A Minimum Income Standard for the UK in 2017

by Matt Padley and Donald Hirsch

This report is an annual update on what members of the public think people need to achieve a socially acceptable standard of living. This year's update is based on changes in prices, in the context of changing taxes, benefits and wages.

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Matt Padley and Donald Hirsch

This is the 2017 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: the incomes different family types require in 2017 to meet the minimum standard; how the cost of a minimum household budget has changed since the last update in 2016; and how the incomes of people on benefits, and of those working on the National Living Wage, compare to what they need according to MIS.

Actions

- The Government should lift the freeze on working-age tax credits and Universal Credit, so that support keeps up with the rising cost of living.
- Alongside this, the Government should lift the freeze on the Work Allowance, so that families can keep more of their earnings.

We can solve UK poverty

JRF is working with governments, businesses, communities, charities and individuals to solve UK poverty. A Minimum Income Standard for the UK in 2017 plays an important part in monitoring costs and living standards – a key focus of our strategy to solve UK poverty.

July 2017
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Executive summary

This report presents the 2017 update of the Minimum Income Standard (MIS) for the UK. MIS is based on research into what members of the public consider households need in order to reach a minimum socially acceptable standard of living.

MIS is regularly updated in two ways: first, based on research into what should be included in a minimum basket of goods and services; and second, in changes to prices that affect the cost of this basket. The 2017 update is based on the latter of these – inflation. This report also looks at changes in the adequacy of income on safety-net benefits and the statutory minimum wage over time.

Price uprating

Following a period of price stability, with inflation at or close to zero, a higher inflation rate over the last year has resulted in an increase in the cost of MIS budgets. The greatest increases in prices – above average inflation – have been in bus and coach travel, motoring, household insurances and Council Tax. The return to inflation has not had the same impact on all households, because of differences in the composition of minimum baskets. Single, working-age adults have seen the cost of a minimum budget increase by 4.2% since 2016, pensioner couples by 2.8%, couple parents by 4.1% and lone parents by 3.8%.

The 2017 MIS budgets: incomes on benefits and the National Living Wage

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. The cost of minimum budgets can be compared to benefits and wages to assess the adequacy of these. The freeze in most working-age benefits, alongside the return to inflation, means the decline in the proportion of MIS covered by out-of-work benefits has continued: a single, working-age person, receiving these benefits, has just 36% of what they need, while a couple with two children has 59% of what they need.

The National Living Wage (NLW) increased to £7.50 in April 2017. Despite this increase in the minimum wage for over-25s, working full time on the NLW, many still fall short of MIS:

- A single person, working full time on the NLW, falls 22% short of MIS – a similar shortfall to 2016
- A couple with two children, each working full time on the NLW, reach 95% of MIS under Universal Credit (UC) (after childcare costs). On tax credits, with less generous childcare support, full-time work on the NLW means a shortfall of 13.2% compared to 11.6% in 2016.

Changes in Universal Credit (UC) in 2017 boosted the incomes of most people in work who receive it, reducing the rate at which benefits are withdrawn as earnings increase. However, the reduction in the Work Allowance in UC in 2016 more than cancelled out the small gains from the reduced taper rate for lone parents working full time on the NLW, and halved the gains for a couple working full time on this wage.

The return of inflation, a decline in earnings growth, and the freezing of out-of-work benefits, tax credits and UC, have combined to introduce new risks for low-income working and non-working families. Significantly, this year is the first since the freeze on benefits began in which benefits are losing value because of price increases. This year also saw the introduction of cuts to family benefits for new families and those with a newly born third (or subsequent) child, which will result in reduced entitlements for many low-income families.

Even when earnings are being lifted for some of the lowest paid through the increased NLW, the benefit from this is constrained by a freeze in the earnings levels above which tax credits and UC are reduced. In order for low-income families to see growth in their incomes, and consequently for the number of households living below MIS to begin to fall, the current freeze on benefits and the level of income disregarded under the tax credit and UC systems needs to be reconsidered.

1 Introduction

How much is needed to achieve a minimum acceptable standard of living in the United Kingdom today? Since 2008, the Minimum Income Standard (MIS) for the UK has been addressing this question through detailed research into the items ordinary people think should go into a minimum household budget – items ranging from household goods such as toasters and toothpaste, to aspects of social participation such as Christmas presents and weekly social activities. MIS research is supported by expert knowledge on certain physical living requirements, including energy use and nutrition (see 'MIS in brief' below).

In order for MIS to remain up to date, it is critical that it adequately captures and reflects both 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 of minimum budgets alternate between those based on new research with the public, and those based only on estimates of price rises, based predominantly on the Retail Prices Index (RPI). Every four years, each budget is wholly 'rebased', with groups identifying the required items from scratch. In between each rebase, after two years, the contents of each budget are reviewed by groups to see if any changes need to be made.

The 2017 report is based on price increases only, with budgets uprated by applying changes in the relevant components of the RPI to the categories of goods and services included in MIS budgets.

Table 1: How the sequence of updates works on a regular four-yearly cycle, starting from a year in which items are 'rebased'

	Year 0 (2014)	Year 1	Year 2	Year 3 (2017)	Year 4 (year 0 of next cycle)
Households without children	Rebase	Inflation uprating	Review	Inflation uprating	Rebase
Families with children	Review	Inflation uprating	Rebase	Inflation uprating	Review

MIS in brief

What is MIS?

