

2014 Children in Low-Income Families Local Measure

Introduction

This commentary accompanies the publication of the Children in Low-Income Families Local Measure for 2014. It is written to provide users with a guide to how these statistics should be interpreted, and explains how they were produced.

The commentary is divided into six sections:-

- 1) The Children in Low-Income Families Local Measure
- 2) Changes in the proportion of children living in low-income families
- 3) Local analysis of the proportion of children living in low-income families
- 4) How the Children in Low-Income Families Local Measure is produced
- 5) Definition of key terms in the document
- 6) Links to other related information

Section 1: The Children in Low-Income Families Local Measure

The Children in Low-Income Families Local Measure is the proportion of children living in families either in receipt of out-of-work benefits *or* in receipt of tax credits with a reported income which is less than 60 per cent of national median income.

Administrative data sources on benefits and tax credits from the Department for Work and Pensions (DWP) and Her Majesty's Revenue and Customs (HMRC) are used in the calculation of the Children in Low-Income Families Local Measure.

These statistics are published on an annual basis and are available at regional, county, local authority, ward, parliamentary constituency, or Lower Layer Super Output Area (LSOA)¹ level.

The Households Below Average Income (HBAI) report measures of the number of children in low-income families at a national level. HBAI is based on data from the Family Resources Survey in which the sample sizes are insufficient for useful analysis at the local level. The Children in Low-Income Families Local Measure provides local-level analysis which can help explore the considerable variation in low-income rates that exists between and within regions and local authorities.

The Children in Low-Income Families Local Measure is based on administrative tax credits and benefit data sources. The measure includes children who are living in families either in receipt of out-of-work benefits or in receipt of tax credits with reported income less than 60 per cent of median income.

¹ A small area consisting of 1,000 households.

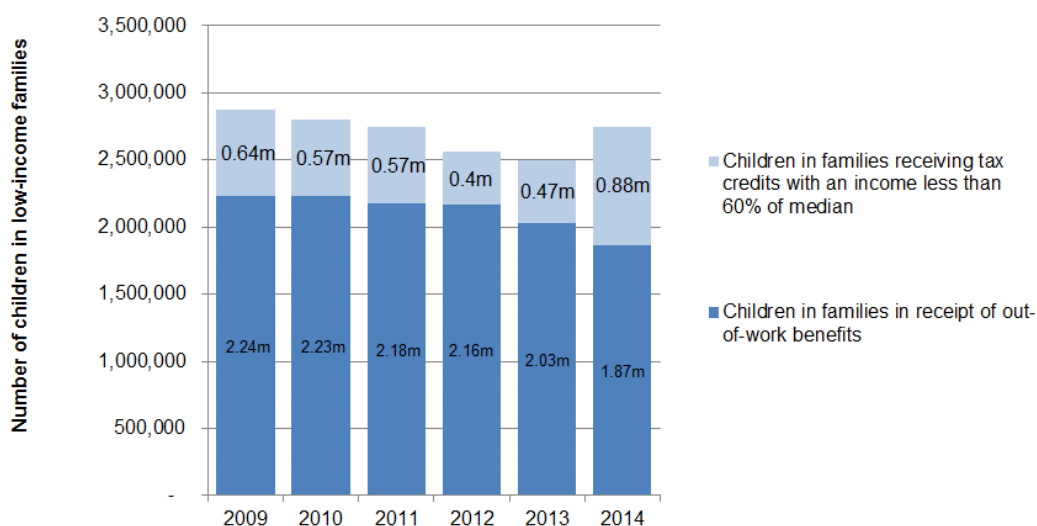
Section 2: Changes in the proportion of children living in low-income families in 2014

In 2014, the overall proportion of children in the UK living in low-income families increased from 18.2 per cent to 20.0 per cent. This equates to 250,000 more children in low-income families in 2014 compared with 2013².

As shown in Figure 1 below, the number of children in low-income families in the UK increased by 250,000 between 2013 and 2014, from 2.50 million in 2013 to 2.75 million in 2014. This increase was driven by an increase of around 400,000 children in families earning less than 60% of the median income. However, this does not necessarily imply that the incomes of these families have declined. The number of children in families in receipt of out-of-work benefits fell by 162,000 between 2013 and 2014.

The low-income threshold, which is 60 per cent of the median income, rose from £218 in 2013, to £253 in 2014³ (in nominal terms⁴). The majority of the increase of 400,000 children is can be explained by this change in the threshold. The increase in the low-income threshold itself was due to increases in income from employment for families around 60% of the median line.

