



Calculating the Real Living Wage for London and the rest of the UK: 2025

Nye Cominetti & Louise Murphy

October 2025



This report sets out the method through which the Living Wage rates in London and the rest of the UK are calculated by the Resolution Foundation and overseen by the Living Wage Commission on behalf of the Living Wage Foundation.

The UK Living Wage for 2025-26 is £13.45.

The London Living Wage for 2025-26 is £14.80.

Acknowledgements

This report was commissioned by the Living Wage Foundation as part of the Resolution Foundation's role in calculating the Living Wage.

Any errors remain the sole responsibility of the authors.

Download

This document is available to download as a free PDF at:

resolutionfoundation.org/publications

Citation

If you are using this document in your own writing, our preferred citation is:

N Cominetti & L Murphy, *Calculating the Real Living Wage for London and the rest of the UK: 2025*, Resolution Foundation, October 2025

<https://doi.org/10.63492/ocnp06>

Permission to share

This document is published under the [Creative Commons Attribution Non Commercial No Derivatives 3.0 England and Wales Licence](#). This allows anyone to download, reuse, reprint, distribute, and/or copy Resolution Foundation publications without written permission subject to the conditions set out in the Creative Commons Licence.

For commercial use, please contact: info@resolutionfoundation.org

Foreword

This year is the tenth year that the Living Wage Commission (LWC) has overseen the calculation of the real Living Wage rates for the UK and London, and it is my first chairing the Commission. I want to put on record my thanks to my predecessor Chair, Gavin Kelly, for his contribution to the LWC over the previous nine years. His expertise and commitment, and that of fellow commissioners of the LWC, played a major part in ensuring that the real Living Wage became firmly embedded in the UK labour market in that time. It is now paid by over 16,000 employers and nearly half a million workers benefit from it.

This report, from the Resolution Foundation, sets out the real Living Wage rates for 2025-26, and the details underpinning the calculation. The 2025-26 rates are:

- UK: £13.45 (up 6.7 per cent)
- London: £14.80 (up 6.9 per cent)

The economic context for these rates is one of relatively persistent high inflation. Inflation is currently at 3.8 per cent which - outside the period of the recent cost-of-living crisis - is the highest since 2011. Within that headline rate, the cost of essentials is rising fast, which puts particular pressure on low-income families, for whom those essentials are a bigger part of their spending. In the latest data (August 2025), food prices were up 4.8 per cent on a year ago, water bills up 26 per cent, gas up 13 per cent, electricity up 8 per cent, and council tax up 5.1 per cent. These are significant increases to manage for lower-earning workers and their families. While the Bank of England expects inflation to fall in the coming months, it is not projected to reduce to its target of 2 per cent until 2027.

It's also a difficult time in the labour market for many employers, following the Employer National Insurance Contribution (NICs) increases in April this year - especially those in low-paying sectors, who were particularly affected by the lowering of the threshold for paying Employer NICs to £5,000. These changes increased the cost of employing some workers on low weekly earnings by more than 6 per cent. Hiring is now below pre-pandemic levels, and the unemployment rate has been rising over the past year. It is now at 4.8 per cent (up by more than 230,000 people since last summer).

A final piece of context for the 2025-26 rates is that the Low Pay Commission's central estimate is for the statutory Living Wage to increase by 4.1 per cent in April 2026. That's lower than the real Living Wage increases. But it is the first time in a decade that the real Living Wage has risen substantially faster than the statutory rate. Overall, the gap between the statutory and real Living Wage is smaller than a decade ago.

Given that the aim of the real Living Wage is to set a rate that enables households to achieve a minimum acceptable living standard, it is also affected by the Government's policies on taxes and benefits. In that regard, the underlying rates of the real Living Wage are being pushed up by frozen tax thresholds, and by the ongoing impact of the two-child limit for families receiving Universal Credit. In addition, as discussed in the Chair's forward to last year's report, there has been a change in the assumption used for working hours. To better reflect the reality of contemporary working patterns, and to align the UK methodology with the approach taken on this issue in other countries, the LWC decided two years ago to relax the assumption that single parents and second earners work full-time. This change also generated upwards pressure on the real Living Wage rates. However, the phase in of the hours methodology change has been completed this year.

Otherwise, the freeze in Local Housing Allowance affects families but won't push up real Living Wage rates until next year because our methodology assumes that families are renting at the 25th percentile, which is still just within the allowance. Conversely, the underlying rates are being pushed down by expansion of pre-school free childcare, although this affects a relatively small proportion of families, so the impact is not large.

Another significant factor in the upward pressure on the underlying rates was the 2024 updating of the Minimum Income Standard (MIS) 'basket' of goods and services. This updating, or 'rebasings', that is overseen by researchers at the Loughborough University, is an important and planned part of setting the real Living Wage. It enables us to relate prices and wages to societal aspirations about what is needed to achieve a minimum standard of living. The rebasing of the MIS in 2024 resulted in significant increases – and therefore upward pressure on the real Living Wage rates – which in turn appeared to reflect some shifts in public expectations about what it means to have a minimum income in the post-pandemic period. The rebasing resulted in a significant increase in the level of the MIS in 2024, but the increase in the prices of the MIS basket of goods and services this year is broadly in line with inflation.

