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Living Wage Unit

A Fairer London:
The 2008 Living Wage in London



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Contents

Foreword	4
Executive summary	6
1. Introduction	10
1.1 Structure	11
2. Basic Living Costs approach	12
2.1 Household types and working patterns	13
Box 1 – The effect of the new tax structure on the Basic Living Costs approach to the Living Wage	14
2.2 Costs	14
2.3 Earnings and household incomes	16
Box 2 – Private rental costs	17
Box 3 – Revisions to the household weights	21
3. The Income Distribution approach	22
4. Comparison of the two approaches and the wage distribution	26
4.1 Wage distribution	27
4.2 Changes from last year's report	29
5. Taking forward implementation of the London Living Wage	30
5.1 GLA group implementation	31
5.2 London Boroughs	32
5.3 Benefits	32
6. Conclusions	34
Appendix A: Details of cost calculations	36
A.1 Housing costs	37
A.2 Council tax	38
A.3 Childcare	38
A.4 Transport	39
A.5 Regional price differentials for the standard shopping basket	39
Appendix B: Benefits and tax credits	42
B.1 Earnings and benefits	43
B.2 Child tax credit	44
B.3 Housing benefits	46
B.4 Council tax benefits	47
Appendix C: LCA required income and disposable income at different hourly wages	48
Abbreviations and footnotes	56

Foreword

London continues to go from strength to strength. It has established itself as the world's leading financial and business centre. It remains a world-class city for culture and retail. But looking ahead, I am determined to offer the taxpayer better value for money, not least through delivering an affordable 2012 Games. I will be focused on delivering the improvements to the Tube and the construction of Crossrail – the single most important economic project to be undertaken in London and which will underpin the capital's future prosperity.



But maintaining London's world-leading status relies on the work of many who carry out the city's essential functions on a daily basis – from office cleaners in the financial services sector to care-workers in social services.

It is right that their skills and contributions to the city's success are recognised, and one of the most fundamental ways of doing this is to ensure that all Londoners are paid appropriately. That means being paid at least the 'London Living Wage', which is designed to provide a minimum acceptable quality of life.

Therefore I am very pleased to publish the Living Wage Unit's Fourth Annual Report and to announce that the London Living Wage is £7.45 per hour, and that this figure will be implemented in the GLA Group as contracts allow. The 2008 figure for the London Living Wage has been delayed this year due to the Mayoral and London Assembly elections. This delay does however mean that the Living Wage Unit has been able to take account of more recent cost increases in its calculations.

The success of the London Living Wage depends on its uptake throughout London's economy. I am pleased that a number of leading companies have started to use the London Living Wage as a basis for pay negotiations with trade unions and their staff. But more need to follow suit, because 15 per cent of all full-time and 45 per cent of all part-time staff are still paid below the new revised level of the Living Wage. And around one in seven employees receive less than the £6.50 poverty threshold wage. So there is still a significant challenge to meet before all Londoners are paid a decent wage.

Paying the London Living Wage is not only morally right, but makes good business sense too. What may appear to a company to be an unaffordable cost in a highly competitive market should more often be viewed as a sound investment decision. I believe that paying decent wages reduces staff turnover and produces a more motivated and productive workforce.

As in previous years, this report takes a systematic approach to identifying what is a Living Wage in London. It shows how someone paid less than about £6.50 an hour will be living in poverty, even after benefits and tax credits are taken into account. This means that in London, largely because of higher housing costs, you need an hourly wage rate of nearly 18 per cent above the National Minimum Wage (NMW) rate of £5.52 just to take you above the poverty level. However, this provides no margin to meet the kind of day-to-day challenges those of us who are better off can afford to shrug off. As before, a margin of 15 per cent has therefore been added to the poverty threshold wage. The result is a London Living Wage of £7.45 per hour – an increase of 3.5 per cent on last year's figure and an 11.2 per cent increase in the three years since its introduction.

I am determined that the capital retains and builds on its world-leading reputation, and that all its inhabitants, especially those who contribute to its increasing wealth, should share in that wealth, not least through the London Living Wage.

A handwritten signature in black ink, which appears to read 'Boris Johnson', written in a cursive style.

Boris Johnson
Mayor of London

Executive summary

This is the fourth annual report from a programme of research by the Living Wage Unit into issues related to the Living Wage and poverty in London. It presents an update of the Living Wage in the capital and looks at what might be considered as constituting a poverty threshold wage in London.

Progress has been made in implementing the Living Wage and 27 organisations are now implementing it across London, including 7 in the public sector and 13 in the commercial private sector. In order to monitor the effectiveness of the policy, the GLA has commissioned additional research to ascertain the direct benefits to the employer of paying a Living Wage to their staff. This is discussed in Chapter 5 of this report.

This report contains a number of improvements in methodology. A special study was commissioned to provide more accurate figures on the costs of private rented housing (see Box 2). We have also more accurate estimates, obtained from a specially commissioned census table, of the number of Londoners living in each of the different family types on which the Living Wage calculation is based (see Box 3). A new family type not previously considered, consisting of a couple – with or without children – in which both adults work part time, has been included in our calculations for the first time.

Two main approaches to calculating a Living Wage are considered in this report. One approach, developed by the Family Budget Unit (FBU), 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. The other is based on the distribution of income and is therefore termed the Income Distribution approach.

The Living Wage is defined by the Family Budget Unit 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 dependents.”

A Living Wage in London has been calculated in two stages. Firstly, a ‘poverty threshold wage’ has been calculated. This has been done using the above two methods. The Basic Living Costs approach yields a figure of £6.25 per hour for London. The level defined by the Income Distribution approach takes 60 per cent of median income as defining a poverty threshold wage – for London this yields a figure of £6.70. The poverty threshold wage used in this report is the average of the two figures, rounded to the nearest 5p, which is £6.50.



The £6.50 figure, however, is a poverty threshold wage. The second stage is to calculate the London Living Wage. A Living Wage must yield a secure margin ensuring that the person involved does not fall to the level of poverty wages because of unforeseen events. To achieve this, 15 per cent is added to the poverty threshold wage. This yields a figure, when rounded to the nearest five pence, of £7.45 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 £9.60 per hour. This report, however, considers that in work 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. Hence the figure put forward for a Living Wage in London is therefore £7.45 per hour. This figure will be implemented in the GLA Group as contracts allow.

Data from the Annual Population Survey (APS) for 2006 suggests that around 85 per cent of full-time employees in London received more than the Living Wage of £7.45 per hour. Of the remaining 15 per cent of workers, about 5 per cent of full-time workers in London receive wages that are below Living Wage levels but above the poverty threshold wage of £6.50 per hour. The remaining 10 per cent of full-time employees in London receive wages that are below the poverty threshold wage.

Further, about 55 per cent of part-time workers in London receive more than the Living Wage. Of the remaining 45 per cent, around 11 per cent of part-time employees in the capital receive less than the Living Wage but more than the poverty threshold wage. Finally, 34 per cent of part-time workers receive less than the poverty threshold wage.

Taking account of both full-time and part-time workers in London, around one in seven employees receive less than the £6.50 poverty threshold wage and one in five employees receive less than the £7.45 Living Wage. Fewer than one in ten workers in London earn less than the National Minimum Wage (NMW) of £5.52.



1. Introduction

This, the fourth annual report on the Living Wage in London, updates the Living Wage in London for 2008.

The report reviews the most recent steps being taken to implement the Living Wage since the last report in the GLA group. It 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.

