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REPORT

Making the Living Wage

The Resolution Foundation review of the Living Wage

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Background and rationale

The Living Wage has been among the most successful campaigns of the past decade. From grassroots activism in the early 2000s, the movement has seen incredible growth with over 2,600 employers now accredited and paying a wage above the legal minimum that reflects the cost of living families face. Its influence reached a landmark moment in July 2015 when the then Chancellor sought to borrow the campaign's energy by unveiling the 'National Living Wage' – a higher and welcome minimum wage floor but not a real Living Wage based on living costs.

It is against this background that the Resolution Foundation was commissioned to review the current methodologies and assumptions underpinning the Living Wage with the goal of maintaining and strengthening its grounding in the cost of living. To that end this report provides recommendations to ensure an aligned and robust approach to calculating the rates, building on the recent establishment of a Living Wage Commission which, should the recommendations be taken forward by that Commission and the Mayor of London, will provide a more transparent governance structure to the rate-setting process. Given the clear differential in the cost of living that families face in the capital, particularly from housing, it has always been the intention to keep a separate and higher London rate.

This report will be presented to the Living Wage Commission, a body of experts drawn from business, trade unions, academia and civil society, who will review its findings and recommendations. It is for them and the Mayor to make decisions on the future of the Living Wage, with annual rises being announced as normal in the first week of November.

A 'perfect' technical method to calculate a Living Wage does not exist. Indeed the UK and London Living Wages already have different but similar approaches to calculating an hourly figure to provide an acceptable standard of living each year, and both have provided a robust base for employers to sign up to be Living Wage employers. But clearly, some approaches will be better than others, and over time the best available sources of data can change. So this review aims to establish where we can do even better than current approaches, learning the lessons of the last decade or so of the campaign and aligning the different methodologies so that the UK and London rates are set on the same basis.

Our review focuses primarily on technical aspects of the calculation but we are guided by four principles that should underlie an ideal Living Wage, emerging from our consultations with stakeholders and analysis of literature. It should:

» Allow employees (and their families) to have a decent standard of living

» Be driven directly by changes in living costs

» Be transparent with a widely-supported methodology

» Be simple

Alongside these core principles, maintaining a degree of stability in the rate from year to year is desirable. As with any set of criteria, these principles can have tensions, and our recommendations attempt to provide an appropriate balance between them. As well as detailed analysis of existing methods and a review of available data sources we have carried out a consultation, involving dozens of individuals, employers and organisations. Building on both this analysis and input from stakeholders, our recommendations offer a path to a more robust and transparent methodology driven by the cost of living both now and in the future. Here we explain the most crucial recommendations that could form the basis of the aligned methodology.

The Living Wage should be based on an up-to-date basket of goods and services, reflecting social consensus as to what constitutes a decent standard of living

Living Wages generally have at their core a measure of living costs to provide a certain standard of living. This is the key defining feature that differentiates them from minimum wages, which are legal minimums often set to take account of the impact on employment. Both the London and UK Living Wages have been calculated on a successful and proven basis gaining considerable employer support. The key question for this review is whether we can do even better.

The current UK Living Wage methodology bases its living cost measure upon a programme of research called the Minimum Income Standard (MIS), carried out by researchers at Loughborough University. The research brings people together to reach agreement on baskets of goods and services that provide different family types with a minimum acceptable standard of living and allow for full participation in society. Focus groups are conducted with members of the public to discuss requirements in great detail, while expert opinion also ensures that nutritional standards are met. MIS benefits from being grounded in the views of ordinary people, an approach that was widely supported by the stakeholders we consulted.

This basket of goods and services, and the cost of its components, is regularly updated to reflect changing prices and social norms. The current UK Living Wage represents an average of the hourly wage required by adults in different family types to reach the level of income that can purchase the relevant MIS basket, after taking into account the different forms of government support such as tax credits, Housing Benefit and free hours of childcare that families are entitled to.

The current London Living Wage methodology takes a slightly different approach. One half of the calculation (the other half which draws on incomes is discussed below) is rooted in a basket of goods and services based on research carried out by the Family Budget Unit in the late 1990s and early 2000s. In this method, greater weight was given to expert opinion such as social scientists and doctors in determining the minimum requirements of different family types – though focus groups with low-income families were also conducted – in order to define a basket of goods and services that allows for a 'low cost but acceptable' (LCA) standard of living. The LCA basket is intended to provide a basic standard of living. Although the contents of that basket have not been fully updated since the research was conducted it has of course tracked movements in prices.

Two key principles of the Living Wage are that it should provide a decent standard of living and be driven by changes in living costs. Given available data sources and the need to provide a contemporary measure of living costs we recommend that, while not perfect, the MIS basket offers the most suitable underpinning for calculations of the Living Wage.

There are improvements that could usefully be made to MIS to strengthen its role in Living Wage calculations – not least because MIS was developed for purposes other than calculating a Living Wage. Amongst those improvements would be further testing of the extent to which MIS factors in the views of people in Scotland, Wales, Northern Ireland and London in determining the basket of goods and services necessary to provide an acceptable standard of living.

The London approach also bases half of its calculation on an income measure of living standards, the relative poverty line or 60 per cent of median net household income. In addition, 15 per cent is added onto the average of the income and LCA basket, to allow families to cover 'rainy day' costs. Measures of relative incomes are obviously important for anyone concerned with inequality, and the current inclusion of such a measure provides a direct link for the London Living Wage to current living standards. But in so doing it reflects current income levels, not what society considers to be sufficient income to attain an acceptable standard of living – the core purpose of the Living Wage. Therefore, we recommend that this element no longer forms part of the calculation.

The family types used in the calculation should be representative while maintaining the current UK assumption of full-time working

Living Wages are also based on the needs of specific family types. That is, they take into account the resources different family types need to earn to achieve the standard of living deemed to be acceptable. In some countries, like Ireland, the Living Wage is calculation assuming just one stylised family type. In the UK, both Living Wage calculations are based on weighted averages of a range of family types (singles, couples, single parents and couples with children), aiming to provide a representative mix of the different needs of various families.

The family types, including the number and age of any children, are based on those used in the respective underpinning CRSP and LCA research. In this regard our recommendations span both family formation and working patterns:

» We recommend that the weighting of different family types in the calculation is based on their weighting in the actual population according to up-to-date sources of population data. The Annual Population Survey, which is already used within the London calculation, is currently the most accurate and timely data source.

- To ensure that the Living Wage provides a more representative mix of children by age we recommend broadening the current mix of family types through the inclusion of more families with different ages of children.
- Based on our consultations, the consensus amongst both employers and campaigners is that the Living Wage calculation should be based on full-time hours, reflecting the principle that full-time work should provide an acceptable standard of living. We support that approach.
- These changes would mean the calculation taking into account a slightly higher proportion of families without children in London and the inclusion of larger families (who are currently excluded).

Improvements and alignments should be made relating to the data sources and assumptions concerning the cost of housing, childcare and travel

Although our analysis suggests that the price of most day-to-day items does not vary drastically from the rest of the country, people in London do pay significantly more for housing and childcare. Travel needs also differ, largely due to the wider availability of public transport in London. An aligned method needs to ensure that the UK and London rates are based on an equality of living standards, while reflecting these cost differences. At present both methods use similar data sources to ascertain the cost of these elements but precise assumptions and definitions are not aligned.

Turning first to housing, both the current UK and London methods assume people without children live in the private rented sector and people with children live in the socially rented sector and we recommend the maintenance of this approach. In combination with the new range of family types, our rent assumptions mean that in London and the rest of the UK more households are now assumed to rent privately. The contribution that private rented housing would therefore make to the Living Wages is increased in both London and for the UK. On childcare, because some families cannot draw upon informal childcare regularly, we recommend continuing to assume that all families use full-time childcare (with additional time allotted for commuting).

For both housing and childcare costs, the available data is limited. Improving data sources would certainly help but this lies outside the remit of this review. There are already moves to improve some of these data sources, with the Greater London Authority planning to commission welcome work investigating London childcare costs. It may also be possible to further explore provision of bespoke data related to private rental costs. To ensure the Living Wage calculation is based upon the best possible data the Living Wage Commission should both keep a watching brief on potential data improvements and actively seek better measures where the available evidence is limited.

Finally on travel, there are clear differences in the options available in London and the rest of the UK. In the UK approach, only families with children require a car. In the current London approach, people rely on public transport – all adults receive a Zones 1-3 travelcard. Broadly maintaining these assumptions, we suggest making a slight adjustment to better reflect actual patterns of travel, by assuming that approximately half of Londoners (those living in outer London) require a Zones 4-6 travelcard. Although some people living in London will travel across more or different zones on a daily basis, many will walk or cycle to work, and bus travel – still the most popular form of transport in the capital – is cheaper.

The aligned method offers a solid foundation for the Living Wage, but improved processes should also be in place to ensure unavoidable judgments on its future trajectory are handled transparently

Any Living Wage that intends to reflect changes in living costs will be exposed to shocks from three sources. Firstly, shocks to prices and the cost of living; secondly as a result of government policy shifts; and thirdly, due to shifts in society's view as to what is a minimum acceptable standard of living. The period since the UK Living Wage's inception has been particularly unpredictable from an economic and policy perspective, with periods of high inflation and significant reductions in state support for working families.

Dealing with this – reflecting actual changes in living costs maintaining a degree of stability in annual increases – has been perhaps the biggest challenge the UK Living Wage has faced. While the end goal of the UK Living Wage has always based purely on living costs, the methodology includes a limit on the increase that can occur in any one year to 2 percentage points above the rise in average earnings across the economy. However, low nominal wage growth has meant that since 2012 a gap has opened up between the calculated wage (the 'reference rate') and the paid Living Wage (the 'applied rate'), one that looks unlikely to close in the near term.

The London Living Wage does not have an explicit 'external' rule in the same way as the current UK Living Wage with no capping of year-to-year increases. In practice, stability is provided by the methodology adopted assuming a wage floor (the minimum wage) and wage ceiling (the median wage, although this is little used in practice) when calculating wages for individual family types. Another stabiliser is the fact that the contents of the Low Cost but Acceptable basket of goods and services are not updated, meaning changes in public views on what is acceptable do not affect the rate.

