

# Falkland Islands Living Wage 2019 Update

## Appendix – Methodology review and analysis





## Acknowledgments

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## EXECUTIVE SUMMARY

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A living wage is the income that people feel they need to earn in order to obtain a minimum socially acceptable standard of living. The living wage is an informal benchmark, not a legally enforceable minimum level of pay (like the minimum wage).

The report “*A Living Wage for the Falkland Islands*”, based on the results of a survey carried out in August 2013, was published in 2015. At that time, the living wage was estimated at FKP7.18 / hour. Living wage estimates have since been updated on an annual basis to adjust for changes in prices; the current figure (following the last update, conducted in 2018) amounts to FKP7.41 / hour. The methodological approach, however, has not been reviewed to date.

A number of issues have been identified with the methodology used to calculate the living wage in the “*A Living Wage for the Falkland Islands*” report, including incorrect treatment of pension contributions and benefits, questionable assumptions on the average number of workers per household, inclusion of pensioners as a relevant family configuration, and exclusion of certain expenditure items (e.g. owning a vehicle).

The approach of the original questionnaire raised a number of difficulties as well, leading to some expenditure categories to be overestimated, while other to be underestimated. Given the small sample size (44 households, which were categorised into nine separate household types), it probably was not wise to adopt a mechanistic approach to interpreting the results of the questionnaire. While a living wage calculation does benefit from a measure of public consultation, we believe a greater use of “expert” judgment should be made while reviewing each expense item.

In January 2019, the F.I.G. Policy and Economic Development Unit undertook a review of the methodology applied to estimate the living wage in 2015 and in subsequent updates. To that end, a workshop has been held on February 21<sup>st</sup> 2019 to discuss potential methodological changes with a small panel of experts and stakeholders including social service and education professionals, parents, low income earners and retailers. Findings from the workshop have been integrated with answers to an online questionnaire which has been circulated on February 25<sup>th</sup> 2019.

Based on findings from the workshop and questionnaire, a preliminary review of the current model used to estimate the Falkland Islands living wage has been undertaken, results of which are presented in this paper. Considerations and estimates presented in this report are intended to represent a basis for a future discussion, which would result in a decision on which methodological change to adopt, which ones to reject, and which one to further refine.

The table in the following pages summarizes the methodological changes discussed in this paper.

For each suggested methodological change, an estimate of the impact on the hourly living wage is provided. Estimated impacts of methodological changes are to be interpreted as effects *ceteris paribus*, that is keeping all the other assumptions unchanged. The effect of a methodological change would differ if other changes are adopted at the same time. Therefore, the overall impact of adopting a number (of all) of the suggested methodological changes would be different from the simple sum of the estimated effects associated to those changes.

In case all the proposed methodological changes were to be adopted, the living wage would decrease by FKP0.38 (from FKP7.41 to FKP7.03).

Methodological change	Description / issue	Proposed approach	Estimated impact on living wage
<b>Methodological issues</b>			
Removal of outliers from data set	Several outliers in the original (2013) data set have been identified	We suggest excluding outliers from the original dataset	– FKPO.08
Treatment of pension contributions and benefits	A living wage should be the gross wage required to meet the minimum income standard after deductions, but the current living wage does not account for this	We suggest rectifying the living wage model to properly consider pension contributions and benefits	+ FKPO.52
Increase in the number of workers per household	The living wage is currently based on one person in each household working a full-time job; this assumption does not reflect the reality of the Falkland Islands	We propose to use the average number of workers per household instead of the current assumption of one full-time worker per household	– FKP2.27
Exclusion of pensioners	The living wage is currently based on a weighted average of various household types, including pensioners; this makes little sense, as pensioners don't earn a wage	We suggest excluding pensioners from the living wage calculation	+ FKPO.60
Inclusion of cost of owning a vehicle	In 2015, owning a vehicle was omitted from the calculation, based on the assumption that the relatively small size of Stanley means a car is not essential	We suggest including the cost of owning a vehicle into the living wage calculations	+ FKPO.73
Inclusion of alcohol consumption	In 2015, consumption of alcoholic drinks was likely excluded on moral grounds	We suggest considering the inclusion of alcohol consumption within a broader recreational spending allowance instead of creating a new category	/
Inclusion of domestic holidays	Holidays are currently excluded from the basket; the UK living wage calculation includes an annual domestic holiday, and it could be argued that travelling periodically is essential to a basic standard of living	We recommend including a domestic holiday in the living wage calculations, but not an international holiday	+ FKPO.14
<b>Specific expenditure categories</b>			
Accommodation	In the 2015 report the rent expense was based on average rent for FIG properties of the appropriate size and type for the household; it is not realistic to assume that all low-income households live into a FIG property	We suggest making use of data from the Census 2016 to estimate a weighted average monthly expenditure of home owners, home owners with a mortgage, FIG rents, and private sector rents	– FKPO.08

Utilities	Figures assumed in 2015 seem to be underestimated	We recommend using 2016 Census data to estimate monthly expenditure on utilities	+ FKPO.21
Consumer durables		We suggest calculating the essential monthly expenditure on essential items within this category assuming an estimated lifespan for each item, and the price of the cheapest acceptable model available locally	– FKPO.02
Household goods & services		We recommend weighting expenditure on maintenance by tenure, and increasing the assumed expenditure for those family configurations which seem underestimated	=
Food & non-alcoholic beverages	In the 2013 Survey, food & beverage costs were estimated based on vegetarian and non-vegetarian healthy menus selected by KEMH	We recommend using a similar approach and have asked the Public Health Advisor to estimate what healthy menus would include nowadays	=
Meals out, cafes & bars, takeaways	Figures assumed in 2015 seem to be underestimated	We suggest adopting tailored assumptions on average expenditure on meals out, cafes & bars, and takeaways, as well as frequency	+ FKPO.22
Clothing and footwear		We suggest maintaining the current assumptions on clothing and footwear	=
Personal care		We suggest maintaining the current assumptions on spending on personal care	=
Childcare		We recommend estimating childcare expenditure levels based on the current subsidized childcare fare (FKP2.75 / hour) as well as a number of assumptions on rates of use of nurseries by children age bracket	– FKPO.11
Other child-related expenses	Figures assumed in 2015 seem to be significantly underestimated	We recommend estimating child-related expenses (excluding childcare) based on assumptions on monthly average expenditure by children age bracket	+ FKPO.30
Communication	Figures assumed in 2015 seem to be underestimated	We suggest adopting tailored assumptions on telephone and internet monthly expenditure by family configuration	+ FKPO.23
Recreational expenditure and miscellaneous goods	Figure assumed in 2015 seem to be underestimated for some family category	We suggest assuming the average of current assumptions when excluding those family configurations which seem to be underestimated	+ FKPO.04

## INTRODUCTION

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A living wage is the income that people feel they need to earn in order to obtain a minimum socially acceptable standard of living. The living wage is an informal benchmark, not a legally enforceable minimum level of pay (like the Minimum Wage).

The definition of standard of living assumed for the Falkland Islands is as follows: “A minimum standard of living in the Falkland Islands today includes, but is more than just, food, clothes, and shelter. It is about what you need in order to have opportunities and choices necessary to participate in society.”

The report “*A Living Wage for the Falkland Islands*”, based on the results of a survey carried out in August 2013, was published in 2015. At that time, the living wage was estimated at FKP7.18 / hour.

Living wage estimates have since been updated on an annual basis to adjust for changes in prices:

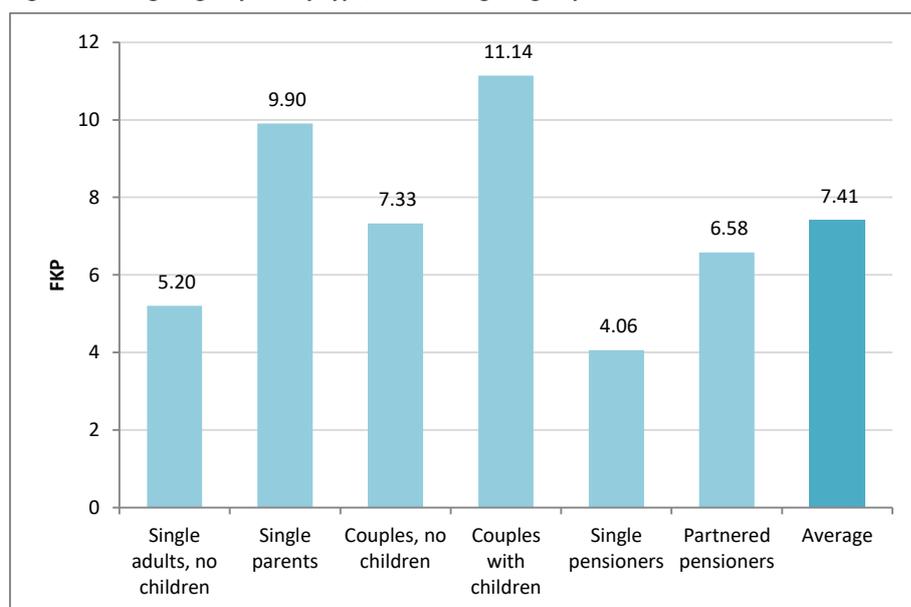
- 2016 Living Wage update (adjusting for inflation between 2013 and 2015): FKP7.26 / hour;
- 2017 Living Wage update (adjusting for inflation between 2015 and 2016): FKP7.31 / hour;
- 2018 Living Wage update (adjusting for inflation between 2016 and 2017): FKP7.41 / hour.

