

GLAECONOMICS

Living Wage Unit

A Fairer London: **The 2010 Living Wage in London**



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Foreword

The economic environment for Londoners remains difficult as the national economy emerges from the longest and deepest recession since quarterly records began in 1955. The recession has had serious consequences, but there are growing signs that the worst is behind us.

Nonetheless with a major tightening of public finances expected, the recovery is still vulnerable to setbacks and shocks.

The capital has yet again been crowned fDi Magazine's European City of the Future. London performed well across the spectrum, excelling in the categories of economic potential, human resources and infrastructure, as well as claiming second position for Foreign Direct Investment strategy. I am determined to ensure that London remains an international, open, diverse, creative, competitive and socially cohesive city.

In order to maintain its world leading status it relies on the work of many who carry out the city's essential functions on a daily basis – from office cleaners to care-workers in social services. It is right that their skills and commitment to London's success are recognised, and one of the most fundamental ways of doing this is to ensure that all Londoners are paid properly. That means receiving 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 Sixth Annual Report and to announce that the London Living Wage is £7.85 per hour, and that this figure will be implemented by the GLA Group as contracts allow. The London Living Wage has outstripped the National Minimum Wage since its introduction in 2005, and has more than kept pace with average earnings and prices.

The success of the London Living Wage depends on the extent of its acceptance by employers. The GLA Group, one of London's largest employers, continues to lead the way on this. There are now over 2,200 employees working for companies with contracts from the GLA who are benefiting from the London Living Wage. As knowledge of the benefits of implementing the London Living Wage spreads, there has been increasing interest from London Boroughs, as well as other public, private and voluntary sector organisations. There are now close to 100 organisations across London implementing the Living Wage. Moreover, other city authorities are following suit: Glasgow, Norwich and Oxford have all committed to paying a living wage.

Nonetheless there is still a significant way to go before all Londoners are paid a decent wage. Ten per cent of full-time workers and 40 per cent of part-time workers earn less than the Living Wage. And around one in ten employees receives less than the £6.80 poverty threshold 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 is more appropriately 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 £6.80 an hour will be living in poverty, even after benefits and tax credits are taken into account. This means that in London you need an hourly wage rate of 17 per cent above the National Minimum Wage (NMW) rate of £5.80 just to take you above the poverty level.

However, this provides no margin to meet the kind of day-to-day challenges which those of us who are better off can afford to take in our stride. 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 £7.85 per hour – an increase of 3.3 per cent on last year's figure and a 17 per cent increase in the five years since its introduction (at £6.70).

I am determined that London should emerge from these tougher economic times strengthened. By helping to motivate the workforce and reducing staff turnover, the London Living Wage has an important role to play in achieving this goal.



Boris Johnson
Mayor of London

Executive summary

This is the sixth annual London Living Wage report. 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.

As the GLA Group has been implementing London Living Wage provisions since 2006, further implementation has been limited to minor small value contracts that were due for renewal over the year. However, there has been progress across London's Boroughs as employers recognise the added value of paying their contracted workforce a fair wage for their work. Indeed close to 100 organisations across London's public, private and voluntary sectors are now implementing the London Living Wage.

Two approaches to calculating a Living Wage are considered in this report. The first, developed by the Family Budget Unit (FBU),¹ estimates the costs of a 'Low Cost but Acceptable' (LCA) budget for a selection of households and calculates the wage required to meet these costs. This is termed the "Basic Living Costs" approach. The second – the "Income Distribution" approach – takes the figure as 60 per cent of the median income for London.

In London the Basic Living Costs approach gives a figure of £6.55 per hour and the Income Distribution approach gives a figure of £7.10 per hour.

The average of these two figures gives us the "poverty threshold wage". Hence the poverty threshold wage used in this report is £6.80 per hour (when rounded to the nearest five pence).

In order to protect against unforeseen events a margin of 15 per cent is added to the (unrounded) poverty threshold wage. This gives a figure of £7.85 per hour (when rounded to the nearest five pence) as a Living Wage for London.

If means-tested benefits were not taken into account (that is, tax credits, housing benefits and council tax benefits) the Living Wage would be approximately £10.15 per hour. However we believe that in-work benefits and tax credits must be taken into account, as the tax and benefit system is redistributive. Hence the figure put forward for a Living Wage in London is £7.85 per hour.

Data from the Annual Survey of Hours and Earnings suggests that 90 per cent of full-time employees in London earn more than the Living Wage of £7.85 per hour. Of the remaining 10 per cent, half are paid less than the Living Wage levels but above the poverty threshold wage of £6.80 per hour. The remaining 5 per cent receive wages that are below the poverty threshold wage.

Further, 60 per cent of part-time workers in London are paid more than the Living Wage. Of the remaining 40 per cent, around 14 per cent are paid less than the Living Wage but more than the poverty threshold wage. Twenty-six per cent are paid less than the poverty threshold wage.

Taking account of both full-time and part-time workers in London, around 10 per cent receive less than the £6.80 poverty threshold wage and around one in six receive less than the £7.85 Living Wage. Fewer than 4 per cent earn less than the National Minimum Wage (NMW) of £5.80.

1. Introduction

This sixth annual report on the Living Wage in London presents calculations of the Living Wage based on two ways of calculating it: the Basic Living Costs approach and the Income Distribution approach.

We also review progress in implementation of the Living Wage by the GLA group and its adoption by other organisations.

1.1 Structure of the paper

Chapter 2 outlines the Basic Living Costs approach and presents the resulting calculation. Chapter 3 does the same for the Income Distribution approach. Chapter 4 compares the two results and calculates the London Living Wage using them. In Chapter 5 we review progress in the adoption of the Living Wage. Chapter 6 is the concluding chapter, followed by technical appendices.



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 a *Low Cost but Acceptable* (LCA) standard of living, for a range of 'typical' families.² Depending on the working patterns of a family, the wage rate needed to finance this expenditure is then calculated.

This wage level is not the same as a minimum wage.³ 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 dependents.⁴

In this section we assess changes in the various costs of living over the past 12 months that feed into this approach.

2.1 Household types and working patterns

Estimates of basic living costs (also called the LCA budget) were made for four family types:

- 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.

Working patterns are important for the calculation of tax credits and benefits.

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 changes to taxes and benefits introduced in the 2009 Pre-Budget report

The December 2009 pre-Budget Report included the 2010-11 rates and allowances for Income Tax, National Insurance, Working and Child Tax Credits and Child Benefit.⁵ The main changes affecting the Basic Living Costs approach are as follows:

- The personal tax allowance is unchanged at £6,475 for 2010/11. In weekly terms this is £125.⁶ Similarly National Insurance Earnings Thresholds are unchanged.⁷
- Child Benefit⁸ increased by 1.5 per cent from April 2010. This takes Child Benefit for the eldest child to £20.30 per week and raises it for other children by 20 pence (to £13.40).
- With the exception of childcare, the elements of the Working Tax Credit increase by 1.5 per cent to £1,920 per annum in 2010/11.
- The child element of Child Tax Credit will increase by £20 above indexation to £2,300. The disabled child element and severely disabled child elements will increase by 1.5 per cent. The family element remains frozen at £545 per year.
- The maximum eligible childcare costs remain at £175 for one child and £300 for two or more children per week. The percentage of eligible childcare costs remains at 80 per cent.

