

## **Working paper: updating the UK Living Wage in 2015**

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 2<sup>nd</sup> November 2015, coinciding with the updating of the London Living Wage as calculated by GLA Economics.

The following calculations start by calculating minimum living costs in 2015, 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](http://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<br>(age 0-1) | Lone parent+2<br>(age 2-4 and primary) | Lone parent+3<br>(age 2-4, primary, secondary) | Couple +1<br>(age 0-1) | Couple +2<br>(age 2-4, primary) | Couple +3<br>(age 2-4, primary, secondary) | Couple +4<br>(age 0-1, 2-4, primary, secondary) |
|--|--------|--------|----------------------------|--|--|------------------------|---------------------------------|--|---|
| MIS excluding housing, childcare, council tax £/week | 181.39 | 302.30 | 273.72                     | 366.91                                 | 469.60   | 374.79                 | 461.51                          | 570.51                                     | 623.99  |

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

**(ii) 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 2013/14 in the 2015 UK Housing Review, although not broken down in as much detail by number of bedrooms as in the previous year. A combination of these two years' data is used to estimate 2013 social rents, which are averaged for UK regions outside London using a weighting based on population. The results are then uprated by 3.1 per cent plus £2 a week in 2014 and 2.2 per cent in 2015, to take account of standardised increases in council rents, set nationally, to give the results below.

***Results***

Summary

| <b>Council Rent Requirement</b> | <b>lp+1</b> | <b>lp+2</b> | <b>lp+3</b> | <b>c+1</b> | <b>c+2</b> | <b>c+3</b> | <b>c+4</b> |
|---------------------------------|-------------|-------------|-------------|------------|------------|------------|------------|
| Families with children £/week   | 82.29       | 90.22       | 100.58      | 82.29      | 90.22      | 100.58     | 100.58     |

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 home for a single or a couple without children, in each case at a modest rent as a benchmark.

### ***Source and basis of the calculation***

There is no very straightforward way of calculating such a benchmark rent. An earlier method based on Local Housing Allowance data has been dropped because LHAs are no longer linked to the distribution of rents within each area. After considering several alternatives, the following basis is now used. Valuation Office Agency figures show the distribution of rents in England, broken down by housing size. The average of lower-quartile rents for English regions outside London is used: the average of these figures for studio and one-bedroom properties for a single person, and the figure for one-bedroom in the case of a couple. This produces figures at a similar level to the previous calculation, and can be said to represent an example of a modest rent. While it covers England only because UK-wide data could not be identified on a comparable basis, the results are similar to the previous LHA-based data which included data from Scotland and Wales.

### ***Results***

The following were the resulting rents used:

|                                       | <b>Single</b> | <b>Couple</b> |
|---------------------------------------|---------------|---------------|
| <b>Private rent requirement, £/wk</b> | 86.37         | 94.50         |

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 |
|--------------------|--------|--------|---------------|---------------|---------------|-----------|-----------|-----------|-----------|
| <b>Council tax</b> | 14.13  | 18.84  | 16.48         | 16.48         | 16.48         | 21.98     | 21.98     | 21.98     | 21.98     |

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 2015, the calculation was based on a simple uprating of the 2014 figure by 2.4 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<br>(age 0-1) | Lone parent+2<br>(age 2-4 and primary) | Lone parent+3<br>(age 2-4, primary, secondary) | Couple +1<br>(age 0-1) | Couple +2<br>(age 2-4, primary) | Couple +3<br>(age 2-4, primary, secondary) | Couple +4<br>(age 0-1, 2-4, primary, secondary) |
|----------------|----------------------------|--|--|------------------------|---------------------------------|--|---|
| Childcare £/wk | £177.25                    | £175.26                                | £175.26  | £177.25                | £175.26                         | £175.26                                    | £276.97   |

