

Making ends meet in Birmingham: assessing the impact of the living wage and welfare reform



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Executive summary

This report looks at what has been happening in Birmingham during a period of sustained economic uncertainty, exploring how the city has fared in some key areas – employment, housing, child poverty rates, and earnings. In doing this, the report also seeks to pinpoint some of the key challenges facing the city in the next few years.

In addition to the challenges and opportunities resulting from distinctive local circumstances, Birmingham, as with all parts of the UK, has had to confront a long period of declining living standards. Household incomes reached a peak in 2009 and earnings have not returned to this level yet. Until very recently rising prices, increases in rent and cuts to the value of benefits have meant that low to middle income households have been hit hardest. Many of the bundle of welfare reforms have affected individuals and families who were already struggling and changes in the labour market and the types of work available have made work much more insecure than previously. It is only in the last few weeks and months that there have been more positive signs in terms of wage growth and low inflation, and the reality is that making up lost ground will prove difficult for many households.

At a more local level within Birmingham, the city has witnessed significant increases in the proportion of workers who are self-employed since 2009: 13 per cent of all those aged 16-64 working in Birmingham in early 2014 were self-employed. While this may signal a growth in entrepreneurialism, the reality is that many self-employed workers face low pay and increased job insecurity. The city has also seen a dramatic increase in the proportion of households living in the private rented sector between 2001 and 2011. Although there is not a direct relationship between housing tenure and poverty, the higher costs associated with living in private rented accommodation can pose a challenge to households who are already more likely to be living on a low income (Padley and Hirsch, 2014).

Low pay contributes to low incomes that are inadequate in terms of providing all that is need for a minimum socially acceptable standard of living. Low pay is a real issue and an important factor in in-work poverty. The living wage – based upon Minimum Income Standard research undertaken at Loughborough University – provides an important means of combatting low pay. The latest available data (for 2013) show that Birmingham has a smaller proportion of workers below the living wage that nationally, 19 per cent compared to 21 per cent. The data also show that since the adoption of the living wage by Birmingham City Council, the proportion of public sector

workers below this level has fallen dramatically to only two per cent of workers, compared to eight per cent nationally. While this is clearly positive news for many public sector workers, other factors such as staff cuts or the outsourcing of lower paid jobs may also have contributed to this reduction. There is a stark contrast between public and private sector workers within the city: 27 per cent of private sector workers were paid less than the living wage in 2013 compared to two per cent in the public sector. The introduction of the living wage has clearly done much to reduce low pay in the public sector, but low pay within the private sector remains a challenge for Birmingham.

A key measure of how areas are faring in times of sustained economic uncertainty are levels of child poverty. The latest estimates show that after housing costs, child poverty levels in Birmingham in 2013 were well above the UK average. In 2013, 37 per cent of children in Birmingham were living in poverty compared to 25 per cent in the UK as a whole. At a ward level, only eight of the 40 wards in Birmingham had levels of child poverty lower than the national average of 25 per cent. Among the core cities in the UK, Birmingham has the second highest rates of child poverty behind Manchester. The child poverty estimates show that Birmingham faces significant challenges in terms of tackling and lowering child poverty levels, but that it is not alone in this as child poverty rates in the UK as a whole pose a remain unacceptably high.

In a context of low wage growth and high living costs seen over recent years, housing costs can have a significant impact on the ability of low to middle income households to make ends meet. The introduction of the bedroom tax, benefit cap and strict limits to the support given by the state to meet private rents is resulting in a shortfall between housing benefit and rent for about 8 per cent of all households in Birmingham. The average weekly shortfall between rent and housing benefit for those affected by the bedroom tax in Birmingham is £16.43 a week. For the six per cent of households in Birmingham in private rented housing with a gap between rent and housing benefit, the average shortfall is £32.29 a month. What the data on housing benefit show is that currently at least 35,000 households in Birmingham are at greater risk of acute hardship because they have to dig into other benefits in order to cover housing costs.

The recent economic uncertainty and the response at a national level have contributed to a growing number of households within the UK who are struggling to make ends meet. This report shows that in certain respects Birmingham has fared well during this period: the proportion with earnings below the living wage is lower than nationally and a growth in self-employment can be taken as a positive response to what has been a difficult labour market over the past few years. In other respects, the city faces a

number of challenges particularly in reducing child poverty levels and in encouraging employers in the private sector to pay a living wage. While there are signs at a national level of slow improvements in the broader economic environment, it is likely these challenges will have to be met in a context of continued austerity and fiscal constraints, reductions in local authority budgets, and only very modest increases in household earnings.

1 Introduction

The UK has faced an unprecedented decline in living standards since the start of the financial crisis. Earnings have fallen in real terms from their peak in 2009 and have failed to keep up with inflation since, leading to a sustained fall in their real value – real earnings remain about ten per cent below their pre-recession level despite recent modest growth. At the same time as earnings in general have been falling, the numbers of people in low-paid work has continued to rise, with the number earning less than two thirds of median hourly pay increasing by 250,000 over the last year (Corlett and Whittaker, 2014: 8) to 5.2 million, 22 per cent of all employees.

The past few years have also seen some significant changes in the composition of the labour market which is in a different state now compared to its pre-recession form. Although unemployment continues to fall, from a peak of 2.68 million in October 2011 to 1.97 million in September 2014, there has been a marked increase in the incidence of zero hours and temporary contracts that are far more likely to bring with them low pay and insecurity; while the number of people in work has started to pick up, work is paying less, relative to living costs, than it used to. For this and other reasons in 2012/13 there were as many households where someone was working who were in poverty as there were workless households in poverty (Carr et al., 2014). To put it another way, poverty is no longer principally located in pensioner and non-working households.

These structural issues relating to employment and pay are contributing to the difficulties that many households face in terms of making ends meet. They have been further exacerbated by fiscal constraints and policy change resulting in reduced support at a national and local level for households both in and out of work. The past few years have seen real terms reductions in the value of many benefits and tax credits on which low-income households depend and in combination, these factors have contributed to an increase in the number of households, across the income range, who are struggling to achieve an acceptable standard of living.

Against a backdrop in which many households are finding it a real challenge to make ends meet, there are attempts being made, both in the public and private sector, to tackle at least one of the prominent issues of recent years, namely low pay. The living wage – rooted in research that ask groups of members of the public what is needed in order to have a minimum socially acceptable standard of living (Davis, Hirsch and Padley, 2014) – was adopted by Birmingham City Council in 2012. The living wage is a key element of

Birmingham City Councils commitment to tackling inequality and deprivation and building a prosperous city.

This report explores what has been happening in Birmingham over this period of economic uncertainty, identifying some of the key challenges facing the city. It starts by looking at the current UK context, highlighting some of the key trends over the past few years in relation to austerity, welfare reform and the changes in the labour market. The report then narrows its focus to look at what has been happening in Birmingham with regard to the key areas of employment and housing. It then looks at the national and regional context in terms of the numbers of people who are living below a socially acceptable minimum income and which groups are most at risk of having low and very low incomes. Building on this section the report examines the living wage and low pay in Birmingham and what has happened in the city, region, country and the other core cities since 2011. The report then presents the latest estimates of child poverty in Birmingham followed by an analysis of administrative data from Birmingham looking at changes in council tax support, the impact of the benefit cap and housing benefit claimants in the city, all of which will have had an impact on the ability of individuals and households within the city to make ends meet.

2 Austerity, welfare reform and the changing labour market: the UK context



The squeeze on living standards and increased cost of living felt across the UK have arguably been exacerbated by 'austerity measures' and welfare reform at a national level. In efforts to cut the welfare bill – in part justified with reference to the importance of fairness within welfare provision – the value of many benefits and tax credits that previously provided support to low-income households both in and out of work has seen a reduction in real terms. As a consequence, many low income households have seen the cost of goods and services rise while the combined value of their earnings and support from the state has fallen. This mix of factors has increased the number of households struggling to make ends meet (Padley and Hirsch, 2014). It is not just low income households who have been finding it more difficult to make ends meet. In their review of the state of living standards, the Resolution Foundation have concluded that 'it has become harder to live a comfortable life on a modest or even typical income in modern Britain' (Plunkett, Hurrell,

and Whittaker, 2014: 2). Furthermore, the most recent British Social Attitudes survey revealed that one in five people in *working* households felt they were struggling on their present income to make ends meet (Baumberg, 2014: 11). This section of the report sets out the broad national level context, providing a basis from which to begin to make sense of what has been happening in Birmingham.

2.1 The impact of austerity

As noted in the introduction to this report, household incomes reached a peak in 2009 and earnings are still about ten per cent below this level. Real pay has fallen across the income distribution, but other factors have hit those at the lower end of the distribution harder, particularly cuts in the value of benefits, rising prices, and steady increases in housing costs in the rental sector. This has made it harder for those at the bottom to make ends meet.

With wages doing little better than stagnating for many, the rising cost of goods poses a challenge for middle to lower income households, and is most likely to have had the greatest impact on lower income households. Recent research by Which?¹ suggests that the poorest households are experiencing higher levels of inflation than the richest households, that those in rented accommodation face higher levels than home-owners, that single people without children face higher levels of inflation than other household types and that young people face higher levels than other groups. Those groups facing the highest levels of inflation are also the groups who face a significant risk of having incomes that do not provide a socially acceptable standard of living (Padley and Hirsch, 2014).

Taking a closer look at rising prices, between 2008 and 2014 the cost of food has increased by 26 per cent (based on Retail Prices Index), the cost of public transport by 37 per cent and the cost of domestic fuel by 45 per cent. As low to middle income households spend about 45 per cent of their income on these 'essentials' (Plunkett, Hurrell, and Whittaker, 2014) – namely transport, food and drink, and fuel – they have been hit harder than higher income households who spend only 28 per cent of their income on these goods and services.

During this period of economic downturn falls in and sustained low mortgage interest rates have meant that the cost of housing has decreased for a sizeable proportion of owner-occupiers. However, the benefits of low interest rates are far more likely to have benefited higher-income households

¹ Available at: <http://consumerinsight.which.co.uk/inflation> [accessed 20 September 2014].

(Emerson et al., 2014) – who are more likely to have mortgages – than those in the private or social rented sector. The proportion of income spent on housing costs has increased by ten per cent for those in the rented sector, while mortgage payers have seen the proportion of their income spent on housing costs fall by more than a quarter (28 per cent).

2.2 Welfare reform

Following the general election in 2010, reform of the existing welfare system assumed a high priority. This has been driven on one hand by a desire to cut the costs of the welfare bill and to challenge what has been repeatedly – and problematically – characterised as a ‘culture of dependency’. On the other hand, there is widespread agreement that the tax and benefits system had become unnecessarily complex, both for individuals and administratively, and difficult to navigate for claimants. One of the key motivations behind the introduction of Universal Credit, for example, was a desire to streamline the tax and benefits system, making it more straightforward to administer as well as providing claimants with a ‘bundled’ system of benefits and tax credits with less need for form filling.

Despite the laudable aims to simplify the existing organisation of tax and benefits, some elements of the welfare reform agenda have experienced problems in their introduction. This is particularly the case with Universal Credit, where the timetable for widespread implementation has been periodically pushed back (Wintour, 2014). In spite of delays in some areas, reform has seen the introduction of stricter sanctions regimes, for instance, for Jobseekers Allowance and Employment Support Allowance claimants, changes in eligibility criteria for certain benefits, and the introduction of a cap on the total amount of support from the state it is possible to receive. At the same time changes in the ways in which benefits are uprated year on year, which means that benefits will increase at a rate below inflation, has resulted in a lowering of the overall real value of many benefits.

These changes have had significant consequences for some households. Changes to housing benefit, through the introduction of the ‘bedroom tax’, for instance, have led to some families having to use their cash benefits to pay their rent. According to research undertaken by the New Policy Institute, in April 2014, 780,000 of the poorest families had a shortfall in their housing benefit as a result of welfare reform (Aldridge and MacInnes, 2014). The impact of these changes to housing benefit can be seen at a more local level as explored in Section 6 (see also Hirsch, Padley and Valadez, 2014).

