

CLOSING THE GAP:

**A Living Wage that means
families don't go short**

The final report of the Living Wage Commission

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THE LIVING WAGE COMMISSION

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1 INTRODUCTION

Over the last decade the Living Wage campaign has brought together a diverse group of independent businesses, organisations and people who believe that a fair day's work deserves a fair day's pay.

Today more than 2,700 employers, including nearly a third of the FTSE-100, have committed to ensure their employees earn an hourly wage that meets their cost of living - not just the government minimum.

In 2016 the campaign for fair pay moved forward when the government sought to narrow the gap between the National Minimum Wage and the amount people need to live on by introducing a new higher statutory floor for those aged 25 and above - even calling it a 'national living wage'.

Despite this progress the number of people struggling to make ends meet has grown in recent years. Across the UK six million jobs still pay less than the Living Wage¹, and half of all UK households have seen no improvement in their real disposable incomes since 2005.³ The need for employers to take action is stronger than ever.

This final report of the Living Wage Commission sets out an aligned approach to calculating an hourly rate that reflects what people need to meet their everyday basic costs in London and the UK, based on a six-month review of the best available evidence on living standards across the country today. We also highlight the cost of living pressures lower paid workers are likely to face in the years to come, and set out a balanced approach to how these will be reflected in the independent Living Wage rates.

1. Office for National Statistics (2015) *Estimates of employee jobs paid less than the living wage in London and other parts of the UK*, ONS

2. Haldane A (2016) 'Whose recovery?' Speech in Port Talbot, Wales, 30 June 2016

The Living Wage Commission: Background and context

The Living Wage Commission was set up in January 2016 to oversee the calculation of the independent Living Wage rates in London and the UK.

As a group of leading Living Wage employers, independent experts and representatives from trade unions and civil society, our purpose is to ensure the Living Wage remains a robust benchmark for employers committed to ensuring their employees earn a wage that meets the cost of essential goods and services.

In January 2016 we asked the Resolution Foundation to conduct a review to align the methodologies underpinning the independently-calculated Living Wage rates. The current methodologies have delivered year-on-year improvements for low paid workers and provided a robust base for employers to sign up to be Living Wage employers. They take a similar approach but are calculated by different bodies based on some variations in data and assumptions. The Resolution Foundation published their recommendations for an aligned approach in July 2016.³

This report sets out the Commission's response to the Resolution Foundation's recommendations, the implications for the independent Living Wage rates, and further measures to ensure that they reflect changes in the cost of living year-on-year during a time of growing uncertainty. A full technical paper setting out the detailed methodology will be published on October 31st 2016.

The Living Wage Commission is appointed by the Living Wage Foundation.

³ For full details of the Resolution Foundation's review please see D'Arcy C and Finch D (2016) *Making the Living Wage: The Resolution Foundation review of the Living Wage*, Resolution Foundation



WHAT IS A LIVING WAGE TODAY ?

An independent assessment for London and the UK

The independent Living Wage rates provide a voluntary benchmark for employers, applying to all staff aged 18 and over.

They are set based on analysis of what employees and their families need to earn in order to have a decent standard of living and fully participate in society, with a separate rate calculated for London to reflect the higher costs faced by those working in the capital.

The rates are higher than the government's national living wage, which is set based on a target to meet 60 per cent of average earnings for those aged 25 and over by 2020. Currently, full time workers paid the Living Wage earn about £40 more a week than those on the government's national living wage, and £80 in London. The gap is larger still when compared to the statutory minimum wage rates for under-25 year olds, which take into account the potential impact on employment, and are therefore necessarily more conservative.

The Living Wage Commission fully accepts the Resolution Foundation's recommendations for an aligned approach to calculating the independent London and UK Living Wage rates, moving away from the use of two distinct methodologies.

Our approach is based on analysis of what full time workers aged 18 and over need in London and the UK, on the basis that no one should work full time and still not earn enough to live on. This reflects our view that employers have a joint responsibility with the state to support decent living standards, and that the state has a particular role in supporting children and those with disabilities. The independent Living Wage rates have always taken into account some government support such as that for affordable housing, childcare and tax credits. This support is particularly important for single parents, who often need to work part time. We believe it is reasonable, however, to ask employers to meet a benchmark that (in addition to this government support) ensures full time employees earn a wage that meets at least the cost of living.

In addition, the independent Living Wage:

Is based on an up-to-date analysis of what people need to meet a decent standard of living:

The defining feature that differentiates the independent Living Wage rates from the statutory wage floors is that they are based on analysis of the specific goods and services that employees and their families need to meet a minimum acceptable standard of living. It is important that this basket of goods is regularly updated, based on focus groups that accurately reflect the views and experiences of ordinary people across all four nations of the UK about what is required to fully participate in society, and how social norms and needs change over time.

The Living Wage Commission currently views the Minimum Income Standard research carried out by the Centre for Research in Social Policy at Loughborough University as the best available source for this basket of goods.

