Resolution Foundation

BRIEFING

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

2022

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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 2022-23 is £10.90.

The London Living Wage for 2022-23 is £11.95.

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Foreword from the Chair of the Living Wage Commission

This is the seventh year that the Living Wage Commission (LWC) has overseen the wage rates for the UK and London.

This year's rates are being announced in the middle of the worst cost of living crisis in a generation. Near double-digit inflation is the highest it has been since the early 1980s and wages – currently rising at around 5 per cent - aren't keeping pace. At the same time the government is undertaking intervention on an unprecedented scale to limit the energy price increases that households face. Against this volatile backdrop the stability offered by the real Living Wage is more important than ever.

This context also makes it a challenging year to set the real Living Wage rates. There is a huge amount of flux: both prices and policy are shifting from month to month.

This report, from the Resolution Foundation, sets out the Living Wage rates for 2022-23, and the details underpinning the calculation. The new hourly wage rates are **£10.90** across the UK and **£11.95** in London.

The basic intuition behind the Living Wage is a simple one: to determine the wage rate necessary to ensure that households earn enough to reach a minimum acceptable living standard as defined by the public. Translating this intuitive idea into practice, however, requires a wide range of data, assumptions and judgements to be brought together on issues ranging from the appropriate measurement of various household costs, to the nature of government support available to different families.

The Resolution Foundation undertakes this task according to a well-established approach, and its work is overseen by the independent Living Wage Commission. The Commission's role is an important one. The calculation of the Living Wage is rooted in a clear methodology, but changes in the economic and policy context mean there are inevitably judgements to be made each year. The fast-changing context this year has thrown up more questions than usual. I would like to thank my fellow Commissioners for the conscientious and collegiate manner in which they have worked through all the issues.

This report sets out the issues impacting on this year's rates – here I will briefly mention two key ones: rising prices and increases in government support.

The biggest driver of changes in the rates this year is, of course, high inflation, caused in large part by surging energy costs following the invasion of Ukraine. Even though the energy prices used in the Living Wage calculation reflect the government's new energy cap they are still dramatically higher than those in last year's calculation (more than 2.5 times higher). That said, if the government hadn't introduced its new cap policy the upward pressure on the Living Wage rates would have been significantly greater.

Rising prices have, not surprisingly, generated by some way the largest ever increase in Living Wage rates both in percentage and cash terms. The new rates are now worth almost £3,000 more per year across the UK than the minimum wage for a full-time worker, and almost £5,000 more in London. The increases of 10.1 per cent in the UK and 8.1% in London compare to CPI inflation of 9 per cent in April 2022 (the point at which the prices in the Minimum Income Standard basket were collected), 9.9 per cent today, and Resolution Foundation projections of 8 per cent next May (by which point the new rates must be paid by accredited employers), with inflation then expected to fall steadily through 2023.

In keeping with the pattern last year, and contrary to the trends in the immediate pre-pandemic period, there has been more upward pressure from prices in the UK rate than in London. For instance, rents and childcare costs have risen faster outside London.

The other critical factor shaping this year's rates has been major changes in the benefits system, including support to help with surging energy costs. The overall effect of these benefit changes has been to give significantly more support to low-and-moderate income households, particularly working households (i.e. the Living Wage population group). Even before the energy price crisis hit, changes to the 'taper rate' and 'working allowances' within Universal Credit both increased cash support, creating downward pressure on the Living Wage rates. More recently, the Government has committed to cash support for households to help with energy costs – £400 for all households, and an additional flat-rate £650 for all households on means-tested benefits.

Taken together these payments play a big role in offsetting some of the upward price pressure on the rates (which would otherwise have been much larger). Again, changes in Universal Credit and the new support for energy bills play out differently in London compared to the rest of the UK. In London, a significantly higher share of households in our calculation are eligible for means-tested benefits (by virtue of their high costs) compared to the rest of the UK, where costs (such as for housing) are typically lower. This is a second reason why the underlying increase in the London rate was lower than the UK rate this year.

Looking ahead to next year there remains a huge amount of uncertainty. In no small part this concerns the future path of inflation and global energy prices. But it is also about what happens to some key costs which appear to be picking up after having been relatively flat – such as London rents. And there are some major unresolved policy questions: will benefits be uprated in line with inflation, and will current cash support for energy bills be continued after April 2023? A lot hinges on these choices.

