WORKING PAPER:
Lower poverty in Scotland: pinning down the change

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April 2014

Supported by

PSWP: 01.14
April 2014
Executive summary

In the last year or two, there has been growing concern about rising levels of hardship and destitution. The purpose of this paper, however, is to take a longer-term look at levels of poverty in Scotland and how these compare with the rest of the UK. The central question is whether poverty rates are now lower in Scotland than in the rest of the UK and, if so, when this change occurred and for which groups.

Historically, Scotland has been poorer than the rest of the UK although the evidence has been fragmentary much of the time. Consistent evidence on low income poverty is available for the last twenty years, with additional evidence on material deprivation available for the last eight years. This evidence shows that Scotland now has a lower poverty rate than the rest of the UK. This is true using different kinds of poverty measure and different datasets.

The improvement in the Scottish poverty rate relative to that for the rest of the UK occurs after about 2003/4. The improvement occurs because there has been a steady fall in the poverty rate for working age people in Scotland while the UK poverty rate for this group has been unchanged. For people 65 and over, Scotland has long had a lower poverty rate than the rest of the UK. As the UK poverty rate for this group has fallen, Scotland’s poverty rate has fallen at the same rate – the relative position has not altered.

Within the working age population, the improvement occurs for:
- people without children rather than for those in family households;
- those in households where someone is in work rather than those in workless households; and
- for people in work, those with lower levels of qualifications as well as those with higher qualifications (degree-level or above).

One major factor driving the relative improvement in Scotland’s poverty rate is the improvement in the economic position of Scotland relative to the rest of the UK. This has benefitted households without children to a greater extent than those with children, raising possible concerns about access to affordable childcare. This report does not identify whether policy in Scotland has played any role in this relative improvement although earlier research suggested devolution had had little impact, since economic trends in Scotland were very similar to those in northern England.

A second factor appears to be the relative improvement in Scotland’s housing costs. In both the social rented sector and in the private housing market, the cost of housing in Scotland has fallen relative to England. This is not the result of deliberate policy in Scotland but of policy choices in England, as well as a failure of policy there to cope with housing demand pressures, notably in London and the South East. Nevertheless, this divergence highlights the important impacts which housing affordability may have on poverty. There has been some recognition of the importance of low housing costs in policy statements but not perhaps a sufficiently strong emphasis.
1. Introduction

There has been a lot of coverage in the media recently about increasing poverty and destitution across the UK. Rising costs, stagnant wages, falling welfare support and cuts in public services have combined to create real hardship for a growing number of households. This crisis has yet to be captured by official statistics. The most recent Government analyses use data only as far as 2011/12 and show poverty rates either steady or continuing a gradual decline on the main indicators (DWP 2013; Scottish Government 2013). A slightly more up-to-date picture was provided by the Poverty and Social Exclusion UK (PSE-UK) Survey, conducted during 2012. Its first headline findings provide a stark picture of current levels of hardship and evidence that these have been rising at least over the longer term (Gordon et al 2013).

For Scotland, the PSE-UK study also showed that levels of deprivation were lower than in the rest of the UK (Bailey and Bramley 2013). For example, across the UK as a whole, 33 per cent of adults were suffering multiple deprivation but in Scotland, it was 29 per cent. The absolute position is still shocking. The UK has one of the worst poverty rates in western Europe and Scotland is only slightly better (ONS 2013). Nevertheless, if it is true that poverty in Scotland is now lower than in the rest of the UK, it would be an historic change given that Scotland has been seen as a ‘lagging’ region for the last century and longer. It would also raise interesting questions about the possible contribution of policy since devolution. The Scottish Government may not control many of the most important policy levers that affect poverty but it may still have scope for substantial influence. It is therefore important to understand the drivers of any change.

The PSE-UK finding that Scotland’s poverty rate is lower than the rest of the UK is not new. It has been evident in official data for some time but it has attracted surprisingly little comment in UK or Scottish Government analyses (DWP 2013; Scottish Government 2013). Independent analyses have likewise noted the change but have often chosen to focus solely on child poverty rates rather than giving a more complete overview (McCormick and Harrop 2010; Parekh et al 2010; Aldridge et al 2013; MacInnes et al 2013; Aldridge and Kenway 2014). They too have been rather hesitant about heralding the change, perhaps concerned about putting too much emphasis on one or two years’ data or on a single indicator.

This short report therefore sets out to present a more thorough review of official data on poverty. It addresses the simple question: **is poverty now lower in Scotland than in the rest of the UK and, if so, when did this change occur and for which groups?** It analyses the trends in poverty rates in Scotland compared with the rest of the UK using the standard measures based on relative low income. It also exploits data not previously analysed for these purposes – the deprivation indicators which have been included in the Family Resources Survey (FRS) since 2004/5. It shows when, on which measures and for which groups poverty rates have fallen on these different measures. It sets this in a longer-term context using historic data on incomes and living standards so that the scale of the change is clearer. It also discusses some of the possible explanations for the changes observed, and concludes by looking at implications for policy.
2. A note on measures

Poverty measures

How we measure poverty matters because it can have a significant impact on our perception of who is most affected or how things are changing over time. There is no ‘official’ definition of poverty other than that used to track child poverty, nor is there a universally accepted standard.

The most common measure is low income. In the UK, the most widely-used version of this is households below 60 per cent of the median income. This can be calculated using net income before or after housing costs (BHC or AHC). In general, the ‘after housing cost’ measure is more widely accepted as a guide to living standards: housing costs are very substantial for most people but some, notably older home owners who have paid off their mortgage, face low or nil costs. Taking out housing costs gives a clearer impression of the amount of money the household has for other kinds of consumption.

Low income measures have been available for many years, providing a picture of trends on a consistent basis but several criticisms are made of these measures, including that:

- incomes can fluctuate rapidly – a snap-shot at one point in time may be a poor indication of the standard of living a household has;
- and that income is only one kind of resource – low income measures do not reflect savings or assets, or gifts from family or friends.

