Peabody

The Peabody Index

Tracking the experiences of low-income Londoners

February 2019

Background

London is one of the wealthiest and most competitive cities in the world, but it is also home to many people struggling to meet the demands of high rents, transport costs, and living expenses. As a social landlord, Peabody provides the opportunity for many on low incomes to live and work in the capital through our commitment to keeping rents low. They keep London going and growing, and we support them to remain in the capital where private rents would otherwise be unaffordable.

Part of our mission is making sure our tenants' voices are heard and represented in wider social policy. Chart 1 shows our Index of regular metrics for social housing residents, underpinned by national datasets and a survey of 1,000 Peabody residents living in London. It gives a rounded picture of whether their circumstances are improving or getting worse.

The previous edition of the Peabody Index was published in June 2018. It highlighted how social housing tenants are working harder but getting poorer as they faced a continued squeeze on their incomes.

In this edition, we and our partners the Social Market Foundation (SMF) have continued to track the measures in the Index, and also investigate the extent to which work is providing a significant, secure route to higher living standards in the capital. We consider the interests of all low-income Londoners, including those living in social housing.

Overview and summary of key findings

Chart 1: Index of key data for social housing tenants in London

	Level/rate	Change compared with data in last Peabody Index report
Real household disposable income of London social housing tenants, Dec 2018 prices	£427 per week (in December 2018)	+£14 per week (compared with December 2017)
Unemployment rate for social housing tenants [1]	11% (Q3 2018 data)	+0.1 percentage point (compared with Q1 2018)
Net financial perception score [2]	-16 (net) 17% better off 49% about the same 33% worse off	-8 (down from -8)

[1] Excludes economically inactive tenants such as retired individuals and those who are unable to work due to disability.
[2] Net financial perception: percentage of Peabody tenants surveyed who said they felt significantly or slightly better off than a year ago, minus the percentage who said they felt worse off.

Our research finds

Low earners in London have seen a real terms decline in their incomes since 2010

- Despite slight real income growth and growing levels of employment in the last year, low income Londoners have seen a decade of stagnation in their disposable incomes, after accounting for inflation. This is true for social housing tenants too, as can be seen in Chart 1.
- In the same period Londoners' wage growth has lagged behind the rest of the country, leaving people on low-incomes in the capital worse off and unable to meet their rising living costs.
- Full-time employees with bottom decile wages have seen their incomes increase by 15% in ten years, but inflation (on the headline UK Consumer Price Index) was 25% over the same period (2008-2018). In real terms wages have fallen.
- Private rents in London have risen by 27% in the last decade: almost twice as fast as the median wages of full-time employees.

Work isn't paying

- While wage inequality has narrowed in the rest of the country, it has increased in London. Moreover, those on low incomes disproportionately work in industries and occupations where wage growth has been most sluggish.
- Lower income households in London have not benefited from increases to the minimum wage ("National Living Wage") to the same extent as elsewhere. The "London wage premium" for those in the 10th percentile of the income distribution declined from 20% in 2008 to just 13% today. This is lower than the London Living Wage premium estimated to be necessary by the Living Wage Foundation. This suggests that without some additional support (such as social security or submarket rents), living in London doesn't pay for those on low incomes.
- Despite high employment rates, half of Peabody's working tenants earn below the London Living Wage and 53% said they had not received a pay rise in the last three years.

There are few prospects for progression

- Many low-income Londoners are working zero-hours contracts and are unable to work their desired number of hours.
- Lower paid jobs are also less likely to offer training and progression opportunities.
- "Low quality" jobs are not limited to younger and less experienced employees, suggesting people can be trapped in this type of work.
- Chart 1 illustrates that our net financial perception score (see footnote 2) has dropped from -8 to -16. Just 2% of our residents said they felt "significantly better off" compared to the same time last year, compared to 15% who felt "significantly worse off".

As a housing association, Peabody has emphasised the importance of affordable housing supply in improving the quality of life for those on low incomes. But more affordable homes alone aren't enough to improve living standards; we also need to create quality work that delivers decent incomes. Government and other stakeholders, including employers like us, must tackle poor-quality employment and look at potential solutions to improve pay. This could include a real living wage or a London-specific premium to the minimum wage (National Living Wage), as well as increasing career progression opportunities for lower earners.

In a context of substantial political uncertainty around the UK's exit from the European Union, Government must also ensure that the welfare system provides an adequate safety net for households who find themselves in financial difficulty.