Our consultations with campaigners and employers, both accredited and unaccredited, has made clear that some form of 'shock absorber' to prevent very large single year increases would be valuable in the aligned method. A visible but external device to limit single year changes was preferred for its simplicity and transparency. However, because the Living Wage aims to reflect changes in the cost of living we recommend that price inflation rather than earnings should form the basis for this shock absorber. At present, some link to CPI – the headline rate of inflation – is the best option.

Another potential factor driving up the Living Wage in a particular year is the changing contents of the MIS basket. Perhaps the most relevant historical example was the one-off upward effect caused by MIS focus groups deciding that a car was required for families with children. When such large changes are agreed by focus groups, they usually reflect a gradual shift in social norms and in this instance coincided with government cuts to public transport. Gradually phasing the inclusion of such lumpy items into the Living Wage calculation would prevent a large shift in the rate in a given year. When changes to the MIS basket are likely to have a large impact on the rate, the Living Wage Commission and Mayor should consider a sensible speed of adjustment.

How shocks from major policy changes are taken into account in calculating Living Wage rates would require judgements under both existing methodologies and any future approach. The introduction of Universal Credit is perhaps the most significant example on the horizon with it providing a lower level of support than the current tax credit system. For the Living Wage this matters – lower government support for working families means a higher wage is required to reach the same level of income. Universal Credit is also being implemented gradually in different areas of the UK – and potentially faster (or slower) in London than in the rest of the UK. This is a clear and important example where the extent to which major policy changes are taken into account within the Living Wage in a given year require judgements to be made. We recommend that the Living Wage Commission should have an explicit role in deciding the pace at which policy changes affect the Living Wage calculation. This ensures transparency in decision-making and allows timely reaction to sometimes fast moving policy change.

The path ahead

The recommendations outlined in this review aim to further strengthen the Living Wage campaign. They set out an improved Living Wage methodology to underpin the campaign as it moves into the next stage of its development while being more firmly grounded in the cost of living. Our recommendations ensure that the methodology is more robust by improving data sources and assumptions, for example improving the representativeness of family types. The calculation process will be more transparent with the Living Wage Commission providing a clear decision-making process. This is true both for the underpinning methodology – taking advice on the best available data sources – but also on shocks to policy and people's expectations. For example, policy changes like the introduction of Universal Credit would always have required judgements on how the new system is phased into the rate. Having a body like the Living Wage Commission to make such decisions when required in future can only be an asset to the Living Wage campaign as it moves forward.

Alignment between the two calculations will ensure both rates are increased using a common methodology. This is likely to mean the rate calculated for London is higher than its current level due to the updated basket of goods and services, a more diverse set of family types and revised population weights increasing the share of private renters feeding into the calculation. Clearly there are choices to be made on how a higher level is transitioned to, and the Living Wage Commission and the Mayor should consider the options available.

While the consequences of the referendum on the UK's membership of the EU increases uncertainty around the economic and policy environment, this review's suggested reforms will place the Living Wage on a better footing to deal with unpredictable times. For those earning the Living Wage and those paying the Living Wage alike, the aligned method is a platform to build upon.

Section 1

Introduction

Until July 2015, public debate around the Living Wage seemed simple. A calculation produced an hourly wage that people needed to meet a basic standard of living, with a separate London rate to reflect the higher housing and childcare costs there. The Chancellor's 'National Living Wage' – essentially a new age band in the minimum wage system, applying only to those aged 25 and over – has certainly made talking about low pay, legal wage floors and what's needed for a decent standard of living much more complicated.

But the apparent simplicity of that pre-July 2015 world concealed a much more complex reality. First, the UK and London rates are calculated through two separate methodologies. Although there are many similarities, the differences between the methods are not trivial, with genuine divergences on the conceptual basis of a Living Wage as well as the data used to reach the hourly figure. The two calculations were developed at different points in time by different organisations. This has been raised as an issue by Living Wage employers, with the prospect of the same set of economic conditions affecting the two rates in different ways a concern. While the case for a higher living wage in the capital is intuitive given its much higher housing and childcare costs, there appears little merit in having two separate methods underlying the calculations.

New developments are set to have a meaningful impact on the Living Wage rates. Perhaps the biggest of these is the introduction and roll-out of Universal Credit. Most specifically, the transition to Universal Credit will coincide with cuts to in-work support. The Living Wage is calculated on the assumption that families claim all benefits to which they are entitled, such as tax credits, Housing Benefit and free childcare hours. If the levels of those benefits are cut, the Living Wage must rise higher.

But other longstanding issues continue. Among these is the gap between the UK Living Wage rate announced each November and the 'reference rate' – the figure which the UK calculation produces (to be discussed in greater detail below). This has meant that a limiting mechanism has been driving the increase in the Living Wage, rather than the change in living costs. This has also been a long-term consideration with the London Living Wage. Contrary to the common assumption that the Living Wage is based solely on what families need to have an acceptable standard of living, half of the London Living Wage calculation is based on incomes, which are influenced by factors including earnings growth and employment rather than the cost of living.

It is against this background that the Resolution Foundation was commissioned to review the current methodologies and assumptions underpinning the Living Wage. This review provides recommendations to ensure a more robust, aligned and transparent approach to calculating the rates, building on the recent establishment of a Living Wage Commission which will offer a more transparent governance structure to the rate-setting process.

This review will be presented to the Living Wage Commission, a body of experts drawn from business, trade unions, academia and civil society. The Living Wage Commission will reflect on this review's findings and recommendations. The role of deciding the best route forward sits with them, with the aim of this review to provide the best possible exploration of the current methods and available option in order to inform their decisions. The rise in the Living Wage will as normal be announced in the first week of November.

This review proceeds from the position that there is no perfect calculation that will produce the 'right' Living Wage figure. Any Living Wage, and the current UK and London versions are no exception, will necessarily have to make decisions on a number of trade-offs and value judgements. That is not to say that all Living Wages are equally valid or invalid; some compromises are clearly better than others. To that end, this review sets out to recommend a methodology that provides the Living Wage movement with a robust, stable measure that will be more responsive to changes in the cost of living and, most importantly, help those who are paid at that level to have a decent standard of living.

The scope of this review only goes so far however. Fundamentally, this review is an attempt to reach a better method. There are a number of technical recommendations we can make which we are confident offer a more robust basis for the calculation. But on other issues, the decisions to be made are more finely balanced and require judgements on the relative responsibilities of the employer, the state and the individual, as well as on the future of the Living Wage campaign. In these instances, we outline the options available and discuss their strengths and weaknesses but judgement must be made by the Living Wage Commission.

To that end, this report puts forward the principles we feel are the fundamentals of a living wage and the best approach to the use of data. Because the decisions required from the Living Wage Commission will have an impact on the Living Wage rate, our focus here is on the underlying principles and data decisions rather than the precise impact on the cash value of the rate. Similarly, the remit given to us in this review was to assess the Living Wage rather than the various pieces of research underlying it. That said, we do discuss the extent to which data sources meet the needs required for the Living Wage to be as robust as possible and make recommendations where there are opportunities to improve upon the status quo.

The report is structured as follows:

- We first discuss the history of the Living Wage, briefly outlining its conceptual basis, how the current methods evolved and how they have increased in recent years.
- We then present a high level description of the two methods to highlight their assumptions, similarities and differences.
- Following that we take a more detailed look at specific aspects of the two calculations, using a step-by-step framework to address specific improvements that could be made. We focus on: defining the standard of living to be reached; the family types and working patterns assumed; the precise calculation and pricing of the different elements, with a particular focus on costs like housing and childcare; and the future path of the Living Wage, the factors affecting that and the role of the Living Wage Commission.
- The review concludes by setting out the next steps for the process.

Section 2

The Living Wage – a brief overview

What is the Living Wage?

The idea that a worker's pay should guarantee them a decent standard of living has broad and intuitive appeal. The success of the Living Wage campaign in the UK since the early 2000s is testament to this. But this seemingly simple notion conceals a world of complexity. Translating that desire into a pound and pence figure requires answering a number of conceptual and practical questions, with a balance needing to be struck between the competing aims of a Living Wage.[1]

One of the starting assumptions of this report is that there is no such thing as a perfect Living Wage methodology. This chapter will discuss some of the tensions implicit in any attempt to reach such a figure but the fundamental challenge is to develop a calculation that offers an accurate representation of what people need to meet an acceptable standard of living in an hourly.

Even this glosses over difficult questions (which people? what is acceptable?) but it neatly summarises the essential task in devising or strengthening a method. The answer we have provided is in the spirit of the existing methods and that of the Living Wage campaign. Below we discuss the difference between minimum wages and Living Wages, in order to explain the fundamentals of a Living Wage.

What's the difference between minimum wages and Living Wages?

The National Minimum Wage (NMW) was introduced in 1999. The task given the Low Pay Commission in 1998 was to agree a NMW that would "support a competitive economy, be set at a prudent level, be simple and straightforward, and make a difference to the low paid."[2] This job description highlights the most important difference between the minimum wage and the Living Wage: the former is a legally guaranteed rate that all workers aged 21 and over must be paid; the latter is a voluntary rate that employers choose to pay. Because it is not mandatory, the Living Wage does not need to take into account its impact on employment. The Living Wage Foundation has always promoted their figure as a non-statutory standard so as not to put employment at risk.

The NMW then makes no reference to what a person or family need to earn to have an acceptable standard of living. This is of course the rationale behind the Living Wage. A complication to that divide emerged in July 2015 however, with the Chancellor George Osborne announcing the 'National Living Wage'. Despite having 'Living Wage' in its name, the NLW is not set with any consideration of what is needed to meet an acceptable standard of living.

