London: Working for Everyone?

Tracking the financial experiences of the capital's social housing tenants

Scott Corfe

SMF Social Market Foundation

FIRST PUBLISHED BY

The Social Market Foundation, February 2019
11 Tufton Street, London SW1P 3QB
Copyright © The Social Market Foundation, 2019
ISBN: 978-1-910683-55-2

The moral right of the author(s) has been asserted. All rights reserved. Without limiting the rights under copyright reserved above, no part of this publication may be reproduced, stored or introduced into a retrieval system, or transmitted, in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise), without the prior written permission of both the copyright owner and the publisher of this book.

THE SOCIAL MARKET FOUNDATION

The Foundation's main activity is to commission and publish original papers by independent academic and other experts on key topics in the economic and social fields, with a view to stimulating public discussion on the performance of markets and the social framework within which they operate. The Foundation is a registered charity and a company limited by guarantee. It is independent of any political party or group and is funded predominantly through sponsorship of research and public policy debates. The views expressed in this publication are those of the author, and these do not necessarily reflect the views of the sponsors or the Social Market Foundation.

CHAIR

Mary Ann Sieghart

DIRECTOR

James Kirkup

TRUSTEES

Baroness Grender MBE
Nicola Horlick
Tom Ebbutt
Rt Hon Nicky Morgan MP
Rt Hon Dame Margaret Hodge MP
Peter Readman
Melville Rodrigues
Trevor Phillips OBE
Professor Tim Bale

KINDLY SUPPORTED BY

Acknowledgements

The publication of this report has been made possible by the generous support of Peabody. The views in the report do not necessarily reflect those of Peabody. The Social Market Foundation retains full editorial independence with respect to its research.

About the author

Scott Corfe

Scott Corfe joined the SMF as Chief Economist in June 2017. Before joining, he was Head of Macroeconomics and a Director at the economics consultancy Cebr, where he led much of the consultancy's thought leadership and public policy research. His expert insights are frequently sought after in publications including the Financial Times, the Sunday Times, the Guardian and the Daily Telegraph. Scott has appeared on BBC News, Sky News, Radio 4 and a range of other broadcast media.

Scott was voted one of the top three forecasters of UK GDP by Focus Economics in 2016.

CONTENTS

EXECUTIVE SUMMARY

This report, commissioned by Peabody, provides new insights into the lives of individuals living in social housing in London - in particular, with respect to their living standards and financial situation. It draws on data from a wide range of official sources to track and analyse developments in incomes, savings and living costs.

This is the second of a series of Peabody Index reports which aim to shed light on the capital's social housing tenants.

The key findings of the report are:

- **Real incomes for social housing tenants in London have increased since the start of 2018.** The latest datapoints in the Peabody Index show that average real household disposable incomes among social housing tenants have improved from since early 2018, as they have for other London households.

  From the recent low of £21,338 seen in February 2018 (in December 2018 prices), real household disposable incomes increased to stand at £22,187 by December 2018. This was driven by a decline in cost of living inflation since February, as well as an acceleration in wage growth. Annual percentage growth in real household incomes stood at its highest rate since August 2015, in the latest data.

  The average real disposable income of London's social housing tenants remains slightly below the peak seen in 2010. Recent gains in incomes have struggled to fully offset the impacts of benefit cuts, the rise in the standard rate of VAT to 20% and other cost of living pressures on household spending power.

- **The proportion of economically active[i] social housing tenants in paid work in London stood at 88% in Q3 2018.** The proportion that were unemployed stood at 11%, with the remaining balance of economically active tenants either undertaking unpaid family work (such as care) or in government employment or training schemes. The unemployment rate is broadly unchanged from at the start of 2018 and remains much lower than the recent past. Five years ago, the unemployment rate among economically active social housing tenants in London was over 20%.

- **Households in social housing in London had a disposable income about £27,000 lower than other London households in December 2018, up from about £23,000 in the same month five years ago.** This is despite the fact that the unemployment rate of social housing tenants has fallen substantially in recent years, with a record number in employment.

- **In contrast to the rest of the country, lower-paid workers in London have seen more sluggish growth in wages over the past decade than those on the highest incomes.** Further, despite London's reputation as an economic powerhouse, wage growth has been weaker than the UK average across all income deciles bar one (the 7th decile). The shortfall in wage growth compared with the rest of the country is particularly pronounced at the

[i] That is, those that are either working or looking for work. Economically inactive tenants, such as those with some disabilities, the retired and those below working age are excluded from the analysis.

bottom end of the income distribution. In short, London has a problem with sluggish wage growth and this is most notable among lower earners in the capital. While Managers, Directors & Senior Officials saw their median salaries increase by 18% in London, between 2011 and 2018, this salary growth was just 8% for those in Administrative & Secretarial occupations.

- **While wage inequality has decreased across the UK as a whole since the financial crisis, it has increased in London**. While in 2008 full-time workers in the 75th percentile of the wage distribution earned 96% more than those in the 25th percentile, in 2018 this stood at 103%.[ii] While in the early 2000s London had a lower rate of wage inequality than the UK as a whole (on the interquartile range-as-a-percentage measure used in this report), since the financial crisis it has had a higher rate of inequality.

- **Of the nine broad occupational ("SOC") classifications used by the Office for National Statistics, wage growth has been lower in London than the rest of the UK across six of these**. The three categories seeing slightly faster wage growth were "managers, directors & senior officials", "professional occupations" and "sales & customer service occupations". Wage growth was notably lower than the UK average across a range of relatively low paying occupations including care & leisure, administrative & secretarial occupations and elementary occupations.

- **Among those living in social housing in London that are in work, a significant proportion work in industries and occupations where pay growth has been subdued in recent years**. Some 16.5% work in caring & leisure occupations (as of Q3 2018), compared with just 6.2% of non-social housing tenants in London. This is the occupational category that's seen the slowest wage growth in recent years.

- **One driver of weaker wage growth in London compared with the rest of the country is likely to be the impact of increases in the National Minimum Wage (NMW) as well as the introduction of the National Living Wage (NLW) in 2016**. While the NLW and uprating of the NMW have provided a substantial boost to lower earners outside of the capital, the benefits to London's workforce have been more limited as lower paid workers were less likely to be paid less than the NLW to begin with. This reflects the notably higher costs of living in the capital compared with elsewhere.

[ii] At the 75th percentile wage, 75% of employees earn less than this wage. 25% of employees earn less than the 25th percentile wage.

Summary of key data for social housing tenants in London

	Latest data	Level/rate	Change compared with six months8/two quarters ago	Change compared with a year ago
Real household disposable income of London social housing tenants, December 2018 prices	Dec-18	£22,187 per year	⇑ (+£81 annualised)	⇑ (+£739 annualised)
Household income shortfall of social housing tenants compared with other London households	Dec-18	£26,994	⇑ (+£397)	⇑ (+£515)
Inflation for social housing tenants in London	Dec-18	1.6%	⇓ (-0.2 percentage points)	⇓ (-0.7 percentage points)
Unemployment rate*	Q3 2018	11.0%	⇑ (+0.2 percentage points)	⇓ (-1.1 percentage points)

* % of economically active social housing tenants in London. Excludes economically inactive tenants such as retired individuals and those that are unable to work due to disability.

CHAPTER 1: INTRODUCTION

This report, commissioned by Peabody, provides insights into the lives of individuals living in social housing in London - in particular, with respect to their living standards and financial situation. This is the second of a series of Peabody Index reports which aim to shed light on the capital's social housing tenants.

A significant proportion of London's residents rely on social housing to provide affordable accommodation, given the high degree of unaffordability in much of the private housing market. Social housing enables many lower income households to remain in the capital and contribute to London's community and economy.

Encouragingly, the latest Peabody Index data show that real (inflation-adjusted) incomes have increased for social housing tenants in London since the recent low seen at the start of 2018, driven by rising wage growth and falling unemployment. Furthermore, cost of living inflation remains modest, driven in part by declines in social housing rents.

Partially offsetting this, the squeeze on working age benefits continued to constrain income growth for low income households in the capital.

New analysis, presented in this report, shows that wage growth among lower-paid employees in London has been slightly lower than among higher-paid employees in recent years. This contrasts with the rest of the UK, where wage growth has been notably higher for lower-paid workers. **While wage inequality has narrowed in the rest of the country since the financial crisis on some measures, it has widened in London.**

Rising wage inequality and subdued earnings growth among lower-paid workers in the capital raise questions around the extent to which work is providing a route towards substantially higher standards of living. It is noteworthy that while the unemployment rate of London's social housing tenants has almost halved over the past five years, the income shortfall compared with other London households has been widening in cash terms and holding relatively steady in percentage terms.

In part, the situation of widening wage inequality in London, and narrowing wage inequality in the rest of the UK, is likely to be a reflection of the impact of the National Living Wage (NLW). While the NLW provided a substantial boost to lower earners outside of the capital, the benefit to London's workforce was more limited as lower paid workers were less likely to be paid below the NLW to begin with. This reflects in part the notably higher costs of living in the capital compared with elsewhere.

