Costs of living impacts in Greater Brighton

Analysis of areas and groups most at risk from rising costs of living

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27 January 2023

Report 593

Institute for Employment Studies

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1 Background

The Greater Brighton Economic Board commissioned the Institute for Employment Studies (IES) in November 2022 to conduct rapid research and analysis to explore the impacts of rising costs of living on residents of the Great Brighton area. The analysis was intended to explore the risks to residents of rising living costs due to high inflation over the last year but also the potential impacts of rising mortgage interest rates. This report presents findings from the analysis.

1.1 Methodology

The research work by IES has comprised three elements:

- **Discussions with Council and Economic Board stakeholders** – to understand what data and analysis was already in place and could be used to support the work, and to gather insights on costs of living pressures in Greater Brighton. This comprised interviews with Council leads in November and December, alongside discussions with the Greater Brighton Programme Board in November and January.
- **Desk based research and analysis** – comprising a rapid review of evidence so far on costs of living impacts for different groups; alongside new analysis of secondary data sources looking specifically at benefit receipt (specifically, Universal Credit); wages (from the Annual Survey of Hours and Earnings); house prices (from Land Registry data); and household characteristics and occupations (from Census 2021). This analysis looks across the seven Council areas as well as at differences between smaller areas within/ between Councils.
- **Engagement with business bodies**. This element has not (yet) been progressed, so we would suggest engaging key business groups through existing channels over the next month, to test the findings from this paper and understand both any actions that firms are taking and what may help in supporting employers and their workforces.

1.2 The report

Findings from the research are set out below. Chapter 2 begins by putting the wider costs of living crisis in context and discussing what we know about groups that are most at risk from rising costs. Chapter 3 then presents more detailed analysis for the Greater Brighton area, identifying in particular areas where people at risk from rising costs of living are likely to be over-represented. Finally Chapter 4 sets out key conclusions from this work. Making recommendations for Councils and employers was out of scope of this project, but we have nonetheless included some suggestions of areas where the Board and members may want to focus, drawing in part on wider IES work in this space.

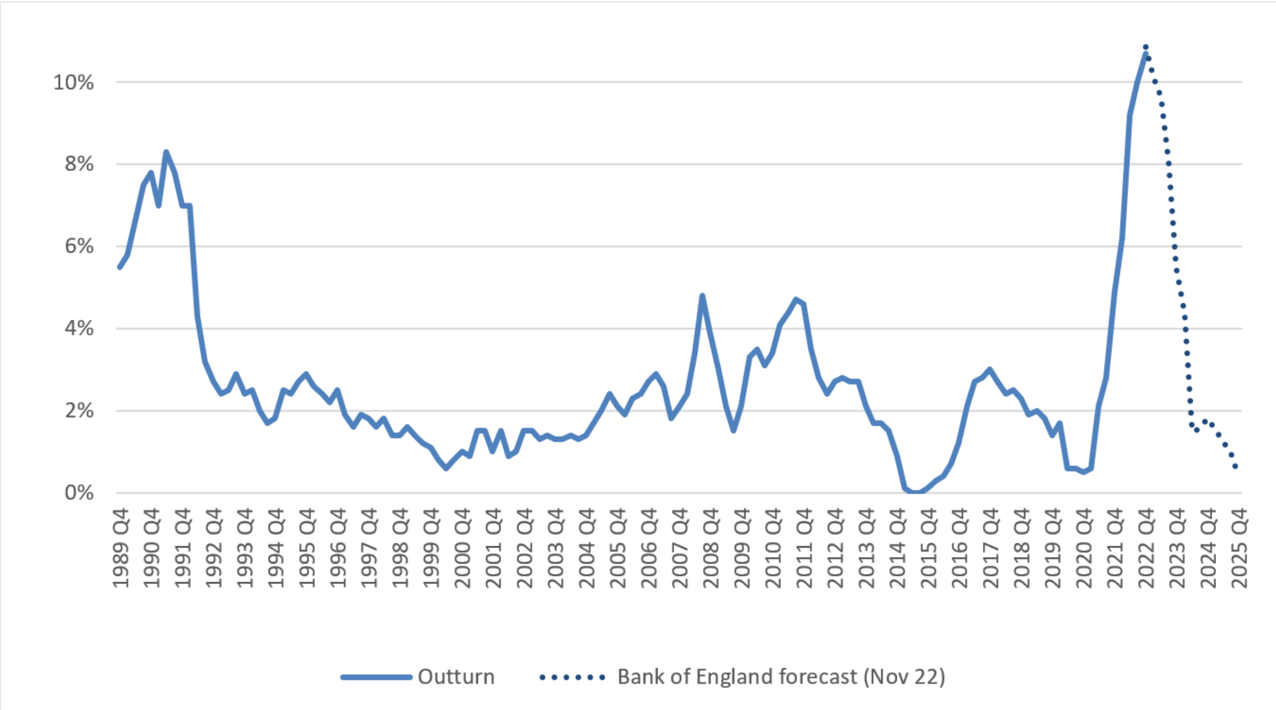
2 The costs of living crisis

2.1 Drivers and impacts of rising costs of living

As Figure 2.1 below sets out, the last year has seen prices rise at a faster rate than at any point in at least a generation. Prices began to rise strongly in late 2021, due to a combination of higher energy demand and supply bottlenecks as economies opened up after the pandemic, and have accelerated further through 2022 with the war in Ukraine and continued wider mismatches between supply and demand.

It appears likely that inflation may now have peaked, and the Bank of England (and other institutions) are forecasting a fairly rapid decline over the next two years – to around 5.5% at the end of this year and 1.8% at the end of next year. However prices will still be high and rising, and analysis by IES and others has illustrated with each passing month that wages are falling further and further behind (leading to sharp declines in real household incomes).

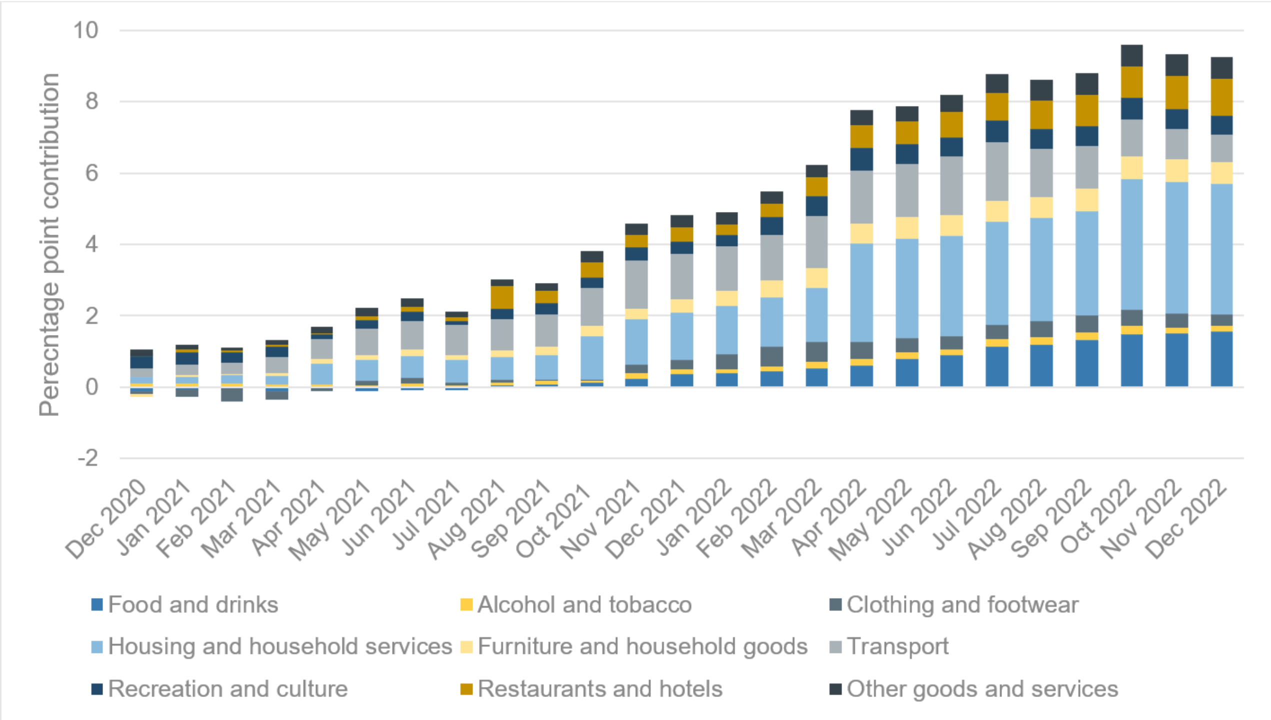
Figure 2.1: Consumer Price Index year-on-year inflation: 1989 to 2021, forecast to 2025



Source: Office for National Statistics – Consumer price inflation; Bank of England Monetary Policy Report

While inflation has primarily been driven by higher energy costs, prices are nonetheless rising significantly across nearly all of the main categories of living costs. As Figure 2.2 below shows, the largest contributor to rising prices has been 'housing and household services' (contributing 3.7 percentage points of the 9.2% inflation in the most recent data), with this category including household energy bills. However food and drink alone are contributing more than 1.5 percentage points to inflation, with restaurants and hotels contributing over one percentage point and transport adding three quarters of a point.

Figure 2.2: Contributions to the CPIH 12-month inflation rate, Dec 2019 to Dec 2021



Source: Office for National Statistics – Consumer price inflation

And the broad-based nature of these rises – across everything that we spend money on – means that the impacts of rising prices on households have been inescapable and have left households across the income distribution (and across the country) facing higher costs and often financial difficulty. This is illustrated in Office for National Statistics data collected through the Opinions and Lifestyle Survey, which in its most recent update (for the period June to September 2022) found that almost half of adults (45%) reported difficulties in paying their energy bills (up from 40% in the previous quarter) with 10% reporting that it was very difficult; while nearly one third (30%) reported difficulties with paying housing costs (up from 26%).

If a similar proportion of Greater Brighton residents were also having difficulties with their energy bills for example, this would be equivalent to around 370 thousand people with as many as 80 thousand people finding it very difficult to pay.

2.2 Key groups at greater risk

While the impacts of rising living costs have been broadly felt, there is also extensive and growing evidence of specific groups seeing greater impacts and being at greater risk of falling into poverty or destitution. We have focused on five broad themes below: those in low incomes, those out of work, disabled people, larger families, students and those either renting or remortgaging.

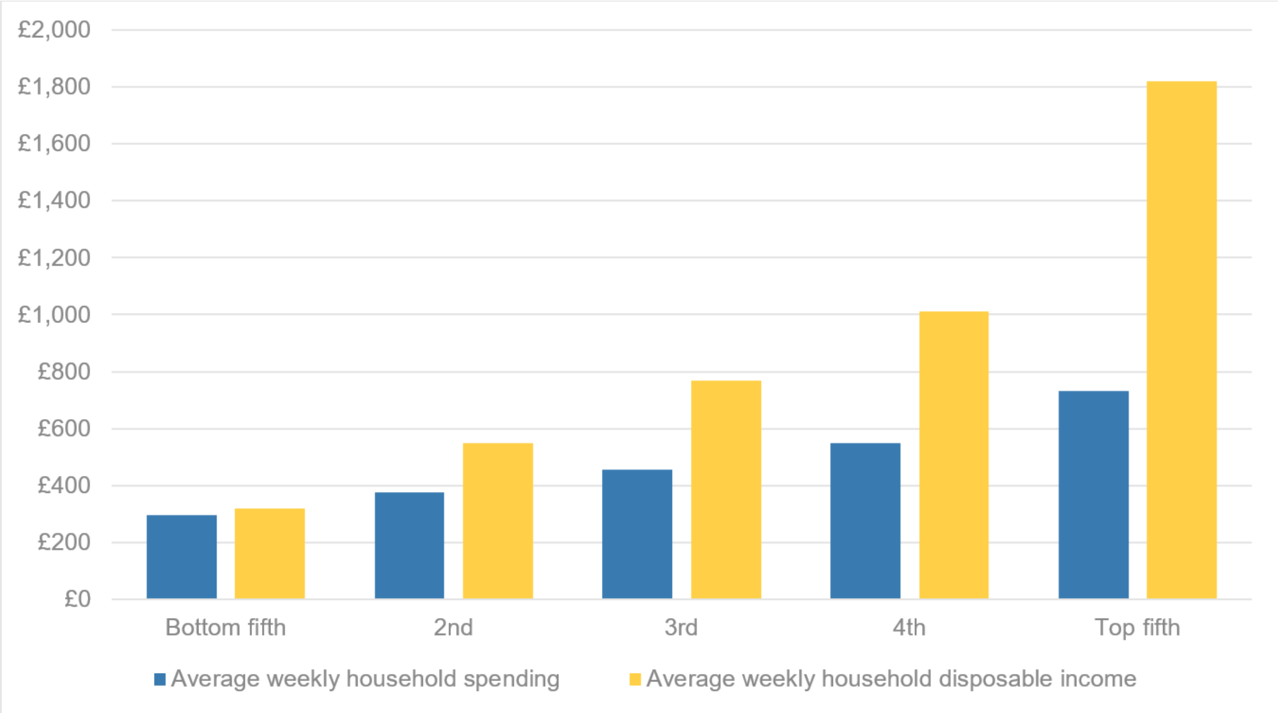
2.2.1 Those on low incomes

Most obviously, households in low incomes are at significantly greater risks from rising living costs than other households (and having a low income is an important driver of higher risk for the other groups described in this section too). There are two important reasons for this:

- First, households with low incomes are far less likely to be able to deal with rising living costs – sometimes because they are already financially insecure or in debt, and often/ usually because there is virtually no breathing space between their income and spending. This latter point is illustrated in Figure 2.3 below, which shows that in 2020/21 low income households had on average just £25 a week more in income than they do in spending (compared with a difference of more than £1,000 a week for high-income households).
- Secondly, low-income households face higher rates of inflation – because they need to spend proportionately more of their income on items that are seeing the fastest rises in prices, like food and energy. For example Resolution Foundation analysis estimates that the average inflation rate is 11.9% for the bottom tenth of households by income compared with 9.2% for the richest tenth (although the fact that this gap is not wider reflects how broad-based the rises in inflation have been).

