

**Written submissions received for the London Assembly's
Economy Committee investigation into low pay in London
and London's living wage**

Ref	Organisation	Position/Title
Sub-001	Queen Mary, University of London	Jane Wills - <i>Professor Jane Wills</i>
Sub-002	Union of shop, distributive and allied workers	John Hannett - <i>General Secretary</i> Fiona Wilson – <i>Head of Research and Economics</i>
Sub-003	Equity	Louise McMullan - <i>General Secretary</i>
Sub-004	Business in the Community	Nicola Inge – <i>Campaign Manager</i>
Sub-005	Living Wage Foundation	Rhys Moore - <i>Director</i>
Sub-006	ShareAction	Catherine Howarth - <i>Chief Executive</i>
Sub-007	Unite	Dave Turnbull - <i>Regional Officer</i>
Sub-008	Institute of Economic Affairs	Prof. Ken Shackleton <i>on behalf of the Institute of Economic Affairs</i>
Sub-009	Child Poverty Action Group	Imran Hussain - <i>Director of Policy, Rights and Advocacy</i>
Sub-010	Intern Aware	Gus Bake - <i>Co-Director</i>
Sub-011	Trust for London	Mubin Haq - <i>Director of Policy and Grants</i>
Sub-012	TUC	Paul Sellers - <i>Policy Officer</i>
Sub-013	Community Investment Coalition	Jennifer Tankard - <i>Director</i>
Sub-014	Association of Convenience stores	Edward Woodall - <i>Public Affairs Manager</i>
Sub-015	UNISON	David Arnold - <i>Policy Officer</i>
Sub-016	British Retail Consortium	Helen Dickinson - <i>Director General</i>
Sub-017	Universities & Colleges Employers Association	Laurence Hopkins - <i>Research Manager</i>
Sub-018	CBI	CBI Employment and Skills directorate
Sub-019	Joseph Rowntree Foundation	Katie Schmuecker - <i>Programme Manager – Policy and Research</i>

24 July 2013

The London Assembly Economy Committee's investigation into low pay in London and the London living wage

Submission from Professor Jane Wills, School of Geography, Queen Mary, University of London, E14NS j.wills@qmul.ac.uk

1. The prevalence and patterns of low pay

My research has highlighted the persistence of low pay in parts of London's economy and particularly those where routine low skilled jobs are outsourced. Subcontracting (particularly when contracts are awarded on the basis of price) has helped to put pressure on wages and conditions of work. Furthermore, subcontracting makes it harder for workers to unionise as a means to increase their pay as they are not in contractual relationship with the clients (who have the power to change the terms of the contract) and if they did increase pay, they would price themselves out of the market. My research into jobs like office cleaning, hotel cleaning, transport cleaning and domiciliary care indicates that: (1) almost all this work is outsourced; (2) rates of pay and conditions of work are at (or just above) the statutory minimum; (3) the jobs are largely filled by foreign-born workers who are not able to claim benefits; (4) few of these workers are unionised and; (5) many such workers support children under 16 living in the UK.

The combination of subcontracting, falling rates of unionisation and strong immigration (with restrictions on access to the benefit system for those in the asylum system and those who are international students) has conspired to produce a vibrant labour market for minimum wage jobs even though London is one of the most expensive cities in the world. There has long been an oversupply of workers seeking low waged work in London and this has only increased during the economic recession.

Research conducted for *Global Cities at Work: New Migrant Divisions of Labour* found that even during the years between 1993 and 2005, wages for the lowest paid in London failed to keep up with changes in pay earned by other workers in London as well as others doing the same jobs outside London. Analysis of official data sources reveals that real wages actually *fell* for catering assistants, cleaners and domestics, care assistants and chefs working in London over this period, in contrast to gains made in the rest of the UK (see Table 1). Between 1993 and 2000, real wages for all those working in London increased by 50p an hour but catering assistants lost 48p an hour, care assistants lost 43p an hour and cleaners lost 12p an hour over the same period. This contrasts sharply with the real wage increases (which were admittedly low) for workers in the same occupations outside London. Beyond the capital, catering assistants gained 13p and care assistants gained 17p an hour. Moreover, such trends had largely worsened during the second historical period we looked at. The same data sources also highlight the growing dependence on foreign-born workers (see Figure 1).

2. The benefits of the living wage and incentives for adoption

My research into the living wage indicates there are considerable benefits that can accrue to living wage employers in relation to reduced rates of labour turnover, improved morale and better workplace relationships. In addition, workers in living wage workplaces were found to have better psychological well-being than their counterparts in non-living wage workplaces. Adoption of the living wage also has considerable savings for the Treasury. Calculations for London as a whole indicate savings of up to £1billion (from tax, NI and reduced benefit rates) if all workers were brought up to the living wage rate (Wills and Linneker, 2012).

The best way to incentivise adoption would be to increase recognition of the living wage logo – awarded by the Living Wage Foundation. The prominent display of the logo on business/organisation's websites and paper-heads, and on accredited shop fronts, would help to mobilise ethical consumers who want to 'shop' or 'buy' living wage. With parallels to the work of the Fairtrade Foundation, the Living Wage Foundation is accrediting employers and signing up leading firms and organisations, displaying the logo and championing trade and procurement with these companies would be a good way to increase take up and awareness of the living wage. Efforts could be made to ensure that public money was spent with living wage employers – in direct purchasing and indirect support for infrastructure and development projects.

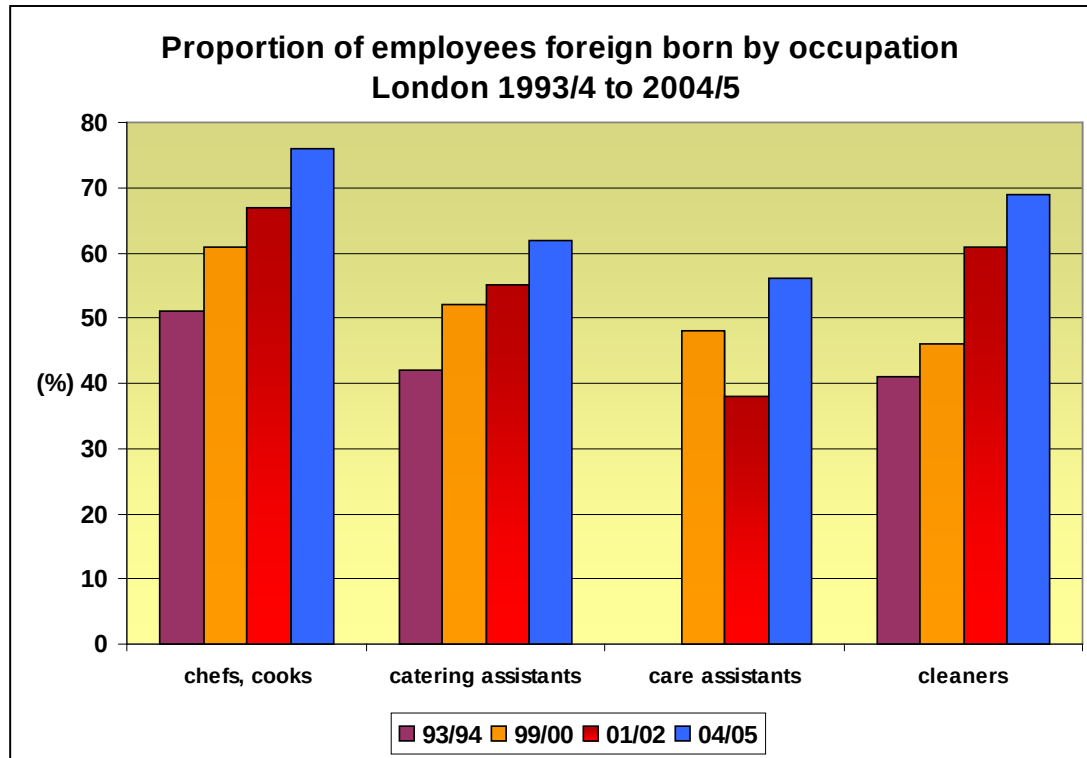
Increasing wages at the bottom end of the labour market would have a positive impact on aggregate demand in the capital as well as assisting those families most at risk from the health, housing and educational impacts associated with low income (and thus reduce the associated costs on the health and welfare bill).

Table 1: Changes in real hourly earnings in low paid occupations, 1993-2000, 2001-2005, London and the UK

		1993-2000		2001-2005	
		London	UK	London	UK
Hospitality					
OC	Job Title				
620	chefs, cooks	0.49	0.31	-0.17	0.35
953	catering assistants	-0.48	0.13	-1.66	0.21
Care					
OC	Job Title				
644	care assistants	-0.43	0.17	1.65	0.74
Cleaning					
OC	Job Title				
958	cleaners, domestics	-0.12	0.1	-0.44	0.42
All		0.5	0.42	0.71	0.21

Source: Analysis of the New Earnings Survey (1993-2000) and Annual Survey on Hours and Earnings (2001-2005) using Occupational Categories (OC) as indicated, wages adjusted in relation to the RPI for the first year of each pair.

Figure 1: Proportion of employees foreign-born by occupation, London 1993/4 to 2004/5



Source: Analysis of Labour Force Survey, London (1993/4 and 2004/5) but note that the re-classification of occupational categories in 2000 means that the data for the two periods are not directly comparable.

References:

Wills, J. and Linneker (2012) *The costs and benefits of the London living wage: A research report*. London: Queen Mary, University of London and Trust for London.

Wills, J., Datta, K., Evans, Y., Herbert, J., May, J., & McIlwaine, C. (2009) *Global cities at work: New migrant divisions of labour*. London: Pluto.

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**LOW PAY IN LONDON
AND THE LONDON LIVING WAGE**

USDAW SUBMISSION

AUGUST 2013

LOW PAY IN LONDON AND THE LONDON LIVING WAGE

Usdaw in London

With over 30,000 members in a variety of locations, Usdaw is one of the major unions operating in the capital. We have a significant presence in the major food retailers of Tesco, Sainsbury's and Morrisons, the major London tourist stores of Selfridges and Harrods, and major retail non-food stores of Argos, Boots and the House of Fraser.

The Extent of Low Pay in London

Last year's GLA Economics paper, Patterns of Low Pay, showed that the retail and wholesale sector at 43% is second only to the hotel and food services sector at 62% in the proportion of workers who are low paid, defined as earning below the hourly rate of the London Living Wage figure.

However, the situation is reversed if we look at the actual number of workers who are low paid. At 105,000 the retail and wholesale sector has by far the largest number of low paid workers in London with hotel and food services being second at 68,000, a massive difference of 37,000.

London Workers on the National Minimum Wage

Before turning to look at measures aimed at spreading the London Living Wage to more employers a serious and significant fact about low pay in London must not be overlooked. This is that around 90,000 workers in London are on the National Minimum Wage and will be unlikely to share in any further moves to introduce a Living Wage among London employers. In addition, there will be those working in London who are not even receiving this legal entitlement, as HMRC figures on underpayment will no doubt show, and which we urge the Economy Committee to seek.

In the rush to promote the London Living Wage we must not forget or neglect London's lowest paid workers. The Economy Committee should call for a **significant increase in the National Minimum Wage and stronger enforcement measures as part of an overall strategy in tackling low pay in London.**

A Comprehensive Coverage of the London Living Wage by 2020

While this is a laudable aim, achieving it will be difficult, but not impossible. It is likely that the easy wins have been made and in sectors that are not low paid. The concentration in the public sector has also added to the success so far.

The way forward may not be in seeking a lot of new employers but in making a breakthrough in those more difficult low paying sectors of the economy by **concentrating on a major company** whether it be a flagship retailer, such as Selfridges or Harrods, or any one of the large hotel chains such as Premier Inn or Travelodge.

Achieving a breakthrough in one or two of these would be the milestone sought in the question posed by the committee and which could then be used to spread best practice, of the introduction of a London Living Wage to the rest of these difficult sectors.

Incentives to Spread the Living Wage in London

While starting from the premise that the Living Wage is voluntary not statutory there is a clear need to explore incentives to employers to adopt the Living Wage. These could include:

- **Financial incentives**, primarily at a national government level through things such as reduced national insurance contributions, but also exploring what the GLA itself could offer in promoting certain local business rates discounts, exemptions or freezes in exchange for signing up as a Living Wage employer.
- **Agreement on a phasing-in timetable** so that employers, particularly in low paying sectors, could adjust over a set timescale once they have committed to becoming a Living Wage employer.
- **A recognition of the trade union premium** that takes into account the added value in monetary terms of things such as staff discount schemes, profit share payments and London Weighting.
- **A reference period that is long enough to take account of all additional and trade union premium payments** which might see something like an annualised Living Wage similar to annualised hours agreements that exist in many companies.
- **Other Supportive Measures**

There are a number of additional measures which might help spread the Living Wage in London. Things such as:

- **Shareholder action**, although recognising that this may get publicity but not the policies desired as the major shareholders and institutions have a different agenda and the workforce are the last of their concerns.
- **Procurement**, a good lucrative route in the public sector and when employed by local councils.
- **Sponsorship**, publicising the benefits of the Living Wage to other employers considering it, would be a good route. Usdaw has a form of this in its corporate brochure we use in helping to secure recognition in non-recognised companies.
- **Creating a positive brand image**. Something along the lines of the highly successful Fair Trade brand that all major retailers have signed up to.
- **Living Wage Zones**, again a good idea and route of spreading the Living Wage by example, particularly if this could be used as a route into acceptance among local private sector employers and national chains in a set location eg, Oxford Street.

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August 2013

Dear Simon

Low Pay and the London Living Wage

Equity is the trade union representing 36,800 performers and creative workers working across the sectors of the entertainment industry. We represent actors, singers, dancers, variety and circus artists, stunt performers, theatre directors and designers, models and many other creative professionals working in live entertainment and in film, television and other media.

While our members are highly mobile and many work on a national and international basis, the concentration of theatres and other entertainment venues in the London area mean that the capital is a base for a large proportion of our members. Around two thirds of Equity members live in Greater London and the South East of England.

Our members work for a wide range of employers in the London area including West End, subsidised, independent and commercial theatres; ballet and contemporary dance companies; fringe theatre venues; comedy clubs; television and film producers; music video production companies; radio stations and local authorities.

Groups affected by low pay

We welcome this opportunity to provide views to the London Assembly on what is a crucial issue for our members. While the focus of this investigation is on areas where the prevalence of low pay work is well known, it is important to remember that the creative industries are a growing and attractive field of work for many young professional people, however careers in the sector can be precarious and pay and terms and conditions are variable.

Despite Equity's success in concluding collective agreements covering our main areas of work – TV, film, theatre and radio – low pay and in some cases exploitation of workers in the sector is increasing. Partly this is to do with a decrease in funding for organisations, but there are also cultural factors and perceptions of the industry that need to be tackled.

Low pay and no pay work is especially noticeable in areas where some of the lowest Equity minimum rates are already in existence, for example for background performers (or walk-on artists) working in film and television and for performers working in fringe theatre. There are specific problems with organisations such as film schools, which are discussed further in this submission.

In terms of fringe theatre, Equity has previously provided a substantial amount of evidence this sector, and London's small theatres generally, to the investigation led by Tom Copley AM earlier in 2013. While we note that the recently published report, *Centre Stage*, acknowledges that pay is a key concern for performers, it is very disappointing that no firm recommendation was made, particularly when the Economy Committee are clearly committed to investigating pay for London's lowest paid workers, as demonstrated by this consultation on the London living wage.

It is also disappointing that in the brief paragraph discussing this important issue, there are inaccuracies relating to Equity's policy, specifically the statement: "the minimum rates recommended by the trade union Equity, which equate to the National Minimum Wage". Equity enforces a number of minimum rates, which are stipulated in our collective agreements covering the various theatre sectors – commercial, independent, subsidised and others, all of which are in excess of the National Minimum Wage. For fringe theatre productions, Equity has created a model contract which includes payment of the National Minimum Wage.

The predominant practice in fringe theatre is to pay less than the National Minimum Wage, if anything at all. The absence of salaried payment in this sector often also coincides with an absence of regard for other employment rights including holiday pay, National Insurance contributions, regulation of working hours and adequate health and safety provision.

These points were made clear in Equity's submission and were accompanied by further evidence which demonstrated where positive progress has been made with a number of employers in the small theatres/fringe sector. For our work in this sector to continue to be successful we need help, particularly from bodies such as the London Assembly, in challenging perceptions that performers are or should be willing to work for free

Impact of low pay

Equity's most recent survey of members found that 9.6% earn nothing from their work in the industry, and over 69% earned either nothing or under £10k per year. Two thirds of our members say they have had to turn down work because the pay on offer was too low. Of those who have turned down work, 72% say they turned down work in fringe theatre and 36% turned down work in Independent Theatre.

Younger members of Equity, particularly those who have recently graduated from drama school, tell us they have been told to expect to work for free for up to two years at the start of their careers.

Clearly it is important for the sector to preserve a degree of flexibility with respect to the mobility of its workforce and the short-term nature of engagements. That is something that is expected and understood by performers. However this must be balanced against ensuring that performers, from all backgrounds, are able to build sustainable careers in the industry.

Supporting progression out of low paid work

For some time Equity has campaigned to improve advice and information for workers and employers in the creative industries as a positive means of helping to enforce core employment rights. We have also sought to challenge arrangements which impede application of the National Minimum Wage Act to performers and on an individual level we support our members through legal means when there has been a breach of the Act.

Given the complex nature of the legal framework that covers workers and low pay in the entertainment industry, sector specific advice for large and small employers is essential. Awareness and recognition that performers are workers, particularly by advice services such as the Department for Business Pay and Rights Helpline who have in the past advised businesses that performers are not workers.

In its 2010 Report, as well as in previous reports, the Low Pay Commission agreed with Equity that sector specific advice was needed to help businesses and employers understand the application of the NMW to the entertainment sector. The LPC recommended “that the Government produces, in conjunction with interested parties, sector specific guidance on the National Minimum Wage for the entertainment sector.” LPC Report, para 4.50, 2010. While we did not believe that the advice that was then made available on Business Link adequately achieved this recommendation, the new advice provided on gov.uk is worse again and we are currently working with the Employment Minister, Jo Swinson, with a view to improving the advice provided.

Useful advice of this nature should not be limited to one source and if other public bodies, including the London Assembly, are planning to provide guidance and support to employers about the London living wage and the National Minimum wage, it will be important to recognise that all sectors of the economy, including the creative industries, should be included.

We also believe that action must be taken to counter abuse of charitable status. There is currently an exemption to the National Minimum Wage Act (section 44), which has been used by arts organisations and films schools to avoid paying the National Minimum Wage to performers. These organisations claim that their charitable status allows them to benefit from this provision.

Equity has sought to highlight the obligations of employers and challenged them to provide evidence that the work undertaken by professional performers is truly “voluntary” under section 44 of the National Minimum Wage Act. In the absence of such evidence we have requested that the performers be paid at least the NMW rate. This is often successful and has led to a number of significant productions reversing their proposals to offer unpaid work, but the approach is reactive in nature and limited to helping individuals.

We do not believe that the use of professional performers for free by film schools or any other arts organisation is compatible with either with the National Minimum Wage Act or the Charities Act and believe that this practice should be challenged.

In 2011 Equity wrote to the UK's film schools about the abuse of volunteering arrangements and has sought to promulgate the union's own model agreement for use by student film-makers. Despite this approach there has been slow progress towards resolving this issue. Equity is also currently working with HMRC to resolve this problem.

Many workers with minimum wage problems are too scared to enforce their rights. Enforcement of employment rights would be greatly enhanced if the Government removed the barrier of Employment Tribunals only hearing cases brought by individual workers. There have been two recent landmark judgements at the Employment Tribunal concerning non payment of the National Minimum Wage to performers:

Case 1: Equity recently supported a successful case taken by a group of members against a fringe theatre company. In the first ruling of its kind, the pre hearing of the Employment Tribunal found that the five actors concerned were entitled to make a claim for the National Minimum Wage and payment in lieu of holiday for this particular fringe theatre show. The actors in this case were found to be workers as per the definitions of the National Minimum Wage Act and Regulation 2 of the Working Time Regulations 1998, despite the fact the engagement was advertised as a profit share by the producers.

