Prosperity, Poverty and Inequality in London 2000/01-2010/11

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Preface

This is a London-focused report which forms part of the first stage of a programme of research, *Social Policy in a Cold Climate*, designed to examine the effects of the major economic and political changes in the UK since 2007, particularly their impact on the distribution of wealth, poverty, income inequality and spatial difference. The full programme of analysis will include policies and spending decisions from the last period of the Labour government (2007-2010), including the beginning of the financial crisis, as well as those made by the Coalition government since May 2010. The programme is funded by the Joseph Rowntree Foundation and the Nuffield Foundation, with London-specific analysis funded by the Trust for London. The views expressed are those of the authors and not necessarily those of the funders.

The research is taking place from October 2011 to May 2015. More detail and other papers in the series will be found at:

http://sticerd.lse.ac.uk/case/_new/researchSocial_Policy_in_a_Cold_Climate.asp
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Summary

This report looks at changes in poverty and inequality in London during the 2000s, with a focus on the impact of recession from 2008. It also considers how a decade has changed the geography of poverty in the Capital.

- The economy and labour market in London proved more resilient to the onset of recession than in other English regions. However, Inner London fared better than Outer London.

- Full-time employment fell by less across London than elsewhere in the country and there was a smaller rise in unemployment. An increase in part-time working, particularly among men, supports a view that fewer full-time jobs often led to under-employment, rather than unemployment.

- Employment levels among some population sub-groups, including young people and Black/Black British people, were lower in London than other regions before the recession, but had converged by 2010.

- Qualification levels among working-age adults were higher in London before the economic crisis than elsewhere and continued to improve more rapidly during the recession.

- While London coped well with some economic pressures, inequalities in earnings and incomes increased between 2006/8 and 2010. Those living on the lowest incomes were hit hardest, seeing their incomes after housing costs fall by 24 per cent in real terms compared with 3.5 per cent nationally.

- Wealth inequalities also widened faster in London than in other regions. The wealthiest Londoners increased their financial, physical and property wealth by 8 per cent between 2006/8 and 2010. This compared with 0.4 per cent among their counterparts elsewhere.

- Poverty became less concentrated in Inner London and began to spread outwards. This was partly due to population change and ‘gentrification’ in Inner London, but also because the recession appeared to hit Outer London harder.

While positive in some respects, these findings show that the Capital’s economic success and resilience in recession have not translated into lower poverty or reduced inequality. The implications of Inner London’s changing population and increasing poverty in Outer London for housing, public services, and communities will need to be further explored and understood.
Prosperity, Poverty and Inequality in London 2000/01-2010/11

1: Introduction

The election of the Coalition government in May 2010 heralded social policy reforms on a large scale: a substantial overhaul of the welfare system with the amalgamation of many means-tested benefits into a single payment (Universal Credit) along with reductions in benefit payment levels, tighter criteria and greater conditionality; major reforms of schools, health services and higher education and a restructuring of the funding and decision-making powers of sub-national government under the ‘localism’ agenda. Announced during 2010 and 2011, many of these changes are only now beginning to come into effect in the 2013/14 financial year. Underpinning some of them, and running alongside others, are substantial reductions in central and local government budgets, driven by deficit-reduction policies. And of course the policy reforms come on top of the financial crash and ensuing recession: high unemployment; shorter working hours; near-stagnant wages but rising food and energy costs and, for some, increased or unmanageable debt and risk of home repossession.

The impacts of some of the policy changes will be very evident in London, which housed 16 per cent of England’s out of work benefit claimants in 2010¹ and an estimated 19 per cent of poor children.² There are good reasons to think that some of these changes may have different effects in London than elsewhere in the country. In particular, London’s high rents and living costs will mean that a higher proportion of low-income households will find their homes unaffordable as a result of changes to Local Housing Allowance and the overall benefit cap (Fenton 2011). On the other hand, London appears in some respects to have been rather less affected by the recession than other regions. It saw strong output growth in 2008 while other regions began to slow, and it was the only English region to see no dip in output in 2009. Its growth since then has been at least as strong as elsewhere.³ After an initial crash, house prices have recovered more quickly than in other regions and are now (in the first quarter of 2013) higher than at their peak in the final quarter of 2007.⁴

Thus the combined impact of the financial crash, recession, social policy reforms and austerity measures in the capital cannot necessarily be accurately read off from analyses at the national scale. Moreover, as central government devolves more decisions and functions to local authorities, and local authorities in differing financial positions take differing decisions in response to cuts in funding, London’s

¹ DWP Benefit Claimants: Working Age Client Group. ONS Crown Copyright Reserved [from Nomis on 17 May 2013]
³ Office for National Statistics, Regional GVA, Released December 2012.
⁴ Nationwide House Price Index
fragmented governance structure opens up the possibility that there will be increasing divergence of policy and service provision within the city. For example, from 2013, many of London’s Councils are passing on central government cuts in Council Tax Benefit to working age households, but others are not. Some are restricting eligibility for social services to those in the highest need, while others are not. Experiences of poverty are likely to diverge in London more so than in other UK cities with fewer local authorities within them.

Over the next eighteen months, the Centre for the Analysis of Social Exclusion (CASE) at LSE will be analysing some of the early impacts of these changes for the Trust for London, comparing London with the rest of the country and looking wherever possible at breakdowns within London. The work forms part of a bigger programme funded by the Joseph Rowntree Foundation, Nuffield Foundation, and Trust for London, and is designed to inform public and political debate in the run-up to the next general election in 2015. A central focus is on what happens to economic outcomes and their distribution. Who are the winners and losers from the changes? What happens to poverty and to inequality, measured in different ways? We also look at spatial distribution and spatial consequences. What happens to the poorest neighbourhoods? Does poverty become more concentrated or dispersed? Do inequalities between places increase or decline?

In this report we aim to set a baseline for this work by documenting trends in these same issues in London in the decade preceding the election of the current government in 2010, including the early effects of the recession. We aim to show similarities and differences between the capital and the rest of the country, and also to point to population groups and areas that were thriving during this period and those that were struggling or declining. Where possible we break trends at 2008, to show pre- and post-recession patterns, and also, from a Londoner’s viewpoint, what was happening in the capital during Ken Livingstone’s period as Mayor (2000-2008) and in the early part of Boris Johnson’s first term. In subsequent work, reporting in 2015, we will pick the story up again from 2010, looking at what happened as the country came out of recession and at the impacts of Coalition policy.

The analysis builds on and links to other work produced by the Trust for London particularly its Poverty Profile (MacInnes et al. 2011), and by the Greater London Authority’s Intelligence Unit. It aims to provide a more detailed geographical and distributional picture, and in some cases a longer run view, thus adding to a growing knowledge base about the dynamics of prosperity, poverty and inequality in London. Looking forward, its key function is to help us to understand the impact of policy reforms and spending cuts and to put them in perspective by painting a detailed picture of what was happening already.
2. The baseline for change – London at the start of the 2000s

We start by painting a picture of London at the start of the 2000s, roughly at the time of the first mayoral election, three to four years into the Labour administration but before major increases in spending had occurred, and ten years before the election of the Coalition and its current policy changes. This provides a baseline for understanding changes under Labour and Ken Livingstone in a period of growth, and later under the Coalition and Boris Johnson in a period of national economic decline and stagnation.

The growth and transformation of London since the deregulation of the City in the late 1980s has been well documented by other writers (Buck et al. 2002; Hamnett 2003; Massey 2007). By 2000/01, the city had 15 per cent of England's population but accounted for 23 per cent of national economic output (Gross Value Added or GVA), 45 per cent of financial and insurance output, 39 per cent of information and communication, but just 8 per cent of manufacturing.\(^5\) Gross Disposable Household Income (GDHI) per head was 25 per cent higher in London than the rest of the UK, and earnings around one-third higher (Figure 1). Rapid house price growth in the late 1990s had increased an existing differential with the rest of the country. In 1990, the typical house cost 44 per cent more in London than in the UK as a whole. By 2000 it was 78 per cent more (Figure 2).

However, London was poor as well as rich: a city of contrasts. London's official poverty rate, after housing costs, was 28 per cent in the two years to 2000/01, compared with 23 per cent in England as a whole.\(^6\) London residents were less likely to be economically active, and a higher proportion were unemployed (Figure 3). A higher proportion of children were being brought up in workless households, especially in Inner London (Figure 4).

