



Final report

**Exeter City Council  
Cost of Living Forum**

Produced by Marchmont Observatory  
University of Exeter

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## EXECUTIVE SUMMARY

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### Introduction

This research study was commissioned by Exeter City Council and the Cost of Living Forum to:

- Gather evidence to establish a baseline on wages and the cost of living in the City of Exeter.
- Gather and analyse evidence on the impact that low wages and high relative cost of living has on residents in the City of Exeter (taking a broad perspective on impacts and to include Health and Wellbeing).
- Explore (in partnership with a broad range of stakeholders) strategies and solutions to problems identified, following the extensive evidence gathering exercise.

The findings contained within this report are informed by analysis of official statistics, review of research and strategy documents and responses from on-line surveys that have gathered the views of local residents, employers and stakeholders.

### Household income and wages

Living standards in the UK remain below pre-crisis levels with little prospect of a strong recovery over the next few years. According to the Office for Budget Responsibility's (OBR) own projections, real earnings are not expected to return to their 2009-10 levels until 2018-19.

Regular monitoring of real changes in household income and earnings at the local level is problematic due to lack of official data combined with the prohibitive costs associated with the gathering of such evidence. Earnings data from the Annual Survey of Hours and Earnings provides the best prospect for local monitoring although year-on-year changes are generally statistically insignificant for smaller geographies (such as Exeter District).

Average earnings of Exeter residents are below the national average, although the average earnings of employees working for Exeter-based employers are broadly on a par with the national average. The higher earnings of the workplace population, reflects their higher share of employment in higher-skilled occupations such as managers, senior officials and professionals.

According to the conventional approach to measurement, more than one-fifth of the population, nationally, is living in relative poverty although in some parts of Exeter the figure is as high as 30%. The percentage of the working age population receiving selected Department for Work and Pensions benefits is a useful proxy for poverty as it is updated regularly. Exeter residents are less likely to be claiming these benefits than the national average. Our calculations suggest that almost one-fifth of Exeter households are claiming housing benefit.

## **Cost of Living**

There is no definitive approach to measuring the cost of living although consumer prices ('inflation') and the Minimum Income Standard are commonly used. According to the CPIH<sup>1</sup>, prices rose by almost 24% between 2010 and 2013. The cost of many household essentials such as gas, electricity and food and drink rose faster than prices generally. The average household spends one-fifth of its household budget on housing, rising to one-quarter if fuel and electricity is included.

The Minimum Income Standard estimates the cost of providing a minimum socially-acceptable standard of living for different households. The spending needed to reach an acceptable living standard according to MIS has risen by a quarter or more for various households, while earnings have hardly risen at all. A single person earning the National Minimum Wage would earn 70% of that required to provide an acceptable standard of living.

Changes in housing costs have had a significant impact on living standards since the recession with 'mortgage paying owner occupiers' seeing the real cost of their interest repayments falling while average rents have stagnated.

Mean (average) house prices in Exeter are below the national average although the median (the figure where 50% are less and 50% are greater) sold price is broadly on par with the national average. By contrast private sector rents are higher than the national average particularly for larger properties. Social rents and Council Tax are lower than the England average.

## **Housing affordability**

Not all households pay rent or have a mortgage. Within Exeter, this includes the 31% of households that own their home outright or live rent free. This rises to 70% of households where the head of household (the 'Household Reference Person') is retired and/or aged over 65.

Lower incomes and higher average house prices combine to make home ownership in Exeter less affordable than the England average. Lloyds Bank plc ranks Exeter as the 11th least affordable city in the UK in 2014. It is worth noting that as the Department of Communities and Local Government (DCLG) calculated house price to earnings ratios using workplace-based earnings estimates, these generate more 'affordable' results for Exeter than those based on residence-based earnings data, so the picture is slightly worse than the DCLG figures suggest.

Generally, housing costs are deemed 'affordable' if they account for less than 35% of disposable income. The Resolution Foundation explored housing affordability across four tenures for three stylised family types across local authorities in England. It found that shared ownership and social housing were affordable for couples and families on very low incomes in Exeter but only couples with children on median incomes and couples without children on low incomes could afford to rent privately or own their own home in the City.

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<sup>1</sup> A derivative of the Consumer Price Index which includes owner occupied housing cost.

While the 'affordability' of monthly repayments is useful in comparing the affordability of housing across tenures, the affordability (or otherwise) of home ownership is largely constrained by house prices, mortgage lending criteria and the size of deposit required. Our calculations suggest that while the monthly repayment on an average one-bedroom flat in Exeter is theoretically affordable for a single male on median earnings, the house purchase would require a deposit of £43,000<sup>2</sup>. A 10% deposit of £9,500 would generate a budget of around £92,000. This is substantially below the average price of a one bedroom flat in the City (£126,000).

Similarly, a dual earning couple on median earnings would need a deposit of over £85,000 to afford an average two-bedroom house in City (again based on a mortgage advance to income multiple of 3.28). In both cases, the estimated mortgage repayments are lower than average private rents for similar sized dwellings however the size of deposit required is likely to make home ownership prohibitively expensive for many residents. The 35% affordable threshold for monthly repayments will become more significant as interest rates rise.

Our calculations suggest that a male full time employee on median earnings could just about afford to rent a one bedroom property in Exeter in the private rental market. A single person working 40 hours a week on the National Minimum Wage would only just be able to afford the average price of a room in a shared house. A family comprising one male full-time employee and one female part time employee both on median wages with two children aged under 16 could notionally afford a three-bedroom property – based on an affordability threshold of £893 per calendar month. This size of accommodation would not be affordable, however, for many families earning less than median incomes. The same family earning the minimum wage<sup>3</sup> or combined earnings at the 25<sup>th</sup> percentile<sup>4</sup> would theoretically receive enough through wages and benefits to afford a two bedroom property.

### **Characteristics associated with low housing affordability**

Conventional, housing affordability indicators are not available by household characteristics, however, the HBAI-based estimates of low income after housing costs provides a detailed assessment of the risk of poverty once *housing costs have been deducted*. The characteristics associated with the highest risks of low income after housing costs are:

- Being in a workless household, particularly one in which one or more members are unemployed (76%) or economically inactive (52%)
- Being single with children (42%)
- Being disabled and of working age (33%)
- Living in a household where the head of household is from an ethnic minority group other than Indian, but particularly Bangladeshi (56%), Pakistani (48%) or Chinese (46%)
- Social rented sector (42%) or private rented sector (37%) tenants.

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<sup>2</sup> Assuming the mortgage advance was based on a typical first time buyer mortgage advance to income multiple of 3.28.

<sup>3</sup> This assumes combined take home pay of £1,400 plus benefits of £838.50 (Child Tax Credit, Housing Benefit and Child Benefit). The affordability threshold would therefore be £783 (35% of £2,239).

<sup>4</sup> 25 per cent of families earning less and 75 per cent earning more.

## **The cost of living squeeze on individuals and households**

The responses to the on-line surveys describe how the cost of living squeeze is affecting residents and their families and as such provides the human-dimension to the statistical analysis presented in the earlier sections of the report. The descriptions are sobering and thought-provoking but cannot be taken to provide a definite indication of the prevalence of these experiences across the whole population.

Many Exeter residents who responded to our survey described how rising spending on household essentials had meant less – or no money at all – to socialise or do things together as a family. Some felt that their family relationships suffered as a consequence and several described the stress and strain of making ends meet. The responses resonate with the findings from a Shelter survey that found that 16% of adults confirmed that housing cost worries caused arguments with their partner or members of their family. Respondents to the residents' survey also mentioned visiting family less often and working more hours therefore reducing family time.

In terms of day-to-day spending decisions, respondents to the residents' survey described being very careful with their money with many deploying strategies such as shopping around for the best prices or eliminating non-essential purchases in order to stretch their budgets. A small number described facing the dire situation of 'eat or heat' with some going without to give to their children. Debt was also mentioned by residents and stakeholders with the latter observing growing numbers of clients in recurring crisis and/or experiencing 'problem debt'.

Residents who responded to the on-line survey were overwhelmingly pessimistic about the future with many feeling unable to plan ahead when they were living day-to-day. Some were concerned about their inability to save for retirement, keep a roof over their head or improve their circumstances through education or training. More than half of the residents who took part in the survey were worried about being able to meet their rent or mortgage payments in future. While not necessarily caused by worsening housing affordability there does appear to be an association between worsening affordability and local authority waiting lists, over-crowding, levels of home ownership among the young and the number of households claiming housing benefit.

## **The cost of living squeeze on employers and the economy**

The evidence base on the impact of housing affordability on employers is fairly sparse and the slightly disappointing response to the local survey did not help with this. A recent CBI survey of employers in London identifies significant problems with recruitment as a result of the high cost of housing in the capital but there is little evidence to suggest that these problems are being experienced locally. While there is some evidence that housing affordability has improved substantially for key workers<sup>5</sup> since 2008 vast swathes of Southern England remain unaffordable for the average key worker in the UK.

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<sup>5</sup> A key worker is a public sector employee who is considered to provide an essential service. The term is often used in the United Kingdom in the context of those essential workers who may find it difficult to buy property in the area where they work.

## **The cost of living squeeze on communities and stakeholder organisations**

Stakeholder responses to the on-line survey described an increase in demand for their services and concomitant challenges for their organisation in terms of allocating scarce resources, dealing with challenging behaviour from clients and exploring new ways of working.

### **The Living Wage**

“The Living Wage is an hourly rate of income calculated according to a basic cost of living in the UK and defined as the minimum amount of money needed to enjoy a basic, but socially acceptable standard of living. In 2014 the UK Living Wage rate stands at £7.65 per hour, and the London Living Wage is set at a higher rate of £8.80 per hour to take account of the comparatively higher cost of living in the capital” (Living Wage Commission, 2014).

There are currently 825 employers accredited by the Living Wage Foundation, which have committed to paying a Living Wage to all directly employed and subcontracted staff. Forty-seven accredited Living Wage employers are located in the South West.

All but one employer taking part in the Exeter Cost of Living Survey had heard of the Living Wage before the survey. Encouragingly, six had already made a commitment to pay some or all of their employees a living wage and two were still thinking about it. A further four employers said that that they had not thought about it but may consider it in future. Three had not thought about it but were unlikely to do so in future. When asked about barriers to implementing a Living Wage all respondents cited cost or affordability.

The Living Wage Commission has set a target of bringing an additional 1 million workers up to a Living Wage by 2020, spread across the public and private sectors. To achieve this, the Commission set out a number of recommendations. Most notably for Local Government these include the recommendation that:

- The UK and devolved government ensure that all directly employed public sector employees are paid a living wage
- The UK and devolved governments ensure that the public sector always procures on value, rather than spreadsheet cost, which would enable stronger consideration of contractors paying a Living Wage; and
- Central and local government should support the Living Wage by championing it to employers across the UK.

Applying national estimates of the percentage of employees that earn less than the living wage by sector to the industry profile of Exeter reveals that more than one-fifth of employees who live in Exeter are thought to earn less than the living wage.

Suggestion for action at the local level in building public awareness and championing Living Wage employers, includes:

- Events hosted by local authority leaders and other government Ministers to celebrate employers that are demonstrating a will to make work pay, and to encourage others to follow.



- Encouraging locally accredited employers to display the Living Wage Employer kite mark as widely as possible (for example, on their websites, in their buildings, in publications, and on public sites).
- Publicising a planned on-line tool that will show consumers where they can buy Living Wage goods and use Living Wage services in their area.

Lessons from the United States have shown that campaigns that are strongly rooted in the community are more successful than those that are not. The Commission therefore advocates that the Living Wage continues to be rooted in the principles of community, encouragement and celebration. Beyond this, lessons for implementation appear to be:

- Recognising that many small employers and some low-paying sectors (such as retail, social care and hospitality) face affordability constraints. Campaigns targeting 'low-hanging fruit' are likely to be more successful in the short-term.
- Promoting the business benefits to employers and suggesting ways to mitigate against some of the constraints.
- Harnessing the spirit and energy of community, voluntary and civil society groups in taking the message to employers in innovative ways (for example, Citizens UK arranged a 150-strong *flash-mob* protest in a West London Tesco store, before arranging a meeting with the Chief Executive).

## Strategy and solutions

The online survey generated ideas from residents, employers and stakeholders about what the City Council and its partners could do to help address the consequences of the cost of living squeeze.

While the suggestions from residents were wide and varied, two options were mentioned more than any other. *Increased wages* were mentioned most often including some recommending the Living Wage specifically or appealing for the Council to offer its staff a pay-rise. *Council tax reductions* either overall or discounts for specific groups was the second most commonly mentioned proposal. Other popular suggestions included: *lowering rents* and/or *the cost of public transport, job creation* and providing *advice and guidance*. A smaller number still, perhaps from the 'squeezed middle', felt that there was scope to do more for those that typically fell outside existing safety nets and to seek to reverse any existing disincentives to work and saving.

Employer comments were most commonly on the Living Wage with one observing:

*“Communicate the economic truth that some businesses are relying on the state to subsidise their profits through tax credits etc because they do not pay their workers a living wage.”*

Another supported raising tax thresholds as an alternative to the Living Wage in raising the income of the low paid another thought the Council should reduce business rates to help the economic case of the Living Wage for small employers. Other employers recommended cutting Council Tax and/or business rates, stopping further development for student accommodation in preference for accommodation for non-students and encouraging inward investment.

Most of the stakeholder respondents mentioned financial advice and guidance as an area for further support. Unsurprisingly, funding was the most frequently mentioned constraint to making things happen although one stakeholder also mentioned the availability of volunteers. The stability of funding was also raised as an issue. Stakeholders were asked how these constraints could be overcome. Suggestions included:

- *"A possible reciprocal money matters arrangement with another provider in the area or increased use of the CAB and other similar service."*
- *"Use the funding available to help people before a crisis presents (financial capability) and when a crisis occurs. This should be cheaper in the long-term rather than increasing debts to the City Council and local businesses."*
- *"Putting together a strong partnership bid for some community development work focussed on low incomes and shared costs."*
- *"Exeter needs to get its business case for investment ready now. As the money is largely ring-fenced for the VCSE sector, we need a coordinated approach to meeting local need, not just a scramble for funds among local charities."*

## **Towards a Cost of Living Strategy**

The final section of the report highlights some of the ways in which Exeter City Council and the Cost of Living Forum could help local people with the rising cost of living.

### ***Living wage***

The Work Foundation and the Living Wage Commission make similar recommendations about the Living Wage. For example, both recommend that local authorities should aim to be Living Wage employers and that the public sector should be supported in adopting "policies for 'social/community benefit' as part of sustainable procurement policies, in order to encourage wider payment of the Living Wage throughout their supply chains" (Work Foundation, 2014).

The Living Wage Commission also sees a role for local government in championing the Living Wage to employers.

Exeter City Council has already committed to paying its employees a Living Wage. It now needs to:

- Consider pursuing formal accreditation as Living Wage employer and the resource implications of this.
- Explore how procurement processes can be adapted to ensure procurement 'on value, rather than spreadsheet cost' (Living Wage Commission, 2014) such as piloting a scheme whereby contractors submit two bids (one paying their staff a Living Wage and one not).
- Consider its role, if any, in proactively championing the Living Wage outside its supply-chain, and resource these activities accordingly.

### ***Creating quality jobs***

The Low Pay Commission has identified low productivity as at the heart of the low pay challenge (Low Pay Commission, 2014). Recognising this, the Work Foundation has identified the need to recognise “the appropriate levels through industrial innovation policies targeted on low pay industries and changes in work organisation, practices, and progression with the workplace”. While Exeter City Council does not directly provide business support it can facilitate this process by:

- Attracting inward investment and accommodating the aspirations of local businesses through adequate supply of commercial and industrial land and premises.
- Exploiting the local commercial advantages of the University and further education colleges (for example, the Science Park).
- Building networks, access to advice & guidance etc...

### ***Stimulating a renaissance in City living***

Our analysis shows that the average wage of Exeter residents is lower than that of people who work in the City. Simply, the patterns of commuting are such that more people on higher incomes commute into the City than commute out. This is consistent with the observation that people on higher incomes tend to travel furthest to work. Econometric analysis is required to fully understand how factors such as age, qualification level, industry and occupation and family status interact to generate this phenomenon but it is certainly not uncommon among Cities. To some extent it reflects the size of the local housing stock in relation to workforce and the extent to which workers can be accommodated within the City.

One response to the issue of raising incomes of residents is to make City living a more attractive proposition to higher earners. Compared to Teignmouth, Mid-Devon and East Devon – which together account for around three-quarters of Exeter’s net gain in commuters – Exeter has fewer four bedroom homes and twice as many one-bedroom flats (as a share of all ‘household spaces’). The profile of housing supply is reflected in Exeter’s lower average house prices – when calculated on a simple basis – compared to these other areas. Unfortunately the ONS does not produce mix-adjusted house price data at the district or town level but Zoopla’s area guides suggest that the average asking price of a 4 bedroom house in Exeter was higher than those in Dawlish, Teignmouth, Crediton and Exmouth on the 1<sup>st</sup> September 2014 (but lower than in Newton Abbot, Honiton and Tiverton). The Zoopla data is based on fairly small numbers of records and be treated with a degree of caution but are interesting nevertheless in the absence of any other source.

Further research is needed to understand the housing and lifestyle preferences of people who commute into the City and in particular, explore the any deficiencies in the quantity or characteristics of the housing stock.

### ***Helping local people access quality jobs***

Unemployment among Exeter residents is fortunately very low. The City’s claimant count rate was less than half that of the England rate in July 2014 but was fractionally higher than in all other Devon districts (so excluding Torbay and Plymouth) except Torrington. Unemployment is largely frictional in nature with the vast majority claiming unemployment related benefits for less than 6 months. Long-term unemployment is less widespread than the national average.

Exeter residents are more likely to hold higher level qualifications than the national average and compared to other Devon districts are only notably less qualified than residents of South Hams. These figures do not suggest a major problem in the matching of local talent to the skills needs of local businesses. That is not to say that some residents do not need help, such as that available through the Work Programme etc.

