



Low Cost but Acceptable

A minimum income standard for households with children
in London's East End

April 2001

Edited by Hermione Parker

Research by

**Nina Oldfield
Michael Nelson
Sian Burr
Holly Sutherland**

Supported by



The Family Budget Unit (FBU)

The Family Budget Unit is an educational charity (No 298813) and private limited company (No 2211830) founded in 1987 with three objectives:

- To advance the education of the public in all matters relating to comparative living standards and living costs throughout the United Kingdom.
- To carry out research into the economic requirements and consumer preferences of families of different composition, for each main component of a typical family budget.
- To publish the useful results of such work.

The address of the Family Budget Unit is:

Social Policy Research Unit
University of York
Heslington
York
YO10 5DD

Abbreviations used:

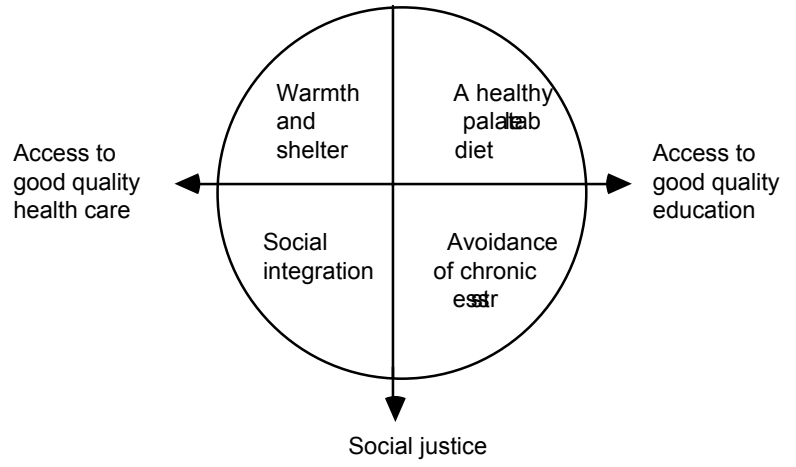
DSS	Department of Social Security
FBU	Family Budget Unit
FT	Full-time
HBAI	Households Below Average Income
LCA	Low Cost but Acceptable / the poverty threshold
MBA	Modest But Adequate / the standard at which most household aim
PT	Part-time
RPI	Retail Prices Index

CONTENTS

Page

	SUMMARY	5
1	Introduction	6
2	Budget standards explained	7
3	A word of warning	7
4	Which living standard?	8
5	How the budgets were established	9
	5.1 FBU methodology	9
	5.2 Research in four stages	9
	5.3 Adjustments to York 1998 budgets: Budget standard costs	10
	5.4 Adjustments to York 1998 budgets: Variable costs	11
6	Findings	14
	6.1 Net weekly incomes required to avoid poverty	14
	6.2 Gross weekly earnings required to required to avoid poverty	14
	6.3 Shortfalls in minimum wage, by comparison with LCA level	15
	6.4 Scale of the poverty trap	16
Appendix 1	Gross weekly earnings required to reach LCA level Couple with boy aged 10 years, girl aged 4 years February 2001 prices, April 2001 taxes and benefits	
Appendix 2	Gross weekly earnings required to reach LCA level Lone mother with boy aged 10 years, girl aged 4 years February 2001 prices, April 2001 taxes and benefits	

LOW COST BUT ACCEPTABLE



SUMMARY

The purpose of this study is two-fold:

- * FIRST, to estimate the net incomes required to avoid poverty, in April 2001, by one-parent and two-parent households, each with a boy aged 10 years and a girl aged 4 years, living in the East London boroughs of Hackney, Newham, Tower Hamlets and Waltham Forest.
- * SECOND, to calculate the gross weekly earnings required to produce those net incomes.

The living standard measured is called Low Cost but Acceptable (LCA) and marks the poverty threshold.

The method used is called budget standards. These are specified baskets of goods and services which, when priced, measure predefined living standards. The study updates to February 2001 the findings of an earlier study by the Family Budget Unit (FBU) of the needs, preferences and living costs of similar households in York. It adjusts the York budgets to meet the needs and preferences of East Enders and grosses up the London budget totals for income tax and NI contributions, less social security benefit entitlements in April 2001. The concluding figures show the net incomes and gross earnings required by each household to avoid poverty in April 2001. A full working week is reckoned to comprise 38.5 hours. Part-timers work 17 hours a week.

