



# Resolution Foundation

BRIEFING

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

Conor D'Arcy and David Finch  
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## Acknowledgements

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## Foreword

The independent Living Wage Commission was created at the start of 2016 to oversee the rates of the voluntary real Living Wage. The Commission – comprised of leaders from the private, public and voluntary sectors as well as academic experts – started its work by reviewing the different approaches that had hitherto been used to set the UK and London Living Wage rates.

It recommended a series of changes that were then made to ensure an integrated approach to calculating the rates that properly reflects changes in the cost of living. It is the ongoing role of the Living Wage Commission to oversee the approach taken to rate-setting, determine how to take account of policy shifts and consider whether the appropriate data is being used.

This year, there have been several important factors that have influenced the announced increases to **£10.55** per hour in London and **£9.00** per hour in the rest of the UK.

**First, there is the wider inflation context and changes in what families require to meet a minimum acceptable standard of living.** Inflation has been above the Bank of England's 2 per cent target over the past year, with CPI rising by 2.4 per cent over the most recent 12 months. These price rises have fed through to the specific basket of goods and services used in the calculation of the Living Wage rates. Some components of that basket have risen more quickly, for instance, the average council tax bill across the family types included in the Living Wage calculation rose by 5 per cent.

The nature of that basket evolves over time. Its contents are agreed by members of the public taking part in ongoing research carried out by a team at Loughborough University, supported by the Joseph Rowntree Foundation. Though changes from one year to the next tend to be relatively minor, in some cases these can be meaningful. In this year's calculation, for instance, the transport budget for some households increased by one-fifth due to a mixture of higher travel fares and the public's view that less reliable public transport provision means that some families need to set aside more cash for occasional taxi use.

**Second, a number of important policies** – some new, some continuing – have affected the Living Wage rates this year. Some of these changes act as a downward pressure on the rates, for instance, the increase in the personal tax allowance, reduction in social housing rents and additional childcare support. But other policy changes create upward pressure as they mean that families now need higher earnings to achieve an acceptable standard of living. An example of this has been the ongoing freeze in working-age benefits. And, of course, the relative impact of each of these different policy changes varies considerably between household types according to factors like the number of children in the family.

It is also worth highlighting that there are important policy changes where the pace and success of implementation remains unclear. Significant uncertainty continues to surround Universal Credit. While the roll-out of the policy has been repeatedly delayed, it is nonetheless a reality for a growing number of households across the UK. As such, this year's calculation for the first time assumes a proportion of families receive UC with the majority remaining on the existing system. The introduction of the policy will be carefully reviewed each year to ensure that our calculation

reflects the circumstances that families are actually facing.

**Third, there is the specific and time-limited transition affecting the London rate.** The 2016 review undertaken by the Living Wage Commission concluded that the approach previously used in London resulted in too low a rate. Hence a revised methodology was proposed to remedy this along with an agreed timetable for phasing-in the new approach. The increase in this year's London rate partly reflects the extra pressure created by this transitional adjustment – indeed this is the main reason that the London Living Wage is rising faster than the UK rate. However, we have reached the end of this transitional period and the announced rates now fully reflect the new methodology.

The past year has been a mixed one for hard-pressed families. One in five workers still get paid less than the real Living Wage at a time when in-work support is being reduced. Pay more generally only recently started growing again in real terms after a renewed squeeze began in 2017. At the same time, employment is at a record high and a tighter jobs market, together with growing recognition of the real Living Wage, has led some key employers like Amazon to announce major increases in wages for low-paid workers. It is vital that these welcome moves are built on and that these and other employers lift low-end pay to reflect the new Living Wage rates.

Over the last year the debate on the changing nature of work and pay in our economy has gained new momentum. It is crucial that we have an independent and credible fair pay benchmark, widely understood by employers and workers alike, that can help inform this national discussion. It is the role of the Living Wage Commission to maintain this.