### (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](http://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 | 181.39        | 302.30        | 273.72        | 366.91        | 469.60        | 374.79        | 461.51        | 570.51        | 623.99         |
| Rent  | 86.37         | 94.50         | 82.29         | 90.22         | 100.58        | 82.29         | 90.22         | 100.58        | 100.58         |
| Childcare                                     | 0.00          | 0.00          | 177.25        | 175.26        | 175.26        | 177.25        | 175.26        | 175.26        | 276.97         |
| Council tax                                   | 14.13         | 18.84         | 16.48         | 16.48         | 16.48         | 21.98         | 21.98         | 21.98         | 21.98          |
| Total: target net income                      | <b>281.89</b> | <b>415.64</b> | <b>549.74</b> | <b>648.88</b> | <b>761.93</b> | <b>656.31</b> | <b>748.97</b> | <b>868.33</b> | <b>1023.52</b> |
| Annual wage requirement                       | 17072         | 22784         | 27410         | 32097         | 41012         | 36513         | 39990         | 50119         | 52690          |
| Hourly wage requirement                       | <b>8.73</b>   | <b>5.83</b>   | <b>14.02</b>  | <b>16.41</b>  | <b>20.97</b>  | <b>9.34</b>   | <b>10.23</b>  | <b>12.82</b>  | <b>13.47</b>   |



#### **(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.

## Results

| Family type   | Single | Couple | Lone parent+1 | Lone parent+2 | Lone parent+3 | Couple +1 | Couple +2 | Couple +3 | Couple +4 |
|---|--------|--------|---------------|---------------|---------------|-----------|-----------|-----------|-----------|
| Wage requirement  | 8.73   | 5.83   | 14.02         | 16.41         | 20.97         | 9.34      | 10.23     | 12.82     | 13.47     |
| 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  | 2.14   | 1.64   | 0.79          | 0.69          | 0.28          | 1.15      | 1.75      | 0.68      | 0.19      |

**TOTAL** of final row: **£9.31**

## **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. Where this creates an applied Living Wage lower than the reference rate, the applied rate increases in future years, up to the amount permitted by the cap, until it catches up with the 'reference rate' calculated in the previous section.

For the increases taking effect from November 2015, we have used the latest annual increase in average weekly earnings: between June-August 2014 and June-August 2015 (a three-month average avoids quirks of monthly fluctuations). This increase is **3.0 per cent** (Labour Market Statistics, October 2015, Earn01-KAC3).

Based on this increase, plus two percentage points, the maximum increase from the previous Living Wage level of £7.85 can be calculated as  $£7.85 + 5.0\% = £8.24$ . This is rounded, for ease of presentation, to the nearest 5p – to £8.25. Since this figure remains lower than the reference rate, the full increase permitted by the cap is applied.

## Conclusion

Based on the above calculations, the 'reference' level of the Living Wage, reflecting actual minimum living costs, is £9.31 in 2014, but the applied Living Wage, resulting from the capped increase, is **£8.25**.

Thus, as in the previous three years, 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 the cumulative result of difficult economic times. However, in 2015, a more favourable situation in which earnings are rising significantly faster than prices is allowing a degree of 'catching up' with the reference rate: the gap between the applied and reference rates has narrowed by nearly a quarter (29p).

## ANNEX 1 DETAIL OF COUNCIL RENT CALCULATION

### 1 Published gross rents by region for 2012/13. Source: UK Housing Review 2014

<http://www.york.ac.uk/res/ukhr/ukhr1112/compendium.htm>

|                       | North East | Yorkshire & The Humber | East Midlands | East of England | South East | South West | West Midlands | North West | England | Scotland* | Wales* |
|-----------------------|------------|------------------------|---------------|-----------------|------------|------------|---------------|------------|---------|-----------|--------|
| <b>Two bedrooms</b>   | 69.57      | 67.90                  | 70.50         | 82.20           | 86.29      | 75.59      | 71.13         | 71.46      | 78.41   | 62.73     | 72.92  |
| <b>Three bedrooms</b> | 73.31      | 73.24                  | 75.84         | 91.52           | 98.31      | 83.42      | 79.67         | 76.08      | 85.03   | 68.02     | 79.08  |
| <b>Four bedrooms</b>  | 80.79      | 80.86                  | 83.04         | 101.51          | 109.15     | 91.26      | 89.73         | 81.45      | 103.47  | 82.78     | 96.23  |

\*Estimates for Scotland and Wales (see 2010 basis)

