

DREAMING OF £250 A WEEK

A SCOPING STUDY ON IN-WORK POVERTY IN WALES

FINAL REPORT

October 2006

The Bevan Foundation and New Policy Institute



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SUMMARY

This paper reports the results of an exploratory study into the problem of ‘in-work poverty’ in Wales. In-work poverty arises when a household containing one or more adults doing paid work has an income below the level recognised by Government as defining ‘poverty’. Given the emphasis on work as the route out of poverty, supported by the National Minimum Wage and the system of tax credits, the continued existence of in-work poverty on an appreciable scale represents a serious problem for the anti-poverty strategy that has been followed since the late 1990s.

The paper draws its material from three sources:

- a review of official statistics on both low pay and in-work poverty in Wales;
- an exploratory analysis of the link between low pay and in-work poverty using data for Britain as a whole; and
- interviews with people in doing low paid jobs.

This summary covers two subjects: first, the principal findings from the research and second, a series of questions which we believe the research raises.

Principal findings

Official statistics on low pay and in-work poverty

1. We estimate that in 2005, 28% of the Welsh workforce was low paid, that is, they earned less than £6.50 an hour.¹ Women, young people and part-timers are all much more likely to be low paid than men, full-timers and middle-aged workers. As an employer, the public sector accounts for a quarter of all low paid workers in Wales. Low pay is more common in rural Wales, especially for men. However, the prevalence of low pay in Wales is downplayed by the reliance of official statistics on average earnings of full-timers.
2. Approximately 150,000 households in Wales receive working tax credit and/ or children’s tax credit (excluding those receiving the flat, family element only). This is a higher rate than most other parts of the UK (except the North East of England and Northern Ireland).
3. Over the period 2002/03 to 2004/05, an average of 160,000 people at any one time were living in households in Wales where at least one adult was doing paid work, yet where the income, after housing costs, was below 60% of median income (the poverty line). Of these, 40,000 people were in all-working households and 120,000 in part-working households. In absolute terms, these numbers are little different from a decade ago. But since out-of-work poverty among working-age households has been falling, those in in-work poverty represent a bigger share of those in poverty in the most recent three years (38%) than a decade ago (30%).

¹ £6.50 an hour is roughly what a two adult household, one working full-time and one part-time, with one dependent child and with average housing costs, would need in order to avoid poverty.

4. Among working households (whether low paid or not), the risk of being in poverty is significant (around 20%) if one or more of the adults within the household is not working at all, or if none of the adults works full-time. A low risk of poverty (4%) is only to be found among those households where all the adults work and at least one of them works full-time.

Links between low pay and in-work poverty

5. In-work poverty and low pay do not go hand-in-hand because poverty relates to households whereas low pay relates to individuals. The concept of a low paid household can be used to help bridge this gap, such a household being one where the average hourly pay of all the working adults in it is below the low pay threshold. In 2003/04, for Britain as a whole, 87% of low paid men and 60% of low paid women lived in a low paid household.
6. In 2003/04 for Britain as a whole: 65% of households in in-work poverty were low paid while 23% of low paid households were also in in-work poverty. The first statistic means that most households suffering in-work poverty were low paid. The second means that most low paid households were not in in-work poverty.
7. There are two main reasons why this latter statistic is as low as it is. First, half of all low paid households worked enough hours to avoid poverty. Any household with average housing costs and no other source of private income will avoid poverty if all the working-age adults in it work at least 30 hours per week. Thanks to tax credits, a lone parent household will avoid poverty by working just 16 hours per week.
8. Second, one third of all other low paid households had housing costs at least 25% below what would be normal for their household type. Much higher than normal housing costs play an important role in bringing low paid households who do work enough hours, or are not low paid at all, below the poverty line.
9. There appear to be two basic situations in which housing costs can be much lower than normal. One is when households share accommodation, something done by around one third of all households (e.g. a young adult continuing to live with his or her parents counts as two households sharing). The other is owner occupation when the mortgage repayment is either small or, if the home is owned outright, non-existent.

Interviews with low paid workers

10. The interviews confirm the importance of paid work to the self esteem of workers. Views differed on whether the low rates of pay were unreasonable or not. In general, those interviewed seemed to have only modest aspirations about what they would like to earn.
11. Issues around both the total number of hours worked in a week as well as when those hours can be worked were especially important to those interviewed. Much value appears to be attached to being able to work just a few hours more than normal a week. As a result, the way in which additional hours are allocated to individuals appears to be a matter of great concern to some people.

12. The interviews also confirm the importance of tax credits in making low paid work acceptable. Even so, there also seems to be a lack of awareness of them, while the sharp edges in the tax credit rules mean some people missing out on a lot of money because they are working slightly too few hours (something which they did not have control over).

Issues for further consideration

Measuring low and average pay in Wales

At present, the Welsh Assembly Government uses mean (average) earnings for full-timers as the primary measure of earnings in Wales². Yet with some 70% of workers in Wales actually earning less than that, the figure is potentially misleading. To avoid this problem in future, it would be preferable if the Welsh Assembly Government were to use *median* earnings instead, with figures for full- and part-timers given separately.

A low pay audit for Wales?

Although low pay is widespread in Wales, awareness of this fact seems limited. To address this, the Welsh Assembly Government could undertake a 'low pay audit' for Wales, looking at who is low paid, what jobs they do (full-and part-time), which parts of the economy they work in and where they work. With the public sector, information on low paid workers employed by contractors/service providers would also be helpful.

How many hours should households be expected to have to work to avoid poverty?

Although 'only' 23% of low paid households in Britain are in in-work poverty, most low paid households only escape in-work poverty either by working long hours or by finding accommodation whose costs are well below normal. With the exception of lone parent households, escaping in-work poverty without the help of low housing costs requires *all* adults in low paid households to work more or less full-time. This obviously has serious implications for households where an adult may be unable to work because of ill-health or because they are a carer, of children or another adult. This raises the question of whether it is acceptable, desirable or even feasible for low paid households, no matter what their circumstances, to have to work in this way just to avoid poverty? If not, what might alternatives be?

How far do low housing costs mask problems of housing affordability and supply?

The importance of low housing costs has emerged as a major factor affecting the link between low pay and in-work poverty. Since this study has only been able to examine this question in Great Britain context, a better understanding of this matter in the context of the Welsh housing market is needed.

² For example in Statistical Bulletin 3/2000 Annual Survey of Hours and Earnings, and throughout 'Wales: A Vibrant Economy (in which average earnings are also a 'tracking indicator').

Beyond the statistics, however, the question is to what extent are households with low housing costs content with their housing situation. On the one hand, if costs are low because the household owns its home outright, or because the mortgage is old and nearly paid off, then they may be content. On the other hand, if costs are only low because they are sharing a home with another household – and many households, for example young adults still living with their parents, are sharing in this way – then low housing costs may actually reflect their inability to find and/or afford a home of their own. As well as producing Wales-specific statistics, therefore, a proper understanding of what lies behind low housing costs is essential.

An assessment of the costs and benefits of raising low pay in the Welsh public sector?

While the main tools for addressing low pay are in the hands of central government (minimum wage, tax credits, etc), the public sector in Wales still has a lot of influence in the matter as a major employer of low paid workers. An assessment of the costs and benefits of raising public sector low pay in Wales would therefore seem appropriate. In doing this, it would be important to distinguish between the gross cost for individual public sector employers and the net cost to the public purse as a whole (e.g., after taxes and reductions in tax credits have been taken into account).

A new campaign to promote awareness of the tax credits?

On the basis of the interviews with low paid workers, it would appear that there is still a lack of awareness among the public about who is entitled to tax credits. The Welsh Assembly Government and other public sector employers together with HM Customs and Revenue and anti-poverty groups could therefore explore ways in which awareness and take up of tax credits can be increased.

Return to work programmes focused on households as well as just individuals?

In view of the importance, as far as avoiding in-work poverty is concerned, of having all working-age members in the household doing some paid work, the Welsh Assembly Government and Department for Work and Pensions could consider exploring ways in which their 'return to work' programmes might be adapted to include other members of a client's household as well as just the client themselves.

1. INTRODUCTION

Work is recognised as a key route out of poverty in a wide range of research literature.³ Encouraging people into work underpins both UK Government and Welsh Assembly Government policies, from those of HM Treasury and the Department for Work and Pensions, to Communities First, Wales: A Vibrant Economy, and the Skills and Employment Action Plan 2005.

Yet paid work does not automatically end poverty. ‘In-work poverty’ is a major issue and growing in importance, both in Wales and across Britain as a whole. Among people in working-age households in Wales who are in poverty,⁴ 38% have someone doing some paid work, up from 30% a decade ago. Over the period 2002/03 to 2004/05, there were an average of 40,000 people in all-working households in Wales, and some 120,000 people in part-working households, living in poverty. However, we know relatively little about in-work poverty beyond these headline figures.

The Bevan Foundation and New Policy Institute were awarded a grant from the Welsh Assembly Government’s New Ideas fund to investigate these issues further. In addition, funding was received from Amicus, Thompsons Solicitors and Oxfam Cymru’s UK Poverty Programme and support in kind was provided by Wales TUC. We are grateful to all these organisations for their contributions.

The aim of the project was to investigate the nature and extent of in-work poverty in Wales. Its objectives were to:

- to identify who experiences in-work poverty and in what occupations, industries and locations;
- to identify gaps in the knowledge base about in-work poverty and suggest how these might be remedied;
- to consider the possible implications for policies to tackle poverty and regenerate communities.

The project involved:

- a review of recent literature on definitions of in-work poverty, causes and characteristics;

³ e.g. **Routes out of poverty: A research review** by Peter Kemp, Jonathan Bradshaw, Paul Dornan, Naomi Finch and Emese Mayhew (York: Joseph Rowntree Foundation 2004)

⁴ defined as households whose income is below 60% of the median income of all working-age households

- an analysis of published statistics on pay and incomes including the Annual Survey of Hours and Earnings (ASHE), the Labour Force Survey (LFS), the Family Resource Survey, Department for Work and Pensions data, and occupational data (e.g. pay scales);⁵
- interviews with twelve people on low pay, to explore the issues raised in more depth.

In addition, we held a seminar in early 2006 with key stakeholders, at which we presented our emerging conclusions and discussed some of the key issues that required further elaboration.

The rest of this report presents our findings, based on our analysis of statistics and interview data. Because of the small scale of this study, it would be inappropriate to call for radical and immediate changes. Nevertheless, our findings do suggest some important next steps that the Welsh Assembly Government, other public bodies and trades unions should consider.