As previously, households with only one earner, who is working part time, are excluded. 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

We divide basic living costs into the following sub-categories:

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

For the first four sub-categories, cost estimates are based on direct data for London. For the fifth item, we used a comparison of regional price differences produced by the Office for National Statistics (ONS).⁹ The ONS has not published an update so we did this by assuming that the price increase for each element in the shopping basket is the same as for the UK as a whole.¹⁰

We used the methodology outlined in the 2005 Living Wage Report to derive housing costs for the different types of families. However, we considered additional data to validate our previous housing estimates, see Appendix A.1.

Tables 2.1a and 2.1b show our calculation of basic living costs. Details of the calculations can be found 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	200.94	200.94	200.94	200.94	200.94	152.24	152.24
Housing	98.61	98.61	98.61	98.61	98.61	98.61	98.61
Council Tax	25.16	25.16	25.16	25.16	25.16	18.87	18.87
Total Transport Costs	53.52	53.52	53.52	26.76	26.76	26.76	26.76
Childcare Costs	238.95	115.05	115.05	0.00	0.00	238.95	115.05
Total Costs	617.18	493.28	493.28	351.47	351.47	535.43	411.53

2.1b: Households without children

	Couple with no children					Single no children	
	2ft	1ft 1pt	2 pt	1ft	1pt	ft	pt
Shopping basket costs	120.56	120.56	120.56	120.56	120.56	93.27	93.27
Housing	162.00	162.00	162.00	162.00	162.00	90.00	90.00
Council Tax	25.16	25.16	25.16	25.16	25.16	18.87	18.87
Total Transport Costs	53.52	53.52	53.52	26.76	26.76	26.76	26.76
Childcare Costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Costs	361.24	361.24	361.24	334.48	334.48	228.91	228.91

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 Basic Living Costs rose for all the different model household types considered since last year. The only element to fall in price was housing for couples with no children. Households with children experienced a cost increase of 2.8 - 5.0 per cent, compared to increases of between 2.3 and 5.3 per cent for households without children.

The annual growth in prices between November 2008 to January 2009 and November 2009 to January 2010 were used to update the shopping basket costs. These rose by between 2.2 and 2.8 per cent. Some of the highest increases in costs were: +14.3 per cent for Insurance and pension contributions and around +5.0 per cent for household goods, energy and NHS charges. The cost of clothing fell by 4.9 per cent (see Appendix A, Table A4).

Housing costs for households with children – on our assumption that they have access to social housing – rose by 5.7 per cent since last year's report. Households without children are assumed to be in the private rented sector. For single people housing costs rose by 11 per cent, while for couples they fell by over 6 per cent.

Council tax in London on average is hardly rising at all (+0.03 per cent) in 2010/11.¹¹ Transport costs are unchanged¹² but childcare costs are up 7.6 per cent.

Table 2.2: Annual percentage change in LCA costs between 2008 and 2009 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	2.2	2.2	2.2	2.2	2.2	2.3	2.3
Housing	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Council Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Transport Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Childcare Costs	7.6	7.6	7.6	0.0	0.0	7.6	7.6
Total LCA Costs	4.5	3.7	3.7	2.8	2.8	5.0	4.3

2.2b: Households without children

	Couple with no children					Single no children	
	2ft	1ft 1pt	2 pt	1ft	1pt	ft	pt
Shopping basket costs	2.2	2.2	2.2	2.2	2.2	2.8	2.8
Housing	-6.4	-6.4	-6.4	-6.4	-6.4	11.1	11.1
Council Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Transport Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Childcare Costs	-	-	-	-	-	-	-
Total LCA Costs	2.3	2.3	2.3	2.5	2.5	5.3	5.3

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

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 determines benefits and tax credits. Working tax credit, child tax credit, child benefit, housing benefit and council tax benefit are the main benefits and tax credits we consider. Of these, only child benefit is not means-tested. Some benefits depend on childcare and housing rental costs.¹³

Table 2.3 illustrates the disposable income of the various different household types, assuming different working patterns, with earnings at the level of the NMW (£5.80).¹⁴ 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.¹⁵

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 £5.80 per hour	446.60	321.90	197.20	223.30	223.30	98.60
Taxes	64.50	32.20	0.00	32.20	32.20	0.00
Earnings net of taxes	382.10	289.70	197.20	191.10	191.10	98.60
Including all relevant benefits						
All relevant benefits	283.80	233.30	281.90	192.70	370.90	295.50
Total income	665.90	522.90	479.10	383.80	561.90	394.10
Excluding means-tested benefits						
Child benefit	33.70	33.70	33.70	33.70	33.70	33.70
Total income	415.80	323.40	230.90	224.80	224.80	132.30

2.3b: Households without children

	Couple with no children				Single no children
	2ft	1ft 1pt	2pt	1ft	ft
Joint earnings at £5.80 per hour	446.60	321.90	197.20	223.30	223.30
Taxes	64.50	32.20	0.00	32.20	32.20
Earnings net of taxes	382.10	289.70	197.20	191.10	191.10
Including all relevant benefits					
All relevant benefits	0.00	39.30	116.40	116.80	17.30
Total income	382.10	328.90	313.60	307.90	208.40
Excluding means-tested benefits					
Child benefit	0.00	0.00	0.00	0.00	0.00
Total income	382.10	289.70	197.20	191.10	191.10

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

All figures rounded to nearest 10 pence

Source: GLA Economics

Table 2.4 shows the basic living costs 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 £5.80, £6, £7, £8 and £9 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	665.90	522.90	479.10	383.80	561.90	394.10
Basic living costs	617.20	493.30	493.30	351.50	535.40	411.50
Income minus costs	48.70	29.70	-14.20	32.30	26.50	-17.50
Excluding means tested benefits						
Total income	415.80	323.40	230.90	224.80	224.80	132.30
Basic living costs	617.20	493.30	493.30	351.50	535.40	411.50
Income minus costs	-201.30	-169.90	-262.40	-126.70	-310.70	-279.20

2.4b: Households without children

	Couple with no children				Single no children
	2ft	1ft 1pt	2pt	1ft	ft
Including all relevant benefits					
Total income	382.10	328.90	313.60	307.90	208.40
Basic living costs	361.20	361.20	361.20	334.50	228.90
Income minus costs	20.90	-32.30	-47.70	-26.60	-20.50
Excluding means tested benefits					
Total income	382.10	289.70	197.20	191.10	191.10
Basic living costs	361.30	361.20	361.20	334.50	228.90
Income minus costs	20.90	-71.60	-164.10	-143.40	-37.80

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 claimed.¹⁶ 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.

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	5.80*	5.80*	6.50	5.80*	5.80*	6.90
Wage level excluding means tested benefits	9.60	10.10	>15.00	10.60	>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	5.80*	7.50	12.25	10.55	7.25	6.55
Wage level excluding means tested benefits	5.80*	7.50	12.25	11.2	7.25	8.55

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.

The NMW (£5.80) 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.

**This weighted average covers both households with, and without children and has been rounded to the nearest 5 pence.

From Table 2.5, **the weighted average wage across the different household types required to meet basic living costs is £6.55** assuming all benefits are included, compared to £8.55 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 £5.80 National Minimum Wage (NMW). At the wage of £6.55 per hour around 63 per cent of the working households considered would achieve their basic living costs (or LCA standard of living).