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. Specifically, the minimum is defined as follows, based on consultation with groups of members of the public in the original research:

> A minimum standard of living in the UK 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.

How is it arrived at?

A sequence of groups has detailed negotiations about the things a household would have to be able to afford in order to achieve an acceptable living standard. They go through all aspects of the budget, in terms of what goods and services would be needed, of what quality, how long they would last, and where they would be bought. Experts check that these specifications meet basic criteria such as nutritional adequacy and, in some cases, feed back information to subsequent negotiation groups who check and amend the budget lists, which are then priced at various stores and suppliers by the research team. Groups typically comprise six to eight people from a mixture of socioeconomic backgrounds, but all participants within each group are from the category under discussion. So parents with dependent children discuss the needs of parents and children, working-age adults without children discuss the needs of single and partnered adults without children, and pensioner groups decide the minimum for pensioners. In all, over 100 groups have been used to research MIS since its inception in 2008.

A crucial aspect of MIS is its method of developing a negotiated consensus among these socially mixed groups. This process is described in detail in Davis et al (2015). It uses a method of projection, whereby group members are asked not to think of their own needs and tastes, but of those of hypothetical individuals (or 'case studies'). Participants are asked to imagine walking around the home of the individuals under discussion, to develop a picture of how they would live, in order to reach the living standard defined above. While participants do not always start with identical ideas about what is needed for a minimum socially acceptable standard of living, through detailed discussion and negotiation they commonly converge on answers that the group as a whole can agree on. Where this does not appear to be possible, for example where there are two distinct arguments for and against the inclusion or exclusion of an item, or where a group does not seem able to reach a satisfactory conclusion, subsequent groups help to resolve differences.

What does it include?

As set out in the definition above, 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 needs 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 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. The needs of over a hundred different family combinations (according to numbers and ages of family members) can be calculated. 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 Great 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 main UK standard is calculated based on the needs of people in urban areas outside London, with groups being held in towns in the Midlands. However, the UK definition of what comprises a minimum standard (see above) has also been applied in other geographical contexts, in supplementary projects considering costs in rural England (Smith et al, 2010), in London (Padley et al, 2017a), in remote rural Scotland (Hirsch et al, 2013), and in Guernsey (Smith et al, 2011). The London variations are incorporated in the online Minimum Income Calculator (CRSP, 2017a), through an option to adjust the first results. Other countries have used the same overall method, but employed their own definitions of the minimum, in Japan (Davis et al, 2013), Portugal (raP, nd), France (Gilles et al, 2014) and Austria. 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% 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 main MIS research is supported by the Joseph Rowntree Foundation (JRF). The original research in 2008 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. The standard is being updated annually 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.

2 The 2017 MIS budgets: income requirements and comparison with benefits, the poverty line and wage

This chapter gives the MIS results for 2017 in four main forms. First, it shows that the budgets needed as a minimum have risen with inflation, but the exact increase is estimated to vary between just under 3% to just over 4%, according to the composition of minimum budgets for different household types. Next, it compares MIS with out-of-work benefit rates, showing that for working-age households, whose benefits are currently frozen, income is declining relative to MIS as prices rise. Thirdly, it compares MIS to median incomes, showing that during the middle of the present decade, when real incomes were growing, the minimum budgets specified by MIS fell relative to the median. Finally, it considers the situation of low-income households who are working. Here, recent trends have been more varied. The National Living Wage (NLW) has increased minimum pay for working families at a faster rate than MIS budgets have been increasing, but this has been counteracted for families with children by the benefits freeze, which also affects in-work benefits, and leaves them worse off overall.

Table 2 shows the MIS budgets for 2017 for four household types. More detailed results are shown in the online Minimum Income Calculator (CRSP, 2017a), which allows budgets to be calculated for most types of household where a single adult or couple live on their own or with up to four dependent children. The calculator also allows items such as housing costs and childcare to be adapted to individual circumstances. Spreadsheets showing the budgets for 11 different household types over time are also available online (CRSP, 2017b). The Appendix to this report provides totals for 11 household types, and summarises what has happened to MIS budgets and income requirements since the first results in 2008.

