

## **Technical information for the revised local child poverty measure**

<http://www.hmrc.gov.uk/stats/personal-tax-credits/menu.htm>

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### **The revised local child poverty measure (formerly National Indicator 116): The proportion of children in poverty**

Definition: The proportion of children living in families in receipt of out of work (means-tested) benefits or in receipt of tax credits where their reported income is less than 60 per cent of median income

#### **Methodology:**

The proportion of children in poverty is calculated as follows:

$$\frac{\text{Number of children in families in receipt of either out of work (means-tested) benefits, or in receipt of tax credits where their reported income is less than 60 per cent of median income}}{\text{Total number of children in the area}}$$

This attempts to recreate the relative child poverty measure as set out in the Child Poverty Act 2010 at a local level. However as it relies on administrative data it is not precisely equivalent in terms of the children captured (for example there may be children in families in receipt of out of work benefits where income is above the 60 per cent threshold) or the time period covered (the national measure is on a financial year basis, this measure is a snapshot at 31<sup>st</sup> August 2009). It is however, our best measure of child poverty at a local level.

#### ***Children in families in receipt of out of work benefits***

The number of children in families in receipt of out of work benefits - Income Support (IS), Income-Based Jobseekers Allowance (JSA), Employment and Support Allowance (ESA) and Pension Credit (PC), is produced using administrative data held by the Department for Work and Pensions (DWP) and Her Majesty's Revenue and Customs (HMRC). Since 2003, parents in receipt of IS, JSA, ESA and PC receive their child support through Child Tax Credit rather than a dependent child allowance (family/lone parent premium) via DWP. New claimants automatically enter the Tax Credits System, however families who were claiming IS or JSA prior to the introduction of tax credits in April 2003 may still receive a child allowance paid through their DWP benefits. This is an ever decreasing number, as families migrate on to tax credits when there is a change to their family or employment circumstances and lone parents are in the process of being migrated automatically.

As the indicator requires a complete picture of children in families in receipt of IS or JSA, DWP data relating to IS and JSA is needed to capture those families still receiving their child allowance through DWP. To identify these families firstly Child Benefit records are matched to IS or JSA claimant records in DWP; the matched records are then transferred to HMRC and matched to the tax credits database in order to identify children in families in receipt of IS or JSA who are yet to migrate (i.e. they appear in the DWP data but not the tax credits data). These DWP paid families are then combined with the tax credits data to ensure the measure covers all children in families in receipt of IS or JSA and that no family or child is counted twice or ignored.

#### ***Children in families whose income is less than 60 per cent of median income***

Children in poverty in families who are not receiving their child support through IS or JSA are then selected by applying the relative low income threshold, below 60 per cent of median income, to the rest of the Child Tax Credit population. The income used in the measure is Before Housing Costs (BHC) and has been equalised to take account of family size and composition.

*Further detail on income, income equalisation and the 60 per cent of median threshold can be found below.*

### **Total number of children**

The total number of children in the area is produced using Child Benefit data held by HMRC which covers around 96<sup>1</sup> per cent of children. Child Benefit data has been used as it provides the most comprehensive assessment of the number of children available.