What we can say with certainty is that this will be an extremely challenging year for workers as well as for many employers who back the Living Wage. The Living Wage campaign approaches the year ahead from a position of strength. It has grown rapidly from a small, insurgent movement into a building block of the UK's civic, social and economic infrastructure. Almost 400,000 workers benefit directly from the real Living Wage and over 11,000 employers are formally accredited, while many others informally shadow the rates. Year by year it is bending social norms towards fairer pay.

As workers and employers seek to adjust to the continuing challenges posed by this energy price surge, together with the aftershocks from the pandemic, it is vital that we have clear yardsticks that help society navigate towards a more equitable and resilient economy. One of these is the real Living Wage, which now stands at over 70% of the typical UK wage.

The Resolution Foundation, together with the Living Wage Commission, will ensure it remains a robust and credible benchmark available to workers, employers, civil society and public authorities.

Gavin Kelly
Chair, Living Wage Commission

Introduction

This paper sets out the method for determining the independently-calculated Living Wage rates in London and the rest of the UK, and the respective rates that will apply from September 2022. These rates provide a benchmark for employers that voluntarily commit to go further than paying government-set minimum wages, ensuring their staff earn a wage that they can live on. We detail the sources underpinning the calculations which are based on the best available evidence about living standards and costs, and how these and other inputs to the calculation have changed since last year.

We (Resolution Foundation) have been involved in calculating the real Living Wage (LW) since 2016, when we undertook a review of the LW methodology overseen by the Living Wage Commission (from here on 'the Commission') on behalf of the Living Wage Foundation.[1] Under the guidance of the Commission, the main elements of the methodology set out in that review have been consistent: the basket of goods determined by the Minimum Income Standard focus groups, the pricing of those inputs, and the process of deriving wage requirements based on those costs. Some adjustments have been made to reflect changes to policy, the main one being accounting for the roll out of Universal Credit (UC) which is reflected in the assumptions relating to the tax and benefit system. On top of this, in 2020 the Commission opted to make two other changes to the methodology: the assumption regarding rental costs was changed to reflect the actual proportion of families living in the private rented sector; and workplace pension contributions were added. These changes were phased-in over three years, with 2022-23 the final year of the phase-in.

This year has seen significant and fast-moving changes in both the economic context and the Government's policy responses. There are some areas where the Commission has had to exercise judgement over how to incorporate changes into the rates, for example, concerning the outlook for energy prices and associated government support measures. The approaches taken to any such judgements made by the Commission are set out in the paper.

The rest of this paper contains a section outlining what has driven changes in the rates for 2022-23 and a section outlining the current methodology. An annex details the cost inputs and wage requirements for each family type in the calculation.

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.

The Living Wage rates for 2022-23

The Living Wage rates for 2022-23, which apply from 22nd September 2022, are:

- UK: £10.90.
- London: £11.95.

The rest of this report describes the methodology through which the Living Wage rates in London and the rest of the UK are calculated and the factors influencing changes in the rates this year.

Contributions to changes in the rates

This section outlines what has contributed to changes in the LW rates. In general, there are a number of factors which can lead to changes in the rates:

- changes in the prices of goods and services;
- changes to the tax and benefits system (which affects the relationship between pay and income);
- changes in the basket of goods and services which constitute the Minimum Income Standard (MIS) the calculation is based on;
- the use of the 'shock absorber' in years when the underlying rates are subject to significant change; and
- any changes in methodology.

The increase in the LW rates for 2022-23, compared to the 2021-22 rates, are 90p (+8.1%) and £1.00 (+10.1%) in London and the Rest of the UK, respectively. These are larger increases than seen in previous years, mainly reflecting higher inflation this year. But as ever there are also other factors contributing to changes in the rates.

The changes in the rates for 2022-23 were driven by two main factors. First from significant upwards pressure from prices and in particular from energy prices. And second, and working in the opposite direction, was downwards pressure from changes in the benefits system (which was made more generous to working households) and from the cash support to households to help with energy costs. These had a particularly big impact on the London calculation, and led to the use of a 'shock absorber' for the London rate. Alongside these two main factors there was also upwards pressure from the final phase-in of the methodology changes which started in 2020-21 – namely, changing rental inputs to reflect the fact that many low-income families live in the private rented sector, and adding workplace pension contributions.