### 2 Estimate for 2013/14 based on results for two bedrooms only in 2015 UK Housing Review (which groups all 3+ bedrooms into single category; 3 and 4 bedrooms assumed increase in proportion to 2 bedrooms since 2012/13)

|                       | North East | Yorkshire & The Humber | East Midlands | East of England | South East | South West | West Midlands | North West | England | Scotland* | Wales* |
|-----------------------|------------|------------------------|---------------|-----------------|------------|------------|---------------|------------|---------|-----------|--------|
| <b>Two bedrooms</b>   | 72.62      | 68.94                  | 74.25         | 84.11           | 90.99      | 79.17      | 75.55         | 73.89      | 79.30   | 63.44     | 73.75  |
| <b>Three bedrooms</b> | 76.52      | 74.36                  | 79.87         | 93.65           | 103.66     | 87.37      | 84.62         | 78.67      | 86.00   | 68.80     | 79.98  |
| <b>Four bedrooms</b>  | 84.33      | 82.10                  | 87.46         | 103.87          | 115.10     | 95.58      | 95.31         | 84.22      | 104.64  | 83.72     | 97.32  |

### 3 Weighted average across regions outside London

|                      | North East | Yorkshire & The Humber | East Midlands | East of England | South East | South West | West Midlands | North West | Scotland* | Wales*   | Total        |
|----------------------|------------|------------------------|---------------|-----------------|------------|------------|---------------|------------|-----------|----------|--------------|
| Weighting            | 0.04946    | 0.100635               | 0.085192      | 0.110367        | 0.161451   | 0.10012    | 0.103945      | 0.132019   | 0.099408  | 0.057404 | <b>1.00</b>  |
| Rent times weighting |            |                        |               |                 |            |            |               |            |           |          |              |
| Two bedroom          | 3.59       | 6.94                   | 6.33          | 9.28            | 14.69      | 7.93       | 7.85          | 9.75       | 6.31      | 4.23     | <b>76.90</b> |
| Three bedroom        | 3.78       | 7.48                   | 6.80          | 10.34           | 16.74      | 8.75       | 8.80          | 10.39      | 6.84      | 4.59     | <b>84.50</b> |
| Four bedroom         | 4.17       | 8.26                   | 7.45          | 11.46           | 18.58      | 9.57       | 9.91          | 11.12      | 8.32      | 5.59     | <b>94.43</b> |

### 4 Above totals uprated for two years, to 2015/16 by 3.1%+£2\* then by 2.2%\*

|               |        |
|---------------|--------|
| Two bedroom   | 82.29  |
| Three bedroom | 90.22  |
| Four bedroom  | 100.58 |

## ANNEX 2 DETAILS OF PRIVATE RENTAL CALCULATION

Monthly rents recorded between 1 April 2014 and 31 March 2015 by region for England

Source: Valuation Office Agency, Private Rental Market Statistics May 2015

---

| <b>Lower quartile monthly rents</b>                           | <b>Studio</b> | <b>One bed</b> |                                      |
|---|---------------|----------------|--------------------------------------|
| North east  | 295           | 350            |                                      |
| North west  | 300           | 375            |                                      |
| Yorkshire and the Humber                                      | 295           | 350            |                                      |
| East Midlands   | 295           | 375            |                                      |
| West Midlands   | 325           | 395            |                                      |
| East  | 395           | 450            |                                      |
| South East  | 450           | 540            |                                      |
| South West  | 365           | 450            |                                      |
| Average weekly, English region lower quartiles outside London | 78.25         | 94.50          | <b>Average studio/1-bed</b><br>86.37 |

---

**Average one-bedroom and studio (applied to single) £86.37**

**One bedroom (applied to couple) £94.50**

**ANNEX 3      DETAILS OF COUNCIL TAX CALCULATIONS**

|                        | <b>Single</b> | <b>Couple</b> | <b>lp+1</b> | <b>lp+2</b> | <b>lp+3</b> | <b>c+1</b> | <b>c+2</b> | <b>c+3</b> | <b>c+4</b> |
|------------------------|---------------|---------------|-------------|-------------|-------------|------------|------------|------------|------------|
| Average Band D rate(1) | 28.26         | 28.26         | 28.26       | 28.26       | 28.26       | 28.26      | 28.26      | 28.26      | 28.26      |
| 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     | 14.13         | 18.84         | 16.48       | 16.48       | 16.48       | 21.98      | 21.98      | 21.98      | 21.98      |

Notes: 1) Simple average of all billing authorities outside London, 2009, times council tax inflation from RPI for 2009-2015 translated to weekly

**Band D Average 2009**

1,398

**Council tax inflation 2009-13**

1.05436

**Band D average 2015-16**

Annual  
£1473.49

Weekly  
£28.26

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>