

London's living wage for young people

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In *A Fairer London: The Living Wage in London*¹, the Mayor of London announced a London living wage of £6.70. The circumstances and living costs of young people and apprentices are different from working adults who are not in training. This is recognised, for example, by the government's establishment of a separate national minimum wage for young people and trainees.

This current issues note proposes a living wage for young people using a methodology consistent with that used to calculate the adult London Living Wage. In what follows the rationale for such a living wage is discussed. In the interests of brevity we will describe this as the youth living wage. We explain the methodology used to estimate housing costs and the youth living wage in London, only based on the Basic Living Cost approach². Our calculations suggest a youth living wage in London of £5.60 per hour.

1. Rationale for a youth living wage in London

Apprenticeships provide opportunities for young people to be trained, gain skills and develop work experience. This improves their future job and earnings prospects in the longer term, and helps to engage young people who might not otherwise take part in education or training.

Apprentices and young people generally receive lower remuneration compared to working adults. In recognition of this and the fact that young people are still acquiring skills and experience in the labour market there is a lower statutory minimum wage for young people aged 18-21 years and since October 2004 for 16 and 17 years olds. The current minimum wage rates are £5.05 for adults, £4.25 for those aged 18-21 years and £3.00 for 16 and 17 year olds. In contrast with the position on the national minimum wage we are suggesting just one youth/apprentice living wage for 16-19 year olds. This is because the living wage is meant to cover minimum living costs, while the youth minimum wages are set by central government and have regard to the labour market position of young people.

¹ GLA Economics, 2005, *A Fairer London: The Living Wage in London*. View: www.london.gov.uk/mayor/economic_unit/docs/a_fairer_london.pdf

² In *A Fairer London: The Living Wage in London* two approaches were used to calculate the living wage. The Basic Living Cost approach calculates the wage required to cover specified living costs. The Income Distribution approach considers the wage required to move a household to 60 per cent of median income – a commonly used definition of the poverty line.

Data from the Labour Force Survey (LFS) indicates that about nine per cent of young individuals (aged 16-19 years old) either have completed or are still doing a trade apprenticeship in London, this compares with 15 per cent in the rest of the UK. In London, the wages of apprentices are somewhat less than a half of the adult median London wage (based on LFS data for 2002/03). Putting this into an international perspective, UK and London apprentice wage rates are higher than their German counterparts where apprentice wages are around one-third of a fully-qualified employee in the relevant sector³.

Low levels of apprentice pay reflect a *quid pro quo*. In return for accepting low pay apprentices receive training that helps to improve their future pay and employment prospects. Additionally young people are more likely to be single and without children. Therefore, it is important to ensure that young individuals between 16-19 years old receive a wage that can both cover their living costs in London, and allow them to build their skills and job experience.

2. Estimating Costs

Non-housing costs

The London living wage is derived from a weighted average of individuals living in a variety of family circumstances: single persons and couples, with and without children, and with a variety of work patterns.

For young people and apprentices, who are assumed to live under similar circumstances, the most appropriate assumption is that they are single people without children. This allows us to calculate the expected costs of this specific group of people.

We assume a young person's living costs are the same as those of an adult single person, except for housing costs and council tax, as in Table 2.1. The non-housing costs of young people are estimated to be £109 per week.

Table 2.1: Basic Living Costs (or LCA budget) for single individuals (aged 16-19 years old) in London, (£ per week, 2004)

Costs	Single young individual
	Full-time
Regional indexed cost of a basket of goods and services	79.35
Council tax	10.75
Total transport costs	19.20
Childcare costs	0.0
Total non housing costs	109.30

Source: GLA Economics' own calculations based various datasets.

³ Hilary Steedman et al, 1998, Apprenticeship: a strategy for growth

A young person, if single, is most likely to be living in a room either at home, or in shared accommodation. A small proportion of young people (eight per cent) share a room with another person (Census 2001). Since this constitutes potentially overcrowded accommodation we did not treat this as an option when calculating living costs.

If young single individuals live with their parents, they are likely to contribute towards the cost of the council tax. It is assumed that they contribute half of the council tax payments.

Housing costs

If living at home, a young person's housing costs must be met from somewhere. Either parent(s) will directly be paid rent, or they will in effect subsidise their child. We therefore impute a rent to a young person living at home. This is the rent that he or she would be expected to pay, were they to be charged by their parents: the market rate for comparable accommodation. A benchmark living cost of a single young person is the cost of living in a single room. Where young people live in socially rented properties we assume they contribute towards the overall rent charged by the social landlord. In these circumstances they benefit from the sub-market level rent charged.

A Fairer Wage assumed⁴ that a single person lives in a 'bedsit, flatshare or studio flat' and the rental for a single person was calculated as the lowest quartile of the rent distribution for all these types of accommodation at £74 per week. This assumption can be probed by considering in more detail the range of options that might be typical of young people's accommodation. Table 2.2 shows the distribution of the bottom quartile cost by different sizes and for different types of accommodation in London from Greater London Authority (GLA) and the Chartered Institute of Public Finance and Accountancy (CIFPA) datasets. The former dataset does not gather information on social rents. However, the CIFPA data provides information on social rents for individual UK local authority districts, and by accommodation size.

