

## Briefing note: 'Pockets' evidence base

Feb 2019

### Key messages

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- Growth in household income in Scotland has been slow in recent years. In real terms, average incomes grew by 1.4% per annum in the period since 2010-13, compared against growth of 3% per annum recorded over the previous decade
- Growth in income has been particularly slow for families with children in this period
- Income inequality is on a rising trend, that is projected to continue. Households in the poorest income group saw their incomes rise by 1% in the past 4 years, compared to growth of 6% for middle earning households
- Even amongst the poorest households, earnings from employment account for around 40% of household income. The proportion of household income from earnings exceeds that from social security payments for around 80% of the population
- On average, working-age adults receive the largest proportion of their income from earnings, and pensioners the smallest. Household income for families with children shows a higher reliance on social security, with such payments accounting for 13% of income on average
- In Edinburgh, data show average incomes significantly higher than the Scottish average, but confirm wide variations both between and within areas of the city.
- As an example, median household income in areas such as Sighthill/Gorgie is estimated at £25,000 per annum, compared to highs of £46,000 per annum in areas such as Inverleith
- In some parts of the city the most affluent 10% of households record annual incomes 9 times higher than those of the poorest 10%.
- Earnings from employment are higher than in other cities, but have remained unchanged in real terms in recent years.

- Earnings patterns also show evidence of significant inequality. The gender pay gap across all workers is estimated at 25% in Edinburgh, while 14% of all residents (38,000 people) work for hourly pay rates below the UK living wage.
- Total benefits expenditure in Edinburgh reached £1.162 billion in 2017/18, some 8% of the Scotland total
- In the period to 31 December 2018, 395 households were affected by the benefits cap in Edinburgh with an average weekly loss of benefit of £80.41. Residents capped in Edinburgh tend to face higher losses than the Scottish average, with 30% facing the loss of over £100pw.
- An estimated 9% of Edinburgh residents are rated as ‘over indebted’, while 9% find it ‘very difficult to cope’ on their current income.
- 12% of families said their financial circumstances worsened in the past 12 months, compared to 16% who saw an improvement.

## Baseline data – Phase 1: ‘Pockets’

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### Introduction

This is the second of four papers planned as background data analysis prepared to support the work of the Edinburgh Poverty Commission.

The first paper, prepared in November 2018, provided an overview of data and trends on poverty rates in Edinburgh and Scotland, showing that:

- Poverty rates in Scotland are rising, following a decline in the early 2000’s.
- Poverty rates for families with children are higher and rising more quickly than for the population as a whole.
- A number of groups and household types show higher than average risk of poverty, including lone parents, households with a disabled adult or child, ethnic minority households, and tenants of social and private rented housing.
- Levels of in-work poverty have risen rapidly in recent years - 59% of all working adults in poverty, and 66% of children in poverty live in households where at least one adult is in work.
- An estimated 82,000 people in Edinburgh live in relative poverty, some 16% of the total population of the city.

- These rates vary considerably between electoral wards across the city, from as low as 5% in some areas, to as high as 27% in others.
- 22% of all children in Edinburgh live in poverty. Again, this rate varies widely, with some areas recording child poverty rates as high as 35%. At the high end, these rates rank among the highest levels of child poverty recorded in any local authority in Scotland.
- Low income families live in all areas of Edinburgh. Almost two thirds of all people in poverty in the city live in areas not recognised as ‘deprived’ or disadvantaged.

This paper now builds on these findings to provide additional analysis to support discussions relating to income trends and patterns in the city and across Scotland, including:

- income trends, and income distribution
- sources of income
- earnings from employment
- income from benefits, and
- financial security

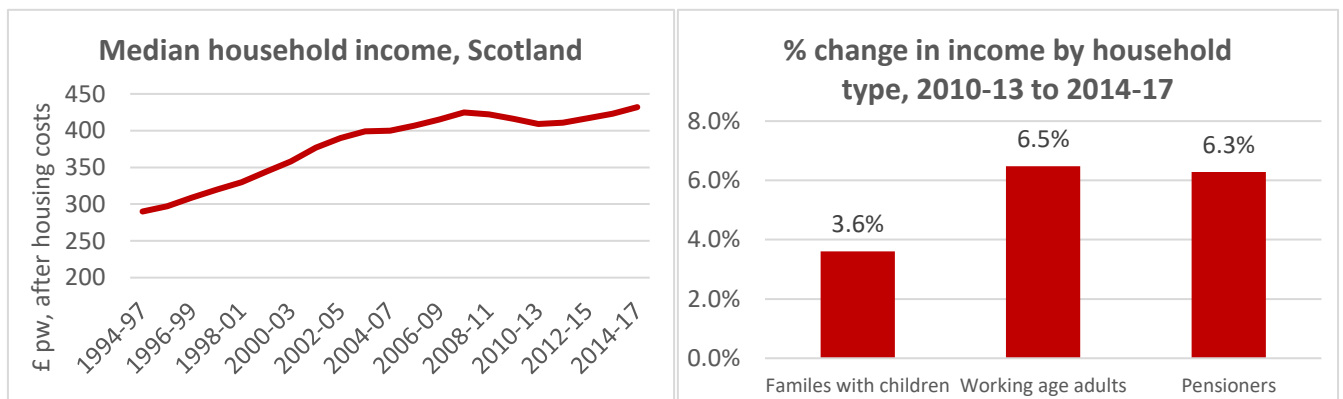
## Household income in Scotland

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### Income growth is slow...