To prevent unmanageable annual increases or decreases in the real Living Wage, the LWC applies a 'shock absorber' to the calculation of the rates, which is CPI +/- 3 per cent (using the July CPI figure of 3.8 per cent). This has been applied this year, as it was in recent years. As a result, there is a divergence between the underlying rates – determined by the methodology set out in this report – and the actual announced rates of the real

Living Wage; if the shock absorber had not been applied, the rates would be materially higher.

To address this and other issues, the LWC will be conducting a methodology review of the real Living Wage over the next year. After 10 years of setting the rates for the real Living Wage, it is important that the LWC reviews its methodology, and does so in the context of the principles and purposes which the Living Wage Foundation sets for its work. The review will ensure that the processes for setting the real Living Wage are robust, rigorous and credible for the next decade and beyond.

Professor Nick Pearce

Chair, Living Wage Commission

October 2025

Summary

The Living Wage Foundation's real Living Wage rates provide a benchmark for employers that voluntarily commit to go further than paying government-set minimum wages, ensuring their staff earn a wage that they can live on. The rates are calculated by the Resolution Foundation, on behalf of the Living Wage Foundation.

The real Living Wage (RLW) rates for 2025-26, which apply from 22 October 2025, are:

- UK: £13.45.
- London: £14.80.

This briefing note sets out the methodology and data sources used to calculate the RLW rates (Section 1) as well the key factors contributing to changes in the RLW rates in 2025-26 (Section 2). These sections are summarised here.

An outline of the real Living Wage Methodology

The calculation of the RLW rates is undertaken by the Resolution Foundation on behalf of the Living Wage Foundation, and overseen by the Living Wage Commission (which reports to the Living Wage Foundation).

The RLW methodology calculates the hourly wage rate that workers need to be paid so that they end up with a net income which is enough to buy a basket of goods and services that constitute an acceptable standard of living. Between those start and end points – a net income level, and an hourly wage rate – sit:

- *The tax and benefit system.* This determines the relationship between gross and net income. Families are assumed to claim all benefits they are entitled to.
- *An assumption about how many hours a week people work.* This translates an hourly wage rate into gross income. The calculation assumes full-time work (37.5 hours per week), apart from second earners in families with children and single parents, who are assumed to work part-time.

The calculation takes account of the fact that costs vary significantly across family types: a separate wage requirement is calculated for 17 different representative family types, and the final RLW rates are a weighted average based on the actual composition of the population.

There are two RLW rates: one for London, and one for the rest of the UK. These are calculated separately, using the same methodology. The difference between the rates mainly reflects that some costs are higher in London, but also that the composition of

the working-age population is different: there are fewer large families and more single people in London than the rest of the UK.

A key question for the calculation is what standard of living is being targeted – i.e. which goods and services are in the basket. The core of the basket is based on research by academics at Loughborough University, which derives something called the ‘Minimum Income Standard’ (MIS). The MIS is based on extensive consultation with members of the public about what a ‘minimum acceptable standard of living’ looks like. The researchers add up the cost of these goods and services for different family types. These ‘core’ parts of the basket – including things like food, clothing, water and energy bills, and social spending – are the same for the London and Rest of UK rates. But some costs which are known to vary significantly between London and the Rest of the UK are collected separately (by Resolution Foundation, based on official data sources): these are housing (families are assumed to rent cheaply in the private sector, or to be in social rented accommodation), childcare, council tax, and transport.

Finally, there is a process to constrain the size of changes in the RLW rates, called a ‘shock absorber’. This limits the size of the annual change in the rates to headline inflation (measured by the July CPI figure) plus or minus 3 per cent.

Contributions to changes in the real Living Wage rates for 2025-26

The RLW rates are affected by changes in any of the elements of the calculation, but generally the biggest contributions come from changes in prices, and to a lesser extent from changes in the tax and benefits system. Changes in methodology can also be important when these happen.

For 2025-26, the most important changes are as follows:

- *Prices.* Prices and bills are rising fast. In April 2025, when much of the price data for the calculation was collected, headline inflation was 3.5 per cent. This is lower than the rates experienced during the cost-of-living crisis of 2021 to 2023, but otherwise it is the highest level in more than a decade. Inflation has reached 3.8 per cent in the most recent data (for August), with particularly fast increases in the cost of water (26 per cent), gas (13 per cent), electricity (8 per cent), and food (5 per cent).
- *Taxes and benefits.* There were no major changes to the tax and benefits system in April 2025 (the big changes were on the employer side, such as the increase in employer National Insurance Contributions, for example). But there is ongoing upwards pressure on the underlying RLW rates from frozen tax thresholds and the steady increase in the number of families affected by the two-child limit (which applies to children born after 2017).

