Why the UK needs an adequate minimum income and what needs to change

Definition of Minimum Income

Minimum income schemes are income support schemes which provide a safety net for those who cannot work or access a decent job and are not eligible for social insurance payments or those whose entitlements to these have expired. They are last resort schemes which are intended to ensure a minimum standard of living for individuals and their dependents when they have no other means of financial support.

The UK system of minimum income schemes

UK Minimum Income schemes provide tax-funded benefits to eligible households. UK government spent £163.2 billion on cash benefits in fiscal year 2013-2014. At £83.14 billion, State Retirement Pensions were the single largest part. The second largest sum, Housing Benefit, paid until recently directly to landlords, was £17.88 billion. Third was Disability Living Allowance, £13.76 billion. These are also the main areas of spending increase in recent years. Job-Seekers’ Allowance, paid to unemployed people able to do paid work, was £3.8 billion, and is a declining expenditure. A TUC survey has shown that people think 41% of the total welfare budget goes on unemployment benefits; the true figure is nearer 3%.

There is a generalised system of support for people of working age, but no robust, adequate, single UK minimum income scheme in which the same framework and conditions apply to all beneficiaries.

The Department for Work and Pensions has responsibility for the two main schemes for people of working age who are not currently in paid work. These are Job-Seeker’s Allowance (JSA) and Employment and Support Allowance (ESA) which is for people with some limitation on their current capacity to do paid work. The ESA group is further divided into two groups who get paid different amounts according to their work capacity. Job-Seekers deemed to have sufficient capacity for work get an allowance of £72.40 per week and a couple gets £113.70. There is also a basic family premium of £17.49 per week and an allowance for dependent children under 18 of £66.33 a week. There are allowances to contribute to the additional costs of personal ill-health or disability and allowances to help pay for rental housing and local tax. There is an ‘earnings disregard’ of £5 a week for a single adult, £10 for a couple, before income from any source in the household is means-tested. Regardless of past contributions record, means-tested JSA excludes from the allowance all those whose household income is above the support threshold of £6000 (from savings, pensions or earnings, including of their partner) or whose financial capital is greater than £16000, or who work more than

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1 Welfare benefit spending is reserved to the UK level in England, Scotland and Wales but is devolved to Northern Ireland, which has not implemented the Welfare Reform Act of 2012
24 hours per week on average. There are different rules for means-tested allowances for people with no current capacity for paid work.

Means-tested JSA and ESA are not paid as of right. They are conditional on doing everything a job advisor requests. Otherwise people are sanctioned with loss of benefits for periods of four weeks to three years. Citizen’s Advice Bureaux found the rate of sanctions has increased 60% since 2012.

Asylum seekers get support from the Home Office. They are not allowed to do paid work. Those who satisfy a destitution test are put in supported housing, often of very poor quality. A single adult also gets cash of £36.62 a week (just over £5 a day) and a lone parent £43.94. A baby is worth an extra £5 a week and £3 for a child aged 1-3.

The Treasury pays income top-ups to low paid employees (working tax credits, with additional support for children). Four out of five poor households have someone in paid work. Over six years, this support cost £171 billion in 2012-13 prices. It is a subsidy to low pay employers.

A new system, ‘Universal Credit,’ is being ‘piloted’; it is delayed and will be launched in 2017. It rolls up six different benefits into one (but not housing benefit). It is paid into the bank account of a householder, each calendar month. It is intended to simplify the system, make it react more quickly to changes in people’s circumstance and improve the incentive to take up paid work. But severe welfare cuts have reduced the planned work incentive and even reversed it for some groups. It is difficult for poor households to budget over a month and they risk destitution from delayed payments. The money is also more likely than now to be paid to a male bank account. Universal Credit extends means-testing and mandating of work-related activity or additional hours of work to people already in paid work, risking stigmatising them and further blurring the distinction between being in and out of paid work.

The UK Coalition government has made £19 billion of cuts to welfare benefits and the Conservatives are promising another £12 billion. At the same time Local Authorities are losing about 30% of their budgets – more in poorer areas with little or no loss in the richest, so that services that could help support low income households in poor areas are increasingly not there or not adequate to the task.