All told, the ONS Opinions and Lifestyle Survey found that just over half of those with incomes below £20,000 reported difficulties in paying energy bills, compared with just under a quarter of those with income above £50,000.

Figure 2.3: Average household spending and disposable income by income quintile, 2020/21



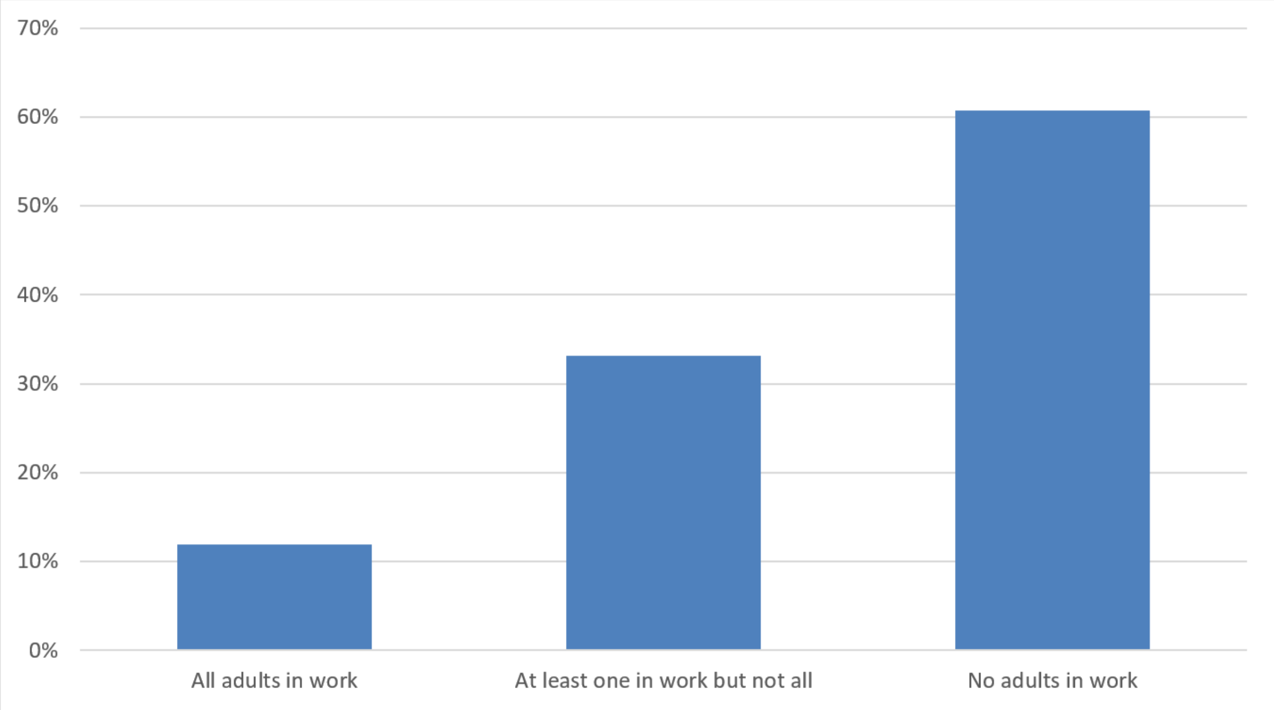
Source: Office for National Statistics – Living Costs and Food Survey

Those out of work

Following on from this, a significant contributor to being in a low income is being out of work. Around a quarter of all of those aged 16-64 are out of work (or 10.2 million people). Of these, around 1.3 million are actively seeking work while 8.9 million are classed as being 'economically inactive'. Within this group, around 2.3 million are students and 1.1 million have retired early, but 2.6 million are out of work due to ill health and 1.7 million are caring for family (usually mothers of younger children). And while economic inactivity had been falling for nearly a decade before the pandemic, it has risen significantly since (by nearly 600 thousand).

Because our benefits system is relatively ungenerous (and some of those out of work are not entitled to benefits due to rules around savings or residence), risks of poverty are far higher in households where people do not work than in households where they do. As Figure 2.4 below sets out, three fifths of all people living in households where no adult works are in relative income poverty compared with just one in eight people living in households where every adult works.

Figure 2.4: Likelihood of being in poverty by working status of adults in household



Source: IES analysis of Households Below Average Income. Poverty definition is below 60% of median income after housing costs.

2.2.2 Disabled people

The ONS Opinions and Lifestyle Survey finds that disabled people are significantly more likely than non-disabled people to be struggling with rising living costs. Well over half of disabled people (55%) are having difficulty affording their energy costs compared with two fifths (40%) of non-disabled people.

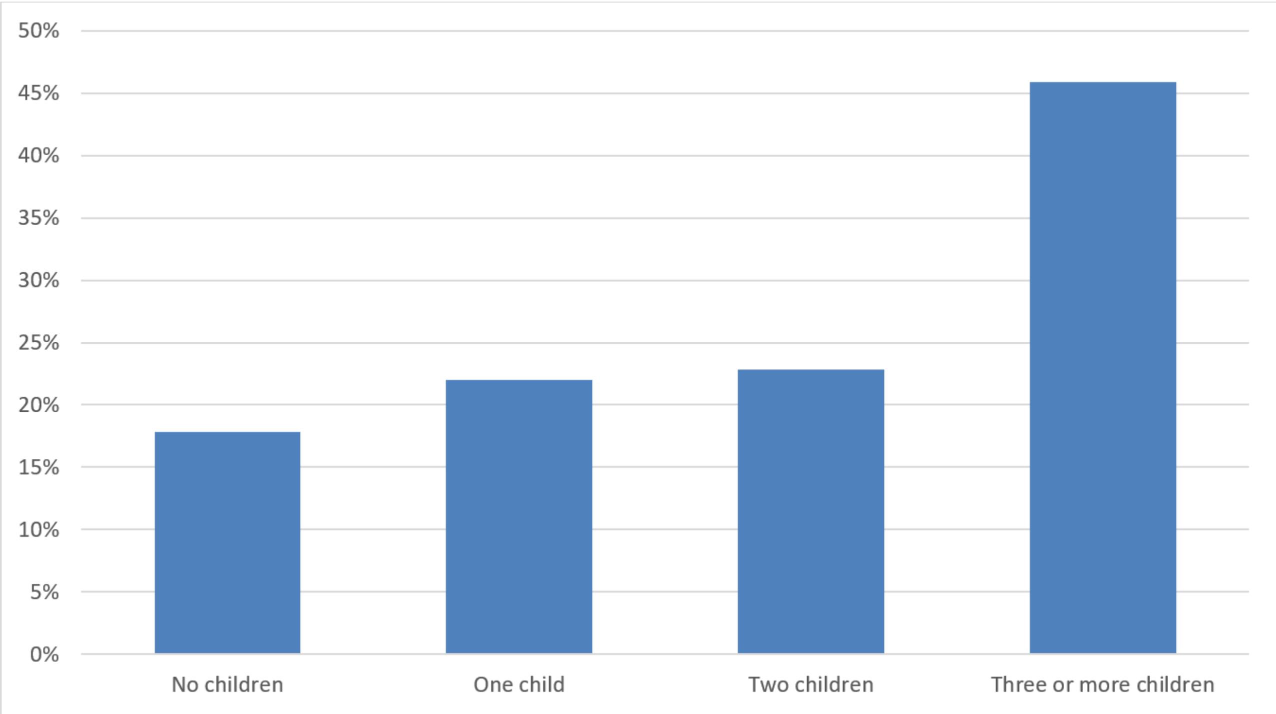
Again, this reflects a combination of both higher costs and lower incomes. Disabled people are more likely to face higher costs than non-disabled people generally (with financial support like the Personal Independence Payment only partially covering these needs) and many disabled people will also have higher energy costs and be less able to cut back on heating.

However disabled people are also much more likely to be in poverty than non-disabled people (27% compared with 21%) which stems in part from being far more likely to be out of work – with disabled people two-and-a-half times more likely to be out of work than non-disabled people – and to earn less even when they do work.

2.2.3 Larger families

There is (so far) less direct evidence on the impacts of rising living costs on larger families, however we have included them in this analysis as there are stark differences in the likelihood of being in poverty by family size. Figure 2.5 below sets this out. Nearly half of all people living in families with three or more children are in relative income poverty, compared with fewer than a quarter of those in families with one or two children and around one in six of those without children.

Figure 2.5: Likelihood of being in poverty by number of children in household



Source: IES analysis of Households Below Average Income. Poverty definition is below 60% of median income after housing costs.

There are many factors behind this, but a key one has been the 'capping' of benefits support for those with higher entitlements alongside the removal of financial support for third and subsequent children. The specific risks during this costs of living crisis are twofold, that larger families:

- Will often have higher food and energy costs; and
- Will be less able to cut back without that having harmful impacts on their children.

2.2.4 Students

One area where there has been growing focus in recent months has been the impacts of higher costs of living on students. The ONS Student Cost of Living Insights Survey, published in November, found that similar proportions of students to non-students reported that their living costs were rising, but that a slightly higher proportion of students reported financial difficulties as a result. Overall, it found that:

- Half (50%) of students stated that they were in financial difficulties;
- Nearly a third (29%) were just about managing; and
- One in five were either managing well enough (16%) or comfortably off (4%).

Students in general were responding by spending less money, dipping into savings and reducing their energy use (Figure 2.6). However the survey also found that a quarter had taken on more debt.

Figure 2.6: Actions taken by students in response to rising cost of living

Source: Office for National Statistics – Student Cost of Living Insights Study

One important driver of these increased impacts for students appears to be a fall in the relative value of student maintenance support. Student loans are indexed to 'RPIX' which is usually higher than CPI, but has fallen behind CPI inflation over the last year or so. As a consequence, analysis by the Institute for Fiscal Studies has found that "the real value of maintenance entitlements has fallen substantially and is now at the lowest level it has been in seven years. Compared with what they would have been entitled to in 2020–21, students from the poorest families have lost more than £1,000 in maintenance loan entitlement, which is around £250 more than we estimated back in June."

The IFS analysis emphasises the impact on students from lower income backgrounds, who are arguably least likely to be able to mitigate the impact of rising prices and are the group where future cohorts may be most likely to choose not to enter higher education at all.

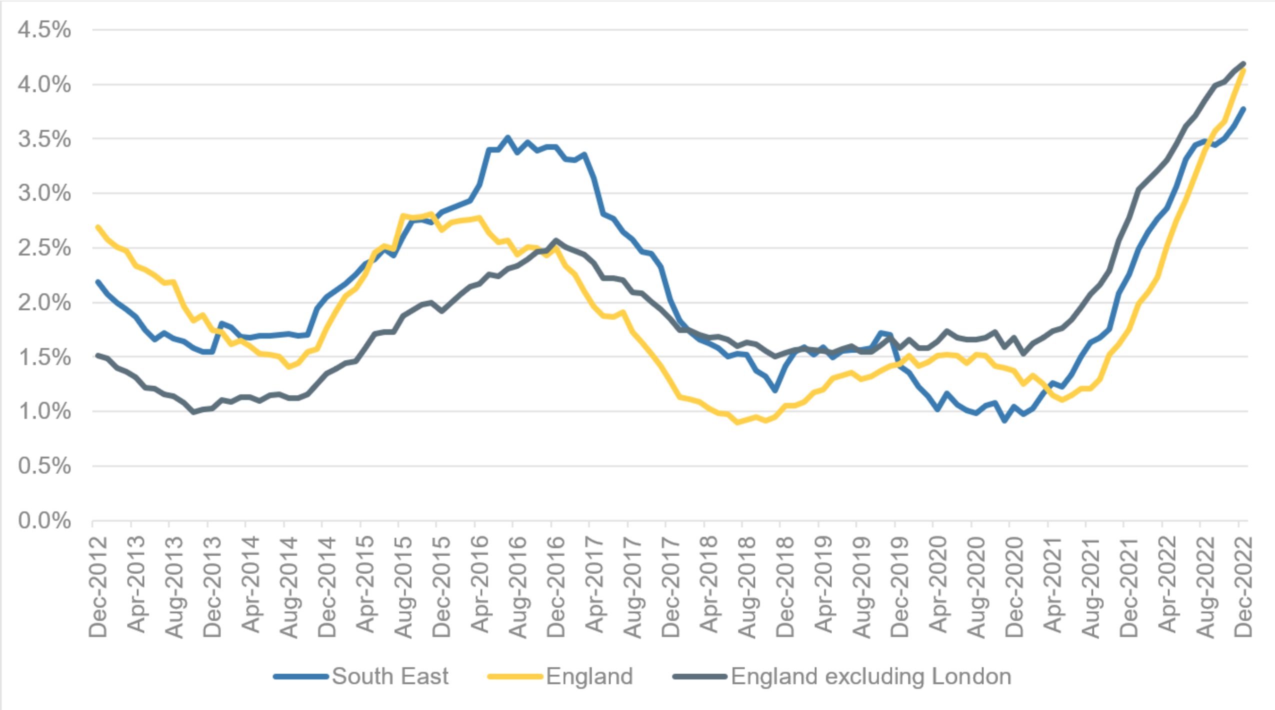
2.2.5 Housing tenure

Finally, the costs of living crisis is affecting people in different housing tenures in important and different ways.

