quarter by 2004, compared with 1999.

We are changing Britain for the better. Whereas in 1997 Britain's child poverty record was placed amongst the worst in Europe, I am clear that in order to achieve our ambitions we must strive towards being amongst the best.

The progress we must make will not be easy – the problems we are addressing are deep-rooted. But there is no alternative to facing them to make a real and lasting difference for our children. This is not a challenge for Government alone. All sections of the community have an important role to play in the struggle to defeat child poverty.

The measures I publish today will chart our progress and show that the job is being done.

A handwritten signature in blue ink that reads "Andrew Smith". The signature is written in a cursive style with a large initial 'A'.

Rt Hon ANDREW SMITH MP
Secretary of State for Work
and Pensions

December 2003

Executive summary

In March 1999, the Prime Minister announced the Government's commitment to eradicate child poverty in a generation. As we move towards this goal we want to be sure that we are measuring child poverty in a way that helps target effective policies that make a real difference to children's lives, and in a way that clearly shows whether, and how far, we are progressing.

This is why we launched our *Measuring child poverty* consultation in April 2002. Preliminary conclusions from this consultation exercise were published in May 2003. This document sets out the Government's final conclusions and outlines our measure of child poverty for the long term.

Following the consultation exercise, further methodological work and discussion with experts, we have decided that a **tiered approach** is the best way in which we can monitor progress on child poverty over the long term. This uses a set of inter-related indicators (tiers) capturing different aspects of poverty whilst respecting the finding of our consultation that income is at the core of people's conception of poverty. Each has significance in its own right and our objective is to make progress against all indicators.

We believe that this measure will endure for the long term, and provides the right balance between clarity and comprehensiveness.

Our new measure of child poverty will consist of:

Absolute low income – to measure whether the poorest families are seeing their incomes rise in real terms.

Relative low income – to measure whether the poorest families are keeping pace with the growth of incomes in the economy as a whole.

Material deprivation and low income combined – to provide a wider measure of people's living standards.

Using this measure, poverty is falling when all three indicators are moving in the right direction.

Introduction

1. This document sets out the Government's final conclusions to its consultation *Measuring child poverty*, issued in April 2002.
2. Tackling poverty and disadvantage is central to the Government's social and economic programme. Our strategy has been to combine direct government action with measures to help people lift themselves out of poverty through work. In the case of child poverty, raising lone parent employment is especially crucial, which is why we are aiming for 70 per cent of lone parents to be in work by 2010.
3. The annual *Opportunity for all* report sets out our strategy for doing this and the wide range of indicators by which we measure progress¹. We want to ensure that all children have the best possible start in life and to provide equal opportunity so that each child can fulfil their potential. Our goals of halving and eradicating child poverty are challenging. It is essential that as we move towards these goals we focus on a credible set of indicators.
4. This is why we launched a consultation exercise in April 2002 to seek views on establishing a measure of child poverty in the UK for the long term. Preliminary conclusions from the consultation were published in May 2003. Our final conclusions on the new measure are based on the further methodological work and discussions with experts that emerged from the consultation.
5. The first section of this document outlines how we currently monitor progress on child poverty and provides brief details of the consultation process and our preliminary conclusions. This is followed by a detailed explanation of the new measure of child poverty that we will be using from 2004/05 and the evidence base for this decision.

Current measurement

6. Our existing approach to measuring child poverty uses the set of 15 child specific indicators set out in *Opportunity for all* that capture many aspects of poverty such as low income, health inequalities, educational attainment and housing quality. In the absence of a single official measure of poverty, some commentators focus exclusively on low income. This has many advantages as a gauge of poverty,

¹ www.dwp.gov.uk/ofa

and our consultation emphasised that it was at the core of people's conception of poverty. But as an exclusive long-term measure of child poverty, it gives too narrow a focus and, because of the snapshot nature of income measurement, in isolation it is not always a reliable guide to living standards.

7. We are already committed to delivering a number of agreed Public Service Agreement (PSA) targets that will contribute to progress in tackling child poverty. **The new measure for the long term does not replace our existing PSA targets.**

The consultation and preliminary conclusions

8. In April 2002 we launched a consultation exercise to promote debate on how best to build on the Government's existing indicators to measure child poverty in the long term². The consultation document sought views on four approaches proposed by academics and poverty experts from the UK and overseas. Events were also held with adults, young people and children with direct experience of poverty to seek their views.
9. The four approaches set out in the consultation document were:
 - option 1 – using a small number of headline indicators, such as low income, worklessness, educational attainment;

- option 2 – amalgamating the indicators in the first option into an index to produce a single figure to track progress;
- option 3 – using a headline measure of 'consistent poverty' that combines measures of low income and material deprivation; and
- option 4 – a tiered approach, using a core set of indicators of low income and 'consistent poverty'.