Table 2: Summaries of MIS for four family types, April 2017

£ per week	Single, working age	Couple, pensioner	Couple, two children (one aged 2–4; one primary school age)	Lone parent with one child (aged 0–1)
Food	45.59	73.39	102.92	57.95
Alcohol	5.02	8.02	9.25	4.42
Tobacco	0.00	0.00	0.00	0.00
Clothing	7.53	13.09	46.59	23.84
Water rates	5.77	6.81	10.04	9.55
Council Tax	15.76	21.01	24.51	18.39
Household insurances	1.29	1.75	2.14	1.79
Fuel	16.48	17.72	18.25	15.21
Other housing costs	1.95	1.95	1.92	1.92
Household goods	12.61	16.64	25.91	21.05
Household services	3.03	7.93	12.73	17.66
Childcare	0.00	0.00	234.55	210.09
Personal goods and services	14.26	33.22	39.80	26.90
Motoring	0.00	0.00	59.93	55.67
Other travel costs	30.48	13.90	25.14	4.02
Social and cultural participation	47.37	59.58	95.44	50.48
Rent	89.70	84.97	91.05	84.97
'Headline' total – excluding rent and childcare	**207.13**	**274.99**	**474.57**	**308.85**
Total including rent and childcare*	**296.82**	**359.96**	**800.17**	**603.91**
Totals excluding: rent, Council Tax, childcare (comparable to out-of-work benefits)	**193.73**	**253.98**	**453.74**	**293.22**
rent, Council Tax, childcare, water rates (comparable to 'after housing costs' in HBAI)**	**185.60**	**247.17**	**440.02**	**280.91**
Council Tax, childcare (comparable to 'before housing costs' in HBAI)	**281.07**	**338.95**	**541.11**	**375.43**

Notes:

* Childcare shown for families with children assumes that parents work full time.

** Households Below Average Income (HBAI).

Changes in budgets in 2017

The cost of a minimum budget has increased for each of the households under consideration since 2016, reflecting the higher inflation rate seen over the last year after a period of price stability. In the year to April 2017, the Consumer Prices Index (CPI) rose by 2.7% and the Retail Prices Index (RPI) by 3.5%. The budgets considered here have mainly been uprated according to increases in each category of goods and services in the RPI, around which the MIS budgets are categorised. The exception is clothing, for which RPI seems systematically to exaggerate inflation rates, and CPI to underestimate them (Davis et al, 2016). Between April 2016 and April 2017, according to the RPI, clothing had increased by 9.2% compared to a 2.4% increase in the CPI. Interim estimates for 2017 use an average of these two inflation rates; in 2018, a full repricing of clothing items will be made.

It is important to bear in mind that using an inflation index to uprate budgets provides only an interim estimate of the actual changes in the minimum cost of living, between the full recosting of items that takes place every four years (Hirsch, 2015). Nevertheless, recosting has so far suggested that uprating budgets by RPI has given a broadly accurate picture, providing an early warning of which costs are actually increasing. Consequently, the following results at least give an indication of which areas of household budgets are rising most quickly as inflation returns.

Table 3 shows the estimated inflation rate for each category of the MIS budgets. A number of categories have seen increases significantly above the increase in the general inflation rate. Most prominent are increases in the cost of bus and coach travel, motoring and household insurances. These inflation rates have had a differential impact on headline budgets for the households considered here.

Table 3: Inflation rates for MIS budget categories

Budget category	Inflation rate, year to April 2017
Food	1.9%
Alcohol	2.6%
Clothing*	5.8%
Water rates	1.8%
Council Tax	3.8%
Household insurances	7.4%
Fuel	3.3%
Other housing costs	0.1%
Household goods	3.4%
Household services	2.3%
Personal goods and services	1.8%
Motoring	8.1%
Bus and coach travel	17.1%
Other travel	6.4%
Social and cultural participation: leisure goods	3.0%
Social and cultural participation: leisure services	2.7%

Note: * The clothing inflation rate used here is an average of the CPI and RPI rates: according to RPI, clothing had increased by 9.2%, compared to a 2.4% increase in the CPI.

The 'headline budget' for a single person has increased by 4.2% since 2016, ahead of both CPI and RPI for the year to April 2017. For a single person of working age, this change has been driven by a significant increase of 17% in the cost of bus and coach travel, a category that accounts for two-thirds of weekly travel costs. This has resulted in a 13% increase in travel costs overall between 2016 and 2017. Council Tax and clothing have each increased at a rate higher than the average, while household insurances, to cover home contents, have increased by 7.4%.

The weekly budget for a pensioner couple has increased at a lower rate than for single, working-age adults, rising by 2.8% over the past year. This increase in a minimum household budget has been most clearly driven by the rising price of food (although this remains below overall inflation), leisure goods and services (rising at a similar rate to CPI), and other travel costs (rising more rapidly; for pensioners, the main travel cost is occasional taxis). Between them, increases in these categories account for half of the budget increase between 2016 and 2017.

For households with children, budgets have increased by 4.1% for couples and 3.8% for lone parents since April 2016. A significant proportion of this arises from the increase in the cost of owning, maintaining and running a car, which at 8.1% is well above average inflation. Higher car costs account for around a quarter of the increase in a minimum weekly budget for couple parents, and more than a third of the increase for lone parents, whose minimum budgets, unlike pensioners and single working adults, include a second-hand car. Childcare costs for a couple with a preschool and primary school child have increased by 2.7%, while for a lone parent with a baby there has been a small decrease in the cost of childcare. This is because the price of nursery care has remained largely stable, but charges for after-school care for primary school aged children rose by 7.4%. Note also that social rents, affecting households with children and pensioners in the MIS calculations, have decreased by 1% this year, following the Government policy of reducing social rents each year until 2020.

Comparison with benefits

Table 4 shows that basic, out-of-work benefits continue to provide well under half of the minimum income (net of rent and Council Tax) required by an adult with no children, and 50–60% of what families with children require. In contrast, Pension Credit (the safety-net benefit for pensioners) provides 97% of a minimum budget, very nearly enough for them to meet MIS.