An increasingly common alternative is measures of deprivation. These give a score for each person or household of the number of ‘essential’ items which they would like to have but which they cannot afford. The items regarded as ‘essential’ or as ‘necessities’ are identified through a survey of public opinion. The list covers both material goods (clothing, food or housing, for example) but also social activities (attending important social events such as wedding or funerals, for example). People who lack more than a specified number of these items are regarded as living in poverty. Deprivation measures are therefore a direct measure of living standards. In the UK, they form part of the official child poverty target (DWP 2013) and in the European Union, they are one element in the poverty reduction target for 2020 (European Commission 2010).

Geographical comparisons

The main purpose of this report is to compare Scotland with the rest of the UK and this is what is done where it is relatively easily to do so. At some points, comparisons are made with the whole of the UK or with the whole of Britain including Scotland. In practice, this makes very little difference since Scotland is less than one tenth of the population total in either case. Similarly, at one or two points, the comparison is made with England rather than the whole of the rest of the UK but this too makes little difference since England makes up over 90 per cent of that total.
3. The historical background

Before the Industrial Revolution, all countries could be said to have been poor in an absolute sense, but Scotland was also far poorer than England. One estimate from 1798 based on income tax records puts Scottish incomes per head at about two thirds of those in England (Smout 1987: p109). With the advent of large-scale industrial development from the early nineteenth century onwards (and thanks in part to the possibility of stronger economic relationships with England following the Act of Union), Scotland’s position relative to the rest of the UK improved significantly. Average incomes in Scotland were estimated to be 75 per cent of those in England in 1867 and around 95 per cent in 1911 – possibly the ‘highwater mark’ until recent years (Smout 1987: p109; see also McCrone 2001).

The loss of overseas trade after the First World War combined with the depression of the late 1920s to produce a rapid industrial decline in the UK which hit Scotland particularly hard given its dependence on key traditional industries. Average incomes fell back to around 87 per cent of those in England by the early 1930s while unemployment was significantly higher (Smout 1987). Poverty rates in Scotland were estimated to be approximately double those in England in the 1930s (Levitt 1988). Poorer living standards are also evidenced in high rates of out-migration, higher child mortality and worse housing conditions – the last of these was particularly marked.

By the end of the Second World War, incomes in Scotland had recovered to around 90 per cent of those in England (Smout 1987). Thereafter, one account has it that Scotland initially manages to keep up with the pace of development in England but, from the 1960s through the 1980s, the further collapse of traditional industries leaves it in a worsening relative position (Dickson and Treble, 1992). Others have suggested that, having started the post-war period with significantly higher poverty rates, the gap begins to close through the 1970s. Either way, the consensus is that, at the start of the 1970s, poverty was higher in Scotland than in the rest of the UK.

4. Longer term trends in incomes and living standards

One point on which many sources agree is that, until recently, it was very difficult to get hard statistics to measure levels of poverty in Scotland, either to compare with the rest of the UK or to understand variations within this country (Craig 1994; Scottish Affairs Select Committee 2000; Brown and Long 2001). Occasional glimpses from the postwar period are provided by individual studies but these use a variety of data sources and definitions. Individually the studies are often inconclusive but, collectively, the impression is that poverty rates in Scotland were indeed slightly higher than the UK average although Scotland was not the poorest region.

- Townsend’s (1979) monumental study of poverty in the UK provides a brief regional comparison using the ‘official’ low income measure for the time (households with an income below 140 per cent of the Supplementary Benefit level). His data is from 1968/9 and shows that Northern Ireland was the poorest region on this measure by
some way (44 per cent poor compared with a UK average of 28 per cent). The poverty rate for Scotland was 29 per cent – just above the UK average.

- Fiegehen et al (1977) analyse Family Expenditure Survey (FES) data for 1971, using a poverty threshold of net normal income below Supplementary Benefit levels – a much lower threshold. On this measure, the UK poverty rate was 7.1 per cent and that for Scotland 9.0 per cent.

- Norris (1977) also uses data from the FES for 1972 (GB) and 1973 (Scotland), with a poverty line set very slightly higher at 110 per cent of the Supplementary Benefit level – still a ‘not very generous’ threshold (p32). He also suggests poverty is slightly higher in Scotland (14 per cent compared with 13 per cent for GB).

From the 1970s on, some consistent evidence on incomes and living standards starts to be available from data in the Family Expenditure Survey and its successors (Figures 1 and 2). Figure 1 confirms that Scotland has tended to have average gross incomes 7 to 10 per cent lower than the UK as a whole while the proportion of income which comes from social security has been higher that the UK average (14 per cent compared with 12 per cent in 2001-4, for example). The Figure also suggests that a change has occurred over the last ten years. In the most recent data, the Scottish average income is closer to the UK average than at any time in the previous 40 years.

Figure 2 shows the proportion of Scots lacking selected consumer durables, in comparison with the UK as a whole. The data cover possession of an ever-changing set of items such as a car, a fridge, a TV or a telephone. These are not the same items as used in deprivation scales such as those developed by the PSE surveys (Gordon et al 2000) nor do the figures on people lacking items distinguish those who do not want them from those who cannot afford them. They do nevertheless enable us to make some comparison of living standards over a long time period. Levels of ownership are shown up until the point that the items are owned by 95 per cent of the population; after that point, the small numbers lacking the item make comparisons unreliable.

The broad picture is of lower levels of consumption in Scotland. At any point, Scots are less likely to have items such as a car, central heating, a telephone or a home computer. One exception is that they were more likely to have a washing machine, perhaps reflecting the much higher incidence of flatted accommodation in Scotland with poor access to outdoor space for drying clothes and the difficulties of drying clothes in a cooler, wetter climate. Another exception is mobile phone usage which took off faster in Scotland. As with Figure 1, there is some evidence for a convergence in living standards over time, at least after the early 1990s. For most of the items, there appears to be a narrowing of the gap; the exception is with telephones but that may be explained by the faster growth of mobile phone usage (i.e. an earlier move to doing without landlines).
Figure 1: Gross incomes and share of income from social security – Scotland compared with the UK, 1971-2011

Figure 2: Ownership of consumer durables – Scotland compared with the UK, 1971-2011

Source: Family Expenditure Survey and successors.
5. Recent trends in incomes and poverty

Since 1994/5, the Households Below Average Income (HBAI) series has provided good estimates of: average or median incomes; poverty measured through low income; and, since 2004/5, poverty measured through deprivation. The HBAI series is based on data from the Family Resources Survey (FRS).

