

Introduction

Background

This is the third report providing information on Households Below Average Income in Northern Ireland (HBAI NI). This report provides information on potential living standards, as determined by disposable income in 2004/05.

HBAI was first introduced in Great Britain in 1994/95, to meet information requirements of the Department for Work and Pensions (DWP). Data is sourced from the Family Resources Survey (FRS), a continuous cross-sectional survey across Great Britain.

From April 2002, the Family Resources Survey was extended to include households in NI, making data available for the first time for HBAI analysis to be carried out here.

Differences between HBAI in GB and NI

Traditionally HBAI presents analysis of disposable income on two basis: Before Housing Costs (BHC) and After Housing Costs (AHC). While analysis of data after housing costs have been deducted, are comparable for both NI and GB, BHC analysis is not. This is due to the difference in the way water charges are collected. NI operates a Rates system whereby local taxes, including water and sewerage costs, are collected in one payment. It is not possible to identify each component separately and so these costs have not been included in the BHC analysis for NI.

Contents of This Report

Contained within this report are household disposable incomes adjusted for household size and composition. This is used as a proxy for material living standards in NI i.e. the level of consumption of goods and services that people could attain, given the disposable income of the household in which they live.

Income is also adjusted to take into account disparity in household size and composition of households. This process is known as equivalisation (explained below), and allows for comparisons between different types of households.

HBAI assumes that all members of a household benefit equally from the combined income of all household members. The total equivalised income of the household can therefore be taken as an approximation for the standard of living of each individual in the household.

The average 'household' income referred to throughout this report is the average 'living standard' for individuals, as determined by their net disposable equivalised household income.

Appendix 1 and 2 provide more detailed definitions of net disposable household income and the methodology used in the production of this report.

It was not possible to produce mean and median incomes on a NI level for 2004/05 and so for the purposes of this report GB mean and median values have been applied to all analysis. This has resulted in NI households appearing worse off than is actually the case.

Changes to the Publication

The 2004-05 FRS asked questions relating to deprivation for the first time. Chapters 3 to 6 include details on adults who, when asked questions relating to key deprivation indicators, responded that they "would like to do this but cannot afford to".

Due to the limited sample size of a number of Local Government Districts (LGDs), it has not been possible to perform analysis at this level, prior to 2004/05. With the FRS now in its third year, three year average figures have been introduced for LGD analysis in Chapters 3 to 6. Those LGDs which still had inadequate sample sizes for analysis have been added together in pairs, for analysis.

Chapters 4 and 5 now show an additional 'Working Tax Credit' category under 'Benefit/Tax Credit Receipt'. Tax Credits also include Child Tax Credits, although these are not separately identified.

Chapter 5 now includes further breakdowns for non-state pension contributions among the working-age population.

Equivalisation

As previously mentioned, in HBAI household income is adjusted or equivalised to take account of variations in the size and composition of each household. This supports the theory that the greater the number of individuals in a family, the higher the income required in order to enjoy the same standard of living as smaller families. Assumptions are also made about to what extent sharing allows individuals to attain a higher standard of living than if they were living independently, with the same income.

Equivalence scales have been used to carry out these adjustments (see Appendix 2 for more details). Traditionally equivalence scales use a couple with no children as a reference point (i.e. equivalence value of 1). Incomes of larger households are adjusted downwards and the incomes of smaller households are adjusted upwards relative to this benchmark.

Housing Costs

It has been suggested that any definition of disposable income should not include housing costs since housing costs faced by different households at various times may not adequately reflect the actual value of the housing that the individual enjoys.

An income measure which does not deduct housing costs will overstate the standard of living of individuals whose housing costs are high in comparison to the quality of their accommodation.

By presenting analysis of disposable income on both BHC and AHC, variations in housing costs may be taken into account.

Self Employed

Analysis throughout this report includes individuals who are full-time self-employed. It should be noted that a significant proportion of this group report incomes that do not reflect their living standard, and there are difficulties in obtaining timely and accurate income information from this group.

Data Source

Data used to produce this publication is sourced from the Family Resources Survey (FRS). The FRS is a cross-sectional household survey which collects data on private households only across the UK. This means that people in communal establishments such as residential homes and halls of residence are not included. Homeless people are also outside the scope of the survey.

Reliability of Results

All figures in this report are estimates based on a sample survey and are therefore subject to sampling variation. These variations are outlined below:

Sample size

The NI sample for the FRS is relatively small

Sampling error

HBAI is sourced from a sample survey and therefore all results are subject to sampling error. The extent to which this error affects the results depends on the level of disaggregation at which results are presented.

Non-response

HBAI results are also at risk from systematic bias due to non-response by households selected for interview in the FRS. In an attempt to correct for differential non-response, estimates are weighted using population totals.

Research suggests that the FRS overstates the proportion of children in workless households. If this is the case, HBAI is likely to overstate the proportion in low-income households. Work has been carried out by ONS to match samples from Government surveys, including the FRS, to Census records in order to assess response biases. Results for the FRS showed evidence of a response bias, with households without children being more likely to respond and lone-parent households less likely to respond if anyone is working. Analysis also showed significant differences between the FRS non-responders who completed a non-response module, and those who refused or who could not be contacted at all. This has meant that it is not possible to reliably use non-response results to adjust the FRS for any worklessness bias in any new grossing regime.

Equivalence scales

Results within this report have been calculated using the McClements equivalence scales. Results, particularly of low-income groups, are sensitive to the choice of equivalence scale.

Income Components

There are known problems with the collection and quality of income data on the self-employed. It is also known that there is a shortfall in investment income recorded by the FRS. This could mean that total income is understated for

some groups, for those whose investment income is a major component of their income. One group which could be particularly affected would be pensioners, although it is likely that it affects mostly those at the top of the income distribution.

High incomes

Research also suggests that the FRS also understates the number of individuals with very high incomes and the monetary value of their incomes. Mean income is very sensitive to fluctuations of incomes at the upper end of the distribution, thus an adjustment to 'very rich' households has been made to correct this.

Incomes as a guide to living standards

Comparisons of household income and expenditure suggest that households reporting the lowest levels of income may not necessarily have the lowest living standards. It should not therefore be assumed that individuals in the bottom 10% of the income distribution are also in the bottom 10% of living standards.

Back payments

It is possible that when the FRS interview is being carried out, a person is not in receipt of a benefit that will subsequently be awarded and backdated to the time of the interview. In this case, HBAI methodology does not adjust for this retrospective increase in income. This is particularly relevant for benefits which have a significant backlog in claims, or where it is possible to apply for a backdated claim. This effect will be more sizeable in years which experienced a relatively large number of claims.

Region

The sample size for NI in 2004/05 does not allow for data to be analysed at District Council level. In the two previous reports (2002/03 and 2003/04) NI was divided into three regions: Belfast, East and West. For the purposes of this report however, in order to produce analysis for individual District Councils, the FRS data for 2002/03, 2003/04 and 2004/05 has been combined, and three year average figures have been produced.

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Any comments on the presentation and content of this and future reports should also be sent to this address.

You can also find background to the NI HBAI or additional copies of the publication on our home page:

www.dndni.gov.uk/index/publications/households.htm