1.1 Structure

In what follows, the Basic Living Costs approach is outlined and the wage rates that result 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. A review of the implementation of the London Living Wage within the GLA Group is presented in Chapter 5. Chapter 6 concludes. Finally, 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 wage level is not the same as a minimum wage². 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 dependents³. More details on this are provided in the first Living Wage report published in April 2005⁴. In this section we assess changes in the various costs of living that feed into this approach, over the past 12 months.

2.1 Household 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 different household working patterns (for example, a lone parent working full-time or a couple with one person working full-time) has been extended from that considered in previous reports. We also include a couple in which both adults work part time. Although this represents a very small percentage of London families, we have now included such households within the scope of our analysis, given that we already included couples in which only one worked full-time and the other did not undertake any paid work.

This means that, strictly speaking, the cost of living calculations in this report – which are based on a weighted average of different family types – are not comparable with the cost of living in past years. However the actual number of families included in the new range of family types is so small, that no great inaccuracy results from making this comparison.

We have therefore retained the section of the report which shows how the cost of living in London for the family types considered 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.

Apart from the inclusion of households where both adults work part-time, the range of household working patterns assumed is the same as that outlined in last year's report on the Living Wage. Working patterns are important for the calculation of tax credits and benefits received by households. Assuming similar patterns improves the comparability of this year's 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 credits.

Box 1 – The effect of the new tax structure on the Basic Living Costs approach to the Living Wage

In the March 2007 Budget, the Government removed the 10p lower rate of income tax and cut the basic rate of income tax from 22p to 20p from April 2008.

In October 2007, they published the 2008-09 rates and allowances for Income Tax, National Insurance, Working and Child Tax Credits and Child Benefit. Some of the main changes are set out below.

In May 2008, the Chancellor of the Exchequer announced that he was increasing individual personal income tax allowances by £600 to £6,035 for the 2008-09 financial year.

The National Insurance Earnings Threshold for employees, and the self-employed contribution also rose in line with inflation. Workers pay 11 per cent of their remaining earnings in national insurance (assuming that they are not contracted out of SERPS) up to the upper earnings threshold of £40,040. Above this amount, a further 1 per cent of earnings are paid as national insurance.

Child Benefit was raised in line with inflation for 2008-09 to £18.80 per week for either the eldest or only child and £12.55 per week for other children.

The basic element of the Working Tax Credit rose by inflation to £1,800 per year in 2008-09 and the couple and lone parent element rose to £1,770.

The child element of Child Tax Credit increased by £240 to £2,085 in 2008-09. The disabled child element and severely disabled child elements rose by inflation for 2008-09 to £2,540 and £1,020 respectively. The family element remains frozen at £545 per year.

The maximum eligible childcare costs remain at £175 per week for one child and £300 per week for two or more children. The percentage of eligible childcare costs remains at 80 per cent.

As in previous reports, households containing only one earner, who is working part time, are not included in the calculation of the Living Wage. However, information on lone parents working part-time is included in this report. This is principally because it provides information relevant to the Government's policy of assisting 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 level differences produced by the Office for National Statistics (ONS)⁵. 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 UK⁶.

We used the methodology outlined in the Annual Living Wage Report of 2005 to derive housing costs for the different type of families included in the calculations of the London Living Wage. However, we considered additional data to validate our previous housing estimates.

Tables 2.1a and 2.1b provide GLA Economics estimates of basic living costs for families with and without children who live in London. Details of the cost calculations are supplied in Appendix A.

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

2.1a: Households with children

	Couple with children					Lone parent	
	2ft	1ft 1pt	2 pt	1ft	1pt	ft	pt
Shopping basket costs	190.04	190.04	190.04	190.04	190.04	144.22	144.22
Housing	88.43	88.43	88.43	88.43	88.43	88.43	88.43
Council tax	24.95	24.95	24.95	24.95	24.95	18.71	18.71
Total transport costs	50.34	50.34	50.34	25.17	25.17	25.17	25.17
Childcare costs	212.22	102.18	102.18	0.00	0.00	212.22	102.18
Total costs	565.98	455.94	455.94	328.59	328.59	488.75	378.71

2.1b: Households without children

	Couple with no children					Single no children	
	2ft	1ft 1pt	2 pt	1ft	1pt	ft	pt
Shopping basket costs	114.02	114.02	114.02	114.02	114.02	86.86	86.86
Housing	173.00	173.00	173.00	173.00	173.00	80.00	80.00
Council tax	24.95	24.95	24.95	24.95	24.95	18.71	18.71
Total transport costs	50.34	50.34	50.34	25.17	25.17	25.17	25.17
Childcare costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total costs	362.31	362.31	362.31	337.14	337.14	210.74	210.74

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

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

Tables 2.2a and 2.2b show that total LCA costs rose for all the different model household types considered since last year. Households without children generally experienced higher increases in LCA costs, in the range 3.4 to 9.6 per cent, compared to around 4.2 per cent increases in LCA costs for households with children.

The annual growth in prices between December 2006 to February 2007 and December 2007 to February 2008 were used to update the shopping basket costs, which increased for all households by between 3.3 to 4.6 per cent. Some of the highest increases in costs included: 8 per cent for food, insurance/pension contributions and charitable donations; 7.2 per cent for energy; and 4.8 per cent for NHS charges. The cost of clothing and leisure goods fell by 4.6 and 3.9 per cent respectively.

Housing costs for households with children – on our assumption that they have access to social housing – rose by 5.3 per cent since last year's report. For households without children, assumed to be in the private rented sector, housing costs rose by over 15 per cent for couples and by just 1 per cent for single people.

Council tax increased by 6.9 per cent, transport costs by 3.6 per cent and childcare costs by 4.2 per cent.

Table 2.2: Annual percentage change in LCA costs between 2007 and 2008 Living Wage reports
2.2a: Households with children

	Couple with children					Lone parent	
	2ft	1ft 1pt	2 pt	1ft	1pt	ft	pt
Shopping basket costs	3.6	3.6	3.6	3.6	3.6	3.3	3.3
Housing	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Council tax	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Total transport costs	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Childcare costs	4.2	4.2	4.2	0.0	0.0	4.2	4.2
Total LCA costs	4.2	4.2	4.2	4.3	4.3	4.2	4.2

2.2b: Households without children

	Couple with no children					Single no children	
	2ft	1ft 1pt	2 pt	1ft	1pt	ft	pt
Shopping basket costs	3.6	3.6	3.6	3.6	3.6	4.6	4.6
Housing	15.3	15.3	15.3	15.3	15.3	1.0	1.0
Council tax	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Total transport costs	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Childcare costs	-	-	-	-	-	-	-
Total costs	9.1	9.1	8.8	9.6	9.6	3.4	3.4

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

All figures rounded to nearest 10 pence

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

2.3 Earnings and household incomes

The level of earnings together with household circumstances will affect the amount of 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 used to derive the level of entitlement to these benefits and tax credits can be found in the 2005 Living Wage annual report⁷. Appendices B and C provide more information on the various tax credits and benefits and how they fit into these calculations.

Box 2 - Private rental costs

This year's Living Wage report takes into account improved data on private rents, and has also improved our estimates of the cost of rented accommodation available to households without children. As before, we assume that single people will require a single room to attain an acceptable living standard whilst a couple require a single bedroom self-contained dwelling. We have however extended the range of dwelling types to include maisonettes and one-bedroom houses in the range of accommodation available to a couple, whereas previously we considered only one-bedroom flats. Similarly, our estimate of rents for single people now extends to rooms, shared rooms, and bed-sits.

