



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

2026

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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 2026-27 is £14.10

The London Living Wage for 2026-27 is £15.45

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Foreword

The Living Wage Commission was established in 2016. It is drawn from leading Living Wage accredited employers, trade unions, civil society and independent experts. It recommends the rates for the real Living Wage for London and the rest of the UK each year.

When the Commission was first set up, it devised a robust new methodology for calculating the real Living Wage rates that was successfully used for ten years. However, the economic context of its decision making changed significantly during that decade, particularly with the significant spike in inflation that followed the Covid-19 pandemic and Russia's invasion of Ukraine. The era of stable low inflation came to an end: there were sharp increases in the cost of living, and in the Minimum Income Standard (MIS) which underpins the methodology used to calculate the real Living Wage rates. To ensure that the real Living Wage rates did not rise (or fall) dramatically in each of the last three years, the Commission used a 'shock absorber' of CPI +/- 3 per cent. In practice, this meant uprating the rates each year by CPI plus 3 per cent. As a consequence, there was a divergence between what the methodology produced for the hourly wage rates and the actual rates themselves.

It was therefore decided to review the methodology, to ensure that it would be fit for purpose for the next ten years. The Living Wage campaign now affects half a million pay rises directly through nearly 17,000 accredited Living Wage employers, and leads to millions more via employers who match the rates but are not accredited. Discretionary judgements have a large impact.

At the same time as the Commission began its review of the methodology used for calculating the rates, the Living Wage Foundation ensured that the purposes and principles for the Commission's work were revisited and renewed. We were asked to ensure that:

- The rates should reflect changes in the cost of living, particularly for lower earners - taking into account what everyday people say they need, as well as objective data on the prices of goods and services, and any changes in UK government taxes and benefits.
- The rates should be sustainable in the labour market – that is, capable of adoption by employers and attainable by the Living Wage Campaign for as many employees as possible. Year-to-year volatility should be minimised.

- The rates should be set on the basis of robust, high-quality data, using a transparent, clear and credible methodology, and should be readily distinguishable as a form of civil regulation from legal minimum wages.

It was recognised that, sometimes, these principles will be in tension with each other. In these circumstances, we were asked to ensure that Commissioners' decision making takes into account the overall balance of these principles and refer back to the overall purpose of the Living Wage campaign, which is to tackle in-work poverty by campaigning for employers to pay a wage based on the cost of living.

Supported by the Resolution Foundation, the Commission undertook a comprehensive review of the methodology for calculating the real Living Wage rates. It has adopted a new methodology which blends data on in-work poverty from official statistics with the cost of living from the MIS. This 'blended' approach keeps the link to social consensus on what defines a minimum acceptable standard of living, through the MIS, while adding a poverty threshold element drawn from official income data. It is intended to produce rates which meet the remit set for the Commission by the Living Wage Foundation, and to obviate, as far as possible, the need for a shock absorber.

The rest of this paper from the Resolution Foundation sets out in detail how the new methodology has been used to calculate the real Living Wage rates for 2026-27. These are:

- UK: £14.10 (+4.8 per cent)
- London: £15.45 (+4.4 per cent)

It is worth setting out the economic context in which these rates will be implemented. The rates should ensure a small real-terms wage increase for most workers, as the Bank of England projects inflation to rise to around 3.7 per cent in 2026 Q4 and 4.2 per cent in 2027 Q1. Rising energy costs are driving much of this increase in prices, and we can expect further increases in the energy price cap in January.

Annual growth in average weekly earnings was 3.5 per cent in the three months to July 2026, excluding bonuses. For comparison, the National Living Wage (currently £12.71) increased by 4.1 per cent this year. In April 2026, the LPC's central estimate for a 2027 NLW increase was 3.7 per cent, but it noted an update to its remit to take into account "the condition of the labour market, the cost of living, the impact on businesses and competitiveness, and wider macroeconomic conditions". The size of next year's National Living Wage uprating therefore remains uncertain.

The Living Wage Commission is committed to transparency in how the new methodology has been devised and operationalised. This publication sets out the details of the methodology and its use to calculate the real Living Wage rates. We are very grateful to colleagues at the Resolution Foundation for the rigour and professionalism of their work.