[1] There is a substantial literature that addresses this conceptual question in more depth that we draw upon in this review. See for instance: A Davis, D Hirsch, M Padley and L Marshall, *How much is enough? Reaching social consensus on minimum household needs*, Centre for Research in Social Policy, December 2015; I Gordon, T Travers and C Whitehead, *Alternative Approaches to a Living Wage for London: a Methodological Review*, December 2011; R Anker, *Estimating a living wage: A methodological review*, ILO Conditions of Work and Employment Series No. 29, 2011

[2] Low Pay Commission, *The National Minimum Wage: First Report of the Low Pay Commission*, 1998

Table 1: Comparison of different wage rates

	National Minimum Wage	National Living Wage	Living Wage
Introduced	1999	2016	2005 in London; 2011 in UK
Rate as of July 2016	£6.70	£7.20	£8.25 in UK; £9.40 in London
Legal status	Compulsory for 21+	Compulsory for 25+	Voluntary (applies to all workers aged 18+)
Stated aim	Boost wages without harming employment	Provide a supplement to wages of low paid workers aged 25+	Helping workers reach minimum standard of living
Calculation	Rate agreed by the LPC	Reaching 60% of 25+ median earnings by 2020	UK: priced basket of goods London: priced basket of goods and income element

Source: Low Pay Commission, GLA and Living Wage Foundation

Having established these key differences and what sets the Living Wage apart from minimum wages, our consultations with the Living Wage Commission, stakeholders and a review of literature discussing living wages[3] suggest four principles which an ideal living wage would embody. While this by no means represents a definitive list, these four elements repeatedly re-emerged in our discussions and in the literature, and we have used them as a framework through which to evaluate the options available:

» Allows employees to have a decent standard of living

» Driven by changes in living costs

» Transparent and widely-supported methodology

» Simple

As quickly becomes clear however, some of these principles will at times be in conflict with each other. Any Living Wage methodology will necessarily represent a compromise between these principles. For example, an approach which valued simplicity far above a widely-supported methodology might arrive at an easy-to-understand calculation that would not be considered robust or representative, with the opposite approach leading to a meticulous approach that is unwieldy and can't be easily explained to employers or employees. Alongside these principles, the Living Wage should have a degree of year-to-year stability, avoiding extreme fluctuations in the rate.

The Living Wage in the UK

While the idea of a living wage has deep roots in the trade union movement, the current campaign and rates were sparked in the early 2000s in East London. A coalition of unions and faith and community organisations formed the East London Community Organisation (TELCO). The Greater London Authority (GLA) were asked to oversee a method that would allow for this figure to be calculated each year. The first official London Living Wage was announced in 2005 at a rate of £6.70, £1.65 higher than the National Minimum Wage at the time.

The UK rate developed later out of the same movement. TELCO's parent organisation was London Citizens. In 2011 Citizens UK – the national version of London Citizens – brought campaigners and employers together to agree an approach to calculating an Out of London rate (for simplicity referred to as the UK Living Wage in this report). The calculation was agreed and carried out by the Centre for Research in Social Policy (CRSP) at Loughborough University, with the first UK rate being announced in 2011, at £7.20 (£1.12 higher than the NMW and £1.10 lower than the London Living Wage at the time). The Living Wage Foundation was then established

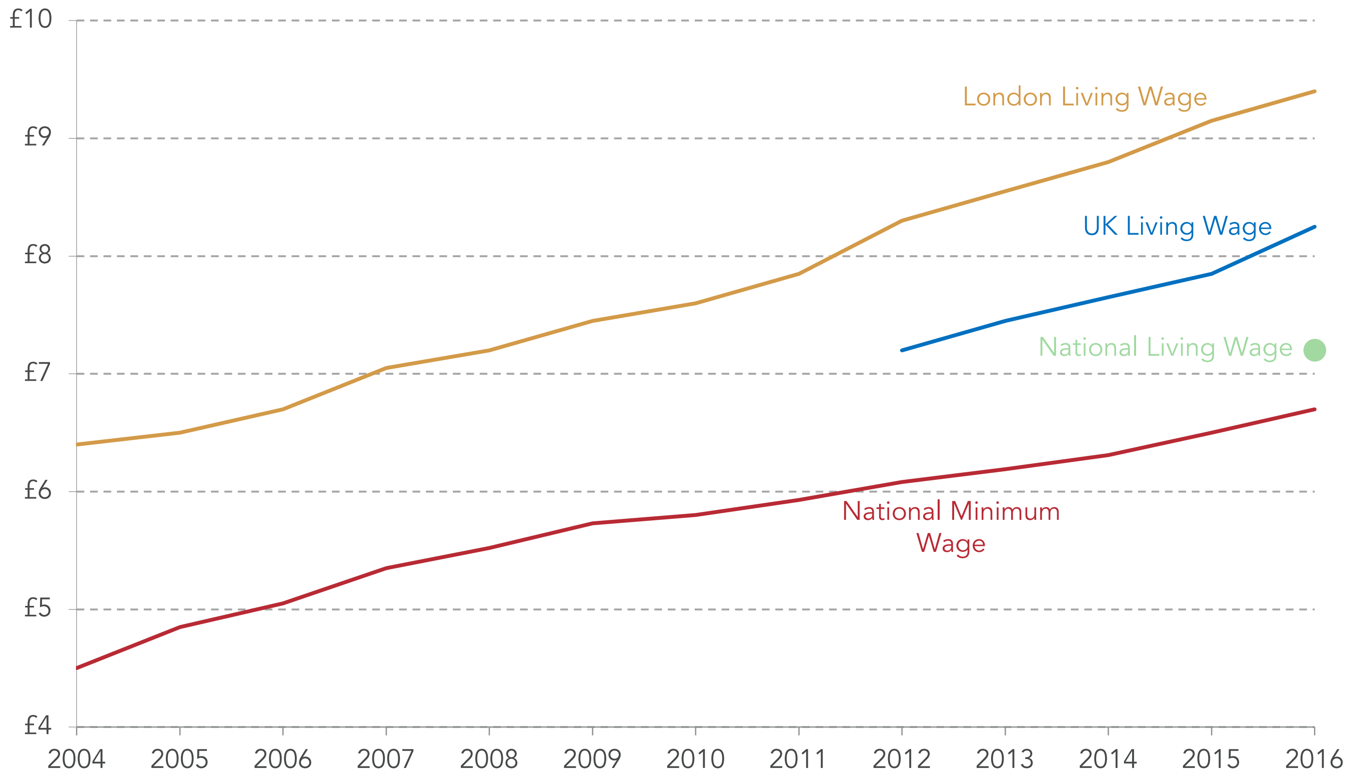
[3] See for instance R Anker, *Estimating a living wage: A methodological review*, ILO Conditions of Work and Employment Series No. 29, 2011

to promote the Living Wage campaign and to accredit Living Wage employers, with the team at Loughborough University continuing to produce the rate each year.

Figure 1 below shows how the rates have evolved over time, as well as their relationship to the legal wage floor. As is clear, they have both remained higher than the NMW throughout the period, although the size of the gap between the rates and the NMW, as well as the gap between the rates themselves has varied. Today, the UK Living Wage is £8.25, the London Living Wage is £9.40 and the National Living Wage (the new higher minimum wage for over-24s) is £7.20. Figure 1 depicts the applicable rates in each year but does not include the UK 'reference rate', discussed in greater detail below.

Figure 1: Historical rates of the minimum wage and Living Wages

Cash value of different wage rates over time, nominal



Source: Living Wage Foundation, GLA and Low Pay Commission

Notes: Years denote the calendar year in which the wages applied for the longest period rather than the year in which they were introduced. The Living Wage rates are announced in November each year, meaning they apply the following year. Similarly, the National Minimum Wage is announced in October.

Section 3

The UK and London methods: a comparison

This section presents a high-level overview of both the UK and London methods to give the reader a sense of the key assumptions and differences, before latter chapters discuss in more detail the similarities and divergences between the approaches and the options available.

We have discussed that there are numerous ways that a Living Wage could be defined and how that definition is reached, with some compromises inevitable in order to reach a single hourly rate. The standard of living that the Living Wage is expected to provide must be defined, as must the family circumstances to which the Living Wage should apply and the extent to which government support should be taken into account in the calculation. The actual process of producing a figure requires judgement on many variables including the quality of goods and which shops they should be priced at. Finally, an annual process for increasing the rate needs to be established. In this section and throughout this review, we divide the process into three steps that build from the conceptual basis of a Living Wage all the way to producing an hourly rate:

- Step 1 – Defining the standard of living to be reached
- Step 2 – Deciding what kind of people and working patterns are included
- Step 3 – How the contents of the basket are priced and updated

The UK Living Wage

Step 1 – Defining the standard of living to be reached

The UK Living Wage uses the Minimum Income Standard (MIS) as its basis of the income required to attain a decent standard of living. MIS is a programme of research funded by the Joseph Rowntree Foundation and carried out by a team led by Professor Donald Hirsch at Loughborough University. The original MIS research carried out in 2008 came to conclusion that a “minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.” It is this standard that the UK Living Wage therefore aims to achieve for families.

Although expert opinion and survey data are used at stages in the research, MIS is fundamentally a consensual or deliberative process to identify the basket of goods and services required to meet the above definition. The process involves groups of members of the public, led by a facilitator, deciding what a specific family type needs in order to meet that minimum standard. Discussions dive down to a very specific level of detail with, for example, the kinds of food required each day identified.

Step 2 – Deciding what kind of people and working patterns are included

The UK Living Wage bases its calculation on four overall family types: singles, couples without children, single parents and couples with children. The number of children in each ranges up to a maximum of four for couples and three for single parents, with the age of children varying from 0-1, 2-4, primary school aged and secondary school aged. In total, nine family types are considered.

All adults are assumed to work full-time.

Step 3 – How the contents of the basket are priced and updated

A 'basket' of goods and services derived from MIS is identified for each of the different family types. These goods and services are priced as part of the MIS process with the majority of items priced at supermarkets and other shops. For some of the larger expenses, the cost of which varies greatly and where the standard is harder to define, other data sources are used. The most important of these for the calculation given their relative size to the overall budget are housing and childcare costs.

Using the hours assumption described above, and factoring in the government support each family would be entitled to at the given level of earnings e.g. from tax credits, an hourly wage is calculated for each family type which provides an income equal to the cost of their MIS basket.

A weighted average is then taken of those hourly wages for each family, accounting for its share in the general working-age population. For instance, couples with no children – who comprise a large share of the overall population – are given more weight than a single parent family with three children, who comprise a small part of the overall population.

Conceptually, this has an important consequence for the UK Living Wage (and indeed the London Living Wage): because the figure reached is a weighted average, it means that families with higher costs – usually those with the most children – will not meet the MIS target income when earning at the Living Wage, with the opposite being true of those with lower costs. However, it also means that higher costs for different family types are represented within the calculation.

Each year an updated MIS basket is provided and used to calculate the latest Living Wage. The bulk of costs are taken direct from MIS which is updated annually taking account of price movements. Crucially, the contents of different family types' baskets are updated on a rolling basis, with the main focus group discussions of what those with and without children need taking place every four years, with a review of the basket after two years. These updated figures are then fed into the calculation to give a new figure each year.