### **Notes:**

1. These statistics are **not National Statistics** and as such are not pre-announced or published to a pre-arranged timetable. To concur with National Statistics procedures all of the estimates within the publication have been independently rounded to the nearest 5 units, so in the case of the Lower Layer Super Output Area (LSOA) statistics these are normally 5 individual claimants. Because of this aggregating the individual estimates may not sum to the given totals for an area. The child poverty proportions have been provided to 1 decimal place and have been derived from the unrounded counts.
2. The estimates are based on the finalised awards tax credits data, and as such are derived from a full set of administrative records rather than a sample. From this data the “sub-period” of the award that spanned the 31<sup>st</sup> August was selected, to ensure that the most up-to-date version of the data was used but also that all the data used corresponded to the same reference date. DWP IS and JSA records relate to August to be consistent with the tax credits and Child Benefit data.
3. Where appropriate, one postcode has been identified for each family with the postcode from the tax credits database taking precedent as these are likely to be more up to date than those held on the Child Benefit system. The Tax Credits System is linked to all other HMRC systems and personal details are held centrally. These are updated when people move and any part of HMRC are informed.
4. Additional information, such as child ages, is obtained and added on to the tax credits and DWP data by matching with Child Benefit data.
5. Duplicate records may occur in the dataset for a variety of reasons such as a consequence of data matching, family breakdown (where a separate claim begins before the old claim is terminated) or administrative errors. Where possible, any such duplicate records have been identified and removed from the data.
6. As a result of the local government changes that came into effect for parts of England from 1<sup>st</sup> April 2009, there have been a number of changes to the classification of Counties, Local Authorities and Ward level data. As these statistics are for a period of time after the changes, they are presented using the latest boundaries.
7. From 2009 onwards local child poverty statistics for Northern Ireland, Scotland and Wales have also been included. We have included these countries to provide comparable figures for the whole of the United Kingdom (UK). These statistics are based on the UK 60 per cent median income figure of £214.
8. Geographies have been allocated by matching the administrative postcode to the August 2009 National Statistics Postcode Directory. The directory provides a read across from postcode to high level geographies, but occasionally for lower level geographies and specifically in Northern Ireland and Scotland, information about Data Zone and LSOA's are missing. This leads to some cases being attributed to a country or region, but we are unable to allocate it to a ward or a specific LSOA or Data Zone.
9. LSOA covers England and Wales. Super Output Areas (SOA's) are a geographic hierarchy designed to improve the reporting of small area statistics. Unlike electoral wards, the SOA layers are of consistent size across the country and will not be subjected to regular boundary change. The Lower Layer SOA's in England (32,482) were built from groups of Output Areas (typically 4 to 6) and constrained by the boundaries of the Standard Table (ST) wards used for 2001 Census outputs. They have a minimum population of 1,000.
10. In line with the ONS Coding and Naming Policy of UK Statistical Geographies, (<http://www.ons.gov.uk/ons/guide-method/geography/geographic-policy/coding-and-naming-for-statistical-geographies/index.html>) the 2009 Child Poverty statistics include both the old and the new geographical codes which were introduced from 1<sup>st</sup> January 2011, enabling a lookup between the two.

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<sup>1</sup> Child Benefit take-up rate taken from the HMRC Autumn Performance Report 2009  
<http://www.hmrc.gov.uk/about/autumn-report-2009.pdf>

## Definition of key terms:

### **Child**

The measure includes dependent children under the age of 20. A dependent child is defined as an individual aged under 16 or an individual aged 16 to 19 years who is:

- not married nor in a Civil Partnership nor living with a partner; and
- living with parents; and
- in full-time non-advanced education or in unwaged government training

This is the same definition as used within tax credits, Child Benefit and Income Support and Jobseekers Allowance.

### **Income**

The weekly income used for the measure includes total family taxable income<sup>2</sup> (for tax credit purposes), the calculated weekly entitlement to Child Benefit and the weekly value of entitlement to tax credits (as at August 31<sup>st</sup>). Income is Before Housing Costs (BHC).

**Note:** As some benefits included in Households Below Average Income (HBAI) series (see Low Income Threshold section for more information on HBAI) are non-taxable (such as Housing Benefit, Disability Living Allowance, Attendance Allowance, Council Tax Benefit) these benefits are paid on top of tax credits and therefore not included in the income or low income threshold used in this local measure.

### **Income Equivalisation**

Income equivalisation takes into account variations in the size and composition of the families in which children live. This reflects the common sense notion that, in order to enjoy a comparable standard of living, a family with say three children will need a higher income than a single person living alone.

Equivalence scales conventionally take an adult couple, without children, as the reference point, with an equivalence value of one. The process then increases relatively the income of a single person (since their incomes are divided by a value of less than one) and reduces relatively the incomes of families with three or more persons, which have an equivalence value of greater than one.

Consider a single person, a couple with no children, and a couple with two children aged fourteen and ten, all having unadjusted weekly family incomes of £200 (BHC). The process of equivalisation, gives an equivalised income of £299 to the single person, £200 to the couple with no children, but only £131 to the couple with children.

The measure uses the OECD scale, as these are the main equivalence scales now used in the HBAI series. The BHC scale values are shown in the table below.

	Modified OECD rescaled to couple without children=1
First adult	0.67
Second adult	0.33
Children aged under 14 years	0.20
Children aged 14 years and over	0.33

The construction of family equivalence values from these scales is quite straightforward. For example, the equivalence value for a family containing a couple with a fourteen year old and a ten year old child would be 1.53 from the sum of the scale values:

$$0.67 + 0.33 + 0.33 + 0.20 = 1.53$$

This is made up of 0.67 for the first adult, 0.33 for their spouse, and the fourteen year old child and 0.2 for the ten year old child. The total income for the family would then be divided by 1.53 in order to arrive at the measure of equivalised income.

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<sup>2</sup> More information on taxable income is available on the HMRC website:  
<http://www.hmrc.gov.uk/incometax/taxable-income.htm>

### **Low income threshold**

Relative low income poverty, measured by children living in households whose income falls below 60 per cent of the contemporary median income (income is BHC and equivalised), is a key measurement of child poverty. This measure is the European standard and captures the extent to which incomes of the poorest families are keeping pace with the rising incomes of the population.