Professor Nick Pearce,

Institute for Policy Research, University of Bath

Chair of the Living Wage Commission

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 2026-27, which apply from 15 October 2026, are:

1. UK: £14.10.
2. London: £15.45.

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 2026-27 (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 an hourly wage rate that tackles in-work poverty and reflects changes in the cost of living, setting an hourly wage rate that meets an acceptable standard of living. Between those start and end points – a net income level that reflects an acceptable standard of living, 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.
- *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 but use 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 it should target. This year, the RLW methodology has moved to a 'blended' approach: the RLW is now the average of two separate calculations, each using a different data source to define an acceptable standard of living.

In one part of the blended approach, the targeted standard of living is based on research by academics at Loughborough University, which derives 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, calculating separately for London, and for an average across the UK. The 'core' parts of the basket – including things like food, clothing, water and energy bills, and social spending – are taken from the MIS data, but some costs are collected separately by Resolution Foundation, based on official data sources. These are: housing (where we assume that families rent cheaply in the private sector, or are in social rented accommodation), childcare, council tax, and transport.

In the other part of the blended approach, the targeted standard of living is based on family-specific relative poverty thresholds. These are calculated by projecting what the median household disposable income will be in 2026-27 and then calculating the relative poverty thresholds – at 60 per cent of median income – for the 17 different LW family types.

Contributions to changes in the real Living Wage rates for 2026-27

The RLW rates are affected by changes in any of the elements of the calculation, including changes in prices, changes in the tax and benefits system and changes in methodology.

For 2026-27, the most important changes are as follows:

- *Methodology changes.* This year's RLW rates are the first to be calculated under the new methodology (the 'blended' approach). This change in methodology means we cannot cleanly explain the increase in terms of contributions from different parts of the calculation. But, because the new 'blended' methodology uses both MIS data and poverty threshold data, while the old methodology just used MIS data, the upward pressure from MIS that has been pushing up the RLW rates since 2024 has less of an impact on this year's RLW rates than it would have done under the old methodology.

- *Prices.* In April 2026, when this year's price data was collected, headline inflation was 2.8 per cent, above the 2 per cent inflation target (although down from 3.5 per cent a year earlier). Some essentials were rising even more quickly. For example, water bills were up by 7 per cent on the year, and Council Tax bills in England were an average of 4.9 per cent higher.
- *Taxes and benefits.* Two changes to the tax and benefits system in April 2026 put downward pressure on the rates: the Universal Credit standard allowance rose by 6.2 per cent and the two-child limit was abolished. But there is ongoing upward pressure on the underlying RLW rates from the freeze in Income Tax thresholds (unchanged since 2021-22, and set to remain at those levels until April 2031) and from Local Housing Allowance rates, which remain frozen at their April 2024 level.

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 changes to the methodology introduced this year.

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. Between 2016 and 2025, the core elements of the methodology remained the same, but there were some changes beneath the surface. These changes are summarised in Box 1.

BOX 1: Changes to the real Living Wage methodology between 2016 and 2025

In 2016, the Resolution Foundation undertook a review of the real Living Wage (RLW) methodology.¹ Between 2016 and 2025, the core elements of the methodology did not change, but there were some minor developments.

Some of these were made in response to policy changes:

- Universal Credit (UC) has replaced tax credits in 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, and the calculation has been entirely based on the UC system since 2024. The change from tax credits to UC placed downward 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 always apply) and added a new assumption that workers would be making minimum workplace pension contributions. These push up 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.

rates, because they assume families need to spend more to achieve an acceptable standard of living.

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

pressure on the rates, because they assume some families have fewer hours of paid work. This methodology change was partially introduced for the 2023-24 and 2024-25 rates, and was fully phased in for the 2025-26 rates, meaning that all of the 'upward pressure' on the RLW rates from this methodology change has now been incorporated.

In 2026, ten years since the Living Wage Commission was established, it decided to review the Living Wage methodology more comprehensively to ensure that it is fit for purpose for the next ten years. Following this review, the Commission adopted a new methodology that changes how the standard of living targeted by the RLW rates is defined and calculated. More information about the methodology review is included in the Foreword to this report. We describe the newly adopted methodology in detail below.

