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## *A Minimum Income Standard for the UK in 2014*

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# A MINIMUM INCOME STANDARD FOR THE UK IN 2014

Abigail Davis, Donald Hirsch and Matt Padley

**This is** the 2014 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.

Budgets for adults without children, both working age and pensioners, which were originally researched in 2008, have for the first time been researched again from scratch. Budgets for families with children have been reviewed. The report shows that a basket of minimum household requirements is similar in 2014 to 2008, but that its cost has risen significantly more than headline inflation, as have the earnings required to afford it.

This report shows:

- what incomes different family types require in 2014 to meet the minimum standard; and
- how much the cost of a minimum household budget has risen since the last update in 2013, and since the first such study in 2008.

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# EXECUTIVE SUMMARY

This report is the April 2014 update of research on a Minimum Income Standard (MIS) for the United Kingdom. This research, which is based on what members of the public consider households need in order to reach a minimum acceptable standard of living, sets a benchmark for income adequacy. One powerful feature of MIS is that it is continuously updated to reflect social and economic change.

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For the first time since the original MIS research was published in 2008, budgets for households without children have been researched again from scratch ('rebased'). New groups comprising members of the public have specified what such households need in order to reach an acceptable standard of living in 2014, while budgets for families with children, which were rebased in 2012, have been further reviewed by groups.

The main research involved 12 detailed focus groups in which members of the public from a range of social backgrounds were tasked with producing lists of items that households would need in order to reach the specified threshold. These groups involved pensioners or working-age adults without children, in three stages, drawing up, checking and finalising the lists. An additional five groups reviewed previous lists drawn up by parents who had been asked to consider the needs of families with children. As in previous MIS research, deliberations by members of the public were complemented by expert knowledge, including a nutritionist who helped to construct adequate diets and a heating engineer who specified home energy requirements.

The information gathered was used to calculate the minimum household budgets and the earnings or pensions required to afford these budgets (after the deduction of taxes and addition of benefits and tax credits).

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## Household needs in 2014

As with the last round of MIS research in 2012, the 2014 study has shown a high degree of continuity in what comprises a minimum living standard. Despite a decline in actual living standards as a result of falling real incomes, the minimum that people say is required has not gone down overall. However, there are a number of specific changes, some causing increases in MIS and others causing reductions, compared to what would have happened as a result of inflation:

- The cost of a minimum food shopping basket has increased faster than general food inflation. This appears to be associated with prices of lower-cost food rising more than average.
- Transport costs have increased, largely because as bus services have become less adequate, the minimum cost of using taxis to supplement public transport has risen.
- The technology considered necessary in order for people to participate in society continues to evolve. All households now need computers and the internet – and, for the first time, this includes pensioners. However, working-age households without children say that they no longer need landlines, which reduces their communications costs.
- The amount allocated for eating out or buying takeaways has reduced considerably for working-age households, who now regard this as an occasional treat rather than a weekly need. Eating out forms a part of recreational activity, for which the total budget for working-age adults has fallen in real terms (it has stayed similar in cash terms, but prices have risen).
- Previously, social housing has been used as the lowest-cost socially acceptable form of housing for all groups within MIS. However, for working-age households without children, living in social housing is now considered unrealistic (even to define minimum potential housing costs). As a result, the budgets for this group now use a minimum housing cost based on renting a low-cost property in the private sector. This has only a minor effect on the assumed rent, but adds about a quarter to fuel costs because of lower levels of energy efficiency in privately rented homes.

While, overall, there is no clear-cut pattern here, one noticeable feature is that pensioner and working-age budgets have converged so that the total cost of a single person's household budget, which was 10 per cent lower in 2008 for single pensioners than for working-age singles, is now almost identical for these groups (excluding the effects of different levels of energy efficiency and the pensioners' free bus pass). This appears to reflect a growing emphasis put by pensioners on social participation and a long-term convergence in spending either side of pension age, as new cohorts of pensioners seem to be rejecting traditional self-denying attitudes associated with older people.

## Comparison with wages, benefits and poverty, and how these change over time

MIS produces a benchmark that can be compared with the levels of wages and benefits and with the income distribution. During the six years since MIS was first carried out – a period of mainly falling real incomes and of fiscal austerity – the following three features have dominated:

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- Working-age benefits, which already fell short of meeting the standard, have fallen further behind. Pensioner benefits remain close to the standard, although they too have reduced relative to MIS.
  - The official poverty threshold defined as 60 per cent of median income, which was below MIS for working-age households in 2008, has fallen further short of the standard because median incomes have fallen in real terms but MIS has not.
  - Households supported by workers on the National Minimum Wage, most of whom did not meet the standard in 2008, have also fallen further behind, partly because this wage has risen more slowly than living costs but also, for families with children, because of cuts in in-work benefits.

Over the past six years, people on low incomes in all the household groups covered by MIS have thus been finding it harder to make ends meet, for a combination of reasons. A common factor is that the price of some essentials, notably food, public transport and domestic fuel, has been rising faster than prices in general, and neither benefits nor wages have come close to keeping up. In comparison, the mainly small changes in the content of MIS budgets have had a relatively minor effect. Much more important have been changes in the tax and benefits system, which have affected different groups in different ways. For example, working people without children and with earnings above the tax threshold have gained significantly from increased tax allowances. On the other hand, low-income working families with children, especially those needing childcare, rely heavily on support from in-work benefits and tax credits, and have typically lost two to four times as much from cuts in these payments than they have gained through higher tax allowances. This has required them to earn a lot more just to stand still, at a time when general earnings are barely rising. The increase in the cost of childcare has been tempered for some families by the introduction of a free childcare entitlement for three- and four-year-olds, but this has been offset by reduced support for childcare through the tax credit system. Overall, a couple with two children needing childcare would need to earn 46 per cent more to reach the MIS threshold than they did in 2008, but actual earnings have risen by only 9 per cent.

## Conclusion

Following the initial MIS research in 2008, all households' budgets have now been 'rebased' through fresh research, as well as being regularly reviewed in between. Over the past six years, the minimum acceptable basket of goods and services has remained largely stable, in both content and value. Some of the most significant changes have come from changing technology, but this has not made much difference to budgets because the total cost of a minimum communications and technology package has remained similar. Less reliance on public transport has pushed costs up, while reduced budgets for eating out less have brought them down.

Changes in the content of budgets between 2008 and 2014 have had less effect on the ability of households to afford a minimum standard of living than the changes in prices, earnings, taxes and benefits during this period. What has been most important in this regard is the fact that the cost of a constant basket representing a minimum living standard has risen faster than general inflation, whereas earnings have risen more slowly. The negative impact of this has been slightly offset by increasing tax allowances, particularly for working-age people without children. However, the squeeze

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on household budgets has been greatly exacerbated for low-earning families with children by cuts in in-work support. Furthermore, households reliant on out-of-work benefits have seen these fall, putting them further behind what they need as a minimum. Currently, inflation has eased and earnings are picking up; but fiscal cuts continue and therefore the ability of low-income households to make ends meet, especially those out of work and those with children, will not necessarily improve during an economic recovery.

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# 1 INTRODUCTION

How much income is needed to achieve a minimum acceptable standard of living in the United Kingdom today? In 2014, new research has looked afresh at what households need in order to achieve a minimum standard, according to members of the general public; this has involved a complete ‘rebase’ of certain budgets.

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In 2008, the first Minimum Income Standard (MIS) for Britain produced income standards based on detailed research into what items ordinary people thought should go into a minimum household budget – ranging from household goods such as teaspoons and televisions to aspects of social participation such as birthday presents and recreation. This was supported by expert knowledge on certain physical living requirements, including nutrition (Bradshaw *et al.*, 2008; see also ‘MIS in brief’ in Box 1). 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 and those adjusted by estimates of price rises, based on the Retail Prices Index (RPI).

In 2014 the requirements of working-age households without children and of pensioners have been researched from scratch. For families with children, whose budgets were rebased in 2012, a lighter-touch review has been used to revise budgets where changes over time have been identified, and unchanged elements have been updated by inflation.

As shown in the updating schedule in Figure 1, this means that all the original 2008 MIS budgets have now been rebased.



**Figure 1: Planned programme of MIS research**

Publication date	2008	2009	2010	2011	2012	2013	This report 2014	2015	2016
<b>Families with children</b>	Original research		Review		Rebase		Review		Rebase
Contents of budgets									
Prices of items	Pricing	Inflation	Inflation	Inflation	Pricing	Inflation	Inflation	Inflation	Pricing
<b>Families without children</b>	Original research		Review		Review		Rebase		Review
Contents of budgets									
Prices of items	Pricing	Inflation	Inflation	Inflation	Inflation	Inflation	Pricing	Inflation	Inflation

Notes (definitions):

Rebase: repeat original research to create new budgets from scratch.

Review: ask groups to consider whether existing budgets need selective changes.

Pricing: identify current prices of individual items from suppliers.

Inflation: apply Retail Prices Index (RPI)-based uprating method to adjust budget costs from previous year.

Chapter 2 of this report presents the new research on budgets for working-age adults without children and for pensioners and the minimum baskets that these have produced for 2014. It also reports on the results of the review of baskets for families with children. Chapter 3 presents the results in terms of the income requirements that they produce and looks at how these compare with benefits, with earnings on the National Minimum Wage (NMW) and with the official poverty line. Chapter 4 analyses how inflation, the content of minimum baskets and tax and benefit changes have interacted to influence minimum income requirements since 2008. Finally, Chapter 5 draws conclusions.

Box 1 summarises the main features of MIS. For further detail, see Bradshaw *et al.*, 2008. The results of MIS, updated to April 2014, are available in full using the online Minimum Income Calculator (CRSP, 2014a) and in a summary spreadsheet published on the MIS website (CRSP, 2014b), as well as in tables for selected household types in Chapter 3. The Minimum Income Calculator allows users to specify the number and ages of family members and to adjust for some costs over which they have little control, such as rent, in order to personalise a minimum budget. Users can also see the gross earnings or pension that their family will need in order to achieve that budget.

### Box 1 Minimum Income Standard in brief

#### 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.

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### **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 socio-economic 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.

A crucial aspect of MIS is its method of developing a negotiated consensus among these socially mixed groups. 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 round the home of the individuals under discussion, to develop a picture of how they would live, in order to reach the living standard defined below. 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?**

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 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 make-up. The needs of over a hundred different family combinations (according to numbers and ages of family

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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 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 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, 2014a) and can be obtained by clicking on the 'rural' option on the main results page. 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 Japan (Davis et al., 2013), Portugal, France and Austria (the last three are 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 supported 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 being 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 being 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 (see p. 8).

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## 2 UPDATING THE MINIMUM IN 2014 – NEW RESEARCH

In this year's update, the focus was on the changing needs of pensioners and working-age households without children, and budgets for these households were developed from scratch. As in the original research (published in 2008), the detailed lists drawn up by a first wave of groups were assessed and amended by a second wave of freshly recruited participants, and then final checks for anomalies and inconsistencies were made by a third, final wave.

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The items included in the budgets for parents and children, last devised in 2012, were scrutinised by separate groups as part of a lighter-touch review process, with the intention of identifying changes in needs and/or living standards over time. As is usual in the review research, all budget areas were revisited, but the focus was on those most likely to be sensitive to change over a relatively short period of time, such as technology, while budget areas such as kitchen utensils, clothing and weekly menus were presented to groups in a summarised form. The budgets for households with children will next be examined in depth in new research to be reported in 2016.