First, private renters are reporting greater financial difficulty than owner occupiers – with the Opinion and Lifestyle Survey data finding that 60% are struggling with energy bills compared with 43% of owner occupiers (and that 11% are behind on their energy bills compared with 3% for owner occupiers).

This will of course reflect the fact that people in private rented accommodation generally have lower incomes than owner occupiers, but it also reflects that costs of rented accommodation are continuing to rise strongly in the South East of England – with the latest ONS estimates showing that year-on-year rent increases are at their highest in over a decade (3.8%).

Figure 2.7: Private rental prices percentage change over 12 months, 2012-2022



Source: Office for National Statistics – Index of Private Housing Rental

However, financial difficulties have been increasing for both owner occupiers and renters, and of course the exceptionally large rises in interest rates during 2022 will lead to very significant increases in living costs for many owner occupiers over the coming years. New fixed rate deals are now typically above 5% compared with around 2% in recent years, and the effects of this will be exacerbated by the fact that mortgage debt is generally far larger now than in the past. These impacts will take time to build though – with the Bank of England estimating that just over two million mortgages will come up for renewal over the next year.

3 Risks for residents of Greater Brighton

Chapter 2 sets out five themes for understanding where risks of a negative impact are greater from rising costs of living, around low incomes, disability, family size, students and housing tenure. In this chapter we set out analysis on each of these for the Greater Brighton area, looking across local authorities but also within them.

At the end of the chapter we then also look at where there may be greater employment risks from any slowdown that affects in particular high street and hospitality spending.

3.1 Low incomes

Our analysis of low incomes is based on data on recipients of Universal Credit (UC), which is the main benefit paid to households with low incomes both in and out of work. UC has replaced a range of previous, 'legacy' benefits for those out of work, in work and to support with rental costs. To estimate rates of receipt (rather than levels), we have divided the number of people claiming Universal Credit by the Census 2021 estimates for the number of people in that area aged 16-64.

UC receipt is a very good proxy for low income as it has fairly broad eligibility and relatively high take-up. To test this, we have compared in Figure 3.1 below the proportion of people who are claiming UC and are out of work with the average number of deprivation measures per household[1] for every 'Middle Super Output Area' (MSOA) in Greater Brighton. MSOAs are geographical areas that comprise on average around 2,000 households. The result shows a very strong correlation, and so gives us confidence that UC data gives us a good insight into levels of disadvantage and low income.

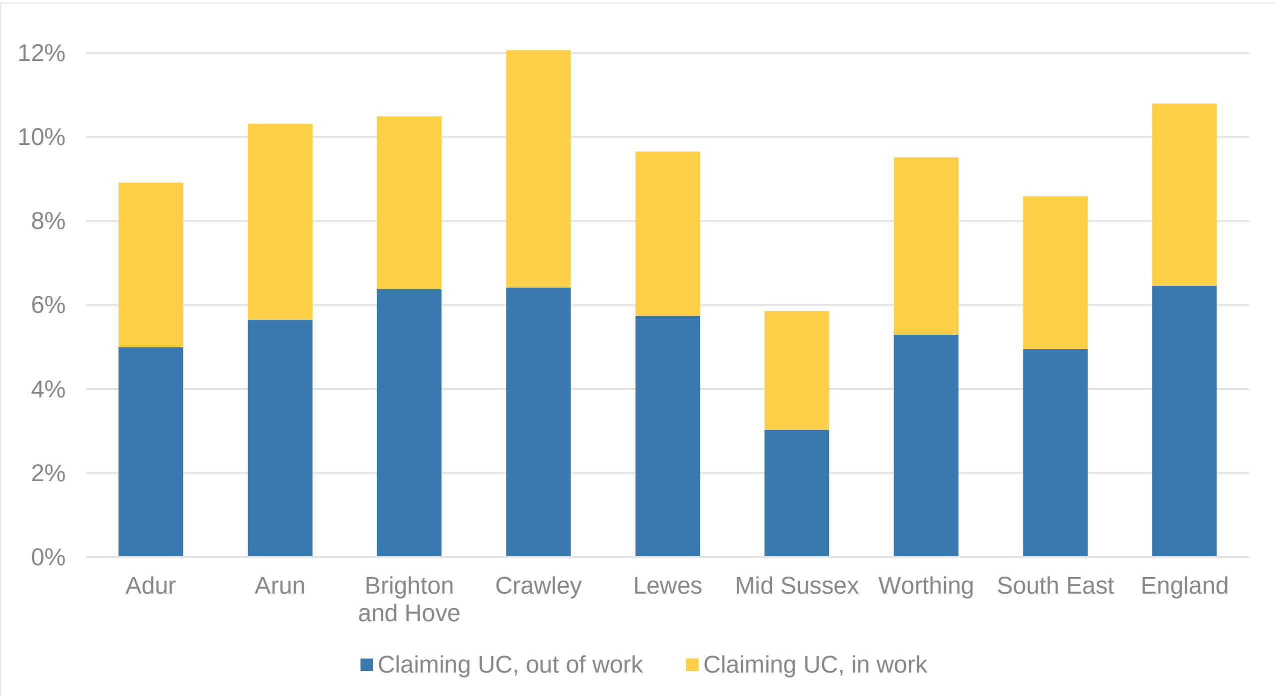
Figure 3.2 then shows the proportion of the population (aged 16-64) who are claiming Universal Credit. This is further broken down into those who are out of work and those in work. On average 8.6% of adults in the South East (and 10.8% in England) are claiming UC, with a roughly even split overall between those in work and those out of work. Within Greater Brighton, rates of receipt are higher than the wider South East in every local authority except for Mid Sussex, and are highest in Crawley.

[1] Household deprivation is assessed in Census 2021 against four dimensions: employment, education, health and disability, and household overcrowding. The analysis here presents the mean average of the number of deprivation measures per household within each MSOA area.

Figure 3.1: Proportion of population on Universal Credit and out of work compared with average number of deprivation measures per household – Middle Super Output Area level, Greater Brighton

Source: IES analysis of Stat Xplore and Census 2021 data

Figure 3.2: Share of population (16-64) claiming Universal Credit by employment status

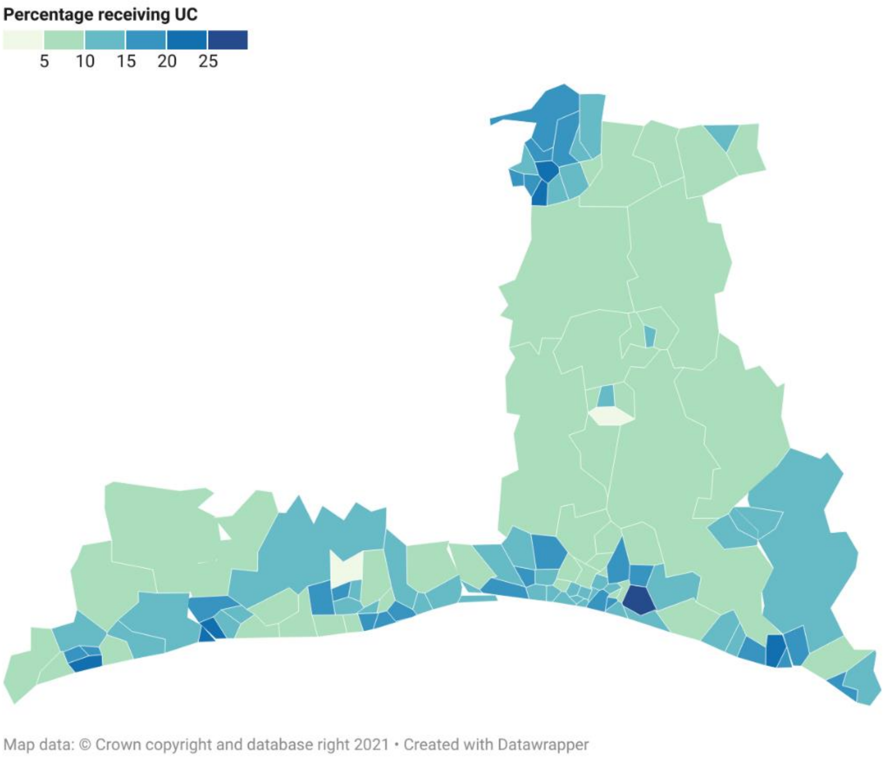


Source: IES analysis of Stat Xplore and Census 2021 data

These broad averages however disguise significant differences in rates of receipt between MSOA areas. The map in Figure 3.3 below sets this out, showing that rates of receipt (and so rates of low income) are generally highest in coastal areas as well as in Crawley.

The highest rate of receipt overall is in the MSOA covering Whitehawk in the east of Brighton (28% of the population aged 16-64), while Newhaven, Littlehampton, Bognor, and the south of Crawley all have rates of between 21% and 24%. The rate of receipt in east Worthing is then just under 20%, with other coastal areas (Shoreham, Seaford and other parts of Brighton/ Hove/ Worthing) all having around one in six adults claiming UC. Haywards Heath, Burgess Hill and East Grinstead have around one in ten in receipt, with areas in lighter green all below 10%.

Figure 3.3: Share of population (16-64) claiming Universal Credit by MSOA



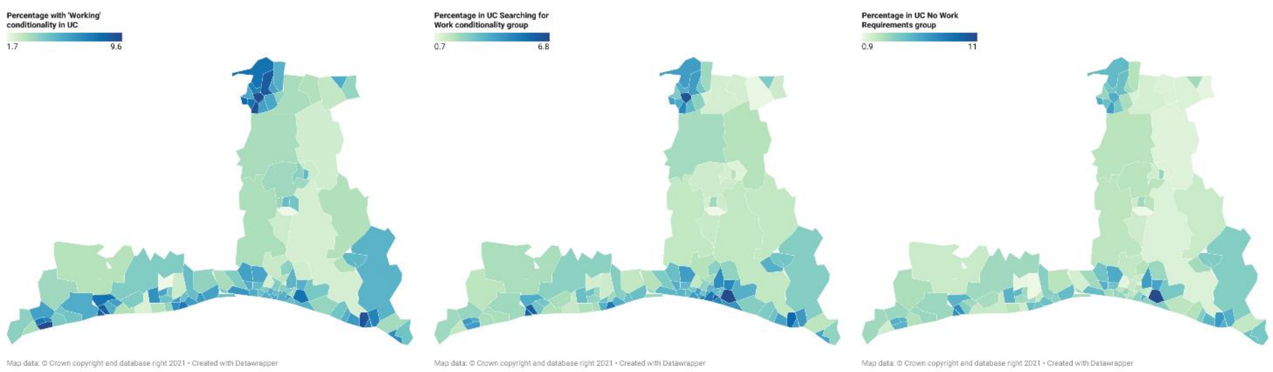
Source: IES analysis of Stat Xplore and Census 2021 data

Figure 3.4 then further breaks down the rates of UC receipt into those who are in work (left hand map), out of work but required to look for work (the 'Searching for Work Group' in the middle map) and those out of work and not required to look for work (the 'No Work Requirements' group in the right hand map – this group mainly comprises people with significant health conditions or disabilities).

This does show that there are slightly different patterns of receipt between these three groups and across areas:

- Receipt of UC for those in work is particularly pronounced in parts of Crawley, Bognor, Newhaven, Littlehampton (in each case, around 9% of all adults are in work and on UC), with the east of Brighton and east of Worthing all also relatively high (8%);
- The ‘Searching for Work’ group is highest in central Crawley, Brighton (east and central), Newhaven and Bognor (all around 6-7% of those aged 16-64), but is otherwise below 2% across most of the city region; and
- The ‘No Work Requirements’ group is typically 5-7% of the population in more deprived areas and 2-3% in other areas, but rises to 11% in east Brighton/ Whitehawk. Overall, across the region, there are more people in this group than ‘Searching for Work’, illustrating that most of those on UC and out of work are significantly disadvantaged.

Figure 3.4: Share of population (16-64) claiming Universal Credit by MSOA – working (left map), ‘Searching for Work’ group (middle), ‘No Work Requirements’ group (right)



Source: IES analysis of Stat Xplore and Census 2021 data

In addition to those in receipt of UC, many households also continue to receive ‘legacy’ benefits where their circumstances have not changed since UC rollout began. The most common of these is benefits for incapacity (again, those with long-term ill health). There are typically around 3-4% of adults on these benefits, but this rises as high as 11% for those in east Brighton. Overall, three fifths of all residents of the main east Brighton MSOA are claiming either Universal Credit or a legacy benefit.

Changes over time

The pandemic has led to significant increases in Universal Credit receipt, partly due to the effect that it had on employment and incomes but also because it accelerated the ‘migration’ of claimants from legacy benefits to UC (as any changes in circumstances meant that legacy claimants had to apply instead for UC).

