Calculating the Real Living Wage for London and the rest of the UK: 2024

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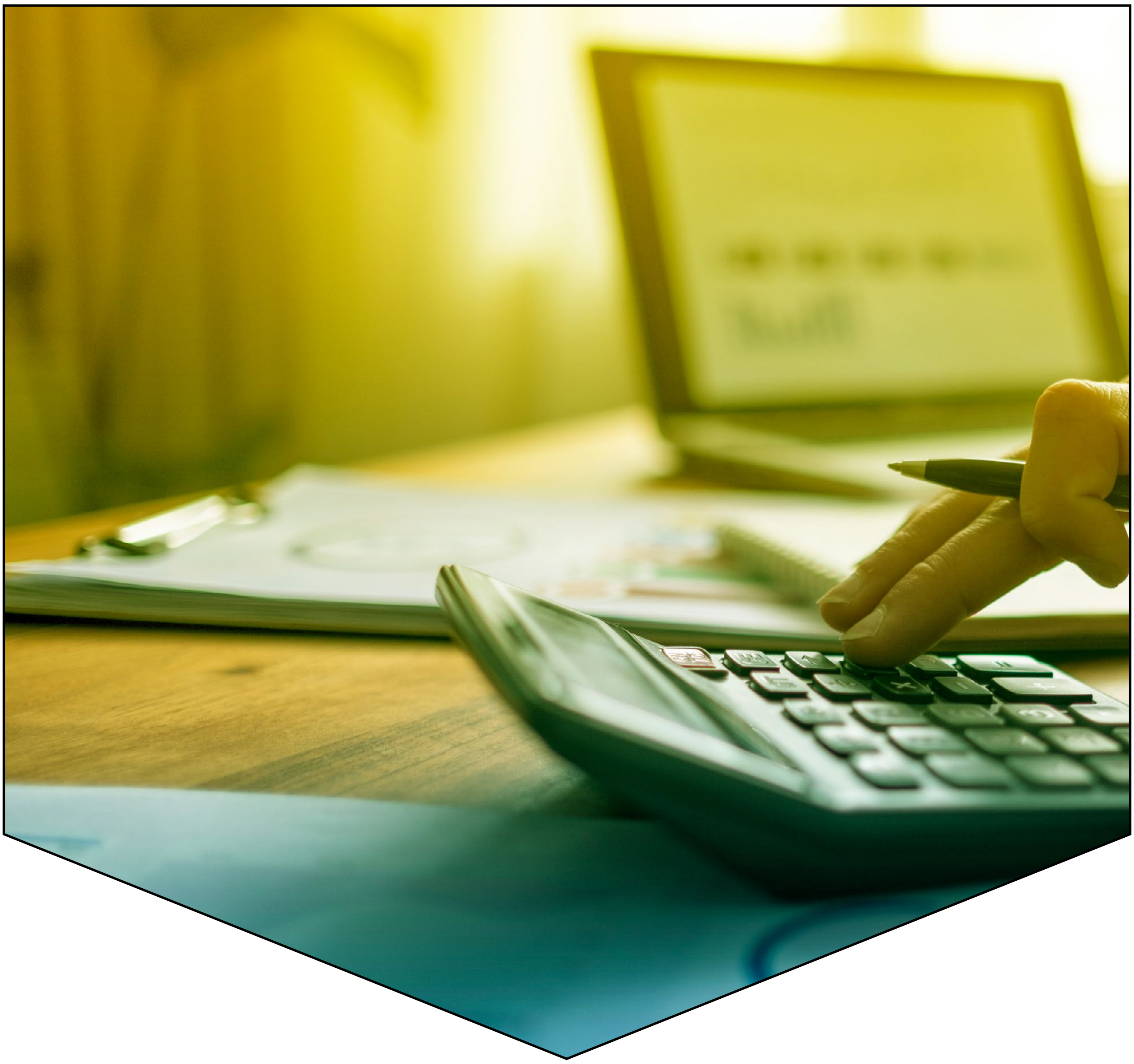
October 2024



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 2024-25 is £12.60.