The rest of this chapter reports the findings from the review and rebase process, looking at how the items required in order to reach a minimum socially acceptable living standard have changed or remained the same over time. The goods and services that make up each budget are discussed under the following headings:

- Food and drink;
- Clothing;
- Household goods and services;
- Personal goods and services;
- Transport;

- Social and cultural participation; and
- Housing and domestic fuel.

### **Box 2: Summary of research elements**

Fieldwork consisted of 17 focus groups (12 rebase, 5 review) held in Derby, Loughborough and Northampton. Each group involved new participants (typically seven to ten in each group) who had not previously participated in MIS research.

#### **Rebasing budgets for pensioners and working-age households without children**

Six task groups, each lasting 5 hours, comprised:

- single male pensioners;
- single female pensioners;
- single male working-age adults without children;
- single female working-age adults without children;
- partnered pensioners (mixed group of men and women) to discuss needs when living as a couple; and
- partnered working-age adults (mixed group of men and women).

The first four of these groups compiled budgets for an individual adult; the other two devised budgets for both the male and female within couple households. In these two groups, when discussing clothing and personal goods and services (including costs for dentistry, opticians and hairdressing as well as toiletries and cosmetics), participants were asked whether there were any reasons why single people would have different needs, or meet the same needs differently, to individuals living in couples. Participants agreed that the same items in these categories would be suitable regardless of whether the individual was partnered or single, so worked on them as a single list common to singles and couples. Partnered groups were given an opportunity to review decisions on these items taken by the groups of single people and pass any comments or suggestions for amendments to the subsequent checkback groups. All the remaining budget areas (food and drink, housing costs, household goods, transport and social and cultural participation) were devised from scratch, as in the single people's task groups.

Four mixed-gender checkback groups looked at the decisions made by the task groups:

- single pensioners;
- partnered pensioners;
- single working-age adults without children; and
- partnered working-age adults.

In order to iron out anomalies and inconsistencies, a key role for these groups was to compare the budget lists of the men and women in each category with a view to identifying where there were genuine reasons for difference (e.g. different clothing and toiletries for men and women) as well as where the same item type, quality or quantity would be suitable for an individual, regardless of gender.

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Two final mixed gender groups (one of working-age people, one of pensioners) looked at the budgets for both singles and couples within each age band.

### **Reviewing budgets for families with children**

Three waves of groups were held to look at the existing budgets for these households, last drawn up in 2012. The review groups comprised:

- lone parents with pre-school aged children (one principal and one follow-up group);
- partnered parents with school aged children (one principal and one follow-up group); and
- a final review group consisting of a mix of lone and partnered parents with a range of ages of children.

Budgets were revised only where there was consensus across groups and a clear rationale relating to change over time.

## **Food and drink**

In the rebase, the task groups were asked to describe a typical day's food and drink for the individuals in the budgets, taking into account variation throughout the week. Generally, the pattern described by the groups was of three meals a day – breakfast, lunch and an evening meal – with options for snacks and drinks. The list of all the drinks, meals and snacks included were sent to a nutritionist, who compiled them into a weekly menu and analysed it for nutritional adequacy. Any changes suggested by the nutritionist in order to bring the diet into line with government recommendations were then checked with the following stage of groups. These review groups were presented with a summary of the week's food and asked whether any amendments were required, either to the diet or to the retailer, because of changes over time.

A typical day's food for an adult might include:

- cereal and/or toast for breakfast;
- a mid-morning tea or coffee and a biscuit;
- a light lunch (e.g. a sandwich and a piece of fruit); and
- a more substantial evening meal (e.g. home-made spaghetti bolognese with a side salad, followed by tinned fruit and custard).

For households with children, the meals follow a similar pattern but with after-school snacks for the school-aged children and a mid-morning snack for the pre-school child and toddler. Adult budgets allow for an occasional beer or a glass of wine with a meal during the week. To reflect the realities of people's different resources in terms of time and ability to cook, some of the meals are assumed to be cooked from scratch; others incorporate a ready-made element, for example a jar of sauce for a chicken curry, or a frozen pizza.

In 2014 the pricing (but not the content) of baskets reflected the availability of deals and discounts on food and drink for the first time. Groups are clear that in order to allow choice, people should not have to buy according to discounts, so products are not selected on that basis. However, the prevalence of supermarket price reductions on many items means that

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the original method of pricing every item at its full original price is likely to overstate the actual cost of a food basket. Any one discount may only be temporary, but in any one shop for a given basket, some items are likely to be reduced. To test the validity of this assumption, two food baskets, one for a single person and one for a couple with two children, were priced with and without discounts every month between September 2013 and January 2014. This confirmed that some goods – between one fifth and one quarter of items – were on offer each month, with an average cost saving on the overall basket of around 10 per cent. Therefore, where applicable, the discounted price is now used.

The pricing method also took into account the reality of limitations relating to shelf-lives of perishable goods and the ability to store and transport large amounts of food.

The kind of food and drink included in the budgets has tended not to change significantly from one wave of research to another, with groups describing both a similar pattern of consumption each time and similar types of meals, drinks and snacks for each individual.

Both rebase and review groups were asked where the groceries should be priced. Since 2008 food and drink has been priced at Tesco, as the largest supermarket chain in the UK, and its national pricing policy means that there is no need to account for regional variation in urban and accessible rural locations (although separate work in remote rural Scotland identified different supermarket prices there; see Hirsch *et al.*, 2013). As in 2010 and 2012, there was discussion about accessing discounted retailers, in particular Lidl, Aldi and Netto. These were considered by some participants to offer viable alternatives to the main supermarkets and to offer good value for money on most lines (although not on all). However, groups did not think that these retailers should be substituted for Tesco in the MIS budgets. The two main reasons related to accessibility and stock. Participants said that these discount stores are often located outside, or on the outskirts, of towns and are therefore harder to reach for some households without cars. There was also discussion of the quality and range of goods available – participants said that although the range of products was increasing, they still did not stock a sufficiently broad selection of items to guarantee enough choice, and it was thought to be important that people should be able to do all or most of their shopping in one store. For all household budgets, food costs were higher than in 2008, even after correcting for general food price inflation. Since the general composition of menus and shopping lists was similar, the most likely contributor to this is different price increases for different food products, causing a minimum basket of food to rise faster than the general basket used to calculate food price inflation.

Note that the food budgets shown in MIS quantitative results also include extra shopping for festive occasions and the cost of eating out, but these are discussed under social participation below.

Finally, September 2014 will see the introduction of free school meals for all infant school (reception and years 1–2) children in England, which will result in a reduction in total food costs for families with children in that age group. Based on the cost of ingredients for packed lunches included in the MIS budget, family food bills will fall by £6.94 a week during term time, equivalent to £5.20 a week year-round, per child in this age range at April 2014 prices. For the family with two children, of pre-school and primary age, this will reduce the total MIS budget (excluding rent and childcare) by about 1 per cent, providing the primary age child is not above Year 2. However, since a primary school child spends more years in Key Stage 2 (Years 3–6)

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than in the three infant school years, this reduction will not be built into the main MIS calculations.

## Clothing

The lists of clothes include:

- underwear and socks, tights, etc.;
- nightwear;
- daywear (e.g. tops, trousers, skirts, dresses);
- school uniform for the primary and secondary school aged children;
- swim and sportswear;
- footwear (e.g. shoes, trainers, walking boots, slippers);
- coats, jackets;
- accessories (e.g. hats, scarves, gloves, belts, ties).

The types, quantities and retailers of clothing listed by groups remained similar over time. The majority of clothing was priced at supermarkets and inexpensive clothing shops including Primark and Matalan. Footwear for working-age people was priced at Tesco, with the exception of trainers and walking boots, which were priced at Sports Direct. Pensioners said that footwear needed to be reasonable quality and specified Marks and Spencer or British Home Stores as appropriate retailers. Both working-age and retired women said that outfits for special occasions would be needed (one dress for pensioners and two for working-age women), and this should come from a higher quality shop, such as Next or Debenhams.

Clothing costs in general came to a similar amount to the budgets first published in 2008. In some cases, costs have been reduced by an increase in people's expectations of how long cheap clothing will last. However, it is hard to discern any overall change in the cost or value of the 'MIS wardrobe' over this period. Interpreting trends in clothing costs is made more difficult by the fact that different inflation indices show wide differences in their estimates of how much clothing generally has risen or fallen in price since 2008: the RPI shows an increase by over a third but the Consumer Prices Index (CPI) shows a slight fall. These variations are influenced by technical issues affecting the RPI clothing index up to 2010 (ONS, 2011). Overall, we must conclude that the clothing budget appears relatively stable.

As in the rebase of 2012, the budgets for men's and women's clothing seem to be converging, although the women's budgets remain higher, partially because of the inclusion of more footwear.

## Household goods and services

### Household goods

A wide range of goods needed in the home includes:

- furniture (sofa, table and chairs, beds, wardrobes);
- flooring (carpets, vinyl, laminate);
- soft furnishings (curtains, cushions, light shades);
- small electrical goods (lamps, hairdryer, straighteners, kettle, toaster, iron);
- bedding;



- kitchen appliances (cooker, fridge, washing machine, microwave);
- kitchenware (storage jars, plastic tubs, serving dishes, bin);
- cookware (saucepans, sieve, utensils, baking trays);
- tableware (plates, cups, bowls, cutlery, glasses);
- cleaning and laundry (washing up liquid, surface cleaner, bleach, scourers, washing powder, clothes airer);
- children's items (stair gates, high chair, bath toys, plastic plates and cups).

This is not an exhaustive list, but an indication of the kinds of items in this element of the budget.

There were few changes to what remains an essentially stable core of household goods included in the budgets, and the lists produced were all very similar to those published in 2008. For example, washing machines and microwaves were considered part of the minimum; tumble dryers and dishwashers were not. Groups agreed that it was still important to be able to sit down at a table to eat a meal, and to have enough seating and place settings to allow for visitors. The majority of household goods were priced at Wilkinson, Argos and Tesco; soft furnishings, towels and bedding were from Wilkinson, Tesco and Dunelm; and electrical appliances were from Tesco, Currys and Argos. There were some items included for the first time, which are discussed below.

Partnered pensioners included a slow cooker as this represented an economical, healthy and convenient way of cooking. The same item was considered to be 'nice to have' rather than needed by single pensioners. This is possibly a reflection of the practicalities of living alone and cooking for one, where equipment that is good for producing larger amounts of food is not necessarily considered useful. Although some viewed cooking as an enjoyable activity, others had a more functional attitude towards it, with some of the widowed pensioners saying that they were less likely to cook anything other than simple meals now that they lived alone. (This was consistent with the way that some of the single pensioners talked about the advantages of using a bowl in the microwave to make porridge as it was quick and easy to make an individual portion and created less washing up, compared to using a saucepan on the hob.)

In the 2014 rebase groups there seemed to be a greater awareness of the need to mediate extremes of temperature in the home. For the first time, pensioners included a cheap electric fan for use in hot weather. A small, inexpensive fan heater as an occasional source of supplementary direct heat (gas central heating was assumed as standard for the majority of urban dwellings) was included for single working-age and all pensioner households, whereas previously this had been included only by single pensioners. This was seen as being a more economical option than using the central heating, and some older people said it was important to have an additional means of heating in case the main system broke down.