The latest data indicate that 27 per cent of households in London live in rented accommodation in the private sector, compared to 12 per cent in the rest of England⁸. The private sector therefore makes a significant contribution to the supply of housing in the capital and also meets certain specific needs. It is essential for London's labour market and economy, as it is the main form of housing for new arrivals to the capital. Data for private rents is collected each year from over 8,000 classified advertisements in *Loot*, the *Evening Standard* and local area London newspapers for a given period. The data collected is analysed at London-wide, borough and postcode levels for different types and sizes of accommodation.

For the calculation of this year's Living Wage we have reviewed private rental data for November 2006 and used the most recent data from November 2007. In each case the lower quartile of the rent distribution has been used as an estimate of the typical cost of accommodation. In this way a significant proportion of the lowest rents accessible to those on low incomes in London are captured. The most recent data yields a typical rental of £173 per week for a couple with no children, up more than 15 per cent from the previous year, and £80 for a single person with no children, which has remained stable.

The largest increase in rents between 2005 and 2007 over all quartiles has been in flats and maisonettes, where rents have risen around 30 per cent. Rents for bedsits and studio flats have grown by only around 3 per cent.

Rents for larger properties of 4 bedrooms or more have been stable but in some cases declining, perhaps reflecting the demand in London for smaller sized properties. Rents at the bottom end of the market – the first quartile – have been following a similar pattern. The largest growth in rents has been in flats, maisonettes, and also houses. The future direction of rents is not clear due to uncertainty in the housing market. The stability of rent levels, particularly at the lower end of the market, probably reflects, in part, the increase in supply arising from 'buy-to-let' purchases.

Table 2.3 illustrates the disposable income of the various household types, assuming different working patterns, with earnings at the level of the NMW (£5.52)⁹. 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 Family Budget Unit (FBU) work.

Table 2.3: Incomes of different households, including and excluding means-tested benefits (£ weekly figures), at the National Minimum Wage (NMW)

2.3a: Households with children

	Couple with two children				Lone parent	
	2ft	1ft 1pt	2pt	1ft	ft	pt
Joint earnings at £5.52 per hour	425.00	306.40	187.70	212.50	212.50	93.80
Taxes	62.30	31.20	0.00	31.20	31.20	0.00
Earnings net of taxes	362.70	275.20	187.70	181.30	181.30	93.80
Including all relevant benefits						
All relevant benefits	256.80	215.10	261.40	186.10	339.70	272.30
Total income	619.50	490.30	449.10	367.40	521.00	366.10
Excluding means-tested benefits						
Child benefit	31.40	31.40	31.40	31.40	31.40	31.40
Total income	394.10	306.60	219.10	212.70	212.70	125.20

2.3b: Households without children

	Couple with no children				Single no children
	2ft	1ft 1pt	2pt	1ft	ft
Joint earnings at £5.52 per hour	425.00	306.40	187.70	212.50	212.50
Taxes	62.30	31.20	0.00	31.20	31.20
Earnings net of taxes	362.70	275.20	187.70	181.30	181.30
Including all relevant benefits					
All relevant benefits	0.00	45.70	118.80	119.50	21.00
Total income	362.70	320.90	306.50	300.80	202.30
Excluding means-tested benefits					
Child benefit	0.00	0.00	0.00	0.00	0.00
Total income	362.70	275.20	187.70	181.30	181.30

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

All figures rounded to nearest 10 pence

Source: GLA Economics

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 National Minimum Wage (NMW) level (from Table 2.3). Appendix C illustrates the difference between income and basic living costs (the LCA budget standard) at £5.52, £6, £7 and £8 per hour.

Table 2.4: Weekly incomes (£), costs and incomes after costs, at the NMW hourly rate

2.4a: Households with children

	Couple with two children				Lone parent	
	2ft	1ft 1pt	2pt	1ft	ft	pt
Including all relevant benefits						
Total income	619.50	490.30	449.10	367.40	521.10	366.10
Basic living costs	566.00	455.90	455.90	328.60	488.80	378.70
Income minus costs	53.50	34.40	-6.80	38.80	32.30	-12.60
Excluding means tested benefits						
Total income	394.10	306.60	219.10	212.70	212.70	125.20
Basic living costs	566.00	455.90	451.80	328.60	488.80	328.10
Income minus costs	-171.90	-149.30	-232.70	-115.90	-276.10	-202.90

2.4b: Households without children

	Couple with no children				Single no children
	2ft	1ft 1pt	2pt	1ft	ft
Including all relevant benefits					
Total income	362.70	320.90	306.50	300.80	202.30
Basic living costs	362.30	362.30	362.30	337.10	210.70
Income minus costs	0.40	-41.40	-55.80	-36.30	-8.40
Excluding means tested benefits					
Total income	362.70	275.20	187.70	181.30	181.30
Basic living costs	362.30	362.30	359.80	337.10	210.70
Income minus costs	0.40	-87.10	-172.10	-155.80	-29.40

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

All figures rounded to nearest 10 pence

Source: GLA Economics

For some household types, notably those with children, the NMW together with the assumed working patterns are sufficient to cover their weekly basic living costs assuming all relevant tax credits and benefits are claimed¹⁰. However, as Table 2.4 also shows, for other household groups the NMW 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 hourly wage required for each household type to meet its basic living costs (or LCA budget).

Table 2.5: Hourly wages required to meet basic living costs for different households

2.5a: Households with children

	Couple with two children				Lone parent	
Earners	2ft	1ft 1pt	2pt	1ft	ft	pt
Number of people	213,100	273,100	14,500	138,900	51,900	30,600
Wage level including all the relevant benefits	5.52*	5.52*	5.90	5.52*	5.52*	6.30
Wage level excluding means tested benefits	8.80	9.30	>15.00	9.90	>15.00	>15.00

2.5b: Households without children

	Couple with no children				Single no children	Weighted Average
Earners	2ft	1ft 1pt	2pt	1ft	ft	
Number of people	424,300	108,900	14,400	79,800	416,000	1,765,500
Wage level including all the relevant benefits	5.52*	7.70	12.50	11.30	6.70	6.25
Wage level excluding means tested benefits	5.52*	7.70	12.50	11.40	6.70	8.05

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

* NMW sufficient to meet basic living costs (LCA budget standard).

The number of people in different household groups was derived from Census 2001 and rounded to nearest 100.

Money amounts rounded to nearest 10 pence except for NMW and weighted average.

The NMW (£5.52) has been used as a lower limit for the wage when calculating the weighted average wage as it is generally illegal to pay wages below the NMW.

From Table 2.5, the weighted average wage across the different household types required to meet basic living costs is £6.25 assuming all benefits are included, compared to £8.05 if means-tested benefits are ignored.

Assuming all relevant benefits and tax credits are claimed, about 62 per cent of the working households considered in this analysis would achieve their basic living costs, or LCA standard of living, at the £5.52 National Minimum Wage (NMW). At the wage of £6.25 per hour around 65 per cent of the working households considered would achieve their basic living costs (or LCA standard of living).

Box 3 - Revisions to the household weights

The Living Wage is intended to reflect the variety of model families and working arrangements used in its calculation and this calculation therefore takes into account their relative weight in the working population. In this report, the methodology used to estimate these weights has been improved. Table 2.6 shows the new and old estimates of the proportion of earners in each category.