Relatively high poverty is a feature of major cities in England, which were built around former industrial employment, and are currently centres for professional employment, hospitality and entertainment industries which generate low- as well as high-waged employment. Cities also attract new migrants both from within the UK and abroad, including people finding their first foothold in labour and housing markets. Comparing London with other major English cities in 2001, rather than with England as a whole, we can see that its worklessness and poverty were not particularly unusual.\(^7\) According to the Census of Population in 2001, unemployment was similar to other major cities (4 per cent of economically active people aged 16-74 compared with 4.1 per cent), as was the number of workless households with children as a proportion of all households (6.0 compared with 6.4 per cent) (Figure 5). The number of claimants of means-tested benefits as a proportion of all households was lower in London (at 22 per cent) than in other large cities (27 per cent) although higher than for the rest of England (19 per cent), partly because this measure captures people who are in poverty and out of work, not those who are

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\(^6\) From Households Below Average Income dataset, London's Poverty Profile.

\(^7\) Appendix (A2) explains how we defined cities for the purposes of this comparison.
working but still in poverty because of low wages and high living costs, which is more prevalent in London (see later for description of this means-tested benefit measure).

In other respects, however, London was markedly different. Its population was younger, with a particularly high proportion of people in the 24 to 44 age groups and fewer people over 45. The extent of deindustrialisation in London compared with other cities was already striking, with considerably lower proportions of Londoners working in elementary occupations, machine operation, skilled trades and personal services and sales, but more in associate professional and technical and administrative and secretarial work. Substantially more people were in professional and managerial occupations in London (32 per cent of employed people aged 16-74 compared with 23 per cent in other cities) (Figure 6). Patterns of female economic activity and employment were also different. Women were more likely to be working full time and less likely to be working part-time than in other cities (Figure 7). Of those who were not economically active, a smaller proportion were retired or permanently sick and disabled, and a higher proportion were students and/or looking after family members (a reflection of London’s young age structure).

The other thing that was striking about London was the housing situation. After the house price rises of the late 1990s, London’s housing stock was becoming increasingly unaffordable to those on low incomes. In 2000, the cost of the bottom 25 per cent of homes was 5.4 times the bottom 25 per cent of earnings in London compared with 3.9 for England as a whole. A smaller proportion of households were owner occupiers than in other cities (60 per cent compared with 65 per cent), and a higher proportion in private renting (16 per cent compared with 10 per cent). The proportion in social housing was similar to that in other major cities, although substantially higher than in the rest of England (Figure 8). 42 per cent of London’s social housing was in Inner East London – the Boroughs of Hackney, Islington, Haringey, Tower Hamlets and Newham north of the river and Southwark, Lambeth and Lewisham south of the river. Over half of that share was in the most deprived neighbourhoods of Inner East London – those that were in most deprived fifth in the capital according to the Indices of Multiple Deprivation.

The rate of overcrowding, expressed as the proportion of households with an occupancy rating of -1 or worse, was 16 per cent in London compared with 6 per cent in other cities and 5 per cent for the ‘rest of England’. Again it was the most deprived areas of Inner London East that accounted for the largest share of all of London’s overcrowded households. Over one fifth of overcrowded households were in neighbourhoods in Inner East London that were in the most deprived fifth in the capital as a whole.

Thus by 2000, London’s dominance of the UK economy had increased and its economic and social structure had become increasingly distinctive – a younger, more qualified, less industrial, more affluent and more expensive city than others in England, but one that had retained typically high levels of unemployment and had particular issues of housing unaffordability and overcrowding, especially in inner areas.
Figure 1: Disposable Income and Earnings 2000/02, London

London workers’ median hourly earnings 38 per cent higher than UK as a whole

Source: Office for National Statistics: Regional Gross Disposable Household Income per head (£s) (released April 2012) and Annual Survey of Hours and Earnings.

Note: Earnings results are for employees on adult rates of pay, whose pay for the survey pay period was not affected by absence, calculated in current prices.

Figure 2: House Prices in London compared with the UK as a whole (1980-2000)

Source: Nationwide House Price Index

Figure 3: Economic Activity and Unemployment, Year to May 2001

Source: Labour Force Survey, from NOMIS, Four Quarter Average to Year to May 2001

Figure 4: Percentage of children living in workless households: average 1999-2001

Source: ONS Household Labour Force Survey (from London’s Poverty Profile)
Figure 5: Unemployed (16-74s) and households with no adults in employment with dependent children

Source: Census 2001, Table KS09A, KS21

Figure 7: Employment Status of Economically Active Women Aged 16-74 (2001)

Source: Census 2001, Table KS09C

Figure 6: Occupations of people aged 16-74 in employment, 2001

Source: Census 2001, Table KS12A

Figure 8: Housing Tenure 2001

Source: Census 2001, Table KS18

Rented (public) includes: Housing Associations, Registered Social Landlords and Local Authority.
3. The 2000s: Growth, Recession, Inequality and Divergence

Growth and Divergence 2000-2008

From this baseline, London’s trajectory of growth continued during the 2000s, and it became increasingly distinctive from the rest of England.

In the early 2000s, London’s economic growth was similar to that of England as a whole. From 2004, London began to accelerate away. By 2007, on the eve of the crash, total output in London was 156 per cent of its 2000 position, compared with 146 per cent in England as a whole, and London had increased its share of English output to 24 per cent. Financial services (up 140 per cent 2000-2007) drove London’s growth while manufacturing output continued to decline (-4 per cent). Looking at these data based on people who live in London rather than who work in London, the change in the capital’s position vis-à-vis the rest of the country is even greater. GVA per capita on a residence basis rose 55 per cent in London between 2000 and 2007, compared with 41 per cent in the rest of the country.

Gross Disposable Household Income per capita also rose more in London than in England as a whole (up 36 per cent compared with 32 per cent). However, the earnings of employees, although they rose, did so at a slightly lower rate than for the UK as a whole over the period 2002-2007 (Levy, 2013). House prices continued to grow rapidly, widening the gap even further. At the end of 2000, it cost £63,000 more to buy a house in London than in the UK as a whole. By the end of 2007, this had risen to nearly £120,000 (Figure 9). The ratio of lower quartile house prices to lower quartile earnings had risen in London to 9.1, compared with 7.3 for England as a whole (Figure 10). Furthermore, the poverty rate (after housing costs) only fell very slightly in this period from 28 to 27 per cent (McInnes et al. 2011), leaving the contrast between rich and poor even starker than at the start of the decade.

At the same time, London’s population was also growing and changing more quickly than in other large English cities. Data on these issues are only available every ten years from the Census, so we cannot produce a ‘pre-crash’ position in the same way. Looking at 2011 Census data compared with 2001 gives an indication of what was happening (assuming that all the changes seen in 2011 occurred over the decade as a whole, not just in the last three years). London’s population increased by over a million (14 per cent) between 2001 and 2001. Compared with other cities it saw a more rapid increase in the proportion of its population born outside the UK or Ireland (up from 22 to 32 per cent) than other large cities (up from 6 to 10 per cent) which, though becoming more international, remained largely UK and Irish populated. The biggest changes in ethnic group composition in London were a fall in the proportion of White British people (down 14 per cent) and increases in the proportion of Other White people (up 4 per cent), and Black African people (up 2 per cent). On other social indicators, the change was less dramatic. Other cities increased their proportion of workers in senior and professional positions (from 23 per cent in 2001 to 25 per cent in 2011) faster than London (from 32 per cent in 2001 to 34 per cent in 2011) from a lower base.

10 These data are in current basic prices (i.e. no account has been taken of inflation). The current method of estimating regional GVA does not lend itself to removal of price inflation.
Figure 9: Houses Prices in London compared with the UK as a whole (1980-2008)

![Graph showing average house prices in London and UK from 1980 to 2008.]

Source: Nationwide House Price Index

Figure 10: Houses Prices (lower quartile) to earnings in London (2000 and 2008)

![Graph showing the ratio of lower quartile house prices to earnings in London and England for 2000 and 2008.]

Source: Department for Communities and Local Government Live Tables, Table 156
The Recession and the Changing Distribution of Economic Outcomes

On the eve of the crash, then, London looked very well placed economically, although its reliance on financial sector and business sector employment might have been expected to leave it particularly vulnerable to the effects of the global credit crunch that struck in 2007/8, plunging the UK into recession by the end of 2008. It was also looking increasingly different from the rest of the country and increasingly unaffordable for those on lower incomes.

Two unusual pieces of research enable us to document the economic effect of the crash on Londoners, compared with others in the UK. In 2010, the National Equality Panel (NEP), an independent commission appointed by the government to report on the state of economic inequality in the UK, provided a snapshot of the situation in London before the crash. The Panel reported on levels and gaps in education (GCSE results), qualifications among the working age population, employment, hourly wages and weekly earnings levels for those in employment, incomes, and wealth (Hills et al., 2010). It brought together information from the National Pupil Database, Labour Force Survey, Households Below Average Incomes (HBAI) dataset, and Wealth and Assets Survey – using data from 2006-8, depending on the extent to which data from different years needed to be combined to generate big enough sample sizes. Although data could not be disaggregated for cities, NEP produced regional breakdowns, enabling London to be compared with the rest of the UK and especially with other large urban regions – the West Midlands, North West and Yorkshire and Humberside. As part of the main Social Policy in a Cold Climate research programme, work has been undertaken to update this evidence base using the same set of indicators, but this time reporting on the situation in 2010 – after the crash and at the time of the change of government in Westminster. This is reported in Hills et al. (2013). Here we pull out the London picture, extending the analysis wherever possible to show differences between Inner and Outer London, men and women and people of different ages and ethnicities.