Those surveyed in 2013 were all volunteers chosen to represent six different family types:

- Single adults with no children;
- Single parents (including single parents with one child or two children);
- Couples with no children;
- Couples with children (including couples with one, two, and three children);
- Single pensioners;
- Partnered pensioners.

The living wage rate was calculated as a weighted average of the values estimated for each category (please see Figure 1).

**Figure 1: Living wage by family type, 2018 Living Wage update**



Source: 2018 Living Wage update

In January 2019, the F.I.G. Policy and Economic Development Unit undertook a review of the methodology applied to estimate the living wage in 2015 and in subsequent updates. To that end, a workshop has been held on February 21<sup>st</sup> 2019 to discuss potential methodological changes with a small panel of experts and stakeholders including social service and education professionals, parents, low income earners and retailers. Findings from the workshop have been integrated with answers to an online questionnaire which has been circulated on February 25<sup>th</sup> 2019.

Based on findings from the workshop and questionnaire, a preliminary review of the current model used to estimate the Falkland Islands living wage has been undertaken, results of which are presented in this paper. For each suggested methodological change, an estimate of the impact on the hourly living wage is provided.

Estimated impacts of methodological changes are to be interpreted as effects *ceteris paribus*, that is keeping all the other assumptions unchanged. The effect of a methodological change would differ if other changes are adopted at the same time.<sup>1</sup> Therefore, the overall impact of adopting a number (of all) of the suggested methodological changes would be different from the simple sum of the estimated effects associated to those changes.

Considerations and estimates presented in this report are intended to represent a basis for a future discussion, which would result in a decision on which methodological change to adopt, which ones to reject, and which one to further refine. This is a further reason why estimated impacts of methodological changes are to be considered as preliminary values only. Nevertheless, they provide a measure of the size of the correction in case each of the suggested methodological changes is adopted.

## 1 METHODOLOGICAL ISSUES

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A number of issues have been identified with the methodology used to calculate the living wage that was initially published in 2015 in the “*A Living Wage for the Falkland Islands*” report. This chapter will discuss the main issues, and give an estimate of the effect that addressing these issues would have on the living wage.

The following table summarizes the estimated effect of the considered methodological changes on the living wage.

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<sup>1</sup> For example, both increasing the number of workers per household and excluding pensioners from the dataset would result in a decrease of the living wage by FKP1.93, which is different from the simple sum of the effects reported in Table 1 ( $- \text{FKP}2.27 + \text{FKP}0.60 = - \text{FKP}1.67$ ).

**Table 1: Effect of methodological changes on the living wage**

Methodological change	Estimated impact on living wage
Removal of outliers from data set	– FKP0.08
Treatment of pension contributions and benefits	+ FKP0.52
Increase in the number of workers per household	– FKP2.27
Exclusion of pensioners	+ FKP0.60
Inclusion of cost of owning a vehicle	+ FKP0.73
Inclusion of alcohol consumption	/
Inclusion of domestic holidays	+ FKP0.14

## 1.1 Removal of outliers

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A number of outliers in the original (2013) data set have been identified, i.e. observation points that are distant from other observations. For example, one respondent reported spending FKP200 per month in household maintenance supplies, a figure which cannot reasonably be considered plausible, but nevertheless has been included in the original data set.

*Proposed approach* We suggest excluding outliers from the original dataset.

*Estimated effect* If we excluded, within each expense item, all data below the 20<sup>th</sup> and above the 80<sup>th</sup> percentile, this would bring the living wage down by FKP0.08 per hour.

## 1.2 Treatment of pension contributions and benefits

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In principle, a living wage should be the gross wage required to meet the minimum income standard after deductions (e.g. tax, compulsory pension contributions) and benefits. While people earning a plausible living wage in the Falklands are unlikely to pay much if any income tax, they may have to make RPC contributions, and they may also receive financial assistance from FIG.

The current living wage does not account for this. While the “*A Living Wage for the Falkland Islands*” report includes a table showing how an hourly minimum income should be adjusted for pension contributions and working credits to get to a required hourly wage, this adjustment is not used in the living wage calculation.

*Proposed approach* We suggest rectify the living wage model to properly take into account pension contributions and benefits.

*Estimated effect* Ceteris paribus, this would increase the living wage by FKP0.52.

## 1.3 Number of workers per household

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The 2015 Living Wage report calculated the living wage on the basis of one person in each household working a full-time job. This pushes up the hourly wage required for that person, as their earnings would need to support their partner and children as well as themselves.

Rationales for and against change are detailed in Table 2.

**Table 2: Number of workers per household – Rationale for and against change**

Rationale for change	Rationale against change
<p>This assumption does not reflect the reality of the Falkland Islands. The labour force participation rate in the Falklands is high by international standards, at 89%, with unemployment very low at 1%. A very large proportion of people of working age are in work (and a large number of working age people who do not participate in the labour force are students, rather than stay at home parents).</p> <p>Some people may consider it a worthy aspiration for wages to be at a level where one worker can support their partner and children, but the evidence suggests that this view is not shared by the wider population, given that both partners tend to work even if one or both earns well above the living wage.</p> <p>The living wage calculation includes childcare expenses for couples with children, which is not consistent with the idea that one partner stays at home, and still assumes that only one partner works in couples without children.</p>	<p>One concern is that if two wage-earners per household were to be assumed, the resulting (average) living wage might be too low for some family configurations.</p>

*Workshop and questionnaire key findings*

The general consensus from the workshop was that more than 1 worker per household should be assumed, and that FIG should put in place other mechanisms to assist single parents.

*Proposed approach*

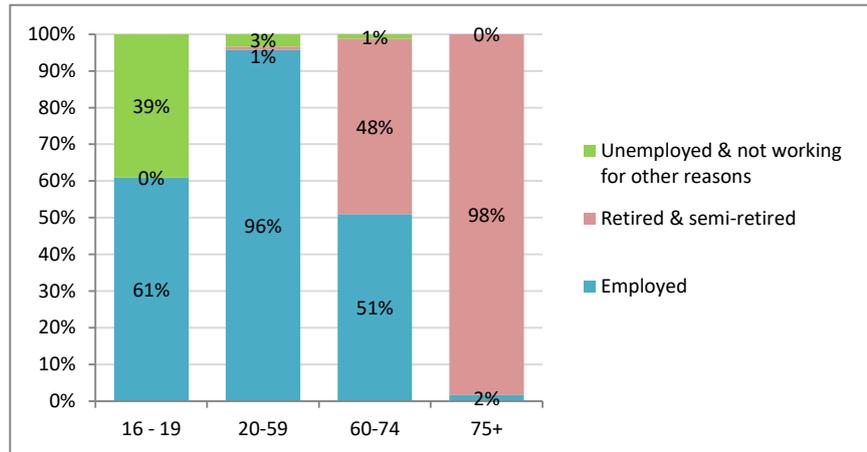
We agree that the assumption of one full-time worker per household is incorrect. We propose to use the average number of workers per household instead. Based on census data in the following charts, we can estimate that the average number of workers per household (in terms of full-time equivalent) in Stanley in 2016 was 1.78.

*Analysis*

The following figures show available data on employment status and full-time versus part-time share in employment in Stanley, 2016 (source: Falkland Islands Census 2016). Key findings can be summarized as follows:

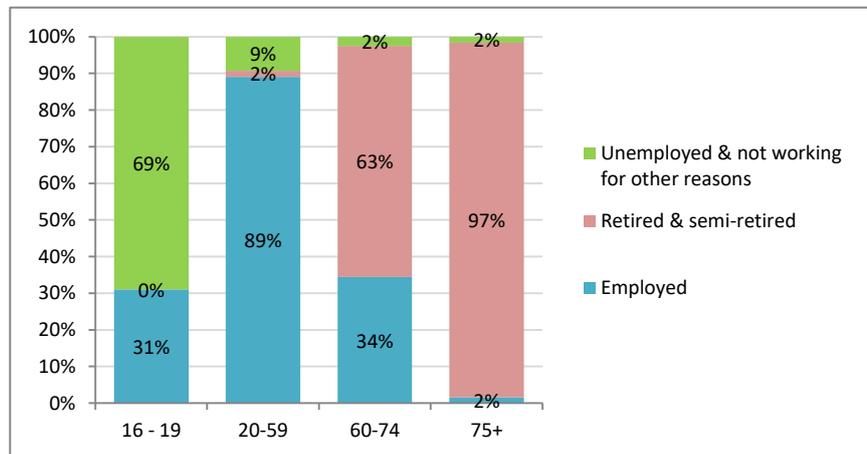
- In 2016, 96% of men between 20 and 59 years old in Stanley were employed;
- The same figure for women was 89%;
- In 2016, taking into account 1<sup>st</sup> jobs only, 96% of jobs taken by men in Stanley were full-time jobs, against 4% part-time;
- For women, the same split was 89% full-time jobs against 11% part-time.

