

Fair Pay: A Living Wage Wales

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SUMMARY

Low pay in Wales is endemic, with more than one in four workers not earning enough to meet their basic needs i.e. less than a Living Wage.

Low pay is found amongst all groups of people and in all industries to varying degrees, but some people are at much greater risk than others. Those more likely to be paid a low hourly pay rate include women, part-time workers, young or older workers, those working in certain industries such as retail and hospitality, those in certain occupations, including care workers and machine operatives, and people employed in the private sector.

Low pay occurs in all parts of Wales but areas with the highest proportion of the workforce paid below the Living Wage are mostly rural.

The Living Wage offers a potential solution for Wales' low pay problem. Set by the Living Wage Foundation, it is a voluntary pay rate currently worth £8.25 an hour. It is based on the amount required for a basic but acceptable standard of living. It is updated annually, but a cap is applied so that no employer is expected to award pay rises of more than two percent above the average increase in earnings.

Benefits and Risks

The evidence shows that the Living Wage would benefit Wales' employers, employees and their families, and the wider economy with minimal risks.

The benefits for Wales' employers include increased productivity, improved staff recruitment, attendance and retention, and reputational enhancement, with the impact on wage bills and profits being very modest although they vary with the size and sector of the organisation.

The benefits for Wales' employees include more cash, more time and increased well-being. The extent of the gains depends on employees' working patterns, welfare entitlement and other household arrangements.

The benefits to the wider economy are increased tax and national insurance revenues and savings on benefits. Modelling of the impact on total employment suggests that at worst there is a very small risk of very limited job loss and at best some increase in employment.

There is every reason to expect that Wales would benefit considerably from a substantial increase in the number of Living Wage employers and employees. The impact on the aggregate wage bill is likely to be relatively modest, while the benefits for productivity, reputation and sickness absence are potentially large. Importantly, Wales' low-paid workers stand to benefit from a voluntary pay rise.

The headline rates of poverty are unlikely to change as a result of increased adoption of the Living Wage, but many households may find that they are able to

have a slightly higher income without working additional hours, be more financially secure and may be less reliant on benefits. The gender pay gap is likely to narrow due to the over-representation of women in Wales' low paid workforce, and individual well-being and financial independence can also be strengthened.

Progress towards a Living Wage in Wales

The Living Wage has received support from almost all political parties, as well as trade unions and other campaigners throughout Wales. This has helped to drive change in the public, private and third sectors. However, Wales has not had the same level of high-profile country-wide campaigning as in Scotland, nor has there been much innovation in terms of incentives for employers to become Living Wage accredited.

There has been some welcome recent progress in increasing the number of accredited and non-accredited Living Wage employers with both being at an all-time high. However there is much more that could be done: more than half of Wales' local authorities do not yet pay the Living Wage, no Wales-headquartered employers in the key sectors of accommodation or retail have committed to pay it, and some local authorities have no accredited Living Wage employers headquartered in their areas.

Achieving a step change

A step-up in action is needed if there is to be significant change in the number of Living Wage employers and employees in Wales. We recommend that the aim should be to reduce the proportion of people earning less than the Living Wage to the UK average (excluding London) within five years – requiring a cut of about 6,000 people a year.

This should be accompanied by:

- a robust strategy which mixes 'quick wins' such as employers who are 'natural sympathisers' with sectoral approaches where low pay is widespread;
- using tactics that work – especially employer-to-employer messages and development of a Living Wage 'movement';
- local and Wales-wide policy and legislation to encourage employers to pay the Living Wage; and,
- a dedicated resource to champion and support the Living Wage, which brings together Welsh Government, trade unions, employer representatives and other campaigners.

INTRODUCTION

Wales has a low pay problem, and it is widespread. Regardless of your age, gender, industry or location, you are at risk of being paid below the minimum amount required to meet based needs – the Living Wage.

The risk of being paid below the Living Wage is greater depending on an employee's age, working pattern, sector, industry, occupation and gender. Around two in every five workers in Wales paid below the Living Wage are women in part-time employment. Women are also over-represented in low-paid industries and occupations, and the persistent gender pay gap means that women overall are at greater risk of being in a low paid job.

The Living Wage is set by the Living Wage Foundation as a voluntary minimum hourly rate which accredited employers must pay to all employees and subcontractors aged over 18. Uprated annually, the Living Wage represents an alternative to the statutory minimum wage rate(s) determined by government and is both a figure for campaigners to rally around, and the opportunity of a real pay increase for many of the lowest paid employees in Wales.

So what could the Living Wage mean for Wales? Employees value it as it means their income from work increases without having to work more hours. They also find it is beneficial to their well-being, financial security and personal lives as, for example, it enables employees to spend more time with their families.

Besides the obvious benefits for employees, the positive impact of the Living Wage can be observed much more broadly. For instance, the Exchequer is rewarded by increased income tax and national insurance contributions, and employers can profit from increased productivity and workforce retention.

Although the Living Wage is voluntary, accredited employers sign a contract with the Living Wage Foundation that commits them to paying it. At the time of writing this report, there are 70 accredited Living Wage employers headquartered in Wales, and dozens more with trading addresses in Wales such as Lloyds, Aldi and Ikea.

The Living Wage Foundation's accreditation process is important to 'lock in' workers on a Living Wage. It requires employers to annually uprate staff on the Living Wage, and is legally binding. It also means that subcontractors must be paid at the Living Wage, therefore extending the benefits beyond the immediate workforce. However, not all employers which pay the Living Wage, such as NHS Wales, are accredited.

This report explores the problem of low pay in Wales. It considers the benefits and risks of the Living Wage and what this may mean for Wales, as well as the progress

that has been made in terms of the number of accredited and non-accredited Living Wage employers.

The final section of the report sets out how Wales can bring about a step change in the number of Living Wage employers in Wales, and the number of people earning the Living Wage. It considers how trade unions and campaigners have already had some big successes in encouraging employers to pay the Living Wage, but what more must be done to drive this forward at a much faster pace.

We are very grateful to our funders –Chwarae Teg, Oxfam Cymru and Save the Children – for providing the resources so that we could conduct this research.

1. LOW PAY IN WALES

Wales has a problem of low pay. Median hourly earnings are the second lowest in Britain at £10.59 an hour,¹ while the worst paid 10 percent of the Welsh workforce earn just £7.19 for full-timers and £6.50 an hour for part-timers. On average, women earn less than men no matter how poorly or well paid they are. The gender pay gap for hourly pay is 14.6% in Wales.²

Pay is very important to the vast majority of workers but it is by no means their only concern. Issues including whether all time spent at work is paid - such as breaks, training time, overtime and travel time - are important, along with job security and sickness or compassionate leave, also matter to low paid employees.³

Statutory minimum wages for some low paying sectors were in place for most of the 20th century, with the National Minimum Wage (NMW) for all employees being introduced in 1998. The NMW is set annually on the basis of recommendations from the Low Pay Commission: an independent body of employers, unions and experts, with different rates for different age groups and apprentices. A new NMW, the National Living Wage, was announced in the 2015 Summer Budget and took effect from April 2016 as the statutory minimum for those aged 25 and over.

Concern that the statutory minimum rates of pay did not provide enough for workers to live on grew in the 2000s, and the idea of a Living Wage in the UK emerged, initially in London and then for the rest of the UK.

1.1. The Living Wage

The Living Wage is an hourly rate of pay which is intended to provide those who receive it with a modest but acceptable standard of living. The rate is announced on the first Monday in November every year, with the expectation that it is implemented by 1st May the following year at the very latest.⁴ It is paid voluntarily by employers.

The rate with effect from November 2015 is £8.25. It is calculated independently by the Centre for Research in Social Policy (CRSP)⁵, based on research on what constitutes modest needs. These include a selection of food items, 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 birthday presents and childcare), and transport costs.

The rate is based on an average of these needs for different family types, and assumes that all relevant welfare benefits and credits are claimed. To ensure the

increases are affordable for employers the rate is capped so that no employer is expected to award pay rises of more than two percent above the average increase in earnings.⁶

1.2. Employer Accreditation

The Living Wage Foundation runs an accreditation scheme for employers committing to pay the Living Wage. Employers are required to pay the Living Wage to all those they directly employ and have a plan for phased implementation for all contracted staff at the point of contract renewal.⁷

Employers are not expected to check that suppliers, such as those providing stationery or uniforms, are Living Wage employers.⁸ So, for example, an accredited Living Wage employer would be required to ensure that their subcontracted catering staff were paid at least the Living Wage, but would not be required to mandate that their food suppliers paid their staff the Living Wage.

The licence signed between the Living Wage Foundation and the employer as part of the accreditation process is legally binding. Accredited employers are also required to pay a modest annual fee to the Living Wage Foundation.⁹ In return, they are entitled to display the Living Wage logo and are listed on the Living Wage Foundation website.

While all accredited employers pay the Living Wage, not all employers that pay the Living Wage are accredited. This can be for a number of reasons, such as an unwillingness to pay contractors the Living Wage, reluctance to commit to future pay rises, or lack of awareness of the accreditation process.

1.3. The National Living Wage

In July 2015 the Chancellor announced an increase in the National Minimum Wage for people aged 25 and over to £7.20 an hour from April 2016, branded as the National Living Wage.¹⁰ This new rate has raised the wages of a substantial number of low paid workers – an estimated 150,000 people in Wales are expected to benefit by 2020.¹¹

There are several important differences between the UK Living Wage and the National Minimum Wage (including the UK Government's National Living Wage) – see Table 1. The most important distinction is that the UK Living Wage is a voluntary rate, whereas the National Minimum Wage is a legal minimum rate of pay.