The localisation of council tax benefit/support have also had an impact on the poorest families within the UK. Aldridge and MacInnes (2014) claim that as of April 2014, 1.4 million families were having to pay an average of £2.96 a week in council tax where previously they had been deemed too poor to pay. They estimate that within Birmingham, nearly 90,000 individuals who were previously claiming council tax benefit are having to pay an average of £2.80 a week. Again, this is an issue that is explored more in Section 6 of this report.

2.3 Changes in the labour market

There have been a number of key changes in the composition of the UK labour market since 2009. One of the most significant is that much of the recent increase in numbers of people in work can be accounted for by increases in self-employment. In March 2014, there were 730,000 more self-employed people than in March 2009, an increase of 20 per cent. Over the same period, the number of employees increased by 466,000, an increase of just under two per cent².

These increases have been viewed in different ways in the growing debate around self-employment. There are those who see the dramatic increases in self-employment as one of the big success stories of the most recent recession. Generally in periods of recession, individuals who have lost jobs would be likely to move into unemployment or economic inactivity, while this time around an 'entrepreneurial spark' (D'Arcy and Gardiner, 2014: 6) is said to have brought about an increase in the numbers setting up their own businesses. Growing government support for the self-employed is further viewed as having played a part in the growth in self-employment.

There are others who suggest that the increase in self-employment has been brought about less by an increased entrepreneurialism and more by necessity or a lack of alternative choices; that the growth in self-employment is made up of those who are in this position unwillingly, 'forced to go it alone due either to the lack of employee jobs or unscrupulous employers looking to minimise their liabilities' (ibid: 6). Importantly, when the self-employed are asked to give themselves a label, only a third consider themselves to be entrepreneurs and in 2013, 83 per cent of self-employed people do not employ anyone else (ibid: 19). Self-employment in the UK is not, then, currently dominated by individuals who own their own company, with a number of employees, but rather people who are likely to describe what they do as 'working for themselves'.

² Author calculations based on Labour Market Statistics June 2014 release (available at: <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/june-2014/index.html>)

The increasing number of self-employed individuals brings with it challenges in terms of low pay and poverty. There are currently challenges associated with capturing the pay of those who are self-employed, but in the best analysis of pay amongst self-employed workers, the Resolution Foundation found that in general those in self-employment have significantly lower median earnings than those in employment. In 2006/07 the gap between the median weekly earnings of employees and the self-employed was 28 per cent; by 2011/12 the gap had grown to 40 per cent. As well as their being evidence of a significant gap between earnings as an employee and as someone who is 'working for themselves', those in self-employment have seen significantly greater falls in average earnings than employees: average earnings in 2011/12 were 20 per cent lower than in 2006/7, during the same period employee earnings fell by six per cent (D'Arcy and Gardiner, 2014: 33).

It is clear then that self-employment has become a more important part of the labour market than previously and brings with it both short and long term implications. In the short term, for instance, self-employment tends to bring with it lower pay and pay that may come in 'lumps' rather than in predictable amounts at regular intervals. It is also associated with greater job insecurity with variations in hours worked from week to week. In the longer term, individuals who are self-employed may find it more difficult to access credit and mortgages and fewer self-employed have any kind of pension when compared with employees.

Increases in the number of individuals with zero-hours contracts have also signalled a real shift in the composition of the workforce and created challenging circumstances with regard to job security and consequently earnings for many workers. The ONS estimates that at the start of 2014 there were 1.4 million people with zero-hours contracts meaning that they were not guaranteed a minimum number of hours work (ONS, 2014a). In 2013, 50 per cent of workers on zero-hours contracts were under the age of 30; 22 per cent of all workers on zero-hours contracts work within health and social care, but these kinds of contracts are most prevalent within the hospitality sector (ONS, 2014b).

Together austerity measures, welfare reform and changes in the labour market can be seen to have created what Oxfam have referred to as a 'perfect storm' (Haddad, 2012; see also Williams, 2014) for households already in poverty and for those on the edge. The remainder of the report explores a range of indicators that indicate how Birmingham has fared in this context and what the key challenges facing the city are.

3 The Birmingham context

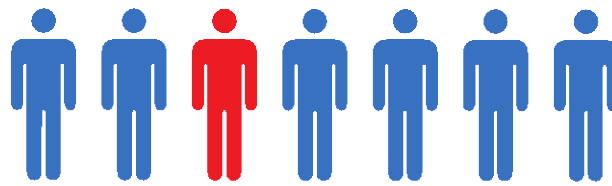


Much discussion of the impact of the economic downturn and the associated austerity measures has focused on the picture at a national level. But of prime interest here is what the impact of some of these structural changes at a national level has been on individuals and households in Birmingham. The remainder of the report focuses on what has been happening in Birmingham over this period of economic uncertainty and structural change. This section begins by looking at the shifting employment patterns within the city and most notably the increase in self employment. We then look at what has been happening with regard to shifts in the composition of housing in Birmingham over recent years. Together these begin to drill down into some of the key issues facing Birmingham.

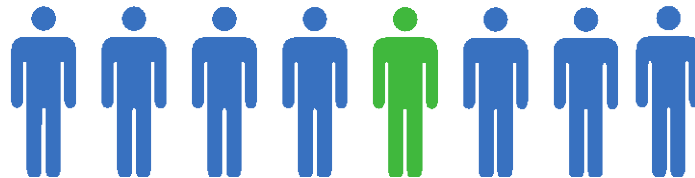
3.1 A city of shifting employment patterns

As outlined in Section 2, recent years have seen changes in the composition of the workforce in the UK. One of the key changes has been the rise in individuals classed as self-employed in official statistics: the UK has seen the fastest growth in self-employment of all western European countries over the past year (Thompson, 2014). The self-employed now account for one in every seven workers in the UK.

1 in 7 workers in the UK is self-employed



1 in 8 workers in Birmingham is self-employed



This is an important change in the structure of the UK labour market in terms of understanding low income and poverty because a strong link between self-employment and low pay has been established. The latest Households Below Average Income release shows that in 2012/13, 12 per cent of working age adults in poverty are in households where one or more person is self-employed, while nearly a quarter (23 per cent) of all self-employed working-age adults are in poverty (AHC). To give this some context, nine per cent of working age adults in poverty are in single or couple households where all in full-time work, while only five per cent of single or couple households where all are in full-time work are in poverty.

Between early 2009 and early 2014, the number of individuals in self-employment in Birmingham rose by nearly 22,000 to 53,300³, an increase of 65 per cent. Thirteen per cent of all those aged 16-64 working in Birmingham in early 2014 were self-employed, compared to 10 per cent in 2009. To put this in a regional context, over the same period within the West Midlands, self-employment rose by 19 per cent, accounting for 14 per cent of all employment in early 2014⁴. Across the core cities, Birmingham has seen the largest increase (65 per cent) in the proportion of 16-64yr olds who are self-employed between 2009 and 2014. This is more than twice the average increase in self-employment across the core cities.

This means that a small but growing proportion of the working-age population in Birmingham face a significant risk of being low paid and experiencing low, fluctuating and unpredictable incomes. This can increase the risk of individuals and households finding themselves with very low incomes or in poverty.

³ Source: NOMIS 2014

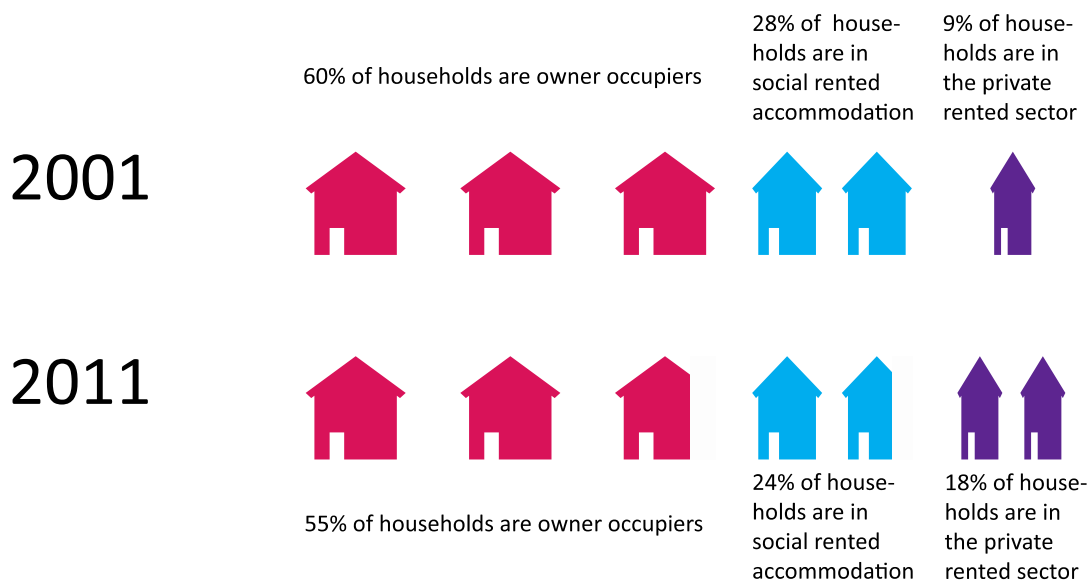
⁴ Source: LFS September 2014

3.2 A city increasingly dependent on the private rented sector

The latest government poverty figures show that in 2012/13 in the UK, 42 per cent of those in the social rented sector had an income below the official measure of income poverty (AHC), while 37 per cent living in the private rented sector were below this level (AHC). Only 11 per cent of owner occupiers in the UK had an income below the official poverty line (AHC). In other words, those in the rented housing sectors are far more likely to be living in poverty than owner occupiers. Renting rather than owning your home does not cause poverty, but there are clear links between housing tenure and the risk of being in poverty.

We also know that the risk of having an income below what you need in order to have a minimum socially acceptable living standard is greater for those living in rented accommodation. The risk of having less than half of the income you need in order to reach an acceptable standard of living – a very low income – is far greater for households in the private and social rented sectors (Padley and Hirsch 2014).

The composition of housing in Birmingham has changed significantly between the censuses of 2001 and 2011 and this indicates an increased risk of having a low income for a significant proportion of the city’s population. In general there has been a shift away from owner-occupation towards the rented sector, and particularly to the private rented sector.



In 2001, 60 per cent of all households in the city were living in owner-occupied housing. In 2011, 55 per cent of households were living in owner-occupied housing, a reduction of around eight per cent. Over the same period, the proportion of households in Birmingham in social rented accommodation also reduced, but by a more significant proportion. In 2001, 28 per cent of the city's households were living in social rented accommodation, but by 2011 this had decreased by around 15 per cent, meaning that 24 per cent of all households in the city were living in social rented accommodation.

In contrast, between 2001 and 2011, the proportion of households living in private rented accommodation in Birmingham doubled. Eighteen per cent of all households in Birmingham now live in private rented accommodation, up from nine per cent in 2001. These figures capture a significant change in the housing mix in Birmingham and bring with them challenges. Households in the rented sector are more likely to have lower incomes, and the shrinking social rented sector may make it ever more difficult for low income households to meet their housing needs.

4 Living below a socially acceptable minimum: a closer look at the Minimum Income Standard



Poverty in the UK is currently measured by looking at the proportion of the population with incomes below 60 per cent of the median. In a period of falling incomes, the official poverty measure does not capture the difficulties that many households on low incomes are currently facing - if all incomes fall evenly, relative poverty will not change. It is possible, for example, that someone on the edge of poverty in 2009 could have had a fall in income and yet not have crossed the line into poverty.

An alternative way of looking at income adequacy is to look at the proportion of the population that fall below the Minimum Income Standard (MIS) (Padley and Hirsch 2014; Padley and Hirsch 2013). This section starts by outlining what MIS is before moving to look at the proportion of the population within the West Midlands region who are below the MIS threshold, comparing this to the picture for the UK as a whole. It is not possible to look in detail at

Birmingham, but looking at the region does provide some sense of what has been happening in terms of the risks faced by different households of having incomes below what is considered adequate by the public. The section concludes with an explanation of how the Minimum Income Standard forms the basis for the annual calculation of the living wage.

4.1 What is MIS?

The Minimum Income Standard is the income that people need in order to reach a minimum socially acceptable standard of living in the United Kingdom today, based on what members of the public think. It is calculated by specifying baskets of goods and services required by different types of household in order to meet these needs and to participate in society.