Exeter, in common with many cities, 'loses' young people each year as they follow a fairly well-established 'flight-path' to the Capital and elsewhere across the South East. Some will be returning to their 'home' address after university but others will be Exeter residents seeking to take advantage of the career and cultural opportunities that the capital city offers.

The challenge for the City Council and others is not necessarily dissuading young people to leave in the first place but recognising that many of these young people will want to return – perhaps to start a family or look after ageing parents – and will be looking for quality employment opportunities when they do so. Economic development strategies that seek to generate high skill opportunities are essential in supporting this.

Many local young people will want to learn and/or earn locally. Good quality advice and guidance on local employment opportunities and entry routes into occupations are necessary to help young people plan their careers. This includes work experience placements will also allow young people to develop local employment networks and gain valuable experience of work.

### ***Council Tax***

Perhaps unsurprisingly many residents responding to our survey felt that lowering Council Tax either for all or offering discounts for certain groups was one way in which the Council could help residents with the cost of living. This seems an unlikely proposition however in the context of reduced Central Government funding to local authorities. Exeter City Council has identified the need to make additional savings of £3.5 million between 2014/15 and 2017/18 in its medium term revenue plan. This is primarily in response to a reduction in central government support from £7.7 million in 2014/15 to almost £5.1 million in 2017/8.

### ***Cost of housing***

Housing costs in any given housing market are determined by a broad range of factors. This includes labour market conditions, local amenities, environmental and aesthetic factors, demographics, crime and social capital, and the availability of finance on the demand-side and topology and natural obstacles, the extent to which an area is already built up, the state of the pre-existing housing stock and the market power of developers and/or construction companies on the supply-side (Niemi, 2013). The power of local authorities or indeed central government to influence these variables is fairly limited. However, government can directly influence the cost of housing through the land-use planning system:

*“The empirical evidence from around the world shows, as far conclusively as econometric papers can, that planning restrictions are a key determinant of housing costs. A good deal of the literature, though not all of it, suggests that this is by far the most important determinant”.* Niemi (2012)

While the housing shortage is a national phenomenon the rate of house building in Exeter also falls short of anticipated demand. DCLG statistics show that 1,270 units were completed between 2010/11 and 2013/14 within Exeter district – four years into the five-year requirement of 5,282 articulated in the areas Strategic Housing Market Assessment (Opinion Research Services, 2010).

The British Social Attitudes Survey (DCLG, 2013) suggests that attitudes to new house building have softened in recent years particularly among the respondents aged 65 and over and those on the highest incomes<sup>6</sup>. Those opposed to development or holding neutral views were most likely to be persuaded to be more supportive by development that employment opportunities with financial incentives and/or they had greater control over what gets built in their local area also likely to encourage more support among the population at large.

While the majority of respondents thought that there was a shortage of homes that were affordable to buy in their area and that affordability had worsened over the last 20 years, attitudes were more mixed in terms of the extent to which they thought building homes would improve affordability. Young people were the most pessimistic about the potential for house building to improve affordability.

### ***Local purchase schemes and discounts***

The Council and its partners have limited if any influence on the cost of some of the items that residents would like help with. This includes childcare, private sector rents, water and public transport. However, there may be potential to develop grass-roots initiatives that help residents meet the costs of some of these items. Suggestions include:

- Local purchase schemes that reward customers who purchase items from local retailers
- Explore opportunities for cost savings with public transport operators
- Encourage more market traders especially those selling fruit and vegetables and set-up 'swap shops' or foodbank-style operations that distribute free clothes, toys and household items.
- Encourage local businesses to set up pop-up shops in unused rental space.
- Improve cycle networks to encourage people out of cars and buses. "Don't just put in the cycle networks but consult with actual cyclists on whether it works and whether both cyclists and pedestrians are safe".
- Support private tenants in Exeter through local projects like ExeTRA<sup>7</sup>
- Setting up an 'ethical' letting agency that does not charge tenants for their services. The Chartered Institute of Housing and the Resolution Foundation (2014) have recommended that letting agents are regulated and the practice of charging tenants fees for their services is stopped. Letting agency fees can run to several hundred pounds.
- Continue to invest in recreational facilities especially those for children.

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<sup>6</sup> Opposition to new build homes fell from 46% to 31% between 2010 and 2013. At the same time, support for new homes rose from 28% to 47%.

<sup>7</sup> <https://exetercvs.org.uk/exetra/3151-new-exeter-project-supports-tenants-in-poor-housing>

# INTRODUCTION

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## Background

This report presents the findings of a research study on the cost of living in Exeter commissioned by Exeter City Council's Cost of Living Forum. The work was carried out by Marchmont Observatory, a research unit within the University of Exeter. Specifically, the research was needed:

- To better inform (through the gathering of evidence and multi-agency/organisation participation) the City Council, and other agencies involved, of the difficulties faced and possible solutions relating to the Cost of Living.
- To improve and enhance the collaborative effort on a cross agency and organisational basis, against continual reduced funding for the public sector.
- To provide innovative ways in which to tackle the difficulties faced by Exeter residents in direct relation to the Cost of Living and reduced public sector funding.
- To build relationships with cross agency partners, organisations and stakeholders, to provide an opportunity to discuss the issues and provide practical coping strategies and/or solutions.

This document is the final report of that work.

## Objectives and research questions

The objectives of the study and principal research questions were set out in a detailed proposal which were agreed by the Cost of Living Forum. The objectives were:

- To gather evidence to establish a baseline on wages and cost of living in the City of Exeter.
- To gather and analyse evidence on the impact that low wages and high relative cost of living has on residents in the City of Exeter (taking a broad perspective on impacts and to include Health and Wellbeing).
- To explore (in partnership with a broad range of stakeholders) strategies and solutions to problems identified following the gathering of evidence for this Forum.

These objectives gave rise to following research questions:

1. What is meant by the terms “cost of living”, “low income” and “affordability” and how are these concepts operationalized and measured at the local level? How significant is housing within household budgets? What are the opportunities and challenges for enhancing measurement of these key concepts locally?
2. How ‘affordable’ is Exeter compared to other areas overall and specifically with respect to private and social housing? Which localities and personal and household characteristics are most commonly associated with low levels of housing affordability?
3. What are the consequences of low housing affordability for individuals and households, businesses and communities? What are the main challenges in addressing them?

4. What are the opportunities and challenges for local action? What adoptable best practices are evident elsewhere?

In addition, two further themes were identified as requiring particular attention: the potential impact of widespread adoption of a “Living Wage” by local employers and the disparity in residence-based and workplace-based wages. Thus, the research also addressed the supplementary questions:

1. “What costs and benefits would adoption of a “Living Wage” confer on household incomes, employers and the wider economy?” How could the City Council promote benefits to businesses?
2. Why is the average wage for people *living* in Exeter lower than the average wage of people *working* in Exeter? How could the City Council improve the earning potential of its residents?

## Methodology

The objectives of the proposed study specified the need to “gather and analyse evidence” but also, importantly, “to explore strategies and solutions in partnership with a broad range of stakeholders”. The methodology followed was therefore highly collaborative in orientation and sought to engage the participation of local stakeholders. The methodology incorporated a three-step approach of:

- Review of published research and policy papers, strategies and ‘think pieces’.
- Analysis of official statistics.
- On-line survey of residents, stakeholders and employers.

## Review of published research

The study started with a thorough review of published research and policy documents in order to provide a solid foundation for subsequent primary research. This stage, in particular, provided information, on:

- Definitions and methodological approaches to the measurement of key concepts relevant to the study. Local sources of information on these concepts will be identified and evaluated for ‘fitness for [this] purpose’.
- Spatial patterns of housing affordability and the characteristics of individuals and households who can least afford housing. The consequences of housing unaffordability for individuals and households, and employers and wider economy and society will be identified.
- Employer attitudes towards and experiences of the “Living Wage”<sup>8</sup>. Impact of the living wage on the enterprise and the wider economy<sup>9</sup>.
- Comparison of local resident and workplace-based wage estimates. Examination of the research on the reasons underpinning any differences between the two measures.

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<sup>8</sup> Including identifying existing research that has described the risks and potential benefits of adoption, how employers determine whether they can ‘afford’ to offer the living wage, its impact on productivity, recruitment and retention and skills levels within the enterprise.

<sup>9</sup> Islington, York and Brighton Councils have been identified as potential sources of good practice in this regard.

Finally, the opportunities and challenges for local action particular for championing a “Living Wage” among employers was identified from existing research and strategy and policy documents. This included the identification of good practice from other local authorities (especially from ‘comparator’ authorities such as Norwich). Sources of information included:

- Centre for Cities
- Resolution Foundation
- Building and Social Housing Foundation
- Joseph Rowntree Foundation
- Child Poverty Action Group
- Oxfam
- Greater London Authority
- Local Government Association

### **Analysis of official statistics**

In order to establish a “baseline for Exeter” the study incorporated analysis of published data on local incomes, living costs, housing demand and supply, and housing affordability. Principal data sources were:

- *Annual Survey of Hours and Earnings (ASHE)* for local and comparator wage rates.
- *Department for Communities and Local Government for statistics* on affordable housing supply, council tax, rents, deprivation, the housing market, social housing waiting lists and homelessness.
- *ONS 2011 Census* data for statistics on overcrowding, household composition and occupations. This is available for small geographies allowing a fairly detailed examination of local conditions.

### **On-line surveys**

The original proposal conceived of telephone interviews and a single on-line survey. However, it became clear fairly early on that bespoke on-line surveys were required for residents, employers and stakeholders so tailored questionnaires were developed for these three groups. The residents’ questionnaire explored household financial circumstances and the impact of rising expenditure on household essentials on family life and relationships, personal finances and day-to-day spending decisions and future prospects and aspirations (among those reporting rising expenditure). The survey was publicised by Exeter City Council through a press release and tweets (twitter). The survey was live between 16th July and 15th August 2014 and data and attracted 174 responses.

The employers’ survey primarily explored: knowledge of, and interest in, the Living Wage; the nature of any recruitment difficulties; and the impact of the cost of housing on their business. The employers’ survey was live between 16th July and 15th August 2014. It was publicised by Exeter City Council and attracted 16 responses.

The stakeholder survey explored the nature of services offered that were designed to help residents either directly or indirectly, with the cost of living; whether the squeeze on living



standards had affected the level or nature of demand for their services and the impact of this on their organisation; the consequences for service users themselves; and finally, opportunities for further action. The survey was live between 16<sup>th</sup> July and 15<sup>th</sup> August and attracted 9 responses. Members of the Cost of Living Forum were invited to take part and were asked to forward the link to other interested parties. It was published in the local media and links were sent to housing associations operating in the area.

## **Reporting**

An interim report was distributed to the Cost of Living Forum on 11<sup>th</sup> June 2014 in advance of the launch of the on-line surveys. This report is the final published output of the project. A presentation of the report's findings will be delivered on 15<sup>th</sup> September 2014.

# INCOME AND THE COST OF LIVING

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## Introduction

This section explores how income, the cost of living and housing affordability are measured nationally and locally, and identifies opportunities for enhancing measurement of these key concepts locally. For each concept, a brief synopsis of national trends provides context to local baseline estimates for subsequent monitoring. More specifically the chapter addresses following the research questions:

- What is meant by the terms “cost of living”, “low income” and “affordability” and how are these concepts operationalized and measured at the local level? What are the opportunities and challenges for enhancing measurement of these key concepts locally?
- Why is the average wage for people *living* in Exeter lower than the average wage of people *working* in Exeter? How could the City Council improve the earning potential of its residents?

Income statistics can seem fairly complicated to the uninitiated since they can vary somewhat in their conceptualisation and definition. The principal differentiation is whether the income estimate relates to a household or an individual. Ideally, in this context, that is, when considering cost of living and affordability, the household is the preferred unit of analysis since, this is the level at which spending and earning decisions are made. However, as will be shown later, individual earnings data is often used locally, in the absence of up-to-date household income data. Further considerations are:

- Whether the data relates to the sum of incomes earned within a particular geography (e.g. Gross Disposable Income estimates from the National Accounts) or the average earned by an individual or household.
- The nature of any deductions. For example, net income is gross income less income tax and national insurance payments, council tax, pension contributions, maintenance and child support payments and parental contribution to students living away from home. Somewhat confusingly, “net household income” is conceptually the same as “gross *disposable* household income” although it is always worth checking exactly what deductions have been made in each case. Furthermore, some estimates of household income are published before and after housing costs have been deducted.
- Whether the figures are at current or constant prices. Ideally, analysis of income levels over time should be based on constant prices as this removes the effect of inflation and therefore highlights ‘real’ changes in the value of incomes (or the standard of living).
- Whether the household income estimates have been adjusted to take into account household size and composition<sup>10</sup>. Once these adjustments have been made the estimates are said to have been “equivalised”;
- Finally, whether the median or mean is reported. Generally, the median is preferred in this context as it produces a more ‘typical’ average than the mean which can be influenced by a relatively small number of very high earners.

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<sup>10</sup> <http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2013-edition/rpt-chapter-3--equivalised-income.html#tab-Equivalisation-Methodology>

## Incomes

There are three main approaches to measuring income although this is by no means exclusive<sup>11</sup>:

- Using *National Accounts* to estimate the total value of household income.
- Conducting *large-scale surveys to capture detailed information about respondents' income* (and expenditure) to generate estimates of average household income. For example, the DWP sponsored [Households Below Average Income Series](#) (HBAIS)<sup>12</sup> draws on the Family Resources Survey and the ONS' [The Effects of Taxes and Benefits on Household Income](#) (ETBHI)<sup>13,14</sup> publication is based on the results from the Living Costs and Food Survey.
- Surveying employers to capture information about wages and salaries.

Taken together these sources reveal a fairly subdued picture for real household income growth since 2010.

- Households in the UK received more than £1 trillion in disposable income<sup>15</sup> in 2013. This income has fluctuated somewhat since 2010 making it difficult to decipher an overall trend. Certainly, while income was marginally higher in 2013 than in 2010<sup>16</sup>, annual growth rates post 2006<sup>17</sup> have been, in the main, substantially below those posted pre-2006<sup>18</sup>. Furthermore, income has fallen in each of the last two quarters<sup>19</sup>.
- Survey results suggest that “real median household income in 2013–14 is more than 6% below its pre-crisis peak. This fall in average incomes has largely been driven by declines in real earnings” (IFS, 2014b).
- A recent Office of National Statistics (ONS) article reported that real wages fell by 2.2% per annum between Q1 2010 and Q2 2013 with this decline representing “the longest sustained period of falling real wages in the UK on record”<sup>20</sup>. Our extension of this analysis suggests that wages have continued to fall in all but 3 of the last 36 months<sup>21</sup>.

Looking forward, the Institute of Fiscal Studies (IFS) claims that “there is little reason to expect a strong recovery in living standards over the next few years”. According to the Office for Budget Responsibility (OBR), real earnings are not expected to return to their 2009–10 levels until 2018–19. Further discretionary cuts to benefits and tax credits will put downward pressure on real incomes, particularly for low-income households. Given this, it seems “highly unlikely that living standards will recover their pre-crisis levels by 2015–16” (IFS, 2014).

Unfortunately, these sources cannot be used directly to monitor changes in household incomes at the local level and while in each case a derivative or alternative source can be used to

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<sup>11</sup> For example, the HMRC publishes data on the income of taxpayers.

<sup>12</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/325416/households-below-average-income-1994-1995-2012-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325416/households-below-average-income-1994-1995-2012-2013.pdf)

<sup>13</sup> reporting on the [Living Costs and Food Survey](#) (LCF) [Results](#)

<sup>14</sup> <http://www.ons.gov.uk/ons/rel/household-income/the-effects-of-taxes-and-benefits-on-household-income/2012-13/data--deflated-equivalised-disposable-income--1977-2012-13.xls>

<sup>15</sup> [http://www.ons.gov.uk/ons/dcp171778\\_366965.pdf](http://www.ons.gov.uk/ons/dcp171778_366965.pdf)

<sup>16</sup> uncharacteristically strong growth between 2012 and 2013

<sup>17</sup> The average annual growth rate between 2006 and 2013 was 0.59%.

<sup>18</sup> The average annual growth rate between 1997 and 2006 was 3.02%.

<sup>19</sup> To Q1 2014.

<sup>20</sup> <http://www.ons.gov.uk/ons/rel/elmr/an-examination-of-falling-real-wages/2010-to-2013/art-an-examination-of-falling-real-wages.html#tab-Long-run-trends-in-real-wage-growth>

<sup>21</sup> to June 2014.

generate a point estimate monitoring change over time remains problematic. This is essentially because point estimates are either infrequently published and/or have relatively large confidence intervals associated within them – which means changes over time are rarely statistically significant.

The next section reviews some of the main sources of information on local incomes.

### **Regional accounts**

The Regional Accounts – a product of the National Accounts – suggests that households in Devon earned just over £12.5 billion in 2012 – around £16,700 for every resident (Table 2.1). GDHI per head in Devon was slightly less – 3% lower – than the England average. The [NUTS3](#) data can be viewed using interactive maps generated by the ONS which illustrate trends over time and between areas.

**Table 2.1 Estimates of Household income**

Indicator	Year	Exeter	Norwich	England	Exeter as % of England
Gross Disposable Household Income, (ONS) <sup>1</sup>					
Total GDHI, £m	2012	12,562 <sup>DCC</sup>	13,586 <sup>NFK</sup>	912,946	-
GDHI per head, £	2012	16,679 <sup>DCC</sup>	15,701 <sup>NFK</sup>	17,066	97
<i>Change on previous year</i>		2.9 <sup>DCC</sup>	3.2 <sup>NFK</sup>	3.3	
Modelled Gross Disposable Household Income, £ (Devon County Council) <sup>22</sup>					
Median	2008	25,800	26,800 <sup>DCC</sup>	-	96
Mean	2008	30,000	31,300 <sup>DCC</sup>	-	95

### **Modelled estimates of household income for small areas**

The national survey-based estimates of household income can be modelled to generate local estimates. The ONS has published 2007/8 data for middle layer super output areas on the Neighbourhood Statistics website and Devon County Council has purchased district level estimates using the same source from Experian (Table 2.2). The ONS [modelled MSOA](#) data set can also be interrogated using interactive maps. MSOAs are software generated geographies of similar size containing at least 5,000 residents and 3,000 households but with an average population size of 7,500<sup>23</sup>.