Poverty, particularly working age poverty, is a significant issue in London. It is important for policymakers to consider the unique circumstances in which the capital's residents find themselves – in a city with higher living costs than the rest of the country, and where inequality has risen rather than fallen in recent years. Where possible, policy – including arguably minimum/living wage policy – should reflect these unique characteristics of the London economy at present.

The structure of this report is as follows:

- Chapter 2 examines trends in disposable incomes in London.
- Chapter 3 examines how the wages of low-income workers in London have changed in recent years, compared with those on higher incomes. It considers the extent to which the substantial increase in the proportion of social housing tenants in employment is enabling tenants to substantially increase their standard of living.

CHAPTER 2: DISPOSABLE INCOMES

This chapter presents the findings of analysis of household incomes in London, particularly with respect to relatively lower income residents living in social housing.

Our headline Peabody Index tracks the average real (inflation-adjusted) household disposable incomes of the capital's social housing tenants, exploring the extent to which they are changing in response to developments in welfare policy, the labour market and the cost of living. By disposable income, we mean income net of taxes. "Income" includes earnings from employment, investment, pensions & annuities, and social security benefits.

To provide a point of comparison, we also explore trends in household incomes across London as a whole, to explore the extent to which the incomes of social housing tenants are catching up with or falling further behind others living in the capital.

The Index is based on analysis of a wide range of datasets, including the ONS Living Costs and Food Survey, ONS Family Resources Survey, ONS labour market and inflation statistics, DWP benefits caseload statistics and rental data from the Greater London Authority. A methodological note is included in the appendix of this report.

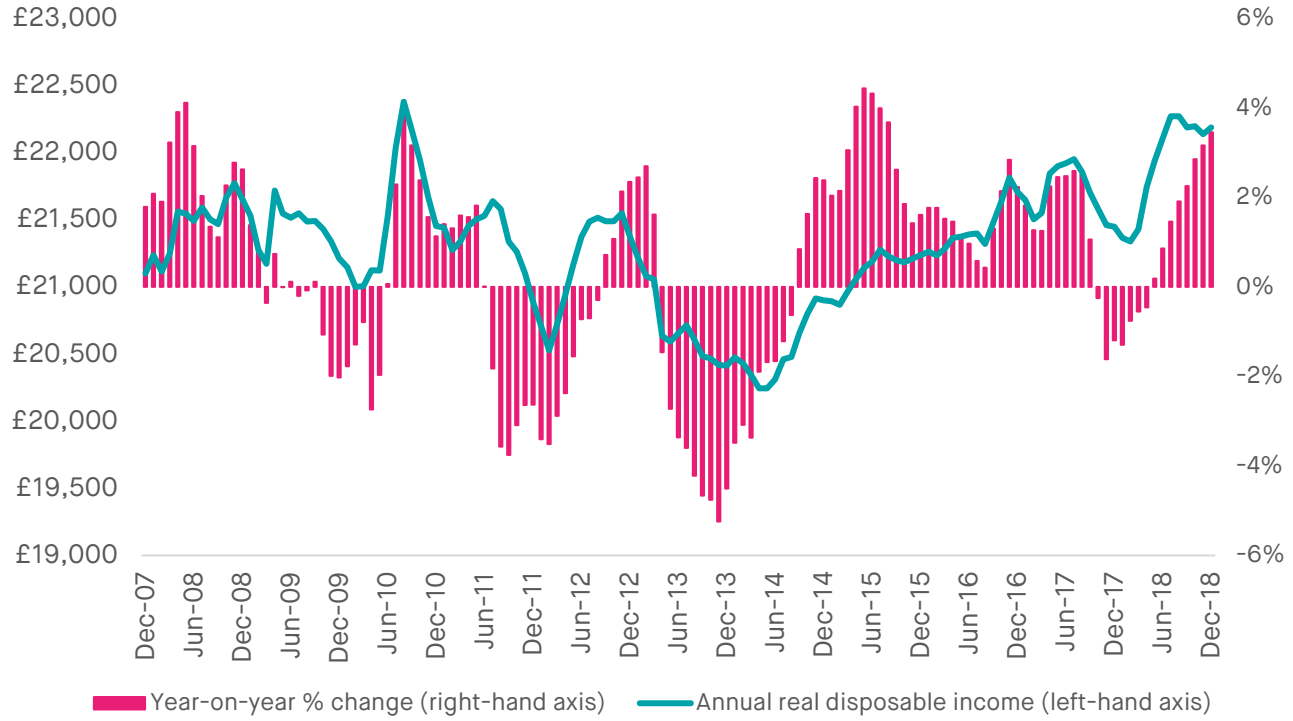
Latest movements in disposable incomes

Since the publication of our first Peabody Index report, which tracked data up until April 2018, the real incomes of London's social housing tenants have increased, as Figure 1 illustrates. From the recent low of £21,338 seen in February 2018 (in December 2018 prices), real household disposable incomes increased to stand at £22,187 by December 2018. This was driven by a decline in cost of living inflation since February, as well as an acceleration in wage growth. Annual percentage growth in real household incomes stood at its highest rate since August 2015, in the latest data.

Real household incomes have been on a general upward trend since 2014, following the substantial squeeze on social housing tenants' incomes that occurred in 2013 as benefits cuts started to take effect. The notable exception to this general trend was the squeeze on incomes that occurred between late 2017 and early 2018 as incomes struggled to keep pace with rising inflation – a situation that has subsequently ended following a cooling in inflation and a pick-up in wage growth over the course of 2018.

The average real disposable income of London's social housing tenants remains slightly below the peak seen in 2010. Recent gains in incomes have struggled to fully offset the impacts of benefit cuts, the rise in the standard rate of VAT to 20% and other cost of living pressures on household spending power.

Figure 1: Peabody Index – 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.

Labour market developments

Analysis of data in the ONS Labour Force Survey suggests that the proportion of economically active[iii] social housing tenants in paid employment in London stood at 88% in Q3 2018. The proportion that were unemployed stood at 11%, with the remaining balance of economically active tenants either undertaking unpaid family work (such as care) or in government employment or training schemes.

The unemployment rate is broadly unchanged from at the start of 2018 and remains much lower than the recent past. Five years ago, the unemployment rate among economically active social housing tenants in London was over 20%. Across London as a whole, the unemployment rate fell from 9.0% to 4.7% over this period.

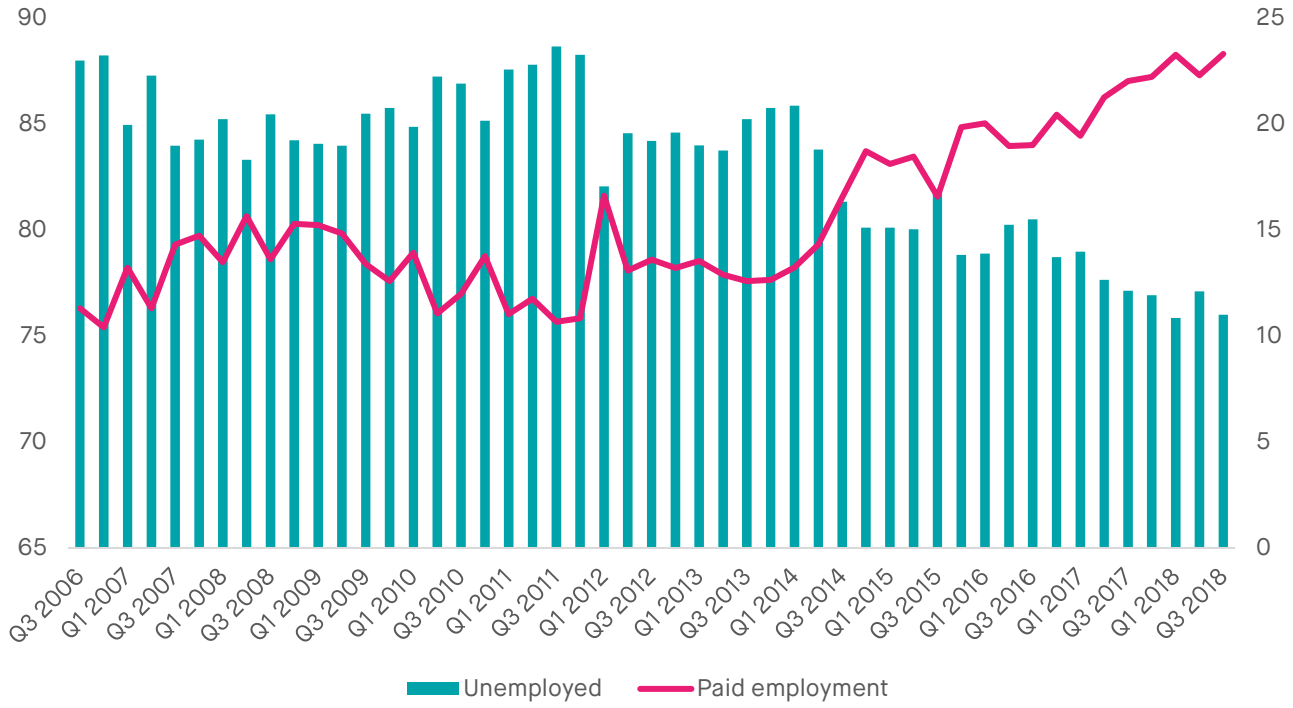
A significant driver of declining unemployment in recent years is continued growth of the UK economy. Across Britain, the unemployment rate stands at its lowest level since the 1970s, in the latest UK labour market data. In addition to an improved economic outlook, tax cuts (rising income tax-free personal allowances) and welfare reforms have strengthened incentives for individuals to be in work.[1]

While the decline in unemployment among social housing tenants in recent years is good news as far as household incomes are concerned, there are a range of questions to be asked around the extent to which work in the capital is enabling individuals to *substantially* increase their quality of life. As we discuss in the next chapter of this report, working age poverty in London is

[iii] That is, those that are either working or looking for work. Economically inactive tenants, such as those with some disabilities, the retired and those below working age are excluded from the analysis.

a significant issue, in part driven by relatively subdued wage growth for lower earners in the capital.