Our detailed findings are outlined in the following sections of this report and a full report of the findings from publicly available data sources is available on the SMF website.

Rising incomes but still feeling the squeeze

"Prices have gone up and my income has remained static."

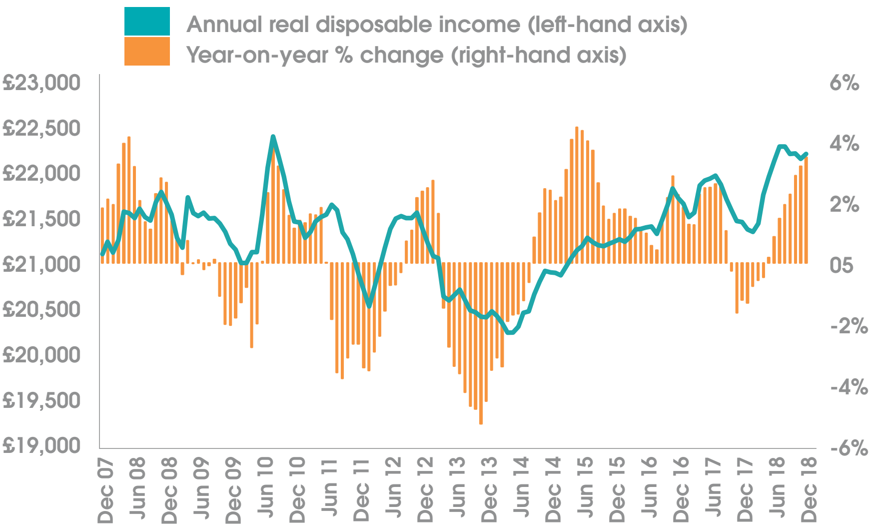
2019 has started on a positive note for social housing tenants in London, as they saw a real (inflation-adjusted) increase in their household disposable incomes since the low point in early 2018, reported in the first edition of the Peabody Index. The average household disposable income now stands at £22,187 per year, up around £739 (annualised) since December 2017. Wage growth, falling unemployment, and a drop in inflation have all contributed.

However, their incomes remain only slightly higher than a decade previously (and below the peak in 2010), meaning the longer-term picture has been one of income stagnation rather than growth. Recent improvements in wages have been partially offset by a continued squeeze on working-age benefits, which is set to worsen as the benefits freeze enters its fourth year. As has been widely discussed, the problematic Universal Credit (UC) roll-out has also created financial problems for some households.

In real terms, spending on working age benefits was lower per capita in 2017-18 than it was in the early 2000s. In contrast, spending on pensioners is about 35% higher, although there have been some declines more recently because of reductions to benefits outside of the State Pension, such as Disability Living Allowance.

Two particular benefit cuts in recent years stand out because of their disproportionate impact on London: the benefits cap and the underoccupancy penalty (or "bedroom tax").

Figure 1. Average real annual disposable income of social housing households in London (December 2018 prices)



Source: SMF analysis based on data from the ONS Living Costs and Food Survey, ONS inflation bulletins. ONS Labour Force Survey and GLA data on social housing rents.

The benefits cap was introduced in 2013 and limits the amount of benefits a household can receive. This is capped at £23,000 for a family in London (less for single adults and those outside London). Almost half of the households affected by the cap are estimated to be in London, losing on average £93 per week from their original entitlement.[3]

The underoccupancy penalty means that households with a spare bedroom in their social rented property have their benefits reduced. This is estimated to affect 80,000 households in London, or 22% of all social renting households. Because the deduction is a percentage amount and London has higher rents, affected households lose a higher amount - £21 per week on average – than in other regions.[4]

Our survey of 1,000 Peabody residents suggests that financial struggles remain common. In fact, they appear to have worsened over the last year. Our net financial perception score (see footnote 2) has dropped from -8 to -16. Just 2% of our residents said they felt "significantly better off" compared to the same time last year, compared to 15% who felt "significantly worse off". Incomes not keeping up with inflation was a common theme:

"The electricity (bill) has gone up 25%."

"I have not had a pay rise in years and things just keep going up and up and up."

[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220178/benefit-cap-wr2011-ia.pdf
[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220179/social-sector-housing-under-occupation-wr2011-ia.pdf

Sluggish wage growth and growing inequality

The income gap between social housing tenants and other Londoners has grown substantially in the last few years. Tenants of social housing in London have a £27,000 a year shortfall in disposable income[5] compared to other Londoners. This means that social tenants in London have on average just 45% of the disposable income of other households. This is not only due to welfare cuts: wage growth has lagged most heavily for those who were already on low incomes.

