Resolution Foundation
BRIEFING

Calculating the Real Living Wage for London and the rest of the UK: 2023

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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 2023-24 is £12.00.

The London Living Wage for 2023-24 is £13.15.

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All errors remain the sole responsibility of the authors.

Foreword from the Chair of the Living Wage Commission

This marks the eighth year that the Living Wage Commission (LWC) has overseen the calculation of the Living Wage rates for the UK and London. This report, from the Resolution Foundation, sets out the Living Wage rates for 2023-24, and the details underpinning the calculation.

The new rates are: £12.00 across the UK and £13.15 in London (a 10.1 per cent rise for the UK rate, and 10.0 per cent in London).

Although the headline rate of inflation is now falling, the context for this year's rates is still the cost of living crisis that has gripped the UK for the past two years. The current rate of inflation – 6.7 per cent in September 2023 – is still higher than at any point since 1992, outside of the even more elevated rates of the past 12 months.

In this context the Living Wage campaign is more important than ever. Over the past two years, the overall cost of living (as measured by the Consumer Prices Index) has risen by 17.4 per cent (comparing September 2021 with September 2023). The rise has been even higher for low income households, whose consumption patterns are more weighted to basic goods and services like food and energy where prices have surged the most. The cost of living for the poorest households has risen 18.8 per cent over these past two years. Against this, the Living Wage rates for 2023-24 are 21.2 per cent and 19.0 per cent (in the UK and London, respectively) higher than two years ago. In both cases it has gone up by more than inflation. In this sense the Living Wage has done its job: protecting workers from a rising cost of living.

This has happened at the same time as average wages (up 13.9 per cent over the past two years) have lagged behind inflation. Even the minimum wage, which has been subject to significant uprating in recent years, has not quite kept up with the cost of living (rising 16.9 per cent between April 2021 and April 2023).

While the cost of living is the primary driver of the LW rates, there are, as ever, other important factors to consider. The job of the Living Wage is to determine the wage rate necessary to ensure that households earn enough to reach a minimum acceptable living standard as defined by the public. This means that the rates are affected by the Government's stance on taxes and benefits, because these set the relationship between earnings and incomes.

There are a few points worth highlighting when it comes to the effect of policy. First, there are some elements of tax and benefit policy which, though not new, continue to affect the rates. One is the Government's decision to keep tax thresholds frozen in nominal terms, which places upwards pressure on the LW rates because it lowers households' disposable incomes. Another is the two-child limit on the family elements of means-tested benefits which has applied to children born after 2017. This covers a larger share of children with every passing year and, again, places upwards pressure on the wage requirements for families with three or more children. A third ongoing factor, which pushes in the opposite direction, is the rollout of Universal Credit. This is more generous to working families than the tax credit system, so places downwards pressure on the rates as more families are brought into this system (the rollout has reached two-thirds of the total this year).

Alongside these ongoing factors are two new issues that also had a bearing on our calculations this year. One is the fact that 'Local Housing Allowance' (LHA) has since 2020 been frozen in nominal terms. The LHA determines how much housing support low-income families can receive. Freezing these allowances while rents rise reduces support, placing upwards pressure on LW rates. The nature of the cost inputs used in our LW calculation (private rents are set at the 30th percentile) means this is the first year this policy freeze has affected the LW rates. The impact was relatively modest this year, but if the LHA freeze continues it can be expected to grow each year.

A second new factor concerns the assumption used in the calculation for working hours. Although most parts of the LW methodology have been unchanged since 2016, part of the job of the LWC is to keep the methodology and underpinning assumptions under review, and to make revisions when doing so means the LW rates better reflect their remit.

Several years ago the LWC first considered the issue of working hours. In particular, it decided to review the assumption that all adults in the calculation work full-time with a particular focus on the position of single parents and second earners in families. To better reflect the reality of working patterns among these two groups, and to better align the UK methodology with the approach taken on this issue in other countries, the LWC have decided to relax the assumption that these two groups work full-time. Single parents and second earners will now be assumed to work part-time. This is clearly in keeping with reality of low-earning workers: among families where the main earner is in the bottom quarter of the earnings distribution, seven-in-ten single parents work part-time, as do six-in-ten second earners in families with children. There will be no change for other groups: single adults without children, couples without children, and main earners in families will all be assumed to work full-time. Reducing the number of hours worked for single parents and second earners places upwards pressure on the rates. As such, and in keeping with previous methodology changes, the LWC plans to phase in this change over a number of years rather than introduce it all at once.

The cost of living crisis over the last two years has presented acute challenges for workers struggling to get by, as well as employers having to navigate surging costs. The Living Wage has done in its job in helping ensure that pay keeps up with the underlying pressures on households. The Resolution Foundation, together with the Living Wage Commission, will make sure it remains a credible benchmark available to workers, employers, civil society and public authorities.

