

A minimum income standard for the UK in 2010

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This study updates 2008's innovative research, based on what members of the public thought people need for an acceptable minimum standard of living.

This report shows:

- what different family types need to earn in 2010 to meet the minimum income standard;
- how much the cost of a minimum household budget has risen since the last update in 2009.

This update is based partly on inflation and partly on a review of what should be included in the minimum standard. Despite the recession, members of the public generally maintained their view of what things are needed to participate fully in society, but added some required items to reflect changing technology.

The report also examines how far changes in benefits, wages and taxes affect people's ability to maintain a minimum living standard in tough economic times. Its results carry important messages about households' increased risk of falling below the minimum standard required.

Contents

List of figures and tables	3
Executive summary	4
1 Introduction	6
2 MIS and changes in prices	9
3 Revising what is included in the minimum	12
4 The 2010 budgets	19
5 Conclusion	23
References	25
Acknowledgements	27
About the authors	27

List of figures and tables

Figures

1	Planned programme of research	6
2	Inflation over one year and over two years to April 2010	9
3	Prices 2000–10: General and MIS baskets	11
4	The review process	13

Tables

1	Inflation rates for categories of goods and services, 2008–09 and 2009–10 (years to April)	10
2	Budget items changed as a result of 2010 MIS review	18
3	Summaries of the MIS for four family types, April 2010	19
4	MIS compared with out of work benefit income, April 2010	20
5	Gross earnings required to meet MIS, April 2010 (£ per week)	21
6	MIS compared to median income (£ per week), 2008/9	21

This report presents the 2010 update of the Minimum Income Standard (MIS), originally published in 2008. The standard is based on research into what items members of the public, informed where relevant by expert knowledge, think should be covered by a household budget in order to achieve a minimum socially acceptable standard of living. Originally researched as a standard for Britain, it has now been extended to cover the whole of the UK, after additional research in Northern Ireland.

Living expenses and living standards change over time, and the MIS needs to keep up to date. The report considers two aspects of uprating the standard for 2010: changes in prices that influence the cost of a minimum 'basket' of goods and services, and changes in society that may influence what items should be included in that basket.

Price uprating

Overall prices have risen by 3.7 per cent in the year to April 2010 on the government's main inflation indicator, the Consumer Prices Index (CPI).

Based on an analysis of the price rises in the types of goods and services included in a minimum budget, we estimate that the minimum cost of living has risen at close to the general inflation rate – at between 3 per cent and 4 per cent for various households. This modest rise in the cost of a minimum budget in 2010 follows a much sharper increase the previous year, because there was not a repeat of the steep rises in the price of food and domestic fuel that were a feature of that year. However, since MIS was first published in 2008, it has increased by over 8 per cent, compared with 6 per cent for the CPI and just 4 per cent for the Retail Prices Index (RPI).

Further analysis shows that over the decade to 2010, the cost of a minimum budget has gone up by 38 per cent, much faster than the 23 per cent rise in CPI and 31 per cent rise in RPI. This is attributable to large rises in the cost of things like food, council tax and public transport, on which

people on minimum incomes spend a greater than average proportion of their household budgets. This high inflation rate faced by people on low incomes means that their living standards will have fallen substantially if their wage and benefit income rose only in line with official inflation. For example, a single person who could just afford the minimum in 2000 and subsequently had their income 'inflation-adjusted' using the Consumer Prices Index would now be nearly £20 a week short of what they need, representing over 10 per cent of their minimum household budget.

A review of minimum household needs

As society changes, the definition of what households need in order to have a minimum acceptable standard of living is likely to change too. Every few years, research with members of the public on which MIS is based will be repeated in full. In 2010, it was too early to repeat the original research, undertaken two years previously, but a limited review looked at the case for making some initial adjustments to the budget items. Nine groups of members of the public were assembled to consider whether there is a case for such change for budgets across different household types.

The main finding of this research was that, despite recession, the norms identified in 2008 are largely unchanged. Members of the public still believe that, as a minimum, households need both to meet physical requirements and to be able to participate in society. For example, they still think that a certain basic budget for going out is required, that people need to be able to buy birthday presents and that everyone needs at least a week's holiday away each year, although going abroad is not a minimum need. The groups did not change the amounts allocated for these activities.

The research also confirmed that items such as fridge-freezers, DVD players and mobile phones are such an integral part of modern life that everyone should be able to afford them. Apart

from pensioners, the groups also now thought that every household requires a computer with an Internet connection. This was the biggest change in the budgets; previously only families with school-aged children were said to need computers and only with secondary school age children the Internet. The working-age participants in the research argued that the Internet is now used so widely in life – from applying for jobs to getting discounts – that people without it are disadvantaged. Pensioners had mixed views on computers, but did not decide that they were yet a clear necessity for pensioner households.

The review groups confirmed the earlier finding that a car is not an essential item that everyone needs, and agreed that a minimum budget should cover only public transport, supplemented where necessary by taxi journeys. However, they increased the amounts needed for taxis from the figures set in 2008.

The 2010 budgets and changes in wage and benefit requirements

In the new budgets, a single person requires £175 a week excluding rent, up from £168 in 2009. This requires earnings of £14,400 a year (based on assumptions about minimum housing costs). A couple with two young children requires £403 a week excluding rent and childcare, and a lone parent with a 1-year-old needs £234; these families need to earn £29,200 and £12,500 a year respectively in order to reach the minimum. A pensioner couple needs £222 a week.

An online Minimum Income Calculator makes it possible to calculate the equivalent for most household types in Britain – see www.minimumincome.org.uk.

These budgets require a wage well above the minimum wage of £5.80 an hour for most household types, even with all adults working full time. A living wage of £7.60 would be needed to cover the majority of household types. This requirement has risen sharply over the past year. A contributing factor has been the failure to raise tax allowances and adjust parts of the tax credit system to take account of inflation, which has particularly hit low-earning families with children. The effect of the June 2010 Budget increase in tax allowances will

be to reduce the living wage requirement by 27p, but this will be offset by changes in tax credits that raise it by 15p and by other factors. The freezing of Child Benefit could add 4p to the requirement.

For non-working households, benefits continue to fall well short of providing a minimum acceptable income, although pensioners claiming the Pension Credit get enough to meet the standard. Benefits declined relative to the Minimum Income Standard in 2010.

Conclusion

This report finds that the ways in which people define and identify necessities has not obviously been affected by the recession. Those taking part in the research reported thinking more carefully about what was really necessary, but the items that they defined as being ‘wants’ not ‘needs’ – from dishwashers to foreign holidays – were mainly the same in 2010 as they had been in 2008, and therefore remained excluded from the budgets. In this sense, the original MIS exercise anticipated the way in which many people are now having to think carefully about their own consumption, distinguishing those items of spending that are really essential for an acceptable living standard.

From this stable base, MIS budgets have risen slightly in 2010, partly because of inflation and partly because computers and the Internet have been reclassified as minimum requirements for many households. With wages largely stagnant and the taxation, benefits and tax credit system failing to be updated in line with rises in the MIS in 2010, low-income households are more vulnerable than two years ago to falling below a minimum acceptable standard of living. Without action to combat these effects, social and economic exclusion are likely to rise.

1 Introduction

How much is needed to achieve a minimum acceptable standard of living in the United Kingdom today? In 2008, the first Minimum Income Standard for Britain (MIS) produced income standards based on detailed research into what ordinary people think should go into a minimum household budget, supported by expert knowledge on certain physical living requirements, including nutrition (Bradshaw *et al.*, 2008; see also summary of MIS in Box 1, page 7).