Following a period of steady growth during the late 1990s and early 2000s, real household income in Scotland has shown little net change in recent years. By the period 2014-17, median household incomes were estimated at £432 per week, after housing costs. This represented real terms growth of only 1.4% per annum in the period since 2010-13, compared against growth of 3% per annum recorded over the previous decade.

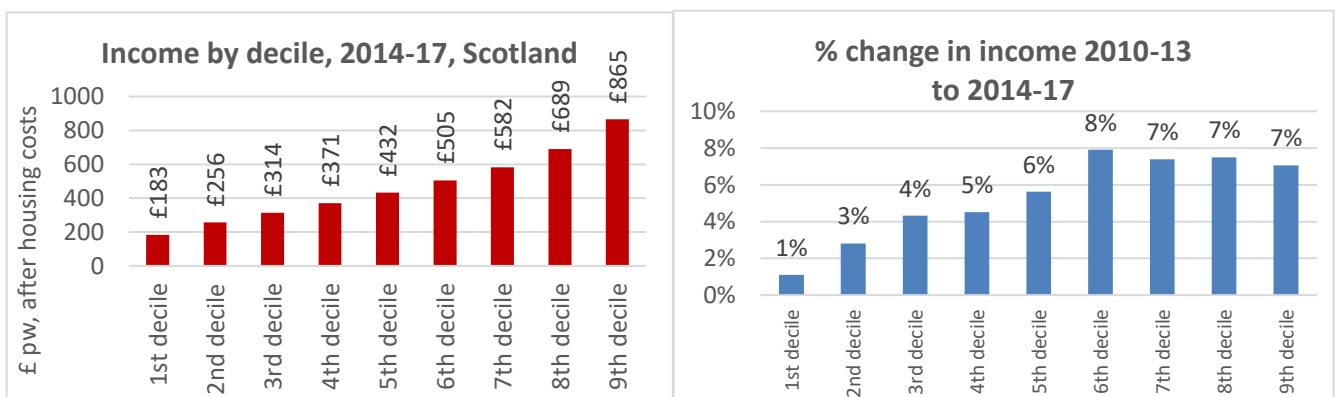
Analysis by household type shows that families with children showed the slowest growth in income over the period, with total growth of only 3.6% in the four-year period to 2014-17, compared against growth of over 6% for working age adults and for pensioner households.



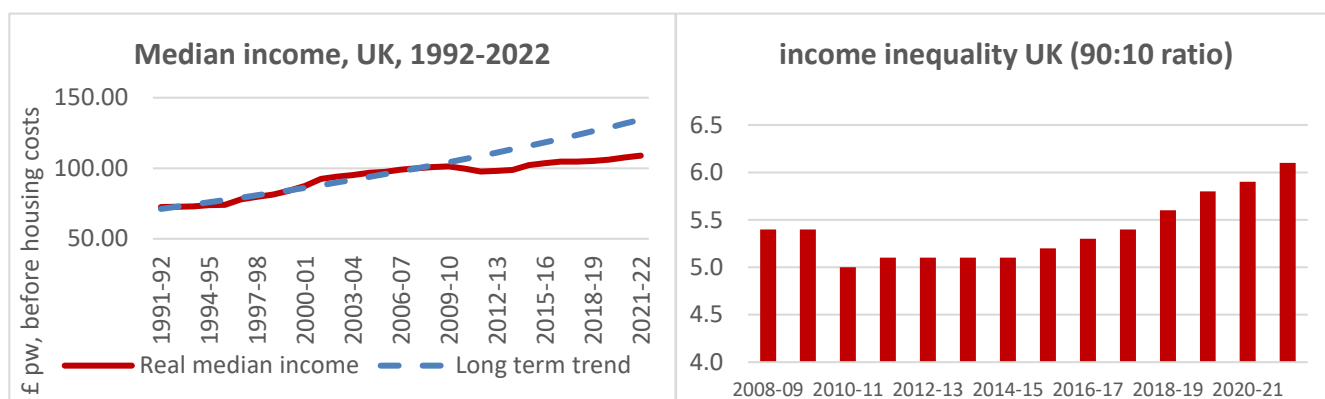
**... income inequality is on a rising trend that is set to continue**

These average incomes hide wide variations too between income groups in Scotland. The poorest 10% of households in Scotland live on incomes that are 50% lower than those of the median household, and less than a quarter those of the richest 10%. In recent years, incomes for those in medium to higher income groups have risen more quickly than for those families at the lower end of the income spectrum. Households in the bottom decile group saw incomes rise by 1% in the past 4 years, compared to growth of 6% for middle earning households.

In order to track such income inequality, the Palma coefficient provides a measure which compares the share of income held by the top 10% of households against the combined incomes of the poorest 40% of households. In 2014-17 the top 10% of the population in Scotland had 24% more income in 2014-17 than the bottom 40% combined. This ratio fluctuates considerably over time but represents an increase in income inequality compared to the period 2101-13 when the ratio was only 16%.



Recent slow levels of income growth are projected to continue in the near future. IFS analysis shows that real median household income is projected to grow by 5.1% over 2016/17 to 2021/22. This represents very slow growth by historic standards, with a per annum rate of only 0.8% per annum projected, compared against a long-term historic growth rate of 2.1% per annum. By 2021/22, incomes are projected to be 20% lower than might have been expected had the long-term trend observed prior to 2007/08 continued. These trends are associated with an expected continued increase in income inequality across the UK. By 2021/22, income earned by the top decile of households is projected to rise to over six times that of the bottom decile of households.