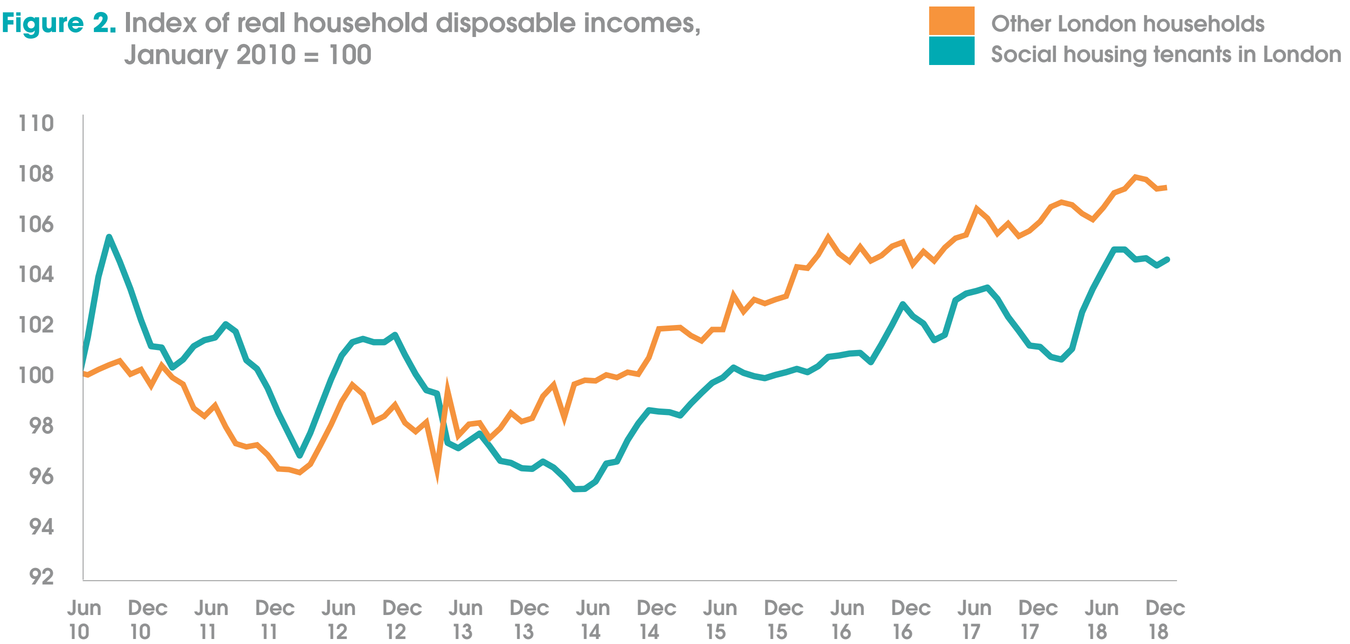
Figure 2 shows an index of real household disposable incomes since January 2010. Both are rebased to 100 to show the change over time, rather than the absolute level described above.

Our partners the SMF conducted analysis of the Annual Survey of Hours and Earnings (ASHE) and found concern about the extent to which employment is providing a route out of poverty and onto substantially higher standards of living in London. They compared wage growth from 2008 to 2018 between London and the whole UK, for each income decile. In almost all cases, London's wage growth has lagged behind the rest of the UK's, but most substantially for those on low incomes. See figure 3.

Inflation over this time period has been 25%[6], meaning that wages have failed to keep up with prices across the board.

Moreover, while wage inequality has narrowed in the rest of the country, it has grown in London. This is likely to reflect the introduction of the National Living Wage (NLW): it provided a substantial boost to low-income earners outside the capital but had a smaller effect on London. This is because more jobs are paid above this anyway in reflection of higher living costs. In 2008, a full-time employee in the lowest income decile in London could expect to earn 20% more than their equivalent in the wider UK: now that premium is just 13%. This is extremely unlikely to cover the additional costs of living in London. This is especially true for those living in the private rental sector, as rents in London cost over double the national average.[7]

Figure 2. Index of real household disposable incomes, January 2010 = 100



Source: SMF analysis. based on data from the ONS Living Costs and Food Survey, ONS inflation bulletins. ONS Labour Force Survey and GLA data on social housing rents.

