

A MINIMUM INCOME STANDARD FOR THE UK IN 2017

This annual update of JRF's Minimum Income Standard (MIS) is based on what members of the public think people need to achieve a socially acceptable living standard.

Key points

- After a period of price stability, the cost of a minimum basket of goods and services rose in 2017, by between just under 3% to just over 4% depending on household type.
- The most significant price increases – above the average inflation rate – have been in bus and coach travel, motoring, household insurances and council tax.
- In 2017, single people needed to earn at least £17,900 a year before tax to achieve MIS, and couples with two children at least £20,400 each.
- Incomes on out-of-work benefits were frozen for out-of-work households, and therefore fell relative to living costs. For a single person they are now only just over a third of what is needed to reach the MIS level, and for families with children typically just over a half. In contrast, the minimum income guaranteed by Pension Credit for pensioners is only 3% below MIS.
- Despite a 4% increase in the National Living Wage (NLW), families on this wage saw their net income rise more slowly than minimum costs, because in-work benefits are frozen, and because pay rises are clawed back through tax credit reductions. Workers without children, on the other hand, became slightly better off if on the NLW.
- Since 2010, incomes for most families on low wages and on out-of-work benefits have fallen substantially relative to MIS. Couples where both parents work have seen incomes fall less than other families, having benefited from the NLW increases. These families will also gain more than lone parents and part-time workers from the switch to Universal Credit, especially if they have childcare costs.

The research

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BACKGROUND

How much do people need to achieve an acceptable standard of living in the United Kingdom? Since 2008, JRF has published annual updates of the Minimum Income Standard (MIS) for the UK, to reflect changes in costs and living standards. MIS is based on the items and services that households need to reach a minimum acceptable standard of living. These are identified by members of the public, covering essential requirements and allowing household members to participate in society. The 2017 update is based on changes in prices, set in the context of changing taxes, benefits and wages.

Minimum budgets in 2017

The cost of the MIS budgets considered here has increased because of the higher inflation rate over the last year. This followed a period of price stability, where inflation was at or close to zero. Prices in April, on which annual MIS budgets are based, rose by between 2.8% and 4.2% for the main MIS budgets between 2016 and 2017.

Single working-age adults have seen the cost of a minimum budget increase by 4.2% since 2016, while the increase for pensioner couples was 2.8%. For couple parents, the MIS budget has increased by 4.1% over the past year and for lone parents by 3.8%.

Some types of goods and services that are important in minimum budgets rose significantly faster than this: for example, the cost of bus and coach travel rose by 17%, car use and ownership by 8% and council tax by nearly 4%. These figures do not include the cost of rent or childcare. In 2017, social rents went down by 1% as a matter of policy, but private rents rose by about 2%. Most childcare costs did not change, but an increase in the cost of after-school clubs increased costs for families with primary-school-age children. In 2017, a single person now needs to earn £17,900 a year to reach MIS; a dual-earner couple with two children requiring childcare need to earn £20,400 each; and a lone parent with a preschool child must earn £25,900.

Comparison with out-of-work benefits

Two important developments in 2017 have worsened the incomes of people receiving benefits, relative to what is needed to meet minimum needs:

- Inflation has returned, for the first time since the advent of the benefits freeze, meaning that the real value of benefits has started to decline.
- Cuts in Child Tax Credit (CTC) and the equivalent element of Universal Credit, announced in 2015, have started to come into effect. Families where the oldest child was born after April 2017 will no longer get the family element of CTC, worth £545 a year. The child element of CTC, worth £2,780 a year, will not be payable for children born after April 2017 who have at least two siblings. As a result of these changes, a couple with two children can meet only 59% of a minimum budget, down from 61% a year ago. For a lone parent with a newly-born child, the proportion has fallen more dramatically from 56% to 50% of MIS in a single year. As shown in Table 1, this means such a family has only half what they need today compared to nearly two thirds in 2010.

For a single person out of work, the 'safety net' is now providing barely a third of income needs. On the other hand, for pensioners, benefit levels have kept pace with inflation and remain at a level approximately sufficient to cover minimum income requirements.

