



Living Wage Aotearoa New Zealand 2014 Update

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Executive Summary

This Report sets out the definition, logic and calculations of the New Zealand living wage recalculated for 2014.

The introduction quotes the Living Wage Aotearoa New Zealand definition and explains key aspects of it, particularly some of those that have been the subject of controversy over the past year since the first living wage figure was introduced. The rationale highlights the issue of the living wage being distinguished from a poverty line or a statutory minimum wage that focuses simply on basic necessities, and emphasises the aspect of the definition that refers to being able to live with dignity and participate in society, albeit modestly.

Explanation is also extended to the fact that a living wage is a market mechanism not a welfare transfer. It lifts the income of low paid workers, but as with all wage agreements, people are paid for the job they carry out regardless of their family circumstances. Targeted welfare transfers are quite different as they aim to reduce poverty inside and beyond the labour market and take into account family size, medical costs and the like.

The living wage is not mandatory but aspirational. It calls on business ethics and the reasonable expectation that employment will enable families to meet their basic needs and be able to participate minimally in society.

The logic behind the exemplar household of 2 adults and 2 children on 1.5 incomes is explained and demonstrated to be in line with the way the living wage is calculated in other jurisdictions.

The data for the Consumer Price Index movements for expenditure categories is presented. Although the movement was very small (less than a dollar in all categories), 8 categories showed minimal increases and 5 show minimal decreases since the previous calculation late in 2012.

The Ministry of Business, Innovation and Employment Tenancy Bond database showed an increase of \$5 at the upper limit of the lower quartile in the national average for renting a 3 bedroom house in New Zealand.

The University of Otago Department of Human Nutrition Food Cost Survey showed an increase of \$6 for basic level food costs for a family of 2 adults and 2 children (averaged across the ages of different children).

Childcare subsidies increased very slightly by between one and two cents per hour.

The minimum Kiwi Saver rate has increased from two percent to three percent, and this is reflected in the revised calculation spreadsheet.

The 2013 HES data is probably skewed towards the higher deciles in the one to five range due to data suppression in deciles one and two. It is possible that the higher expenditure is a result of that skew. This data was considered less reliable as an expenditure measure than the inflation adjustments to the HES items, not including food and housing costs.

Statistics New Zealand Quarterly Employment Survey (QES) reported a 2.1 percent increase in wage movement for the year to June 2013.

The rate of \$18.80 is chosen as the 2014 recalculated living wage, because the living wage is a wage in the market, and it was decided the updates should relate primarily to movements in wages rather than the CPI or the higher household costs as measured by HES. The movement in the average ordinary time hourly rate, as provided by the QES, was 2.1 percent leading to an estimate of \$18.79 which was rounded up to \$18.80.

It is lower than the two cost inflation based estimates and the expenditure estimate included in this report.

It sits at 73.68 percent of median household income and is closer to the poverty threshold of 60 percent of median than the median itself. It also sits at 62.42 percent of mean household income. The update method developed in this Report will undergo a full review, including the underlying methodology, after it has been operational for a number of years, probably 5 years.

Living wage update 2014

As was noted last year in the first Living Wage Report (King and Waldegrave 2012), the campaign to promote a Living Wage for workers in New Zealand has been carried out on a number of fronts covering the fields of political advocacy and action, public education, and income research. This report updates the living wage set last year in relation to average New Zealand wage rate increases. The method has been prepared by the Family Centre Social Policy Research Unit (FCSPRU) who carried out the income and expenditure research to provide an empirical basis for determining the level of a living wage for New Zealand in 2013.

The update has been carried out for Living Wage Aotearoa New Zealand by the same authors Peter King (Senior Research Associate with FCSPRU and Principal Researcher with Parallax Research) and Charles Waldegrave (FCSPRU).

This Update Report assumes the reader is familiar with the original “Report of an Investigation into Defining the living Wage for New Zealand”.¹ Because this 2014 Report is simply an update rather than a recalculation of the living wage, it does not provide a full explanation of the methodology used for last year’s original base line setting. A full description of the rationale and method for setting the original level is contained in the original Report (ibid).

Participating in society

The definition applied in this research is that put forward by Living Wage Aotearoa New Zealand (2013):

A living wage is the income necessary to provide workers and their families with the basic necessities of life. A living wage will enable workers to live with dignity and to participate as active citizens in society.

Some misunderstanding has developed about the notion of a living wage as the New Zealand public has engaged with it more over the last year. While most people are familiar with perspective in the definition that basically refers to families living modestly but comfortably, there are others who reduce it to having only the basic necessities. This latter view tends towards a notion of the deserving poor who may qualify for basic necessities, but not *live with dignity and participate as active citizens in society*. Unfortunately the New Zealand Treasury (Galt and Palmer 2013) and others (Scott 2013, Young 2014) fell into this trap.

