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BRIEFING

Calculating a Living Wage for London and the rest of the UK

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Introduction

This paper sets out the method for determining the independently-calculated Living Wage rates in London and the rest of the UK, and the respective rates that will apply from 31 October 2016. It is built on the findings of a report published by the Resolution Foundation in July 2016^[1] and the views of the Living Wage Commission.^[2] The method provides a robust aligned approach for the Living Wage rates based on the cost of living that families face and replaces the previous approaches used in London and the rest of the UK.

This paper details the sources underpinning the calculations, based on the best available evidence about living standards and costs. The calculation is built on a basket of goods that represents a decent standard of living, determined through research with the public. The hourly Living Wage rates are then calculated by taking a weighted average of the earnings required (accounting for tax and benefits) for a range of family types (with and without children) working full-time to reach a level of income that provides that decent standard of living. These rates provide a benchmark for employers that voluntarily commit to go further than paying government-set minimum wages, ensuring their staff earn a wage that they can live on.

The first section of the report explains the basis of the ‘core basket’ of goods and services, including everyday items such as food and clothing, the cost of which varies little across the country. The report then covers costs that are more likely to vary between London and the rest of the UK, specifically housing, council tax, travel and childcare. Further detail relating to these assumptions and how they were reached is set out in the Resolution Foundation’s review of the Living Wage calculation for the Living Wage Commission and in the Commission’s response.^[3]

The report then reflects on the process of transitioning from the previous methods to that outlined here. As discussed in the above mentioned reports, the Living Wage Commission will play an ongoing role to ensure that this method uses the best available data sources and takes account of relevant policy changes.

The final section provides the Living Wage rates which apply in London and the rest of the UK from 31 October 2016. The Living Wage Foundation requires accredited Living Wage employers to implement the new rates as soon as possible and within six months of the annual announcement. We also set out detailed estimates of each living cost component for the different family types used in the calculation. The tax and benefit position of each family type is calculated using the Resolution Foundation micro-simulation model.

1. A core basket of goods and services

To provide a ‘basket’ of goods to underpin the independently-calculated Living Wage rates in both London (LLW) and the rest of the UK (UKLW), we use the Minimum Income Standard research carried out by the Centre for Research in Social Policy.^[4] A variety of household types are included in order to reflect the diversity of families across the UK (see Tables 1 and 2 for full details) with each basket varying by family type to reflect their specific requirements, but with the same items in both

[1] C D’Arcy and D Finch, [Making a Living Wage: The Resolution Foundation review of the Living Wage](#), Resolution Foundation, July 2016

[2] Living Wage Commission, [Closing the Gap: A Living Wage that means families don’t go short](#), September 2016

[3] See footnotes 1 and 2.

[4] The basket of goods and services for each family type and its costs can be found on www.minimumincome.org.uk with detailed baskets of goods and services available at www.jrf.org.uk/income-benefits/minimum-income-standards.

calculations.^[5] As the costs are drawn primarily from national chain stores, and research suggests that the prices of most of the contents of the core basket do not differ substantially across the UK.^[6]

2. Costs that vary more significantly across the UK

The following sections of this report outline those costs which vary more significantly between and within London and the rest of the UK, thereby requiring different data sources to be drawn upon rather than being included in the core basket.

2.1 Housing costs

To determine the type of accommodation required for different family types, we follow the findings of the MIS research. For the UKLW we use the following assumptions:

- » Singles and couples without children live in one-bedroom homes in the private rented sector (including studio accommodation for singles)
- » Households with one child live in a two-bedroom home in the social rented sector
- » Households with two, three or four children live in a three-bedroom home in the social rented sector

For the LLW, we broadly retain these assumptions. However, for singles without children, and in order to reflect the high cost and availability of one-bedroom flats in London, some are assumed to share. We use a weighted average based on analysis of the 2011 census which found that 54 per cent of singles live in shared accommodation.

The housing costs associated with each type of accommodation are drawn from a variety of sources, using the latest available data. Average social sector rents are taken from the 2016 UK Housing Review, using the London estimate and an average for the UK excluding London. An average for only three-bedroom properties is no longer provided so we produce an estimate taking the differential when last available (in 2014).

