

Milestone 14: Reducing the proportion of working age people with low incomes

This milestone uses two measures – relative low income and absolute low income. Some information on persistent low income is included at the end of this section. Annex A contains further information on the statistics presented.

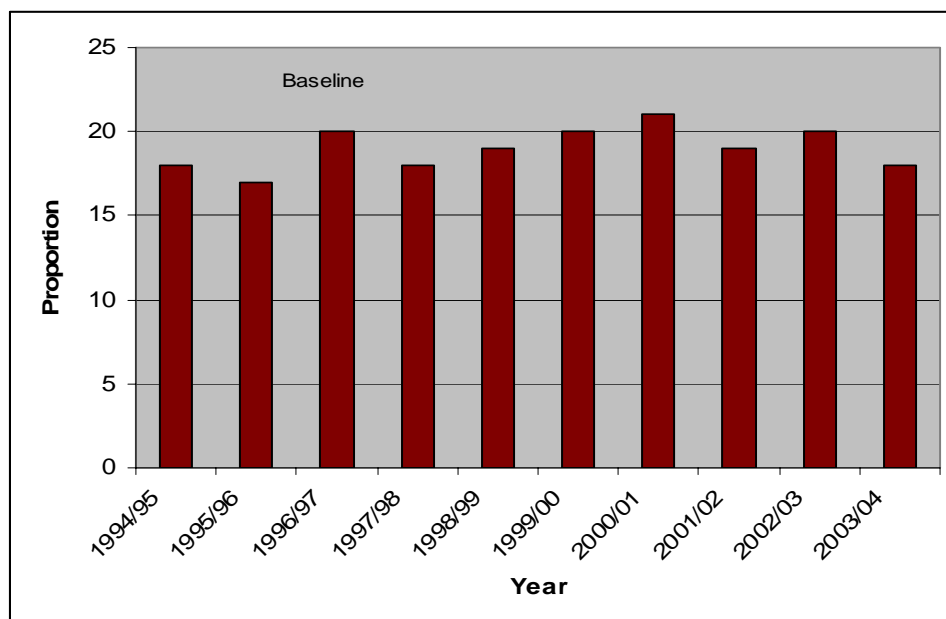
Relative and absolute low income can be measured using a number of different thresholds. The current accepted GB and European Standard for producing headline indicators of people in low-income households is households with income below 60% of the GB median net equivalised income. It is also important to consider additional indicators based on a range of thresholds of mean and median income to gain a fuller picture. A full range of indicators is shown in tables 14g to 14j. Figures include the self-employed and relate to both the After Housing Costs measure of income and Before Housing Costs measure of Income.

Relative low income compares income against the mean or median in the same year. Absolute low income compares income against the mean or median level in 1996/97 in real terms – uprated using the Retail Prices Index. Figures include the self-employed. Relative and absolute thresholds are discussed in more detail in Annex A “Measures of Low income Amongst Scottish Households”.

(a) Working age people in relatively low income households

Using the headline measure of working age people in households with income below 60% of the median GB household income after housing costs, there has been little change in the proportion of working age people in low income households; 20 per cent in 1996/97, 18 per cent in 2003/04. This reflects the fact that median incomes have risen substantially in this period. Looking across the board at the additional relative measures presented in Tables 14g and 14h, the proportions of working age people living in households below the given thresholds have remained fairly constant since 1996/97.

Chart 14a: Proportion of working age people living in relatively low income households, 1994/95 – 2003-04



Source: *Households Below Average Income: Department for Work and Pensions*

Note: Defined as working age people in households with income below 60% GB median after housing costs.

The 18 per cent of working age adults living in relative low income households in 2003/04 equates to an estimated 540,000 adults. Working age adults with children are more likely to live in low income households than those without children. This is particularly true for single parents. However, the proportion of working age adults with children living in relative low income has fallen since 1996/97, from 54% to 44% for single parents and from 21% to 14% for couples with children.

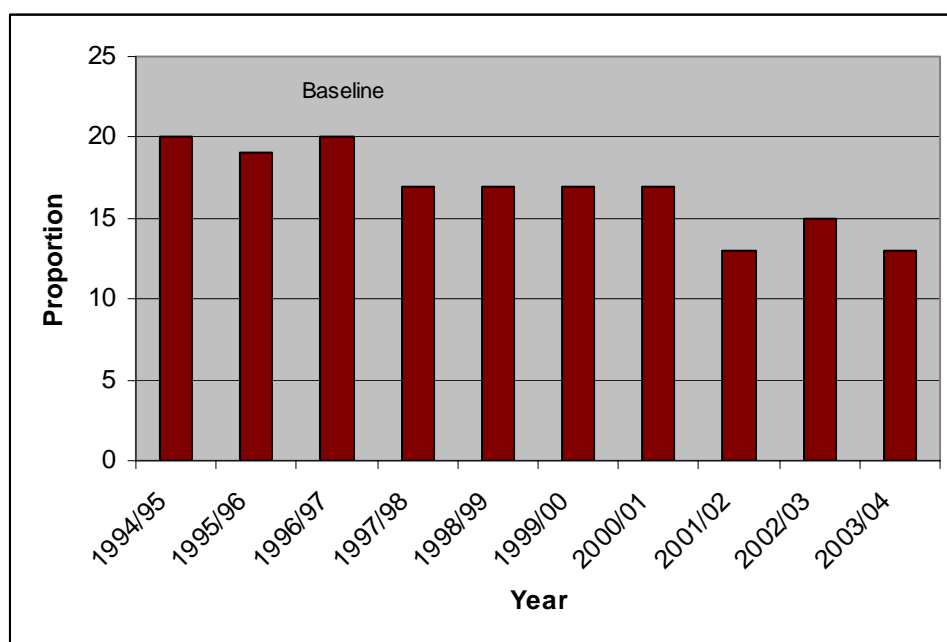
Further, of the 540,000 working age adults in relative low income poverty, around half were living in families where none of the adults were in work. Also, of all working age adults living in workless families, almost two thirds were living in low income poverty.