Gavin Kelly

Chair, Living Wage Commission

Section 1: Introduction

This briefing note sets out the method for determining the independently calculated Living Wage (LW) rates in London and the rest of the UK, and the rates that will apply from October 2023 (hereafter, the 2023-24 rates). 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.

Since 2016 the calculation of the LW rates has undertaken by us, the Resolution Foundation, on behalf of the Living Wage Foundation. This work is overseen by the Living Wage Commission (from here on 'the Commission'): the Commission scrutinises the annual calculation and is also responsible for taking decisions over the methodology which underpins the calculation.

The Resolution Foundation has undertaken the calculation of the LW rates since 2016, when we also reviewed the methodology.[1] The core elements of the methodology – 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 – have not changed since then.

Under the guidance of the Commission, however, there have been changes to the methodology since 2016. Some have been made in response to policy changes: the main example is to account for the roll out of Universal Credit (UC), which affects the assumptions made about the tax and benefit system. Other adjustments have been made to ensure the methodology reflects the reality of life as a low-income working household. For example, in 2020, the Commission changed the assumption about rental costs to reflect the actual proportion of families living in the private rented sector (as opposed to assuming that social rented sector rents should apply), and the method now takes account of workplace pension contributions. This year, there has been a change to the assumption about families' working hours, which has placed upwards pressure on the LW rates. This is explained fully in sections 3 and 4.

In addition to these larger questions of methodology, the Commission continues to exercise scrutiny and judgement over other aspects of the calculation, including how to reflect changes in government policy. This role is particularly relevant at the moment

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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.

given relatively fast-changing policy, particularly around energy prices and cost of living support measures.

The rest of this briefing note is organised as follows:

- Section 2 provides the LW rates for 2023-24.
- Section 3 sets out what has driven changes in the LW rates compared to last year.
- Section 4 outlines the current methodology.
- An annex details the cost inputs and wage requirements for each family type in the calculation.

Section 2: The Living Wage rates for 2023-24

The Living Wage rates for 2023-24, which apply from October 2023, are:

- UK: £12.00.
- London: £13.15.

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.

Section 3. Contributions to changes in the rates

This section outlines what has contributed to changes in the LW rates between 2022-23 and 2023-24. 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 2023-24, compared to the 2022-23 rates, are £1.10 (+10.1 per cent) and £1.20 (+10.0%) in the UK and London rates, respectively. These increases are similar to those in 2022-23 (when the UK rate rose 10.1 per cent) but larger than previous years.

The large increases in the LW rates in the last two years are mainly the result of the abnormally high price inflation which has characterised the 'cost of living crisis' period. The LW rates are linked directly to the cost of a basic basket of goods and services, so when those costs rise, so too do the LW rates.

Over the past two years (since September 2021), the UK LW has risen 21.1 per cent, and the London LW by 19.0 per cent. In that time CPI has risen 17.1 per cent (August 2021 to August 2023), and the CPI-equivalent rate for low income households (in the bottom tenth of the income distribution) has risen 18.8 per cent.

Large price increases are the main driver of the increases in the LW rates for 2023-24, but a change to the methodology has also made a contribution. As set out in more detail below, this year the Commission decided to change the assumption about working hours, relaxing the assumption that all adults in all family types in the calculation work full-time. This was considered unrealistic; single parents and second earners in families with children are now assumed to work part-time. This places upwards pressure on the LW rates, because families need to earn more per hour to achieve the same income target if they work fewer hours). Without this change to the methodology, the UK LW rate would have risen by 8.3 per cent, rather than the actual uprating of 10.1 per cent.

These two factors together – price changes and a new assumption about working hours – put significant upwards pressure on the rates. This meant the 'shock absorber' came into effect: this limits changes in the LW rates to the CPI-equivalent rate for households in the bottom income decile (based on the specific consumption patterns of those households), plus or minus 3 per cent. This bottom-decile CPI-equivalent rate was calculated as 7.1 per cent in July 2023, which led to the uprating of 10.1 per cent in the UK rate and 10 per cent in the London rate.

Although these factors outlined were sufficient to fully explain the changes in the LW rates this year, the underlying rate (i.e. the LW rates in the absence of the 'shock absorber') were, as usual, affected by tax and benefit policy. The freezing of the personal income tax thresholds continues to add upwards pressure to the LW rates (compared to the counterfactual of those thresholds rising with inflation), as does, in the benefits system, the two-child limit and the freezing of Local Housing Allowance rates. On the other hand, the ongoing rollout of Universal Credit contributes downwards pressure, as it is more generous to working households than the legacy tax credits system.

In the rest of this section we describe these and other factors affecting this year's rates in more detail.