10. Preliminary conclusions from the consultation were published in May 2003³. This document set out our recommendations and next steps on child poverty measurement based on an analysis of responses.
11. The consultation was a valuable exercise in exploring this important area. There was a wide range of opinions expressed, reflecting the complexity of the issues involved. It was apparent from the consultation that there is no perfect measure, and that all possible approaches present their own challenges.
12. While the consultation itself did not produce consensus on a favoured approach, there was agreement around the underlying principles of a long-term measure. It was generally accepted that income needs to be central to any poverty measurement, but also that income alone does not provide a wide enough measure of poverty. There was a lot of support for approaches that incorporate some

2 www.dwp.gov.uk/consultations/consult/2002/childpov/index.asp

3 www.dwp.gov.uk/consultations/consult/2003/childpov/index.asp

measure of material deprivation. There was also wide support for the indicators included in *Opportunity for all* and for their continued use alongside whichever overall measure is adopted⁴. There was generally strong support for a tiered approach, and very little support for a child poverty index.

13. We identified areas for further work prior to making a decision on any new measure:
 - consider how to incorporate income into a long-term measure;
 - consider the appropriate components and structure of a possible tiered approach;
 - carry out further methodological work and discussion with experts on the most appropriate methodology for a measure of material deprivation;
 - carry out analysis to identify a suite of deprivation indicators which could be usefully added to the *Family Resources Survey*; and
 - review the multi-dimensional indicators included in *Opportunity for all*.
14. This work took place over summer 2003 in collaboration with government and non-government experts.

⁴ The annual *Opportunity for all* report includes indicators for the UK, in relation to reserved matters, and for England only in relation to devolved matters. The Devolved Administrations in Scotland, Wales and Northern Ireland all produce annual poverty reports including multi-dimensional indicators.

New measure of child poverty in the UK

A tiered approach

15. We stated in our preliminary conclusions document that we were attracted to a tiered approach, and following further consideration we have decided that this is the best way to monitor progress on child poverty in the UK over the long term.
16. A tiered approach uses a set of inter-related indicators or tiers. Each has significance in its own right as an important facet of poverty and the objective is to make progress against all tiers.
17. The choice of indicators is key to a tiered approach. The indicators and associated measures must reflect underlying influences on children's current well-being and future prospects. And they must meet the criteria for developing a measure supported in the consultation – timely, robust to scrutiny, credible with the public and consistent over time.
18. Tested against these criteria, we have decided that the long-term measure of child poverty will consist of:

Absolute low income – to measure whether the very poorest families are seeing their incomes rise in real terms, we will monitor the number of children living in families with incomes below a particular threshold which is adjusted for inflation – set for a couple with one child at £210⁵ a week in today's terms.

Relative low income – to measure whether the poorest families are keeping pace with the growth of incomes in the economy as a whole, we will monitor the number of children living in households below 60 per cent of contemporary median equivalised household income.

Material deprivation and low income combined – to provide a wider measure of people's living standards, we will monitor the number of children living in households that are both materially deprived and have an income below 70 per cent of contemporary median equivalised household income.

Using this measure, poverty is falling when all three indicators are moving in the right direction.

5 The level is fixed as equal to our relative low-income threshold for the baseline year of 1998/99 expressed in today's prices. A child in this example is aged under 14 years. As incomes are adjusted for family size, the actual cash threshold will be lower for small lone parent families and higher for larger families. Income is being measured before housing costs and will therefore include any Housing Benefit a family receives.