**Figure 2: Employment status by age group, males (Stanley, 2016)**



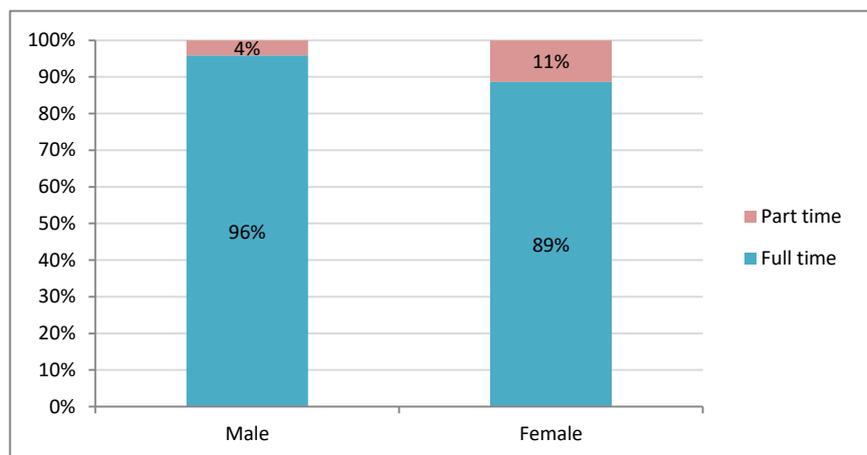
Source: Falkland Islands Census 2016

**Figure 3: Employment status by age group, females (Stanley, 2016)**



Source: Falkland Islands Census 2016

**Figure 4: Full-time and part-time share in 1<sup>st</sup> job employment (Stanley, 2016)**



Source: Falkland Islands Census 2016

*Estimated effect*

Ceteris paribus, assuming that 1.78 persons in each household work a full-time job would reduce the living wage by FKP2.27.

## 1.4 Pensioners

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The overall living wage is calculated by taking a weighted average of living wages for various household types, including single and coupled pensioners.

Rationales for and against change are detailed in Table 3.

**Table 3: Inclusion of Pensioners – Rationale for and against change**

Rationale for change	Rationale against change
While understanding the minimum income standard for pensioners is important in its own right, including pensioners in a living wage calculation makes little sense, since they don't earn a wage.	

*Proposed approach* We suggest excluding pensioners from the living wage calculation.

*Estimated effect* Ceteris paribus, this would increase the hourly living wage by FKPO.60.

## 1.5 Vehicle ownership

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Several items have been excluded from the living wage despite clear evidence that they were viewed as essential by the public. Probably most significant was the cost of owning a vehicle.

In 2015, a political decision was made to omit owning a vehicle from the calculation, based on the assumption that the relatively small size of Stanley means a car (whilst desirable) is not essential for everyday living.

Rationales for and against change are detailed in Table 4.

**Table 4: Vehicle ownership – Rationale for and against change**

Rationale for change	Rationale against change
According to Census 2016 data, around 70% of households in which the household reference person does not earn the living wage own a vehicle, compared with 90% where they do. So, even low earners appear to consider owning a vehicle as being worth the cost involved.	Growing use of bicycles, as well as shared ownership and use of a vehicle among low income households, could reduce the need owning one car per household.
While it would be possible for many people to get to work and run their errands without access to a vehicle, a vehicle is essential to accessing many of the recreational activities available in the Falkland Islands. It is also important for working parents of young children, and in particular single parents.	

*Workshop and questionnaire key findings* Participants to the workshop did not express a consensus on whether owning a vehicle can be considered essential or not.

The prevailing sentiment was that owning a vehicle is essential;

however, a couple of people expressed the view that a high car ownership rate among low earners only reflects the relatively low cost of vehicle ownership in the Falkland Islands, but that owning a vehicle cannot be regarded as essential to enjoy a basic quality of life.

*Proposed approach*

We suggest including the cost of owning a vehicle into the living wage calculations.

*Analysis*

We adopt the following assumptions to estimate the monthly / hourly cost of owning a vehicle.

**Table 5: Vehicle ownership – Assumptions**

<b>Assumption</b>	<b>Expenditure</b>
Car life expectancy	6 years
Cost (2 <sup>nd</sup> hand car)	FKP5,000*
Repairs and service	FKP400 / year
Vehicle tax	FKP120 / year
Insurance	FKP120 / year
Fuel	FKP50 / month

\* This assumption is based on an informal survey of Facebook car sales post.

Based on these assumptions, the monthly cost of owning a vehicle can be estimated in around FKP175.

*Estimated effect*

Based on the assumptions listed in Table 5, including one vehicle per household and associated costs would increase the living wage by FKP0.73 per hour.

**1.6 Consumption of alcohol**

Another exclusion from the living wage that might be questioned is consumption of alcoholic drinks. This option was not put to the public in the living wage questionnaire. In 2015, consumption of alcoholic drinks was likely excluded on moral grounds.

Rationales for and against change are detailed in Table 6.

**Table 6: Consumption of alcohol – Rationale for and against change**

<b>Rationale for change</b>	<b>Rationale against change</b>
The decision to exclude alcohol on what appear to be moral grounds is questionable. It also conflicts with the UK living wage methodology, which excludes tobacco but not alcohol.	Consumption of alcoholic drinks cannot be considered essential for the enjoyment of sociable activities in the Falkland Islands, since it can be substituted with consumption of non-alcoholic drinks.

*Workshop and questionnaire key findings*

No consensus emerged from the workshop with reference to consumption of alcoholic beverages. On the one hand, alcohol consumption was not deemed to be essential to enjoy any social event in the Falkland Islands, as most social events involve the consumption

of both alcoholic and non-alcoholic beverages; on the other hand, it was recognized that assuming a baseline infrequent consumption rate could not be excluded on moral grounds, and might instead be regarded as reasonable.

*Proposed approach*

We suggest that a “leisure / recreation” spending allowance is provided for in the living wage calculations, to include alcohol consumption as well as other expenditure items (such as consumption of non-alcoholic beverages). This would shift focus from the juxtaposition between alcoholic and non-alcoholic beverages; the focus instead would be on which assumption to make of how many events per month/year can be considered necessary to achieve a desired social living standard.

We suggest addressing this issue while reviewing the assumed expenditure level in the “Recreational expenditure and miscellaneous goods” category (see Paragraph 2.12).

## 1.7 Holidays

Another exclusion from the living wage that might be questioned is holidays. This option was not put to the public in the living wage questionnaire.

Rationales for and against change are detailed in Table 7.

**Table 7: Holidays – Rationale for and against change**

Rationale for change	Rationale against change
<b>Domestic holidays</b>	
The UK living wage calculation includes an annual domestic holiday. It could be argued that travelling periodically to Camp (camping or self-catering) is essential to a basic standard of living.	
<b>International holidays</b>	
It can be argued that travelling overseas periodically is essential to a basic standard of living, since:	Status Holders have access to the FIG travel credit scheme.
<ul style="list-style-type: none"> <li>many residents of the Falkland Islands have close family members living overseas;</li> <li>travelling abroad helps people emotionally, especially given the Falkland Islands’ remoteness and limited range of leisure opportunities.</li> <li>PRP holders may represent a group that has less access to international travel</li> </ul>	Airbridge rates are subsidized by FIG (and child rates are half-price).  For non-status holders, most are here on shorter term contract and either have mid-contract flights paid by the employer or will return to their country of origin within a set number of years.

*Workshop and questionnaire key findings*

Participants to the workshop did not reach consensus with respect to whether an international and/or domestic holiday should be included in the living wage calculations, with some being strongly in favour of inclusion of both international and domestic holidays, and others

maintaining that holidays, whilst desirable, cannot be considered essential.

Overall, people against including an international holiday in the living wage calculations were around two fifths of the panel, while people against including a domestic holiday were around one fifth. Suggestions have been put forward that, at least in the case of international holidays, a weighted average is assumed so as to take into account the diverse condition and needs of each population group (i.e. Status Holders, other permanent population, transient / temporary population).

### *Proposed approach*

We recommend including a domestic holiday in the living wage calculations, but not an international holiday, as international holidays are already partly funded by FIG or private employers either through either public subsidies or benefit-in-kind provisions.

### *Analysis*

We adopt the following assumptions to estimate the monthly / hourly cost of a domestic holiday, assuming one week of holiday on West Falkland.

**Table 8: Domestic holiday – Assumptions**

<b>Assumption</b>	<b>Expenditure</b>
Frequency of holiday	One holiday every year
Number of nights	7 nights
Accommodation cost per adult per night	FKP30*
Mileage	400 miles
Miles / fuel litre	6.5 miles / litre
Diesel price	FKP0.6 / litre
Ferry fare, car (return)	FKP50
Ferry fare, adult (return)	FKP20
Ferry fare, child <16yo (return)	FKP10
Ferry fare, child <5yo (return)	FKP 5

\* This is based on a review of the current rates charged by a number of self-catering accommodations in West Falkland.

Based on these assumptions, the cost of a domestic holiday can be estimated in between about FKP300 (single adult) and FKP600 (couple with 3 children).

### *Estimated effect*

If we were to include a domestic holiday in the calculations, the living wage would increase by FKPO.14 per hour.

