

Public Accounts Select Committee		
Title	Household budgets	
Contributor	Head of Corporate Resources and Scrutiny Manager	Item 6
Class	Part 1 (open)	20 December 2017

Reasons for urgency and lateness

The report has not been available for five clear working days before the meeting and the Chair is asked to accept it as an urgent item. The report cannot wait until the next meeting because the Council's annual budget is due to be considered at that meeting. The report was not available for despatch on Tuesday 12 December due to officer commitments and workloads.

1. Purpose of paper

- 1.1 At its meeting on 19 April 2017, when agreeing on items for its 2017-18 work programme, the Committee decided to undertake a review into the pressures on household budgets in Lewisham.
- 1.2 The Committee discussed a scoping paper for a review at its meeting in July 2017. It also received an update on the work of the Poverty Commission from officers working for that group.
- 1.3 The Committee agreed that, in light of the Poverty Commission's comprehensive review of housing, employment and childcare for low income families, it would look at the pressures facing middle income households. Given the demands on the Committee's work programme, it was also agreed that the review would focus on a single meeting with primary focus given to analysis and review of existing data.
- 1.4 This report sets out information and analysis for the Committee to consider.

2 Recommendations

- 2.1 The Select Committee is asked to:
 - note the content of the report;
 - direct questions to officers in attendance at the meeting on 20 December.

3 Policy context

- 3.1 Lewisham has a sustainable communities strategy¹, which sets out a vision of a borough which is dynamic and prosperous - where people are part of vibrant communities and town centres, well connected to London and beyond. The content of this paper reflects this vision.
- 3.2 The content of this paper is also consistent with the Council's corporate priorities²:

¹ [Lewisham's Sustainable Communities Strategy](#)

² [Lewisham Council's Corporate Priorities](#)

- The Council is committed to strengthening the local economy by gaining resources to regenerate key localities and strengthening employment skills.
- It is a Council priority to protect children and to help working families with access to affordable childcare.
- There is an overarching Council priority to inspire efficiency, effectiveness and equity in the delivery of services.

4 Background

The global financial crisis and the cost of living

- 4.1 The global financial crisis in 2007/08 shook the foundations of Britain's banking sector and spilled over into the rest of the economy. This prompted the government to act in order to stabilise the country's financial industry.
- 4.2 As the government took emergency measures to stabilise Britain's banks, households began to reduce their spending. The Office for National Statistics (ONS) subsequently reported that by the end of 2008 total spending by households fell for the first time since 1968. Household spending then fell for a further two quarters, for the first time since the records began.
- 4.3 As the situation began to stabilise and uncertainty about jobs and the cost of living eased, the pressure on household budgets decreased. Nonetheless, Office for National Statistics figures³ show that over the last decade real earnings growth has been weak.
- 4.4 Furthermore, as highlighted during the discussion about Britain leaving the European Union at the Committee's meeting in April 2017, the country is entering into a period of uncertainty and the pressure on household budgets is likely to become an increasing issue of concern for Lewisham residents.

The Council's budget challenge

- 4.5 In the period following from the financial crisis, the government moved to reduce its spending and the requirement for borrowing. It drew on the resources of the public sector to make deep and sustained reductions in spending on services. The cuts to funding for local government have had a major impact on the way in which services are managed and delivered.
- 4.6 The Lewisham Future Programme is the Council's organisational approach to making the savings required by the Government. The Programme has enabled officers to identify a set of thematic and cross-cutting reviews, from which the Council targets its savings activities. Some examples of these include: smarter assessment arrangements and deeper integration of health and social care, incorporating public health; approaches to safeguarding and early intervention services; opportunities for asset rationalisation; a strategic review of income generation and the drive to make further reductions in management and corporate overheads.

³ Office for National Statistics- analysis of real earnings November 2017:
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/supplementaryanalysisofaverageweeklyearnings/latest>

- 4.7 The Council has committed to shielding frontline services from cuts, with the intention that the most vulnerable are protected from steep reductions in services. Nonetheless, the medium term financial strategy, considered by the select committee in July, highlighted that the Council was required to find savings of £33m in the two years to 2019/22 - £22m in 2018/19 and £11m in 2019/20. It was also noted that from 2010 to 2020 this would bring the total savings delivered (and required in the years to 2020) to £193m, of which £160m have been agreed with £153m delivered and £7m in the forecast overspend for 2017/18.
- 4.8 The Committee has noted in regular budget reports that there is an outlook for austerity until at least 2020/21. Yet, the level of cuts required by the Government is becoming increasingly difficult for the Council to deliver. In two of the past three years, the Council has used its reserves to balance its budget and at the end of each of these years directorate budgets have been overspent as officers find it more difficult to deliver savings and maintain services at the same time. In the budget report to Council in the spring of 2017 it was reported that:

‘...the Council cannot do all that it once did, nor meet all those expectations that might once have been met, for we are in a very different financial position than just a few years ago. Very severe financial constraints have been imposed on Council services with cuts to be made year on year on year...’
(Budget report 2017, p8)

The role of scrutiny

- 4.9 Scrutiny committees in Lewisham are proactive in their attempts to improve the lives and wellbeing of people in Lewisham. There are a number of reports and reviews, which are related to the issue of household budgets. Some examples are given below.
- 4.10 The Public Accounts Select Committee’s 2012 review of fairness in procurement, pay and employment practices at the Council drew on work carried out by fairness commissions at other councils. The Committee welcomed Lewisham’s efforts to ensure equality in the workforce. It also welcomed the Council’s support for paying employees the London living wage in Lewisham, both to direct employees of the Council and to employees paid by sub-contractors.
- 4.11 The Committee’s review was carried out over a series of evidence gathering sessions and feedback from the local community was also sought. The Committee recognised that public services were a significant employer in the Borough and it wanted to determine how the Council could make residents more aware of opportunities at the Council for the employment of local people – in particular on trainee and apprenticeship schemes.
- 4.12 The Sustainable Development Select Committee’s review of financial exclusion in Lewisham (also in 2012) sought to explore the problems experienced by people without access to financial products and services. Members were concerned about the impact of the recession on vulnerable households in Lewisham. The Committee sought to explore how residents could gain better access financial products and how they might be better supported to avoid getting into financial difficulty.

- 4.13 The Committee also found that there were increased pressures on those who are financially excluded, or likely to become excluded, including:
- Increased unemployment and lack of job opportunities
 - Increased costs of living
 - Increased rents, especially within the private rented sector
 - Rising energy bills
 - Changes to benefits system
- 4.14 The Committee took a range of evidence from partners, including support organisations and Lewisham's credit union. Members recommended that a financial inclusion partnership be set up to bring together partners in Lewisham in order to avoid vulnerable households becoming financially excluded.
- 4.15 The Safer Stronger Communities Select Committee's poverty review in 2016 took evidence from officers and external witnesses about the extent of poverty, and its impact, in Lewisham. The Committee's resulting report and recommendations led the Council's executive to set up a commission to explore the causes, and potential solutions, to the issue of poverty in the borough.

Lewisham's Poverty Commission⁴

- 4.16 At the beginning of September 2016, Mayor and Cabinet considered a response to the recommendations of the Safer Stronger Communities Select Committee's poverty review. The Mayor appointed Councillor Dromey as the cabinet lead for coordinating the Council's efforts to tackle poverty. It also agreed the creation of a 'poverty taskforce' to develop a comprehensive poverty strategy for Lewisham.
- 4.17 Setting up the Lewisham Poverty Commission in February 2017, Councillor Dromey (Commission Chair), said that it would be '...looking to develop innovative policy responses that can make a real difference, even in these difficult times'.⁵ The Council has invited representatives of organisations with a special interest in poverty to work alongside councillors, in order to develop new policy approaches to tackling poverty in the borough.
- 4.18 The Commission held a series of meetings as well as engagement activities with local people. It submitted its final report to Lewisham's full Council in November 2017⁶.

5 Household budgets

- 5.1 The Committee is interested to understand more about the pressures facing households on average incomes. It recognises the primary importance of households in poverty, however, it is also concerned about the impact of rising costs and stunted income growth on the ability of households to reach a decent standard of living. The demands on household budgets are illustrated by the work on the minimum income standard, which is compiled by the Joseph Rowntree Foundation.