Figure 2: Proportion of economically active social housing tenants in London in paid employment (left-hand axis) and proportion unemployed (right-hand axis), %



Source: SMF analysis of ONS data

Cost of living inflation

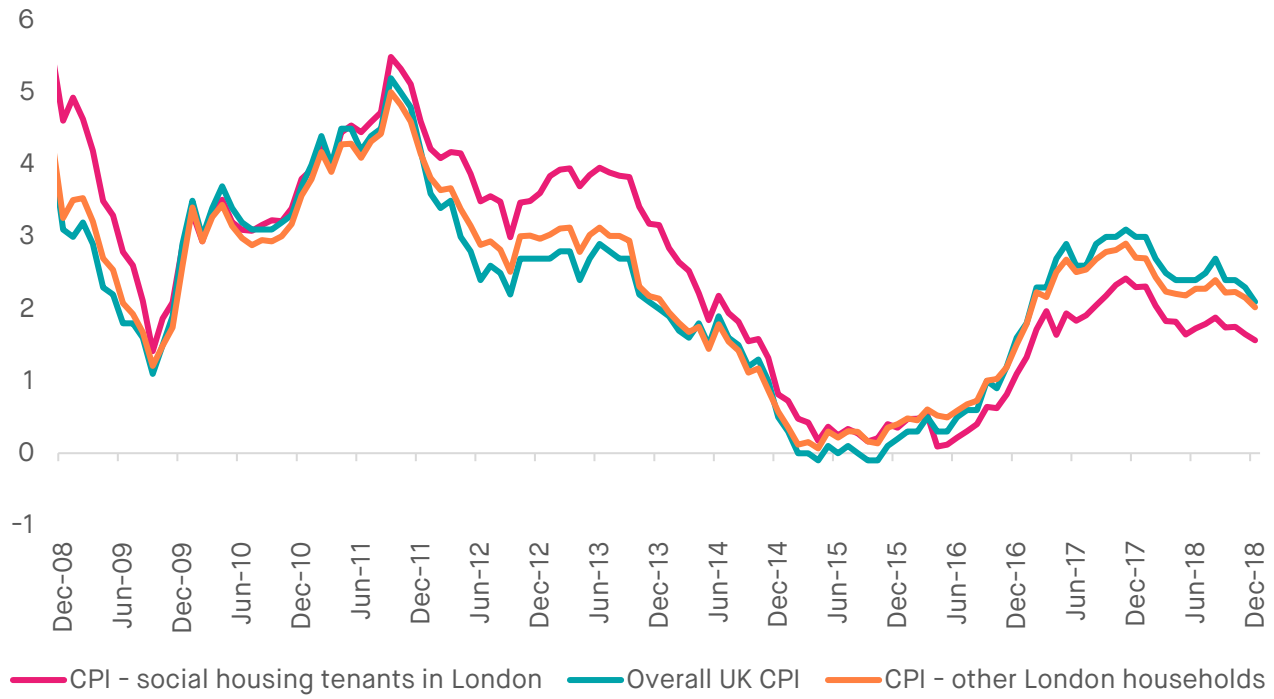
Cost of living inflation for London's social housing tenants remains below that experienced across the UK as a whole and that seen for other London households. In part, this reflects the impact of the July 2015 Budget, during which the then-Chancellor George Osborne announced a 1% per year reduction in social housing rents for a four-year period. This has curtailed cost of living inflation for social housing tenants who do not have all of their rent covered by housing benefit or housing-related entitlement in Universal Credit.[iv]

Figure 3 below shows our estimate of cost of living inflation for social housing tenants in London - the year-on-year percentage change in the cost of living for this group, based on typical spending patterns for these households. To provide a point of comparison, the graph also includes headline consumer price index (CPI) inflation for the UK as a whole as well as an estimate of inflation for London households that are not in social housing.

In December 2018, cost of living inflation for social housing tenants in London stood at 1.6% year-on-year. This is down from the 2.3% seen at the start of the year, in January 2018, reflecting cooling price growth for a range of items including food and clothing.

[iv] You do not usually get full housing benefit unless you earn less than you would get on Jobseeker's Allowance, Employment and Support Allowance or income support. Housing benefit is reduced by 65p for every £1 extra income above the amount you would receive in benefits if you were not working.

Figure 3: Estimated cost of living inflation, London social housing tenants versus UK CPI and inflation rate experienced by other London households, %



Source: SMF analysis of ONS data

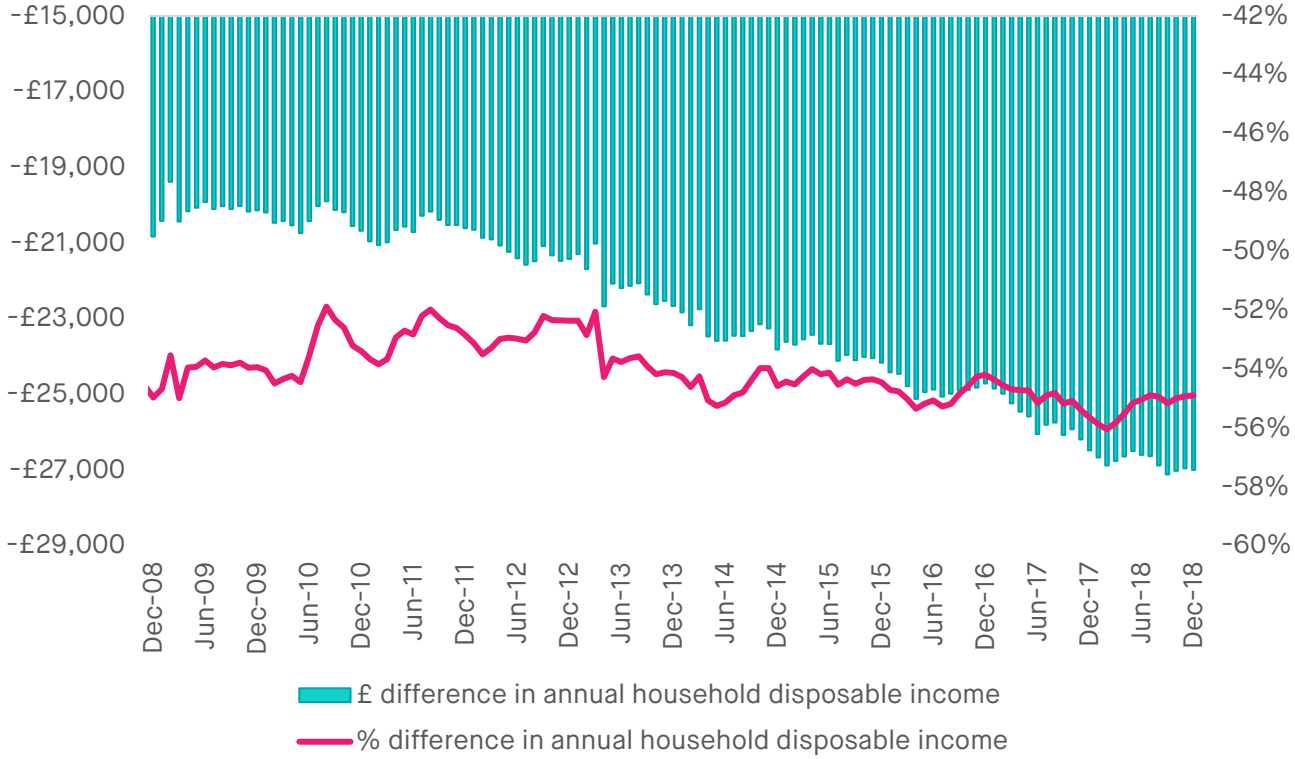
Comparisons across groups – are social housing tenants catching up or falling behind?

Another area of interest is the extent to which income differences across households in London are changing over time – is the income gap between social housing residents and other London households widening or narrowing?

In our latest data, covering December 2018, the income gap stood at about £27,000. As Figure 4 shows, in percentage terms the income gap stood at 55%.

The disparity in incomes between social housing tenants and other London households has potentially significant implications for equity and social cohesion in the capital. Critically, despite the rising proportion of social housing tenants that are now in work, rather than unemployed, the income gap compared with other households in the capital remains substantial and has generally been widening in pound terms in recent years, reflecting the squeeze on working age welfare as well as higher average salaries of employees not in social housing.