In order to prevent the rate from rising rapidly – largely due to economic or policy shocks – a limit is placed on the amount by which the UK Living Wage can rise in any single year. This limit is set at the rate of average earnings growth plus 2 percentage points e.g. if average earnings have risen by 3 per cent then the UK Living Wage cannot rise by more than 5 per cent.

The London Living Wage

Step 1 – Defining the standard of living to be reached

The London Living Wage has two components to its target income. One half of the calculation bases its basket on research carried out by the Family Budget Group in the late 1990s and early 2000s. This research took a similar approach to that used in MIS but started from a position of consulting with experts about what is required, before speaking to people on low incomes about what they thought was necessary to reach a standard described as "low cost but acceptable". This basket of goods and services is broadly similar to that reached in the UK version though does differ in some respects, likely to be driven in part as a result of defining the living standard it represents in different terms to MIS. This part of the calculation is referred to as the "Basic Living Costs" approach.

The other half of the calculation, the "Income Distribution" approach sets a target income equivalent to 60 per cent of median income for each family type at the UK level (effectively the relative poverty threshold). The wage required to meet this level of income is then generated, once again taking into account housing and childcare costs. The remaining assumptions remain the same as in the UK method.

Step 2 – Deciding what kind of people and working patterns are included

A narrower selection of family types are included in the London calculation. These are singles and couples with either no children or two children aged 4 and 10. The London calculation uses a greater diversity of working patterns than the UK method with a mix of full-time, part-time and single earning families are included, weighted to reflect actual working patterns in the London population. In total, there are 14 different family types used in the calculation.

Step 3 – How the contents of the basket are priced and updated

As with the UK Living Wage, an hourly wage requirement is calculated for each of the different family types to meet the wage level generated by each half of the calculation, after government support from tax credits and other benefits is factored in. A 'floor' of the National Minimum Wage is used to bring any family types with wage requirements below that level up to the legal minimum, while a 'ceiling' of the median wage is used to prevent any family with very high costs from exceeding what the typical UK employee earns, although this has not had a meaningful impact on the rate to date.

A simple average of the two halves of the calculation – the Basic Living Costs and Income Distribution approaches – is taken. An additional 15 per cent is added to this figure to protect against unforeseen costs like a washing machine breaking down.

The contents of the basket in the Basic Living Costs part of the calculation are not updated, meaning the same list of goods and services devised when the work was carried out in the 1990s and early 2000s remains the same, providing a fixed basket. The goods and services in the basket are grouped into categories such as food, clothing and leisure goods, with the appropriate part of the Consumer Price Index used to inflate the price each year. Therefore, the income level required reflects general price rises but not the composition of the basket. Unlike the UK Living Wage, here is no limit placed on how much the London Living Wage can increase each year.

Section 4

Aligning and improving the methods

Having provided background on the Living Wage, some discussion of the concept as it has been applied in the UK and London and an overview of the methods, the rest of this report sets out recommendations for improvements as part of aligning the two existing methods. Before doing so, it should be stated clearly that this alignment does not mean the London Living Wage will cease to be set at a higher level than the rest of the UK. It will continue to reflect the higher costs families in the capital face but aligns the methodology underlying the calculation.

This section discusses the current methodologies underpinning the UK and London Living Wages in greater detail, viewed through the lens of the Living Wage principles which guide this review. There is much to admire in both the UK and London approaches with their methods reflecting trade-offs between concept and availability of data when first developed. We take a step-by-step approach, moving through the definition of what is needed for an acceptable standard of living, what assumptions are made about who is in scope and how what is needed is priced and changed each year. Our analysis makes recommendations for closer alignment, improvements in data and assumptions made, leading to a more robust, representative Living Wage that is more responsive to changes in living costs and provides a decent standard of living.

Step 1 – Defining the standard of living to be reached

At a high level, both the UK Living Wage and London Living Wage methods take similar approaches. Both identify a 'core' level of income required for a certain standard of living before taking account of housing, childcare, and in the case of London, travel costs from wider sources. Comparing the two methods and considering other options, there are three key questions to be answered for the purposes of defining a standard of living to form a Living Wage methodology. These again emerge out of the principles discussed earlier in this report:

- What standard of living is desired?
- What is the best approach to measure that standard of living?
- How should that standard of living vary over time?

What standard of living is desired?

A key principle underpinning this review is that the Living Wage should provide a decent standard of living and one that over time remains in line with the cost of living. It was clear from discussions with employers, campaigners and other stakeholders that they felt the decent standard of living the Living Wage should provide was at a level that does not leave working people in poverty.

Though both current approaches represent an estimate of an acceptable standard of living, they have different visions of what this standard should be. The UK Living Wage is based on MIS, during the development of which in 2008 the following definition was reached: "A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society."

This has remained the definition used throughout the process of updating MIS. Although the value of both changes each year, the MIS has historically been higher than the relative income poverty line. In large part this is because MIS reflects what society believes is an acceptable minimum standard of living, while the poverty line reflects what income people actually have.[4]

The definition underpinning the basket of goods in the Basic Living Costs half of the London calculation is different, based as it is on a Low Cost but Acceptable standard of living originating from Family and Budget Unit research. One of the original publications[5] from 1998 differentiates between a budget that is low cost but acceptable and another higher standard of living referred to as modest but adequate. The differing definitions are likely to account for some of the difference in the baskets produced, but perhaps the most important factor is that since real incomes are substantially higher than they were in 1998, when the research was first conducted, this leaves the level lower.

The additional 15 per cent added onto the London Living Wage takes the final rate above both these levels to an outcome that is very close to the 'reference rate' – the figure produced by the calculation before a limit is placed on the annual increase – for the rest of the UK (latest London Living Wage is £9.40, compared to a UK reference rate of £9.30).

Clearly, different views can be held on what living standard a Living Wage should be targeting. But if our aim is to align the two methods, as a first step **it is important that the definition is shared by both,** which is currently not the case.

What is the best approach to measure the desired standard of living?

Another important difference between the two methods is whether a basket of goods is all that the Living Wage should be based on. While obtaining a certain standard of living underpins most Living Wages, precisely how that standard is calculated varies. Different approaches could include a direct measure of living costs based on social consensus, expert opinion or survey data related to consumption. Alternatively, a measure of income could be used.

The UK Living Wage is in theory entirely based on living costs, reflecting what is needed to reach a level of income that purchases a certain basket of goods – although the gap between the 'applied' and 'reference' rates means that it has effectively been driven by average earnings growth since 2012. The London Living Wage on the other hand has a basket of goods which makes up half the calculation, with the Income Distribution approach comprising the other half.

Again, principles agreed with the Living Wage Commission provide the framework to make this assessment. Here most relevant is whether is the Living Wage is driven by changes in living costs, Clearly this is not the case with the Income Distribution half of the London Living Wage calculation, as well as the 15 per cent add-on intended to cover unexpected costs or breakages. There is certainly a case that can be made for a link to how typical families' living standards are changing, particularly in ensuring that the rate does not increase unsustainably quickly at a time when the incomes of typical households are falling or rising slowly. As the most common measure of poverty – 60 per cent of median income – it also connects the Living Wage method to the concept of working poverty. But if the aim of the Living Wage is to primarily reflect what people need to achieve an acceptable standard of living and be closely linked to the changing cost of living, then a basket of goods and services reflecting the cost of living best embodies this. **We therefore recommend the aligned Living Wage calculation should be based exclusively on a basket of goods and services.**

[4] J Bradshaw et al, *A minimum income standard for Britain: What people think*, JRF, 2008

[5] H Parker et al, *Low Cost but Acceptable: A minimum income standard for the UK*, 1998

How should that standard of living vary over time?

This recommendation does not answer the question of how the contents of that basket should be agreed and how often, if at all, it should change. There a number of ways in which the contents of the basket could be agreed in the first place but broadly speaking there are two main categories of approaches: the opinions of experts or the public.

An expert-led approach proceeds from the view that researchers can best identify what is needed to participate in society through drawing on available data and expertise. This could take a number of forms. An approach based primarily on what people actually do and buy, using household data on consumption, would be a more quantitative approach, though would unavoidably require the drawing of arbitrary lines at a certain level of consumption considered to provide a decent standard of living, and is likely to require some additional expert impact to ensure that basket meets minimum health requirements and that consumption of certain goods are not underreported. And of course, this approach only accounts for what people actually consume rather than what they need.

An alternative expert-dominant approach is that taken by the London Living Wage. The Family Budget Unit research begins from the position of a list of goods and services which is developed through analysis of the Family Expenditure Survey (now LCFS), the Family Resources Survey (FRS), Which? reports, health standards (from the Department of Health) and information from other sources including charities, large companies and trade unions. Discussion groups of low-income families were also used to ratify the research. This benefits from being rooted in data on how people actually live, the sorts of things they spend money on as well as needs agreed by experts to live at a decent standard e.g. health standards produced by doctors.

An alternative option is a basket of goods and services agreed by members of the public as part of a social consensus method, in which a basket of goods and services is agreed through discussions. Although researchers will unavoidably be involved in the process, as facilitators of discussion groups, their role in the process looks very different to that described above. Ordinary people are in this model viewed as the best arbiters of what is needed rather than a small group of experts. The approach taken in MIS for example is to involve a variety of people in the discussion groups, with a mix of ethnicities, incomes and ages. The MIS approach also involves a check that minimum standards of nutrition and housing for example are met.

These trade-offs were discussed with stakeholders. The vast majority felt that using members of the public gave a legitimacy to the UK calculation that a more expert-driven method would not have. A repeated message, particularly from employers both accredited and unaccredited, was that it was important for the standard to avoid arbitrariness and instead relate directly to people's experiences and expectations. **This is a view we share.**

Similarly, regularly updating the basket to take account of how the needs of society have evolved was welcomed to ensure that it remained rooted in how people's lives were actually led. Simply tracking a central measure of inflation misses compositional change (e.g. the kind of equipment that is essential for communication has evolved over time) as well as what are hopefully increasing living standards via the basket of goods and services. **Therefore, a regularly updated basket of goods and services should be relied upon.**

A single underpinning measure of the cost of a decent standard of living

Given the above discussion and the current sources of data available to us, we consider MIS research to represent the best available measure of living costs that reflects the key principles underpinning this review of reflecting a decent standard of living and being driven by changes in the cost of living. As such**, we recommend that MIS should be the basket of goods and services that underpins the aligned Living Wage methodology.**

However, that does not imply that MIS is perfectly suited to the needs of the Living Wage. This is inevitable given that MIS was designed as a research programme in its own right and the short-comings that do emerge arise in the translation of that research into a form useable in a Living Wage calculation.