Basic necessities are what ‘poverty lines’ and ‘minimum wages’ are about. A living wage, on the other hand, refers to having those necessities, but also other things required to enable modest participation in society. Examples in the Report last year included being able to afford a computer, especially for children in a household, paying for children to enjoy a school trip and being able to mix with friends recreationally, albeit modestly. Other examples include being able to afford a modest insurance policy and even a trip to family in Australia or Samoa for an important occasion where savings have been put aside or extended family contribute.

It is the ability to participate socially and even consider the future with modest savings and/or a small insurance policy that distinguishes a living wage from a minimum wage or a poverty threshold.

¹ <http://www.livingwagez.org.nz/files/embargo%20file/Living%20Wage%20Investigation%20Report.pdf>.

A living wage is a market wage

Another misunderstanding, also perpetuated in the Treasury critique (ibid), is the view that the living wage should function like a targeted welfare payment and only help the poorest people in society. This misses the whole purpose of a living wage. It is a wage in the market place. Although it has an important role in addressing growing inequalities, it is not a welfare transfer. People live in households, but are paid in the market as individuals regardless of their household obligations.

A living wage is an individual market wage. If it is paid at a level to support a household of 2 adult + 2 children on 1.5 incomes as it is in New Zealand and most other countries where it is applied, then it will be more generous to a household of 2 adults without children and more stringent for a family with 3 or more children. It will be more generous to a family without a disabled child than to a family with one. The market pays a wage for workers to do particular jobs regardless of their family size, medical needs or other financial obligations.

This is in contrast to a targeted welfare transfer. Targeted welfare transfers such as the domestic purposes benefit, the unemployment benefit and child tax credits are paid differently according to family size, particular needs and housing costs. The living wage is different. It is a market wage paid by employers, a market mechanism that is directed to lift the incomes of low paid workers and it certainly achieves that.

The living wage is not mandatory

A living wage attempts to address wellbeing in our community and, in particular, the problem of employees at the lower income end becoming increasingly socially excluded. Often they struggle to afford even basic necessities, let alone live with dignity and participate as active citizens in society, despite the fact they are working full time.

The Ministry of Social Development in its latest report on Household Incomes in New Zealand, for example, states that *“on average from 2007 to 2012, around two in five (40%) poor children still came from working families”* (Perry 2013).

Certain commentators, again The Treasury and Scott (ibid), present alarming figures of costs to the country if the mandatory minimum wage was lifted to the level of the living wage. The network of organisations promoting the living wage in New Zealand, have been very clear that the living wage is quite separate from the statutory compulsory minimum wage. It is not suggested that the minimum wage be lifted to the level of the living wage. They are quite separate entities and have different functions.

The living wage is not compulsory, nor is the living wage movement anywhere in the world seeking to make it compulsory. It carries moral force and tests business ethics. Boris Johnson, the Conservative Mayor of London whose Council pays the living wage, says that *“by building motivated, dedicated work forces the Living Wage helps businesses to boost the bottom line and ensures that hard working people who contribute to London’s success can enjoy a decent standard of living”* (Johnson 2012)

The living wage enables an employer to know that what s/he pays a worker is sufficient for them to live modestly and participate in society. It has proved very attractive to many employers and studies show it pays off in terms of morale and productivity

An empirical basis for a living wage

The first Report last year developed an empirical basis for calculating a living wage required to meet the definition outlined above. This year the same databases have been used to update it. They are the most reliable database sources we have in New Zealand. Information about household expenditure is taken from the Statistics New Zealand Household Economic Survey, the annual Food Cost Survey carried out by the University of Otago Department of Human Nutrition and rent levels from the Rent Bond database published by the Ministry of Business Innovation and Employment.

The effects of income tax, tax credits, childcare support and the accommodation supplement then need to be calculated in a transparent manner, because it is disposable, not gross income that we need to assess the living wage. These calculations and their results are contained in spreadsheets showing the correspondence between gross income and disposable income for a range of values. The procedures used to carry out these calculations are detailed in Section 2 and Appendix 1 to the original Report.

Household of 2 adults and 2 children

Of the three other main countries that have adopted living wage practices, two of them have chosen a 2 adult and 2 child family as their base unit for calculating a living wage. Those two are Canada (Richards et. al.) and the US. The US is a little complicated in that the rules vary from State to State and city to city but generally they apply the 2A+2C formula (Maloney and Gilbertson 2013).

The UK is the only jurisdiction that uses weighted averages for different family types, including single people through to couples with children (GLA 2013). The weighted averages of single families, families without children and families with children skew the living wage in the UK towards a household with less than 2 adults and less than 2 children. It has not been adopted elsewhere in the world probably for that reason.