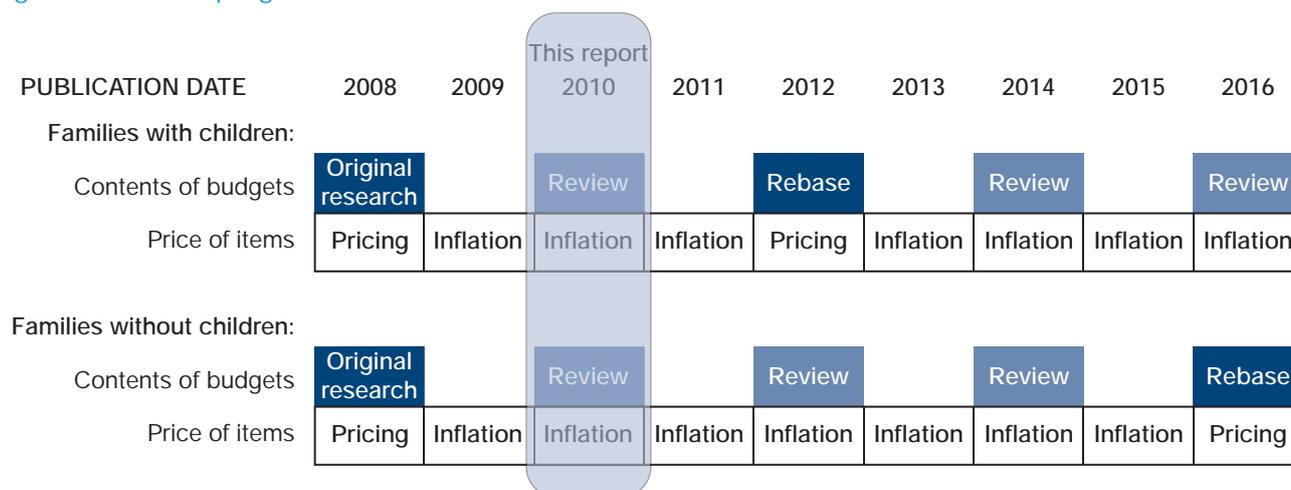
As part of that project, there was a commitment to keep MIS up to date, in order to reflect changes over time in both the cost of living and the social norms that determine what items are included in the calculation of a minimum budget. Following initial price uprating in 2009, the research team has now defined a framework for annual updating of MIS, and secured funding from the Joseph Rowntree Foundation to produce further updates in 2010, 2011, 2012 and 2013. This report gives the results for 2010, now covering the whole of the United Kingdom and not just Great Britain (see Box 1).

The first step is to ensure that MIS is uprated for inflation. As discussed below, the updating framework makes annual adjustments in

the MIS budgets to reflect changes in prices in each category of goods and services included. This involves a straightforward application of inflation rates in the relevant components of the Retail Prices Index (RPI).

Adjustments for changes in minimum living standards themselves are less straightforward. It is clear that over long periods of time, as societies such as that of the UK have grown more prosperous and as general consumption patterns have changed, attitudes to essentials have changed too. This makes it necessary to revisit periodically budget research, 'rebasings' budgets on a revised set of necessities every few years. However, on its own, this could create sudden 'jumps' in the published standard in each rebasing year, as adjustments for changes in living standards take effect. As far as possible, the MIS programme seeks to avoid sudden jumps, by estimating change on a more continuous basis. An initial proposal for estimating change in this way, based on observed rates of increase in average household spending, has not been feasible, however, because the fact that spending data is out of date proved more problematic than previously

Figure 1. Planned programme of research



Definitions:

- Rebase Repeat original research to create new budgets from scratch
- Review Groups consider whether existing budgets need selective changes
- Pricing Identify current prices of individual items from suppliers
- Inflation Apply RPI-based uprating method to adjust budget costs from previous year

anticipated, because of economic volatility. The two-year-old expenditure data available in 2009 still showed spending going up, even though by that time incomes were falling (Hirsch *et al.*, 2009).

The MIS updating framework has adopted an alternative approach: to carry out a 'review' of budgets every two years, in order to make interim additions or subtractions based on new research. The reviews will look selectively at budgets for each main household type, to see where there is a clear-cut case for such changes. Every four years, there will also be a complete rebase (repeating the research from scratch) for about half of the household types covered, so that each household type's budget will be re-researched every eight years.

The schedule for carrying out this updating work is shown in Figure 1. The first review of the budgets was carried out in 2010, and is reported in Chapter 3 below. The budgets for families with children will be rebased from fresh research in 2012, and the same is planned for households without children in 2016.

Chapter 2 of this report estimates the increase in the cost of MIS budgets between April 2009 and April 2010, using data from the Retail Prices Index. Chapter 3 looks at the case for revising what is in the budgets based on the review of MIS budgets carried out in early 2010. Here, we report on the decisions made by nine review groups, and on the consequent revisions made to the list of goods and services required for a minimum acceptable standard of living. Chapter 4 summarises a revised set of budgets, updated to April 2010, looks at what incomes are needed to afford these budgets and compares these to benefits, to the poverty line and to earnings on the National Minimum Wage (NMW). The report concludes with a reflection on the degree of change and continuity since 2008 in what is included in the budgets used for the 2010 Minimum Income Standard.

Box 1 summarises the main features of MIS. For further detail, see Bradshaw *et al.*, 2008. The results of MIS, updated to April 2010, are available in full on the online Minimum Income Calculator at www.minimumincome.org.uk. This 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? The Minimum Income Standard is the income that people need in order to reach a minimum socially acceptable standard of living in the United Kingdom 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.

How is it arrived at? A sequence of groups have detailed negotiations about what things a family would have to be able to afford in order to achieve an acceptable living standard. Experts check that these specifications meet basic criteria such as nutritional adequacy, and in some cases feed back information to subsequent research groups that check and amend the budgets. Each group typically comprises six to eight people from a mixture of socio-economic backgrounds, but each group has people from the particular demographic category under discussion – for example, pensioner groups decide the minimum for pensioners.

What does it include? Groups in the original research defined MIS as follows:

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

Thus, a minimum is about more than survival alone. It covers needs, not wants, necessities, not luxuries. 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 having 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 ‘nuclear’ families comprising a single adult or couple with or without dependent children. It covers most such households, with its level adjusted to reflect their makeup. It does not cover families living with other adults, such as households with grown-up children.

Where does it apply to? MIS was originally calculated as a minimum for Britain; subsequent research in Northern Ireland carried out 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 United Kingdom.

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

Who produced it? The original research was funded by the Joseph Rowntree Foundation (JRF). It was conducted by the Centre for Research in Social Policy (CRSP) at Loughborough University in partnership with the Family Budget Unit at the University of York. Updating is being carried out by CRSP, again with JRF funding.

When was it produced and how is it being updated? The original research was carried out in 2007 and the findings presented in 2008 were costed using April 2008 prices. Every July, new MIS figures are published, updated to April of the same year. The updates take on board inflation and changes in minimum needs as set out in Figure 1.

