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A Living Wage for Ireland: Some Considerations and Initial Estimates

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A LIVING WAGE FOR IRELAND: SOME CONSIDERATIONS AND INITIAL ESTIMATES[#]

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ABSTRACT

Over the past decade the concept of a living wage has gained added attention across the developed world. In principle, a living wage is intended to establish an hourly wage rate that should provide employees with sufficient income to achieve an agreed acceptable minimum standard of living. In that sense it is an income floor; representing a figure that allows employees afford the essentials of life.

This paper acts as a contribution to the debate on the emergence of a living wage in the Republic of Ireland. At the core of any such debate will be considerations on how a figure for a living wage can be calculated in a transparent (yet technical) and sustainable way. This paper adds to these considerations and points towards a number of issues which need to be addressed, and agreed upon, as part of establishing a figure. Over the course of the next few months, this research, combined with contributions from others, should fuel a welcome discussion around establishing a method and hourly living wage amount. Once established and agreed, the implementation of a living wage offers significant potential to enhance the living standards of low income workers and their families.

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[#] This paper complements another NERI working paper entitled '*The Impacts and Challenges of a Living Wage for Ireland*' (Collins, 2014b) issued in March 2014.

A LIVING WAGE FOR IRELAND: SOME CONSIDERATIONS AND INITIAL ESTIMATES¹

Micheál L. Collins, NERI

No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged. (Adam Smith, 1776 Wealth of Nations I.viii.36)

INTRODUCTION

Over the past decade the concept of a living wage has gained added attention across the developed world. Indeed in cities from London to Auckland it has become an election issue. The attention given to this issue underscores a growing appreciation:

“for policy to consider low wage rates not just in the context of competitiveness and competition but also in the context of income adequacy and living standards” (Collins et al, 2012b:17).

In principle, a living wage is intended to establish an hourly wage rate that should provide employees with sufficient income to achieve an agreed acceptable minimum standard of living. In that sense it is an income floor; representing a figure which allows employees afford the essentials of life. Earnings below the living wage suggest employees are forced to do without certain essentials so they can make ends-meet. Above the threshold employees gain discretionary income to afford living standards and items beyond those deemed essential.

While discussions on the adequate remuneration of labour have been around for centuries (e.g. see quote from Adam Smith above), if not longer, it is only since the emergence of campaigns in the United States and more recently by London Citizens that it has gained policy traction.

This paper acts as a contribution to the debate on the emergence of a living wage in the Republic of Ireland. At the core of any such debate will be considerations on how a figure for a living wage can be calculated in a transparent (yet technical) and sustainable way. Work already underway, by the Vincentian Partnership for Social Justice (VPSJ, 2014), has set out some possibilities. This papers adds to these considerations and points towards a number of issues which need to be addressed, and agreed upon, as part of establishing a figure. Ideally, the paper will assist in the establishment of an agreed method of calculation and updating for the Irish living wage – an agreement that should emerge from technical discussions on the calculation process over the first half of 2014.

The paper is structured as follows. The next section briefly overviews the concept of a living wage and in particular the emergence of its method of calculation in the UK based on budget standards research. We then briefly review budget standards research in an Irish context before

¹ This paper complements another NERI working paper entitled ‘*The Impacts and Challenges of a Living Wage for Ireland*’ (Collins, 2014b) issued in March 2014.

turning to outline a series of points worthy of co This paper complements another NERI working paper entitled *'The Impact and Challenges of a Living Wage for Ireland'* (Collins, 2014b) issued in March 2014. nsideration in the Irish debate on a living wage. Given these, the paper presents some initial estimates of a living wage; figures intended to establish a possible method and range for the figure(s) in Ireland. Finally, the paper concludes.

THE LIVING WAGE

The living wage has a long history. In his review Anker points towards the concepts economic, political, philosophical and religious roots over many centuries (2011:1, 13-24). Wills and Linneker (2012:4) note its emergence in the coalfield areas of the UK in the 1870s and subsequently social reformers, most notably Rowntree, undertook studies to “bring rigour and clarity to the concept” based on assessments of living standards and ‘the human costs of labour’ (Hirsch and Moore, 2011:4; Rowntree, 1901 and 1918). Although missing from the socio-economic discourse for much of the rest of the twentieth century, it has enjoyed a renaissance in recent years.

That revival first occurred in the city of Baltimore in the United States in the mid-1990s and spread to other cities and countries as a municipal policy initiative focused on employees of companies subcontracted to work for public bodies and agencies. Although fragmented, the movement was widespread and focused on securing a living wage whose value was most-commonly linked to a family of four and the US government’s official poverty line.²

In London, a broad-based community coalition named London Citizens formed and launched a living wage campaign in 2001. Incrementally, that campaign built political and business acceptance driven by what Unison identified as a “principle of fairness” that “very few people are prepared to justify forcing people to work for poverty wages” (2013:2). The London campaign also established an agreed method to calculate a living wage; one which has since been adopted by the Greater London Authority (GLA) who now issue an annual update of the figure.³ The figure for the London wage reflects an attempt to estimate an hourly wage rate that provides enough for an individual/household to earn sufficient to meet basic living needs and have a margin to accommodate contingencies and thus remain above poverty levels. Appendix 1 outlines the process associated with calculating this figure.

To date the London living wage has been adopted by more than 200 accredited living wage employers plus there are 90 others working towards accreditation. In 2013 GLA Economics estimated it was being paid to 18,800 workers (2013:27). However, while it has provided a useful, and powerful, hourly wage figure that secures basic living standards, the TUC (2013) note that 572,000 workers in London continue to earn less than the living wage. As Lawton and Pennycook put it “in some senses, living wages have generated more heat than light” (2013:4).

Outside London, the availability of budget standards research has influenced the estimation of a living wage figure for the rest of the UK. That research, described in more detail in the next section, offers a research based method of establishing minimum essential living costs for

² See Brenner (2004) who profiles the various US living wage initiatives up to 2002 and Reynolds and Kern (2003). Hopkins (2003) also tracks its emergence among some NGOs and MNCs as part of their corporate social responsibility initiatives.

³ Since 2012 the revised figure is published in November of each year, during Living Wage week.

various household types. In the UK this work has been undertaken by Centre for Research in Social Policy (CRSP) at Loughborough University and the Family Budget Unit at the University of York for more than a decade.

The growing interest in a UK outside-London living wage coupled with a desire to prevent fragmentation, avoid multiple living wage values across regions and avoid the emergence of multiple calculation methods, led to the establishment of a Living Wage Foundation in 2011. It also took on responsibility for accrediting employers wishing to sign-up to the living wage.⁴ The methodology developed comprises the following:⁵

- Nine household types are examined
- Minimum living costs, to provide a Minimum Essential Standard of Living (MESL), are derived following the budget standards methodology (see next section) for all goods and services excluding housing costs, council tax and childcare.
- As housing costs, council tax and childcare can vary across areas these are estimated separately across the various UK regions and then averaged for inclusion in the calculations.
- Housing costs are taken as the average rental costs of council property for families with children. For those without children private rental costs are used with the value of the 25th percentile used.
- Council tax is taken as the average of the relevant band across all non-London local authorities.
- Childcare costs are based on the average of outside-London prices determined by a survey.
- For each of the family types the cost of a MESL is established.
- For each of the family types the gross wage required to be earned so that these costs can be met is estimated. The calculations assume that all the adults in the household work full-time and that all benefits and tax credits are claimed. For each of the family types the calculated disposable income (earnings – taxes + transfers/refundable credits) should be sufficient to afford the MESL.
- The gross income amount is divided by the number of hours worked by adults in the households to estimate the wage required by that household to afford the MESL. The calculations assume that there are 37.5 hours in a working week and 365/7 weeks in a year.
- The resulting wage requirements for the nine household types are weighted in proportion to their presence in the population and combined to provide a single living wage.
- That figure is rounded to the nearest five pence.

The outside-London calculation method also proposed an uprating mechanism for the annual revisions of the living wage figure. This includes a method to limit increases relative to the estimated rise in average incomes (see more detail later).

⁴ See Hirsch and Moore (2011:13-14) and www.livingwage.org.uk

⁵ See Hirsch and Moore (2011:8-11) and Hirsch (2011) for more details on this method.

The outside-London approach offers a useful basis for an Irish approach to the calculation of a living wage given the availability of similar budget standards data for Irish households.⁶

BUDGET STANDARDS RESEARCH & IRISH APPLICATIONS

At the core of any estimate of a living wage is a question on income adequacy: how much does a minimum essential standard of living (MESL) cost and how much income is required to afford this?

