

Peabody Index

Levelling up London: Closing the gap for people on low incomes



Research report

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Peabody Research and Insight
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Peabody

Peabody is one of the oldest and largest housing associations in London and the South East, established in 1862 by the philanthropist, George Peabody. We're responsible for 67,000 homes in London and the South East, providing quality homes and support services to over 155,000 people. Our mission is to help people make the most of their lives. We do this by providing good quality affordable homes, working with communities, and promoting wellbeing.

The aim of our research programme is to deliver robust research that uses our insight and experience to develop evidence-based arguments on a range of areas impacting our residents, the housing sector and London and the South East as a whole. Our focus is on proposing solutions, not just identifying problems. We use our research both to influence others and stimulate wider debate as well as to challenge ourselves and inform our decisions, services and approach.

Our research is led by our in-house team who provide analytical and research expertise. We also collaborate with a wide range of partners such as universities, think-tanks and other research agencies.

About the Index

As the UK's capital, London is one of the world's most vibrant cities. However, people on low incomes in the city continue to experience significant cost of living challenges. To better understand the issues facing London social housing tenants and to help ensure our customers' voices are amplified, we began publishing the Peabody Index in June 2018. Since our first edition, the Index has tracked the experiences of social housing tenants of working age, including throughout the pandemic, making evidence-based recommendations to policymakers and others drawing upon this direct experience.

We currently partner with Learning and Work Institute (L&W) who analyse public datasets to identify trends for London and the UK. We track and analyse changes in incomes, employment and living costs for low-income Londoners. Through L&W's employment expertise and Better Work Network, we direct this crucial research to the heart of what matters for supporting Londoners into stable employment that pays a real living wage. This analysis draws on data from a wide range of sources including the Labour Force Survey, Living Costs and Food Survey and the Greater London Authority.

We supplement this wider analysis with regular surveys of our social housing tenants in London. For this issue of the Index, 953 residents were surveyed online in January 2022. This was a shift from our September 2021 survey, which used a hybrid phone and online survey method. We moved to fully online surveys after analysing responses which showed there was little difference between telephone and online survey responses.

Executive summary

Key findings

Our fresh analysis highlights cost-of-living challenges facing hundreds of thousands of London's social housing residents. Insecure and unstable work and pay, benefit cuts and rising prices contribute to a worrying outlook for those living on a low income. Overall, we've found a multifaceted picture that raises several concerns:

- The economy is picking up, but barriers to employment and in-work poverty persist for many: There is evidence that the London economy is bouncing back from the downturn during the pandemic, but not all Londoners are benefiting from this wider economic recovery. Barriers persist for our residents around skills and caring responsibilities, making it hard for many to find suitable jobs that pay a decent wage. Although more people are looking for work, which may translate into higher employment rates soon given a rise in job vacancies, employment does not always bring decent incomes. Almost half of our working residents (42%) are living on wages below the London Living Wage (currently £11.05 per hour), and the 14% that have had pay rises in the past year have seen that benefit wiped out by the steep rise in their cost of living. More than one in five working residents (21%) currently claim Universal Credit.
 - Among those not working or in low-paid work, more people are going without essentials such as food or heating in order to save money. Food bank use has risen dramatically this winter with almost one in five households using a food bank recently (up from just 7% in October). Over half (51%) of our London social housing tenants said they are in desperate financial circumstances, up from 46% in March 2021. Sixty-five percent of those on Universal Credit who report having desperate finances went without heating the past year to save money, up from 52% in our last report. The removal of the £20 uplift is likely to be a contributing factor, and the upcoming 3.1% increase in Universal Credit is not enough to keep pace with the current cost of living. The recent rise in inflation to rates not seen in years has particularly hit low-income households, due to rises in essential items including fuel and food.
 - Rising fuel costs are a big worry. Many have struggled to pay for heating to keep warm in the colder months, which is a huge concern given the anticipated rises in the costs of fuel which are soon to come.
-

Policy asks

There is no silver bullet to tackle the issues identified above. But we recommend policy changes in the following three key areas:

Levelling up London

The Levelling Up White Paper published in February 2022 contains a commendable foundation for addressing inequality. We especially applaud its principle of going local, however we encourage this local focus to go further. There needs to be a much stronger focus on meaningful devolution, giving local authorities and mayors across the country a greater say over the way their region's function and providing local solutions to the problems they face. Crucially, comprehensive long-term funding, guarantees or risk-sharing arrangements should accompany the shift.