*"... surely it's cheaper to turn the electric fire on for half an hour or an hour than it is to put the heating on? I've got exactly the same situation if I'm only in one room – I don't want to put the central heating on to warm the whole house up."*

– Single working-age man, Northampton

*"You wouldn't run your whole central heating in the summer on a cool evening would you?"*

– Single working-age woman, Derby

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*"I think you do need to have something like that because if your central heating goes wrong you need something there as a back-up."*

– Single female pensioner, Derby

Pensioners also agreed to include a small paper shredder in order to be able to destroy confidential documents and to protect themselves against identity fraud, which had not been mentioned in any previous waves of research.

### Household services

This part of the budget comprises costs for babysitting, telephones and postage. Babysitting costs remained unchanged by the review groups with parents. They also agreed with the existing provision for a landline telephone with a free evening and weekend calls package and cheap contract mobile telephones for each parent and the secondary school age child.

The pensioner groups said that they needed a combination of landline and mobile telephones, but they included free 'anytime' calls instead of the free evening and weekend calls package for the households with children. For older people, mobile phones were still seen as primarily for emergency use, with the majority of calls being made using the landline. There was still overall consensus that 'pay-as-you-go' was preferable to having a contract mobile phone as it offered greater control over expenditure and minimised the risk of facing excessive charges or being exposed to 'scams' that tricked people into running up large bills. A modest amount of money was included as a flexible provision to cover the cost of occasional calls made on the landline to numbers excluded from the 'anytime' package, and also for topping up the mobile phone credits. This was £10 per household per month (partnered pensioner households included the same amount for this as single pensioners). This level of provision took into account the fact that a lot of the calls excluded from landline packages tended to relate to dealing with service providers, for example insurance and utility companies, and were likely to be needed at a household rather than an individual level.

In the past working-age groups agreed that a landline was required in order to be able to access the internet, but in 2014 working-age people without children agreed that communication needs could be met using a mobile telephone and internet via a dongle (a small device that plugs into the computer and allows internet access with a mobile broadband connection).

M1: *"With the internet you actually don't need [a] landline anymore. Because there is companies now that provide a little ... I don't know what it's called."*

M2: *"Yes like a dongle-type thing."*

M1: *"You can actually use that, you actually don't need a landline for your computer anymore."*

M3: *"I mean that's where it all gets a bit ... where things are moving so fast isn't it. Potentially landlines will be obsolete in a few years' time."*

– Working-age men, Northampton

As a consequence of having the mobile phone as the principal means of communication, they agreed that the best way of providing this would be via a contract. They specified a higher tariff than the cheapest mobile phone included in the parents' budgets to allow for increased data downloading (the parents' groups said that the cheapest contract mobile phone package was

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sufficient and agreed to keep the landline, so the broadband internet is still part of the landline package for these households). Not including the cost of landline rental has decreased the expenditure in this category for working-age adults without children, although this is partly offset by the cost of the monthly subscription for the dongle, which pushes up internet-related costs (included in the social and cultural participation element of the budget). Overall, the result of not having a landline brings a net saving of about £2 a week.

Although participants said that people were more likely to send documents electronically than through the post, they thought that there was still a need to include an amount to cover postage. This could include sending Christmas and birthday cards and presents to friends and relatives who did not live locally, and working-age groups also mentioned that sometimes people needed to send job applications and a curriculum vitae by post, rather than by email. There was agreement across all groups that the cost of postage has risen considerably since 2012. Participants said that there was not much difference between first and second class postage in terms of delivery times so there was no need to provide for buying first class stamps, but that money should be allocated to pay for second class postage. The 2014 groups included the equivalent of four stamps per month for working-age households (both with and without children) and nine stamps per month for pensioner households.

## Personal goods and services

This section of the budget includes costs relating to:

- health care –
  - o prescriptions and eye tests (except for pensioners and children, who are exempt from prescription costs),
  - o dentistry for adults (children are eligible for free dental care from the NHS) and
  - o first aid items (e.g. plasters, paracetamol, indigestion tablets);
- toiletries, including nappies, wipes, perfume/aftershave and cosmetics;
- hairdressing;
- accessories and personal items (including alarm clocks, suitcases, watches, umbrellas and jewellery).

For working-age adults, the items listed in the health care section look very similar to those included in the original research. In 2010 groups added an amount of money to cover the cost of single vision spectacles. This was agreed and revised in 2012 and continued to be considered necessary in 2014. Pensioners included the cost of glasses with basic varifocal lenses, and in 2014 they increased the amount slightly in order to offer a wider choice of frames, on the grounds that not all frames are suitable for thicker lenses, which may be required by older people.

The inclusion of the cost of a check-up every six months with an NHS dentist and the equivalent of a filling per year was agreed across all groups, as it has been since the research began. However, in 2014 pensioners added costs for dentures for the first time. Participants thought that it was a realistic possibility for older people that they might have either a full or partial set of false teeth, which would have to be replaced periodically. The price of a Band 3 NHS dental treatment (which includes crowns,

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dentures and bridges) was therefore included every five years, to allow for replacements over time.

In addition to dentures, the 2014 pensioner groups included money for chiropody as they said that, even if people were in good health, it could be harder for them to bend and they might need someone to clip their nails. They also agreed to include incontinence pads. This corresponds to evidence showing that between the ages of 60 and 80 various continence problems become progressively more common (Nitti, 2001), although previous groups had not identified this. Continence issues have often remained hidden, with those affected finding it difficult to talk about, but it is possible that more prominent advertising for incontinence products recently has made people less reticent about acknowledging this as a need.

In 2012 we reported a change to the way that the rebase groups tackled items in the personal goods and services category. In 2008 there was a combination of listed specific items and cash amounts for 'topping up' consumables such as toiletries. In the rebase, groups have taken a more systematic approach, making detailed lists of individuals' requirements. In the 2014 rebase, the same effect can be seen as in 2012, where the cost of the itemised list is significantly higher than the 2008 budget uprated to 2014 prices. The detailed lists are now quite similar for both men and women, causing the male and female costs to converge, whereas the 'top up' amounts specified in the 2008 groups were quite different for men and women (£5 per month for men and £20 per month for women).

## Transport

The profile of minimum transport costs varies considerably by household type but includes:

- public transport (bus, coach and rail fares);
- taxi fares;
- pushchairs;
- bikes and cycling accessories (one second-hand bike for each pensioner and working-age adult without children and one per household for partnered parents, plus helmets, locks, lights, etc.);
- cars, for families with children only (second hand Ford Focus, or Vauxhall Zafira for larger families).

Since 2008 groups have agreed that for households without children most transport needs can be met through public transport, with the addition of some money for taxis. However, reductions in public transport mean that people increasingly need to supplement bus travel with other means of transport. In 2012 the rebase groups with parents said that it was no longer possible to meet their needs using buses and included a second-hand car per household, but owning a car for households without children is still considered a 'nice to have' option, rather than a need. In order to meet their transport needs, both pensioners and working-age adults without children increased the amount included in the budgets to pay for taxi fares. Participants said that taxi fares had increased over time. They said that people were now more likely to need to use taxis as bus services were insufficiently flexible, for example being too infrequent, starting too late for early appointments/shift work and finishing too early for people to get home from social activities. In recent years, public transport fares have risen far

Reductions in public transport mean that people increasingly need to supplement bus travel with other means of transport.

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above the cost of inflation, with bus fares now around twice the level they were in 2000, according to the RPI.

In 2008 the only budgets to include bicycles were those for the single working-age man and woman, whereas in 2014 all adults in households without children, including pensioners, were thought to need a second hand bicycle and accessories (helmet, lights, lock, etc.). These were seen mostly as a means of recreation and physical exercise, although it was also possible that working-age people might choose to use them to travel to work. The working-age budgets, however, still include the cost of a monthly bus pass in order to enable people to have a choice of employment opportunities rather than being constrained geographically by how far they might be able to cycle to work. The older people were appreciative of their entitlement to free bus travel but said that the ability to travel by taxi in order to bring heavy shopping home or to attend medical appointments was vital. Working-age adults without children also included some additional money for longer journeys by rail or coach to enable people to go further afield, for visiting friends and relatives. The net result of these changes was an increase in travel costs for these households compared to the equivalent 2008 budgets uprated to 2014 prices.

## Social and cultural participation

This section relates to social interaction inside and outside the home. It includes:

- entertainment and online interaction – for example television, radio, computer and broadband internet;
- incidental expenditure – stationery, newspapers, donations to charity and printing documents and photographs;
- gifts – money for birthday and Christmas presents for friends and relatives; and
- leisure and recreation, including costs for holidays, hobbies and activities and additional spending on food linked to social purposes (festivities and eating out) – this is shown as part of the food budget in MIS data, but arises as part of social participation.

### Entertainment and internet access

All groups since 2008 have agreed the inclusion of a television. The specification of what is considered to be a reasonable size and type of appliance has changed slightly over time, with the result that by 2014 all household budgets include one digital television with a 32 inch screen and built in access to Freeview (via an aerial). All households also have a separate DVD player because the various groups agreed that although DVDs could be played on other devices, such as laptop computers, watching a DVD at home with friends or family was an inexpensive form of entertainment that could not be achieved in the same way with people huddled around a smaller computer screen.

In 2008 the only households said to require a computer were those with school-aged children, and access to the internet within the home was only needed by secondary school children in order to complete homework. By 2010 groups said that all households of working age, with and without children, needed a computer and a home internet connection in order to be able to access employment, education, information and competitively priced goods and services. This remained the same in 2012, meaning that the only

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budgets not to include computers were those for pensioners. Discussions in each wave of research among older people were increasingly intense, with advocates for and against computer use, but always with eventual consensus that if pensioners needed to access the internet they could do so in libraries or other places with public access. In 2014 this picture changed. Whereas previously there had been general agreement that older people were not disadvantaged if they did not have access to the internet at home, groups said that this was no longer the case:

M1: *"Everything revolves around the internet today, so anybody that's not involved in the internet is being left behind."*

M2: *"More and more services are provided over the internet including social services, people are paying, I pay my gas and electricity bills by doing a meter reading and sending it into them, contact the local council."*

M3: *"I think laptops are with it now. It's like televisions were 30 or 40 years ago something new and only occasional people had, but laptops now, computers, are something that within quite a short space of time everyone will have them, so I think it's important to include it because that's the way that life is going isn't it."*

M4: *"The younger generation are being brought up on computers aren't they, they're being taught computers. In order for you to communicate in the future with your kids, you'll need to keep up with them."*

– Single male pensioners, Derby

As in 2012, households without children were thought not to need a printer. Participants said that although printers were relatively cheap, the ink cartridges required were expensive and needed frequent replacement, which meant that having a printer at home was considered a luxury. Instead, the groups agreed to allocate a modest amount for paying to print documents and digital photographs (taken on mobile phones, as nearly all mobile phones have a digital camera and none of the groups said that a separate camera was needed) either online or at a supermarket, post office or other outlet offering this service. Pensioners agreed that this level of provision would meet their needs.

### Newspapers, magazines and stationery

In 2008 the working-age groups included £7 per person per week to pay for newspapers, magazines and stationery, and the pensioners allowed £3.50 per household per week for a daily newspaper, as well as a pack of envelopes and a pad of writing paper every six months. In 2014 groups still thought that some expenditure on stationery was required but the pattern of consumption had decreased. All groups talked about accessing the news via the internet, radio and television; however retired people said that a small sum (£1 per household per week) should be included so that people could choose to buy a local paper, magazine or a weekend newspaper. All groups agreed to include one pack of envelopes per year, and the pensioners also had one pad of note paper and a pack of cheap pens. This represented a reduction in this area of the budget compared to 2008.

