

A minimum income standard for Britain in 2009

Findings
Informing change

July 2009

In 2008, JRF published the first ‘minimum income standard for Britain’, based on what members of the public thought people need to achieve a socially acceptable standard of living. A year later, and in changing economic circumstances, the standard has been updated for inflation.

Key points

- Based on views of members of the public, a single person in Britain needs to earn at least £13,900 a year before tax in 2009, in order to afford a basic but acceptable standard of living. A couple with two children need to earn £27,600.
- The cost of a minimum household budget has risen by about 5 per cent for most families. This is well above the general inflation rate, because someone on a minimum income spends a greater than average portion of their budget on food, domestic fuel and public transport, whose prices have risen by 7 to 12 per cent. The minimum budget also does not include a mortgage or running a car, whose falling costs have pulled down the general inflation rate.
- Working-age people on benefits remain well below the minimum income standard. Even though benefit rises in April 2009 exceeded the published inflation rate at the time, they were similar to the rise in the cost of a minimum household budget. This means that people on benefits have got no closer to reaching an acceptable living standard.
- The official poverty line is set relative to average incomes, which have stopped growing. People on low incomes whose benefits are still rising may appear to improve their position relative to this poverty line. However, this does not take account of their increased costs, which mean their living standards may not have improved.
- With people losing their jobs, maintaining a minimum acceptable income has become more important than ever. Exploratory research, asking members of the public about their attitude to essentials in light of recession, suggests that they continue to believe that a minimum standard of living should allow people in Britain not just to survive, but to play a full part in society.

The research

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

Background

In 2008, the first minimum income standard for Britain (MIS) was published by JRF. There is a need to update MIS regularly, to reflect changes to the cost of living and to living standards.

The standard is based on research by the Centre for Research in Social Policy (CRSP) at Loughborough University and the Family Budget Unit (FBU) at the University of York. Groups of members of the public discussed what was needed to achieve a minimum socially acceptable standard of living. The groups were also informed by expert knowledge. For further details, see www.jrf.org.uk/publications/minimum-income-standard-britain-what-people-think.

Over time, changing prices alter the cost of a basket of goods and services that represent a minimum standard of living. In addition, changes in social norms mean that the content of that 'minimum basket' will change. This study considered both those elements, and updated the budgets to April 2009.

Price changes and minimum budgets

According to official inflation figures, the year to April 2009 saw only minor changes in prices overall: the Retail Prices Index (RPI) fell by 1.2 per cent and the Consumer Prices Index (CPI), which excludes mortgage payments and some other housing costs, rose by 2.3 per cent. However, the cost of a minimum budget will not necessarily change at the same rate as general inflation. Prices of different products are changing at

different rates. The overall price index is calculated by giving weight to each category of goods and services (such as food, clothing) according roughly to how much people spend on average. But someone on a minimum budget spends more than average on some items and less on others. The overall cost of this budget is influenced by whether items that are over-represented are rising faster or slower than average.

The research therefore looked at the change in the cost of each category in a minimum budget, based on the RPI change for that category. This produced inflation rates for MIS that are significantly higher than general inflation. The cost of a minimum family budget, not including rent and childcare, rose by close to 5 per cent for all family types. This is an important difference compared with RPI and CPI. It means that if someone just able to afford a minimum standard of living in April 2008 were to have had their net income changed in line with RPI in April 2009, they would fall 6 per cent short of being able to afford a family budget and, with a CPI adjustment, 3 per cent short.

The reason for this high inflation rate for MIS is that high-inflation categories are greatly over-represented in the minimum budget, while categories with low or negative inflation rates are under-represented. For example, food prices rose 9 per cent in the year to April 2009, and comprise 20 per cent of a single person's minimum budget, but only contribute 12 per cent of RPI. At the same time, the cost of mortgage interest fell 47 per cent and the cost of running a car fell 5 per cent, contributing significantly to the present negative headline inflation rate. However, people living on a minimum income did not benefit from these falls, because they are assumed to rent their homes and rely on public transport. (Members of the public involved in the MIS research decided it is possible to achieve a minimum acceptable living standard without a car.)