**Median incomes in Scotland rose relative to GB from 2003/4**

The HBAI series provide data on median net household incomes for Scotland for the last 20 years, and these can be compared with incomes for GB as a whole (Figure 3). Two features stand out here. First, Scottish incomes after housing costs (AHC) are consistently higher relative to the GB average than incomes before housing costs (BHC). This reflects relatively lower housing costs in Scotland. This may be down to a number of factors: greater provision of social housing, lower costs of private housing or lower levels of housing consumption, for example. This is discussed further below.

Second, there is a clear increase in median incomes in Scotland relative to GB which happens from around 2003/4. This fits with the change in the FES data noted above (Figure 1). Incomes after housing costs in Scotland were at or below the GB level before this point but above it thereafter. Incomes before housing costs were below the GB level before this point but at the same level thereafter. At the same time, the gap between before and after housing cost measures increased slightly. The change is evident in data for several consecutive years and, if anything, the gap has continued growing. For the last four years to 2011/12, median incomes in Scotland after housing costs were around 4 per cent higher than for GB as a whole.

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1 Northern Ireland was only included in the FRS from 2002/3 so it is excluded for here although this makes minimal difference. For Scotland, the sample changes slightly in 2001/2 with the inclusion of areas north of the Caledonian Canal (NoCC) and in 2002/3 with a boost to the overall sample size. Neither should have any significant impact.
Low income poverty rates fell in Scotland relative to the UK from 2004/05
The rise in median incomes in Scotland relative to Great Britain over the last 10 years is matched by a relative improvement in Scotland’s poverty rate as measured by low income (Figure 4). As with the income measures above, the two low income poverty measures – before and after housing costs – paint a slightly different picture but the trends are the same. On the BHC measure, Scotland moves from having a higher poverty rate than the rest of the UK (RoUK) to having a rate equal to or just below the RoUK. On the AHC measure, Scotland moves from having a poverty rate equal to or just higher than that for the RoUK to having a rate several points lower. Figure 4 also shows that the fall on the AHC measure is slightly greater than the fall on the BHC measure. Again it suggests that an important factor in Scotland’s relative improvement is housing costs.

A clearer way of presenting the data on poverty rates is to compare the risk of being poor in Scotland with the risk of being poor in the RoUK directly – a measure known as the Relative Risk. A Relative Risk greater than 1 means that poverty is higher in Scotland than in the RoUK and a value lower than 1 means poverty is lower in Scotland. Figure 5 shows the same data as Figure 4, but now as Relative Risks, before and after housing costs. There is some fluctuation from year to year due to the uncertainty of all estimates but the trends are clear. From around 2004/5, Scotland’s position relative to the rest of the UK improves fairly consistently. The picture is the same if we used different thresholds to measure ‘low income poverty’ such as 50 per cent or 70 per cent of median income.
Figure 4: Low income poverty rates – Scotland vs RoUK, 2000/1 to 2011/12

Figure 5: Relative Risks of low income poverty – Scotland vs RoUK, 2000/1 to 2011/12
We also want to make comparisons between trends on the low income poverty measure and those on the material deprivation indices. To do this, it is necessary to break the whole population down into different age groups. For reasons noted in the Appendix, we do not have consistent data on material deprivation for the whole population – only for those below 65. Even then, this data only goes as far back as 2004/5. As we start to focus on sub-groups, it is also useful to collapse the 12 years into three sets of four years to reduce ‘noise’ or random fluctuations from year-to-year which can make it more difficult to see long-term change.

Figure 6 shows trends in low income poverty separately for adults under 65 and those 65 or over. This reveals three things. First, people over 65 in Scotland have had a lower risk of low income poverty than those in the RoUK throughout the period we are looking at, on both BHC and AHC measures. Rates of low income poverty for the over 65s have fallen sharply across the UK (from 26 per cent in 2000-4 to 19 per cent in 2008-12) reflecting substantial increases in welfare support (notably the Minimum Income Guarantee for pensioners). The Figure shows that poverty rates for this group have fallen at an equal rate in Scotland – and slightly faster on the AHC measure, again hinting at the possible role played by housing costs.

Second, the Figure also shows therefore that, for the population as a whole, Scotland’s improvement relative to the RoUK has come from particularly strong falls for the under 65 age group. Poverty rates for this group were unchanged for the UK as a whole but fell slightly in Scotland. The fact that improvements have occurred for the working age group and that they are as strong on the before housing cost measure as on the after housing cost one suggests that we need to seek explanations for the change in the labour market.

Third, the position of Scotland relative to the UK improved more in the first period than in the second. If we look back at the Figure 3 above, however, this gives a longer term perspective. Here we see that Scotland’s position worsened slightly around 2000/1 to 2002/3. This suggests that some of the improvement from 2000-4 to 2004-8 may be a bounce-back. The improvement to 2008-12 may be at a slightly lower rate but this is the period when Scotland really seems to move ahead.
Figure 6: Relative Risks of low income poverty – Scotland vs RoUK, adults under 65 & 65+

Source: FRS/HBAI series.
Low income poverty compared with material deprivation
Now we have a picture of change for adults under 65 using the low income poverty measure, we can compare this with the picture from using the material deprivation scale for adults. As discussed in the Appendix, this material deprivation scale is constructed from eight household items, a relatively small set of items for which we have data for all years. Nevertheless, it does provide additional confirmation of the changes.

Figure 7 shows that the adult deprivation measure gives a Relative Risk of poverty somewhere between the BHC and AHC income poverty measures but closer to the latter. It shows that, for adults under 65, the risk of being in deprivation was little different to that for the UK as a whole in 2004-8 but is now some way below the RoUK level. The material deprivation measure shows a virtually identical trend to that from the low income measures and it gives us greater confidence in the result obtained from those measures.

*Figure 7: Relative Risks of low income poverty and material deprivation – Scotland vs RoUK, adults under 65*

Source: FRS/HBAI series.

