



A Minimum Income Standard for the UK in 2016

by Abigail Davis, Katherine Hill, Donald Hirsch and Matt Padley

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This report shows:

- what incomes different family types require in 2016 in order to meet the minimum standard; and
- influences on the ability of families to meet the standard.

This update of minimum budgets is based on new research into what members of the public believe households require in order to have a minimum acceptable standard of living. Budgets for families with children have been researched again from scratch, for the first time since 2012. Budgets for families without children, both working age and pensioners, have been reviewed.

Overall, the report finds that the basket of minimum household requirements has been stable, with a modest reduction for couples with children seeking more economical ways of meeting the standard. In a tough economic environment, it is becoming harder for many families to achieve a minimum income.

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Executive summary

This report is the 2016 update of research into a Minimum Income Standard (MIS) for the United Kingdom. This research, 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. The standard is defined as follows:

A minimum standard of living in the UK today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.

One powerful feature of MIS is that it is continuously updated to reflect social and economic change.

For the second time since the original MIS research was published in 2008, budgets for households with children have been researched again from scratch (or 'rebased'). New groups comprising members of the public have specified what such households need in order to reach an acceptable standard of living in 2016, which they last did in 2012. Budgets for households without children that were rebased in 2014 have been further reviewed by groups.

The main research involved 22 detailed focus groups where members of the public from a range of social backgrounds were tasked with producing lists of items that households need, by reaching consensus about what is required to meet the minimum standard. Sixteen of these groups involved parents, in three waves of drawing up and checking lists of items required by families with children. The remaining six groups reviewed previous lists drawn up by working-age adults without children, and by pensioners. As in previous MIS research, deliberations by members of the public were informed by knowledge from experts, including a nutritionist who helped to construct adequate diets, a heating engineer who specified home energy requirements, and an expert on the structure of motoring costs.

The information gathered was compiled into calculations of minimum household budgets, both before and after rent and childcare (for which some baseline costs are calculated based on assumptions discussed in the groups). This is followed by calculations of what earnings or pensions would be required in order to afford these budgets after taxes have been deducted, and benefits and tax credits have been added, to household income.

The overall pattern of minimum household requirements has remained relatively stable since 2008. Nevertheless, a number of features of the budgets drawn up in 2016 are worthy of note. In a number of ways, families are identifying more economical methods of meeting certain needs than they did previously. This includes eating out less frequently than in the original research, and putting greater emphasis on deals and online comparisons, for example of utility providers. Parents' groups also accepted more restricted housing standards for larger families, with greater sharing of rooms than previously.

Some costs, on the other hand, have been increasing. Parents specify greater travel requirements than in 2012, based on a tight housing market limiting options to move closer to work, so people have to be able to commute longer distances if necessary to give them greater choice in employment. Another important change is in childcare requirements, with parents now saying that you should be able to choose a nursery, not just a childminder, in view of the importance to children's development of early years' experiences.

These factors have largely balanced out overall, although the falling price of food and lower social participation budgets have contributed to more modest budgets in 2016 compared to 2012, particularly for couples, when childcare is not included.

Despite a steady and, in some cases, a reduction in MIS budget levels in 2016, working-age benefits continue to fall well short of meeting MIS income levels, and even working people on the National Living Wage (NLW) still typically do not reach MIS levels, especially if they have to pay for childcare. Specifically:

- A couple with two children on out-of-work benefits falls 39% short of meeting a MIS budget. Working full time on the NLW they fall 12% short (after paying for childcare).
- A lone parent with one child falls 44% short of meeting a MIS budget. Working full time on the NLW, they fall 18% short (after paying for childcare).

The introduction of Universal Credit (UC) and, in particular, its increasing support for childcare (from 70 to 85% of eligible childcare costs) have helped bring some full-time working families closer to meeting MIS with the NLW, but they still fall short. For a couple with two children the shortfall reduces to just 4%, but for the lone parent the burden of high childcare costs, even with additional help, continues to play a large part in preventing low-income families to reach MIS. Were all childcare costs to disappear, for example if the UC childcare reimbursement rate rose to 100% for low-income families, couples with children would typically be able to reach the MIS level by working full time on the NLW, while lone parents would get to within about 10% of doing so. Where people have access to informal help with childcare – for example from a grandparent – they are more likely to be able to afford a decent living standard.

In conclusion, the 2016 MIS results show that minimum family costs are not bound to go on rising constantly and have reduced in some respects, but that this does not mean that more families will meet the standard. While the introduction of the NLW has increased income from earnings for those aged 25 and over, these gains are being offset by the combination of real-terms cuts in the value of benefit and UC levels, a reduction in the UC work allowance (the amount that can be earned before UC begins to be withdrawn with rising income), and high childcare costs that continue to be a central obstacle to making work pay. Recent moves towards greater subsidisation of childcare are thus timely. However, with the government having persuaded families that having good quality childcare is essential for children's life chances, it now needs to make sure it is affordable in order to allow lower-income families to take up these opportunities, and ensure that work is rewarded with a decent standard of living.

1 Introduction

How much income is needed to achieve a minimum acceptable standard of living in the United Kingdom today? Since 2008, the Minimum Income Standard (MIS) for the UK has been answering this question through 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 research is supported by expert knowledge on certain physical living requirements, including nutrition (see also Box 1).

Regular updating is an essential element of MIS, 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 provisional estimates of price rises, mostly based on the Retail Prices Index (RPI).

In 2016, new research has looked afresh at what households with children need in order to achieve a minimum standard of living, according to members of the general public. This is the second time the budgets for this group have been 'rebased', researching their requirements from scratch (as was last done in 2012). For households without children, whose budgets were rebased in 2014, a lighter-touch review has been used in 2016 to revise budgets where changes over time have been identified and unchanged elements have been uprated by inflation.

Table 1 shows how this sequence of updates works on a regular cycle.

	Year 1	Year 2	Year 3	Year 4 (2016)
Families with children	Inflation uprating	Review	Inflation uprating	Rebase
Households without children	Inflation uprating	Rebase	Inflation uprating	Review

Chapter 2 of this report presents the new research on the composition of budgets for 2016. Chapter 3 presents the results in terms of the income requirements they produce, and looks at how these compare with benefits, with earnings on the National Living Wage (NLW), and with the official poverty line. Chapter 4 considers the difficulties that many families are presently experiencing in meeting the minimum standard, and the extent to which the NLW, in combination with tax credits and Universal Credit (UC), is helping them overcome these difficulties. Finally, Chapter 5 draws conclusions.

Box 1 summarises the main features of MIS. The results of MIS, updated to April 2016, are available in full using the online Minimum Income Calculator (CRSP, 2016a), and in a summary spreadsheet published on the MIS website (CRSP, 2016b), 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, and compare the spending available to someone on a different income with the minimum requirement.

Box 1: MIS in brief

What is MIS?

MIS is the income that people need in order to reach a minimum, socially acceptable standard of living in the UK today, based on what members of the public think. It is calculated by specifying baskets of goods and services required by different types of household in order to meet these needs and to participate in society. Specifically, the minimum is defined as follows, based on consultation with groups of members of the public in the original research:

A minimum standard of living in the UK today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.

How is it arrived at?

A sequence of groups holds 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 that check and amend the budget lists. These are then priced at various stores and suppliers by the research team. Groups typically comprise six to eight people from a mixture of socioeconomic backgrounds, but all participants in each group are from the category under discussion. So parents with dependent children discuss the needs of parents and children, working-age adults without children discuss the needs of single and partnered adults without children, and pensioner groups decide the minimum for pensioners. In all, over 100 groups have been used to research MIS since its inception in 2008.

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

What does it include?

As set out in the definition above, a minimum is about more than survival alone. However, it covers needs, not wants; necessities, not luxuries; items that the public think people need in order to be part of society. In identifying things that everyone should be able to afford, it does not attempt to specify extra requirements for particular individuals and groups, for example those 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 100 different family combinations (according to number and ages of family members) can be calculated. It does not cover families living with other adults, such as households with grown-up children.

Where does it apply?

MIS was originally calculated as a minimum for Great Britain; subsequent research in Northern Ireland in 2009 showed that the required budgets there are all close to those in the rest of the UK, so the national budget standard now applies to the whole of the UK.

This main UK standard is calculated based on the needs of people in urban areas outside London, with groups being held in Midlands towns. However, the UK definition of what comprises a minimum standard (see above) has also been applied in other geographical contexts: in supplementary projects considering costs in rural England (Smith *et al.*, 2010); in London (Padley *et al.*, 2015); in remote, rural Scotland (Hirsch *et al.*, 2013); and in Guernsey (Smith *et al.*, 2011). The London and rural England variations are incorporated in the online Minimum Income Calculator (CRSP, 2016a), through an option to adjust the first results. Other countries have used the same overall method but employed their own definitions of the minimum, in Japan (Davis *et al.*, 2013), Portugal (raP, n.d.), France (Gilles *et al.*, 2014) and Austria. An ongoing MIS programme in the Republic of Ireland uses methods based on the UK work (MacMahon *et al.*, 2016).

How is it related to the poverty line?

MIS is relevant to the discussion of poverty, but does not claim to be a poverty threshold. This is because participants in the research were not specifically asked to talk about what defines poverty. However, it is relevant to the poverty debate in that almost all households officially defined as being in income poverty (having below 60% of median income) are also below MIS. Thus households classified as being in relative income poverty are generally unable to reach an acceptable standard of living as defined by members of the public.

Who produced it?

The main MIS research is supported by the Joseph Rowntree Foundation. The original research in 2008 was conducted by the Centre for Research in Social Policy (CRSP) at Loughborough University, in partnership with the Family Budget Unit at the University of York. The standard is being updated annually by CRSP, again with JRF support. In 2011, the Family Budget Unit was wound up on the basis that the calculation of MIS takes forward its mission.

2 Updating the minimum in 2016 – new research

The MIS was originally published in 2008 and is updated annually. The updating process means that all budgets are regularly reviewed and revised in a rolling programme of research. This chapter explains the findings of the new research carried out in 2016 (see Box 2), in terms of what stayed the same and what was new or different compared to previous iterations. For a more in-depth discussion of the range of items included in MIS budgets, and the main rationales for including them, see Davis *et al.* (2015). Budgets for households without children were only reviewed in 2016, while those for families with children were fully rebased. Nonetheless the results are combined and reported here by broad category or type of item.

The budgets can be divided into these elements:

- housing and domestic fuel;
- household goods and services;
- clothing;
- personal goods and services;
- transport;
- food and drink; and
- social and cultural participation.

Box 2: Summary of research elements

Fieldwork consisted of 22 focus groups (16 rebasing, 6 reviewing) divided evenly between Derby, Loughborough and Northampton. Groups involved new participants from a range of socioeconomic backgrounds (typically seven to ten in each group), who had not previously participated in MIS research.

Rebasing budgets for households with children

The rebasing fieldwork was conducted in three phases. In the first stage, seven task groups, each meeting for five hours, discussed the needs of a particular individual from the list below:

- partnered mothers;
- partnered fathers;
- lone parents;
- children under 2 years of age;
- children aged between 2 and 4 years;
- primary school aged children; and
- secondary school aged children.

Groups were mixed gender, except those discussing the needs of partnered mothers and fathers. Each task group negotiated and agreed a list of required goods and services for the individual under discussion. The items in the lists were then priced at the retail outlets specified by the groups.

At the next phase of the research (the checkback phase), six new groups were convened to go through the lists, to check that they met the needs of the individual in question. These groups were also asked to resolve any outstanding decisions where the first groups had been unable to reach consensus. A mixed gender group looked at partnered parents' needs, combining the separate partnered mothers' and fathers' lists into one list for a couple. Groups focusing on parents' needs were also asked to clarify points of similarity and difference between the lists for lone parents and partnered parents.