**Earnings are the main source of income for most households...but families with children (and pensioners) show a higher reliance on social security**

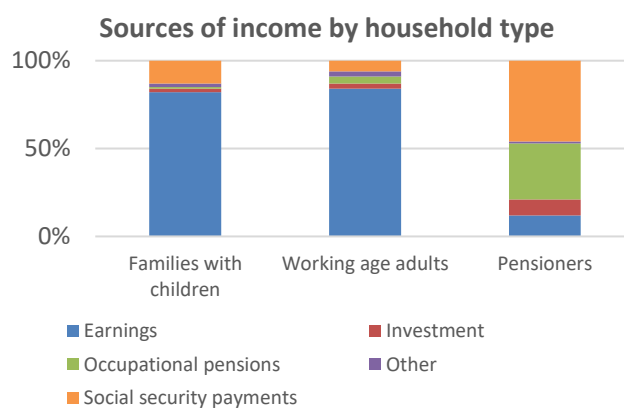
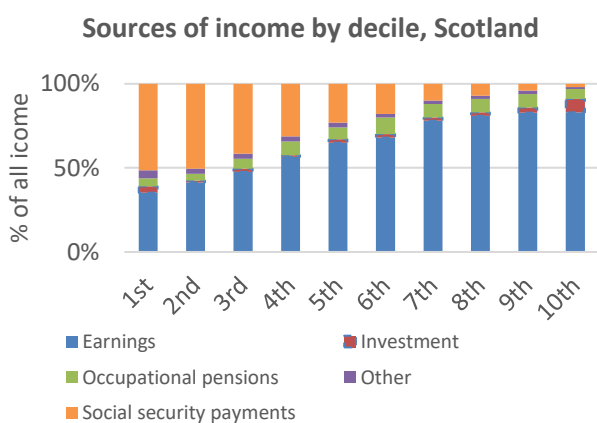
The majority of household income comes from earnings or social security payments. For the median household in Scotland 65% of their household income is sourced from work earnings and a smaller but still sizeable proportion of 23% comes from social security payments. Higher income households receive a large proportion of income from earnings, and lower income households more of their income from social security payments.

Even amongst the poorest households, earnings from employment account for around 40% of household income. The proportion of household income from earnings exceeds that from social security payments for around 80% of the population (those above the 2nd percentile point).

Sources of income vary too by household characteristic. On average, working-age adults receive the largest proportion of their income from earnings, and pensioners the smallest. Household income for families with children shows a higher reliance on social security, with such payments accounting for 13% of income on average and up to 50% of all income for those in the poorest income groups.

These, and other factors help explain the trends and patterns in overall income highlighted above. Analysis produced by the institute of fiscal studies identifies four key drivers of income in the UK:

- Labour market improvements and resulting increases in earned income tend to benefit medium and high income households more rapidly than those in low income groups
- Cuts to the value of working age benefits have affected low income households most severely, and families with children most directly
- Reductions in mortgage costs due to low interest rates in this period provided most benefit to high income households, while
- Rising private rents have had a disproportionately high impact on incomes for low income groups.



## Income patterns in Edinburgh

### Average incomes in Edinburgh are high...

No official data is published showing analysis of household income in Edinburgh. The analysis shown here is informed by data from CACI, sourced from a system that provides profiles of income for all 1.5 million individual postcodes with households in the UK. It is based upon government data sourced together with income data for millions of UK households collected from lifestyle surveys and guarantee card returns.

From this model, median income for Edinburgh is estimated at £35,678 per annum for 2018, some 27% higher than the Scotland average. Incomes in Edinburgh are estimated at higher than the Scottish average across all income groups, with those in the poorest deciles recording an estimated income of £11,628 per annum.

While such rates appear healthy in comparison to Scotland averages, CACI datasets estimate that a total of 3,400 households in the city record an annual income of less than

£5,000, and over 37,000 households (16% of the population) record an annual income of less than £15,000 per annum.

**Average annual household income (before housing costs) for Edinburgh and Scotland, 2018**

Income	Edinburgh	Scotland
Lowest 10% of households	£11,628	£8,812
Median	<b>£35,678</b>	<b>£28,186</b>
Highest 10% of households	£87,492	£73,396

