

A Fairer London

The Living Wage in London

May 2006



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Mayoral Foreword

London's economy is successful and dynamic overall. Many have been able to share in the benefits of growth, and this has helped make our city the exciting and vibrant place it is. However, alongside this success are stubbornly high levels of poverty and deprivation. Understanding the reasons for this, and finding effective ways to address the situation are major challenges for policy-makers and analysts.

An important part of addressing this agenda is finding ways of helping more people to participate in the job market, and to ensure that once they have a job they are paid enough to ensure a decent standard of life. This is why in my manifesto for the last Mayoral election, I pledged to establish a Living Wage Unit. The Unit, based within GLA Economics, published its first report last April. This set out the case for calculating a living wage for last year of £6.70 an hour. I have been encouraged by the way this has been used, providing the basis for a debate in London about the cost of living and levels of wages and salaries in London and a campaigning resource for those working to address these issues. The Unit has also built on this success by publishing a report on the youth/apprentice living wage in London.

The Unit's second annual report deals with both the living wage and the youth/apprentice living wage. As promised last year, there has been considerable work to improve the way in which costs are determined and this report incorporates an improved approach to estimating childcare and transport costs in London.

This second report reinforces the first report's findings. It finds that any wage below around £6.15 an hour results in an income at or below the poverty line level in London – even when benefits are taken into account. The hourly income necessary to receive an above poverty wage in London is therefore significantly above the national minimum wage (£5.05 an hour). This difference is largely accounted for by the higher cost of housing in London. Around one in seven of London employees receive less than £6.15 per hour and may therefore be taken to receive poverty level wages.

An income of £6.15 an hour, however, is on the threshold of poverty. We derive this figure from firstly, a consideration of absolute basic living costs that families need to cover and secondly, from the Government's definition of relative poverty – an income below 60 per cent of median household income. A 'living wage' must include a reliable margin over and above this, which has been taken at 15 per cent, such that the person receiving it will not fall into poverty if they face the kind of day-to-day challenges that those of us who are better off can take in our stride. This defines £7.05 per hour as the living wage for London – which also roughly equates to a figure slightly below two-thirds of median earnings in London.

The report also outlines the actions we in the GLA group have taken to address the living wage agenda. I hope our experience, which shows that it is possible to address these issues within the procurement and other rules governing the public sector will encourage others to examine the practical steps they can take.

A Fairer London: The Living Wage in London

The living wage is not just a matter of welfare or social justice. London's economy thrives because it is highly productive and creative. This means making the most of all the resources available, particularly its people. This in turn means valuing them and what they do. I believe this is impossible if those in work are paid less than they need to avoid falling below the poverty threshold.

A handwritten signature in black ink that reads "Ken Livingstone". The signature is written in a cursive, slightly slanted style.

Ken Livingstone

Mayor of London

Executive Summary

This is the second annual report from a programme of research by the Living Wage Unit into issues related with the living wage and poverty in London. It presents an update of the living wage in the capital and looks at what threshold might be considered as constituting poverty level wages in London. It also provides the most recent figures for the youth living wage in London.

This report includes a new section reviewing the main steps, which the GLA group has taken to implement the living wage since the last report was published. It also presents a discussion of the methods available to estimate housing costs in London.

Two main approaches to calculate a living wage are considered. One approach, developed by the Family Budget Unit, estimates the costs of a 'Low Cost but Acceptable' (LCA) budget for a selection of typical or model families and calculates the wage required to meet those costs. This is termed the Basic Living Costs approach below. The other is based on the distribution of income and will therefore be termed the Income Distribution approach.

A 'living wage' in London has been calculated in two stages. First a 'poverty threshold wage' has been calculated. This has been done by two methods. The Basic Living Costs approach yields a figure of £6.00 per hour for London. The level defined by the Income Distribution approach takes 60 per cent of median income as defining a poverty level wage – for London this yields a figure of £6.30. The poverty threshold wage used in this report is the average of the two figures, £6.15.

This figure however is a poverty threshold wage. A 'living wage' must yield a secure margin ensuring that the person involved does not fall to the level of poverty wages. To achieve this a figure of 15 per cent has been added to the poverty level wage. This yields a figure, when rounded to the nearest 5 pence, of £7.05 per hour as a living wage for London. If means-tested benefits were not taken into account (that is, not including tax credits, housing benefits or council tax benefits) the equivalent living wage figure would be approximately £9.00 per hour. This report, however, considers that benefits and tax credits must be taken into account, as part of the aim of the tax and benefit system is to redistribute income to the least well off sections of society while not providing disincentives to securing employment. The figure put forward for a living wage in London is therefore £7.05 per hour.

Data from the Annual Population Survey (APS) suggests that around 80 per cent of full-time employees in London receive more than the living wage of £7.05. Around six per cent of full-time workers in London receive wages that are below living wage levels but above poverty threshold levels. A further 12 per cent of full-time employees in London receive wages that are below poverty level wages. Further, about 54 per cent of part-time workers in London receive more than a living wage. Around 13 per cent of part-time employees in the capital receive less than the living wage but more than poverty level wages. Finally, 33 per cent of part-time workers receive less than poverty threshold

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wages. Altogether around one in seven of employees in London receive less than poverty level wages and almost one in four receive less than the living wage. The fact that poverty level wages in London are significantly above the national minimum wage, at £5.05 per hour, is primarily due to much higher housing costs in London.

1. Introduction

In furtherance of the Mayor's policy priority highlighted in his 2004 election manifesto, this, the second annual report on the living wage in London, updates the living wage in London published in last year's report. It also includes the most recent figure for the youth living wage in the capital. In addition, it reviews the steps being taken to implement the living wage since the last report in the GLA group.

This report outlines the two main approaches that can be used to help determine a living wage for London: the Basic Living Costs approach and the Income Distribution approach. For the youth living wage, only the Basic Living Costs approach is considered.

In October 2005, the national minimum wage increased from £4.85 per hour to £5.05 per hour.

1.1 Structure

In what follows, the Basic Living Costs approach is outlined and the wage rates that derive from that approach are illustrated in Chapter 2. Chapter 3 describes the Income Distribution approach and presents the wage levels suggested by this method. The results from the two approaches are then compared in Chapter 4. Chapter 5 provides updated figures for the youth living wage in London. A review of the implementation of the living wage within the GLA group is presented in Chapter 6. A series of appendices provide more information on the living cost calculations.

2. Basic Living Costs approach

This section explains briefly the Basic Living Costs approach that was developed by the Family Budget Unit (FBU). The FBU calculated the expenditure required to achieve what it defines as a *Low Cost but Acceptable* (LCA) standard of living, for a range of 'typical' families¹. Depending on the working patterns of the different family types, this expenditure, or budget, can be converted into a wage level.

This is not the same as a minimum wage. It is defined by the FBU as a wage that achieves an adequate level of warmth and shelter, a healthy palatable diet, social integration and avoidance of chronic stress for earners and their dependents². More details are provided in the first living wage report. In this section we assess changes, over the past year, in the costs that feed into this approach.

2.1 Households types and working patterns

As in last year's report, basic living costs (also called the LCA budget) estimates were based on four model families:

- a two adult household with two children aged ten and four
- a one adult household with two children aged ten and four
- a couple without children
- a single person without children.

The same range of different household working patterns (for example, a lone parent working full-time or a couple with one person working full-time) is considered as in last year's report. This part of the report therefore provides an overall measure of the extent to which the cost of living in London has risen, as a result of changes in the prices of the goods and services that make up the FBU's Family Budget and the effect this has on the wage needed for each of these different types of family to attain the poverty threshold wage.

The range of household working patterns assumed is also the same as that outlined in last year's report on the living wage. This is important for the calculation of tax credits and benefits received by households, and also improves the comparability of this year's

¹ The LCA budget standard was produced following work in 1997/98 by the FBU then based in the Department of Nutrition and Dietetics in King's College London. The funding for the work was raised by the Zacchaeus 2000 Trust. The work was based on two model families – a two adult household with two children aged ten and four and a one adult household with two children aged ten and four. The first study was carried out in York with later studies being carried out in East London, Swansea and Brighton.

² H Parker, *Low Cost but Acceptable. A minimum income standard for the UK: Families with young children*, London: Zacchaeus Trust, 1998

living costs estimates with last year's. In this report we provide calculations of the living wage, both including and excluding means tested benefits and tax credits³.

As in the last report, families containing one earner only, for which this earner is in part-time employment, are not considered in estimating the living wage. This is because in our approach to determining the living wage, we are guided by the view that the tax and benefit system should operate such that full-time work is also a viable option for lone parents. However, information on lone parents working part-time is included in this report, as last year, even though such families do not enter the calculation of the living wage. This is principally because it provides information relevant to the government's attempts to assist lone parents back into work.