MIS benefits from both its funders, JRF, and the team at Loughborough University who carry out the work engaging in an ongoing process of reflection on how best to take the research forward. Most recently, JRF commissioned NIESR to review MIS, discussing with a variety of stakeholders the strengths and weaknesses of the approach.[6] This underlined the broad support MIS has, particularly in its underpinning of the Living Wage. It also highlighted grounds for improvement.

We do not comment here on the broader aims of the MIS research programme, as it does not exist solely to provide the basket for the Living Wage. However, **addressing the following considerations would, we believe, place MIS on the best footing to provide a sustainable basket for the Living Wage**:

- Currently, the focus group discussions that underpin MIS are held primarily in the East Midlands. Other MIS research undertaken outside of this region, in particular rural England and London, has highlighted that the costs of most items do not vary significantly across the UK but there is some variation. But more frequent inclusion of the views of people in Scotland, Wales, Northern Ireland and London in determining the basket of goods and services necessary to provide an acceptable standard of living would be of value. This was a view held particularly strongly in the consultations we undertook with stakeholders from Scotland, Wales and Northern Ireland.
- Further exploration of the cost of living between London and the rest of the UK would be valuable given the aim of alignment. One piece of research has been carried out for a London MIS but further refinement of this process along the lines of the main UK work would be valuable.
- In years in which re-pricing does not occur, explore uprating elements of the MIS basket by CPI rather than RPI inflation and consider, in the longer term depending on future ONS plans, the use of a household inflation index.
- Continue the existing practice of reviewing the methodology periodically, reflecting on the recommendations made by NIESR and opportunities to explore the possible use of data on consumption or surveys in the latter stages of the research.

Step 2 – Deciding what kind of people and working patterns are included

For this second step, our discussion moves into the more technical detail of the methodologies. There are two key questions we address here but the tension between the principles of this review relate to the right mix of simplicity and transparency against ensuring that the calculation is representative of the needs of all employees:

- Which family types should be included?
- What working patterns should be assumed for those families?

Which family types should be included?

The first question regarding family types relates to who the calculation has in mind. The current UK and London Living Wages shared a similar overall approach: choosing a mix of family types and taking a weighted average of their wage requirements. This is not the only viable approach however.

[6] N Hudson-Sharp, J Portes, H Barnes and H Rolfe, *An evaluation of JRF's Minimum Income Standards programme*, NIESR, May 2016

Other countries (as detailed in Box 1 below) choose to take just one family type. This boasts a number of advantages over taking a weighted average. First, it is simpler. Just one family type is chosen and so decisions around population weightings are avoided. Second, and a consequence of the first advantage, it means that families included in the calculation will have their wage requirements met whereas taking a weighted average by definition will mean some families fall below that average, meaning their wage requirements are not met.

Box 1: Families in the Living Wage in Ireland and New Zealand

Ireland

The Living Wage in Ireland takes a single, childless person working full time as its only family type, which the technical group established to help develop the Living Wage decided was "the most practical approach". A separate "Family Living Income" calculation is published alongside the Living Wage to account for the needs of families with children.

New Zealand

The Living Wage in New Zealand takes a couple with two children as its only family type. This is because "this is a common NZ family size and it is the minimum average sized 'family' required to ensure population replacement". The NZ Living Wage is intended to be "at least sufficient" to support this family type.

For more detail see: Irish Living Wage Technical Group, [Living wage technical document: Calculating a Living Wage for the Republic of Ireland](), July 2016; P King and C Waldegrave, [Report of an investigation into defining a living wage for New Zealand](), Family Centre Social Policy Research Unit, December 2012

But the one family approach has a number of shortcomings. First, by opting for a far simpler approach, it overlooks the diversity of families. This means that a huge proportion of the population and their needs are overlooked. For example, taking the Irish approach and only having a single childless person misses out on child-related spending. Generally speaking, the costs of single people are lower than those of families with children and so the value of the Living Wage would be significantly lower. Another factor is the origin of the campaign, with the movement initially being driven by parents, many of whom were working two jobs to make ends meet and thus were unable to live a decent family life. Supporting these families has always been at the core of the campaign in the UK therefore their needs should be reflected to some extent.

Second, when promoting the Living Wage a powerful advocacy point is that all kinds of working people are factored into the calculation. A concern raised by stakeholders in our consultation roundtables was that if, say, a couple with children were chosen as the only family type, those who employed primarily younger single workers may not feel it was applicable to their staff. Living Wage accredited employers wanted to ensure that all of their staff were included rather than just a minority. Given the support among stakeholders and the greater representativeness it adds, **we recommend that the aligned Living Wage methodology should be a weighted average of different family types.**

Choosing which family types are most appropriate is a less straightforward decision however. The UK and London approaches are similar in many ways, with singles and couples, with and without children, included in the calculation. Where the methods differ is in the number and age of children. Table 1 shows that in the current London method, each family with children has a one four year-old and a one ten year-old. In the UK method, the age of children in each size of family varies, with one child families containing a child aged 0-1, families with two children have children aged 2-4 and 5-10, families with three children have children aged 2-4, 5-10 and 11-16 and families with four children have children aged 0-1, 2-4, 5-10 and 11-16. Single parents have between one and three children while couples have between one and four children.

Table 1: Range of different family types included in current Living Wage calculations

	Age and number of children			
	One child	Two children	Three children	Four children
Single	0-1	2-4 & 5-10	2-4 & 5-10 & 11 plus	
Couple				0-1 & 2-4 & 5-10 & 11 plus
Single		4 & 10		
Couple				

The London approach benefits from being simpler but obviously does not match the actual distribution of ages of children in the population. The UK approach allows for greater reflection of how costs vary depending on how old children are, for instance families with a 0-1 year-old having a budget for nappies and families with an 11-16 year old having a larger budget for food and social participation. However, the specific mix of families chosen means that there is an over-representation of pre-schoolers and under-representation of children at secondary school level.

If the aim is to ensure a mix of family types that provides a more representative child population then increasing the variation in ages of children within different-sized families would improve the picture. However, a balance must be struck between simplicity (not including hundreds of family types) and representativeness (to ensure the aligned Living Wage reflects the range of costs families face).

A further consideration when choosing family types is the extent to which survey data used to derive estimates of their share of the population remains robust when producing detailed breakdowns. Too small and year-to-year fluctuations in survey sampling could mean that the amount each family type contributes to the Living Wage becomes volatile.

Our recommendation is for a more diverse and representative selection of family types, though limits on the number of children included in families and the number of different family types should be imposed to maintain the simplicity and intuition of the calculation. We do not propose simulating specific wage requirements for the potentially thousands of possible combinations of family types given partnership status and the potential age and number of children.

Table 2 below sets out our preferred family types which provides both a more representative population of children by age and takes account of potential year to year variation given low sample sizes (which in turn reflect where family types are a small share of the population). We use the same broad age categories used in the current UK approach: infant (0-1 year-old), pre-school (2-4 year-old), primary (5-10 year-old) and secondary (11-16 year-old).

Table 2: Recommended range of family types to include in aligned Living Wage calculation

	Age and number of children			
	One child	Two children	Three children	Four children
Single	2-4 5-10	0-1 & 2-4 2-4 & 5-10 5-10 & 11 plus	2-4 & 5-10 & 11 plus	
Couple	2-4 5-10	0-1 & 2-4 2-4 & 5-10 5-10 & 11 plus	0-1 & 3-4 & 5-10 3-4 & 5-10 & 11 plus 5-10 & 11 plus & 11 plus	0-1 & 2-4 & 5-10 & 11 plus

Data sources

Turning next to the data used to underpin this part of the Living Wage, both calculations currently use different sources to estimate weights to account for the extent to which each family type is represented in the overall population (in London and the rest of the UK respectively). The UK Living Wage uses the Living Cost and Food Survey (LCFS) to weight family types, arising from its use in the calculation of MIS more widely. The London Living Wage uses the Annual Population Survey (APS) – the data source recommended for use by the ONS to assess the population of different family types in the UK population.

Both are large national household surveys, but the APS has a larger sample size (250,000 households compared to 5,000 in the LCFS) and is designed to allow for estimates to be made at a local authority level, making it a robust source to provide separate estimates of the population by family type in London and the rest of the UK. The main downside is that the APS is released with a lag; the latest available data relates to 2014-15. More timely data can be derived from Labour Force Survey household datasets (which are used to form the APS). However, we feel the greater sample size of the APS, and the slow change in high level demographics within the population of this type outweigh timeliness concerns. For these reasons **we recommend that the Living Wage calculation uses up-to-date weights taken from the APS**.

What working patterns should be assumed for those families?

Clearly, working patterns vary between and within family types. Currently across the UK as a whole, almost three-quarters (74 per cent) of employees work full-time (rising to 77 per cent in London) with the remaining quarter working part-time.[7] Variation in working patterns is far more common among parents and tends to relate closely to ages of children: families with young children are more likely to have only one earner or have a part-time worker.[8]

The current UK and London methods make different assumptions on working patterns. For the UK approach, all adults are assumed to work full-time. In the London approach, greater variation is introduced through assuming a wider range of working patterns with singles working full-time, single parents working full-time or part-time and couples working a combination of full-time and part-time, with some single-earning families also included among couples with children. Clearly, this latter approach better represents actual working patterns.

Different working patterns have both upward and downward effects on the final Living Wage calculation. The net impact will depend upon the types of families included in the calculations, their weights and the assumptions used relating to the amount and type of childcare needed to work a given number of hours. Upward pressure stems from needing to earn more per hour to reach a given level of income when working fewer hours. Downward pressure comes from reducing the target level of income due to lower costs of travel and childcare, where less of both is needed if people make fewer journeys to work across a week, and need to purchase fewer hours of formal childcare.

