GREATER**LONDON**AUTHORITY

# Raising after-housing-cost incomes for the bottom 20% of London households

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October 2026

Insights
SKILLS AND EMPLOYMENT

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# Executive summary

London has one of the highest poverty rates in the UK, despite being its most economically productive region. The London Growth Plan commits to raising the after-housing-costs (AHC) incomes of London's lowest-earning 20%, by 20% by 2035. This report summarises:

- the evidence on who is in the bottom 20% of London's income distribution (also called 'bottom quintile' in this report)
- the reasons behind persistently low AHC incomes
- some policy levers available to improve living standards.

The evidence shows six central findings:

**1. AHC incomes for the bottom 20% of Londoners have stagnated for nearly 30 years.** While most other income groups have seen real income growth above 50% since the mid-1990s, AHC income at the 10th percentile increased by only around 10%. The 10th percentile is the income level below which 10% of London households fall, and it's the median among the bottom 20%. In the rest of England, the equivalent income percentile rose by around 45% in real terms. London's overall prosperity hasn't translated into gains for its poorest households.

**2. The long-run stagnation of AHC income for the bottom 20% is mostly due to housing costs.** Before-housing-cost (BHC) incomes for the bottom 20% rose broadly in line with the rest of England. However, housing costs for the bottom 20% rose by nearly 70% in real terms – much faster than for other groups. One of the contributing factors is a shift from social renting towards private renting. Today, 60% of households in the bottom AHC quintile spends more than half of their BHC income on housing.

**3. The bottom 20% includes a wide mix of Londoners; but worklessness and disadvantage are defining features.** Over half of families in the bottom quintile are workless, and most of that is due to economic inactivity (rather than unemployment or old age). Reasons for inactivity vary systematically by age: from studying among those under 25, to caring responsibilities among the middle-aged, and ill health among older adults. Over 60% of inactive adults in the bottom quintile hold qualifications at Level 3 (equivalent to A-levels) or above. This indicates that, for many, a lack of formal skills is not the primary barrier to work. Children, single parents, ethnic minorities, foreign-born individuals and households with disabilities are over-represented in the bottom quintile. At this quintile, 41% of households rent privately, exposing them to the highest housing costs.

**4. Benefit income is important to the bottom quintile, yet access to it remains uneven.** Benefits make up around half of total BHC income in the bottom quintile. Three in ten households from this quintile depend almost entirely on benefits; and many others receive little or nothing, due to non-eligibility or non-take-up. Over the past three decades, average benefit income for the bottom quintile has declined slightly in real terms; this is the opposite of what would be required to offset rising housing costs.

**5. Increases in employment can be more effective than addressing low pay, when raising AHC incomes for the bottom quintile.** Scenario analysis shows that:

- raising all low-paid workers to the London Living Wage would increase the 10th percentile AHC income by around 3%

- creating 150,000 additional jobs, at £600 per week, would increase the 10th percentile by 9%
- a five-percentage-point rise in the employment rate at minimum wage would increase the 10th percentile by 24%, which is more than the 20% London Growth Plan target.

The scenario analysis highlights the importance of employment relative to wage growth. Productivity growth alone is likely to have a limited impact on the bottom 20%, as it primarily affects wages rather than employment. However, both London's overall employment rate and the employment rate of the bottom 20% are already close to their highest levels since the mid-1990s. This suggests that further gains in employment may be difficult to achieve and could require structural changes across a range of policy areas, including health, welfare and taxation.

**6. Reducing housing costs would have a large impact on the living standards of the bottom 20%.** A 10% reduction in housing cost for all renters would increase AHC incomes at the 10th percentile by around 6%. A 20% reduction would raise the 10th percentile by 16%. Targeted shifts from private renting, to more affordable tenures, yield moderate effects: moving one in 10 households in the bottom quintile, from private to social renting, would raise the 10th percentile AHC income by around 4%.

**Short, medium and long-term policy implications**

- **Short term (1-2 years):** Although not a long-term fix, boosting benefit take-up is the quickest route to raising disposable incomes for low-income households. Pension Credit and Universal Credit campaigns can produce meaningful gains at relatively low cost. Advocacy on Local Housing Allowance and the benefit cap remains important.

- **Medium term (2-5 years):** Employment programmes can deliver incremental improvements. Connect to Work, the Trailblazers programme, borough-led support, Adult Skills Fund provision and employer-aligned pathways all play a role in improving incomes. However, raising the employment rate to 80% (a national government objective) would also need national-level policy changes to improve public health; and to reduce the number of young people not in education, employment or training. The evidence on economic inactivity suggests that health-related employment support should be a priority – particularly for older working-age adults.

- **Long term (5-15 years):** Housing costs are the decisive driver of living standards in London. The supply of social and affordable housing has not kept up with population growth in recent decades, due to fiscal pressure. The forthcoming Social and Affordable Housing Programme is a positive step, but on its own it is unlikely to deliver enough new homes to meaningfully shift the city's tenure composition. Broad-based reductions in rent levels, facilitated by easing planning constraints and boosting market supply, can help improve affordability and reduce pressure on low-income households.

The report is organised into three parts:

- Part A sets out the scale and history of low AHC incomes in London; and describes who is in the bottom 20%.

- Part B examines the drivers of low income in more detail: benefits; work and earnings; and housing costs.
- Part C considers the policy levers available to the GLA. It summarises the short, medium and long-term actions that could raise AHC incomes.

The annexes detail the data, definitions and methods used in this report.

# Part A – The state of low income in London

## Section 1: Context – inequality, poverty, and the London Growth Plan target

London has one of the UK's highest levels of income inequality. Although average earnings in London exceed those in other regions, living costs (especially housing costs) are much higher. As a result, 26% of Londoners live in relative poverty after housing costs – the highest rate of any UK region.[1] This indicates the scale of the challenge in raising living standards for low-income households in the capital.

The London Growth Plan and the Inclusive Talent Strategy set a strategic ambition to improve living standards for those on the lowest incomes. One of their core targets is to 'raise the weekly after-housing-costs income of the lowest-earning 20% of Londoners by 20% by 2035'. This ambition recognises that, in a high-cost city such as London, improving disposable (after-housing-costs (AHC)) income is central to achieving inclusive growth.

To understand this target, we must first define the population of interest; and the income measure used. The income measure is net equivalised household AHC income. This measure:

- includes all income sources (including benefits and pensions)
- is after tax
- deducts ongoing housing costs.[2]

Household incomes are equivalised to account for differences in household size and composition. This report primarily uses the Households Below Average Income (HBAI) dataset, pooled across three financial years (2021/22 to 2023/24). A full explanation of data sources, methods and definitions used within this paper are provided in the Annex 1. This report focuses on the bottom fifth of London households in the net equivalised **AHC** income distribution. We refer to them, interchangeably, as the bottom 20%, and the bottom income quintile.

The bottom 20% of households by AHC income are a poorer subset, compared to households in relative poverty in London. Households in relative poverty are defined as having a net equivalised AHC income below 60% of the median; 26% of London households in our data are in relative poverty. The Joseph Rowntree Foundation defines:

- 'deep poverty' as having net equivalised AHC income below 50% of the median

[1] Relative poverty is defined as having household income below 60% of the UK median after housing costs. Source: Trust for London, London's poverty rate is the highest in the country again – what you need to know, 4 June 2025

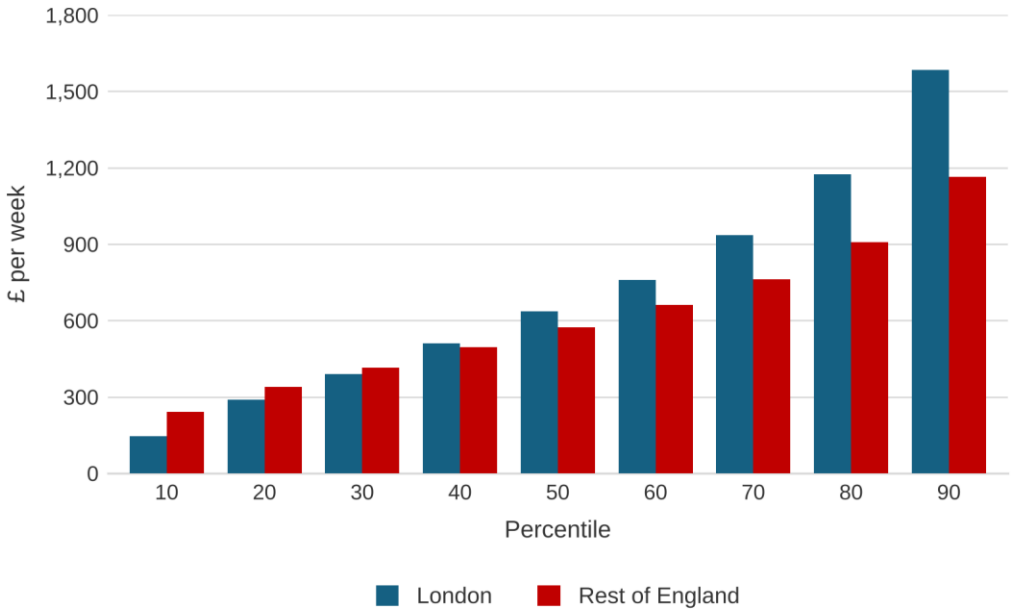
[2] Ongoing housing costs include rent, mortgage interest payments, water rates, structural insurance premium (for homeowners), ground rent and service charges (for leaseholders). For mortgage-holders, only the interest element from a repayment mortgage is considered housing cost; the capital repayment is not considered a cost of consuming the housing service, but a form of asset accumulation. This definition of 'housing cost' follows the official methodology of HBAI, and of poverty statistics.

- ‘very deep poverty’ as having that income measure below 40% of the median.[3]

In the London HBAI sample in 2021-24,[4] 19% of households are in ‘deep poverty’ and 14% are in ‘very deep poverty’. Thus, the bottom 20% is the closest to the group in ‘deep poverty’.

Figure 1, below, shows the distribution of net equivalised AHC income in London compared with the rest of England. At the 10th percentile, AHC income is £149 per week in London, compared with £240 in the rest of England. At the 20th percentile, AHC income is £292 in London, compared with £342 in the rest of England. The figure also shows that London has higher incomes at the median; and much higher incomes at higher percentiles. This highlights the city’s unusually wide income distribution.

**Figure 1: Distribution of weekly net household AHC income, London and rest of England**




Source: HBAI data, 2021/22 to 2023/24.

Note: Monetary amounts are in 2023/24 prices. Incomes are adjusted for household size; and are expressed for a household with two adults and no children.

[3] Source: Joseph Rowntree Foundation, UK Poverty 2026: The essential guide to understanding poverty in the UK, 27 January 2026

[4] ‘2021-24’ means pooling together three financial years: 2021/22, 2022/23 and 2023/24.

Figure 2 presents mean before-housing-cost (BHC) income, alongside mean weekly housing costs, across the income distribution in London. For households in the bottom AHC income quintile:

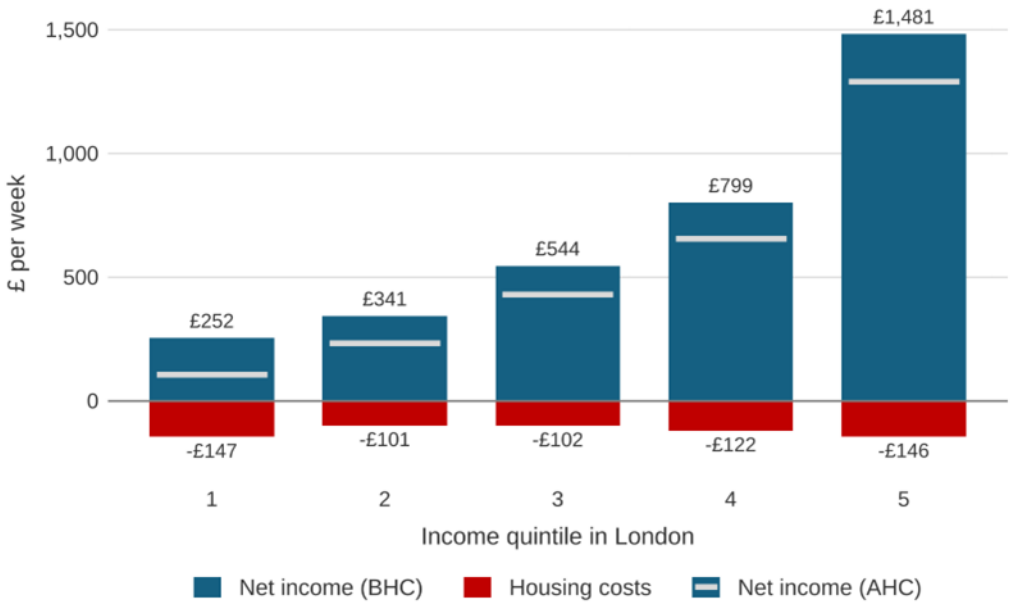
- mean housing cost is £237 per week
- mean BHC income is £355 per week.

This means that, on average, housing costs absorb around two-thirds of net household income amongst the bottom 20%. Under the HBAI definition, housing costs:

- mean the ongoing costs of living in a home (rent or mortgage interest and related charges[5])
- exclude the capital repayment part of mortgage.

Part of this pattern is mechanical, because households are classified into quintiles based on income **after** deducting housing costs. However, the scale of the housing-cost burden among this bottom 20% remains striking. Section 6 explores the drivers of these high housing costs in more detail.

**Figure 2: Mean weekly BHC income versus housing costs, by income quintile in London**




Source: HBAI 2021-24.

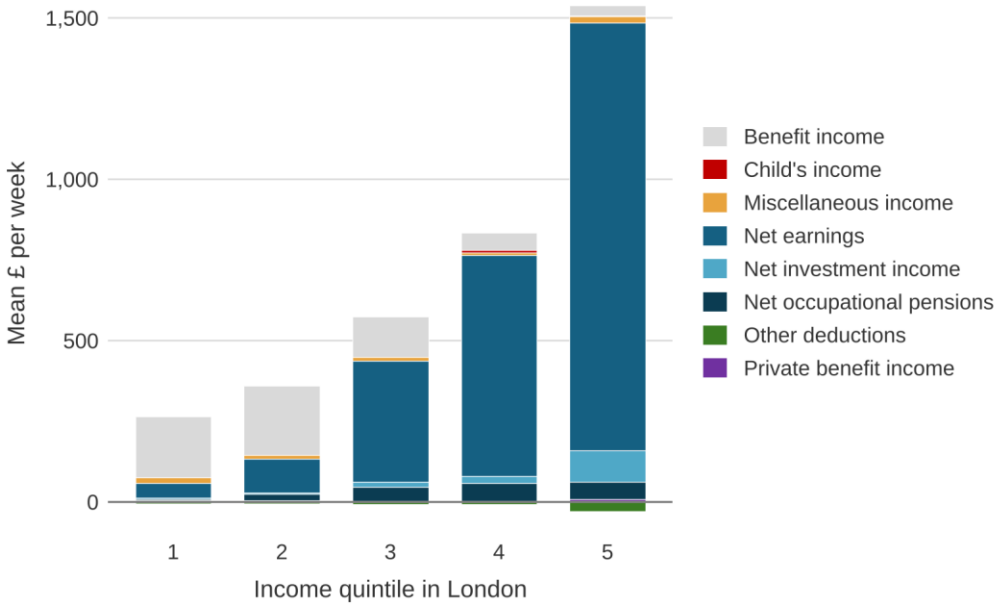
Note: income quintile is always defined by equivalised net household income AHC. Incomes in this graph are not equivalised for household size, because housing cost is not. Housing cost includes rent and mortgage interest payment; and

[5] For mortgage holders, the capital repayment is not considered a cost of consuming the housing service, but a form of asset accumulation. This definition of 'housing cost' follows the methodology of HBAI and of official poverty statistics.

excludes capital repayment of mortgages. The latter is considered a form of asset accumulation, rather than consumption. This definition of 'housing cost' follows the official methodology of HBAI, and of poverty statistics. The mean value in each group is shown as mean BHC income, minus mean housing cost, equalling mean AHC income. This equation does not hold for the median. Most other figures in this report use median rather than mean; this is because the mean could be sensitive to outliers. All £ amounts are in 2023/24 prices.

Meanwhile, the bottom quintile is most reliant on benefit income. Figure 3, below, shows that in the bottom quintile, around half of total net income comes from earnings; and half from benefits. The share of income coming from different sources highlights two of the most important levers for improving AHC incomes among the lowest-income Londoners: improving benefit take-up and adequacy; and increasing earnings for those able to work. These themes are examined further in sections 4 and 5.

**Figure 3: Income components, by income quintile in London**



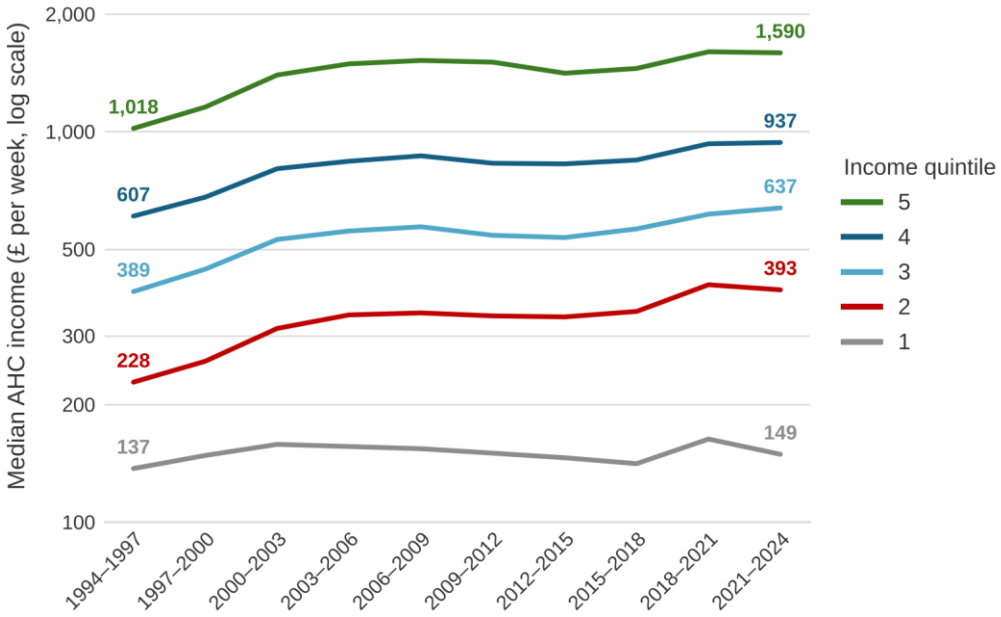

Source: HBAI 2021-24.

Note: income quintile is always defined by equivalised net household income AHC. The plotted income components (including 'other deductions') are the exhaustive list of components that add up to net household income BHC. All £ amounts are in 2023/24 prices.

## Section 2: Trends in income and housing costs

This section provides a descriptive overview of how household incomes in London have evolved over time, with a particular focus on the 20% of households with the lowest income. It draws on long-run trends in incomes, before and after housing costs, to establish the historical trajectory of living standards; and to place London in context, relative to the rest of England. The trends documented here will be based on HBAI data from 1994-97 to 2021-24; every three years are pooled together, to increase sample size. Later sections will examine the drivers behind these trends.

**Figure 4: Trends in median equivalised net AHC income by quintile group in London**




Source: HBAI from 1994-97 to 2021-24.

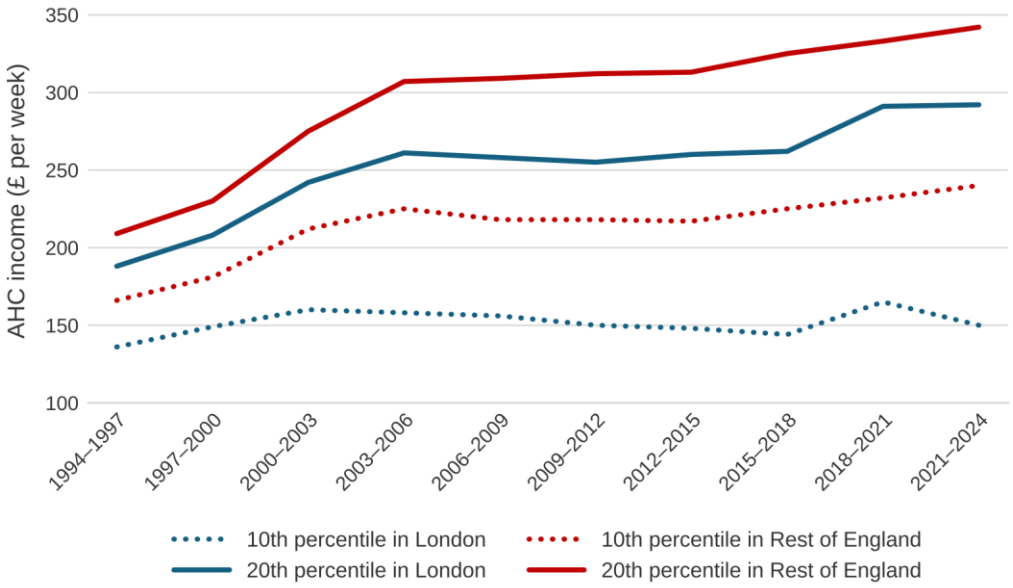
Note: income quintile is always defined by equivalised net household income AHC. The median value in each group is shown. All £ amounts are in 2023/24 prices.

