A minimum income standard for the UK in 2011

Donald Hirsch

JOSEPH ROWNTREE FOUNDATION

www.jrf.org.uk

A minimum income standard for the UK in 2011

Donald Hirsch

July 2011

This is the 2011 update of the Minimum Income Standard for the United Kingdom, based on what members of the public think people need for an acceptable minimum standard of living.

This report shows:

- what incomes different family types require in 2011 to meet the minimum standard; and
- how much the cost of a minimum household budget has risen since the last update in 2010.

This update in minimum budgets is based on increases in living costs. The findings also reflect important changes in the tax and benefits systems, which affect both the extent to which people living on benefits can afford necessities and the amount that people in work need to earn in order to reach a minimum net income. The research describes the ways in which people on lower incomes are feeling the squeeze caused by a combination of sluggish income growth, relatively rapid price increases, and tax and benefit changes.

See a short video overview explaining what MIS is: http://www.jrf.org.uk/mis

Contents

List of figures and tables

Figures

Tables

Executive summary

This report presents the 2011 update of the Minimum Income Standard (MIS), originally published in 2008. The standard is based on research into the items that members of the public, informed where relevant by expert knowledge, think should be covered by a household budget in order to achieve a minimum socially acceptable standard of living. Regular updates to the standard are based on research into what should be included in the minimum 'basket' of required goods and services, and on price changes that affect the cost of this basket. The 2011 update is based only on this second element, inflation.

Overall, the report shows that the minimum cost of living was about 5 per cent higher in 2011 than in 2010. This is only slightly ahead of general inflation, but several factors have combined to make it significantly harder for people to earn enough to reach the minimum. Minimum housing costs have gone up and support for childcare has reduced. Several other changes in benefits and tax credits have meant that, in particular, families with children need to earn significantly more in order to reach a given standard of living. Yet in practice, earnings have risen by less than general inflation, meaning that many people on low incomes are finding it substantially harder to make ends meet than a year ago.

Price uprating

Overall prices rose by 4.5 per cent between April 2010 and April 2011, according to the Consumer Prices Index (CPI). However, based on an analysis of the price rises in the types of goods and services included in a minimum budget, we estimate that the minimum cost of living has risen slightly more quickly than the general inflation rate – between 4.7 per cent and 5.7 per cent for various types of household. Since MIS was first published in 2008, the cost of a minimum basket has increased by about 15 per cent, compared with 11 per cent for CPI and 10 per cent for Retail Prices Index (RPI).

Further analysis shows that over the decade to 2011, the cost of a minimum budget went up by 43 per cent, while CPI rose by just 27 per cent, and RPI by 35 per cent. This difference is attributable to large rises in the cost of things such as food, council tax and public transport, on which people on minimum incomes spend a greater than average proportion of their household budgets. This high inflation rate faced by people on low incomes means that their living standards will have fallen substantially if their wage and benefit income rose only in line with official inflation. For example, a single person who could just afford the minimum in 2001, and subsequently had their income 'inflation-adjusted' using CPI, would now be about £25 short of the £185 needed for a minimum weekly household budget. The decision in the June 2010 Budget to link all benefit and tax credit upratings to the slower moving CPI, rather than (in some cases) RPI, makes such losses more likely in the future.

The 2011 MIS budgets

In the new MIS budgets, a single person requires £185 a week excluding rent, up from £175 in 2010. This requires earnings of £15,000 a year (based on assumptions about minimum housing costs). An online Minimum Income Calculator (CRSP, 2011a) makes it possible to calculate the equivalent for most household types in Britain.

For non-working households, benefits continue to fall well short of providing a minimum acceptable income, although pensioners claiming the Pension Credit get almost exactly enough to meet the standard. In percentage terms, benefits rose more slowly than the minimum requirement, according to the MIS calculation in 2011.

The MIS level remains above the official poverty line of 60 per cent median income, except for pensioner couples. For example, a couple with two children required 75 per cent of median income, adjusted for household size, to reach a minimum acceptable living standard in 2009/10. This had risen from 73 per cent

in 2008/09. It reflects the fact that minimum income requirements have been rising faster than general inflation in the recession, but average incomes are rising slower than inflation, so the percentage of an average income that is needed as a minimum has gone up.

Wage requirements and changes in taxes, tax credits and benefits

MIS budgets for most household types require a wage well above the National Minimum Wage of £5.93 an hour, even with all adults working full-time. A wage of £7.67 an hour would be needed by a single person, and £9.41 an hour for a couple with two children, both working full-time.

Families with children need to earn much more than a year ago in order to make ends meet. For a working couple with two children, the earnings requirement rose by 24 per cent. This is largely because families on tax credits are being asked to cover more of their childcare costs themselves. Moreover, gross earnings need to rise greatly to make up for this loss in disposable income. For each extra pound such a family earns, it loses 73p in reduced tax credits and in increased tax and national insurance contributions.

These turbulent changes in wage requirements, and their relationship to government support, raise important issues pertinent to the forthcoming reform of the benefits and tax credits systems. They underline how important state support has become to the ability of people, including those in work, to make ends meet. This will not change with Universal Credit. A particular issue is whether families with children are able to work on relatively modest wages and have enough to afford essentials after paying for childcare. This has been made significantly harder by the 50 per cent increase in the size of the contribution that families on Working Tax Credit make to childcare costs. In particular, it pushes costs up for families when their children are very young and require more childcare. Previously, this extra cost was more or less cancelled out by the fact that younger children incur lower spending in other areas such as food and social participation. However, with support for childcare reduced, the cost of children is falling more heavily on their early years.

Rural update

This report also updates MIS in rural areas. Research on rural households' minimum requirements has shown that, while these are mainly similar to those of urban households, the need for a car and more expensive forms of heating imposes significant extra costs in rural areas. In the past year, both petrol and heating fuel have been rising relatively fast, and this has pushed rural costs up at a slightly faster rate than urban costs. As a result, the extra struggle of making ends meet in a rural area has also increased. For example, a single unemployed person living in a rural area and relying on basic benefits now has only a third of the disposable income that he or she needs.

Conclusions

This report shows that the squeeze in living standards, caused by the combination of rising prices and stagnant incomes, is hitting people on low incomes hard. This is partly because they face relatively high inflation rates, but also because of policy decisions that have restricted their net incomes. As the Universal Credit is introduced, the effect on the ability of working-age families to make ends meet through modest earnings will become a key issue. This report is an early sign of the huge impact that even seemingly modest changes in the welfare system can have, especially for low-income working families who depend on it to achieve an acceptable living standard. In particular, the reduction in support for childcare has made many low-earning families worse off, and has also substantially reduced work incentives for childcare users.