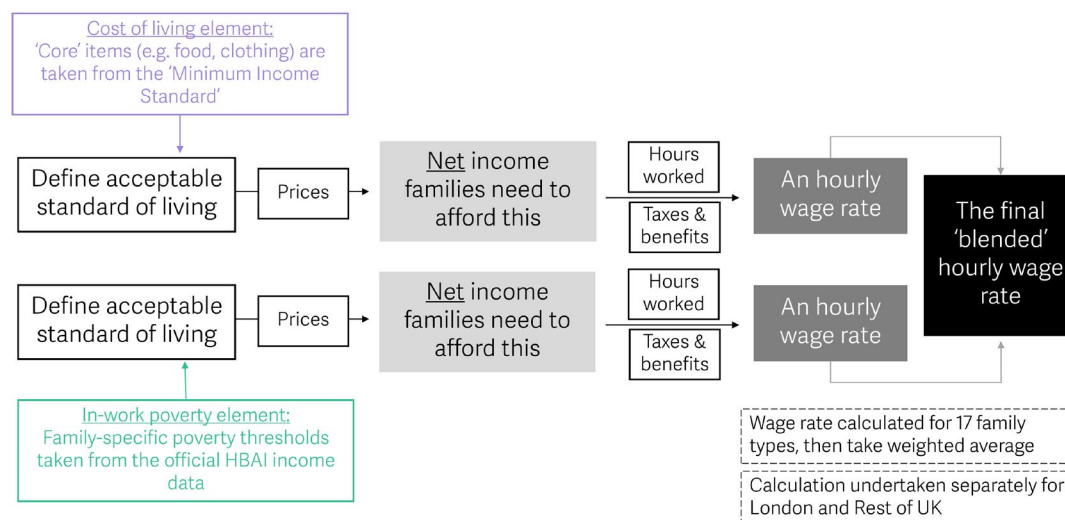
Outline of the Living Wage methodology used to calculate the 2026-27 rates

The Living Wage calculation calculates an hourly wage rate that targets an acceptable standard of living. Under the new 'blended' methodology, this calculation is undertaken twice, with two different data sources used to define that acceptable standard of living, and with the final RLW rate being a 'blend' of the two approaches. The first approach uses income data related to the cost of living, and the second uses income data related to the poverty threshold.

For each of these approaches, and for 17 different family types (those with and without children, and those aged 25 and over as well as those under 25), calculations are made to determine what hourly wage rates would be needed for them to earn enough to meet the desired income level, after the operation of the tax and benefit system. These calculations are undertaken separately for families living in London and in the rest of the UK, reflecting regional variation in prices. 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 (these weights also reflect the differences in the population in London compared to the rest of the UK). The final RLW rates for London and the rest of the UK are the average of the RLW rates calculated under each of the two elements of the 'blended' approach. This calculation process is summarised in Figure 1.

FIGURE 1: The real Living Wage is calculated to target a desired standard of living

Summary of the real Living Wage calculation process



In the remainder of this section, we go into more detail about each aspect of the calculation process.

A. The cost of living element of the calculation

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 the RLW calculation in order to reflect the diversity of families across the UK, with each household type having a different basket that reflects their specific requirements.

Under the new methodology introduced this year, we use a different 'core' basket of goods and services for the London RLW and UK RLW calculations, to reflect the fact that many everyday costs are different in London than the rest of the UK. For the London RLW calculation, we use a London-specific version of the MIS research.³

² The basket of goods and services for each family type and its costs can be found at: www.minimumincome.org.uk, accessed 5 October 2026. For more detail about these baskets of goods and services, see: C Blackwell et al., *A Minimum Income Standard for the United Kingdom in 2026*, Joseph Rowntree Foundation, September 2026.

³ For more information about the London-specific MIS data, see: trustforlondon.org.uk/what-we-do/living-standards/the-minimum-income-standard-london/, accessed 5 October 2026.

2. Costs that vary significantly across the UK

There are four cost areas where we do not use MIS data as the input into the RLW calculation, and these are all areas where there are significant differences between London and the rest of the UK. These are: housing, childcare, council tax and transport costs.⁴ Data relating to these costs is gathered separately and weighted to provide inputs for London and the Rest of UK. 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, 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-

⁴ 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.

