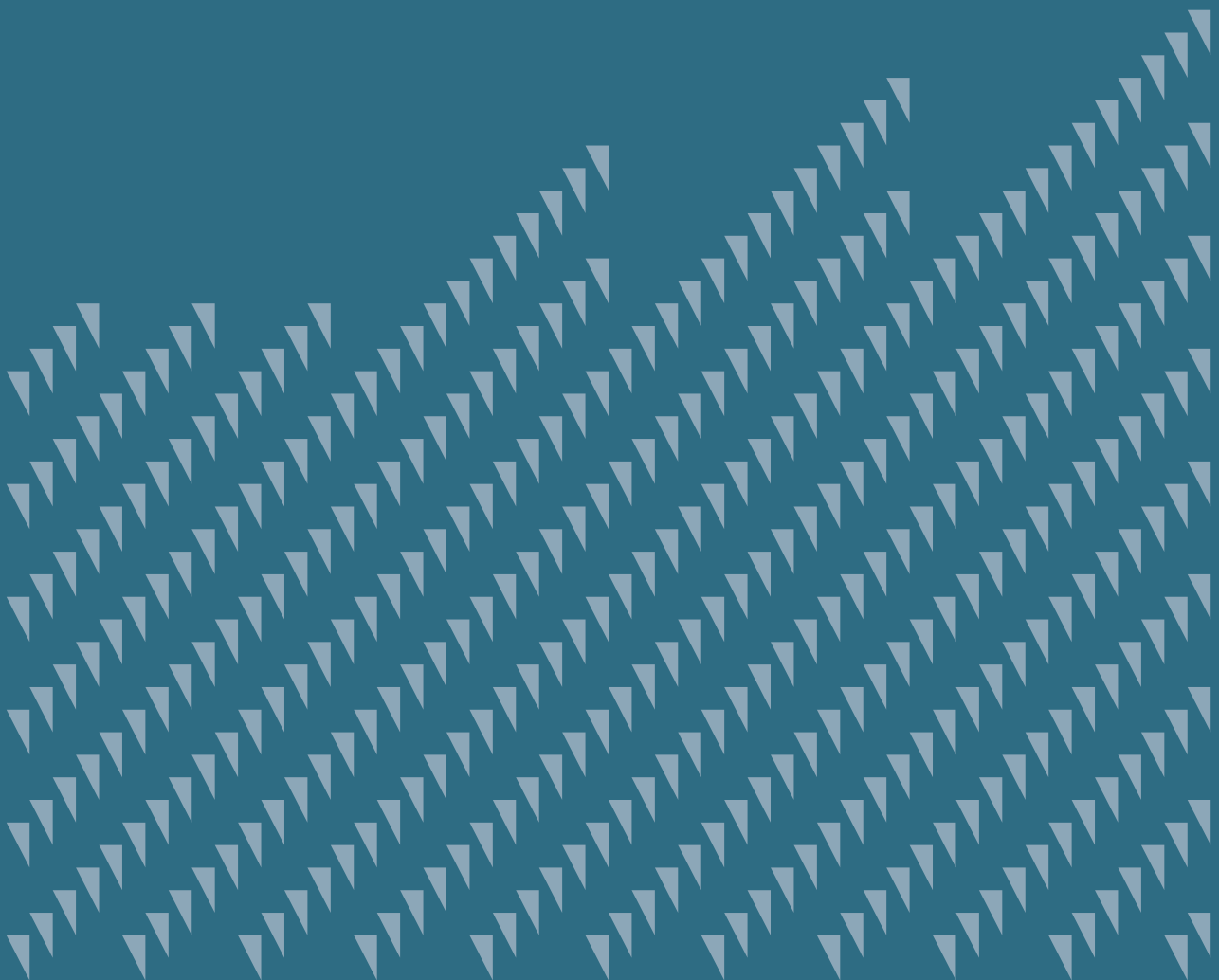


Calculating a Living Wage for London and the rest of the UK

2019-20

Nye Cominetti
November 2019



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Foreword by Gavin Kelly

Chair of the Living Wage Commission

Each year the Living Wage Commission (LWC) is tasked with setting the new wage rates for the UK and London. In doing so it follows an established methodology to calculate the hourly wage rate required to enable households to reach a minimum acceptable living standard.

