

# **‘Love the work, hate the job’**

**Low Cost but Acceptable wage levels and the  
‘exported costs’ of low pay in Brighton and Hove**

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**May 2003**

**ISBN 1 901177 43 2**

## FOREWORD

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## **ACKNOWLEDGEMENTS**

Thanks are due to Steve Foster of the Brighton and Hove UNISON branch for helping to get this study off the ground, for recruiting the key members of the interview team and for constant help and advice. Thanks too to Deborah Littman of the Bargaining Support Group at UNISON and Heather Wakefield, Head of the Local Government Service Group, for arranging the funding. Rev. Paul Nicolson of the Zacchaeus 2000 Trust made useful comments on several sections in the report.

Steve Chapman of Brighton and Hove Council and Adrian Davies of Brighton Citizens' Advice Bureau formed a duo of deeply experienced sounding boards and their expertise was vital to the task of calculating the LCA data set out in section 3.

The survey team, Sue Beatty, Martin Bennett, Paul Flynn, Denise Lewis and Angela Sandrino, participated in the design of the Interview Schedule and then worked very competently to a tight timescale to carry out the survey. Paul, in addition, designed the database for the analysis of the findings.

Julia Stone, a Research Officer in the Health and Social Policy Research Centre at the University of Brighton and part-time CAB worker, joined the interview team for some of the interviews, helped to analyse the results, carried out the extensive literature search reported in section 4 and was effectively the co-author of that section.

Finally most thanks are due to the 24 people who agreed to be interviewed, whose story this is and without whom there would be no report.

## **COVER DESIGN**

Thanks to Judy Herbert of Information Services at Brighton University for designing the cover, to the Curator of the small but excellent Tolpuddle Martyrs' Museum at Puddletown in Dorset for permission to reproduce one of the exhibits in the Museum and to 'Prinny' for providing the almost contemporary symbol of opulence with which to counterpoise it. Plus ça change...

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# SUMMARY

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## Aims

This report has three aims:

1. To identify the Low Cost but Acceptable income level for the Brighton and Hove area applying the methodology developed by the Family Budget Unit and used in several previous studies and then to compare this required income level with wage levels in the area.
2. To assess by means of a survey of low paid workers the effects that living on a very low income in a high cost area is having on other aspects of life – on health, motivation, leisure and recreation, family life, safety and so on.
3. To identify and explore some of the ‘exported costs’ arising from these adverse effects so as to provide evidence to support UNISON’s view that ‘Maintaining a low minimum wage is a false economy. The result is...costs borne by the whole community.’ (UNISON 2002)

## Organisation of the report

### Section 1 – Setting the context

**Section 1.1** discusses some definitions of ‘social exclusion’.

**Section 1.2** identifies the general nature of the problem.

**Section 1.3** reviews the Government’s most recent policy response – the new system of Working Tax Credits and Child Tax Credits.

**Section 1.4** considers some positive and negative features of these new credits.

### Section 2 - Present poverty levels

**Section 2.1** reviews the Government’s intentions concerning the reduction of poverty and inequality.

**Section 2.2** identifies the progress made in reducing poverty at the national scale since 1997.

**Section 2.3** focuses on Brighton and Hove and draws attention to the need to calculate living costs in specific localities and then to compare them with local incomes in order to assess the effects of anti-poverty policies at the local scale.

### Section 3 - The empirical findings of the project

**Section 3.1** sets out the origins of the Low Cost but Acceptable budget standard then applies the methodology to the Brighton and Hove area by updating the ‘standard’ costs for inflation and establishing the local level of the ‘variable’ costs (housing,

Council Tax, etc.). Calculations for the two household types used in the LCA model are made on a number of different work patterns. The key findings are those reflecting UNISON's policy that employees should be paid a living wage in the context of local living costs and should not be dependent on means tested benefits or on excessive overtime working. The findings on this basis are:

Household type and work pattern (both household types include children aged 10 and 4)	Weekly £ net income needed for LCA level	Weekly £ gross income needed	Annual £ gross income needed	Hourly £ rate needed
2 adults (1 FT+1 PT)	329.53	354.26	18,421	<b>6.38</b>
2 adults (1 FT)	262.53	301.51	15,680	<b>7.83</b>
2 adults (1 PT)	262.53	301.51	31,361	<b>17.74</b>
1 adult (FT)	332.13	405.39	21,080	<b>10.53</b>
1 adult (PT)	269.13	311.36	32,381	<b>18.32</b>

For a two adult, two children household with one adult working full-time the hourly rate needed to live in Brighton and Hove at the Low Cost but Acceptable level without recourse to means tested benefits or overtime is **£7.83** per hour. If one adult is working full-time and one half-time the rate required is **£6.38** per hour (compared to the east London LCA required rate of **£6.30** per hour in 2001 – Wills 2001).

**Section 3.2** reports on the findings of the survey of 24 low paid employees working in the care sector, as teaching assistants, as general service workers for Brighton and Hove Council and in several other low paid jobs. The average hourly rate found was **£5.95**, nearly £2 below that required in the one adult worker case to live at the LCA level. The survey found that almost all the workers interviewed were stressed, demoralised and de-motivated by poor pay, poor working conditions, lack of available training opportunities, management attitudes and lack of job security. While most were very committed to the work they were doing they found the pay and working conditions inadequate.

**Section 3.3** examines the effects of low pay and long and irregular hours on other aspects on life. Nearly half of those interviewed reported they were affected by stress at work, nearly three-quarters could not eat as healthily as they wished. Many reported very restricted social lives, few had a regular holiday, there was low involvement in recreational and voluntary activities, little neighbourly activity and many were unable to invest in devices to improve home security and personal safety.

**Section 3.4** gives an overall summary of the findings of the survey.

**Section 3.5** sets out some observations by frontline service providers in the health, education and care sectors to complement the survey findings.

**Section 3.6** combines the LCA calculations and the survey findings, identifies the differences between the average rate of pay found in the survey and the LCA requirements and gives indicative figures of the per household cost to the economy in benefits and tax credits of making good the difference.

**Section 3.7** argues that low pay is a clear barrier to the Government's intention to increase 'social inclusion'.

## **Section 4 - The costs of poverty**

**Section 4.1** argues that the private stress associated with low pay turns into public costs which impact on a wide range of budgets.

**Section 4.2** reviews some literature on the 'health gradient' relating low socio-economic status to poor health.

**Section 4.3** identifies approximately forty 'exported costs' of poverty and poor living conditions (many of which had been explicitly mentioned by respondents in the survey).

**Section 4.4** reviews the growing number of studies elsewhere in the world that are seeking to assess the costs of poverty (including many of the costs identified in section 4.3).

**Section 4.5** argues that the achievement of the targets in the Public Service Agreements, both at national and local level, is being materially impeded by poverty and the associated poorer health and living conditions.

**Section 4.6** shows that the categories of public expenditure in which the 'exported costs' of poverty are felt have grown rapidly in recent years and now consume over two thirds of total public spending.

**Section 4.7** proposes the type of labour intensive, real time research on varying population cohorts that is now required to establish more firmly the effects poverty has on generating 'exported costs'.

## **Section 5 - Conclusions, arguments for higher pay and next steps**

**Section 5.1** sets out fifteen conclusions, each referenced back to the relevant section of the report. A key conclusion is that the combination of high living costs, high housing costs and low pay levels in Brighton and Hove is having a number of adverse effects both on motivation and attitudes to work of several groups of workers vital to the local economy and society and that the spin-off effects on other aspects of their lives are serious and costly.

**Section 5.2** advances four arguments for decreasing poverty levels by means of higher pay rather than the extension of in-work support in the form of credits.

**Section 5.3** proposes that next steps should include pay bargaining informed by knowledge of the varying local living costs as established by some standard methodology such as the LCA method and that research on the 'exported costs' of poverty should be further developed in a systematic and co-ordinated fashion.



# 1. CONTEXT – ‘SOCIAL EXCLUSION’

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## 1.1. The meaning of ‘social exclusion’

This study of the effects of living on low incomes in the Brighton and Hove area is undertaken in the context of the Government’s drive to end or reduce ‘social exclusion’. The meaning of this term, which is of French extraction, was clarified in the course of a survey of poverty and social exclusion undertaken by the Office for National Statistics in 1999 (Joseph Rowntree Foundation 2000b). Exclusion was seen to have four dimensions - there could be exclusion from adequate income or resources, from the labour market, from services and from social relations.

The European Union recognises both the cultural specificity of poverty and exclusion and the need to have a system in place to identify minimum income requirements. A European Commission recommendation to member states dated 24 June 1992 identified the need to:

...combat social exclusion [by] fixing the amount of resources considered sufficient to cover essential needs with regard to human dignity.

The condition, and the Government’s response to it, has been usefully discussed by David Batty (*The Guardian*, 15 January 2002):

‘Social exclusion is a relatively new term in British policy - not only referring to poverty and low income but to some of their wider causes and consequences. The government has defined social exclusion as "what can happen when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime, bad health and family breakdown".

By the mid-1990s Britain had more children growing up in unemployed households than anywhere else in Europe, and the highest teenage pregnancy rate. Child poverty had trebled between 1979 and 1995; notified drug addicts quadrupled in the decade to 1996, and in the early 90s there were about 2,000 people sleeping rough in London every night.

Within a few months of coming to power in 1997, New Labour launched the social exclusion unit (SEU) in a blaze of publicity to analyse the reasons behind these trends. The unit published a series of reports on five key issues: neighbourhood renewal; rough sleepers; teenage pregnancy, young people not in education, training or employment, and truancy and school exclusion.

The reports criticised the way central and local government had in the past failed deprived groups and areas. They found there had been poor investment in measures to prevent social exclusion and little effort to reintegrate those who had become excluded through unemployment,

homelessness and so on, while deprived areas had fewer basic services such as GP surgeries. The SEU also claimed that previous efforts and funds had been wasted because of a lack of coordination, both centrally and locally...The government then set up Whitehall units for neighbourhood renewal; rough sleepers; teenage pregnancy, and children and young people to improve joint working between departments on policy and delivery....'

## **1.2. Management problem or structural problem?**

Government's definition of the problem, its use of the inherited adjective 'social', its choice of manifestations and the general direction of response strategies are all instructive. The focus was immediately on the 'tip of the iceberg' manifestations – drug addiction, rough sleeping, teenage pregnancies and truanting children. Moreover, to judge from the emphasis given to area-based programmes such as New Deal for Communities, these were assumed to occur largely in 'deprived communities'. The implication was that outside these relatively limited issues and areas the 'social exclusion' problem is of secondary concern. This approach serves to deflect attention away from the difficulties of the millions who are not on drugs, not on the streets and not on probation but simply on their beam ends.

Embedded in this thinking, in terms used by Habermas (1976), is the notion that poverty and deprivation are to do with local malfunctions in management and service delivery, not with structural forces. They are conditions that affect a limited number of people who are not coping very well and who live in strictly delimited areas - mostly in the 'inner cities' on 'deprived estates'. They are a consequence of the failure of local service providers to work in a sufficiently 'joined up' way and of local residents to 'participate' in the regeneration of their areas. Less frequently discussed is the widely occurring poverty deriving from structural factors that are economic rather than social in nature. These include the rapid introduction of new technologies requiring new skills and the catastrophic contractions in employment in many areas resulting from globalisation tendencies.

These structural factors had serious impact on the Brighton and Hove area in the mid to late 1970s. Creeds were at that time the major producer of teleprinters in the country and they employed about 2,500 workers on an industrial estate in east Brighton. The replacement of mechanical by electronic processes and the assimilation of the company by STC and then by the multi-national ITT led to the rapid closure of the local plant (Brighton Labour Process Group 1976). Similarly Gross Cash Registers, then the only British owned producer of cash registers, employed nearly 1,600 workers on the same estate. In the late 1970s they also fell victim to rapidly developing electronic check-out technology and the internationalisation of production (Brighton Socialist Economists Group 1977).

There were several other important plant closures in the immediate area and the overall effect was the loss of 6-7,000 local manufacturing jobs in east Brighton. Given that little replacement employment was found for some time, and that then most of it was in the financial services sector in the town centre, it is evident that the effects on the incomes and welfare of east Brighton residents were extremely serious. To compound the problem Brighton and Hove as a whole has a high proportion of its

labour force in the hotel, restaurant, retail and other service sectors where pay is known to be below average (*Social Trends* 2003, Table 5.9).

Additional structural factors affecting local residents have been the downward pressures on pay and staffing levels in the public sector. This has stemmed from public spending constraints over the past three decades as post-war Keynesian policies have given way to neo-classical orthodoxies, and more recently have been subject to the adjustments required to meet EMU entry conditions. This has had serious effects particularly on housing investment programmes (for a review of the sharp decrease in housing investment see Ambrose 2003) but also on other social spending programmes. Allied to this there has been a significant and so far largely unreversed rise in income inequality from about 1980 to the late 1990s (Palmer et al. 2002) and in many areas (notably the study area – see Brighton and Hove UNISON 2001) recent rises in housing costs well above the rate of inflation.

### **1.3. Some Government responses**

Since the Government's diagnosis of the consequent difficulties is that they are largely limited to pockets of 'social exclusion' a key strategy has been to address the locally occurring manifestations with a series of area-based initiatives or special area-based programmes. The bewildering multiplicity of initiatives has been referred to in one King's Fund publication as 'the regeneration maze' (Edmans and Tarifa 2001). Most programmes require areas to bid competitively for funds, taking pains to demonstrate how deprived they are (sometimes with the judicious use of 'lowered baselines'), most demand 'resident-led regeneration' and all consume vast amounts of administrative, management and residents' energy in the difficult search for 'joined up working'. In return the special programmes typically confer additional funds that are often only 2 to 3% of the 'mainstream' spend in the areas concerned – although they are often conceived as far more weighty by adjacent areas of similar deprivation that have not been successful in attracting special funding.

This perception of the limited distribution of poverty is partly contradicted by the evidence of numerous poverty studies and the 'area-based initiative' (ABI) form of response has attracted criticism for several decades now (for a review of some of the critiques see Ambrose 2000, section 9). One study (Berthoud 2001) has shown clearly that such programmes are an inefficient way of reducing poverty since low income households are almost ubiquitously distributed across the country and only about one third of 'poor' people live in 'low income' postal sectors. Townsend (1979) made much the same point over twenty years earlier.

In addition to the special area-based programmes Government has placed much emphasis on the 'work' route out of poverty (Levitas 1998), mirroring the emphasis placed on this by successive administrations in the United States. This policy has been underpinned by the introduction of the National Minimum Wage and by the increasing use of tax credits for those in work. Although administered by the Inland Revenue these credits are not 'tax allowances' in the form of sums deductible from income before tax is computed but means-tested payments via the pay packet to supplement low earnings.

The Family Credit (FC), first introduced in 1988, achieved take-up rates of only around 70% even though it was a 'passport' to a range of other benefits in kind. It was replaced in 1999 by the Working Families Tax Credit (WFTC). In its final year FC paid an average of £63 per week to about 800,000 households (New Policy Institute 2003). Many more families were included in WFTC payments and a substantial childcare element was included to encourage the move into work. In 2002 WFTC was paying an average of £86 per week to about 1.4 million households. Under the Working Tax Credit (WTC) and Child Tax Credit (CTC) regime introduced in April 2003 still more families have become eligible, most will receive more generous credits and for the first time some families without children are now eligible. The credits are available to the majority of families with children and the new CTC flat rate 'family' element will be payable to families earning up to well above £50,000 per year. Since the credits attach to household income rather than the income of individuals their payment depends on the assessment of means at a household level.

## **1.4. Some pros and cons of tax credits**

The policy issue of how best to support lower income households in economies where returns for work in the labour market are widening is far too complex to discuss at any length here. Strategic decisions need to be made about the outcomes required in terms of the extent of redistribution, socially the stigmatisation and residualisation of claimants needs to be minimised, administratively transparency and take-up rates need to be maximised, management costs need to be kept as low as possible and delays and mistakes in payments reduced as much as possible so as not to produce cash-flow crises at the household level. There are additional complications for countries that wish to show these large expenditures as offsets against tax revenues rather than as public spending.

The issues have been extensively considered in the Joseph Rowntree Foundation Work and Opportunities programme of research and seminars since 1997 (see Joseph Rowntree Foundation 1997, 1998, 2000a and 2001 and the reports to which they refer). The experiences of the US Earned Income Tax Credit (EITC), which provides credits to about 19 million households, have been considered. The lessons from Canada are that the Working Income Supplement (WIS) was abandoned after five years since it did not meet its objectives. It was decided that the system to replace it should arrive at benefit levels for households with children irrespective of whether anyone was in work or not. In Australia the Family Tax Payment has been available to all but the richest 10-15% of households and it is judged that this has limited the growth of inequality.

The overall direction of these policies, and that in the UK, is to place greater emphasis on in-work credits and benefits rather than pay in seeking to raise as many households as possible out of poverty. In this respect governments are collectivising some of the cost of payments made to labour by placing proportionately greater burden on the public purse (funded out of general tax revenues or offset against them in the case of tax credits) and proportionately less burden on employers, whether in the public or corporate sector. There are a number of implications. Some appear positive and some negative and how they appear depends on one's political perspective.

It might be argued on the positive side that the system is in effect collectivising the burden of structural adjustment as some of the costs of employing labour and reinvesting in new plant are removed from corporate interests and borne by society as a whole via tax revenues. This is a form of sharing out the pain of structural change. But for many corporate interests the process of implementing technological change produces gain not pain. This often means rises in profit rates, directors' fees and returns to shareholders and falling incomes to those with fewer relevant skills to offer.

Socially these trends in policy may well have the effect of de-stigmatising the receipt of in-work benefits. In the UK many more households have become eligible, the WTC is not confined to households with children and the payments extend rather further up the income scale than in the past. This should also have the effect of partially collapsing the spread of incomes from highest to lowest. If the definition of poverty continues to be a household income less than 60% of the median the handing out of more generous in-work credits will bring more households above the 60% of median income level and thus reduce the proportion of households in poverty. This is in line with Government intentions (see section 2).

There are also likely to be effects that will be widely judged as negative. The larger proportion of total incomes paid over in the form of means tested credits will place greater importance on drives to increase take-up rates so that a higher proportion of those eligible actually receive support. All past experience is that take-up rates fall well below 100% and the process of understanding what can be claimed and then claiming it may well differentiate out the more able, better advised and persistent claimants from the rest. One Citizens' Advice Bureau worker engaged on the Welsh 'Better advice, better health' project has commented (Citizens' Advice Bureaux 2003):

...the system is very complicated and I can't see how anyone could navigate it on their own without expert advice.

In addition far greater strains will be placed on the systems administering the credits and benefits and in the UK the present incidence of delays and errors, which has been widely reported to have reached crisis proportions, seems set to worsen.