The MIS research is funded by the Joseph Rowntree Foundation and carried out by the Centre for Research in Social Policy (CRSP) at Loughborough University and it has produced annual updates since 2008. The research entails a sequence of detailed deliberations by groups of members of the public, informed by expert knowledge where needed. The groups work to the following definition:

'A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.'

MIS distinguishes between the needs of different family types. It applies to 'nuclear' families and to childless adults: that is, households that comprise a single adult or a couple, with or without dependent children.

MIS is relevant to the discussion of poverty, but does not claim to be a poverty threshold. This is because participants in the research were not specifically asked to talk about what defines poverty. However, it is relevant to the poverty debate in that almost all households officially defined as being in income poverty (having below 60 per cent of median income) are also below MIS. Thus households classified as in relative income poverty are generally unable to reach an acceptable standard of living as defined by members of the public.

4.2 The UK picture

Between 2008/9 and 2012/13 the risk of having an insufficient income – as measured by MIS – rose for all households types. In other words, over this

period, a growing proportion of the population had incomes below the MIS level. However, the risk of low income is not distributed evenly across different household types.

At the UK level, single people of working age who are living on their own have seen a particularly sharp increase in their risk of having a low or very low income during this period. They have been hit hard by unemployment and rising rents and more than a third now live below MIS. Since 2010, families with children have seen the greatest increase in the percentage unable to afford a minimum acceptable standard of living, accounted for in part by cuts to benefits and tax credits. Indeed, lone parent households are the most likely of all household types to have incomes that are below MIS: more than one in ten individuals in lone parents households is living on an income well below that needed to provide an acceptable standard of living. Pensioners are the least likely to live below MIS.

A parallel trend has been a growing proportion of low income and very low income households who live in the private rented sector. For low income households in this sector there is a greater risk that the full rent amount will not be covered by housing benefit, increasing the difficulties faced by these households in making ends meet.

It is possible to take a more detailed look at the risks of particular household compositions being below MIS within the West Midlands and to explore how the West Midlands has fared in comparison with the UK.

4.3 How does the West Midlands compare with the UK?

Between 2008/09 and 2012/13, the risk of having an income below a socially acceptable minimum in the West Midlands has been similar to the risk in the UK as a whole. In 2012/13, a slightly greater proportion of households with children in the West Midlands had incomes below the MIS threshold: 42 per cent of lone or couple parent families with children had incomes below MIS in the West Midlands compared to 39 per cent in the UK as a whole. Working age adults without children had a very similar risk of being below MIS in the West Midlands compared with the national picture, while pensioners in the West Midlands were less likely to have a low or very low income than nationally.

The risk of having an income below that needed in order to have an acceptable standard of living is greater in the UK as whole for households in the private rented and social housing sectors than it is for owner occupiers. Across the UK as a whole in 2012/13, 49 per cent of households in social

housing and 44 per cent of those in private rented accommodation have an income below MIS, while only 12 per cent of owner occupiers have incomes below this level. A similar pattern can be seen in the West Midlands, where 51 per cent of households in social housing and 50 per cent of those in private rented accommodation have an income below MIS, while only 13 per cent of owner/owner occupiers have incomes below this level. This shows the far greater risk of having an inadequate income tenants are exposed to when compared to owner/owner-occupiers.

4.4 MIS and the Living Wage

The living wage outside of London is currently based on the data produced through the MIS research programme. As mentioned previously, MIS distinguishes between the needs of different household types, and ultimately identifies the minimum costs for each of nine household types, excluding rent, council tax and childcare. These then form the basis of calculations of wage requirements for each of the different households. The nine non-pensioner households used in MIS – and therefore in calculating the living wage – are single-unit households (i.e. single adults or couples living with or without dependent children, but nobody else), with up to three children for lone parents and up to four children for couples. In each case assumptions are made about the ages of the children within specific household compositions. This does have implications for minimum costs, but by using a range of ages, balanced across the age range, we produce a balance between figures that would be higher or lower than average compared to different age combinations.

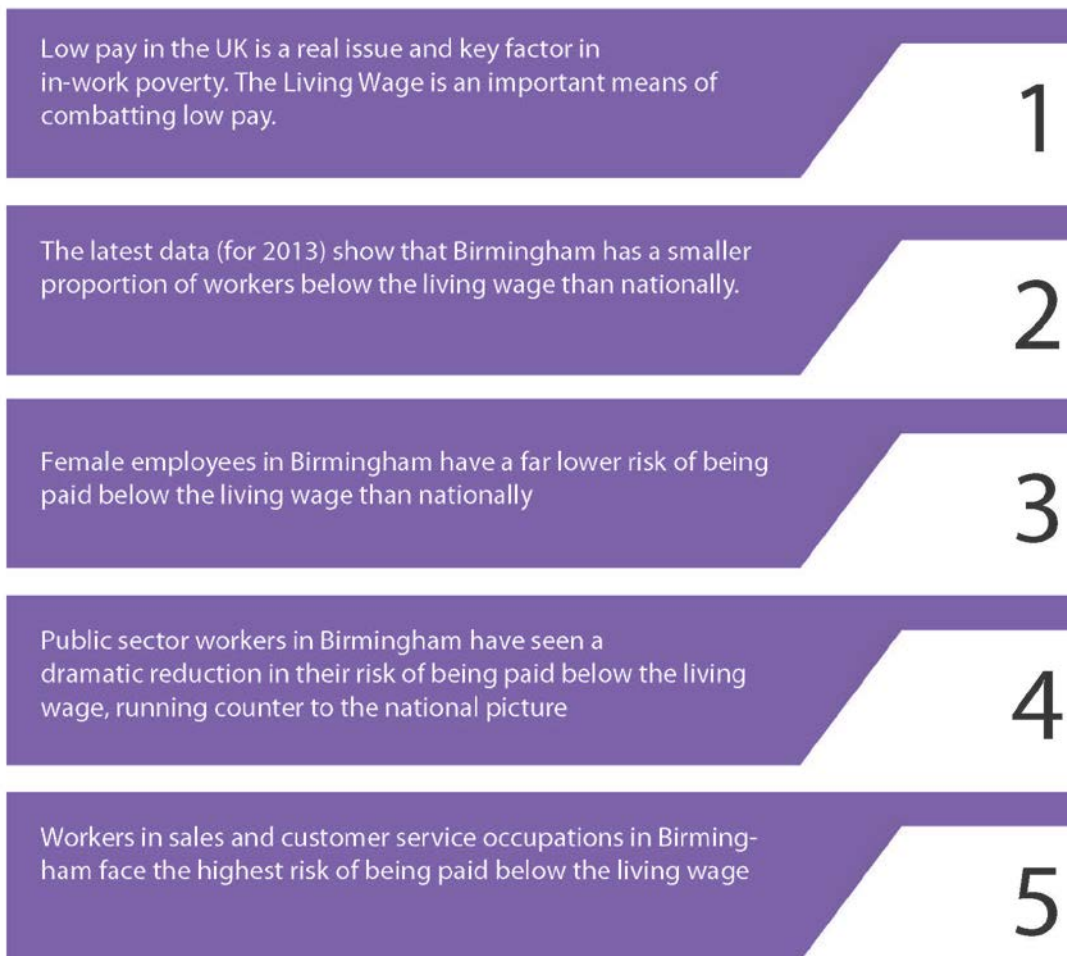
Housing costs, council tax and childcare costs are also included⁵ and this enables the calculation of annual wage requirements needed in order to meet the minimum costs associated with the different household types. These annual requirements are converted into hourly requirements and then a weighted average of the hourly wage is calculated based on the number of households of each type. This produces a single living wage figure – the reference rate – which reflects actual minimum living costs. This currently stands at £9.20 in 2014.

However, there is an ‘earnings cap’ applied which limits the increase in the living wage in any one year, relative to the increases in average earnings. This is based on the principle that if the income needed to sustain a minimum acceptable standard of living rises much faster than average earnings, there

⁵ A more detailed account of the calculation of the living wage is available here: <http://www.lboro.ac.uk/research/crsp/mis/thelivingwage/>

are limits to how far it is acceptable for employers to increase wages for the lowest earners to meet their increased needs. As a consequence, in any one year, employers will not be asked to give pay increases more than two per cent above the average rise in earnings; if earnings rise on average by three per cent, the rise in the living wage should be capped at five per cent. The result of applying the cap in 2014 is an applied living wage of £7.85.

5 The Living Wage in Birmingham



The challenge of low pay is one that has been brought into sharp focus by the economic downturn experienced in the UK over the past five or so years. While the UK has been in this period of wage stagnation, negative growth, increasingly insecure employment and generally challenging economic circumstances for many households, low pay has emerged as a key factor in determining whether or not individuals and households are in poverty. So for the first time in 2011/12 the ‘working poor’ accounted for more than half of those in poverty in the UK – 51.4 per cent (AHC) (Carr et al., 2014). This marks a significant change in the composition of those in poverty since the mid-1990s when nearly twice as many workless or retired individuals were in poverty as those in work. It also highlights the role that low pay potentially plays in influencing the risk of being in poverty.

As low pay has emerged as a growing risk factor in poverty over the past decade, there has been a growing movement calling and lobbying for all workers to be paid a wage that is linked to socially-defined and agreed levels

of need. That is, pay that delivers a minimum socially acceptable standard of living and quality of life for its recipients; a living wage rather than a wage that takes no account of what it is meant to provide to individuals and households. The Living Wage Foundation have, over the last few years, campaigned about the importance of employers paying employees a living wage and most recently there has been a clear emphasis on the principle that work should provide the surest route out of and 'defence' against poverty.

The living wage was introduced in Birmingham in July 2012 for all directly employed staff and since April 2014 temporary workers hired through agencies have also been paid the living wage. The purpose of this section of the report is to:

- Examine the impact of the living wage on the economy, business and workers in the UK
- Explore average earnings in Birmingham
- Look in detail at who is paid below the living wage in Birmingham

5.1 The impact of the living wage in the UK

The idea of a living wage has well established roots in a range of cultural, religious and philosophical traditions and is by no means a concept limited to the United Kingdom. Generally in the UK, the idea of a living wage is understood as the voluntary adoption by public and/or private employers of a wage floor set with reference to what is needed in order for people to meet minimum living costs. The term living wage can also refer to a standard that has some kind of statutory backing: within the United States, for instance, there are examples cities adopting living wage laws that impose a higher compulsory minimum wage than is required by state laws. It is not out of the question that the living wage within the UK may at some future point move from being a voluntary system to one that has some backing from central government.

Within the UK, the last decade has seen the establishment of a London living wage and the UK living wage outside of London. The London living wage is currently calculated by the Greater London Authority. The UK living wage outside of London is currently calculated by the Centre for Research in Social Policy at Loughborough University and is based on the Minimum Income Standard (MIS) programme of research. The MIS research looks in detail at what households need in order to have a minimum acceptable standard of living with decisions about what to include in this standard being made by groups comprising members of the public. The living wage is therefore rooted in social consensus about what people need to make ends meet.

The uprating of the living wage figure each year takes account of rises in living costs and any changes in what people define as a 'minimum'. It also takes some account of what is happening to wages generally, to prevent a scenario where living wage employers are required to give pay rises that are too far out of line with general pay trends.

Because of the relative youth of the living wage within the UK – especially outside of London – it is not necessarily possible to predict what the full effects of its implementation will be. However, there have been studies within the UK that have sought to project what might happen to the UK economy, employers and workers if the current living wage was generalised, either because of widespread voluntary take-up or some form of compulsory system.

Workers

It is perhaps to state the obvious that key beneficiaries of the living wage, were it to be adopted across the board, would be workers themselves. The relationship between pay and poverty is not a straightforward or direct one, because of the role played by the tax and benefits systems that sees, for example, benefits withdrawn at different rates depending on earnings. However, it is clear that if the living wage was universally adopted, about five million workers would see their wages rise and the gross earnings of the UK workforce would increase by about £6.5 billion (Lawton and Pennycock, 2013: 38). Those who would benefit most would be single people and couples without children as their earnings are not as closely intertwined with the benefits system. In addition to the financial gain for workers, there is some evidence to suggest that higher wage floors (such as a living wage) may lead to greater job satisfaction and that in turn this has a positive impact on worker wellbeing (ibid: 29).