3. The Income Distribution approach

The Income Distribution approach considers what wage is required to place a household on the 60th percentile of median income.

The Department for Work and Pensions (DWP) provides indicators on the average income of households in the UK.¹⁷ 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 live.¹⁸

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 measure.¹⁹

Based on this measure, the household median income in 2008/09 was £342 per week. This is calculated using household median income in 2007/08 and up-rating by growth of 3 per cent in median weekly pay (excluding overtime) in London for 2009.²⁰ The £342 figure is for a couple with no children. DWP provide details of the process by which to calculate equivalent incomes for other household types.²¹

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, 2008/09)

	Couple with children	Lone parents with children	Couple with no children	Single person with no children
Median	482.20	328.30	342.00	188.10
70% of median	337.50	229.80	239.40	131.70
65% of median	313.40	213.40	222.30	122.30
60% of median	289.30	197.00	205.20	112.90

All figures rounded to nearest 10 pence

Source: GLA Economics based on DWP data for 2007/08, uprated using growth in median weekly pay in London (excluding overtime) of 3 per cent (ASHE)

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	1 ft 1pt	2pt	1ft	ft	pt
Including all relevant benefits						
60% of median income	5.80*	6.10	9.40	9.50	5.80*	9.60
65% of median income	6.30	7.20	11.70	11.60	6.50	12.80
70% of median income	7.30	8.60	14.10	13.70	7.90	>15.00
Excluding means-tested benefits						
60% of median income	10.30	11.00	>15.00	12.90	>15.00	>15.00
65% of median income	10.70	11.60	>15.00	13.80	>15.00	>15.00
70% of median income	11.20	12.30	>15.00	14.70	>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	6.00	8.40	13.60	13.40	7.00	7.10
65% of median income	6.30	8.80	14.30	14.00	7.30	7.80
70% of median income	6.70	9.20	>15.00	14.70	7.70	8.70
Excluding means-tested benefits						
60% of median income	6.00	8.40	13.60	13.40	7.00	9.10
65% of median income	6.50	8.80	14.30	14.10	7.30	9.55
70% of median income	6.70	9.20	>15.00	14.70	7.70	9.95

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	1 ft 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:						
£5.80	213,100	0	0	0	51,900	0
£7.10	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	1 ft 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:						
£5.80	0	0	0	0	0	265,000
£7.10	424,300	0	0	0	416,000	1,378,400

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

*The NMW (£5.80) 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 figures which are rounded to the nearest five pence; and the NMW. All population figures rounded to the nearest 100.

Source: GLA Economics and Census 2001

Data from Table 3.2 indicates that about 15 per cent of the working households considered here would attain 60 per cent of median income at the £5.80 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 £7.10.** 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 to see what proportion of the working population in London would be affected by a Living Wage if adopted London-wide.

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 £5.80 NMW level.²² Under the Income Distribution approach 15 per cent of households would attain 60 per cent of median income at the £5.80 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 £6.55 per hour compared to £7.10 from the Income Distribution approach. The difference between the two approaches is larger this year, rising to 55 pence from 35 pence. **The poverty threshold wage of £6.80 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)	6.55	8.55
Income distribution (60%) (2)	7.10	9.10
Average of (1) and (2)	6.80	8.80

Source: GLA Economics

Notes: Figures rounded to nearest five pence.

This indicates that a wage of around £6.80 allows most households, on average, to move to or above the poverty threshold. When the 15 per cent margin against poverty is added to the (unrounded) poverty threshold wage,²³ this yields a Living Wage, to the nearest five pence, of **£7.85** per hour. This 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 would be affected at these wage levels (assuming the wage was adopted across London).

4.1 Wage distribution

There are two main data sources for earnings: the Annual Survey of Hours and Earnings (ASHE) and the Annual Population Survey (APS).²⁴ Previously we used APS data to identify the distribution of incomes. However, we noted that the measurement of hourly pay is not a simple matter and that the APS data is an imperfect guide to it, particularly at the lowest incomes. The Office for National Statistics recommends that ASHE data is the best data source on low pay. ASHE data is the National Statistic source for estimates of the number of jobs paying below the National Minimum Wage. This year we have been able to access ASHE via the Office for National Statistics.

Box 2 – ASHE and how it differs to the APS

ASHE started in 2004. It is based on a sample of employee jobs taken from HM Revenue and Customs PAYE records. Information on earnings and hours is obtained in confidence from employers. It does not include the self-employed. The 2009 ASHE is based on approximately 177,000 returns.

ASHE is a survey of employers whereas the APS is a survey of employees. ASHE provides accurate information on earnings, hours, and the characteristic of the employer, but does not provide much personal information. In contrast, APS has detailed personal information but there are concerns over the accuracy of the earnings information (due to proxy response²⁵ and a smaller sample size). Therefore the ONS recommends that ASHE data be used for Table 4.2.

Nonetheless ASHE is not perfect. It surveys hourly rates and contracted hours but may not be as accurate a survey of actual hours worked as APS, which collects data from employees.

Other differences include:

- APS assigns geographic location according to the residence of the employee. ASHE data is workplace-based. However ASHE data can be used to produce residence-based earnings information (see Table 4.2) as home postcodes are collected from employers.
- In regard to the denominators used to work out proportions, APS data excludes people who earn more than £100 per hour. ASHE includes all hourly pay.

Who are affected by the current London Living Wage?

Table 4.2 shows that almost 10 per cent of full-time employees working in London earn less than the Living Wage of £7.85 per hour. About half of these workers receive wages that are below Living Wage levels but above the poverty threshold level of £6.80 per hour.²⁶ The remaining 5 per cent receive less than the poverty threshold wage.

Forty per cent of part-time employees working in London earn less than the £7.85 per hour Living Wage. Around 14 per cent of part-time workers receive less than the Living Wage but more than the poverty threshold wage and 26 per cent of them receive less than the poverty threshold wage.

Adding part-time and full-time, 10 per cent of all employees earn less than the £6.80 poverty threshold wage and one in six employees earns less than the £7.85 Living Wage. About 4 per cent of workers in London earn less than the National Minimum Wage (NMW) of £5.80.²⁷

Table 4.2: Proportion of employees¹ in London that earns less than specified threshold

	All		Full-time		Part-time	
All employees = 100%	100	CV ²	100	CV	100	CV
% earning less than:						
<£5.80 per hour ^a	4	4%	2	7%	11	5%
<£6.80 per hour ^b	10	2%	5	4%	26	3%
<£7.60 per hour ^c	15	2%	9	3%	37	2%
<£7.85 per hour ^d	16	2%	10	3%	40	2%

	Men All		Men Full-time		Men Part-time	
All employees = 100%	100	CV	100	CV	100	CV
% earning less than:						
<£5.80 per hour ^a	3	6%	2	9%	15	7%
<£6.80 per hour ^b	9	3%	5	5%	32	4%
<£7.60 per hour ^c	13	3%	8	4%	43	3%
<£7.85 per hour ^d	14	3%	9	4%	44	3%

	Women All		Women Full-time		Women Part-time	
All employees = 100%	100	CV	100	CV	100	CV
% earning less than:						
<£5.80 per hour ^a	4	5%	2	11%	9	6%
<£6.80 per hour ^b	11	3%	6	5%	23	3%
<£7.60 per hour ^c	17	2%	9	4%	35	3%
<£7.85 per hour ^d	19	2%	10	4%	38	2%

Source: Annual Survey of Hours and Earnings (2009), Office for National Statistics.