It is important to bear in mind that even though a single young person generally has lower costs than a family of four, a living wage enables young people to save, pay for further education or eventually place a deposit on a house. That will allow them to support a family with much less stress than many young people currently do with high debt levels and serious problems affording housing. The Living Wage can therefore be seen as relevant across the life cycle people experience rather than attached to a particular period in people's lives.

The household composition of 2 adults and 2 children chosen in the original Report is pretty much in line with other jurisdictions for good reasons. If a living wage is to enable workers to live with dignity and to participate as active citizens in society, it must be sufficient for families with children. In other words, the adult earners in the household between them need sufficient income to be able to at least participate modestly in society with their children. If two incomes, one being fulltime, can't afford that, then it is less than a living wage. 2 adults and 2 children were chosen as the household composition for these reasons and also because it is a common NZ family size. Furthermore it is the minimum average sized family required to ensure population replacement.

1.5 incomes

The original Report chose two incomes because the Statistics New Zealand Household Labour Force Survey (HLFS) results for June 2012 show that in 68.5 percent of households with two adults and two dependent children, both adults were income earners. It chose 1.5 incomes to allow one parent to be home with their children for half a working week however that may be divided.

The hours worked to calculate a living wage does vary from jurisdiction to jurisdiction. The Canadians chose 70 hours, 35 hours each for both parents, whereas the US formulas tend to use the income of one parent in fulltime employment. The UK uses 1.44 incomes, not that different from the New Zealand setting at 1.5. In the UK though, full time work is officially 38.5 hours and so they calculate 55.5 hours (38.5 + 17 hours).

The average of the four jurisdictions (USA 40 hours, UK 55.5 hours, New Zealand 60 hours and Canada 70 hours) is 56.38, not that far from the 60 hours chosen in the original Report. The parameters are judgements as to what is considered reasonable in order to for a family in New Zealand to *live with dignity and to participate as active citizens in society*.

The Report

This report sets out the brief method adopted for updating the living wage for 2014.

Method

As this is an update, rather than a full review which would necessarily include an evaluation of the underlying method, it takes the original assumptions and simply chooses an updating formula. The household composition of 2 Adults and 2 children remains the same and household income is derived from 1.5 earners. The original expenditure estimates are updated with reference to cost and expenditure movements during the period since the living wage rate was set at \$18.40 per hour in February 2013.

Tax rates, Working for Families and Accommodation Supplement eligibility remain unchanged since the original report. Childcare subsidies have increased very slightly by between one and two cents per hour and have been taken into account. The minimum Kiwi Saver rate has increased from two percent to three percent, and this is reflected in the revised calculation spreadsheet.

Four indicators of cost movement, one indicator of expenditure movement and one indicator of wage movement have been used as background data to provide a sound basis to develop a formula for this update:

The indicators of cost movement are:

1. Consumer Price Index (CPI) movements.
2. Department of Building and Housing Market Rents Tenancy Bond Database.
3. University of Otago Department of Human Nutrition Estimated Food Cost Report.
4. Information about childcare costs available from childcare service providers.

The indicator of expenditure movement is a special data run comprising the expenditure category estimates from families of 2 adults and 2 children in deciles 1-5 from the 2013 Household Economic Survey.

The indicator of wage movement is the average ordinary time hourly rate for the year to June 2013 as reported in Statistics New Zealand Quarterly Employment Survey (QES)². The QES measures the average hourly wage paid across all jobs.

These sources have been used to produce a table that compares three possible approaches to developing an update formula for the 2014 living wage. These are to base the update on cost movement, household expenditure or wage movement.

The results set out in table 1 compare cost, expenditure and wage movements.

The update options are compared with the median disposable income for household with two adults and two children for 2012 as reported by the Ministry of Social Development in 2013³.

The data was then analysed as a whole in order to assess where to reliably set the living wage for 2014.

² http://www.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/QuarterlyEmploymentSurvey_HOTDec13qtr.aspx

³ <http://www.msdc.govt.nz/about-msdc-and-our-work/publications-resources/monitoring/household-incomes/>

Results

As indicated above, this update is based on data and information from six sources covering inflation, food costs, rent, childcare costs, household expenditure and wage movement. Living Wage Aotearoa New Zealand considered the update should be based on the same period as the original Report, i.e. June to June. So, this update covers the year June 2012 to June 2013.

Consumer Price Index

Price movements between June 2012 and June 2013 have been calculated using the Statistics New Zealand June 2013 Consumer Price Index.⁴ The estimate in the original Living wage report was based on CPI movement in the year to June 2012.

