

A minimum income standard for the UK in 2010

Findings
Informing change

July 2010

Since 2008, JRF has published annual updates on a 'minimum income standard', based on what members of the public think people need to achieve a socially acceptable standard of living. This update reviews what people think is needed, in changed economic circumstances.

Key points

- A single person in the UK needs to earn at least £14,400 a year before tax in 2010, to afford a basic but acceptable standard of living. A couple with two children needs £29,200.
- Inflation has caused the cost of a minimum household budget to rise by 3–4 per cent, in the year to April 2010, in line with general inflation. However, new calculations show that over the past decade, the rising cost of food, public transport and other essentials means that a minimum budget costs 38 per cent more, despite general inflation at just 23 per cent.
- As a result, a single person who in 2000 could afford a minimum basket of goods and services, but whose income had just risen by the official inflation rate, would be £19 a week short of being able to afford the same basket in 2010 – a fall in living standard of over 10 per cent.
- Despite the recession, members of the public involved in the research have not reduced what they consider necessities. They still believe that, as a minimum, people need not just physical essentials like food, warmth and shelter, but also things that allow them to participate in society.
- A computer and home internet connection are now considered essential for all non-pensioner households, according to the groups involved in the research. In 2008, they were only considered essential for families with school-age children.
- Tax allowances and tax credit thresholds not being uprated in 2010 means people need to earn substantially more to afford the increased cost of living. The Budget has raised tax allowances for 2011, but for some families with children, other Budget measures will potentially offset all of the gain from higher allowances.

The research

By a team from the Centre for Research in Social Policy at Loughborough University

Background

In 2008, the first minimum income standard (MIS) was published by JRF. It is updated regularly, to reflect changes to costs and living standards. Initially covering Britain, the research has recently been extended to Northern Ireland, where overall results were similar, so MIS is now applicable to the whole of the UK.

Over time, changes in prices alter the cost of a basket of goods and services that represent a minimum standard of living. In addition, changes in social norms will alter the content of that 'minimum basket'. This study considered both those elements, and updated the budgets to April 2010.

Price changes

According to official figures, the year to April 2010 saw renewed inflation after flat prices the previous year. The Retail Prices Index (RPI) rose by 5.3 per cent while the Consumer Prices Index (CPI), which excludes mortgage payments and some other housing costs, rose by 3.7 per cent. However, the cost of a minimum budget will not necessarily change at the same rate as general inflation. This is because items such as food, which are

more prominent in a minimum budget than in average spending, may rise faster or slower than average.

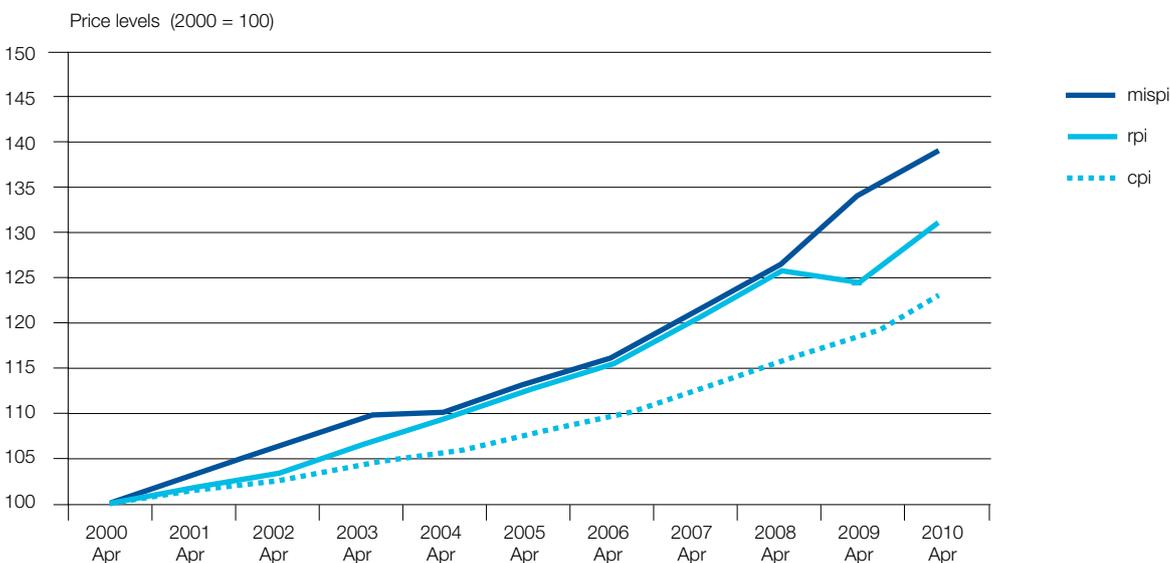
In the past year, the rise in the cost of minimum budgets for various households has risen by 3–4 per cent, similar to that of CPI. However, since the launch of MIS in 2008, budgets have become 8 per cent more expensive, compared with 6 per cent for CPI and 4 per cent for RPI. New analysis also shows that over the past decade, the cost of a minimum household budget for a single person has risen by 38 per cent, compared with rises of the CPI and RPI of 23 and 31 per cent respectively (see Figure 1). This is because items such as food, bus fares and council tax, which comprise relatively large shares of a minimum budget, have risen sharply in price – for example, bus fares are nearly 60 per cent higher than in 2000.

