



# All you need to know about Households Below Average Income (HBAI)

March 2024

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## Introduction

On Thursday 21 March 2024, the annual Households Below Average Income (HBAI) report will be released by the Department for Work and Pensions. This report presents information on UK living standards based on household income measures for 2022/23. 2022/23 is the most recent data available as there is a one-year data lag; it takes time to survey all the households and then quality assure the data.

Estimates are provided for average incomes, income inequality, and for the number and percentage of people living in poverty. The statistics are the UK's official source of poverty estimates and, with a larger sample size than other surveys, are the main source of data on household and individual incomes.

There are several different measures of poverty in the statistics as there is no perfect way to measure poverty. This briefing explains what poverty is, how it can be measured, the different measures in HBAI, recent trends in poverty and additional statistics that can further our understanding of poverty.

## What is poverty?

### Defining poverty

Most definitions of poverty include something about lacking the *financial* resources to meet a basic standard of living, relative to what is commonplace in society. A widely-used definition is that of leading sociologist (and co-founder of CPAG) Peter Townsend:

*"Individuals, families and groups in the population can be said to be in poverty when they lack resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged and approved, in the societies in which they belong."*

## Measuring poverty

No one measure will fully capture the extent and depth of poverty. Some desirable features of measures include:

1. to reflect expectations of what constitutes a basic standard of living at that point in time;
2. to be comparable over time;
3. to examine regional and international differences;
4. to hold the government to account.

## HBAI measures

HBAI includes six different poverty measures. All the measures incorporate different features, and tell us something different about poverty. Table 1 shows which features the different measures incorporate and then there is an explanation of the different features below. **CPAG's preferred measure is relative poverty after housing costs (AHC), but the other measures can also tell us something useful about child poverty.**

Table 1: HBAI measures

Measure	Feature		
	Income or needs	Relative or absolute	Housing costs
Relative AHC	Income	Relative	Yes
Absolute AHC	Income	Absolute	Yes
Relative BHC	Income	Relative	No
Absolute BHC	Income	Absolute	No
Material deprivation	Needs	Absolute	No
Food insecurity	Needs	N/A	No

### Income or needs

The majority of measures are income-based. This means they look at household income, post-tax and transfers, adjusting for household size (equivalised), and compare it to the poverty line, which is also calculated from household income. The poverty line is set at 60 per cent of median household income, but there are different ways of calculating median income based on whether the measure is relative or absolute and whether housing costs are included.

Material deprivation and food insecurity measures are based on whether people can meet certain needs. They are calculated by asking surveyed households particular questions and totalling up their responses.

CPAG prefers income-based measures as it is impossible to perfectly define what captures a basic standard of living through needs, and clearly the key factor that defines whether a household can meet certain needs is income. The more income a household has the more it can meet its needs, and households themselves are best placed to decide how to spend their income. But there is still a place for needs-based measures, as they can

further our understanding of poverty. CPAG's Cost of a Child calculations are calculated from a needs-based measure.<sup>1</sup>

### Relative or absolute

Relative measures capture how well people are doing financially compared to other people in their society over the same time period, so the poverty line changes year to year. Relative measures reflect the fact that poverty must be defined in reference to the society in which we live, which is why the poverty line for these measures is set at 60 per cent of current median income.

When the economy grows, median income generally grows, as does people's understanding of what constitutes a basic standard of living. The key benefits of using a relative income measure are that it is quick to update (and project into the future), and changes over time can be easily interpreted. It also better reflects the resources available to the government. If median income is growing it is likely that tax revenues are rising, meaning the government can more easily increase public spending on things that can help tackle child poverty – like social security.

A drawback to using median income measures is that in short-term recessions poverty generally falls, as median income falls. But this fall doesn't really mean that the living standards of people at the lower end of income have improved, rather all household incomes have fallen. During the great recession, poverty fell, largely because all household incomes were falling. However, in the medium term this has been cancelled out, as growth in the recovery period in median household income means the poverty line rose back to its previous level; it was just a short-term blip in the overall poverty trend over recent years. The relative poverty measures in HBAI are both income-based. But it is possible to have a needs-based measure that is relative. The Minimum Income Standard (MIS) asks the public what goods and services households currently need to reach a basic standard of living, and then works out how much income is needed to purchase these items.<sup>2</sup> Over time the level of income needed to reach this standard has risen, as the public's expectations have risen. While this method has some advantages, some drawbacks are (1) the basket of goods can be slow to update and (2) changes over time can be hard to interpret.

Absolute poverty measures fix the poverty line at a certain level of income or basket of goods, then measure over time the number of households who meet this fixed standard of living. The current absolute poverty measure is fixed to 60 per cent of median income in 2010/11 (adjusted for inflation). An absolute poverty measure, alongside other poverty measures, can be useful for understanding poverty, however the current government tends to look at absolute poverty in isolation. This is worrying for two reasons:

1. It is more appropriate to understand poverty by reference to having the financial resources to participate in society today – not society years ago.
2. These measures are not effective at holding the government to account. The key driver of absolute poverty rates is economic growth, which the government has little control over.

