

Dear Colleagues,

Paper 1/2017: Cost of Living

There are seven main sections to this cost of living paper, including one to help members particularly in devolved areas to consider any additional impact on them. Groups may choose to focus on certain sections, rather than attempt to respond to them all.

The closing date for this brief is 28 February. We look forward to receiving your responses to this paper via CPF.Papers@conservatives.com or the CPF website in due course. A summary of all responses will be considered by the CPF Chairman, George Freeman MP, who will take the best ideas and suggestions to the PM's Policy Board and Government Ministers.

The next paper will be on Adult Social Care and will be published at the start of March.

With best regards,

Hannah David LLB (Hons) MSc
CPF Voluntary Director
www.conservativepolicyforum.com | [@ConservativePF](https://twitter.com/ConservativePF)

One-Page Summary

The Prime Minister says that she wants Britain to be a great meritocracy: a country that works for everyone, in which it doesn't matter where you were born, or how much your parents earn; one in which, if you work hard and do the right thing, you will be able to go as far as you can.

To achieve this, we must "deliver real social reform across every layer of society so that those whom the system would currently miss – those just above the threshold for help today yet **those who are by no means rich or well off** – are given the help they need. It means putting government firmly on the side of not only the poorest in our society, important though that is and will remain, but also of those in Britain who are **working hard but just about managing**. It means helping to make their lives a little easier; giving them greater control over the issues they care about the most.

"This is the change we need. It will mean changing some of the philosophy underpinning how government thinks and acts. It will mean recalibrating how we approach policy development to ensure that everything we do as government helps to give a fair chance to those who are **just getting by** – while still helping those who are even more disadvantaged."²

The discussion encourages members to consider up to seven areas:

1. Job security
2. Home ownership
3. Schooling
4. Food, goods and services
5. Domestic energy and transport
6. Household debt
7. Area Specific Costs

"If you're from an ordinary working class family, life is much harder than many people in Westminster realise. You have a job but you don't always have job security. You have your own home, but you worry about paying a mortgage. You can just about manage but you worry about the cost of living and getting your kids into a good school. If you're one of those families, if you're just managing, I want to address you directly. I know you're working around the clock, I know you're doing your best, and I know that sometimes life can be a struggle. The government I lead will be driven not by the interests of the privileged few, but by yours." (Theresa May, Prime Minister, 13 July 2016)¹

Introduction

The Prime Minister says that she wants Britain to be a great meritocracy: a country that works for everyone, in which it doesn't matter where you were born, or how much your parents earn; one in which, if you work hard and do the right thing, you will be able to go as far as you can.

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1. Job security

There are now 1.6 million people who are seeking and available to work but who are unemployed, 146,000 fewer than a year earlier. This represents 4.8 per cent of the potential workforce, the lowest since July to September 2005.³

People worked, on average, 32.1 hours per week, up 0.2 hours compared with a year earlier. People working full-time worked, on average, 37.5 hours per week in their main job, up 0.2 hours compared with a year earlier. People working part-time worked, on average, 16.2 hours per week in their main job, unchanged compared with a year earlier.³

A survey in July 2016 suggested that 36 per cent of employers said staff had expressed concerns about job security, while a further 36 per cent of organisations said that non-UK employees had expressed concern about their continuing right to work in the UK.⁴ Another index that measures confidence each quarter observed strong gains in job security, job opportunities and career progression between Q2 and Q3, with the job security index rising by six percentage points, although Londoners remain less confident than they have been in the last four years.⁵



Looking ahead, existing technology could automate 45 per cent of the activities people are currently paid to perform and about 60 per cent of all occupations could see 30 per cent or more of their constituent activities automated with technologies already available today.⁶

What Conservatives in Government have done so far

- The proportion of people aged from 16 to 64 who are in work now stands at 74.5 per cent, the joint highest rate since comparable records began in 1971. Of these, 23.24 million work full-time, 350,000 more than a year earlier, and 8.56 million work part-time, 110,000 more than a year earlier.³

What next? Questions for discussion

- a. How should Conservatives ensure that people have the skills to ensure they are ready for a technology-driven jobs market? E.g. the need for drivers will be reduced once automated and driverless vehicles arrive on the roads, expected any time from the mid-2020s onwards.