⁵ Annex 2 describes the main data sources used in greater detail.

2. LOW PAY IN WALES

The figure for earnings in Wales which is widely cited in official documents and other sources suggests that ‘average earnings in Wales in April 2005 stood at £454.40’.⁶ This sum, equivalent to £23,629 a year, may sound quite reasonable and some may therefore conclude that low pay is neither prevalent nor a problem. However, the reality for many workers in Wales is that their pay is considerably lower than £23,000 a year. In fact, 70% of the Welsh workforce had a gross weekly wage of less than £454.40 a week in 2005.

How can there be this difference? The discrepancy arises because the figure of £454.40 a week is the **average** earnings of **full-time** workers. Full-time workers have higher weekly earnings than the workforce as a whole (which includes part-timers as well as full-timers), partly because full-timers simply work more hours but also because full-time pay rates tend to be higher than part-time rates.

The average wage is the amount each person would earn if all wages were spread equally between earners. Of course wages are not spread equally. As Table 1 shows, weekly earnings ranged from just £226.50 a week for the lowest paid ten per cent of full-timers to over £729.80 a week for the best paid ten per cent. The small numbers of relatively high earnings skew the average figure upwards. Using the average as the main figure therefore does not tell us about the ‘typical’ worker, let alone about the low paid.

Table 1 Gross Weekly Wages 2005 of decile groups, Wales

Decile	10	20	30	40	50	60	70	80	90	Headline weekly wage
All workers	100.00	171.50	228.30	270.30	315.10	372.00	445.10	531.30	665.50	454.40
All full-timers	226.50	263.30	300.40	340.90	389.90	449.40	509.10	594.00	729.80	454.40
All part-timers	41.10	69.90	90.00	111.40	131.60	153.00	182.30	233.20	306.70	454.40

Note: figures in red are those below the ‘headline’ average weekly wage for full-timers. Source: ASHE 2005 workplace analysis downloaded from NOMIS 16.08.06

So, less than 30% of the workforce in Wales actually earns £454.40 a week or more, but how many of these workers are ‘low paid’?

⁶ Welsh Assembly Government *Annual Survey of Hours and Earnings 2005*, Statistical Bulletin 3/2006. The same figure is also used throughout *Wales: a Vibrant Economy*. The Welsh Assembly Government also uses workplace based data, whereas most other analysts use residence-based data.

2.1 Defining low pay

The choice of a single threshold to define low pay is inevitably somewhat arbitrary. Except in section 4, where our analysis uses slightly older data, we define low pay as a rate of £6.50 an hour or less. This figure has been chosen because it is roughly what a two adult household, one working full-time and one part-time, with one dependent child and with average housing costs, would need in order to avoid poverty. The rate of pay needed to avoid poverty for a household without dependent children would be somewhat less than £6.50 an hour, whilst that for a household with more than one child would be rather more. The figure is higher than the National Minimum Wage rate of £5.05 for adults aged 22 and over.⁷

Unfortunately, there is no source of data that shows earnings above or below this threshold. The main source of data, the Annual Survey of Hours and Earnings, gives the rate of pay for each decile of earners⁸. However, the New Policy Institute has estimated from the ASHE decile figures that 28% of all workers living in Wales were low paid in 2005. This compares with 24% for the UK as a whole.⁹

2.2 Who are the low paid?

Low hourly pay is much more prevalent amongst part-timers than full-timers: 50% of all part-timers – both men and women – earn less than £6.50 an hour. By contrast, ‘only’ 15% of men working full-time and 21% of women working full-time earn less than £6.50 per hour. As a result, half of all workers earning less than £6.50 per hour are part-timers.

Women are much more likely to be part-timers than men. Consequently, a much higher proportion of women are low paid than are men: 35% earn less than £6.50 per hour compared with 20% of men. Almost half of all workers earning less than £6.50 per hour are women working part-time.

These figures suggest that around 330,000 workers in Wales are on low pay.¹⁰

Table 2 Estimated number of low paid employees in Wales

	No. employees	% estimated to earn less than £6.50 an hour	No. estimated to earn less than £6.50 an hour	Percentage of all low paid
Male part-time	97,000	50%	49,000	14%
Female part-time	303,000	51%	155,000	46%
Male full-time	469,000	15%	70,000	21%
Female	292,000	21%	61,000	18%
Total	1,161,000	29%	335,000	100%

⁷ This rate applied from October 2005 to October 2006.

⁸ Deciles are ten equal sized groups of the population, ranked by earnings.

⁹ The New Policy Institute estimates are based on the ASHE residence-based data, which are not strictly comparable with the workplace data cited in the Welsh Assembly Government’s statistical bulletins.

¹⁰ Note that the employee data from ASHE 2005 suggests that there are fewer part-timers in Wales than indicated by the Labour Force Survey, which results in a correspondingly lower figure (some 50,000 fewer).

Source: ASHE 2005 residency data pay rates and Labour Force Survey 2004 via Stats Wales for employee numbers

About eight per cent of the workforce can be described as ‘very low paid’, i.e. in 2005 they earned less than the current adult minimum wage of £5.05 an hour. An even higher proportion - one in five - of part-timers was paid at less than this rate. This is *not* to say that these workers were being paid less than the legal minimum (although some of them may have been), because the minimum rate at the time of the ASHE survey (2005) was £4.85, 20p an hour less than the current rate. Also, some of these workers would be under 22 years old and hence subject to an even lower minimum rate. Indeed, the proportion of those aged 22 and above earning less than £5.15 an hour is well below 10%, which suggests that the National Minimum Wages rates for over 21-year-olds do act as something of a ‘floor’ in low paid occupations. Table 3 shows the earnings of lowest paid ten per cent and twenty per cent of workers in 2005, and highlights those which are below £5.05 an hour.

Table 3 Hourly earnings of the lowest paid

Sex and status	10 th percentile	20 th percentile
Male full-time workers	5.95	6.92
Male part-time workers	4.85	4.98
Female full-time workers	5.57	6.39
Female part-time workers	4.85	5.06
Male	5.51	6.53
Female	5.00	5.51
Total	5.15	5.83

Note: Figures in red show earnings below £5.05 an hour.

Source: ASHE 2005 workplace analysis downloaded from NOMIS 16.08.06.

Low pay is sometimes seen as being primarily a phenomenon affecting young people – indeed this is embodied in the lower rates for under 22 year olds of the National Minimum Wage. To investigate this further, we commissioned a specific analysis of earnings in Wales analysed by age from the Office for National Statistics. The results show that low pay is common for part-time employees across the age spectrum: at every age group, at least 40% of part-time workers are paid less than £6.50 per hour. By contrast, low pay for full-time workers is much more common among young workers than among older workers: 60% of full-timer workers aged 18 to 21 are paid less than £6.50 per hour, falling to 25% for 22- to 29-year-olds and 10% for those aged 30-49, before rising to 15% for those aged 50 to retirement.

In other words, in the world of full-time work, low pay *is* indeed more common amongst younger workers, although it is not exclusive to them. However, amongst part-timers, all ages experience low pay.

What jobs do low paid workers do?

In terms of occupations,¹¹ low pay is most common in sales and customer service, with 75% of workers in these occupations earning less than £6.50 per hour. So called elementary occupations are next, with 65% earning less than £6.50 per hour. ASHE data shows that low pay was prevalent in these occupations for both men and women.

In terms of industry sectors, low pay is most common in hotels and restaurants, with 75% of workers in these sectors earn less than £6.50 per hour. Retail and wholesale are next, with 60% earning less than £6.50 per hour. The public sector has relatively low levels of low pay (20%) but, because it is such a big sector, it actually accounts for around a quarter of all low paid workers

Low Pay localities

Low pay is not evenly distributed across Wales.¹² The lowest paid 10 per cent of men earned less than £6 an hour in 2005 in all but three local authority areas (the exceptions are Flintshire, Torfaen and the Vale of Glamorgan). This suggests that low pay exists amongst a small proportion of the male workforce in all parts of Wales. However, in six areas the proportion of men earning less than £6 an hour was considerably higher, at 25 per cent or more. These areas are predominantly rural (Ceredigion, Gwynedd, Conwy, Powys, and Pembrokeshire). It is not clear whether the prevalence of low pay is caused by the structure of the workforce (e.g. more part-timers), or by the occupational or industrial mix of these areas. Nevertheless, it is a serious cause for concern that so many men in such a large part of Wales are so poorly paid.

Low pay amongst women seems to be more evenly spread across Wales (i.e. prevalent everywhere), with the lowest paid quartile of women earning less than £6.50 an hour in 2005 in all local authority areas. The extent of low pay amongst women throughout Wales is also cause for concern.

2.3 Trends in low pay

Over the last seven years, the hourly pay of the lowest paid ten per cent of workers in Wales, whether male or female, full-time or part-time, has increased more rapidly than that of the middle group of workers (i.e. median pay). Table 4 shows that the growth has been most marked amongst part-timers. As a result, the gap between the hourly earnings of the low paid and median earnings has closed slightly. (It is worth noting that at the same time, the earnings of the highest paid ten per cent have increased rapidly, so that the gap between the best and worst paid has actually widened.)

¹¹ All data in this section is from the Labour Force Survey (LFS), averaging the four quarters to Winter 2005/06. Although the LFS low pay data is considered to be less reliable than that from ASHE, it allows for much more flexible analyses by industry sector.

¹² This data is from ASHE 2005 workplace based analysis.

Table 4 Hourly Earnings of Lowest Paid Decile 1998 - 2005¹³

Gross Hourly Pay	Male Full-time Workers	Male Part-time Workers	Female Full-time Workers	Female Part-time Workers	All workers
1998	4.44	3.20	3.91	3.25	3.77
2005	5.95	4.85	5.57	4.85	5.15
Percentage change 1998 – 2005	34.0	51.6	42.5	49.2	36.6
Earnings as a proportion of median (%)	58.4	76.1	62.4	77.8	59.9

Source: ASHE workplace analysis downloaded from NOMIS 16.8.06

2.4 Tax credits

Tax credits are available to help low income households, chiefly for those with children, although some others can qualify for limited support too. In April 2006, around 150,000 working-age households were in receipt of tax credits. This is double the number in 2001 and treble the number in 1996. Wales has a somewhat higher proportion of households who are in receipt of tax credits than in most other regions in the United Kingdom, but lower than in either Northern Ireland or the North East of England. It should be noted that the 150,000 figure excludes those households receiving the flat, family element of the child tax credit only, something which goes to all families with incomes up to around £50,000).