Table 2.6: Revisions to the household weights

	Household: Couple with children				Household: Lone parent with children		Household: Couple with no children				Household: Single person with no children	Total
	2ft	1ft 1pt	1ft	2pt	ft	pt	2ft	1ft 1pt	1ft	2pt	ft	
Old weights	16.0%	12.8%	6.1%	N/A	2.6%	1.5%	15.0%	12.0%	5.7%	N/A	28.3%	100%
New weights	12.1%	15.5%	7.9%	0.8%	2.9%	1.7%	24.0%	6.2%	4.5%	0.8%	23.6%	100%

Once the number of earners in each category has been established, this category's weighting is simply its share of all household groups considered in this report. The principal data source for the previous weights was the 2001 Census tables based on individual marital status. The current report has revised and refined this estimate using new tables from the 2001 Census recently released by the Office of National Statistics. These provide employment information for London's working age households such that the structure of the household categories necessary for the Living Wage can be identified directly. This was not the case in previous reports; household structure had to be inferred from information on marital status. In Table 2.6 the two respective methodologies have been labelled "old" and "new" and the respective weights for each have been highlighted. The effect of incorporating this new improved data into our calculations is to reduce the weight given to single adult households from 28.3 per cent to 23.6 per cent and increase the weightings for both couples with children and lone parents.

3. The income distribution approach

This section explains briefly the Income Distribution approach. This method considers what wage is required to move a household to 60 per cent of median income.

The Department for Work and Pensions (DWP) provides indicators on the average income of households in the UK¹¹. 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 live¹².

DWP provides two measures of disposable income: before and after housing costs. This report only considers the disposable income after housing costs. Disposable income after housing costs consists of earnings, all social security benefits (including housing and council tax 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. Rent, mortgage interest payments, water charges and structural insurance premiums, are deducted from income on this measure¹³.

Based on this measure, the household median income in 2006/07 was £321 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 and 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 previous section, wages that achieve the different households’ disposable income can be approximated.

Table 3.1: Disposable income thresholds for different types of households (£ per week, 2006/07)

	Couple with children	Lone parents with children	Couple with no children	Single person with no children
Median	452.60	308.20	321.00	176.60
70% of median	316.80	215.70	224.70	123.60
65% of median	294.20	200.30	208.70	114.80
60% of median	271.60	184.90	192.60	105.90

All figures rounded to nearest 10 pence. Source: GLA Economics based on DWP data for 2006/07

Table 3.2 shows the approximate hourly wage required to achieve the level of disposable income that would place each household at 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 hourly wages required to reach a certain percentage of median income for different households**3.2a: Households with children**

	Couple with two children				Lone parent	
Earners	2ft	1ft 1pt	2pt	1ft	ft	pt
Including all relevant benefits						
60% of median income	5.52*	5.52*	8.20	8.50	5.52*	7.70
65% of median income	5.60	6.50	10.40	10.40	5.52*	10.70
70% of median income	6.50	7.70	12.60	12.40	6.80	13.70
Excluding means-tested benefits						
60% of median income	9.40	10.10	>15.00	12.00	>15.00	>15.00
65% of median income	9.80	10.70	>15.00	12.90	>15.00	>15.00
70% of median income	10.20	11.30	>15.00	13.70	>15.00	>15.00

3.2b: Households without children

	Couple with no children				Single no children	Weighted Average*
Earners	2ft	1ft 1pt	2pt	1ft	ft	
Including all relevant benefits						
60% of median income	6.10	8.40	13.70	13.40	6.30	6.70
65% of median income	6.40	8.80	14.40	14.00	6.70	7.30
70% of median income	6.70	9.30	>15.00	14.60	7.10	8.10
Excluding means-tested benefits						
60% of median income	6.10	8.40	13.70	13.40	6.40	8.70
65% of median income	6.40	8.80	14.40	14.00	6.80	9.10
70% of median income	6.70	9.30	>15.00	14.60	7.10	9.50

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

* Weighted average of all household types including both those with and without children

3.2c: Memo: Numbers of people in London that would attain 60% of median income at various wage levels

	Couple with two children				Lone parent	
Earners	2ft	1ft 1pt	2pt	1ft	ft	pt
Total number of people of this family type	213,100	273,100	14,500	138,900	51,900	30,600
Number which would attain 60% of median income at a wage of:						
£5.52	213,100	273,100	0	0	51,900	0
£6.40	213,100	273,100	0	0	51,900	0

	Couple with no children				Single no children	Total number of people in all households considered
Earners	2ft	1ft 1pt	2pt	1ft	ft	
Total number of people of this family type	424,300	108,900	14,400	79,800	416,000	1,765,500
Number which would attain 60% of median income at a wage of:						
£5.52	0	0	0	0	0	538,000
£6.40	424,300	0	0	0	416,000	1,378,400

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

*The NMW (£5.52) is sufficient to meet the 60 per cent of median income threshold.

The NMW has been used as a lower limit for the wage when calculating the weighted average wage.

All money figures rounded to the nearest 10 pence except for weighted average; all population figures rounded to the nearest 100.

Source: GLA Economics and Census 2001

Data from Table 3.2 indicates that about 30 per cent of the working households considered here would attain 60 per cent of median income at the £5.52 NMW (assuming all relevant benefits were claimed). The weighted average wage (assuming all relevant benefits are claimed) required to achieve 60 per cent of median income is £6.70. At this wage, just over three quarters of the households considered would achieve the 60 per cent median income threshold. Note that in contrast to the LCA approach (see Chapter 2), relatively high wages are required for families with children to attain the target income required to avoid poverty.

4. Comparison of the two 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.

Under the Basic Living Costs approach around 62 per cent of the households considered in this analysis would cover their basic living costs at the £5.52 NMW level¹⁴. Under the Income Distribution approach 30 per cent of households would attain 60 per cent of median income at the £5.52 NMW level. We assume that all relevant benefits and tax credits are claimed.

Table 4.1 displays the weighted average wages derived from the two approaches considered, including and excluding means-tested benefits. The weighted average wage (including benefits) from the Basic Living Costs approach is £6.25 per hour compared to £6.70 from the Income Distribution approach. The difference between the two approaches has increased from 20 pence to 45 pence since last year. The two approaches deviate somewhat in calculating the poverty threshold wage. The poverty threshold wage of £6.50 is the mean of the figures given by the Basic Living Costs and Income Distribution approaches, rounded to the nearest 5 pence per hour.

Table 4.1: Weighted average poverty threshold wage (£ per hour)

Approach	Including benefits	Excluding benefits
Basic living costs (1)	6.25	8.05
Income distribution (60%) (2)	6.70	8.65
Average of (1) and (2)	6.50	8.35

Source: GLA Economics

Notes: Figures rounded to nearest five pence.

This indicates that a wage of around £6.50 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 £6.50 per hour, this yields a Living Wage, to the nearest five pence, of **£7.45** per hour. This 2008 level of the London Living Wage will be implemented in the GLA Group as contracts allow.

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).

4.1 Wage distribution

There are two main sources of information on earnings in the UK: the Annual Survey of Hours and Earnings (ASHE) and the annual Labour Force Survey (LFS), now the Annual Population Survey (APS). In previous annual reports we determined the proportions of employees in London earning less than different earnings thresholds using only APS data. However, we noted that the measurement of hourly pay is not a simple matter and that the LFS/APS data is an imperfect guide to it, particularly at the bottom end of the earnings distribution. Office for National Statistics (ONS) advice is that ASHE data is the best source for measuring low pay. Nevertheless, the Living Wage Unit does not have access to the most recent ASHE dataset, and thus we can only use figures from the APS 2006 in this report.

Who are affected by the current London Living Wage?