Another negative effect is that whereas earnings are normally pensionable, and most workers have access to a work-based pension scheme, many still final salary related, the credit and benefit elements of income are not. To judge by the relatively high number of those interviewed in the survey carried out for this project who had no pension entitlements of any kind (see section 3.2) there may well be post-retirement problems for many household currently largely dependent on credits and benefits.

Finally many more households will be caught more deeply in the 'poverty trap' and will experience very high marginal rates of taxation as the effect of income tax and national insurance contributions combine with the effect of credit and benefit 'tapers' to reduce the value of every additional £ they earn. They will have to achieve an income level above the benefit withdrawal point, or poverty trap escape point, before they can keep the whole of their additional earnings less only income tax and national insurance and thus reduce their marginal rate of tax, in the UK case, to something like 33%. This may well lead many households with incomes below that escape point, who are experiencing much higher 'marginal tax rates', to recalculate the value to them of remaining in work or of working extra hours to increase their earnings. Many

may opt to leave work, or to work less, and get more of their life back. This disincentivising effect seems to undermine the drive towards work as a route out of poverty – a cardinal tenet of Government policy.

There is an instructive historical analogy to present policies. During the Napoleonic Wars, when the price of bread rose rapidly, the fear of widespread starvation and political upheaval led the magistrates of the village of Speen in Berkshire to initiate in 1795 a special set of in-work and other allowances funded by Parish rate revenues. The aim was to bring those on very low wages up to some recognised subsistence standard. The allowance to be paid to each daimant household was on a sliding scale determined by the price of a gallon loaf and the number of dependents in the household. The system spread to many other parishes but never became a national one. One effect was that the large employers of the day, big estate owners, were able to attract and retain workers at lower wage levels than would otherwise have been the case. Thus the Parish ratepayers collectively ended up subsidising landed interests (see Polanyi 2002 for a full discussion).

At that point the analogy breaks down. In terms of take-up it seems likely that much higher rates would have been achieved at the scale of the parish than is possible at the national scale today. In terms of outcomes the allowances in Speen were designed to prevent the distressingly visible sight of labourers starving in their cottages whereas today's severe hardship is often concealed from public view. In terms of process the corporate interests of the day were not able to relocate to cheaper labour areas since the means of production they owned took the form of land. Today's corporately owned means of production are highly mobile and those seeking low cost labour can move elsewhere. So present day governments have a clear incentive to subsidise potentially footloose capital by means of state-funded support payments to workers to permit the payment of lower wages – a structural response to a structural problem.

## 2. IS POVERTY BEING REDUCED?

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### 2.1. What are the Government's intentions?

Are poverty, inequality and 'social exclusion' being significantly reduced in the UK? The Government's public position is clearly in favour of reducing current levels of poverty, especially the number of children in poverty, but there is less clarity about whether or not this should be achieved by means of the actual redistribution of income or wealth. In fact in an interview with Jeremy Paxman just before the 2001 General Election Mr Blair repeatedly refused, despite Paxman's impressive persistence, to commit himself to any policy strategies to reduce inequality.

Nevertheless the Government has a firm target of reducing the number of children living in poor households by one quarter from 4.2 million in the base year of 1998/99 to 3.2 million in 2004/5 and plan to end child poverty altogether by 2020. As discussed in section 1 the main mechanism for reducing the incidence of poverty appears to be the tax credit system. The Government seem to be just about on target to achieve the 2004/5 objective, although not all political parties agree about this. Since the removal of children from poverty implies the removal also of the adult members of their households the intention is clearly to make significant inroads into the overall number of people living in poverty. This number stood at nearly 13 million in 2000/1. This is about 1 million less than in 1996/97 and brings the incidence of poverty back to 1995/96 levels. But it is still approximately twice the level of 1980.

Expressed as a proportion of population the incidence of poverty is currently, by some measures, worse in the UK than in any other European Union country apart from Greece. A recent paper has discussed the results of three waves of the European Community Household Panel (Whelan, Layte and Maitre 2003). This shows that as at 1995 the UK had the third highest figure for the percentage of households below 60% of median income. Only Greece and Portugal had higher proportions.

### 2.2. Is poverty being reduced at the national scale?

The New Policy Institute report *Monitoring Poverty and Social Exclusion*, published annually, makes use of 50 indicators of inequality arranged under eight headings (Income, Work, Education, Health, etc.). Each year the report indicates whether the movement on each indicator shows an improved, steady, or worsening situation. The latest report (Palmer et al. 2002) shows that compared to one year earlier 18 indicators showed improvement, 21 were steady and 10 had worsened. As their report makes clear, work is no guarantee of avoiding poverty since excluding pensioners nearly half of those with incomes below the poverty threshold were in households where someone was in paid work. Most of the sample of workers interviewed in the survey carried out for the present study (see section 3.2) fell into this category. In addition it should be remembered that indirect taxes as a proportion of disposable income impact

twice as heavily on the bottom fifth of the income scale as on the top fifth (*Social Trends* 2003, Figure 5.13).

The National Minimum Wage (NMW), introduced in 1999, currently stands at £4.20 per hour (£3.60 for 17-21 year olds) and is due to increase to £4.50 per hour in October. The Government has agreed in principle that the annual increases in the NMW rate should be at a rate above general inflation. The number working for rates at or below the NMW level has fallen from about 2.5 million to about 1.5 million between 1998 and 2002 and this might be interpreted as indicating a reduction in poverty. But in high cost areas like Brighton and Hove, and probably in other similar areas, the NMW has little relevance since, as section 3.1.3 will show, the hourly rate required to reach a 'Low Cost but Acceptable' living standard in the area without reliance on means-tested benefits is £7.82 for a household with two children aged 10 and 4 and one adult in full-time work. This is getting on for double the NMW.

The national poverty data also show a worrying persistence of low incomes. Nearly 20% of the total population (more than 10 million people) continue to experience low income in at least two years out of every three. This indicates that a large number of people move in and out of the labour market, often from one low paid job to another. There is little sign of a reduction in this percentage. There is also a large amount of in-work poverty. About 40% of those living on low incomes live in households where at least one member is in full-time work (Palmer et al. 2002). Meanwhile since 1997 the growth in the earnings of full-time workers in the top decile of pay has been generally higher than that of those in the bottom decile (*Social Trends* 2003, Table 5.6) and this factor must be contributing significantly to the persistence of inequality. One recent analysis of inequality under the Labour Government (Shephard 2003) finds that by one measure, the Gini coefficient, inequality is if anything increasing slightly.

There are other factors, not normally brought into discussions about redistribution, that have for some time had pervasive effects on the degree of inequality. These operate within the housing, planning and regeneration processes and it is plausible to suggest that they have had systematic regressive effects, some of them over many decades. These factors could well be working to reduce, neutralise or even reverse the apparently progressive intentions of explicitly redistributive policies such as the minimum wage, benefits, tax credits and taxation policies. As discussed elsewhere (Ambrose 2002, pp. 43-52) the pattern of housing support between different tenure groups, the policies bringing about tenure shifts and the loss of low rent housing, the workings of the planning system, the spatial pattern of development, rent-setting policy and the incidence of Council Tax bandings are all pervasively redistributive and there must be strong suspicions that they are regressively so. Once all these have been brought into the equation there remains little mystery about why poverty on the scale experienced in the UK is so persistent.

### **2.3. Is poverty being reduced in Brighton and Hove?**

The fine distinction between comfort and hardship resulting from the income/expenditure balance has been usefully identified by Macawber, although his analysis lacks elegance in that it fails to take account of the sensitivity of outputs to regional and sub-regional variations in non-substitutable cost inputs (Dickens 1850):



He [Mr. Micawber] solemnly conjured me, I remember, to take warning by his fate; and to observe that if a man had twenty pounds a-year for his income, and spent nineteen pounds nineteen shillings and sixpence, he would be happy, but that if he spent twenty pounds one he would be miserable.

Living costs vary sharply around the country (see the periodic UNISON *Local Statistics Factsheets* that present data at the level of the standard region) and local pay weightings are often poorly matched to these variations. Thus national trends in poverty and household incomes give little indication of the comparative extent of difficulty experienced by those on low incomes in different parts of the country and different local areas. National data show that the South East Region has the lowest percentage of people living in households with an income below 60% of the median (*Social Trends* 2003, Table 5.21). But this obscures the problems of those on low incomes who do live in the so-called more prosperous regions.

To take Brighton and Hove as an example, a high proportion of the workforce is in low paid sectors of employment such as the retail, hotel and restaurant sectors. The 2000 Index of Multiple Deprivation data showed that over 58,000 people in the area were living in households deemed to be 'income deprived' in that they were entitled to means tested benefits. This could mean that in the order of 20-25,000 households fell in this category (out of a total of about 114,000 households). The 2002 *New Earnings Survey* shows that national average earnings were £26,449 in 2002 and had risen 6.0% over the previous year. The average earnings in Brighton and Hove were £23,051 (or £443.29 weekly) and had risen by just 1.8% over the previous year. The lowest decile of Brighton and Hove workers were earning below £229.40 in 2002 (the average weekly earnings found in the survey were £202.63, see next section). A study in 2001 (Brighton and Hove Council 2001) found that 10% of local workers earned less than £184.40 per week and 32% less than £250 per week (compared to 22% for the South East as a whole). In combination these data show that, together with the Isle of Wight, Brighton and Hove has the worst low pay problem in the entire South East Region.

Housing costs, by contrast, are very high and rising sharply. According to Land Registry House Price data, the average property price in Brighton and Hove was £181,184 in Quarter 3 of 2002, an increase of 19.4% on Quarter 3 of 2001. In 2001 an average earner first time buyer on 95% mortgage could afford something like £55,000 and the average price of 1 bedroom flats at about £102,000 was nearly twice that figure. The price position has worsened since then. In fact house prices have risen in the area by 126% over a five year period and the average ratio of average house prices to average earnings has increased from 6.7 in 2001 to 7.9 in 2002 (compared to the national ratio of 5.9 in 2002).

The figures understate the problem for poorer households in Brighton and Hove who aspire to own. While average prices might be broadly comparable to the rest of the South East the price of 'entry level' properties, flats and maisonettes, are 27% higher than the South East average and terraced houses are 47% higher (Brighton and Hove UNISON 2002). To compound the problem the stock of low rent council accommodation has shrunk over the last two decades under the Right to Buy policy and this has materially reduced the housing prospects for lower income people.

There is no mystery about these trends. It has been pointed out elsewhere (Ambrose 2003) that nationally the total amount of house purchase loans outstanding (at £591 billion in 2001) has increased since 1981 by nearly three times more than might have been expected based on the number of owner-occupied properties. The total volume of credit outstanding has risen from 23% to 54% of GDP (Wilcox 2001). This virtually uncontrolled flow of credit has worked to inflate house prices (and through them land prices), especially in periods of low housing output. This is a structural factor analogous to those affecting the organisation of the manufacturing sector identified in section 1.2. In both respects Brighton and Hove is just an extreme case of a national trend.

The situation is not helped by the strategic vacuum at the heart of British housing policy-making. The distribution of housing support between the different sectors, and between the various stages of the provision chain (see Ambrose 2002 pp. 28-33), has never been subject to sufficient analysis and discussion. Nor have policies relating to changing the tenure balance of the existing stock been adequately thought through. Successive policies in both these respects have almost always been the product of ideology and crisis management rather than of rational policy formation in the pursuit of a set of explicit aims – not surprisingly since no such set of explicit aims exists.

The same UNISON report also identifies some of the problems in the private rented sector in Brighton and Hove:

The private rented sector is crucial given the unaffordability of owner occupation. It is the largest in the country at 20% of households...without security of tenure or rent controls private rents have risen dramatically, and the sector is increasingly closed to those on benefit or those with a long term commitment to living here. The large discrepancy between the indicative rents used to calculate Housing Benefit entitlements and the real market rents means those on HB are priced out. (Brighton and Hove UNISON 2002)

In the Brighton and Hove case at least housing costs lie near the heart of the problem of the growing inequality. To implement the Macawber Test as an assessment of the extent of locally occurring hardship we need a series of studies that use a robust and standardised methodology to calculate local living costs, giving full weight to housing costs, and relates them to local incomes. These would give some idea not only of the national level of pay required to achieve a reasonable subsistence level but also of the more localised pay weighting system that would be required to achieve parity of living standards between areas. But in the longer term the problem will not go away until a number of quite fundamental housing issues are addressed nationally.

## **3. THE BRIGHTON AND HOVE STUDY**

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### **3.1. The LCA wage level calculation**

#### **3.1.1. The origins of the LCA budget standard**

The Low Cost but Acceptable (LCA) budget standard was produced following eleven months intensive work in 1997/98 by a multi-skilled team forming the Family Budget Unit (FBU) then based in the Department of Nutrition and Dietetics in King's College London. The funding for the work was raised by the Zacchaeus 2000 Trust. For a full account of the development of the thinking behind the standard see Parker et al. (1998) and earlier pioneering work by Veit-Wilson (1992, 1994, 1998 and 2001). The team reviewed the history of budget standards studies starting with Rowntree's work in York in 1901 and continuing in recent decades with the work of Wynn (1972), Bradshaw (1993) and Oldfield and Yu (1993). It also took account of work in the US, Sweden, the Netherlands and Australia (Saunders et al. 1998). The group decided to base the standard on two model families – a two adult household with two children aged 10 and 4 and a one adult household with children of the same ages. The first study was carried out in York and later studies have been carried out in east London and Swansea (Family Budget Unit 1997, Parker ed. 1998, 2000, 2001a, 2001b, 2001c, 2002a and 2002b and Wills 2001). Some of these studies have constructed living costs at a higher level termed Modest but Adequate (deriving from Wynn 1972).

In constructing the weekly income necessary to live at the LCA level the FBU team distinguished between two sets of costs – 'standard costs' such as food, clothing and personal care expenditures which were deemed not to vary in different areas and 'variable costs' such as housing, fuel, transport and so on that clearly do vary by area. Later studies, including this one, have been carried out by updating the York standard costs for inflation and then carrying out research to establish the local level of the variable costs (see Appendix 2 for sources of relevant local cost information).

The FBU team made it clear that the budgets were not constructed to have any prescriptive force but simply to represent reasonably common patterns of behaviour and expenditure. The food budgets were very carefully worked out, with illustrative weekly menus in order to provide Dietary Recommended Values. Costs for items such as personal care, clothing, furniture and even postage, telephone and dry cleaning were worked out with equal care and considered in focus group discussions in the local areas. A modest level of social drinking was included (two thirds of the healthy limit set by the Health Education Authority in 1996) but there was no allowance for smoking.

The standard needs continual review. If a household item was not present in 80% of homes nationally (as CD players were not in 1997 but are now) their cost was not included. Equally the allowance for a seven day annual holiday at the seaside in a 'purpose built chalet at a holiday homes complex' (to quote Parker et al. 1998) looks somewhat archaic. More serious reservations might be expressed about the

assumption that all families will have access to local authority housing and an NHS dentist, that they will be free of debt and that they will not be buying into any private or personal pension scheme. These points are discussed more fully in Appendix 1.

### 3.1.2. The LCA living costs in Brighton and Hove

Using the standard LCA methodology the living costs for the Brighton and Hove area were calculated as at March 2003 for the two family types specified. The columns show different levels of involvement in work by the two adults.

**Table 1. Brighton and Hove LCA Living Costs - Couple + children (10 and 4)**

	<b>2 earners 38.5 + 17.0 hrs</b>	<b>1 earner 38.5 hrs</b>	<b>1 earner 17.0 hrs</b>
<b>A – Standard Costs</b>			
Food	64.66	64.66	64.66
Clothing	24.12	24.12	24.12
Personal care	4.52	4.52	4.52
Household goods	16.91	16.91	16.91
Household services	5.15	5.15	5.15
Leisure	24.20	24.20	24.20
<b>Total Standard Costs</b>	<b>139.56</b>	<b>139.56</b>	<b>139.56</b>
<b>B – Variable Costs</b>			
Housing – rent (LA 3-bed house)	57.00	57.00	57.00
water/sewage	3.45	3.45	3.45
contents insurance	2.60	2.60	2.60
Council tax (band B)	16.06	16.06	16.06
Fuel – gas (by DD)	5.10	5.10	5.10
electricity (by DD)	3.56	3.56	3.56
Transport (public)	4.40	4.40	4.40
NHS charges	3.20	3.20	3.20
Insurance/pension contributions	3.98	3.98	3.98
Debts/fines/maintenance orders	0.00	0.00	0.00
Job-related – childcare	57.00	0.00	0.00
fares to work	20.00	10.00	10.00
Seeking work costs	0.00	0.00	0.00
Pets (one cat)	3.59	3.59	3.59
Alcohol (units man 14, woman 10)	9.25	9.25	9.25
Tobacco	0.00	0.00	0.00
Charitable donations	0.78	0.78	0.78
<b>Total Variable Costs</b>	<b>189.97</b>	<b>122.97</b>	<b>122.97</b>
<b>C – Total LCA Costs (A + B)</b>	<b>329.53</b>	<b>262.53</b>	<b>262.53</b>

**Table 2. Brighton and Hove LCA Living Costs – Adult + children (10 and 4)**

	<b>1 earner 38.5 hrs</b>	<b>1 earner 17.0 hrs</b>
<b>A – Standard Costs</b>		
Food	41.58	41.58
Clothing	19.95	19.95
Personal care	3.78	3.78
Household goods	15.95	15.95
Household services	4.87	4.87
Leisure	22.49	22.49
<b>Total Standard Costs</b>	<b>108.62</b>	<b>108.62</b>
<b>B – Variable Costs</b>		
Housing – rent (LA 3-bed house)	57.00	57.00
water/sewage	3.45	3.45
contents insurance	2.60	2.60
Council tax (band B – 25%)	12.04	12.04
Fuel – gas (by DD)	5.10	5.10
electricity (by DD)	2.90	2.90
Transport (public)	2.40	2.40
NHS charges	0.04	0.04
Insurance/pension contributions	3.98	3.98
Debts/fines/maintenance orders	0.00	0.00
Job-related – childcare	120.00	57.00
fares to work	5.00	5.00
Seeking work costs	0.00	0.00
Pets (one cat)	3.59	3.59
Alcohol (if man 14 units, if woman 10)	4.63	4.63
Tobacco	0.00	0.00
Charitable donations	0.78	0.78
<b>Total Variable Costs</b>	<b>223.51</b>	<b>160.51</b>
<b>C – Total LCA Costs (A + B)</b>	<b>332.13</b>	<b>269.13</b>

The LCA level may be seen as the modern correlate of the concept ‘subsistence standard’ used by the Magistrates of Speen (see section 1.4). For the two adult household with dependent children the spend is very low compared to the national average but it is higher than average for the one adult household with dependent children (the national averages are £552 and £266 per week respectively, *Social Trends* 2003, Table 6.4). It must be noted that the LCA calculation makes a number of assumptions that do not fit comfortably with the realities of life in Brighton and Hove (see Appendix 1).