There were small increases and decreases due to inflation over the period. They result in a weekly increase of six dollars in disposable income as shown in table 1. Overall there was an inflationary increase of 3.4 percent. All household budget groups increased or decreased by between \$0.20 and \$5.20 over the year. Eight expenditure groups including food, other expenditure, housing, energy and health, education, miscellaneous goods and services, and childcare increased by between 20 cents and \$4 per week, and five other expenditure categories like clothing and footwear, household contents and services, transport, recreation and culture, and communications decreased by between \$1.50 and \$5.20 over the same period.

Food costs

The food cost estimates for 2013 produced by the Otago University Department of Human Nutrition⁵. They estimate food costs based on the New Zealand Food and Nutrition guidelines that will meet the nutritional needs of most healthy people. They set the costs for different family types and age groups in 3 differing categories: Basic; Moderate; and Liberal.

The **Basic** category is the lowest cost one and the one used for the living wage category. It assumes that all foods will be prepared at home. It includes the most commonly consumed fruits and vegetables and the lowest priced items within each food category.

As in the original Report, the figure used in the update is the mean of the different combinations of the national averages (combinations of children of varying ages) of two adult and two child households. Table 1 column 4 shows the figure of \$232 for the basic weekly shop, an increase from the \$226 used in the original report. Further details of the estimates are available in the original Living Wage report.⁶

Rent

Movement in house rentals are recorded nationally in the Tenancy Bond rent database 01 July to 31 December⁷ 2013 by the Ministry for Business, Innovation and Employment.⁸ As in the original report⁹, this update uses the national average of the upper limit of the lower quartile figures for

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http://www.stats.govt.nz/browse_for_stats/economic_indicators/CPI_inflation/ConsumersPriceIndex_HOTPJun13qtr.a_spx

⁵ http://nutrition.otago.ac.nz/_data/assets/file/0018/6372/Informationpackage2013.pdf

⁶ <http://www.livingwagenz.org.nz/files/embargo%20file/Living%20Wage%20Investigation%20Report.pdf>

⁷ Figures for the period ending 30 June 2013 are no longer publicly available, so the period to December figure has been used.

⁸ [http://www.dbh.govt.nz/Utilities/marketrent/market-](http://www.dbh.govt.nz/Utilities/marketrent/market-rent.aspx?CategoryId=258&SubCatId=6&SubCat1Id=63&SubCat2Id=71&SubCat3Id=72&ArticleId=53&Version=1.2)

<rent.aspx?CategoryId=258&SubCatId=6&SubCat1Id=63&SubCat2Id=71&SubCat3Id=72&ArticleId=53&Version=1.2>

⁹ <http://www.livingwagenz.org.nz/files/embargo%20file/Living%20Wage%20Investigation%20Report.pdf>

three bedroom houses. As set out in table 1 column 4, this shows a small increase to \$280 from the original figure of \$275.

Childcare

Information available on childcare centre and other related websites indicate hourly fees ranging from about four dollars to ten dollars¹⁰, and five dollars to eight dollars for home based care.¹¹ The figure of seven dollars per hour used in the original living wage estimate is in the middle of these ranges and there seems no reason to change it for this update. It has, however, been inflation adjusted in Table 1. The current childcare subsidy rates differ from the 2012 rates by only one to two cents per hour.¹²

Household Economic Survey 2013

A table of Household Economic Survey data from 2013 was purchased from Statistics New Zealand that cross-tabulated household type and income decile by expenditure item. The original Living Wage Report used an average of spending across deciles one to five, and this is repeated in the update. Using the same methodology, table 1 column 5 shows the average for decile one to five expenditure by expenditure group with the exception of food and housing costs.

The 2013 HES data showed a greater degree of suppression for deciles 1 and 2 than the 2010 HES data which was applied in the original Living Wage Report¹³. The effect of this suppression of lower decile data may have skewed the average expenditure levels towards that of the higher deciles. This could explain the higher itemised costs set out in column 5.

Quarterly Employment Survey

Wage movement is reported by Statistics New Zealand in the Quarterly Employment Survey.¹⁴ This update has used the 2.1 percent increase to the average ordinary time hourly rate reported for the year to June 2013, this being the period covered by the update. As noted earlier, the QES measures the average hourly wage bill across all jobs.

An indicator of wage movement is important in this analysis, because although the living wage was constructed on the basis of modest expenditure items, it is now a wage mechanism within the market. As such, it can be argued that updates, as opposed to recalculations and reviews, should reflect wage movements rather than movement in expenditure.

Comparing inflation, expenditure and wage movement estimates

Table 1 presents four possible update options, two are inflation based, one is expenditure based and the fourth is based on wage movement.