1 Employees on adult rates whose pay for the survey pay-period was not affected by absence.

2 The quality of an estimate is measured by its coefficient of variation (CV), which is the ratio of the standard error of an estimate to the estimate.

CV ≤ 5% (precise)

CV > 5% and ≤ 10% (reasonably precise)

CV > 10% and ≤ 20% (acceptable)

20% < CV (unreliable).

a: National Minimum Wage at October 2009 at age 22+

b: 2010 poverty threshold

c: 2009 Living Wage

d: 2010 Living Wage

Note: The figures are for the residence-based 16+ population including full-time students. These data exclude the unemployed population, unpaid family workers and self-employed. 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 What has changed since our 2009 Report?

The 2010 Living Wage has increased by 3.3 per cent (it has risen by just over 17 per cent since its introduction in 2005). Overall, basic living costs have increased by 3.4 per cent and the median household income by 3.0 per cent.

There have been price increases in all but one of the items in the shopping basket (used in the Basic Living Costs approach). The largest increase was in insurance and pension contributions (+14.3 per cent). Other items increased by between 1.4 and 5 per cent, while clothing fell by 4.9 per cent. Childcare costs have also risen by 7.6 per cent to £5.90 per hour. However, transport costs in London remain unchanged from last year and council tax has increased only marginally (0.03 per cent increase in 2010/11). Within the housing component there were divergent movements with social housing costs rising by 4.9 per cent and private rents for single people without children up by 11 per cent, whereas private rents for couples without children fell by 6 per cent.

Normally increases in benefits and tax credits are linked to the September RPI. However the RPI in September 2009 was -1.4 per cent which would have meant a zero increase in benefits and tax credits. However, in the pre-Budget report in December 2009, the Chancellor announced that these would increase by 1.5 per cent between 2009/10 and 2010/11. This is a much smaller increase than the 5.0 per cent increase in benefits and tax credits between 2008/09 and 2009/10. Therefore the London Living Wage has had to increase by more this year to achieve the target standard of living.

4.3 Comparison with the National Minimum Wage, inflation and earnings growth

Table 4.3 shows how the London Living Wage (LLW) and the National Minimum Wage (NMW) have increased since 2005, along with inflation and average earnings.²⁸ (Note that whereas the NMW is raised annually in October,²⁹ the LLW is updated with the publication of the Living Wage Report which is normally in the spring).

Table 4.3: LLW, NMW, CPI inflation and earnings growth since 2005

	LLW			NMW		Ratio (LLW/NMW)	Average Earnings growth % Change Year on Year	CPI
	LLW	Change Year on Year (£)	Change Year on Year (%)	NMW	Change Year on Year (%)			
2005	£6.70			£5.05		1.33	3.7	2.1
2006	£7.05	£0.35	5.2%	£5.35	5.9%	1.32	3.7	2.3
2007	£7.20	£0.15	2.1%	£5.52	3.2%	1.30	3.6	2.3
2008	£7.45	£0.25	3.5%	£5.73	3.8%	1.30	3.6	3.6
2009	£7.60	£0.15	2.0%	£5.80	1.2%	1.31	1.4	2.2
2010	£7.85	£0.25	3.3%	£5.93 ^a	2.2%	1.32	n/a	n/a

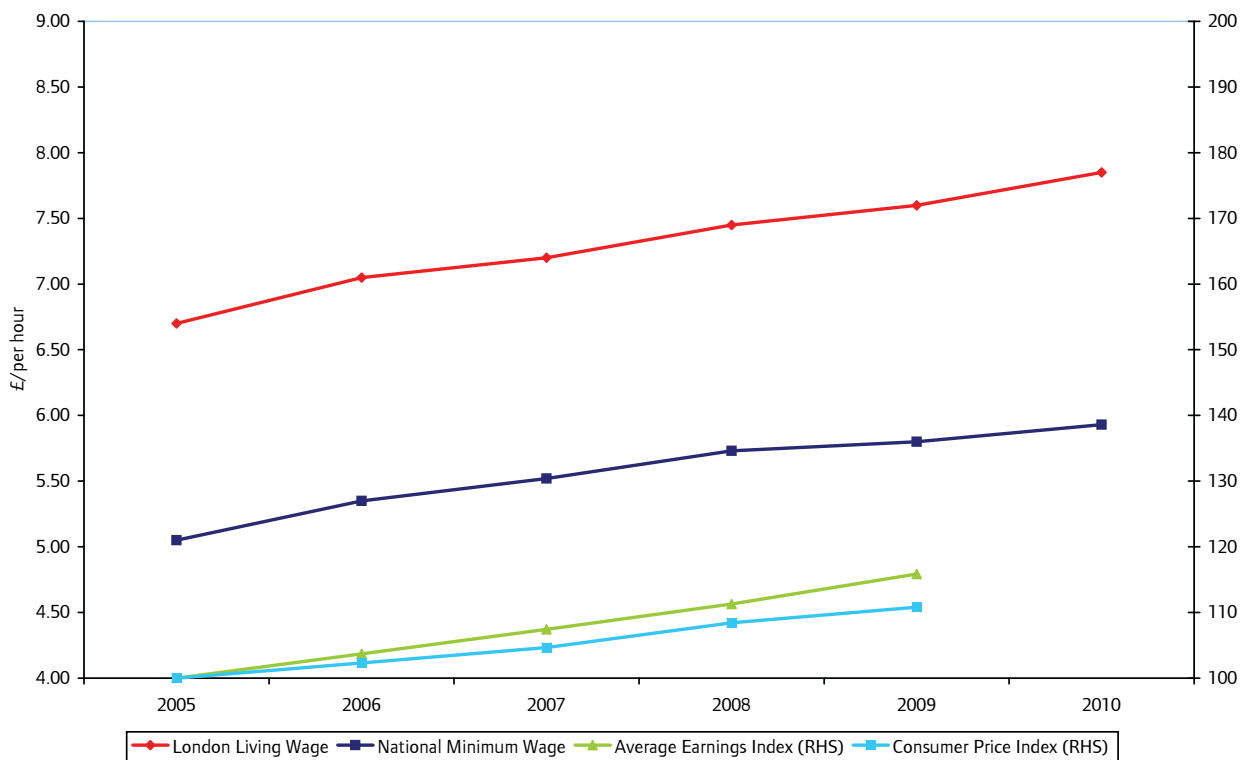
Source: Low Pay Commission, ONS and GLA Economics calculations

a From October 2010

In 2005 the London Living Wage was 33 per cent above the NMW of £5.05.³⁰ Over the 5 year period the differential has risen in absolute terms from £1.65 to £1.92. However, in proportional terms the differential has remained stable, at 30-33% (see Table 4.3). The 2010 LLW is 32% above the NMW that will come into effect in October.

Figure 4.1 compares changes in the London Living Wage and the National Minimum Wage, with the Average Earnings Index³¹ and the Consumer Price Index since the LLW was introduced in 2005.

Figure 4.1 LLW, NMW, Average Earnings and Consumer Price Indices



Source: Low Pay Commission, ONS and GLA calculations

Average Earnings Index (JQDW) is seasonally adjusted and excludes bonuses

2010 data is not yet available for the Consumer Price Index and the Average Earning Index. Base year for both is 2005 (2005=100).