The limitations with this dataset as a tool for monitoring for Exeter district are firstly, that the only freely available data is for MSOAs; secondly, that the data tends to be infrequently updated and is therefore not particularly useful for short-term monitoring; and thirdly, the figures are at current prices (that is, without adjustment they do not measure ‘real’ changes in household income). Furthermore, the numerical naming system (e.g. Exeter 001, Exeter 002 and so on.) can make analysis difficult for those without local knowledge.

<sup>22</sup> [http://www.devon.gov.uk/estimates\\_of\\_household\\_income\\_2008.pdf](http://www.devon.gov.uk/estimates_of_household_income_2008.pdf)

<sup>23</sup> <http://neighbourhood.statistics.gov.uk/HTMLDocs/nessgeography/superoutputareasexplained/output-areas-explained.htm>

Notwithstanding this, they are useful for examining how incomes vary within the area and will be updated within the next 6 months (with 2011/12 estimates are expected in January 2015<sup>24</sup>).

**Table 2.2 Median household disposable income by Exeter ward, £ per annum; 2008**

St Loyes	31,200	St Thomas	26,200
St Leonard's	30,900	Cowick	25,900
Alphington	28,700	<b>Exeter AVG</b>	<b>25,800</b>
Pennsylvania	28,500	Polsloe	24,500
Heavitree	27,900	Mincinglake	24,400
Duryard	27,700	Whipton & Barton	23,800
Topsham	27,500	Priory	23,100
Pinhoe	27,000	St James'	22,100
<b>Devon AVG</b>	<b>26,800</b>	Newtown	21,100
Exwick	26,600	St David's	21,000

Source: [http://www.devon.gov.uk/estimates\\_of\\_household\\_income\\_2008.pdf](http://www.devon.gov.uk/estimates_of_household_income_2008.pdf)

The Devon County Council commissioned estimates show that the median household disposable income in Exeter was £25,800 during 2007/8, £1,000 less than the Devon average of £26,800. A national comparator is unfortunately not provided. Within Exeter, household incomes vary from around £21,000 in St David's and Newtown to around £31,000 in St Loyes's and St Leonards.

While none of the sources allow household incomes in Exeter to be directly and consistently compared to the national average, they do show that GDHI per head in Devon is 3% lower than the England average and that modelled GDHI estimates in Exeter are 4-5% lower than those in Devon. It would be reasonable therefore to assume that household incomes are lower in Exeter than the national average.

### ***Personal incomes and wages***

Finally, in the absence of up-to-date information on household income, analysts commonly use information about the earnings of employees who are living in an area. Estimates of local wages and salaries are generated from the Annual Survey of Hours & Earnings and are the most commonly used indicator. However, Her Majesties Revenue and Customs (HMRC) also publishes the average earnings of taxpayers. The latter includes earnings such as pensions and benefits that are not derived directly from work. Table 2.3 shows that:

- The median income for taxpayers living in Exeter was £18,400 in 2011/12.
- The median annual full-time wage of employees living in Exeter was £23,700 in 2013.

Interestingly, both sources put median local personal incomes at around 11-13% lower than the England average. The lowest quartile of earnings is closer to the national average but still Exeter's poorest paid residents are paid 7% less than the England average.

**Table 2.3 Residence-based estimates of individual incomes**

Indicator	Year	Exeter	Norwich	England	Exeter as % of England
<b>Total income of taxpayers</b>					
Mean, £ (HMRC)	2011/12	<b>23,500</b>	24,900	29,400	79
Median, £ (HMRC) <sup>25</sup>	2011/12	<b>18,400</b>	19,100	20,500	89
<b>Gross annual full-time pay</b>					
Median, £ <sup>26</sup> (ONS)	2013	<b>23,712</b> $\pm 7.6$	23,832 $\pm 8.5$	27,375 $\pm 0.4$	87
% change on previous year		7.3	5.8	2.0	-
Lower Quartile, £ (ONS)	2013	<b>18,045</b> $\pm 5.4$	17,553 $\pm 6.4$	19,334 $\pm 0.3$	93
Higher Quartile, £ (ONS)	2013	<b>33,065</b> $\pm 15.0$	36,510 $\pm 13.0$	38,794 $\pm 0.5$	85

As the earnings data is published at current prices changes in wage levels need to be considered alongside estimates of inflation in order to assess the potential for change in real wages. As inflation was 1.4% in April 2013, the figures would suggest a modest rise in real median wages locally, against a backdrop of stagnating wages nationally. However, the Exeter figure should be treated with a fair amount of caution as the percentage change on the previous year is broadly the same size as the confidence interval associated with the 2013 estimate (i.e.  $\pm 7.6$ ). It is therefore impossible to determine with any statistical confidence whether pay levels changed in Exeter between 2012 and 2013. It should be noted that the ASHE earnings data relates only to the earnings of employees and therefore excludes income derived from self-employment.

The ASHE pay data is also available on a workplace basis and as such provides an indication of the level of wages paid by employers based in the district. The workplace based estimates are higher than the residence based equivalents suggesting – as is common in UK cities – that people who commute into the city to work earn more than those who both live and work in the district (Table 2.4)<sup>27</sup>.

<sup>25</sup> Survey of Personal Incomes 2011-12. <https://www.gov.uk/government/publications/income-and-tax-by-borough-and-district-or-unitary-authority-2010-to-2011>

<sup>26</sup> ASHE residents

<sup>27</sup> Exeter is one of thirty local authority Districts where residents' wages are 10 per cent or more *lower* than workplace wages. Wage wise, Exeter is a success story for its working population but those residing within the City are not those benefiting most.

**Table 2.4 Workplace based estimate of individuals pay**

Indicator	Year	Exeter	Norwich	England	Exeter as % of England
<b>Gross annual full-time pay</b>					
Median, £ <sup>28</sup> (ONS)	2013	27,023 <sup>±4.8</sup>	24,852 <sup>±7.2</sup>	27,376 <sup>±0.4</sup>	99
<i>% change on previous year</i>		6.8	-0.1	2.1	
Lower Quartile, £ (ONS)	2013	19,584 <sup>±4.3</sup>	18,584 <sup>±5.5</sup>	19,325 <sup>±0.3</sup>	101
Higher Quartile, £ (ONS)	2013	34,888 <sup>±6.7</sup>	36,580 <sup>±10.0</sup>	38,809 <sup>±0.5</sup>	90

Census data can help to explain some of the differences behind resident and workplace earnings. On Census day 2011, 57,139 Exeter residents were in work (although not necessarily working in Exeter). This includes full-time students who also had part-time jobs. Exeter's workplace population was rather larger, at 83,220 suggesting a net inflow into the city from commuters of almost 27,000.

Comparing occupations of the workplace and employed resident population shows that net inflows to the City are largest for the following occupations (although all occupations have a net inflow):

- Administrative occupations 3,200
- Business and public service associate professionals 2,300
- Corporate managers and directors 2,100
- Business, media and public service professionals 2,100
- Health professionals 2,000

Overall, taken together, high-skill and consequently higher paid occupations such as managers & senior officials, professionals and associate professional & technicians account for a higher share of the workplace population (44%) than the resident population (39%) (Table 2.5).

<sup>28</sup> ASHE residents

**Table 2.5 Occupation distribution of the workplace and resident population in Exeter 2011**

Occupation	Workplace population (a)	Resident population (b)	Net in-commuting	(a) as % of (b)
Corporate managers and directors	5,118	2,992	2,126	171
Other managers and proprietors	2,672	1,785	887	150
Science, research, engineering and technology professionals	4,219	2,519	1,700	167
Health professionals	4,875	2,864	2,011	170
Teaching and educational professionals	4,019	3,024	995	133
Business, media and public service professionals	4,632	2,568	2,064	180
Science, engineering and technology associate professionals	1,589	944	645	168
Health and social care associate professionals	1,289	728	561	177
Protective service occupations	1,572	653	919	241
Culture, media and sports occupations	1,302	1,105	197	118
Business and public service associate professionals	5,514	3,215	2,299	172
Administrative occupations	8,091	4,914	3,177	165
Secretarial and related occupations	2,643	1,569	1,074	168
Skilled agricultural and related trades	443	354	89	125
Skilled metal, electrical and electronic trades	2,565	1,743	822	147
Skilled construction and building trades	2,427	2,232	195	109
Textiles, printing and other skilled trades	1,672	1,499	173	112
Caring personal service occupations	5,535	4,106	1,429	135
Leisure, travel and related personal service occupations	1,735	1,453	282	119
Sales occupations	6,228	4,867	1,361	128
Customer service occupations	2,607	1,500	1,107	174
Process, plant and machine operatives	1,512	1,278	234	118
Transport and mobile machine drivers and operatives	2,873	2,079	794	138
Elementary trades and related occupations	704	660	44	107
Elementary admin. and service occupations	7,384	6,488	896	114
<b>All categories: Occupation</b>	<b>83,220</b>	<b>57,139</b>	<b>26,081</b>	<b>146</b>

Source: ONS, 2011 Census

### ***Bespoke surveys***

Asking people about their incomes is notoriously difficult in bespoke surveys and has been resisted, for example, in the UK Census to date due to concerns about its impact on response rates particularly for those on low incomes<sup>29</sup>. The resident survey conducted for this survey asked a series of questions about respondents' household income in *very broad terms*. It did

<sup>29</sup> See <http://www.ons.gov.uk/ons/guide-method/census/2011/how-our-census-works/how-we-planned-the-2011-census/questionnaire-development/considering-the-income-question/index.html> for a discussion.



not ask respondents to categorise their income into pre-specified income bands. The results revealed that half of respondents rated their standard of living as “about average”, one in six (18%) rated it “above average” and one third (33%) rated it “below average”. Respondents were more likely to feel that their family was worse off (56%) than it was 2 years ago than better off (11%) with the remaining third (34%) reporting that their standard of living hadn’t changed during that time. Rather more respondents reported a decline in living standards than a decline in household income after tax (34%) suggesting that living standards has fallen for some households who had managed to at best maintain their income levels. As many respondents reported a *rise* in household income after tax (34%) as reported a *fall* (33%); with the remaining third (33%) indicating that their income levels had not changed over the last 2 years.

## Low income

Conventionally, poverty is defined as 60% of the median household income, equivalised, after housing costs with a distinction often made between *relative* poverty (60% of median in any given year of analysis)<sup>30</sup> and *absolute* poverty (60% of median income in a baseline year, in this case 2010/11)<sup>31</sup>. The latest results from the HBAI series suggest that, nationally, 21% of the population is living in relative poverty and 23% in absolute poverty<sup>32,33</sup>. Other approaches include:

- *Bespoke studies* that attempt to measure the scale of impoverishment in the UK. There is a fairly wide and mature research literature exploring low income and poverty. For example, the largest ever study of poverty conducted in the UK (Poverty and Social Exclusion, 2013) found that about a quarter of the population have an unacceptably low standard of living and one-third of adults consider themselves to be genuinely poor ‘all the time’ or ‘sometimes’<sup>34</sup>. The study also found that the number of people falling below the minimum standards of the day has doubled since 1983.
- *Estimates of the percentage of employees earning the Living Wage*. The Low Pay Commission (2014) estimates that one-fifth of employees in England were earning below the living wage in 2013<sup>35</sup>.
- *Administrative data* that reveals the *percentage of households that receive key benefits*. For example, 13% of working age adults were claiming key DWP benefits (excluding housing benefit) in November 2013 and 22% of households are estimated to be receiving housing benefit.

### ***Households living in poverty***

Local estimates of the percentage of households in poverty are published by the ONS on an experimental basis<sup>36</sup>. These estimates combine survey, census and administrative data to

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<sup>30</sup> Relative low-income threshold for a couple with no children AHC was £224 a week in 2012/13

<sup>31</sup> Absolute low income threshold for a couple with no children AHC was £235 a week in 2012/13

<sup>32</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/325416/households-below-average-income-1994-1995-2012-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325416/households-below-average-income-1994-1995-2012-2013.pdf)

<sup>33</sup> The HBAIS shows that even large national surveys struggle to generate statistically significant changes over time. In this case, while estimates for the number of residents in relative and absolute poverty were higher in 2012/13 than the previous year, only the increase for disabled people in absolute poverty was statistically significant.

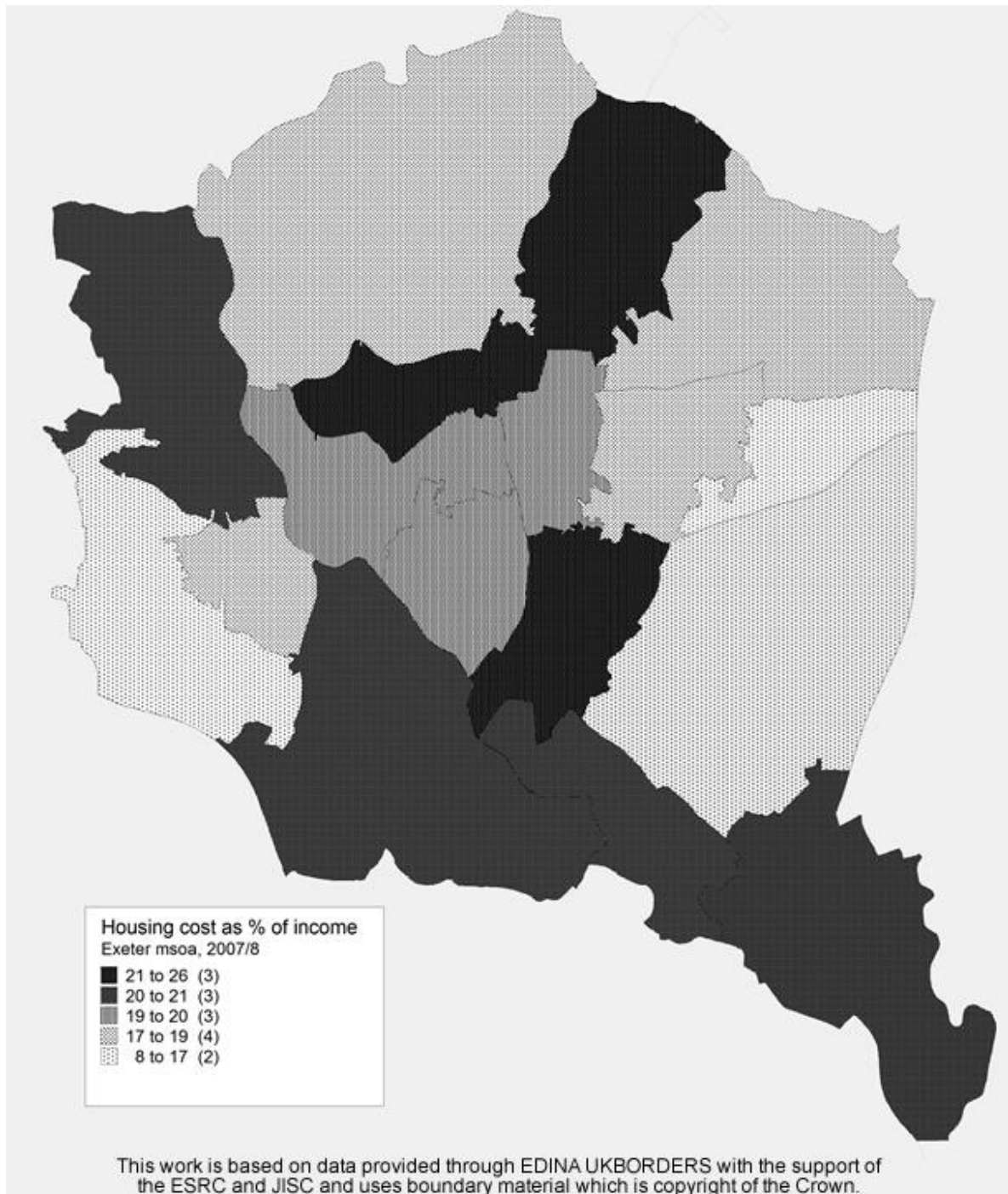
<sup>34</sup>

[http://www.poverty.ac.uk/sites/default/files/attachments/The\\_Impoverishment\\_of\\_the\\_UK\\_PSE\\_UK\\_first\\_results\\_summary\\_report\\_March\\_28.pdf](http://www.poverty.ac.uk/sites/default/files/attachments/The_Impoverishment_of_the_UK_PSE_UK_first_results_summary_report_March_28.pdf)

<sup>35</sup> [http://livingwagecommission.org.uk/wp-content/uploads/2014/06/Work-that-pays\\_The-Final-Report-of-The-Living-Wage-Commission\\_w-3.pdf](http://livingwagecommission.org.uk/wp-content/uploads/2014/06/Work-that-pays_The-Final-Report-of-The-Living-Wage-Commission_w-3.pdf)

produce estimates at the MSOA level<sup>37</sup>. Within Exeter, the percentage of households estimated to be living in relative poverty after housing costs in 2007/8 was highest in Exeter 013, at 30% (Map 2.1). The lowest proportion was in Exeter 001 where the figure was 13%.

**Map 2.1 Percentage of households in poverty in Exeter; 2007/8**



Source: ONS <http://www.ons.gov.uk/ons/guide-method/understanding-ONS-statistics/interactive-content/dvc19-googlemaps-households-in-poverty-estimates-link.html>

<sup>36</sup> The percentage of households below 60% of the UK median income (equivalised after housing costs).

<sup>37</sup> <http://www.neighbourhood.statistics.gov.uk/dissemination/Info.do?m=0&s=1404383846187&enc=1&page=analysisandguidance/analysisarticles/households-in-poverty-model-based-estimates-at-msoa-level.htm&nsjs=true&nsck=false&nssvg=false&nswid=1093>

### ***Receipt of benefits***

Benefits data are a useful proxy for low income at the local level as administrative are not subject to any sampling error, and are published on a regular basis (usually once a month) with only a fairly short delay between the date of capture and release (i.e. are fairly current). For example, 11% of Exeter residents of working age were claiming DWP benefits (excludes, housing benefit) in November 2013. This is a smaller percentage than both the England (13%) and Norwich (15%) averages. The percentage varies considerably across Exeter CAS wards, from 2% in Duryard to 19% in Prior. Other wards with an above average percentage of benefit claimants are: Mincinglake (14%), St David's (14%) and Whipton & Barton (15%).