Employers

It is generally acknowledged that the living wage has not yet been in place long enough to provide a definitive account of the impact of the living wage on employment or on costs to employers. However, the Resolution Foundation (ibid) have suggested that the costs to employers of the widespread adoption of the living wage in the private sector would be relatively small. In retail and catering there would be some significant increases in wage bills, but it is predicted that the overall increases across all sectors would be relatively modest. There is a further suggestion that labour demand would fall if the living wage was taken up across the private sector and that this would principally impact on younger workers. The Resolution Foundation envisage that at most 160,000 jobs would be lost nationally (ibid:

27), but that four million employees in the private sector would see their pay rise. It is acknowledged that the number of jobs lost may be significantly lower than this, particularly given the benefits to employers brought about, for example, by reductions in recruitment costs (Reed 2013).

Some of the increased labour costs to employers paying employees a living wage then may be offset by increases in productivity and a reduction in turnover brought about by higher wages (Thompson and Chapman, 2006). Evidence from the recent Living Wage Commission identified improved levels of morale, commitment and motivation from employees across the pay distribution in Living Wage workplaces (Living Wage Commission, 2014a: 5). There are also claims that paying a living wage has a positive impact on the reputation of the business, which in turn may have knock-on positive effects on employees.

The UK economy

In their assessment of the likely impact of widespread adoption of the living wage, Lawton and Pennycock (2013) suggest that one of the biggest beneficiaries of any universal implementation of the living wage would be HM Treasury. While there is some disagreement about the amount that would go to the public finances, there is agreement that increasing pay to this level would increase tax revenues and National Insurance contributions, and reduce spending on in-work benefits and tax credits (Lawton and Pennycock, 2013; Living Wage Commission, 2014; Reed, 2013). The estimates of savings to public finances range from between £2.2 and £3.6 billion (Lawton and Pennycock, 2013), to £3.3 billion (Reed, 2013), to the £4.2 billion savings projected by the Living Wage Commission (2014). What is clear is that the widespread adoption of the living wage across the UK would generate significant savings for the state.

5.2 Pay in Birmingham

Table 1 below shows that average earnings in Birmingham are just over 10 per cent below the national average. However, median earnings are higher relative to the average than in England as a whole which means that there is a less unequal distribution of earnings in Birmingham. This also shows that women and part time workers, both of whom earn well below the average weekly earnings, have wages more on par with their national counterparts than either men or full time workers.

Table 1 A comparison of median weekly earnings

Weekly earnings	Mean earnings by place of residence	Median earnings by place of residence	Median earnings for full time workers	Median earnings for part time workers	Median earnings for females	Median earnings for males
England	£510	£422	£521	£160	£329	£515
Birmingham	£456	£397	£479	£153	£327	£470
Birmingham as % of England	89%	94%	92%	95%	99%	91%

Source: Annual Survey of Hours and Earnings (ASHE) 2013

5.3 The living wage in Birmingham

In order to look at the impact of the introduction of the living wage in the city, we have used data from the Annual Survey of Hours and Earnings (ASHE) going back to 2011 when the living wage outside of London was first introduced. This enables us to look at the overall proportion of the resident working population in Birmingham paid below the level of the living wage and to compare this to the West Midlands region, England and the other seven core cities within the UK.

The period between 2011 and 2013 was one in which there was very little wage growth and as a consequence – and despite the limit on increases built into the calculation of the living wage – the proportion of the working population earning below the living wage increased across the UK. Between 2009 and 2013, the number of workers earning less than the living wage increased from 3.4 to 4.9 million – an increase of 44 per cent.

Birmingham has a smaller proportion of workers below the living wage than nationally ...

Over this period Birmingham has, in many respects, fared better than the West Midlands region, than the other core cities and than England as a whole. In 2012/13, 18.7 per cent of workers in the city were paid below the living wage. This is slightly lower than the proportion in the other seven core cities and England, and significantly less than in the West Midlands region. Moreover, despite the low wage growth over this period across the UK, Birmingham has seen a smaller increase in the proportion paid below the living wage than the West Midlands, England and the core cities.

... and female employees in Birmingham fare better than nationally

The proportion of female employees in Birmingham paid less than the living wage has been fairly stable over this period and is lower than in the West Midlands, England and the core cities. In the West Midlands and the other core cities there have been significant increases since 2011, although the proportion of females paid below a living wage in the West Midlands fell between 2012 and 2013. While female employees within Birmingham have fared better than in these other comparator areas, the proportion of male employees paid below the living wage has seen the biggest increase from 14 per cent in 2011 to 15.7 per cent in 2013. The proportion of males below the living wage was lower than the national figure in both 2011 and 2012, but has overtaken the national level in 2013.

There has been little change for part-time workers since 2011, while the proportion of full-time workers below the living wage has increased

The proportion of part-time employees in Birmingham below the living wage has remained relatively stable between 2011-2013. Indeed, between 2011 and 2012 there was a slight fall in the proportion below the living wage. This is in contrast to what has happened in the West Midlands, England and the core cities who have all seen a steady increase in the proportion of part-time workers below the living wage. The picture for full-time workers is a different one: the proportion below the living wage in Birmingham has increased over this period with most of this increase coming between 2012 and 2013. While the West Midlands and England have higher proportions of full-time workers below the living wage, the core cities have a lower proportion.

In 2013, 2 out of every 100 public sector workers in Birmingham were being paid below the living wage.



In 2012, 5 out of every 100 were paid below the living wage



In 2013, 27 out of every 100 private sector workers in Birmingham were paid below the living wage.



Across the UK, workers under 30 are far more likely to be below the living wage, and this is true for Birmingham ...

Within Birmingham workers aged 16-29 are the most likely to be below the living wage, with more than a third paid below this level. The proportion of this age group below the living wage has increased in all of the areas being looked at here, but Birmingham does have the lowest proportion of workers in this age group below the living wage. A greater proportion of workers aged 30-44 in Birmingham are below the living wage than in the core cities in 2013. The proportion below the living wage fell for this age group between 2011 and 2012, with a big increase between 2012-2013.

Public sector workers in Birmingham have seen a dramatic decrease in their risk of being paid below the living wage since 2012 ...

The most dramatic and significant difference between Birmingham and the other areas being explored here is in what has happened to workers in the public sector since the adoption of the living wage by Birmingham City Council. Public sector workers in Birmingham were already at a lower risk of being below the living wage, but as in other areas the proportion below this level increased between 2011 and 2012. However, following the introduction of the living wage in July 2012, the proportion of public sector workers below this level fell by 63 per cent between 2012 and 2013, to below two per cent, a quarter of the national level. At the same time, nationally, there was an increase of seven per cent in the proportion of public sector workers below the living wage. This is clearly positive news for many public sector workers, but other factors such as staff cuts or the outsourcing of lower paid jobs may also have contributed to a reduction in low pay within this sector.

While it is not surprising that there was a significant decrease in the proportion of public sector workers below the living wage following its adoption by Birmingham City Council, the scale of the decrease is substantial and will have had a positive impact on many workers within Birmingham.

... but more than a quarter of Birmingham's private sector workers are being paid below the living wage

The risk of pay below the living wage is significantly higher in the private compared to the public sector and over this period the proportion of private sector workers below the living wage increased in Birmingham, England and the other core cities. In each area, more than a quarter of all private sector workers are paid below the living wage.

Table 2 below provides a summary of what has happened to the proportion of workers paid below the living wage between 2011 and 2013. An expanded

table which includes the West Midlands and all other core cities in the UK can be found in Appendix A.

Table 2 Workers below the living wage (2013)

<i>Birmingham</i>	2011	2012	2013
% below the living wage	17.9%	17.9%	18.7%
Male	14.1%	14.3%	15.7%
Female	21.6%	21.6%	21.8%
Full-time	10.6%	11.0%	12.2%
Part-time	39.6%	39.2%	39.6%
Aged 16-29	34.7%	35.2%	36.5%
Aged 30-44	12.4%	11.9%	13.5%
Aged 45+	12.8%	13.9%	13.3%
Public sector	4.3%	4.8%	1.8%
Private sector	26.4%	26.6%	27.0%
<i>England</i>	2011	2012	2013
% below the living wage	19.5%	20.3%	20.8%
Male	14.7%	15.1%	15.6%
Female	24.6%	25.6%	26.1%
Full-time	11.3%	11.8%	12.4%
Part-time	40.1%	41.7%	42.1%
Aged 16-29	36.7%	37.5%	38.6%
Aged 30-44	13.1%	13.6%	14.2%
Aged 45+	15.7%	16.5%	16.8%
Public sector	6.6%	7.4%	7.9%
Private sector	25.7%	26.2%	26.7%

Source: Annual Survey of Hours and Earnings 2013.

Table 3 Employees below living wage by occupational group⁶ in Birmingham (2013) (*Figures for England in italics*)

	2011	2012	2013
Overall % below living wage	17.9% (19.5%)	17.9% (20.3%)	18.7% (20.8%)
Elementary occupation	58.8% (56.9%)	59.5% (58.1%)	61.6% (60.2%)
Process plant machine occupation	16.4% (22.2%)	23.8% (24.5)	24.1% (25.1%)
Sales customer service occupation	56.2% (52.7%)	62.9% (55.3%)	64.5% (56.3%)
Caring personal service occupation	25.3% (30.7%)	27.8% (33.8%)	35.9% (36.8%)
Skilled trades occupation	13.8% (14.4%)	12.9% (14.7%)	18.8% (16.5%)
Administrative occupation	13.3% (12.1%)	11.0% (13.3%)	13.0% (14.9%)
Associate professional technical occupation	3.8% (4.3%)	* (3.8%)	* (3.7%)
Professional occupation	* (1.2%)	* (1.0%)	* (1.0%)
Managerial occupation	* (5.1%)	5.2% (5.0%)	* (5.6%)

* Sample size too small to publish

Source: Annual Survey of Hours and Earnings 2013.

Workers in sales and customer service occupations in Birmingham face the greatest risk of being below the living wage ...

Within Birmingham, individuals employed in sales and customer service occupations face the highest risk of being paid below the living wage with nearly two thirds (64.5 per cent) of workers in this sector below this level. The risk of being paid below the living wage has also increased significantly within this sector since 2011, up by 15 per cent. Those working in this sector also face a significantly higher risk of being paid less than the living wage than workers in this sector in England as a whole.

⁶ Elementary occupations include bartenders, cleaners and caretakers; process plant machine occupations include train/bus drivers, delivery drivers, quality controllers; sales and customer service occupations include customer service managers, meter reader, shop assistants; caring personal service occupations include child-minders, auxiliary nurses and lifeguards; skilled trades occupation include bakers, carpenters/joiners and fishermen; administrative occupations include bank cashiers, proof readers and clerical officers; associate professional technical occupations include estate agents, police officers and fire-fighters; professional occupations include accountants, software developers and head teachers; managerial occupations include investment bankers and police superintendents.

... but workers in caring and personal service occupations have the fastest growing risk of being paid less than the living wage.

Individuals working in the caring and personal service occupations have seen their risk of being below the living wage increase the most over this period, with the majority of this change coming between 2012 and 2013. Over this year, workers in caring and personal service occupations saw their risk of being below the living wage increase by nearly a third.

In 2011, those workers in skilled trades in Birmingham had a lower risk of being below the living wage than workers in the same occupational group in England. By 2013, workers in skilled trades were more likely than workers in the same group in England to be below the living wage.

6 Child poverty in Birmingham



A key indicator of how places are faring in this period of economic uncertainty is child poverty levels. While in the past, children in poverty may have predominantly been in households where no one worked, the latest official poverty figures show that in 2012/13, nearly two-thirds (63 per cent) of children living in poverty were in households where at least one adult was working. Low pay and reductions in the value of benefits make this all the more likely over the coming years: the Institute for Fiscal Studies predict that the numbers of children in poverty (AHC) in the UK will increase by up to 900,000 to 4.6 million by 2020 (Browne, Hood and Joyce, 2014: 24). In the context of Birmingham, we have already seen that households on low incomes are facing challenges in terms of reductions in the value of benefits and gaps between housing costs and housing benefit. All of this means that there is likely to be a considerable – and growing – minority of households with children in Birmingham that are likely to be in or on the edge of poverty over the next few years. This section of the report looks at the most up to date

estimates of child poverty for Birmingham produced by the Centre for Research in Social Policy (CRSP) for the End Child Poverty Coalition⁷. The child poverty estimates produced by CRSP look to overcome two key issues with existing child poverty estimates. The local figures currently produced by HMRC, are based on administrative data, combining a count of children on out of work benefits and children in families on tax credits whose reported family incomes are below 60 per cent of the median. The first issue with this method is that it tends towards overestimating out-of-work poverty, because it assumes that everyone on out of work benefits is in poverty compared to in-work poverty, which it undercounts. Consequently, the HMRC calculation barely picks up on key trends in in-work poverty, which it counts as only 21 per cent of all child poverty, when in reality it is now 63 per cent in the government's annual poverty figures. This matters because in-work poverty has grown significantly over the last decade. Further, in an economic recovery where rates of worklessness have been falling but where in-work benefits have also been falling (in real terms), a child poverty measure driven by the numbers on out of work benefits could well show reductions in child poverty when the rate shown by other measures may well be rising.