2.2 Costs

Basic living costs are considered under the following headings:

- Housing
- Council tax
- Transport
- Childcare
- All other costs (a 'regular shopping basket').

For the first four items above, cost estimates are based on direct data for London. For the fifth item, we used a comparison of regional price differentials produced by the Office for National Statistics (ONS). However, no update to these regional price comparisons has been provided by ONS since our last report. We have therefore updated London costs by assuming that each element in the shopping basket has increased in price by the same proportion as for the whole of the UK⁴.

Housing costs

We aimed to improve our housing costs estimates in London using a new dataset with more information on social and private rents – the London and Sub-Regional Strategy Support Study (LSSSS). However disparities emerged between these estimates and those derived using the GLA dataset on private rents. One of the reasons for these disparities is that the two datasets are derived from two different sample frames and therefore cover a different part of the statistical population of dwellings. Second, the information in LSSSS is based on housing needs surveys carried out in 27 London boroughs over the past five years. Therefore, the results are modelled to take account of the missing boroughs. In addition, housing costs data have been uplifted to a common mid-2004 basis. This is likely to produce some errors and affect the accuracy of rents. Therefore, for consistency with the 2005 report, it was decided to estimate housing costs using only the GLA and CIPFA datasets.

³ It should be noted that Telco, which uses the LCA approach in its living wage calculations, argues that the living wage should be calculated without considering such means-tested benefits.

⁴ Details of the calculation, including changes in the prices of individual goods and services within the basket and their impact on living costs, are given in Appendix A.

Table 2.1 provides GLA Economics' estimates of basic living costs for the four types of families considered in London. Details of the cost calculations are supplied in Appendix A.

Table 2.1. Basic Living Costs (or LCA budget) for typical families living in London (£ per week 2005)

	Couple with children aged 4 and 10				Single parent children aged 4 and 10		Single person with no children	
	2ft	1ft 1pt	1ft	1pt	Ft	pt	ft	pt
Shopping Basket Costs	180.08	180.08	180.08	180.08	136.94	136.94	80.85	80.85
Housing	80.00	80.00	80.00	80.00	80.00	80.00	79.00	79.00
Council Tax	22.35	22.35	22.35	22.35	16.76	16.76	16.76	16.76
Total Transport Costs	46.10	46.10	23.05	23.05	23.05	23.05	23.05	23.05
Childcare Costs	190.35	91.65	0.00	0.00	190.35	91.65	0.00	0.00
Total Costs	518.88	420.18	305.48	305.48	447.10	348.40	199.66	199.66

Notes: ft= full-time and pt= part-time

Source: GLA Economics based on various data sources; see Appendix A

Table 2.2 shows the percentage change in costs in London between November 2004 and 2005.

Table 2.2. Percentage change in LCA costs since the 2005 living wage report

£ per week	Couple with children				Lone Parent		Single person	
	Two earners		One earner					
	2ft	1pt	ft	pt	ft	pt	ft	Pt
Shopping basket costs	0.9	0.9	0.9	0.9	1.0	1.0	1.9	1.9
Housing	2.9	2.9	2.9	2.9	2.9	2.9	6.8	6.8
Council Tax	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Total Transport Costs	-7.2	-7.2	-24.4	-24.4	-24.4	-24.4	20.1	20.1
Childcare Costs	9.3	9.3	0.0	0.0	9.3	9.3	0.0	0.0
Total LCA costs	3.5	2.2	-0.9	-0.9	3.0	1.4	5.8	5.8

Source: GLA Economics' own calculations based on various datasets

Total LCA costs rose for all the different families considered, apart from one-earner couples. Single individuals without children experienced the highest increase in LCA costs (almost six per cent) and couples with two full-time earners (almost four per cent). Childcare costs and council tax experienced the highest increases.

On the other hand, families with children have benefited from the Mayor's new policy, which allows children under 16 to travel on buses for free. One-earner couples and lone parents have benefited the most, experiencing a sharp fall of 24 per cent in their family transport costs. By contrast, transport costs for single individuals increased by 20 per cent. Part of this increase is due to changes in assumptions. In this report we assumed that individuals are not likely to be able to afford to pay upfront for an annual travel card. For a detailed explanation of these upward revision and changes in assumptions please refer to Appendix A.

2.3 Earnings and household incomes

Total earnings, taxes and benefits all depend on the hourly wage. As well as the wage, the circumstances of the household will affect the amount of the various benefits and tax credits that are payable. Working tax credit, child tax credit, child benefit, housing benefit and council tax benefit are the main tax credits and benefits considered in this report. Of these, only child benefit is not means-tested. Some benefits depend on childcare and housing rental costs. A detailed explanation of the methodology for deriving these benefits and tax credits can be found in last year's report⁵.

Appendices B and C provide more information on the various tax credits and benefits and how they fit into these calculations.

Table 2.3 illustrates the disposable income for the various different household types, assuming different working patterns, at the level of the minimum wage (£5.05)⁶. In all calculations that follow, a full-time worker is assumed to work 38.5 hours a week and a part-time worker 17 hours. This follows the assumptions used in the initial FBU work.

⁵ A Fairer London: The Living Wage in London, GLA Economics report, March 2005.

⁶ Following the Low Pay Commission's recommendations, the national minimum wage (adult rate) is currently set at £5.05 an hour. In March 2006, the Government announced that the national minimum wage (adult rate) will be £5.35 from October 2006. The youth rate, for workers aged between 18 and 21, is currently £4.25 and will be £4.45 from October 2006.

Table 2.3 Income for different households, including and excluding means tested benefits, at the Minimum Wage (£ weekly figures)

	Couple with two children			Lone parent		Couple with no children			Single no children
	2ft	1 ft 1pt	1ft	ft	pt	2ft	1ft 1pt	1ft	ft
Joint earnings at £5.05 per hour	388.9	280.3	194.4	194.4	85.9	388.9	280.3	194.4	194.4
Taxes	54.5	27.2	27.2	27.2	0.0	54.5	27.2	27.2	27.3
Earnings net of taxes	334.3	253.0	167.2	167.2	85.9	334.4	253.0	167.2	167.2
Including all relevant benefits									
All relevant benefits	227.8	189.0	169.5	299.8	245.0	0.0	33.1	100.0	24.9
Total income	562.2	442.0	336.6	467.0	330.9	334.4	286.1	267.2	192.1
Excluding means-tested benefits									
Child benefit	29.2	29.2	29.2	29.3	29.3	0.0	0.0	0.0	0.0
Total income	363.5	282.2	196.3	196.4	115.1	334.4	253.0	167.2	167.2

Notes: ft= full-time and pt= full-time

All figures reported to one decimal place (or ten pence)

Source: GLA Economics' own calculations

Table 2.4 shows the basic living costs, or LCA budget standard, for the various household types together with the weekly income derived at the minimum wage level (from Table 2.3). Appendix D illustrates the difference between income and basic living costs (the LCA budget standard) at £5, £6, £7 and £8 per hour.

Table 2.4 Incomes, costs and incomes after costs, at minimum wage (£ weekly figures)

	Couple with two children			Lone parent		Couple with no children			Single no children
	2ft	1 ft 1pt	1ft	ft	pt	2ft	1ft 1pt	1ft	ft
Including all relevant benefits									
Total income	562.2	442.0	336.6	467.0	330.9	334.4	286.1	267.2	192.1
Basic living costs	518.9	420.2	305.5	447.1	348.4	326.5	326.5	303.4	199.7
Income minus costs	43.3	21.9	31.2	19.9	-17.5	7.9	-40.4	-36.2	-7.5
Excluding means tested benefits									
Total income	363.5	282.2	196.3	196.4	115.1	334.4	253.0	167.2	167.2
Basic living costs	518.9	420.2	305.5	447.1	348.4	326.5	326.5	303.4	199.7
Income minus costs	-155.4	-138.0	-109.2	-	-	7.9	-73.5	136.3	-32.5

Notes: ft=full-time and pt=part-time

Source: GLA Economics' own calculations

For some household groups, the minimum wage is sufficient to cover their basic living costs (assuming all relevant tax credits and benefits are claimed). However, Table 2.4 also illustrates that for many household groups the minimum wage is not sufficient to cover basic living costs.

Using basic living costs as a target income level, it is possible (through iteration of the tax and benefit model established for this exercise) to calculate the wage required for each household to cover its basic living costs. Table 2.5 shows the wage required for each household type to meet its basic living costs (or LCA budget).