In this context it is also instrumental to review the number and percentage of Exeter residents who receive housing benefit and council tax benefits – both of which are excluded from the previous analysis. Caseload statistics show that 9,677 people received housing benefit in February 2013<sup>38</sup>. Four-fifths (80%) of those claiming housing benefit also claimed council tax benefit. Ten thousand Exeter residents claimed council tax benefit in this month. While not expressed as a percentage of households in the national statistics release it is possible to calculate these using ONS household projections data for 2013<sup>39</sup>. On this basis our calculations suggest that one-fifth (19%) of households in Exeter are receiving housing benefit and one-quarter (24%) are receiving housing benefit or council tax benefit. The proportions for England are 22% and 28% respectively.

## **Cost of living**

There is no definitive methodology for measuring the cost of living nationally or locally, and conceptually there is some overlap with the “standard of living” and disposable incomes especially after housing costs. Perhaps the most familiar approach to measuring the cost of living is “inflation” – since this is routinely reported in the media. Inflation is measure using price indices which captures how prices change over time. A less well known approach is the “Minimum Income Standard” which estimates the cost of providing a minimum socially-acceptable standard of living<sup>40</sup>. Both use the concept of a ‘basket’ of goods and services as a starting point.

### ***Consumer prices***

According to the CPIH – a derivative of the Consumer Price Index which includes owner-occupied housing costs - prices rose by almost 24% between 2010 and 2013. Prices rose fastest for education (107% reflecting change in government policy on higher education funding) but prices for alcoholic beverages and tobacco (49%), food and non-alcoholic beverages (44%), transport (36%), hotels & restaurants (29%), housing, water, electricity and other fuels (28%) and health (26%) all rose by greater than average proportions.

Furthermore, significant price rises were recorded for:

- |                |      |
|----------------|------|
| • Gas          | 138% |
| • Electricity  | 88%  |
| • Water supply | 47%  |

<sup>38</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/229795/hbctb\\_release\\_may13\\_revised.xls](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229795/hbctb_release_may13_revised.xls)

<sup>39</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/189965/AllTablesNonRegionalFinal\\_3.xls](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/189965/AllTablesNonRegionalFinal_3.xls)

<sup>40</sup> Cited in JRF Report available at: <http://www.jrf.org.uk/sites/files/jrf/income-living-standards-summary.pdf>

Beyond this, other notable increases were recorded for:

- Fuels and lubricants for personal transport equipment 55%
- Passenger transport by railway 52%
- Postal services 113%
- Transport insurance 73%

The impact of these price rises will not be felt uniformly across households as some households will spend more of their income on some items than others. However, the Living Cost and Food Survey describes the spending patterns of the 'average' household. The 2012 survey found that households had on average been spending less each week, once inflation has been taken into account in the years since 2006. This suggests that households had started to reign in their expenditure before the start of the recession. In that year the average UK household spent a fifth (21%) of its weekly expenditure on housing<sup>41</sup> rising to a quarter (24%) if fuel and electricity was included. After housing and energy, the largest categories were: recreation & culture (9%), food and non-alcoholic drinks (8%), Transport (7%), restaurants and hotels (6%) and miscellaneous goods and services (6%).

### ***Minimum Income Standard***

The Minimum Income Standard (MIS) is an income-based approach to measuring the cost of living. It provides an alternative perspective on the cost of living by estimating the cost of providing a minimum socially-acceptable standard of living<sup>42</sup>. Unlike the HBAI series that defines the poverty line as 60% of the median household income; MIS recognises that the cost of living is not the same for everyone and calculates an income standard for different household types. For example, the MIS for a single person is £273.86 a week, while the MIS for a couple with one pre-school and one primary school age child is £714.61. A single person earning the National Minimum Wage would earn 70% of that required to provide for an acceptable standard of living according to the MIS and a dual earner couple with two children, 83%.

The 2013 report described how the cost of living has changed:

*“Over the past five years, the spending needed to reach an acceptable living standard according to MIS has risen by a quarter or more for various households, while earnings have hardly risen at all. During this period, real-terms cuts in benefits and tax credits have exacerbated the squeeze ... Steadily increasing prices, especially in childcare, social rents, public transport, food and energy, have been pushing the minimum cost of living up somewhat faster than the average cost of living.”* Source: Joseph Rowntree Foundation (2013)

### ***National housing costs***

Relatively little local data exists on the cost of living beyond house price data and rents. However, before exploring these it is worth pausing to examine what national sources reveal about how housing costs have changed in recent years and for whom. The picture is generally one of prices rising faster for renters than mortgaged owner-occupiers, for example:

<sup>41</sup> See [http://www.ons.gov.uk/ons/dcp171776\\_335332.pdf](http://www.ons.gov.uk/ons/dcp171776_335332.pdf) for explanations and further statistics. This analysis uses the broadest number of expenditure categories and a total average budget of £677.80.

<sup>42</sup> Cited in JRF Report available at: <http://www.jrf.org.uk/sites/files/jrf/income-living-standards-summary.pdf>

- The CPIH suggests that actual rentals for housing (23%) rose significantly more than owner occupiers housing costs (8%) between 2010 and 2013. The CPIH across all items was 24% over the period. Statistics also suggest that social rents have risen faster than private sector rents<sup>43</sup> in part due to target rents in the former often being linked to inflation.
- The Living Costs and Food Survey found that renters faced an increase in net rent<sup>44</sup> (at current prices that is, excluding inflation) of 16% between 2010 and 2012 while mortgage holders saw their mortgage repayments (capital and interest) increase by 6%<sup>45</sup>.

Analysis of HBAI data by the Institute of Fiscal Studies (2014) shows that before the recession renters and those in owner-occupied mortgaged household had broadly similar housing costs. However, the decline in interest rates between October 2007 and April 2009 however helped to dramatically change this picture. While mortgage-paying owner-occupying households saw the *real* cost of their interest repayments<sup>46</sup> fall by 37%, average rents paid by renters have “essentially stagnated”.

The findings show that changes in housing costs have had a “significant impact on living standards since the recession” but with a clear differentiation of experience between those paying a mortgage and renters, particularly private renters with the latter consisting mainly of the poor or young, or both.

### ***Local house prices***

The DCLG publishes Land Registry average house price data for districts on a quarterly basis. The latest figures – relating to the second quarter of 2013 – put the mean house price in Exeter at £206,902 and the median house price at £184,325<sup>47</sup>. The mean house price in Exeter is 17% lower than the England average; while the median house is the broadly the same (Table 2.6).

<sup>43</sup> <http://www.ons.gov.uk/ons/rel/hpi/index-of-private-housing-rental-prices/april-to-june-2014-results/iphrrp-stb-aprtojun14.html#tab-Analysis--Index-of-Private-Housing-Rental-Prices-and-Consumer-Price-Index-actual-rentals->

<sup>44</sup> Gross rents less housing benefit, rebates and allowances received.

<sup>45</sup> <http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2013-edition/rpt-chapter-2--housing-expenditure.html#tab-Analysis-of-Housing-Costs-for-Renters-and-Mortgage-Holders>

<sup>46</sup> Mortgage capital repayments are not included within housing costs in the HBAI series data on the basis that they represent the accumulation of an asset rather than spending.

<sup>47</sup> Mean house prices tend to be higher than median house prices due to a relatively small number of high value homes that pull the mean upwards.

**Table 2.6 House price indicators**

	Year	Exeter	Norwich	England	England as % of England
<b>Sold house prices (Land Registry), £</b>					
Mean <sup>48</sup> ,	Q2 2013	206,902	168,847	246,764	83
Median <sup>49</sup> ,	Q2 2013	184,325	143,000	184,000	100
<b>Zoopla</b>					
Mean price paid over last year <sup>50</sup>	3 July 2014	234,846	199,997	253,868	92
Z-Index <sup>51</sup> ,	3 July 2014	253,002	223,064	272,299	92
Mean asking price	3 July 2014	339,247	272,188	383,308	88

The property website Zoopla also publishes house prices information through “area guides” based on publicly available data such as sale transactions and their own proprietary data collected from estate agents, surveyors and users<sup>52</sup>. The Zoopla estimates for Exeter put local house prices around 8% lower than the England average (Table 2.6) although asking prices tend to be lower than this. According to this source, the average price paid for the following house types over the 12 months to July 2014 were:

- Detached £364,440
- Semi-detached £231,215
- Terraced £203,186
- Flats £146,549

More recent house price data published for County and Unitary Authority areas (and higher geographies) show that mean house prices have risen by 4% across Devon and 7% across England and Wales since April 2013 (i.e. when the district-level results were last published)<sup>53</sup>. The figure for England and Wales is influenced by exceptional price rises across the Greater London area of 18%.

### ***Private sector rents***

The Valuation Agency collects information on private sector rents. Table 2.7 below shows that average rents in Exeter are higher than the England average across the board but particularly for larger homes (three or more bedrooms). This may reflect a shortage in the rental market for family homes of this size.

<sup>48</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/305845/Table\\_581.xlsx](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/305845/Table_581.xlsx)

<sup>49</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/305846/Table\\_582.xlsx](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/305846/Table_582.xlsx)

<sup>50</sup> Based on Land Registry data

<sup>51</sup> The Zed-Index is the current average Zoopla Estimate of home values in any given area. The Zed-Index is calculated as the mean of all Zoopla Estimates within any given geography.

<sup>52</sup> <http://www.zoopla.co.uk/property/estimate/about/>

<sup>53</sup> Between April 2013 and May 2014.

**Table 2.7 Median monthly private rental market rents: 1 April 2013 to 31 March 2014**

	Exeter	England	Exeter as % England
<b>Room</b>	£386	£338	114%
<b>Studio</b>	£525	£475	111%
<b>1 bedroom</b>	£575	£500	115%
<b>2 bedrooms</b>	£705	£575	123%
<b>3 bedrooms</b>	£870	£650	134%
<b>4+ bedrooms</b>	£1,450	£1,100	132%

Note: 1 August 2004

Source: Valuation Agency [http://www.voa.gov.uk/corporate/\\_downloads/xls/PRM\\_Q12014\\_AllTables.xls](http://www.voa.gov.uk/corporate/_downloads/xls/PRM_Q12014_AllTables.xls)

### ***Social sector rents***

Social sector rents in Exeter are lower than the England average in the local authority and Private Registered Provider sector (Table 2.8). Rent increases have been broadly in line with the national average over the last two years for which data is available but with local authority rents rising by a greater percentage (16%) than rents with Private Registered Providers (12%).

**Table 2.8 Social rents**

	Exeter	England	Exeter as % England
<b>Local authority (2012-13)<sup>54</sup></b>	£67.48	£78.78	86%
<b>Private Registered Provider (2013)<sup>55</sup></b>	£80.26	£88.41	91%

Source: Department for Communities and Local Government

### ***Council Tax***

The average council tax for a Band D property in Exeter was £1,514 in 2014/15 marginally lower than the average for shire areas nationally. The council tax for Exeter City Council (excluding parish precepts) was £132. Within Devon, only East Devon district council charged a lower Council Tax for this band. The Exeter Council Tax rose by 1.99% on the previous year. Exeter City Council was one of four districts in Devon to increase their Council Tax last year.

<sup>54</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/267541/LT702.xls](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/267541/LT702.xls)

<sup>55</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/269860/20131212\\_Table704.xls](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/269860/20131212_Table704.xls)

## HOW AFFORDABLE IS HOUSING IN EXETER?

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### Introduction

The previous section examined how incomes and the cost of household essentials have changed over time. It showed how real incomes across the England had fallen and that overall, average housing costs across the population have fallen by almost a fifth since 2007/08, with this entirely due to falling interest rates that have reduced the cost of housing for mortgaged households. This section considers the issue of housing affordability - the relationship between housing costs and incomes – exploring two common approaches:

- Examining the *percentage of income that is spent on rent or servicing a mortgage or loan*. This draws on the authors own analysis and research by the Resolution Foundation that examines housing affordability across different tenures and for different stylised households for all local authorities across the UK (Resolution Foundation, 2013)<sup>56</sup>. Both analyses adopt the threshold of 35% of disposable income spent on rent or mortgage to determine whether housing is affordable (or not); and
- Assessing the *ratio of average earnings to average house prices*, sometimes referred to as the 'Median Multiple' although often the mean or lower quartile measures are taken.

It should be borne in mind however that not all households pay rent or have a mortgage. Within Exeter, this includes the 31% of households that own their home outright or live rent free. This rises to 70% of households where the head of household (the 'Household Reference Person') is retired and/or aged over 65.

### Home ownership

Slightly less than one-third (30%) of households in Exeter owned their home with a mortgage or loan at the time of the 2011 Census.

### Mortgage payments as a percentage of income

The Resolution Foundation research calculates on-going costs of home ownership in Exeter for three stylised families:

- A couple without children living in a one bedroom property
- A couple with one child living in a three bedroomed property
- A couple with two children living in a three bedroomed property.

See [http://www.resolutionfoundation.org/media/media/downloads/Home\\_Truths\\_2.pdf](http://www.resolutionfoundation.org/media/media/downloads/Home_Truths_2.pdf) for more information about the assumptions underpinning the research.

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<sup>56</sup> Applying the 35% threshold suggests that while social rents and shared ownership is affordable for low to middle income families in Exeter, private rent and home ownership is only affordable for families on median incomes or for couples without children on low incomes. Private rent is marginally more affordable than home ownership for all couples with children.



The findings show that all three of the families could afford to service a mortgage in Exeter if they were earning median incomes although those with children would be close to their affordability threshold (Table 3.1). Child-free couples earning slightly less – at the 35<sup>th</sup> percentile – could also afford to buy. However, families at the 35<sup>th</sup> percentile could not afford the on-going costs of home ownership in Exeter as the mortgage would account for more than two-fifths of their income. Home ownership is also out of reach for child-free couples for the poorest 25% of earners.

**Table 3.1 Proportion of net income spent on housing costs, for family at percentile shown of net household distribution, for given tenure**

	Couple without children living in a one bedroom property	Couple with one child living in a two bedroom property	Couple with two children living in a three bedroom property
<b>Own with mortgage</b>			
<b>25<sup>th</sup> - Very low income</b>	38%	48%	49%
<b>35<sup>th</sup> - Low income</b>	32%	41%	42%
<b>50<sup>th</sup> - Median income</b>	26%	32%	33%

Source: Resolution Foundation [http://www.resolutionfoundation.org/media/media/downloads/Home\\_Truths\\_2.pdf](http://www.resolutionfoundation.org/media/media/downloads/Home_Truths_2.pdf)

The authors' own calculations show (Table 3.2) that a full-time male on median earnings in Exeter would need a deposit of £43,350 to afford an average one-bedroom flat in Exeter assuming an average advance of 3.28 times gross salary<sup>57</sup> (typical for first time buyers). An average first-time buyer deposit of 22% would generate a budget of £106,865. While this is well below the average price of a one-bedroom flat it would be sufficient to purchase one of the cheaper flats being advertised on Rightmove<sup>58</sup>.

The calculations show that it is fairly difficult for a single person earning any less than median wages to afford a small flat, unless they have a sizeable deposit. In this example, it is the lending criteria and in particular the size of the deposit that determines what can be afforded since the monthly repayment is well within the affordability threshold of 35% of take-home pay.

**Table 3.2 House purchase affordability for male on full-time median earnings**

Deposit	LTV	House price	Monthly repayment
£4,500	5%	£87,375	£474
£9,500	10%	£92,375	£448
£21,000	20%	£103,875	£413
<b>£24,000</b>	<b>22%</b>	<b>£106,875</b>	<b>£412</b>
£37,124	31%	£120,000	£401
<b>£43,350</b>	<b>34%</b>	<b>£126,226</b>	<b>£401</b>
£67,124	45%	£150,000	£397

<sup>57</sup> The average advance ratio for full time buyers in 2013 according to the ONS.

<sup>58</sup> 22 properties (excluding retirement and park homes) were advertised with an asking price below £106,875 on 12 August 2014.

A dual earning couple with children on median wages would need a deposit of £85,467 to afford a two-bedroomed house in Exeter (while staying within 3.28 time salary lending criteria). At 43% of asking price, this deposit would be almost twice that of a typical first-time buyer deposit.

The monthly repayment, at £705, would be cheaper than renting an average 2 bedroom home in the City (£705). A modest deposit of 10% would generate a budget of £123,800 sufficient for a one-bedroom flat but not adequate for a family with children.

Statistics from the ONS suggest that affordability among full-time buyers nationally has improved in recent years with the mortgage payments as a percentage of income falling from almost 24% in 2007 to 18% in 2013. On this measure, housing is comparably affordable to 1993 when house prices were almost a quarter, and mortgage advanced less than a third, of their current level<sup>59</sup>.

### **House price to earnings ratio**

The house price to earnings ratio is another commonly reported indicator of house price affordability. The Department for Communities and Local Government publishes two measures of housing affordability at the district level:

- Ratio of lower quartile house prices to lower quartile earnings
- Ratio of median house prices to median incomes.

In both cases, the ratio is published on an annual basis using workplace-based average earnings data from the Annual Survey of Hours and Earnings. The results presented in Table 3.3 show that at almost 7 times earnings, the average house price in Exeter is less affordable than the England average. Encouragingly, housing affordability on this measure is easing slowly, with the 2013 figure the lowest for around a decade. However, house prices remain relatively unaffordable locally for the lowest earners aspiring to purchase the cheapest housing with house prices exceeding incomes by almost 8, compared to 6.5 nationally.

Replicating DCLG's methodology using residence-based earnings data (Table 3.3) shows that Exeter is less affordable for residents than for its employees (who may work outside of the district) with the disparity with the national average widening when affordability is calculated on a residence basis. The median multiple rises to 7.6 compared to 6.8 for Exeter's workforce, and to 8.3 for its lowest paid residents, compared to 7.8 for the local workforce.

