

A MINIMUM INCOME STANDARD FOR THE UK IN 2013

Donald Hirsch

This is the 2013 update of the Minimum Income Standard (MIS) for the United Kingdom, based on what members of the public think people need for an acceptable minimum standard of living.

This update in minimum budgets is based on increases in living costs. The findings also reflect changes in the tax and benefits systems, which affect both people's living standards and the earnings required to reach a minimum net income. The report describes the ways in which people on lower incomes are being squeezed by a combination of sluggish income growth, restrictions on increases in benefits and tax credits, and rising living costs. It also notes the extent to which increases in income tax allowances help to alleviate this squeeze.

This report shows:

- what incomes different family types require in 2013 to meet the minimum standard; and
- how much the cost of a minimum household budget has risen since the last update in 2012.

CONTENTS

Executive summary	03
1 Introduction	06
2 MIS and changes in prices	10
3 The 2013 MIS budgets	14
4 Earning enough for an acceptable living standard	19
5 Rural budgets: summary update	23
6 Conclusions	25
Notes	27
References	28
Appendix: Summary of MIS budgets 2008–13	29
Acknowledgements and About the Author	32
List of figures	
1 Planned programme of MIS research	07
2 Inflation over one year and over five years to April 2013	11
3 Prices 2003–13, general and MIS baskets	12
4 Inflation, childcare costs and social rents, 2008–13	13
5 Percentage of MIS provided by benefits, 2008–13	16
6 Percentage increase in MIS and wage requirements, April 2012 to April 2013	20
7 Effect on weekly disposable income, relative to MIS, of higher tax allowance, lower in-work benefits and higher costs (2013 compared with 2012)	22
List of tables	
1 Summaries of MIS for four family types, April 2013	15
2 MIS compared with out-of-work benefit income, April 2013	16
3 MIS compared with median income 2010/11	17
4 Gross earnings required to meet MIS, April 2013	19
5 Summary of rural budgets 2013: requirements for village residents	23

EXECUTIVE SUMMARY

This report presents the 2013 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.

Such a benchmark is of particular importance when rising prices and stagnant wages are creating an unprecedented erosion of household living standards. MIS provides a unique standard to assess at what point tougher times prevent households from living at a level that is the socially acceptable minimum.

A crucial feature of MIS in changing economic times is its annual updating. This is 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 update of MIS budgets in 2013 is based only on this second element, inflation. However, calculations of what households need to earn in order to meet the standard also take account of annual changes to tax and benefit rates.

Price uprating

Overall prices rose by 2.4 per cent between April 2012 and April 2013, according to the Consumer Prices Index (CPI). MIS budgets went up slightly faster than this. They rose by 3–4 per cent, depending on family type, based on an analysis of the price rises in the types of goods and services that the public think are required for an adequate standard of living. Since MIS research was first published in 2008, the cost of the present MIS basket has increased by about 25 per cent, compared with 17 per cent for the CPI. Over the ten years since 2003, these figures have been 45 and 30 per cent respectively. 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 2003, and subsequently had their income 'inflation-adjusted' using the CPI, would now be about £24 short of the £200 needed for a minimum weekly household budget. In practice, during this period wages started by rising faster than prices, but since 2009 they have been rising more slowly than prices. This trend, combined with reductions in the real value of some benefits, makes the recent effect on living standards even more severe. The decision in the 2012 Autumn Statement to restrict working-age benefits and tax-credit upratings to 1 per cent a year will prolong this trend. And for working families, the additional burden of having to pay for rising rents and childcare costs further exacerbates the problem. In particular, childcare costs have risen twice as fast as CPI in the past five years.

The 2013 MIS budgets

In the new MIS budgets, a single person requires £201 a week, excluding rent, up from £193 in 2012. This requires a wage of £16,852 a year (based on assumptions about minimum housing costs). An online Minimum Income Calculator (CRSP, 2013a) makes it possible to calculate the equivalent for most household types in the UK.

For non-working households, benefits continue to fall well short of providing a minimum acceptable income, although pensioners claiming Pension Credit get just enough to meet the standard. With working-age benefits rising by just 1 per cent in 2013, compared to 3–4 per cent rises in the minimum required for an acceptable standard of living, the adequacy of benefits declined.

MIS remains above the official poverty line of 60 per cent of median income, except for pensioner couples. For example, a couple with two children required 77 per cent of median income, adjusted for household size, to reach a minimum acceptable living standard in 2010/11. This has risen from 73 per cent in 2008/09 and reflects the fact that minimum income requirements have been rising faster than general inflation in the recession, whereas 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 £6.19 an hour, even with all adults working full-time. A wage of £8.62 an hour would be needed by a single person, and one of £9.91 an hour for a couple with two children, both working full-time.

The earnings required to reach MIS continue to be affected by changes in the tax and benefits system. In particular, the uprating of benefits and tax credits by just 1 per cent for the first of three years, has exacerbated the effect of higher living costs. The gain from the increase in tax allowances has only partially offset these effects, with the result that the earnings needed to reach a minimum income standard have risen significantly faster than

inflation for families with children. For a single person, required earnings have risen more slowly, at a similar rate to inflation, since someone earning enough to reach MIS would not be getting Working Tax Credit or other support from the state, so has not suffered the loss of a real-terms cut in such support. At the same time, earnings continue to rise much more slowly than prices, meaning that many people on low incomes are finding it substantially harder to make ends meet than a year ago.

Conclusions

The 2013 uprating of MIS shows a continuation of several trends that have made it harder for households to make ends meet. Steadily increasing prices, especially in childcare, social rents, public transport, food and energy, have been pushing the minimum cost of living up somewhat faster than the average cost of living. These increases show no sign of abating, while cuts in benefit entitlements, both in and out of work, are set to continue (although in 2013, cuts for in-work households have been partially offset by increases in tax allowances). The net result is that the minimum amount that households without children need to earn rose about in line with inflation, but for families with children this amount continued to rise more steeply. However, plans for more generous support of childcare costs from 2016 will, if implemented in their proposed form, greatly reduce the earnings required by families with children to reach the Minimum Income Standard. The future adequacy of incomes will also depend on whether, as is now forecast, earnings once again start rising in real terms from 2014.

1 INTRODUCTION

How much is needed to achieve a minimum acceptable standard of living in the UK? In 2013, after five years of hard times, this question is of crucial importance to debates about income and living standards in the UK.