### **3.1.3. The relationship of earnings to LCA living costs**

The earnings required to meet these LCA living costs are considered on four bases:

**Basis 1.** Where claim is made to all benefit and tax credit entitlements (assuming those working are aged over 25 to be eligible for tax credits).

**Basis 2.** Where no claim is made to means-tested benefits (Working Tax Credit, Child Tax Credit, Housing Benefit and Council Tax Benefit).

**Basis 3.** Where the earner(s) receive the National Minimum Wage (£4.20 per hour) and all benefits are claimed.

**Basis 4.** Where the earner(s) receive the average rate observed in the survey (£5.95 an hour) and all benefits are claimed.

Bases 1 and 2 involve ‘grossing up’ from the net amount needed to a gross income necessary to reach it. Bases 3 and 4 start with gross earnings and calculate the benefits applicable to an income at this level and the benefit costs involved.

### The two adult, two children household

**Table 3. Basis 1 - the LCA wage level needed with MT benefits claimed**

<b>Working pattern</b>	<b>1 FT+1PT</b>	<b>1 FT</b>	<b>1 PT</b>
<b>LCA weekly ‘take-home’ needed</b>	<b>329.53</b>	<b>262.53</b>	<b>262.53</b>
(-) Child Benefit	26.80	26.80	26.80
(+) Income Tax	0.00	0.00	0.00
(+) National Insurance Contributions	0.00	0.00	0.00
(-) Working Tax Credit	110.08	70.17	58.21
(-) Child Tax Credit	66.08	66.08	66.08
(-) Housing Benefit	57.00	57.00	52.84
(-) Council Tax Benefit	16.06	16.06	14.78
<b>Gross Weekly Earnings Needed</b>	<b>53.51</b>	<b>26.42</b>	<b>43.82</b>
<b>Hours worked</b>	<b>55.5</b>	<b>38.5</b>	<b>17.0</b>
<b>Divide by hours = Hourly Wage Needed</b>	<b>0.96</b>	<b>0.69</b>	<b>2.58</b>

On this basis the benefits and tax credits available in the three working patterns are such that hourly rates of only 96p, 69p and £2.58 would be sufficient to achieve the LCA target. The weekly means-tested benefits cost to the state in the three working patterns is **£249.22**, **£209.31** and **£191.91** respectively.

**Table 4. Basis 2 – the LCA wage level needed without MT benefits**

<b>Working pattern</b>	<b>1 FT+1 PT</b>	<b>1 FT</b>	<b>1 PT</b>
<b>LCA weekly ‘take-home’ needed</b>	<b>329.53</b>	<b>262.53</b>	<b>262.53</b>
(-) Child Benefit	26.80	26.80	26.80
(+) Income Tax	32.09	42.38	42.38
(+) National Insurance Contributions	19.44	23.40	23.40
(-) Working Tax Credit	0.00	0.00	0.00
(-) Child Tax Credit	0.00	0.00	0.00
(-) Housing Benefit	0.00	0.00	0.00
(-) Council Tax Benefit	0.00	0.00	0.00
<b>Gross Weekly Earnings Needed</b>	<b>354.26</b>	<b>301.51</b>	<b>301.51</b>
<b>Hours worked</b>	<b>55.5</b>	<b>38.5</b>	<b>17.0</b>
<b>Divide by hours = Hourly Wage Needed</b>	<b>6.38</b>	<b>7.83</b>	<b>17.74</b>

On basis 2, without recourse to any means-tested benefits but counting in the universal Child Benefit, the hourly earnings required in the three different working patterns are £6.38 (**£18,421** annually), £7.83 (**£15,680** annually) and £17.74 (**£31,361** full-time equivalent annually). These are the figures regarded by UNISON as a 'living wage' for the household types specified (UNISON 2002) since this is the income level required to escape reliance on means tested benefits.

**Table 5. Basis 3 - the benefit cost if on National Minimum Wage**

<b>Working pattern</b>	<b>1 FT+1 PT</b>	<b>1 FT</b>	<b>1 PT</b>
<b>LCA weekly 'take-home' needed</b>	<b>329.53</b>	<b>262.53</b>	<b>262.53</b>
<b>'Excess' over LCA level</b>	<b>+36.66</b>	<b>+23.17</b>	<b>+4.14</b>
<b>Net weekly 'take-home' pay on NMW</b>	<b>366.19</b>	<b>285.70</b>	<b>266.67</b>
(-) Child Benefit	26.80	26.80	26.80
(+) Income Tax	11.62	11.62	0.00
(+) National Insurance Contributions	8.02	8.02	0.00
(-) Working Tax Credit	59.85	46.34	58.21
(-) Child Tax Credit	66.08	66.08	66.08
(-) Housing Benefit	0.00	4.42	34.91
(-) Council Tax Benefit	0.00	Nil	9.27
<b>Gross Weekly Earnings at NMW</b>	<b>233.10</b>	<b>161.70</b>	<b>71.40</b>
<b>Hours worked</b>	<b>55.5</b>	<b>38.5</b>	<b>17.0</b>
<b>National Minimum Wage</b>	<b>4.20</b>	<b>4.20</b>	<b>4.20</b>

The Basis 3 table is best read from the bottom up. It shows that if earnings are at the level of the National Minimum Wage then benefits and credits are payable which, if fully claimed, take the incomes to marginally above the LCA level in all work patterns (see the 'excess' + figures in the third row). The net gain to the household if the second adult is working part-time is £13.49 or just 79p for each of the 17 extra hours worked. So £3.41 of each hour's £4.20 is lost to extra childcare costs, other work-related costs and benefit tapers – a marginal 'tax rate' of over 81%. This provides very little incentive for the second adult to take on a part-time job.

Without the receipt of all eligible benefits and credits the household would be in serious difficulty. To take the 'one full-time worker' case means tested benefits make up 42% of the total income. In this case if these benefits were *not* claimed the household would have earnings **£93.67** below the LCA level.

Earnings at this low level, given Brighton and Hove living costs, are costing public finances **£125.93**, **£116.84** and **£168.47** per week in means-tested benefits in the three different working patterns respectively. This can be regarded as the extent of the public subsidy to those employers paying the lowest possible legal rate of pay.

The Basis 4 table (Table 6 below) should also be read from the bottom up. On the **£5.95** average hourly rate of pay found in the survey of low paid workers locally (see section 3.2 below) the combination of earnings and eligible benefits and tax credits

raise the households to ‘take-home’ levels between about £8 and £73 in excess of the LCA net income required level, depending on working pattern.

**Table 6. - Basis 4 - the benefit cost on the average hourly rate found in the survey**

<b>Working pattern</b>	<b>1 FT+1 PT</b>	<b>1 FT</b>	<b>1 PT</b>
<b>LCA weekly ‘take-home’ needed</b>	<b>329.53</b>	<b>262.53</b>	<b>262.53</b>
<b>‘Excess’ over LCA level</b>	<b>+73.01</b>	<b>+38.97</b>	<b>+7.98</b>
<b>Net weekly ‘take-home’ pay found</b>	<b>402.54</b>	<b>301.50</b>	<b>270.51</b>
(-) Child Benefit	26.80	26.80	26.80
(+) Income Tax	27.68	26.44	1.24
(+) National Insurance Contributions	16.80	15.44	1.36
(-) Working Tax Credit	23.91	21.42	56.78
(-) Child Tax Credit	66.08	66.08	66.08
(-) Housing Benefit	0.00	0.00	18.18
(-) Council Tax Benefit	0.00	0.00	4.12
<b>Gross Weekly Earnings @ £5.95 ph</b>	<b>330.23</b>	<b>229.08</b>	<b>101.15</b>
<b>Hours worked</b>	<b>55.5</b>	<b>38.5</b>	<b>17.0</b>
<b>Average hourly rate found in survey</b>	<b>5.95</b>	<b>5.95</b>	<b>5.95</b>

But there is a paradox. The findings from the more qualitative questions in the survey showed that this population are living at anything but an acceptable level, many cannot afford various of the items built into the LCA calculations and most are suffering obvious financial hardship (see section 3.3). The survey was not designed to measure benefit and credit take-up rates so the extent to which low take-up explains this outcome cannot be established, although it is undoubtedly a factor. Another reason for the apparent anomaly is that the LCA calculation does not adequately reflect the housing and other costs faced by many lower income households in the local area (see Appendix 1).

Given the earnings level observed the weekly cost to the public purse of means-tested benefits in these three working patterns is **£89.99**, **£87.50** and **£145.16** respectively.

### **The one adult, two children household**

**Table 7. Basis 1 – the LCA wage level needed with MT benefits claimed**

<b>Working pattern</b>	<b>1 FT</b>	<b>1 PT</b>
<b>LCA weekly ‘take-home’ needed</b>	<b>332.13</b>	<b>269.13</b>
(-) Child Benefit	26.80	26.80
(+) Income Tax	0.00	0.00
(+) National Insurance Contributions	0.00	0.00
(-) Working Tax Credit	154.18	98.12
(-) Child Tax Credit	66.08	66.08
(-) Housing Benefit	57.00	57.00
(-) Council Tax Benefit	12.04	12.04
<b>Gross Weekly Earnings Needed</b>	<b>16.03</b>	<b>9.09</b>
<b>Hours worked</b>	<b>38.5</b>	<b>17.0</b>
<b>Divide by hours = Hourly Wage Needed</b>	<b>0.42</b>	<b>0.53</b>



As in the case of the two adult household the benefits and tax credits available, if fully claimed, require only very low hourly rates of pay to reach LCA level. The weekly means tested benefit and credits costs to the public purse are **£289.30** and **£233.24** in the two working patterns.

**Table 8. Basis 2 – the LCA wage level needed without MT benefits**

<b>Working pattern</b>	<b>1 FT</b>	<b>1 PT</b>
<b>LCA weekly ‘take-home’ needed</b>	<b>332.13</b>	<b>269.13</b>
(-) Child Benefit	26.80	26.80
(+) Income Tax	65.23	44.54
(+) National Insurance Contributions	34.83	24.49
(-) Working Tax Credit	0.00	0.00
(-) Child Tax Credit	0.00	0.00
(-) Housing Benefit	0.00	0.00
(-) Council Tax Benefit	0.00	0.00
<b>Gross Weekly Earnings Needed</b>	<b>405.39</b>	<b>311.36</b>
<b>Hours worked</b>	<b>38.5</b>	<b>17.0</b>
<b>Divide by hours = Hourly Wage Needed</b>	<b>10.53</b>	<b>18.32</b>

If the household does not claim means-tested benefits the hourly rate needed to reach LCA level on full-time working is £10.53 (annual salary of **£21,080**) and on part-time working £18.32 (full-time equivalent annual salary of **£32,381**).

**Table 9. Basis 3 - the benefit cost if on National Minimum Wage**

<b>Working pattern</b>	<b>1 FT</b>	<b>1 PT</b>
<b>LCA weekly ‘take-home’ needed</b>	<b>332.13</b>	<b>269.13</b>
<b>‘Excess’ over LCA level</b>	<b>+50.51</b>	<b>+34.26</b>
<b>Net weekly ‘take-home’ pay on NMW</b>	<b>382.64</b>	<b>303.39</b>
(-) Child Benefit	26.80	26.80
(+) Income Tax	11.62	0.00
(+) National Insurance Contributions	8.02	0.00
(-) Working Tax Credit	130.35	98.12
(-) Child Tax Credit	66.08	66.08
(-) Housing Benefit	17.35	35.55
(-) Council Tax Benefit	0.00	5.44
<b>Gross Weekly Earnings at NMW</b>	<b>161.70</b>	<b>71.40</b>
<b>Hours worked</b>	<b>38.5</b>	<b>17.0</b>
<b>National Minimum Wage</b>	<b>4.20</b>	<b>4.20</b>

The table should be read from the bottom upward. As in the two adult household on National Minimum Wage rates of pay (Table 5), the claiming of full benefits takes the household above the LCA level by about £50 or £34 depending on whether working full-time or part-time. The net gain for working full-time rather than part-time is £16.25 for the extra 21.5 hours worked. This is a gain of less than 76p for each extra hour worked. In this case the marginal ‘tax rate’ is about 82% which must provide a strong disincentive to entering full-time work.

The weekly cost of the means-tested benefits is **£213.78** and **£205.19** respectively.

**Table 10. Basis 4 - the benefit cost on the average hourly rate found in survey**

<b>Working pattern</b>	<b>1 FT</b>	<b>1 PT</b>
<b>LCA weekly 'take-home' needed</b>	<b>332.13</b>	<b>269.13</b>
<b>'Excess' over LCA level</b>	<b>+£57.60</b>	<b>+38.11</b>
<b>Net weekly 'take-home' pay found</b>	<b>389.73</b>	<b>307.24</b>
(-) Child Benefit	26.80	26.80
(+) Income Tax	26.44	1.24
(+) National Insurance Contributions	15.44	1.36
(-) Working Tax Credit	105.43	96.68
(-) Child Tax Credit	66.08	66.08
(-) Housing Benefit	4.22	18.83
(-) Council Tax Benefit	0.00	0.30
<b>Gross Weekly Earnings @ £5.95 ph</b>	<b>229.08</b>	<b>101.15</b>
<b>Hours worked</b>	<b>38.5</b>	<b>17.0</b>
<b>Average hourly rate found in survey</b>	<b>5.95</b>	<b>5.95</b>

Similarly, reading up from the bottom, the one adult household earning the average hourly rate found in the survey attract levels of benefit that take net incomes to around £58 and £38 above the LCA level, depending on work pattern. The cost to public finances of the means tested benefits and credits in the full-time and part-time working cases are **£175.73** and **£181.89** respectively.

### **Summary of section 3.1.3.**

UNISON's position (UNISON 2002) is that wages should be such that households can live at the LCA level or better without recourse to means tested benefits (Basis 2, see Tables 4 and 8 above) or overtime working. The following table summarises the incomes necessary on this basis for the two household types and the five different working patterns:

**Table 11. Wages necessary to reach LCA level without means tested benefits (£)**

<b>Household type and work pattern (both household types include children aged 10 and 4)</b>	<b>Weekly £ net income needed at LCA level</b>	<b>Weekly £ gross income needed</b>	<b>Annual £ gross income needed</b>	<b>Hourly £ rate needed</b>
2 adults (1 FT+1 PT)	329.53	354.26	18,421	<b>6.38</b>
2 adults (1 FT)	262.53	301.51	15,680	<b>7.83</b>
2 adults (1 PT)	262.53	301.51	31,361	<b>17.74</b>
1 adult (FT)	332.13	405.39	21,080	<b>10.53</b>
1 adult (PT)	269.13	311.36	32,381	<b>18.32</b>

Compared to these hourly rates the National Minimum Wage rate is £4.20 per hour and the average rate of pay found in the local survey (see section 3.2 below) was £5.95.

### Comparison with the position if not working

The final comparison is between households where someone is working and those where no one is working. This is best shown by means of tables:

**Table 12. Working compared to not working – 2 adults + 2 children (10 and 4)**

<b>Working pattern</b>	<b>LCA living costs (Table 1)</b>	<b>Income on NMW + benefits and credits (Table 5)</b>	<b>Surplus (+) or deficit (-) compared to LCA</b>
<b>1 FT + 1 PT</b>	329.53	366.19	+36.66
<b>1 FT</b>	262.53	285.70	+23.17
<b>1 PT</b>	262.53	266.67	+4.14
<b>No one working</b>	<b>LCA living costs less some items*</b>	<b>Income support payments**</b>	<b>Surplus (+) or deficit (-) compared to LCA</b>
	176.27	178.50	+2.23

\* The LCA living costs in the non-working case are £262.53 (from Table 1) less £3.20 (NHS costs), £10 (fares to work), £57 (rent paid by Housing Benefit) and £16.06 (Council Tax paid by Council Tax Benefit) = £176.27.

\*\*Income Support is made up of £85.75 (Couple Personal Allowance), £15.75 (Family Premium) and 2 times £38.50 (Dependent Child Personal Allowances).

**Table 13. Working compared to not working – 1 adult + 2 children (10 and 4)**

<b>Working pattern</b>	<b>LCA living costs (Table 2)</b>	<b>Income on NMW + benefits and credits (Table 9)</b>	<b>Surplus (+) or deficit (-) compared to LCA</b>
<b>1 FT</b>	332.13	382.64	+50.51
<b>1 PT</b>	269.13	303.39	+34.26
<b>Not working</b>	<b>LCA costs less some items*</b>	<b>Income support payments**</b>	<b>Surplus (+) or deficit (-) compared to LCA</b>
	138.05	147.55	+9.50

\* The LCA living costs in the non-working case are £269.13 (from Table 2) less £0.04 (NHS costs), £5 (fares to work), £57 (rent paid by Housing Benefit), £12.04 (Council Tax paid by Council Tax Benefit) and £57 childcare costs = £138.05.

\*\*Income Support is made up of £54.65 (Lone Parent Personal Allowance), £15.90 (Lone Parent Family Premium) and 2 times £38.50 (Dependent Child Personal Allowances) = £147.55

These calculations can be used to arrive at the marginal tax rates applying in the various situations. These express the proportion of every additional £ earned that is lost as a result of the interaction of benefits and credits tapers, income tax and National Insurance contributions. They should be compared with the marginal tax rate of 33% that applies above the poverty trap escape point (see next section) when each additional £ earned is subject only to standard rate income tax (22%) and National Insurance deductions (11%) until higher rate tax levels are reached.

**Table 14. Some marginal tax rates for the two household types on NMW**

Household type and work pattern	Excess over LCA if working	Excess over LCA if not working	Difference if working	Hours worked	Gain per hour worked	Marginal tax rate at £4.20 per hour
2 adults 1FT + 1PT	+36.66	+2.23	+34.43	55.5	62p	85%
2 adults 1 FT	+23.17	+2.23	+20.94	38.5	54p	87%
2 adults 1 PT	+4.14	+2.23	+1.91	17.0	11p	97%
1 adult 1FT	+50.51	+9.50	+41.01	38.5	£1.06	75%
1 adult 1 PT	+34.26	+9.50	+24.76	17.0	£1.46	65%

If, for example, we take the two adult household with one person working full-time on NMW the excess of income over the LCA living costs is £23.17. If no one is working the excess is £2.23 (for both figures see Table 12). The difference that one person working makes is therefore + £20.94 for which 38.5 hours are worked. This works out at a gain of 54p per hour worked. Compared to the gross sum earned (£4.20 per hour) only about 13 % is kept and the marginal rate of taxation is therefore 87%.