Figure 4 plots the median weekly net AHC income for each quintile group in London. Income quintile is based on households' net equivalised AHC income within the region; and each quintile group consists of 20% London households. The bottom line is the median within the bottom quintile.

Median equivalised net AHC income rose from £137 per week in 1994-97, to £149 per week in 2021-24 for the bottom quintile (both in 2023/24 prices). This is an increase of around 10% over nearly three decades. Over the most recent two decades, there was virtually no improvement. By contrast, median AHC incomes for every other quintile grew substantially, by between 54% and 72%, since 1994-97.

The stark divergence in growth shows that improvements to living standards have not reached the very bottom of the London income distribution. This is one of the most important findings in this report.

**Figure 5: Trends in 10th and 20th percentile AHC income in London versus rest of England**




Source: HBAI from 1994-97 to 2021-24.

Note: the percentiles are based on the net equivalised AHC income distribution in London and that in the rest of England. All £ amounts are in 2023/24 prices.

It is important to compare London with the rest of England, to understand whether the stagnation is unique or part of a national trend. A time series of the 10th and 20th percentiles for both London and the rest of England (figure 5) shows that three of the four series grew markedly in real terms since the mid-1990s. London was the only region where AHC income at the 10th percentile showed no meaningful growth. The 10th percentile for the rest of England rose from around £166 to £240 – a 45% increase over nearly three decades. Meanwhile, London's 10th percentile increased by only 10%. The 20th percentile grew by 55% in London, and 64% in the rest of England. In other words, low-income households elsewhere in England experienced sustained real income growth, while the very bottom of London households did not.

These long-run patterns suggest that low-income Londoners have been "left behind". The reality in AHC income trends shows that the most persistent stagnation has occurred among the lowest-income London households. This underscores the importance of the London Growth Plan's inclusive growth target to raise incomes in the bottom fifth.

BHC income trends reveal a contrasting story, helping to pinpoint where London's divergence emerges.

**Figure 6: Trends in 10th and 20th percentile BHC income in London versus rest of England**



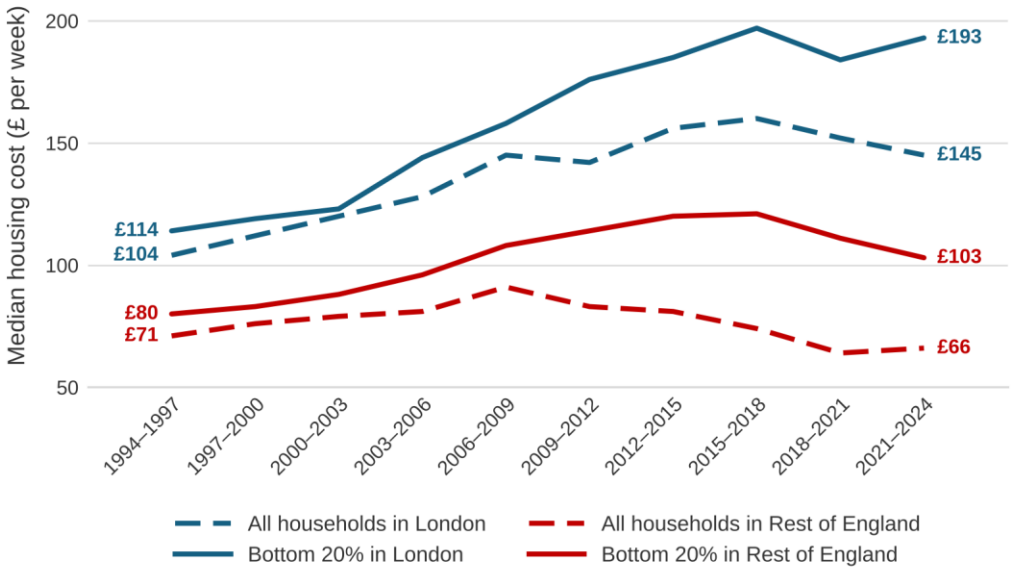

Source: HBAI from 1994-97 to 2021-24.

Note: the percentiles are based on the net equivalised BHC income distribution in London and that in the rest of England. All £ amounts are in 2023/24 prices.

A time-series comparison of the 10th and 20th percentile BHC incomes for London, and the rest of England, shows that all four series experienced substantial real growth, especially before the mid-2000s (figure 6). Growth slowed thereafter, but the long-run gains remain clear on all measures. Crucially, at the 10th percentile, London and the rest of England have tracked each other very closely in both levels and trends over nearly 30 years. In other words, London's low-income households are not left behind in their pre-housing-cost resources, relative to comparable households elsewhere.

This contrast between rising BHC incomes and stagnant AHC incomes makes it clear that housing costs are the central factor shaping the long-term income trajectory of low-income Londoners.

**Figure 7: Trends in median housing cost for bottom 20% London households**




Source: HBAI from 1994-97 to 2021-24.

Note: the bottom 20% is always defined by equivalised net household income AHC in London or the rest of England. The median housing cost in each group is shown. Housing costs for the bottom 20% tends to be higher than housing cost unconditional on income group. This is because the bottom 20% is defined on the basis of AHC income. Mechanically, by this definition, households with high housing costs are more likely to be in the bottom 20%. All £ amounts are in 2023/24 prices.

Figure 7 shows that median housing costs for the poorest 20% of households in London have risen dramatically, by around 69% since the mid-1990s. This compares with a 39% increase for London households overall; and 28% for the poorest 20% households in the rest of England. These differences in the pace of housing-cost growth are what ultimately drive the divergence in AHC outcomes between London and elsewhere.

Note that housing costs mean the ongoing costs of living in a home (rent or mortgage interest and related charges[6]), not house prices. Section 6 will delve deeper into the causes of rising housing cost, especially among the bottom income quintile of Londoners.

[6] For mortgage holders, only the interest element from a repayment mortgage is considered housing cost; the capital repayment is not considered a cost of consuming the housing service, but a form of asset accumulation. This definition of 'housing cost' follows the official methodology of HBAI and of poverty statistics.

The evidence shows that low-income households in London experienced similar improvements in BHC income to those seen in the rest of England; however, these gains were overwhelmed by the faster rise in housing costs. This explains why only London's 10th percentile has failed to see real income growth over time. The fact that low-income Londoners have fallen behind, despite living in the UK's most prosperous region, reinforces a broader point: the popular narrative of "left-behind" regions does not capture reality.

## Section 3: Demographic profile of the bottom 20%

This section describes who is in the bottom 20% of London households after housing costs. It uses demographic characteristics; ethnicity; family structure; disability; and a simple snapshot of work status to set the scene for the later sections on benefits, employment and housing.

We will explore demographic composition firstly at the individual level; and then at the family level. It is useful to clarify the distinction between a household and a family (benefit unit). A household is defined as everyone living at the same address; while a family or benefit unit consists of a single adult or couple, and any dependent children. Multiple benefit units within a household may not share financial resources. In London, 24% of households contain more than one benefit unit. The share is also 24% among households in the bottom income quintile. In our analysis of family type, each benefit unit within a household is treated as a separate family.

### 3.1 Demographic profile: gender and broad age group

Children are over-represented in the bottom 20%. Dependent children include everyone under 16; and 16-19 year olds who meet all of the following criteria:

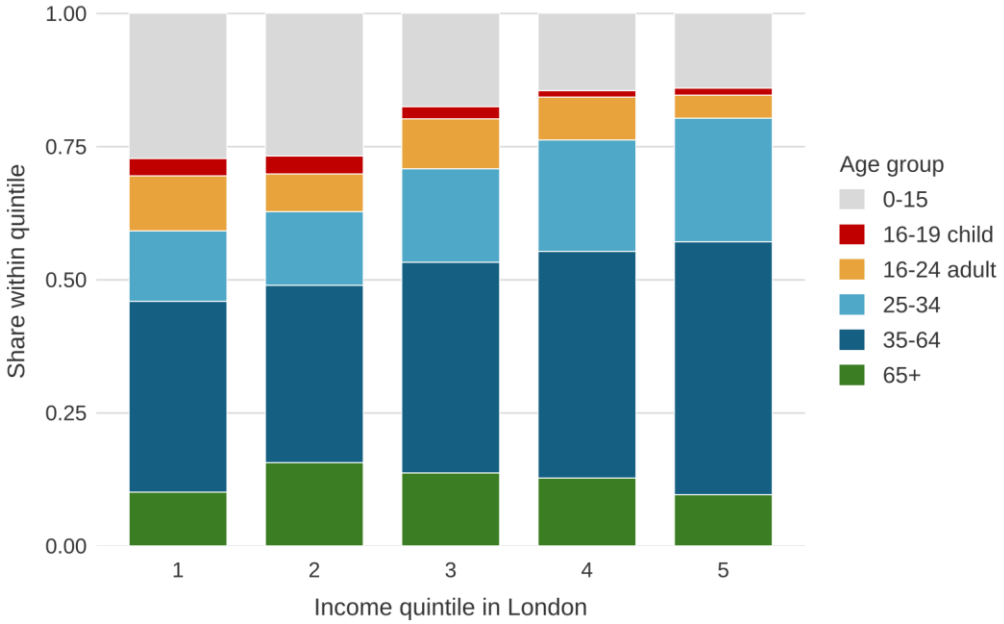
- live with parents
- do not live with a spouse/partner
- are in full time non-advanced education.[7]

Children make up 31% of individuals in the bottom quintile. Among all children living in London, 27% live in the bottom quintile. This is partly shaped by how our main measure of income adjusts for household size and composition. Under the HBAI equivalence scale, a single adult, with a child under 14, is assumed to need 30% more income to reach the same living standard as a single adult without children. A child aged 14 or older adds 50%. Thus, having a child almost always reduces a household's equivalised net income.[8]

[7] The definition of dependent children versus adults is the same as used for many benefits. Non-advanced education includes A-levels and excludes university degrees. Source: DWP, Households below average income series: quality and methodology information report FYE 2023, updated 27 March 2025

[8] Except when the household has very little income other than child-related benefit income.

**Figure 8: composition of age by income quintile in London**




Source: HBAI 2021-24.

Note: income quintile is always defined by equivalised net household income AHC. A dependent child is defined as an individual aged under 16. A person will also be defined as a child if they are 16 to 19 years old, and meet all of the following criteria:

- not married, nor in a civil partnership, nor living with a partner
- living with parents/a responsible adult
- in full-time non-advanced education, or in unwaged government training.

Working-age adults are defined as adults below State Pension age.

Figure 8 shows the split of income quintiles by 6 age groups. Children (both under 16 and 16-19) are more likely to be in the bottom two quintiles.

Adults aged 16-24 are also over-represented in the bottom quintile. 26% of this age group are in the bottom quintile. This is because the under-25s have lower employment rates, and while student loans, maintenance grants and scholarships are counted as incomes, they are typically smaller than earnings. Student households' low income is largely transitory at the individual level - many will see their incomes rise substantially after graduation. However, at the aggregate level, there will always be a stock of student households in the bottom quintile.[9]

[9] If we look at households containing adult students regardless of age, we see they are also over-represented in the bottom quintile: 9.3% of bottom-quintile households contain an adult whose reported economic status is student, compared with 6.2% across London.

Meanwhile, older adults are under-represented in the bottom quintile.15% of 25-34 year olds are in the bottom quintile and 24% of them are in the top quintile. 18% of 35-64 year olds are in the bottom quintile and 21% of them are in the top quintile. Among those aged 65+, 16% are in the bottom quintile and 14% in the top quintile; they are much more likely to be in the middle three quintiles.

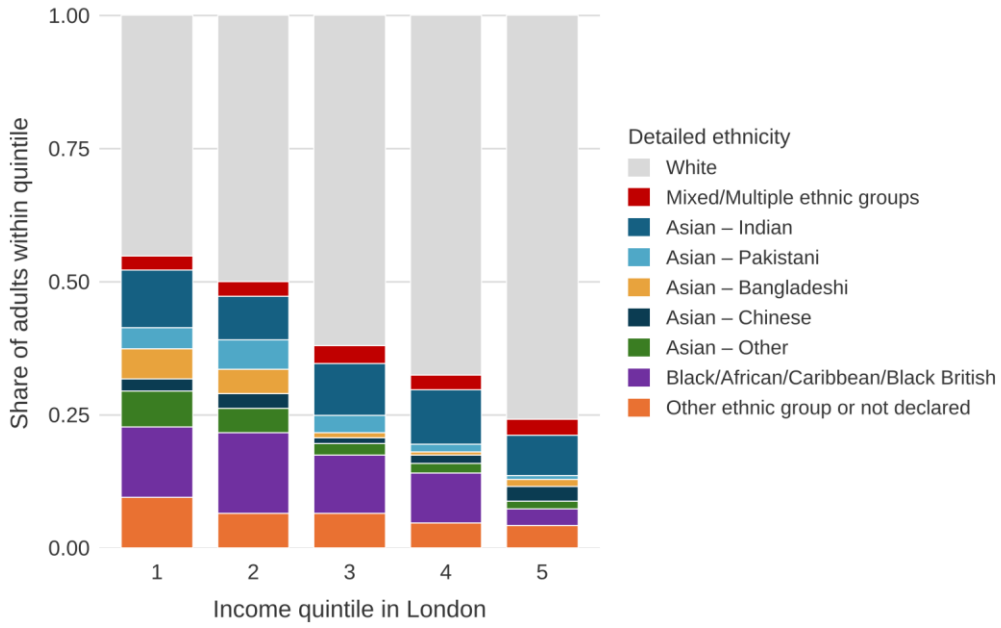
In summary, people under 25 are over-represented while people over 25 are under-represented in the bottom quintile. Figure 8a in the Annex splits the London sample by gender and age, and shows that there are more women than men in the bottom quintile.

## 3.2 Demographic profile: ethnicity

People from Black, Asian or Minority Ethnic background are over-represented amongst low-income Londoners. About half of all individuals in the bottom quintile are ethnic minorities (55%),[10] compared with 38% of individuals in the third quintile and 24% in the top quintile. No minority ethnic group is under-represented in the bottom quintile.

Among the detailed ethnicities, Bangladeshi Londoners are the most over-represented group, with around 40% of Bangladeshi adults living in households in the bottom quintile. Indian and Chinese Londoners have much lower proportions in the bottom quintile, at around 21% each.

**Figure 9: Ethnicity composition by income quintile in London**




Source: Family Resources Survey (FRS) and HBAI 2021-24.

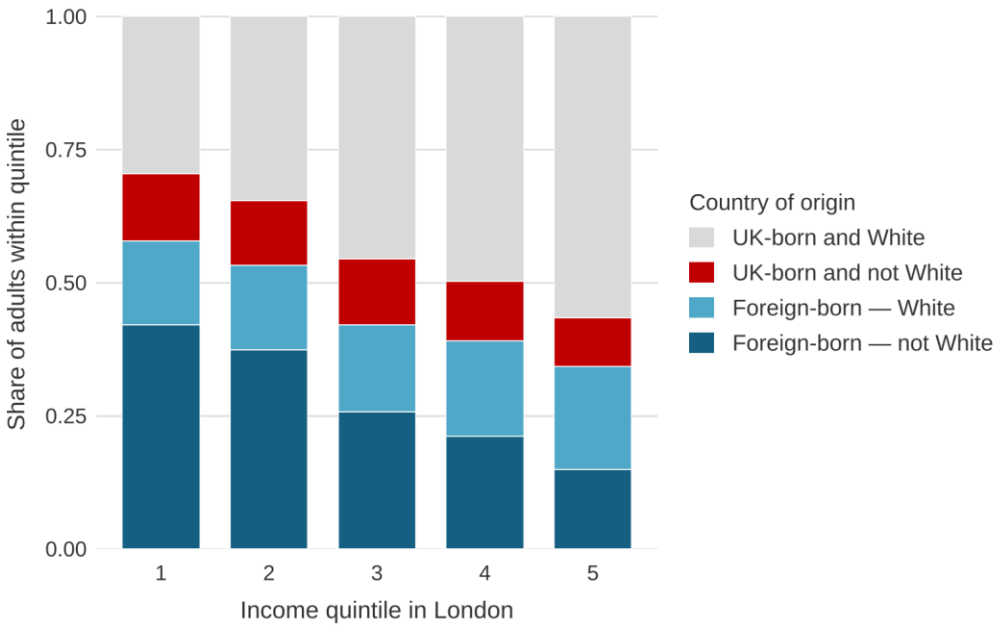
[10] In this report, ethnic minorities refer to adults whose recorded ethnicity is not 'White' in the Family Resources Survey, and it includes 'Mixed/Multiple ethnic group', 'Other ethnic group or Not declared'.

Note: income quintile is always defined by equivalised net household income AHC, as observed in HBAI data. Individual ethnicity is reported in the FRS, and is merged to HBAI 2021-24.

Figure 10 shows the composition of income quintiles by country of birth (UK and non-UK); and for White individuals versus other ethnicities.

Figure 10 shows that over half of adults (58%) in the bottom income quintile were not born in the UK – higher than the London average (45%). Around 42% of adults in the bottom quintile are foreign-born and not White; this compares to 28% in London overall, and 15% in the top quintile. Foreign-born White adults are quite evenly spread across income quintiles; and slightly over-represented in the top quintile. UK-born ethnic minorities are also relatively evenly spread, but still slightly over-represented in the bottom quintile.

**Figure 10: Composition by country of birth and ethnicity by income quintile in London**




Source: FRS and HBAI 2021-24.

Note: income quintile is always defined by equivalised net household income AHC, as observed in HBAI data. Individual ethnicity and country of birth are reported in the FRS, and is merged to HBAI 2021-24.

## 3.3 Demographic profile: family type

There is a variety of family types in each income quintile in London, and their proportions vary (figure 11). Within the bottom 20%, nearly half of families are single adults under 65

with no children. When childless couples are included, working-age childless families account for around 55%.

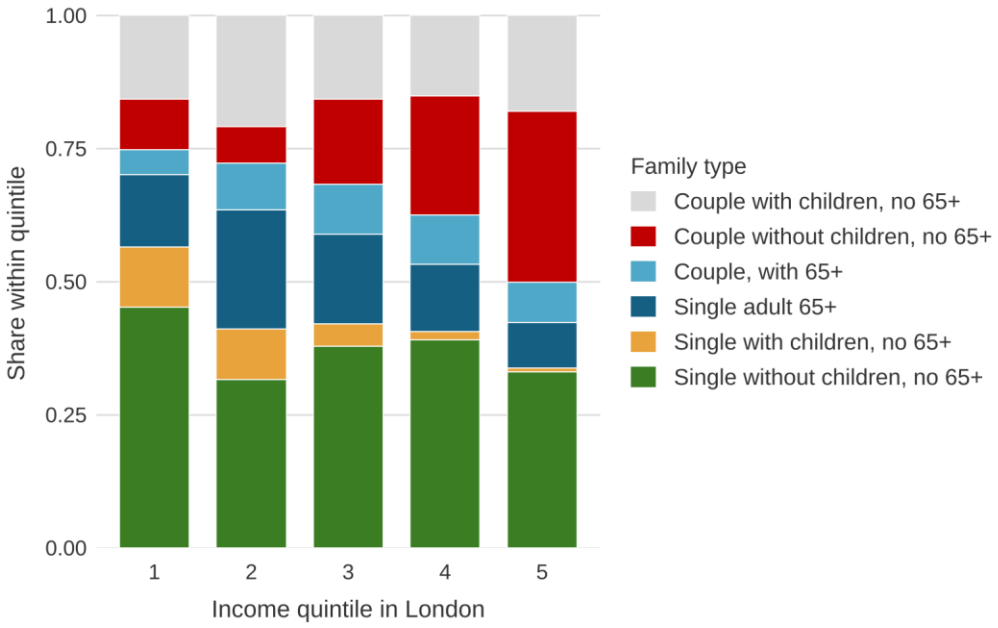
Around one-fifth of families in the bottom quintile include someone aged 65 or over. The rest are couples with children (15%) and single parents (11%). Despite the over-representation of children highlighted earlier, working-age people without children are the largest group in the bottom quintile. This means policies solely targeting children or pensioners would not be sufficient in raising income.