Figure 4: Difference between average annual disposable income for London social housing tenants, and average household disposable incomes for other London households



Source: SMF analysis

Figure 5: 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.

CHAPTER 3: IS WORK FAILING TO PROVIDE A ROUTE OUT OF POVERTY FOR LOWER INCOME LONDONERS?

The previous chapter of this report showed that there remains a substantial income differential between social housing tenants and other London households. This is despite the fact that the unemployment rate of social housing tenants has fallen substantially in recent years, with a record number in work. Looking at London's social housing tenants in aggregate, welfare cuts have offset gains to household incomes from employment.

Critically, as we show in this chapter, there are numerous questions to be raised around the extent to which employment is providing a solid route onto better incomes in the capital. We present new SMF analysis of the latest Annual Survey of Hours and Earnings (ASHE) data published by the Office for National Statistics (ONS).

In contrast to the rest of the country, wage inequality has increased in recent years in London. Unlike the rest of the UK, wage growth has been weaker for lower-paid workers than for higher-paid ones. Increasingly, poverty is an issue faced by those in work, while pensioner poverty has declined.

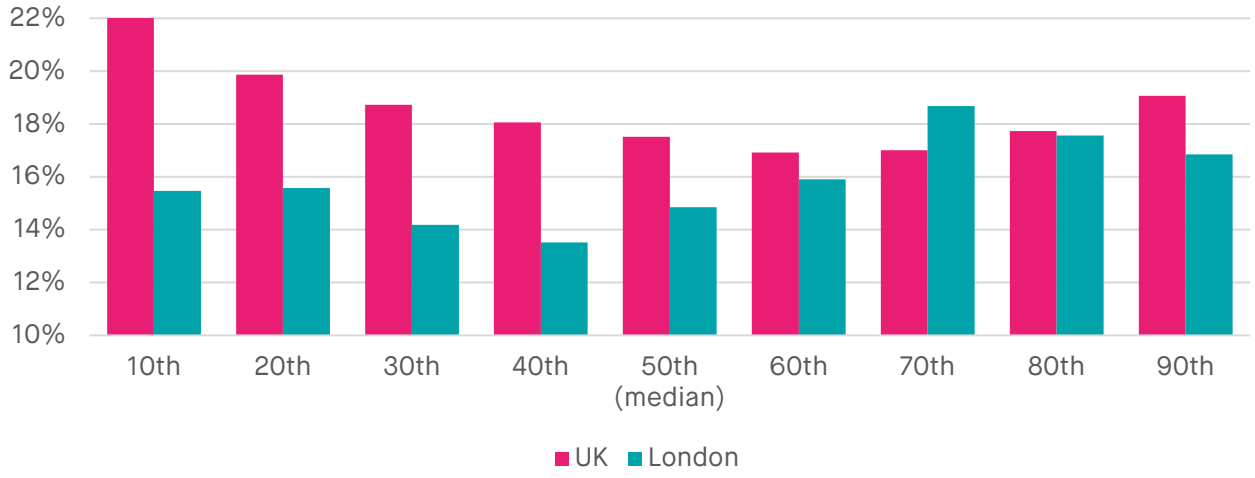
Given that inequality trends in London appear to be different to the rest of the country, it is worth exploring the case for London-specific policies aimed at tackling inequality and low pay.

Wage growth across income groups in London – is wage inequality in the capital rising or falling?

In contrast to the rest of the country, lower-paid workers in London have seen more sluggish growth in wages over the past decade than those on the highest incomes.

Further, as Figure 6 shows, despite London's reputation as an economic powerhouse, wage growth has been weaker than the UK average across all income deciles bar one (the 7th decile). The shortfall in wage growth compared with the rest of the country is particularly pronounced at the bottom end of the income distribution, as the chart illustrates. **In short, London has a problem with sluggish wage growth and this is most notable among lower earners in the capital.**

Figure 6: Full-time employee wage growth, 2008-2018, by income percentile. London residents versus the UK as a whole

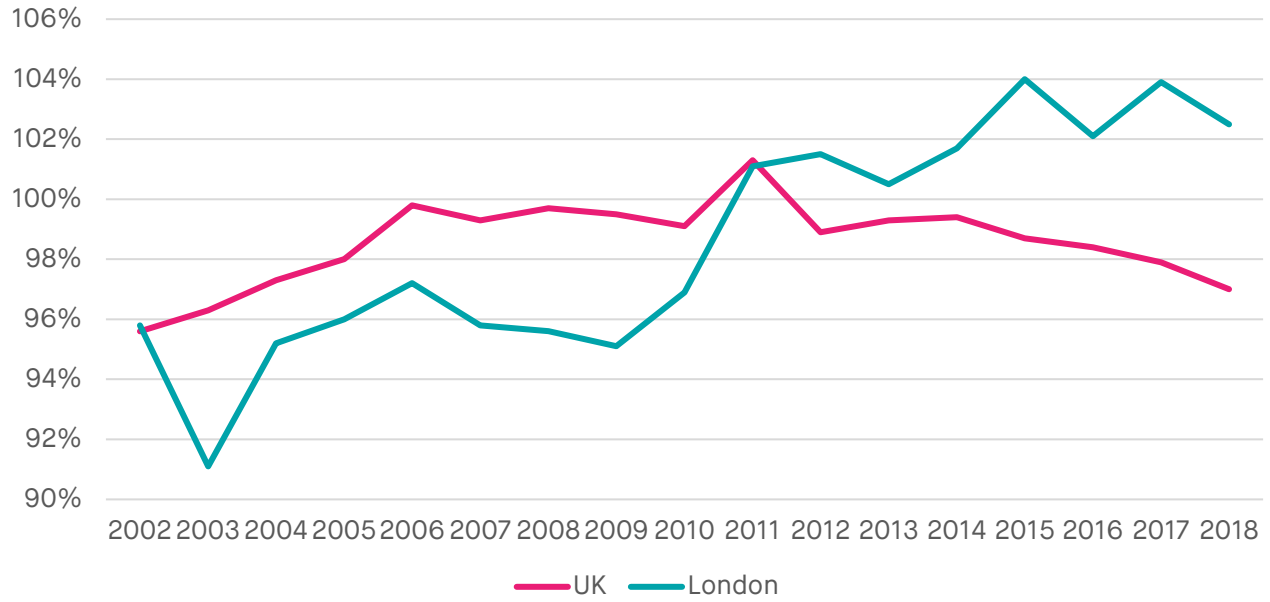


Source: SMF analysis of ONS data

A consequence of these patterns in wage growth is that wage inequality in London has widened in recent years. One widely-used measure of inequality or spread is the interquartile range (IQR) – the difference between the 75th and 25th percentiles.[v] Figure 7 below shows the IQR expressed as a percentage difference between these percentiles.

This chart shows that, **while wage inequality on this measure has decreased across the UK as a whole since the financial crisis, it has increased in London**. While in 2008 full-time workers in the 75th percentile of the wage distribution earned 96% more than those in the 25th percentile, in 2018 this stood at 103%. While in the early 2000s London had a lower rate of wage inequality than the UK as a whole (on the IQR-as-a-percentage measure), since the financial crisis it has had a higher rate of inequality.

Figure 7: Interquartile range of full-time wages, expressed as a percentage difference, London residents versus the UK as a whole