We can further divide adults under 65 into those with children and those without, again presenting both low income and material deprivation measures of poverty (Figure 8 and 9). For adults with children, we show both the material deprivation scale based on eight household items and the longer, more reliable scale based on the 17 household and child items.
For both groups, the material deprivation items track the low income measures closely. For adults with children, both deprivation scales and the low income AHC measure all suggest that poverty levels are lower in Scotland than the RoUK although the improvement occurred between 2000-4 and 2004-8; it has not changed much since then. For working age adults without children, all the measures suggest a significant improvement between 2004-8 and 2008-12 as well as in the earlier period. From having a poverty rate much worse than the UK average for this group, Scotland is now about the same as or slightly better than the RoUK. The fall in poverty for adults under 65 noted in Figure 7 is due primarily to the improving position for those without children.

Figure 8: Relative Risks of low income poverty and material deprivation – Scotland vs RoUK, adults under 65 with children

![Figure 8](image)

Source: FRS/HBAI series.

Figure 9: Relative Risks of low income poverty and material deprivation – Scotland vs RoUK, adults under 65 without children

![Figure 9](image)

Source: FRS/HBAI series.
If we turn to look at people 65 or over, we are hampered by the lack of comparable measures of deprivation over time, as discussed in the appendix. We can show trends in low income poverty rates but we can only compare these with two different estimates of material deprivation at different time points, produced on quite different bases (Figure 10). Furthermore, the later set of material deprivation items designed explicitly for use with older people has been shown to have only a weak relationship with low income (Cribb et al 2012).

All the measures suggest that poverty for older people is no worse in Scotland than the RoUK. The low income measures and the earlier deprivation measure suggest it is slightly lower. For this group, however, the gap between before and after housing cost measures is much smaller than for others; the great majority of homeowners of this age own outright while many of those renting will have those costs covered by housing benefit.

Figure 10: Relative Risks of low income poverty and material deprivation – Scotland vs RoUK, adults 65+

Source: FRS/HBAI series.
Material deprivation in the ‘Understanding Society’ survey
Another major survey which captures material deprivation is ‘Understanding Society’, funded by the Economic and Social Research Council. This has data on material deprivation for 2009 and 2010 (the first two waves). There is data on 10 household items for every adult, and on a further 10 child items for every adult with dependent children. The list of items is very similar to those included in the FRS and there is a substantial overlap with the ‘continuous’ set of 8 and 17 FRS items used above. This data also suggests that poverty in Scotland is around 10 per cent lower than in the RoUK, further reinforcing our confidence this finding (Table 1).

Table 1: Material deprivation – Scotland vs RoUK, 2009-10

<table>
<thead>
<tr>
<th></th>
<th>All households</th>
<th>Households with children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>22%</td>
<td>25%</td>
</tr>
<tr>
<td>RoUK</td>
<td>25%</td>
<td>27%</td>
</tr>
<tr>
<td>RR</td>
<td>0.88</td>
<td>0.91</td>
</tr>
<tr>
<td>N</td>
<td>53,783</td>
<td>14,901</td>
</tr>
</tbody>
</table>

Source: Understanding Society, Waves 1 and 2. All households – 3+ from 10 items. Households with children – 5+ from 20 items.
6. Explaining the changes

The preceding analysis establishes the following:

- That poverty in Scotland is now lower than in the rest of the UK - on the low income after housing costs measure and on the material deprivation measure, and on data from the FRS, the PSE-UK and Understanding Society surveys;
- That the fall is due to a relative improvement for working-age people, particularly those without children, since about 2003/4; and
- That improvement is evident on before housing cost measure as well as the after housing cost and material deprivation measures.

Two principle factors have been identified as potentially important in explaining Scotland’s improving position: the labour market and housing. The labour market is certainly an explanation highlighted in previous analyses (McCormick and Harrop 2010; Aldridge and Kenway 2014) while some mention has also been made of housing costs (Aldridge et al 2013). Other suggested explanations have included other cost of living differences. We examine all three below, focussing mainly on the first two.

The Scottish Government has previously noted the faster rate of decline in child poverty in Scotland up to 2008/9 and commissioned some work to explore the reasons for this (Barham 2010). This suggested that the improving labour market was one important factor, with greater falls in unemployment and growth in self-employment in Scotland driving faster increases in household incomes. It also noted that the composition of families could be a factor: Scotland had seen slower growth larger or minority ethnic households both of which have greater risks of poverty. The discussion here pays less attention to household size or ethnicity since the more recent data shows less relative improvement for households with children.

Labour market

The last decade has seen a gradual improvement in Scotland’s labour market position relative to the UK as a whole, particularly the years from 1999 to the start of the recession in 2007 or 2008 (Figure 1). Employment rates rose to the UK level while unemployment rates fell to the same point. This improving position is also reflected in a rise in earnings relative to the UK. This fits with the evidence from the FES data on the falling proportion of income in Scotland over the last 10 years which comes from social security (Figure 1 above). Since the recession, Scotland’s position relative to the UK has been broadly unchanged: unemployment has risen and employment rates fallen at the same rates.
The picture of longer-term improvement is reflected in the employment position of Scottish households in the FRS data (Figure 12). This looks at changes in household employment rates – a measure is known as ‘household work intensity’. It takes account of the number of adults in the household who are working and the extent to which they work full- or part-time. A household employment rate of ‘1’ implies all adults are working full-time while ‘0’ implies no adults have any paid work.

Looking at all people of working age, the proportion of households with a high employment rate (over 0.8) fell across the UK between 2000-4 and 2008-12 but it did so by less in Scotland than in the RoUK. At the other extreme, the proportion of workless households rose in the RoUK but fell in Scotland. In the two intermediate categories, the differences were smaller but also worked in Scotland’s favour.

The Figure also shows that the relative improvement in employment rates in Scotland has occurred mainly through households without children. For those with children, the changes in Scotland mirror those in the RoUK indicating that those households did not see as much benefit from the relative improvement in Scotland’s economy as households without children. This would lend support to the idea that affordable childcare may be an important barrier (Aldridge and Kenway 2014). We return to this below.
In addition to improvements in household employment rates, we can also see falling risks of poverty for those in working households in Scotland but no such reductions for those in workless households (Figure 13).