The London Living Wage for 2024-25 is £13.85

Acknowledgements

This report was commissioned by the Living Wage Foundation as part of the Resolution Foundation's role in calculating the Living Wage.

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N. Cominetti and L. Murphy, *Calculating the Real Living Wage for London and the rest of the UK: 2024:* , Resolution Foundation, October 2024

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Foreword from the Chair of the Living Wage Commission

This marks the ninth 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 2024-25, and the details of the underpinning the calculation.

The new rates are: £12.60 across the UK and £13.85 in London (a 5.0 per cent rise for the UK rate, and 5.3 per cent in London).

After the surge in prices experienced following the energy crisis the inflation rate has finally returned to normal levels. But it is worth recalling the extent of the price surge over recent years. Since 2021 the overall cost of living (as measured by the Consumer Prices Index) has risen by 19 per cent (comparing September 2021 with September 2024). Against this, the Living Wage rates for 2024-25 are 27 per cent and 25 per cent (in the UK and London, respectively) higher than three 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.

When it comes to this year's calculation the subdued level of inflation has played a smaller role than in recent years in determining the rates. A few other factors are worth highlighting.

One of them is the role of policy changes. Given that 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, the rates are also affected by the Government's stance on taxes and benefits. When it comes to tax policy the major cuts to employee National Insurance more than outweighed the impact of the ongoing freeze to personal tax thresholds, resulting in downward pressure on the Living Wage rates. Meanwhile, the 2-child limit on the family elements of means-tested benefits covers a larger share of children with every passing year and places upward pressure on the wage requirements for larger families. Pushing the other way is the continued the rollout of Universal Credit: this is more generous for working households than the previous tax credit system so, as more households are moved onto it, this weighs on the LW rates – particularly in London due to the greater support UC offers with housing and childcare costs, and the fact that those costs are higher in London.

A second and highly significant factor is the updating of the Minimum Income Standard (MIS) basket of goods and services. This updating, or 'rebasing', that is overseen by

Loughborough University is an important and planned part of the Living Wage process and is the key mechanism through which rising societal aspirations about what constitutes a decent standard of living feed into the calculation. The recent rebasing has resulted in significant upward pressure to the MIS (and therefore the LW rates) which may reflect some shifts in public expectations in the post-pandemic period.

In addition to this, and as discussed in last year's report, is the change in the assumption used for working hours. To better reflect the reality of contemporary working patterns, and to align the UK methodology with the approach taken on this issue in other countries, the LWC decided last year to relax the assumption that single parents and second earners work full-time. This change also generates upwards pressure on the Living Wage rates which, in keeping with previous methodology changes, will be phased in over a number of years. Given these different pressures the 'shock absorber' – which limits the scale of year-to-year changes in the wage rates - will constrain this year's increases. Finally, the Commission regularly reviews different elements of the Living Wage methodology to ensure the approach to setting the Living Wage rates remains robust and up to date – the report sets out the issues the Commission will look at next.

The recent period of high inflation has subsided, and the Living Wage did its job in ensuring that pay keeps up with the underlying pressures on households. No doubt there will be new challenges to navigate in the years ahead. The Resolution Foundation, guided by the Living Wage Commission, will be vigilant in making sure it remains a credible benchmark available to workers, employers, civil society and public authorities.

Gavin Kelly

Chair, Living Wage Commission

Section 1. Overview

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 2024 (hereafter, the 2024-25 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.

The Living Wage calculation is 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 and services 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 the change made to account for the rollout of Universal Credit (UC), which affects the assumptions made about the tax and benefit system. From 2018 to 2023 the LW calculation was based on a weighted average of the wage requirements under both UC and the legacy benefits system, based on the extent of UC's rollout. In 2024, because the rollout has now neared completion, the calculation is for the first time fully based on the UC system. This places downwards pressure on the LW rates, compared to deriving wage requirements under the legacy benefits system.