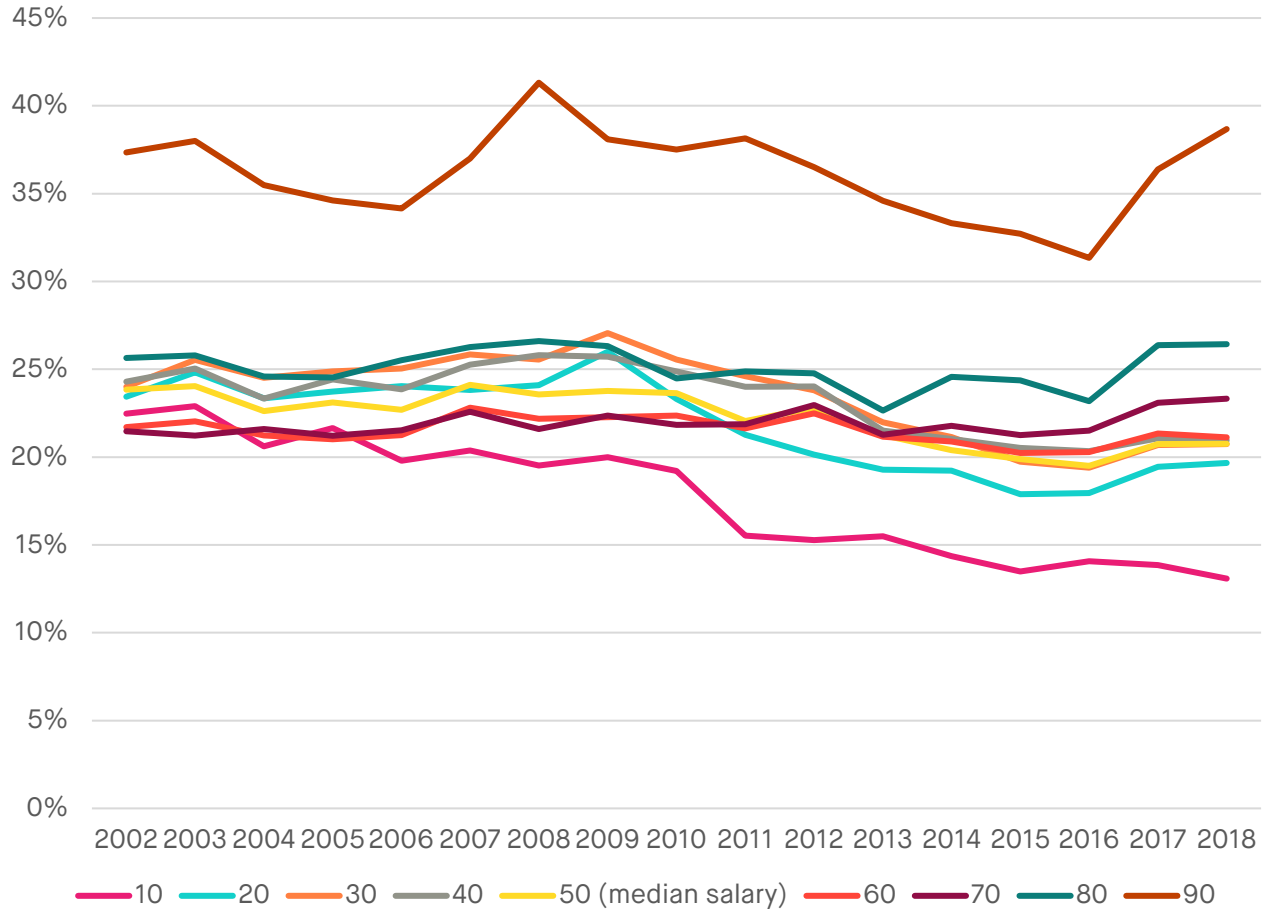


Source: SMF analysis of ONS data

A strong rationale for choosing to base oneself in London has traditionally been the opportunity to earn more than in the rest of the country. Yet the recent weakness of wage growth in the capital means that the "London wage premium" has generally diminished over the past decade – most notably at the bottom end of the wage distribution. While in 2008 a full-time employee in the 10th percentile of the income distribution could expect to earn 20% more than across the UK as a whole, this wage premium had fallen to 13% in 2018, as the figure below shows.

[v] At the 75th percentile wage, 75% of employees earn less than this wage. 25% of employees earn less than the 25th percentile wage.

Figure 8: The London wage premium compared with the UK as a whole, by income percentile, full-time employees



Source: SMF analysis of ONS data

Wage growth across industries and occupation

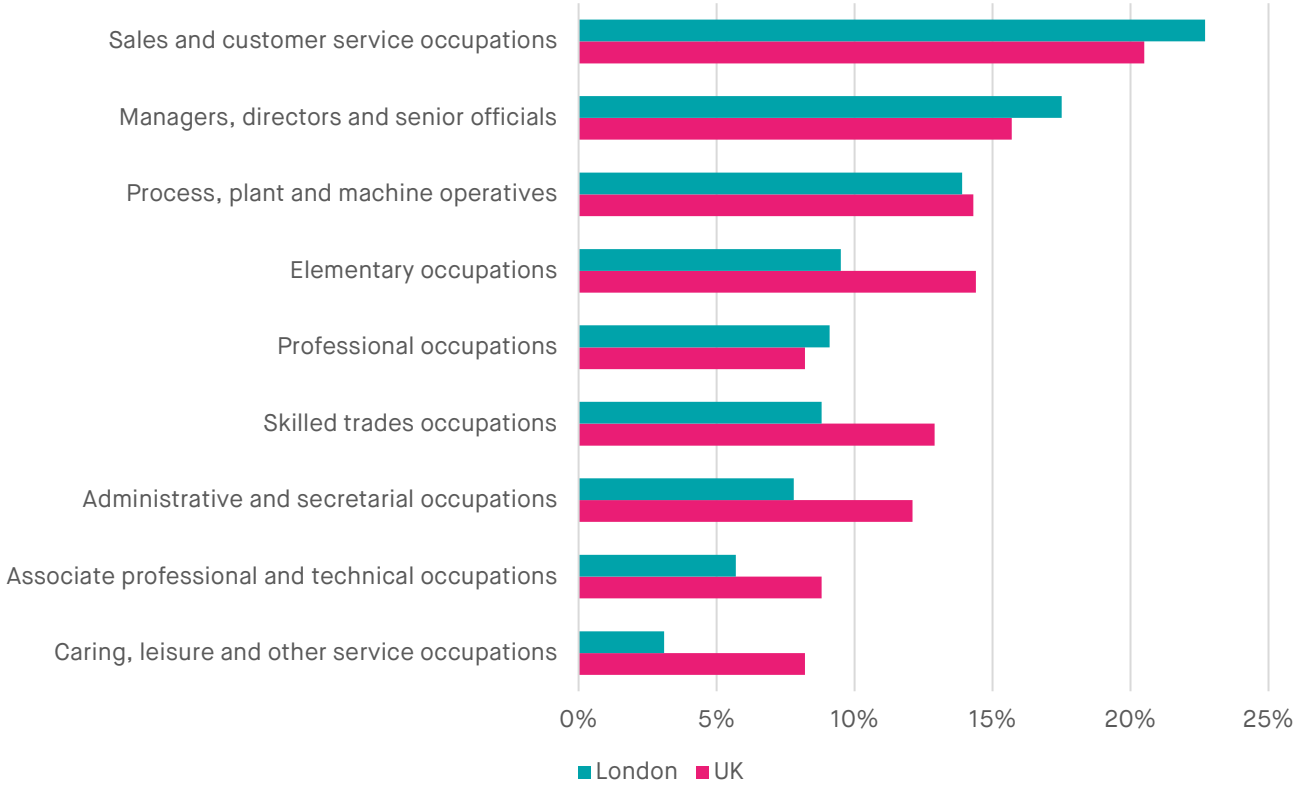
In order to better understand the underlying drivers of wage trends in London, we examined what has happened to wage growth across industries and occupations in the capital, and how this compares with the rest of the country,

Of the nine broad occupational ("SOC") classifications used by the Office for National Statistics, wage growth has been lower in London than the rest of the UK across six of these, as Figure 9 shows. The three categories seeing slightly faster wage growth were "managers, directors & senior officials", "professional occupations" and "sales & customer service occupations".

Wage growth was notably lower than the UK average across a range of relatively low paying occupations including care & leisure, administrative & secretarial occupations and elementary occupations.

As such, London's faster-than-average wage growth for directors, managers & professionals, and weaker-than-average wage growth for several low-paying occupations, has contributed to a situation where pay growth has been slightly higher towards the upper end of the wage distribution, as we showed earlier.

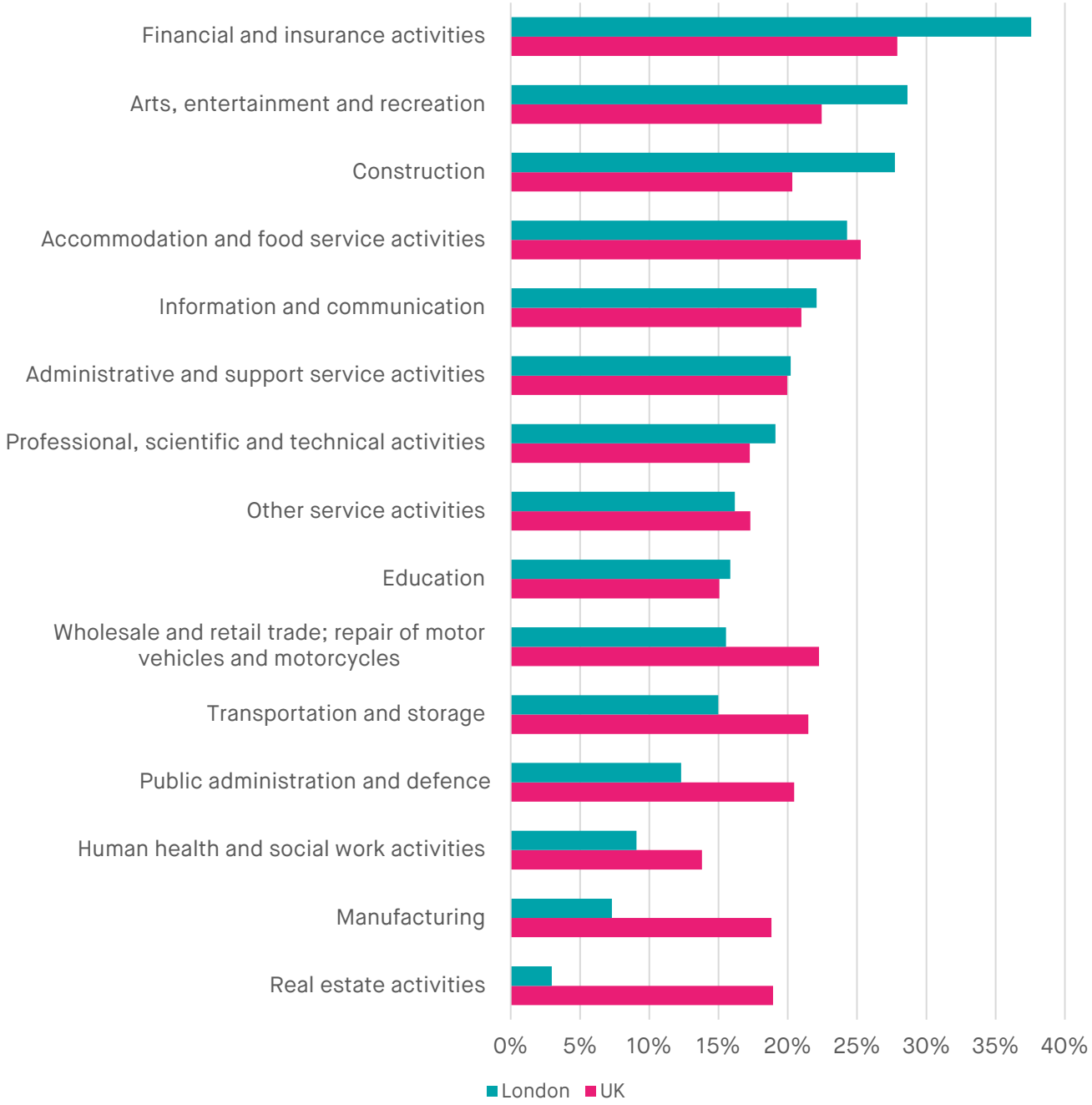
Figure 9: Growth in median wages, full-time workers, 2011-2018, by occupation and region job based