Lloyds Bank plc periodically produces average income multipliers for 69 UK cities, including Exeter<sup>60</sup>. The latest analysis, for 2014, ranks Exeter the 11th least affordable city in the UK reporting a mean average house price to mean full-time earnings (residence-based) of ratio of 6.95 (slightly lower than that reported the previous year, 7.25). Oxford, Winchester, Truro and Bath are the least affordable cities in the UK: all have a price to earnings ratio of 8.0 or more although at 11.25 the ratio is considerably higher in Oxford than elsewhere.

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<sup>59</sup> <http://www.ons.gov.uk/ons/rel/hpi/house-price-index/may-2014/rft-annual-may-2014.xls> (Table 38).

<sup>60</sup> <http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2014/140210-affordable-cities-v2.pdf>

**Table 3.3 House price to earnings ratios**

Indicator	Year	Exeter	Norwich	England	Exeter as % of England
<b>Workplace based</b>					
<b>DCLG</b>					
Lower quartile <sup>61</sup>	2013 <sup>P</sup>	7.80	6.34	6.45	1.20
Median Multiple <sup>62</sup>	2013 <sup>P</sup>	6.82	5.67	6.72	1.01
<b>Residence based<sup>†</sup></b>					
<b>Author's calculation based on DCLG</b>					
Lower quartile	2013	8.27	6.84	6.47	1.27
Median multiple	2013	7.63	6.02	6.65	1.14
<b>Lloyds Banking Group<sup>63</sup></b>					
Mean multiple	2014	6.95	6.69	5.84*	1.19

Notes:

<sup>†</sup> Author's calculation using ASHE 2013 Annualised Full time Earnings and average of Q1 and Q2 2013 house prices.

\* UK Cities Average

## Other approaches to measuring the affordability of home ownership

The housing charity Shelter has adopted innovative approaches to assessing housing affordability across the UK local authorities. The 2014 report, "Homes for our children"<sup>64</sup> calculated the percentage of properties that were advertised on Zoopla that were affordable for three household types<sup>65</sup>. The results for Exeter suggested that 0.5% of homes were affordable for a single person<sup>66</sup>, 1% were affordable for a couple with children<sup>67</sup> and 12% were affordable for a couple with no children<sup>68</sup>.

"The house price gap" report also published in 2014 showed that if wages had risen as fast as house prices in Exeter between 2007 and 2012, an average couple with children would earn an extra £27,281 a year, couples without children £36,375 and single household £18,187<sup>69</sup>. Exeter's overall position in the affordability ranking of this study – 252 out of 325 – was relatively favourable, possibly because the study used workplace-based earnings data (which is higher than comparable residence based data).

<sup>61</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/321016/Table\\_576.xlsx](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321016/Table_576.xlsx)

<sup>62</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/321017/Table\\_577.xlsx](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321017/Table_577.xlsx)

<sup>63</sup> [http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2013/2303\\_home.pdf](http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2013/2303_home.pdf)

<sup>64</sup> [http://england.shelter.org.uk/\\_data/assets/pdf\\_file/0011/869159/2014\\_23\\_06\\_Zoopla\\_Homes\\_for\\_our\\_Children.pdf](http://england.shelter.org.uk/_data/assets/pdf_file/0011/869159/2014_23_06_Zoopla_Homes_for_our_Children.pdf)

<sup>65</sup> Assumed 82% mortgage advance and 3.4 times salary lending multiple

<sup>66</sup> One full time income and one bedroom property

<sup>67</sup> One full time income and one part time income

<sup>68</sup> Two full time incomes

<sup>69</sup> [http://england.shelter.org.uk/\\_data/assets/pdf\\_file/0003/758046/House\\_price\\_gap.pdf](http://england.shelter.org.uk/_data/assets/pdf_file/0003/758046/House_price_gap.pdf)

## Shared ownership

The Resolution Foundation “Home Truths” research also explored the affordability of shared ownership across local authority areas. It found that shared ownership was an affordable option across all three of its stylised low and middle earners locally (Table 3.4). Relatively few – 470 - households in Exeter part owned and part rented their home (i.e. had ‘Shared Ownership’) at the time of the 2011 Census.

**Table 3.4 Proportion of net income spent on housing costs, for family at percentile shown of net household distribution, for given tenure**

	Couple without children living in a one bedroom property	Couple with one child living in a two bedroom property	Couple with two children living in a three bedroom property
<b>Shared ownership</b>			
<b>25<sup>th</sup></b>	22%	28%	28%
<b>35<sup>th</sup></b>	18%	23%	24%
<b>50<sup>th</sup></b>	15%	19%	19%

Source: Resolution Foundation [http://www.resolutionfoundation.org/media/media/downloads/Home\\_Truths\\_2.pdf](http://www.resolutionfoundation.org/media/media/downloads/Home_Truths_2.pdf)

## Private renting

At the time of the 2011 Census, 21% households were renting their home either directly from a private landlord or through a letting agent. Renting is particularly common among student households (90%), non-student adult ‘sharers’ under 65 (41%) and co-habiting couples with no children (39%).

The Resolution Foundation found that while couples and families on median incomes could rent appropriately sized accommodation only child-free couples on incomes at least at the 35<sup>th</sup> percentile could afford to rent a home privately (Table 3.5). Families on the 25<sup>th</sup> lowest percentile could least afford private rents.

**Table 3.5 Proportion of net income spent on housing costs, for family at percentile shown of net household distribution, for given tenure**

	Couple without children living in a one bedroom property	Couple with one child living in a two bedroom property	Couple with two children living in a three bedroom property
<b>Private rent</b>			
<b>25<sup>th</sup></b>	38%	44%	44%
<b>35<sup>th</sup></b>	32%	37%	37%
<b>50<sup>th</sup></b>	26%	29%	29%

Source: Resolution Foundation [http://www.resolutionfoundation.org/media/media/downloads/Home\\_Truths\\_2.pdf](http://www.resolutionfoundation.org/media/media/downloads/Home_Truths_2.pdf)

Authors' calculations using earnings data from the Annual Survey of Hours and Earnings and information about private rents collected by the Valuation Agency <sup>70</sup> (Table 3.6) show that the cost of a one bedroom property is at the upper limits of affordability for a male full-time employee on median earnings in Exeter. However, it would certainly be unaffordable if other deductions, other than tax and national insurance, were factored into the analysis (e.g. pensions and student loans) <sup>71</sup>.

More than 35% of employed men living in Exeter, however, could not afford the £1,500 needed for a studio flat<sup>72</sup>. A single person working 40 hours a week at the minimum wage would only just be able to afford the average price of a room in a share house<sup>73</sup> leaving £167 a week for all other expenses.

**Table 3.6 Median monthly private rental market rents: 1 April 2013 to 31 March 2014**

	Exeter	England	Exeter as % England	Monthly income required to be 'affordable'	Monthly Local Housing Allowance Rates <sup>1</sup>
<b>Room</b>	£386	£338	114%	£1,103	£319
<b>Studio</b>	£525	£475	111%	£1,500	
<b>1 bedroom</b>	£575	£500	115%	£1,643	£500
<b>2 bedrooms</b>	£705	£575	123%	£2,014	£606
<b>3 bedrooms</b>	£870	£650	134%	£2,486	£707
<b>4+ bedrooms</b>	£1,450	£1,100	132%	£4,142	£950

Note: 1 August 2004

Source: Valuation Agency [http://www.voa.gov.uk/corporate/downloads/xls/PRM\\_Q12014\\_AllTables.xls](http://www.voa.gov.uk/corporate/downloads/xls/PRM_Q12014_AllTables.xls)

A family comprising one male full-time employee and one female part time employee both on median wages with two children aged under 16 could notionally afford a three-bedroom property – based on an affordability threshold of £893 per calendar month (Table 3.6) <sup>74</sup>. This size of accommodation would not be affordable, however, for many families earning less than median incomes. The same family earning the minimum wage<sup>75</sup> or combined earnings at the 25<sup>th</sup> percentile<sup>76</sup> would theoretically receive enough through wages and benefits to afford a two bedroom property.

<sup>70</sup> Eligibility for benefits was calculated using the benefits calculator [www.turn2us.org.uk](http://www.turn2us.org.uk) and take-home pay using [www.thesalarycalculator.co.uk](http://www.thesalarycalculator.co.uk). Zero pension contributions are assumed.

<sup>71</sup> Median annual gross salary for male full time worker in Exeter in 2013 was £25,267. Using take-home pay calculator suggests net monthly income would be £1,678 assuming no other deductions (for example, pensions and childcare). This would suggest an rental affordability threshold of up to £587.30 per calendar month.

<sup>72</sup> A working male with earnings at the 30th percentile would take home £1,387 while those at the 40th percentile would take home £1,578.

<sup>73</sup> This assumes gross pay of 252.40 a week based on 40 hours at £6.31 an hour (or £13,124.80 per annum). Once tax and insurance are deducted this leaves take-home pay of £989.97. Added to this is £122.68 of housing benefit a month (based on Band B property and Council Tax bill of £1177.60 per annum). Total 'take-home income would be £1,112.65 producing an rent affordability threshold of £389.

<sup>74</sup> This assumes take-home pay of £1,678 for the full time working male, £726 for the part-time working female and £147 in Child Benefit. The affordability threshold would therefore be £893 (35% of £2,552).

<sup>75</sup> This assumes combined take home pay of £1,400 plus benefits of £838.50 (Child Tax Credit, Housing Benefit and Child Benefit). The affordability threshold would therefore be £783 (35% of £2,239).

<sup>76</sup> This assumes combined take home pay of £1804.32 a month and benefits of £493 (including Child Tax Credit, Housing Benefit and Child Benefit). The affordability threshold is therefore £804 (35% of £2,298).

As rents for all sizes of property are higher in Exeter than the England average and wages are lower, rentals are less affordable locally than the national average. Using male full-time employees on median wages as an example, an Exeter resident would have almost £100 less to spend on housing (while keeping rent affordable) compared to the England average.

Furthermore, as housing is more expensive locally, the smaller budget, buys considerably less. The affordability threshold for a full time male on median earnings nationally is £675 a month, enough to secure a 3-bedroom property. As we saw earlier, the Exeter resident's £587 budget would only secure a 2 bedroom property.

## Social renting

Less than one-fifth (17%) of households in Exeter were living in social rented housing at the time of the last Census. Social housing was more common among one person households and families with children particularly lone parents with dependent children.

According to the Resolution Foundation's analysis, social rents in Exeter are affordable for local people on low incomes (Table 3.7) insofar as rents account for less than 35% of disposable income.

**Table 3.7 Proportion of net income spent on housing costs, for family at percentile shown of net household distribution, for given tenure**

	Couple without children living in a one bedroom property	Couple with one child living in a two bedroom property	Couple with two children living in a three bedroom property
<b>Social rent</b>			
<b>25<sup>th</sup></b>	22%	21%	20%
<b>35<sup>th</sup></b>	19%	18%	17%
<b>50<sup>th</sup></b>	15%	14%	14%

Source: Resolution Foundation [http://www.resolutionfoundation.org/media/media/downloads/Home\\_Truths\\_2.pdf](http://www.resolutionfoundation.org/media/media/downloads/Home_Truths_2.pdf)

## Household characteristics

Conventional, housing affordability indicators are not available by household characteristics, however, the HBAI-based estimates of low income after housing costs provides a detailed assessment of the risk of poverty once *housing costs have been deducted*. The characteristics associated with the highest risks of low income after housing costs are:

- Being in a workless households, particularly one in which one or more members are unemployed (76%) or economically inactive (52%)
- Being single with children (42%)
- Being disabled and of working age (33%)

- Living in a household where the head of household is from an ethnic minority group other than Indian, but particularly Bangladeshi (56%), Pakistani (48%) or Chinese (46%)
- Social rented sector (42%) or private rented sector (37%) tenants.

Estimates of median household income after housing costs for different family types and economic status groups are presented in Table 3.8 below.

**Table 3.8 Median household income after housing costs for family type and economic status groups in average 2012/13 prices; UK**

	£	% of all individuals average
Workless, one or more unemployed	174	46
Workless, other inactive	219	57
Single with children	248	65
No full-time, one or more part-time work	304	80
Couple, one full-time work, one not working	322	85
Single female pensioner	344	90
Workless, one or more aged 60 or over	350	92
Couple with children	365	96
Single male without children	366	96
Single female without children	368	97
Single male pensioner	372	98
<b>All individuals</b>	<b>381</b>	<b>100</b>
One or more full-time self-employed	384	101
Pensioner couple	407	107
Couple, one full-time, one part-time work	445	117
Couple without children	513	135
Single/couple all in full-time work	523	137

Source: Table 2.3tsAHC [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/325422/hbai-2012-2013-supporting-excel-files.zip](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325422/hbai-2012-2013-supporting-excel-files.zip)

# CONSEQUENCES OF THE COST OF LIVING SQUEEZE IN EXETER

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## Introduction

This section explores the research question:

What are the consequences of low housing affordability for individuals and households, businesses and communities?

The section draws on the responses to the Exeter Cost of Living Residents' and Stakeholders survey as well as research produced by Shelter (2010), the Centre for Housing Research at the University of York (2009) and Oxfam (2012). Before describing the consequences of the cost of living squeeze in some detail it is worth noting that stakeholders had observed 'recurring crises' as households struggled to balance their budgets.

As one stakeholder explains:

*"In the past, the majority of clients in debt came about following a crisis in their life, for instance bereavement of a partner, divorce or separation, ill health. Increasingly, we are now seeing more clients in debt due to their incomes not keeping pace with the cost of living. We are now seeing higher level of 'priority debts' such as rent, council tax, mortgage payments and utilities."*

For some, if not many, therefore, the problems described below are not isolated instances but have become part of every-day life.

## Impact of individuals and families

### Family and relationships

One-hundred and nine individuals provided a response to the question:

What impact, if any, has this increase in expenditure had on ... your family life and relationships?

Around a fifth said that the increased spending had not affected their family or relationships with the remainder most frequently mentioning reduced opportunities for a social life or family outings and the stress that this creates within the family:

- *"It is more difficult to justify spending money on non-essentials, which help solidify relationships. Also financial strain causes stress, which can impact negatively on oneself and one's relationships."*
- *"I took early retirement from the NHS but, as my small pension is now not enough to live on, I've had to go back to work at the age of 60 so we can survive. My husband has*



*suffered a breakdown and is now unable to work. No social life to speak of. Can't enjoy an occasional meal out or holidays like we used to."*

- *"It has put a strain on our family relationships as we are not able to do the things that we are able to do."*
- *"The strain of 'making ends meet' has a detrimental effect on our marriage and makes the children sad."*
- *"Stress and mental health have been affected so added tension"*
- *"Impossible to have a relationship when you are struggling to be happy with your own life."*
- *"We can't do anything or go anywhere. Feel very resentful as we both work very hard. Also very worried about what will happen if interest rates go up. We can't afford any more on the mortgage".*
- *"We're a close family, but increased debt has meant a struggle with depression"*

As one stakeholder explained:

*"Finances are usually the causes of stress in the families and individuals we support. Therefore we don't see a simple correlation with increasing numbers seeking financial support, rather we see an increase in people experiencing higher levels of stress. We are starting to see greater numbers impacted by sanctions."*

The stress of struggling to pay for housing costs was also found to be a source of tension and disagreement by the Shelter study. This source found that around one in six adults (16% / 7.5 million) confirmed that that housing cost worries caused arguments with their partner or members of their family. The stress associated with, and living on, low incomes can have serious consequences for individuals' mental and physical health (Oxfam, 2009) including severe health problems such as heart disease, high blood pressure, diabetes, depression, anxiety disorders, and other illnesses<sup>77</sup>.

Other responses to the Exeter survey included less frequent trips to see their extended family (including parents), working additional hours with the consequence of limiting family time and for one respondent, delaying plans to get married:

*"It means it costs more to run the car, less time and money to visit relatives in nearby towns due to the extortionate prices of bus fares and petrol costs".*

The Shelter study identified a range of ways in which high housing costs were detrimental to family and relationships. This included affecting couples' decision about when to start a family, had led individuals' to live with a partner, or knew someone who had, because they couldn't afford to live apart; prompted young (and not-so-young) people to live with their parents with detrimental effects on their outside relationships; limiting opportunities for grand-parents to look after children because adult children could not afford to live near them; affecting the functioning of the labour market as people could not afford to move for work; borrowing on credit to pay for housing costs; fears that children will not be able to afford a decent home and the need to save for 10 years for a deposit.

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<sup>77</sup> <http://www.nimh.nih.gov/health/publications/stress/index.shtml>

## Personal finances and day-to-day spending decisions

The responses to the online survey echoed many of the consequences of poverty on individuals' material well-being identified by Oxfam (2009). That is: being forced to make choices between eating and heating; visiting different shops in order to buy food at the lowest prices; experiencing difficulties coping with unexpected expenses; paying a 'poverty premium' for gas, electricity and banking; debt and being unable to afford family outings or invite friends or family round for a meal.

### *Money management*

Most of the Exeter survey respondents identified at least one consequence of rising housing expenditure on essentials on their personal finances and day-to-day spending decisions<sup>78</sup> with only 6 replying that they were unaffected in this way.

Among those that were affected, the most common impact was being more careful about what they spent their money on and in some cases drawing-up, and keeping to, a budget. Several respondents used the words "careful" and "cautious" to describe their current approach to money-management. This sometimes included planning meals in advance to avoid wasting food.

- *"I bank on line checking outgoings on a weekly basis and have a daily budget that is worked out to pence and I am lucky if I am able to have a balance in the black at the end of each month. I have no savings and had to opt out of my pension to make up for the pay freeze."*
- *"Everything has to be weighed up and prioritised"*
- *"Having to watch literally every penny. No holiday for over 2 years, car not serviced/maintained as well. Much more careful with weekly food shop - tend to shop around more."*
- *"We continually plan and try to save but paying bills leave little for fun. All expenditure has to be planned and not spontaneous."*
- *"We have always been careful and natural savers. We know how much money we have. We have redirected money towards our children that we would have otherwise spent on ourselves. We will not have made a contribution to the High Street in any way."*

Respondents also said that they were stopping or cutting back on non-essentials such as holidays<sup>79</sup> and clothes, or had changed their shopping habits to make their money go further such as shopping switching to budget brands and supermarkets or buying second-hand clothes. Comments included:

- *"I shop at cheaper supermarkets, make my own lunches, cook food rather than buy ready meals, I grow vegetables."*
- *"We spend as little as possible when out and very rarely eat out, etc. I buy second hand clothes and items whenever I can, or do without."*

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<sup>78</sup> One hundred and eighteen respondents replied to the question "What impact, if any, has this increase in expenditure had on ... your personal finances and day-to-day spending decisions".