¹⁰ For example, see: <http://www.kiwikidsece.co.nz/infos.html>; <http://www.shinemontessori.org.nz/waiwhetu-montessori-fees-information/>

¹¹ For example, see: <http://www.huggies.co.nz/parenting/family-budgeting/cost-of-baby/child-care-costs/>

¹² [e.govt.nz/manuals-and-procedures/deskfile/extra_help_information/childcare_assistance_tables/childcare_subsidy_income_limits_and_rates.htm](http://www.e.govt.nz/manuals-and-procedures/deskfile/extra_help_information/childcare_assistance_tables/childcare_subsidy_income_limits_and_rates.htm)

¹³ See Table 6: p. 22

<http://www.livingwage.org.nz/files/embargo%20file/Living%20Wage%20Investigation%20Report.pdf>

¹⁴ http://www.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/QuarterlyEmploymentSurvey_HOTPD13qtr.aspx

Table 1 Living Wage update options

Expenditure categories from HES plus childcare	Inflation based results				HES 2013 expenditure based result	Wage movement based result
	Original cost estimates	CPI ¹⁵	Inflation adjusted to June 2013	Inflation adjusted but with alternative food and rent	With alternative food, rent and Other expenditure, plus childcare	Average ordinary time hourly rate increase of 2.1%
01 Food	226	0.2	226.45	232.00	232.00	Not applicable
03 Clothing and footwear	18	-1.8	17.68	17.68	27.07	
04.1 Actual rentals for housing	275	2.1	280.78	280.00	280.00	
04.5 Household energy	46	3.0	47.38	47.38	49.73	
05 Household contents and services	33	-2.0	32.34	32.34	42.40	
06 Health	14	4.0	14.56	14.56	16.90	
07 Transport	121	-2.1	118.46	118.46	159.30	
08 Communication	29	-5.2	27.49	27.49	34.03	
09 Recreation and culture + Alcohol	78	-1.5	76.83	76.83	96.34	
10 Education	37	3.8	38.41	38.41	13.85	
11 Miscellaneous goods and services	64	2.7	65.73	65.73	101.70 ¹⁶	
13 Other expenditure	66 ¹⁷	0.7	66.46	66.46	67.06	
Childcare	31	2.5	31.78	31.78	54.80 ¹⁸	
Weekly net, disposable income required	1038		1,044.34	1049.11	1,175.18	1,039
Annual net, disposable income required	53,976		54,305.35	54,553.72	61,109.36	54,010
Annual gross income from 1.5 incomes	57,432		59,395	59,714	71,416	58,614
Average hourly rate increase						2.1%
Hourly rate per income	\$18.41		\$19.04	\$19.14	\$22.89	\$18.79
% increase over original rate			3.4%	4.0%	24.4%	2.1%
% of median disposable income ¹⁹	76.78%		74.09%	74.42%	83.37%	73.68%
% of mean disposable income ²⁰	63.78%		62.76%	63.05%	70.63%	62.42%

¹⁵ CPI increases for the year to June 2013.

http://www.stats.govt.nz/browse_for_stats/economic_indicators/CPI_inflation/ConsumersPriceIndex_HOTPJun13qtr_a_spx

¹⁶ The average across all ten deciles is used here because the deciles 1 to 5 average seems relatively high.

¹⁷ As noted in the original report, this figure is reduced from the original HES figure of \$96 which was mostly comprised of mortgage interest and does not apply to renting households. The original \$66 was comprised of an estimate for exceptional emergencies and for non-mortgage interest payments and other saving in addition to KiwiSaver. This figure has been retained in the update in a CPI adjusted form.

¹⁸ The childcare cost has increased because the required gross income reduces the allowable subsidy from \$3.93 to \$1.52 per hour.

¹⁹ The updated percentages are based on the median disposable household income for 2 adult 2 child households of \$73,300 reported for 2012 by MSD in the 2013 report on Household Incomes: <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/>

The percentage associated with the original estimate is as reported in the original report and based on the \$70,300 reported for 2011 in the 2012 MSD report.

²⁰ The updated percentages are based on the mean disposable household income for 2 adult 2 child households of \$86,525 reported for 2012 by MSD in the 2013 report on Household Incomes: <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/>

The percentage associated with the original estimate is as reported in the original report and based on the \$84,630 calculated from the one adult mean reported for 2011 in Table B1 of the 2012 MSD report.

The inflation based options are shown in columns 4 and 5. Column 4 simply applies an inflation adjustment to each HES expenditure category using the CPI figures shown in column 3, whereas column 5 applies the Food Survey and the Tenancy Bond rent database figures referred to in the previous section along with the other inflated expenditure categories.

Column 6 applies the expenditure data from the HES deciles 1-5 for 2013, with the exceptions of the food and housing categories, which are taken from the Food Survey and the Tenancy Bond rent database figures. The Annual gross and hourly rates are calculated from the weekly net/disposable income amounts using the same procedures as were used and documented in the original Living Wage report.