*Figure 12: Change in proportion of households by employment rate*

Source: FRS/HBAI series.
Figure 13: Relative Risks of low income poverty and material deprivation – Scotland vs RoUK, adults under 65 by household employment rate, 2000/4-2008/12

Source: FRS/HBAI. ‘Low work’ – less than 0.4. ‘Moderate work’ – 0.4 to 0.8. ‘High work’ – above 0.8.
If improvements in the labour market had only been felt by those with the highest qualifications, this would tend to reinforce inequality and do little to reduce poverty. Figure 14, however, shows that the reductions in poverty risks for those in work have been experienced by both those with degree-level qualifications and those without (the only division by qualifications which the FRS data makes possible over this time period).

*Figure 14: Relative Risks of low income poverty and material deprivation – Scotland vs RoUK, adults under 65 in work, 2000/4-2008/12*

Source: FRS/HBAI series.
Housing
The results above suggest strongly that lower housing costs in Scotland have been an important factor in reducing poverty. Aldridge et al (2013) examine falling rates of child poverty in Scotland compared with the rest of the UK and they too argue that housing costs are important: “Among those in the bottom half of the income distribution, housing costs are 25% higher in England and Wales than Scotland. A decade ago the gap was 10%, so Scotland’s lower housing costs help to keep poverty down” (2013, p2). It is important to understand how this came about.

Lower housing costs in Scotland may reflect a combination of factors. One factor may be housing tenure. In the past, Scotland had notably higher levels of social rented housing and these might have helped keep poverty rates down. However, the gap has been declining in recent years so this cannot explain why Scotland’s poverty rate has been improving relative to the RoUK (Figure 15). Perhaps more important here may be that, within the private sector, Scotland has been seeing a more rapid growth in home ownership and a slower growth of private renting which has particularly high levels of affordability problems.

Another factor may be relative costs of housing. Looking first at social housing, rents in Scotland have been becoming increasingly cheap compared with England in both the local authority and the housing association or Registered Social Landlord (RSL) sectors (Figure 16). The sharp rises in RSL rents in Scotland relative to those in England around 2002/3 reflect large-scale stock transfers from local authorities, notably in Glasgow. Once the effect of those transfers diminishes, RSL and LA rents in Scotland both fall steadily further behind those in England so that they are 20 to 25 per cent lower by 2012/13. Although around two-thirds of people in social housing do not pay the full rent due to Housing Benefit, the lower Scottish rents may be important in enabling those in social renting to take up or remain in employment.

The reasons for this variation can be traced back to policy divergence but it originates in England rather than Scotland (Young et al 2013). In Scotland, social landlords have considerable latitude to set rents as they see fit, subject to the need to maintain financial viability. Rents may vary considerably depending on when stock was constructed and under what kind of financial regime. In England, by contrast, there have been concerted attempts by central Government to bring convergence in rents across the sector in recent years, by requiring that rents reflect variations in housing size and quality, and in local housing market conditions. The effect has been to push rents up at the same time.
Figure 15: Housing tenure – Scotland and England, 1971-2011

Source: ONS live tables on dwelling stock (104 and 107).

Figure 16: LA and RSL rents – Scotland as per cent of England, 1998/9 to 2012/13

Source: LA – ONS live tables – Table 701. RSL: England – ONS Table 703 (to 2009/10) and HACA (2013) for later years; Scotland – Scottish Government Housing Statistics – Key Information and Summary Tables. Self-contained general needs housing, rents excluding service charges.
Turning to private housing, again we find that costs are around 20 per cent lower in Scotland (Figure 17). These prices in themselves do not appear to explain the improvement in Scotland’s poverty rate from around 2003/4 as, at that time, median house prices in Scotland were rising compared to the UK. It is housing affordability which appears more important (Figure 18). This measure compares housing costs with regional earnings. Scotland has been one of the most ‘affordable’ regions of the UK for the last 20 years but the size of the affordability gap widened sharply around 2002/3 (as indicated by the dashed line in Figure 18), only falling back a little as the recession reduced house prices in England.

**Figure 17: Median house prices – Scotland vs the UK**

![Median house prices chart](image)

Notes: ONS and Nationwide Building Society series.

**Figure 18: Nationwide housing affordability index**

![Housing affordability chart](image)

Source: Nationwide housing affordability data.
Other costs of living
Beyond housing, we might also seek explanations for Scotland’s improving position in other costs of living. The standard low income poverty measures ignore differences in the cost of living in different regions. That is one reason why it is useful to compare deprivation measures with low income measures since the former effectively take account of living costs; see Cribb et al (2012) for some detailed comparisons of deprivation and low income measures by region.

One recent ONS study produced one-off measures of regional consumer price levels in 2010 (excluding housing costs). Scotland comes out very close to the UK average and to the average for England excluding London. On the other hand, Jin et al (2011) look at earlier ONS research on regional costs of living (Wingfield et al 2005) which show that prices are lower in Scotland. Once these are taken into account, Scottish income and low income poverty figures improve. In the absence of comparable data over time, however, we cannot say whether changes in regional price differences have had any impact on the relative improvement in Scotland’s poverty rate.

In relation to child poverty, Aldridge and Kenway (2014) speculate that better access to affordable childcare in Scotland may be a factor in the relative improvement for that group. They are careful to note that they have no direct evidence for this and, in any case, our analysis suggests that it is households without children rather than those with which have seen poverty rates improving in Scotland. In addition, some recent data suggest that childcare costs are little different, with costs perhaps 2 to 3 per cent lower in Scotland than the RoUK (Rutter and Stocker 2014). This is a modest difference though a large amount in absolute terms.
7. Adding regional detail

The main aim of this paper is to examine the position of Scotland in relation to the rest of the UK as a whole but it is worth briefly examining Scotland in comparison with the other regions and nations to see the extent to which trends here are similar to or quite different from those elsewhere.

If we look at trends in low income poverty by region, there is a broad north-south divide in terms of change in poverty rates overall (Table 2). Comparing 2008-12 with 2000-04, poverty rates have improved most relative to the UK average in (in descending order): Scotland, the North East, Wales, Yorkshire & Humberside and the North West. They have worsened in: Eastern, West Midlands, London, South West and South East. (London is something of an exception, seeing a relative improvement on the BHC measure but worsening on the AHC measure, reflecting particular housing cost problems there.) Scotland is not therefore exceptional although it does show one of the strongest relative improvements and has therefore moved from having one of the higher poverty rates to average (BHC) or below average (AHC).