Except for Monmouthshire and Cardiff, every local authority has at least a seventh of its working-age households in receipt of tax credits. However, the take up of tax credits is not always strictly in line with the prevalence of low pay – for example Ceredigion and Torfaen have the same percentage of households receiving tax credits even though the low pay appears to be much more prevalent in Ceredigion than Torfaen.

2.5 Conclusions

Our review of the statistics suggests that the headline figure for earnings in Wales of £454.40 a week is, at best, not applicable to the workforce as a whole. At worst, it masks the prevalence of low pay. Because it is the average wage for full-timers, a large proportion of the workforce – seven out of ten – earns less than this sum. As a first step towards recognising the extent of the low pay problem in Wales, we would suggest that the Welsh Assembly Government adopt median earnings, rather than average earnings, as their key indicator, because it reflects the experience of the typical worker. We also suggest that earnings figures for part-timers as well as full-timers should be used.¹⁴

¹³ Note that the 2005 data includes non-vatable companies whilst the 1998 data does not. This difference should not, however, make a difference to the trends presented in the table.

¹⁴ We would also suggest that residence-based data, rather than workplace data, would be more appropriate because they show the earnings of the local population, irrespective of where they work.

We estimate that 28% of all workers in Wales, some 330,000 people, are paid less than £6.50 an hour. Low pay is particularly prevalent for the following (often overlapping) groups:

- part-timers;
- women;
- young people;
- people working in sales, customer service and elementary occupations;
- people working in distribution, hotels and restaurants; and
- people working in rural areas.

The evidence suggests that the gap between the lowest paid and median pay is closing, and it may be that the National Minimum Wage is acting as a 'floor' for pay rates at the very bottom of the labour market. Nevertheless, the gap has not closed sufficiently to eliminate low pay, which continues to affect around 30% of workers.

Given the prevalence of low pay, we suggest that the Welsh Assembly Government could undertake a 'low pay audit' for Wales, looking at who is low paid, what jobs they do (full- and part-time), which parts of the economy they work in and where they work. With the public sector, information on low paid workers employed by contractors/service providers would also be helpful.

While the main tools for addressing low pay are in the hands of central government (minimum wage, tax credits, etc), the public sector in Wales still has a lot of influence in the matter as a major employer of low paid workers. An assessment of the costs and benefits of raising public sector low pay in Wales would therefore seem appropriate. In doing this, it would be important to distinguish between the gross cost for individual public sector employers and the net cost to the public purse as a whole (e.g., after taxes and reductions in tax credits have been taken into account).

3. HOUSEHOLDS IN POVERTY

3.1 Terminology

Data and scope

The data source for this analysis is the *Family Resources Survey* (FRS) and its associated *Households Below Average Income* (HBAI) dataset¹⁵. The data is for Wales only and is for selected years up to 2004/05 (the latest available). The data refers to households, rather than the individuals within in, and assumes that all household members have equal access to household resources (even though this may not be the case in reality).

Poverty

A household is defined as being in (income) poverty if its net equivalised income, after housing costs have been deducted, is below 60% of the Great Britain median income for the year in question.

- Net income is after income tax, national insurance and council tax (less any council tax benefit) have been deducted.
- Net *equivalised* income is net income adjusted to reflect the fact that larger households need more money to reach a given standard of living than smaller one. The UK Government publishes equalisation factors.
- Housing costs comprise mainly rent, mortgage interest, water charges and buildings insurance.

Table 5 shows the amounts of net income, after housing costs, that different households needed in 2004/05 in order to avoid poverty.

Table 5: Money required by different households to avoid poverty, 2004/05

Household	Net weekly income, after housing costs, to avoid poverty
Single adult	£100
Couple, no dependent children	£183
Lone parent with two children, age 7 and 9	£186
Couple with two children, age 7 and 9	£268

Households and multi-households

A household contains either one adult, or two adults living as a couple, plus their dependent children (aged under 16 or aged under 19 and studying for anything up to A-levels and equivalent). If elderly relatives or 17+ year-olds not in full-time education live with them, they count as separate households and the whole group is therefore counted as a multi-household. Two or more non-cohabiting adults living together also count as multi-households.

¹⁵ The analysis of those datasets has been carried out by the New Policy Institute.

One point to note is that, for multi-households, poverty is defined for the group as a whole, with the income from all households added together.

Work

‘Work’ means paid work. Full-time work means 31 or more hours per week.

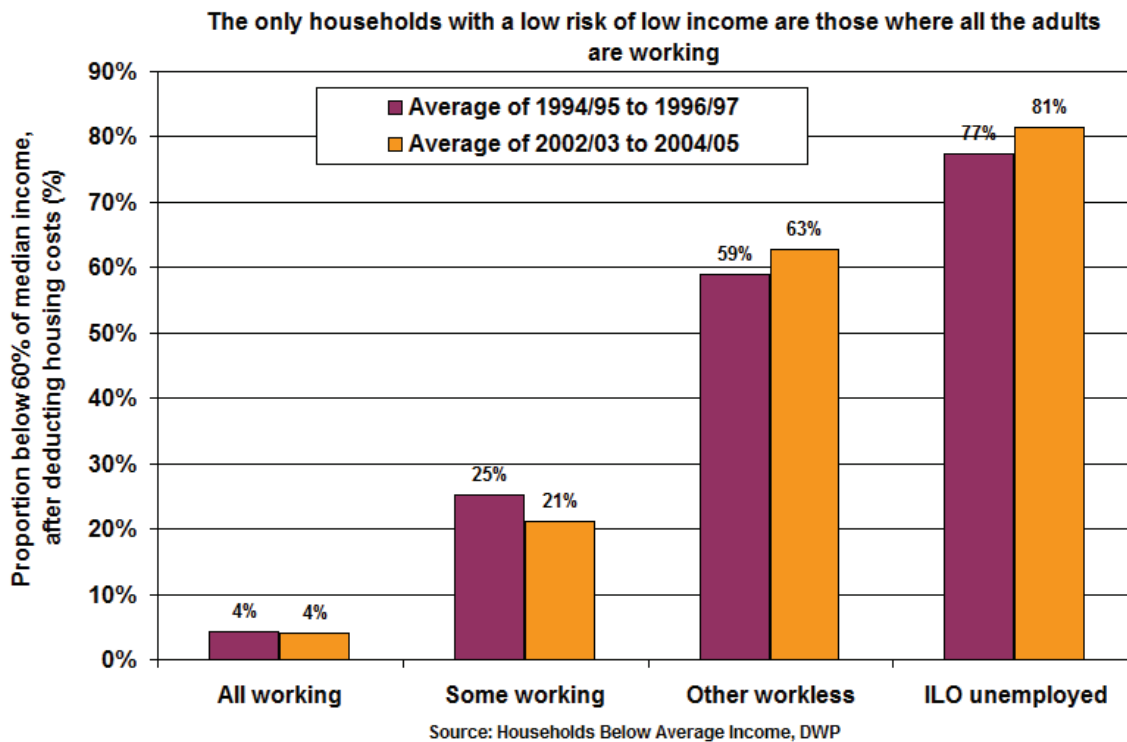
3.2 Risks of poverty for working-age households

Figure 1 shows the main features of poverty among working-age households, whether they are in work or not. The risks are shown for two, three year periods: 1994/95 to 1996/97 and 2002/03 to 2004/05. Four groups of households are shown:

- ‘all-working’, that is, a single adult working full-time or a couple where both work, at least one of them full-time;
- ‘part-working’, that is, all other households where some paid work is being done;
- ‘ILO unemployed’, that is, where no one is working and at least one adult is unemployed, looking for work, and ready for work; and
- ‘other’, that is, non-working lone parent households and non-working households where someone is long term sick and disabled.

For the purposes of this analysis, households where one or both adults are aged 60 or over, or where the household is categorised as self-employed, are excluded.

Figure 1: risk of poverty among working-age household, by work status and over time



At first sight, a comparison of the four groups might appear merely to confirm the common-sense view that workless households face a far higher risk of poverty than working ones. While this is true, however, there are some important differences of detail. In particular:

- Households counted as ILO unemployed face a much higher poverty risk (81% in 2002/03 to 2004/05) than other workless households (63%), due to the fact that some of those in the latter category will have other sources of income (e.g. additional state benefits for disabled people) as well as private sources of income.
- Only 'all-working' households enjoy a very low risk of poverty (4%). By comparison, part working households face a significant (21%) risk.

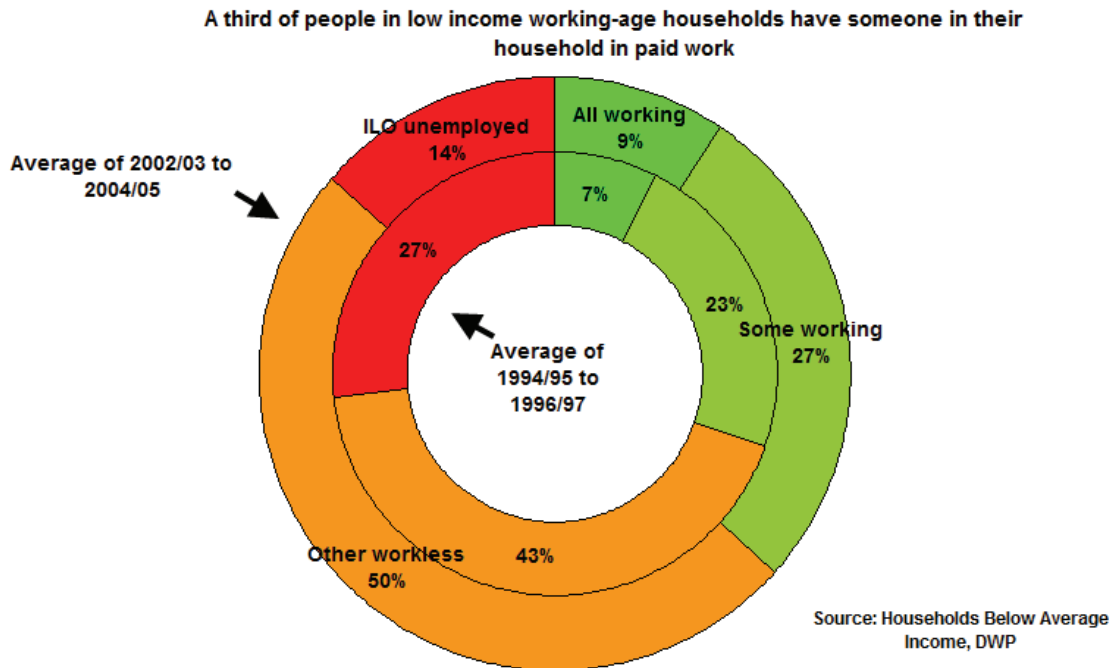
The risks/percentages for Wales differ little from those for GB as a whole

These risks have changed little since the mid-1990s. One important implication of this is that the overall fall in poverty seen since the mid-1990s has come about because households have moved from higher risk to lower risk categories, rather than because the particular risks in each category have been reduced. In other words, poverty has come down either because of a move into work (that is, from unemployed or other workless to full- or part-working), or because of an increase in the amount of work being done in the household (that is, from part-working to full-working).