Gavin Kelly

Chair of the Living Wage Commission<sup>[1]</sup>

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[1] More detail on the Living Wage Commission, its work and the Commissioners is available at <https://www.livingwage.org.uk/living-wage-commission>

# Introduction

This paper sets out the method for determining the independently-calculated Living Wage rates in London and the rest of the UK, and the respective rates that will apply from 5 November 2018. We detail the sources underpinning the calculations, based on the best available evidence about living standards and costs.

The calculation is built on a basket of goods and services that represents an acceptable standard of living, which is determined through research with members of the public. The hourly Living Wage rates are then calculated by taking a weighted average of the earnings required (accounting for tax and benefits) for a range of family types (with and without children) to meet that standard. These rates provide a benchmark for employers that voluntarily commit to go further than paying government-set minimum wages.

The first section of the report explains the basis of the ‘core basket’ of goods and services, including everyday items such as food and clothing, the cost of which varies relatively little across the country. The next section deals with costs that are more likely to vary between London and the rest of the UK, specifically housing, council tax, travel and childcare. Further detail relating to these assumptions and how they were initially reached is set out in the Resolution Foundation’s 2016 review of the Living Wage calculation for the Living Wage Commission, and in the Commission’s response.<sup>[2]</sup> In this report, we note where any of these assumptions or approaches may have changed as a result of changes in data, policy or significant shifts in consumption trends. Any such changes are formally agreed by the Commission as part of the annual rate-setting process.

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

The final section provides the Living Wage rates which apply in London and the rest of the UK from 5 November 2018. The Living Wage Foundation requires accredited Living Wage employers to implement the new rates as soon as possible and within six months of the annual announcement. We also set out detailed estimates of each living cost component for the different family types used in the calculation. The tax and benefit position of each family type is calculated using the Resolution Foundation micro-simulation model.

## 1. A core basket of goods and services

To provide a ‘basket’ of goods to underpin the Living Wage rates in both London (LLW) and the rest of the UK (UKLW), we use the Minimum Income Standard (MIS) research carried out by the Centre for Research in Social Policy (CRSP) at Loughborough University.<sup>[3]</sup> A variety of household types are included in order to reflect the diversity of families across the UK (see Tables 1 and 2 for full details) with each basket varying by family type to reflect their specific

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[2] C D’Arcy and D Finch, *Making the Living Wage: The Resolution Foundation review of the Living Wage*, Resolution Foundation, July 2016; and Living Wage Commission, *Closing the Gap: A Living Wage that means families don’t go short*, September 2016

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

requirements. Excluding those more variable goods and services discussed in Section 2, the same items are included in both the London and UK calculations.<sup>[4]</sup> Because the prices of the items in the basket are drawn primarily from national chain stores, and research suggests that the prices of most of the contents of the core basket do not differ substantially across the UK, the cost of this core basket does not vary between the UKLW and LLW.<sup>[5]</sup>

## 2. Costs that vary more significantly across the UK

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

### 2.1 Housing Costs

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

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

For the LLW, we broadly retain these assumptions. However, for singles without children, and in order to reflect the high cost and availability of one-bedroom flats in London, some are assumed to share. We use a weighted average based on analysis of the most recent census which found that 54 per cent of singles live in shared accommodation.<sup>[6]</sup>

The housing costs associated with each type of accommodation are drawn from a variety of sources, using the latest available data. Average social sector rents are taken from the 2017 UK Housing Review, using the London estimate and an average for the UK excluding London. We then uprate those rent levels in line with current policy which is to decrease social sector rents by 1 per cent in 2018-19. An average for only three-bedroom properties is no longer provided so we produce an estimate taking the differential when last available (in 2014). Options to include more up-to-date data will be explored for next year's calculation.