Table 1: Key differences between the National Minimum Wage and the Living Wage

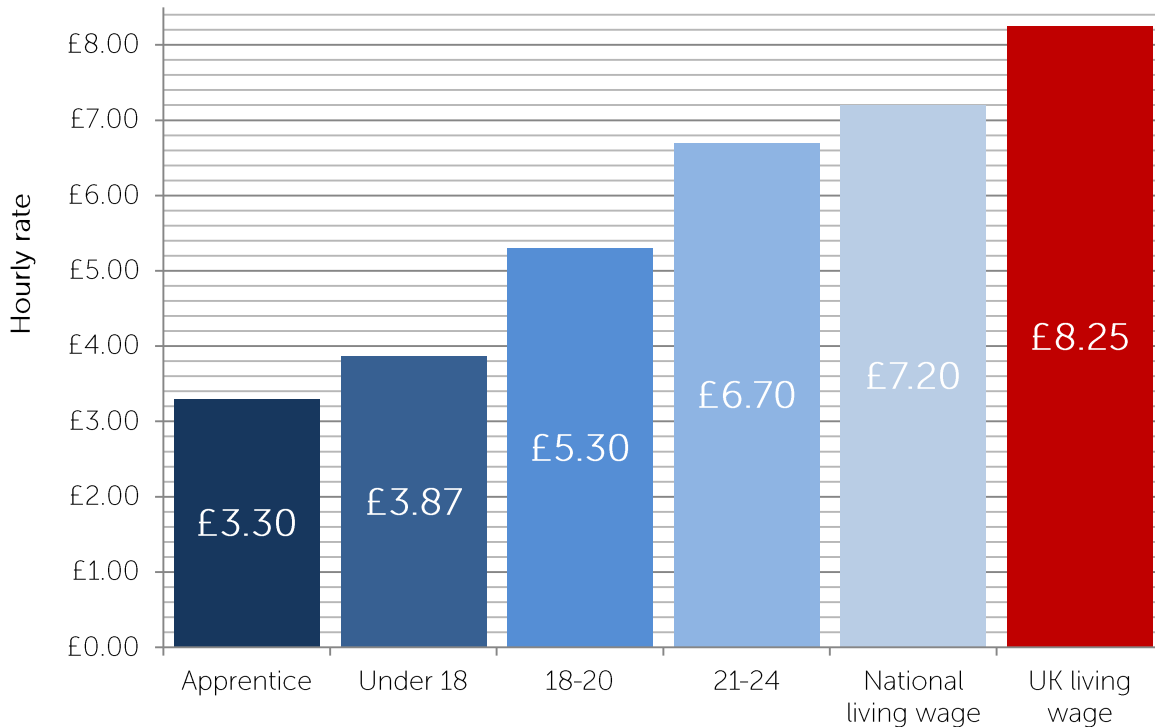
National Minimum Wage (including the National Living Wage)	Living Wage
Statutory	Voluntary
UK-wide	Two rates – a UK rate and a London rate
Different rates for age groups and apprentices	Same rate applies to all employees aged over 18 (Living Wage accreditation does not require apprentices, interns and volunteers to be paid the Living Wage ¹²)
Set by UK Government, based on advice by the Low Pay Commission	Set by the Living Wage Foundation, based on calculations by the Centre for Research in Social Policy (UK rate) and Greater London Authority (London rate)
Based on a relationship with average earnings ¹³	Based on a minimum requirement to meet need combined with an analysis of the actual cost of living ¹⁴

The new statutory minimum is not a substitute for the voluntary Living Wage. It falls short of the amount needed for a decent standard of living by £1.05 an hour. This is a long-standing trend: statutory minimum wage rates have been considerably lower than the UK Living Wage since it was first set by the CRSP in 2011.

In addition, the increase in the minimum wage does not offset the cuts planned to in-work benefits and in particular those to tax credits. Analysis by the Resolution Foundation suggested that the average net loss of income from benefit changes would be about £1,100 a year although the precise impact depended on family circumstances.¹⁵ Although most of the cuts have been deferred until the introduction of Universal Credit, the majority of households will lose out when it is implemented.

Also, the new National Minimum Wage does not apply to people aged under 25 or to apprentices in their first year of training. They face a significant shortfall in between the amount they earn and the amount they need for a decent standard of living – at the age of 24 many young adults live independently and may be bringing up a family of their own.

Chart 1: Statutory minimum wage and UK Living Wage rates on 1st April 2016



Sources: UK Government (2015), National Minimum Wage and National Living Wage rates [accessed via <https://www.gov.uk/national-minimum-wage-rates>]; Living Wage Foundation (2016), The Calculation [accessed via <http://www.livingwage.org.uk/calculation>]

The Chancellor is committed to raising the new National Minimum Wage rate to at least £9 an hour or 60% of median earnings by 2020.¹⁶ It is impossible to forecast what the rate of the Living Wage might be in 2020, as it depends on the rate of inflation and on changes in what the public regards as the requirements of a decent standard of living. That said, it seems very unlikely that new National Minimum Wage will match or exceed the Living Wage, although it is possible that it will narrow the gap for workers aged 25 and over at least.

Ironically, if the gap between the statutory minimum and the Living Wage closes it makes the case for paying the Living Wage even stronger as the arguments about affordability for employers are weakened. The Living Wage also offers protection for workers aged 19-24 from greater pay disparity with older workers, as they are not entitled to the National Living Wage.

1.4. Who are Wales' Low Paid Workers?

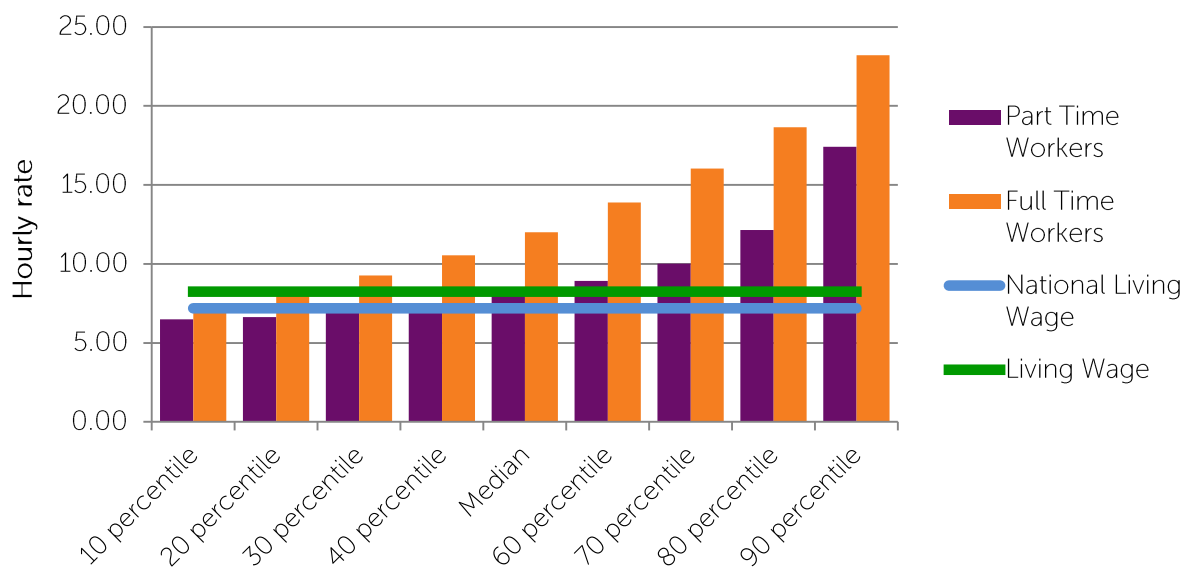
In 2015 more than one in four (25.6%) adults in employment in Wales were paid less than the Living Wage (then £7.85 an hour) – some 295,000 employee jobs.¹⁷ This was an increase on 2014, where an estimated 288,000 (24.9%) employee jobs were paid at an hourly rate lower than the Living Wage.¹⁸

The risk of being paid less than the Living Wage varies considerably depending on the characteristics of the worker, their hours of work, the industry they work in and where they live.

1.5. Hours of Work

For each decile, part-time work is always paid less per hour than full-time work: this is the case for the best-paid and worst-paid workers.

Chart 2: Hourly pay by decile, full time and part time, Wales 2015



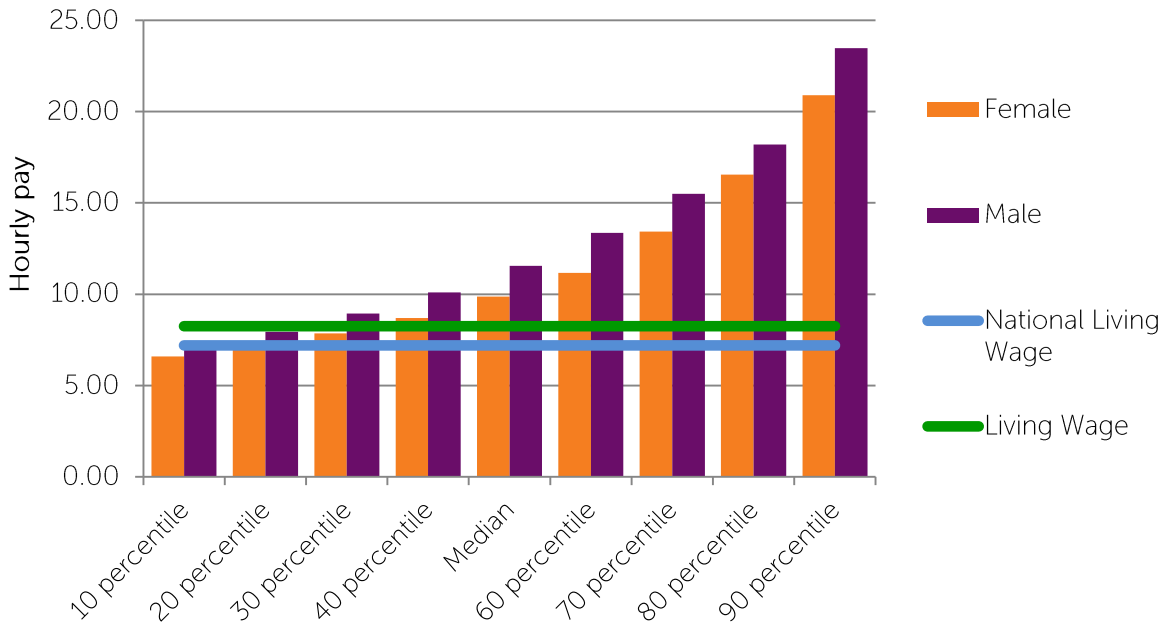
Source: ONS (2015), ASHE: Table 7.6a Hourly pay - Excluding overtime

The risk of being paid below the Living Wage is nearly twice as great for part-timers in Wales compared with full-timers: nearly half (46.9%) of part-timers, which are predominantly women, are paid less than the Living Wage compared with around a sixth (17.1%) of full-timers.¹⁹ However because there are many more full-time workers than part-time workers, there are roughly the same number of part-timers and full-timers paid below the living wage – 154,000 compared with 140,000 respectively.

1.6. Gender

In Wales, as in the rest of the UK, women’s pay rates are on average lower than those for men. In 2015, the gender pay gap for all employees was 14.6%, with women’s median hourly pay worth £9.87 compared to men’s median hourly rate of £11.56.²⁰

Chart 3: Hourly pay by decile, Wales 2015

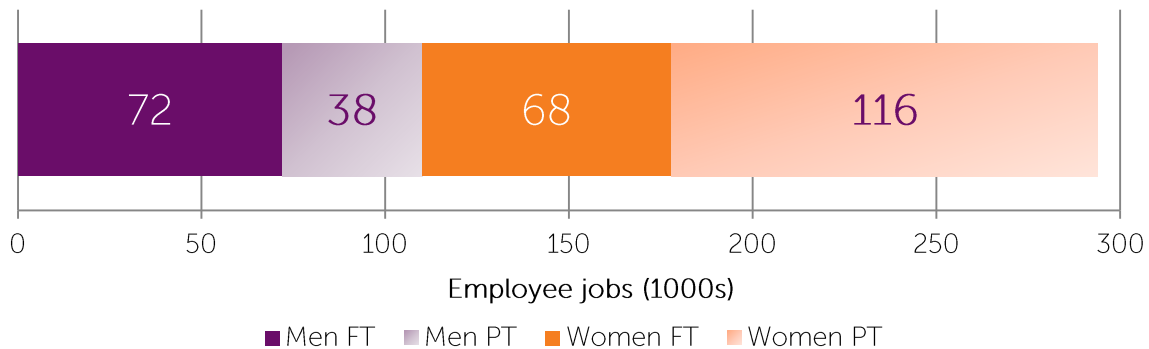


Source: ONS (2015), ASHE: Table 7.6a Hourly pay - Excluding overtime

Women are more likely to be paid less than the Living Wage than men, with three out of ten female workers earning below the Living Wage rate compared with one in five male workers.