The London Living Wage has more than kept pace with average earnings and prices.

As the GLA Group has been implementing London Living Wage provisions since 2006, further progress has been limited to minor small value contracts that fell due for renewal. There has however been progress across London's Boroughs and further afield as public authorities recognise the value of paying their contracted workforce a fair wage.

GLA Group implementation has generally occurred when new contracts are let as this is the best opportunity to discuss the policy and its implications with bidders. The GLA Group advise organisations interested in implementing London Living Wage provisions to follow this guidance.

5.1 GLA Group implementation

Progress in implementing the London Living Wage during 2009 has included:

- Continued confirmation by all members of the GLA Group (LDA, TfL, GLA, LFEPA, MPA and the MPS) that all employees – whether direct, contracted or temporary – working on GLA group premises in London are paid at or above the current London Living Wage of £7.60 per hour.
- The total number of employees benefiting from the London Living Wage working on GLA group support contracts is now over 2,200.
- 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. The contractors' workforce on the Olympic Park was 6,442 in March 2010. Monitoring of pay levels against the London Living Wage for Park contracts is in place. An independent survey of workers³² carried out in September 2009 found that more than 95% of those surveyed are paid at or above the London Living Wage. A further survey is planned for Summer 2010.

5.2 London boroughs and city authorities

As the benefits of implementing the London Living Wage become more widely recognised, interest and progress has grown, with more boroughs actively implementing the London Living Wage and others committed to implementation in the coming year.

The London Borough of Lewisham awarded their Green Space Management & Maintenance contract on 1st March 2010 which included the provision of the London Living Wage. This has led to 61 beneficiaries receiving the higher rate, for potentially the next 10 years. The London Borough of Tower Hamlets has ensured that all their temporary agency employees receive at least the London Living Wage, leading to 193 beneficiaries.

Aside to this progress, a number of other boroughs – notably Islington and Haringey have in the past 12 months, committed to implementing LLW conditions where appropriate across their organisations.

The School of African and Oriental Studies has been implementing the London Living Wage since 2008 and this year they successfully implemented the 2009 rate for their cleaning, catering and conferencing staff, leading to approximately 80 staff receiving the London Living Wage – some for the first time.

The Living Wage policy has generated interest from a number of city authorities across the UK and if approached, we have provided advice and support in sharing best practice policy and implementation methods from GLA group experiences. Those public authorities who have made a commitment to paying a living wage include Glasgow, Norwich and Oxford.

In November 2009 Manchester City Council's lowest paid employees saw their hourly pay rise to £1 more than the national minimum wage when councillors approved plans to set a 'Manchester Minimum Wage'. With staff turnover on entry level posts running at 15.5%, the council felt a city wage would support their recruitment and retention issues.

Following Glasgow City Council's commitment to pay a city wide living wage last March, as of 1 April this year over 2000 staff in 101 Housing Associations across Scotland have received at least the Scottish Living Wage of £7.00 per hour.

5.3 List of organisations implementing the Living Wage in London.

Table 5.1: 96 Organisations who are implementing the Living Wage in London

Public Sector	Private Sector	Third Sector
Department for Children, Schools and Families	Arena BLM	Big Issue
Greater London Authority	Argus Media	BioRegional
Homerton Hospital	Aspen Oil	Child Poverty Action Group
London Borough of Ealing	Barclays	Children of the Andes
London Borough of Lewisham	Bates Wells Braithwaite	Childrens Rights Alliance for England
London Borough of Tower Hamlets	Browns	City Parochial Foundation
London Development Authority	Business to Business Exhibitions Ltd	Climate Change Group
London Fire Brigade	Citigroup	Crisis UK
Metropolitan Police Authority	Clifford Chance	Data Foundation
Metropolitan Police Service	Clownfish Marketing	Ethical Property Foundation
Olympic Delivery Authority	Connect Public Affairs	Execution Charitable Trust
Royal Bank of Scotland	Credit Suisse	Food Commission
St Barts and the London Hospital	Deloitte	Forum For the Future Ltd
St Charles Sixth Form College	Deutsche Bank	Free Tibet Campaign
Transport for London	Ecologist	Friends Of The Earth
Whipps Cross Hospital	HSBC	Greenpeace
	Kite Clinic Ltd	Groundwork UK
	KPMG	IANSA
	Lovells	Islington Ecology Centre
Higher Education and Think Tanks	Macquarie	Jobs Go Public Ltd
Birkbeck, University of London	Morgan Stanley	Lifeline Project
Institute for Public Policy Research	Nomura	MedicAlert Foundation
London School of Hygiene and Tropical Medicine	PriceWaterhouseCoopers	Mezzanine 2 Ltd
London School of Economics	Prudential	Mezzanine-Loman Street
Queen Mary University of London	Quiet Revolution	NCVO
School of Oriental and African Studies – SOAS	R H Evans Architects	Oxford Research Group
University of London Union	Renegade Pictures	Peace Direct
	Rengen Energy	Rainforest Foundation
	Richard Hywelevan Architecture & Design Ltd	Rethink
	SD3 Ltd	Safer World
	Standard Chartered	St Lukes Centre
	Stanton Williams	The Bromley by Bow Centre
	Sustainable Development Capital	The Young Foundation
	Tate Catering	Tindelmanor
	Thames McGurk Ltd	UnLtd*
	Westfield Shopping Centre	Waterhouse
		Westway Development Trust

Note: BT has pledged to uplift pay for all directly employed staff in London in line with the LLW, this does not include Third Party contractors.

Caveats

In previous reports we have only included those organisations that have made a commitment to the Greater London Authority on the London Living Wage. These were primarily made up of members from the GLA group, investment banks based in Canary Wharf, some London Boroughs and a number of higher education and social enterprises. We are aware of a range of organisations who are Living Wage Employers – which requires them to pay at least the current Living Wage as well as other requirements including sickness and holiday pay – and have decided to include them in this list.

Many organisations in London choose not to publicly communicate their commitment to the London Living Wage for fear of negative publicity around their wage rates before implementation. Thus, the list should be regarded as the minimum list of organisations which have adopted the London Living Wage.

Since our last report, household median income has increased by 3 per cent. Benefits and tax credits were increased by 1.5 per cent between the financial years 2009/10 and 2010/11, which is a much smaller increase than the 5.0 per cent increase last year. Therefore the London Living Wage has had to increase by more this year to achieve the target standard of living.

The GLA Group³³ has been implementing London Living Wage provisions since 2006, hence further progress has been confined to minor small value contracts that fell due for renewal. There are now over 2,200 employees working on GLA support contracts benefiting from the London Living Wage. There has also been progress across London's Boroughs, as well as other public, private and voluntary sector organisations, as employers recognise the added value of paying their contracted workforce a fair wage.

Almost 100 organisations across London's public, private and voluntary sectors are now implementing the London Living Wage.

Appendix A: Details of cost calculations

This appendix provides more information about the calculation (see Section 2) of the five subcategories of Basic Living Costs.

A.1 Housing costs

Social housing rent

Housing costs in London were updated using the same methodology as in previous Living Wage reports. With some minor adjustments to data sources, the assumptions about what type of accommodation different family types are most likely to occupy are unchanged. We have maintained the assumption that couples and lone parents with two children live in a three-bedroom property. This is based once more 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.