A final phase of three, three-hour-long groups was held, each with a different purpose. The first group focused on resolving anomalies and outstanding issues. The second one concentrated on economies of scale, and how having different combinations of children and adults in families affected different aspects of budgets, such as patterns of car use. The third group reviewed decisions from the two preceding ones within the context of different households, to validate decisions and ensure that the 'rules' created for households with various combinations of children made sense.

Reviewing budgets for households without children

Six, three-hour-long group discussions were held to review the budgets for households without children. Three waves of groups were held with working-age adults, and three with pensioners. In each case they looked at the budgets for both single and partnered people of the relevant demographic. The initial group in each category looked at the existing lists, last developed from scratch in 2014, and discussed whether these were still necessary and sufficient to meet people's needs, or if there were changes required. Subsequent groups were presented with the budgets, including any amendments from the first group, and asked to endorse or revise the changes. Any changes identified were only implemented where there was consensus across groups.

Housing

Groups were asked what kind and size of accommodation would meet a family's needs as a minimum. As in previous waves, they agreed that social housing would meet the needs of households with children and pensioners. Working-age single and partnered adults without dependent children would need a one-bedroom flat in the private rental sector (PRS), as the chance of people in this category without additional needs getting access to social housing was seen as too remote to be used as an assumption, even for minimum costs. There has also been a growth in private renting among families with children, who do not always have the option of the greater security of social renting (Hill *et al.*, 2016). Nevertheless, because it is an option for some, MIS continues to start from the baseline assumption of

social renting for families with children and pensioners, while acknowledging that those who rent privately will face greater costs.

Groups agreed the following specifications of what housing would meet households' needs as a minimum:

- households with one child – two-bedroom house (social housing);
- households with two, three or four children – three-bedroom house (social housing);
- single working-age and partnered working-age adults – one-bedroom flat (PRS);
- single pensioners – one-bedroom flat (social housing); and
- partnered pensioners – two-bedroom flat (social housing).

In 2016, discussions revealed a tension between what the standard groups would see as a minimum in an ideal world (a bedroom for each child, as MIS groups had previously specified, up to three children), and the lived reality of what size social housing could or would be provided, with an acute awareness of penalties for what authorities might consider under-occupation (when calculating Housing Benefit entitlements, for those claiming). Participants were very conscious of having to make do with less space – either in social housing or in the PRS, because of availability and affordability. While MIS is framed in terms of meeting minimum needs rather than what can be afforded, these are defined in the context of society's contemporary norms, and this is an example of where changing norms have affected what groups think can realistically be seen as a minimum in the UK today.

The standard eventually agreed on was for a two-bedroom house for families with one child, and a three-bedroom house for those with more than one child. This meant that two children would each have their own room, even though the under-occupancy charge (or so-called 'bedroom tax') rules for Housing Benefit say that children of the same sex or under 10 should share. Parents said that allocating a smaller house for people with two children was short-sighted, because if the children were different genders they would only be able to share a room for a limited time, and then the family would have to go on a waiting list for larger accommodation. Waiting lists were thought to be long, and participants talked about the uncertainty and disruption of possibly having to move area and have the children change schools in order to get the appropriate-sized housing. In this sense, MIS participants saw adequate housing in its wider context of providing a stable foundation for family life, not just immediate shelter.

Woman 1: The [social housing] standard is too low.

Man 1: Yes, I think it's a short-term fix.

W2: It's always a short-term fix.

M1: Always.

W3: Otherwise why do we all know the rule about what age same sex children can share a room, because that's been ingrained in to society because that is what happens.

M1: Like you said, they don't look at the long term, you know if people are building a family, rather than just a quick fix, put them in there and we'll worry about them when they get to 10 if we have mixed sex children. We'll come across that problem later on, but why not set them up from the beginning and let them build a home rather than, 'oh we know we're going to be here for a little while, but we know we're going to have to move'.

W4: The whole point of social housing was to create social mobility so people could get themselves out of poverty by giving them stability and security. That was the original set up and they're going on about abolishing the lifetime council tenancies now, which is taking away low-income people's stability and security.

M1: Absolutely.

W4: Which only counteracts the whole thing of enabling social mobility really, doesn't it, so it's a massive contradiction. You've got to change things to make progress and nobody seems willing to change things.

Lone parents. Loughborough

The overall effect on the budgets of the change for larger families from a four-bedroom to a three-bedroom house is a reduction not just in rent, but also in a range of costs. These households now need less for household goods – particularly carpeting and curtains – but also for heating.

Domestic fuel

All homes are assumed to have gas central heating. The domestic fuel consumption figures for larger households have been reduced due to the assumed largest house type now being a three-bedroom house rather than the four-bedroom house agreed on in previous waves of research. Larger families in this new model actually use less heating fuel than smaller ones inhabiting the same space, since people generate their own heat.

The amount of energy that needs to be consumed was calculated using the method from the English Housing Survey (EHS) and the fuel poverty figures produced by the Department of Energy and Climate Change (DECC) each year. The version of the Building Research Establishment Domestic Energy Model (BREDEM) used in the EHS has now been updated to BREDEM 2012, so 2016 calculations were made using this calculation.

BREDEM 2012 is a much more sophisticated calculation than its predecessor for all elements of the fuel bill. It includes updated weather data on a monthly basis, allows for additional heat losses through party walls and due to thermal bridging (cold spots in less well insulated areas of the outer surface), and revised algorithms for cooking, water heating, and lights and appliance usage, to reflect changing patterns over the last 20 years. Overall, the costs for MIS due to BREDEM changes have not altered much, as the additional water heating and space heating is largely offset by reduced cooking costs and electricity use.

Energy tariffs

Previously the tariff for gas and electricity was calculated using a mid-range option (a standard dual tariff from Scottish Power). Groups in 2016 emphasised the increased importance of internet access in order to be able to get better deals than previously, so in 2016 fuel was priced using a comparison website to select a one-year, fixed, dual fuel tariff (from AVRO Energy) with no penalty for switching. Total domestic fuel costs are about £6 less per week for a couple with two children in 2016 than in 2012, uprated by fuel price inflation. The most significant factor in this reduction is likely to be the more competitive fuel supplier. Overall, this reduction in energy costs attributable to supplier switching, reflecting a growing perception of the need to seek deals, has been more important than the methodological change with the BREDEM model referred to above in reducing energy costs in MIS in 2016.

Household goods and services

Participants in MIS rebasing groups were asked to think about what would be needed in each room of the home. The list of goods required in the home has remained very similar, with only minor changes over time. The budgets include items under the following broad categories – items in brackets are illustrative, rather than comprehensive:

- household goods:
 - flooring (carpets, tiles/vinyl, laminate);
 - furniture (sofa, dining table and chairs, beds, wardrobes, drawers);
 - soft furnishings (curtains, cushions, light shades);
 - bedding;
 - small electrical goods (lamps, hairdryer, hair straighteners, kettle, toaster, iron, hand blender);
 - kitchen appliances (cooker, fridge, washing machine, microwave);
 - kitchenware (storage jars, plastic tubs, mixing bowls);
 - cookware (saucepans, casserole dish, baking trays);

- tableware (plates, bowls, mugs, cutlery, glasses, serving dishes, fruit bowl);
- cleaning and laundry items (washing-up brush, scourers, washing-up liquid, bleach, vacuum cleaner, dustpan and brush, clothes line and pegs, clothes airers); and
- children's items (highchair, stair gates, nightlights).
- household services:
 - landline phone and line rental (for families with children and pensioner households);
 - mobile phones (for all adults and secondary school aged children);
 - postage;
 - babysitting; and
 - childcare.

Household goods

Parents in 2016 took a similar approach to those in 2012 and agreed that laminate flooring was a hard-wearing, economical and practical solution for the hall, living and dining areas. They also identified a similar type of carpet to groups in other years for the hall, stairs, landing and bedrooms. For the bathroom and kitchen they chose tiles, as they said that these would be more hard-wearing than the vinyl flooring included in previous years, and would therefore prove better value for money.

The main items of furniture remain largely unchanged – fabric sofas were thought to be suitable for all households. Parents said that leather sofas were easier to clean and more likely to be resistant to spillages and accidental damage, but decided that fabric sofas with washable covers would be adequate, and that throws could be used to protect the upholstery and make them last as long as leather ones would.

Curtains were provided throughout the house – the same lined and machine-washable type as specified previously. Roller blinds were considered more practical for the bathroom and bedroom, and children's bedrooms had a blackout blind with a child-safe winding device. Safety is a prominent feature in groups discussing children's needs, and the budgets also included a safety kit (with drawer and cupboard locks, corner cushions, etc.); stair gates; a baby monitor for households with children in the youngest age group; and wall brackets to attach wardrobes or chests of drawers securely in households with children below school age.

In the kitchen, the list of items was very similar to those in previous years, but a hand blender is now in all households with children. In 2012 it had been included specifically for those households with very young children who might be in the process of being weaned, to help purée food, but in 2016 it was considered a useful piece of equipment for making homemade soups and smoothies economically, as part of a nutritious and healthy diet. Dishwashers were still considered to be a luxury item, as were tumble dryers for smaller households, although groups agreed, just as in 2012, that families with three or more children did need a tumble dryer because of the volume of laundry.

Items included in the bedrooms and bathroom were also very similar to those described in previous years. Groups included bedding, toy storage, wardrobes and chests of drawers, towels, a shower curtain, a medicine cabinet with a mirror and a non-slip bath mat.

Household services – communications

Parents debated the inclusion of a landline telephone. In 2014, working-age adults without children had agreed that it was no longer necessary to have both a landline and a mobile phone, and had opted for the mobile phone, with broadband internet access provided via a dongle for a monthly charge. This model was confirmed by working-age adults without children in the 2016 review groups. Parents, on the other hand, elected to keep the landline as an emergency backup, and as a cost effective way of providing broadband access.

- Man: I don't want to throw a spanner in the works [but] if there's an emergency and the phone dies or loses signal which everyone has problems, a landline is the way. I think as a back-up for emergency.
- Researcher: Right, so should we buy a cheap, landline, physical phone?
- Woman: Yes, Argos £5, job done.
- Lone parents, Loughborough

They included the cost of a cheap cordless phone, but said that the majority of calls would be made using the free minutes included in the mobile phone package. The mobile phone provision was still via a cheap contract (£7.50 a month, with the cost of the handset included) but with a top-up to provide additional data. Although landline rental costs have risen over time, the range of provision has become increasingly competitive and the price of broadband internet access has decreased.

Pensioners reviewing budgets in 2016 included a contract mobile phone for the first time. In the past, pensioner groups have been clear that the mobile phone was principally for emergency use, and consequently pay-as-you-go with a cheap handset was sufficient. In the review groups this year, however, pensioners agreed that mobile phones were no longer perceived as only for use in emergencies. Call charges for pay-as-you-go phones were thought to be more expensive, and the cheapest monthly contract was seen as offering better value. There was some discussion about how older people used their phones, and while most were chiefly using them to make calls, some were using features available on smartphones, such as accessing online media. As the cheapest contract is the same price for either a basic smartphone or a less sophisticated model, the provision in MIS allows people to choose the type of phone that they feel meets their needs.