- *Methodology changes.* There were no changes in methodology this year, but two changes made in previous years have exerted substantial upwards pressure on the rates, and the use of the 'shock absorber' (see below) means this pressure is still feeding through to the actual rates. One is the change to the working hours assumption made for the 2023-24 rates: second earners in families with children and single parents are now assumed to work part-time (all other adults are still assumed to work full-time). This change has been fully incorporated into the rates for 2025-26. The second is the change to the basket of goods and services taken from the Minimum Income Standard, which was fully reviewed in 2024.
- *The 'shock absorber'.* The shock absorber constrains year-to-year changes in the RLW rates to inflation plus or minus 3 per cent. The methodological changes mentioned above exerted upwards pressure on the underlying rates, and the shock absorber meant that the actual RLW rates in 2023-24 and 2024-25 were lower than the underlying rate. That's true again for the 2025-26 rates. This year, the shock absorber was based on July CPI of 3.8 per cent, constraining rate increases to 6.8 per cent. The UK rate has increased by slightly less – 6.7 per cent – and the London rate has increased by slightly more – 6.9 per cent – because rates are rounded to the nearest 5p.

Section 1. An outline of the real Living Wage Methodology

In this section, we provide an outline of the methodology used to calculate the real Living Wage (RLW), including the data sources and assumptions used.

The calculation of the RLW rates is undertaken by the Resolution Foundation on behalf of the Living Wage Foundation, and overseen by the Living Wage Commission (from here on 'the Commission'). The Commission, which reports to the Living Wage Foundation, scrutinises the annual calculation and is responsible for taking decisions about the methodology that underpins the calculation. The Resolution Foundation has undertaken the calculation of the RLW rates since 2016. In that period the core elements of the methodology have been the same, but there have been some changes – as set out in Box 1.

As it approaches ten years since the last methodology review in 2016, the LWC will be conducting a review of the real Living Wage calculation methodology over the next year, ensuring that the processes for setting the real Living Wage are robust, rigorous and credible for the next decade and beyond.

BOX 1: Changes to the real Living Wage methodology since 2016

In 2016 the Resolution Foundation undertook a review of the real Living Wage (RLW) methodology.¹ The core elements of the methodology which that review established have not changed since then, including the use of a basket of goods and services determined by the Minimum Income Standard focus groups, the pricing of those and other inputs, and the process of deriving wage requirements based on those costs.

However, under the guidance of the Living Wage Commission (which

oversees the calculation and takes decisions on methodology), there have been some changes to the methodology since 2016. Some have been made in response to policy changes:

- Universal Credit (UC) has replaced tax credits as the UK's benefits system, and the RLW calculation has followed suit in switching to UC. The change was made in a phased way from 2018 onwards based on caseload numbers. The calculation has been entirely based on UC since 2024. The

¹ C D'Arcy & D Finch, [Making the Living Wage: The Resolution Foundation review of the Living Wage](#), Resolution Foundation, July 2016; Living Wage Commission, [Closing the Gap: A Living Wage that means families don't go short](#), September 2016.

change from tax credit to UC placed downwards pressure on the rates, because UC is more generous in its treatment of rent and childcare costs for working families.

Other adjustments have been made to ensure the methodology reflects the reality of life as a low-income working household:

- In 2020, the Commission changed the assumption about rental costs to reflect the actual proportion of families living in the private-rented

sector (as opposed to assuming that social-rented sector rents should apply), and added a new assumption that workers would be making minimum workplace pension contributions.

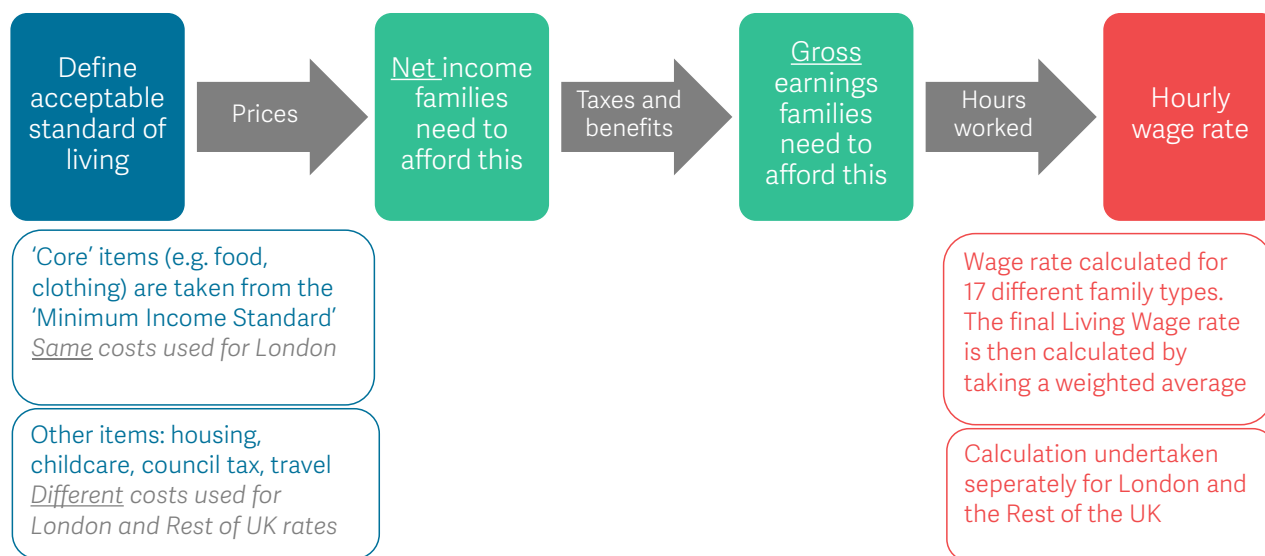
- In 2023, there was a change to the assumption about families' working hours, with single parents and second earners now assumed to work part-time – in keeping with actual working patterns among low-income households.