(b) Working age people in absolute low income households

Using the absolute headline measure of working age people in households with income below 60% of the median GB household income after housing costs, there has been a fall since 1996/97 from 20 per cent to 13 per cent.

All the measures of absolute low income households presented in Tables 14h and 14i show that the proportions of working age people living in absolute low income households have fallen since 1996/97.

Chart 14b: Proportion of working age people living in absolute low income households, 1994/95 – 2003-04



Source: *Households Below Average Income: Department for Work and Pensions*

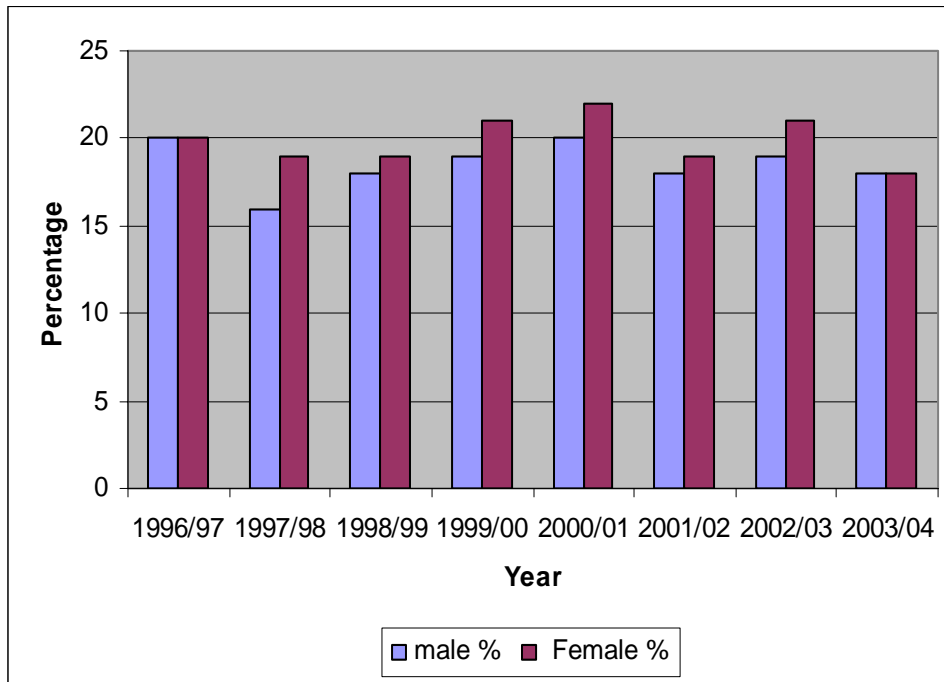
Note: Defined as working age people in households with income below 60% GB median after housing costs.

(c) Gender Analysis

Charts 14c and 14d show the proportion of working age people in income poverty by gender. The analysis for 2003/04 suggests that men and women are equally likely to live in low income households.

It should be noted that it is the income levels of the **household** and not the individual which classes an individual as living in income poverty. For example, in a household with 3 adults, either all 3 adults will be in income poverty or none of them will be. These results are therefore influenced by single adult households or households where all adults are of the same sex. The main purpose of charts 14c and 14d is to give an indication of the differences between men and women. They are not designed to accurately measure changes over time - the information is based on smaller sample sizes and this may well account for much of the year-on-year fluctuations in the figures.