For the private rented sector, consistent UK-wide data is not available. Instead we take the best available data from each nation and produce a weighted average for the UK excluding London, and the reported London estimate, of costs at the lower quartile in the private rented sector. The data used for England are published by the Valuation Office Agency.^[7] For Scotland, the data are published by the Scottish Government.^[8] For Wales, the data are published by StatsWales.^[9] For Northern Ireland, the data are published by the Analytical Services Unit of the Department for Social Development.^[10]

[5] As is discussed in the following section on housing costs, the sole exception we make to this is single people without children living in London. Because living alone in a studio or one-bedroom home is far less common in London, we apply a reduction based on the costs faced by people in shared accommodation, for example paying an appropriate share of heating bills. For further detail see K Hill, D Hirsch and M Padley, [Minimum budgets for single people sharing accommodation](#), CRSP Working Paper 642, 2015

[6] For further discussion of London costs and living standards research see M Padley et al, *A Minimum Income Standard for London*, Loughborough University/Trust For London, May 2015

[7] Valuation Office Agency, [Private rental market statistics - May 2016](#), September 2016

[8] Scottish Government, [Private Sector Rent Statistics, Scotland, 2010 to 2015](#), November 2015

[9] StatsWales, [Private sector rents by local authority, 1 January to 31 December 2015](#), 2016

[10] Department for Social Development, [Northern Ireland Housing Statistics 2014-15](#), November 2015. Because the data for Northern Ireland supplies only a median figure and for a more limited range of accommodation we make adjustments to these, based on the relationship between different sized properties e.g. ratio of the cost of a studio to a one bedroom flat and the median and lower quartile.

The sample taken by the Valuation Office Agency statistics can mean that year-to-year fluctuations occur in the detailed breakdown of rents reported – especially in London. We therefore take a three-year rolling average of rents for both London and the rest of the UK. Tables 1 and 2 show how these costs vary by room size for the UKLW and LLW.

2.2 Council tax

Different family types are assumed to pay different rates of council tax, based on the number of children they have and how this is likely to affect their housing needs. A weighted average of the total council tax bill for a Band D property in each billing authority is used as a baseline, calculated from published UK^[11], Scottish^[12] and Welsh^[13] government statistics on Band D rates. This is then adjusted according to the standard formula to the relevant band for each family type.

For the rest of the UK, the bands denoted in MIS research are applied (a couple without children, in Band B, pays seven-ninths of the Band D rate while families with children, in Band C, pay eight-ninths). For London, the same assumptions apply except that families with more than one child are assumed to live in a Band D property. Single adult reductions of 25 per cent are applied to all single person households in the UKLW calculation and to those treated as living alone in the LLW calculation (46 per cent of singles).

2.3 Travel costs

The travel cost assumptions for the UKLW are drawn from MIS research. In London, a weighted average is used across Inner and Outer London families. In Outer London, the cost of a monthly zone 4-6 travelcard is included and for those in Inner London, a monthly zone 1-3 travelcard.^[14] For families with children aged 11 plus, two journeys a day for five days a week (to get to and from school) are budgeted for, taking account of the cost of a Zip Card and the discount it provides. The values for these figures at the time of calculation are included in Table 2.

2.4 Childcare costs

All families with children aged 11 and under are assumed to use full-time childcare (42.5 hours per week) for 47 weeks of the year, taking account of hours provided through the free early years education offer, school and the school holidays. Full-time nursery care is assumed for pre-school aged children all-year round, after-school clubs for children of primary school age during term-time and childminder provision during school holidays.

Costs are calculated using the most recent data collated by the Family and Childcare Trust.^[15] For the UKLW, a weighted average for the regions/nations of the UK excluding London is calculated, weighted by the number of children. For the LLW, we use an adjusted average taking account of the differential between London and the rest of the UK after removing the highest outlier estimates that upwardly skew the resulting London average.