The increase in the London rate is lower than the increase in the UK rate. That is mainly because the downwards pressure from benefits changes and the energy-related cash support given to households was larger in London. This is due to higher eligibility for means-tested benefits among the families in the London calculation, which stems from higher costs in London. This meant that all London families in the calculation were eligible for the additional £650 cost-of-living payment made to families on means tested benefits, and by contrast only families with children in the UK calculation received this additional payment. Eligibility for means-tested benefits among all families in the London calculation also meant that the reforms to the benefits system (the lowering of the 'taper rate' and the increases made to 'work allowances') had a bigger downwards pressure on the London rate. Finally, and again contributing towards a lower increase in the London than the UK rate, there was also lower pressure in London from housing and travel costs, which grew faster outside the capital. Because of low underlying pressure on the London rate from all of these factors, the 'shock absorber' came into effect with the London rate this year, and means the actual London rate increase is significantly higher than the underlying rate increase (although still below the increase in the UK rate).

Prices

The context for this year's rates has been the ongoing 'cost of living crisis', which has seen inflation reach its highest rate since the early 1980s.[2] The rate of CPI inflation reached 10.1 per cent in July 2022, before falling back slightly to 9.9 per cent in August. The biggest driver of the cost of living crisis has been the unprecedented increase in gas prices which followed Russia's invasion of Ukraine. High inflation is the main reason for the large increases in the rates this year.

Table 1 sets out the increases in the prices of different cost inputs in the LW calculation, separately for London and the Rest of UK. These figures are weighted across the 17 families used in the calculation.

For the 2022-23 LW rates, overall growth in input prices, after weighting across families, was 12.6 per cent in the Rest of UK calculation and 10.0 per cent in the London calculation. This includes the changes in prices across all goods and services, including energy costs, other core goods and services, rents, childcare, council tax, and travel. The higher increase in overall costs in the UK calculation came from higher increases in rent (3.7 per cent in the Rest of UK calculation, compared to 0.4 per cent in London), in travel costs (12.7 per cent in the Rest of UK calculation, compared to 3.9 per cent in London) and in childcare costs (0.8 per cent in the Rest of the UK calculation, compared to -1.3 per cent in London). Council tax costs grew at a similar pace in the Rest of UK (3.4 per cent) and London calculations (3.8 per cent).

2 J Leslie & R Holdsworth, Cap off: Understanding the April 2022 inflation release, Resolution Foundation, May 2022.

TABLE 1: **Change in input costs used in the LW calculation from 2021-22 rates to 2022-23 rates, by cost element**

	London	Rest of UK
Energy	164.9%	163.3%
Energy (net of energy support payments)	*25.7%*	*74.3%*
Other core goods and services	8.6%	8.2%
Rent	0.4%	3.7%
Travel	3.9%	12.7%
Council tax	3.8%	3.4%
Childcare	-1.3%	0.8%
Total costs	10.0%	12.6%
Total costs (net of energy support payments)	*5.3%*	*9.7%*

Note: Calculation uses different cost inputs for 17 different family types. Changes in cost elements have been weighted across 17 families (according to their weight in the calculation) to produce single illustrative figures for each cost element.

Energy prices

The very large increases in energy costs (163 per cent in Rest of UK and 165 per cent in London) is mainly a result of the increases in the energy cap. In previous years, the methodology has taken energy cost inputs from the Minimum Income Standard, which is collected in April. Because energy costs were known to be increasing rapidly after April, the Commission decided that the calculation should take full account of energy prices across the full 2022-23 financial year. The energy cost inputs used were the MIS inputs for the first half of the financial year (April to September 2022). For the second half of the year (October 2022 to March 2023), these costs were uprated in line with the increase in the average energy price cap from April (£1,971) to £2,500, in line with the Government's recently announced policy. The change in the energy price cap is the main driver of the large increases in the energy cost inputs. But the increase is actually larger than this because in previous years MIS's energy price inputs were lower than the energy price cap – customers were assumed to be able to find a tariff cheaper than the cap. For 2022, MIS used a tariff at the cap, so there was an additional increase coming from moving from a tariff below the cap to one at the cap.

The impact of just those price changes on the rates (i.e. holding constant other parts of the calculation constant, including taxes and benefits, and methodology) would have been a 19.4 per cent increase in the Rest of UK rate and a 16.7 per cent increase in the London rate.[3]

Some of these cost rises were mitigated by direct cash support to households to help with energy costs. This included £400 off energy bills for all households, £150 off council tax bills for most households, and an additional £650 in cash support for households on means-tested benefits. In the LW calculation these have been modelled as a reduction in energy prices. Using energy costs adjusted for the cash support provided reduces the change in energy cost inputs in the LW calculation from 163.3 to 74.3 per cent in Rest of UK and from 164.9 to 25.7 per cent in London. Overall cost pressure in the calculation falls from 12.6 per cent to 9.7 per cent in the Rest of UK, and from 10.0 per cent to 5.3 per cent in the London calculation, after accounting for the direct cash support to households.