Figure 1: The total number of children in low-income families UK, 2009–2014



² Over a comparable period, the percentage of children experiencing relative low-income, Before Housing Costs (BHC) as measured by HBAI rose from 17 per cent to 19 per cent. The difference in trends and levels is due to methodological differences; see section 4 for more details.

³ Income sources captured in this measure differ from income as recorded in HBAI. Administrative data provides information on taxable incomes, tax credits and child benefit- it does not record other income sources captured in HBAI. Median income and hence the low-income threshold in the 2014/15 HBAI increased from £453 in 2013/14 to £473.

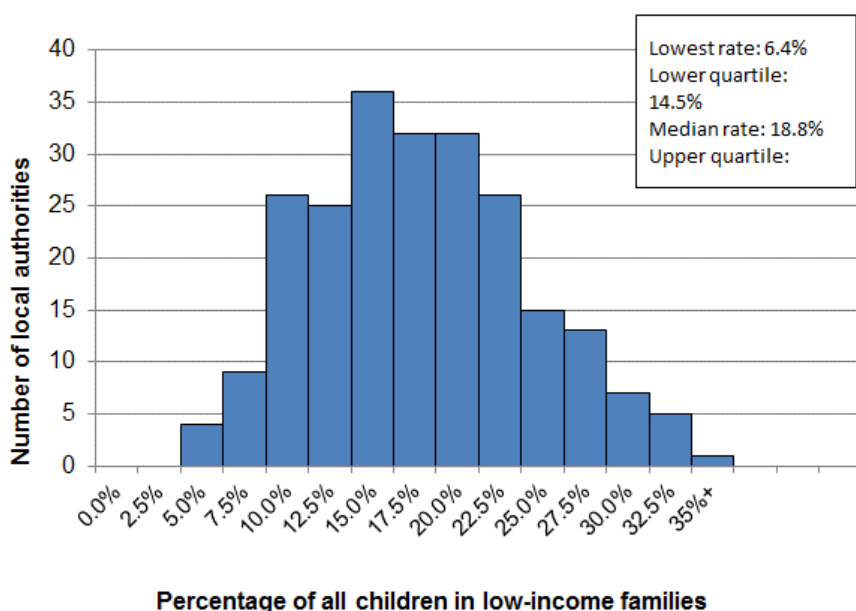
⁴ Not adjusted for inflation.

Section 3: Local analysis of the proportion of children living in low-income families⁵

The national-level measures can mask the considerable variation that exists between and within regions and local authorities.

As Figure 2 shows, the proportion of children in low-income families across local authorities ranged from 2.8 per cent to 41.9 per cent⁶. When ranked from the highest to the lowest, Magherafelt and Nottinghamshire were the local authorities in the middle (the median) with 17.1% per cent of all children in their respective areas living in low-income families. More than half of all local authorities had a rate between 10.0 per cent and 20.0 per cent. Tower Hamlets had the highest proportion of children in low-income families in the UK, with 41.9 per cent of children living in low-income families in 2014.

Figure 2: Distribution of rates of children in low-income families at local authority level in 2013



