



Households Below Average Income in Scotland 2005-06

This fact-sheet provides information on the up-to-date official statistics published by the Department for Work and Pensions (DWP) from the Households Below Average Income (HBAI) dataset. It provides details on the estimates for individuals, children, adults of working age and pensioners living on low income in Scotland and seeks to clarify some of the definitions used and minor changes to the methodology introduced this year. It also looks at material deprivation and household debt and provides some background to the work being undertaken by the Scottish Executive to address the issue of low income.

Q. What are Households Below Average Income (HBAI) data?

A. The DWP HBAI dataset is published annually and is used to provide the official snapshot low income estimates for individuals, children, adults of working age and pensioners in the United Kingdom. HBAI data currently form the source of the official child poverty statistics.

Q. What does HBAI measure?

A. HBAI uses household disposable incomes, adjusted for household size and composition, as a proxy for material living standards. i.e., the level of goods or services a household can attain through the income it has.

Q. What is the Measure of Low Income?

A. Individuals are defined as living in low income if their adjusted net disposable household income is **below 60%** of the median. We publish low income estimates on a '**before housing costs**' (BHC) and '**after housing costs**' (AHC) basis.

Q. Why use household income?

We use household income rather than individual income as the living standard of an individual may depend on the income of other members of the household.

For example, a non-working person may live with a high earning partner; so both will have a high

standard of living. This assumes that all individuals in the household benefit equally from the combined income of the household. The figures are estimates based on a sample survey and are therefore subject to sampling variation.

Q. What do you mean by "median"?

A. The **median** is the income value which divides a population, ranked by income, into two equal sized groups. This measure is most commonly used because the mean (average) can be skewed by very high income households.

Q. What is the difference between relative and absolute low income?

A. We use two headline measures – **relative and absolute** low income - to define and measure those living in low income over time.

In essence, the **absolute** measures whether individuals in the lowest income households are seeing their incomes rise in real terms. The **relative** measures whether those in the lowest incomes are keeping up with the growth of the economy as a whole.

Absolute low income: individuals living in households whose equivalized income is below 60% of inflation adjusted median income in 1998/99.

Relative low income: individuals living in households whose equivalized income is below 60% of median income in the same year.

Low Income Households in Scotland 2005-06

What's changed since last year?

- This year sees the introduction of some minor changes to the methodology used for calculating the statistics.
- The equivalized scales used to adjust household income by household size and composition as a proxy for living standards will change from the McClements scale to the OECD scale which will bring the methodology in line with Europe and also will bring it in line with the new child poverty measure methodology which was published last year (2004/05 figures).

This will result in a slight increase in the number of children and pensioners in particular defined to be in low income. The overall trend is largely unaffected.

- The baseline year against which we measure both absolute and relative low income is moving from 1996/97 to 1998/99.
- The median income measure changes from GB to UK from 2002/03 (to include Northern Ireland). However, for the low income analysis, the DWP will back cast the results so we will have a UK trend instead of a GB trend.

All figures based on new methodology (modified OECD equivalization and 1998/99 baseline year).

What is the Executive doing to reduce the proportion of low income households?

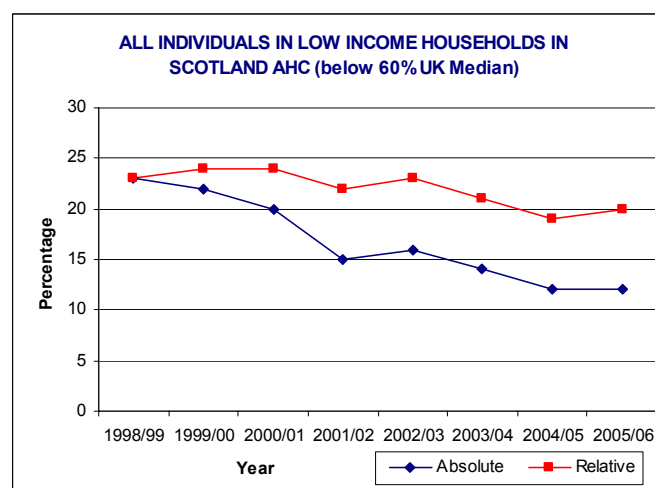
The Scottish Executive is fully aware of the problems being faced by many Scottish households as a result of them living on a low income. This for many people is the definition of poverty, but poverty is only partly about low income; it also encompasses a lack of opportunity, barriers to participating in social and economic life, and lack of access to appropriate and affordable public services.

