LIVING
WAGE
COMMISSION

WORK THAT PAYS

THE FINAL REPORT OF THE LIVING WAGE COMMISSION

June 2014

ABOUT THE LIVING WAGE COMMISSION

The Living Wage Commission is an independent inquiry into the future of the Living Wage. Bringing together leading figures from business, trade unions and civil society, its Commissioners have investigated what potential the increasingly popular concept of a Living Wage holds for the UK's 5 million low-paid workers. Commissioners have researched and assessed evidence on the value of the Living Wage, barriers to its implementation and how these barriers can be overcome. The Commission was established with the support of the Joseph Rowntree Charitable Trust.

This broad Commission is independent from any political party or organisation. It is non-partisan in its approach and its conclusions are based solely on the findings of the Commission. This report represents the collective view of the Commission as a whole.

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COMMISSIONERS

Dr John Sentamu is the Archbishop of York and Chair of the Living Wage Commission. He was appointed to the Church of England's second most senior position in 2005 after having served as the Bishop of Stepney and then Birmingham. Dr Sentamu practised Law both at the Bar and the Bench in Uganda before he came to the UK in 1974. He has acted as Adviser to the Stephen Lawrence Judicial Inquiry and he chaired the Damilola Taylor Murder Review. Dr Sentamu has played a role in a variety of anti-poverty campaigns and charities including the Jubilee 2000 Coalition, Trade Justice, Make Poverty History, and the Millennium Development Goals.

Frances O'Grady is the General Secretary of the TUC. Frances previously worked for the Transport and General Workers Union before joining the TUC. She has led on securing the London Living Wage for Olympics staff and served on both the Low Pay Commission and the Resolution Foundation's Commission on Living Standards.

Dr Adam Marshall is the Director of Policy and External Affairs at the British Chambers of Commerce. The BCC has 53 accredited Chambers and over 100,000 member businesses across the UK. Adam was previously Head of Policy for the Centre for Cities, playing a key role in the organisation's start-up and its spin-out from the Institute for Public Policy Research.

Victoria Winckler is the Director of the Bevan Foundation. Victoria is a leading contributor to public policy in Wales, having previously worked in senior roles at the Welsh Local Government Association and Mid Glamorgan County Council before joining the Bevan Foundation in 2002. The Bevan Foundation is currently looking at poverty, education, health and the economy in Wales.

Sir Stuart Etherington is the Chief Executive of the National Council for Voluntary Organisations (NCVO). The NCVO has over 10,500 member organisations and represents the interests of charities and voluntary bodies. Previously Stuart was Chief Executive of the Royal National Institute for Deaf People. Stuart was knighted in 2010 for services to the voluntary sector.

Kate Pickett is Professor of Epidemiology in the Department of Health Sciences at the University of York. Kate was a UK NIHR Career scientist from 2007 to 2012 and is a Fellow of the Royal Society of Arts and of the UK Faculty of Public Health. Kate is co-author of the bestselling book *The Spirit Level*, winner of the 2012 Publication of the Year from the Political Studies Association and translated into 23 languages.

Guy Stallard is the UK Head of Facilities at KPMG. Since playing an instrumental role in KPMG's becoming a Living Wage employer in 2006, Guy has advised businesses on paying the Living Wage. Guy is a member of the Living Wage Foundation Policy Group which oversees the intellectual logic of the production of the Living Wage rate and developed the Foundation's Service Provider recognition scheme.

Wendy Bond is the representative of low-paid workers on the Living Wage Commission. Wendy has worked in catering at a specialist school in Wolverhampton for over 20 years and currently represents her colleagues as a UNISON steward.

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FOREWORD FROM THE ARCHBISHOP OF YORK

How can we justify the national scandal of low pay in this country? What do we say to the millions of low-paid employees that are working all hours of the day, barely seeing their families, yet struggling to account for the rising cost of living?

For too long politicians and unscrupulous employers have been attempting to placate these invisible millions with talk of 'making work pay'. For too long these platitudes have sounded hollow, as prices rise faster than wages for millions, as those working and hard-pressed people who find themselves in poverty increasingly turn up to food banks in their lunch breaks, as the in-work benefits bill rises and the nation pays the price. Yet while these empty assurances have been rightly disregarded, campaigners and responsible businesses have been lifting thousands of people out of working poverty by paying a **Living Wage**.

Over the past year, the Living Wage Commission has brought leading figures from business, trades unions, civil society and academia together to hear from employers, low-paid employees, campaigners and experts about how we can tackle low pay. We have looked at how we can re-ignite the spirit of the brilliant local campaigns that began a decade ago in East London, calling for a basic wage that covers the cost of living. With this final report of the Living Wage Commission, we set out how government and responsible businesses can face up to the challenging times we live in by creating a step change in poverty pay.

When I sat down with fellow Commissioners for the first time one year ago, we knew that the situation we faced was stark. Decades of rising income inequality and the deepest recession since the First World War had taken their toll. For the first time, the majority of people in poverty in the UK were now working. One in five working people were being paid less than a Living Wage. The cost of living was rising year on year, but both average wages and the National Minimum Wage were failing to keep pace. Low pay had become a blight on our society, in our communities and for our economy.

Yet this blight had not grown unchallenged. While politicians squabbled over what the next big idea would be, new campaigns were popping up across the country in workplaces, churches, schools, communities and online. Responsible businesses made commitments to ensure their staff were paid wages that met the cost of living.

The campaign for a Living Wage was born and it became a beacon of hope for the millions of low-paid employees struggling to make ends meet. Working in local communities, with trades unions, responsible businesses and local government, Citizens UK and the Living Wage Foundation were ensuring pay rises for thousands of the most vulnerable people in the country. The Commission faced the task of setting out how the spirit of these local campaigns could be used to energise and inspire a national plan for addressing the rising levels of low pay in the UK.

In the course of the work of the Commission, the Commissioners and I met with a group of employees from various organisations that had implemented a Living Wage. Their stories were moving. One young man, Godfrey, told us how before he was paid a Living Wage, he had to travel from Portsmouth to London and back every day on the coach. He woke at 3am and returned home from work at 10.30pm. The Living Wage allowed him to move his family to the city he worked in so that he could see more of his three children. The Living Wage, meant he could take them to the zoo, he told us, to theme parks, and he could afford to buy toys for them too. It meant Godfrey and his children could be a family again.

Godfrey's story is one of thousands, thanks to the efforts of campaigners and responsible businesses with a commitment to good business ethics. But sadly there are still millions that are still paid less than a Living Wage. This report sets out a plan to create a step change in levels of low pay in the UK. The challenge for politicians is to turn their platitudes into pay. The sooner we deal with the blight of low pay in a meaningful way, the better for millions of people, society, the economy and for businesses.

The timing for a step change is right. The nascent economic recovery provides the Living Wage campaign with the perfect opportunity to push on and benefit more low-paid employees than ever before. As we emerge from the recession, the warning the Commission set out in its interim report (*Working for poverty*, February 2014) of the need for a fair recovery has been echoed by other leading figures. John Cridland, CBI Director-General, has said, 'In 2014 we need balanced growth that benefits everyone,' and Mark Carney, Governor of the Bank of England, talks of 'a prize [that] is a strong, sustained and balanced expansion'. The British Chambers of Commerce have said that business confidence is now at historically high levels. What better time could there be for a significant increase in coverage of the Living Wage? We need to seize this opportunity.

Dr John Sentamu, Archbishop of York

EXECUTIVE SUMMARY

5.2 million remain below the Living Wage

The Living Wage Commission has been tasked with assessing the case for a Living Wage in the UK, assessing whether the timing and conditions are right for a significant extension of coverage, and recommending how this might be achieved.

The Living Wage is an hourly rate of income calculated according to a basic cost of living in the UK and defined as the minimum amount of money needed to enjoy a basic, but socially acceptable standard of living. In 2014 the UK Living Wage rate stands at £7.65 per hour, and the London Living Wage is set at a higher rate of £8.80 per hour to take account of the comparatively higher cost of living in the capital. The campaign was started and remains led by community organisers London Citizens and Citizens UK, who have established the Living Wage Foundation to accredit Living Wage Employers.

At the time of publication there are currently 712 employers accredited by the Living Wage Foundation, which have committed to paying a Living Wage to all directly employed and subcontracted staff. The Living Wage Commission estimate that around 45,500 low-paid employees have been brought up to a Living Wage by accredited employers. Further to this, statistics show that 61% of businesses pay a Living Wage to all directly employed staff. However, there remain 5.2 million people paid below a Living Wage in the UK.

Benefits of increased coverage of the Living Wage

The Living Wage Commission has looked closely at the social, business, and public policy cases for extending the coverage of the Living Wage. The evidence suggests that while there are some manageable risks in each case, there is a strong argument on social, business, and public policy grounds for a significant extension of its coverage: by 2020, an additional 1 million workers can be brought up to the Living Wage.

The social case
The Living Wage can provide a hand up for the lowest paid. The interim report from the Living Wage Commission (*Working for poverty*, February 2014) set out how the lowest paid were suffering from a 'double squeeze' of stagnating pay and rising costs of living. For the first time, the majority of people in poverty in the UK are working. Working families are increasingly having to turn to help, such as food banks and unsustainable debt, to get by. Yet the Commission has found that the Living Wage can provide life-changing opportunities for the lowest paid. Living Wage employees have told the Commission of the access the Living Wage allows them to the goods and services that most people deem necessary to participate in society. To some this has meant being able to send their children to a friend's birthday party, for others it has meant being able to pay household bills on time or replace essential goods when they break. For many families it has meant parents no longer have to work all hours to put food on the table, and they can afford to see more of their children.

The business case
The Living Wage can provide a range of benefits for those employers able to afford it. After speaking to businesses, employer groups and low-paid workers, as well as analysing the evidence on the effects to businesses from paying a Living Wage, the Commission has established that the Living Wage can open the door to productivity increases for businesses. This is the result of Living Wage employees contributing higher levels of effort and an openness to changing job roles. Other business benefits include cost-saving opportunities from increasing staff retention and the stability of the workforce, as well as reduced absenteeism. The evidence points to improved levels of morale, motivation and commitment from staff across the pay distribution in Living Wage workplaces.

The public policy case
There is a strong public policy case for a significant increase in coverage of the Living Wage. An analysis provided by Landman Economics for the Living Wage Commission shows that the Exchequer could gain up to £4.2 billion in increased tax revenues and reduced expenditure on tax credits and other in-work benefits from an increase in coverage of the Living Wage. There could be further multiplier effects arising from putting a modest amount of disposable income into the pockets of the UK's lowest paid staff, with demand subsequently increasing in the economy. Additionally, an increase in coverage of the Living Wage implemented together with improved skills and training could narrow or even plug the gap in levels of productivity between the UK and the other G7 countries.

Avoiding unintended consequences
In submissions to the Commission, some have called for the introduction of a statutory Living Wage. However, the unintended consequences of taking this route now would be likely to outweigh the potential benefits. The key barrier is affordability for some businesses. A study of the relative change in labour demand from the National Institute of Economic and Social Research, showed that there could be a net reduction of around 160,000 jobs in the labour market from a statutory Living Wage.[1] The evidence suggests that there are some industries in which employers may struggle to pay a Living Wage at the current time. For example, Resolution Foundation and IPPR analysis shows that implementing a Living Wage policy would raise the average wage bill for a bar or restaurant by 6.2%, and by around 4.8% for retailers.[2] Similarly, some small businesses may find it difficult to implement a Living Wage policy because of the volatility of short-term contracts that create a risk when signing up to a long-term commitment such as accreditation as a Living Wage Employer. Any net increase in unemployment resulting from the compulsion of businesses to pay a Living Wage when they are not currently able to do so would lead to an increase in the out-of-work benefits bill, a reduction in productivity for businesses, and, crucially, a further drop in the standard of living for some of the most vulnerable people in the labour market.

Opportunities to extend coverage of the Living Wage

The UK's nascent economic recovery signals an opportunity for a sustainable increase in coverage of the Living Wage. Further growth is expected in the coming months and years, and business confidence is at historically high levels. A large majority (70%) of small businesses expect to increase staff pay by mid 2015 and both the manufacturing and service sectors expect expansion during this time. This recovery has been met by the emergence of strong public support for the Living Wage, with 79% of the general public agreeing that people working full-time should be paid enough to maintain a basic but socially acceptable lifestyle.

This final report of the Living Wage Commission sets out a target for the UK and devolved governments to sign up to, in order to achieve a significant increase in coverage of the Living Wage.

While some industries and some small and medium sized businesses will find it difficult to pay a Living Wage to all employees today, there are a great many larger businesses in relatively high-paying industries which, the evidence suggests, are able to pay a Living Wage to all employees. Examples of these are the banking and construction industries that face less than a 0.5% increase in their wage bill from adopting a Living Wage. As well as demonstrating how the cost of bringing all directly employed public sector workers up to a Living Wage can be neutralised, this report sets out a target for an increase in coverage in the private sector that takes into account sector-specific concerns over firm-level wage costs, relative change in labour demand from increasing pay in different sectors, as well as progress made by the Living Wage campaign so far.

This evidence has led Commissioners to set a target of bringing an additional 1 million workers up to a Living Wage by 2020, spread across the private and public sectors. To meet this target, the Living Wage Commission has set out a roadmap of recommendations necessary to achieve a significant increase in coverage of the Living Wage.

RECOMMENDATIONS

1. The UK government should make it an explicit goal to increase the take-up of the voluntary Living Wage to benefit at least 1 million more employees by 2020.

The evidence suggests that there is scope to increase the spread of the Living Wage to cover over 1 million more workers within the next Parliament with no adverse effects, compulsion or regulation. This is a bold, yet credible step that will not result in an overall reduction in demand for labour, but will significantly improve the lives and wellbeing of a substantial number of people, and move the Living Wage further towards becoming the norm in the UK.

Increasing coverage in the public sector

2. The UK and devolved governments should ensure that all directly employed public sector employees are paid a Living Wage.

While the Living Wage campaign should continue to be run on a bottom-up, voluntary basis, the Commission agree that governments have a role to play in supporting the campaign. The starting point for governments needs to be a commitment to ensure all directly employed public sector staff are paid a Living Wage. The public sector is a major employer and has a key role to play in ensuring 1 million more employees earn a Living Wage by 2020. Only then can governments credibly champion a Living Wage to the private and voluntary sectors.

3. The UK and devolved governments should ensure that the public sector always procures on value, rather than spreadsheet cost, which would enable stronger consideration of contractors paying a Living Wage.

Public procurement provides a strong opportunity for spreading Living Wage coverage, and also championing the Living Wage. The Greater London Assembly and the Scottish government have shown how this public sector leadership can increase the number of people in the private sector being paid a Living Wage. However, the Commission does not recommend specific compulsory Living Wage requirements in public sector procurement.

The Commission also does not recommend the introduction of across the board requirements for the UK and devolved governments as such an approach could disproportionately affect the chances of small and medium sized businesses from winning contracts.

Increasing coverage in the private sector

4. Central and local government should support the Living Wage by championing it to employers across the UK.

One of the chief barriers to increasing coverage of the Living Wage and the voluntary accreditation system is awareness. While the campaign is rising in popularity and is beginning to enter the mainstream, there are still many employers, especially outside of London, that are not yet aware of it as a concept, let alone the benefits that it can provide.

5. The Living Wage Foundation should oversee the production of a toolkit for businesses to measure both the costs and benefits of increasing wages for the lowest paid workers.

The evidence suggests that there are a variety of business benefits from implementing a Living Wage policy, including productivity increases, lower staff turnover, reduced absenteeism, increased stability of the workforce, improved morale, and reputational benefits. Helping businesses to quantify the potential benefits of the Living Wage would be a huge step forward in getting many to consider implementing it.

6. Accredited employers should proudly display the Living Wage kitemark in order to build consumer awareness of the Living Wage.

To encourage more consumer-facing businesses in particular to pay a Living Wage, there needs to be an increase in consumer awareness and a demonstration that consumers are willing to pay for a Living Wage product or service. In building awareness, and in keeping with the principles of celebration and encouragement, the Living Wage campaign can utilise its list of existing Living Wage employers. These employers can be a huge asset to the campaign in terms of boosting the profile of the Living Wage kitemark.

7. The Living Wage Foundation should oversee the development of an online tool to allow consumers to identify which goods and services are from Living Wage providers.

The Living Wage Foundation can utilise its list of employers and help consumers make ethical decisions by providing an online tool that will show consumers where they can buy Living Wage goods and use Living Wage services in their local area. As coverage of the Living Wage builds, this tool will become more and more useful for consumers and will provide much leverage in demonstrating willingness to pay for Living Wage goods and services.

8. All publicly listed companies should publish the number of people paid below a Living Wage in their organisation, and the UK government should legislate if they fail to do so.

Encouraging publicly listed companies to publish the number of people paid below a Living Wage in their organisation would provide useful additional data on identifying low-paying employers and sectors, while also building pressure on larger employers to pay a Living Wage. Living Wage employers should begin adding figures to annual reports immediately, with all publicly listed companies doing so by the end of 2015. Government should be prepared to legislate if the voluntary approach does not work.