<sup>79</sup> A recent study by Barnardos (2014) calculated the cost of 'no-fills' bank holiday trip to the seaside for an average family of four from towns and cities across the Country. While the cost of a trip to Torquay from Exeter was one the cheapest identified in the research this was still calculated to be out of reach for the poorest one-fifth of families.

- *“Less disposable income available to save for retirement, change motor vehicle, move house and be much more selective buying day to day items.”*

Stress was mentioned again, by a small number of residents and a few others respondents that they were unable to save or put money into a pension or were drawing down their savings.

- *“Supplementing wages with savings to pay for essentials. Wage does not cover even rent, but too much savings to claim benefits.”*
- *“There are no savings, hardly any treats, no holidays just the basics are being bought. Clothes are only bought if desperately in need.”*

### ***Heat or eat***

The responses from a small number of residents suggested that they were struggling to provide essentials, going without themselves in order to provide for their children.

- *“Don’t use heating & eat once a day”*
- *“No money for food”.*
- *“I can cope with cutting back to the bare minimum for myself but it's soul-destroying having to scrimp on food when your children are hungry”.*

As stakeholder had also observed “carers increasingly neglecting their own needs to ensure that their "cared for" is adequately fed / clothed etc.” While not mentioned by any of the residents, a respondent from a local foodbank reported a significant increase in demand for their services prompted in part by benefit processing errors and delays, and benefit changes and sanctions.

- *“... our clients’ testimonies suggest that temporary delays in benefit payment - a major problem in its own right - should be understood as a ‘tipping point’ for more cumulative problems, which include: costs of living (particularly housing and heating costs), low wage and temporary employment, and other welfare-related issues (cuts, previous delays and sanctions)”.*

The foodbank also observed an increase of in-work poverty, particularly among single parents and larger families and reported that:

- *“In the summer of 2013, several families accessed our services who would normally be in receipt of free-school meals; during the holidays, parents struggled to provide sufficient food. Several reported having had to choose between ‘heating or eating’ last winter.”*

### ***Debt***

Problems with debt and associated stress were mentioned by residents and stakeholders. The latter had observed higher ‘priority’ and problem debt which has led to stress, depression and relationship difficulties.

- *“More clients have found themselves in 'recurring crises' and been intermittently reliant on EFB for longer periods; increased living costs have made it harder for people to climb out of the 'poverty trap' and more have fallen into unmanageable debt.”*

Comments from residents included:

- *“Find life very stressful as am constantly aware that cannot afford to spend money on personal luxuries like new clothes or shoes. Whenever there is a large expense such as car MOT, replacement fridge etc., I usually have to borrow money to afford it and then figure out how to squeeze extra money from budget to cover repayments. Now grow as much of my own food as possible, but have a very small garden. I eat less protein and rarely drink alcohol although I do brew my own from hedgerow ingredients”*
- *“Finances are a disaster. I have to juggle the bills, and use credit for essentials.”*

Research by The Children’s Society and StepChange Debt Charity suggests that almost 2,000 families in the parliamentary constituency of Exeter – 18% of the total - are failing to keep up with household bills and loan payments. This means almost 3,500 local children are living in families with problem debt. Each struggling family is behind on repayments by an average of £4,100 and across the constituency families are estimated to owe a total of £8.1 million in bills and loans.

The report, *The Debt Trap: Exposing the impact of problem debt on Children*, published in August 2014, reveals that families with dependent children, “face extra pressures as they are more likely to face unexpected bills and are less able to cope with sudden financial shocks”<sup>80</sup>. Furthermore, “as families begin to struggle financially, many feel that taking on credit is the only way to make ends meet – a third of all families have had to borrow money to pay for essentials for their children in the last year” causing some children to suffer from anxiety, experience bullying and miss out on essentials. The Shelter study found that:

- 28% of people have reduced the amount they spend on food
- 13% questioned in their survey had sometimes resorted to borrowing on a credit card to help pay for their housing costs
- 18% of 18-34 year olds felt that high housing costs had affected their ability to move for work.

## **Future prospects and aspirations**

One hundred and seventeen respondents answered the question:

What impact, if any, has this increase in expenditure had on ... your future prospects and aspirations?”

The responses to this question were overwhelming negative with several suggesting that it was difficult or impossible to think about the future when finances were stretched.

- *“Feel unable to plan ahead, think about the future, just living day by day.”*
- *“We cannot plan for the future, there is just no spare money for saving.”*
- *“The future looks pretty bleak in terms of career / finances for my self-employed husband and me as a working mother of three.”*
- *“It is difficult to be optimistic about the future when you work in the public sector. Aspirations are for other people these days.”*
- *“No time for aspirations, trying to survive”*

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<sup>80</sup> <http://www.childrensociety.org.uk/what-we-do/resources-and-publications/publications-library/debt-trap-exposing-impact-problem-debt-ch>

Where specific concerns were raised these were often about keeping their home or reduced prospects for home ownership:

- *“To survive without being homeless long enough for my two adult children to survive independently”*
- *“Haven't got any, no chance to own a home just struggling on a daily basis”*
- *“Prospects: difficult to see a way out of the current situation in the foreseeable future. Aspirations: would like to step up onto the housing ladder and have financial security.”*

Others mentioned concerns about the security of work and being unable to take advantage of educational opportunities to improve their situation for themselves or their children:

- *“We may not have jobs in the future and I am very scared at what is happening.”*
- *“Worry about the future means having to work hard to earn enough money to put bright children through higher education and not be poor in old age! Having to rethink work and job security in a big way.”*

One stakeholder had observed changes in demand for their training services:

- *“Demand for services that are free (e.g. certain learning courses, Volunteering for Stronger Communities etc.) has increased. However, learners have been increasingly put off applying for progression courses that are no longer subsidised and require the learner to pay or part-contribute.”*

Others concerns were around lack of savings and in particular their ability to provide for themselves in retirement.

- *“Lack of ability to save for the future means any income issues could become serious in the future.”*
- *“No aspirations for the future as can't plan ahead - have no job-security any more. Unable to save towards a pension.”*
- *“Looking, hoping for better work. Probably going to be a rubbish old age. No house, no pension, little savings.”*
- *“My retirement age has moved much further away. Despite a lifetime of work and full NI contributions I will be working far longer than I had hoped. Our children will have to have huge student loans and although we had hoped to have saved for them the amount is totally inadequate. Parents' and children's' lives and decisions are inextricably linked. I will encourage them to leave the South West and probably the country.”*

The Exeter residents' survey also asked respondents “thinking about the next 3 years, your own financial situation and the current economic situation; are you worried about being able to meet your rent or mortgage repayments?” One-in-five responded that they did have a mortgage or pay rent<sup>81</sup> and of the remainder, more than half (54%) said that they were concerned. Almost a third (31%) were not concerned and 15% didn't know. The Shelter study found that:

- 50% of renters believe they will never be able to afford to buy in their local area
- One in five people believe they will have to remain working after retirement age in order to pay off their mortgage

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<sup>81</sup> A fifth (21%) of respondents owned their home outright.

- 38% of people believe that their children or future children, will not be able to afford a decent home

Certainly, the Census reveals a decline in home ownership in Exeter between 2001 and 2011 both overall and among young people<sup>82</sup>. While worsening affordability of home ownership is likely to have played a part in this, other factors such as, “delayed entry into the labour market, high levels of student debt, the need for labour market mobility when establishing a career, delayed family formation and a commitment to a consumerist lifestyle, all contribute to weaker demand for homeownership amongst younger age groups” (Centre for Housing Policy, 2009).

While not necessarily caused by worsening housing affordability there does appear to be an association between the worsening housing affordability and local authority waiting lists, overcrowding and rapid rise in the number of households on local authority waiting lists between 2005 and 2011 but the number has fallen back by 40% over the last 2 years. However, it is not clear whether this is due to a change in eligibility criteria. In 2013, 4,623 households were on the local authority housing waiting list.

Almost one in ten (9%) households in Exeter was overcrowded<sup>83</sup> at the time of the 2011 Census<sup>84</sup>. This is one percentage point higher than the previous Census. Overcrowding is a particular feature of the rented sector where almost one in five (19%) of households are overcrowded in Exeter in 2011.

The number of households in Exeter claiming housing benefit has increased from 8,170 in May 2009 to 9,334 in May 2014. Nationally, Government expenditure on housing benefit increased by 11% between 2009/10 and 2013/14 in real terms<sup>85</sup>.

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<sup>82</sup> The percentage of home-ownership among Household Reference Persons (HRP) fell from 66% in 2001 to 61% in 2011 for all households and from 44% to 29% for HRPs aged 16 to 34 over the same period.

<sup>83</sup> Has an occupancy rating of -1 or less. See <http://www.neighbourhood.statistics.gov.uk/dissemination/LeadMetadataDownloadPDF.do?downloadId=188> for explanation of how occupancy ratings are calculated.

<sup>84</sup> This is the same percentage as the England average.

<sup>85</sup> <https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014>

**Table 4.1: Some social and economic consequences of worsening housing affordability**

	Individual/Household	Employers	Wider economy	Government
<b>Access to home ownership</b>	<ul style="list-style-type: none"> <li>Households priced out of the market</li> <li>Accessibility increased if parents also homeowners as deposit/credit constraints major barrier to homeownership</li> <li>Unfulfilled aspirations</li> </ul>	<ul style="list-style-type: none"> <li>Recruitment and retention problems in some public agencies.</li> <li>Some employers responding by increasing wages.</li> </ul>	<ul style="list-style-type: none"> <li>Inflationary pressures as wages increased</li> </ul>	<ul style="list-style-type: none"> <li>Pressure to subsidise access for first-time buyers</li> <li>Plans to expand homeownership limited</li> </ul>
<b>Access to other tenure</b>	<ul style="list-style-type: none"> <li>Unfulfilled demand for home ownership displaced to private renting, which expanded to meet demand</li> <li>Increased demand for social housing but no additional supply produced greater expressions of housing stress, such as overcrowding, waiting lists etc.</li> </ul>	<ul style="list-style-type: none"> <li>Recruitment problems associated with lack of provision of affordable housing, particularly in rural areas</li> <li>Cost to employer in providing accommodation to employees</li> </ul>		<ul style="list-style-type: none"> <li>Costs to support households in temporary accommodation, and consequences of housing stress, e.g. health and educational outcomes on children of overcrowding</li> </ul>
<b>Sustainability of home-ownership</b>	<ul style="list-style-type: none"> <li>High housing costs, high income multiples or high LTVs all increase risk of default</li> <li>Low inflation environment increases duration of debt burden for new entrants</li> <li>Consequences of</li> </ul>		<ul style="list-style-type: none"> <li>Repossessions depress housing market and consumer spending</li> </ul>	<ul style="list-style-type: none"> <li>Review homeownership safety nets to minimise wider social and economic impacts of mortgage default</li> </ul>

	mortgage default impact upon status, children's outcomes, self-esteem, health and well-being		
<b>Access to housing wealth</b>	<ul style="list-style-type: none"> <li>• Increased incidence of re-mortgaging and secondary lending, has posed risks to sustainability</li> <li>• Small numbers of older people lifted out of poverty in old age</li> <li>• Used to supplement income and increase consumer spending and used to support family members access to tenure</li> </ul>	<ul style="list-style-type: none"> <li>• Mortgage equity withdrawal contributes money into the economy, fuelling additional consumption</li> <li>• Sensitivity to housing market fluctuations can cause volatility in wider economy</li> </ul>	<ul style="list-style-type: none"> <li>• Potential for state to rely on people funding their retirement, income interruptions and other welfare situations through their housing equity</li> <li>• Welfare support to renters and defaulting homeowners</li> </ul>
<b>Social inequalities</b>	<ul style="list-style-type: none"> <li>• Geography and date of entry of home ownership can influence the amount of housing wealth generated</li> <li>• Disparities between owners and non-owners, but also between different home owners as more affluent owners accrue greater housing wealth</li> </ul>		<ul style="list-style-type: none"> <li>• Manage inequalities produced by housing market as renters have no access to housing wealth</li> </ul>

Source: Centre for Housing Policy (2009)



## Employers and the economy

A recent survey of London employers undertaken by the CBI demonstrates the business consequences of how an over-heated housing market (CBI, 2014). A quarter of those responding to the survey identified high housing costs as a risk to London's ongoing competitiveness compared to other world cities and the second biggest threat to international competitiveness, after the general cost of doing business. The vast majority of London businesses surveyed (83%) felt that there was a lack of good quality affordable housing in the city, with half (48%) saying that this had increased their costs. Almost two-thirds of respondents (61%) listed housing costs and availability as having a negative impact on recruitment of entry level staff, with half of respondents saying the same thing for mid-level managerial employees and a quarter (23%) for senior staff. Firms highlighted various other negative effects on business growth:

- 42% said that they are having to pay a premium to attract and retain staff
- 41% said they have experienced issues with people being unable to afford to live in the local area
- 24% said employees were having to move away from the local area because of housing costs and therefore having to leave their job.

The majority of firms said they had not considered relocating their company because of high housing costs but a worrying 16% said they had.

As housing in Exeter is considerably more affordable than London - and most of the South East – it is unlikely that the consequences reported in the Capital are being felt as intensively locally. Certainly, only two employers responding to the Exeter Cost of Living survey thought that housing had influenced their ability to recruit and those that did were equally split between those that thought housing costs had made it harder and those that thought it had made it easier. This could be because Exeter's relatively more affordable housing than London and the South West makes it easier to attract workers from these areas (particularly those looking for 'family friendly' environments).

Employer respondents were more likely to cite pressure to increase wages as a consequence of rising housing costs than any other impact. Where comments were provided these indicated that employers were sensitive to wage levels and did what they could to balance employee expectations with respect to wage increases with the need to remain competitive.

- *"We have had the opportunity and funding to pay more to attract and retain key personnel, so there has been some upward pressure on pay for some (but not all) appointments."*
- *"We pay the wages the company can afford to attract the staff we need"*
- *"We have tried to keep up with inflation. This has helped with retention as staff are well aware they could be a lot worse off elsewhere!"*

Four employers identified other impacts of housing costs on their business. These were largely concerned about the impact of housing costs on their employees rather than the financial or operational functioning of their business:

- *"It will do as mortgage rates interest starts to increase in the next few months"*
- *"People have less disposable income to spend on non-essentials"*

- *“Staff living further out of town.”*
- *“Lack of affordable business properties as landlords convert buildings to MO residence if at all possible.”*

Previous research (Centre for Housing Policy, 2009) has suggested that the labour market impacts of low housing affordability are experienced more intensively by public sector employers particularly those who cannot respond to recruitment difficulties by improving staff salaries and/or benefits packages, due to problems of rigid national pay scales. There is some evidence that, while housing affordability among key workers has improved substantially since 2008 and is approaching the level seen 10 years ago before the house price boom, vast swathes of Southern England remain unaffordable for the average key worker (Halifax, 2013).

One employer recognised that travel costs were an issue for some of their employees and that this had impacted on retention.

Another employer felt that the recent erosion in real wages affected their business through less consumer spending. The impact of rising house prices on the local economy is unclear as while mortgage equity withdrawal and/or lower mortgage costs has fuelled additional consumption, repossessions and the rise in housing costs has depressed the consumption of others<sup>86</sup>.

## Communities and stakeholder organisations

Two thirds of the respondents to the Exeter Cost of Living Stakeholder survey said that the squeeze on living standards had led to an increase in demand for their services. This included increased demand for affordable rented accommodation, financial assistance, advice and guidance on debt and other issues and food distributed through Foodbanks. The increase in demand had created challenges for some organisations.

- *“Our staff and volunteers are under more pressure and we have seen an increase in clients demonstrating challenging behaviour. At the same, public sector funding pressures create an environment of financial uncertainty and difficulty planning medium - long term.”*
- *“As with most of the community sector, we are being asked to do more for less. Staff are therefore facing rising demands, ever harder decisions to make and increased pressure.”*
- *“We have had to significantly scale-up our service delivery in all areas, including sourcing larger food storage space and recruiting large numbers of volunteers. [ ...] EFB’s rate of accelerated growth has also placed significant strain on the Foodbank in terms of organisational structure, staffing, finances, and governance. EFB is almost entirely volunteer-led and volunteer-run, yet is increasingly called upon to deliver a professional service comparable to that of a fully-staffed, statutory organisation. All involved have undergone a steep learning curve and been significantly stretched in terms of time, skills and experience. While EFB has learnt fast and are keen to meet local need, the sustainability of this rate of growth needs to be taken into serious consideration.”*

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<sup>86</sup>86

# THE LIVING WAGE

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## Introduction

The research also sought to explore *“What costs and benefits would adoption of a “Living Wage” confer on household incomes, employers and the wider economy?” How could the City Council promote benefits to businesses?*

The Living Wage “is an hourly rate of income calculated according to a basic cost of living in the UK and defined as the minimum amount of money needed to enjoy a basic, but socially acceptable standard of living. In 2014 the UK Living Wage rate stands at £7.65 per hour, and the London Living Wage is set at a higher rate of £8.80 per hour to take account of the comparatively higher cost of living in the capital” (Living Wage Commission, 2014).

The Living Wage campaign was started, and remains led by, community organisers London Citizens and Citizens UK, who have established the Living Wage Foundation to accredit Living Wage Employers.

There are currently 825 employers accredited by the Living Wage Foundation, which have committed to paying a Living Wage to all directly employed and subcontracted staff. 47 accredited Living Wage employers are located in the South West.