Figure 3.5 below shows the change in rates of receipt of UC between February 2020 and November 2022. There are two maps, with:

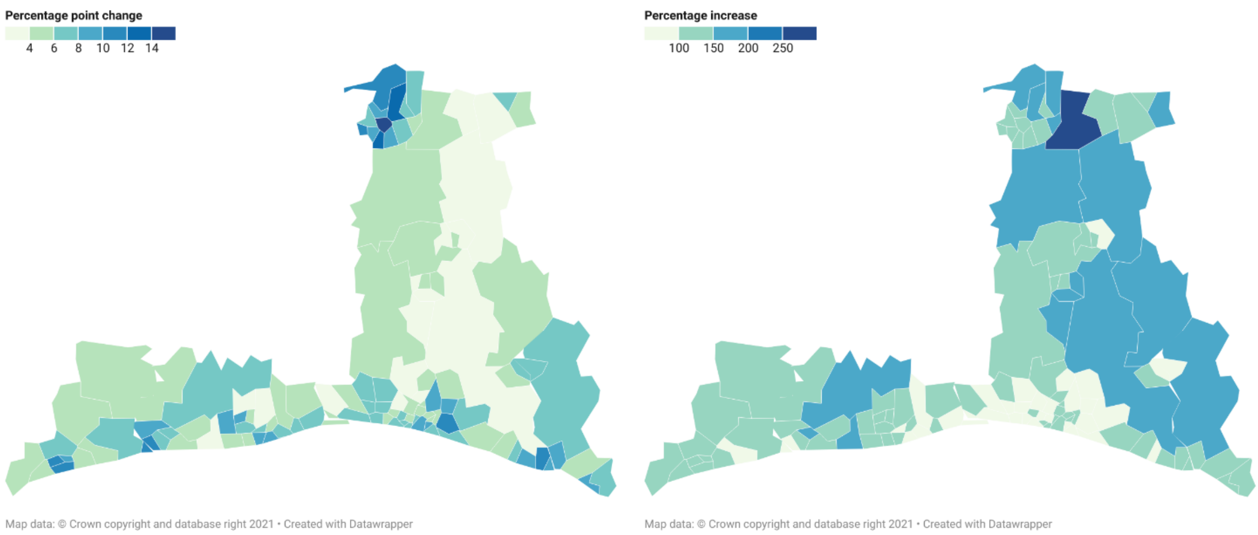
- The map on the left showing the percentage point change, i.e. how many more people per hundred residents are now claiming UC; while
- The map on the right shows the percentage change, so the rate of growth in the UC population overall for that area.

This illustrates that the largest growth per capita (the left hand graph) has been in areas that have the highest rates of benefit receipt overall. Growth has been particularly strong across Crawley (up by 12 to 14 percentage points), which may reflect the particularly significant impacts of lockdowns on the Crawley economy and Gatwick airport. Coastal areas around east Brighton, Newhaven, Littlehampton and Bognor have all seen growth of around 11 percentage points.

However looking at percentage growth, the biggest changes have been for areas with lower UC receipt pre-pandemic – with rates of UC receipt 150-200% higher across most of Mid Sussex, Lewes and Arun. However this growth is from a low base – so for example in the MSOA which has seen the highest percentage growth (northern Mid Sussex, around Turners Hill), UC receipt has grown by 250% but from 1.9% of population pre-pandemic to 6.6% by the end of 2022.

In areas with higher rates of pre-pandemic receipt, rises are typically below 100% – although Crawley does see strong growth in both percentage and percentage point terms.

Figure 3.5: Change in Universal Credit receipt, Feb 2020 to November 2022: Percentage point change (left hand map) and percentage change (Right hand map)



Source: IES analysis of Stat Xplore and Census 2021 data

Taken together, this UC analysis confirms that areas with the highest rates of low income – and so likely among those that will be most significantly affected by rising costs of living – are in deprived coastal communities and around Crawley.

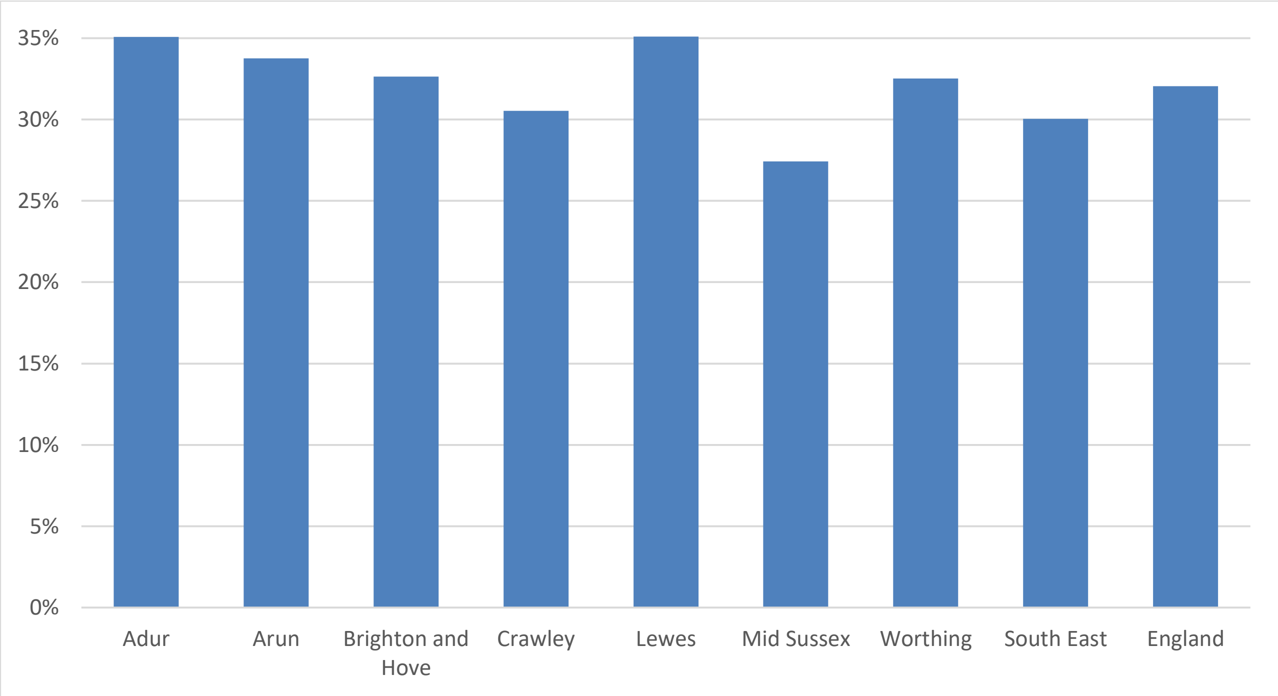
However, the analysis suggests that there are different patterns of disadvantage across areas – with for example Crawley seeing very significant growth through the pandemic and also very high rates of low income in work; while many coastal areas have particularly high rates of people out of work with long-term health conditions.

Importantly, the analysis also shows that areas with generally lower rates of UC receipt have seen those caseloads grow more quickly than in more 'disadvantaged' areas. Across many more rural areas, rates of benefit receipt remain relatively lower but have often trebled between 2020 and 2022.

3.2 Disability

Figure 3.6 below shows the proportion of people who live in households where at least one person is disabled. These rates are fairly consistent across local authorities, with almost all in a range between 31% and 35% of residents (the exception being Mid Sussex, where just over a quarter (27%) of residents live in households with at least one disabled person).

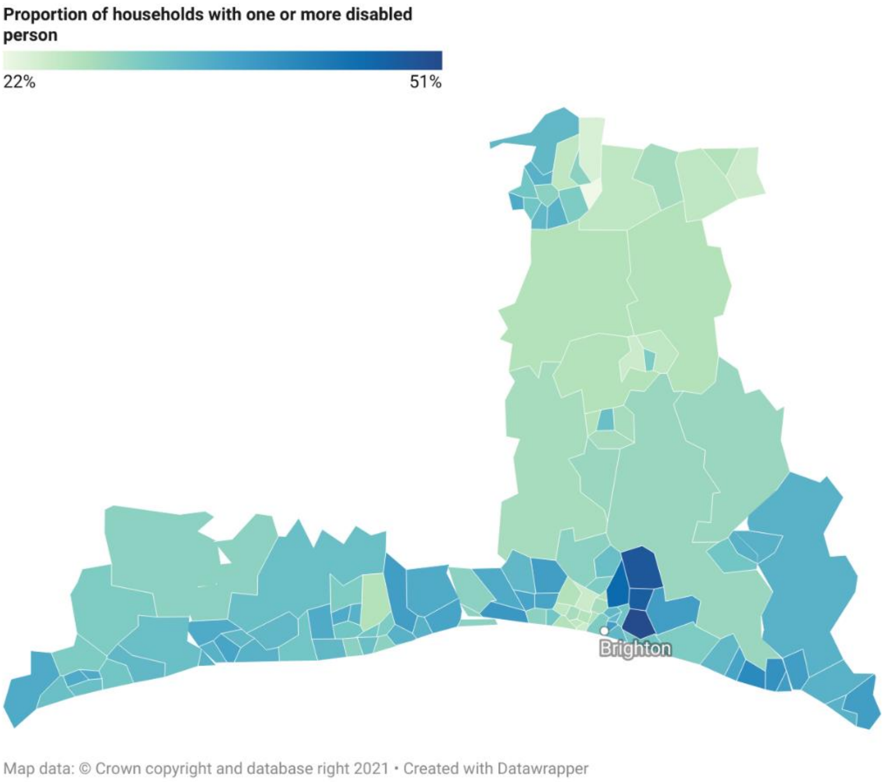
Figure 3.6: Proportion of people living in households with at least one disabled person



Source: IES analysis of Census 2021

Looking at MSOA level, however, does identify a number of local areas where a particularly high proportion of people live in households with at least one disabled person – around half of residents in areas of Brighton around Whitehawk, Moulescoomb, Falmer and Coldean; and around two fifths of residents in Newhaven. Prevalence of disability is generally higher in more deprived coastal areas and around Crawley than elsewhere in the city region. This suggests that in these areas there are likely to be more residents at risk of negative impacts from costs of living increases.

Figure 3.7: Share of households with at least one disabled person by MSOA



Source: IES analysis of Census 2021

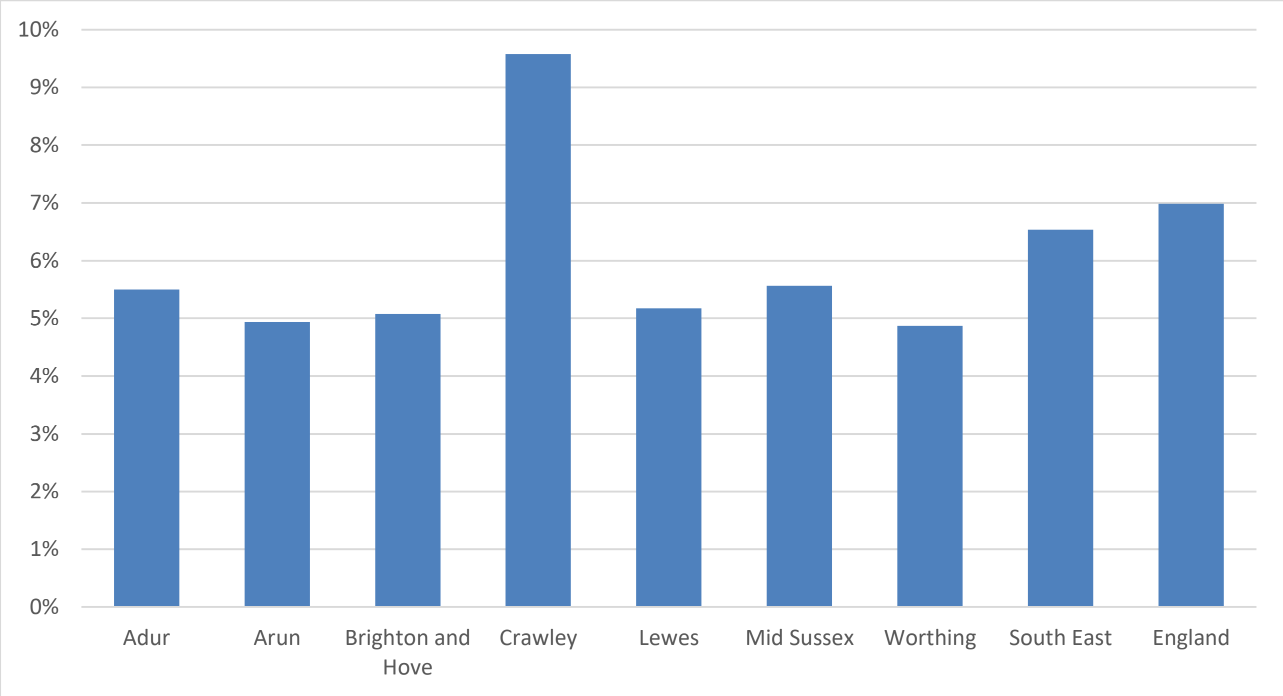
3.3 Family size

To identify areas with larger families, we have used Census data on the number of people living in households and calculated the share of residents who live in households with five or more members. This would be consistent with couple families with three or more children, however it would exclude some large lone parent families (e.g. a lone parent with three children would not be included), while it would include some non-families like larger student households.