The Living Wage campaign

9. The Living Wage campaign should continue to be rooted in the principles of community, encouragement and celebration.

The Living Wage campaign has adapted and developed during its growth from a small initiative started by The East London Communities Organisation (TELCO, now part of London Citizens) in 2001. Yet the pivotal role of community and faith organisations, civil society, local institutions and trade unions remains. This grounding is an important aspect of the campaign that gives it conviction, and ensures it continues to be rooted in real lives, rather than balance sheets and statistics. Creating a step change in coverage of the Living Wage will require the support of governments, and a more general widening of the scope. But the campaign should continue to be rooted in the principles of community, encouragement and celebration.

CHAPTER 1
THE BACKGROUND

The Living Wage Commission has been tasked with looking at the case for a Living Wage in the UK, assessing whether the timing and conditions are right for a significant extension of coverage, and recommending how this might be achieved. It has analysed the related issues around low pay, examined the opportunities and barriers around the Living Wage, considered the roles of government, businesses and campaigning groups, and developed recommendations on how it would be possible to extend coverage of the Living Wage in the UK.

The modern Living Wage campaign was an idea born from local community campaigns, but is now championed by businesses, politicians, and across civil society. The Living Wage is a measure of income that allows an employee a basic but socially acceptable standard of living. It embodies the notion of a fair day's pay for a fair day's work and gives recipients independence from the various forms of support that many are forced to rely on.

The campaign for a Living Wage, as we now know it, began in 2001 when a coalition of faith organisations, schools, trades union branches and students' unions known as The East London Communities Organisation (TELCO, now part of London Citizens) decided a Living Wage was the answer to many of the social problems facing their community. In the same year TELCO teamed up with the public service workers' union UNISON to establish the Family Budget Unit at the University of York to measure the first living wage at £6.30 per hour – based on the lowest income needed to support an East London family with an acceptable standard of living. In 2004 the Mayor of London, Ken Livingstone, established the Living Wage unit at City Hall, which went on to calculate the London Living Wage annually, based on the same principles as the Family Budget Unit's – a low cost, but socially acceptable income. The succeeding Mayor, Boris Johnson, continued to support the Living Wage and the London Living Wage is still set in City Hall. In 2011 the Living Wage Foundation was established alongside a UK Living Wage rate, calculated by the Centre for Research and Social Policy at the University of Loughborough. The Living Wage Foundation accredits employers who pay the Living Wage, currently £7.65 and £8.80 in London, to all directly employed and contracted-out staff in their organisation.[3]

The Living Wage campaign is increasing in popularity: 712 employers and 16 major service providers now have Living Wage accreditation, including the FTSE 100 companies SSE, Aviva, Barclays, Pearson, Resolution, Legal & General, Standard Life and Anglo-American. A recent poll found that 84% of the public think that employers should be paying wages that better reflect the cost of living.[4] A British Chambers of Commerce survey in February 2014 found that 61% of their members paid at least a Living Wage to all directly employed staff, with a further 20% paying the majority of their staff at or above the Living Wage rate.[5] However, there are still a great many employers that do not pay a Living Wage to all staff and there remain 5.2 million employees in the UK paid below a Living Wage. There are barriers of affordability, the maintenance of differentials and some sector-specific issues that mean that there is still very low coverage of the Living Wage in the low-paying industries.

Meanwhile, the interim report of the Living Wage Commission showed how the 'double squeeze' of rising prices and stagnation of pay at the bottom of the wage distribution was causing more and more people in working poverty to seek help.[6]

This report divides its focus into two broad areas. Chapter 2 asks 'Is the time right for an increase in coverage?' It sets out the opportunities and risks for society, business, and government of extending coverage of the Living Wage, and the barriers to implementation. Chapter 3 then looks at what a bold but credible increase in coverage of the Living Wage would look like, and provides a roadmap for achieving it.

The Living Wage rates

In the UK there are two rates: the London Living Wage and the UK Living Wage for the rest of the UK. In 2014, the London Living Wage is set at the higher rate of £8.80 and the UK Living Wage is £7.65. The higher London rate, for all boroughs in Greater London, reflects the different labour markets and, in particular, housing costs of the capital compared with the rest of the country. (London's poverty rate is 17% before housing costs – below the regional average – but around 27% after housing costs. On this more broadly accepted measure it is the region with the highest level of poverty.)

Whilst there are differences between other regions outside the capital, one UK Living Wage was adopted for everywhere outside London in order to prevent problems experienced in the USA where there was confusion amongst employers because of multiple rates, and campaigners struggled with the clarity of their message. The two rates are set by different organisations. The London Living Wage has been set by the Greater London Authority since 2005. The UK Living Wage has been set since 2011 using the Centre for Research in Social Policy's Minimum Income Standard.[7] These two rates are then used by the Living Wage Foundation to accredit companies and organisations as Living Wage Employers. The rates are set in November each year and employers have six months to implement the new rate.[8]

Figure 1: Minimum and Living Wage, 2009–13

Year (from Nov)	National Minimum Wage (NMW)[a]	Living Wage (LW)[b]	London Living Wage (LLW)	Annualised NMW (based on full-time 39hr week)	Annualised LW (based on full-time 39hr week)	Annualised LLW (based on full-time 39hr week)	NMW to LW percentage gap	NMW to LLW percentage gap
	£			£			%	
2009	5.80	–	7.60	11,795	–	15,455		31.03%
2010	5.93	–	7.85	12,059	–	15,964		32.38%
2011	6.08	7.20	8.30	12,364	14,642	16,879	18.42%	36.51%
2012	6.19	7.45	8.55	12,588	15,150	17,387	20.36%	38.13%
2013	6.31	7.65	8.80	12,832	15,557	17,895	21.24%	39.46%

Sources: *National Minimum Wage rates* (www.gov.uk, May 2014); Living Wage rates from Living Wage Foundation (www.livingwage.org.uk/, accessed May 2014). Annualised rates and percentage gaps based on the Commission's own calculations.

Notes: [a]This NMW rate is the highest rate, for adults; lower rates apply to younger people. [b]The UK Living Wage rate was not introduced until 2011.

CHAPTER 2
THE LIVING WAGE: IS THE TIME RIGHT TO EXTEND COVERAGE?

2.1 The social case

The social case for the Living Wage has been a strong pillar of the campaign so far. Many employers decided to pay the Living Wage after they realised that their staff were struggling on low pay. For example, Mark Constantine, the Chief Executive at Lush, recalls how he was 'cornered at a London Christmas party' where 'the staff explained to me exactly what the situation was.'[9] Sir John Bond, then Chairman of HSBC, changed his mind in favour of the Living Wage after hearing an impassioned speech about the need for a Living Wage made at an AGM by Abdul Durrant, a Canary Wharf cleaner.[10] The idea of making sure work pays – of making sure everybody is paid enough to enjoy a basic but socially acceptable lifestyle – has proved an emotive and effective point for Living Wage campaigners to make. The deputy political editor of *The Sun*, Steve Hawkes, responded to the Archbishop of York's comments coinciding with the Living Wage Commission's interim report by saying that 'politicians, but also UK PLC, should shuffle uneasily' at the prospect of work not being enough to make a living. [11]

While there is a strong evidence base to support the business and public policy cases behind a Living Wage, the Living Wage campaign has traditionally placed the social case first. 'Our approach is to build the argument that paying the living wage is vital for the worker and their family,' Rhys Moore, the Director of the Living Wage Foundation, has said, 'but it also makes sense for employers'.[12] The case for ensuring that full-time workers, often in more than one job, receive enough pay to cope with the cost of living has been an effective aspect in persuading organisations to support the Living Wage.

Opportunities

Over the course of this year, the Living Wage Commission has been hearing from low-paid workers from across the UK. Their remarks suggest that the Living Wage holds great promise for low-paid workers, and those staff in businesses that have adopted the Living Wage have had access to the goods and services deemed necessary to participate in society, get more family time, and do not have to worry about turning the heating on in the winter or buying their child a Christmas present.[13]

When setting the Living Wage, both the London rate and the national rate are based on the findings from focus groups on what constitutes a 'Low Cost but Acceptable' standard in London and a 'Minimum Income Standard' in the rest of the UK. While the two rates are calculated separately and differently, they both aim to create a rate of pay that represents a socially acceptable, if basic, standard of living. The necessary rate provides a full shopping basket containing, in each case, a modest selection of food (one bunch of bananas, one box of mushrooms per week, etc.), a small assortment of clothing and footwear (from stores such as Tesco and Matalan), housing costs (rent, utilities, council tax, money for essential household goods), personal goods and services (such as prescriptions and medicine), and transport costs.

Many low-paid workers who have submitted their stories to the Living Wage Commission have been unable to afford items in this basket. For example, one low-paid worker who is paid £6.41 an hour (just above the National Minimum Wage) cannot afford to socialise and is scared of turning the heating on in winter:

> *"I do not have a smart phone or a fancy TV, the exhaust on my car is held on with cable ties because after I have paid rent for a flat that is not even self-contained, I cannot afford to do anything else. I am frightened to put my heating on because I don't want to be faced with a big bill. I live alone now after bringing 2 daughters up alone, I can't afford to go out and socialise to make friends and so my world is becoming very lonely."*

One supermarket worker, paid £6.70 an hour, says he struggles to replace household goods after spending nearly all of his income on rent, bills and food costs:

> *"I do not smoke or drink because I try to keep a car on the road so that I can visit my brother in a care home 7 miles from my home. I also pay around 80% of my income on rent, food, Council Tax, utilities, telephone, broadband and petrol. I take a holiday every 2 years for a week to visit family. It does not leave very much to save or to replace household goods when they fail."*

One care worker in Poole earning £7.00 an hour feels pressed by rising food bills and anxious about the future:

> *"Even though I'm 30, I still have to rent a room and I could never afford to even think about buying my own place. I work very hard in my job, looking after older people with dementia, and I think people in my profession are very underpaid compared to the work we carry out. I would like to train to be a nurse but just can't afford to stop working at the moment, so my poor wages are holding me back developing my career. In the last 12 months I have noticed my food bill go up. I only buy the basics and I have gone from spending on average £66 up to £90 a month, and that isn't buying anything really nice which I would like to. I haven't been on a holiday for 5 years and doubt I will in the foreseeable future. My wages just go on basic living."*

Meanwhile, in submissions to one Living Wage Employer, the Greater London Authority, workers receiving the Living Wage had very different accounts of the cost of living. Living costs became easier to manage and they were able to take courses to build their skills and experience.

> *"Now I can manage my bills and transportation easier but my main worry is still the cost of living. In London the cost of living is higher than the low-paid jobs are being paid."*
>
> *"The cost of living is more expensive… with the Living Wage I can give my daughter more things… it also gives us more motivation to keep cleaning."*
>
> *"Being paid the higher wage means I can pay to go to college – I'm studying in the evenings to be a computer programmer."*
>
> *"I'm starting college in the evenings to be an accountant."*
>
> *"The Living Wage means that my children can enjoy trips outside of London."*

The Living Wage is not all about pay. It is about time too. The interim report of the Living Wage Commission, *Working for poverty*, showed how the average Living Wage employee had double the amount of family time as the average Minimum Wage employee. This worked out as an additional three hours a day.[14]

A testimony from Godfrey Lasebikan, a Swiss Post Solutions employee working at KPMG

In my case, the Living Wage has been a great help. I travelled to work every day from Portsmouth to London and it made it impossible to have time for friends and family or recreational activities. I got up from bed at 3am in order to catch the 4.10am National Express coach to London which arrived at Victoria Coach Station at 6.30am and I then hopped on the bus to Holborn and I walked the rest of the way to start work at 8am. Once I was done at 6pm, I had to be on the 7.15pm coach that got to Portsmouth at 9.30pm in order to be home by 10.30pm. I occasionally missed that coach because of the London traffic and therefore got the next available coach which was at 9pm and got home just after midnight only to rise from bed at 3am again. The London Living Wage put a stop to that and enabled me to move to London permanently while giving me spare time to spend with family and friends. It has definitely been a great help.

In addition, I don't think I would have been able to cope with having three children without the Living Wage. That little extra has helped me to take them on short trips to the zoo, animal farms, and children's theme parks and play spaces. It has helped with spare cash to buy toys too. I believe the Living Wage is very important as it helps workers with living costs and other essential expenses as it has me. Quality of life improves and, as a result, attitudes become more positive.

The Living Wage is also about feeling valued. Many low paying jobs, such as cleaning and catering, are outsourced to external service providers, which means staff are employed by a different firm to the premises that they work in. It can often lead to staff feeling undervalued and invisible. For example, one outsourced cleaner working at John Lewis in Oxford Street gave a testimonial to Share Action, the organisation campaigning for fairer investment, that said:

"I work for John Lewis but I am not one of the partners. We, the cleaners, are invisibles in this beautiful palace. We are not the one with the John Lewis badge and are not treated as a part of the family. We walk the same floors, use the same lifts and canteen but are strangers in the place. Sometimes, we feel like rats who are in the hiding, do our job, not speak to anyone, don't get asked any questions or how my day was. Yet, we always make sure the place looks spotless and fresh."[15]

It is for this reason that the Living Wage Foundation's accreditation process for Living Wage Employers requires employers to pay a Living Wage to all staff working on their premises, including subcontracted employees. Renata Zlotnik, a cleaner working at KPMG, told the Commission, 'I really enjoy working at KPMG, everyone is so friendly and kind. Respect is the key word in my workplace.' The contrasted accounts from staff working in Living Wage and non-Living Wage organisations suggests that the Living Wage makes staff feel valued and respected, along with the financial benefits that they enjoy.

Social risks

While the evidence suggests the Living Wage provides great opportunities for society and the low-paid, there are risks that need to be acknowledged.

Unemployment

While many people paid below a Living Wage feel hard-pressed by rising living costs, it is clear that this is still an advantageous position in comparison with being unemployed. For example, one low-paid hospitality worker told the Commission,

"I live in the North East of England where it is incredibly difficult to find work, especially a full-time job. I have been lucky enough to find a part-time job that pays the minimum wage."

This has been a common response – many people feel that, given the current economic situation, they are lucky enough to simply have a job.

This being so, any rise in unemployment would clearly have a negative social effect. The risk is that, if forced to implement a Living Wage policy, any employers that are unable to afford it may have to make some employees redundant in order to fund higher wages for fewer employees. However, the evidence on the labour market impacts of an increase in coverage (see later in this chapter) suggests that the Living Wage can be extended significantly without any adverse impact on the labour market.

The Living Wage as a voluntary minimum income standard

The Living Wage is a voluntary measure, so it is unlikely that it will help everybody on low pay. Its status as a minimum standard means it does not help employees who earn above Living Wage rates, yet might still feel the pinch. For example, a food manufacturing worker in a relatively expensive town such as Reading, who earns £8 per hour and has not had a pay rise for several years, might find it difficult to manage with the rising cost of living. While the Living Wage provides a welcome solution for the lowest paid staff, it does not in and of itself provide a panacea for stagnating wages across the mid to low-wage distribution. Here, training and productivity gains are crucial to making the case for further increases in pay beyond a minimum income standard.

2.2 The business case

One of the key strengths of the Living Wage campaign is the buy-in of employers that recognise and champion the business benefits. If coverage of the Living Wage is to expand into the low-paying industries of the UK, a strong and clear business case is essential. As the Secretary of State for Business, Innovation and Skills, Vince Cable, recently explained to Parliament, 'If it is good business practice, good businesses will follow it and out-compete their competitors, and I hope that that is what will happen.' [16]

Several studies have been carried out into the business case for the Living Wage, with a general conclusion that there are clear benefits on productivity, staff turnover, absenteeism, stability, motivation and commitment, and business reputation. The results of these studies have been borne out by comments made to the Commission by employers, employer groups, low-paid workers and sector specialists.

Throughout the Commission's research and consultation process, however, some clear risks have emerged in regard to the business case for the Living Wage. The transition to paying the Living Wage carries costs. In some sectors, and for some sizes of business, these costs are affordable, and the evidence suggests that they have been manageable for all the employers that have made the transition so far. However, there are specific issues in the retail, hospitality and social care sectors that need to be addressed before a significant increase in coverage of the Living Wage can be achieved. The anxiety is that if coverage of the Living Wage increases in areas of the economy where it is simply unaffordable, particularly for smaller companies, it may not only put people out of work but may also hinder business development, and ultimately growth.

The Living Wage campaign is gaining ground

In the 20 months leading up to June 2014, the Living Wage Foundation has increased the number of accredited Living Wage Employers by over seven times.[17] Further to this, research suggests that there are a great many employers paying the Living Wage that are not accredited. A British Chambers of Commerce survey in February 2014 found that 61% of their members paid at least a Living Wage to all directly employed staff.[18] However, there still remain 5.2 million employees in the UK paid below a Living Wage.[19] If significant progress is to be made against this figure, an increase in coverage of the Living Wage needs to include those employers that have so far proved harder to reach.

