

# MINIMUM INCOME STANDARDS

## WORKING PAPER ONE

### THE RESULTS OF UPDATING THE FBU BUDGET STANDARD IN DIFFERENT WAYS.

#### Background

As explained in the proposal, one of the major criticisms levelled at budget standards methods of estimating minimum incomes is that they are a 'moving target' over time. With the cost of the initial budgets changing annually with prices and with the content of the budgets liable to change as standards of living increase and consumer priorities possibly change. We aspire to produce proposals for adjusting budget standards over time that will provide a more rigorous method of dealing with changing incomes and living standards.

Whilst the initial budget standards can be relatively easily updated on an annual basis by recosting of items in the budgets, over time it will be necessary to adjust the budget standards to reflect rising living standards. Making such adjustments only occasionally is problematic since it potentially causes estimates to jump every time the standard is rebased, with estimates prior to that jump understating what families need by today's standards.

In summary we aspire to

- propose a basis for periodic rebasing of the budgets
- produce a basis for an 'annually adjusted estimate' of income standards in between rebasings.

#### A basis for periodic rebasing of budgets

We shall be doing more work on the basis for the periodic rebasing of budgets. But the idea is rebase for one or a few standard families and apply the rebased budget to other family types using an equivalence scales based on the original budgets.

How often a subset needs to be rebased will depend crucially on the rate that living standards are changing.

#### Annually adjusted estimates

This paper reports the results of some preliminary work we have done which compares the outcomes of adjusting Family Budget Unit budgets by different indices. The last budget standards produced by the FBU were rebased in 1998 for families with young children, and in 1999 for pensioner households. What this paper does is to explore what has happened to this budget standard over time given our current updating method and how it would have varied using alternative methods. The FBU budgets have been updated since then by the Detailed Retail Price Index (Commodity sub-groups) and it can be seen in the Table and in the Chart that the overall budget produced using this method is lower than that which would have been produced using the RPI. The original budget started above Income Support scales and has now fallen substantially below those scales.

Table 1 shows the results of a variety of alternative uprating formulae that we could have used. The indices tried are:

- A** RPI Index - Commodity sub groups
- B** RPI Index - all item
- C** Rossi index - or New Rossi Index is the RPI (all item) less rents, local taxes and mortgage interest payments.
- D** CPI index - based on similar principles to the RPI, includes additional items such as university accommodation fees, foreign student University fees, unit trusts, shares etc and excludes mortgage interest, council tax, house depreciation, road tax, building insurance and health service costs.
- E** Average earnings - ALL employees - since 2004 replaced by the Annual Survey of Hours and Earnings (ASHE)
- F** Midpoint between prices and earnings
- G** Net Income after housing costs (couple with two children)  
2/3rds average earnings. Net income defined as earnings less Income Tax, NIC, rent and local taxes and plus benefits (Housing Benefit, Council tax Benefits, Inland Revenue Tax Credits)
- H** Income Support rate index (couple with two children)

**Table 1 Budget Standard for a Couple with two children: uprated by different methods**

	A	B	C	D	E	F	G	H
Base Jan 98	230.13	230.13	230.13	230.13	230.13	230.13	230.13	230.13
1998	233.98	234.60	233.69	232.83	235.30	234.95	233.98	235.61
1999	238.14	238.35	238.29	236.44	244.09	241.22	245.90	255.08
2000	240.37	245.42	242.15	237.79	254.69	250.06	297.70	282.39
2001	246.56	249.75	246.90	240.50	267.11	258.43	317.81	303.66
2002	251.93	253.50	249.72	243.65	277.19	265.35	327.57	314.53
2003	256.37	261.44	253.87	247.26	284.43	272.93	336.13	337.40
2004	261.68	267.93	256.99	250.19	297.36	282.65	351.93	355.69
2005	268.73	276.44		254.92				362.97
2006	276.13	283.51		259.26				373.12
Mean	252.66	256.77	245.94	244.76	265.74	257.94	301.57	313.38

Gaps in data awaiting the 2005 edition (DWP) Abstract of Statistics for Benefits, Contributions and Indices of Prices and Earnings (to be released in September 2006)

The Chart shows a comparison of uprating methods over a period from 1998 to 2004. From almost the point of FBU publication the Income Support rate index for a couple with two children showed a major upwards adjustment. This continued to rise significantly faster than average earning and the FBU budget standard uprated by the detailed RPI. Had movements in the Income Support rates for a household with two children been used as an index, the weekly budget standard in 2006 would have been £96.99 more than we achieved using the RPI commodity sub group index.

Has anyone got any suggestions for other indices?

**Chart 1 Comparison of uprating methods over a nine year period 1998 to 2006: couple plus two children**