If the basic idea of earning enough to live on is a simple one, it's fair to say the underlying calculation is a bit more complicated. Yet the fundamental premise of a real Living Wage – reflecting changes in the cost of living, and rooted in the public's beliefs about the goods and services that a household needs to get by – is both intuitive and powerful.

The LWC's new rates for 2019-20 are £9.30 across the UK and £10.75 in London. The body of this report sets out the detail of the calculation. Let me just highlight a few noteworthy factors that have shaped this year's rates.

First, there is the wider inflation context. This year's overall inflation rate is lower than last year's (CPIH inflation of 1.7 per cent compared to 2.2 per cent) which has had a slightly moderating effect on the rise in both the UK and London rates.

Second, there have been *smaller* increases in the cost of some important items in London compared to the rest of the UK. Housing costs (weighted across family types) rose by 0.9 per cent in London compared to 2.4 per cent outside it. This is the single most significant factor explaining the smaller rise in London compared to the rest of the UK. It marks a reversal of last year's situation when rents went up by 2.9 per cent in London versus 1.8 per cent outside it. We also see a similar pattern in relation to childcare costs where this year's increase was, again, smaller in London, serving to dampen the rise in the London rate relative to the UK one.

Third, several policy choices continue to shape this year's uplifts. As with previous years the freeze in working age benefits creates upward pressure on the Living Wage rates whereas the rise in the personal tax allowance has the opposite effect (with the former outweighing the latter creating net upward pressure). Meanwhile, the ongoing transition from the old tax credit system to Universal Credit continues to play out. Our calculation tracks the relative share of recipients on the 'old' and 'new' systems meaning that each year more weight is given to Universal Credit (as its caseload grows). In some respects Universal Credit is more generous than the legacy system, particularly in relation to

childcare costs, meaning that the net effect of its rollout is a downward pressure on the Living Wage rates, particularly in London.

If these are some of the factors that have determined this year's increases, we should also mention some things that *haven't* been relevant. There have been no changes in the nature of the basket of goods and services used in our calculation: 2019-20 is a 'fallow' year and the contents of the basket will be reviewed again next year. It is also worth recalling that during the period 2016-19 the London rate was transitioning to a new methodology (to align it with the UK approach), which resulted in a period of sustained upward pressure. That transitional period is now over as the UK and London approaches are fully aligned.

Stepping back from the detail of the calculation, it is encouraging to see the public debate on low pay, and what to do about it, becoming ever more mainstream. This remains an urgent challenge. For all the success of the real Living Wage campaign, which has seen record numbers of employers signing up this year, it is still the case that 5 million workers get paid less than it.

Against this backdrop the issue of low pay is likely to feature in the current General Election campaign. To help inform these and other discussions – as well as shape underlying pay norms in our society – it is vital that there is a credible 'fair pay' benchmark that is respected by workers, employers and civil society alike. Overseeing this benchmark – and ensuring that it remains fit for purpose in the years ahead – is the central task of the 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 11 November 2019. We detail the sources underpinning the calculations, based on the best available evidence about living standards and costs.

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

The first section of the report explains the basis of the 'core basket' of goods and services, including everyday items such as food and clothing, the cost of which varies relatively little across the country. The next section deals with costs that are more likely to vary between London and the rest of the UK, specifically housing, council tax, travel and childcare. Further detail relating to these assumptions and how they were initially reached is set out in the Resolution Foundation's 2016 review of the Living Wage calculation for the Living Wage Commission, and in the Commission's response.¹ In this report, we note where any of these assumptions or approaches may have changed as a result of changes in data, policy or significant shifts in consumption trends. Any such changes are formally agreed by the Commission as part of the annual rate-setting process.