Equivalisation

19. Data included in the three indicators will be collected in the *Family Resources Survey*⁶. All income data will be equivalised, that is, adjusted to take into account variations in both the size and composition of the household. This process reflects the common-sense notion that a family of several people needs a higher income than a single person in order for both households to enjoy a comparable standard of living. Equivalisation is needed in order to make sensible income comparisons between households and has long been standard practice in income distribution analysis.
20. Several different equivalisation scales exist which adjust for family size in different ways, although analysis shows that most feasible scales suggest similar numbers of British people living in poverty⁷. We have decided to use the equivalisation scale used most often internationally, as comparisons with other countries – and Europe in particular – become increasingly important. We will therefore use the Modified Organisation for Economic Co-operation and Development (OECD) scale for equivalisation on all three tiers.
21. At the Lisbon European Council held in March 2000, the European Union called for decisive impact on the eradication of poverty throughout the Union by 2010. Working towards our pledge to eradicate child poverty by 2020 and halve it by 2010 forms part of the UK's contribution.
22. As part of the open method of co-ordination in the field of poverty and social exclusion in the European Union, a set of commonly agreed EU-wide indicators has been developed to measure progress in this area in all Member States⁸.
23. Analysis of these indicators, carried out by Eurostat for the European Union, uses the Modified OECD equivalence scale. So, using this scale in our long-term measure of child poverty will promote consistency with this methodology, and allow direct comparison with other EU Member States.
24. The Modified OECD scale differs from the McClements scale (used in the *Households Below Average Income* series) in the weights given to adults and children. A specific difference – and an important advantage – is that the Modified OECD scale allows for significantly greater costs for young children. Analysis has shown that the use of the Modified OECD scale has a broadly neutral effect on the low-income thresholds. Compared to the equivalent poverty count on the McClements scale, however, the number of children counted as poor will increase.

6 The *Family Resources Survey* is the National Statistics source for UK income data and is used in the *Households Below Average Income* series.

7 A comparative analysis of a range of different equivalence scales can be found in the Department for Work and Pensions *Households Below Average Income – An analysis of the income distribution from 1994/5 – 2001/2*, appendix 5.

8 These are the *Laeken indicators*, which include measures of income, employment, education and health.

25. The Modified OECD equivalisation scale focuses on income before housing costs, which will be used on all three tiers. Deducting housing costs from income measures can understate the relative standard of living that some individuals may have by paying more for better quality accommodation. Conversely, income measures that do not deduct housing costs may overstate the living standards of those people whose housing costs are high relative to the quality of their accommodation. Our material deprivation indicator is designed to look specifically at living standards, and includes measures of quality of housing. Through this indicator we will be able to focus on families' ability to afford acceptable standards of housing.
26. The Office for National Statistics has recently been working on estimating regional price levels⁹. We will keep under review whether figures produced in this way might inform future analyses of poverty.
27. The first indicator in our new measure will be absolute low income. This is important to measure whether the poorest families are seeing their incomes rise in real terms. Increasingly over time, this will become the yardstick by which to judge the progress we are making on the incomes of the poorest of all.
28. We will define absolute low income as the number of children living in families with an income below a particular threshold which is adjusted for inflation. This is set at £210 a week for a couple with one child, in today's terms.
29. The level will be fixed as equal to our relative low-income threshold for the baseline year 1998/99. The £210 figure represents this threshold in today's prices. As incomes are adjusted for family size, the actual cash threshold will be lower for small lone parent families and higher for larger families. Income is being measured before housing costs, so it will contain any Housing Benefit a family receives.
30. It is generally accepted that we need to use 'relative' concepts to measure poverty; over long periods, as general living standards change so do people's perceptions and expectations. But, it is also clearly very important to know what is happening to real incomes, that is incomes that are adjusted only for price inflation. (Such measures are commonly referred to as fixed threshold measures.)
31. This measure alone would certainly not be enough to measure child poverty in the UK. But as one of the indicators in our tiered approach, and in combination with measures of material deprivation and relative low income, it will contribute to a full understanding of what is happening to the incomes of households with children.

What will the new measure look like?

Absolute low income

27. The first indicator in our new measure will be absolute low income. This is important to measure whether the poorest families are seeing their incomes rise in real terms. Increasingly over time, this will become the yardstick by which to judge the progress we are making on the incomes of the poorest of all.