From its humble beginnings in the community of East London, support for the Living Wage campaign now extends across all political parties. 'Where companies can afford to pay the Living Wage,' the prime minister David Cameron recently told an audience at the World Economic Forum, 'I think they should.'[20] The cross-party support for the Living Wage has stopped it from being a party political issue – Ed Miliband, leader of the Opposition, described the Living Wage as 'central' to his campaign for the leadership of the Labour Party in 2010.[21] Vince Cable, Liberal Democrat MP and Secretary of State for the Department for Business, Innovation and Skills, told the House of Commons in April 2014 that 'The government support a living wage and encourage businesses to pay it when it is affordable and not at the expense of jobs.'[22] Yet there are clear challenges in increasing the spread of the Living Wage across all industries and regions of the UK.

This challenge is demonstrated by an analysis of employers accredited with the Living Wage Foundation that shows the three types of employer most likely to be accredited are charities, professional services firms, and law firms. This mix reflects the areas in which the Living Wage campaign has maximised its impact: not surprisingly, the support is greatest among ethical organisations that prioritise accreditation in accordance with their values, and highly profitable organisations that are more able to absorb the costs while practising strong corporate social responsibility.

An analysis of data from the *Annual Survey of Hours and Earnings* (ASHE) and the Living Wage Foundation (Appendix 1) shows that Living Wage Employer accreditation has struggled to break into the big low-paying industries. While the wholesale and retail industry accounts for 28% of employees paid less than a Living Wage, only 3.1% of accredited employers are from this industry. Similarly, hotels and restaurants account for 17% of sub-Living Wage employees, and health and social work 13%. These industries make up just 2.7% and 5.8% of accredited employers so far.

London and the rest of the UK

Living wage accreditation has been more common in London than any other region. As the following charts, together with the full data in Appendix 2, show the regional distribution of those paid below a Living Wage is fairly even; the highest proportions are in London, the North West and the South East. However, nearly half of accredited Living Wage Employers are in London. This will come as no surprise to Living Wage activists, given that the modern-day campaign began in East London, and became established by London Citizens. Indeed, while the London Living Wage rate was established in 2003, the UK Living Wage rate was not introduced until 2011.

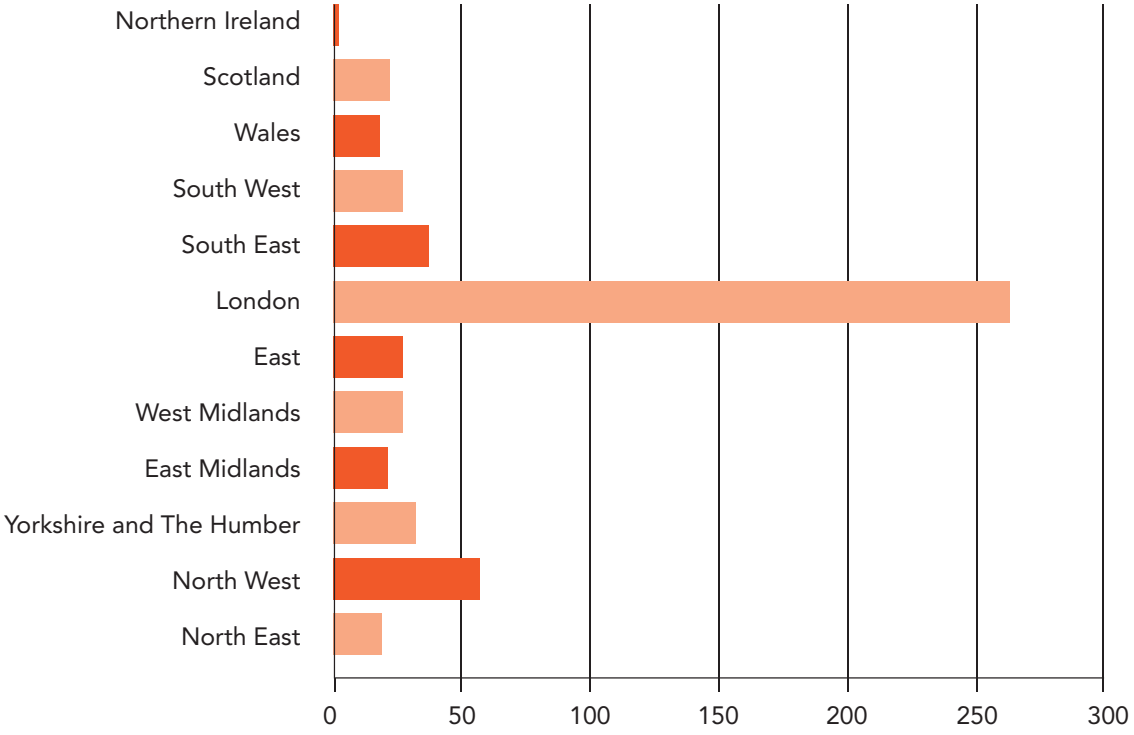
There is also a strong and well-established base of support in London that represents a strong model for other regions. The significant support awarded to the Living Wage campaign by the charity Trust for London as a means of tackling poverty and inequality in the capital will have had a strong bearing on where take-up has been focused. The London campaign has also had the benefit of strong political support from successive Mayors of London, and has been championed by firms headquartered in the capital, such as KPMG and PwC. Many companies headquartered in London will also have offices and branches across the country. For example, Aviva initially decided to pay all their staff in London, where they are headquartered, a Living Wage. But in April 2014 they announced they were paying a Living Wage to staff right across the UK, including their bases in York and Norwich.[23] In addition to this, the Living Wage Foundation only accredits organisations that also pay the Living Wage to outsourced staff, which increases numbers of staff paid a Living Wage beyond directly employed staff.

If the Living Wage campaign is going to be able to provide an answer for a significant proportion of the 5.2 million people paid below a Living Wage in the UK, the spread of coverage needs to more closely reflect the regional distribution of low pay. The campaign will need to build on its success in signing up major retailer Lush in London, and the mainly London-based pub group Faucet Inn, by signing up more employers in the low-paying sectors.

Regionally, the development of the campaign in York is a great example of areas outside London where there is a thriving Living Wage campaign. The York Living Wage City Coalition brings together responsible business, the voluntary sector and the City of York Council to champion the benefits of increasing coverage of the Living Wage. Scotland, too, has a strong Living Wage movement. The Scottish Living Wage Campaign was established in 2007, with the Poverty Alliance bringing together local authorities and large employers such as SSE. The Scottish Living Wage Accreditation Project is now funded by the Scottish government (who pay the Living Wage to all directly employed staff); the project uses the Living Wage Foundation's accreditation criteria.[24]

Figure 2a: *Employees paid below a Living Wage, by region*

Figure 2b: *Accredited Living Wage Employers, by region*



Data and sources are presented in Appendix 2.

The business benefits

There have been several studies of the business case for the Living Wage in the UK, with most of these focusing on the London Living Wage. The business benefits fall into the following categories, though some are interlinked:

- Productivity increases associated with higher effort and openness to change of job role
- Lower staff turnover
- Reduced absenteeism
- Increased stability of the workforce
- Improved morale, motivation and commitment
- Reputational benefits
- For many employers, a relatively small increase in wage budgets

Productivity increases

There is a substantial set of evidence that suggests that the Living Wage can open the door to productivity increases from employees making a greater effort and being open to changes in their job roles.

Researchers at Queen Mary University of London have published several studies into the London Living Wage. In *The costs and benefits of the London living wage* (2012), Jane Wills and Brian Linneker identify increases in productivity, and their survey of transitional employees showed an increase in productivity to be the third most common remark following their pay rise.[25]

The evidence in support of productivity benefits builds on an earlier Queen Mary report, *The business case for the living wage: The story of the cleaning service at Queen Mary, University of London.*[26] In this specific case study, after transition of the cleaning staff to the Living Wage, 83% of recipients of the cleaning service at Queen Mary said it had either improved or improved a lot. A typical response was: 'There used to be huge collections of dust under things [and] behind things and these have now gone.'

There is wider anecdotal evidence that the Living Wage can provide businesses with productivity benefits. Guy Stallard, Director of Facilities at KPMG and a Living Wage Commissioner, has said that the experience from introducing the Living Wage to contractors at KPMG has 'increased productivity as attitudes are more flexible and positive.' Similarly Bob Jones, Head of UK Operations at law firm Linklaters, has said that 'Linklaters benefits from improved motivation, quality of work and staff retention.'[27]

This anecdotal evidence is underpinned by a study by GLA Economics of Living Wage employers in London, which found that 80% of employers believed that the London Living Wage had enhanced the quality of the work of their staff. Moreover, 75% of employees also reported improvements in the quality of their work as a result of receiving the London Living Wage.[28]

> *"Your staff are going to feel more appreciated. They are going to feel a lot more valued, and therefore in return they are going to give more of themselves to the job."*
>
> **Natasha Noonan, Union Bar (from Citizens UK, Living Wage Week 2013)**

Introducing the Living Wage has also meant that employees have been more open to changing job roles. Half of those employees surveyed by GLA Economics said that they 'felt that the Living Wage had made them more willing to implement changes in their working practices; enabled them to require fewer concessions to effect change; and made them more likely to adopt changes more quickly.'[29] This factor is reflected in the Wills and Linneker study, which concluded that staff were more able to 'facilitate workplace changes'. As well as this, the Kakpo, Begum and Wills study found 61% of respondents said that they now 'do a broader range of tasks'.

One sector that has undergone a transformative process both in levels of pay and productivity is the security industry. The Low Pay Commission no longer classifies the security sector as low-paying. This follows the introduction of a statutory licensing system in 2003, which increased the training and professionalism within the industry, and the skill-based pay arrangements introduced by employers in the industry. The additional training, together with increased use of technology such as CCTV systems, and changes to job roles, including front-of-house responsibilities, has significantly increased levels of pay in the sector. Meanwhile, employment has also risen by 57,000 since 1998.[30]

Skill-based pay

Employers that introduced the Living Wage alongside a skill-based pay scheme were more likely to get associated productivity increases. Skill-based pay is a reward structure that awards higher levels of pay for additional skills, knowledge and competencies.[31] Those employers that have seized the potential of the Living Wage to advance their own business are the ones where managers have outlined a plan to build distinctive skills, knowledge and competencies to meet organisational needs. For example, when Brighton & Hove City Council adopted the Living Wage for social care contracts, they set out a workforce development programme for adult social care workers that covered health and safety, management courses, safeguarding, specialist training and qualifications.[32]

Lower staff turnover

The Living Wage has been shown to provide significant opportunities for cost savings by increasing staff retention and lowering staff turnover.

Jane Wills and Brian Linneker conclude their study by saying that 'in most cases the move to the living wage – or the comparison between living wage and non-living wage workplaces – showed reduced rates of labour turnover'. The GLA Economics study of Living Wage employers found that all but one of the organisations they consulted had reported a positive impact on recruitment and retention of staff. Two-thirds reported that the Living Wage had a significant impact on reducing turnover.

The Wills, Kakpo and Begum study on Queen Mary's cleaning services detailed how the jobs had 'been transformed from jobs paid at the minimum wage, with minimal benefits, to jobs that now represent the best of the sector in London.' This change in the status of the role has significant impacts not only on staff retention, but also on the quality of staff that Living Wage employers are able to recruit.

Staff turnover is often cited by businesses as a key benefit from the transition to paying the Living Wage. KPMG reported that 'turnover has more than halved' in the contracted staff,[33] while Wendy Cuthbert, head of UK corporate real estate services for Barclays Group, noted that catering staff retention rates increased from 54% to 77% following an introduction of the Living Wage, and cleaning staff retention rates jumped from 35% to 92%.[34] Steve Sherwood, Director of Infrastructure at PwC, noted that turnover of contractors fell from 4% to 1%.[35]

Staff turnover is a particular problem in the case of social care, one of the three biggest low-paying sectors. The report *Close to home*, from the Equality and Human Rights Commission, details how a lack of continuity in care workers can at best confuse recipients of care, and may at worst infringe their human rights.[36] In submissions to the Living Wage Commission from social care providers, levels of staff turnover were emphasised as having a huge impact on the level of care. The trade union UNISON also emphasised the fact that clients have to 'suffer a succession of new care staff'. The Skills for Care National Minimum Data Set shows that the turnover of homecare workers is as high as 32%. As well as impacting on the level of care that care recipients receive, it is also tremendously costly for care providers. With such high levels of turnover, training and recruitment costs are much higher than in other sectors.

The labour volatility was reflected in submissions to the Commission from low-paid care workers. For example, one low-paid care worker in London said, 'I started out on £6.20 per hour in Battersea and the reason I jumped ship was because I got offered an extra pound in the Wimbledon home (one pound really does make a difference on low wages).'

Reduced absenteeism

The Living Wage has been shown to reduce absenteeism in the workplace. The Wills and Linneker study concludes that the Living Wage leads to reduced 'sickness' in Living Wage workplaces[37] and the GLA Economics study reports that the Living Wage had an impact on reducing absenteeism and sick leave. One business that the GLA spoke to reported that following the introduction of the Living Wage into contracted-out services, absenteeism fell by as much as 25%.

Sickness and absence can have a huge impact on business costs, particularly in high pressure customer service environments such as retail, where replacement staff sometimes have to be brought in. Depending on how the problem is measured, it can double costs. One retail specialist that spoke to the Commission referred to a case in North West England where a grocery retailer 'was doubling their wage bill over some periods' as it had to pay sick pay to cover spikes in absenteeism, whilst paying overtime on top of the basic wage to staff who had to cover at short notice. 'If they had paid more,' the specialist said, their unusually high levels of absenteeism might have reduced. This suggestion is supported by the fact that the low-paying sectors have a higher rate of sickness absence. There is a sickness absence rate of 3.2% in caring, leisure and other service occupations, compared with just 1.7% in skilled trades occupations.[38]

Increased stability of the workforce
There is a strong case that the Living Wage leads to increased stability of the workforce. The interim report from the Living Wage Commission, *Working for poverty*, demonstrates how Living Wage workers get twice the amount of family time as workers on the National Minimum Wage. Wills and Linneker also found that 'when we explored possible benefits from the living wage in relation to workplace experience, family life and finances, the research found that 65% of respondents had experienced one or more of these benefits; 38% reported two or more; and 21% reported all three.'

The increased stability of the workforce provides big opportunities for building relationships between in-house and subcontracted staff, leading to more effective and productive working patterns, and a higher morale more generally.

> *"Whilst speaking to other cleaners, they all just seem in a better frame of mind now they're getting a Living Wage. It's very hard when somebody is on a very good wage, they can't always quite understand what it's like when you're on a low wage."*
>
> **Elaine Hook, Birmingham City Council cleaner (from Citizens UK, Living Wage Week 2013)**

Improved morale, motivation and commitment
All studies of the business case for the Living Wage refer to improved levels of morale, motivation and commitment. A study by Flint, Cummins and Wills, *Investigating the effect of the London living wage on the psychological wellbeing of low-wage service sector employees: A feasibility study* (2013), showed that 50.3% of Living Wage employees had above average wellbeing, compared with 33.9% of non-Living Wage employees.

'People are happier about the work' was the most common response when Jane Wills and Brian Linneker surveyed transitional Living Wage staff in their costs and benefits study of the London Living Wage.[39] GLA Economics found the London Living Wage 'significantly boosted worker morale and motivation'. This response is echoed by anecdotal comments on the Living Wage. Robert Gordon, manager of St Paul's Institute at London's St Paul's Cathedral, has said that the 'difference between the Minimum Wage and the Living Wage is really about how it makes your employees feel: how it makes them feel welcome as part of the team; as respected as individuals who are giving their time to further the cause of your organisation or business.'[40]

The potential improvements in morale can occur across the whole organisation. Elaine MacLean, Group HR Director at Legal & General, has said, 'The big difference was the impact on morale across all employees… it just made everybody feel good about working for a company that had taken the time to address the issues of the Living Wage.'[41] This was one of the emergent findings in the Wills and Linneker study – that the morale benefits extended across the organisation, not only to the employees transitioning to a Living Wage.

> *"Committing to the LW is a real opportunity to give more to your staff to ensure that everybody who works for you has a balance of work and home life and family life."*
>
> **Richard Stringer, Operational Director, Faucet Inn Group (from Citizens UK, Living Wage Week 2013)**

Living Wage kitemark

Reputational benefits and the Living Wage kitemark
In developing the Living Wage kitemark for accredited employers, the Living Wage campaign has provided employers with opportunities to benefit from the brand. In this respect they are following a similar route to other campaigns promoting ethical workplace practices, such as the Fairtrade campaign. The Fairtrade campaign has successfully managed to demonstrate consumers' willingness to pay,[42] and there are opportunities for the Living Wage campaign to do the same. One retail executive told the Commission that if the case could be proven that customers would place significantly more value on a Living Wage product and service, then they would seek accreditation immediately.