Figure 2, drawn for people in working-age households, shows the proportion that are in poverty according to the household's work status. They show that:

- 36% of the people in working-age households living in poverty are in 'working' households, three quarters of them (27%) in the 'some working' category; and
- the proportion of working households of working age living in poverty is higher than it was in the mid-1990s, when the share was only 30%.

Figure 2: the share of working-age households in poverty, by work status, 1994-97, 2002-05



It is, however, important to note that while the ‘working’ household share of poverty has risen, the absolute number of such households has not risen. Rather what has happened is that the number (and therefore share) of the non-working households who are in poverty, especially those counted as ILO unemployed, has fallen sharply.

3.3 Conclusions

In sum, around 160,000 people in poverty in Wales belong to households where someone is doing paid work.¹⁶ Of these, 40,000 are in all-working households, and 120,000 are in part-working households. These numbers are little different from a decade ago. However, since the number of workless, working-age households in poverty has fallen over the period, ‘in-work poverty’ is now relatively more important, accounting for more than a third of all working-age households who are in poverty.

The risk of a working household being in poverty is significant where working hours are not maximised, that is if one or more of the adults within the households is not working at all, or if none of the adults works full-time. The only households with a low risk of poverty are those where all the adults work and at least one of them works full-time. The finding from the previous section, that full-time workers tend to have higher rates of pay than part-time workers, will contribute to this.

These findings point to some important potential policy implications.

¹⁶ Note that the numbers here refer to all the people living in poor, in-work households and not just the number of workers in them.

First, if 'back to work' programmes are to get people out of poverty as well as get people into jobs then they need to engage with the work status of the whole household and not just the individual who is to be placed in work. In view of the importance of having all working-age members in the household doing some paid work, at least as far as avoiding in-work poverty is concerned, the Welsh Assembly Government and Department for Work and Pensions could consider exploring ways in which their 'return to work' programmes might be adapted to include other members of a client's household.

Second, the findings highlight the importance of *full-time* work as a means of avoiding poverty for households. Yet in some households, individuals may be unable or unwilling to work full-time, for example because of caring responsibilities for children or other family members. The question of the desirability and feasibility of reliance on households maximising working hours as a means of avoiding poverty is very important, and is explored further in the next section.

4. LOW PAY AND POVERTY

4.1 Introduction

This section discusses the link between the previous two sections on low pay and in-work poverty. Not only is this a link that has been received little attention until now and so our work here is necessarily more exploratory,¹⁷ but it is also more analytical than the two previous sections. Given the resources available to this study, this section should therefore be seen as illustrative of the key issues and suggestive of their magnitudes, but not definitive.

Resources considerations also mean that the analysis is based on the 2003/04 vintage of the Family Resources Survey/Households Below Average Income dataset. As a result, the 'low pay' threshold used in this section is £6 an hour rather than £6.50. Finally, sample size issues also mean that the scope of the analysis is for Britain as a whole, rather than for Wales.

Since it is individuals who have rates of pay while it is households which can be in poverty, the link between low pay and in-work poverty is not direct. In order to clarify the issue, we therefore break the link between low pay and poverty into two parts, namely:

- the link between low paid individuals and low paid households; and
- the link between low paid households and households in poverty.

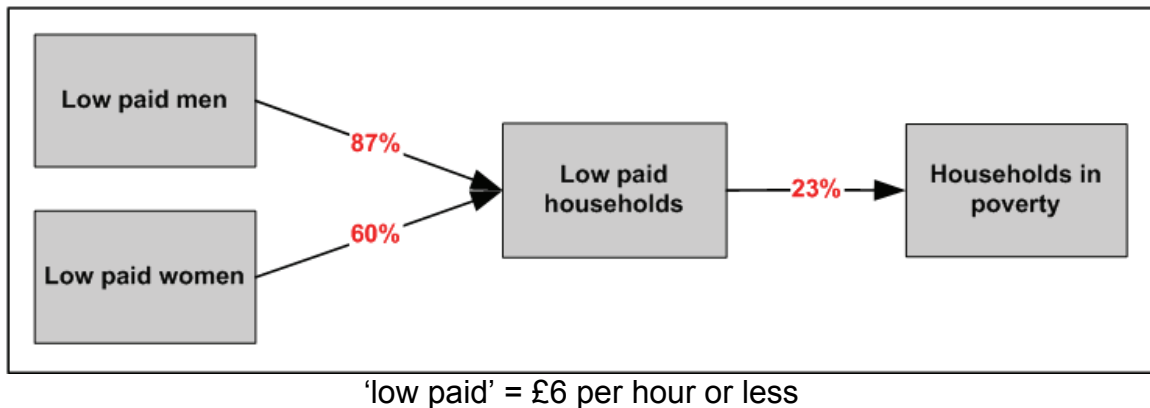
A low paid household is defined as one where the average hourly rate for all those adults who are working is £6 an hour or less.

Figure 3 shows the size of each of these links, separately for low paid men and low paid women. There are two key points to note here:

- while low paid women face a 60% risk of belonging to a low paid household, low paid men face an 87% risk of being in that situation; and
- 23% of low paid households are actually in poverty.

¹⁷ One exception being Jane Millar and Karen Gardiner, *Low pay, household resources and poverty*, 2004, Joseph Rowntree Foundation.

Figure 3: Links between low paid individuals, low paid households, and households in poverty



The first of these points may seem surprising given that women are more likely to be low paid than men. One part of this section therefore probes further into what lies behind this.

The second of these points is sometimes cited to suggest that low pay is actually not a very important issue as far as in-work poverty is concerned. Since such an observation obviously represents a serious objection to the whole focus of this paper, we look at it straightaway, using table 6.

Table 6 classifies the 15,200 households in the dataset according to whether they are low paid (as defined above) and whether they are in poverty. Overall, it shows that 9% of working households are in poverty, whether low paid or not.¹⁸ There are two groups of points.

First, although only 23% of low paid households are in in-work poverty (as per figure 3), 65% of households in poverty *are* low paid. In judging whether low pay is an important factor in in-work poverty, *both* percentages have to be taken into account. One way of looking at them is that the relatively small 23% means that raising low pay is a fairly *inefficient* way of addressing in-work poverty (because most of the beneficiaries are not in poverty in the first place). By contrast, the relatively large 65% means that raising low pay is a fairly *effective* means of addressing in-work poverty (since it would reach two thirds of the households in that situation).

Second, table 6 shows that, as well as there being some low paid households who are not in poverty, there are also some households who are not low paid but who *are* in poverty.

¹⁸ Note that this figure is not directly comparable to those in figure 1 they are for households whereas the data in figure 1 is for individuals.

Table 6: working households in the dataset, by pay and poverty status

	<i>In poverty</i>	<i>Not in poverty</i>	<i>Total</i>	<i>% in poverty</i>
<i>Low paid households</i>	900	2,900	3,800	23%
<i>Not low paid households</i>	500	10,900	11,400	4%
<i>Total</i>	1,400	13,800	15,200	9%
<i>Low paid as households as a % of all households</i>	65%	21%	25%	

4.2 Low paid individuals and low paid households

Why is it that only 60% of low paid women live in low paid households whereas the comparable figure for low paid men is 87% (figure 3)? Tables 7a and 7b show that **two** factors combine to explain this. It shows that:

- low paid men are more likely to be single than low paid women (47% compared with 37%), and
- low paid men who live with their partners are fully twice as likely as low paid women in that situation to live in a low paid household (77% compared with 38%).

Table 7a: the risk of low paid women living in low paid households, by single/couple

	<i>Share of all low paid women</i>	<i>Risk of being in a low paid household</i>	<i>Combined share/risk</i>
Single women	37%	100%	37%
Couple women	63%	38%	23%
All women	100%		60%

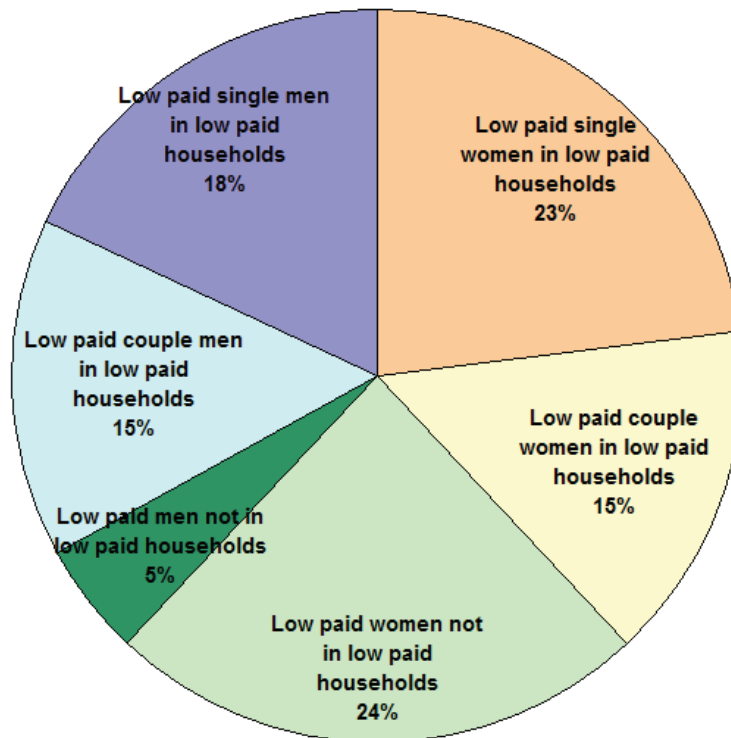
Table 7b: the risk of low paid men living in low paid households, by single/couple

	<i>Share of all low paid men</i>	<i>Risk of being in a low paid household</i>	<i>Combined share/risk</i>
Single men	47%	100%	47%
Couple men	53%	77%	40%
All men	100%		87%

However, although low paid men face a higher *risk* than low paid women of being in a low paid household, there are still more low paid women than low paid men living in low paid households. This is because there are nearly twice as many low paid women in the first place. Figure 4, which shows this, can be summed up thus:

- 62% of low paid workers are women and 38% are men;
- 38% of low paid workers are women living in low paid households; and
- 33% of low paid workers are men living in low paid households.