⁴ GLA Economics, 2005, *A Fairer London: The Living Wage in London*. View: www.london.gov.uk/mayor/economic_unit/docs/a_fairer_london.pdf

Table 2.2. Bottom quartile of rents of various sizes and types of accommodation (£ per week)

	1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms	5 bedrooms	6 bedrooms
Rooms	74	37.50				
Sharers	75					
Bedsits	70					
Studio Flat						
Flat	150	87.50	68.80	72.30		
Maisonette	150	86.50	69.30	100		
House/bungalow/cottage	144	88.80	71.30	74.80	69.10	58.30
Memo: Social rented	<i>50.80</i>	<i>29.60</i>	<i>21.90</i>	<i>18.20^a</i>		

Note a: four or more rooms

Source: GLA and CIPFA datasets

Using information on private and social rents, means that our estimate of housing costs faced by a single young person should be more accurate. Table 2.3 displays the distribution of types of accommodation that young people (aged 16-19 years old) are living in London. Of all young individuals in this age group almost 152,000 live in rented accommodation. The majority of these young individuals are in socially rented housing (Housing association and Local Authority), 36 per cent, compared to 8.5 per cent living in private rented accommodation.

To estimate the housing costs of young people or apprentices (aged 16-19 years old) in London we calculated the weighted average rent, taking account of both private and social rents. More details on how these numbers were calculated are given in Appendix 1. The estimated housing costs are £ 51.90 per week for each young person in London.

Table 2.3: Distribution of young individuals (aged 16-19 years) by tenure in London

Accommodation details	Number of young individuals	Percent
Owned outright	43,367	12.7
Being bought with mortgage or loan, and part rent, part mortgage	139,234	40.8
Rented of which:	151,968	
Social	123,082	36.0
Private	28,886	8.5
Rent free	6,953	2.0
Total	341,552	100.00

Source: GLA Economics own calculations based on Annual Labour Force Survey, 2002/03.

3. Youth living wage

Benefits

Single young individuals (16-19 years old) are treated differently from older single people by the welfare benefits and tax credits system. Individuals who are younger than 18 years old (including full-time students) are not entitled to council tax benefits. Single young individuals (under 25 years old) can receive housing benefit provided they rent from a private or social landlord. Also single people aged under 25 years without children are not entitled to tax credits⁵.

Income and costs

Table 3.1 shows income and costs for a young single individual (aged 16-19 years old) in London. Also it indicates that the wage required to cover low but acceptable costs (LCA) for this person is £4.86 per hour, taking account of housing costs of £51.90 per week. This is in line with the adult national minimum wage and the median apprentice wage, but above the lower minimum wage rates for individuals aged 16-17 years and 18-21 years. In a *Fairer Wage* however it was recognised that a living wage must yield a secure margin ensuring that the person involved does not fall into poverty. This margin was chosen to be 15 per cent, and applying it yields a figure of £5.60 per hour.

Table 3.1. Living wage for single young individuals to cover LCA costs

		Wage required to achieve LCA costs	Youth living wage
	£ per week	£ per hour	15 % margin (£ per hour)
Wages	187.11	4.86	5.60
Taxes (income and national insurance contributions)	25.86		
Earnings net of tax	161.25		
Benefits	0		
Total LCA costs (excluding housing)	109.30		
Housing costs, weighted average of private rent (£70) and social rent (£23.6)	51.90		

Source: GLA Economics' own calculations based on Sub-regional Strategy Support Studies (SSSS) dataset.

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

⁵ Child Poverty Action Group, 2005/06, Welfare benefits and tax credits handbook 2005/06

4. Conclusions

A long-standing feature of both UK and overseas labour markets is that young people and apprentices are paid less than older workers. This reflects their relative labour market inexperience and that they are acquiring training – whether formal or on the job.

Also young individuals and apprentices are likely to have lower living costs than adults as they are less likely to have caring responsibilities for children than older adults and are more likely to be single and sharing accommodation with their parents/other young people.

This suggests a lower living wage for young people (aged 16-19 years). Our calculations imply that such a living wage should be set at £5.60 an hour compared to £6.70 for the general adult London living wage.

Appendix 1

This appendix outlines the methodology used to estimate the housing costs of young people (aged 16-19 years) in London, in more detail.

Table A1 shows the number of young individuals aged 16-19 years in London by different types of tenure, their shares and rent levels (private rent £70 per week and social rent £23.60). Each individual rent was multiplied by its respective share to calculate the weighted average rent in London for young individuals of £51.90 per week.

Table A1: Calculations of weighted average housing costs

	Number of young individuals	Shares	Rent	Individual rent weights
		(%)	£ per week	£ per week
Owned outright	43,367	12.7	70.00	8.90
Rent free	6,953	2.0	0.0	0.0
Being bought with mortgage, part rent, part mortgage	139,234	40.8	70.00	28.50
Rented of which:	151,968			
Social	123,082	36.0	23.60	8.50
Private	28,886	8.5	70.00	5.90
Total	341,522	100		51.90

Source: GLA Economics' own calculations based on LFS, CIPFA and GLA datasets

£70 per week corresponds to the lowest quartile private rent for bedsits in London. We use this figure as a representative private rent for single young individuals. The figure £23.60 per week represents the weighted average social rent taking into account each of the various house sizes from Table A2 and using the respective weights from Table A3.

Table A2: Bottom quartile of social rents of various sizes

£ per week	1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms	5 bedrooms	6 bedrooms
<i>Memo: Social rented</i>	50.80	29.60	21.90	18.20 ^a		

Source: GLA dataset and CIPFA.

Note a: four or more rooms

Table A3: Number of individuals aged between 16-19 years living in social accommodation in London

	1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms	More than 5 bedrooms	Total
	6,014.2	27,177.2	54,491.7	13,419.8	6,627.2	107,730
(%)	5.6	25.2	50.6	12.5	6.2	100

Source: GLA Economics' own calculations based on Sub-regional Study Support (SSSS) dataset.