⁴See: <http://councilmeetings.lewisham.gov.uk/documents/s43839/Poverty%20Review.pdf>

⁵ Poverty commission: <https://www.lewisham.gov.uk/news/Pages/New-poverty-commission-launched.aspx>

⁶ Tackling poverty in Lewisham: <https://www.lewisham.gov.uk/inmyarea/Pages/Tackling-poverty-in-Lewisham.aspx>

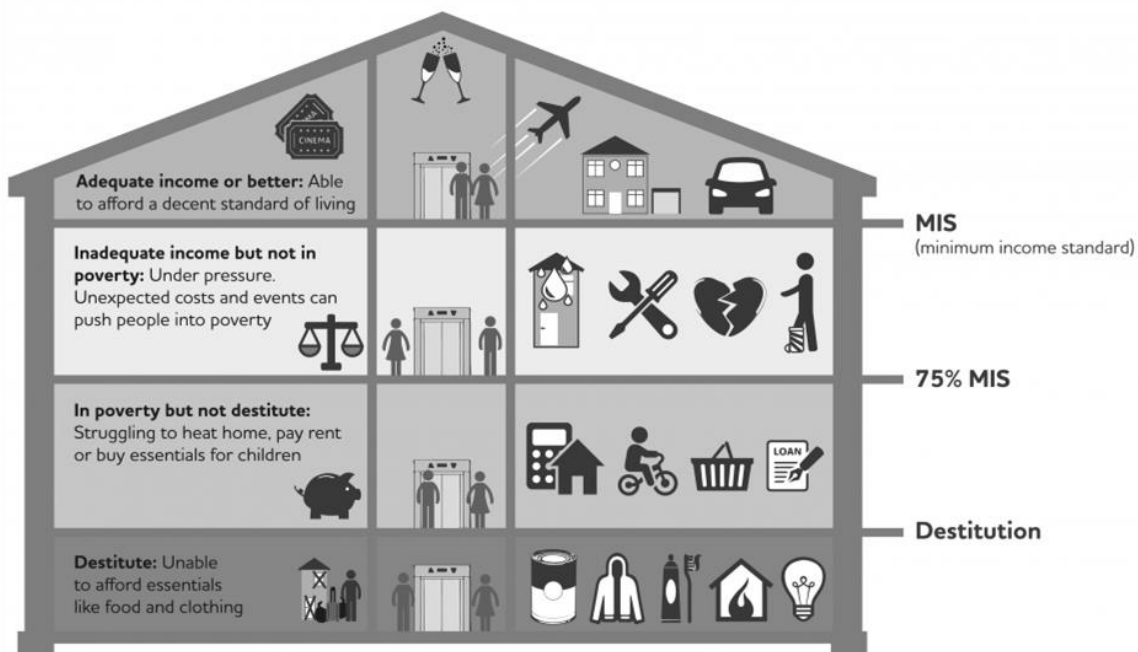
Minimum income standard

- 5.2 The Joseph Rowntree Foundation has carried out research to determine what people in the UK believe is a minimum acceptable standard of living⁷. Researchers ask groups of participants to determine what necessities households need to have in order to reach an acceptable minimum standard of living. The results of the assessment are challenged and refined by other groups until such point that there is consensus about what constitutes a minimum acceptable standard. ‘...a minimum is more than about survival alone. However, it covers needs not wants; necessities, not luxuries; items that the public think people need in order to be part of society.’ (Joseph Rowntree Foundation, 2016)
- 5.3 Participants in the research are split into four groups representing four different households:
- Lone parent household
 - Couple with young children
 - Couple without children
 - Retired couple
- 5.4 Groups are asked to comment on the decisions made by other groups until a consensus can be reached about what constitutes a minimum standard. The level of detail in the standard is high. Researchers have collected a range of household items and clothing and determined replacement cycles. Nutritionists assess the household requirements for food shopping and calculations have been made for the costs of services and activities.
- 5.5 Using the same methodology, the Trust for London has created a minimum income standard for London. The Trust’s London report sets out several key differences between the MIS in London and elsewhere in the UK. As might be anticipated, a significant difference in costs is due to the price of housing in London. There are also differences in the cost of childcare, transport and leisure activities.

The difference between poverty and minimum incomes

- 5.6 The minimum income standard and discussions about poverty are connected but people who fall below the standard are not always considered to be in poverty. The picture below illustrates how the minimum income standard and definitions of poverty are related.