With no new resources committed, there is a risk of "levelling down" the south to make partial interventions in the north or other areas. Our findings show the need for the government's levelling up agenda to focus not only on certain regions, but on anyone left struggling to get by.

In-work poverty persists for many in London, and those out of work are finding it difficult to find suitable jobs that pay a decent wage. We suggest that there is additional provision for skills and training in the Way to Work campaign to ensure people looking outside their sector can find stable and well-paid work.

The Levelling Up agenda includes a Lifetime Skills guarantee, which recently opened up to those with Level 3 qualifications who are earning below national minimum wage. We support this but urge the government to extend this scheme to Londoners earning below the London Living Wage, recognising that cost of living is significantly higher for those in the capital.

A strengthened safety net

Among those not working or in low-paid work, we are seeing more going without essentials such as food or heating in order to save money. Sixty-five percent of those on Universal Credit who reported having desperate finances cut back on heating in the past year to save money, up from 52% in our last report. We therefore urge more support to be directed to the benefits system by ensuring that as much as possible it keeps pace with rising costs of living.

Further support to combat fuel poverty

We know many are already struggling to heat their homes, and this is set to become more challenging in the future. We recommend an extension of the Warm Homes Scheme to give a one-off grant to all households in receipt of means-tested benefits to cover the increase in their fuel bills. This will ensure that those on low incomes who will be the worst off receive more targeted support than currently available.

We welcome the recent announcement that there will be £150m of support for households outside of A-D council tax bands, but this needs to go further. Social housing tenants in London risk being excluded due to higher property values in the capital. To address this, we think it's important that the £150m of discretionary funding is targeted to low-income households in E+ band properties.

Index tracking measures

Our latest Peabody Index survey focused on how residents were coping in the changing employment market and the impact of the cut in Universal Credit on affording essentials.

Our headline Peabody Index (Table 1) tracks the Consumer Prices Index (CPI), and inflation is impacting upon the living standards of London's social housing tenants.

"I've had interviews remote and face to face... all have stopped considering when I mention I'm a single mum and I am only able to do shifts while they are in school."

Peabody Resident

Table 1: Summary of key data for Peabody social housing tenants in London

5.5%

January's Consumer Prices Index (CPI) over the past 12 months, up from just 0.7% a year ago

12%

of our residents fear someone in their household will lose their job in the coming months, broadly similar to the 11% who said this September 2021

89%

of households said that they could not afford to meet an unexpected but necessary expense of £850 or more, up from 81% in September 2021

51%

of residents say they feel worse off than a year ago, with only 12% feeling better off – giving a perception score¹ of -39. This is 4 points worse compared with six months ago

¹ 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.

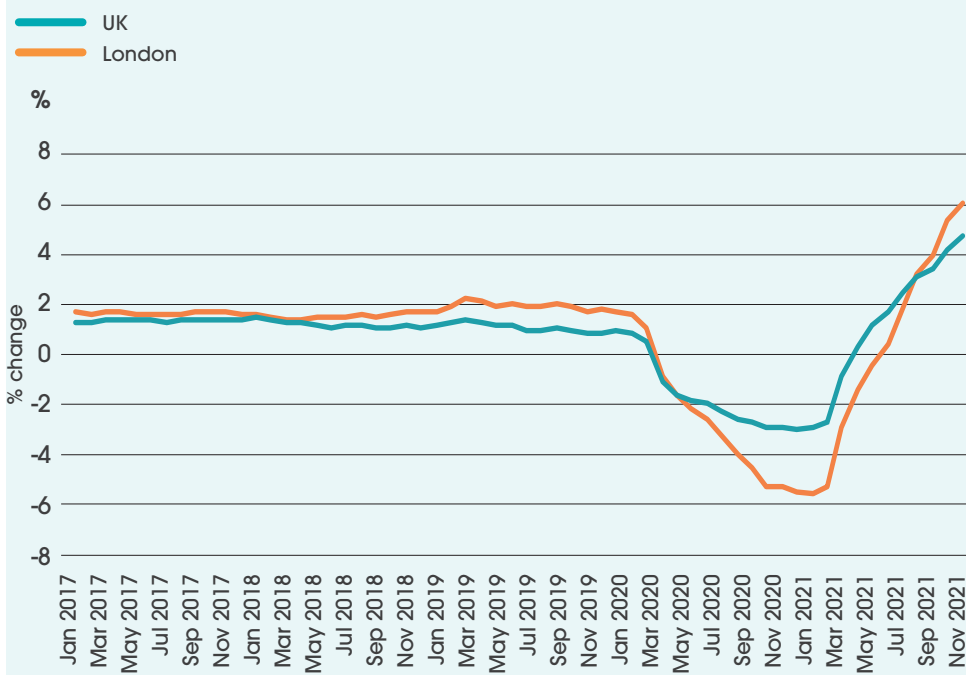
Economy picking up speed but leaving some behind