London versus Rest of UK

As mentioned at the start of this section, in 2022-23 the London LW rate is rising by less than the UK rate, because a combination of lower price pressure, and a greater downwards pressure from benefits changes. The above section has spelled out the prices part of this. It partly stems from slower growth in housing, travel and childcare costs in London.[4] But it also comes from the greater impact in London of the direct energy support cash payments, which came about because all families in the London calculation receive means-tested benefits, and families without children in the UK calculation do not. This can be thought of as mitigating more of the upwards pressure from energy prices in the London calculation compared to the Rest of UK calculation. Across all cost inputs, and after taking the energy cash support into account, costs in the London calculation was about half the rate of the Rest of UK calculation (5.3 per cent compared to 9.7 per cent).

The tax and benefit system

After prices, the other important factor which affects the LW rates are changes to the tax and benefits system, since that affects how much families need to earn to reach a given level of income. There were very significant changes to the benefit system in 2022-23, and these had a big impact on the LW rates. These changes were the reduction of the Universal Credit taper rate (the rate at which benefits are withdrawn as

3 The reason these impacts on the LW rates are higher than the cost increases is because most families in the LW calculation receive benefits, which are tapered away with income. For these households, to achieve a given increase in income requires a greater increase in pay, as some of this pay is lost to the benefits taper.

4 Travel costs grew more slowly for households in London than for households in the rest of the UK because London families are assumed to use public transport, whereas families in the wider UK are assumed to mainly travel by car, meaning they were affected by rising fuel costs.

earnings increase) and the increase to Universal Credit work allowances (the amount that households with children or with limited capability for work can earn before their Universal Credit is reduced). The taper rate was reduced from 63% to 55%, and work allowances were increased by £500 per year, or £42 per month. Both these changes were introduced in November 2021. These changes benefited low-income, working households who are in receipt of Universal Credit, and mean those households retain more of their earnings, boosting their total household income. This in turn exerted downwards pressure on the LW rates as households did not need to earn as much to reach the same income standard.

The other important change to benefits this year was their uprating. As normal, benefits and tax credits rose by 3.1% in April 2022, based on the rate of CPI inflation in September 2021. This is lower than the current rate of inflation, and therefore exerted upwards pressure on the rates, compared to a scenario where benefits had risen in line with current inflation.

Recent policy changes, including the introduction of the two-child limit and the benefit cap, limit benefit support to larger families. These policy changes are factored into the LW calculation and exert slight upwards pressure on the rates each year. Since the two-child limit affects more families in 2022 than in 2021, this policy has led to a small year-on-year increase to the LW rates.

The impact on the rates of these benefits changes was very significant. To illustrate this, moving from the 2021-22 to the 2022-23 taxes and benefits system and holding all other inputs constant (including prices and methodology) would have led to a 13 per cent fall in the UK rate and a 22 per cent fall in the London rate. The impact on the rates is larger in London because all London households, by virtue of their high costs, are in receipt of means-tested benefits, whereas not all families in the UK calculation are. This means the London rate is more affected by changes in benefits policy than the UK rate.

Alongside those changes, an ongoing policy change which is having an effect on the LW rates is the roll out of UC, which exerts a downward effect on the LW rates due to its more generous treatment of rental costs compared to the legacy system. We have assumed in our calculation, based on estimates produced by the Office for Budget Responsibility, that 62 per cent of families in our calculation are claiming Universal Credit, compared to 38 per cent on the legacy Tax Credits system. In 2021-22 the rollout of Universal Credit was assumed to be 57 per cent complete. Moving from 57 to 62 per cent exerted downwards pressure on the rates, of -1.3 per cent on the London rate and -0.4 per cent on the Rest of UK rate.

The Minimum Income Standard basket of goods and services

The basket of goods and services which underpins the Living Wage calculation comes from Minimum Income Standard (MIS) research with the public, undertaken by the Centre for Research in Social Policy (CRSP) at Loughborough University and funded by the Joseph Rowntree Foundation (JRF).[5] 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. It is calculated by specifying baskets of goods and services required by different types of households to meet these needs and to participate in society. The 2022 MIS report was published in September 2022.[6]

In 2022, the MIS basket for households without children was 'rebased', meaning that new research was started from scratch with members of the public to decide which goods and services are required by households without children. For households with children, the MIS basket was 'reviewed' – that is, research with the public was not started from scratch, and instead the existing MIS basked of goods and services was updated.