Table 4.2 shows that around 15 per cent of full-time employees earn less than the Living Wage of £7.45 per hour in London. About 5 per cent of these workers receive wages that are below Living Wage levels but above the poverty threshold level of £6.50 per hour. The remaining 10 per cent receive less than the poverty threshold wage.

Around 45 per cent of part-time employees earn less than the £7.45 per hour Living Wage in London. Around 11 per cent of part-time workers receive less than the Living Wage but more than the poverty threshold wage and 34 per cent of them receive less than the poverty threshold wage.

Overall, around one in seven employees receive less than the £6.50 poverty threshold wage and one in five employees receive less than the £7.45 Living Wage. Fewer than one in ten workers in London earn less than the National Minimum Wage (NMW) of £5.52.

It should be noted that estimating the proportion of London employees earning less than the London Living Wage using APS data for 2006 could lead to an overestimate. This is because employees are likely to have received an increase in their pay since 2006 and for some this will have taken them to a pay rate above £7.45 per hour.

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

	Persons	Persons	Persons	Males	Males	Males	Females	Females	Females
	All employees	Full time	Part time	Total	Full time	Part time	Total	Full time	Part time
All employees = 100%	100	100	100	100	100	100	100	100	100
% earning less than:									
<£5.52 per hour ^a	9	6	23	7	5	31	11	6	21
<£6.50 per hour ^b	14	10	34	12	9	45	16	10	30
<£7.20 per hour ^c	19	13	43	17	13	56	21	14	38
<£7.45 per hour ^d	21	15	45	18	14	58	23	16	41

Source: Annual Population Survey (APS) 2006.

a: National Minimum Wage

b: 2008 poverty threshold

c: 2007 Living Wage

d: 2008 Living Wage

Note: The figures are for the working age population including full-time students. The proportions are calculated using the number of employees earning less than the different earnings thresholds over the number of London employees (reporting earnings).

4.2 Changes from last year's report

The Living Wage has increased to £7.45 per hour, a rise of about 3.5 per cent since last year's report and about 11.2 per cent since 2005. Overall, basic living costs have increased by about 4.5 per cent and household median incomes by about 3.5 per cent since last year.

There have been large increases in food (8 per cent), energy (7.2 per cent) and NHS charges (4.8 per cent). These have been offset by price falls for clothing (-4.6 per cent) and leisure goods (-3.9 per cent). Childcare costs have also risen by about 4.2 per cent over the past year to £5.24 per hour. Also, private rents for couples without children increased by over 15 per cent but for single people they were stable. Council tax also increased by nearly 7 per cent, social housing by 5.3 per cent and transport costs by 3.6 per cent since last year's report.

However, benefits and tax credits were increased by 3.9 per cent between the financial years 2007/08 and 2008/09. This compares with a 3.6 per cent increase in benefits and tax credits between 2006/07 and 2007/08. As a result, benefits and tax credits have done 'more of the work' in getting us to our target standard of living than in the previous year, and this has moderated the required increase in wages.



Whilst it is inevitable that there is a delay as new Living Wage figures are incorporated into contracts, the latest Living Wage figure is being taken into account wherever new GLA Group contracts are let.

No direct employees of the GLA Group are paid below the Living Wage, and through reviewing future contracts the GLA group identifies potential opportunities for implementing the Living Wage as well as other responsible procurement priorities.

By rolling out the London Living Wage through appropriate contracts we can ensure those working on behalf of the Group receive a wage that enables sustainable working and living in the capital.

5.1 GLA Group implementation

Progress in implementing the London Living Wage during 2007 has included:

- Implementation of the London Living Wage in a number of support services contracts totalling £5.5m across the GLA Group, leading to almost 400 staff realising the associated benefits.
- Confirmation by LDA, TfL, GLA, LFEPA, MPA and the MPS that all their direct employees are now paid at or above the 2007 Living Wage of £7.20 per hour.
- All Contracted staff based at the GLA and LDA currently receive the Living Wage. Inclusion of the London Living Wage for staff working in the GLA's Trafalgar Square Café.
- Continuing rollout of the Living Wage by LFEPA, MPS and TfL has included LFEPA incorporating the Living Wage into a number of contracts in 2007, most notably the Provision of Cleaning Services Contract, which was awarded in June 2007 and saw 190 cleaners receiving a Living Wage. LFEPA have also included Living Wage provisions in their Waste Management contract, let in Autumn 2007 and in their forthcoming catering contract for their new Union Street Headquarters to be let Spring 2008.
- MPS let a new Facilities Management Services (FMS) contract in April 2007, which included London Living Wage terms. Through a phased roll out with the contractors, up to 800 cleaning staff will benefit from a Living Wage in 2008.
- In accordance with TfL's approach of addressing the Living Wage in relevant contracts as and when they are re-tendered, Metronet will be looking to incorporate the Living Wage as part of their ongoing procurement.

Alongside this internally focused work, we are working in partnership with other agencies such as the TUC, London Citizens, UNISON and Unite to promote the concept of the London Living Wage across London. We have also provided input and have a case study featured in the SERTUC publication, London Living Wage – A working guide for trade unions, which was published in Autumn 2007.

A seminar focused on encouraging implementation by hoteliers was held in November, and work on this is continuing through a cross organisation working group.

The Olympic Delivery Authority (ODA) has set out in its Procurement Policy that it recognises that the London Living Wage has a significant contribution to make in respect of the regeneration objectives of the Olympic Park. This recognition is included within its procurement documentation for Park contracts. Legally, the ODA cannot make the London Living Wage a blanket condition. Monthly monitoring of pay levels against the London Living Wage for Park contracts is now in place. This has revealed (at April 2008) that approximately 95% of people employed by all contractors on the Olympic Park (a total of 2,652 people) are paid at or above the London Living Wage.

5.2 London Boroughs

There has been interest from a number of London Boroughs regarding the Living Wage. To support them in their implementation, the GLA will be assisting public sector organisations through guidance on the technical and legal aspects of implementation as well as learning lessons from case studies of best practice.

5.3 Benefits

The benefits of adopting London Living Wage practices have been recognised by a number of private sector organisations, such as KPMG, HSBC and Morgan Stanley in London, who are now implementing similar terms.

In addition to the clear economic and social benefits for London, the payment of the Living Wage can also have a positive impact on value for money and service delivery of contracts. Feedback obtained from contractors who have implemented these London Living Wage Provisions has identified benefits including:

- easier recruitment and retention, reducing recruitment costs
- higher quality staff
- better attendance
- better productivity, motivation and loyalty
- better quality of service.

A quantitative study of the potential efficiency benefits of implementing a Living Wage policy in public and private sector organisations in London is being undertaken. The study will measure and analyse how companies who have implemented a Living Wage policy or Living Wage provisions, have benefited or could in future benefit from the implementation. It is expected that results from the study will be made available later in 2008.

Table 5.1: 27 Organisations who are implementing the Living Wage in London

Public Sector	Private Sector	Third Sector
Greater London Authority	KPMG	
Transport for London	HSBC	ACEVO - Association of Chief Executives of Voluntary Organisations
London Fire and Emergency Planning Authority	Morgan Stanley	The Big Issue
London Development Agency	Lehman Brothers	Child Poverty Action Group
Metropolitan Police Authority	Citigroup	Westway Development Trust
Metropolitan Police Service	Deutsche Bank	
St Barts and the London Hospital	Royal Bank of Scotland	Higher Education and Think Tanks
	PriceWaterhouseCoopers	The London School of Economics
	Lovells	Queen Mary University of London
	Credit Suisse	IPPR – Institute for Public Policy Research
	Macquarie	
	UnLtd*	
	Barclays	



Since our last report, household median income has increased by about 3.5 per cent. Benefits and tax credits were increased by 3.9 per cent between the financial years 2007/08 and 2008/09. This is equal to the increase in the Retail Price Index published in September 2007. This increased slightly from the 3.6 per cent RPI published in September 2006. As a result, benefits and tax credits have done more of the work in getting us to our target standard of living than in the previous year and this has moderated the required increase in wages.

