

Working Paper

Basing a living wage on a minimum income standard

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Overview

This paper involves a number of rather specific calculations, but its key points can be summarised as follows:

- The Minimum Income Standard (MIS) has been calculated based on what different household types need to reach a minimum acceptable standard of living in Britain today, according to members of the public taking part in detailed research.
- This standard offers a useful benchmark for considering what level a living wage should be set at, but doesn't give an automatic answer because the picture varies according to household type and working patterns.
- Looking at the various amounts that households in different situations require to reach the minimum standard, we can identify a level somewhere between about £7 and £7.25. This is sufficient to cover the great majority of working-age households. To cover more households would require a much higher wage level.
- Based on discussions among stakeholders, we have selected a figure of £7.14, which will meet the requirement of 90 per cent of working-age households covered by MIS, provided all adults are working full time.
- Local variations around this core figure linked to higher housing and council tax costs can be calculated, and can be considerable.
- Having a core figure also gives a consistent basis for uprating the living wage over time.
- Based on this core figure, the MIS team has produced a simple spreadsheet to allow campaigners and employers to enter their own rent and council tax figures to make local adjustments.
- The aim of this process is not to impose a single national norm for the living wage, but to give to those who want it a tool that can inform the specification of a living wage and help strengthen its justification.

1 INTRODUCTION: THE LIVING WAGE AND MIS

Campaigns for a 'living wage' aim to promote a wage level sufficient for workers and their families to reach a living standard acceptable for people in Britain in the 21st century. They have drawn on various pieces of evidence in setting the living wage level, but have yet to formulate a common approach. These campaigns have achieved some notable successes in getting public and private employers to accept living wage levels above the statutory minimum. In extending this success and sustaining it over time, the use of a strong and consistent rationale in setting and updating this level would help to build support for the living wage among the public and employers.

The growth of the living wage campaigns has coincided with new research producing direct evidence on what constitutes a minimum acceptable living standard in Britain today. [A Minimum Income Standard for Britain](#) quantifies the income required for such a standard by different kinds of household. Based on detailed research in which members of the public specified what items people should be able to afford in order to meet essential needs, this standard is being maintained and regularly updated by the Centre for Research in Social Policy (CRSP) at Loughborough University, funded by the Joseph Rowntree Foundation. Its online [Minimum Income Calculator](#) allows users to see how much people of working age need to earn in order to reach the standard.

Identifying what wage is required to reach the Minimum Income Standard (MIS) is an attractive and worthwhile method of justifying a living wage level. However, it is far from straightforward. Three issues in particular need to be resolved when calculating the adequacy of a particular wage:

- What kind of household should it support? A wage providing enough to support a single person may not be enough to support a large family.
- How many hours should people in a household work in order to reach the specified standard? A wage that allows a couple to reach a given living standard if both are working full-time would be far lower than the wage required if just one person were working part-time.

- What should we assume about important variable costs, particularly the cost of housing? Many people have little choice but to pay rents or mortgages significantly higher than a 'minimum' level used to illustrate the minimum income standard. The Minimum Income Calculator allows elements such as rent, council tax and childcare to be varied in adapting the MIS to individual situations, but how can this be translated into common living wage levels, either locally or nationally?

While there is no single answer to any of these questions, this does not prevent us from seeking to identify a central figure for a living wage that comes as close as possible to meeting the minimum needs of most workers. A figure based on a clearly stated rationale and set of assumptions would both allow campaigners and employers to adjust it to local circumstances and provide the basis for regular updating in line with the ongoing Minimum Income Standards research.

2 GETTING FROM MULTIPLE HOUSEHOLD REQUIREMENTS TO A SINGLE LIVING WAGE

The research on Minimum Income Standards can be used to calculate the wage required making various assumptions about family size and working patterns. Table 1 shows the wage requirements for nine household types considered in MIS. It also shows, in the right hand column, the number of households who are in each family type, as a percentage of the total in all the non-pensioner households covered by MIS. (These exclude certain types of household: see box below table.)

Table 1 Wage requirements for different family types

Family/household type	Wage required if all adults work full time	Wage required for a single full time earner	% of working-age families covered by MIS who are of this type
Couple no children	4.83	11.09	28%
Couple one child	5.31	11.42	12%
Lone parent one child	6.79	6.79	6%
Single person no children	7.09	7.09	24%
Couple two children	7.14	14.13	17%
Couple three children	9.31	18.21	5%
Lone parent two children	9.37	9.37	4%
Couple four children	10.07	18.77	1%
Lone parent three children	13.93	13.93	1%

Notes:

These figures cover childcare, using indicative costs employed in the MIS research, where all parents work.

The actual MIS requirements vary according to children's ages. Figures here use examples showing medium age-based costs in each case: single child assumed to be of pre-school age; two children of pre-school and primary school age, three children of pre-school, primary and secondary, and four children of pre-school, two primary, and secondary age.