Figure 4: all low paid workers by gender, single/couple and household pay status¹⁹



Combining the 71% of low paid workers who live in low paid households (figure 4) with the overall 23% risk that low paid households face of being in poverty (figure 3) implies that 16% of low paid **workers** are in poverty. This is comparable with the 14% for 2000/01 suggested by a recent study which used a similar low paid threshold.²⁰ What makes this figure so low is the weakness of the link between low household pay and poverty. It is to understand that that we now turn.

4.3 Hours of work

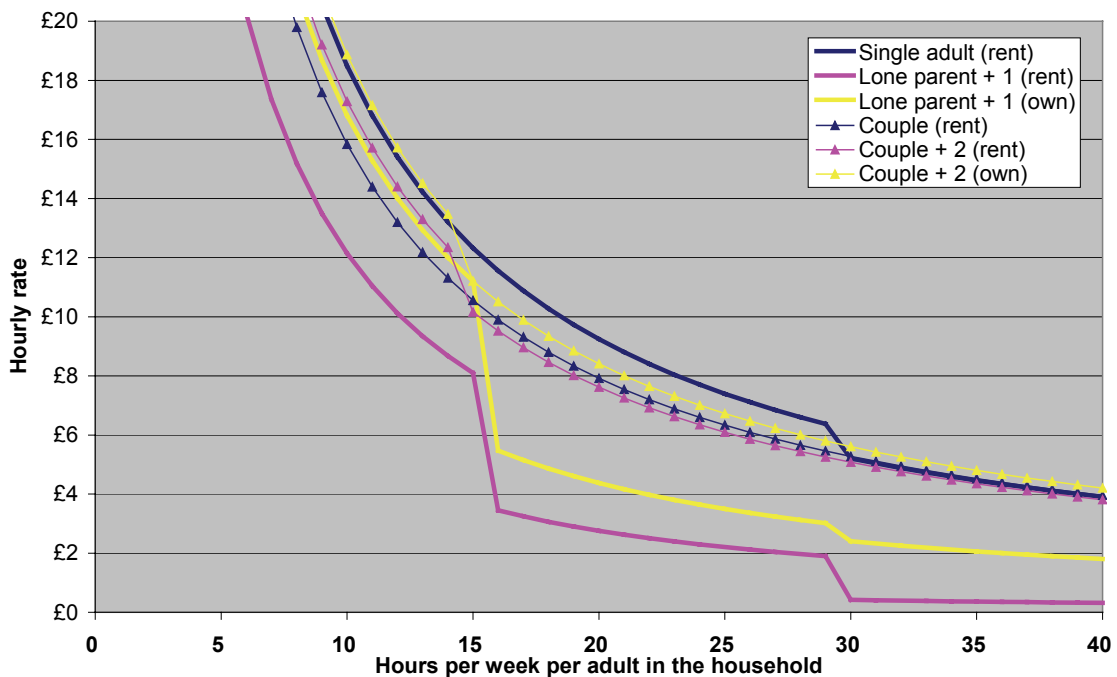
The first reason why a low paid household may nevertheless avoid poverty is if the adults in it work sufficient hours. Figure 5 presents a selection of lines that show the number of hours that different kinds of household have to work at a given wage rate in order to achieve this, and assuming they have average housing costs for their household type and no other source of income besides their earnings. A household whose combination of hours and pay places to the left/below the line will be in poverty whereas one whose combination places it the right/above will not. In this diagram:

¹⁹ These figures come from the data source used for this analysis, namely the Family Resources Survey, which is not the usual source for low paid statistics, including in section 2 of the paper. They differ therefore, although only in detail.

²⁰ Jane Millar and Karen Gardiner, *Low pay, household resources and poverty*, 2004, Joseph Rowntree Foundation, table 17. Miller and Gardiner's study used the Family Expenditure Survey and contained 1,274 low paid workers (table 15) whereas this analysis, using the Family Resource Survey, contains 5,956.

- Each line represents a different household type, depending upon the number of adults in the household, the number of children and whether the home is rented or owned.
- The lines are drawn for hours worked per week per adult in the household.
- Each line assumes the average cost of housing and the average level of council tax paid by such household in 2003/04. These averages are for working households (excluding the self-employed) and are for social rented tenants and for owners who are buying their home with a mortgage.

Figure 5: the combination of hours and rates of pay needed to avoid in-work poverty: various households



A number of points can be made on the basis of this diagram:

- First, any household containing only low paid workers working 15 hours a week or less is in poverty. Working 15 hours, a lone parent with one child, renting their home, needs to earn £8 an hour to avoid poverty while a couple with two children and a mortgage needs to earn £13 an hour to do that.
- Second, the tax credit makes a huge difference to the amount that a lone parent has to earn to avoid poverty if they do work for 16 hours a week or more. A lone parent with one child who pays rent and works for 16 hours a week is out of poverty below £4 an hour earnings. With a mortgage to pay for, £6 an hour earnings is enough.
- Third, the minimum wage is enough to ensure that any lone parent working 30 hours a week can avoid poverty, whether they rent or own. A lone parent paying rent and working for 30 hours a week or more could afford to work for almost nothing and still be out of poverty.

- Fourth, any household where all the adults work 30 hours a week or more needs to earn at most £6 an hour to avoid poverty. This means that low paid, ‘all-working’ household can avoid poverty.
- Fifth, people buying their home need a higher rate of pay to avoid poverty than if they are renting. This is not because housing costs are higher – in most cases they are not – but because housing benefit provides support to those paying rent but not to those buying their home.
- Sixth, while couple parents have to earn more than lone parents, single adults need to earn more than couples living without children if they work less than 30 hours a week. A two adult, two child household would be better off financially if it split into two one adult, one child households, even though total housing costs would be higher.
- Finally, if all adults in a household are working 40 hours a week, the household will avoid poverty even at rates of pay of no more than £4 an hour.

The conclusion here is that it is perfectly possible for the workers in a household to be low paid and yet that household not to be in poverty. In particular, using £6 per hour as the low pay threshold, any lone parent working at least 16 hours a week, or any couple, with or without children, where *both* adults work for at least 30 hours a week, should not be in poverty.

Table 8 shows the extent to which taking account of the hours each household works tightens the link between low pay and poverty. Table 8 is a development of table 6 with households now divided according to whether they work enough hours at their given rate of pay such that they would be expected to avoid poverty.

Table 8: working households in the dataset, by pay, hours and poverty status

	Total	% in poverty
All low paid households (as per table 6)	3,800	23%
Of which:		
Enough hours apparently to avoid poverty	1,900	11%
Not enough hours (expected to be in poverty)	1,900	36%
All non-low paid households (as per table 6)	11,400	4%
Of which:		
Enough hours apparently to avoid poverty	10,650	3%
Not enough hours (expected to be in poverty)	750	27%

The first point of note is that half of low paid households (1,900 out of 3,800) work enough hours to enable them to avoid poverty provided that their housing costs are standard for their type of household. Hours worked is therefore clearly an important reason why low paid households avoid poverty.

That hours worked are only part of the explanation can be seen from the fact that of the other 1,900 low paid households that *do not* work enough hours to avoid poverty, only 36% are actually in poverty. At the same time, 11% of the households who *do* work enough hours are nevertheless in poverty. Though the proportions are lower, a similar pattern can be seen among non-low pay households (27% and 3%).

If hours worked were the only explanation of who is, and who is not, in in-work poverty, these percentages would be much closer to 100% and zero. Since they are not, some other factor must therefore be at play. That factor turns out to be the cost of housing.

4.4 Housing costs

Table 9 takes this analysis a stage further by looking at how many of the ‘anomalous’ cases are due to a household having housing costs that are a long way from the average for the particular type of household. For these purposes, ‘high’ housing costs are a quarter or more above the average for the household type while ‘low’ housing costs are a quarter or more below.

There are two types of anomaly to be explained:

- households who, whether low paid or not, apparently work enough hours to avoid poverty – yet do not do so; and
- households who, whether low paid or not, apparently do not work enough hours to avoid poverty – yet, in fact, do avoid poverty.

The question as far as the former group is concerned is how far this is to do with high housing costs; for the latter group, it is to do with low housing costs. Table 9, a development of table 8, presents this information. It shows that housing costs play a large role in explaining the anomalous cases.

Thus, among the households who apparently work for long enough to avoid poverty yet do not do so, half have ‘high’ housing costs. This is equally true for the low paid households who apparently work long enough to avoid poverty, 11% of whom are nevertheless in poverty, and the non-low paid households who apparently work long enough, 3% of whom are in poverty.

Even more strikingly, low housing costs account for the majority of those households who apparently do not work enough hours to avoid poverty, yet nevertheless do so. More specifically:

- 38% out of the 64% of the low paid households who do not apparently work long to avoid poverty – yet nevertheless do so – have low housing costs;
- 50% out of the 73% of the non-low paid households who do not apparently work long to avoid poverty – yet nevertheless do so – have low housing costs.

Table 9: working households in the dataset, by pay, hours, poverty status and housing cost

	Total	% in poverty	Of which with high housing costs	% not in poverty and with low housing costs
All low paid households (as per table 6)	3,800	23%		
Of which:				
Enough hours apparently to avoid poverty	1,900	11%	5%	
Not enough hours (expected to be in poverty)	1,900	36%		38%
All non-low paid households (as per table 6)	11,400	4%		
Of which:				
Enough hours apparently to avoid poverty	10,650	3%	1½%	
Not enough hours (expected to be in poverty)	750	27%		50%

The conclusion here is clear: housing cost is a *major* factor affecting the link between low pay and hours of work on the one hand, and in-work poverty on the other. In particular, among low paid households who do not work enough hours to avoid poverty, more actually end up managing to avoid it – 38% – thanks to low housing costs than end up in it – 36%.