This was an issue discussed with stakeholders in our series of roundtables. At its heart, the discussion focused on the balance of responsibility between employers, employees and the state. If the sole aim of the Living Wage is to provide a wage for a population that broadly represents the workforce, then including a mix of full-time and part-time workers would appear appropriate. Stakeholders largely agreed that an underlying principle of the Living Wage is that it should provide the opportunity to reach a given standard of living and to do so through full-time work. Including part-time workers can result in scenarios as in the current London Living Wage calculation in which the final wage employers must pay is being driven in part by the needs of a family in which both partners are working part-time. While a minority felt the calculation should encompass a wider range of working patterns, most felt that the clarity of what the Living Wage represented was important. On balance we consider this principle to be an important element of the calculation leading us to the recommendation that **all adults within our family types are assumed to work full-time.**

[7] ONS, *Labour Market Statistics*, Feb-Apr 2016

[8] For further discussion see P Gregg and D Finch, *Employing new tactics: The changing distribution of work across British households*, Resolution Foundation, January 2016

The current approach taken by the UK Living Wage is to assume that full-time means working 37.5 hours a week, with this being the most commonly used figure for wage bargaining negotiations.[9] The London Living Wage uses 38.5 hours as its full-time working week. While it is clear that not all people who consider themselves to work full-time will be contracted to 37.5 hours, and issues with survey data mean it is difficult to know with certainty that people's response to the survey relates to actual contracted hours, there is strong alignment with the 37.6 actual hours worked on average by full-time workers according to the latest ONS Labour Market Statistics (37.4 hours if taken as an average over the last 12 releases).

This approach is likely to have been the same taken with the London Living Wage when its method was established in the early 2000s. Over 2015, the average number of actual hours worked by full-time workers in London also stood at 37.6 but in the early/mid-2000s it averaged closer to 38.5.[10] This gives us no reason to suggest number of hours should differ in the capital, as well as the intellectual inconsistency it would represent to expect employees living in London to have to work a higher number of hours per week in order to reach an acceptable standard of living. **We therefore recommend that the aligned Living Wage method should be calculated on the basis that all adults work full-time at 37.5 hours a week.**

Step 3 – How the rate is calculated and priced

Having discussed the desired living standard the Living Wage aims to provide and the sorts of families and working patterns that should be included, we next discuss how exactly the rate is calculated and priced. While previous sections have mostly discussed assumptions, data choices and principles, a challenge we turn our attention to here is how best to capture the higher costs faced by those living in London while aligning assumptions between the two methods.

The existing methods and our recommendation both draw on baskets of goods and services for the majority of the items families need. The basket can be separated into five parts: the core which represents a shopping basket of goods and services, like food, fuel and clothing, which are priced and costed as part of the MIS process. This is done based on recommendations from the focus groups on the kinds of shops and the quality of goods expected.

Beyond this 'core' of goods and services, which we can reasonably expect to be of broadly similar cost across the country[11] - with some exceptions such as MIS research into costs in the Highlands and Islands[12] – there are a number of elements which significantly vary in cost or format when comparing between London and the rest of the UK, or which sources other than pricing of individual items are needed to provide an estimate of price. These elements are housing, childcare, travel and council tax.

This section considers each of these five elements in turn and how best to ensure their contribution to the total cost of the basket reflects the best and most up-to-date available data while reflecting social norms and minimum acceptable need.

How should the main basket be priced and updated?

MIS, on which the UK Living Wage's basket is based, is regularly updated to account for both price changes and the basket of goods and services families need to reach a minimum acceptable standard of living. Currently MIS baskets are updated on a rolling basis so that every four years the contents of the basket of goods and services are agreed from scratch with a review of the basket with separate

[9] D Hirsch, *Working paper: uprating the UK Living Wage in 2015*, November 2015

[10] ONS, HI07 Regional labour market: Headline indicators for London, July 2016

[11] See D Hirsch, *A Minimum Income Standard for the UK in 2015*, JRF, 2015

[12] http://www.hie.co.uk/regional-information/economic-reports-and-research/archive/a-minimum-income-standard-for-remote-rural-scotland.html

groups halfway through that cycle. Every two years the goods in the basket are re-priced while in intermediate years components of the basket are increased in line with the relevant component part of RPI inflation (above we recommend that in future CPI inflation is used instead). For the purposes of the aligned Living Wage method, this approach ensures that the basket of goods and services within the core MIS basket reflect both current prices and current social opinion on what that basket should consist of, and **we recommend it be continued along these lines.**

What assumptions and data should be used in calculating housing costs?

Both the London and UK approaches assume that housing needs for families with children can be met by the social rent sector, and by the private rent sector for families without children. As this aligns with the views of members of the public in the MIS groups, **we recommend the maintenance of this approach**. Our recommended approach would increase the proportion of people living in private rented accommodation as we update the data on which the population weights are based.

The current UK Living Wage is guided by MIS in determining an appropriate number of bedrooms for each family type. For families with children, the 2016 groups concluded that a one child family require a two bedroom property to meet an acceptable standard of living, a two child family would require a maximum of a three bedroom property (depending upon age and gender of children in line with government housing guidelines), but that for larger families the number of bedrooms are capped at three. This reflects an increased tightening of available social housing which in turn has reduced social expectations. The London Living Wage method simply assumes a three bed property is required for its two child family – which is in line with the UK Living Wage. **We recommend that the Living Wage remains in line with the existing assumptions as to the minimum bedroom requirements for families with children.**

Among families without children, although for couples the minimum expectation of a one bedroom property (which includes flats) is the same between the London and UK methods, assumptions for singles differ. This variation is purely driven by differences in the reality of the rental market for singles in London. For singles in the rest of the UK, it is assumed that people require their own property (a mix of studio and one-bed accommodation) in line with MIS assumptions. In London, it is assumed that singles may also live in shared accommodation.

The London approach assumes a split between sharers and studio accommodation weighted by the number of properties of each type in the data. Census data shows that 54% of singles live in shared accommodation in London.[13] The appropriateness of shared accommodation for singles is discussed in London MIS with the groups deciding on a studio. However, given the large price difference between studio and shared accommodation (£300 per month), this would greatly increase the wage required by single people in the capital and depart significantly from actual rental patterns. The current situation reflects the chronic and severe housing crisis facing renters in the capital. How much of that total cost should be placed on employers is debatable when to a large extent it reflects policy failure. This is a choice in which we believe the aligned method should err on the side of reflecting how people actually live, which also aligns with the London approach. **We recommend a weighted mix of shared and studio accommodation is assumed for singles in London.**

Data sources

Data to calculate social rents are taken from different sources in the two current methods. The UK approach uses the average gross council rent estimates provided in the UK Housing Review – a regular annual publication produced by York University and sponsored by the Chartered Institute of Housing. The London calculation uses a weighted average of net council rents and housing association rents reflecting the mix of social housing in London. Data for council rents are provided by CIPFA and housing association rents are provided by the Home Communities Agency (HCA).

[13] K Hill, D Hirsch and M Padley, *Minimum budgets for single people sharing accommodation*. CRSP Working Paper 642, 2015

This leaves three key differences in the data sources used in the two calculations. We consider each in turn. First, the current UK approach takes council rents to reflect a minimum cost families with children would face. Second, the data underpinning the sources used in both calculations stem from the same dataset – the CORE lettings dataset held by DCLG. Finally, gross rents include service charges, while these can in theory include services not eligible for support from housing benefit, because they are deemed as non-essential, comparison with DWP housing benefit data suggests gross rents recorded are in line with actual awards of Housing Benefit.

Therefore, **we recommend that gross council rents from the UK housing review are used to determine the level of rent for families with children**. Because the UK housing review is published with a lag, the latest estimate should be adjusted in line with the relevant Central Government set formula for future rent increases – a 1 per cent reduction a year for four years from April 2016.

The UK Housing Review separately publishes estimates for England, Wales, Scotland and Northern Ireland although the data for countries other than England is not provided at a detailed per bedroom level. The England estimates provide regional breakdowns including London. Therefore to ensure the rent values used for the rest of the UK reflect costs across the UK (other than London) **we recommend: first, producing a weighted average for England excluding London based on the number of households renting from the council by region (taken from the APS for the relevant year); and second adjusting that average to account for the differential in the average rent for England compared to Scotland, Wales and Northern Ireland, weighting appropriately based on the APS.**

The level of private rent paid by families without children in both current approaches is taken from Private Rental Market Statistics series published by the Valuation Office Agency (VOA), taking the 25th centile for average rents for the rest of the UK and London. The 25th centile is taken to represent a low cost level of rent but one that lies above the very cheapest and likely low quality accommodation. Historically the Local Housing Allowance value – the maximum level of private rent that Housing Benefit will cover – was used for the UK but the policy to freeze this threshold means it is no longer appropriate. The 25th centile thus represents a reasonable compromise and aligns with the London approach.

However, the VOA and ONS are clear that while VOA data represents the best current estimate of the level of rent by bedroom size in a given period it should not be used to track price changes over time. Year-to-year, the rental series is volatile and does not follow the same trend as other surveys of rents. The ONS have developed a representative sample of VOA data to account for this problem when developing the housing component of CPI inflation and the recently published Private Rental Price Index.[14] However, they do not publish information about levels, or for different sized properties. Our concern with simply applying a rate of growth is that the level of rent used in the calculation becomes disconnected from actual rent levels, especially because it applies to all London rents, not just those at the lowest quartile or of different sizes.

Various other surveys have been considered as potential sources of information, but these are either not specifically housing focused (Family Resources Survey) or have a different focus – the English Housing Survey focuses on housing conditions – or are not as complete as the data used by the VOA.

To account for this short term volatility in VOA rents data **we recommend using a three-year rolling average of rental data** which smooths out year-to-year spikes but still captures the longer term trend. Given the available data we consider this to be the most sensible approach. However, the GLA are currently exploring other options with the ONS and we shall continue to investigate whether other options are viable.

[14] http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/improvements-to-the-measurement-of-owner-occupiers--housing-costs-and-private-housing-rental-prices/index.html

What assumptions and data should be used in calculating council tax?

For the UK approach, MIS concludes that families with children live in a Band C property, and households without children in Band B to account for the lower cost housing families are assumed to occupy. The London approach assumes all people pay Band D council tax based on evidence that shows the majority of houses in London are in a Band D or higher band (see table 4 below).

Table 4: London properties by Council Tax Band, 2016

	Council Tax Band							
	A	B	C	D	E	F	G	H
London	4%	14%	27%	26%	15%	8%	6%	2%
Rest of England and Wales	27%	21%	21%	14%	9%	5%	3%	0%

Source: VOA, Council Tax: Stock of Properties 2016

Analysis of the Family Resources Survey shows that for London:

- Around a third (33 and 32 per cent respectively) of working age households without dependent children with a one bed property live in a Band B or Band C property, compared to only 21 per cent in Band D.
- Among families with children 50 per cent of one child families in two bed properties lived in a Band C property, while 42 per cent of two child families in a three bed property lived in a Band D property.