The second issue is a more straightforward one. The figures produced by HMRC are always at least two years out of date and, particularly at a time of economic instability, the usefulness of such data to those interested in tackling child poverty on the ground is questionable. Consequently, CRSP have derived a method of producing more up to date estimates of child poverty levels that also capture both in and out of work poverty⁸. The figures produced through this method should only be treated as estimates, but as estimates that do provide a more reliable picture of child poverty at a local level than other existing methods.

The most recent estimates of child poverty for Birmingham show that 37 per cent of children in Birmingham were living below the poverty line in 2013 after housing costs (AHC). This is significantly above the UK average of 25 per cent and Birmingham has the eighth highest child poverty level out of all local authorities. In the city 24 per cent of children were in poverty before housing costs in 2013, again significantly above the UK average of 16 per cent. Because the estimates of child poverty in 2013 were calculated using a new method, it is difficult to compare the current figures with previous estimates. However, the change between 2010 and 2012 may give a broad indication of the direction of travel for child poverty in the city. The overall rate of child

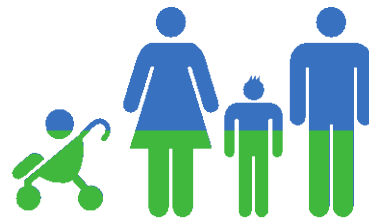
⁷ See: <http://www.endchildpoverty.org.uk/why-end-child-poverty/poverty-in-your-area>.

⁸ For more detail on how these estimates are produced see:

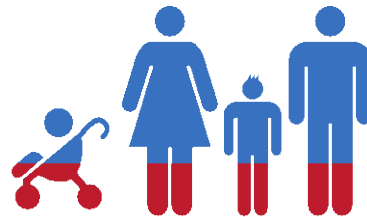
http://www.endchildpoverty.org.uk/images/ecp/paper_explaining_calculations_and_method_to_ECP.pdf

poverty in Birmingham in 2010 was 36 per cent and this fell to 31 per cent in 2012.

**37 per cent of children
in Birmingham in 2013
were in poverty**



**25 per cent of children
in the UK in 2013 were
in poverty**



Looking at the city in more detail, in 2013 only eight out of forty wards in Birmingham had child poverty rates (AHC) below the UK average of 25 per cent. This means that in the majority of wards in Birmingham, there was a higher proportion of children living in poverty than the average for the UK. Three parliamentary constituencies in Birmingham have child poverty rates (AHC) that put them in the top twenty in the UK: Ladywood with 47 per cent, Hodge Hill with 43 per cent and, Hall Green with 42 per cent. In these areas, approaching half of all children are growing up in poverty. Figures 1 and 2 show the child poverty levels, before and after housing costs, in all of the wards within the city.

The estimates of child poverty rates in Birmingham wards since 2010 show that child poverty has consistently been highest in Nechells and Sparkbrook with child poverty rates of around 50 per cent over this period. Perhaps unsurprisingly, these are the two wards that contain the MSOAs with the highest rates of unemployment and which score highest in terms of deprivation in four dimensions (employment, education, health and disability, and housing). The lowest child poverty rates in the city have consistently been found in Sutton Vesey and Sutton New Hall and these are the wards that contain the lowest levels of unemployment, lower levels of lone parenthood and tend to have an older population.

Figure 1 Child poverty within Birmingham (BHC)

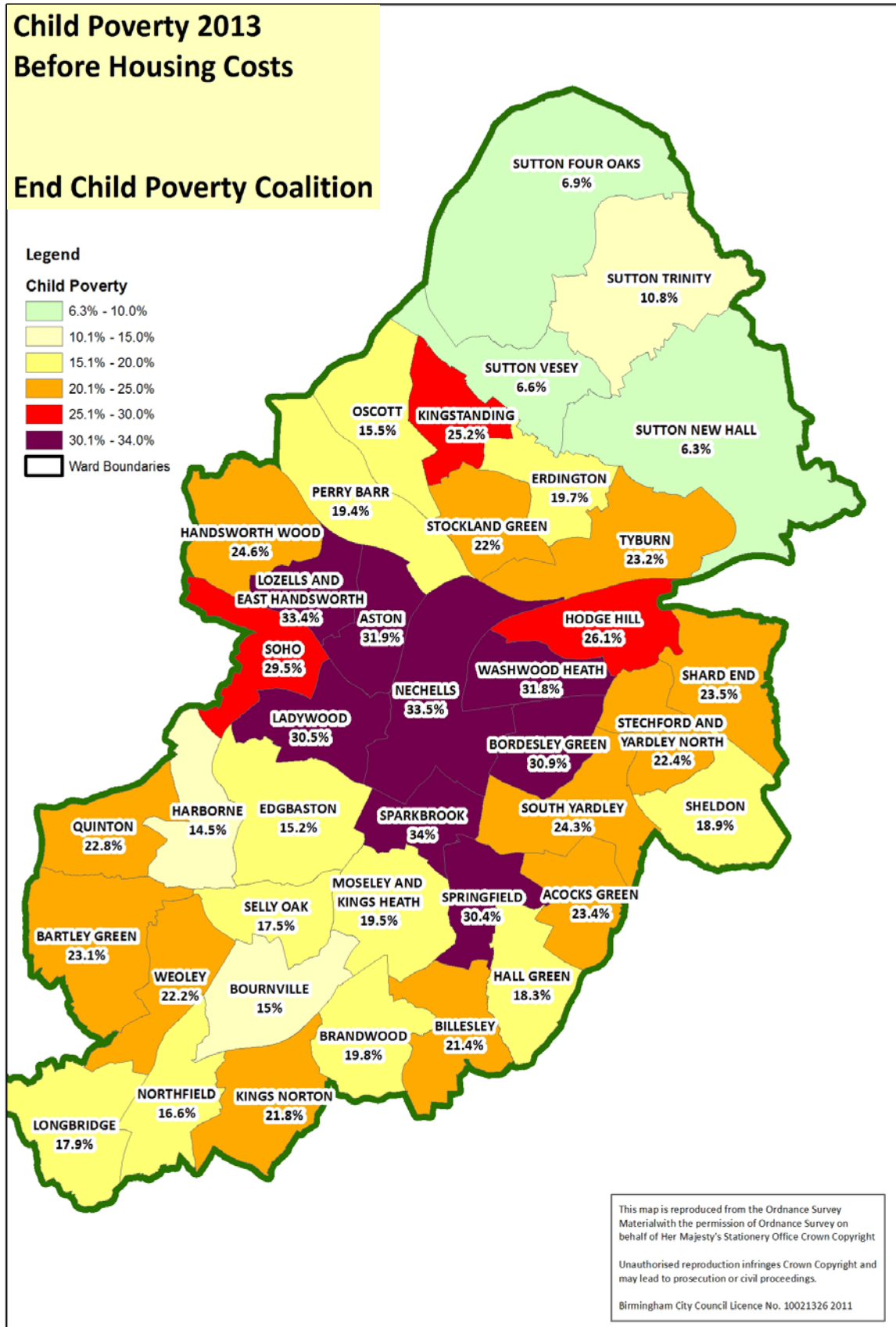


Figure 2 Child poverty within Birmingham (AHC)

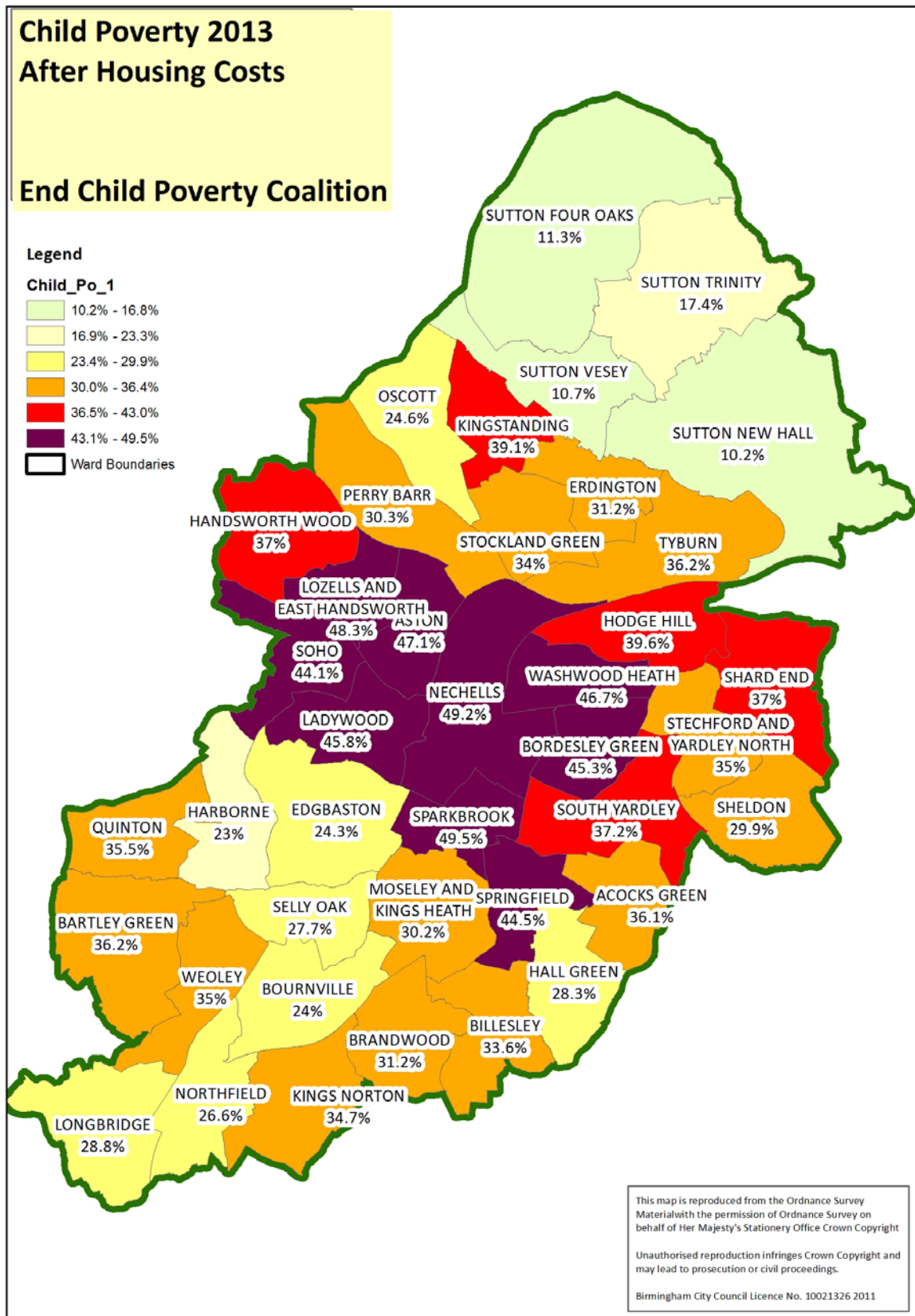


Table 4 Child poverty estimates for Birmingham (2013)