The full tribunal hearing date, where a judgement will be made about the sums owed to the actors involved, is yet to be set.

Case 2: An actor, Mr T Ingham had been engaged by a producer, Summertime Pictures, for a short film and although no money was offered for the engagement itself, representations were made about the substantial sums that would follow due to the net profit participation arrangement, which formed part of the contract. Obviously no such sums can ever be guaranteed. These circumstances are not unusual although it is unusual for a performer to want to come forward with a claim against their employer.

Equity brought the claim to the ET in August 2012 on the basis of the National Minimum Wage Act 1998, and the Regulations made under it. Crucially, the Judge (Judge Holmes) stated in his judgement in December 2012 that he was satisfied that the engagement constituted a contract of employment and therefore our member was entitled to receive NMW and holiday pay. The Judge considered that the remuneration provided for, solely by reference to net profit, was an attempt to oust the jurisdiction of the NMW legislation and therefore was of no effect.

The actor concerned received judgment in his favour and was awarded the sum of £1,033.60 in respect of unlawful deduction from wages and a further £124.76 in respect of pay in lieu of untaken holiday.

Universal credit

The Universal Credit system, which is mentioned in Assembly's call for evidence, will have a devastating effect on the lives of many entertainment workers, especially where those workers are fully self-employed and surviving on a low income.

Performers and creative workers are not generally a burden on the state. Their numbers are relatively low compared to the whole of the UK workforce and despite the perception that creative workers spend long periods of time out of work; survey evidence from Equity suggests that around 20% of performers have made a claim for either welfare benefits or tax credits during the last 12 months (2013). In the last 5 years 40% of members made a claim for welfare benefits or tax credits.

The new system, and proposed changes to the National Insurance status of performers will mean that those members who are assumed to have a Minimum Income Floor (MIF) of around £11,200 per year may find the help they can get with their housing costs (rent or mortgage interest) is very limited, leading to an increased risk of homelessness or repossessions.

In meetings with DCMS, HMRC and DWP Equity has highlighted the concern that this will in turn reduce the pool of available talent that is required by employers to cast the high quality, profitable and revenue generating world class entertainment that has come to characterise the UK's creative industries.

The reality is that the vibrancy and value of the UK's creative industries, which are worth £36bn to the UK economy, are largely based on the supply of a wealth of talent and technical skills, available at short notice and deployed for short periods through a variety of contractual arrangements. Access to welfare benefits is therefore crucial in sustaining the flexibility and availability of the creative workforce and any reforms which erode current provisions will be highly damaging to the sector. Again, Equity's 2013 survey evidence suggests that almost a third (31%) of our members would be forced to end their careers in the entertainment industry if they were no longer able to qualify for welfare benefits or tax credits to supplement your earnings.

If you require any further information or clarification of any points in this submission please contact Louise McMullan, Head of the General Secretary's Department on 02076700260 or by email at lmcmullan@equity.org.uk.

With best wishes

A handwritten signature in black ink, appearing to read 'Christine Payne', with a large, stylized initial 'C'.

Christine Payne
General Secretary

Response to London Assembly Economic Committee Investigation into low pay and living wage

02/08/2013

Business in the Community believes that employers have a strong role to play in addressing poverty. We have been pleased to participate in the early stages of the work that Professor John Philpott is leading on behalf of the Joseph Rowntree Foundation called "*What can employers do to reduce poverty?*" and hope that the findings of this report when published in a few months' time will inform and frame the debate in a helpful way for employers. This report will also then help shape our organisational position on the debate.

Is it realistic and achievable for the living wage to become 'the norm' for London employers by 2020?

In some sectors it is much more realistic and achievable than others, such as the professional services sector, but less so for retail or hospitality. However we believe that reducing in-work poverty should be the goal and that the living wage defines the issue too narrowly and could in some circumstances be counterproductive.

It is important to consider the issue of short term and zero hours employment contracts alongside the issue of low pay and how individuals may often experience periods of unemployment between jobs. This is a difficult issue when employers need to be able to flex their capacity to meet fluctuating demand for their products and services. While measures like annualised hours contracts may help, it would seem essential to ensure that the benefits system responds quickly when an employee becomes unemployed. Hence the smooth operation of the Universal Credit system has to be seen as a critical part of the equation when discussing the above question.

What is the right approach to addressing low pay while addressing the needs of employers?

Making the payment of the living wage a highly weighted element within procurement contracts would help to create an environment where paying the living wage is more likely to become the norm. If large public sector employers such as the GLA and Borough Councils implemented this approach it would make a significant difference and may contribute to achieving a tipping point, as the best quality workers in the relevant low wage sectors will gravitate towards the higher paying contracts which will have a domino effect into the private sector within these sectors. But we also need to recognise that non contract-led low pay sectors will be harder to crack. It is also important to note that employers are more willing to pay the living wage when, during the procurement process, all other bidders are required to meet the same living wage requirements.



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President HRH The Prince of Wales | Chairman Mark Price | Chief Executive Stephen Howard
Business in the Community is registered in England and Wales. Charity No 297716. Company No 1619253



In terms of defining the correct approach, we have been pleased to contribute to the current Joseph Rowntree Foundation research on "*What can Employers do to reduce poverty?*" and look forward to seeing its report when it is published.

The role of employers in combating poverty

We think that employers have a critical role to play in addressing in-work poverty. Reducing the debate to a discussion on the Living Wage, while superficially attractive, might be counterproductive in the long run. This is because employers, as a result of implementing the Living Wage could for example reduce budgets for training which enable individuals to progress, employ less people and by so doing, increase stress on the existing employees and reduce flexibility in employment contracts.

In addition we think employers are best placed to lead programmes that prepare people for work especially those that help level the playing field for people with barriers to work - whether those are unemployed adults with multiple barriers to work or those that are still in school. Business in the Community runs market leading programmes in both these categories: Ready for Work which has helped almost 3000 people affected by disadvantages such as homelessness into work and those that support young people: Business Class, Mosaic and Work Inspiration.

On a separate but related note, we would like to see all employers that offer apprenticeships making sure that they are genuinely accessible to young people in disadvantaged circumstances by paying at least the national minimum wage rather than the minimum apprentice wage of £2.65ph. For young people living independently, such as those in homeless hostels, apprenticeships at this low wage are not a financially viable option.

What would incentivise or assist employers to pay the living wage including sectors in which low pay is widespread?

As mentioned above we believe that the most effective way to assist employers to pay the living wage would be through making payment of the living wage a heavily weighted component of procurement contracts. This ensures that there is equal competition for minimum wage conditions between various employers for the same contract.

We believe that the business case for paying the living wage needs to be strengthened and we hope that that Joseph Rowntree Foundation research will contribute to this. We would also think it is important that all elements of an employee's remuneration and benefits package are taken into account in determining their income.

Could living wage accreditation take account of alternative remuneration methods used in sectors such as retail and hospitality?

We think this is an area that needs more study particularly in the sectors where commissions or gratuities are a large part of the remuneration package.

Conclusion

Business in the Community will be pleased to provide further information later in the year and would be happy to contribute, along with employers, to further research on this issue.

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Dear Mr Knight,

Low pay in London and the London Living Wage

The Living Wage Foundation and London Citizens welcome the Economy Committee's investigation into low pay in London and the London living wage. London Citizens members have been campaigning on behalf of low paid workers for the last twelve years and their tireless efforts have ensured that this issue remains a priority for the Government of the day.

We acknowledge that the leadership shown by successive Mayor's over the past eight years has helped the campaign to make inroads into sectors where low pay has been the norm. It demonstrates that a fruitful partnership between The Mayor and his Office, the Assembly and Citizens UK and the Living Wage Foundation is capable of producing tangible, measurable results for the lowest paid workers in the capital.

Your enquiry invites comments on a number of key questions and our views are given below:

What is the extent of persistent low pay in the capital and which groups are most at risk?

The GLA Economics Unit and other respected think tanks have identified the statistical extent of low pay across London and we have no reason to doubt the figures presented; almost 700,000 or one in six Londoners. The experience of our members however is that family groups involved in social care, both carers and the cared for feel most under pressure. Our concern is that this aggregation of different groups will not be visible to the Economics Committee unless it directly engages in a broad stakeholder engagement process, listening to Londoners and hearing their concerns. Citizens UK facilitates these discussions as part of its core mission and can advise how this will be best achieved.

Is it realistic and achievable for the London Living Wage to become 'the norm' for London's employers by 2020? And if so what would be the milestones for achieving this goal?

Citizens UK created the Living Wage Foundation in 2011 following pro-bono research and analysis of the market potential of a trusted 'fair pay mark' undertaken by KPMG. The Foundation has 3 key roles; accreditation, influence and intelligence.

In terms of accreditation the Foundation has a simple, straightforward, light touch, risk based process that employers undertake, with support, which provides confidence to external stakeholders that such employers are indeed paying the London Living Wage or with agreed milestones to its achievement to direct employees and contracted staff.

In 2012 a number of pioneer enterprises from the public, private and third sectors were the first wave to be accredited and provide proof that organisations of all sectors and sizes could use this accreditation process with confidence both in its application and its outcomes.

November 2012 was the first Living Wage Week and the increased visibility of the Living Wage afforded by the Mayor's strong public support and his offices' engagement with the business community meant that the enquiries from across London and beyond immediately increased by more than 300%.

Currently there are more than 300 enterprises accredited across the UK an increase of 800% since the first wave in 2012.

At the same time London Citizens working with the ODA and LOCOG made the London 2012 Games the first Living Wage Olympics. Despite complex contractual arrangements by working in close partnership compliance with the Living Wage was increased from 84% to 97% and a greater proportion of jobs achieved for local Londoners.

The significant infrastructure projects scheduled to commence in London between now and 2020 represent a significant opportunity to increase the roll out of the Living Wage and at the same time up skill workers to improve their employability prospects.

The critical ingredients for this success include:

- The Mayor's public support
- Civic support through community organising
- Communication across the capital to a broad range of stakeholders
- A robust, yet light touch, accreditation process
- The independence of the Living Wage Foundation

The progress made to date demonstrates that in the sectors where the campaign has focused significant inroads have been made which are directly proportional to the investments made by the Mayor and the Living Wage Foundation. Collectively this partnership has changed the lives of more than 14,500 London workers and their families.

In order to achieve the Mayor's vision of the London Living Wage being the norm a commensurate investment will need to be made in raising awareness amongst employers, educating them in respect of the practical application of the Living Wage and supporting them as they transition towards a direct workforce and out-sourced workforce all being paid a Living Wage.

The Living Wage Foundation has limited direct resources and relies on its principal partners, Citizens UK community organisers, a small number of champions in the business community and its partnership with the Mayor's office to effect this transformation. The Foundation works as an innovative social enterprise; funded by civil society dues, principal partners' dues and accreditation licence income.

We estimate that an investment of £0.5 million per annum over six years used to employ 8 community organisers with the return on investment directly measured by an annual outcomes and outputs matrix based on boroughs, sectors and workers would enable a step change to be made and be the most significant contribution to achieving the 2020 Vision.

We will be happy to supply further details of the measurable outcomes to the Committee if that would be of interest.

What is the right approach to addressing low pay in the capital, whilst maintaining London's competitiveness?

The existing strategy of engagement driven rather than a compliance led approach is proving successful and accelerating accreditation. The pace of change in the capital is twice that of the rest of the UK, demonstrating that the Mayor's leadership has tangible impact.

There are lessons to be learned from the Fairtrade campaign and the impact of employer education about the benefits of Living Wage accreditation as well as raising consumer awareness of the brand are prerequisites of further success.

There are still a significant number of employers in London who are not aware of the London Living wage. Employers are not always clear on the scope and range of the Living Wage or its difference from the national minimum wage. The accreditation process is often misunderstood and seen as an event rather than a journey of change.

Consumers have a low recognition of the brand, although there has been significantly more resonance since the first Living Wage Week November 2012.

Assembly Members as well as the Mayor have a significant influencing position and a strong role to play in communicating the London Living Wage to Londoners.

What would incentivise or assist employers to pay the living wage, including in sectors where low pay is widespread?

The critical success factors previously highlighted can all be collectively addressed with a single response which is within the power of the GLA group to deliver. The GLA will be the largest single accredited employer who pays the London Living Wage by Living Wage Week. The promotion of this to Londoners on every GLA asset, including the tube and bus networks, police and fire vehicles and every other information giving platform, such as the Underground Map, Oyster Cards and Boris Bikes (Barclays are in course of accreditation) will transform public awareness in a single week.

The National Employment Savings Trust (NEST) has signalled their investment preferences by including the payment of the Living Wage in their investment strategy. This will have an impact on the investment community as the pension fund grows its market share. The trustees of the public sector pension funds, initially within the GLA should be asked to explore whether the payment of the London Living Wage may be incorporated in their Statement of Investment Principles (SIP), with an agreed future implementation date in line with the milestones to achieving the Mayor's Vision for London. This could be more broadly rolled out through such umbrella groups as UKSIF and EIA as well as the BBA and ABI.

The creation of the first Living Wage Zones within London is being piloted this year. The model, provided successful, has the capacity to leverage the support of the local authority, key local

employers and the local community working in partnership. The pace of change is currently limited by the availability of resources within the Foundation.

The Living Wage Foundation has been cautioned by its Advisory Council that the potential costs in terms of time and money may be significant and this is a potential barrier to faster take up.

Citizens UK and the Living Wage Foundation are consulting with key stakeholders on how the London (and National) Living Wage might be expressed, to take into account employment where the total reward is calculated at more than simply an hourly wage rate. This consultation will be finalised in the next quarter and we will provide details to your committee for their information.

How should the living wage campaign relate to other initiatives aiming to foster progression out of low pay?

Citizens UK, its member organisations and the Living Wage Foundation and its principal partners and accredited employers all recognise that the London Living Wage is only one part of the solution to making London more competitiveness and improving the skills and employability of Londoners.

The agreed campaigns and their priority groups complement the Living Wage campaign and are driven forward by Citizens UK community organisers as part of a package, rather than in isolation. For example in discussions with a well-known London football club the North London Community Organiser is in conversation with the staff about creating City Safe havens in their shops as well as advertising jobs for local people and payment of the Living Wage. Our experience is that such discussions are more fruitful when addressing community needs as a whole, rather than a single issue.

Additionally London Citizens is in continuous dialogue with their members creating a clear set of priorities for the medium term which will inform the Mayor of key policy issues for local communities. These are being created by local communities and reflect the voice of more than a quarter of a million concerned Londoners.

We shall be happy to provide further evidence to the Economy Committee on any of the above aspects or indeed on other issues as well.

Please advise how we will be informed of the deliberations of the Committee after the Committee meeting in September?

Yours sincerely.

Rhys Moore
Director, Living Wage Foundation

Stephen Knight AM
Chair,
Economy Committee
City Hall
The Queen's Walk
London SE1 2AA

5th August 2013

Dear Mr Knight,

***Submission to the London Assembly's Economy Committee Investigation
into Low Pay and the London Living Wage***

About ShareAction

ShareAction (formerly FairPensions) is a registered charity that exists to promote an investment system which serves savers, society and the environment. In particular, we work to encourage pension funds and other institutional investors to integrate long-term environmental, social and governance (ESG) risks into investment analysis and make them a focus of shareholder engagement with companies.

ShareAction is supported by a number of leading UK charities and trade unions and by over 8,000 individuals who wish to see their savings and assets responsibly invested. Further information about ShareAction can be found on our website:

<http://www.shareaction.org>

Scope of Our Submission

Conscious that other researchers and economists have more expertise than us on many of the questions posed by the Committee, our submission is restricted to evidence arising from a two year project we have undertaken to enlist the support of institutional investors in promoting Living Wages in the UK operations of FTSE 100 companies. The investors involved include pension funds, fund managers, charitable foundations and faith investors.

Although the focus of our work has not been London's labour market and economy exclusively, the project has had a distinctly positive influence on low pay in London whilst securing solid progress in all other regions of the UK.

Questions Posed by the Committee



shareaction.org

“What is the right approach to addressing low pay in the capital, whilst maintaining London’s competitiveness?”

In our view a mixture of approaches is necessary to promote living wages, with different strategies being appropriate to tackle low pay in London’s public, private and not-for-profit sectors. Overall, we favour maintaining the voluntary approach pursued in the years since 2001. However, within that voluntary approach there is considerable room for new thinking and creativity to sustain progress. Our work with investors on living wages over the last two years is a good demonstration of the scope to secure new allies and try out fresh and distinctive tactics that make continued progress possible.

We agree with the London Assembly’s Economy Committee that there continues to be insufficient awareness and understanding of the Living Wage among employers and their contractors. In two years of co-ordinating dialogue between shareholders and major listed companies on the subject of Living Wage standards we have been surprised by how many senior business leaders (notably board members of FTSE 100 companies) have minimal awareness of the Living Wage. As part of our project we have attended the AGMs of over 30 companies in the FTSE 100 index to ask directors to adopt Living Wage standards for their employees and contractors. This simple strategy has greatly helped to build awareness and support for living wages in the boardrooms of those major companies, but more needs to be done.

We support the Mayor’s focus on large employers and companies. Within the private sector, some major companies have a relatively small directly employed workforce but are nevertheless in a powerful position to champion Living Wage standards to their extensive supply chain. Good examples of this type of company are British Land and Land Securities, with whom ShareAction has held on-going discussions about Living Wages. Both companies are now publicly committed to the concept, have made progress in implementing Living Wage standards amongst employees and some sub-contractors, but could still do more to promote Living Wages amongst stakeholders including tenants and service contractors.

“Could investment and pension funds, procurement policies and sponsorship agreements be better harnessed to support expansion of the living wage?”

Yes, we believe so. Our two-year project has demonstrated that investor engagement with private companies who are listed on the London stock exchange can be a highly effective strategy for promoting Living Wages in the private sector. Companies do respond positively to sustained pressure for responsible behaviour from their shareholders. Once investors have understood the business case for Living Wage standards, we have found that many are willing to lend their support.

Having brought together a broad-based group of institutional investor supporters of Living Wage standards, ShareAction has been in two-way communication on the subject with 56 companies in the FTSE 100 since May 2011. In that time, twenty four companies have confirmed that they apply Living Wage standards in at least part of their UK business operations. A further eighteen companies have confirmed that adopting Living Wage standards is actively under review following the investor dialogue we co-ordinated. To give a flavour of the progress being made, a selection of companies is presented below.

- HSBC - publicly confirmed its commitment to roll out Living Wage standards nationally following investor dialogue in 2011/12. Has not yet confirmed it will seek

accreditation. The bank's decision resulted in over 500 people in London, mostly contractors' staff, moving up to the Living Wage. A further 2500 outside London moved onto the £7.45 rate which applies outside the capital.

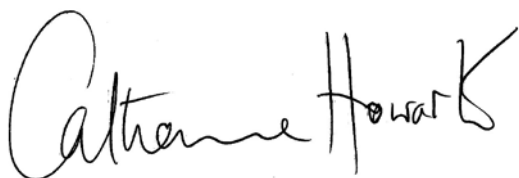
- Legal and General - announced it would become a Living Wage employer at its 2013 AGM following two years of investor dialogue. The company is seeking accreditation.
- Resolution - became a Living Wage employer following shareholder dialogue and has sought accreditation.
- BP - is currently reviewing its position on Living Wages following a shareholder question at the company's AGM in 2013.
- RBS – the chairman confirmed that directly employed staff will all move to Living Wage in response to a question at the 2013 AGM. This followed months of discreet investor dialogue. The company still needs to extend this commitment to contractors.
- RSA - became a Living Wage employer following shareholder dialogue and announced this decision in early 2012.
- Unilever - following shareholder dialogue all direct employees are now paid Living Wages with contracting arrangements currently under reviews.
- Vodafone - Publicly confirmed its commitment to adopting Living Wage standards at its 2013 AGM following discreet investor dialogue.
- Johnson Matthey - has implemented Living Wages for all employees following shareholder dialogue. The position on contractors is under review.

