

**HOLLOW PROMISE:
HOW LONDON FAILS
PEOPLE ON MODEST
INCOMES AND WHAT
SHOULD BE DONE
ABOUT IT**

*Charles Leadbeater
Brell Wilson
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Charles Leadbeater, Brell Wilson, Margarethe Theseira

Published by *Centre for London*, September 2014

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**Published by:
Centre for London 2014**

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The Exchange
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www.centreforlondon.org
Company Number: 8414909
Charity Number: 1151435

Typeset by Soapbox, www.soapbox.co.uk

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ACKNOWLEDGEMENTS

We would like to thank those who have funded this research, both for their financial support and their guidance and expertise – Argent LLP, Grosvenor, the London Boroughs of Haringey and Ealing, as well as our lead sponsor Circle Housing.

We would also like to thank those we spoke to in the public and third sector for their input on the difficulties facing London's modest earners. Special thanks are due to the individuals and families who form the basis of this report, who graciously welcomed us into their homes and shared with us their lives, concerns and aspirations. Credit is due to the Centre for London staff who have helped steer this project through – Ed Hickey, Abigail Malortie and Ben Rogers. Thanks are also due to all the individuals and organisations who have given up their time to offer their expertise on this research. Thanks are due to our expert advisory panel: Yolande Barnes from Savills, Alan Benson (GLA), Rosie Cade (Argent), John Bibby (Shelter), Erica Ballmann (Haringey), Amanda Leonard (Circle), Richard Meier, Jon Neale (Jones Lang LaSalle), Graham Parry (Grosvenor), Simon Roberts (Stripe Partners), Nick Walkley (Haringey), Christine Whitehead (LSE) and Matthew Whittaker (Resolution Foundation).

The views in this report are nevertheless solely the authors'. All errors and omissions remain our own.

TECHNICAL REPORT

As part of this project Margarethe Theseira produced a detailed quantitative review. We have published this online at www.centreforlondon.org/hollowpromisequant

FOREWORD

This new story-led study by Charles Leadbeater gives a voice to the daily lives of some of London's households on limited incomes, who have felt the sharp end of the cost of living crisis in the capital over the last decade.

They have become stuck in an 'aspiration trap', as they struggle to cope on limited incomes and feel the financial pressures of austerity. This is limiting their life choices. In a bid to be proudly self-reliant and financially independent it's the daily essentials that take precedence over their longer-term aspirations, meaning having that second child, becoming a home-owner or getting their dream job remains a pipedream for many.

With property prices in London soaring at an ever-increasing rate and essential costs rising faster here than anywhere else in the country, this group of Londoners are in danger of being forgotten and pushed to the edges – both physically and socially. It's vital that this group does not remain silent. We need to create innovative housing solutions that offer London's diverse residents affordable rents and a helping hand to get onto the property ladder. It also calls for further investment in more affordable areas of the capital, to ensure that ordinary Londoners don't become priced out of their own city.

We live in a unique place, which has been built on a heritage of a hugely diverse range of people and cultures. We need to ensure that this diversity remains and people of all social and economic backgrounds can continue to call London their home.

Mark Rogers
Chief Executive, Circle Housing

PROJECT SUPPORTERS

“Argent makes places for people. Since 1981, we have delivered major residential, commercial, education, cultural and community developments in the UK’s largest cities. City-scale, mixed use development is our particular strength. We are involved in the full development process – from identifying and assembling sites, developing designs and obtaining planning permission through to financing, project management of the construction process, letting, asset management and (sometimes) selling. We also manage and maintain buildings and estates. Our current largest project is the redevelopment of King’s Cross, where we are delivering 2,000 new homes; 40% of the residential is classed as affordable in tenure. We believe a better understanding of the report’s demographics will help us and others in the sector to better meet London’s housing needs.”

Robert Evans, *Partner, Argent LLP*

“Ealing is one of the largest London boroughs with a population larger than most provincial cities. Unlike many London boroughs it has a strong economic base and is home to one of Europe’s largest industrial estates at Park Royal. Ealing is one of the most ethnically mixed places in the UK and is home to long-established Polish and Punjabi communities as well as London’s largest Japanese community and many others. As a Council Ealing has been a front-runner in terms of both building new Council homes but also developing innovative approaches to providing housing for those who can’t afford to buy in the current London housing market, including setting up its own company to build homes for rent at a range of price points.”

Pat Hayes, *Executive Director, Regeneration and Housing, London Borough of Ealing*

“London can only maintain its claim to be a great world city if the people who live and work here can afford to take advantage of all it has to offer. It is crucial that as a place, London works for everyone, irrespective of their income and circumstances. This report demonstrates that is not the case for around 20% of the capital’s population. As public policy makers, we need to address this growing imbalance and give people access to the opportunities they currently feel are beyond their reach.”

Councillor Claire Kober, *Leader, London Borough of Haringey*

“All businesses interested in the long-term resilience of London need to be aware of the challenges facing those who want to live and work here. For Grosvenor, understanding cities and how they work is a core part of our business, underpinning our “Living cities” approach: we know that our success depends on the success of the places and communities in which we operate. We are delighted to support this important contribution to the debate about London’s future and the search for lasting solutions that will make London a great place to live for everyone.”

Peter Vernon, *CEO, Grosvenor Britain & Ireland*

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EXECUTIVE SUMMARY

Introduction

People in London earning modest incomes are caught in a vicious trap from which they cannot break free. Their earnings are kept flat by a fiercely competitive labour market, while living costs – particularly housing, transport and childcare – have risen sharply. As a result they find themselves working hard to stand still and often feel they are going backwards. Many are slowly falling into debt. Few have confidence about the future. Those who want to have children often cannot see how they will afford to do so. For most home ownership is at best a distant and receding dream. The narrative of progress that used to underpin the life of these aspirational, hard working people has broken down. They believe in self-reliance and hard work but have precious little to show for it at the end of each month.

The 1980s in London was defined for many by the rise of the Yuppies: young, aspirational, affluent and flash. London now has a tellingly different emerging group within its middle class: the Endies. They are Employed, but have No Disposable Income or Savings. In contrast to the Yuppies who were proudly ostentatious, the Endies live quiet and modest lives largely hidden from view for a simple reason: most of the time they cannot afford to go out. Life is an endless treadmill of work, commuting and recovering at home, often with the Internet for company and little other respite.

We define the Endies – London’s modest, lower-middle-income earners – as individuals and single parents earning between £20,000 and £33,000 and couples with dependent children earning as a household between £25,000 and £43,000. Around 20% of Londoners fall into this category. Many families in London earning more than this have felt squeezed since 2008. But the Endies are not just squeezed, they are trapped: they cannot see how to build up assets in London while earning incomes which each month barely cover getting to work and the essentials of life.

Hollow Promise draws on new quantitative and qualitative research to offer a picture of what life is like for these Londoners, the pressures they face and how they cope – and sometimes fail to cope – with them. And it makes use of extensive reading, interviews, study visits and a half-day workshop, held at Centre for London, to propose ideas for how London can work better for this group.

Why London is failing its modest earners

Londoners on modest incomes work hard for London in jobs that are essential to its economy. Yet the city is not serving them well. All over the UK people on below median incomes have seen their earnings fall over the last decade but the drop has been far more pronounced in London. One measure of the competitive nature of the lower middle of the London labour market is that a quarter of Londoners in low skill jobs have a degree-level qualification.

Meanwhile the cost of living in London has gone up much faster than elsewhere in the country.

- Rents are around 50% higher in London than the rest of the UK. For households with income between £20,800 and £28,500 per year, the costs of rent have increased 14% in real terms over the last decade. Rental costs now account for about 41% of their incomes.
- Those not lucky enough to already own a home have next to no chance of buying one. Average house prices have increased by 16% outside London in the last decade but by 68% in the capital.
- There are now only three boroughs – Tower Hamlets, Newham and Barking and Dagenham – where home ownership is potentially affordable for two people on that borough's median income to buy together.

- Between 2008 and 2014 trips using pay-as-you-go Oyster cards went up in price by 61% for bus journeys and 47% for the underground. A Zone 4 resident on an annual salary of £22,000 spends the first 55 minutes of their working day just paying for their commute to and from work.
- The average London fuel bill increased by more than 50 per cent above inflation between 2001 and 2011.
- Over the last 5 years, 25 hours of nursery care for over 2s has gone up by 41% in London compared to 31% nationally. For children over 2 placed with childminders the cost has increased by 35% in London compared to 22% nationally. A London couple with one child needs a second earner with wages of at least £17,000 to make full-time childcare cost neutral.

These people do vital core jobs in the city, as, for example, office administrators, electricians, retail managers, housing managers and teaching assistants. Yet life in London is punishingly difficult for them. They are trapped between markets which deliver the worst of outcomes for them. The competitive labour market means their incomes are flat or falling; meanwhile their costs are high and rising, compared to the rest of the country.

How London's modest earners cope

The lower-middle earning Londoners we spoke to differ widely in their circumstances, attitudes and ways of coping with the pressures of living in the city. Yet some common themes emerge.

Though London prides itself on being a fast moving and entertaining city, this group tend to live constricted and relatively isolated lives. They are not feckless consumers, although many admit they could be better at managing their very tight budgets. They have cut back on virtually all forms of non-essential consumption

and constantly seek out deals and discounts. They cannot afford to go out much, so when they are not at work they spend most of their time at home or in their local neighbourhood. As a result a decent home and a safe neighbourhood, with a lively public realm and a good range of free or low-cost amenities, makes a big difference to their lives. Those that manage to cope well with modest incomes tend to be self-disciplined with money and able to resist the lure of consumerism; happy with their lives, especially their relationships, and relatively non-materialistic. They feel strongly that they are responsible for their own fate. They are resilient, adaptive and adept at making a little go a long way.

Overwhelmingly the most important factor in helping people cope, however, is family. Children now continue to live with their parents well into adulthood – three-generation households are becoming more common. Relatives, especially grandparents, play a big role in childcare. Endies are avid users of the Internet and rely heavily on it to help them save money, socialize and for entertainment. In some respects the Endies live much like their counterparts did in the 1960s or 1970s – they don't eat out much nor go on holidays, and opportunities for consumerism are limited – but with the addition of the Internet.

A quiet sense of crisis is the Endies' persistent companion yet they are largely hidden from view, uncomplaining and overlooked by both public services and the market. Most earn more than the London Living Wage: too much to get a housing association home or significant help from the benefit system. They are proud of not taking "handouts from the state". Yet cutbacks to local public services mean that local authorities are closing amenities and charging more for swimming and gyms which puts these services beyond their reach. At the same time Endies have too little spending power to be of much interest to the private sector. They welcome the arrival of the value chains, Lidl and Aldi, which understand and address their needs. Yet otherwise the market is doing little to make life easier for them.

It's hard to avoid the conclusion that London is systematically failing these modest earners on whom it depends. The old equation linking hard work to rising prosperity and a sense of social mobility has broken down. They just about cope, at the moment, but they worry that they and their children don't have much of a future to look forward to. Younger people in this group have little prospect of ever owning a home of their own in the capital. Many of them are over-qualified for the job they are doing and despite their best efforts can't see how to get on at work. Those who want to have children can't see how they will ever afford to do so. The Endies are stuck. They cannot face leaving London because it is exciting, vibrant and where the work is. But living in London is a struggle they often feel they are losing.

A better future

There are alternatives, however, which could make London a decent place to live for people living on tight budgets.

Across North and Western Europe, city governments are successfully creating a generation of developments that work for people on modest incomes. The German city of Freiburg, a leading example, has created new neighbourhoods, with innovative, well designed, heavily insulated, low cost housing; widely used and much-loved public spaces; highly efficient and cheap energy systems; and low cost transport, centred on walking, cycling and trams. London is a very different place from Freiburg and will need its own solutions. Yet Freiburg shows what can be achieved when a city government, working with the community, architects, engineers, designers and developers, take seriously the challenge of creating better places to live for people on modest incomes. London needs to give that task the kind of attention and commitment that it has had in Freiburg.

We identify three steps that need to be taken to release London's lower middle-income earners from the trap and make the city work for them.

Step One: Raise Incomes

Increasing this group's earning power is key to giving them a better future.

While government policy is rightly focused on building the skills of young people and those not in work, more needs to be done to help those already earning modest incomes to improve their skills and increase their earning power. They need access to training loans, akin to student loans, which they start to pay off only when they benefit from higher incomes, and time off in lieu to help them take on training.

But this will only do so much – many of London's modest earners are already over-qualified for the jobs they do. A second route to boosting incomes lies in enabling and encouraging micro-entrepreneurship. Through collaborative online platforms, of which Airbnb is the best-known example, people can turn “lazy assets” (such as spare rooms, spare storage space, or spare time) into a source of additional income by renting them out.

Finally the tax system needs to be revised to recognise the growth in multi-generation households. A simple way to help multigenerational families would be to allow them to share tax allowances within a single family unit: someone paying slightly higher tax could transfer some of their tax allowances to another family member living in the same household.

Step Two: Reduce Costs

London needs a raft of innovations to lower the cost of living. Those innovations should not be second-best solutions. They should be well designed, elegant and aspirational: better, cheaper, mass systems for energy, waste, transport, housing and utilities. London needs more private sector innovators to follow the lead of Lidl and Aldi in creating solutions that work for this group.