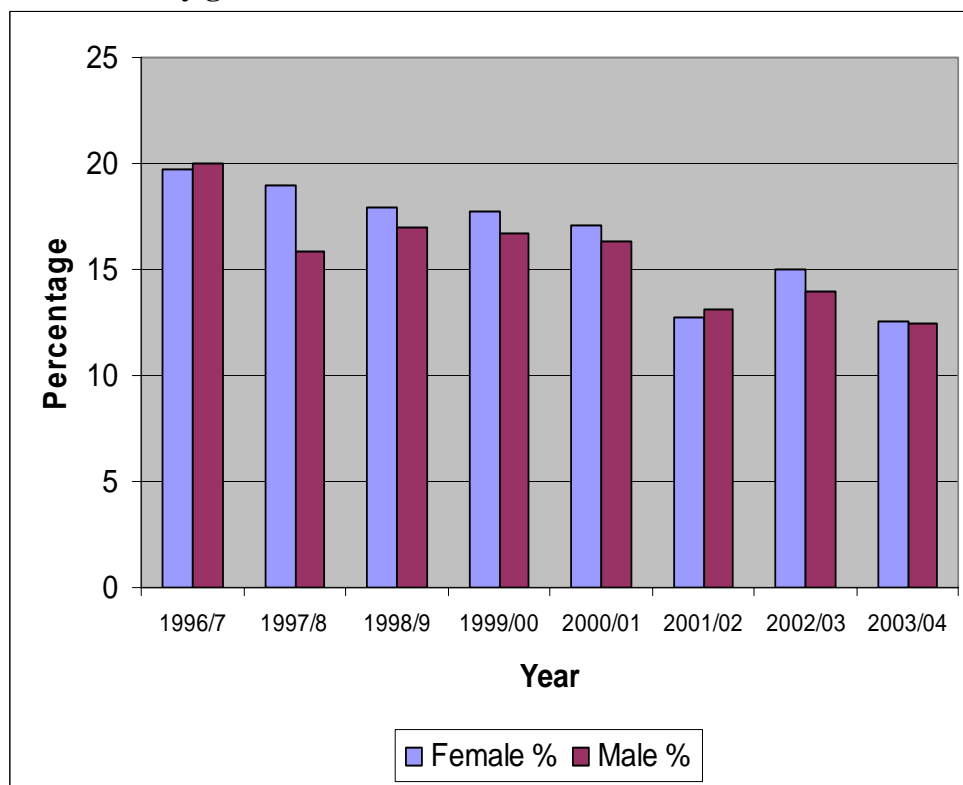
Chart 14c: Percentage of working age people living in relatively low income households, breakdown by gender, 1996/97 – 2003/04



Source: *Households Below Average Income: Department for Work and Pensions*

Note: Defined as working age people in households with income below 60% GB median after housing costs.

Chart 14d: Percentage of working age people living in absolute low income households, breakdown by gender 1996/97-2003/04



Source: *Households Below Average Income: Department for Work and Pensions*

Note: Defined as working age people in households with income below 60% GB median after housing costs.

(d) Persistent Low Income

Data on the proportion of persons **remaining** in poverty over a period of time has been obtained from the British Household Panel Survey (BHPS). This annual survey is longitudinal and therefore enables comparison to be made between a person's or household's income position at different points in time. Although the BHPS has been running since 1991, it was only in 1999 that the Scottish sample was boosted to enable more robust Scottish estimates to be produced.

Information published by the Department for Work and Pensions on persistent low incomes gives the proportion who have been in low income households in at least **3 of the previous 4 years**.

Tables 14e and 14f illustrates the situation for working age adults in households in Scotland which were interviewed in the four years 2000, 2001, 2002 and 2003 based on the **relative household income before and after housing costs** for that year. **Please note that, as this information comes from a separate source, the results are not directly comparable with those produced from the HBAI analysis in tables 14g to 14j.** The BHPS figures are included to provide an indication of movements in and out of income poverty.

The broad conclusions from this analysis are:

Working Age Adults in Low Income Households in 2000, 2001, 2002 and 2003 (Before Housing Costs)

- 67% of working aged adults were not living in low income at all in the last 4 years (2000-2003).
- 85% of working aged adults were not living in low income households in at least 3 of the last 4 years (2000-2003).
- 6% of working aged adults were in low income households in at least 3 of the last 4 years (2000-2003).

Table 14e: Working Age Adults in Low Income Households in 1999-2002 and 2000-2003 (Before Housing Costs)

		Percentage of Working Age Adults	
		1999-2002	2000-2003
Proportion of Working Age Adults	In low income households in at least 3 of the last 4 years	6*	6*
	Not in low income households in at least 3 of the last 4 years	88	85
	Not in Low Income at all in the last 4 years	68	67

Source: British Household Panel Survey

Working Age Adults in Low Income Households in 2000, 2001, 2002 and 2003 (After Housing Costs)

- 66% of working aged adults were not living in low income households at all in the last 4 years (2000-2003).
- 82% of working aged adults were not living in low income households in at least 3 of the last 4 years (2000-2003).
- There were 9% of working aged adults in low income households in at least 3 of the last 4 years (2000-2003).