## 2 SPECIFIC EXPENDITURE ITEMS

For most items, the original questionnaire listed a number of goods/services in a category and asked the person filling it in to: “Put a cross (X) next to the categories in the essential column to identify the items you feel are absolutely essential. Also indicate in the next column how much per month you would budget to spend on your essential items”.

Items which 60% of households of a given type identified as essential were deemed to be so, and essential expenditure on those items was calculated as the average of what the households in a given category (e.g. couple with one child, single adult etc.) had said they would budget on it. This raises a number of difficulties:

- In some cases households have entered a very high budget for some items, which may suggest they have answered on the basis of what they spend on a given item or category, not what spending would be essential.
- The concept of the monthly cost of durable items (such as washing machines) is not necessarily very clear, and may not have been fully understood by participants.
- A similar issue applies to the treatment of recreational expenditure. Survey participants were presented with a list of 31 recreational items (including club fees, DVD hire, fishing equipment and so on) and asked which of these they considered essential. The variation in tastes among participants probably meant that few of these achieved sufficient consensus to be deemed essential, possibly resulting in an understatement of essential recreation expenditure.

More generally, given the small sample size (44 households, which were categorised into nine separate household types), it probably was not wise to adopt a mechanistic approach to interpreting the results of the questionnaire. While a living wage calculation does benefit from a measure of public consultation, we believe a greater use of “expert” judgment should be made while reviewing each expense item.

The following table summarizes estimated effects on the living wage of the considered changes and tunings.

**Table 9: Effect of methodological changes on the living wage**

Expense item	Estimated impact on living wage
Accommodation	– FKP0.08
Utilities	+ FKP0.21
Consumer durables	– FKP0.02
Household goods & services	=
Food & non-alcoholic beverages	=
Meals out, cafes & bars, takeaways	+ FKP0.22
Clothing and footwear	=
Personal care	=
Childcare	– FKP0.11
Other child-related expenses	+ FKP0.30
Communication	+ FKP0.23
Recreational expenditure and miscellaneous goods	+ FKP0.04

## 2.1 Accommodation

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In the 2015 report the rent expense was based on average rent for FIG properties of the appropriate size and type for the household.

Rationales for and against change are detailed in Table 10.

**Table 10: Accommodation costs – Rationale for and against change**

<b>Rationale for change</b>	<b>Rationale against change</b>
It is not realistic to assume that all low income households live into a FIG property.	Data on FIG rent levels can be taken as a good proxy of accommodation costs borne by low income households. These are actual rent levels, against data from the Census which are self-reported, and can be constantly accessed to update accommodation cost assumptions on an annual basis, while Census data are only updated every 4 years.

### *Workshop and questionnaire key findings*

The general consensus from the workshop was that a blended accommodation cost, which would take into account all existing tenure typologies, including home owners, mortgagees, and private rentals tenants, should be assumed rather than considering FIG tenants only.

Respondents to the questionnaire expressed the same view.

### *Proposed approach*

We suggest making use of data from the Falkland Islands Census 2016 to estimate a weighted average monthly expenditure of home owners, home owners with a mortgage, FIG rents, and private sector rents.

### *Analysis*

Figure 5 shows the percentage of Stanley households by tenure, in 2016.<sup>2</sup> Overall, 42% of households rented their house, against 36% owning a house with a mortgage, and 22% living in their own house (without a mortgage).

Looking to the different family configurations, we can note that:

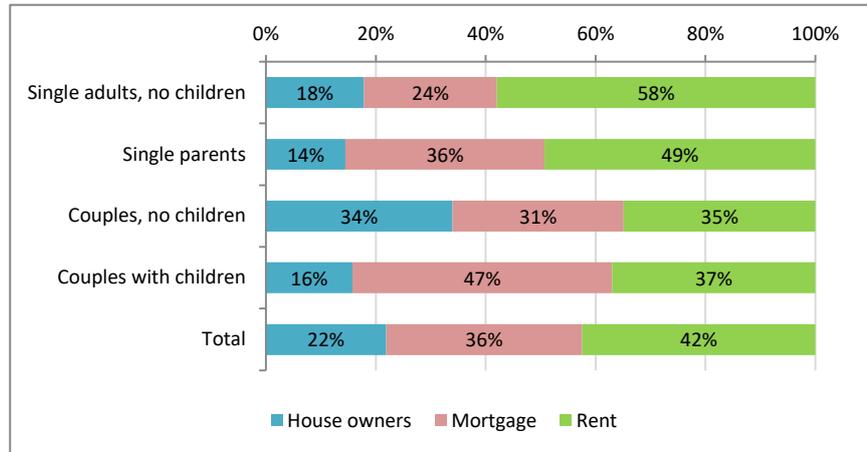
- Single adults (with or without children) are more likely to live in a rented house than couples;
- Couples with children are most likely to own a house with a mortgage, while couples without children are most likely to be house owners (without a mortgage).

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<sup>2</sup> Excluding households living free of rent, as we don't believe this category is relevant when estimating the living wage (some households may be living rent free as the result of FIG housing subsidies; moreover, others may be living rent free as a contribution from their families, but the accommodation would not be their choice if they could earn enough to choose an alternative one).

**Figure 5: Percentage of households by tenure, all income brackets**

Stanley, 2016



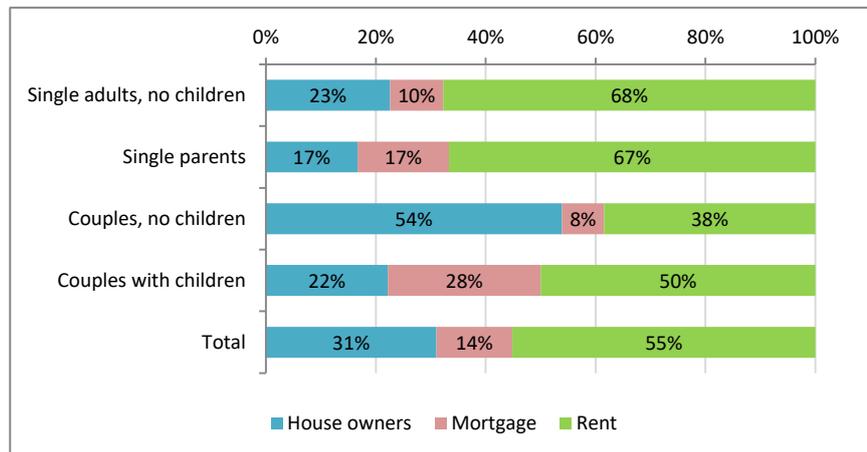
Source: Falkland Islands Census 2016

The following chart shows the same information, with respect to low income households only<sup>3</sup>. We can note that:

- The percentage of families owning their house with a mortgage is lower for low income households, in all the considered family configurations;
- Overall, low income families are most likely to rent their accommodation (55% of the sample); house owners are 31% of the sample, while mortgagees are 14% of the sample.

**Figure 6: Percentage of household by tenure, low income households**

Stanley, 2016



Source: Falkland Islands Census 2016

The following table details monthly accommodation expenditure levels by family configuration and income level. Data on rent levels refer both

<sup>3</sup> We define “low income households” as households with income below FKP14,000 (for households with one adult only) or below FKP28,000 (for households with 2 adults).

to FIG and private sector rental accommodation.

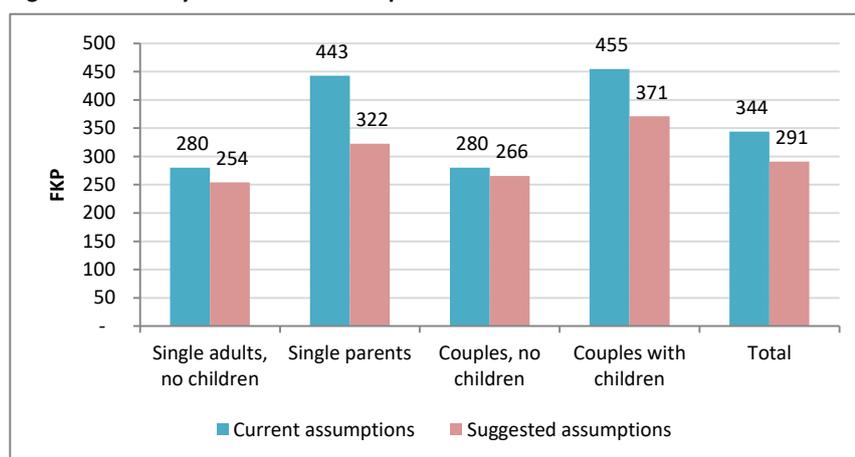
**Table 11: Monthly accommodation expenditure, by family configuration and income**  
Stanley, 2016; figures are in FKP

Family configuration	All households		Low income h/holds	
	Mortgage	Rent	Mortgage	Rent
Single adults, no children	511	439	283	283
Single parents	427	489	188	384
Couples, no children	435	579	400	520
Couples with children	492	625	385	458
Weighted average	472	538	329	382

Source: Falkland Islands Census 2016

Crossing data reported in Figure 6 and Table 11 (data on low income households), and assuming nil expenditure for house owners, we can estimate a weighted average accommodation cost by family configuration, which is shown in Figure 7, together with the numbers currently assumed in the living wage model.