For the private rented sector, consistent UK-wide data is not available. For the UKLW, we take the best available data from each nation and produce a weighted average. The data used for England are published by the Valuation Office Agency.<sup>[7]</sup> For Scotland, the data are published by the Scottish Government.<sup>[8]</sup> For Wales, the data are published by StatsWales.<sup>[9]</sup> For Northern Ireland, the data

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

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

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

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[7] Valuation Office Agency, *Private Rental Market Summary Statistics – April 2017 to March 2018*, June 2018

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[8] Scottish Government, *Private Sector Rent Statistics, Scotland, 2010 to 2017*, November 2017

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[9] StatsWales, *Private sector rents by local authority, 1 January to 31 December 2017*, 2018

are published by the Analytical Services Unit of the Department for Social Development.<sup>[10]</sup> For the LLW, the London data published by the Valuation Office Agency is used. In both the UKLW and LLW, the rents taken are at the lower quartile in the private rented sector.

The sample taken by the Valuation Office Agency statistics can mean that year-to-year fluctuations occur in the detailed breakdown of rents reported – especially in London. We therefore take a three-year rolling average of rents for both London and the rest of the UK. Doing so minimises annual volatility but also means that it takes longer for the most recent trends to become apparent. Tables 1 and 2 show how these costs vary by size for the UKLW and LLW.

## 2.2 Council tax

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

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

## 2.3 Travel costs

The travel cost assumptions for the UKLW are drawn from MIS research. In London, a weighted average is used across Inner and Outer London families. In Outer London, the cost of a monthly zone 4-6 travelcard is included and for those in Inner London, a monthly zone 1-3 travelcard.<sup>[14]</sup> For families with children aged 11 plus, two journeys a day for five days a week (to get to and from school) are budgeted for, taking account of the cost of and savings provided by a Zip Card – a card entitling under 18s to discounted travel. The values for these figures at the time of calculation are included in Table 2.

## 2.4 Childcare costs

Given we assume all adults in the calculation work full-time – 37.5 hours per week in line with the UK average over recent years – all families with children aged 11 and under are assumed to use full-time childcare (42.5 hours per week). This is calculated for 47 weeks of the year, taking account of hours provided through the free early years education offers, school and the school holidays. Full-time nursery care is assumed for pre-school aged children all-year round, after-school clubs for children of primary school age during term-time and childminder provision

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[10] Department for Social Development, *Northern Ireland Housing Statistics 2016-17*, December 2017. Because the data for Northern Ireland supplies only a median figure and for a more limited range of accommodation we make adjustments to these, based on the relationship between different sized properties.

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[11] MHCLG, *Council Tax levels set by local authorities in England 2018 to 2019*, April 2018

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[12] Scottish Government, *Council Tax by Band 2018-19*, April 2018

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[13] StatsWales, *Average band D council tax, by billing authority*, 2018

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[14] Transport for London, *Adult rate prices: All Tube, DLR, London Overground and TfL Rail services and National Rail services in Z1-9*, 2018

during school holidays.

Costs are calculated using the most recent data collated by the Family and Childcare Trust.<sup>[15]</sup> For the UKLW, a weighted average for the regions/nations of the UK excluding London is calculated, weighted by the number of children. For the LLW, we use an adjusted average taking account of the differential between London and the rest of the UK, based on 2016 data.<sup>[16]</sup>

This year's calculation once again assumes that the government's policy of providing an additional 15 hours of free childcare (bringing the total to 30 free hours) for working parents of 3 and 4 year-olds in England is in place. However, and as noted last year, the data available on the implementation of this commitment is limited. As such, the extent to which demand for provision will be met or the broader effect on childcare prices remains uncertain. In discussions on this topic, the Living Wage Commissioners stressed that this lack of data was unsatisfactory and they would be willing to review the application of this policy in the calculation should new data become available.

### 3. Tax and benefit system

The taxes paid and benefits received by each family type are calculated using the Resolution Foundation micro-simulation model. We assume that each family type claims every benefit to which they are entitled. We include policy changes applying to the 2018-19 financial year including the increase in the personal tax allowance to £11,850 and the continued freeze in working-age benefit rates.