In terms of over-representation:

- single parents are the most over-represented: around 42% of them are in the bottom quintile
- single adults under 65 without children are also over-represented: 24% of them are in the bottom quintile.

The most under-represented groups are couples without children; and couples with at least one adult aged 65 or over. Each group accounts for only 11 to 12% of households in the bottom quintile.

**Figure 11: Composition of family type by income quintile in London**



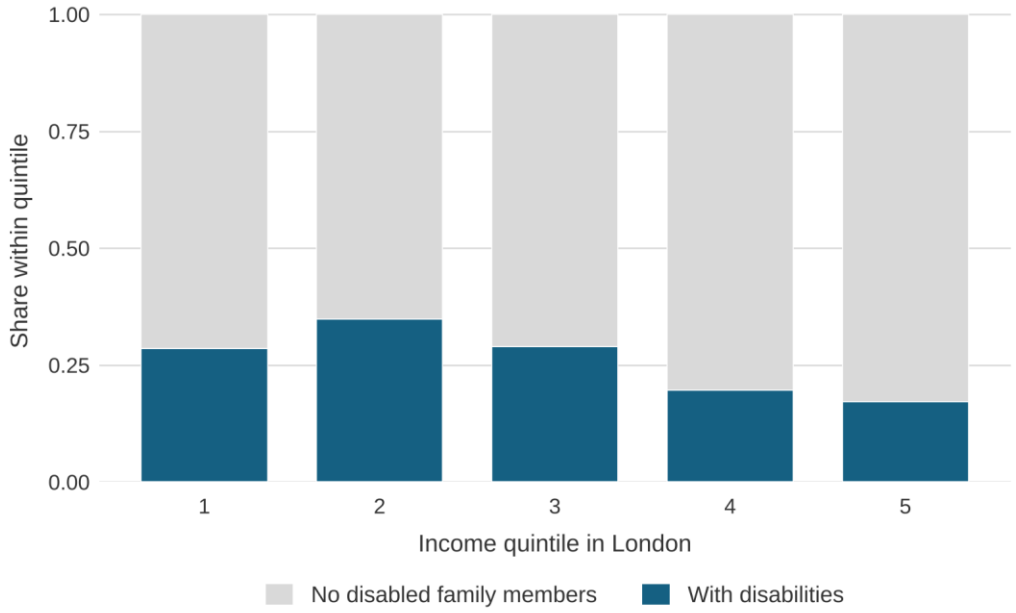

Source: HBAI 2021-24.

Note: income quintile is always defined by equivalised net household income AHC. Multiple generations of adults or unrelated adults living in one household are counted as separate families.

### 3.4 Demographic profile: disability

Disability is also more common among low-income families (figure 12). In the 2021-24 sample, nearly one-fifth (18%) of individuals in the bottom quintile have reported disabilities, compared to 16.5% across London overall. About 29% of families in the bottom quintile include at least one disabled member, compared to 26% for London overall. Interestingly, the share of families living with disabilities is higher in the second quintile (35%). This may be due to the receipt of disability benefits in the second quintile.

**Figure 12 Share of families with any disabilities, or long-term health conditions, by income quintile in London**




Source: HBAI data, 2021/22 to 2023/24.

Note: disability is defined based on respondents reporting a physical or mental health condition that:

- has lasted, or is expected to last, 12 months or more
- limits their ability to carry out day-to-day activities.

Income quintile is based on equivalised net household income after housing cost.

### 3.5 Demographic profile: work status

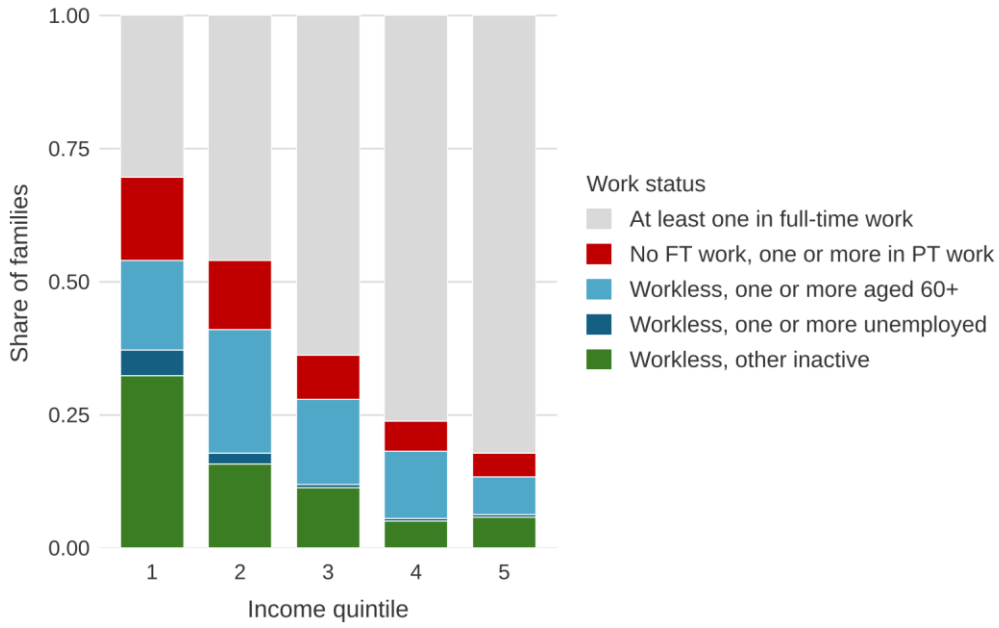
A simple descriptive snapshot of work status completes the demographic profile. Figure 13 shows:

- more than half of families in the bottom income quintile are workless
- around 17% of the bottom quintile are workless families with at least one adult aged 60 or over
- 32% are workless families aged under 60 who are economically inactive (rather than unemployed)
- workless families where one or more person is ‘unemployed’ accounts for only 5% of the bottom quintile
- families with only part-time workers account for 16% of families in the bottom quintile
- 31% are families with at least one person in full-time work.

Unsurprisingly, having at least one adult in full-time work substantially reduces the likelihood of being in the lowest-income group. Meanwhile, the group aged below 60, and workless (whether inactive or unemployed), is very over-represented in the bottom quintile.

It is clear that, in the bottom quintile, economically inactive working-age families are much more common than unemployed families. However, the reasons for this are not immediately evident. What is clear is that most of these inactive families lack substantial savings: 57% have none, and 33% hold less than £3,000. Section 5 investigates who these families are; and examines the characteristics of economically inactive adults.

**Figure 13: Work status of families by income quintile in London**




Source: HBAI data, 2021/22 to 2023/24.

Note: Income quintile is based on equivalised net household income after housing cost. Multiple generations of adults or unrelated adults living in one household are counted as separate families.

Overall, the bottom fifth of London households includes a broad mix of demographic groups, but several groups are clearly over-represented:

- children
- single parents
- minority ethnic groups (especially Bangladeshi Londoners)
- the workless aged under 60.

Disabilities are common – although they are more common in the second quintile.

These characteristics help explain why low incomes persist. They also provide essential context for understanding the roles of benefit income, labour-market participation, and housing costs in shaping living standards in London.

# Part B – Drivers of low income

## Section 4: Benefit income and take-up gaps

State benefits are an important source of income for low-income households, accounting for half of mean BHC income in the bottom quintile (figure 3). Here, benefit incomes encompass all cash benefits and tax credits from the state (including state pension, Universal Credit (UC), housing benefit, child tax credit and so on).

Among London households in the bottom quintile, benefit income shows a stark split. Many families receive no benefits at all; but many others rely on them for almost all of their income.

Figure 14 categorises households by the share of net household BHC income that comes from benefits. In the bottom quintile, about three in 10 households derive over 90% of their BHC income from benefits. This compares to about two in 10 households in the second quintile; and very few households in higher quintiles.

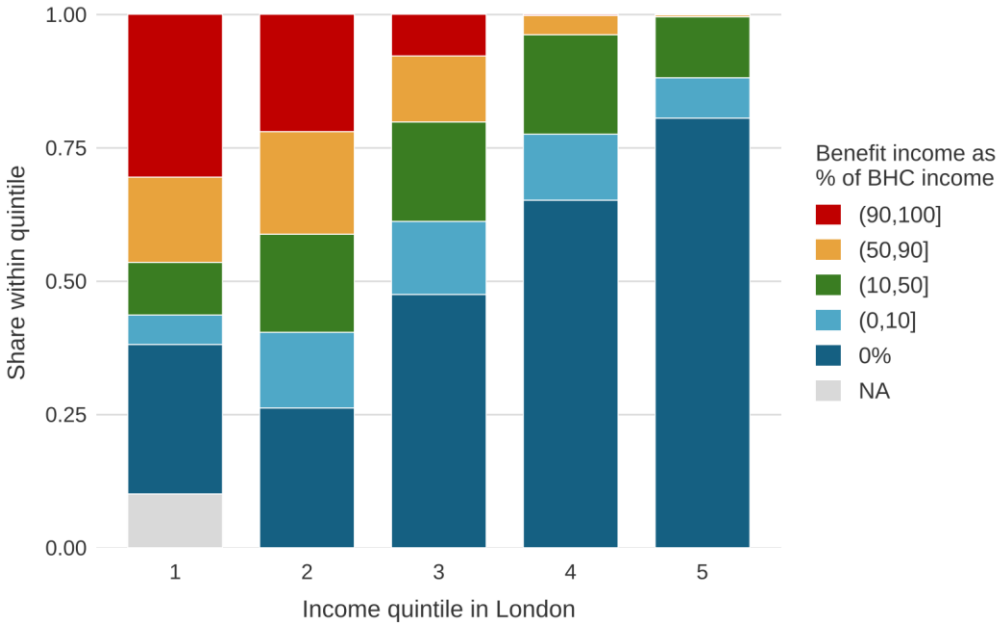
Meanwhile, about three in 10 households in the bottom quintile report receiving zero benefit income.[11] Additionally, one in 10 households in the bottom quintile have non-positive net household income BHC. This can happen if the household has either:

- zero income from any source
- a loss from investment, or self-employment, that is larger than their other positive incomes.

This group also tends to have zero benefit income. Overall, about a third of households in the bottom quintile receive no benefits. Nearly half of the bottom quintile relies on benefit incomes as a primary source of net household income.

[11] This is not driven by students. Student loans and scholarships are counted as 'miscellaneous income', not benefits. Whether we include or exclude households with adult students, the share of households in the bottom quintile receiving zero benefit income is 28%, and the share with non-positive net BHC income is 10%.

**Figure 14: benefit income as a share of net BHC household income by income quintile in London**




Source: HBAI data 2021-24.

Note: Income quintile is defined by equivalised net household income AHC. Along the vertical-axis, share refers to households within income quintile. 'NA' represents households whose BHC net income is not positive. The percentage is undefined for them. They typically receive zero benefit income.

The importance of benefits income could be understated by the data, due to sampling error and under-reporting of benefit incomes. The Department for Work and Pensions (DWP) has compared the underlying survey data with administrative data on the number of benefit recipients. This comparison found that the survey-implied caseload is substantially below the administrative source for most benefits.[12] The Institute for Fiscal Studies (IFS) estimates that, for working-age means-tested benefits, about one-quarter of benefit spend is not captured by the FRS (the source for this analysis).[13]

Given the importance of benefits for the bottom quintile, increasing benefit incomes would be the most direct way of increasing their AHC income. There are three potential approaches to increasing benefit incomes:

- improving take-up among those eligible

[12] Source: DWP, Family Resources Survey: background information and methodology, updated 27 March 2025

[13] IFS, New data suggest dramatic decline in living standards, but it may just be the quality of the data that has declined, 27 March 2025

- expanding eligibility
- increasing the value of benefits.

These approaches are discussed below.

*Improving take-up among those eligible*

Some of those receiving zero benefits may be eligible; and simply lack the time, capacity or awareness to make a successful claim. Among London households that sit in the bottom quintile, and receive zero benefit income:

- four out of five reported having savings below £16,000 (the threshold above which one cannot claim means-tested benefits)
- three out of five reported having no savings, or savings below £3,000.

Given these households' low AHC income, and lack of savings, it would appear that a large share of them should be eligible for means-tested benefits.

Unfortunately, official statistics on benefit non-take-up is far from complete. UC is the most commonly claimed means-tested benefit; but there are no official statistics on the take-up rate of UC or its equivalents.[14]

For Pension Credit (the most commonly claimed means-tested benefit for pensioners), the government estimated that only 65% of those entitled to it claimed it in 2022/23.

WPI Economics estimates that £1.7 billion a year of UC and other major means-tested benefits went unclaimed in London, affecting 1.16 million people.[15] Note: these 1.16 million people do not necessarily have zero benefit income; they could, for example, receive a disability benefit while not taking up UC. Also, not all of them will be in the bottom quintile. To give a sense of magnitude: if half of them are in the bottom quintile, and if each household has two people, that would mean 0.3 million households (40%) in the bottom quintile have forgone some benefit income. Section 7 will discuss existing GLA initiatives that have improved benefit take-up, and explore what more can be done.

*Expanding eligibility*

Eligibility rules also play a major role in who is accessing state benefits. Around 28% of households in the bottom quintile do not receive any benefit incomes; part of this could be due to ineligibility.

Many migrant Londoners are not eligible for benefits, due to the 'no recourse to public funds' (NRPF) condition in their visa. WPI Economics estimated that 64,000 households in London are in poverty and subject to the NRPF condition.[16] For context, the 2021

[14] Source: DWP, Income-related benefits: estimates of take-up, updated 30 October 2025

[15] They have used IPPR's tax-benefit model to derive entitlements to Universal Credit, Pension Credit, Housing Benefits for pensioners and selected legacy benefits in the FRS data. Source: Poverty Reduction Analytical Framework, A report by the Centre for Social Policy Studies and WPI Economics, for the Greater London Authority

[16] Source: WPI Economics, No reason for no recourse: Why reform of 'No Recourse to Public Funds' conditions would be good for London and the UK, November 2024

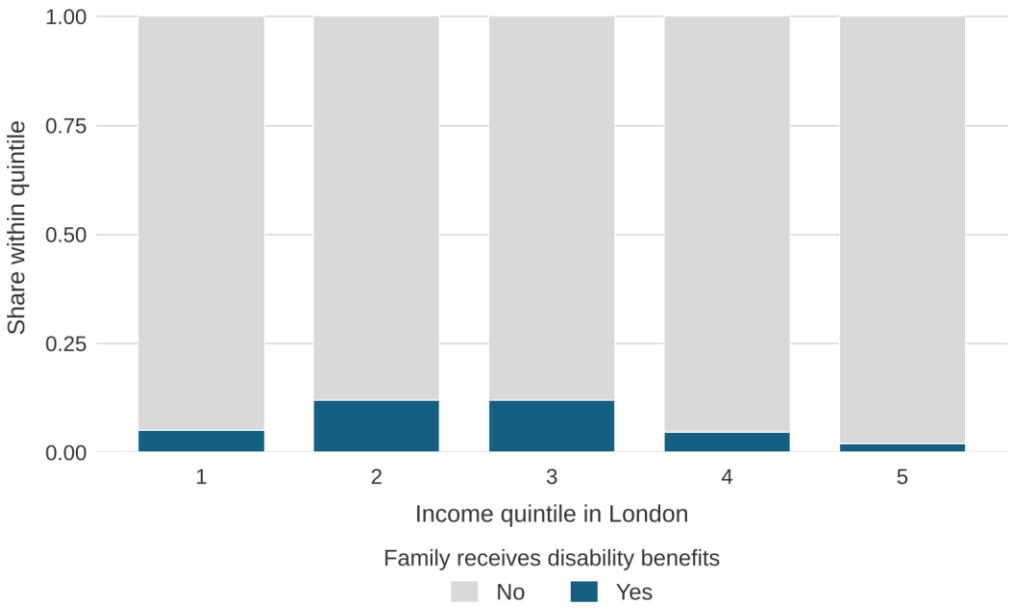
Census recorded 3.4 million households in London; and there are around 0.7 million London households in the bottom quintile.

Not all of the above-mentioned 64,000 households fall into the bottom quintile; but if they did, they would account for 9% of that group. The FRS does not ask about visa status..

Eligibility conditions for disability benefits is another area of contention. Currently, 29% of families in the bottom quintile report having disabilities or long-term health conditions; but only around 5% receive disability benefits (figure 15).[17] Having a disability or long-term health condition is associated with lower earnings; receiving disability benefits would add to one's AHC income, and reduce the likelihood of being in the bottom quintile.

Among those that receive disability benefits, the most common income quintile is the second; this is followed by the third and then the bottom quintiles. Among those who have a disability, but do not receive disability benefits, the most common income quintile is the bottom quintile. In the HBAI data, among all London families with reported disabilities, about one in four receive disability benefits.

**Figure 15: Share of families receiving disability benefits by income quintile in London**




Source: HBAI data, 2021/22 to 2023/24.

Note: disability is based on respondents self-reporting any physical or mental health conditions or illnesses that both:

- last, or are expected to last, at least 12 months

[17] For comparison, 35% of families in the second income quintile reported having disabilities or long-term health conditions; and 12% of the second quintile receive disability benefits.

- limit their ability to carry out day-to-day activities.

Income quintile is based on equivalised net household income after housing cost.

There may be a large difference between:

- the self-reported disability measure used in surveys, based on long-lasting conditions that limit daily activities
- the eligibility conditions for disability benefits, which follow separate assessment rules.

It is highly debated whether the conditions and assessments for disability benefits are reasonable and accurate. For instance, 70% of Personal Independent Payment appeals are successful; this indicates potential shortcomings in the initial assessment process.[18]

On the other hand, the number of people claiming health-related benefits has increased substantially since the pandemic; this is projected to grow further in the next few years.[19] Spending on non-pensioner disability and incapacity benefits has increased by £24 billion between 2019/20 and 2025/26. This accounts for more than half of the total increase in social security spending; and almost 2% of total public spending in the UK.[20]

In response, the government announced several policy changes in the 2025 Spring Statement, related to the disability parts of the welfare system. These changes are estimated to reduce spending on working-age sickness and disability benefits by £4.5 billion. These policies are likely to reduce disposable incomes for low-income households in London; the government estimates that there will be a 0.4 percentage point impact on the AHC poverty rate, in Great Britain, in 2029/30.[21]

*Increasing the value of benefits*

There are concerns that benefit levels have not kept pace with the rising cost of living. While most benefit values are, by default, uprated by inflation (specifically the Consumer Price Index), there are some notable exceptions. These are discussed in section 7.

Figure 16, below, looks at the average benefit income, over time, by AHC income quintiles in London. For most groups, there was an increase in mean benefit income between the late 1990s and 2010 (due to increasing spending on housing benefit and tax credits). There was also, for most groups, some decline after 2010 (as the UK

[18] Source: Disability Rights UK, 7 in 10 PIP appeals won on the same evidence DWP already held, 4 October 2022

[19] Source: IFS, Health-related benefit claims post-pandemic: UK trends and global context, 19 September 2024

[20] The other half was spending on pensioners. Source: Resolution Foundation, Is welfare spending 'out of control'?, 25 November 2025 In addition, the OBR forecast public spending to be £1,370 billion in 2025-26. Source: Office for Budget Responsibility, A brief guide to the public finances

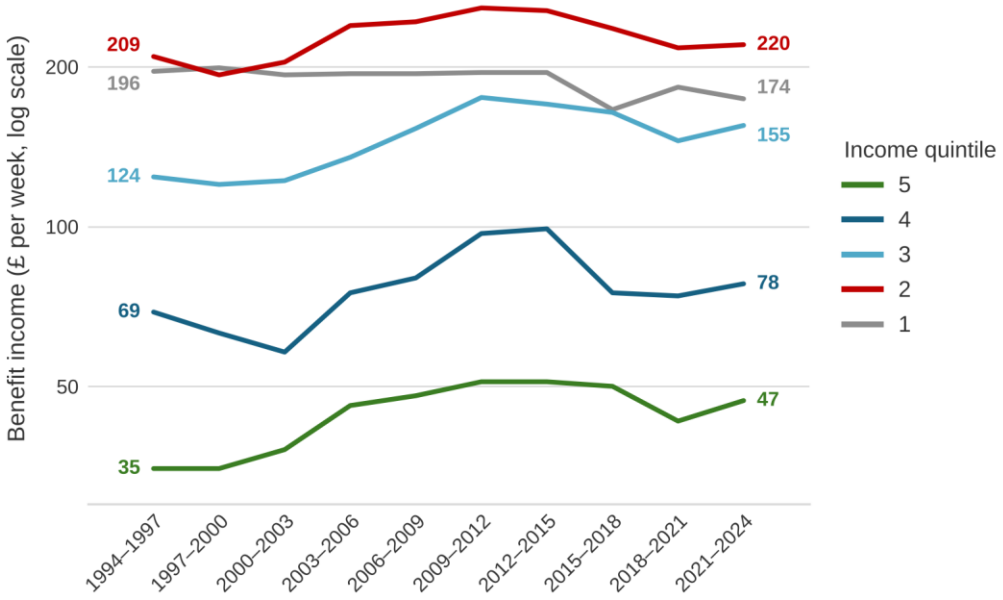
[21] Source: DWP, Spring Statement 2025 health and disability benefit reforms – Impacts, 30 October 2025

austerity programme started). For the bottom quintile, there was no increase between the late 1990s and 2010; and a small decline after 2010.