As in previous reports we used data from the Chartered Institute of Public Finance and Accountancy (CIPFA) which provides for each London borough, the average council rent on a three-bedroom property and the number of such dwellings in the council stock. The current report has been updated using the most recent data from CIPFA on net rents for three bedroom properties in London. Table A.1 shows the median, weighted mean³⁴ and un-weighted mean of these rents, covering the majority of London boroughs for 2009 and for comparison the 2008 data has also been included.

Table A.1: Median, weighted and un-weighted mean weekly rents for three-bedroom council houses in London in 2008 and 2009

	2008	2009
Median	92.58	95.14
Weighted Mean	94.19	97.03
Unweighted Mean	94.92	98.08

Source: CIPFA

We are aware that Council housing does not represent the only source of affordable housing available to such families and therefore, in this report as in the previous reports, other social housing is also taken into account. Previously the Housing Corporation Report provided social rents from the Regulatory and Statistical Returns (RSR) Survey.³⁵ However, this year, we have used data from the new Tenant Services Authority (TSA), which was established after the closure of the Housing Corporation in November 2008.³⁶ The average weekly net rent for three-bedroom other social housing in London was £101.03 per week in 2009.

To derive our estimate of the social rent for three-bedroom houses in London, we used the average (weighted by dwellings in each borough) of rent for council houses at £97.03 per week and rent for other social housing at £101.03 per week. This was weighted by 451,000 council houses in London and 295,000 units of other social housing in 2007 (most recent available data).

The calculation was:

$$£97.03 \times (451/746) + £101.03 \times (295/746) = £98.61$$

This gives an average social housing rent for affordable three-bedroom dwellings in London of £98.61 per week, a rise of 4.9 per cent from £93.76 in the 2009 report. This figure is used for the housing costs of couples and lone parents with children.

Private rent

As in previous reports it was assumed that single people and couples without children are more likely to live in private accommodation, since they have less access to social housing than families with children.

We assume that single people will require a single room or studio to attain an acceptable living standard whilst a couple will require a single bedroom self-contained dwelling. The range of dwelling types includes maisonettes and one-bedroom houses and cottages in the range of accommodation available to a couple. Similarly, our estimate of rents for single people includes rooms, shared rooms, bed-sits and studios.

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 £90 per week for a single person (an 11 per cent increase since last year) and £162 per week for a couple (a reduction of 6 per cent from last year's report³⁷).

A.2 Council tax

According to the Department for Communities and Local Government (DCLG) the majority of London houses are band D or above.³⁸ This report assumes a band D council tax and calculates the average council tax band D using DCLG data. This yields a figure of £25.17³⁹ per week for 2010-11, a 0.03 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 (to £18.87).

A.3 Childcare

The Family Budget Unit assumes hours of childcare according to family type (this is an average over the year, taking 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 £5.90 per hour. However, there is some evidence that part-time costs per hour are higher.

Derivation of childcare costs

The Daycare Trust published its most recent figures on childcare costs in February 2010.⁴⁰ In a change from previous years the Daycare Trust now publishes childcare costs for the whole of London (as opposed to both Inner and Outer London). Further, the costs published by the Daycare Trust are now based on 25 hours of childcare a week (instead of 50 hours in its previous report).⁴¹ Therefore we have multiplied by two in order to provide costs on a comparable basis to previous reports. We derive the childcare cost for the Living Wage report by averaging 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: Childcare costs in London 2010 based on 50 hours a week (£)

	Nursery (under 2)	Nursery (2 and over)	Childminder (under 2)	Childminder (2 and over)	Average
London	218	194	196	180	206.50

Source: Daycare Trust 2010 and GLA Economics calculations

In 2010, the London average weekly childcare cost was £206.50.

To convert average London weekly childcare costs to an hourly figure, it was assumed that on average parents need 35 hours of childminding. This is consistent with the FBU methodology applied throughout, which attempts to establish the actual requirement that a typical family would have if earnings were

adequate, rather than the actual use of childcare, which may reflect an inability to afford sufficient hours of child care. Therefore a weekly expenditure of £206.50 implies an hourly equivalent of £5.90. This is a 7.6 per cent rise on the 2009 figure.

A.4 Transport

We used the weekly equivalent cost of a monthly Zone 1-3 Travel Card (see Table A.3). This is unchanged from the 2009 report because Travel Card prices are set in agreement with the Train Operating Companies who are bound by a Retail Price Index (RPI) +1 per cent price increase. Given that the annual RPI rise was less than 1 per cent in July 2009, there has been no price increase this year.

Table A.3: Transport costs (£ weekly)

Type of households	£ per week
Couples with children	53.52
Lone parents	26.76
Couples without children	53.52
Single individuals without children	26.76

Source: Based on Transport for London fares 2010

A.5 Regional price differentials for the standard shopping basket

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

Over the past year some prices of goods and services have risen while others have fallen. Table A.4 provides details.

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

Item	Annual % growth in prices (Nov08-Jan09 versus Nov09-Jan10)
Price rises	
Insurance/pension contributions	14.3
Household goods	5.0
NHS charges	4.8
Energy (in the past we referred to Fuel)	4.5
Pets	4.0
Leisure services	2.8
Charitable donations	2.8
Personal care	2.7
Food	2.4
Household services	1.5
Leisure goods	1.4
Price fall	
Clothing	-4.9
Not included	
Tobacco	-
Debts/fines/maintenance orders	-
Costs of seeking work	-
Total shopping basket	3.4

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 November 2008-November 2009, December 2008-December 2009 and January 2009-January 2010.



Appendix B: Benefits and tax credits

This section describes how we incorporate tax credits and benefits in our estimate of Basic Living Costs. The methodology is explained in more detail in Appendix C of the 2005 Living Wage report.

B.1 Earnings and benefits

The majority of benefits are means-tested (the main exception is 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 household income, hours worked, type of household (couple or lone parent) and number and age of children.

To calculate main benefits for different family types, 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, 2010/11

Working tax credit elements	Maximum amount	Maximum amount
	£ per year	£ per week
1. Basic	1,920	36.92
2. Second adult/lone parent	1,890	36.35
3. 30 hour	790	15.19
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	2,570	49.42
6. Severe disability	1,095	21.06
7. If over 50 and previously workless (see below for details)		
If working between 16 and 29 hours per week	1,320	25.38
If working over 30 hours per week	1,965	37.79

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, in the form of 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, s/he is entitled to £25.38 per week and £37.79 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 incurring 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 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 studying full-time up to A-level). Those entitled to this benefit need to work at least 16 hours a week on average and have a household income 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 or children is entitled to receive the family element. In addition, a family can get £44.23 per week for each additional child (over one year old). 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, 2010/11

Child tax credit elements	Maximum amount	Maximum amount
	£ per year	£ per week (approx)*
Family	545	10.50
Child	2,300	44.23
Family and Baby addition	545	10.50
Disabled child	2,715	52.21
Severe disabled child	1,095	21.06

Source: HMRC

* Weekly figures are only approximate as tax credits are based on rounded daily amounts

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

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

Families with a household income below £123.46 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 have their benefit reduced by 6.67p for every £1 of income over this threshold.