In total, women comprise about six out of ten of those paid less than the Living Wage in Wales. When gender and hours of work are combined, it is clear that female part-time employees comprise a significant proportion – 39% - of those paid below the Living Wage.

Fig. 1: Employee jobs paid below the Living Wage in Wales, 2015

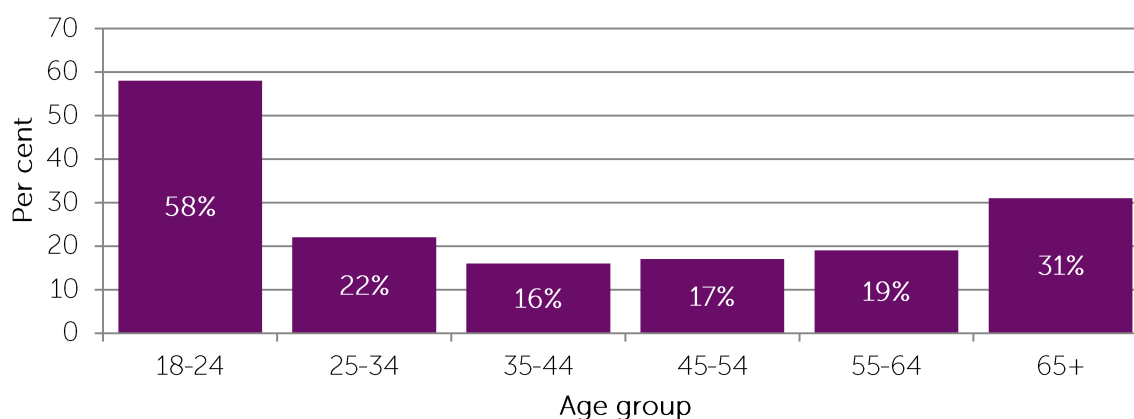


Source: ONS (2015), ASHE 2014 to 2015: Number and percentage of employee jobs with hourly pay below the living wage, by parliamentary constituency and local authority (place of work), UK, April 2014 and 2015

1.7. Age

People in the early and late stages of their working lives have much higher risks of being paid below the Living Wage than people in mid-working life. In the UK outside London (including Wales), 58% of people aged 18-24 are paid below the Living Wage, as were 30.8% of those aged 65 and over, compared with 16-17% of 35 to 54 year olds.²¹

Chart 4: Out-of-London employee jobs paid below the Living Wage by age group, 2014



Source: ONS (2015), Estimates of employee jobs paid less than the living wage in London and other parts of the UK: Figure 5: Proportion of employee jobs paid less than the living wage in 2014, by age group

1.8. Sector and Industry

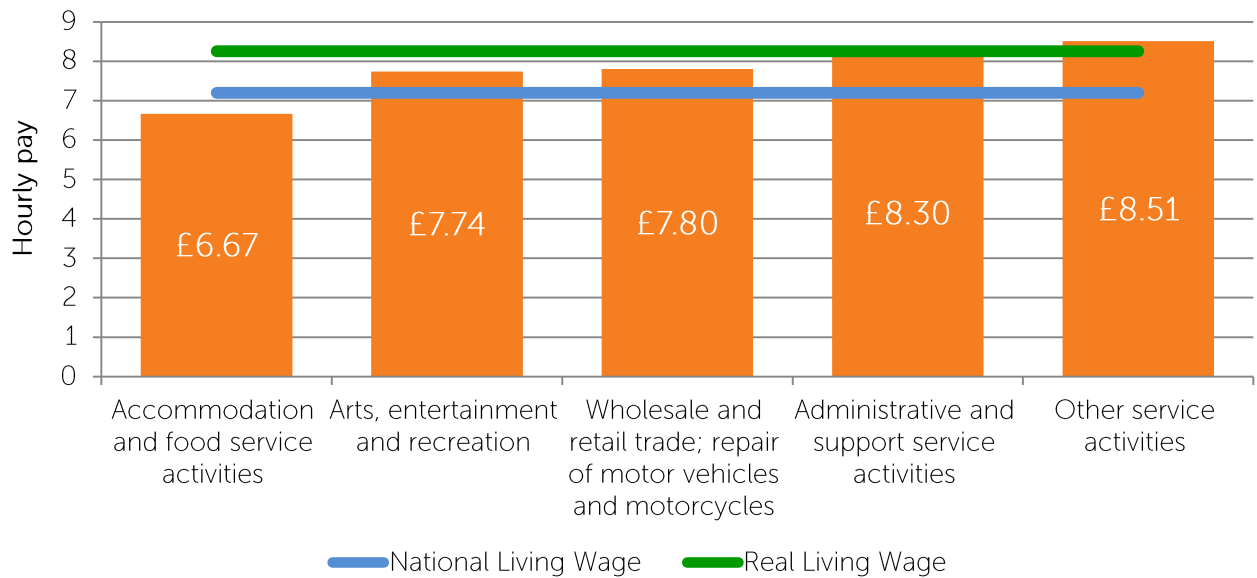
The risk of being paid less than the Living Wage is much higher in some sectors and industries than others.

Outside of London, the private sector has more than three times the rate of below-Living Wage jobs than the public sector, at 30% of employment. The public sector is not immune from low pay, however, with nearly 1 in 10 jobs paid less than the Living Wage, while 17% of jobs in the not-for-profit sector are paid below Living Wage rates.²²

There are also substantial variations between industries. By far the biggest problem of below-Living Wage rates occurs in accommodation and food services: in 2014 70% of workers were paid below the Living Wage hourly rate outside London.²³ In Wales, almost all workers in this sector are not paid the Living Wage – in 2015 even the best-paid workers earned an average of £7.78 an hour.²⁴

The wholesale and retail sector, and the arts and entertainment sector also had a widespread low-pay problem, with median earnings in Wales in 2015 of £7.80 and £7.74 respectively. This means that at least half of all employee jobs in these industries were paid less than the Living Wage.²⁵

Chart 5: Median hourly pay in selected industries in Wales, 2015



Source: ONS (2015), ASHE: Table 5.6a Hourly pay - Excluding overtime (£) - For all employee jobs: United Kingdom, 2015

Some sectors, such as education and health, have a relatively low proportion of employees earning less than Living Wage, but because they are relatively large employers they account for a significant number of low paid people. In education, only the least well paid ten percent had average earnings of less than the Living Wage (at £7.43 an hour in 2015). But because the education sector is large, there were an estimated 22,700 people in this bracket. Similarly in the 'health and social work activities' sector, the two lowest deciles had average earnings of less than the Living Wage – a total of more than 39,000 people.

Altogether, the three sectors of retail and wholesale, accommodation and food, and health and social work accounted for about two thirds of Wales' low paid workforce. It is worth noting that the latter two industries are both dominated by female workers in Wales.²⁶

1.9. Occupation

Focussing on industry does not give a full picture of where all of Wales' low paid workers are, as certain occupations within well paid industries are very low paid. Table 2 illustrates the hourly pay of some of Wales' lowest paid occupations. Even the median hourly pay for elementary occupations (such as cleaners) and sales and customer service occupations – some 233,000 workers in Wales - are paid below the Living Wage.

The gender balance for low-paid occupations presents suggests that women are at greater risk of being in a very low paid occupation. Caring, leisure and other service occupations, sales and customer service occupations, and administrative and secretarial occupations are overwhelmingly dominated by women. There is a roughly equal split for elementary occupations, whilst process, plant and machine operatives and skilled trade occupations are male dominated, but make up a considerably smaller part of the workforce than the low-paid occupations dominated by women.²⁷

Table 2: Hourly pay (excluding overtime) for selected occupations in Wales, 2015

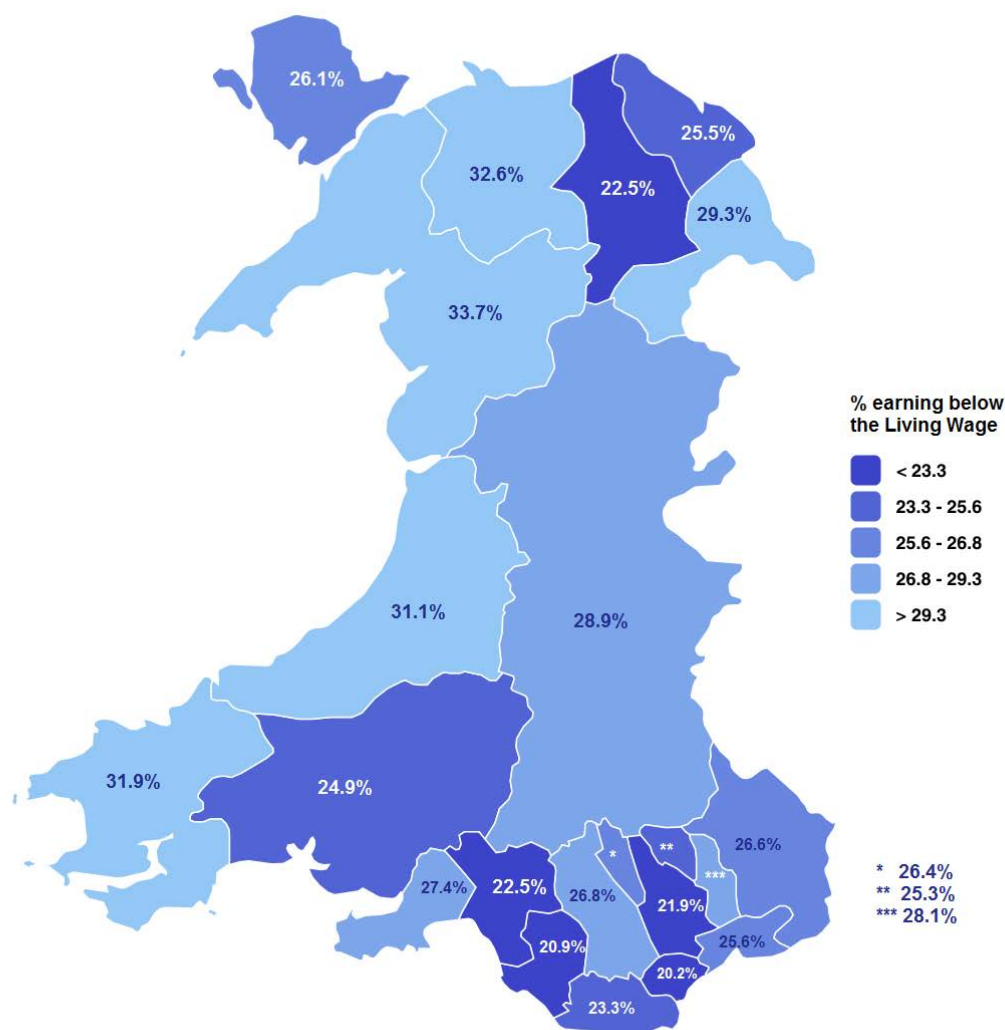
Occupation	Percentiles									
	Jobs (1000s)	10	20	30	40	Median	60	70	80	90
Administrative and secretarial occupations	134	7.3	8.05	8.61	9.23	9.92	10.4	11.36	12.67	15.42
Skilled trade occupations	94	7	8	9	9.82	10.85	12	13.5	14.84	16.61
Caring, leisure and other service occupations	136	6.65	7.03	7.46	7.97	8.4	8.95	9.66	10.51	12.11
Sales and customer service occupations	91	6.5	6.57	6.85	7.08	7.3	7.75	8.64	9.47	11.13
Process, plant and machine operatives	80	6.71	7.26	7.8	8.31	8.77	9.75	10.67	12.13	15.19
Elementary occupations	142	-	6.5	6.6	6.89	7.2	7.71	8.26	9	10.9

Source: ONS (2015), ASHE: Table 3.6a Hourly pay - Excluding overtime (£) - For all employee jobs: United Kingdom, 2015

1.10. Geography

The number and proportion of people in each local authority in Wales paid below the Living Wage varies to a surprising degree. The highest proportions of employees paid less than the Living Wage are in the three rural authorities of Gwynedd, Pembrokeshire and Conwy. The authorities with the lowest proportions are in Cardiff and its immediate commuter belt of Bridgend and Caerphilly.