In practice, the brand benefits for Living Wage employers have also supported corporate social responsibility strategies. The benefits are realised in higher standards of recruitment, higher levels of morale across all employees, and a better relationship and standing with contractors and clients. Wills and Linneker found from their survey of London Living Wage employers that 'some clients reported that the living wage reinforced their brand and reputation as a good employer and that this then impacted upon their ability to recruit the best possible graduates into professional roles.'

Many employers see the Living Wage as part of their social responsibility. For example, the British Institute of Facilities Management has said the Living Wage is key for facilities service providers to 'highlight the moral dimension of our responsibilities and our impact on the economy and society.'[43] There are also clear reputational opportunities for customer-facing businesses. Polling for the Living Wage Commission showed that 52% of shoppers are willing to pay more for goods or services if the workers responsible are paid a Living Wage. Slightly more – 56% – said that they would consider changing their supermarket if a major retailer near them paid their staff a Living Wage.

The Wills and Linneker report went on to say that 'the reputational benefit was also positive for clients and employers that depended upon their interaction with the public and other employers for their core business. A private sector company suggested that paying the living wage helped them to win business from other service delivery firms.' The GLA Economics study showed that nearly 70% of both buyers and suppliers felt that the London Living Wage had increased consumer awareness of their organisation's commitment to be an ethical employer.

A small difference in wage bill costs
For many businesses, ensuring every employee is paid a Living Wage is a small commitment in terms of costs. For example, the IPPR and Resolution Foundation report, *What price a Living Wage?* (Pennycook,2012), shows that employers in the food production industry would only face a 1.1% increase in their wage bill from paying a Living Wage to all employees. Software and computing, as well as construction firms, would see a 0.5% increase, while banking firms would only see a 0.2% increase. These costs include 'wage spillover' effects such as maintaining pay differentials between different pay bands.

Other employers who could pay a Living Wage include football clubs, which have been targeted by the Living Wage campaign. For example, the average Manchester City football player earns, in one day, the annual salary of a Living Wage employee.[44] In contrast with the UK's football clubs, the London 2012 Olympics were the first ever Living Wage Olympics, with the 'tens of thousands of workers' servicing the games paid at least the London Living Wage.[45] While cost is a significant barrier for some businesses, for many more it provides a distinct possibility.

In many organisations, all directly paid employees are already paid a Living Wage. The challenge of ensuring all outsourced staff, such as cleaners and security guards, are also paid a Living Wage is likely to be more manageable for larger firms. Research from the Federation of Small Businesses shows that 49% of their members pay the Living Wage to all their directly employed staff.[46] A similar survey by the British Chambers of Commerce found that 61% of their members already paid a Living Wage to directly employed staff.[47] For such firms, the reputational benefits alone of accreditation as Living Wage Employers are likely to greatly outweigh the additional contract costs from working with contractors to bring outsourced staff up to a Living Wage.

Barriers for businesses

Affordability

There is concern over some businesses not being able to afford the Living Wage and that is why the campaign is for employers to pay it voluntarily.

Of the employers taking part in their study, Wills and Linneker found that 'the additional wage costs added an average 6% to contract costs in the pre-living-wage period. In the comparative case studies, the wage premium would have added an average of 11% to non-living-wage contract costs.' This was manageable for all those employers in this study, but you would expect that the employers, who had opted to transition to paying a Living Wage, had made plans to deal with the additional costs. The Resolution Foundation and IPPR study into firm-level wage bill changes calculated an additional firm-level wage bill cost (including moderate wage spillover effects) of 6.2% for bars and restaurants, and between 4.7% and 4.9% for retailers. This reflects the specific business model in the hospitality and retail sectors that tend to employ a broad base of low-paid staff.

The Wills and Linneker study notes that employers had mitigated these costs in a number of ways. These included:

- The use of fixed-price contracts
- The implementation of service audits with and without financial penalties
- Reductions in headcount and/or hours
- Alterations in service specification and supplies

However, while all employers used a variety of these methods, only one employer was able to make savings as a result of the transition to paying the Living Wage. All the other employers did so with an impact on profits or surplus.

Maintaining differentials

Employers that did not pay a Living Wage that spoke to the Commission often cited maintaining differentials as a barrier to accreditation. When deciding to give the lowest paid employees a pay rise, they said, there would be pressure to lift up those in the bands above them so as to maintain hierarchies, differentials, and appropriate career progression. For example, in the retail sector, supervisor roles can be paid as little as a few pence an hour more than store assistants.

The IPPR and Resolution Foundation study on firm-level wage costs does, however, account for maintenance of differentials as part of 'wage spillover' effects. For example, even with large wage spillover effects, the cost for construction firms to become Living Wage Employers rises from 0.5% to 0.6%. Additionally many businesses may feel that once they start paying a Living Wage, such differentials will become less necessary as Living Wage staff take on wider roles and responsibilities. For example, in conjunction with the implementation of a Living Wage policy, KPMG simplified cleaning arrangements by introducing full-time daytime cleaners and centralising recycling, making a structural change that harnessed the business opportunities that paying a Living Wage provides.

However, there remains a need for further research and information to show businesses that concerns over differentials are outweighed by new ways of working and business benefits.

Stability of business

The long-term commitment of accreditation can carry a risk for smaller employers. The Living Wage changes each year, in accordance with the cost of living. Some small businesses felt there was a risk that indexing the lowest levels of pay to that of the Living Wage would inhibit their flexibility. This is because smaller businesses are less able to cushion shocks to their business. For example, one cleaning business might have a steady stream of contracts today and are able to pay all their staff a Living Wage, but if they lose their biggest contract tomorrow, they would need to make quick adjustments. In contrast, the Living Wage rates are set to rise by significant amounts in each of the next few years.[48]

Employers that relied on the contracts they were awarded said that these risks could be mitigated by a greater awareness of the Living Wage amongst clients. This could be helped by a greater effort from those procuring and commissioning to focus on overall value, rather than a narrow cost.

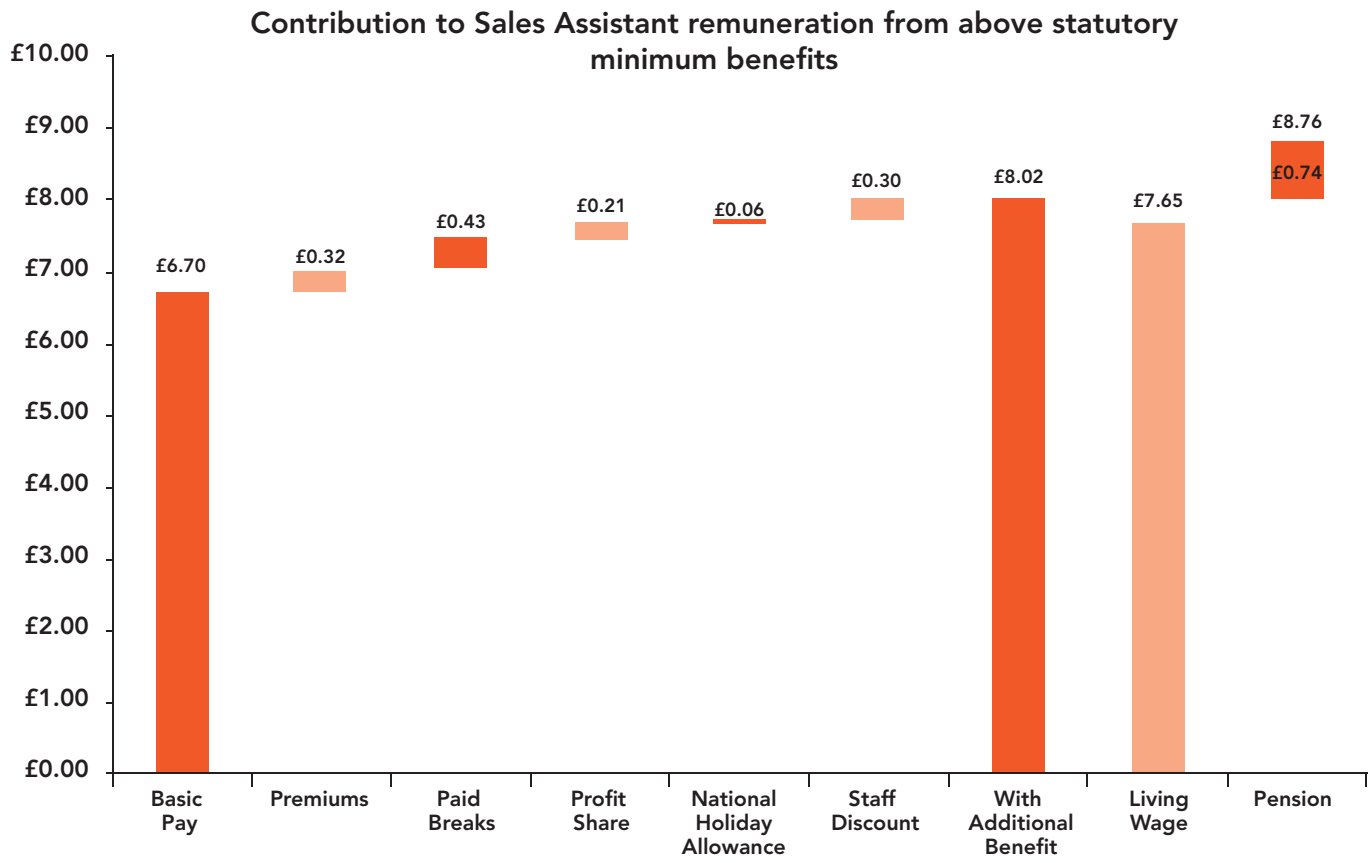
Living Wage rate and future increases
The methodology used to calculate the UK Living Wage rate actually delivers a 'reference rate': £9.08 an hour in 2013. This is the figure reached when measuring the basket of goods selected by focus groups that requires a 'basic, but socially acceptable income'. The figure is only brought down (to £7.65 in 2013) because of the caps that are applied to it. Caps are applied so that the rate does not rise at an unrealistic pace that employers are unable to keep up with; or so that sudden changes to benefits do not create a sharp jump. The cap is set at the level of median average earnings plus two percentage points. The rate methodology does, however, allow for a 'catch up' period that allows the Living Wage rate to move closer to the reference rate in times when the rising cost of living does not meet the cap. In practice, the significant gap between the Living Wage rate and the reference rate means that it will rise at above the level of median earnings for the next few years.

Total reward packages
Some businesses, particularly in the retail sector, were keen to highlight to the Commission that their reward package extended beyond pay. Many businesses include additional benefits, such as pensions, subsidised food, and, particularly in the retail sector, an in-store discount for employees.

The trades union Usdaw expressed an anxiety to the Commission that a narrower focus on pay would simply mean it would be paid for by removal of the additional benefits, such as sick pay. An example of this is the John Lewis Partnership, where pay scales for store assistants start below the Living Wage. John Lewis highlights that the package of total reward for their employees is more substantial than suggested by the basic wage rate itself. The reason for this, John Lewis points out, is that their 'partners' (staff) receive an annual bonus typically of around 15% of their salary, a final salary pension, an in-store discount, subsidised dining that costs the Partnership in the region of £25 million a year (roughly £275 per partner) and additional payments for overtime.

Similarly, the major grocery retailer Morrisons provided the Commission with an example of an average sales assistant outside of London, who is paid a basic rate of £6.70 per hour, with an additional 32p added for premiums (working outside normal hours, etc.), 43p for paid breaks, 21p for their annual profit share, 6p for their additional holiday allowance and 30p for their staff discount. The basic pay in addition to the average calculations for the other forms of reward adds up to £8.02, higher than the Living Wage at £7.65 (for 2013). An additional 74p is paid into their pension. The alternative model to that used by Morrisons and John Lewis is that of Aldi, where pay begins at £7.95 per hour, but staff do not receive the same benefits.

Case study: *Total reward for a Morrisons sales assistant*



Basic pay based on hourly paid colleagues in Wage Area 4 (excludes M Local and Kiddicare). Data based on 12 month earnings.
Benefits figures based on contribution above statutory minimum and representative of an average colleague.
The premiums used are Sunday, Morning, Night, late & early premium
Reward - 17/12/2013

Source: *Chart and figures provided by Morrisons in their submission to the Living Wage Commission*

However, levels of pay are ranked as the most important issue by low-paid workers when considering their reward package. The Kakpo, Wills and Begum study of cleaners at Queen Mary University showed that pay was the number one justification for cleaners' evaluation of their employers – 93% used it as an explanatory factor, above benefits (sick pay, pension, holidays) at 88%, management and the employer (80%), or opportunities for career development (71%). They had been asked to compare new Living Wage employers (Queen Mary) to old non-Living Wage employers (KGB), and 89% said their experience had improved.

This is reflected by submissions from low-paid workers to the Commission. One low-paid worker is paid £6.85 per hour at Morrisons and describes how her daughter wanted to attend a friend's go-karting party:

> *"It would cost me £31 for half an hour if she wanted to go. That was going to cost me almost what I was going to be paid for my five-hour shift. Hence I had to disappoint her again and said she could not go. It made me stop and think how my low pay is so out of touch, as I simply can't keep up with the normal cost of things."*

Another worker at a 'Northern based supermarket' told the Commission, 'I also pay around 80% of my income on rent, food, Council Tax, utilities, telephone, broadband and petrol. I take a holiday every two years for a week to visit family. It does not leave very much to save or to replace household goods when they fail.' In situations such as these, in-store discounts are no substitute and take-home pay is what matters for people to afford everyday goods and for their families to enjoy social lives.

The submissions from low-paid workers raise questions about the way in which total reward is calculated by employers. The calculations provided to the Commission from retailers reflected an averaging out of different aspects of reward, when in practice these are not enjoyed evenly. For example, the staff discount will be an attractive proposition for those employees who have additional household income with which to buy products or services from their employer. For those on low wages with no additional income, this form of reward will be much less attractive. For the two supermarket employees above, it meant total reward was not sufficient to allow them to send their child to a friend's birthday party or replace failing household goods. Further to this is the question of outsourced employees. Many of the lowest paid employees will be cleaners and outsourced service providers who may be employed by third parties. In the case of the John Lewis Partnership, cleaners are not partners and do not receive the annual bonus.[49] For these staff, their total reward is much smaller than directly employed staff as they do not have access to discounts and other benefits. Thus, the evidence suggests that increasing the basic rate of pay for all the lowest paid employees would be a much better way of ensuring all employees are paid a wage they can live on.

Difficult economic climate

While the Living Wage campaign grows in prominence, it is moving higher up the priority list for many employers. However, for many other employers, particularly outside London, it is not yet a priority. In social care, for example, there is a greater priority attached to paying staff the National Minimum Wage as many providers struggle to account for travel time on top of contact time. Zero-hours contracts have also been flagged up as a reputational risk for many firms in low-paying sectors and as a result some employers want to address this first. For others, time, energy and money will be invested in meeting sales targets, maintaining healthy cash flows, pastoral care and other issues.

A high-profile example of this prioritisation has been with the decision of Morrisons in March 2014 to implement aggressive price cuts in order to compete with discount grocery retailers Aldi and Lidl. Reports have estimated this could nearly halve profits at the firm.[50] Explaining this decision, Morrisons' chief executive Dalton Philips said that 'our customers have felt the austerity programme more than anybody else'.[51] The prioritisation of customers over staff members when considering reductions in profits reflects, in accordance with business necessity, a feeling of duty towards customers first, and employees second.

An upcoming evaluation of the Living Wage campaign by Cambridge Policy Consultants, expected to be published in summer 2014, explains that where there is a champion in the business or local authority, the Living Wage is moved higher up the priority list. Having an individual or group at a senior level standing up for the Living Wage campaign can be critical in implementing it. This is because middle managers are often more concerned with keeping budgets as low as possible, but senior staff are more able to recognise the long-term value from a strategic perspective.

Sector-specific issues

There are particular issues in the retail, hospitality and social care sectors, as their business structures are much more geared towards low-paying jobs. These businesses will find it much harder to pay all their staff a Living Wage and are discussed in more detail in section 3.6.

Economic environment

Research by the Institute for Fiscal Studies into business reaction to the recession showed that while large businesses were more likely to make redundancies, small and medium-sized firms adjusted by reducing hours of employees and freezing or cutting wages.[52] Many employers say they have been unable to commit to raising pay levels because of the uncertain economic future. The 'hoarding' of labour in small and medium-sized businesses has happened because they stand to lose more knowledge and experience from redundancies than larger businesses that have the structures in place to deal with this. As a result, businesses have said that they have cushioned shocks to their income by squeezing pay.

However, the future may provide some optimism for increasing coverage of the Living Wage. The Office for Budget Responsibility forecasts a 2.6% growth in average earnings in 2014.[53] A survey by the Federation of Small Businesses suggests that 7 in 10 small businesses intend to increase staff pay over the next 12 months.[54] The chartered accountants' industry body ICAEW released a report in February 2014 saying that business confidence was at its highest for some years, and they expected this to lead to job creation and pay increases.[55] In April 2014, the British Chambers of Commerce Quarterly Economic Survey showed that both manufacturing and service sector confidence are at historically high levels.[56] These circumstances combine to suggest that the timing could be right for an increase of Living Wage coverage as the nascent recovery develops. The Commissioners agreed that now is the time to repay the loyalty of staff who have stuck with their employers – often accepting frozen pay rates – during the recession.

