

Working paper: updating the UK Living Wage in 2014

This paper updates calculations by Centre for Research in Social Policy on the UK Living Wage outside London. It uses the basis [first set out in 2011](#), produced at the request of the Living Wage Foundation, and drawing on the Minimum Income Standard for the United Kingdom.

The present update explains the basis for the outside London Living Wage level announced by the Living Wage Foundation on 3rd November 2013, coinciding with the updating of the London Living Wage as calculated by GLA Economics.

The following calculations start by calculating minimum living costs in 2014, then translate that into a wage requirement, and finally consider the application of a 'cap' limiting the increase in an applied living wage in any one year.

(i) Living cost calculation for each household type

What is being calculated?

The Minimum Income Standard identifies minimum costs for each of nine household types, excluding rent, council tax and childcare.

Rationale

Members of the public have identified what items people need for a minimum acceptable standard of living, and these have been costed at national chain stores.

Source and basis of calculation

See annual data at www.minimumincomestandard.org. The nine non-pensioner households used in MIS are single-unit households (i.e. single adults or couples living with or without dependent children, but nobody else), with up to three children for lone parents and up to four children for couples. In each case we assume certain ages of children, which makes a difference to cost (see table below). By using a range of ages, balanced across the age range, we produce a balance between figures that would be higher or lower than average compared to different age combinations.

Results

| Family type | Single | Couple | Lone parent+1 (age 0-1) | Lone parent+2 (age 2-4 and primary) | Lone parent+3 (age 2-4, primary, secondary) | Couple +1 (age 0-1) | Couple +2 (age 2-4, primary) | Couple +3 (age 2-4, primary, secondary) | Couple +4 (age 0-1, 2-4, primary, secondary) |
|---|--------|--------|----------------------------|--|--|------------------------|------------------------------------|--|---|
| MIS excluding housing, childcare, council tax £/week | 183.26 | 303.54 | 274.00 | 366.33 | 468.46 | 373.74 | 459.58 | 568.04 | 621.30 |

Source: <http://www.minimumincomestandard.org>

(i) Rent, council tax and childcare calculations

(a) Council rents for families

What is being calculated?

Average council rent for families with children for local authorities outside London.

(This uses simple average for each local authority that still has council housing)

Rationale

In line with London Living Wage approach, assume that the cheapest available property will be a council letting. Using the average assumes that if you are lucky enough to get a council property you can't expect choice on price.

Source and basis of calculation

Average council rents in England by region, Scotland and Wales are reported for 2012/13 in the 2014 UK Housing Review. These are averaged for UK regions outside London using a weighting based on population. The results are then updated by 5.1 per cent in 2013 and 3.1 per cent plus £2 a week in 2014 to take account of standardised increases in council rents, set nationally, to give the results below.

Results

Summary

| Council Rent Requirement | lp+1 | lp+2 | lp+3 | c+1 | c+2 | c+3 | c+4 |
|---------------------------------|-------------|-------------|-------------|------------|------------|------------|------------|
| Families with children £/week | 81.52 | 89.36 | 99.65 | 81.52 | 89.36 | 99.65 | 99.65 |

Detail behind these calculations are shown in Annex 1 below.

(b) Private rents for singles and couples without children

What is being calculated?

The average of the lower quartile rent in each local housing market area, outside London.

Rationale

In line with the London Living Wage, it is assumed that people without children will not normally have access to social housing, but that they will be able to rent a home

at the cheaper end of the local private rental market. Since 2014, MIS has established a minimum of a one-bedroom flat for a single or a couple without children; this is taken as the 25th percentile of one-bedroom rents for a single and (to allow choice of a larger dwelling) the 30th percentile for couples.¹

Source and basis of the calculation

There is no very straightforward way of calculating such a benchmark rent. After considering several possible ways of estimating this, the following basis was used. Estimates are now being made of '30th percentile' rents for each 'Broad Rental Market Area (BRMA)' for the purposes of calculating the Local Housing Allowance (LHA). The private rent levels for couples used here represent unweighted averages of these 30th percentile rents, reported in April 2013, in one bedroom properties respectively, in England outside London, Scotland and Wales. For singles, these are deflated to an estimate of the 25th percentile level. The deflation factor is based on analysis of data from the Family Resources survey, kindly carried out by David Rhodes at the University of York, showing the 25th and 30th percentile of rents from this survey for properties of these sizes, and hence suggesting a ratio between the two. We considered whether to use that survey to estimate the rent figure itself, but considered that the more detailed information collected in the LHA data provides a richer primary source, and also that using a rent at the 25th percentile nationally was less appropriate than taking an average of 25th percentile figures estimated for each area. The former can be more heavily influenced by areas where most rents are relatively low, and gives no weight to rents in more expensive areas, so will be more out of line with what is available to tenants in such areas. Another advantage of the LHA figures is that they permit adjustments for local areas where requested.