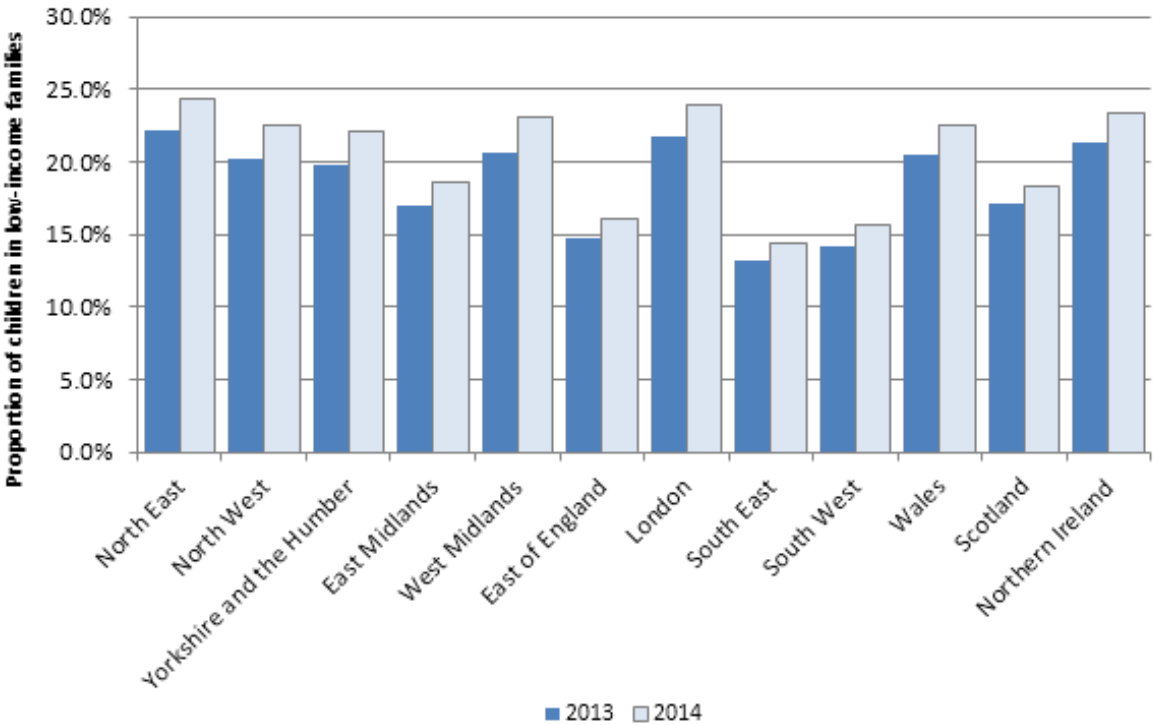
This shows that only a minority of local authorities have either very low or very high rates of children living in low-income families. It should however be noted that even in the least deprived local authorities there are still children living in low-income families.

In 2014, increases were seen across all regions, with the West Midlands having the largest increase of 2.5 percentage points (as shown in the Figure 3).

⁵ Analysis here is based on top tier local authorities for England and lower-tier local authorities for Scotland, Wales and Northern Ireland. Lower-tier local authority data for England are also available.

⁶ The Isles of Scilly had the lowest proportion of children in low-income families but the percentage has been suppressed to prevent disclosure.

Figure 3: Proportion of children in low-income families by region between 2013 and 2014



Section 4: How the Children in Low-Income Families Local Measure is produced

Administrative data sources on benefits and tax credits from the Department for Work and Pensions (DWP) and Her Majesty's Revenue and Customs (HMRC) are used to construct the Children in Low-Income Families Local Measure; that is, the proportion of children living in families either in receipt of out-of-work benefits *or* in receipt of tax credits with a reported income which is less than 60 per cent of median income.

Definition of the Children in Low-Income Families Local Measure

In this measure, a child is considered to be in a low-income family if they are living in a family that is either:-

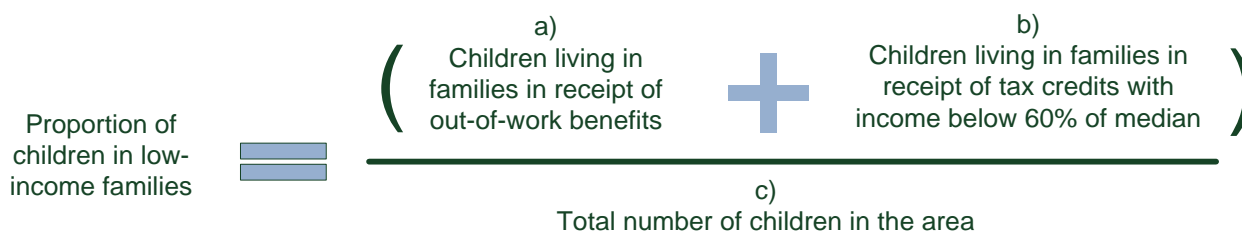
- a) in receipt of out-of-work benefits, *or*;
- b) in receipt of tax credits and has a reported income less than 60 per cent of national median income.

To calculate the proportion of children in low-income families, the number of children in low-income families (a + b) is divided by:-

- c) the total number of children in the area

This methodology is summarised in the diagram below. The following sub-sections explain how figures for a, b and c are produced.

Figure 5: Diagrammatic definition of the Children in Low-Income Families Local Measure



a) children in families in receipt of out-of-work benefits

The number of children in families in receipt of out-of-work benefits is based on administrative data held by DWP and HMRC. These out-of-work benefits include Income Support (IS), Income-Based Jobseekers Allowance (JSA), Employment and Support Allowance (ESA) and Pension Credit (PC).