[5] "Income" includes earnings from employment, investment, pensions & annuities, and social security. Disposable income refers to income net of taxes.
[6] ONS inflation statistics
[7] https://www.independent.co.uk/news/business/news/london-rent-rise-faster-wages-property-market-gmb-union-research-a8383001.html

London rents grew by 27% from 2008-2018[8], but as Figure 3 shows, median full-time wage growth in London was 14.9% in the same period (very similar to the rate for bottom decile employees). This means that private rents have risen almost twice as fast as average full-time employee wages.

The Living Wage Foundation estimates the London living cost premium as 17% (the difference between the £9 Living Wage and the £10.55 London Living Wage). This suggests that for those on low incomes, living in London does not pay off unless some additional support is received (such as social security or submarket rents).

Our survey revealed that just 47% of our working tenants earned at or above the London Living Wage (£10.20 per hour at the time of the survey), compared to around 75% of all Londoners. Almost a third (27%) earn under £9 per hour, compared to just 17% of all Londoners.[10] Tenants with children were much more likely to be on lower salaries, with strong implications for the rate of child poverty. Moreover, an enormous 53% said they had not received a pay rise in the last three years.

Interestingly, we didn't find a strong relationship between salary and age in our survey respondents. Typically, older people with more experience would expect higher salaries. It is unclear whether this is just a fluke in the data, or if it suggests that our residents work in job types that don't carry a premium for experience.

Figure 3. Full-time employee wage growth, 2008-2018, by income percentile. London residents versus the UK as a whole

Source: ONS, SMF analysis

[8] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/december2018 (extracted from the data behind Figure 6)

[9] Peabody analysis of Annual Survey of Hours and Earnings (ASHE), Office for National Statistics. 2017 data are provisional. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/compendium/distributionofukearningsanalyses/2017/regionaldistributionofearningsintheuk2017

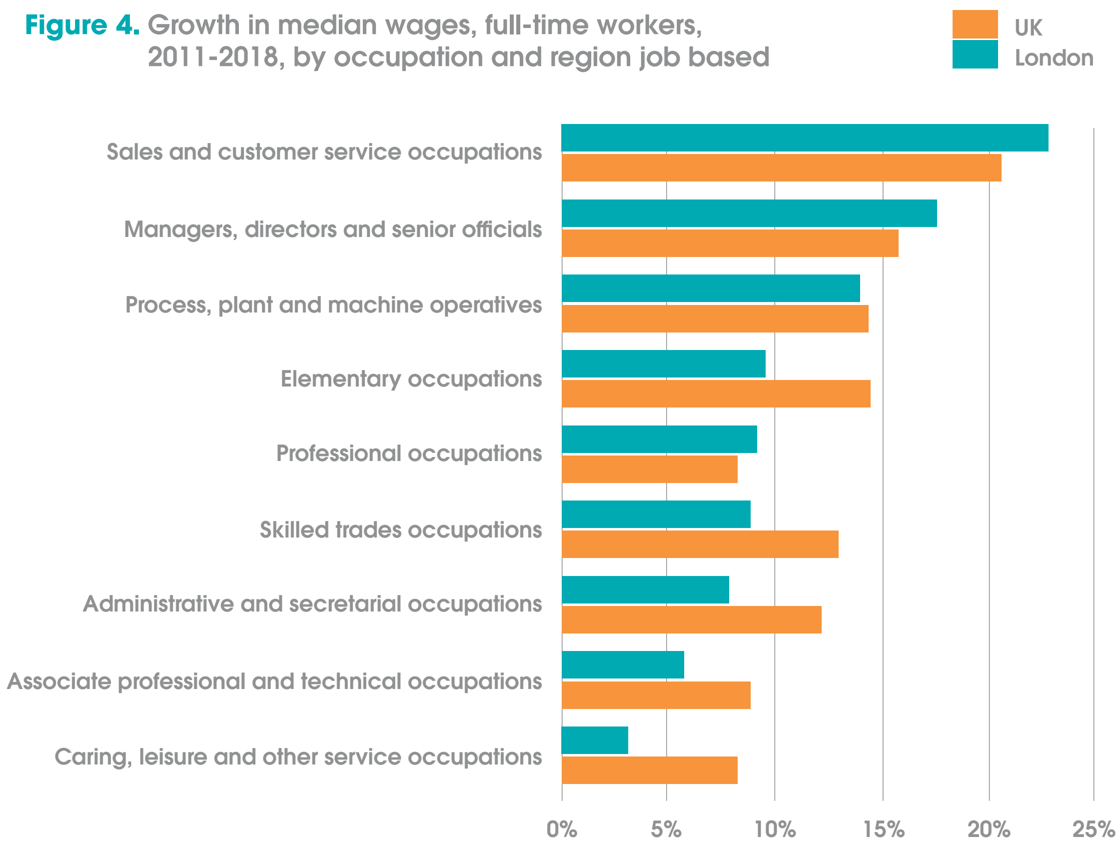
Is work paying?