Outline of the real Living Wage methodology

The Living Wage calculation is founded on a basket of goods and services that represents a minimal but acceptable standard of living, as determined through research with members of the public. For each of 17 different family types (those with and without children, and those aged 25 and over as well as those under 25), calculations are then made to determine what hourly wage rates would be needed for them to earn enough, after the operation of the tax and benefit system, to afford that basket of goods and services. For many items in the basket (such as food, clothing, and utilities), costs are similar across the UK. For some items, however, there is significant regional variation: this is the case for housing, Council Tax, childcare, and travel. Those costs are collected separately and weighted appropriately. The hourly real Living Wage rates are then calculated by taking a weighted average of these 17 different required hourly wages, where the weights reflect the importance of each family type in the working-age population. The calculation process is summarised in Figure 1.

FIGURE 1: The real Living Wage is calculated based on living costs

Summary of the real Living Wage calculation process



1. A basket of goods and services

To provide the 'basket' of goods that underpins the real Living Wage rates in both London and the rest of the UK, we use the Minimum Income Standard (MIS) research carried out by the Centre for Research in Social Policy (CRSP) at Loughborough University, supported by the Joseph Rowntree Foundation.² A variety of family types are included in order to reflect the diversity of families across the UK, with each household type having a different basket that reflects their specific requirements. The same 'core' basket of goods and services applies for both the London RLW and UK RLW calculation, with four exceptions relating to housing, childcare council tax and transport costs.³

2. Costs that vary more significantly across the UK

The next step is to calculate costs for these items in the basket of goods and services. For the 'core' part of the basket, costs do not vary significantly across the UK, and the price inputs are the same for the London and Rest of UK rates. For those items, costs are taken from the MIS research, which draws prices primarily from national chain stores.

² The basket of goods and services for each family type and its costs can be found at: www.minimumincome.org.uk, accessed 30 September 2025. For more detail about these baskets of goods and services, see: J Stone & M Padley, *A Minimum Income Standard for the United Kingdom in 2025*, Joseph Rowntree Foundation, September 2025.

³ The first exception is that, for transport, London families are assumed to use public transport, whereas families in the rest of the UK are assumed to mainly travel by car. As is discussed in the section on housing costs, the second exception is an adjustment made to the tenure assumption for single people without children living in London. Because living alone in a studio or one-bedroom home is far less common in London than in the rest of the UK, we apply a reduction in the London RLW calculation based on the costs faced by people in shared accommodation (for example: paying an appropriate share of heating bills). For further details, see: K Hill, D Hirsch & M Padley, *Minimum budgets for single people sharing accommodation*, CRSP Working Paper 642, January 2015.

Some items, of course, vary considerably in price in different parts of the country, and costs for those items are gathered separately and weighted to provide inputs for London and the Rest of UK. Those items are: housing, Council Tax, childcare, and transport. Below, we outline the data sources used for those items, and any important assumptions made.

2.1 Housing costs

The main assumptions made concerning housing costs relate to: housing tenure; the type and size of property that families are assumed to live in; and where within the distribution of rents the costs are taken from.

Tenure

For tenure type, the calculation uses a weighted average of costs in the private and social rented sector, based on the observed proportion of low-income families who live in those tenures ('low-income families' are defined as those in the bottom half of the income distribution, excluding pensioners and non-working households, based on net equivalised household income). A weighted rental input is calculated for each family type (in London and Rest of UK separately) by applying the proportion of low-income families who rent in the social versus private sector. We estimate rental tenure at the broad family level (singles and couples with and without children) using data from the latest available Family Resources Survey data.

Property type and size

The assumptions are as follows:

- Singles and couples without children live in one-bedroom homes (the rental data input for singles also includes studio accommodation).
- Households with one child live in a two-bedroom home.
- Households with two, three or four children live in a three-bedroom home.

The assumptions are the same For the London RLW, except that some singles without children are assumed to live in a room in a shared house rather than in their own one-bedroom flat, reflecting the high cost and low availability of one-bedroom flats in London. We assume that 53 per cent of single adults without children in London live in shared accommodation.⁴

⁴ This is based on analysis of 2011 census data. See also: K Hill, D Hirsch and M Padley, [Minimum budgets for single people sharing accommodation](#), CRSP Working Paper 642, January 2015.

Position of housing cost inputs within distribution

For social rented sector costs, average rent levels are used. For the private rented sector inputs, costs are taken from the 25th percentile.