**Figure 7: Monthly accommodation expenditure**



Source: 2018 Living Wage update and Falkland Islands Census 2016

### Estimated effect

Ceteris paribus, this methodological change would decrease the living wage by FKP0.08 per hour.

## 2.2 Utilities

It was not possible to determine the methodology used in 2015 to estimate expenditure on heating fuel, electricity, and cooking gas.

Figures assumed in 2015 seem to be underestimated, with the overall weighted average spend being about FKP150 per month when adjusted for inflation between 2013 and 2017 (i.e. 2018 Living Wage update), which compares to about FKP210 per month according to the 2011 Household Expenditure Survey, and about FKP220 per month according to the 2012 Census.

### Workshop and questionnaire key findings

The general consensus from the workshop was that making use of data from the 2016 Census is a reasonable approach.

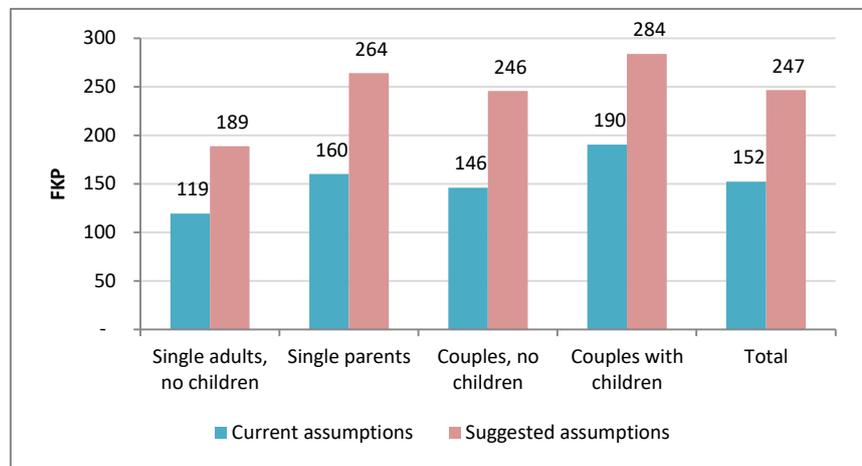
### Proposed approach

We recommend using 2016 Census data to estimate monthly expenditure on utilities. According to the Census, average spend on utilities by low-income households is not dissimilar from the averages based on total population, so we suggest using the latter figures.

### Analysis

Figure 8 shows monthly utilities cost by family configuration (according to 2016 data and adjusted for inflation between 2016 and 2018), as well as the numbers currently assumed in the living wage model (i.e. 2018 Living Wage update).

Figure 8: Monthly expenditure on utilities



Source: 2018 Living Wage update and Falkland Islands Census 2016

### Estimated effect

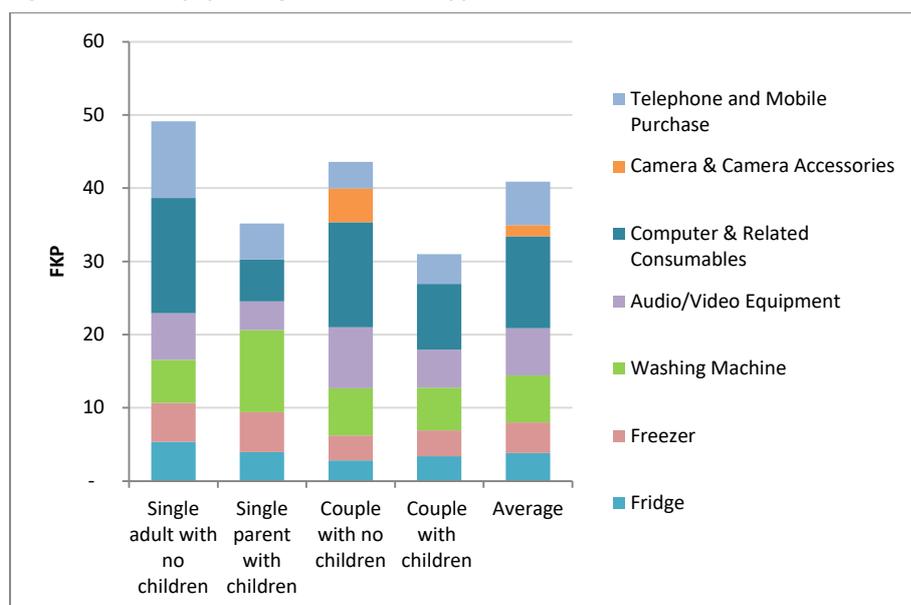
Ceteris paribus, this change would increase the hourly living wage by FKPO.21.

## 2.3 Consumer durables

This category includes household appliances (fridge, freezer, washing machine) and electronic devices (audio/video equipment, computer and related consumables, camera and camera accessories, telephone, mobile).

Numbers currently assumed (i.e. findings from the 2013 survey, adjusted for inflation) are shown in Figure 9.

**Figure 9: Monthly spending on household appliances and electronic devices**



Source: 2018 Living Wage update

### Workshop and questionnaire key findings

Respondents to the questionnaire were asked to comment on a number of consumer durables being essential or not, as well as their expected lifespan and average price (considering an inexpensive model). Table 12 summarizes answers to these questions.

**Table 12: Consumer durables**

Item	% of respondents considering item essential	Suggested lifespan (average of responses)	Suggested price (average of responses)
Fridge	100%	8 years	FKP270
Freezer	100%	8 years	FKP270
Washing machine	100%	6 years	FKP260
Tumble dryer	45%	6 years	FKP230
Audio/video equipment	70%	6 years	FKP250
Computer	85%	5 years	FKP375
Camera and accessories	30%	5 years	FKP225
Telephone	85%	6 years	< FKP100
Mobile	85%	4 years	FKP290

### Proposed approach

We suggest calculating the essential monthly expenditure on essential items within this category assuming an estimated lifespan for each item, and the price of the cheapest acceptable model available locally.

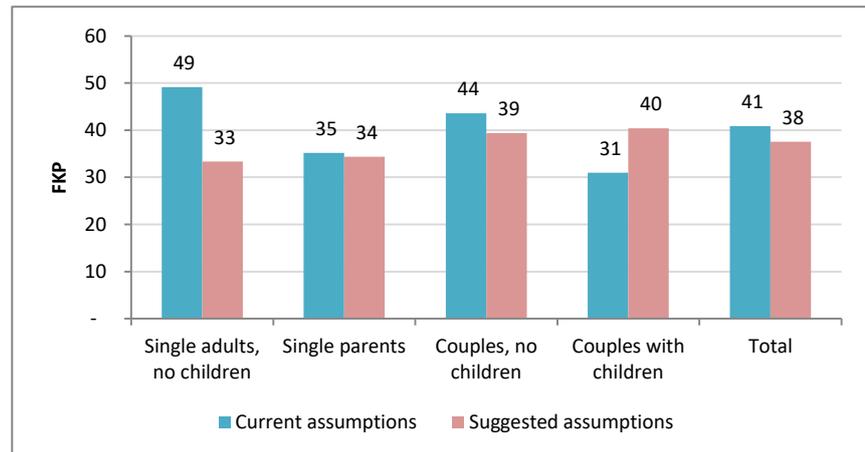
### Analysis

Based on assumptions reported in Table 12 (assuming all items listed are essential except tumble dryer and camera, and assuming one

mobile per adult and child > 15 years old), we can estimate monthly expenditure on utilities to be as in Figure 10.

We believe it would be useful to research data on consumer durables' expected lifespan and price independently and repeat the estimate, however we expect final results to be aligned with these preliminary ones. Overall, current estimates (i.e. 2018 Living Wage update) appear to be reasonable.

**Figure 10: Monthly spending on consumer durables, current & suggested assumptions**



Source: 2018 Living Wage update and estimates

### Estimated effect

Ceteris paribus, this change would have a negligible effect on the living wage – it would decrease the hourly living wage by FKP0.02 only.

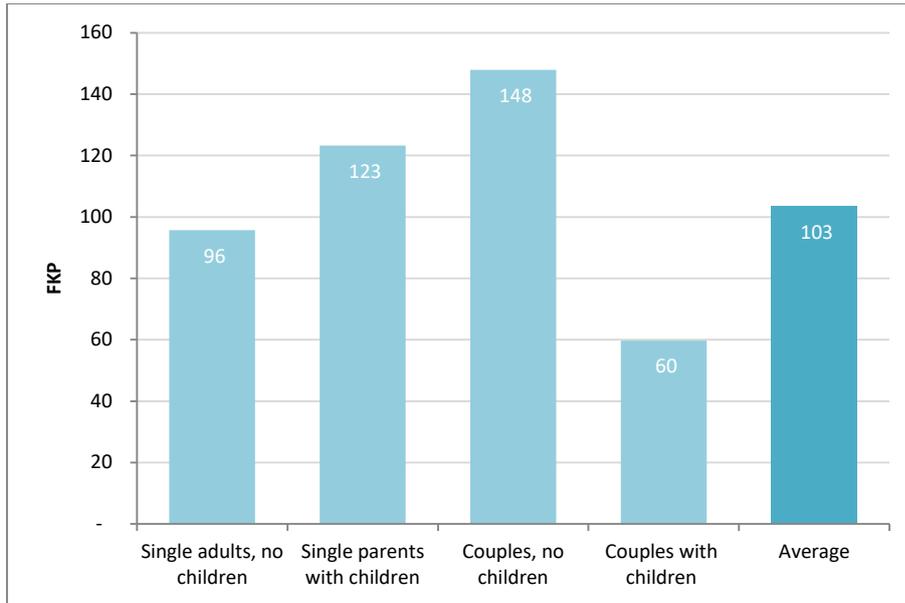
## 2.4 Household goods & services

This category includes:

- Furniture and furnishings, including textiles;
- Materials for maintenance, including paint supplies;
- Cleaning goods and consumables: vacuum cleaner, household cleaners, and laundry products;
- Hardware and tools, including electrical consumables;
- Kitchen items: cooking pan and trays, and kitchen utensils;
- Gardening: garden equipment, plants and seeds, and outdoor tools.