The distinctive value of these pieces of research is that they bring together sources of data that are normally only reported separately, to provide an overall picture of economic inequalities. From the NEP report, for example, we were able to see that the 90:10 ratio (the ratio of the near top and the near bottom) was higher in London than in the UK as a whole for all indicators: hourly wages, men’s and women’s weekly earnings, incomes, and wealth.

Limitations also need to be understood. While the survey data used are representative of the UK (or GB) population, they are not necessarily so in relation to London alone. The sample size for London is also smaller, which inevitably means that results cannot be presented at the same level of disaggregation as in the UK report. Importantly also, the main Labour Force Survey (LFS) was used by NEP for analysis of employment, wages and earnings, rather than alternative sources with bigger sub-national samples (the Annual Population Survey (APS) for employment and the Annual Survey of Hours and Earnings (ASHE) for wages and earnings).
This facilitated more breakdowns by population subgroup, but meant that regional breakdowns depend on smaller samples than they would have done in an analysis constructed solely to report on London and regional differences. To this end, we compare with other surveys to triangulate our findings and give the reader an idea of their robustness. Further discussion of methods and data limitations is provided in an accompanying note (Cunliffe et al 2013).

Changes in Employment Patterns

These and other data show a picture of London being relatively resilient to recession. Fears that the capital’s economy would be particularly hard hit appeared not to be founded. London’s economy saw strong output growth in 2008 while other regions began to slow, and it was the only English region to see no dip in output in 2009. By 2010, when the new government took over, London’s economic output was 8 per cent higher (in current prices) than in 2007, compared with 4 per cent for England overall. Growth was again driven by the very strong performance of the financial sector. House prices fell sharply but by the end of 2010 had made a stronger recovery than elsewhere in the country.

Employment outcomes, according to the LFS, deteriorated less markedly in London than elsewhere in the UK. Before the crash, as in 2000, London had lower employment rates than elsewhere in the UK. In London 54.2 per cent of working age men were employed full time, compared with 59.5 in the rest of England. Self employment was higher in London but even including this, male employment rates were lower in the capital than in the country as a whole or any other major urban region. Mainly this could be accounted for by the fact that more men were students: 7.1 per cent compared with 4.6 per cent in the rest of England. However, it was also the case that a higher proportion of working age people in London were unemployed - 5.9 per cent compared with 4.6 per cent for the rest of England, 5.3 per cent in Yorkshire and Humberside, 5.2 per cent in the West Midlands and 5.0 in the North West.

Among women, London had slightly higher full time employment and higher self employment. However, a striking difference was low part-time employment among women in London. Just 16.6 per cent of working age women in London worked part-time, compared with 27.6 per cent for the rest of England, leading to much lower overall employment rates for women. 15.7 per cent stayed at home to look after family compared with 11.3 per cent for the rest of England. Among those who were economically active, more women were unemployed (4.8 per cent), than in the rest of England (3.5 per cent) or in any other large urban region.

Hills et al. (2013) note that the rise in unemployment and the fall in full-time employment was the most obvious change between the pre-crisis situation described in the NEP report and the situation in 2010. The decline in full-time employment between 2006/8 and 2010 was greatest for men and for those aged 16-29. There were sharp differences identified by regions, with falls in full-time employment of only 1.6 percentage points in London compared to above 3
percentage points in the West Midlands, and Yorkshire and Humberside (among the large urban regions of England) and in Scotland and Wales (Figure 11).

Our extended analysis confirms that in London, there was less of a marked impact on full-time employment than in the country on average. The decline in full-time employment in London (1.6 percentage points) was statistically significant, but less than that witnessed elsewhere. Meanwhile unemployment in the capital increased by 1.2 percentage points from 5.4 per cent to 6.6 per cent. Again, this was a statistically significant change but a somewhat smaller rate of increase than seen elsewhere. London also witnessed notable changes in patterns of part-time employment that were not observed elsewhere. Whereas part-time employment remained generally stable in the rest of England, the part-time employment rate increased in the capital by 1.2 percentage points over the period.

**Figure 11: Change in employment status by region, 2006-2008 to 2010 (percentage points, UK)**

Looking at trends in Inner and Outer London separately, the capital’s relative soft-landing was more marked in Inner London and it is not clear that the story of resilience extends to Outer London. Full-time employment fell by a similar amount in Inner and Outer London. However, the increase in part-time employment was concentrated in Inner London (with a rise of 2.4 percentage points (Figure 12). Unemployment increased in Outer London from 4.9 per cent to 6.5 per cent but did not rise significantly in Inner London.
Looking at the position of men and women separately, the increase in part-time employment also appears to be concentrated amongst men rather than women. Part-time employment amongst men in inner London increased from 5.6 per cent to 8.6 per cent over the period. However, women did not experience a similar increase. In Outer London, unemployment went up for both men and women (with rises of 1.9 percentage points and 1.42 percentage points respectively).

Overall these findings suggest that in London there has been a rise of underemployment rather than of unemployment. As Londoners have found it harder to enter into full-time employment (MacInnes et al. 2011), they have opted for part-time options. The fact that the increase in part-time employment is especially prominent among men underlies how these changes are probably dictated by lack of full-time jobs rather than the need to reconcile family responsibilities and work.

Analysis by age and ethnicity suggests that the changes for certain population subgroups were less severe in London than elsewhere. In particular, Hills et al. (2013) note the scarring impact of the recession on youth and the severe adverse effects on the employment of young people. In 2006/08 the proportion of all 16-24 year olds who were unemployed was slightly higher in London (10.3 per cent) than elsewhere in the country (9.6 per cent). However, over the period 2006/8-2010, unemployment appeared to increase less among young Londoners (by 1.5 percentage points, statistically a non-significant increase), whilst in the rest of the country the percentage of young people who were unemployed increased by 2.9 percentage points (a significant difference). As a result, by 2010, the proportion of
16-24 year olds who were unemployed in the capital was similar to the rest of England (approximately 12 per cent) (Figure 13).

**Figure 13: Changes in Full-Time Employment and Unemployment for People aged 16-24 2006/08 to 2010**

Analysis of patterns of employment and unemployment amongst the Black/Black British ethnic group in London and nationally presents a similar picture of greater convergence between London and the rest of the country towards worse employment outcomes. Amongst the Black/Black British ethnic group in the rest of the country there was a fall in full-time employment of 5.7 percentage points whilst unemployment increased. In London, the deterioration in these indicators was less marked and the changes were not statistically significant (although this finding is also partly driven by lower numbers). As a result of these changes, whereas in 2006/08 full-time employment was lower and unemployment was higher amongst the Black/Black British ethnic group in London than elsewhere, by 2010 these differentials were no longer evident.

The greater resilience in London story also appears to hold in the context of employment patterns amongst social tenants. Outside the capital, there were statistically significant falls in full-time employment and an increase in unemployment, with no significant increase in part-time employment. In London, unemployment and full-time employment did not change significantly over the period 2006/8 to 2010. However, the part-time employment rates amongst social tenants increased by 2.7 percentage points. Whereas unemployment amongst social tenants was higher in 2006/8 in London than in the rest of England, by 2010 this ranking had reversed, with unemployment amongst social tenants significantly higher in the rest of the country than in London (Figure 14).
Figure 14: Changes in Economic Status for Social Tenants, 2006/08 to 2010

Employment patterns amongst 55-64 year olds are an important exception to the “greater resilience in London” story. Unemployment amongst 55-64 year olds increased significantly in London over the period 2006/8-2010. Whilst the increase in unemployment in the rest of the country was also significant, the increase appears to have been higher in London than elsewhere (a 2.0 percentage point increase in London compared with a 1.3 percentage point increase in the rest of the country). Part-time employment amongst Londoners aged 55-64 was also significantly lower than part-time employment amongst this age group elsewhere in the country (10.4 per cent compared with 13.8 per cent) in 2010 (Figure 15).