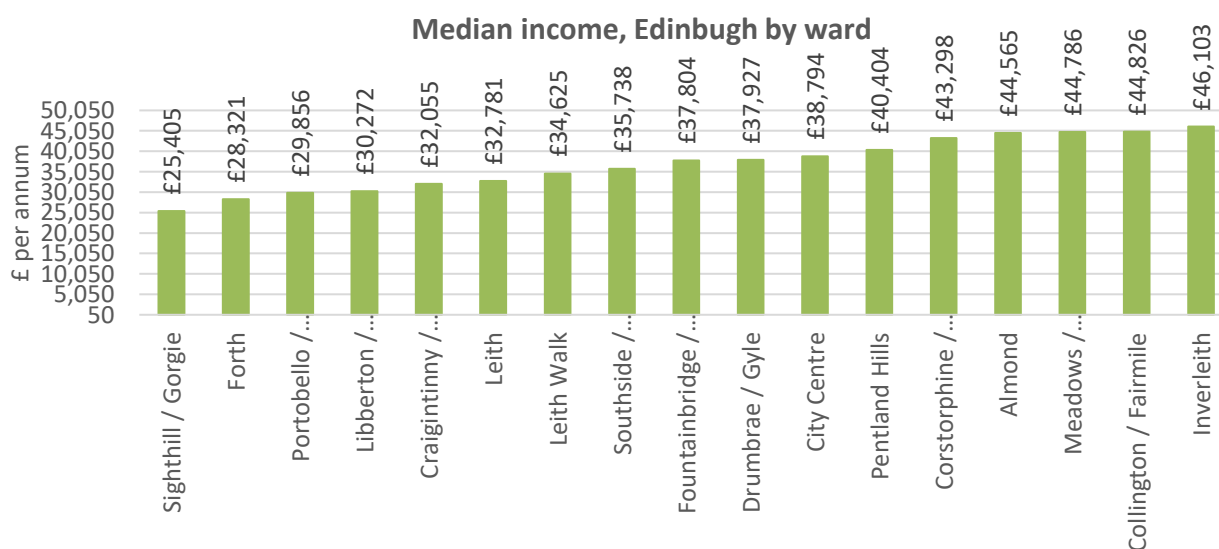
Source: CACI data analysis

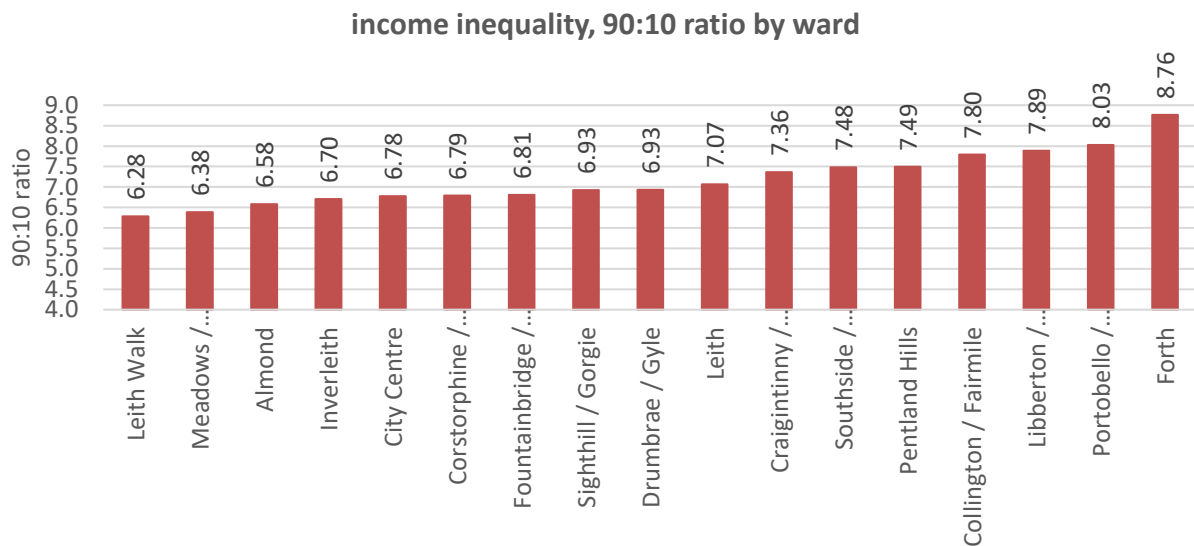
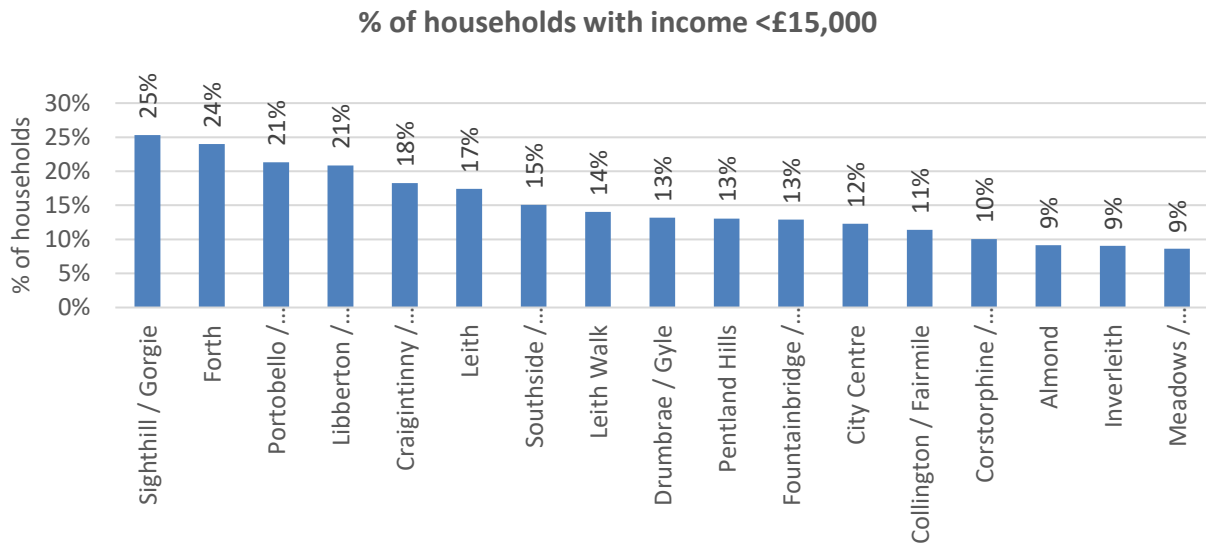
**...but we see wide inequalities in income both between and within wards across the city...**

Levels of income and income inequality vary considerably between small areas of the city. Median household income in areas such as Sighthill/Gorgie is estimated at £25,000 per annum, compared to highs of £46,000 per annum in areas such as Inverleith.