1 Introduction

How much is needed to achieve a minimum acceptable standard of living in the United Kingdom today? In 2008, the first Minimum Income Standard (MIS) for Britain produced income standards based on detailed research into what ordinary people thought should go into a minimum household budget, supported by expert knowledge on certain physical living requirements, including nutrition (Bradshaw, *et al*., 2008; see also 'MIS in brief' in Box 1 in this chapter).

As part of that project, there was a commitment to keep MIS up to date, in order to reflect changes in the cost of living and in the social norms that determine the items included in the calculation of a minimum budget. Annual updates alternate between those based on new research (in even-numbered years) and those based only on estimates of price rises (in odd-numbered years).

The 2011 report is thus based on price increases only. These are estimated by applying changes in the relevant components of the Retail Prices Index (RPI) to the categories of goods and services included in MIS budgets.

The full schedule for carrying out this updating work is shown in Figure 1. The first review of the budgets was carried out in 2010 (Davis, *et al*., 2010). The budgets for families with children will be rebased from fresh research in 2012, and the same is planned for households without children in 2016. The Joseph Rowntree Foundation (JRF) has agreed to fund these updates at least up to 2013.

Figure 1: Planned programme of MIS research

PUBLICATION DATE	2008	2009	2010	This report 2011	2012	2013	2014	2015	2016
Families with children									
Contents of budgets	Original research		Review		Rebase		Review		Review
Price of items	Pricing	Inflation	Inflation	Inflation	Pricing	Inflation	Inflation	Inflation	Inflation
Families without children									
Contents of budgets	Original research		Review		Review		Review		Rebase
Price of items	Pricing	Inflation	Inflation	Inflation	Inflation	Inflation	Inflation	Inflation	Pricing

Definitions

Rebase	Repeat original research to create new budgets from scratch
Review	Groups consider whether existing budgets need selective changes
Pricing	Identify current prices of individual items from suppliers
Inflation	Apply RPI-based uprating method to adjust budget costs from previous year

Chapter 2 of this report estimates the increase in the cost of MIS budgets between April 2010 and April 2011, using RPI data. Chapter 3 summarises the revised set of budgets, looking at the incomes that are needed to afford them and comparing these with benefits, and with the poverty line. Chapter 4 looks at the earning required to reach MIS, and analyses the effects of the changes in tax and benefit rates, introduced in April 2011, on these earnings requirements. Chapter 5 updates budgets and income comparisons for rural areas.

Box 1 in this chapter summarises the main features of MIS. For further detail, see Bradshaw, *et al*., 2008. The results of MIS, updated to April 2011, are available in full using the online Minimum Income Calculator (CRSP, 2011a) and in a summary spreadsheet published on the MIS website (CRSP, 2011b), as well as in tables for selected household types, given in Chapter 3. The Minimum Income Calculator allows users to specify the number and ages of family members and to adjust for some costs over which they have little control, such as rent, in order to personalise a minimum budget. Users can also see the gross earnings or pension that their family will need in order to achieve that budget, and compare the spending available to someone on a different income with the minimum requirement.

Box 1: MIS in brief

What is MIS?

The Minimum Income Standard (MIS) is the income that people need in order to reach a minimum socially acceptable standard of living in the United Kingdom today, based on what members of the public think. It is calculated by specifying baskets of goods and services required by different types of household in order to meet these needs and to participate in society.

How is it arrived at?

A sequence of groups has detailed negotiations about the things a family would have to be able to afford in order to achieve an acceptable living standard. Experts check that these specifications meet basic criteria such as nutritional adequacy and, in some cases, feed back information to subsequent research groups that check and amend the budgets. Each group typically comprises six to eight people from a mixture of socio-economic backgrounds, but all participants are from the particular demographic category under discussion. For example, pensioner groups decide the minimum for pensioners.

What does it include?

Groups in the original research defined MIS thus: “A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society”.

Thus, a minimum is about more than survival alone. However, it covers needs, not wants, necessities, not luxuries: items that the public think that people need in order to be part of society. In identifying things that everyone should be able to afford, it does not attempt to specify extra requirements for particular individuals and groups: for example, those resulting from living in a remote location or having a disability. So, not everybody who has more than the minimum income can be guaranteed to achieve an acceptable living standard. However, someone falling below the minimum is unlikely to achieve such a standard.

To whom does it apply?

MIS applies to ‘nuclear’ families and to childless adults: that is, households that comprise a single adult or a couple, with or without dependent children. It covers most such households, with its level adjusted to reflect their makeup. It does not cover families living with other adults, such as households with grown-up children.

Where does it apply?

MIS was originally calculated as a minimum for Britain; subsequent research in Northern Ireland in 2009 showed that the required budgets there are all close to those in the rest of the United Kingdom, so the national budget standard now applies to the whole of the UK. This standard was calculated based on the needs of people in urban areas. A further project published in 2010 (Smith, *et al*., 2010) looked at how requirements differ in rural areas. This information is also contained in the online Minimum Income Calculator (CRSP, 2011a) and can be obtained by clicking on the 'rural' option on the main results page.

How is it related to the poverty line?

MIS is relevant to the discussion of poverty, but does not claim to be a poverty threshold. This is because participants in the research were not specifically asked to talk about what defines poverty. However, it is relevant to the poverty debate in that almost all households officially defined as being in income poverty (having below 60 per cent of median income) are also below MIS. Thus households classified as in relative income poverty are generally unable to reach an acceptable standard of living as defined by members of the public.

Who produced it?

The original research was funded by the Joseph Rowntree Foundation (JRF). It was conducted by the Centre for Research in Social Policy (CRSP) at Loughborough University in partnership with the Family Budget Unit at the University of York. Updating is being carried out by CRSP, again with JRF funding.

When was it produced and how is it being updated?

The original research was carried out in 2007 and the findings presented in 2008 were costed using April 2008 prices. Every July, new MIS figures are published, updated to April of the same year. The updates take on board inflation and changes in minimum needs as set out in Figure 1 in this chapter.

2 MIS and changes in prices

To calculate the current value of MIS, the cost of buying the specified baskets of goods and services needs to be adjusted to take account of price changes. The RPI, which shows changes in prices in groups of goods and services categorised in the same way as MIS, gives data that allows adjustment without carrying out additional original research. This is not a perfect calculation of how much the basket of goods and services has risen in price, since different items within each RPI category rise at different rates. However, it has been found to be as good as any available method of revising the price level, short of respecifying all the items based on fresh research (Hirsch, *et al.*, 2009).