Figure 15: Changes in Economic Status for People Aged 55-64, 2006/08 to 2010

Employment patterns amongst 55-64 year olds are an important exception to the “greater resilience in London” story. Unemployment amongst 55-64 year olds increased significantly in London over the period 2006/8-2010. Whilst the increase in unemployment in the rest of the country was also significant, the increase appears to have been higher in London than elsewhere (a 2.0 percentage point increase in London compared with a 1.3 percentage point increase in the rest of the country). Part-time employment amongst Londoners aged 55-64 was also significantly lower than part-time employment amongst this age group elsewhere in the country (10.4 per cent compared with 13.8 per cent) in 2010 (Figure 15).
Changes in Wages and Earnings

The story so far suggests that the early impacts of the recession did not widen the gap between London and the rest of England - in fact, in many respects London's relative position seemed to improve 2006/8 to 2010 because the downturn appears to have hit other regions the most. While London’s good labour market performance is welcome, it is important to place it in the context of the widening inequalities within the capital. Our findings suggest that on some indicators London became more unequal and polarised in the wake of the crisis and downturn. In some instances inequalities became more marked in London whilst there was little change or less change nationally.

We look at inequalities arising in the labour market – hourly wages and weekly earnings – and at inequalities in income and wealth. Hourly wages are most useful as an indicator of inequalities between people (e.g. men and women) in the amounts paid for the work done, although note that here we do not attempt to assess different rates of pay for the same actual work, rather whether, for example, low paid men earn more than low paid women. This will be influenced by the type of work each group does as well as the wages for the work. Hourly wages should not be taken as an indicator of total income from employment, as that obviously depends on the amount of hours worked as well as the pay. Weekly earnings are a better indicator of income from employment, although obviously they can tell us nothing about the incomes of people who are not in employment, which is why we also need to look at overall income data and at wealth.

Findings on individual indicators should be treated with some caution for the reasons given above. In addition, it is important to note that actual estimates of real wages are most reliably made using the Annual Survey of Hours and Earnings (ASHE), which is a survey of employers, not the Labour Force Survey (LFS), which is a survey of workers. It is established elsewhere that the LFS can underestimate wages compared with other sources (Manning and Dickens 2002). However, our emphasis here is not on single indicators but on overall directions of change.

Hourly Wages

In 2006/8, hourly wages in London, throughout the whole distribution, were higher than in the rest of England. In other words, high paid workers in London were paid more than high paid workers in other regions, the lowest paid Londoners were paid more than the lowest paid in other regions and so on all the way through the scale. The difference at most points was around a third (as also shown in Figure 1 for 2000). For the lowest paid workers, differences were smaller, around one tenth. In 2010, the differentials in real wages between the capital and the all-England average showed a similar profile to 2006/8. This overall picture reflects the story of overall hourly real wage stagnation with little or no growth over the period, as highlighted in Hills et al. (2013).
Compared to the rest of the country, London wages remained relatively similar at the bottom end of the wage distribution (about a ten per cent difference), but higher at the mean, median and 90th percentile. With higher costs of living in London, this puts low earners in London at a disadvantage relative to the rest of the country.

Looking at changes amongst the lowest paid and the best paid across the 2006/08 to 2010 period presents a more complex picture, about which we can be less confident. At the 10th percentile (the lowest paid 10 per cent of workers), real wages in London appeared to fall by 4.6 per cent, compared with a smaller fall amongst the worst paid individuals in the rest of the country (of 1.8 per cent). In sharp contrast, amongst the best paid individuals there appeared to be increases in hourly wages at the 90th percentile in London (2.6 per cent) compared with no real wage growth elsewhere in the country. As a result of these combined changes, there was a sharper increase in inequality in real hourly wages within London than the rest of the country. The 90:10 ratio – the gap between the near-top and the near-bottom - increased in London by 7.5 per cent compared with 1.8 per cent on average. However, the ASHE figures show a different story – a decrease in inequality in London by 2 per cent and no change in the whole of England. London was and remained the English region where hourly wages were the most unequal.

Manning (2012, p21) using ASHE, estimates real wages at the 5th percentile in London to have been £6.40. Our primary focus here is on subgroup analysis rather than real wages estimates. However, the evidence from our analysis is compatible with the proposition that - despite the National Minimum Wage and the statutory and non-statutory arrangements in place to promote the living wage in London - hourly real wages in London at the bottom of the distribution were below the London Living Wage threshold, which in 2010 was just above £8 per hour (currently £8.55).

Patterns of hourly wage change appeared to be different for men and for women, although we can be less certain about this. For men, the LFS data show an increase in hourly wages at the 90th percentile (very high earning men) and a decrease for low earning men, both more marked than in the rest of England, such that wage inequality for men rose following the crash. This is not consistent with the picture returned by ASHE, however, which shows no real change in male wage inequality either for London or England. In both sets of data, London was and remained the English region where hourly wages among men were the most unequal. For women, the LFS and ASHE data show a slight decrease in wage inequality in London, compared with an increase in wage inequality in the rest of England. Both surveys also point to the fact that the gap between men at the top and women at the top is wider in London than elsewhere, and this gap has widened. This could be explained by the role of the financial services sector in London. There is evidence that the financial sector did not suffer disproportionately from the downturn and that its employment share in the South has in fact increased (Dolton et al. 2011). At the same time, the Equality and Human Rights Commission report on sex discrimination in the financial sector found that gender pay gaps in hourly pay were roughly double in the financial sector than in the economy as a whole (EHRC 2009).
Weekly Earnings

Turning now to weekly earnings, Hills et al. (2013), who restrict their analysis to full-time employees only, suggest that falls in weekly earnings nationally were over and above trends that could be anticipated based on falls in real wages alone, suggesting some decline in hours worked following the downturn. We find similar evidence even if we include both full-time and part-time employees. There also appears to have been an increase in inequality in weekly earnings both in London and elsewhere. Analysis of the LFS suggests that the 90:10 ratio in London went up more than in England - from 7.4 to 9.4 - while it went up from 7.8 to 8 in the rest of England. Inequality between near-top and near-bottom earnings went up for both men and women, and this is also demonstrated by the ASHE data, although the numbers produced by LFS and ASHE vary.

For men, the LFS data suggests that there was a marked fall in weekly earnings of the worst paid men in London (more so than the rest of the country) and that at the top of the distribution there was an increase in London compared with a very slight fall elsewhere. This account is consistent with the reduction in hours for low paid men. As noted earlier, there was a shift into part-time work in London amongst men. The LFS data show a marked increase in weekly earnings inequality amongst men in London. ASHE shows the same pattern, but much lower figures: a change in the 90:10 ratio for men's weekly earnings of 8 per cent compared to 5 per cent in the whole of England.

For women, earnings inequality also increased, and by more than in the rest of the country. According to the LFS, there was a marked fall in weekly earnings amongst the lowest paid women in London at the 10th percentile, compared with an increase elsewhere. Further, the gains at the top end of the distribution experienced by men in London appear not to have been experienced by women, with weekly earnings actually falling for women at the 90th percentile. This contrasts with a negligible decline in weekly earnings for women at the 90th percentile elsewhere. As a result of these combined changes, weekly earnings inequality for women in London appeared to go up (according to LFS) by 1.5 per cent compared to a 4.7 per cent fall elsewhere in the country (in other words much less than for men). According to ASHE inequality in women's weekly earnings increased much more in London than elsewhere – 8 per cent in London compared to 1 per cent in the whole of England.

Wages and Earnings Summary

This is a complicated picture. To summarise the key points:

- London was and remained the region with the highest wages and earnings inequality.
- The ‘London wage premium’ was and remained lower for lower paid workers, putting them at a disadvantage compared with low paid workers in other parts of the country.
- Hourly wages at the bottom of the wage distribution appeared in 2010 still to be below the London Living Wage.
- Inequality in weekly earnings increased in London after the crash, and more so than for England as a whole.
- Women at the top end of the earnings distribution in London are at a greater disadvantage relative to men than in the rest of the country.

**Changes in Income and Wealth**

Wages and earnings data do not tell us about incomes from sources other than employment (investments, self-employed incomes, or welfare benefits for example), nor about assets of different kinds. For this reason we also look at income and wealth.

**Income**

On income, we compare “net equivalized income”. This measure comprises total income from all sources of all household members including dependents, after deducting direct taxes. Income is adjusted for household size and composition, to reflect the fact that different kinds of households require different levels of income to achieve the same standard of living.

In general, net equivalized household income was higher in the capital than elsewhere both before and after housing costs in 2007/8. Londoners at the middle of the income distribution, and at the 90th percentile (the top ten per cent of incomes) had higher incomes than middle or high income people in other regions. For household incomes, the differences were highest at the 90th percentile, showing London’s richest people having substantially more income (28 per cent higher) than the richest elsewhere in England. However, household incomes after housing costs, although they were higher for Londoners at the top half of the distribution, were lower in London at the 30th percentile (9 per cent lower) and much lower at the 10th percentile (20 per cent lower).

Falls in income in London in the wake of the crisis and the economic downturn appear to have been greater than that elsewhere, particularly after housing costs. As a result, the gap at the median between household income in London and the rest of England fell.