Table 4: MIS compared with out-of-work benefits, April 2017

	Single, working age	Couple, pensioner	Couple, two children aged 2–4 and primary	Lone parent, one child aged 0–1
MIS excluding rent, 85% of Council Tax* and childcare	193.73	253.98	453.74	293.22
Income Support**/Pension Credit	69.51	247.09	266.43	147.14
Difference (negative number shows shortfall)	-124.30	-6.89	-187.31	-146.08
Benefit income as percentage of MIS	36%	97%	59%	50%

Notes:

* Assumed coverage of Council Tax Support, except for pensioners for whom this is 100%.

** Including Child Benefit and Child Tax Credit for families, and Winter Fuel Allowance. For single, working-age people, the shortfall between Housing Benefit and actual rent has been subtracted from out-of-work benefits.

The long-term decline in the proportion of MIS provided by out-of-work benefits has continued in 2017. In 2010, families with children were typically around a third below MIS if they did not work, while in 2017 families with children receiving out-of-work benefits are much worse off, typically having only about half of the income needed to reach a minimum living standard. This is largely a consequence of the freeze on most working-age benefits, in place until at least 2019/20, in tandem with the return to inflation seen over the past year. Single people of working age, lone parents and couples with children have all seen the value of benefits relative to MIS fall since 2016. With inflation predicted to remain at least at its current level until 2020 (Bank of England, 2017), each of these households is likely to see a further erosion in the proportion of a minimum budget provided by these benefits, unless there is any move to either permanently or temporarily lift the freeze.

The situation facing ‘new’ families with children (where the oldest child was born after April 2017) claiming benefits will be exacerbated by the loss of the family element of Child Tax Credit, worth £10.50

each week – equivalent to just more than 2% of a minimum budget for a couple with two children, and 3.4% for a lone parent with one child. In Table 4, the lone parent example takes this change into account, since it is based on a family with one new-born child. This sharply reduces the adequacy of benefits for such a family, providing only 50% of the required budget in 2017, compared to 56% in 2016 and 65% in 2010. In other words, lone parents with a new-born can get only half of what they need from benefits in 2017, compared to two-thirds just seven years ago, representing a dramatic fall in the level of the social safety net.

Also beginning to take effect in 2017 is the restriction of Child Tax Credits and Universal Credit (UC) to the first two children in a family, a measure that applies to all families with two or more children who have an additional child born after April 2017. As an illustration, a non-working couple with a new-born and two other children aged 3 and 7 has only 54% of their MIS budgets covered by out-of-work benefits in 2017, compared to 67% for a similar family just last year. This is again a reduction from two-thirds to just more than half of needs met by benefits, but in this example over the much shorter period of a single year.

Pensioners remain unaffected by the freeze on benefits, with Pension Credit having been increased by 2.4% from April 2017. This means that the increase in the couple pensioner budget by 2.8% this year was almost covered by the benefit increase; the small shortfall of £6.89 each week in 2017 is only slightly greater than the £5.75 shortfall in 2016. As Pension Credit is currently guaranteed to rise in line with the higher of earnings and prices, forecasts of modest earnings growth may mean that the value of pensioner benefits relative to MIS improve in the next few years.

Comparison with the poverty line

The most common publicly used poverty indicator is based on a poverty line set at 60% of median household income. Table 5 looks at the percentage of median income represented by a MIS budget in order to allow for a comparison with the minimum income needed for a socially acceptable living standard. This uses the latest available data from the Households Below Average Income (HBAI) Series (DWP, 2017a), which is for 2015/16. This is compared with an average of the 2015 and 2016 MIS budgets for the households considered here.

Table 5: MIS compared with median income 2015/16

£ per week	Single, working age	Couple, pensioner	Couple, two children	Lone parent, one child
Before housing costs: median income 2015/16	322	481	673	418
MIS excluding childcare and Council Tax	269	332	539	363
MIS as percentage of median	84%	69%	80%	87%
After housing costs: median income 2015/16	240	413	578	322
MIS excluding childcare, Council Tax, water rates and rent	177	239	437	268
MIS as percentage of median	74%	58%	76%	83%

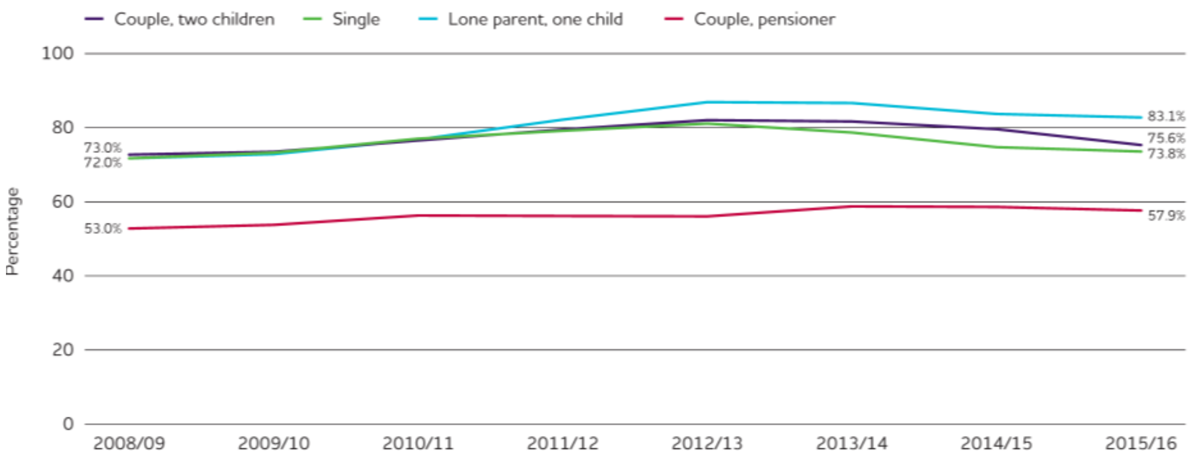
Note: Median income is adjusted – or equivalised – for household composition (that is, it is shown as higher for larger households and lower for smaller ones, according to a formula that assumes greater needs for larger families).

