

## **Announcement - Households Below Average Income: planned revision to improve the methodology for direct taxes in Northern Ireland and to adjust for new tenure information from the Department for Communities and Local Government**

### **Revision due to changes to the direct tax system in Northern Ireland**

In the course of validating the Households Below Average Income statistics, DWP and DSD statisticians identified an inconsistency in the way Northern Ireland rates were being calculated over time. As a result the proportion of population groups in low-income households has been overestimated. The effect on UK low-income statistics is likely to be very small (of the order of 0.1 percentage points lower) while the effect on Northern Ireland low-income statistics is likely to be larger (of the order of 1 or 2 percentage points lower).

Domestic rates are a property tax based on the valuation of an individual's home and the area in which they live. It is used to fund both local and regional services in Northern Ireland. In 2007/08, a new rates system was introduced in Northern Ireland. Rates in Northern Ireland are calculated in the Households Below Average Income series methodology using the following formula:

Rates liability = (Sum of regional and district rates) \* property specific value

While the Family Resources Survey (the source survey for Households Below Average Income series) moved to using the new regional and district rates information, the old property specific values were still being used for 2008/09 and 2009/10. This inconsistency results in higher rates values being deducted than if the new values were used in the derivation of net income values used in the Households Below Average Income and Pensioners' Income series. For 2007/08, old regional rates, district rates and property specific values were used, which was what was available at the point of creating the dataset and the effect of this on the results is small.

DWP and DSD have decided that we should revise the 2008/09 and 2009/10 Households Below Average Income data series and the 2008/09 and 2009/10 Pensioners' Income data series to use the new Northern Ireland rates information throughout the calculation of net incomes. We will also be releasing revised Family Resources Survey, Households Below Average Income and Pensioners' Income Series datasets for these years.

The dataset changes have the effect of increasing incomes and reducing rates of low-income in Northern Ireland. The effect of the change on UK low-income statistics is likely to be very small (of the order of 0.1 percentage points lower in statistics rounded to the nearest percentage point or around 25p on mean or median weekly income), but the effect on Northern Ireland statistics is likely to be larger (of the order of 1 or 2 percentage points lower in statistics rounded to the nearest percentage point or an increase of around £5 to £10 on mean or median weekly income). The UK Family Resources Survey publication is not affected.

The DWP Head of Profession has therefore decided to revise the series. DWP are aiming to revise the low-income results for 2008/09 and 2009/10 in the HBAI publication containing the 2010/11 results which has been pre-announced for release in June 2012.

DSD are aiming to release a short poverty bulletin containing the headline revised results for Northern Ireland either at the same time as or as soon as possible after the UK HBAI publication is released.

This revision will also affect the Northern Ireland Pensioners' Income Series Bulletin and the Northern Ireland Family Resources Survey Urban Rural Report. The 2009/10 reports in both these series were due for release in early 2012 and spring 2012 respectively. These will now be postponed until the revised datasets are available to create the two reports.

## **Revision due to new tenure data from the Department of Communities and Local Government (CLG)**

DWP analysts use tenure data from the Department of Communities and Local Government (CLG) in constructing the grossing totals for the FRS and HBAI. CLG have published more up to date information and have revised previously published data. These have a small but noticeable effect on the headline results, and obviously a bigger effect on the tenure analyses. The size of the possible changes does not alter the results greatly (unrounded revisions to the headline poverty estimates of up to 0.25 of a percentage point, or 40,000 individuals for 2008/09 and up to 0.5 of a percentage point, or 80,000 individuals for 2009/10). Due to the size of the changes to tenure totals, we have taken the unusual decision to revise the grossing regime to use the best available tenure data for 2008/09 and 2009/10, which were the years affected. Previously we have only revised the grossing regime following a formal review of our grossing approach.

### **Effect on the Pensioners' Income Series' publication date**

The Pensioners' Income (PI) Series is derived from the HBAI dataset. Therefore the publication of the PI Series 2010/11, together with revised datasets for 2008/09 and 2009/10, will now be in July rather than May/June as previously stated on the publication hub.

## **Technical notes on publication for editors**

### **What is the Households Below Average Income report about?**

The Households Below Average Income (HBAI) statistical report uses household disposable incomes, adjusted for household size and composition, as a proxy for material living standards. It principally gives information on the income distribution of UK households in the United Kingdom / Great Britain from the financial years 1994/95 to 2009/10 using cross-sectional data from the Family Resources Survey and contains the latest estimates of the number of children, working age people and pensioners living in poverty. More information about the FRS, including the FRS reports, can be found on the DWP website at: <http://research.dwp.gov.uk/asd/frs/>.

### **Grossing**

Grossing refers to the process of applying factors to sample data so they yield estimates for the whole population. The system used to calculate grossing factors for the FRS divides the sample into different groups. The groups are designed to reflect differences in response rates among different types of households. They have also been chosen with the aims of DWP analyses in mind. The population estimates are based on control variables, with values derived from external data sources, including tenure statistics sourced from the Department of Communities and Local Government. The grossing factors ensure the FRS produces population estimates that are the same as the control variables.

### **Equivalisation**

In order to allow comparisons of living standards of different types of households, income is adjusted to take into account variations in the size and composition of the households in a process which is known as equivalisation. The HBAI assumes that all individuals in the household benefit equally from the combined incomes of everyone in the household. This enables the total

equivalised income of the household to be used as a proxy for the standard of living of each household member. The HBAI uses equivalisation scales developed by the Organisation of Economic Co-operation and Development (OECD).

### **Income components**

HBAI employs two complementary measures of net equivalised household income: Before Housing Costs (BHC) and After Housing Costs (AHC). Both measures are net of income tax payments, National Insurance contributions, Council Tax (Great Britain) or domestic rates (Northern Ireland), contributions to occupational pensions, personal pensions and stakeholder pensions, maintenance and child support, and parental contributions to students living away from home. The AHC measure is then subject to further deductions to deduct housing costs from income.

### **Relative and Absolute low-income measures**

The key findings refer to numbers and proportion of groups below 60 per cent contemporary median income threshold, which we describe as the **relative** poverty measure. The 60 per cent contemporary median income threshold is 60 per cent of the median income for each year's survey.

We also produce estimates of the number of households below 60 per cent of 1998/99 median income threshold, which is uprated for inflation to the latest survey year prices, which we describe as the **absolute** poverty measure.

### **HBAI reports are available at:**

<http://research.dwp.gov.uk/asd/index.php?page=hbai>