Most importantly, we need a new approach to housing – one which recognises that owning a home outright is a receding dream for most lower-middle-income Londoners. London government has to get

more involved in the development process. It should be possible to meet most of London's affordable housing needs with imaginative developments on brownfield sites using low cost building techniques. That will only happen if the public sector shares the risk involved by making the land available at below market rates. In time the public sector stands to make a good return on this investment. London's rental housing offer needs improving, both by driving up standards in the existing rental market, and continuing to encourage new professional investors into it.

London needs more affordable transport. Part of the solution will involve making it easier and more pleasant to walk and cycle in the city. Yet Endies often travel long distances to work because they can only afford to live in the outer suburbs while their jobs are closer to the centre of town. Transport for London should explore how to give its long-term, low-income commuters affordable loans to buy annual season tickets. This would give TfL predictable income at scale; the banks providing the loans would get new, secure business with low defaults, and commuters would get more affordable season tickets. More efficient, shared use of cars will also be essential, especially for the "school run." London could do with its own version of the *mutatu*, the shared taxi-buses common in many developing world cities.

London needs to reduce the costs of childcare. Tax and benefit rules don't do enough to make work pay for lower income single parents or second earners. This will not improve with the government's welfare reforms and the introduction of Universal Credit. Higher-earning households in Universal Credit will have 85% of childcare costs paid, while lower-earning ones will be able to recoup only 70%. At least 85% of childcare costs should be covered for lower-earning families. But the most fruitful approach to reducing childcare costs will be to find ways of building on and supporting less formal approaches to childcare on which modest earning families tend to rely, and facilitating

a childcare emergency service so that parents know that if they can't collect their child because they are stuck on a train, someone can be called upon to look after them.

Step Three: Bringing It All Together

If London is to start working for the Endies, innovations like those described above need to be brought together. We propose the creation of Social Improvement Districts to create better places to live for people on modest incomes. A SID might encompass, say, 7,000 households. Some SIDs might be mainly new developments, others might be mainly existing households. A SID needs to be large enough to reap economies of scale from new shared solutions and infrastructure.

SIDs would require public leadership – for example, by making land available at below market rates for affordable, private rented development and to bring in the infrastructure and services needed for transport, energy, waste and utilities. But much of the innovation would come from social enterprise, the private sector and the community itself. Normal planning regulations should be suspended so developers could experiment with lower-cost, smaller, more modular flats as well as new shared solutions.

The Endies do not want handouts. They want to take responsibility for their lives. Their aspirations are not extravagant: they want to know how their hard work will get them a decent place to live in a decent neighbourhood and a decent future for their children. They will not protest or riot. They don't even complain very much. That is not their style. They quietly get on with coping. However, they are growing increasingly detached from and disenchanted with a London seemingly designed to make life hard for them.

It is as if these people are climbing a ladder only to find the rungs above them have been removed. They are working hard just to cling on but they have little prospect of getting any higher. Those rungs need to be put back in before London can count itself a successful city.

1

THE TRAPPED MIDDLE

Deirdre and Sid sit on their sofa, the same old sofa they have had for years, happy with their lot. Sid, a forklift truck driver and general odd job man at a family-owned builder's merchants in north London, has managed to keep the same job through three recessions. But his base pay – about £25,000 – has barely risen in recent years. That, combined with Deirdre's wages as a pharmacy technician, earning about £8,000 a year making up prescriptions for local care homes, is only just enough to cover their monthly bills. There is nothing to spare.

Even swimming at the local leisure centre – £6 a pop – is a luxury. Their only holidays involve short, and sometimes contentious, visits to other members of their family who live out of London. They last went out for a meal together, at the local Harvester, months ago, to celebrate their wedding anniversary. When they are not working they spend almost all of their time at home with the apple of their eye, Jade, their ten-year-old daughter. Deirdre admits that she finds it harder than Sid to contain her sense of frustration that despite working hard for more than 20 years they are no better off. Occasionally, that frustration gets the better of her and she uses her credit card to buy a treat. They end up relying on Sid's sporadic bonuses to pay off the debts that attach themselves to their lives like barnacles.

Deirdre and Sid are lucky to have bought their three-bedroom semi-detached house on a respectable 1960's estate several years ago. Even then they needed Deirdre's mother's help to persuade a sceptical bank to give them a mortgage. Now, such a house would be well beyond their reach. They bought it with the hope of having at least two children but after thinking long and hard they decided Jade would not have a sibling.

There are now only three London boroughs where median house prices are now affordable on the borough's median wages.

See online Technical Report, pg.29.

Deirdre explained: “When I was pregnant with Jade I worked full time, which meant we could save up the money we needed when I was off on maternity leave. Now to make sure I can look after Jade I work part time, but that means we could never save up enough money to cover us while I was off work with a new baby. We could not manage just on Sid’s wages.”

So Jade is an only child: such are the fateful choices for London’s hard-pressed modest earners. Making ends meet for them is not just a question of doing without a new pair of trousers or a holiday. Their choices are about what kind of family you can have.

Deirdre and Sid are part of London’s hard-working core of retail assistants and office administrators, electricians and teaching assistants – people doing vital but unglamorous jobs. London would collapse without their contribution. But living in London is punishingly hard for them.

According to the Resolution Foundation (2013), 19% of London households are low to middle income. This accounts for over 650,000 households, who could comprise a city more than 1.5 times the size of Birmingham.

Using household data from the 2011 census.

They are easily overlooked because they make a point of not complaining: they are proud of being hard-working and independent. They are hidden from view because they spend most of their time shuttling between home, the school run and work. They have not got time to spare and even if they did, they have precious little disposable income. As a result they are not of much interest for retailers and marketeers. Aldi and Lidl, the value supermarkets, address their needs, but many other retailers only seem interested in people with more to spend. MoneySavingExpert.com is their bible.

While they are faced with increasing cost challenges associated with living in London, the majority of those we spoke to felt isolated from public provision

as subsidies, benefits and services are increasingly focused on those most in need. Only our single parents received any form of in-work benefits and, like others interviewed, took great pride in working; there was a clear preference for work and self-reliance over reliance on the state. In spite of the huge financial pressures that they face, many of those we spoke to took great pride in not claiming benefits, even if they might be eligible for them.

So they find themselves trapped in a no-man's-land, of little interest to either the public or much of the private sector, where they live with little room for manoeuvre. An emergency – a boiler breaking down, a car that does not pass its MOT – could easily tip them over the edge financially. Anxiety about money is a constant companion.

Yet their struggle to keep their heads above very choppy waters is overshadowed by a deeper sense of foreboding: even if they get by day-to-day, they are struggling to make sense of lives built on the assumption that hard work should be rewarded by a better life. They work long hours to stand still or, worse, go backwards. It is not just their family budgets that do not add up: the narrative that their lives are built around – hard work, home ownership, family, community, social mobility – is not making sense either.

That is what really worries Fiona who lives not far from Deirdre and Sid.

Fiona has just celebrated her 60th birthday and looks young for her age. She is still working hard, earning about £35,000 a year as an assistant in the human resources department of a nearby local authority. Fiona's husband, a few years older than her, has multiple sclerosis and is in a local nursing home which she can walk to each day.

Fiona's home is bursting at the seams, even with the loft extension she added a few years ago. Fiona's eldest daughter, who works in retail, has never managed to leave home and is now the mother of a ten-year-old daughter and a ten-month-old baby.

Her partner, the baby's father, comes and goes. Fiona's son, a telecommunications engineer, is staying with them while he works on a project nearby. The entire household depends on Fiona, not just for her income but also for the time she puts into childcare at the weekend and most evenings. She thrives on having her family all around her, despite the chaos, because it keeps her feeling young. She has made younger friends, parents of children in her granddaughter's class. She doesn't feel abnormal. All her friends who are grandparents are doing childcare at least two or three days a week. Households like Fiona's, in which three generations live together, dependent on the income of a middle-aged, property-owner head of household, are increasingly common in London. A family squeezing in together is perhaps the oldest and most effective way for people on modest incomes to share costs and make life manageable.

Fiona does not mind the jumble that her house has become. What distresses her is that her grown-up children are so stuck: "They are all working hard but they are not making any progress, on the contrary they are slipping backwards... They will not be able to live around here, where all our family come from. I mean they are building flats up the road which will sell for £400,000. Those aren't for people who live around here. We've lived here for generations. My granddaughter goes to the same primary school I went to. But to live somewhere they could afford my kids would have to live miles away which would break up the family."

Fiona's older daughter made one ill-fated attempt to escape home, renting a nearby terraced cottage with her partner and children. But the cost, £1,200 a month, soon drove them back to Fiona. Her youngest daughter, a newly qualified social worker, has just managed to buy a one-bedroom flat, but it is 20 minutes' drive away, which will not be much good when she too has a family.

Deirdre and Sid cannot afford to have a larger family; Fiona fears her family, which has lived in the same neighbourhood for generations, is being broken up.

London's largely silent, hidden, uncomplaining, lower-middle-income earners are rich with stories like this. It is not just people's incomes that are being squeezed but their futures too. And they do not feel just squeezed but trapped. The core equation of social improvement and mobility – get some qualifications, work hard, get a decent place to live to bring up a family – is breaking down for London's modest earning middle classes. Despite its potential, London is not delivering for these people; it has become an inhospitable and at times even a hostile environment.

Take Jayne, living in bare rented accommodation in north-east London, with a central light illuminating the sparse, old furniture provided by the landlord. Nothing decorates the walls because the landlord will not allow Jayne and her two flatmates to put up any pictures. She commutes almost three hours a day to get to her job as a manager in an English language school on the other side of the city. Like many in London she feels overqualified for the job she is doing and so underpaid by comparison with some of her peers from university. By the time she gets home in the evening she is too tired to go out which is probably a good thing because she has no money. She constantly runs short of money at the end of the month, which means her credit card bill is slowly creeping up. Her weekends are often organised around activities she finds through a Facebook group called Broke in London. Her life is largely confined to an unremitting schedule of working, commuting and recovering in a flat, which she will never be able to call home.

Jayne came to London looking to put down roots after five years working in English language schools in Shanghai. But after little under a year struggling to make ends meet she has come to feel that the city may not yield this for her: "It was quite a different feeling – I could do whatever I wanted and have money left at the end of the month. I was freer in Shanghai than I am in London." It is a repeated theme: these people exercise very few choices. Once they have covered the basics – rent, transport, utilities, food – there is little left over.

They are working hard just to pay the bills and no more. They live in a world virtually devoid of choice, the elixir of the market economy.

Over in West London, Gayle, a management trainee, in her late 20s, is proud to have finally flown the coop and to be on her own two feet. She worked in bars to pay her way doing a masters degree and then finally got a job paying £23,000 a year, but only after months of unpaid internships. She rents a small house with three old school friends. It sounds like the stuff of a sit-com: a group of young women living together in a fantastic city with lots to offer, their lives ahead of them. Being able to leave home was both a relief and an achievement for Gayle and yet she feels as if she is slowly sinking. She struggles to buy clothes and hasn't had her hair cut since she left home, things she took for granted when she lived at home. She wants to stay in London for work, but it offers little other comfort; Gayle's one luxury is a night out with friends, which is all that she feels makes the interminable slog of life in London bearable. Managing her meagre disposable income takes constant vigilance and even so every month she falls slightly further into debt. "It feels like I am sitting on a ticking timebomb," she says. "I get more overdrawn each month and eventually I am going to have to pay that off and I have no idea how." She worries too about her longer-term future, trying to work out how she could afford to live in London, which is where the work she wants to do is, and yet still have a family. Her hopes, she confides, rest on moving in with her boyfriend, who comes from a fairly affluent family; but she hasn't yet told him that is what she has planned for them. It's a high-stakes strategy.

Antony has made the investment of time and effort needed to improve his position and to get a better job, which pays more, so he can look after his young family. After starting out doing housing repairs for a large social housing provider, Antony has risen to become a team manager, a responsibility and opportunity he feels keenly. He is in his early 30s and he wants to believe the future is in his own hands. He and his partner

moved out of Tottenham with their young daughter in the aftermath of the 2011 riots. He was worried by the violence, and the family was already unhappy in a rented flat whose landlord would do nothing about the damp. They were able to move only because Antony's sister rented them her house in north-east London at below-market rates.

Antony, son of a first generation Jamaican immigrant primary school teacher, is honest and upright, proud of the strides he has made, committed to his job and believes his future is his own responsibility and yet he feels: "Life is completely relentless. There is no time really to switch off. By the time the weekend comes you are so tired that only come Sunday are you really relaxed and by then it is time to get back on the treadmill. Sometimes the pressure is so great you feel your head is going to explode." There is no respite. He has to make a special effort to retain a sense of calm amidst the pressure: "There's a balance with your mind – trying to keep your mind in a place where the pressure doesn't literally tear down the walls."