Prices

The context for this year's rates has been the ongoing cost of living crisis. Inflation has fallen back from the highs seen last year, but remains well above pre-crisis levels, with CPI inflation standing at 6.7 per cent in the year to August 2023, down from a peak of 11.1 per cent in the autumn of 2022. CPI inflation was 8.7 per cent in April 2023, which is the relevant month for the LW calculation, as that is the price level used to uprate the costs of the items in the Minimum Income Standard basket, with the exception of energy prices which are have been calculated separately (see Section 3 for more detail).[2]

The cost of living crisis was dominated by fast-rising energy bills last year, but the crisis entered a new phase in 2023. Food is now at the epicentre of the cost of living crisis, and is the biggest contributor to inflation, contributing 1.7 percentage points to the April CPI rate of 8.7 per cent.[3]

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.

2 ONS, Consumer price inflation, UK: April 2023.
3 RF analysis of ONS, Consumer prices data.

For the 2023-24 LW rates, overall growth in input prices, after weighting across families, was 6.8 per cent in the Rest of UK calculation and 8.8 per cent in the London calculation. This includes the changes in prices across all goods and services, including food and energy costs, rents, childcare, Council Tax, and travel. The higher increase in overall costs in the London calculation compared to the rest of UK calculation reflects higher increases in Council Tax costs (up 6.2 per cent in the London calculation, compared to a rise of 4.9 per cent in the rest of UK calculation) and in travel costs (which rose by 6.0 per cent in the London calculation but fell by 8.9 per cent in the rest of UK calculation). Travel costs fell in the rest of UK calculation due to the falling price of petrol and diesel, while travel costs rose in London since our LW families are assumed to rely on public transport rather than driving, and the cost of public transport has risen in the last year.

Increases in the cost of energy, food and other core goods and services were similar between London and the rest of the UK. Meanwhile, rent and childcare costs actually saw a larger increase in the rest of the UK calculation (up 9.5 per cent and 4.6 per cent respectively) than in the London calculation (up 5.7 per cent and 3.8 per cent respectively). As set out in Section 4, we collect London-specific price data for costs relating to travel, childcare, council tax and rents. The same basket of goods and services is used for both London apart from when it comes to the assumption for households' method of travel – again, this is set out in Section 4.

TABLE 1: **Change in input costs in calculation of the LW between 2023-24 and 2022-23, by cost element**

	London	Rest of UK
Energy	6.8%	6.8%
Food	19.1%	19.1%
Other core goods and services	7.4%	7.5%
Rent	5.7%	9.5%
Travel	6.0%	-8.9%
Council Tax	6.2%	4.9%
Childcare	3.8%	4.6%
Total costs	8.8%	6.8%

NOTES: The LW calculation uses different cost inputs for 17 different family types, and this table reports the changes in cost elements weighted across those 17 families according to their weight in the overall LW calculation.

Food and energy prices

The increases in energy costs between the 2022-23 calculation and 2023-24 calculation are 6.8 per cent in both London and the rest of UK LW calculation. Though significant, this is a modest rise compared to the extraordinary price surge between 2021-22 and 2022-23 which saw energy costs rise by 165 per cent in London and 163 per cent in the Rest of UK. Although the Energy Price Guarantee is falling (in line with wholesale energy costs), the cost of energy used in the LW calculation is higher in 2023-24 than 2022-23 because we are comparing whole-year prices. [4]

Because of the falling price of wholesale energy, the Government has not provided direct support to households for energy bills in 2023-24, with the £400 Energy Bill Support Scheme payments ending in March 2023. Some lower-income households in receipt of means-tested benefits continued to receive Cost of Living Payments in 2023-24 (paid as three £300 payments throughout the financial year), but these do not affect the 2022-23 Living Wage calculation because they are a temporary policy: the final payment is set to be made to households in spring 2024, and there are currently no plans to make further payments in the 2024-25 financial year.[5]

The largest increase in costs between the 2022-23 and 2023-24 calculation is instead for food costs, which are up by 19.1 per cent for both the London and rest of UK calculation. This reflects the fact that food overtook energy to become the bigger contributor to CPI in April 2023, and by the end of the summer, the increase to an average food bill since 2019-20 was bigger than the increase to average energy bills.[6] Given that food is a relatively large expenditure in our LW families' basket of goods and services, this increase puts significant upward pressure on the LW rates in London and the rest of the UK.

Changes in methodology

Another factor behind the rise in the rates for 2023-24 was a change to the assumptions about working hours.

As set out in Section 4, the LW methodology works by calculating an hourly wage requirement for 17 different family types (these are single adults, couples without children, and single adults and couples with different numbers of children and with children of different ages). Previously, the methodology had assumed that all adults worked full-time – 37.5 hours per week. This is an issue the Commission has reviewed, in

4 At time of calculating the LW rates, the latest energy price cap available is for Q4 2023. To calculate the average price for the 2023-24 financial year we assume this latest energy price cap figure continues in Q1 2024.