The inflation rate for the minimum cost of living

Overall, the inflation rate showed an increase in prices in the year to April 2011 of 4.5 per cent using CPI and 5.2 per cent using RPI. The CPI and RPI are the two main methods of measuring inflation, the difference between them being that RPI includes mortgage interest, council tax and other housing costs, while CPI does not. However, the uprating of MIS does not use the same inflation figure as either of these two general inflation indices. General inflation represents the amount that prices go up on average in a household budget. MIS inflation represents the increase in the cost of the set of things that people need to buy as a minimum. It is calculated using RPI data for each category of goods and services. So, for example, the official inflation figure for food is applied to the minimum food budget as part of the annual recalculation of MIS. If a category of goods is rising rapidly in price and is also heavily represented in a minimum budget, this can push MIS inflation up faster than general inflation.

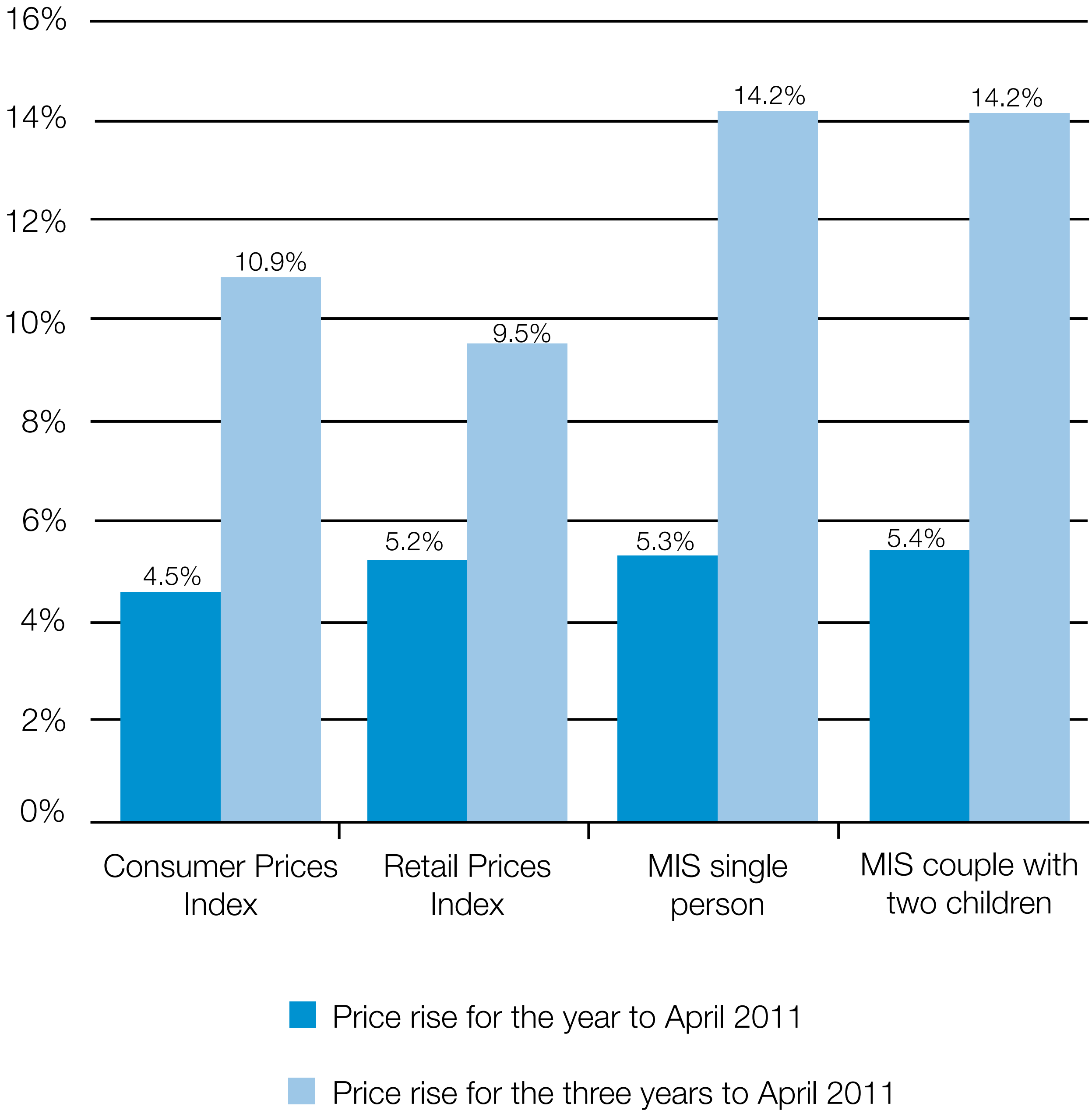
The inflation rates for MIS budgets for the year to April 2011 were similar to general inflation, with the budgets for various household types rising in cost by between 4.7 and 5.7 per cent, slightly faster than CPI but similar to RPI. However, over the three years since MIS was launched in 2008, there has been a substantial rise in the cost of MIS compared with general prices. This is summarised in Figure 2 in this chapter, showing the examples of a couple with two children and a single person (other household types have very similar inflation rates).

The higher inflation rate for MIS compared with CPI and RPI over the past three years has been driven by relatively rapid price rises on items such as food, which take up a greater proportion of a minimum budget than of the general index. This phenomenon has been relatively modest in the past year, when food prices rose by 4.5 per cent, the same rate as CPI. For 2008/9, the cost of MIS rose at twice the rate of CPI. Although this more extreme case has not been repeated, it has not been reversed either. That is to say, since MIS was launched three years ago, a period in which the cost of essentials rose sharply relative to other prices has been followed by one in which price rises have been more even, so the price of essentials compared with other goods remains higher than in 2008.

This pattern, moreover, has been occurring for at least a decade. To measure this, we estimate the past cost of a fixed basket of goods and services, as defined by MIS, by applying the various components of RPI. The resulting Minimum Income Standards Prices Index (MISPI) is contrasted with RPI and CPI in Figure 3 in this chapter. This estimates how much the cost of a constant basket of goods and services, representing the minimum in 2008, changed in price between 2001 and 2011.

Figure 3 in this chapter shows that the level of MISPI rose by 43 per cent over the decade, compared with 35 per cent for RPI and 27 per cent for CPI. This effectively means that a minimum basket became 13 per cent more expensive relative to a general (CPI) basket. (A basket of goods costing £100 in 2001 would cost £127 in 2011 if inflated by CPI but £143 if inflated by MISPI; £143 is 13 per cent greater than £127). Further discussion of MISPI can be found in Davis, *et al*., 2010.

Figure 2: Inflation over one year and over three years to April 2011



These results show that differential inflation rates can have significant effects on the well-being of people on low incomes, especially if rises in their incomes are linked to general inflation. A single person whose income in 2001 was exactly enough to be able to afford the items specified in the MIS basket, and whose disposable income just kept up with CPI (the index now used for uprating benefits and tax credits), would now fall £20 short of the minimum. That is, a decade of only having income increases in line with official inflation would have meant going from being able to afford a minimum living standard to being more than 10 per cent below it.