Households and families in MIS – some clarifications

The Minimum Income Standard describes what is needed for certain *households* to achieve a given standard of living. However, it only covers households that contain just one *family unit* (i.e. 'single-family households'). A family unit is a single person or a couple plus any dependent children. Thus, for example, people with grown up children in their households are not covered. About 84 per cent of UK households are single-family. Most of these are in the categories given in the table above, plus single pensioner or couple pensioner households. About six per cent are in small categories not covered by MIS, such as couples one of whom is a pensioner and the other not, and very large families. Overall, MIS produces budgets for 79 per cent of households. The figures in the third column above show the number of households in each family type as a percentage of all those in the nine categories shown – i.e. the non-pensioner households covered by MIS.

At first glance, this table shows a huge range of possible living wages, from below the present National Minimum Wage of £5.80 for couples with one or no children working full time to over three times that level for single-earner couples with three or four children. However, it is also notable that about half of all families require a wage

of close to £7 if they work full time (the third, fourth and fifth categories in the table comprise 47 per cent of families in total, as shown in the right hand column). Moreover, where each adult in the family works, the first five categories in the table all require wages in a £2 range - between 78p below the NMW and £1.34 above it. And the other four categories, all well above this level, comprise only 11 per cent of the working-age households covered by MIS (see right-hand column). In other words, provided that all adults are working, a wage of slightly above £7 would on this basis be sufficient to cover family types comprising nearly 90 per cent of these households. A wage below £7 would cover only a minority of households. And the second column suggests that to base a living wage on the requirements of single-earner households would require a far higher figure, which would raise issues of both political and economic feasibility.

On this basis, it is possible to link a single living wage level to the requirements of a particular household type, such that it is also sufficient for the great majority of other household types. For example, by identifying a living wage as the amount needed by a couple with two children working full time to reach a minimum living standard, one can ensure that it at least covered the needs of all other families without children or with one child, working full time (see Table 1). The advantage of using a single family type in this way is that it makes it relatively straightforward to make adjustments over time and across parts of the country with different housing and council tax levels. The regular uprating of MIS will be applied to the benchmark household type. For local variations, the rent and council tax relevant to that household type in each location are applied.

3 SELECTING A CORE FIGURE

It has been argued above that the wage requirements for a single family type could be used as a 'core' figure for the Living Wage, representing a 'threshold' that also covers the majority of families, with lower requirements. Which family type would best represent such a threshold? Three possibilities may be considered:

One might be to take the **single person's requirement of £7.09**, as the easiest number to understand. It is what a single person needs to earn full-time to produce

a minimum acceptable income. While such a figure might be criticised as not being enough for larger families, one can point out that for working couples with up to two children it is possible with a similar or lower wage to reach the minimum (helped by subsidies such as Child Benefit and the Child Tax Credit).

A second approach may be to use **£7.14** as the figure **covering nearly 90 per cent of single-family households as long as couples with children work full-time.**

This figure has the attraction of covering a very large proportion of the population, albeit with the drawback of specifying a working pattern (two parents working full time) that many families with young children do not adopt and would not want to accept.

A third approach therefore would be to identify a figure that in some way brings in a family with two children that does not require both partners to work full time. As can be seen in Table 1, it is not realistic to base this on a single worker, which would double the living wage requirement. A scenario where one partner worked half-time and the other full-time might be more realistic. If childcare were required, this would still require a significant increase from the requirements of most other households, with a wage of £8.38. However, without childcare, the figure is **£7.23**. Since many working families with children do manage without paid childcare, this figure would bring in at least some couples with one or two children who do not both work full-time, and thus broaden the range of families covered compared with the £7.14 figure. However, of the three possibilities mentioned so far, it would be the hardest to explain to the public and stakeholders. Having a figure that meets a standard for a couple with two children where *either* both parents work full time *or* they work less but do not need childcare might be defended as more inclusive than one that only gives the former option, yet might nevertheless be misinterpreted as suggesting that all families are able to find informal unpaid childcare arrangements.

These three possibilities were put to a roundtable of stakeholders in the living wage in January 2010. A strong consensus emerged confirming that a core figure is essential, and advocating £7.14 as the figure to use. Three arguments applied to its selection:

- Covering family types accounting for 90 per cent of the households under consideration is a powerful argument
- It is important explicitly to bring in families with children, showing that the living wage is not just for individuals to support themselves but also others
- On the other hand, one should not describe £7.14 as 'a living wage for a family with two children' but 'a living wage covering the great majority of families, as it covers *both* families with and without children'.

4 THE SCOPE FOR LOCAL VARIATIONS

A core living wage of £7.14 can legitimately be used as a general target figure for campaigners and benchmark for employers. It does not however need to become a single inflexible figure. Some areas may continue to calculate the living wage on a different basis, and may produce similar but not identical targets. Nonetheless, the existence of a well defined common rationale for setting a living wage above the National Minimum Wage could help to strengthen all these efforts.