- I think over all, apart from individuals, I think people are becoming more and more reliant on their mobiles, rather than just having it for emergencies, I think, generally speaking.
- Female pensioner, Loughborough

Allied to these discussions, pensioner groups maintained that a landline was still necessary as it provided a communication 'safety net', but that increased reliance on mobile phones could remove the need for a landline in the future. As one female pensioner noted:

- I think a smart phone will become the thing, but there is an intermediate time isn't there?
And I think at the moment you have got to keep your landline.
- Female pensioner, Loughborough

Parents said that the majority of correspondence would be via email, but agreed to include a pack of envelopes, pens and a pad of writing paper per year (in household goods) for writing notes to school, covering letters for job applications, etc. They also included £15 a year for postage. This might be needed for sending birthday and Christmas cards, or for other postage or delivery costs. They agreed that it was not necessary to include any money in the budgets for buying newspapers, as people could access this information online at no additional cost.

Babysitting services

In 2012, the lump sum allocated for parents' activities was intended to include babysitting if required. Groups in 2016 allocated a separate amount for babysitting, so that couples could spend some time together without their children, and so that lone parents could take part in some kind of social activity outside the home. There was much discussion about what amount would be appropriate in order to pay a babysitter. Parents acknowledged that not everyone could rely on or have access to free, informal care from a friend or relative; however, the cost of hiring an agency babysitter was thought to be unrealistically high, and people would not want to leave their children in the care of someone they did not know. Consensus was reached that £10 should be included in each household's budget – once a month for the couple, who included a monthly date night in their social and cultural participation budget, and once a week for the lone parent. This amount was seen as enabling them to give a token of thanks rather than payment for a service, and could be used to buy a bunch of flowers to say thank you, or a takeaway pizza for the babysitter to have while the parent/s were out.

Childcare services

In previous years, groups said that childminders offered greater flexibility than nurseries and tended to cost less, although in 2008 and 2010 parents thought that not all childminders would accept the government-funded, 15 hours per week free childcare for children aged 3 and 4. By 2012, parents said that it was widely accepted by providers and that this could be taken into account. When calculating the costs of childcare, a childminder could still be used, but with 15 hours a week assumed to be free for a pre-school child. A childminder unable to accept the entitlement could take the child to a nursery to take advantage of this free provision.

In 2016, parents took a different view. They said that it was important for parents to be able to choose the right source of childcare for their child/ren, and that nurseries generally offered better preparation for school entry, as the children learned to mix with a larger number of peers and nursery settings tended to be more formal than the more 'homely' surroundings likely to be provided by a childminder. They said that parents of primary school children would use the services of 'breakfast clubs' and after school clubs, so that they could get to and from work in between dropping them off and picking them up again. The budgets for primary school children also provide six weeks of holiday clubs for childcare during school holiday periods when parents are not on holiday themselves. While childminders are still seen as a valid and, in some cases, cheaper option, they are not now used for costing childcare because parents think being restricted to using them would not offer sufficient choice.

Researcher: Right, so what do you think about [participant]'s point about it being important for people to be able to choose between them not just based on cost?

Woman 1: I think it definitely is, I think it is what you feel is right for your child.

W2: So yes, what you feel safe for your child, who is he going to be safer with?

W3: And what fits around your work.

W4: And what suits your child best as well because every child has different needs, some children need a more nurturing environment so they probably... so some one year-olds might need to be with a childminder and they might need that, you know not that they are not close at nursery, but they might need that constant only having three children who are constantly there a week, whereas other children might adapt massively to having, like, changing children all the time.

W2: Yes, and you have got loads of kids around you all the time.

W3: Yes.

Parents of children aged 0–2 years, Derby

Woman 1: I would still say nursery as a standard.

Researcher: Right, why is that?

W2: Because you go somewhere and you get a feel of somewhere, somebody might like somewhere, someone might not, you know you might think, oh I don't like the set up here, so it is not just about always what is the cheapest, it is what you feel...

W3: You have to have peace of mind.

W2: You have to feel comfortable, yes.

W4: I think personally as well if you're going to a pre-school your child then had that...

W3: Pre-school...

W4: Yes they get used to being in a school environment, whereas if you are in a childminder's home it is the same... you know not the same as being at home but it is still a home environment, and all of a sudden you're throwing them into school, they are like, 'OK, what has happened?'.

W3: The transition.

W4: I think to help transition, I think nursery and pre-school is better.

Parents of pre-school aged children, Loughborough

Childcare costs in MIS have risen substantially as a result of this change (although note that these costs are reported separately, so they do not affect the core budgets, or the analysis of how many households have too low disposable income, after housing and childcare costs, to afford the standard) From 2017,

the extension of free childcare for three and four year-olds to 30 hours for working parents will change these costs again.

Clothing

Clothing is a component of the budgets that has stayed relatively unchanged over time. Groups list clothing items required for each individual and how often these would need to be replaced, bearing in mind the quality of clothing likely to be available from the retailers they have specified. Lists include:

- underwear and hosiery;
- nightwear;
- daywear – including smart and casual clothes for adults, and school uniform for primary and secondary school aged children;
- swim gear and sportswear;
- footwear;
- outerwear; and
- accessories (gloves, hats, scarves, etc.).

In 2016, groups specified similar quantities and qualities of items as previously, saying that inexpensive clothing from supermarkets and retailers like Primark and Matalan were acceptable, but that these would not be especially durable so they would be replaced yearly, or more frequently for young children who grow out of clothing more rapidly. The secondary school child's budget for clothing increased in 2016, chiefly through the inclusion of more school uniform that had to be priced at school stockists, rather than being able to buy generic versions from supermarkets. This continues to be a trend over time, where parents in successive waves of the research have reported that more branded uniform is compulsory, particularly for secondary school aged children. A similar trend was observed in the discussion groups held in the MIS for London study (Padley *et al.*, 2015), where parents talked about the increasing prevalence of schools becoming academies. When this takes place, parents reported that schools often change their uniform and logo, and there is an expectation that parents will provide more 'branded' uniform items as part of the school's visual identity. This clothing tends to be more expensive than the generic uniform that had been specified in previous years. Parents included Clarks' shoes for all children, as they said it was important for children to have properly fitted footwear as they grew.

Personal goods and services

The contents of this component of the budgets, referring to toiletries, health-related items and hairdressing services, have stayed very similar over time. Lone parents' budgets include the cost of three prescription items a year, with five between them for a couple. Costs for regular check-ups and one treatment a year at the dentist are included as before. MIS groups considered requiring glasses to be a common enough need to be included as part of the minimum. Optical care costs comprise an eye test every two years and £100 every other year for new glasses for each adult, to take account of changing prescriptions. This is a higher amount than previously because groups said that when matching frames to a prescription lens, the cheapest frames may not be suitable.

Hairdressing costs have increased for parents, but for the secondary school child, the amount allocated has decreased to provide a dry cut only, rather than a cut and blow dry. For the teenage girl in the case study, parents said she would either have to borrow her mother's inexpensive straighteners and hairdryer, or receive them as a birthday or Christmas present. In the review, working-age males said that the cost of hairdressing had increased since 2014. Groups agreed that men now needed £10, rather than £8, every five weeks. Groups included a nit comb and two bottles of head lice treatment a year per child for households with pre-schoolers and primary school children, to be used in conjunction with hair conditioner and tea tree oil. Other home remedies and first aid treatments, for example calamine lotion, witch hazel, plasters, and adult- and child-appropriate pain relief were included for the family medicine cabinet. For the younger children, parents included a changing mat and bag, nappies, wipes, nappy cream,

moisturiser and hand sanitiser gel – a travel-sized bottle for the changing bag and a larger one for the home. Secondary school children's budgets included medicated skin products to help with spot-prone skin, but any cosmetics other than a basic foundation and concealer would have to be paid for by the child from their pocket money.

Groups specified disposable razors for men, women and secondary school children, and budgets included £25 a year for perfume or aftershave – groups said that this budget would enable people to have some scent to wear for special occasions, or a less expensive brand for everyday use. This is less than in 2012, where mothers included £30 a year and fathers had a budget of £25 for a bottle of aftershave every six months. Mothers also included £10 a month for cosmetics and skincare products, which is the same as in 2012.

Food

Groups were asked to describe the pattern and content of a minimum food budget for a typical week, for each household member under discussion. These lists were then compiled into menus by the nutritionist and checked for nutritional adequacy. Any changes suggested by the nutritionist following this analysis were discussed by the following wave of groups, to check that they were acceptable.

The kind of meals and menus described by groups tends to be quite similar in each iteration of MIS. Generally, the pattern is for three meals a day, with small snacks and drinks in between. In 2016 there was more emphasis on a budget that allowed people to buy fresh ingredients so that they could cook meals from scratch. Opinion was divided as to whether this would prove to be more or less expensive than buying pre-prepared meals and/or processed food. After much discussion, consensus was reached that menus should reflect a balanced approach, to take into account both health and convenience. Groups agreed that people need to be able to cook meals from scratch if they choose to, and demonstrated an awareness of potential health benefits from doing so.

Woman 1: I don't think that's realistic, not to cost it as buying it all from scratch because it just costs too much. You can buy a jar of spaghetti bolognese sauce for a quid, can't you, and then you just need your mince. To buy everything else you want your tomatoes, your herbs, your – everything, don't you, and that's not realistic. People don't do that every day, do they?

W2: If the budget included the amount that you would need to, if you did cook, not so much your pasta sauce though, I understand that, it's not much different from making it from scratch, but it should be a decent quality of mince that isn't the cheap stuff with loads of fat in it, and then it's like anything else, you would have a choice to spend your budget on other stuff.

W3: But if you buy in bulk then you can. I do my shop fortnightly, and I buy my herbs and everything then, so I don't have to keep buying every day or once a week. Bolognese, my girls love it so I do it like twice a week and I can budget that with my fortnightly money.

Lone parents, Loughborough

Man 1: On that [food] I think we have to look at the realistic side of things as to what real life dictates as opposed to ideally [what] we should dictate.

Woman 1: It is a bit of both really, isn't it?

M1: It is a bit of both, yes. Wherever possible a responsible parent at least will try and feed them as healthy as possible, but they've also got time constraints with everything else.

W2: I think healthy eating could be really expensive.

M1: So it's not necessarily our choice that they're always given junk food. They'll want to give them junk food occasionally because it's like a treat, but it's not necessarily, it's not something that they'd want to do all the time, but sometimes.

Researcher: It happens.

M1: Life gets in the way.

Parents of pre-school children, Northampton

As in previous years, groups agreed that food and drink should be priced at one store. They said that although some families might choose to buy different items from different stores in order to get the best value, this takes additional time and resources, and is not a realistic expectation for all families with children.

Up to 2012, the pricing of food ignored discounts, based on groups' original arguments that a temporary offer at the time of pricing may not be sustained. However, discounting has become so widespread that since 2014, groups have agreed that food items in MIS should take account of any reduction that happens to be available at the time an item is priced. The research team informed this decision by comparing discounts applied to a common basket of goods over successive months, finding that the combined effect on the basket was to reduce it by a similar small amount on each occasion. This method was applied for families with children for the first time in 2016. Bulk buy deals and offers including 'buy one get one free' were also included, since groups said that these would be used as part of normal shopping patterns.

Social and cultural participation

Parents consistently emphasise the importance of social and cultural participation in order to feel part of society, and in particular to enable their children to grow up feeling included and learning social skills. This section of the budgets relates to social and cultural participation inside and outside the home, for individuals and families. It includes several elements:

- home entertainment (TV, laptop, internet access);
- presents and celebrations;
- toys and pocket money;
- leisure activities (including eating out – although this is included in the food and drink component in the table of MIS results); and
- holidays.

In this section, some items are specified by groups as cash sums, since certain activities such as eating out or buying a birthday present cannot be defined in terms of buying a specific, priceable item. The lump sums serve to represent the overall value of goods and services considered a reasonable minimum for these categories.