Current assumptions on essential monthly spending on household goods & services are based on findings from the 2013 survey (adjusted for inflation between 2013 and 2017). Numbers are shown in Figure 11.

**Figure 11: Monthly spending on household goods & services**



Source: 2018 Living Wage update

### *Workshop and questionnaire key findings*

55% of respondents to the questionnaire commented that the figures currently assumed seem reasonable overall. However, they noted that the amount for couples with children seems disproportionately low.

### *Proposed approach*

We recommend weighting expenditure on maintenance by tenure, since it is not consistent to include maintenance costs for rented accommodation, as they would generally be borne by the landlord in that case.

We also suggest increasing the assumed expenditure for couples with children to align it with the other family configurations.

### *Estimated effect*

Overall, we expect these two changes to compensate each other, so we don't anticipate any substantial impact to the hourly living wage.

## **2.5 Food & non-alcoholic beverages**

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In the 2013 Survey, food & beverage costs were estimated based on vegetarians and non-vegetarians healthy menus selected by KEMH (please see Figure 12 below).

Figure 12: Extract from the 2013 Living Wage questionnaire

<b><u>Food &amp; Non Alcoholic Drink</u></b>	
<p><i>The Policy Unit designed a healthy, budget menu for vegetarians and non-vegetarians based on a sample menu selected by KEMH (See appendix). Please examine the menu most relevant to you and then answer the following questions:</i></p>	
<p>1) Having seen the example menus what is your first impression?</p>	<p>4) From the example menus average costs were found to be as follows:</p> <p>£44.38 per week (1 Adult Non vegetarian) £67.47 per week (1 Adult Vegetarian)</p>
<p><input type="text"/></p>	<p>A) What is your first impression of these estimates?</p> <p><input type="text"/></p>
<p>2) Do you consider the meals well rounded and appropriate for a week's healthy diet?</p> <p><input type="checkbox"/> Yes    <input type="checkbox"/> No</p>	<p>B) Are these prices higher, lower or similar to your expectations?</p> <p><input type="checkbox"/> Higher    <input type="checkbox"/> Lower    <input type="checkbox"/> Similar</p>
<p>3) If you selected no, then why not?</p> <p><input type="text"/></p>	<p>C) If you selected higher or lower what is your reason for these expectations?</p> <p><input type="text"/></p>

Source: 2013 Living Wage questionnaire

*Proposed approach*

We recommend using a similar approach and have asked the Public Health Advisor to estimate what healthy menus would include nowadays.

*Workshop and questionnaire key findings*

85% of respondents to the questionnaire agreed with the suggested approach.

*Estimated effect*

The Public Health Advisor has designed some healthy menu options, which we will compare with what was assumed in 2013 in a further stage of analysis. Since the proposed approach is coherent with the one adopted in 2013, we don't anticipate a substantial impact on the living wage.

**2.6 Meals out, cafes & bars, takeaways**

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Based on results of the 2013 survey, the modelling underlying the "A Living Wage for the Falkland Islands" report assumed that meals out, cafes & bars, and takeaways, are essential only for two family configurations: single parents with one child, and couples with no children. This led to a weighted average monthly expense for these items of FKP14 per household only (in the 2018 Living Wage update).

*Workshop and questionnaire key findings*

Respondents to the questionnaire were asked to comment on whether meals out, cafes & bars, and takeaways should be considered essential or not, and if so, which frequency should be assumed as essential to guarantee a minimum standard of living. Table 13 summarizes answers to these questions.

**Table 13: Meals out, cafes & bars, takeaways**

Item	% of respondents considering item essential	Suggested frequency (average)
Meals out	30%	Once a month
Cafes & bars	30%	Twice a month
Takeaways	55%	Twice a month

### *Proposed approach*

The approach adopted in 2015 does not seem to be realistic. We recommend making the same assumptions for all family configurations on whether meals out, cafes & bars, and takeaways are essential.

We suggest assuming all the three items listed in Table 13 as being essential, while assuming a lower frequency than what suggested by the panel, to take into account the low percentage of respondents that considered each item essential.

### *Analysis*

We adopt the following assumptions.

**Table 14: Meals out, cafes & bars, takeaways – Assumptions**

Item	Frequency	Cost
Meals out	Every 2 months	FKP25 per adult FKP15 per child >5yo
Cafes & bars	Once a month	FKP5 per adult and child >5yo
Takeaways	Once a month	FKP10 per adult and child >5yo

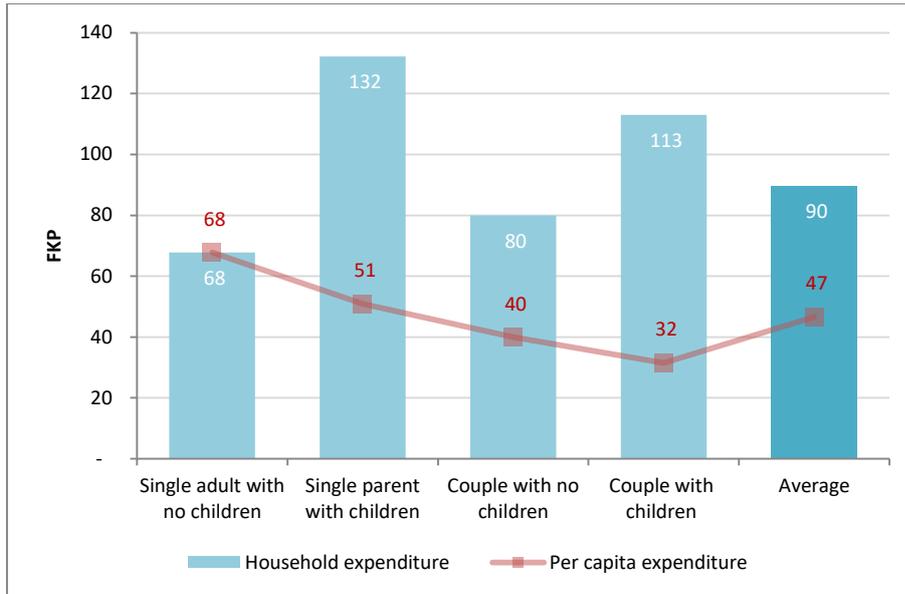
### *Estimated effect*

Based on the assumptions listed above, this change, ceteris paribus, would increase the hourly living wage by FKP0.22.

## **2.7 Clothing and footwear**

Current assumptions on essential monthly spending on clothing and footwear are based on findings from the 2013 survey (adjusted for inflation between 2013 and 2017). Numbers are shown in Figure 13 (children's clothing is included).

**Figure 13: Monthly spending on clothing and footwear**



Source: 2018 Living Wage update

### *Workshop key findings*

55% of respondents to the questionnaire believed these figures to be reasonable.

Others commented that the assumed amount for couples with children is disproportionately low compared to the other family configurations; these figures seem to be overestimated; and that the assumption of new clothes' prices is too high, as in reality charity shops and second hand are the only options for most low income households.

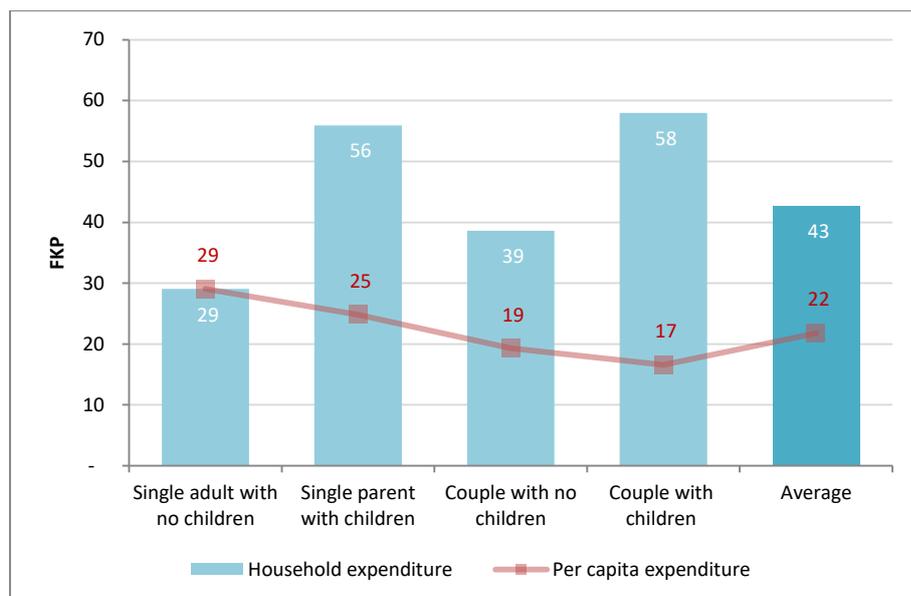
### *Proposed approach*

Figures reported in Figure 13 overall seem consistent with household expenditure levels for low-income households as reported in the 2012 Household Expenditure Survey (when adjusted for inflation between 2012 and 2018). We suggest maintaining the current assumptions on clothing and footwear.