¹ See Abigail Davis, Donald Hirsch and Matt Padley (2014) *A Minimum Income Standard for the United Kingdom in 2014*, York: Joseph Rowntree Foundation, page 26.

Results

The following were the resulting rents used:

| | Single | Couple |
|---------------------------------------|---------------|---------------|
| Private rent requirement, £/wk | 71.20 | 81.88 |

Details of the calculations are shown in Annex 2 below.

(c) Council tax

What is being calculated?

The average council tax paid across local authorities outside London by a family of each given type, living in basic accommodation.

Rationale

People in different parts of the country pay different amounts of council tax – this average is the closest estimate of what families have to pay, and follows the London Living Wage practice of taking such an average.

Source and basis of the calculation

The Government published Band D figures for each local authority, and a simple average of the total council tax bill for a Band D property in each billing authority is used as a baseline. This is then adjusted according to the standard formula to the relevant band, based on which band was observed as relevant to the family type in the MIS research (e.g. a couple without children, in Band A, pays two thirds of the Band D rate). Single adult reductions of 25 per cent are applied.

Results

| Family type | Single | Couple | Lone parent +1 | Lone parent +2 | Lone parent +3 | Couple +1 | Couple +2 | Couple +3 | Couple +4 |
|--------------------|---------------|---------------|-----------------------|-----------------------|-----------------------|------------------|------------------|------------------|------------------|
| Council tax | 13.97 | 18.63 | 16.30 | 16.30 | 16.30 | 21.73 | 21.73 | 21.73 | 21.73 |

Details of the calculations are shown in Annex 3 below.

(d) Childcare

What is being calculated?

Full-time childcare costs, averaged across regions, based on the Daycare Trust survey of regional childcare costs applied to MIS assumptions about how many hours of childcare a working family needs.

Rationale

For a family with children, in which the parent(s) are working full time, we need to assume that paid-for childcare will be required for young children not at school, including after-school club up to the end of primary school. These costs vary across regions (although outside London and the Southeast not by a huge amount), and the Daycare Trust survey provides a basis for taking an average cost (as it does for the London Living Wage). The range of ages used as examples in the MIS family types enable us to consider a range of childcare costs facing different households, and the final living wage calculations is based on an average of these.

Source and basis of the calculation

Using figures from the Daycare Trust survey published every January, we can calculate (the hourly cost of a childminder in each region. Across UK regions outside London, the average hourly cost of the childminder is very close to that used in MIS. This is slightly different from the Central England average figure used in MIS.

Results

The following childcare costs were calculated. In 2014, the calculation was based on a simple uprating of the 2014 by 3.3 per cent. This increase is the unweighted average of the increase reported by the Daycare Trust for each region outside London. A more detailed calculation showing how the requirements of each family type are worked out is shown in Annex 4 of the equivalent uprating paper for 2012.

| Family type | Lone parent+1 (age 0-1) | Lone parent+2 (age 2-4 and primary) | Lone parent+3 (age 2-4, primary, secondary) | Couple +1 (age 0-1) | Couple +2 (age 2-4, primary) | Couple +3 (age 2-4, primary, secondary) | Couple +4 (age 0-1, 2-4, primary, secondary) |
|----------------|-------------------------|-------------------------------------|---|---------------------|------------------------------|---|--|
| Childcare £/wk | 173.10 | 171.15 | 171.15 | 173.10 | 171.15 | 171.15 | 270.48 |

(iii) Calculating wage requirement for each family type

What is being calculated?

The wage that produces enough income after taxes, benefits and tax credits to cover the expenses specified in (i) and (ii) above. This assumes that families claim everything that they are entitled to. For couples, it shows the wage that both partners would have to earn to reach the minimum.

Rationale

This translates the minimum income standard into a minimum wage requirement. It assumes everyone in the family is able to work full time. Where this is not the case, a higher hourly wage would be needed. In this sense, the Living Wage level, like MIS itself, represents a benchmark which nobody should have to be below, rather than necessarily something that will meet every household's needs.

Basis of the calculation

The Minimum Income Calculator at www.minimumincome.org.uk, is used to derive a gross annual earnings requirement, which is then divided by the number of working hours in the year. We assume 365/7 weeks in the year, and 37.5 hours in a working week (the figure most commonly used in wage bargaining negotiations).