Moreover, this figure could potentially be just a starting point for local campaigns who adjust the figure to local conditions. In constructing the Minimum Income Standard, researchers sought as far as possible to define standards that would apply across Britain, based on the consumption of goods and services mainly supplied through national outlets with common pricing policies. However, they recognised that there are some costs, mainly around housing and local taxation, that vary greatly across the country. The most significant of these is rent. The MIS assumes a very modest rent, based arbitrarily on a council property in Loughborough. For the most part, the standard is quoted net of rent, but to calculate an earnings requirement it needs to be included. It would thus be appropriate for local areas to consider making adjustments according to the price of the cheapest available category of property in the area, suitable for the baseline family, as well as the level of council tax imposed on someone living in that property.

Assume as an example that the £7.14 an hour figure, applicable to a couple with two children, with both partners working full time, were used as a baseline. The MIS gives the rent for this family as £71.62 a week based on a three bedroom terraced council house in Loughborough. If the cheapest available category of suitable house had a significantly different rent in an area under consideration, the following table gives examples of the adjusted wage requirement:

Table 2 Rent and wage requirement for full-time working couple with two children

Rent/week	Wage/hour required
£60	6.63
£70	7.07
£71.62(Loughborough council house)	£7.14
£80	7.52
£90	7.96
£100	8.41
£110	8.85

For each extra £1 in weekly rent, the required hourly wage goes up by about 4½p. This is quite a steep increase in requirement, under which the combined weekly earnings of the couple need to rise by about £3.35 to pay an extra £1 in rent, since most of additional earnings will be lost in lower tax credits and higher taxes and national insurance. (For example, a couple earning enough to support their family with two children at the minimum whose earnings rose by £3.34 a week would pay 66p more in tax and 36p more in national insurance contributions, and receive £1.30 less in childcare tax credits because of their higher income. This would leave them with £1.02 extra to pay a higher rent.)

On top of these rent variations, it is possible to link local living wages to council tax in the relevant band. For example, the single person’s council tax assumed in MIS, based on Band A, is £13.69 a week. A 20 per cent increase in this level would produce a 1.5 per cent (10p) rise in the living wage – a smaller effect than for rent,

since council tax comprises a smaller part of the overall budget. Variations in council tax rates at given bands are also relatively minor compared to rents: 90 per cent of councils have Band D rates within 11 per cent of that in Loughborough, used in MIS. However, given the link between council tax banding and historical house prices, it will not always be appropriate to select the same band for an equivalent property in different areas.

For both rent and council tax variations, a short [explanation](#) of the principles applied and simple [calculator](#) are being published on the MIS website.

One other cost that varies across the country is childcare. The costs used in the living wage calculation are around £150 a week for 50 hours of childminding, which is close to the national average according to the Daycare Trust. In London and the South East, the average is about 15 per cent above the national average. Feeding a higher cost of this type into the calculation would raise the Living Wage by about 25p an hour in order for it still to cover a couple with two young children, one of primary school age and one below. However, this would be very sensitive to the exact age of the children, and for example the cost for two primary school age children (including after school and holiday childcare) would be similar to the £7.14 figure, even at the higher childcare rates. For this reason, we have not built childcare cost variations into our calculator, and leave it as a matter of local judgement whether to take these costs into account in some way.

5 UPRATING

An important advantage of developing a common approach to setting living wage levels with reference to the Minimum Income Standard is that this standard will be updated over time, giving a basis for uprating local living wages. The purpose of uprating, from year to year, is to keep up with rising prices. However, over longer periods, as living standards and norms of consumption change in Britain, so too do social attitudes to what constitutes a minimum acceptable standard of living. The MIS project is committed to updating the standard to reflect both changing prices and changing norms. It will publish a revised figure every year, based on annual prices

risers and biannual reviews with members of the public of the contents of minimum budgets. For each family type the research will be repeated in full every eight years.

Having established a core basis for setting the living wage, it will now be a straightforward matter to update this annually based on the MIS research. It will also be possible to supply a single percentage figure to guide those who may not be using an identical method but wish to apply an increase to a local living wage based on the increase in the cost of a minimum standard of living. Note that even in the case of an inflation-only increase, this rise may not be the same as the general inflation rate. In April 2009, 'MIS inflation' was running at five per cent compared to a 2½ per cent rise in the Consumer Prices Index, because elements that are over-represented in a minimum budget, such as food, had risen in price much faster than the average for all items.

6 CONCLUSION: CONSTRUCTING A SIMPLE TOOL

In January 2010, an earlier version of this paper was discussed at a roundtable discussion among experts and stakeholders in the living wage debate. This discussion showed support for a core figure for the Living Wage, and for the figure of £7.14 discussed above. As a result, we are publishing on the MIS website, alongside this paper, a [short explanation](#) of the rationale for the Living Wage and how to adapt it locally, using criteria consistent with the original methodology, alongside a [simple calculator](#) in which local figures can be inserted to show the adjusted living wage in each area.

Through such means, we aim to create a flexible resource to inform local efforts to secure a living wage.