Figure 1: Composition of MIS and RPI, by inflation rate of various categories of goods and services, April 2009

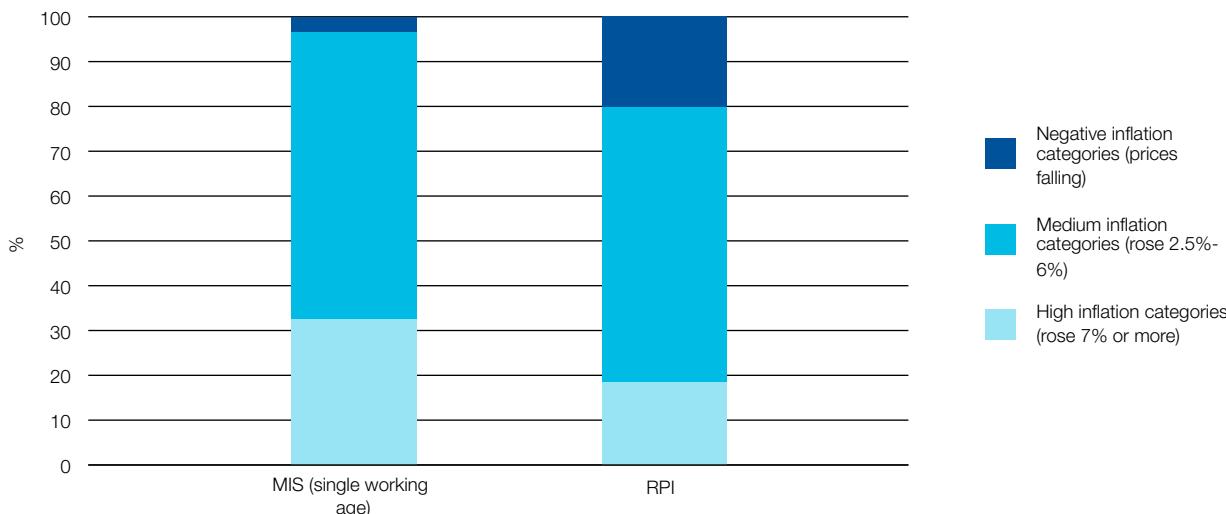


Figure 1 shows the extent of this difference between high and low inflation items in MIS compared to RPI. High inflation items comprise a third of the minimum but less than a fifth of the RPI, while negative inflation items comprise a fifth of RPI but only 3 per cent of MIS.

A further issue is how much RPI provides reasonable estimates of price rises for items in a minimum budget, even within broad categories. For example, if luxury foods were going up much faster than basic foods, and most of the food items in MIS were in the latter category, the inflation index for food would overestimate the rise in the price of a minimum food budget.

To test whether there were systematic differences of this kind, this research repriced each item in the April 2008 budgets by looking for comparable products in stores in April 2009. These repriced estimates produced total budgets somewhat higher than the indexed method described above for four family types tested, suggesting that the high inflation rate being reported for MIS could even be an underestimate. However, within no category was it found that things included in a minimum budget are systematically changing in price at a different rate to items more generally as shown in RPI. For this reason, the RPI method is used here and future upratings will also use this.

Changes in living standards and the recession

In order to establish whether changes in living standards require a revision in the content of minimum budgets, it will be necessary to repeat the original research. If living standards rise, one can expect that the public will start to include new items in their lists of necessities. In the

original 2008 MIS report, it was suggested that annual upratings should also include an element of increase to reflect the gradual rise in standards of living, and that this should be based on trends in spending. However, it has not been feasible to implement this method, since the latest available data on spending trends (from 2006) is likely to be a poor guide to what happened between 2008 and 2009, when growth trends were going into reverse.

Therefore, the MIS upratings for 2009 are based on inflation only. Recession may change attitudes towards what should be in a minimum budget, but it is too early to confirm this.

This research did, however, include some exploratory discussions among members of the public, to produce initial ideas about the possible effect of recession on what people would include in the minimum. Participants in these discussions came to very similar definitions of the minimum to the original research, and drew up almost identical lists of items. However, they also indicated that a more careful attitude towards spending and consumption is developing, with a greater tendency to 'shop around'. It is too early to say whether this should alter the level of the minimum income standard, but the discussions showed that recession creates important issues for MIS and suggests the need for new research before long, to investigate whether to amend the content of the budgets.