July 2021 marked the end of a long lockdown for the British economy. This was broadly seen as an opportunity to open the economy for workers, with a continuing fall in the rate of economic inactivity from 35% to 15% in January 2022, according to our latest resident survey. Accompanying this, we saw encouraging employee growth across the UK, and especially in London, where the pandemic recovery surpassed the country as a whole in autumn 2021 (Fig. 1).

“My child is now attending school full time which my time will have to fit around.”

Peabody Resident

Figure 1. Regional employee growth - percentage change on same month in previous year, seasonally adjusted, UK, January 2017 to December 2021



“As a young person, it’s incredibly hard when applying for jobs as they mainly give jobs to people with years of experience, even if you apply to a job having more than enough experience needed for the role in the first place.”

Peabody Resident

There was little evidence of these benefits among our survey respondents, as our survey shows no decrease in the proportion (11%) of social housing tenants looking for work since September 2021. It remains to be seen if the labour market will absorb these would-be new or returning entrants. According to our latest survey, there are persistent challenges being faced by people looking for work. Older adults cite age discrimination as a barrier to finding work. Among younger adults, the most commonly cited challenge to finding work was lack of flexibility in terms of hours fitting around childcare. Lack of skills training and experience were also key barriers to finding suitable employment.

There will be trouble ahead if people looking for employment can’t find work soon. The risk of hardship rises the longer someone is out of work. Sixty-four percent of our residents who went over four months without work needed to cut back on food (20 percentage points more than those who have been without work for one month or less).

Our latest research suggests simply reopening the economy is not enough to combat the challenges of the sharply rising cost of living. The government's Way to Work campaign² aims to get people into work quickly by reducing the time allowed on benefits before people must look for work outside of their sector. Forcing people into work for which they are not best suited could perpetuate the cycle of insecure employment, rather than helping people find stable work for the long term. We also urge further efforts to address availability of work on flexible or part time hours, and which pays a living wage. Wages are a key concern, given recent and expected rises in the cost of living.

The Levelling Up agenda includes a Lifetime Skills guarantee, which recently allowed further training for those with Level 3 qualifications who are earning below the national minimum wage. We support this but urge the government to extend this scheme to Londoners earning below the London Living Wage, recognising that the cost of living is significantly higher for those in the capital.

Rising costs for low-income Londoners

The well-documented rise in the cost of living has hit low-income Londoners particularly hard and is due to worsen as inflation gathers further momentum in the coming months. The Consumer Prices Index (CPI) rose by 5.5% in the 12 months to January 2022. Last year saw the highest CPI 12-month inflation rate in the ONS data series, which began publishing in January 1997. Key areas where prices have risen include household goods, forcing those on low incomes to make tough choices about spending.

As shown in Figure 2, price rises in transport, food and non-alcoholic beverages and furniture and household goods were the largest contributors to the monthly rate in December 2021. Our pre-pandemic reports³ showed that many social housing tenants already had trouble affording food, and our latest survey shows even more needing to cut back recently. Food bank use has risen this winter with 10% of all tenants surveyed using a food bank recently (from 7% in October).