2 MIS and changes in prices

To calculate the current value of MIS, the cost of buying the specified baskets of goods and services needs to be adjusted to take account of price changes. The Retail Prices Index (RPI), which shows changes in prices in groups of goods and services categorised in the same way as MIS, gives data that allow adjustment without carrying out additional original research. This is not a perfect calculation of how much the basket of goods and services has risen in price, since within each category in the RPI, different items rise at different rates. In 2009 as an experiment, we repriced the budgets directly, and compared the results with the change based on the index. However, we found only minor differences between the two methods. We also found that an annual repricing exercise is problematic due to changes in product lines. We therefore decided to use only the RPI method for future price upratings (Hirsch *et al.*, 2009).

How much has the cost of MIS risen?

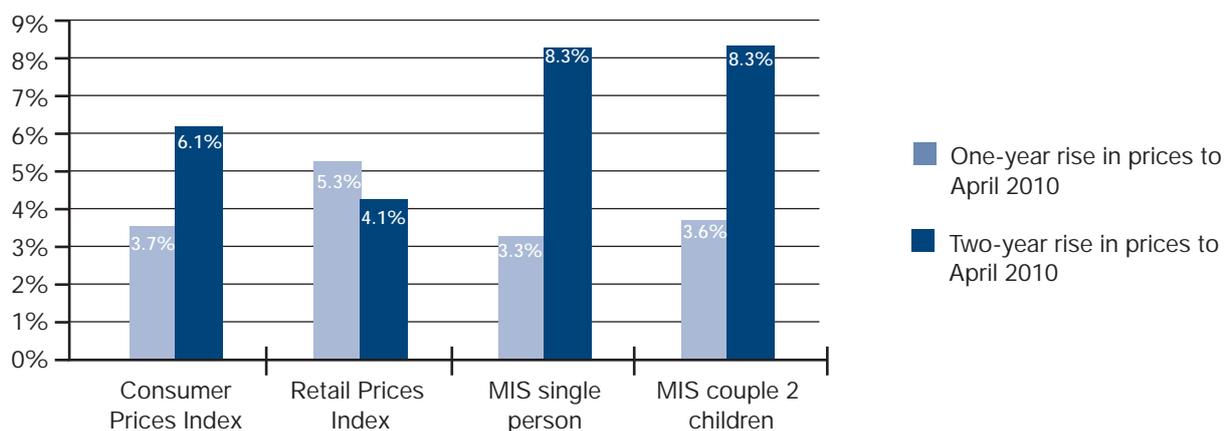
Overall, the inflation rate showed an increase in prices in the year to April 2010 of 3.7 per cent on the Consumer Prices Index (CPI), and 5.3 per cent on the RPI. The CPI and RPI are the two main methods of measuring inflation, the biggest difference between them being that the RPI includes

mortgage interest, council tax and other housing costs, while the CPI does not. However, the uprating of MIS does not use either of these indices in its entirety, but, rather, inflates each category of spending in the MIS basket by the rate of price increase for that category shown in the RPI figures.

The inflation rates for MIS budgets for the year to April 2010 have in fact been very similar to CPI, with most budgets rising in cost by between 3 and 4 per cent. This is in contrast to the previous year, when the cost of the MIS budgets rose by around 5 per cent, nearly twice as fast as the Consumer Prices Index. Over the two years since MIS was launched in 2008, there has thus been a substantial rise in the cost of MIS compared with general prices. This is summarised in Figure 2, showing the examples of a couple with two children and a single person (other household types have very similar inflation rates).

As noted in last year's uprating report (Hirsch *et al.*, 2009), MIS inflation has been high relative to general inflation because of significant rises in the price of certain commodities that are heavily represented in a 'minimum' budget, such as food and public transport. At the same time, mortgages have become cheaper, with low interest rates, curbing general inflation but not affecting MIS, which is based on renting rather than buying one's home. In 2008–09 there was also a fall in the cost

Figure 2. Inflation over one year and over two years to April 2010



of motoring, which is not included in an MIS budget as none of the budgets includes a car. In the latest year, in contrast, petrol prices have risen sharply, while increases in food prices have slowed.

Table 1 shows in detail what has been happening to the cost of various types of item during this two-year period. This shows that the pattern in 2008–09, whereby higher-inflation items tended to be those more heavily represented in MIS, has not been repeated in 2009–10. Indeed, the wide differences between inflation rates of different commodity groups in 2008–09 appear to have diminished somewhat. The earlier period was one of great economic volatility.

Yet the experience of an MIS inflation rate much higher than general inflation, as seen in 2008–09, could potentially recur in the future. In the case of food prices, for example, it is possible that long-term demands on natural resources will cause inflationary pressures that contrast starkly with the low and sometimes falling food

prices of the 1990s. Other items such as bus fares and council tax have been rising faster than inflation for a long period: bus fares and council tax have risen by about two thirds since 2000, a period when the RPI has risen by less than a third, and the CPI by less than a quarter.

Indeed, in the past decade, the overall cost of the minimum standard of living has risen substantially faster than the official inflation rates. This can be quantified by applying the various components of the RPI during that period, reweighted to reflect the composition of the 2008 MIS budgets for a single person. The resulting 'Minimum Income Standards Prices Index', or MISPI, is contrasted with RPI and CPI in Figure 3. This estimates how much the cost of a constant basket of goods and services, representing the minimum in 2008, changed in price between 2000 and 2010.

Figure 3a shows that the MISPI rose 38 per cent over the decade, compared with 31 per cent

Table 1. Inflation rates for categories of goods and services, 2008–09 and 2009–10 (years to April)

	Inflation 2008–09	Inflation 2009–10
A Goods and services comprising a significantly higher percentage of MIS budgets than of the RPI		
Transport (non-motoring)	↑ 7%	↑ 5%
Food	↑ 7%	3%
Water rates	↑ 5%	↓ 0%
Social and cultural participation	↑ 4%	↑ 5%
Council tax	3%	↓ 2%
B Goods and services with similar representation in MIS and RPI		
Domestic fuel	↑ 12%	↓ –3%
Personal goods and services	3%	4%
Household services	3%	4%
Clothing	↓ –5%	↑ 7%
C Goods and services comprising a significantly smaller percentage of MIS budgets than of the RPI		
Household goods	↑ 6%	3%
Alcohol	3%	4%
Other housing costs	3%	3%
D Goods and services not in MIS but in RPI		
Tobacco	2%	↑ 9%
Mortgage interest	↓ –47%	5%
Motoring	↓ –5%	↑ 18%