The decline in the real value of people's incomes is widely reported and discussed, but how does this match up to what households really need; at what point does a fall in income mean that people cannot live at a level that is the socially acceptable minimum?

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. This was supported by expert knowledge on certain physical living requirements, including nutrition (Bradshaw *et al.*, 2008; see also 'What does it include?' in Box 1, page 8). 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 2013 report is thus based on price increases only, which 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. Following the 2008 research, each budget is fully rebased (calculated from scratch) every four years on an alternating basis: for families with children in 2012 and next in 2016, and for households without children starting in 2014. The full schedule for carrying out this updating work is shown in Figure 1. The Joseph Rowntree Foundation (JRF) has agreed to fund these updates until at least 2016.

Using data from the RPI, Section 2 of this report estimates the increase in the cost of MIS budgets between April 2012 and April 2013, and comments on longer-term effects of inflation. Section 3 summarises the revised set of budgets, looking at the incomes that are needed to afford them (and comparing these to benefits and to the poverty line). Section 4 looks at the earnings required for MIS, and comments on factors that are making it easier or harder for households to earn enough to achieve a minimum standard of living. Section 5 updates budgets and income comparisons for rural areas.

Figure 1: Planned programme of MIS research

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

Notes: 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

Box 1 outlines the main features of MIS. The results of this update are summarised for April 2013 in figures 2–7 and tables 1–5, and for the years 2008–2013 in the Appendix. More detailed results, for a much wider range of household types, can be found via the online Minimum Income Calculator (CRSP, 2013a), and further data is available on the MIS website (CRSP, 2013b).

Box 1: The Minimum Income Standard (MIS)

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 UK 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. Groups typically comprise six to eight people from a mixture of socio-economic backgrounds, but all participants within each group are from the category under discussion, i.e. pensioner groups decide the minimum for pensioners. The method is explained further in Bradshaw *et al.* (2008).

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 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, i.e. 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 UK, 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

Box 1 continued

project published in 2010 (Smith, Davis and Hirsch, 2010) looked at how requirements differ in rural areas. This information is also contained in the online Minimum Income Calculator (CRSP, 2013a) and can be obtained by clicking on the 'rural' option on the main results page. Another variation for remote rural Scotland is being published in 2013 (Hirsch *et al.*, 2013, forthcoming). Outside the UK, the team responsible for the UK MIS has applied the method in Guernsey (Smith, Davis and Hirsch, 2011) and supported MIS projects employing the same method in Austria, France, Japan and Portugal (all in progress). An ongoing MIS programme in the Republic of Ireland uses methods based on the UK work (Collins *et al.*, 2012).

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 being 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 carried out by CRSP, again with JRF support. In 2011, the Family Budget Unit was wound up on the basis that the calculation of MIS takes forward its mission.

When was it produced and how is it 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.

2 MIS AND CHANGES IN PRICES

To calculate the minimum budget required for an acceptable standard of living in 2013, the cost of buying the specified baskets of goods and services needs to be adjusted to take account of price changes.

The RPI,¹ which shows changes in prices of goods and services, categorised in the same way as MIS, provides data that allows for 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 category in the RPI rise at different rates. However, it has been found to be as good as any available method of revising the price level, short of re-specifying all of the items in the basket based on fresh research (Hirsch *et al.*, 2009).

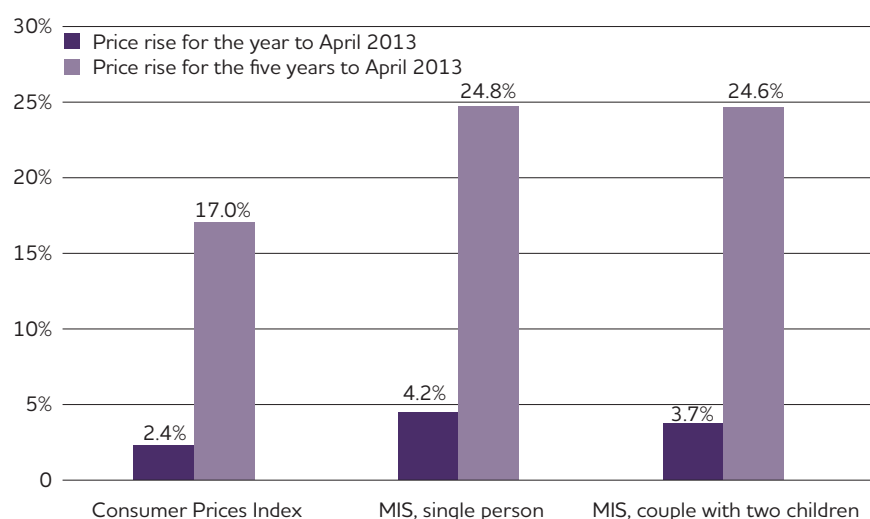
The inflation rate for the minimum cost of living

Overall, the inflation rate showed an increase in prices in the year to April 2013 of 2.4 per cent on the CPI, the official preferred index. However, the uprating of MIS does not use the same inflation figure as this index, which is based on the amount that prices go up on average in a household budget. MIS inflation represents the increase in the cost of things that the public believes people need to buy in order to reach a minimum standard of living. It is calculated using RPI data for each category of goods and services that are specified as part of the MIS budget. So, for example, the RPI 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 2013 were about one to two percentage points higher than CPI inflation, as shown in Figure 2. Across all household types, the increase ranged from 3.3 to 4.2 per cent, compared to the CPI increase of 2.4 per cent. The cumulative

effect of this phenomenon, repeated year after year, has been significant. In the five years since MIS was launched in 2008, there has been a substantial rise in the cost of MIS compared with general prices, with the MIS inflation index growing by 8 per cent more than the CPI. In short, the cost of what the public consider to be essential for an adequate standard of living is rising faster than the general cost of living.

Figure 2: Inflation over one year and over five years to April 2013*



Note: * Based on the MIS budgets for 2012, adjusted for inflation in 2008 and 2013

The higher inflation rate for MIS, compared with CPI, over the past five years has been driven by relatively rapid price rises in items such as food and public transport, which take up a greater proportion of a minimum budget than of the general index.