For families living on low income the effects can be far reaching; from affecting children's education to creating barriers to employability, and from not being able to properly heat homes to impacting negatively upon health and well-being.

Working in co-operation with the UK Government and with partners across Scotland, the Executive has already done much to reduce the numbers of those living in low income, and in helping people to maximize their income.

The HBAI data shows that what we have achieved since 1998/99 has been significant. It is recognized, however, that there is still much more that we can do.

Closing the Opportunity Gap



The Executive's "Closing the Opportunity Gap" (CtOG) approach therefore looks to tackle the worst effects of low income through a series of measures which it can directly influence, using its own resources and efforts to bring about long-lasting changes to people's lives.

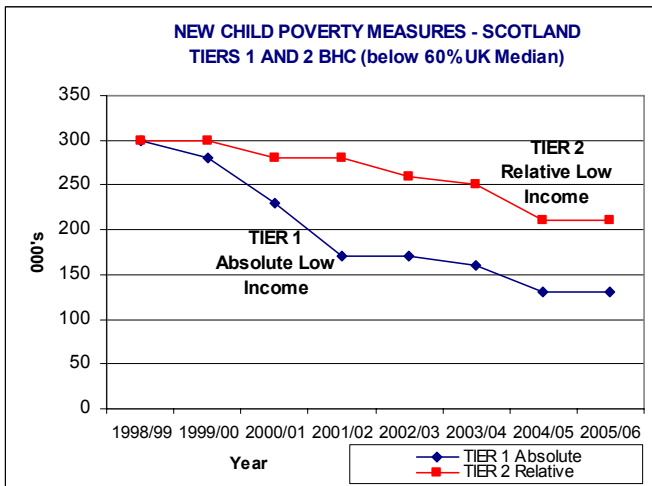
The overall aims of CtOG are:

- to **prevent** individuals or families falling into poverty;
- to provide **routes out** of poverty for individuals and families;
- and to **sustain** individuals and families in a lifestyle free from poverty.

Through a series of six high level objectives and 10 detailed targets the Executive is focusing the efforts of all its Departments and Agencies to help people overcome the various barriers they face to lifting themselves out of poverty, maximising their potential in life, and, where possible, to accessing opportunities to enter into and sustain themselves in the labour market.

The CtOG targets are aimed at reducing the inequalities which still exist in our society - at tackling poverty and deprivation, addressing health inequalities, improving access to high quality services for all, and assisting community regeneration in our most disadvantaged neighbourhoods – both urban and rural.

Children & Young People



- The proportion of children in absolute low income (tier 1) is down from 28% (300,000) in 1998/99 to 12% (130,000) in 2005/06. This is a decrease of 57%.
- The proportion of children in relative low income (tier 2) is down from 28% (300,000) in 1998/99 to 21% (210,000) in 2005/06. This is a decrease of 30%.

The Executive is committed to securing the best possible start in life for our children and improving outcomes for all children and young people.

Ministers are driving forward an agenda which aims to reinforce partnership working among children's services professionals via 5 priority workstreams - a shared vision for children and young people; improving delivery ensuring effective arrangements for funding, planning and joint working; developing a coherent system for assessment and information; establishing joint inspection and quality assurance systems; and improving understanding of the children's workforce to ensure it has the necessary skills, qualifications, capacity and leadership.

There are a number of related strands of activity being taken forward to deliver these priorities:

- *Getting it Right for Every Child* aims to strengthen the focus of children's services provision to ensure the needs of the child are placed at the centre, through a single shared assessment to identify needs and a single record and action plan for each child based on that assessment.
- The roll-out of joint inspections of children's services in 2008 will enable regulatory bodies to assess how well local authorities and their

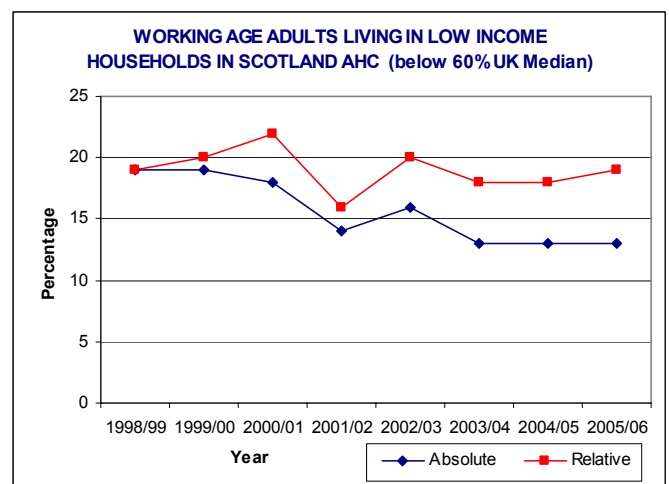
partners are delivering integrated services as set out in their Children's Services Plans.