Looking at the position at different points of the distribution, at the upper end of the income distribution, falls in income at the 90th percentile in London were in line with those in England generally before and after housing costs. However, income for the poorest Londoners fell more sharply than it did amongst those in the bottom 10th percentile in England as a whole with a hefty 23.7 per cent decline in London after housing costs compared with a national fall of 3.5 per cent (Figure 16).
Figure 16: Changes in Net Equivalised Household Income After Housing Costs 2007/ to 2010

Source: DWP: HBAI dataset

As a result, whilst income inequality after housing costs remained virtually unchanged in the period to 2010/11 in England as a whole, in London the 90:10 ratio rose considerably from 8.4 to 10.7 (a substantial rise of 26.5 per cent). This is in line with growing evidence on the impact of housing costs in pushing people into poverty in both London and the South East, where housing costs are considerably higher than in the rest of the country (e.g. Aldridge et al 2011).

Wealth

For wealth, too, the situation in London was different from that in the rest of the country in 2006/8 and changed in different ways. In 2006/8, Londoners on average held less total wealth than people across England (£42,000 less at the median), reflecting the capital’s younger age structure and lower rates of owner occupation. Total wealth includes property wealth, physical wealth and financial wealth as well as pension rights. At the 90th percentile, however, Londoners had £62,000 more total wealth than elsewhere. This, combined with lower wealth in London than England at the 10th percentile, made London much more unequal than England as a whole, with a 90:10 ratio of 313 to 1, compared with 97 to 1 in 2006/8.

Inequalities in wealth appeared to increase in London to 2010. Focusing first on financial, physical and property wealth (excluding pension rights), wealth at the 10th percentile in London stayed flat and was unchanged over the period 2006/8-2008/10. This compared with a 14.3 per cent increase in England generally. At the median, there was a 7.6 per cent increase in wealth in London, compared with a 1.3 per cent fall in England generally. This means that in London the median household gained
£9000, while the median English household lost £2000. At the top end of the wealth distribution, there were big increases in financial, physical and property wealth at the 90th percentile in London (of 8 per cent) compared with a smaller increase (of 0.4 per cent) in the rest of the country (Figure 17).

**Figure 17: Changes in Financial, Physical and Poverty Wealth 2006/08 to 2008/10**

As a result of these combined changes, whereas inequality in the distribution of financial, physical and property wealth in the country generally fell over the period, there was a marked increase in inequality on this measure within London. The 90:10 ratio – already extremely high at 199.0 in 2006/8 – rose to a colossal 215.0 (Figure 18).

Source: ONS, Wealth and Assets Survey
Changes in Education and Qualifications

Finally, we note the position on education and qualifications in London. Before the recession, London already looked different from the rest of the country. London had, in 2006/08, a higher proportion of adults with degrees and higher degrees than the rest of the country. 19.8 per cent of adult Londoners had degrees and 9.7 per cent had higher degrees, compared with 12.5 per cent and 5.6 per cent in the rest of the country. The proportion of working age adults with no qualifications was similar in London to that elsewhere in 2006/8 (13.6 per cent compared with 13.2 per cent). This probably partly reflects London’s younger age structure, but the difference persists when London is compared with selected large and more urban regions: the West Midlands, North West and Yorkshire and Humberside. However, despite
higher qualifications overall, there was much less difference between London and the rest of England in the proportion qualified only to Level 1 (below GCSE level), who might be expected to be least advantaged in the labour market and this also holds when comparing just with similar urban regions. In actual fact, the proportion qualified to a maximum of Level 1 was higher in London (25 per cent) than the rest of England (20 per cent).

Hills et al. (2013) point to remarkable increases, nationally, in the qualifications of the working age population (age 16 to 64 for men and 59 for women) over the period 2006/8-2010. These improvements were driven by the improving qualifications of successive cohorts of younger adults who displace the less qualified population reaching state pension age each year. The improvements in the proportion of working age adults with degrees and higher degrees was particularly marked for women, who overtook men for the first time in both respects. The proportion of working age women with no or low qualifications also fell considerably, and had fallen below that for men by 2010.

The pace of change was greater in London than elsewhere. There was a 2.55 percentage point increase in those with degrees in London and a 1.83 percentage point increase in those with higher degrees. This compared with increases of 1.45 percentage points and 0.95 percentage points elsewhere. As a result, by 2010 one third of Londoners had a degree or a higher degree – 22.4 per cent and 11.5 per cent respectively). These are much higher proportions than elsewhere, where the proportion of graduates and post-graduates were 13.9 per cent and 6.5 per cent. This reflects only in part the fact that London is a university city. Indeed, changes in the South East, which has a proportion of university students similar to London, were less marked (HESA 2011: Table 1). Changes in London also reflected the attractiveness of its labour market to graduates, both UK and international.

At the other end of the qualifications spectrum, the proportions with no qualifications and low qualifications fell significantly both in London and in the rest of the country over the period 2006/8-2010. The falls in London were 3.45 percentage points (no qualifications) and 1.25 percentage points (low qualifications) compared with 2.5 percentage points (no qualifications) and 0.34 percentage points (low qualifications) in the rest of England. As a result of these changes, by 2010, the proportion of individuals with no qualifications was similar in London to that in the rest of the country. The proportion with low qualifications also fell in London more than elsewhere, but remained above that in the rest of England in 2010 (Figure 19).
Within London, it appeared to be Inner London in particular that was driving the trend towards higher qualifications. There were significant increases in the proportion with degrees and higher degrees, and significant falls in the proportion with no or low qualifications, in both Inner London and Outer London over the period 2006/8-2010. However, the increases were most marked in Inner London, with greater increases in those with degrees and falls in those with no qualifications than in Outer London (Figure 20); as is noted in Chapter 4, the make-up of Inner London’s population changed over the 2000s with processes of gentrification evident.
Looking at the position of men and women separately, increases in the proportion of men with degrees and higher degrees, and falls in the proportion with no qualifications or low qualifications, were higher in London than those observed in the rest of the country. However, for women, the differences between London and the rest of England are somewhat less marked than they are for men. For both men and women, the most marked changes were observed in Inner London. Furthermore, disaggregating by housing tenure, in both London and the rest of England there was a considerable reduction in the proportion of social tenants with no qualifications over the period 2006/8 to 2009/10. However, the fall in London was greater than that observed elsewhere in the country (6.79 percentage points compared with 5.18 percentage points). In London, there was also a significant increase in the proportion of social tenants with degrees (an increase of 2.08 percentage points). These changes resulted in a further divergence in the educational profile of social tenants in London and those in the rest of the country.

As reported in Hills et al. (2013), there was a notable fall in the proportion of people from the Asian/Asian British ethnic group with no qualifications over the period 2006/8-2010. Because of the smaller sample size, we have had to use a classification of ethnicity which is less detailed than the one used by Hills et al (2013). More specifically, we identify six ethnic groups rather than 15. These are: White, Mixed, Asian or Asian British, Black or Black British, Chinese, and Other. The fall in the proportion with no qualifications amongst the Asian/Asian British subgroup appears to be even more marked in London. Similarly, the increase in the proportion of Asians/Asian British with degrees over the period 2006/8-2010 is even more marked in London than the rest of the country. Amongst other ethnic minority groups, there was a notable and statistically significant fall in the proportion of the Black/Black British ethnic group in London with no qualifications over the period.

London’s school results also continued to improve. In 2008 performance at GCSE was very slightly better than that of other regions: the median GCSE points score of all KS4 pupils in London was 332, compared to 329 for the next highest scoring region, the South East. London’s advantage was particularly in the Free School Meals (FSM) element of that population. The median score for an FSM pupil in London in 2008 was 302; this is a large lead (18 points higher) than the median score of an FSM pupil in the next highest scoring region (West Midlands).

At both ends of the distribution – lower attainers and higher-attainers – pupils in London were performing relatively well or very well compared with pupils elsewhere. The score at the 10th percentile (lower attainers) for London was better than most other regions (including all the major urban regions) and at the 90th percentile (higher attainers) London’s score was second only to the South East.

Schooling was the major exception to the general picture of London being more unequal than the rest of the country. In 2008 London’s 90:10 ratio for GCSE points was 2.6; the same as that of the North West and West Midlands, and better than that for Yorkshire and Humberside and the North East.

From 2008 to 2010, the attainment of London’s pupils continued to improve (Figure 21). Scores for both FSM and non FSM pupils rose. Other regions caught up with
London somewhat in the performance of non FSM pupils. Conversely, for the non FSM pupils, London by 2010 had pulled ahead slightly from its position of no overall advantage in 2008 to have a very slight lead on the other regions by 2010. The median score for non FSM pupils in 2010 was 3 points ahead of the next best performing region. In 2008 it showed no lead.