Even in affluent areas, however, significant number of households live on low incomes. Some 1,500 households (9% of the population) in Inverleith live on an income of less than £15,000 per annum.

Such patterns point to significant levels of income inequality in small areas across Edinburgh. In areas such as Forth, the most affluent 10% of households record annual incomes 9 times higher than those of the poorest 10%. Even in the most equal ward in the city, Leith Walk, this 90:10 ratio is recorded as high at 6.3.





## Income from earnings

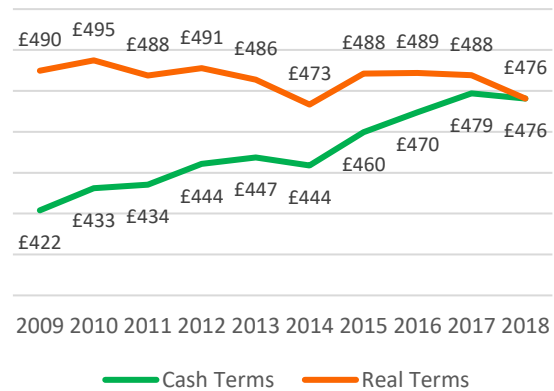
### Edinburgh workers earn more on an average than those in other cities...

Average earnings from work for Edinburgh workers remains higher than any other major UK city outside London. Median weekly pay in Edinburgh was £476 in 2018, compared against a Scottish average of £453, and higher than the UK average of £460 per week.

Over the period since 2009, average salaries in Edinburgh have increased year on year in cash terms. When adjusted for inflation, however, average earnings in real terms show no positive or sustained growth over the last ten years in Edinburgh.



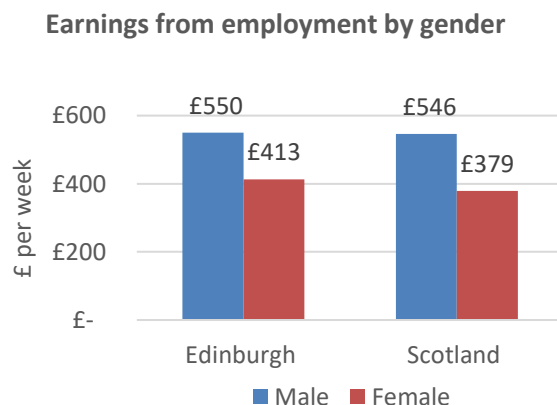
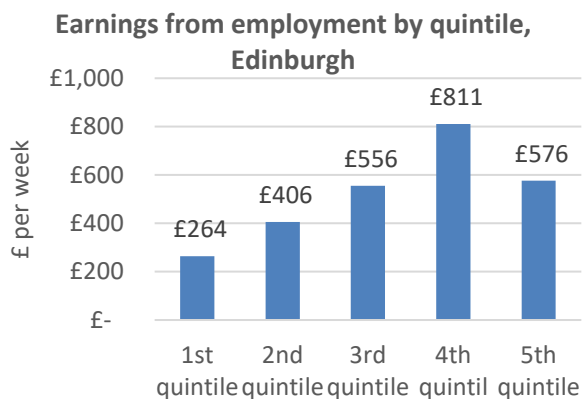
## Median weekly earnings, 2018 and Median weekly earnings, 2009-2019



### ...but not everyone feels the benefit of high wages...

Analysis of these datasets shows wide inequalities in earnings between different earnings groups. For instance:

- The lowest paid 20% of workers in Edinburgh earn some £264 per week in 2018, more than £200 per week less than the median worker, and less than a third of that earned by the highest paid 20% of workers.
- Gender pay gap in Edinburgh is estimated at some £137 per week, with men earning an average of £550 per week, compared to £413 for women. This represents a pay gap of 25% in Edinburgh, slightly below the Scottish average of 31% across all workers.
- Part of this pay gap is explained by the higher proportion of women working in part time roles. In Edinburgh, average weekly pay for full time workers in 2018 was £576 per week, compared against only £201 per week for part time workers.
- While all these pay rates remain above UK and Scottish averages in cash terms, they represent similar patterns of inequality seen in other parts of the country.



### ...38,000 people work for pay below the living wage...

An estimated 14% of Edinburgh residents work for wages below the hourly rate recommended by the UK Living Wage Foundation in 2018. This represents an estimated 38,000 residents working for an hourly wage below £8.76 in 2017/18. While this rate remains lower than the Scottish average, and lower than that in other Scottish local authority areas, it does represent an increase in low paid workers, rising by 1.5 percentage points (or an additional 8,000 residents) in the period since 2013/14.

## Income from Benefits

### Case study: Dependency on benefits income for households

Low income households with children are generally more reliant on benefit income than other households, meaning that they gain less from real earnings growth than households around the median.

This issue is likely to worsen in future years given that real earnings at the UK-level are projected to rise: this implies that median income will continue to grow faster than the incomes of low income households with children.