Table 14f: Working Age Adults in Low Income Households in 1999-2002 and 2000-2003 (After Housing Costs)

		Percentage of Working Age Adults	
		1999-2002	2000-2003
Proportion of Working Age Adults	In low income households in at least 3 of the last 4 years	7*	9*
	Not in low income households in at least 3 of the last 4 years	83	82
	Not in Low Income at all in the last 4 years	67	66

Source: British Household Panel Survey

*Based on small sample sizes

Background data

Table 14g: Proportion and number of working age people living in households below 50% and 60% of the mean income thresholds in Scotland over the period 1994/95 to 2003/04 relative to the relevant year's GB mean income (Relative measure)

Year	Below 50 % of the mean				Below 60 % of the mean			
	Before housing costs		After housing costs		Before housing costs		After housing costs	
	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)
1994/95	16	500	18	550	24	720	25	750
1995/96	14	430	18	540	23	700	25	760
1996/97	16	470	20	610	24	720	26	780
1997/98	16	470	18	550	24	720	25	760
1998/99	16	500	20	600	25	760	27	820
1999/00	17	530	21	630	27	810	28	850
2000/01	18	560	22	670	27	820	30	910
2001/02	17	510	19	590	26	770	27	810
2002/03	18	550	21	630	26	790	28	850
2003/04	16	480	18	550	23	680	25	750

Source: Households Below Average Income : Department for Work and Pensions

Note: * - Revised (see Data Availability and References section below)

Table 14h: Proportion and number of working age people living in households below 50%, 60% and 70% of the median income thresholds in Scotland over the period 1994/95 to 2003/04 relative to the relevant year's GB median income (Relative measure)

Year	Below 50 % of the median				Below 60 % of the median				Below 70 % of the median			
	Before housing costs		After housing costs		Before housing costs		After housing costs		Before housing costs		After housing costs	
	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)
1994/95	9	290	12	370	16	490	18	540	22	670	23	700
1995/96	7	200	10	310	14	430	17	530	21	650	23	690
1996/97	8	250	13	390	16	470	20	600	23	700	25	750
1997/98	8	250	12	370	15	460	18	530	22	660	23	700
1998/99	9	270	14	420	15	460	19	560	23	690	24	710
1999/00	8	260	13	390	16	480	20	590	24	740	26	770
2000/01	10	300	15	440	17	510	21	630	24	720	27	810
2001/02	9	260	13	390	15	460	19	560	23	680	25	750
2002/03	11	330	15	460	17	520	20	610	24	720	26	780
2003/04	9	280	14	410	15	470	18	540	20	620	23	700

Source: Households Below Average Income: Department for Work and Pensions

Note: * - Revised (see Data Availability and References section below)

Table 14i: Proportion and number of working age people living in households below 50% and 60% of the mean income thresholds in Scotland over the period 1994/95 to 2003/04 relative to the 1996/97 GB mean incomes in real terms (Absolute measure)

Year	Below 50 % of the mean				Below 60 % of the mean			
	Before housing costs		After housing costs		Before housing costs		After housing costs	
	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)
1994/95	18	540	20	620	25	770	26	800
1995/96	16	480	19	570	25	760	27	830
1996/97	16	470	20	610	24	720	26	780
1997/98	15	440	17	530	22	680	24	720
1998/99	14	420	18	530	23	690	23	710
1999/00	13	400	17	530	22	670	24	720
2000/01	14	420	17	510	21	630	24	710
2001/02	10	310	13	390	18	550	19	580
2002/03	12	360	15	440	18	560	20	600
2003/04	10	300	13	380	16	490	17	530

Source: Households Below Average Income : Department for Work and Pensions

Note: * - Revised (see Data Availability and References section below)

Table 14j: Proportion and number of working age people living in households below 50%, 60% and 70% of the median income thresholds in Scotland over the period 1994/95 to 2003/04 relative to the 1996/97 GB median incomes in real terms (Absolute measure)

Year	Below 50 % of the median				Below 60 % of the median				Below 70 % of the median			
	Before housing costs		After housing costs		Before housing costs		After housing costs		Before housing costs		After housing costs	
	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)	%	No. ('000s)
1994/95	10	320	14	410	18	540	20	620	24	730	25	760
1995/96	8	250	12	380	16	480	19	570	24	720	26	780
1996/97	8	250	13	390	16	470	20	600	23	700	25	750
1997/98	8	240	12	350	15	440	17	530	21	650	23	690
1998/99	8	240	13	380	14	420	17	530	21	630	23	690
1999/00	7	210	11	330	13	390	17	520	21	630	23	690
2000/01	8	240	11	340	14	420	17	500	19	580	22	670
2001/02	6	170	8	250	10	300	13	390	16	490	18	540
2002/03	7	220	9	290	12	360	15	440	17	520	19	560
2003/04	5	170	8	240	10	300	13	380	15	460	17	510

Source: Households Below Average Income: Department for Work and Pensions

Note: * - Revised (see Data Availability and References section below)

Availability of data and references

Data are obtained from the Households Below Average Income (HBAI) analysis. This analysis is based on the Family Resources Survey, run by the Department for Work and Pensions (DWP). Through Scottish Executive funding, the size of the Scottish sample has been doubled from survey year 2002/03, a measure which will help to reduce the level of sampling variation in the data.

Information is available at Scotland level and can be split by gender. Owing to the current sample size further information on working age people with low incomes cannot be made available at sub-Scotland level, or by age or by ethnicity.

The HBAI analysis uses equivalisation factors to take account of variations in the size and composition of the households in which individuals live. As the equivalisation scale used in HBAI does not take account of the additional costs associated with having a disabled person in the household, any breakdown by disability could be misleading.