A cross-GLA Group Living Wage implementation group was formed in April 2005 to help co-ordinate plans for the policy across the GLA Group. Since then the Living Wage has been implemented through a phased roll out across the GLA group. Direct employees of the GLA Group¹⁵ and the Metropolitan Police Service are now paid at or above the London Living Wage. All Contracted staff at the GLA and LDA currently receive the Living Wage and there is a continuing rollout of the Living Wage in contracts administered by TfL, LFEPA and the MPS.

Twenty seven organisations, including the GLA Group, have now voluntarily signed up to paying their staff the London Living Wage. Some of the other organisations besides the GLA Group include the Metropolitan Police Service, St Bart's and the London Hospital, large banks such as HSBC and Deutsche Bank, higher education institutions such as the London School of Economics, think tanks like the Institute for Public Policy Research and a number of voluntary sector organisations such as the Child Poverty Action Group. There has also been interest from a number of London Boroughs regarding the London Living Wage and so some of these may be paying the Living Wage by next year.



Appendix A: Details of cost calculations

This appendix details the calculation of, 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

Social housing rent

Housing costs in London were updated using the same methodology as was applied in the 2005, 2006 and 2007 Living Wage reports. 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 mean¹⁶ and un-weighted mean of these rents, covering the majority of London boroughs for 2007.

Table A.1: Median, weighted and un-weighted mean weekly rents for three-bedroom council houses in London in 2006 and 2007

	2006	2007
Median	82.10	85.93
Weighted Mean	82.68	87.04
Unweighted Mean	84.27	88.42

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 taken into account. The Housing Association Report provides social rents from the Regulatory and Statistical Returns (RSR) Survey 2006¹⁷. The average weekly net rent for three-bedroom other social housing in London is £88.45 per week at March 2006.

To derive our estimate of the social rent for three-bedroom houses in London, we used the simple average of rent for council houses at £88.42 per week and rent for other social housing at £88.45 per week. This was weighted by 457,000 council houses in London and 299,000 units of other social housing in 2006 (most recent available data).

The calculation was:

$$£88.42 \times (457/756) + £88.45 \times (299/756) = £88.43$$

Therefore, the average overall social housing rent for affordable three-bedroom dwellings in London is £88.43 per week, a rise of about 5.27 per cent from £84 in last year's report. This figure is used for the housing costs of couples and lone parents with children.

Private rent

For single people and for couples without children, it was assumed as in previous reports, 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 year's Living Wage report takes into account improved data on private rents, and has also improved our estimates of the cost of rented accommodation available to households without children. As before, we

assume that single people will require a single room to attain an acceptable living standard whilst a couple will require a single bedroom self-contained dwelling. We have however extended the range of dwelling types and include maisonettes and one-bedroom houses in the range of accommodation available to a couple, whereas previously we considered only one-bedroom flats. Similarly, our estimate of rents for single people now extends to rooms, shared rooms, and bed-sits.

In each case the first quartile of the rent distribution has been used as an estimate of the typical cost of private rented accommodation. This yields a typical rental of £173.00 per week for a couple, up more than 15 per cent since last year and £80.00 per week for a single person, which has remained stable.

A.2 Council tax

On the basis of data from the Department for Communities and Local Government (DCLG) the majority of London houses are band D or above¹⁸. This report assumes a band D council tax and calculates the average council tax band D using DCLG data. This yields a figure of £24.95 per week for 2008-09, a 6.85 per cent increase since last year. 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, pay £18.71 council tax each week.

A.3 Childcare

The Family Budget Unit (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 previous reports, 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 40.5 and 19.5 hours of childminding respectively paid at the same rate of £5.24 per hour. However, there is some evidence that part-time costs per hour are normally higher.

Derivation of childcare costs

The Daycare Trust published its most recent figures on childcare costs in January 2008. We derive the childcare cost for the Living Wage report by calculating the average childcare costs for both Inner and Outer London. That is, we averaged weekly childcare costs for:

- nursery provision (children under 2 years old);
- nursery provision (children 2 years old and over);
- childminder provision (children under 2 years old); and,
- childminder provision (children 2 years old and over)

Table A.2: Weekly childcare costs in London 2008 (£)

	Nursery (under 2)	Nursery (2 and over)	Highest Nursery Cost	Childminder (under 2)	Childminder (2 and over)	Highest Childminder cost
Inner London	198	174	418	177	175	500
Outer London	202	186	375	184	170	400

Source: Daycare Trust, 2008

In 2008, the Inner London average weekly childcare cost was £181.00. The Outer London average childcare cost was £185.50 per week. Taking the average of these two figures for Inner and Outer London yields the London average childcare cost of £183.25 per week.

To convert average London weekly childcare costs to an hourly figure, it was assumed that on average parents would demand 35 hours of childminding. 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. Therefore for a weekly expenditure of £183.25, this yields an hourly equivalent of £5.24.

A.4 Transport

In this report, we used 2008 fares for adults buying a monthly travel card for zones 1-3 and then calculated the weekly cost, see Table A.3. Since the previous report, transport costs have increased by 3.6 per cent. This is lower than the 5.4 per cent increase between 2006 and 2007.

Table A.3: Transport costs (£ weekly)

Type of households	2008 Living Wage report	2007 Living Wage report
Couples with children	50.34	48.60
Lone parents	25.17	24.30
Couples without children	50.34	48.60
Single individuals without children	25.17	24.30

Source: Based on Transport for London fares 2008

A.5 Regional price differentials for the standard shopping basket

ONS has produced regional price level comparisons for 2004. These are detailed estimates of price differences between each Government Office Region and the UK average¹⁹. 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 2004, 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.

Rising costs since last year's report

Since our last report, some prices of goods and services in London have increased. Table A.4 presents the growth in prices between December 2006 to February 2007 and December 2007 to February 2008 for the different components of the shopping basket. Over 80 per cent of the items included in our shopping basket experienced price increases over this period such as: food, insurance/pension contributions, charitable donations, energy, NHS charges, personal care, household and leisure services. Two items in the shopping basket, clothing and leisure goods, fell in price over the period.

Table A.4: Annual percentage growth in prices of items in the shopping basket

Item	Growth in prices between December 2006 to February 2007 and December 2007 to February 2008
<i>Rising items</i>	
Food	8.0
Insurance/pension contributions	8.0
Charitable donations	8.0
Energy	7.2
NHS charges	4.8
Household services	3.7
Personal care	3.5
Leisure services	3.1
Pets	2.3
Household goods	1.1
<i>Decreasing items</i>	
Clothing	-4.6
Leisure goods	-3.9
<i>Not considered</i>	
Smoking costs	-
Debts/fines/maintenance orders	-
Seeking work costs	-
Total shopping basket	3.8

Source: Office for National Statistics (ONS)

Notes: To uprate the cost of each item of the shopping basket we used the average of the price inflators between December 2006-December 2007, January 2007-January 2008 and February 2007-February 2008.



PEACH
3 for £1

SW CHERRY
3 for £1

PEACH
3 for £1

SW CHERRY
3 for £1

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 benefit.