[Policy Scotland University of Glasgow](#) (2018)

Total benefits expenditure in Edinburgh reached £1.162 billion in 2017/18, some 8% of the Scotland total and an increase of 13% in the period since 2010. This represents benefits payments of an average £2,264 per capita. In recent years growth in population has significantly outstripped expenditure on benefits in the city. Benefits expenditure per capita has risen by only 3% since 2010, compared to a 13% increase across Scotland as a whole.

Total Benefits expenditure, 2017/18 (£million)			
	Scotland	Edinburgh	Edinburgh as % of Scotland
<b>Total</b>	<b>£15,110</b>	<b>£1,162</b>	<b>8%</b>
Attendance Allowance	£492	£28	6%
Bereavement Benefit/Widow's Benefit	£47	£3	6%
Carer's Allowance	£249	£15	6%
Disability Living Allowance	£999	£59	6%
Discretionary Housing Payments	£59	£5	9%
Employment and Support Allowance	£1,732	£133	8%
Housing Benefit	£1,671	£185	11%

Incapacity Benefit	£1	£0	7%
Income Support	£189	£13	7%
Jobseeker's Allowance	£172	£12	7%
Pension Credit	£458	£29	6%
Personal Independence Payment	£930	£68	7%
Severe Disablement Allowance	£12	£1	8%
State Pension	£7,921	£596	8%
Winter Fuel Payments	£176	£14	8%
			Source: DWP

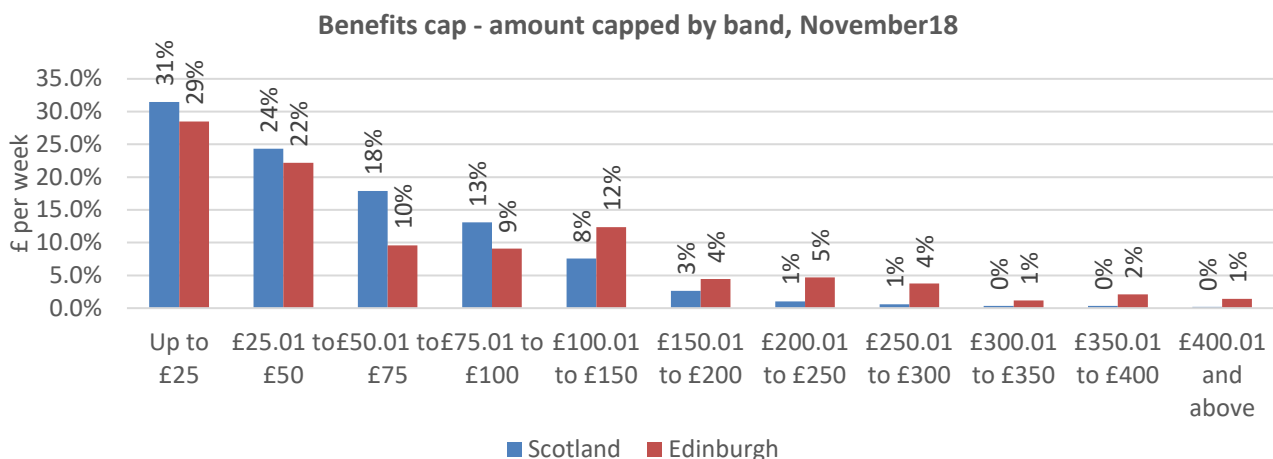
In terms of out of work benefits claimant, it was reported in May 2018 by the DWP that there were over 1,400 Universal Credit claimants in Edinburgh, 3,500 JSA claimants, and 19,884 recipients of Incapacity benefits. Taken together, these account for 8% of all benefit claimants in Scotland.

In addition to these, Edinburgh is home to 33,426 housing benefits claimants.

Type of Benefit	Number of claimants
INCAP (Incapacity benefits)	19,884
IS (Income Support)	1,506
JSA (Job Seekers Allowance)	3,543
PC	268
UC Out-of-work	1,396
UC Out-of-work & INCAP	6
UC Out-of-work & JSA	17
Housing benefit claimants	33,426

In the period to 31 December 2018, a total of 395 households were affected by the benefits cap in Edinburgh. This represents slightly over 1% of all claimants with an average weekly loss of benefit of £80.41. 25% of households affected were in temporary accommodation where average loss of benefit was £209 pw, and 24% in the Private Rented Sector where average loss of benefit was £61 pw. A total of 164 claimants affected by the benefits cap were supported by Discretionary Housing Benefits payments, with an average payment of £61.37.

Comparison with Scotland shows that a higher proportion of capped households face high levels of benefit loss in Edinburgh. 30% of those capped in Edinburgh face a loss of over £100 pw, more than twice the Scotland level of 12%. 8% of those capped in Edinburgh face a loss of over £250 pw, compared to only 1.5% of Scottish capped households.



In addition to the main DWP benefits, the City of Edinburgh Council administers a number of benefit schemes, and hardship funds. These include Council Tax Reduction Scheme, Discretionary Housing Benefit, and the Scottish Welfare Fund.

- The National Settlement and Distribution Group allocated £26.672m Council Tax Reduction Scheme funding to the Council for 2018/19, showing little change from the £26.467m allocated for 2017/18.
- Scottish Welfare Fund – including crisis grants and community care grants – represent a total budget of £2.3m in 2018/19. The Scottish Government announced in December 2018 that Edinburgh’s Scottish Welfare Fund allocation in 2019/20 will remain the same.
- The Discretionary Housing Payment budget from the Scottish Government has been allocated in two streams:
  - Under Occupancy Mitigation: £3.2m or 80% of the expected cost.
  - Other DHPs - This includes assistance for those affected by the Benefit Cap and Local Housing Allowance reforms. The funding for this tranche in Edinburgh is £2m.