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

A similar picture emerges when examining data on wage growth by industry of employment rather than occupation. While London has seen faster-than-average wage growth in the financial services industry in recent years, it has seen notably slower-than-average pay growth across a range of sectors where average salaries are lower. This includes health & social care, wholesale & retail and transport & storage. This is illustrated in Figure 10 below.

Figure 10: Growth in median wages, full-time workers, 2008-2018, by industry and region job based



Source: SMF analysis of ONS data

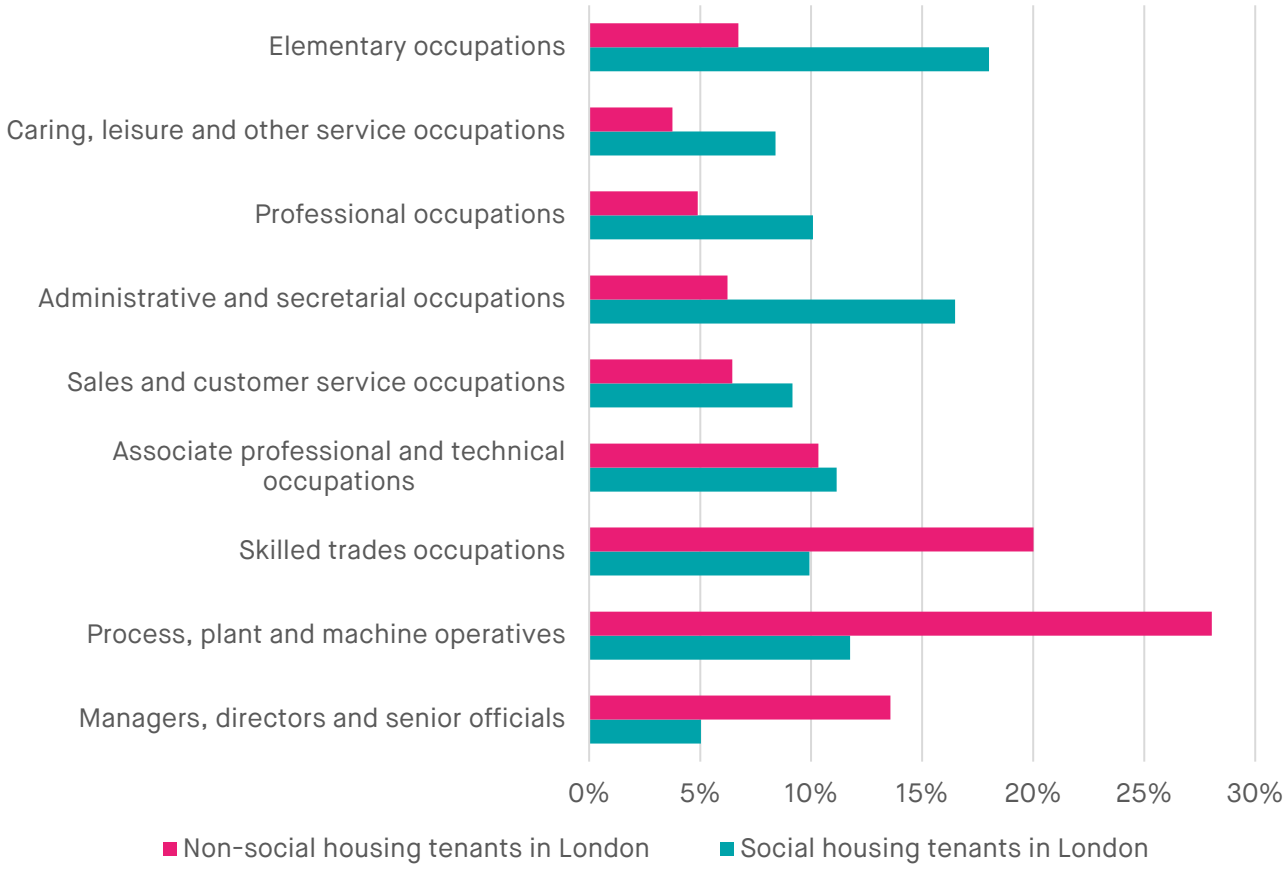
Where do social housing tenants fit in?

Among those living in social housing in London that are in work, a significant proportion work in industries and occupations where pay growth has been subdued in recent years. Some 16.5% work in caring & leisure occupations (as of Q3 2018), compared with just 6.2% of non-social housing tenants in London. This is the occupational category that has seen the slowest wage growth in recent years, as Figure 9 showed. Just under a fifth (18.0%) of social housing tenants

in employment in London work in elementary occupations,[vi] compared with 6.7% of those not in social housing.

As Figure 12 shows, social housing tenants in London are more likely to be working in relatively lower paying sectors such as wholesale & retail and administrative services.

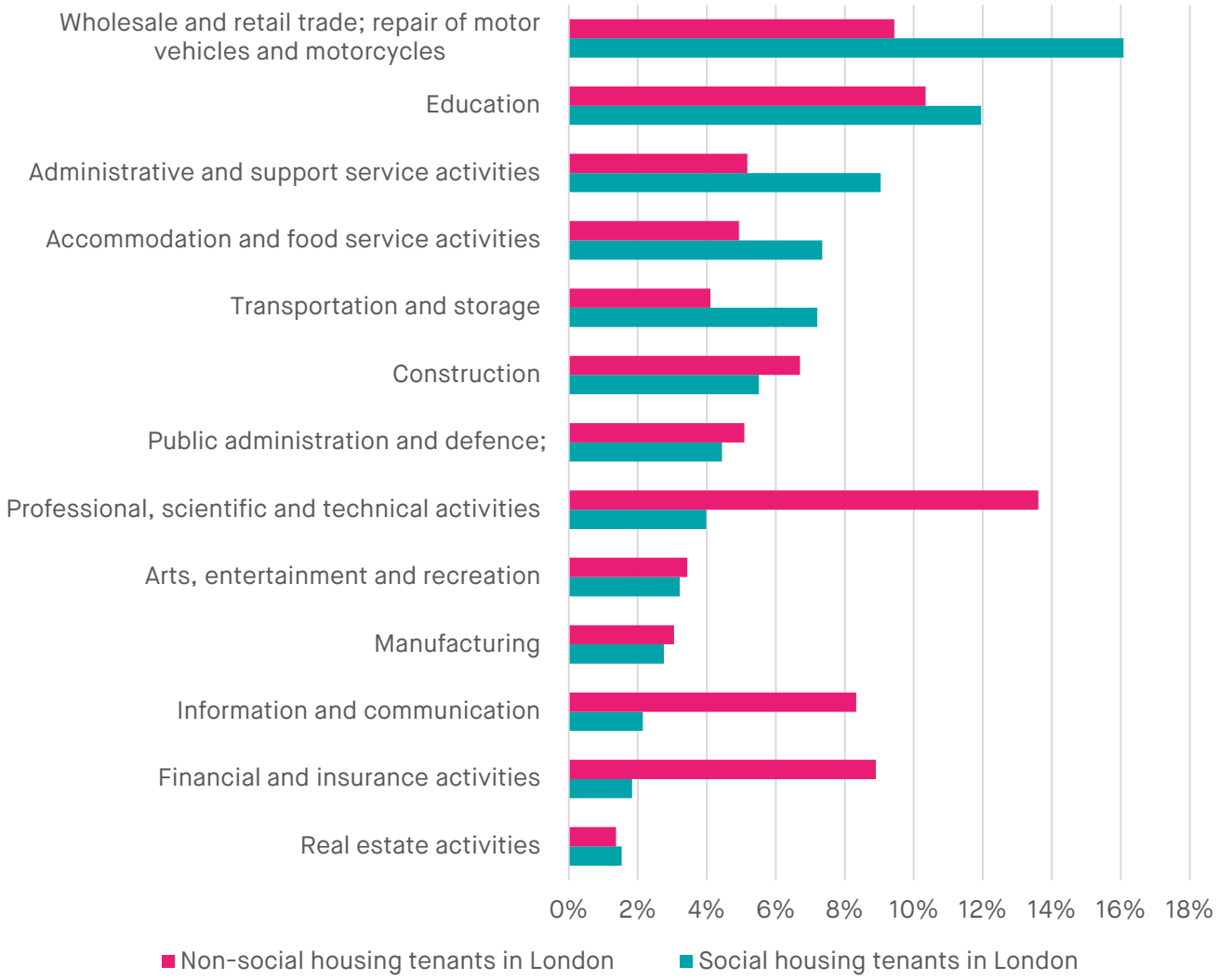
Figure 11: Employment distribution of social housing and non-social housing tenants in London, by occupation, Q3 2018