2.3 The public policy case

The opportunities presented to government by increasing the coverage of the Living Wage, alongside the need to tackle low pay, are becoming more widely recognised.

In January 2014, the Chancellor of the Exchequer called for the National Minimum Wage to rise substantially up to £7.00 per hour – a jump of 69p from the 2013 rate and 50p from the 2014 rate. Other leading commentators and figureheads have expressed the need to address low levels of pay in the economy. Mark Carney, the Governor of the Bank of England, said in April 2014 that pay rises will lead to wider economic growth: 'in order to see a return to consistent growth we need to see improvement across all sectors and we also need to see a substantial increase in wages.'[57] John Cridland, Director General of the CBI, delivered his New Year message for 2014 with a warning of the need for a fair recovery – there were 'still far too many people stuck in minimum wage jobs without routes to progression, and that's a serious challenge that business and government must address.'[58] The growing political will to facilitate an increase in coverage of the Living Wage reflects the growing evidence of the benefits an increase in coverage can bring.

Opportunities for government

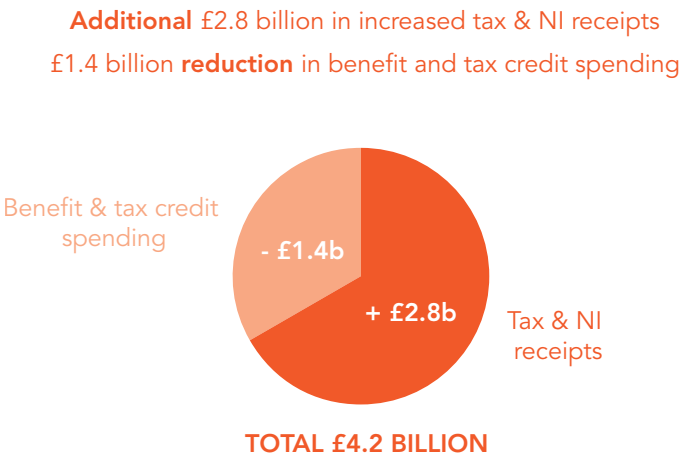
Savings and additional revenue

An analysis of the impact of the fiscal impact and public sector cost of extending coverage of the Living Wage provided by Landman Economics for the Living Wage Commission shows that universal coverage of the Living Wage would result in a net increase in revenue to the Treasury of £4.2 billion. This is shown in Figure 3 and is made up of an additional £2.8 billion in increased tax and National Insurance receipts, together with a decrease in in-work benefit and tax credit spending of £1.4 billion. Through tax credits and other in-work benefits, low-paid workers are brought up to an acceptable standard of living. It should be noted that this study does not take into account any potential loss in revenue in corporation tax from private sector employers paying for pay increases through a reduction in profits, nor does it take into account the costs to the Treasury of an increase in unemployment, such as increased out-of-work benefits and reduced tax take. However, the figures do demonstrate that there is a significant fiscal case for increasing coverage of the Living Wage. The £4.2 billion in additional revenue makes up the vast majority of the annual Jobseeker's Allowance budget, for example.[59]

Figure 3: *An analysis of the fiscal impact of extending coverage of the Living Wage*

Coverage of living wage	Public sector only	Whole economy
	£m	£m
Total increase in income tax & NICs receipts	100	2,780
Total decrease in benefit and tax credit spending	160	1,410
TOTAL FISCAL IMPACT	**260**	**4,190**
Total gross wage increase	620	8,300
Total increase in net income	360	4,110
MDR	42.4%	50.4%

Sources: Study provided by Landman Economics for the Living Wage Commission, using the Office for National Statistics' 2013 *Annual Survey of Hours and Earnings* and the Department for Work and Pensions' *Family Resources Survey*.



Multiplier effects

While rising levels of low pay lead to a decreasing level of disposable income for the UK's low-paid employees, there are potential benefits to the economy from putting money into the pockets of the lowest paid.

Households with the smallest incomes are more likely to spend, rather than save any additional income. This is illustrated by the Bank of England's study that showed for every pound lost in income for lower income households, spending is reduced by 78p. For higher income households, the reduction is just 45p.[60] This demonstrates that there is a much closer relationship between income and spending in lower income households than in high income households.

Landman Economics have modelled the multiplier effects of extending the Living Wage, based on multiplier assumptions of public spending from the Office of Budget Responsibility and the International Monetary Fund. They find that there would be a net GDP gain of between an additional £3.5 billion and £10.71 billion. According to their subsequent analysis based on a 54% share of wages in GDP, the additional funds going into the pockets of the lowest paid workers could create between 64,000 and 218,000 jobs.[61]

Christine Lagarde, Managing Director of the International Monetary Fund, has warned that advanced economies, such as the UK, face the risk of a 'potentially prolonged period of low inflation [which] can suppress demand and output – and suppress growth and jobs'.[62] This follows on from the concern of some UK economists, including Stewart Lansley, who suggest that the increase in low pay, coupled with the overall decline in the wage share, are leading to a decline in demand, and subsequently output.[63] An increase in coverage of the Living Wage could be an answer to low demand in the economy.

Pay increases

Many employers have referred to the timing of the economic cycle as a reason for not paying their staff a Living Wage so far, but there is a demonstrable increase in business confidence that business groups believe will translate into higher wages. Groups including the Office for Budget Responsibility, the Federation of Small Businesses, the Institute of Chartered Accountants in England and Wales and British Chambers of Commerce are all citing increasing business confidence and predicting increases to levels of pay over the coming months (see the mention in the business barriers section, above). Pressure on employers to increase

levels of pay to make up for squeezes over the recession is likely to grow with improvements to business turnover and profits. In their submission to the Commission, the public service workers' trades union UNISON stated that 'the social and economic disaster has opened up the space to reconsider a labour market model which presupposes a large section of the population being paid poverty wages.' Improved business performance matched by increased demand for pay increases could lead to more businesses raising levels of pay to at least the Living Wage.

Plugging the productivity gap
The UK's output per hour is 21% lower than the average for the other six members of the G7 – the USA, Germany, France, Italy, Japan and Canada. The ongoing debate on the decoupling of wages and benefits from economic output has been summarised in the interim report from the Living Wage Commission, *Working for poverty*. What is clear is that the average worker is being less productive, and this is ultimately leading to a stagnation effect on wages.

The business case section of this report (2.2) demonstrates how implementation of a Living Wage policy can work in tandem with productivity benefits for businesses. A greater coverage of the Living Wage, implemented together with business changes – such as changes of job design, or increased use of technology – holds great promise for the UK's economy in closing the productivity gap with other developed economies. Improved wages, together with increases in skills and training, will deliver the productivity benefits the British economy requires.

Public policy risks

Unemployment
According to the National Institute of Economic and Social Research, raising the National Minimum Wage to the level of the Living Wage could bring about a net reduction of 160,000 jobs in the economy.[64] While this represents a small proportion of the 5 million employees who would receive a pay rise, it would be a significant shock to the economy that would have knock-on effects on the out-of-work benefits bill.

The 160,000 figure is also a net figure. The study showed that young people would be significant losers in this scenario, as there would be a reduction in labour demand of 300,000 for employees aged 15–29 with intermediate or no qualifications. This would be a significant addition to the 881,000 young unemployed people at a time when the youth unemployment situation is improving. The disproportionate effect on young people is reflected by the comments of employers in the two largest low-paying sectors – retail and hospitality – who pointed out that a higher proportion of young people work in these sectors, giving them vital experience in the labour market that they might not otherwise be able to find. Unsurprisingly, the predicted reduction in labour demand happens predominantly in these two sectors, with a combined reduction of 116,204.

This research highlights the importance of ensuring that any methods used to increase the coverage of the Living Wage in the UK do not cause job destruction. However, consideration of this evidence gives pointers as to how this risk can be managed. Crucially, while it shows that there are some sectors in which there may be considerable unemployment from a universal Living Wage, it shows that in many sectors there is room to significantly increase coverage of the Living Wage with little to no reduction in labour demand. Further to this, the model used by the NIESR does not take into account the 'possible endogenous changes' such as many of the business benefits this report has outlined, as well as other multiplier effects from putting more money in the pockets of the lowest paid.

Increased costs to the taxpayer
If there is not an even distribution of coverage of the Living Wage in the private and public sector, it could come at considerable cost to the public sector. The analysis of the impact on the Exchequer from an extension of coverage of the Living Wage (Figure 3, above) shows that if there was only a rise in coverage in the public sector and not in the private sector, it could cost the Exchequer up to £360 million. This would be a significant cost to the public sector at a time when budgets are already pressed. It would also create a differential in pay in the public sector and the private sector.

However, if an active government were to support an increase in coverage in the private sector, the increased tax take and reduced in-work benefits bill (outlined above) could neutralise the costs of enhanced public sector coverage over time.

The Living Wage campaign in the USA
The Living Wage is not unique to the UK. In the USA the re-emergence of the idea of a Living Wage took place in the 1990s following similar concerns around in-work poverty and the impact on the community. In 1994, the Baltimoreans United in Leadership Development (a community alliance) and the Federation of State, County, and Municipal Employees (the largest union representing government workers) collaborated to secure the first Living Wage ordinance in the USA. The campaign was concentrated on politicians and the public sector, with the aim of setting a wage floor in local government contracts in the city. Following the success in Baltimore the campaign spread, with more than 140 cities and counties having Living Wage ordinances.

2.4 Is the time right?

The business, economic and social cases for the Living Wage suggest there is a strong case for a significant increase of coverage of the Living Wage. However, while the Living Wage holds great promise for low-paid workers and a significant increase in coverage is certainly possible, a statutory increase of the National Minimum Wage to the level of the Living Wage would not be advisable at this point. Some of the barriers, particularly in the largest low-paying sectors, are structural and will take time, as well as the ambition and will of politicians, businesses and campaigners, to address.

Yet while only 712 employers are accredited with the Living Wage Foundation, the evidence suggests there are thousands more employers able to pay a Living Wage. While some employers do pay a Living Wage but are not yet accredited, there are also many businesses that are able to pay a Living Wage but have not yet done so. For example, as reported in section 2.2, banking and construction firms face an increase of 0.5% or less on their wage bill when adopting a Living Wage. These are employers that are able to adopt a Living Wage policy. By contrast, in some areas there has been considerable uptake: a great many voluntary sector organisations are accredited despite the funding pressures that many charities are currently experiencing. The demonstration that paying a Living Wage is possible in the voluntary sector sets a strong example that others should follow.

There is a very good case for employers to pay a Living Wage when they can do so. There are clear benefits for business productivity from paying a Living Wage, and those businesses that want to do the right thing should look at how they can realise these benefits. However, there remain concerns in three key sectors. In retail, social care and hospitality, there are deeper issues that need to be properly addressed, and section 3.6 we set out the mechanisms that need to be introduced to enable employers in these sectors to pay a Living Wage in the future.

Chapter 3 sets out a realistic target for increasing the number of people who could be brought up to the Living Wage, together with a roadmap to achieving this increase.

CHAPTER 3
AN EXTENSION OF COVERAGE: HOW IT WOULD WORK

3.1 Progress to date

The evidence presented in Chapter 2 suggests that the timing and conditions are right for a significant increase in coverage of the Living Wage based on the social, business and public policy cases. This third chapter of the report sets out a roadmap to achieving this change.

The Living Wage campaign has come a long way over a relatively short amount of time. From a small initiative in East London in 2001, it now enjoys cross-party political support, a growing public awareness, and over 700 employers that are showing why it works in practice. There is, however, some way to go. In a survey of Living Wage employers published in October 2013, Jane Wills and Nele Jensen found that 228 replying employers had brought 14,568 staff up to a Living Wage, an average of 64 staff per accredited employer.[65] Scaling this up to the latest figure of 712 accredited employers, we could estimate that 45,568 staff have been brought up to a Living Wage by accredited Living Wage employers. This figure is likely to be higher, as there are many employers – such as Tate & Lyle – that, following the campaign, have changed levels of reward to pay some or all of their directly employed staff a Living Wage, yet have not become accredited. None the less, 45,568 is a low base set against the 5.2 million staff paid below a Living Wage in the UK.

As Chapter 2 sets out, the case for a Living Wage is complex. There are clear benefits from an increase in coverage of the Living Wage. There are also risks that need to be mitigated and genuine barriers for some employers that need to be accounted for. This final report of the Living Wage Commission sets out an ambitious target for an increase in coverage of the Living Wage within the next Parliament, by 2020. This target, accompanied by a roadmap of how it can be achieved, takes account of the risks and barriers and provides a credible and achievable goal that moves the campaign for a Living Wage on to the next stage. It takes the Living Wage to the tipping point of becoming the 'norm' across the UK.

3.2 The target

The UK government should make it an explicit goal to increase the take-up of the voluntary Living Wage to benefit at least 1 million more employees, by 2020.

The evidence suggests that it can be done with no adverse effects. This is a bold, yet credible step that will not result in an overall reduction in labour demand, but will significantly improve the lives and wellbeing of a considerable number of people, and move the Living Wage further towards becoming the norm in the UK. The roadmap this report sets out is one that shares the burden between the private sector and the public sector. The grassroots Living Wage campaign has been very successful in bringing the idea of the Living Wage to the mainstream and establishing a growing number of accredited businesses. It is important that this vibrant campaign carries on in earnest. Alongside the campaign, the Living Wage Commission sees a strong role for government in extending coverage of the Living Wage in the UK, because of the strong public policy case for the Living Wage set out in the second chapter.

Government – locally and nationally – should act as a champion for the Living Wage movement. If government wants the private sector to do more, it must lead by example. The first step to achieving this is for government to ensure all public sector staff are paid a Living Wage. A balanced increase in coverage of the Living Wage would mean this public investment can then be neutralised by an equivalent increase in coverage in the private sector.

According to the Office for National Statistics' 2013 *Annual Survey of Hours and Earnings*, there are 473,000 public sector employees paid below a Living Wage. The analysis of the fiscal impact of increasing coverage of the Living Wage (Figure 3) shows that it would cost the Treasury £620 million to bring all directly employed public sector workers up to a Living Wage. However, the Treasury would receive around £260 million of this back in additional revenue and reductions in spending. This leads to a total public sector cost of bringing all directly employed public sector workers up to a Living Wage to around £360 million.

In order to neutralise this cost and to ensure there was a balanced increase in coverage of the Living Wage, there would need to be at least an additional 451,000 employees brought up to a Living Wage in the private sector. This figure is reached by dividing the total gross wage increase of £8.3 billion (Figure 3) by the total number of people paid below a Living Wage (5.24 million) and then applying the implied tax rate on additional income of 50.4% (Figure 3). This results in an average of an additional £1,584 in revenue to the Treasury from employee going up to a Living Wage. At least 451,000 additional Living Wage employees in the private sector would therefore be needed to neutralise the costs of bringing all directly employed public sector employees up to a Living Wage.

However, based on the evidence on the ability of firms in different industries to pay all of their employees a Living Wage presented below, the Commission believes there is scope to go further, without any adverse consequences, by bringing over 600,000 additional private sector employees up to a Living Wage by 2020. The Commission believes this is a manageable increase in coverage of the Living Wage based on the evidence and it challenges any government elected in 2015 to explicitly set a target for bringing at least a further 1 million employees up to a Living Wage over the next Parliament without resorting to compulsion or regulation.

Industry-based targets

Underneath the target of ensuring over a million more workers benefit from a Living Wage, Figure 4 shows what the increase in coverage in the private sector might look like broken down by industry. The model, available to see in full in Appendix 3, involves 646,000 employees from the private sector going up to the Living Wage, which roughly works out to an additional 10,111 accredited firms. In addition to the 473,000 public sector employees, this increase in coverage of the Living Wage would mean an additional 1,119,000 employees would benefit – a major increase from the estimated 45,500 that have already been brought up by current levels of accreditation, and around one-fifth of the 5.2 million staff currently paid below a Living Wage.

Data used for our model
The model has been created using several sources of data.

- The Office for National Statistics Annual Survey of Hours and Earnings 2013 and the Living Wage Foundation's 2013 Living Wage rates were used to calculate the number of employees paid below a Living Wage in each industry.
- Data from a 2013 report from the National Institute of Economic and Social Research, was used to adjust for the firm-level wage costs of moving staff up to a Living Wage in each industry, and the subsequent relative change in labour demand in each industry.[66]
- The resulting figures, which represented an estimate of how many employees each industry would be able to contribute to the overall headline target, were then converted into numbers of firms based on the results of the Queen Mary University survey of organisations accredited by the Living Wage Foundation in 2013.[67]
- A cap was then applied based on industry-based figures on accredited employers in each industry supplied by the Living Wage Foundation (April 2014) to link the targets to progress so far, so that there could not be more than a 200-fold increase in accredited employers in each industry.