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## Charitable giving

The pensioner groups also said that the budgets should include £1 per household per week to enable retired people to make charitable donations, for example by buying a poppy for Remembrance Sunday, or sponsoring someone who was fundraising.

M1: *"I do think it would be important for them to have a little bit that they can put in the charity boxes because older people do tend to be a little bit more charitable in that way and they would feel they were denying if they don't, you know."*

Q: *"So is it important for Mavis and John to be able to put something in a charity box?"*

M2: *"Yes."*

W: *"It doesn't have to be a huge amount anyway."*

M1: *"If we said £1 a week."*

Q: *"Is that OK?"*

M1: *"Yes."*

W: *"Yes."*

M3: *"Because I mean you don't come across a charity box every day do you. I mean you find a lot of older people, especially in the corner shops, where there's a charity box, they pay £4 something on the bill, they get £1 change, they put 50p of it in the box."*

– Partnered pensioners, Northampton

The working-age people said that any contributions of this sort would have to come out of the money allocated for leisure activities and did not include anything extra for this. This replicates the pattern first seen in the 2008 budgets where pensioners included a small sum for this purpose but the working-age households did not.

## Gifts

As with the toiletries and items in the personal goods section, in 2014 groups took a more structured approach to deciding how much needed to be included for Christmas and birthday presents. Consensus was reached across groups that people needed to be able to provide presents for an average of one birthday a month, and the same number of Christmas presents. The groups of working-age people agreed that £15 each month would cover the cost of a simple present, such as chocolates, flowers or a bottle of wine, wrapping paper and a card. The single working-age people also allocated £15 per person for being able to treat themselves to something for their own birthday and Christmas presents, while the partnered working age people included an additional £15 per person for the couple to buy each other a Christmas and birthday present. The pensioners agreed a similar model, allocating £11 per month for birthdays (£10 for a present plus £1 for wrapping paper and a birthday card), and

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£10 each for 12 people at Christmas plus £5 a year to buy wrapping paper and cards. Unlike the working-age people, the single pensioners did not include anything extra for a birthday treat for themselves and the partnered pensioners did not include anything for buying their partner a present.

### Leisure and recreation

Groups agreed that it was important for people to be able to pursue interests and socialise outside the home on a weekly basis. It was acknowledged that sometimes this could be achieved without cost – for example by going walking or cycling – but that certain activities would need to be paid for and therefore money should be included for this. Generally, the types and frequency of activities agreed by the 2014 groups were very similar to those in 2008.

In 2008, pensioner groups agreed that people should be able to do a minimum of two activities per week, for example going to the cinema, taking advantage of concession prices for older people, and attending an exercise class or going for a swim. In 2014 groups talked about having the option to do two cheaper activities (similar to those mentioned in 2008), or one more expensive one, such as going to the theatre, each week. In 2008 groups agreed that £10 per week for singles and £20 for couples was required, whereas in 2014 groups said that singles needed approximately £13 per week and couples needed £23. In real terms this represents a slight decrease for both single and partnered pensioners. In 2008 the pensioners also allocated £30 per year per household for materials relating to hobbies, for example knitting, pottery or gardening. In 2014 this amount was doubled to £60 per year (£1.15 per week, increased from 58p) for single pensioners, but it was not included for partnered pensioners, so represented a decrease in their budgets.

For working-age adults, costs increased in 2014. Groups agreed that £20 per person per week, in addition to the eating out money in the food budget, would enable people to meet their need to socialise outside the home; this contrasted with the £10.49 per week in the 2008 budgets. However, as set out below, some of the amounts included for eating out, especially by working-age adults, were a lot lower. The total leisure and eating out budget was similar in 2014 and in 2008 for a single adult, even though eating out prices went up by around a fifth and recreation prices by about a quarter during this period, according to the RPI. For these kinds of items, groups are asked to specify lump sums rather than list individual items, and where these lump sums do not rise with inflation it would appear that the value of services represented by the minimum is declining. For example, some forms of leisure, especially eating out, are being seen more in terms of an occasional treat than a regular necessity than in 2008, and potentially being substituted for by cheaper activities.

### Additional food for social purposes

The cost of additional food and drink for celebrating, for example at Christmas, was discussed and showed a change over time. In 2008 the single pensioners did not include any additional money for Christmas food and drink, with groups expressing the hope that they would be spending time with friends and family and would therefore not need to buy anything in addition to their normal food basket. The partnered pensioners and working-age adults included £15 per household and the single working-age groups included £10.

In 2014 working-age and pensioner groups agreed to include £50 per household for this. This money was included to enable the households

Some forms of leisure, especially eating out, are being seen more in terms of an occasional treat than a regular necessity than in 2008.



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to provide some seasonal treats and extra hospitality for visitors and in recognition of the fact that some seasonal food items were relatively expensive. They also agreed that single person households should have the same amount as couples because they might well be providing for similar numbers of guests.

*"Well I save stamps all year so we've got extra, we can buy our extras, so for Christmas I would say I spend £50 more on the Christmas food than I would a normal, you know, because we like the Christmas cake, chocolate log and you know, all the nicer bits that you can get."*

– Partnered female pensioner, Northampton

W1: *"There's more nicer things I think available isn't there [at Christmas], that is a treat, and I think everybody's entitled to a treat, aren't they?"*

W2: *"I think they do need a bit extra because the prices of things at Christmas do go up. Your turkey, if you're going to have the tradition, if you buy a big size turkey it's more expensive than a big chicken."*

– Partnered working-age women, Loughborough

W: *"I think per household because a single person whether she invites people round to her home will mostly be inviting couples, she's going to have to spend out the same sort of money than a couple would. Not because she's on her own."*

Q: *"Right so it isn't just about them consuming more this is about them being able to offer the same?"*

W: *"It's about hospitality."*

– Single working-age woman, Northampton

The working-age groups in 2014 also added an amount for celebrating birthdays to enable people to have friends round for drinks, whereas in 2008 single working-age people talked about going out to celebrate birthdays (included as part of the annual expenditure on birthdays).

M: *"I'm not talking about every week but maybe on a birthday and then on say their birthday they should be able to invite friends round ..."*

W: *"I know living on your own is very lonely and you do need to socialise. You do need to socialise otherwise you become a hermit."*

M: *"I'd say £30 maybe for entertaining not all in one go."*

Q: *"A month?"*

M: *"No a year ... That's working on the basis like you said you'd be trading things off so your birthday would trade off against someone else's. But just have a bit of a kitty."*

– Single working-age adults, Derby

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One of the most striking changes between 2008 and 2012 was the way that groups of working-age people without children talked about eating out. In 2008 working-age groups allocated £10 per week per person for eating out and an additional £3 per week per person for meeting a friend for coffee and cake or a drink after work. In 2014 the working-age groups still agreed that people should be able to go out to eat, but said that this should be an occasional treat, allocating £7.50 in total per month for this, on the understanding that if people chose to go for a more expensive meal they would have to save up and go less often. This accounts for £1.74 per week, compared to £13 per week in 2008.

In 2008 pensioner groups agreed that singles and couples should be able to go out to eat once a month and that single people should be able to have a weekly takeaway, while for couples this would be fortnightly. In the 2012 review, pensioners said that the frequency of eating out and takeaways should stay the same, but they reduced the budget for eating out because they said that promotions and discounts were widely available and it was therefore possible to eat out for less.

In 2014, the same frequency for takeaways was described (weekly for single pensioners, fortnightly for couples), but the eating out budget was changed to allow both singles and couples to eat out fortnightly, at a lower cost than in 2008 or 2012.

## Holidays

The groups agreed similar types of holidays to those described in 2008. For working-age people this was a one week break in self-catering accommodation in the UK, with some spending money. For pensioners the type of holiday specified was the same as in 2008, but the frequency was increased. The 2008 groups included one 5-night coach package holiday with no additional spending money. In 2014, the groups agreed that pensioners should be able to go away for two UK-based coach package holidays, one shorter mid-week break and one week-long break. These packages included half-board accommodation and some day trips and evening entertainment and they agreed to include a modest amount of spending money (£5 per person per day) which could be used in addition to the weekly leisure and food budgets that they would have spent if they had been at home.

For the first time, working-age adults and the review groups with parents agreed to include passports. This originally arose as part of a discussion about the relative costs of holidaying in the UK compared to cheap non-UK package holidays. In the end, groups concluded that a holiday in the UK was acceptable as a minimum. Nonetheless, groups were insistent that the cost of applying for a passport should be included for each adult. Participants said that it was not unusual to be asked to produce a passport as proof of identity, and not having one would mean that opportunities for employment could be affected, as agencies and employers would not accept alternative forms of identification:

*"Nowadays I'm finding because I've got a provisional licence so if someone says 'ID?' I get it out and go 'Oh, here you are' and they're saying 'No we don't accept that, we only have a passport'. So I don't know what's changed with it now but it's the only thing that they will take."*

– Parent, Northampton

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Passports were not considered necessary either for the pensioners or for children, which was consistent with this being a need relating to employment rather than to holidays.

## Housing and domestic fuel

All accommodation is assumed to have gas central heating and the following assumptions were made about housing:

- single pensioners – one bedroom flat in social housing;
- partnered pensioners – two bedroom flat in social housing;
- single working-age adults – one bedroom flat, privately rented;
- partnered working-age adults – two bedroom flat, privately rented; and
- households with children – houses (social housing) with one bedroom for the single/partnered parents plus one bedroom per child, except in households with four children, who live in a four bedroom house.

MIS covers a range of housing-related costs. Some of these, such as water rates and council tax, are relatively similar across households, and specifying a minimum cost is a straightforward process. However, rents and domestic fuel costs can vary widely according to where and in what kind of home people live. The aim of MIS is to specify a realistic baseline – a minimum amount below which few households can be expected to cover these costs – while allowing through the Minimum Income Calculator for calculations to be varied according to different circumstances, such as living in an expensive area or having hard to heat homes.

In general, this has involved the assumption that urban households live in social housing of an appropriate size, with relatively good insulation and using gas central heating. The intention is not to suggest that all households have access to such housing but to use this to show an example of minimum costs under a best-case scenario – the ‘realistic baseline’ of costs referred to above. However, in 2014 for the first time, working-age households without children said that private rented housing should be used as a starting point, since the chance of people in this category without additional needs getting access to social housing has become too remote to be used as an assumption. The past decade has seen a sharp decline in the share of social housing among all rentals: in 2000, there were over twice as many social as private tenants, whereas recently the number of private tenancies overtook the number of social ones. Moreover, whereas 78 per cent of pensioners who were tenants in 2011/12 were in social housing, it was 44 per cent for those aged 35–44 and 28 per cent for those aged 25–34 (English Housing Survey 2011/12).

Starting from 2014, therefore, it is assumed that a single non-pensioner without children rents an economical one-bedroom flat in the private sector – on the estimated 25th percentile of the rental distribution (in rental market areas outside London). Since working-age couples without children say that they do not require a second bedroom but may need a slightly wider choice to get a property of an appropriate size, the 30th percentile of one-bedroom private rents is used in this case. Both examples use assumptions similar to those used to determine the local housing allowance that sets a maximum rent eligible for Housing Benefit: that someone looking for a home at an economical rent selects from the 30 per cent of suitably sized properties in the area with the lowest rents.