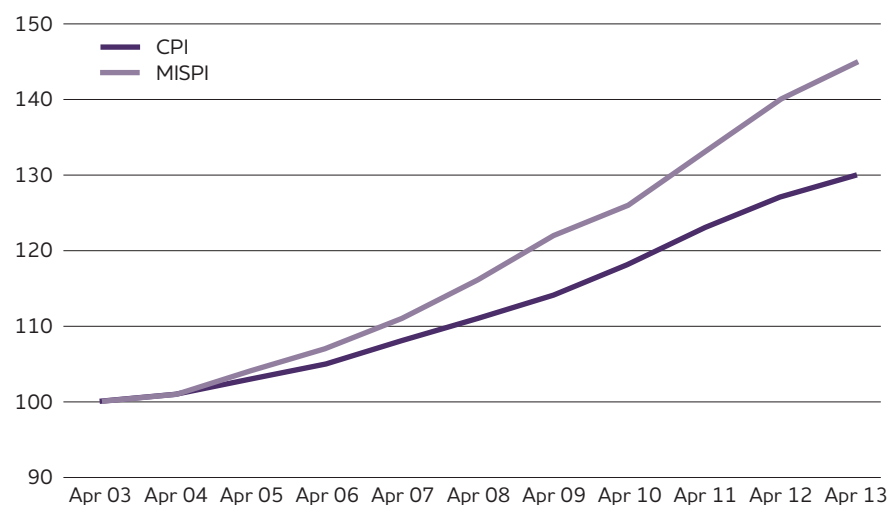
This pattern, moreover, has been occurring for at least a decade. To measure this, we estimate the previous cost of a fixed basket of goods and services, as defined by MIS, by applying the various components of the RPI. The resulting Minimum Income Standards Prices Index (MISPI) is contrasted with the CPI in Figure 3. This estimates the change in price between 2003 and 2013 of a constant basket of goods and services. Specifically, it shows yearly inflation-adjusted calculations based on the budget specified for a single person in 2012, when the contents of the single person's basket were last reviewed.

Figure 3 shows that the cost of an adequate standard of living, according to the MISPI, rose by 45 per cent over the decade, compared with 30 per cent for the CPI. This effectively means that a minimum basket became 12 per cent more expensive relative to a general (CPI) basket. (A basket of goods costing £100 in 2001 would cost £130 in 2011 if inflated by CPI but £145 if inflated by MISPI; £145 is 12 per cent greater than £130.) Further discussion of the MISPI can be found in Davis *et al.* (2010).

These results show that differential inflation rates can have significant effects on the well-being of people on low incomes. This would be true even if everyone's income kept up with inflation. A single person whose income in 2003 was exactly enough to be able to afford the items specified in the MIS basket, and whose disposable income rose in line with the CPI, would now fall £21 short of the minimum. That is, a decade of having income increases only in line with official inflation would have meant going from being able

to afford a minimum living standard to being 10 per cent below that level. In practice, the decade started with household incomes rising slightly faster than inflation, followed by a period when the two were level, while since 2009 increases in incomes have been falling short of inflation. The fact that wages have been rising more slowly than prices, and that from 2013 to 2015 working-age benefits are rising at only 1 per cent a year, exacerbates the effect on living standards. In short, MIS budgets are rising faster than the CPI, while incomes are rising more slowly than the CPI.

Figure 3: Prices 2003–13, general and MIS baskets*



Note: * April 2003 = 100

There is every reason to believe that the cost of a minimum budget will continue to rise faster than general inflation 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, Perren and Phung, 2011). This calculation was made before the effect of sub-inflation benefit upratings, which could add about 5 per cent to the deterioration from 2013 to 2015. Note that these ‘commodity price-driven’ forms of inflation are distinct from some of the other drivers of relatively higher basic costs, which were already present before the late 2000s when commodity prices started rising sharply. In particular, water rates, Council Tax and public transport have all undergone long-term relative price rises, influenced by public policy and the reduction of public subsidies. At present, water and public transport prices continue to rise faster than general inflation – and are projected to continue doing so – although Council Taxes stopped rising significantly in 2011 as part of government policy.

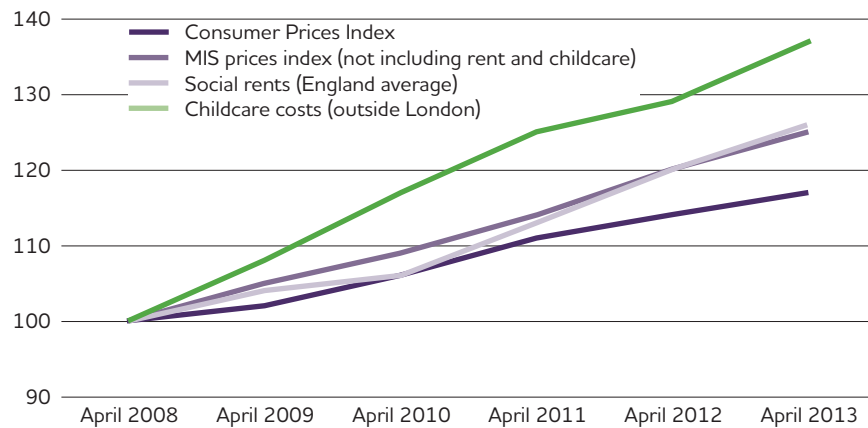
Rent and childcare inflation

The main analysis of minimum budgets required for an adequate standard of living in MIS looks at figures net of rent/mortgage and childcare costs, because these vary so much among individuals and across the country. However, when making calculations about how much people need to earn

to reach MIS, assumptions are necessarily made about how much is spent on these items, based on the average cost of renting social housing and using childminders in the East Midlands.²

Figure 4 shows that childcare costs have been consistently growing at around twice the general inflation rate for the past five years. Social rents have also been rising, most steeply in the past two years when government policy has determined that they are increased disproportionately to the CPI until they reach a reference level that is well above that at which they have traditionally been set. These factors guarantee that, even in periods when items such as food and power are not rising steeply (as has been the case in recent years), minimum household living costs overall are likely to continue to outstrip general inflation, especially for households with children.

Figure 4: Inflation, childcare costs and social rents, 2008–13*



Note: * 2008 = 100

3 THE 2013 MIS BUDGETS

The 2013 MIS budgets, representing households' needs in order to have an acceptable living standard, are summarised below for four household types. More detailed results are shown in the online Minimum Income Calculator (CRSP, 2013a), which allows budgets to be calculated for most types of household where a single adult or a couple live, either alone or with up to four dependent children.