Map 1: Percentage of employee jobs paid below the Living Wage by local authority in Wales, 2015



Source: ONS (2015), ASHE 2014 to 2015: Number and percentage of employee jobs with hourly pay below the living wage, by parliamentary constituency and local authority (place of work), UK, April 2014 and 2015

Looking at the numbers of people paid less than the Living Wage gives a slightly different picture. The largest number of people paid below the Living Wage are, as might be expected, in Wales' cities. Nearly half (46%) of all people in Wales who earn less than the Living Wage work in the Cardiff Capital Region.²⁸

1.11. Conclusion

Wales has a problem of low pay, with more than a quarter of workers paid less than the Living Wage. Taking the Living Wage as a benchmark, it is clear that there are low paid workers of all ages, working patterns and genders, and in all sectors and occupations.

The greatest risks of being low paid are amongst women, part timers and young or older workers, in certain sectors and occupations, and in rural Wales. However the biggest concentrations of low paid workers are amongst women part-timers, in retail and wholesale, accommodation and food, and health and social work, and in the Cardiff Capital Region.

2. BENEFITS AND RISKS

Raising the hourly pay of the lowest-paid members of the workforce can impact on social, business and wider economic outcomes. This section explored the literature available on the benefits and risks of the Living Wage, and the benefits and risks of greater adoption of the Living Wage in Wales.

2.1. Benefits and Risks of the Living Wage

There are inevitably risks as well as benefits associated with raising wage rates. Changes can have a significant impact on employers, and on employees and their families, as well as on the wider economy and on public finances. This section reviews the evidence available on the effects of introducing a voluntary Living Wage in the UK.

2.2. Business Impact

The Living Wage appears to have a generally positive impact on employers, with some of the most obvious disadvantages, such as increased wage bills, being offset by business benefits.

Wage Bills

The Living Wage has a direct and immediate impact on employers' wage bills which increase as a result of paying the Living Wage, as well as maintaining differentials. It is estimated that employers' wage bills in the UK would increase by around 1.3% if all employees are paid the Living Wage – some £12.4 billion.²⁹ The forecast increase varies substantially between sectors, being much higher in those with a large proportion of low-paid workers:

- Up 6.2% in the bar and restaurant sector
- Up 4.7% - 4.9% in retail
- Up 0.5% in construction
- Up 0.2% in banking.³⁰

In the public sector, the IPPR and the Resolution Foundation estimated that a local authority paying 7% of its employees an average of £1 below the Living Wage would have to increase its overall wage bill by well under 1% in order to lift their wages to the Living Wage rate.³¹ In Scottish local authorities the cost of implementing the Living Wage ranged from £122,000 to £322,000 in the first year.³² In large authorities, such as Cardiff and Glasgow, the estimated costs were around £1 million.³³

However, since the introduction of the new National Minimum Wage in April 2016, the percentage increase in the wage bill to pay the Living Wage will have been reduced substantially.

Productivity

Increasing productivity is one of the most commonly used means by which employers off-set higher wage bills. Research shows that most employers report productivity gains following implementing the Living Wage,^{34, 35} although there is variation by firm size and sector.³⁶ Research on the previous National Minimum Wage found that productivity gains are most often achieved through organisational change, employee training and improved management and efficiency, rather than through substitution of capital e.g. automation.^{37, 38}

Businesses also report that being a Living Wage employer enhances their reputation and brand value, which can help them when trying to attract new clients and customers, and in recruitment exercises.

Staff

There is strong evidence that the Living Wage reduces turnover and absenteeism, with reductions in staff leaving rates of up to 25% being reported.^{39, 40, 41} Some employers also say that recruitment is easier, with a wider range of better quality applicants for posts.⁴² Many employers find that the Living Wage is associated with reduced sickness absence and increased employee morale.⁴³ With staff turnover in the retail sector typically costing more than £20,000 per replacement⁴⁴ (including the cost of lost output and temporary staff as well as recruitment costs) the cost saving of retaining staff can be substantial.

Non-wage employee costs

Some employers may manage an increase in hourly pay rates by cutting other employee costs, such as overtime rates and sick pay or benefits such as free meals or staff discounts. A survey of employer responses to the new National Minimum Wage found that 16% of employers planned to reduce overtime rates and bonuses and 9% planned to cut hours.⁴⁵ Such responses have also been widely reported in the news (see 5.1). But it is important to note that this response is based on an increase in statutory minimum pay rates, rather than a voluntary initiative such as the Living Wage.

Profits and margins

Employers may choose to 'absorb' increases in costs by cutting profits.⁴⁶ In the study of the Living Wage in Glasgow, some employers reported that their profits had fallen although it was not clear that this was solely attributable to the Living Wage, while five out of fifteen employers said their margins had actually increased as a result of raising wage rates.⁴⁷

Jobs

Perhaps the most controversial potential impact of raising wage rates is on the number of jobs. There is a vast literature covering the theory as well as the experience of the effect of increased wages on employment, from which most analysts conclude that the effect is between zero and very slightly negative, although the impact does depend on the size of the increase in pay.

The Office for Budget Responsibility estimated that the introduction of the new National Minimum Wage may lead to an increase in the unemployment rate of around 0.2 percentage points in 2020, equivalent to between 20,000 and 120,000 more unemployed people.⁴⁸ Lawton and Pennycook forecast in 2013 that increasing the hourly pay of every low-paid worker in the UK – an extreme scenario - to the then Living Wage rate would reduce overall labour demand by around 160,000 out of a total UK workforce of 30 million.⁴⁹

There is also a counter-effect on employment as a result of the Living Wage increasing consumer demand, which in turn helps to create jobs. Landman estimates that even using a very modest economic multiplier, there could be very roughly 64,000 additional jobs as a result of paying the Living Wage which should be set against the forecast 160,000 loss.⁵⁰ A detailed model of the economic impact of introducing the Living Wage in Northern Ireland in 2012 forecast that paying the Living Wage to all workers would result in a modest gain in employment of between 1,200 and 2,500 jobs as a result of workers' increased spending power.⁵¹

2.3. Social Impact

The evidence on the social effects of the Living Wage is relatively limited, but what is available points to considerable gains for those who are paid it.

Earnings

The most obvious benefit of the Living Wage is that people's incomes increase because their wages rise. The impact varies depending on an individual's hours of work, benefits claimed and the previous rate of pay. In general, households which are not in receipt of benefits before being paid the Living Wage gain more than those who are, because they do not experience the withdrawal of benefits as their incomes rise.⁵²

As an illustration of the impact, someone working 37 hours a week at the current Living Wage rate of £8.25 an hour would have a gross annual salary of £15,873 and weekly take-home pay of £268.48. This is £2,020 a year more (gross) than they would receive if they were paid the new National Minimum Wage, and £1,373 a year (£26.42 a week) more in take-home pay.

The impact of even modest increases in household incomes should not be underestimated. Wills and Linneker found that nearly four out of ten people in Living

Wage workplaces say that they are better off, and so are able to afford goods and services (which leads to further economic benefits) or to save.⁵³

With the wages of low earners having been static for several years, and with real terms reductions in benefits planned over the next five years,⁵⁴ the Living Wage is the best prospect of increasing the incomes of low paid workers.

Hours of work

The Living Wage offers employees a way of increasing their incomes while keeping the same hours of work or enables them to reduce hours if they wish. Around one-third (32%) of those in Living Wage workplaces in London felt that it had benefitted their family life, for example enabling them to spend more time with their family or take more holidays.⁵⁵

The Living Wage is also beneficial if workers are unable to work additional hours. Extra hours are often simply not available: around 64,000 people in Wales worked part-time because they could not find a full-time job, while overtime is not offered by some employers with the long-term trend in overtime hours being downwards.⁵⁶

Workers may be unable to work extra hours, not least because a substantial minority are already working long hours (24% of all male employees work more than 45 hours a week)⁵⁷ while around 61,000 workers in Wales have a second job.⁵⁸ They may not be able to work additional hours because of responsibilities such as caring for children or sick or disabled relatives, or because working short hours enables them to manage a disability or impairment.

Well-being

The benefits of the Living Wage are not just financial. There is sound evidence that being paid a Living Wage improves family life and individual wellbeing and choices.

Workers who receive the Living Wage have higher levels of well-being than those who do not – Flint et al found that 50.3% of Living Wage workers had above average psychological well-being compared with 33.9% of workers who did not receive the Living Wage.⁵⁹ Around one-third (32%) of people surveyed in London Living Wage workplaces felt it had benefitted their family life, for example enabling them to spend more time with their family and to take more holidays.⁶⁰ Save the Children state that more family time is beneficial for children's development too.⁶¹

Earning enough to support oneself allows people to choose how to live and who they live with, rather than needing to rely on a partner or parent to have enough money. Many low earners who are not in poverty only avoid it because of the people they live with who bring in another income, and not because of their own earning power.⁶² The lower earner is much more likely to be a woman, as recent data suggests that just over two-thirds of women in couples with dependent

children earn less than their partner.⁶³ Low earners are at significant risk of poverty should the relationship with other household members break down: for example 43% of those becoming a lone parent moved into poverty.⁶⁴

Gender Inequality

While the Living Wage is the same rate for men and women, more women are likely to benefit from its introduction than men because women comprise the majority of those paid less than the Living Wage rate, based on occupation, type of work and industry (as demonstrated in section 2).

The precise impact depends on which groups of employees' wages are increased, but it is reasonable to expect the gender pay gap to narrow as a result. The Resolution Foundation forecast that new National Minimum Wage will boost the trend of narrowing the gender pay gap, so that the gap in mean hourly pay for the UK will fall to 17.3% by 2020.⁶⁵

Poverty

The relationship between the Living Wage and poverty is complex. Poverty is measured for households and takes account of household composition and circumstances, whereas the Living Wage is paid to individuals, varies with the amount of work done and takes no account of living arrangements.

The Living Wage does not guarantee that a family will be lifted out of poverty. The individual may not work enough hours to increase family income above the poverty threshold while the tapering of various in-work benefits as incomes rise compounds the difficulty of reducing poverty through the Living Wage. In addition, the bulk of the cash gained from raising wages goes to households with low- to middle incomes and not to the very poorest who are more likely to rely on benefits than wages.