The results are shown in Figure 3.8 below. Shares of residents living in larger households are generally around 5%, which is lower than the averages for England (7%) and the South East (6.5%). However the very significant exception to this is Crawley, where nearly one in ten (9.6%) of residents live in a household with at least five people in it

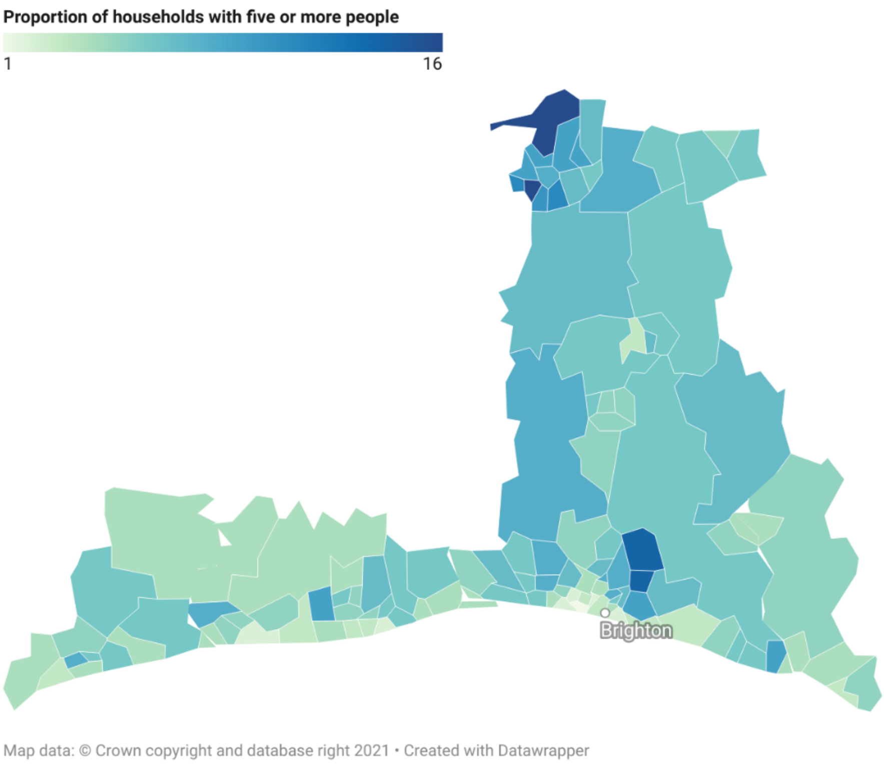
Looking at MSOA level, larger households are by far most common in the north and south west of Crawley, around Langley Green and Broadfield respectively (one in six residents, or 16%, live in large households in both of these areas). There are also high proportions in the east of Brighton, at about 14% in both Whitehawk and Falmer – although the latter very likely reflects the effects of student households/ halls for the two universities. So this suggests that in parts of Crawley and in the east of Brighton we are most likely to see negative impacts for larger families from rising costs of living..

Figure 3.8: Share of households with five or more people



Source: IES analysis of Census 2021

Figure 3.9: Share of households with at least five or more people by MSOA

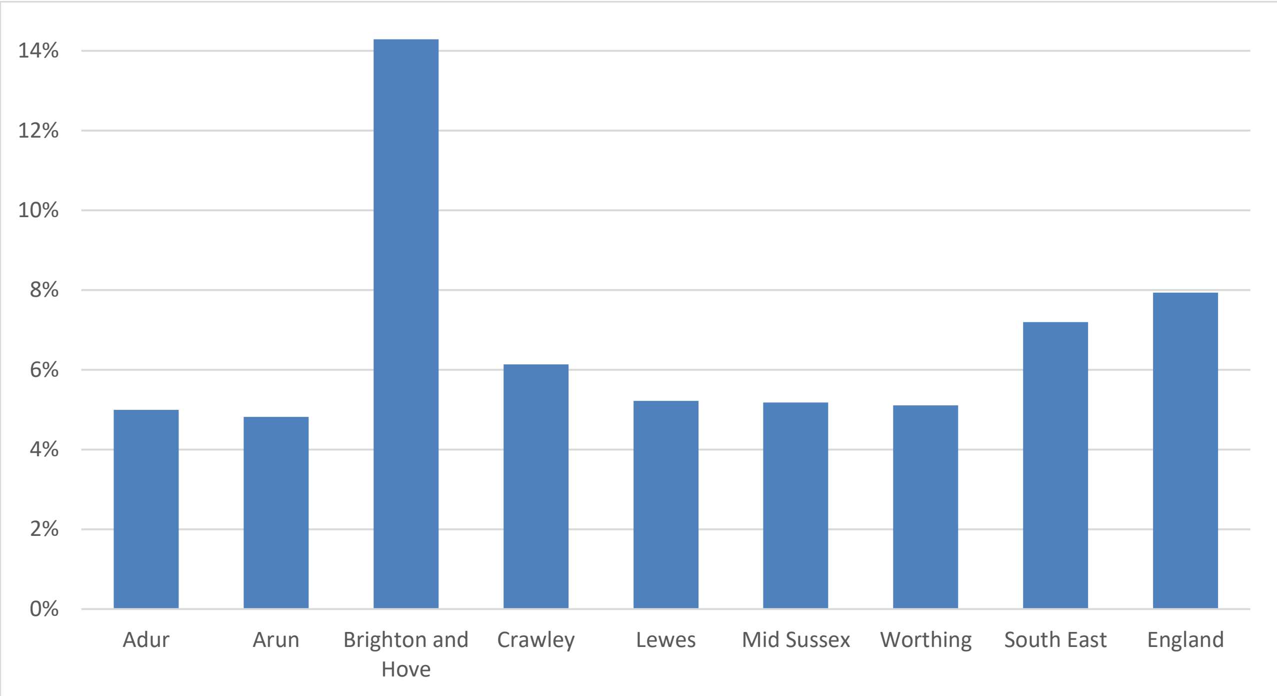


Source: IES analysis of Census 2021

3.4 Students

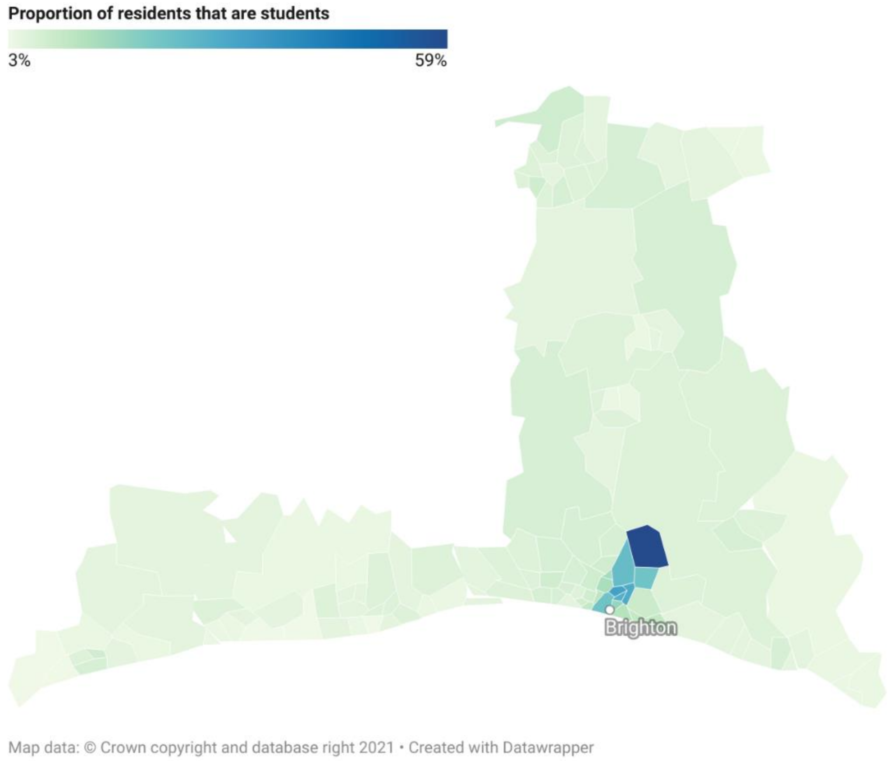
Council areas in Greater Brighton also generally have smaller student populations than England and the South East, at between 5-6% compared with around 7%. The exception to this however is Brighton and Hove, which has one of the largest student populations in the country at 14.3%. As Figure 3.11 sets out – showing student populations by MSOA – this is (unsurprisingly) most pronounced around Falmer, where three fifths (59%) of residents are students. In other parts of central and northern Brighton, however, often around 25-30% of residents are students.

Figure 3.10: Students as a proportion of population (16+)



Source: IES analysis of Census 2021

Figure 3.11: Students as a proportion of population (16+) by MSOA



Source: IES analysis of Census 2021

3.5 Housing tenure and house prices

3.5.1 Housing tenure

Figure 3.12 below shows the proportions of residents in each Council area who own their homes[2], rent privately or rent social housing. Rates of home ownership are very high in Mid Sussez, Adur, Arun and Lewes – with all four well above the average for the South East of England. Worthing is more or less in line with the South East average, while Crawley and Brighton & Hove are well below (and below the England average too).

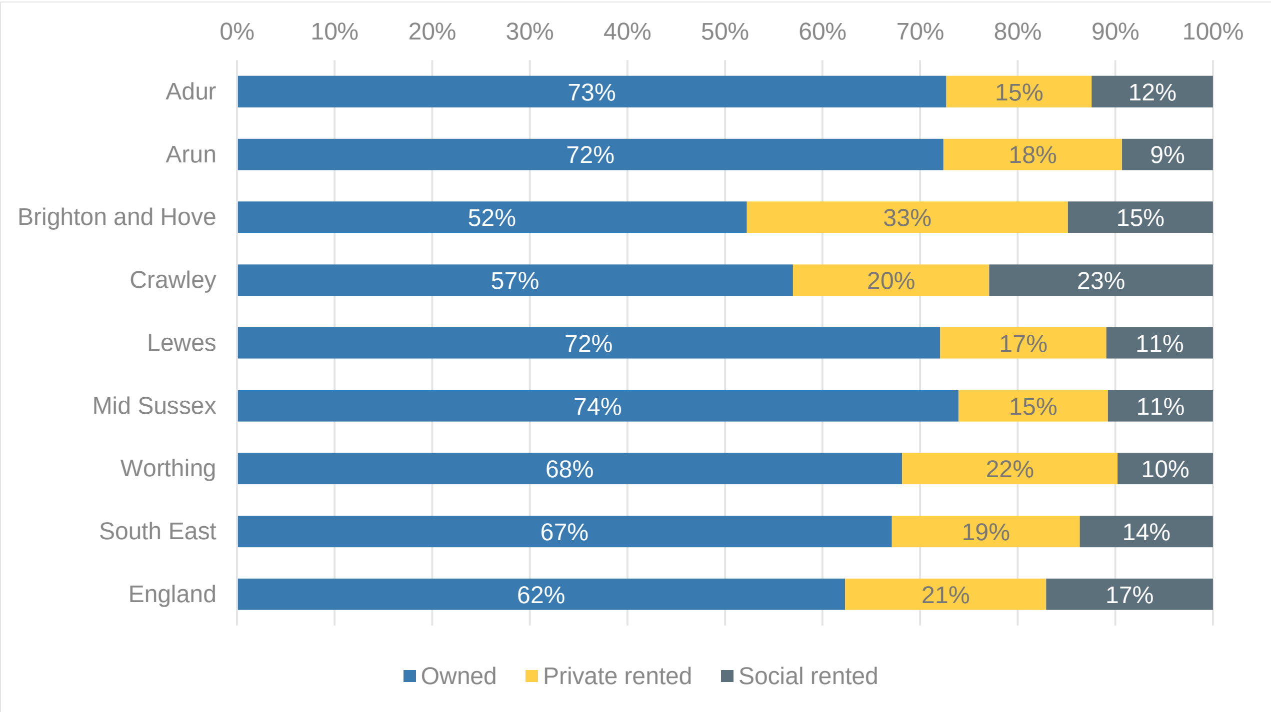
In Brighton & Hove, this difference is mostly explained by the very large private rented sector which in turn partially reflects its large student population. In Crawley, low home ownership likely reflects both its demographics but also its higher levels of disadvantage.

Interestingly, Crawley is also the only area with rates of social housing above the England average (at nearly a quarter of all residents). This likely reflects its substantial expansion as a post-war new town, but allocations policies and housing pressures in recent decades have seen social housing residents become increasingly disadvantaged (and likely an important group in their own right who will be at risk from rising costs of living).

[2] This category comprises those who own their homes outright, own with a mortgage, or have shared ownership.

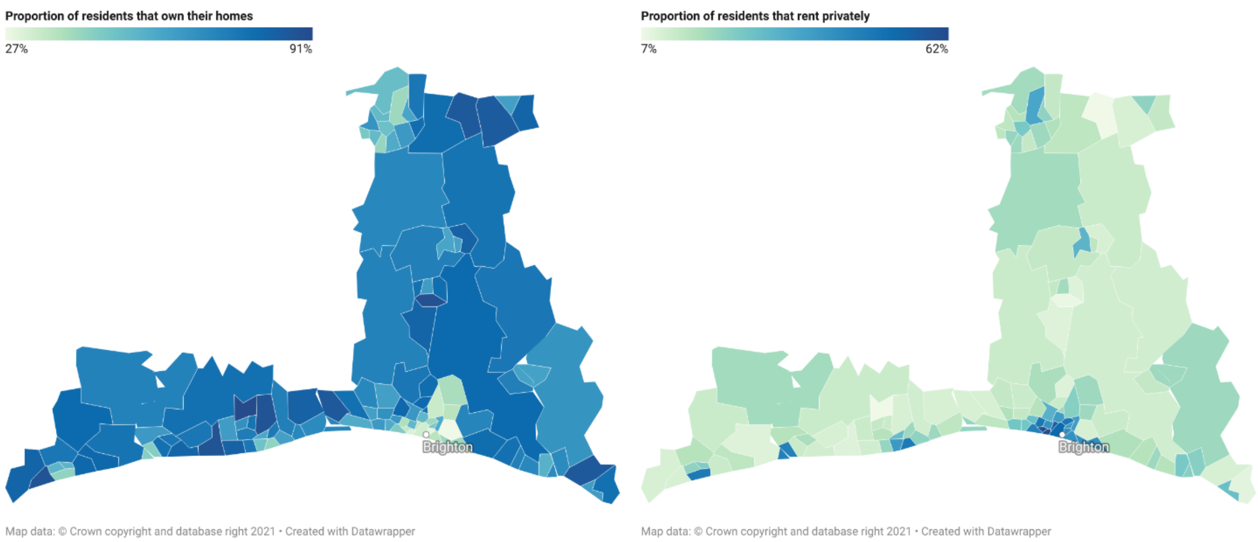
Looking at rates of home ownership and private renting by MSOA (Figure 3.13), we see that rates are highest in affluent suburbs (Findon and High Salvington to the north of Worthing; the south of Burgess Hill, Bishopstone near Seaford); while private renting is very highly concentrated in central Brighton and Hove (above 50%) and in central Worthing, Littlehampton and Bognor (all around 50%).