Further analysis of what lies behind low housing costs, as well as the other sources of income, or indeed deductions, that would explain the remaining anomalies, is beyond the scope of this study, not least because it is clear that assessing what are ‘standard’ housing costs deserves greater attention than it has been possible to give it here. A few observations can, however, be made.

First, one third of the households in this dataset live in multi-households. Such households are much more likely to have non-standard housing costs, either high or low.

Second, because there is little variation in rents within either the private or social rented sectors, low housing costs for working households are almost entirely confined to households with a small mortgage or households that own their home outright.²¹

Third, since this dataset – and hence the conventional way in which poverty is defined – count only mortgage interest payments and not repayments of principal as housing cost, age is likely to be a factor in this story too as it will tend to be older working households who have the low housing costs.²²

²¹ With the exception of lone parent households, working households living in rented accommodation will typically be getting little or no Housing Benefit by the time their earnings approach the income poverty threshold.

²² Note, however, that a household paying off principal may actually be much worse off in cash terms than the official poverty figures suggest.

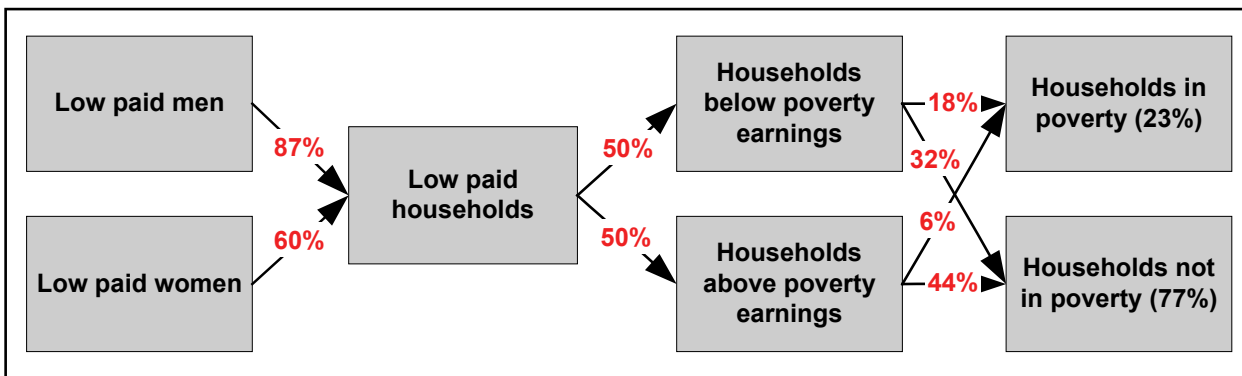
Given the extent to which low housing costs keep households with low earnings out of poverty, the crucial question is how far the households in question are content with their housing arrangements. On the one hand, if housing costs are low because the household already owns its home outright, or is only paying off the last few years of mortgage, that is one thing. But if the costs are low because the household is sharing accommodation, for example when a young adult continues to live with their parents, that is quite another. In this latter case, low housing cost may actually reflect the young adult's inability to afford independent accommodation of their own; poverty is therefore being avoided but at the expense of another problem. Alternatively, if they are living in an area of low housing demand, owner occupiers may well enjoy low housing costs, but they may also be unable to move from that area or have equity for home improvements. 'Low housing costs' may sound rather good but, if it is not in a form of housing that is really wanted, it may actually be a symptom of another problem.

4.5 Conclusions

Figure 6, a development of figure 3 but drawing additional information from tables 8 and 9, summarises the findings of this section. The conclusion that we draw from it is that both the total number of hours of work that a household works and its housing costs play major roles in determining whether low paid households are actually in poverty. Starting with the statistic that 23% of low paid households are in poverty, figure 6 shows that this percentage is as low as it is because:

- first, 50% of low paid households work enough hours to avoid poverty; and
- second, only 18% out of the other 50% who do not work long enough to avoid poverty are actually in poverty.

Figure 6: Low paid individuals, low paid households, hours worked and households in poverty



There are various reasons why these households are nevertheless able to avoid poverty despite low work incomes, the principal one being low housing costs. Conversely, high housing costs are the principal reason why 6% out of the 50% who apparently work long enough to avoid poverty are nevertheless in poverty.

Against this background, the fact that 'just' 23% of low paid households are in in-work poverty appears in a different light. If it is only as low as it is, either because all adults in the households are working full-time so as to avoid poverty (which is roughly what low paid households must do) or because they are keeping their housing costs down by sharing accommodation, then there is no reason to be at all sanguine about this rather low percentage.

From this, we would suggest that there are two questions that need further investigation. First, is it acceptable, desirable and feasible for low paid households, no matter what their circumstances, to have to work in this way just to avoid poverty? Our analysis suggests that any household in which its individual members are not able to work full-time, e.g. if they have caring responsibilities, are highly likely, all other things being equal, to face poverty. Nor is it feasible for adults to work less than full-time e.g. to pursue further education. And if it is not acceptable to expect all adults to work full-time, whatever the circumstances, what might alternatives be?

Second, how far do low housing costs mask problems of housing affordability and supply? The most important issue here is how far households enjoying low housing costs are content with their housing situation. On the one hand, if costs are low because the household owns its home outright, or because the mortgage is old and nearly paid off, then they may be content. On the other hand, if costs are only low because they are sharing a home with another household then low housing costs may actually reflect their inability to find and/or afford a home of their own. As well as producing Wales-specific statistics, therefore, a proper understanding of what lies behind low housing costs is essential.

5. LIVING ON LOW PAY

5.1 Introduction

In order to inform and develop our findings from the analysis of statistics, we held a small number of interviews to explore the experiences and perceptions of low paid workers. We must stress at the outset that these interviews are not in anyway representative nor were they intended to be so.

Our intention was to identify three workplaces to act as case studies, in different areas of Wales. Data about pay, conditions and employment practices at the workplace were to be gathered to supplement data from two group interviews that were to be held at each workplace, one involving 3-5 low paid male workers and one for a similar number of females. We had hoped to secure access to the workplaces and the workers through trades unions, several of which had agreed in principle to facilitate the project.

In the event, trades unions proved unable to help in the way that we had anticipated. The approach was therefore revised to include interviews with low paid workers who had recently entered employment (facilitated by Working Links), low paid workers at North Glamorgan NHS Trust, as well as an interview with union members (facilitated by UNISON Rhondda Cynon Taf). In addition, actual attendance at the group interview was lower than expected and those who did attend preferred to be interviewed in slightly larger, mixed groups rather than small single sex groups. Interviewees who contributed to the discussion in their own time rather than that of their employer, were given a gift voucher as a recognition of their input.

In the end, we held four group interviews with a total of twelve low paid workers, as follows:

- recent employees in Merthyr Tydfil (2 male, 2 female)
- recent employees in Caerphilly (3 male, one female)
- local authority workers in Rhondda Cynon Taf (1 male, 2 female)
- NHS worker in North Glamorgan NHS Trust (1 male)

Of these twelve, seven were male and five were female. Two males (both partnered) had dependent children living with them as did two females (both lone parents). Seven worked in the public sector, and five in the private sector, with occupations including home care worker, relief meals on wheels assistant, kitchen porter, leisure centre assistant, school nursery assistant, warehouse operative, groundworker, factory operative, IT assistant, security guard, and customer service assistant. Five of those we interviewed worked full-time, four worked part-time and three worked variable hours depending on their employers' requirements. Two interviewees (including one who already worked full-time) had a second job, as an emergency social care worker and as a home carer.

The interviews were semi-structured following a common checklist (see Annex 1). We explored three broad areas of interest: attitudes to their current job, attitudes to pay and strategies for increasing pay; and the impact of low pay on their household circumstances and lifestyles.

5.2 Attitudes to pay

We did not ask interviewees about their hourly or weekly earnings, or number of hours worked, but all of those we interviewed earned less than £6.50 an hour and most did reveal their pay and hours in the course of discussion. At least four were on the National Minimum Wage of £5.05 an hour (for over 21 year-olds).

Five interviewees worked full-time. Even then, working 37 or more hours a week did not generate pay of more than £230 for any of them. Although we did not inquire about their housing costs, net pay or the income of others in the household, the level of our interviewees' earnings is unlikely to be enough to lift them more than marginally above the poverty threshold, if at all. Three examples illustrate this:

- Single male warehouse operative, £5.05 an hour, approximately 40 hours a week, giving gross weekly earnings of £202. He also received working tax credits. He pays rent of £57 a week. (The net income required after housing costs for a single person to avoid poverty is £100 a week).
- Male kitchen porter, with partner and one dependent child living with them, earning just over £6 an hour for 37 1/2 hours a week, giving gross weekly earnings of £226. (To avoid poverty, a couple with two children needs a net income of £268 a week after housing costs).
- Female customer services assistant, with a partner, on minimum wage, working 40 hours a week, giving gross weekly earnings of £202, plus pay as an emergency social care assistant when called out. (To avoid poverty a couple needs net income of £183 a week after housing costs).

Given these low rates of pay, and the correspondingly low weekly wages, it was surprising that some of those we interviewed seemed relatively content with their pay.

I get about £6 an hour which I think is quite good.

Home care worker (f)

Good job, good place, decent pay

IT assistant, (m)

Several of those working in the public sector said that the conditions, especially pension provision, were some compensation for the poor pay.

I have worked for a factory where I got no pension or anything so working for the council is good and the pay is good.

Relief meals on wheels assistant (f)

For two individuals, their concern was with the impact of their variable hours rather than the rate of pay itself:

It's a tidy hourly rate but the hours are no good.

Relief meals on wheels assistant (f)

The way it is at the minute I could have nothing one week.

Relief meals on wheels assistant

However, others felt that their pay was not fair and did not reflect the level of responsibility that they carried or their sheer hard work:

I feel like I am being ripped off

Factory operative (m)

Given the experience I've got and being in charge of a team I feel I should be worth about £10 an hour

Warehouse operative (m) on minimum wage

The cleaners get more than I do. It seems unfair as it is a hell of a lot of responsibility needed to look after 20 kids.

Nursery assistant (f)

People don't realise the responsibilities we have. We are the first step in the food chain. If anything happens in regard to the food it could have a real knock on effect. ... The pay isn't fair for what we do.

Kitchen porter (m)

We asked the interview groups what they felt would be a 'good' rate of pay for their work. Their ambitions were astonishingly low, with all but three of those we interviewed concluding that a weekly rate of £250 a week or an hourly rate of £6-7 an hour would be a 'good' rate.

£250 – that's a tidy sum every week

Customer care worker (f)

A good rate of pay would be £250 a week – that would be my dream amount. Just enough to pay everything and still have a few pints.