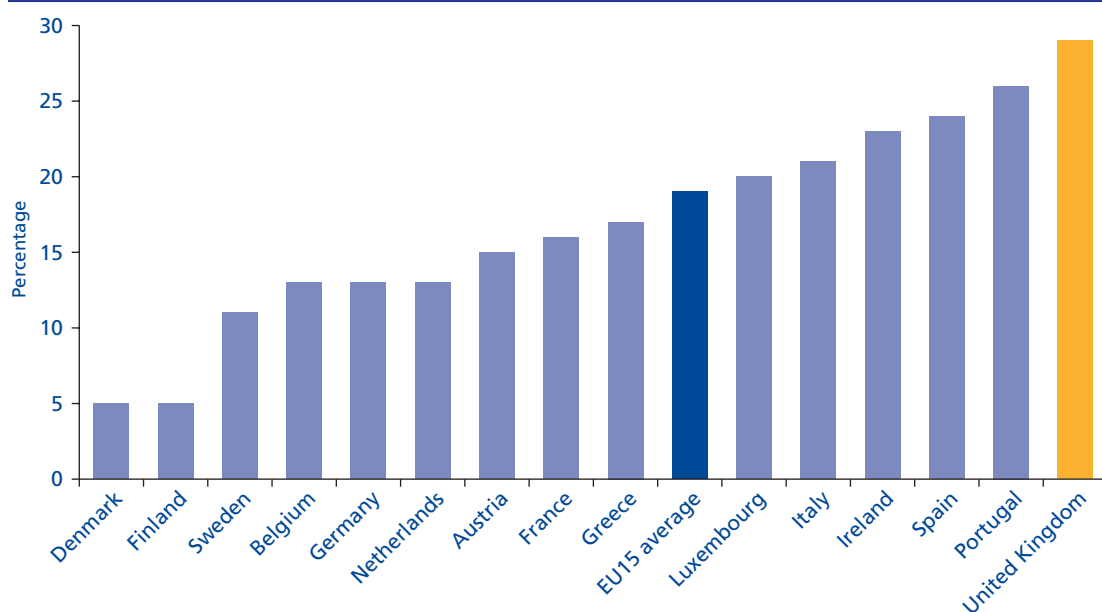
Relative low income

32. The second of our indicators will be relative low income defined as children living in households below 60 per cent of median equivalised household income. We have chosen to focus on the relative income measure adopted in European Union comparisons. This uses the Modified OECD equivalence scale and focuses on before housing costs as described above.
33. Measures of relative low income are widely used in industrial nations, and this is the most widely watched indicator in the European Union. EU agreements entered into at Lisbon (2000) and Laeken (2002) mean that relative low income is a central

yardstick in measuring the success of our drive to increase social cohesion. Figure 1 shows that the UK had the worst child poverty rate in Europe in 1998. The most recent available data, in figure 2, shows that by 2001 we no longer had the worst child poverty rate in Europe and were approaching the EU average.

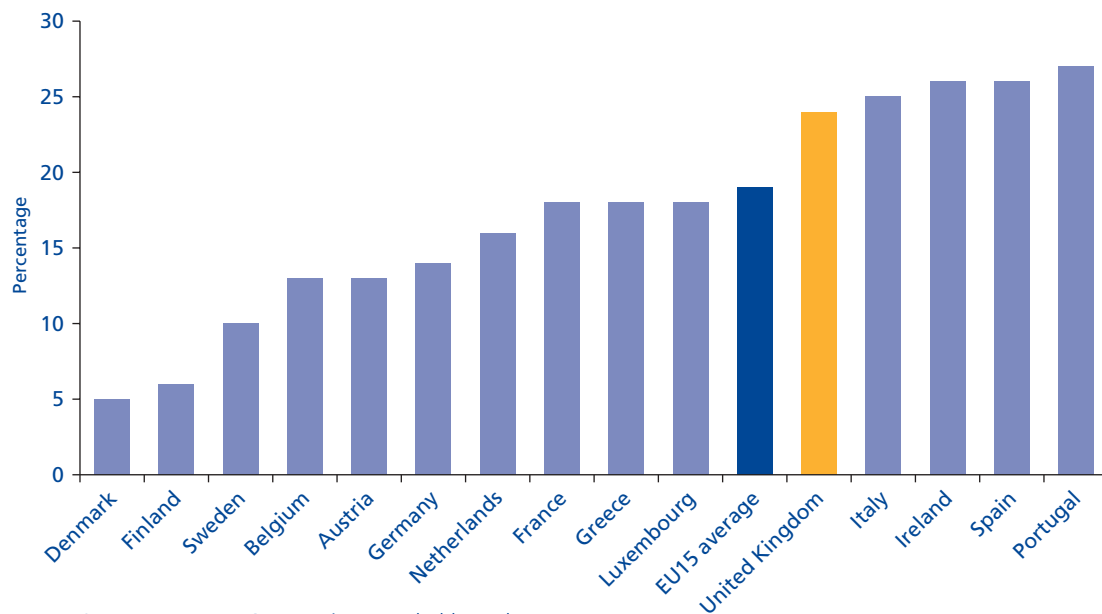
34. Relative income measures are important because when children fall too far behind the typical family, they will not be able to take a full part in the activities that social inclusion demands. So, to tackle social exclusion it is essential that as well as increasing incomes, we also help the poorest children narrow the gap with the rest of society as the nation overall grows richer.