The marginal tax rates shown in these fairly typical examples range from 65% to 97%. Clearly marginal tax rates at these levels may well lead people to consider their choices in relation to their work/life balance.

### **3.1.4. The ‘poverty trap escape point’**

The gross weekly household income required to move above the eligibility level for means-tested benefits is **£435 per week** or **£22,620 per year** for the two household types used in the LCA calculations (data supplied by the Children and Housing Analysis Division of the Department of Work and Pensions). This is not far below the national median income level for a couple with two children aged 11 and 5 which in 2001/2 was £454 per week (Department for Work and Pensions 2003). Above the poverty trap escape point the marginal tax rate is about 33% as every additional £ earned is subject only to Income Tax and National Insurance deductions. Below this

income level the marginal rate of tax is much higher as increases in earnings have to be offset against the various benefit and credit ‘tapers’ and withdrawal points.

Unfortunately there is no reliable data on the number of households in Brighton and Hove with an income below £22,620 per year. Evidence based on the 2000 Index of Multiple Deprivation presented in section 2.3 suggests that it might be some proportion ranging from one fifth to one quarter of local households.

For this sizeable proportion of households the very high rates of marginal taxation that apply, combined with the proximity of LCA rates to Income Support rates, present people with real choices. Is it worthwhile working or not – especially given the increasing health risks and stresses at work and the clear signs of declining motivation found in the survey (see below)? Many people may be surprised to find out how little better off they are for being in work, or in full-time work rather than part-time work, or if moving to a better paid job, and may draw conclusions accordingly.

## **3.2. The survey of low paid workers**

### **3.2.1. Methodology**

The survey of low paid workers in the Brighton and Hove area was carried out between mid-February and the end of March 2003. A team of five volunteer interviewers was assembled, each of whom work in a low paid sector of the local economy. The team members were fully involved in designing the Interview Schedule (see Appendix 3). Five interview pairs were formed by pairing a volunteer with a member of the core research team. Each pair then interviewed randomly selected work colleagues of the volunteer member in a non-work situation. The aim was for each pair to cover a range of household types. A letter explaining the purpose of the work was sent or given to each of those interviewed (Appendix 4) and a £20 shopping voucher was offered in recognition of the time given by the respondent.

The Interview Schedule covered three areas:

1. Factual information including demographic data and details of working hours, pay and conditions, pension rights, etc.
2. A set of questions concerning the respondent’s opinions about her/his work situation including attitudes, motivational changes, etc.
3. A set of questions about the ways in which trying to live on low pay affects other aspects of life such as health, holidays and spare time activity, etc.

In all cases there was a full discussion, especially in relation to areas 2 and 3, and most interviews took between an hour and an hour and a half. The more quantitative aspects of the findings were entered on an electronic database. The comments made in relation to areas 2 and 3 were fully listed and then subjected to a contents analysis. All respondents were asked whether they required referral to any financial or welfare rights information and where requested a source of information was suggested.

### 3.2.2. Findings – demography and jobs

#### Demographic profile – the respondents

The respondents ranged in age from 20 to 51 and the average age was 37.5 years. The gender balance was nineteen women and five men. The ethnic make-up of the sample was twenty white, two black and two 'other'. This balance is a reasonable reflection of the area population. The respondent population was a surprisingly stable one and the average period of time spent living in the Brighton area was 21.2 years.

#### Demographic profile – the households

The 24 households in which the survey respondents lived had a total population of 68 giving an average household size of 2.83. The gender balance was 55% female, 45% male and 12% had a disability. The household size distribution was:

Single person	5
Two adults	6
Three adults	2
Four adults	1
Single adult with child/children	4
Two adults with children	6

Of the non-disabled people of working age 28 were in full-time work, eight were in part-time work and five were not working.

The household tenure split was:

Owner-occupiers	9
Local authority rented	6
Housing association rented	2
Private rented	7

The total number of room occupied, disregarding kitchens and bathrooms, was 78 giving a room density of 1.15 per habitable room. The average length of time in the present home as a household unit was 6.0 years but this was highly differential by tenure. Those in owner-occupied properties averaged 12.1 years in the home and those renting privately only 2.6 years. Frequent moves no doubt add to the stress for those in the private rented sector.

Only 13 of the 24 households owned a car but most lived within easy reach of key facilities such as food shops (an average of 10.2 minutes from the home on foot or by vehicle), dispensing chemists (9.0 minutes), a post office (8.3 minutes) and their GP (14.6 minutes). For the 10 households with school aged children the average distance to school was 21.5 minutes. Only five of the 24 households had contents insurance.

In only six of the households was the low paid respondent in the survey a subsidiary earner. In the other 18 households the respondent was a more or less equal co-earner or in most cases the main earner.

The average gross all sources annual income of the households surveyed was £17,991 (23 households only, one household income could not be ascertained). The average gross income of the 15 households that were not owner-occupiers was £14,267. Land Registry data for 2002 indicated that the average price for a flat/maisonette in Brighton and Hove was £116,000 and for a semi-detached house £170,000. Property prices had risen by 126% over the five years from 1997 to 2002. Unfortunately the aspirations towards owner-occupancy expressed by a number of renters in the survey (see later) are quite divorced from reality.

### **The jobs**

The jobs of the 24 respondents interviewed were as follows:

General Service Assistant/ Housekeeper	4
Security worker	1
Crèche workers	4
Estate Warden	1
Teaching Assistants in various schools	4
Care workers in various care homes	8
Driver/care attendant	1
Local Government Administrator	1

Brighton and Hove Council employed 14 of the sample, seven worked for an agency and three were employed by private care homes. The average time that respondents had been in the job was 4 years 3 months.

### **3.2.3. Findings - pay and conditions**

The majority of those interviewed were full time workers but two worked 17 hours or fewer and a further two worked 20 hours or fewer. The number of hours worked per week by full time workers ranged from 37.0 to 73.0 with an average working week of 44.0 hours which included an average of 2.2 hours overtime. Those working for Brighton and Hove Council worked an average of 40.7 hours per week and the care workers an average of 50.6 hours per week. Sixteen respondents said that their job involved irregular and/or anti-social hours but only six of these received shift premium payments.

Average contracted hourly rates of pay were:

Normal time	<b>£5.95</b>
Overtime	<b>£7.10</b>

The average contracted hourly rates of pay for the various sub-groups of workers were:

Brighton and Hove services	<b>£6.05</b>
Crèche workers	<b>£4.87</b>
Teaching Assistants	<b>£5.61</b>
Care workers	<b>£6.17</b>
Others	<b>£7.05</b>

The gross weekly earnings of all 24 respondents averaged **£202.63** (60% of national median income is £187 per week, see Department for Work and Pensions 2003).

In terms of time off, five of the sample (mostly Teaching Assistants) worked only during the school year. The remainder had an average of 20.7 days annual leave (excluding Bank Holidays). There was some uncertainty about other time off entitlements, often as a result of having been so short a time in the job. Half the sample felt they were entitled to sick pay for periods of illness, 38% said they had an entitlement to time off to care for dependents and 58% said they had 'emergency' or 'compassionate' time off. These two latter categories of time off were often seen as within the discretion of the particular manager.

The details given by respondents showed that the amount of training received was not impressive. The number of training days received during the tenure of the job held at the time of the survey (the average job duration was 4 years 3 months) were:

None	17%
1-3 days	46%
3-5 days	17%
over 5 days	20%

Nearly two thirds of the sample had received 3 days training or fewer. This helps to explain why half the sample said they were expected to do things for which they had not been trained. In some cases this included tasks such as changing stomach bags or the sole supervision of a child or a group of children with emotional and/or learning difficulties. Only 29% of the sample said that they could see clear career development opportunities in the job. Some had been encouraged by their employer to undertake courses such as an NVQ but others had been refused time off to do career development courses.

The pension entitlement situation of the sample gives rise to concern given that the average age of the sample is over 37 years. Only 42% of those interviewed were in any final salary pension scheme. None had bought into a money purchase or Stakeholder scheme and only one person had taken out any form of personal pension. By contrast national data show that 75% of the 35 to 44 age group are members of some kind of pension scheme (*Social Trends* 2003, Table 8.19). Of the fourteen Brighton and Hove employees interviewed nine were in the Local Government Pension Scheme but were not, on the whole, well informed about the benefits available under that scheme. National data shows that currently those on only a State Pension spend £44 weekly on essentials whereas those with additional pension income spend £60 per week (Palmer et al. 2002).

### **3.2.4. Findings - journey to work details**

At least half the respondents lived close enough to their workplace to walk or cycle to work. Of the rest seven went by public transport and only five by means of their own transport. The average return journey time each day, by whatever transport means used, was 44 minutes. Average journey to work costs for those not walking or cycling were £14.41 but it is clear that most of those using their cars were quoting only the fuel costs rather than the full cost of motoring.



### **3.2.5. Findings - attitudes to the job**

The most prevalent attitude, explicitly mentioned by 75% of the sample, was that the pay for the job, and the respect accorded to them in doing it, was quite inadequate when seen against the responsibilities. A similar proportion said that in their view the job was inadequately staffed and many of these referred to past and impending staff reductions that were making matters worse. These factors, the lack of training and the frequently mentioned failure of management to listen to those actually doing the work, helped to account for the decline in motivation mentioned by 42% of the sample.

Despite this there are still clear signs of commitment to the work and responsible attitudes among the negative feelings about pay and conditions of employment. A positive liking for the work was expressed by 54% of the sample and many stressed the rewarding nature of working with people and making a difference. A similar proportion said they would recommend their job – but there was a frequent caveat about ‘it would need to be the right sort of person’. Only a quarter of the sample were actively looking for another job.

The following are some of the quotes noted from the respondents arranged under the specific questions raised on the Interview Schedule. Many have been paraphrased in the interests of brevity but care has been taken to give a representative picture.

#### **About how reasonably treated by management (16 of 22 responses negative)**

The responses to this question revealed the extreme variation in quality, consistency and attitudes of management but the general sense was heavily negative:

It's OK sometimes but they are sometimes offhand and have a go at us for no reason. There is a certain amount of bullying and sometimes they deliberately get peoples' backs up.

Often health and safety issues are ignored and some unpleasant situations emerge. We get the kicks for their stress. The management is not really businesslike and does not learn lessons from each event.

They are fairly good when they want something from you such as working an extra shift or covering for someone but they are crap at other times...they treat you like cattle.

I have a good line manager and am treated very reasonably. The general atmosphere is very supportive.

I feel like a number not a person. The attitude is variable depending on whether you are in favour with a particular manager or not. The treatment...is completely inconsistent and therefore undermining. Snide remarks and insults, often very personal, are the order of things and are very often made in front of other staff members, clients and members of the public...

Not treated properly at all. There's a pecking order and a few of them can't wait to 'grass you up' because you are just agency staff.

The majority of the staff are very good and supportive, although not always the ones who should be, but some are 'superior'.

My attitude is quite negative at the moment. The Chief Executive has come in to re-vamp the authority's services and is making big changes without reference to lower staff...support services are being withdrawn without consultation...there's too much reorganisation and change.

### **About working hours, conditions, shifts, responsibilities, etc. (18 of 19 negative)**

Most of the answers to this question stressed some combination of unreasonable hours and conditions and of being asked to carry out tasks for which no adequate training had been given:

There is no thought of health and safety for us. We are asked to work outside the '11 hour rule' - we get home at 11.00pm and have to be back at work at 6.30am. The long overnight shifts affect my 'body clock'.

The [previous] job was demanding and the pay unreasonable. The lifting was very tiring. There was very little training and senior staff were asking juniors to do difficult things like changing stomach bags which can easily go wrong.

The hours suit me because of family commitments but there is too much risk and responsibility attached to the job...particular attitudes, skills and training are needed to work effectively with 'difficult' children and the pay does not reflect this.

The responsibility is too much. Occasionally I have to deal with life and death situations and I am neither remunerated enough nor given the respect I deserve.

I have to administer medicines without having proper training for it.

### **About motivation and any recent changes (13 of 17 negative)**

On the key issue of motivation it was clear that the majority of those interviewed were experiencing a decline in their motivation towards the job. A variety of reasons were given:

I have a lot less motivation than two years ago due to the attitude of senior people. I would be more motivated if I were treated better...the criticism is de-motivating...we are doing our best here, what more can we give you.

It's de-motivating that there is no real movement or chance of promotion...the NVQ is important – but perhaps it means £5.20 instead of £5.00!

We're not adequately informed, you have to be a mind-reader at times and this affects motivation.

I have a big commitment for the well-being of the people I look after but I have no time for the management...I feel less motivated now because the responsibilities have increased but not the pay...the services for the elderly are being reduced and this is de-motivating... I'm very unhappy with the quality of care after privatisation and this depresses me.

I love my job...we support each other and get on well [the respondent works in a crèche on £4.10 an hour with few entitlements].

Zero motivation, it's at an all-time low...I'm fed up with working for idiots and would only be a bit worse off on the dole.

### **About ideas to improve service quality (at least 8 constructive suggestions)**

The respondents identified a number of ways in which they felt service quality could be improved but there was a strong sense that either their ideas would not be listened to or that, in most cases, there was no proper structure in place to share ideas with management:

The management are not really businesslike...they don't learn from things that go wrong...there's no de-briefing after events yet we need people to keep coming back.

If we were given a better support service, simple things like petty cash and photo-copying, we could deliver a better service.

Weekly team meetings are a good chance to make suggestions.

We would really benefit from regular staff meetings to exchange ideas and information...the service seems to exist for itself not for users...managers should listen more...I could make a difference, but they don't give two tosses.

Sometimes we have to do things for which we do not have enough training...this job needs ongoing support with a mentor structure... induction into the post was not offered until 10 months into the job.

### **About whether the job is adequately staffed (all comments said not)**

The comments here were short and to the point:

It's totally understaffed...understaffing is a major problem, management just don't think about the consequences of this...sometimes there should be two or even three people on this job.

We simply need more Teaching Assistants. The Special Educational Needs register has doubled and pressures are growing...it's not properly staffed, there is no time to listen to people.

There are often only two staff instead of three. If there was always the right number many of the pressures would be taken off.

There should definitely be more than one staff member on duty at nights.

### **Would you recommend the job?**

Despite the weight of the comments set out above many of the respondents gave a positive response to this question but it was heavily conditioned with caveats about management style and the need for full commitment to the work. This feeling is summed up by one quote:

I enjoy my job despite the management style...but only for the reward of working with people not for the pay and conditions.

### **Are you actively looking for another job?**

Most responses to this question were ambivalent. Many were conscious of the difficulties of the local job market and their perception, rightly or wrongly, that employers could recruit people relatively easily – especially at the pay levels they were receiving. Several respondents said that they were 'always keeping an eye open'. Responses included:

I'm not actively looking, 'better the devil you know'.

I would like another job with more pay [than this Brighton and Hove council job] so as to be able to afford to be in a pension scheme.

The latter respondent seemed unaware that most jobs outside the council would not give access to a scheme as good as the Local Government Scheme. This was pointed out in the interview.

### **3.2.6. Summary of opinions about the job**

The main attitudinal finding from this part of the survey is that the respondents almost all feel they are doing very responsible and socially necessary jobs for very low pay. There is a common feeling of resentment compounded of a sense that they are undervalued, are asked to do specific tasks that are beyond their training and are not sufficiently listened to when they feel that, from their experience, they have constructive ideas to contribute. Many of them sense that their line managers are themselves under considerable pressures and, given the constant flow of service re-organisation and re-structuring, may have become more interested in protecting their careers than in service delivery.

These feelings closely reflect those identified in a recent survey by the Audit Commission (Audit Commission 2002). This found that on the whole it was not

compelling alternatives but 'push factors' that caused people to leave their jobs. Stress was the biggest single factor. The underlying causes of stress varied but included too much bureaucracy and paperwork, lack of resources, heavy workload and long hours, the pace of change and the sense of not being valued by the Government, by managers, by the public, in terms of their pay and career progression and so on.

There is no lack of intrinsic willingness to do tasks that most respondents can see are of great benefit to those they deal with or care for. But it is clear that the goodwill and motivation vitally necessary to sustain 'frontline' effort and job satisfaction has been massively eroded by recent changes in working conditions. This is partly to do with the constantly shifting organisational structures, partly from the imposition of 'performance indicators' that often bear little relation to the quality of what is delivered and partly from the 'contracting out' of some services. This overall feeling, which can best be summed up by 'love the work, hate the job'.

The sense of satisfaction that comes from involvement in a worthwhile task stems from a deep human need to be useful. Most of the frontline workers interviewed know from daily experience how useful and rewarding their work is. To undermine this feeling with 'performance indicators', 'task management', 'best practice', short-term employment contracts and similar practices, often at the direct behest of Whitehall, is to place at risk the most valuable qualities that can be brought to any task. Rather than increasing the cost-effectiveness of service delivery these practices are probably having the reverse effect. By this key criterion they can be seen only as bad management.

### **3.2.7. One view of the effects of privatisation on the care sector**

One third of the sample interviewed were care workers. This category of work has been one of the largest to have experienced privatisation in recent years. One recent study (Prism 2000) has drawn attention to the poor pay and conditions of homecare workers employed by independent employers compared to the 'in-house' terms of employment. But such is the turnover of staff in this sector that only one of those interviewed had been in the job both before and after the 'contracting out'. There is therefore no reliable evidence from the survey itself about changes in working conditions and the quality of care since privatisation. Nevertheless some light can be thrown on this issue by drawing on the views and experiences of a worker who has just left care work after nine years spent first as a care worker and then as a Home Care Support Worker with Brighton and Hove Social Services.

The work is varied. Some care workers look after the more mobile elderly who require little nursing care but need to be in residential homes. In other situations a greater nursing input is required for people with little mobility, who have mental health problems or who are bedridden. In addition care is required for those with disabilities. Home care is provided for those who are reasonably independent but who cannot manage entirely on their own.

#### **Effects on careers, pay and conditions**

When employed by the local authority workers still worked long hours for poor pay but they had greater job security, they worked on a rising scale and they received

better entitlements in relation to sick pay, other forms of time off, access to the Local Government Pension Scheme and holidays. Because they often worked in larger units and institutions the employment tended to be more stable and there were clear career progression possibilities because of the range of grades in the larger units. Staff tended to remain longer in the job and thus developed better teamwork with long-time colleagues. Many of these advantages have been eroded as more work has moved to smaller privatised units. Few of the staff are now unionised and some rates of pay remain at 1992 levels.

### **Effects on staffing levels**

Staffing levels appear to have worsened although it is difficult to make strict comparisons. There is also a more marked turnover in staff in many situations.