Key: ↑ shows inflation at least 1% above CPI, ↓ shows at least 1% below

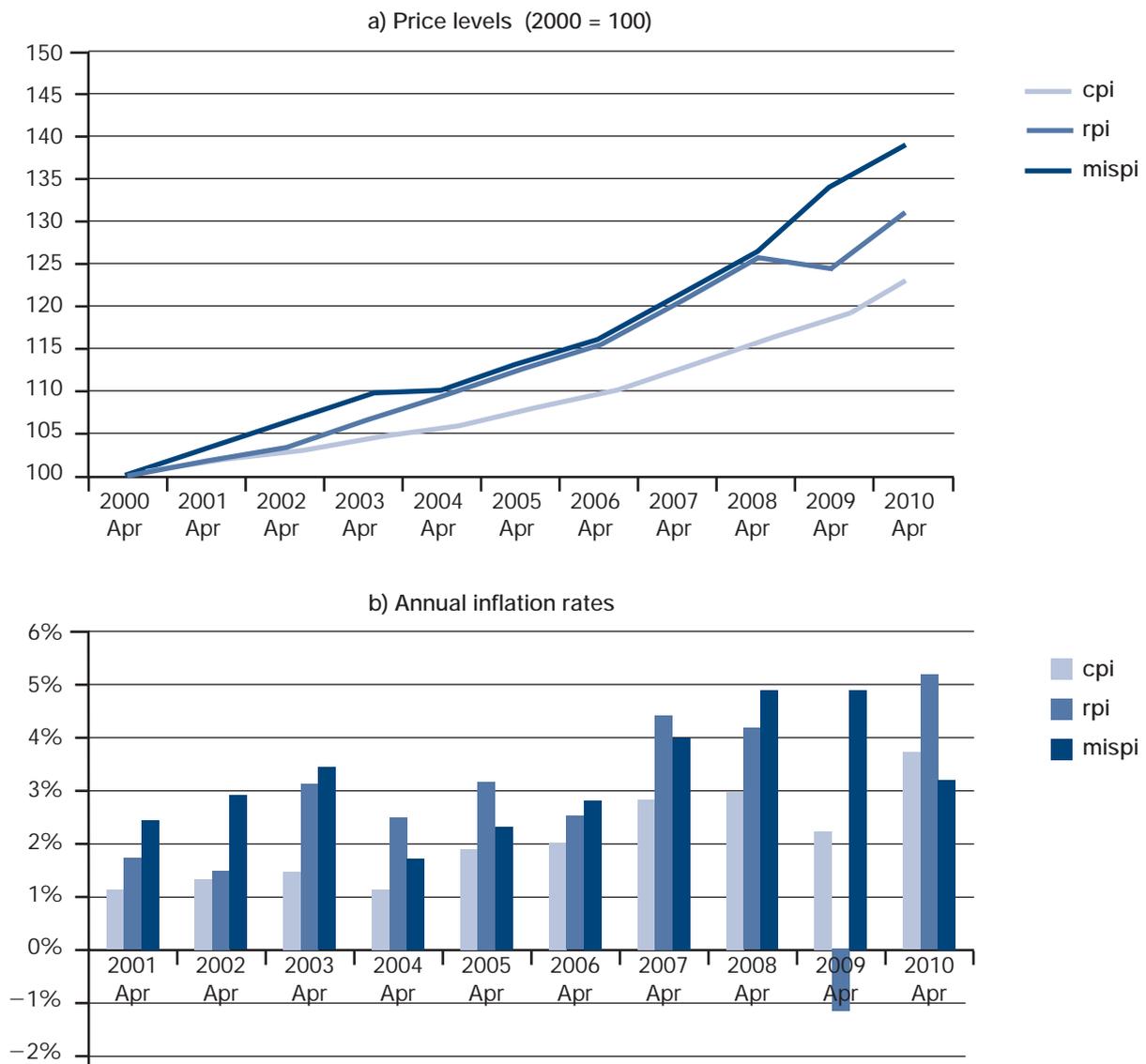
for RPI and 23 per cent for CPI. Figure 3b shows a fairly consistent pattern of MISPI rising faster than general inflation. It was slightly lower than general inflation in the latest year shown, the year to April 2010, but this followed nine consecutive years when it was significantly higher than CPI and either slightly lower than or significantly higher than RPI. (An inflation comparison of this type over a long period needs to be treated with some caution, however, since the basket of goods and services bought by a household is likely to change over time, influenced by shifting prices, and this is reflected in changing weightings in the inflation index. Yet further analysis shows that while an unchanged version of today's basket of RPI goods and services would have risen faster than the actual RPI, the MIS index rose faster still. Moreover, there is less scope for shifting spending between different

areas, in response to price, in a minimum budget than in an average budget, which includes more 'discretionary' items. A price-induced switch from, say, food to clothing in minimum budgets seems far less likely than an average person spending more on a car and less on family holidays, for instance.)

These results show that differential inflation rates can have significant effects on the well-being of people on low incomes, especially if rises in their incomes are linked to general inflation.

A single person who in 2000 was able to afford the items specified in the MIS basket, and whose disposable income just kept up with the CPI, would have to give up over 10 per cent of the items in the basket by value in 2010. That is, he or she would be over £19 short of being able to afford the £170 needed to spend on necessities each week.

Figure 3. Prices 2000–10: General and MIS baskets



3 Revising what is included in the minimum

In early 2010, the MIS research team carried out its first two-yearly review of what should be included in the MIS. This involved fresh research with members of the public, addressing what households need in order to achieve a minimum acceptable standard of living for 2010. The idea of such a review is not to repeat the detailed research compiling full household budgets, but rather to check whether there are, at this stage, any clear-cut changes in what people think should be included. As shown in Figure 1, a review of MIS is part of a longer-term process to keep the minimum income standards up to date, and in this context can be seen as an interim measure pending a full 'rebasement' of the budgets through a repeat of the original research, starting in 2012. The 2010 review revisited decisions made for the original 2008 budgets. (The groups for that research met in 2007, finalising the budgets in the latter part of that year, so the review here represents about two and a half years of change, but the research is referred to below as for 2008, the year when the original budget values were calculated and published.)

The review process

The review consisted of nine group discussions, carried out between January and March 2010 in Derby, Loughborough and Northampton. Three successive groups reviewed the needs of working-aged adults without children, three looked at the needs of families with children and three considered pensioners. As with the original research, the groups typically comprised five to eight participants, a mixture of men and women from varied socio-economic backgrounds, drawn from the demographic group whose needs were being discussed. In the case of the groups looking at the needs of families with children, a mixture of parents living in couples and lone parents were recruited. Participants were asked to identify what things a hypothetical or 'case study' family of a

particular type should be able to afford in order to achieve a minimum acceptable standard of living.

For each of the three household types, an initial group lasting two and a half hours considered whether items included in a number of areas of the original budgets should be amended. These groups were given an overview of what was included in each area of the budgets, although they were not invited to review detailed decisions for each area such as the content of the food menus or lists of items of clothing required. The groups were asked to focus particularly on selected aspects of the budgets where changing norms might necessitate revisions, even over a relatively short period. These included items related to changing technologies and to leisure and social participation. In some cases, researchers told participants what items had been included in the original budgets and asked them to confirm or amend them; in others, groups were initially given a 'blank sheet' for a particular area of spending and asked to compile their own list of items, and then to compare them to the earlier decisions. In some cases these different methods were used for the same budget areas on different occasions, in order to explore the impact of different methods on the results.

The groups were also asked to review criteria determining the quality of items required in various parts of the budget and in some cases where they should be bought. The aim was to test whether the economic downturn and/or changing patterns of low-cost shopping have changed what is considered a socially acceptable minimum budget.

Following these initial groups, two shorter follow-up groups for each of the three household types reviewed any areas where the initial groups thought that changes may be needed (see Figure 4). The follow-up groups each lasted an hour and a half. Only where the outcome of the groups indicated a clear rationale and a prevailing consensus for change were amendments made to the budgets. Without such consensus, the

'default' was to leave the budgets developed in 2008 unchanged. Thus, in contrast to the main research, in which successive groups may revise each other's decisions to come to a final judgement about each item, the review method only changes budgets where there is a strong common view independently arrived at by separate groups.

Decisions made by review groups

The most striking feature of the 2010 review groups' discussions was that in the great majority of cases they confirmed the items included in the 2008 budgets without change. This was true both in cases where they assessed lists of items that were in the original budgets and when they were asked to list the items from scratch on a 'blank sheet'. A clear message from all the groups was that even though the recession had made life harder for many households, ideas about what families *need* in order to participate fully in society have not fundamentally changed.