*For further information please see the DWP Households Below Average Income series.<sup>3</sup>*

The median income divides the population of individuals, when ranked by equivalised family income, into two equal sized groups. The 60 per cent of median threshold is applied to focus on the gap between the poorest and typical families. The mean income is not used as this can be driven by the highest incomes therefore measuring changes in inequality rather than poverty.

A threshold of 60 per cent of median equivalised income has been applied to the measure to reflect the relative poverty measure set out in the Child Poverty Act. As this local measure uses only the income elements described above, the threshold was produced to reflect only this income.

As with measurement of relative poverty at a national level (published in HBAI) the poverty threshold for the revised local child poverty measure is estimated from income data from the Family Resources Survey. For this measure the incomes are restricted to taxable incomes plus tax credits and child benefit rather than all sources of income. For 2006 and 2007 the total income includes gross earnings, investment income, occupational pensions, state pension, jobseekers allowance, tax credits and child benefit. To better reflect the full range of taxable incomes the 2008 and 2009 estimates also include Carers Allowance, Employment and Support Allowance (Contributory only), Incapacity Benefit (after the first 29 weeks) and Statutory Sick, Maternity, Paternity and Adoption Pay. However the effects of these additional incomes are small.

In 2009 the poverty threshold for a couple with no children was £214. This is lower than the HBAI 60 per cent of median threshold of £244 as many households around 60 per cent of median line pay little tax and are in receipt of non-taxable income streams.

The poverty threshold for previous years are shown in the table below.

Period	Poverty Threshold
2006	£198
2007	£208
2008	£210
2009	£214

The threshold was not applied to children in families in receipt of out of work means-tested benefits as the necessary income information is not available. Children living in these families are included because they are known to have a high risk of low income poverty and are often used as a proxy measure for income deprivation.

### **Means-tested out of work benefits**

The measure includes children living in families in receipt of out of work means-tested benefits Income Support and Income-Based Jobseekers Allowance. To be entitled to means-tested benefits you must have sufficiently low income and capital. You do not have to satisfy any National Insurance contribution conditions.

### **Income Support**

Income support provides extra money to help people on a low income. It is for people who don't have to sign on as unemployed.

This could be if you are:

- sick or disabled
- a lone parent responsible for a child under 12 years of age
- a carer, or
- registered blind

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<sup>3</sup> Households Below Average Income publication is available from the DWP website <http://research.dwp.gov.uk/asd/hbai.asp>

It is for people who:

- are 16 to 59 years old
- have a low income
- work less than 16 hours a week
- are not in full-time study
- do not get Jobseeker's Allowance
- do not have savings above £16,000, and
- live in Great Britain

### **Jobseeker's Allowance**

Jobseeker's Allowance is the main benefit for people of working age who are out of work or work less than 16 hours a week on average. If you're eligible, it is paid while you're looking for work.

To get Jobseeker's Allowance you must be:

- available for and actively seeking work
- between 18 and State Pension age
- working less than 16 hours per week on average
- Jobseeker's Allowance isn't normally paid to 16 or 17 year olds, except in special cases

**Income-based Jobseeker's Allowance:** This is based on your income and savings. You may get this if you have not paid enough National Insurance Contributions (NICs) (or you've only paid contributions for self-employment) and you're on a low income.

### **Tax credits**

Tax credits are based on household circumstances and can be claimed jointly by members of a couple, or by singles. For further information about who can claim please refer to the [HMRC website](#).

Entitlement is based on the following factors:

- age
- income
- hours worked
- number and age of children
- childcare costs
- disabilities

Tax credits are part of wider government policy to provide support to parents returning to work, reduce child poverty and increase financial support for all families. Tax credits are made up of:

### **Child Tax Credit (CTC)**

Brings together income-related support for children and for qualifying young people aged 16-19 who are in full time non-advanced education or approved training (see definition of a child on page 3) into a single tax credit, payable to the main carer. Families can claim whether or not the adults are in work.