Moreover, there is every reason to believe that similar trends, in which the cost of a minimum budget rises faster than general inflation, will continue in the future. Analysis of global influences on prices suggests that a long-term increase in commodity prices, and the knock-on effects on essentials such as food, fuel and clothes, could mean that someone on basic benefits in 2020 could be at least 20 per cent worse off, relative to minimum requirements, than in 2000 (Hirsch, *et al*., 2011). Note that these 'commodity price-driven' forms of inflation are distinct from some of the other drivers of relatively higher basic costs, important before 2008. In particular, water rates, council tax and public transport have all undergone long-term relative price rises, influenced by the reduction of public subsidy. At present, water and public transport prices continue to rise faster than general inflation, and are projected to continue doing so although, in 2011, council taxes were frozen in cash terms and thus declined relative to general prices.

Figure 3: Prices 2001–11, general and MIS baskets

3 The 2011 MIS budgets

The MIS budgets for 2011, uprated for inflation, are summarised below for four household types. More detailed results are shown in the online Minimum Income Calculator (CRSP, 2011a), which allows budgets to be calculated for most types of household where a single adult or a couple live on their own or with up to four dependent children. The calculator also allows items such as housing costs to be adapted to individual circumstances. Spreadsheets showing the budgets for eleven different household types over time are also available online (CRSP, 2011b). In addition, the appendix to this report summarises what has happened to MIS budgets and income requirements since the first results in 2008.

Table 1 summarises the new budgets for four family types, with the totals listed in five different ways that allow different kinds of comparison to be made. The rest of this chapter then looks at some comparisons with the 'net' budgets after housing and childcare costs, while the subsequent chapter considers gross earnings requirements and how they have been changing.

Table 1: Summaries of MIS for four family types, April 2011

	Single adult of working age	Pensioner couple	Couple with two children (aged 2–4 and primary school age)	Lone parent with one child (aged 0–1)
	£ per week			
Food	46.31	61.14	111.91	54.02
Alcohol	4.96	8.38	6.87	3.94
Tobacco	0.00	0.00	0.00	0.00
Clothing	8.56	11.12	32.79	18.39
Water rates	5.16	6.08	5.96	8.08
Council tax	13.95	18.60	21.71	16.28
Household insurances	2.00	1.84	2.49	2.23
Fuel	10.51	12.40	21.59	19.18
Other housing costs	2.48	3.91	7.87	2.30
Household goods	10.99	12.87	20.12	18.95
Household services	4.53	9.94	10.06	4.01
Childcare	0.00	0.00	204.37	147.60
Personal goods and services	9.34	26.28	30.45	21.65
Motoring	0.00	0.00	0.00	0.00
Other travel costs	22.17	11.24	44.28	21.70
Social and cultural participation	43.71	48.90	108.56	55.64
Rent	56.21	70.01	76.61	72.11
'Headline' total excluding rent and childcare	**184.68**	**232.74**	**424.65**	**246.37**
Total including rent and childcare	240.89	302.74	705.63	466.08
Totals excluding:				
Rent, council tax, childcare (comparable to out-of-work benefits)	170.72	214.13	402.95	230.09
Rent, council tax, childcare, water rates (comparable to 'after housing costs' in HBAI*)	165.57	208.05	396.99	222.01
Council tax, childcare (comparable to 'before housing costs' in HBAI*)	226.93	284.14	479.56	302.19

*Households Below Average Income (HBAI) – Department for Work and Pensions (2001).

Comparison with benefits

Table 2 shows that basic out-of-work benefits provide well under half of the minimum income (net of rent and council tax) required for an adult with no children, and somewhat less than two-thirds for families with children. Pension Credit, the safety net benefit for pensioners, pays almost exactly enough for them to meet the MIS requirement, although for the first time since the start of MIS in 2008 pensioner couples receive slightly less than they need rather than slightly more (which is still the case for single pensioners). The percentage of MIS provided by benefits fell slightly this year, largely because benefit upratings for April 2011 were fixed at a time when inflation was relatively modest, but it had increased by the time the new benefit levels took effect. Over the past three years, small reductions in the adequacy of benefit rates have accumulated, so that the percentage of MIS provided by benefits has fallen (see Appendix Table (c)). The fall has been smallest (just one percentage point) for the couple with two children for whom reductions in the buying power of some benefits have largely been cancelled out by increases in the Child Tax Credit. The most severe fall, by five percentage points, was experienced by the pensioner couple.

Table 2: MIS compared with out-of-work benefit income, April 2011

	Single adult of working age	Pensioner couple	Couple with two children	Lone parent with one child
	£ per week			
MIS excluding rent, council tax and childcare	170.72	214.13	402.95	230.09
Income Support*/Pension Credit	67.50	213.53	247.94**	147.16
Difference (negative number shows shortfall)	–103.22	–0.60	–155.01	–82.93
Benefit income as % of MIS	40%	100%	62%	64%

*Including Child Benefit and Child Tax Credit.
**If the value of Free School Meals is included, this adds £7 to the weekly income of the family with two children, which is then 64% of MIS rather than 62%.

Comparison with the poverty line

The official ‘poverty line’ is set at 60 per cent of median household income. In order to compare this with the minimum required for a socially acceptable living standard, Table 3 in this chapter looks at the percentage of median income represented by an MIS budget. This uses the latest available data from the Households Below Average Income (HBAI) series (Department for Work and Pensions, 2011), which is for 2009/10, and compares it with the average of the 2009 and 2010 MIS budgets.

While the data shown covers incomes both including and excluding money spent on housing, the more meaningful comparison is between net MIS budgets and income after housing costs. This is because the rent figure in the MIS budgets cannot give a single accurate representation of the ‘minimum’ cost of housing, since the housing options that are actually available vary so greatly from one household to another.

The results show, as previously, that most budgets are significantly above the official poverty line. The one exception among all the family types in MIS is pensioner couples, whose minimum requirement after housing costs is slightly below the poverty line. However, even in this group, the majority will effectively require more than the 60 per cent median, because most pensioners live in houses rather than flats as assumed for the minimum, and this imposes extra costs such as heating.

As predicted in the update report last year (Davis, *et al*., 2010), the percentages of median income required for MIS are growing during the present economic period (see Appendix Table (d)). This is because the MIS level has risen significantly in a period when median incomes have grown more slowly. The after housing cost median rose by 3.8 per cent between 2008/9 and 2009/10, while the equivalent MIS requirements rose by 4–6 per cent for various families. Moreover, it seems likely that this situation has got worse in the past year, for which income data are not yet available: the Institute for Fiscal Studies suggests that those data could show incomes falling by 3 per cent in real terms (corrected for RPI) between 2009/10 and 2010/11 (Institute for Fiscal Studies, 2011). Overall since 2008, these trends have put people struggling to afford a minimum living standard in a particularly difficult position. In this period, average incomes are likely to have risen by less than the inflation rate, but the cost of a minimum living standard has risen faster than general inflation. The implication is that, just to preserve existing living standards, people with close to the minimum would have to see their incomes grow much faster than the average.