Linda admits that kind of effort to maintain a sense of balance is often too much for her. Linda is in the most difficult position of all: a single mother and graduate, in her mid-30s who is earning about £25,000 a year as an office administrator, with neither close friends nor family nearby. Linda is emerging slowly and painfully from a long process of paying off the credit card debts she accumulated – about £8,000 – when she was in her more reckless twenties. But just as she finally pays off those debts her salary is likely to be cut back: she has been acting up, temporarily, to a higher-paid role and when that stops her pay will go back down to about £24,000. She feels under constant pressure to perform at work, even to the extent of paying for additional training out of her own pocket. She has also tried working longer hours: one year she volunteered to work over Christmas, leaving her daughter with her mother on Christmas morning. She is lucky to be a social tenant in a pleasant flat in a well-run social housing block, built in the 1950s, at a relatively low

rent in north-east London. Even with child benefits, once the bills have been paid – including her daughter’s drama classes which Linda is vigilant in sustaining – there is little money left over and she is often left borrowing money from family and friends to go food shopping, thus beginning the next month in arrears. A few months ago she ran out of money so could not afford travel to work. She is working hard just to live on the breadline. “Every three months I have a bit of a breakdown,” she says. “I just collapse because I cannot take it anymore and then I pick myself up because there really is no alternative.” Linda’s life is almost entirely denuded of precisely what the modern, urban, market economy is meant to provide: choice and hope for the future.

These people are not feckless. They do not like debt. They are not extravagant. They do not have unrealistic aspirations to live like celebrities. On the contrary they just want somewhere decent to live, enough money left to over to feel they have some choices and a sense that the future is in their own hands. They work hard in unglamorous jobs, make huge sacrifices for their children and they are fiercely proud of what they provide for themselves and their families. They are resilient, adaptive and adept at making a little go a long way. They like living in London because it is exciting, diverse and full of opportunity and, after all, the city is where the work is. Yet they also find London punishing, relentless and unforgiving. It seems rigged against them. They work hard in modestly paid jobs, for which many of them feel overqualified. They get by so long as they quietly endure their frustrations, spend most of their free time at home and manage their modest incomes with constant vigilance. Their hopes for the future rest on luck, chance windfalls, boy or girlfriends with rich parents and parents with some cash to spare.

According to the Resolution Foundation, 19% of London’s households fit into this demographic of low and middle income earners.¹ Many people with earnings

1. Resolution Foundation, *Squeezed Britain*, 2013, pg.7

and additional income well above £35,000 will no doubt have felt squeezed in the last few years, especially if they have to pay both a mortgage and childcare costs. Yet these people, earning below median incomes are not just squeezed; they feel trapped. No city can call itself a success when so many of its core, hard-working, low and middle earners – the kind of people upon whose work a city builds itself – find the same city cannot provide them with a decent living and decent places they can call home, where they can build a future. London generates huge wealth and can be the source of huge excitement and opportunity. Yet there is a gap between this excellence, available to some, and what is currently on offer to all; these people, despite their hard work, benefit from little of the joy.

This report focuses on households who are in work but for whom London is posing an increasingly impossible challenge. Our focus in this report is not on the difficult position of those in the very bottom income brackets and those with more than a fifth of their income in benefits or tax credits. Nor are we focused on pensioners living on modest fixed incomes, although they too face huge challenges. Instead we have addressed households in work who earn anything between £20,000 and £43,000.² We have looked at single people and single parents earning between a low of £20,000 and £33,000 and couples with dependent children earning as a household between £25,000 and £43,000.

Perhaps the best way to understand how they feel is to think of them standing at the bottom of long ladders. They have had to scrap hard just to get up the first few slippery rungs. Clinging onto their position takes a huge effort. Yet, looking up, they find the middle rungs immediately above them have all been removed.

2. We have taken our earnings range based on household composition and number of dependents on those in work, and as such some of our households had incomes slightly over median earnings. A couple, each earning £35k, for example, can live far more comfortably than a family of five whose earners who together earn £43k.

There is a giant gap between them and the higher rungs occupied by households on incomes of more than £60,000. As they try to climb they find they are treading on air.

This report is about the many hundreds of thousands of people in London who now find themselves trapped in that position. It is also about how we put back the missing rungs of the ladder, and so make sense of lives built on the understanding that hard work should yield dividends.

2

MEASURING THE TRAP

The precarious and difficult position in which London's modest earners find themselves is the product of powerful forces squeezing their earnings on the one hand and stretching their costs of living on the other.

The highly competitive labour market for the jobs they work in limits their pay, while the fixed costs they have to pay just to get by – housing, transport, food, utilities, childcare – are all high and rising. They have the worst of both worlds: a fluid, flexible, highly competitive labour force market, constantly replenished with keen new graduates and immigrants, keeps their pay low; a distorted, dysfunctional, constipated housing market, in which there is little innovation and limited new supply, keeps their housing costs high. People in London earning less than the UK median wages find themselves still paying costs much higher than the UK median.

Earnings

London is a good place for skilled workers. The vast majority of Londoners' income comes from wages, rather than investments or pensions,³ and the London labour market has a large supply of highly paid jobs compared to the rest of the UK. This is reflected in the higher percentage of households with income over £1000 per week in the capital – approximately 28% compared to 20% across the UK as a whole. A similar pattern holds for earnings over £800 per week – 35% of London households fall into this bracket, compared to 30% across the UK as a whole.⁴ It is no wonder that London attracts so many people looking for higher paid, higher skilled work.

However, it is a much less hospitable environment for lower paid workers with fewer skills. The long decline in urban manufacturing means cities like London now have fewer stable, well-paid, semi-skilled jobs. Competition for the remaining jobs has become intense. The swell of young graduates coming to

3. See Figure 2, online Technical Report, pg.5

4. See Figure 3, online Technical Report, pg.6

London looking for high-skilled work, combined with a decline in demand for them in the aftermath of the recession, means that many end up doing jobs for which they are overqualified. Around a quarter of London residents employed in low skills jobs have a degree level qualification.⁵ External migration is another factor adding to the size and quality of London’s workforce; 18% of London’s population have arrived from overseas in the last 10 years. For London’s in-work population, this figure stands at 40%.⁶ Many of these people come with a potent mixture of skills, qualifications, determination, and a willingness to work hard while living in what by London standards would be considered poor neighbourhoods. Many are young and single. They are prepared to put up with privations others find hard.

We can see the effects of London’s highly qualified, growing labour force by looking at the rate of growth in wages across Great Britain over the last decade.

Above median earnings, growth in earnings has been slow but reasonably consistent between London and the UK. For those earning median incomes and below, however, wages in the capital have decreased faster than their national counterparts, with a widening gap in negative wage growth.

Table 1: Showing percentage change in wages in London and Great Britain between 2002 and 2013, adjusted for inflation using CPI

Source: Annual Survey Hours and Earnings, ONS n.b. adjusted for inflation using CPI

PERCENTILE	% CHANGE IN WAGES (02–13)	
	LONDON	GB
10	-4.8	1.1
20	-3.4	-0.1
30	-1.9	-0.3
40	-2.2	-0.1
MEDIAN	-1.5	0.5
60	0.1	0.4
70	0.6	0.6
80	-0.9	1.1
90	1.2	2.7

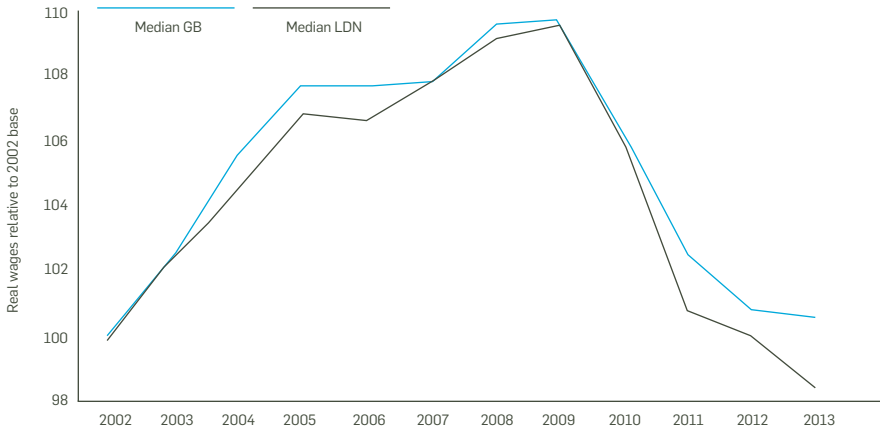
5. See online Technical Report, pg.4

6. Ibid

Figure 1: Growth of median earnings on London have lagged behind those of the UK

Graph shows an index of median wages in London compared to Great Britain between 2002 and 2013. Index year: 2002

Source: Annual Survey Hours and Earnings, ONS n.b. adjusted for inflation using CPI, indexed to 2002



As figure 1 illustrates, the decline in real earnings began with the financial troubles of 2007–8. From 2002 median earnings rose significantly in both the UK and London then fell sharply from 2009. But they fell further in London than elsewhere, so that by 2013 London’s median earners were earning 2% less than they were in 2002.⁷

Figure 2 shows the London-only picture, for different income deciles. As we can see, between 2002 and 08/09, there was sustained wage growth in real terms across all income groups but higher earners benefitted more. In 2008, earnings for the 90th percentile were 115% of what they had been 6 years previously, while median wages had increased only 9% over the same period.⁸ Moreover, once real wages started to fall in 2009 they fell much faster for those on median incomes than higher ones.

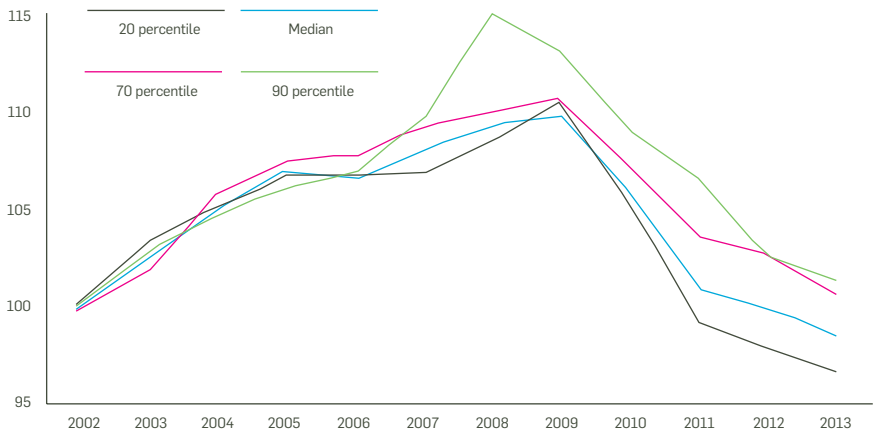
7. Ibid

8. This figure is derived from Annual Survey Hours and Earnings, ONS n.b. adjusted for inflation using CPI, indexed to 2002

Figure 2: Modest earners are now earning less than they were in 2002

Graph shows change in earnings, in real terms, across income range (Index 100=2002)

Source: derived from Annual Survey Hours and Earnings, ONS n.b. adjusted for inflation using CPI, indexed to 2002



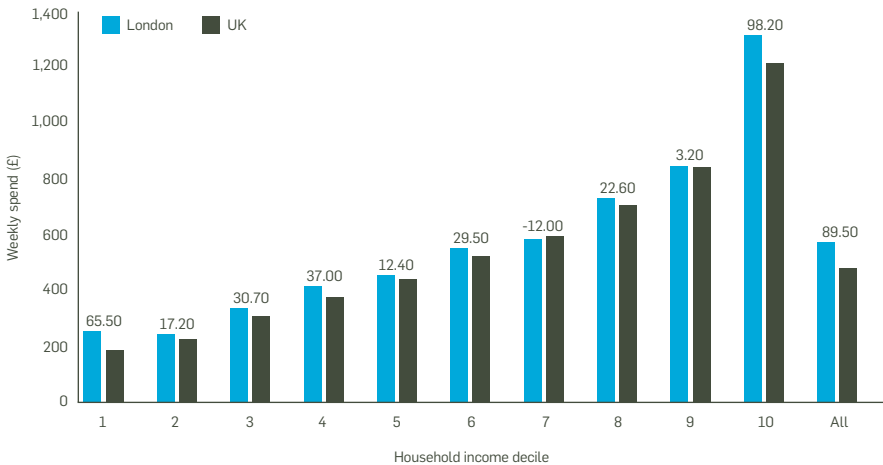
Spending and Costs

As we have seen, London modest earners have seen their incomes stall or fall over the last decade, even taking inflation into account. At the same time, the cost of living in London has gone up faster than elsewhere, especially for essentials. Again, London’s modest earners have been hardest hit: higher earners have also had to pay more but have had more scope to cut back on non-essentials. All of this becomes clearer if we look at how Londoners spend their incomes and how the London cost of living has changed in the last decade.

As Figure 3 shows, London households on average spend more than their decile counterparts in the rest of the UK across all income brackets. The starkest differences are at the top and bottom ends of the income scale.

Figure 3: Total Weekly Expenditure of London and UK households, by income decile, 2010–12

Source: ONS, Family Expenditure Survey/Living Costs and Food Survey 2010–12



Housing

Londoners living in the private rented sector are faced with dramatically higher costs than renters across the rest of the UK. With a limited supply and increasing demand for private rented accommodation in London, renters in the capital pay on average 48% more than households elsewhere in the country.⁹ In money terms, this is the difference between £202 per week in London, compared with £136 per week nationally.¹⁰ As well as rents being far higher in London, they have also risen in recent years. For households with income between £20,800 and £28,500 per year, the costs of rent have increased 14% in real terms over the last decade and rental costs accounted for about 41% of their income in 2010/11.¹¹ With the state of the property market in London many have no choice but to rent, and rent accounts for a large portion of their earnings.