Figure 1: Percentage of children (0–15 years) below 60 per cent of national median income – 1998



Source: European Community Household Panel

Figure 2: Percentage of children (0–15 years) below 60 per cent of national median income – 2001



Source: European Community Household Panel
Note: Sweden 2001 data provisional

35. This type of measure uses a specific threshold, under which people are considered to be in low income. But this threshold moves over time as the population as a whole becomes better off. So whereas the absolute low-income indicator has a threshold fixed in real terms, the relative low-income indicator has a moving threshold. This allows us to measure the extent to which poor families' incomes are rising in relation to the economy generally, and to ensure that we target resources appropriately.
36. An important advantage of this relative income measure is that the line is measured as a fraction of

median rather than mean income. Fraction-of-mean poverty lines have perverse consequences as the mean is largely driven by the highest incomes. For example, the immigration of a small number of rich people could make it seem as if children had fallen into poverty, whereas that would more accurately be described as an increase in inequality. By contrast, fraction-of-median poverty lines are unaffected by the highest incomes. Instead, they focus, as is appropriate for a poverty measure, on the gap between the poorest and typical families, so they are very clearly measures of poverty rather than inequality.

Material deprivation

37. The third of our indicators will incorporate material deprivation and relative low income, as an additional gauge of living standards. This will be defined as those families who are both materially deprived (lacking certain goods and services) **and** have an income below 70 per cent of contemporary median equivalised household income.
38. Robust data sources including deprivation indicators for all households do not currently exist. We will therefore be collecting material deprivation data on the *Family Resources Survey* from 2004, along with new information on debt. The list of questions that will be included is shown in Annex A.
39. Academic study has confirmed that, when measuring material deprivation, it is not necessary to include a long list of goods and services. The new suite of questions that we are including on the *Family Resources Survey* was arrived at through analysis of all existing UK deprivation data to identify a set of questions which best discriminates between poor and non-poor families¹⁰. A range of analytical methods was used to select the subset of questions. To begin with an extremely simple approach was used – just looking at those items that families were most commonly unable to afford. Then, more direct investigation of the ability of particular questions to discriminate between poor and non-poor families was undertaken by looking at the correlation between lacking individual items on the one hand, and low-income and overall material deprivation on the other. An alternative perspective was provided by investigating which items the public regarded as essentials. Finally, more powerful statistical methods were used – factor analysis and latent class analysis. Ultimately, all these different methods essentially identified the same questions as having the greatest relevance, so we are confident the list of questions at Annex A will provide an accurate indication of levels of material deprivation.
40. These questions form a suite, which can be included in a measure of deprivation. Analysis of these data will determine the overall measure of material deprivation used, for example, the number of items a family must lack to count as being materially deprived¹¹. Perceptions of deprivation change over time in parallel with rising living standards, and so we will need to periodically re-assess the deprivation measure to ensure that it captures this evolution¹².
41. There was strong support in the consultation exercise for some

10 See McKay, S and Collard, S (forthcoming), *Developing Family Resources Survey Deprivation Questions*, Department for Work and Pensions Working Paper Series.

11 Data for 2004/05 will be available in 2006.

12 We need to ensure that over time the suite of questions we have identified through our analysis continue to be the best discriminators in terms of poor and non-poor families. Therefore we may need to add new indicators from time to time as new goods and services are required to attain social inclusion. Advice from experts in this area is to review the deprivation measures every few years.

measure of material deprivation to form part of our overall long-term measure. Deprivation measures resonate well with the public perception of poverty and the view that a poverty measure should encompass some idea of the practical effects that result from living in low income. We also know that there is a strong relationship between material deprivation and persistent low income. As time spent in low income increases, the severity of deprivation increases¹³.

42. There is not a perfect relationship between income and living standards and it is widely accepted that measured incomes do not always reflect living standards, especially at the bottom of the income distribution¹⁴. Research looking at overlaps in dimensions of poverty clearly shows that those who are both income-deprived and materially-deprived are very different from the non-deprived, and the difference is much more pronounced than when using one of these measures alone¹⁵. This suggests the use of a combined income and deprivation tier may be especially informative.
43. Using both income and deprivation also overcomes the somewhat problematic issue for material deprivation measures – that of choice. By building in low income, we minimise the risk that those saying they cannot afford items may not be poor, but may instead be spending their money elsewhere on items not included in the material deprivation measure.
44. We have therefore concluded that a better measure of living standards can, at any point in time, be obtained by measuring both low income and material deprivation combined so that we can focus on households whose low incomes are leading to deprivation. This is similar to the approach used in the Republic of Ireland.
45. Some households below the 60 per cent of median income threshold are not materially deprived, but are tracked in the absolute and relative low-income tiers of our measure. Other households just above the 60 per cent of median threshold are materially deprived, so we plan to use a 70 per cent of contemporary median low-income threshold in conjunction with material deprivation. It will lead to more children being identified as being in poverty compared with using a 60 per cent of median low-income threshold and material deprivation.
46. Using a different, higher income threshold in the material deprivation tier will also help us capture more of the poverty faced by families with low disposable incomes, as they face certain unavoidably high costs, for example, in areas where rents are high for even basic accommodation.