### **Effects on the quality and continuity of the service**

More staff effort is now focused on physical issues and ensuring that those cared for are kept clean and well fed. This may well reduce the time available for getting to know those cared for or for listening to them. Shorter time periods in the job mean less chance to build up relationships with those cared for, with visiting relatives or with work colleagues. There are some changes to quality of life stemming from the selling off of gardens and open spaces adjacent to homes by owners who acquired the properties from East Sussex County Council and who now wish to realise part of their capital value. There also seem to have been adverse effects on the amount and quality of staff training (as was indicated by the survey findings) whereas previously in-service training opportunities were good. Employers, who are often the owners of the homes, are keen to have positions filled, often by employees from overseas, without too much concern with qualifications and experience or even with status in the UK.

### **Overall effects**

In the view of the informant one striking effect of these changes in combination was an increased prevalence of bedsores among the bedridden. In her view this very painful condition is a key indicator of the quality of care and the condition simply should not occur.

## **3.3. How low pay impacts on the rest of life**

The survey of low paid workers set out not only to establish levels of pay and working conditions but also to explore on the basis of respondents' own accounts how low pay affects their lives. This is an essential step in working towards the identification of the 'exported cost' to which these effects might give rise. While the survey was necessarily a small one in view of time and resource constraints, and while those on low pay in a high cost area such as Brighton and Hove suffer disproportionate adverse effects, there is no reason to suppose that the effects noted cannot to some degree be generalised to the millions living on very low income levels elsewhere in this country. The Interview Schedule was designed to gain evidence of the 'spin-off' effects of very low pay under different areas of life (see Appendix 3). Each area is discussed in turn. Care has been taken to ensure that the comments quoted are representative.

### 3.3.1. Health

Nearly half the respondents mentioned that they were 'very' affected by stress related to working conditions and/or low income. A further third said they were affected 'to a degree' by such stress. A third of those questioned said that this had led to more frequent contact with their GP and/or to more medication. Others have required appointments with consultants. The cost implications for the NHS are obvious and require quantification.

A very full set of comments was noted that related stress to low pay and working conditions:

I have had severe and continuous depression due to debt and the cost of living...I have had 14 days off for illness in the past year and have often come in when I was feeling unwell...working more hours definitely equals poorer health.

I suffer from work-related depression and have been off for 10-15 days in the past year...it affects my sleep pattern and my stomach and I have been on medication.

I've had seven days off in the past year for stress-related ill-health and have consulted my GP over various work-related problems – sometimes I feel desperate.

My GP says I'm depressed and that my skin condition is due to stress... I have dermatitis from the worry and had to wait six months to see a consultant...it's tiring and isolating to work odd hours and it can be depressing.

I suffer high stress levels, this will increase as more and more 'difficult' children come into the system with no back-up support...I get stressed because of the job and worrying about bills but no one can be bothered to listen

Some comments indicated that the long working hours and low incomes that generate much of the stress also affected the use made of health services:

Long hours and anti-social working hours put people off seeing their GP.

If I go to the GP it will cost a lot of money and I don't go to the dentist because of what it costs.

Some of the ill-health was seen to be related to conditions outside the workplace that clearly stem from low incomes and long working hours:

The rents have gone up and wages remained the same, this is very depressing, I often stay out because home is so depressing.

I needed anti-depressants for six months when I was in a bedsit...I saw the GP and a counsellor and it aggravated my asthmatic condition.

I get stressed at the end of a long day going home to cook, clean and look after people...I get stressed juggling working hours with care of the children and I don't see enough of them.

It should be noted that the costs generated fall also on employers in terms of additional sickness rates. Significant amounts of cost are also 'internalised' in that people hold off from seeing their GP or dentist (the latter usually on cost grounds) and instead may resort to unhelpful coping practices such as smoking (which one respondent said he used as 'self-medication'). Perhaps the most telling comment was from the person for whom work has changed from being a source of satisfaction and release from other forms of stress into a source of stress in itself.

### **3.3.2. Food and diet**

There is a growing body of research on the effects of low income on diet and the effects of poor diet on general health (see section 4.2). There is a growing problem of obesity, particularly among children where the effects are likely to be long-term if not lifetime, and the cost of this has been put tentatively at £0.5 billion per year. In addition about 20% of women of working age are now obese compared with 15% in 1991/2 (Palmer et al. 2002).

Of the 24 respondents 17 said they could not eat as much or in the way that they would like. The comments help to explain how low incomes and long and irregular working hours are causally associated with poorer dietary patterns and why it may be difficult to comply with the recommended 'five a day' helpings of fruit and vegetables:

Lack of a proper canteen means 'eating on the hoof' and lots of rubbish processed food...and we have funny eating hours on this job.

We always buy the cheapest of everything...I can only buy tinned stuff, lots of cheap stuff.

I often can't afford food, 'five a day? More like five a week'...I have cut down on fruit and decent meat.

Very often the long hours affect the capacity to produce cooked meals at home:

I'm often too exhausted to cook properly, I eat quickly and on the run and it affects my digestion.

I don't have much time to cook meals – we make do with pizzas but I'd prefer not to do this.

Another effect is the way in which a limited income complicates the task of shopping:



I have to work out the cost of everything very carefully before we go shopping... I have to spend a lot of time comparing prices in different shops and this detracts from relaxation time.

It was evident from many comments that there is no lack of understanding of good dietary principles. It is simply low incomes and lack of time to cook that is inhibiting good nutrition.

### **3.3.3. Relationships and family life**

A harmonious family life and close and supportive relationships within the home clearly lead to the avoidance or minimisation of all the costs associated with domestic disharmony. These range in severity from the costs of dealing with occasional stress through those associated with serious tensions and perhaps domestic violence to the ultimate and costly issue of family break-up, possible homelessness and the damaging disruption of the lives of both adults and children.

The following comments identify the close causal relationships between low pay, irregular working hours and adverse effects on family life:

The job has a massive effect on our relationship, we get tired, snappy and aggressive.

Shift patterns mean we don't get quality time together and this puts a strain on things.

We rarely have a weekend off and it is difficult to spend time with my child.

Definitely yes, no regular pattern of shifts affects family life...you can't plan things... I have no time to socialise with my family.

For those living alone the effects were felt in terms of damage to mutually supportive contact with friends and to relationships with extended family members.

### **3.3.4. Holidays and school trips**

The therapeutic value of relaxation and a change of scene is an undoubted health benefit. Inability to afford a proper holiday, especially when the TV schedules focus ever more incessantly on holidays in exotic places, is a serious consequence of living on a low income. In particular seven of the respondents living in the households with children mentioned the lack of a holiday away and six mentioned to difficulties of paying for school trips for their children. Comments included the following:

I've just booked a week's holiday – my first for five years.

'Holiday' is a family day out on the beach.

No holidays any more, we had one two years ago in Cornwall.

We haven't had a holiday since 1995 but we may go to Butlins this summer.

Many of the respondents find great difficulty in paying for their children to go on school trips:

We generally can't afford school trips for the children.

My son could go on a school trip only because we could pay in instalments.

This pattern is well out of line with national trends. Between 1995 and 1999 domestic tourist trips increased from 121 million to 146 million per year (*Social Trends 2002*). Other evidence shows the effect of low income on travel and trips in that the poorest fifth of the population spend on travel only one quarter of the amount spent by the richest fifth and only £14 per week compared to a median of £58 per week (Palmer et al. 2002).

### **3.3.5. Recreation and leisure activities**

Given that many respondents could not afford to go away on holiday a greater premium is placed on non-holiday recreational and leisure activities as a means of relaxation and the recharging of batteries both for themselves and their children. Unfortunately the lack of available funds, plus for many the tiredness resulting from long and irregular working hours, means that most respondents were able to do very few or no recreational activities in their leisure time. Many had clear ideas about what they would like to do but were quite unable to do it. Ironically many of these activities would involve exercise that could only be of benefit to health and would help to avoid obesity:

After work I'm just so exhausted I don't bother...I've no energy even to do the washing up.

I would love to travel and make music but it's all pipe dreams, I don't do any because I can't afford it.

I would like to swim more but I can't afford it.

After working long hours I don't have much energy for exercise...I'd love to go to a gym but there's no way I could afford it.

This lack of resources also limits the children's activities:

I have to limit my daughter's activities to those I can afford.

I can't afford to do anything, my son likes snooker but we can't afford to pay for practice time.

Cultural life is also severely affected:

One evening out to the theatre equals being overdrawn equals worry.

I'd love to take some adult education classes but could never afford them.

### **3.3.6. Volunteering and other spare time activity**

In many areas the cost burden on statutory services is reduced by community support activities carried out by voluntary sector agencies of many kinds. Such agencies clearly cannot operate if volunteers are thin on the ground and one of the Home Office's Public Service Agreement targets is to increase the level of community participation by 5% by 2006. Typically in many comfortably off areas there are many retired people in good health or people at home all day who are able to contribute to the spread of services offered by the voluntary sector.

Low pay and irregular hours provide powerful impediments to getting involved in such activities as was shown by the answers to a question on the issue, although it was evident from a number of responses that the willingness was there:

I haven't got time with this shift pattern...there's no spare time, I just need sleep.

I cannot afford to be involved in anything other than caring for my family.

I'd like to volunteer to take old people around but my course takes all my spare time and I'm not given any time off to do it.

Only three of the 24 respondents were actively involved in any voluntary activity – one with her church, one for Oxfam and another in helping raise money for Macmillan nurses.

This issue is regarded as significant by the New Policy Institute who have adopted non-participation as one of their 50 indicators of inequality (Palmer et al. 2002). In a study on the state of 'civil society' in areas of east London (Wills et al. 2002) the researchers found that only 27% of those surveyed were active in any community group. At the national scale the 1998 *British Social Attitudes Survey* found that 33% of those aged over 18 had done some voluntary work in the previous year. The percentage appears to be far lower in the present sample and it is likely that this is placing additional cost pressures on statutory services in Brighton and Hove.

### **3.3.7. Neighbourliness**

The other key aspect of a strong and supportive 'civil society' is the informal pattern of mutual assistance and support provided by neighbourly activity. Only eight of the twenty four respondents said that they had the time and energy for neighbourliness. A similar number said they just had no time or energy and the rest made no comment:

I leave early and get back late, I don't really know them.

I wouldn't normally have the strength left to see neighbours.

### **3.3.8. Personal safety**

Personal safety can to an extent be bought – given sufficient income. Of the 24 respondents in the survey 13 explicitly said they felt the need for more home and/or car security devices such as better locks, fire alarms and outside security lights but they could not afford them. One respondent said that her mother had fallen and broken an ankle as a direct result of poor outside lighting. It seems obvious that with a better coverage of such devices the call on police, healthcare and emergency services time would be reduced.

When I had a car things got nicked because I couldn't afford security devices.

I would like a security system and a fire alarm but I can't afford them.

Another aspect of personal safety related to income is the ability to take a taxi home at the end of a late work-shift. Six respondents said that they wished they could take a taxi home but that it was too expensive for them.

Brighton's not a safe place, I have to get taxis a lot coming home late from work.

I would like better security equipment and to afford taxis for my daughter to come home at night.

Finally only five of the respondent households had a contents insurance policy and the remaining 19 risked uninsured losses from break-ins. National data (Palmer et al. 2002) indicates that about one half of the poorest 20% of households are without contents insurance compared to only one quarter among those with average incomes. Yet households in poorer areas are much more likely than others to be burgled - which accounts for the variation by a factor of up to six depending on postcode in the cost of taking out contents insurance. The very low rate of insurance coverage in the sample interviewed is one serious effect of low wages.

### **3.3.9. Debt**

Since low paid people are frequently forced into debt a question was asked on this issue but in view of the sensitive nature of the topic the matter was not pushed if some reluctance was evident. Nine of the 24 respondents said that they were in debt. Of these four did not wish to give the amount but the debt of the other five averaged £3,800. Several respondents said they had been in debt recently (in one case having to sell a property to get out of debt) but asserted that debt terrified them and they would be sure not to become indebted again. Six said that they would not get into debt as it would be an additional source of worry. Several others expressed surprise at the behaviour of the finance industry in targeting them with leaflets and offers to increase the credit limit on their cards. Taken overall the responses showed a clear sense of responsibility in seeking to avoid debt wherever possible.

Among the comments made were:

I got into massive debt, up to £10,000, which I was only able to pay off when my parents died.

I was in debt at 18% for two or three years, I had to move into a bedsit to pay it off, this really upset me.

I'm about £12,000 in debt and all the bank does is increase the facility!

I have been drawing on my £9,000 capital, it's down to £1,500 now.

I avoid debt...I hate being in debt and would be too worried to have a credit card.

### **3.4. General questions**

There were three general questions at the end of the Interview Schedule. They were included to try to identify which among the various issues discussed stood out as the most significant for the respondent, what the main priorities for extra spending would be and what single issue constituted the biggest worry.

#### **3.4.1. The main problems of living on a low income**

The responses to the question '**what are the main problems of living on a low income?**' produced a summary of the difficulties. Some people stressed the constant juggling of resources:

Living hand to mouth worries you constantly.

I'm always 'robbing Peter to pay Paul' and I buy second hand clothes.

others were concerned with the limitations on lifestyle:

My life is all about paying rent.

When all the bills are paid there's little for day to day living.

I can't afford new shoes.

some resented the limitations placed on self-improvement:

You can't improve yourself, take time off to study and get better qualifications

while others were well aware of the particular problems of living in the area:

It's the house prices and the cost of living in Brighton.

Brighton is 'money problems by the sea'.

and one made the poignant observation:

It's hard to go out...if you don't go anywhere you will never have any memories, that's what really concerns me. [44 year old woman].

### **3.4.2. How additional money would be used**

In order to confirm the issues that mattered most the question **'If more money were coming in how would it be used?'** was asked. The most important uses were:

- improving the home or decorating (8 people)
- going on holiday (8 people)
- putting money into savings or a pension (6 people)
- getting out of debt (2 people)
- getting driving lessons (2 people)

The comments, which ranged from fantasy through realism to resignation, included:

It would have a major effect on happiness...I would spend it on my daughter, small luxury items and holidays.

I would try to get secure housing, it affects so much else, and I would expand my interests.

I might consider a pensions or savings plan [39 year old].

I would make a donation to the church and to charities then use the rest to improve our housing situation.

### **3.4.3. The single biggest worry – 'next year'**

The final question on the Interview Schedule was **'At this moment today what is the single biggest worry in your mind?'**

The responses ranged from 'I've booked a holiday but am not sure I can pay for it', through housing insecurity, to job insecurity, to health worries about not being able to work in a situation where '...we lurch from week to week', to worries about the children's future because 'Brighton is so expensive', to the person who simply said that 'next year' was her biggest worry.

## **3.5. Observations by front-line service providers**

To complement the evidence gained from the survey several interviews were conducted with experienced service providers in health, education and the care services including a public health doctor, an Education Welfare Officer and a Care Service Support Worker. They were able to contribute general observations about the effects of low incomes on various vulnerable groups including young people.

Many of the kids have their only decent meal at school, many don't have breakfast and start flagging mid-morning.

Many parents work long and irregular hours, some kids arrive at school at 7am because their parents have gone to work.

Lots of the homes have few books or a PC... a lot of the children are not properly fed or cared for, their stress shows in anger and aggressive behaviour.

They don't send the children to the doctor's for check-ups...there is a poor attendance at the dentist and no routine eyesight tests.

Junk food is making some of the children hyperactive.

Maybe only 40% of the kids have a 'normal' family life...their aspirations are very Brighton-based, they don't know anything else.

Poverty produces health stress and the break-up of relationships.

### **3.6. Combining the LCA and survey findings**

When the LCA calculations in the various cases (section 3.1) are compared with survey findings (sections 3.2 to 3.4) some of the results are surprising.

#### **Basis 1 – all eligible benefits are claimed**

Taking both household types, and all the working patterns, claiming of the full benefit and tax credit entitlements (universal plus means-tested) produces in most cases virtually the whole income required to reach the LCA level. The hourly rate required in the five cases ranges from £2.58 down to 42p. The benefits and credits cost in these situations ranges between about **£192** and **£289** per household per week.

#### **Basis 2 – means-tested benefits are not claimed**

UNISON's policy position is that households should be able to earn a living wage while working normal hours and without dependence on means tested benefits and overtime working. This basis tests this position in the Brighton and Hove area.

The hourly rates required for the two adult household are **£6.38**, **£7.83** and **£17.74**, depending on the work pattern. For the single parent household the hourly rates required are **£10.53** and **£18.32**. All these rates are well above the average hourly rate earned for normal time working by the survey respondents (**£5.95**). This makes it clear that either lower paid employees must work overtime hours to reach the LCA level in this area (which many of them are) or they are forced to live at a level below even LCA. In either case UNISON's policy position is not met.

### **Basis 3 – earning the National Minimum Wage**

If earnings are calculated using the current National Minimum Wage rate (£4.20 per hour) and all benefits are claimed the resultant net income figures are in excess of the LCA level by between about £4 and £50, depending on household type and work pattern. The weekly cost in state benefits per household varies between about **£117** and **£214**.

It was found that there was very little incentive for the second adult in the two adult household to work part-time or for the lone adult to work full-time rather than part-time since marginal ‘tax rates’ of over 70-80% applied on the additional earnings.

In fact only four of those interviewed (three crèche workers and one teaching assistant) were working at or near the NMW so clearly the application of a minimum wage standard is doing little to protect workers in the Brighton and Hove area and the same comment would apply to several of the other areas (for example east London and Swansea) where LCA studies have been carried out.

### **Basis 4 – earning the average hourly rate observed in the survey**

Those earning the average rate found in the survey (**£5.95**) would, if claiming full benefit and credits entitlements, be receiving a net income of between £8 and £73 over LCA level depending on household type and working pattern. The benefits and credits cost to the economy varies between **£87** and **£182** per household per week.

### **Combining the LCA calculations and the survey findings**

When these data are combined with the survey findings some puzzling features emerge. Virtually all those interviewed in the survey are suffering considerably from the effects of low incomes. Most cannot afford a holiday or pursue normal leisure activities, many cannot buy enough of the foods they regard as healthy or invest in a pension and many cannot afford a normal social life with occasional meals out and social drinking. Yet all these are explicitly written into the calculations producing the LCA level net incomes, which can be easily reached and exceeded by claiming eligible benefits.

There are two possible explanations. Either the households surveyed are not claiming some or all of the benefits to which they are entitled or the LCA formula, even when local living costs as specified are applied, does not produce an income that permits the activities currently foregone. The truth probably lies in some combination of these two explanations. Certainly there are some serious shortcomings in the LCA assumptions when applied in the local case (for example LCA assumes access to local authority housing but only six of those interviewed were in council housing) and these will be more fully discussed in Appendix 1.