9. Ibid, pg.24. Nb. This figure is not mix adjusted

10. Ibid, pg.28

11. Ibid, pg.30

The cost of buying a home has gone up even more than the cost of owning one. Average house prices have increased by 16% outside London in the last decade but by 68% in the capital.¹²

Unsurprisingly, mortgage holders in London also pay more than those nationally. The average London mortgage holder pays £213 per week, compared to £138 in the UK as a whole.¹³ Those who managed to buy their homes more than a decade ago may well benefit from having a relatively small mortgage for homes which have risen markedly in value. They will have been helped since 2008 by very low interest rates. So older, well-established home owners in London may well feel more secure as the value of their asset has grown faster and at a lower cost than they would have expected. However, that feeling may not last: as the economy recovers, interest rates will start to rise again over the next few years. While rises will be slow, wages have also been falling for 5 years. With this combination, a normalisation in borrowing costs could create daunting debts from previously manageable ones.

The rise in house prices in London means owning your own home is now increasingly beyond most people on below-median earnings in most areas of the city.

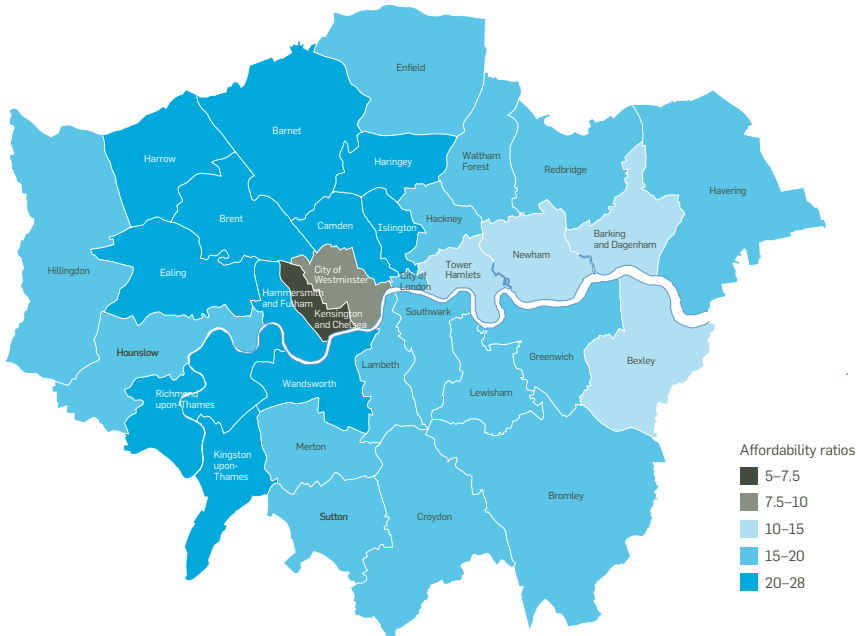
If owner-occupiers on below-median earnings were trying to buy their own homes today, almost all London's housing stock would be beyond their reach. Figure 4 compares median house prices with median earnings for residents within each London borough. It shows how affordable median houses are for those on the borough's median earnings. Only in Barking and Dagenham, Newham and Tower Hamlets are houses costing the median within 5 and 7.5 times residents' average earnings. This makes a home possible to buy if two people earning median wages join together to purchase it. In most boroughs the ratio is 7.5 to 10 times and in many others it is as high as 10 to 15 times. The median house is increasingly beyond the reach

12. July 2004 – July 2014, Land Registry

13. See online technical report, p. 27

Figure 4: London's affordability challenge

Source: ONS, Annual Survey of Hours and Earnings 2013 and Land Registry median house prices data



of the median earner. If house prices continue to rise rapidly while wages continue to decline in real terms, more housing stock will move out of reach.

Transport

One way to counter rising housing costs is to live further from the centre of the city where property is more affordable. About 16% of London's working population are commuters from outside the capital.¹⁴ The snag, however, is that what you save in housing costs you might lose by paying for transport, and travelling to work takes much longer. Many people are choosing

14. Ibid, pg.13

to commute longer distances within the confines of Greater London, often using overground rail services, which are enjoying something of a renaissance. The number of trips by National Rail services that start and finish within London's boundaries has more than doubled since 1995 to 4m journeys in 2011/12.¹⁵ While earnings for people on below-median wages have not increased in the last decade, fares for rail services covering London and the south east rose by 54% between 2004 and 2013.

Overground rail services are not alone in raising costs for London's workforce: buses and the underground have also been steadily rising in cost. Between 2008 and 2014, trips using pay-as-you-go Oyster cards went up in price by 61% for bus journeys and 47% for the underground.¹⁶ This is well above a rise in the retail price index for the period of 20.4%. Wages have failed to keep pace with RPI, and cost rises so far above RPI further squeeze household budgets as wages cover increasingly little.

One way of seeing the cost of transport in London is to calculate the time it would take an individual to work off their travel-to-work costs each day. A peak time day return rail trip from Zone 4 into Central London costs £8.40. Someone with an annual salary of £22,000 pre-tax would spend the first 55 minutes of their day paying for the commute to and from work. When this is calculated on the national minimum wage, you spend the first hour and eighteen minutes earning the money to get you to and from work. If you have to take a bus or a tube as well, once you have reached central London, the cost in 2014 would be £11.40. On a salary of £22,000, this accounts for approximately 16% of the working day.

Energy

Despite declining use, London households are still paying higher energy bills than they were a decade ago. The average monthly fuel bill in the capital was £92 in

15. Ibid, pg.32

16. Ibid, pg.31

the period 2010/12, compared to £60 per month in 2001, an increase of expenditure 52% above inflation.¹⁷ This rise in spend has come in spite of the average London household becoming significantly more energy efficient over the past decade. Despite decreasing their energy usage, prices have risen at such a rate that households are still spending more. It is likely that this increase may have hit private renters hardest, as landlords have less incentive than owner-occupiers to invest in things like insulation to lower costs.

Childcare

Childcare costs are a critical factor in shaping household decisions over how they work, when they have children and even whether they can get a mortgage. For many families on median incomes with children younger than 12, it makes little sense for two parents to work in relatively poorly paid jobs: most of the extra they earn post-tax is quickly eaten up by childcare costs. Nursery care for a child under the age of two is 25% more expensive in London than elsewhere in Britain, now costing parents in the capital on average £5.60 per hour. Over the last 5 years, 25 hours of nursery care for over 2s has gone up by 41% in London compared to 31% nationally. For children over 2 placed with childminders the cost has increased by 35% in London compared to 22% nationally.¹⁸ A couple with one child needs a second earner with wages of at least £17,000 to make full-time childcare economically neutral.¹⁹ Parents in London buying 50 hours of childcare per week for a child under the age of two would be paying on average an annual bill of about £14,000.²⁰ The high costs of childcare in London hits women especially hard. In

17. Ibid, pg.33

18. *Childcare Costs Survey 2014*, Family and Childcare Trust, pg.5

19. This estimate is based on the average costs of childcare in the capital for a child under 2, as reported in the Annual Childcare Costs Survey 2014.

20. "Full time" childcare is generally figured between 42.5 and 50 hours per week. We have used 50, following the Childcare Costs Survey, and based on our demographic of lower earners who are less likely to have flexibility in their working hours, and thus cannot alter them to alleviate childcare costs at all.

a labour market with a profound gender pay gap, it is mothers rather than fathers who generally stay at home to look after the children and this affects their careers and lifetime earnings. In the long run, this decreases the family's potential income – if the parent, usually the mother, returns to work, their opportunities for career progression will have taken a serious hit from years out of the labour market. Largely, they will have to settle for lower paid work, particularly if they still require some flexibility with hours.

London households across all income groups are responding to the squeeze by cutting back where they can. The average weekly spending of London households has dropped by £60 over the last decade (after counting for inflation), with people offsetting higher costs for housing, transport, energy and childcare by cutting back on leisure, entertainment and luxuries.²¹ The growth of discount supermarkets like Aldi and Lidl suggests that where people cannot straightforwardly cut an area of expense, they are making the effort to seek new providers and better value.

Yet despite cuts across areas of discretionary spend and the continuing decline in wages, the weekly expenditure of London households in the bottom 30% of the income range has **risen** in the last decade.²² The largest percentage increases in spending have been among the poorest groups, and the largest percentage reductions have been amongst the richest households, who have more discretionary spending and so more scope to cut back. Those on median incomes and below have little scope to cut back because they have limited discretionary spending. They have few options and nowhere else to turn as more of their modest income is eaten up by rising costs for basics and essentials.

Modest earners have suffered a decline in their standards of living since the start of the 21st century.

21. For full breakdown of changes in expenditure, see online Appendix, Table 6

22. Ibid

3

LIVING IN THE TRAP

The trapped middle are not a uniform mass. People living on the same income can lead quite different lives depending on their relationships, the neighbourhood they live in and their housing status. To understand in greater depth and detail what it means to feel trapped and how people cope we talked at length to a small set of people in their homes in the evenings. We have given brief descriptions of our interviewees and their circumstances below.

The Interviewees in brief

Gayle, mid-twenties, West London

Having recently had her £19,000 training contract converted into to a £23,000 permanent position, Gayle has finally moved out of her parents' home in her mid-twenties. She lives in a shared house, spending £750 per month on rent and bills. For Gayle, the cost of moving out was off-set by the enjoyment she gets from living with close friends. This is just as well – after rent and bills (£750 per month), gym membership (£63 per month), a phone contract (£42 per month) and about £30 per week on travel, there is very little left. Gayle's meagre disposable income gets blown in one night at the weekends – fun to compensate for the slog that is otherwise life in London. Larger expenses, ranging from a holiday to a haircut, are out of the question. In spite of this restraint, an overdraft debt is slowly creeping up.

Gayle is one of the more positive participants – life in London is a slog and a struggle, pressurised and rushed, but workable. The friends she lives with and a job she enjoys are the compensation for hard work and limited choices, and the boyfriend with whom she plans to live contributes to an imaginable future. The future isn't exactly bright, but there are sunny patches.

Linda, single parent with a twelve-year-old daughter, East London

Linda has worked as an admin assistant in the same job for ten years. She lives in a small but comfortable socially rented flat in a decent housing association block in East London with her twelve-year-old daughter. Having accumulated debt in more reckless, younger days, £133 per month goes towards a debt payment plan which is on track to be finished in a year. But when this happens, her salary will fall when the temporary management position she is in comes to an end. She describes herself as fire-fighting, in a relentless cycle of working hard, being on

top of things, and paying off bills – a dynamism which is periodically followed by exhaustion and burn-out. She often runs out of money for food and with great reluctance she will turn to family or friends. But like most of this group she fiercely believes she should be self-reliant. She enjoys her family relationships and can draw on them when absolutely necessary, but they provide only episodic support. She constantly struggles to ensure that her daughter doesn't go without and can enjoy extra opportunities like school trips and drama classes.

More than half of London households living in debt owe more than £5,000, with the average debt nearer £8,000.

See online Technical Report, pg.22.

Linda's life is far from extravagant. To relax she goes jogging and she is active in her church community. She uses the internet a lot, and her only real luxury is a Sky package – unsurprising as most of her evenings are spent at home.

Sandra, single parent with six-year-old son, North East London

Sandra is a resource administrator, earning £22,500. A Polish immigrant, she has an MA and has been in London for 8 years. Since she and her partner separated, she has been unable to afford a private rented flat and lives in a flat in an outer London borough allocated to her through her own inner London council. The flat is cramped; she knows no one in the neighbourhood. She is trapped in an unpleasant flat which she knows she cannot afford to leave. Sandra and her son face a punishing commute. They get up at 6.45am and are on a train at 7.15am to get him to the council-subsidised breakfast club at his school by 8am. In the evenings they do the same in reverse, as she picks him up from an after school club. Those clubs allow her to work full time and look after her son. Sandra says the only saving grace is that they have to spend so little time in the flat, where the landlord has refused to remove his own furniture, so they have three sofas crammed together in a small living room. In addition to rent (£1000 per month, of which Sandra pays £750 with the remainder in housing benefit), transport (£90 per month) and a phone contract (£30 per month), Sandra is one of the very few who is actually managing to save, approximately £150 per month. She also invests heavily in her son, with tuition classes and karate, and tries to take him out at the weekend to limit time spent in the flat.

Sandra feels she has nowhere to go – to rent privately she estimates she would need to be earning about £30,000. She is well-qualified, hard-working and even finding time to do an online course in project management. Yet moving to a job paying £30,000 would be a huge step.

Antony, early 30s, North East London

Having worked for the same housing provider for over 12 years, Antony has risen through the ranks and is now a team manager on an income of £33,000. This rise is a significant source of pride for him, both in terms of his personal achievement and ability to provide for his partner and five-year-old daughter.

Life in the city is far from Antony's ideal – born and raised in Tottenham, he moved his family further out after the riots. He hopes that this is the first move further away from the negatives he associates with inner-city life. Struggling to establish themselves, Antony and his partner have relied heavily on family. They have lived with both sets of in-laws and now rent a home from his sister at a reduced rate (£900 per month). Without this, a home of their own would be beyond reach. Antony is aspirational and, like all our interviewees, lays responsibility for success entirely on his own shoulders. Although he views this situation as largely positive, it does not prevent him from feeling life is a constant grind. He is trapped in a cycle of work and a long commute, unable to see how he can move up at work, and unable to leave behind the aspects of city life he hates.