Source: SMF analysis of ONS Labour Force Survey

[vi] Elementary occupations consist of simple and routine tasks which mainly require the use of hand-held tools and often some physical effort.

Figure 12: Employment distribution of social housing and non-social housing tenants in London, by industry, Q3 2018

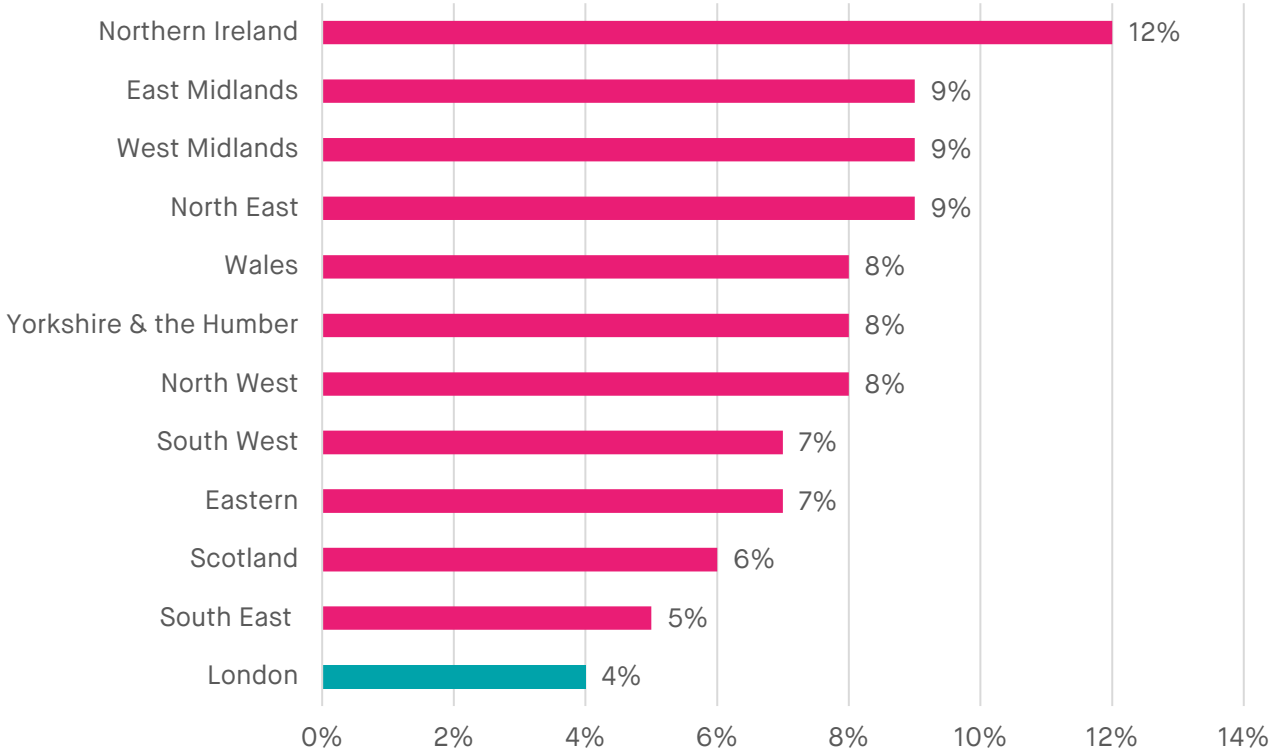


Source: SMF analysis of ONS Labour Force Survey

Has the National Living Wage helped lower paid workers in London?

One driver of different labour market outcomes in London compared with the rest of the country is likely to be the impact of increases in the National Minimum Wage (NMW) as well as the introduction of the National Living Wage (NLW) in 2016. While the NLW and uprating of the NMW have provided a substantial boost to lower earners outside of the capital, the benefits to London's workforce have been more limited as lower paid workers were less likely to be paid less than the NLW to begin with. This reflects in part the higher costs of living in the capital compared with elsewhere.

Figure 13: Jobs paid at or below the minimum wage, by region, April 2017



Source: Low Pay Commission, 2017 report

Given the relatively limited impact of the NLW and NMW on wages in London, wage increases at the lower end of the pay scale in the capital are more reliant on employees having the necessary bargaining power to push for higher wages.

Working age poverty in London – a result of weak wage growth and welfare policy

In addition to weak wage growth, the incomes of social housing tenants in London, as well as other relatively low earning households, have been squeezed by cuts to welfare in recent years.

As we discussed in our first Peabody Index report, two benefits cuts, in particular, stand out in terms of their disproportionate impact on London households: the benefits cap and the underoccupancy penalty (the 'bedroom tax'). The benefits cap places a limit on the total amount of benefits income a household can receive. The underoccupancy penalty entails individuals having their housing benefits reduced if the socially rented property they are living in is judged to have more bedrooms than is necessary.

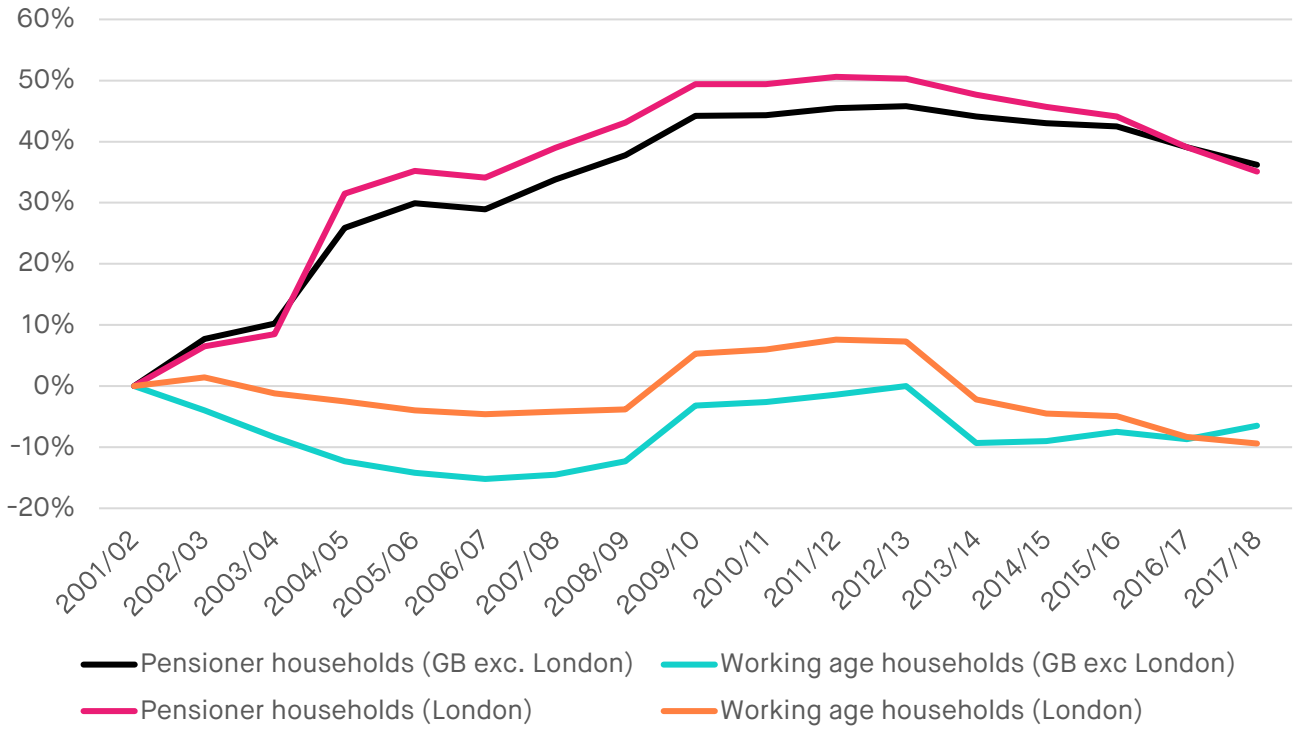
With respect to the underoccupancy penalty, government impact assessments suggested that 80,000 households in London would be affected by this change: equal to approximately 22% of total socially renting housing benefit claimants in London. Furthermore, the average weekly reduction in housing benefit in London was estimated to be £21 per week – higher than in any other UK region.[2]

With respect to the benefits cap which came into effect in 2013, 49% of affected households were estimated to be living in Greater London. Average losses to households from the benefits cap were estimated to stand at £93 per week.[3]

Welfare cuts have hit working age individuals much more strongly than those over the State Pension Age. This reflects the fact that the State Pension has been protected by the "triple lock" of "employee earnings, inflation or 2.5%" which has been in place since 2011. Consequently, working age benefits have borne the brunt of government welfare cuts in recent years, as Figure 14 shows. In real terms, working age benefits spending, on a per capita basis, was lower in 2017/18 than in the early 2000s. In contrast, we estimate that pensioner benefits spending is about 35% higher on a per capita basis, though there have been some declines in recent years reflecting falling government expenditure on benefits beyond the State Pension – such as Disability Living Allowance

Working age households in London have been particularly impacted by the welfare cuts that occurred from 2013 onwards, as the chart shows.