Next Steps

On the strength of the last two years of investor work on Living Wages, ShareAction has recently secured a grant from the Trust for London to build and support a dedicated network of investors in London who wish to promote high standards of corporate social responsibility in the capital. Our *Responsible Investors for London* initiative will co-ordinate dialogue with companies on a range of topics and themes (for example workplace health, apprenticeships, and access to employment) but Living Wages will be a key strand of work. The project will focus on achieving Living Wage standards in FTSE 250, FTSE All Share and AIM listed companies with operations in the Greater London region.

I hope the enclosed information is of interest to the Committee. I would be very happy to provide follow up information or give verbal evidence to the Committee on the role and potential of investor action to promote the London Living Wage.

Yours sincerely,



Catherine Howarth
Chief Executive



**London's Hospitality Sector
'Hopelessly Addicted to Low
Pay!'"**

**Submission to the
London Assembly's Economy
Committee
Investigation into low pay in London
and the London Living Wage
On Behalf of
Unite the Union
Central London Hotel Workers Branch
And
Unite the Union
Restaurant and Bar Staff Branch**

Hopelessly Addicted to Low Pay **A submission on London's Hospitality Sector**

Unite the Union has accumulated over of **40** years of experience in representing workers in the London Hospitality Sector. Members of our two London Hotel Branches at Heathrow and in Central London - and our Restaurant and Bar staff branch are employed in hotels, restaurants, bars, clubs and contract catering. Our members are predominantly female, black and ethnic minority. Many are migrant workers. They are employed in the lowest paid jobs - as room attendants, waiting staff, luggage porters, kitchen assistants, chefs, bar tenders and baristas. A proportion of our members are agency workers, a proportion are engaged on zero hour contracts. Many of our members are forced to take on additional part time jobs or rely on state benefits in order to make ends meet.

We believe therefore that we are uniquely placed to speak with unrivalled authority about the collective experience of these vital workers.

We note that on the 11th of July this year the Mayor's office issued a Press Release welcoming the fact the in the first quarter of this year tourism sector in London saw 3.4 million overseas visitors, a 4.2% increase on the same period last year, generating expenditure of £2.1 billion, up 11.5% from already huge expenditure recorded last year during the Olympics and other key events.

Unite too welcomes this ongoing increase in visitors numbers and expenditure. This is vital to the success of London's economy. The contribution that our members make to the positive experience of overseas tourists visiting London is undeniable and indispensable. They greet the guest and carry their luggage, they cook and serve their food, they pour their drinks, and they clean their rooms and make their beds. Without the positive impact of their efforts and the hard work they put in day in and day out London would simply not be enjoying the record numbers return visitors it is currently enjoying.

Yet despite often working for highly profitable brand name hotel, restaurant and contract catering companies our members do not feel in any way rewarded for their contribution and do not see that they have received any real share in the success of the sector. There are currently no employers within London's hospitality sector who independently endorse and pay their employees the London Living Wage. Many of our members are forced to live on little more than the National Minimum Wage. Many report suffering pay freezes, pay cuts and constant attacks on their terms and conditions of employment.

Our view is that little has changed or improved in the **40** years that Unite has been representing workers in this sector. Our members are as lowly paid and badly treated now as they were then. In fact in real terms their pay has probably deteriorated, spurred on in no small part by the abolition of the Wage Council system in the mid eighties.

Our conclusion, based on our direct experience and that of our members, is that employers in this sector are **hopelessly addicted to low pay**. We see that that they constantly display the type of behaviour and conduct that would be normally be associated with someone in the grips of an addiction.

Denial

The most difficult task for any addict to admit that there is a problem.

For years now employers in the sector have been in a state of complete denial, refusing to face up to the truth of the impact this **addiction to low pay** has on the sector. They constantly decry the negative public perception of the type of work offered in hotels, bars and restaurant and engage in all sorts of cosmetic exercises apparently designed to improve the image of the industry, while failing to tackle the root causes of the problem. Wherever the extent of the problem is exposed they bury their heads in the sand and resort to rhetoric, suggesting that it is a *few rogue employers* who tarnish the reputation of the sector.

Blame and Excuses

An addict in denial will blame everyone and everything else for causing the problem and come up with all sorts of excuses to justify their actions.

Over the past decade our members have had to endure all sorts of excuses for the continually being underpaid and undervalued, with employers laying the blame of any issue that seems to them to be current and convenient – foot and mouth, the threat of terrorist attacks and the weather, are amongst the excuses which have been made for holding pay down – yet the profits continue to roll in, while year in year out our members are consistently worse off.

The current line hospitality sector employers seem to be taking is that their priority is to create jobs rather focusing on issues such as the Living Wage– however all the evidence points to majority of these *new* jobs being part time, temporary, zero hours and predominantly low paid – thus doing little more than perpetuate the problem.

Destructive Consequences

Addiction has disastrous destructive consequences.

For our members this manifests itself in a deep rooted and institutionalised culture of workplace bullying and harassment, poor health and safety conditions and a cavalier hire and fire attitude.

For the industry this then translates itself into disproportionately high staff turnover, endless skill shortages and hard to fill vacancies, constant problems with attendance and absence levels and an endless stream of complaints by workers to Employment Tribunals.

Craving for more

Addicts crave ever-stronger doses of the thing to which they are addicted.

And so hospitality employers seem obsessed with driving down wages even further. Examples of this range from large hotels subcontracting entire housekeeping departments to third party agencies who then mount ruthless attacks on the pay and conditions of staff who may have been loyal to the hotel for many years, to employers forcing through pay cuts for direct employees, taking for granted that the State, through the benefits system, and the

customer, through tips and service charge, will subsidise poverty wages and endlessly seeking out the next wave of migrant workers who may be willing to accept even lower pay than their predecessors.

Resistance to intervention

Because they are in a state of denial addicts are often resistant any attempts at positive intervention.

This manifests itself in a number of ways within the hospitality sector.

Hostile and aggressive resistance to any attempts by workers to organise in favour of collective bargaining. We have chapter and verse on numerous cases of direct and unashamed victimisation against active trade union members seeking to organise within many well known brand names within the hospitality sector.

In tandem with this the sector makes wild, unfounded and exaggerated claims about the allegedly negative impact of any form of statutory legislation that may be to the minimal benefit of workers and constantly lobbies to weaken or abolish employment laws and regulations.

Failure to stick with the programme

When an addict is given help they occasionally *fall off the wagon*.

Many of our members work for large catering contractors who are sub-contracted to provide the hospitality and catering services for bank and finance sector employers who have themselves endorsed the Living Wage. The contractors are therefore required to pay at least the Living Wage rate as part of the contractual arrangements with their clients.

Even in these circumstances hospitality employer cannot seem to break their addiction and have managed within the restraints of this framework to revert to old habits.

The common experience of our members in these contracts is as follows.

Firstly for the first three or four years after the London Living Wage is implemented there will be a pay freeze for all those on hourly rate higher than the rate. This erodes differentials and reduces the value of the pay in real terms for those caught up in this freeze.

Secondly incoming staff will inevitably be on worse terms and conditions in relation to elements such as holiday pay, sick pay, over-time premiums than existing employees and existing employees will be placed under constant pressure to give up terms and condition which are beneficial.

Thirdly under the guise of restructuring the total hours within the contract will be reduced, resulting in redundancies and cuts in contractual hours for those who remain.

Fourthly there will be an increase in casual and zero hour employment.

So while the headline is that the contractor is honouring the principle of the client's positive commitment to the Living Wage rate they are at all times effectively robbing Peter to pay Paul by constantly pushing down all elements of pay and conditions other than the published Living Wage hourly rate.

Impact on Family

The most severely affected people associated with an addict are often members of their immediate family.

Our members regularly complain that they are treated in an outdated and old-fashioned paternalistic manner by their employers - told that they are part of one big family and severely reprimanded like children whenever they are perceived to have spoken out of turn.

Here in the words of some of our members is how this **addiction to low pay** on the part of their employers directly impacts directly upon them as members of the hospitality family.

"I joined my company in 2007 - after 6 months my wage increased from £6 an hour to £6.50 an hour. Since then I have had no increase, but my workload increases all the time. I have spoken to my manager but all I get is threats and bullying."

"I am paid £8 an hour. My duties as a chef include training the staff and all the paperwork. My manager is always rude to me and threatens I will lose my job if I complain about my conditions."

"The pressure is always on to work more hours with less staff. The company are in the Dark Ages when it comes to the treatment of staff. They are making good profits but they don't reward us in any way."

"I work at least 50 hours each week just to make ends meet. The staff who work in my department are paid £6.50 an hour and people always leave because it's not enough to live on in London. Everyone is too afraid to talk to the company about this."

"I am paid £7.50 an hour, which is not enough to live on. Sometimes I work more than 60 hours a week just to pay my bills. At my age it is not easy. This is so unfair."

"I have not had a pay rise for over 6 years. I am paid £7.90 an hour. I am supposed to work 40 hours a week but my employer cuts this to 30 whenever she feels like it."

Unite believes that in these circumstances a sector which should be London's pride is in fact in reality London shame.

In specific response to the key questions the GLA Economy Committee is seeking to address we would state the following.

- The existence of low pay within London's vital hospitality sector is persistent and deep rooted and our members who work within the sector are amongst the most at risk and the most vulnerable to its effects.
- We believe that it is entirely realistic and feasible for the Living Wage to become the norm within the hospitality sector by 2020. It is certainly desirable on the part of our

members. We believe the Living Wage would have a positive impact on the problems of high staff and skill shortages that have plagued the sector for decades. We believe that the adoption of the Living Wage would enhance London's reputation as a world-class tourist destination fit for the 21st century.

- Getting at least one major employer within the hotel, restaurant or bar sector to endorse and fairly implement the Living Wage would be the key Milestone and defining moment for achieving this goal.
- We believe that the greatest incentive to encourage employers within the sector to implement the Living Wage is consumer power. We saw the positive impact of this in tackling abuses of worker's tips during Unite's successful Fair Tips Campaign. We believe the GLA and other public bodies, major organisations within the voluntary sector and employers who have already themselves endorsed the Living Wage should adopt a specific policy of publicly stating that they will give *preferred status* to hospitality venues where the Living Wage is adopted in terms of hosting business meetings and conferences as well a social functions etc.
- Unite has been arguing for a number of years now that there needs to be a specific City Wide Hospitality Sector Agreement, providing minimum standards for pay and conditions hospitality workers and providing for non-confrontational access to trade union with a fair route towards the establishment collective bargaining.

Many of the global hospitality operators who have hotels, restaurants, bars etc. in London will be familiar with the type of sector approach that exists in many other European countries and with the concept of City Wide Agreements which have long existed within the Hotel sector in North America.

The type of framework agreement facilitated by the GLA and LOCOG and negotiated through the TUC in respect of contact catering, cleaning and security workers during the 2012 Olympic Games shows the positive impact this type of approach can achieve for all concerned.

Our experience to date suggests resistance to this concept by sector employers.

However, we would draw attention to the fact that the British Hospitality Association, though its affiliation to **HOTREC** (Hotels, Restaurants and Cafes in Europe) and Unite through its affiliation to **EFFAT** (European Federation of Food, Agriculture and Tourism Trade Unions) are both *de facto* signatories to an agreed protocol on Improving Social Corporate Responsibility in the Hospitality Sector. This protocol recommends that affiliated employers and trade unions to go beyond basic legal and contractual requirements on a range of issues, including fair pay, health and safety and equal opportunity. The protocol contains the following positive statement on dialogue between social partners within the sector.

A constructive social dialogue between employers, employers' associations, employees' representatives and trade union at all levels is an important element for a successful functioning of the sector and its enterprises.

Unite fully supports this principle.

We believe that in line with the precedent of the 2012 Games initiatives the positive intervention that the London Assembly could make within London's Hospitality sector would be to broker through its good offices a structured process of ongoing social dialogue based on the sound and forward looking principles laid down in the **HOTREC / EFFAT** Protocol.

We believe this would provide a definite and concrete step towards the objective of making the London Living Wage *the norm* within the hospitality sector by 2020.

Unite stands ready to engage in this of constructive social dialogue

Our question is will Hospitality employers, who benefit enormously from being able to conduct their business in one of the world's top tourist destination, be able to display a sufficiently progressive socially inclusive approach that would enable them to rise to this challenge?

Or will they simply remain – *hopelessly addicted to low pay?*

Kevin Curran
(Chair – Hotel Workers Branch)

Hugh O'Shea
(Secretary – Hotel Workers Branch)

Kieran Duffy
(Chair – Restaurant and Bar Branch)

Yara Vieira da Silva
(Secretary – Restaurant and Bar Branch)

Dave Turnbull
(Regional Officer – Food and Drink Sector)

LONDON ASSEMBLY

Consultation Submission – Low pay and the London living wage

**By Professor Len Shackleton, on behalf of the Institute of
Economic Affairs**

Summer 2013



Institute of
Economic Affairs

About the author

Professor Len Shackleton joined Buckingham in September 2011 as Professor of Economics. He was previously Dean of the Royal Docks Business School at the University of East London and prior to that was Dean of the Westminster Business School. He has also taught at Queen Mary, University of London and worked as an economist in the Civil Service. His research interests are primarily in labour economics. He has worked with many think tanks, most closely with the Institute of Economic Affairs, where he is an Economics Fellow. Professor Shackleton has over a hundred publications to his name and is a frequent commentator on TV and radio.

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The Living Wage is an idea with roots in history, as a demand from the working-class movement (often associated with the idea of a “family wage” which would enable a male worker to keep his family in comfort while excluding women from most forms of paid work) but also as something advocated by the Catholic Church, a 19th and 20th century version of the much older “Just Wage”. It certainly has a strong appeal across the political spectrum: it is supported by people from all major parties.

The particular London version of the Living Wage, unlike the National Minimum Wage, is calculated with no reference to employers’ ability to pay. Rather the London Living Wage (LLW) represents a hybrid of two approaches: a ‘Low Cost but Acceptable’ budget (agreed by focus groups) for four stylised households with different working patterns and family commitments, and a statistical indicator (a figure which represents 60% of the London median income for each household type). The resulting measure is grossed-up to allow a margin for unanticipated expenses.

The Institute of Economic Affairs would make the following points:

- The procedure for calculating the LLW, though defensible, is arbitrary and requires stronger justification than is currently offered. Given variations in tastes and attitudes, and what we know in practice about how people manage budgets and switch between consumption patterns, more analysis of actual spending patterns is needed.
- Given the methodology adopted, it seems inevitable that the LLW will rise over time and thus be a continuing challenge to employers, particularly those operating at the margins of profitability.
- The LLW would already cost more than the headline £8.55 per hour to implement. Employers would have to pay extra for national insurance contributions and the new pension scheme, taking the cost to over £9 per hour.
- It would be significantly more expensive for some employers than for others. In a recent paper the Resolution Foundation estimated that the national version of the Living Wage alone (ie. £7.45) would add around 5% to labour costs in retailing, and more in hotel and bar work. Yet in banking the impact would only be around 0.2%. The support of some employers for the LLW should not be taken to represent a general consensus.
- The LLW is so much higher (more than a third) than the national minimum that it would almost certainly trigger higher pay for other workers as well. The NMW is paid to those who, for various reasons, display low productivity. Those who are currently paid £8.55 an hour are more productive (perhaps because they are more experienced) or work in more difficult environments. They need to be paid more than NMW workers to compensate for this, and the implementation of the Living Wage would ultimately shift their wages up as well. This was a concern with setting the NMW as well, though given the conservative policy adopted by the Low Pay Commission, this has not in practice been an issue: a general rise in pay of the magnitude suggested is another matter.
- Large increases in labour costs imply that prices would rise and employment would fall. Concentrating on the latter: without a proper microsimulation of the effect, such as the Institute for

Fiscal Studies might be able to provide, estimates of the size of this effect are extremely speculative. GLA Economics ought, however, to have a stab at doing so.

- To set the ball rolling, here is a back-of-the –envelope estimate. GLA Economics figures suggest that around 700,000 London workers are currently earning less than the LLW hourly rate. If they were to achieve an average 15% increase in hourly pay, and the wage-elasticity of demand is say 0.3 (a middle-range estimate from empirical work), this would seem to imply a loss of more than 30,000 jobs. However, many of these workers are part-timers, so some of the effect may be felt more in reduced hours and more intensive work (for instance, more offices to be cleaned in an hour). There may also be significant displacement of work from the formal to the shadow economy.
- Estimates that the cost to the taxpayer of in-work benefits will fall need to be set against possible increases in out-of-work benefits and reductions in tax revenue and NI contributions if unemployment is increased.
- The main beneficiaries of the LLW, assuming that they kept their jobs, would be part-time workers and young people. These are the major groups (they overlap) which currently earn less than the proposed Living Wageⁱ. Part-time workers usually have some other source of income or financial support (such as other family members), while the needs of young people are rather less than those of prime-age workers). The real poverty in London lies with those who are not in work at all, and the implementation of the LLW will do nothing to improve their chances of a job – rather, as we have suggested, the reverse.
- There is a danger that the living wage could entrench long-term unemployment for some groups, which is highly damaging socially because people's skills deteriorate and they may find it more and more difficult to get jobs at higher wages.
- Part-time workers earning the LLW will not, of course, be able to maintain the living standards assumed by its advocates if they are only working a few hours: to that extent, the “Living Wage” is a misnomer.
- And as many low-paid workers are young, the question which this raises is whether the LLW should only apply to adult workers? If 16-year-olds are to be paid £8.55 an hour, there will be very few of them employed. Should the LLW have youth rates, like the National Minimum Wage?ⁱⁱ If so, what should they be? Depending on this answer, there could be a substitution of young workers for older workers who might be more at risk of poverty.
- It is often suggested that there are improvements in employee productivity and job satisfaction for firms which pay the Living Wage. However this may in part be selection bias: firms paying more attract large numbers of applicants, enabling employers to choose better-quality staff.
- It is very easy for a firm to employ less labour and more capital in many situations and therefore be able to promote the fact that it has a highly-remunerated workforce - this is what is seen. Meanwhile, not only is the unemployment (not necessarily fewer full time jobs, remember, but perhaps fewer hours for part-time workers) the unseen effect but the businesses that are providing opportunities to the people squeezed out by the firms that pay the LLW may then be vilified unfairly.

- Note that the Living Wage principle is international, and there is considerable experience now in the United States of how this works in practice.
- In many US cities there are Living Wage ordinances which impose a Living Wage, much higher than the state and federal minimum wages, on companies which are under contract to the city, and/or which receive some form of business assistance. These seem to have reduced employment, bringing modest gains for some workers and losses for others. The overall impact on poverty has been slight.
- GLA Economics needs to look at this experience. [A useful survey is provided by Neumark, Thompson and Koyle (2012)].

In conclusion, there are still many unanswered questions about the London Living Wage, including its calculation, which at the moment lacks a strong basis in theory, its applicability (to all workers, or just adults?) and how it is to be encouraged.

It seems highly unlikely that there will be a spontaneous move towards full implementation of the LLW across the entire London workforce. Some more major employers may well adopt it, although they are likely to be those who employ vanishingly small numbers of low-paid workers and who can afford to pay it without significant increases in cost. If the London Assembly wishes to give out badges to “LLW Employers” this may do little harm, though the danger is that it will simply be an exercise in self-congratulation.

To move towards requiring the LLW for all organisations providing services to local authorities in London would be a bold step and would clearly have some impact. However it would make it even more difficult for smaller businesses, especially family businessesⁱⁱⁱ to obtain public sector contracts. Experience with extraneous requirements for public contracts has not always been very good, either: apart from raising costs, there are always ways in which employers who do not share the commitment to the principle may get around the obligation, by sub-contracting and other devices.

It is also possible that requirements of this kind might fall foul of European law, or in the domestic context might lead, given the fairly arbitrary nature of the LLW calculation, to judicial review.

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- ⁱ Though it is worth noting that adult full-time workers in some minority ethnic groups (for instance, those of Pakistani heritage) would be gainers if they kept their jobs.
- ⁱⁱ There is also an issue about those employers providing accommodation to employees: this can be offset against the National Minimum Wage: should this also be the case with the LLW?
- ⁱⁱⁱ Employees in such businesses are known to have strong positive feelings towards their employer despite relatively modest pay (Siebert et al 2011).