If we look at the under 65s, Scotland again comes out as having shown the greatest improvement but is again in the same group with northern England and Wales (Table 3). For the over 65s, there is less of a picture of north-south divide and a more consistent picture of rapidly falling low income poverty across the country, with Scotland one of the regions showing the greatest falls.
Table 2: Low income poverty by region – all adults, 2000/04 to 2008/12

<table>
<thead>
<tr>
<th>Region</th>
<th>BHC</th>
<th>Change 00/04 to 08/12</th>
<th>AHC</th>
<th>Change 00/04 to 08/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Scotland</td>
<td>22%</td>
<td>19%</td>
<td>18%</td>
<td>-4%</td>
</tr>
<tr>
<td>1 North East</td>
<td>24%</td>
<td>22%</td>
<td>20%</td>
<td>-4%</td>
</tr>
<tr>
<td>11 Wales</td>
<td>23%</td>
<td>23%</td>
<td>21%</td>
<td>-2%</td>
</tr>
<tr>
<td>2 North West</td>
<td>21%</td>
<td>21%</td>
<td>19%</td>
<td>-2%</td>
</tr>
<tr>
<td>4 Yorks and Humberside</td>
<td>21%</td>
<td>20%</td>
<td>20%</td>
<td>-1%</td>
</tr>
<tr>
<td>10 South West</td>
<td>19%</td>
<td>17%</td>
<td>17%</td>
<td>-2%</td>
</tr>
<tr>
<td>5 East Midlands</td>
<td>22%</td>
<td>21%</td>
<td>20%</td>
<td>-2%</td>
</tr>
<tr>
<td>7 Eastern</td>
<td>16%</td>
<td>15%</td>
<td>16%</td>
<td>0%</td>
</tr>
<tr>
<td>9 South East</td>
<td>14%</td>
<td>15%</td>
<td>14%</td>
<td>0%</td>
</tr>
<tr>
<td>6 West Midlands</td>
<td>21%</td>
<td>21%</td>
<td>21%</td>
<td>0%</td>
</tr>
<tr>
<td>8 London</td>
<td>18%</td>
<td>17%</td>
<td>17%</td>
<td>-1%</td>
</tr>
<tr>
<td>13 Northern Ireland</td>
<td>22%</td>
<td>22%</td>
<td>23%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: FRS – sorted in order of change in AHC poverty rate.
### Table 3: Low income poverty by region – under 65, 2000/04 to 2008/12

<table>
<thead>
<tr>
<th>Region</th>
<th>BHC 2000-04</th>
<th>BHC 2004-08</th>
<th>BHC 2008-12</th>
<th>Change 00/04 to 08/12</th>
<th>AHC 2000-04</th>
<th>AHC 2004-08</th>
<th>AHC 2008-12</th>
<th>Change 00/04 to 08/12</th>
<th>Deprivation 2004-08</th>
<th>Deprivation 2008-12</th>
<th>Change 00/04 to 08/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Scotland</td>
<td>21%</td>
<td>18%</td>
<td>18%</td>
<td>-3%</td>
<td>24%</td>
<td>22%</td>
<td>21%</td>
<td>-3%</td>
<td>26%</td>
<td>29%</td>
<td>3%</td>
</tr>
<tr>
<td>1 North East</td>
<td>24%</td>
<td>22%</td>
<td>22%</td>
<td>-2%</td>
<td>27%</td>
<td>26%</td>
<td>25%</td>
<td>-1%</td>
<td>29%</td>
<td>36%</td>
<td>7%</td>
</tr>
<tr>
<td>11 Wales</td>
<td>21%</td>
<td>21%</td>
<td>21%</td>
<td>0%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>-1%</td>
<td>28%</td>
<td>34%</td>
<td>6%</td>
</tr>
<tr>
<td>4 Yorks and Humberside</td>
<td>19%</td>
<td>18%</td>
<td>20%</td>
<td>1%</td>
<td>23%</td>
<td>22%</td>
<td>24%</td>
<td>1%</td>
<td>26%</td>
<td>34%</td>
<td>8%</td>
</tr>
<tr>
<td>2 North West</td>
<td>19%</td>
<td>20%</td>
<td>19%</td>
<td>0%</td>
<td>24%</td>
<td>24%</td>
<td>25%</td>
<td>1%</td>
<td>30%</td>
<td>36%</td>
<td>6%</td>
</tr>
<tr>
<td>5 East Midlands</td>
<td>19%</td>
<td>18%</td>
<td>19%</td>
<td>1%</td>
<td>22%</td>
<td>22%</td>
<td>23%</td>
<td>1%</td>
<td>25%</td>
<td>31%</td>
<td>6%</td>
</tr>
<tr>
<td>13 Northern Ireland</td>
<td>21%</td>
<td>20%</td>
<td>22%</td>
<td>2%</td>
<td>22%</td>
<td>21%</td>
<td>23%</td>
<td>1%</td>
<td>26%</td>
<td>30%</td>
<td>4%</td>
</tr>
<tr>
<td>9 South East</td>
<td>11%</td>
<td>12%</td>
<td>13%</td>
<td>2%</td>
<td>17%</td>
<td>18%</td>
<td>18%</td>
<td>1%</td>
<td>21%</td>
<td>27%</td>
<td>5%</td>
</tr>
<tr>
<td>10 South West</td>
<td>15%</td>
<td>15%</td>
<td>16%</td>
<td>1%</td>
<td>21%</td>
<td>21%</td>
<td>23%</td>
<td>2%</td>
<td>24%</td>
<td>31%</td>
<td>7%</td>
</tr>
<tr>
<td>8 London</td>
<td>17%</td>
<td>16%</td>
<td>16%</td>
<td>-1%</td>
<td>27%</td>
<td>27%</td>
<td>29%</td>
<td>2%</td>
<td>28%</td>
<td>31%</td>
<td>3%</td>
</tr>
<tr>
<td>6 West Midlands</td>
<td>18%</td>
<td>20%</td>
<td>21%</td>
<td>2%</td>
<td>23%</td>
<td>25%</td>
<td>25%</td>
<td>3%</td>
<td>28%</td>
<td>34%</td>
<td>6%</td>
</tr>
<tr>
<td>7 Eastern</td>
<td>13%</td>
<td>13%</td>
<td>16%</td>
<td>3%</td>
<td>17%</td>
<td>20%</td>
<td>21%</td>
<td>3%</td>
<td>23%</td>
<td>28%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: FRS – sorted in order of change in AHC poverty rate.
Table 4: Low income poverty by region – over 65, 2000/04 to 2008/12