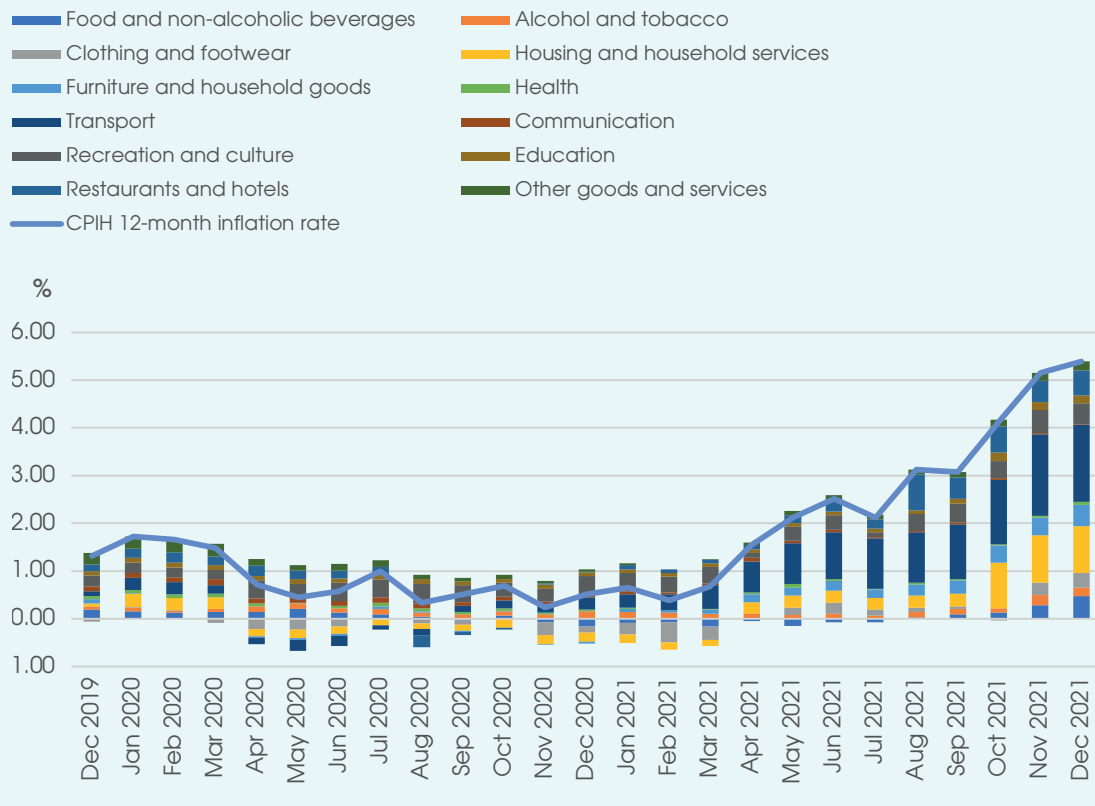
Fuel prices also rose sharply last year. In August 2021, Ofgem cited a 50% rise in energy costs as the world emerged from lockdown. Combined with the April 2021 increases, these latest rises resulted in 12-month price rises of 18.8% for electricity and 28.1% for gas to December 2021. Costs are predicted to rise by a further 50% from April this year when the energy price cap is lifted. These predictions were made before the Russian invasion of Ukraine, a development likely to push energy prices even higher.

The Chancellor has recently announced measures to help alleviate some of the pressure, including a loan to energy companies to enable them to give all customers a £200 "rebate", a one-off £150 council tax rebate for those in bands A-D and a discretionary fund for local authorities to allocate. We welcome measures to ease the pain of rising fuel costs. However, we fear social housing residents in London may be left out of the council tax rebate due to high property values and council tax bands in the capital.

² <https://www.gov.uk/government/news/new-jobs-mission-to-get-500-000-into-work>

³ <https://www.peabody.org.uk/about-us/what-we-do/research/peabody-indexes>

Figure 2: Contributions to the CPI 12-month inflation rate, UK, December 2019 to December 2021



The cost-of-living crisis has collided with the persistence of low-paid work, especially in the capital. While the government wishes to get people into work quickly, the Way to Work campaign has little provision for ensuring that work pays. Despite recent pay rises across the country, the rise in cost of living has made real earnings stagnant or in decline. The Bank of England now expects this to contribute to the CPI annual growing reaching 6% in the spring⁴. Combined with the most recent Office for Budget Responsibility earnings forecasts⁵, this suggests that real earnings will continue to fall. The government’s levelling up agenda must focus not only on certain regions, but all low-income workers being left behind in the post-lockdown economy.

Figure 2 (above) shows the ways in which the prices of different types of items have risen recently and contributed to the rise in inflation. We can see that the biggest rises come from increases to the costs of transport, housing and household services (which is due to the fuel price rises) and food. We know that low-income households spend more of their incomes on these items than better-off households. The fuel price rises are set to rise much higher than those shown here from April.