Table 3: MIS compared with median income, 2009/10

	Single adult of working age	Pensioner couple	Couple with two children	Lone parent with one child
	£ per week			
a) Before housing costs: median income 2009/10*	277	413	578	359
MIS excluding childcare and council tax	210	264	445	277
MIS as % of median	**76%**	**64%**	**77%**	**77%**
b) After housing costs: median income 2009/10*	206	356	498	278
MIS excluding childcare, council tax, water rates and rent	152	192	368	203
MIS as % of median	**74%**	**54%**	**74%**	**73%**

*Adjusted for household composition (i.e. median income is shown as higher for larger households and lower for smaller ones, according to a formula that assumes greater needs for larger families).

4 Earning enough to meet the minimum, and the impact of tax and benefit changes

As the previous chapter shows, working-age households who are out of work fall far short of achieving a minimum income standard if they depend solely on basic benefits. This raises the issue of how much people need to earn in order to reach the MIS level. Such a question is intrinsically harder to answer than whether benefits meet net requirements, because it requires a view about two costs that vary considerably for different families: housing and childcare. Moreover, as will be seen below, changes in gross income requirements are being strongly influenced by changes in the tax, tax credit and benefit levels.

Rent imposes a substantial fixed cost on families, and the price of an adequate home varies across the country. The online Minimum Income Calculator allows the rent (or mortgage) assumption to be adjusted to reflect the situation of an individual or prevailing prices in a local community to be entered. Childcare is a large cost for some, but not all, families with children, and so is shown separately. This too can be adapted in the Minimum Income Calculator. However, for each of these items, an illustrative figure is shown in this report, necessary to calculate the gross earnings required to meet a budget (see Table 1 in Chapter 3). In the case of housing, the rent on a council flat or house in Loughborough is used as a baseline. This does not show an average rent for the country, or even one that everyone will have access to, but a very modest 'minimum' level, so that few people could spend significantly less on rent and still reach an acceptable living standard. In the case of childcare, the cost of full-time provision has been estimated for both lone parents and couples (although it is not applied in the earnings calculation for single-earner couples).

Previous MIS reports have noted that few families can expect to reach a minimum income as defined by MIS as a result of having one person working full-time on the National Minimum Wage (NMW). Table 4 shows that this remains the case in 2010, and indeed the gap between the NMW and the wage needed to reach the MIS level has widened considerably, especially for families with children.

Table 4: Gross earnings required to meet MIS, April 2011

	Single adult of working age	One-earner couple with two children	Two-earner couple with two children	Lone parent with one child
	£ per week			
MIS (including rent, childcare and council tax)	240.89	501.26	705.63	466.08
Gross earnings required, per week	287.67	605.72	705.75	349.87
	£			
Annual earnings requirement	15,000	31,584	36,800	18,243
Hourly wage rate	7.67	16.15	9.41	9.33
Amount above the NMW, hourly	1.74	10.22	3.48	3.40

Note: assumes each earner works 37.5 hours a week. Childcare costs included for two-earner couple and lone parent. The NMW for people aged 21+ is £5.93 an hour in April 2011 and rises to £6.08 in October 2011.

The NMW rose by only just over two per cent in the year to April 2011. This contrasts with the rises in minimum net income requirements of around 5 per cent to reach MIS. However, the gross earnings requirements shown in Table 4 grew by 3.9 per cent for a single person, 8.1 per cent for a single-earner couple with two children and by much greater amounts for families with children requiring childcare (for example, 24 per cent for a couple with two children, both working full time). These differences between the rate of growth in the net MIS budgets and net earnings requirements have been influenced partly by rising housing costs and more substantially by changes in taxes, tax credits and benefits.

The amount of rent that people are assumed to pay rose substantially in 2011. This is a council rent (using rents in Loughborough as an example), which is the lowest category of rent and therefore the minimum that most people will need to afford. Council rents rose sharply in 2010/11, in line with central government guidelines. The average increase for individual tenants across England was 6.8 per cent, as laid down by the Department for Communities and Local Government as part of its rent restructuring policy (House of Commons Library, 2011). However, actual rents rose by more than this on average, because new lettings are set at the higher 'target' rate with which existing tenants' rents are converging. Based on the changes in the actual average rent for given property types in Loughborough, the increases applied in MIS range from 7 per cent to 9 per cent.

Figure 4 in this chapter shows that for families with and without children, the total cost of MIS, including rent, rose faster than inflation. This was not the main influence on the change in earnings requirement, however. More importantly, changes in the tax and benefit system had a big impact on the wages required to reach MIS, which was favourable for those without children but unfavourable for families with children.

For single people, the main change was a higher tax allowance which reduces the earnings needed for MIS. The earnings requirement therefore rose more slowly than inflation. Other households also benefited from this change, but those with children faced three other changes that caused earnings requirements to increase. First, Child Benefit was frozen, and so covers a smaller proportion of what families need, as a result of price increases. Second, the 'tapering' of tax credits with rising incomes was made steeper so that, for example, a couple on £30,000 a year joint-income get around £500 less. Third, and most seriously for those with childcare needs, the reduction of the provision made for childcare in the Working Tax Credit, from 80 to 70 per cent of costs, has raised by one-half (from 20 to 30 per cent) the contribution that families must find themselves.

The effect of all the above changes on earnings requirements for families is compounded by the fact that those on tax credits typically lose at least 73p in every extra pound that they earn, through lower tax credits and higher income tax. In order to make up, for example, the £500 reduction in annual tax credit entitlement referred to above, a couple with two children needs to increase their earnings by over £1,800. In addition, where the same couple has childcare costs of around £200 as shown in Table 1 in Chapter 3, paying an extra 10 per cent of these costs requires £20 a week or £1,000 a year, and to generate this the family must earn £3,700 more.

The remainder of this chapter discusses two issues arising from these changes: the heavy dependence of 'living wages' on tax and benefits decisions, and the changing situation for families that require childcare.