The report ends with an analysis of the poverty trap in April 2001. Earnings required to escape the poverty trap vary according to budget costs, hours worked and tax and benefit regulations. In every case but one the required hourly wage exceeds the minimum wage of £3.70 .

Summary of findings

1. Net incomes and wages required to reach LCA level, April 2001

<i>Household type</i>	<i>Net weekly incomes required</i>	<i>Gross hourly wages required</i>
	£	£
Two-earner couple (FT + PT)	322	3.99
One-earner couple (FT)	268	3.70 *
One earner couple (PT)	267	6.55
Lone mother (FT)	337	4.05
Lone mother (PT)	272	7.88

* Minimum wage. See Appendix 1

Source: Family Budget Unit 2001

2. Poverty trap escape points, April 2001

<i>Household type</i>	<i>Wages /earnings required to escape poverty trap</i>		
	<i>£ hour</i>	<i>£ week</i>	<i>£ year</i>
Two-earner couple (FT + PT)	7.65	424	22 100
One-earner couple (FT)	10.09	388	20 200
One earner couple (PT)	22.00	374	19 500
Lone mother (FT)	15.34	591	30 700
Lone mother (PT)	25.94	441	22 900

Source: Family Budget Unit 2001

1. INTRODUCTION

1.1 The purpose of this report is two-fold:

First, using a methodology called *budget standards*, to indicate the incomes required to avoid poverty, in April 2001, by one-parent and two-parent households, each with a boy aged 10 years and a girl aged 4 years and living in the East London boroughs of Hackney, Newham, Tower Hamlets and Waltham Forest.

Second, to calculate the gross earnings required to produce those net incomes.

1.2 The report is the first of its kind to examine living costs in London's East End. In most developed countries such information is provided by government, or under government auspices. This is not the case in the UK, yet it is essential if informed decisions are to be made regarding wages (especially minimum wages), personal taxation and social security benefits.¹

1.3 The living standard measured is called *Low Cost but Acceptable (LCA)*. LCA marks the poverty threshold. Households with incomes below the LCA standard risk poverty.

1.4 The concept of a Low Cost but Acceptable living standard, marking the poverty threshold in the UK, was pioneered by the Family Budget Unit (FBU) in 1998, for its research into the net incomes and gross earnings required by two-parent and lone-mother households, each with a boy aged 10 and a girl aged 4 years, to avoid poverty.² Those households were assumed to live in local authority rented housing, in York.

1.5 This report takes the York study as its reference point. First, the 1998 York shopping baskets were adjusted to meet the needs, shopping patterns and living costs of the same household types, living in similar housing in London's East End, in February 2001. Then the adjusted shopping baskets were grossed up for April 2001 income tax and NI contributions, less child benefit, Working Families' Tax Credit (WFTC) and housing benefit, to show the gross earnings required by the selected households to reach the LCA standard.

1.6 The report also assesses the poverty trap effects of Britain's tax and benefit systems, in the light of WFTC, Children's Tax Credit, increased child benefit and a minimum wage of £3.70 an hour. The good news is that the net incomes (including WFTC) of lower paid households with children have increased faster than inflation and the improvement seems set to continue. The bad news is a huge increase in the scale of the poverty trap, the escape points from which now stand at annual earnings of £22,000 for a two-wage couple, working a combined total of 55¹/₂ hours a week, and £30,600 a year for a lone mother working 38¹/₂ hours a week. On earnings below those amounts the families gain at most 30 pence out of each extra £ earned.

1 For a critique of the methodology and a cross-national analysis, see John Veit Wilson, 1998, *Setting Adequacy standards: How governments define minimum incomes*, Bristol: The Policy Press.

2 Hermione Parker (ed), 1998, *Low Cost but Acceptable. A minimum income standard for the UK: families with young children*, Bristol: The Policy Press.

2 BUDGET STANDARDS EXPLAINED

2.1 The research method used is called *Budget Standards*. These are specified baskets of goods and services which, when priced, can represent predefined living standards. It is the method pioneered by Seebohm Rowntree for his study of poverty in York, in 1901. Today, as a result of computer technology, budget standards have become easier to use and have significantly greater potential.