The following is a summary of the main decisions taken by the 2010 review groups, and the rationales for doing so.

Computers and Internet

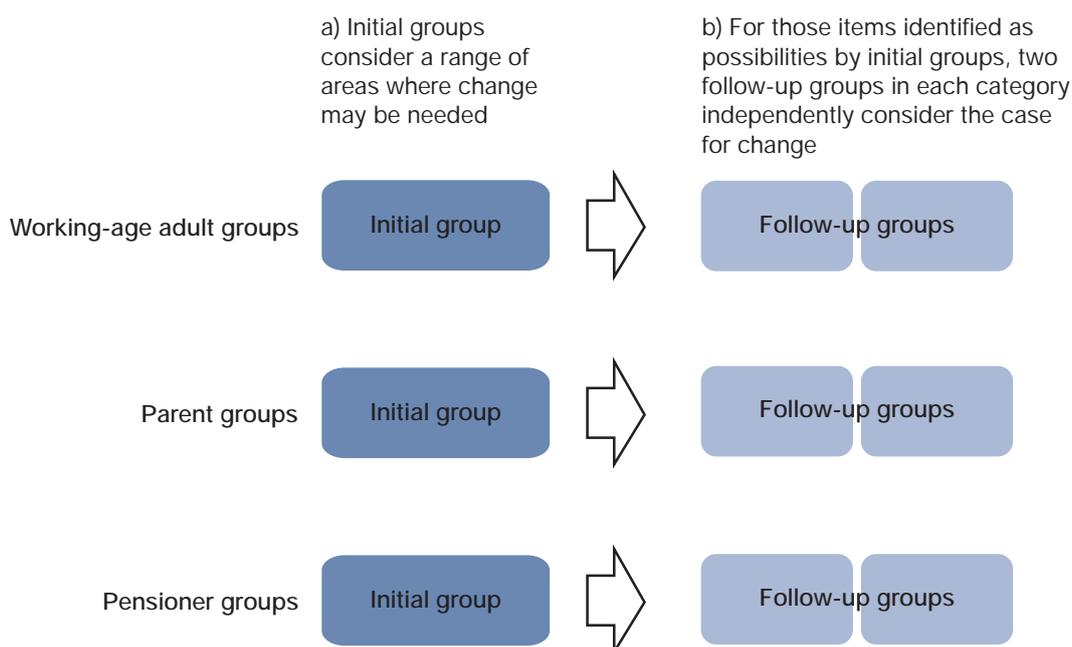
The need for people to have access to computers and the Internet within their own homes has been the subject of much discussion throughout the

MIS work. In the 2008 research, only for families with school-aged children was a computer considered essential, and only those with secondary school children were considered to require an Internet connection. While for other households there was a case for having some access to the Internet, facilities such as public libraries were thought to give sufficient opportunity to use it.

In 2010, there was a range of individual perspectives on whether computers are now essential for households. The prevailing feeling of the groups was that every household including adults of working age should now be able to access the Internet, but that for pensioners it is not yet a necessity.

Among participants of working age, those who had children continued to emphasise the importance of Internet access in order to complete homework, and some parents mentioned that it is becoming an expectation in primary schools too: *"My daughter uses the Internet, she's only nine and she gets loads of homework, and her friends that can't afford a computer will come and use ours."* There was also mention of government schemes to provide laptops for primary school children from low-income families as evidence that this was a need. Libraries were considered both too inaccessible and problematic in terms of supervision:

Figure 4. The review process



"I wouldn't want my children going elsewhere though to use the Internet, because my computer is in the living room, I can see what my children are going on, who they're talking to, who's talking to them, so I know exactly what they're doing on the Internet at any time. If they're going to libraries and stuff you don't know what they're doing, who they're talking to."

(Parent, Leicestershire)

But do households without children of school age also need the Internet, in order to meet the needs of adults? This issue was discussed by families both with and without children. Many participants argued that the Internet opened up opportunities not available elsewhere, most notably price comparisons, a wide range of discounts and jobs advertised only online. They also mentioned that people need to keep up with developments in computers in order to be able to function within the labour market:

"I mean I've been out of work for two and a half years now with having had a child, and I am actually getting quite terrified about going back to work because you know all the programs have changed, even just something as simple as your Internet program, your email program, it's changing all the time and it's quite frightening if you can't keep up to date with it, just from a capability point of view."

(Parent, Leicestershire)

For some people at home looking after young children, being able to access information and communicate with others via the Internet was 'quite a lifeline', while other options were impractical: 'I couldn't take my toddler to a library and expect it to entertain itself while I check my email!'

A few participants of working age suggested that the Internet had not yet become a 'necessity' because there is no one thing for which it is indispensable:

"You can't only get your insurance by the Internet, you can't only go shopping by the Internet, that's a choice."

(Woman, Northampton)

However, the prevailing view was that for the Minimum Income Standard to meet its criterion of allowing people 'to have the opportunities and choices necessary in order to participate in society', working-age adults needed to be able to access the Internet at home. One participant reflected that if some people are deprived of Internet access, 'it will create more and more social divide between people who have and people who haven't'.

This decision meant that the basic cost of a computer (costed at £390 in 2010, including printer) needs to be included in the budget of every non-pensioner family, along with a package that allows access to the Internet. The groups suggested that this is most efficiently achieved through a 'bundle' that would include broadband, telephone and a 'basic' cable television package, which would replace the freeview box in the original budgets, as it was thought to be cheaper to combine these elements, rather than source them separately.

Groups of older people, on the other hand, used a different set of rationales to the working-age groups, and overall did not feel that a computer or an Internet connection is at present essential for pensioners. As in 2008, individual pensioners took a variety of views of the Internet, some being enthusiastic advocates, others thinking it was useful but not essential and some expressing hostility to its role and influence. As in the previous research, the pensioner groups rapidly reached a decision that Internet access in the home was still not a minimum requirement for pensioners, and that those who did wish to use it could do so in places such as libraries.

Telephones

Although a few participants suggested that landlines were no longer a necessity, all groups agreed after discussion that all households should still be able to have a landline telephone. Sometimes this was to do with it being a requirement for Internet access in the home (roaming access was still seen as a more expensive means of accessing the Internet and not a necessity). Some participants talked about the increase in companies and sometimes public bodies using '0870 and 0845' telephone numbers, which were expensive to call from a landline, but prohibitively so from a mobile phone.

The outcome of the groups' discussions did not result in any changes to the level of mobile phone ownership in the existing budgets – so all adults and the secondary school-aged child were still thought to need a mobile phone. It was still acceptable for this to be a cheap handset on pay-as-you-go terms. The older people's groups did not feel that the amounts included for mobile phone top ups and landline calls needed to be altered other than by inflation. However, among the other groups, some participants suggested that contract mobile phone packages had become increasingly competitive and that they often came with so many 'free' minutes of call time and texts that it would be more cost effective to have a good contract deal than have a pay-as-you-go phone. Some participants suggested that it might be possible to include the mobile phone in with the telecommunications package for the household.

Discussions on how much the working-age and parents' households would need in order to meet their minimum requirements in terms of landline calls and mobile phone top ups were therefore not as straightforward as in 2008. With some packages, the cost of evening and weekend calls to most numbers are included. However, there was much discussion of the cost of making calls to numbers excluded from such 'free' packages. In particular, people mentioned calls to utility companies and any calls that connected them to an automated service where callers have to stay on the line for quite long periods of time in order to listen to all the menu options and try to reach the relevant department, person or service.