The calculator also allows variables such as housing costs to be adapted to individual circumstances. Also available online are spreadsheets showing the budgets for eleven different household types since 2008 (CRSP, 2013b). 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 (see page 15) summarises the new budgets for four family types, with the totals listed in five different ways in order to allow various kinds of comparison to be made. The rest of this section then compares these budgets to benefit levels and the poverty line, while the next section considers what earnings working households need to achieve in order to be able to afford a minimum budget.

Comparison with benefits

Table 2 (see page 16) shows that basic out-of-work benefits generally leave people significantly short of what the public thinks is needed for an adequate standard of living. Relying on out-of-work benefits provides well under half of the minimum income (net of rent and Council Tax) required for an adult with no children, and slightly over half for families with children. Pension Credit, the safety-net benefit for pensioners, pays just enough for them to meet MIS.

Table 1: Summaries of MIS for four family types, April 2013

	Single, working- age	Couple, pensioner	Couple, 2 children (1 aged 2–4; 1 primary- school age)	Lone parent, 1 child (aged 0–1)
	£ per week			
Food	50.11	62.78	103.38	53.80
Alcohol	5.26	8.89	7.02	6.69
Tobacco	0.00	0.00	0.00	0.00
Clothing	9.92	12.88	41.21	20.39
Water rates	5.70	6.73	9.40	8.94
Council Tax	14.47	19.29	22.50	16.88
Household insurances	1.91	1.76	2.32	2.29
Fuel	12.48	14.72	24.54	20.26
Other housing costs	2.59	4.09	9.98	3.70
Household goods	11.74	13.79	27.26	22.94
Household services	3.85	8.78	8.26	7.49
Childcare	0.00	0.00	156.57	158.61
Personal goods and services	11.94	20.83	42.29	28.82
Motoring	0.00	0.00	59.31	46.87
Other travel costs	22.86	13.79	14.06	1.15
Social and cultural participation	47.81	52.91	99.65	44.35
Rent	73.22	81.38	86.88	81.38
'Headline' total – excluding rent and childcare	200.64	241.25	471.15	284.58
Total including rent and childcare	273.86	322.63	714.61	524.57
Totals excluding:				
Rent, Council Tax, childcare (comparable with out-of-work benefits)	187.40	223.60	450.57	269.13
Rent, Council Tax, childcare, water rates (comparable with 'after housing costs' in HBAI*)	180.47	215.23	439.26	258.76
Council Tax, childcare (comparable with 'before housing costs' in HBAI*)	259.39	303.34	535.54	349.08

Note: * 'Households Below Average Income' (Department for Work and Pensions, 2012)

Table 2: MIS compared with out-of-work benefit income, April 2013

	Single, working- age	Couple, pensioner	Couple, 2 children	Lone parent, 1 child
£ per week				
MIS excluding rent, 91.5% of Council Tax* and childcare	187.40	223.60	450.57	269.13
Income Support**/ Pension Credit	71.70	225.89	261.19***	154.72
Difference (negative number shows shortfall)	-115.70	2.29	-189.38	-114.41
Benefit income as % of MIS	38%	101%	58%	57%

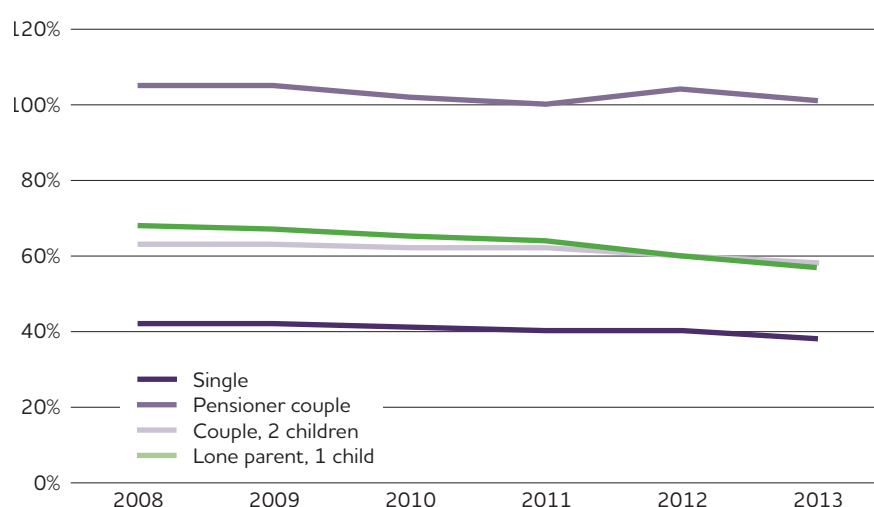
Notes:

* Assumed coverage of Council Tax Support (Pennycook and Hurrell, 2013)

** Including Child Benefit and Child Tax Credit for families, and Winter Fuel Allowance for pensioners

*** If the value of free school meals is included, this adds £8 to the weekly income of the family with two children, which is then 60% of MIS rather than 58%

Figure 5: Percentage of MIS provided by benefits, 2008–13



The percentage of MIS provided by benefits fell in the past year by 1–3 percentage points, depending on household type. This is largely because of the 1 per cent cap on upratings, making them inadequate to cover rising living costs. The change in support for Council Tax, which means that most people on benefits have to pay a proportion of their bill, has also made a small difference. (The assumption here is that the minimum household contribution is 8.5 per cent, the most common figure identified by Pennycook and Hurrell, 2013, and by Bush *et al.*, 2013.) Figure 5 shows that, over the past five years, there has been a gradual but steady fall in the adequacy of benefits in these terms for working-age families, whereas for pensioners the adequacy of the Pension Credit safety-net has fluctuated rather than shown any distinct trend.

Comparison with the poverty line

The most common definition of the ‘poverty line’ is 60 per cent of median household income. In order to compare this with the minimum required for a

socially acceptable living standard, Table 3 looks at the percentage of median income represented by a MIS budget. This uses the latest available data from the Households Below Average Income (HBAI) series (Department for Work and Pensions, 2012), which is for 2010/11, and compares it with the average of the 2010 and 2011 MIS budgets. (Note: it has not been possible to include the 2011/12 figures, published a week before this report.)