Home entertainment

Parents included similar items to previous years. Like the working-age groups held in 2014, they included a 32-inch digital television with built-in Freeview (larger than the 26-inch one thought to be a standard size in 2012). Cable and satellite subscriptions were still considered a 'nice to have' option and therefore were not included. DVD players were considered almost obsolete by some, and it was suggested that if necessary, the family laptop could be connected to the television via a cable and DVDs played in that way. However, this meant that both devices would be in use for one task, which was considered impractical because it meant that if someone wanted to watch a DVD, no one would be able to use the laptop at the same time. A DVD player was thought to be sufficiently inexpensive for it to be a useful item for the home, and although there were discussions about downloading media using other platforms, groups were not prepared to include either the necessary technology (e.g. a PlayStation or Xbox) or money for subscription services (e.g. for Netflix or Amazon Prime) as a standard item.

Similar discussions with working-age groups in 2016 reached a different conclusion. They removed the DVD player and the radio as it was agreed that the content available via these channels could be accessed in other ways. This reflected a view that technology had moved on, and the combination of the TV with Freeview and a laptop made it possible to watch movies and listen to music.

I don't think you need it, you can watch it on your laptop and you can stream radio channels on there, anything. So as technology has moved on, you probably don't need that any more.

Although it was agreed that the DVD player and radio were no longer needed, it was necessary to maintain the ability to be able to watch content on a larger screen than the laptop provides, for example when inviting friends round to watch a film. Groups therefore agreed the inclusion of an HDMI cable allowing the laptop to be connected to the TV.

Parents included a printer, paper and ink cartridges for households with secondary school aged children because of an increasing emphasis on homework involving internet use that necessitated printing out assignments. A group held to look at larger households said that where there were two or more secondary school aged children, a second device, either an additional cheap laptop or a tablet, would be required. They also included the cost of Microsoft Office software so that children would be able to access the programs they needed for doing their homework, as the free versions' limited functionality was not sufficient.

In 2014, pensioners agreed that older people were disadvantaged if they did not have access to the internet within their own homes, and consequently included a computer and internet access. This decision was confirmed by pensioners in the review groups this year, but there was also discussion about the need for a printer within the home, something that up to 2016 only households with children were thought to need. Pensioner groups stressed the role that a printer played in enabling individuals and couples to participate in society:

I think most people who are retired now have an interest of some sort, they don't just retire now and do nothing, sit at home read a book. We're all encouraged to do far more with our lives and to involve ourselves with other people or organisations, and to do that you probably do need these resources... It harks back to the phrase on the wall, it's about having what you need in order to have the opportunities and choices necessary to participate in society. If you didn't have a printer you'd be a bit limited.

Female pensioner, Northampton

Man: If you're going to participate in society you need a printer because people are going to email you stuff and all sorts of things.

Woman: Yes, you can still get emails without having a printer though.

M: Yes, but you're then going to go to a meeting, you're participating in society, you need to print it off.

Pensioners, Derby

Pensioner groups agreed to include a cheap printer, paper and replacement ink every six months.

Presents and celebrations

Partnered parents devised the same model for present giving as groups in 2012. Groups said that couples would need to be able to give the equivalent of one birthday present a month, so 12 in total, plus one for each partner, and would also buy a corresponding number of Christmas presents. For lone parents this was halved, so six presents of each type a year because there was only one adult in the household, so a smaller family and social circle. In 2016, groups allocated a budget of £20 per person for birthdays (this is on average – in practice, gifts for some people might cost more and for others, less), and £15 per person for Christmas, to include all cards and wrapping. They said it was easier to buy Christmas cards and wrapping paper cheaply in bulk, whereas birthday cards and paper tended to be bought separately throughout the year. The present budget is an increase from the £10 per person plus cards and wrapping for birthdays and Christmas presents in the 2012 rebase, but similar to the £15 per person specified by working-age adults without children in 2014, which were confirmed by 2016 review groups. The pensioner review groups agreed that the present budget should remain at £10 per present with extra for wrapping and cards, for 12 people for each household (i.e. the same for couples as singles), for both birthdays and Christmas.

The budget for gifts for children increased across all age groups. The birthdays budget included presents, card and wrapping, and a small celebration, for example a birthday tea at home for the youngest children, whose budget increased from £27 to £50. Parents included £50 for pre-schoolers and primary school

aged children to have a birthday party at home, and an additional £55 and £80 respectively for presents, wrapping and birthday card. This compares to £80 for both party and presents for the pre-school child in 2012, with £50 of this being for the party and £30 for the present, card and wrapping, and £100 for the primary school child (£50 party, £50 present). Secondary school aged pupils in 2012 and 2016 were allocated £60 for a birthday outing with two or three friends, with the present budget increasing from £75 to £100.

Parents in 2016 still thought it was important for children to be able to attend their friends' birthday parties, but this was limited to five times a year for pre-schoolers and primary school children only, with a budget of £10 each time. In 2012 the budget for this included toddlers going to five parties a year, pre-school children to six parties (both spending £6 each time on a present and card) and primary school children to 12 parties a year, spending £7 each time. Secondary school children in 2016 were allocated £30 to enable them to give three friends a £10 birthday present each, whereas parents in 2012 said this would have to come from their pocket money.

For the most part, children's Christmas present budgets also increased in 2016. For children aged 0–2 years the budget went from £12 total for a present (£10) and wrapping and a card (£2) in 2012, to £50 including an advent calendar, stocking and stocking presents, wrapping, card and gifts in 2016. For pre-school children the amount was £75 in 2012 for gifts only, and £100 in 2016, which included the same items as for the toddler and a trip to see Santa. The amount allocated for Christmas gifts for the primary school child was the highest present budget for children in 2012, and the only one that stayed the same in 2016 (£100). Secondary school children's budgets included £75 for Christmas presents in 2012, compared with £150 in 2016. This was based on an idea that there would be a similar level of expenditure on birthdays (£142 including birthday outing and presents for child, gifts and cards for three friends so s/he could attend their parties/outings, plus wrapping and cards) as Christmas. Parents also said that presents for older children tended to be more expensive, so thought that this amount was realistic. Primary school children were allocated an extra £5 for a Christmas present for their teacher, reduced from £10 in 2012.

In 2016 people still felt it was important to be able to celebrate the festive season with some treats at home, by offering hospitality, and being able to contribute by taking food or drink when visiting others. As in previous years, there was agreement that some food (particularly turkey) would be more expensive to buy than its equivalent item in the normal, weekly food shopping basket. However, meeting these additional seasonal needs could be achieved relatively inexpensively. For a couple plus two children, the budget for additional Christmas food in 2016 was £25, compared to £40 in 2012.

Pocket money, toys and other expenditure

In 2016 secondary school aged children were allocated £5 per week pocket money, with an additional £5 once a month to be able to get something to eat when out with friends. This is effectively a reduction in the secondary school child's budget. Parents have not increased this amount since the research began in 2008, and while the amount for eating out with friends has also stayed the same since then, the frequency has decreased from fortnightly to monthly from 2012 to 2016. Budgets for pre-schoolers and primary school aged children included £5 a month, to cover rewards and treats. They said that this could be used to provide pocket money for older primary school children, to help them learn about money and savings.

In 2012 parents allocated £50 a year per child for toys, games and craft materials for toddlers, and £10 a month for any household with one or more pre-school children (i.e. the £10 was per household, not per child). Primary school children had £10 a month per child to cover any crafts, books, toys and games. In 2016 parents allocated £20 per quarter for each child under secondary school age, to cover all expenditure on indoor and outdoor toys (and any batteries required for these), games, books and craft materials. So for toddlers, the budget has increased from £50 to £80 a year, pre-school children now get £80 a year per child, rather than £120 for the household, and primary school children get £140 each (£80 for toys plus £60 treats or pocket money), compared to £120.

Leisure activities

For adults, groups agreed that it was important to be able to socialise with others outside the home. Partnered parents included £20 to cover two activities a week between them, so one each (e.g. swimming, darts, cricket, football or an occasional cinema trip) plus £30 a month for a 'date night' for the couple, in order for them to have some time together without the children. This was a reduction in frequency from 2012, where the couple had had a budget for three weekly activities between them, rather than two, but an increase in price as the three activities in 2012 were thought to cost £5 each, whereas in 2016 they were £10 each.

Lone parents' budgets included two activities a week, such as going to an exercise class, visiting friends or attending a book club. Groups said that it was reasonable for a partnered parent to only go out once each week, whereas a single parent might need two opportunities to socialise a week as they did not have other adult company at home.

School aged children's budgets increased, from £277.50 and £200 per year for primary and secondary school children, respectively, to £480 per year for either (i.e. £10 a week for 48 weeks out of 52). Parents said that there was a greater emphasis on the need for children to exercise, and a wider range of activities being offered both in and out of school. Parents also said that more activities are available all year round, rather than only during term time, so the children's leisure budgets needed to reflect this. As discussed further below, parents appear to be putting greater emphasis on children's participation in such activities as helpful for their development.

Eating out was still seen as something that all families should be able to do. In 2008 this was included as a monthly activity, but in 2012, in the midst of a recession, there was a great deal of debate about its inclusion, with parents eventually agreeing it should be included once a quarter, on a modest budget: £15 per head for adults and secondary school aged children, £5 for primary school and pre-school aged children, and no additional money for toddlers, who would share parents' meals rather than having their own.

In 2016, with parents still conscious of tough economic times, there were similar debates that reached the same conclusion on frequency (i.e. four times a year). However, these groups felt that rather than something that could be economised on as far as possible, an occasional meal out should be a celebration and allow people a greater degree of choice than in everyday living. They set a budget to allow for two courses and two drinks per head, and allocated £25 per adult and secondary school child, £15 for primary school children, £7 for pre-school children and £3 for 0–2 year-olds, who would still share their parents' main course but could have their own pudding.

In 2012, parents said that if additional money were required for extra food and drink at Christmas time, this would replace one of the meals out. In 2016, parents included enough to go out to eat four times a year as well as extra money for seasonal food and drink; but at £25, this extra amount was only the equivalent of one adult eating out in a 'celebratory' meal, rather than the cost for a whole family. Despite having increased the budget for eating out in order to reflect the special occasion, groups in 2016 thought that buying extra groceries at Christmas could be done reasonably economically without people feeling that they were not able to participate fully in a festive meal.

In 2014, working-age groups agreed that people should be able to eat out as an occasional treat, for example a pub lunch or a meal at an inexpensive chain (such as Nando's) and allocated £7.50 per person, per month for this. In 2016 the frequency of eating out remained unchanged in working-age review groups, but groups agreed that the cost of eating out had increased since 2014. They increased the amount allocated to eating out from £7.50 to £15 a month, which also reflected the fact that groups felt that people needed to have a wider range of choices when eating out. This difference in perspectives between parents and working-age adults without children about the frequency of eating out and the nature of the meal has been similar over time. For the former, it is something to be enjoyed occasionally – a special occasion that justifies a higher level of choice than more routine socialising – whereas for the latter, it is seen as something that people should be able to do relatively regularly, but for a modest cost.

Pensioner eating-out budgets and patterns remained unchanged in the 2016 review, with both singles and couples eating out fortnightly, at a cost of £10 per head, with a weekly or fortnightly takeaway for singles and couples respectively, budgeted at £6 a head.

Holidays

As in every wave of MIS research, groups in 2016 said that families needed to be able to get away from home once a year in the UK, as a chance to spend time together and have a break from the pressures of everyday life. The kind of holiday they specified was seven nights in self-catering accommodation at a facility where there would be some entertainment included, for example a Haven or Butlins site. A modest amount of spending money was included per person to cover souvenirs, postcards, ice creams, buckets and spades, and donkey rides for the younger children. The allowance for secondary school children was slightly higher, as they were more likely to want to do things independently of the family, and more activities would be available for them (some of which might be an additional cost). The holidays for families with very young children include the hire of a travel cot and high chair.