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

- Working tax credit
- Child tax credit
- Housing benefit
- Council tax benefit

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 the 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, 2008/09

Working tax credit elements	Maximum amount	
	£ per year	£ per week
1. Basic	1,800	34.62
2. Second adult/lone parent	1,770	34.04
3. 30 hour	735	14.13
4. Childcare (per cent of eligible cost covered) 80%		
Maximum eligible cost for one child		175
Maximum amount for two or more children		300
5. Disability	2,405	46.25
6. Severe disability	1,020	19.62
7. If over 50 and previously workless (see below for details)		
If working between 16 and 29 hours per week	1,235	23.75
If working over 30 hours per week	1,840	35.38

Source: HMRC

The working tax credit has a childcare element that is given to those households who are working and have children. The childcare element provides 80 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 £140 per week from 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 29 hours per week, this person is entitled to £23.75 per week and £35.38 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 is 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. In addition, a family can get £34.36 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, 2008/09

Child tax credit elements	Maximum amount	
	£ per year	£ per week
Family	545	10.50
Child	2,085	40.01
Family and Baby addition	545	10.50
Disabled child	2,540	48.85
Severe disabled child	1,020	19.62

Source: HMRC

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

Common thresholds of 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 39p for every £1 of gross income over this threshold (see Table B.3). This award is calculated using the following formula:

Tax credit = maximum amount of child tax and working tax credits – 39% (gross household income – £123.46 per week)

Families with gross household income above £958.91 per week will receive an award reduced at the rate of 6.67p for every £1 of gross income over this threshold income.

Table B.3: Common features to derive child and working family credits, 2008/09

Common features	Maximum amount	
	£ per year	£ per week
First income threshold	6,420	123.46
First withdrawal rate (%)	39%	
Second income threshold	50,000	958.91
Second withdrawal rate (%)	6.67%	
First threshold for those entitled to Child tax credit only	15,575	299.52

Source: HMRC

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 education (up to and including A level standard). Table B.4 shows the amount couples or lone parents are entitled to receive depending on the number of children they have. There is a higher rate of benefit for the first child of £18.80 per week. For each subsequent child, couples receive £12.60 per week.

Table B.4: Child benefit, 2008/09

Number of children	Couple (£ per week)
1	18.80
2	31.40
3	44.00
Each extra child above 3	12.60

Source: HMRC

Note: Since April 2007, lone parents have received the same amount of child benefits as couples.

B.3 Housing benefits

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

Housing benefits = eligible rent – 65% (net income – applicable amount)

where:

Net income = (gross income – tax – earnings disregard) + child tax and working tax credits + child benefits

and

Applicable amount = total personal allowances + total premiums

The applicable amount represents the minimum income the government thinks a person under certain circumstances 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 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 £97.50 per week personal allowances, and £97.00 per week for both children under 16. In addition, families get the family premium (for couples) of £17.80 per week.

Table B.5: Housing benefits, 2008/09

	Maximum amount
	£ per week
Personal Allowance	
Single person (under 25)	49.10
Single person (25 or over)	62.10
Lone parent (18 or over)	62.10
Couple (one/both 18 or over)	97.50
Children	
Under 16	48.50
16-18	48.50
Premiums	
Family	17.80
Family (lone parent)	24.50

Source: HMRC

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:

Council tax benefit = council tax – 20% (net income – applicable amount)

where: net income and applicable amount are the same as that described above in the section on housing benefits.



Appendix C: LCA required income 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: Weekly earnings, taxes, benefits, disposable income and costs for different hourly wages including all applicable tax credits and means-tested benefits

C.1a: Households with children

	Couple with two children					Lone parent	
Hourly wages	2ft	1ft 1pt	1pt 1pt	1ft	1pt	ft	pt
£5.52							
Total disposable income	619.50	490.30	449.10	367.40	357.40	521.10	366.10
LCA Costs	566.00	455.90	455.90	328.60	328.60	488.80	378.70
Total disposable income minus LCA costs	53.50	34.40	-6.80	38.80	28.80	32.30	-12.60
£6.00							
Total disposable income	630.60	500.80	459.00	368.30	358.60	526.60	374.30
LCA Costs	566.00	455.90	455.90	328.60	328.60	488.80	378.70
Total disposable income minus LCA costs	64.60	44.90	3.10	39.70	30.00	37.80	-4.40
£7.00							
Total disposable income	653.70	520.50	475.40	371.40	360.80	538.10	389.10
LCA Costs	566.00	455.90	455.90	328.60	328.60	488.80	378.70
Total disposable income minus LCA costs	87.70	64.60	19.50	42.80	32.20	49.30	10.40
£8.00							
Total disposable income	676.80	537.20	485.60	379.90	361.80	549.70	395.90
LCA Costs	566.00	455.90	455.90	328.60	328.60	488.80	378.70
Total disposable income minus LCA costs	110.80	81.30	29.70	51.30	33.20	60.90	17.20

C.1b: Households without children

	Couple no children					Single person	
Hourly wages	2ft	1ft 1pt	1pt 1pt	1ft	1pt	ft	pt
£5.52							
Total disposable income	362.70	320.90	306.50	300.80	279.30	202.30	180.90
LCA Costs	362.30	362.30	362.30	337.10	337.10	210.70	210.70
Total disposable income minus LCA costs	0.40	-41.40	-55.80	-36.30	-57.80	-8.40	-29.80
£6.00							
Total disposable income	388.20	324.60	309.90	302.80	280.50	203.10	182.10
LCA Costs	362.30	362.30	362.30	337.10	337.10	210.70	210.70
Total disposable income minus LCA costs	25.90	-37.70	-52.40	-34.40	-56.60	-7.60	-28.60
£7.00							
Total disposable income	441.30	338.70	315.60	306.90	282.70	220.70	184.30
LCA Costs	362.30	362.30	362.30	337.10	337.10	210.70	210.70
Total disposable income minus LCA costs	79.00	-23.60	-46.70	-30.20	-54.40	10.00	-26.40
£8.00							
Total disposable income	494.50	375.80	319.20	310.80	283.70	247.20	186.10
LCA Costs	362.30	362.30	362.30	337.10	337.10	210.70	210.70
Total disposable income minus LCA costs	132.20	13.50	-43.10	-26.30	-53.40	36.50	-24.60

Source: GLA Economics

All figures rounded to nearest 10 pence

Table C.2: Weekly earnings, benefits, disposable income and costs for different hourly wages, including only non means-tested benefits**C.2a: Households with children**

	Couple with two children					Lone parent	
Hourly wages	2ft	1ft 1pt	1pt 1pt	1ft	1pt	ft	pt
£5.52							
Total disposable income	394.00	306.50	219.00	212.70	125.20	212.70	125.20
LCA Costs	566.00	455.90	455.90	328.60	328.60	488.80	378.70
Total disposable income minus LCA costs	-172.00	-149.40	-236.90	-115.90	-203.40	-276.10	-253.50
£6.00							
Total disposable income	419.50	327.40	235.40	225.40	133.40	225.40	133.40
LCA Costs	566.00	455.90	455.90	328.60	328.60	488.80	378.70
Total disposable income minus LCA costs	-146.50	-128.50	-220.50	-103.20	-195.20	-263.40	-245.30
£7.00							
Total disposable income	472.70	368.80	265.00	252.00	148.20	252.00	148.20
LCA Costs	566.00	455.90	455.90	328.60	328.60	488.80	378.70
Total disposable income minus LCA costs	-93.30	-87.10	-190.90	-76.60	-180.40	-236.80	-230.50
£8.00							
Total disposable income	525.80	407.10	288.40	278.60	159.90	278.60	159.90
LCA Costs	566.00	455.90	455.90	328.60	328.60	488.80	378.70
Total disposable income minus LCA costs	-40.20	-48.80	-167.50	-50.00	-168.70	-210.20	-218.80