2. Home ownership

A recent report estimated that there are six million “just about managing” families, working-age households, on low to middle incomes, who receive less than one-fifth of their income from means-tested benefits. The majority of them have at least one member in full-time work but earn less than £21,000 (the median gross wage) and have savings of less than a month’s worth of income. As recently as 1995, such households were more than twice as likely to own their own home than to rent privately (59 per cent compared with 22 per cent). Today, the reverse is true (26 per cent compared with 56 per cent). The resulting increase in housing costs means that these families now spend a quarter (24 per cent) of their income on housing (compared with 17 per cent for higher income working-age households).⁷

What Conservatives in Government have done so far

- In the 39 months to 30 June 2016, 91,759 properties were bought with the support of the Help to Buy: equity loan scheme; the majority of sales (81 per cent) were to first-time buyers.⁸ In addition, 86,341 mortgages have been completed with the support of the mortgage guarantee scheme, of which 79 per cent were purchases by first time buyers.⁹
- Delivered over 300,000 new affordable homes since 2010.¹⁰ Overall housebuilding is now at its highest level in eight years.¹¹
- Funding to build 200,000 new Starter Homes. A £2.3 billion fund will be used to support the delivery of 60,000 Starter Homes¹² and £8 million will be invested in 27 Starter Home sites to help get construction started.¹³ The government has also announced a £1.2bn starter home fund to prepare brownfield sites for new homes.¹⁴ This will fast-track the creation of at least 30,000 new starter homes and up to 30,000 market homes on 500 new sites by 2020 – helping to deliver the commitment to create 200,000 starter homes over the next five years.
- Building more homes for shared ownership. We are investing £4.1 billion in 135,000 new shared ownership homes.¹⁵

What next? Questions for discussion

- The Party champions home ownership and also recognises shifts in preferences for differing tenures such as shared equity and renting. How might Conservatives do more to meet differing home ownership aspirations and needs?

3. Schooling

Analysis of house prices shows that homes near top performing independent schools command a 25 per cent premium over the regional average, while the best non-selective state schools command a 20 per cent premium, highlighting the extent to which parents are prepared to move between catchment areas to secure the most attractive places for their offspring.¹⁶

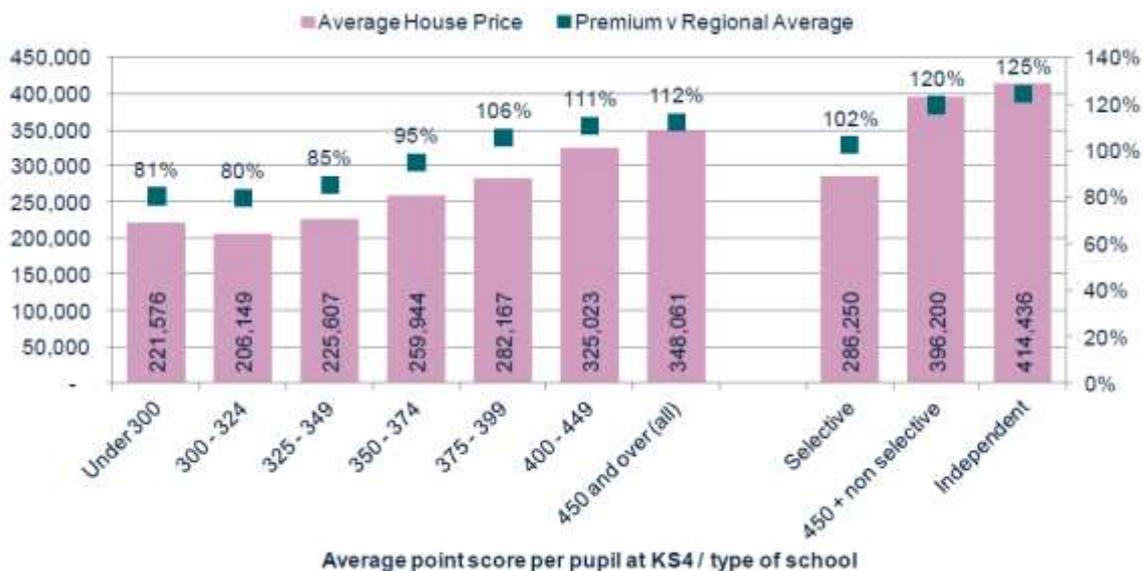


Chart source: Savills using Land Registry and Department of Education

Many public schools offer scholarships and bursaries to enable pupils from ordinary backgrounds to attend but the Government believes independent schools could do more to spread their expertise through the state system to benefit ordinary families, by sponsoring state schools and offering funded places that give more ordinary students access to the education they deliver.¹⁷