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<sup>1</sup> J Stone and M Padley, *The Cost of a Child in 2023*, CPAG, 2023

<sup>2</sup> See [here](#) for more details.

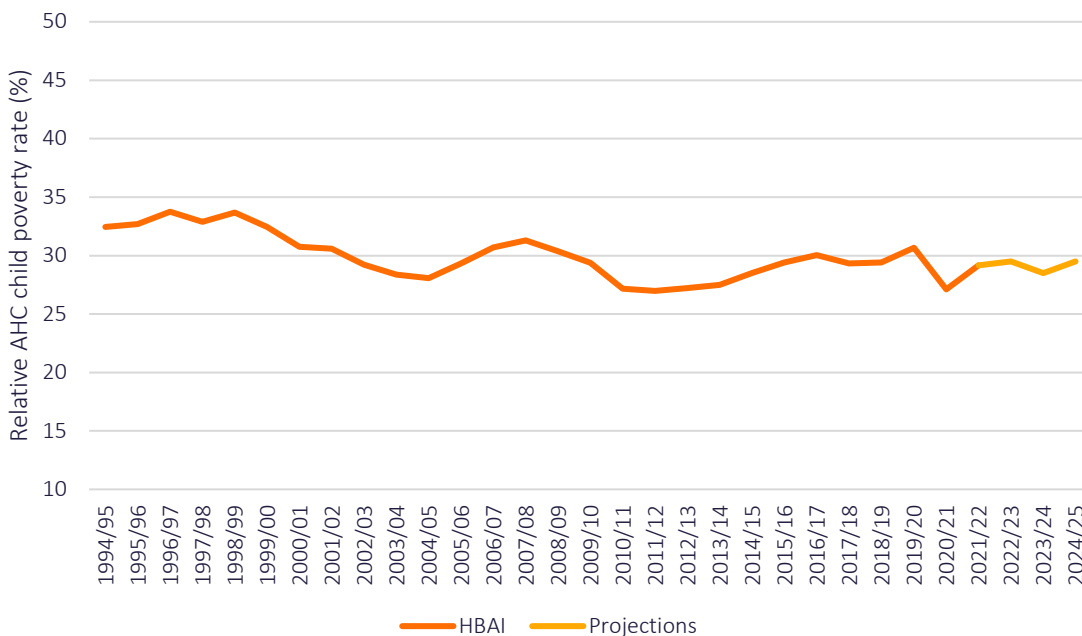
Normally, we expect living standards to rise, so the numbers in absolute poverty line should be reducing. In effect, absolute poverty measures provide a warning and can show if real living standards are instead actually falling, but they do not accurately reflect contemporary living standards.

### Housing costs

Another feature of poverty measurement is whether to look at the rate before (BHC) or after housing costs (AHC). The key benefits of AHC measures are that they more accurately reflect disposable income (how much families have to live on when certain non-negotiable expenses have been met). They also capture large regional variations in housing costs, which is important to consider when thinking about government policy to tackle child poverty. For example, in London, high housing costs are a major driver of child poverty.

### Poverty trends

Figure 1: Relative AHC child poverty rate from 1994/95 to 2024/25



Note: HBAI taken from Households Below Average Income 2021/22. Projections are based on UKMOD version B1.12. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The results and their interpretation are the author’s sole responsibility.

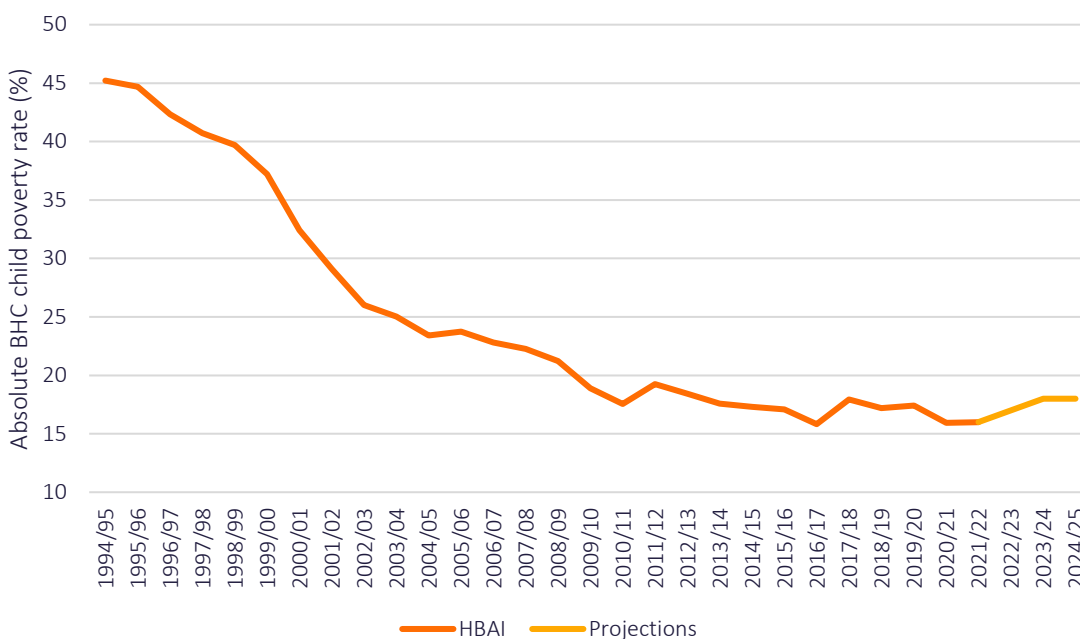
Figure 1 shows that from 1999/00 to 2004/05 there was a large reduction in relative child poverty, primarily due to large increases (above the rate of earnings growth) in entitlement to social security. For instance, over this period, a lone parent in part-time work with one child saw the cash value of their benefits increase by nearly 50