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.⁵

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 for England, Scotland and Northern Ireland, and from StatsWales for Wales.⁶ We use the London estimate and an average for the UK excluding London and 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 2026-27, this meant that social rent increases were capped at 4.8 per cent, based on the CPI figure from September 2025.⁷

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 across the UK 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 (VOA); since then, the private rents data published by the ONS does not include breakdowns by quartile.⁸ We successfully submitted a Freedom of Information request for the VOA's breakdown of lower quartile private rents by English region for the year ending September 2025, and this is used in the RLW calculation (see Annex 2). For Wales, the data used to be published by StatsWales, but has not been updated since 2020.⁹ 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, up to the year ending September 2025.¹⁰

⁵ 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.

⁶ www.ukhousingreview.org.uk/ukhr26/compendium.html, accessed 28 September 2026; StatsWales, *Average weekly rents for social housing*, accessed 28 September 2026.

⁷ Regulator of Social Housing, *Guidance: Limit on annual rent increases 2026-27 – from April 2026*, February 2026.

⁸ ONS and Valuation Office Agency, *Private rental market summary statistics in England*, December 2023; ONS, *Private rent and house prices*, UK, September 2025.

⁹ StatsWales, *Private sector rents by local authority, 1 January to 31 December 2019, 2020*.

¹⁰ Scottish Government, *Private Sector Rent Statistics, Scotland, 2010 to 2025*, November 2025.

In the light of these challenges, our approach this year is to uprate the latest available estimates of rents in the lower quartile for each region by the overall rental growth experienced in each region to April 2026 using the ONS' 'Price Index of Private Rents' (PIPR).¹¹

2.2 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, calculated from published English, Scottish and Welsh government statistics on Band D rates.¹² 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.¹³ 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-

¹¹ ONS, [Private rent and house prices](#), UK, May 2026.

¹² Ministry of Housing, Communities and Local Government, [Council Tax levels set by local authorities in England 2026 to 2027](#), April 2025; Scottish Government, [Council tax datasets](#), March 2026; Welsh Government, [Council Tax levels, 2026 to 2027](#), March 2026.

¹³ Transport for London, [Adult rate prices 2026](#), 2026.

school clubs for children of primary school age during term time and childminder provision during school holidays.

In a change to the 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.

Childcare costs are calculated using the most recent data collated by Coram Family and Childcare.¹⁴ 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.¹⁵ 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.¹⁶ Finally, childcare costs are weighted across three years, to account for the fact that there is some volatility in the data.

B. The in-work poverty element of the calculation

3. The in-work poverty data

For the in-work poverty element of the calculation, we use official income data from the DWP's Households Below Average Income (HBAI) dataset.¹⁷ We take the median income from the HBAI data, net of taxes and benefits, and after housing costs. We then uprate this data from 2024-25 (the most recent data) to 2026-27 using the Resolution Foundation's projection for living standards growth over these two years.¹⁸

We then calculate family-specific median income figures for each of the different Living Wage families, by converting the overall median income figure using equivalization tables.¹⁹ Finally, the family-specific poverty thresholds are set by calculating 60 per cent of the family-specific median income figures.

¹⁴ Coram Family and Childcare, *Childcare Survey 2026*, 2026.

¹⁵ www.gov.uk/free-childcare-if-working/check-youre-eligible, accessed 28 September 2026.

¹⁶ www.mygov.scot/childcare-costs-help/funded-early-learning-and-childcare, accessed 28 September 2026; 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.

¹⁷ DWP, *Households below average income: for financial years ending 1995 to 2025*, March 2026.

¹⁸ See, for example: A Clegg, L Murphy & J Smith, *Living Standards Outlook 2026*, Resolution Foundation, February 2026.

¹⁹ See, for example: ONS, *Chapter 3: Equivalised income*, December 2015.

From here on, the methodology is the same for each of the two elements of the ‘blended’ methodology.

C. Other aspects of the methodology that apply to both parts of the ‘blended’ calculation

4. Tax and benefit system and pension contributions

The taxes paid, and benefits received, by each family type are calculated using the Resolution Foundation model of the tax and benefits system. 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.