CTC is made up of the following elements,

- **Family element:** which is the basic element for families responsible for one or more children or qualifying young people, with a higher rate of family element known as baby element to families with one or more children under one year old
- **Child element:** which is paid for each child or qualifying young person the claimant is responsible for
- **Disability element:** for each child or qualifying young person the claimant is responsible for if they get Disability Living Allowance for them or if the child or qualifying young person is registered blind or removed from the blind register within 28 weeks before the date of claim
- **Severe disability element:** for each child or qualifying young person the claimant is responsible for if they get Disability Living Allowance (Highest Care Component) for the child

### **Working Tax Credit (WTC)**

Provides in-work support for people on low incomes, with or without children. It extends eligibility to in-work support to people who work 16 hours or more a week and;

- are aged at least 16 and are responsible for a child or qualifying young person,

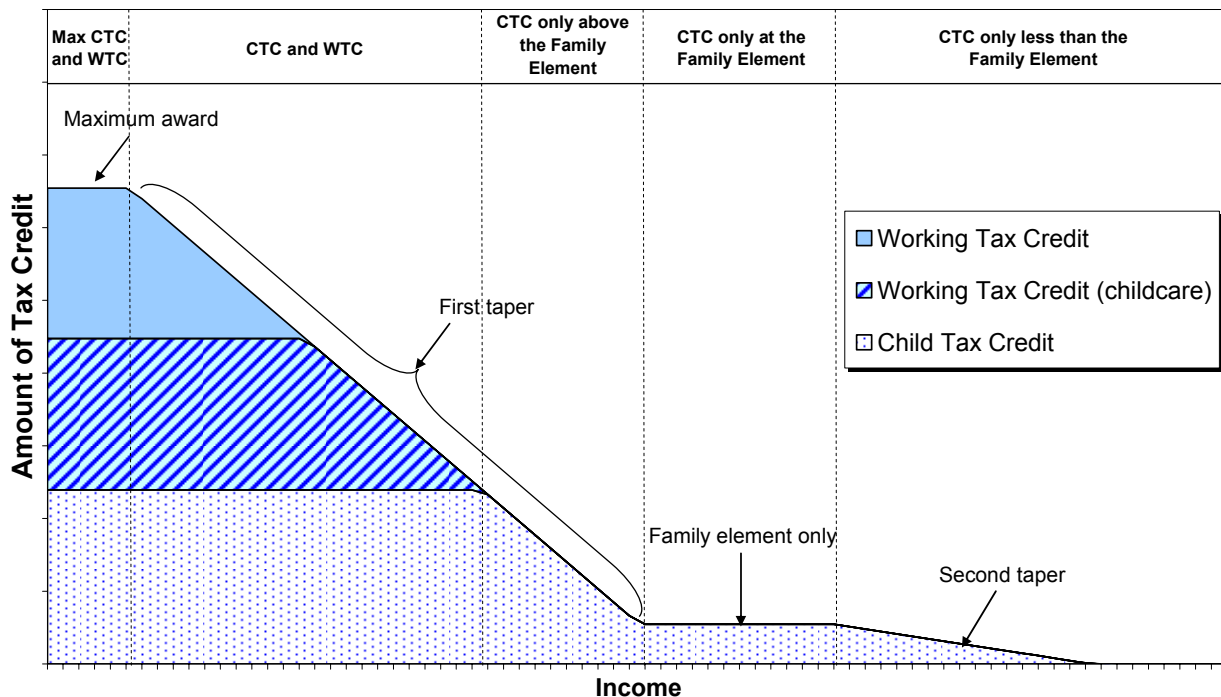
- are aged at least 16 and are receiving or have recently received a qualifying sickness or disability related benefit and have a disability that puts them at a disadvantage of getting a job, or
  - are over 50 and going back to work after being on a qualifying out of work benefit for at least six months.
- Otherwise it is extended to people who are aged 25 and over who work 30 hours a week or more.

It contains a childcare element in recognition of extra costs faced by working parents with childcare needs. The childcare element is extended to include childcare by a registered or approved home carer providing care in the child's own home.

WTC is made up of the following elements,

- **Basic element:** which is paid to any working person who meets the basic eligibility conditions
- **Lone Parent element:** for lone parents
- **Second adult element:** for couples
- **30 hour element:** for individuals who work at least 30 hours a week, couples where one person works at least 30 hours a week or couples who have a child and work a total of 30 hours or more a week between them where one of them works at least 16 hours a week
- **Disability element:** for people who work at least 16 hours a week and who have a disability that puts them at a disadvantage in getting a job and who are receiving or have recently received a qualifying sickness or disability related benefit
- **Severe disability element:** for people who are in receipt of Disability Living Allowance (Highest Care Component) or Attendance Allowance at the highest rate
- **50 plus element:** for people aged 50 or over who are starting work at least 16 hours a week after being on qualifying out of work benefits for at least 6 months
- **Childcare element:** for single people who work at least 16 hours a week or couples who both work at least 16 hours a week and who spend money on registered or approved childcare

### Child and Working Tax Credit Entitlement



**Tapering:** is the amount of the award that will be reduced when the household income exceeds a given threshold. Tapering reduces WTC first, then CTC, then finally the Family Element. As shown above.