Rank	Percentage of children in poverty	2013 Before Housing Costs	2013 After Housing Costs
	Birmingham	24.2%	Birmingham
			37.1%
1	Sparkbrook	34.0%	Sparkbrook
2	Nechells	33.5%	Nechells
3	Lozells and East Handsworth	33.4%	Lozells and East Handsworth
4	Aston	31.9%	Aston
5	Washwood Heath	31.8%	Washwood Heath
6	Bordesley Green	30.9%	Ladywood
7	Ladywood	30.5%	Bordesley Green
8	Springfield	30.4%	Springfield
9	Soho	29.5%	Soho
10	Hodge Hill	26.1%	Hodge Hill
11	Kingstanding	25.2%	Kingstanding
12	Handsworth Wood	24.6%	South Yardley
13	South Yardley	24.3%	Shard End
14	Shard End	23.5%	Handsworth Wood
15	Acocks Green	23.4%	Bartley Green
16	Tyburn	23.2%	Tyburn
17	Bartley Green	23.1%	Acocks Green
18	Quinton	22.8%	Quinton
19	Stechford and Yardley North	22.4%	Weoley
20	Weoley	22.2%	Stechford and Yardley North
21	Stockland Green	22.0%	Kings Norton
22	Kings Norton	21.8%	Stockland Green
23	Billesley	21.4%	Billesley
24	Brandwood	19.8%	Brandwood
25	Erdington	19.7%	Erdington
26	Moseley and Kings Heath	19.5%	Perry Barr
27	Perry Barr	19.4%	Moseley and Kings Heath
28	Sheldon	18.9%	Sheldon
29	Hall Green	18.3%	Longbridge
30	Longbridge	17.9%	Hall Green
31	Selly Oak	17.5%	Selly Oak
32	Northfield	16.6%	Northfield
33	Oscott	15.5%	Oscott
34	Edgbaston	15.2%	Edgbaston
35	Bournville	15.0%	Bournville
36	Harborne	14.5%	Harborne
37	Sutton Trinity	10.8%	Sutton Trinity
38	Sutton Four Oaks	6.9%	Sutton Four Oaks
39	Sutton Vesey	6.6%	Sutton Vesey
40	Sutton New Hall	6.3%	Sutton New Hall

In relation to the other core cities in the UK, Birmingham had the second highest rate of child poverty in 2013, although all of the cities had a rate above the average for the UK as a whole.

Table 5 Child poverty levels across the UK core cities (2013)

	% of children in poverty 2013 (AHC)	% of children in poverty in 2010
Manchester	39.3%	41.8%
Birmingham	37.1%	36.3%
Nottingham	35.5%	36.7%
Liverpool	32.1%	34.9%
Newcastle upon Tyne	31.6%	32.4%
Sheffield	27.7%	24.7%
Bristol	26.4%	27.1%
Leeds	26.1%	22.5%

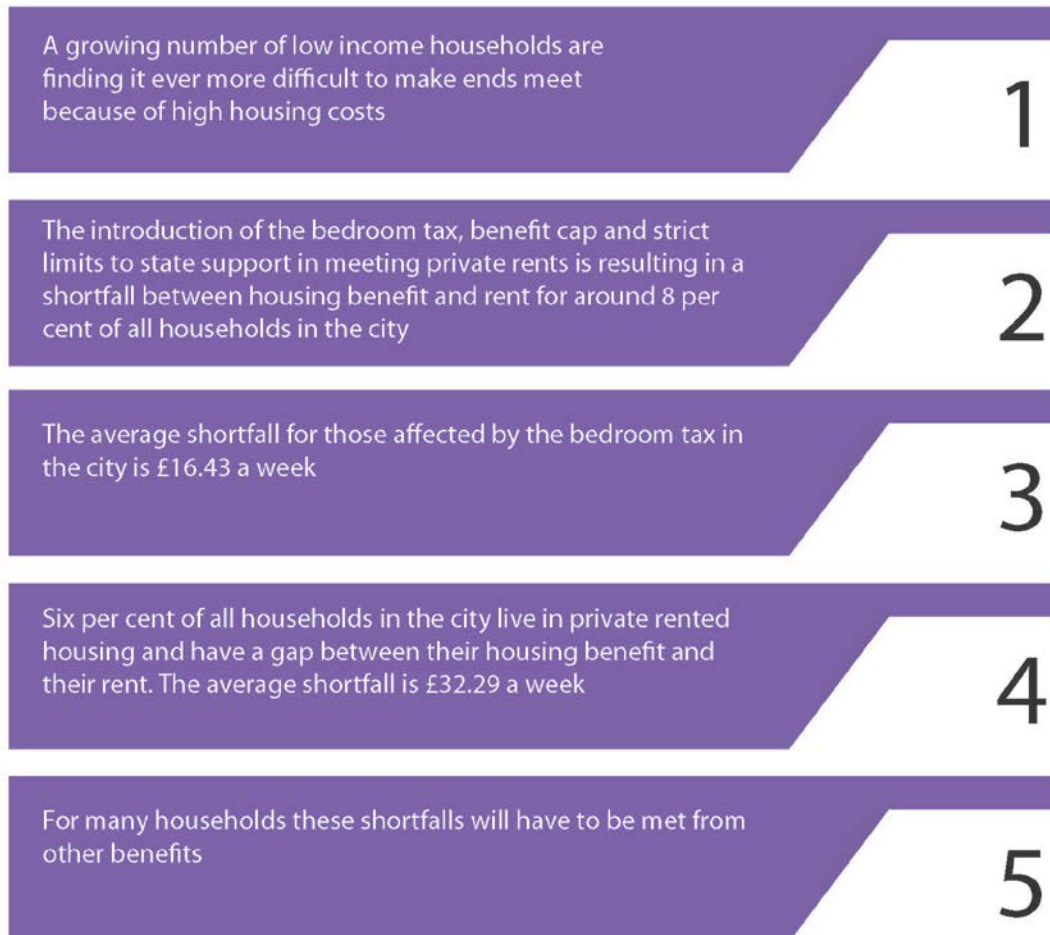
Looking at the core cities in more detail, Birmingham has six of the top twenty wards with the highest levels of child poverty in 2013 across the eight cities. Only Manchester has more wards in the top twenty.

Table 6 Top twenty wards with highest levels of child poverty across the eight core cities in the UK (2013)

	% of children in poverty 2013 (AHC)
Hyde Park and Woodhouse (Leeds)	50.1%
Sparkbrook (Birmingham)	49.5%
Moss Side (Manchester)	49.4%
Nechells (Birmingham)	49.2%
Lozells and East Handsworth (Birmingham)	48.3%
Princes Park (Liverpool)	48.2%
Lawrence Hill (Bristol)	47.9%
Central (Manchester)	47.6%
Hulme (Manchester)	47.5%
Aston (Birmingham)	47.1%
Elswick (Newcastle upon Tyne)	47.1%
Washwood Heath (Birmingham)	46.7%
Longsight (Manchester)	46.6%
Ardwick (Manchester)	46.5%
Cheetham (Manchester)	46.5%
Picton (Liverpool)	46.2%
Rusholme (Manchester)	46.1%
Ladywood (Birmingham)	45.8%
Arboretum (Nottingham)	45.6%
Westgate (Newcastle upon Tyne)	45.4%

It is clear from the child poverty estimates for Birmingham, that the city faces some significant challenges in terms of tackling and lowering child poverty levels. But it is also clear that Birmingham is not alone in facing this challenge; reducing child poverty is a challenge facing the other core cities and the UK as a whole.

7 The impact of benefit changes on households in Birmingham



Section 2 set out at a national level the impact of some key benefit changes that have come about as a result of welfare reform. In this section we use local data to look at what the impact of changes to housing benefit, the introduction of the benefit cap and the localisation of Council Tax support has been on households in Birmingham.

7.1 Housing benefit claimants in Birmingham

Prohibitively high housing costs have become an important reason why a growing number of low income households are finding it ever more difficult to make ends meet. Increasing numbers of households have little choice over what they pay for housing and find themselves exposed to high rents. In the past, low income households have received assistance in meeting housing

needs, both through the provision of low-cost social housing and/or through the housing benefit system.

However, this support has been diluted first by a reduction in the number of properties available in social housing. With buying a house becoming unachievable for growing numbers, many people find themselves in the private rented sector, paying rents that are often much higher than in equivalent social housing. At the same time as households are facing reduced options with regard to housing, support for private rents through housing benefit has become more and more constrained. The level of rent the state is willing to pay is limited through reference rents which in principle are high enough to cover around thirty per cent of available private rentals, but which in reality are frequently too little to cover actual rents being paid. Further reductions to eligible rents are imposed on individuals under the age of 35 whose housing benefit is restricted to the cost of a single room in a shared house. Finally, housing support for low income households has been further undermined through the introduction of the 'bedroom tax'. Previously, housing benefit entitlements for households in social housing have been based on the full rent, but a significant proportion are now having their rent reduced because they are judged to be under-occupying their housing. The 'bedroom tax' requires households to find 14 per cent of rent for one 'spare' bedroom and 25 per cent for two or more. This cost often has to be met from other benefits.

Those households subject to the bedroom tax or with a gap between their actual rent and the rent covered by housing benefit face significant risks in terms of being unable to make ends meet, with incomes below what is seen as acceptable by the public.

More than a quarter of households in Birmingham – 27 per cent in November 2013 – require housing benefit, significantly more than in England as a whole (19 per cent). In August 2014 just over 70 per cent of those claiming housing benefit were living in social housing. As Table 4 shows, at least 14 per cent of households in social housing in the city in August 2014 were subject to the bedroom tax, facing an average reduction in their housing benefit of £16.43. This means that about between 2-2.5 per cent of all households in Birmingham were having to find the money to make up the shortfall between what they received in housing benefit and their rent. This is a slight decrease over the year from August 2013 when around three per cent of all households in Birmingham were subject to the bedroom tax. In August 2013 a greater proportion of households (15 per cent) in social housing claiming housing benefit were affected by the bedroom tax than in August 2014, although the average reduction in housing benefit was smaller at £15.63.

Table 7 Individuals claiming Housing Benefit living in social housing subject to the 'bedroom tax'

	Aug 2014	Aug 2013
The total number of Housing Benefit (HB) claimants ⁹	113,655	113,999
Number of HB claimants in social housing (Local Authority and Housing Association)	80,624	80,193
Proportion of HB claimants living in social housing	70.9%	70.3%
Proportion of HB claimants in social housing subject to the bedroom tax	13.6%	15.3%
	<i>Average reduction in HB: £16.43</i>	<i>Average reduction in HB: £15.63</i>

Table 5 shows that a growing proportion of all households claiming housing benefit living in the private rented sector in Birmingham have a shortfall between the benefit they receive and their rent. About six per cent of all households in Birmingham in Aug 2014¹⁰ were private tenants with a housing benefit shortfall, very similar to the figures for Aug 2013 and 2012.

In August 2012, 70 per cent of households claiming housing benefit in this sector in the city had a shortfall; by August 2014 this had increased to 72 per cent. The proportion of working age households with dependent children claiming housing benefit and living in the private rented sector with a shortfall between their benefit and their rent has increased from 68 per cent in August 2012 to 73 per cent in August 2014. The average shortfall for this group has also increased over this time. Conversely, the proportion of working age housing benefit claimants without children living in the private rented sector with a shortfall between housing benefit and rent has decreased marginally over the same period.

⁹ At each of the data points explored here, a small number of cases were excluded. These were principally outliers at the top and bottom of the distribution

¹⁰ Based on ONS population estimates.

Table 8 Individuals claiming Housing Benefit living in private rented accommodation

	Aug 2014	Aug 2013	Aug 2012
The total number of Housing Benefit (HB) claimants ¹¹	113,655	113,999	113,087
Number of HB claimants in private rented sector (PRS)	33,031	33,806	33,588
The proportion of HB claimants living in PRS	29.1%	29.7%	29.7%
Proportion of all claimants in PRS with a HB shortfall	72.1%	70.8%	69.8%
	<i>Average shortfall: £32.29</i>	<i>Average shortfall: £33.71</i>	<i>Average shortfall: £34.43</i>
Proportion of working age claimants in PRS with a HB shortfall	72.9%	71.6%	70.6%
	<i>Average shortfall: £32.69</i>	<i>Average shortfall: £34.17</i>	<i>Average shortfall: £35.01</i>
Proportion of pensioners in PRS with a HB shortfall	65.1%	63.4%	62.1%
	<i>Average shortfall: £28.35</i>	<i>Average shortfall: £28.88</i>	<i>Average shortfall: £28.18</i>
Proportion of working age claimants with dependants in PRS with HB shortfall	72.7%	69.9%	67.6%
	<i>Average shortfall: £33.15</i>	<i>Average shortfall: £31.23</i>	<i>Average shortfall: £30.87</i>
Proportion of working age claimants without dependants in PRS with HB shortfall	73.1%	73.6%	74.1%
	<i>Average shortfall: £32.00</i>	<i>Average shortfall: £37.87</i>	<i>Average shortfall: £39.48</i>

¹¹ At each of the data points explored here, a small number of cases were excluded. These were principally outliers at the top and bottom of the distribution: 285 cases in August 2014 data, 313 cases in August 2013 data, and 330 cases in August 2012 data.