### **The cost in benefits and tax credits to the national economy**

The benefits and credits cost in the various calculations ranges between **£87** and **£289** per household per week (or from about **£4,500** to **£15,000** per household per year). This can be regarded as the order of subsidy from collectivised local and central



government finances to employers and landlords in the Brighton and Hove area – the modern equivalent of the more local and transparent system put in place by the Magistrates of Speen over two hundred years ago (see section 1.4).

The more that local living costs rise, perhaps partly in response to promoting Brighton and Hove as ‘the place to be’ and carrying out ‘regeneration’ programmes whose effects on raising housing costs are rarely thought out in advance (Ambrose and MacDonald 2001), the heavier this cost on public finances is likely to be. Unless of course some way can be found to reduce the number of lower income households in the area. One way might be to raise wage levels.

### **High marginal tax rates and declining motivation**

It was pointed out in section 1.4 that for lower income families the ratio of benefits and tax credits to earnings from work is increasing. Below the ‘poverty trap escape point’ (earnings of £22,620 per year in the case of the LCA households) very high marginal tax rates apply as the gain from increases in earnings is offset by the benefit and credit withdrawal ‘tapers’. Increasingly people below this earnings level may question whether it is worth working extra hours, looking for a better paid job, working full-time rather than part-time or even working at all (see section 3.1.3).

The crucial issue is motivation. People will continue in employment if their commitment to the work, and the non-financial benefits to be derived from it, is strong enough for them not to make any calculations about their marginal rates of taxation or, if they make them, to ignore them. The survey results showed that many of those interviewed were well aware of the worth of what they were doing and that they were doing it out of a strong sense of commitment. But section 3.2.5 showed that 13 of the 17 replies to the question about changes in motivation were negative and in comments 42% of respondents specifically referred to declining motivation. The most significant comment was from the person for whom work has changed from being a source of satisfaction and release from other forms of stress into a source of stress in itself.

Unless work conditions improve and efforts are made to restore motivation the Government’s vision of using the ‘in-work’ route out of poverty could be fatally undermined.

## **3.7. Low pay – a barrier to ‘social inclusion’**

Most of those interviewed were unhappy with the strict limitations that low pay imposes on many aspects of their lives, particularly in relation to their housing situation. But most were realistic enough to know that there was little they could do about this as the recent sharp rises in house prices and rents had given them the feeling that their housing prospects were if anything worsening.

Almost all referred to a range of adverse factors affecting health including long hours, disruptive work patterns, stress at work, a poorer diet than they would wish and difficulties in taking preventative health-protection measures. Most felt that the lack of time and energy to use free time creatively plus the lack of funds for family

holidays and school trips for the children effectively reduced their capacity to recharge their batteries. For many of those interviewed job insecurity was an additional problem overlain on these difficulties.

All these conditions are directly related to low pay and they do not add up to the greater 'social inclusion' that is the expressed aim of Government policy. What they do add up to is substantially increased 'exported costs'.

## 4. THE ‘EXPORTED COSTS’ OF LOW PAY

(with Julia Stone)

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### 4.1. From private stress to public cost

Maintaining a low minimum wage is a false economy. The result is...costs borne by the whole community. (UNISON 2002)

This section seeks to put some evidential weight behind this UNISON statement by focusing on the public cost implications of localised poverty on this scale. There are three stages:

1. To review some of the key studies that have demonstrated repeatedly occurring associations between low incomes, poor housing conditions and low health status and well-being (section 4.2)
2. To identify and systematise some of the cost headings affected (4.3)
3. To review some studies that are seeking to identify the order of public cost generated by inequalities under a number of these headings (section 4.4).

First there is a point about language. As we saw in section 1, Government documents deal in terms like ‘social exclusion’ and ‘deprived estates’. These are diversionary euphemisms. The issue is that something like a fifth to a quarter of the UK population live in poverty. Since the vast majority of households which include someone of working age have at least one person in work the root cause of poverty is low pay – the central focus of this report.

### 4.2. Poverty and the ‘health gradient’

Numerous studies over the years have established correlations between, on the one hand, poverty and low socio-economic status and, on the other, various negative ‘outcomes’ in terms of poor health (see especially Graham, ed. 2000), lower educational achievement and a higher incidence of crime. In his review of evidence linking socio-economic status with health, Syme (1994) points out that:

...a gradient exists in the rate of disease from the top of the social hierarchy to the bottom, for almost every disease that has been studied, practically everywhere in the world.

Some key studies relating to the United Kingdom include the Black Report *Inequalities in Health* (1980), the Acheson Report *An Independent Inquiry into Inequalities and Health* (1998), the annual Health Surveys for England, produced by the Department of Health, Gravelle and Sutton (2001), Marmot et al. (1991), the Audit Commission’s 2002 report *Tackling Obesity in England*, and Coleman (1999).

All these studies found clear evidence of substantial socio-economic differences in morbidity rates. Since it is safe to assume that the vast majority of people access the best housing conditions they can afford it is reasonable to believe that bad housing will also show strong associations with various negative 'outcomes'. An annotated literature review has discussed a number of studies linking poor housing and living conditions not only with poor health but also with negative 'outcomes' in education and with higher rates of crime experienced (Ambrose, Barlow et al. 1996). A more recent discussion of work on urban regeneration and health (Popay 2001) has drawn attention to the urgent need to move towards a better resourced and systematic research drive on this issue while the most recent review (Thomson et al. 2002) has found only a handful of valid studies linking a housing improvement intervention and health gain. Much more work is needed.

The main issue, for researchers and policy-makers alike, is to justify the removal of the quote marks around 'outcomes'. Their use denotes a proper degree of caution about causality. While few would challenge the almost universal presence of strong correlations between the conditions and the apparent effects the ways in which they are linked still require much closer examination. What are the precise causal mechanisms and processes that link the conditions with the 'outcomes'?

One recent study (Attanasio and Emmerson 2001) has put the problem in these terms:

While the existence of a correlation between health outcomes and socio-economic status is well established, it is not clear what are the casual links between health and wealth. In particular it has not been established what is the direction of causation as one can easily construct plausible stories to justify causality running in both directions.

To the second sentence one can only say that one set of stories usually looks a lot more plausible than the other. But the first sentence is to a degree justified – it is crucially important to gain a firmer understanding of causality.

Nevertheless it is interesting in passing to note that Christopher Addison, Minister of Health in the early 1920s and himself a doctor, was not inhibited by such academic niceties. He had no doubts that poor conditions played a large part in the ill-health and that the ill-health cost a lot of money. He set the Registrar General the task of calculating the public cost of various manifestations of ill-health which he regarded as a direct outcome of poor housing conditions. These included the increased incidence of TB, the generally poor health of children in elementary schools and the levels of preventable sickness in the workforce (Addison 1922). The Registrar General came up with some fairly precise estimates of these 'exported costs' (over £42 million annually in 1921 values for a partial set of costs). Addison's strategy to use these findings as an argument for further housing investment resources from the Treasury was cut short by his prompt dismissal from office by Lloyd George. 'Homes Fit for Heroes' had not lasted very long.

To return to the present, the first step is to avoid the 'ecological fallacy'. This arises when it is inferred, because a particular area unit shows a high % of 'a' and a low % of 'b', that the one must be a consequence of the other. This is to ignore the possibility that both may derive from an unconsidered 'c' or that the association has

arisen purely by chance. Demonstration of process is as vital as demonstration of correlation.

Governments regularly (and perhaps conveniently) fall into a similar trap when they adopt sets of area-based indicators, such as rates of ill-health, to measure 'progress' over time in an area selected for a special regeneration programme. If such measures are used the improvement demonstrated may simply derive from the movement in of a population that is perhaps wealthier and in better health (as happened in those few wards in the Isle of Dogs in Tower Hamlets that showed marked 'improvements' in key indicators during the 1980s and 1990s). This measure clearly says little about the fortunes of the Year 1 population of poorer people that may well have been eased out by the very regeneration programmes intended to assist them.

There is no shortage of studies demonstrating correlative links between conditions and various aspects of health. Key findings from the Health Survey for England 1996 (Prescott-Clark and Primates 1998) include an observed social class gradient for obesity in women with 25% of women in Class V classified as obese compared with 14% in Class I, an annual accident rate of 38% for non-manual males in the 16-24 age group compared with 52% for manual males and 89% of women in Class I self-reporting their health as good or very good compared with 59% in Class V.

Marmot and his research group at University College, London conducted two major British cohort studies, Whitehall and Whitehall 11 (Marmot et al. 1991). These looked at morbidity amongst British civil servants from the bottom through to top grades. Whitehall 11, set up in 1985, found evidence of increased risk of cardiovascular disease and respiratory disease as one went down the civil service grades. Coleman's research (Coleman 1999) was the first major study of cancer and socio-economic factors and looked at the survival rates of 3 million adults and 18,000 children in England and Wales who had been diagnosed with cancer between 1971-1990 and followed their progress up to 1995. The research findings revealed a disparity in survival rates between rich and poor of between 5% and 16% for fourteen adult cancers, including breast, bowel and malignant melanoma (the Office of National Statistics deprivation index was used as the basis for distinction between rich and poor.) A sample finding was that the rich were sixteen times more likely than the poor to survive for five years after getting tongue cancer.

A study by Gravelle and Sutton (2001) measured and decomposed income related inequalities in self-assessed health, reported pro-rich inequality increasing in England, Scotland and Wales during the period under investigation and concluded that reductions in this pro-rich inequality in health could be achieved by reducing income inequality thus reducing the effect of income on health.

Airey et al. (1999) collected data on the incidence of coronary heart disease by social class. A key finding of their report was that

CHD patients differ from the general population in that a higher proportion is from manual social classes – about half compared with two-fifths of the general population. Among male patients... the proportion is even higher – 55%. (Airey et al. 1999, p.5)

Poverty and poor housing conditions are frequently associated with low indoor temperatures. There has been much research on the effects on health of low temperatures in the home. Baker (2001) from the Centre for Sustainable Energy has produced a review of evidence linking living in a fuel poor home with increased risk of illness. This shows in particular a strong association between cold environmental conditions and increased risk of strokes, heart attacks and respiratory illness. Evidence is also reviewed on the impact of cold stress causing cardiovascular strain, the increased incidence of dust mites in poorly ventilated homes affecting asthma and eczema, particularly in children, and the effect on mental and physical health of the presence of damp and mould growth in the home. The relationship between inadequate indoor heating and excess winter deaths has been extensively studied (for example Eurowinter Group 1997).

According to Sandel et al. (1999), a deficit of adequate housing has resulted in 21,000 American children having stunted growth and more than 120,000 being anaemic. They also report that 77% of children in their study with chronic conditions such as asthma need improvements to their home as part of their treatment. Given the link between poor housing conditions and the incidence of asthma, it is interesting to see what some of the social and economic consequences of this disease might be. According to the Office of Health Economics (1999) asthma is reported to have accounted for 328,000 hospital day beds in England in 1994-5 and to have cost the NHS £730 million in 1995-6. Brandon (2002) cites a report that in the States 14 million days of school are missed each year due to asthma.

Research has also linked poverty and low socio-economic status with a greater risk of low birth weight (low birth weight has traditionally been set at 2.5 kg or under, although this is currently being re-examined). The New Policy Institute indicators, which are drawn from a variety of official sources and are published annually, show that babies from parents with manual backgrounds are more likely to have low birth weight than those from non-manual backgrounds, (8% compared to 6.5%). Low birth weight can well have a number of negative implications. A Canadian Public Health Association discussion paper (1997) cites research which asserts that poor children are disadvantaged relative to their peers in numerous ways. In particular they are more likely to be born prematurely and to have low birth weight.

A link between birth weight and IQ has been suggested by studies including a New York study (Matte et al. 2001) which looked at 3,484 babies born of 1,683 mothers between 1959 and 1966. The children were tested, using 3 performance tests and 4 verbal tests, at the age of 7. They found that in general, higher birth weight meant higher IQ. The average difference between babies of less than 2.5kg and those of up to 4kg was 10 IQ points. Similarly research from a cohort study by a team from University College London (Richards et al. 2001) linked birth weight with achievement at school and university, and found that big babies are more likely to do well and tend to achieve higher scores in tests to measure powers of reasoning than small babies. This cohort study looked at 3,900 men and women and found this link between cognitive development and birth weight at ages 8, 11, 15 and 26, although the link was less clear at 43. Low birth weight has also been linked to higher than average risk of heart disease and stroke in adult life (BBC News Online report, Small babies more prone to heart disease, 17 July 1998).

Research has also been carried out on the social implications of low birth weight (Phillips et al. 2001). This study, carried out by the Medical Research Council's environmental epidemiology unit at Southampton University found that men who had a low birth weight were less likely to marry than other baby boys. Looking at a sample of 5,000 men born between the two world wars, they found as many as one in five low birth weight boys did not marry compared with fewer than one in ten of those with a higher birth weight.

Another study found that children's social backgrounds were even more important than low birth weight in determining how well they do at school (Jefferis et al. 2002) The team, from the Institute of Child Health in London, studied nearly 11,000 children born from March 3 to 9 1958 and measured their maths, reading and other abilities at ages 7, 11 and 16, recording their highest educational achievement at age 33. The team found that over time, the gap in educational attainment between children in different social classes widened, being most pronounced by the age of 33. They also looked at birth weight and found that though maths scores increased for every kilogram of birth weight, the differences based on birth weight alone were relatively small compared to those based on social class background.

Amid the welter of purely associative studies there are welcome signs that more attention is now being paid in officially sponsored research to the analysis of causal linkages between poor conditions and poor health. The Acheson Report (1998) was commissioned to review the evidence on inequalities in health and to update the findings of the Black Report some eighteen years previously. Like Black, Acheson stressed the need to address factors *outside* the NHS, and some of his recommendations called for measures to reduce poverty and improve education and housing. He reported continued inequalities in morbidity citing, for example, that in 1996 in the 45-64 age group, 17% of professional men and 25% of professional women reported limiting long standing illness compared with 48% unskilled men and 45% unskilled women. (Office of National Statistics 1996).

### **4.3. Poverty and 'exported costs'**

The wealth of studies cited represents only a small sample of the total relevant literature. It would be unreasonable to deny the existence of clear and systematic correlative, and sometimes causal, links between on the one hand poverty, low socio-economic status and poor housing conditions and on the other a wide range of negative health outcomes. The negative outcomes inevitably cost a lot of money to deal with. Although we are at a very early stage in the process of making reliable estimates of the order of public costs generated by poor conditions, and of identifying the budgets on which these costs fall, some evidence is beginning to be built up.

In previous work (Ambrose 2001 and 2002) some of the 'exported costs' specifically related to poor housing and living conditions have been tentatively identified and to a limited extent measured (Barrow and Bachan 1997). For example it was found that the costs generated per household and falling on the budgets of the providers of primary healthcare and policing services were only one fifth to one seventh as heavy in an area of good housing compared to an area of bad. In the course of an evaluation of the 'health gain' coinciding with the Central Stepney Single Regeneration Budget

regeneration over the period 1995 to 2002 it was also found that once the area of bad housing had been improved the rate of self-reported illness days among the returning population fell from 37 per 100 person/days to 5 per 100 person/days (Ambrose 2000) with a consequent sharp fall in the use of NHS resources.

Similarly in an assessment of the benefits deriving from the Hackney Central Estates Initiative regeneration of the Holly Street area various 'before' and 'after' surveys were conducted both with residents and key service providers (Ambrose and Randles 1999). From these it was evident that the 'exported costs' associated with poor housing conditions might well be impinging on a wide range of both housing and non-housing budgets. Finally the comments gathered in the survey reported in section 3.2 above identifies a number of ways in which poverty translates into costs.

The possible cost effects identified in these studies, and in the rounds of interviews with key service providers undertaken in Hackney and Stepney, are set out in the Table 15 below. They are categorized in four different ways:

### **1. Capital Costs versus Revenue Costs**

This distinction is more or less self-explanatory. Capital costs are normally covered by borrowing and revenue costs covered from current flows of tax and other revenues.

### **2. Private Costs versus Public Costs**

Private costs are felt on the personal finances of individuals or are in some other way absorbed by them (for example by putting up with indoor cold or untreated illness or worries about safety). Public costs are those collectivised and felt by service providers of one kind or another (although some of the latter no doubt work through to service users in the form of higher taxes and service charges).

### **3. Systemic Costs versus Formalised Costs**

Systemic costs impact regularly and sometimes imperceptibly as life is lived. Formalised Costs are expressed in more visible and formal ways as in the annual bid for funds by a service whose funding formula recognises the high cost of service delivery in run-down areas or in the form of special response programmes in 'run down' areas (such as New Deal for Communities or an Education Action Zone). The heaviest formalised costs of all are the set of means-tested credits and benefits designed to relieve poverty (see section 4.6 for national data and section 3.6 for some idea of the per household costs of benefits and tax credits in Brighton and Hove).

### **4. Degree of Measurability**

Costs can be tentatively ordered in terms of how accurately they can be measured (which may of course change in the future). The categories adopted here are:

- H**     **Hard** - costs that can be quantified given access to existing databases
- M**     **Medium** - costs that could be quantified given better cost datasets
- NQ**    **Non-quantifiable** - costs that clearly exist but are currently non-quantifiable



**Table 15. Costs whose levels can reasonably be related to poverty, poor living conditions and living in poor areas**

	<b>PRIVATE COSTS</b>	<b>PUBLIC COSTS</b>
<b>Systemic - Capital</b>	high annual loss of asset value of owner-occupied property (H)	high annual loss of asset value for landlords of rented property (H)
<b>Systemic - Revenue</b>	poor physical health (H to M) poor mental health (M to NQ) more days off with illness (H) reduced recreational activities (NQ) reduced role in informal support networks (NQ) social isolation (NQ) high home fuel bills (H) high insurance premiums (H) uninsured contents losses (H) spending on security devices (H) living with repairs needed (NQ) poor study conditions at home (M)  loss of future earnings (M) insecurity/fear of crime (NQ) more accidents (M) poor 'hygienic' conditions (NQ) costs of frequent moves (H) adopting self-harming habits (M) more domestic/neighbour tensions (NQ)	higher NHS costs (H to NQ) ditto disruption costs to employers (H) higher NHS costs (H to NQ)  higher cost on statutory services (M) higher care services costs (M) high building heating costs (H) high insurance payments (H)  spending on building security (H) high housing maintenance costs (H) extra costs on school budgets (H) homework classes at school (H) loss of talents to society (NQ) high policing costs (H to M) high emergency services costs (H) high Environmental Health costs (H) disruption to service providers (M) special health-care responses (H) special responses (H)
<b>Formalised - Capital</b>		Government and EU programmes, SRB, New Deal, etc. (H)
<b>Formalised - Revenue</b>		In-work credits and means-tested benefits (H) Local authority 'Statements of need' (H) Education, Police and NHS funding formulae (H) Fire and Ambulance services funding formulae (H) Housing Investment Programmes (H)

A systematisation of this nature not only illustrates the possible range of 'exported costs' but also prompts numerous questions for further examination, for example:

- how much of the cost of poverty is borne privately or 'internalised' by residents and how much impinges on service providing agencies?
- of those felt by the latter, which agencies bear most costs?
- which agencies might therefore save most as a result of a reduction in poverty?
- which costs are currently poorly recorded or measured?
- how do revenue costs and capital costs compare in terms of 'weight'?