While increased under-reporting of benefit income is theoretically possible, there is no evidence of that.[22] A real decline in benefit income among low-income London households could be caused by four factors:

- An increasing share of London residents are migrants. Some of them are not eligible for benefits due to their visa condition (NRPF).
- Within low-income London households, the share with positive earnings has increased over time.
- The Local Housing Allowance rates were reduced in 2013; and were frozen, or uprated slowly, until 2020.
- More London households are affected by the benefit cap, which was introduced in 2013; reduced in 2016; and frozen, in cash terms, until 2023.[23]

**Figure 16: Trend of mean benefit income by income quintile in London**




Source: HBAI from 1994-97 to 2021-24.

Note: income quintile is always defined by equivalised net household income AHC in London in that period. The mean of benefit income in each group of households

[22] The DWP has compared benefit caseload between FRS and admin sources since at least 2010-11, and the overall magnitude of gaps has not changed significantly. Source: DWP, Family Resources Survey: background information and methodology, updated 27 March 2025

[23] Source: Trust for London, Households affected by the benefit cap

is shown. Benefit incomes are not equivalised for household size. All £ amounts are in 2023-24 prices.

Overall, the evidence in this section shows that benefit income plays a central, but highly uneven, role in shaping the living standards of London's lowest-income households. A large minority depend almost entirely on benefits for their net income; many others receive little or nothing due to non-eligibility or non-take-up. Measurement issues in the survey data mean the true level of benefit income is likely understated. However, the long-term trend remains clear: benefit support for the bottom quintile has not kept pace with rising living costs in London, particularly housing costs. This places greater weight on other components of household finances, most notably earnings.

## Section 5: Work and earnings

This section examines the role of work and earnings in three stages.

First, it describes the overall employment picture for working-age adults in the bottom quintile; and how it has changed over time.

Second, it profiles the economically inactive (the largest non-working group) in detail – looking at their age; reasons for inactivity; caring responsibilities; health conditions; and qualifications. It uses this information to identify which groups policy could target.

Third, it examines earnings levels and hourly wages among those who do work, to assess how far low pay contributes to low household income.

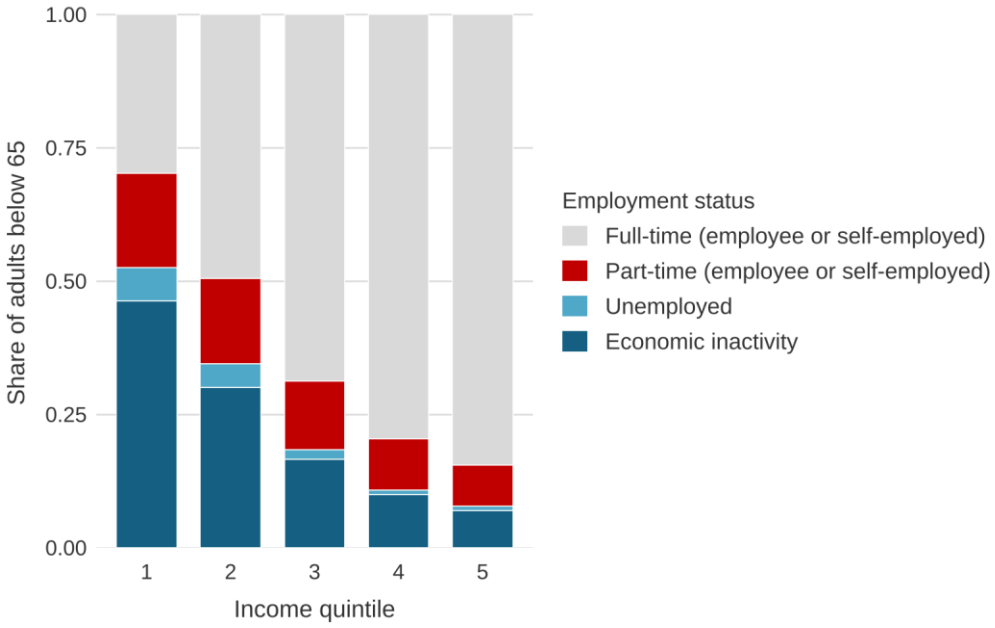
### 5.1 Employment status within the bottom quintile

Among working-age adults in the bottom quintile in London:

- only 30% are in full-time employment or self-employment
- 18% work part-time
- 6% are unemployed
- 46% are economically inactive (not working and not 'unemployed').[24]

[24] The definition of 'unemployed' requires having actively looked for work in the last four weeks; and being available to start in the next two weeks. Thus, a person not looking for work, or not available to start work, would be classified as economically inactive.

**Figure 17: Composition of working-age adults by employment status, by income quintile in London**



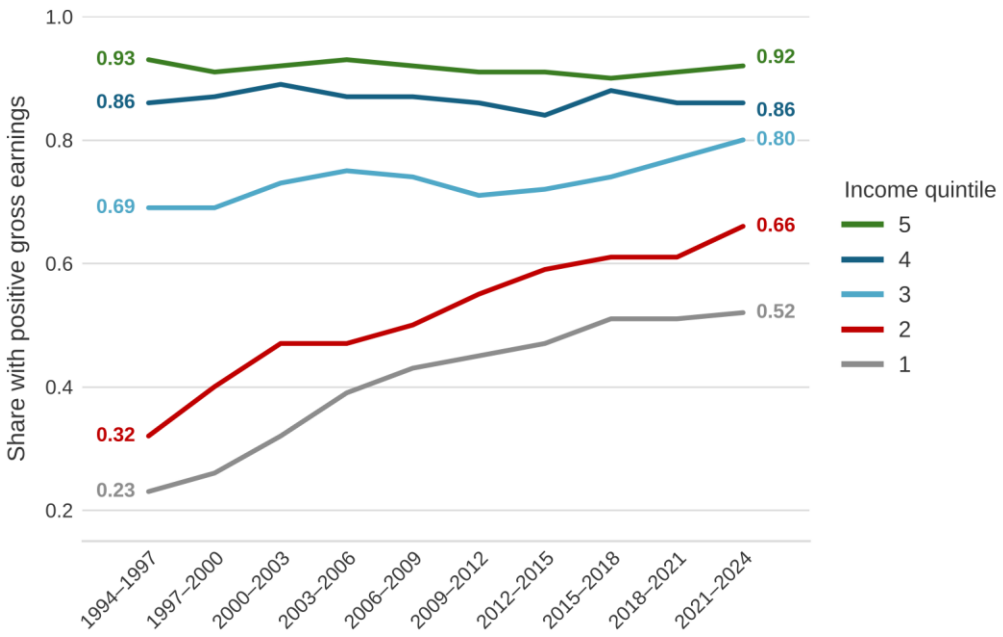

Source: HBAI 2021-24.

Note: income quintile is always defined by equivalised net household income AHC in London in that period. Sample is adults aged below 65. Most 16-19-year-olds in full-time education do not count as adults within this analysis. There is an exact definition of adults at figure 8.

The correlation between employment status and income quintile is very strong (figure 17). The share of people in full-time employment rises sharply with income quintile: this status accounts for over 90% of working-age adults in the top quintile; but under a third in the bottom quintile. Conversely, the majority of all non-working adults aged 16-64 are in the bottom two quintiles.

However, employment among low-income London households has increased substantially over the past three decades.

**Figure 18: Share of households with positive gross earnings, over time, by income quintile in London**




Source: HBAI from 1994-97 to 2021-24.

Note: income quintile is always defined by equivalised net household income AHC in London in that period. This figure shows the share of households with positive gross earnings, not share of benefit units or adults.

Figure 18 shows the proportion of households with positive gross earnings, by AHC income quintile.[25]

For the bottom quintile, the share of households with positive earnings has more than doubled from 23% in 1994-97, to 52% in 2021-24.[26] This is a much faster increase than observed in the second and third quintiles.

The top two quintiles have relatively high shares of positive earnings to start with, and a flat trend.

There has been a significant increase in the share of households having positive earnings. However, nearly half of bottom-quintile households still have no earnings at all. The scale of economic inactivity raises an important question: who are the economically

[25] Gross earnings include incomes from employment and self-employment, and not incomes from investment, pensions, or benefits.

[26] The share of workless households in 2021-24 is 48%, which is lower than the share of workless benefit units. This is due to multi-benefit-unit households. For example, if a household contains a non-working pensioner and their working adult child, they are considered two benefit units, one of which is workless. And the household is not workless.

inactive, and what prevents them from working? Section 3 flagged economic inactivity as a distinctive feature of the bottom quintile; it also noted that most inactive working-age families report very low savings. Next, we examine the composition of the inactive working-age adults in detail.

## 5.2 Economic inactivity within the bottom quintile

Figure 19 breaks down the economically inactive working-age adults in the bottom quintile by age band, and by self-reported reason for inactivity.[27] "Working-age adults" exclude most 16-19 year olds in full-time non-advanced education.[28] Overall, about one-third of economically inactive working-age adults in the bottom quintile did not specify a reason for their inactivity (reported as "Other" in figure 19). Among those inactive for unknown reasons, the age distribution is relatively even across these 10-year groups, making them difficult to characterise further.

Different reasons for inactivity dominate at different life stages:

- Among those aged under 25, being a student is the most common reason for inactivity.
- Among those aged 25-44, looking after family or home is the most frequently cited reason.
- In the over-45s, sickness, disability or injury is the leading cause.
- Over a fifth of those aged 55-64 report having retired early.

Overall, sickness, disability or injury account for nearly one-quarter of the working-age inactivity in the bottom quintile. It is the second-biggest category, after 'other inactivity'.

There is also a clear gender pattern in reasons of inactivity. Figure 19a in Annex 3 shows that:

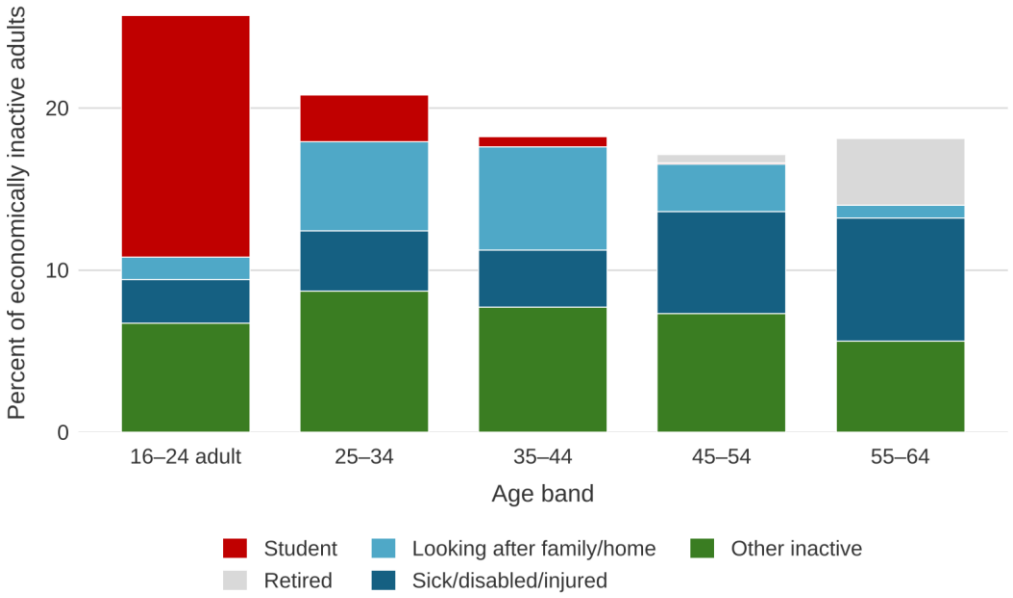
- women account for over 90% of those who are inactive due to looking after the family home
- men account for 67% of those who are inactive due to studying.

It is useful to note the overall age composition of the economically inactive. If students are counted, those below 25 are the biggest age group; if students are excluded, 16-24 adults are the smallest group.

[27] If an adult respondent is not working, and not actively seeking or available for work, the survey asks for the main reason. The survey lists a range of specific reasons (e.g., student, looking after family) for the correspondent to pick; they can also pick 'other', which is unspecified.

[28] The distinction of adults versus dependent children follows HBAI official definition, and the details can be found under Figure 8.

**Figure 19: Adults in the bottom quintile by age and reason of economic inactivity in London**

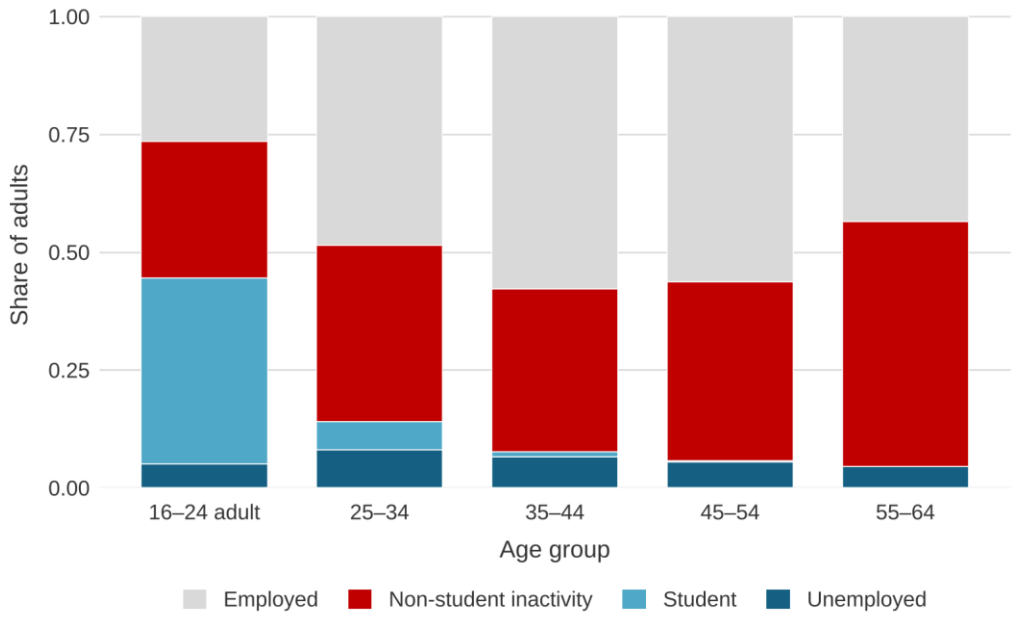



Source: HBAI 2021-24.

Note: Sample is adults aged below 65 who are economically inactive and in the bottom income quintile. Income quintile is defined by equivalised net household income AHC in London. The percentages add up to 100. Most 16-19 year olds in full time education do not count as adults within this analysis and are therefore not in this figure.

Another perspective is to look at inactivity rates conditional on age. Figure 20 shows employment and inactivity rates by age group, within the bottom quintile. Among all 16-24 year old adults in the bottom quintile, 40% report being a student as the reason of inactivity, 29% are inactive for other or unspecified reason, and 5% are unemployed. For comparison, among all 25-34 year olds in the bottom quintile, 6% are inactive due to studying, 38% are inactive for other or unspecified reason, and 8% are unemployed. As indicated by the pink bars in Figure 20, the rate of non-student inactivity is increasing with age,

**Figure 20 Employment status of different age groups within the bottom quintile in London**




Source: HBAI 2021-24.

Note: Sample is adults aged below 65 in the bottom income quintile. Most 16-19 year olds in full time education do not count as adults within this analysis and are therefore not in this figure.

To understand whether caring responsibilities and health conditions are the main drivers of inactivity, figure 21 cross-tabulates employment status with two family circumstances:

- having children in the household
- having a disabled or long-term ill household member.

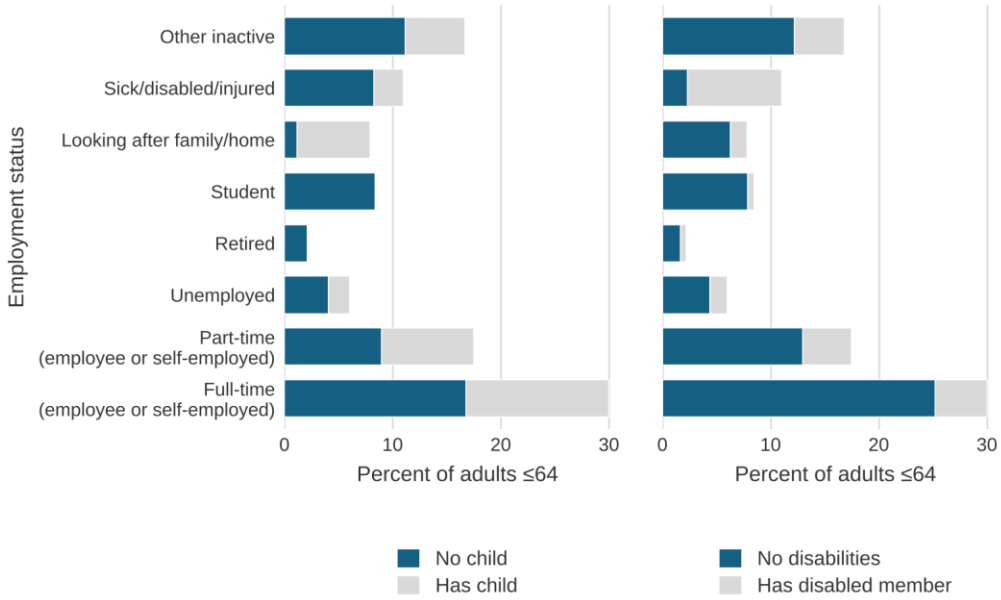
As expected, the majority of those who reported looking after family/home have children. The majority of those who gave ‘sick/disabled/injured’ as a reason for economic activity report having disability or long-term illness in the family (including themselves).

Across all categories of working-age economic inactivity, 32% adults have children; and 34% have disabilities within the family. For comparison, 44% of full-time workers in the bottom quintile have children; and the share having disabilities within the family spans a range:

- 16% among full-time workers
- 26% among part-time workers
- 28% among the unemployed.

These comparisons suggest having children is not a primary reason for inactivity. Disabilities and ill health play a role; but could explain, at most, one-third of the working-age inactivity.

**Figure 21: Adults in the bottom quintile by employment status and family circumstances in London**




Source: HBAI 2021-24.

Note: sample restricted to 16-64 adults living in a household in the bottom income quintile in London. Income quintile is based on equivalised net household income after housing cost. The percentages add up to 100.

Figure 22 shows the education level of economically inactive adults, under 65, in the bottom quintile. Among economically active adults in this quintile in London:

- 31% had qualifications up to degree-level or higher
- 30% had qualifications up to Levels 3 (A-Level) to 5 (higher-education qualifications below degree level)
- 16% had qualifications up to Levels 1 or 2 (GCSEs)
- 23% had no qualifications, or missing qualification information.