The rebasing of the basket for families without children led to some large changes, which if implemented would lead to additional upwards pressure on the rates. Changes in the basket included a new process for calculating food budgets, additional allowance for social and cultural participation, and some Covid-specific items such as face masks and lateral flow tests.

The 2022 MIS research was undertaken between summer 2021 and early 2022, when the country was emerging from Covid restrictions with the return of 'freedoms', and before the full impact of the energy price surge associated with the invasion of Ukraine. As CRSP said this was a time of 'uncertainty and flux' and was an 'extraordinary' environment. It was clearly a markedly different context to today's to be undertaking research on prices and attitudes to living standards.[7] As a result of this uncertainty JRF and CRSP have together made the decision to alter the planned cycle of updates for MIS and will bring forward the timing of a full 'rebasing' of the MIS basket. In light of this, the Commission considered these issues and the different risks of proceeding with, or delaying, these MIS basket changes. They decided that on balance for 2022-23 the best approach was to update the current basket in line with prices and then make basket changes in light of the next rebasing exercise.

5 More information on the Minimum Income Standard research can be found at: https://www.lboro.ac.uk/research/crsp/mis/.
6 Joseph Rowntree Foundation, A Minimum Income Standard for the UK in 2022, September 2022.
7 Joseph Rowntree Foundation, A Minimum Income Standard for the UK in 2022, September 2022.

The 'shock absorber'

The 'shock absorber' is the final step of the Living Wage calculation. This ensures that the Living Wage rate keeps pace with any extreme year-to-year changes in the cost of living, by keeping the Living Wage increase within the range of inflation plus or minus 3 per cent. The details of the shock absorber are discussed in more detail in the next section.

This year, increased support to low-income households in London (through increased Universal Credit awards and significant one-off energy support payments) outweighed increases to prices, putting downward pressure on the London Living Wage. The shock absorber has therefore been vital to ensure that the London Living Wage will rise this year when inflation is high. After the application of the shock absorber, the London Living Wage will increase by CPI minus 3 per cent, rounded to the closest 5 pence: the London Living Wage will rise by 8.1 per cent compared to the 2021-22 rate. Such was the impact of benefits changes and the cash support that without the use of the shock absorber the London rate would have been roughly unchanged on the 2021-22 rate.

Changes in methodology

Alongside changes in costs, tax and benefits policy (including the rise in the proportion of families on Universal Credit), the rates are also being affected by the phasing in of two ongoing methodology changes: incorporating workplace pension contributions, and better weighting social and private rental costs to reflect actual tenure patterns among low-income households. These changes were discussed in detail in the 2020 Living Wage calculation methodology note.[8]

These changes were introduced for the 2020-21 rates and phased in over three years. The phase-in was completed for the 2022-23 rates. In last year's rates (for 2021-22) the new methodology was 70 per cent phased-in (meaning the rates were a weighted average between the old and new methodologies, and a 70% weight was assigned to the new methodology). Moving from a 70 per cent phase-in to a 100 per cent phase-in this year has added roughly 15p to the Rest of UK rate and 20p to the underlying London rate.

8 N Cominetti, Calculating a real living wage for London and the Rest of the UK: 2020-21, Resolution Foundation, November 2020.

An outline of the Living Wage Methodology

In this section we provide an outline of the current Living Wage methodology, including the data sources and assumptions used.

Outline of the methodology

In broad terms, the calculation is as follows. It is founded on the construction of a basket of goods and services that together represents an acceptable standard of living, as determined through research with members of the public. The hourly Living Wage rates are then calculated by taking a weighted average of the earnings required (accounting for tax and benefits) for a range of family types (with and without children) to earn enough to afford the items in that basket of goods and services, and therefore to meet that standard of living. 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.

1. A basket of goods and services

To provide a 'basket' of goods to underpin the 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.[9] A variety of household types are included in order to reflect the diversity of families across the UK (see Tables 1 and 2 in the Annex for full details) with each basket varying by family type to reflect their specific requirements. The same basket of goods and services applies for both the London LW and UK LW rates (with two exceptions).[10]

The next step is to calculate costs for these items. For a '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.

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

10 One exception is that, for transport, London families are assumed to use public transport, whereas families in the wider UK are assumed to mainly travel by car. As is discussed in the following section on housing costs, the other 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, we apply a reduction based on the costs faced by people in shared accommodation, for example paying an appropriate share of heating bills. For further detail see K Hill, D Hirsch and M Padley, Minimum budgets for single people sharing accommodation, CRSP Working Paper 642, 2015.