Data

The housing costs associated with each type of accommodation are drawn from a variety of sources. Average social sector rents are taken from the UK Housing Review, using the London estimate and an average for the UK excluding London.⁵ We then uprate those rent levels in line with current policy, which is to increase social rents by CPI plus 1 per cent per year. In 2025-26, this meant that social rent increases were capped at 2.7 per cent, based on the CPI figure from September 2024.⁶

For the private rented sector, consistent UK-wide data is not available. Historically, we have used rents data for the lower quartile of properties in the private rented sector. To calculate the UK RLW, we take the best available data for each region and nation and produce a weighted average; for the London RLW, we use London private rents data. However, many data providers have stopped publishing rents data for the lower quartile of properties. Until 2023, this data for England was published by the Valuation Office Agency; since then, the private rents data published by the ONS does not include breakdowns by quartile.⁷ For Wales, the data used to be published by StatsWales, but has not been updated since 2020.⁸ For Northern Ireland, there is no available private rents data for the lower quartile, and so we calculate a rental input based on the private rents data available for the rest of the UK and FRS data for the UK including Northern Ireland. For Scotland, the data continues to be published by the Scottish Government.⁹

In the light of these challenges, our approach this year is to uprate the estimates of rents in the lower quartile from 2023 (when breakdowns at the lower quartile were available) by the overall rental growth experienced in each region over the past year, using the ONS' 'Price Index of Private Rents' (PIPR).¹⁰ The forthcoming RLW methodology review will assess alternative private rental data sources for the RLW calculation in future years.

2.1 Council Tax

Different family types are assumed to pay different rates of Council Tax, based on their family size 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,

⁵ www.ukhousingreview.org.uk/ukhr25/compendium.html, accessed 30 September 2025.

⁶ Regulator of Social Housing, *Guidance: Limit on annual rent increases 2025-26 – from April 2025*, December 2024.

⁷ ONS and Valuation Office Agency, *Private rental market summary statistics in England*, December 2023; ONS, *Private rent and house prices*, UK, September 2025.

⁸ StatsWales, *Private sector rents by local authority, 1 January to 31 December 2019, 2020*.

⁹ Scottish Government, *Private Sector Rent Statistics, Scotland, 2010 to 2024*, November 2024.

¹⁰ ONS, *Private rent and house prices*, UK, September 2025.

calculated from published English, Scottish and Welsh government statistics on Band D rates.¹¹ 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). Single adult reductions of 25 per cent are applied to all single-person households in the UK RLW calculation and to those treated as living alone in the London RLW calculation (47 per cent of singles). For London, the same assumptions apply, except that families with more than one child are assumed to live in a Band D property.

2.3 Travel costs

The travel cost assumptions for the UK RLW 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.¹² For families with children aged 11 and above, 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).

2.4 Childcare costs

Families in the calculation where all adults are assumed to work full time (37.5 hours per week, in line with the UK average over recent years) are assumed to rely on formal childcare. Such families with children aged 11 and under are assumed to use full-time childcare (42.5 hours per week), for 47 weeks of the year, taking account of hours provided through the free early-years childcare 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 during school holidays.

In the new methodology that we started phasing in for the 2023-24 RLW calculation, single parents and second earners in families with children are no longer assumed to work full time. Their assumed need for formal childcare is scaled down according to the number of hours not worked. Second earners are assumed to work 28 hours per week, and to use formal childcare for one day per week. Lone parents are assumed to work 22 hours per week, and to use formal childcare for two days per week.

¹¹ Ministry of Housing, Communities and Local Government, [Council Tax levels set by local authorities in England 2025 to 2026](#), April 2025; Scottish Government, [Council tax datasets](#), March 2025; StatsWales, [Average band D Council Tax, by billing authority](#), March 2025.

¹² Transport for London, [Adult rate prices 2025](#), 2025.

Childcare costs are calculated using the most recent data collated by Coram Family and Childcare.¹³ For the UK RLW, a weighted average for the regions and nations of the UK excluding London is calculated, weighted by the number of children. For the London RLW, we use an adjusted average taking account of the differential in costs between Inner and Outer London.

The calculation includes the Government's free childcare policies. In England, the Government provides 30 free hours of childcare for working parents of children aged nine months to four years.¹⁴ In Wales, Scotland and Northern Ireland, some free childcare is available for three- and four-year-olds, and for certain two-year-olds, with the exact schemes varying between the three nations.¹⁵ Finally, childcare costs are weighted across three years, to account for the fact that there is some volatility in the data.

2.5 Pension contributions

The RLW calculation assumes that all eligible workers are enrolled into a workplace pension and make the minimum permissible contributions under the auto-enrolment system. For employees this is a 5 per cent contribution on their qualifying earnings.¹⁶ Families' wage requirements are calculated such that their take-home pay (i.e. after their pension contributions have been made) reaches the required family income level. We do not apply the auto-enrolment annual earnings 'trigger' of £10,000, i.e. in theory in our calculation someone could make contributions if they had annual earnings below £10,000; in practice this is not material because all families in the calculation earn above this level. Along with the minimum contribution rate, the Government reviews the qualifying earnings thresholds annually. In 2025-26, qualifying earnings were those between £6,240 and £50,270 per year.