3. Implementing the new methodology

Moving from one formula-based approach to another will inevitably require a transitional period within which to implement the new method. The Living Wage Commission's guidance

[11] DCLG, [Council Tax levels set by local authorities in England 2016 to 2017 \(revised\)](#), June 2016

[12] Scottish Government, [Council Tax by Band 2016-17](#), 2016

[13] StatsWales, [Average band D council tax, by billing authority](#), March 2016

[14] Transport for London, [Adult rate prices: All Tube, DLR, London Overground and TfL Rail services and National Rail services in Z1-9](#), 2016

[15] J Rutter, [Childcare Costs Survey 2015](#), Family and Childcare Trust, February 2016

is that there should be a phase-in period for the new method for the London rate.^[16] Therefore, the additional uplift resulting from this change of method will be steadily incorporated into the London Living Wage in forthcoming years, in addition to the annual general cost of living increases with the rate for 2016-17 set out in the following section (the equivalent rate incorporating the entire uplift is shown in Table 2 below).

The Living Wage Commission recommended that a 'shock absorber' should be put in place in order to manage extreme volatility in the Living Wage rates from one year to the next arising from changes in the cost of living. Should the calculation described here indicate that a very large increase is required, the applied increase will be limited to CPI plus 3 percentage points in any single year. Questions of how to incorporate large increases resulting from policy changes or additions to the basket will be referred to the Commission.

4. Living Wage rates for 2016/17

The rate for the UKLW for 2016-17 is £8.45.

The rate for the LLW for 2016-17 is £9.75.

Tables 1 and 2 provide a detailed breakdown of each of the components of the calculation addressed above.

5. Conclusion

This report has set out the method through which the Living Wage rates in London and the rest of the UK are calculated. This aligned approach ensures that both the UKLW and LLW will be driven by the latest research into what is needed to meet a decent standard of living for a variety of family types and will reflect the changing costs of those requirements.

[16] Living Wage Commission, [Closing the Gap: A Living Wage that means families don't go short](#), September 2016

Table 1: Breakdown of UK Living Wage (excluding London) calculation

Family type	"Core" basket			Living costs			Childcare	Travel	Total	Hourly wage requirement	Weights
	£ per week	Rent	Council tax	Rent	Council tax	Living costs					
Single	156.78	86.45	16.95	86.45	16.95	26.89	-	287.07	8.85	32.5%	
Couple	256.16	94.34	22.59	94.34	22.59	53.77	-	426.87	6.00	33.7%	
Single parent with one child (age 3-4)	224.00	79.62	19.37	79.62	19.37	55.90	115.80	494.69	12.45	1.2%	
Single parent with one child (age 5-11)	246.05	79.62	19.37	79.62	19.37	55.03	60.87	460.94	12.95	3.9%	
Single parent with two children (age under 3 & 3-4)	259.05	87.39	19.37	87.39	19.37	59.77	282.44	708.02	13.60	0.2%	
Single parent with two children (age 3-4 & 5-11)	287.47	87.39	19.37	87.39	19.37	59.51	176.67	630.41	15.05	0.6%	
Single parent with two children (age 5-11 & 12-16)	334.13	87.39	19.37	87.39	19.37	67.87	60.87	569.62	17.05	1.8%	
Single parent with three children (age 3-4 & 5-11 & 12-16)	375.48	87.39	19.37	87.39	19.37	72.36	176.67	731.27	18.40	1.1%	
Couple parent with one child (age 3-4)	284.56	79.62	25.82	79.62	25.82	73.54	115.80	579.34	7.40	4.0%	
Couple parent with one child (age 5-11)	306.61	79.62	25.82	79.62	25.82	72.67	60.87	545.59	7.65	6.8%	
Couple parent with two children (age under 3 & 3-4)	319.20	87.39	25.82	87.39	25.82	77.41	282.44	792.26	8.85	1.6%	
Couple parent with two children (age 3-4 & 5-11)	347.62	87.39	25.82	87.39	25.82	77.15	176.67	714.65	8.70	2.6%	
Couple parent with two children (age 5-11 & 12-16)	394.28	87.39	25.82	87.39	25.82	85.51	60.87	653.87	9.70	6.1%	
Couple parent with three children (age under 3, 3-4 & 5-11)	400.15	87.39	25.82	87.39	25.82	81.01	343.32	937.68	12.10	0.5%	
Couple parent with three children (age 3-4 & 5-11 & 12-16)	452.99	87.39	25.82	87.39	25.82	89.90	176.67	832.77	11.20	0.9%	
Couple parent with three children (age 5-11, 5-11 & 12-16)	500.78	87.39	25.82	87.39	25.82	98.14	60.87	773.00	11.85	1.5%	
Couple parent with four children (age under 3, 3-4, 5-11 & 12-16)	489.90	87.39	25.82	87.39	25.82	94.04	343.32	1,040.46	13.90	1.0%	
Weighted hourly wage equivalent									8.45		