Looking at the combined impact of the bedroom tax, rent shortfalls and the benefit cap – which is applied through a reduction in housing benefit – in August 2014, 34,769 households in Birmingham had a shortfall in their HB either due to limit on eligible rents, the bedroom tax or the benefit cap. This is nearly a third of all those receiving HB in Birmingham (30.6%). This means that at least 8.5 per cent of households in Birmingham are getting reduced housing benefit support and potentially will have to meet the shortfall between benefit and rent from other benefits. The proportion of households with reduced housing benefit support has increased significantly since August 2012 – before the introduction of the bedroom tax – when around six per cent of households were getting reduced housing benefit support.

What these figures show is that currently at least around 35,000 households in Birmingham are at much greater risk of acute hardship because they have to dig into their benefits in order to cover their housing costs. This situation has arisen not only because of the much discussed and publicised bedroom tax and benefit cap, but also because of the limits to the levels of private rents that the state will provide.

To give a sense of where those claimants with shortfalls are located within Birmingham, Figures 3 and 4 below show the distribution of housing benefit claimants who have a shortfall between rent and benefit in August 2014. Figure 3 shows the numbers of claimants with a shortfall: the areas with the greatest number are those parts of the city with higher levels of deprivation and in which a higher proportion of housing benefit claimants are concentrated. Figure 4 shows the proportion of all housing benefit claimants within each MSOA who have a shortfall. The areas where the highest proportion of the total number of claimants have a shortfall are in parts of the city that are not as deprived. A closer look at these areas shows relatively small numbers of claimants who are predominantly in private rented accommodation. Because these areas are less deprived, claimants living in these parts of Birmingham are likely to be subject to higher private rents than in areas of the city with higher levels of deprivation.