Table 2.5 Wage required to meet basic living costs for different households

	Couple with two children			Lone parent		Couple with no children			Single no children	Weighted Average
	2ft	1 ft 1pt	1ft	ft	pt	2ft	1ft 1pt	1ft	ft	
Earners										
Number of people ('000s)	455	364	173	75	42	425	340	162	802	
Wage level including all the relevant benefits	5.05 ^a	5.05 ^a	5.05 ^a	5.05 ^a	7.0	5.05 ^a	6.9	10.3	6.3	6.0
Wage level excluding means tested benefits	8.1	8.5	9.3	14.8	>15	5.05 ^a	6.9	10.3	6.3	7.5

Notes: ft=full-time and pt=part-time

^a Minimum wage sufficient to meet basic living costs (LCA budget standard)

The number of people in different household groups was derived from Census 2001

All figures rounded to 1 decimal place (or 10 pence)

The minimum wage (of £5.05) has been used as a lower limit for the wage when calculating the weighted average wage

From Table 2.5, the weighted average wage required to meet basic living costs is £6.00 assuming all benefits are claimed, compared to £7.50 if means-tested benefits are not claimed.

Assuming all relevant benefits and tax credits are claimed, more than half of the working households considered in this analysis would achieve their basic living costs, or LCA standard of living, at the minimum wage. At the wage of £6.15 per hour around 80 per cent of the working households considered would achieve their basic living costs (or LCA standard of living).

3. The Income Distribution approach

The previous section discussed the Basic Living Costs approach to estimating what a living wage might be. This section explains briefly the remaining method, the Income Distribution approach. This approach considers what wage is required to move a household to a certain point on the income distribution scale.

The Department for Work and Pensions (DWP) provides indicators on the average income of households in the UK⁷. This measure uses household disposable incomes, adjusted for household size and composition, as a proxy for material living standards or, more precisely, for the level of consumption of goods and services that people could attain given the disposable income of the household in which they live⁸.

DWP provides two measures of disposable income: before and after housing costs. This report only considers the disposable income after housing costs. The disposable income after housing costs represents earnings, all social security benefits, pensions, maintenance payments, educational grants, and cash value of payments in kind such as free school meals for all members of the household less income tax (including national insurance, pension contributions) and maintenance or support payments made to people outside the household. It deducts rent, mortgage interest payments, water charges and structural insurance premiums⁹.

Based on this measure, household median income in 2004/05 was £297 per week. This figure is for a household consisting of a couple with no children. DWP provide details of the process by which to calculate equivalent incomes for other household types. Details of this process (called 'equivalisation'), and the Income Distribution approach more generally are discussed in Appendix E of the 2005 living wage report.

Using the equivalisation process, incomes for the various household types considered earlier have been calculated. Table 3.1 illustrates the median income at different percentages of median income for the different household types.

Given these income levels and using the same tax and benefit model as in the first section, wages that achieve the different households' disposable income can be approximated¹⁰.

⁷ See the DWP's website: <http://www.dwp.gov.uk/asd/hbai/hbai2004/chapters.asp>

⁸ See Appendix 2, Department for Work and Pensions:
<http://www.dwp.gov.uk/asd/hbai/hbai2004/contents.asp>.

⁹ It should be noted that this measure does not take into account childcare costs.

¹⁰ In effect, given the disposable income the wage is varied until, after accounting for all tax and benefits, the disposable income is achieved. It should be noted that this calculation should be considered as an approximation of the wage to the income level only. This is because there are a number of factors that inhibit an exact comparison between the DWP disposable income figures and GLA Economics income figures after accounting for the tax and benefit system.

Table 3.1 Disposable income thresholds for different types of households
(£ per week, 2003/04)

	Couple with children	Lone parents with children	Couple with no children	Single person with no children
Median	418.77	285.12	297.00	163.35
70% of median	293.14	199.58	207.90	114.35
65% of median	272.20	185.33	193.05	106.18
60% of median	251.26	171.07	178.20	98.01

Source: GLA Economics based on DWP data

Table 3.2 shows the approximate wage required to achieve the level of disposable income that would place each household within 60, 65 and 70 per cent of median income (both including and excluding benefits). The government’s poverty threshold is 60 per cent of median income. Hence, we focus on the wage required to meet this income level.

Table 3.2 Approximate wage required to reach a certain percentage of median income for different households

Earnings	Couple with two children			Lone parent		Couple with no children			Single no children	Weighted average
	2ft	1 ft 1pt	1ft	ft	pt	2ft	1ft 1pt	1ft	ft	
Including all relevant benefits										
60% of median income	5.05*	5.2	8.4	5.05*	8.4	5.4	7.5	12.2	5.8	6.3
65% of median income	5.2	6.4	10.2	5.5	11.2	5.7	7.9	12.7	6.4	6.9
70% of median income	6.1	7.4	12.1	6.8	14.0	5.9	8.2	13.3	6.7	7.6
Excluding means-tested benefits										
60% of median income	8.6	9.2	11.2	>15	>15	5.4	7.5	12.2	6.1	8.0
65% of median income	9.0	9.8	12.0	>15	>15	5.7	7.9	12.7	6.4	8.5
70% of median income	9.4	10.3	12.8	>15	>15	5.9	8.2	13.3	6.7	8.8
<i>Memo: numbers of people in London that would attain 60% of median income at various wage levels</i>										
Total number of people of this family type ('000)	455	364	173	75	42	425	340	162	802	2838
<i>Number which would attain 60% of median income at a wage of:</i>										Total
£5.05	455	-	-	75	-	-	-	-	-	530
£6.30	455	364	-	75	-	425	-	-	802	2121

Notes: ft=full-time and pt=part-time

^a Minimum wage sufficient to meet 60 per cent of median income threshold

The minimum wage (of £5.05) has been used as a lower limit for the wage when calculating the weighted average wage

All figures rounded to one decimal place (or 10 pence)

Source: GLA Economics. The number of people in different household groups was derived from Census 2001

Table 3.2 illustrates that less than 20 per cent of the working households considered here would attain 60 per cent of median income at the minimum wage (assuming all relevant benefits were claimed).¹¹ The weighted average wage (assuming all relevant benefits are claimed) required to achieve 60 per cent of median income is around £6.30. At this wage almost three quarters of the households considered would achieve the 60 per cent median income threshold.

¹¹ This calculation is based on obtaining the proportion of individuals (for the different types of households) over total individuals considered in Table 3.2 that require the minimum wage to achieve 60 per cent of the median income. That is 530,000 over 2,838,000.

4. Comparison of approaches and the wage distribution

This section compares the results of the two approaches outlined previously and then looks at the wage distribution in London to see what proportion of the working population in London would be affected by a living wage if adopted across London.

The Basic Living Costs and Income Distribution approaches find that at the minimum wage, assuming all relevant benefits and tax credits are claimed, almost 40 per cent of the households considered in this analysis would cover their basic living costs, and 20 per cent would attain 60 per cent of median income.¹²

The weighted average wage from the Basic Living Costs approach is £6.00 per hour compared to £6.30 from the Income Distribution approach. The two approaches deviate somewhat in producing the wage required to move above or at least to, the poverty threshold. Taking the average of these two derived figures yields a wage of £6.15.

Table 4.1 sets out the weighted average wage derived from the various approaches, including and excluding means-tested benefits.

Table 4.1 Weighted average wage (£ per hour)

Approach	Including benefits	Excluding benefits
Basic living costs	6.0	7.7
Income distribution (60%)	6.3	8.0
Income distribution (65%)	6.9	8.4
Income distribution (70%)	7.6	8.8

Notes: All figures rounded to 1 decimal place (or 10 pence)

Source: GLA Economics

It shows that a wage of around £6.15 allows most households, on average, to move above, or at least to, what might be considered the poverty threshold. Increasing the wage above this level increases a household's disposable income net of basic living costs and moves them closer to median income. Once the 15 per cent margin against poverty is added to £6.15 per hour, this yields a living wage, to the nearest five pence, of £7.05 per hour.

The next section looks at the wage distribution in London to see what proportion of the working population in London would be affected at these wage levels (assuming the wage was implemented across London).

¹² It should be noted that similar results have been found in other studies using the Basic Living Costs (LCA) approach. For instance, a study in Brighton in 2003 found that assuming the three household types considered in that study claimed all relevant benefits and tax credits, the minimum wage was sufficient to cover basic living costs. See: LCA wage levels and the 'exported costs' of low pay in Brighton and Hove, University of Brighton, May 2003.

4.1 Wage distribution

Data from the Annual Population Survey (APS) for 2004, which replaces the Labour Force Survey (LFS), was used to determine the wage distribution in London. For details about the APS see Box 4.1.

Table 4.2 shows the proportion of employees in London working full and part-time that earn below £5, £6, £7 and £8 per hour respectively.