13 Berthoud, R and Bardasi, E (forthcoming), *The relationship between income and living standards over time*, Department for Work and Pensions Research Report.

14 Perry, B (2002), *The mismatch between income measures and direct outcome measures of poverty*, Centre for Social Research and Evaluation, Ministry of Social Development, New Zealand.

15 Bradshaw, J and Finch, N (2003), *Overlaps in dimensions of poverty*, *Journal of Social Policy* 32, 4, 513–525.

On a before housing cost measure Housing Benefit income may lead to some families having an income above our relative low-income threshold despite not enjoying a higher standard of living. Similarly some families receiving financial support for childcare or because of a disability may be lifted over the 60 per cent line although they face higher costs than other families.

47. Using 70 per cent of contemporary median income combined with material deprivation, which captures aspects of exclusion through lack of resources, will allow us to identify those families at the margins whose apparently higher income may not be commensurate with their standard of living.
48. A final advantage of using 70 per cent of contemporary median income is that it introduces a second income threshold into our poverty measure. In doing so we reduce the risk that it could introduce pressures for policies to focus unduly on those with incomes just below a single, arbitrary point.

Supported by multi-dimensional indicators

49. We have always said that we will continue to publish child-specific multi-dimensional indicators in *Opportunity for all*, which was widely supported in the consultation exercise¹⁶. We recognise that poverty and social exclusion are not just about income, or the goods and services that people can afford. We understand that people's opportunities and quality of life are also shaped by their education, their skills, by access to quality health services, by decent housing and by security and the quality of the areas in which they live.
50. The comprehensive range of indicators included in *Opportunity for all* will underpin our long-term measure. These indicators are reviewed annually to ensure that best data are being used. From 2004 we will also be including additional breakdowns for some of these indicators on our new indicators website¹⁷.

¹⁶ The Devolved Administrations will continue to publish their annual poverty reports – the Northern Ireland Executive's *New Targeting Social Need*, the Scottish Executive's *Social Justice Annual Report* and the Welsh Assembly Government's *Annual Report on Social Inclusion in Wales*.

¹⁷ www.dwp.gov.uk/ofa/indicators/index.asp

Other measures considered

51. Two approaches to measuring child poverty were ruled out following the consultation exercise:
- A **child poverty index** received very little support. This approach combines a range of indicators within an index to generate a single figure. There is no basis for attaching weights to factors as disparate as income, educational progress and health, for example. As a result people thought it would be difficult to interpret – especially if indicators moved in different directions.
 - Using **solely a material deprivation and low income combined measure** had some support in the consultation, but most respondents agreed that it had serious disadvantages as an exclusive yardstick. Particularly because this method has not been tested in the long term, it was felt that it would be unwise to use this measure alone. Additionally, lack of an established baseline, or the ability to compare this internationally, preclude using this as our only measure of child poverty. None of this ruled out securing the advantages of a material deprivation and low income combined measure by incorporating it into one of the components of a tiered approach.
52. Following the further methodological work that was undertaken and discussions with experts, we have also ruled out some other measures that were suggested during the consultation exercise.
- ### Depth of poverty
53. Some respondents to the consultation suggested using a measure of depth of poverty – a poverty gap – to give some idea of the severity of poverty. Poverty is frequently discussed in terms of low-income rates – for the UK and the rest of the European Union the most commonly used indicator is the number below 60 per cent of equivalised median household income. Plainly someone on an income of only 40 per cent of the median is very likely to be worse off than someone on 59 per cent of the median. So, there is an argument for looking at how far below a particular income threshold people are.
54. Poverty gap measures aim to do just this. A small poverty gap would mean most people in low incomes were only just below the threshold whereas a

large poverty gap figure would suggest many people were well below the threshold. Clearly then if the low-income count remained stable, but the poverty gap decreased, this would show an improvement in the position of those on very low income – an improvement not picked up by low-income counts like the 60 per cent median.