Since 2003, parents who claim these benefits receive their child allowance through Child Tax Credit. This is administered via HMRC. Therefore, the vast majority of children in this part of the measure are identified and counted using HMRC Tax Credits data.

However, whilst new benefit claimants now automatically enter the Tax Credits System, 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 following a change to their family or employment circumstances.⁷ Nonetheless, these children/families will not be identifiable in HMRC Tax Credits data.

As this measure requires a complete picture of children in families in receipt of out-of-work benefits, DWP data is needed to identify those families who still receive their child allowance through DWP. Therefore IS and JSA data is obtained from DWP and matched with HMRC Tax Credits data. Where no match occurs, this identifies the families who still receive their child allowance through DWP.

⁷ Lone parents are in the process of being migrated automatically

These families are then combined with the families who receive their child support via Tax Credits. This ensures that the measure covers all children in families in receipt of IS or JSA and that no family or child is excluded.

Note: because income information is not available for all families in receipt of out-of-work benefits, all such families are included in the measure regardless of whether a family's income is above the low-income threshold. This is the main divergence between the Children in Low-Income Families Local Measure and the relative low-income measure in HBAI. HBAI figures for 2014/15 report that there were around 600,000 children in relative low-income in the UK who were from families which received either IS or JSA. This figure is extremely different from the number reported in the Children in Low-Income Families Local Measure, which was around 2.0 million in 2013. Part of this disparity is due to the fact that the Children in Low-Income Families Local Measure does not take into account the income of these families, but also partly because the underlying survey for the HBAI figures, the Family Resources Survey, undercounts the number of children in these types of families.

b) children in families whose income is less than 60 per cent of median income

Having identified all children in families in receipt of out-of-work benefits, the relative low-income threshold is applied to the remainder of the Child Tax Credit population in order to identify children in families who, whilst not on out-of-work benefits, have income below 60 per cent of median national income.

The 60 per cent income threshold used in the measure is Before Housing Costs (BHC) and has been equivalised to take account of family size and composition. Further details on income, equivalisation and the relative low-income threshold can be found below.

These children are combined with the children identified in a): families in receipt of out-of-work benefits. This completes the total number of children in the Children in Low-Income Families Local Measure.

c) total number of children

Historically, the total number of children in any given area has been produced using Child Benefit data held by HMRC. This has typically covered around 96 per cent of all children in the UK and has been the most comprehensive assessment of the number of children available at the local level.

From January 2013, if a claimant of Child Benefit or their partner has an individual income of more than £50,000 per year, they are liable to repay some or all of their Child Benefit due to the introduction of the High Income Child Benefit charge. Claimants affected by the High Income Child Benefit charge have the option to opt-out of receiving Child Benefit.

Therefore, the total number of children used in this publication includes numbers for claimants that have opted out of receiving Child Benefit, and the children that they are responsible for. This means that the measure may not be as complete as it has been previously due to families with higher incomes no longer claiming Child benefit.

The total number of children in low-income families (from steps a) and b) set out above) is divided by the total number of children. This provides the total proportion of children living in low-income families in any given area.

Why this measure is not precisely equivalent to HBAI's relative low-income measure

HBAI includes the proportion of children living in households where income is less than 60 per cent of median household income.

The Children in low-income families measure attempts to create a proxy for the HBAI measure in order to enable local analysis of the variation in the proportion of children who live in families with a low income. However, it is not precisely equivalent for the following main reasons:-

- The relative low-income measure in HBAI is based on data from the Family Resources Survey, whereas this measure uses administrative data from DWP and HMRC.

- This measure captures a number of children in families in receipt of out-of-work benefits where their income will be above the 60 per cent low-income threshold. The HBAI measure would not include these children.
- In contrast, this measure does not include children in low-income families that do not claim Child Tax Credit or Working Tax Credit. The HBAI measure includes these children. However, this is assumed to be a small impact.
- Income is measured slightly differently across the two measures. For the Children in Low-Income Families Local Measure, the incomes are restricted to taxable incomes plus tax credits and child benefit rather than all sources of income (see Section 5 for more details).
- The Children in Low-Income Families Local Measure is based on families, whereas HBAI is based on households.
- The time period covered is different. The national measure published in HBAI is on a financial year basis - 2014/15 is the latest year available. The Children in Low-Income Families Local Measure is a snapshot at 31st August 2014.

