



NORTHAMPTON BOROUGH COUNCIL

SCRUTINY PANEL 1 - FOOD POVERTY

20 NOVEMBER 2019

BRIEFING NOTE: Institute for Fiscal Studies Report: Living Standards, poverty and inequality in the UK: 2019

1 INTRODUCTION

- 1.1 At its inaugural meeting, the Scrutiny Panel agreed that it would receive published reports regarding food poverty.

2 INFORMATION

- 2.1 The introduction of the report of the Institute for Fiscal Studies states:

“This report examines how living standards – most commonly measured by households’ incomes – have changed for different groups in the UK, and the consequences that these changes have for income inequality and for measures of deprivation and poverty. In this latest report, we focus in particular on those people who are poorest in society, with two of our three main chapters focusing on poverty.

The analysis in this report is chiefly based on data from two UK household surveys. The first is the Family Resources Survey (FRS), a survey of around 20,000 households a year, which contains detailed information on different sources of household incomes. We use household income variables derived from the FRS by the UK government’s Department for Work and Pensions (DWP). These measures of incomes underlie the DWP’s annual statistics on the distribution of income, known as ‘Households Below Average Income’ (HBAI). The FRS/HBAI data are available for the years from 1994–95 to 2017–18. They are supplemented by HBAI data derived from the Family Expenditure Survey (FES) for the years up to and including 1993–94. We also use data from the FES, and its later equivalents the Expenditure and Food Survey (EFS) and the Living Costs and Food Survey (LCF), to look at measures of households’ expenditure to help us to measure and understand the material living standards of poorer households.

The main outcomes of interest in this report are measures of household income. We use the measure of income that is used in the HBAI statistics. Further details regarding the methodology of HBAI can be found in Appendix A, but a few key points are worth summarising here:

- Income is measured at the household level, i.e. as the total income of all individuals living in the same household. A household for these purposes is not the same as a family, which is defined simply as a single adult or couple and any dependent children they have. For instance, young adults living together (other than as a couple) would be classified as in the same household but not in the same family.*
- Income is rescaled (“equivalised”) to take into account the fact that households of different sizes and compositions have different needs.*

- *Income is measured after deducting income tax, employee and self-employed National Insurance contributions, and council tax, and it includes income from state benefits and tax credits.*
- *Income is measured both before housing costs have been deducted (BHC) and after they have been deducted (AHC).*
- *All cash figures are presented in 2017–18 prices and all income growth rates are given after accounting for inflation. We adjust for inflation using measures of inflation based on the Consumer Prices Index, which are the same measures as are used by DWP in the government’s official HBAI statistics.*

Because the data on household incomes are produced and released with some lag, we complement the results using another data set, the Labour Force Survey (LFS), for which Living standards, poverty and inequality in the UK: 2019 Institute for Fiscal Studies the latest available data cover 2018–19. Although these data do not measure household income, they provide high-quality information on the UK labour market, trends in which are key in determining living standards. This data set allows us to present results that are more up to date than those using household income data alone.

Since all the analysis is based on a sample from the population, all estimated statistics are subject to sampling error. It is therefore important to gauge whether changes are large enough that we can be confident they reflect real changes in the population as a whole, rather than random variation in the sample from one year to another. We frequently test whether estimated changes are ‘statistically significant’. In our analysis, being ‘statistically significant’ implies that an estimate is statistically significantly different from zero at the standard 5% significance level.

The rest of this report proceeds as follows. Chapter 2 contains our analysis of changes in average incomes in the UK, and how incomes have changed for richer and poorer people, and the knock-on consequences for income inequality. We also examine how household incomes have changed for people of different ages in recent years. Chapter 3 analyses changes in poverty, and the living standards of poorer households in general. We examine how ‘material deprivation’ (the inability to afford important material goods and services) has changed for families with children and for pensioners. Finally in this chapter, we examine the increase in relative pensioner poverty that has occurred in recent years. Chapter 4 analyses measures of – and trends in – severe poverty, which affects people with incomes significantly below the headline poverty lines. This is challenging because household surveys struggle to measure those with the very lowest (and the very highest) incomes in society, so we make use of a range of data sources to do so.