Table B.3: Common features to derive child and working family credits, 2010/11

Common features	Maximum amount	
	£ per year	£ per week (approx)*
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	16,190	311.35

Source: HMRC

* Weekly figures are only approximate as tax credits are based on rounded daily amounts

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 £20.30 per week. For each subsequent child, couples receive £13.40 per week.

Table B.4: Child Benefit, 2010/11

Number of children	Couple (£ per week)
1	20.30
2	33.70
3	47.10
Each extra child above 3	13.40

Source: HMRC

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

B.3 Housing benefits

We include a family specific amount of housing benefit calculated by 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 £103.87 per week in personal allowances, and £103.42 per week for both children under 16. In addition, families receive the family premium (for couples) of £18.94 per week.

Table B.5: Housing Benefits, 2010/11

	Maximum amount
	£ per week
Personal Allowance	
Single person (under 25)	52.38
Single person (25 or over)	66.22
Lone parent (18 or over)	66.22
Couple (one/both 18 or over)	103.87
Children	
Under 16	51.71
16-18	51.71
Premiums	
Family	18.94
Family (lone parent)	25.86

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 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 actual 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
£5.80							
Total disposable income	665.90	522.90	479.10	383.80	373.50	561.90	394.10
LCA Costs	617.20	493.30	493.30	351.50	351.50	535.40	411.50
Total disposable income minus LCA costs	48.70	29.70	-14.20	32.30	22.00	26.50	-17.50
£6.00							
Total disposable income	670.50	527.30	483.30	384.10	374.00	564.20	397.50
LCA Costs	617.20	493.30	493.30	351.50	351.50	535.40	411.50
Total disposable income minus LCA costs	53.40	34.10	-10.00	32.70	22.50	28.80	-14.10
£7.00							
Total disposable income	693.60	548.30	502.00	387.20	376.40	575.80	413.50
LCA Costs	617.20	493.30	493.30	351.50	351.50	535.40	411.50
Total disposable income minus LCA costs	76.50	55.00	8.70	35.70	25.00	40.40	2.00
£8.00							
Total disposable income	716.70	566.00	514.40	396.20	377.60	587.30	421.40
LCA Costs	617.20	493.30	493.30	351.50	351.50	535.40	411.50
Total disposable income minus LCA costs	99.60	72.70	21.10	44.70	26.10	51.90	9.90
£9.00							
Total disposable income	739.80	582.70	524.60	407.70	378.40	598.90	426.50
LCA Costs	617.20	493.30	493.30	351.50	351.50	535.40	411.50
Total disposable income minus LCA costs	122.70	89.40	31.30	56.30	26.90	63.50	15.00

C.1b: Households without children

	Couple no children					Single Person	
Hourly wages	2ft	1ft 1pt	1pt 1pt	1ft	1pt	ft	pt
£5.80							
Total disposable income	382.10	328.90	313.60	307.90	284.70	208.40	186.30
LCA Costs	361.30	361.20	361.20	334.50	334.50	228.90	228.90
Total disposable income minus LCA costs	20.90	-32.30	-47.70	-26.60	-49.80	-20.50	-42.60
£6.00							
Total disposable income	392.80	330.50	315.00	308.70	285.20	208.70	186.80
LCA Costs	361.20	361.20	361.20	334.50	334.50	228.90	228.90
Total disposable income minus LCA costs	31.50	-30.80	-46.20	-25.80	-49.30	-20.20	-42.10
£7.00							
Total disposable income	445.90	343.00	321.60	312.70	287.60	223.00	189.20
LCA Costs	361.20	361.20	361.20	334.50	334.50	228.90	228.90
Total disposable income minus LCA costs	84.70	-18.20	-39.60	-21.80	-46.90	-6.00	-39.70
£8.00							
Total disposable income	499.00	380.40	325.90	316.80	288.80	249.50	191.10
LCA Costs	361.20	361.20	361.20	334.50	334.50	228.90	228.90
Total disposable income minus LCA costs	137.80	19.10	-35.30	-17.70	-45.70	20.60	-37.80
£9.00							
Total disposable income	552.20	418.60	329.50	320.80	289.50	276.10	192.90
LCA Costs	361.20	361.20	361.20	334.50	334.50	228.90	228.90
Total disposable income minus LCA costs	190.90	57.40	-31.70	-13.70	-45.00	47.20	-36.10

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
£5.80							
Total disposable income	415.90	323.40	230.90	224.80	132.30	224.80	132.30
LCA Costs	617.20	493.30	493.30	351.50	351.50	535.40	411.50
Total disposable income minus LCA costs	-201.30	-169.90	-262.40	-126.70	-219.20	-310.70	-279.20
£6.00							
Total disposable income	426.50	332.10	237.70	230.10	135.70	230.10	135.70
LCA Costs	617.20	493.30	493.30	351.50	351.50	535.40	411.50
Total disposable income minus LCA costs	-190.70	-161.20	-255.60	-121.40	-215.80	-305.30	-275.80
£7.00							
Total disposable income	479.60	374.70	269.70	256.70	151.70	256.70	151.70
LCA Costs	617.20	493.30	493.30	351.50	351.50	535.40	411.50
Total disposable income minus LCA costs	-137.60	-118.60	-223.60	-94.80	-199.80	-278.80	-259.80
£8.00							
Total disposable income	532.70	414.10	295.40	283.20	164.50	283.20	164.50
LCA Costs	617.20	493.30	493.30	351.50	351.50	535.40	411.50
Total disposable income minus LCA costs	-84.40	-79.20	-197.90	-68.30	-186.90	-252.20	-247.00
£9.00							
Total disposable income	585.90	452.30	318.80	309.80	176.30	309.80	176.30
LCA Costs	617.20	493.30	493.30	351.50	351.50	535.40	411.50
Total disposable income minus LCA costs	-31.30	-40.90	-174.40	-41.70	-175.20	-225.70	-235.30

C.2b: Households without children

	Couple no children					Single Person	
Hourly wages	2ft	1ft 1pt	1pt 1pt	1ft	1pt	ft	pt
£5.80							
Total disposable income	382.10	289.70	197.20	191.10	98.60	191.10	98.60
LCA Costs	361.30	361.30	361.20	334.50	334.50	228.90	228.90
Total disposable income minus LCA costs	20.90	-71.60	-164.10	-143.40	-235.90	-37.80	-130.30
£6.00							
Total disposable income	392.80	298.40	204.00	196.40	102.00	196.40	102.00
LCA Costs	361.20	361.20	361.20	334.50	334.50	228.90	228.90
Total disposable income minus LCA costs	31.50	-62.90	-157.20	-138.10	-232.50	-32.50	-126.90
£7.00							
Total disposable income	445.90	341.00	236.00	223.00	118.00	223.00	118.00
LCA Costs	361.20	361.20	361.20	334.50	334.50	228.90	228.90
Total disposable income minus LCA costs	84.70	-20.30	-125.20	-111.50	-216.50	-6.00	-110.90
£8.00							
Total disposable income	499.10	380.40	261.70	249.50	130.80	249.50	130.80
LCA Costs	361.20	361.20	361.20	334.50	334.50	228.90	228.90
Total disposable income minus LCA costs	137.80	19.10	-99.60	-85.00	-203.60	20.60	-98.10
£9.00							
Total disposable income	552.20	418.60	285.10	276.10	142.60	276.10	142.60
LCA Costs	361.20	361.20	361.20	334.50	334.50	228.90	228.90
Total disposable income minus LCA costs	190.90	57.40	-76.10	-58.40	-191.90	47.20	-86.30