There was therefore agreement that even with a package or 'bundle' that incorporated off peak calls or mobile phone calls there would still need to be provision for some telephone call charges, in addition to the landline rental.

Transport

As in 2008, all groups agreed that car ownership was not essential and that, as a minimum, it was appropriate to include a budget that covered use of public transport and bikes (for working-age adults) supplemented with some money to enable people to use the occasional taxi for emergencies and trips where public transport was impractical – groups talked about trips to hospital

and getting back from social events late at night.

All of the 2010 groups agreed with the 2008 model of bus and taxi use. However, both the working-age groups without children and older people's groups said that the amount allocated for taxi use in 2008 was now insufficient.

The older people's groups thought that this should be increased from £20 per month per household to £10 per week per household. Among working-age adults without children, different groups suggested different amounts, and for these adults, the taxi budget has been raised to £60 a year for couples and £30 for singles. This was the minimum increase specified by groups who gave the required increase as an exact figure.

Social and cultural participation

The issue of how much social participation is appropriate presents a complex decision that groups can find difficult to reach. However, the 2010 groups were clear in their view that it remains essential that people should be able to socialise with family and friends, and to participate in exercise and entertainment outside the home. The types and patterns of activities suggested did not seem to have altered significantly over time, so that when groups were invited to draw up a list, the kinds of activities were almost identical to those described in 2008. Sometimes the frequency of activities appeared slightly different from those in the original budgets, but this often resolved into a consensus that people could choose to spend more on activities undertaken less often or undertake cheaper activities more frequently.

It is possible that this reflects a change in how people decide to spend their disposable income, preferring quality over quantity, but without a particular impact on the budgets.

"We might eat out every month, but I wouldn't, again I am not the sort of person that would maybe do the two for £10 or two for a fiver, because I would rather go out for a really nice meal, rather than once a week. So I would save up for that."

(Woman, Northampton)

Both the pensioners and the working-age adults thought that the levels of social and cultural

participation included in the 2008 budgets were still adequate. The parents' groups responded slightly differently. All the parents agreed that the original components included for the children's social and cultural participation did not need changing. However, when considering the adults' budget in this area, groups were divided about whether it should be increased or decreased, and one group said that it should stay the same. This rather mixed message indicated that this is a topic that will need careful examination when the budgets are rebased in 2012, but at the present time there is no clear case for making a change.

Holidays

All groups were quick to agree that it was still essential that everyone should be able to have a holiday. Moreover, the length, type and duration of holiday that the groups considered to be adequate as a minimum had also not changed since 2008. The consensus across groups was that the Minimum Income Standard should allow for a one-week holiday in the UK.

"I would say a minimum standard should be that they should be able to go, should they choose to spend the budget in that way, go away for one week a year and still live to that standard at home."

(Woman, Northampton)

When invited to draw up the minimum requirements for the relevant household types using the 'blank sheet' approach, the resulting descriptions were virtually identical to those given by the original groups. Pensioners talked about going on a coach trip that would include half board catering, day trips and some evening entertainment, families talked about two weeks' camping or a one-week self-catering break, and working-age adults without children suggested either a week's modest self-catering holiday or a more luxurious long weekend break.

"I think you need more than days out. I think they need time out as a family away somewhere. Be that in a tent in the middle of a field somewhere."

(Parent, Derby)

These discussions therefore indicated that no changes needed to be made in the types of holiday costs included in the budgets.

Birthdays and Christmas

All participants agreed that everyone should be able to mark Christmas or an equivalent festival by exchanging gifts and cards. 'You can't participate unless you are giving gifts as well as receiving them', said one participant. These occasions would also be likely to involve a social element, either outside the home or entertaining others within it. It was also agreed that people needed to be able to celebrate their friends' and families' birthdays, either through giving presents or being able to join them for a celebratory drink or a meal out.

"more than a present, you're expected to turn up, even if you're skint, at least buy a drink if not two, you're expected to show your face, obviously over the year that adds up."

(Woman, Derby)

However, there was less uniformity in the way participants thought about what minimum needs were and how these could be met. This topic generated more variation than any other. Some groups opted to increase or decrease the amount of money required, sometimes by small amounts, sometimes by larger amounts, while others chose to leave it unchanged except by inflation. As with social and cultural participation, there was no clear rationale emerging from the 2010 groups for changing the 2008 amounts. This is an area that will require particular attention when the budgets are rebased.

Quality and choice

Groups are required to specify the quality of items in budgets, and where they should be purchased. The original budgets used Tesco prices for the food baskets and the majority of the day-to-day household items such as cleaning materials. Participants in the 2010 research were asked if this was still appropriate. Groups discussed the use of discount supermarkets, such as Lidl, Aldi and Netto, but decided without exception that the lists should still use Tesco costs. There was no mention

of any kind of stigma linked to using discount supermarkets, and some people said that it was possible to buy some good-quality items, but that others were inferior, so there were some things that they would buy from these outlets, but others that they would not.

"I've shopped in Lidl and Netto before and you can get some great value, everyday quality stuff cheaply and the other stuff is terrible and not worth the money."

(Woman, Northampton)

It was also mentioned that it was not possible to buy everything on the household shopping list from one discount supermarket, whereas larger supermarket chains were considered to have a more comprehensive range of items at different price levels, which offered the opportunity to make choices about quality and price in one shop, rather than having to travel from shop to shop to buy specific things. In addition, participants said that the discount supermarkets were often harder to access by public transport, and since the budgets did not include a car it was more realistic to base the MIS on a model where people would be able to get the majority of their shopping under one roof.

"I think things need to be priced up at more of a general supermarket than your cheaper ones because they are more easily accessible and many people choose to shop around but Kate and Gary [the working-age case study couple] might not have the time."

(Woman, Northampton)

There was some discussion about the quality of clothing and footwear. Much of the clothing in the budgets was sourced from supermarkets, and this was still thought to be acceptable. Some people suggested that the quality of clothing in supermarkets had improved, but also there were comments about the quality of other retailers' clothing declining over time. Some groups questioned the quality of items sourced at Marks & Spencer, which was identified by the 2008 groups as the source of clothing items that were better quality and that would therefore last longer. However, other groups maintained that

it was still a good source of reasonable quality clothing, and the groups of older people said that Marks & Spencer offered a range of sizes, styles and prices which other retailers might not.

Discussions about whether or not items could or should be sourced second hand were very similar to those in the original research. Again, groups concluded that while it was perfectly acceptable for people to buy second-hand clothing and furniture *if they chose to*, the budgets should not be based on an assumption that they should have to. They said it was not always realistic to expect that items of the right type, size and condition would be available when needed, and that having to look for items in a number of different shops was not necessarily practical.

Review groups – conclusions

This review of the MIS made only limited changes to the budgets, but raised a range of issues that are likely to resurface in the future. As shown in Table 2, there were three areas in which the review resulted in changes to budgets, although only one of these affected the budgets for pensioners. Computers and the Internet were added for those working-age households that did not already have them. Bundled packages of Internet and telecommunications services reduced the additional cost of telephone usage. And for working-age adults without children and pensioners, the limitations of public transport led to an increase in the budget allocated to taxi usage.

Most significantly among these changes, the 2010 review marks the moment in the development of public views of the Internet when groups of members of the public decided to classify it as a necessity for all non-pensioner families. Computers and the Internet have been steadily growing in importance in everyday life in the UK; now, access to the Internet within the home is part of a minimum acceptable standard of living.