Growing wage inequality comes at a time when the employment rate has increased substantially in recent years. The proportion of economically active[10] social housing tenants in London now stands at 88%, with 11% unemployed and the remainder undertaking unpaid work (such as care) or employment or training schemes.

To understand the wage trends discussed above, the SMF examined wage growth across industries and occupations. They identified that social tenants and other low-income Londoners disproportionately work in several industries and occupations where wage growth has been most sluggish – such as in the care and leisure sector.

As figure 4 demonstrates, of nine broad classifications (Standard Occupational Classifications; SOC) used by the Office for National Statistics, wage growth has been lower in London than the rest of the UK in six. The occupations seeing higher growth were "managers, directors & senior officials", "professional occupations" and "sales & customer

Figure 4. Growth in median wages, full-time workers, 2011-2018, by occupation and region job based



Source: ONS, SMF analysis. Unlike other analysis in this report, we consider the time period 2011-2018 rather than 2008-2018. This is due to occupational classifications changing after 2010, complicating comparisons over time.

[10] Those who are working or looking for work. Economically inactive tenants, such as those with some disabilities, retired people and those below working age, are removed from the analysis.

service occupations". When the data is examined by industry, financial services have seen the highest growth in wages in London since 2008, while lower paid sectors such as health & social care, transport & storage and wholesale & retail have seen lower growth in London than elsewhere.

According to our survey, over a quarter of our working tenants are keyworkers (largely front-line public sector workers such as teachers, paramedics, and police). A further 22% work in elementary manual professions such as cleaning or shop work.

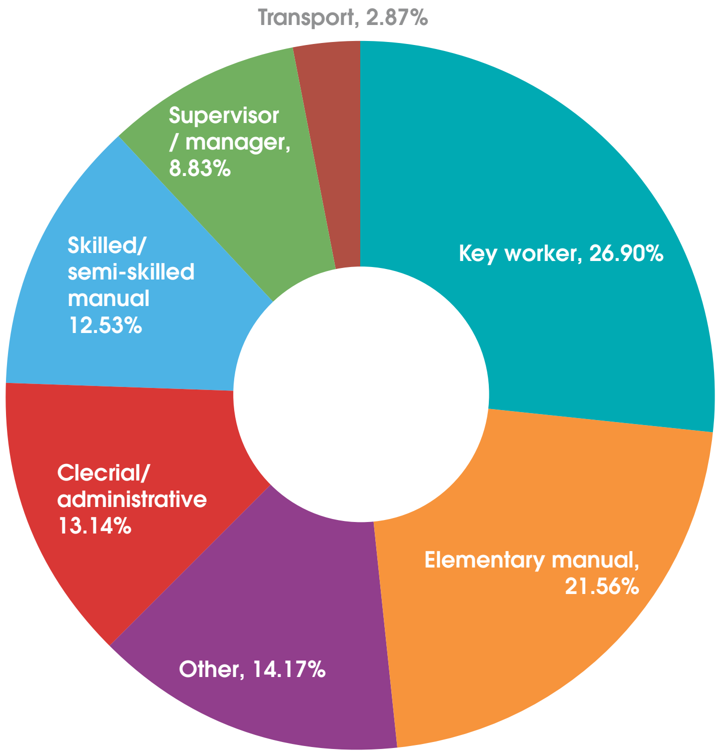
In addition, we know through the last Peabody Index that 70% of our residents have no savings to fall back on. Moving in and out of work has also historically created problems for those claiming benefits, and there is not strong evidence that this has improved under Universal Credit.

In our survey, we asked economically active tenants about their current or most recent job contract. 73% said they had a permanent contract. 13% were on temporary contracts, 11% were self-employed and 3% were contracting to a platform like Uber. While these relatively more unstable jobs are not necessarily lower paid, over a quarter of respondents are in relatively insecure contracts and may be more vulnerable to the loss of their job. Moving in and out of work can also create problems for those claiming benefits, as their entitlement has to be recalculated and delays and errors are common.