These figures suggest that people on low incomes are facing much higher than average inflation rates, with serious consequences for their economic well-being. For example, a single person able to afford a minimum basket of goods and services in 2000, whose income had kept pace with general inflation, would be £19 a week short of being able to afford the same basket today.

Changes in living standards and the recession

As society changes, the definition of what households need for a minimum acceptable standard of living changes too. Every few years, research with members

Figure 1: Rise in the cost of a minimum household budget compared with general inflation, 2000–2010



Note – the 'mispi' index is based on the estimated cost of all items in the basket of goods and services in the 2008 research, which members of the public said were needed for a single person to reach a minimum acceptable standard of living.

of the public on which MIS is based will be repeated in full. In 2010, two years after the initial research, a preliminary review looked at the case for making initial adjustments to the budget items. Nine groups of members of the public were involved.

The main finding was that, despite recession, the norms of 2008 are largely unchanged. Members of the public still believe that, as a minimum, households need to have physical things and to be able to participate in society. For example, they still think that a certain basic budget for going out is required, that people need to be able to buy birthday presents and that everyone needs at least a week's holiday away each year, although not abroad. The groups did not change the money allocated for these activities. The research also confirmed that items such as fridge-freezers, DVD players and mobile phones are such an integral part of modern life that everyone should be able to afford them.

However, the groups also said that a computer and home internet access are now essential for all working-age households, rather than just for those with school-age children as in the previous research. Participants argued strongly that internet access at home has become essential to have the opportunities needed to participate in society – and was needed for example to access job opportunities and get discounts on services. Pensioners in the review groups agreed the internet is growing in importance, but disagreed that home internet access is part of a minimum living standard for them. Computers and the internet are therefore

included in the 2010 budgets for working-age but not for pensioner households.

Budgets for April 2010

Revised budgets for April 2010, alongside key comparisons, are shown in Table 1. Most of the budgets have risen by 4–6 per cent in the past year, due to a combination of inflation and added items. However, for families with secondary-school children, for whom no items were added and some savings on telephone and internet packages were calculated, the budgets typically rose by 2.5 per cent, less than inflation.

For the first time, the minimum income standard can be reliably compared with the poverty line of 60 per cent median income, using the 2008/09 poverty figures published this year. Most budgets for working-age households are substantially above the 60 per cent median threshold, but pensioner couples are below that threshold on an 'after housing cost' measure. However, it seems probable that the percentages will have risen since then, due to weak growth in average incomes combined with a significant rise in the MIS level.