Problems with the system

1. The benefits paid to working-age people are intended to meet need but are not based on an explicit assessment of what is need. The focus groups in the Joseph Rowntree research agree minimum budgets. By June 2014 a single adult of working age needed £197.86 a week before rent; a lone parent with one child needed £291.03 and a couple with two small children needed £482.29 a week before rent and childcare costs. Higher costs mean that these figures are between £25 and £40 more in rural areas.

2. Working-age benefits are too low for a decent life and lower than the state pension. People’s mental and physical health suffers from poor living conditions, stress and debt, reducing chances of getting into paid work and/or out of poverty now and in old age.

3. The cost of living is rising most for poorer people (e.g. for rent, food, water, heating, transport). But working-age benefits were uprated by only 1% and are now to be frozen. This has the biggest impact on cutting purchasing power over time. It does not apply to those
unable to work at all or past retirement age. But millions of working-age adults and children are getting poorer absolutely and relative to the rest of society.

4. Millions of people do not get what the government says they need. Take-up of JSA is only 60%-67%; and ESA 77%-89%, mainly due to complexity, lack of information and stigma.

5. Administrative delays and sanctions mean risk of destitution. About half of the 913,138 visits to over 400 Trussell Trust food banks in 2013-14, (a 300% increase on the previous year) were due to administrative delays or other failings of the benefits system or because people had been sanctioned with loss of benefits and often ‘signposted’ to a food-bank.

6. More people are eligible for means-tested benefits and for longer because more people are poor and the system is trying to do too much. This is due to the withering away of non-means tested insurance-based benefits, an increase in involuntary part-time or non-standard types of paid work, mostly low paid, and means-tested financial support for childcare.

What needs to change?

1. Statutory Minimum Wages must increase; employers must be strongly encouraged to pay a decent living wage, to cut the bill for topping-up low pay and leave headroom for higher benefits.

2. The original aims of Universal Credit – to provide a simpler system with better work incentives and into-work support, must be put into practice.

3. The level of working-age benefits must be indexed to the cost of living (state retirement pensions are linked) and be explicitly based on assessment of need. All benefits are below the consensually-based Joseph Rowntree Foundation’s Minimum Income Standard (MIS). State pensioner couples get 95% of MIS. Single adults of working age get 39% of MIS and couples with two small children and lone parents with one child get 57% of MIS. Child Poverty Action Group (CPAG) estimates the cost of a child is £160 a week until age eighteen MIS could be a benchmark for progressive introduction of adequate minimum income.

4. Administration of benefits and services must be simple, timely and support the dignity of people in need. Sanctions must be a last resort and not be used to punish minor issues or to bully and goad people into exploitative working conditions or risk of destitution.

5. Provision of core services must be distinguished from means-tested benefits. Good quality universal childcare would cut complexity and costs of means-tested benefits; improve incentives and capacity to take up paid work; reduce stigma and most important, support child well-being and development.

6. ‘Active inclusion’ links adequate minimum incomes to decent work and good quality services. It is the most effective approach to getting people into sustainable paid work with a chance of progression and of staying out of risk-of-poverty. So paid work must have decent minimum terms and conditions and short-sighted cuts in local services must be reversed; they just shift costs round the system and onto the backs of those least able to bear them.

7. Misinformation and disinformation by politicians and media about the costs of working-age welfare and the risk of fraud is corrosive of public support and social cohesion. It has to stop; it already hurts and kills people.

8. There has to be a serious effort to rebuild the contributory basis of social insurance to cover risks of unemployment, ill-health and old age.
What’s stopping us?

Poor people cannot shoulder the burden alone of fighting for a decent life. Yet there are too few organisations (and resources) lobbying and campaigning for adequate minimum incomes for all, despite it being at the root of so much of the increased need that organisations face and struggle to meet.