⁷ JRF - Minimum income calculator- <https://www.jrf.org.uk/minimum-income-calculator-do-you-earn-enough-basic-standard-living>



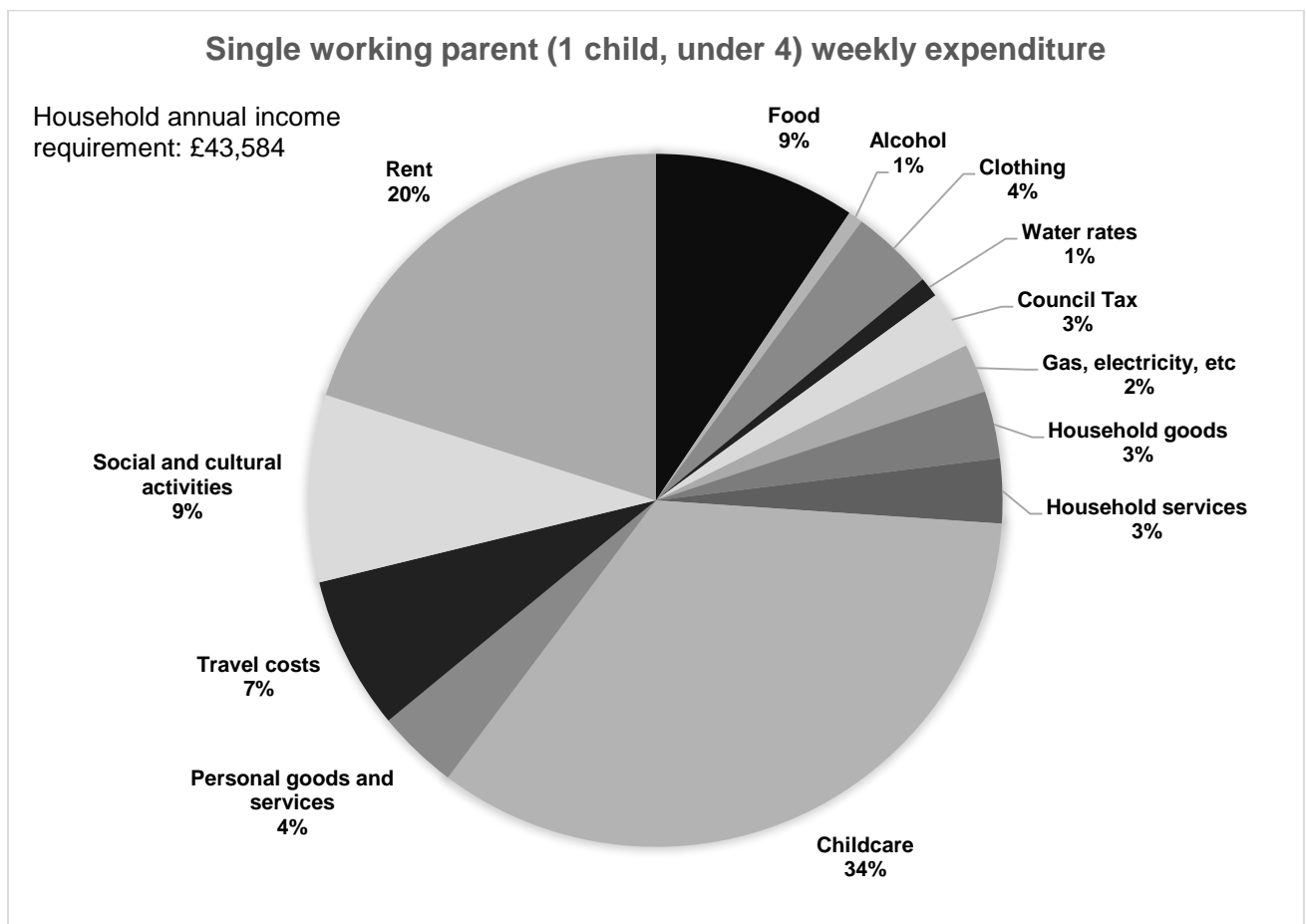
- 5.7 Lewisham’s Poverty Commission was tasked with agreeing a definition for poverty for the borough. It accepted the definition being used by the Joseph Rowntree Foundation: ‘When a person’s resources (mainly their material resources) are not sufficient to meet their minimum needs (including social participation).’⁸
- 5.8 The Joseph Rowntree Foundation and its partners have also developed a minimum income calculator⁹ to demonstrate the different levels of income households need in order to meet the minimum income standard. The calculator itemises household expenditure to indicate how much needs to be spent on various items in order to reach a minimum acceptable standard (as judged by participants in the research). Using the calculator, a set of household budgets have been created (below), based on the four key households used to develop the minimum income standard.
- 5.9 The cost of housing is a significant determining factor in the amount of disposable income that households have available. The minimum income calculator uses rental figures based on the minimum standard deemed acceptable for each of the example households defined by the research. It is also weighted for inner London but it calculates that accommodation for a single parent household in social housing would cost in the region of £130p/w and for a family with two children £150p/w. This can be compared with median rents in Lewisham:

Type of rental	Monthly cost	Weekly cost
Room	£650	£150
Studio	£850	£196
Two bedrooms	£1350	£312
Three bedrooms	£1600	£369

⁸ JRF, a definition of poverty, <https://www.jrf.org.uk/report/definition-poverty>

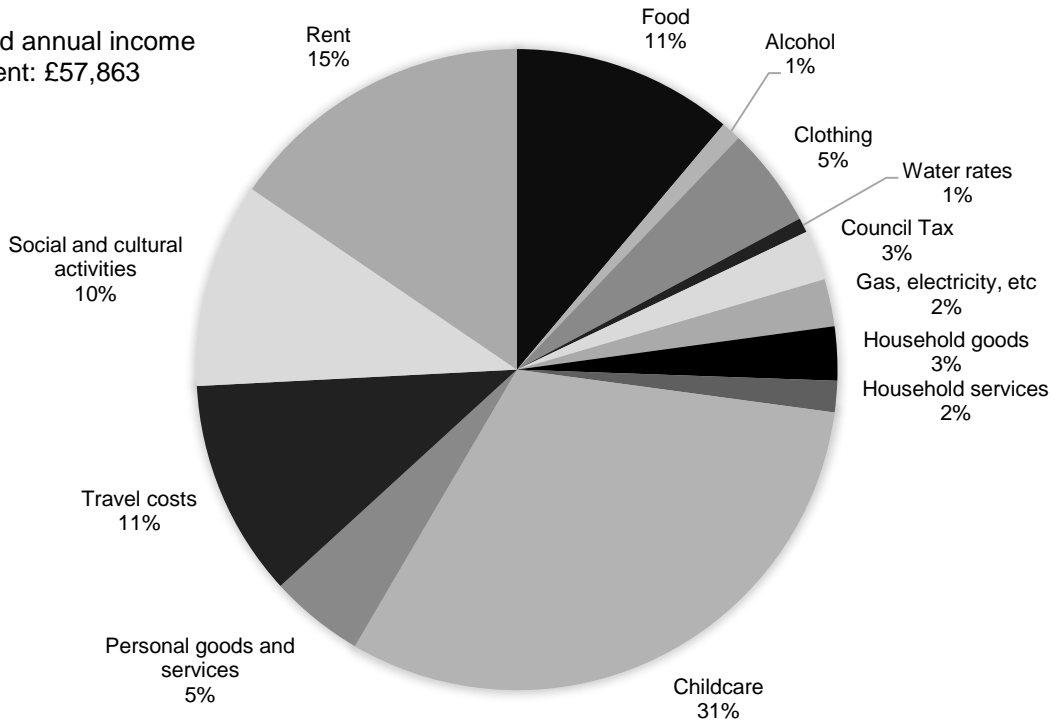
⁹ Minimum Income Calculator: <http://www.minimumincome.org.uk/>

5.10 The charts set out an approximate proportion of each of these households' income is spent on each of the key items as well as an approximation of the required level of household income for each of these household types:



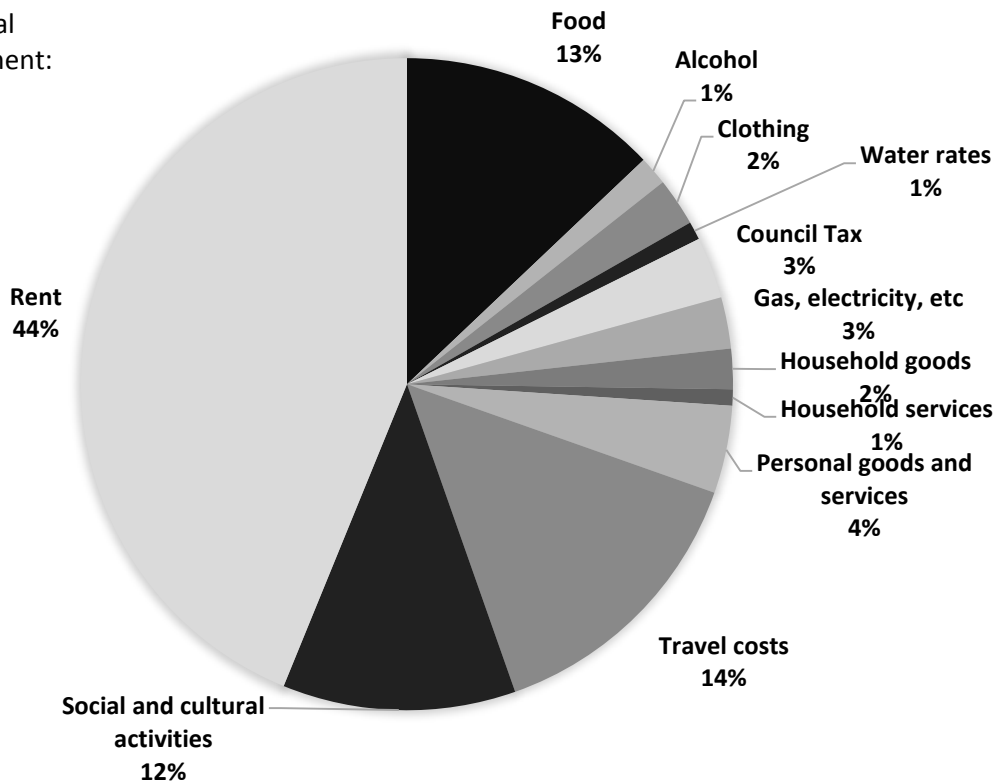
Couple with two children (one under four, one primary age) weekly expenditure