Factory operative (m)

I think it would be fair if I was on £6 or £7 an hour.

Nursery assistant (f)

The three (all male) who suggested a higher rate were hardly aiming high, as they proposed £10 an hour as a 'good' rate:

An ideal amount would be about £10 an hour as this job isn't easy work.

Ground worker (m)

I feel I should be worth about £10 an hour.

Warehouse operative (m)

5.3 Attitudes to work

Despite their low pay, our interviewees said that their jobs were mostly enjoyable, worthwhile, and – above all – gave them a sense of self esteem and an income.

I was unemployed before this, I had no home, no anything and then I got this job. I had pretty much given up on myself and they gave me my faith back. It has given me a better peace of mind, a better quality of life

Warehouse operative (m)

I now get up in the morning and feel happy knowing I have a job I enjoy. Before I used to wonder how I would get the day in and it was the same old thing. I can say to people 'I'm doing it all for myself, I'm enjoying it.

Nursery assistant (f)

I enjoy my job, I don't want to leave it.

Home care assistant (f)

I could easily give up work like others do but I like being away from home for the two days [that I work].

Security guard (f)

That said, five of our interviewees (all people who had returned to work with the help of Working Links) saw their current jobs simply as a stepping stone to something better paid – their ambitions ranged from becoming a police officer, to a social worker, to a ground worker, self employed landscape contractor and a nursery nurse. Their current roles gave them an income and experience in a relevant field, albeit that entry to their preferred job was in one or two instances some way off.

Others were reasonably content to stay in their jobs, not least because the job was 'the devil you know' and also because of the perceived lack of anything substantially better in their localities.

It's hard finding a job – there's not many out there.

Security guard (f)

Sometimes I get days when I wish I was out of here but usually I think it is OK. If I was younger I might change my career but now that I'm past 40 I feel settled. There are two boys in the kitchen, one is 23 and the other is 26, and I think if I was their age I wouldn't be doing the job.

Kitchen porter (m)

All said that their employers offered the training they needed to do the immediate job. However no-one said that their employers offered any training which might enable them to progress either within the organisation or more generally (the exception was one person who was following an NVQ childcare course), nor were any of our interviewees currently following further training or education. However, a number of people who had recently entered employment had followed short courses of various kinds in order to get work (facilitated by Working Links). These ranged from training as a gym instructor and in IT, to courses to secure licenses for security guards or construction skills certification scheme cards.

The question of education and training for employees is a vexed one which is beyond the scope of this paper to address. Nevertheless, our interviews suggest that a great deal more needs to be done to help employees, and especially low paid employees, to undertake further education and training not least as a potential route into higher paid work.

5.4 Attitudes to hours

Our analysis in section 4 demonstrated the critical importance of hours of work to whether or not households were in poverty. Four of those we interviewed worked part-time (less than 30 hours a week), including two lone parents and two males. Here, low hourly rates of pay combined with fewer hours of work to give some of our interviewees very modest weekly wages indeed – for example one male worked 28 hours a week as a leisure centre assistant at £5.80 an hour, giving him a gross weekly wage of £162.40. Although he lived with his mother and had fewer outgoings than if he maintained a separate household, he existed close to if not in poverty.

Three people we interviewed worked variable hours, only one of them with a guaranteed minimum number of hours. Indeed, two of the three people who worked variable hours said they sometimes found themselves with virtually no pay at all some weeks. It is hard to underestimate the impact of this employer flexibility on the people concerned:

I could be busy for three months but then sometimes very little for a month.

Factory operative (m), who said that in the week preceding the interview he had taken home less than £100

Sometimes you can go for weeks without [extra] work. I just have to try and cut spending down but it's just getting worse.

Home care worker (f)

The way it is at the minute I could have nothing one week.

Relief meals on wheels assistant (f)

The home care worker quoted above was contracted for a minimum of 16 hours a week at £6.42 an hour, giving her gross weekly pay of just £102.72 a week, although she was sometimes asked to work 28 hours a week which would give her a more reasonable but still modest £179 a week. She had a second job, but this too was 'flexible', making her circumstances very difficult indeed.

The lack of hours on some occasions – and hence lack of pay – was a serious concern for the three individuals, two of whom had joined and become active in a trades union as a result. All three people perceived that management tactics were depriving them of work, with systems for allocating hours or preventing continuity of employment being perceived as unfair and designed to deprive them of their rights.

You work for 15 weeks then they lay you off then hire you again. There is no contract.

Factory operative (m)

If the work is there, I should be offered it before people who have only started recently.

Relief meals on wheels assistant (f)

The job itself is great, there's just not enough hours... The problem is that ... if you are contracted to work 16 hours they don't have to give you any more.

Homecare worker (f)

For this group of people, hours mattered much more than pay rates. This is understandable – two hours extra work a week for a home care worker produces more money than an (unthinkable) 10% pay rise.

As shown in section 4, an obvious means of increasing earnings is to work for longer hours, either as overtime, extra hours or in an additional job. Four of our twelve interviewees already worked more than their basic hours in some shape or form: two held second jobs, one worked planned overtime on alternate weekends, and another worked overtime on an ad hoc basis (sometimes doing a 17 hour shift).

I am basically working all the hours I can

Customer service assistant / emergency social care worker

A further three said they would like to work more hours but did not have the opportunity:

I would like overtime but there isn't any going at my place. They squash all the hours into the working week.

Ground worker (m)

Five of our interviewees said they were not particularly interested in working additional hours. In two cases, this was because they were lone parents who felt they had achieved an acceptable work-life balance with their current hours which they did not want to disrupt, whilst two of the three others were males who had other income coming into their households:

People ask me why I don't get another job but I don't want to be one of these mothers who doesn't see her daughter. I just want to be able to go to work and be able to go home to see her.

Nursery assistant (f), working 16 hours p.w.

Money is not an issue for me, so long as I can get by I do not mind so much. It's not worth doing just for additional money.

Warehouse operative (m), working 40 hours p.w.

Indeed, sustaining a work-life balance was important even for those who were already working additional hours, and was cited by men with children as well as by women:

When the baby comes along, I will have to work longer hours which means I won't see the baby as much. In an ideal world I would work Monday to Friday but be free at the weekend.

Factory operative (m)

I couldn't change my job [to one with better pay but different shift arrangements] without upsetting the applecart.

Kitchen porter (m), currently works alternate weekend shifts which fitted in with care of his 3 year old child and partner's working patterns

I only work two days a week which is good for me and good for my daughter.

Security guard (f)

Our interviews suggest that there are part-timers on low wages who are solely dependent on their earnings, yet the tax credit system requires single people to work for 30 hours a week or more before they are eligible. Section 3 showed that households where no-one was working full-time were at a significant risk of poverty.

Our findings suggest that hours matter a great deal to those on low, and probably matter more than percentage pay rises. It appears that working additional hours is a common strategy to increase pay, with some low paid workers already working additional hours – either as overtime or in a second job - to increase their earnings. However not all workers are able to work extra hours in an existing job, either because their employer does not offer them or because their own circumstances prevent them from doing so. In other words, working additional hours is a strategy that is not open to everyone.

Our interviews also suggested that whilst 'flexible' working arrangements may suit employers it can cause severe difficulty for employees whose earnings fluctuate wildly and may find it difficult to take on additional work.

We found that work – life balance matters to everybody, whether male or female, high paid or low paid, with or without children. People make their own compromises between work and income.

5.5 Household arrangements

Our interviewees covered a wide range of different household arrangements. Three lived alone, and two lived with a parent or parents. Two were lone parents. A further five lived with an earning partner, two of whom had dependent children living with them. Four lived in privately rented housing, two in council housing, and two owned their own home.(the tenure of the accommodation of other four is not known).

All our interviewees who were self supporting reported that money was tight:

After paying everything out I have £20 a week left. ... If I have a bill to pay I often can't go food shopping.

Factory operative (m), living with partner and expecting first child, private rented house

I'm struggling with the mortgage as when I first took it out I was getting double what I am now. I dread opening the post to see the bills.

Home care worker (f), single, no children, living in house with mortgage (sublets a room to a tenant)

My partner earns not much more than me and it can be a struggle even though we have no children. ... I'm scraping the bottom of my purse for money.

Customer service assistant (f), living with partner in private rented house

It sometimes feels like I am sinking and trying to keep my head above water. ... I often have to borrow from my parents to pay for things.

Nursery assistant (f), single parent, tenure unknown

Without prompting, they described the way in which they budgeted their limited income, including their preference to be paid weekly rather than monthly, and for pre-payment gas and electricity meters:

With a meter you know how much you are using. What you put in is what you get. You don't get into debt.

Factory operative (m)

As soon as I get paid monthly it goes on rent, bills and council tax.

Security guard (f)

Unexpected items, including the cost of dental and optical care, were a particular burden:

I had to pay for the dentist the other day and it was a shock as I didn't have to before

Nursery assistant (f)

Things like the optician cost a lot

Warehouse operative (m)

The exceptions to these accounts of hardship were the two interviewees who lived in the parental home, and the three interviewees whose partners were earning a higher wage. For example, one individual who worked as an IT assistant did not pay rent or bills to his parents and only had to pay the costs of running a car, leaving him relatively well off compared with his peers:

I don't pay any rent. But I do spend about £100 a month on petrol, which is quite a lot.

IT assistant (m)

What I earn from meals on wheels is only really used for extras. I am used to a high wage so I like to have it. You couldn't live on this income anyway.

Relief meals on wheels assistant (f)

Everybody has difficulty with bills but I would say that we are reasonably stable.

Kitchen porter (m)

As well as less worry about paying the bills, people's aspirations were relatively modest and included such items as Sky TV, a holiday, a new car and items for children. In addition, there was a widespread desire to earn enough to be able to afford to buy a house:

I privately rent my house. I have had the same house since I was 15 and I'm now 32. I would buy my own house if I had the money.

Ground worker (m)

Rent is money down the drain. I would rather be paying for my own house. That way you can do what you want.

Factory operative (m)

I would leave home if I had the money.

IT assistant (m)

If I had the money I would improve my house. I like the area but I would like to fix the windows. Just those improvements would make me happy.

Nursery assistant (f)

Whilst we did not ask about household income and poverty it was clear that some individuals and households lived very modestly indeed and struggled to make ends meet. The interviews suggested that household arrangements were influential, particularly for those living with parents who appeared to have lower outgoings or who were older and had another source of income.