Table 4.2. Proportion of employees in London that earn less than various wage levels

	Males	Females	Total employees
	%	%	%
Full-time earning			
< £5 per hour	4.0	4.5	6.0
< £6 per hour	8.2	9.4	11.6
< £7 per hour	13.4	15.7	17.5
< £8 per hour	19.0	23.4	23.1
Part-time earning			
< £5 per hour	22.5	14.5	17.1
< £6 per hour	44.6	28.5	32.2
< £7 per hour	58.1	42.2	45.9
< £8 per hour	63.2	50.6	53.6

Source: Annual Population Survey (APS) 2004

It should be noted that the measurement of the distribution of hourly pay is not a simple matter and that the LFS is an imperfect guide to it. This is primarily because of the difficulty in reconciling data from hourly-paid and salaried staff. The majority of LFS respondents do not know their hourly pay rate. Instead, they know either their annual or their weekly salary, and their contractual hours. The LFS imputes an hourly rate to salaried staff by estimating, in effect, the hourly rate which would yield their salary, were they to be paid on an hourly basis. This is done by dividing their gross weekly pay by their actual hours worked, including usual overtime. People can also incorrectly report their hours of work. Previous research has suggested that workers can tend to overstate their hours of work and this can bias down derived estimates of hourly pay. For hourly paid staff, however, the earnings rate recorded is simply their non-overtime hourly rate, regardless of how many hours they work.

Thus LFS estimates of hourly pay are subject to errors in either the measurement of total pay and/or hours worked. The Office for National Statistics (ONS) has dedicated considerable resources to improving the measures of low pay in the UK. As part of our ongoing research programme this year we will be investigating whether we can apply their methods to London to obtain improved measures of low pay in London.

Table 4.2 shows that just over 11 per cent of full-time workers in London earn less than £6 per hour and around 18 per cent of full-time workers earn less than £7 per hour. The table shows that about 32 per cent of part-time workers in London earn less than £6 per hour and almost half of part-time earners earn less than £7 per hour.

Box 4.1 Annual Population Survey (APS)

The Annual Population Survey (APS) is a major new survey that provides better quality information on key socio-economic and social variables at a local level. The APS replaces the Labour Force Survey (LFS), and surveys around 65,000 households in the UK. The APS covers the period January to December 2004 and will cover similar periods for each year thereafter.

According to the Office for National Statistics (ONS), the APS, combined with results from the LFS and the English Local Labour Force Survey, will produce enhanced annual data for England covering a target sample of at least 500 economically active people for each Local Authority District outside London, and at least 450 economically active individuals in Greater London boroughs.¹³

The living wage has increased by around five per cent since last year's report, to £7.05 per hour. This is due to a combination of general inflation over this period and rising costs in particular in fuel, transport costs, childcare costs, household services and council tax. Please note however, that increases in transport and childcare costs were due to refinements in our assumptions.

Last year's report considered a figure of £4.30 per hour for childcare costs estimates in London. This figure was an internal assumption commonly used within the GLA. This report however, provides another more robust childcare cost estimate, based on the average cost of various types of childminding provision charges in Inner London and Outer London. Although this estimate is nine per cent higher than the one used in the Annual report 2005, it is important to note that over this period nursery childminding costs in Inner and Outer London have increased below and in line with the Great Britain average respectively. So the upward revisions in childcare costs are partly related to the changing methodology used.

¹³ Office for National Statistics, Annual Population Survey i
<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=10855&More=Y>

5. The youth/apprentice living wage

Last year the Living Wage Unit published a note for the first time estimating the wages and costs of young people aged 16-19 years living in London.¹⁴ This note set out the rationale for a youth/apprentice living wage in the capital and explained the methodology for its derivation. This wage will be relevant for many apprentices, who tend to be young people.

A long-standing feature of both UK and overseas labour markets is that apprentices are paid less than older workers. This reflects their relative labour market inexperience and that they are acquiring training, whether formal or on the job. The relatively low levels of apprentice pay reflect a *quid pro quo*. In return for accepting low pay, apprentices receive training that helps to improve their future pay and employment prospects.

This chapter updates figures for the youth/apprentice living wage using the most recent data available, following the same methodology as outlined in the aforementioned published note. The next section presents cost estimates based on the Basic Living Cost approach (LCA) for young single individuals.

5.1 Young Londoners' costs

Non-housing costs

As before, it is assumed that young person's living costs are the same as those of an adult single person, except for housing costs and council tax, as in table 5.1. Young people are more likely to be single and without children, and so in these circumstances they will not incur childcare costs.

Table 5.1: Basic Living Costs (or LCA budget) for single individuals (aged 16-19 years old) in London (£ per week, 2005)

Costs	Weekly cost (£)
Shopping Basket Costs	80.85
Council tax	11.18
Total transport costs	23.05
Childcare costs	0.00
Total non-housing costs	115.08

Source: GLA Economics' own calculations based on ONS, Chartered Institute of Public Finance and Accountancy (CIPFA) and Transport for London data.

¹⁴ Current Issues Note 7, GLA Economics: *London's Living Wage for young people – November 2005*.
<http://www.london.gov.uk/mayor/economic_unit/docs/current_issues_note_7.pdf>

Non-housing costs compared with last year

The total weekly costs which we have estimated for a representative young single individual have risen from £109 last year to £115 at the time this report was compiled. This rise does not necessary reflect the actual rise in the cost of living. For example, transport costs have risen by 20 per cent, the highest increase. Part of this was, however, related to the introduction of the more realistic assumption that adults with low incomes are more likely to buy a monthly travel card rather than an annual travel card.

Housing costs

Relative to older adults, young people living in London are more likely to be living in a single room, shared accommodation or living at home with their parent or parents. If young people are living at home they are assumed to be paying rent at the current market rate of similar accommodation and half the cost of total household council tax. We assume that young people pay a rent equal to the lowest quartile of rents. Table 5.2 presents this information for both private and social rents, and for various types of property.

Table 5.2: Bottom quartile of rents of various sizes and types of accommodation (£ per week)

	Bedrooms					
	1	2	3	4	5	6
Rooms	74.00	37.50				
Sharers	75.00					
Bedsits	70.00					
Studio Flat	N/A					
Flat	150.00	87.50	68.83	72.25		
Maisonette	150.00	86.50	69.33	100.00		
House/bungalow/cottage	144.00	88.75	71.33	74.75	69.10	58.33
<i>Memo: social rented</i>	<i>53.00</i>	<i>30.90</i>	<i>22.70</i>	<i>20.40</i>		

Note: N/A: information not available on the rental cost of a studio flat.

Source: GLA and CIPFA datasets

Using Annual Population Survey (APS) data, table 5.3 shows the updated distribution of young people (aged 16-19 years old), by tenure, in London in 2004. Of all young individuals in this age group over 214,000 live in rented accommodation. More of these young people are in socially rented housing, accounting for 34 per cent compared to ten per cent living in private rented accommodation.

Table 5.3: Distribution of young individuals (aged 16-19 years old) by tenure, in London

	Number of young individuals	Percent
Owned outright	62,800	12.9
Rent free	5,800	1.2
Being bought with mortgage, Part rent, part mortgage	203,900	41.9
Rented of which:	214,200	44.0
Social	165,700	34.0
Private	48,600	10.0
Total	486,700	100.0

Source: GLA Economics own calculations based on Annual Population Survey, 2004.

The housing costs of young people (aged 16-19 years old) in the capital were calculated based on the weighted average rent across these different tenures. This weighted average rent takes into account both private and social rents.

Housing costs compared with last year

There have been minimal, if any, changes to private rents for the type of house that young people are more likely to live in. But social rents have increased by around four per cent for one to three-bedroom houses and 12 per cent for four-bedroom houses.

5.2 Youth/apprentice living wage

Benefits

Single young people (16-19 years old) are treated differently from older single people by the tax and benefit system in two main respects. First, individuals who are younger than 18 years old (including full-time students) are not entitled to council tax benefits. Second, young individuals (under 25 years old) without children are not entitled to tax credits. Single people aged under 25 can receive housing benefits provided they rent from a private or social landlord.¹⁵

Income and costs

Table 5.4 presents income and costs for a young single individual (aged 16-19 years old) in London, using the most recent available data. It shows that the wage required to cover Low but Acceptable Costs (LCA) for this representative person is £5.22 per hour, with average housing costs of £56.40 per week. Applying a 15 per cent margin to £5.22 to ensure the person involved does not fall into poverty, the estimated youth/apprentice living wage is £6.00.

¹⁵ Child Poverty Acton Group, 2005/06, Welfare benefits and tax credits handbook 2005/06.