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These changes have less of an effect on rent than might be expected. In fact, the private rent assumed for a single person works out slightly cheaper, and for a couple slightly more expensive, among lower-rent properties in the private sector than the average for social housing, which was previously used. This is partly because the greatest discounts (compared to market values) in the social sector come with larger properties. It is also influenced by very different recent trends in social and private rents. Social rents for smaller properties typically rose by 18 per cent between April 2011 and April 2014, as part of government policies to increase their level.<sup>1</sup> In contrast, over a similar three-year period, private rents outside London rose by only 2.6 per cent (ONS, 2014: December 2010–December 2013).

However, the change to a private rent assumption does affect the fuel cost in MIS, which is based on the amount needed in order for homes to be heated to adequate levels, as calculated by a heating engineer. The lower average energy efficiency of homes in the private sector adds about a quarter to a fuel bill for a single person in a one bedroom flat; this amounts to about £3.50 a week.

The issue of housing types also intersects with that of appropriate size of home. In general MIS has assumed one bedroom per single adult or couple plus one per child (except for four-child families where a total of four bedrooms including for parents is considered acceptable). However, in the social housing model, researchers could not identify available one-bedroom properties of an appropriate size for a couple without children, so two bedrooms were assumed. In 2014, with the switch to the private sector, working-age couples accepted that one bedroom would be an acceptable minimum, provided there is space to put up a visitor on a sofa-bed. Pensioner couples, on the other hand, continued to emphasise the importance of two bedrooms, not only because they retained the social housing model but also because they felt pensioners require the flexibility of sometimes sleeping in separate rooms during periods of ill health. Moreover, unlike working-age social tenants, pensioner couples are not penalised by the 'bedroom tax' for having two bedrooms. Thus, due partly to identifying an additional need and partly to being favoured by government policy, pensioners have now specified a more comfortable minimum than their working-age equivalents.

## Overall effect of rebasing on budgets

Chapter 3 and Annex Table A give the budget results for 2014 as well as showing how MIS budgets have changed over time. In 2014, the review of the content of budgets for families with children only produced very minor alterations in their levels, amounting to less than 1 per cent in each case. But how did the freshly researched baskets for working-age households without children and for pensioners compare in value to those produced in 2008?

Answering this question is not straightforward because of difficulties in measuring the effect of inflation, and therefore distinguishing changes that relate to price rises from those that genuinely represent change in the content of the basket or its value. An initial approximation can be obtained by uprating each element of the 2008 basket with the relevant component of the RPI (to which the MIS categories correspond) and comparing it to the repriced baskets from the 2014 research. On this measure, while there have been some significant increases and reductions in certain categories, these largely cancel each other out. The total inflation-adjusted value of the single

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person's basket is 2.5 per cent lower in 2014 than it was in 2008, while for a pensioner couple it is 3 per cent higher (see Table 5, p. 39).

We must treat these comparisons as only a rough guide, since the price adjustment using RPI will not accurately measure changes in the prices of the actual goods and services included in a minimum budget. As discussed above, the index appears not to have been very accurate in measuring inflation in some areas (such as clothing). Moreover, even where an index is an accurate representation for a category overall, it may not accurately reflect price increases in the range of items included in a minimum budget. This appears to be the case for food, where the price of what appears to be a comparable basket has risen faster than predicted by RPI.

Bearing this caveat in mind, the most noticeable inflation-adjusted changes in budgets have been in the following categories:

- Household communications and technology. In the case of a single adult of working age, the addition of computers and the internet and the omission of a landline telephone brings a net saving of about £2 a week, mainly because computer and broadband prices have come down but the rental cost of a landline remains substantial. A pensioner couple who keep their landline face a small additional net cost of about £2 a week for owning a computer and getting the internet; this is low because the internet subscription package includes landline calls and therefore brings offsetting savings.
- Eating out and recreation. As described earlier in this chapter, working-age groups specified more economical models of doing so than in 2008, reducing the single person's budget by £13 a week. However, this was offset by a larger allocation for unspecified recreational activities. The overall effect on the cost of going out was to make it fairly stable in cash terms, but, due to inflation, significantly lower in terms of value than in 2008.
- Transport costs. The increase in these was driven mainly by greater use of taxis, specified because of the growing limitations of public transport (which in the case of families with children have caused groups since 2012 to say that a car is needed). The transport budget is £2 a week higher in real terms than in 2008 for a working-age single person and £4.50 higher for a pensioner couple.
- Fuel costs. These have increased by more than would be predicted from the overall index of household fuel. The effects are greatest for working-age households without children, owing to the fact that the MIS model has started using privately rented rather than social housing for these groups, and such accommodation is on average less energy efficient. A further factor, applying to all household types, is that gas prices have risen substantially faster than average fuel prices, and the MIS domestic fuel model is weighted towards gas usage. For working-age single people, the combination of these two factors has added £4 to weekly costs.
- Food shopping. The bill for the weekly shop has increased by more than would be predicted by the CPI. For both a single working-age adult and a pensioner couple, the difference is around £4 a week. Many factors influence individual food prices so it is hard to establish the cause of this, but one explanation, as suggested above, could be that on average lower-cost items have risen at a faster rate than general food inflation.

Some minor changes affecting budgets have also been caused by adjustments in methods of costing certain goods and services: changes

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noted above that raise the reported cost of personal goods and services but reduce it for food shopping. These almost exactly cancel each other out.

While these changes do not produce any clear-cut general pattern, two aspects are worth noting. First, in one area at least, eating out, there appears to be a small 'austerity effect', with more modest expectations for working-age families based on eating out being more of a 'treat' than routine. Significantly, this confirms findings for families with children from 2012.

Secondly, however, this effect appears to be absent for pensioners, and more generally there appears to be a degree of convergence between pensioner and working-age specifications (from a 2008 starting point, where the former were more modest in some respects, and lower overall). The result has been to bring working-age and pensioner budgets closer together. Excluding rent and heating costs,<sup>2</sup> the budget for a single pensioner is now about 8 per cent lower than for a single person of working age, compared to 18 per cent in 2008. The remaining difference can in fact be attributed entirely to pensioners' free bus passes: the overall household budget for a single pensioner is now almost identical to that of a single person of working age, excluding bus fares, whereas in 2008 the pensioner budget was 10 per cent lower. (For couples, the gap has also reduced, but the pensioner budget remains 9 per cent lower in these terms.)

This does not mean that pensioner and non-pensioner budgets are identical in composition. Pensioners, for example, have a slightly higher budget for personal items (generally health related), and the fact that unlike working-age singles they require a landline makes a significant addition to the overall budget. On the other hand, their clothing and some recreational costs are somewhat lower. However, such gaps have narrowed, and for example the single pensioner clothing budget (averaged for men and women) is now 85 per cent of the working-age equivalent, up from 64 per cent. Moreover, while the eating out budget for both singles of working age and single pensioners has reduced, the pensioner budget for this item has done so less drastically, and is now higher than the working-age equivalent.

This may be interpreted as part of a long-term trend where pensioner conceptions of necessity are becoming more similar to those of working age, and less self-denying, over the long term; certainly, pensioner and working-age levels of consumption have converged over recent decades (Higgs *et al.*, 2009). New norms of pensioners leading more active lives can change attitudes to what they require as a minimum. In 2014, pensioners have been particularly robust in reiterating the need for social participation outside the home, as a counter to isolation. This was also a strong theme in 2008, but the high importance attached to it has helped prevent pensioners from specifying cuts in the minimum as a response to austerity.

Pensioner conceptions of necessity are becoming more similar to those of working age, and less self-denying.

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# 3 INCOME REQUIREMENTS AND COMPARISON WITH BENEFITS, WAGES AND THE POVERTY LINE

The results of the 2014 research reported in Chapter 2 are summarised in Table 1, below, which brings together the MIS budgets for four household types. These MIS benchmarks are then compared in turn with benefit levels, the minimum wage and the poverty line.

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More detailed results are shown in the online Minimum Income Calculator (CRSP, 2014a), which allows budgets to be calculated for most types of household where a single adult or a couple live on their own or with up to four dependent children. The calculator also allows items such as housing costs to be adapted to individual circumstances. Spreadsheets showing the budgets for eleven different household types over time are also available online (CRSP, 2014b). In addition, the Annex to this report gives totals for eleven household types and summarises what has happened to MIS budgets and income requirements since the first results in 2008.

**Table 1: Summaries of MIS for four family types, April 2014**

<b>£ per week</b>	<b>Single, working age</b>	<b>Couple, pensioner</b>	<b>Couple, 2 children (1 aged 2–4; 1 primary school age)</b>	<b>Lone parent, 1 child (aged 0–1)</b>
Food	43.95	73.66	104.62	54.45
Alcohol	4.82	7.70	7.11	6.78
Tobacco	0.00	0.00	0.00	0.00
Clothing	6.76	11.49	44.69	22.11
Water rates	5.63	6.64	9.62	9.15
Council tax	14.60	19.47	22.71	17.03
Household insurances	1.16	1.56	2.30	2.27
Fuel	17.32	18.62	25.65	21.18
Other housing costs	1.92	1.92	9.58	3.56
Household goods	14.48	15.72	28.09	23.64
Household services	2.79	8.04	8.82	8.24
Childcare*	0.00	0.00	161.74	163.85
Personal goods and services	13.56	32.03	44.19	29.93
Motoring	0.00	0.00	58.87	46.52
Other travel costs	26.45	11.05	15.11	1.24
Social and cultural participation	44.43	54.85	100.91	44.93
Rent	71.20	85.18	91.33	85.18
<b>'Headline' total – excluding rent and childcare</b>	<b>197.86</b>	<b>262.76</b>	<b>482.29</b>	<b>291.03</b>
<b>Total including rent and childcare*</b>	<b>269.06</b>	<b>347.93</b>	<b>735.36</b>	<b>540.06</b>
<b>Total excluding:</b>				
Rent, 91.5% of council tax**, childcare (comparable with out-of-work benefits)	184.50	243.29	461.51	275.45
Rent, 91.5% of council tax**, childcare and water rates (comparable with after housing costs in HBAI***)	177.63	236.65	449.95	264.85
91.5% of council tax**, childcare (comparable with before housing costs in HBAI***)	254.46	328.47	550.90	359.18

Notes:

\* Childcare shown for families with children as if parents work full time.

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

\*\*\* Households Below Average Income (HBAI), Department for Work and Pensions national statistics.

## Comparison with benefits

Table 2 shows that basic out-of-work benefits provide well under half of the minimum income (net of rent and council tax) required for an adult with no children, and around 60 per cent of the requirements of families with children. Pension Credit, the safety net benefit for pensioners, on the other hand, pays close to enough for them to meet MIS, covering 95 per cent of the budget.