- The report of the 21st Century Social Work Review, *Changing Lives*, made a number of recommendations for making improvements to all areas of social work. These are being implemented via 5 Change Programmes - Performance Improvement, Leadership and Management, Practice Governance, Service Development and Workforce Development.

Good quality early education and childcare services are also vital in helping children to develop and grow, whilst improving their educational attainment and skills levels is vital for moving them into and sustaining employment, training or education. By targeting more specialized support (for example through the Sure Start Scotland programme) we are helping to meet particular needs, especially for the most vulnerable or disadvantaged children and families, in services such as childcare, health and pre-school provision.

In terms of the UK Government's target to eradicate **Child Poverty** by 2020, the Scottish Executive has already more than achieved its quarter-term objective of reducing child poverty by 25% - between 1997 and 2005 the proportion of children in Scotland living in poverty has fallen by over one-third.

Adults of Working Age



- Under the new methodology, 20,000 more working age adults now live in relative poverty compared to 1998-99, although the percentage has remained the same at 19%.
- 170,000 working age adults have been lifted from absolute poverty since 1998-99 (after housing costs), reducing absolute working age poverty from 19% to 13% – a reduction of 30%.

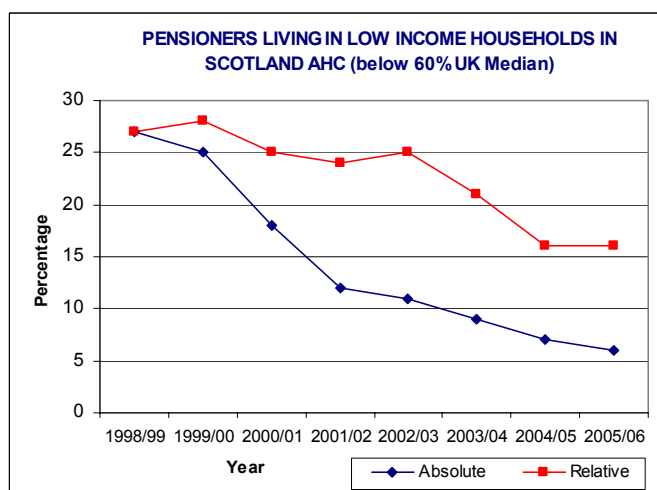
The Executive believes that for many people employment provides the best route out of poverty. However, there is a need to improve the employment prospects of some people, helping bring them closer to the labour market, as well as to enter and remain in, employment. This is an under-pinning theme to the CtOG approach

The Executive also wants to reduce the number of people who are dependent upon benefits for their income. That is why it has worked alongside other agencies and providers to implement the Pathways to Work pilot that helps people who can work to move from Incapacity Benefit back into employment.

The Executive's Employability Framework, published in 2006, provides an opportunity to look at what measures and interventions are already in place, and to identify with partners the changes we need to make to support an individual's employability.

Scotland though currently enjoys a record high employment rate (76.2% in the period Nov' 2006 to Jan' 2007). This is above the rate of the UK and amongst the highest in the EU. This is complemented by the lowest claimant rate for a generation (3.1% as at Feb' 2007).

Older People



- 80,000 pensioners have been lifted from relative poverty since 1998-99 (after housing costs), reducing relative pensioner poverty from 27% to 16% – a reduction of 35%.
- 170,000 pensioners have been lifted from absolute poverty since 1998-99 (after housing costs), reducing absolute pensioner poverty from 27% to 6% – a reduction of 74%.

Helping older people in society to live with dignity, security and independence is important

to the Executive. Along with measures introduced by the UK Government to help maximize pensioner's incomes, the Executive has also introduced free personal care for the elderly and free national bus travel.

Health & Well-being

Too many Scots are dying too young because of ill health and poor well-being. The prevalence of Cancer, Coronary Heart Disease and Stroke remains higher here than in most other Western countries. Moreover, much of Scotland's ill-health has preventable causes.

Ill health and poor well-being is concentrated in our most disadvantaged communities, depriving many Scots of the opportunities and life chances afforded to the more affluent in society. Poor health is both a cause and a consequence of living in low income and the Executive is determined to tackle health inequalities and to improve the health of the nation as a whole.