Other adjustments have been made to ensure the methodology continues to reflect the reality of life as a low-income working household. In 2020, the Commission changed the assumption about rental costs to reflect the actual proportion of families living in the social and private rented sectors, and the methodology also changed to take account of minimum workplace pension contributions. For the 2023-24 rates, there was a change to the assumption about families' working hours, with single parents and second earners in

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.

families with children now assumed to work part-time – in keeping with actual working patterns among low-income households.

The external context for the calculation of the 2024-25 rates is of the cost of living crisis having passed. The crisis has left the level of prices much higher than in 2021 (the overall price level in August 2024 was 23 per cent higher than in January 2021), but prices are no longer rising abnormally fast – the annual rate of CPI inflation was 2.2 per cent in August 2023. Another important external factor was the previous Government's cut to the rate of employee National Insurance (from 12 to 8 per cent), introduced in April 2024. This tax cut is partially but not fully offset by frozen personal tax thresholds, and creates downwards pressure on the rates, other things equal.

This external context – moderate inflation and lower taxes – would normally have led to only modest increases in the LW rates. However, there is also upwards pressure on the 2024-25 LW rates from two sources. One is a methodology change introduced for the 2023-24 rates, and still being phased in – which was to relax the assumption that all families work full-time (second earners in families with children and single parents are now assumed to work part-time). A second source of upwards pressure comes from changes in cost of the core basket of goods and services – the 'Minimum Income Standard' – which the LW rates are based on. All of these changes are explained in sections 3 and 4.

These two sources of upwards pressure are substantial, and mean that the increases in the LW rates are ultimately constrained by the 'shock absorber', which this year constrains changes in the LW rates to the range -0.8 per cent to +5.2 per cent. After rounding to the nearest 5 pence, the increase in the London LW rate is 5.3 per cent, alongside a 5.0 per cent increase in the Rest of UK LW rate.

The Commission regularly reviews different elements of the Living Wage methodology to ensure the approach to setting the LW remains robust and up to date. In the coming year the Commission intends to review the following elements: the translation of the Minimum Income Standard into the Living Wage calculation; the pace of convergence of the actual and underlying Living Wage rates and the role of the 'shock absorber'; the approach taken to measuring cost differences between London and the rest of the UK; and establishing an appropriate cycle for reviewing specific methodological assumptions (e.g. working hours) in the future.

The rest of this briefing note is organised as follows:

- Section 2 provides the LW rates for 2024-25.
- Section 3 sets out what has driven changes in the LW rates compared to last year.
- Section 4 outlines the current methodology.

Section 2. The Living Wage rates for 2024-25

The Living Wage rates for 2024-25, which apply from 23rd October 2024, are:

- UK: £12.60.
- London: £13.85.

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 2023-24 and 2024-25.

In general, the LW rates can be affected by a number of factors:

- changes in the prices of goods and services;
- changes in the basket of goods and services which constitute the Minimum Income Standard (MIS) (which the LW calculation is based on);
- changes to the tax and benefits system (which affects the relationship between pay and income);
- the use of the 'shock absorber' in years when the underlying rates are subject to significant change; and
- any changes in methodology.

Usually, and especially in the recent 'cost of living crisis' years, changes in prices are the main driver of changes in the LW rates. This year, price changes are still feeding into the rate increases, but the overall rate of inflation is not the main driver of change in the LW rates for 2024-25. The most important factors this year are, first, two sources of upwards pressure: the ongoing upwards pressure from the methodology change relating to working hours introduced for the 2023-24 rates, and new upwards pressure from incorporating revisions to the MIS basket of goods and services (both the content of the basket and the cost of items in the basket). The second factor is the use of the 'shock absorber', which exists to limit volatility in the LW rates. We discuss each of these below, after briefly discussing prices.