In 2010, basic out-of-work benefits provide less than half of a minimum income for an adult with no children and about two-thirds for families with children. The safety net benefit for pensioners, Pension Credit, pays just enough for them to meet the MIS, provided they

Table 1: Summary of April 2010 minimum income standard

<i>Family type</i>	<i>Single working age</i>	<i>Pensioner couple</i>	<i>Couple + 2 children</i>	<i>Lone parent + 1 child</i>
Weekly budget excluding rent/childcare	£175.34	£222.22	£402.83	£233.73
Percentage inflation rise since 2009	3.3%	3.2%	3.6%	3.2%
Total percentage rise, including items added in 2010	5.7%	5.5%	4.1%	6.2%
Percent of budget* provided by Income Support/ Pension Credit	41%	102%	62%	65%
Percentage of median income, after housing costs, required for MIS (2008/09)	72%	53%	73%	72%
Earnings calculation:				
Weekly budget including rent and childcare	£227.97	n/a	£474.01	£443.54
Annual earnings required	£14,437	n/a	£29,731**	£12,469
Hourly wage requirement	£7.38	n/a	£7.60**	£6.37

*Excluding council tax.

**If both members of couple work full time. A single-earner couple, without childcare, would need £29,231, but this would require a wage of £14.95 an hour.

claim this means-tested benefit. The percentage of MIS provided by benefits fell for all these groups, by 1–3 per cent. This is partly because benefit rises of around 2 per cent were less than the inflation rate, and also because of the small additions in household needs identified in the MIS review.

For households in work, the salary required to reach the minimum standard remains well above the National Minimum Wage (currently £5.80). A 'living wage' can be defined as the wage needed for a couple with two children to meet MIS if they are both working full time, since this will also provide enough for the great majority of other household types (see www.minimumincomestandard.org/livingwage.htm). While the net amount needed for this family rose by 4 per cent since 2009, its required earnings have risen by 6 per cent, causing the living wage to rise from £7.14 to £7.60. This greater percentage increase is due to the previous government's freezing of tax allowances and the thresholds for tax credits to be withdrawn, rather than raising them with inflation. The raising of allowances in the Budget will reverse this effect, but this will be offset by a faster withdrawal of tax credits as income rises, and by a freeze in Child Benefit.

Conclusion and policy implications

The evidence from this first review of MIS budgets suggests that tougher economic times have not obviously affected how people in the United Kingdom define what is needed for a minimum acceptable living standard. Although many are bound to experience enforced reductions in their standards of living as a

result of the economic downturn, so far there is no 'austerity effect' causing people to change their view about what is acceptable.

However, the research suggests that people on low incomes are at risk of suffering in today's economic context:

- Low-income households are especially vulnerable to inflation, especially when essentials like food go up faster than average. Unless employers and the government take this into account when uprating pay and benefits, their real living standards could fall.
- New spending needs emerge in a changing world. In 2010, the essential need for a computer and home internet access impose significant extra costs on low-income households.
- Government tax and benefit policy have big impacts on people's ability to reach minimum living standards. Tax allowances, frozen in 2010, will rise substantially in 2011, helping low earners to reach the MIS. However, the tax credit entitlement of a family close to the minimum is likely to fall in real terms next year, as will Child Benefit, potentially reversing all of the gain from higher allowances.

On entering Downing Street, Prime Minister David Cameron said he wanted to ensure that the government "... always looks after the elderly, the frail, the poorest in our country." Fulfilment of this pledge will help determine whether people are able to achieve the minimum standard of living that allows them to participate fully in society, rather than being excluded.

About the study

This update was carried out at the Centre for Research and Social Policy at Loughborough University, by the team that conducted the initial MIS research. It involved nine focus groups of members of the public, who reviewed minimum budgets for different household types, and analysis of RPI data.

The full report, **A minimum income standard for the UK in 2010** by Abigail Davis, Donald Hirsch and Noel Smith, is published by the Joseph Rowntree Foundation. It is available as a free download at www.jrf.org.uk

A minimum income calculator is also available, which lets people find out how their income measures up to the MIS: www.minimumincome.org.uk/

Published by the Joseph Rowntree Foundation, The Homestead, 40 Water End, York YO30 6WP. This project is part of the JRF's research and development programme. These findings, however, are those of the authors and not necessarily those of the Foundation. ISSN 0958-3084

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Tel: 01904 615905 email: info@jrf.org.uk