As the cost of living rises, we see increasing numbers of our London social housing tenants in desperate financial circumstances. Figure 3 shows that the proportion of those worse off than 1 year ago has risen to 51% in January 2022, up from 46% in March 2021 which was in the midst of the long national lockdown.

⁴ https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/december-2021?mc_cid=6dd5e03283&mc_eid=3af0e6332f

⁵ https://obr.uk/efo/economic-and-fiscal-outlook-october-2021/?mc_cid=6dd5e03283&mc_eid=3af0e6332f

The financial impact of the pandemic cuts across the whole UK economy, which we can see has affected our residents, most of whom are on low incomes. This is despite the fact that average rents paid by Peabody residents in London are less than 40% of those paid by tenants in the private sector, who are likely to be struggling even more with the costs of living.

Challenges even for those in work

Our survey shows a growing gap is emerging with some people able to take advantage of new opportunities while others are unable to do so. The number in our survey who reported feeling better off financially compared with last year rose to 12% (up from 10%). We also see encouraging news in the numbers who have received pay rises in the past year (12%, up from the 9.5% saying this in September 2021). Across the UK, estimates for December 2021 indicate that median monthly pay was £2,031, an increase of 5.3% compared with the same period of the previous year, roughly keeping pace with inflation.

Alongside, this, we also see that a rise in numbers feeling worse off (51% up from 46%) and in a desperate financial situation (37% up from 46%) and in a desperate financial situation (37% up from 28%) (Fig. 3). This divergence is reflected in the hollowing out of the middle, with only 28% saying their finances are about the same as last year, down from 39%.

“My Universal Credit reduces from time to time due to the way my employer pays me and it halves for a few months at a time. I don’t know how much money is coming in each month.”

Peabody Resident

Figure 3. A rise in financial hardship. Peabody resident survey, March 2021 – January 2022



London has the highest in-work poverty rate of any region in the UK⁶, in part due to the high cost of living, even before the current crisis. The biggest problem for our residents is with low wages. Almost half (42%) of our working residents report earning below the London Living Wage (LLW), which is currently set at £11.05 per hour. This is more than double the 20% of all workers in London⁷.

Our survey found that those in low-waged jobs were currently more than twice as likely to claim Universal Credit compared with those earning over LLW (32% and 14%). Low-wage jobs are also less secure, with those earning below LLW 1.5 times as likely to fear losing their job in the next few months. The forthcoming rise in National Insurance rates will do little to relieve this issue, with those on low incomes due to get squeezed the hardest, as highlighted by the Resolution Foundation⁸.

We also see continuing challenges among our working residents who earn below LLW. Despite a decrease in the unemployment rate, we find no drop in benefit claims among our respondents, with 21% of working residents claiming Universal Credit. Among residents with desperate finances, low-wage workers were twice as likely to report having been unable to pay for essentials such as food in the last year (12% of those with higher wages and 25% of those with lower wages). They were also twice as likely to have gone without food at some point in the past year – 9% of those on the higher wages had gone without food and 19% of those on the lower wages had done so.

“I’ve not had a pay rise for four years, and it doesn’t look like I am going to get one this year either. My job is looking very unstable.”

Peabody Resident



“Your starting salary isn’t even a decent wage you can live off - after home expenses and utility bills.”

Peabody Resident

⁶ <https://www.standard.co.uk/news/uk/government-treasury-committee-mps-resolution-foundation-national-insurance-b979844.html>

⁷ <https://www.trustforlondon.org.uk/issues/work/london-living-wage/>

⁸ <https://www.standard.co.uk/news/uk/government-treasury-committee-mps-resolution-foundation-national-insurance-b979844.html>

Case study

Stephen Rudd is an Assistant Manager in retail and is single and lives alone. He has lived in London since he was 13 years old and currently lives in Forest Gate.

"I was unemployed during the pandemic and found it really hard. I was living off my disability living allowance which then got cut, making it hard for me to live on £75 per week. Despite my health conditions, I had to find the strength to work and found my current role through a friend. I have had to have a few days off since I started my role, I find it hard to walk and I have trouble with my hands.

"I work 40 hours a week but it doesn't pay to work. By the time I pay my bills, there is very little left for me but I do feel better when I am working. I feel like I have a purpose and am contributing to society.

"I am getting a smart meter fitted to see what I am spending so I can reduce my use of electricity and gas, so I don't have huge bills at the end of the month. I am worried about how I am going to pay my bills as the cost of living goes up every day. I still have to pay for my travel to and from work. I have already cut back on my personal costs and have to think twice about going out for a drink with my mates. I have to buy cheaper food even though I am a diabetic and should be careful about what I eat.