In order to make the different datasets compatible, several steps were taken. Firstly, based on the NIESR methodology (Riley, 2013), the public sector dominated industries – Public Administration and Defence, Education and Health – were removed from the list of ASHE industries. Then in order to be able to compare the results with the Living Wage Foundation's records of accredited employers, the Professional, Scientific and Technical Services category was merged with the Administrative and Support Service Activities category to create one 'Professional services' industry. This merging explains why this category accounts for significantly more of the target than the other industry categories.

The result is a tangible set of targets for increasing accreditation in each industry that takes account of concerns of affordability in different industries, as well as changes to firm-level wage costs in each industry, and the progress made so far. It sets out an ambitious but credible target for increasing accreditation within each industry.

The rest of Chapter 3 sets out how these targets can be achieved.

Figure 4: *Targets for increase in coverage in the private sector*

INDUSTRY	Targets for number of additional firms paying a Living Wage by 2020	Employees subsequently brought up to a Living Wage	Number of times increase in accredited Living Wage Employers (capped at 200)
Wholesale and retail trade	838	53,540	44
Accommodation and food	524	33,478	31
Administrative, support service activities; Professional, scientific and technical activities	4,557	291,147	47
Manufacturing	200	12,778	100
Arts, entertainment and recreation	400	25,556	200
Other service activities	341	21,786	4
Transportation and storage	600	38,334	200
Construction	432	27,600	43
Information and communication	877	56,032	28
Financial and insurance activities	789	50,409	28
Real estate activities	283	18,081	7
Agriculture, forestry and fishing	47	3,003	88
Water supply	15	958	28
Electricity, gas, steam and air	8	511	1
Mining and quarrying	200	12,778	3
Totals	**10,111**	**645,992**	

Sources: *Living Wage Commission (see under 'data used for our model', above)*

THE ROAD TO 1 MILLION: ACHIEVING A STEP CHANGE IN LIVING WAGE COVERAGE

3.3 Increasing coverage in the public sector

Public sector staff

The UK and devolved governments should ensure that all directly employed public sector employees are paid a Living Wage.

While the Living Wage campaign should continue to be run on a bottom-up, voluntary basis, the Commission agree that governments have roles to play in supporting the campaign. The starting point for governments needs to be a commitment to ensure all public sector staff are paid a Living Wage. Only then can governments credibly champion a Living Wage to the private and voluntary sectors. The public sector is a major employer and has a key role to play in ensuring 1 million more employees earn a Living Wage by 2020.

In 2013 there were 473,000 public sector employees paid below a Living Wage, according to the Office for National Statistics (*Annual Survey of Hours and Earnings Provisional Results*, 2013). This number accounts for 7% of the total number of public sector staff in the UK. Section 3.2 has set out how the cost of raising the pay of these 473,000 public sector staff could be neutralised if an equivalent number of additional staff in the private sector are brought up to a Living Wage.

Currently, among the Westminster government departments, 10 Downing Street, the Cabinet Office, the Treasury, the Department for Work and Pensions, the Department for Energy and Climate Change, the Supreme Court, the Foreign and Commonwealth Office, the Department for Communities and Local Government and the Department for International Development all pay a Living Wage to all their staff. The Department for Business, Innovation & Skills pays at least the UK Living Wage to all staff, but not the London rate.[68]

The Scottish Government pays a Living Wage to all public sector employees under the government's pay policy. This includes most civil servants in central government, central agencies, non-departmental public bodies and the NHS. However, not all Scottish local authorities pay a Living Wage to all staff.[69]

As of April 2014, there were 118 public sector employers accredited with the Living Wage Foundation and committed to paying all directly employed staff and contracted employees a Living Wage. This includes 30 local authorities, the House of Lords, the House of Commons and the National Assembly for Wales.[70]

Once governments had committed to ensuring all public sector staff are paid a Living Wage by 2020, they would then be able to credibly champion Living Wage employment to the private sector. The Commission envisages this championing to involve making the case to employers paying below Living Wage, celebrating employers that have brought employees up to a Living Wage, and establishing transparency measures to provide a clearer picture of which publicly listed companies pay a Living Wage to all employees.

A strong public sector Living Wage base would provide a great opportunity to robustly study and report on the benefits of the Living Wage. One such study of public sector employment is the Whitehall Study. Two studies, set up in 1967 and 1985 with data collection ongoing, have been highly influential in investigating social determinants in health. The first study, Whitehall I, collected data from 18,000 men in the British Civil Service, and the second, Whitehall II, has collected data from 72,286 men and women in the British Civil Service.[71] The Commission recommends such a model for a longitudinal study of Living Wage employment in the public sector, that could build on the existing evidence (see Chapter 2 of this report) in establishing a persuasive business case for more private sector employers to pay a Living Wage to all their staff.

In practice, raising pay in the public sector would involve adjusting the lowest pay bands of central government departments, government agencies and non-departmental public bodies to the level of the Living Wage. Similarly, the lowest pay band on the National Local Government Pay Scales would need to rise to the level of the Living Wage, accompanied by an additional ring-fenced 'top up' to central government grants to cover the additional costs. This acknowledges the fact that in many cases it will be local authorities and devolved government that pay the extra wage costs, whereas central government receives the financial benefits in additional tax revenue and a reduced in-work benefit bill. There may be additional costs for public sector employers that wish to maintain differentials, but other employers will want to review employment structures by raising responsibilities of Living Wage employees – as many employers reporting productivity benefits have done. Ultimately this is a choice for public sector employers to make locally.

While it is important that the commitment is delivered upon before 2020, the Commission wishes to present three options for government, and prospective parties of government, in raising public sector pay levels to at least that of the Living Wage.

OPTION 1: PRIVATE SECTOR FIRST

Immediately begin a concerted and targeted campaign to build coverage of the Living Wage in the private sector to ensure a significant number of additional private sector employees are paid a Living Wage. Subsequently use the additional revenue to ensure all public sector staff are paid at least a Living Wage by 2020.

OPTION 2: PRIVATE AND PUBLIC SECTORS TOGETHER

Make a policy choice to spend existing resource to build coverage in the public sector at the same time as a concerted private sector campaign, drawing forward anticipated savings to bring all public sector staff are paid at least a Living Wage by 2020, while ensuring there is an equivalent increase in coverage in the private sector.

OPTION 3: PUMP-PRIMING THE PUBLIC SECTOR

Make a policy choice to 'pump-prime' by using existing resource to immediately ensure all public sector staff are paid a Living Wage, before subsequently ensuring an equivalent number of staff in the private sector are brought up to a Living Wage by 2020.

Public procurement

The UK and devolved governments should ensure that the public sector always procures on value, rather than spreadsheet cost, which would enable stronger consideration of contractors paying a Living Wage.

While fewer than 500,000 of the 5 million people paid below a Living Wage are directly employed by the public sector, public procurement provides a strong opportunity for spreading Living Wage coverage, and also championing the Living Wage. The Greater London Assembly and the Scottish Government have shown how this public sector leadership can increase the number of people in the private sector being paid a Living Wage. However, the Commission believes specific compulsory Living Wage requirements in public sector procurement would be wrong, and opposes across-the-board requirements from central, local and devolved governments. This is because only allowing contracts to be awarded to Living Wage employers would disproportionately affect the chances of small and medium-sized businesses to win contracts.

Procurement based on value can support the Living Wage campaign while keeping long-term costs down. The key barrier in public sector procurement is that there is often a disconnect between the person who is buying the service and the people receiving it. Too often procurement is done on spreadsheet cost, rather than the value of the service delivered. The issue here is that procurement based on spreadsheet cost can often end up costing more than value-based procurement. For example, in the case of a cleaning contract, the cheapest option in the short term would be to procure based on the lowest wages possible, with as little as possible being spent on training. However, the resultant lower standard of cleaning might lead to longer-term costs as buildings might have to be refurbished more often and the costs of one-off deep cleans may increase. As Chapter 2 sets out, staff paid a Living Wage are more likely to feel valued and are going to be able to offer a better service. Over the long term, savings would be made on building refurbishment costs and cleaning standards would be higher.

A standard of procurement based on value will ensure workers are properly trained and properly rewarded for their work and therefore a higher standard of service will be delivered, with costs kept down in the long term. Extracts from the KPMG procurement guide have been included in Appendix 4 as one example of using the Living Wage in sustainable procurement practices.

Social care is a low-paying industryin which procurement based on spreadsheet cost is prevalent. A follow-up study[72] to the Equality and Human Rights Commission (EHRC) *Close to home* report into older people and human rights in home care found that a third of local authorities set a maximum commissioning price for care services. Maximum commissioning prices mean that bids from providers offering a better quality service based on higher wages will be dismissed before they are considered. The problem is exacerbated by the fact that many local authorities pay very low rates for social care services. The UK Homecare Association (UKHCA) has published a costing model for home care providers that accounts for basic costs such as pay and National Insurance contributions for contact and travel time, holiday pay, training costs, pension contributions, travel costs, business costs and a small profit or surplus. The minimum rate needed to meet the National Minimum Wage is £15.19 per hour and the rate to pay the Living Wage is £18 per hour, rising to £20.40 per hour in London.[73] Yet the EHRC study found 20 local authorities paid £11 or less per hour, with one paying as low as £8.98 per hour.

With rates as low as £11 per hour being paid to social care providers, it will be extremely difficult for any of these providers to pay a Living Wage to social care staff. However, using the home care example, there are long-term cost benefits to using a value-led procurement approach. Figure 6 shows that while it costs on average £188 per week to provide a home care package for older people, it costs nine times this amount each time they are admitted to hospital for more than one night. Figure 3.3.2 shows that the total cost per hour of a Living Wage home care worker is considerably lower than that of a GP or Nurse. If care services can be improved, and higher value place upon them, hospital trips could be reduced and public savings could be realised. One further example is that it costs six times as much for somebody to be seen by their GP as a care worker paid a Living Wage. In the case of home care, as with many other public sector services, procuring on value rather than spreadsheet cost can lead to better services, better paid staff, and long-term cost savings in the public sector as a whole.

Figure 5: *Various costs of health and social care delivery*

Service	Cost
Week of home care	£188
A&E attendance, per episode	£113
Ambulance services, average cost of call out per incident	£222
Hospital inpatient, average cost per episode	£1,779
Hospital day cases, average cost per episode	£707

Source: Markus, S, Cox, J, Morris, D and Greenhalgh, R, *Unit Cost Database (v 1.3)* (New Economy / Cabinet Office, March 2013).

Figure 6: *Total cost per hour of health and social care professionals*

Practitioner	Cost per hour (including all additional costs)
Home care worker paid Living Wage	£20.40
GP	£122
Nurse	£34

Sources: *Markus, Cox, Morris and Greenhalgh (March 2013) and Angel, C, A minimum price for homecare (UKHCA, February 2014).*

The Commission believes that government should promote the Living Wage as part of its procurement process. However, the Commission fears that the adoption of a requirement that public contracts can only go to Living Wage employers could be overly prescriptive. In particular, it might deter small businesses and charities from bidding for public sector work as it may allow uncompetitive business practices. For example, the UKHCA reported that there had been occasions where local authorities had introduced requirements that contractors pay the Living Wage but did not match this with 'an adequate increase in rates paid to producers to cover the living wage, meaning the remaining bidders are either on loss-leaders, or are larger companies with other sources of revenue that can cover the losses sustained through the homecare contract'. These are business practices that smaller bidders are not able to match.

As well as the significant contribution that a long-term, sustainable public sector procurement strategy can make to increasing the number of people paid a Living Wage, the Commissioners also feel that the demonstration of payment of a Living Wage to all staff stands as a clear example of providing good value. For service contracts, local authorities have a statutory duty under the 2012 Social Value Act to consider social value. Although a blanket approach to procurement is not advised, the Commission hopes that in many cases this will involve the Living Wage. Achieving the desired outcome relies on the public sector actively embracing the Living Wage.

3.4 Increasing coverage in the private sector

Government championing the Living Wage

Central and local government should support the Living Wage by championing it to employers across the UK.

One of the chief barriers to increasing coverage of the Living Wage and the voluntary accreditation system is awareness. While the campaign is rising in popularity and is beginning to enter the mainstream, there are still many employers, especially outside of London, that are not yet aware of it as a concept, let alone the benefits that it can provide.

The visibility of the campaign in the political arena has resulted in a wealth of London-based organisations (47.3% of accredited organisations) becoming accredited in London. This is reflected by the campaign's origins in London and a strong political contribution from City Hall and Westminster. However, the campaign has not yet matched this coverage in other regions, and has yet to make significant penetration into the biggest low-paying sectors of retail and hospitality. In order to break out to other regions, as well as further into the private sector, government support will be needed to provide important help to the campaign.

Government has a key role in supporting the campaign by increasing its visibility. Successive Mayors of London have boosted the profile of the Living Wage campaign in the capital, and the Scottish Government is making great strides in promoting the Living Wage. However, there are many other areas in the UK where government can support the campaign by building public awareness and championing Living Wage employers.

The Commission specifically recommends that the Prime Minister hosts events for Living Wage employers to celebrate those employers that are demonstrating a will to make work pay, and to encourage others to follow. These events should also be replicated locally around the country, where local authority leaders and other government ministers have a role to play in championing the Living Wage.

Better measurement of 'total cost' of staff

The Living Wage Foundation should oversee the production of a toolkit for businesses to measure both the costs and benefits of increasing wages for the lowest paid workers.

We know that Living Wage accreditation carries with it the following benefits (each point is developed in Chapter 2 of the report):

- Productivity increases associated with higher effort and openness to job role change
- Lower staff turnover
- Reduced absenteeism
- Increased stability of the workforce
- Improved morale, motivation and commitment
- Reputational benefits

However, when they are considering whether they can pay staff the Living Wage, it is common practice for businesses simply to add up the additional wage costs, together with any additional wage costs of maintaining differentials, and associated increases in employer National Insurance contribution. The Living Wage has been shown to provide benefits that can mitigate some of this extra cost.

For example, if the Living Wage is introduced together with 'skills-based pay' practices, employers can realise a greater return on their investment. Some employers in low-paying industries struggle with high levels of absenteeism which could be better measured and taken account of when they are looking at possible savings. Levels of staff turnover incur significant costs in low-paying industries. For example, homecare social workers have a turnover rate of over 30%. A reduction in turnover would lead to savings on training and recruitment costs.

The Living Wage Foundation is planning a major piece of research with the Mayor of London's Office, funded by Barclays, that will form a comprehensive longitudinal study of Living Wage employers to better measure the business benefits of accreditation. Similarly, the University of York, in collaboration with the Joseph Rowntree Foundation and the Economic and Social

Research Council, will do a study on Living Wage employers in York that will look at what benefits they have received from implementing a Living Wage policy. This research is welcome and will provide a good basis for employers to better quantify the costs and benefits of paying a Living Wage.

After the longitudinal studies of Living Wage employers are in place, the Living Wage Foundation will be in a strong position to work with partners to oversee the production of a toolkit for businesses to accurately measure both the costs and benefits of increasing wages for the lowest paid employees.

Building the consumer case

Accredited employers should proudly display the Living Wage kitemark in order to build consumer awareness of the Living Wage.

The Living Wage Foundation should oversee the development of an online tool to allow consumers to identify which goods and services are from Living Wage providers.

In order to make further progress in persuading consumer-facing businesses to pay a Living Wage, there needs to be an increase in consumer awareness and a demonstration of willingness to pay for a Living Wage product or service. The Fairtrade movement has been very successful in establishing these two principles, and there are lessons to be learned by the Living Wage campaign here.

Polling commissioned by the Living Wage Commission has shown that there is already a consumer case for the Living Wage that can be developed. The general public felt that they would be able to identify the benefits in terms of service from Living Wage hospitality, and expressed both a willingness to pay for Living Wage goods and services, as well as a willingness to favour responsible retail outfits.

- 62% of shoppers agreed that they 'would consciously shop in favour of a Living Wage accredited retail chain'.
- 64% of the general public agreed that 'shops which do not pay the Living Wage to staff and contractors are not socially responsible'.
- 52% of shoppers are willing to pay more for goods and services where the staff producing and providing them are paid a Living Wage.57% of the general public agree that 'if more supermarkets paid their staff a Living Wage, I would take into account whether or not a supermarket paid their staff a Living Wage when choosing where to do my weekly shop.'
- 61% of the general public agreed that 'if the staff in a pub, restaurant or hotel were paid a Living Wage rather than a Minimum Wage, I would recognise the benefits in their level of service.'
- 73.5% of the general public agreed that 'when choosing a care provider for a loved one, I would like to know that the people looking after them were being paid a Living Wage.'