Looking at the population as a whole, the Institute of Fiscal Studies found that the new National Minimum Wage (NMW) will have only a very small impact on incomes right across the household income distribution, raising them by less than 1% for all groups. They conclude that there is likely to be a small reduction in poverty but that it will not be sufficient to make a statistically significant difference to headline indicators. They attribute this in part to the relatively modest scale of the new NMW - an increase in pay rates to the Living Wage could have a greater impact because it involves a larger cash increase in earnings.

The position is rather different for the least well-off households. In Wales, more than eight out of ten workers living in the poorest fifth of working households were low paid in 2011. For these workers, an increase in wage rates is a considerable benefit. It is also likely to have more impact on household incomes than increasing hours of work, not least because in a quarter of the poorest working households everyone is already working.⁶⁶

For low income families, the poverty threshold is an arbitrary line. It has the effect of valuing an increase of, say, £5 which takes a family over the threshold more than the same £5 for a household which remains below the poverty threshold. Yet the £5 extra for the very poorest families can matter a great deal – it can make the difference between affording food that evening or leaving the heating on an extra hour, rather than go without. Essentially, £5 extra is £5 more to spend whether or not it affects the statistical measure of poverty. Holden and Raikes found that the impact of the Living Wage on poverty is increased if coupled with measures to reduce household costs, e.g. affordable housing.

2.4. Public Finances

The Living Wage brings costs and benefits to the public purse. The gains are: increased tax and national insurance receipts from employees, lower expenditure on in-work benefits, increased VAT receipts and increased national insurance receipts from employers. The losses are: reduction in corporation tax receipts if company profits fall, increased public sector wage bill and increased costs of procurement.

There are a number of calculations of the costs and gains for the UK as a whole, which reach broadly the same conclusion. KPMG estimates that if the costs of the Living Wage are borne by a combination of rising prices and falling employment then the increase in UK Government revenue will be £4.6 billion and the costs to public sector wages and procurement will be £2.9 billion – a net gain of £1.7 billion.⁶⁷ Lawton and Pennycook produce slightly more modest estimates of Treasury gains of £3.6 billion and public sector wage costs of £1.3 billion.⁶⁸

Sub-UK estimates of the financial impact vary. In Leeds City Region, Bivand and Simmonds estimated that in Leeds City Region each out-of-work claimant moving into a job at the Living Wage in 2013 saved on average £6,897, with 80% of the savings going to the Department for Work and Pensions and HMRC. In terms of local effects, they estimated a gain to the City Region economy of £349 billion from reducing worklessness and low pay.⁶⁹ In Manchester, the cost of introducing the Living Wage for all council contractors and suppliers were estimated at £132.4m against gains of £133.7m.⁷⁰

The most important message is that the UK public purse gains from the introduction of the Living Wage – the only question is how big the gain is.

2.5. Benefits and Risks to Wales

There have been no recent studies of the potential impact of the Living Wage in Wales. The interim findings of a study commissioned by the Welsh Government in March 2009, before the voluntary Living Wage was firmly established, concluded that 'it might be wise to exercise caution in the pursuit of Living Wage policies', on

the grounds that increasing labour costs at a time of global recession might have serious implications for business performance and employment.⁷¹

Five years on from the recession, with the voluntary Living Wage firmly in place and with a great deal of new evidence from the UK on its impact, it is time to take a fresh look at the potential benefits and risks.

2.6. Business Impact

As elsewhere, one of the main impacts is on employers' wage bills. In terms of employers' wage bills, Wales has a slightly lower proportion of the workforce in the sectors where the Living Wage would increase wage bills the most i.e. accommodation, food and retail than the UK, suggesting that the aggregate impact of UK-wide increases would be slightly less in Wales than elsewhere, as shown in table 3.

Table 3: Percentage of employment in key sectors, Wales and UK, December 2015

		Wales	UK
High impact on wage bill	Wholesale & retail trade; repair of motor vehicles and motorcycles	13.2	17.6
	Accommodation & food service activities	7.4	8.1
Low impact on wage bill	Financial & insurance activities	2.3	4.1
	Construction	7.4	8.0

An extremely rough estimate, simply to illustrate the scale of the possible impact, is that an increase of 6,000 workers, working an average of 20 hours a week, receiving a pay rise of £1.05 an hour, would raise Wales' wage bill by £6.2 million a year. There would be additional costs of employers' National Insurance contributions and pension contributions if applicable. This is a very small proportion of Wales' £31.4 billion total wage bill.⁷²

In terms of productivity, there is no reason to expect that the gains reported elsewhere in the UK would not be achieved in Wales – indeed this increase is much needed given that Wales' Gross Value Added is only 83.4% of the UK figure, the lowest of nations and regions.⁷³

The improved staff retention and easier recruitment reported elsewhere may be less significant in Wales given that there are few reported labour shortages. However, the reductions in sickness absence and improved morale could be of considerable benefit: for example the sickness absence rate in Welsh health boards in 2015 was 5.3%⁷⁴ while in Welsh local authorities the median number of days lost through sickness absence was 9.8.⁷⁵

In terms of jobs, it is impossible to forecast the net effect of the possible loss of employment to cut costs against the possible increase as a result of demand. Very crudely, if Lawton and Pennycook's estimates are correct and the forecast job losses occurred proportionately across the UK, Wales could lose around 8,000 jobs if all jobs were raised to Living Wage rates. This should be regarded as an extreme scenario as the UK projection assumed all workers' pay would increase and the size of the uplift required is now smaller than when the forecast was made. The experience elsewhere suggests that there is rarely a negative impact from introducing the Living Wage voluntarily.

Offset against forecast job losses should be any jobs created as a result of increased demand if wage rises are spent on local goods and services. In the absence of an economic model for Wales, we can do no more than assume that the gains projected elsewhere, e.g. Leeds and Northern Ireland, would be mirrored in Wales. At a time when the economy is struggling, a boost from increased pay rates should be welcomed.

2.7. Social Impact

The impact on Wales' workers and families would also be considerable. The gain in a worker's earnings would be exactly the same in Wales as elsewhere as the Living Wage rate is UK wide. However, the financial benefit to households is potentially greater because housing and childcare costs in Wales are substantially lower than in London and the south east, so that the effect of the withdrawal of welfare benefits is less in Wales than elsewhere.

It is reasonable to anticipate that introduction of the Living Wage would help to narrow the gender pay gap in Wales. It is also likely to improve workers' well-being, family lives and options.

The Living Wage is unlikely to reduce the headline rate of poverty in Wales, but it is a step in the right direction. Even very modest financial gains matter to low income families, so we can anticipate that the Living Wage is likely to reduce financial hardship amongst the working poor in Wales, and help to provide longer-term financial security.

2.8. Public Finances

The impact on Welsh public finances of introducing the Living Wage is limited, given Wales' current devolution settlement. Unlike the Treasury, the Welsh Government will not gain from increased income tax and national insurance receipts or benefit savings but it will bear the costs of higher wage bills and procurement. The costs are difficult to estimate as it depends on the number of low-paid workers in the public sector. As a very rough indication, if the cost for a medium-sized local authority's direct employees were £322,000 in 2012, then

introducing the Living Wage in 11 authorities in Wales today could cost in the region of £4 million.

In addition, there may be scope for public bodies in Wales to agree some form of 'pay-back' arrangement with the UK Treasury so that benefit savings and tax receipts offset the costs of paying the Living Wage.

2.9. Conclusion

All the available evidence and forecasts suggest that the Living Wage could bring benefits to businesses, and to their employees and families. The benefits are often difficult to quantify, and are often 'soft' gains such as greater staff morale or reduced financial hardship. The gains for businesses vary according to their size and sector, and the gains for employees also depend on their working patterns and household arrangements. Nevertheless, the benefits of increasing take-up of the voluntary Living Wage are potentially very substantial.

The biggest risk is the loss of jobs as employers seek to reduce their wage bill, and the erosion of other non-wage benefits. However to date these losses from the voluntary Living Wage are purely theoretical – there is little, if any, evidence of actual cuts to employment or to terms and conditions resulting from the introduction of the Living Wage.

So, there is every reason to expect that Wales would benefit considerably from an increase in uptake of the Living Wage. The impact on the aggregate wage bill is likely to be relatively modest, while the benefits for productivity and sickness absence are potentially large. The reputational benefits are also important.

With an above-average proportion of people paid less than the Living Wage, Wales' workers stand to benefit from a voluntary pay rise. Indeed the gains could be more than in other parts of the UK because housing costs in Wales are below average. And while the headline rates of poverty are unlikely to change, many households could find their financial position easing. The gender pay gap is likely narrow slightly and individual well-being and choice improve.

3. PROGRESS TOWARDS A LIVING WAGE WALES

With so many people paid less than the Living Wage and the benefits being potentially significant, this section looks at the extent of support for it and progress to date.

3.1. Welsh Government Position

During the Fourth Assembly, the Welsh Government stated that it encouraged all employers to pay the Living Wage and became a Living Wage employer in November 2015.⁷⁶ It also agreed the non-accredited Living Wage deal for NHS Wales staff, which was decided at a meeting of union leaders, NHS managers and Welsh Government officials in November 2014 and implemented in January 2015.

The then Minister for Local Government and Government Business, Lesley Griffiths described the Living Wage as “a route to addressing some of the issues associated with low pay and income poverty.”⁷⁷ Her predecessor, Carl Sargeant, established the Workforce Partnership Council (WPC)⁷⁸ as a forum to bring together public sector employers and trade unions, and where discussions about the Living Wage for public sector employees would be discussed. In January 2014, Lesley Griffiths said that “[n]ow the Living Wage has been referred to the WPC the future timeframe will depend upon the direction and development of the policy initiative by social partners, particularly the public sector employer and the trade union members.”⁷⁹

While the WPC does not publish minutes, the then Minister for Public Services, Leighton Andrews, noted in correspondence to the Petitions Committee in December 2015 that the adoption of the Living Wage by public sector employers in Wales was “progressing well” and that work was being done on how local authorities could adopt the Living Wage consistently throughout Wales.⁸⁰

3.2. Wider Support

There is support for the Living Wage across a wide range of organisations and political views in Wales.

Political parties

The political parties’ manifestos for the 2016 Assembly elections and prior elections demonstrated broad support for a Living Wage, although they varied in implementation arrangements.

Welsh Labour has expressed support for the Living Wage through various commitments to introduce it in public sector pay structures. The Labour Party’s 2011 manifesto said that the party would: “[w]ork with trade unions, employers

and other stakeholders to explore ways of ensuring a living wage for every worker in Wales, given that low pay is a significant problem for many families and the challenges of in-work poverty remain.⁸¹ The 2016 election manifesto stated that it will take 'further action' on the Living Wage during the Fifth Assembly, although it does not explain what this might entail.⁸²

In their 2016 Assembly election manifesto, Plaid Cymru stated that they would legislate so that all care workers are paid the Living Wage, and that everyone working in the public sector should be paid it.⁸³ They proposed that Welsh Government procurement policy should include payment of the Living Wage as a minimum, and recommended that all public bodies in Wales should be bound by this policy so that anyone working for an employer in receipt of public money is earning the Living Wage.⁸⁴

Prior to the introduction of the UK Government's National Living Wage policy, the Welsh Conservatives had supported the Living Wage and said that they would "continue to encourage businesses and other organisations to pay it whenever they can afford it."⁸⁵ The party's leader, Andrew RT Davies AM, said that he wanted all public sector employees to receive the Living Wage by 2020 and that he wanted Wales to be the first Living Wage country.⁸⁶ However, the Welsh Conservatives did not include this pledge in their 2016 manifesto, and only referred to the National Living Wage.⁸⁷

The Welsh Liberal Democrats do not appear to have made a specific commitment on the Living Wage in their 2016 Assembly manifesto although their UK party's 2015 General Election manifesto pledged that they would require all companies with over 250 members of staff to publish the number of people paid less than the Living Wage and the ratio between top and median pay. When commenting on the Living Wage, the party has often focussed more on working conditions, employees' right and raising the Income Tax threshold.