While the data shown cover incomes both including and excluding what households spend on housing, the more meaningful comparison is between net MIS budgets and income after housing costs. This is because rents within MIS budgets cannot provide a single accurate representation of the 'minimum' cost of housing, since both the housing options and the resulting rents actually available to different households in different locations across the UK vary considerably.

As in preceding years, the results show that most minimum budgets are substantially above the official poverty line. The exception to this, among MIS household types, is pensioner couples, whose minimum requirement after housing costs is very slightly below the poverty line. However, as most pensioners live in houses rather than the flats that are assumed to be the minimum for that age group within MIS, even within this group the majority will effectively require more than the 60% median, as living in a house rather than a flat brings with it additional expenses such as higher energy costs.

Between 2008 and 2013, the percentage of median income needed for MIS grew significantly (see Appendix, Table 9). This was a consequence of a period during which median incomes fell in real terms, while MIS budgets did not reduce in value. The rebase of the single, working-age person's budget in 2014 saw a reduction in the value of the minimum budget, and the rebase in 2016 resulted in a similar fall for couples with children, while median incomes grew in real terms. These results are beginning to have an impact on the percentage of median income represented by MIS: in both 2014/15 and 2015/16, MIS as a proportion of the median fell for each household shown in Table 5. This reversal in trend is shown in Figure 1.

Figure 1: MIS as a proportion of median income, after housing costs, 2008/09 to 2015/16



Comparison with wages

The NLW, introduced by the UK Government in 2016 as a higher minimum wage for workers over 25, was initially set at £7.20, rising by 4.2% to £7.50 in April 2017. While a welcome boost to many low-paid workers, Table 6 shows that despite the introduction of this higher minimum, the NLW still leaves many workers well short of MIS. A single person, working full time on the NLW, has a disposable income that covers 78% of MIS, a shortfall of £42.63 each week. A couple with two children, supported by UC and both working full time on the NLW, reach 95% of what they require for a minimum budget, after paying for rent, childcare and Council Tax, meaning a shortfall of £21.13 each week. Under the tax credit system, with less generous support for childcare, a couple with two children have a shortfall of more than double this amount, £59.20 each week.

Table 6: Earnings required to meet MIS compared, and comparison to income on the NLW, April 2017

	Single, working age	Couple two children, primary and pre-school age, supported by tax credits	Couple two children, supported by UC	Lone parent, one child, pre-school age, supported by tax credits	Lone parent one child, supported by UC
MIS weekly budget (including rent*, childcare and Council Tax)	296.82	800.17	800.17	555.37	555.37
Annual earnings requirement, per adult	17,934	20,381	16,854	29,601	25,873
Hourly wage rate (full time)	9.17	10.42	8.62	15.14	13.23
Disposable income working full time on NLW, as percentage of MIS budget**	78%	87%	95%	78%	82%

Notes:

* Based on low-cost East Midlands rents – private rented sector for singles and social rents for families with children.