2.2 It is important to understand that the households whose needs are calculated here are illustrative, not actual families. No two actual households have identical needs and preferences. Some need more, a minority need less than the FBU budgets indicate. Users of the data can over-come this problem by adjusting the ‘variable cost’ budgets (for rent, council tax, fuel and so forth) to match their own costs, or, in the case of Trade Unions, to match their members’ preferences .

2.3 Budget standards methodology is of particular relevance to wage bargaining. Working people’s needs can be identified and priced, as can the effects of the *poverty trap* on wage-earning households’ net incomes. The poverty trap adds to the problem of low pay by eroding net income differentials, to the point where small wage increases become meaningless. Most working house-holds who get a pay rise, or work overtime, expect to pocket most of the extra money earned, but households receiving WFTC get 30 pence (at most) out of each extra £ earned. Households earning the minimum wage and receiving WFTC + housing benefit get only 14 pence out of each extra £ earned, or 11 pence if they pay income tax.

Example: In April 2001, assuming a single-wage couple with two children aged 10 and 4 years, where one parent works 38¹/₂ hours a week, an increase in minimum wage from £3.70 to £7.00 an hour would have added just over £127 to the wage earner’s gross weekly earnings, but less than £14 a week to the family’s net weekly income.

2.4 To escape the poverty trap the single-wage couple with children in this study needs an hourly wage of £10.09. Yet the households portrayed in this study are more fortunate than many. All are assumed to be in good health, none has debt problems and each receives all the social security benefits to which they are entitled. The children walk or cycle to school and the local authority housing which they rent meets recognised standards. Housing Association and private tenants pay higher rents than those assumed here. Owners have mortgages, insurances and external maintenance costs to pay. Rural households increasingly need a car.

3 A WORD OF WARNING

3.1 Due to the diversity of circumstances in which real-life households live, it is important not to generalise the findings of this report for all lower paid households with children. In all its budgets, the FBU distinguishes between *budget standard costs* (e.g. food and clothing) which tend to be the same across the UK, and *variable costs* (e.g. rent, council tax, fuel, transport and debt) which differ greatly. To assess the situation in locations outside London’s East End, or to meet the needs of households with more children than those assumed for this study, or with disabled children, babies or teenagers, the costs in these budgets would require adjustment.

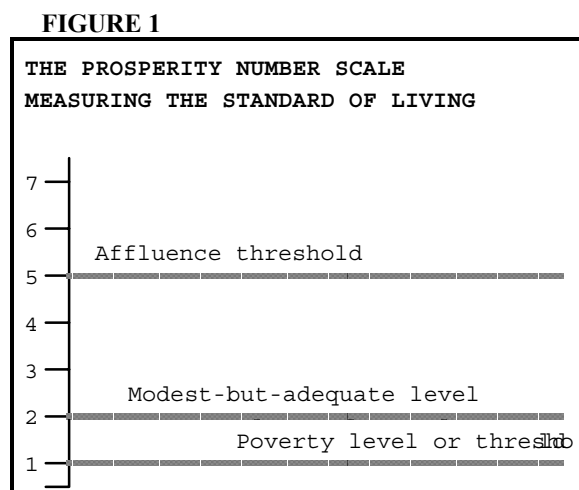
3.2 There is also the question of consumer preferences. Although the FBU is satisfied that the budgets presented here match the preferences of the generality of East Enders — as well as being health promoting — we recognise that no two households make the same choices. We also recognise that some ethnic minorities, particularly Indians and Bangladeshis, have their own dress codes and their own preferred food menus.

3.3 Less than three-quarters of the populations of Hackney, Newham, Tower Hamlets and Waltham Forest are white.¹ The immigrant population includes a high proportion of Caribbean and African households, who adapt easily to British consumption patterns, alongside Indian and Bangladeshi households who typically maintain their traditional lifestyles.

4 WHICH LIVING STANDARD?

4.1 For its research, the Family Budget Unit distinguishes three levels of living:

- * *Level 1, The poverty threshold*, equates to the FBU's *Low Cost but Acceptable (LCA)* standard and is the subject of this study. Households with incomes below the LCA standard are at risk of poverty.
- * *Level 2, Modest But Adequate (MBA)*, also called *Reasonable*, is enough to live comfortably and avoid debt problems, but is a long way below affluence. MBA represents the standard at which most households aim — in a given country at a given period of time — including many lower paid households.
- * *Level 5, Affluence*, is irrelevant to this report.