Woman 1: My holiday is summer and because we work, if I don't get a holiday then I just think why should we go to work every single day and not benefit from it?

Man 1: That's all I think about is my holiday.

W2: You all need a break, yes.

Parents, Loughborough

The review groups agreed that the holidays described in 2014 were still acceptable as a minimum in 2016. For working-age adults this was a self-catering holiday in the UK travelling by coach, and for pensioners this comprised a long weekend or midweek break and a one-week break in the summer, which were both coach package holidays incorporating half-board accommodation, some entertainment and day trips.

Transport

As in 2012, parents said that households with children needed a car in order to meet their transport needs, but in partnered households this would be a shared resource, with one partner using the car and the other using a weekly bus pass.

Researcher: So what would happen if [the father] couldn't have the car? Why is a car the answer?

Man 1: Shopping, school, taking kids to the doctors, emergencies.

M2: Work.

M1: Travelling to and from work, picking the kids up.

Researcher: You mention the kids quite a lot in there. Is there something about being a father particularly that means a car is important, or is this the same for a working-age man without kids?

M1: Basically if you don't have a car, or if you have to take [your children] to hospital or doctors, you can't just rely on ringing the ambulance or waiting for a taxi firm to bring you a car. You need to have transport to take them.

M3: I think it's opportunities to get to work because you may well need your car for work as well.

M4: I think he needs a car for all the reasons that have just been stated really, around the children and working, obviously not always but mostly.

M1: A car is more like, it's like having a house, that's how important it is to have a car now.

M2: It's the cost of it as well, isn't it? I mean public transport I don't think is cost effective.

M5: No, it isn't.

M2: If there's more than one of you.

M1: Say there's you, your wife and three little kids, you go out shopping, you've got public transport and you've got shopping bags, you've got kids to look after, public transport won't cut it.

Fathers, Derby

Motoring costs have decreased recently, as fuel prices have come down; conversely, public transport fares have increased. Parents in 2016 agreed to include £15 a month to cover additional transport costs – for example, for an emergency taxi if the parent with the car was not available, or to pay for parking. Groups included a second-hand bike for each adult, mostly for recreational use rather than as a main source of transport, and school aged children's budgets included safety equipment (helmet, high visibility bib, etc.) for cycling. As before though, parents said that the bike itself would be a present, rather than an item that was routinely provided.

Parents also included more mileage than in 2012 for travelling to work (ten miles each way rather than five) because they said in order to have sufficient employment opportunities, people needed to be able to travel further. Sometimes this was related to employers relocating, sometimes to other changes in local employment situations. It was also suggested that housing options have become highly constrained in many cases, making it harder to move house in order to be near work, so people need to be prepared to travel further.

In the 2016 review pensioner groups said that taxi fares had increased over time and that, as a consequence, the £10 weekly taxi budget agreed in 2014 needed to increase to £12 a week. Taxis were still thought to be needed in a variety of situations, for example to enable pensioners to bring home heavy or bulky shopping, to get home from an evening social engagement, or to get to an early morning hospital appointment on time.

Overall patterns in 2016 compared to previous years

A central question that MIS seeks to ask is, what is influencing minimum budgets over time? Overall, since the first study in 2008, the content of baskets has been largely stable. However, the following broad influences appear to have had some impact on overall costs:

- **Approaches to meeting the minimum in a more austere world:** since 2008, the theme of 'austerity' has persisted in the public consciousness, referring both to the drop in general living standards in the recession, from which recovery has been slow and limited, and to severe cutbacks in public spending. In MIS this has not, in general terms, led to households saying they should put up with a lower standard than was accepted as a minimum in 2008. There have been some exceptions to this, notably the acceptance that larger families have to live with smaller accommodation in the context of a social housing model, and that eating out as a family, while still essential, can be more occasional than specified in 2008.

In a wider range of contexts, however, groups appear to be more inclined as time goes on to seek more 'economical' ways of meeting the same standard where possible. Thus, they have become more open to: the benefits of shopping around and using the internet to make price comparisons; making greater use of 'deals' in food shopping; and taking advantage of discounts and vouchers when planning family day trips. This is by no means a clear-cut attitude, and groups continue to consider carefully whether such economies could unduly restrict choice. In some instances, there has been some relaxation of more careful spending introduced in 2012 – such as the retention of a more occasional pattern of family meals out, but balancing this pattern with the treatment of such meals as more of a special occasion, reflected in more spending per meal. In general, however, it is now clear that in a world where budgets are often tight, there is greater emphasis on meeting needs economically than there was in 2008.

- **Meeting the same needs in a changed environment:** as the world changes, the things that people require to meet their needs do, too. The obvious example is in technology, with each new wave of research identifying changes in the items families need to communicate and function in society. These changing technologies, however, have not had a big effect on overall budgets, since the introduction of new items is largely offset by falling costs as technology advances (so for example, moving from desktop to laptop computers did not make computing more expensive).

On the other hand, there have been changes in the external environment that have contributed to increases in the cost of transport. Perceived reductions in the quality and reliability of public

transport have caused groups to specify greater use of alternatives – occasional taxis for those without children and, since 2012, cars for families with children. A further change in 2016 is the increase in the mileage required to allow reasonable choices and opportunities, especially in terms of accessing work. An interesting rationale for this is that it has become harder to move closer to where you work, which can be linked to limited housing options, whether for those seeking a transfer in a shrinking social sector or those having to operate in a tight private market.

- **Prioritising the needs of children:** throughout the MIS research, parents have emphasised the importance of meeting children's needs and providing a childhood that enables them to thrive, develop and feel socially included. This is expressed through the inclusion of items that ensure they get a healthy diet, participate in social activities, are able to engage in opportunities for education, and develop life skills. This is reflected in wider analysis of the overall rationales for the inclusion of items as a minimum by Davis *et al* (2015), who draw attention to the importance of 'development and opportunity'. Parents are not willing to compromise on meeting needs that will affect their children's futures.

In 2016, there were several ways in which budgets changed as a consequence of putting emphasis on these needs. For the youngest children, the specification that children should have access to nurseries and not just childminders appeared to reflect a widely accepted view that early years' development is important, mirrored by government policy in the form of a prospective increase to 30 hours in the early years' entitlement for working families. Parents said that a more structured (i.e. nursery-type) environment could ease children's transition into education and help with their socialisation.

The adoption of a higher budget for out-of-school activities has also been justified in these terms. Not only are they seen as important for developing children's social skills, but also as a means of maintaining children's health by promoting and encouraging the benefits of physical exercise and preventing childhood obesity. Discussions about parents preparing more food rather than buying ready meals referred back to the importance of providing a healthy diet.

Parents clearly feel that they need to support their children's development, and this gives rise to particular requirements on which they are reluctant to compromise in the name of economy. The inclusion of a toy budget is to enable parents to provide age-appropriate items that are changed over time. Birthday and Christmas budgets are set to allow children to attend friends' birthday parties, and to have celebrations themselves. Holidays and day trips are seen as important, not just as an opportunity for the family to spend time together, but also as a means of providing new experiences for the children and expanding their horizons. Children's activities are seen as important for them to keep active, and to establish and maintain friendships and offer them opportunities to develop new skills. The overall impression is that the priority is to provide and maintain a standard of living that protects children from the effects of austerity, and promotes a healthy and happy childhood, while still operating within a constrained budget. Where economies can be made, through accessing deals or shopping around online, parents are keen to make the most of their money, but where children's lives are concerned there are certain corners that people feel can't be cut without compromising their standard of living.

- **Overall impact on cost of MIS baskets:** when researching household budgets from scratch, it is often difficult to identify the precise financial impact of any one change, since new lists may be structured differently rather than simply having items added or subtracted. Looking more generally at the cost of budgets by category, it is notable that other than for childcare, the net effects of the above changes have been small. The largest identifiable changes between 2015 and 2016 for a couple with children have been a £7 a week reduction in fuel costs, based mainly on switching to a cheaper supplier, and a £10 fall in social and cultural participation, which in 2016 was closer to the 2012 level than to the 2015 level uprated with inflation in leisure services: parents have not necessarily specified higher minimum spending on certain items as general prices increase. These changes are small compared to a total weekly budget, after rent and childcare, of £469. Childcare costs have risen much more – by £63 a week for a family with a pre-school and primary school child requiring full-time cover – mainly because of the use of nurseries rather than childminders. Note, however, that the net cost of this to a family on tax credits is £19 and on UC £9, since 70% and 85% respectively is reimbursable through those credits.

- **Inflation rates and the cost of MIS:** over and above any changes in the contents of the MIS baskets, price changes are important in determining their cost. General inflation does not always provide an accurate guide. In the early years of MIS, inflation was higher than average for some types of goods, such as food, that comprise a larger proportion of minimum budgets than overall household spending, on which price indices are based. This caused MIS inflation to be higher than general inflation. Furthermore, even within a category of spending such as clothing or food, indices may not accurately reflect changes in the cost of essentials. This is why a full re-pricing of each budget every four years is important, in order to see how the actual cost of a basket of essentials is changing, rather than relying on general indices.

In 2016, the overall influence of rising food prices noted in previous years has gone into reverse. Food prices generally have fallen – by a cumulative 6% since their peak in early 2014, according to the Consumer Prices index (CPI) – while general prices have remained stable. Since food comprises a greater share of a minimum basket of goods and services as represented by MIS than a general basket represented by inflation indices, this creates the scope for overall deflation, although so far increases in certain other costs such as water, council tax and leisure have prevented overall deflation in MIS budgets.

A further point to note about prices is that different indices of clothing prices have varied greatly, with the RPI showing rapid clothing price inflation at times when the CPI showed almost none at all. This is partly because the task of estimating price changes consistently when product lines change frequently is problematic, with different methods producing very different results (Hirsch, 2015a). In 2016, the MIS team investigated how clothing prices have changed in terms of a costed minimum basket. It found that a re-costed 2014 basket for working-age adults without children had risen 5%, and for pensioners 8%, compared to almost no change in the CPI for clothing and 14% for the RPI – putting the re-costing approximately halfway between these two figures. A more limited re-costing of a set of children's clothing items that remained the same in the 2012 and 2016 rebases also suggests actual clothing inflation is in between the RPI and CPI (the costed items were 22% more expensive, compared to a 1% increase in the CPI and 31% in the RPI).

These comparisons confirm the hypothesis that neither the CPI nor RPI gives a satisfactory account of actual change in a minimum clothing budget (unlike in other areas, where re-pricing has overall produced similar figures to what the RPI would have predicted). The use of the RPI to estimate change in clothing prices between re-costings has exaggerated increases, meaning that the re-priced children's clothing budgets are significantly lower in 2016 than those shown (based on three years of RPI uprating) for 2015. Re-pricing every two years and using an uprating figure halfway between the RPI and CPI in the alternate year will, on past indications, greatly reduce these fluctuations in future. There could also be a case for re-pricing clothing every year, but a risk here would be that incidental annual fluctuations in the actual cost of the clothes priced would create no greater accuracy. (An initial test in the first year of uprating MIS suggested that annual re-pricing is undesirable for this reason: Hirsch *et al.*, 2009.) On this basis, clothing will, in future, be re-priced in all budgets every even-numbered year, with interim inflation-based estimates in odd-numbered years, assuming that prices have risen by the average of the RPI and CPI clothing inflation.

3 Income requirements and comparison with benefits, wages and the poverty line

Table 2 brings together the results of the research reported in the previous chapter, summarising the MIS budgets for 2016 for four household types. More detailed results are shown in the online Minimum Income Calculator (CRSP, 2016a), 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 11 different household types over time are also available online (CRSP, 2016b). In addition, the Appendix to this report gives totals for 11 household types and summarises what has happened to MIS budgets and income requirements since the first results in 2008.