<table>
<thead>
<tr>
<th>Region</th>
<th>BHC</th>
<th>Change 00/04 to 08/12</th>
<th>AHC</th>
<th>Change 00/04 to 08/12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000-04</td>
<td>2004-08</td>
<td>2008-12</td>
<td>08/12</td>
</tr>
<tr>
<td>7 Eastern</td>
<td>26%</td>
<td>21%</td>
<td>18%</td>
<td>-8%</td>
</tr>
<tr>
<td>1 North East</td>
<td>25%</td>
<td>22%</td>
<td>16%</td>
<td>-8%</td>
</tr>
<tr>
<td>12 Scotland</td>
<td>24%</td>
<td>22%</td>
<td>18%</td>
<td>-6%</td>
</tr>
<tr>
<td>6 West Midlands</td>
<td>29%</td>
<td>25%</td>
<td>21%</td>
<td>-8%</td>
</tr>
<tr>
<td>2 North West</td>
<td>27%</td>
<td>25%</td>
<td>18%</td>
<td>-9%</td>
</tr>
<tr>
<td>9 South East</td>
<td>24%</td>
<td>21%</td>
<td>17%</td>
<td>-7%</td>
</tr>
<tr>
<td>4 Yorks and Humberside</td>
<td>27%</td>
<td>25%</td>
<td>20%</td>
<td>-7%</td>
</tr>
<tr>
<td>5 East Midlands</td>
<td>32%</td>
<td>28%</td>
<td>21%</td>
<td>-10%</td>
</tr>
<tr>
<td>10 South West</td>
<td>27%</td>
<td>23%</td>
<td>18%</td>
<td>-9%</td>
</tr>
<tr>
<td>11 Wales</td>
<td>27%</td>
<td>26%</td>
<td>21%</td>
<td>-6%</td>
</tr>
<tr>
<td>8 London</td>
<td>22%</td>
<td>22%</td>
<td>19%</td>
<td>-4%</td>
</tr>
<tr>
<td>13 Northern Ireland</td>
<td>26%</td>
<td>30%</td>
<td>24%</td>
<td>-2%</td>
</tr>
</tbody>
</table>

Source: FRS – sorted in order of change in AHC poverty rate.
8. Conclusions

There has rightly been a great deal of concern about rising levels of financial hardship and destitution across the UK, particularly over the last year or two. These increases have no doubt affected Scotland as well as other parts of the UK. The focus of this report, however, has been on a longer-term view, using a range of official statistics covering the years up to 2011/12. In these figures, it is clear that Scotland has seen some improvement relative to the rest of the UK in employment levels, in household incomes and in poverty rates. On several measures, Scotland now has lower poverty rates than the rest of the UK. On one measure (low income poverty before housing costs), Scotland’s poverty rate is equal to that for the rest of the UK rather than lower, but even this measure shows a significant improvement. People under 65 have seen a greater relative improvement than older people, and those without children have seen a greater improvement than those with children.

This is in many ways an historic change given that Scotland has been seen as poorer than the rest of the UK for all of the last century and indeed before then. It should be stressed that this change is modest in scale and has to be seen in the context of a country which has a higher rate of poverty than most of the long-established members of the EU. It is no cause for great celebration. Nevertheless, it is important to appreciate this shift and to try to understand some of the factors which may explain it.

One factor is an improvement in the economic position in Scotland relative to the rest of the UK which has raised earnings and employment rates. It is beyond the scope of this paper to identify the reasons for this, although earlier analyses have suggested that it has little if anything to do with devolution since rates of change were similar in northern England (Bivand et al 2010). It is clear, however, that households without children appear to have done better. This is perhaps surprising given the focus on child poverty under both Labour and SNP administrations. Lack of affordable childcare may one factor at work here although such data as exists on childcare costs suggests these are slightly lower in Scotland than elsewhere.

A second factor is housing costs. Scotland has had lower housing costs in both market and social sectors for at least 20 years. Over the last 12 years, however, its position has improved further in both cases. This appears to have contributed significantly to improvements in after housing costs and deprivation measures of poverty, and highlights the importance of housing policy in anti-poverty strategies.

It is difficult to see this improvement as being the result of a conscious policy effort in Scotland. Rather, it reflects a deteriorating position in the rest of the UK, and specifically England, resulting in part from policy choices or policy failures there. In the social rented sector in England, there has been a policy choice to bring consistency across the sector and to make social rents reflect local variations in housing market conditions to a greater extent. The result has been a levelling-up of rents. In Scotland, social landlords have been left to set
rents largely in ways which reflect historic costs. In the market sector in England, planning and other policy efforts have consistently failed to meet rising demand, particularly in London and the south east. The result has been deteriorating affordability, only marginally eased by the recession. Scotland has not faced such pressures so its policy response has not been tested.

Nevertheless, the Scottish Government has recognised the importance of housing costs in poverty reduction as the recent child poverty strategy shows (Scottish Government 2014). One of its three main goals is raising household resources, and keeping down housing costs is seen as playing an important role here. The need for affordable rents in social housing is mentioned explicitly as is the value of affordable home ownership.

The UK has long had high levels of income inequality but some of the worst consequences of this have mitigated by its housing policies (Stephens and van Steen 2011). Many of the key policies have been gradually dismantled in recent decades, however, through the declining size of the social rented sector, the rising level of social sector rents, and the increasing restrictions on housing benefits, for example. It is possible that the Scottish Government is re-discovering the importance of this dimension of welfare policy in a way which would be quite distinctive. A clearer statement of this would be useful to guide future actions.