Figure 3

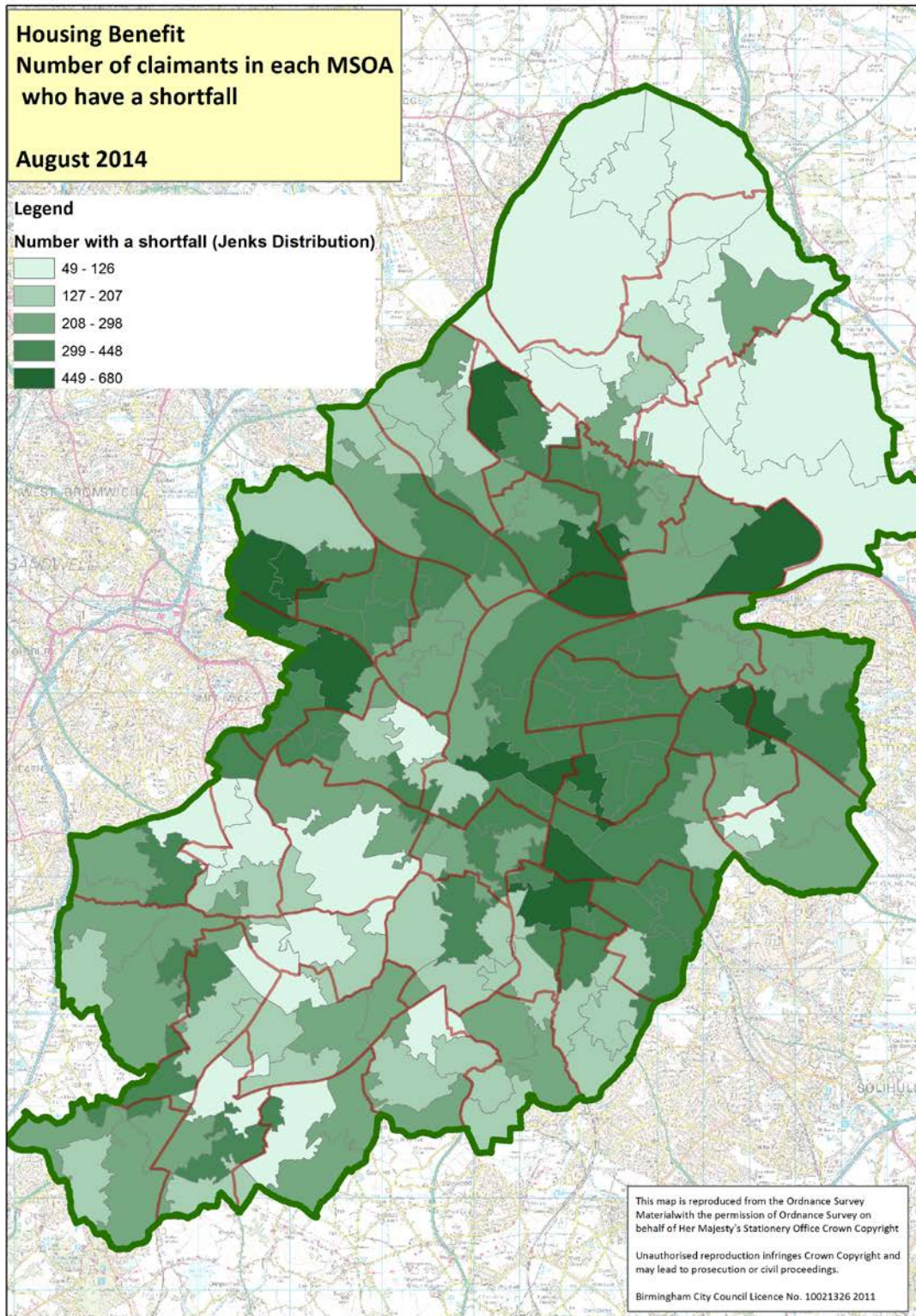


Figure 4

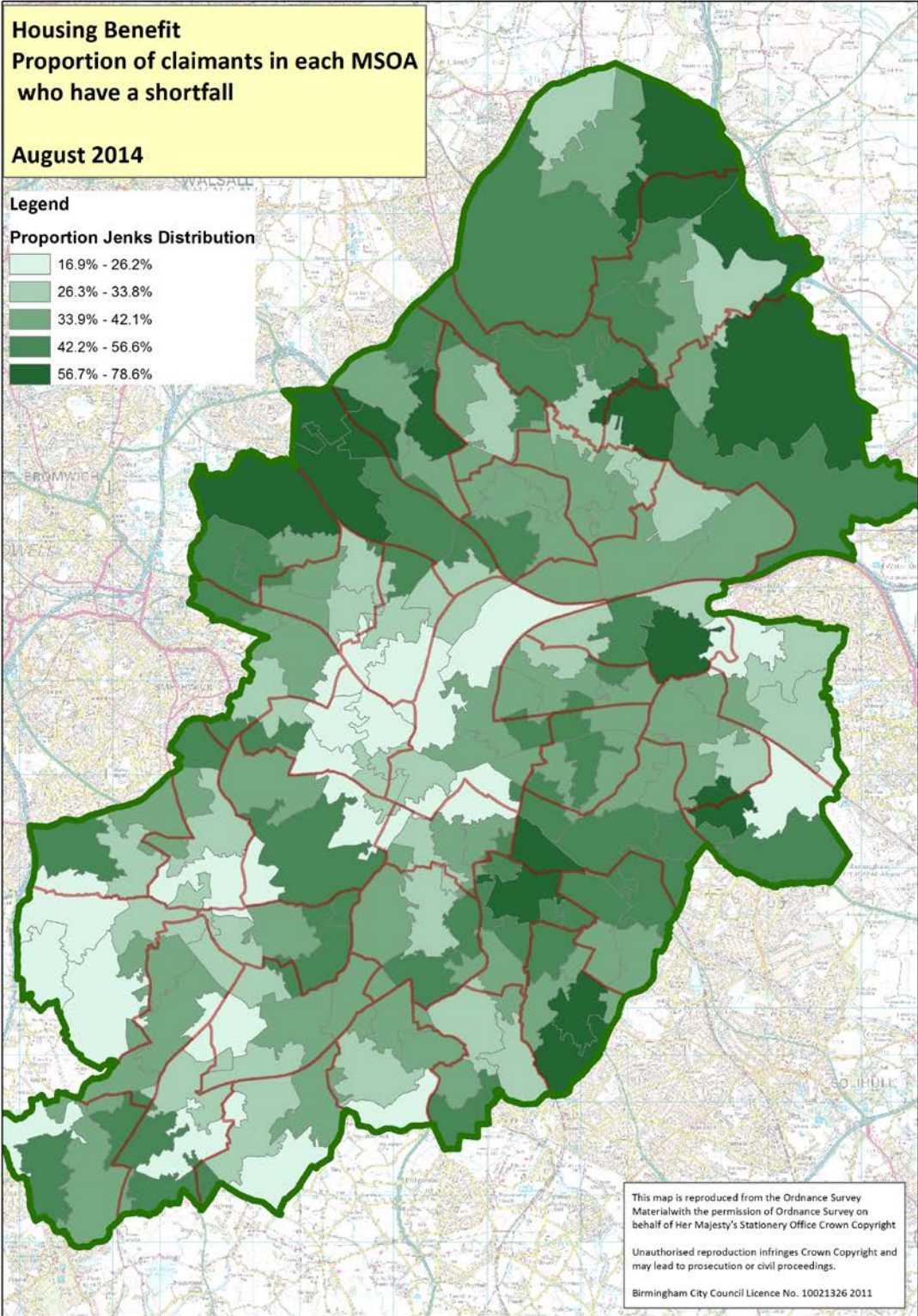


Figure 5

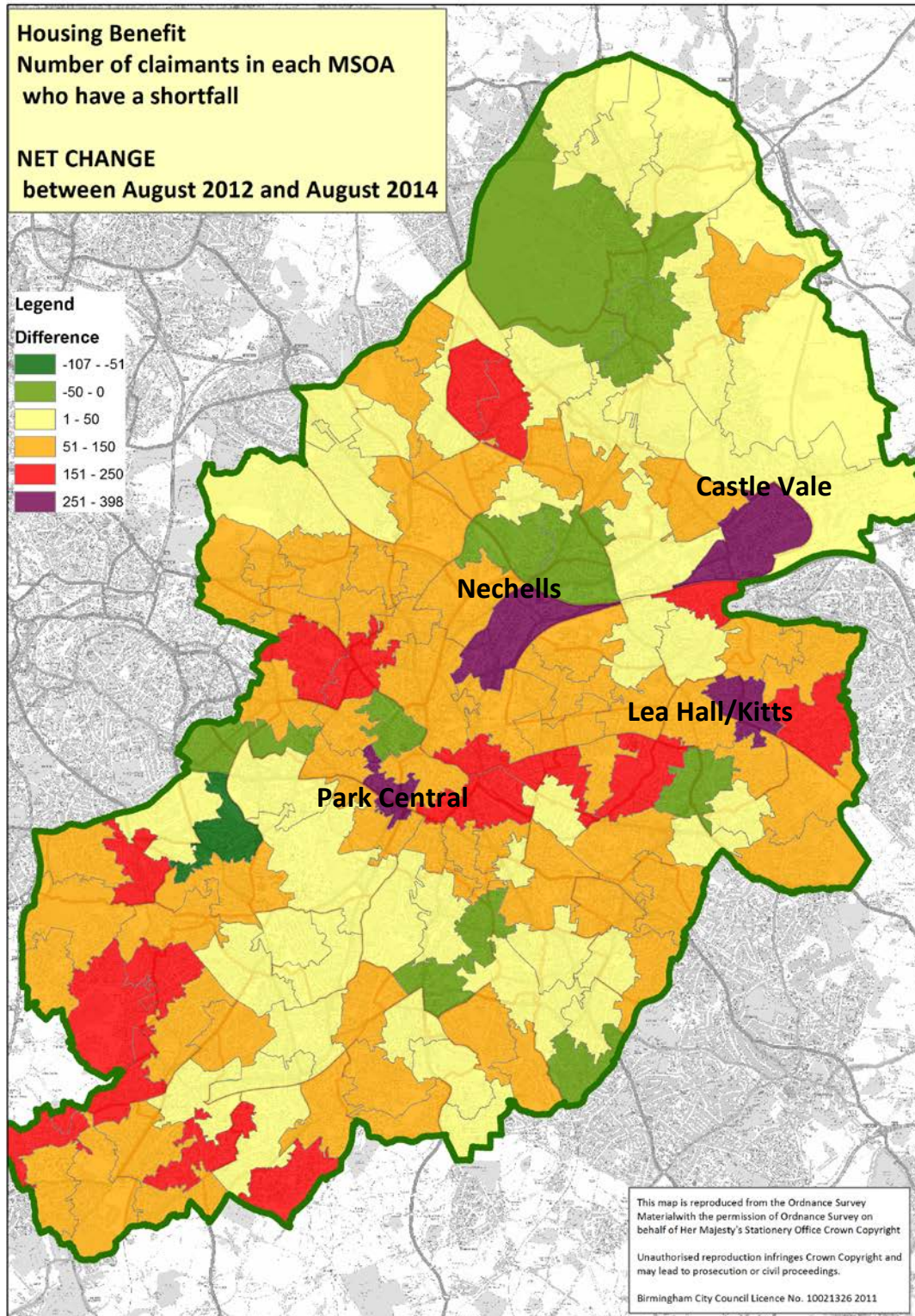


Figure 5 shows the areas of Birmingham that have seen the greatest net increase in the numbers of housing benefit claimants with a shortfall between August 2012 and August 2014. Four areas have seen a net increase of more than 250 housing benefit claimants with shortfalls over this period. The furthest north of these areas – Castle Vale – had 78 housing benefit claimants with a shortfall in 2012; in 2014 476 had a shortfall each week. Of these: 83 per cent were in social housing; 99 per cent were of working age; 43 had one or more dependents; and 18 per cent had a weekly shortfall of more than £35.

The furthest south of these areas – Park Central – had 63 benefit claimants with a shortfall in 2012 and by 2014 this had increased to 358. Of these: 83 per cent were living in social housing; 99 per cent were of working age; 24 per cent had one or more dependents and 25 per cent had a weekly shortfall of more than £35.

In Nechells in 2014 there were 306 housing benefit claimants with a shortfall, compared to just 53 in 2012. Of these, 85 per cent were in social housing; 99 per cent were of working age; 32 per cent had one or more dependents; and 17 per cent had a weekly shortfall of more than £35. In Lea Hall/Kitts Green, there were 225 housing benefit claimants with a shortfall in their rent in 2012; in 2014, 494 claimants had a shortfall. Of these: 46 per cent were in social housing; 98 per cent were of working age; 54 per cent had one or more dependents; and 18 per cent had shortfalls of more than £35 each week.

7.2 The impact of the benefit cap

The numbers affected by the benefit cap in Birmingham are small relative to the number who have faced reductions in their housing benefits for other reasons. Since Dec 2013, the total number of those subject to the benefit cap in Birmingham has increased by 13 per cent, from 784 to 882.

In December 2013, couple households (with or without children) accounted for 55 per cent of all households subject to the benefit cap. By August 2014, they accounted for 52 per cent of all households impacted by the benefit cap. The number of lone parents subject to the benefit cap has increased by 20 per cent between December 2013 and August 2014, while the number of couple households subject to the cap has increased by only six per cent. Lone parents in local authority housing have seen the biggest increase over this period, increasing by 31 per cent. In August 2014, couple households in private rented accommodation account for nearly a quarter of all of those subject to the benefit cap. Couple and lone parent households in private rented accommodation account for 42 per cent of all households impacted by the benefit cap in August 2014.

The average amount of the benefit cap in August 2014 across all household types was £63.13 a week. In December 2013 the average was higher at £64.32.

7.3 Changes to council tax support

In addition to the reduction in support for housing, applied through both housing benefit and the benefit cap, the withdrawal of Council Tax Benefit and the localisation of council tax reduction schemes mean that many households in Birmingham who would previously have had the full cost of council tax met have had to pay some proportion of this.

Just prior to the localisation of Council Tax Support (CTS) in February 2013 there were 137,560 claimants within Birmingham receiving Council Tax Benefit. As of April 2013, all working age individuals liable for Council Tax are expected to meet a minimum of 20 per cent of the total charge. At this point there were 137,039 claimants and of these 62,943 (46%) were having to make a contribution towards their Council Tax bill. On average claimants were having to make contribution of £4.80 a week (approx. £250 a year). By August 2013 60,996 out of 130,860 claimants (47%) were having to make contributions to their Council Tax bill. On average claimants were having to make a payment of £4.95 a week (approx. £258 a year). The most common payment amount amongst claimants was £2.43 a week (approx. £127 a year). In August 2014 59,880 out of 131,852 claimants (45%) were having to make a contribution towards their Council Tax bill. On average claimants were having to make a payment of £5.28 a week (approx. £275 a year). The most common payment amount amongst claimants was £2.48 a week (approx. £129 a year).

Since the localisation of council tax support, the number of claimants within Birmingham has fallen and fewer households are having to make payments towards their council tax. However, those who are having to make payments have seen the amount of these payments increase over time, bringing an additional financial strain on many low income households.

8 Conclusion

The prolonged period of economic uncertainty experienced within the UK and further afield has created an environment and prompted particular responses, at both a local and national level, which have contributed to a growing number of households within the UK who are struggling to make ends meet. An analysis of the latest available income data, for example, shows that nearly four in ten households do not have the income that they need for an adequate standard of living as defined by the public (Padley et al., 2015), meaning that a growing number of children are living in families who have to go without some of what the public agree is necessary to have a minimum socially acceptable standard of living.

What this report has highlighted is that in certain respects Birmingham has fared well during this challenging period. The proportion of workers within the city with earnings below the living wage is lower than nationally, and the adoption of the living wage by Birmingham City Council has more or less eradicated low pay within the public sector. Against a backdrop of austerity and fiscal restraint, this is a significant achievement. The growth in self-employment within Birmingham can be seen as a positive response to what has been a difficult labour market over the past few years: individuals building businesses and strengthening entrepreneurialism within the city.

In other respects, Birmingham faces a number of challenges. This is particularly apparent when looking at child poverty levels within the city, which are considerably above the national average. Reducing child poverty demands significant time, energy and resources, all of which are stretched in an environment of reductions in local authority budgets, and caps on welfare provision at a national level. Birmingham has a significant proportion of workers in the private sector who are paid below the level of the living wage and encouraging these employers to pay a living wage is by no means an easy task. Furthermore, while there are signs at a national level of slow improvements in the broader economic environment, it seems likely these the city will have to find ways to meet these challenges in a context of continued austerity and fiscal constraints, reductions in local authority budgets, and only very modest increases in household earnings.

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Glossary of key terms

After Housing Costs: A measure of weekly income after housing costs (rent, water rates, mortgage interest, service charges) have been deducted.

Before Housing Costs: Equivalised weekly net income (including housing benefits) after adjustments of household size and composition.

Bedroom tax: The bedroom tax (also known as the under occupancy charge or the Spare Room Subsidy) is a change to housing benefit entitlement introduced through the Welfare Reform Act (2012). It means those in receipt of housing benefit will have this reduced if they live in a housing association or council property that is deemed to have one or more spare bedrooms. Having one spare bedroom will mean that claimants will lose 14 per cent of their entitled housing benefit. Having two or more spare bedrooms will mean that claimants will lose 25 per cent of their entitlement. The bedroom tax started affecting properties with spare bedrooms in April 2013.

Benefit Cap: The benefit cap sets a limit on the total amount in benefits that most working-age people can claim. It only affects those claiming housing benefit or universal credit. If an individual is in receipt of housing benefit, the cap is: £500 a week if you're a couple - with or without dependent children; £500 a week if you're a lone parent with dependent children; and £350 a week if you're a single person without children. The cap applies to the benefits that are received as a household.

Households Below Average Income: Households Below Average Income (HBAI) is an annual report produced by the Department for Work and Pensions. It uses data from the Family Resources Survey to present information on living standards in the United Kingdom. It provides an annual estimate of the number and percentage of people living in low-income households, and living below the poverty threshold, defined as 60 per cent of median income. Figures are also provided for children, pensioners, working-age adults and individuals living in a family where someone is disabled.

Living Wage: The living wage is an hourly rate set independently, updated annually and calculated according to the basic cost of living in the UK. It is a wage that employers can choose to pay on a voluntary basis. The current UK Living Wage is £7.85 an hour outside of London. It is £9.15 an hour in London.

Minimum Income Standard: The Minimum Income Standard (MIS) project aims to define an 'adequate' income. It is based on what members of the

public think is enough money to live on, to maintain a socially-acceptable quality of life. This socially acceptable standard of living includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the choices and opportunities necessary to participate in society.

Self-employment: There is not one fixed definition of self-employment. HMRC state that you are probably self-employed if you: run your own business and take responsibility for its success or failure; have several customers at the same time; can decide how, when and where you do your work; are free to hire other people to do the work for you or help you at your own expense; and provide the main items of equipment to do your work.

Universal Credit: Universal Credit is a new single payment for people who are looking for work or on a low income. It is being phased in over a number of years.

The aim of Universal Credit is to help claimants and their families to become more independent and to simplify the benefits system by bringing together a range of working-age benefits into a single payment. It will replace: income-based Jobseeker's Allowance; income-related Employment and Support Allowance; Income Support; Child Tax Credits; Working Tax Credits; and Housing Benefit.

Zero-hours contracts: The term 'zero hours' is not defined in legislation, but it is generally understood to be an employment contract between an employer and employee, which means the employer is not obliged to provide the worker with any minimum guaranteed working hours, and the worker is not obliged to accept any of the hours offered.

Appendix A

<i>Birmingham</i>	2011	2012	2013
% living below the living wage	17.9%	17.9%	18.7%
Male	14.1%	14.3%	15.7%
Female	21.6%	21.6%	21.8%
Full-time	10.6%	11.0%	12.2%
Part-time	39.6%	39.2%	39.6%
Aged 16-29	34.7%	35.2%	36.5%
Aged 30-44	12.4%	11.9%	13.5%
Aged 45+	12.8%	13.9%	13.3%
Public sector	4.3%	4.8%	1.8%
Private sector	26.4%	26.6%	27.0%
<i>England</i>	2011	2012	2013
% living below the living wage	19.5%	20.3%	20.8%
Male	14.7%	15.1%	15.6%
Female	24.6%	25.6%	26.1%
Full-time	11.3%	11.8%	12.4%
Part-time	40.1%	41.7%	42.1%
Aged 16-29	36.7%	37.5%	38.6%
Aged 30-44	13.1%	13.6%	14.2%
Aged 45+	15.7%	16.5%	16.8%
Public sector	6.6%	7.4%	7.9%
Private sector	25.7%	26.2%	26.7%
<i>West Midlands</i>	2011	2012	2013
% living below the living wage	22.6%	23.7%	23.9%
Male	17.1%	17.7%	18.4%
Female	28.2%	30.0%	29.8%
Full-time	14.1%	14.8%	15.4%
Part-time	42.6%	45.2%	44.9%
Aged 16-29	41.6%	43.4%	43.3%
Aged 30-44	15.8%	16.4%	17.1%
Aged 45+	18.2%	19.6%	19.5%
Public sector	8.7%	9.8%	9.8%
Private sector	29.1%	29.9%	29.7%
<i>All other core cities</i>	2011	2012	2013
% living below the living wage	17.8%	18.5%	19.3%
Male	14.7%	14.7%	15.7%
Female	21.0%	22.1%	22.8%
Full-time	10.2%	10.6%	11.5%
Part-time	39.3%	40.6%	41.3%
Aged 16-29	34.9%	35.8%	37.7%
Aged 30-44	11.1%	11.7%	12.1%
Aged 45+	13.3%	14.4%	14.8%
Public sector	5.1%	5.8%	5.7%
Private sector	25.8%	26.6%	27.1%

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