We assume that all of the families receive UC (rather than legacy benefits such as tax credits), since virtually all legacy benefit claims have been closed since March 2026.²⁰

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.²¹ Along with the minimum contribution rate, the Government reviews the qualifying earnings thresholds annually. In 2026-27, qualifying earnings were those between £6,240 and £50,270 per year. 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.

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”.²² 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. The CPI figure we use is from July 2026, when CPI stood at 2.9 per cent, giving a shock absorber range of -0.1 to 5.9 per cent.²³ Since this year’s increases to the RLW rates fell within the range, the shock absorber was not binding.

²⁰ DWP, [DWP benefits statistics](#), September 2026; DWP, [Completing the move to Universal Credit: Statistics related to the move of households claiming Tax Credits and DWP Benefits to Universal Credit: data to end of March 2026](#), May 2026.

²¹ www.gov.uk/workplace-pensions/what-you-your-employer-and-the-government-pay, accessed 28 September 2026.

²² Living Wage Commission, [Closing the Gap: A Living Wage that means families don’t go short](#), September 2016.

²³ ONS, [Consumer price inflation, UK: July 2026](#), August 2026.

Section 2. Contributions to changes in the real Living Wage rates for 2026-27

This section explains the important factors that sit behind the changes in the real Living Wage (RLW) rates between 2025-26 and 2026-27.

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: changes to the methodology; prices of goods and services; the targeted income level that the calculation is based on; the tax and benefits system; and the use of the 'shock absorber' in years when the underlying rates are subject to significant change.

Following the review that was summarised in the Foreword, the RLW methodology has changed in a fundamental way this year. The outcome of the review was to adopt a 'blended' approach: the RLW is now the average of two separate calculations, each using a different data source to define that target standard of living. This is the most important change which has affected the changes in the RLW rates between last year and this year.

But this methodology change is not the only change that matters: the RLW rates are being pushed up by higher-than-normal inflation (albeit lower than that seen during the cost of living crisis), and to a small extent also by ongoing tax and benefits policies (such as frozen tax thresholds and frozen Local Housing Allowance rates). Water bill and rental inflation, while lower than in previous years, are still rising above general inflation, and the average Council Tax bill for a Band D property in England has risen by 4.9 per cent. On the other hand, several policy changes have exerted downward pressure on the RLW rates, including higher-than-normal Universal Credit uprating and the scrapping of the two-child limit within Universal Credit.

The overall result is that no single one of these changes disproportionately contributed to the change in RLW rates this year, and indeed this year's increase in the RLW is lower than in the previous four years. As a result, the 'shock absorber' (which exists to manage volatility in the RLW rates) did not act as a constraint on the 2026-27 RLW rates.

Changes in methodology

The most important change affecting the RLW rate this year is the move to the new methodology.

As outlined in the previous section, we now use a 'blended' methodology, where the final RLW rates are an average of the rates that would be reached under two different approaches: one using cost of living data, and a second using in-work poverty data. In

Annex 1, we publish the underlying RLW rates calculated under each part of the ‘blended’ calculation.

An important outcome of moving to this new methodology is that the MIS data now has less of an impact on the RLW rates than under the old methodology. This is because the MIS data only feeds into the cost of living part of the calculation, and has no impact on the in-work poverty part. Since the MIS data has been having significant upward pressure on the RLW rates in recent years, this means that moving to the new methodology has downward pressure on the RLW rates (relative to what they would be this year if calculated under the old methodology).²⁴ Indeed, as set out in Annex 1, the RLW rates would have been constrained by the shock absorber if the old methodology had been used this year.

Prices

Inflation remains above its 2 per cent target. 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 2026, so April’s inflation rate is the relevant figure when understanding this year’s RLW increases. In April 2026, CPI inflation stood at 2.8 per cent.²⁵ Since then, inflation has increased further, with CPI inflation reaching 3.1 per cent in August.

An important driver of the overall above-normal inflation seen this year is the large increases in the cost of many essentials. Water bills, for example, were up 7 per cent on the year in April. Energy, another crucial item, has seen a high level of volatility this year. The previous government’s decision to remove certain policy costs from household energy bills meant that the inflation rate for electricity, gas and other fuels was actually a fall of 6 per cent in April 2026, when the MIS data is collected.²⁶ But for transport fuels specifically (including petrol and diesel), inflation reached 23 per cent in April and remained at the same level in August.