** After rent, Council Tax and childcare costs.

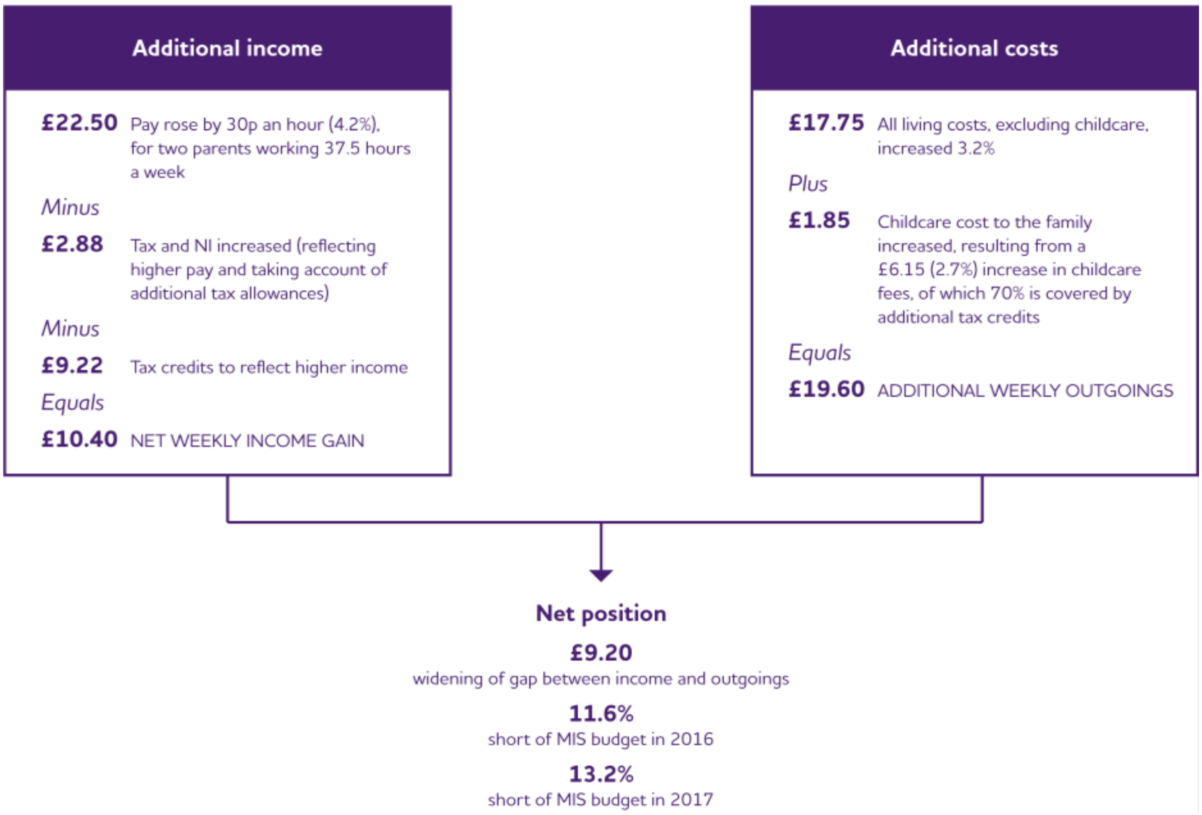
The lone parent example used here is of a child of pre-school age (3 or 4), rather than the standard examples used in MIS of a child aged 0–1. The latter has become an outlier when considering the wage requirement to meet MIS, since full-time childcare without any free provision from the early years' entitlement for 3 and 4 year olds, or from school, now incurs a cost well above the maximum supported by tax credits or UC.

Modest inflation has caused the earnings requirements shown in Table 6 to increase. For a single person, the increase of 4% in the National Living Wage has enabled income to keep up with these rising costs; such a person still has 22% less disposable income than required, and this has fallen from 30% in the past two years. For families with children, on the other hand, the wage rise has produced less disposable income than increasing costs, so the proportion of MIS covered by disposable income has fallen. This is due largely to the clawing back of tax credits. The effect of this is important, since it illustrates how difficult it is for working families relying on tax credits to make progress as long as these tax credits, and the amount you can earn before they are withdrawn, are not increased with inflation (they are currently frozen).

Figure 2 shows how this works in what should be a favourable situation – a family with two parents working full time, for whom a wage increase brings in more, relative to family outgoings, than where only one person is working or someone works part time. Another favourable feature this year is that the tax allowance increased by £500 a year, almost enough to cancel out the additional tax paid by the family due the rise in pay. However, the additional National Insurance contributions payable, combined with the tapering of tax credits to reflect additional income, still means that the family keeps less than half its pay rise. Thus a 4% pay increase turns into about a 2% increase in disposable income, and a larger amount of additional costs made it harder for such a family to make ends meet.

Figure 2: How pay increases are being clawed back for low-income families – an illustration

Couple with two children, where both parents work full time on the NLW, change in weekly income and costs, April 2016–April 2017:



Families with lower earnings relative to costs are facing the same phenomenon, but potentially more severely, as clawed-back wages are then even smaller relative to increasing household expenses. In addition, under the tax credit system (but not under UC), a low-income family depending on Housing Benefit has an even greater claw-back, as the simultaneous income-testing of tax credits and Housing Benefit causes the family to lose over 90% of additional earnings. This helps explain why, for the example of a lone parent on tax credits (for whom the claw-back is greater, due to reliance on Housing Benefit), disposable income as a percentage of MIS has reduced from 82% to 78% in the past year.

Figure 3: Disposable income as a percentage of MIS, working on National Minimum Wage/National Living Wage, 2010–17 (income net of rent, childcare and Council Tax)