The concept of a MESL used in budget standards research derives from the United Nations Convention on Human Rights which defined the minimum as *'things which are necessary for a person's physical, mental, spiritual, moral and social well-being'*. Similarly, Article 25 of the UN *Universal Declaration of Human Rights* (1948) recognised that:

everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control

While the subsequent UN *International Covenant on Economic, Social and Cultural Rights* (1966) established in its article 11:

the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions.

Over the past decade in Ireland detailed budget standards research has been undertaken by the Vincentian Partnership for Social Justice (VPSJ). In conjunction with Collins this budget standards research established a *'Minimum Income Standard for Ireland'* in 2012. Reflecting the international research literature, the research adopted a consensual budget standards (CBS) approach whereby representative focus groups established budgets on the basis of a household's minimum needs, rather than wants. These budgets, spanning over 2,000 goods, were developed for sixteen areas of expenditure. Further details on the method and the expenditure areas are outlined in Appendix 2.

The published analysis distinguishes between the expenditure for urban and rural households and between those whose members are unemployed or work (part-time/full-time). The research builds on the work of the Vincentian Partnership for Social Justice (Mac Mahon et al, 2004, 2006 and 2010) and Collins et al (2012a).

An interest in establishing a value for a minimum standard of living, and quantifying households and their existence relative to that minimum, has been at the root of poverty research since the work of Rowntree in the late 1800s. The budget standards tradition defines minimum acceptable standards by calculating the content and cost of a 'basket' of goods and services that are needed to experience an acceptable standard of living. Such an approach has been adopted by Bradshaw et al (1993, 2008), Oldfield (1997), Parker (1998, 2000), Middleton et al (1994)

⁶ Appendix 3 outlines the thresholds for living wages in a number of other locations.

and Smith et al (2004) for Britain; Hartfree et al (2001) and Middleton (2001) for Jersey; Waldergrave et al (1996) and Stephens (2000) for New Zealand; and Saunders et al (2004) for Australia.

In Ireland, the Commission on Social Welfare (1986) discussed the concept of a minimum adequate income and since 2004 the VPSJ has engaged in research on establishing and costing minimum budget standards. Through a series of reports an increasing number of Irish household types have been added to the list of family situations for which there are up-to-date information on the cost of minimum living standards (Mac Mahon et al, 2004, 2006 and 2010).⁷ Most recently, the VPSJ and Collins have expanded this list and incorporated a further breakdown of the data for these households is available given their location (urban/rural) and the ages of any children in the household. The 2012 report also benchmarked these household's minimum expenditure requirements relative to the income they receive where households have incomes linked to the levels of welfare entitlements and minimum wage rates. It also calculated the minimum income household require (hourly/weekly and annually) to afford a MESL (Collins et al, 2012a: 93-147).

The Irish minimum living standards data now covers households and individuals across the lifecycle, from children to pensioners, and includes:⁸

- Two adults and child/children (urban and rural locations with variations of the child/children's age)
- One adult and child/children (urban and rural locations with variations of the child/children's age)
- Single adult of working age living alone (urban and rural locations)
- Pensioner household (single and couple; urban and rural locations)⁹

The results of that analysis are updated on an annual basis and made available on the www.MISc.ie (Minimum Income Standards calculator) website. That data serves as the basis for the estimates of a living wage outlined to date by the VPSJ and for those below.

ESTABLISHING A LIVING WAGE: SOME CONSIDERATIONS

The availability of some Irish MESL data, and the precedents for using similar data in the UK outside-London living wage calculation process, points towards this data as an obvious starting point for Irish living wage estimates. Already, the VPSJ (2014) have provided their initial exploration of the issue. However, much like the outside-London experience, there is merit in pausing at the outset of the concepts emergence in Ireland to consider a number of points relevant to the establishment of a transparent (yet technical) and sustainable way of calculating an Irish figure.

⁷ See Callan et al (1996) who examine the Commission on Social Welfare's minimum adequate income. Corrigan (2004) also explored the issue of minimum income standards, looking specifically at children.

⁸ The broad selection of household types reflects the policy priorities and approaches outlines in *National Action Plan for Social Inclusion 2007 – 2016* (Government of Ireland, 2007) and NESC's Development Welfare State (2005).

⁹ The VPSJ has also iterated individualised budgets for these households types (and their members). These are available and updated at www.Budgeting.ie

Over the remainder of this section, a number of these issues are discussed.¹⁰ The issues are divided into three groups. In the first two, the issues imply questions that need to be considered in the context of establishing a method for calculating a living wage. In the other, the issue are ones which should be considered as part of the process.

It would be ideal that those interested in the technical aspects of the calculation and updating methods for any Irish living wage reach agreement on these issues. These points, combined with others which might be proposed, would serve as a useful basis for discussion and ideally agreement on a sustainable approach.

The three groups are:

- (i) Calculation issues
- (ii) Updating issues
- (iii) Other issues

(i) Calculation issues

Estimating a living wage for Dublin/Outside-Dublin

The existing Irish MESL/MIS data is for both urban and rural locations. The urban data is for Dublin while the rural data is for households in small rural towns (lacking a secondary school, bank, major supermarket and Garda station). While the Dublin data can be taken as representative of living costs in Dublin, the rural data is not representative of the costs in most areas outside Dublin.

The major differences in the cost of living between Dublin and other areas are housing and childcare. Previous studies, comparing Dublin with rural areas, have found higher food prices and higher transport costs (see Collins et al, 2012a: 53-92). However, these differences (in food and transport costs) may not be as prevalent for households in urban, suburban and less rural areas outside Dublin; and these are likely to be the type of households we would wish to include in any set of living wage estimates.

The questions arising for the Irish living wage calculation considerations are:

1. Should there be different living wages established for Dublin and outside Dublin?
2. To establish the outside Dublin rate, would it be possible to hold all the household costs the same, except for housing costs and childcare? These could be estimated from available data and surveys and inserted into the outside-Dublin calculations.
3. Is it appropriate to ignore difference in transport costs between Dublin and outside-Dublin and if not, how would this be incorporated into the calculations?

An alternative, would be to just establish a Dublin living wage and then set an outside-Dublin one estimated as a percentage of it. King and Waldergrave (2012:4) in their study on defining a New Zealand living wage did something similar, but in reverse, by only establishing a figure for

¹⁰ These are the issues apparent to the author following a review of the literature, the exploration of the initial calculations in the next section and discussions with others interested in the concept.

the country as a whole and noting that the cost of accommodation in Auckland (the major urban area) will point to needs for accommodation supplements for households there.¹¹

The Number of Hours in the Working Week

As part of any calculation process for a living wage, the gross income amount required to be earned to afford a minimum living standard, is divided by the number of hours the household works to establish that households hourly wage requirement. However, how many hours should be used in the calculations? The higher the number, the lower the living wage will be.

Elsewhere, there is a mixture of precedents. The GLA Economics calculations for London use 38.5 hours while the outside-London method uses 37.5 hours. Previous estimates of minimum incomes in Ireland use 37.5 hours for a full week and 19 hours for part-time work (Collins et al, 2012a). The 37.5 hour value is also adopted in the VPSJ working paper on the living wage (VPSJ, 2014). In London part-time work is counted as 17 hours (see appendix 1).

The questions arising for the Irish living wage calculation considerations are:

1. How many hours of work per week should be counted as full-time work?
2. If the calculations are to include any households with adults who part-time work, how many hours should be included for part-time work?

The Number of Weeks in the Year

As part of the inclusion of transfers and tax credits, annual values need to be transposed into weekly values of the purpose of the calculations. In doing so, how many weeks should be counted?

While there are 52 full weeks in the year, there are $365/7=52.14$ weeks and fractions of weeks in a full year. Counting leap-years, gives $(365+365+365+366)/28 = 52.18$ weeks on average for a year; the latter is the figure used by the CSO in Ireland while the outside London calculations use the 52.14 figure.

The question arising for the Irish living wage calculation considerations are:

1. What figure for the number of weeks in the year should be included in the living wage calculations?

The Mixture of Working Patterns to be Included

Irish and international studies have found that for families with children, there are significant differences in household living costs associated with the composition of working patterns in the household. Where children are of the age to require childcare, there are notable difference in costs for a two parent household where both adults works full-time and where there is one full-time and one part-time earner; the latter providing/substituting the childcare.

¹¹ Note King and Waldergrave (2012) were constrained by the limited availability of budget standards data for New Zealand and as part of their study had to establish this for one household type. Subsequently, a review of their proposal, by the New Zealand Treasury (2013), critiqued their figure on a number of issues including that it did not take regional living cost variations into account.