Column 7 shows the wage movement effect based on movement in the average hourly wage rate for the year to June 2013. Any apparent small discrepancies in the results presented in the table are due to rounding.

The fifth to last row of Table 1 shows the percentage increase in the average hourly wage. The fourth to last row shows the hourly wage rates associated with each level of annual gross income from 1.5 incomes. The third to last row shows the percentage increase of each updated rate over the original rate of \$18.40 (rounded down from 18.41 in the table). The second to last row shows the value of the disposable household income represented by each living wage rate as a percentage of the national median disposable household income for households with two adults and two children as reported by the Ministry of Social Development for 2012.²¹ The last row shows the value of the disposable household income represented by each living wage rate as a percentage of the national mean (average) disposable household income for households with two adults and two children as reported by the Ministry of Social Development for 2012.²²

Inflation based results

The Food Survey and the Tenancy Bond rent database results in column 5 are very close to the straight inflation adjustment for those expenditure categories set out in column 4. The differences are only \$5.55 and \$0.78 per week, respectively. These along with the other expenditure categories which repeat in both columns, result in updated hourly wage rates of \$19.04 and \$19.14, respectively, with corresponding percentage increases of 3.4 and 4.0. The closeness of these results is unsurprising given the small difference between the food and rent figures in each option.

Expenditure based result

The expenditure based option (shown in column 5) uses the 2013 HES estimates supplemented by the separately updated rent, food and childcare costs, and Other expenditure. This results in an hourly wage of \$22.89 and a corresponding percentage increase of 24.3.

The childcare cost has increased due to reduced subsidy eligibility, as noted earlier.

The large figures in the Miscellaneous Goods and Services and Other expenditure categories are probably explained by the fact that Miscellaneous Goods and Service figure was averaged across all ten deciles as noted earlier. The Other category presents the figure before \$30 is removed for mortgage interest because rental housing estimates are used for housing costs (see footnote associated with this item in table 1). This category is an important one. In the poverty research we

²¹ See Table B.2: <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/>

²² See Footnote 20

have carried out from the Family Centre Social Policy Research Unit, we spent 15 years running budget setting focus groups with low income families throughout New Zealand. Almost without exception they put aside a certain amount each week for exceptional circumstances because most low income families have nothing else to fall back on if there is an unexpected event like a funeral or tangihanga, medical costs beyond the \$14 budgeted, a need to travel to, or support an ageing family member and the like. These are costs that most low income families consider as necessities. Whether or not that is agreed, they are certainly costs of participating in society.

As noted earlier, the 2013 HES data are probably skewed towards the higher deciles in the one to five range for 2 adult + 2 child households due to data suppression in deciles one and two. It is possible that the higher expenditure, and hence higher hourly rate, is a result of that skew. If the lower decile data available from HES were more reliable it is possible that the expenditure based update *might* produce a result closer to those produced by the inflation based updates.

Wage movements

Wage movement reported by Statistics New Zealand for the year to June 2013, using the QES, showed an increase of 2.1 percent in the average ordinary time hourly rate.²³ This is lower than both the fully inflation adjusted estimate shown in column 4 of Table 1 and the mixed estimate shown in column 5. This would take the living wage rate to \$18.79 per hour. The figure of \$18.79 represents a disposable household income of \$54,010 and a gross income of \$58,614. The disposable income is 73.68 percent of the national median disposable income for households with two adults and two children and 62.42 percent of the mean.²⁴

Comparison with the median and mean disposable household income

As shown in the bottom two rows of table 1, the two inflation based updates of 3.4 and 4.0 percent respectively, represent lower percentages of the national median and mean disposable household incomes than was the case for the original estimate of \$18.40 (76.78 and 63.78 percent respectively). However, the expenditure based update of 24.4 percent is much higher. The wage movement based figure of 2.1 percent (\$18.79) presents even lower national median and mean percentage figures, as noted above.

²³ http://www.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/QuarterlyEmploymentSurvey_HOTPDdec13qtr.aspx

²⁴ <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/>

Conclusion

The results show that a measured response to the recalculation of the living wage for 2014 that is consistent with the original calculation, involves a mix of database movement over the course of the previous year where it is reliable, inflation adjusted increases/decreases for the remaining expenditure categories and a wage movement comparison. The most reliable databases for household cost categories are the University of Otago Department of Human Nutrition Estimated Food Cost Survey and the Ministry of Business, Innovation and Employment Housing Market Rents Tenancy Bond Database.

Column 4 in table 1 sets out the inflation adjusted figures without the alternative food and housing expenditure categories. The disposable sum for the weekly budget of a 2 adult + 2 child family was estimated, then the gross sum for 1.5 incomes was worked out. From that an hourly rate of \$19.04 was calculated. It rose to \$19.14 when the alternative food and rent costs were substituted (see column 5).