Away from the levels of thresholds and payments, a broader shift has also been taking place in the benefit system, as Universal Credit (UC) continues to be rolled out. UC replaces the existing tax credit-based system, which the majority of families included in the Living Wage calculation are currently entitled to. Though the roll-out of UC has been slow, it is now set to be in place in every job centre in the country by the end of 2018 at which point all new claims to support from working families, as long as they have fewer than three children, are expected to be via UC. As such, and based on discussions with the Living Wage Commission, this year's calculation assumes some of the families in the Living Wage calculation do receive UC. The proportion in receipt of UC is based on the OBR's estimate for the proportion of caseload migrated in 2018-19.<sup>[17]</sup> Clearly, there remains much uncertainty regarding this policy, and the approach will be reviewed next year.

### 4. Implementing the new methodology

The rates announced in November 2016 were the first following a shift from the previous methodologies used for the UKLW and LLW to a new aligned process. Moving from one formula-based approach to another, if there is a change in the resulting wage rate, inevitably requires a transitional period during which the new method beds in. As such, the Living Wage Commission's guidance upon agreement on a new methodology was that there should be a time-limited phase-in period for the new method for the London rate, which saw a significant increase under the new methods.<sup>[18]</sup> The announcement of this year's rates marks the completion of this period, with the gap described last year between the 'reference' rate and the 'applied' rate now closed.

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[15] C Harding and J Cottrell, *Childcare Survey 2018*, Family and Childcare Trust, 2018

[16] For the LLW, we remove the highest outlier estimates that upwardly skew the resulting London average.

[17] OBR, *Economic and fiscal outlook fiscal supplementary tables: expenditure*, March 2018

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



## 5. Living Wage rates for 2018-19

The rate for the UKLW for 2018-19 is £9.00.

The rate for the LLW for 2018-19 is £10.55.

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

## 6. Conclusion

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

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

£ per week

Family type	Living costs (£ per week)				Childcare	Total	Hourly wage requirement	Weights
	*Core* basket	Rent	Council tax	Travel				
Single	160.01	90.95	18.50	37.08	-	306.55	9.50	32.5%
Couple	255.13	100.03	24.67	74.20	-	454.03	6.35	33.8%
Single parent with one child (age 3-4)	238.94	78.83	21.15	60.39	122.65	521.95	12.45	1.1%
Single parent with one child (age 5-11)	255.35	78.83	21.15	59.44	70.64	485.40	14.30	3.8%
Single parent with two children (age under 3 & 3-4)	283.40	86.52	21.15	64.69	296.95	752.70	15.70	0.2%
Single parent with two children (age 3-4 & 5-11)	306.31	86.52	21.15	64.41	193.29	671.67	15.25	0.6%
Single parent with two children (age 5-11 & 12-16)	349.01	86.52	21.15	73.65	70.64	600.97	19.00	1.7%
Single parent with three children (age 3-4 & 5-11 & 12-16)	407.84	86.52	21.15	78.63	193.29	787.42	19.05	1.1%
Couple parent with one child (age 3-4)	302.94	78.83	28.20	79.99	122.65	612.60	7.40	3.9%
Couple parent with one child (age 5-11)	319.35	78.83	28.20	79.03	70.64	576.04	8.35	6.8%
Couple parent with two children (age under 3 & 3-4)	347.01	86.52	28.20	84.28	296.95	842.95	9.05	1.6%
Couple parent with two children (age 3-4 & 5-11)	369.92	86.52	28.20	84.00	193.29	761.92	8.80	2.6%
Couple parent with two children (age 5-11 & 12-16)	412.62	86.52	28.20	93.25	70.64	691.22	10.35	6.2%
Couple parent with three children (age under 3, 3-4 & 5-11)	432.70	86.52	28.20	88.44	367.59	1,003.44	15.70	0.5%
Couple parent with three children (age 3-4 & 5-11 & 12-16)	481.70	86.52	28.20	98.28	193.29	887.98	11.20	0.9%
Couple parent with three children (age 5-11, 5-11 & 12-16)	490.33	86.52	28.20	97.23	70.64	772.91	11.55	1.5%
Couple parent with four children (age under 3, 3-4, 5-11 & 12-16)	528.06	86.52	28.20	102.87	367.59	1,113.23	18.65	1.0%
<b>Weighted hourly wage equivalent</b>							<b>9.00</b>	

Source: Resolution Foundation analysis using RF microsimulation model, ONS Annual Population Survey December 2015-17 and other sources detailed in the main body of this report.