## Debt and Financial Health

Alongside data on income and earnings, analysis conducted by the Financial Conduct Authority also provides an overview of financial health and indebtedness of residents across the UK. The Financial Lives survey provides data for residents in the EH postcode as a useful proxy measure for Edinburgh. It can be used to compare levels of income and debt between the city and the UK averages.

Overall, the data confirms Edinburgh residents as more financially resilient than average, with lower levels of debt, and higher income than the UK average. An estimated 7% of

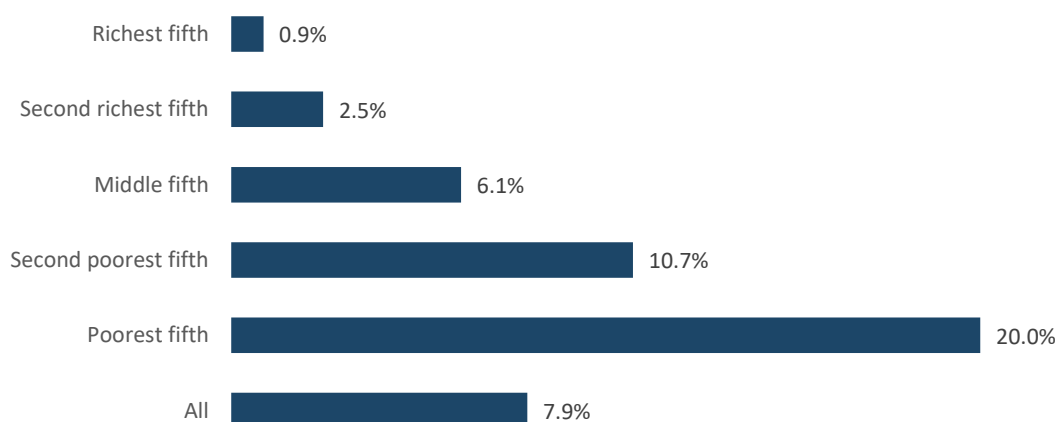
Edinburgh residents are estimated to be in financial difficulty, compared to a UK average of 8%.

		EH	UK Average	Sig
Income	Average household income (mean)	£47,000	£46,000	→
	Pay tax at higher/ additional rate	14%	14%	→
	Receiving universal credit/ housing benefit/ DLA	8%	11%	→
Assets	Average cash savings (mean)	£35,000	£25,000	→
	Average investments (mean), excl. pensions	£14,000	£11,000	→
Debt	Average mortgage debt (mean) for those with a mortgage	£94,400	£125,600	↓
	Average unsecured debt (mean), excl Student Loan Co. loans	£2,220	£3,320	↓
	% who are over-indebted (MAS definition)	9%	15%	↓
	% comfortable using credit (feels normal to them)	39%	38%	→
Financial resilience	In difficulty	7%	8%	→
	Surviving	20%	27%	↓
	Financially resilient	73%	65%	↑

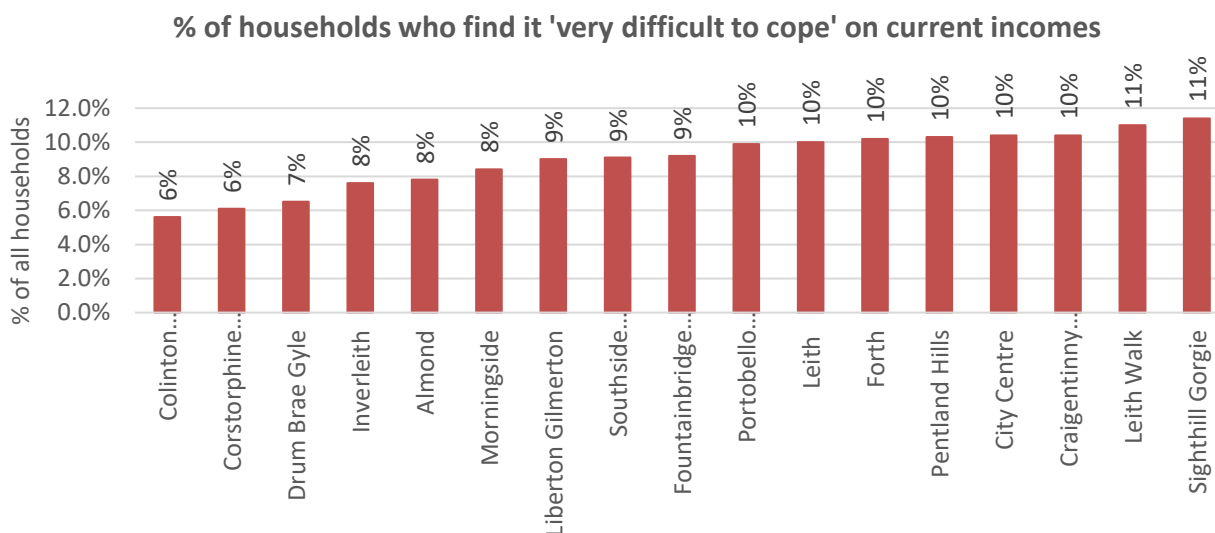
As with other measures, however, these averages hide considerably variation in experience by income group and geography.