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- W.S. Siebert, Y. Maimaiti, F. Peng and R. Pearce-Gould (2011) "HRM practices and performance of family-run workplaces: evidence from the 2004 WERS" Paper presented at the Work Pensions and Labour Economics Study Group Annual Conference, July.



GLA Economy Committee Inquiry: Low pay and the London Living Wage

Submission from Child Poverty Action Group

August 2013

**Child Poverty Action Group
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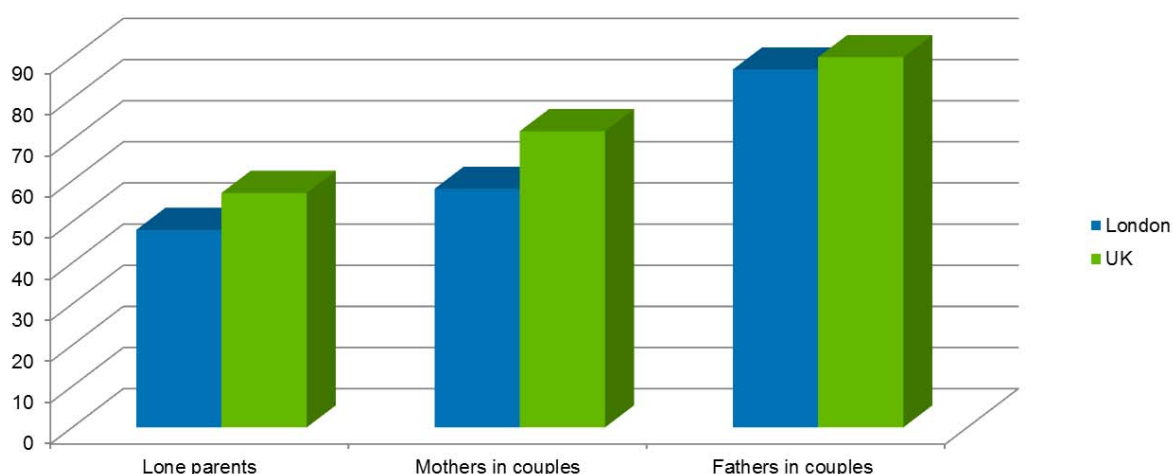
Introduction

1. CPAG promotes action for the prevention and relief of poverty among children and families with children. We run a specific campaign focusing on poverty in London, where 36 per cent of live in households below the poverty line.¹
2. One principal reason for the high rate of poverty among children in London is the fact that parents are much less likely to be able to work in the capital than elsewhere. There is a nine percentage point gap between the proportion of lone parents working in London and the UK average, and a fourteen percentage point gap between mothers in couples in London and the UK average. As we set out below, low wages in London act as a disincentive for parents considering a return to employment.
3. But the combination of low pay and high housing costs means that being in work is often insufficient to lift families out of poverty, and over half of children in poverty in London live in households in which somebody is in paid work. At the lower end of the London labour market, the high costs associated with living in London are not compensated by a pay premium.
4. This submission considers both low pay as a barrier to employment, and the impact of low pay on poverty in the capital. We then discuss potential policy solutions.

Low pay as a barrier to employment

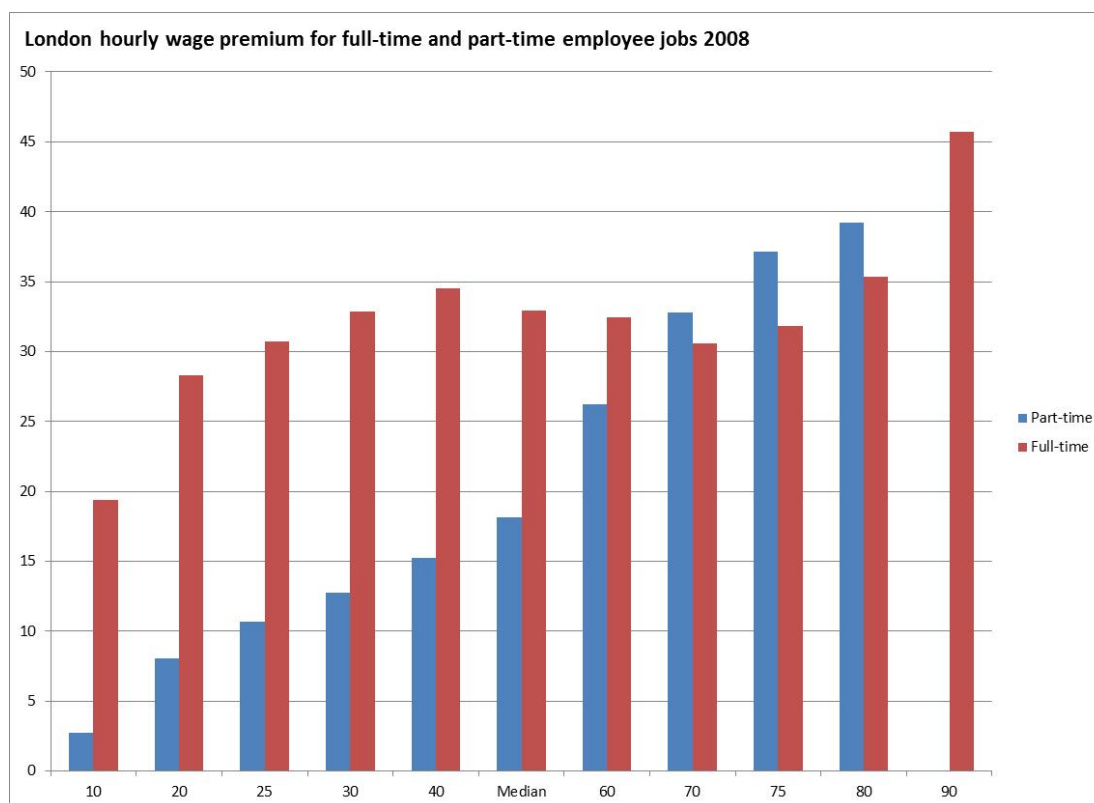
5. A critical factor underlying London's high child poverty rates are the low rates of maternal employment in the capital. There is a nine percentage point gap between the proportion of lone parents working in London and the UK average, and a fourteen percentage point gap between mothers in couples in London and the UK average.

Employment rates among parents in London 2011 (% in employment)



¹ Figures for 2011/12. Defined as living below 60 per cent of equivalised median income After Housing Costs.

6. One contributory factor to low rates of maternal employment in London may be that low pay in London means that the high rent and childcare costs encountered in the capital are not compensated for. Private rental market statistics suggest that average rents in London for a two bedroom property are over twice as expensive as the average for England.² The Daycare Trust find that the average cost of a nursery place in the capital is 24 per cent above the national average.³ However, whilst at the middle of the labour market these costs may be in part compensated for by London wage premiums, for parents looking for jobs at the lower end of the Labour market, these premiums are lower, particularly for parents working part time, as shown in the chart below.



Data from Office for National Statistics, Annual Survey of Hours and Earnings, 2008. Chart reproduced from D Gaffney 'Trends in child poverty and parental employment in London' K Bell (ed) (2012) *We can work it out: parental employment in London* Child Poverty Action Group.

7. The labour market think tank Inclusion also found that the high costs of childcare and housing means that Londoners are less well catered for by the tax and benefit system when they move into low paid work. In research for London Councils they found that under the new Universal Credit, *"all household types in London will have lower gains from working than in the rest of the country when moving into low paid work."* For example, *"The spending power under Universal Credit for a single parent with two children for a 'mini' job of 6 hours (at minimum wage) will be £8,434 per year in*

² Private Rental Statistics published by the Valuation Office Agency in May 2013, available at: http://www.voa.gov.uk/corporate/statisticalReleases/130530_PrivateRentalMarket.html

³ Rutter, J. with Evans, B. (2012) *2012 London childcare report* Daycare Trust. <http://www.daycaretrust.org.uk/data/files/publications/49/London-childcare-report-2012.pdf>

London. This compares to £9,482 per year nationally. The Londoner is worse off by £1,048 annually.⁴

8. It is clear that balancing wages, in work benefits, childcare, housing costs and the cost of free school meals are important when parents are considering a return to employment. In recent research in a central London borough investigating the costs of childcare, we found many parents concerned that work might not pay:

Rebecca: About the working tax credits when you go back to work the job centre tells you about what you are entitled to and everything. So when they tell you that you are going to go back and you are going to get total tax credits when you start working full time and they do give the tax credits everything goes up, everything you have to pay for. So with that you have to pay your rent, so by us just getting tax credits because that's not enough. That's not enough because you have got your rent, you've got your council tax, you've got everything and then you have to pay for your own childcare. So working tax credits is not enough for childcare...

Margaret: [in response to hypothetical example of someone getting job at £6.50 an hour] She wouldn't be able to afford it, she's got two kids and both of them are going to be in childcare, £6.50 an hour isn't going to cover the way for the childcare.

June: There is no point paying for childcare because when you work, if you don't work 16 hours, because I had a job before and if you are on income support, but you don't work 16 hours you only get to keep the first £20 of what you make. After the first two hours you are working for free. If you have got to pay for travel and then pay for childcare you are basically working for nothing, it is voluntary, there is no point.

Desiree: I agree with you, this is a problem. I am working to give all my salary to child care. I stay with my kids, it is better for me.

9. The combination of low pay, high housing costs and childcare costs, and a tax and benefit system that fails to compensate for these therefore may be deterring many London parents from entering the labour market.

Low pay and in-work poverty

10. The relationship between low pay and in-work poverty is complex, with rates of in-work poverty (when measured after housing costs) determined by:
 - a. The number of hours worked by the adults in the household
 - b. The rate of pay
 - c. The effectiveness of the tax and benefit system in meeting the costs of children, and in compensating for low wages; and

⁴ CESI (2011) *Making work pay in London under Universal Credit: A report for London Councils* CESI.

d. The cost of housing.

11. However, it is clear both that London has a high rate of in-work poverty, and substantial numbers of people who are low paid. London's Poverty Profile, produced by the New Policy Institute and Trust for London suggests that between 2008/09 and 2010/11, of the 610,000 children living in poverty, 360,000 (59 per cent) lived in a household in which somebody was in work.⁵ Research by the Queen Mary University estimates that 580,000 workers in London are paid at wage levels below the London Living Wage.⁶
12. Because of the operation of the tax and benefit system under which benefits are withdrawn as incomes increase, the impacts of an increase in wages would not all reach families' pockets. Nevertheless, research by the Resolution Foundation and IPPR shows that the gains for households who would benefit from universal coverage of the Living Wage (across the UK) are still significant in cash terms, as set out in the table below.

Gains for families if all employees were paid at least the living wage.

	Average annual net income	Average increase in net income	Average % change in net income
Lone parent	£22,612	£398	1.8%
Couple with children	£31,549	£614	1.9%

Adapted from Table 3 in K Lawton and M Pennycook (2013) *Beyond the bottom line, The challenges and opportunities of a living wage* IPPR and Resolution Foundation.

13. However, because much of the additional income gained from implementing a Living Wage would be withdrawn in terms of tax and benefits, this means that together with the increased tax and national insurance contributions involved, implementing a Living Wage in London would result in significant savings for government. IPPR and Resolution estimate that if all employees in London were paid at least the London Living Wage, the Treasury could save around £691 million a year.⁷
14. This is money that could be invested in additional initiatives in London in order to ensure that work pays for families. These might include an additional disregard within Universal Credit for families, allowing parents to keep more of what they earn before benefits start to be withdrawn. This would enable families working in London to better

⁵ See <http://www.londonspovetryprofile.org.uk/indicators/topics/income-poverty/child-and-adult-poverty-and-work/>

⁶ Jane Wills and Brian Linneker (2012)

⁷ K Lawton and M Pennycook (2013) *Beyond the bottom line, The challenges and opportunities of a living wage* IPPR and Resolution Foundation.

meet the high costs associated with living in the capital. Alternatively, any savings made as a result of more widespread adoption of the Living Wage (or a higher national minimum wage in London, as discussed below) could be invested directly reducing childcare costs.

15. CPAG therefore strongly support efforts to encourage wider take up of the Living Wage. These might include:
 - a. All London Local Authorities and other public sector bodies operating within London adopting a living wage policy;
 - b. The London Enterprise Panel taking a leading role in promoting the benefits of the Living Wage to private sector employers within London, and working with the Living Wage Foundation to offer positive publicity to those organisations that have taken this up.
16. We also support the Resolution Foundation's recommendation that the Low Pay Commission investigate the case for a higher statutory national minimum wage in London.⁸
17. We suggest that adoption of these policies is accompanied by efforts to ensure that parents in London can keep more of what they earn in order to meet essential living costs, and that the earnings disregard within Universal Credit is increased for parents living in the capital. An additional disregard for parents in London could replace the 'in-work credit' currently available to lone parents returning to work, which is due to be abolished in October 2013.⁹

18. About CPAG

CPAG promotes action for the prevention and relief of poverty among children and families with children. To achieve this, CPAG aims to raise awareness of the causes, extent, nature and impact of poverty, and strategies for its eradication and prevention; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement. If you are not already supporting us, please consider making a donation, or ask for details of our membership schemes, training courses and publications.

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⁸ A Manning (2012) *Minimum wage: Maximum impact*

⁹ See <https://www.gov.uk/in-work-credit/what-youll-get> for details.

Child Poverty Action Group is a charity registered in England and Wales (registration number 294841) and in Scotland (registration number SC039339), and is a company limited by guarantee, registered in England (registration number 1993854). VAT number: 690 808117

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Intern Aware response to the Low Pay and the London Living Wage Consultation

Unpaid internships are a growing problem for young people in London, causing those who cannot afford to work for free to risk being excluded from the professions. This submission aims to argue that the London Assembly's *Low Pay and the London Living Wage Commission* cannot afford to ignore the problem of casual, often unpaid work that young people undertake in an attempt to establish themselves in a certain career.

The vast majority of internships are located in London, e.g. 80% of law internships¹, 61% of PR internships (PRCA/Intern Aware)². The LSE estimates that a month's living costs for a young person in London amounts to £1,000, a substantial cost given that most internships last between three to six months. This need to relocate compounds the problems of a lack of payment.

Research on unpaid internships as an issue is piecemeal and sporadic. The last authoritative study was undertaken by the IPPR in 2010, finding that there were likely to be 100,000 unpaid internships, with the majority in London³. No subsequent piece of analysis has been released since, to the detriment of policy makers who thus find it more difficult to take concrete action on the basis of little evidence⁴. However, polls and statistics taken from more broad surveys and research, as detailed below, does indicate that unpaid internships remain a major problem.

Similarly, as was noted in the Low Pay Commission's 2013 report, no pay/low pay jobs, especially the creative industry which is overwhelmingly based in London, are increasing⁵. In the tourism and care giving industries, there are further concerns that the National Minimum Wage is being ignored and disregarded⁶.

1

<http://webarchive.nationalarchives.gov.uk/+/http://www.cabinetoffice.gov.uk/media/227102/fair-access.pdf>

² <http://www.prca.org.uk/%5COver7pcofPRInternshipsareunpaidrevealsjointPRCAInternAwarestudy>

³ http://www.ippr.org.uk/index.php?option=com_ippr&view=publications&old_id=765

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/200303/supporting-doc-foi-130498-annex-d.pdf

⁵ http://www.lowpay.gov.uk/lowpay/report/pdf/9305-BIS-Low_Pay-Accessible6.pdf

⁶ http://www.lowpay.gov.uk/lowpay/report/pdf/9305-BIS-Low_Pay-Accessible6.pdf

Whilst the Living Wage remains a highly commendable and important goal, essential to combatting poverty in London, non-compliance with the lower National Minimum Wage still occurs on a regular basis. It is important therefore, that the London Assembly examines this as part of the Low pay and the London living wage consultation, and uses its influence to challenge decision makers in the public and private sectors, regarding their use of staff who are paid below the National Minimum Wage.

The London Assembly should, therefore, look to use the investigation on Low pay and the London living wage to investigate possible illegal low pay jobs including internships, and establish a clear GLA policy on their use.

The facts on internships

- Interning is becoming a pre-requisite for graduates and school leavers looking to access the professions. In his role as the Government's adviser on social mobility, Alan Milburn reported in March 2012 that over 30% of newly hired graduates had previously interned for their employer, rising to 50% in some sectors.⁷
- The 2012 Wilson Review into business-university collaboration found that "lack of work experience appears as a key barrier to young people, including graduates, in securing employment".⁸
- The National Council for the Training of Journalists (NCTJ) found in their 2013 report that 82% of new entrants to journalism had done an internship, of which 92% were unpaid.⁹

Unpaid internships are unaffordable

- However, it is impossible for many young people to intern because unpaid internships are unaffordable. In the largest online UK internship survey to date, 87% said they were paid nothing or below the NMW.¹⁰ The IPPR has estimated that there are over 100,000 unpaid internships.¹¹
- Most interns are unable to claim Jobseekers Allowance (JSA) as they are unavailable to accept offers of employment and attend Jobcentre Plus interviews.
- Two out of five (43%) people aged between 18 and 24 believe unpaid internships act or have acted as a major barrier to getting a job.

⁷ <https://www.gov.uk/government/publications/fair-access-to-professional-careers-a-progress-report>

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32383/12-610-wilson-review-business-university-collaboration.pdf

⁹ http://www.nctj.com/assets/library/document/j/original/jaw_report_final.pdf

¹⁰ <http://www.guardian.co.uk/money/2011/nov/04/interns-work-paid-lawyers>

¹¹ <http://www.ippr.org/publication/55/1788/why-interns-need-a-fair-wage>

(YouGov, 2012).¹² Two out five (40%) people who thought about applying for an internship have reconsidered because they couldn't work for free, while two out of five (39%) of people offered an internship have to turn it down for financial reasons. (YouGov, 2011)¹³

- In a recent poll for Intern Aware by Survation, 84% of people over 35 said that a young person in their family could not afford to do an unpaid internship in London.¹⁴

Unpaid internships are unpopular

- 62% of people believe interns should be paid NMW. 65% of people want the Government to intervene to reform internships. (YouGov, 2011).¹⁵

The legal position on internships

- Most interns have set hours and responsibilities and are therefore “workers”, and entitled to the NMW. This is confirmed in the Government’s Common Best Practice Code for High Quality Internships.
- The Low Pay Commission said in 2012 “we [continued] to receive evidence of apparent breaches of the NMW rules” with regard to interns.
- There is a lack of awareness about the law. Just 12% of employers are aware of their legal obligations to pay interns if they are “workers”.¹⁶
- 80% of young people are unaware of the Government’s Pay and Work Rights Helpline.¹⁷
- Young people are unable to secure their right to be paid using company grievance procedure or negotiations with their employer due to this lack of clarity. This is increasingly leading to employers being reported to HMRC rather than issues being dealt with by internal processes.
- Breaking Minimum Wage Law can lead to criminal prosecution, but very little guidance is given about when and how this would take effect, causing worry amongst some employers.

¹² <http://www.guardian.co.uk/money/2012/dec/01/interns-rebel-against-unpaid-placements>

¹³ <http://yougov.co.uk/news/2011/03/23/investigating-internships/>

¹⁴ <http://www.tuc.org.uk/economy/tuc-22040-f0.cfm>

¹⁵ <http://yougov.co.uk/news/2011/03/23/investigating-internships/>

¹⁶ <http://www.hrmagazine.co.uk/hro/news/1019042/unpaid-internships-break-law-managers>

¹⁷ <http://www.tuc.org.uk/economy/tuc-22040-f0.cfm>

- Where young people have taken employers to employment tribunals they have been successful.¹⁸ Working with employment lawyers, we have secured thousands of pounds for former unpaid interns.

¹⁸ <http://www.guardian.co.uk/media/2011/may/23/unpaid-website-intern-court-victory>



**Low pay in London and the
London Living Wage:**

Submission by
Trust for London

To the London Assembly – Economic Committee

August 2013

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About Trust for London

Trust for London is the largest independent charitable foundation funding work which tackles poverty and inequality in the capital. We support work providing greater insights into the root causes of London's social problems and how they can be overcome; activities which help people improve their lives; and work empowering Londoners to influence and change policy, practice and public attitudes.