Finally, accompanying the release of this report, the same authors have written a standalone working paper (Bourquin et al., 2019), which examines the gradual, but important, rise in in-work poverty (the poverty rate for working-age families living in a working household) in the UK over the last 25 years. In it, we look at the role that changes in the labour market, tax and benefit system, and housing costs have played in this development. It forms part of the research undertaken as part of this report.”

2.2 The conclusion of the report details:

“Conclusion - *Before summing up, it is worth reiterating a point we made in the introduction to this chapter. It is always likely to be difficult, even with the large-scale household survey data that are typically used to analyse the distribution of living standards, to pick up the most severe forms of poverty in the UK or, as some call it, destitution. Populations such as the homeless will, by definition, not appear in these surveys. Of those who can appear in a household survey, those in the most severe hardship may not reliably respond, or it may be difficult to distinguish them from people who are in fact much better off but whose resources have been under-recorded.*

It is possible that there is increasing severe hardship among a very small proportion of the population which is simply undetectable with any confidence in these key data sources. There is some evidence in this respect, such as a rising number of people rough sleeping. But none of the analysis in this chapter has spoken to the frequency of destitution in the UK. We have, however, tried to assess what has happened to more severe forms of poverty than those measured by the headline statistics.

On none of our measures of severe poverty do we find any evidence of a significant rise in severe poverty 'hiding' behind the relatively small changes seen in headline measures of income poverty since 2010–11. Material deprivation rates (using both more and less severe thresholds) have clearly declined over the period, and the frequency with which people report being unable to afford those items most indicative of more severe poverty – such as keeping the home warm or keeping up with bills and debt repayments – has fallen by about as much as the frequencies for other items. Income and expenditure measures of severe poverty suggest little change, however. This discrepancy is not due to material deprivation falling only among those families not in poverty, because we see declines across the income distribution. It may be partly explained by the basic items, access to which is tracked by material deprivation measures, becoming cheaper (relative to other goods and services), though this evidence is only suggestive. Looking over a longer period, the modest declines in headline income poverty that have been seen since the mid 1990s do not appear to be reflected in more severe forms of poverty, with income- and expenditure-based measures suggesting a small increase over the period. However, some of this increase is driven by those with very low incomes who in fact on average have higher living standards; more generally, the unreliability of low incomes in survey data and the long-run fall in the coverage of spending in the LCF mean that we should be cautious in putting too much weight on these results.

In general, we find that those regions and nations of Great Britain that have higher rates of headline poverty also have higher rates of severe poverty, whichever measure of the latter we use; though severe poverty is slightly more concentrated in London and slightly less concentrated in the rest of the South than headline poverty.

We also find that the composition of those in severe poverty is more tilted towards social renters and workless households than for those in headline income poverty. But these trends are changing: just as private renters and working households are making up an increasing share of those in headline income poverty, they are also making up an increasing share of those in severe poverty.

As already stressed, drawing conclusions about those in severe poverty is made more challenging by the limitations of the data available. Some of these difficulties are at least partially surmountable. For example, the under-reporting of income could be made less acute if surveys were linked to administrative benefit and tax records. The increased use of internet shopping and credit and debit cards also may make higher-quality expenditure data possible. Surveys themselves could be improved by expanding the sample size and putting more resources into ensuring that as many households as possible respond.

Such improvements would by no means solve every difficulty with the analysis of severe poverty, which is by its very nature a challenging topic to study. But the ability of policymakers to tackle severe poverty, should they want to do so, is somewhat dependent upon the quality of the data available.”

2.3 The full report can be accessed [here](#).

3 RECOMMENDATIONS

3.1 That the findings of the desktop research exercise informs the evidence base of the Scrutiny Review – Food Poverty

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28 October 2019