2. Costs that vary more significantly across the UK

Some items, of course, vary in price considerably 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. The following sections of this report 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/size of property families are assumed to live in, and where within the distribution of rents the costs are taken from.

Tenure

On 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. These weighted rental inputs are calculated for each family type (in London and Rest of UK separately) by applying the proportion of low-income families who rent (again, separately for London and Rest of UK) that live in each tenure. Rental tenure is calculated at the broad family level – singles and couples with and without children, using data from the latest available Family Resources Survey microdata. Low income is defined as the bottom half of the income distribution, based on net equivalised household income, and pensioners and non-working households are excluded from this part of the calculation.

Property type/size

On property type/size, the assumptions are as follows:

- Singles and couples without children live in one-bedroom homes (the rental data input for singles 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.

For the London LW the assumptions are the same, apart from in one case. For the London private sector rental input for singles, in order to reflect the high cost and low availability of one-bedroom flats in London, some singles without children are assumed to live in a room in a shared house rather than in their own one bedroom flat. We use a weighted average based on analysis of the most recent census, which found that 54 per cent of singles live in shared accommodation.[11]

Position of 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, using the latest available data. Average social sector rents are taken from the UK Housing Review, using the London estimate and an average for the UK excluding London. We then uprate those rent levels in line with current policy, which from 2021-22 onwards this is to increase social rents by CPI plus 1 per cent per year (previously it was to decrease rents by 1 per cent per year). An average for three-bedroom properties is no longer provided so we produce an estimate taking the differential when last available (in 2014).

For the private rented sector, consistent UK-wide data is not available. For the UK LW, we take the best available data from each nation and produce a weighted average. The data used for England are published by the Valuation Office Agency.[12] For Scotland, the data is published by the Scottish Government.[13] For Wales, the data are published by StatsWales.[14] For Northern Ireland, the data are published by the Analytical Services Unit of the Department for Social Development.[15] For the London LW, the London data published by the Valuation Office Agency is used. In both the UK LW and London LW, the rents taken are at the lower quartile in the private rented sector.

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

11 K Hill, D Hirsch and M Padley, Minimum budgets for single people sharing accommodation, CRSP Working Paper 642, 2015.
12 Valuation Office Agency, Private Rental Market Summary Statistics – April 2021 to March 2022, June 2022.
13 Scottish Government, Private Sector Rent Statistics, Scotland, 2010 to 2021, November 2021.
14 StatsWales, Private sector rents by local authority, 1 January to 31 December 2019, 2020.
15 Department for Social Development, Northern Ireland Housing Statistics 2019-20, December 2021. Because the data for Northern Ireland supplies only a median figure and for a more limited range of accommodation we make adjustments to these, based on the relationship between different sized properties.

2.2 Council tax

Different family types are assumed to pay different rates of council tax, based on the number of children they have and how this is likely to affect their housing needs. A weighted average of the total council tax bill for a Band D property in each billing authority is used as a baseline, calculated from published UK,[16] Scottish[17] and Welsh[18] government statistics on Band D rates. This is then adjusted to the relevant band for each family type.

For the rest of the UK, the bands denoted in MIS research are applied (a couple without children, in Band B, pays seven-ninths of the Band D rate while families with children, in Band C, pay eight-ninths). Single adult reductions of 25 per cent are applied to all single person households in the UK LW calculation and to those treated as living alone in the London LW 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 LW 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.[19] For families with children aged 11+, two journeys a day for five days a week (to get to and from school) are budgeted for, taking account of the cost of and savings provided by a Zip Card – a card entitling under-18s to discounted travel. The values for these figures at the time of calculation are included in Table 2.

2.4 Childcare costs

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

16 MHCLG, Council Tax levels set by local authorities in England 2022 to 2023, March 2022.
17 Scottish Government, Council Tax by Band 2022-23, April 2022.
18 StatsWales, Average band D council tax, by billing authority, 2022.
19 Transport for London, Adult rate prices: All Tube, DLR, London Overground and TfL Rail services and National Rail services in Z1-9, 2022.