As such, **we recommend Council Tax Band B be assumed for households without children and Council Tax Band C for families with children in the UK, with the expectation that in London families with 2 or more children live in Council Tax Band D.** The average band rate for London and the rest of the UK respectively should be taken from the DCLG publication Council Tax levels set by local authorities in England in line with the current approach.

What assumptions and data should be used in calculating childcare costs?

In both current methodologies, it is assumed that all families require formal childcare when all parents in a household are in work, with travel time included. This approach is sensible – given not all families can rely on informal childcare – and one that **we recommend is continued**. Given our previous recommendations on full-time working, **we recommend that 42.5 hours of formal childcare a week is required for all children given a 37.5 hour full time working pattern**.

This also provides one hour a day commuting time. Analysis of the Labour Force Survey suggests that the average daily commute for all employees was 56 minutes in 2014-15.[15] While some people on the Living Wage will undoubtedly have to travel further than this, our assumption takes no account of informal childcare or that partners in a couple may have overlapping work schedules, meaning this full duration will not be required by many. We believe that 42.5 hours represents an acceptable middle ground.

In line with latest MIS assumptions, **we recommend that nursery provision is assumed for all family types** which better reflects actual usage in the Early Years and Childcare survey data. Calculations should take account of term-times and the free provision provided for two to four year olds as well as school time. School age children also use after-school clubs and holiday clubs. We assume that no childcare is needed for five weeks of the year when parents take annual leave (in line with statutory requirements).

However, when compared to actual patterns of usage it would appear unrealistic to assume that families pay for full-time childcare across the board. Actual usage patterns suggest otherwise. For example only 18 per cent of families claiming for support with childcare costs in tax credits claim

[15] https://www.tuc.org.uk/workplace-issues/work-life-balance/number-commuters-spending-more-two-hours-travelling-and-work-72

for more than £150 a week, yet 40 per cent are working full-time (30 hours or more).[16]

Availability of childcare is an issue across the UK, though we recognise the specific challenge relating to informal care in London. However, survey data on childcare usage suggests a substantial proportion – at least half – work and pay nothing at all, or very little for their childcare (so largely rely on informal care outside of free entitlements).

To ensure that childcare costs paid by parents are kept in line with actual spend **we recommend that where our method means that childcare spend is higher than actual spend for full-time working it is limited in line with actual patterns of spend**.

Average childcare costs are currently taken from the annual publication by the Family and Childcare Trust. The key difference in approach relates to the London Living Wage taking a simple average of all childcare costs while the UK Living Wage uses costs specific to the type of childcare in use – historically childminders, but in future full-time nursery care for pre-schoolers.

It is logical to use the cost directly relating to the type of childcare that we assume to be in use. However, the average cost in London is significantly higher than in the rest of the UK and there is greater absolute variation in the cost within and across local authorities. Therefore, using Family and Childcare Trust data **we recommend an adjusted average taking account of the highest outlier estimates that are skewing the average**. This suggests that average costs in London are approximately 20 per cent higher than in the rest of the UK.

Longer term better data would give a much clearer picture of how low-income families are using childcare in the capital. This is especially important in terms of the impact it has on their decisions on working habits. Resolution Foundation research has previously highlighted that two-thirds of women say the high cost of childcare is a barrier to them seeking employment or working longer hours.[17] The Greater London Authority is commissioning work into this topic which is very welcome but clearly government can and should help to improve the available data sources on this issue.

What assumptions and data should be used in calculating travel costs?

Differences in travel between the rest of the UK and London are not primarily due to price but the existence of very different public transport options. The London Underground in its coverage and level of use is unique within the UK. London residents are also far more likely to use other forms of public transportation, cycle or walk to work than use cars compared to other parts of the UK.

The MIS process already provides an indication of travel needs for different family types – a car for parents but public transport for those without children. These are carried through into the UK calculation. In the London Living Wage calculation, it is assumed that all parents use a Zone 1 to 3 travelcard. Those aged under 11 qualify for free travel on buses and tube journeys.

The MIS study for London provides a potential source, concluding that all workers in Outer London require a Zones 1-6 travelcard and Inner London require a Zones 1-4 travelcard as a minimum. Participants in this research were asked what travel costs do you need to access a reasonable range of opportunities. People said to access a range of possible jobs you need to be able to travel to different parts of London. But since many people in London will need to travel far shorter distances to their work than these models imply, basing the assumption more closely on actual travel costs seems a sensible compromise. We have considered wider sources of data relating to travel patterns for work within London. Research by TfL suggests that only 20 per cent of outer London residents travel into Zones 1-2 for work purposes on a regular basis, while bus travel remains the most popular form of transport.

[16] HMRC (2016) *Child and Working Tax Credits Statistics, April 2016*

[17] V Alakeson and G Cory *Careers and carers: Childcare and maternal labour supply*, Resolution Foundation, 2014

However, we recognise that tube travel can be more convenient and faster than buses and cycling can carry a significant upfront cost. Therefore, **we recommend that the budget includes for residents in Outer London a zone 4-6 travelcard (£26.80 a week) and for those in Inner London, a zone 1-3 travelcard (£38 a week)**. This provides a better reflection of actual travel costs. **We also recommend children aged 11 plus are allowed two journeys a day for five days a week (to get to and from school)** – which is available at a discounted rate once a zip card is purchased, the cost of which we suggesting spreading over its lifetime (5 years).

Ongoing review

Our report has considered in detail the available data to measure the cost of components beyond the core basket of MIS. Similar to our recommendations that relate to the ongoing use of MIS as part of the Living Wage, we **recommend that due consideration to both improvements in data and changes in patterns of usage and costs should be taken into account each year** when the Living Wave is calculated.

Section 5

Accounting for shocks to prices, polices and people's expectations

For a Living Wage figure to operate as a practical tool to drive change among employers, it has to balance providing an acceptable standard of living with a degree of stability in year to year increases in the rate. From this perspective it is important that while increases over time track the cost of living, annual changes are not subject to substantial volatility. Shocks to the living wage calculations can take three key forms:

- Changes to government policies that affect the incomes of working families, particularly income tax, in-work support and help with childcare costs
- Social expectations, where the goods and services required to meet an acceptable standard of living change over time
- Inflation increases where shocks to the economy can cause a sudden rise in the prices of goods with a large weight in the basket underpinning minimum living costs

It is clear that these factors are live and substantive risks in future: significant changes to the generosity of government support are in train; people's expectations of what represents a decent standard of living are constantly changing; and Brexit is expected to cause a short-term spike in the inflation rate. Here we consider how current approaches take such shocks into account and consider how best to deal with these in future.

Current approaches

This challenge is dealt with in different ways in the current approaches. The primary means through which very large shocks to the UK Living Wage are managed is through an assumption that in any year an increase in the UK Living Wage cannot be more than 2 percentage points above average earnings growth. With an expectation that lost ground is made up in subsequent years after a short-term shock has subsided. However, in reality this moderating factor has been applied in all years since 2012, meaning that in practice increases are driven by earnings growth and not the cost of living.

The London Living Wage does not employ the kind of 'external' cap used in the UK method. Instead, a number of factors 'internal' to the calculation help to reduce year to year volatility. First, the contents of the basket on which the calculation is based do not change from year to year with the list of goods and services required fixed and uprated with inflation. Second, half of the basket is based on growth in typical household incomes, which historically tends not to see significant jumps from year to year, representing as it does all sources of income for all UK households. Third, a 'floor' (minimum wage) and 'ceiling' (median wage, though this has not impacted meaningfully on the rate) are put in place on both halves of the calculation. Both methods include elements that act as effective shock absorbers – reducing the impact of a 'bump' up in living costs in any one year, though this has been more apparent in the UK Living Wage.

Policy change

Changes to the tax and benefit system have a direct effect on household income, with changes that provide additional support or a boost to income to working families reducing the wage needed to reach a certain income level, while cuts to support or tax rises work in the opposite direction.

To give a sense of the potential effect changes to benefits policy could have on the rate the annual London Living Wage publications from the GLA provide an estimate of the rate if all in-work support was removed. The London Living Wage would have been approximately £12 rather than the actual level of £9.40 in 2015 if benefits for those in work were not taken into account. For the current UK Living Wage, it is clear that the large one-off increase in the rate in 2012 was partially driven by the reduction in the value of childcare support in Working Tax Credit.

What is the most appropriate response to this potential volatility? A first point refers to the period in which the tax and benefit system is applied. Both calculations take into account the impact on income of the tax and benefit system in the year that the Living Wage is set i.e. the November 2015 Living Wage calculations use the tax and benefit rules in effect from the April of that year, rather than those that were set to apply from April 2016. Doing so ensures that future policy rules which have been announced are not taken into account when they could change depending on the political climate. Had a forward-looking approach been taken, the planned but ultimately abandoned cuts to tax credits that were announced in the Summer Budget 2015 would have meant both Living Wages were substantially higher. For this reason, **we recommend that an approach of applying anticipated but not yet in place policy changes is not adopted.**

A second issue is one area of policy which does not apply equally across all parts of the UK at this point in time: for example, the generosity of Council Tax Support. Currently schemes can and do vary by local authority. **We recommend applying a scheme with the average characteristics of those put into place across the rest of the UK and for London**.[18] In practice however, Council Tax Support has little impact on Living Wage calculations because eligibility tends to end once someone is working full-time.

The UK Living Wage calculation presumes that the same tax and benefit system applies equally across all parts of the UK. While this is still true for the most part, the example of Council Tax Support notwithstanding, a potential complication for the aligned Living Wage calculation is ongoing devolution of tax and benefit policy, particularly in Scotland. The Scottish Government sets a Scottish rate of income tax and has the power to create new benefits. To date, there is no significant variation but this may change. **We recommend that the Living Wage Commission should closely monitor plans for devolution of tax and benefit policies. Should such changes occur, they should be taken into account through weighting within the calculation.**

A more immediate consideration for our recommended Living Wage is the significant changes in the value of benefits – primarily through the introduction of Universal Credit but also the ongoing benefit freeze and restriction of support to two children – planned for the rest of this parliament. However, the four-year 1 per cent reduction to social rents will create a downward pressure on the rate by reducing rents. Other policy pledges from David Cameron's Government – to increase the personal allowance for income tax to £12,500 by the end of this parliament, to provide 30 hours a week of free childcare for working parents of 3 and 4 year olds and the more generous support with childcare costs in Universal Credit (covering 85 per cent rather than the 70 per cent in the tax credit system) – are also likely to place downward pressure on the Living Wage.