Results

The following summarises the composition of the costs as set out above, and how this translates into wage requirements.

| Family type | Single | Couple | Lone parent+1 | Lone parent+2 | Lone parent+3 | Couple +1 | Couple +2 | Couple +3 | Couple +4 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| MIS excluding housing, childcare, council tax | 183.26 | 303.54 | 274.00 | 366.33 | 468.46 | 373.74 | 459.58 | 568.04 | 621.30 |
| Rent | 71.20 | 81.88 | 81.52 | 89.36 | 99.65 | 81.52 | 89.36 | 99.65 | 99.65 |
| Childcare | 0.00 | 0.00 | 173.10 | 171.15 | 171.15 | 173.10 | 171.15 | 171.15 | 270.48 |
| Council tax | 13.97 | 18.63 | 16.30 | 16.30 | 16.30 | 21.73 | 21.73 | 21.73 | 21.73 |
| Total: target net income | 268.43 | 404.04 | 544.91 | 643.14 | 755.57 | 650.08 | 741.82 | 860.57 | 1013.16 |
| Annual wage requirement | 16235 | 22284 | 27141 | 32366 | 41254 | 36497 | 40471 | 50578 | 53890 |
| Hourly wage requirement | 8.30 | 5.70 | 13.88 | 16.55 | 21.10 | 9.33 | 10.35 | 12.93 | 13.78 |

(iv) Producing a single Living Wage

What is being calculated?

A weighted average of the wage for different household groups.

Rationale

As with the London Living Wage, we deal with the fact that different households have different wage requirements by producing an average requirement, weighted by the number of households of each type.

Basis of the calculation

Using information on the number of households in each type from the Expenditure and Food Survey and its successor the Living Costs and Food Survey, each of the family type is given a weighting. We then produce a weighted average of the hourly wage requirements calculated above. As with the London Living Wage, we end by rounding to the nearest 5p for ease of use and presentation.

Results

| Family type | Single | Couple | Lone parent+1 | Lone parent+2 | Lone parent+3 | Couple +1 | Couple +2 | Couple +3 | Couple +4 |
|---|--------|--------|---------------|---------------|---------------|-----------|-----------|-----------|-----------|
| Wage requirement | 8.30 | 5.70 | 13.88 | 16.55 | 21.10 | 9.33 | 10.35 | 12.93 | 13.78 |
| Weighting=number of households of this family type as a percentage of all households of the family types shown here | 0.24 | 0.28 | 0.06 | 0.04 | 0.01 | 0.12 | 0.17 | 0.05 | 0.01 |
| Wage times weighting | 2.03 | 1.61 | 0.78 | 0.70 | 0.29 | 1.15 | 1.77 | 0.69 | 0.19 |

TOTAL of final row: **£9.20**

(v) Limiting single-year increases

What is being calculated?

An 'earnings cap' limits the increase in the living wage in any one year, relative to the increase in average earnings.

Rationale

If the income needed to sustain a minimum acceptable standard of living rises much faster than average earnings, there will be limits to how far it is acceptable for employers to increase wages for the lowest earners to meet their increased needs.

Basis of the calculation

The application of the earnings cap is straightforward. This is based on the idea that at any one year, employers should not be asked to award pay rises more than two per cent above the average - e.g. if earnings rise on average by three per cent, the rise in the living wage should be capped at five per cent.

For the increases taking effect from November 2014, we have used the latest annual increase in average weekly earnings: between June-August 2013 and June-August 2014 (a three-month average avoids quirks of monthly fluctuations). This increase is **0.7 per cent** (Labour Market Statistics, October 2013, Earn01-KAC3).

Based on this increase, plus two percentage points, the maximum increase from the previous Living Wage level of £7.65 can be calculated as $£7.65 + 2.7\% = £7.86$. This is rounded to the nearest 5p - to £7.85.

Conclusion

Based on the above calculations, the 'reference' level of the Living Wage, reflecting actual minimum living costs, is £9.20 in 2014, but the applied Living Wage, resulting from the capped increase, is **£7.85**.

Thus, as in 2012 and 2013, for the time being it must be accepted that the applied Living Wage, while originating from a benchmark representing real minimum living costs, has been restricted to a level that is lower than these costs. This is a product of difficult economic times, but by keeping track of a 'reference' level that reflects minimum living costs in full, it will be possible to see what would be needed in better times for the Living Wage to be restored to this level.