Diedre and Sid, North London

Diedre and Sid are in their mid forties, and live with their ten-year-old daughter in north London. Diedre works part time as a pharmacy technician and Sid is a forklift truck driver; together they earn about £35,000.

They are paying off the mortgage on their three-bedroom house at £470 per month, and remortgage every few years to borrow a bit more. This is essential to them as Sid's wages have been virtually flat for some years, and debt slowly builds when one-off expenses, like a recent new boiler, are required.

For Diedre and Sid, home and family are the source of happiness but also some frustration. Their time is spent in their home on a crescent which they love, with their daughter on whom they dote. Their own parents provide occasional treats and holidays which they could not afford on their own. However, Diedre in particular is frustrated by the limits on what she can do with her daughter: taking her out to go swimming or to see a film, is just not an option. The family is happy, but there is no leeway for them financially.

Fiona, grandmother in a three-generation household, North London

Fiona's home in a North London suburb is crammed and teeming with life. Her grown-up daughter still lives at home with her two children (10 years and 10 months) and her son is also briefly living there.

Fiona's life is hectic but rejuvenating – in addition to working full time she takes a very active role with her grandchildren, picking her granddaughter up

from school and taking her to activities, as well as volunteering with her local Church and visiting her husband in a nearby care home.

Money is tight in Fiona's home – aside from a small contribution from her daughter, the entire household is almost solely reliant on her £35,000 income from her HR job at a local council. In addition to mortgage repayments of £400 per month, she religiously spends at least £150 per week ensuring that the family eats well, and invests in her granddaughter's after school activities. The annual family holiday is funded by Fiona, who also spends about £50 per week on petrol for a car that is absolutely vital to her ability to manage work and childcare. Fiona is not materialistic, enjoys her work, and feels her own quality of life is good. Her worries lie with her children, especially her daughter who is now a mother, as she wonders how they will ever afford to remain in the area the family has lived in for generations without her support.

Paul, 50, West London

Paul lives in a two-bedroom flat in west London with his wife and two grown-up daughters, 18 and 21. His wife has always been a homemaker, and he earns about £33,000 as a self-employed electrical engineer. No money goes spare in the house. Paul and his wife are both meticulous in the effort they put into cutting expenditure. In addition to their £600 per month mortgage repayments, Paul spends £12 per month on broadband, having spent months haggling with the provider to get a cheaper deal. His wife makes the effort of going between several supermarkets to find the cheapest offers, and Paul takes great effort to get small luxuries, like smoked salmon, at hugely reduced prices, by shopping in his local supermarket after 8pm. Paul's daughters travel to and from university by Megabus; it is the only way to make coming home affordable.

Most of Paul's time is spent at home or at work, and he is quite happy with his lot. He was raised in the Welsh valleys, and compared to his upbringing now leads a very affluent life. His discontent lies in the changes he has seen in his local area, which he sees as becoming rougher and less safe, a change he largely attributes to certain migrant groups.

Gary, 24, single

Gary grew up in the Scottish borders, and moved to London to spend his twenties in a city where he sees life as exciting and full of opportunity. He earns £20k as an office manager – having previously been on a zero hours contract in the same company, he is now permanent staff.

Home is a rented room in a house in south London, shared with 10 others. Gary pays £625 per month including bills, and once he has spent £30 weekly on transport, and £40 per month each on his phone and gym membership, he has

little left. His one leisure outlay is on a night out most weeks with his colleagues. Otherwise, Gary largely spends evenings at home and looks for free things to do in London at weekends. The internet is a huge part of life for Gary, both providing entertainment in the evenings and also the key to information about free entertainment in the city. Whilst frugal, Gary is not managing to save, and his parents will occasionally bail him out by paying off his slowly building credit card debt.

In spite of the lack of financial flexibility, Gary is delighted with life in London. He sees the job market as full of opportunity, and the city's diversity is a big part of the appeal. When he compares it to home, and the life led by his friends there, Gary feels that the cost associated with London is a price well worth paying.

Jayne, 30, East London

Jayne works in management at a private English language school in South London. She earns £28,000 and is very dissatisfied. Having recently moved back to London after 5 years in Shanghai, she faces completely novel financial limitations, and feels the pressure of money in a way she never did before. She dislikes the nature of her job but took it because she did not want to be out of work in London. The long commute to a job which pays less than she thinks she should be earning add to her sense of displeasure.

Jayne pays £750 per month for a room in a shared flat with two strangers who have, fortunately, become good friends. It has been impossible to make the sparse flat feel like home on a six-month rolling contract with a landlord who refuses to allow them to make any modifications. Even getting Wifi proved a long struggle as it required holes to be drilled in the walls.

Money is a huge source of pressure for Jayne. Her higher-earning friends want to do things she finds difficult to afford. She feels constantly left behind by them. This means that the rest of Jayne's time is spent scouring London for coupons and free events to make socialising feasible. Jayne is also very concerned about mounting debt, having now eaten through the savings she accumulated in Shanghai. She doesn't see a bright future in London. She is just about keeping her head above water but sees little prospect of making progress.

Some strong common features emerged as to what life is like in the trapped middle.

Common Features

The households we spoke to all highlighted work as central to their lives and understandings of themselves. They work hard and often commute long distances for relatively little money. They are proud of the fact that they work and pay their way. Even where they might be entitled to them, many expressed a desire to avoid benefits.

They are usually **hidden** from view and difficult to spot because they spend most of their time at work or at home. They feel they are of marginal interest to both the public and private sectors, combining to create a city that is not designed for people like them.

They are **barely evident to the public sector** because they make little claim on its resources. That is in part because they feel public services and subsidies are geared towards people on benefits. But the financial pressure on the public sector has also hit them hard: small additional user charges for leisure facilities can put them beyond their reach. Meanwhile they face competition for access to decent public services from more affluent, vocal middle class consumers who are better at commanding public resources and who may be turning to public services as they cut back on their own spending. Many of the families with school age children complained that they found it difficult to get their children into their school of choice because they could not afford to live close enough to it.

Discount supermarket Aldi had record growth of 35.3% over the 12 months up to March 2014, while the big four supermarkets all faced declining sales on the previous year.

Source: Kantar Worldpanel UK statistics, 08.04.14

They have very little disposable income and so spend it very carefully. They feel they are living **on the margins of the market**. These are people who shop in supermarkets only after 8pm when fresh produce at its sell by date has been heavily discounted. They shop

guided by the website MoneySavingExpert.com or by using coupons collected online. Linda was cheered by the arrival of a Lidl supermarket close to her work as this would make lunch more affordable.

As they work hard but have very little disposable income, **home and the neighbourhood are incredibly important** to these households: that is where they spend most of their time. People living on the same income can have quite different experiences depending on whether they live somewhere they feel is home, in a place where they feel safe and relaxed. Paul and his family live in a cramped flat in Acton where they seem very happy. Sandra lives in a cramped flat in East London, which feels like a cell because she does not feel safe enough to venture out. None of these people have extravagant aspirations: they simply want a decent affordable place to live in a decent neighbourhood. Young private renters are in the most difficult position, often paying a large share of their income for somewhere they cannot make homely because of the inflexible rules of unresponsive landlords. They find it hard to save up for a deposit to buy a house. Some are lucky because they live in subsidised rental property: Linda is a single parent in social housing; Antony's house is subsidised by his family. Homeowners like Deirdre and Sid are in the best position: they got into the housing market long before 2008 and live on a road where Jade is safe to play out in the street with friends. They live in a decent home, in a decent neighbourhood, where everyone looks out for one another. That is a major reason why Deirdre and Sid feel life is not too bad.

People living in a decent **neighbourhood** which feels safe, with good local amenities, like parks and public transport, are also happier because they do not feel confined to their home. When people have little or nothing to spend, the quality and safety of the local public realm matters a lot to them.

Relationships also count for much in shaping how people feel about their lives. People living with strong close ties to family and friends were far more likely to be happy than those living on their own or with strangers.

As they spend most of their free time at home, what they can do from home also matters a lot. The **Internet** often plays a central role in their lives. Many say they spend between 45 to 90 minutes online during the evening, downloading and watching content, surfing the web, looking for deals or engaging in social media. Getting access to broadband at affordable prices is critical to them. One way to think about their lives is that they have 1970s levels of consumption but with the Internet added on. Sandra was unusual in that she did not have and did not feel the need for a television. Linda meanwhile has the television on most of the time, as a constant accompaniment.

Those we spoke to lead lives where choices are very limited. They work hard, often commuting long distances to work, and so feel time poor: many say they are exhausted by the time they get home. They have very little disposable income so have only occasional opportunities to make choices as consumers, and those choices they can make often involve items that are discounted. Yet what really matters to them is that they feel constrained in making bigger choices about whether and when to have children and where to live. The social contract at the heart of the market economy is that people work hard to earn a wage that they can then spend according to their own choices. That deal is breaking down for these people. They are working hard just to pay the bills and get by.

Between 2001–03 and 2010–12, households on median earnings have made spending cuts of, on average, over £100 per week. These cuts have all been in areas of discretionary spending, while their fixed costs have continued to rise.

See online Technical Report, pg.40.

As a result, not only do they feel hemmed in, they live with **short-time horizons**. Most of them say they are just getting by “at the moment” but they find it hard to plan for the future. Only two of the ten households

we interviewed were managing to accumulate savings. Some can see no further than the end of the month. Many say they find it difficult to see how they could make the step up in their lives, for instance to a job which would pay significantly more, to make a real difference. Jayne says she might have to leave London to get a better mix of work and home, wages and cost of living, or shift into another industry. Antony is working harder than ever as a manager but still finds it hard to see how he will ever own a home. Gayle's hopes rest on moving in with her boyfriend. Sandra, a single mother who is in receipt of housing benefit and child tax credit, would have to be earning well over £30,000 to make her any better off, an unlikely prospect any time soon.

Low-and-middle income households in London have little financial resilience. They have lower total household wealth – at £5,200 for median households and £26,800 lower for the bottom quartile – than equivalent households in Great Britain.

See online Technical Report, pg.20.

Despite all that is pitted against them, almost all **remain hopeful** about the future. They are optimistic but without a clear and credible plan for their future. Some, particularly the younger ones, hope to progress at work but opportunities that would significantly impact their earnings are few and far between. This is particularly the case for those, such as single parents, who need some flexibility in their hours. They are clinging on and getting by, but no more than that.

Given their circumstances, they remain stoically positive about their lives. Despite the trials and tribulations of their lives, all expressed belief in hard work, self-reliance and meritocracy. They want to believe the future can and should be in their own hands, a **personal responsibility** to make good.

However, most also acknowledge that it is hard to sustain this narrative when the odds are so stacked against them. However hard they work, progress is

elusive. Longer hours to earn more money tires them out. Promotion brings a bit more pay but also more stress and anxiety. When couples with children both work full time they pay large sums for childcare and the strain quickly shows.

Yet they are largely **unwilling to blame others** for their situation. Those living in private rented accommodation were critical of landlords who wield power with little accountability and often seem to take advantage of their tenants. Yet that aside, the households we spoke to are not inclined to blame politicians, their employers or the rich for their sense of being trapped without choice. They see their lives through a lens of personal responsibility, and expressed little resentment at the massive private wealth in London. They tend to think the rich are successful because of effort and talent. Some even went as far as to say: “Good luck to them”.

Yet at the heart of their lives is a suppressed and growing sense of **dissonance and dislocation**, that they work so hard but have little to show for it. That sense of dissonance, that life does not add up and the odds have been stacked against them, expresses itself politically and culturally.

The political expression of discontent was verbalised in negative reactions to people living on benefits without seeming to make an effort to work, rather than bankers earning million pound bonuses. They are far more likely to support punitive welfare reforms than tax rises for the rich.

Yet the most common expression of their **disenchantment is cultural**. Here there is a clear divide. Some see London’s diversity and cosmopolitan culture as a huge asset. Deirdre and Sid, a white working class couple in north London, describe the close they live on as a cosmopolitan ideal, with children from many different backgrounds playing together out in the street and in and out of one another’s houses. Gary, recently arrived from the Scottish borders, is amazed by the richness and diversity of London life even though he

can barely afford to live in the house he shares in south London with 10 others. For them, diversity is what makes London so special.

Yet there is a strong counter view, especially among slightly older people with families and regardless of their ethnicity. Towards the end of each of our interviews we asked people what it was like where they lived. Most of our interviewees over the age of 30, unprompted, said something along the lines of: "It's changed a lot around here. Too much change, too fast." In Harrow we met an Anglo-Indian Hindu, Hittesh, who complained about the decline in standards of public behaviour and the way that migrants, including Indian migrants, were changing the neighbourhood and making it less British.²³

Antony, the son of Jamaican immigrants, complained that traditional British values, like respect for Christmas Day, were being lost.

Paul, originally from the Welsh valleys, married to a woman who is British-born Chinese, often enjoys a Friday night out, but feels he needs to be home by 8pm, to avoid how rowdy his road has become. He attributes the increase of disruption, noise and rowdy behaviour to new migrants, especially East Europeans.

These people feel a sense of **loss** that somehow the future they thought was theirs, as well as their past, is being taken from them. Their sense of dismay at having to work so hard to get so little finds expression in a sense of loss and betrayal.