Table 2: Summaries of MIS for four family types, April 2016

£ per week	Single, working age	Couple, pensioner	Couple, two children (one aged 2–4; one primary school age)	Lone parent, one child (aged 0–1)
Food	44.72	71.99	100.96	56.85
Alcohol	4.89	7.81	9.01	4.31
Tobacco	0.00	0.00	0.00	0.00
Clothing	7.12	12.37	44.05	22.54
Water rates	5.67	6.69	9.87	9.39
Council tax	15.19	20.25	23.62	17.72
Household insurances	1.21	1.63	1.99	1.66
Fuel	15.96	17.16	17.67	14.73
Other housing costs	1.95	1.95	1.92	1.92
Household goods	12.19	16.09	25.05	20.35
Household services	2.96	7.75	12.45	17.27
Childcare*	0.00	0.00	228.41	211.03
Personal goods and services	14.00	32.62	39.09	26.41
Motoring	0.00	0.00	55.45	51.51
Other travel costs	26.89	13.07	21.86	3.78
Social and cultural participation	46.11	58.00	92.90	49.15
Rent	87.68	85.83	91.97	85.83
'Headline' total – excluding rent and childcare	198.85	267.39	455.90	297.59
Total including rent and childcare*	286.53	353.21	776.28	594.45
Total excluding: rent, council tax, childcare (comparable to out-of-work benefits)	185.94	247.14	435.83	282.53
rent, council tax, childcare* and water rates (comparable with after housing costs in HBAI**)	177.99	240.45	422.41	270.48
council tax, childcare* (comparable with before housing costs in HBAI**)	271.34	332.96	524.25	365.70

Notes:

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

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

Changes in budgets in 2016

The 'headline budgets' for a single person and for a pensioner couple shown in Table 2 have changed little since 2015 (each is about 1% higher). The budget for a couple with two children has fallen by about 6%, partly because of falling food, home energy and petrol prices, and partly because of the rebase adjustment that has overall created a slightly more economical budget, as described at the end of Chapter 2. However, for a lone parent with one child, these savings have been outweighed by an increase in motoring costs related to having to travel further to work (also explained in Chapter 2), which weighs relatively more heavily on a smaller family.

The rents shown in Table 2 are for the PRS in the case of a single person, and these rose only very modestly outside London in 2016 (by about 2%). Social rents, as shown for the other three categories, are now falling, with the new government policy of reducing social rents by 1% each year. Childcare costs have increased only very slightly, but the new model of childcare adopted in the rebase, as described in Chapter 2, has caused the MIS childcare budgets to be significantly higher than in 2015, and comparisons over time of MIS results that include childcare need to take this into account.

Chapter 4 looks at longer-term trends in MIS budgets.

Comparison with benefits

Table 3 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 55–60% 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 98% of the budget.

Table 3: MIS compared with out-of-work benefits, April 2016

£ per week	Single, working age	Couple, pensioner	Couple, two children	Lone parent, one child
MIS excluding rent, 85% of council tax* and childcare	185.94	247.14	435.83	282.53
Income Support**/Pension Credit	73.10	241.39	266.08	157.43
Difference (negative number shows shortfall)	-112.84	-5.75	-169.75	-125.10
Benefit income as percentage of MIS	39%	98%	61%	56%

Notes:

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

**Including Child Benefit and Child Tax Credit, and Winter Fuel Allowance.

There has been a long-term decline in the adequacy of benefits relative to MIS requirements (see Appendix, Table 10). This has been influenced by low or zero uprating of benefits, while the cost of a minimum budget has risen. In 2016, a further influence was an overall decline in the percentage of council tax assumed to be covered by Council Tax Support, based on the evidence of prevailing council practices (New Policy Institute, 2016). For single people and lone parents, there was a further slight decline in benefit adequacy in 2016. On the other hand, for couples with children whose budgets excluding childcare fell with the 2016 rebase, benefits as a percentage of MIS rose from 57% to 61%. Over the years until the next family rebase in 2020, current policies are likely to produce a further decline if there is any inflation, as benefits have been frozen at least until 2019. Furthermore, in 2017, new claimants will lose the family element of Child Tax Credit, worth £10.45 per week, equivalent to 2.4% of a minimum budget for a couple with two children and 3.7% of the minimum for a lone parent with one

child. Larger families with a third or subsequent child born from 2017 onwards will get no additional tax credits or UC for those children, a sharp reduction in entitlements.

Pensioner benefits continue to provide incomes close to the MIS level. Pension Credit, like the state pension, is guaranteed to rise at least in line with the higher of prices and earnings. While there has been little real earnings growth in recent years, a temporary pickup in the rate around September 2015, the month on which 2016 pension upratings are based, caused a 2.9% increase in Pension Credit, at a time when inflation remains close to zero. This has slightly improved minimum incomes for pensioners relative to MIS. The Office for Budget Responsibility forecasts a further 8% real growth in earnings by 2020, which could cause a similar increase in the value of pensioner benefits relative to MIS.

One significant change in 2016 with respect to pensioners' ability to reach MIS is that for new pensioners, the savings element of the Pension Credit has been abolished. What this means is that the more severe form of means testing that existed before Pension Credit was introduced is being restored. Under this revived system, people over pension age with income below a guaranteed level get their incomes topped up to exactly this level. This means that additional income below the guarantee level is withdrawn pound for pound in reduced Pension Credit, rather than by 40p in every pound under the Saving Credit that existed from April 2003 to March 2016. Its abolition means, for example, that a pensioner couple with only the couple's basic state pension of £191.46 a week will have their pension income topped up by £46.09 to £237.55, and on that basis will fall less than £6 short of MIS, once the winter fuel allowance is included. However, any private pension up to £46.09 a week will not increase their income, and they will need about £55 a week of private pension in total before the small gap with MIS is closed. The consequence is that the poorest pensioners who claim their entitlements are able to enjoy close to a minimum income if they have no additional costs, which is in great contrast to the poorest households of working age. However, the scope for them to improve on that position, for example to cover additional heating bills that are above the minimum level assumed in MIS (which assumes a small, energy efficient home), has been reduced as a result of the abolition of the Savings Credit.

Note also that the main MIS figures in this report and in the online calculator show the situation for new claimants only, where this is different from existing ones. Such a distinction will become more important in the coming years as a number of benefit and UC changes give transitional protections. MIS data always show the situation that is being created, reflecting the direction of current policy, even where beneficiaries of a legacy system are being protected.

Comparison with the poverty line

The most common publicly used poverty measure uses a 'poverty line' of 60% of median household income. In order to compare this with the minimum required for a socially acceptable living standard, Table 4 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, 2015), which is for 2013/14, and compares it with the average of the 2013 and 2014 MIS budgets.

Table 4: MIS compared with median income 2013/2014

£ per week	Single, working age	Couple, pensioner	Couple, two children	Lone parent, one child
Before housing costs: median income 2011/12	304	453	634	394
MIS excluding childcare and council tax	262	316	543	354
MIS as percentage of median	86%	70%	86%	90%
After housing costs: median income 2011/12	224	386	540	301
MIS excluding childcare, council tax, water rates and rent	178	226	445	262
MIS as percentage of median	79%	59%	82%	87%

Notes:

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).

'Housing costs' in income distribution data used in this table refer to rent/mortgage and water bills, which are deducted from income to calculate 'after housing costs' income.

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 rents actually available to various households in different locations can vary so greatly.

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% median, because most pensioners live in houses rather than flats as assumed for the minimum, and this imposes extra expense such as higher heating costs.

In recent years, the percentages of median income required for MIS have grown significantly (See Appendix, Table 11). This is because the MIS level has largely maintained and, in some cases, increased its value in a period when median incomes have shrunk in real terms. An offsetting influence is that the rebasing of MIS has created some reduction in the size of budgets, relative to average prices, for working-age households, both in the 2014 rebase for those without children and in the 2016 rebase for couples with children. These results are only just starting to feed into the income distribution figures (which are produced with a two year time lag), and in those shown in Table 4, there has been a fall for the first time in the percentage of median income represented by MIS for single people, after housing costs.

Comparison with incomes on the NLW

Previous MIS reports have noted that few families can expect to reach a minimum income as defined by MIS as a result of having one person working full time on the National Minimum Wage. This helps explain why the government introduced a NLW in 2016, bringing an unprecedented boost to the compulsory minimum for over-25s. This rate has already risen from £6.50 to £7.20 in the past year, and is set to increase to at least £9.00 by 2020, a rise of 38% in five years. Table 5 shows that despite the initial increase of over 10%, the NLW still leaves workers well short of MIS. This is discussed more fully in Chapter 4. Table 5 also shows that families requiring full-time childcare (as in these examples) now need significantly less to meet MIS under the UC system than the tax credit system. This is due to the increase in maximum childcare support from 70% to 85% of eligible costs in UC, but not in tax credits, in April 2016. For lone parents on the NLW, on the other hand, the amount they fall short of MIS is similar under both systems, because in other respects UC is less generous to lone parents, caused particularly by the reduction in 2016 in the lone parents' work allowance (the amount they can earn before UC starts to be withdrawn).

Table 5: Earnings required to meet MIS and comparison to income on the NLW, April 2016

	Single, working age	Couple, two children, primary and pre-school age, supported by tax credits	Couple, two children, supported by UC	Lone parent, one child, pre-school age, supported by tax credits	Lone parent, one child, supported by UC
MIS weekly budget (including rent*, childcare and council tax)	286.53	776.28	776.28	548.56	548.56
Annual earnings requirement, per adult	17,311	18,906	16,015	27,909	25,041
Hourly wage rate (full time)	8.85	9.67	8.19	14.27	12.81
Disposable income working full time on NLW, as percentage of MIS budget**	77%	88%	96%	82%	82%

Notes:

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

**After rent, council tax and childcare costs.

Note that the lone parent example used here is of a child of pre-school age (aged 3 or 4), rather than the standard example used in MIS of a child aged 0–1. The latter has become an outlier when considering the wage requirement to meet MIS, since full-time childcare without any free provision from the early years' entitlement for 3 and 4 year olds, or from school now incurs a cost well above the maximum supported by tax credits or UC. The consequence is that a lone parent working full time would have to earn over £35,000 a year to meet MIS, but with a child aged 3 to 18, this figure would remain at £27–28,000 under the present system.

4 Why reaching MIS remains an uphill struggle for many families

The proportion of working-age households unable to reach a minimum socially acceptable standard of living has grown by about a third since 2008 (Padley and Hirsch, 2016). This has been caused by the cost of a minimum standard rising faster than incomes, due to several clear trends; some of these, however, have started to reverse:

- Earnings have risen more slowly than general prices. From 2008 to 2014, earnings rose 9% and the CPI 19%. However, in the past two years, average weekly earnings have risen about 3%, while the CPI has remained flat, partially offsetting those earlier losses. For those aged over 25 on the lowest wages, the NLW is set to bring large increases in real pay up to 2020.
- Housing and childcare costs have risen particularly sharply. Childcare costs have risen approximately 50% since 2008, but in 2016 grew in line with inflation, by less than 1% (Family and Childcare Trust, 2016). Social rents systematically rose faster than inflation up to 2015, but from 2016 are systematically being reduced by 1% a year.
- MIS budgets excluding rent and childcare have increased mainly because of higher prices, as shown in Table 6 below. They initially rose faster than general inflation after 2008, to a large extent because food prices were rising rapidly. As discussed earlier, these increases have now halted and, in the case of food, have gone into reverse. Overall since 2008, the rebasing of baskets has created some budget increases, especially the introduction of cars for families with children, and some reductions, with more economical ways of meeting particular needs. For couples with two or more children, the reductions slightly outweighed increases, and budgets corrected for inflation fell by 4%. For smaller families, the greater relative importance of the fixed cost of the car relative to the overall budget mean budgets are higher in real terms than in 2008, although this increase exceeds 4% only for the smallest family type, a lone parent with one child.