55. Although attractive in principle, in practice poverty gap measures are a poor indicator of poverty for a number of reasons. Those reporting the very lowest incomes can often have living standards, including housing costs, which their apparent income would not support. This is a problem for most groups, and in particular for the self-employed, and those with a brief spell of unemployment or illness or those on a career break for whom income can be an extremely poor guide to real living standards. For example, people with income volatility may be benefiting from goods bought in previous periods when both income and expenditure were higher.
56. These data problems will also apply to low-income counts. But the problem is emphasised in a poverty gap measure because it places increasing weight on these people. In contrast to a low-income count each individual has equal weight, so the presence of these people will not disproportionately affect trends.

57. There are alternative measures, like poverty intensity and the median poverty gap, which attempt to overcome the problems highlighted above. However, they have additional problems and can make interpretation very difficult.
58. Our current approach in *Opportunity for all* is to present a range of low-income thresholds (50, 60 and 70 per cent). This gives an idea of the depth of poverty and it is simple to interpret. Indeed, the incorporation of two different relative low income lines into our new poverty measure (60 and 70 per cent of median), together with the lower line implied by the absolute tier, further ensures that different depths of poverty will be looked at separately. Around half of those below the 60 per cent threshold are above the 50 per cent threshold, so the lower threshold picks up approximately the same people as the median poverty gap for the 60 per cent threshold would.

We will continue to report the 50 and 70 per cent figures in *Opportunity for all* alongside the other supporting multi-dimensional indicators.

Persistent low income

59. How long people are in poverty and how often it recurs are obviously of major importance. Those children living in lone parent families, workless households or social housing or with no qualifications are more likely to experience persistent low income. And research shows that the chances of leaving low income fall the longer you have been poor¹⁸.

¹⁸ Lower conditional exit probabilities for labour market events are associated with a lower proportion of people leaving persistent low income than current low income. Jenkins, S and Rigg, J (2001), *The Dynamics of Poverty in Britain*, Department for Work and Pensions Research Report No.157.

60. There is obviously a relationship between time spent in low income and living standards. Recent analysis shows a clear and positive relationship between the recurrence of low income and the intensity of deprivation¹⁹: families who spent longer periods living in low income experienced more severe deprivation.
61. As we are including material deprivation as one of our core indicators, we do not think it is necessary to include a measure of persistent low income as well. Due to the strong relationship between these two measures, through the material deprivation tier, we will be able to measure the impact that we are having on those families in persistent low income as well.
62. Given the nature of this type of measure, where we have to look at people's income over long time periods, and the given time lags in the data, it can take a long time for the impact of government action to be seen in persistent low-income measures. Data that is five years old will always have a bearing on the latest persistent poverty count. This in turn can produce a lack of responsiveness, which makes the measure an inappropriate indicator against which to judge the progress of policies. Additional problems, such as attrition in longitudinal data, and the long lead-in time for any new data source have all led us to conclude that persistent low income is not appropriate to include in our overall poverty measure.

We will continue to monitor persistent low income in our suite of *Opportunity for all* indicators, which look at those with incomes below 60 per cent and 70 per cent median in three years out of the last four years²⁰.

Subjective measures

63. Subjective measures can provide further information about poverty and some respondents in the consultation felt it was important to include them in an overall measure. Subjective measures ask people how they feel about their current situation.
64. However, subjective measures have been criticised because the concepts are not the type used in everyday discussion, and some people may have difficulty both thinking about – and answering – such questions. Differences may also be attributed to socio-demographic characteristics, not just poverty. The way questions are framed might also be expected to impact on the results that will be obtained. The evidence base on subjective measures in the UK could be stronger, in particular we need more understanding of how such questions work, and how respondents interpret them. For this reason we do not feel it is appropriate to include measures of subjective well-being in our overall measure at this time.

19 Berthoud, R and Bardasi, E (forthcoming), *The relationship between income and living standards over time*, Department for Work and Pensions Research Report.