Annually we provide over £7 million in grants and at any one point we are supporting some 400 voluntary and community organisations. Established in 1891, we were formerly known as City Parochial Foundation.

Trust for London welcomes the London Assembly's new investigation into low pay in London and the London Living Wage. This is a key concern for the Trust and an area which we have significantly funded, in particular our investment of £1 million over the last four years on increasing take up of the London Living Wage.

Through this investment the Trust:

- Fully funded the establishment of the Living Wage Foundation, which is the accreditation body for employers paying a Living Wage. Some 180 employers are now accredited including a number of local authorities, private sector companies, trade unions and charities.
- Funded the advocacy and campaigning activities of London Citizens.
- Funded key pieces of research including:

Wills and Linneker (2012) *Costs and Benefits of a Living Wage* - Queen Mary, University of London

Pennycook (2012) *What price a Living Wage?* - IPPR and Resolution Foundation

Lawton and Pennycook (2013) *Beyond the Bottom Line: The challenges and opportunities of a Living Wage* - IPPR and Resolution Foundation

- Established the London Living Wage Advisory Group, which meets three times per annum and includes representatives from the TUC, London Councils, Greater London Authority, Business in the Community, KPMG, London First and Joseph Rowntree Foundation. Members also include individuals from Trust for London, London Citizens and from the research and evaluation teams.

An independent evaluation of the strategic initiative will be available at the end of 2013. More details of the Trust's initiative can be found at:

www.trustforlondon.org.uk/special-initiatives/london-living-wage/london-living-wage-1.html

The Trust is keen to work with the London Assembly to take forward its work on low pay and the London Living Wage.

Is it realistic and achievable for the living wage to become 'the norm' for London's employers by 2020?

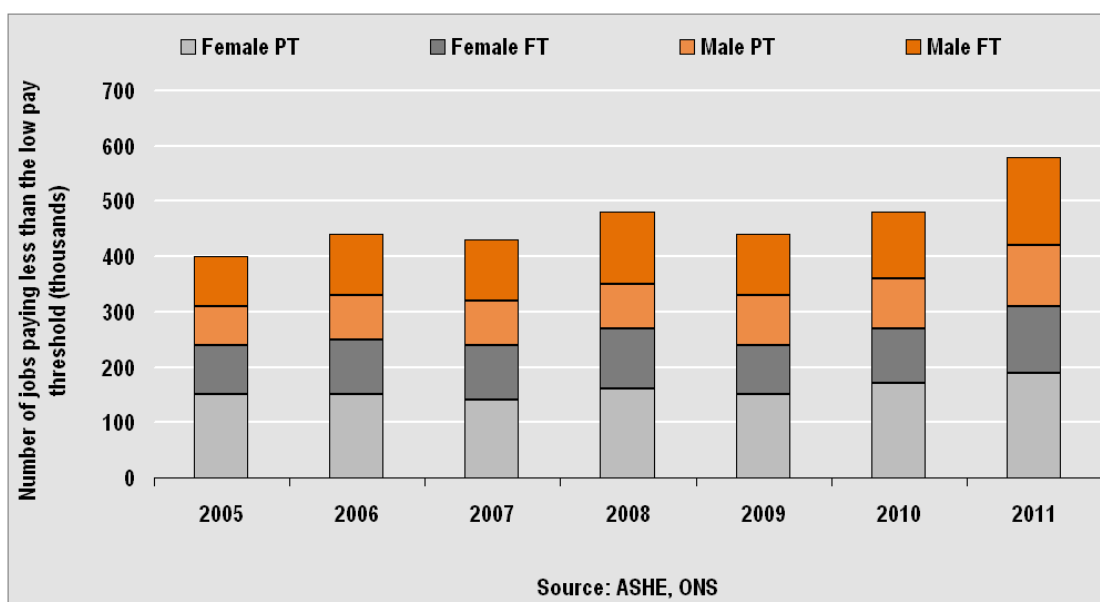
We welcome the Mayor's target of making the living wage the norm across the capital. However, this will require a quantum leap in the level of resourcing than has currently been available for this work. Over the last four years Trust for London has invested £1 million in its Living Wage strategic initiative. This set the framework for formally accrediting employers and to date around 180 employers have accredited. However, this is a small fraction of employers in London, and has benefitted a modest but sizable percentage of those who were previously low paid. Professor Jane Wills at Queen Mary, University of London has calculated that the London Living Wage campaign has benefitted 114,367 workers and this generated income for these workers of £177 million. This relates to the period 2005 to 2012¹.

However, with sufficient political will and significant investment and resources by a range of bodies (particularly by government bodies) this goal is achievable. Additional resources could be financial or in-kind and could take the form of funding advocacy work; using procurement policies to ensure the Living Wage is paid by deliverers of services; organising employer roundtables; a large-scale public and employer awareness campaign; increasing the resources available for accreditation; providing financial incentives to encourage employers to accredit as Living Wage bodies.

Whilst there has been some success in employers paying a London Living Wage (LLW) the trend in low pay is upwards. Trust for London's research shows that between 2009 and 2011 there has been a one-third increase in low pay. This is an increase from 440,000 to 580,000 jobs². This represents 16% of all jobs in the capital. The latest data from *London's Poverty Profile* (to be released in October 2013) shows that this has increased further.

¹ www.geog.qmul.ac.uk/livingwage/numbersandmoney.html

² MacInnes, Kenway and Parekh - *London's Poverty Profile* – New Policy Institute and Trust for London - www.londonpovertyprofile.org.uk/indicators/topics/low-pay/low-pay-over-time



In order for the LLW to become the norm it would require low pay and the Living Wage to become a central priority for the Mayor, the London Enterprise Panel, the London Assembly, London Councils and other bodies such as local authorities, public health bodies and central government. It would mean the Mayor would need to set much higher targets than he has currently set, which is 250 private sector employers paying the LLW.

And if so, how could 'the norm' be defined as a target?

The majority of London's employees are already paid above the LLW. However, the majority of London's employers do not pay at least a LLW to all of their staff (in particular staff they have contracted out e.g. catering, cleaning, security functions).

One way of measuring the norm could be that employers who employ at least half of London's workforce are paying at least the LLW to all of their employees working in London (including any contracted out staff they employ). However, this data would be difficult to collect.

It would be simpler to set a target of the number of low-paid jobs in the capital. As outlined above, in 2011 this was 580,000 jobs, representing 16% of jobs in the capital. A figure would need to be agreed as to what the 'norm' should be. For example, is the norm less than 10% of jobs, or should it be lower, say at 5%? Clear targets such as this could use existing data sources such as the Annual Survey of Hours and Earnings, produced by ONS to monitor progress.

This data could be supplemented by data from the Living Wage Foundation in relation to employers it is accrediting. A target would need to be set, but this would need to focus on the number of low-paid workers benefitting, rather than simply the number of employers accrediting. For example, there is a

significant difference between a large financial institution employing 50,000 workers accrediting (and only 200 of its staff are low paid), and a retailer employing 10,000 workers accrediting, but 5,000 are low paid.

What would be the milestones for achieving this goal?

There should be annual targets with scrutiny by the London Assembly.

What are the key drivers for low pay in the capital?

The UK has a much higher level of low pay than other OECD countries – more than four percentage points higher³. But it has not always had such high levels of low pay, declining rapidly during the 1970s and rising again in the 1980s. In part this decline has been a result of reduced bargaining power of workers (membership of trade unions has declined by half since the late 1970s) and labour market deregulation e.g. the abolition of wage councils. Linked to this there has been a rise in sub-contracting out of staff, particularly those in the lowest-paid jobs.

The increasing use of technology has led to a decline in demand for some low and mid-level occupations (that were better paid) that can be undertaken by computers and other automated processes. Other low-skilled jobs, such as cleaning and catering, cannot easily be done by computers, so demand has continued to grow for these workers⁴.

In addition whilst London has a high number of jobs, there is significant competition for them. Increasingly those with higher qualifications are being squeezed out of mid-level jobs and they are in competition for low-paid jobs with those with no/or few qualifications. This is likely to impact on wages, driving them down.

The prolonged economic downturn and wage increases not keeping pace with inflation has increased the incidence of low pay, with year-on-year increases since the start of the downturn. Recent research co-funded by Trust for London and undertaken by the LSE found that between 2006/08 and 2010, those living on the lowest incomes in London were hit hardest. Their incomes after housing costs fell by 24% in real terms compared with 3.5% nationally⁵.

³ OECD stat.extract; data for France and Netherlands refer to 2005, taken from Mason and Salverda (2010). Cited in Lawton and Pennycook (2013) *Beyond the Bottom Line – the challenges and opportunities of a living wage* (pg 20) IPPR/Resolution Foundation.

⁴ Lanning and Lawton (2011) *Getting what we deserve? Attitudes to pay, reward and desert* - IPPR

⁵ Lupton et al (2013) *Prosperity, Poverty and Inequality in London 200/01 – 2010/11* - www.trustforlondon.org.uk/media-centre/news/poorest-londoners-lost-quarter-of-income-in-crash.html

The National Minimum Wage (NMW) has done little to reduce low pay as it is set at levels far below the UK's low-pay threshold. There is also evidence that the NMW is not sufficiently enforced and this will impact on levels of low pay. For example, research undertaken by Queen Mary, University of London for Trust for London and Latin American Women's Rights Service showed that 11% of Latin Americans in the capital were paid below the NMW⁶. Further research commissioned by Trust for London on NMW enforcement and whether it is set at the right level in the capital will be launched in November 2013. This is being undertaken by Centre for London. The Trust strongly supports the need for greater enforcement and the need for a higher NMW level in the capital.

The higher rates of income are needed to take account of the very high level of costs in the capital, particularly housing. Looking at comparisons across the country, the Before Housing Costs poverty rate in London is similar to rest of England. But using the After Housing Costs rate, London has a higher poverty rate, a gap of 8 percentage points⁷. This clearly demonstrates the impact high housing costs has on London's poverty rates. The capital also has additional high costs such as childcare and this is linked to another key factor – the low levels of maternal employment in London.

What is the extent of persistent low pay in the capital and which groups are most at risk?

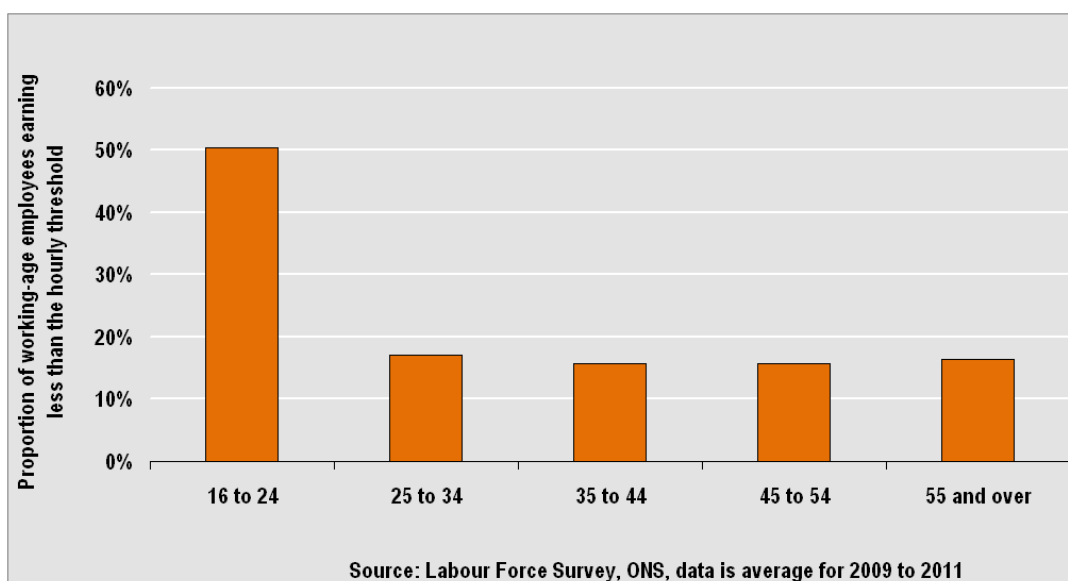
New research commissioned by Trust for London and undertaken by the Centre for Economic and Social Inclusion will provide new data analysis of who remains persistently low-paid and those cycling into low pay in London. This will be launched in autumn 2013.

Evidence from other research commissioned by the Trust suggests that young people are most at risk - half of under 25s earn less than the LLW⁸.

⁶ McIlwaine, Cock and Linneker (2011) *No Longer Invisible – the Latin American community in London* – Queen Mary, University of London & Trust for London - www.trustforlondon.org.uk/publications-research/migration-new-communities/new-research-highlights-that-the.html

⁷ MacInnes, Kenway and Parekh - *London's Poverty Profile* – New Policy Institute and Trust for London - www.londonpovertyprofile.org.uk/indicators/topics/income-poverty/poverty-before-and-after-housing-costs

⁸ MacInnes, Kenway and Parekh - *London's Poverty Profile* – New Policy Institute and Trust for London - www.londonpovertyprofile.org.uk/indicators/topics/low-pay/low-pay-by-age



Particular ethnic groups such as Bangladeshi, Pakistani, Black African, Black Caribbean and Indian are at more risk. 40% of Bangladeshi and Pakistani employees are paid less than the LLW. The rate for Black Africans is 30%. The rate for White British is 15%⁹.

Part-time workers are also likely to be more low-paid and account for half of all low-paid jobs in London. Among part-time workers, 47% of male jobs in London were low paid, compared with 38% of part time female jobs. But there were twice as many jobs with part-time women as men (490,000 compared with 230,000)¹⁰.

Some 28% of low-paid jobs in London were in the retail and wholesale sector in 2011, accounting for 160,000 jobs. 20% or 110,000 low paid jobs were in hotels and restaurants. Together, these two sectors accounted for half of all the jobs in the low-paid economy in London, though they represented only 15% of all jobs in London. This partly explains the geographical concentration of low paid jobs in Inner West London¹¹.

New data on low pay will be available with the launch of the new edition of London's Poverty Profile in October 2013.

⁹ MacInnes, Kenway and Parekh - *London's Poverty Profile* – New Policy Institute and Trust for London - www.londonpovertyprofile.org.uk/indicators/topics/low-pay/low-pay-by-ethnicity

¹⁰ MacInnes, Kenway and Parekh - *London's Poverty Profile* – New Policy Institute and Trust for London - www.londonpovertyprofile.org.uk/indicators/topics/low-pay/low-pay-over-time

¹¹ MacInnes, Kenway and Parekh - *London's Poverty Profile* – New Policy Institute and Trust for London - www.londonpovertyprofile.org.uk/indicators/topics/low-pay/low-pay-by-work-sector

What is the right approach to addressing low pay in the capital, while maintaining London's competitiveness?

Research co-funded by Trust for London and undertaken by IPPR and the Resolution Foundation in 2012 found that many employers could afford to pay a Living Wage. The report analysed the likely impact of introducing the Living Wage as a new wage floor for a range of FTSE-listed businesses across a range of industry sectors. The report concluded that for many, especially in banking, IT and construction, the average upfront wage costs are affordable, representing less than a 1 per cent increase. This would not impact on competitiveness.

In other industries, such as retail and hospitality, where the proportion of lower-paid jobs is higher, the upfront costs would be higher, at between 4.7 and 6.2 per cent. So for these firms the report recommended a phased introduction, starting with a move to pay 90 per cent of the Living Wage.

Research commissioned by the Trust found that there were financial benefits to employers to paying a LLW. Queen Mary, University of London examined workplaces before and after they introduced the LW as well as comparisons with workplaces where the LW was not paid. Over 400 low-paid workers were surveyed, primarily those working as cleaners. This found staff leaving rates of low-paid workers fell by 25%, therefore reducing recruitment costs. Reputational benefits to companies paying the LW were significant, including helping to attract new business/customers and in recruiting staff to professional roles.

Wage cost increases associated with introducing the LW were 6% of the contract cost on average, despite low-paid staff receiving much higher increases in their hourly rate of pay (an average of 26%). The cost increase was mitigated through savings such as reviewing working practices, reducing management overheads and in some cases, reducing working hours. The research showed that the LW could be implemented, even in low pay sectors such as cleaning¹².

What would incentivise or assist employers to pay the living wage, including in sectors where low pay is widespread?

Phased introductions, as outlined above, are a positive way forward, particularly for those employers who would find it financially difficult to immediately move its low-paid staff to a LLW.

Financial incentives for employers may prove beneficial. Currently the main beneficiary of employers paying a LW is central government, as it sees increases in taxes and national insurance contributions, and a decrease in welfare benefit expenditure. Economic modelling of this has been undertaken in research commissioned by Trust for London. This shows annual savings to

¹² Wills and Linneker (2012) *Costs and benefits of a Living Wage* – Queen Mary, University of London & Trust for London - www.trustforlondon.org.uk/publications-research/new-analysis-funded-by-trust.html

central government of £823 million if all Londoners were paid the LLW¹³. Modelling undertaken by IPPR and Resolution Foundation found similar annual savings of £691 million¹⁴. Some of this could be used to provide a temporary financial incentive to employers to accredit to the LW.

It is important to create more LW employer champions, so that peer-to-peer discussion can be undertaken. There are a number of champions in the financial sector and our independent evaluation of the strategic initiative has found this has proved effective. However, there are few champions in the retail, hospitality and other low-paid sectors. There is the need to encourage leadership by sector bodies such as the British Retail Consortium in helping to disseminate information amongst its members on the LW. The Mayor could have a critical role in encouraging this.

Could living wage accreditation take account of alternative remuneration methods used in sectors such as retail and hospitality?

The growing popularity of the LW amongst the public is that it tackles the increasing phenomenon of in-work poverty. But allied to this is its simplicity. It is easy to understand, as it relates solely to an hourly wage rate. Low-paid workers can therefore quickly see whether they are being paid a LLW (currently £8.55 per hour). It is also straightforward for employers to understand.

Alternative remuneration such as tips, bonuses, staff discounts and benefits, add complexity to this, and it is therefore difficult to calculate whether someone is being paid a LW. It is difficult to implement – for example in relation to bonuses. If someone left an employer after nine months and did not receive a pro-rata share of the annual bonus paid at the end of the year, they would not be being paid a LW. Moreover, low-paid workers need their income spread over the course of the year (to meet daily living costs) not at the end of it.

Virtually none of these alternative remunerations are used to calculate whether someone is being paid the NMW and neither should they be used in relation to the LW. There is the danger that many other benefits such as staff pensions, refreshments at work, etc could be used to make up a LW. In addition, who calculates the financial cost of these benefits and would they be fair and accurate?

¹³ Wills and Linneker (2012) *Costs and benefits of a Living Wage* – Queen Mary, University of London & Trust for London - www.trustforlondon.org.uk/publications-research/new-analysis-funded-by-trust.html

¹⁴ Lawton and Pennycook (2013) *Beyond the Bottom Line – the challenges and opportunities of a living wage* (pg 20) IPPR/Resolution Foundation - www.trustforlondon.org.uk/publications-research/government-should-help-firms-pay-living-wage-1.html

Whilst this may lead to more employers accrediting, it is unlikely to change the reality of low pay for many workers – as the pure financial increase in wages is likely to be minimal if other benefits are included. Trust for London opposes any move towards including these alternative remuneration benefits.

What could be the potential for 'living wage zones' in the capital?

These are welcome but there needs to be a clear definition as to what this means e.g. what proportion of companies and proportion of the workforce are being paid the LLW to constitute an area being awarded LW zone status? If backed up with consumer action this could have positive impacts.

Could investment and pension funds, procurement policies and sponsorship agreements be better harnessed to support expansion of the living wage?

Yes, we strongly support this area of work. Trust for London recently funded ShareAction (formally known as Fair Pensions) to create a new London Investor Network which aims to use the leverage of major asset owners and the resources of companies operating in London to secure a wide range of positive outcomes for disadvantaged Londoners. An area ShareAction will be examining is the LLW. This builds on previous work undertaken by ShareAction which Trust for London and a number of other asset owners supported. This targeted FTSE 100 companies urging them to pay a LW, which a number agreed to do. We would strongly support asset owners joining this new Investor Network, including, GLA family and local authority pension funds.

How should the living wage campaign relate to other initiatives aiming to foster progression out of low pay?