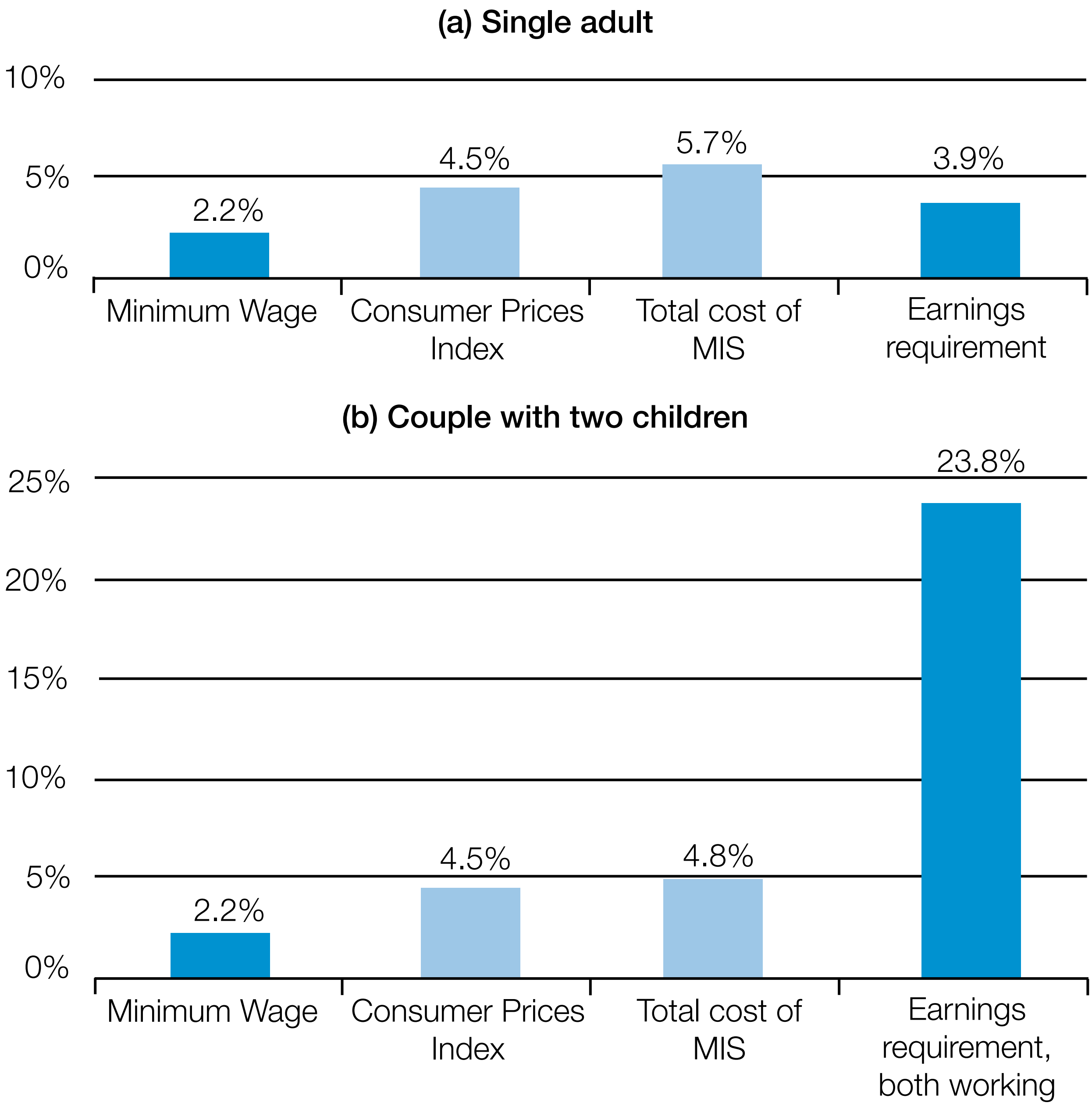
Wage requirements, taxes and benefits

Changes in tax and benefit rates introduced in 2011 have a significant impact on the MIS earnings requirements and underline the strong influence of government transfers in determining what families need to earn in order to make ends meet. This will continue to be an important issue in the next few years, as the system is reformed with the introduction of Universal Credit. Under the new system, the sensitivity of earnings requirements to the level of benefits/credits will, in many cases, be even greater than today. Under the proposed structure, people receiving the credit and paying tax will lose 76p rather than 73p for every extra pound earned.

Discussions about the appropriate level of a living wage (see the Living Wage section of the MIS website – CRSP, 2011a) need to take this situation into account. For families with children, in particular, the tax credit system has played an important part in enhancing the income of those on relatively low earnings, so that the changing level of that support has become at least as influential as wage rises in covering rising living costs. This will not change under the Universal Credit proposals.

Another way to look at living wages would be to consider how much a family would need to earn, before any intervention by the state, in order to provide for their needs. This would show the extent to which employers are covering needs. In the case of a single person, without having to pay tax or national insurance contributions, the earnings requirement would be around £12,600 rather than £15,000 – implying a wage requirement of £6.42 an hour, only 49p more than the minimum. For a single-earner couple with two children, who at the MIS level must pay more tax than they get back in benefits and tax credits, the requirement without these transfers to and from the state falls from £31,600 to £26,100. Where both are working and the couple uses childcare, the requirement remains the same at £36,800 (that is, taxes and benefits/tax credits balance out). A lone parent using childcare receives much more from the state than is given back, and the parent would need £24,300 rather than £18,200 were it not for these transfers.

Figure 4: Percentage increase in MIS and wage requirements, April 2010 to April 2011



Some critics of the role of the state argue that this shows that lower taxes for people on low incomes would reduce the need for tax credits and make it easier to link a 'living wage' to the behaviour of employers rather than the state. However, under an individual system of taxation, the principle of not taxing people whose incomes are below an acceptable minimum would also require substantial tax cuts for many people whose households are well above the minimum. For example, a couple with two children, with each partner earning £18,400, paying for full-time childcare, gets almost exactly as much back from the state as they pay in tax and national insurance contributions, and this family is able to cover its minimum costs exactly. In theory, they could achieve the same result with no transfers to or from the state, but this would require the tax allowance for everybody to rise to £18,400, necessitating huge increases in tax rates or cuts in spending. The only way to avoid this would be to switch to a family rather than individual basis for taxation.

The renewed burden of childcare costs

The biggest impact on MIS earnings requirements in the 2011 results comes from the much larger amount of childcare costs that families must now meet. In recent years, support for childcare costs in the tax credit system, and the raising of its rate to 80 per cent, had made it more feasible for families with young children to work on relatively modest earnings. Indeed, the MIS calculations up to 2010 had shown that the extra cost to low income working families of having pre-school children, and therefore having to pay 20 per cent of childcare costs, was fairly similar to the cost of having children at primary school. Lower childcare bills were balanced by higher spending requirements on other items such as food and social participation as children get older. However, a 30 per cent contribution to childcare changes this equation significantly.