Table 5.4: Living wage for single young individuals to cover LCA costs

	£ per week	£ per week	Youth hourly living wage incorporating 15% margin
Wages	200.97	5.22	6.00
Taxes	29.41		
Benefits	0		
Earnings net of tax and benefits	171.56		
Total LCA costs excluding housing	115.08		
Housing costs	56.40		
Total costs	171.48		

Note: We assume that young single individuals pay half the costs of council tax

Source: GLA Economics' own calculations based on London Sub-regional Strategy Support Studies (LSSSS) dataset. LSSSS dataset was only used to derive weights on the proportion of young individuals living in different types of house size in London

Comparison with previous year

Our estimate of the youth/apprentice living wage has increased seven per cent since last July. This increase has been due to a combination of inflation and revisions to our previous estimate on the basis of more realistic assumptions, particularly as regards transport.

6. Taking forward implementation of the living wage in the GLA group

Following the publication of the living wage, the GLA group has begun a rolling implementation programme. In implementing the living wage, a key consideration has been to avoid the danger of employers compromising other terms and conditions of employment in order to achieve the living wage.

The first step has been to ensure that all direct employees of the GLA group are being paid above the living wage rate (making allowance for the lower rate for apprentices). Whilst the great majority of direct GLA group employees were already being paid at above living wage rates, a small number of young apprentices at Transport for London (TfL) have been brought above the apprentice/youth living wage during the course of the year, and TfL will be ensuring that future apprentices are paid above the apprentice/youth living wage level.

The next stage has been to develop a programme seeking to roll out the living wage to GLA Group contracts wherever appropriate, within a wider programme to take forward sustainable procurement addressing the delivery of economic, social and environmental objectives through procurement strategies and processes generally.

Following the determination of the London living wage the appropriate GLA contracts were reviewed, and it was found one contract was paying below the London living wage. Action has been taken and this contract was brought in line with the London living wage in January 2006, directly benefiting 14 staff.

In 2006 the GLA let a new catering contract for City Hall. During the competitive process, tenderers attention was drawn to the GLA's London Living Wage Policy and appropriate contractual provisions were incorporated into the proposed service contract. Whilst offering staff pay rates above the London living wage, and an attractive package of additional benefits, the successful tender was evaluated as offering good value for money and was not the most expensive tender received.

It was recognised during the early stages of formulating the Living Wage Policy that GLA itself had a limited number of appropriate contracts offering opportunity for implementation. Significant opportunities for implementation lie in other organisations within the GLA group, especially Transport for London (TfL) and the London Development Agency (LDA) where the Mayor has powers of direction.

In phasing the roll out of the policy across the GLA group, the early focus of the implementation programme has therefore centred on Transport for London (TfL) and the London Development Agency (LDA) alongside the GLA. TfL, with its substantial procurement programme, offered particularly strong potential for achieving large-scale policy impact. Initial implementation at TfL will focus on a small number of specific contracts to be taken through a competitive tendering process.

GLA group implementation

In April 2005 a living wage implementation group was formed to help coordinate plans to roll out the policy across the GLA group. Progress on implementing the living wage during the year has included:

- The uplift of ten TfL apprentices' wages to apprentice/youth living wage level.
- Review and confirmation by LDA, TfL and GLA that all their direct employees, apart from apprentices, are now paid above the living wage of £6.70.
- Implementation by the LDA of application of the living wage to their headquarters servicing contract.
- Development of a structured GLA/LDA/TfL analysis of the issues arising from rolling out the living wage across their contracts, advising on how best to take implementation forward having regard to practicality, cost and the relevant legal frameworks. This has highlighted that implementation needs to be taken forward on a contract-by-contract basis.
- Strengthening of the policy and legal framework regarding sustainable procurement, including the living wage, by the adoption of a GLA group Sustainable Procurement Policy (signed up to by the GLA, TfL, LDA, LFEPA and MPA as well as the MPS) coupled with a delegation and direction from the Mayor to LDA and TfL to proceed with implementation of the Policy.
- Incorporation by TfL of the living wage as an objective in a number of contracts currently being taken forward; it is expected these will be let during the last quarter of 2006.

Alongside this internal GLA group work, we are seeking to work in partnership with other agencies such as the TUC, business and London Citizens to promote the concept of the London living wage across London.

Looking forward

The Mayor has approved a GLA group Sustainable Procurement Policy, which will provide an over-arching framework for the roll out of the GLA group implementation plan for the living wage, in a way that is integrated with other sustainable procurement initiatives. The key themes of the policy are as follows:

- encouraging a diverse base of suppliers
- promoting fair employment practices
- promoting workforce welfare
- meeting strategic labour needs and enabling training opportunities
- community benefits
- ethical sourcing benefits
- promoting greater environmental sustainability.

It is the Mayor's policy to develop a more coordinated approach to delivering a range of priorities to improve London's sustainability. The GLA group Sustainable Procurement Policy will facilitate the implementation of the living wage and other sustainable procurement priorities through future GLA group contracts.

Each organisation within the GLA group will be asked to make appropriate staff and financial resources available to drive forward progress and implement sustainable procurement delivery and performance measurement, with coordination through a director level steering group chaired by the GLA Director for Equalities and Policing.

7. Conclusions

The living wage has increased by around five per cent since last year's report, to £7.05 per hour. This is due to a combination of general inflation over this period and rising costs in particular in fuel, transport costs, childcare costs, household services and council tax. Note however, that increases in transport and childcare costs were due to refinements in our assumptions.

Last year's report considered a figure of £4.30 per hour for childcare costs estimates in London. This figure was an internal assumption commonly used within the GLA. This report however provides another more robust childcare cost estimate, based on the average cost of various types of childminding provision charges in Inner London and Outer London. Although this estimate is nine per cent higher than the one used in the 2005 report, it is important to note that over this period nursery childminding costs in Inner and Outer London have increased below and in line with the Great Britain average respectively. So the upward revisions in childcare costs are partly related to the changing methodology used.

The youth living wage also rose by around seven per cent, since the publication of Current Issues Note 7.

A cross-GLA group living wage implementation group was formed in April 2005 to help coordinate plans for the policy across the GLA group. All LDA, TfL and GLA direct employees are paid above the living wage. Procurement policies are being developed and applied to implement the living wage for employees whose services are subcontracted to these bodies, and the implementation group is seeking to work in partnership with other agencies such as the unions, businesses and London Citizens to promote the concept of the London living wage across London.

The Living Wage Unit will continue to undertake research in particular to increase our understanding of the low pay in London, looking at the earnings distribution and explaining the causes of low pay in the capital.

Appendix A. Details of cost calculations

This appendix provides the calculation and sources used for the cost data in section 2. As noted in section 2, costs are considered under five headings that are now considered in detail.

A.1 Housing costs

Housing costs in London were updated using the same methodology as was applied in the 2005 living wage report, but with the inclusion of social housing for couples with children, for which data was not previously available but has now been obtained from the Cambridge Centre for Housing and Planning Research (CCHPR).¹⁶ In addition, we considered a different method using a new dataset called the London and Sub-Regional Strategy Support Study (LSSSS).¹⁷ We sought to establish whether this could improve housing costs estimates in the capital. However, significant disparities emerged between estimates based on the LSSSS and those using GLA, CIPFA and CCHPR data. The reason for these disparities, which lead us to conclude that the new dataset should not at present be used, is assessed below. Housing costs estimates in London were therefore derived from the same dataset used in the 2005 report, updated to 2006 and modified to a very small degree by data on social housing costs from the CCHPR report. The changes in housing costs are therefore primarily attributable to the actual rise in the cost of housing, and not to the minor changes in the data used.

Same methodology and using GLA dataset

In the 2005 report as in this one, we assumed that couples and lone parents with two children live in a three-bedroom property. This is based on the FBU method, which attempts to estimate the rent that a model family needs to pay, in order to obtain access to affordable but adequate housing. This rent will in general be different from the rent that model families are now paying. The latter depends on their earnings, and the availability of appropriately sized housing.

Data from the Chartered Institute of Public Finance and Accountancy (CIPFA) provides, for each London borough, the average council rent on a three-bedroom property and the number of such dwellings in the council stock. This has been updated using the most recent data. Table A.1 shows the median, weighted mean¹⁸ and unweighted mean of these rents, covering the majority of London boroughs for 2004.

¹⁶ <http://www.dataspring.org.uk/index1.htm>

¹⁷ see note 20 for details

¹⁸ The weighted mean takes into account the different number of (three-bedroom) council houses in each borough, and weights the average by this number. The unweighted mean is a simple average of all boroughs for which data is available.

Table A.1 Median, weighted and unweighted mean of three-bedroom council houses in London in 2004

Median	76.57
Weighted Mean	77.56
Unweighted Mean	79.86

Source: CIPFA

Council housing alone, however, does not represent the only source of affordable housing available to such families and therefore, in this report, other social housing is also be taken into account. The Cambridge Centre for Housing and Planning Research data (CCHPR) reveals that the average rent for three-bedroom other social housing in London is £82 per week.