It is important that the LW campaign is linked to other initiatives addressing low pay. This includes campaigns to strengthen the enforcement of the NMW, and to increase the quality of part-time jobs (so that they are not predominantly low paid – an initiative being undertaken by Timewise Foundation); as well as campaigns which address the high costs of living in London, particularly those relating to housing, childcare and transport.

Trust for London is part of a network of organisations working to address these issues (the London Child Poverty Alliance) and to co-ordinate work. The Living Wage can address issues of low pay and poverty and we strongly support the campaign but in itself it is insufficient to deal with the very high levels of in-work poverty in the capital.



London Assembly: low pay and the London Living Wage

TUC response

Introduction

The Trades Union Congress is the largest voluntary organisation in the country representing almost six million workers in all sectors and at all levels of employment. The TUC's regional body, the Southern & Eastern Regional TUC (SERTUC) speaks for 670,000 of London's workers as well as representing the wider interests of the workforce and their families. Any questions on this response can be addressed to its author Paul Sellers, TUC Policy Officer, or Megan Dobney, SERTUC Regional Secretary.

Making the living wage a pay floor for London

The TUC welcomes the chance to submit evidence to the current inquiry. Far too many people still live with low pay and poverty in the capital, and this must not be tolerated any longer. The GLA, unions and employers must work together to make London a place where everybody can earn a decent living.

The London Living Wage was first calculated by the GLA in response to an election pledge by Mayor Livingstone. The current Mayor has continued the practice of active support for the living wage. The London Living Wage was adopted by the GLA in April 2005. Since the 2012 Olympic & Paralympic Games uprating has moved to the autumn.

Mayor Johnson has pledged to increase the number of living wage employers in London. Most recently, his *Vision 2020* statement suggests that there should be a stronger target, namely that the living wage should become "the norm across the capital" by 2020¹.

The TUC shares the ambition to spread the use of the living wage, both across the public sector and throughout London's 800,000 private sector employers, to the extent that it becomes an effective minimum rate. It is inherently a noble aim to seek to help London's citizens to rise out of poverty.

The GLA poses a number of key questions that will help inform future policy. These questions are grouped around

¹ "2020 Vision", GLA, June 2013

the following areas:

- The extent of low pay in the capital, and how employers decide what to pay
- The right approach for addressing low pay
- Incentives for increasing the take up of the living wage
- How the living wage relates to other initiatives aimed to foster pay progression.

The following response sets out the TUC's view on these questions. The rationale for promoting the London Living Wage and incentivising further take-up form part of a coherent narrative.

1: The extent of low pay in the capital, and how employers decide what to pay

The extent of the problem.

Perhaps unsurprisingly, the lowest paid have fallen further behind during the recession. The evidence from the ONS Annual Survey of Hours and Earnings (ASHE) presented in the table below shows that in recent years those at the bottom end of pay distribution in London have experienced the weakest pay growth.

The broader context is that whilst the living wage threshold has kept up with inflation, pay settlements and average earnings growth have failed to do so, so that many workers have suffered real pay cuts. However, those at the bottom are likely to have the least labour market power and thus to suffer the most. The TUC's analysis of official data bears out that this has been the case in London.

A recent IPPR report mapped the extent of pay below the living wage. The study found that 16 per cent of employees in London fell below the living wage threshold².

² K. Lawton and M. Pennycook, "Beyond the bottom line: the challenges and opportunities of the Living Wage, IPPR (2013), p2:
<http://www.ippr.org/publication/55/10162/beyond-the-bottom-line-the-challenges-and-opportunities-of-a-living-wage>

TUC analysis of the published data from the ONS ASHE survey of employers, which is conducted in April every year, shows that since 2005 pay at the second decile (e.g. one fifth of the way up the earnings distribution) has grown far more strongly than at the lowest decile (one tenth of the way up the earnings distribution), or at the median (half way up the income distribution).

In short, those at the bottom have slipped back a little more in relation to middle earners, whilst those paid just above the living wage appear to have enjoyed better pay growth than either those at the bottom or in the middle of the earnings table.

London – employees’ gross hourly pay

	<i>Lowest 10 per cent earn less than</i>	<i>Lowest 20 per cent earn less than</i>	<i>Lowest 50 per cent earn less than</i>
2005	£6.31	£7.29	£13.40
2012	£7.29	£9.20	£15.74
Per cent change 2005-2012	15.5%	26.2%	17.5%

ONS annual survey of hours and earnings

Unsurprisingly, those who are lowest paid are disproportionately in the lower skill and elementary occupations that require no qualifications or very low-level qualifications³. The GLA should also note that the recently reported rapid spread of zero-hours contracts⁴ may impinge on the ability of the hourly living wage rate to deliver what is intended.

Good employment practice goes beyond the living wage. Getting pay up to a decent level is of course a necessary

(³) The issue is discussed in detail in successive Low Pay Commission reports. Note that a small number of industries and occupations may lose their concentration of low paid workers over a period of time. For example, footwear and clothing manufacture now only survives in the UK as high-end fashion work whilst, perhaps more positively, the security industry has been rapidly adopting the use of more technology, so the balance in the industry has been tipping towards better paid jobs.

(⁴) CIPD press release, 5 August 2013 -

<http://www.cipd.co.uk/pressoffice/press-releases/zero-hours-contracts-more-widespread-thought-050813.aspx>

condition, but good employment also needs to be regular and predictable, with decent conditions complementing decent pay.

Low pay persists in London

Looking in more detail at the lowest 10 per cent of earners in London gives us further insight into the location of low pay. The table below looks in turn at gender, certain industries and some occupations.

The first thing to note is that low pay disproportionately affects women, so any measure to increase pay will help to reduce the gender pay gap.

Gender is the strongest theme running through low pay. The administration workforce is largely female, and the social work heading includes low paid care assistants.

Skill is another strong factor, but as the table below shows, being in a skilled trade may not be enough to alleviate low pay in some cases.

London: 10 per cent earn less than:

<i>Employees</i>	<i>Gross pay per hour</i>
Men	£7.73
Women	£7.05
Admin and support service businesses	£6.13
Arts, entertainment and recreation industry	£6.57
Health and social work	£7.67
Elementary occupations	£6.08
Sales and customer service occupations	£6.19
Caring occupations	£6.62
Skilled trades	£7.02
Process, plant and machine operators	£7.06

Source: ONS ASHE survey 2012. Figs refer to April 2012

The key factors determining employers' decisions on pay levels

Employers usually have some choice about pay setting,

whether through collective bargaining or in cases where they unilaterally establish pay structures. Such choices are bounded by the constraints of ability to pay but thinking employers also consider both labour market intelligence and pay strategy, in a context of their own organisational history⁵. There is also a strong size effect, as big firms tend to pay more than small firms for the same type of job.

Nevertheless, there are also some persistent patterns so that certain industries and occupations are clearly identified as having a high incidence of low pay¹.

Clearly employers do not always choose to pay as much as they can. The school of economic literature that builds on the work of Card and Krueger⁶ argues that employers in the low paying sectors are “price-makers” who can, to some extent, impose low wages onto their workforce. The argument made is that certain industries suffer from conditions where employers have monopsony-like power⁷ that allows employers to hire workers too cheaply (dubbed neo-monopsony in the economic literature).

2: The right approach for addressing low pay

Action needed to combat growing in-work poverty

Londoners should not have to tolerate in-work poverty. We regard work as the best route out of poverty, but for many people this is not the case and low wages mean that employment does not provide the hoped-for escape route.

“There was an increase in the proportion of working-age adults in relative low income between the years 1998/99 and 2010/11 both before and after housing costs. The figures stayed around the same level between 1998/99 and

⁵ See the work of Professor William Brown, University of Cambridge

⁶ See D. Card and A. Krueger, “Myth and Measurement: The New Economics of the Minimum Wage”, 1995.

⁷ In the microeconomics of imperfect competition, the monopsonist is assumed to be able to dictate terms to its suppliers, as the only purchaser of a good or service. The classic example of a monopsonist employer is the company town.

2004/05, and have risen since then ⁸” The percentage of working age adults in absolute poverty increased by a further 600,000 in the year to 2011/12⁹.

To throw the issue into very sharp relief, a recent TUC/CPAG publication reported that 50 per cent of the working age population in poverty was also in work ¹⁰.

However, perhaps the most striking statistic of all is that “two in five children in severe low income and material deprivation were living in families where at least one adult was in work ¹¹”.

In London, 17 per cent of working age adults are in a household that is in the bottom decile of net equivalised household income, compared with a UK-wide figure of 19 per cent. However, poverty is clearly higher in Inner London, where the comparable figure of 20 per cent stands above the national average¹².

The extent to which great wealth and great poverty live close by makes London a unique place. It is clear that achieving rising living conditions for all would help to improve the quality of public life in London as a whole.

What policy options are open to the GLA?

The GLA has some scope to influence industrial policy and employment practice, which together can be used to leverage up both the quality of jobs created and productivity at the enterprise level. However, neither of

(⁸) Households below Average Income (HBAI) 1994/95-2010/1, DWP, 2012 (Note that statistics for 2011/2 are due to be published on 13 June 2013), p145. The DWP benchmark for low income is living in a household with an equivalised income below 60 per cent of the median (before housing costs).

<http://statistics.dwp.gov.uk/asd/hbai/hbai2011/index.php?page=contents>

(⁹) Households below Average Income (HBAI) 1994/95-2011/12, DWP, 2013, p7. <https://www.gov.uk/government/publications/households-below-average-income-hbai-199495-to-201112>

(¹⁰) “Will universal credit work?” Lyndsay Judge, TUC/ CPAG, 2013, p17. <http://www.tuc.org.uk/social/tuc-22198-f0.cfm>

(¹¹) DWP op cit, 2013, p112 .

¹² Ibid, p166

these approaches would be enough to deliver better pay for most of the low paid workers in the capital.

The living wage has a growing amount of traction for employers and workers alike. The GLA has already taken a role in promoting the use of this voluntary standard and should step up its efforts to do so. Possible ways and means are discussed later in the paper.

The living wage should be promoted throughout the public, private and third sectors in London, with the public sector also increasingly demanding that the living wage is paid by their contractors.

London is a rich city but, as described above, it has a minority of citizens who are stuck in low paid jobs that leave them relatively poor. Most employers could afford to pay more, but retain low pay through lack of a clear grasp of the alternatives, and through the persistence of unhelpful norms in certain sectors.

Whilst some industries have a high concentration of low pay, others have a modest amount of low paid workers supporting higher paid colleagues, with cleaners being a commonly cited example. In such industries, the extra cost of paying the living wage would be negligible. For example, the National Institute for Economic and Social Research (NIESR) calculates that the effect of introducing the living wage for all construction workers would be to add 0.5 per cent¹³ to the paybill, which is an amount that could be easily absorbed.

As discussed below, promoting the living wage in the capital could actively improve London's economy. It could also enhance London's morale and reputation.

Prospects for the living wage

The extent of the monopsony effect is highlighted by a recent IPPR report, in which the authoritative NIESR

¹³ K. Lawton and M. Pennycook op cit, p30

<http://www.ippr.org/publication/55/10162/beyond-the-bottom-line-the-challenges-and-opportunities-of-a-living-wage>

modelled the effect on employment if the living wage were simply to become the compulsory minimum rate for private sector employees. Such a move would generate a £6.5 billion increase in gross annual earnings across the UK¹⁴.

Whilst this study found that not all employers could simply afford to pay the Living Wage tomorrow, a surprisingly high proportion could so, to the extent that 89 per cent of employees in the private sector currently paid below the living wage could benefit without generating any negative employment effects¹⁵. In many cases low paid work such as cleaning forms a small part of the overall pay-bill of an enterprise. The research indicates that there is ample room for many more employers to adopt the Living Wage.

It should also be noted that UK corporate reserves have risen to a record high of £0.75 trillion since the recession began, as enterprises wait and see what will happen to the economy before committing to further investment, and the share of GDP going to wages has fallen further.

Given that the economy is currently demand deficient, sustainable measures to increase wages would also deliver a useful stimulus to the economy. Such an initiative would be strengthened by a narrative that explains the role of wages in business success and economic growth, as well as the very important rationale of combating poverty.

Research has shown that low paid workers who receive a pay rise tend to spend all of the increase, so that the extra wages largely go back into the local economy¹⁶.

¹⁴Ibid, p5.

¹⁵ Ibid, derived from pps27 and 28. Four million employees in the private sector are paid less than the Living Wage. 440,000 (11 per cent) might suffer detrimental side effects if their employers had to pay the Living Wage.

¹⁶ See, for example, The Federal Reserve Bank of Chicago, "The Spending and Debt Response to Minimum Wage Hikes", 2011 - http://www.chicagofed.org/webpages/publications/working_papers/2007/wp_23.cfm

In addition, econometric research has demonstrated that there is a relationship between wages and economic growth. Increasing the wage share in the UK economy by 1 percentage point also leads to an increase in GDP of 0.55 per cent¹⁷.

Given that employers also report some personnel benefits from paying the living wage¹⁸, it is therefore entirely credible to argue that the majority of those workers in London who are currently paid less than the living wage could be brought up to the standard without any adverse effect on employment, and that significant progress should be made within the current mayoral term.

3: Incentives for increasing the take up of the living wage

The current footprint of the living wage

The first thing to say is that the number of employers accredited by the Living Wage Foundation is growing very rapidly, doubling in the first half of 2013. Second, the number of unaccredited living wage employers is still very much bigger than the list of those so far accredited.

Eight FTSE-100 companies have adopted the Living Wage (Barclays, BT, HSBC, Legal and General, Resolution, RSA Insurance, Standard Chartered, and Standard Life), but only one has so far been formally accredited.

A good number of London hospitals and universities have also signed up, and the Department of Work and Pensions has become an accredited Living Wage Employer.

There are some employers out there who are still deciding whether to take accreditation, and a few may decide not to do so. It seems to us though that the bulk of unaccredited living wage companies are at the stage of checking that they will be able to meet fully the necessary

¹⁷ S. Lansley and H. Reed, "How to boost the wage share" TUC Touchstone Pamphlet 23, 2013, p51. - <http://www.tuc.org.uk/economy/tuc-22319-f0.cfm>

¹⁸ Ibid, p33 discusses a number of large London-based employers.

requirements.

Nevertheless, the rate of adoption of the living wage is starting to increase, as the GLA notes¹⁹, but it is important that the pace continues to quicken.

Helping to increase the coverage of the living wage

The GLA should continue to actively support and promote the London Living wage. More can be done in the coming period.

There is still a lack of awareness in many companies about the details of how the living wage operates²⁰, the strength of the corporate benefits, and there are a relatively small number of champions.

The GLA could continue to develop its role in promoting the living wage by helping to identify champions in a broader range of industries and parts of the public sector, by doing what it can to honour living wage employers and spread the news of widening adoption, and perhaps by holding a series of master-classes so that living wage employers in different sectors could explain what they have done to other interested employers.

The creation and promotion of living wage zones, effectively clusters of living wage businesses, would also help to publicise the accelerating adoption of the London Living Wage by encouraging employers to establish new norms.

The TUC actively encourages and promotes the accreditation of living wage employers by the Living Wage Foundation, and is itself accredited in this way.

It is vital that the issue of procurement is also addressed. It will not be a sustainable position for public sector bodies and corporations to claim to be

¹⁹ <http://www.london.gov.uk/priorities/business-economy/publications/a-fairer-london-the-2012-living-wage-in-london>

²⁰ See, for example, some of the answers from the Share Action "Just Pay" campaign, which took the issue to a number of FTSE-100 AGMS.

ethical living wage employers whilst effectively pressuring other employers to bear down on terms and conditions.

A process of education is needed so that both contractors and those letting the contracts, many of whom are very large enterprises, all have a good understanding of the perils of low pay and the benefits of the living wage, thus encouraging a wider uptake.

In practice, the outcome would be to extend the use of wages clauses in contracting. This is already starting to happen in some parts of government²¹. For example, in December 2012 the firm that supplies cleaning services to the DWP announced that they would pay their staff the London Living Wage, thus increasing their pay by more than £2 per hour.

The GLA is in a good position to make a contribution to this process, having already evaluated its own contracts in this way.

Treatment of bonuses, staff discounts and other employment benefits

The issue of the treatment of bonuses, staff discounts and benefits has been raised by some large employers in the retail sector. These measures are indeed often valued by workers, and in unionised chains they are often the subject of collective bargaining agreements. It has been intimated that this may be a factor in the poor take-up of the living wage amongst big retailers.

However, maintaining the London Living Wage as a single rate is very important. There is great merit in this simplicity, as it allows both workers and consumers to judge quite easily whether an enterprise is paying the living wage, whilst more complex arrangements would

²¹ TUC research has found that the extent to which European legislation limits the use of the living wage in contracting has been exaggerated. The GLA could usefully bring together the officers of public sector bodies who fear that the living wage might generate legal problems with those who are already using the living wage in contracts.

necessarily become more opaque.

There would also be a considerable risk of generating significant “me too” pressures from employers if other aspects of the employment package were allowed to count towards the living wage, to the extent that the clamour for concessions might halt the advance of the living wage.

How could the norm be defined as a target? What would be the milestones for achieving this goal?

Two main types of target are possible. The first concerns increasing the number of accredited living wage employers, whilst the second concerns reducing the number of workers paid below the living wage in the capital.

Both types of targets have their strengths. A steady stream of employers announcing that they have become living wage employers and becoming accredited would provide a visible reminder that the campaign is moving forward, and would encourage others. On the other hand, the reason for promoting the living wage is to reducing the extent of low pay in the capital, so there is merit in establishing a target based on reducing the number of low paid workers. The main drawback is that progress on such a target would be somewhat harder to make visible.

Consideration might therefore be given to establishing a hybrid target. Giving the urgency of this matter for low paid workers, the target should be both credible and stretching.

Milestones ought to be set on a yearly basis, to allow for any changes of approach that might be needed to be deployed at regular intervals throughout the mayoral term.

4: How the living wage relates to other initiatives aimed to foster pay progression.

How should the living wage campaign relate to other initiatives that aim to foster progression out of low pay?

The focus of the current inquiry is largely on improving pay in current jobs via increased uptake of the living wage. However, the London Assembly should not lose sight of the fact that industrial policy also has a role to play in combating low pay. Encouraging growth in industries

that can generate more good jobs can be a very effective way of allowing people to move away from badly paid jobs. The TUC's "German Lessons" report²² sets out an agenda for reviving manufacturing, which would have the effect of boosting the number of better-paid jobs.

Much has already written about the vitally important role of education, training and skills in building human capital and enabling economic sectors to thrive. This is a necessary but not a sufficient condition for raising pay. A package that includes the availability of sufficient good jobs, and the employment relations structures that ensure fair pay is also needed, otherwise in the short term a highly qualified workforce could simply end up being underemployed.

It will be easier to persuade employers to raise pay when productivity is also increased. Many employers have found that paying the living wage enables them to retain and motivate good staff, but pay is not the only determinant of productivity.

The GLA could also play a role in bringing together employers and unions in the lower paying industries in order to facilitate modernisation. The process of leading employers into the economic "high road" strategy favoured by the TUC would include improving training and work organisation, increasing productivity and raising pay, drawing on examples of best practice on a sector by sector basis.

Industrial policy has been rehabilitated by central government since the onset of the economic crisis. The extent of market failure in the UK economy has underlined the need for revitalised government intervention that goes a long way beyond state support for some of our major banks.

Most recently, the Coalition Government has formed a

²² "German Lessons", TUC, 2012 <http://www.tuc.org.uk/industrial/tuc-20509-f0.cfm0>

series of tripartite sectoral bodies in the energy intensive industries. There has been a renewal of government leadership, which could be usefully emulated by the GLA.

The living wage is an important standard, but as it is a threshold it can, by definition, do nothing for those in the squeezed middle including, say, the average van driver in London who earns £9.86 per hour, and all those occupations earning below the average wage.

This group of people can only be reached by the extension of collective bargaining, so it is to be hoped that the GLA will work with unions to ensure that a broad group of citizens can benefit from London's wealth as it revives and grows in the coming period.