5 The approach of the Commission is to 'look through' any policy changes which are known to be temporary. This was the approach taken, for example, with the £20 uplift to weekly Universal Credit entitlements in 2020. For a description of the Government's policy on temporary payments, see; www.gov.uk/guidance/cost-of-living-payment, accessed 2 October 2023.

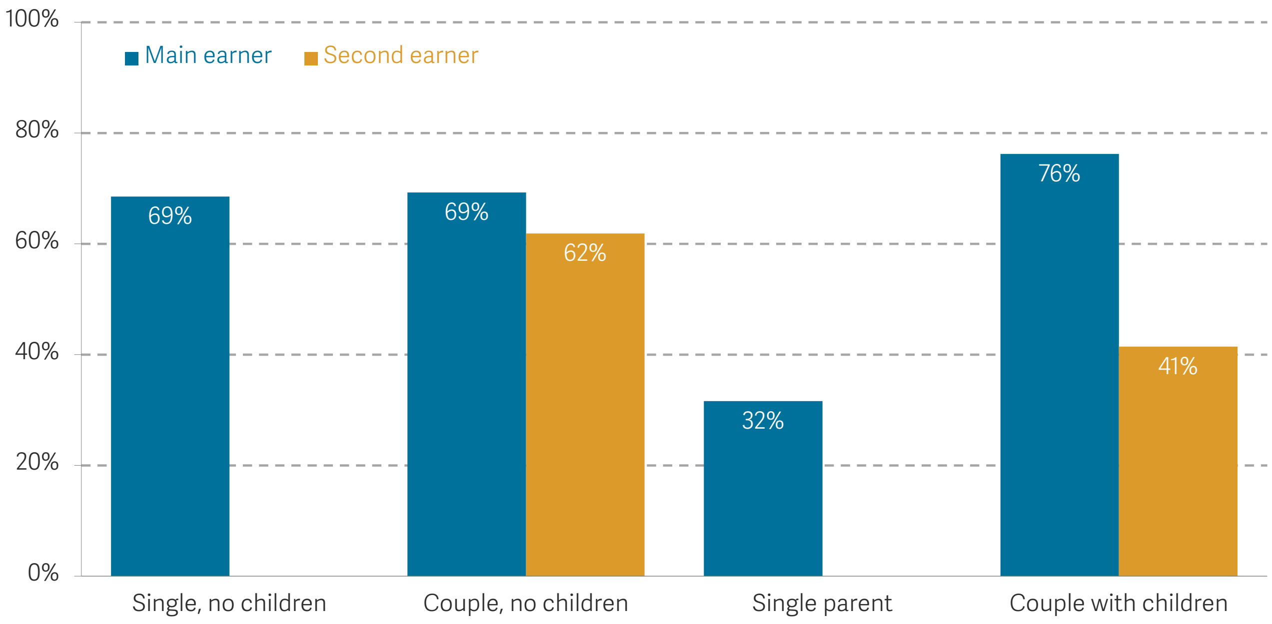
6 T Bell, L Try & J Smith, Food for thought: The role of food prices in the cost of living crisis, Resolution Foundation, May 2023.

particular by considering evidence on typical working patterns for different family types. In light of this review, it has decided to relax the 'full time' assumption for single parents and second earners in families with children (the calculation continues to assume that other adults work full-time).

This change was made principally because the assumption of full-time work was judged to be unrealistic for those adults, and to not reflect current working norms. Among families where the main earner is in the bottom quarter of the earnings distribution, 68 per cent of single parents with dependent children who are in employment work part-time, as do 59 per cent of second earners in families with children.[7] By contrast, in those same low-earning families, the majority of single adults (69 per cent), main earners in couples with children (76 per cent), and second earners in families without children (62 per cent) work full-time (see Figure 1). Hence, the Commission decided that continuing to assume full-time work for adults in those groups was reasonable.

FIGURE 1: **Few single parents or second earners work full-time**

Proportion of adults working full-time (if employed) in households where main earner is in the bottom quarter of the hourly pay distribution: UK



NOTES: Main earner identified as the adult with the highest weekly pay.
SOURCE: RF analysis of ONS, Household Annual Population Survey, 2018-2022.

Consideration was also given to the fact that the use of a blanket full-time assumption across all family types had become something of an outlier compared to the approach taken in other countries. For example, the Anker living wage methodology, which is used in many countries, bases its hourly wage requirement on the typical number of full-time

7 Figures in this paragraph are based on RF analysis of ONS, Household Annual Population Survey, 2018-2022.

equivalent workers per family.[8] Similarly, the New Zealand living wage methodology is based on the needs of a family with one adult working full-time and one adult working part-time.[9]

The specific methodology change (set out fully in Section 4) made to the calculation is that single parents are now assumed to work 22 hours per week, and second earners in families with children to work 28 hours per week. These values are based on the actual typical hours worked by those adults in families where the main earner is in the bottom quarter of the earnings distribution.