Its *Keep well* approach is identifying innovative and effective means of reaching and engaging with those in deprived communities, particularly 'hard to reach' populations. The programme is currently underway in five Community Health Partnerships with high levels of deprivation and a further seven are expected to come on stream in Autumn 2007.

People who may be at risk of heart disease are invited to attend a health check, looking at factors such as blood pressure, diabetes and cholesterol, as well as lifestyle issues. Treatment and services as well as regular monitoring and follow-up are offered as appropriate. The programme will be nationally evaluated and the lessons learned will impact on future primary care services across Scotland.

MATERIAL DEPRIVATION

In 2003, the DWP completed a consultation exercise to bring together current research into what it means to be 'in poverty' and how to measure it in order to set a long term child poverty target. As a result of this consultation some new questions were added to the Family Resources Survey that were designed to measure material deprivation.

These questions will eventually form part of the new child poverty measure. However the exact methodology for this has yet to be published by the DWP/HM Treasury and it has not been

included in the Scottish HBAI 2005/06 Statistical Publication Notice.

This year for the first time the Executive has provided some general analysis based on the responses to the Material Deprivation questions for the whole income distribution and also for household debt.

The general material deprivation information is only applicable for families with children and working age adults. This new analysis is not provided for pensioners because, for material deprivation, the questions are designed to contribute to the measure of child poverty and therefore many of the questions are not appropriate for measuring pensioner material deprivation.

The DWP did however analyse household debt for pensioners and found the vast majority of pensioners reported having no bills in arrears and therefore equivalent tables for pensioners have not been included.

Deprivation questions introduced in the Family Resources Survey

From 2004/05, a new suite of questions on deprivation have been added to the Family Resources Survey. The questions (on **household debt** and **material deprivation**) are used to help formulate an indicator of deprivation and have been taken from three existing surveys (Families and Children Survey (FACS), British Household Panel Survey (BHPS) and Poverty and Social Exclusion Survey (PSE)).

The new questions examine a large number of items that can be associated with standard of living. For the purposes of this study, hardship is defined by respondents':

- ability to afford a number of items that most other people agree families ought to have;
- their other 'unmet needs';
- and whether they are managing their money and staying clear of problem debts - that is debts which they cannot repay and where they are 'getting behind' with the repayments.

No single one of these items is an adequate measure, but taken together they add up to a sensitive measure of family material well-being or hardship.

CHILD POVERTY MEASURE

The UK Government are considering bringing in a new measure of child poverty that combines both income poverty and material deprivation.

Discussions are currently on-going between the DWP and HM Treasury on finalizing the methodology of the new measure.

Q. Why has a New Child Poverty Measure been introduced?

A. Child poverty has in recent years become a high policy priority in the UK. The Prime Minister has pledged to eradicate child poverty by 2020. The Scottish Executive shares this commitment.

A consultation exercise was undertaken with lobby groups, academics and other government departments in order to inform the way we measure progress towards the target.

In the consultation's final report the UK Government announced its intention in future years to measure Child Poverty using a three-tiered approach. The final report can be read online at: www.dwp.gov.uk/consultations/consult/2003/childpov/final.pdf.

Q. What does the Child Poverty Measure look like?

A. The child poverty measure will consist of 3 tiers. In addition to the measures of **relative** and **absolute** poverty explained above the child poverty measure will also include a measure of **Material Deprivation and Low Income Combined**.

This will measure the number and proportion of children that are both materially deprived (through lack of certain goods or services such as ability to go on holiday, replace household items etc) and are in households whose equivalized (adjusted) income before housing costs is less than 70% of the GB median in the current year.

The first two tiers of the new child poverty measure are included in the HBAI Statistical Publication Notice 2005/06. The third tier (Material Deprivation and Low Income Combined) will be published at a later date, although some of the data relating to material deprivation has been published alongside the 2005/06 HBAI statistics.



SCOTTISH EXECUTIVE

**Scottish Executive Development Department
Social Inclusion & Voluntary Issues Division
Area 2-F (South)
Victoria Quay
EDINBURGH
EH6 6QQ**

**For additional copies, please contact
Social Justice Support Group on 0131 244 0064**

**This fact sheet is available as a pdf file at:
www.scotland.gov.uk/closingtheopportunitygap**

**The Executive's Statistical Publication Notice on HBAI can be accessed at:
www.scotland.gov.uk/stats/incomepoverty**



SIVI HBAI 03/2007

ISBN 978-0-7559-6589-2