Table 3: MIS compared with median income, 2010/11

£ per week	Single, working- age	Couple, pensioner	Couple, 2 children	Lone parent, 1 child
a) Before housing costs: median income* 2010/11	277	413	578	359
MIS excluding childcare and Council Tax*	237	287	497	319
MIS as % of median	86%	69%	86%	89%
b) After housing costs: median income** 2010/11	206	356	498	278
MIS excluding childcare, Council Tax, water rates and rent*	169	207	410	236
MIS as % of median	82%	58%	82%	85%

Notes:

* The MIS figures in each case exclude the same items as the HBAI income definition – except that the MIS figures also exclude childcare costs. Only a very small minority of the population, on whose incomes the median is calculated, have childcare costs, so the MIS spending requirement net of childcare gives a closer comparison to the disposable income of a median household than if childcare were included.

** 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)

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 the flats assumed for the minimum), and this imposes extra expenses such as higher heating costs (see Bradshaw *et al*, 2008).

These figures show that the percentages of median income required for MIS have been growing during the present economic period – see Section d) of the table in the Appendix. This is because the MIS level has maintained and in some cases increased its value in a period when median incomes have shrunk in real terms: in general, people have not pruned their version of what is a minimum needed, despite hard times (Davis *et al*, 2012). This trend is likely to be confirmed as more up-to-date income data for the current period becomes available – particularly for families with children, whose MIS requirements have been growing fastest. In other words, as real incomes

shrink, people need to earn closer to the average in order to reach a given living standard than in the past. Since income inequality is not reducing, this makes it inevitable that more people earning well below the average will not achieve the minimum.

4 EARNING ENOUGH FOR AN ACCEPTABLE LIVING STANDARD

As the previous section has shown, working-age out-of-work households 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 MIS.

Such a question is intrinsically harder to answer than whether benefits meet net requirements, because it necessitates the factoring in of two costs that vary considerably for different families: housing and childcare. Moreover, changes in gross income requirements in recent years have been strongly influenced by changes in tax, tax credit and benefit levels.

Table 4: Gross earnings required to meet MIS, April 2013*

	Single, working-age	Couple, 2 children, single earner	Couple, 2 children, dual earner	Lone parent, 1 child
	£ per week			
MIS (including rent, childcare and Council Tax)	273.86	558.04	714.61	524.57
Gross earnings required	323.19	691.56	743.32	490.79
	£ per week			
Annual earnings required	16,852	36,060	38,759	25,586
Hourly wage rate	8.62	18.44	9.91	13.09
Amount above the NMW, hourly	2.43	12.25	3.72	6.90
Disposable income on NMW, as % of MIS budget**	70	74	83	86

Notes:

* 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 £6.19 an hour in April 2013, rising to £6.31 in October 2013.

** i.e. household income after taxes, benefits, rent, Council Tax and childcare for household working full time on minimum wage, as percentage of MIS budgets. The wage calculations shown are fed into a separate exercise used to set the Living Wage outside London. This calculation draws on an average wage requirement for a range of household types, including couples without children, who can afford a minimum acceptable living standard with much more modest wages than other groups.

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 (see page 19) shows that this remains the case in 2013. In particular, families – whether a lone parent or a couple – with a single earner require a wage well over the NMW in order to meet MIS. However, note also that where a lone parent is on low pay, the consequences for disposable income are less severe than for, say, a single person (see bottom row of Table 4). A lone parent with one child ends up 14 per cent short of an MIS budget on the NMW, whereas a single person ends up with more than double this shortfall. This reflects the much greater help that the lone parent gets in the form of tax credits; but as income rises, this support falls away quickly, explaining why the lone parent needs a much higher wage to attain MIS than the single person.

Changing wage requirements

Figure 6 shows how the NMW, minimum budget requirements and minimum earnings requirements have risen, relative to general inflation, in the past year. The pattern of recent years continues, whereby the NMW and general earnings level rise more slowly than inflation, but MIS budgets rise faster than inflation, creating a widening gap between income and needs. As reported in Chapter 2, rising rents and childcare costs play an important role in this. Again as in previous years, the amount people need to earn to have an MIS budget is not rising at the same rate as the total cost of MIS – the weekly budget required. This is because of changing tax and benefit conditions, which affect the relationship between earned and disposable income. Whereas in recent years these conditions have sometimes raised earnings requirements still further, for single people this year the reverse is true. As a result of higher tax allowances, single people’s earnings do not have to rise at the same rate as the budgets that they need to cover, although still faster than general prices or earnings. For families with children, on the other hand, cuts elsewhere have continued to push up the amount they need to earn for a given budget, regardless of the higher tax allowances.

Figure 6: Percentage increase in MIS and wage requirements, April 2012 to April 2013