In the outside London calculations, it has been assumed that all adults work full-time, and that therefore the calculated living wage would be one sufficient to support full time labour market participation and a decent living standard for a household. However, elsewhere there are mixtures of full-time and part-time working households in the London calculation and the New Zealand estimates focus on a two adult household with one full time and one part-time (half time) adult worker (GLA Economics, 2013; King and Waldergrave, 2012:3).

The question arising for the Irish living wage calculation considerations are:

1. For households with children, what types of working patterns should be included in the household types examined?

The Household Types to be Included

The aforementioned range of household types assessed in the VPSJ MESL/MIS studies points towards the potential to include a large selection of household types in the calculation of an Irish living wage. As outlined earlier both the London and outside-London methods include a weighted mix of working household types (e.g. two adults, two adults with children, one adult, one adult with children). Earlier London campaigns took a narrower focus with the Church Action on Poverty group focusing on a single person while TELCO (the east London communities organisation), a predecessor of London Citizens, used a couple with two young children where one worked full-time and one part-time. King and Waldergrave's New Zealand study (2012) focused solely on a 2 adult and 2 child household; principally driven by the lack of a body of MESL/MIS research to base considerations on. Bennett and Lister (2010:5) and Anker (2011:19) note that in the various US iterations, the living wage has typically been set using a 2 adult and 2 child family although there are some cases where it has been used to set a wage floor high enough so that a full-time worker can support a family of three or four (Luce 2002, cited in Brenner, 2004:1).

While the ability to choose a narrow or broad set of household types is principally driven by the availability of robust data sources, these choices are important to the calculations of an overall weighted living wage. Tables 1 and 2 illustrate this point with calculations based on the outside-London estimates for 2013 and the VPSJ's exploratory calculations for Ireland in (2013 data). In both cases, the inclusion of households that represent a small proportion of the population yet have high wage requirements, due mainly to the presence of children, notably influences the final weighted living wage. The calculations show that excluding uncommon households, those below a certain threshold of the total household population, alters the calculated living wage by between 3.5-5% (50p and 50c). For illustrative purposes, thresholds of 4% and 5% of the total housing stock are used.

Table 1: Recalculated Living Wage Estimates when Uncommon Households are Excluded, Outside London Calculations 2013

No. Adults No. Children	Single 0	Couple 0	Lone Parent 1	Lone Parent 2	Lone Parent 3	Couple 1	Couple 2	Couple 3	Couple 4
CRSP/Hirsch (2013) original results									
Wage requirement	8.50	6.06	12.93	15.78	19.95	8.83	9.95	12.33	12.89
Weighting	0.24	0.28	0.06	0.04	0.01	0.12	0.17	0.05	0.01
wage*weight	2.08	1.71	0.72	0.67	0.27	1.08	1.70	0.66	0.18
Living wage (total of row above) =£9.07[#]									
Excluding those below 4%									
Wage requirement	8.50	6.06	12.93	15.78	19.95	8.83	9.95	12.33	12.89
Weighting revised	0.25	0.29	0.06	0.04	-	0.13	0.18	0.05	-
wage*weight	2.13	1.77	0.81	0.66	-	1.10	1.76	0.64	-
Living wage (total of row above) = £8.87									
Excluding those below 5%									
Wage requirement	8.50	6.06	12.93	15.78	19.95	8.83	9.95	12.33	12.89
Weighting revised	0.26	0.30	0.07	-	-	0.13	0.18	0.05	-
wage*weight	2.22	1.84	0.84	-	-	1.15	1.84	0.67	-
Living wage (total of row above) =£8.57									
Source:	Calculated from Hirsch (2013)								
Notes:	[#] The Hirsch calculations estimated an initial living wage of £9.08 rounding to multiple decimal places. Only the published data, rounded to two decimal places, has been used for these calculations. The weighting figure represents the proportion of these household types in the overall household stock.								

While at first glance a difference of €0.50 may seem small, over 37.5 hours and 52.18 weeks this is a difference equivalent to €978 per annum in gross income which after employer's social insurance contributions is a total additional wage cost to an employer of €1,083.

The questions arising for the Irish living wage calculation considerations are:

1. What household types should be included in the calculation of a living wage?
2. What, if any, uncommon households should be excluded and for the purposes of excluding these households what threshold of occurrence in the overall household population should be adopted?

It should also be noted that over time the composition of the population may change and as such any list of household types would need to be revised following each Census. Reflecting this, Rowntree in his 1918 study called for a wage sufficient to support a one-earner couple and three children; the common family unit at that time.

Table 2: Recalculated Living Wage Estimates when Uncommon Households are Excluded, VPSJ Ireland Calculations 2013

No. Adults No. Children	Couple 1	Couple 2	Couple 3	Couple 4	Lone Parent 1	Lone Parent 2	Lone Parent 3	Lone Parent 4	Single 0	Couple 0
VPSJ (2013) original results										
Hrly MIS rate	13.45	13.55	19.05	17.35	16.15	26.55	30.45	36.45	12.15	8.65
Weighting	0.15	0.16	0.08	0.02	0.09	0.05	0.02	0.01	0.24	0.21
rate*weight	2.02	2.10	1.45	0.40	1.38	1.21	0.54	0.21	2.86	1.78
Living wage (total of row above) =€13.95										
Excluding those below 4% and 5% (no difference)										
Hrly MIS rate	13.45	13.55	19.05	17.35	16.15	26.55	30.45	36.45	12.15	8.65
Weighting revised	0.16	0.16	0.08	-	0.09	0.05	-	-	0.25	0.22
rate*weight	2.12	2.21	1.52	-	1.44	1.27	-	-	3.00	1.87
Living wage (total of row above) =€13.43										
Source:	Calculated from VPSJ (2014)									
Note:	The weighting figure represents the proportion of these household types in the overall household stock.									

The Age of the Children to be Included

Research on the costs of a child has shown that the expenditure associated with children changes significantly across childhood (Mac Mahon et al, 2012 and Collins et al, 2012a:53-92). Costs are high in infancy before falling at pre-school age and then steadily increasing as children move through primary and secondary education. These costs changes are driven by variations in the need for childcare, food, clothing, social inclusion, education and transport across childhood. Table 3 summarises these variations across different childhood age groups using 2011 data for Ireland.

Table 3: The Direct Costs of a Child, 2011 (urban households)

	Infant	Pre-School	Primary School	Secondary School	Average*
€ per week					
With full-time childcare	296.13	223.87	130.30	144.92	198.81
Without full-time childcare	91.13	48.29	78.66	144.92	90.75
% of average					
With full-time childcare	149.0%	112.6%	65.5%	72.9%	
Without full-time childcare	100.4%	53.2%	86.7%	159.7%	
Source:	Calculated from Collins et al, 2012a: 56-57				
Note:	*Average of the four figures				

Given these numbers, there are notable implications for the establishment of weekly household expenditure/income requirements. Comparing two households with two full-time working adults and two children, where one child is an infant and one is at pre-school the weekly direct child costs are €520. Where both children are in primary school the weekly costs are €260.60; a difference of €259.40 which is equivalent to €3.46 per hour of 75 hours worked by that households. Consequently, assumptions on the age-composition of household with children to include in the living wage calculation will therefore significantly alter the calculated amount.

The questions arising for the Irish living wage calculation considerations are:

1. When calculating the wage requirement of households with children, what assumptions should be made regarding the ages of the children in these households?
2. How might these assumptions be robustly underpinned and should they be revisited and updated following the publication of the household composition reports from each Census.

Including Childcare costs

Childcare costs are a large component of expenditure for households with children. A 2009 OECD report entitled '*Doing Better for Families*' estimated that the cost of childcare represented approximately 30% of family income for households in Ireland and 33% for families in the UK.¹² Therefore the estimation of the likely expenditure on childcare is an important component of the determination of overall expenditure for these households.

The approach taken in the UK calculations, both in London and outside, has been to include costs on the basis of private provision of this service.¹³ Both draw on data from the Family and Childcare Trust as a source to calculate an average hourly cost for childcare. Multiples of this figure, depending on the hours required, are then included in the calculations (see GLA Economics, 2013:12-13; Hirsch 2013). In Ireland there are some (occasional) data from Early Childhood Ireland and similarly from surveys by the National Consumers Agency (NCA). The NCAs most recent survey, undertaken in late 2010 and published in 2011, established average prices for full-time and part-time baby and toddler care (NCA, 2011). This data, coupled with CPI inflation trends (or inflation data for services sub-indices) offers a possible source of data.