Trade unions have also always had a key role in lifting people out of poverty. The GLA should take care to work with existing trade union and civil society campaigns in order to create synergies around campaigning to meet the targets. We would welcome regular contact on this issue.



Community Investment Coalition submission to the London Assembly's Economic Committee investigation into low pay and the London Living Wage

Introduction

The Community Investment Coalition (CIC) welcomes the London Assembly Economic Committee's investigation into low pay and the London Living Wage and believes it comes as a critical time as households continue to face the twin pressures of stagnating or falling pay levels and rising cost of essentials such as fuel, food and energy.

Our submission focuses on two key areas:

- The reliance of those on low pay on high cost credit and the impact of this on individuals, and on local economies;
- What action should be taken by the Mayor, employers and partners in relation to low pay and the availability of affordable credit.

Low pay, high cost credit Britain

There is an extensive evidence base about the scale of low pay in the UK. The recent fifteenth birthday of the National Minimum Wage (NMW) has led to widespread acknowledgement that, although controversial at the time of introduction, it has become an accepted tool of economic policy and done much to tackle the extremes of very low pay. But it has also opened up a wider debate about low pay, including the high number of workers dependent on the NMW, the level of the NMW and the impact of low pay on local economies. The move across London to encourage employers to adopt the London Living Wage (LLW) would indicate that there is growing consensus that the NMW does not provide a sufficient income to meet basic needs, particularly in London where housing and transport costs are considerably higher than other parts of the country.

The London Assembly Economics Committee will no doubt have received extensive evidence about the impact of the NMW. However it is worth looking at two reports by the Resolution Foundation: 'Low Pay Britain 2012'¹ and 'Fifteen Years Later: A Discussion on the UK National Minimum Wage and Low Pay Commission'². 'Low Pay Britain' highlights that 'Britain continues to stand out among comparable advanced economies as having a particularly large share (21 per cent) of workers

¹ Pennycook, M. and Whittaker, M. (2012) Low Pay Britain 2012, The Resolution Foundation
http://www.resolutionfoundation.org/media/media/downloads/Low_Pay_Britain_1.pdf

² Plunkett, J. and Hurrell, A. (2013) Fifteen Years Later: A discussion on the UK National Minimum Wage. The Resolution Foundation
http://www.resolutionfoundation.org/media/media/downloads/FINAL_Future_of_the_minimum_wage_discussion_paper.pdf



that are low paid and that London is distinct from other regions in having more workers earning below a living wage (16 per cent) than below the low pay threshold (12 per cent). This reflects the fact that living wage rates are derived, in part, from an absolute calculation of the basic needs of the recipient – needs which are greater in the capital as a result of higher living costs.

Low pay and high cost credit

The 2008 financial crisis and subsequent financial recession together with the rising costs of basic household items such as fuel and food has led to a significant squeeze on household budgets. Households unable to access affordable financial services and struggling to make ends meet often have little option but to use high cost credit to cover the deficits in their budgets.

Over four million individuals are borrowing from lenders with very high interest rates (typically 450%-2,500% APR), trapping them in a spiral of increasing debt³. The growth of payday lenders has also been well-documented (see Packman, Carl: The Rise and Rise of Payday Lending). In June this year, the debt advice charity, Step Change, identified London as one of five cities that experienced the biggest rise in average payday loan debts in the last two years⁴.

A recent study by the Centre for Responsible Credit⁵ has modelled how high cost credit repayments impact on the ability of households at different points in the income distribution to afford a 'reasonable'⁶ standard of living. This study found that:

- The impact of buying essential items on credit depends on the cost of credit and whether its use is concentrated at specific points in time (for example when people are setting up home). Depending on these factors, credit repayments can add from 1 per cent to 22 per cent to the cost of maintaining a minimum standard of living.

3 Gibbons, D. (2012) Responding to the Financial Crisis in our communities. CfRC
<http://www.cdf.org.uk/wp-content/uploads/2012/05/Responding-to-the-financial-crisis-in-our-communities.pdf>

4 <http://www.stepchange.org/Mediacentre/Pressreleases/Paydayloanflashpoints.aspx>

5 Gibbons et al (2011), Can consumer credit be affordable to low income households?, CfRC

6 As defined by the 'Minimum Income Standard' developed by researchers at Loughborough University



- Approximately 7.3 million working age people live in households that are able to afford only up to about 80 per cent of the minimum living standard even without considering the extra burden of credit repayments. If these households use high-cost credit, such as rent to own stores, to purchase larger items over a short period of time, they might need to cut back 10 per cent or more of their spending on other necessities. However, their living standards would not reduce significantly if cheaper credit were available to them instead.
- Approximately 3 million working age people are living in households with between about 80 per cent and 100 per cent of the income they need to maintain a minimum standard of living before taking account of any credit costs. If these households then used high-cost credit to purchase larger items over a short period of time, they might need to cut back more than 17 per cent of their spending on other necessities. Again, the living standards of these households would not reduce significantly if cheaper credit were available to them instead.
- Many people on a low income do not have access to lower-priced credit. Credit unions and community development finance institutions (CDFIs) could play a role in replacing high-cost borrowing, but this would need to expand by roughly 4.5 times its current level to approximately £2 billion per year in order to meet the ongoing credit needs of low-income households.

Given the required level of cut backs in spending on essential areas of the household budget associated with the use of high cost credit, it is unsurprising that this has a range of 'knock on' effects for individuals. These are well documented and include mental⁷ and physical health problems (for example as a result of living in cold homes⁸); distraction from, and barriers to, jobseeking and negative impacts on the sustainability of employment⁹ (for example, where the level of debt repayments remove the financial incentive to continue in employment). These effects of high cost credit use therefore contribute to a significant increased cost for public services, and should be seen as the economic externalities of high cost lending – warranting substantial public policy intervention in the way that high cost credit markets are regulated as well as investment in more affordable alternatives.

7 Fitch, C., Hamilton, S., Basset, P., & Davey, R. (2010) Debt and mental health: what do we know? What should we know?. Royal College of Psychiatrists.

8 Gibbons, D. & Singler, R. (2008). Cold Comfort: A review of coping strategies employed by households in fuel poverty. Energywatch

9 Gibbons, D. (2010) The Impact of Financial Problems on Jobseeking. Centre for Responsible Credit



It should particularly be noted that the effects of high cost credit use are also frequently geographically concentrated in lower income communities, for example in respect of social housing estates¹⁰. In these areas, the use of high cost credit therefore also has a wider impact on the local economy, as money is taken out of these areas and depresses the level of demand over time. The impacts can therefore be witnessed in boarded up retail premises and a reduction in demand for services, which feeds through as reduced local opportunities for employment, including self-employment¹¹.

Undoubtedly either increasing the level of the National Minimum Wage or persuading more employers to adopt the London Living Wage would help improve income levels. However, providing greater access to and awareness of sources of affordable credit would also make household finances more sustainable and have a range of wider positive effects for individuals and the communities in which they live.

Recommendations on low pay and high cost credit

The Assembly and its Economic Committee will be aware of a range of measures taken across London to tackle these issues. These include:

- the London Mayor's campaign to promote the London Living Wage
- London Boroughs increasing investment in and support for credit unions
- the banning, by at least one London Borough, of access to payday lending advertisements through council owned computers.

But we believe more could be done and **recommend** that the Economic Committee consider the following action:

- There are 950,000 public sector jobs in London¹² and many of these, such as cleaners and carers will be paid the NMW. The London Assembly could use its influence to ensure that all parts of the public sector pay the LLW and ensure that all companies delivering contracts or sub-contracts on behalf of the public sector are required to do the same;

¹⁰ For example, the Department for Business, Innovation and Skills reports (Credit, Debt and Financial Difficulty in Britain 2009/10) that the highest debt-to-income and debt repayment to income ratios are to be found among single people aged under 25 years, the unemployed, and lone parents - all groups over-represented in social housing.

¹¹ The impacts of high cost credit use are the reverse of those identified in nef's work to help communities improve the local multiplier effect

(<http://www.proveandimprove.org/tools/localmultiplier3.php#Section2>).

¹² <http://www.london.gov.uk/sites/default/files/wp24-employment.pdf>



- the London Assembly / Mayor should commission research to quantify the impacts of high cost credit on living standards and across London, including in respect of monetising the knock on effects on health, jobseeking, and local economic growth;
- The London Assembly / Mayor should commission an analysis of bank disclosure lending patterns and affordable credit provision to lower income groups and communities in London;
- the London Assembly / Mayor should develop a clear strategy for addressing London's high cost credit problems, involving for example:
 - a major publicity campaign to encourage Londoners to join credit unions, including in respect of public sector staff
 - bans on payday lending advertising on London's transport network and on public computer systems
 - a call for London Boroughs to be provided with powers to control the proliferation of payday and other high cost lending stores on the high street where this is likely to negatively impact local economic growth
 - an agreement with major banks as to how they will better contribute to an expansion of credit union and CDFI lending in London, including for example by supporting access for credit unions to obtain agency banking licenses and access cheaper payment systems in order to reduce operating costs as well as by providing greater levels of financial investment to the sector.

For more information

For more information, please contact Jennifer Tankard, Community Investment Coalition (CIC) on 0207 812 5430 or info@communityinvestment.org.uk.



About the Community Investment Coalition (CIC)

The Community Investment Coalition (CIC) is a partnership of national organisations including financial providers, charities, trade associations and academic bodies. Our mission is to promote access to affordable finance for families, businesses and communities.

We do this by:

- collecting and sharing evidence and knowledge through research, conferences and dialogue;
- campaigning for a regulatory system which helps not hinders community investment;
- speaking with a unified voice on issues facing the sector; and
- building the capacity of the Community Investment Sector through infrastructure and collaboration.

Members include the following organisations:



The Centre for Responsible Credit (CfRC) is a dedicated unit established within the Centre for Economic and Social Inclusion to: monitor the development of credit markets; research models of responsible provision and promote policy responses which protect the long term interests of households.



The New Economics Foundation (nef) is an independent think-and-do tank that inspires and demonstrates real economic well-being. We aim to improve quality of life by promoting innovative solutions that challenge mainstream thinking on economic, environment and social issues. We work in partnership and put people and the planet first.



CCLA manages money for more charities than any other fund manager in the UK and we are owned by our not-for-profit clients. We engage with the banking sector every day on behalf of our charity and local authority clients, who are concerned with issues that may affect shareholder value, but also wish to see account taken of their ethical investment concerns. CCLA is ranked top manager of ethical and responsible investment funds in the UK by assets under management.



CDFA's mission is to support the development of thriving and sustainable community development finance (CDFI) sector that provides finance for disadvantaged and underserved communities and, as a consequence, contribute to the increasing prosperity of these communities.



The Community Development Foundation (CDF) is a social enterprise passionate about helping communities. We have unique expertise in using community development to strengthen local voices, improve people's lives and create better places to live. Our vision is for successful lives in flourishing communities.

All members of the Community Investment Coalition pay the London Living Wage. CDF and CCLA are both LLW accredited organisations.



ACS Submission: Low Pay and the London Living Wage

ACS (the Association of Convenience Stores) welcomes the opportunity to give evidence to the Committee's investigation into Low Pay and the London Living Wage. ACS represents 33,500 local shops across the country including Spar, Costcutter, Nisa Retail and thousands of independent retailers.

In this submission we will explain the value of employment opportunities provided by the convenience sector to London and the concerns we have about impact of low pay on the viability of small businesses in London.

Employment in the Convenience Sector

There are over 6,000 convenience stores in London, together providing jobs for more than 44,000 people¹.

These jobs are provided in two clear types:

- **Long Term Career Opportunities** – like all parts of the retail sector, individuals can join a convenience store business with little or limited training, can learn significant skills and advance through to well-paid roles with significant responsibilities. 88% of retailers provide formal training opportunities, 24% offer apprenticeships and 35% of shops offer staff formal training qualification².
- **Transitional Opportunities** – a significant majority of the jobs available in the sector (41%) are part-time roles undertaken by individuals that do not intend to maintain a long term career in the sector. Just under half of those employed work for a company for up to five years³. For example:
 - o over a quarter are under 24 years old, most working to gain income alongside full time studies or training
 - o Retailers indicate that 27% of staff has some form of care commitment to children, or elderly or disabled dependents.⁴

There is however a further employment type that is often not considered in low pay debates and that is:

- **Entrepreneurial Opportunities** – more than 70% of the convenience stores in London are operated by small businesses in the sector. Therefore the convenience sector provides a significant employment opportunity for entrepreneurs. This is particularly the case for the British

¹ [ACS Local Shop Report 2012](#)

² [ACS Local Shop Report 2012](#)

³ [ACS Local Shop Report 2012](#)

⁴ ACS VOLS May 2013

Asian community that makes up 89.5%⁵ of the independent convenience store owners in London.

Often establishing a convenience business is a chosen route of first generation immigrants to the UK running businesses that sustain themselves and their families over many years. 86% of independent retailers in London were not born in the UK⁶ and 27% of independent retailers only employ family members.⁷

Crucially one in ten businesses are run by individuals under 30⁸, showing that many young people working in convenience today will be able to take on ownership of their own business, through for example, inheritance, the expansion of family firms or on their own initiative.

Low Pay

Business Owners

We ask the Committee to consider an important dimension of the low pay debate that is often forgotten. This is the extent to which many small business owners do not receive a reward from their business that in line with the national minimum wage or London Living Wage.

There are a number of core challenges that we believe are not sufficiently understood:

- the difficulties faced by individuals in seeking to establish a new business, to maintain sufficient income alongside making the necessary investment to establish a viable business and preventing viable businesses closing before they can establish themselves. ONS data highlights that London has one of the highest business “birth” rates in the UK but the SME “death” rates are equal to other regions in the UK at 10% (44,000)⁹.
- the significant pressure placed on small retail businesses (especially employment costs) that prevent retailers employing staff and increasing the pressure on owners to work long hours and not take holidays. Currently:
 - o over 60% of independent retail business owners report regularly working longer than 50 hours per week¹⁰.
 - o 31% of retailers take less than 10 days holiday per year.

These long working hours contribute to the fact that 69% of retailers believe their earnings per hour are less than the national Living Wage.¹¹

⁵ [ACS Local Shop Report 2012](#)

⁶ [ACS Local Shop Report 2012](#)

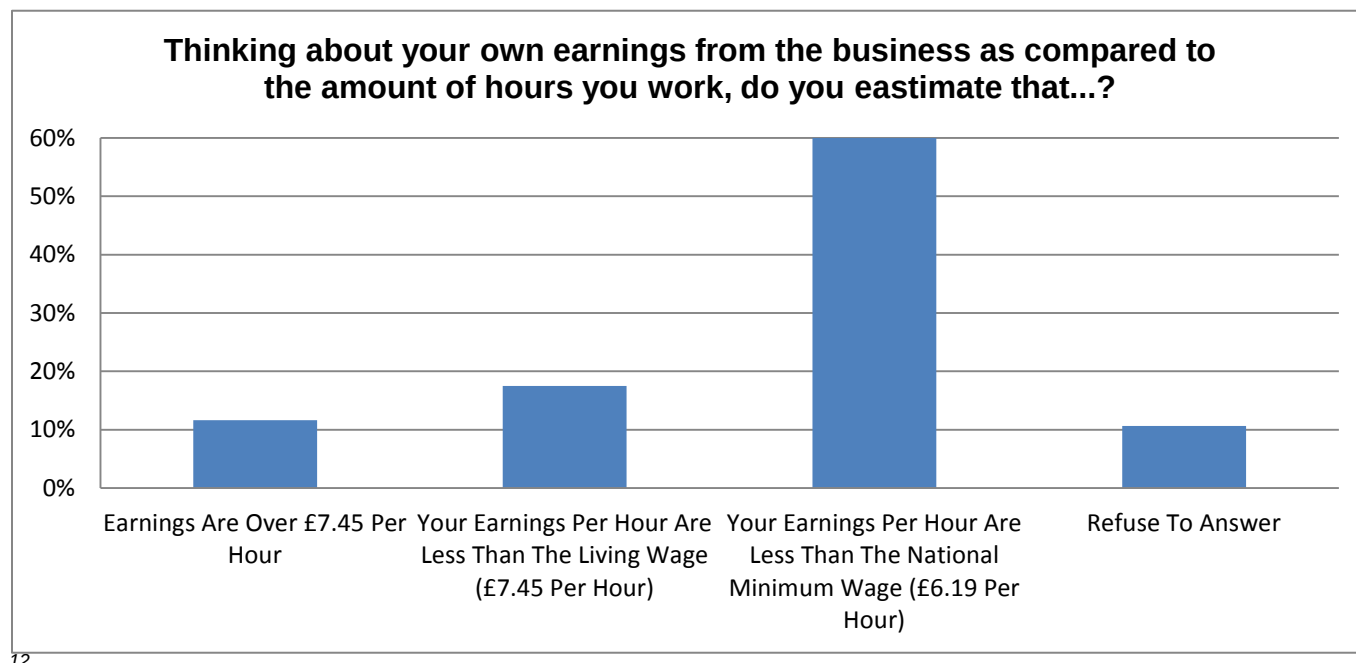
⁷ [ACS Local Shop Report 2012](#)

⁸ [ACS Local Shop Report 2012](#)

⁹ [Parliamentary Standard Note 06152 April 2013: Business Statistics](#)

¹⁰ [ACS Local Shop Report 2012](#)

¹¹ ACS Voice of Local Shop Survey May 2013 – [Focus on Wages](#)



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Employees

Entry level jobs in the retail sector tend to be low paid often at national minimum wage level. The longer these employees stay in the business the higher the wage rate, this is reflected in data we have received from independent retailers and multiple retailers across the capital.

The table below outlines the typical rates for convenience store staff in chain of convenience stores across the capital:

POSITION	PAY RATE
Customer Services Assistant	£6.40
Trainee Supervisor	£6.65
Supervisor	£7.00
Senior Supervisor	£7.30
Supervisor (2ic)	£7.60 ¹³

Independent retailers have indicated that they are more likely to start new employees on the national minimum wage rates and increase their wages dependent on time in the business and career progression.

National Minimum Wage Increases

ACS supports the national minimum wage as a safeguard against the exploitation of workers but maintain that a balance must be struck between increase in this minimum rate and impact on job creation and competitiveness. Our concern is that since its introduction the National Minimum Wage

¹² ACS VOLS May 2013 – [Focus on Wages](#)

¹³ London Pay Rates for multiple chain retailer 2012

has increased by 71% from £3.60 to £6.19. This has led to a change in the employment structure and competitiveness of many retailers' businesses.

ACS has detailed these impacts in recent submissions to the Low Pay Commission [here](#). However the impacts can be summarized as follows:

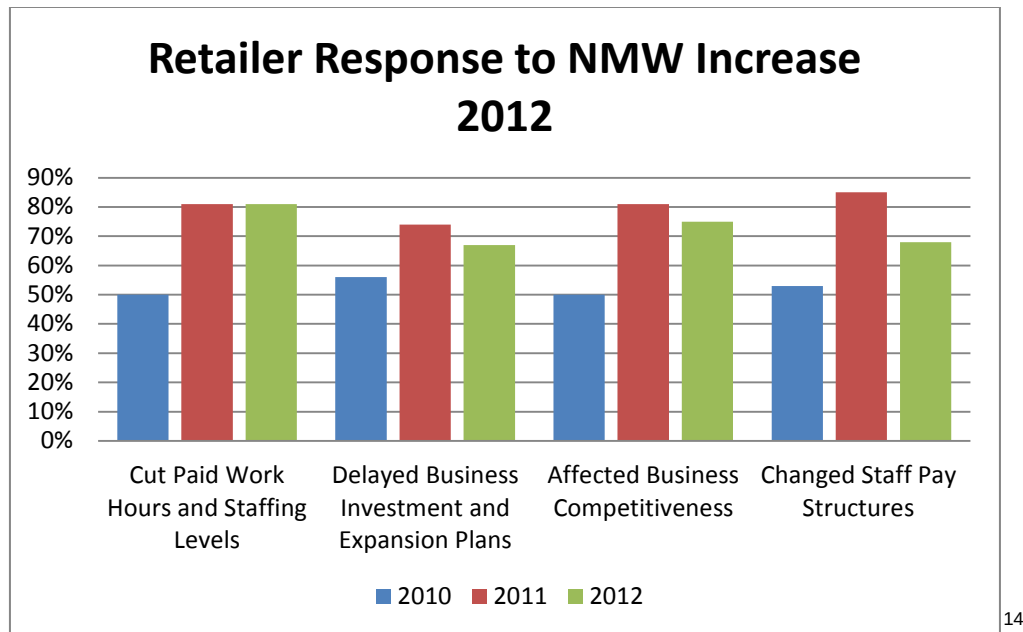
- Reduced employment through reduced hours and not replacing staff
- Delayed business investment decision to expand the business or refit stores
- Increase working hours for retailers
- Reduced business competitiveness
- Changes to staff pay structures

Given our knowledge of the impact of successive increases in the national minimum wage, ACS is very concerned about any move to impose the London Living Wage through regulation or self-regulatory mechanisms. This would have an immediate significant negative effect on employment levels amongst London retailers, would undermine the viability of many shops and impose significant additional burdens on local shop entrepreneurs.