Table 6: Changes in family budgets over time, and how much can be attributed to price increases

	April 2008	April 2012	Increase 2008–2012	April 2016	Increase 2012–2016	Overall increase 2008–2016	Attributable to price increases (broken down by components of RPI)	Residual attributable to change in baskets*
Consumer Prices Index (2015 = 100)	84	96	14%	100.2	4%	19%		
Actual MIS budgets:								
Lone parent, one child	£210.31	£275.59	31%	£297.59	8%	42%	27%	12%
Lone parent, two children	£282.69	£361.99	28%	£372.21	3%	32%	27%	4%
Lone parent, three children	£379.94	£457.66	20%	£480.57	5%	26%	27%	0%
Couple, one child	£286.64	£374.17	31%	£381.67	2%	33%	29%	3%
Couple, two children	£370.05	£454.52	23%	£455.90	0%	23%	29%	-4%
Couple, three children	£465.71	£557.55	20%	£574.12	3%	23%	29%	-4%
Couple, four children	£504.69	£605.80	20%	£622.58	3%	23%	29%	-4%

Note:

*Change in baskets calculated such that, compounded with price increases, they explain the overall increase, eg. for lone parent with one child,
 $(1 + 0.12) \times (1 + 0.27) = (1 + 0.42)$

- Benefits in and out of work have declined in real terms. As shown in the previous chapter and in the Appendix, non-pensioner benefits relative to MIS have been falling. Initially in the recession, benefits continued to be pegged to inflation, although even then they did not keep up with the growth of a basket of essentials. Since 2013, benefits have been decoupled from price increases, and since 2015 have been frozen. This applies to in-work as well as out-of-work benefits.

In summary, some factors that have recently contributed to the deterioration of incomes relative to MIS are no longer doing so, or are moving very modestly in the opposite direction, while sustained reductions in the real level of benefits continue to work against those who depend on them. This is particularly the case for families with children, who will be unable to benefit much, for example, from higher pay if it is clawed back through reductions in tax credits and UC. Last year's report on the effect of the 2015 Summer Budget (Hirsch, 2015b) made projections to 2020 showing how some families could become worse off under the NLW combined with projected cuts in state support.

The NLW, tax credits and UC in 2016: do they allow families an adequate income?

In 2016, as well as the introduction of the NLW, two important changes have been made to UC: a cut in work allowances (the income level at which the credit starts to be withdrawn), particularly sharp for lone parents; and an increase in the rate at which childcare is reimbursed, from 70% to 85%. Neither of these changes was made to the tax credit system, which continues to run in parallel.

In light of these changes, it is worth taking stock of the extent to which the NLW combines, at present, with tax credits and with UC to 'make work pay'. How well does it allow families to use work to progress towards an adequate income as measured by MIS?

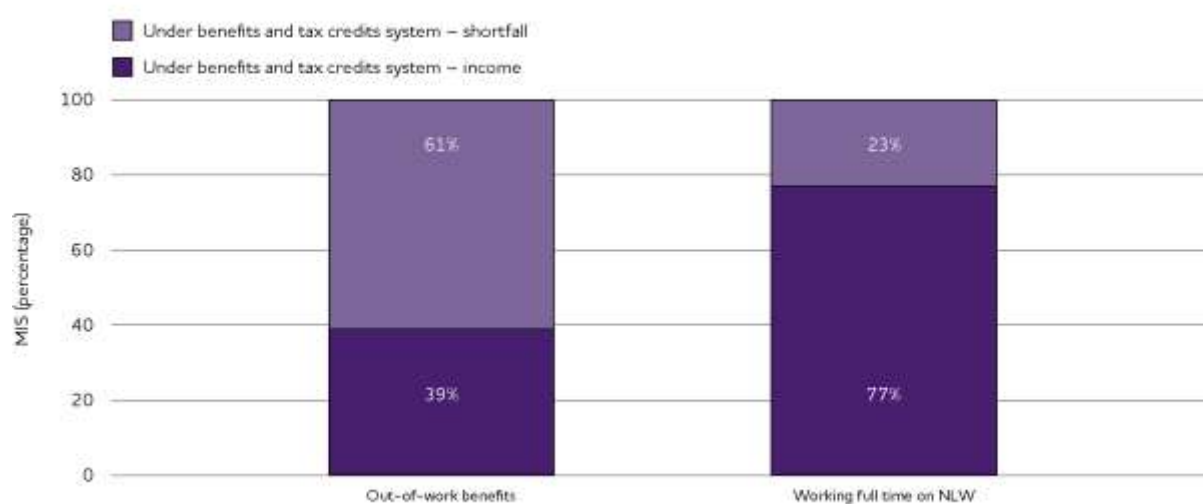
Table 7 and Figure 1 compare incomes under the two systems with MIS requirements, for people who are not working and those working various amounts and paid the NLW.

Table 7: Income in and out of work compared to the minimum

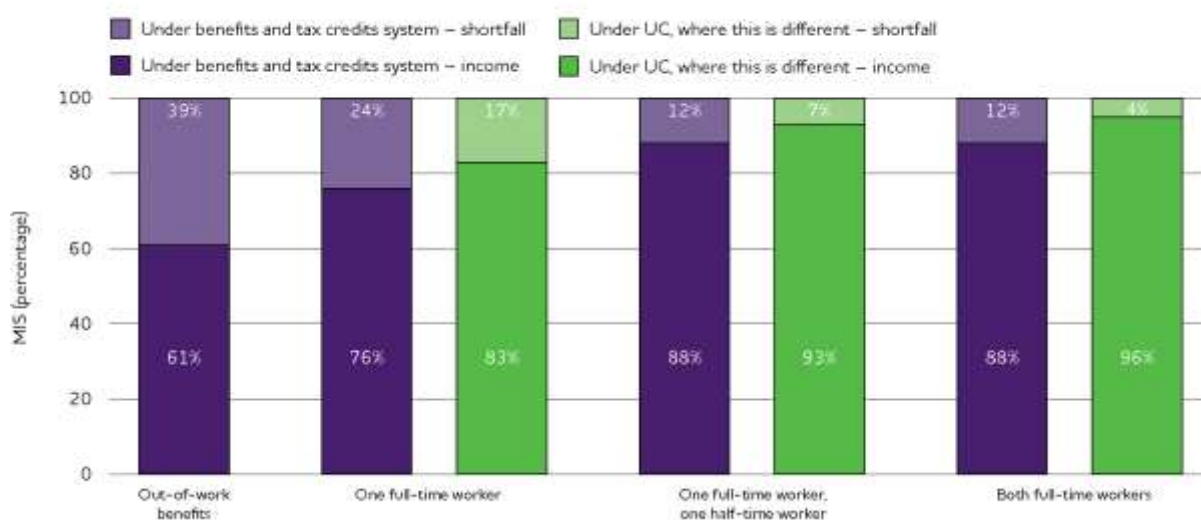
Weekly disposable income, after rent, council tax and childcare, compared to MIS requirement	Benefits and tax credits		UC (where different)	
	Income	% of MIS	Income	% of MIS
Single person (MIS requirement £183.66)				
Out-of-work benefits	70.82	39%		
Working full time on NLW	141.53	77%		
Couple, two children, pre-school and primary (MIS requirement £445.35)				
Out-of-work benefits	262.89	61%		
One parent working full time, one not working	329.02	76%	358.42	83%
One parent working full time, one half time	381.05	88%	402.08	93%
Both parents working full time	382.28	88%	414.60	96%
Lone parent, two children, pre-school and primary (MIS requirement £357.28)				
Out-of-work benefits	222.00	63%		
Working half time	298.40	84%	279.15	79%
Working full time	299.21	84%	293.15	83%

Figure 1: Income after housing, council tax and childcare as a percentage of MIS according to working status, 2016

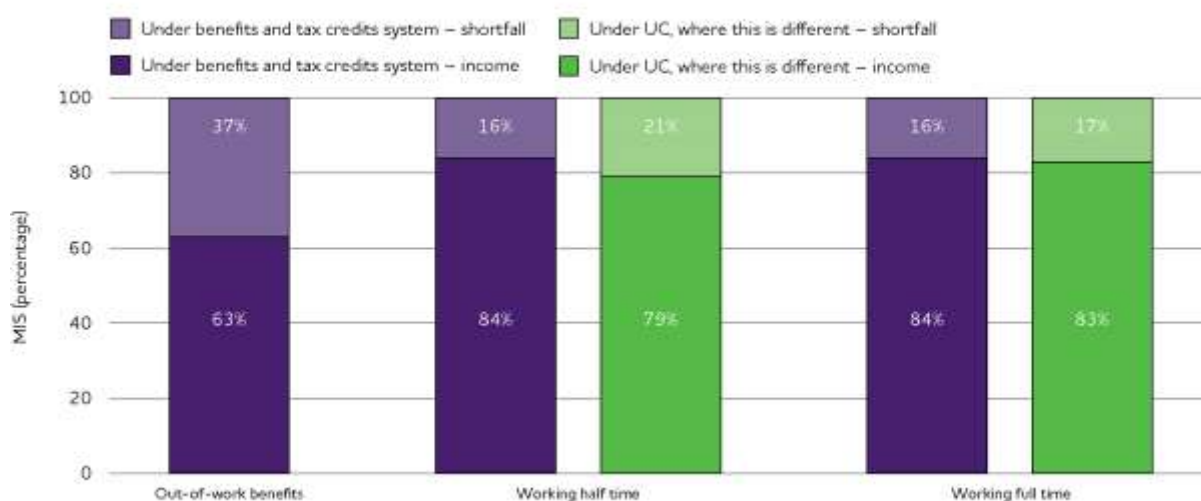
Single person



Couple, two children, pre-school and primary school aged



Lone parent, two children, pre-school and primary school aged



The table and figure show the following:

- A single person can double their disposable income by working full time on the NLW, compared with not working. Nevertheless, they remain far short of MIS, still having to forego nearly a quarter of the minimum budget. Projections (Hirsch, 2015b) show that this will improve as the NLW rises towards its target level of at least £9 an hour by 2020. If inflation remains low and the target is met, a single person aged over 25 working full time could potentially reach MIS by that date.
- Families with children can also improve their income through work. However, where they rely on tax credits and UC to make ends meet, their scope for increasing disposable income by working more is highly limited in many cases, with incomes on the as NLW capped below the level of MIS. This is because as hours of work in a family increase, so does spending on childcare, while support through tax credits and UC is withdrawn steeply with rising earnings.
- This works out differently according to whether families are headed by couples or lone parents, and whether they are on UC or tax credits. Overall, UC has helped support families with large childcare costs by increasing the maximum support from 70% to 85%; and in general, UC has become more generous, relative to tax credits, to couples and less so to lone parents.
- Specifically, a couple with young children with one person working full time is able to improve earnings with a second earner working half time, but under the tax credit system if they work full

time, childcare costs prevent net income from rising further. The UC regime performs better in this regard, by supporting childcare at a higher level. As a result, full-time, net income for the couple falls only a third as much short of MIS on UC as on tax credits (4% rather than 12%).

- For a lone parent with childcare costs, moving from part- to full-time work brings some benefit on UC and none on tax credits. However, since the terms of support are less favourable on UC, even a full-time working lone parent on the NLW is worse off on UC than on tax credits, still falling 18% short of the MIS budget. One reason for this result is that as Finch (2016) has noted, UC now gives lone parents a much smaller reward for working at all than was envisaged when it was originally designed, undermining one of its central principles. The lone parent shown in our example becomes about one-quarter better off working part time than on out-of-work benefits (before taking account of any loss of 'passport' benefits such as free prescriptions and free school meals, or of additional travel or other work-related costs). This is far less than the single person who can double their disposable income by working.