The questions arising for the Irish living wage calculation considerations are:

1. What source should be used for privately provided childcare costs?
2. How should this be updated given the irregularity of the survey data?
3. How should the state provision for ECCE be factored into these estimations?

The Level of Private Sector Housing Costs to be Included

Housing costs are among the largest components of expenditure for all households. However, the form of this expenditure differs. Households paying off a mortgage are servicing a debt and making an investment/saving while renting households are paying for the provision of an accommodation service. In general, studies have assumed that the living wage is relevant to households who are likely to be renting and so estimates of rental costs are used.

The core issue on housing costs relates to whether estimates are based on social housing costs, rental costs from other non-government subsidised accommodation provides or private rental sector costs. The London calculations use an average of social housing costs and other non-government subsidised accommodation costs across London when assessing the rental costs for households with children. For households without children private sector rents at the cheaper end of the private rental market are used; this is measured as the rent at the first quartile (25th

¹² Note, there have been some policy changes since then with the introduction of some ECCE provision in Ireland and reforms to child tax credit provision in the UK.

¹³ The extent of childcare required is dependent on the household compositions selected as discussed earlier.

percentile) of the rent distribution (GLA Economics, 2013:11, 28-29). Outside London a similar approach is taken and in the case of the private sector renters it is the average of the estimated 25th percentile rent in each region that is used to compile an average national figure (Hirsch, 2013).

As the provision of social housing in Ireland is limited, relative to demand and provision elsewhere, there are obvious challenges for low income working households securing local authority provided rental accommodation. Any determination of a living wage calculation method will need to consider if it is feasible to assume households are able to secure social housing or whether private sector provision is the sole source of rental accommodation prices used for all household types.

Irish social housing rental data is problematic give the existence of multiple and differing differential rent schemes across local authorities; all have different rules, thresholds and offsets to determine a households rent.¹⁴ However, a selection of representative local authority rent levels could be used to determine a value for inclusion in the calculations for certain household types. Private sector data is available from the CSO/PRTB database on average monthly rents.

As the distribution of private sector rents is not available, assumptions need to be made on the appropriateness of using the average monthly rental figure as the basis for costing accommodation. Reflecting the British experience, one would expect living wage households to be renting in the lower portion of the private rental distribution, somewhere below the average price level. However, they must still be occupying rental accommodation that is adequate (in quality, space etc) to meet their needs.

Operationalising that concept may be a challenge. For example, taking a single adult renting in Dublin, the CSO/PRTB data report average rental figures for a one-bedroom tenancy. In 2013 the average for all one-bedroom property types was €776.80 per month and for a one-bedroom 'other flats' it was €606.87. The latter figure may provide a possible source, but a question remains as to whether it should be adjusted (to take a % of this average) to reflect the fact that some one-bedroom tenancies may be occupied by couples. Similarly, it may be appropriate to use a percentage of the average market rental figure when including rental costs for accommodation with, say, three bedrooms.

The questions arising for the Irish living wage calculation considerations are:

1. Should the calculations consider rental costs for the social housing sector and the private rental sector or just one of these?
2. If average private sector rents are to be used, how should these figures be adjusted to take a proportion of the average figure; reflecting the likelihood of living wage households being in the lower portion of the private rental distribution?

Including Health Insurance Costs

Healthcare costs will differ across households depending on their composition and income. Those entitled to a medical card will have lower costs than those without such state support.

¹⁴ The system is being reformed in 2013/14 and is planned to merge into one national system. In doing so (at some point in the future) some household with below average rents are likely to experience increases to their rents while those above average may experience a decrease.

Results from the consensual budget standards focus groups reflect the opinion that these households consider some level of private health insurance as a need. Therefore, it should be included in the cost estimates.

For example, taking a single adult, the question arises as to how much health insurance cover that individual requires. Government tax relief at source is available to individuals up to an annual price of €1,000 per adult; a figure suggested by Government to reflect the higher end of the price distribution (Department of Finance, 2013). Market prices from the leading health insurance provider, VHI, offer annual prices of €536.25 (one plan starter) and €632.50 (one plan starter day-to-day) for basic single adult insurance plans;¹⁵ these prices include any tax relief which is granted at source irrespective of the income tax liability of the recipient.¹⁶ In calculating a living wage, a determination would have to be made as to which level of private health cover should be included. Given that prices and plan structures/names will change over time, an option may be to take the state tax relief limit as a starting point and use a percentage of this as the amount included in the calculations.¹⁷

The questions arising for the Irish living wage calculation considerations are:

1. While levels of private health insurance coverage should be included in the calculations?
2. How might the price of this cover be established so that it is updatable over-time?

Including Property Tax and Water Charges

Recurring property taxes are a relatively new phenomenon for most Irish households. In the calculation of a living wage the first question to be addressed is should these taxes be included in the overall estimation of household expenditure? As part of the estimation some taxes are factored in, income taxes and social insurance contributions, while others are ignored, indirect taxes such as VAT and excise.¹⁸

The design of the Irish residential property tax system places the liability for the property tax with the property owner; unlike, say, council tax in the UK where the liability rests with the occupier. As such, the calculations could assume that the rental figure implicitly absorbs the property tax.

The emergence of water charges, planned to be introduced from 2015, also needs to be considered. As charges linked to usage, these are likely to rest with tenants rather than landlords and would need to be factored into the estimations. It may not be possible to do this until (the annual revision to the living wage calculations in) 2015. At that point data on average charges for households etc will be available.

The questions arising for the Irish living wage calculation considerations are:

1. Is it appropriate to assume that rental costs will absorb the property tax?
2. How will water charges, and any other usage linked utility charges, be incorporated into the calculations?

¹⁵ Price from the Health Insurance Authorities online comparison website accessed on 20/2/14.

¹⁶ The process operates similar to a refundable tax credit.

¹⁷ See notes related to table 4 later in the paper.

¹⁸ As Collins and Turnbull (2013) have shown, these indirect taxes can make up a large component of household expenditure for those in the lower portion of the income distribution.

Avoiding False Precision / Rounding Calculated Values

While the living wage should be calculated with as much accuracy as possible, it would seem ideal that its presentation would be a rounded number. Given the assumptions and estimates associated with the calculation, and the weighted averaging across household types, a figure such as €10.63 implies a precision which is not supported by the calculations.

In the UK estimates, the living wage values are rounded to the nearest 5 pence while the New Zealand study rounds to the nearest 10 cent (GLA Economics, 2012:7; Hirsch and Moore, 2011: 10; King and Waldergrave, 2012:4).¹⁹

The question arising for the Irish living wage calculation considerations is:

1. Should the calculated living wage figure be rounded and in what way?

(ii) Updating issues

Uprating Mechanism

In establishing an agreed process for calculating a living wage, account must also be taken of the need to establish a feasible and sustainable uprating mechanism. Although the wage could be updated every couple of years, like the Irish minimum wage, it makes more sense to update the figure annually drawing on updates to the MESL/MIS data and the availability of official statistics on other relevant indicators. The London and outside-London approaches update their living cost figures each year using available official data on price changes and incorporating any changes to the tax/benefit system.

The timing of such an increase is also of relevance and there is a certain attractiveness to the publication of an annual update in the final quarter of each year (after the annual Budget) so that it is available to facilitate any wage changes planned to coincide with the calendar year and the implementation of any new changes to taxes and benefits. However, this implies the calculated figure is based on a mixture of previous years costs and current years tax/benefits.

The questions arising for the Irish living wage calculation considerations are:

1. How often should the living wage calculations be updated?
2. What mechanisms should be used to update the various components of the living wage calculations (living costs, estimated rents, taxes and benefits)?
3. When should the update occur and when should it be published?

Updating the components of the MESL

A further issue relates to the consensual Budget Standards methodology. Over time what is deemed a need changes and ideally the baseline list of MESL items/services should be revisited every few years to update them and keep them relevant to current living standards. While there is considerable cost associated with any such updates, where available they should feed in to

¹⁹ Note the Reserve Bank of New Zealand withdrew 5cent coins from circulation in 2006. A process of 'Swedish Rounding' is used by most retailers to round expenditure costs up or down to the nearest 10cent. NZ\$0.10 is worth approximately €0.06 and STGE0.05.

any rebasing of the MESL baskets and estimated basic living standards. Precedent from the Household Budget Survey, aimed at tracking the typical composition of consumers basket of goods and services so that inflation can be accurately measured, suggest an update every five to six years would be ideal.

While the timing of the update may be outside the control of those involved in establishing and updating the living wage (the MESL is established in Ireland by the VPSJ), it would be useful at the outset to signal the ideal timing for any revisions.