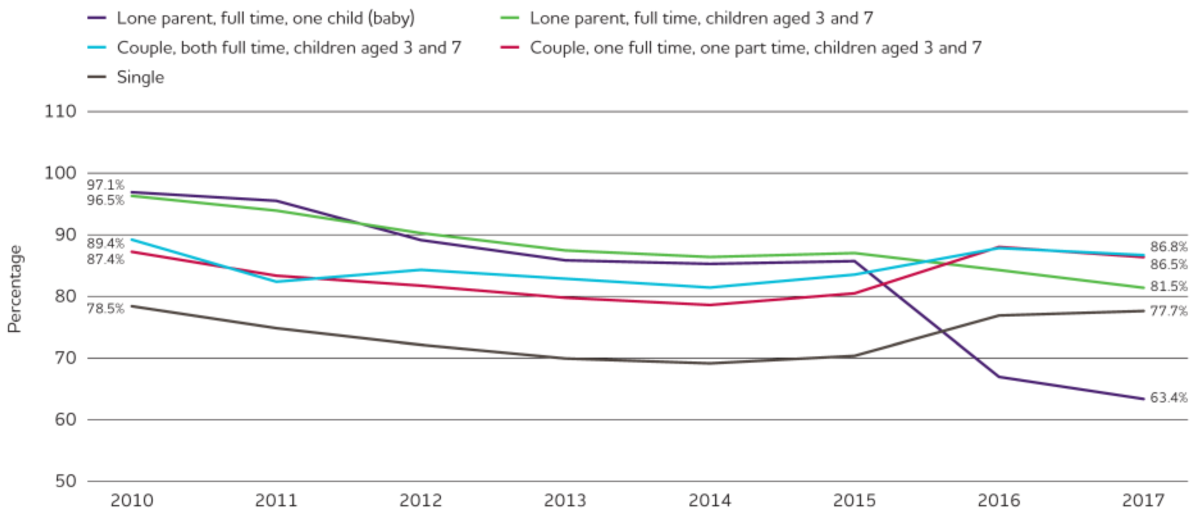


Figure 3 shows the trends in the adequacy of incomes for various household types on the National Minimum Wage (NMW) since 2010. Broadly, it shows that the adequacy of working incomes fell significantly in the early part of this period, recovered for single people and couples with the introduction of the NLW in 2016, and has fallen for families with children in the past year. For lone parents, the situation has been one of more or less continuous decline. In 2010, tax credits were helping them to get almost to the MIS level if they worked full time. Now, at the extreme, a lone parent with a baby, who has recently lost the family element of tax credits and whose high childcare costs have risen above the cap on tax credit support for childcare, has less than two-thirds what they need. The sharp drop between 2015 and 2016 for such a family resulted from a combination of specified childcare costs increasing (families are now saying that they need a choice of nursery, not only childminder provision) and the fact that because this family's childcare costs exceed the cap, additional costs must be paid entirely by the family. But even comparing a lone parent with children aged 3 and 7 with a couple with children the same age, the lone parent is in a worse position, mainly because of their smaller gains from the NLW.

Figure 3 is based on the example of tax credits. At present, a far greater proportion of families with children are in receipt of tax credits compared to the number receiving UC; in December 2016, only 18% of the 410,000 households receiving UC were families with children (DWP, 2017b). However, as mentioned above, for families with childcare, UC is generally more favourable because of the additional amount that it provides for childcare costs – up to 85% under UC, rather than 70% in Working Tax Credit. For those without childcare, in most cases the change in entitlements on switching from tax credits will be much smaller. For example, a couple with two children, working full time without childcare, will be about £2 a week better off on UC, while a lone parent working full time will be about £1 a week worse off.

The reduction in the UC taper rate from 65% to 63% in April 2017 boosted the income of people working full time on the NLW in households receiving UC by about £10 a week for a couple and £5 for a lone parent, with no equivalent increase to tax credits. On the other hand, the reduction in April 2016 of the Work Allowance in UC caused a weekly income cut of £10.65 for lone parents and £4.50 for couples, with no equivalent reduction in tax credits. Overall, lone parents stand to lose and couples who both work stand to gain from these changes to UC.

3 Conclusion

The income required for a minimum acceptable standard of living rose with inflation in 2017 – by between just under 3% and just over 4%. Average earnings are, at present, rising roughly in line with inflation, and for those on the lowest wages slightly faster, with a 4% increase in the NLW in 2017.

On the face of it, this would suggest a period of stability. However, looked at in the wider context, substantial growth between 2008 and 2012 in the number of households unable to meet MIS, which levelled off in the middle of this decade (Padley et al, 2017b), looks set to resume. While 2014–2016 saw modest earnings growth and stable prices, a resumption of inflation, a decline in earnings growth, and the freezing of benefits, tax credits and UC all create new risks for working and non-working families on the lowest incomes. Importantly, this is the first period since benefits were frozen that the benefits are losing value because prices are rising. Moreover, 2017 saw the introduction of significant cuts in family benefits, to be phased in for new families, and for third or subsequent children born from 2017 onwards.

These changes are resulting in a decline in the adequacy of incomes relative to MIS for both working and non-working families on low incomes. In some cases, the decline has already been great in this decade. In 2010, families with children were typically a third below MIS if they did not work, and some family types could almost reach MIS if they worked full time on the NMW. Today, families with children on out-of-work benefits are much worse off, typically having only around half the incomes they need to reach a minimum living standard. Those working on low pay have had more mixed fortunes, with some but not all partially recovering from losses earlier in the decade, helped by the NLW, more generous help with childcare in UC and, from later this year, potentially by additional free childcare hours for 3 and 4 year olds. However some families, especially lone parents, continue to get worse off, and new families affected by the removal of the family element of Child Tax Credit and by its restriction to two children will face further losses.