Source: Margaret Wynn, *Family Policy*, Penguin Books, 1972, p 165 .

1 OPCS, 1991 Census, County Report: Inner London, The Stationery Office, London.

5 HOW THE BUDGETS WERE ESTABLISHED

5.1 FBU methodology

The method used by the FBU depends partly on the project, with two main variations:

- * New budgets are constructed.
- * Budgets previously constructed are adapted and/or updated with the Retail Prices Index.

The East End budgets are derived from the FBU's existing, York budgets¹. The main differences between the budgets lie in the date of the information (2001 instead of 1998) and the higher variable costs incurred in London, especially rent, insurance, childcare and transport.

5.2 Research in four stages

Stage 1: *Update the FBU's LCA budget standard for households with children aged 10 and 4 years, living in York, from January 98 to February 01 prices, using the Retail Prices Index (RPI)*

For updating purposes, each item of each component of the FBU budget standard was attached to its nearest, appropriate group of goods in the RPI. Overall, between January 98 and February 01, retail prices rose by 7.1%.

Stage 2: *Set up a small number of focus groups in the East End, to discuss shopping patterns and identify costs which are higher in London than York costs*

Two such groups, composed of low-income working households with young children, were arranged by TELCO, in Newham and Tower Hamlets. Discussion focused on weekly shopping habits and the availability of shopping locations similar to those used to price previous FBU budgets. The costs of transport, housing and childcare, all of which were reckoned to be more expensive in the East End of London than in York, were also discussed. Short shopping lists were presented to the groups, which

were participants

Stage 3: *Adjust the budget standard to take account of cost differences found*

In general the groups were of the opinion that insurance, housing, travel, childcare and peak-time leisure services were more expensive in London than York. Outlets similar to those used for the York budgets are also available to East Enders. Indeed, the availability of good markets and discount stores is a gain for East Enders. Children in the East End tend to walk or cycle to school, but travel-to-work costs restrict workers with low-earnings potential to jobs within two or three undergrounds zones from where they live. In general, buses were said to be the most usual form of travel and weekly bus passes were reckoned to be good value for money. The London Underground is quicker but more expensive. Taxis are used for emergencies only and 'mini-cabs' are preferred to 'black cabs', because they are cheaper.

Stage 4 *Gross up the required expenditures for income tax and NI contributions payable in April 2001, less all social security benefits to which the households have entitlement (also in figures show the gross weekly earnings (and wage rates) required by each household to avoid*

¹ Hermione Parker (ed), 1998, *op cit*

poverty. This stage of the research was carried out by Holly Sutherland at the Microsimulation Unit, University of Cambridge, using a model called *Polimod*.

5.3 Adjustments to York 1998 budgets

Budget standard costs

*** Food**

The FBU food budgets contain a balance of foods promoting short- and long-term health. Pricing of food at LCA level is based on supermarket own brands or a low-price brand. For the FBU's original 1998 budgets, food was priced using Sainsbury's and Kwik Save pricing databases, to find economy line and low, but not necessarily, the lowest prices. Shoppers in London's East End were found to have opportunities similar to those of the York shoppers, to purchase food in local supermarkets, street markets and corner shops. Accordingly, the East End food budgets reflect national as well as London food prices.

*** Clothing**

In 1998, clothing catalogues, local markets and discount stores were the main outlets used to price the requirements of men, women and children in low-income households. At this level of living, clothing does not appear to be more expensive in London than in York. The East End has a wide range of discount stores and good clothing markets. For example, clothing prices in Poundstretcher in the North of England and Peacocks in the South were found to be similar. Home catalogue prices are not regionally adjusted, but East End market prices are likely to be lower than in York market.

*** Personal care, household goods and services, leisure goods**

No regional price adjustments were necessary.

*** Leisure activities**

Generally speaking, these are more expensive in the East End of London than in York. Adjustments were made to meet the costs of a London cinema, a London concert and a no-discount swimming session in an East End swimming pool. The overall effect of these adjustments on the weekly leisure budgets was, however, extremely small. This is due to the low frequency of participation in leisure activities by low-income families with children.

*** Alcohol**

Alcohol is included in the budgets, but the quantity is limited to two-thirds of the healthy drinking limits set by the Health Education Authority in 1996. No regional adjustment was made to the purchase price of alcohol, which is priced in supermarkets.

