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**Mark Pont, Assessment Programme Lead**

Iain Bell  
Deputy National Statistician  
(by email)

9 November 2018

Dear Iain

## **STATISTICS ON THE EFFECTS OF TAXES AND BENEFITS ON HOUSEHOLD INCOME**

As you are aware, we recently completed a compliance check of your Effects of Taxes and Benefits on Household Income (ETB) statistics against the [Code of Practice for Statistics](#). This letter confirms our findings.

ETB statistics were designated as National Statistics following an [assessment](#) in 2011. Since then, the statistics have undergone a number of developments, and user interest in this area has continued to grow. As a result, we decided to assess the quality and public value of these statistics. We focused on their relevance to users and coherence with other sources of household income statistics, in particular, the Household Below Average Income (HBAI) statistics produced by the Department for Work and Pensions (DWP).

Our review identified a number of strengths and recent and planned improvements in the statistics. For instance, we welcome the introduction in 2015 of experimental flash estimates (formerly called 'nowcasts'), which provide provisional estimates of household disposable income and income inequality around nine months before the publication of the final ETB statistics. This meets a recognised user need for more timely statistics.

We are encouraged by your partnership with DWP to improve the statistics. The statistical team told us about a project with DWP to develop a new income adjustment for high earners using administrative data from HM Revenue & Customs (HMRC). The results of this work will be published in a joint research paper containing ETB and HBAI data. This will be the first high-income adjustment for the ETB statistics, and is simultaneously expected to improve the quality of the ETB statistics and enhance their coherence with the related HBAI statistics. The team also told us about the forthcoming move from household-level to person-level analysis. This will further align the ETB methods with those of the HBAI statistics and address a long-standing concern of users. Again, we welcome this positive response to user demand.

We particularly welcome your ambitious household financial statistics [transformation workplan](#), which is expected to enhance the quality and value of the ETB statistics. The integrated Household Finances Survey design will harmonise questions from the Living Costs and Food Survey (on which the ETB estimates are based) and the Survey on Living Conditions to create a common set of variables for income statistics. The resulting increase in sample size will lead to better precision and more precise estimates for local areas and various population sub-groups. In addition, you intend to make greater use of administrative data (HMRC tax returns and DWP benefits data) to develop a clearer picture of the income of households at the top and bottom end of the income distribution. The workplan reflects a commitment to the continuous improvement of the statistics.

The publication of the workplan, the accompanying [National Statistical blog](#), presentations at external users events like the Family Finance Survey User Conference, and use of Twitter demonstrate transparency about your approach to public engagement and effective communication with a wide range of users. The development plans have been well-received by users and we welcome that you continue to invite feedback on your plans.

The ETB bulletins and the associated quality documents and articles, such as the [Guide to sources of data on earnings and income](#), provide a brief description of the statistics. To aid user interpretation of the ETB and HBAI statistics, it would be helpful if the statistical team, in collaboration with DWP statisticians, produces clearer documentation that directly compares their uses, similarities and differences, and strengths and limitations. The recent ONS [article](#) on individual earnings statistics from the Annual Survey of Hours and Earnings (ASHE) and Average Weekly Earnings (AWE) may provide a useful starting point.

Lastly, the improvements to the ETB statistics from the transformation workplan will likely have an impact on the time series. We are encouraged by your plans for dual-running to measure the impact of the changes. To be open with users and to give them confidence in the transition, you should inform users of any upcoming changes and include clear and prominent explanations of their impact on the estimates in the bulletins. We also encourage you to consider carefully how to handle the issue of coherence once the workplan has been completed. It is important to explain to users how the ETB and HBAI statistics have become more or less similar, and to highlight the strengths and unique features of the ETB statistics, to avoid confusion about which source to use to answer which questions about household income.

I would welcome an update on your proposed developments to these statistics ahead of the next ETB publication in January 2019.

Yours sincerely



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