While they mostly like London's energy and vibrancy, they also tell us that the sense of **community is dangerously threadbare**. London is the least integrated region in the UK (relative to its population's diversity),²⁴ and the disengagement that follows from this was expressed in our interviews with those who felt that London is being reduced to a single common

23. Hittesh was not included in our profiles because his household income turned out to be higher than our cut-off point

24. Social Integration Commission, 'How Integrated is Modern Britain?', 2014, pg.25

denominator: money. That is the only thing most people seem to have in common in such a diverse and fluid city. Antony was one of the most articulate exponents of this view. He argued that London had become so diverse because so many different people were attracted to the city by the money to be made. He worried that, unlike his immigrant family, which put down roots (his mother is a longstanding primary school teacher), more recent waves of immigrants were just here to earn a quick buck and weren't sufficiently committed to Britain or the local community.

That sense of dislocation, dissonance and loss is not at the foreground of their thoughts, however. Mostly what they do is **cope**. This, by a long way, is the most common and prominent response to their predicament: they are **copers, they do not complain**.

Some, however, cope better than others and those people provide some vital clues to how to live well on a little.

Creative Coping

People who find themselves in the trapped middle come from a wide range of ages and backgrounds. Some are single and others have families. Some are separated, others have been happily married for years. They include private renters and mortgage holders. The recipe that works for Gary, 25, single and newly arrived from the Scottish borders, where there is “nothing to do”, is very different from Paul, 55, married for 30 years with two grown up daughters. Despite these differences, the people who cope well with living on a little share some key similarities, which extend beyond being able to afford somewhere decent to live, close to public transport. Living well on a little is not just a question of how much money they have to spend. The quality of their lives is what determines whether they are happy. These six factors are critical.

People who cope well tend to live quite **stable** lives. They tend to stay in the same jobs, relationships and homes. Change and upheaval is expensive,

especially if you live in private rented accommodation. Each move may involve a new set of estate agent's fees; a new deposit needs to be put down while the old deposit is rarely recouped in full and on top of all of that are moving expenses. Crises and emergencies can easily push people with little to spare over the edge: Deirdre and Sid were only just recovering financially from having to replace their boiler and much of their ageing central heating system a year earlier. Cost savings are often cumulative and come from being able to hone routines and learn the best places to shop, the best times to travel. In a city which prides itself on its fast-moving fluidity, what the trapped middle most need is a sense of solid, stable dependability.

People who cope well tend to be highly **self-disciplined**. They are good with money not just because they look at their budgets and can add up numbers – numbers which are already hugely stacked against them. They exert a wider sense of self-discipline over their lives. They do not feel in control of their lives because they are good with money; they are good with money because they feel in control of their lives. They are not impulsive nor easily seduced by consumerism. They maintain a constant vigilance over what they spend. They live by a theory of “marginal gains”: lots of small savings add up over a long period of time. They aggressively seek better deals and discounts to make their money go further. Paul negotiated a better deal on his broadband package, only shops at Sainsbury's after 8pm at night to get the cheap deals and runs his mobile phone on GiffGaff, a collaborative, low-cost mobile platform.

The most inspiring example of this self-discipline was Sandra, a single mother from Poland, who separated from her partner two years ago. She gets her six-year-old son up at 6.45 every morning to catch a 7.15 train to get him to breakfast club at school at 8am so she can then catch a bus to work for 9am. After a day working as an office administrator, Sandra picks up her son from the after school club to take him home, feed and wash

him. Sandra earns about £22,000 a year and, despite living in a cramped, private flat assigned to her by her council's housing department, she still manages to save each month and pay for her son to go to a local Explore Learning club. Sandra and her son are engaged in an almost daily struggle to succeed and if they do, it will be almost entirely due to her remarkable discipline and determination.

People like Sandra are helped by being **non-materialistic**. They are not avid consumers. By disposition or training they do not have their heads turned by shopping and marketing. They are happy to make do with what they have and pride themselves on how long they can make things last. They make the most of what they have rather than wanting something new or better. They live by the mantra that the best way to save £1 is not to spend it in the first place, rather than find a 10% discount on spending £10.

Their non-materialism comes from how they get a sense of **self-esteem**. People who live well do not try to keep up with the Joneses. They do not suffer from status anxiety. They inoculate themselves against envy because they do not compare their lives to others'. If they do make comparisons, they do so in a way designed to make themselves feel better. Gary, for example, who runs out of money every month and spends quite a lot of time in his room in the house he shares with 10 other people, nevertheless feels very happy because living in London is hugely exciting and full of possibility compared to life back in the Scottish borders. Even though Paul, 55, left the Welsh valleys a long time ago he still thinks he is doing very well for himself compared to his parents.

They are also far more inclined to see the value of **sharing** to cut costs. They see the logic of public transport, shared living and collaborative consumption. The young people we interviewed seemed to think it likely they would be living in shared accommodation well into their thirties. One in ten London households are now made up of more than one, unrelated, family

unit – two and a half times the percentage for the rest of England and a 20% rise since 2001.²⁵ In contrast, the people who found life most difficult lived on their own and had no one to share with, whether that was sharing the costs of utilities or the strains of everyday life. That in turn brings us to the single most important factor determining whether you can live well on a little: **family**.

One might assume that young, single, footloose people enjoy the best lives in London and certainly they can have a great time. Gary and Gayle were glad to be in London and excited by what it had to offer despite not having much money. However, partners, close friends, and accessible family were all cited repeatedly as a source of pleasure. Where they are also able to provide support, this is seen as invaluable. Those in the most difficult position were the single mothers, Linda and Sandra, who also lacked nearby family who could provide support. Even single people without dependents, such as Jayne, could at times feel isolated because they could not afford to go out much and felt cut off from friends. The happiest people, the ones who were coping best, had family support. Hard times are reinforcing the value of family if not family values.

Antony can afford to rent his house in North East London only because his sister is not charging him a market rent. The kind of multi-generational family unit that is common among Indian families is now becoming common across the board, in families like Fiona's. Meanwhile parents like Linda and Sandra, Deirdre and Sid, organise their lives and make huge sacrifices for the sake of their children. They can bear a great deal of hardship so long as they could ensure that their children were doing well. The most significant social innovation helping people to cope with life turns out to be the oldest: family.

One shift towards collaborative living in London is the re-emergence of the multi-generational family household: living with your parents and grandparents

25. See online Technical Report, pg.40

is a good way to share costs. Huge and undocumented intergenerational transfers are taking place. Children, both young and adult, now often rely on the core income and home provided by a parent. Grandparents are playing a critical role. Deirdre and Sid can only afford to go on holiday because her Dad is paying. The most significant contribution grandparents make is childcare. Having a grandparent who can afford to do two or three days childcare a week is the equivalent of having a second part-time income. People like Fiona thus play a critical social and economic role in London life far beyond their work. Her income and home subsidise her daughter and son. Her unpaid childcare for her granddaughters allows her daughter to work part-time. Having a middle-aged parent or grandparent in work, living in a large home with spare bedrooms is now a vital shared resource for adult children to fall back on; were Fiona to lose her job, the entire family structure would fall apart.

The task of living well on a little in London is made much easier with a combination of these factors:

- Stability
- Self-Discipline
- Non-materialism
- Inner self-confidence/lack of status anxiety
- Willingness to share
- Family support

People in similar financial circumstances can feel they are living quite different lives depending on how these factors play out. It is not impossible to feel that you live well on a little in London. But at the moment it is far too difficult to do so. It takes a special combination of qualities. Making it easier for more people to cope

in the way that only a minority do at the moment should be a priority for public policy.

Conclusions

People have had it tough before. A generation now eighty years old, who were born into depression, grew up in houses with outside toilets, went through the war and suffered the privations of post-war rationing, might not understand what the fuss is all about. People have always had to do without and make hard choices. For many people in the 1930s, 40s and 50s in Britain, the idea of being able to go out for a meal or abroad on holiday was laughable. Older generations would remind us that we do not have an automatic entitlement to a given standard of living and that by historic standards even people living on limited incomes are well off, with central heating, a vast choice of cheap food, better public health and schools, low-cost flights, frequent buses, digital television, mobile phones and the Internet. After decades in which Britain became caught up in the visceral pleasures of debt and consumerism, it is perhaps no bad thing that despite the pain we are relearning the virtues of prudence, patience and sharing. Why then should it be a matter of concern to public policy that people in jobs paying below middle income salaries are facing such tough conditions? Perhaps they should just get on with it. After all that is by and large their own view: they want to take responsibility for their lives and they do not complain.

Yet the people profiled in this report are not just squeezed. They are not just cutting back on luxuries. They feel – and are – trapped in fundamental ways. They work hard to get nowhere. They are not profligate and they do not have extravagant aspirations. They are already cutting back on virtually every aspect of their disposable income. Many are confronting significant, painful and life-changing choices over whether to have a family.

The way they are living, moreover, has implications for all of London. London cannot work without people who do vital if unglamorous jobs. It will not sustain

itself unless it has lots of places where young people can put down roots and median income families can bring up children, near to good schools, transport and community facilities.

This is not just a question of their household budgets not adding up. The social contract on which they have based their lives – work hard, get a decent place to live, start a family – is breaking down. Many are managing, at the moment, only by relying on the assets and income of their parents and grandparents, themselves the beneficiaries of the expansion of opportunity for working class people in the 1960s, 70s and 80s as many became home-owners for the first time. Yet those younger generations have no idea how they will ever build up the kind of assets their parents have and so they cannot see how they will be able to help their own children. Fiona can help her daughter because she was able to buy and extend a three-bedroom, north London semi-detached house when they were relatively affordable, almost twenty years ago. But there is no prospect of her daughter being able to do anything similar for her children.

These people are proud of being able to pay their own way. They suffer their frustrations quietly. They will not make a fuss and so it is easy to overlook them. They will not take to the streets in riot or to protest. They are much more likely to retire to their sofa to chat on Facebook or seek a deal through Money Saving Expert. Yet despite their best efforts, they cannot escape feeling that life is a bleak and relentless round of work, commuting and paying bills. Their disillusionment and disappointment will eventually show up in the culture and then the politics of the city.

Many of the trapped middle respond to the loss of an overarching narrative of progress to their lives by criticising “others” – benefits claimants and particularly recent immigrants who do not want to be part of the larger community – for the way things are. London is cosmopolitan, diverse, tolerant and largely resistant to anti-immigrant political narratives. Yet there is a strong

undercurrent among this hard-pressed group, itself made up from people from diverse backgrounds, which translates their sense of loss and frustration into anger with feckless benefits claimants and annoyance with immigrants who do not want to become “British”.

These people are trying to cope without seeking public help by working longer hours, training to acquire higher skills, cutting back on spending, eliminating treats, looking for deals, shopping in discount stores and sharing costs with other people. London cannot count itself a successful city unless these people live successful lives, in ordinary places like Enfield and Harrow, Wanstead Flats and Acton, Forest Gate and Brockley Park. London cannot judge its success solely by the evanescence of trendy hipsters and tech entrepreneurs in Hackney and Shoreditch, the money flowing through banks in the City and Canary Wharf, and the wealth in Kensington and Notting Hill. London needs to bridge the gap between all it has to offer and those to whom it is currently failing to deliver this potential.

If London were designed to work in favour of the hard-pressed, trapped middle classes, what kinds of social and policy innovations would be needed to make life liveable for people on modest incomes?

4

SPRINGING FREE FROM THE TRAP

To free the trapped middle from their constraints, a new public policy needs to be designed with their interests in mind. Such policy should take its lead from how those who currently manage to live well, in spite of the odds stacked against them. These elements, a mixture of personal characteristics and more fortuitous circumstances, are not hard to find.

Those who cope tend to be positive, take responsibility for their circumstances and to be self-disciplined. They value relationships and where they live, rather than focusing on material possessions. They prize relatively stable, predictable lives: churn, instability and unexpected shocks are costly. The extended family is absolutely essential to their efforts to cope. They tend not to make avaricious comparisons with people who have got more money than them, but instead have modest yet unfulfilled material aspirations while drawing internal satisfaction from elsewhere. The personal qualities of self-discipline and lack of materialism do help, but they can only take people so far. Stability, quality of environment, a family able and willing to help and a local support network in other forms are a crucial combination that only the fortunate tend to come by. They are not things that individuals can generate in isolation.

Those that we interviewed expressed a disconnection in the narrative of their lives. On the one hand, they are hard-working and independent, neither relying on nor wanting handouts. Yet, however hard they work, they do not seem to get even the modest rewards they want: a decent, affordable place to live in a decent area close to friends and family, with enough income to spare to save and enjoy some pleasures. Their main source of frustration is that they are not able to exercise more control over their own lives. They know what they want life to look like and are working as hard as they can to achieve that, but it is simply not adding up to what it should. They are running to stand still.

Two approaches must be followed simultaneously, as neither is sufficient alone to release the trapped

middle from its relentless treadmill. Firstly, public policy should take note of the characteristics of good living that these people identify – these are not only the things that people see as aspirational values, but also the circumstances which contribute to them feeling that life can be good. They value stability and predictability, steady communities which combine decent communal space and bonds of neighbourliness, and they rely on strong networks of local friends and family to keep things, especially related to childcare, ticking over. Public policy needs to innovate to make these kinds of circumstances and qualities more attainable so that their benefits can be more widely felt. If Sandra and her young son were able to live in a neighbourhood like Diedre and Sid's, their lives would improve dramatically, but at present they are priced out of these once affordable areas. Such concerns should be at the centre of public policy debates surrounding housing, the safety and quality of public space, childcare, transport and education.