*** Tobacco**

Tobacco purchases are shown as nil in the budget standard on health grounds.

5.4 Adjustments to York 1998 budgets

Variable costs

*** Rent**

The average rent for a three-bed, terraced, local authority dwelling is considerably higher in London's East End than in York. Table 1 summarises the differences.

Table 1 Local authority rents in York and London's East End compared week, February 2001

	Average rent	Difference
York	47.77	
Hackney	69.19	+ 21.47
Newham	68.32	+ 20.55
Tower Hamlets	83.37+	20.55
Waltham Forest	79.18	+ 31.41
Average London Boroughs	75.27	+ 27.50

Source: CIPFA, Housing Rents Statistics at April 2000

*** Council tax**

Assuming local authority dwellings rated as B-Band, York council tax (which is fairly representative of the national average) is slightly higher than Newham, slightly lower than Hackney and Tower Hamlets and significantly lower than Waltham Forest.

Table 2: Council tax in York and London's East End compared £ year and week, February 2001

	£ year	£ week
York	578.83	11.13
Hackney	614.13	11.81
Newham	565.07	10.87
Tower Hamlets	597.43	11.49
Waltham Forest	682.59	13.13
Average East End boroughs	614.81	11.82

Source: Local Authority, council tax departments and Websites

* **Water and sewerage**

Regional differences for domestic users are small , moreover different methods of calculating bills in respect of rateable values make accurate comparisons difficult. A crude comparison (Table 3) shows that costs are somewhat higher in London’s East End than in York.

Table 3: Water and sewerage in York and London’s East End compared February 2001

	Annual standing charge £	Rate per £ £	£ week £
York:Yorkshire Water			
Water RV 115	21.00	0.4370	
Sewerage RV 115	25.00	0.6820	3.36
Tower Hamlets:Thames Water			
Water RV 280	16.00	0.3087	
Sewerage RV 280	28.00	0.2325	3.76

Source: FBU estimates

* **House contents insurance**

All London Boroughs are rated as high-risk crime areas, whereas the suburbs of York are low-risk. A basic Direct Line insurance policy worth £20,000 costs£123.60 a year in York, if paid in monthly instalments. A similar policy in Tower Hamlets costs £270.86 a year.

* **Fuel**

The Family Budget Unit prices gas and electricity consumption according to family composition, house dimensions and the use of appliances. Annual gas consumption is set at 21,693 units for a couple with two young children and 21,638 units for a lone mother with children of similar age. Annual consumption in respect of lights and appliances is set at 2,574 units for the couple and 2,048 units for the lone mother.

The British Gas supply rate per kWh is higher in York than the Norweb supply rate for Tower Hamlets. However, York users have no standing charges to pay, whereas Norweb charges their customers 8.41 pence per day. The overall difference between bills in the two locations is nevertheless insignificant. Similarly, Northern Electric also has a different charging system to Norweb.

Using the above suppliers and assuming standard consumption of gas and electricity, the fuel bill in Tower Hamlets, in February 2001 was £10.53 a week (on average) for couples with two young children and £10.00 a week for a lone mothers. This is less than 50 pence a week lower than in York.

* **Transport**

London Transport offers a range of bus and tube fares, season tickets and travel cards. For the purposes of this report, it is assumed that lower paid workers live and work outside central London. Travel to work costs are based on travel within at least two zones, but excluding *Zone 1*. One 7-day bus pass purchased from London Transport costs £8.50, compared with £0.70 for a single bus fare and £11.80 for a weekly Travel Card on the underground. One weekly bus pass per adult in paid work is included in the London budgets. This is intended to cover work and leisure journeys. Individual fares for children's leisure journeys are also included.

* **Motoring costs**

In recognition that car-ownership is sometimes a necessity, the FBU calculates the costs of car-ownership, as an option, in all its budgets. Costs are estimated on the assumption that the car is seven years old, second-hand and does an annual mileage of 5000 miles. The FBU car-owner's budget includes a reduced number of bus fares for other family members, in addition to the costs of buying and running the car. The main additional cost for London car-owners is the cost of high-risk, comprehensive, car insurance, which can be 60% higher in London than elsewhere².