Household annual income requirement: £57,863



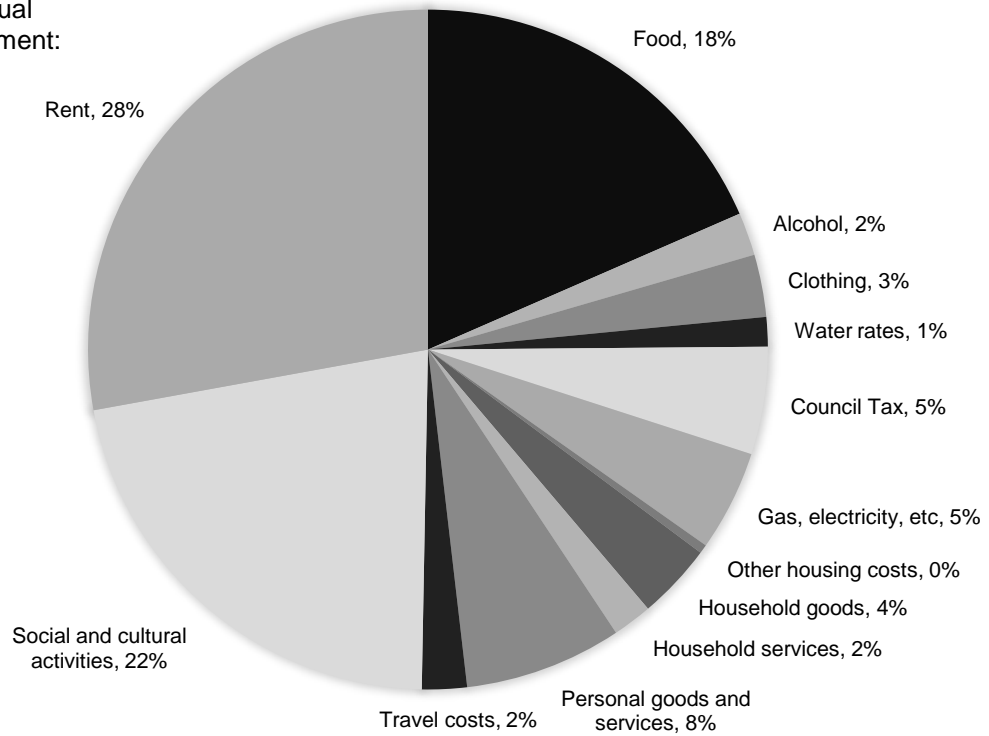
Working age couple without children weekly expenditure

Household annual income requirement: £42,944



Retired couple (no dependent children) weekly expenditure

Household annual
income requirement:
£27,070



Lewisham's households

5.11 In the 2011 census a question was asked about household composition, which provided a breakdown of the different household types in Lewisham:

Household composition

	Households	
	Lewisham Local Authority	
	count	%
All households	116,091	100.0
One person household	39,680	34.2
Aged 65 and over	9,994	8.6
Other	29,686	25.6
One family household	59,590	51.3
All aged 65 and over	3,134	2.7
Married or same-sex civil partnership couple	26,242	22.6
No children	7,985	6.9
Dependent children	14,152	12.2
All children non-dependent	4,105	3.5
Cohabiting couple	11,419	9.8
No children	6,755	5.8
Dependent children	4,200	3.6
All children non-dependent	464	0.4
Lone parent	18,795	16.2
Dependent children	13,301	11.5
All children non-dependent	5,494	4.7
Other household types	16,821	14.5
With dependent children	5,257	4.5
All full-time students	718	0.6
All aged 65 and over	307	0.3
Other	10,539	9.1