"The rise in energy bills will take all my extra money and I have had to renegotiate my work contract to increase my hours to 45.5 hours a week. I feel like I get money in one hand and it gets taken away by another, just to pay for my bills and utilities.

"My savings are zero at the moment. Once I get paid and I pay my bills, I have about £500-£600 left per month and I still need to pay for my food and travel. I have cut my weekly shop and I eat the same food every week because it is cheap and nutritious."



Struggling to make ends meet after the cut to Universal Credit

In the October 2021 issue of the Index, we warned of the triple challenge⁹ faced by low-income Londoners for the winter ahead. The danger from employment instability, reduced income from benefits and rising fuel costs has materialised. We found that 65% of those reporting desperate finances went without heating at some point in the past year to save money, up from 52% in our last report.

About one in three of our respondents currently claim Universal Credit. At the outset of the pandemic, the £20 per week uplift to Universal Credit payments kept many from falling into hardship. The government timed the end of the uplift with the re-opening of the British economy, and it also reduced the taper rate – meaning those who were able to find work may be doing OK. However, not everyone has managed to find work, and some are unable to work due to disability or full-time caring responsibilities. While benefits are due to rise by 3.1%, this will not keep up with this past winter's inflation. We urge strengthening the Universal Credit offer as upcoming rises are not keeping pace with the cost of living.

We asked our residents what they had to cut back on when the £20 per week Universal Credit uplift was cut.

“Everything got cut back. I eat once a day and barely have energy. I can't afford any educational supplies for (my daughter). Her school uniform doesn't even fit.”

“Sometimes I will sit in the dark so as to save electric I try not to put on the heating unless it is very cold and I cannot take it anymore.”

“(I've cut) mainly energy use and gas use in order to heat up the flat, but also basic treats for my child.”

⁹ <https://www.peabody.org.uk/about-us/what-we-do/research/peabody-indexes/index-10>

Conclusion

While there are some signs of improvement in economic activity and employment, low-income Londoners continue to face major challenges finding stable work that pays, and in accessing social security payments to support them in and out of insecure employment.

This issue of the Index has explored how low-income Londoners have been particularly hard hit by the cost-of-living crisis, worsened by the recent cut to benefits. The rising price of fuel is a particular worry for many. Our new analysis paints a complex picture of the real difficulties they face balancing work, benefits and rising costs of essentials.

This report highlights the ongoing and rising pressures faced by low-income Londoners. We have consistently called for a more robust benefits system that keeps people out of severe hardship. While the post-lockdown economy has provided jobs for many, there remains a large group who are looking for work or are stuck in low-paid jobs who need to resort to food bank use or who are going without fuel in the winter. Now, with a cost-of-living crisis in full swing, it is the right time to address these challenges.

“The government needs to know that London isn’t just full of people on great money. What about all the other people doing all the menial jobs like road sweepers and cleaners who help people and keep people in lives they are accustomed to? These people need to live. It feels like those in power are far removed from normal people.”

Sarah Long, Peabody resident, employed, mother of two

Peabody's work to support tenants

Peabody plays its part for tenants and employees. Our new energy advice programme offers residents free telephone energy advice consultations. We have supported 230 residents over the past winter by offering advice for staying warm and well in the home, how to switch energy supplier, reading meters, keeping water bills low, advice on smart meters, and condensation, damp and mould. We have also partnered with Income Max CIC to offer additional free in-depth financial advice over the telephone to eligible residents who are on a low income or vulnerable.

The Peabody Employment Team has supported over 250 people so far in the 2021/22 financial year. They are also working with the Kickstart Scheme to help young adults up to age 24 into work. Due to the pandemic we had to shift all of our historic face to face delivery online. We have provided a number of links and resources to our residents and communities so that they can upskill remotely. We've also supported them when they undertake the training independently. We have facilitated several information sessions over the year to support our residents with information on growing and emerging sectors including providing guest speakers from the sectors and having strategic partners presenting.



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We are deeply saddened that Duncan Melville, Learning and Work Institute's Chief Economist, passed away prior to publication of this report. Duncan was driven by his commitment to social justice and we are thankful for his contribution to this report.

For information about our survey and analysis methods, please contact us at research@peabody.org.uk.

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