* **Childcare costs**

For the purposes of this research, childminding by registered childminders is included for lone mothers working part-time (17 hours per week) and full-time (38.5 hours per week); and for second earners in two-parent household. Hours of childminding include after-school during school term as well as school holidays. The lone mother is assumed to take four weeks holiday a year, during school holidays. The four-year old is assumed to attend school part-time. Childminding hours over one year represent an average of 40¹/₂ hours per week (assuming a 38¹/₂ hour working week) and 16¹/₂ hours per week (assuming part-time work). In 1999, in the London area, the median hourly rate, per child, charged by childminders, was £2.40³. Allowing for inflation between 1999 and February 2001, the hourly rate per child used here is £2.62 .

Childminding, however, is the least expensive type of formal childcare. In Spring 2001, according to the Daycare Trust, a typical full-time nursery place for a two-year old cost £110 a week, compared with a maximum childcare tax credit of £70 for one child and £105 for two children towards childcare costs⁴.

² Parker's Used, New and Trade Car Price Guide, April 2001.

³ Source: National Childminding Association

⁴ Daycare Trust, *Childwise* Issue 7, Spring 2001

6 FINDINGS

The report has four main findings. These show:

- 1 The net weekly incomes required to avoid poverty .
- 2 The gross weekly earnings required to avoid poverty
- 3 The shortfalls in minimum wage, by comparison with LCA level
- 4 The scale of the poverty trap

6.1 Net weekly incomes required to avoid poverty: East London boroughs of Hackney, Newham, Tower Hamlets and Waltham Forest

Based on the FBU's research into needs and living costs, and assuming that the working mothers use childminders, the net incomes required by each households are as summarised in Table 4. If the mothers used a private nursery, their costs would be higher.¹

Table 4 : Net weekly incomes required to reach LCA level
Households in paid work
London boroughs of Hackney, Newham, Tower Hamlets, Waltham Forest
Households with boy aged 10 and girl aged 4 years

<i>Household type</i>	<i>Working time Hours week</i>	<i>Net incomes required £ week (rounded)</i>
Two-earner couple	38.4 + 17	322
One-earner couple	38.5268	
One earner couple 17.0	267	
Lone mother	38.5337 17.0272	

Source: Family Budget Unit 2001

6.2 Gross weekly earnings required to avoid poverty, April 2001 East London boroughs of Hackney, Newham, Tower Hamlets and Waltham Forest

There is no single wage rate sufficient to prevent poverty. Table 5, derived from Appendices 1 and 2, shows the gross weekly earnings and hourly wages required by each of the FBU household types to achieve the net weekly incomes shown in Table 4 — and to avoid poverty. The single-earner couple with two children is the only household in this study for whom a minimum hourly wage of £3.70 provides more than sufficient to prevent poverty. Assuming a working week of 38¹/₂ hours, they could make do on an hourly wage of £3.30.

Table 5 : Gross weekly earnings and hourly wages required to reach LCA level
 London boroughs of Hackney, Newham, Tower Hamlets, Waltham Forest
 Households with boy aged 10, girl aged 4 years
 April 2001, hours and £ week

<i>Household type</i>	<i>Working time</i> <i>Hours</i>	<i>Earnings required</i> <i>£</i>	<i>Wages required</i> <i>£</i>
Two-earner couple	38.5 + 17.0	221.50	3.99
One-earner couple	38.5	127.21	3.30 *
One earner couple	17.0	111.30	6.55
Lone mother	38.5	155.83	4.05
Lone mother	17.0	133.95	7.88

Source: Family Budget Unit 2001

* This wage is below the national minimum wage of £3.70 in April 2001

6.3 Shortfalls in minimum wage, by comparison with LCA level

Here, as explained, there is a dilemma, for there is no single level of minimum wage which, on its own, can guarantee LCA level (or above) for every working household, regardless of the number of people dependent upon that wage and the circumstances in which the households live and work.

Based on the research for this enquiry, Table 6 summarises the shortfalls in the current minimum wage of £3.70, assuming households living in the East End of London. To avoid poverty, a two-parent, two-earner household with two young children, working a combined total of 55¹/₂ hours and receiving all the social security benefits to which they are entitled (mainly WFTC) requires an hourly wage of £3.99. A one-earner household, living in similar circumstances and working 38¹/₂ hours, requires a wage of £3.30 (i.e. below the current minimum wage), due partly to savings in childcare. A third household, working 17 hours, requires a wage of £6.55. A lone mother working full-time, requires a wage of £4.05, but if she works part-time, for 17 hours, she needs £7.88. Without WFTC (assuming no other changes) the above wage rates would need to be higher.