What Conservatives in Government have done so far

A range of new funding to address underperformance and help ensure every child has a good school place, including:¹⁸

- A £50 million a year fund from September 2017 for local authorities to continue to monitor and commission improvement for low-performing maintained schools.
- A new £140 million “Strategic School Improvement Fund” for academies and maintained schools - aimed at ensuring resources are targeted at the schools most in need of support to drive up standards, use their resources most effectively and deliver more good school places.
- The Education Endowment Foundation (EEF) has committed to spend a further £20 million over the next two years to scale up and disseminate evidence-based programmes and approaches.
- £60 million investment to pilot a series of Opportunity Areas across the country, working in partnership with local organisations to look at ways of improving the life chances of young people.
- A £41 million maths mastery programme will see the expansion of high-quality maths teaching across the primary school system to increase the number of children mastering the basics of numeracy.
- A £13 million regional academy growth fund (RAGF) supports successful academy trusts to grow and to improve standards in underperforming schools.
- A teaching and leadership innovation fund worth £75 million over 3 years focused on supporting the development of teachers and school leaders in challenging areas.

What next? Questions for discussion

- c. What are the limits to assisted places schemes? What else might Conservatives do to promote consistency in excellence?

4. Food, goods and services

The most recent Living Costs and Food Survey¹⁹ reported that total average weekly household spending increased in 2014 to £531.30, from its lowest level in 2012 (adjusted to 2014 prices) when households spent an average of £507.40 per week. Households in London and the South East spent the most, while those in the North East and Wales spent the least, and expenditure in rural areas was higher than in urban areas. Food, goods and services account for over a quarter (26 per cent) of average weekly expenditure, with households spending £58.80 on food and non-alcoholic drinks, £40.00 on miscellaneous goods and services and £35.40 on household goods and services.

The retail cost of avoidable food and drink waste from UK homes was around £9 per household per week or 14 per cent of the average £66 that households spend per week.²⁰

What Conservatives in Government have done so far

- Raised the income tax personal allowance to £11,500 and the basic rate limit to £33,500 for 2017 to 2018, taking an additional 424,000 individuals out of income tax altogether compared to previously announced policy; 1.3m individuals have been taken out of tax as a result of changes announced since 2015 to 2016. Cumulative changes to the personal allowance since 2010 to 2011 mean a typical basic rate taxpayer will have an overall cash gain of £1,005 in 2017 to 2018.²¹
- Worked with the Waste & Resources Action Programme (WRAP), the food industry, farms, and food redistribution charities to reduce food waste by 15 per cent since 2007, and food waste in the supply chain by 8 per cent.²²
- Introduced the Soft Drinks Industry Levy, contributing to the government's wider plans to reduce childhood obesity by removing added sugar from soft drinks.²³
- Introduced the voluntary Public Health Responsibility Deal, reducing average daily salt intakes by 15 per cent since 2001 and saving an estimated 6,000 lives each year.²⁴

What next? Questions for discussion

- d. What measures should Conservatives take to ensure value for money in the weekly grocery shop? What further responsibility do Conservatives have for regulating the market so as to limit the negative health impact and higher costs to the NHS resulting from the consumption of food that is high in added sugar, salt and saturated and trans fats?

5. Domestic energy and transport

The 2015 Living Costs and Food Survey¹⁹ showed that transport accounted for the highest proportion of average household spending in 2014, at £74.80 per week, or 14 per cent of average household expenditure. The second highest-spending category was housing (net), fuel and power (excluding mortgages), at £72.70 per week on average. This includes £25.80 spent each week on fuel and electricity. Combined, these categories account for more than a quarter (28 per cent) of average household spending.