20 These figures are produced using the *British Household Panel Survey*.

Conclusions

65. The consultation exercise and the discussions we have had with people with direct experience of poverty, and with academic and non-government organisation experts, have been valuable in exploring this important issue and attempting to reach consensus. We are grateful for all the contributions we have received. We would also like to acknowledge the assistance received from the technical experts group in the recent methodological work we undertook to inform our decision²¹.
66. We believe that our new measure of child poverty outlined in this document will allow us to measure poverty in a way that helps to target effective policies that make a real difference to children's lives and will enable Government to be held to account for progress. Using the tiered approach outlined in this document, we will be able to clearly measure the impact we are having on the poorest families, and to ensure that:
- their incomes are increasing;
 - the gap is narrowing between their incomes and the incomes of more typical families; and
 - their risk of material deprivation is falling.
67. We believe that this measure will endure for the long term, and provides the right balance between clarity and comprehensiveness.
68. **Our new measure of child poverty will begin from 2004/05.** Our current low-income Public Service Agreement (PSA) target, to reduce by a quarter the number of children living in low income by 2004/05, will **not** be replaced by this new measure and we will continue to plan to meet this and other related PSA targets on parents' employment, housing and children's health and education.
69. The data for both our current PSA target and the baseline for our new measure will be published in 2006, when the data from the 2004/05 *Family Resources Survey* are published.

²¹ The technical experts group was set up to input into the methodological work set out in the preliminary conclusions of the consultation exercise. Group members were: Professor Sir Tony Atkinson, Professor Jonathan Bradshaw, Alissa Goodman, Professor John Hills, Dr. Stephen McKay and Professor Chris Whelan. The group commented on various technical papers, but did not make the overall decision on the new measure and should not be attributed to any conclusions drawn.

We would also like to acknowledge the input of Lisa Harker, Professor Brian Nolan, Professor John Hills and Paul Ennals in helping to shape the consultation document. Also the Poverty Alliance, the European Anti-Poverty Network, the Northern Ireland Anti-Poverty Network, Barnardo's, The Children's Society and Children in Wales for organising a range of consultation events. And finally, all those individuals and organisations who participated in the consultation events and replied to our consultation.

70. Whereas in 1997 our child poverty ranked amongst the worst in Europe, the position is now improving and we will strive to be eventually amongst the best. Of course, it is not feasible to reach a level of zero on any survey-based income measure – the ‘snapshots’ recorded will always classify as poor some with high living standards but transitory low incomes. So, even Scandinavian countries like Denmark and Sweden, which have long been judged to have the world’s best record on child poverty still have some children in relative low income. Material deprivation, by contrast, is not as affected by transitory changes in income, and so it is feasible to approach zero on this measure.
71. Success in eradicating poverty could, then, be interpreted as having a material deprivation child poverty rate that approached zero **and** being amongst the best in Europe on relative low incomes²².
72. In applying the new measure – as we move towards our next goal, to halve child poverty by 2010 on the way to eradication in 2020 – we will continue to judge progress against relative low income alongside our new measures on material deprivation and absolute low income. The detail of the PSA targets that will achieve this will be set as part of successive Spending Reviews. This will include publication of technical details of any new targets.

22 Possible ways to define being ‘amongst the best in Europe’ could include: having a relative child poverty rate no higher than the average of the best three countries in Europe; having a relative child poverty rate no higher than the average of the best four countries in Europe; and, having a relative child poverty rate that was within 2 percentage points of the average of the best three countries in Europe. Achieving any of these on current definitions would mean having a poverty rate between that of Sweden and Denmark.

Annex A

Material deprivation questions

The following questions will be included on the *Family Resources Survey* from 2004 and will be used in deriving the material deprivation element of our tiered approach. Families will be asked:

Do you and your family have...

Are you and your family able to afford...

Possible responses will be:

[1] "We have this"

[2] "We would like to have this, but cannot afford it at the moment"

[3] "We do not want/need this at the moment"

Adult deprivation

Keep your home adequately warm

Two pairs of all-weather shoes for each adult

Enough money to keep your home in a decent state of repair

A holiday away from home for one week a year, not staying with relatives

Replace any worn out furniture

A small amount of money to spend each week on yourself, not on your family

Regular savings (of £10 a month) for rainy days or retirement

Insurance of contents of dwelling

Have friends or family for a drink or meal at least once a month

A hobby or leisure activity

Replace or repair broken electrical goods such as refrigerator or washing machine

Child deprivation

A holiday away from home at least one week a year with his or her family

Swimming at least once a month

A hobby or leisure activity

Friends round for tea or a snack once a fortnight

Enough bedrooms for every child over 10 of different sex to have his or her own bedroom

Leisure equipment (for example, sports equipment or a bicycle)

Celebrations on special occasions such as birthdays, Christmas or other religious festivals

Play group/nursery/toddler group at least once a week for children of pre-school age

Going on a school trip at least once a term for school-aged children

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