Source: ONS - 2011 Census (KS105EW)¹⁰

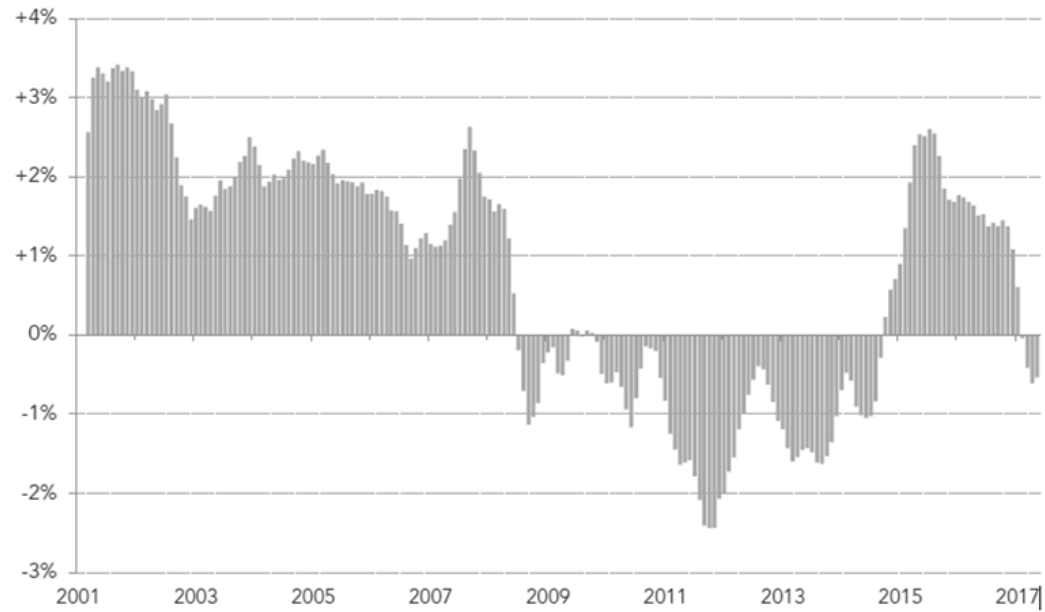
National household incomes

- 5.12 The following three graphs from the Resolution Foundation report on living standards in April 2017 show where and why the squeeze is being felt.
- 5.13 This first graph shows how the real-terms squeeze on incomes has returned in 2017. Average weekly earnings are no higher now than they were in 2005. The squeeze continues with inflation running at up to 1% above wage growth. And earnings are not forecast to return to pre- 2008 crises levels until well into the 2020s.

¹⁰ Nomis 2017: https://www.nomisweb.co.uk/reports/localarea?compare=1946157254#section_7_4

Figure 12: The earnings squeeze has returned in 2017

Growth in real-terms regular pay (CPIH-adjusted)