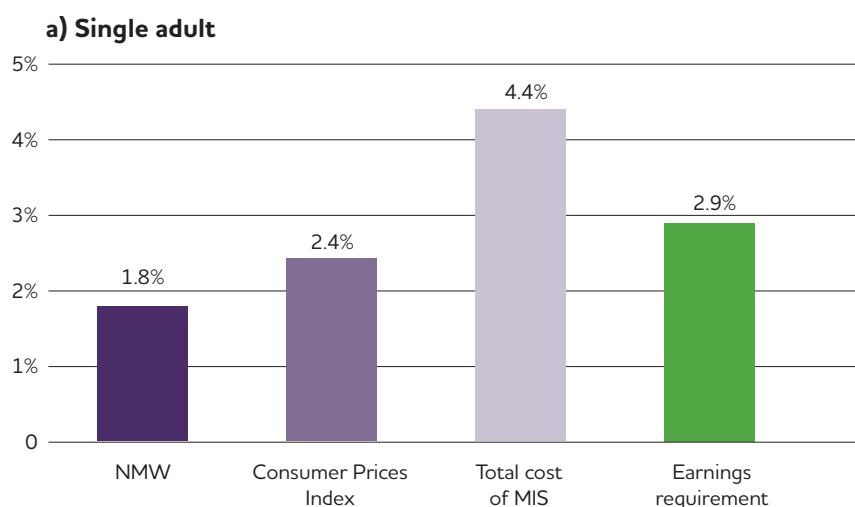


Figure 6 continued

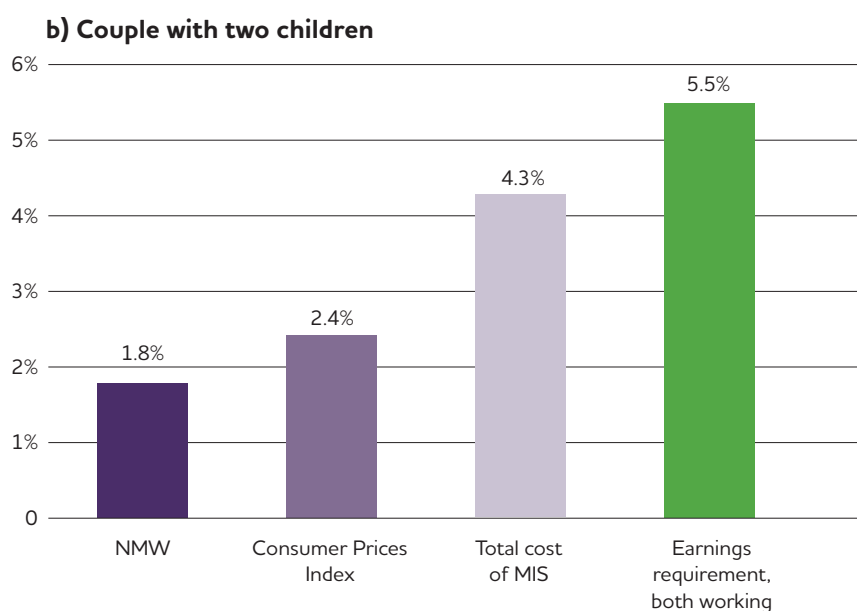


Figure 7 goes on to show the real-terms effect of three factors on the ability of people to meet a Minimum Income Standard:

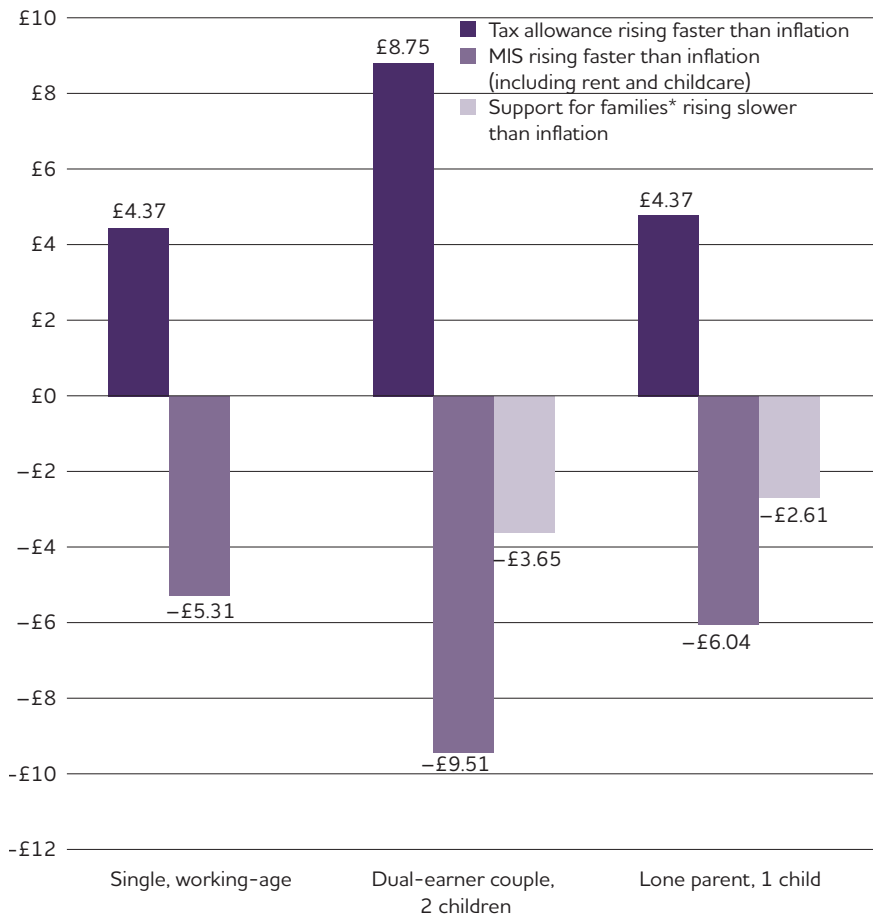
- For any individual paying tax, raising the tax allowance by more than inflation has added £4.37 a week to take-home pay, and this benefit doubles when both members of a couple pay tax.
- For all of the households shown, this tax allowance benefit is more than outweighed by cost increases running ahead of inflation.
- For families with children, there have been significant cuts in the real value of tax credits and Child Benefit, which makes it harder for them to make ends meet overall: the two negative effects shown in Figure 7 outweigh the positive impact of higher tax allowances. (For a single person without children, tax credit entitlement disappears before reaching MIS.)

Some working households also experienced additional negative effects not shown in Figure 7. For example:

- Working families whose earnings are low enough for them to be entitled to Housing Benefit have gained much less from the increased tax allowance: they lose 65 per cent of the £4.37/taxpayer gain because of the way in which Housing Benefit is tapered – reducing the gain to only £1.53 a week.
- Housing Benefit recipients who are ‘under-occupying’ council homes lose an additional £14 per week (the so-called ‘bedroom tax’).
- Those on incomes low enough to be entitled to Council Tax Benefit typically lose around £1–2 per week because of cuts to this support. Note that these calculations are all based on the existing tax, benefit and tax credit systems.

Comparisons between MIS and the new Universal Credit (UC) system being introduced from 2013 are being made in a separate report (Hirsch and Hartfree, 2013, forthcoming).

Figure 7: Effect on weekly disposable income, relative to MIS, of higher tax allowance, lower in-work benefits and higher costs (2013 compared with 2012)



Note: * Child Benefit and Child Tax Credit

5 RURAL BUDGETS: SUMMARY UPDATE

The main MIS budgets apply to urban areas, but in 2010 differing and additional costs for rural areas of England were calculated (Smith *et al.*, 2010). Table 5 summarises the uprated rural budgets for 2013, using the example of people living in villages (one of the three rural situations examined).