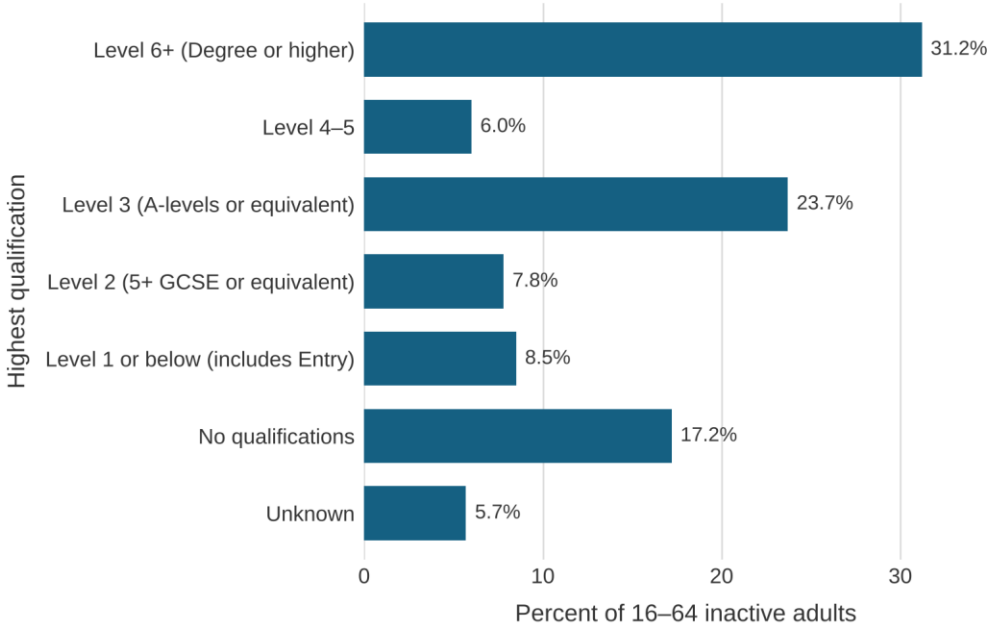
For comparison, without conditioning on work status:

- 40% of adults under 65, in the bottom quintile, had degrees or higher qualifications
- 27% had Levels 3-5
- 15% had Levels 1 or 2
- 19% no or missing qualification (figure 22a in Annex 2).

Thus, economic inactivity is correlated with: having not achieved a degree; and a higher likelihood of missing or no qualifications.

Nonetheless, the fact that over 60% of inactive adults in the bottom quintile in London have at least Level 3 indicates that, for a significant group, a lack of formal qualifications is not the primary barrier to work.

**Figure 22: Education composition within economically inactive working-age adults in the bottom quintile in London**



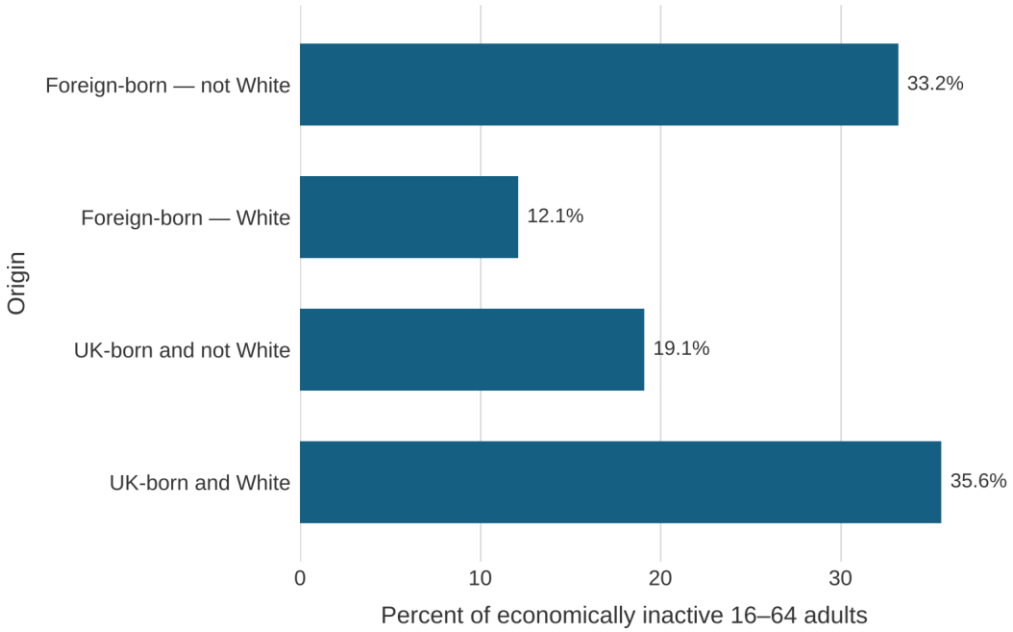

Source: FRS merged to HBAI 2021-24.

Note: sample restricted to economically inactive adults aged 16-64, living in a household in the bottom income quintile in London. Income quintile is based on equivalised net household income AHC. The percentages add up to 100. ‘Degree or higher’ means any qualifications at degree level or above. Most of those categorised as ‘unknown’ are due to item non-response; or selecting ‘Any other professional/vocational/foreign qualifications’.

The ethnic background and migration characteristics of the economically inactive group differ markedly from those observed across the bottom quintile as a whole. Figure 23, below, shows the proportion of inactive adults by White ethnicity; and whether they were born in the UK. It’s interesting to compare these proportions conditional on working-age economic inactivity, with the proportions only conditional on being in the bottom quintile. Amongst those who are economically inactive, 33% are foreign-born and not White; this is lower than the 42% unconditional on inactivity. This means foreign-born, non-White adults are less likely to be working-age and economically inactive than other adults in the bottom quintile of London.

On the other hand, 19% of inactive working-age adults are UK-born and not White, compared to 12% among all adults in the bottom quintile. Including any ethnic background, 45% of inactive working-age adults in the bottom quintile were born outside the UK. This is noticeably lower than the 58% of all adults in the bottom quintile. In short, UK-born individuals in the bottom quintile (and especially non-White ethnic minorities) are over-represented in the economically inactive group. This may reflect current and past immigration policies that favour applicants with jobs or higher levels of education.

**Figure 23: Country of birth and ethnicity composition within economically inactive adults in the bottom quintile in London**




Source: FRS merged with HBAI 2021-24.

Note: sample restricted to adults aged 16-64 living in a household in the bottom income quintile in London. Income quintile is based on equivalised net household income after housing cost. The percentages add up to 100. Not White refers to everyone whose reported ethnicity is not ‘White’, thus including ‘Mixed/Multiple ethnic group’, ‘Other ethnic group or Not declared’.

The preceding analysis has focused on the reasons many adults in the bottom quintile are not working. However, about half of households in the bottom quintile have at least one person in work; therefore it is important to consider the role of low pay.

### 5.3 Wages within the bottom quintile

Figure 24 shows the distribution of hourly pay within the bottom quintile.[29] A large share of adults in work have missing wages because they did not report earnings or hours, or they are self-employed. Among those with wage observations, around a third are paid at £12.50 or more per hour; and about a third are paid below £10. For context, the legal minimum wage for adults increased from £8.91 in 2021/22 to £10.42 in 2023/24; and the London Living Wage increased from £11.05 to £13.15 over the same period.[30]

The distribution of wages within the bottom quintile is much lower than London overall. For example, of all workers in London in 2023/24 FRS data, 23.6% have wages below £12.50 per hour, compared to around 67% in the bottom quintile.

There are some measurement errors in the distribution of derived hourly wages in the FRS data.[31] This can be due to unreported earnings or over-reported hours. Nonetheless, it is very noticeable, and not necessarily surprising, that low-wage workers are over-represented in the bottom quintile of households.

Increasing hourly wages at the lower end of the income distribution will be an important mechanism to achieve London's inclusive growth target. Section 8 simulates policy changes related to income and employment changes; and quantifies their impact on household income.

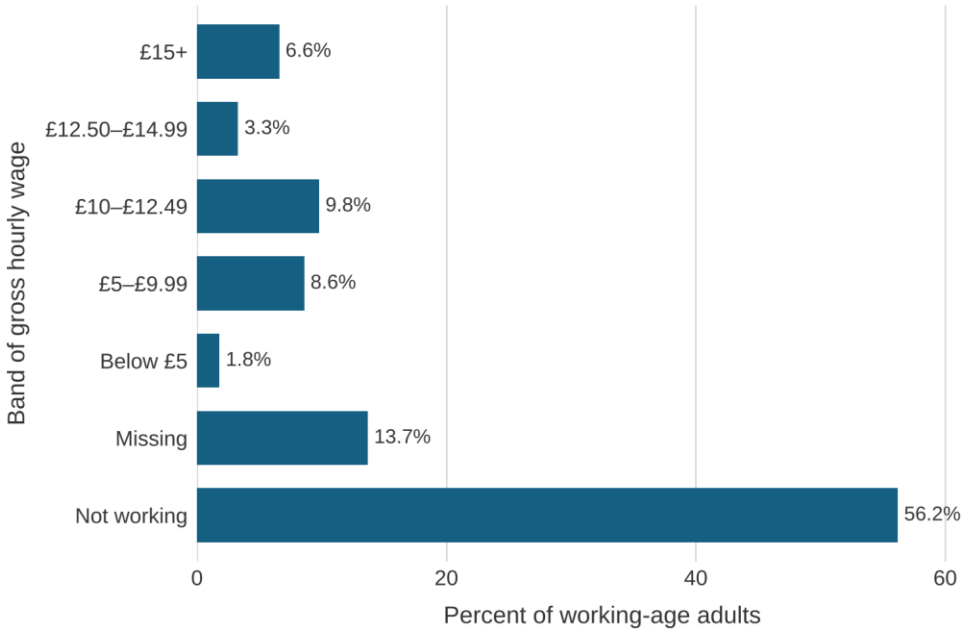
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[29] In the HBAI survey, adults report earnings and hours per week, and we derive hourly wages by dividing the two.

[30] Source: Living Wage Foundation, What is the real Living Wage?

[31] The Living Wage Foundation estimated that 14.4% of London workers were paid below £13.15 in April 2024, and 12.9% were paid below £11.95 in April 2023. Both percentages are clearly lower than the 23.6% figure from the FRS. Source: Klervi Mignon, Living Wage Foundation, "Employee jobs paid below the real Living Wage: 2024"

**Figure 24: Distribution of hourly pay within the bottom quintile in London**

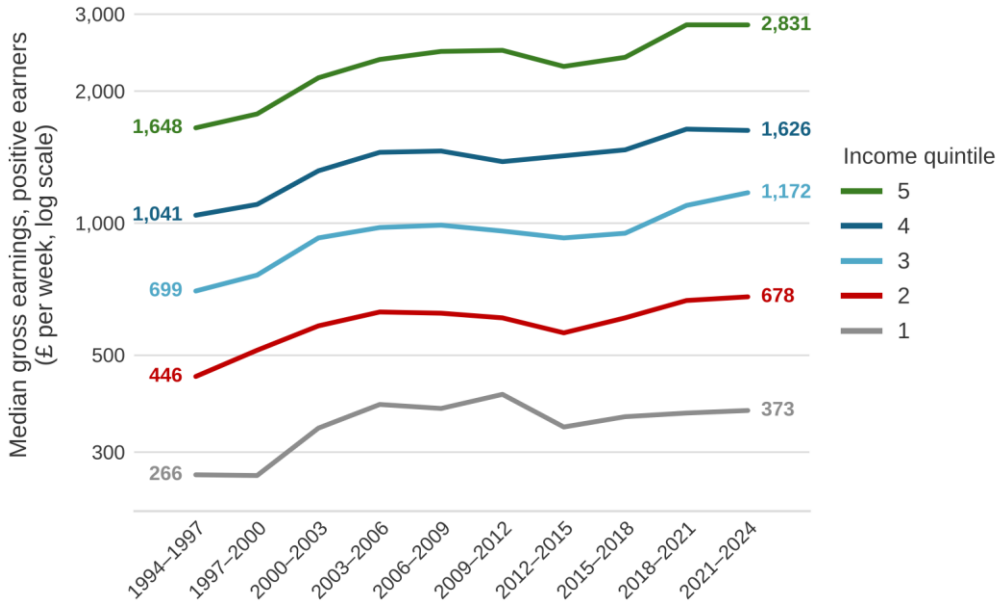



Source: FRS merged to HBAI 2021-24.

Note: Hourly wage is derived as weekly earnings/total weekly hours. £ amounts in the FRS are nominal, not adjusted for inflation. Sample restricted to adults aged 16-64 in households in the bottom income of London. Income quintile is defined by equivalised net household income AHC. The majority of those in work, but missing earnings, is due to self-employment. FRS does not count 16-19-year-olds as adults if they are in full-time education, and not living with their partner/spouse/child, and living with their parents.

Conditional on having positive earnings, the median household income from gross earnings has increased for all quintile groups (figure 25). For the bottom quintile, most of the increase happened before the mid-2000s, and there has been no real-terms increase since 2009-12. It is important to note that, because the share of the bottom quintile with positive earnings has doubled since the mid-1990s, the composition of workers in the bottom quintile nowadays may be quite different to the past – for example, it may have more part-time workers.

**Figure 25: Median gross earnings (among those with positive gross income) over time in London**




Source: HBAI from 1994-97 to 2021-24.

Note: income quintile is always defined by equivalised net household income AHC in London in that period. This figure shows median gross earnings among households that have positive earnings.

In 2021-24, the median household income from gross earnings was £373 per week for those in the bottom quintile. This is before tax and before equivalisation (income adjustment for household size). It is equivalent to 36 hours of work at the adult rate of minimum wage in 2023/24. The income threshold for being in the bottom 20% is £292 per week, after housing cost and equivalisation. While £373 is more than £292, high levels of housing costs bring those households AHC income to below £292. The next section explores why their housing costs are so high.

## Section 6: Housing costs

We saw in section 2 that median housing costs for the bottom 20% of households rose from £114 to £193 per week, from 1994-97 to 2021-24, in real terms. This was the main reason for the stagnation in their real AHC income. In this section, we will explore why housing cost is higher for the bottom 20%; and why it has increased more than for other income groups in London or England.

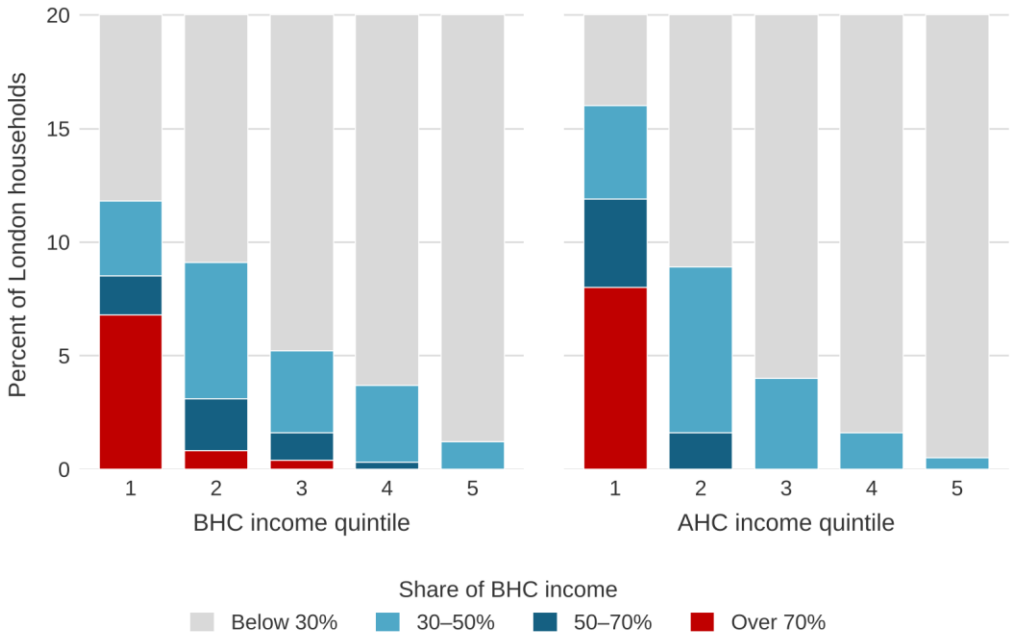
## 6.1 Housing cost across income quintiles

The bottom 20% of households have very high housing costs relative to their income, and relative to other groups in London. Part of this is mechanical: because income quintiles are defined *after* housing costs, any household with high housing costs relative to their BHC income is more likely to be placed near the bottom of the AHC distribution. However, there is also a lot of variation in the cost of housing conditional on BHC income; and housing cost is a disproportionate burden on households with lower BHC incomes.

Figure 26, below, illustrates the distribution of housing cost as a share of BHC income – across BHC quintile groups and AHC quintile groups. Across all London households, 69% of households spend less than 30% of their net BHC income on housing. In the bottom quintile of BHC income, however, 41% manage to do the same. Within the bottom quintile of AHC income, the figure is only 20% of households.

Similarly, 42% of the bottom BHC quintile spend over half of their BHC income on housing, compared to 60% in the bottom AHC quintile. Meanwhile, the left (BHC) figure shows very clearly that lower-income (BHC) households spend a much larger share of their income on housing. Around a third of the bottom BHC quintile spend over 70% of their income on housing, when the proportion is less than 5% in all other BHC quintiles. For comparison, in the bottom AHC income quintile, 40% households spend over 70% of their income on housing.

**Figure 26: housing cost as a share of BHC income**

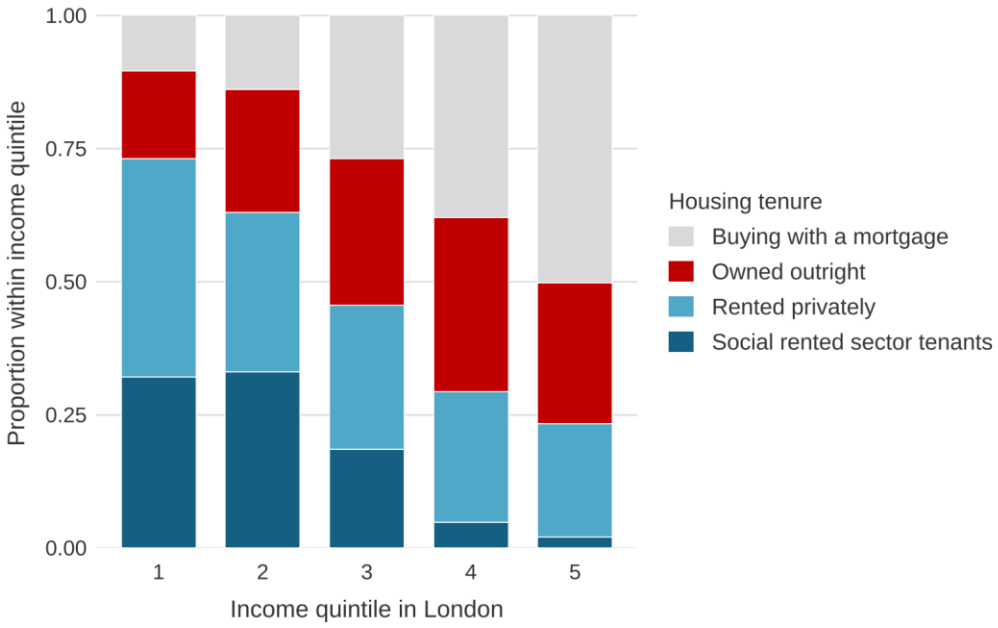



Source: HBAI 2021-24.

Note: we divide housing cost by household's net (BHC) household income, and use that ratio to classify households into four colour groups. On the left, the horizontal-axis classifies households into five equal-sized groups by net BHC income; on the right, the income quintile is based on AHC income (just like the rest of the paper). The left sub-figure is the only place in this report that uses BHC income quintile. The vertical axis shows percentage of all London households. By definition, each quintile group contains 20% of London households.

Housing tenure is a key determinant of housing cost. A large part of the higher housing cost experienced by lower-income households is because they are disproportionately exposed to high private rents. Figure 27, below, shows that 41% of the bottom quintile rent privately – much higher than any other quintile groups. Just under a third (32%) of the bottom quintile rent from the social sector; this is similar to that in the second quintile, and much higher than London overall (18%). Correspondingly, the bottom quintile is the least likely to own outright or have a mortgage.