When interpreting the figures, it is important to bear in mind that there are many households in the UK whose variable costs are considerably higher than those assumed for this study. For them the minimum wage needs to be higher than the amounts shown in Table 6.

Table 6: Gross wages required to reach LCA level London boroughs of Hackney, Newham, Tower Hamlets, Waltham Forest Households with boy aged 10, girl aged 4 years April 2001

		£ hour	£ week	£ year (rounded)
Two-parent households				
1	Two earners, working 38.5 + 17 hours	3.99	221.45	11 515
2	One earner, working 38.5 hours	3.30	127.05	6 607
3	One earner, working 17 hours	6.55	111.35	5 790
Lone mothers				
1	Working 38.5 hours	4.05	155.93	8 108
2	Working 17 hours	7.88	133.96	6 966

Source: Family Budget Unit 2001

6.4 Scale of the poverty trap

Introduction of WFTC and associated changes have rendered the poverty trap somewhat shallower but considerably wider than before. Out of each extra £ earned, today's wage earners receive at most 30 pence if they are getting WFTC, compared with 68 pence if they are not receiving any means-tested benefits.

East Enders earning the minimum wage pay no income tax, but £5.55 is deducted for NI contribution and an estimated £11.82 for council tax (couples). Lone mothers get a 25% discount, so their council tax is £8.87. Yet the only working household in this study entitled to council tax benefit is the couple with one part-time earner. The other households pay full council tax.

The scale of the poverty trap can be measured in two ways:

- * According to the gross earnings required by claimant households to escape the poverty trap
- * According to the implied marginal tax rates (income tax + NI contribution + withdrawal of means-tested benefits) imposed on recipients of means-tested benefits

For a variety of reasons, including the increased amounts payable with WFTC, the escape points from today's poverty trap are higher than with former Family Credit. For the households in this study, these points are summarised in Table 7. On earnings below these points they get *at most 30 pence out of each extra £ earned*, compared with 60 pence for the highest earners in the land. If they are also receiving housing benefit, they get 11 pence out of each extra £ earned. For Trade Unions like Unison, whose membership includes many people on low pay, this presents huge problems. To escape the poverty trap, households like the FBU's two-wage couple with two children each need hourly wages of £7.65; the single-wage couple needs an hourly wage of over £10; the lone mother working full-time needs an hourly wage of £15.34 (£31,000 a year).

Table 7: Gross earnings required to escape the poverty trap
London boroughs of Hackney, Newham, Tower Hamlets, Waltham Forest
Boy aged 10, girl aged 4 years
April 2001

		£ hour	£ week	£ year
Two-parent families				
1	Two earners, working 38.5 + 17 hours	7.65	424.47	22,072
2	One earner, working 38.5 hours	10.09	388.45	20,199
3	One earner, working 17 hours	22.00	374.00	19,448
Lone mothers				
1	Working 38.5 hours	15.34	590.59	30 711
2	Working 17 hours	25.94	440.98	22,931

Source: Family Budget Unit

Gross weekly earnings required to reach LCA level
 Couple with boy aged 10 and girl aged 4 years
 Local authority tenants
 London boroughs of Hackney, Newham, Tower Hamlets, Waltham Forest
 February 2001 prices, April 2001 taxes and benefits
 £ week