As part of an ongoing programme to improve data quality, there has been a further revision to this data series using the full results from the 2001 Census.

The Household Below Average Income data is grossed up to produce estimates for the overall population. The Department for Work and Pensions announced the final grossing regime in February 2005, following the recent review. This new grossing regime improves accuracy of regional-level counts drawn from the FRS. The HBAI figures for 2003/04 use the new grossing regime, and the full HBAI series from 1994/95 have been revised in line with the new grossing regime. Further information about the new grossing regime is available at the DWP website <http://www.dwp.gov.uk/asd/frs/> .

For a detailed description of the methodology used to calculate these figures please refer to:

Department for Work and Pensions: Households Below Average Income
<http://www.dwp.gov.uk/asd/hbai.asp>

Households Below Average Income (HBAI) analysis 2003/04- figures for Scotland using the range of low income thresholds, 1994/95-2003/04
<http://www.scotland.gov.uk/Publications/2005/03/29170611/06123>

Low Income Dynamics 1991 to 2003
<http://www.dwp.gov.uk/asd/hbai.asp>

Annex A

1. *Measures of Low Income amongst Scottish households*

Introduction

Poverty is a complex issue, and as such there is no single way to measure it. The Social Justice strategy contains 29 milestones, which cover a range of issues related to poverty and social exclusion in Scotland. These include worklessness, low income, educational attainment, health and care, and housing. The Executive's view is that poverty encompasses not only poverty of income, but poverty of opportunity.

However, commentators regularly focus their attention on low income and, therefore, this annex aims to explain the issues around the measurement of low income, and provide advice on their interpretation. The measurement of low income is not straightforward and interpretation of the results should be carried out with care.

Measurement of Low Income

Income data come from the Family Resources Survey, an annual survey run by the Department for Work and Pensions (DWP). The measure of income used in DWP's Households Below Average Income (HBAI) analysis, and this report, is weekly net (disposable) household income, and includes the income of all members of the household, including dependants. Two measures of household income are used, before housing costs (BHC) and after housing costs (AHC)¹.

Household income is used to represent **material living standards**, or, more precisely, the level of consumption of goods and services that people could afford with the disposable income of the household in which they live. Household income is used rather than individual income because the living standards of an individual depend not only on their own income but also on the incomes of other members of the household. For example, a non-working person living with a high earning partner may have a very low individual income but a high standard of living.

To allow a fair comparison between households, incomes are adjusted to take account of household size and composition. The adjustments are made using a technique known as **equivalisation** which reflects the common-sense notion that, in order to enjoy a comparable standard of living, a family of five will need a higher income than a person living alone.

Low income is defined in terms of thresholds of mean² or median³ income. Any household with an income below a given threshold is classed as a low income household. Five thresholds are included in this report — 50% and 60% of mean income, and 50%, 60% and 70% of median income.

The most appropriate choice of threshold was debated by the Statistical Program Committee (SPC) of the European Union in 1998. They concluded that for international comparisons of low income the 60% median threshold should be used as a headline indicator, but recommended that analysis be carried out on a wide range of thresholds to provide a fuller picture. The Scottish Executive, along with the UK Government have adopted this recommendation; there are a total of 20 measures of low income for each of the three relevant

milestones based on the criteria discussed above, with the 60% median (AHC) threshold highlighted as the headline measure.

Low income thresholds are defined in both relative and absolute terms. The relative measure compares household income against the low income threshold for that year, whilst the absolute measure compares incomes against the threshold in a fixed year (in this case 1996/97 is used as this represents the position when the present UK Government came into power) after adjusting for inflation.

Issues around Relative and Absolute Measures

The **relative** measure compares household income against the threshold for that year, and is therefore an indicator of how the living standards of poor families compare against society as a whole at that time. It is a measure of inequality and tracks whether the incomes of poorer families are keeping pace.

Poverty is generally felt to be a relative concept and based on the ability to participate in society. The current affluence of the society in which you live is therefore relevant, as expectations rise over time. For example, being unable to afford a television would not have classed you as poor 50 years ago, but would do so today.

There are problems in using relative measures in isolation as they can be misleading if they are not interpreted in the context of other economic indicators. In times of economic growth, relative measures can mask real improvements in living standards. This has been the case in recent years in Ireland, where rapid economic growth led to considerable increases in incomes but rising levels of relative income poverty despite real improvements in living standards of the poorest in society.