An estimated 5.2 million people are paid below a Living Wage in the UK. The Living Wage Commission has set a target of bringing an additional 1 million workers up to a Living Wage by 2020, spread across the public and private sector. To achieve this, the Commission set out a number of recommendations (see Box 1). Most notably for Local Government these include the recommendation that:

- The UK and devolved government ensure that all directly employed public sector employees are paid a living wage
- The UK and devolved governments ensure that the public sector always procures on value, rather than spreadsheet cost, which would enable stronger consideration of contractors paying a Living Wage; and
- Central and local government should support the Living Wage by championing it to employers across the UK.

The commission highlights lack of awareness particularly outside London, as one of the chief barriers to increasing coverage of the Living Wage and the voluntary accreditation system. A recent survey by UNISON across all 375 authorities in England and Wales found that more than a quarter (27%) had adopted the Living Wage. Another two-fifths (38%) told the union in response to Freedom of Information requests that they were considering such a move. Exeter City Council has pledged to offer all of its employees the Living Wage and is exploring how best to champion the campaign across the City. The following sections explore the costs and benefits of a Living Wage.

## Employees in Exeter who are below the Living Wage

Applying national estimates of the percentage of employees that earn less than the living wage by sector to the industry profile of Exeter reveals that more than one-fifth of employees who live in Exeter are thought to earn less than the living wage (Table 5.1). The incidence of low pay was highest in *accommodation and food services activities* where more than two-thirds of (69%) employees earned below the living wage. Most Exeter residents earning less than the living wage work in one of three sectors: *wholesale and retail trade; repair of motor vehicles and motor cycles* (31%); *accommodation and food service activities* (24%) and *human health and social work activities* (13%). Unfortunately it is not known how many of the 47 South-West based Living Wage accredited employers are located within Exeter or how many employees are benefiting from the scheme.

**Table 5.1 Distribution of sub-living wage employees resident in Exeter; 2011**

	Est. total staff*	% staff paid below LW†	No. staff paid below LW	% total below LW
Wholesale and retail trade; repair of motor vehicles and motor cycles	8863	38	3368	31
Accommodation and food service activities	3703	69	2555	24
Human health and social work activities	8112	17	1379	13
Education	6438	12	773	7
Administrative and support service activities	2125	36	765	7
Arts, entertainment and recreation; other service activities	2060	31	638	6
Manufacturing	2468	11	271	3
Professional, scientific and technical activities	3074	7	215	2
Transport and storage	2394	8	192	2
Construction	2247	8	180	2
Public administration and defence; compulsory social security	3726	4	149	1
Real estate activities	742	12	89	1
Information and communication	1457	6	87	1
Financial and insurance activities	1348	5	67	1
Agriculture, forestry and fishing	178	29	52	0
Water supply, sewerage, waste management and remediation activities	588	8	47	0
Electricity, gas, steam and air conditioning supply	793	3	24	0
Activities of households as employers; undifferentiated goods - and services - producing activities of households for own use	19	22	4	0
Mining and quarrying	45	3	1	0
Activities of extraterritorial organisations and bodies	10	0	0	0
<b>All categories: Industry</b>	<b>50410</b>	<b>22</b>	<b>10857</b>	<b>100</b>

Notes:

\* Estimated number of employees from DC6602EW - Industry by economic activity and QS605EW – Industry (Residence-based population), 2011 Census (Total employment adjusted for employees).

† Source: Appendix 1: <http://livingwagecommission.org.uk/wp-content/uploads/2014/06/Work-that-pays-The-Final-Report-of-The-Living-Wage-Commission-w-3.pdf>

A similar approach using workplace-based (as opposed to residence-based) employee estimates generates a similar profile (Table 5.2).

**Table 5.2 Distribution of sub-living wage employees in Exeter; 2011**

	Est. total staff*	% staff paid below LW†	No. staff paid below LW	% total below LW
Wholesale and retail trade; repair of motor vehicles and motor cycles	11,833	38	4,497	31
Accommodation and food service activities	3,894	69	2,687	19
Human health and social work activities	12,863	17	2,187	15
Education	8,748	12	1,050	7
Administrative and support service activities	2,905	36	1,046	7
Arts, entertainment and recreation; other service activities	2,623	31	813	6
Professional, scientific and technical activities	5,472	7	383	3
Manufacturing	2,977	11	328	2
Public administration and defence; compulsory social security	7,501	4	300	2
Transport and storage	3,046	8	244	2
Construction	2,884	8	231	2
Real estate activities	1,289	12	155	1
Information and communication	2,251	6	135	1
Financial and insurance activities	2,099	5	105	1
Water supply, sewerage, waste management and remediation activities	1,192	8	95	1
Electricity, gas, steam and air conditioning supply	1,644	3	49	0
Agriculture, forestry and fishing	165	29	48	0
Activities of households as employers; undifferentiated goods - and services - producing activities of households for own use	23	22	5	0
Mining and quarrying	33	3	1	0
Activities of extraterritorial organisations and bodies	8	0	0	0
<b>All categories: Industry</b>	<b>73,067</b>	<b>20</b>	<b>14,357</b>	<b>100</b>

Notes:

\* Estimated number of employees from WP605EW - Industry (Workplace population), 2011 Census (Total employment adjusted for employees).

† Source: Appendix 1: [http://livingwagecommission.org.uk/wp-content/uploads/2014/06/Work-that-pays\\_The-Final-Report-of-The-Living-Wage-Commission\\_w-3.pdf](http://livingwagecommission.org.uk/wp-content/uploads/2014/06/Work-that-pays_The-Final-Report-of-The-Living-Wage-Commission_w-3.pdf)

## Cost and benefits of a Living Wage

### Households

Given the complex relationship between pay and household income, earnings and the tax and benefit system, the precise impact of a more widespread Living Wage on family incomes will vary for each household (Table 5.3). Estimates suggest that average gross annual pay for people previously earning less than the Living Wage (but at or above the National Minimum Wage) would

increase by approximately £1,280 to £11,540 a year. Universal application of the Living Wage would raise the wages of just over five million employees, 20.6% of the total.

**Table 5.3 Gains for families if all employees were paid at least the Living Wage**

	Average annual net income	Average increase in net income	Average % change in net income
Single no children	£13, 079	£727	5.6%
Couple no children	£27, 106	£922	3.4%
Lone parent	£22, 612	£398	1.8%
Couple with children	£31, 549	£614	1.9%

Note: Figures are only for households who would see an increase in wages, not the average across all households  
Source: Authors' calculations using FRS and LFS

Source: IPPR/Resolution Foundation

However, the Living Wage is not all about pay. The interim report of the Living Wage Commission, Working for poverty, showed how the average Living Wage employee had double the amount of family time as the average minimum wage employee. This worked out as an additional three hours a day.

The Exeter Cost of Living survey asked residents if receiving a Living Wage would improve the financial circumstances of their family. More than one-quarter (27%) of those that responded to the questions felt that it would make a difference. Of the remainder, almost two-thirds (57%) felt that it wouldn't make any difference to them while 16% "didn't know" whether it would make a difference or not. Both sources therefore suggest that around one-fifth to one-quarter of employees and households could benefit from the introduction of a Living Wage in Exeter.

Several residents (29) felt the Council and its partners could help alleviate the cost of living squeeze locally by helping to raise local wages with almost half of this group specifically recommending that the Council promotes the Living Wage to local employers or commits to paying its own staff a Living Wage.

*"The Council's commitment to pay the Living Wage is commendable and makes a big difference to their employees. On the wider level the pledge to require external contractors to do likewise can only help those on lower wages and there will be a noticeable 'knock on' effect on the local economy."*

## Employers

Several studies have been carried out into the business case for the Living Wage, with a general conclusion that there are clear benefits on productivity associated with higher effort and openness to change of job role, lower staff turnover, reduced absenteeism, increased stability of the workforce, increased morale, motivation and commitment, and reputational benefits.

However, the Commission recognises that the transition and on-going costs of offering a Living Wage is prohibitive for employers in some sectors, and some sizes of business. This is particularly the case in the retail, hospitality and social care sectors which employ large numbers of low paid employees. For many employers, adopting the Living Wage has resulted in a relatively small increase in wage budgets. The main barriers to offering a Living Wage are:

- Affordability. The Resolution Foundation and IPPR study into firm-level wage bill changes calculated an additional firm-level wage bill cost (including moderate wage spillover effects) of 6.2% for bars and restaurants, and between 4.7% and 4.9% for retailers. Furthermore, the Wills and Linneker study notes that while employers had mitigated these costs in a number of ways (for example, by using fixed price contracts or reductions in headcount and/or hours) only one employer was able to make savings as a result of the transition to paying the Living Wage.
- Maintaining differentials. Some employers have expressed a concern about pressure to raise wages of all staff if they offer the Living Wage to their lowest paid staff in order to maintain existing differentials in pay scales. The IPPR and Resolution Foundation study on firm level wage costs suggest that maintaining differentials for construction firms added 0.1% to the other costs of implementing the Living Wage. Additionally some firms, felt that differentials would become less necessary as Living Wage staff took on wider roles and responsibilities.
- Stability of business. Some small businesses felt there was a risk that indexing the lowest levels of pay to that of the Living Wage would inhibit their flexibility. This is because smaller businesses are less able to cushion shocks to their business.
- Total reward packages. Some businesses that pay below the Living Wage offer additional benefits that result in higher overall wages than a basic Living Wage would provide.

All but one employer taking part in the Exeter Cost of Living Survey had heard of the Living Wage before the survey. Encouragingly, six had already made a commitment to pay some or all of their employees a Living Wage and two were still thinking about it. A further four employers said that they had not thought about it but may consider it in future. Three had not thought about it but were unlikely to do so in future. When asked about barriers to implementing a Living Wage all respondents cited cost or affordability.

## **Wider economy**

Research undertaken by the IPPR/Resolution Foundation (2013) suggests that Universal application of the Living Wage would see HM Treasury benefit from a rise in income tax receipts and national insurance contributions rise alongside a fall in spending on tax credits and in-work benefits, achieving gross savings of around £3.6 billion<sup>87</sup>.

The costs and benefits of a Living Wage would have differential effects on government, with an estimated £1.3 billion in wages paid to public sector workers (in public administration and defence, education, and health and social work) reducing the net savings to the state to approximately £2.2 billion. However, a study of the relative change in labour demand from the National Institute of Economic and Social Research (NIESR) showed that there could be a net reduction of around 160,000 jobs in the labour market from a statutory living Wage.

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<sup>87</sup> IPPR / Resolution Foundation – Beyond the Bottom Line: the challenges and opportunities of a Living Wage. 2013.

## Good practice messages for promoting to business

The literature review revealed very little in terms of good practice message for promoting the Living Wage to employers. However, the Living Wage Commission (2014) has set out a 'road map' for achieving its recommendation that the Government makes an explicit goal to increase the take-up of the voluntary Living Wage to benefit at least 1 million more employees by 2020. It has made this recommendation on the basis that its evidence suggests that this can be achieved 'with no adverse effects'. In addition to recommending that all public sector employees are paid the minimum wage the Commission has proposed a series of sector-based sub-targets for the private sector. It envisages the Government's championing role of the Living Wage to the private sector to encompass:

- Making the case to employers paying below the living wage
- Celebrating employers that have brought employees up to a Living Wage, and
- Establishing transparency measures to provide a clearer picture which publicly listed companies pay a living wage to all employees.

The commission views public procurement as an important vehicle for spreading coverage of the Living Wage and have recommended that contracts are awarded on value rather than spreadsheet cost. It does not advocate specific compulsory Living Wage requirements of suppliers. A procurement guide produced by KPMG is identified as an example of using the Living Wage in sustainable procurement practices (see Appendix 4 of [http://livingwagecommission.org.uk/wp-content/uploads/2014/07/Work-that-pays-The-Final-Report-of-The-Living-Wage-Commission\\_w-4.pdf](http://livingwagecommission.org.uk/wp-content/uploads/2014/07/Work-that-pays-The-Final-Report-of-The-Living-Wage-Commission_w-4.pdf))

Suggestions for action at the local level in building public awareness and championing Living Wage employers includes:

- Events hosted by local authority leaders and Government Ministers to celebrate employers that are demonstrating a will to make work pay, and to encourage others to follow.
- Encouraging locally accredited employers to display the Living Wage Employer kite mark as widely as possible (for example, on their websites, in their buildings, in publications, and on public sites).
- Publicising a planned on-line tool that will show consumers where they can buy Living Wage goods and use Living Wage services in their area

Lessons from the United States have shown that campaigns that are strongly rooted in the community are more successful than those that are not. The Commission therefore advocates that the Living Wage continues to be rooted in the principles of community, encouragement and celebration. Beyond this, lessons for implementation appear to be:

- Recognising that many small employers and some low-paying sectors (such as retail, social care and hospitality) face affordability constraints. Campaigns targeting 'low-hanging fruit' are likely to be more successful in the short-term.
- Promoting the business benefits to employers and suggesting ways to mitigate against some of the constraints.
- Harnessing the spirit and energy of community, voluntary and civil society groups in taking the message to employers in innovative ways (for example, Citizens UK arranged a 150-strong *flash-mob* protest in a West London Tesco store, before arranging a meeting with the Chief Executive).

Annex A of this report presents some good practice on implementing the Living Wage outside London.



## STRATEGIES AND SOLUTIONS

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### Introduction

This final section describes some of the ways in which Exeter City Council and its partners, through the Cost of Living Forum could help local residents with the rising cost of living. It starts with a summary of the suggestions put forward by residents, employers and stakeholders.

### Feedback from the surveys

At the end of each survey, residents, employers and stakeholders were asked what they thought the Council and the Cost of Living Forum should do to help them with the rising cost of living.

#### Residents

While the suggestions from residents were wide and varied, two options were highlighted more than any other. Increased wages were mentioned most often including some recommending the Living Wage specifically or appealing for the Council to offers its staff a pay-rise:

*“The Council's commitment to pay the Living Wage is commendable and makes a big difference to their employees. On the wider level the pledge to require external contractors to do likewise can only help those on lower wages and there will be a noticeable 'knock on' effect on the local economy.”*

Council tax reductions either overall or discounts for specific groups was the second most commonly mentioned proposal. Other popular suggestions included: lowering rents and/or the cost of public transport, job creation and providing advice and guidance. A smaller number still, perhaps from the 'squeezed middle', felt that there was more scope to do more to those that typically fell outside existing safety nets and reversed the perverse disincentives to work and saving.

*“People on the lowest wages don't need the help - they get support and people on the highest don't need it. Find a way to give help and support to those on just over living wage.”*

#### Employers

Employer comments were most commonly on the Living Wage with one observing that:

*“Communicate the economic truth that some businesses are relying on the state to subsidise their profits through tax credits etc. because they do not pay their workers a living wage.”*

Another supported raising tax thresholds as an alternative to the Living Wage in raising the income of the low paid another thought the Council should reduce business rates to help the economic case of the Living Wage for small employers:

*“I find it irritating that the City Council have funded their Living Wage scheme in such a way and then ask small private businesses to pay a living wage. Cut our business rates or VAT or Tax to fund increases in pay.”*

Two further employers recommended cutting Council Tax and/or business rates and another to stop further development for student accommodation in preference for accommodation for non-students. Finally, one employer, recommended:

*“Encourage inward investment into Exeter but it has to be the right quality - high value, well paid, skilled jobs. First class leisure and entertainment facilities to encourage people to send their money here and thus create more opportunities for all.”*

## **Stakeholders**

Stakeholders were asked what ‘opportunities exist to help residents respond to the squeeze on living standards? In particular, they were asked to draw on any good practice they had observed locally or elsewhere that had potential to be replicated locally. Most of the respondents mentioned financial advice and guidance as an area for further support. For example,

- *“A better focused credit union to help people access low-cost short-term finance. More financial education as a prevention tool. Continue the excellent work of the Exeter Money Advice Partnership. Encourage local employers to adopt the Living Wage.”*
- *“Christians Against Poverty (CAP) provide excellent debt-management and budgeting-skills advice. Exeter CAB holds helpful one-to-one drop in sessions to help clients manage personal debt. Homemaker South West, a local charity that helps disadvantaged people maintain their own homes, provides free, confidential advice on mortgage arrears and other housing issues.”*

Another suggested help with benefit and energy costs while another stakeholder mentioned: Devon and Cornwall Food Association Together we could set up buying schemes and ways of people to come together to make money go further.

Unsurprisingly, funding was the most frequently mentioned constraint to making things happen although one stakeholder also mentioned the availability of volunteers. The stability of funding was also raised as an issue.

- *“Geographically our money matters service is based in Dorchester, Dorset and the % properties in Exeter area is quite low, therefore visits to the area are quite intensive when they are arranged and pressure is on to access as many tenants who need our help as possible.”*
- *“Largely around funding and funding uncertainty for third sector support agencies. Mainstream current services into City Council processes (Exeter Money Advice Service is an excellent example). Perhaps require tenants to attend financial capability as part of the rental agreement?”*
- *“Funds come via the LEP, and Exeter does not have particularly strong representation on the LEP Board. The funds will also be thinly spread compared to other neighbouring LEP areas as the HotSW LEP covers Devon, Somerset, Plymouth & Torbay.”*

One respondent highlighted a funding opportunity:

- *“Next year there will be funds released from the European Social Fund (via the LEP)-matched by BIG Lottery, to combat social exclusion and poverty”.*

Stakeholders were asked how these constraints could be overcome. Suggestions included:

- *“A possible reciprocal money matters arrangement with another provider in the area or increased use of the CAB and other similar service”*
- *“Use the funding available to help people before a crisis presents (financial capability) and when a crisis occurs. This should be cheaper in the long-term rather than increasing debts to the City Council and local businesses.”*
- *“Putting together a strong partnership bid for some community development work focussed on low incomes and shared costs.”*
- *“Exeter needs to get its business case for investment ready now. As the money is largely ring-fenced for the VCSE sector, we need a coordinated approach to meeting local need, not just a scramble for funds among local charities.”*

Stakeholders were finally asked if they had any other comments or recommendation they would like to make to the Cost of Living Forum. These were:

- *“Implement a Robin Hood tax.”*
- *“It would be great to be involved further in this project to be able to jointly develop responses to this need.”*
- *“Housing costs are still a huge issue, and we need a bold, unapologetic plan to increase housing and to focus on models that deliver the most affordable housing. Also (I would say this!) over 20% of the city is now in the private rented sector where costs are high, and security low. It would be good to develop and strengthen ExeTRA's long term future, and for the council to perhaps look at establishing an "ethical" lettings agency to lead change in the sector.”*

## **Towards a Cost of Living Strategy**

This final section of the report highlights some of the ways in which Exeter City Council and the Cost of Living Forum could help local people with the rising cost of living. It draws on responses from the residents, employer and stakeholder surveys, suggestions from the existing policy research literature and our own reflections through undertaking this research.