Notes: Calculations assume that the current (2018-19 financial year) tax and benefit system is in place with a mix of tax credits and Universal Credit used as described in Section 3 above. Weights use a three-year average of the population of families using the Annual Population Survey 2015-2017 where at least one adult is aged between 16 and 64.

Table 2: Breakdown of the London Living Wage calculation

£ per week

Family type	*Core* basket				Living costs (£ per week)			Chitbcae	Total	Hourly wage	Weights
	Rent	Council tax	Travel	Chitbcae	Total						
Single	160.01	15.72	27.84	-	351.33	10.60	43.0%				
Couple	255.13	20.96	55.67	-	568.82	8.60	24.8%				
Single parent with one child (age 3-4)	231.29	17.97	27.84	92.26	487.20	11.25	0.9%				
Single parent with one child (age 5-11)	255.35	17.97	27.84	80.41	499.42	14.35	4.0%				
Single parent with two children (age under 3 & 3-4)	268.10	20.21	27.84	310.23	758.41	12.35	0.2%				
Single parent with two children (age 3-4 & 5-11)	298.66	20.21	27.84	172.67	651.41	12.00	0.6%				
Single parent with two children (age 5-11 & 12-16)	349.01	20.21	33.72	80.41	615.39	19.00	1.9%				
Single parent with three children (age 3-4 & 5-11 & 12-16)	392.54	20.21	33.72	172.67	751.17	19.10	1.5%				
Couple parent with one child (age 3-4)	295.29	23.96	55.67	92.26	585.03	7.80	4.0%				
Couple parent with one child (age 5-11)	319.35	23.96	55.67	80.41	597.25	8.50	5.5%				
Couple parent with two children (age under 3 & 3-4)	331.71	26.95	55.67	310.23	856.59	10.70	1.7%				
Couple parent with two children (age 3-4 & 5-11)	362.27	26.95	55.67	172.67	749.59	9.60	2.6%				
Couple parent with two children (age 5-11 & 12-16)	412.62	26.95	61.56	80.41	713.57	10.50	4.9%				
Couple parent with three children (age under 3, 3-4 & 5-11)	417.40	26.95	55.67	390.64	1,022.69	18.70	0.5%				
Couple parent with three children (age 3-4 & 5-11 & 12-16)	474.05	26.95	61.56	172.67	867.26	12.65	1.0%				
Couple parent with three children (age 5-11, 5-11 & 12-16)	490.33	26.95	67.45	80.41	797.17	12.15	1.7%				
Couple parent with four children (age under 3, 3-4, 5-11 & 12-16)	512.76	26.95	61.56	390.64	1,123.94	21.10	1.3%				
<b>Weighted hourly wage equivalent</b>						<b>10.55</b>					

Source: Resolution Foundation analysis using RF microsimulation model, ONS Annual Population Survey December 2015-17 and other sources detailed in the main body of this report.

Notes: Calculations assume that the current (2018-19 financial year) tax and benefit system is in place with a mix of tax credits and Universal Credit used as described in Section 3 above. Weights use a three-year average of the population of families using the Annual Population Survey 2015-2017 where at least one adult is aged between 16 and 64.

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*For more information on this report, contact:*

**Conor D'Arcy**

Senior Research and Policy Analyst

[conor.darcy@resolutionfoundation.org](mailto:conor.darcy@resolutionfoundation.org)

020 3372 2983