Budgets for April 2009

Revised budgets for April 2009, alongside key comparisons, are shown in Table 1. The budgets have risen with inflation in the past year (as above), and so

Table 1: Summary of April 2009 minimum income standard

Family type	Single working age	Pensioner couple	Couple + 2 children (excluding childcare)	Lone parent + 1 child (including childcare)
Weekly budget excluding rent/childcare	£166.47	£211.50	£388.51	£220.86
Percentage rise since 2008	5.3%	5.0%	5.0%	5.0%
Weekly budget including rent, and childcare for lone parent*	£220.33	£277.87	£460.13	£426.59
Annual earnings required by single earner	£13,900	n/a	£27,600	£12,100
Wage required by single earner working full time	£7.09	n/a	£14.13	£6.20
Percent of budget provided by Income Support/Pension Credit**	42%	105%	63%	67%
Estimated percentage of median income after housing cost represented by MIS	77%	56%	78%	76%

* To calculate the required earnings of a single full-time worker, it is assumed that a lone parent uses childcare but a couple does not.

** Compares with budget net of rent, council tax and childcare.

have the earnings required to meet them. As in the previous results, a full-time earner on the minimum wage (£5.73 an hour) cannot achieve a minimum income standard.

In April 2009, most benefits went up by 5 to 6 per cent. This was in line with inflation in September 2008, when government upratings were fixed, but substantially above the headline inflation rate in April 2009. The result is that, adjusted for a general inflation index, the incomes of people relying on benefits rose in real terms. However, as the amount needed to achieve a minimum standard of living also rose by about 5 per cent after rent, the adequacy of benefits relative to the standard did not improve. People of working age without children still receive less than half the amount required, and those with children about two-thirds. However, Pension Credit guarantees pensioners who claim it a minimum acceptable living standard.

The minimum income standard can also be compared to the poverty line of 60 per cent median income. As in 2008, most budgets are above that standard. These are based on estimates because income figures are out of date, but in this case it has been assumed that they have not changed since 2007/08. Since the MIS has risen, this suggests that MIS represents a somewhat higher percentage of median income than a year ago.

Benefits too represent a higher percentage of median income, on paper, than in 2008, and this will help some families to rise above the poverty line. However, this apparently beneficial effect on the poverty figures does not represent a real improvement in the living standards of people on low incomes. This is because the cost of living is also going up faster for someone around the minimum than for the average family. Roughly speaking, people receiving their income from benefits have had no real-terms improvement in their living standard, and will only improve their relative position because median real incomes are falling. Moreover, in future the buying power of people relying on benefits could potentially fall,

if the inflation rate for a minimum income continues to outstrip the general inflation rate on which benefit rises are based.

Conclusion

In tough economic times, a growing number of people will ask whether they have enough income to afford a minimum acceptable standard of living. Many fall out of work. More find it hard to make ends meet. People who have taken for granted a standard of living suddenly have their expectations shattered. In such circumstances, a benchmark like MIS can help society to keep sight of what levels of income it finds unacceptable.

This study shows that the cost of a minimum living standard rose by about 5 per cent in the year to April 2009, even though prices fell overall. Fortunately for people on the lowest incomes, benefits rose by a similar amount to MIS, because the rise was based on an earlier inflation figure. But some people losing their jobs are still having to survive on less than half of what members of the public think is needed to achieve an acceptable standard of living. Tough economic times may cause rethinking of what is a 'necessity' but early evidence suggests that people maintain their view of what things are needed to participate fully in society. A vigorous public and political debate about the acceptable level of a minimum income and how to achieve it, from recession into recovery, is as important as ever.

About the study

This update was carried out at the Centre for Research and Social Policy at Loughborough University, by the team involved in the initial MIS research. It involved analysis of Expenditure and Food Survey and RPI data, repricing of goods and services in shops and from other suppliers, and three focus groups held in Derby in April 2009.

The full report, **A minimum income standard for Britain in 2009**, by Donald Hirsch, Abigail Davis and Noel Smith, is published by the Joseph Rowntree Foundation. It is available as a free download at www.jrf.org.uk

A minimum income calculator is also available, which lets people find out how their income measures up to the minimum income standard: <http://www.minimumincome.org.uk/>

Published by the Joseph Rowntree Foundation, The Homestead, 40 Water End, York YO30 6WP. This project is part of the JRF's research and development programme. These findings, however, are those of the authors and not necessarily those of the Foundation. ISSN 0958-3084

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