Prices

2024 brought an end to the cost –of living crisis period – as defined by a high rate of price inflation. Of course, thanks to two years of fast inflation, the price level remains substantially higher than in 2021. But the rate of price increases has returned to normal. In April 2024 (the point at which prices are collected for the inputs to the LW calculation), the rate of CPI inflation was 2.3 per cent, compared to 8.7 per cent in April 2023, and 9.0 per cent in April 2022.[2]

Most important for low-income groups is that increases in the prices of core goods and services has also slowed down. In April 2023, food price inflation was 19.1 per cent; in April

2 ONS, Consumer price inflation, UK: September 2024, October 2024.

2024 this had fallen to 2.9 per cent. Energy prices (electricity, gas, and other fuels) in April 2023 were up 23.9 per cent on the previous year; in April 2024 they were 27.2 per cent lower than the previous year.

One exception to this slowdown in core inflation is rental prices, which continue to rise fast. Private sector rents in April 2024 were up 8.9 per cent on the previous year across the UK as a whole, and up 10.8 per cent in London. This is higher than rental price inflation in April 2023 (7.1 per cent in London, and 6.6 per cent in the UK as a whole).[3] In recent years, increases in social rents have been linked to inflation, with a lag, and so these also continue to rise fast. The Government capped increases in social rents at 7.7 per cent for 2024-25 (based on CPI of 6.7 per cent in September 2023, plus 1 per cent).[4]

Overall, however, the price inputs to the LW rates are growing much more normally than was the case for the past two years. The more important upwards pressure this year comes from a change in the basket of goods and services which the LW calculation is based on (the 'Minimum Income Standard'), and from a change in the methodology made last year relating to assumed working hours.

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).[5] 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 2024 MIS report was published in September 2024.[6]

The MIS research has been undertaken since 2008, and is updated every two years, usually leading to changes in the MIS basket of goods and services. In general, the MIS basket of goods and services is expected to become more expensive over time; not just because prices rise, but also because the public raise their living standards expectations as society becomes richer. In the past, changes to the MIS basket of goods and services have tended to be small or moderate.

The changes which have come about in the 2024 MIS research are larger than usual and

3 ONS, Price Index of Private Rents, UK: monthly price statistics, October 2024
4 Ministry of Housing, Communities and Local Government, Limit on annual rent increases 2024-25 – from April 2024, March 2024.
5 More information on the Minimum Income Standard research can be found at: www.lboro.ac.uk/research/crsp/mis/.
6 Joseph Rowntree Foundation, A Minimum Income Standard for the UK in 2024, September 2024.

as such contribute more upwards pressure to the LW rates than has been the case in the past. This is especially true because the Commission decided not to implement into the LW calculation changes which were made to the MIS basket in 2022, on the basis that this research was undertaken in the midst of the Covid-19 pandemic. The Commission took the view that observed changes in the public's living standards expectations might be temporary and linked to the unique circumstances of the time. The LW rates have since then mostly been based on the 2021 MIS basket, with the cost of items in the basket uprated in line with relevant price indices. As it turns out, the research for the 2024 MIS basket confirms many of the changes in living standards expectations identified in the 2022 research, as well as making further additional changes.[7]

Some of the more important changes include: raising the budget needed for social activities for households with children (because groups reported that previous budgets weren't sufficient given the prices they normally pay); and increasing the budget for spending on food, on the basis that the previous methodology underestimated families' food consumption. Overall, we estimate that the cost of the parts of the 2024 MIS basket of goods and services used in the LW rates calculation (as Section 4 explains, costs for housing, childcare, transport and council tax are collected separately) is 19 per cent higher than the 2021 basket uprated with price changes. Naturally, this adds considerable upwards pressure to the LW rates.

The pace at which this upwards pressure feeds into the actual LW rates is regulated by the 'shock absorber', which limits the scale of annual increases (or indeed falls) in the LW rates. We explore this in more detail later in this section.

Changes in methodology

Another source of upwards pressure comes from a change in methodology relating to assumed working hours. This change was introduced for the 2023-24 LW rates calculation.