The question arising for the Irish living wage calculation considerations is:

1. How often, ideally, should the MESL basket of goods be revisited and updated to reflect any changes in the basis living standard needs of households?

Limits on the Annual Living Wage Increase

While there are no caps placed on the increases to the living wage for London, there are two caps in place for the figure calculated outside London. The rationale for these caps is that employers should not be exposed to unexpected large increases in the living wage, and consequently employment costs, driven by large increases in basic living costs; whether through price increases or revisions to the set of items classified as needs. Similarly, employers should not be exposed to immediate large increases in the living wage to compensate for changes in the Government's tax/benefit system.²⁰

In practice, this means the method:

- (a) ties the increases in the living wage to the changes in gross average earnings: the increases in the living wage is limited to no more than 2% above the average increase in gross weekly earnings.
- (b) ties the increases in the living wage to the changes in net household income: the increase in the net income (after taxes and benefits) of each living wage household type is tied to the calculated increases in the net income of a similar household where each adult is on average earnings. The increase for each living wage household type's net income is limited to no more than 2% above the calculated corresponding net income increase for households where all adults are on average earnings.

The implication of such a limit, or any similar mechanism, is that given certain circumstances a gap can open up between the calculated 'reference' living wage and the 'applied' or implemented living wage. Therefore, over time the applied level can drift behind the reference level.²¹

The outside London experience over recent years has seen a gap open up between these two figures. In 2013 the reference living wage figure was calculated as £9.08 while the increase in the applied living wage was capped at 2.7% (2% + the reported 0.7% increase in average

²⁰ Hirsch explain this as follows: "If the income needed to sustain a minimum acceptable standard of living rises much faster than average earnings, there will be limits to how far it is acceptable for employers to increase wages for the lowest earners to meet their increased needs" (Hirsch, 2013).

²¹ Hirsch and Moore (2011:10-11) consider this issue and point towards the potential for the living wage to catch-up to its reference level over period of low average earnings increases.

earnings) giving a figure of £7.65. The applied figure is 16% below the reference figure and to some degree is beginning to undermine the credibility of the calculations and the concept.

The choice of adopting some form of limit on the annual increase in a living wage is an important one and boils down to a series of trade-offs between stability and acceptability for employers and income adequacy for living wage recipients.

The questions arising for the Irish living wage calculation considerations are:

1. Should there be a limit(s) imposed on the increase in the living wage?
2. If so, what form should these take?

(iii) Other issues

Taking Account of In-work Benefits/Means-tested Benefits/Secondary Benefits

In general calculation of a living wage takes into account the provision of various state taxation and social transfer supports for working households. While this has been the case, it should be noted that there has been much discussion and debate on this issue. For example, in their review of the living wage, Bennett and Lister (2010: 13) are critical of the implicit assumption of reliance on means-tested benefits and state supports which comes alongside the adoption of a living wage calculation method based on families of varying compositions. In particular, they imply, should adequate living wages not dissipate such requirements. In response, most methods of calculation have also established what the living wage would be with and without these benefits.²²

Overcompensation & Undercompensation

An implication of taking an individual, or group of household types, as the basis for calculating a living wage is that there will always be households below the threshold who are not adequately catered for and household above it who are overcompensated. This issue is not new. There was a debate in Britain following Rowntree's 1918 call for a decent wage (for a working husband, his wife and three children) that a wage rate determined on this basis undermined the ability of larger families to make ends-meet while providing for millions of 'phantom children' who did not exist in smaller families. It was argued, by Rathbone (1924, as outlined by Bennett and Lister, 2010:12) that it would be better for the state to provide for these children, irrespective of their number, outside wage structures via family allowances (what we know now as child benefit).

Irrespective of the approach taken, it should always be stressed that the living wage provides a benchmark for low wages; one which is more generous than minimum wage levels and normally more generous than wages in the low paid sector. It is determined in a technical way, aimed to establish what is likely to provide an adequate standard of living for low waged workers, and can never address and resolve all the multiples of needs and living cost

²² Implicitly, the difference in these figures also offers an insight into the effectiveness of state supports for low income households and low paying employers.

requirements low income households have. However, just because it is not perfect it does not imply that it should not be adopted.

Non-Pay Benefits from Employers

The implementation of the living wage for employees will throw up a number of issues regarding pay and non-pay benefits employees receive. A lower paid worker, at say 5% below the living wage, may in fact be better off than a worker 5% above the living wage given the provision of non-pay benefits. Ideally, where these arise, it should be signalled that they be counted as part of pay.

Living Wages and Public Services

Where the provision of public services is high, the living wage requirement of workers will be lower. Public services, whether free or subsidised, will offset some living costs and decrease the wage required to afford a basic living standard. Alternatively, where public services are limited, the living wage rate will be pushed higher as households require more income to compensate for the lack of these services.

Ireland's level of social provision has been low, relative to other European countries, for some time.²³ In recent years these services have been the focus of much of the austerity measures associated with the economic collapse and recovery; implying that the provision has decreased further. There are obvious consequences for households in areas of expenditure such as health insurance, health treatment, education provision, transport costs, accommodation provision and childcare costs among others.

In the context of relatively low levels of public services/social infrastructure, one can expect the Irish living wage to be higher than say that in Britain. However, an issue arises as to the appropriateness of wages being the compensating factor for these lower levels of services. If, say, the lack of adequate social housing provision is driving up the expenditure required to achieve a living wage by €30 a week, is it appropriate that employers indirectly carry that additional costs through a higher living wage? It may be unavoidable in the short-term, but in the medium term it implies relevance for both workers and employers to secure better public service provision.

Living Wages and Income Taxation

The relationship between living wages and the level of income taxation should also be noted. Where income taxes on lower income households are high, the living wage requirement of workers will be high. Alternatively, where income taxes are low on lower income households, living wage levels will be low.

In Ireland the income taxation rate on lower income households is low driven by the provision of tax credits, USC exemptions and thresholds and PRSI exemptions and thresholds. The

²³ See Social Justice Ireland's *Socio-Economic Reviews* (2005, 2006 and 2007) in the period prior to the economic crisis where they highlight the deficit in the provision of social expenditure relative to other European countries. The rapid increase in unemployment in 2008, and associated increase in social protection expenditure, skewed the figures and undermined the ability to adequately compare them.

progressivity of the tax system implies that as income rises, individuals and households pay more.²⁴

Low income taxes will therefore influence the calculation of any Irish living wage. It will be lower than would otherwise be the case if income taxes were higher on lower income households.

INITIAL ESTIMATES: DUBLIN AND OUTSIDE-DUBLIN

The issues highlighted in the last section point towards the challenges associated with estimating a living wage for Ireland. One potential approach to establishing a figure/methodology is to focus attention on just one household type and use its results as the benchmark.

Of the possible household types, the single adult household offers the greatest potential. It can be argued that at the very least, a living wage should be sufficient to provide a basic standard of living for a single adult who is engaged in full-time work. The approach, avoids a number of the problems and issues highlighted in the last section as there would be:

- one household type
- one full-time worker
- no children (of any age)
- no childcare costs
- living in private rented accommodation
- with basic private health insurance cover
- with limited/if any means-tested/secondary benefits

The estimates below examine such a household type and suggest it is a realistic basis for establishing a credible and updatable living wage figure. However, there are some disadvantages associated with such an approach. A single adult household will be representative of only a proportion (likely a small proportion) of all working household types. Furthermore, given the additional costs associated with children, education and transport for households with children, there is a potential that there will be greater levels of undercompensation from the living wage figure.²⁵ There are also challenges associated with collecting and updating the MESL data for this household type; they are harder to find and harder to bring together into a focus group.

The calculations below present a range of estimates for a single person household based first in Dublin and then subsequently for urban areas outside Dublin. The following assumptions and data sources have been adopted for the Dublin estimation:

- A single adult.
- Living in Dublin in a one bedroom rented flat (assumed Dublin 9).
- Working full-time in a PAYE position.

²⁴ See Collins (2013) who reviews the marginal and effective tax rates of individuals and households.

²⁵ Whether it is the role of wages alone to compensate for these additional living costs is a subject of debate.