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 financial year in which the RLW rates are announced.

As was the case last year, in the RLW calculation we assume that all of the families receive UC rather than legacy benefits such as Tax Credits, since the vast majority of eligible households have now moved onto UC. Indeed, DWP plans to complete the move to UC, and close all legacy benefit claims, by March 2026.¹⁷

¹³ Coram Family and Childcare, *Childcare Survey 2025*, 2025.

¹⁴ www.gov.uk/free-childcare-if-working/check-youre-eligible, accessed 2 October 2025.

¹⁵ www.mygov.scot/childcare-costs-help/funded-early-learning-and-childcare, accessed 2 October 2025; www.gov.wales/get-30-hours-childcare-3-and-4-year-olds, accessed 2 October 2025; www.nidirect.gov.uk/articles/help-paying-approved-childcare, accessed 2 October 2025.

¹⁶ www.gov.uk/workplace-pensions/what-you-your-employer-and-the-government-pay, accessed 30 September 2025.

¹⁷ DWP, *DWP benefits statistics*, August 2025.

4. Working hours

In 2023, the Living Wage Commission decided to phase in a new set of assumptions relating to working hours. Previously, the methodology had assumed that all adults in all families worked full time – that is, 37.5 hours per week. However, analysis of actual working patterns among working households by the Resolution Foundation showed this to be an unrealistic assumption.

In the new methodology, the full-time work assumption has been relaxed for single parents and for second earners in families with children (it has been retained for main earners in families with children and for all adults in families without children). The new methodology now assumes that single parents work 22 hours per week, and second earners in families with children work 28 hours per week. These values are based on the actual typical hours worked by those adults in families where the main earner is in the bottom quarter of the earnings distribution.¹⁸

This change affects the income requirement for families with children in the calculation because the need for formal childcare is scaled down in line with the number of hours being worked. For the purposes of childcare modelling, the adults working part time are assumed to organise their working week around full working days.

This methodology change was partially introduced for the 2023-24 and 2024-25 rates, and has been fully phased in for the 2025-26 rates, meaning that all of the ‘upwards pressure’ on the RLW rates from this methodology change has now been incorporated.

5. The ‘shock absorber’

The Living Wage rate-setting methodology includes the use of a ‘shock absorber’ to “manage the impact on the rates of any extreme year-to-year variations from general rises in living costs”.¹⁹ The shock absorber is inflation plus or minus 3 per cent – that is, the rates must increase by at least the rate of inflation minus 3 per cent and at most by rate of inflation plus 3 per cent.

As standard, the ‘core’ inflation measure, Consumer Price Inflation (CPI), is used to calculate the shock absorber.²⁰ The CPI figure we use is from July 2025, when CPI stood at 3.8 per cent.²¹

¹⁸ Based on Resolution Foundation analysis of ONS, Annual Population Survey, 2018-2022. These values will be reviewed periodically.

¹⁹ Living Wage Commission, [Closing the Gap: A Living Wage that means families don't go short](#), September 2016.

²⁰ In 2024, the Living Wage Commission agreed that the Commission will consider using a different measure of inflation (such as the ONS Decile 1 Household Cost Index (D1HCI)) in years where D1HCI is 1 per cent higher or lower than headline CPI when the Commission meets. This was not the case in 2025.

²¹ ONS, [Consumer price inflation, UK: July 2025](#), August 2025.

Section 2. Contributions to changes in the real Living Wage rates for 2025-26

This section outlines what has contributed to changes in the real Living Wage (RLW) rates between 2024-25 and 2025-26.

In general, the RLW rates can be affected by changes in any of the elements of the calculation set out in the previous section, including: the prices of goods and services; the basket of goods and services that constitute the Minimum Income Standard (MIS), which the calculation is based on; the tax and benefits system (which affects the relationship between pay and income); any changes in methodology; and the use of the 'shock absorber' in years when the underlying rates are subject to significant change.

This year, the underlying rates are being pushed up by higher-than-normal inflation (albeit lower than seen during the cost of living crisis), and to a small extent also by ongoing tax and benefits policies (frozen tax thresholds and the two-child limit). But the main determinant of the RLW rate increases this year are two changes that pushed up the level of the underlying rates in previous years: namely, changes to the MIS basket incorporated in the 2024-25 calculation, and a methodology change relating to the working hours assumption which was phased in from the 2023-24 calculation. These (alongside price increases and changes in the tax and benefits system) pushed up the underlying level of the rates, and the use of the 'shock absorber' (which exists to manage volatility in the RLW rates) is constraining the annual increases and thereby determining the actual 2025-26 RLW rates.