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 including 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	289.30	5.80	6.10	9.40	9.50
2) Lone parent	197.00	N/A	N/A	N/A	5.80
With no children					
1) Couple	205.20	6.00	8.40	13.60	13.40
2) Single person	112.90	N/A	N/A	N/A	7.00
65% of median					
With two children aged 2-4 and 8-10					
1) Couple parents	313.40	6.30	7.20	11.70	11.60
2) Lone parent	213.40	N/A	N/A	N/A	6.50
With no children					
1) Couple	222.30	6.30	8.80	14.30	14.00
2) Single person	122.30	N/A	N/A	N/A	7.30
70% of median					
With two children aged 2-4 and 8-10					
1) Couple parents	337.50	7.30	8.60	14.10	13.70
2) Lone parent	229.80	N/A	N/A	N/A	7.90
With no children					
1) Couple	239.40	6.70	9.20	>15.00	14.70
2) Single person	131.70	N/A	N/A	N/A	7.70

Source: GLA Economics

All figures rounded to nearest 10 pence except NMW

GLA Economics have uprated this data by 3.0 per cent which is the growth in weekly pay (excluding overtime) in London in April 2009 (ASHE)

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 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	289.30	10.30	11.00	>15.00	12.90
2) Lone parent	197.00	N/A	N/A	N/A	>15.00
With no children					
1) Couple	205.20	6.00	8.40	13.60	13.40
2) Single person	112.90	N/A	N/A	N/A	6.40
65% of median					
With two children aged 2-4 and 8-10					
1) Couple parents	313.40	10.70	11.60	>15.00	13.80
2) Lone parent	213.40	N/A	N/A	N/A	>15.00
1) Couple	222.30	6.50	8.80	14.30	14.10
2) Single person	122.30	N/A	N/A	N/A	6.90
70% of median					
With two children aged 2-4 and 8-10					
1) Couple parents	337.50	11.20	12.30	>15.00	14.70
2) Lone parent	229.80	N/A	N/A	N/A	>15.00
With no children					
1) Couple	239.40	6.70	9.20	>15.00	14.70
2) Single person	131.70	N/A	N/A	N/A	7.70

Source: GLA Economics

All figures rounded to nearest 10 pence except NMW

GLA Economics have uprated this data by 3.0 per cent which is the growth in weekly pay (excluding overtime) in London in April 2009 (ASHE)



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 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”.
- 2 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.
- 3 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>)
- 4 Parker, H. (1998), Low Cost but Acceptable. A minimum income standard for the UK: Families with young children, London: Zacchaeus Trust. More details on this are provided in the first Living Wage report published in April 2005 by GLA Economics Living Wage Unit.
- 5 <http://www.hmrc.gov.uk/pbr2009/individuals.htm>
- 6 <http://www.hmrc.gov.uk/pbr2008/personal-tax.htm>
- 7 <http://www.hmrc.gov.uk/pbr2009/individuals.htm> - there are two small exceptions.
- 8 and Guardian’s Allowance.
- 9 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
- 10 Details of the calculation, including changes in the prices of items in the basket and their impact on living costs, are set out in Appendix A.
- 11 Council Tax Monitor 2010/11, London Councils, March 2010 <http://www.londoncouncils.gov.uk/localgovernmentfinance/counciltaxmonitor/201011counciltaxmonitor.htm>

- 12 Travelcard prices are set in agreement with Train Operating Companies which are bound by the Retail Price Index plus 1 per cent increase. Since RPI was less than -1 per cent in July 2009, the price has not changed.
- 13 For an explanation of the methodology used to calculate entitlement to these benefits and tax credits, see the 2005 Living Wage report. Appendices B and C provide more information on the various tax credits and benefits and how they fit into these calculations.
- 14 Based on the Low Pay Commission's recommendations published in March 2009, the NMW (adult rate) for workers aged 22 years and older was increased to £5.80 from October 2009. The youth rate, for workers aged between 18 and 21 years, is £4.83, whilst 16 and 17 year olds receive £3.57.
- 15 This follows the assumptions used in the initial Family Budget Unit (FBU) work.
- 16 Note that using the income distribution approach, most families with children fall below the poverty threshold on the basis of the NMW.
- 17 See http://research.dwp.gov.uk/asd/hbai/hbai2008/pdf_files/full_hbai09.pdf
- 18 See http://research.dwp.gov.uk/asd/hbai/hbai2008/pdf_files/chapters/chapter_2_hbai09.pdf
- 19 It should be noted that this measure does not take into account childcare costs.
- 20 See http://www.statistics.gov.uk/downloads/theme_labour/ASHE-2009/tab5_2a.xls
- 21 Details of this process (called 'equivalisation'), and the Income Distribution approach more generally are discussed in Appendix E of the 2005 Living Wage report.
- 22 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.
- 23 The unrounded poverty threshold wage is £6.82 per hour.
- 24 Formerly called the Labour Force Survey
- 25 APS data includes some proxy responses for recorded hourly earnings (e.g. in some cases people respond to the earnings questions on behalf of someone else in the household) whereas ASHE data comes straight from employer records and as a result, is thought to be more accurate.
- 26 To recap: The Living Wage equals 1.15 times the Poverty Threshold Wage. In turn the Poverty Threshold wage is an average of two calculations, the first by the Basic Living Costs approach and the second by the Income Distribution approach.
- 27 It should be noted that this does not indicate that these workers in London are being paid illegally low wages. Young workers and trainees can legally be paid less than the adult rate of the NMW.
- 28 ONS – Average Earnings, whole economy, excluding Bonuses (JQDY), Q4

- 29 Hence the current NMW referred to throughout this report is £5.80.
- 30 The NMW was introduced in April 1999, and was set at the “deliberately cautious level of £3.60 an hour” – see National Minimum Wage, Low Pay Commission Report 2007
- 31 ONS – whole economy, seasonally adjusted (excluding bonuses) (JQDW)
- 32 A random sample of 1,701 existing members of the workforce took part.
- 33 GLA Group includes: GLA, LDA, TfL, LFEPA and MPA.
- 34 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.
- 35 Based on the Annual Survey from the Housing Corporation on stockholding and social rents.
- 36 The Housing Corporation ceased operating on November 30th 2008. The Housing and Regeneration Act 2008 established two new agencies; The Tenant Services Authority (TSA) and The Homes and Communities Agency (HCA), which have both taken over the functions of the Housing Corporation.
- 37 We have increased the categories of housing thought to be available to couples without children and we now include one bedroom houses and cottages.
- 38 Based on Valuation Office Agency data.
- 39 The figure of £25.27 in last years report was revised down slightly to £25.16 following the publication of the Communities and Local Government Statistical Release “Updated Council Tax Levels set by Local Authorities in England 2009-10 ‘, (revised July 2009) – <http://www.communities.gov.uk/documents/statistics/pdf/1299369.pdf>
- 40 Childcare costs survey 2010, Daycare Trust
- 41 Childcare costs survey 2009 http://www.daycaretrust.org.uk/data/files/Policy/costs_survey_2009.pdf



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Chinese

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Vietnamese

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

Greek

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Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız veya adrese başvurunuz.

Punjabi

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

Hindi

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

Bengali

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

Urdu

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

Arabic

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Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.

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