Rental inflation also remains higher than general inflation. Rents rose quickly for tenants in the private rented sector in the second half of 2025, but the rate of increase fell from 5.9 per cent in August 2025 to 3.5 per cent in January, and rental inflation remained broadly flat for the first half of this year. Discouragingly, it has once again started to rise, reaching 3.8 per cent in the 12 months to August.²⁷ Rental growth for new lets is

²⁴ For a discussion of the upward pressure that the MIS data has been having on the RLW rates in recent years, see for example: N Cominetti & L Murphy, [Calculating the Real Living Wage for London and the rest of the UK: 2025](#), Resolution Foundation, October 2025.

²⁵ ONS, [Consumer Price Inflation, UK](#), August 2026.

²⁶ However, it should be noted that the fall in bills has been entirely reversed due to the impact of the US-Iran War, and the most recent energy inflation rate was 6 per cent in August 2026.

²⁷ ONS, [Private rent and house prices, UK](#), September 2026.

also rising, with advertised rent levels reaching record levels in the second quarter of 2026, and rental supply falling for the first time since 2022.²⁸ Rent levels remain lower for tenants in social rented accommodation, but these rents are also rising quickly. Government policy limits increases within a financial year to CPI (based on the previous September) plus 1 per cent; in 2026-27 that meant a limit of 4.8 per cent on social rent increases.²⁹

The Minimum Income Standard basket of goods and services

The MIS data is the main data source that feeds into the cost of living part of the 'blended' methodology.

As we have set out in previous reports, the changes that came about in the 2024 MIS research were large, and contributed to significant upward pressure to the RLW rates.³⁰ This is a key reason why the shock absorber has constrained the RLW rates in recent years.

By moving to the new 'blended' methodology, this is now less true: the MIS data only feeds through to one half of the blended approach, meaning the upward pressure is balanced out by the in-work poverty data used in the other half of the blended approach.

As it happens, there was no notable increase to the underlying MIS data between 2025 and 2026. In fact, the changes to the MIS data we use in the RLW calculation between 2025 and 2026 almost entirely reflect cost increases for fixed baskets rather than changes to the goods and services that the public considers to be necessary for an acceptable standard of living.

The tax and benefit system

Tax and benefit policy is the other important factor affecting year-to-year changes in the RLW rates.

This year there were several changes to the benefits system that affect the rates. The Government raised the standard Universal Credit allowance by 6.2 per cent from April 2026, the first of several planned above-inflation increases over the course of this Parliament. There was also the abolition of the two-child limit, which, for those with a third or subsequent child born after 2017, previously limited additional child-related payments to families' first two children only. Both of these changes exert downward pressure on RLW rates.

²⁸ Rightmove, [Rental Price Tracker](#), Q2 2026, accessed September 2026.

²⁹ Regulator of Social Housing, [Limit on annual rent increases 2026-27](#), February 2026.

³⁰ N Cominetti & L Murphy, [Calculating the Real Living Wage for London and the rest of the UK: 2024](#), Resolution Foundation, October 2024; N Cominetti & L Murphy, [Calculating the Real Living Wage for London and the rest of the UK: 2025](#), Resolution Foundation, October 2025.

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. These threshold freezes are set to continue until April 2031.³¹

Another important policy area for the RLW calculation is housing support for low-income renters. Currently, 'Local Housing Allowance' (LHA) 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 via the benefits system.³² This policy now affects almost all families in the private rented sector, in every region and bedroom size, and thus exerts upward pressure on RLW rates.

The 'shock absorber'

The 'shock absorber' is 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 2026 was 2.9 per cent, giving a shock absorber range of -0.1 to 5.9 per cent. Because this year's RLW increases fell within this range, the shock absorber did not take effect this year.

³¹ House of Commons Library, [Income tax: freezing the personal allowance and the higher rate threshold](#), February 2026.

³² For more information on the impact of the LHA freeze, see: H Aldridge et al., [Saving private renters: Why the Government should unfreeze Local Housing Allowance](#), Resolution Foundation, September 2026.