Figure 14: Real per capita benefits expenditure, pensioner versus working age benefits, % change since 2001/02



Source: SMF analysis of DWP data and ONS population estimates. "Pensioner benefits" includes Disability Living Allowance going to pensioners, over 75s TV licences, Pension Credit, Severe Disablement Allowance going to pensioners, the State Pension and Winter Fuel Payments. Per capita benefits spending is derived by dividing aggregate pensioner benefits spending by the 65+ population, while working age benefits spending is derived by dividing working age benefits by the under 65 population.

A growing proportion of Londoners with multiple jobs

Potentially as a result of subdued wage growth, cost of living pressures and not being able to work enough hours in one role, our analysis of ONS labour market data also reveals a rise in the proportion of Londoners with more than one job. Unlike the rest of the country, where the proportion of workers with more than one job has decreased since 2014, London has seen a growing proportion – as Figure 15 illustrates. In part, this might reflect the relatively greater prevalence of "gig economy" jobs, such as Uber drivers, in London.

While recent history shows London having a lower proportion of workers with second jobs than the UK average, since 2017 London has had a higher proportion of workers with more than one job.

Figure 15: Proportion of workers with a second job

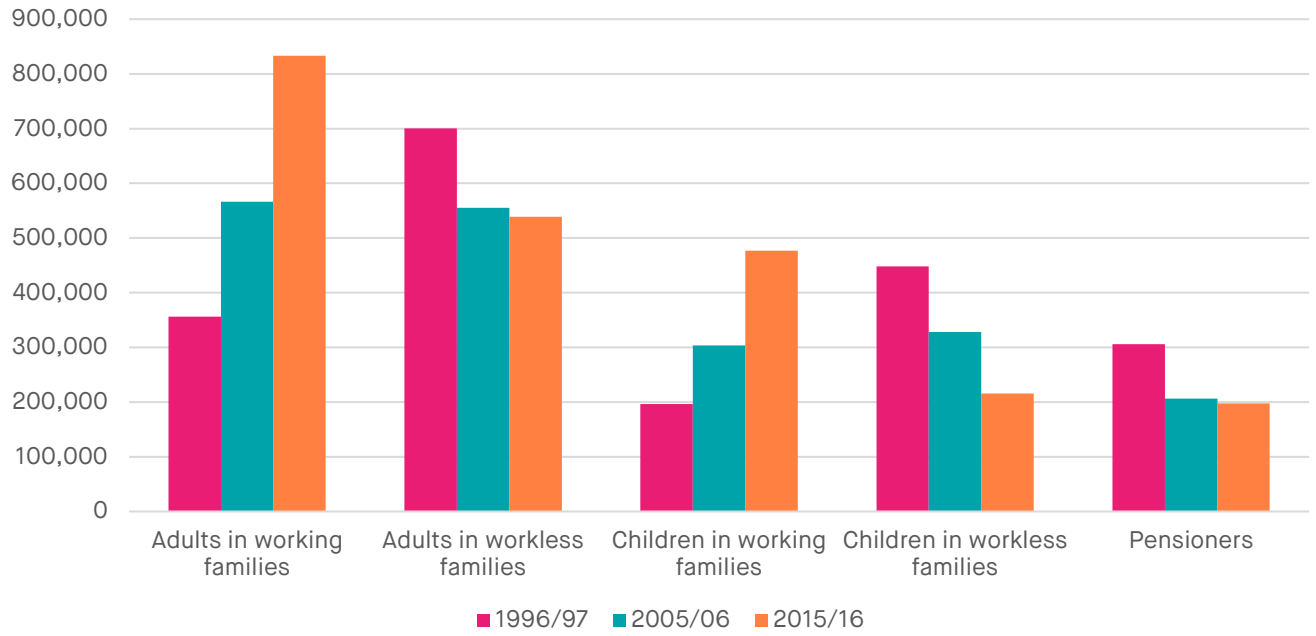
Source: SMF analysis of ONS Regional Labour Market Statistics

What next for policymakers?

The analysis in this chapter raises a number of concerns about London's labour market, and the extent to which it is delivering good and equitable outcomes for lower earners in the capital. Widening wage inequality in the capital raises questions around the extent to which London's economic successes have been trickling down to lower earners in recent years.

Unlike the rest of the country, wage inequality has increased, rather than fallen, since the financial crisis. Across most industries and occupations, wage growth has been lower in London than the rest of the UK. Working age poverty is a significant problem, despite falling unemployment – due to a combination of benefits cuts and sluggish wage growth in recent years. Indeed, data from Trust for London show that adults in working age families are now the largest group of individuals in poverty in London. This contrasts with the mid-1990s when adults in workless households were the largest group in poverty.

Figure 16: Number of people in households in poverty in London



Source: Trust for London https://www.trustforlondon.org.uk/data/work-and-poverty/

As we have shown, London's social housing tenants are disproportionately employed in several industries and occupations that have seen particularly weak wage growth in recent years.

With lower income households in London not benefitting from increases to the National Minimum Wage or National Living Wage to the same extent as those living elsewhere in the country, there is a case for exploring the case for further policy interventions to improve outcomes for employees in London on lower incomes.

As well as weighting up the merits and drawbacks of a London-specific mandatory minimum wage (to better reflect the cost of living faced by low-income Londoners), consideration also needs to be given to the role that policymakers can play in helping those on lower incomes transition into better paid work. Critically, while the Minimum Wage and Living Wage have raised the floor for pay in the UK, little has been done to improve pay and career progression among those on lower incomes. Many are trapped in a cycle of low pay with no meaningful way out. A Resolution Foundation study for the Social Mobility Commission showed that just one in six (17%) of low paid workers in the UK managed to transition out of low pay between 2006 and 2016.[4] Far from being a first rung on the job ladder, low-paid jobs are often the only rung. Ensuring that work is a powerful route to higher standards of living will require bring this situation to an end – including via improved training opportunities for lower-paid workers to help them move up the salary ladder.

APPENDIX: RESEARCH METHODOLOGY

The Peabody Index

One aspect of the Peabody index measures the disposable (net of tax) income of social housing households in London. It is adjusted for inflation – that is, it is expressed in real terms.

We use data in the ONS Living Costs and Food Survey as a basepoint for incomes of social housing households in London. This provides information on the sources of income for households, including income from:

- Wages
- Self-employment
- Investments
- Annuities and pensions
- Social security benefits

We have then backcast and forecast disposable incomes using a range of more timely datasets:

- Income from wages and self-employment are assumed to grow in line with the ONS "average weekly earnings" series published in its monthly labour market statistics. We account for variation in employment levels using data in the quarterly Labour Force Survey – that is, we adjust for social housing tenants moving in and out of the labour market.
- Income from investments accounts for a very small proportion of total gross income for social housing households in London – just £3 per week in 2015/16. Given the prolonged period of very low interest rates and the economic downturn preceding this, we assume that investment income has not changed significantly over the past ten years.
- Income from annuities and pensions is assumed to grow in line with the retail price index measure of inflation.
- Income from social security benefits is determined by benefits projections and regional caseload data produced by the Department for Work and Pensions.

To produce an inflation-adjusted measure of disposable incomes, we have produced a "consumer price index" measure which reflects the spending patterns of social housing households in London. That is, we have produced a reweighted CPI based on expenditure data contained in the ONS Living Costs and Food Survey. While we assume the price of most goods and services, such as food and energy, grows in line with the UK as a whole, we have used Greater London Authority (GLA) data on social housing rents to adjust the "housing costs" element of the CPI. That is, we adjust for the fact that growth in rental prices is likely to be significantly different to the UK as a whole, for social housing tenants in London.

ENDNOTES

[1] https://www.ifs.org.uk/wps/wp1326.pdf
[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220179/social-sector-housing-under-occupation-wr2011-ia.pdf
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220178/benefit-cap-wr2011-ia.pdf
[4] https://www.resolutionfoundation.org/app/uploads/2017/10/Great-Escape-final-report.pdf