- 37.5 hours are taken to be a full working week.
- 52.18 weeks are assumed to be in a year.
- The MESL values are from the VPSJ online calculator except for those covering transport, insurance and housing and are for the year 2013.
- Transport costs are estimated based on the gross cost of an annual Dublin Bus Travelwide ticket (€1,230). Individuals, depending on their employment circumstances, may be able to reduce this cost further by availing of tax relief through an employer purchasing this ticket. However, as this may be difficult to arrange for some workers, the gross figure is being used.
- Insurance comprises contents insurance and health insurance.
- The individual purchases contents insurance for €10,000 worth of items, with an excess of €250, battery fire alarm installed, cover for accidental damage to contents included, quote from FBD insurance and excludes online discount: price of €90.25 per year (€1.73 per week).²⁶
- The individual purchases private health insurance from the leading market provider the VHI. The plan priced is marginally above the basic plan available to single people and is entitled 'One plan starter day-to-day' priced at €632.50 per annum or €12.12 per week.²⁷
- Accommodation costs marginally differ between the two options set out in the table 4. The first column takes accommodation costs at 100% of the reported average rent for a one bedroom flat in Dublin (€606.87 a month in 2013). The second takes the accommodation cost at 90% of the average, adjusting it downwards in an attempt to capture the point on the rental distribution where single people may be.
- The tax calculations reflect the structure of the tax system in 2013 and assume no income tax expenditures are used.

The calculations estimate a Dublin living wage that varies between €10.90 and €11.45 per hour depending on the accommodation assumption used (see table 4).

²⁶ Priced on 21/2/14

²⁷ The health insurance plan selected has a price equivalent to 79% of the maximum price per adult that is available for tax relief (a retail price of €800 which has received 20% tax relief at source from an overall price of €1,000). The alternative cheaper plan, at €536.25 per annum is equivalent to 67% of the maximum tax relieved price. This may offer some insights into threshold selection as discussed in the previous section.

Table 4: Estimating a Living Wage – Dublin (two accommodation cost assumptions)

Expenditure category	Single adult <i>No children</i>	Single adult <i>No children</i>
Food	57.92	57.92
Clothing	10.95	10.95
Personal Care	13.91	13.91
Health	5.12	5.12
Household Goods	6.09	6.09
Household Services	3.46	3.46
Communications	9.51	9.51
Social Inclusion & Participation	38.66	38.66
Education	5.48	5.48
Transport	23.57	23.57
Household Energy	27.95	27.95
Personal Costs	6.42	6.42
Childcare	0.00	0.00
Insurance	13.85	13.85
Savings & Contingencies	10.01	10.01
Total (without housing)	232.90	232.90
Housing costs	139.56	125.61
Total MESL weekly (including housing)	372.46	358.51
Gross income required for this MESL		
Gross income per year	22,397.00	21,342.00
Post tax income per year	19,435.13	18,707.18
Weekly Gross income (a)	429.23	409.01
Weekly post-tax income	372.46	358.51
Weekly Child Benefit	0.00	0.00
Weekly Disposable income	372.46	358.51
Number of hours per week (b)	37.5	37.5
Hourly wage required (a/b)	11.45	10.91
Estimate of rounded Living Wage	11.45	10.90
Note: See expenditure category assumptions in the main text of the paper.		

Table 5 simulates a similar household type outside Dublin. For this estimate the following assumptions have been made:

- A single adult.
- Living in an urban area outside Dublin.
- Working full-time in a PAYE position.
- 37.5 hours are taken to be a full working week.
- 52.18 weeks are assumed to be in a year.
- The MESL values are the Dublin values from the VPSJ online calculator except for those covering transport, insurance and housing and are for the year 2013.
- The calculations assume that across urban areas in the country, the costs of all other items are the same as in Dublin.²⁸
- Transport costs are estimated based on the gross cost of an annual Cork city bus ticket (€814). This figure is less than the cost of the Cork city and suburban ticket (€1,012) but enough to cover annual bus transport costs in the four cities where these services exist (Cork, Galway, Limerick and Waterford). Individuals, depending on their employment

²⁸ While it can be argued that chain store food and clothing prices are the same, it may be the case that there are some differences in the costs of social inclusion and participation. However, for the purposes of these calculations these costs are also assumed to be the same as in Dublin.

circumstances, may be able to reduce this cost further by availing of tax relief through an employer purchasing this ticket. However, as this may be difficult to arrange for some workers, the average gross figure is being used.

- Insurance comprises contents insurance and health insurance. The same values are used as in the Dublin calculations.
- Accommodation costs are based on a one bedroom flat in Cork city. The first column takes accommodation costs at 100% of the reported average rent for a one bedroom flat (€479.63 a month in 2013). The second takes the accommodation cost at 90% of the average, adjusting it downwards in an attempt to capture the point on the rental distribution where single people may be. While there are data available for four cities (Cork, Galway, Limerick and Waterford), among many other areas in the CSO/PRTB database, using an average of these figures would provide a rental figure sufficient to only cover rent in two of the four cities. Using the Cork city figure ensures the calculations incorporate an amount that ensures accommodation is affordable for households on the living wage.
- The tax calculations reflect the structure of the tax system in 2013 and assume no income tax expenditures are used.

The calculations estimate an outside-Dublin living wage that varies between €9.60 and €10.00 per hour depending on the accommodation assumption used (see table 5).

It is useful to compare these estimates to other earnings benchmarks. Table 6 considers the difference between the estimated figures in tables 4 and 5 and the values for average hourly earnings (Q1-Q3 2013), the Eurostat low-pay threshold (2010) and the current value of the minimum wage. Taking the upper estimate for the Dublin Living Wage, the value is about one-third higher than the minimum wage and almost half the average hourly earnings level. Outside Dublin the upper estimate sits 16% above the minimum wage and 54% below average hourly earnings.²⁹

²⁹ Appendix 3 outlines the thresholds for living wages in a number of other locations.

Table 5: Estimating a Living Wage – Outside Dublin (two accommodation cost assumptions)

Expenditure category	Single adult <i>No children</i>	Single adult <i>No children</i>
Food	57.92	57.92
Clothing	10.95	10.95
Personal Care	13.91	13.91
Health	5.12	5.12
Household Goods	6.09	6.09
Household Services	3.46	3.46
Communications	9.51	9.51
Social Inclusion & Participation	38.66	38.66
Education	5.48	5.48
Transport	15.60	15.60
Household Energy	27.95	27.95
Personal Costs	6.42	6.42
Childcare	0.00	0.00
Insurance	13.85	13.85
Savings & Contingencies	10.01	10.01
Total (without housing)	224.93	224.93
Housing costs	110.30	99.27
Total MESL weekly (including housing)	335.23	324.20
Gross income required for this MESL		
Gross income per year	19,581.00	18,747.00
Post tax income per year	17,492.09	16,916.63
Weekly Gross income (a)	375.26	359.28
Weekly post-tax income	335.23	324.20
Weekly Child Benefit	0.00	0.00
Weekly Disposable income	335.23	324.20
Number of hours per week (b)	37.5	37.5
Hourly wage required (a/b)	10.01	9.58
Estimate of rounded Living Wage	10.00	9.60

Note: See expenditure category assumptions in the main text of the paper.

Table 6: Comparisons of Living Wage Estimates

	Upper LW estimate		Lower LW estimate	
	Value	% Difference	Value	% Difference
Dublin Living Wage	11.45		10.90	
Average hourly earnings	21.87	-48%	21.87	-50%
Eurostat Low-pay threshold (2010)	12.20	-6%	12.20	-11%
Minimum wage	8.65	+32%	8.65	+26%
Outside-Dublin Living Wage	10.00		9.60	
Average hourly earnings	21.87	-54%	21.87	-56%
Eurostat Low-pay threshold (2010)	12.20	-18%	12.20	-21%
Minimum wage	8.65	+16%	8.65	+11%

Notes: Average hourly earnings data is national data from CSO all NACE codes, Q1-Q3 2013. The Eurostat low pay threshold is from 2010 and is equivalent to two-thirds of the median gross hourly earnings figure for that year. The minimum wage was increased to €8.65 on July 1st 2011 and its value does not take account of inflation since then.

CONCLUSION

The considerations and initial estimates above offer a contribution to deliberations around the establishment of a living wage calculation methodology and figure for the Republic of Ireland. Over the course of the next few months, this research combined with contributions from the others should fuel a welcome discussion around establishing a transparent (yet technical) and sustainable way of estimating a living wage amount.

Considerations of adequate pay for low paid employees are essentially an element of pre-distribution rather than redistribution and offer another way, one which complements tax and welfare policies, to address living standards for those in the lower sections of the income distribution.³⁰ As Wills and Linneker (2012:7) put it, rather like collective bargaining and state-sponsored wages councils, living wage campaigns adjust “the way in which the market distributes its rewards, before government gets involved” (Coats et al, 2012:8).