What Conservatives in Government have done so far

- The government is requiring energy companies to install smart meters for their customers²⁵, which will ultimately make switching suppliers easier and quicker, by which millions of people can save around £200 or even more.²⁶
- Fuel duty frozen for seven years in a row, saving drivers £130 a year on average.²⁷
- The government is investing an additional £1.1 billion in local roads and local transport to relieve congestion and deliver important upgrades. It is also investing £220 million to ease congestion at critical points on the strategic road network.²⁸
- The government is providing £450 million to trial innovative new digital rail signalling technology and £5 million in development funding for the Midlands Rail Hub, which could increase capacity and reliability on our railways.²⁸

What next? Questions for discussion

- e. How might Conservatives use technology to empower consumers further? What might we do to help use the power of technology (such as smart meters and automatic tariff switching) to help families get the best out of often complex markets?

6. Household debt

One of the challenges facing the government is how to help the many people who are doing their best—not just those who are on low incomes but also many double-income households—but who find they have nothing left at the end of the month after paying the bills and making essential purchases.

The latest official figures²⁹ show that in July 2012 to June 2014, 48 per cent of households and 35 per cent of all individuals in Great Britain had financial liabilities (excludes mortgage debts). Not all of this debt, however, would be considered “problem debt”. Around two-thirds of households with children present had financial liabilities. Couples with dependent children had the highest financial debt compared with income, with half of such households having debt of nearly one-fifth (19 per cent) of their annual income.

The most common form of debt was credit or store cards, with 45 per cent of individuals having such debt, but the highest value debts were student loans, with a median value of £10,000 for those who had them, compared with a median of £2,200 for all financial debt.

One estimate³⁰ suggests that almost 1-in-8 households (11 per cent, or 3.2 million households) pay out more than a quarter of their gross household income on unsecured debt repayments and are consequently over-indebted. This is more than double compared to 5 per cent in 2012. Of the over-indebted households, half are extremely over-indebted, meaning that 1.6 million households pay out more than 40 per cent of their income to unsecured creditors.

What Conservatives in Government have done so far

- Introduced better protection for consumers by transferring consumer credit regulation to the Financial Conduct Authority (FCA), including: proactively identifying risks to consumers, banning products and imposing fines, and ensuring consumers have access to redress.³¹
- Required the FCA to introduce a cap on the cost of payday loans, to help protect consumers from unfair costs.³²

What next? Questions for discussion

- f. What mechanisms should Conservatives introduce to help people get the most from their money and to encourage a more widespread savings culture?

7. Area Specific Costs

N.B. Powers over some of the preceding policy areas, e.g. schooling, have been granted to the devolved national Parliaments and Assemblies.

People living in remote rural areas typically have to pay especially high transport and fuel costs, while those in major cities can be subject to particularly high housing

costs. Consequently, the proportion of people living in relative low income in Wales and Northern Ireland (before housing costs) is higher than that in Scotland or any of the regions of England, while the proportion living in relative low income in London (after housing costs) is significantly higher than everywhere else:³³

Region	Before housing costs	After housing costs
Northern Ireland	20%	21%
Wales	19%	23%
North East	18%	22%
North West	18%	22%
Yorkshire & Humber	18%	22%
West Midlands	18%	23%
East Midlands	17%	20%
Scotland	15%	18%
London	14%	27%
South West	14%	19%
East of England	13%	18%
South East	11%	18%
United Kingdom	16%	21%

People in remote rural Scotland need up to 30 per cent more income than the rest of the UK to have “a socially acceptable standard of living”. Delivering solutions particular to the needs of local communities will mean introducing locally-designed solutions. A recent report identified a number of areas where increased policy intervention from the public sector could be targeted to useful effect:

“Aligning policy effort with the areas of greatest disparity, in particular domestic heating costs, the costs of transporting goods, and capitalising on broadband roll-out to create more high-paying jobs in remote rural areas can potentially help make these communities more attractive places to live and work, further boosting their long-term sustainability. Ensuring that the workforce has adequate access to appropriate training and development opportunities and that wider support services such as childcare are available and aligned to the needs of employees can also help reduce the additional costs borne by households in remote rural Scotland, and increase their earnings potential. The impact of interventions will be most effective if tackled in a collaborative manner involving a range of public sector partners engaging directly with communities to ensure solutions are holistic and tailored to the needs of local areas.”³⁴

What next? Questions for discussion

- g. How should Conservative policy locally and nationally be influenced by the cost of living challenges that are particular to your area?