**Figure 27: Tenure type in London by income quintile**



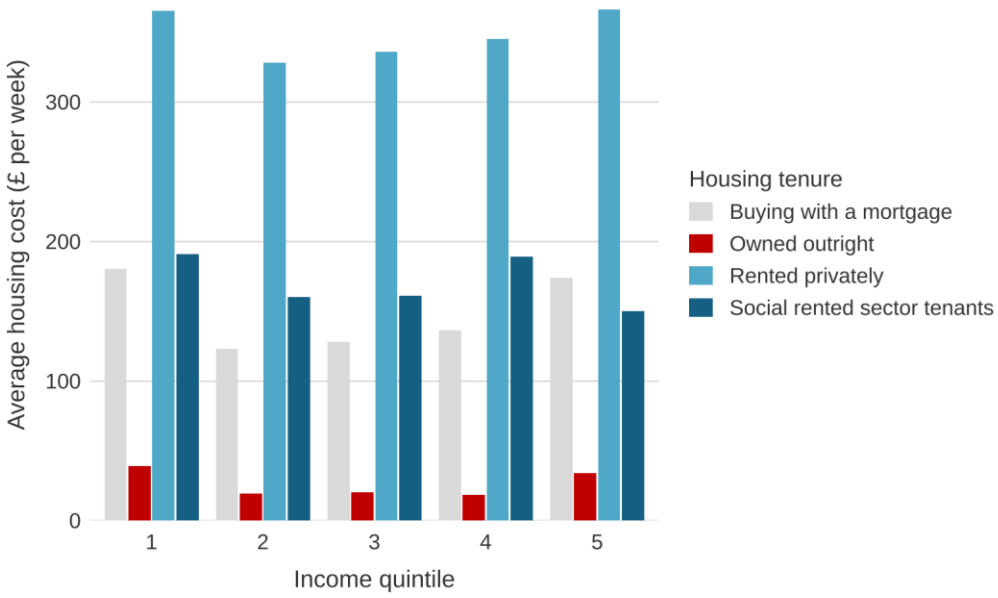

Source: HBAI 2021-24.

Note: income quintile is defined by equivalised net household income AHC. Part-own part-buy is counted within 'buying with a mortgage'. Rent free is counted within 'rented privately'.

Private-sector rents tend to be roughly double those of social renters, in any income quintile (figure 28). The average housing cost for mortgage holders[32] was lower than that of social renters, for each income quintile except the top one. It may seem counter-intuitive that many mortgage holders have lower housing costs than social renters; indeed, this is a relatively recent phenomenon (to be discussed later). Even when comparing within a given tenure, bottom-quintile households still have higher mean housing costs than middle-income households. Again, part of this is mechanical, because income quintile is based on AHC income. Part of that could be due to demographic differences across income groups – for example, having children tends to be positively correlated with housing costs, but would also reduce the equivalised household income.

[32] For mortgage holders, housing cost includes interest repayment and not capital repayment. Capital repayment is not considered a cost of consuming the housing service, but a form of asset accumulation. This definition of 'housing cost' follows the methodology of HBAI and of official poverty statistics.

**Figure 28: Housing cost by tenure type and income quintile in London**



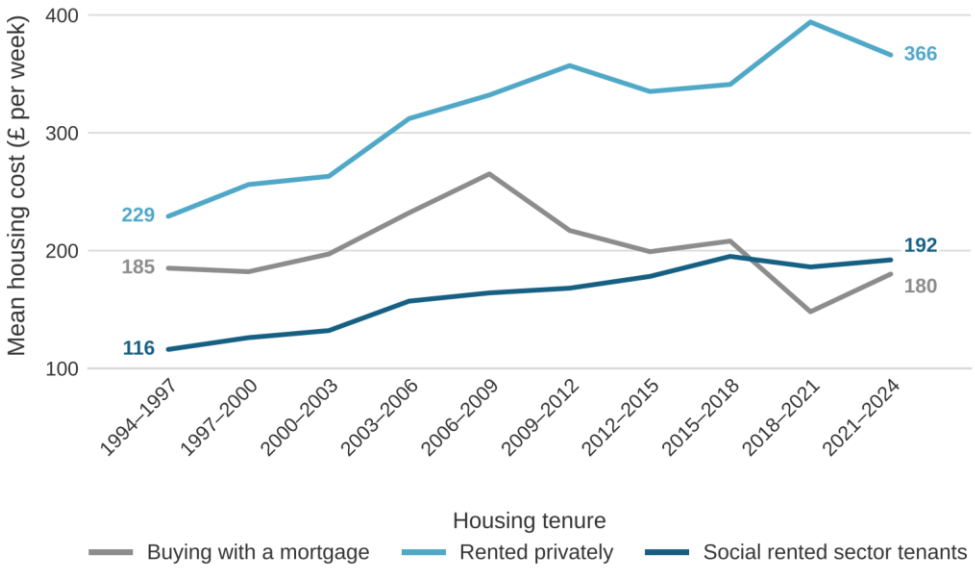

Source: HBAI 2021-24.

Note: income quintile is defined by equivalised net household income AHC. All £ amounts are in 2023/24 prices. Part-own, part-buy is counted within 'buying with a mortgage'. Rent-free is counted within 'rented privately'. For mortgage holders, housing cost includes interest repayment and not capital repayment.

## 6.2 Housing cost over time

Figure 29, below, shows the mean weekly housing cost for private renters, social renters and mortgage holders among the bottom AHC income quintile in London. Since the mid-1990s, average housing cost has increased substantially in real terms for both social tenants (by 65%) and private tenants (by 60%). Meanwhile, housing cost for mortgage holders increased rapidly in the 2000s, up to 2009; and then fell significantly. The falling cost for mortgage holders was primarily driven by lower interest rates following the financial crisis. Although house prices recovered and grew substantially during the 2010s, that only affected new buyers; the existing stock of homeowners with mortgages continued to benefit from low interest rates. Given that lower-income households are predominantly renters and rarely mortgage holders, they have fared particularly poorly in this period of growing rents and low interest rates.

**Figure 29: Housing cost by tenure, for bottom income quintile in London**




Source: HBAI data.

Note: Sample restricted to households in the bottom quintile of AHC income in London. We do not show housing costs for outright owners because their level of housing cost is much lower. All £ amounts are in 2023/24 prices.

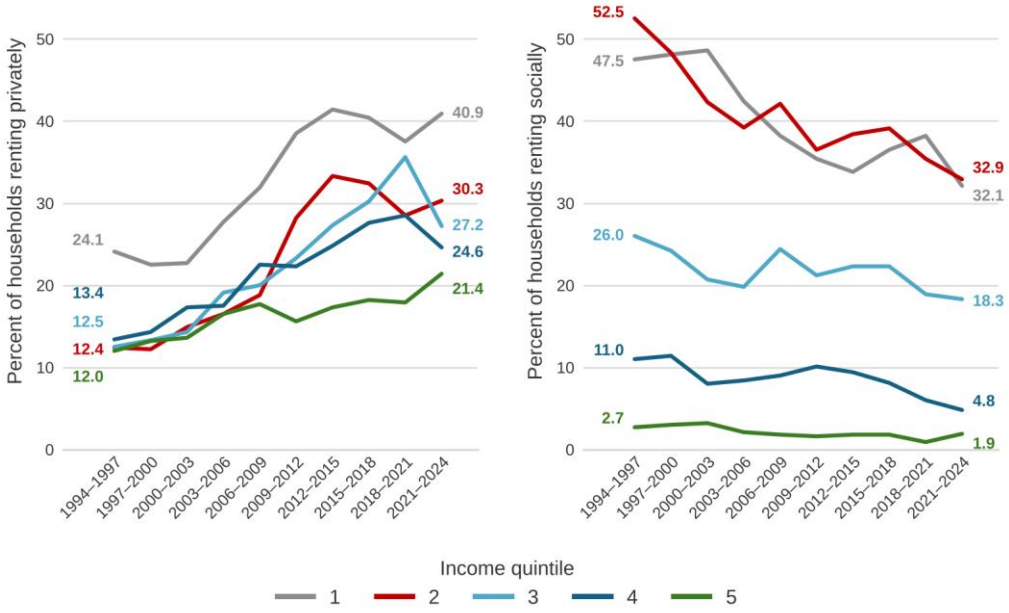
Changes in tenure since the 1990s have intensified housing-cost pressure for lower-income Londoners. The share of bottom-quintile households renting privately has risen from around 24% in 1994-97 to around 41% in 2021-24 (see figure 29). Over the same period, the share in social housing fell from 48% to 32%: a decline of 16 percentage points. This shift from social to private renting played a significant role in increasing housing cost. As the mean difference in housing cost between social rent and private rent was about £170 per week in 2021-24, a shift of 16 percentage points in tenure alone could mean a difference of £27 per week for the mean of housing cost within the bottom quintile. For context, the mean of housing cost increased from £147 to £237 over the period in the bottom quintile of London households.

Meanwhile, the share of Londoners with outright ownership rose from 10% to 17%; and the share whose housing tenure was buying with a mortgage fell from 19% to 11%. This likely reflects an ageing population among low-income homeowners.[33] Because households with mortgages benefited from the steep decline in interest rates after 2008,

[33] As low-income young families cannot afford to buy with mortgages, the population of homeowners becomes older over time, and so an increasing share of them have no mortgage left.

the shrinking share of households with mortgages in the bottom quintile means they captured less of this relief.

**Figure 30: Shift in housing tenure type over time**




Source: HBAI data 1994-97 to 2021-24.

Note: Income quintile is always defined by equivalised net household income AHC.

The changes in housing tenure correlate with structural changes in London's housing stock. London's population has grown from 6.8 million in 1991 to around 9.1 million in 2024[34] – a rise of roughly one-third. However, the number of dwellings in London rented from local authorities or private registered providers (housing associations) has remained broadly flat, falling by 6% over the period.[35] This was largely because Right to Buy sales outpaced the number of new homes built by the social sector[36]. This helps explain why low-income households, who rely most on subsidised or below market tenures, have been increasingly pushed into the private rented sector.

Moreover, there are many people working in London, but living outside it. Between 2011 and 2024, the number of jobs in London increased by 1.6 million – nearly double the

[34] Source: Trust for London, Population changes over the decades

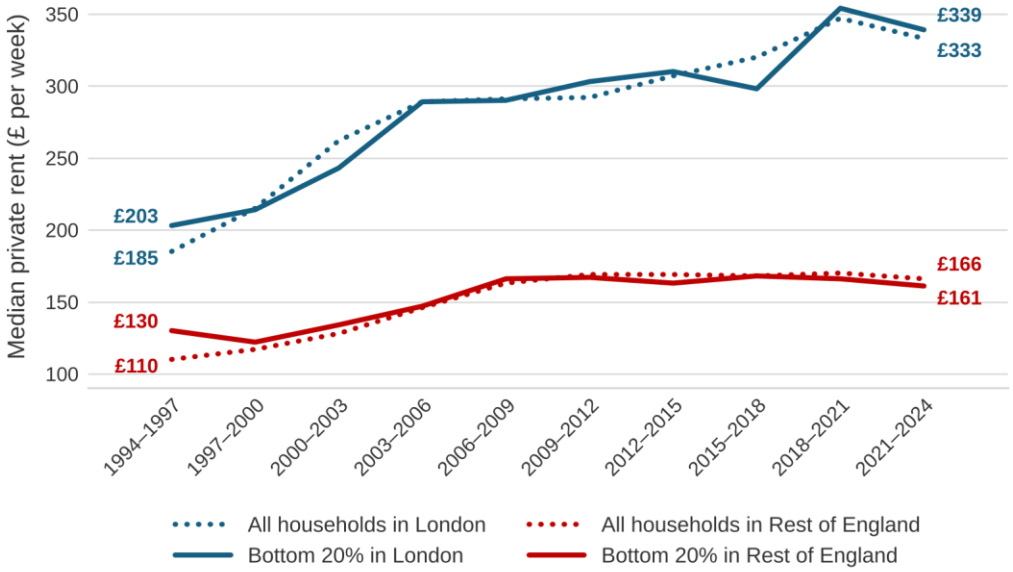
[35] The number has fallen from 851,000 to 804,000 over 1991-2024. Source: table 109c in Table 109: by tenure and region, from 1991

[36] Source: London Assembly Labour report, Right to Buy: Wrong for London

increase in the residential population (0.9 million over the same period).[37] All the additional workers living outside London put extra pressure on rents and house prices in London, despite them not living there.

The strong pull of jobs in London, and the limited growth in housing supply, meant that London rents have grown much faster than other regions. In 2021-24, the median private rent in London was £333 per week – double the £166 median in the rest of England (Figure 31). For context, in 1994-97 London's rents were already higher than the rest of England, but by a smaller margin of 68%. Between 1994-97 and 2021-24, median private rent in London rose by around 80%; and rent increases for the bottom quintile of low-income households was around 67% (or over £130 per week in 2023/24 prices). These increases are far greater than the growth in their BHC incomes; and therefore compress AHC incomes substantially.

**Figure 31: Private-sector rent in London and rest of England**




Source: HBAI data.

Note: Sample restricted to households renting privately. All £ amounts are in 2023/24 prices. Income quintile is always defined by equivalised net household income AHC in the respective sample.

Overall, rising housing costs for the bottom fifth of London households reflect deep and long-standing structural pressures. These include:

[37] The number of workforce jobs was 4.88 million in 2011and 6.45 million in 2024. London's population was 8.2 million in 2011 and 9.1 million in 2024. Source: ONS, Workforce jobs SA : London (thousands); and Trust for London, Population changes over the decades

- high and growing reliance on the private rented sector
- a rapidly expanding population and workforce
- a housing supply (both private and social housing) that has not kept pace with demand.

As a result, low-income households have been moved into the part of the market where rents are the highest and rise the fastest, while benefiting least from periods of falling mortgage costs. Taken together, these factors explain why, despite gains in earnings and BHC income, AHC incomes for the lowest-income Londoners have stagnated.

# Part C – Policy implications: A sequenced strategy for raising AHC incomes

## Section 7: Short-term policy actions (1-2 years)

Although not a long-term fix, boosting benefit take-up is the quickest route to raising disposable incomes for low-income households. There are two aspects to this:

- increasing the share of households receiving benefits
- increasing benefit levels.

### 7.1 Benefit take-up: gaps, effectiveness and potential

An increase in the share of households receiving benefits can come from more households becoming eligible, or an increase in take-up. Consistent with this, the GLA has already run a take-up campaign on Pension Credit (PC) in partnership with Policy in Practice. More than 4,200 low-income Londoners claimed PC after they were contacted by the campaign.[38] The second stage of this work is under way, and pilots are running to improve take-up in Healthy Start Vouchers, Attendance Allowance, and free school meals. These interventions are relatively low-cost, compared to programmes that provide training in person or build homes.

Universal Credit (UC) is the largest benefit for low-income households. However, there are no official estimates on the take-up rate of UC. WPI Economics estimated that, if take-up of UC and a few other means-tested benefits was at 100 per cent,[39] it would increase income for "over a million (1,160,000) people in London, with the average person receiving an additional £2,440 a year". It is worth noting that the proportion of families eligible for, but not claiming, means-tested benefits is likely to be higher within the bottom income quintile. This is because eligibility depends on income.

The GLA financial hardship team has used the UKMOD online simulator to explore the impact of increasing benefit take-up rate on London's income distribution. Preliminary findings suggest that raising the take-up rate of all benefits within the simulator, to at least 95%,[40] would increase the weekly disposable incomes AHC of those in the bottom decile by £67 on average. Those in the second decile would see a weekly increase of £26. These increases are very sizeable relative to the 20% target, although they cannot be directly compared.[41]

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[38] Source: GLA, Benefit uptake campaigns

[39] They modelled full take-up of Universal Credit, legacy benefits, Pension credit, and housing benefit for pensioners.

[40] Where benefits included in the simulator have existing take up rates greater than 95%, the current rates were retained (as opposed to reducing them to 95%).

[41] This is because UKMOD reports mean incomes by decile groups, whereas in this report we focus on the 10th and 20th percentiles of the AHC income distribution. Moreover, there are differences in assumptions: the UKMOD resets some negative earnings to zero and simulates benefit incomes to reach assumed take-up rates, whereas this report takes reported incomes as they are. Our choice of assumptions is aligned with official HBAI methodology and the governments' poverty statistics.

A further short-term opportunity lies in strengthening coordination with borough-level welfare-rights teams. Many boroughs already run benefits-maximisation or “early help” outreach; targeted micro-funding could amplify these channels, especially for digitally excluded residents or those with complex immigration circumstances. Because these interventions build on existing borough infrastructure, they typically deliver relatively high gains per pound, without requiring new large-scale programmes.

### 7.2 Benefit levels: where are the shortfalls

In terms of campaigning for higher levels of benefits, policies may focus on two elements in the benefit system that affect London disproportionately.

First, **Local Housing Allowance (LHA)** sets the maximum amount of housing support that low-income private renters can receive through Housing Benefit, or the housing element of UC. Since 2011, LHA has been designed to cover rents only up to the 30th percentile of local private market rents for properties of an appropriate size – rather than typical or average rents. In principle, this means LHA should allow claimants to access the cheaper third of the local rental market. In practice, however, repeated freezes in LHA rates mean that this link to the 30th percentile is quickly eroded when rents rise, particularly in London. The Resolution Foundation[42] estimates that, by late 2025, LHA rates were already around 14% below the 30th percentile of current local rents, with especially large gaps in London. For example, in Hackney, rents for a two-bedroom property exceed LHA by around £350 per month. As a result, many low-income private renters must make up a substantial shortfall from their own limited incomes – reducing what they can spend on essentials such as food, heating and transport. Because private renting is much more common among low-income households in London than elsewhere, the inadequacy of LHA is a key driver of hardship, and a major factor holding down AHC incomes.

Second, the **benefit cap** is a limit on the total amount of welfare benefits that working-age households can receive, unless they are in work or have disabilities. DWP statistics[43] shows that in London, 3.6% of UC households were capped in August 2025 – by far the highest of all regions. The equivalent share for the UK was 1.7%. The average amount being capped was around £250 per month. While the benefit cap affects a small proportion of households, those affected lose a sizeable amount. The existence of the benefit cap also means that removing the two-child limit in UC will not benefit all families with three or more children to the full extent.[44]

In the longer run, improvements in benefit take-up or higher benefit levels are likely to face structural constraints as levers for raising living standards in London. Decisions about overall benefit generosity and eligibility are made at national level; and are shaped by broader fiscal pressures and labour-market objectives, rather than by conditions in London alone. Recent national policy changes (including those announced in the 2025 Spring Statement) illustrate that benefit policy can move in less generous directions over

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[42] Source: Resolution Foundation, Affordability gap between Local Housing Allowance and local rents set to reach record level next year, 25 October 2025

[43] Source: DWP, Benefit cap: number of households capped to August 2025, 16 December 2025

[44] The policy change will take effect in April 2026. Families with more than two children will be able to claim the 'child element' of Universal Credit for all eligible children, rather than only the first two children.

time, particularly in areas such as sickness and disability support. This highlights the limits of relying on benefit policy alone to deliver sustained income growth for low-income Londoners. Over the long term, raising real earnings through stronger productivity, employment and economic growth remains a more durable route to improving household incomes – albeit one that operates over longer timescales.

## Section 8: Medium-term actions (2-5 years)

### 8.1 Employment versus low pay: scenario analysis

In the medium and longer term, employment and real earnings growth are essential for improving disposable incomes. Here we simulate scenarios about improving low pay and increasing employment. This gives us a sense of the scale of impact on the bottom 20%; and whether employment or wages should be the main target.

Note that all scenarios in this section are static counterfactuals applied to the households observed in 2021-24. Therefore, they illustrate sensitivity to policy levers, rather than providing forecasts. All counterfactual analysis focuses on two benchmarks: the 10th percentile and the 20th percentile of AHC income in London. A fuller explanation of the modelling approach and its limitations is provided in Annex 2.

First, we consider a scenario where all individuals paid below the London Living Wage (LLW) get a pay rise. This is an ambitious scenario, as it increases wages for 19% of working-age adults in the sample. The share of low-paid workers is overstated in the data, because survey respondents may under-report earnings or over-report hours.[45] So the counterfactual overstates the share of adults that would benefit from the LLW; our result should be considered an upper bound (i.e., the maximum plausible impact).

Interestingly, low-wage workers are not overwhelmingly concentrated in the bottom quintile of household income. Only 22% of individuals paid below the LLW are in the bottom quintile of household income in the observed data. This is because working a moderate number of hours, at the legal minimum wage, can lift one out of the bottom income quintile. For example, a single adult on minimum wage at 30 hours per week, and not receiving any other income, would not be in the bottom 20% if their housing cost is one-third of their income.[46] Meanwhile, more than half of working-age adults in the bottom quintile are not in work.

Moreover, a large part of the increases in earnings will be lost through income tax, National Insurance contributions (NIC) and benefit withdrawal (meaning benefits are

[45] The Living Wage Foundation estimated that 14.4% of London workers were paid less than £13.15 in April 2024. Hence, we focus on the difference between the reported and the counterfactual in terms of household AHC income, rather than the level in the counterfactual.