Another important finding concerns the groups' decisions not to change most other items, including the budgets for social participation. Despite the longest and deepest recession in recent times, they came to similar conclusions to pre-recession groups about the need for people in the UK to be able to afford a minimum amount of holidays, leisure

activities and other forms of social participation. There was no pressure to reduce the amount spent on such activities, and some individuals in the research would have liked to raise them – although there was no overall consensus that they should be increased. Participants did acknowledge in many cases that we are living through hard times, but this did not seem to cause them to compromise

on what they considered to be necessities. Some groups argued that there is a need to consume more carefully than in the past, but this seemed to apply more to ‘extras’ which people may have been taking for granted – such as foreign holidays – rather than to the more modest set of necessities identified in the original MIS research.

Table 2. Budget items changed as a result of 2010 MIS review

Item	2008 decision	2010 decision	Effect on weekly budgets
Computer and Internet	Computer just for families with school-aged children and Internet just for families with secondary school children	Computer and Internet for all non-pensioner households	Extra cost of computer and Internet offset by reductions in telephone costs. Working-age households without children require an extra £3.45 net for a single person and £7.00 for a couple. Families with children require between £2.10 and £6.55 extra, except those with secondary school children who all make savings of between £4.95 and £8.45.
Telephone	Landlines plus pay-as-you-go mobiles	Landlines and mobiles paid for through contracts and bundled packages, linked to Internet (pensioners still pay-as-you-go mobiles)	
Transport	Public transport plus some use of taxis where needed	Greater taxi budget required for working-age families without children and for pensioners	Increase works out at 58p for couples without children, 29p for singles and £4.77 for pensioner households

4 The 2010 budgets

The MIS budgets for 2010 combine the inflation effects calculated in Chapter 2 with the further changes from the review discussed in Chapter 3. The results are summarised below. More detailed results are shown in the online Minimum Income Calculator at www.minimumincome.org.uk, which allows budgets to be calculated for most types of household where a single adult or a couple live on their own or with dependent children. The calculator also allows for items

such as housing costs to be adapted to individual circumstances.

Overall, the main change in the budgets has been the inflation increase of 3–4 per cent. Changes due to the review are generally smaller. For example, for a single person, the review changes have contributed a 2.3 per cent rise to the 'headline' budget totals reported below, and for a couple with two young children, 0.5 per cent. On the other hand, for families with secondary school

Table 3. Summaries of the MIS for four family types, April 2010

£ per week	Single working age	Pensioner couple	Couple + 2 children	Lone parent + 1 child
Food	44.34	58.53	107.13	51.71
Alcohol	4.69	7.93	6.49	3.73
Tobacco	0.00	0.00	0.00	0.00
Clothing	7.73	10.03	29.58	16.59
Water rates	4.93	5.82	5.70	7.73
Council tax	13.93	18.57	21.66	16.25
Household insurances	1.90	1.75	2.37	2.12
Fuel	9.78	11.54	20.09	17.84
Other housing costs	2.44	3.84	7.73	2.26
Household goods	10.35	12.13	18.96	17.86
Household services	4.42	9.70	9.81	3.91
Childcare	0.00	0.00	199.07	143.78
Personal goods and services	8.95	25.20	29.20	20.76
Motoring	0.00	0.00	0.00	0.00
Other travel costs	19.72	10.00	39.38	19.30
Social and cultural participation	42.16	47.18	104.73	53.68
Rent	52.62	65.45	71.18	66.04
'Headline' total – excluding rent and childcare	175.34	222.22	402.83	233.73
Total including rent and childcare	227.97	287.68	673.08	443.54
Totals excluding:				
Rent, council tax, childcare (comparable to out of work benefits)	161.41	203.65	381.17	217.48
Rent, council tax, childcare and water rates (comparable to after housing costs in HBAI)	156.48	197.83	375.47	209.76
Council tax, childcare (comparable to before housing costs in HBAI)	214.04	269.11	452.35	283.52

children, the review led to savings, reversing some or all of the inflation increase, because of improved deals in buying Internet and telecommunications packages.

Table 3 summarises the new budgets for four family types, with the totals listed in five different ways that allow different kinds of comparison to be made. The 'headline' budget total is the net amount that is needed to cover all expenses except rent and childcare. Rent imposes a substantial fixed cost on families, and the price of an adequate home varies across the country. The online calculator allows the rent (or mortgage) assumption to be adjusted to reflect the situation of an individual or prevailing prices in a local community. Childcare is a large cost for some but not all families with children, and so is shown separately. This too can be adapted in the Minimum Income Calculator. However, for each of these items, an illustrative figure is shown in this report, necessary to calculate the gross earnings required to meet a budget (see Table 5). In the case of housing, the rent on a council flat or house in Loughborough is used as a baseline. This does not show an average rent for the country, but a very modest 'minimum' level, so that few people could spend significantly less on rent and still reach an acceptable living standard. (In a national comparison of local authority rent levels, only 19 per cent of English local authorities had lower average rents for a three-bedroom property than Charnwood, the local authority where Loughborough is located [Dataspring, 2010, Table A2].) In the case of childcare, the cost of full-time provision has been estimated for both lone parents and couples (although not applied in the earnings calculation for couples – see below).

Comparison with benefits

Tables 4, 5 and 6 update comparisons presented in the original MIS report. These key results show how minimum incomes compare to the current levels of benefits, the National Minimum Wage (NMW) and the official poverty line.

As shown in Table 4, basic out of work benefits provide less than half of a minimum income for an adult with no children and about two-thirds for families with children. The safety net benefit for pensioners, Pension Credit, pays about enough for them to meet the MIS, provided that they claim it (which many eligible pensioners do not). The percentage of MIS provided by benefits fell for all these groups, by between one and three percentage points. This is partly because benefit rises of around 2 per cent were less than the inflation rate, and also because of the small additions in household needs identified in the MIS review.

Required earnings, comparison with the minimum wage and the MIS living wage

Previous MIS reports have noted that few families can expect to reach a minimum income as defined by MIS as a result of having one person working full time on the NMW. Table 5 shows that this remains the case in 2010, and indeed the gap between the NMW and the wage needed to reach the MIS has widened considerably.

The Minimum Wage rose by only just over 1 per cent in the year to April 2010. This contrasts with the rises in minimum net income requirements of

Table 4. MIS compared with out of work benefit income, April 2010

£ per week	Single working age	Pensioner couple	Couple + 2 children	Lone parent + 1 child
MIS excluding rent, council tax and childcare	161.41	203.65	381.17	217.48
Income Support*/Pension Credit	65.45	207.19	235.29	140.42
Difference (negative number shows shortfall)	-95.96	3.54	-145.88	-77.06
Benefit income as % of MIS	41%	102%	62%	65%

*Including child benefit and child tax credit

between 2.5 and 6.5 per cent to reach MIS. This gap has been exacerbated by the government's freezing of two key allowances: the income above which workers pay tax and the income above which families with children start having tax credits withdrawn. This means that for each extra pound earned in 2010 compared to 2009, a family with children receiving tax credits will have only 30p more in net income. This helps explain why, for example, a couple with two children with both parents working full time now needs £7.60 an hour, 6 per cent more than last year when it was £7.14.