However, it is important not to over interpret the potential of a living wage. It is not likely to be a panacea for low pay or in work poverty, these issue will remain, but it serves as a tool in addressing them.³¹ Indeed, given that a living wage leads to one figure for hourly wages in a region, its derivation based on assumptions and various household types guarantees that it alone may not deliver a decent living standard for some of its recipients; that will also depend on their broader household circumstances. Similarly, it is important not to exaggerate the impact of the concept on others above living wage employees as it will continue to be the case that many skilled and experienced workers will be paid well above these thresholds.

Once established and agreed, the implementation of a living wage offers significant potential to enhance the living standards of low income workers and their families. Not only does it offer direct benefits to low paid employees, and their employers (see above), but it also establishes a useful benchmark and a tool to remind employers, employees and trade unions of the costs of making ends meet. It also serves as a tool for tracking this over time given changes to living costs, labour market structures and the tax/benefit system.

³⁰ Appendix 4 presents data on the pre-distribution of income in Ireland.

³¹ The NZ Treasury review (2013:11) also speculates that it would have limited impact on poverty rates.

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APPENDIX 1: THE LONDON LIVING WAGE

The London living wage is calculated over a series of steps. These are undertaken, and published, by GLA Economics each year since 2005 and reflect the process established using Family Budget Unit (King's College London) living costs data when the concept was first proposed for London.³²

The process estimates a 'basic living costs' figure, an 'income distribution' figure and a living wage figure which is a combination of both. In summary the London method involves:

- The **basic living costs** figure is calculated as follows:
- Using as a base estimates of the costs of a 'low cost but acceptable' standard of living for four family types.
- These costs cover five sub-categories and are updated annually using direct data for London costs and Office of National Statistics price data:
 - housing
 - council tax
 - transport
 - childcare
 - all other costs (a 'regular shopping basket')
- Data is collected for these four family types with variations included for combinations of full-time and part-time work (total of 11 different combinations):
 - 2 adult 2 children aged 10 and 4
 - 1 adult 2 children aged 10 and 4
 - a couple without children
 - a single person without children
- An overall basic living cost figure is estimated with earnings at the national minimum wage, full availability of any benefit/tax credit entitlements, a 38.5 hour full working week and a 17 hour part-time working week.
- Dividing this by the total number of hours worked in the household provides an hourly wage level required to afford these basic living costs.
- The figure for each of the 11 different household combinations are weighted in accordance with their presence in the population. This gives a **weighted average wage required to meet basic living costs**.
- For example in 2013 this figure was £7.45 per hour.
- The **income distribution** figure is calculated as follows:
- Published data from the Department of Work and Pensions provides the value for the disposable income after housing costs poverty line (60% of median income) for the 11 household types.
- Starting with the national minimum wage, and working upwards, estimates are made of the number of the working household examined that would reach this threshold assuming all relevant benefits are claimed.
- Iteratively, the wage rate is established where 80% of the households considered reach the poverty thresholds. This figure provides the **income distribution figure**.

³² See for example GLA Economics, 2013: 9-20.

- For example in 2013 this figure was £7.90 per hour.
- The **London living wage** figure is then calculated over two steps:
- First the **weighted average poverty threshold hourly wage** is calculated as an average of the basic living costs figure and the income distribution figure.
- The **London living wage** is calculated as this figure plus 15% and rounded to the nearest five pence. The 15% reflects the inclusion of a secure margin such that the person receiving it will not fall to the level of poverty wages (GLA, 2005: iii).
- For example in 2013 these calculations were:
 - $(£7.45 + £7.90) / 2 = £7.67$
 - $£7.67 + 15\% = £8.82...$ rounded to £8.80

APPENDIX 2: BUDGET STANDARDS METHODS³³

The consensual budgets standards (CBS) methodology used in the Irish MESL research “aims to develop a standard which will be rooted in social consensus about goods and services that everyone ... should be able to afford” (Bradshaw et al, 2008). To establish such a consensus the research is dependent on the establishment of representative focus groups for each of the household types examined. In general three focus groups per household type were involved in the research process (see below).

The VPSJ, in its work over the past fifteen years, has developed a network of community groups across Ireland. Contacts from within these community organisations was used to provide a pool of potential focus group participants for each of the aforementioned studies since 2004.³⁴ Each focus group included 8-12 people from differing socio-economic backgrounds. Urban focus groups were based in various parts of Dublin while rural groups were based in villages which were similar in characteristics regarding their population, distance to the nearest major hospitals and their provision of public services (all lacked a secondary school, a major supermarket, a bank and a Garda station). The focus groups acted as their own budget standard committees where ‘the actual expenditure choices and judgements that are made by people in real life on the ground, as they manage their money contributes to the final consensus’ on what comprises a minimum essential living standard requirements (Middleton, 2000: 62-63). While focus group participants had freedom to determine the composition of the minimum expenditure basket of goods and services, their determinations were also assessed, where appropriate, by experts to ensure the basket contained a nutritionally balanced diet and adequate heating/fuel for their home.³⁵

Stages of the focus group research process

There were four phases to the focus group research process. These are briefly described below.³⁶

Stage 1: orientation phase

The initial phase introduced participants to the concept of a minimum essential standard of living (MESL) and explored the language, concepts and priorities that people use in thinking about spending and consumption. Time was also given to developing a shared understanding of minimum, and of the difference between needs and wants.

Stage 2: task groups

³³ This appendix summarised a more detailed outline of the methodology and research process presented in Collins et al (2012a). The author is grateful to Grainne Weld (VPSJ) for suggestion regarding the text in this appendix.

³⁴ The VPSJ began using the consensual budgets approach in 2005 to arrive at the cost of a MESL for six household types. Since then each new study expanded and updated the work of previous studies. In 2006 and 2010 the cost of a MESL was developed for 6 household types in urban and rural areas. The 2012 study expanded and updated the analysis to provide values for March 2011 for each of the household types listed in the previous section.

³⁵ Professional nutritionists and experts from the Sustainable Energy Authority of Ireland were consulted during the research process.

³⁶ For further detail on the stages of this research process see Collins et al (2012a: 34-40), Middleton (2000) and Bradshaw et al (2008: 6-12).

Participants in the focus groups had no difficulty in accepting the aforementioned UN *Universal Declaration of Human Rights* definition as a working description of a MESL. In order to avoid the possibility of basing decisions on the experience of particular individuals within the group, posters were displayed of each household type. The work in the task group phase of the focus group process was directed towards a 'case history family' - on what they required at a minimum level to achieve a MESL. The consensual budget approach focuses on a negotiated consensus and required the groups to discuss and agree on the needs of particular household types within each of 16 budget expenditure area (outlined below). The process considered each budget component in turn and categorised each item as essential, desirable or luxury. Together, the participants in each task group produce an agreed list of minimum needs. Finally the participants reviewed their lists in their entirety and examined whether they were any areas of the budget which they felt were too generous or too restrictive. Where appropriate revisions were agreed to provide a final consensually agreed basket of minimum good and services.

Stage 3: costing phase

The items agreed by the focus group are costed by the researchers to compile a minimum essential budget. In general up to two thousand individual items are priced. All good and services are prices at a particular point in time (usually over a two week period) so that the budgets can be subsequently updated in accordance with changes in inflation.

Stage 4: checkback phase

The fourth phase brings the costed budgets back to the focus groups and it involves the rechecking of items and costs in order to reach a final consensus. Where amendments have been made on the advice of experts these are introduced and explained. Before this can be done, the consensus is tested. Firstly, participants are asked whether they think the amount allocated to provide the agreed list of items, is too high or too low. Secondly, the group is asked how much they would be prepared to reduce the budget at the request of the Minister for Finance (Middleton, 2000: 63-64).

Budget categories

Both the 2004 and 2006 VPSJ studies developed a detailed set of expenditure budgets for sixteen separate areas of expenditure and spanning almost 2,000 goods and services. These budgets serve as the starting point for the stage two task group discussions on minimum requirements. It is important to note that the expenditure baskets are based on needs not wants. They include items and services the public think are necessary to have a minimum essential standard of living. Whilst the baskets drawn up are set at a minimum level, they include more than what is needed for survival and allow for social inclusion and participation in society. In the course of discussion, focus groups, in addition to the obvious need for food, clothing and housing, identified access to education and health services as essential needs. Opportunities for social participation were also recognised as integral to this standard. Reference was made to the consequences of not having sufficient resources to socialise such as family breakdown, anti-social behaviour of young people and depression, in particular among elderly people. Participants also insisted that a MESL should allow for the allocation of a sum of money to 'savings'. As one focus group participant stated: *"If you have nothing in the Post Office*

or in the Credit Union what's going to happen when something unexpected happens? You will be in trouble".

Table A1 details the sixteen areas of expenditure and provides an overview of the goods and services contained within each category of expenditure.