Table 5 shows how the effects of having second earners, childcare and children of different ages have changed between 2010 and 2011 for a couple with two children. The first two columns for 2010 show that, up to that year, the couple had to earn about £30,000 between them to reach MIS. This combined earnings figure was not much different with a single earner or with both partners earning and paying for childcare. The family's 20 per cent contribution to childcare costs (net of tax credits) was similar to the gain made by having the same earnings shared between two people and thus qualifying for two tax allowances. Moreover, as explained above, the overall earnings requirement changed relatively little when the second child reached school age, because lower childcare costs were balanced by higher other costs.

Table 5: Annual MIS earnings requirement, couple with two children, 2010 and 2011

	Single earner, no childcare	Dual earner with childcare	Dual earner, no childcare
	Annual earnings requirement (£)		
a) 2010			
Children aged 3 and 6	29,220	29,727	22,807
Children aged 7 and 10	30,569	28,956	24,833
b) 2011			
Children aged 3 and 6	31,584	36,800	24,959
Children aged 7 and 10	32,546	34,437	27,341

In 2011, if a second earner goes out to work and faces the cost of full-time childcare, the combined earnings of the couple needs to be £5,000 higher than if one partner were bringing in all the earnings and childcare were not needed. This gap is considerably less, just £1,900, once both children are at primary school. Moreover, when the children are younger, a couple who do not have to pay for childcare can now get by on a combined income that is £12,000 lower than if they have to pay childcare costs.

Lone parents too are having to earn more in order to pay for childcare and achieve a minimum living standard. A lone parent now needs to earn £18,200 to reach MIS, up from £12,500 in 2010. In this case, the impact on the earnings requirement of more childcare costs falling on the household is particularly great because the lone parent loses Housing Benefit as well as tax credits as earnings rise. (The other households shown here earn too much to get Housing Benefit.)

These figures illustrate the renewed importance of the cost of childcare arrangements in determining whether a couple can make ends meet by both working on modest earnings. It shows why the conditions of childcare support in Universal Credit, which had not been fully worked out at the time of writing, will be crucial both to work incentives and to the material well-being of families where a lone parent or both adults in a couple work.

5 Rural budgets: summary update

The main MIS budgets apply to urban areas but in 2010 different and additional costs for rural areas of England were calculated (Smith, *et al.*, 2010). Table 6 summarises the uprated rural budgets for 2011, using the example of people living in villages (one of the three rural situations examined). Further detail is in the summary figures on the MIS website (CRSP, 2011b). The Minimum Income Calculator (CRSP, 2011a) also allows up-to-date adjustments of results for rural areas, obtained by clicking on the 'rural' button on the first results page.

Table 6: Summary of rural budgets 2011: requirements for village residents

a) New weekly spending requirement	**Single adult of working age**	**Pensioner couple**	**Couple with two children**	**Lone parent with one child**
Weekly budget excluding rent and childcare (£)	£218.86	£279.06	£488.66	£282.45
Percentage inflation rise since 2010	5.6%	5.2%	5.7%	5.6%
Per cent of budget* provided by Income Support/Pension Credit	33%	81%	53%	55%
b) Total income and earnings requirements for households with full-time earners				
	Single	**Two-earner couple with two children, with childcare**	**One-earner couple with two children, no childcare**	**Lone parent with one child**
	£			
Weekly budget including rent and childcare	290.97	769.63	565.26	502.16
Annual earnings required	18,840	36,492	39,491	25,960
Hourly wage requirement	9.64	18.66	10.10	13.28

*Excluding council tax.

In 2011, rural costs rose slightly faster overall than urban costs – by 5.6 per cent on average, compared to 5.3 per cent for the main MIS budgets. The main additional rural costs, motoring and domestic fuel, increased in cost faster than average MIS inflation, by 9.5 per cent and 7.5 per cent respectively. While the overall effect on costs in 2011 was small, this change underlines the fact that in the world of growing energy costs, people in rural areas are particularly vulnerable to increases in the overall cost of living. The adequacy of benefits relative to living costs in rural areas, already worse than in urban areas, fell further in 2011. For a single person living in a village, basic benefits provide only a third of the minimum disposable income required. Wage requirements in rural areas also grew further. Village residents in the examples shown all need to earn well over £9 an hour for an acceptable living standard – a wage far exceeding that paid in many basic rural jobs, which are around a quarter more likely to be low paid than average.

6 Conclusions

Much has been said and written in recent months about a squeeze on the living standards of people on modest incomes in Britain. Rising prices combined with stagnant wages mean that a wide range of the population has become worse off in real terms. There has also been considerable debate about where in the income distribution this effect hits hardest. This report, updating the Minimum Income Standard, shows that it is hurting people with low incomes by making it harder to reach a minimum acceptable standard of living.

One particular impact on those close to or below the minimum is the effect of above-average price rises in items such as food and public transport, which make up relatively high proportions of a minimum income compared with their representation in general price indices. People whose incomes depend, to a large extent, on benefits and tax credits, which are now being pegged to the Consumer Prices Index, are consequently getting worse off relative to the MIS benchmark. Some people, more heavily dependent on wage income, do even worse than this if their wages are not being uprated at all (which is the case, for example, for most public sector workers). However, if the long-term rise in the relative cost of essentials continues, people depending on state transfers will continue to fall further behind, whereas wage freezes are more likely to be temporary.

The squeeze on people on low incomes affects not just the adequacy of benefits but also the ability to earn enough to reach a minimum living standard. This is partly because wages, including the National Minimum Wage, are not rising as fast as the minimum cost of living. However, a bigger setback for families with children has been cuts in benefit and tax credit entitlements. Even where these are relatively small, such cuts can make the achievement of a minimum living standard far more elusive for those on low earnings. For each pound that they fall short of what they need, they may have to earn several pounds to make up the difference because, for such families, the majority of any additional earnings are withdrawn in higher taxes and lower tax credits.

These findings underline the extent to which the ability of families to earn an adequate living has become heavily dependent on state help. In its major reform of the benefits and tax credit systems, planned for the next few years, the Government will therefore need to take great care if it is not to create many more families working hard to keep their heads above water, yet still failing to do so.