The LW methodology had until last year assumed that all adults in the calculation worked full time (37.5 hours per week). In 2022 the Commission reviewed this assumption, by considering evidence on typical working patterns for different family types. In light of this review, which showed that full-time work was rare for second earners in families with children and single parents, it decided to relax the 'full time' assumption for these workers (the calculation continues to assume that other adults work full-time). This

7 Joseph Rowntree Foundation, A Minimum Income Standard for the UK in 2024, September 2024.

change brought the UK methodology more into line with approaches taken in other countries.[8]

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 are assumed 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.

As with upwards pressure from changes in the MIS basket, this methodology change does not feed directly into the actual LW rates because the 'shock absorber' limits annual increases in the LW rates. We discuss the 'shock absorber' below.

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. The shock absorber limits volatility in both directions, and is set as the rate of inflation in July of the calculation year, plus or minus three percentage points. The rate of CPI in July 2024 was 2.2 per cent, giving a shock absorber range of -0.8 to +5.2 per cent.

The Commission took two decisions relating to the shock absorber this year. First, it was decided to use headline CPI as the input, rather than a 'low-income' equivalent to CPI, as was used for the 2022-23 and 2023-24 rates. This is because the passing of the cost of living crisis means that low-income households now face a similar rate of inflation as households overall, and because headline CPI brings some advantages (estimates are published more frequently and with less lag time, and because it is a more familiar statistic). If in future years there is a significant different between headline CPI and a low-income equivalent (specifically, the bottom-decile Household Cost Index), the

8 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 equivalent workers per family*. 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. See: Global Living Wage Coalition, The Anker methodology for Estimating a Living Wage. Accessed 28 September 2023; and: C Waldegrave et al, Report o the Measurement Review for a New Zealand Living Wage, Family Centre Social Policy Research Unit, April 2023.

Commission will consider reverting back to using a low-income inflation measure for the shock absorber calculation.

A second decision was to apply the shock absorber to unrounded LW rates, and then apply the 5 pence rounding. Previously the shock absorber was applied to rounded rates, meaning increases in the LW rates always fell strictly within the shock absorber range. This change means increases in the LW rates can fall slightly (1-2 pence) outside the shock-absorber range. Using this process, the 2024-25 London LW rate is rounded to £13.85, and the increase on the 2023-24 rate is 5.3 per cent. Under the previous approach, the London LW rate would have been rounded down to £13.80. The Rest of UK LW rate for 2024-25 is not changed under this approach.

The tax and benefit system

In many years, tax and benefit policy is the second most important factor affecting year-to-year changes in the LW rates after price changes. In 2022-23, for example, increased household support through the benefit system – including the lowering of the taper rate in Universal Credit – put substantial downward pressure on the LW rates.[9]

Were it not for the upwards pressure from the two sources just discussed, changes and taxes and benefits would again have been material. The previous Government cut the main rate of employee National Insurance (NI) rate from 12 per cent to 8 per cent. Cutting taxes places downwards pressure on the LW rates – workers don't have to be paid as much to reach the same standard of living. The London and Rest of UK underlying LW rates (i.e. the LW rates absent the use of the shock absorber) are 3.5 per cent lower in 2024-25 as a result of the 4 percentage point NI cut.

Beyond this NI cut, the other aspect of tax and benefit policy which significantly affected the LW rates was 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 an equivalent family in receipt of tax credits. 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.

The UC rollout has now reached 80 per cent. The Commission deemed this sufficiently close to completion that for the 2024-25 rates, the Commission has decided to run the LW rates calculation entirely based on the UC system. This decision is the mirror image of the decision taken in 2018, when UC rollout reached 20 per cent and the new benefits

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

system was incorporated into the LW rates calculation for the first time.[10] The entire rollout of UC, which started in 2013, has amounted to approximately £1 of downwards pressure on the LW rates in total. The rollout of UC has a bigger drag on the London than the Rest of UK rates given more of the families in the London calculation are eligible for benefits, thanks to higher housing and childcare costs in the capital.