5.6 Tax Credits

Four of the people we interviewed were receiving tax credits. They made a huge impact on their income.

I get money every week from tax credits. They're what I live off week to week.

Security guard (f)

I've put the forms in for working tax credit. Without getting it I would have to think about quitting the job.

Nursery assistant (f)

My situation is better now that I get tax credits. If I didn't get them the job would be worth doing as it is hard graft for little money. ... it gives me an extra £45 a week.

Ground worker (m)

Tax credit has made the difference. Before I couldn't manage. It makes that much difference with helping pay the bills.

Warehouse operative (m)

The two lone parents had arranged their working hours in order that they received working tax credit:

The only reason I work part-time is due to the extra £150 a week [tax credits].

Security guard (f)

Several other people we interviewed appeared to be eligible to receive working tax credit and / or child tax credit but they were unaware of the scheme or believed that their incomes were too high. In fact, a single person with an income of £175 a week (e.g. someone working 35 hours on the minimum wage) can receive over £11 a week in tax credits. A couple with one child and no childcare costs earning £296 a week between them can receive £32 of credits a week.

However, two of our single interviewees were working just under 30 hours a week, which meant that they were not eligible for tax credits. These people suffered from working relatively few hours (both would accept more hours if they were available) on low pay rates, and yet were ineligible for any financial help. For example, if the leisure centre assistant, who worked 28 hours a week at £5.80 an hour, worked just two additional hours work a week he would be able to claim £11.33 a week in working tax credit, boosting his income by almost £100 a month for just two more hours work a week.

These interviews suggest that tax credits do make low paid work more acceptable, and that they significantly improve the quality of people's lives. However, the findings suggest that there is widespread ignorance about and under-claiming of credits.

5.7 Other income factors

Our interviewees commented that they faced the additional burdens of transport costs and childcare costs. Two interviewees did not drive and relied on public transport and taxis to get to and from work, with considerable expense. Others pointed out that they had to run a car as their workplaces were either not on bus routes, or their working hours fell outside the times when buses operate e.g. before 8 a.m. and after 6 p.m.

The job is about 6 minutes from the house. I use my car because the buses aren't reliable and I wouldn't be able to get home dependent on the shift.

Warehouse operative (m)

I work about 4 or 5 miles from where I live. I couldn't always reach work if I had to get the bus as I do such different shifts.

Leisure centre assistant (m)

Childcare costs were also mentioned as being a major element in household budgets, even with 70% being reimbursed by child tax credit where applicable.

With the baby on the way we have put aside money for the crèche. It will cost about £80 for the first month.

Factory operative (m)

I pay £60 a week for a private nursery.

Security guard (f)

5.8 Conclusions

This section demonstrates the impact of low pay on individuals and households. Even though some of those we interviewed may not have technically been in poverty, they appeared to be enjoying a modest lifestyle. Some key points to emerge are:

- the importance of paid work to the self esteem of workers;
- the impact of hours of work as well as the rate of pay on low paid workers' incomes and lifestyles, the consequent concerns about how those hours are allocated to workers and the value attached to being able to work just a few hours more than normal a week. This is the individuals' experience of the wider link between hours of work and poverty that was explored in section 4;
- the modest aspirations of low paid workers to earn more; and
- the importance of tax credits in making low paid work acceptable, the lack of awareness of them and the sharp edges in the rules which leave some people missing out on a lot of money because they are working slightly too few hours. Given this, the Welsh Assembly Government and other public sector employers together with HM Customs and Revenue could therefore explore ways in which awareness and take up of tax credits can be increased.

ANNEX 1 INTERVIEW CHECKLIST

Introduction

Introduce ourselves – VW, MM, PK and PB - work for research organisations – one London, one Tredegar – which aim to try to improve people's lives by coming up with ideas for governments to take up.

The project

In this project, looking at what needs to be done to improve the quality of life of people who earn less than £6.50 an hour – both at work and in their families.

Done number crunching, now holding discussions with 6 different groups of people who earn this sum to find out what you think.

Working Links kindly agreed to help us to find people to listen to, which is why they invited you to come along.

Confidentiality

We will take notes of what you say to help us to remember, but everything you say is confidential to us. It will not go any further.

What we find will be written up into a report which will be available to anyone who wants it. But we will not link anything you say with your name or anything else that might allow you to be identified in the report.

What happens now?

We have got a list of questions that we would like to cover, which we will ask as we go along.

The idea is for everyone to have their say as and when they want to – you don't need to wait to be asked or for your turn.

We'll finish at about [insert time] and at the end we have some vouchers as a thank you for your time.

Experiences of / attitudes to employment?

- Ask each participant to say a little bit about their current job, how long they've held it and previous employment / unemployment.
- What are the good things about your current job?
- What things are not so good about your current job?

Experience of / attitudes to training / job change?

- Do you see yourself in the same job in a year's time? What is likely to make you leave this job? What would you look for in a new job? If you are not in the same job, what else might you be doing?

- Does your job offer any opportunities for training? Would training mean more pay? What would encourage you / discourage you from further training?

Experiences of / attitudes to pay?

- What do you think of your current rate of pay? Is it 'fair'? Does it reflect your own skills and experience? Does it reflect what you do for your employer? How does it compare with other similar jobs around here?
- What do you think is a 'good' rate of pay? Do you think you might ever earn that amount?
- About how many hours a week are you working?
- Are there opportunities for you to earn more in your current job by working more hours? Would you work more hours? Why / why not?

Impact of earnings of household?

- How many adults are there in your household (counting those age 16-17 not at school as adults)? How many of them are working?
- Do you share your pay with other adults in your household / do they share their earnings with you?
- Do you feel your household has enough money to pay the bills, for water, electricity or gas, council tax?
- Do you feel your household has enough money to pay the rent/mortgage?
- If you were paid more, would you live differently (e.g. different house, not share etc)?
- Do you feel your household has enough money to afford some luxuries like days out or a holiday?
- Do you pay someone else to care for your children while you work? Why / why not? What impact on household income?
- Do other people in your household affect the job you do e.g. what hours you can work? How?

Experience of, and attitudes to, tax credits?

- Do you receive tax credits / or are you eligible to receive tax credits?
- If you receive credits, what effect have they had on your household? Have you had problems with them?
- If you receive them, have credits affected what you think of your current job?
- Would getting tax credits (or not) affect what you might look for in a future job? (e.g. pay rates? Hours of work?)

ANNEX 2 A NOTE ON DATA SOURCES

All the data in the main report comes from UK Government surveys, in each case using the survey that is agreed to be the most authoritative for the subject being analysed.

Data about low pay

Most of the low pay data in the main report comes from the Annual Survey of Hourly Earnings, with some additional limited use of the Labour Force Survey.

Annual Survey of Hourly Earnings (ASHE)

The Office for National Statistics's (ONS's) recommended source for data on low pay in Wales is ASHE.

The UK Government's documentation of this survey can be found at the ONS website using the URL <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=13101>.

The actual ASHE dataset is not publicly available. Outside researchers therefore have to rely on the UK Government's published tables. These are extensive and can be found at <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=13101>.

In addition, researchers can place data requests to ONS. These are largely restricted to geographic breakdowns for those tables which are only published on the UK-wide basis. Some of the statistics in the main report come from such a request, breaking down low pay by age group for Wales only.

Note that:

- Non-vatable companies were only included in the ASHE survey for 2004 onwards. Data for 2003 and earlier is therefore not strictly comparable with that for 2004 onwards.
- ASHE only goes back to 1997, and the data for 2001 and earlier is more limited than for 2002 onwards.
- Many of the tables can also be obtained by the ONS NOMIS website <http://www.nomisweb.co.uk/>. Note that this website requires registration.

Labour Force Survey (LFS)

ONS does not generally recommend use of LFS for low pay statistics because of the high non-response rate. However, because the dataset is publicly available, it allows for much more flexibility of analysis. It is for this reason that the statistics in the main report on low pay by occupation and industry in Wales come from LFS rather than ASHE.

All the LFS datasets, plus supporting documentation, are available from www.data-archive.ac.uk/. This website requires registration.

Data about poverty

All of the income poverty data in the main report comes from the Households Below Average Income dataset.

Households Below Average Income (HBAI)

ONS's recommended source for data on income poverty in Wales is HBAI, a dataset which is itself derived from the Family Resources Survey (FRS). This is a sophisticated dataset which combines data about individuals, benefit units and households to calculate every household's income on a like-for-like basis. This involves a process called 'equivalisation', whereby household incomes are adjusted to reflect the fact that, to have the same standard of living, a family of four (for example) requires more money than a family of one but not four times as much.

Use of the HBAI datasets themselves, rather than the annual published HBAI reports, is recommended because the UK Government occasionally changes and re-publishes the datasets without re-publishing the reports. So, for example, old HBAI reports use a different method of weighting than the most recent reports. In a Welsh context, use of the datasets rather than the published reports becomes mandatory as the published reports only contain a very limited amount of Welsh-only analysis.

The datasets also contain information about individuals' pay rates, working hours, tax credits, housing costs, etc, thus allowing the types of sophisticated analysis presented in chapter 4 of the main report. Furthermore, data from HBAI can be linked with the data for the same individuals/households in FRS.

All HBAI datasets, plus supporting documentation, are available on request from the Department of Work and Pensions (George.Johnson@dwp.gsi.gov.uk, 020 7712 2781).

All the FRS datasets, plus supporting documentation, are available from www.data-archive.ac.uk/. This website requires registration.

Data about jobs

There is very limited jobs data in the main report.

Labour Market Statistics (LMS)

ONS's recommended source for data on jobs in Wales is Labour Market Statistics. These statistics are, in turn, derived by combining data from a variety of surveys including the LFS (a survey of people) and the Annual Business Inquiry (a survey of employers).

LMS is published monthly and is available at www.statistics.gov.uk/onlineproducts/lms_regional.asp.

Note that the LMS estimates are subject to substantial revision from time to time.

Labour Force Survey (LFS)

ONS does not generally recommend use of LFS for job statistics because it is a survey of people rather than jobs. Difficulties therefore arise when people have more than one job or where a job is shared by more than one person. Rather, it is precisely to deal with these difficulties that LMS combines data from a variety of sources including LFS to come up with job estimates.

The main report only includes one set of statistics on jobs (table 2) which were taken from Stats Wales, which in turn took its data from the 2004 LFS.

All the LFS datasets, plus supporting documentation, are available from www.data-archive.ac.uk/. This website requires registration.