

A MINIMUM INCOME STANDARD FOR THE UK IN 2016

This annual update of JRF's Minimum Income Standard (MIS) is based on what people think is required for an acceptable living standard, covering material needs and allowing participation in society. It includes new research on families with children.

Key points

- Parents identified similar necessities to those in 2012 and 2008. Some were finding more economical ways to meet a minimum standard, with more shopping around and eating out more occasionally. They accepted more restricted housing standards for larger families, influenced by the so-called 'bedroom tax'.
- Parents think that families should have the choice of childminders or nursery care rather than having to use the cheapest option. They also increased the after-school activities budget. These changes increased families' MIS cost.
- In 2016, single people need to earn at least £17,100 a year before tax to achieve the MIS, and couples with two children at least £18,900 each.
- Incomes of working-age households receiving out-of-work benefits were far below MIS. Single people could afford 39 per cent of the budget and couples with two children 61 per cent. Lone parents have seen the sharpest fall: from 65 per cent of MIS in 2010 to 56 per cent today. Pensioners have safety-net income around the MIS level.
- The National Living Wage (NLW) plus help with childcare costs through Universal Credit (UC) has improved income relative to MIS for some low-wage families. However, cuts to in-work support for people receiving UC have offset this, particularly for lone parents. Full-time working lone parents on NLW and UC were 18 per cent below MIS, compared with 4 per cent for full-time working couples.
- Childcare costs remain a major barrier to reaching MIS through working. Without them, lone parents would be only 10 per cent and couples would reach the standard.

The research

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

JULY 2016

BACKGROUND

What income do people need to achieve an acceptable standard of living in the UK? Since 2008, JRF has published annual updates of the Minimum Income Standard (MIS), to reflect changes in costs and society affecting what households require. The standard is based on what members of the public identify as the items and services households need to reach a minimum acceptable standard of living, covering essential requirements and allowing participation in society. In 2016, the research was fully updated for families with children for the first time since 2012. For households without children, previous MIS budgets were reviewed for any clear-cut changes, but otherwise just adjusted in line with retail prices.

Continuity and change in family budgets

The research since 2008 has mainly shown stability in minimum requirements, despite being a period of falls in actual household incomes. The budgets most family types in 2016 are within 4 per cent of their 2008 level, after adjustment for changes in the price level of the commodities on which MIS is based. In 2016, couples with two children need to earn at least £18,900 each a year before tax to achieve the MIS income level, and single people at least £17,100.

Despite overall stability, significant falls have occurred in various parts of the budgets and increases in others. Living in tougher times appears to have caused parents to think more carefully about how family needs can be met. For example, they have always considered it important for a family to sometimes have a meal out together, but now felt that this could be more occasional than they did in 2008 – a few times a year, rather than monthly. Parents also put more emphasis on buying things economically, by looking for deals, than eight years ago. Since 2008, a computer with internet connection has become a standard household requirement. Shopping around, for example for a better-priced utility provider, has also become more important in family budgeting.

In general, parents did not suggest that such economies implied a lower minimum living standard, just a more careful approach to reaching this standard. One exception in 2016 was parents' acceptance that although each child in a family would benefit from having a separate bedroom, the Housing Benefit size criteria (the so-called 'bedroom tax') no longer makes it realistic to consider this a minimum requirement for larger families. Consequently, they put a limit of two children's bedrooms as the minimum living space considered acceptable for families with up to four children.

However, some changes have caused budgets to increase. One underlying influence was the importance parents attached to giving their children opportunities. In 2016, for the first time, parents said that a family requiring childcare for a pre-school child should have the choice of nursery provision or a childminder, rather than having to rely on the latter as the cheaper option. This follows a period in which the government has stressed the value of early childhood learning. Parents also increased the budget for after-school activities, again emphasising the opportunity this gives their children.

Other budget increases in 2016 also related to the constraints facing families. As in 2012 (but not 2008), parents thought that public transport was inadequate for a family in an urban area outside London to meet their needs without a car (a modest second-hand one). Furthermore, they increased the distance people might need to travel by car to access work opportunities. This reflected constrained housing choices making it harder to move closer to a workplace.

Minimum budgets and incomes in 2016

With stable prices, minimum budgets have stopped rising in the past two years. Food is a relatively large part of minimum budgets – about 22 per cent compared with 11 per cent in the Consumer Prices Index, excluding rent – and food prices have fallen 6 per cent since their peak in 2014. This means that the

general price pressure on MIS has been modestly negative. However, inflation in the earlier 2008–2014 period, especially food inflation, had the reverse effect. Over the entire period 2008–2016, MIS budgets have risen more than general consumer prices, and far more than wages or benefits.

Changing prices have combined with other factors to cause households depending on benefits or low wages to become worse off relative to MIS (see Table 1). Positive influences have been the introduction of the National Living Wage (NLW) for over-25s, and more help with childcare costs within Universal Credit (UC); from 2016 the maximum percentage of childcare paid for has increased from 70 to 85 per cent. Negative influences have been various cuts in the value of benefits, and increasing costs.