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

The final section provides the Living Wage rates which apply in London and the rest of the UK from 11 November 2019. The Living Wage Foundation requires accredited Living Wage employers to implement the new rates as soon as possible and within six months of the annual announcement. We also set out detailed estimates of each living cost component for the different family types used in the calculation. The tax and benefit position of each family type is calculated using the Resolution Foundation micro-simulation model.

¹ 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

Methodology

1. A core basket of goods and services

To provide a 'basket' of goods to underpin the Living Wage rates in both London (LLW) and the rest of the UK (UKLW), we use the Minimum Income Standard (MIS) research carried out by the Centre for Research in Social Policy (CRSP) at Loughborough University.² 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. Excluding those more variable goods and services discussed in Section 2, the same items are included in both the London and UK calculations.³ Because the prices of the items in the basket are drawn primarily from national chain stores, and research suggests that the prices of most of the contents of the core basket do not differ substantially across the UK, the cost of this core basket does not vary between the UKLW and LLW.⁴

2. Costs that vary more significantly across the UK

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

2.1 Housing costs

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

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

For the LLW, we broadly retain these assumptions. However, for singles without children, and in order to reflect the high cost and availability of one-bedroom flats in London, some

² 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.

³ As is discussed in the following section on housing costs, the sole exception we make to this is single people without children living in London. Because living alone in a studio or one-bedroom home is far less common in London, we apply a reduction based on the costs faced by people in shared accommodation, for example paying an appropriate share of heating bills. For further detail see K Hill, D Hirsch & M Padley, Minimum budgets for single people sharing accommodation, CRSP Working Paper 642, 2015

⁴ For further discussion of London costs and living standards research see M Padley et al., [A Minimum Income Standard for London](#), Loughborough University/Trust For London, May 2015

are assumed to share. We use a weighted average based on analysis of the most recent census, which found that 54 per cent of singles live in shared accommodation.⁵

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 2019 UK Housing Review, using the London estimate and an average for the UK excluding London. We then uprate those rent levels in line with current policy which is to decrease social sector rents by 1 per cent in 2019-20. An average for only three-bedroom properties is no longer provided so we produce an estimate taking the differential when last available (in 2014). Options to include more up-to-date data will be explored for next year's calculation.

For the private rented sector, consistent UK-wide data is not available. For the UKLW, we take the best available data from each nation and produce a weighted average. The data used for England are published by the Valuation Office Agency.⁶ For Scotland, the data are published by the Scottish Government.⁷ For Wales, the data are published by StatsWales.⁸ For Northern Ireland, the data are published by the Analytical Services Unit of the Department for Social Development.⁹ For the LLW, the London data published by the Valuation Office Agency is used. In both the UKLW and LLW, the rents taken are at the lower quartile in the private rented sector.

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

2.2 Council tax

Different family types are assumed to pay different rates of council tax, based on the number of children they have and how this is likely to affect their housing needs. A weighted average of the total council tax bill for a Band D property in each billing authority is used as a baseline, calculated from published UK,¹⁰ Scottish¹¹ and Welsh¹²

⁵ K Hill, D Hirsch and M Padley, [Minimum budgets for single people sharing accommodation](#), CRSP Working Paper 642, 2015

⁶ Valuation Office Agency, [Private Rental Market Summary Statistics – April 2018 to March 2019](#), June 2019

⁷ Scottish Government, [Private Sector Rent Statistics](#), Scotland, 2010 to 2018, November 2018

⁸ StatsWales, [Private sector rents by local authority](#), 1 January to 31 December 2018, 2019

⁹ Department for Social Development, [Northern Ireland Housing Statistics 2017-18](#), December 2018. 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.

¹⁰ MHCLG, [Council Tax levels set by local authorities in England 2019 to 2020](#), March 2019

¹¹ Scottish Government, [Council Tax by Band 2019-20](#), April 2019

¹² StatsWales, [Average band D council tax, by billing authority](#), 2019

government statistics on Band D rates. This is then adjusted to the relevant band for each family type.