This change increases the hourly wage requirement for affected families, because it means that families have to achieve broadly the same weekly income requirement with fewer working hours (note that the amount of formal childcare that families need is scaled down in line with the reduction in hours worked, so the income requirement also falls slightly). This methodology change therefore places upwards pressure on the LW rates.

Had this methodology change not been introduced, the increases in the LW rates in 2023-24 would have been 8.3 per cent and 8.4 per cent in the UK and London rates respectively – fairly close to the current rate of CPI inflation (6.7 per cent in August 2023). This would also have been even closer to the rate of overall CPI inflation from April 2023 of 8.7 per cent, which is the month that most of the price input for the calculation is linked to.

However, this difference does not reflect the total impact of this methodology change. As has been done with significant methodology changes to the LW calculation in the past, the Commission plan to phase in this change rather than introducing it all at once. The Commission expect this phase in to take three years.[10]

Additionally, this year the 'shock absorber' (see below) set a limit on the increases in the 2023-24 rates. This has meant that only 15 per cent of the total upwards pressure from the methodology change (in the Rest of UK rate; 18 per cent in the London rate) has been incorporated into the 2023-24 rates.

The 'shock absorber'

The 'shock absorber' is an established part of the LW methodology that is used to minimise volatility in the LW rates that could otherwise happen as a result of, for example, a significant change to tax and benefit policy, or from a change in the methodology.

8 Global Living Wage Coalition, The Anker methodology for Estimating a Living Wage. Accessed 28 September 2023.
9 C Waldegrave et al, Report of the Measurement Review for a New Zealand Living Wage, Family Centre Social Policy Research Unit, April 2023.
10 For example, the 2019 methodology change to apportion families into the private and social rented sectors based on actual tenure patterns, and the introduction of pension contributions, was phased in over three years.

The shock absorber limits volatility in both directions, and is set as the rate of CPI inflation facing households in the bottom income decile in July of the calculation year, plus or minus three percentage points. We have calculated this low-income CPI for July 2023 as 7.1 per cent, giving a shock absorber range of 4.1 per cent to 10.1 per cent. Because of the upwards pressure from price inflation, as well as that coming from the changed assumptions on hours worked, this upper limit of the shock absorber limit was binding on the 2023-24 rates.

Note that the LW rates are always rounded to the nearest 5p; the reason the London rate rose by 10.0 per cent rather than 10.1 per cent was because £13.15 is the highest such rounded number that gives an increase within the 10.1 per cent limit (a rate of £13.20 would have given a 10.5 per cent increase).

The tax and benefit system

In most years, tax and benefit policy is the second most important factor affecting year-to-year changes in the LW rates after price changes. Last year, for example, increased household support – including the lowering of the taper rate in Universal Credit – put substantial downward pressure on the LW rates.[11]

In comparison, there are fewer policy changes this year. But tax and benefit policy is nonetheless an important determinant of the LW rates.

This year, the elements of tax and benefit policy which most affected the LW rates were the ongoing rollout of the Universal Credit system (in place of the legacy tax credits system).

Universal Credit (UC) has a more generous treatment of rent and childcare costs than the legacy system it is replacing (as well as, since 2021, a lower 'taper rate'), which means that a family in receipt of UC needs to earn less to achieve a given income level than under the previous tax credits system. This has led to downwards pressure on the LW rates over time as we have steadily raised the assumed proportion of households claiming UC in line with actual caseloads. For the 2023-24 rates, based on DWP data, 67 per cent of families in the LW rates calculation were assumed to be in receipt of UC, up from 62 per cent in 2022-23. Raising the UC share by 5 percentage points puts 5p of downwards pressure on the LW rates (the entire rollout of UC, which started in 2013 and is currently expected to continue until the late 2020s will amount to approximately £1 of downwards pressure on the LW rates in total).

11 N Cominetti & L Murphy, Calculating the real Living Wage for London and the rest of the UK: 2022, Resolution Foundation, September 2022.

Alongside these policies, the LW rates were also affected, as usual, by Government decisions regarding the uprating of benefit levels and tax thresholds. In April 2023, benefit entitlements were uprated by 10.1 per cent, in line with usual practice of uprating based on the rate of CPI from the previous September. This meant the increase in benefit entitlements was greater than the rise in prices (8.7 per cent) over the year to April. Although this uprating followed standard practice, its lagged nature creates some downwards pressure on the 2023-24 LW rates compared to a world where benefits had been uprated in line with contemporaneous April inflation.