Table A1. MESL Expenditure Categories and Description

Food	Food for a nutritionally balanced diet
Clothing	Clothing and footwear for all seasons
Personal Care	Personal hygiene and grooming items
Health	Health related costs such as medications, GP costs, Optician, Dentist etc
Household Goods	Furniture, appliances, utensils and cleaning products etc
Household Services	Waste charges and maintenance services
Communications	Telephone, Postage and internet services
Social Inclusion and Participation	A minimum for participation and inclusion in society
Education	School uniforms, books, stationery and other education related costs
Transport	Weekly bus tickets or car transport and associated costs
Housing	The weekly cost of a household's rent
Household Fuel	Electricity and home heating fuel costs
Personal Costs	Charity donations, Trade Union membership etc
Childcare Costs	The cost of full or part-time childcare
Insurance	Home and where appropriate health and motor insurance costs
Savings and Contingencies	Rain-day savings and life assurance

Note: A more comprehensive description of these items is available in Collins et al (2012a:46-50).

Expenditure assumptions and weekly costs

As part of the research process a number of assumptions have been made for certain expenditure categories. These include:

Food: To ensure a balanced diet which met the nutritional requirements of different age groups, menus (from which the food budgets were derived) were constructed to reflect the Food Pyramid (Mac Mahon et al, 2006: 25). Menus were examined by nutritionists to

ensure their adequacy. In satisfying the requirements for protein, calorie consumption, iron and vitamin intake, the menus were also examined to ensure variety in diets.

Health: These budgets are based on the assumption that the household consists of healthy individuals who do not require special medication or diets. It is also assumed that none of the family members have a disability.

Tobacco and Alcohol: These expenditure items were not regarded as contributing to a healthy lifestyle. It was recognised that alcohol costs could be covered by the budget for social inclusion and participation

Housing: Because of the wide diversity of accommodation, housing costs for the most part are based on local authority differential rents. The shortage of social housing and the long waiting lists means that single adults are seldom accommodated in urban local authority housing and therefore the urban single adult of working age is located in a rented 'bed-sit'. However, as bed-sits and one bedroom local authority houses are rarely available in rural areas it is assumed that the single adult of working age living alone in a rural area is housed in a two-bedroom local authority house.

Transport: It is assumed that the urban household types in this research have reasonable access to public transport, and therefore a car is not a minimum requirement. However, the findings for the rural household types in this research specified at least one car as a minimum need. In rural areas with no access to public transport, at specific times related to work, a car was recognised as the only acceptable form of transport. The VPSJ rural study analysed the availability of public transport in rural areas and the findings confirmed the minimum need for private transport specified by the focus groups (Mac Mahon et al, 2010: 34). Therefore, two parent rural household types where at least one adult is in employment require two cars as a minimum, all of the other rural household types and scenarios require one car.³⁷

Household Fuel: To standardise the home heating requirements for the household types a baseline standard of dwelling was established. Households needs were calculated on the basis of a house built (or retro-fitted) to 2006 building regulation insulation standards. This baseline is used for calculating housing related costs, including home heating. The Sustainable Energy Authority of Ireland (SEAI) was consulted for calculating the necessary energy and expenditure, to maintain dwellings of this standard at an adequate heat.³⁸

Childcare: Childcare costs are calculated on the basis of a full-time employee being assumed to work 37.5 hours per week, and a part-time employee working 19 hours per week.

³⁷ For further analysis on this point see Mac Mahon et al (2010).

³⁸ For a full discussion of the household energy calculations see Mac Mahon et al (2010: 27, 37-39).

Finally, the expenditure tables present in this paper provide the weekly cost of goods and services. In actuality, some items in the budgets – such as clothes, household goods and education – are bought outright and not paid for on a weekly basis. However, for the purposes of this study, the costs for such items are spread so that the budgets include their weekly costs. To do this, the whole cost is divided by the number of weeks an item it is expected to last.³⁹

³⁹ For example an electric cooker that costs €299.99 and has a lifespan of 10 years (520 weeks) costs €0.58 per week.

APPENDIX 3: SELECTED LIVING WAGE VALUES AND THEIR € EQUIVALENT

Location	Date	Source	Value local	Value €*
London	2013	GLA Economics, 2013	Stg£8.80	€10.68
Outside London	2013	CSPR, 2013	Stg£7.65 capped**	€9.28
Outside London	2013	CSPR, 2013	Stg£9.08 not capped**	€11.02
New Zealand	2014	King and Waldergrave, 2014	NZ\$18.80	€11.40
Metro Vancouver, Canada	2013	CCPA, Vancouver	C\$19.62	€12.89
San Diego, USA	2013/14	City of San Diego Living Wage Program, 2013	US\$13.99	€10.18

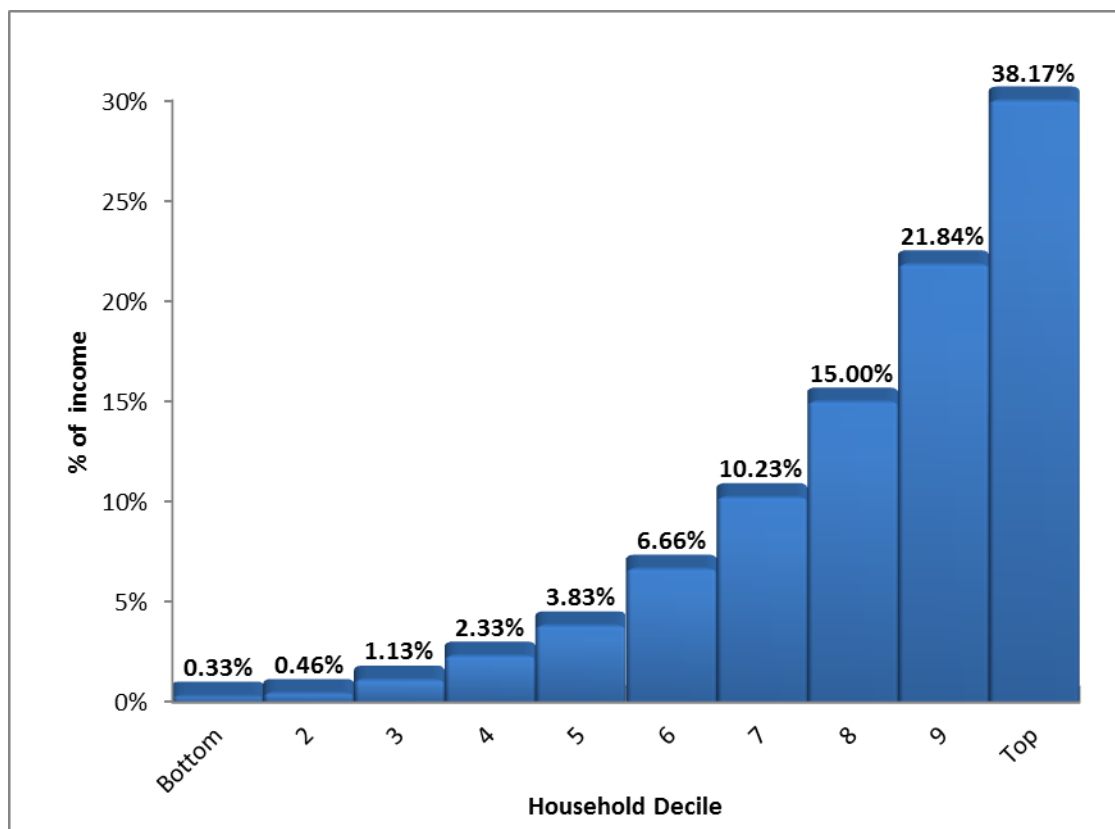
Notes: *exchange rates calculated at interbank rate on 26/2/14.
 ** see text in paper (Collins 2014a) for an explanation of the capped and not-capped outside London figures
 There are multiple living wage ordinances throughout the US. For illustrative purposes, one has been chosen for the table above.

APPENDIX 4: IRELAND'S DIRECT INCOME DISTRIBUTION

Collins (2013b) outlined the latest household income distribution data for Ireland, based on SILC 2011. That analysis included calculations of the direct income distribution; i.e. the distribution of income from market sources (earnings and investments). In effect this represents the starting point in the redistributive process, the 'pre-distribution'. Subsequently, public policies on income taxation and social transfers alter the distribution.

As the living wage is concerned with altering the pre-distribution allocation of income, the chart below outlines what this looks like using the most recent Irish data.

Chart A4. Ireland's Household Direct Income Distribution, 2011 %



Source: Collins (2013b:2)