However, our previous research has shown that cuts to in-work support are on average not offset by gains from cuts to tax or additional childcare support, and that the bottom half of the income

[18] The excellent counciltaxsupport.org provides detail on each scheme by local authority in England. Wales and Scotland have maintained the generosity of the previous CTB scheme.

distribution is estimated to be worse off overall.[19] While the precise scale of the impact is now much harder to project – with the uncertainty that Brexit adds to future economic circumstances – it is clear that many lower-income families will be worse off overall.

To exacerbate the sheer complexity of so many changes, they are planned to take effect at different times and in some cases to be transitioned in gradually over the remainder of this decade (and in the case of UC into the next decade). Nor is it clear precisely when or how fast some of these policies will be introduced; the roll out of UC, for example, has been continually delayed since 2013.

It is unavoidable to make anything other than a judgement when deciding how to account for such wide-ranging and complex changes in entitlements. There would appear to be three main approaches: introduce policy changes instantly as if they apply to the total population; introduce them at a point at which they affect the majority of the population; or gradually take account of their effect on the proportion of the population actually affected in real time, or at least at the point at which the wage is set. On balance, our recommendation would be for the latter, to ensure that the Living Wage is broadly reflecting the impact of welfare and tax changes on the population.

The role of the Living Wage Commission in future governance of the process for calculating the Living Wage means that such calls can be made in a transparent manner, including publications outlining any such decisions. In any case, **the Living Wage Commission should maintain an ongoing review of tax and benefit changes that significantly affect the Living Wage calculation and determine how quickly their impact should feed into the Living Wage calculation.**

People's expectations

The process by which MIS updates the basket of goods and services has historically played a part in the volatility of the UK Living Wage. Being updated on a rolling basis, it can be the case that as social expectations shift and new consumption patterns become the norm, the MIS basket of goods and services can experience a significant change in a particular year. For example, a car rather than public transport was included for families with children in 2012 and a similar shift was seen this year with a switch to an assumption full-time nursery care over childminders.

Arguably, this is a consequence of the process by which MIS is updated rather than sudden swings in societal expectations. We therefore consider it sensible that where changes to the basket of goods and services that underpin the MIS calculation have a substantial effect on the Living Wage rate, a more gradual phasing in of the item will both reduce volatility and better reflect what is actually the result of a gradual shift in social norms.

In line with our recommendations on the treatment of large changes to tax and benefit policy, here too the Living Wage Commission can play a role. Therefore w**e recommend that large changes in the basket's contents are discussed by the Living Wage Commission to determine how best to introduce them.**

Prices

While our proposals above are expected to deal with much of the volatility experienced by the UK Living Wage in the past, and which we can foresee potentially affecting the aligned method in future, unforeseen shocks are still possible. In normal times, one of the strengths of the Living Wage is its reliance on a formula. The employers we consulted with raised this as a source of reassurance that the Living Wage was not a political tool.

In recent years however the current UK Living Wage has been driven by average earnings rather than the changing cost of living. In large part due to the unforeseen circumstances of the downturn

[19] D Finch, *A Budget for workers? The impact of the Summer Budget on work incentives in Universal Credit*, Resolution Foundation, July 2015

– in which earnings grew by less than prices for an unprecedented spell – the calculated wage ('reference rate') has been greater than the UK Living Wage ('applied rate') since 2012. Restoring that close link to the cost of living should therefore be a priority.

Despite the recommendations above to reduce potential volatility in the rate, it would be naïve to assume that the future holds no surprises, with the EU referendum result increasing economic and political uncertainty. There is a risk that shocks to the economy cause an increase in prices in goods and services that are over-represented in the MIS basket when compared to the basket used to calculate CPI – which tracks changes in prices of consumption in the economy more widely. In our consultations with accredited and unaccredited employers some form of reassurance that annual increases would be relatively stable were seen as key in their decision to become a Living Wage employer. **We therefore recommend that there should be a mechanism that prevents very large rises in the Living Wage in any one year.**

There are alternative metrics that could be used to ensure that increases in the Living Wage are protected from short term instability rather than the current link to earnings in the UK Living Wage. The London Living Wage's use of an income measure is one option, helping to relate the rising Living Wage to how the living standards of typical families are changing. Another similar approach, but more directly linked to the cost of living would be to consider changes in the consumption patterns of families – although the timeliest measure of expenditure patterns, the LCFS, has a two-year lag to its publication.

To maintain a direct link to changes in the price of goods and services, **a mechanism that is linked to inflation is our recommendation**. Most importantly, it ensures that this mechanism is based on a measure of changing living costs that is regularly published and on a timely basis. In essence, this will allow the living costs facing low-income families to rise faster than costs across the entire economy but without them becoming detached from that overall picture.

The question remains of what additional percentage should be added on to provide a limit that will be high enough to reflect the fact that in normal times the costs facing low-income families can rise faster than the overall inflation index while retaining some year-to-year stability.

Our consultations with employers have suggested a commonly shared assumption that the Living Wage is unlikely to rise by much more than 5 per cent per year in normal times. This is likely to reflect what pre-downturn were government long run expectations that earnings grow approximately 2 per cent faster than the rate of RPI inflation. Maintaining this level would suggest adding 3 percentage points onto CPI, given the Bank of England's target rate of 2 per cent.

We do not make a firm recommendation on this but suggest that the Living Wage Commission and Mayor form an opinion taking account of the still uncertain impact of Brexit on the long run levels of inflation and earnings in the UK. It is also important to consider the extent to which any inflation measures ONS produce in future are more appropriate than the current headline CPI rate.

Section 6

Conclusion and next steps

The task of reviewing the Living Wages and recommending an aligned methodology is an easier task than developing one from scratch. We have been able to draw on the success of the current methodologies while seeking improvements to data sources and the extent to which the calculation is grounded in the cost of living. Both methods have helped to underpin a successful campaign leading to the current support and social awareness that it enjoys. The rigour with which the teams at Loughborough University and GLA Economics have developed and overseen the rates has been integral to the growth of the Living Wage as a campaign that has positively influenced the lives of thousands of workers. While the National Living Wage is a welcome boost to low earners, the Living Wage with its genuine link to an acceptable cost of living, remains as vital as ever.

But as we have made clear, improvements are possible in both methods and seeking alignment will inevitably lead to change. We believe the recommendations we have outlined in this review represent a genuine improvement over the current methods. The aligned method should be more representative, more robust and, most importantly, driven to a greater extent by changes in the cost of living.

Inevitably, calculating a Living Wage requires judgement calls. Policy changes like the introduction of Universal Credit would always have required judgements on how the new system is phased into the rate. Having a body like the Living Wage Commission to make such decisions when required in future can only be an asset to the Living Wage campaign as it moves forward.

The natural question which follows these recommendations is what impact is likely on the rates themselves. However, the next steps are for the Living Wage Commission to consider our recommendations. The options they choose will determine the extent to which the rates vary from their current levels.

Broadly speaking however, the aligned method we have recommended is likely to have an upward effect on the London Living Wage. We consider this to be an unavoidable consequence of a Living Wage rooted in an up-to-date basket of goods with a more diverse mix of family types. There is a clear discrepancy in the target income between London and the rest of the UK, and as highlighted by recent analysis on the size of London salary weightings[20] the differential between rates should be larger than at present. The exact size of the increase will depend on the Living Wage Commission and Mayor's response to our review. They also have a role in setting out a how to implement and transition to the new rates in London and the rest of the UK.

The Living Wage Commission is expected to respond to our review in September 2016. With a strong, aligned methodology and an enhanced governance structure, we see no reason why the Living Wage cannot continue to raise the wages of workers across the UK, delivering more families an acceptable standard of living.

[20] D Hirsch, *London Weighting and London costs – a fresh approach?*, Trust for London/Loughborough University, July 2016

Annex A – Stakeholder consultation process

The Living Wage Campaign's strength derives from the way in which it has been shaped and influenced by a variety of voices and organisations since it started in 2001. Trade unions, employers, campaigners, academics, policy makers and statisticians are just some of the groups of people who have played their part in the success of the campaign to date. We wanted to make sure their voices informed our decision making in this review too.

We conducted five roundtable discussions in February and early March in three different cities – London, Manchester and Glasgow – and sought to hear from as wide an audience as possible. Fifty people attended the five discussions from a wide variety of different organisations.

Almost half of the attendees were representatives from Living Wage employers. We heard from large and small employers from both the private and the public sector, the majority of whom were accredited Living Wage employers as well as some who were not. A quarter of the attendees were part of the academic and policy community, from universities and other research organisations. In addition, we heard from seven trade union representatives and from the UK-wide Living Wage Campaign, the Poverty Alliance (who lead the Campaign's efforts in Scotland) and the Greater Manchester Living Wage Campaign.

Below is a list of the organisations we consulted as part of the process. We must be clear however that the analysis and recommendations set out in this review do not reflect the views of these organisations or the individuals who attended our roundtables.

Aviva

Awesome Merchandise

Bectu

Bradley's Bakery

Brewdog

Burberry

Christian Aid

Citizens UK

COOK

Dumfries and Galloway Council

Glasgow City Council

Greater Manchester Chamber of Commerce

Greater Manchester Living Wage Campaign

IKEA

ISS

JRF

KPMG

KPMG Scotland

LSE

Manchester City Council

Nationwide

Nestle

New Economy Manchester

Northern Irish Executive

ONS

Oxfam

Oxfam Scotland

Poverty Alliance

PwC

Richer Sounds

Scottish Government

SCVO

SERTUC

Southwark Council

Standard Life

Transform Lives Company

TUC

Unison

Unite

Usdaw

Academics working at the following universities also took part:

Bath University

Cardiff University

Edgehill University

Glasgow Caledonian University

Oxford University

Queen Mary UoL

University of Manchester

University of York

Resolution Foundation

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- » *undertaking research and economic analysis to understand the challenges facing people on a low to middle income;*
- » *developing practical and effective policy proposals; and*
- » *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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