The second path with which this must be interwoven consists of two parts, neither of which should come as a surprise: raising incomes and cutting costs for those on low and middle incomes. At present, those who are coping best are still only just managing to scrape by. With such a high proportion of income going on basic costs, there is no scope to build up any financial resilience and even the most modest and occasional treats can be unaffordable. There is a role for both the private and public sectors to get involved here and provide better designed, more affordable products and services that suit the choices these people are trying to make.

The trapped middle need overlapping, practical innovations in work and childcare, housing and energy, transport and the design of the public realm, that will together make living in the city affordable, pleasant and convivial. There is a city that has achieved this, at scale, by deliberately designing places where people earning modest incomes can live well. That city is Freiburg in

Germany and although it is much smaller than London its lessons are still relevant: Freiburg is about the size of the average London borough. What it has achieved needs to be repeated many times over in London.

The core of Freiburg's solution is low-cost, high-quality housing for people on modest incomes. When the 2008 financial crisis led to the withdrawal of federal housing subsidies, Freiburg had to seek alternative models to create good places to live for people on below median incomes. The city adopted a form of shared, low-cost housing that had been tried out in a nearby village on a very small scale. Freiburg took this solution to a scale creating thousands of new, affordable, well-designed homes in neighbourhoods made for a wide range of people but centred on families.

Crucially the city council acted as the lead developer. It took the initial risk by acquiring large brownfield sites of land, a former military barracks and a large industrial site, and equipping them with transport links and utilities. London's public sector, its boroughs and the GLA, but also the NHS and even the MoD, would have to play a similar role, reducing the risk of innovative solutions by providing land at below market rates and providing basic infrastructure.

Then Freiburg residents were then invited to form *baugruppen* – groups which got together with architects to design and build blocks of flats for about six families. By clubbing together, the residents got homes that cost 25% below the market price thanks in part to their shared facilities. The city recouped its investments by selling land to the residents, albeit at below market rates. Local builders and architects were employed. No one made a killing but everyone got what they needed.

The low-rise developments were designed to be family-friendly, so that parents could call from a top-floor flat to children in the pedestrianised play areas below. In Vauban, a neighbourhood in the city, scores of blocks were developed by different groups. All had to conform to some basic design rules, but they all had their own distinctive character. For example,

Riesfeld, the other main site for redevelopment, became a laboratory for hundreds of experiments with solar-powered homes.

Not only were the shared *baugruppen* homes more affordable to build, they were also designed to be cheap to run. Where Freiburg flats have been refurbished with better standards of insulation, energy costs have been cut by 85%. About 25,000 houses in the city are heated entirely from a waste treatment plant.²⁶ (There may not be a long-term future in this form of energy: waste disposal has been cut sixfold in the last two decades. The average Freiburg resident generates just 114kg a year.) Much of the rest of the city is heated by 15 district heating plants. In one pioneering block with the highest standards of insulation, built by a group of young families, a family living in a 90m² apartment pays just €90 a year for their energy compared with a German average household bill of close to €2,400.²⁷ The basic costs of living in Freiburg will likely decline further as its ambitious plans for solar power kick in. Already home to half the domestic solar installations in Germany, Freiburg plans for more than 40% of its energy to come from local, renewable sources in the near future.

That is not all. Freiburg is designed so most amenities are within walking or cycling distance or within easy reach of public transport. As other cities were getting rid of their old trams, Freiburg was extending its network to create a seamless system of trams, buses and light rail. In the last three decades car trips have declined, cycling has risen threefold and public transport journeys by a factor of two.²⁸ Just over two-thirds of all trips in Freiburg are made by people walking and cycling, or using trams and buses. As the Freiburg public transport system is so well used it requires no subsidy: it pays for itself.²⁹

26. Peter Hall, *Good Cities, Better Lives: How Europe Discovered the Lost Art of Urbanism*, Routledge 2014, pg.268

27. *Ibid.*, pg. 269

28. *Ibid.*, pg.265

29. *Ibid.*, pg.267

There is nothing hair shirt about frugal Freiburg: it is designed so families on modest incomes can live well. The city government, working with the community, architects, engineers, designers and architects have taken seriously the challenge of creating better places to live for people, regardless of how much money they have.

The challenge for London is to achieve similar outcomes but by retrofitting solutions like this into a large, diverse city of mainly Victorian dwellings, in which a patchwork state of 33 boroughs works with the GLA and most building is undertaken by private developers. Moreover, those solutions would need to fit into London's very diverse districts. London's housing problems could be solved by building low-cost, high-rise blocks of small flats on cheaper plots of land on the fringes of the city. But they would be soulless, depressing places to live. London needs great places to live for people on all incomes, close to the city's centre as well as on the outer fringes. As in Freiburg, these places will be more affordable if they are both green and social, to take advantage of shared, low cost energy and transport. They would have to be safe, walkable communities in which people cycle, take buses and trams and share cars as the norm. In Freiburg they have designed these communities so well that they are aspirational and appealing. There is nothing second best about them. London needs new aspirational models of this kind, rather than second-rate buy-to-let flats crammed together in out of the way sites.

Nothing needs to be invented from scratch to make London work for households on modest incomes. All the ingredients are available but often they are found in small developments, on the margins. Those solutions need integrating to work at scale for many hundreds of thousands of people. In what follows we focus on four critical steps to release the middle from their trap, and facilitate the circumstances whereby they can live the stable, non-precarious lives that they aspire to and deserve. The first step is to explore the scope to raise

their incomes so they are in a stronger financial position. The second is to dramatically cut the cost of living for households earning between £20,000 and £43,000. The third is to bring these innovations together in an integrated and comprehensive solution available for thousands of households at the same time. The fourth is to wrap this in a new narrative of what London should be like to live in for people on modest incomes. Londoners on below median incomes do not just need budgets that add up, they need a narrative for their lives and the city they live in, one focused on their needs.

Step One: Raise Incomes

Many of the people we met were trying to raise their incomes by working longer hours, training for higher paid, often managerial posts and considering shifting into better paid professions and industries. Four related kinds of innovations could help them.

In working training programmes. Labour market policies focus on getting people who are out of work into jobs and setting a base floor for incomes through the Minimum Wage and the London Living Wage. The trapped middle do not benefit much from these policies. They are already in work, being paid more than the London Living Wage and yet still struggling. They need access to training loans, akin to student loans, which they start to pay off only when they raise their incomes, and time off in lieu to help them take on training.

A different approach would be to create a crowdfunding site for training, in which people could pitch their plans and ask other people to back them, much as they do on sites such as Kickstarter. Upskilling, however, can only be of limited value: many people are already over qualified for the entry level jobs they do.

Household incomes. People cope by sharing their incomes in households, usually families, yet income for tax and benefits is now usually assessed individually. A simple way to help multigenerational families to cope would be to allow them to share tax allowances within a single family unit, so someone paying slightly higher tax

could transfer some of their tax allowances to another family member living in the same household. These people do not want to be on benefits. They do not want hand-outs. They do want ways to help them cope better and to make work more rewarding.

Micro-entrepreneurship. Domestic micro-entrepreneurship should be encouraged as a way for people to raising their incomes by combining wages and running a small business from home on the side. The best potential here can be found in the collaborative economy. Through online platforms, of which Airbnb is the best known example, people can turn “lazy assets” (such as spare rooms, spare storage space, or a rarely used power drill) into a source of additional income by renting them out. This requires little investment and allows households to make use of existing assets.

In the long run, raising the household incomes of people in modestly-paid, semi-skilled jobs will be vital to making London a more attractive and less punishing place for them to live. However, that is likely to be a long-term solution at best. That means the most effective solutions in the short to medium run will be to significantly lower the cost of living for people stuck in the middle.

Step Two: A Lower Cost Base

London needs a raft of innovations to lower the cost of living for those on median earnings and below. Those innovations should not be second-best solutions. They should be well-designed, elegant and aspirational; lean, simple, social and clean. Creating a lower cost base for people on modest incomes will mean: better, cheaper, mass systems for energy, waste, transport, housing and utilities; the creation of a much stronger, high-quality, low-cost private sector, with other companies in other fields following the lead of the likes of Aldi, Lidl and Ikea; new approaches to shared and collaborative consumption so people avoid the costs of individual ownership. Oklahoma City famously went on a collective diet to lose 1m pounds in weight. London could do with

something similar to cut the cost of living for families on below median incomes just as Freiburg has done. What would that involve?

Housing

The trapped middle needs a new aspirational and hopeful relationship with property. That will only be possible if the dominant narrative of private, individual, owner occupation as the best possible form of housing is challenged and dislodged. The new narrative of affordable housing in London will have to invert that and stress public, shared, rented. For most people on modest incomes home ownership has become a distant dream at best, and even when it is made real it brings with it a millstone of unsustainable debt.

A new approach to housing London's hard working modest earners needs to start with ideas.

The first is that the public sector will have to play a much more significant role in creating affordable solutions. Public leadership will be required across a wide range of fronts, from investment to buy land and make it available at below market rates, to regulation to promote higher quality in the private rental sector, to new approaches to planning to promote schemes with 60% plus affordable housing. It's possible to meet most of London's affordable housing needs with imaginative developments on brownfield sites using low cost building techniques, but only if the public sector, as it did in Freiburg, takes out some of the risk involved by making the land available at below market rates.

The second element is long-term renting rather than ownership. For too long renting has been a poor relation of home ownership, a second-best solution of short-term lets and bare walls. Almost 90% of landlords, who own more than 70% of the rental stock, are private individuals.³⁰ Three quarters of all landlords only rent out a single property. Most of the properties people will

30. BSHF – *Building New Homes for Rent: Creating a Tipping Point 2012*
www.bshf.org/published-information/publication.cfm?thePubid=03eb21cc-15c5-f4c0-99108a788c643284&lang=00

rent in future are already being rented. So the first task, already embarked upon by the Mayor with his fair rental standards, is to raise the quality of the small-scale rental sector.

But there is also an opportunity to expand the supply and improve the quality of new rental properties. Compared to the rest of Europe there is precious little long-term institutional investment in new rental properties. London needs a far more systematic approach to renting, at higher quality for longer periods, to make high quality, longer term renting part of the new normal.

These are just some of the ingredients that would be required to make that work.

- A large institutional investment fund – public and private – dedicated to new large-scale rental developments within London, prioritising affordable rents for people on modest incomes, within Zone 3, especially on brownfield sites.³¹
- A new generation of rental management companies to run these properties, akin to the role Urban Splash played in development in Manchester two decades ago or building on the work of the most innovative social landlords.
- A programme to make available public land currently held by government agencies, the MoD, the NHS and local authorities, for large-scale rental developments. The public sector, the GLA and London boroughs would need new powers to force private developers to bring forward developments that are stalled.

31. Institutional investment in the private rental sector has been extensively discussed in DCLG's Montague Report 2014, BSHF – *Building New Homes for Rent: Creating a Tipping Point 2012*, and the government has pledged to begin an investment fund for this purpose.

- New flexibilities in the planning system to encourage developments with much higher ratios of affordable and intermediate private rental properties. Local authorities should designate land for affordable private rental property development.
- Innovative building methods and designs to create low-cost models which are attractive to investors who can start breaking even despite renting at below market rents within 15 years. Low-cost land, low-cost, prefabricated building methods and innovative materials, should all combine so that developers make a reasonable profit from renting affordable properties.
- Long-term, transparent and predictable rental agreements which provide tenants with stability and investors with predictable and decent returns.

The third part of the solution will be better shared options. Individual, private ownership is the least cost effective way to own a home. The only way many people will be able to afford a home in London is to own it with others, or to own a part of it. Home ownership in London will have to become a form of partnership, often within families. This is already the reality of multi-generational households in which adult children rely on parents, and parents downsize to free up equity to invest in their children's homes.

Yet shared ownership schemes have proven less popular than expected, in part because they are inflexible. Public policy needs to work with the grain of these shared, often family-based solutions, promoting more ways for people to share in the benefits and the costs of ownership, through share and part ownership/part rent arrangements.

It is not just houses that people need to share. People with limited budgets do not just need better, more affordable, flats and homes. They also need great places to live. Freiburg has built communities, not just

houses. Those communities are threaded by parks and play areas, walkways and cycle paths, which link people to shops and schools, with public transport nearby to take them into the centre of town. Building low-cost, high-rise rabbit hutches for people to live in miles from the nearest amenities is no solution. People want decent, convivial and social places for people to live where their children can play out safely, people can run, walk, sit and chat. Small investments in the public realm – outdoor exercise gyms, places to sit, small outdoor cafes – can make a disproportionate difference to the quality of life for people.

Transport

Public transport is arguably London's most important democratic institution: a shared way for anyone to access the opportunities of the city. Time and again people said that London was great to live in so long as you were close to affordable public transport. That said, many of the people we interviewed felt that transport was increasingly expensive. They need affordable efficient public ways to get around from A to B as fast as possible, but combined with that they need accessible, walkable neighbourhoods in which they could get to all the facilities they need using their own low-cost muscle power.

One option would be to help people finance their travel more efficiently. Linda, a single mother in north-east London, can afford to travel to work because her employer gave her a low-cost loan to buy an annual travel pass. This kind of arrangement should be open to people on modest incomes regardless of their employer. One option would be for Transport for London to work with the major banks, to become a financial services provider, giving its long-term, low-income commuters affordable loans to buy annual season tickets. This would give TfL predictable income at scale; the banks would get new, secure business with low defaults and commuters would get more affordable season tickets. This would particularly improve the transport offer for

those who are self-employed or employed by SMEs who could not provide staff loans.