Further detail is available through the summary figures on the MIS website (CRSP, 2013b). The Minimum Income Calculator (CRSP, 2013a) also facilitates up-to-date adjustment of results for rural areas, obtained by selecting from the 'I live in ...' drop-down list on the results page.

For a single person living in a rural village, basic benefits provide only a third of the minimum disposable income required for MIS. For those in work, village residents in the examples shown all need to earn at least £10 an hour for an acceptable living standard – a wage far exceeding that paid in many rural jobs, which are around a quarter more likely to be low-paid than the national average.

Table 5: Summary of rural budgets 2013: requirements for village residents

a) Net weekly spending requirement				
	Single, working- age	Couple, pensioner	Couple, 2 children	Lone parent, 1 child
Weekly budget (excluding rent and childcare)	236.28	302.02	532.51	315.03
% of budget* provided by Income Support/Pension Credit	32%	79%	51%	52%

Table 5 continued

b) Total income and earnings requirements for households with full-time earners

	Single, working- age	1-earner couple, 2 children (no childcare)	2-earner couple, 2 children (with childcare)	Lone parent, 1 child (with childcare)
	£			
Weekly budget (including rent and childcare)	310.42	619.36	775.94	555.03
Annual earnings	19,648	40,761	48,620	31,471
Hourly wage	10.05	20.85	12.43	16.09

Note: * Excluding Council Tax

6 CONCLUSIONS

The 2013 uprating of MIS shows the continuation of several trends that have been identified in recent years. In particular, steadily increasing prices, especially of childcare, social rents, public transport, food and energy, have continued to push up the minimum cost of living somewhat faster than the average cost of living. This has combined with low pay increases to continue the squeeze on living standards, whereby people's disposable incomes are falling relative to what they need.

The tightening of public spending in order to reduce the budget deficit continues to feed this deterioration in living standards for many, although not all, households. Anyone receiving means-tested benefits from the government, whether out of work or in a low-paying job, has been significantly affected by the 2012 Autumn Statement decision to restrict benefit increases to 1 per cent for three years.

For people earning enough to pay tax, the highest-ever cash increase in the tax allowance has helped to offset such losses. For people without children, the gain has been almost enough to offset the effect of rising living costs. As a result, the amount that a single person needs to earn for a minimum standard of living, £16,850, has risen at a similar rate to inflation this year, although faster than actual average earnings, which in the first quarter of 2013 were only 0.4 per cent higher than a year previously. On the other hand, the higher tax allowances are not enough to prevent the earnings required by families with children from rising much faster than inflation. This is because such families require tax credits to reach the required minimum, while tax credits as well as child benefit have been cut in real terms. For this reason, in terms of the increase in earnings required to make ends meet, families with children have done worse overall than other groups this year.

Looking ahead, the switch to the UC system will produce winners and losers (analysed in Hirsch and Hartfree, 2013), but more important in the longer term will be whether three current trends continue:

-
- Modest earnings increases, by less than inflation. The Office for Budget Responsibility (2013) continues to put back the point at which it forecasts earnings will rise faster than prices, with its current estimate being 2014.
 - Minimum budgets rising faster than the Consumer Prices Index. Whether this continues to occur depends on two factors. First, whether price increases continue to be higher for items such as food, public transport and social housing, the consumption of which is proportionately higher than average in a minimum budget. Second, whether the baskets of goods and services defined as part of the minimum requirement get larger or smaller. In 2012, when they were last re-examined, both factors were at work, with some aspects of the minimum becoming more modest in response to hard times, but other areas of household spending (such as transport) being increased to compensate for cuts in public provision.
 - Slower than inflation upratings of benefits, tax credits and Universal Credit. It has already been announced that the restriction of increases to 1 per cent will continue up to and including 2015. However, one important proposed change to UC entitlements on which the government is presently consulting – an increase to 85 per cent of the proportion of childcare costs that can be claimed in UC from 2016 onwards, where parents are paying tax – could make an important difference in the opposite direction, as it would substantially reduce the earnings needed for families with young children to meet MIS. In these terms, this is the one bright star on the horizon.

NOTES

- 1 Even though the RPI is being replaced by Consumer Price Inflation (CPIH) as an official inflation measure, at present the RPI data continues to provide the best basis for uprating MIS because of the way that commodity groups are broken down and their prices reported.
- 2 In the case of childminders, a wider region, including the West Midlands and the East of England, is included to avoid sample error in the relevant survey.

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
- Bush, S., Kenway, P. and Aldridge, H. (2013) *The Impact of Localising Council Tax Benefit*. York: Joseph Rowntree Foundation
- Collins, M., Mac Mahon, B., Weld, G. and Thornton, R. (2012) *A Minimum Income Standard for Ireland: A consensual budget standards study examining household types across the lifecycle*. Available at: <https://www.tcd.ie/Communications/content/pdf/PolicyInstituteBP27Feb2012.pdf> [Accessed 28 May 2013]
- CRSP (Centre for Research in Social Policy) (2013a) *Minimum Income Calculator*. Available at www.minimumincome.org.uk [Accessed 13 May 2013]
- CRSP (Centre for Research in Social Policy) (2013b) *Minimum Income Standard for the UK*. Available at www.minimumincomestandard.org [Accessed 13 May 2013]
- 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 (2012) *Households Below Average Income (HBAI) 1994/5–2009/10*. Available at <http://research.dwp.gov.uk/asd/hbai/hbai2013/index.php?page=contents> [Accessed 28 May 2013]
- Hirsch, D., Davis, A. and Smith, N. (2009) *A Minimum Income Standard for Britain in 2009*. York: Joseph Rowntree Foundation
- Hirsch, D., Bryan, A., Davis, A. and Smith, N. (2013, forthcoming) *A Minimum Income Standard for Remote Rural Scotland*. Inverness: Highlands and Islands Enterprise
- Hirsch, D. and Hartfree, Y. (2013, forthcoming) *Universal Credit: making work pay?* York: Joseph 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
- Office for Budget Responsibility (2013) *Economic and Fiscal Outlook*, March 2013
- Pennycook, M. and Hurrell, A. (2013) *No clear benefit*. London: Resolution Foundation
- Smith, N., Davis, A. and Hirsch, D. (2010) *A Minimum Income Standard for Rural Households*. York: Joseph Rowntree Foundation and Commission for Rural Communities
- Smith, N., Davis, A. and Hirsch, D. (2011) *A Minimum Income Standard for Guernsey*. Available at: http://www.minimumincomestandard.org/downloads/Reports/CRSP_618_A_Minimum_Income_Standard_for_Guernsey.pdf [Accessed 28 May 2013]