In summary, this measure should not be used to obtain a definitive measure of children in low income in any given area. However, this measure can reliably be used to explore variations in low income across the UK.

Further notes

- 1) These are Official Statistics which adhere to the procedures set out in the Code of Practice for Official Statistics. As such, 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 children. Because of this, aggregating the individual estimates may not sum to the given totals for an area. The proportion of children who live in families with a low income have been provided to 1 decimal place and have been derived from the unrounded counts.
- 2) The statistics are based on the finalised awards tax credits data – that is, they are based on a finalised view of family incomes and circumstances - and as such are derived from a full set of administrative records rather than a sample. From this data the “sub-period” of the (tax credit) award that spanned the 31st August was selected to ensure that the most up-to-date version of the data was used and that all the data used corresponded to the same reference date. DWP IS and JSA records also relate to August 2013 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 inform any part of HMRC.
- 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) From 2009 onwards, statistics of children who live in families with a low income 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 £218.
- 7) Geographies have been allocated by matching the administrative postcode to the National Statistics Postcode Directory Lookup (NSPL) (based on 2011 census output) at November 2014.

- 8) Lower Layer Super Output Areas (LSOAs) 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 SOAs in England (32,844) were built from groups of Output Areas (typically 4 to 6) and constrained by the boundaries of the Standard Table (ST) wards used for 2011 Census outputs. They have a minimum population of 1,000. 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 2013 Children in Low-Income Families statistics include both the old and the new geographical codes which were introduced from 1st January 2012, enabling a lookup between the two.
- 9) The number of children in Child Benefit families gives the most robust estimate of the number of children in a region. However, in some instances, it is possible that there are more children in CTC (<60% median income) or IS/JSA families than there are in Child Benefit. This is due to a time lag between the Child Benefit data and Tax Credits data. Where this has happened we have capped the % of children in low-income families at 100%.

Section 5 – 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 (for tax credit purposes), the calculated weekly entitlement to Child Benefit and the weekly value of entitlement to tax credits (as at August 31st). 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 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.

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 overleaf.

Figure 6: OECD equivalence weights

	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.

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.

Equivalised low income thresholds for different family sizes is provided below in figure 7.

Low-income threshold

The low-income threshold used is a relative measure which means it keeps pace with the changing income of median household incomes.

For further information please see the DWP [Households Below Average Income series](#).

A threshold of 60 per cent of median equivalised income has been applied to this measure to reflect the relative low-income measure set out in the Child Poverty Act.

As with the measurement of relative low-income at a national level published in HBAI, the low income threshold for the Children in Low-Income Families Local Measure is also estimated from income data sourced 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 estimates from 2008 to 2011 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 on the low income threshold are small.

In 2014 the relative low-income threshold for a couple with no children was £253. This is lower than the HBAI 60 per cent of median threshold (2014/15) of £284 as many households around the low-income threshold are in receipt of non-taxable income streams.

The median incomes and low-income thresholds for a variety of family types for this year and previous years are shown in the figure 7 overleaf.

Figure 7: Low-income thresholds for various family types used in the Children in Low-Income

Families Local Measure (in nominal terms, not adjusted for inflation)

Family types	2006	2007	2008	2009	2010	2011	2012	2013	2014
Couple no children	£198	£208	£210	£214	£211	£218	£204	£218	£253
Single no children	£133	£139	£141	£143	£141	£146	£137	£146	£170
Couple with two children aged 5 and 14	£303	£318	£321	£327	£323	£334	£312	£334	£387
Single with two children aged 5 and 14	£238	£250	£252	£257	£253	£262	£245	£262	£304

As discussed in Section 4, the low-income threshold was not applied to children in families who receive their child support through out-of-work benefits as the necessary income information is not available for these families. Children living in these families are included because they are known to have a high risk of being in low-income 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 the claimant must have sufficiently low income and capital. The claimants do not have to satisfy any National Insurance contribution conditions.

Below is a summary of key benefit rules in 2014/15

Income Support (IS)

In 2014/15, Income support provided extra money to help people on a low income. It was for people who don't have to sign on as unemployed. This could be, for example, if an individual is sick or disabled, are a lone parent responsible for a child under 7 years of age, is a carer or registered blind.

To get Income Support the claimant must satisfy the following conditions:-

- be 16 years and State Pension Age;
- have a low income;
- work less than 16 hours a week;
- not be in full-time study;
- not get Jobseeker's Allowance;
- not have savings above £16,000, and
- live in Great Britain.