Annex 1: Calculating the real Living Wage using the new methodology

The final 2026-27 rates under the 'blended' methodology are:

- UK: £14.10 (+4.8%)
- London: £15.45 (+4.4%)

These 'blended' rates are an average of two components: (a) the MIS-based calculation and (b) the poverty-threshold calculation. These component rates are listed below.

a. The component rates using the MIS-based calculation only are:

- UK: £18.30
- London: £20.90

b. The component rates using the poverty threshold calculation only are:

- UK: £9.90
- London: £10.00

The final 2026-27 rates under the 'blended' methodology are shown below for each of the 17 family types used in the calculation.

	Rest of the UK		London	
	Hourly wage requirement	Weights	Hourly wage requirement	Weights
Single adult	£13.30	31%	£14.45	41%
Couple with no children	£9.85	34%	£12.25	27%
Single parent with one child (age 3-4)	£24.35	1%	£21.75	1%
Single parent with one child (age 5-11)	£28.10	4%	£25.85	4%
Single parent with two children (age under 3 and 3-4)	£24.45	0%	£22.50	0%
Single parent with two children (age 3-4 and 5-11)	£28.80	1%	£26.80	1%
Single parent with two children (age 5-11 and 12-16)	£35.25	2%	£35.40	2%
Single parent with three children (age 3-4, 5-11 and 12-16)	£34.65	1%	£35.40	1%
Couple with one child (age 3-4)	£12.40	4%	£13.05	4%
Couple with one child (age 5-11)	£13.40	7%	£14.40	6%
Couple with two children (age under 3 and 3-4)	£13.40	2%	£13.65	1%
Couple with two children (age 3-4 and 5-11)	£14.55	3%	£14.85	2%
Couple with two children (age 5-11 and 12-16)	£17.35	7%	£18.85	6%
Couple with three children (age under 3, 3-4 and 5-11)	£14.00	0%	£13.65	1%
Couple with three children (age 3-4, 5-11 & 12-16)	£18.60	1%	£19.05	1%
Couple with three children (age 5-11, 12-16 and 12-16)	£20.70	2%	£21.70	2%
Couple with four children (age under 3, 3-4, 5-11 and 12-16)	£19.70	1%	£19.50	1%

Annex 2: private rental market summary statistics in England

This annex sets out rental price statistics by English region and bedroom category for the 12 months to the end of September 2025. This data was obtained from the Valuation Office Agency via a Freedom of Information request, and is used in the RLW calculation.³³

English Region	Room				
	lower quartile (25th percentile)	Mean	Median	upper quartile (75th percentile)	Count of monthly rents
East	£550.00	£633.29	£625.00	£710.00	2,317
East Midlands	£450.00	£529.72	£520.00	£595.00	2,758
London	£775.00	£909.68	£875.00	£1,000.00	1,432
North East	£429.25	£561.22	£497.68	£580.00	490
North West	£434.52	£519.97	£500.00	£586.61	2,818
South East	£550.00	£641.96	£625.00	£725.00	3,347
South West	£521.43	£617.28	£600.00	£700.00	2,913
West Midlands	£450.00	£522.54	£520.00	£595.00	1,156
Yorkshire	£420.00	£487.07	£477.93	£543.15	3,144

³³ Source: HMRC, FOI2026/56204, 24 June 2026.

English Region	Studio				
	lower quartile (25th percentile)	Mean	Median	upper quartile (75th percentile)	Count of monthly rents
East	£645.00	£779.03	£750.00	£900.00	1,448
East Midlands	£525.00	£627.96	£620.00	£750.00	748
London	£1,070.00	£1,346.15	£1,300.00	£1,550.00	2,065
North East	£456.25	£591.57	£550.00	£725.00	166
North West	£450.00	£600.43	£595.00	£727.50	743
South East	£700.00	£832.60	£800.00	£925.00	2,157
South West	£575.00	£711.33	£695.00	£800.00	1,457
West Midlands	£500.00	£618.01	£600.00	£700.00	716
Yorkshire	£450.00	£564.87	£575.00	£650.00	744