References

Bradshaw, J., Middleton. S., Davis, A., Oldfield, N., Smith, N., Cusworth, L. and Williams, J. (2008) *A Minimum Income Standard for Britain – What People Think*. York: Joseph Rowntree Foundation

CRSP (Centre for Research in Social Policy) (2011a) *Minimum Income Calculator* [Online] Available at: www.minimumincome.org.uk

CRSP (Centre for Research in Social Policy) (2011b) *Minimum Income Standard for the UK* [Online] Available at: www.minimumincomestandard.org

Davis, A., Hirsch, D. and Smith, N. (2010) *A Minimum Income Standard for the United Kingdom in 2010*. York: Joseph Rowntree Foundation

Department for Work and Pensions (2011) *Households Below Average Income (HBAI) 1994/5–2009/10* [Online] Available at: http://research.dwp.gov.uk/asd/hbai/hbai2010/index.php?page=contents [Accessed 19 May 2011]

Hirsch, D., Davis, A. and Smith, N. (2009) *A Minimum Income Standard for Britain in 2009*. York: Josepth Rowntree Foundation

Hirsch, D., Perren, K. and Phung, V-H. (2011) *Global Influences on the Cost of a Minimum Standard of Living in the UK*. York: Joseph Rowntree Foundation

House of Commons Library (2011) *Rent Setting for Social Housing Tenancies* [Online] Available at: www.parliament.uk/briefingpapers/commons/lib/research/briefings/snsp-01090.pdf [Accessed 13 May 2011]

Institute for Fiscal Studies (2011) *Long-term effects of recession on living standards yet to be felt* [Online] Available at: http://www.ifs.org.uk/pr/hbai_2011.pdf [Accessed 17 May 2011]

Smith, N., Davis, A. and Hirsch, D. (2010) *A Minimum Income Standard for Rural Households*. York: Joseph Rowntree Foundation and Commission for Rural Communities

Appendix

Summary of MIS budgets 2008 to 2011

a) Minimum requirements not including rent or childcare

	£ per week			
	2008	2009	2010	2011
Single person	158.12	165.82	175.34	184.68
Couple	245.03	256.35	272.55	286.79
Pensioner, single person	131.98	138.53	147.41	154.62
Pensioner, couple	201.49	210.66	222.22	232.74
Lone parent with one child	210.31	220.11	233.73	246.37
Lone parent with two children	282.69	295.49	308.90	325.90
Lone parent with three children	379.94	396.28	406.15	429.19
Couple with one child	286.64	299.83	315.38	332.27
Couple with two children	370.05	386.96	402.83	424.65
Couple with three children	465.71	485.75	496.84	524.48
Couple with four children	504.69	526.44	539.08	569.27

b) Percentage increase in minimum requirements

	Annual inflation upratings			Change in composition of budgets 2010 (first MIS review)
	2009	2010	2011	
Single person	4.9%	3.3%	5.3%	2.3%
Couple	4.6%	3.5%	5.2%	2.7%
Pensioner, single person	5.0%	3.0%	4.9%	3.3%
Pensioner, couple	4.6%	3.2%	4.7%	2.2%
Lone parent with one child	4.7%	3.2%	5.4%	2.9%
Lone parent with two children	4.5%	3.5%	5.5%	1.0%
Lone parent with three children	4.3%	3.7%	5.7%	–1.2%
Couple with one child	4.6%	3.4%	5.4%	1.7%
Couple with two children	4.6%	3.6%	5.4%	0.5%
Couple with three children	4.3%	3.8%	5.6%	–1.4%
Couple with four children	4.3%	3.8%	5.6%	–1.3%

Note: the actual increase applied in 2010 comprised the inflation increase multiplied by the 'review' increase, e.g. for a single person it was (1+3.3%) x (1+2.3%) –1 = 5.7%.

c) Safety net benefits (Income Support/Pension Credit) as a percentage of MIS (excluding rent, childcare, council tax)

	2008	2009	2010	2011
Single person	42%	42%	41%	40%
Pensioner, couple	105%	105%	102%	100%
Couple with two children	63%	63%	62%	62%
Lone parent with one child	68%	67%	65%	64%

d) MIS as a percentage of median income

	2008/9	2009/10
Before housing costs		
Single person	74%	76%
Pensioner, couple	62%	64%
Couple with two children	75%	77%
Lone parent with one child	75%	77%
After housing costs		
Single person	72%	74%
Pensioner, couple	53%	54%
Couple with two children	73%	74%
Lone parent with one child	72%	73%

Note: survey data not available after 2009/10.

e) Earnings required to reach MIS

	£ per year			
	2008	**2009**	**2010**	**2011**
Single person	13,450	13,859	14,436	15,000
Couple with two children, one earner	26,910	27,635	29,227	31,584
Couple with two children, two earners	27,792	27,940	29,727	36,800
Lone parent with one child	11,900	12,122	12,454	18,243
	£ per hour			
Single person	6.88	7.09	7.38	7.67
Couple with two children, one earner	13.76	14.13	14.95	16.15
Couple with two children, two earners	7.11	7.14	7.60	9.41
Lone parent with one child	6.13	6.20	6.37	9.33

Acknowledgements

I would like to thank Judith Paterson at the Child Poverty Action Group who updated the tax and benefit schedules for the Minimum Income Calculator and members of the Minimum Income Standard (MIS) team at the Centre for Research in Social Policy (CRSP), Noel Smith, Abigail Davis, Yvette Hartfree, Nicola Selby and Sharon Walker, for their usual reliable support. Micky Patel at Charnwood Neighbourhood Housing not only provided council rent figures on which the MIS rents are based, but also helped me to understand the complex rules that determine council rent levels.

Thanks are also due to the Joseph Rowntree Foundation for its continuing support for MIS, and especially to Chris Goulden for his guidance, quality control and patient attention to the detail of MIS.

About the author

Donald Hirsch is Head of Income Studies at CRSP, where he leads the Minimum Income Standard for the UK programme. A former journalist and writing and research consultant, he has been involved in MIS since its inception, and is responsible for the analysis of MIS data and its application in policy and practice. From 1998 to 2008 he was Poverty Adviser to JRF, where he wrote a number of major reports on child poverty, welfare reform, long-term care and the situation of older workers.

The Joseph Rowntree Foundation has supported this project as part of its programme of research and innovative development projects, which it hopes will be of value to policy makers, practitioners and service users. The facts presented and views expressed in this report are, however, those of the author and not necessarily those of JRF.

A pdf version of this publication is available from the JRF website (www.jrf.org.uk). Further copies of this report, or any other JRF publication, can be obtained either from the JRF website (www.jrf.org.uk/publications)
A CIP catalogue record for this report is available from the British Library.

All rights reserved. Reproduction of this report by photocopying or electronic means for non-commercial purposes is permitted. Otherwise, no part of this report may be reproduced, adapted, stored in a retrieval system or transmitted by any means, electronic, mechanical, photocopying, or otherwise without the prior written permission of the Joseph Rowntree Foundation.

© Loughborough University 2011
First published 2011 by the Joseph Rowntree Foundation

ISBN: 978-1-85935-850-4 (ebook)

Original design by Draught Associates
Ebook development and conversion by Cambridge Publishing Management Limited

Available in other formats

Investors in Diversity
www.iiduk.com

recycle
When you have finished with this please recycle it

Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP

JOSEPH ROWNTREE FOUNDATION

www.jrf.org.uk