Use of these two figures, although they are very similar, requires some estimate of the distribution and availability of these two types of affordable housing. An approximate estimate was therefore made that takes into account the slightly higher average costs of social housing as follows: there are 483,000 council houses (of all types) in London and 310,000 units of other social housing in 2003 (most recent available data). Using these as weights, the average of overall social housing rents for affordable three-bedroom dwellings in London is £80 per week. This figure is used for the housing costs of couples and lone parents with children.

For a single person and for couples without children, it was assumed that they are more likely to live in private accommodation, since their access to social housing is significantly less likely than for families with children. This report, like the 2005 report, used the GLA's database of London privately rented accommodation for November 2005 and applied the assumption that a couple without children will live in a rented one-bedroom house, flat or maisonette, and that a single person will live in a bedsit, flat share or studio flat. In each case the first quartile of the rent distribution has been used as an estimate of typical cost. This gives a typical rental of £150 per week for a couple, and £79 for a single person.

Attempts to improve housing estimates in London using new data

The 2005 living wage report¹⁹ was the first attempt to provide estimates of the living wage in London, including different types of households and their various costs (including housing), income and benefits.

This section discusses our attempt to improve housing costs estimates in London, using the London and Sub-Regional Strategy Support Study (LSSSS). This dataset has the added benefit of containing information on housing tenure and house size by different type of households. Moreover, the LSSSS dataset includes information on weekly rents

¹⁹ A Fairer London: The Living Wage in London, GLA Economics, March 2005.

(social and private) for over 40,000 households in London, grossing up to the total London household population.²⁰

There are two main difficulties in using this dataset. Firstly, the sample base consists of households, not dwellings. Secondly, there are significant discrepancies between the data obtained from the GLA’s own, dwelling-based dataset and the LSSSS’ household-based dataset. This section discusses the possible reasons for these differences.

Housing tenure distribution

It is possible to evaluate how realistic our assumptions were in the 2005 report by looking at the distribution of housing tenure in London based on the LSSSS dataset, as shown in table A.2 below.

Table A.2 Distribution of housing tenure in London (%)

Type of households	Owner occupied	Private rented	Social rented	Total
Single no children	49	25	26	100
Two or more adults, no children	62	24	15	100
Lone parent	19	14	67	100
Two adults and two children	65	11	25	100

Source: LSSSS dataset

A majority of lone parents tend to live in social rented accommodation. Also, a higher proportion of both couples and single individuals without children live in private accommodation in London than in social housing. About two-thirds of couples with two children own their residential property. However among those who are renting a higher proportion are in social properties than in private housing.

Comparisons of housing cost estimates

Table A.3 presents estimated housing costs per week in London for different types of households, using the new LSSSS and GLA datasets.

²⁰ In 2004 the GLA, working in partnership with the five housing sub-regions and the ALG, commissioned Fordham Research Limited to establish a major new data source on household characteristics and housing needs in London – the 2005 ‘London and Sub-Regional Strategy Support Studies’.

Table A.3 Bottom quartile rents in London by family type (£)

Type of households	LSSSS dataset	GLA/CIPFA datasets
Single no children	133	79
Couple household with no children	133	150
Lone parent with dependent children	151	80
Couple household with dependent children	151	80

Note: Figures have been rounded

Source: GLA Economics' own calculations based on the LSSSS dataset and CIPFA and GLA datasets. The GLA cost estimates are based on the standard assumption of a three-bedroom house for a family with two children and a one-bedroom house for a family with no children

Table A.4 gives a breakdown by dwelling type rather than family type, which corresponds to LCA assumptions concerning housing – that a family with two children requires a three-bedroom house, and a family with no children requires a one-bedroom house.

Table A.4 Bottom quartile rents in London by dwelling type (£ per week)

	One bedroom	Three bedrooms
Owner occupier	127	135
Renting from council	126	147
Renting from housing association	128	159
Renting from private landlord	133	149

Source: LSSSS dataset

Comparing the lowest quartile rents in London based on LSSSS and GLA datasets, there are significant differences. Housing costs estimates using the LSSSS dataset are significantly higher than those based on the GLA datasets. This difference remains at present unexplained and therefore, LSSSS estimates were not used.

Explaining the differences between the datasets

One reason for the differences is that the two datasets are derived from two different sample frames and therefore cover a different part of the statistical population of dwellings. The LSSSS data includes all forms of tenure including owner occupied houses and therefore extends to households with significantly higher earnings than those likely to rent the premises in the GLA, CIPFA and CCHPR datasets. The GLA dataset refers to rented private accommodation, the CIPFA dataset to council housing, and the CCHPR dataset to RSL housing. However, as table A.5 shows, differences remain when data from the LSSSS dataset is restricted to social or council housing.

Table A.5 summarises the other main differences that could account for this discrepancy.

Table A.5 Differences in rents between SSSS and GLA datasets

	LSSSS dataset	GLA dataset
Sample	Households	Advertised lettings
Sample size	About 40,000	About 8,000
Definition of rent	Weekly rents, including housing benefit or rent rebate and service charges.	Advertised weekly rent
Type of rent and period	Social and private rents	Private
Date of sample	April 2004	November 2004
Type of house	No information supplied	Distinguishes flat, studio, maisonette
House size	Contains information on number of bedrooms	Contains information on number of bedrooms

There are trade-offs when using the LSSSS dataset. We have seen that this dataset provides rich information on the distribution of housing tenure, showing similar patterns to figures from the Census 2001. Moreover, the LSSSS provides rents (including social) for around 40,000 households in London. However, the information is based on housing needs surveys carried out in 27 London boroughs over the past five years. Therefore, the results are modelled to take account of the missing boroughs. In addition, housing costs data have been uplifted to a common mid-2004 basis. This is likely to produce some errors and possibly affect the accuracy of rents. In light of this, we decided to use only the GLA and CIPFA datasets to obtain information on private and social rents respectively.

A.2 Council tax

On the basis of data from the Office of the Deputy Prime Minister (ODPM) the majority of London houses are band D or above. This report assumes a band D council rent and calculates, the average council tax band D using ODPM data. This yields a figure of £22.35. This figure represents the council tax for families with children. People living on their own or lone parents, are entitled to a 25 per cent single person’s discount. It was assumed that lone parents and single people receive a 25 per cent discount, that is, £16.76.

A.3 Childcare

In last year’s report, £4.30 was used as a representative estimate of childcare costs in London. This was an internal working assumption in use at the time, based on the best information available at that time. However, childcare costs in this report have been

calculated on the basis of the average London rate of £4.70. The section below explains improvements made in deriving these estimates.

The FBU assesses a standard number of hours of childcare on the basis of family types. This is an average figure throughout the year and takes into account school and other holidays.

As in the 2005 report, we have assumed that all households with children, where the only parent or both parents work, incur childcare costs. It was also assumed that earners working full-time and part-time require 19.5 and 40.5 hours of childminding respectively.

Derivation of childcare costs

The Daycare Trust published its most recent figures on childcare costs in February 2006. These figures are available for Inner and Outer London. To derive London childcare costs, average childcare costs were calculated for both Inner and Outer London. That is, we averaged the nursery costs (under 2), nursery costs (2 and over), childminder (under 2) and childminder (2 and over) over Inner London from table A.6. The Inner London average childcare cost was £174.45. The Outer London average childcare cost was £155. Taking the average of these two figures for Inner and Outer London yields the London average childcare cost of £164.75.

To convert London average childcare costs to an hourly figure, it was assumed that on average parents would demand 35 hours of childminding service, which is slightly higher than the actual usage of 30 hours which can be arrived at by averaging the 40.5 hours use made by part-time earners and the 19.5 hours use made by full-time earners. This is consistent with the FBU methodology applied throughout, which attempts to establish the actual requirement that a family in typical circumstances would have if earnings were adequate, rather than the actual use of child care by families, which may reflect an inability to afford sufficient hours of child care.

This yields an hourly equivalent, for a weekly expenditure of £164.75, of £4.70 per hour.

Table A.6 Childcare costs in London (£)

	Nursery (under 2)	Nursery (2 and over)	Highest nursery cost	Childminder (under 2)	Childminder (2 and over)	Out of school club
Inner London	197	178	338.75	160	163	26
Outer London	174	152	320	148	146	36

Source: Daycare Trust, 2006

A.4 Transport

In last year's report, it was assumed that adults bought an annual travel card for zones 1-3 (at a cost of £19.20 per week) and for the two children only the older child used a bus pass (at a cost of £11.30 per week), see table A.7.