Making public transport more affordable would make a significant difference in allowing families and individuals who live in the suburbs to access all that central London has to offer. Free travel on New Years Eve generates huge crowds at free events like the fireworks on the river. The rest of the year, however, transport costs from less central zones are prohibitive and cut people off from the free culture and activities which are numerous in the centre. Extensions to the tube's running hours will be a huge step forward in making leisure more affordable for young people, like Gayle, who do not live centrally. However, a better transport offer should also include families who would benefit from more affordable transport during the daytime on weekends, and those living in areas like south-west London which have few tube connections and thus make central London inaccessible at night. London has a huge amount of free activities to offer, but the costs attached to accessing them make them out of reach for many modest earners.

The most promising longer-term solutions are likely to be focused on the next generation of Oyster cards. Zurich and Berlin have both created integrated mobility schemes which provide people with a single card they can use to access trams, trains, buses, car and bike sharing services, as well as paying for some taxi journeys.³²

Shared solutions – car sharing, bike sharing, taxi sharing – will also play a growing role. Black cabs are a vital part of London's identity. But it should be possible to rent a vehicle and driver by the minute in many more forms, not just through apps like Uber, which turns your mobile phone into the equivalent of a taxi meter to be used in a minicab, but also through the encouragement of London equivalent of the *mutatu*, the shared taxi-buses common in many developing

32. BioRegional Consulting Ltd. 'Car Club Research Report', 2007, pg.20

world cities. If many of London's squeezed middle feel poor then it makes sense to learn from solutions that work for poor people elsewhere in the world.

One area of transport use in need of innovation is the daily school run, which is one reason why families on modest incomes still need cars and also creates a difficulty for parents with young children in terms of working hours. The more that families rely on improvised, shared solutions for child care – because they cannot afford a childminder – the more they need cars to shuttle children around. The best solution would be for families to be able to live within walking distance of good schools. Another might be to fund a small set of schools to create “transport” officers charged with the task of orchestrating transport to and from school in novel, shared ways which lower the cost for parents while also reducing their carbon footprint.

Childcare

Childcare costs in London are prohibitively high for many families on above median incomes, let alone those earning below the median. Those costs create a particular disincentive for mothers to return to full-time work after having a baby. The combination of a high childcare costs and a pronounced gender pay gap means that many mothers as a result work part time or, like Deirdre, seek out flexible but poorly paid hours.

Tax and benefit rules combine with the labour market to stack things against families on median incomes. Nationally, a family with two children now needs to earn a third more than it did pre-2008 to make ends meet according to Joseph Rowntree Foundation.³³ A woman with a partner in work on a median income would only gain £20 a week by shifting from part to full-time work, according to The Resolution Foundation.³⁴

33. Joseph Rowntree Foundation – *A Minimum Inome Standard for the UK in 2014* www.jrf.org.uk/publications/minimum-income-standard-2014

34. Resolution Foundation – *Squeezed Britain 2013* www.resolutionfoundation.org/media/media/downloads/Resolution-Foundation-Squeezed-Britain-2013_1.pdf

Extra support for childcare costs is skewed towards comparatively better-off households, even among those who will qualify for Universal Credit. Higher-earning households in Universal Credit will have 85% of childcare costs paid, while lower-earning ones will be able to recoup only 70%.³⁵ One solution would be to allow all families on universal credit to claim back 85% of childcare costs by trimming back the fund which gives vouchers to families who do not qualify for universal credit.

Most families with children who cannot afford full-time childcare, but have parents in work, depend on a mesh of informal supports, involving family and friends. The best way forward might be to build on these informal solutions.

These are just some of the ideas that might be considered.

- Grandparents are vital to childcare in many families. Yet many families do not have a grandparent nearby and many grandparents do not have young children living near them. It would not be complicated to create a social networking site in which local parents and grandparents get together to connect informally. A scheme called Home-Start already does this on a small scale but it could become much more commonplace for grandparents to become part-time childminders for children who are not their own. Parents First, for example, trains mothers to become peer supporters for young, vulnerable mothers. The principles of these peer-to-peer solutions could be extended.
- Childminders who work “wraparound” hours, often in teams, starting earlier and ending later, which is particularly important for parents who have to commute for longer periods and distances.

35. The Children’s Society – *A closer look at the Government’s support for childcare costs* www.childrensociety.org.uk/news-and-blogs/our-blog/qa-closer-look-governments-new-support-childcare-costs

- A London Wide Emergency Child Care service. Sandra would consider moving out of central London, away from her son's good school, to an area like Havering where she says good flats are cheaper. The only trouble she says is that she cannot trust the rail services. If her train home were delayed due to "leaves on the line" then she would not be able to pick up her son from afterschool club. She has no local support network in Havering – there is no one who would be able to take him in. Sandra's position might be eased if she knew there was a reliable Emergency Childcare service that she could turn to when her normal arrangements break down. Childcare is such a critical service in London that perhaps it too should have an emergency breakdown service, like the AA.

Utilities

London's trapped middle need new, affordable alternative sources of supply of the kind that abound in Freiburg – especially district-combined heat and power plants and renewable power schemes. The Loughborough Estate in Brixton has solar panels on its roofs and the scheme is even turning a profit. Lifts, communal areas and homes are all powered from solar sources. Schemes such as this have been encouraged by the government's Feed-In Tariff scheme, which guarantees prices for 20 years. Some energy generated is used on site, some sold directly back to grid.³⁶ Kingston Community Energy is a non-profit coop formed from Transition Town Kingston's Energy Group which is working towards community-owned, decentralised renewable energy systems.

People also need ways to get better deals from the energy market as it stands. Moneysavingexpert.com, moneysupermarket.com and Which? all run services which help consumers to switch energy suppliers. A service of a slightly different kind, Open Utility, helps

36. Transition Town Brixton – *Brixton Energy 2014* www.transitiontownbrixton.org/category/projects/brixton-energy/

people to navigate the new era of power generation where local homes and businesses are generating renewable power, and allows people to buy electricity directly from local suppliers of renewable energy. Another service, Homely, supports people to make their home warmer and more energy efficient by directing them to sources of local funding.

As Freiburg shows, however, many of the biggest gains come from designing-in lower costs through better insulation, which in turn reduces energy demand. Home insulation schemes which are only available free to people in social housing or on benefits should be extended at low cost to households in work but on below median incomes.

Consumer Innovation

In addition to increased consumer savviness, using tips from groups such as Broke in London and coupons and discount cards for leisure and essentials, the sharing economy is becoming a way of life for many people in this group.

They are happy to turn away from large corporate provision to access services, as evidenced by the collaborative mobile provider GiffGaff and the growth in crowdfunding sites such as PeopleFundIt and Kickstarter. There are also a wide range of initiatives in the collaborative economy aimed at strengthening communities and maximising the value already within them, from Streetbank, which allows people to lend little-used household items to people living nearby; Spice, which is a timebanking system run by local councils so people can volunteer and earn discounts on local services; and LandShare which turns vacant plots into small scale allotments and market gardens. The market for lower-cost, shared solutions in land, housing, finance, food, household goods and cars is only likely to grow. Yet existing regulation is not always supportive of it. If we are serious about creating a London that works for modest earners, we need to ensure that policy supports the development of the sharing economy.

Better Money Management

The trapped middle need helpful, simple banking products and services to help them to manage their money better and stay out of debt. There has been lots of innovation in this space but unfortunately much of it is designed to exploit people rather than support them: pay day lenders are responding to people's often acute need for emergency funds but charging them exorbitant rates of interest.

However, alternative models of simple, basic banking aimed at people with limited incomes are developing and should be encouraged. Thinkmoney's 100,000 customers pay £14.50 per month for a service which guarantees they will not go overdrawn. As a result they avoid the charges that many customers of mainstream banks end up paying for unauthorised overdrafts. Thinkmoney's Money Managers give common-sense budgeting advice when customers call to transfer money from their dedicated "bills" account – used to make regular payments for rent, utilities and debt repayment – into their "spending" account. Customers are sent regular text updates on the state of their accounts and a simple system of smiley faces communicates the state of their finances – so they know exactly how much they have available to spend and can budget accordingly. Thinkmoney's basic "jam-jar" banking has very high customer satisfaction scores.³⁷

Secure Trust Bank helps its customers to set up a current account into which they pay their income. This account is used to pay direct debits and standing orders for regular bills, but it cannot be used for spending. Instead, money for spending has to be transferred to the Secure Trust Bank current account from where it can be uploaded to a pre-paid Master Card, which can be used for cash withdrawals and in shops. Customers can only spend what is on the card. Secure Trust's 20,000 current account customers pay £12.50 a month for the service which guarantees they will not fall into debt.

37. *Fairbanking Ratings: Reaching for the Stars*, Antony Elliott, 2013

Thinkmoney and Secure Trust Bank show it is possible for banks to make a commercial return while helping their customers on modest incomes stay out of debt and build up their savings. The fee they charge for the service is well below the amount many customers would pay in overdraft charges with mainstream banks.³⁸

Perhaps the most exciting example of a basic financial product working at scale is RBS/NatWest's savings goals planner, which allows people to set savings goals – such as going on holiday, buying a new car, getting married. At the end of 2013 about 200,000 customers were using the product and saving on average about £189 per month more than those without the goal-related features. The bank has plans to get 1m savers using the tool in the course of 2014. This is socially useful, commercially sustainable innovation at scale designed to help people on modest incomes save small sums. We need to encourage these kind of products, combined with programmes to promote greater financial self-discipline and self-management, such as the non-profit Futureproof programme run in east London. Futureproof works to give people basic financial literacy but also helps them deal with stigma around debt and the psychological barriers to proactively managing their money. Projects such as this put people in a stronger position to manage well on modest budgets.

Step Three: Bring It All Together

In order to really make a difference to people innovations like those described above need to be brought together in a single place, at scale, in an integrated, concerted and systematic effort to cut the cost of living and create a better quality of life for people on modest incomes. That is what has been achieved in Freiburg for thousands of people in a city the size of a London borough. London needs several Freiburg style initiatives which would work in an old, established and diverse city. Our proposal is to create

38. Ibid

Social Improvement Districts which would become the focus of public-private partnerships to do just that.

Social Improvement Districts would be akin to Business Improvement Districts except instead of improving the environment in which business operates, the SIDs would be designed to create a better social environment especially for people on modest incomes.

A SID might encompass, say, 7,000 households. Some might be mainly new developments, others might be mainly existing households. The size would be vital to reap economies of scale from new shared solutions and infrastructure.

A SID would have to bring together contributions from many different players. SIDs would require public leadership to kick start the process, for example to make land available at below market rates for affordable, private rented development and to bring in the infrastructure and services needed for transport, energy, waste and utilities. Normal planning regulations would be suspended to allow for experimentation with building types, mixes and sizes, so developers could experiment with lower-cost, smaller, more modular flats.

Public leadership would provide the platform for a mass of social and economic innovation to develop better ways for people to live on modest incomes, ranging from collaborative consumption of basic utilities and household assets; car and bike sharing; walkable amenities and flexible, local childcare; small but significant improvements to the public realm, for example to promote better health and outdoor exercise. SIDs would attract high-quality but low-cost retailers such as Aldi and Lidl, and banks like Thinkmoney and Secure Trust.

Vauban and Reisfield in Freiburg are prototype SIDs. They provide low cost housing for a diverse range of people – single and couples, people with children and without, old and young – but also create better places to live which are convivial, safe and attractive.

CONCLUSION:

**A NEW
NARRATIVE
FOR LONDON
AND ITS
TRAPPED
MIDDLE**

The trapped middle needs a new narrative for their lives. It is not just their household budgets that do not add up; it is the bargain they based their lives on that is not making sense anymore. They work hard to get nowhere. Each month some just get by; many fall a little further into debt. Then they have to start all over again, with little respite, relief or sense of the future.

If we don't succeed in making London work better for this group, their politics could turn steadily sour. The pressures the trapped middle are under often means they indirectly blame "others" who do not "pay their way", particularly benefit claimants and recent immigrants. They will not protest, riot or even complain. They will, however, grow increasingly detached from and disenchanted with London.

These people are climbing a ladder, yet have found the middle rungs have all been removed, leaving them working hard just to cling on but with little prospect of getting any higher. For London to count itself as a successful city, to deliver on the potential of all it has to offer for people on all incomes, those rungs need to be put back in.

This report focuses on London's modest earners – those earning below average, but not so little than they are entitled to benefits. Across the city about 1 in 5 households fall into this category. London depends on these people – they work hard in essential jobs. Yet with wages flatlining and costs spiralling, they are finding the capital an increasingly difficult place in which to live. Continuing to ignore their needs could have severe consequences for London's politics and future.

Drawing on a series of interviews with ordinary Londoners and a new synthesis of quantitative evidence, Hollow Promise offers a rich picture of the pressures facing London's modest, hard-working families, and sets out a series of ideas that could help make life easier for them.

This publication has been generously supported by Circle Housing Group, Argent LLP, Grosvenor, London Borough of Ealing and London Borough of Haringey.

ISBN 978-0-9576912-7-8
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