Figure 3.12: Housing tenure of residents



Source: IES analysis of Census 2021

Figure 3.13: Proportion of residents who own their homes (left) or rent privately (right)



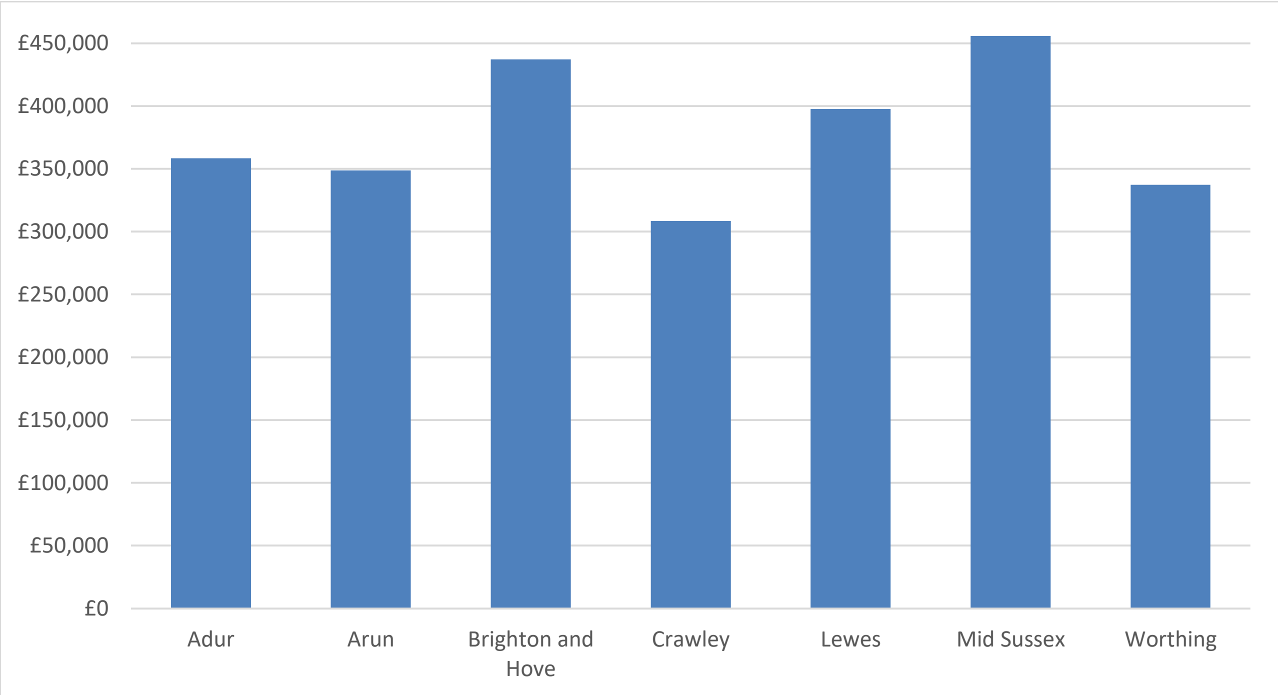
Source: IES analysis of Census 2021

3.5.2 House prices

As noted in Chapter 2, many home owners could face significant impacts from rising interest rates if they need to remortgage in the next couple of years (while many people looking to buy for the first time will likely find themselves priced out because of rising rates). In order to assess where there may be the most significant risks from this, we have analysed Land Registry data on house sales since 2018 and then compared this with estimates of average earnings to assess where housing is more and less affordable.

On house prices first, Figure 3.14 below shows average sale prices for houses by local authority area since 2018. Prices were lowest in Crawley (£308,000) and Worthing (£337,000); and highest in Mid Sussex (£456,000) and Brighton and Hove (£437,000). In other areas, sale prices were between £350,000 and £400,000.

Figure 3.14: Average house prices, 2018-

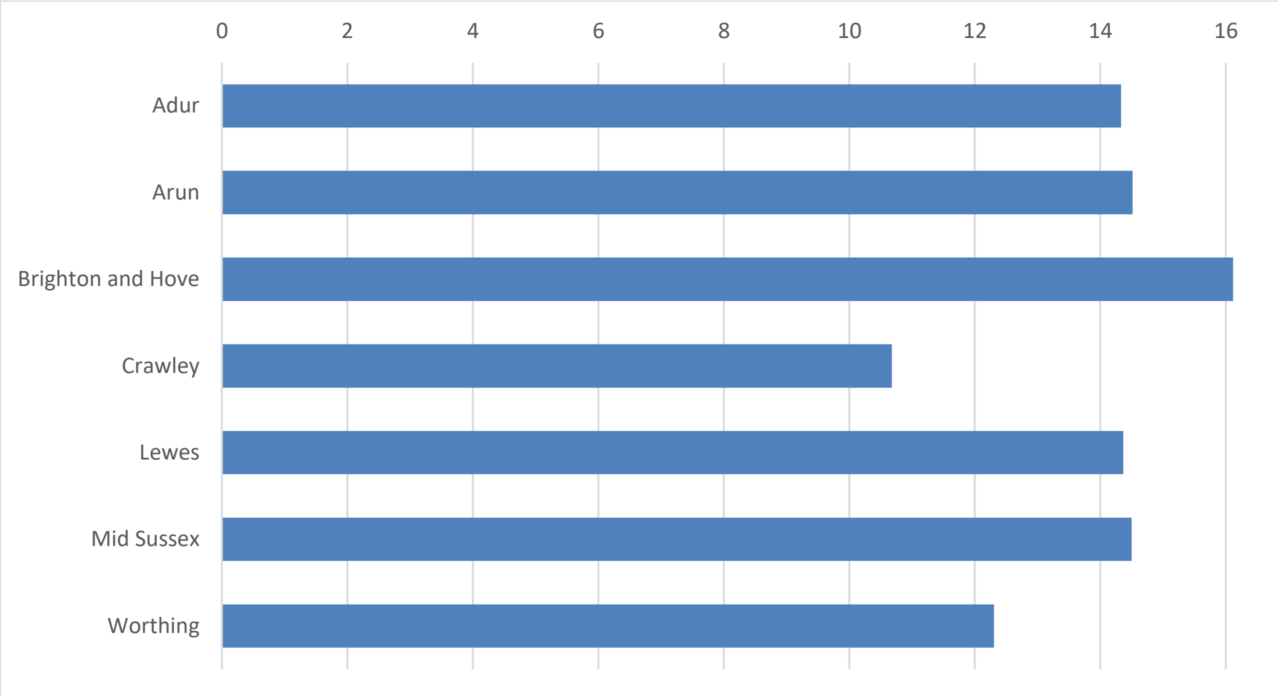


Source: IES analysis of Land Registry

Housing affordability tells a similar story to house prices overall, with Figure 3.15 below showing the ratio of average house prices to the estimated average gross annual earnings for residents (taken from the 2022 Annual Survey of Hours and Earnings).

Brighton and Hove stands out, with house prices around 16 times higher than the average wage. In Mid Sussex, higher wages means that the ratio is lower, at around 14.5 times wages. However the multiple is above 14 across Adur, Arun, Lewes and Mid Sussex. The ratio is far lower in Crawley (10.7 – reflecting both lower house prices and higher average wages) and in Worthing (12.3), which suggests that the potential negative impacts on home owners may be slightly lower in these areas than in others.

Figure 3.15: Ratio of average house prices to median gross annual earnings



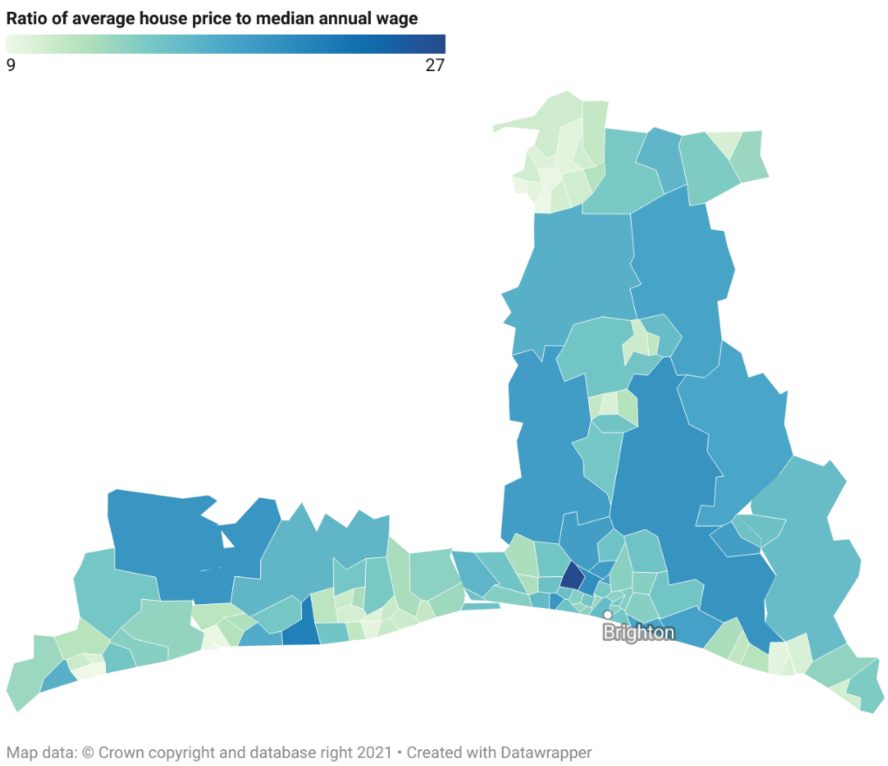
Source: IES analysis of Annual Survey of Hours and Earnings, Land Registry

In order to produce affordability estimates to MSOA level, we have modelled median wages for each Council area, the estimated earnings by occupation for the South East and the occupational profile within each MSOA to generate earnings estimates, which were then compared with house sales from Land Registry data.

The results are in Figure 3.16 below and suggest that there are a number of potential hotspots where house prices are significantly higher than earnings (around 20 times higher and sometimes more) and so where people remortgaging may be at particular risk of financial difficulty. In particular, rural areas of Lewes, Mid Sussex and Arun all stand out; as does the area around Hove Park, and some coastal areas east of Brighton (around Rottingdean) and west of Worthing (around Ferring).

Further analysis on earnings is also set out in the Annex.

Figure 3.16: Ratio of average house prices to median gross annual earnings by MSOA



Source: IES analysis of Annual Survey of Hours and Earnings, Land Registry

3.6 Classifying areas by risks from low income and/or rising interest rates

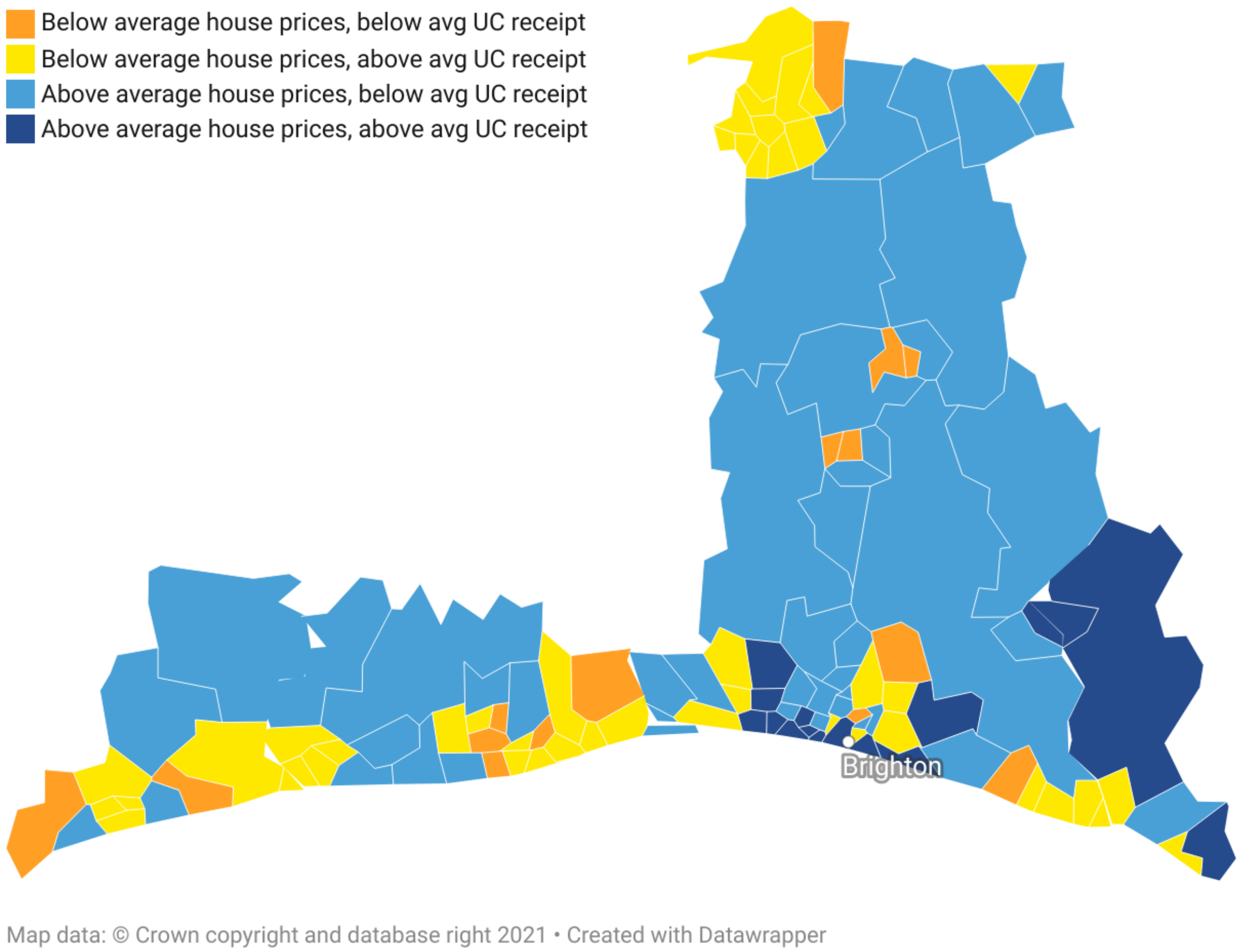
The cost of living crisis is being driven now by two distinctly different shocks: rising prices (particularly for energy and food); and rising interest rates (particularly affecting home owners with large debts). So we can combine the analysis set out in this chapter to classify MSOAs by whether their residents are likely to face greater or smaller effects from these two factors.