Figure 21: Median GCSE score for London and other regions, 2008 and 2010

Source: DCSF, based on NPD-PLASC

There continued to be sub-regional differences. In 2008, taking all pupils together, median scores were better in the Outer London regions. However, splitting that overall group into FSM and non FSM, attainment of FSM pupils was best in Inner London. For the non FSM portion of the population, attainment was best in the Outer London sub-regions. This pattern remained in 2010 with FSM pupils still doing better in Inner London than in Outer London, and vice-versa for non FSM pupils. One caveat is that the attainment of non FSM pupils in Inner London West had improved and was now better at the median than that of Outer London East and North East. This is possibly associated with shifts in the spatial distribution of poverty across London which we will note in Chapter 4.

The picture for gender shows improvement for boys in London. The median GCSE score in 2008 for London’s boys was 320, equal to that of most other regions but below that of the South East and North East. By 2010 their relative attainment had improved, for example at the 30th percentile. In 2008, London’s girls were already performing well, relative to both London’s boys and to girls in other regions. For example, the median score of London’s girls in 2008 was 341, which positioned London as equal highest scorer alongside the South East. Only at the 10th percentile (lowest 10 per cent of attainers) did London’s girls rank below a joint first or second position regionally, and in this case it ranked third with a score of 194 points. By 2010 the attainment of London’s girls had improved slightly.
4. The Changing Spatial Distribution of Poverty 2001 to 2011

As London changed during the 2000s, the spatial distribution of poverty within the city also changed. In 2001 poverty in London was concentrated in the Inner East of the city, in areas of former industrial employment and low cost housing. This overall pattern was not overturned during the 2000s, but significant changes did occur. First, while poverty rates overall remained broadly unchanged up to 2008, rates in the poorest Inner London neighbourhoods fell, particularly in Inner West London, while they increased in less poor neighbourhoods of Outer London. Poverty thus began to spread out. Subsequently, as Outer London suffered more from the recession, this trend to deconcentration and decentralisation of poverty was accentuated, with particular impact in the Outer East and North East.

The Geography of Poverty in London in 2001

For this report, we describe the distribution of income poverty using a proxy measure for income poverty at the small area level, developed by CASE. ‘Small area’ here means Lower Super Output Area (LSOA) – neighbourhoods of about 1500 people. The construction of the measure and the rationales behind it are fully described in Fenton (2013). Essentially the objectives are to measure poverty (rather than the wider concept of area deprivation) and to be able to see change on a comparable annual basis, rather than only when Indices of Multiple Deprivation are compiled every three years or so. The measure is the combined rate of claims of four means-tested benefits (Income Support (IS) Job-Seekers Allowance (JSA), Employment and Support Allowance (ESA) and the guarantee element of Pension Credit (PC)) divided by the number of households. We label this measure “the Unadjusted Means-Tested Benefits Rate by households” or UMBRH. For shorthand, we refer to this as the ‘poverty rate’, although note that the UMBRH rate is lower than the official poverty rate reported earlier. Map 1 shows its distribution in London in 2001.

To focus more closely on the poorest neighbourhoods, we divide LSOAs into five bands according to their poverty rate. There is a total of 4765 neighbourhoods (LSOAs) in London. In 2001, the majority (58 per cent) had UMBRH values less than 25 per cent. 20 per cent (935) had values between 25 and 35 per cent, with a further 13 per cent (634 LSOAs) with values between 35 and 45 per cent. The top three per cent of neighbourhoods (129 LSOAs) in London had values of 55 per cent or more (i.e. 55 per cent of households in an LSOA were in poverty according to this measure). A further 7 per cent (322 LSOAs) had values between 45 per cent and 55 per cent. Studies of urban poverty in the US and the UK in the late 1990s and early 2000s identified the top two to three per cent of neighbourhoods as having distinctively worse conditions than others, while government initiatives in England during the 2000s often focused on the worst 10 per cent of any given measure (the IMD for example). Thus these top bands of 45-55 per cent, and 55 per cent and above represent the neighbourhoods that social policy interventions have been most likely to focus on.

11‘Unadjusted’ merely means that we have simply added the numbers of people on each benefit without weighting or transformation to give more importance to one or other. For further details on the construction of this measure see Fenton (2013).
Map 2 shows the distribution of poverty by these bands, the red areas indicating the most deprived 3 per cent of neighbourhoods and the orange areas the most deprived 10 per cent of neighbourhoods. The map shows the five sub-regions of London: Inner London East; Inner London West; Outer London East and North East; Outer London South; Outer London West and North West. The London Boroughs within each sub-region are as follows: Inner London East comprises Hackney, Haringey, Islington, Lambeth, Lewisham, Newham, Southwark and Tower Hamlets; Inner London West comprises Camden, City, Hammersmith; Kensington; Wandsworth and Westminster; Outer London East and North East comprises Barking and Dagenham; Bexley; Enfield; Greenwich; Havering; Redbridge and Waltham Forest; Outer London South comprises Bromley, Croydon, Kingston upon Thames, Merton and Sutton; Outer London West and North West comprises Barnet, Brent, Ealing, Harrow, Hillingdon, Hounslow and Richmond upon Thames.

On both these maps, the concentration of poverty in Inner East London is striking. Inner East London as a whole had a substantially higher poverty rate (34.9 per cent) than the other sub-regions of London - Inner West London (21.6), Outer East and North East (22.3), Outer West and North London (20.3) and Outer South London (15.3). Inner East London accounted for over a third of all of the means-tested benefits claimants in London in 2001. It also had two thirds of the poorest neighbourhoods (Figure 22), mainly located north of the river Thames, stretching in a patchy band from Newham through Tower Hamlets, Hackney and Haringey.

Figure 22: Distribution of London's poorest neighbourhoods across the sub-regions, 2001

The high poverty areas of Inner London West, on its north east and north west edges included: St Pancras and Somers Town, Camden Town with Primrose Hill, Regent's Park, Westbourne and Queen's Park. The isolated flecks of red in the Outer London sub-regions include: in Outer London East and North East - Southbury,
Ponders End, Edmonton Green, Heath and Leyton; in Outer London South - New Addington, Upper Norwood and in Outer London West and North West - Stonebridge, Willesden Green, Roxbourne, Norwood Broadway and Southall Broadway.

**Change 2001 to 2008, and 2008 to 2011**

Between 2001 and 2008, during economic growth, the number of means tested benefit claimants in London increased by 3 per cent, from approximately 1.31 million to 1.36 million. However this was also a period of population growth, and the number of households also grew, by 7 per cent. These trends combined resulted in a slight fall in the poverty rate (on the UMBRH measure) from 24.4 per cent to 23.5 per cent, but also a change in the geography.

Table 1 shows that numbers of claimants fell slightly in neighbourhoods across Inner London, particularly in the poorest neighbourhoods. They also fell slightly in the poorest neighbourhoods in Outer London. However numbers of claimants tended to rise in those neighbourhoods in Outer London which had been least poor in 2001, especially in Outer East and North East London. The effect was that poverty spread out.

At the same time it is also striking that the number of households increased considerably in poorer neighbourhoods in Inner West London, by 27 per cent in the very poorest neighbourhoods. There was also household growth across Inner East London. The result of increasing household numbers while claimant numbers were static or falling (i.e. there were no fewer poor people) was that poverty rates dropped quite dramatically in the poorest neighbourhoods in Inner West London and to a lesser extent in Inner East London. By contrast, while numbers of households increased in Outer London, in the least poor neighbourhoods these increases were lower than the increases in claimant numbers, resulting in a rise in poverty rates. This was particularly the case in Outer East and North London.

Between 2008 and 2011, the number of means tested benefits claimants rose by 12 per cent from its 2008 base, while the number of households only rose by a further 2 per cent, thus resulting in a rise in the poverty rate, by this measure, from 23.5 to 25.8 per cent. In this period, numbers of claimants generally rose in neighbourhoods across London as the recession bit. Percentage gains were highest in the areas which had lower poverty to start with. However, neighbourhoods in Inner West London generally seemed least affected (Table 1). The result was that poverty rates rose most in Outer London East and North East (up 13 per cent) and South (up 15 per cent), and especially in the least poor areas to start with. Poverty rates rose less in Inner London (6 per cent in Inner West London and 7 per cent in Inner East).
Table 1: Changes in household and benefit claimant numbers and poverty rate 2001-08 and 2008-11

<table>
<thead>
<tr>
<th>London sub-region</th>
<th>LSOA UMBRH band 2001</th>
<th>Change 2001-08 (per cent)</th>
<th>Change 2008-2011 (per cent)</th>
</tr>
</thead>
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<tr>
<td></td>
<td>Households</td>
<td>Claimants</td>
<td>Rate</td>
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<tr>
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<td>-3</td>
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<td>25-35%</td>
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<td>55% or more</td>
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<td>-4</td>
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<tr>
<td>Inner London - West</td>
<td>&lt; 25%</td>
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<td>25-35%</td>
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<td>35-45%</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>45-55%</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>55% or more</td>
<td>-7</td>
<td>-5</td>
</tr>
<tr>
<td>Outer London - South</td>
<td>&lt; 25%</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>25-35%</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>35-45%</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>45-55%</td>
<td>-3</td>
<td>-4</td>
</tr>
<tr>
<td></td>
<td>55% or more</td>
<td>8</td>
<td>-1</td>
</tr>
<tr>
<td>Outer London - West &amp; North West</td>
<td>&lt; 25%</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>25-35%</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>35-45%</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>45-55%</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>55% or more</td>
<td>-1</td>
<td>-6</td>
</tr>
</tbody>
</table>