- what *forms* of increased investment in reducing the incidence of poverty would be most cost-effective?

By identifying a range of more measurable costs (H), Table 15 also gives some guidance concerning the most promising ways to continue the task of evaluating 'exported costs'.

#### **4.4. 'Exported costs' research elsewhere**

Work on the task of measuring 'exported costs' has been developing both in the UK and in a number of other countries. Many of the studies listed relate to some of the cost headings identified in Table 15, particularly those in the Systemic Revenue category, and many of them indicate the order of costs involved.

Lawson (1997), who has many years experience as a GP, argues that the NHS spends about one fifth of its clinical budget on trying to cure illness which is actually caused by unemployment, poverty, bad housing and environmental pollution. More specifically the cost to the NHS of treating ill-health resulting from sub-standard housing has been estimated at £2.4 billion per year (National Housing Federation 1997).

A research team from Kentish Town Health Centre and the Department of Social Medicine at Bristol University conducted a study which aimed to put a cost on the relationship between socio-economic status and GP/practice nurse consultations, and new and repeat prescriptions (Worrall et al. 1997). They also wanted to see how adequate 'deprivation payments' made to GP's were in relation to these costs. They found that the difference in costs for patients in Classes IV and V together, compared with those in Classes I and II together, was approximately £150 per person year at risk and that the deprivation payments met only about 50% of the extra workload costs. The costs of primary health care, per person year at risk, rose from £107 in Classes I and II to £256 in IV and V.

An article in the Centre for Building Science Newsletter (Fisk and Rosenfeld 1997) argues that recent research literature provides strong evidence that the characteristics of buildings and their indoor environments influence the prevalence of adverse health conditions such as asthma, allergies and respiratory disease and that improvements to these environments could reduce the costs of health care and sick leave, and increase worker performance. This would result in an estimated productivity gain, in the US, of \$30–150 billion annually. The authors argues that if a research investment of \$10 million per year were made for five years the total cost of this would be only 0.2% of the estimated potential productivity gains resulting from better environments.

A pilot study has been carried out by the Low Energy Architecture Research Unit, at the University of North London (Rudge 2001) which aims to develop a methodology for evaluating some of the benefits, in particular with regard to improvements in health, which would result from investment in domestic affordable warmth. The study sought to correlate data on low income, building characteristics and admissions to hospital. The overall objective is the development of a monitoring tool for local and health authorities to use.

A BBC online article, entitled 'Task force tackles fuel poverty', asserts that fuel poverty is linked to premature death, asthma and other respiratory and coronary diseases and that

It is estimated that the problem costs the NHS £1 billion annually.

<http://news.bbc.co.uk/1/hi/scotland/1803550.stm>

Poverty and poor and overcrowded conditions at home may well be a risk factor in the incidence of domestic violence. A current study (Walby 2003) is seeking to assess the economic costs of domestic violence and has released its interim findings, which are concerned with female domestic homicide. Walby's research is based on methodology used by the Home Office for costing crime (see Brand and Price, 2000) which it is argued is the best and most established way to translate the impact of domestic violence into a monetary cost. A key interim finding of the report is that two women are killed by a partner or ex-partner each week totalling over 100 a year. The cost of domestic homicide of adult women is estimated to be £112 million a year. In costing a domestic homicide, three types of costs are taken into account; lost economic output (£370,000); the use of public services including health, criminal justice and victim services, (£27,330); and the human and emotional impact, costed at £700,000.

There is thought to be a link, as yet not fully explored, between poverty and the risk of child abuse, something which generates heavy lifetime costs. The National Society for the Prevention of Cruelty to Children included the following in a letter written in 1999 (referred to by the Bishop of Hereford in a debate on an amendment to the Welfare Reform and Pensions Bill moved by Lord Morris of Manchester calling for minimum income standards, *Hansard*, 11 October 1999, Column 162):

The pressures involved in coping with inadequate income cause stress, which exacerbates the health problems experienced because of poor diet, inadequate heating and poor housing and increases the likelihood of family tension and breakdown... Child abuse occurs across all classes and the actual causes are complex. Nevertheless, most children on child protection registers are from low income families and the most commonly identified stress factors in all registered cases of child abuse are unemployment and debt.

The issue of the cost of poor housing conditions has been taken up in Australia as policy-makers seek to identify the most cost-effective use of scarce public investment resources. In a background paper entitled 'Affordable Housing' (Berry 2002) Berry cites his own previous work on the cost effects of homelessness (Berry et al. 2002). He argues that a major cost to the community, resulting from inadequate housing and 'broader exclusionary forces', is the rising fiscal cost to government in dealing with the resultant social problems. He comments

This cost will often be difficult to estimate because the effects are usually complex and indirect. Nevertheless, sufficient evidence exists to suggest that by seriously attacking the issue of insufficient affordable housing...government can materially alleviate a range of economic and

social problems, while reducing the cost to tax payers, in the longer term.  
(Berry 2002, p.6)

In view of the weight of evidence building up about the ways in which poverty and poor living conditions contribute to the demand for, and therefore the cost of, health services it is perhaps surprising that a recent report on the long term funding needs of the NHS (Wanless 2002) spends comparatively little time considering the ways in which policy interventions to reduce inequalities and provide better housing might work to moderate the growth in demand for healthcare provision.

## **4.5. Poverty and the Public Service Agreements**

As part of the Treasury's 2002 *Spending Review* a number of targets, covering a broad set of policy areas, were set out in a series of Public Service Agreements (PSAs). The Local Government PSA draws together targets from various departments '...where councils and their partners have a contribution to make in delivering the outcomes' (Chapter 24 of the *Spending Review*). This PSA is rather more focused and has fewer targets than most PSAs and reflects '...a shared understanding of the things that matter most to local communities' developed jointly by the Government and the Local Government Association.

Among the targets are the following:

- by 2004 85% of 11 year olds to achieve level 4 or above and 35% achieve level 5 or above
- by 2004 75% of 14 year olds to achieve level 5 or above in English, maths and ICT
- by 2004 reduce school truancies by 10% compared to 2002
- between 2002 and 2006 raise the proportion of 16 year olds getting Grades A to C by 2% per year
- improve the quality of life and independence of older people by raising the proportion of those being supported intensively at home compared to in residential care
- by 2010 reduce inequalities in health outcomes by 10% as measured by infant mortality and life expectancy at birth
- reduce crime and the fear of crime, reduce vehicle crime by 30% by 2004 and domestic burglary by 25% by 2005

The general intention is to improve the delivery and value for money of local services by '...introducing comprehensive performance assessments and action plans and securing a progressive improvement in authorities' scores'.

In addition Brighton and Hove Council signed a local PSA agreement with the Government in December 2002 covering the period up to 2005. If 'enhanced targets' over and above the national targets are reached a 'pump-priming' grant of over £1 million will be payable to the authority. As an example the 'enhanced' local target is

for an additional 1% of 14 year olds to achieve level 5 at Key Stage 3 in English, Maths, Science and ICT. Other enhanced targets relate to better care of the elderly and the reduction of the number of violent crimes in public places.

All the survey findings set out in section 3 provide compelling evidence that the achievement of virtually all these targets both national and local is likely to be powerfully impeded by the incidence of low pay. Similarly the inadequacy of unemployment benefits and pensions will play their part in undermining the achievement of these PSA targets.

Health outcomes are affected by hours worked, stress at work, diet, relaxation time and holidays, the quality of family life, local community connectedness and a range of other factors. The survey clearly shows that low pay has a negative effect on most of these. The national data show that infant mortality among Unskilled Manual groups is roughly twice that of Professional groups and that life expectancy at birth is currently 78.5 years for Professional males and 71.1 for Unskilled Manual males (*Social Trends 2003*, Tables 7.3. and 7.2). It is reasonable to believe that a lessening of the differentials between rich and poor would remove some of the differentials in key indicators of health with consequent cost savings.

In relation to stress the number of prescriptions for anti-depressants nationally has grown from 9 million in 1991 to 24.3 million in 2001 – an astonishing rise over a ten year period (*Social Trends 2003*, Table 7.9). The survey findings indicate that stress at work could well be a big factor in this rise. Local authorities, housing associations and private landlords multiply the stress by threats of eviction when enforcing payment of rent arrears that have arisen due to the slow processing of claims for Housing Benefit and Council Tax Benefit, both in house and by their outsourced agents. For council tax arrears local authorities threaten prison, the bailiffs and bankruptcy. These delays, and applying for tax credits and unemployment benefits, make moving in and out of work a hazardous and stressful time. Debts may be incurred to licensed and unlicensed credit brokers and the social fund to stave off the landlord and the local authorities and buy necessities.

Safety outcomes, and feelings of safety, benefit from the avoidance of risk both to person and property. But steps to achieve this avoidance, and lessen the risk of violence in public places, cost money. This may take the form of late night taxis home from work or home security devices to lessen break-ins. The survey showed that money for these purposes is frequently not available on the income levels found. Nationally lower income households suffer from more crime and they worry much more about crime than rich households (*Social Trends 2003*, Table 9.10).

Education outcomes depend to a degree on the quality of recreation available to children, close parental supervision, freedom from tensions at home and a supportive range of aids to learning available at home. The survey showed that long hours and low pay are often detrimental to the achievement of these helpful conditions. Again the picture is clear at national level. Whereas 74% of the children from Higher Professional households achieve 5+ GCSE A-C grade passes the proportion from Routine households is 29%.

Finally when considering the Local Government PSAs one might wonder at the effect that the introduction of yet more meaningless ‘comprehensive performance assessments’, ‘best value targets’, ‘task management’ and ‘action plans’ will have on

stress levels among local government staff and their capability and motivation to do a good job. But that matter is outside the scope of this report.

## 4.6. The costs of poverty – serious money

Berry (2002) has rightly drawn attention to the immense difficulties of arriving at some estimate of the cost of poverty and bad housing conditions. Yet the matter far transcends academic interest. Unless policy-makers have a firmer grasp of the patterns of costs generated by low pay and poor living conditions, and how they are ‘exported’ from one sector to another, they have no adequate framework by which to judge the cost-effectiveness of particular budget allocations and interventions.

Yet the achievement of spending cost-effectiveness in these fields is of more than marginal concern. The problems they deal with lie at the heart of government spending patterns:

**Table 16. Public spending on Social Protection, Health and Education**

	<b>Government spend 2001 (£bn)</b>	<b>% of total spend 2001</b>	<b>% of total spend 1987</b>	<b>% growth since 1987</b>
<b>Social Protection</b>	159	40.0%	35.1%	+47.2%
<b>Health</b>	61	15.3%	11.7%	+69.4%
<b>Education</b>	47	11.8%	11.0%	+38.2%
<b>All other spending</b>	131	32.9%	42.2%	+0.8%
<b>Total</b>	<b>£398</b>	<b>100.0%</b>	<b>100.0%</b>	<b>+29.2%</b>

(*Social Trends* 2003, Table 5.31, % changes are in real terms)

The Social Protection, Health and Education spending headings, precisely those where it is clear that low pay is generating ‘exported costs’, now amount in aggregate to 67.1% of total Government spending and they have been growing faster than all other spending categories over the past fifteen years. There is a wide range of reasons for this including demographic change and rising expectations.

In the local context Housing Benefit and Council Tax Benefit payments to households in Brighton and Hove now amount to £92million a year (Brighton and Hove UNISON 2002). In addition, given the order of credits payable to workers at the pay levels found in the survey (see section 3.1.3), there is a massive growth in the local cost of tax credits. Clearly low pay is among the wide range of reasons for the dramatic growth of spending under these headings.

## 4.7. The kind of research required

In a recent paper on poverty and deprivation in the European Union (Whelan, Layte and Maitre 2003) the authors point out that the limitations of comparative poverty analysis using cross-sectional data are becoming more obvious and that:

...there is clearly a great deal relating to the process of accumulation and of erosion of resources which is not fully captured in the persistent poverty measure...increasing attention has been focused on the comparative analysis of poverty dynamics employing longitudinal micro data.

They refer to work by Duncan et al. (1993) and Oxley et al. (1997) which focuses on a more dynamic approach to comparative studies of poverty.

It seems reasonable to argue that the route from the static cross-sectional, the epidemiological and the correlative to a more secure grasp of causative process lies via labour intensive research conducted at the individual or household level (as in the survey reported in sections 3.2 to 3.6 above). There is no substitute for hearing directly from the people who are experiencing low incomes, poverty and poor housing conditions just how these adverse conditions are affecting their lives, how they limit choices, how they impact on health and well-being and, crucially from a policy point of view, what additional calls need to be made on public services to try to deal with the problems.

In addition to all these costs arising at the micro-level one needs to add in the ever-increasing public costs of all the benefit and tax credit programmes set up to relieve poverty and all the special area programmes (such as Education Action Zones, New Deal for Communities, etc.) which have been put in place precisely, or in many cases not very precisely, because a large proportion of people living in selected small areas suffer from low incomes and the adverse consequences that go with it.

In this study the gathering of evidence about 'exported costs' has been but one aspect of a small scale project. The literature review shows that in different parts of the world research groups have grasped the significance of the line of enquiry and are exploring it in different ways but almost always using a retrospective methodology. There is a clear need to set up a much larger scale and consistently applied research drive which operates in 'real time' by following various cohorts from different points on the socio-economic scale, notes the extent of their calls on health and other public services and keeps account of the costs generated.

# CONCLUSIONS AND NEXT STEPS

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## 5.1. Conclusions

1. A key Government strategy to reduce ‘social exclusion’ is to extend and increase the system of in-work tax credits. These are in effect massive subsidies from general taxation to the corporate sector and to large public sector employers and they have a spread of positive and negative effects (sections 1.3 and 1.4).
2. Partly as a result of these measures poverty is decreasing slowly at the national level in line with Government intentions. But the adequacy of income levels is locality-specific and can be assessed only by some accepted and standardised procedure that takes account of variations in local living costs (section 2).
3. In the Brighton and Hove area housing costs are a major factor in household finances. They have risen much faster than incomes over recent years while the stock of low rent housing has fallen sharply. These trends reflect deep flaws in British housing policy formation and implementation (section 2.3).
4. Official statistics show that Brighton and Hove suffers from a low pay problem that is among the worst in the South East Region (section 2.3).
5. The net income required to live at a Low Cost but Acceptable (LCA) level in Brighton and Hove is almost exactly the same as that found in previous studies in east London and higher than that found in Swansea (section 3.1.2).
6. If all eligible means tested credits and benefits are claimed the incomes of those interviewed in a survey of low paid workers rise above LCA levels but the cost in benefits and credits to the national exchequer, given the other characteristics of the local economy, appears very heavy (section 3.1.3).
7. The marginal tax rates identified in various of the household and work patterns at incomes below the poverty trap escape point range from 65% to 97% (section 3.1.3).
8. The sample of low paid workers interviewed, although doing work essential to the local economy and welfare, have average earnings that are well short of the LCA level without the addition of means-tested benefits (section 3.2.3).
9. Low levels of pay, irregular hours, poor working conditions and lack of training are working to demoralise many workers, induce work-related stress and undermine both capacity and motivation (section 3.2.5).
10. In addition it seems clear that a set of management practices designed to increase the cost-effectiveness of services are in fact undermining job



satisfaction, disincentivising workers, having the reverse effect to that intended and can therefore be seen only as bad management (section 3.2.6).

11. Low pay and poor working conditions have pervasive impacts on other aspects of life and generate considerable, but so far unmeasured, 'exported costs' on other services whose share of total Government spending is rising far faster than all other categories of spending (sections 3.3 and 4.6).
12. The LCA standard as currently calculated does not adequately represent the net income required to live in Brighton and Hove case since various assumptions made about costs, especially housing costs, do not fit the local reality (section 3.6 and Appendix 1).
13. The combination of the very high rates of marginal taxation identified and the widespread falling motivation evident from the survey may lead many to question whether it is worthwhile to be in work (section 3.6).
14. Although the 'exported costs' of poverty have not yet been systematically assessed in the UK, the growing number of studies that are being carried out around the world indicate that their significance is now widely recognised (section 4.4).
15. In terms of Government spending patterns the three forms of expenditure most closely related to the costs generated by poverty, Social Protection, Health and Education, have grown faster than all others over the past fifteen years and now account for over two thirds of all public spending (section 4.6).

## **5.2. Arguments for higher pay**

The findings of the study justify four arguments for higher incomes based on higher rates of pay rather than increases in the level of credits and benefits:

### **1. The Natural Justice Argument**

The Government has frequently used rhetoric about building 'a fairer society' so it seems reasonable to test the strength of this by advancing an argument based on morality and natural justice. Those interviewed in this study are doing work of undeniable importance. Their contribution in care homes, schools, family centres and the area's tourist industry are vital to local standards of care and education and to the local economy. But they are mostly classed as 'ancillary' jobs. As Toynbee (2003) has pointed out, this word derives from the Latin 'ancilla' - a handmaid doing menial work - and the jobs are traditionally poorly paid. There is an argument based on natural justice, morality and the dignity of labour that they should be paid at a level more appropriate to the social and economic significance of the work.

In addition natural justice is coupled with political good sense. The growing inequality fuelled by high rates of increase in top salaries and low increases at lower levels, and the regressive pattern of indirect taxation, leaves the poor with a strong sense of grievance. If not addressed this leads to further demotivation and even expensive social unrest.

## **2. The Demotivational and Work Efficiency Argument**

The survey showed very clearly that many people doing these jobs are losing or have lost the personal incentive to work to their full capacity. Many others have high levels of stress which the survey shows relate to low pay, low staffing levels and 'target-driven' management attitudes. Yet motivation and a sense of well-being at work are crucial elements in the cost-effectiveness of service delivery and vital to the achievement of the Government's own policy targets such as the PSA standards nationally and locally.

## **3. The 'Exported Costs' Argument**

The study has shown that low pay and poverty have serious impacts on other aspects of life. There is evidence from the survey to show that many of these impacts, such as economising on food, cutting down on socialising and recreational activities and missing out on holidays, may well have effects that generate additional costs for other budgets, most notably health budgets. Low pay and poverty, and high housing costs, are being subsidised by a system of credits and benefits that are consuming large and growing proportions of the national budget. In addition there is considerable public expenditure on a range of 'special programmes', mostly area-based, that are geared to the reduction of poverty and 'social exclusion'. The total cost of poverty is not known but is likely to be considerable. The further reduction of poverty is therefore as much an economic as a social issue.