**Table 2: MIS compared with out-of-work benefits, April 2014**

£ per week	Single, working age	Couple, pensioner	Couple, 2 children	Lone parent, 1 child
MIS excluding rent, 91.5% of council tax* and childcare	184.50	243.29	461.51	275.45
Income Support**/Pension Credit	72.40	230.34	263.81	156.18
Difference (negative number shows shortfall)	-112.10	-12.95	-197.70	-119.27
Benefit income as % of MIS	39%	95%	57%	57%

Notes:

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

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

There has been an overall decline in the adequacy of benefits relative to MIS requirements (see Annex Table C), influenced by a range of factors:

- The most systematic influence has been the increasing cost of a MIS basket, at a rate faster than the CPI (see Chapter 4). This means that even where benefits have been uprated in line with CPI, they have not fully covered the increase in the minimum cost of living. Income uprated by CPI from 2008 to 2014 lost about 7 per cent of its value relative to the cost of a MIS basket.
- While the Government's preferred inflation index is now CPI, in practice during this period, basic means-tested benefits have been uprated by a variety of methods. Up to 2010, they were generally uprated by the 'Rossi' index, which tends to rise faster than CPI. From 2013 onwards upratings have been capped at 1 per cent, significantly below CPI. For the 2008–14 period as a whole, these two factors have largely balanced out; for example Income Support rose by 19.7 per cent, a similar overall increase to CPI. However, as the capping policy continues, there will be continuous, cumulative real-terms cuts in benefit levels.
- The revision of budgets in line with new research has in some cases caused an increase due to the adding of new items. These increases have been modest, and, as set out in Chapter 2, for a single adult without children there has been a slight fall (by 2.5 per cent), in real terms, in the cost of a budget. The increase for the other household types, shown above, have been 3 per cent for a couple with two children, 3 per cent for a pensioner couple and 10 per cent for a lone parent with one child (see Table 5, p. 39).

In 2014, despite being more generous relative to MIS than the other benefits shown here, the value of Pension Credit for a couple dipped below the MIS level for the first time. This was influenced by the small real increase in the pensioner budget identified in the rebase (see Chapter 2). However, another factor over the 2008–14 period is that Pension Credit has risen by about the same amount as CPI and hence has been subject to the deterioration relative to MIS identified above. (The guaranteed level of the credit is in fact pegged to earnings, which fell relative to CPI over this period, but in some cases decisions were made to raise the credit faster than earnings.) In the next few years, on the other hand, average earnings are

forecast to grow faster than prices, and this will trigger real-terms increases in the Pension Credit, potentially recovering some of this lost ground.

## Comparison with the poverty line

The most common publicly used poverty measure uses a ‘poverty line’ of 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, 2013), which is for 2011/12, and compares it with the average of the 2011 and 2012 MIS budgets.

**Table 3: MIS compared with median income 2011/12**

£ per week	Single, working age	Couple, pensioner	Couple, 2 children	Lone parent, 1 child
<b>a) Before housing costs: median income 2011/12</b>	286	427	598	371
MIS excluding childcare and council tax	237	287	497	319
MIS as % of median	<b>83%</b>	<b>67%</b>	<b>83%</b>	<b>86%</b>
<b>b) After housing costs: median income 2011/12</b>	213	367	514	286
MIS excluding childcare, council tax, water rates and rent	169	207	410	236
MIS as % of median	<b>79%</b>	<b>56%</b>	<b>80%</b>	<b>83%</b>

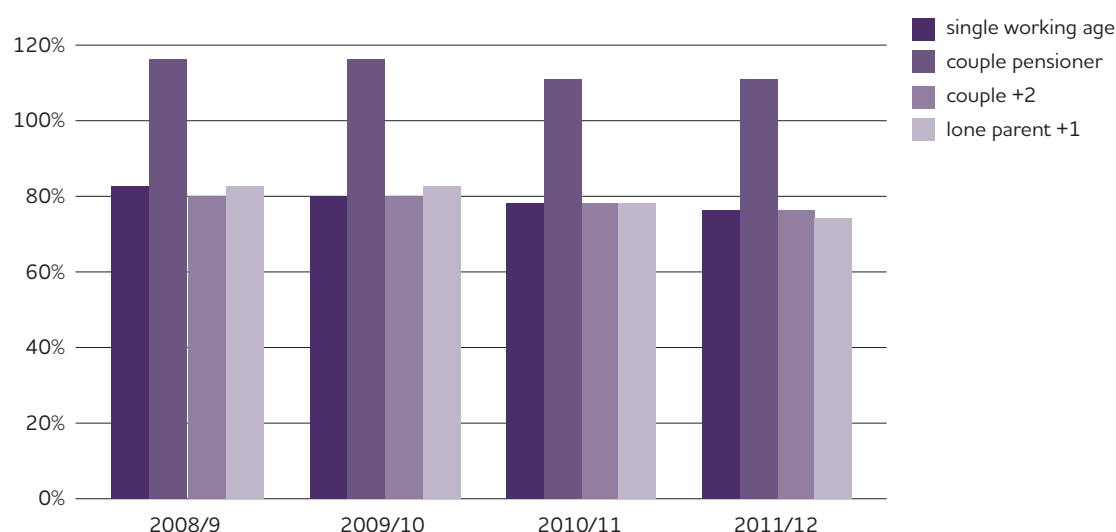
Median income adjusted for household composition (i.e. it is shown as higher for larger households and lower for smaller ones, according to a formula that assumes greater needs for larger families).

While the data shown 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 expense such as higher heating costs.

These figures show that the percentages of median income required for MIS grew significantly during the economic downturn (see Annex Table D). 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. Another way of looking at this is by asking how much of MIS can be afforded by a household experiencing relative income poverty? This is shown in Figure 2 – as median income has fallen, the living standard of a household said to be in poverty has also fallen relative to MIS. For working-age families, the 60 per cent median poverty line was around 75 per cent of MIS by 2011/12, down from around 83 per cent in 2008/09.

**Figure 2: Percentage of MIS budget that can be afforded by households on 'poverty line' (60 per cent median income\*)**



\* 60% of median income after housing costs compared to MIS excluding housing and childcare costs.

## Comparison with the National Minimum Wage

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 NMW. Table 4 shows that this remains the case in 2014.

**Table 4: Gross earnings required to meet MIS, April 2014**

	Single, working age	1-earner couple, 2 children, no childcare	2-earner couple, 2 children, with childcare	Lone parent, 1 child, with childcare
MIS (including rent, childcare* and council tax)	269.06	573.62	735.36	540.06
Gross earnings required	312.30	710.41	778.11	519.21
Annual earnings requirement	16,284	37,043	40,573	27,073
Hourly wage rate	8.33	18.94	10.37	13.85
Amount above the National Minimum Wage, hourly	2.02	12.63	4.06	7.54
Disposable income** on NMW, as % of MIS budget	75%	73%	82%	85%

Notes:

\* Childcare, where specified.

\*\* After rent, council tax and childcare costs.

The gap between the NMW and the wage needed to reach the MIS has widened for all groups in recent years (see Annex Table E), as the NMW rises more slowly than headline inflation but minimum living costs rise more quickly. However, this phenomenon has been far greater for families with children than for single people. In 2008, the earnings needed by each member of a two-earner couple with two children to reach MIS was similar to that of a single person; now, the gap has widened so that the former

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needs to earn around £4 above the minimum wage compared to £2 for the latter. For lone parents, the gap is now over £7, having been less than £1 in 2008. The reasons behind these trends are explored in the next chapter.

However, note also from Table 4 that households where the minimum wage falls furthest short of the earnings needed to reach MIS are not necessarily the worst-off working households in terms of how far their disposable incomes fall short of MIS if they are low paid. For example, a lone parent on the minimum earns less than half of what they would need to reach the minimum standard and can afford to spend 15 per cent less than the MIS budget, whereas the single person earns over three-quarters of what they need to and must forego 25 per cent of the goods and services that they need for a minimum. This discrepancy arises because the lone parent gets a large amount of the support from the state, which is not available to the single person, to stop net family income from falling too low. This ensures that very few lone parents are left, say, with less than half of what they need for MIS. However, since this support falls away quickly as earnings increase, lone parents require far higher earnings to bridge the 15 per cent gap between disposable income on the minimum wage and the full MIS budget than single people need to bridge a 25 per cent shortfall.

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## 4 CHANGES IN MIS 2008–2016 – DRIVING FORCES

The 2014 report completes the first ‘full cycle’ of MIS research, in the sense that all of the budgets first researched in 2008 have now been fully updated using fresh research looking at household needs from scratch. With the experience of the evolution of MIS over a six year period, it is possible to identify a number of trends in terms of the driving forces that affect changes in minimum income requirements in the UK.

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These six years, however, have been very different in terms of the economic and political environment to previous years. They have been dominated by falling real household incomes and the introduction of severe cuts in public expenditure, including on benefits and tax credits. In contrast, the experience of MIS research has been that the content of minimum budgets has for the most part been relatively stable – although the actual cost has been rising faster than headline inflation because the baskets are skewed towards items that have risen relatively quickly in price. As a consequence, the ability to afford MIS, whether on benefits, on the minimum wage or on earnings at a particular point in the distribution, has declined (see Tables C and E in the Annex). This is confirmed by a growth in the number of households found to be living below the MIS level (Padley and Hirsch, 2014).

To describe what has happened over this period, we can compare changes in the amount that people need to earn in order to reach MIS with what has actually happened to earnings, and consider what factors have contributed to each of these trends. In summary:

- General prices have risen.
- The price of a minimum basket has risen faster than general prices.
- The content of the MIS baskets has in some (but not all) cases grown.

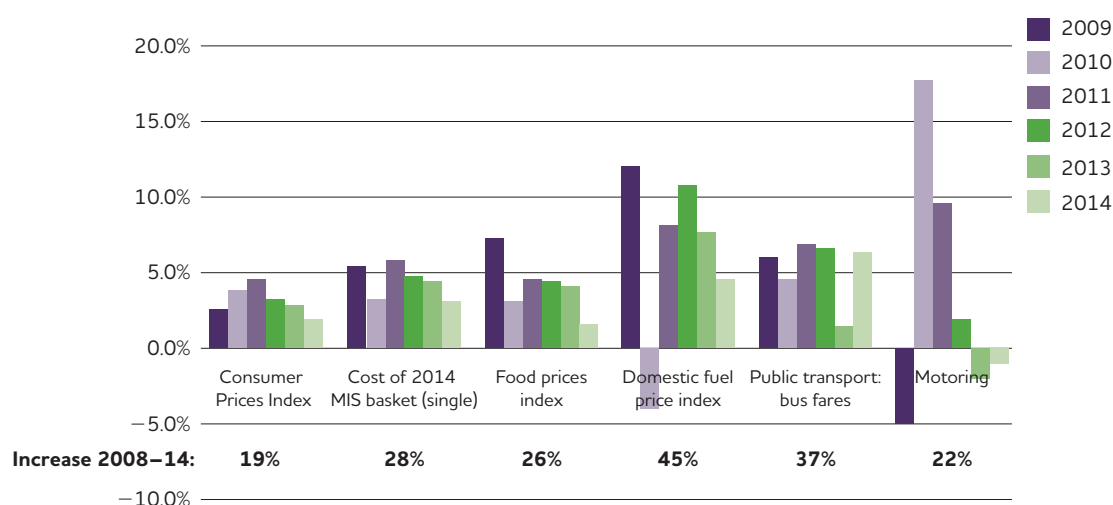
The ability to afford MIS, whether on benefits, on the minimum wage or on earnings at a particular point in the distribution, has declined.

- The above three factors have combined to make MIS budgets grow by an amount greater than official inflation.
- The level of earnings required to meet a given MIS budget has also changed due to changes in taxes and in-work benefits. For families with children who rely most on in-work benefits, cuts in these benefits have sharply raised the earnings required to reach a given disposable income. For those without children, however, tax cuts have slightly reduced these requirements.
- Overall therefore, the earnings needed to reach MIS have risen faster than general inflation, and most rapidly for families with children. Meanwhile, actual earnings have risen more slowly than inflation.
- Therefore, the gap between what people need to earn to reach MIS and what those on lower wages actually do earn has widened greatly.