UKIP in Wales has not made a commitment to introduce or campaign for the Living Wage. The party has pledged to enforce the minimum wage, and to stop taxing those on the minimum wage by raising the Personal Tax Allowance.⁸⁸ In contrast, the Green Party in Wales has called for the minimum wage to "become a Living Wage," stating that it should rise to £10 per hour by 2020.⁸⁹

Trade Unions

Almost all trade unions support the Living Wage and many have played a key role in achieving Living Wage pay agreements through negotiation with employers.

Wales TUC - the co-ordinating body of over 50 trade unions in Wales – has called for all employers that can pay the Living Wage to do so, including government. The organisation has commented that "[e]xtending the living wage is a vital step

towards tackling the growing problem of in-work poverty across Wales.” In 2015 they issued a call for a far wider commitment by employers in Wales to pay the living wage, stating that it would bring benefits such as increasing productivity and raise the lowest wages overall in industries which can afford to pay more.⁹⁰ They have also said that women in Wales would be likely to benefit most if more employers decide to pay the Living Wage.⁹¹

UNISON, the largest public sector union in Wales, has called on the Welsh Government to ensure that all public sector employees in Wales are paid at least the Living Wage, and to ensure that subcontracted staff also receive the Living Wage as a minimum.⁹² The union argued that raising wages in Wales would be a significant measure to tackle in-work poverty, and has published a campaigning guide for activists and have succeeded in securing the Living Wage in numerous pay deals in recent years.⁹³ They also advocate Living Wage accreditation.⁹⁴ PCS, the main trade union for civil servants in Wales, also supports the Living Wage and has published a Living Wage toolkit for campaigners.⁹⁵

Unite has urged that the Living Wage should be introduced in both the private and public sectors,⁹⁶ highlighting the particular problem of low pay in industries such as hospitality.⁹⁷ The union has also campaigned more generally for pay increases, by launching Fair Pay Fortnight to encourage people to take action.⁹⁸

The Union of Shop, Distributive and Allied Workers (USDAW) has argued that the Living Wage will result in a fairer distribution of pay.⁹⁹ In 2014, USDAW received unanimous support from the Wales TUC for a motion which called for the introduction of the Living Wage in both the public and private sectors.¹⁰⁰

Taking a slightly different approach, GMB have publicly supported the Living Wage Foundation’s Living Wage, stating that it would benefit families and stop the taxpayer subsidising low wages.¹⁰¹ They have also argued for a Living Wage of £10 per hour on the basis that people will no longer be reliant on benefits if they are receiving this amount, and are looking at regional and local living wage rates.¹⁰² GMB has published a selection of campaign resources including a petition and poster so that activists can call on specific employers to introduce the Living Wage.¹⁰³

Several trade unions and professional bodies have supported the Living Wage even though very few of their members are likely to be paid below it. For example, the Royal College of Nursing (RCN) resolved at its 2014 congress to support the Living Wage on the grounds that it would benefit the social care sector, as well as the population in general and is itself an accredited Living Wage employer.¹⁰⁴

Community and Faith Campaigns

Support for a Living Wage in Wales goes beyond political parties and trade unions, with a number of third sector and faith groups campaigning for the Living Wage.

For example, Oxfam Cymru¹⁰⁵, Chwarae Teg¹⁰⁶, Together Creating Communities¹⁰⁷ and Citizens Cymru¹⁰⁸ have all issued public statements of support for the Living Wage in Wales. In 2013, Oxfam Cymru launched a Living Wage Charter to gather support for the Living Wage in Wales – an initiative which was supported by Chwarae Teg and Citizens Cymru.¹⁰⁹ Save the Children has worked with campaigners aged 10-16 to petition the National Assembly for Wales to commit to securing a Living Wage for all workers in Wales as part of their campaign ‘Step Up: A Living Wage to Live Life’.¹¹⁰ The Living Wage Foundation has supported the Welsh Living Wage Week and many faith groups have given their backing to the Living Wage, including senior figures in the Church in Wales signing up to the End Hunger Fast campaign.¹¹¹

Despite the support, until very recently there has been no on-going activity equivalent to the local Living Wage organisations that can be found in, for example, Greater Manchester, Glasgow, Fife, Oxford or Brighton and Hove.

3.3. Wales’ Living Wage Employers

There has been some progress with the introduction of the Living Wage in Wales, both amongst those accredited by the Living Wage Foundation and those paying it voluntarily.

Accredited Living Wage Employers

The campaign for the Living Wage reached Wales in 2012 when the first Welsh employers were accredited as paying it.¹¹² Since then the numbers have gradually increased so that as at May 2016, a total of 70 Welsh employers were accredited by the Living Wage Foundation. These accredited employers directly employ an estimated 31,000 people.¹¹³

Welcome though the increase in accredited Living Wage employers is, Wales’ accredited Living Wage employers are a smaller proportion of businesses than elsewhere in the UK. Their impact on the sheer scale of the low pay problem is modest indeed: Wales-based Living Wage accredited employers account for just 2.2% of Wales’ total employment.

Heely et al. found that there are significant gaps in the geographic, sectoral and industrial ‘reach’ of accreditation:

- accredited Living Wage employers are concentrated in Cardiff and the Vale of Glamorgan, with some local authorities (e.g Blaenau Gwent, Flintshire, Anglesey and Monmouthshire) currently having no accredited employers;

- accredited Living Wage employers in Wales are predominantly small and medium-sized organisations, and are mostly in the not-for-profit rather than public or private sectors;
- accredited Living Wage employers in Wales are concentrated in industries with relatively small proportions of low paid jobs. The industries with the highest proportion of low paid occupations have few or, in the case of agriculture and accommodation, no accredited employers.

Table 4: Accredited Living Wage employers with headquarters in Wales (May 2016)

2buy2.com	Gwynant Ltd t/a Llyn Gwynant Campsite
4 The Community CIC	Hello Starling
Abeko Dredging & Marine Contractors Ltd.	Huggard
Accent Press Ltd	Interlink RCT
ACE - Action in Caerau & Ely	IOTS (UK) Ltd
Amber Energy Consultants Ltd.	Kaleidoscope Project
Barod Community Interest Company	Llew Jones International
Be My Bear Ltd	Melin Homes
Burns Pet Nutrition Limited	Miller Argent
Caerphilly County Borough Council	National Assembly for Wales
Cambria Maintenance Services Limited	North Wales Holiday Cottages and Farmhouses
Cambrian Training Company	Nu Instruments Limited
Cardiff & Vale Credit Union	Older People's Commissioner for Wales
Cardiff and Vale CAB	Oxford Scientific Films
Cardiff Bus	People and Work
Cardiff Community Housing Association	Plaid Cymru - The Party of Wales
Cardiff Holiday Lets Ltd	Progressive Technical Services Ltd
Cardiff University	Properr Software Limited
Care In Hand Ltd	RCS-WALES
Castell Ventures Ltd	Rhondda Cynon Taff Citizens Advice Bureau
Chwarae Teg	Ruth Lee Ltd
City of Cardiff Council	Simon Wyatt Financial Planning
Coastal Housing Group	SMART Veterinary Clinic Ltd
Contract Services (South Wales) Limited	Taff Housing Association
Copper Bay Creative Ltd	The Digital Accessibility Centre
Cynnal Cymru - Sustain Wales	The Royal College of Nursing
Decor-Lam Ltd	The Village Bakery
Dee Valley Water plc	United Reformed Church National Synod of

	Wales
Dutton Jones Associates Ltd	Vale of Glamorgan Citizens Advice Bureau
Ecigarette Direct: The Smoker's Angel (Gower Enterprises Ltd)	Valleys to Coast Housing Ltd
Educ8 Limited	Voluntary Arts
First Choice Housing Association	Wales & West Housing
FITM8 Personal Training	Wales Restorative Approaches Partnership
Freshwater UK	Welsh Government

Source: Data received directly from the Living Wage Foundation (May 2016)

UK-wide Living Wage Accredited Employers

A further 21 large¹¹⁴ UK Living Wage accredited employers have trading addresses in Wales, such as large private sector organisations like Barclays, PwC, Santander, Ikea and National Express. Several large UK organisations with a presence in Wales are in the process of accreditation, including Aldi. The number of employees in these organisations is not known. There are also many smaller employers – such as Save the Children, Oxfam, and Macmillan – which are Living Wage accredited and employ staff in Wales.¹¹⁵

Non-accredited Living Wage Employers

There has also been an increase in the number of employers committing to pay the Living Wage but not seeking accreditation from the Living Wage Foundation. These include major public sector bodies as well as smaller employers whose decisions do not hit the headlines.

There is no single source for identifying non-accredited employers but an internet search for public sector living wage organisations identified the following:

Table 5: Selected non-accredited Living Wage employers in Wales

Employer	Committed to paying the Living Wage from:
City and County of Swansea Council	April 2013 ¹¹⁶
Monmouthshire County Council	April 2014. ¹¹⁷
Newport City Council	April 2014 (affecting 1,644 staff) ¹¹⁸
Rhondda Cynon Taf County Borough Council	Phased the Living Wage in gradually with full implementation from 1 st April 2016 (affecting 3,542 staff) ¹¹⁹
NHS Wales	September 2014 (affecting 2,400 employees) ¹²⁰
Further education colleges in Wales	October 2014 ¹²¹
Powys County Council	April 2015 (affecting 1,099 staff) ¹²²
Merthyr Tydfil County Borough Council	April 2016 ¹²³

These decisions mean that there are around 14,000 employees whose pay has been increased to Living Wage levels by these organisations alone (assuming approximately 1,000 employees in organisations where figures are not given).

Outside of local government, there are several registered social landlords that pay the Living Wage of which none are accredited, such as Gwalia, RCT Homes and North Wales Housing Association.¹²⁴

The number of non-accredited Living Wage employers and their relatively large size means that substantially more employees are paid the Living Wage than is implied by accredited employers alone.

3.4. Conclusion

There is a strong consensus within Wales about the benefits of the Living Wage, with support across the political spectrum as well as in civil society. This support has helped to raise the profile of the Living Wage and helped to drive forward some change, although there has not been the same high-profile campaigning as in Scotland.

There has been some welcome recent progress in increasing the number of accredited and non-accredited Living Wage employers with both being at an all-time high.

Nevertheless, with nearly 300,000 people paid less than the Living Wage in 2015 there remains a great deal more to be done. More than half of Wales' local authorities do not yet pay the Living Wage, no employers headquartered in the key sectors of accommodation or retail have committed to pay it, and the vast majority of organisations working in social care say they are struggling even to pay the new National Minimum Wage.¹²⁵ A step-up in action is needed if there is to be a change.