The expenditure-based update of \$22.89 using the HES 2013 data for the first five deciles in column 6 of table 1 is unreliable due to the data limitations noted already.

The wage movement update in column 7 was considerably lower than the expenditure approach and also lower than the two cost inflation based estimates by between \$0.24 and \$1.09.

Having taken into account the definition and explanation of a living wage and the figures set out in table 1, it was decided that as the living wage has now been operational for a year, it is a wage in the labour market. Although it was constructed on the basis of modest expenditure items, it is now a market wage mechanism.

The review of costs and expenditure in this Report show increases that are higher than wage movements. However, because the living wage functions like any other wage agreement once it has been introduced, it is considered that updates, as opposed to full reviews, should relate primarily to wage movements. For this reason, the update of the living wage for 2014 is set at the rate of the annual increase in the average ordinary time hourly rate

The rate of \$18.80 is therefore recommended, which involves a 2.1 percent increase of the 2013 rate of \$18.40.

Sitting at 73.7 percent of median household income, it is closer to the poverty threshold of 60 percent of median than the median itself. A living wage would be expected to provide a household income considerably above the poverty threshold and at the same time well below the New Zealand household median income. It also sits at 62.4 percent of mean household income.

As noted in the previous Report, the use of national average data to set the living wage will underestimate costs in expensive housing regions like Auckland. Regional differences like this are difficult to resolve through a wage mechanism.

They highlight the issue though, that the calculation of a living wage is strongly affected by existing tax rates and income support entitlements such as Working for Families tax credits, Childcare support and in this example, the Accommodation Supplement. If any of these changes, the necessary hourly rate would change as well – either up or down.

The update method developed here will undergo a full review, including the underlying methodology, after it has been operational for a number of years, probably 5 years.

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Appendix 1. Living Wage Update Calculation Sheet

Extract from the calculation spreadsheet using the updated national rent estimate of \$280 per week

Details of the calculation spreadsheet are provided on pages 14 to 16 of the original report. This one differs slightly by using a single algorithm to calculate the total tax credits available for any given gross income which has removed the need for two columns (3 and 4) that were included in the original spreadsheet.

Annual gross	Kiwi saver 3% deduction	Total tax credits	Full time gross	Half time gross	Full time net	Half time net	Total net excl tc's	Total net incl tc's	Full time hourly rate	Rent at \$280/week	AS area 1	AS area 2	AS area 3	Total net incl tc's and AS 1	Total net incl tc's and AS 2	Total net incl tc's and AS 3
42000	1260	9984	28000	14000	23604	12292	34636	44620	13.46	14560	3108	3108	3108	47728	47728	47728
42500	1275	9984	28333	14167	23873	12427	35025	45009	13.62	14560	2983	2983	2983	47992	47992	47992
43000	1290	9620	28667	14333	24143	12561	35414	45034	13.78	14560	2858	2858	2858	47892	47892	47892
43500	1305	9620	29000	14500	24412	12696	35803	45423	13.94	14560	2733	2733	2733	48156	48156	48156
44000	1320	9620	29333	14667	24681	12831	36192	45812	14.10	14560	2608	2608	2608	48420	48420	48420
44500	1335	9308	29667	14833	24951	12965	36581	45889	14.26	14560	2483	2483	2483	48372	48372	48372
45000	1350	9308	30000	15000	25220	13100	36970	46278	14.42	14560	2358	2358	2358	48636	48636	48636
45500	1365	9308	30333	15167	25489	13235	37359	46667	14.58	14560	2233	2233	2233	48900	48900	48900
46000	1380	8996	30667	15333	25759	13369	37748	46744	14.74	14560	2108	2108	2108	48852	48852	48852
46500	1395	8996	31000	15500	26028	13504	38137	47133	14.90	14560	1983	1983	1983	49116	49116	49116
47000	1410	8996	31333	15667	26297	13639	38526	47522	15.06	14560	1858	1858	1858	49380	49380	49380
47500	1425	8684	31667	15833	26567	13773	38915	47599	15.22	14560	1733	1733	1733	49332	49332	49332
48000	1440	8684	32000	16000	26836	13908	39304	47988	15.38	14560	1608	1608	1608	49596	49596	49596
48500	1455	8684	32333	16167	27105	14043	39693	48377	15.54	14560	1483	1483	1483	49860	49860	49860
49000	1470	8372	32667	16333	27375	14177	40082	48454	15.71	14560	1358	1358	1358	49812	49812	49812
49500	1485	8372	33000	16500	27644	14312	40471	48843	15.87	14560	1233	1233	1233	50076	50076	50076
50000	1500	8372	33333	16667	27913	14447	40860	49232	16.03	14560	1108	1108	1108	50340	50340	50340
50500	1515	8060	33667	16833	28183	14581	41249	49309	16.19	14560	983	983	983	50292	50292	50292
51000	1530	8060	34000	17000	28452	14716	41638	49698	16.35	14560	858	858	858	50556	50556	50556
51500	1545	8060	34333	17167	28721	14851	42027	50087	16.51	14560	733	733	733	50820	50820	50820
52000	1560	7748	34667	17333	28991	14985	42416	50164	16.67	14560	608	608	608	50772	50772	50772
52500	1575	7748	35000	17500	29260	15120	42805	50553	16.83	14560	483	483	483	51036	51036	51036
53000	1590	7748	35333	17667	29529	15255	43194	50942	16.99	14560	358	358	358	51300	51300	51300
53500	1605	7436	35667	17833	29799	15389	43583	51019	17.15	14560	233	233	233	51252	51252	51252
54000	1620	7436	36000	18000	30068	15524	43972	51408	17.31	14560	0	0	0	51408	51408	51408
54500	1635	7436	36333	18167	30337	15659	44361	51797	17.47	14560	0	0	0	51797	51797	51797
55000	1650	7072	36667	18333	30607	15793	44750	51822	17.63	14560	0	0	0	51822	51822	51822