These trends, between 2008 and 2014, are now looked at more closely, before showing how they combined to affect specific household types, detailed below.

- **CPI:** This rose by 19 per cent over the six years. While this represents a significant increase in the cost of living, the average of 3 per cent a year is just on the boundary of the Bank of England's target range. In the year to April 2014, CPI inflation was 1.6 per cent, well below the average in the past few years.
- **MIS inflation:** An index of inflation based on the MIS baskets has risen by 27–28 per cent (with small variations for each household type) since 2008, an average annual rate above 4 per cent. This inflation rate has been at least one percentage point above CPI in most years, including in 2014, but when food prices jumped in 2009, it was nearly three percentage points above CPI. Figure 3 shows some of the categories of goods and services that have risen most rapidly in price, contributing to the increase in the cost of essentials. The most consistent increase has been in domestic energy. Food and public transport prices have risen substantially faster than CPI overall, but increases slowed later in the period under review. For information, Figure 3 also includes motoring costs. This item is significantly smaller in a MIS budget than average (and does not figure at all among households without children) but has often been seen as one of the most important sources of rising living costs more generally. In fact, motoring prices are highly volatile, rising in some years and falling in others, and since 2008 have increased by a similar amount as the overall CPI.

**Figure 3: Selected price increases 2008–2014 – price increase in 12 months to April of year shown (Retail Prices Index)**



- Rent and childcare inflation:** In addition to the items whose inflation rate is shown in the MIS basket (for single people in Figure 3), households also need to cover rent and childcare costs, which are counted separately. These have tended to increase faster than general inflation in recent years – in particular social rents and childcare fees. However, the cost of the latter has been offset for households with children aged 3 and 4, with the ‘early years entitlement’, which pays for 15 free hours of childcare for those age groups. (The net cost of childcare to households has also been affected by cuts in tax credits – see below.)
- Change in baskets:** As described in Chapter 2, for households without children, and for households with children in the rebasing report two years ago (Davis *et al.*, 2012), some, but not all, household types have had significant changes in the composition of their budgets. Table 5 shows that budgets for the majority of household types have changed by 3 per cent or less in real terms over the past six years. The most significant instance of an increase in terms of the effect on the overall budget has been the addition of cars for families with children, and these have been most significant in the case of the smallest such families, in terms of the proportionate effect on the budget. For the largest families, in contrast, the effect has been cancelled out by minor reductions in other areas of the budgets. Even for the smallest families the maximum net change is 10 per cent over six years. There has also been a 9 per cent increase in the value of the single pensioner budget, associated with a convergence with that of single non-pensioners as discussed in Chapter 2, p. 29.

**Table 5: Change in budgets as a percentage, net of inflation,\* 2008–2014**

Single, working age	-2.5
Couple, working age	2.4
Pensioner single	8.8
Pensioner couple	3.0
Lone parent, 1 child	9.8
Lone parent, 2 children	6.9
Lone parent, 3 children	0.2
Couple, 1 child	10.1
Couple, 2 children	2.5
Couple, 3 children	-0.6
Couple, 4 children	0.0

Note: \* Inflation based on Retail Prices Index applied to each category of MIS budgets.

- **Fiscal changes:** Two main kinds of change in the tax and benefits system have affected the relationship between earnings and disposable income. First, all taxpayers have had a significant tax cut through the raising of tax allowances. Second, families with children, who are entitled to benefits and tax credits at the income levels that enable them to reach MIS, have had these benefits cut, raising the earnings they need to reach such a level. For such families, the benefit cuts have had a far greater effect than increases in tax allowances (see Davis *et al.*, 2012, Chapter 4). The four main measures that have combined to increase earnings requirements have been: a cut in the rate at which childcare is reimbursed; an increase in tax credit ‘tapers’; cuts in the rate at which tax credits are uprated – to 1 per cent a year from 2013; and failure to uprate the ‘disregarded’ amount of income below which tax credits and benefits are not reduced, causing a greater proportion of this income to be subject to the ‘taper’ and lowering the amount of credit paid.
- **Falling real earnings:** The above factors have combined to cause earnings requirements for reaching MIS to increase faster than the CPI. However, earnings have risen significantly more slowly than CPI – on average by 9 per cent, compared to 19 per cent. The National Minimum Wage rose from £5.51 to £6.31 over these six years (an increase of 14 per cent), which is faster than average earnings but behind inflation and well behind the growth in the earnings required by MIS.

### How changes combined to affect the adequacy of earnings for different household types

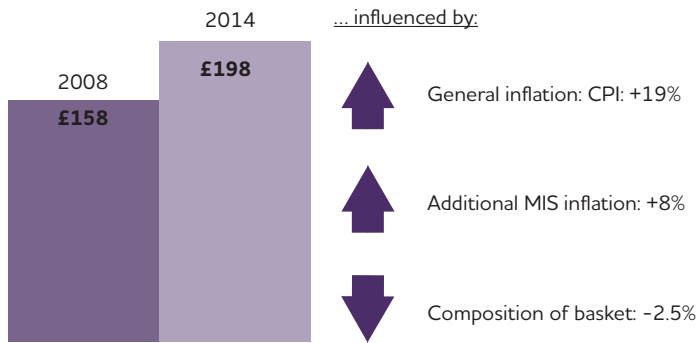
Figures 4a–c summarise the changes in budgets and earnings requirements for a single working-age adult, a couple with two children and a lone parent with one child, respectively. In all three cases, we can see that escalating costs have not been met by an equivalent rise in earnings, making earnings considerably less adequate than they were six years ago in meeting minimum household needs. However, the extent of this deterioration and the shape of the driving forces behind it differ in important ways between single people and families.



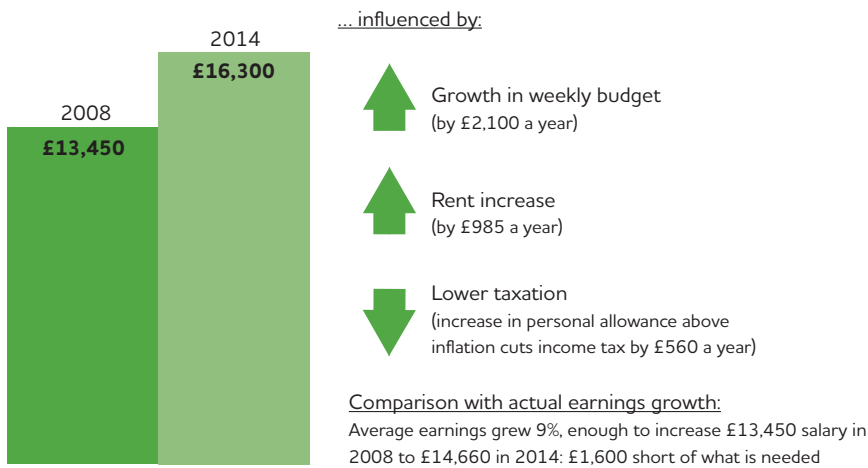
**Figure 4a: Changes for single adult, working age, 2008–2014**

a) The weekly MIS budget\* **increased by 25% ...**

\* Not including rent



b) Annual earnings required to afford MIS **increased by 21% ...**

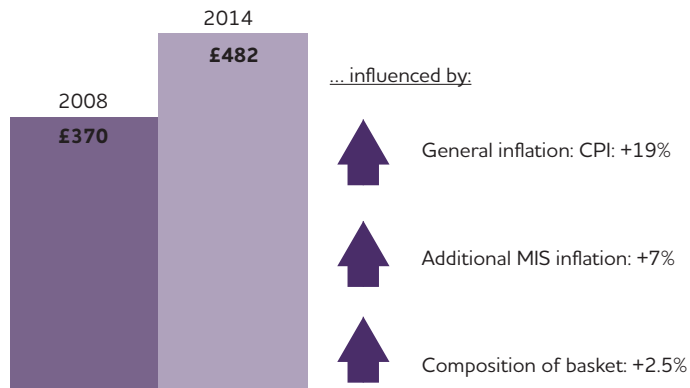


Note: Percentage figures do not always add up exactly to totals because of compounding and rounding.

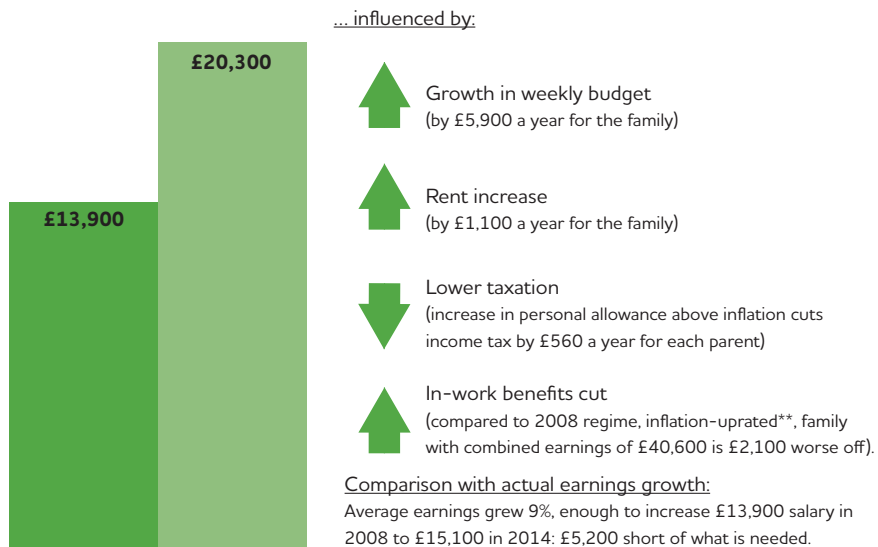
**Figure 4b: Changes for couple + 2 children (pre-school + primary), 2008–2014**

a) The weekly MIS budget\* **increased by 30%** ...

\* Not including rent or childcare.



b) Annual earnings per parent required to afford MIS **increased by 47%** ...

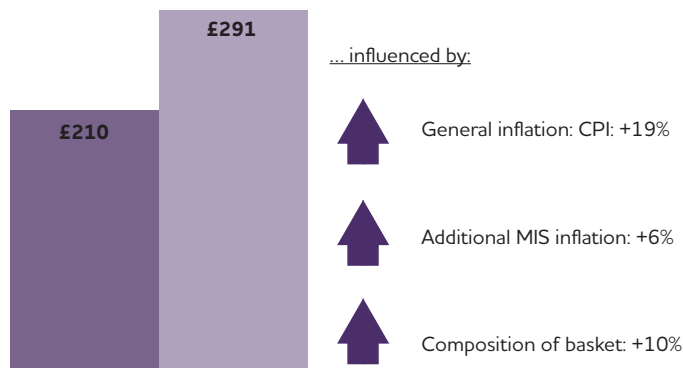


\*\* Assuming all tax credits, their disregards and Child Benefit inflation-uprated, that tapers unchanged and that childcare rate in WTC remained at 80%.