Takes into account the needs of a broad and representative mix of family types:

The independent Living Wage rates are calculated based on analysis of the hourly wage that employees need to earn in order to be able to afford the basket of goods required for a decent standard of living. This amount varies considerably for different people, depending on the nature and needs of their families. It is important that a wage based on what people need to meet the cost of living is based on a broad and representative mix of family types, including a mix of one- and two-parent families, with children of different ages. The analysis covers families working full time, bearing in mind the Commission's view that the state has a particular responsibility to support children and those with disabilities.

Includes analysis of the higher housing, childcare and transport costs in the capital:

Housing, childcare and transport are vital services for all working people, and make up a large proportion of basic costs. The calculation of a separate London Living Wage rate reflects the fact that housing and childcare costs are significantly higher in the capital than in the rest of the country, and that transport needs differ. A typical studio flat in London costs £400 a month more than in England as a whole, for example.⁴

How these differences are measured and kept up to date in a fast-paced city like London can make a big difference. The review explored a combination of up to date patterns of use and public views about what constitutes an acceptable standard of living. The analysis revealed that the gap between the government's minimum and the wage people need to live on in London is wider than previously estimated, reflecting rising housing costs, changing family needs and the use of up-to-date data on the cost of living.⁵

In order to ensure Living Wage employees in the capital are earning enough to make ends meet, the London Living Wage will be set on a path to a higher level over the coming years to reflect this shift. On current projections, moving to this higher level is likely to require the London Living Wage to rise faster than average wages.

This aligned approach will underpin the calculation of the independent Living Wages from 31st October 2016, providing a robust benchmark for employers committed to ensuring all employees and sub-contracted staff earn enough to live on.

⁴ Valuation Office Agency (2016) Private rental market statistics - May 2016

⁵ For details see D'Arcy C and Finch D (2016) *Making the Living Wage: The Resolution Foundation review of the Living Wage*. Resolution Foundation

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DEALING WITH GROWING UNCERTAINTY:

Managing shocks to living costs

A Living Wage must reflect and be driven by the real costs and pressures affecting people in their everyday lives.

There is a lot of economic uncertainty about how these will evolve in the wake of the vote to leave the European Union, but official forecasts predict further pressures on living standards caused by lower wage growth and higher inflation in the years to come.⁶ This reflects the fall in the value of the pound, which is pushing up the cost of imports, and is expected to feed into lower wages and higher consumer prices at some point. Most pressingly, higher petrol prices are expected to push up inflation in the coming months.⁷

The key difference between the independent Living Wage rates and the government's minimum is that the independent Living Wage will reflect these cost pressures, while the statutory wage floor will not. This reflects their different purposes. The independent Living Wage rates are based on a methodology that calculates what people need to live on in London and the UK, while the minimum wage rates take into account affordability for all employers and, for the over-25s, median earnings. Expectations of higher inflation and weaker earnings growth mean that the gap between these rates is likely to remain similar despite higher minimum wage increases in the coming years.

This paper has set out the core tenets of the aligned Living Wage methodology. A technical paper setting out the full details of the updated approach will be published with the new Living Wage rates for 2016-17 on 31st October 2016.

⁶ Bank of England, *Inflation Report August 2016*

⁷ Ibid.

As well as economic shifts, there are also policy changes on the horizon that could have upward and downward effects on the living standards of employees and their families. Under current plans, for example, the introduction of Universal Credit will alter the shape of government support received by some families, and the ongoing four-year cash freeze in the rates of working age benefits will see their value fall in real terms. Parents are also set to benefit from an increase in the number of free hours of childcare they receive, helping to ease the pressure. These trends can also affect underlying social norms and therefore the expectations of what people need to meet a decent standard of living and fully participate in society. These factors could potentially create significant volatility in the Living Wage rates from one year to the next.

While the Living Wage Commission does not set the Living Wage rates, specific judgments may be needed to determine how to incorporate policy changes into the calculation (for instance when a policy is being rolled out across the country over a long period). Our view is that as a general principle the rate should reflect the actual pace at which new policies affect the population, particularly given these are subject to change. The Commission may also take a view on how to phase in any significant shift in the public's opinion of what people need to meet a decent standard of living (that is, changes in the basket of goods which are considered necessary). Finally, the Commission will keep the whole methodology under review to ensure the Living Wage remains a benchmark for employers that is fully representative of life in the UK today and uses the most up-to-date data available on the cost of living – with technical support provided by an expert calculating body. In addition to the role of the Commission, an overall 'shock absorber' will manage the impact on the rates of any extreme year-to-year variations from general rises in living costs.



CONCLUSION

The Living Wage Commission welcomes the significant step the government has taken towards closing the gap between the statutory minimum and the wage older workers need to meet their basic needs.

Our review has highlighted the key differences between the two approaches and the continued need for a higher, voluntary benchmark for employers committed to ensuring all employees earn a wage that is enough to live on. The difference for employees is tangible. It is the difference between earning enough to afford the things you need to live – decent housing, transport and a warm home. With more than six million people still paid a wage less than a Living Wage, the job is far from finished.