Table 1: Minimum income requirements and comparison with benefits and incomes on the NLW

	Weekly budget requirement (excluding rent and childcare), April 2016	Percentage of budget provided by safety net benefits*		Percentage of budget achieved by working full-time on National Minimum Wage/NLW**		
		2010	2016	2010	2016 under tax credits	2016 under UC
Single working-age person	£198.85	41%	39%	79%	77%	77%
Couple with two children aged 4 and 7	£468.98	62%	61%	89%	88%	96%
Lone parent with one child aged 1***	£300.73	65%	56%	97%	67%	69%
Pensioner couple	£267.39	102%	98%			

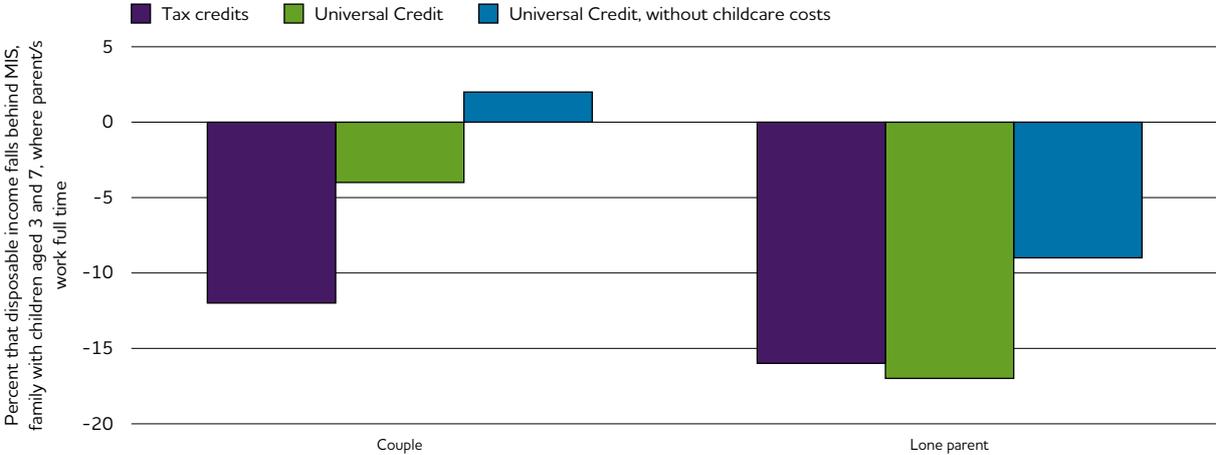
* Income Support/Jobseeker’s Allowance or Pension Credit, plus Child Tax Credit and Child Benefit for families, and Winter Fuel Allowance for pensioners. Comparison with MIS excluding rent, childcare and Council Tax.

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

*** The example of lone parent with a child aged 1 is used for the comparison over time shown in this table, because it is the core lone parent case, used from the start of MIS. More detailed analysis for 2016 in full report uses a different example, for reasons explained in Table 5 of report.

Figure 1 shows how far working families on the NLW fall short of MIS. In general, the gradual introduction of UC is doing more to get couples closer to meeting the standard than lone parents. However, in both cases the burden of meeting childcare costs – including with help from tax credits or UC – leaves families with a shortfall, even where they work full time. In most families, at least one parent does not work full time; childcare costs constrain opportunities to work additional hours, whether full or part time. Without such costs, the NLW would get families much closer to meeting MIS.

Figure 1: MIS shortfall for working families on NLW, 2016



Conclusion

The 2016 MIS results show that the cost of a minimum standard of living can fall, through cheaper goods and more modest requirements, as well as rise. However, this does not mean that more families will meet the standard, because those on low incomes continue to face challenging circumstances, particularly through cuts to in-work and out-of-work benefits. This has offset the positive impact of introducing the NLW in 2016.

More generous childcare support has helped reduce families' net costs, but high childcare costs continue to be a big barrier to making ends meet. This is partly because families now believe that access to nurseries, rather than having to rely on the cheaper childminder option, is part of the minimum. Having promoted good-quality childcare to enhance children's life chances and parents' work opportunities, the government now faces the challenge of ensuring that it truly becomes affordable. The expansion of free childcare for three and four-year olds in 2017 will be another step along that road.

About the project

The MIS team at the Centre for Research and Social Policy at Loughborough University carried out this update.

FOR FURTHER INFORMATION

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

The full report, *A Minimum Income Standard for the UK in 2016* by Abigail Davis, Katherine Hill, Donald Hirsch and Matt Padley, is published by the Joseph Rowntree Foundation. It is available as a free PDF at www.jrf.org.uk

A minimum income calculator is also available, which lets people find out how their income measures up to the MIS. It can be found online at: <http://www.minimumincome.org.uk/>

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ISBN 978-1-910783-67-2

Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP
Tel: 01904 615905

email: publications@jrf.org.uk
www.jrf.org.uk
Ref: 3218