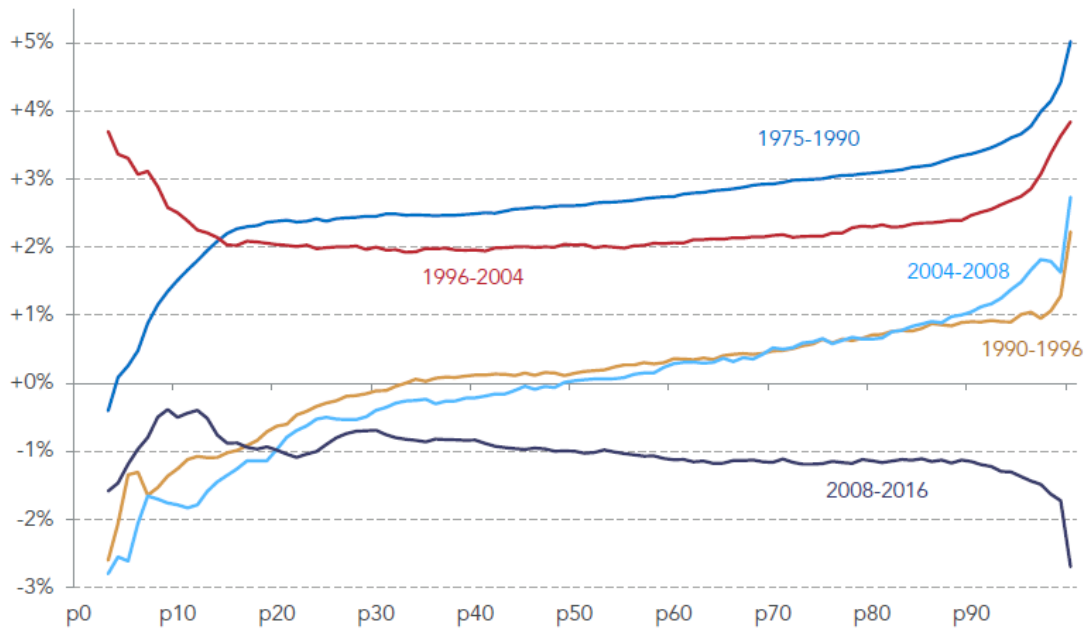


Source: ONS, Labour Market Statistics

5.14 This earnings squeeze is the most severe for the past 150 years, considerably more than the impact of the twentieth centuries recessions. Also different to previous recessions is how, with the exception of the very poorest and very richest, the impact has been relatively equally felt.

Figure 14: The post-crisis squeeze on wages has been relatively evenly felt

Average year-on-year growth in real-terms weekly pay (CPIH-adjusted)

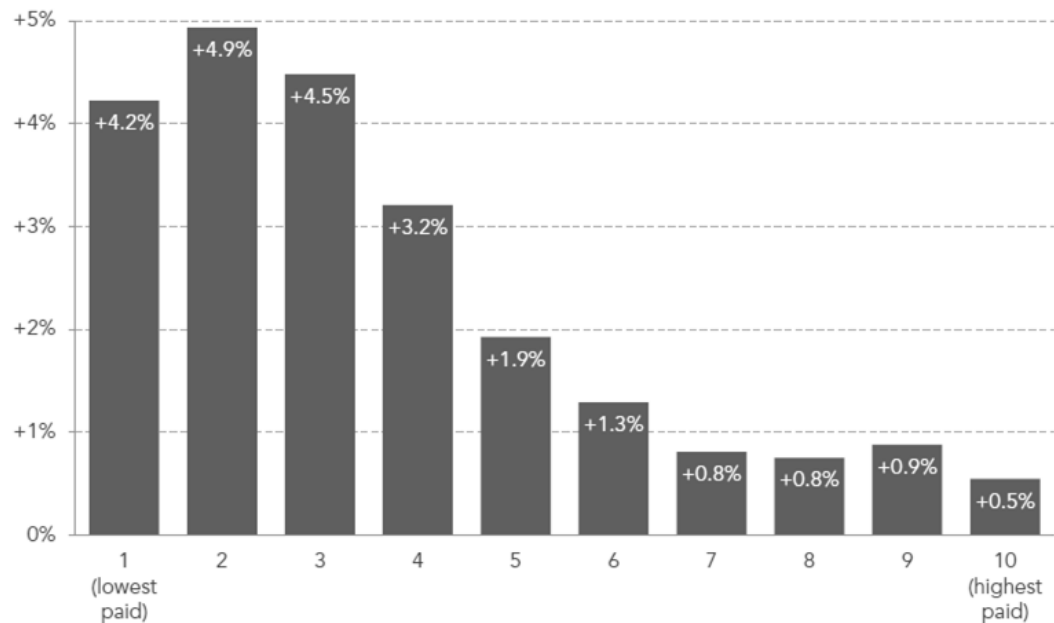


Sources: RF analysis of ONS, Annual Survey of Hours and Earnings & New Earnings Survey Panel Dataset

5.15 This difference is further shown by the distribution of wage growth by decile of the working population in the graph below. Wages have been protected for the lower earning portion of the workforce at the same time as welfare support or benefits (e.g. child tax credits) have been restricted for those earning more.

Figure 15: Annual growth in weekly pay was heavily skewed towards lower earners in April 2016

Average year-on-year growth in real-terms weekly pay by weekly earnings decile (CPIH-adjusted)



Sources: ONS, Annual Survey of Hours and Earnings

5.16 The NOMIS census information records the Lewisham average earnings by residence for a full time worker in November 2017 as follows, compared to London and the UK.

Gross Pay	Lewisham	London	UK
Weekly income	£633.3	£654.6	£552.2
Annual income	£32,932	£34,039	£28,740.4
Lewisham position v others	-	97%	115%

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