

## Annexe 2:

### Definitions of child poverty

The Child Poverty Act 2010<sup>1</sup> says a child is in poverty if he or she falls into one or more of the following four groups.

**Lives in a home with absolute low income:**

This means that families' income is not rising in real terms; their income is below 60% of the 1998/1999 baseline year median equivalised household income expressed in today's prices.

**Lives in a home of relative low income:**

This means that the family's income is not keeping pace with the growth of incomes in the economy as a whole and income is below 60% of contemporary median equivalised household income.

**Experiences material deprivation and low income combined:**

This means that the family has an income below 70% of contemporary median equivalised household income and experiences material deprivation.

**Grows up in persistent poverty:**

This means the family has had its equivalised net income for the year at less than 60% of median equivalised net household income for at least three out of the last four years.

### Expanding definitions of poverty

Child poverty is a complex issue and there is no single way of defining it. A range of definitions and characteristics are used to inform policy and service development. At a basic level, it means families do not have enough money to provide a decent standard of living and an enjoyable childhood for their children.

**Workless Families:**

The number of children living in workless families is calculated by HMRC on an annual basis using Child Tax Credit (CTC) data as well as data from the Department for Works and Pensions (DWP) on families receiving key out-of-work benefits. A family is defined as being workless if no parent in the household works for more than 16 hours per week. Therefore some families will be counted as "workless" that are working part-time, but they will have very low income levels.

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<sup>1</sup> <http://www.legislation.gov.uk/ukpga/2010/9/contents>

**Low Income Families:**

Low income families are defined as working households (where at least one adult works more than 16 hours per week) that are receiving both CTC and Working Tax Credit (WTC). The WTC is a means-tested tax credit for families on low income. Many of these families will be above the 60% income threshold used above, but the Government considers their income to be low enough to qualify for additional support. However, it is important to note that not all families who are eligible for WTC and CTC are receiving the tax credits, and some families may be pushed out of a “low income” situation by having their income supplemented by the tax credits.

**Deprivation:**

The above measures only take a lack of financial resources into consideration. However, other factors beyond income can also contribute to poverty among children. Child poverty is not just about a lack of income. Children and young people living in poverty are disadvantaged in many other ways. Deprivation is more broadly defined as a lack of resources of all kinds, not just financial.

Children who grow up in poverty are significantly more likely to experience a wide range of problems and poor developmental outcomes than children from wealthier families. Extensive research findings substantiate significant associations between poverty and children's cognitive development, school achievement, behaviour problems and physical and emotional well being.

**Severe poverty:**

There are a range of definitions and characterisations of severe poverty, including the use of the 40% median income figure, living in households in poverty three out of four years (typically referred to as persistence) and combinations of low income and deprivation. Severe poverty is associated with more negative impacts on well-being and life chances for children, than poverty more generally. Severe poverty, whether understood in terms of persistence, depth or multiple disadvantages, is strongly connected to families with weak connections to the labour market.<sup>2</sup>

**Our local measure:**

For monitoring purposes, child poverty is defined inline with the **Low Income Families** definition: the percentage of children and young people living in families in receipt of out of work benefits or tax credits where reported income is below 60% of the national median income. *This is the indicator that will be used throughout this assessment to monitor and examine child poverty in Hackney.*

**The poverty premium**

Low-income households and those affected by poverty are most at risk of being financially excluded: that is to say, they are more likely not to have bank

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<sup>2</sup> [Ending Severe Child Poverty - JRF](#)

accounts or access to legitimate credit and therefore might struggle to remain in control of choices about their finances.

The 'poverty premium' refers to the higher prices which the poorest families often pay for basic necessities like gas, electricity and banking. For example, those without bank accounts are unable to pay for goods and services through the most cost effective methods such as direct debit and are therefore more likely to pay a premium for using a meter to pay for their energy. For those without access to legitimate credit – due to a poor credit rating; low income or lack of banking facilities – high interest credit or loan shark lending might feel like the only option, but can lead to those people falling into a spiral of unaffordable debt, compounding the stress of already pinched economic circumstances. The poverty premium was most recently estimated by Save the Children to amount to around £ 1,170 a year<sup>3</sup>.

It is therefore likely that the poverty premium interacts with, exacerbates, and perpetuates the vulnerability of low-income households to persistent or recurrent poverty with households' low or unpredictable incomes at the heart of their financial exclusion.

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<sup>3</sup> <http://www.savethechildren.org.uk/resources/online-library/the-poverty-premium-how-poor-households-pay-more-for-essential-goods-and-services>