Source: *Censuswide poll of 1,035 UK adults in employment. Survey took place from 8 May to 9 May 2014.*

In building awareness, and in keeping with the principles of celebration and encouragement, the Living Wage campaign can utilise the reach of existing Living Wage employers. These employers can be a huge asset to the campaign in terms of boosting the profile of the Living Wage kitemark. Accredited employers should be proud of publicly displaying the Living Wage Employer kitemark as widely as possible. The benefits of perception from staff, consumers and clients are already there for some organisations. A survey by GLA Economics found that 70% of employers felt their reputations had been improved from paying a Living Wage.[74] The reputational opportunities for accredited employers will only grow as visibility and awareness builds. There will also be added reputational benefits for those seen to be the first movers and champions in different sectors. Champions would be supporting the movement for making work pay. Accredited employers could do this on their websites, in their buildings, in publications, and on public sites. Employers with wide outreach, such as banks with ATMs across the country, or media organisations that publish or broadcast to national audiences, can make a huge impact to the campaign by proudly displaying the kitemark publicly.

The Living Wage Foundation can also utilise its list of employers and help consumers make ethical decisions by providing an online tool that will show consumers where they can buy Living Wage goods and use Living Wage services in their local area. As coverage of the Living Wage builds, this tool will become more and more useful for consumers and will provide much leverage in demonstrating willingness to pay for Living Wage goods and services.

An online tool will allow all households to make responsible decisions when hiring domestic service providers such as child carers, cleaners or gardeners. The benefits that businesses reap from paying a Living Wage will also apply to such domestic roles, and Commissioners want to emphasise the personal responsibility to pay a Living Wage to such domestic staff where possible. An online toolkit would help to simplify this process for those wishing to do so.

The Fairtrade movement: a template for building consumer awareness

The Fairtrade movement, another voluntary campaign for ethical business practice, has seen great success from making the case for ethical products to consumers. A recent survey by Fairtrade International found that 80% of consumers recognise the label in the UK, Ireland, Switzerland, the Netherlands, Austria and Finland,[75] a clear sign of solid consumer awareness. An Ipsos Mori poll of consumers found that 84% were willing to pay more for their bananas to get producers out of poverty.[76]

Fairtrade's success is the challenge for the Living Wage too. Previous studies in the United States have demonstrated that there is consumer demand for ethically produced products. A study back in 2005 proved that people were prepared to pay an additional 21.64 cents per pound for fair trade coffee[77] (roughly 7p per kilogram in today's prices) and another in 2008 showed that consumers were willing to pay a higher price for strawberries grown under fair and safe working conditions than for other strawberries. A 2011 study looked specifically at a price premium for Living Wage Products in the USA, finding that consumers were willing to pay, on average, 12.1% more for Living Wage products.[78]

Recognition of the Fairtrade mark has been built up over time. The Fairtrade Foundation, with the Fairtrade kitemark as we now know it, was launched in 1992 after various independent fair trade initiatives. It was not until 1994 that the first Fairtrade product (Green & Black's Maya Gold Chocolate) was launched, and it was shortly followed by Cafédirect coffee and Clipper tea. The first Fairtrade fortnight was then in 1995.[79] At this comparable stage in the journey of the Living Wage Foundation, they have accredited over 700 employers, delivered two Living Wage Weeks, and have won support from political leaders from all the major UK parties. So it should be acknowledged that in comparison with the Fairtrade journey, the Living Wage kitemark is achieving some success. By 2003, 11 years after the Fairtrade mark was launched, recognition in the UK stood at 25%, rising to 39% in 2004 and then 50% in 2005. Today this figure is 80%. In order to significantly increase coverage, the Living Wage campaign needs to look to the Fairtrade campaign, building consumer awareness and demonstrating consumers' willingness to pay.

Publication of numbers paid under a Living Wage

All publicly listed companies should publish the number of people paid below a Living Wage in their organisation, and the UK government should legislate if they fail to do so.

Encouraging publicly listed companies to publish the number of people paid below a Living Wage in their organisation would provide useful additional data on identifying low-paying employers and sectors, while also building pressure on larger employers to pay a Living Wage. While KPMG and the Resolution Foundation have provided calculations of the number of people paid below a Living Wage in the UK based on the *Annual Survey of*

Hours and Earnings, there is no such data on firm-level figures.

Government support for transparency would also act as a 'nudge' to boards and executives that the Living Wage is an important measure that they should be recognising. Campaigners would have additional material to use in trying to persuade certain firms and organisations to pay a Living Wage. As a start, accredited Living Wage employers should begin to demonstrate best practice by adding the following figures to their annual reports immediately, with all publicly listed companies doing so by the end of 2015:

- The number of directly employed staff aged over 18 that are paid below the Living Wage.
- The number of contracted staff and subcontracted staff working on company premises for two or more hours a day, for eight or more consecutive weeks of the year, that are paid below the Living Wage.[80]

An alternative route for achieving this transparency would be to redraft the UK Corporate Governance Code to add a requirement to disclose the number and proportion of employees at the organisation paid below a Living Wage on a 'comply or explain' basis. However, in practice this would be a lengthy arrangement as the Financial Reporting Council has to undergo a process of consultation with members that can take many years before the rules are adopted. Instead, transparency could be expedited by encouragement from UK government for public companies to voluntarily report on numbers paid below a Living Wage by the end of 2015. This should be accompanied by a warning that government is prepared to introduce a statutory underpinning if the voluntary approach does not work.

Tax incentives for Living Wage employers

When looking at how to build coverage in the private sector without obliging any employers to do so, the obvious incentive is a tax break that rewards employers for paying a Living Wage. It has also been one of most referenced options for increasing Living Wage coverage because the Labour Party announced during the Living Wage Week of 2013 that 'Make Work Pay' contracts would be a flagship policy going into the General Election. It addresses the chief barrier to more firms being able to pay a Living Wage – cost.

The Commission looked carefully at the idea of a tax incentive for Living Wage employers, but decided that the government might be better placed to fund adoption of the Living Wage across the public sector and champion it in the private sector. Yet Commissioners did not want to rule against the introduction of a tax break, in the future, that adequately took risk away from employers, helped with the affordability of bringing staff up to a Living Wage and tapered off as productivity benefits were felt.

Previously proposed tax incentives

The Labour Party

'Make Work Pay' contracts will reportedly give an average tax rebate of £21,000 to employers who start paying the Living Wage from 2015. This will be a 12-month tax rebate of up to £1,000 for every low-paid worker who sees their pay rise to the Living Wage. Employers would claim back 32p for every £1 they put on to workers' wages in the first year of introducing the scheme. The Labour Party estimates this would work out to an average saving of £445 for every worker who is given a pay rise. The proposals would increase the remit of HMRC to ensure employers who are receiving the rebate are paying the Living Wage.[81]

IPPR and Resolution Foundation

'Living Wage City Deals' would draw funding from savings anticipated to flow from an increase in coverage of the Living Wage and award it to pools of local authorities to spend on a 'Living Wage Development Fund' for small and medium-sized enterprises (SMEs). The fund would pay for the transitional costs of SMEs paying their staff a Living Wage. It would also accelerate take-up in the public sector as the majority of local authorities in any city area would have to be accredited with the Living Wage Foundation if a bid, in conjunction with the local Chamberof Commerce, were to be accepted. The IPPR and Resolution Foundation do not make assumptions of the amount of money that would be awarded as a tax incentive.[82]

There are, however, a number of issues with a tax incentive that meant that previous tax incentive proposals were discussed in a mixed fashion by employers, trades unions and civil society groups in consultations with the Commission. Issues to do with tax incentives include: the time the incentive would exist for; the amount of public money it would cost (some trades unions argue that a move towards 'additional public subsidy' would be a move backwards, whilst others saw it as a pump-priming measure); how the tax break would address the majority of employers that do pay over a Living Wage (research by the British Chambers of Commerce and Federation of Small Businesses suggests that at least half of their members pay at least the Living Wage to all directly employed staff); worries that regional and locally awarded tax breaks could draw businesses and talent away from surrounding areas; and concern that it may be difficult to police.

Commissioners agree that a tax incentive could be effective if it was used to aid employers making changes to job designs and business models in order to achieve productivity benefits in the long term. This kind of tax incentive would involve the following principles:

- The tax incentive would need to cover the risk to employers of raising the pay of all their staff in the initial period. This would allow employers to test a 'skills-based pay' review of their staff in order to move to a higher productivity business model in conjunction with raising pay.
- The tax incentive would need to address the key barrier of affordability over the medium term. This would mean covering additional costs of the employer for the interim period after they have introduced skills-based pay programmes, but before the productivity benefits arise.
- The tax incentive would need to taper off over the longer term as the business begins to benefit from productivity benefits associated with the job design and business model changes they made in conjunction with paying a Living Wage.

Such an incentive would need to be properly modelled and consulted upon in order to demonstrate it was the best value for public money, and that it would be a meaningful incentive for employers considering implementing a Living Wage policy.

3.5 The Living Wage campaign

Community, encouragement and celebration

The Living Wage campaign should continue to be rooted in the principles of community, encouragement and celebration.

The Living Wage campaign has adapted and developed during its growth from a small initiative started by The East London Communities Organisation (TELCO, now part of London Citizens) in 2001. Yet the pivotal role of community and faith organisations, civil society, local institutions and trades unions remains. This is an important aspect of the campaign that gives it conviction, and ensures it continues to be rooted in real lives, rather than balance sheets and statistics. Creating a step change in coverage of the Living Wage will require the support of government, and a more general widening of the scope. But the campaign should continue to be rooted in the principles of community, encouragement and celebration.

The campaign for a Living Wage so far has used a variety of tactics. Paul Regan, a Methodist minister and Trustee of London Citizens, has said of the organising tactics that 'it is crucial to devise different tactics for different institutions'.[83] For example, during the campaign to get Tesco to pay a Living Wage in 2011, Citizens UK arranged a 150-strong flashmob protest in a West London Tesco store,[84] before arranging a meeting with the Chief Executive, Philip Clarke.[85] The Living Wage Foundation, established by Citizens UK in 2011, now provides accreditation, intelligence and influence for the Living Wage campaign. By accrediting over 700 Living Wage employers, the Foundation is now able to champion and promote existing Living Wage employers as a means to encouraging other employers to sign up.

The Commission agree that the Living Wage campaign should continue to be rooted in these core principles. However, that does not mean that there is not a role for government to support the campaign. A strong, vibrant community-led campaign supported and championed by government is the key to a significant increase in coverage of the Living Wage. Lessons can be learned from abroad, such as in the United States, where there are a great many different Living Wage campaigns in different states. A study on the various campaigns by Professors Stephanie Luce and Mark Brenner of the University of Massachusetts found that a key measure for whether or not each campaign was successful – how many employees benefited from the campaign – was how strongly each campaign was rooted in the local community.[86] It is important that the Living Wage continues to be owned by community, voluntary and civil society groups which will enable it to continue to put pressure on government and those businesses that can afford to pay above the statutory minimum wage.

Addressing concerns on the Living Wage rates

The Commission welcomes the Living Wage Foundation's ongoing work on total reward (section 2.2), on bringing the two Living Wage rates together, and publishing an annual rate.

While the importance of the campaign itself taking the lead on the Living Wage is paramount, Commissioners have identified several ways in which the Living Wage Foundation might address some concerns raised throughout the Commission's consultation. These are:

- looking at what exactly can be included in the hourly Living Wage rate;
- the danger that the two rates – London and the UK – might move apart from one another; and
- clarity over what an annual Living Wage salary would look like.

Commissioners welcome the fact that in all three of these areas, the Living Wage Foundation is addressing these issues and encourages them to carry on.

What can be included

As Chapter 2 of this report points out, what is included in the hourly rate is a point of debate amongst campaigners and some employers, particularly in the retail sector. The example given in that chapter is that of Morrisons, who pay a base rate of £6.70 per hour to staff outside of London, which they claim rises to £8.02 per hour if additional benefits are accounted for. Campaigners arguing against any dilution of the rate refer to the fact that the base rate of pay is the most important aspect of reward for low-paid staff (as the survey referenced in Chapter 2 suggests) and that additional benefits are rarely universal. For example, a 10% in-store discount will mean less to a low-paid, full-time store assistant who is the sole worker in the household than to a part-time store assistant at the same store whose income supplements a higher earner in the household.

The Commissioners recommend that some flexibility is used on the elements of pay that make up the rate. However, there should be no dilution of the rate, nor deviation from its guiding principles by allowing employers to base calculations on total reward on averages across staff, as this would actually hit hardest those that most need the Living Wage.

The London and UK-wide rates

The Foundation is also undergoing separate work on bringing the calculation of the two Living Wage rates together. Currently the London rate is calculated differently to the UK rate. For example, 15% is added on to the London rate for 'unforeseen costs', which does not apply to the UK rate. There is a danger that the two rates will move further and further apart, which the welcome work on bringing the two rates together will address.

An annual rate

In addition, the Commissioners welcome the fact that the Living Wage Foundation is looking to publish an annual Living Wage rate as guidance to prospective employers. As you move closer to the Living Wage on pay, more and more full-time employees are working in jobs with annual salaries. Many people on salaried incomes may be surprised that they are paid below the Living Wage. For example, the annualised Living Wage for a full-time worker in London (see Figure 1) is currently £17,895.43. The Living Wage rates should remain two single hourly rates, but annual figures should also be published, for guidance only. The principle that everybody should be paid a Living Wage for every hour worked should remain.

3.6 The low-paying industries

The following profiles of the three largest low-paying sectors are based on conversations with sector specialists, employers, trades unions and academics. The figures are presented in Appendix 1.

Retail

Profile of the sector

- Of 1,152,000 sales and retail assistants, 70% (810,000) are paid below a Living Wage.
- In the retail and wholesale sector as a whole, 1,338,000 are paid below a Living Wage out of 3,529,000 (38%).[87]
- There are 19 retailers and wholesalers accredited with the Living Wage Foundation, accounting for 3.1% of total accredited employers.

The sector-specific barriers

- The biggest barrier to increasing coverage is the cost. Retailers have a business model that relies on a large number of low-skilled employees. This means that the move to a Living Wage carries a much larger cost than for firms that tend to only have a few low-skilled, low-paid staff.
- There is a comparatively higher number of part-time workers in retail than in other sectors, many of whom are topping up other household income, which means there is often less pressure on levels of pay.
- Larger retailers tend to offer a wider package of benefits than just the pay rate. The total reward will include, for example, a pension scheme, an in-store discount, additional payments for overtime, and in some cases meals. It means the basic pay rates are sometimes lower to account for this.
- Employers often only see the additional wage costs, and do not measure other benefits when deciding whether or not to pay a Living Wage.
- Retailers tend to have a comparatively large staff turnover in the first 12 months of taking on an employee. Pay rates will often rise following this period.
- Because of unemployment levels, the demand for jobs in retail is currently very high. One retailer said that 'we could pay what we wanted and there would still be a queue going round the block.' The job pool for retail jobs extends to other sectors too, and people will often move from other low-paying sectors, such as social care, into retail.
- Shareholders are keen to see a strong return. It is notable that the only major retailer to become a Living Wage employer is Lush, who are owned privately. Lush are only able to pay the Living Wage in London.

Opportunities in the retail sector

Changing job designs to reflect changing shopping habits

There are significant opportunities in the retail sector to develop skills and utilise technology in response to changing customer shopping habits. Nearly all retailers have adapted to a multichannel approach to cater for online sales – that is, they offer both online and in-store sales. However, some forward-thinking retailers are now moving to an 'omnichannel' approach. This reflects the fact that shoppers are increasingly shopping both online and in-store, returning bought items to the store, and buying alternatives online.

The omnichannel approach involves stores differentiating their store offer from the online offer, increasing levels of hospitality, and introducing new technology. For example, retail assistants in one fashion retail store are using tablet computers to 'up sell' to customers, offering them additional products. One food retailer has increased the numbers of staff doing demonstrations of products and food-tasting sessions. This new job design, in conjunction with associated training and an HR operation that appropriately rewards additional skills and competencies, could have profound effects on the level of pay in retail. The challenge is for more retailers to look at how they can change their job design and business structures to make the most of these changes.

Better measurement of the benefits of the Living Wage

The benefits that Living Wage employers have experienced will be particularly relevant in the retail sector. Levels of staff turnover, petty theft and absenteeism are all comparatively high in the retail sector, and reduction in these will have a significant impact on costs.

Brand benefits

Retailers are customer-facing and take great care in how they are perceived. For example, retailers such as Topshop that have been targeted by tax evasion campaigns have taken a resultant hit in revenue. This means that if the consumer case is made strongly enough that retailers believe it would provide a competitive advantage, there could be more movers.

HR best practice

The retail sector employs more people than any other industry in the private sector. It is often called a 'people business'. However, despite the fact that HR directors sit on the boards of directors on 40% of UK businesses, no HR directors are represented on the boards of the biggest supermarkets. There are opportunities for better use of HR best practice in the retail sector by adjusting levels of reward to meet organisational objectives.

An improving economy

A lower unemployment level will alleviate some of the demand for retail jobs. Already some retailers are having to raise wages in certain areas of the country where talent is harder to recruit. If unemployment numbers continue to fall, this trend could speed up across the country.

Social care

Profile of the sector

- Of 671,000 care workers and home carers, 40% (270,000) are paid below a Living Wage.
- In the health and social care sector as a whole, 613,000 are paid below a Living Wage out of 3,659,000 (17%).[88]
- There are 36 health and social care sector employers accredited with the Living Wage Foundation, accounting for 5.8% of total accredited employers.