Costs are calculated using the most recent data collated by the Family and Childcare Trust.[20] For the UK LW, a weighted average for the regions/nations of the UK excluding London is calculated, weighted by the number of children. For the London LW, we use an adjusted average taking account of the differential between London and the rest of the UK, based on 2016 data.[21] This year's calculation once again assumes that the government's policy of providing an additional 15 hours of free childcare (bringing the total to 30 free hours) for working parents of 3 and 4-year-olds in England is in place. 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 LW calculation assumes that all 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.[22] Along with the minimum contribution rate, the Government reviews the qualifying earnings thresholds annually. In 2022/23 these were earnings between £6,240 and £50,270. 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.

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 LW rates are announced.

Away from the levels of thresholds and payments, a broader shift has also been taking place in the benefit system, as Universal Credit (UC) continues to be rolled out. UC replaces the existing tax credit-based system, which the majority of families included in the Living Wage calculation are currently entitled to. The calculation assumes some of the families in the Living Wage calculation receive UC, based on the OBR's estimate for the proportion of the caseload migrated.

4. 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

20 L Coleman, S Shorto, & D Ben-Galim, Childcare Survey 2022, Coram Family and Childcare, 2022.
21 For the London LW, we remove the highest outlier estimates that upwardly skew the resulting London average.
22 Gov.uk, Workplace pensions, accessed September 2022.

in living costs'.[23] The shock absorber is inflation plus or minus 3 per cent. That is, the rates must increase by at least the rate of price inflation minus 3 per cent and at most by rate of price inflation plus 3 per cent.

The 2022-23 rates are the first to see the use of the shock absorber. The Commission considered which measure of inflation to use. It agreed that, mindful of who is paid the Living Wage, that the inflation figure used should be the rate of CPI that applied to low-income households in July 2022, which RF have estimated to be 10.8 per cent.[24]

Changes to the methodology being phased in from 2020/21 to 2022/23

In 2019, the Commission agreed to review two aspects of this methodology, and this resulted in changes being agreed for the 2020-21 calculation, and phased in over three years. The two changes were to a) include workplace pension contributions, and b) to weight tenure inputs to reflect the actual housing tenure of low-income households.

Both of these changes have now been fully phased-in for the 2022-23 rates. They were already 70 per cent phased-in for the 2021-22 rates. The final 30 per cent of phase-in undertaken in 2022-23 added approximately 15p and 20p of upwards pressure to the Rest of UK and (underlying) London LW rates, respectively.

More detail on the rationale underpinning these changes can be found in the 2021 methodology report.[25]

23 Living Wage Commission, Closing the Gap: A Living Wage that means families don't go short, September 2016.
24 RF analysis of ONS, Consumer Prices & Living Costs and Food Survey.
25 Nye Cominetti, Calculating the Living Wage for London and the rest of the UK, Resolution Foundation, November 2021.

Annex: living costs and wage requirements by family type

This annex sets out the living costs and wage requirements by family type. In the case of the London rate, the wage requirements are for the rate before the application of the shock absorber. The energy costs are net of the cash support payments to households.

UK Living Wage

Family type	Living costs					Hourly wage requirement	Weights
	"Core" basket (including travel and energy)	Rent	Council tax	Childcare	Total		
Single	£ 250.14	£ 91.31	£ 21.61	£ -	£ 363.06	£ 11.57	32%
Couple	£ 406.59	£ 100.03	£ 28.81	£ -	£ 535.43	£ 7.67	34%
Single parent with one child (age 3-4)	£ 343.60	£ 106.71	£ 24.69	£ 81.76	£ 556.77	£ 14.03	1%
Single parent with one child (age 5-11)	£ 372.12	£ 106.71	£ 24.69	£ 76.45	£ 579.97	£ 15.57	3%
Single parent with two children (age under 3 and 3-4)	£ 422.87	£ 122.22	£ 24.69	£ 273.27	£ 843.05	£ 20.44	0%
Single parent with two children (age 3-4 and 5-11)	£ 451.54	£ 122.22	£ 24.69	£ 158.21	£ 756.67	£ 19.34	1%
Single parent with two children (age 5-11 and 12-16)	£ 519.29	£ 122.22	£ 24.69	£ 76.45	£ 742.66	£ 22.54	2%
Single parent with three children (age 3-4, 5-11 and 12-16)	£ 582.63	£ 122.22	£ 24.69	£ 158.21	£ 887.76	£ 32.53	1%
Couple parent with one child (age 3-4)	£ 453.81	£ 113.35	£ 32.93	£ 81.76	£ 681.84	£ 8.48	4%
Couple parent with one child (age 5-11)	£ 485.34	£ 113.35	£ 32.93	£ 76.45	£ 708.06	£ 9.36	7%
Couple parent with two children (age under 3 and 3-4)	£ 522.72	£ 130.31	£ 32.93	£ 273.27	£ 959.22	£ 11.19	2%
Couple parent with two children (age 3-4 and 5-11)	£ 551.41	£ 130.31	£ 32.93	£ 158.21	£ 872.86	£ 10.70	3%
Couple parent with two children (age 5-11 and 12-16)	£ 614.54	£ 130.31	£ 32.93	£ 76.45	£ 854.23	£ 12.12	6%
Couple parent with three children (age under 3, 3-4 and 12-16)	£ 649.43	£ 130.31	£ 32.93	£ 349.72	£ 1,162.38	£ 18.38	1%
Couple parent with three children (age 3-4, 5-11 & 12-16)	£ 710.08	£ 130.31	£ 32.93	£ 158.21	£ 1,031.53	£ 16.30	1%
Couple parent with three children (age 5-11, 5-11 and 12-16)	£ 738.66	£ 130.31	£ 32.93	£ 76.45	£ 978.35	£ 15.51	2%
Couple parent with four children (age under 3, 3-4, 5-11 and 12-16)	£ 774.02	£ 130.31	£ 32.93	£ 349.72	£ 1,286.98	£ 20.73	1%