APPENDIX: SUMMARY OF MIS BUDGETS 2008–13

a) Minimum requirements (not including rent or childcare), £ per week

	2008	2009	2010	2011	2012	2013
Single, working-age	158.12	165.82	175.34	184.68	192.59	200.64
Couple, working-age	245.03	256.35	272.55	286.79	301.74	314.52
Single, pensioner	131.98	138.53	147.41	154.62	158.74	165.24
Couple, pensioner	201.49	210.66	222.22	232.74	231.48	241.25
Lone parent, 1 child	210.31	220.11	233.73	246.37	275.59	284.57
Lone parent, 2 children	282.69	295.49	308.90	325.90	361.99	375.15
Lone parent, 3 children	379.94	396.28	406.15	429.19	457.66	475.03
Couple, 1 child	286.64	299.83	315.38	332.27	374.17	386.90
Couple, 2 children	370.05	386.96	402.83	424.65	454.52	471.16
Couple, 3 children	465.71	485.75	496.84	524.48	554.55	577.02
Couple, 4 children	504.69	526.44	539.08	569.27	605.80	628.70

b) % increase in minimum requirements

i) Annual inflation upratings (based on components of RPI)

	2009	2010	2011	2012	2013	Total 2008–13
Single, working-age	4.9	3.3	5.3	4.8	4.2	24.5
Couple, working-age	4.6	3.5	5.2	4.8	4.2	24.4
Single, pensioner	5.0	3.0	4.9	4.7	4.1	23.6
Couple, pensioner	4.6	3.2	4.7	4.8	4.2	23.5
Lone parent, 1 child	4.7	3.2	5.4	5.2	3.3	23.6
Lone parent, 2 children	4.5	3.5	5.5	5.3	3.6	24.5
Lone parent, 3 children	4.3	3.7	5.7	5.3	3.8	25.0
Couple, 1 child	4.6	3.4	5.4	5.0	3.4	23.7
Couple, 2 children	4.6	3.6	5.4	5.0	3.7	24.3
Couple, 3 children	4.3	3.8	5.6	5.2	3.8	24.7
Couple, 4 children	4.3	3.8	5.6	5.2	3.8	24.8

ii) Change in budgets at review/rebase (net of inflation)

	2010 (first MIS review)	2012 (second MIS review, and rebase of children's budgets)	Total 2008–2012
Single, working-age	2.3%	-0.5%	1.9%
Couple, working-age	2.7%	0.4%	3.2%
Single, pensioner	3.3%	-2.0%	1.3%
Couple, pensioner	2.2%	-5.1%	-3.0%
Lone parent, 1 child	2.9%	6.4%	9.4%
Lone parent, 2 children	1.0%	5.5%	6.6%
Lone parent, 3 children	-1.2%	1.3%	0.0%
Couple, 1 child	1.7%	7.3%	9.1%
Couple, 2 children	0.5%	1.9%	2.4%
Couple, 3 children	-1.4%	0.5%	-0.9%
Couple, 4 children	-1.3%	1.1%	-0.2%

iii) Overall change in budgets

	2008–2013 increase	CPI increase 2008–2012	Increase net of CPI
Single, working-age	26.9%	17.1%	8.4%
Couple, working-age	28.4%	17.1%	9.7%
Single, pensioner	25.2%	17.1%	7.0%
Couple, pensioner	19.7%	17.1%	2.3%
Lone parent, 1 child	35.3%	17.1%	15.6%
Lone parent, 2 children	32.7%	17.1%	13.4%
Lone parent, 3 children	25.0%	17.1%	6.8%
Couple, 1 child	35.0%	17.1%	15.4%
Couple, 2 children	27.3%	17.1%	8.8%
Couple, 3 children	23.6%	17.1%	5.6%
Couple, 4 children	24.6%	17.1%	6.5%

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

	2008	2009	2010	2011	2012	2013
Single, working-age	42%	42%	41%	40%	40%	38%
Couple, pensioner	105%	105%	102%	100%	104%	101%
Couple, 2 children	63%	63%	62%	62%	60%	58%
Lone parent, 1 child	68%	67%	65%	64%	59%	57%

d) MIS as % of median income

	2008/9	2009/10	2010/11
Before housing costs			
Single, working-age	74	76	79
Couple, pensioner	62	64	66
Couple, 2 children	75	77	79
Lone parent, 1 child	75	77	80
After housing costs			
Single, working-age	72	74	77
Couple, pensioner	53	54	57
Couple, 2 children	73	74	77
Lone parent, 1 child	72	73	77

e) Earnings required to reach MIS

£ per year	2008	2009	2010	2011	2012	2013
Single, working-age	13,450	13,859	14,436	15,000	16,383	16,852
Couple, 2 children, 1 earner	26,910	27,635	29,227	31,584	34,881	36,060
Couple, 2 children, 2 earners	27,792	27,940	29,727	36,800	36,728	38,759
Lone parent, 1 child	11,990	12,122	12,454	18,243	23,861	25,586
£ per hour						
Single, working-age	6.88	7.09	7.38	7.67	8.38	8.62
Couple, 2 children, 1 earner	13.76	14.13	14.95	16.15	17.84	18.44
Couple, 2 children, 2 earners	7.11	7.14	7.60	9.41	9.39	9.91
Lone parent, 1 child	6.13	6.20	6.37	9.33	12.20	13.09

ACKNOWLEDGEMENTS

Thanks are due to Judith Paterson from CPAG Scotland for updating the tax and benefit schedules for the Minimum Income Calculator, to Katie Schmuecker, Chris Goulden and Tom MacInnes for comments on a draft, to Matt Padley for data management, and to Nicola Lomax and Lisa Jones at CRSP for administrative support.

ABOUT THE AUTHOR

Donald Hirsch is Director of 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 from the JRF website (www.jrf.org.uk/publications) or by emailing publications@jrf.org.uk

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.

© University of Loughborough 2013
First published 2013 by the
Joseph Rowntree Foundation
ISBN: 978 1 85935 983 9 (pdf)
Project managed and typeset by
Cambridge Publishing Management Limited

Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP
www.jrf.org.uk