Across the UK, the Family Resources Survey produced each year by ONS defines households with problem debt as those with any household bill or credit commitment is reported by 8% of households. The proportion of households with problem debt has decreased slightly in the last decade but remains much higher among those in the poorest fifth than the rest of the population. 20% of all households in the lowest income groups report that they are in problem debt, compared to only 6% of those in middle income groups.

#### Families with problem debt, by income group



Within Edinburgh, modelled data provided by Experian provides an estimate of financial difficulty for small areas within the city. Overall, 9% of city residents report that they find it 'very difficult to cope' on their current household income. By ward across the city, this rate varies from as low as 6% of households in areas such as Colinton, and Corstorphine, to as high as 11% in areas such as Leith Walk, and Sighthill/Gorgie.

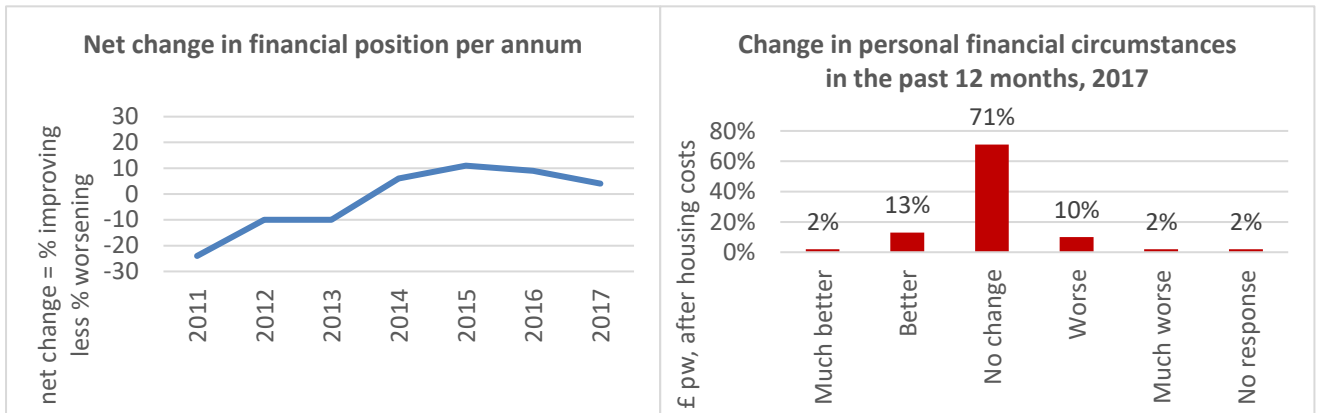


In addition to these sources, the Edinburgh People Survey (EPS) is the Council's annual citizen survey, gathering information about residents which is not available through other sources or at neighbourhood level. The survey is undertaken through face-to-face interviews with around 5,000 residents each year, conducted in the street and door-to-door. One question asked each year relates to the change in resident's personal financial situation. Over the period 2011-13, this question provided data showing that, year on year, more residents felt their financial situation was worsening, than improving. From 2014 onwards, the trend moved to a more positive picture with a net improvement being recorded each year. In 2017, 71% of residents felt they had seen no change in their financial position in the last 12 months, 16% said it had improved, while 12% noted a worsening in their finances. This results in a net positive ratio of four percentage points, a significant worsening of the trend over that recorded in recent years.

Further analysis shows that those individuals most likely to record an *improvement* in financial position include:

- 25-44 year olds
- those in full time employment
- ethnic minority and EU national citizens
- men, and
- people without a disability or health issue.

Residents most likely to report a *deterioration* in financial circumstances in the year to 2017 include unemployed and self-employed citizens. Notably, families with children were less likely than any other group to report no change in financial position, with high proportions reporting both improvements and deteriorations in family finances.



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# Appendix 1: Further resources

## More data about Edinburgh

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[Edinburgh by Numbers 2018](#) provides a comprehensive compendium of statistics with more than 140 datasets covering Edinburgh, its population, its economy, and its environment.

[Edinburgh Economy Watch](#) – is a quarterly publication providing up to date tracking of key indicators on the progress of Edinburgh’s economy.

[Edinburgh People Survey](#) – is the largest annual survey of residents run by any local authority in the UK. It provides detailed analysis of citizen’s changing perception of the city, the Council, and their neighbourhoods.

## More case studies of citizen’s experience

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[Compact Voice 2018](#) is an annual publication produced by Edinburgh’s third sector. This year Compact Voice is all about telling people’s stories and illustrating the positive change that Edinburgh’s third sector organisations make to people’s lives.

## More analysis of poverty in Scotland and the UK

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[Poverty and income inequality in Scotland: 2014-2017](#) is an annual publication produced by the Scottish Government. It provides high level analysis of trends in income and poverty in Scotland, and is the source for many of the Scotland level statistics included in this briefing.

[Poverty in Scotland 2018](#) was published by the Joseph Rowntree Foundation in October this year. It provides a new analysis looking at poverty trends for families with children in Scotland, reflecting the commitments in the Child Poverty (Scotland) Act to achieve substantial reductions by 2030.

[Report on poverty in the UK by the United Nations Special Rapporteur on extreme poverty and human rights](#) was published in November following visits by Professor Philip Alston to a number of cities in the UK, including Edinburgh.