## **2.8 Personal care**

Current assumptions on essential monthly spending for personal care are based on findings from the 2013 survey (adjusted for inflation between 2013 and 2017). Numbers are shown in Figure 14. This category includes: hairdressing and beauty treatments; hair products and cosmetics; toiletries; over the counter medicines; contact lenses.

**Figure 14: Monthly spending on personal care**



Source: 2018 Living Wage update

*Workshop and questionnaire key findings*

85% of respondents to the questionnaire believed these figures to be reasonable.

*Proposed approach*

We suggest maintaining the current assumptions on spending on personal care.

**2.9 Childcare**

Numbers currently assumed are based on findings from the 2013 survey (adjusted for inflation between 2013 and 2017). Average monthly childcare costs are currently assumed at FKP249 per child (irrespective of the child’s age).

While some households with children currently report relying on unpaid childcare (such as grandparents), we believe that this is likely to change. With the implementation of government-mandated minimum standards for childcare providers, we assume that most households will choose to place their children in nursery care. In addition, we believe that it is inappropriate to build assumptions about access to unpaid childcare into the living wage calculation.

*Proposed approach*

We recommend estimating childcare expenditure levels based on the current subsidized childcare fare (FKP2.75 / hour) as well as a number of assumptions on rates of use of nurseries by children age bracket.

We suggest adopting the following methodology:

- a. Estimate a monthly cost per child, by age bracket;
- b. Estimate the weighted average monthly cost per child, based on Census data regarding the proportion of children in each age bracket.

*Workshop and questionnaire key findings*

100% of respondents to the questionnaire believed the suggested approach to be reasonable.

*Analysis*

After consulting the Childcare Advisory Teacher, we adopt the following assumptions.

**Table 15: Childcare – Assumptions**

Age bracket	% of children going to the nursery	Number of hours / day at the nursery
<3 years old	100%	7.5
3-7 years old	80%	5
7-11 years old	40%	5

Also, we assume the current subsidized childcare fare, i.e. FKP2.75 / hour.

*Estimated effect*

Based on the assumptions listed above, average nursery spending per household with children would be FKP155 per child. This change, ceteris paribus, would decrease the hourly living wage by FKP0.11.

## 2.10 Other child-related expenses

Figures assumed in the “A Living Wage for the Falkland Islands” report for child-related expenses (excluding childcare), and subsequently updated to adjust for inflation, appear to be unrealistic. On average, a monthly average expenditure of only FKP10 per child is assumed, a figure which seems to be significantly underestimated.

*Proposed approach*

We suggest adopting the following methodology:

- a. Estimate monthly cost per child, by age:
  - i. Children < than 3 years old: diapers and baby toiletries; infant formula; equipment and furniture (e.g. car seats, strollers, cribs); toys; etc.
  - ii. Children > 3 years old: school trips; toys and hobbies; etc.;
- b. Estimate the weighted average monthly cost per child, based on Census data on the proportion of children by age.

*Workshop and questionnaire key findings*

55% of respondents to the questionnaire believed the suggested approach to be reasonable. Others noted the need to consider also clubs and societies for older children, as well as booster seats, and books, and other items.

Respondents to the questionnaire were also asked to comment on what level of monthly expenditure they would you assume for a child less than 3 years old, and for a child of more than 3 years. Answers are summarized in the following table.

**Table 16: Suggested monthly child-related expenses (excluding childcare)**

Item	Min	Max	Average
< 3 years old	FKP100	FKP450	FKP285
> 3 years old	FKP50	FKP250	FKP185

*Estimated effect*

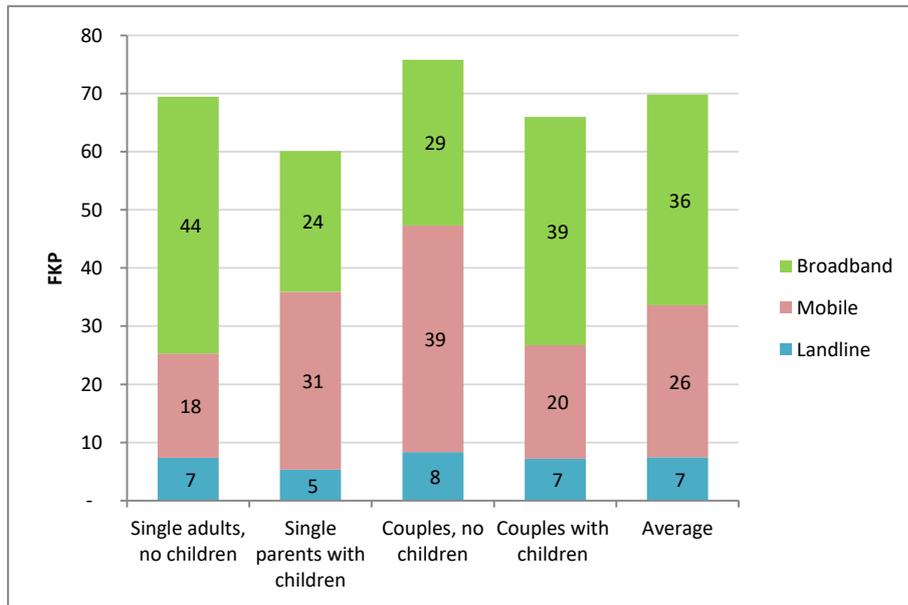
If averages reported in Table 16 are assumed, the living wage would increase, ceteris paribus, by FKP0.38.

These assumptions, however, might be overestimated; a more refined estimate based on detailed assumptions on monthly expenditures by age and number of children per household is likely to lead to a more limited impact. We can therefore anticipate an increase of the living wage around FKP0.30.

**2.11 Communication**

This category includes telephone landline, mobile packages or top-up card, and broadband internet packages. Figure 15 shows the current assumptions with respect to monthly spending on these items (numbers are based on findings from the 2013 survey, adjusted for inflation between 2013 and 2017).

**Figure 15: Monthly spending on communication, current assumptions**



Source: 2018 Living Wage update

*Workshop key findings*

Respondents to the questionnaire were asked to comment on which expenditures should be considered essential and, in the case of mobile and broadband packages, which package should be assumed as essential to guarantee a minimum standard of living. Table 17 summarizes answers to these questions.

**Table 17: Communication**

Item	% of respondents considering item essential	Most appropriate package
Telephone landline	70%	
Mobile package or top-up cards	55%	SML (70% of answers) MED (15% of answers) LRG (15% of answers)
Internet broadband package	100%	Bronze (55% of answers) Lite (45% of answers)

*Proposed approach*

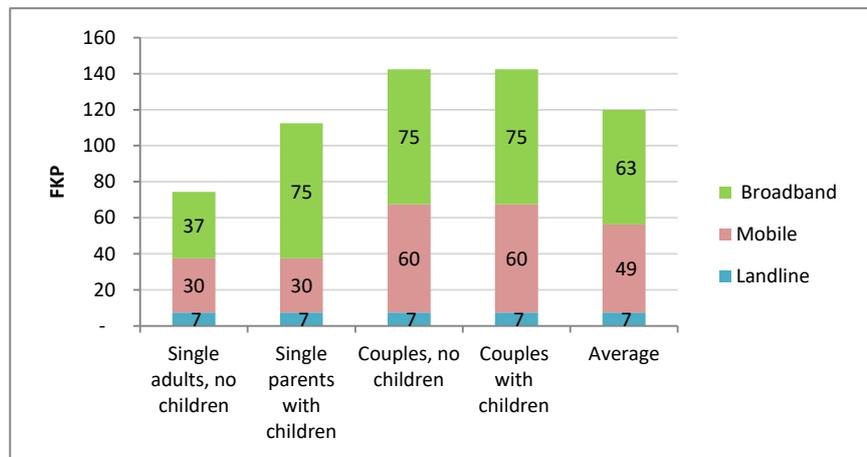
We recommend including all considered items in the group of essential items. Further, we suggest:

- assuming subscription of the SML mobile package for each adult;
- assuming subscription of the Lite internet broadband package for single adults, and the Bronze package for partnered adults and single parents.

*Analysis*

Based on the assumptions listed above, we can estimate monthly spending on communication as detailed in below.