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

2.3 Travel costs

The travel cost assumptions for the UKLW are drawn from MIS research. In London, a weighted average is used across Inner and Outer London families. In Outer London, the cost of a monthly zone 4-6 travelcard is included and for those in Inner London, a monthly zone 1-3 travelcard.¹³ 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.

Costs are calculated using the most recent data collated by the Family and Childcare Trust.¹⁴ For the UKLW, a weighted average for the regions/nations of the UK excluding London is calculated, weighted by the number of children. For the LLW, we use an adjusted average taking account of the differential between London and the rest of the UK, based on 2016 data.¹⁵

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

¹³ Transport for London, [Adult rate prices: All Tube, DLR, London Overground and TfL Rail services and National Rail services in Z1-9, 2019](#)

¹⁴ L Coleman & J Cottell, [Childcare Survey 2019](#), Coram Family and Childcare, 2019

¹⁵ For the LLW, we remove the highest outlier estimates that upwardly skew the resulting London average.

parents of 3 and 4 year-olds in England is in place. However, and as noted last year, the data available on the implementation of this commitment is limited. As such, the extent to which demand for provision will be met, or the broader effect on childcare prices, remains uncertain. In our discussions on this topic, the Living Wage Commissioners stressed that this lack of data was unsatisfactory and they would be willing to review the application of this policy in the calculation should new data become available.

3. Tax and benefit system

The taxes paid and benefits received by each family type are calculated using the Resolution Foundation micro-simulation model. We assume that each family type claims every benefit to which they are entitled. We include policy changes applying to the 2019-20 financial year including the increase in the personal tax allowance to £12,500 and the continued freeze in working-age benefit rates.

Away from the levels of thresholds and payments, a broader shift has also been taking place in the benefit system, as Universal Credit (UC) continues to be rolled out. UC replaces the existing tax credit-based system, which the majority of families included in the Living Wage calculation are currently entitled to. 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 in 2019-20.¹⁶

4. Implementing the new methodology

The rates announced in November 2016 were the first following a shift from the previous methodologies used for the UKLW and LLW to a new aligned process. Moving from one formula-based approach to another inevitably requires a transitional period during which the new method beds in. As such, the Living Wage Commission's guidance upon the completion of the review and agreement on a new methodology was that there should be a time-limited phase-in period for the new method for the London rate.¹⁷ The 2018-19 rates marked the completion of this period, with the gap described last year between the 'reference' rate and the 'applied' rate now closed.

¹⁶ OBR, [Economic and fiscal outlook fiscal supplementary tables: expenditure](#), March 2019

¹⁷ Living Wage Commission, [Closing the Gap: A Living Wage that means families don't go short](#), September 2016

Living Wage rates for 2019-20

The rate for the UKLW for 2019-20 is £9.30.

The rate for the LLW for 2018-19 is £10.75.

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

Conclusion

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

Annex

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

UK Living Wage (excluding London): Income components and wage requirements by family type, 2019-20