Specifically, we can use **rates of Universal Credit receipt** as a proxy for being most impacted by rising prices; and **housing affordability** as a proxy for being at most risk from rising interest rates/ remortgaging. By using these two variables and grouping areas according to whether they are above or below average, creates four groups, with the results set out in Figure 3.17 below:

- Those that have **below** average house prices and **below** average rates of UC receipt – and so are likely to be less significantly impacted by the costs of living crisis (shaded **orange**);
- Those that have **below** average house prices and **above** average rates of UC receipt – and so likely to be more impacted by rising inflation but less impacted by rising interest rates (shaded **yellow**);

- Those that have **above** average house prices and **below** average rates of UC receipt – so likely to be more impacted by interest rates and less so by inflation (shaded **light blue**); and
- Those that have **above** average house prices and **above** average rates of UC receipt – with these areas likely to see greater impacts from both rising inflation and rising interest rates (shaded **dark blue**).

Figure 3.17: Classification of MSOAs by whether house prices and rates of UC receipt



Source: IES analysis of Annual Survey of Hours and Earnings, Land Registry

Looking across the city region, the results above suggest that:

- Unsurprisingly, given the other analysis in this chapter, coastal deprived areas, most of Crawley and east Brighton/ Whitehawk are more at risk from rising prices than from rising interest rates;
- More rural areas, and some more affluent coastal areas, appear to be more at risk from interest rates than inflation;
- Central Brighton and Hove and parts of Lewes (including the town itself) appear to be at risk from both rising prices and rising interest rates; while

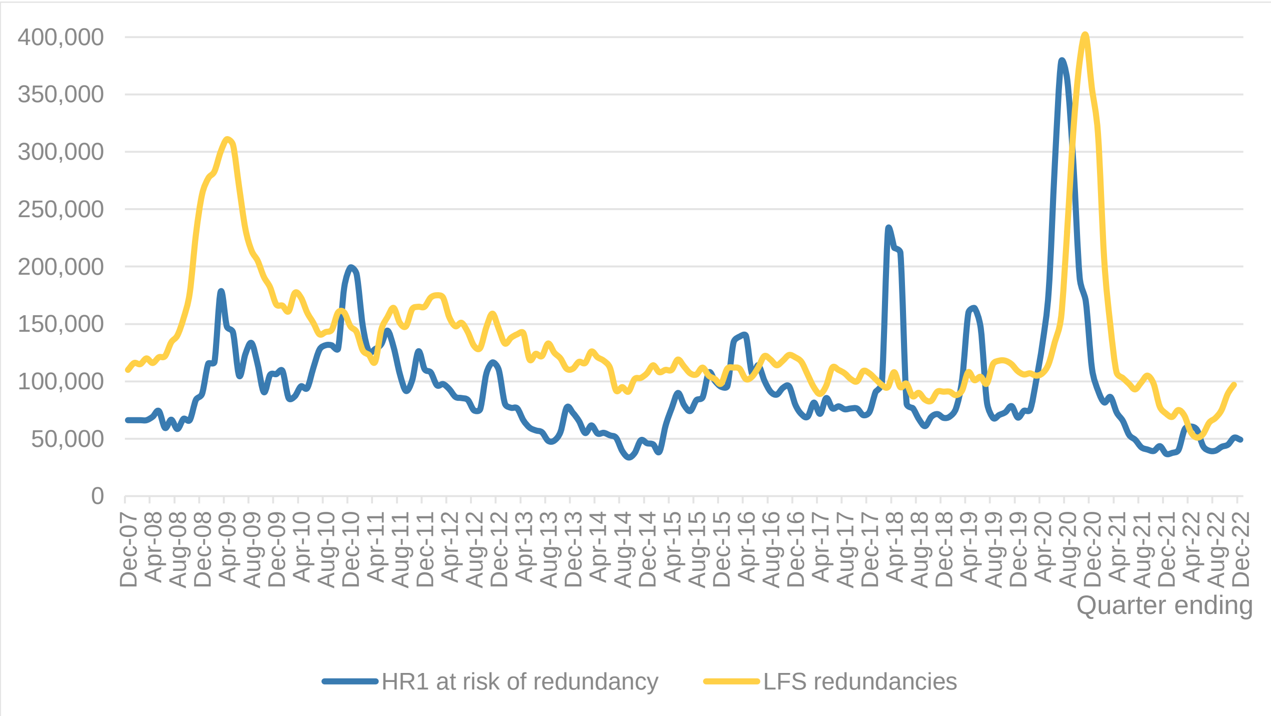
- A small number of areas – like central Burgess Hill, central Haywards Heath, parts of Worthing and Falmer – appear to be less at risk than other areas on both dimensions.

3.7 Employment risks

Rising living costs and interest rates are also contributing to a wider slowdown in the economy – with weak consumer spending and business investment, alongside negative consumer and business confidence. This means that there are greater risks in the next year that we may see higher redundancies, fewer vacancies and rising unemployment.

There are some signs – albeit early – that this slowdown may already be starting, with the monthly IES labour market briefing highlighting a worrying uptick in redundancies and shorter-term unemployment, and a fall in vacancies. This is most clearly seen in redundancies, which have virtually doubled since the early spring (but from a very low base – the yellow line in Figure 3.18). This is being driven by hospitality and retail, which along with leisure and tourism are the industries where we would expect to see negative impacts from a slowdown in spending (and which were also significantly harmed by the lockdowns during 2020/ 2021). The graph below also shows that official notifications of redundancies (via 'HR1' forms) remain very low, which could suggest that these increases are being driven by smaller firms that are not required to notify the Insolvency Service.

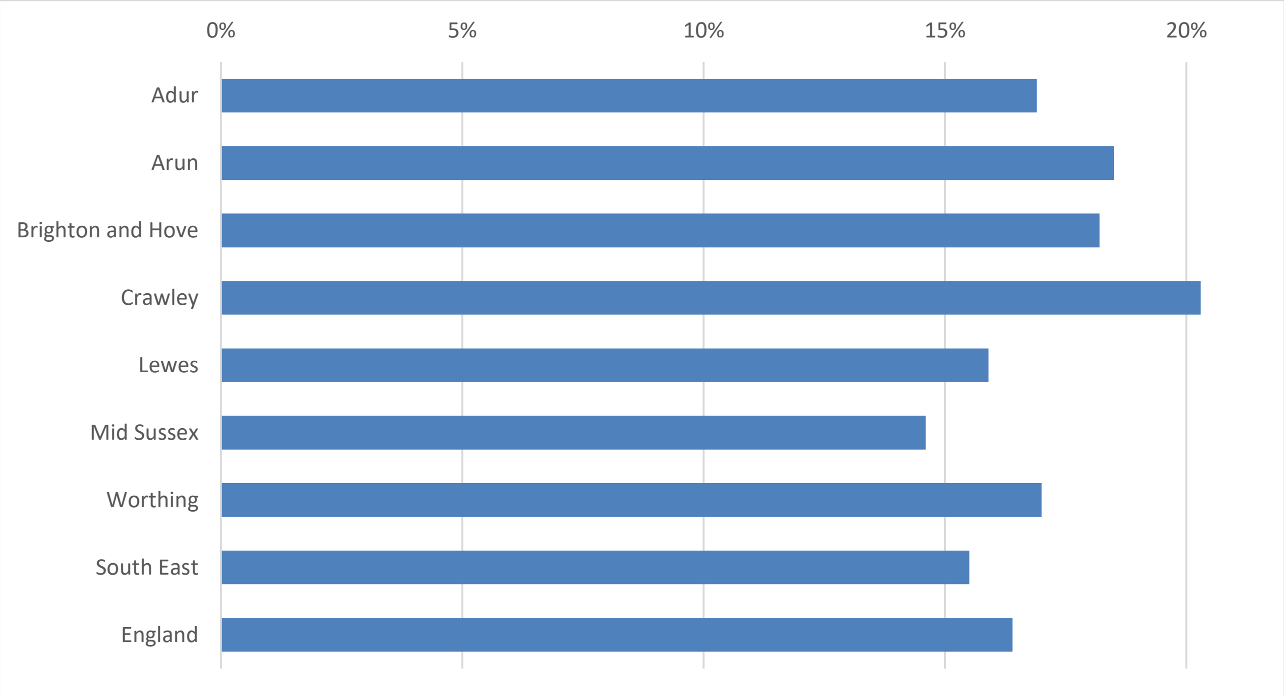
Figure 3.18: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)



Source: IES analysis of Insolvency Service and Labour Force Survey data

We have therefore also looked at the proportion of employment across the city region that is in hospitality, retail and leisure[3] and so may be at greater risk during a slowdown. This is shown in Figure 3.19 below. This suggests that every area except Lewes and Mid Sussex has combined employment in these industries above the average for the South East, with this highest in Crawley at just over 20%. Underneath this, high figures in Crawley, Arun and to some extent Adur are driven in particular by having high levels of employment retail and customer services; while Brighton and Hove is over-represented in hospitality and leisure jobs.

Figure 3.19: Proportion of those in work with jobs in retail, hospitality or leisure

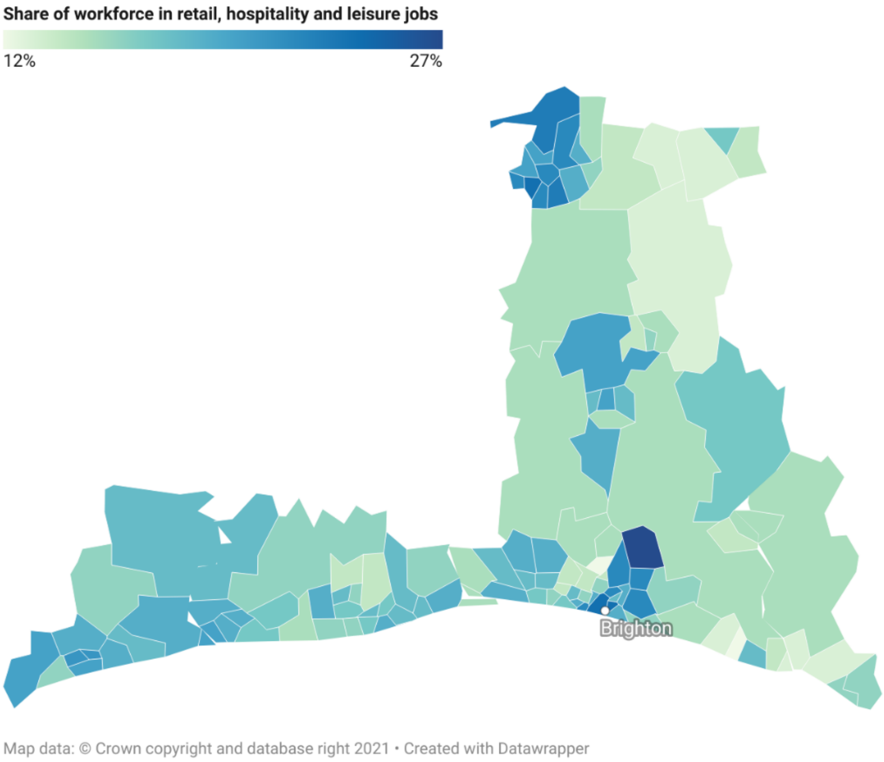


Source: IES analysis of Census 2021. Figures show proportion of those in work who are in one of thirteen occupations at three digit SOC code level that are predominantly retail, hospitality and leisure jobs.

Repeating the analysis to MSOA level (Figure 3.20 below) we see that employment in these occupations is particularly high around Brighton and Hove and Crawley (at around a quarter of the workforce, and highest of all in Falmer, likely reflecting student jobs), but is also very high in parts of Worthing and Adur, around Littlehampton, Arundel and Bognor, and in and around Burgess Hill.

[3] Specifically, we have looked at Census data on detailed occupations, and combined thirteen occupations at the three-digit Standard Occupational Classification (SOC) level which are predominantly retail, hospitality and leisure jobs.