Perhaps the most significant new finding from this report is that while there are various 'swings and roundabouts' in terms of specific cuts or improvements in childcare support, the freezing of benefits in inflationary times is making low-income families systematically worse off, even where their earnings are being lifted by the NLW. The capacity to benefit from pay growth on its own is severely constrained when additional earnings are being sharply withdrawn, with no increase in how much pay is being exempted from this 'taper'. Hence whatever else happens to the system, the unfreezing of benefits, tax credits, UC and the level of income disregarded by these systems is a prerequisite for healthy income growth for low-income families. Only then might a long period of growth in the number of families living below MIS start to reverse.

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Appendix: Summary of MIS budgets 2008–2017

Table 7: Minimum requirements not including rent or childcare, £ per week

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Single	158.12	165.82	175.34	184.68	192.59	200.64	195.29	196.16	198.85	207.13
Couple	245.03	256.35	272.55	286.79	301.74	314.52	320.15	321.99	330.17	344.77
Pensioner, single	131.98	138.53	147.41	154.62	158.74	165.24	182.16	182.98	186.77	192.27
Pensioner, couple	201.49	210.66	222.22	232.74	231.48	241.25	262.76	264.04	267.39	274.99
Lone parent, one child (aged 0–1)	210.31	220.11	233.73	246.37	275.59	284.57	291.26	291.14	297.59	308.85
Lone parent, two children (aged 2–4 and primary)	282.69	295.49	308.90	325.90	361.99	375.15	383.55	384.14	372.21	385.94
Lone parent, three children (aged 2–4 primary and secondary)	379.94	396.28	406.15	429.19	457.66	475.03	485.59	486.83	480.57	498.99
Couple, one child (aged 0–1)	286.64	299.83	315.38	332.27	374.17	386.90	396.99	397.76	381.67	397.87
Couple, two children (aged 2–4 and primary)	370.05	386.96	402.83	424.65	454.52	471.16	482.89	484.48	455.90	474.57
Couple, three children (aged 2–4, primary and secondary)	465.71	485.75	496.84	524.48	554.55	577.02	591.34	593.48	574.12	597.67
Couple, four children (aged 0–1, 2–4, primary and secondary)	504.69	526.44	539.08	569.27	605.80	628.70	644.35	646.96	622.58	647.80

Table 8: Safety-net benefits (Income Support/Pension Credit) as a percentage of MIS (excluding rent, childcare, Council Tax)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Single	42%	42%	41%	40%	40%	38%	40%	40%	39%	36%
Pensioner, couple	105%	105%	102%	100%	104%	101%	95%	96%	98%	97%
Couple, two children	63%	63%	62%	62%	60%	58%	57%	57%	61%	59%
Lone parent, one child	68%	67%	65%	64%	59%	57%	57%	57%	56%	50%

Table 9: MIS as a percentage of median income*

	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Before housing costs								
Single	74%	76%	79%	83%	86%	86%	84%	84%
Pensioner, couple	62%	64%	66%	67%	67%	70%	70%	69%
Couple, two children	75%	77%	79%	83%	85%	86%	84%	80%
Lone parent, one child	75%	77%	80%	86%	90%	90%	88%	87%
After housing costs								
Single	72%	74%	77%	79%	81%	79%	75%	74%
Pensioner, couple	53%	54%	57%	56%	56%	59%	59%	58%
Couple, two children	73%	74%	77%	80%	82%	82%	80%	76%
Lone parent, one child	72%	73%	77%	83%	87%	87%	84%	83%

Note: *Survey data not available after 2015/16.

Table 10: Earnings required to reach MIS (supported by tax credits)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
£ per year										
Single	13,450	13,859	14,436	15,000	16,383	16,852	17,072	17,102	17,311	17,934
Couple, two children (two earners)	27,792	27,940	29,727	36,800	36,728	38,759	40,573	40,047	37,812	40,762
Lone parent, one child*	11,990	12,122	12,454	18,243	23,861	25,586	27,073	26,725	35,507	36,915
£ per hour										
Single	6.88	7.09	7.38	7.67	8.38	8.62	8.73	8.75	8.85	9.17
Couple, two children (two earners)	7.11	7.14	7.60	9.41	9.39	9.91	10.37	10.24	9.67	10.42
Lone parent, one child*	6.13	6.20	6.37	9.33	12.20	13.09	13.85	13.67	18.16	18.88

Note: *Lone parent, one child shown here uses child aged 0–1, for continuity with previous publications.

Table 11: Net income on the NMW as a percentage of MIS (excluding rent, childcare, Council Tax; supported by tax credits)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Single	84%	83%	79%	75%	72%	70%	69%	70%	77%	78%
Couple, two children (two earners)	93%	91%	89%	83%	84%	83%	82%	84%	88%	87%
Lone parent, one child*	98%	97%	97%	96%	89%	86%	85%	86%	67%	63%

Note: *Lone parent, one child shown here uses child aged 0–1, for continuity with previous publications.

Acknowledgements

Thanks are due to Judith Paterson from CPAG Scotland for updating the tax and benefit schedules for the Minimum Income Calculator, and to Nicola Lomax and Lisa Jones at CRSP for administrative support.

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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 authors and not necessarily those of JRF.

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A CIP catalogue record for this report is available from the British Library.

First published July 2017 by the Joseph Rowntree Foundation
PDF ISBN 978 1 91158 109 3
Cover image: iStock

Joseph Rowntree Foundation
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Ref 3263

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