Source: CASE UMBRH data set

The Overall Effect: 2001 to 2011

Looking across the whole period 2001-2011, the effect of these changes was as follows:

Firstly, the small London-wide increase in poverty that we reported above was reflected in a reduction in the number of lowest-poverty neighbourhoods (Figure 23). There was an 11 per cent reduction in the number of neighbourhoods in the less than 25 per cent UMBRH band, and a corresponding increase in the numbers of neighbourhoods in the next two bands, 25-35 per cent UMBRH and 35-45 per cent UMBRH. However the proportion of London’s neighbourhoods in the very highest poverty band (an UMBRH rate of 55 per cent or above) remained approximately three per cent of all London’ neighbourhoods (Figure 23). Taking the top two bands together (neighbourhoods with an UMBRH rate of 45 per cent and above), in both
2001 and 2011 the proportion of neighbourhoods in these highest poverty bands was 9 per cent.

**Figure 23: Distribution of neighbourhood across UMBRH bands 2001 and 2011 compared**

![Distribution of neighbourhood across UMBRH bands 2001 and 2011 compared](image)

Source: CASE UMBRH data set

**Figure 24: Change of UMBRH rates across the sub-regions 2001 and 2011**

![Change of UMBRH rates across the sub-regions 2001 and 2011](image)

Source: CASE UMBRH data set

Secondly, poverty rates fell slightly both in Inner East London (by 1.3 percentage points from 34.9 per cent in 2001 to 33.7 per cent in 2011) and in Inner West London (by 0.8 percentage points from 21.9 per cent in 2001 to 21.1 per cent in 2011) (Figure 24). However, in all of the Outer London sub-regions poverty rates increased: in Outer London East and North East the poverty rate increased from...
22.6 per cent in 2001 to 27.2 per cent in 2011; in Outer London South it increased from 15.4 per cent to 17.9 per cent and in Outer London West and North West it increased from 20.4 per cent in 2001 to 23.1 per cent in 2011. The poverty rate increased most substantially, therefore, in the case of Outer London East and North East, up 4.7 percentage points.

As a result a smaller proportion of all London’s poor residents were to be found in Inner London in 2011 (47 per cent as opposed to 51 per cent in 2001) and a larger proportion in Outer London (53 per cent as oppose to 49 per cent in 2001), (Table 2).

Table 2: Distribution of means-tested benefit claimants (mtbc) across London 2001, 2011 and change over 2001-11

<table>
<thead>
<tr>
<th>MTBC</th>
<th>2001</th>
<th>% of all MTBC 2001</th>
<th>2011</th>
<th>% of all MTBC 2001</th>
<th>2001-11 change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner London</td>
<td>267,800</td>
<td>36.8</td>
<td>283,428</td>
<td>33.6</td>
<td>-3.2</td>
</tr>
<tr>
<td>- East</td>
<td>123,840</td>
<td>18.8</td>
<td>129,940</td>
<td>16.3</td>
<td>-1.9</td>
</tr>
<tr>
<td>Inner London</td>
<td>370,740</td>
<td>51</td>
<td>394,748</td>
<td>47</td>
<td>-4.1</td>
</tr>
<tr>
<td>- West</td>
<td>102,940</td>
<td>14.2</td>
<td>111,320</td>
<td>13.2</td>
<td>-1.0</td>
</tr>
<tr>
<td>Inner London</td>
<td>370,740</td>
<td>51</td>
<td>394,748</td>
<td>47</td>
<td>-4.1</td>
</tr>
<tr>
<td>Outer London</td>
<td>143,284</td>
<td>19.7</td>
<td>183,329</td>
<td>21.8</td>
<td>2.0</td>
</tr>
<tr>
<td>- E &amp; NE</td>
<td>74,040</td>
<td>10.2</td>
<td>94,719</td>
<td>11.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Outer London</td>
<td>138,955</td>
<td>19.1</td>
<td>169,788</td>
<td>20.2</td>
<td>1.0</td>
</tr>
<tr>
<td>- W &amp; NW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OUTER LONDON</td>
<td>356,279</td>
<td>49</td>
<td>447,835</td>
<td>53</td>
<td>4.1</td>
</tr>
<tr>
<td>All London</td>
<td>727,019</td>
<td>100</td>
<td>842,583</td>
<td>100</td>
<td>~</td>
</tr>
</tbody>
</table>

Source: CASE UMBRH data set

These changes are shown on Map 3. Comparing with Map 1, there had clearly been a spread of poverty into Outer London East and North East. In Outer London West and North West the cluster of high poverty toward the inner west area of that sub-region had expanded, and in Outer London South the patches of high poverty bordering the bottom edge of Inner London East had grown. In areas of Inner London, the maps show, by contrast, areas of falling poverty. For example, in Inner London West on the upper east edge of the border shared with Inner London East the concentration of highest poverty (red) neighbourhoods had decreased. Map 4 summarises the picture of change between the 2001 (Map 1) and 2011 (Map 3) maps. The fall in poverty rates within Inner London is very clear (green areas) as is the rise in poverty rates in Outer London (orange-red areas).

Looking just at the highest poverty neighbourhoods, this picture of falling poverty in Inner London and rising poverty in Outer London becomes even clearer. Map 5 shows the highest poverty neighbourhoods (the top 3 per cent approximately) in red. Comparing this 2011 map with the 2001 equivalent Map 2 we see the incidence of the highest poverty neighbourhoods in both Inner London East and Inner London West fell between 2001 and 2011. In Inner London East, there were noticeably fewer very poor neighbourhoods, while in Inner London West neighbourhoods in the highest poverty band were now very isolated.

On the other hand, the incidence of the highest poverty neighbourhoods had clearly increased in Outer London East and North East. There had also been an expansion
of highest poverty neighbourhoods in Outer London West and North West, in the areas where they already existed in 2001. The incidence of the 35-45 per cent (yellow) and 45-55 per cent (orange) poverty bands had increased in Outer London South. However, there had been no increase in the highest band (red).
Figures 25 and 26 quantify this shift. In 2001, over three quarters (77 per cent) of the highest poverty neighbourhoods were in Inner London East and West. By 2011 the figure had fallen to closer to half (55 per cent), with the Outer London sub-regions now accounting for almost half (46 per cent) of the highest poverty neighbourhoods, as oppose to a third (33 per cent) in 2001.

**Figure 25: 2001- distribution of highest poverty neighbourhood (55+% UMBRH) across London sub-regions**

![Pie chart showing distribution of highest poverty neighbourhoods in 2001](source: CASE UMBRH data set)

**Figure 26: 2011 - distribution of highest poverty neighbourhoods (55+% UMBRH) across London sub-regions**

![Pie chart showing distribution of highest poverty neighbourhoods in 2011](source: CASE UMBRH data set)

A final point to note is that the shift in the spatial distribution of the very poorest neighbourhoods from Inner London to Outer London took place before the recession, i.e. before 2008. This is shown in Figure 27. In 2001, 78 per cent of the
very poorest 3 per cent of neighbourhoods were in Inner London. By 2008 the figure had fallen to 51 per cent. The proportion of the very poorest neighbourhoods in Outer London therefore increased, from 22 per cent in 2001 to 49 per cent by 2008. By contrast, if we look at the wider group of poor neighbourhoods with above 45 per cent poverty rate (approximately the poorest 10 per cent rather than just the poorest 3 per cent), we see a more gradual shift between 2001 and 2008 (Figure 27, far right three columns).

Figure 27: Distribution of the poorest neighbourhoods across Inner London and Outer London: 2001-2011

Source: CASE UMBRH data set

Corresponding socio-demographic changes across the sub-regions
The growth in non-poor households in Inner East London is further evidenced by reference to 2001 and 2011 Census data. Comparing across the sub-regions, Inner East London showed the largest fall in social housing (a percentage point decrease of 14 per cent) across the 2001-11 period (Figure 28). It also showed the largest percentage decrease in economic inactivity (19 per cent), and the joint largest increase in Managerial and Professional occupations (8 per cent), the latter perhaps being related to the earlier observed increase in qualifications amongst London’s population. The proportion of private renting households increased by 50 per cent. This increase was second only to the percentage increase seen in Outer London East and North East. Though we might have expected a reduction in  

12 It should be noted that whilst all references to the UMBRH poverty measure cover a complete set of small areas within the Greater London Authority, this is not the case in referencing census figures. To ensure comparable 2001 and 2011 census data, inconsistent small areas (~3 per cent of all small areas) in the data sets have been excluded.
overcrowding, the proportion of overcrowded households in fact increased, however, this increase was by a much smaller percentage than in the Outer London sub-regions (Figure 29).