## **4. The 'Pay is Better than Benefits' argument**

The heavy and increasing reliance on credits and benefits to bring households to decent living standards, while welcome in some ways, has a number of inherent disadvantages:

- universal benefits are wasteful of public resources since much support reaches those who do not need it (for example the winter fuel payment made to all those over retirement age regardless of means)
- means-tested benefits require immense administrative costs, have partial take-up rates and fail to reach those least capable of claiming effectively
- the system is so complex that there is wide scope for errors by local authorities, the Inland Revenue and the Department for Work and Pensions. The Auditor General has repeatedly qualified the accounts of the DWP because of these errors and the Audit Commission has written critical reports about local authorities.
- higher pay conveys self-worth while having to claim benefits conveys the reverse and the process often induces considerable stress
- means tested benefits inevitably imply a 'poverty trap' which can act as a disincentive to work and often impedes the transition into work

- the purchasing of future pension protection is attached to pay rather than benefits and many people on low incomes are not providing sufficiently for their future in this respect

### 5.3. Next steps

The transfer payments in the shape of benefits and tax credits are a substitute for adequate pay in the face of rising living costs – notably housing costs – which vary sharply from locality to locality. In a market-led labour system corporate employers will naturally pay only what they conceive the labour to be worth and what, in the end, is consistent with the interests of their shareholders. They will have little concern for the local magnitude of the ‘exported costs’ inherent in the evidence set out in section 3.3 and systematised in section 4.3 since they do not fall on their statements of profit and loss. Nor, to follow the logic of the market, is it reasonable to expect that profit-seeking employers should have concern for these costs.

Public sector employers such as local authorities might be expected to take more account of these locally varying ‘exported costs’ because when poverty-related problems arise in an authority it is very often another department of the same authority that is responsible for taking action, often in the form of some costly emergency programme. But such has been the invasion of private sector cost-driven philosophies into the world of both central and local government that the short-termist imperative of living within this year’s budget usually outweighs the notion of preventative expenditure for some longer term public benefit.

To address these issues a fourfold strategy is required by Government and trade unions:

- 1. Set up mechanisms for calibrating the minimum living costs required in a range of differing localities using some updated version of the Low Cost but Acceptable methodology.**
- 2. Use these findings to inform negotiations with employers and employers’ organisations about pay levels and working conditions in different areas.**
- 3. Initiate and finance more research to evaluate the exported costs of poverty and to identify more closely the budgets on which these costs fall.**
- 4. Use these findings to work towards public spending patterns that prioritise more cost-effective, ‘joined up’ and preventative forms of intervention including higher investment in the provision of low cost housing.**

These steps would in the medium or long term produce immense benefits for millions of workers and for the cost-effectiveness of those public spending programmes struggling to cope with the current incidence of poverty and the kinds of consequences identified in this report.

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## **APPENDIX 1 - Assumptions built into the LCA Standard**

The methodology by which all the LCA Standard Costs and Variable Costs were first determined is set out in Parker et al. (1998). This method has been followed in the present study but in some respects there are doubts about its general applicability to all local areas, as the original study made clear. In particular:

1. The housing costs built into the LCA budget assume access to a local authority property. In the Brighton and Hove area, in common with many other areas, much council housing has been sold off and many of the tenancies becoming available are allocated to households currently in emergency accommodation. Only six of those interviewed in the survey for this project were in council housing. Nine of the rest were in owner-occupancy, two were in housing association lettings and seven were in the private rented sector (where Housing Benefit is unlikely to be assessed to cover the full rent paid). The LCA housing costs element is in urgent need of adjustment to reflect the spread of housing opportunities and costs applying in particular local areas.
2. It is assumed that gas and electricity charges will be paid by direct debit. Many lower income households may not have access to this mode of payment and may be paying for the energy used by more expensive methods.
3. The transport costs were worked out in the context of a relatively small city (York). The allowance for movements by public transport seems inadequate to modern needs and it is assumed that no car will be owned. Yet for many households, even on very low incomes, a car is a virtual necessity – especially if there are children. There is a strong case for re-calculating the LCA budget to include running a small car.
4. No allowance is made for debt interest or repayment charges whereas it is likely that many lower income households will be burdened with debt reflecting previous years of poverty. Some of this debt may be carrying interest rates that reflect the operation of ‘loan sharks’.
5. A CD player was excluded from the original LCA budget on the grounds that only home equipment that was to be found in 80% of homes was included. CD players now meet this criterion. The assumed lifetime of 12 years for both TV and video recorder may occasion some surprise.
6. The NHS charges in the ‘variable costs’ assume access to a National Health Service dentist. NHS dental services are not available or are difficult to reach in many areas and private care is much more expensive.
7. The LCA budgets make no allowance for any private or personal pension provision. Yet such forms of provision are becoming increasingly necessary.
8. It is sensible to allow for a household pet but the costs for a cat seem to be seriously under-estimated if proper allowance is to be made for all necessary insurance and routine healthcare.



Although these and other issues point to the need for a reappraisal and recalibration of the LCA standard it is nevertheless vital to have in place a reliable and replicable method to gauge the adequacy of given income levels in relation to local costs. The argument is for reform of the LCA standard not for its abandonment.

## APPENDIX 2 - Calculating the local LCA Living Costs

The local Low Cost but Acceptable living costs are calculated in four stages:

### Stage 1 – Standard Costs

The Standard Costs used in previous studies are updated for inflation using the Retail Price Index for the appropriate elapsed period since the previous costing point.

### Stage 2 – Variable Costs

Variable Costs are found as follows:

**Housing** – The standard assumed for both household types is a three-bedroom terraced local authority house. The current average rent level for a property of this kind is available from the local housing services department (but see Appendix 1 – the local authority may no longer own a stock of housing)

**Water and Sewage Services** – The tariff charges for these services are available from the local water services supplier. These are often made up of a standing charge and an element related to the rateable value of the property. This is assumed to be £115.

**Contents Insurance** – Premiums for contents insurance from private sector insurers are highly sensitive to the postcode of the property. But if a local authority scheme is available this premium cost should be used. The assumption built into the LCA budget is that the contents will be insured for £20,000.

**Council Tax** – It is assumed that the property occupied is in Band B. The weekly Council Tax charge for the current year is available from the local authority. There will be a 25% discount on the charge for the one adult household.

**Fuel Charges** – These were originally worked out to provide a health-protecting range of indoor temperatures and to make allowance for climatic variation around the country. The assumed consumption levels are:

	Two adult household	One adult household
<b>Gas</b>	21,693 units	21,638 units
<b>Electricity</b>	2,574 units	2,048 units

The annual fuel costs if paid by direct debit (but see Appendix 1) can be obtained from the local fuel supplier and then divided by 52 for a weekly cost.

**Transport** – The LCA budget assumes five return journeys to work per working adult per week and two additional leisure journeys for the adult(s) plus children. The cost of this journey pattern can be found from the local public transport service provider. It may well be that a weekly pass is the cheapest way to cover the journey costs.

**Childcare Costs** – The LCA budget includes the childcare cost by registered childminder for the full-time (38.5 hours per week) and part-time (17 hours per week) cases in both household types. To allow for some childminding costs after school and in the school holidays the assumption is for 40 hours per week throughout the year for parents working full-time and 19 hours per week for parents working part-time. The local Childcare Information Service can provide the median cost per hour for these services (£3.00 per hour in the Brighton and Hove case) and the annual costs can then be calculated and divided by 52 to give a weekly cost.

**NHS Charges, Insurance/Pension Contributions, Pets costs, Alcohol costs and Charitable Donations** – These are listed as Variable Costs in the LCA budget but were treated as Standard Costs since the ways in which they might vary locally seemed unclear.

### **Stage 3 – Totalling the LCA living costs**

The Standard Costs and the Variable Costs are then added together to give a total weekly LCA living cost.

### **Stage 4 – Comparing LCA living costs with incomes**

The LCA costs for the area can then be compared with incomes on a number of different bases (see section 3.1.3). The comparison can be made with and without the inclusion of means-tested benefits (given UNISON's position that a living wage should be achievable without recourse to such benefits). Comparisons can also be made with incomes at typical local hourly rates of pay found by survey or other local sources of information or at the National Minimum Wage level and so on.

The analysis can be used to show either what hourly rate of pay is required to meet the LCA standard locally (with or without overtime and MT benefits) or what the local cost in benefits and tax credits is per household to bring prevailing rates of pay up to the LCA level incomes. Finally the local profile of incomes in the area can be compared to the Poverty Trap escape point for the two household types specified in the LCA budget.

## APPENDIX 3 - The Survey Interview Schedule

### UNISON Brighton and Hove area study - February 2003

Interviewers.....

Date.....

Place.....

### Could you tell us something about yourself and your work

Age.....

Gender.....

Employer.....

Job title.....

Main duties.....  
 .....

How long in this job.....

Place(s) of work.....

Ethnic origin (circle)    White    Mixed    Asian    Black    Other

Are you contracted out            Yes    No

If Yes, under TUPE                Yes    No

**Working hours and pay - if respondent is a 'contracted out' worker please complete columns on the right.**

**PLEASE OBTAIN DETAILS FROM PAYSLIP IF POSSIBLE**

	<b>Current (figure or Yes/No as appropriate)</b>	<b>Better than LG (tick)</b>	<b>Worse than LG (tick)</b>
Hours contracted per week			
Hourly rate of pay			
Overtime hours (average recently)			
Overtime rate of pay			
Includes irregular/anti-social hours			
Shift premiums/call out payments for these			
Average <b>total hours worked per week</b>			
Typical <b>gross weekly income</b> recently			

Comments.....  
 .....

## Time off entitlements

	Current (figure or Yes/No as appropriate)	Better than LG (tick)	Worse than LG (tick)
Annual holiday (exclude bank holidays)			
Sick pay/time off entitlement			
Time off for dependants			
Compassionate/emergency leave			
Maternity/paternity leave			

Comments.....  
.....

## Training, re-training and personal development opportunities (this job)

less than a day.....  
1-3 days.....  
3-5 days.....  
more than 5 days.....

What was the training in?.....  
Opportunities for promotion or career  
development?.....  
.....

(for contracted out workers only)

How do training and career opportunities compare with LG? Better Worse

## Pension arrangements

Which of the following apply:

In LG scheme	Yes	No	
Other final salary scheme	Yes	No	% contrib. by employer...
Money purchase (defined contributions)	Yes	No	% contrib. by employer...
Stakeholder	Yes	No	% contrib. by employer...
Personal	Yes	No	% contrib. by employer...

Is there a death in service benefit?	Yes	No	
Do the pension arrangements include spouses pension?	Yes	No	N/A
Are the pension arrangements index linked?	Yes	No	
How do pension arrangements compare with LG?	Better		Worse

Do you have another job or jobs .....

How do you get to work      walk/cycle      public trans.      own trans.      other  
 How long does it usually take each day (total of both ways).....  
 How much does it cost per week.....

**Could you give us brief details of the other members of your household**

(complete in descending age order – enter respondent’s info in age order)

**NB. ‘Member of the household’ means someone sharing meals and/or chores and /or costs. It doesn’t have to be based on blood ties or legal relationships**

	Age	M/F	Working FT/PT/not working/FT Ed (if working note job)	Self- defined Disab- ility Y/N	Birth Weight of under 16s
1					
2					
3					
4					
5					
6					
7					
8					

**And some other information about the household**

Tenure of the home (enter LA, HA, PR or OO).....  
 Number of rooms (don’t count kitchen or bathroom).....  
 How long (years) in this accommodation as a household unit.....  
 How long (years) in Brighton and Hove (respondent).....  
 Any vehicles (circle)                                  car      motor bike      other      none  
 Time distance to nearest shop selling full range of food.....  
 Time distance to nearest dispensing chemist.....  
 Time distance to nearest Post Office.....  
 Time distance to your GP.....  
 Time distance to the school(s) attended or NA.....  
 Home post code (full).....  
 Contents insurance                                                  Yes                          No

**Approximate total household gross annual income from all sources**  
**£.....**

**(NB. Not to include anything a bit ‘grey’)**







# We are interested to know how trying to live on a low incomes may affect other aspects of life

## Note to Interviewer Team

Please note as much as possible of what is said. It is specifically the effects of living on a low income we want to get at, not effects clearly stemming from other causes.

**NB. It is important to avoid ‘leading’ the responses in any way, even non-verbally (as discussed in the training meetings).**

We do want to get opinions on as many as possible of the following but if the respondent clearly has no feeling on the matter, or it is clearly not applicable, move on to the next aspect. Just make sure all the areas have been at least mentioned.

Are there effects of low incomes on the **health** of household members

.....  
.....  
.....  
.....

estimate of days off in the past year for sickness (respondent).....

estimate of days off in the past year as a result of accidents (respondent).....

to what extent illness has been ‘**stress-related**’ (respondent)

very  
to a degree  
not really

if stress and worry is obviously a big issue please note any comments, etc

.....  
.....  
.....  
.....  
.....

has any health issue led to more frequent contact with your GP or to more medication

.....  
.....  
.....

Are there effects of low incomes on **food bought and the diet** of the household

.....  
.....  
.....  
.....  
.....

Are there effects of any overtime working and/or anti-social hours **on family life**  
**(working weekends, nights? Etc)**

.....  
.....  
.....  
.....  
.....

Are there effects on **children's progress at school** (lack of space/peace and  
**quiet for children at home? Etc.)**

.....  
.....  
.....  
.....  
.....

Are there effects on what **holidays/school trips** can be taken (**limiting horizons?**  
**comparisons with class-mates experiences? Etc)**

.....  
.....  
.....  
.....  
.....

Are there effects on the amount of **recreational, sporting and leisure activity** household members can get involved in

.....  
.....  
.....  
.....  
.....

plus please note what recreational, sporting and leisure clubs household members are involved in if any

.....  
.....  
.....

Are there effects on **involvement in local spare time and voluntary activity**

.....  
.....  
.....  
.....  
.....  
.....

plus please note what clubs/societies/voluntary activities household members are involved in if any

.....  
.....

Are there effects on capacity to **help neighbours out** when help is needed

.....  
.....  
.....  
.....  
.....

Are there effects on the **safety of household members and their property** (would like to buy better security devices? it's not a good area to walk around, etc)

.....

.....

.....

.....

.....

.....

Are there effects on **access to financial services, etc.**

Any household member have a bank account with a 'high street' bank      Yes    No

Any household member have a credit card      Yes    No

Has there been a problem getting either a bank account or a credit card      Yes    No

Are there effects on **getting into debt**

Are there any debts (exclude house purchase debts, if any)

	<b>From whom</b>	<b>How much</b>	<b>% interest</b>	<b>When taken out</b>	<b>Repayment period</b>
<b>1</b>					
<b>2</b>					
<b>3</b>					
<b>4</b>					
<b>5</b>					

**Comments or stories**

.....

.....

.....

.....

.....

**What are the main problems of living on a low income, how does it affect the household most**

.....  
.....  
.....  
.....  
.....

**If more money were coming in how would it be used** (respondent's view)

.....  
.....  
.....  
.....  
.....

**At this moment today what is the single biggest worry in your mind**

(anything – not necessarily related to low income)

.....  
.....  
.....  
.....  
.....

**Do you need any information or help about rights/benefits/money matters/housing matters, etc? (We carry some standard information plus some key phone numbers to pass on if necessary)**

**Thanks very much**

## **APPENDIX 4 - The survey introductory letter**

**Handed to those to be interviewed – on UNISON headed paper**

Dear

### **Brighton & Hove Living Wage Campaign**

The Living Wage Campaign has wide backing from Faith groups, Council officers, community representatives and others. This letter explains what the Campaign is hoping to achieve, how your own input could help us and what we will do with the information you provide.

#### **What is the Campaign about?**

Our Living Wage campaign is aimed at giving a voice to people working for low pay in Brighton & Hove's public services. Our City is notorious for having some of the worst pay levels in the South, and very high housing costs, and we want to produce hard evidence of what this actually means for low paid people.

But we want to do more than this – we want to show how low pay affects the whole community, in terms of the impact and 'costs' of low pay for people's health, education, housing, and so on. We also want to show how the public purse 'subsidises' low paying employers through the tax and benefit system. Ultimately, we want to show whether low pay in the public sector might actually cost all of us more than simply paying people a Living Wage in the first place.

This is why your own evidence is so important. We want to do 'in-depth' interviews with cleaning staff to get detailed information on these areas. The dry statistics on pay simply don't tell the whole story.

#### **PLEASE WILL YOU HELP US?**

##### **Complete confidentiality**

We will be asking you for some quite personal information. Please be assured that everything you tell us will be treated with the utmost confidentiality. Only you and your interviewers know you are being interviewed. The forms have no names and addresses, and nothing can be traced back to you. The information will be presented in a way that will not enable anyone to be identified. With your agreement, we may ask to record the interview, just in case we need to check later exactly what was said and we understand you correctly.

UNISON is very fortunate to be working on this with Professor Peter Ambrose, who wrote a highly respected and influential Report ('Second Best Value') on similar concerns in East London. If you'd like to see a summary of this, please let me know.

## **What will UNISON do with the results?**

This work will form part of UNISON's evidence to the National Local Government Pay Commission. This Commission is looking into the impact of privatisation, how to tackle the endemic low pay in local government services, and the continuing gender discrimination in pay and the impact on the quality of the services you provide. Similar studies are taking place in Sheffield, and in Tower Hamlets, but our work in Brighton & Hove is really the only study that may help to show how the Government could calculate the true costs of its failure to fund a Living Wage for its public sector workers.

We hope that this study will be a 'pilot' that could enable other Cities and UNISON Branches to carry out this type of work, and develop their own Living Wage Campaigns.

The work will also contribute to UNISON's work with the National Low Pay Commission, which advises on the minimum wage.

More locally, we hope that this will put low pay under the spotlight for the local elections in May, and will silence those critics who say that tackling low pay is something we 'can't afford'.

We hope too that this will add to the heavy pressure on the Council to enforce better pay and conditions for 'contracted out' workers or staff working for other employers funded by public money.

The work will be very helpful in our parallel campaign for a local 'Weighting' allowance that reflects the true cost of living here.

In Brighton & Hove, the Living Wage Campaign will later be extended to other parts of the public sector, and hopefully win the backing of other unions to get the voice of low paid workers heard in the sweatshops of the leisure and retail industries.

Please think about taking part in this vital piece of work.

**If you can help us there is a £20 Marks & Spencers voucher as a 'thank you' for your time and commitment. Ring me now on 291611 and leave a message with your contact details...**

Best wishes,

Steve Foster  
Brighton & Hove UNISON