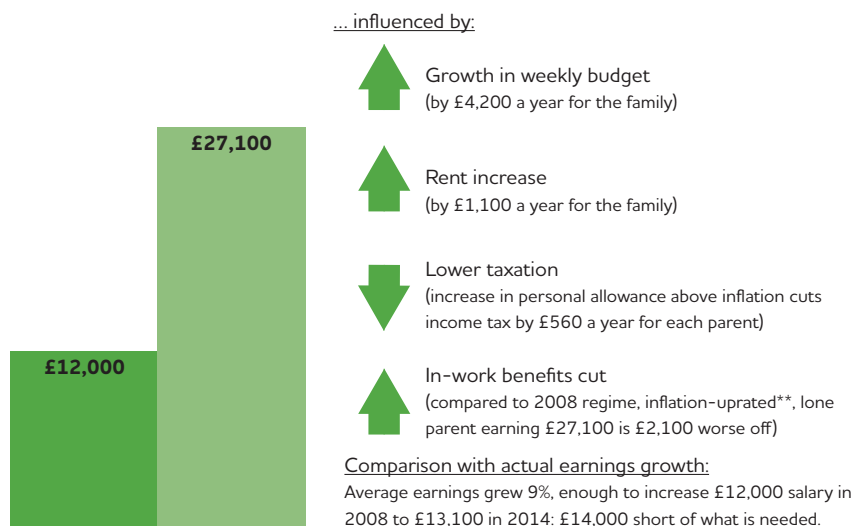
**Figure 4c: Changes for lone parent + 1 child aged 0–1, 2008–2014**

a) The weekly MIS budget\* **increased by 38% ...**

\* Not including rent or childcare.



b) Annual earnings required to afford MIS **increased by 126% ...**



\*\* Assuming all tax credits, their disregards and Child Benefit inflation-uprated, that tapers unchanged and that childcare rate in WTC remained at 80%.

In all three cases, the importance of inflation and of falling real earnings are similar. For neither the single person nor the couple with children case have changes in the content of the baskets made a large overall difference, although for the lone parent it has increased the budget by 10 per cent (because the effect of having a car rather than relying on public transport is proportionately greater for smaller families). However, the overall increase in costs has been reduced in the case of the couple family with a pre-school child by the introduction of 15 hours' free childcare, a significant benefit. (This provision already existed in 2008 but had been recently introduced and was not yet considered sufficiently flexible for parents to think that it should be taken into account, particularly because it was hard to access to help pay for childminders. By the 2012 rebase of family budgets this had changed and the subsidy was subtracted from childcare costs.) But by far the most important difference between the different examples of Figure 4 is the differing effect of fiscal changes. For a single person, the only fiscal effect has been benign: the sharp increase in tax allowances has reduced tax bills by £560 per worker compared to if they had been uprated in line with CPI.

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A single person earning enough to reach MIS would not be eligible for benefits or tax credits and so has not lost out from their reduction. In contrast, families with children, particularly those requiring childcare, have lost out very severely from cuts in the value of tax credits and of child benefit. Typically, these have been just over £2,000 for a family requiring childcare, which is four times the value of the tax cut for a lone parent or single-earner couple, and twice the tax cut for a couple where both parents work and benefit from tax allowances.

The effect on the amount that families need to earn in order to afford a minimum budget has been all the more stark because the more that a family earns, the more they lose in tax credit, so increasing earnings enough to make up for falling support from the state or rising living costs is like 'running up a down escalator'. For the lone parent, this effect is particularly severe because the family has also relied on housing benefit to reach a MIS income, and these also get withdrawn as earnings rise, making the 'down escalator' all the steeper. That is why the couple with children needs to earn nearly half as much again as in 2008 to make ends meet, while the lone parent requires over twice as much. A single person, on the other hand, only needs just over a fifth more – although note that this increase is still greater than the rise in either the CPI (19 per cent), average earnings (9 per cent) or the NMW (14 per cent).

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## 5 CONCLUSION

The MIS is being updated and monitored over time in order to track the ways in which minimum household requirements change as society changes. With the completion of the first cycle of renewal of MIS research for all households in 2014, and the chance to track trends over a six year period, this is a good time to take stock of which factors are affecting minimum income requirements in the United Kingdom.

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Some such factors are indeed possible to link with changes in society, despite six years being a short period in which to observe fundamental social change. Not surprisingly, the most rapid change is linked to technology, although this has not greatly altered overall costs. The addition of new items such as computers and the internet is largely offset by the reduction in the unit cost of aspects of communication, such as mobile phone calls, and by the packaging of items such as broadband access and telephony into products with combined charges. A more expensive kind of change to private households is reductions in the quality of public transport, which has caused all household types to identify more expensive transport budgets (adding cars for families with children and increasing taxi use for others) than were deemed necessary in 2008. On the other hand, this has been offset by savings in some areas. In selected cases, austerity appears to have led the accepted minimum to involve more modest forms of consumption – most distinctly in less eating out.

However, perhaps the most significant finding during six years of MIS research is that it is not the content of budgets that has had the greatest effect on people's ability to afford them but rather a combination of price increases, low wage rises and fiscal cuts. Prices of essentials during this period have risen faster than general inflation, whereas incomes of people on benefits or on low wages have risen more slowly. For working families who rely on tax credits and in-work benefits to reach the MIS level, this low ratio of wage rises to cost of living increases has been especially problematic. Rather than protect such families from additional pressures experienced in hard times, tax credit support has itself been cut.

It is not the content of budgets that has had the greatest effect on people's ability to afford them but rather a combination of price increases, low wage rises and fiscal cuts.

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Moreover, the wages needed to reach an adequate standard have become increasingly unattainable for low-earning families because every increase in a household's earned income is accompanied by a sharp reduction in benefits.

These influences are the product of a new economic and fiscal environment that did not exist before 2008, characterised by falling household incomes and severe spending cuts. In 2014, the economy is forecast to return to a substantial rate of growth. The success of the recovery, from the point of view of people on low incomes, should be measured by whether they are able to afford a minimum acceptable standard of living, or are at least to close the gap. However, this outcome cannot be taken for granted, and much remains uncertain. Rises in prices of items such as food and public transport have recently become less pronounced than three or four years ago, but their future rate of increase cannot be reliably forecast. Furthermore, while the Bank of England's inflation forecast is for more moderate inflation in the coming years, this research demonstrates the price of essentials do not necessarily move in line with average inflation measures. A more predictable factor is that tight fiscal policy is highly likely to continue for at least three more years and probably longer. This will continue to have the negative effects set out in this report, most especially for non-working households of working age and for low-earning families with children (although for those with high childcare costs, this effect will be eased in 2016 with improved support for childcare costs within Universal Credit announced in Budget 2014). Nor do cuts in public spending on services augur well for households' ability to reach minimum standards, given that (as has been seen with transport) weaker public services can necessitate higher private spending. Thus, while 2014's gradual increase in real earnings, reduction in income tax and modest inflation rate will have favourable effects if sustained, they will not guarantee a return to improved living standards for those households struggling to reach the minimum.

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# NOTES

- 1 Author calculations based on announced government policy.
- 2 As explained above, the housing model for a single person changed between 2008 and 2014, affecting heating costs as well as rent, so a like-for-like comparison should exclude these.

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# ANNEX: SUMMARY OF MIS BUDGETS 2008–2012

**Table A: Minimum requirements not including rent or childcare (£ per week)**

	2008	2009	2010	2011	2012	2013	2014
Single, working age	158.12	165.82	175.34	184.68	192.59	200.64	197.86
Couple, working age	245.03	256.35	272.55	286.79	301.74	314.52	323.00
Pensioner single	131.98	138.53	147.41	154.62	158.74	165.24	182.16
Pensioner couple	201.49	210.66	222.22	232.74	231.48	241.25	262.76
Lone parent, 1 child	210.31	220.11	233.73	246.37	275.59	284.57	291.03
Lone parent, 2 children	282.69	295.49	308.90	325.90	361.99	375.15	383.36
Lone parent, 3 children	379.94	396.28	406.15	429.19	457.66	475.03	485.50
Couple, 1 child	286.64	299.83	315.38	332.27	374.17	386.90	396.45
Couple, 2 children	370.05	386.96	402.83	424.65	454.52	471.16	482.29
Couple, 3 children	465.71	485.75	496.84	524.48	554.55	577.02	590.75
Couple, 4 children	504.69	526.44	539.08	569.27	605.80	628.70	644.02

**Table B: Percentage increase in minimum requirements 2008–2014**

	Due to rise in prices (%)*	Due to change in baskets (%)	Total (%)**	Overall increase (compared to CPI increase of 19%) (%)***
Single, working age	28.4	-2.5	25.1	5.1
Couple, working age	28.8	2.4	31.8	10.7
Pensioner single	26.8	8.8	38.0	15.9
Pensioner couple	26.6	3.0	30.4	9.5
Lone parent, 1 child	26.1	9.8	38.4	16.2
Lone parent, 2 children	26.9	6.9	35.6	13.9
Lone parent, 3 children	27.5	0.2	27.8	7.3

	Due to rise in prices (%)*	Due to change in baskets (%)	Total (%)**	Overall increase (compared to CPI increase of 19%) (%)***
Couple, 1 child	26.5	10.1	39.3	17.0
Couple, 2 children	27.2	2.5	30.3	9.5
Couple, 3 children	27.6	-0.6	26.8	6.5
Couple, 4 children	27.6	0.0	27.6	7.2

Note: \* Based on inflation in components of RPI applied to 2014 budgets.

\*\* This is not the sum of percentages in previous columns but their compound combination – e.g. if prices rise 10 per cent, cost increases 21 per cent =  $(1.10 \times 1.10) - 1$ .

\*\*\* Actual increase additional to inflation as calculated in previous column

**Table C: Safety net benefits (Income Support/Pension Credit) as a percentage of MIS (excluding rent, childcare\*, council tax)**

	2008	2009	2010	2011	2012	2013	2014
Single, working age	42	42	41	40	40	38	39
Pensioner couple	105	105	102	100	104	101	95
Couple, 2 children	63	63	62	62	60	58	57
Lone parent, 1 child	68	67	65	64	59	57	57

Note: \* Childcare, where appropriate.

**Table D: MIS as percentage of median income**

	2008/9	2009/10	2010/11	2011/12
<b>Before housing costs</b>				
Single, working age	74	76	79	83
Pensioner couple	62	64	66	67
Couple, 2 children	75	77	79	83
Lone parent, 1 child	75	77	80	86
<b>After housing costs</b>				
Single, working age	72	74	77	79
Pensioner couple	53	54	57	56
Couple, 2 children	73	74	77	80
Lone parent, 1 child	72	73	77	83

Note: \* Survey data not available after 2011/12.

**Table E: Earnings required to reach MIS**

	2008	2009	2010	2011	2012	2013	2014
<b>£ per year</b>							
Single, working age	13,450	13,859	14,436	15,000	16,383	16,852	16,284
1-earner couple, 2 children	26,910	27,635	29,227	31,584	34,881	36,060	37,043
2-earner couple, 2 children	27,792	27,940	29,727	36,800	36,728	38,759	40,573
Lone parent, 1 child	11,990	12,122	12,454	18,243	23,861	25,586	27,073
<b>£ per hour</b>							
Single, working age	6.88	7.09	7.38	7.67	8.38	8.62	8.33
1-earner couple, 2 children	13.76	14.13	14.95	16.15	17.84	18.44	18.94
2-earner couple, 2 children	7.11	7.14	7.60	9.41	9.39	9.91	10.37
Lone parent, 1 child	6.13	6.20	6.37	9.33	12.20	13.09	13.85

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