Family type	Living costs (£ per week)						Hourly wage requirement	Weights
	"Core" basket	Rent	Council tax	Travel	Childcare	Total		
Single	162.96	93.64	19.38	40.94	-	316.92	9.75	32.4%
Couple	259.90	103.78	25.84	81.94	-	471.46	6.60	33.9%
Single parent with one child (age 3-4)	243.05	80.91	22.15	62.49	77.13	485.72	13.80	0.9%
Single parent with one child (age 5-11)	259.74	80.91	22.15	61.50	73.08	497.38	14.50	3.6%
Single parent with two children (age under 3 & 3-4)	288.16	88.80	22.15	66.94	258.33	724.37	18.75	0.2%
Single parent with two children (age 3-4 & 5-11)	311.25	88.80	22.15	66.65	150.21	639.06	16.60	0.6%
Single parent with two children (age 5-11 & 12-16)	354.29	88.80	22.15	76.97	73.08	615.29	19.10	1.7%
Single parent with three children (age 3-4 & 5-11 & 12-16)	413.74	88.80	22.15	82.11	150.21	757.01	23.55	1.1%
Couple parent with one child (age 3-4)	307.74	80.91	29.53	84.10	77.13	579.40	8.05	3.9%
Couple parent with one child (age 5-11)	324.43	80.91	29.53	83.11	73.08	591.06	8.25	7.1%
Couple parent with two children (age under 3 & 3-4)	352.40	88.80	29.53	88.56	258.33	817.62	10.70	1.6%
Couple parent with two children (age 3-4 & 5-11)	375.49	88.80	29.53	88.26	150.21	732.29	9.60	2.7%
Couple parent with two children (age 5-11 & 12-16)	418.53	88.80	29.53	98.58	73.08	708.52	10.25	6.3%
Couple parent with three children (age under 3, 3-4 & 5-11)	438.67	88.80	29.53	92.90	331.41	981.31	14.65	0.5%
Couple parent with three children (age 3-4 & 5-11 & 12-16)	487.90	88.80	29.53	103.83	150.21	860.27	12.85	0.9%
Couple parent with three children (age 5-11, 5-11 & 12-16)	496.69	88.80	29.53	102.74	73.08	790.84	11.60	1.6%
Couple parent with four children (age under 3, 3-4, 5-11 & 12-16)	534.77	88.80	29.53	108.58	331.41	1,093.09	16.95	1.0%
Weighted hourly wage equivalent							9.30	

Annex

Table 2: Breakdown of London Living Wage calculation

London Living Wage: Income components and wage requirements by family type, 2019-20

Family type	Living costs (£ per week)						Hourly wage requirement	Weights
	"Core" basket	Rent	Council tax	Travel	Childcare	Total		
Single	162.96	149.63	16.52	29.96	-	359.07	10.75	43.0%
Couple	259.90	240.89	22.03	59.92	-	582.74	8.75	24.9%
Single parent with one child (age 3-4)	243.05	117.06	18.88	29.96	97.36	506.31	12.85	0.9%
Single parent with one child (age 5-11)	259.74	117.06	18.88	29.96	83.81	509.46	13.45	3.8%
Single parent with two children (age under 3 & 3-4)	288.16	131.14	21.24	29.96	344.83	815.33	23.95	0.2%
Single parent with two children (age 3-4 & 5-11)	311.25	131.14	21.24	29.96	181.17	674.76	15.95	0.6%
Single parent with two children (age 5-11 & 12-16)	354.29	131.14	21.24	36.21	83.81	626.70	17.65	1.8%
Single parent with three children (age 3-4 & 5-11 & 12-16)	413.74	131.14	21.24	36.21	181.17	783.51	24.05	1.5%
Couple parent with one child (age 3-4)	307.74	117.06	25.18	59.92	97.36	607.26	8.60	4.0%
Couple parent with one child (age 5-11)	324.43	117.06	25.18	59.92	83.81	610.40	8.00	5.4%
Couple parent with two children (age under 3 & 3-4)	352.40	131.14	28.33	59.92	344.83	916.61	12.55	1.7%
Couple parent with two children (age 3-4 & 5-11)	375.49	131.14	28.33	59.92	181.17	776.05	9.75	2.6%
Couple parent with two children (age 5-11 & 12-16)	418.53	131.14	28.33	66.18	83.81	727.98	11.00	5.2%
Couple parent with three children (age under 3, 3-4 & 5-11)	438.67	131.14	28.33	59.92	428.64	1,086.70	16.55	0.5%
Couple parent with three children (age 3-4 & 5-11 & 12-16)	487.90	131.14	28.33	66.18	181.17	894.71	13.40	1.0%
Couple parent with three children (age 5-11, 5-11 & 12-16)	496.69	131.14	28.33	72.43	83.81	812.39	12.00	1.7%
Couple parent with four children (age under 3, 3-4, 5-11 & 12-16)	534.77	131.14	28.33	66.18	428.64	1,189.05	18.30	1.2%
Weighted hourly wage equivalent							10.75	

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