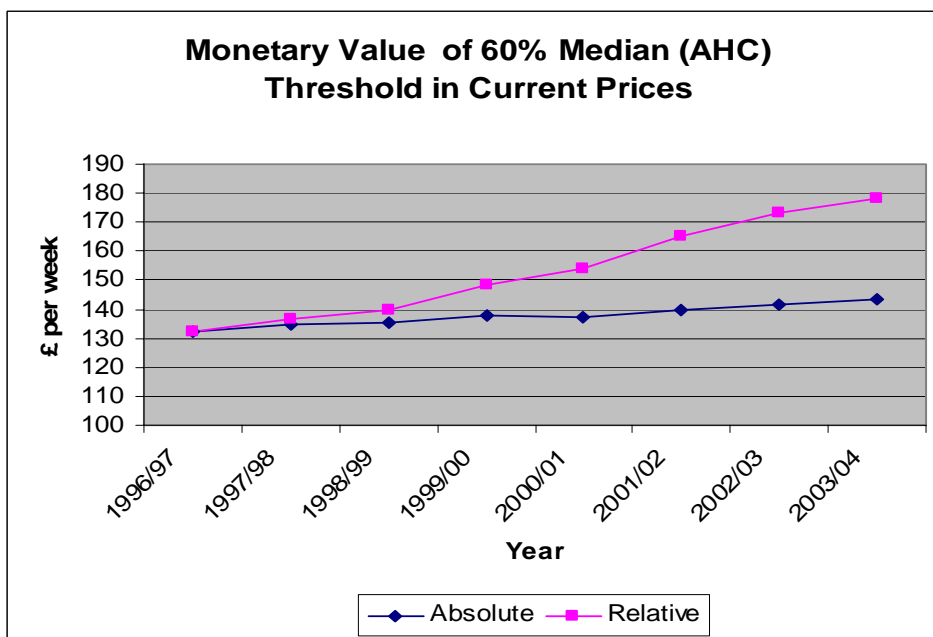
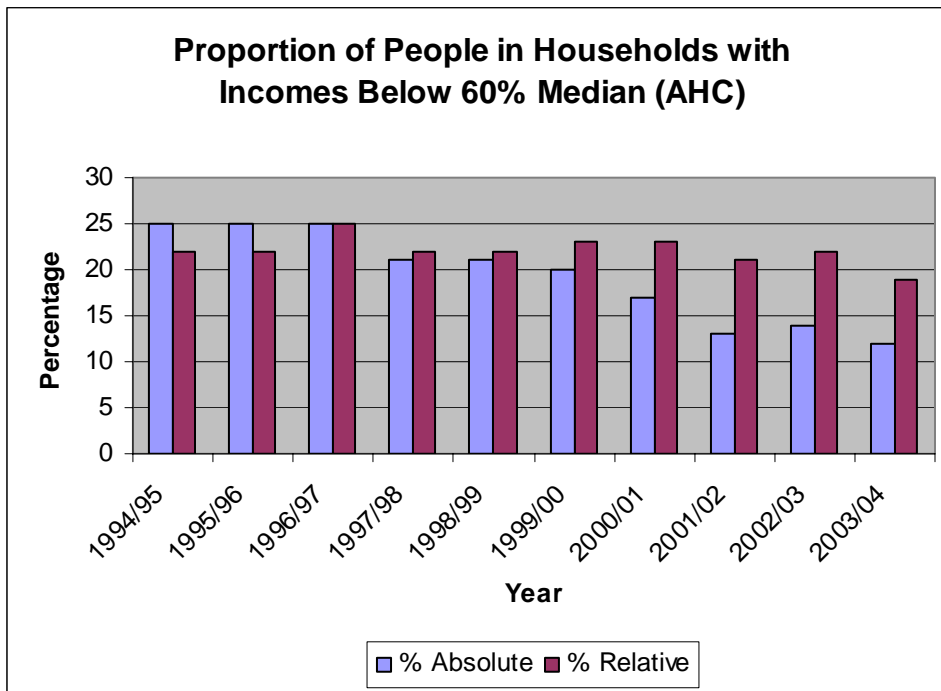
In the same way, when economies are performing poorly, indicators of relative low income can show a reduction, falsely indicating an improvement in the situation of poor families. This was the case in several post-Soviet economies where overall living standards had collapsed but relative measures showed no increase in 'poverty' despite large numbers living at levels well below what would generally be considered as poverty.

Absolute measures of low income go some way to solving this problem. By comparing incomes against a fixed threshold (adjusted to remove the effects of inflation), absolute measures provide a clear indicator of the changes in living standards of the poorest. The effects of economic growth are removed from the equation to allow a clear picture of how the incomes of the poorest families have changed over time.

However, the downside is that absolute measures have a fixed shelf-life. As society's expectations change over time, absolute thresholds become less relevant. They may indicate that poor families are benefiting from increased living standards, but do not measure whether they are keeping up with, or indeed closing the gap with more affluent families.

The following charts illustrate these issues using recent figures for Scotland. The first chart shows that despite small year-on-year fluctuations, there has been a slight decrease in the proportion of people experiencing relative low income since 1996/97. However, there is a notable decrease in the proportion of people experiencing absolute low income over the same period. The second chart clearly shows the reason for this pattern. The absolute low income

threshold has remained fairly stable over time, with the slight increase representing inflation. However, the value of the relative threshold has increased substantially — by 26% (or £46 per week) after removing the effects of inflation.



This suggests that the poorest families have experienced real increases in their living standards since 1996/97 but strong income growth across society has pulled up the relative threshold, creating a moving target and leading to no clear improvement in relative low income.

These figures provide support for the EU SPC's conclusion that a range of indicators should be examined. Focusing solely on the relative or the absolute measure only shows part of the

picture and can be misleading.