ANNEX 1 DETAIL OF COUNCIL RENT CALCULATION

1. Published rents by region for 2012/13. Source: UK Housing Review 2013/14

<http://www.york.ac.uk/res/ukhr/>

Table 74 - England broken down by region

| North East | Yorkshire & The Humber | East Midlands | East of England | South East | South West | West Midlands | North West | England |
|------------|------------------------|---------------|-----------------|------------|------------|---------------|------------|---------|
| 69.57 | 67.90 | 70.50 | 82.20 | 86.29 | 75.59 | 71.13 | 71.46 | 78.41 |
| 73.31 | 73.24 | 75.84 | 91.52 | 98.31 | 83.42 | 79.67 | 76.08 | 85.03 |
| 80.79 | 80.86 | 83.04 | 101.51 | 109.15 | 91.26 | 89.73 | 81.45 | 103.47 |

Scotland/Wales estimates based on 2009 comparison with England

| | England 09 | Wales 09 | Scotland 09 | Assumed rent 2012 based on England rate | Scotland | Wales |
|---------------------|------------|----------|-------------|---|----------|-------|
| Av rent | 66.05 | 61.33 | 52.83 | 2 bed | 62.73 | 72.92 |
| Fraction of England | | .93 | 0.80 | 3 bed | 68.02 | 79.08 |
| | | | | 4 bed | 82.78 | 96.23 |

| | North East | Yorkshire & The Humber | East Midlands | East of England | South East | South West | West Midlands | North West | Scotland | Wales | | |
|--|------------|------------------------|---------------|-----------------|------------|------------|---------------|------------|----------|----------|--------------|---|
| Weighting (see 2011 calculations) | 0.04946 | 0.100635 | 0.085192 | 0.110367 | 0.161451 | 0.10012 | 0.103945 | 0.132019 | 0.099408 | 0.057404 | | |
| Rent times weighting | | | | | | | | | | | Total | Upated to 2014 (by 5.1*+3.1*+£2) |
| Two bedroom | 3.44 | 6.83 | 6.01 | 9.07 | 13.93 | 7.57 | 7.39 | 9.43 | 6.24 | 4.19 | 74.10 | 81.52 |
| Three bedroom | 3.63 | 7.37 | 6.46 | 10.10 | 15.87 | 8.35 | 8.28 | 10.04 | 6.76 | 4.54 | 81.41 | 89.36 |
| Four bedroom | 4.00 | 8.14 | 7.07 | 11.20 | 17.62 | 9.14 | 9.33 | 10.75 | 8.23 | 5.52 | 91.00 | 99.65 |

ANNEX 2 DETAILS OF PRIVATE RENTAL CALCULATION

1. Average of 30th percentile rents from LHA statistics outside London (1)

1 bedroom
AVERAGE:
£81.88

(1) Taken from April 2014 – unweighted average of all areas, from <http://www.voa.gov.uk/corporate/publications/residential.html#rep> ,
<http://www.scotland.gov.uk/Topics/Built-Environment/Housing/privaterent/tenants/money/localhousingallowance/Figures-1> and
<http://wales.gov.uk/topics/housingandcommunity/housing/private/renting/rentofficers/publications/lha14/?lang=en>

2. To get from 30th to 25th percentile, analysis of Family Resources Survey rents (2008/9) supplied by David Rhodes, York University

| 25th percentile | 30th percentile | Ratio |
|-----------------|-----------------|-------|
| 60 | 69 | 1.15 |

3. Translate LHA data in 1 into 25th percentile

1 bedroom
£71.20

ANNEX 3 DETAILS OF COUNCIL TAX CALCULATIONS

| | Single | Couple | lp+1 | lp+2 | lp+3 | c+1 | c+2 | c+3 | c+4 |
|------------------------|---------------|---------------|-------------|-------------|-------------|------------|------------|------------|------------|
| Average Band D rate(1) | 27.94 | 27.94 | 27.94 | 27.94 | 27.94 | 27.94 | 27.94 | 27.94 | 27.94 |
| Multiple of band D (2) | 0.50 | 0.67 | 0.58 | 0.58 | 0.58 | 0.78 | 0.78 | 0.78 | 0.78 |
| Council tax £/week | 13.97 | 18.63 | 16.30 | 16.30 | 16.30 | 21.73 | 21.73 | 21.73 | 21.73 |

Notes: 1) Simple average of all billing authorities outside London, 2009, times council tax inflation from RPI for 2009-2014 translated to weekly

Band D Average 2009
1,398

Council tax inflation 2009-13
1.042457

Band D average 2010-11

Annual
£1456.85

Weekly
27.93

2) This is standard multiples using national rules for the bands that equate to the relevant family type in MIS. (Includes 25 per cent reduction for single adult.)

Sources

<http://www.communities.gov.uk/documents/statistics/xls/1289054.xls>

<http://www.statswales.wales.gov.uk/TableViewer/tableView.aspx?ReportId=877>

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Local-Government-Finance/DatasetsCouncilTax>