4. WHAT WILL IT TAKE TO PAY THE LIVING WAGE?

The challenge facing Welsh public policy is to find effective ways of achieving a marked reduction in the number of people paid less than the Living Wage.

4.1. Effective Approaches

There are several different methods that can be used to increase adoption of the Living Wage. These can be loosely categorised into three approaches: collective bargaining, community activism and policy and legislation.

Collective Bargaining

Many trade unions support the idea of a Living Wage and use it as a 'floor' in their collective bargaining. Indeed some unions are calling for an even higher rate of £10 an hour.

Bargaining has clearly been important in progressing the relatively rapid introduction of the Living Wage within the public sector in Wales, which Heery has argued is a distinctive feature of progress.¹²⁶

Case Study: UNISON Cymru/Wales

UNISON Cymru/Wales is one of Wales' largest trade unions, representing thousands of workers in public services and utilities. They have observed how implementation of the Living Wage in NHS Wales and in the FE sector has boosted staff morale and improved the reputation of these employers, but they feel that more could be done by Welsh Government to drive the Living Wage forward.

In their manifesto for the 2016 National Assembly Elections, they stated that there is a moral obligation on the Welsh Government to lift people out of poverty. Concerted government action on the Living Wage, they argued, would help tackle inequality and make Wales a fairer place to live.

They believe that the Welsh Government's approach to NHS Wales highlights a very different attitude towards public service workers and social policy compared to England. Implementing the Living Wage in NHS Wales, which was by no means straight forward, is testament to that according to UNISON; they describe the commitment to make the NHS in Wales a Living Wage employer as "pioneering."

In 2014, the UK Government refused to implement the Pay Review Body

recommendations for a one percent increase on all pay points for NHS staff in England. Instead, it determined only staff at the top of their band would receive a non-consolidated one percent increase. Those outside the top band would receive nothing in addition to their annual increment. This eventually led to a strike in NHS England.

In Wales, the Health Minister indicated he would only offer the same “quantum” of money as had been made available in England; a position taken as a result of how money is allocated under the Barnett Formula. If Wales wanted to pay more, this would have to come from elsewhere in the budget, which, due to an estimated ten per cent cut to Wales’ funding, was a challenge the Health Minister felt unable to meet. But he did offer to hold talks with trade unions about how the available money could be distributed in a fairer way than it had been in England. An impasse was reached when Welsh Government offered only a one-off non-consolidated payment for 2014-15 and UNISON balloted for industrial action.

Eventually, the Health Minister offered the unions a two-year pay deal. These negotiations resulted in agreement on the implementation of the Living Wage for NHS Staff in Wales with effect from 1 January 2015, to be followed by a one percent consolidated award on all pay points from 1 April 2015. There was also an upfront non-consolidated lump sum payment to all staff of £187 (pro rata for part-time). This proposal was agreed by union members in a consultation. The union states that the Living Wage agreement has resulted in a dramatic change to the livelihoods of their lowest paid healthcare members.

UNISON also represents employees working in further education (FE) colleges, which similarly benefitted when Colegau Cymru, (to which all FE colleges in Wales belong), agreed in negotiations with the trade unions to pay directly employed staff at least the Living Wage.

Elsewhere, UNISON says there have been some successes and credit must be given to the Welsh Government for the establishment of the Local Government Living Wage Group. However, they believe that this level of progress is far too slow. Although they will continue to lobby employers, the lesson they have taken from the NHS Wales negotiations is that change on the Living Wage must be driven forward by Welsh Government. Implementation of this rate throughout the public sector would transform our society, according to the union, and pull private sector wage rates up too.

This case study was based on email exchanges with representatives of UNISON Cymru/Wales.

Case Study: Bakers, Food and Allied Workers' Union (BFAWU)

The Bakers, Food and Allied Workers' Union (BFAWU) is fully supportive of a Living Wage, but argues that it should be higher. The union campaigns for a £10 living wage for employees, arguing that it will take five million people out of poverty across the UK, dramatically cut the number of people claiming in-work benefits, and will result in more people paying tax.

Ronnie Draper put forward the £10 Living Wage to the TUC national conference in autumn 2014 and received unanimous backing for the motion. The motion received the same level of support from the General Federation of Trade Unions, and the union has forged close links with the Service Employees International Union which campaigns for a \$15 minimum wage in the USA.

The BFAWU's main method to achieve this target is by including a £10 Living Wage commitment in all wage negotiations. Ronnie Draper has been involved in national wage negotiations, such as with Greggs, where the negotiated pay increase has made a significant difference to workers' hourly pay and sets them apart from similar employers which generally pay far less. It also publishes literature to support members who are campaigning for the £10 Living Wage, and targets its efforts at certain industries such as fast food.

While big high street names such as Greggs set a good example by committing to the union's Living Wage, Ronnie Draper believes that all employers – regardless of size – have a role to play in leading the way on tackling low pay and, as the union sees it, stopping people's reliance on in-work benefits. He also sees a place for trade unions – including those whose members all earn more than the Living Wage – to work together to campaign for the £10 rate.

Ronnie Draper is sceptical of the emphasis on accreditation, highlighting that it can mean "nothing" in some cases where employees were already earning the Living Wage. He was clear that for the BFAWU it is the employees' wage slips that matter, and said that accreditation can be a costly process for some employers, especially where profit margins are small.

This case study was based on an interview with Ronnie Draper, General Secretary of the BFAWU.

The union role can extend beyond bargaining to include campaigning, often alongside civil society organisations, monitoring implementation and standard-setting.¹²⁷

The trade union commitment to achieving the Living Wage (or more) is a key strength on which to build. However, many of the sectors and occupations with the lowest rates of pay also have very low levels of unionisation. At UK level, fewer than one in five sales and customer service staff and people in elementary occupations were trade union members in 2013, while just 12.5% of employees in the wholesale and retail sector and 3.8% of employees in the accommodation and food service sector were union members.¹²⁸

Increasing union membership and effective collective bargaining may well be the most effective approach in the long-term, but it is unlikely to reach the worst-paying sectors and occupations in the short- to medium-term.

Community Activism

Community activism is the driving force behind the voluntary Living Wage movement. The 'theory of change' underpinning community activism is to increase the cost to employers' reputations of not paying a Living Wage, to the point where payment of the Living Wage is beneficial.

Perhaps best known is the Living Wage Foundation, which has been hugely successful in providing the 'infrastructure' needed to campaign and accredit employers, in mainstreaming the idea of a Living Wage (to the extent that the term was used for the new National Minimum Wage by the Chancellor of the Exchequer, George Osborne) and in increasing accreditation by UK employers from 92 in November 2012 to 2,500 in April 2016.¹²⁹

Its work is complemented by a number of regional or local Living Wage campaigns, some of which are led by local authorities, some by the Chamber of Commerce, and some by coalitions of community groups, sometimes alongside trade unions.

An evaluation of the London Living Wage campaign concluded that the community-based approach had a key role to play in achieving change.¹³⁰ It can complement collective bargaining, exerting additional pressure on employers by demonstrating that there is public support for the union case. It can also be effective in reaching into those sectors where trade union representation is limited, such as accommodation, food and retail, although these industries remain challenging.

Case Study: Scottish Living Wage Campaign and Accreditation Initiative

The Scottish Living Wage Campaign began in 2007 in response to the growing number of people experiencing in-work poverty. The campaign has been coordinated by the Poverty Alliance, a network of anti-poverty organisations in Scotland, in partnership with the Scottish Trade Union Congress. In 2013, The Scottish Government agreed to financially support the Poverty Alliance to set up the Scottish Living Wage Accreditation Initiative.

The Accreditation Initiative works alongside the Campaign, and has steadily grown to five staff in 2016. The SLWAI has helped to secure accreditation of more than 530 Living Wage employers, raising the earnings of 8,000 workers.

The Scottish Living Wage Campaign credits its success to building a Living Wage movement, in which there is support from a broad range of organisations and individuals including politicians, trade unions, anti-poverty organisations, employers and the general public for a single, Living Wage rate as set by the Living Wage Foundation. It has done this by operating at a national level, with modest, dedicated resources.

The Campaign is firmly situated in the anti-poverty and fair work agenda, and is focused on grassroots level campaigners, trade unions and faith groups. The Accreditation Initiative has found that being 'employer-facing' is the most successful approach, working with employers to promote its message. The voluntary nature of the Living Wage is also important, as it takes account of sectors where margins are very small and means employers very rarely erode other terms and conditions when paying the Living Wage.

The organisation has found that most persuasive arguments for the Living Wage are market differentiation and added-value to a company's brand. Accreditation is very important in the Poverty Alliance's view, as it delivers the reputation benefits that employers seek. It also gives assurance that an employer adheres to the scheme.

The Campaign provides some support to local Living Wage groups in Scotland. These have a valuable role to play in raising awareness of the issues locally, but the Campaign has found that a national-level action is needed to achieve significant progress.

The Campaign initially focused on the public sector and has successfully integrated the Living Wage into most pay bargaining, although not necessarily

achieving accreditation. The SLWAI now engages with the private, public and voluntary sectors. The SLWAI aims to accredit 1,000 employers by 2017, and is developing a strategy to increase take-up in key sectors and regions of Scotland.

Resources: The Scottish Living Wage Accreditation Initiative had an initial budget of £80,000 p.a., which has now risen to £270,000 p.a., from The Scottish Government. The Campaign is funded by the Poverty Alliance, trade unions and community groups.

Governance: The Campaign is hosted by the Poverty Alliance (a registered charity), overseen by a steering group of trade unions, anti-poverty groups and researchers. The Accreditation Initiative has a separate Leadership Group, which has representatives from accredited employers, the Scottish TUC, Scottish Government and the Living Wage Foundation.

This case study was based on an interview with Peter Kelly, Director of the Poverty Alliance.

Case Study: TCC – Together Creating Communities

TCC is a small charity based in Wrexham. It brings together local groups to set their own agenda, take action and improve their communities. It identified in-work poverty as an issue in the mid 2000s and began to raise the idea of a Living Wage with employers in North Wales. It has two staff, with the Living Wage being one of a wide range of issues on which they work.

TCC's methods are based on 'community organising'. The amount of activity on the Living Wage depends on whether it is raised by a group, and the methods used are a mix of education and awareness-raising (especially of school children and groups it works with), demonstrations of support on the streets and via social media) and provision of resources.

TCC claims several local successes including the Diocese of St. Asaph, the Presbyterian Church of Wales, St. Joseph's Catholic and Anglican High School, Wrexham Quakers and Minera Voluntary Aided Primary School, but it does not necessarily promote accreditation of employers by the Living Wage Foundation.

The most effective methods in TCC's view are creation of a coalition of

support, combined with employer support for the benefits of paying the Living Wage and celebration of those who do.

This case study was based on an interview with Kay Polley, Lead Organiser for TCC.

Within community-based campaigns, there is some evidence that the approaches that are most effective are those that:

- target employers which are already committed to social responsibility, and which ideally have a strong champion of the Living Wage within the business;
- focus on specific sectors so that employers do not fear being at a competitive disadvantage;
- link campaigning with the reduction of in-work poverty; and
- provide support to employers and recognise gradual implementation of the Living Wage.¹³¹

Evidence also suggests that the moral case for a Living Wage, improved staff retention and morale and the reputational risks from not paying it have more weight in persuading employers to adopt the Living Wage than cases based on 'the bottom line'.