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 2024, benefit entitlements were uprated by 6.7 per cent, in line with usual practice of uprating based on the rate of CPI from the previous September.[11] This meant the increase in benefit entitlements was greater than the rise in prices (2.3 per cent) over the year to April 2024.

By contrast, tax thresholds are not currently being raised in line with prices, as used to be standard practice. The personal tax allowance (the annual amount a person can earn before income tax applies) has been frozen at £12,570 since 2021-22. As pay rises in nominal terms, keeping tax thresholds frozen raises households' tax payments as more of their earnings are subject to income tax, and so adds positive pressure to the LW rates. We estimate that the underlying LW rates in 2024-25 are 1.1 per cent higher compared to a world where the income tax thresholds had risen in line with inflation. The previous Government's policy was that this freeze would continue until 2028; the new Government is yet to confirm their approach to tax thresholds but they are likely to do so at the forthcoming budget.[12]

Finally, it's important to note that 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 within UC and tax credits 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 seven-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 in receipt of these benefits. Last year we calculated that the underlying LW rates (i.e. the rates that would apply had the 'shock absorber' limit on uprating not applied) would have been approximately 5p lower in 2023-24 if this policy had not been introduced.

10 C D'Arcy & D Finch, Calculating a Living Wage for London and the rest of the UK, Resolution Foundation, November 2018.
11 House of Commons Library, Benefits uprating 2024/25, November 2023.
12 OBR, Economic and fiscal outlook, March 2023.

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 (LW) 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.[13] A variety of family types are included in order to reflect the diversity of families across the UK, with each household type having a different basket that reflects their specific requirements. The same basket of goods and services applies for both the London LW and UK LW calculation (with two exceptions relating to transport and housing costs).[14]

The next step is to calculate costs for these items in the basket of goods and services. For the 'core' part of the basket, costs do not vary significantly across the UK, and the price inputs are the same for the London and Rest of UK rates. For those items, costs are

13 The basket of goods and services for each family type and its costs can be found at: www.minimumincome.org.uk, accessed 2 October 2024. For more detail about these baskets of goods and services, see: A Davis et al., A Minimum Income Standard for the United Kingdom in 2024, Joseph Rowntree Foundation, September 2024.

14 The first exception is that, for transport, London families are assumed to use public transport, whereas families in the rest of the UK are assumed to mainly travel by car. As is discussed in the following section on housing costs, the second exception 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 than in the rest of the UK, we apply a reduction in the London LW calculation 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, January 2015.

taken from the MIS research, which draws prices primarily from national chain stores.

As outlined in Section 3, changes to the content of the MIS baskets and the cost of those baskets has created upwards pressure on the LW rates. The use of the shock absorber means this pressure will be phased in over a number of years.

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 data. 'Low-income families' are defined as those in the bottom half of the income distribution (excluding pensioners and non-working households), based on net equivalised household income.

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 also includes studio accommodation).

- Singles and couples without children live in one-bedroom homes (the rental data input for singles also 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, some singles without children are assumed to live in a room in a shared house rather than in their own one-bedroom flat, reflecting the high cost and low availability of one-bedroom flats in London. We use a weighted average based on analysis of 2011 census data, which found that 53 per cent of single adults without children who lived in London lived in shared accommodation.[15]

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.[16] We then uprate those rent levels in line with current policy, which is to increase social rents by CPI plus 1 per cent per year. In 2024-25, this meant that social rent increases were capped at 7.7 per cent, based on the CPI figure from September 2023.[17].