Since the 2005 report, transport fares have been reviewed and the Mayor has established a new policy to provide free travel to children under 16 years. This is the main reason for the reduction in this element of the cost of living for model families with children. Therefore, transport costs within the household only include costs incurred by the parents/lone parent.²¹

We assumed in this report that individuals on low wages would not be able to afford the full upfront payment of an annual travel card. Therefore, we assumed that an adult buys a monthly travel card for zones 1-3, costing £99.90, which is equivalent to weekly transport costs of £23.05 for one adult and £46.10 for two adults.²²

Table A.7 Transport costs (£ weekly)

Type of households	2006 living wage report	2005 living wage report
Couples with children	46.10	49.70
Lone parents	23.05	30.50
Couple without children	46.10	38.40
Single individuals without children	23.05	19.20

Source: Based on Transport for London fares

A.5 Regional price differentials for the standard shopping basket

The ONS published, in 2003, detailed estimates of price differentials between each Government Office Region and the UK average.²³ From this information, the relative regional prices for each category of expenditure, except for those items already discussed in this appendix, have been calculated.

Since 2003 the ONS has not published updated regional price estimates. We therefore used the growth in national prices to adjust each item of London's shopping basket, and then applied these to produce estimates of the total rise in shopping basket costs for the different requirements which the FBU method allocates to different types of families in London.

²¹ The calculation is unaffected by the Mayor's recent decision to introduce free tube travel for under-11s as we have assumed that children in our target families will travel by bus.

²² The monthly figure was multiplied by 12/52 to obtain the weekly fare.

²³ See http://www.statistics.gov.uk/articles/economic_trends/ET615Wingfield.pdf

Rising costs since last year's report

Since our last report, some prices of goods and services in London have increased (ie experienced inflation). Table A.8 presents the growth in prices between November 2004 and November 2005 for the different items of the shopping basket considered. Twelve out of 15 items of the shopping basket experienced inflation over this period such as food, personal care, household services, leisure services, fuel, NHS charges, insurance/pension contributions, pets and charitable donations.

Table A.8 Growth in prices of items of the shopping basket

Item	Growth in prices between November 2004 and November 2005
Rising items	
Fuel	
Seeking work costs	11.1
NHS charges	5.8
	5.5
Household services	4.0
Personal care	3.6
Leisure services	3.1
Smoking costs	2.5
Food	2.3
Insurance/pension contributions	2.3
	2.3
Debts/fines/maintenance orders	2.3
	2.1
Charitable donations	
Pets	
Decreasing items	
Clothing	-5.3
Leisure goods	-4.2
Household goods	-0.4

Source: Office for National Statistics (ONS)

The reported inflation in the above 12 items of the shopping basket translated into increases by the same amount in the costs of these items for the different types of families.

Appendix B: Benefits and tax credits

This section reviews the main tax credits and benefits that households can receive in the UK, depending on their earnings and circumstances. The methodology used to calculate these benefits for different types of households is explained in detail in Appendix C of the 2005 living wage report.

B.1 Earnings and benefits

There are different tax credits and benefits that households are entitled to receive in the UK. These are targeted mainly to help low (and middle) income families. The majority of these benefits are means-tested, with some exceptions such as child benefits.

The main means-tested benefits available to households with someone in work are:

- Working tax credit
- Child tax credit
- Housing benefits
- Council tax benefits.

The amount a household receives depends on various factors including annual household income, the number of hours worked, type of household (couple or lone parent), number of children, and age of children. Therefore, there are several elements in each tax credit or benefit to reflect different needs and circumstances of households.

To derive the main benefits for the different types of families in London, we follow the same methodology as outlined in Appendix B of the 2005 living wage report.

The working tax credit has several elements that are applied based on the circumstances of households, as outlined in Table B.1.

Table B.1: Working tax credit, 2006/07

Working tax credit elements	Maximum amount £ per year	Maximum amount £ per week
1. Basic	1665	31.97
2. Second adult/lone parent	1640	31.40
3. 30 hour	680	13.00
4. Childcare (per cent of eligible cost covered) 70%		
Maximum eligible cost for one child		175
Maximum amount for two or more children		300
5. Disability	2225	42.70
6. Severe disability	945	17.86
7. If over 50 and previously workless (see below for details)		
If working between 16 and 29 hours per week	1140	21.91
If working over 30 hours per week	1705	32.76

The working tax credit has a childcare element, which is given to those households who are working and have children. The childcare element provides 70 per cent of eligible childcare costs incurred up to a maximum of £175 per week for one child. This means that a family with one child can get at most £122.5 per week of the childcare element. Similarly, families with two children can receive up to a maximum of £240 per week (80 per cent of £300).

Families with disabled members get extra help, being entitled to additional disability or severe disability elements.

Households with a member over 50 years old can receive help depending on the hours worked per week. For instance, if a member of a family (over 50) works between 16 and 30 hours a week this person is entitled to get £21.91 per week and £32.76 per week if they work more than 30 hours. This payment is for one year only and is for people returning to work from the New Deal 50 Plus.

A representative couple, therefore, working more than 30 hours per week, with two children and spending a certain amount in childcare costs will be generally entitled to: the basic element; the second adult element; 30 hour element; 80 per cent of childcare costs incurred (or up to 80 per cent of the maximum £300).

However, the amount received depends on their household income. The next section considers the child tax credit and then details how to calculate the working tax credit, given information on household income.

B.2 Child tax credit

Child tax credit is mainly for families on low (or middle) incomes who are responsible for one or more children, under 16 years old (or a child under 19 who studying full-time up to A-level). Those entitled to this benefit need to work at least 16 hours a week on average. The household's gross income should be below £50,000.

Note that the child tax credit can be granted in addition to the childcare element of the working tax credit. The main elements of the child tax credit are the family element and the child element (see Table B.2). A family responsible for a child/children is entitled to receive the family element. But in addition, a family can get £33.17 per week for each additional child (over one year). If the household has a child under the age of one, then this family will receive the family and baby addition element.

Table B.2 Child tax credits, 2006/07

Child tax credit elements	Maximum amount	
	£ per year	£ per week
Family	545	10.50
Child	1765	33.17
Family and Baby addition	545	10.50
Disabled child	2350	44.92
Severe disabled child	945	17.86

As with working tax credit, the total amount received in child tax credits depends on the household's total income.

Common thresholds on household income for working tax credit and child tax credit

Families with a household income below £100.10 per week are entitled to the maximum amount as shown in Tables B.1 and B.2. Families with a household income above this first income threshold will receive less with their award being reduced at the rate of 37p for every £1 of gross income over this threshold (see Table B.3). This award is calculated using the following formula:

$$\text{Tax credit} = \text{maximum amount of child tax and working tax credits} - 37\% (\text{gross household income} - £100.10)$$

Families with gross household income above £ 958.9 per week will receive an award reduced at the rate of 0.67p for every £1 of gross income over this threshold income.

Table B.3 Common features to derive child and working family credits, 2006/07

Common Features	Maximum amount	
	£ per year	£ per week
First income threshold	5220	100.1
First withdrawal rate (%)	37%	
Second income threshold	£50,000	958.91
Second withdrawal rate (%)	6.67%	
First threshold for those entitled to Child tax credit only	£14,155	273.18

Child benefit

Child benefit is a universal, non means-tested benefit and is also non-taxable. It is paid for children up to the age of 16 or up to 19 for those in full-time, non-advanced education. Table B.4 shows the amount couples or lone parents are entitled to receive depending on the number of children they have.

Table B.4 Child Benefit, 2006/07

Number of children	Couple	New Lone Parent
	£ per week	£ per week
1	17.45	17.55
2	29.15	29.25
3	40.85	40.85
Each extra child above 3	11.70	11.70

There is a higher rate of benefit for the first child of £17.45 per week. Couples or lone parents receive £11.70 per week for each subsequent child.

B.3 Housing benefits

Housing benefit provides help to households in order to pay their rent. Housing benefit is calculated based on the following formula:

$$\text{Housing benefits} = \text{eligible rent} - 65\%(\text{net income} - \text{applicable amount})$$

where:

$$\text{Net income} = (\text{gross income} - \text{tax} - \text{earnings disregard}) + \text{child tax and working tax credits} + \text{child benefits}$$

and

$$\text{Applicable amount} = \text{total personal allowances} + \text{total premiums}$$

The applicable amount represents the minimum income the government thinks a person under a certain situation needs to live on. This is made up of two components: personal allowances and total premiums, depending on the particular circumstances of the household.

To calculate housing benefit it is necessary to take into account the household income and any other benefits received. The amount of housing benefit that a household receives also depends on the eligible rent and council tax paid.

To derive the total applicable amount, information from Table B.5 is used and depends on the size of the family or type of household. For instance, if the family is a couple with two children then they are entitled to receive £90.53 per week personal allowances, and £90.12 per week for both children under 16. In addition, families get the family premium (for couples) of £16.53 per week.