Source: Resolution Foundation analysis using the RF microsimulation model, ONS, Annual Population Survey December 2013-15, October 2016 and other sources detailed in the main body of this report.

Notes: Calculations assume that the current (2016-17 financial year) tax and benefit system is in place with all families entitled to the tax credit system. Weights use a three-year average of the population of families using the Annual Population Survey 2012-2015 where at least one adult is aged between 16 and 64.

Table 2: Breakdown of London Living Wage calculation

£ per week

Family type	Living costs				Total	Hourly wage	Weights
	'Core' basket	Rent	Council tax	Travel			
Single	146.76	135.79	9.35	26.47	318.37	10.10	42.6%
Couple	256.16	214.58	19.48	52.93	543.15	8.25	25.1%
Single parent with one child (age 3-4)	224.00	119.30	16.70	26.47	528.28	10.80	1.1%
Single parent with one child (age 5-11)	246.05	119.30	16.70	26.47	474.92	13.95	4.0%
Single parent with two children (age under 3 & 3-4)	259.05	133.65	18.78	26.47	787.77	18.60	0.3%
Single parent with two children (age 3-4 & 5-11)	287.47	133.65	18.78	26.47	674.59	9.85	0.8%
Single parent with two children (age 5-11 & 12-16)	334.13	133.65	18.78	29.62	582.59	17.95	2.1%
Single parent with three children (age 3-4 & 5-11 & 12-16)	375.48	133.65	18.78	29.62	765.75	14.15	1.8%
Couple parent with one child (age 3-4)	284.56	119.30	22.26	52.93	620.87	8.55	3.9%
Couple parent with one child (age 5-11)	306.61	119.30	22.26	52.93	567.51	8.35	5.3%
Couple parent with two children (age under 3 & 3-4)	319.20	133.65	25.05	52.93	880.65	12.60	1.7%
Couple parent with two children (age 3-4 & 5-11)	347.62	133.65	25.05	52.93	767.47	10.20	2.5%
Couple parent with two children (age 5-11 & 12-16)	394.28	133.65	25.05	56.09	675.47	10.20	4.8%
Couple parent with three children (age under 3, 3-4 & 5-11)	400.15	133.65	25.05	52.93	1,028.01	17.85	0.6%
Couple parent with three children (age 3-4 & 5-11 & 12-16)	452.99	133.65	25.05	56.09	875.99	12.25	1.0%
Couple parent with three children (age 5-11, 5-11 & 12-16)	500.78	133.65	25.05	59.24	785.13	12.05	1.4%
Couple parent with four children (age under 3, 3-4, 5-11 & 12-16)	489.90	133.65	25.05	56.09	1,120.92	20.45	1.2%
Weighted hourly wage equivalent						10.15	

Source: Resolution Foundation analysis using the RF microsimulation model, ONS, Annual Population Survey December 2013-15, October 2016 and other sources detailed in the main body of this report.

Notes: Calculations assume that the current (2016-17 financial year) tax and benefit system is in place with all families entitled to the tax credit system. Weights use a three-year average of the population of families in London using the Annual Population Survey 2012-2015 where at least one adult is aged between 16 and 64. The living costs of a single shown are weighted averages accounting for individuals living in shared accommodation.

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