[46] They would have about £290 per week in net earnings. If they spend a third of that on housing, they would have £193 after housing cost; after equivalisation, that AHC household income is £333 per week. The equivalisation scale is 0.58 for a single adult, meaning that a single adult needs 58% of AHC income as a couple to achieve the same living standard. If that single worker spends 40% of their net earnings on housing, they would be just above the 20th percentile of equivalised net household income AHC (£292 per week). These calculations ignore council tax, which on average could be £15-20 per person per week in a two-bedroom flat shared by two adults.

reduced as earnings rise). As a result, this ambitious scenario could make only a small contribution to reaching the inclusive growth target: a **3% increase in the context of a 20% target**. The details are in the box below, “Counterfactual: moving minimum wage workers to London Living Wage”.

**Counterfactual: moving minimum wage workers to London Living Wage**

The LLW in 2023-24 was £13.15; and the legal minimum wage for adults aged 23 and over was £10.42. In the data, the hourly wage (reported weekly earnings divided by weekly hours) is often below the legal minimum wage; this could be due to misreporting, or to non-compliance or exemptions. Therefore, instead of lifting all reported low wages up to the LLW, we will increase wages by £3 per hour; or up to the LLW, if one’s wage is less than £3 lower than LLW. On average, the increase in gross hourly wage is £2.2 among those affected in the scenario.

The counterfactual scenario accounts for income tax and employees’ NIC contributions, and a 55% benefit withdrawal rate if they report receiving any UC or equivalent. For low-earning adults on UC, the combination of 20p income tax, 12p NIC and 55% UC taper rate means that an extra £1 in earnings may translate to only 31p in disposable income.

We find that, in this counterfactual, the 10th percentile of London’s AHC household income would be £154 instead of £149; and the 20th percentile would be £304 instead of £292. In proportional terms, the increase is 3.3% and 4.1% respectively. While these are small, compared to the 20% goal in the London Growth Plan, they are not negligible.

Note that these estimates should be considered as upper bounds, because of several assumptions made in the counterfactual. We have assumed no change to hours or employment; whereas, in reality, employers may demand fewer workers, or fewer hours, if the hourly labour cost increases. We also assumed no impact on housing cost or inflation in general. In addition, the counterfactual assumes a family will face benefit withdrawal if, and only if, it currently claims UC or equivalent benefits in the FRS; but in reality the FRS is known to understate benefit caseloads, so we have under-estimated the extent of benefit withdrawal. All these assumptions mean our estimate of income gains will overstate the truth.

Second, we consider a scenario with an **extra 150,000 jobs**. The London Growth Plan sets an ambition of helping to create 150,000 high-quality jobs by 2028. If total employment were to increase by 150,000 in London, that would represent a 2.4

percentage-point increase in employment rate for working-age adults.[47] In the counterfactual scenario, we implement this by moving 2.4% of working age adults from earning nothing to earning £600 per week. We find that this scenario **will increase the 10th percentile of AHC income by 9.4%**. The impact on the 20th percentile is 5.5%.

These are sizeable effects, relative to the 20% target. While the share of working-age adults affected is only 2.4%, each affected adult gets a large increase in income in the counterfactual. Because out-of-work working-age adults are significantly over-represented in the bottom quintile (40% of such adults are in this quintile), one in 10 households originally in the bottom quintile are affected.

**Counterfactual: increasing employment by 150,000**

We simulate a counterfactual scenario in the micro data, where 2.4 percent of working-age adults in London shift from earning nothing to earning £600 per week. £600 is equivalent to £15 per hour at 40 hours per week. It would be relatively high wage for the bottom quintile: currently about one-quarter of workers in the bottom quintile have an hourly wage at or above £15. In the simulation, we assume all working-age adults not in work have an equal chance of getting £600 per week. In reality, those from the bottom quintile may face higher barriers to work. Thus, the simulated impact on the incomes of the bottom quintile should be interpreted as upper bounds. Like before, the simulation considers income tax and employees' NIC contributions, and a 55% benefit withdrawal rate if they report receiving any UC or equivalent.

In the counterfactual scenario of London having 150,000 jobs at £600 per week, we find that the 10th and 20th percentile of equivalised net household income AHC will be £163 and £308, respectively. That is **9.4%** and **5.5%** higher than the observed figures, respectively. The impact on the 10th percentile is larger, because there are more workless families at this part of the distribution. These are good-sized effects relative to the London Growth Plan 20% goal; however, they are only illustrative for potential upper bounds because they rely on many assumptions (explained in Annex 2). It is also arguable that creating 150,000 jobs will increase employment by less than 150,000, as some existing jobs are replaced.

[47] Note: the number of working-age adults in London was around 6.3 million in 2024. Source: London population statistics. For context, 72.3% of working-age adults in London in the HBAI data are in work.

Third, we model a scenario with even more employment increase, but at the minimum wage. The **Get London Working Plan** sets a target of 80% employment rate among the working-age. This is about six percentage points higher than the actual employment rate in the sample period.[48] For context, the working-age employment rate in London has grown steadily from around 65% in the 1990s to between 74 and 75% after 2020 (the peak was 76% in 2023 Q4). We model a scenario where employment is five percentage points higher; this is ambitious and gets very close to the 80% target. The additional jobs are assumed to pay the minimum wage at 40 hours per week. We find that this scenario **will increase the 10th percentile to £185 – a 24% increase.** The 20th percentile will increase by 8.3%. The effects are large because non-working adults are over-represented in the bottom quintile. As the number of adults given jobs in this counterfactual are about double that in the 150,000 jobs scenario, now one in five households originally in the bottom quintile are affected.

Note all these counterfactual estimates should be interpreted as illustrative upper bounds rather than central estimates. These estimates assume no change to living costs or housing costs; in practice, however, higher wages and employment will likely increase the cost of housing and local services in London.

**Counterfactual: increasing working-age employment rate by five percentage points**

This scenario is similar to the 150,000-jobs scenario, except that: the increase in the employment is five percentage points instead of 2.4 percentage points; and these additional jobs are assumed to pay minimum wage (£10.42) rather than £15 per hour. All other assumptions and methodology are the same.

We find that in this scenario, the 10th percentile of equivalised net household income AHC would be £185 – 24.2% higher than the baseline. And the 20th percentile would increase from £292 to £316 – an 8.2% increase.

These counterfactual scenarios illustrate **that increasing employment has more potential than raising low pay** in lifting incomes for the bottom 20%. Intuitively, this is because out-of-workers are more over-represented in the bottom 20% households than low-paid workers.

It is worth noting that both London's overall employment rate and the employment rate of the bottom 20% are already close to their highest levels since the mid-1990s. This suggests that further gains in employment will be challenging. It

[48] London's employment rate over the sample period (2021-24) was 74.2%. Source: ONS "LFS: Employment rate: London: Aged 16-64: All: %: SA", CDID: LF3V.

would require structural changes across a wide range of policy areas, including health, welfare and taxation. A cyclical recovery, or productivity growth will have limited impact on the bottom 20%.

### 8.2 Policy levers and their effectiveness in raising employment

This section draws on UK and international evidence to assess how far employment and some skills programmes can raise employment rates at scale. A useful benchmark comes from the DWP's evaluation of the **Work Programme**. This found that participation increased time spent in employment by around 46 days over two years, relative to comparable non-participants. This is equivalent to a **six-percentage-point** increase in the probability of being in work at some point over that period. [49]

A broader perspective is provided by the International Labour Organization's systematic review of 113 counterfactual evaluations of labour-market programmes across high, middle and low-income countries. This review found that most programmes deliver **small positive effects**, typically in the **1-5 percentage-point** range, with only a minority of intensive and well-targeted interventions achieving impacts closer to **5-10 percentage points**.[50] Taken together, the evidence suggests that even well-designed employment programmes tend to have modest effects on employment rates at population scale.

This evidence provides important context for assessing the ambition to raise London's working-age employment rate towards **80%**. Around **25%** of working-age Londoners are currently not in work. Even under very optimistic assumptions – if employment and skills programmes could reach all non-working adults, and if those programmes achieved an employment effect of **10 percentage points**, close to the upper bound suggested by international evidence – the implied increase in the overall employment rate would be around **2.5 percentage points** (25% × 10%). This calculation does not account for practical constraints, such as:

- limits to delivery capacity
- difficulties in engaging those furthest from the labour market
- diminishing returns as provision expands.

The implication is that employment and skills programmes alone cannot plausibly account for the scale of change required to reach an 80% employment rate.

International comparisons reinforce this conclusion. Among OECD countries, only a small number (including Iceland, the Netherlands, New Zealand and Switzerland) have employment rates above 80%. Relative to these countries, the UK's employment rate is substantially lower among **young people (15-24)** and **older adults (55-64)**, while employment rates for those aged 25-54 are broadly similar. [51] Past increases in

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[49] Source: DWP, The Work Programme: A quantitative impact assessment, November 2020

[50] Source: Kluve, Jochen, Susana Puerto, David Robalino, Jose Manuel Romero, Friederike Rother, Jonathan Stöterau, Felix Weidenkaff, and Marc Witte. "Interventions to improve the labour market outcomes of youth: A systematic review of training, entrepreneurship promotion, employment services and subsidized employment interventions." *Campbell Systematic Reviews* 13, no. 1 (2017): 1-288.

[51] Source: IFS, The government's 80% employment rate target: lessons from history and abroad, 12 December 2024

employment among older workers in the UK were partly driven by rises in the State Pension age, but the scope for further gains from this channel is now limited. Differences in youth employment are more closely linked to education systems, vocational pathways and the prevalence of combining study with part-time work – factors that largely lie outside the GLA's direct control.

Since the pandemic, there has been a substantial increase in illness-related economic inactivity. Illness now accounts for 30% of the economically inactive.[52] And the fastest increase in 'work-limiting health conditions' has been seen among young people.[53] This highlights the importance of health-related and preventative interventions in any strategy to raise employment – particularly to avoid long-term detachment from the labour market.

Overall, the evidence suggests that – while employment and skills programmes are an essential part of the policy mix, and can deliver meaningful gains for participants – their aggregate impact on employment rates is inherently limited. Achieving large increases in employment would require wider structural changes spanning health, education and macroeconomic conditions, alongside sustained labour demand – rather than employment programmes alone.

## Section 9: Long-term actions (5-15 years)

Over the long run, the stagnation of AHC incomes for the bottom fifth of London households has been driven primarily by rising housing cost. Section 6 showed two major causes:

- a large shift from social-sector renting to private renting
- a significant real-terms increase in rent within both the private and the social sector.

London's rent levels reflect long-standing constraints on housing supply. These include limited land release; planning restrictions; and sustained demand pressures arising from population and employment growth (factors discussed in section 6). The GLA can influence some aspects of this system through strategic planning, land assembly and affordable housing investment. However, many of the most binding determinants of supply – such as national planning policy and overall land availability – sit outside the GLA's direct control.

We use counterfactual analysis to quantify how sensitive the bottom 20% is to changes in housing cost. Note that all counterfactual scenarios are static. We ask: "If some of the households we observe in the data today had faced lower housing costs, how different would London's distribution of after-housing-cost incomes be?"

[52] Source: ONS, Rising ill-health and economic inactivity because of long-term sickness, UK: 2019 to 2023, 26 July 2023

[53] Source: The Health Foundation, What we know about the UK's working-age health challenge, 17 November 2023

Thus, we get a sense of how sensitive the bottom 20% is to changes in housing costs. We will not forecast the state of income distribution in 2035, as we do not predict how rents, wages, benefits or inflation will evolve in future years.

We will examine two broad types of long-term housing scenarios:

- a general reduction in rent levels regardless of income
- a targeted reduction in housing costs, through shifting a subset of low-income private renters into more affordable tenures.

These scenarios are for illustrative purposes. It's also beyond the scope of this report to assess whether they are deliverable within 10 years; or which specific policies are more effective in reducing housing cost.

First, we consider a scenario where all renters in London get a 10% reduction in housing cost. GLA analysis on housing projections suggests that, if 88,715 new homes are built per year, between 2026 and 2036, the rent level in 2036 will be 14% lower than in 2026. [54] This is challenging, as the average number of homes delivered over the last five years was only 32,000 per year. [55]

[54] The projection assumed population growth and income growth, both of which lead to predicted rent growth. So, the 14% is not the net effect of increasing housing supply. The net effect is bigger.

[55] Source: London Assembly Planning and Regeneration Committee, Unlocking development in London - Planning and Regeneration Committee, March 2025

**Table 1: Counterfactual of lower rent and impact on the distribution of household AHC income**

| Sector | % reduction in rent | Impact on household AHC income per week | | | |
|---|---|---|---|---|---|
| | | 10th percentile | | 20th percentile | |
| | | £ change | % change | £ change | % change |
| **All renters** | 10% | £8.9 | 6.0% | £9.4 | 3.2% |
| **All renters** | 20% | £24.0 | 16.1% | £20.0 | 6.8% |
| **Private renters only** | 10% | £6.1 | 4.1% | £7.9 | 2.7% |
| **Private renters only** | 20% | £16.0 | 10.8% | £16.8 | 5.7% |

Note: the counterfactual analysis is conducted for all London households in HBAI 2021-24. We reduce the housing cost of all renters or private-sector renters by a fixed percentage, and then examine the AHC income distribution. For social tenants, if they reported receiving Housing Benefit or UC, we assume the reduction in rent would cause the same reduction in benefit income; hence, their AHC income won't be affected. The methodology of counterfactual analysis is explained further in Annex 2.

In the current sample of London households (2021-24), we found that, if all renters in London received a 10% reduction in housing cost, the 10th and 20th percentiles of AHC household income would be £9 per week higher than the baseline. In proportional terms, the **10th percentile would be 6% higher**, and the **20th percentile would be 3.2% higher**. Table 1, above, illustrates that, if the counterfactual reduction in rent were 20% instead of 10%, the impact would be roughly double. In particular, the 10th percentile of AHC income would be 16% higher than the baseline, thus contributing strongly towards the 20% growth target on its own.

We experimented with moving 1-3% of all London households, targeting either the bottom 20% or the bottom 40% of current AHC income distribution. While 1-3% sounds small, the number of households moved is sizeable relative to low-income private renters. We assume that the movers' housing cost would be 50% lower than what they are currently paying.

Table 2, below, shows that if 1% of London households moved from private renting to social renting, and if all of that 1% comes from the bottom 20% of low-income households, then the 10th percentile of AHC income in London would increase by £4.20 per week (or 2.8%). If 2% of London households moved, the 10th percentile would increase by **4.1%.** If 3% of London households moved, the 10th percentile would increase by **6.0%.** In the last scenario, 15% of households in the bottom quintile are moved; this is over one-third of all private tenants in the bottom quintile.

**Table 2: Counterfactual of moving households from private renting to social renting**

| Target which households | % households moved | % households in bottom quintile moved | Impact on household AHC income per week | | | |
|---|---|---|---|---|---|---|
| | | | 10th percentile | | 20th percentile | |
| | | | £ change | % change | £ change | % change |
| bottom 20% | 1.0% | 4.9% | £4.2 | 2.8% | £2.3 | 0.8% |
| bottom 20% | 2.0% | 10.2% | £6.1 | 4.1% | £4.3 | 1.5% |
| bottom 20% | 3.0% | 15.1% | £8.8 | 6.0% | £10.1 | 3.4% |
| bottom 40% | 1.0% | 2.7% | £3.3 | 2.3% | £1.4 | 0.5% |
| bottom 40% | 2.0% | 5.7% | £4.2 | 2.8% | £2.8 | 1.0% |
| bottom 40% | 3.0% | 8.8% | £4.9 | 3.3% | £5.9 | 2.0% |

Note: each row represents a counterfactual scenario, modelled on the sample of London households in HBAI 2021-24. In each scenario, we select a random subset of privately renting households; and reduce their housing cost by half. We adjust their benefit income under the assumptions explained in the Annex. Households in the targeted segment of AHC income distribution (bottom 20% or bottom 40%) have an equal chance of being selected. The second column in the table shows how many households are selected out of all London households; the third column shows the selected share among the bottom income quintile.

If the move from private to social housing is not exclusively targeted at the bottom quintile, its impact will be smaller. The last three rows of table 2 show the impact if the move targets the bottom 40%, rather than the bottom 20%. For example, with 3% of all London households moved, the increase in the 10th percentile would be 3.3%, rather than 6%. This is because helping households that were already above the 20th percentile will not have direct impact on incomes among the bottom 20%.

It's uncertain whether the magnitude of shift away from private renting shown in table 2 is realistic or feasible. The shift observed over the last three decades was in the opposite direction. The share in private renting has increased by 14 percentage points for London overall, and 17 percentage points in the bottom quintile, between 1994-97 and 2021-24. Much of that shift came from a decline in social housing stock, and some from a decline in mortgage owners. So, the magnitude of overall shifts modelled (1-3%) is much smaller than the historical change (14%). On the other hand, it would require significantly more construction of social housing than has been delivered in recent history.

So far, we have interpreted the counterfactual scenarios as moving households from private renting to social renting. However, it can also be interpreted as a move from

private renting to mortgage owning, because mortgage holders' housing cost is also around half that of private renters, on average. It's possible that, for new buyers of affordable homes or shared ownership, the monthly cost would be higher than that of current mortgage holders; but their cost would still be lower than renting privately. Their reduction in housing cost is likely to be well below 50%, and not trivial. Annex 2 contains a table similar to table 2, except that the assumed discount in housing cost is 25% instead of 50%. Intuitively, the impact on AHC incomes will be smaller than in table 2 for the same number of households moved; but the impact could be larger if we double the number of households moved with the 25% discount.

Reducing rent for all renters by 10% has broadly the same impact on the 10th percentile of AHC income (6%) as shifting 3% of London households (15% of the bottom quintile) from private renting to social renting. The former affects all renters, and so nearly half of all London households. However, the latter approach affects only 3% of all London households; but each affected one gains a lot more. In terms of total gains in AHC income across all London households, the latter approach has a much smaller impact than the former. But because it is targeted at the bottom quintile, it achieves similar positive impact at the 10th percentile.

Overall, the counterfactual scenarios in this section illustrate the high sensitivity of disposable incomes, at the bottom level of London's distribution, to rent levels and tenure. The scale of changes implied by these scenarios may be challenging to achieve in practice, given long-standing structural constraints on housing supply – including land availability, planning frameworks, delivery capacity and funding, many of which lie partly or wholly outside the GLA's direct control. The results should therefore be interpreted as evidence of the potential gains available when housing costs fall, rather than as forecasts or delivery commitments.

Meaningful long-term improvements in AHC incomes will depend on sustained action across the wider housing system, including expanding overall supply; increasing the stock of low-cost rent homes; and easing structural constraints that have limited London's housing supply responsiveness over time.

## Section 10: Conclusion

AHC incomes at the bottom of the distribution have risen by only around 10% over nearly three decades. This is in stark contrast to the gains experienced by the rest of the population in London, and elsewhere in England. This stagnation has occurred despite steady growth in BHC incomes; and it reflects the cumulative impact of housing costs rising far faster than incomes, for those on the lowest incomes.

The bottom quintile is a diverse group, but worklessness and disadvantage are defining features. More than half of families in this group are workless, mainly due to economic inactivity (rather than unemployment or old age). The largest family type is working-age adults without children, accounting for nearly half of all families in the bottom quintile. Children, single parents, ethnic minority households and disabled people are over-represented, but do not constitute the majority. Among the economically inactive, the barriers to work vary by life stage:

- studying, for those under 25
- caring responsibilities, for those aged 25-54

- health conditions and early retirement, for older adults.

About a third did not specify a reason.

Health conditions are the most clearly identifiable barrier; but these account for, at most, a third of working-age inactivity. Over 60% of inactive adults hold qualifications at Level 3 or above; so lack of formal qualifications is not the primary cause of high inactivity rate in the bottom quintile. At present, 41% of bottom-quintile households rent privately, facing the city's highest housing costs.

The analysis also shows that benefit income remains central to household resources at the bottom of the income distribution. Around half of total BHC income comes from benefits; but many households receive little or nothing due to non-eligibility or non-take-up.

The scenario analysis demonstrates the different scales of impact available, from increases in wages, employment and reductions in housing costs. Increasing wages for low-paid workers raises AHC incomes only modestly. By contrast, expanding employment has the potential to raise incomes more substantially. A theoretical five-percentage-point increase in London's employment rate can lift the 10th percentile by 24%. Meanwhile, a 10% fall in rents would increase incomes at the 10th percentile by around 6%; and a further 20% reduction would increase it by 16%.

Taken together, these results show that progress requires coordinated action across several domains. In the short term, an effective temporary policy lever is improving benefit incomes, primarily by increasing take-up. In the medium term, higher employment – supported by programmes such as Connect to Work, the Trailblazers programme, borough-led services, and skills provision – can deliver further gains. In the long term, however, meaningful and durable improvements in living standards will depend on reducing housing costs, through expanded affordable housing supply and broader policy measures that reduce rent in real terms. The combined use of these levers, applied consistently over time, offers the best prospect of achieving sustained improvements in the living standards of London's lowest-income households.