**Figure 28: Percentage change 2001-11 in the proportion of each sub-region's households that are social renting households**

![Figure 28: Social Renting Households Change](source)

**Figure 29: Percentage change 2001-11 in the proportion of each sub-region's households that are over-crowded households**

![Figure 29: Overcrowding Households Change](source)
**Inner versus Outer London**

Expressing these changes in terms of Inner and Outer London, the proportion of social renting households in Outer London sub-regions had not changed proportionately as much as in the Inner London sub-regions. Private renting had increased proportionately more in Outer London than Inner London, as had overcrowding and the population born outside of the UK. No earner households and economic inactivity fell across both, however more so in Inner London than in Outer London (Figure 30).

**Figure 30: Percentage change 2001-11 in the proportion of each sub-region's households that are over-crowded households**


**The most deprived neighbourhoods**

Looking just at the most deprived fifth of neighbourhoods (on the IMD), some further important patterns emerge. The most deprived neighbourhoods in Inner East London had seen larger declines in social renting, no earner households and economic inactivity (as a proportion of the total populations of those areas) than seen in deprived neighbourhoods elsewhere in London. Private renting households, as a proportion of all households, had increased by almost 60 per cent in the most deprived neighbourhoods of Inner London East. They increased by a similar proportion in Outer London East and North East and Outer London West and North West. On the other hand overcrowding and the population born outside of the UK increased in both Inner London sub-regions by a lesser proportion than in all three of the Outer London sub-regions (Figure 31).
Overall, the pattern in the changes in these variables reinforces the picture seen in the mapping of high poverty areas across the sub-regions (Maps 2 and 5 above). Neighbourhood characteristics associated with poverty and deprivation showed more of a decline, or a lesser rate of growth, in Inner London than was the case in Outer London.
5. Conclusion

This report has documented changes in economic outcomes and their spatial distribution in London over the decade since 2000, with particular attention given to the period following the financial crash and recession. Our aim has been to describe the situation in 2010, at the time of the change of UK government, and the dynamics at work at that time, prior to any effects of social policy reform under the Coalition government. Three main messages emerge.

One is the resilience of London’s economy and labour market to the recession. Economic output dipped less and recovered more strongly than in the rest of the country. Full-time employment fell in London, between 2006/8 and 2010, but less so than in other parts of the country. By contrast with other parts of the country, the loss of full-time employment seemed to be reflected in an increase in part-time employment rather than unemployment. Also by contrast with the rest of the country, unemployment did not rise significantly for young people (aged 16-24), between 2006/8 and 2010, although workers over the age of 55 in London seem to have been hit worse, in terms of employment, than their counterparts elsewhere in the country. Some other groups – social tenants and Black/Black British people – seemed not to be affected as badly by recession as they were elsewhere in England, although their situation had been worse in the capital to begin with. Overall, labour market prospects for Londoners look good. Achievements in London schools continued to exceed those in the rest of England, and there was a smaller gap between pupils on Free School Meals and others. The proportion of working age Londoners with a degree or higher qualifications, already high, increased more in London in the period 2006/8 to 2010 than in the rest of the UK. At the other end of the spectrum, the proportion with no or low qualifications fell faster than in the rest of the UK. All these trends position London and Londoners well for further economic success.

The second is the changing geography of poverty in the capital. During London’s period of rapid economic growth to 2008, there was a trend towards deconcentration and decentralisation of poverty. The numbers of people in poverty declined slightly in Inner London, especially in the most deprived neighbourhoods, while, particularly in Inner West London, there were substantial increases in the number of households overall, as new housing was built and areas gentrified. This caused poverty rates to fall. At the same time, the number of people in poverty in Outer London, particularly in less deprived neighbourhoods and particularly in the East and North East of Outer London, increased at a slightly higher rate than the number of households, so that poverty rates in Outer London neighbourhoods tended to increase. These trends were accentuated by the recession. Unemployment rates increased in outer London but not in Inner London between 2006/8, and there was an increase in part-time employment in Inner London that was not matched in Outer London. Between 2008 and 2010, poverty rates increased in neighbourhoods across London, as would be expected in a recession, but the biggest increases were in Outer London, particularly in neighbourhoods which had been less poor before. Inner London West saw the smallest increases in poverty in this period. By 2011, a slight majority (53 per cent) of means-tested benefits claimants were in Outer London, and Outer London accounted for almost half of the very poorest neighbourhoods.
It is not possible to conclude from this data whether people from Inner London were moving outwards because of increasing unaffordability and a decline in the number of social housing units (Fenton et al. 2013), whether new arrivals in London were increasingly locating in Outer London for the same reasons, or whether the circumstances of existing residents were changing for the worse. It is also important to stress that over the period as a whole, the numbers of people in poverty in Inner London increased slightly. Neighbourhood poverty rates fell because there were more non-poor people. Note also the particular increases in qualifications of Inner London residents, which may be due to in-movement as well as any change for existing residents. The key point is that London’s geography of poverty was changing in significant ways before any impacts of the Coalition’s welfare reforms.

Third, economic inequality appeared to rise on a number of dimensions between 2006/8 and 2010. The precision and validity of survey estimates at the regional level is affected both by sample size and whether the sample is representative, and there are grounds for caution on both counts. For this reason, we caution against over-emphasis on any one figure, but focus on what appears to be a general pattern across earnings, incomes and wealth. Income for the poorest Londoners fell more than elsewhere in the country, and income inequality, after considering housing costs, increased. Earnings inequality also rose for men and women, more so than in the rest of the country. There appears to have been a marked fall in the earnings of the worst paid men, consistent with a reduction in hours worked. Wealth inequality also rose, although not when the value of future pensions is taken into account, but in this case the increasing gap was due to rising values at the top of the distribution rather than falling values at the bottom.

These developments raise important questions about the state of the UK’s capital city at the time the Coalition took over and for its future prospects. On the one hand, the findings for London are positive, in terms of its economy, labour market, education and qualifications. However, it remains a problem that London’s economic success does not seem to translate into lower poverty or reduced inequality. The recession, despite its origins in the financial sector, seems to have worsened economic outcomes for Londoners who were already worst off, while better off groups have been less affected. As London returns to growth, questions must surely be asked about how this situation can be ameliorated. Research by the Institute for Fiscal Studies (Browne 2011) shows that households in London will lose more on average than those in any other region from the combination of the Coalition’s tax and benefit reforms with higher income households most affected. At the same time, we need to better understand if and how the densification and gentrification of Inner London has benefited its poorer residents, and the implications of rising poverty in Outer London for housing, services and communities. Modelling by Fenton (2011) suggests that the Coalition’s benefit reforms will markedly accentuate the changes in the geography of poverty described here. The next phase of our research programme will report again on changing economic outcomes and spatial patterns to 2012/13, illuminating what actually occurs, as well as on the impact of local authority spending cuts and service reorganisation on residents in some of the poorest neighbourhoods described here.
Bibliography


Appendix

A1

Typically, the way that official statistical data are aggregated only allow a comparison of London with England as a whole and with other English regions, which incorporate a mixture of urban and rural areas in a way that the London ‘region’ (Greater London) does not. By aggregating data from Census of Population and other administrative datasets organised at small area level, we can compare London with other cities. Here, for simplicity, we compare London to all England’s other major industrial cities combined (thus Manchester, Liverpool, Leeds/Bradford, Newcastle/Sunderland, Sheffield, Nottingham and Bristol), as well as to a ‘rest of England excepting London’, benchmark.

We have devised and applied in parts of this work our own geographical definitions of these major English cities. Our definitions correspond roughly to the contiguous Urban Areas as defined by ONS, except that a 500m expansion is applied. The time frame of this study crosses two sets of Census data, the 2001 census and the 2011 census. As urban boundaries might be expected to expand somewhat in a ten year period, this small extension of the 2001 boundaries was appropriate. These CASE definitions
are used where London is compared to other major English cities. To be comparable London in these comparisons is as per the CASE definition shown in map A1. The map shows how this compares with the Greater London Urban Area.

Also, there are small changes in neighbourhood boundaries over time. In 2011 ONS adjusted the boundaries of approximately 2 per cent of the 2001 set of LSOAs. This adjustment presents some methodological obstacles to the sorts of broad geographical comparisons we have undertaken across the 2001 and 2011 census data. A comparable data set for 2001 and 2011 Census data was achieved by removing changed LSOAs (approximately 2 per cent of the total set; 3 per cent of the Greater London Urban Area set) from the work.