English Region	One bed				
	lower quartile (25th percentile)	Mean	Median	upper quartile (75th percentile)	Count of monthly rents
East	£750.00	£930.18	£900.00	£1,100.00	14,632
East Midlands	£575.00	£684.17	£675.00	£775.00	7,157
London	£1,340.00	£1,663.48	£1,550.00	£1,850.00	15,035
North East	£464.26	£598.94	£550.00	£695.00	1,583
North West	£540.00	£726.07	£675.00	£875.00	9,513
South East	£830.00	£988.30	£950.00	£1,125.00	20,499
South West	£650.00	£829.04	£795.00	£950.00	12,428
West Midlands	£600.00	£743.44	£725.00	£850.00	8,749
Yorkshire	£500.00	£638.99	£625.00	£750.00	8,400

English Region	Two bed				
	lower quartile (25th percentile)	Mean	Median	upper quartile (75th percentile)	Count of monthly rents
East	£900.00	£1,137.18	£1,100.00	£1,350.00	29,021
East Midlands	£695.00	£814.11	£800.00	£900.00	22,130
London	£1,600.00	£2,055.50	£1,850.00	£2,270.00	21,479
North East	£525.00	£669.37	£625.00	£750.00	8,683
North West	£650.00	£847.99	£795.00	£975.00	30,457
South East	£1,025.00	£1,243.87	£1,212.00	£1,400.00	36,805
South West	£825.00	£1,029.70	£950.00	£1,200.00	24,697
West Midlands	£725.00	£874.15	£850.00	£995.00	19,290
Yorkshire	£595.00	£741.69	£700.00	£850.00	23,065

English Region	Three bed				
	lower quartile (25th percentile)	Mean	Median	upper quartile (75th percentile)	Count of monthly rents
East	£1,025.00	£1,326.77	£1,300.00	£1,550.00	19,526
East Midlands	£795.00	£953.03	£925.00	£1,100.00	17,522
London	£1,900.00	£2,588.82	£2,250.00	£2,800.00	9,189
North East	£600.00	£776.14	£701.00	£875.00	5,574
North West	£750.00	£979.17	£900.00	£1,150.00	18,481
South East	£1,250.00	£1,496.96	£1,450.00	£1,695.00	21,732
South West	£990.00	£1,262.47	£1,200.00	£1,450.00	15,776
West Midlands	£850.00	£1,038.96	£1,000.00	£1,200.00	14,344
Yorkshire	£640.00	£820.22	£775.00	£950.00	16,043

English Region	Four+ bed				
	lower quartile (25th percentile)	Mean	Median	upper quartile (75th percentile)	Count of monthly rents
East	£1,450.00	£1,904.27	£1,750.00	£2,200.00	5,955
East Midlands	£1,100.00	£1,396.20	£1,350.00	£1,600.00	3,750
London	£2,500.00	£3,673.95	£3,100.00	£4,100.00	3,272
North East	£875.00	£1,386.69	£1,200.00	£1,575.00	1,211
North West	£1,000.00	£1,474.72	£1,350.00	£1,750.00	3,745
South East	£1,650.00	£2,263.97	£2,000.00	£2,625.00	7,552
South West	£1,400.00	£2,090.61	£1,800.00	£2,500.00	5,885
West Midlands	£1,200.00	£1,546.87	£1,450.00	£1,750.00	2,859
Yorkshire	£900.00	£1,366.73	£1,200.00	£1,600.00	3,188

English Region	All				
	lower quartile (25th percentile)	Mean	Median	upper quartile (75th percentile)	Count of monthly rents
East	£875.00	£1,185.95	£1,100.00	£1,400.00	72,899
East Midlands	£675.00	£865.22	£825.00	£975.00	54,065
London	£1,500.00	£2,078.30	£1,825.00	£2,325.00	52,472
North East	£550.00	£742.02	£650.00	£835.00	17,707
North West	£650.00	£886.06	£800.00	£1,050.00	65,757
South East	£950.00	£1,298.85	£1,200.00	£1,500.00	92,092
South West	£790.00	£1,120.85	£995.00	£1,300.00	63,156
West Midlands	£700.00	£928.35	£875.00	£1,095.00	47,114
Yorkshire	£575.00	£768.40	£700.00	£875.00	54,584

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.

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