> "Things are getting more expensive, and I've only had one pay rise in the seventeen years I've been there."

While employment has increased, there is still a widespread incidence of poorly paid work. This means that working is not necessarily a guaranteed route out of poverty. In addition to being poorly paid, many low-income Londoners are in insecure employment. This puts them at greater risk of redundancy and other economic shocks, as the nature of their contract means all the financial and security risks are transferred to workers.[11]

Figure 5. Type of employment of Peabody general needs tenants, n = 488



[11] https://www.tuc.org.uk/sites/default/files/TUC%20final%20response%20to%20BIS%20consultation%20on%20zero-hours%20contracts.pdf

Lack of progression

A similar situation arises when we look at contract hours. 78% were on fixed hour contracts, with an average of 33 hours a week. However, 9% were on minimum hours contracts, where they have some fixed and some variable working hours, and 13% were on zero hours contracts (compared to just 3% nationally[12]). Both the latter groups worked an average of 27 hours per week.

Over half of those on zero-hour contracts said they wanted to work more hours (compared to 19% on fixed contracts and a third of those on minimum hour contracts). This suggests a significant proportion of low-income Londoners are working but unable to get their desired number of hours. Those on zero hours and minimum hours contracts are substantially more likely to be on a low wage (see Figure 6). In fact, 6% of our working tenants have two jobs.

"They cut our hours and I'm on a zero hours contract… Last year I was working more hours. I'm really looking for another job."

We also found evidence of a lack of progression opportunities for some residents. While working respondents were evenly split when asked what their chances were of promotion in their current job, 69% had not been promoted or "moved up" in the last 5 years. 14% had actually seen a pay cut or fall in responsibility, mostly due to changing personal circumstances. 34% said their employer offered no training or learning development opportunities. For those earning less than £9.00 an hour, this figure jumps to 50%.

This finding is mirrored by Resolution Foundation research which found that just one in six (17%) of low paid workers managed to transition out of low pay between 2006 and 2016.[13] Far from being a first rung on the ladder, low-paid jobs are often the only rung. Despite these slim chances, lower paid residents and those in more insecure types of contract tended to be more optimistic about their likelihood of being better off financially in the next year than those on higher wages, perhaps because they are starting from a lower base.

"I'm probably not due for a promotion review for at least a period of three years, so it's highly unlikely for an opportunity to come up."

Figure 6. Contracted hours of Peabody general needs tenants by hourly salary (n = 341)

	Under £9.00ph	£9.00-£10.20ph	Over £10.20ph
Fixed hours	26%	19%	55%
Minimum hours	45%	19%	36%
Zero hours	58%	27%	14%

Row totals sum to 100%.

[12] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/contractsthatdonotguaranteeaminimumnumberofhours/april2018
[13] https://www.resolutionfoundation.org/app/uploads/2017/10/Great-Escape-final-report.pdf

Conclusion

Despite some improvement to income over the last year, the combination of a decade of weak income growth, rising living costs and cuts to the benefits entitlement of working-age households has meant that many low-income Londoners are still living close to the breadline. Not only does this impact their life quality and have knock-on effects for other services, it puts them in a vulnerable position in the event of an economic downturn.

In the context of the UK's exit from the European Union and a climate of substantial political uncertainty, government must ensure that the social security system is functioning as a safety net. Policy decisions like the benefits freeze, a number of benefits cuts, and the continued use of aggressive sanctions despite a lack of evidence[14] put this key function in question.

This edition of the Peabody Index has highlighted the need to tackle the growing incidence of poor-quality work in order to improve living standards for low-income Londoners.

One potential solution which we are calling on government and other stakeholders to investigate is the introduction of a mandatory London Living Wage, which is set at a higher level than the National Living Wage (NLW) to reflect the greater costs of living in the capital. Currently, the NLW is in fact not a "living wage" at all, as it is not calculated to meet a basic standard of living. The Living Wage Foundation provides an estimate of the "true" living wage based on the cost of a minimum acceptable level of goods and services. It estimates that the wage should stand at £10.55 per hour in London, and £9 per hour elsewhere.[15]

[14] https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/955/955.pdf
[15] https://www.livingwage.org.uk/what-real-living-wage

This research was conducted in partnership with the Social Market Foundation

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