Prices

In mid-2024, inflation returned to 'normal' (i.e. near 2 per cent) levels following the cost of living crisis, but inflation started rising again towards the end of the year, and continued rising this year. Overall annual CPI inflation currently stands at 3.8 per cent (this was the level in both July and August 2025). However, the prices for the Minimum Income Standard (which forms a large part of the basket of goods and services used in the RLW calculation) are collected in April, so April's inflation rate is the more relevant figure. This was 3.5 per cent.²²

An important driver of overall above-normal inflation is the large increases in the cost of many essentials. For example, in April, water bills were up 26 per cent on the year, and gas bills were up 12 per cent. The rising cost of essentials places particular pressure on low-income households, because essentials like water and energy bills make up a larger share of their spending than richer households.

²² ONS, [Consumer Price Inflation, UK](#), September 2025.

Another essential is housing. Rents continue to rise quickly for tenants in the private rented sector – by 5.7 per cent over the 12 months to August.²³ The more encouraging news is that the rate of increase has slowed (having reached 9 per cent in 2024), and is likely to continue slowing given rent levels for new lets have slowed considerably.²⁴ Rents are lower for tenants in social rented accommodation, and are also increasing more slowly for those tenants, because government policy is to limit increases within a financial year to CPI (based on the previous September) plus 1 per cent; in 2025-26 that meant a limit of 2.7 per cent.²⁵

Price increases this year are therefore exerting more upwards pressure on the RLW rates than in a normal year. Nevertheless, more significant impacts on the rates this year (as well as in the previous two years) have been upwards pressures from changes in the basket of goods and services within the Minimum Income Standard, and from changes in the assumption about working hours.

The Minimum Income Standard basket of goods and services

As set out in Section 1, the core part of the basket of goods and services which underpins the real Living Wage calculation comes from the Minimum Income Standard (MIS), which is based on research with the public undertaken by academics at Loughborough University.²⁶ The MIS is the income that people need to reach a minimum socially acceptable standard of living in the UK today, based on what members of the public think is needed for an acceptable minimum standard of living.²⁷

The MIS research has been undertaken since 2008, and is updated every two years, usually leading to changes in the MIS basket of goods and services. In general, the MIS basket of goods and services is expected to become more expensive over time; not just because prices rise, but also because the public raise their living standards expectations as society becomes richer. On many occasions in the past changes to the MIS basket of goods and services have been small or moderate.

The changes that came about in the 2024 MIS research were larger than has tended to be the case in the past, and as such contributed more upwards pressure to the RLW rates than has been the case in the past. This is especially the case because the Commission decided not to implement into the RLW calculation changes that were made to the MIS basket in 2022, on the basis that the research for this update was undertaken in the midst of Covid. The Commission took the view that observed changes in the public's living

²³ ONS, [Private rent and house prices, UK](#), September 2025.

²⁴ Rightmove, [Rental Price Tracker, Q2 2025](#), accessed October 2025.

²⁵ Regulator of Social Housing, [Limit on annual rent increases 2025-26](#), December 2024.

²⁶ More information on the Minimum Income Standard research can be found at: www.lboro.ac.uk/research/crsp/mis/.

²⁷ Joseph Rowntree Foundation, [A Minimum Income Standard for the UK in 2025](#), September 2025.

standards expectations might be temporary and linked to the unique circumstances of the time. The RLW rates have since then mostly been based on the 2021 MIS basket, with the cost of items in the basket uprated in line with relevant price indices. As it turns out, the research for the 2024 MIS basket confirms many of the changes in living standards expectations identified in the 2022 research, as well as making further additional changes.²⁸

Some of the more important changes include: raising the budget needed for social activities with children, because groups reported that previous budgets weren't sufficient given the prices they normally pay; increasing the budget for spending on food, on the basis that the previous methodology underestimated families' food consumption; and adding some spending for personal healthcare, on the basis that research participants said prohibitively long NHS waiting lists for physiotherapy and dentistry meant they sometimes had to pay for private treatment to bridge the gap. Overall, we estimated last year that the cost of those parts of the 2024 MIS basket of goods and services used in the RLW rates calculation (as Section 1 explains, costs for housing, childcare, transport and Council Tax are collected separately) was 19 per cent higher, compared to using the 2021 basket uprated with price changes. Naturally, this added considerable upwards pressure to the RLW rates. This upwards pressure did not feed fully into the actual RLW rates given the presence of the 'shock absorber', which limits annual increases in the RLW rates. For the 2024-25 rates, the shock absorber limited increases to 5.2 per cent; this year, the shock absorber has limited increases to 6.8 per cent.

Changes in methodology

Another source of upwards pressure comes from a change in methodology relating to assumed working hours. This change was introduced for the 2023-24 RLW calculation.

The RLW methodology had previously assumed that all adults in the calculation worked full-time (37.5 hours per week). In 2022 the Commission reviewed this assumption, by considering evidence on typical working patterns for different family types. In light of this review, which showed that full-time work was rare for second earners and single parents, it decided to relax the 'full time' assumption for single parents and second earners in families with children (the calculation continues to assume that other adults work full time). This change brought the UK methodology more into line with approaches taken in other countries.²⁹

²⁸ Joseph Rowntree Foundation, [A Minimum Income Standard for the UK in 2024](#), September 2024.