C.2b: Households without children

	Couple no children					Single person	
Hourly wages	2ft	1ft 1pt	1pt 1pt	1ft	1pt	ft	pt
£5.52							
Total disposable income	362.70	275.20	187.70	181.30	93.80	181.30	93.80
LCA Costs	362.30	362.30	362.30	337.10	337.10	210.70	210.70
Total disposable income minus LCA costs	0.40	-87.10	-174.60	-155.80	-243.30	-29.40	-116.90
£6.00							
Total disposable income	388.20	296.10	204.00	194.10	102.00	194.10	102.00
LCA Costs	362.30	362.30	362.30	337.10	337.10	210.70	210.70
Total disposable income minus LCA costs	25.90	-66.20	-158.30	-143.00	-235.10	-16.60	-108.70
£7.00							
Total disposable income	441.30	337.50	233.60	220.70	116.80	220.70	116.80
LCA Costs	362.30	362.30	362.30	337.10	337.10	210.70	210.70
Total disposable income minus LCA costs	79.00	-24.80	-128.70	-116.40	-220.30	10.00	-93.90
£8.00							
Total disposable income	494.50	375.80	257.10	247.20	128.50	247.20	128.50
LCA Costs	362.30	362.30	362.30	337.10	337.10	210.70	210.70
Total disposable income minus LCA costs	132.20	13.50	-105.20	-89.90	-208.60	36.50	-82.20

Source: GLA Economics

All figures rounded to nearest 10 pence

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 means-tested benefits and tax credits.

Table C.3: Weekly incomes for different types of families (£, 2005/06) including benefits in the measure of disposable income

Household type	Weekly income	Required hourly wage rate			
		2ft	1ft 1pt	2pt	1ft
60% of median (relative poverty measure)					
With two children aged 2-4 and 8-10					
1) Couple parents	271.60	5.52*	5.52*	8.20	8.50
2) Lone parent	184.90	N/A	N/A	N/A	5.52*
With no children					
1) Couple	192.60	6.10	8.40	13.70	13.40
2) Single person	105.90	N/A	N/A	N/A	6.30
65% of median					
With two children aged 2-4 and 8-10					
1) Couple parents	294.20	5.60	6.50	10.40	10.40
2) Lone parent	200.30	N/A	N/A	N/A	5.52*
With no children					
1) Couple	208.70	6.40	8.80	14.40	14.00
2) Single person	114.80	N/A	N/A	N/A	6.70
70% of median					
With two children aged 2-4 and 8-10					
1) Couple parents	316.80	6.50	7.70	12.60	12.40
2) Lone parent	215.70	N/A	N/A	N/A	6.80
With no children					
1) Couple	224.70	6.70	9.30	>15.00	14.60
2) Single person	123.60	N/A	N/A	N/A	7.10

Source: GLA Economics

* All figures rounded to nearest 10 pence except NMW

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: Weekly incomes for different types of families, (£, 2005/06), including only non means-tested benefits in the measure of disposable income

		Required hourly wage rate			
Household type	Weekly income	2ft	1ft 1pt	2pt	1ft
60% of median (relative poverty measure)					
With two children aged 2-4 and 8-10					
1) Couple parents	271.60	9.40	10.10	>15.00	12.00
2) Lone parent	184.90	N/A	N/A	N/A	>15.00
With no children					
1) Couple	192.60	6.10	8.40	13.70	13.40
2) Single person	105.90	N/A	N/A	N/A	6.40
65% of median					
With two children aged 2-4 and 8-10					
1) Couple parents	294.20	9.80	10.70	>15.00	12.90
2) Lone parent	200.30	N/A	N/A	N/A	>15.00
With no children					
1) Couple	208.70	6.40	8.80	14.40	14.00
2) Single person	114.80	N/A	N/A	N/A	6.80
70% of median					
With two children aged 2-4 and 8-10					
1) Couple parents	316.80	10.20	11.30	>15.00	13.70
2) Lone parent	215.70	N/A	N/A	N/A	>15.00
With no children					
1) Couple	224.70	6.70	9.30	>15.00	14.60
2) Single person	123.60	N/A	N/A	N/A	7.10

Source: GLA Economics

All figures rounded to nearest 10 pence except NMW



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Abbreviations and footnotes

Abbreviations

APS	Annual Population Survey
ASHE	Annual Survey of Hours and Earnings
CIPFA	Chartered Institute of Public Finance and Accountancy
DCLG	Department for Communities and Local Government
DWP	Department for Work and Pensions
FBU	Family Budget Unit
GLA	Greater London Authority
LCA	Low Cost but Acceptable
LDA	London Development Agency
LFS	Labour Force Survey
NES	New Earnings Survey
ODA	Olympic Delivery Authority
ONS	Office for National Statistics

Footnotes

- 1 The LCA budget standard was produced following work in 1997/98 by the FBU, then based in the Department of Nutrition and Dietetics at King's College London. The funding for the work was provided 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 For a discussion of the minimum wage and its determinants see, for example, the Low Pay Commission (1998) 'The National Minimum Wage: First Report of the Low Pay Commission', p15.
<http://www.berr.gov.uk/files/file37987.pdf>
- 3 Parker, H. (1998), *Low Cost but Acceptable. A minimum income standard for the UK: Families with young children*, London: Zacchaeus Trust.
- 4 GLA Economics Living Wage Unit (2005), *A Fairer London: The Living Wage in London*, London: GLA.
www.london.gov.uk/mayor/economic_unit/docs/a_fairer_london.pdf
- 5 Wingfield, D., Fenwick, D. and Smith, K. (2005), 'Relative Regional Consumer Price Levels in 2004', Economic Trends 615. London: Office for National Statistics (ONS).
www.statistics.gov.uk/articles/economic_trends/ET615Wingfield.pdf
- 6 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.
- 7 GLA Economics Living Wage Unit (2005) *A Fairer London: The Living Wage in London*. London: GLA
www.london.gov.uk/mayor/economic_unit/docs/a_fairer_london.pdf
- 8 Department for Communities and Local Government, 2007
- 9 Following the Low Pay Commission's recommendations, the Government announced in the March 2007 Budget that the NMW (adult rate) for workers aged 22 years and older would be £5.52 from October 2007. The March 2008 Budget announced further that the NMW for workers aged 22 years and older would be £5.73 from October 2008. The youth rate, for workers aged between 18 and 21 years, is currently £4.60, whilst 16 and 17 year olds receive £3.40.

- 10 Note that using the income distribution approach (see Chapter 4), most families with children fall below the poverty threshold on the basis of the NMW.
- 11 See www.dwp.gov.uk/asd/hbai/hbai2006/chapters.asp
- 12 See www.dwp.gov.uk/asd/hbai/hbai2006/pdf_files/chapters/chapter_2_hbai07.pdf
- 13 It should be noted that this measure does not take into account childcare costs.
- 14 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 NMW 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.
- 15 GLA Group includes: GLA, LDA, TfL, LFEPA and MPA.
- 16 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.
- 17 Based on the Annual Survey from the Housing Corporation on stockholding and social rents.
- 18 Based on Valuation Office Agency data.
- 19 See http://www.statistics.gov.uk/articles/economic_trends/ET615Wingfield.pdf

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Vietnamese

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Greek

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Hindi

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Arabic

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