Other issues

Housing Costs

In addition to considering both relative and absolute measures, the issue of housing costs is also important in the analysis of low income. Housing costs are important as they are a necessary expenditure which households cannot choose to do without. Bearing in mind that income is used to represent standard of living, using income **before housing costs** (BHC) can overstate the living standards of those whose housing costs are high relative to the quality of their accommodation.

For example, housing costs in Edinburgh are generally higher than in some other parts of Scotland. Using a BHC measure of low income will artificially inflate the living standards of people in Edinburgh as they need to spend a larger proportion of their income to attain a similar standard of accommodation as those living in areas where housing is cheaper.

BHC measures can also be problematic when measuring low income amongst pensioners. Many owner-occupiers will have paid off their mortgages at this age and will therefore have very small housing costs; by contrast, the poorest pensioners often rent their homes and receive housing benefit, which is included in BHC income. The BHC measure may therefore overstate the living standards of the poorest pensioners.

Using a measure of income **after housing costs** (AHC) helps to address these problems to some extent. However, the AHC measure doesn't allow for the fact that some people choose to pay more for a higher standard of accommodation and as a result, benefit from a better quality of life. In these circumstances, the AHC measure will understate their standard of living.

Some situations support the use of a BHC measure whereas others suggest the use of an AHC measure. There is no clear rule as to which is more universally appropriate, and therefore the low income analysis presented in this report is carried out on two bases, before and after housing costs.

Equivalence Scales

Equivalisation is the process whereby household income is adjusted to take account of the size and composition of the household. Each household is assigned an **equivalisation factor** based on the household size and composition. Equivalised income is then calculated by dividing cash income by the equivalisation factor, which has the effect of increasing the incomes of single person households and reducing the incomes of larger households.

A number of equivalence scales exist, with differing factors applied to each individual in the household. Generally, a higher weight is applied to older children than younger children as they are considered to incur greater expenditure in the household, but the degree of this additional weight differs across scales. Some scales introduce an additional weight for disabled household members to reflect the increased financial needs associated with disability.

The construction of an equivalence scale is, to some extent, subjective and it is generally accepted that no single scale is perfect. The HBAI analysis is carried out using the McClements scale, but results are sensitivity tested by replicating key estimates using a range of alternative equivalisation scales. Any estimates which are particularly sensitive to the choice of equivalisation scale are highlighted in the publication.

The low income milestones in this report are also calculated using the McClements scale to maintain comparability with GB results. The McClements scale does not include an element for disability and therefore the results potentially overstate the living standards of households which contain disabled people. The low income milestones in this report have not been broken down by disability for this reason.

Choice of Threshold

Figures are shown on a range of different thresholds of mean and median income to provide a fuller picture of changes in the extent of low income over time. Due to the benefits and tax credits systems large groups of households will have very similar incomes. It clearly has a major effect on the low income figures if a 'cluster' of households is very close to one of the low income thresholds.

For example, if there is a cluster of households with incomes around the 60% median threshold, a slight change in the value of the threshold would have a major effect on the proportion of people below 60% median. If considered in isolation, one might draw the conclusion that this represented a great success or failure in reducing the level of income poverty. In reality, these households will not have noticed any significant change in their circumstances.

The range of income thresholds provides additional information on which to establish trends. If trends across the range of thresholds are moving in the same direction, this gives more weight to any overall conclusions of improvement or decline. If the trends differ across the indicators, it may suggest that policies are impacting on specific groups of people rather than having a more general impact.

Households reporting the lowest incomes may not have the lowest living standards. The bottom ten percent of the income distribution should not, therefore, be interpreted as having the bottom ten percent of living standards. This is a particular issue for lower thresholds of mean and median income. Results for 50% of median income should therefore be treated with caution.

Persistent Low Income

The current measures of low income are based on the situation at one point in time. They cannot distinguish between families who are experiencing short-term low income due to a temporary loss of employment but who may have high levels of savings, and those who have experienced low income persistently for a number of years.

Annual analysis of the British Household Panel Survey (BHPS) is carried out to assess the extent of persistent low income in the UK and is published in DWP's Opportunity for All Report. Households are defined as experiencing persistent low income if they were below the low income threshold in three out of the last four years.

Since 1999 the BHPS has been boosted for Scotland and Wales and data are now available for 5 years (1999, 2000, 2001, 2002 and 2003) based on the larger sample.

This analysis of persistent low income complements the single year measures by providing further insight into the extent and severity of low income in Scotland. This measure is an important tool in developing policies to combat poverty.

Sampling Variation

With any analysis carried out on survey data, there is always an issue of sampling variation⁵. Any estimates produced from a sample survey come with advice about the degree of sampling variation surrounding them. The extent of sampling variation associated with an estimate depends on many factors, but a general rule is that the smaller the sample used to generate an estimate, the larger the sampling variation associated with that estimate.

This is particularly important for Scotland. As the estimates are based on a sample size of roughly ten per cent of the GB sample, the Scottish estimates have a greater degree of uncertainty than the GB estimates. Small year-on-year changes in indicators should not be judged to be significant as there will be some degree of sampling variation. Several years of data are required to establish the existence of a trend in any indicator.