## Annex 1: Data & definitions

Our primary data source is the HBAI microdata from UK Data Service from 1994-97 to 2021-24.[56] The HBAI data is developed by the DWP based on the FRS – this is a long-running survey that collects information on a representative sample of private households in the UK. The FRS collects information about all sources of income, household composition, housing tenure, individual demographics and so on.

The main measure of income used in this report is equivalised net household income after housing cost. Equivalised income means incomes are adjusted to make it comparable across households of different sizes and compositions. A couple with no children is the reference point. All monetary (£) amounts are deflated to the level of 2023/24, and are in weekly terms. We use the same income measure as the government's official statistics on poverty and inequality.

One known problem with the FRS, and hence HBAI data, is that it under-reports benefit income. This means that our analysis will likely understate true incomes at the lower end of household income distribution. To correct this, one would need to impute benefit income for households that do not report receiving them, but that appear to be eligible; one would need to do so for a sensible subset of such households, in order to match aggregate benefit caseloads or take-up rates. That would require a tax-benefit micro-simulation model such as UKMOD, which is beyond the scope of this report.

Recent study from the IFS[57] also questioned the quality of earnings data in HBAI. HBAI data implied a large fall in gross earnings from employment in 2023-24, when HMRC tax data suggested it held up. To the extent that earnings are under-reported in HBAI data, our results on income levels will also understate the truth.

However, it is not clear that the under-reporting of incomes would bias our other estimates – such as demographic composition of the bottom 20%, or the impact of counterfactual scenario on the 10th or 20th percentiles of income. Note that in scenario modelling, we are interested in the change, not the level. In fact, we are more interested in the comparison of change across different scenarios, rather than the change in absolute terms. Therefore, given the main purposes of this report, we simply use reported incomes as they appear in the HBAI data. This approach is transparent; aligns with the approach in official statistics; and avoids complex modelling assumptions.

Finally, the FRS is designed to cover residents in private households. It does not cover people living in hostels or homeless shelters; elderly residents in care homes; or students in university halls. To the extent that these groups are more likely to have very low income, their omission will overstate incomes at the 10th or 20th percentiles.

[56] DWP. (2021). *Households Below Average Income*. [data series]. *3rd Release.* UK Data Service. SN: 2000022, DOI: http://doi.org/10.5255/UKDA-Series-2000022

[57] Source: IFS, New data suggest dramatic decline in living standards, but it may just be the quality of the data that has declined, 27 March 2025

## Annex 2: Methodology of scenario modelling

We start from households' **reported** incomes and housing costs in the 2021-24 HBAI data. We apply a hypothetical change to their income or housing cost, according to the scenario (listed below); compute net equivalised household income **AHC**; and then re-compute the **10th and 20th percentiles** of the resulting AHC income distribution. The counterfactual percentiles are compared with the baseline to give the impact in pounds (£) and in percentages (%).

The scenarios are as follows:

1. **Low-pay uplift:** for workers with reported hourly pay below the LLW, we raise gross hourly pay by **£3 per hour (or to the LLW if closer).** We assume no change to hours or employment status, and deduct income tax and employee NIC. Where a family is observed receiving UC (or legacy equivalent), we reduce their benefit income according to the 55% taper rate applied to the hypothetical increase in earnings.
2. **Employment increases:** we randomly assign jobs to a specified share of working-age adults who are currently not working; and assign them earnings of either £600 per week, or the legal minimum wage × 40 hours. We calculate the reductions through income tax, NIC and benefit withdrawal.
3. **Rent reduction:** we apply a specified **percentage cut** in reported housing costs to **all renters** (or **private renters only**) and recalculate AHC.
4. **Private-renting to social-renting moves** – we randomly select a stated share of **private-renting households** in a target segment (bottom **20%** or **40%** by AHC) and **halve their reported rent** (50% discount; a 25% variant is shown in Annex 2), then recalculate AHC.

These are mechanical exercises. They do not model behavioural or market responses (no changes in hours; participation of other household members; employer demand; prices; or rents beyond the imposed shock). Nor do they re-simulate the full tax-benefit system, beyond the simple income tax/NIC/UC taper rules noted above. For example, we assume no benefit withdrawal for families who do not report receiving UC or equivalent benefits. As the survey is known to under-report benefit caseload significantly, this means we overstate the net income gain for a substantial share of low-income families (those who received, but didn't report, benefit incomes). Meanwhile, the calculation of benefit withdrawal assumes no 'work allowance', which will overstate the amount of benefit withdrawal for families who currently receive UC or equivalent benefits. The latter is likely to have a smaller impact than the issue of benefit under-reporting. The random assignment of jobs to non-workers also likely to overstate gains, because those furthest from work may be over-represented in lower-income households. So, the overall impact of those employment and wage scenarios is likely overstated.

For scenarios of lower rent, we assume that, if a social tenant reported receiving Housing Benefit (HB) or Universal Credit (UC), their benefit income will fall by the same amount of the reduction in rent (or to zero if it's smaller than the reduction). For other households (privately renting or not receiving housing-related benefits), benefit income will not be affected. In practice, entitlement to the housing element of UC and to HB is capped by the Local Housing Allowance (LHA). Social tenants typically have lower rent than LHA. But private renters' rent typically exceeds LHA, especially when the LHA rates

are frozen in cash terms. This means reductions to their actual rent won't reduce their benefit income, unless the rent falls below the LHA. By assuming no reduction in benefit incomes for private renters, we will overstate the positive impact on AHC income for a small subset of them.

For those moving from private to social renting, we do not adjust benefit income unless the household reports receiving HB or UC. To the extent that some households receive those benefits, but do not report receiving them, we will overstate AHC income gains. For the movers that report receiving HB or UC, we assume their LHA rate is 20% below their current actual rent; and so, after moving, their actual rent will be below LHA. Thus, their benefit income will fall by the difference between 80% of current rent and the new lower rent. The actual gap between LHA rate and rent is not observed in our data, and likely varies a lot across households and over time. According to Citizens Advice, by the end of 2023/24, almost two-thirds (65%) of UC Housing Element recipients in the private rented sector had a shortfall between housing cost support and their actual rent. Resolution Foundation predicted that the gap between LHA and the 30th percentile of current local rent will reach 17% in 2026, and 25% in 2029. On balance, the assumption of a 20% gap between actual private-sector rent and LHA is moderate for the group of movers. If the average gap between current rent and LHA among movers is larger than assumed, then the reduction in housing support would be smaller, and the AHC income gain would be greater. But this under-estimation is likely to be offset by the over-estimation of gains from benefit recipients who do not report receiving benefits.

Note that all counterfactual scenarios in this report are static: they apply hypothetical changes (such as lower rent levels or increased employment) to the actual households observed in the FRS over 2021-24, with all results expressed in constant 2023/24 prices. This means the model does not predict how rents, wages, benefits or inflation will evolve in future years. Instead, it asks a narrower question: If the households we observe today had faced different housing costs or earnings, how different would their after-housing-cost incomes be? The estimates therefore isolate the mechanical sensitivity of current low-income living standards to specific levers, such as employment and rent.

The analysis is not designed as a forecast; however, the results can be tentatively interpreted as indicative of policy impacts in a future state of the world, under restrictive and strong assumptions. Specifically, the static findings would carry over to future years if:

- the composition of households in the bottom 20% remains similar to that observed in 2021-24
- the levels and distribution of rents, earnings, benefits and AHC income do not change much in real terms
- there are no behavioural responses or general equilibrium effects.

It may be the case that none of these assumptions there hold.

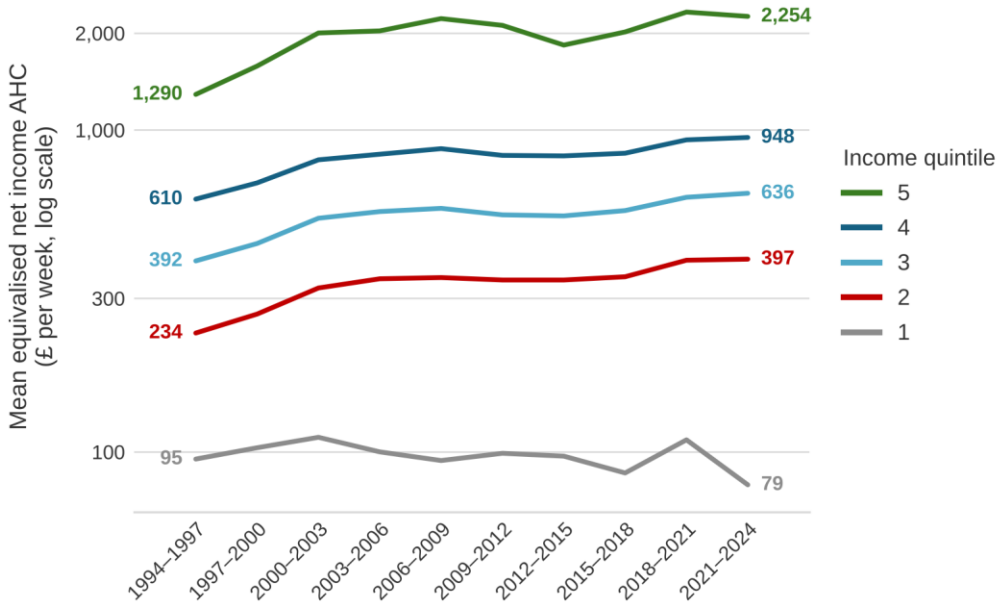
Therefore, these counterfactual results should be read primarily as **evidence of sensitivity**, not as predictions.

## Annex 3. Additional results

Figure 4 in section 2 showed the trend in median AHC income by quintile group in London. If we look at the mean instead of the median within each income quintile, we would also see a clear divergence between the bottom quintile and the rest.

Figure 4a, below, is the corresponding figure. Among the bottom quintile, the mean AHC income fell from £95 per week in 1994-97 to £79 per week in 2021-24. The mean is much lower than the median among the bottom 20%, because some households have very negative AHC income (housing cost far exceeding their reported income). About one-quarter of the bottom 20% have negative AHC incomes in 2021-24. Note: we rely on incomes reported by survey respondents, and under-reporting of incomes may be more prevalent among the bottom 20%. By contrast, in the top quintile group, there are some households with very high incomes pulling up the mean, and increasingly so over time. The real mean AHC income among the top 20% increased by 75% over the same period.

**Figure 4a: trend in mean AHC income by quintile group in London**




Source: HBAI from 1994-97 to 2021-24.

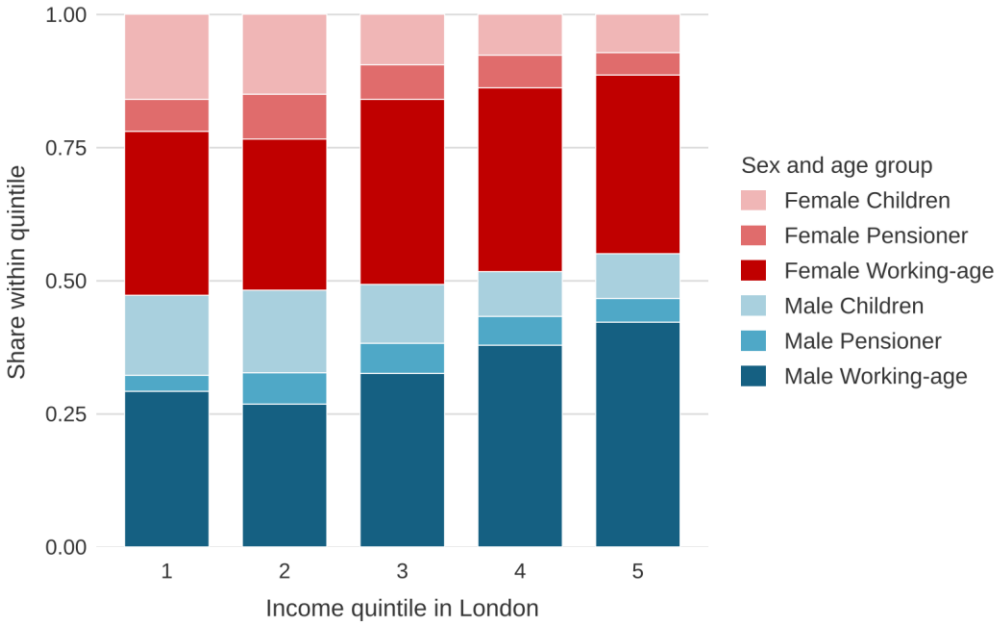
Note: income quintile is always defined by equivalised net household income AHC. The mean value in each group is shown. All £ amounts are in 2023/24 prices.

We saw in figure 8 that children are over-represented, and pensioners are under-represented, in the bottom quintile. Figure 8a gives a gender-age breakdown of individuals by income quintile in London.

Within each of the three life stages, there are more females than males in the bottom quintile. Of the bottom quintile, 16.0% are female children and 14.8% are male children,

31.0% are working-age women and 29.3% are working-age men; and 5.7% are female pensioners and 3.3% are male pensioners. At the top of the household income distribution, there are more males than females.

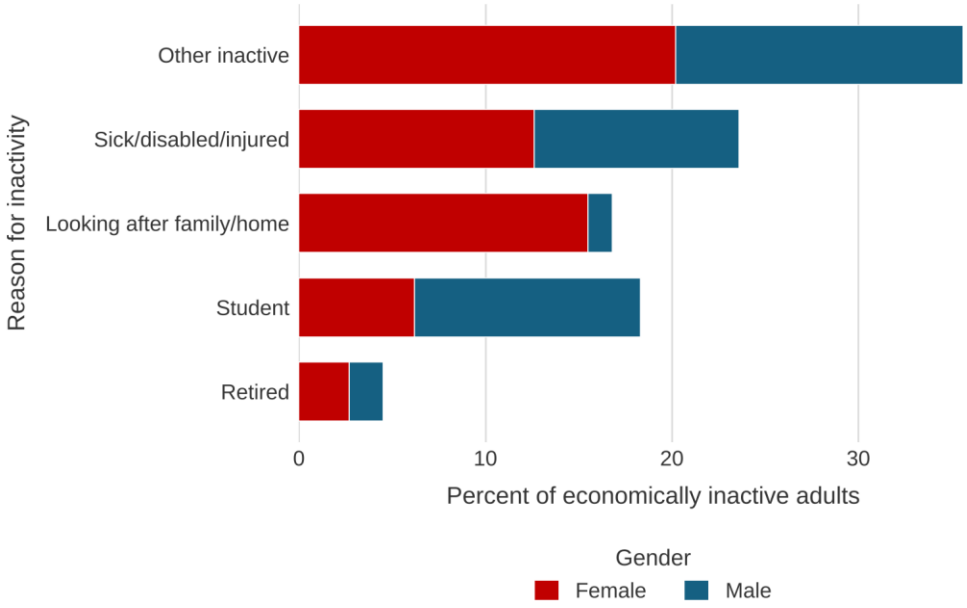
**Figure 8a: Composition of age and sex by income quintile in London**




Source: HBAI 2021-24.

Note: income quintile is always defined by equivalised net household income AHC. A dependent child is defined as an individual aged under 16. A person will also be defined as a child if they are 16 to 19 years old and they are: not married nor in a civil partnership, nor living with a partner; and living with parents/a responsible adult; and in full-time non-advanced education or in unwaged government training.

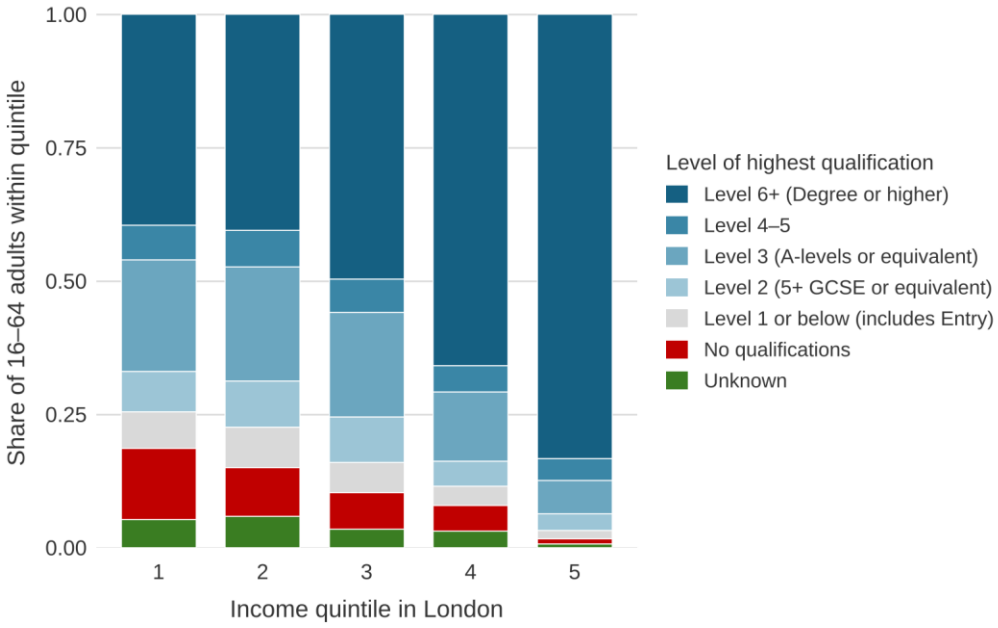
**Figure 19a: Gender composition within inactive working-age adults in the bottom quintile**




Source: HBAI 2021-24.

Note: income quintile is always defined by equivalised net household income AHC. Working age means adults under 65.

**Figure 22a: Education composition within working-age adults in the bottom quintile**




Source: FRS merged to HBAI 2021-24.

Note: income quintile is always defined by equivalised net household income AHC. The definition of adult versus children follows the HBAI definition and is explained below Figure 8. Qualification categories are that the same as in figure 21.

Table 2 in section 9 showed the effects of moving households form private renting to social renting, assuming a 50% reduction to housing cost for movers. Below, in table 2a, we show how sensitive the effects are to the proportional reduction.

The first three rows are identical to those in table 2; they are here for the ease of comparison. In the next three rows, we show counterfactuals where the reduction is 25% instead of 50%. We also explore larger shares of movers, because a lower subsidy per mover means more households could be moved. When considering the choice of 'social rent' versus intermediate products (such as affordable rent or shared ownership), there is an inherent trade-off between helping more households and providing more help per household. There are no published statistics on the average subsidy per household for different types of affordable homes. If it costs the same to give one household a 50% discount as to give two households 25% discount, then the comparison should be between the first and fourth rows in table 2a; or between the second and sixth rows. Between the first and fourth rows, the impact on the both the 10th and 20th percentile is larger when double the share of households are moved than when the discount is 50%. Between the second and sixth rows, the impact on the 10th percentile happens to be the same; and the impact on the 20th percentile is larger when double the share of households are moved. Thus, it appears that subsidising each household 25% (but doubling the number of beneficiaries) may be more effective in lifting AHC incomes for

the bottom 20% of London households. This is not sufficient evidence to say that it's always better to reduce discount per household, and increase the number of households subsidised, at other levels of % discount and coverage.

**Table 2a: Counterfactual of moving households from private renting to affordable homes**

| % households moved | % households in bottom quintile moved | % rent discount given to each mover | Impact on household AHC income per week | | | |
|---|---|---|---|---|---|---|
| | | | 10th percentile | | 20th percentile | |
| | | | £ change | % change | £ change | % change |
| 1.0% | 4.9% | 50% | £4.2 | 2.8% | £2.3 | 0.8% |
| 2.0% | 10.2% | 50% | £6.1 | 4.1% | £4.3 | 1.5% |
| 3.0% | 15.1% | 50% | £8.8 | 6.0% | £10.1 | 3.4% |
| 2.0% | 10.2% | 25% | £4.9 | 3.3% | £2.8 | 1.0% |
| 3.0% | 15.1% | 25% | £6.1 | 4.1% | £6.1 | 2.1% |
| 4.0% | 20.1% | 25% | £6.1 | 4.1% | £7.5 | 2.5% |

Note: each row represents a counterfactual scenario, modelled on the sample of London households in HBAI 2021-24. In each scenario, we select a random subset of privately renting households in the bottom AHC income quintile; and reduce their housing cost by either 50% or 25%. We adjust their benefit income under the assumptions explained in the Annex. The second column in the table shows how many households are selected out of all London households; the third column shows the selected share among the bottom income quintile.

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