The sector-specific barriers

- There are enormous funding pressures. There has been a £2.68 billion reduction in adult social care spending since 2010, with further reductions expected.[89] This reflects cuts in funding for local authorities. Local authorities have passed on cuts of 4% to adult social care budgets.[90]
- Social care budgets are not ring-fenced and are therefore vulnerable to funding cuts.
- Rates paid by local authorities are often too low. The UK Homecare Association (UKHCA) has provided a costing model for local authorities, details of which are in Public Procurement section of Chapter 3.3. In order to meet the National Minimum Wage, the rate should be £15.19 per hour. To meet the Living Wage, it should be £18 per hour, and £20.40 per hour to meet the London Living Wage. Yet the Equality and Human Rights Commission found that 20 local authorities paid £11 or less per hour, with one paying as low as £8.98 per hour. At rates as low as those, even reaching the NMW will be a challenge.
- There is a general attitude towards care workers that does not reflect the level of skill, competence and hard work that they have to deliver. For example, the Cavendish Review of social care states 'Helping an elderly person to eat and swallow, bathing someone with dignity and without hurting them, communicating with someone with early-onset dementia; doing these things with intelligent kindness, dignity, care and respect requires skill. Doing so alone in the home of a stranger, when the district nurse has left no notes, and you are only being paid to be there for 30 minutes, requires considerable maturity and resilience.'[91]

Opportunities in the social care sector

Best practice and transparency in commissioning

There is plenty of room for the establishment, sharing and adoption of best practice in the way that social care is commissioned. If open-book practices were more increasingly adopted by local authorities, such as has been the case at Brighton & Hove City Council, there would be greater transparency of the costs of different aspects of the social care service, and what is expected. Some local authorities are still using maximum hourly rates for providers, for example, that do not allow providers to tender with wages higher than the NMW.

Proper funding for social care

The biggest barrier to achieving a Living Wage for social workers is funding. Low rates paid by local authorities to providers mean that providers are running their operations with little or no room for manoeuvre. Low rates paid for contracts by local authorities lead to low wages being paid to staff, and unsatisfactory working conditions. Higher rates paid by local authorities would allow providers to pay higher wages, and ultimately those receiving care would receive a better service. The Equality and Human Rights Commission has linked the low pay and low value attributed to social care workers as a risk for the human rights of elderly and vulnerable people receiving care.

A ring-fenced budget

The ring-fencing of social care budgets might alleviate some of the growing pressure on social care budgets. While it would by no means be a solution to the low-pay crisis in the social care sector, it might stop the situation from deteriorating further.

Hospitality

Profile of the sector

- Of 176,000 bar staff in the UK, 85% (150,000) are paid below a Living Wage.
- Of 165,000 waiters and waitresses in the UK, 85% (140,000) are paid below a Living Wage.
- Of 460,000 kitchen and catering assistants in the UK, 80% (370,000) are paid below a Living Wage.
- In the hospitality sector as a whole, 837,000 are paid below a Living Wage out of 1,221,000 (69%).[92]
- There are 17 hospitality employers accredited with the Living Wage Foundation, accounting for 2.7% of total accredited employers.

The sector-specific barriers

- Affordability is the key barrier to the Living Wage in this sector. Research by the IPPR and Resolution Foundation shows that bars and restaurants face a 6.2% wage bill increase from adopting the Living Wage.[93] As with retail, the sector relies on a large level of usually younger, low-skilled staff.
- The hospitality sector is facing a tough time. Turnover in the industry remains unchanged from last year at £67.6 billion – which reflects a real decline – and employment costs rose 2% from last year.
- Such a high proportion of bar staff are paid below a Living Wage (85%) in part because pubs have struggled over the last few years. Twelve pubs are closing every week as a shift towards buying alcohol in supermarkets means that around 70% of alcohol is now purchased through off licence, and trade has declined after the smoking ban.

Opportunities

Changing job design to reflect changing customer habits

As with retail, some forward-thinking hospitality providers are enhancing levels of training and varying job roles to better suit their organisational goals. Customer interaction is becoming a more important part of the hospitality offer – a high-profile example is Starbucks staff now asking for the name of the customer and writing it on the cup. Other bars, restaurants and cafes are looking at similar ways to personalise the experience.

National Insurance contributions for under 21s

Hospitality has a large number of young people working in the industry. From April 2015, employers will no longer have to pay National Insurance contributions for staff under 21 years old. For a full-time 18-year-old working as a waitress, for example, the employer would be saving £600 a year. The NI relaxation will ease the cost pressures and create more opportunities for younger workers.

There are examples of higher pay in hospitality abroad

Hospitality is not a low-pay industry in every country. In France, for example, the maître d' is paid at a similar rate to a headteacher in reflection of the higher cultural value placed on the food and drink industry. Synhorcat, the French hospitality trade association, secured a deal with the French government to reduce VAT on restaurant meals in 2009. Christine Lagarde, as minister for Finance, reduced VAT on restaurant meals from 19.6% to 5.5% in an attempt to increase consumer spending and create jobs. It has since been increased but still stands at 10%, below the standard rate of VAT. While such a measure may not work in the UK, France remains a strong example of a higher-pay hospitality sector.

The recovering economy

A recent report from the UK Commission for Employment and Skills states that they expect employment growth in the hospitality industry up to 2020, with nearly 290,000 more jobs in 2020 than in 2010. The increased supply of jobs would lead to upward pressure on levels of pay.

Minimum alcohol prices

The introduction of minimum unit pricing on alcohol could have a positive effect for the hospitality industry as the differential between the cost of alcohol in supermarkets and prices paid in bars and restaurants would decline. It could lead to a slight rise in pay for bar staff whose occupation is among the lowest paid and tends to be tied to the National Minimum Wage.

CONCLUSION

Over the past 12 months, the Living Wage Commissioners have carefully considered the case for the Living Wage, and this final report sets out an ambitious but credible target for an increase in coverage: 1 million additional employees paid a Living Wage by 2020.

The establishment of the Commission came at a time in which levels of low pay had been rising across the UK. One in five workers were paid below a Living Wage and for the first time the majority of people in poverty in the UK were in a working household.

The evidence Commissioners have considered over the past year, and which this report sets out, shows that there is a strong social, business and public policy case for a significant increase in coverage of the Living Wage in the UK. The Commission has challenged the Westminster and devolved governments to sign up to the target of bringing an extra 1 million employees up to a Living Wage by 2020, and has provided a roadmap of recommendations setting out how to build coverage in the public and private sectors.

In considering what level of coverage of the Living Wage could be achieved in the next five years, and the means to do this, the Commission looked at all the options. This included the option of raising the statutory National Minimum Wage up to the level of the Living Wage. However, the Commission agreed that this was not a viable option because of concerns over affordability in the low-paying industries, and for small and medium-sized businesses. As the report sets out, the lack of affordability could lead to increased unemployment as a result of a statutory Living Wage. Any rise in unemployment would be undesirable, not least for those employees who would be out of a job, but also because public finances would be further strained by an increased out-of-work benefits bill and business productivity would take a hit at a critical time in the economic recovery.

Citizens UK and the Living Wage Foundation, together with trades unions, civil society and responsible businesses, have ensured that thousands of the most vulnerable people in the UK now get a pay rise each year to match the rising cost of living. Their campaigns have empowered people in workplaces to win pay rises up to a Living Wage and, crucially, to ensure it is sustainable and continues to be implemented each year. The campaign is building in capacity and membership, and the changing economic climate, together with supportive Westminster, devolved and local governments, will provide the ideal backdrop for it to grow further over the coming years.

The Commission believes there is a strong role for government to play in supporting the Living Wage campaign. Central, devolved and local governments can celebrate Living Wage employers, champion the benefits of paying a voluntary Living Wage, and crucially, lead by example by ensuring all public sector staff are paid a Living Wage.

While today's Living Wage campaign was established in East London in 2001, the concept of the living wage is one that recurs throughout history. In 1909, one Winston Churchill, then President of the Board of Trade, told the House of Commons that 'it is a serious national evil that any class of His Majesty's subjects should receive less than a living wage in return for their utmost exertions.'[94] While much has changed since 1909, the principle of ensuring that work pays remains firmly entrenched in the national mindset. The final report of the Living Wage Commission sets out how business, government and campaigners can achieve this vision today.

APPENDIX 1: THE DISTRIBUTION OF SUB-LIVING WAGE EMPLOYEES AND ACCREDITED EMPLOYERS BY INDUSTRY

		Employees paid below a Living Wage (LW)			LWF Accredited employers	
	Total staff	**Below LW**	**% below a LW in industry**	**% of total below a LW**	**Number**	**% of total 619 accredited employers**
Wholesale and retail trade; repair of motor vehicles and motorcycles	3,529,000	1,338,000	38%	27.6%	19	3.1%
Accommodation and food service activities	1,221,000	837,000	69%	17.2%	17	2.7%
Human health and social work activities	3,659,000	613,000	17%	12.6%	36	5.8%
Administrative and support service activities	1,405,000	500,000	36%	10.3%	0	0.0%
Education	3,858,000	477,000	12%	9.8%	51	8.2%
Manufacturing	2,395,000	274,000	11%	5.6%	0	0.0%
Arts, entertainment and recreation	472,000	168,000	36%	3.5%	2	0.3%
Professional, scientific and technical activities	1,514,000	113,000	7%	2.3%	96	15.5%
Other service activities	402,000	109,000	27%	2.2%	88	14.2%
Transportation and storage	1,063,000	87,000	8%	1.8%	3	0.5%
Construction	807,000	65,000	8%	1.3%	10	1.6%
Information and communication	953,000	59,000	6%	1.2%	31	5.0%
Financial and insurance activities	1,061,000	56,000	5%	1.2%	28	4.5%
Public administration and defence; compulsory social security	1,258,000	56,000	4%	1.2%	194	31.3%
Real estate activities	319,000	38,000	12%	0.8%	38	6.1%
Agriculture, forestry and fishing	121,000	35,000	29%	0.7%	0	0.0%
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	50,000	11,000	22%	0.2%	0	0.0%
Water supply; sewerage, waste management and remediation activities	132,000	11,000	8%	0.2%	0	0.0%
Electricity, gas, steam and air conditioning supply	171,000	6,000	3%	0.1%	6	1.0%
Mining and quarrying	42,000	1,000	3%	0.0%	0	0.0%

Sources: Office for National Statistics, *Annual Survey of Hours and Earnings 2013*, and Living Wage Foundation. The LWF's figures on accredited employers have been converted to be compatible with the ASHE categories by the Living Wage Commission.

APPENDIX 2: REGIONAL DISTRIBUTION OF SUB-LIVING WAGE EMPLOYEES AND ACCREDITED ORGANISATIONS.

	Employees under a Living Wage				Accredited employers	
	Employees	**Below LW**	**% in region under a LW**	**% of all UK under a LW**	**Number accredited**	**% of all UK accredited**
ENGLAND						
North East	951,000	222,000	23%	4.6%	20	3.6%
North West	2,593,000	558,000	22%	11.5%	57	10.2%
Yorkshire and The Humber	1,962,000	434,000	22%	9.0%	33	5.9%
East Midlands	1,696,000	379,000	22%	7.8%	21	3.8%
West Midlands	2,100,000	450,000	21%	9.3%	28	5.0%
East	2,244,000	436,000	19%	9.0%	27	4.8%
London	3,644,000	584,000	16%	12.1%	264	47.3%
South East	3,299,000	530,000	16%	11.0%	37	6.6%
South West	2,067,000	433,000	21%	9.0%	28	5.0%
WALES	1,078,000	237,000	22%	4.9%	18	3.2%
SCOTLAND	2,164,000	372,000	17%	7.7%	23	4.1%
NORTHERN IRELAND	675,000	193,000	29%	4.0%	2	0.4%

Sources: ONS, *Annual Survey of Hours and Earnings 2013*, and Living Wage Foundation. The LWF's figures on accredited employers have been converted to be compatible with the ASHE categories by the Living Wage Commission.

APPENDIX 3: TARGETS FOR INCREASE IN LIVING WAGE COVERAGE IN THE PRIVATE SECTOR

	Numbers below LW	Additional % of Firm-level wage costs	Target after stage 1	Relative change in labour demand	Target after stage 2	Firms	Accred-ited	Target after cap (firms)	Employ-ees	Number of times increase
Wholesale and retail trade	1,338,000	6.5%	267,600	-6.09	53,520	838	19	838	53,540	44
Accommodation and food	837,000	6.5%	167,400	-6.09	33,480	524	17	524	33,478	31
Administrative, support service activities; Professional, scientific and technical activities	613,000	1.0%	582,350	-3.79	291,175	4,557	96	4,557	291,147	47
Manufacturing	274,000	1.4%	232,900	-0.76	209,610	3,281	0	200	12,778	100
Arts, entertainment and recreation	168,000	3.5%	84,000	-4.09	33,600	526	2	400	25,556	200
Other service activities	109,000	3.5%	54,500	-4.09	21,800	341	88	341	21,786	4
Transportation and storage	87,000	1.3%	73,950	1.6	73,950	1,157	3	600	38,334	200
Construction	65,000	1.1%	55,250	-3.62	27,625	432	10	432	27,600	43
Information and communication	59,000	1.0%	56,050	0.16	56,050	877	31	877	56,032	28
Financial and insurance activities	56,000	0.4%	56,000	-0.83	50,400	789	28	789	50,409	28
Real estate activities	38,000	1.0%	36,100	-3.79	18,050	283	38	283	18,081	7
Agriculture, forestry and fishing	35,000	1.2%	29,750	-7.29	2,975	47	0	47	3,003	88
Water supply	11,000	1.2%	9,350	-7.29	935	15	0	15	958	28
Electricity, gas, steam and air conditioning	6,000	1.2%	5,100	-7.29	510	8	6	8	511	1
Mining and quarrying	1,000	1.2	850	-7.29	85	1	0	200	12,778	3
TOTAL								**10,111**	**645,992**	

Sources: ONS, *Annual Survey of Hours and Earnings 2013*; Living Wage Foundation, 2013 Living Wage rates; Riley, R, *Modelling demand for low skilled/low paid labour* (NIESR, January 2013); Jensen and Wills, Queen Mary University survey of organisations accredited by the Living Wage Foundation (2013); Living Wage Foundation, sector-based figures on accredited employers in each sector (April 2014). A full methodology for the calculation is provided in the text.

APPENDIX 4: EXTRACTS FROM KPMG PROCUREMENT GUIDE

1.1 Pricing Assumptions

When completing the Commercial Response document please apply the following assumptions:

- KPMG is a Principal Partner to the Living Wage Foundation and committed to paying the Living Wage (or London Living Wage where applicable) as a minimum for services including those provided by third party suppliers and subcontractors. You should be prepared to demonstrate that you will pay the Living Wage to any employees and subcontractors engaged in providing services to KPMG.

1.2 Sustainable Procurement

#	Requirement	Supplier Response
19	Is your company a Living Wage accredited employer? (http://www.livingwage.org.uk/)	(Yes / No – Delete as appropriate)
20	If your answer to the previous question was 'No', are you considering or would you consider paying the Living Wage?	(Yes / No – Delete as appropriate)

KPMG Living Wage Schedule explains our Living Wage commitment to all prospective suppliers

Living Wage

Paying a decent wage to staff has well documented benefits, including improved productivity and retention together with lower staff training costs. KPMG supports the Living Wage accreditation scheme (which is designed to set a decent wage level) and is an accredited Living Wage Employer.

As part of its accreditation, KPMG must ensure that those individuals who undertake work for it are paid at least the Living Wage. The Living Wage is independently set on an annual basis, with one Living Wage rate for London and one for all other areas of the country.

To support KPMG's commitments on Living Wage, the Supplier must ensure that each of their staff receive (as a minimum) the Living Wage if they:

- are aged 18 or over;
- are either contracted or subcontracted by you;
- provide a service to or on behalf of KPMG involving 2 or more hours of work in any given day in a week, for 8 or more consecutive weeks in a year on:
  - KPMG's premises; and/or
  - property owned or occupied by KPMG (including where KPMG is a tenant and is provided building-related services through a Lease); and/or
  - land which KPMG is responsible for maintaining or on which it is required to work.

Please note that where the Supplier's subcontractors meet the above requirement, the Supplier must ensure that the appropriate Living Wage rate flows through to the appropriate individuals. The Living Wage rate applies to the Supplier's apprentices or interns which meet the above requirements, in respect of the hours they spend working for KPMG, unless otherwise agreed in writing with KPMG.

As the Living Wage figures will be independently reviewed and most likely adjusted each year, the Supplier must revise its remuneration levels on an annual basis as directed by KPMG. Once the annual publication of the Living Wage levels has been made (for example, in London, this is undertaken by the Mayor's office), KPMG will notify the Supplier of the Living Wage levels applicable to the KPMG account within a reasonable timeframe and the Supplier undertakes to promptly comply with the terms contained in the notification.

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CHAPTER 1
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