London Living Wage

Family type	Living costs						Hourly wage requirement	Weights
	"Core" basket (including energy)	Travel	Rent	Council tax	Childcare	Total		
Single	£ 187.92	£ 33.29	£ 135.77	£ 12.16	£ -	£ 369.14	£ 10.12	43%
Couple	£ 309.83	£ 66.59	£ 215.72	£ 25.12	£ -	£ 617.26	£ 8.94	25%
Single parent with one child (age 3-4)	£ 263.06	£ 33.29	£ 164.01	£ 21.53	£ 100.32	£ 582.21	£ 11.72	1%
Single parent with one child (age 5-11)	£ 289.53	£ 33.29	£ 164.01	£ 21.53	£ 90.36	£ 598.72	£ 12.97	4%
Single parent with two children (age under 3 and 3-4)	£ 338.84	£ 33.29	£ 198.01	£ 24.22	£ 347.34	£ 941.71	£ 23.00	0%
Single parent with two children (age 3-4 and 5-11)	£ 365.47	£ 33.29	£ 198.01	£ 24.22	£ 190.68	£ 811.68	£ 17.54	1%
Single parent with two children (age 5-11 and 12-16)	£ 422.13	£ 39.91	£ 198.01	£ 24.22	£ 90.36	£ 774.63	£ 19.79	2%
Single parent with three children (age 3-4, 5-11 and 12-16)	£ 481.98	£ 39.91	£ 198.01	£ 24.22	£ 190.68	£ 934.81	£ 34.83	2%
Couple parent with one child (age 3-4)	£ 344.89	£ 66.59	£ 227.30	£ 28.71	£ 100.32	£ 767.81	£ 8.11	4%
Couple parent with one child (age 5-11)	£ 374.66	£ 66.59	£ 227.30	£ 28.71	£ 90.36	£ 787.62	£ 8.69	6%
Couple parent with two children (age under 3 and 3-4)	£ 410.61	£ 66.59	£ 272.82	£ 32.30	£ 347.34	£ 1,129.65	£ 12.89	2%
Couple parent with two children (age 3-4 and 5-11)	£ 437.25	£ 66.59	£ 272.82	£ 32.30	£ 190.68	£ 999.63	£ 10.51	2%
Couple parent with two children (age 5-11 and 12-16)	£ 489.30	£ 73.21	£ 272.82	£ 32.30	£ 90.36	£ 957.97	£ 11.51	5%
Couple parent with three children (age under 3, 3-4 and 5-11)	£ 507.45	£ 66.59	£ 272.82	£ 32.30	£ 437.70	£ 1,316.85	£ 21.44	1%
Couple parent with three children (age 3-4, 5-11 & 12-16)	£ 557.57	£ 73.21	£ 272.82	£ 32.30	£ 190.68	£ 1,126.57	£ 18.36	1%
Couple parent with three children (age 5-11, 5-11 and 12-16)	£ 582.90	£ 79.82	£ 272.82	£ 32.30	£ 90.36	£ 1,058.19	£ 17.23	2%
Couple parent with four children (age under 3, 3-4, 5-11 and 12-16)	£ 615.60	£ 73.21	£ 272.82	£ 32.30	£ 437.70	£ 1,431.62	£ 23.58	1%

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