Acknowledgements
I am very grateful to the Joseph Rowntree Foundation who provided funding to enable this short study to be carried out and would like to thank Chris Goulden from JRF for this helpful guidance and feedback. I would also like to acknowledge the very valuable comments received from a number of people on an earlier draft of this report, notably Robert Joyce (Institute of Fiscal Studies), Glen Bramley (Heriot-Watt University), Ken Gibb (University of Glasgow) and Douglas Robertson (University of Stirling). None of these people bears any responsibility for any errors or omissions, nor for the views expressed.
References


Appendix: Data and measures

Incomes and low income poverty measures
Results published for the HBAI series use net equivalised household income, before and after housing costs; details in Appendix 1 of DWP (2013). Incomes of high income groups are adjusted on the basis of HMRC’s Survey of Personal Incomes. Equivalence is based on modified OECD scales, with separate scales for BHC and AHC income (Appendix 2 of DWP 2013). AHC income takes off total housing costs include gross rent and mortgage payments. Council Tax is treated with other taxes and taken off gross income as part of the calculation of net income. Housing Benefits (and Income Support for Mortgage Interest) are included within net incomes.

Material deprivation measures of poverty
The FRS has carried a group of 21 questions on material deprivation since 2004/5. The set was designed by McKay and Collard (2003) to measure material deprivation as part of a new statutory indicator of child poverty. That work in turn built on the PSE survey methodology (Gordon et al 2000) as well as other sources. The deprivation questions are answered by one adult respondent on behalf of the whole Benefit Unit. (Benefit Units are effectively the same as households in the overwhelming majority of cases.) That adult answers questions on household consumption and on children’s consumption. Both are considered important for examining child poverty: as adults often prioritise children’s consumption, children in ‘poor households’ may not themselves appear ‘poor’. The household questions were originally asked of all adults and the child items only where there were dependent children.

In 2008/9, a new set of 15 items was introduced to measure deprivation for older people following a report by McKay (2008). These questions were asked if there was at least one person in the Benefit Unit 65 or over. From that year on, the main deprivation questions were no longer asked of these Benefit Units except in the few cases were they also contained dependent children. There are therefore no questions asked of older people across the whole time period. The older people’s deprivation items are also asked in a rather different way with more exploration of reasons for lacking items (McKay 2010) so that their comparability with the original deprivation items is further reduced. This report follows the DWP approach of counting items as deprivations whatever the reason for lacking them with the exception of not wanting them or where they are seen as not relevant. Cribb et al 2012 explore the impacts of using a tighter definition based on lacking through affordability but suggest that even this tighter definition does not provide a strong relationship with low income.

The original set of 21 household and child items was updated in 2010/11 following a report by McKay (2011). Four of the original items were removed and four new items added. In 2010/11, the survey asked both the original and the new set of items so there was continuity in the full child poverty indices.

The result of all these changes is that there is no consistent set of deprivation items cover all eight years from 2004/5 for the population as a whole. It is possible, however, to derive a number of measures which give good comparability over time for particular groups.
For adults with dependent children, we could use the two 21-item scales which overlap in 2010/11. Instead we construct a new scale using the 17 items available for all eight years (the ‘continuous’ items). In practice, they are virtually identical; the correlation between this scale and both the original and the revised scales is at least 0.98.

To look at all adults under 65, we could use the original set of 11 household items and the revised set of 9. Instead, as before, we construct a new scale using the 8 items available for all eight years (the ‘continuous’ items). Again, the scales are virtually identical with correlations of at least 0.98 between the scale available for all years and the original and revised ones. This scale can also be used to look at deprivation for adults under 65 with or without children.

There is no set of items which can measure deprivation for people 65 or over (i.e. in Benefit Units where at least one adult is 65 or over). One scale can be constructed for the first four years using the same 8 items as for adults under 65. Another scale can be constructed for the last four years using the 15 older people’s deprivation items. There is no year where the two scales overlap so it is much more difficult to make judgements about change for older people.

There is a very close fit between the reduced set of items available for all years and the separate, slightly longer scales available for the earlier and later years. This is apparent not just in the high correlations between them but also in the picture they provide of changing levels of deprivation. Figure A1 compares the Relative Risk of being poor in Scotland compared with the RoUK, using all three scales for adults under 65. There is no evidence that the decision to use the shorter scale affects the picture.

<table>
<thead>
<tr>
<th>Group</th>
<th>Items</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adults under 65</td>
<td>8 continuous household items</td>
<td>Adults in BUs where all are under 65</td>
</tr>
<tr>
<td>Adults under 65 with</td>
<td>8 continuous household items or 17 continuous household and</td>
<td>A subset of the first – therefore excludes small number of BUs with</td>
</tr>
<tr>
<td>children</td>
<td>child items</td>
<td>children where one or both adults are 65+</td>
</tr>
<tr>
<td>Adults under 65 with no</td>
<td>8 continuous household items</td>
<td>A subset of the first</td>
</tr>
<tr>
<td>children</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adults 65+</td>
<td>Original 11 household items 2004/5 to 2007/8; 15 older people’s</td>
<td>Adults in BUs where one or more 65+</td>
</tr>
<tr>
<td></td>
<td>items</td>
<td></td>
</tr>
</tbody>
</table>
For the FRS measures of material deprivation for children and for older people, the individual items in the scale are given different weights before being added up to give a total deprivation score for the Benefit Unit. This is known as ‘prevalence weighting’: if someone lacks an item which most people have, this carries more weight than if they lack an item which many others also lack. This seems to make intuitive sense but, when items correlate very highly (as they do in these indices), weighting makes very little difference. It therefore introduces complexity without adding much if anything in terms of accuracy (Guio et al 2012). This paper therefore uses indices constructed by simply adding up the number of items which each person lacks.

Having constructed indices of material deprivation with differing numbers of items, a threshold is selected at which to identify households as ‘poor’ or not. This is not a critical choice since we are less interested in the absolute numbers regarded as poor and more interested in comparing proportions in Scotland and the rest of the UK, and how these change over time. For the scales for adults under 65, a threshold is selected which identifies approximately one quarter of the population as ‘poor’ in each case: lacking three or more items from the continuous set of eight; or lacking five or more from the continuous set of 17.