By contrast, tax thresholds are not currently being raised in line with prices, as used to be standard practice. The personal tax allowance (the amount of income tax a person can earn before income tax applies) has been frozen at £12,570 since 2021-22, and it is Government policy that this will continue until 2028.[12] As pay rises in nominal terms, this raises households' tax payments as more of their earnings are subject to income tax, and so adds positive pressure to the LW rates. For 2023-24, the underlying LW rates were approximately 30p (3 per cent) higher compared to a world where the income and national tax thresholds had risen in line with inflation.

Meanwhile, the LW rates continue to be affected by other longstanding aspects of the Government's benefits policy, one of the most important of which is the two-child limit (which limits additional child-related payments to families' first two children only). This policy does not have a large impact on the LW rates from one year to the next, but over the course of the six-year existence of this policy its effect has been significant. This is because the two-child limit only applies to children born after 2017, which means an increasing share of all children are covered every year. The two-child limit has been factored into the LW calculation since its inception – and has exerted upwards pressure on the LW rates, since it translates into less cash for large families on Universal Credit. The underlying LW rates (i.e. the rates that would apply had the 'shock absorber' limit on uprating not applied) would be approximately 5p lower in 2023-24 if this policy had not been introduced.

In a similar vein is the Government's decision to freeze Local Housing Allowance (LHA) levels (the maximum amount a household can receive in housing support in their area) since April 2020. Freezing LHA in cash terms means housing support (through Housing Benefit or the housing element of Universal Credit) becomes less generous relative to rents as rents rise. This is the first year we have included the LHA freeze in the calculation. Previously it was not relevant to our calculation because our private sector rental inputs were based on rents at the 25th percentile. This figure was well below the LHA caps, which used to be at the 30th percentile of local rents. However, because rental

12 OBR, Economic and fiscal outlook, March 2023

costs have continued to rise since 2020 (by 9 per cent between April 2020 and April 2023), the maximum LHA cap has now fallen below the 25th percentile of rents in some areas, which means it is relevant to the rental inputs used in our calculation. Adding the effect of this LHA freeze into the LW calculation adds upwards pressure to the rates (approximately 10p to the UK rate and 25p to the London rate in 2023-24). This impact will grow in future years if the current policy of keeping LHA frozen in cash terms continues.

A final consideration has been the treatment of cash support for energy costs. During the recent cost of living crisis, the Government has used discretionary cash support payments to help households with high energy bills (and other costs). In 2022-23 these amounted to £1,200 in total for households on means-tested benefits (comprising £150 off Council Tax bills, £400 off energy bills, and £650 cash payments). For 2023-24 the Government has again used discretionary payments, this year amounting to £900 over three instalments, for households on means-tested benefits only. But this year, the Government was explicit in saying these were temporary payments. In the past, the Commission has taken the view that it wouldn't incorporate explicitly temporary policy measures – such as the £20 weekly uplift made to UC entitlements in 2020 – into the LW rates. For this reason, unlike last year, this year discretionary cash payments have not been incorporated into the 2023-24 LW rates calculation.

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).[13] The 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 is needed for an acceptable minimum standard of living. 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.[14]

This year there have been no changes made to the MIS basket of goods and services that is used in the LW calculation. We uprated the prices of its contents uprated to April 2023 levels in line with the relevant price indices within the ONS's CPI dataset. However, there is currently a review of the basket underway, and there will be changes made to the basket which will be reflected in the 2024-25 LW rates calculation.

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

Section 4

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 a minimal but 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 (those with and without children, and those aged 25 and over as well as those under 25) 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.[15] 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).[16]

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

15 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.

16 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 details, see: K Hill, D Hirsch & M Padley, Minimum budgets for single people sharing accommodation, CRSP Working Paper 642, 2015.

and Rest of UK rates. For those items, costs are taken from the MIS research, which draws prices primarily from national chain stores.

2. Costs that vary more significantly across the UK

Some items, of course, vary considerably in price 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 and size of property that 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 in the social versus private sector (again, separately for London and Rest of UK). 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 and size, the assumptions are as follows:

- Singles and couples without children live in one-bedroom homes (the rental data input for singles additionally 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 2011 census, which found that 54 per cent of singles in London live in shared accommodation.[17]

Position of housing 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 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 is published by the Valuation Office Agency.[18] For Scotland, the data is published by the Scottish Government.[19] For Wales, the data is published by StatsWales.[20] For Northern Ireland, the data is published by the Analytical Services Unit of the Department for Social Development.[21] For the London LW, we use the London data published by the Valuation Office Agency. In both the UK LW and London LW, the rents taken are at the lower quartile in the private rented sector. In all cases, we use data for the latest full year available.[22]