	Two earners 38.5+17 hours	One earner 38.5 hours week	One earner 17 hours week	No earner
A. BUDGET STANDARD COSTS				
Food	60.07	60.07	60.07	55.98
Clothing	24.13	24.13	24.13	24.13
Personal care	4.33	4.33	4.33	4.33
Household goods	16.15	16.15	16.15	16.15
Household services	4.89	4.89	4.89	4.89
Leisure	22.81	22.81	22.81	22.81
TOTAL BUDGET STANDARD COSTS	132.38	132.38	132.38	128.29
B. VARIABLE COSTS				
Housing (of which rent £75.27)	79.03	79.03	79.03	79.03
Council tax	11.82	11.82	11.82	11.82
Fuel	10.53	10.53	10.53	10.53
Transport (no car) *	2.68	2.68	2.68	6.88
NHS charges	3.01	3.01	3.01	0.07
Insurance/pension contributions	5.21	5.21	5.21	5.21
Debts/fines/maintenance orders	0.00	0.00	0.00	0.00
Job-related costs	64.26	10.25	9.62	0.00
<i>of which: childcare</i>	<i>44.39</i>	<i>none</i>	<i>none</i>	<i>none</i>
<i>travel to work (7 day bus pass)</i>	<i>17.00</i>	<i>8.50</i>	<i>8.50</i>	<i>none</i>
Seeking work costs	0.00	0.00	0.00	0.00
Pets (one cat)	3.41	3.41	3.41	3.41
Alcohol (units 14 man + 10 woman)	8.94	8.94	8.94	8.94
Charitable donations	0.72	0.72	0.72	0.00
TOTAL VARIABLE COSTS	189.62	135.61	134.98	125.89
C. TOTAL COSTS (A + B)	322.00	267.99	267.37	254.19
D. GROSS EARNINGS REQUIRED				
A + B total costs	322.00	283.24***	267.37	
(-) Child Benefit	25.85	25.85	25.85	
(+) Income Tax	0.27	0.00	0.00	
(+) National Insurance Contribution	6.66	5.55	2.43	
(-) Working Families Tax Credit **	81.63	93.25	97.22	

(-) Housing Benefit	0.00	27.23	35.43	
(-) Council Tax Benefit	0.00	0.00	0.00	
(=) WEEKLY EARNINGS	221.45	142.45***	111.30	
E ANNUAL EARNINGS	11 515.40	7 407.40***	5 787.60	
F. HOURLY WAGE	3.99	3.70***	6.55	
* Transport estimate, car owner	36.44	36.44	36.44	36.44
** Including childcare tax credit				
*** £283.24 equals net income at min. wage £3.70. Net income at min. wage exceeds LCA level by £15.25 week.				

Family Budget Unit, April 2001

APPENDIX 2

Gross weekly earnings required to reach LCA level
 Lone mother with boy aged 10 and girl aged 4 years
 Local authority tenants
 London boroughs of Hackney, Newham, Tower Hamlets, Waltham Forest
 February 2001 prices April 2001 taxes and benefits
 £ week

	One earner 38.5 hours week	One earner 17 hours week	No earner
A. BUDGET STANDARD COSTS			
Food	38.53	38.53	34.44
Clothing	20.03	20.03	20.03
Personal care	3.61	3.61	3.61
Household goods	15.24	15.24	15.24
Household services	4.64	4.64	4.64
Leisure	21.10	21.10	21.10
TOTAL BUDGET STANDARD COSTS	103.14	103.14	99.05
B. VARIABLE COSTS			
Housing (of which rent £75.27)	79.03	79.03	79.03
Council tax 8.87	8.87	8.87	
Fuel	10.00	10.00	10.00
Transport (no car) *	2.12	2.12	4.92
NHS charges	1.51	1.51	0.03
Insurance/pension contributions	5.21	5.21	5.21
Debts/fines/maintenance orders	0.00	0.00	0.00
Job-related costs	119.20	54.01	0.00
<i>of which: childcare</i>	<i>108.95</i>	<i>44.39</i>	<i>0.00</i>
<i>travel to work (7 day bus pass)</i>	<i>8.50</i>	<i>8.50</i>	<i>0.00</i>
Seeking work costs	0.00	0.00	0.00
Pets (one cat)3.41	3.41	3.41	
Alcohol (units: 10 woman)	4.16	4.16	4.16
Charitable donations	0.72	0.72	0.00
TOTAL VARIABLE COSTS	234.21	169.03	115.62
C. TOTAL COSTS (A + B)	337.35	272.17	214.67
D. GROSS EARNINGS REQUIRED			
A + B total costs337.35	272.17		
(-) Child Benefit	25.85	25.85	
(+) Income Tax 0.76	0.00		
(+) National Insurance Contribution	6.88	4.70	
(-) Working Family Tax Credit **	163.31	117.07	

(-) Housing Benefit	0.00	0.00	
(-) Council Tax Benefit	0.00	0.00	
(=) WEEKLY EARNINGS	155.83	133.95	
E ANNUAL EARNINGS	8 103.16	6 965.40	
F HOURLY WAGES	4.05	7.88	
* Transport estimate, car owner	31.70	31.70	31.70
** Including childcare tax credit			

Family Budget Unit April 2001