Comparison with income on the National Living Wage

People over 25 working on minimum wages have seen a further above-inflation increase in their pay in 2017, with the raising of the National Living Wage (NLW) from £7.20 to £7.50, an increase of 4.2%. This has allowed the disposable income of those without children to keep up with rising living costs. However, families with children depending on tax credits or Universal Credit are left worst off (despite an increased tax allowance) due to a combination of these benefits being reduced to reflect additional income, and frozen. For example, working on the NLW in 2016, couples with two children, receiving Universal Credit, had 96% of a minimum budget compared to 95% in 2017. The same household, working full-time on the NLW and receiving tax credits, had 88% of a minimum budget in 2016 compared to 87% in 2017.

Working families are also subject to the cuts in CTC referred to above.

On the NLW, both single people and families needing childcare fall short of meeting MIS even if they work full-time. As shown in Table 1, for a lone parent with a young child, income adequacy on the minimum wage has fallen particularly sharply since 2010. On the other hand, a family with two working parents can potentially get close to the MIS level, especially if they receive Universal Credit, which provides more generous help with childcare. Such families have also gained the most from the reduction in the Universal Credit 'taper' from 65% to 63% in 2017. For those working part-time or with only one parent working, this gain has been more modest, and is outweighed by the previous year's reduction in the Work Allowance, which determines the earnings level at which Universal Credit starts being reduced (or tapered).

Table 1 – Minimum income requirements and comparison with benefits and incomes on the National Living Wage

	Weekly budget requirement (excluding rent and childcare), April 2016	Percentage of budget provided by safety-net benefits*		Percentage of budget achieved by working full-time on National Minimum Wage/National Living Wage**		
		2010	2017	2010	2017 under tax credits	2017 under Universal credit
Single working-age person	£207.13	41%	36%	79%	78%	77%
Couple with two children aged 4 and 7	£474.57	62%	59%	89%	87%	95%
Lone parent with one child aged 1***	£308.85	65%	50%	97%	63%	65%
Pensioner couple	£274.99	102%	97%			

* Safety-net plus universal entitlements: Income Support/Jobseeker's Allowance or Pension Credit, plus Child Tax Credit and Child Benefit for families, and Winter Fuel Allowance for pensioners. Comparison with MIS excluding rent, childcare and council tax.

** Assumes a modest rent, and that families with young children need to pay for childcare.

*** The example of a lone parent with a child aged 1 is used for the comparison over time shown in this table, because it is the core lone-parent case, used from the start of MIS. More detailed analysis for 2016 in the full report uses a different example.

Conclusion

In 2017, the minimum income required by households to make ends meet has started to rise, as inflation returned.

This means that working-age households receiving out-of-work benefits are feeling the effect of the benefits freeze for the first time, and are falling further short of meeting MIS than in the past. The effect of this freeze also hits working families who receive tax credits or Universal Credit. Even with post-tax income boosted by increases in the NLW and the personal tax allowance, low-income working families are becoming worse off as a result of this freeze.

Pay increases in themselves do little to improve net incomes because they trigger reductions in working benefits, and the income level at which these reductions start has also not risen with inflation. While the small proportion of couples with children who receive Universal Credit are better off in 2017 than equivalent families on tax credits in 2010, all low-income families with children considered in this report have become worse off in the past year, and some are far worse off than their equivalents at the start of this decade. This trend is likely to continue if the present freeze in support remains in place.

About the project

The Minimum Income Standard is updated annually to reflect changes in costs and living standards. This year's update is based on changes in prices, set in the context of changing taxes, benefits and wages.

FOR FURTHER INFORMATION

This summary is part of JRF's research and development programme. The views are those of the authors and not necessarily those of JRF.

The full report, **A Minimum Income Standard for the UK in 2017** by Matt Padley and Donald Hirsch, is published by the Joseph Rowntree Foundation. It is available as a free PDF 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. It can be found online at: <http://www.minimumincome.org.uk/>

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