For all its strengths, community activism also has limitations. Its approach can seem ad hoc as the employers targeted are primarily based on community views rather than a strategic approach, some businesses (especially those with a low public profile) may not be concerned about their reputation, and unless activists work with trade unions there are risks that all workers may not benefit from change (e.g. if non-pay benefits are lost).

Legislation and Policy

Employment policy is reserved to the UK Government, but the Welsh Government has other tools that it could use to encourage take up of the Living Wage if it wished.

Procurement is a complex area affected by EU as well as UK legislation, but offers the potential to increase take up of the Living Wage amongst contractors to the public sector. The European Commission has advised that the UK minimum wage rates cannot be altered by devolved governments. However, the Scottish Parliament has issued statutory guidance on the approaches to recruitment, remuneration and other terms that should be considered when selecting bidders and awarding public contracts, which includes reference to the Living Wage.¹³² There is as yet no evidence on its impact.

Other ways of encouraging take up through policy and legislation are in economic development, where payment of the Living Wage could be integrated into local economic development strategies. This approach has been adopted in some cities elsewhere in the UK. For example, Birmingham City Council's Charter for Social Responsibility seeks to boost the local economy through support to the local supply chain, creation of job opportunities and ensuring employees are paid a fair wage.

Some local authorities have incentivised employers to pay the Living Wage. For example the Royal Borough of Greenwich offers a discount on business rates equivalent to the cost of Living Wage accreditation for five years for the first 100 businesses to apply.¹³³ Sheffield City Council operates a similar scheme.¹³⁴

While such approaches have been adopted in a few areas there is little research on their effectiveness.

Lessons from the National Living Wage

The final approach to be considered is that of the new National Minimum Wage termed the National Living Wage. Introduced with no consultation and now a statutory requirement, a number of employers have responded to the increase in their wage bill by cutting other employee costs. Examples of employers' actions in Wales include:

- Cuts to paid breaks: Toyoda Gosei, a car parts manufacturer near Swansea, has stopped paying staff for their 30-minute break; Morrisons supermarket chain has also cut paid breaks.
- Cuts to overtime and Sunday pay: Waitrose, Morrisons, B&Q, Tesco, Dunelm and Wilko are reported to have cut overtime and Sunday pay rates.
- Reduced hours: Carillion have cut the hours of cleaners; Coleg Gwent has cut subcontractors' hours as a result of having to raise pay to meet the National Living Wage.¹³⁵
- Staff perks and discounts: Caffè Nero, Eat, Zizzi, John Lewis and Asda have cut back on staff perks such as free food.

Other employer responses include raising prices for customers, for example the Whitbread Group and Mitchells & Butlers both responded this way.¹³⁶ On a more positive note, Starbucks, which operates 26 cafes across Wales, agreed to pay employees of all ages (including apprentices) the National Living Wage.¹³⁷

The changes made by employers in response to the new National Minimum Wage point to the possible impacts when pay rises are imposed by statute, rather than through persuasion or bargaining.

4.2. Achieving a Step-Change

Our analysis of the impact of the Living Wage on businesses, individuals and families, and public finances shows that the risks to Wales from a substantial increase in the number paid it are minimal while the potential benefits are substantial.

While there has been a welcome increase in the number of accredited and non-accredited Living Wage employers, Wales still lags behind most other parts of the UK in terms of accreditation and employment at Living Wage rates.

There is very widespread support for the introduction of the Living Wage amongst political parties, trade unions, community and faith groups, although we recognise that business organisations are more sceptical. Collective bargaining is making progress in introducing the Living Wage in some public sector organisations, and Citizens Cymru has helped to increase take-up through community organising. But there is still a very long way to go to change the headline figures.

Relying on change to occur naturally will achieve only limited progress. There needs to be a step change in activity to achieve a step change on the ground. So what will it take to achieve a real and meaningful reduction in the number of people paid less than the Living Wage? This section looks at the scale of change that would be desirable and feasible in the next five years, considers where the effort should best be targeted and suggests the forms of action might be most appropriate.

4.3. A Realistic Target

An important starting point is to establish an ambitious yet achievable goal, not least to get a sense of the scale of action required to achieve change.

In terms of the number of people paid less than the Living Wage, reducing the proportion in Wales to that of the UK average outside London, 23% of employment, would involve a decrease of 30,000 people paid below the living wage. This is equivalent to a reduction of 6,000 a year over five years (assuming employment levels remained constant). It is a modest aim but ought to be achievable.

A more ambitious target could be to reduce the number of people paid less than the Living Wage so that the rate in Wales is the same as that in Scotland or the south-east of England in 2015, i.e. to 19.5% of employment. This would require a reduction of 78,000 people paid less than the Living Wage (assuming that current employment levels are unchanged), a fall of some 15,000 a year over the next five years. This is a challenging target, especially as the Welsh economy is less robust than that of the areas it seeks to emulate.

An even more challenging target would be to halve the numbers paid less than the Living Wage. This would mean a reduction of nearly 150,000 people over the next five years, equivalent to 30,000 people a year. The below-Living Wage rate at the end of this period, assuming no change in total employment, would be less than 13%. Desirable though this might be, no nation or region of the UK has achieved anything approaching this rate to date and it is unlikely that Wales could outperform other areas to this extent.

Table 6: Living Wage targets

	No. paid less than LW	% paid less than LW	Total Change	Change p.a. over 5 years
Wales, 2015	295,000	25.6	-	-
Match UK outside London rate	265,039	23.0	-29,961	5,992
Match Scotland rate	218,945	19.2	-76,055	15,211
Halve current numbers	147,500	12.8	-147,500	29,500

As well as aiming to cut the number of people paid less than the Living Wage, there could also be a target to increase the number of employers which are accredited by the Living Wage Foundation as Living Wage employers. We understand that the Welsh Government has agreed with Citizen Cymru Wales a target of 150 new accredited employers by 2021, including 15 iconic Welsh brands.¹³⁸ It is not clear if there are sector or geographic targets, or if there is any resource to achieve the target.

Increasing accreditation is very important for the raising the profile of the Living Wage, with employers potentially playing a key leadership role, especially in communities where there are few other accredited employers. However a target for accreditation needs to be accompanied by a target for employment if real change is to be achieved.

It is essential that community activists work alongside trade unions which may already have sought or be seeking representation in a workplace, so that the whole package of employee benefits is taken into account. They should also work alongside other civil society organisations which have campaigned for the Living Wage for sometime in Wales.

We conclude that there should be a target to cut the number of people paid less than the Living Wage by 5,000 a year so that within five years the proportion of employees paid below the Living Wage in Wales is at the average for the UK outside London.

This target is achievable, would make a difference to the headline figures, and would bring tangible benefits to people and communities within Wales.

4.4. An Effective Strategy

Action needs to be targeted if it is to achieve meaningful change at scale. We have identified 5 priorities:

Natural Sympathisers

The first action is to target the 'low hanging fruit' i.e. employers who are most likely to be pre-disposed to pay the Living Wage. This includes third sector organisations, faith groups, social enterprises and businesses with a strong sense of social responsibility. Targeting these employers implement the Living Wage and become accredited should bring about some quick and encouraging successes and help to raise the profile of the Living Wage in Wales.

Non-accredited Employers

It is not always clear why some employers have agreed to pay the Living Wage but have not accredited. Having committed to pay higher wages at least to direct employees, the step to accreditation should be shorter, and could bring some welcome publicity and profile for the Living Wage especially in those parts of Wales where there are very few accredited organisations.

Public Sector

There are some public sector employers who are not yet Living Wage organisations including 11 local authorities, several universities and a large number of wholly-Welsh Government funded.

The Welsh Government could give strong direction that it expects them to become accredited Living Wage employers in its remit or grant letters to these organisations, again making a significant difference to achieving the target.

Social Care

Social care is one of the largest below-Living Wage sectors, with the public sector having significant leverage through its procurement. We do not underestimate the difficulties of introducing the Living Wage in this sector given the extreme financial pressures on it, which is why a strategic approach, embracing local authorities, providers and trade unions is needed.

Not Spots

The absence of any accredited Living Wage employers in nearly a fifth of Wales' local authority areas needs to be addressed, not least as some of these areas have a very high proportion of employees paid less than the Living Wage rate. Local Living Wage campaigns could be very effective in these areas.

4.5. Effective Methods

The lessons from elsewhere suggest that an effective campaign should be based on:

- Community activists and trade unions working together.
- Highlighting the moral case for the Living Wage and reputational risks of not paying it.
- Business to business recommendations.
- Active support with implementation.

The profile of the below-Living Wage workforce also needs to be taken into account, using communications relevant to the gender, age groups and working patterns of workers affected.

4.6. Policy and Legislation

The campaign needs to be backed by policy and legislation that supports the introduction of the Living Wage. Procurement is extremely important - public procurement is worth over £1bn in Wales, and represents between 20% and 30% of Welsh annual expenditure on common and repetitive spend. Using public procurement – drawing on the experience of Scotland – could be of considerable benefit in Wales. Construction contracts could also be used to increase payment of the Living Wage.

In addition, there is scope to support and encourage the Living Wage through economic development and business support services, and through the use of incentives e.g. discounted business rates, or training allowances.

4.7. Adequate Resources

There is clearly a cost for running an effective Living Wage campaign. The setting up of the Living Wage Foundation and associated running costs of the London Living Wage campaign was £1 million over four years – some £250,000 a year.¹³⁹ The Scottish Living Wage accreditation campaign initially received £80,000 a year from The Scottish Government, subsequently increased to £270,000 a year.¹⁴⁰ These are very modest sums compared with the funding allocated to many Welsh programmes and could potentially achieve game-changing results. We see no reason why a consortium of Welsh Government, one or more major charity funders, employer bodies and trade unions could not establish a dedicated Welsh Living Wage campaign.

4.8. Conclusion

To bring about a step change in the number of Living Wage employers and employees Wales must begin by setting an achievable target. We recommend that this should be to cut the number of people earning less than the Living Wage by 5,000 a year, which will bring Wales in line with the UK average (excluding London) within five years. Next, employers should be targeted for accreditation according to 'natural sympathisers', non-accredited Living Wage employers, the social care sector and not-spots.

A successful Living Wage strategy for Wales relies on trade unions and other campaigners working together to target these employers, including by highlighting the moral case for the Living Wage and the risks of not paying. Business to business recommendation is an important way for respected employers to inspire others to become accredited, and the availability of active support with this process is important. The public sector and government must also use the tools at its disposal to encourage adoption of the Living Wage, including procurement and the business support services offered in Wales.

Importantly, we recommend that a dedicated resource should be established – bringing together Welsh Government, charities, employer bodies and trade unions – to establish a dedicated Welsh Living Wage campaign inspired by the Scottish model.

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About the Bevan Foundation

The Bevan Foundation develops ideas to make Wales a fairer, prosperous and sustainable place. We are independent of government or any political party, and are funded by subscriptions, donations, grants from charitable trusts and foundations and commissions.

We have made every effort to ensure this report is accurate but responsibility for any errors, and for the views in the report, are those of the Bevan Foundation.

Ideas That Change Wales



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