### **Tackling low pay**

Before examining some specific ways in which Exeter City Council and its partners can help raise household incomes in the City it is worth putting these ideas in a broader context. The Work Foundation for example, has recommended that the Government sets out a strategic framework for a coordinated low pay strategy for the UK, which “explicitly aims to reduce the share of low-wage jobs in the British economy” (Work Foundation, 2014). The Foundation is calling for action to:

- Raise wage floors (e.g. through adoption and promotion of the Living Wage by the public sector),

- Enable progression (e.g. through access to training and advice for low-wage workers and providing funding to develop career ladder schemes), and,
- Facilitate higher wage business models (such as developing sector strategies for tackling low pay, providing business support services to stimulate employer demand and use of skills, strengthening support for SMEs in moving towards higher wage business models and promoting employment rights among contingent workers).

While the recommendations in the paper are directed primarily at Central Government, it is clear that local authorities and their partners have an important role to play in tackling low pay. We consider some of these opportunities below.

## Living wage

The Work Foundation and the Living Wage Commission make similar recommendations about the Living Wage. For example, both recommend that local authorities should aim to be Living Wage employers and that the public sector should be supported in adopting “policies for ‘social/community benefit’ as part of sustainable procurement policies, in order to encourage wider payment of the Living Wage throughout their supply chains” (Work Foundation, 2014). The Living Wage Commission also sees a role for local government in championing the Living Wage to employers.

Exeter City Council has already committed to paying its employees a Living Wage. It could now:

- Consider pursuing formal accreditation as Living Wage employer and the resource implications of this,
- Explore how procurement processes can be adapted to ensure procurement ‘on value, rather than spreadsheet cost’ (Living Wage Commission, 2014) such as piloting a scheme whereby contractors submit two bids (one paying their staff a Living Wage and one not), and,
- Consider its role, if any, in proactivity championing the Living Wage outside its supply-chain, and resource these activities accordingly.

Any strategy for promoting the Living Wage to employers will need to reflect the demography of the local business population. Analysis of Inter Departmental Register data shows that there were 230 local units in Exeter employing 50 or more staff in 2013 *excluding* retail, accommodation, food and beverage service activities, residential care activities and cleaning activities<sup>88</sup> (sectors that research suggest would most struggle to afford paying their employees a Living Wage”).

Promotion of the City’s large companies will need particular consideration as they represent a fairly small pool of ‘targets’ overall but account for a disproportionately large share of employment. Large companies nationally employ two-fifths of the workforce (rising to more than a half of the workforce of medium-sized employers)<sup>89</sup>.

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<sup>88</sup> SIC codes 47, 55, 56, 87 and 812 have been removed from the unit totals.

<sup>89</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/254552/13-92-business-population-estimates-2013-stats-release-4.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254552/13-92-business-population-estimates-2013-stats-release-4.pdf)

**Table 6.1 Local units in Exeter, 2013**

Employment Sizeband	Total	Private sector total	Public sector total
<b>Total</b>	<b>3,870</b>	<b>3,630</b>	<b>250</b>
<b>Micro (0 to 9)</b>	2,905	2,830	80
<b>Small (10 to 49)</b>	720	630	105
<b>Medium-sized (50 to 249)</b>	200	155	55
<b>Large (250+)</b>	30	15	10

*Totals may not add up due to rounding*

*Source: IDBR accessed via NOMIS*

## Creating quality jobs

The Low Pay Commission has identified low productivity at the heart of the low pay challenge (Low Pay Commission, 2014). Recognising this, the Work Foundation has identified the need to recognise “the appropriate levels through industrial innovation policies targeted on low pay industries and changes in work organisation, practices, and progression with the workplace”. While Exeter City Council does not directly provide business support it can facilitate this process by:

- Attracting inward investment and accommodating the aspirations of local businesses through adequate supply of commercial and industrial land and premises,
- Exploiting the local commercial advantages of the University and further education colleges (for example, science parks), and,
- Building networks, access to advice & guidance etc.

## Stimulating a renaissance in City living

Our analysis shows that the average wage of Exeter residents is lower than that of people who work in the City. Simply, the patterns of commuting are such that more people on higher incomes commute into the City than commute out. This is consistent with the observation that people on higher incomes tend to travel furthest to work. Econometric analysis is required to fully understand how factors such as age, qualification level, industry and occupation and family status interact to generate this phenomenon but it is certainly not uncommon among Cities. To some extent it reflects the size of the local housing stock in relation to workforce and the extent to which local workers can be accommodated within the City.

One response to the issue of raising incomes of residents is to make City living a more attractive proposition to higher earners. Compared to Teignmouth, Mid-Devon and East Devon – which together account for around three-quarters of Exeter’s net gain in commuters – Exeter has fewer four bedroom homes and twice as many one-bedroom flats (as a share of all ‘household spaces’). The profile of housing supply is reflected in Exeter’s lower average house prices – when calculated on a simple basis – compared to these other areas. Unfortunately the ONS does not produce mix-adjusted house price data at the district or town level but Zoopla’s area guides suggest that the average asking price of a 4 bedroom house in Exeter was higher than those in Dawlish, Teignmouth, Crediton and Exmouth on the 1<sup>st</sup> September 2014 (but lower than in Newton Abbot, Honiton and Tiverton). The Zoopla data is based on fairly small numbers of records and be treated with a degree of caution but are interesting nevertheless in the absence of any other source.

Further research is needed to understand the housing and lifestyle preferences of people who commute into the City and in particular, explore the any deficiencies in the quantity or characteristics of the housing stock.

### **Helping local people access quality jobs**

Unemployment among Exeter residents is fortunately very low. The City's claimant count rate was less than half that of the England rate in July 2014 but was fractionally higher than in all other Devon districts except Torrington. Unemployment is largely frictional in nature with the vast majority claiming unemployment related benefits for less than 6 months. Long-term unemployment is less widespread than the national average. Exeter residents are more likely to hold higher level qualifications than the national average and compared to other Devon districts are only notably less qualified than residents of South Hams. These figures do not suggest a major problem in the matching of local talent to the skills needs of local businesses. That is not to say that some residents don't need help entering or re-attaching themselves to the labour market. It will therefore be important to monitor how well mainstream programmes are meeting the needs of local people and work with local partners to identify opportunities to supplement this where required.

Exeter, in common with many cities, 'loses' young people each year as they follow a fairly well-established 'flight-path' to the Capital and elsewhere across the South East. Some will be returning to their 'home' address after university but others will be Exeter residents seeking to take advantage of the career and cultural opportunities that the capital city offers. The challenge for City Council and others is not necessarily dissuading young people to leave in the first place but recognising that many of these young people will want to return – perhaps to start a family or look after ageing parents – and will be looking for quality employment opportunities when they do so. Economic development strategies that seek to generate high skill opportunities are essential in supporting this.

Many local young people will want to learn and/or earn locally. Good quality advice and guidance on local employment opportunities and entry routes into occupations are necessary to help young people plan their careers. This includes work experience placements will also allow young people to develop local employment networks and gain valuable experience of work.

### **Reducing costs**

Raising incomes is just one side of the equation. Easing the cost of living squeeze is also about reining in the cost of living.

#### **Council Tax**

Perhaps unsurprisingly many residents responding to our survey felt that lowering Council Tax either for all or offering discounts for certain groups was one way in which the Council could help residents with the cost of living. This seems an unlikely proposition however in the context of reduced Central Government funding to local authorities. Exeter City Council has identified the need to make additional savings of £3.5 million between 2014/15 and 2017/18 in its medium term

revenue plan. This is primarily in response to a reduction in central government support from £7.7 million in 2014/15 to almost £5.1 million in 2017/8.

## **Cost of housing**

Housing costs in any given housing market are determined by a broad range of factors. This includes labour market conditions, local amenities, environmental and aesthetic factors, demographics, crime and social capital, and the availability of finance on the demand-side and topology and natural obstacles, the extent to which an area is already built up, the state of the pre-existing housing stock and the market power of developers and/or construction companies on the supply-side (Niemietz, 2013). The power of local authorities or indeed central Government to influence these variables is fairly limited. However, government can directly influence the cost of housing through the land-use planning system:

*“The empirical evidence from around the world shows, as far conclusively as econometric papers can, that planning restrictions are a key determinant of housing costs. A good deal of the literature, though not of it, suggests that this is by far the most important determinant”.* Niemietz (2012)

While the housing shortage is a national phenomenon the rate of house building in Exeter also falls well short of anticipated demand. DCLG statistics show that 1,270 units were completed between 2010/11 and 2013/14 within Exeter district – four years into the five-year requirement of 5,282 articulated in the areas Strategic Housing Market Assessment (Opinion Research Services, 2010).

The British Social Attitudes Survey (DCLG, 2013) suggests that attitudes to new house building have softened in recent years particularly among the respondents aged 65 and over and those on the highest incomes<sup>90</sup>. Those opposed to development or holding neutral views were most likely to be persuaded to be more supportive by development that employment opportunities with financial incentives and/or they had greater control over what gets built in their local area also likely to encourage more support among the population at large. While the majority of respondents thought that there was a shortage of homes that were affordable to buy in their area and that affordability had worsened over the last 20 years, attitudes were more mixed in terms of the extent to which they thought building homes would improve affordability. Young people were the most pessimistic about the potential for house building to improve affordability.

## **Local purchase schemes and discounts**

The Council and its partners have limited if any influence on the cost of some of the items that residents would like help with. This includes childcare, private sector rents, water and public transport. However, there may be potential to develop grass-roots initiatives that help residents meet the costs of some of these items. Suggestions include:

- Local purchase schemes that reward customers who purchase items from local retailers
- Explore opportunities for cost savings with public transport operators.
- Encourage more market traders especially those selling fruit and vegetables and set-up ‘swap shops’ or foodbank-style operations that distribute free clothes, toys and household items

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<sup>90</sup> Opposition to new build homes fell from 46% to 31% between 2010 and 2013. At the same time, support for new homes rose from 28% to 47%.

- Encourage local businesses to set up pop up shops in unused rental space. Improve cycle networks to encourage people out of cars and buses. Don't just put in the cycle networks but consult with actual cyclists on whether it works and whether both cyclists and pedestrians are safe!
- Support private tenants in Exeter through local projects like ExeTRA <sup>91</sup>
- Setting up an 'ethical' letting agency that does not charge tenants for their services. The Chartered Institute of Housing and the Resolution Foundation (2014) have recommended that letting agents are regulated and the practice of charging tenants fees for their services is stopped. Letting agency fees can run to several hundred pounds.
- Continue to invest in recreational facilities especially those for children.

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<sup>91</sup> <https://exetercvs.org.uk/exetra/3151-new-exeter-project-supports-tenants-in-poor-housing>



## ANNEX A: GOOD PRACTICE FROM IMPLEMENTING THE LIVING WAGE OUTSIDE LONDON

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### Brighton & Hove Council

Brighton & Hove Council set up a Living Wage Commission which reported in March 2012<sup>92</sup>. The Commission comprised:

- Brighton & Hove City Council; Leader, Cabinet Member for Finance & Central Services, Labour & Co-op Group representative, Conservative Group representative
- City Council Chief Executive and Strategic Director for Resources
- Business representative; Chamber of Commerce, Economic Partnership
- CVSF representative and CEO CVSF
- Trade Unions representatives; Unison, GMB, Unite
- NHS Brighton & Hove
- Sussex Police
- University of Brighton
- The Living Wage Foundation
- Brighton & Hove Hotel Association
- Brighton & Hove Albion Football Club

Over a six-month period between 2011 and 2012, the Commission gathered evidence on a number of issues surrounding the Living Wage:

- Research on an appropriate Living Wage figure for Brighton & Hove
- Out of work and in-work households in poverty in the city
- Current pay levels in public, private and third sector
- Possibilities through public procurement
- Private sector business feedback

The Commission reflected that the attractiveness of a paying a Living Wage for businesses, and therefore the likely take up of a Living Wage by as many businesses as possible in an area, will depend critically on two factors. First, the actual cost of implementing the Living Wage, which is the difference between the current level of wages being paid and the level at which the Living Wage is set. This will vary between businesses, and is a fixed cost given any current number of employees. This fixed cost will be proportionately lower for companies with higher profit turnovers and / or lower labour to capital ratios. Second, the perceived balance between the cost of paying a higher, Living Wage and the benefit to the business in terms of staff retention and / or lower absenteeism and training costs. If the cost of training is high relative to overall wages, due for example to high staff turnover / absenteeism, an employer may get relatively large benefits from paying a Living Wage.

Brighton & Hove experiences higher living costs compared to many other parts of the UK, especially with regard to housing costs, and some key sectors of the local economy are based on low wage employment. Lower-paid employees in the city therefore face even greater pressure to

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<sup>92</sup> Living Wage Commission, Brighton & Hove Council. March 2012

meet living costs on current wages than those in other parts of the country. The Living Wage figure calculated for Brighton & Hove has therefore come out higher than the national rate.

The broad distribution of pay in Brighton & Hove has been analysed using data from the national Annual Survey of Hours and Earnings. This national, large sample survey collects information on wages from approximately 1000 workers in Brighton & Hove. Of these, 18 per cent of people across all employment sectors earn below the national Living Wage figure, £7.20 an hour.

Relatively few public sector jobs in the city are paid below £7.20, but over one in four private sector jobs are paid below £7.20. This is slightly better than the national picture for the public sector but slightly worse for the private sector. In addition to analysing its living costs and workforce pay structures, Brighton & Hove also surveyed the views of employers. Various approaches were taken to elicit the views of businesses:

- Direct feedback via members of the Commission that represent the business community, including representatives of the Economic Partnership, the Hotel Association, the Chamber of Commerce
- An on-line survey promoted through a range of means
- A 'Business Breakfast' on 07 February 2012 hosted by Julia Chanteray and Cllr. Bill Randall, Leader of Brighton & Hove City Council with key business stakeholders in the city
- A Chamber of Commerce 'Big Debate' on 28 February 2012, at which the membership debated the motion that, 'this house believes a voluntary Living Wage of £7.20 p/hr would be good for business in Brighton and Hove'.

As a result of the consultations, the Commission's recommendations to adopt a Living Wage of £7.20/hour covered the following:

- A campaign to be developed to raise awareness and promote the benefits of a Living Wage for businesses, including providing practical business support, developing a local 'kitemark' scheme and linking in with the national Living Wage campaign and the accreditation scheme. The campaign to include support and further work with retail, hospitality and wider tourism sectors.
- The City's overarching cross sector working forums, the Brighton & Hove Strategic Partnership and the Public Service Board to formally endorse £7.20 as a Living Wage for the city, to take responsibility for overseeing the campaign and for the long-term promotion and development of a Living Wage for the city. This work to include revising the success of the campaign over a two year period and agreeing further changes to the Living Wage level as appropriate.
- Brighton & Hove City Council, within its procurement process, to trial requesting contractors to submit a Living Wage and a non Living Wage bid as mandatory. With partners the council will share learning and help develop approaches to include the Living Wage in the procurement work of other public bodies in the city.
- Brighton & Hove City Council to lead by example in the public sector and, as part of this, explore the possibility of gaining formal accreditation as a Living Wage employer from the Living Wage Foundation.
- Community & Voluntary Sector Forum to lead by example in the third sector and, as part of this, explore the possibility of gaining formal accreditation as a Living Wage Employer from the Living Wage Foundation.

- Embed the principle and promotion of the Living Wage in all new city strategic plans, strategies and programmes, in particular the city's new economic development strategy.

## **Norwich City Council - Financial Inclusion Strategy**

In its Financial Inclusion Strategy, Norwich City Council<sup>93</sup> endorsed the growing recognition that a Living Wage, defined as the income required to maintain a safe and decent standard of living and having the ability to save for future needs, should be an aspiration that the Council can promote and encourage. As well as being beneficial to employees, a Living Wage brings benefits to employers through increased employee productivity and reduced staff turnover with resulting recruitment costs and beneficial effects on the local economy. Wide recognition of the initiative will be achieved by:

- exploring in conjunction with employers and partners how a Living Wage initiative can be developed in Norwich
- working towards how a Living Wage can be incorporated into the council's front facing contracts as they are re-let
- developing strong partnerships across the city to develop a broad based support and recognition for a Living Wage in Norwich

## **Ipswich Borough Council**

Ipswich Borough Council is a Living Wage employer – and that is official<sup>94</sup>. The Living Wage Foundation has awarded the Council its accreditation and today welcomed it to the employers in its ranks. The Council is the first local authority in Suffolk to gain accreditation for paying at least the Living Wage - which at £7.65 an hour outside London and is higher than the Minimum Wage - to both its staff and to its contracted teams, such as the cleaners who keep its buildings spic and span.

It introduced the Living Wage to its own employees last year in order to cut the gap further between highest and lowest earners, making pay fairer. It has now amended council rules to ensure that contractors, while not having to be accredited, must pay staff at least the Living Wage. Councillor Martin Cook, Resources portfolio-holder, said: 'We believe in a fair day's pay for a fair day's work and there is a lot of evidence of increases in productivity and improvement in customer service for those employers who have implemented a Living Wage. Making pay fairer is not only the right thing to do to help staff and those who have contracts with us, there is also a beneficial knock-on effect for the local economy.'

The Living Wage has received cross-party political support. Among other official Living Wage employers are Legal & General, Oxfam, Barclays Bank and the National Housing Federation.

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<sup>93</sup> Norwich City Council - Financial Inclusion Strategy. October 2012

<sup>94</sup> Ipswich Borough Council – Living Wage accreditation for Council – April 2014

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