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,[23] Scottish[24] and Welsh[25]

17 K Hill, D Hirsch and M Padley, Minimum budgets for single people sharing accommodation, CRSP Working Paper 642, 2015.
18 Valuation Office Agency, Private Rental Market Summary Statistics – April 2022 to March 2023, June 2023.
19 Scottish Government, Private Sector Rent Statistics, Scotland, 2010 to 2022, November 2022.
20 StatsWales, Private sector rents by local authority, 1 January to 31 December 2019, 2020.
21 Department for Communities, Northern Ireland Housing Statistics 2021-22, December 2022. Because the data for Northern Ireland supplies only a median figure and for a more limited range of accommodation, we adjust these based on the relationship between different sized properties.
22 Note this was changed for the 2023-24 calculation, before which a trailing three-year average was used.
23 MHCLG, Council Tax levels set by local authorities in England 2023 to 2024, March 2023.
24 Scottish Government, Council Tax Datasets, March 2023.
25 StatsWales, Average band D Council Tax, by billing authority, 2023.

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.

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.[26] 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.

Childcare costs

Families in the calculation where all adults are assumed to work full time (37.5 hours per week, in line with the UK average over recent years) are assumed to rely on formal childcare. Such families with children aged 11 and under are assumed to use full-time childcare (42.5 hours per week), for 47 weeks of the year, taking account of hours provided through the free early-years childcare 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.

In the new methodology being phased in, single parents and second earners in families with children are no longer assumed to work full time. Their assumed need for formal childcare is scaled down according to the number of hours not worked. Second earners are assumed to work 28 hours per week, and to use formal childcare for one day per week. Lone parents are assumed to work 22 hours per week, and to use formal childcare for two days per week.

Childcare costs are calculated using the most recent data collated by Coram Family and Childcare.[27] 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,

26 Transport for London, Adult rate prices 2023, 2023.
27 Coram Family and Childcare, Childcare Survey 2022, 2023.

we use an adjusted average taking account of the differential between London and the rest of the UK, based on 2016 data.[28] The calculation includes the Government's policy of providing an additional 15 hours of free childcare (bringing the total to 30 free hours) for working parents of three- and four-year-olds in England, and of providing 15 hours of free childcare for lower-income parents of two-year-olds (this childcare support is available to parents who are in receipt of certain means-tested benefits). Finally, childcare costs are weighted across three years, to account for the fact that there is some volatility in the data.

2.3 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.[29] Along with the minimum contribution rate, the Government reviews the qualifying earnings thresholds annually. In 2022-23, qualifying earnings were those between £6,240 and £50,270 per year. 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 is increasingly replacing the Tax Credit-based system, which the majority of families included in the Living Wage calculation qualify for based on their earnings and household circumstances. We assume that some of the families in the Living Wage calculation receive UC, based on the OBR's estimate for the proportion of the caseload that has been migrated from the previous system.

4. Working hours

In 2023, the Commission decided to phase in a new set of assumptions relating to working hours. Previously, the methodology had assumed that all adults in all families worked full time – that is, 37.5 hours per week. However, analysis of actual working patterns among working households by the Resolution Foundation showed this to be an unrealistic assumption.

28 For the London LW, we remove the highest outlier estimates that upwardly skew the resulting London average.
29 Gov.uk, Workplace pensions, accessed September 2023.

In the new methodology, the full-time work assumption has been relaxed for single parents and for second earners in families with children (it has been retained for main earners in families with children and for all adults in families without children). The new methodology now assumes that single parents work 22 hours per week, and second earners in families with children work 28 hours per week. These values are based on the actual typical hours worked by those adults in families where the main earner is in the bottom quarter of the earnings distribution.[30]

This change affects the income requirement for families with children in the calculation because the need for formal childcare is scaled down in line with the number of hours being worked. For the purposes of childcare modelling, the adults working part time are assumed to organise their working week around full working days.

This methodology change was partially introduced for the 2023-24 rates. The Commission expect to phase it in over a period of three years, in line with previous significant changes to the methodology.

5. 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 in living costs'.[31] 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.

In 2022-23 the Commission considered which measure of inflation to use and agreed that, mindful of who is paid the Living Wage, the inflation figure used should be the rate of CPI that applies to low-income households in July (the latest data available when the calculation is closed). We estimate that in July 2023 this was 7.1 per cent.[32]

30 Based on Resolution Foundation analysis of ONS, Annual Population Survey, 2018-2022. These values will be reviewed periodically.
31 Living Wage Commission, Closing the Gap: A Living Wage that means families don't go short, September 2016.
32 RF analysis of ONS, Consumer Prices & Living Costs and Food Survey.