**Figure 16: Monthly spending on communication, suggested assumptions**



Source: assumptions

*Estimated effect*

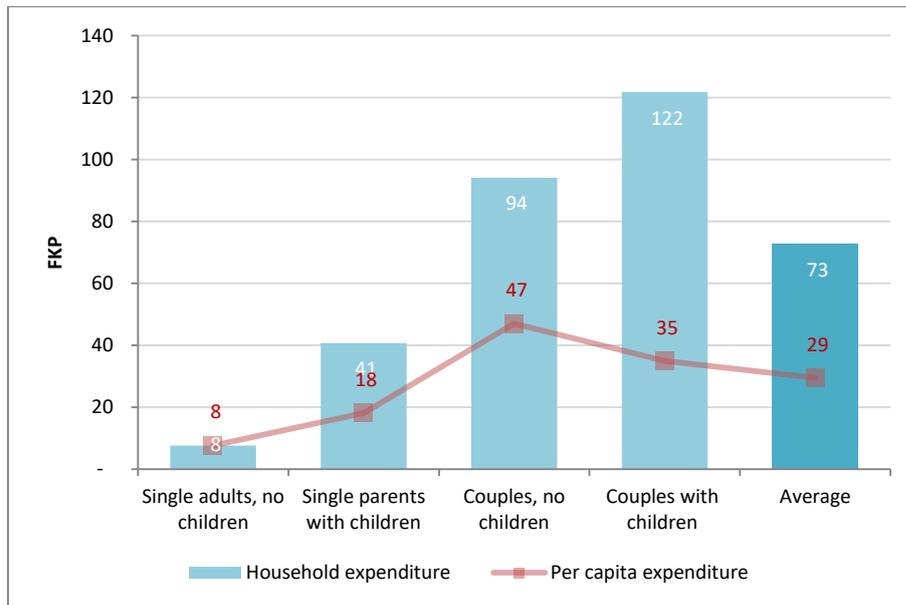
Ceteris paribus, this change would increase the living wage by FKP0.23 per hour.

**2.12 Recreational expenditure and miscellaneous goods**

The 2013 questionnaire listed 31 separate goods and services under the heading of recreation, including BBQ, fishing, and sport accessories, pet services and food, club and membership fees, cinema and museum, DVD hire and KTV, gifts, books, newspapers and magazines. Miscellaneous goods included household, life, and travel insurance, as well as passport services.

Figure 17 shows the current assumptions with respect to monthly spending on these items.

**Figure 17: Monthly spending on recreational and miscellaneous goods**



Source: 2018 Living Wage update

### *Workshop and questionnaire key findings*

70% of respondents to the questionnaire believed these figures to be reasonable. Some respondents noted that some expenditure seems to be underestimated for some family category (e.g. single adults).

### *Proposed approach*

As tastes for recreation will vary across households, it makes little sense to ask households which particular goods and services in this category are necessary to achieve a minimum standard of living. Instead, it seems more reasonable to assume a total monthly spend on recreation and miscellaneous goods.

We suggest assuming monthly spending per capita equal to FKP40 (i.e. the average of current assumptions, when excluding single adults and single parents with children, which seem to be underestimated) for adults and children > 5 years old.

### *Estimated effect*

Based on these assumptions, the living wage would increase by FKP0.04 per hour.

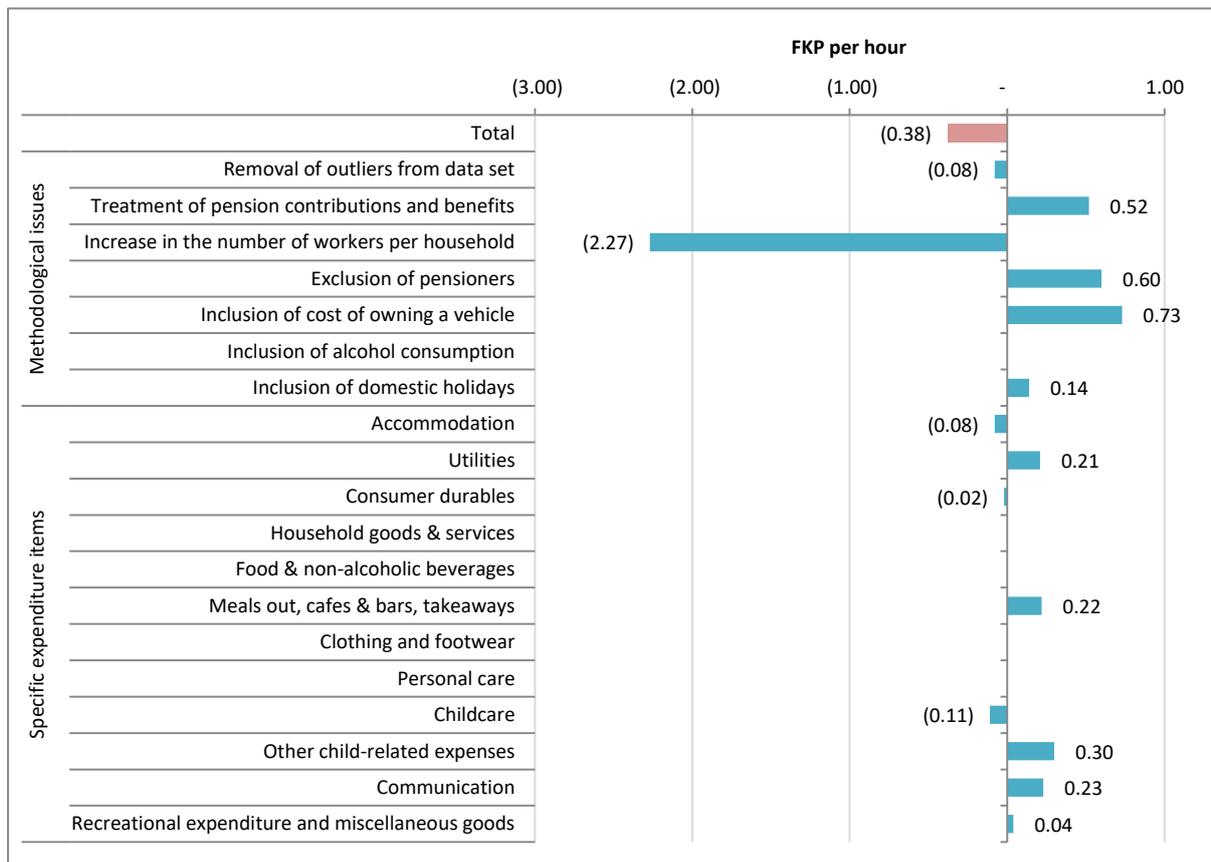
### 3 CONCLUSIONS

Figure 18 below summarizes the expected impact on the living wage of the methodological changes discussed in this paper.

As stated earlier in this paper, estimated impacts of methodological changes are to be interpreted as effects *ceteris paribus*, that is keeping all the other assumptions unchanged. The effect of a methodological change would differ if other changes are adopted at the same time. Therefore, the overall impact of adopting a number (of all) of the suggested methodological changes would be different from the simple sum of the estimated effects associated to those changes.

In case all the proposed methodological changes were to be adopted, the living wage would decrease by FKP0.38 (from FKP7.41 to FKP7.03).

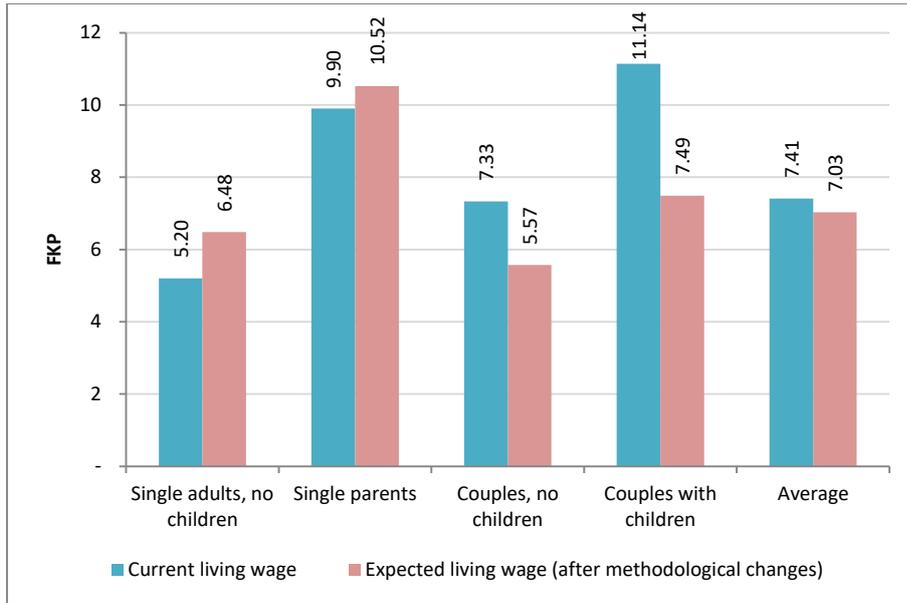
**Figure 18: Expected change in the living wage, by methodological change**



Source: *Living Wage model*

Figure 19 below details the impact on the different family configurations, in case all methodological changes were to be adopted. Couples (with and without children) are the family configurations that are most affected by the expected reduction in living wage estimates, because of the new assumption of more than one wage earner in each household.

**Figure 19: Expected change in the living wage following methodological changes, by family configuration**



Source: 2018 Living Wage update, and Living Wage model