For the private rented sector, consistent UK-wide data is not available. We use rents data for the lower quartile of properties in the private rented sector. 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, there is no available private rents data for the lower quartile, so we use a weighting based on the private rents data available for the rest of the UK and FRS data for the UK including Northern Ireland. For the London LW, we use the London data published by the Valuation Office Agency. In all cases, we use data for the latest full year available.[21]

2.2 Council Tax

Different family types are assumed to pay different rates of Council Tax, based on their family size 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,

15 See also: K Hill, D Hirsch and M Padley, Minimum budgets for single people sharing accommodation, CRSP Working Paper 642, January 2015.
16 www.ukhousingreview.org.uk/ukhr24/compendium.html, accessed 3 October 2024.
17 J Riding, Existing rent settlement will roll over until 2026, government reveals, Inside Housing, April 2024.
18 ONS and Valuation Office Agency, Private rental market summary statistics in England, December 2023.
19 Scottish Government, Private Sector Rent Statistics, Scotland, 2010 to 2023, November 2023.
20 StatsWales, Private sector rents by local authority, 1 January to 31 December 2019, 2020.
21 Note this was changed for the 2023-24 calculation: before then, a trailing three-year average was used.

calculated from published English[22], Scottish[23] and Welsh[24] 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.

2.3 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.[25] 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).

2.4 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 that we started phasing in for the 2023-24 LW calculation, 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.[26] For the UK LW, a weighted average for the regions/nations of the UK

22 Department for Levelling Up, Housing and Communities, Council Tax levels set by local authorities in England 2024 to 2025, March 2024.
23 Scottish Government, Council tax datasets, March 2024.
24 StatsWales, Average band D Council Tax, by billing authority, March 2024.
25 Transport for London, Adult rate prices 2024, 2024.
26 Coram Family and Childcare, Childcare Survey 2024, March 2024.

excluding London is calculated, weighted by the number of children. For the London LW, we use an adjusted average taking account of the differential inner and outer London. 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, 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.

2.5 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.[27] Along with the minimum contribution rate, the Government reviews the qualifying earnings thresholds annually. In 2024-25, 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 has now mostly replaced the Tax Credit-based system, with the majority of families included in the Living Wage calculation qualifying for these benefits based on their earnings and household circumstances. For the first time, in this year's calculation we assume that all of the families in the Living Wage calculation receive UC, since projections based on DWP and OBR data imply that UC rollout has now reached more than 80 per cent of eligible households. We are following a similar approach as was taken when UC was first introduced: although UC started rolling out in 2013, it was only reflected in the LW calculation in 2018 when rollout reached 20 per cent.[28]

4. Working hours

For the 2023-24 rates, 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

27 www.gov.uk/workplace-pensions/what-you-your-employer-and-the-government-pay, accessed 3 October 2024.
28 C D'Arcy & D Finch, Calculating a Living Wage for London and the rest of the UK, Resolution Foundation, November 2018.

working patterns among working households by the Resolution Foundation showed this to be an unrealistic assumption.

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.[29]

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, and continues to be phased in for the 2024-25 rates. This is a significant change, and the Commission expect to phase it in over a period of years, in line with previous significant changes to the methodology which have been phased in over time.

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'.[30] The shock absorber is inflation plus or minus 3 per cent – that is, the rates must increase by at least the rate of inflation minus 3 per cent and at most by rate of inflation plus 3 per cent.

In 2024, the Commission considered which measure of inflation to use, and agreed that the 'core' inflation measure, Consumer Price Inflation (CPI), should be applied. The CPI figure we use is from July 2024, when CPI stood at 2.2 per cent.[31] The Commission also agreed that in future years, the Commission will consider using a different measure of inflation (such as the ONS Decile 1 Household Cost Index (D1HCI)) if it is the case that D1HCI is 1 per cent higher or lower than headline CPI when the Commission meets.[32]

29 Based on Resolution Foundation analysis of ONS, Annual Population Survey, 2018-2022. These values will be reviewed periodically.
30 Living Wage Commission, Closing the Gap: A Living Wage that means families don't go short, September 2016.
31 ONS, Consumer price inflation, UK: July 2024, August 2024.
32 For example, the 2023-24 LW rates used a low-income measure of inflation for the shock absorber, since this LW rate was calculated during a period in which there was considerable divergence between low-income inflation and 'core' inflation. See: N Cominetti & L Murphy, Calculating the Real Living Wage for London and the rest of the UK: 2023, Resolution Foundation, October 2023.

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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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