²⁹ For example, the Anker living wage methodology, which is used in many countries, bases its hourly wage requirement on the typical number of full-time equivalent workers per family. Similarly, the New Zealand living wage methodology is based on the needs of a family with one adult working full time and one adult working part time. See: Global Living Wage Coalition, [The Anker methodology for Estimating a Living Wage](#), accessed 28 September 2023; C Waldegrave et al., [Report of the Measurement Review for a New Zealand Living Wage](#), Family Centre Social Policy Research Unit, April 2023.

The specific methodology change (set out fully in Section 1) made to the calculation is that single parents are now assumed to work 22 hours per week, and second earners in families with children to work 28 hours per week. These values are based on the actual typical hours worked by those adults in families where the main earner is in the bottom quarter of the earnings distribution.

This change increases the hourly wage requirement for affected families, because it means that families have to achieve broadly the same weekly income requirement with fewer working hours. (Note that the amount of formal childcare that families need is scaled down in line with the reduction in hours worked, so the income requirement also falls slightly.) This methodology change therefore places upwards pressure on the RLW rates. As with upwards pressure from changes in the MIS basket, this methodology change has not fed directly into the actual RLW rates because of the 'shock absorber', which limits annual increases in the RLW rates (see below).

2025-26 marks the final year of the phase-in of this methodology change, in that absent the change to the Minimum Income Standard basket (described above), the 2025-26 UK RLW rate would be within the shock absorber range with the hours methodology fully incorporated.

The 'shock absorber'

The 'shock absorber' is an established part of the RLW methodology that is used to minimise volatility in the RLW rates that could otherwise happen as a result of, for example, a significant change to tax and benefit policy, or from a change in the methodology. The shock absorber limits volatility in both directions, and is set as the rate of inflation in July of the calculation year, plus or minus 3 percentage points. The rate of CPI in July 2025 was 3.8 per cent, giving a shock absorber range of 1.8 to 6.8 per cent.

The tax and benefit system

In many years, tax and benefit policy is the second most important factor affecting year-to-year changes in the RLW rates after price changes. Last year, for example, the 4-percentage-point cut to the main rate of employee National Insurance reduced the underlying UK rate by 3.5 per cent.

This year there have been no large changes to the tax and benefits system that affect the rates. The Government's main policy change was the increase in employer National Insurance contributions in April, but this does not affect the RLW calculation. The small above-inflation increase the Government plans to make to the standard Universal Credit allowance won't take effect until 2026.

However, the RLW rates continue to be affected by decisions about the tax and benefits system taken in previous years. One is the ongoing freeze of personal tax thresholds – now unchanged in cash terms since 2021-22. As pay rises in nominal terms, keeping tax thresholds frozen raises households' tax payments as more of their earnings are subject to Income Tax, and so adds positive pressure to the RLW rates. The underlying UK RLW rates in 2025-26 are 5p higher than in a world where the Income Tax thresholds had risen in line with inflation, as used to be the norm.³⁰ The previous Government's policy was that this would continue until 2028; the current Government has said it is sticking to this policy.³¹

A second is the two-child limit, which limits additional child-related payments to families' first two children only. The impact of this policy grows over time because it applies to children born after 2017 – thereby steadily affecting a larger number of children. The underlying UK RLW rate would be 5p lower if this policy had not been introduced.

Another important policy area for the RLW calculation is Housing Benefit. Currently, 'Local Housing Allowance' rates are frozen in cash terms at their 2024 level – as rents rise, this reduces the proportion of families' rent that is eligible for support. This policy does not yet affect the RLW rates because we assume private rental sector costs that remain lower than the Local Housing Allowance, but it is likely to exert upwards pressure on RLW rates next year if Government policy does not change.

³⁰ Specifically, this comparison uprates the 2025-26 tax thresholds by the rate of CPI from September 2024 (1.7 per cent) which used to be the norm.

³¹ House of Commons Library, [Fiscal drag: an explainer](#), January 2025.

The Resolution Foundation is an independent think-tank dedicated to lifting living standards in the UK. We focus particularly on households with low and middle incomes; those on low pay or in precarious work; and those vulnerable to financial shocks. We also investigate fairness between the generations in our Intergenerational Centre.

We aim to provide rigorous analytical work, develop effective policy proposals, and use our expertise to affect direct change. We analyse the trends and outlook for living standards, including for different age groups, family types, and levels of household income and wealth, and seek to promote greater understanding of these. Our research focuses both on the specific areas of the economy that matter most for people's living standards, including work and housing; and on economic growth and productivity as the route to sustainably higher living standards. We also examine the role of government in improving living standards including through taxes, social security and public services.

For more information on this report, contact:

Nye Cominetti

Principal Economist

Nye.cominetti@resolutionfoundation.org

Resolution Foundation

2 Queen Anne's Gate

London SW1H 9AA

Charity Number: 1114839

[@resfoundation](https://www.resolutionfoundation.org/publications)
[@resfoundation.bsky.social](https://www.resolutionfoundation.org/publications)
[resolutionfoundation.org/publications](https://www.resolutionfoundation.org/publications)