Some of this rise in the living wage requirement could be reversed from 2011 onwards as the present government delivers its promise of an increased tax allowance. If inflation were again to be around 3 per cent in 2011, we can estimate that the £1000 rise in the tax allowance announced for April 2011 would make the living wage 27p

lower than if tax allowances had only risen with inflation. However, for families with children, part of this gain will be lost by changes in the tax credit system. Despite a rise in child tax credits, a steeper 'tapering' of tax credits as income rises will produce a net loss for a family with two children, resulting in a rise of 15p in the living wage requirement. As costs rise with inflation, the freezing of child benefit could add another 4p. And if tax credit disregards are not raised with inflation, this could add another 6p. The total of 25p in rises in the living wage would roughly cancel out the 27p reduction associated with the raising of the tax allowance.

In order to inform debates about the living wage, the Minimum Income Standard programme has developed a basis for estimating a living wage requirement based on MIS budgets. With the help of tax credits, a large proportion of families with and without children have a living wage requirement in a relatively narrow range. The household type at the

Table 5. Gross earnings required to meet MIS (£ per week), April 2010

	Single working age	One-earner couple + 2 children	Two-earner couple + 2 children	Lone parent + 1 child
MIS (including rent and council tax)	227.97	474.01	673.08	443.54
Gross earnings required	276.85	560.52	570.11	238.84
Hourly wage rate	7.38	14.95	7.60	6.37
Amount above the National Minimum Wage, hourly	1.58	9.15	1.80	0.57

Note: assumes each earner works 37.5 hours a week. Childcare costs included for two-earner couple and lone parent. The Minimum Wage is £5.80 an hour in April 2010. (It will rise to £5.93 in October 2010.)

Table 6. MIS compared to median income (£ per week), 2008/9

	Single working age	Pensioner couple	Couple + 2 children	Lone parent + 1 child
a) Before housing costs: median income 2008/9	272.69	407	569.80	354.09
MIS excluding childcare and council tax	201.54	253.45	428	264.48
MIS as % of median	74%	62%	75%	75%
b) After housing costs: median income 2008/9	198.94	343	480.20	267.54
MIS excluding childcare, council tax, water rates and rent	143.64	182.37	351.91	191.90
MIS as % of median	72%	53%	73%	72%

Note: MIS figures are an average of April 2008 and April 2009.

top of this range is the two-earner couple with two children, where both parents work full time, and this family's requirement has been selected to represent the living wage. Thus, the MIS living wage for April 2010 is £7.60 an hour, which is at least enough for a single person (who requires £7.38), a couple without children (£5.10), with one child (£5.55) or with two children (£7.60) and a lone parent with one child (£6.37). A fuller explanation of the basis for this, and a calculator to make adjustments in different parts of the country according to rent and council tax levels, can be found at <http://www.minimumincomestandard.org/livingwage.htm>.

The required earnings figures in Table 5 also produce the 'headline' annual earnings required in order to meet a minimum income standard. These are now £14,436 for a single person and £29,227 for a one-earner couple with two children.

Comparison with the poverty line

Finally, in order to compare MIS to the poverty line, Table 6 looks at the percentage of median income represented by an MIS budget. Previously, this has been based on an estimate of median income for the current year, derived from the latest income surveys, covering earlier years. However, such estimation is subject to considerable errors, especially in today's unstable economic circumstances. A more meaningful comparison is now possible, comparing the income and poverty figures published this year, which cover the period from April 2008 to March 2009 (Department for Work Pensions, 2010), with an average of the MIS figures for 2008 and 2009. These results are shown in Table 6.

These revised results confirm that most budgets are significantly above the 60 per cent median threshold that is taken as the official poverty line. (Our original estimate of these figures turned out to be very close to this more reliable calculation.) 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, many will effectively require more than the 60 per cent median, because most pensioners live in houses rather than flats as assumed for the minimum, and this imposes extra costs such as heating.

In 2010, it is likely that the percentages of median income required for MIS will be somewhat higher than those shown in Table 6. This is because the MIS level has risen significantly in a period when pay rises have been small or non-existent, and hence median incomes are not likely to have increased by much. This partly reflects the fact that the cost of a minimum income rose faster than general inflation over this period (see Chapter 2 above), but also indicates that someone on a minimum income will have to go without necessities as a result of any general cut in living standards unless their income rises in relation to the average income.

5 Conclusion

The context of setting a minimum income standard for the UK has changed considerably in the short time since the first MIS research was published in 2008. People are no longer asking what is needed as a minimum to participate in an increasingly affluent society, but rather what areas of consumption remain essential in difficult economic times. Yet the evidence from the first review of the MIS budgets seems to indicate that the answers to the two questions are remarkably similar. The ways in which people define and identify necessities have not obviously been affected by the recession.

This finding suggests that although many people are bound to experience enforced reductions in their standards of living as a result of the economic downturn, there is not so far an 'austerity effect' causing the threshold of acceptable living standards to be lowered. Nevertheless, there are signs from the research that people are thinking more carefully about consumption. Some people are asking themselves whether certain things that they may previously have taken for granted, like a foreign holiday, are really things that they could do without. But a foreign holiday was not seen as essential in the original MIS research, in which participants were already thoughtfully distinguishing 'wants' from 'needs'. The fact that today's groups are drawing this line at a similar point (e.g. you do need a holiday but it doesn't have to be abroad) suggests that MIS was slightly ahead of its time in focusing people's minds on what is really essential. The difference today is that more people are being forced to make these distinctions in their everyday lives rather than just in a research exercise.

At the same time, other changes are taking place that could make things harder for some people on low incomes to afford a minimum standard of living. In several ways, this year's research is suggesting that people on low incomes are especially harshly affected by current economic trends and by the government's response to them.

First, an important finding of MIS has been that the cost of a 'minimum' basket of goods and services has been going up faster than general inflation. This means that even where people on low incomes have had their incomes uprated by price indices, their living standards may have fallen. This report has shown a clear trend in that direction over the past decade that could have made someone over 10 per cent worse off even though official statistics show no change in their 'real' income.

Second, the review revealed an example of where a new need, caused by changing technology, can impose significant extra expenses on someone on a minimum income. The cost of owning a computer and getting the Internet, included in the MIS budgets for the first time in 2010, may not seem great to most people. Yet for a single person living at the minimum, it causes a 2 per cent rise in required net income, and a 3 per cent rise in required earnings. At a time when pay rises are often not even keeping up with inflation, this makes it harder for such a person to live at a minimum acceptable level.

Third, what may seem like small changes in the tax and benefits system can have a big impact on people at a minimum standard of living. In April 2010, the government did not uprate income tax or tax credit thresholds. For low-income families with children in particular, this substantially increased the wage level needed to meet the growing cost of an MIS budget. With wage levels stagnating, the disposable income of low earners in relation to the minimum required was thus reduced. The incomes of people eligible for tax credits are in this way highly dependent on Budget decisions taken by the Treasury. The new government's policy of raising tax allowances will help some lower earners towards reaching the minimum income standard. However, steeper withdrawal rates of tax credits and a freezing of Child Benefit will partly offset this gain, which could potentially be wiped out completely for some families if income thresholds for tax credits also remain frozen. Unless these also rise at least with inflation,

low earning families could find that what is given with one hand is taken away with the other.

On entering Downing Street, the new Prime Minister said he wanted '... to make sure that my government always looks after the elderly, the frail, the poorest in our country.' People on low incomes remain highly vulnerable to the effects of today's difficult economic situation. The risk is that a growing number will find themselves below a minimum acceptable standard as defined by ordinary people. Without action to combat these effects, more people than ever could be excluded, for economic reasons, from feeling fully part of society.

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