Would free childcare solve the problem?

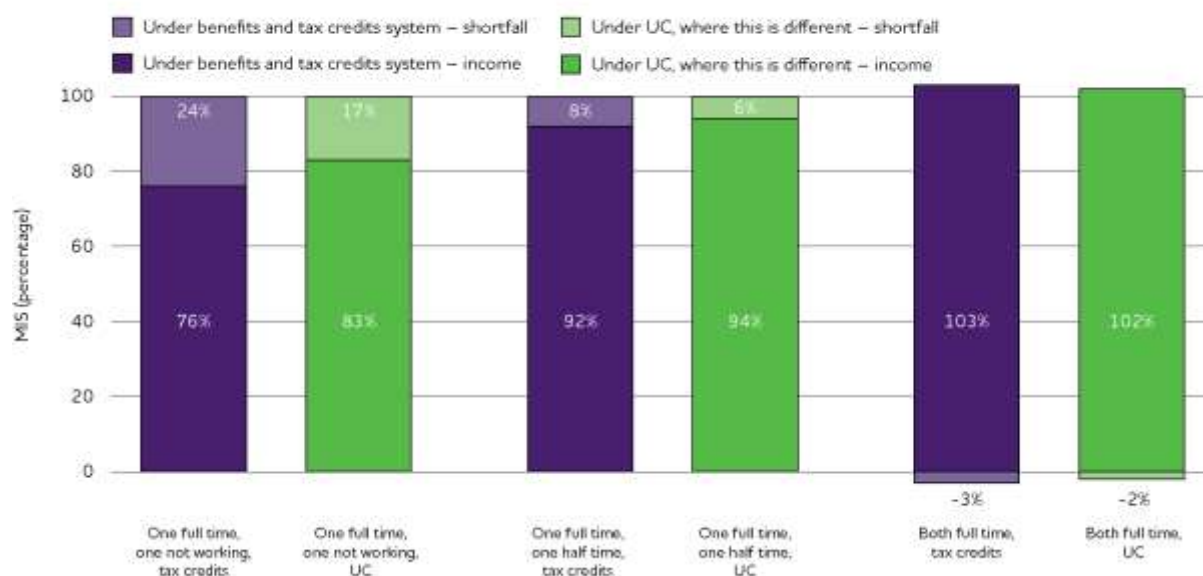
It is evident from the above discussion that the high cost of childcare plays a large part in preventing working families from getting closer to a minimum acceptable standard of living, even on the NLW. In some cases, it prevents them from becoming better off by working more than part-time hours. Thus while helping families to afford childcare is by no means the only case where addressing costs could help make life more affordable (enabling more families to access affordable rents is another), the result of addressing it could be enhanced if it unlocks more opportunities for families to earn.

The above calculations start from the assumption that families with younger children need to pay for childcare when they are working and the children are not at school or using existing free childcare entitlements. In reality, some families are lucky enough to get free informal childcare from friends or relations, but others unable to do so are often highly constrained in their work opportunities by the lack of suitable and affordable childcare. A recent study of families below the minimum income standard (Hill *et al.*, 2016) found that this is an important factor preventing parents from taking on additional hours, including those who would like to combine additional part-time work with time spent looking after their children.

In recognition of the difficulties parents have in affording childcare, and of the importance attached to ensuring that children are able to access early learning opportunities, the government is extending the reach of free childcare, by increasing the entitlements of three and four year olds from 15 to 30 hours a week for working families in late 2017. While some doubts have been raised about whether eligible fee rates are sufficient to enable providers to supply places for these free hours (Preschool Learning Alliance, 2016), the direction of travel appears to be towards making more childcare free at point of use. There is scope for extending this, either by providing free or very low-cost subsidised childcare to all who require it, or by increasing the subsidy in UC to 100% and thus making childcare free to those on low incomes. Butler and Rutter (2016) suggest that people below MIS should not have to pay more than 10% of their disposable income on childcare. In this context, it is worth considering how adequate incomes would be on the NLW if childcare costs were taken out of the equation. These calculations are made in Figure 2.

Figure 2: Income compared to MIS, working families without paid childcare, 2016

Couple, two children, pre-school and primary school aged



Lone parent, two children, pre-school and primary school aged

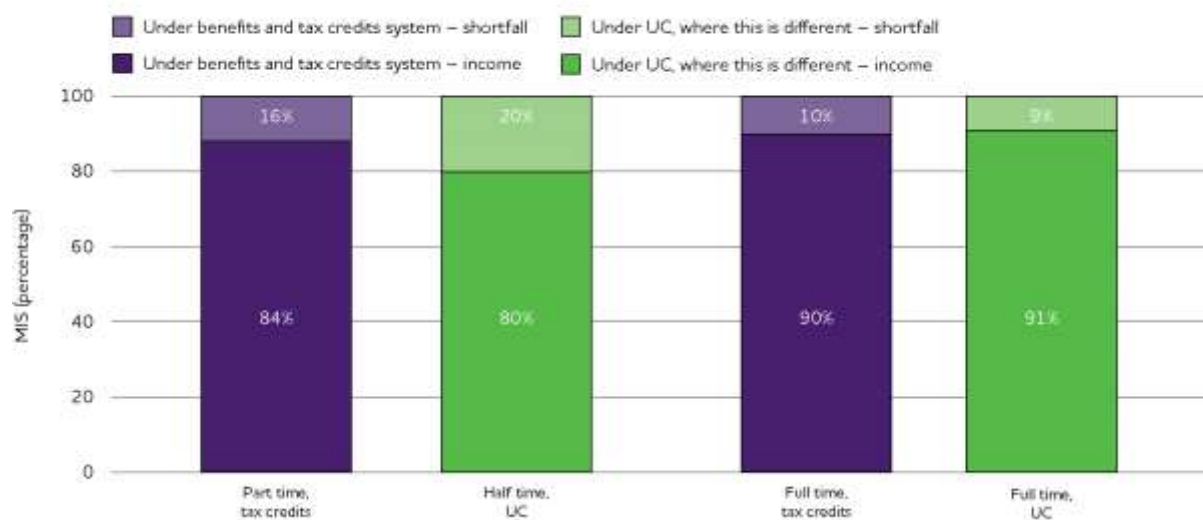


Figure 2 shows that without the cost of childcare cover, families on the NLW would have stronger incentives to work additional hours, and better prospects of covering all or most of the MIS budgets. For a couple with two children, whether on tax credits or on UC, the standard could be met by both parents working full time. While such a working pattern is not suitable for all families, this illustration also serves to show how, within a part-time context, additional hours can make families better off, and therefore improve opportunities. For a lone parent with two children, working full time would get them much closer to MIS than working part time, but still leave them around 10% short in both systems.

As the NLW increases, it will improve this picture to some extent, other things being equal. However, other things will not be equal. One reason is that the freezing of the work allowance means that all additional earnings are subjected to the taper – whereby UC entitlement is reduced by 65p for every pound of post-tax income. This means that most of the increase in the NLW will be clawed back by the Treasury for families receiving UC. Moreover, the loss of the family element in Child Tax Credit and its equivalent in UC in 2017, along with other cuts, will offset any gains.

5 Conclusion

Ongoing research on MIS makes it possible to see how changes in society affect the incomes that households need for an acceptable standard of living. Some trends are slow, subtle and not easy to discern. However, in the eight years of research so far, some clear changes have become evident. The inflation that greatly affected minimum living costs around the turn of the decade has now subsided, and some important items like food are becoming cheaper. In terms of the content of the basket, a significant response to harder times has become clearer in this year's research, with the identification of a growing number of cases where a need can be met a bit more economically than was originally specified. However, this has led only to small cuts in minimum costs, and has to a large extent been offset by some additional costs, particularly linked to the added cost of transport borne by private individuals, as they perceive public transport increasingly costly and unreliable. Families are also putting more emphasis on providing for their children's developmental needs, for example through activities and structured childcare. Whether or not this is influenced by the government's emphasis on life chances, it corresponds to this theme becoming prominent in public discourse.

Whether low-income families are able to afford a minimum acceptable standard of living depends on the interaction between benefits, earnings, tax and in-kind support such as help with childcare. The analysis in Chapter 4 of this report suggests that while costs are not increasing overall, some difficult times lie ahead for families that depend on state benefits, whether in or out of work. Indeed it is likely the number of families with children whose incomes fall short of MIS will continue to increase on current trends and policies, especially if inflation returns to normal levels in the near future. Lone parents have been particularly affected by cuts.

There are two main ways that this could be mitigated. First, by continuing to extend the availability of low-cost or free childcare, especially to working families. Second, by adjusting the UC system so that working families keep more of the benefits of the new NLW.

In the case of childcare, families feel that they are being told that good pre-school experiences are as important as experiences in school, but with the difference that the former have to be paid for. The case for making childcare free or very low cost, at least to low-income families, is therefore growing. If this could be combined with greater availability of good quality childcare at times that fit in with working hours, the number of working families living below MIS could fall steeply. While full-time work is not suitable for all families, better childcare options can improve families' opportunities for improving income through additional hours, including making it easier for a second person in a couple to work part time. The introduction of the 30 hours' free childcare entitlement for three and four year olds in 2017, if delivered effectively, will be an important step in this direction.

The NLW, which is due to increase by at least 25% over the next four years, could make a substantial contribution to the living standards of families working for minimum wages. Its power to do so, however, is being constrained by the current policy of matching all additional post-tax income with a 65% reduction in UC for those eligible. If, rather than freezing the work allowance, the government were to commit to increasing it in line with the NLW (i.e. also increase this allowance by 25% by 2020), the capacity of families to improve their disposable incomes through better wages would be greatly enhanced.

These issues affect a broad range of families, not just those at the margins of society. The most recent analysis of the number of households below MIS found that over a third of families with children were falling short of an adequate living standard, and Hill *et al.* (2016) shows how tough life can be on such incomes. The effects of childcare costs and income tapers are felt not just by those who work additional hours and find that their income does not rise, but also by those who feel they have no incentive to work more, or who feel they cannot afford additional childcare. The NLW has had a positive effect on work incentives, but only if it is matched by these other measures are large numbers of low-income families likely to benefit and be able to enjoy an acceptable standard of living.

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Appendix: Summary of MIS budgets 2008–2016

Table 8: Minimum requirements not including rent or childcare, £ per week

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

Table 9: Percentage increase in minimum requirements 2008–2016

	Due to rise in prices*	Due to change in baskets	Total	Overall increase compared to CPI increase (19%)
Single	29.9%	-3.8%	25.0%	4.7%
Pensioner, couple	28.2%	3.0%	32.1%	10.7%
Lone parent, one child (aged 0–1)	26.7%	11.7%	41.5%	18.6%
Couple, two children (aged 2–4 and primary)	28.5%	-4.1%	23.2%	3.3%

Notes:

* Based on inflation in components of the RPI applied to 2016 budgets.

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

Table 10: Safety net benefits (Income Support/Pension Credit) as a percentage of MIS (excluding rent, childcare, council tax)

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

Table 11: MIS as a percentage of median income*

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

Note

*Survey data not available after 2012/13.

Table 12: MIS as a percentage of median income*

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

**Table 13: Net income on the National Minimum Wage as a percentage of MIS
(excluding rent, childcare, council tax)**

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

Note

*Lone parent with one child shown here uses a child aged 0–1, for continuity with previous publications. However, note that Table 5 in this report uses a child aged 2–4 for the lone parent case, for reasons explained in the text.

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