Jobseeker's Allowance (JSA)

In 2014/15, Jobseeker's Allowance was the main benefit for people of working age who were out of work or working less than 16 hours a week on average. It was paid to people who were looking for work.

To get Jobseeker's Allowance the claimant 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 was not normally paid to 16 or 17 year olds, except in special cases.

Income-based Jobseeker's Allowance is based on income and savings. A claimant could get this if he/ she had not paid enough National Insurance Contributions (NICs) (or had only paid contributions for self-employment) and was 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 single people. For further information about who can claim please refer to the [GOV website](#). Entitlement is based on the following factors:

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

During 2014/15 Tax Credits were made up of Child Tax Credit (CTC) and Working Tax Credits (WTC) the details of which are below.

Child Tax Credit

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 the definition of a child) 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.
- 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 the child.
- 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

The 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.

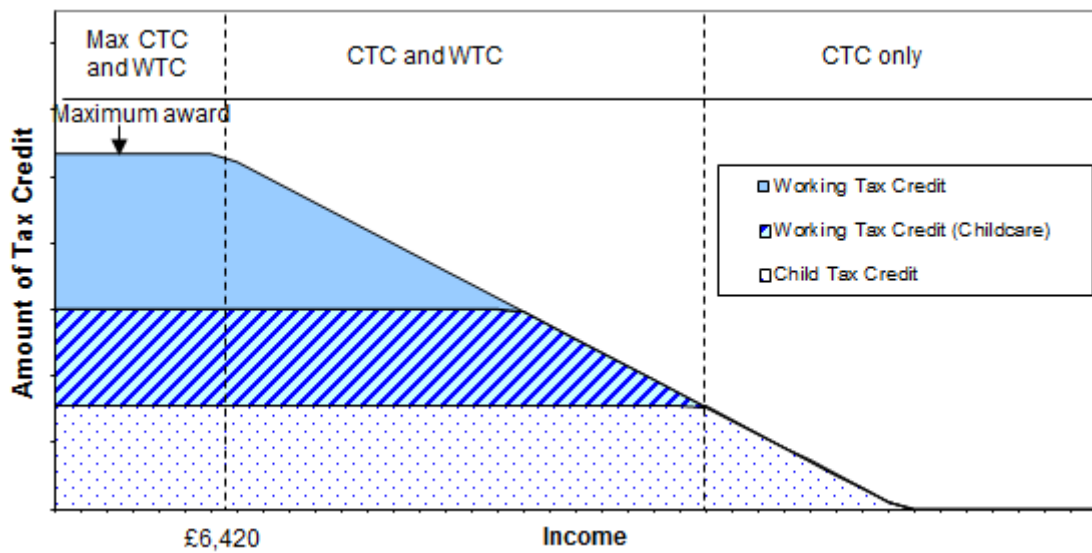
Otherwise it is extended to people who are aged 25 and over who work 30 hours a week or more.

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.
- 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.

Figure 8: In-work Child and Working Tax Credit Entitlement



Tapering

Tapering is the amount of the award that will be reduced when the household income exceeds a given threshold. Tapering reduces WTC first and then CTC. This is illustrated in Figure 8 above.

Section 6: Other related information

Links to the data tables

- The 2014 Children in Low-income Families Statistics used throughout this publication are available on the HMRC website at the link below: <https://www.gov.uk/government/statistics/personal-tax-credits-children-in-low-income-families-local-measure>
- The data for 2006-2010 can be found here: http://webarchive.nationalarchives.gov.uk/20120106153543/http://www.hmrc.gov.uk/stats/personal-tax-credits/child_poverty.htm
- Information from HMRC on personal tax credits: <https://www.gov.uk/government/collections/personal-tax-credits-statistics>

Other related indicators

- The latest HBAI data showing relative child low income is available here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/532416/households-below-average-income-1994-1995-2014-2015.pdf
- The 'proportion of children in out-of-work benefit households measure' uses annual data on the numbers of children living in households where a parent or guardian claims out-of-work benefits. Since it uses administrative benefits data to estimate the proportion of children in households where someone claims an out-of-work benefit, this measure is similar to the Children in Low-income Families Statistics. The latest data for this measure is for 2014 and can be found here: <https://www.gov.uk/government/organisations/department-for-work-pensions/series/children-in-out-of-work-benefit-households--2>