per cent.<sup>3</sup> Then from 2004/05 to 2007/08, relative poverty rose as social security was only increased in line with inflation, despite there being strong economic growth.<sup>4</sup>

From 2007/08 to 2010/11 there was a fall in child poverty, as the recession led to a reduction in median income. Then since 2010/11, child poverty has risen again, as the UK government now spends **£42 billion a year less** on social security than it would have spent if cuts, freezes and other changes since 2010 hadn't happened.<sup>5</sup> The fall in child poverty in 2020/21 was due to the £20 a week increase in universal credit; the subsequent rise was due to its removal. Poverty rates are forecast to have been fairly constant since COVID as both earnings and social security have seen no real growth.

Figure 2: Absolute BHC child poverty rate from 1994/95 to 2024/25



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It is clear from Figure 2 that absolute poverty has fallen considerably over time. This is unsurprising as the key driver of absolute poverty rates is economic growth. The UK was much poorer in 1994/95 compared to 2010/11

<sup>3</sup> M Brewer and others, *Child Poverty in the UK since 1998-99: lessons from the past decade*, Working Paper 10/23, Institute for Fiscal Studies, 2010

<sup>4</sup> As median income rose by more than low-income households' income.

<sup>5</sup> Author's calculations from the Policy Measures Database, March 2022. The sum of all policies in the 'Social security benefits', 'Tax credits', 'Welfare Inside cap' and 'Welfare outside cap' categories for 2022/23, except 'Devolving disability benefits to the Scottish government.' These policies cover all policies announced from the 2010 Budget to the 2022 Spring Statement. As such they do not cover the emergency cost-of-living policies. However, these policies only slightly reduce the total amount lost since 2010 and were temporary, whereas the extensive cuts to social security are permanent.

so it is to be expected that nearly half of all children in 1994/45 were in poverty compared to 2010/11 living standards. The main reason for this fall was strong economic growth (primarily due to factors outside the government's control), but part of the fall from 1994/95 to 2010/11 can be attributed to increases in the generosity of social security in the late 1990s and 2000s. However, it is impossible just by looking at the absolute figures to say how much credit we should give the government for reducing poverty. The relative AHC poverty rate shown in Figure 1 provides a much better indication of the government's influence over poverty rates.

Since 2010/11 there has not been much change in absolute child poverty. This is because modest economic growth (reducing absolute poverty) has been cancelled out by cuts to social security (increasing absolute poverty). Absolute poverty is forecast to have risen since COVID as the cost-of-living crisis has led to reductions in household income for many families.

### Poverty in different groups

HBAI also provides a breakdown of the risk of being in poverty for different groups of people, including

- poverty affecting the early years, where the youngest child in the family is under five
- poverty among different Black and minority ethnic communities
- poverty in one parent families
- poverty in families with three or more children
- poverty by region

There is also information on the composition of children in poverty. For instance the percentage of children living in poverty who are in working families and whether parents are in work.

Finally, there is information on the number and rate of children living in deep poverty, calculated as children living in households with less than 50 per cent of median income.

### Conclusion

HBAI is an invaluable resource for showing the extent and breakdown of child poverty in the UK. The suite of measures in HBAI provides us with a comprehensive picture of poverty in the UK, and how this has changed over time. However, because there is no one perfect way to measure poverty, it is important that measures are not cherry-picked to support a particular argument. Instead, proper use of long-established poverty statistics can lead to an evidence-based debate about the nature of poverty in the UK, and what can be done to reduce child poverty and all its debilitating effects on children.<sup>6</sup>

### About CPAG

Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and end poverty – for good. We provide training, advice and information to make sure hard-up families get the financial support they need.

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<sup>6</sup> See CPAG, [Pre-budget briefing for MPs](#), 2024 for more details about how to reduce child poverty.