People to seek opinions from

- Local Councillors
- Local MP

Endnotes

- ¹ *Statement from the new Prime Minister Theresa May*, Prime Minister's Office, 13 July 2016: [link](#)
- ² *Britain, the great meritocracy: Prime Minister's speech*, 9 September 2016, Prime Minister's Office, 10 Downing Street: [link](#)
- ³ *UK labour market: Nov 2016*, Office for National Statistics: [link](#)
- ⁴ *Brexit causing job security fears, CIPD survey shows*, CIPD Editorial, 20 Jul 2016: [link](#)
- ⁵ *The Deloitte Consumer Tracker Q3 2016*, October 2016: [link](#)
- ⁶ *Where machines could replace humans-and where they can't (yet)*, McKinsey Quarterly, July 2016: [link](#)
- ⁷ *Hanging on: the stresses and strains of Britain's 'just managing' families*, Resolution Foundation, 29 September 2016: [link](#)
- ⁸ *Help to Buy (equity loan) scheme quarterly statistics*, Department for Communities and Local Government, 29 September 2016: [link](#)
- ⁹ *Help to Buy: mortgage guarantee scheme Quarterly Statistics*, HM Treasury, 29 September 2016: [link](#)
- ¹⁰ *Affordable housing supply in England: 2015 to 2016*, Department for Communities and Local Government, 17 November 2016: [link](#)
- ¹¹ *Housing supply; net additional dwellings, England: 2015-16*, Department for Communities and Local Government, 15 November 2016: [link](#)
- ¹² *Spending review and autumn statement 2015*, HM Treasury, [link](#)
- ¹³ *First wave of Starter Homes to begin with £8 million government funding*, DCLG, 7 December 2015, [link](#)
- ¹⁴ *PM: the government will directly build affordable homes*, DCLG, 4 January 2016, [link](#)
- ¹⁵ *Shared ownership boost for budding homeowners*, DCLG, 7 January 2016, [link](#)
- ¹⁶ *Top schools add up to 25% to house prices*, Savills, 5 September 2016: [link](#) For regional and local authority specific comparisons, see [Savills' interactive map](#)
- ¹⁷ *Schools that Work for Everyone*, Department for Education, 12 September 2016: [link](#)
- ¹⁸ *New funding for school improvement*, Department for Education, 30 November 2016: [link](#)
- ¹⁹ *Family Spending: 2015*, Office for National Statistics, 8 December 2015: [link](#)
- ²⁰ *Digest of Waste and Resource Statistics – 2016 Edition (revised)*, Department for Environment, Food and Rural Affairs, March 2016: [link](#)
- ²¹ *Income Tax: personal allowance and basic rate limit for 2017 to 2018*, HM Revenue & Customs, 16 March 2016: [link](#)
- ²² *Food waste*, Food Standards Agency: [link](#)
- ²³ *Soft Drinks Industry Levy: 12 things you should know*, HM Treasury, 18 August 2016: [link](#)
- ²⁴ *Salt reduction – onwards and downwards!*, Department of Health, 16 March 2015: [link](#)
- ²⁵ *Smart meters: a guide*, Department for Business, Energy & Industrial Strategy, 22 January 2013: [link](#)
- ²⁶ *Switch to save - £2.7 billion up for grabs by switching energy supplier*, Department of Energy & Climate Change, 16 February 2015: [link](#)
- ²⁷ *Autumn Statement 2016: some of the things we've announced*, HM Treasury, 23 November 2016: [link](#)
- ²⁸ *Autumn Statement 2016 transport projects*, HM Treasury, 23 November 2016: [link](#)
- ²⁹ *Household debt inequalities*, Office for National Statistics, 4 April 2016: [link](#)
- ³⁰ *Britain in the Red*, TUC, 23 August 2016: [link](#)
- ³¹ *A new approach to financial regulation: transferring consumer credit regulation to the Financial Conduct Authority*, HM Treasury, 6 March 2013: [link](#)
- ³² *Government to cap payday loan costs*, HM Treasury, 25 November 2013: [link](#)
- ³³ *Poverty in the UK: statistics*, House of Commons Briefing Paper Number 7096, 14 November 2016: [link](#)
- ³⁴ *Minimum Income Standard for Remote Rural Scotland 2016*, Highlands and Islands Enterprise, 30 November 2016: [link](#)