55500	1665	7072	37000	18500	30876	15928	45139	52211	17.79	14560	0	0	0	52211	52211	52211
55608	1668	7072	37072	18536	30934	15957	45223	52295	17.82	14560	0	0	0	52295	52295	52295
56000	1680	7072	37333	18667	31145	16063	45528	52600	17.95	14560	0	0	0	52600	52600	52600
56500	1695	6760	37667	18833	31415	16197	45917	52677	18.11	14560	0	0	0	52677	52677	52677
56600	1698	6760	37733	18867	31469	16224	45995	52755	18.14	14560	0	0	0	52755	52755	52755
56700	1701	6760	37800	18900	31522	16251	46073	52833	18.17	14560	0	0	0	52833	52833	52833
56800	1704	6760	37867	18933	31576	16278	46150	52910	18.21	14560	0	0	0	52910	52910	52910
56838	1705	6760	37892	18946	31597	16288	46180	52940	18.22	14560	0	0	0	52940	52940	52940
56900	1707	6760	37933	18967	31630	16305	46228	52988	18.24	14560	0	0	0	52988	52988	52988
57000	1710	6760	38000	19000	31684	16332	46306	53066	18.27	14560	0	0	0	53066	53066	53066
57432	1723	6760	38288	19144	31917	16448	46642	53402	18.41	14560	0	0	0	53402	53402	53402
56010	1680	6760	37340	18670	31151	16065	45536	52296	17.95	14560	0	0	0	52296	52296	52296
57463	1724	6760	38309	19154	31933	16457	46666	53426	18.42	14560	0	0	0	53426	53426	53426
57500	1725	6760	38333	19167	31953	16467	46695	53455	18.43	14560	0	0	0	53455	53455	53455
58000	1740	6448	38667	19333	32223	16601	47084	53532	18.59	14560	0	0	0	53532	53532	53532
58092	1743	6448	38728	19364	32272	16626	47156	53604	18.62	14560	0	0	0	53604	53604	53604
58350	1751	6448	38900	19450	32411	16696	47356	53804	18.70	14560	0	0	0	53804	53804	53804
58375	1751	6448	38917	19458	32425	16702	47376	53824	18.71	14560	0	0	0	53824	53824	53824
58500	1755	6448	39000	19500	32492	16736	47473	53921	18.75	14560	0	0	0	53921	53921	53921
59000	1770	6448	39333	19667	32761	16871	47862	54310	18.91	14560	0	0	0	54310	54310	54310
59384	1782	6136	39589	19795	32968	16974	48161	54297	19.03	14560	0	0	0	54297	54297	54297
59400	1782	6136	39600	19800	32977	16978	48173	54309	19.04	14560	0	0	0	54309	54309	54309
59477	1784	6136	39651	19826	33018	16999	48233	54369	19.06	14560	0	0	0	54369	54369	54369
59500	1785	6136	39667	19833	33031	17005	48251	54387	19.07	14560	0	0	0	54387	54387	54387
59873	1796	6136	39915	19958	33232	17106	48541	54677	19.19	14560	0	0	0	54677	54677	54677
59900	1797	6136	39933	19967	33246	17113	48562	54698	19.20	14560	0	0	0	54698	54698	54698
59939	1798	6136	39959	19980	33267	17124	48593	54729	19.21	14560	0	0	0	54729	54729	54729
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60024	1801	6136	40016	20008	33313	17146	48659	54795	19.24	14560	0	0	0	54795	54795	54795
60203	1806	6136	40135	20068	33409	17195	48798	54934	19.30	14560	0	0	0	54934	54934	54934