UK trade unions focus on defending and improving wages, but many low paid workers are not covered by trade unions and also depend on benefits. Many faith-based and secular NGOs help to support people at risk of destitution or to deliver services to people in difficulty, especially in the gaps left by loss of state services or due to new types of need not yet addressed by government. But some organisations are not being explicit with politicians or the public about how much of the human cost is rooted in inadequate incomes. Local authorities are struggling with increased need, lack of affordable housing and the costs and stigma of chasing many poor people for small sums due in Council Tax or other charges. Information or campaign groups like CPAG, Who Benefits? and the Just Fair Consortium have too few resources to devote to raising the demand for adequate minimum incomes.

A major reason for so little action on adequate incomes is the lack of political support especially as better incomes for working-age people is not ‘popular’ with the public. And some organisations dependent on government funding are nervous about prioritising issues politicians don’t like.

But the Minimum Income Standard shows people on benefits now have very much less to live on than the public finds socially acceptable. As well, the 60% of median income threshold for risk-of-poverty shows people on low to moderate incomes are not keeping up with the rest of society over time.

For six years the narrative of ‘austerity’ and emergency has been used to cut public spending in a ratio of at least 85% cuts to 15% tax rises. People on low and moderate incomes are bearing the biggest burden despite not being responsible for the banking crisis or the subsequent public debt. Oxfam has shown that five families in the UK are now wealthier than the poorest 20% of people combined – that’s 12.6 million people. Chief executives of big companies got a 21% pay rise in 2013. Pensioners got 2.7%. Most of the people of working age in ordinary jobs or on benefits got 1% or nothing or a cut. We are told we are out of recession but there is no let up in cuts to the welfare state. Now the Coalition Government says it will cut the deficit using 100% spending cuts and no tax rises. What vision of the future UK is that? Are we aiming to build a better, fairer society, or not?

What next?

The UK must have an explicit objective of moving towards an adequate minimum income for all people. It should be enough to let people live in dignity, pay their bills, make some choices about what they buy – not just second-hand or poor quality, have a little to spare for birthday presents and a few treats and participate in local life with the rest of us – just an ordinary, normal, everyday life.

Poverty Alliance and the Scottish Campaign on Welfare Reform (SCoWR) have shown that it is possible to have a strong and positive public debate on the future of welfare for people in and out of work. Surveys by YouGov, Survation and ICM show that 60% of those surveyed supported raising the National Minimum Wage rate to the Living Wage rate; 56% wanted a 75% tax rate on millionaires;
there are majorities for renationalisation of major industries, to ban zero-hours contracts and opposed to academy schools and in favour of Local Authority control. Just over half supported a ‘Robin Hood’ Tax and more than 40% supported rent controls in the private sector. These results show the public retains a sense of solidarity and a belief in the value of state intervention to address poverty, inequality and injustice. The right approach to campaigning for incomes adequacy must connect to these values and beliefs.

Organisations with political influence, cash and/or ‘boots on the ground’ must recognise their common interests and build an alliance and a minimum agenda that is put with vigour before the public and politicians. There is an existential threat to their mission if lack of compassion grows and desire for social justice withers. Adequate minimum income is the foundation stone of a good - and a prosperous - society.

UK charities, trade unions, campaigners, people on benefits, academic experts and concerned media must step up now and work together more, better and smarter to get adequate minimum incomes up the agenda for the 2015 election. The poor cannot wait.

The European Minimum Income Network (EMIN) project

Across 30 countries in Europe a major research project has been analysing current minimum income schemes in order to prepare an EU roadmap towards achieving adequate minimum income standards. EMIN calls on all Member States of the EU to put in place adequate minimum income schemes that are accessible for all who need them. To achieve a level playing field across Europe, EMIN wants an EU Framework Directive on Minimum Income schemes that would adopt common principles and methodologies and definitions of adequacy. For more information on EMIN go to http://emin-eu.net

There will be a second project launched in 2015, focused on building national support and a stronger EU framework for adequate minimum incomes.

For information about the European Anti-Poverty Network (EAPN) which leads on the EMIN project go to www.eapn.eu or contact team@eapn.eu

The UK minimum income report (October 2014)

Available at http://povertyalliance.org/what_we_do/networking/eapn/minimum_income or directly from Katherine Duffy k.b.duffy@talktalk.net

For information about EAPN in the UK contact nazek@migrantvoice.org or peter.kelly@povertyalliance.org