Figure 3.20: Proportion of those in work with jobs in retail, hospitality or leisure



Source: IES analysis of Census 2021. Figures show proportion of those in work who are in one of thirteen occupations at three digit SOC code level that are predominantly retail, hospitality and leisure jobs.

4 Conclusions and recommendations

The analysis set out above shows that we are experiencing a hit to our living standards that is unprecedented in at least a generation and that is already causing hardship and difficulties for many people. Applying national estimates to the Greater Brighton area, there may already be as many as 80 thousand people finding it very difficult to pay their energy bills, and are likely hundreds of thousands experiencing some difficulties.

However while these impacts have been broadly felt – inflation and interest rates are rising for everyone – there are clear groups at great risk of hardship severe difficulties. In particular we identify five key groups:

- Those with low incomes, and particularly those households where there are adults out of work;
- Disabled people – reflecting lower household incomes, higher living costs, and more difficulties in reducing spending;
- Larger families – due to cuts in social security support, often higher living costs and less ability to mitigate price rises;
- Students, where in particular students on low incomes have seen maintenance support decline in recent years;
- Many of those renting privately in areas where rents are rising faster; and
- Homeowners who need to remortgage, particularly in areas where house prices are higher and earnings lower.

Looking across the Greater Brighton area, our analysis finds that there are a number of areas where risks are far greater across many or all of these dimensions – in particular around the east of Brighton (Whitehawk, Moulescoomb and Falmer), much of Crawley, and across many disadvantaged coastal areas like Newhaven, Littlehampton, Bognor and parts of Worthing.

However we also find that many areas that were less ‘disadvantaged’ before the pandemic have seen more significant proportionate rises in those out of work and/ or on low incomes – particularly across more rural areas of Mid Sussex, Lewes and Adur. Rates of low income are still lower in these places than in some more disadvantaged areas, but have usually more-than-doubled and often trebled since the pandemic. So there may be more disadvantaged households in areas with less capacity to identify and support them.

At a more detailed level there are some different patterns of risk across the city region, with for example a much higher proportion of larger families in parts of Crawley; and much higher rates of private renting in larger towns and urban areas (unsurprisingly).

Importantly, we also find that risks around housing affordability for those (re)mortgaging are often most pronounced in more affluent areas where house prices are higher but also in some cases wages are closer to average – with hotspots in rural areas of Lewes, Mid

Sussex and Arun. However there are also significant risks in Brighton and Hove (particularly around Hove Park and some coastal areas east of Brighton) and in the west of Worthing (around Ferring).

Looking ahead, there are relatively high rates of employment across the city region in retail, leisure and hospitality – with this particularly pronounced in Crawley, but high too in Arun, Brighton and Hove, Worthing and Adur. There are risks therefore that a wider economic downturn affecting these industries could be felt harder within the city region than elsewhere – although so far, unemployment remains very low and vacancies high, even if there are some very early signs of the labour market slowing down.

Finally, it should be noted that while this analysis is useful in giving some indications of how different areas may be differently affected by rising costs of living, it should nonetheless be stressed that the impacts of the cost of living crisis are being broadly felt, and that there will be people at greater risk across all areas. This analysis merely shows us where those risks may be highest and where there may be more people facing hardship or difficulties. Any response therefore needs to be similarly broad based.

4.1 Recommendations

As noted, making recommendations for future policy or practice was out of scope for this rapid research project, however we have set out below some potential areas for focus.

4.1.1 For local government

Based on this analysis, feedback from Councils and wider work by IES, we would suggest five main areas of focus:

- **Local insight and evidence collection**. Many councils are already gathering insight from their own services (including Council tax, housing/ homelessness, welfare support) as well as from wider partners like foodbanks, social landlords, health services and wider voluntary and community organisations. There would be significant benefit in trying to do this systematically and consistently to try to identify earlier where there may be particular groups of residents at risk or when impacts may be changing or becoming more acute. Where possible, there would also be value in Councils working together to share practice, approaches and also insight from this evidence gathering.
- **Targeted, place- and group-based support**. All councils will be looking at how they can provide greater short-term financial and non-financial support to residents, and this research emphasises that there are groups and areas where this support could usefully be targeted – particularly at places where there are likely to be particularly high levels of need, but also at groups who may have greater or different support needs, like large families, disabled people and students.
- **Effective partnership working**. Again many Councils are focused on this already, and looking to work more closely and effectively with community organisations, advice services, social landlords, health services and more. Again this analysis suggests that

there are likely to be particular areas or groups where those partnerships may be most needed; and we would also suggest that there would be benefit in looking to share practice and insights from this work between Councils to help build capacity and capability.

- **Employer engagement**. Linked to this, employers can play a key role in helping to support and refer people who may be facing hardship, and many employers are increasingly keen to do this. We would suggest therefore that there should be specific and discrete approaches to trying to engage and work with employers – with simple communications and resources on what support is available; and direct engagement and marketing, through for example business and industry groups.
- **Employment and skills support**. Finally, given that worklessness is a key driver of low income, and that there are risks of a further slowdown in the labour market, we would argue that there is a need now to look at how we can better join up employment support for those out of work as well as those in insecure or low-paid work. This is made more difficult by the delays to the Shared Prosperity Fund which will eventually fund local employment and skills support, but there may be opportunities in the meantime to work with local services including Jobcentre Plus, the NHS Sussex Integrated Care Board, colleges and training providers, and wider community organisations to map available provision, identify opportunities for funding and/ or collaboration, and look to improve access and support for residents.

4.1.2 For employers

IES work with employers on financial wellbeing and support identifies a range of ways that employers can support and work with their staff, and in particular:

- The importance of **talking to staff about money and finance**, and supporting an environment where people feel able to be open about when they may be struggling or need help;
- **Providing staff with simple guidance, links and resources** that they can use – which is often taken from Council and advice service websites and/ or from Employee Assistance Programmes, but where there are very rarely resources developed specifically for employers to share with their staff;
- **Providing access to specific tools to support financial planning and health checks** – again these are often available through Employee Assistance Programmes where firms offer these, but there are also many free resources from government and charitable advice services;
- Having the **flexibility to provide emergency or discretionary financial support** where people need it – with many of the most effective approaches being low- or no-cost models like pay advances to support with unexpected costs or debts and/ or widening the scope of interest free loans, but can also include hardship funds and support (which can often be in the form of goods and services rather than cash, given the interactions between cash payments and benefit receipt); and

- Having **effective mechanisms to refer and escalate** when colleagues have financial difficulties – in particular from line manager to HR and then to any specialist support that may be available.

However while we have a decent idea of what ‘good’ looks like, this is far from widespread and there are significant challenges in engaging with and supporting firms to do more. So finally, there would be significant benefit in engaging business groups and directly with employers to sell the benefits of workforce financial wellbeing – the business as well as the social case for doing this – and to encourage things like the use of Employee Assistance Programmes, of being more flexible on pay, loans and advances, and of encouraging a culture of openness on financial wellbeing.

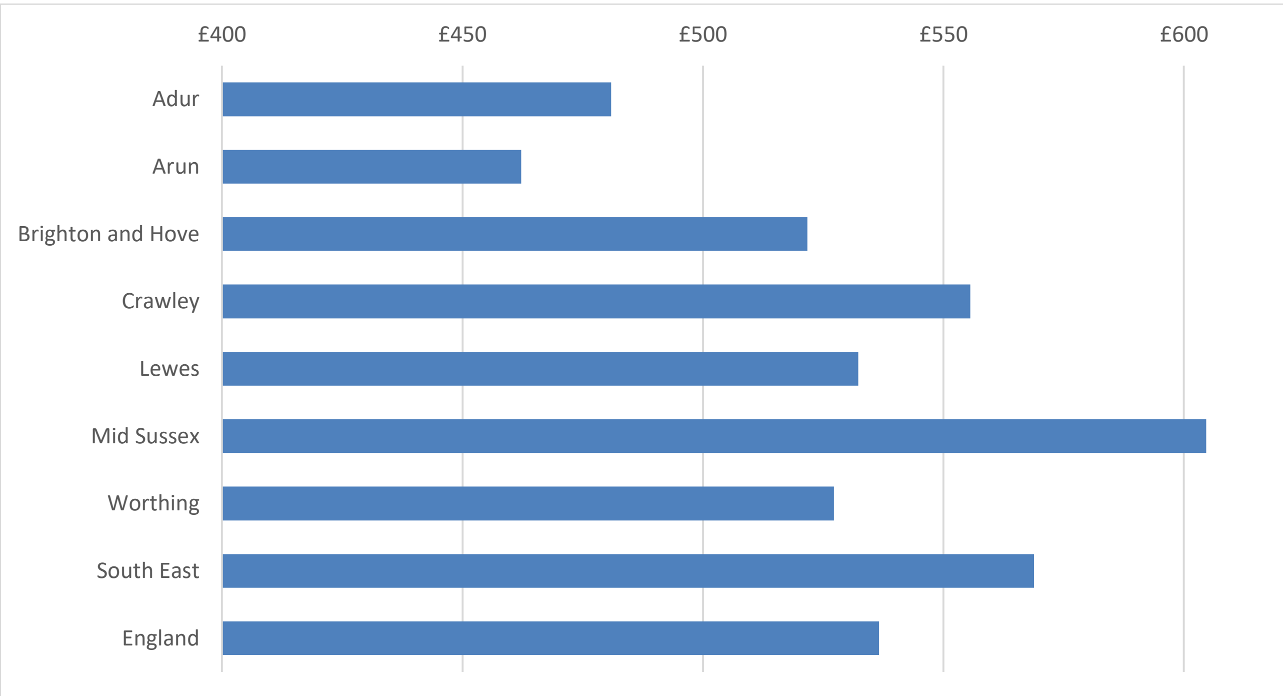
Annex: Earnings by Council and MSOA

Figure A1 below shows that average (median) earnings are generally lower in the Greater Brighton area than in the South East of England, which is consistent with the findings above that rates of benefit receipt are generally higher than for the wider South East. However the earnings figures paint a slightly different picture to those on benefit receipt, with in particular:

- Crawley having relatively high weekly wages (£556, higher than the England average) despite very high rates of benefit receipt – which suggests that the high rates of receipt reflect higher housing costs and/ or higher earnings inequality, which are explored in sections 3.5 and 3.6 below; but
- All areas except for Mid Sussex and Crawley having pay below the England average despite also having below-average rates of benefit receipt (most notably for Adur and Arun). One possible explanation for this could be low paid second earners in better-off households, while student earnings is likely also a contributing factor in Brighton & Hove.

The discrepancies above mean that earnings are a slightly less useful proxy than rates of benefit receipt for understanding low incomes, which can be an issue for employers too in trying to identify which of their staff may be at greater risk of hardship from rising living costs.

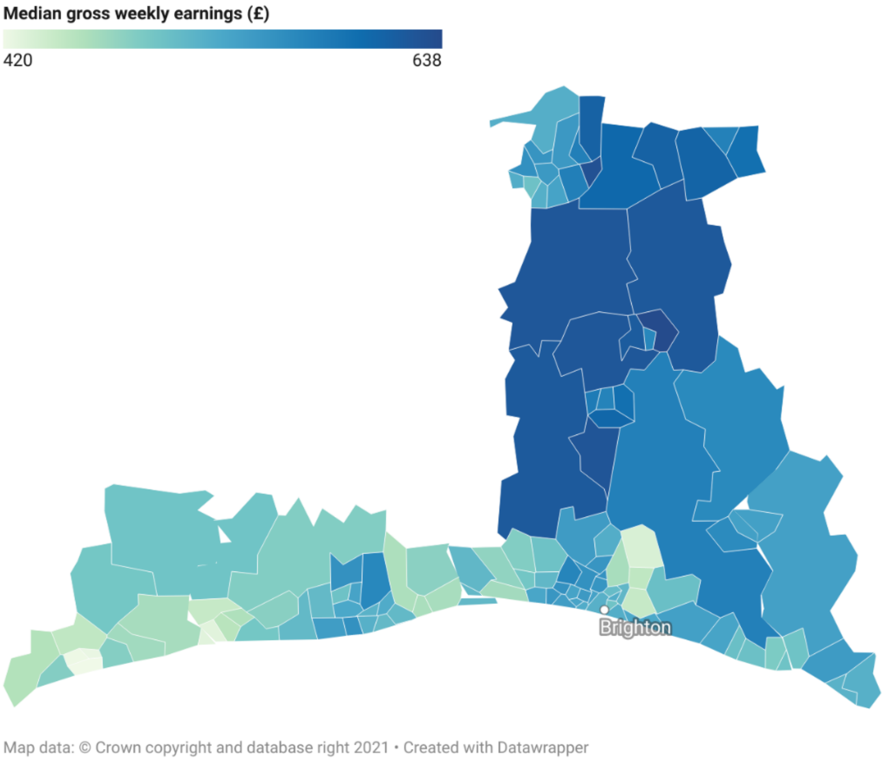
Figure A1: Median gross weekly earnings by local authority



Source: Annual Survey of Hours and Earnings 2022

Figure A2 below shows modelled estimates of wages to MSOA level. This reiterates that median earnings are higher in Mid Sussex and also generally higher in more rural areas, and are lower in some more disadvantaged areas (Bognor, Littlehampton, East Brighton and parts of Crawley in particular. These findings are consistent with the benefits data in Figure 3.3 above. However this also shows that many more urban areas also have residents with closer to average pay but above average benefit receipt (consistent with higher rents).

Figure A2: Estimated median gross weekly earnings by MSOA



Source: IES estimates based on Annual Survey of Hours and Earnings