The Scottish Executive has funded a doubling of the Scottish sample of the Family Resources Survey from 2002-03 to improve the reliability of the Scottish low income estimates. This will result in more robust estimates with smaller sampling errors, but the fact that the figures are derived from a sample survey means that a degree of sample variation will remain in any estimates.

Improvements in Data Quality

Due to an improvement in the DWP methodology for deriving working-age adult and pensioner results, some of the figures published differ slightly from those published previously. These differences are, however, very small and do not alter any of the general trends. Details of the how the methodology has been improved are described in the text accompanying the data on Milestones 14 and 19.

As part of an ongoing programme to improve data quality, there has been a further revision to the data series now that full results of the 2001 Census are available. This, as a consequence will improve measurement rather than change the trend.

From 2003/04 a new grossing regime has been put in place. The new factors yields Family Resource Survey (FRS)- based estimates for all countries and regions in Great Britain that are consistent with official population estimates, and gives a better match to ONS counts of people in different age groups and regions, which the previous regime did not achieve.

Summary

It is essential when developing an understanding of low income that a range of indicators is considered. It can be misleading if focus is restricted to one single indicator without considering it alongside alternative measures of low income and external factors such as the prevailing economic circumstances.

The entire range of thresholds of mean and median income should be examined to identify changes in the household income distribution, whether the changes are focused on certain parts of the distribution, or whether the changes are being experienced by households in general.

The issue of housing costs should be addressed and the most appropriate measure for the group of interest should be considered, although in some cases both measures should be examined.

Indicators based on both relative and absolute definitions of low income must be analysed together to provide a full understanding of trends. The relative indicator provides a measure of inequality by comparing income against the current year, whereas the absolute indicator allows the measurement of progress against a fixed baseline and removes the effects of factors such as the performance of the economy.

The Department for Work and Pensions has carried out a consultation exercise recently on the measurement of child poverty to identify the best approach for monitoring progress. On the basis of the responses DWP are introducing a new measurement of child poverty for 2004/05 which will first be reported on in Spring 2006.

The Social Justice strategy measures 29 different milestones covering all aspects of poverty and social exclusion. Within each of the three milestones concentrating on low income, a range of twenty indicators is covered. **All** of this information must be considered to provide an accurate interpretation of progress against targets.

Definition of Net Household Income

It includes the following main components:

Usual net earnings from employment;
Profit or loss from self-employment (losses are treated as a negative income);
All Social Security benefits (including Housing Benefit, Social Fund, maternity, funeral and community care grants but excluding Social Fund loans) and Tax Credits;
Income from occupational and private pensions;
Investment income;
Maintenance payments, if a person receives it directly;
Income from educational grants and scholarships (including, for students, top up loans and parental contributions);
Income from income-replacement insurance (such as critical illness cover);
The cash value of certain forms of income in kind (free school meals, free welfare milk and free school milk).

It is net of the following items:

Income tax payments;
National Insurance contributions;
Council tax;
Contributions to occupational pension schemes (including all additional voluntary contributions (AVCs) to occupational pension schemes, and any contributions to personal pensions);

All maintenance and child support payments, which are deducted from the income of the person making the payment;
Parental contributions to students living away from home;
Student loan repayments;
Income replacement insurance premiums (e.g. critical illness cover).

The after housing costs measure (AHC) is derived by deducting a measure of housing costs from the above income measure. These include the following:

Rent (gross of Housing Benefit)
Water rates, community water charges and council water charges;
Mortgage interest payments (net of tax relief);
Structural insurance premiums (for owner occupiers);
Ground rent and service charges.

References:

Households Below Average Income 1994/5 — 2003/04, 2005, Information Directorate, Department for Work and Pensions.

Indicators of Progress, A discussion of approaches to monitor the Government's strategy to tackle poverty and social exclusion, Report of the workshop held on 19 July 2000 organised by DSS and CASE, LSE

Measuring Child Poverty, Department for Work and Pensions:

<http://www.dwp.gov.uk/consultations/consult/2003/childpov/final.asp>

2. Footnotes

1. A full list of the components of income can be found in the box at the end of this article.
2. The mean is a measure of average calculated by summing together the incomes of all people and dividing by the total number of people measured. The value of the mean can be distorted by a small number of people on very high incomes.
3. The median is a measure of average calculated by ranking all people in order according to their income and taking the income of the middle person. It is the preferred measure of average when considering income as it is not subject to the same distortions as the mean.
4. Couple households are generally taken as the reference point, with an equivalence value of one. Single person households receive a factor of less than one, although generally greater than 0.5, based on the assumption that sharing allows individuals to attain a higher standard of living than they would if living independently with the same cash income. Households with three or more persons receive a factor greater than one.
5. Any estimate derived from a sample survey is intended to represent the population as a whole. For example, the mean income calculated from the sample is used to represent the mean income of the population. Sampling variation is the extent to which the sample estimate is likely to differ from the true population mean.