Table B.5 Housing Benefits, 2006/07

	Maximum amount
	£ per week
Personal allowance	
Single person (under 25)	45.70
Single person (25 or over)	57.72
Lone parent (18 or over)	57.72
Couple (one/both 18 or over)	90.53
Children	
Under 16	45.06
16-18	45.06
Premiums	
Family	16.53
Family (lone parent)	22.80

B.4 Council tax benefits

Single persons and certain other households qualify for a reduction in their council tax. On top of this some households qualify for council tax benefits.

Council tax benefits are granted to households to pay their council tax, mainly targeted at those on low income. The benefit is calculated as follows:

$$\text{Council tax benefit} = \text{council tax} - 20\% (\text{net income} - \text{applicable amount})$$

where: net income and applicable amount are as described on page 40.

Appendix C: Difference between LCA budget standard and disposable income at different hourly wages

This appendix sets out the difference between basic living costs and income approaches at different hourly wages. Table C.1 includes all relevant benefits and tax credits in the calculation for the first approach. Table C.2 excludes all means-tested benefits from the calculation.

Table C.1 Earnings, taxes, benefits, disposable income and costs for different wages including all applicable tax credits and means tested benefits

	Two parents with two children				Single parent		Couple no children				Single Person		Young single person	
	2ft	1ft 1pt	1ft	1pt	ft	pt	2ft	1ft 1pt	1ft	1pt	ft	pt	ft	
5.05														
Total disposable income	562.2	442.0	336.6	327.7	467.0	330.9	334.4	286.1	267.2	247.7	192.1	172.8	167.2	
LCA costs	518.9	420.2	305.5	305.5	447.1	348.4	326.5	326.5	303.4	303.4	199.7	199.7	171.5	
Total disposable income minus LCA costs	43.3	21.9	31.2	22.2	19.9	-17.5	7.9	-40.4	-36.2	-55.7	-7.5	-26.8	-4.3	
6.0														
Total disposable income	584.1	458.5	338.3	329.3	478.0	339.4	383.4	295.3	271.1	249.3	195.2	174.5	191.7	
LCA Costs	518.9	420.2	305.5	305.5	447.1	348.4	326.5	326.5	303.4	303.4	199.7	199.7	171.5	
Total disposable income minus LCA costs	65.2	38.3	32.8	23.9	30.9	-9.0	56.9	-31.2	-32.4	-54.1	-4.5	-25.1	20.2	
7.0														
Total disposable income	607.2	478.9	341.1	330.7	489.5	348.2	435.0	329.9	275.1	250.7	217.5	176.8	217.5	
LCA Costs	518.9	420.2	305.5	305.5	447.1	348.4	326.5	326.5	303.4	303.4	199.7	199.7	171.5	
Total disposable income minus LCA costs	88.3	58.7	35.6	25.2	42.4	-0.2	108.5	3.4	-28.3	-52.8	17.8	-22.9	46.0	
8.0														
Total disposable income	630.3	499.3	348.7	332.0	501.1	357.1	486.5	370.8	279.3	252.0	243.3	179.1	243.3	
LCA Costs	518.9	420.2	305.5	305.5	447.1	348.4	326.5	326.5	303.4	303.4	199.7	199.7	171.5	
Total disposable income minus LCA costs	111.4	79.1	43.2	26.5	54.0	8.6	160.0	44.3	-24.1	-51.5	43.6	-20.6	71.8	

Source: GLA Economics' own calculations.

Table C.2 Earnings, benefits, disposable income and costs for different wages, including only non-means -tested benefits

	Two parents with two children				Single parent		Couple no children				Single Person		Young single person
	2ft	1ft 1pt	1ft	1pt	ft	pt	2ft	1ft 1pt	1ft	1pt	ft	pt	ft
5.05													
Total disposable income	363.5	282.2	196.3	115.0	196.4	115.1	334.4	253.0	167.2	85.9	167.2	85.9	167.2
LCA Costs	518.9	420.2	305.5	305.5	447.1	348.4	326.5	326.5	303.4	303.4	199.7	199.7	171.5
Total disposable income minus LCA costs	-155.4	-138.0	-109.2	-190.5	-250.7	-233.3	7.9	-73.5	-136.3	-217.6	-32.5	-113.8	-4.3
6.0													
Total disposable income	412.5	318.1	220.8	126.4	220.9	126.5	383.4	289.0	191.7	97.3	191.7	97.3	191.7
LCA Costs	518.9	420.2	305.5	305.5	447.1	348.4	326.5	326.5	303.4	303.4	199.7	199.7	171.5
Total disposable income minus LCA costs	-106.4	-102.1	-84.6	-179.0	-226.2	-221.9	56.9	-37.5	-111.8	-206.2	-8.0	-102.4	20.2
7.0													
Total disposable income	464.1	359.1	246.6	141.6	246.7	141.7	435.0	329.9	217.5	112.4	217.5	112.4	217.5
LCA Costs	518.9	420.2	305.5	305.5	447.1	348.4	326.5	326.5	303.4	303.4	199.7	199.7	171.5
Total disposable income minus LCA costs	-54.8	-61.1	-58.9	-163.9	-200.4	-206.7	108.5	3.4	-86.0	-191.0	17.8	-87.2	46.0
8.0													
Total disposable income	515.7	400.0	272.4	156.7	272.5	156.8	486.5	370.8	243.3	127.6	243.3	127.6	243.3
LCA Costs	518.9	420.2	305.5	305.5	447.1	348.4	326.5	326.5	303.4	303.4	199.7	199.7	171.5
Total disposable income minus LCA costs	-3.2	-20.2	-33.1	-148.8	-174.6	-191.6	160.0	44.3	-60.2	-175.9	43.6	-72.1	71.8

Source: GLA Economics' own calculations

Table C.3 presents the wage level that different types of families require to achieve 60 per cent of median income, 65 per cent of median income and 70 per cent of median income. These calculations include benefits.

Table C.3 Incomes for different types of families (£, 2003/04) including benefits in disposable income

Household type	Weekly income	Equivalent Hourly wage		
		2ft	1ft 1pt	1ft
60% of median (relative poverty measure)				
With two children aged 2-4 and 8-10				
1) Couple parents	251.26	5.05	5.3	8.4
2) Lone parent	171.07	N/A	N/A	5.05
With no children				
1) Couple	178.20	5.4	7.5	12.2
2) Single person	98.01	N/A	N/A	5.9
65% of median				
With two children aged 2-4 and 8-10				
1) Couple parents	272.20	5.3	6.4	10.2
2) Lone parent	185.33	N/A	N/A	5.7
With no children				
1) Couple	193.05	5.7	7.9	12.7
2) Single parent	106.18	N/A	N/A	6.4
70% of median				
With two children aged 2-4 and 8-10				
1) Couple parents	293.14	6.2	7.5	12.1
2) Lone parent	199.58	N/A	N/A	7.0
With no children				
1) Couple	207.90	5.9	8.2	13.3
2) Single person	114.35	N/A	N/A	6.7

Source: GLA Economics' own calculations

Similarly, Table C.4 shows the wage levels in the income distribution approach as above, but including only non-means tested benefits.

Table C.4 Incomes for different types of families, (£, 2003/04), including only non-means -tested benefits

Household type	Weekly Income	Equivalent hourly wage		
		2ft	1ft 1pt	1ft
60% of median (Relative poverty measure)				
With two children aged 2-4 and 8-10				
1) Couple parents	251.26	8.7	9.3	11.2
2) Lone parent	171.07	N/A	N/A	>15
With no children				
1) Couple	178.20	5.4	7.5	12.2
2) Single person	98.01	N/A	N/A	6.1
65% of median				
With two children aged 2-4 and 8-10				
1) Couple parents	272.20	9.1	9.9	12.0
2) Lone parent	185.33	N/A	N/A	>15.0
With no children				
1) Couple parents	193.05	5.7	7.9	>15.0
2) Single parent	106.18	N/A	N/A	6.4
70% of median				
With 2 children aged 2-4 and 8-10				
1) Couple parents	293.14	9.5	10.4	12.8
2) Lone parent	199.58	N/A	N/A	>15.0
With no children				
1) Couple	207.90	5.9	8.2	13.3
2) Single person	114.35	N/A	N/A	6.7

Source: GLA Economics' own calculations

Abbreviations

CIPFA	Chartered Institute of Public Finance and Accountancy
DWP	Department for Work and Pensions
FBU	Family Budget Unit
GLA	Greater London Authority
LCA	Low Cost but Acceptable
LFS	Labour Force Survey
NES	New Earnings Survey
ODPM	Office of the Deputy Prime Minister
ONS	Office for National Statistics

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Vietnamese

Nếu bạn muốn có văn bản tài liệu này bằng ngôn ngữ của mình, hãy liên hệ theo số điện thoại hoặc địa chỉ dưới đây.

Greek

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Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

Arabic

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Gujarati

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