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)	Rent	Council tax	Childcare	Total		
Single	£267.14	£100.17	£22.68	£0.00	£389.99	£12.30	32%
Couple	£431.58	£109.59	£30.24	£0.00	£571.40	£8.45	34%
Single parent with one child (age 3-4)	£363.51	£116.59	£25.92	£86.89	£592.91	£15.25	1%
Single parent with one child (age 5-11)	£394.49	£116.59	£25.92	£82.29	£619.28	£16.65	4%
Single parent with two children (age under 3 & 3-4)	£450.32	£134.13	£25.92	£292.69	£903.05	£21.80	0%
Single parent with two children (age 3-4 & 5-11)	£481.28	£134.13	£25.92	£169.18	£810.51	£20.80	1%
Single parent with two children (age 5-11 & 12-16)	£553.59	£134.13	£25.92	£82.29	£795.93	£23.75	2%
Single parent with three children (age 3-4 & 5-11 & 1	£623.18	£134.13	£25.92	£169.18	£952.41	£34.85	1%
Couple parent with one child (age 3-4)	£481.29	£123.49	£34.55	£86.89	£726.22	£9.55	4%
Couple parent with one child (age 5-11)	£515.66	£123.49	£34.55	£82.29	£755.99	£10.50	7%
Couple parent with two children (age under 3 & 3-4)	£557.01	£142.79	£34.55	£292.69	£1,027.04	£12.05	2%
Couple parent with two children (age 3-4 & 5-11)	£587.99	£142.79	£34.55	£169.18	£934.51	£11.95	3%
Couple parent with two children (age 5-11 & 12-16)	£655.39	£142.79	£34.55	£82.29	£915.02	£13.30	7%
Couple parent with three children (age under 3, 3-4	£691.59	£142.79	£34.55	£374.97	£1,243.91	£19.60	0%
Couple parent with three children (age 3-4 & 5-11 &	£756.12	£142.79	£34.55	£169.18	£1,102.65	£17.55	1%
Couple parent with three children (age 5-11, 5-11 & 1	£787.12	£142.79	£34.55	£82.29	£1,046.75	£16.75	2%
Couple parent with four children (age under 3, 3-4,	£825.70	£142.79	£34.55	£374.97	£1,378.02	£22.05	1%

London Living Wage

Family type	Living costs						Hourly wage requirement	Weights
	"Core" basket	Rent	Council tax	Travel	Childcare	Total		
Single	£207.95	£146.76	£12.91	£35.28	£0.00	£402.91	£12.60	41%
Couple	£343.43	£226.44	£26.68	£70.57	£0.00	£667.13	£10.40	27%
Single parent with one child (age 3-4)	£290.14	£175.08	£22.87	£35.28	£144.97	£668.34	£14.15	1%
Single parent with one child (age 5-11)	£319.25	£175.08	£22.87	£35.28	£99.79	£652.28	£14.70	4%
Single parent with two children (age under 3 & 3-4)	£373.77	£210.31	£25.73	£35.28	£409.39	£1,054.48	£28.05	0%
Single parent with two children (age 3-4 & 5-11)	£402.86	£210.31	£25.73	£35.28	£244.77	£918.95	£20.65	1%
Single parent with two children (age 5-11 & 12-16)	£465.08	£210.31	£25.73	£42.27	£99.79	£843.17	£22.20	2%
Single parent with three children (age 3-4 & 5-11 & 1	£531.49	£210.31	£25.73	£42.27	£244.77	£1,054.56	£38.85	1%
Couple parent with one child (age 3-4)	£382.06	£237.24	£30.49	£70.57	£144.97	£865.34	£9.75	4%
Couple parent with one child (age 5-11)	£414.83	£237.24	£30.49	£70.57	£99.79	£852.93	£10.30	6%
Couple parent with two children (age under 3 & 3-4)	£454.88	£281.91	£34.31	£70.57	£409.39	£1,251.06	£16.05	1%
Couple parent with two children (age 3-4 & 5-11)	£483.99	£281.91	£34.31	£70.57	£244.77	£1,115.54	£12.60	2%
Couple parent with two children (age 5-11 & 12-16)	£541.29	£281.91	£34.31	£77.55	£99.79	£1,034.86	£13.25	6%
Couple parent with three children (age under 3, 3-4	£562.25	£281.91	£34.31	£70.57	£509.19	£1,458.22	£23.50	1%
Couple parent with three children (age 3-4 & 5-11 &	£617.18	£281.91	£34.31	£77.55	£244.77	£1,255.72	£20.40	1%
Couple parent with three children (age 5-11, 5-11 & 1	£645.22	£281.91	£34.31	£84.53	£99.79	£1,145.77	£18.75	2%
Couple parent with four children (age under 3, 3-4,	£681.38	£281.91	£34.31	£77.55	£509.19	£1,584.33	£25.75	1%

Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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