RESPONSE TO CONSULTATION QUESTIONS

Is it realistic and achievable for the living wage to become 'the norm' for London's employers by 2020?

An increase from the current national minimum wage rate of £6.19 to the living wage rates of £8.55 represents a 38% increase in wages, if other costs such as national insurance contributions and holiday entitlement are taken into consideration it would be much higher than this. This would have a devastating effect on convenience stores. ACS' evidence has clearly identified that retailers have to make tough decisions when wage bills are increased, resulting in reduced staff hours, delayed business investment, reduced competitiveness and changes to staff structures, as set out in the graph below:



The 71% increase in national minimum wage since its introduction in 1999 has significantly changed the employment model of convenience stores. For the very smallest businesses they have stripped out supervisory roles and reduced staff hours, with retailers taking on many additional hours themselves. The reduction in staffing levels and hours has a marked affect on customer service levels and store security.

The vision of the living wage being the norm for all employees in the convenience sector or any small retail outlet by 2020 is an unrealistic ambition. It neglects to take into account the existing cost pressures on retail businesses, the squeeze in consumer spending and the motivation for the majority of employees entering the convenience sector.

What are the key factors determining employers' decisions on pay levels?

In ACS' NMW survey 2012¹⁵ we asked retailers "In the absence of National Minimum Wage what would influence decision to increase staff wages?" 94% of respondents indicated that business profitability would determine such increases. When asked about current rates of pay in their business 49% of retailers indicate they pay employees exactly the minimum wage rate and only 4% indicated they pay between £6.92 and £7.45 per hour.¹⁶ Specifically for London we have asked a number retailers to indicate the rates of pay for staff. There were a range of variable depending on the amount of time they have been in the business and their seniority within the store, the adult national minimum wage rate or just above remains entry level pay for convenience store staff.

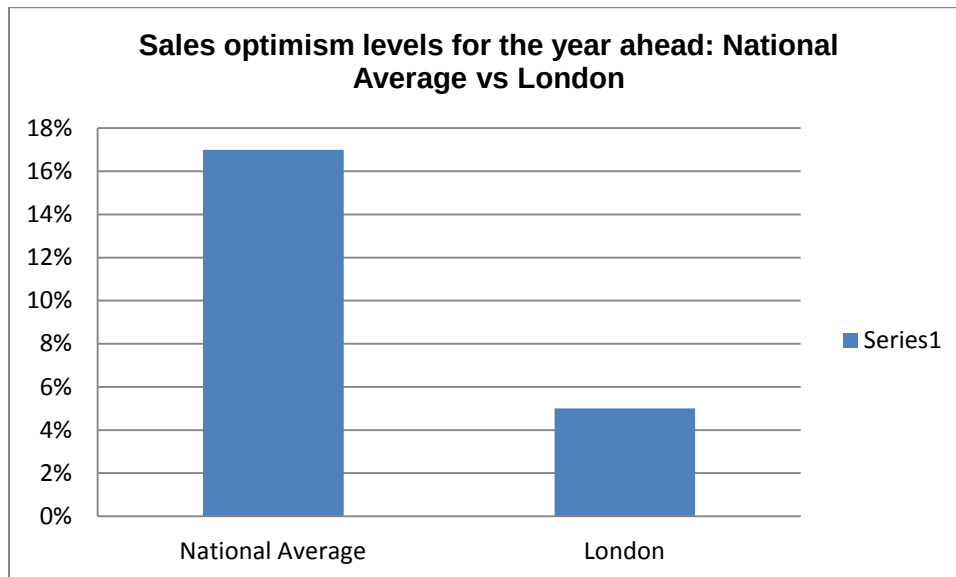
From ACS' Voice of Local Shop Survey we have regional breakdowns of retailers' view on sales and business optimism and inclination to increase staff hours. London retailers are currently the worst

¹⁴ ACS Low Pay Commission Evidence 2012

¹⁵ ACS National Minimum Wage Survey 2012

¹⁶ ACS VOLS May 2013 – [Focus on: Wages](#)

performing group across the country. The data shows London retailers have the lowest business optimism levels for the year ahead (+5) and sales performance levels (-54)¹⁷.



Such low business performance figures will naturally have a knock on affect on the number of employees that the business can sustain and how many working hours that can be offered. 57% of London retailers expect the number of paid staff hours to stay the same in the year ahead but 28% believed staff hours would decrease. Significant increases in wage bills will only serve to exacerbate that trend.

Increasing business costs are also a key determining factor in retailers' decisions on wage rates. In recent years there have been significant additional employment costs such as the increase in holiday entitlement and the introduction on auto enrolment pension contributions but increases in other fixed costs have also squeezed retailers' profitability.

Property costs and business rates have increased steeply in recent years and this is often the reason cited as the main barrier to entry for new comers to the retail industry. Retailers are also greatly affected by increasing utilities costs as the modern consumer demands more fresh produce in stores meaning more refrigeration and lighting is necessary. These fixed cost increases have to be absorbed somewhere and wage rates and staff hours are one of the few variables that retailers can look to change.

What would incentivise or assist employers to pay the living wage, including in sectors where low pay is widespread?

Employment increases come straight off a retailer's bottom line and it is one of the few variables that retailers have left to squeeze to maintain business profitability. As wages go up the retailers must counter balance the increase elsewhere. In the past this may have been passed onto the consumer but with increasing consumer focus on value and the high levels of competition in the grocery market passing this cost on is untenable.

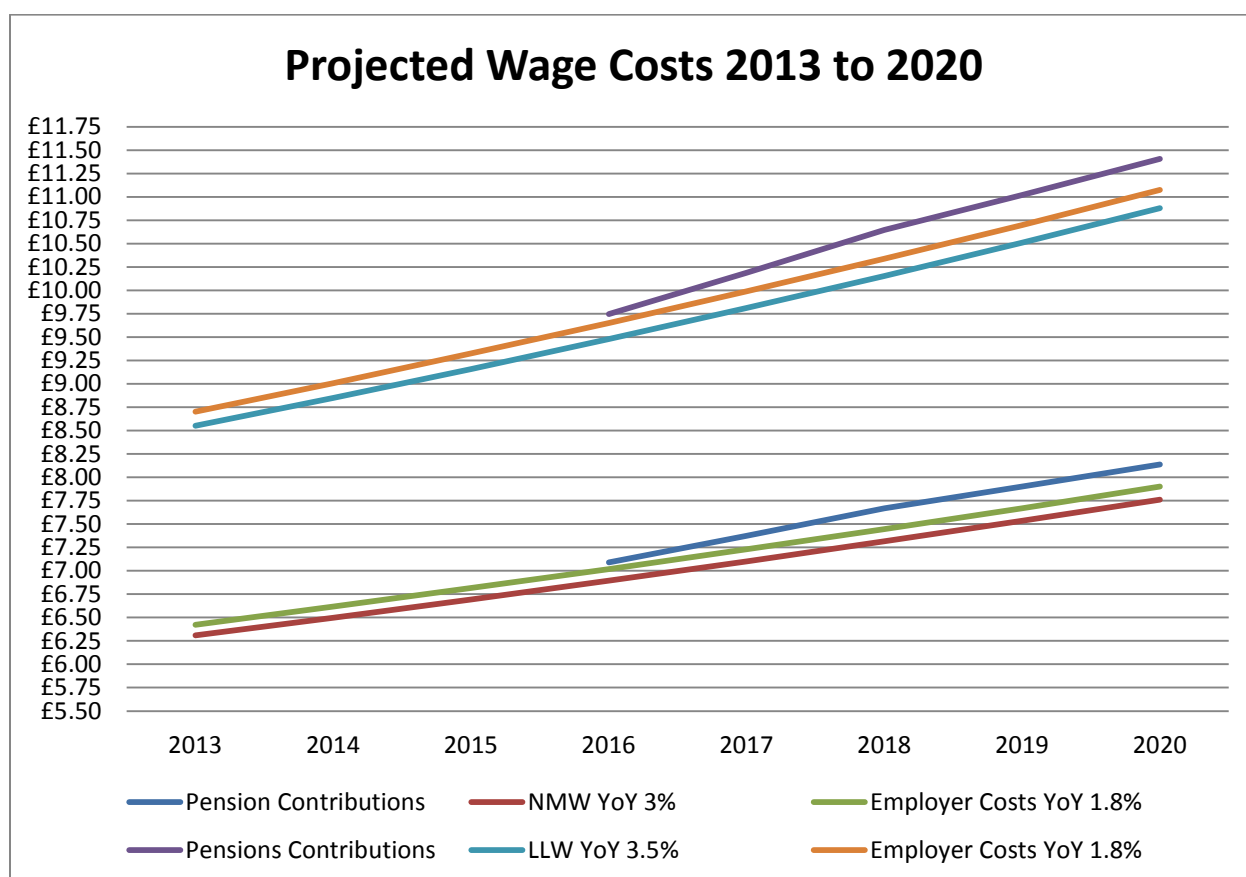
¹⁷ ACS VOLS May 2013 – The sales optimism index and the business performance index are calculated by net result of the positive responses and negative responses given to the survey questions

The impact of wage increases can only be mitigated by offsetting with tax reductions in other areas for example the Employment Allowance scheme, reducing employers NICs contribution by £2000. However such tax reliefs or deductions from central or local government are highly unlikely to offset the full increase in a retailers' wage Bill if the London living wage was introduced.

Evidence from our work on the real cost of employment for retailers shows a range of employment costs that have to be taken into account to calculate the true cost of employment. The graph below shows the increase in national minimum wage rate at 3%¹⁸ year on year and an increase in London Living Wage by 3.5%¹⁹ each year compared with the actual cost of employment.

The actual cost of employment takes into account employer national insurance contributions and paid holiday leave for a full time member of staff working 35 hours per week.²⁰ The additional auto enrolment pension will be introduced from 2016 starting at 1% and eventually reaching 3% by 2018. This will mean a £1.50 per hour increase in actual employment costs. We have used the same model to map retail costs on top of the London Living Wage rate.

Based on these projections the actual cost of the national minimum wage in 2020 will be £8.14 per hour and actual cost of living wage will be just under £11.41 per hour.



¹⁸ 3% is the average percentage increase in the National Minimum Wage since 2005

¹⁹ 3.5% is the average percentage increase in the London Living Wage rate since its introduction in 2005

²⁰ This does not take into account the £2000 Employment Allowance contribution announced in 2013 Budget Statement

ACS is keen to support the Economic Committee's investigation in Low Pay and Living Wage in London and available to provide further evidence relating to this submission. Please contact Edward Woodall, ACS Public Affairs Manager via email: Edward.woodall@acs.org.uk or call 01252 533014 for further information.



UNISON SUBMISSION TO LONDON ASSEMBLY LOW PAY AND LONDON LIVING WAGE INVESTIGATION

UNISON is the biggest union in Greater London, with more than 130,000 members across the region.

The Union's members are people working in public services or for private contractors providing public services and essential utilities.

They include frontline staff and managers working full- or part-time in local authorities, the NHS, colleges and schools, universities, the electricity, gas and water industries, police services, transport and in the voluntary sector.

Members are organised into 152 branches across Greater London.

As well as defending public services and fighting the government's cuts to public services, our priorities are promoting equality for all our members and campaigning for a living wage.

Key questions

Is it realistic and achievable for the living wage to become 'the norm' for London's employers by 2020?

Yes it is realistic. Rather than the norm, UNISON believes that the Living Wage should become the statutory minimum, and that it should be possible for the minimum wage to increase by stages to the London Living Wage level.

And if so, how could 'the norm' be defined as a target?

See above. Rather than conceptualising the Living Wage as a norm, and defining the norm as a target, we believe strongly that making the London Living Wage the minimum wage for London should be the target. This more ambitious target could potentially generate greater momentum for change and would be an appropriately bold step for one of the leading cities in the world.

What would be the milestones for achieving this goal?

Milestones should be the staged increases in the minimum wage to be taken over the period within which the Living Wage level is to be achieved and incrementally increased targets for increasing the number of employers signing up and becoming formally accredited Living Wage employers. UNISON's own internal survey carried out ahead of Living Wage week in 2012 indicated that there were 59 employers across public services paying the Living Wage to at least their in-house employees in Greater London (21 in local government, 19 in higher

education, 10 in further education, 2 in schools, 2 in the community and voluntary sector and 5 in health). It should be emphasised that this snapshot figure includes employers who are accredited living wage employers, those who are not, employers on the road to becoming accredited and those who do not at the current time require all outsourced/contract staff to be in receipt of the living wage. As with previous snapshots and stock taking exercises, UNISON see this as the basis from which to increase momentum and from which all interested parties work towards further increases in the number of employers paying the Living Wage minimum for all and becoming formally accredited.

What are the key drivers for low pay in the capital?

The UK labour market is subject to deep seated structural weakness, characterised by stagnant earnings growth, rising levels of in work poverty and severe income inequality. These reflect political choices around the type of labour market that we have – e.g. dismantling labour market institutions such as fair wage resolutions and wages councils – as well as other important drivers such as the decline in collective bargaining, technological change and globalisation. This is as true in London as it is in other parts of the country – but higher living costs make the impact more stark in London.

Clearly some sectors are more prone to low pay than others. These include retail, hospitality, domestic cleaning etc. As a trade union representing workers across our public services, UNISON are also acutely aware that there are significant problems of low pay in local government and social care. Privatisation and outsourcing are amongst the key drivers affecting the groups we represent in this regard. To take social care as one example, ASHE figures for 2011 suggest that 11.9 per cent of the social care workforce were earning below the statutory minimum wage in that year (£6.08 per hour), with nearly one-quarter (23.6%) earning below £6.50, well below the living wage.

We note that there are considerable overlaps between zero hours contracts and low pay. We note too the increasing prevalence of zero hours contracts, with recent data from the CIPD suggesting that there could be as many as one million workers on such contracts, between 3% and 4% of the UK labour force.

The CIPD found that voluntary and public sector employers were among the most likely to deploy zero hours contracts, with 35% of education and 27% of healthcare employers utilising zero hours. The private care sector has been particularly vulnerable to the practice and a recent survey of homecare workers found that 41% are on zero hours contracts, which was in line with the government's recent acknowledgment that 307,000 care sector workers in England face these terms of employment, the highest proportion of whom work in London.

<i>Estimated number of adult social care workers on zero-hours contracts, by each English region</i>	
<i>Region</i>	<i>Estimated number of workers on zero-hours contracts</i>
Eastern	41,000
East Midlands	23,000
London	56,000
North East	17,000
North West	37,000
South East	50,000
South West	27,000
West Midlands	30,000
Yorkshire and The Humber	27,000
England	307,000
<i>Source: Skills for Care workforce estimates 2011, NMDS-SC May 2013</i>	

A recent UNISON survey found that at least some the contracts used to commission home care in 31 out of 32 London boroughs are likely to include employees on zero hours contracts.

Almost all areas of public service are now seeing a rise in zero hours contracts. In the case of the NHS, the new commissioning system which means that providers are not guaranteed any minimum level of work is having the knock-on effect of pushing employers towards contracts that mirror such arrangements. This trend is taking place in areas traditionally vulnerable to zero hours arrangements, such as cleaning, but also hitting new areas, such as cardiac services, physiotherapy, psychiatric therapy, and hearing services.

For staff, zero hours contracts present huge drawbacks in comparison to permanent regular work.

- There is no guaranteed level of regular earnings that provides any certainty over meeting bills or planning for the future;
- The need to respond to calls to attend work, frequently at short notice, disrupts life outside of work and places a particular strain on families and arranging care for dependants;
- A multitude of employment rights that are usually clearly defined for permanent staff become variable and dependent on the irregular hours of work;

- While weekly income can frequently be inadequate, the need to be available for work when required by the employer hinders the ability of staff to take up other employment;
- The variability of earnings throws into doubt an individual's eligibility to claim various forms of benefit. For example, the working tax credit for a single person can only be claimed if an individual works 16 hours a week, but whether an individual exceeds these hours can vary from week to week under zero hours, creating even greater uncertainty over income.
- Zero hours contracts have also shown themselves to be more open to abuse than regular permanent contracts. For example, scheduling of working hours in the homecare sector that allowed no time for travel time between home visits has led to staff working considerably beyond their paid hours in some cases.

What is the extent of persistent low pay in the capital and which groups are most at risk?

Research from the Resolution Foundation suggests that 16 per cent of workers in London are earning below the living wage, and 12 per cent earning below 2/3 of the median hourly rate. In addition to the sectoral and zero hours analysis set out above, we note strong evidence to suggest that women are most at risk of low pay. Research carried out for UNISON by the new economics foundation (nef) shows that women are still far more likely to experience low pay, in both public and private sectors. This is particularly the case for female part time workers, amongst whom 27 per cent are low paid in the public sector and 64 per cent are low paid in the private sector.

In public services, it is workers in local government and those experiencing a two-tier workforce who are most at risk of low pay. The Government's pay freeze and cap for public sector workers has led to an increasing number of people providing public services living in poverty. Workers whose jobs have been transferred to private sector contractors often find that their pay and conditions have been cut, in order to make the contract profitable for their employers.

What are the key factors determining employers decisions on pay levels?

This will vary significantly across different organisations, but in broad terms include: economic conditions, expectations about demand, size of organisation, market rate availability of particular skills / competences etc.

As a trade union we would also highlight the presence or otherwise of collective bargaining and trade union organisation in the workplace.

Research continues to show a pay premium in organisation in which there is trade union organisation and collective bargaining, as well as fairer pay ratios.

We also note analysis from the Smith Institute showing the way in which an *employment regime* sets norms around pay, rewards and work culture. Employment regimes that can be

described as 'inclusive', as practiced in the Nordic countries appear to be the most favourable to fairer pay. These are characterised by policies and institutions all pulling in one direction - with skills formation, education to work transition, lifelong learning and attempts to breakdown inequality and occupational segregation all reinforced by strong and responsible trade unions, a balance between workers and their employers and real possibilities for workplace participation. Unfortunately, our current employment regime lacks coherence and direction and this in turn has led to the structural weaknesses highlighted above.

What is right approach to addressing low pay in the capital, while maintaining London's competitiveness?

Clearly there is a high road and low road to competitiveness. Addressing low pay and achieving fair rewards for work are central to a high road approach, which UNISON strongly favours. Research carried out for UNISON by nef involving interviews with companies contracting for public services suggests employers tend to be supportive of strong employee engagement and collective approaches in order to ensure good industrial relations and avoid a race to the bottom. This approach recognises that poor standards, including low pay, affect staff motivation and service quality and impact on companies ability to sustain market share. Nef also suggest that firms recognise their own need for external impetus or imposition of collective industrial relations given the problem of free riding which would undermine a self regulated approach. This relates to the theoretical point whereby a firm might wish to hold down its own costs by reducing the pay bill, but will want other firms to pay their workers well in order to sustain demand for their products.

What would incentivise or assist employers to pay the living wage, including sectors where low pay is widespread?

Accreditation, linked with community activism, has an important role to play. Organisations that pay the living wage should make more of their status as living wage employers, and citizens and organisations could use this information to inform their purchasing decisions.

Leadership from the public services should also be a significant driver. UNISON is shortly to publish a report on the role of public services leadership in addressing low pay and setting standards in the labour market. This is likely to recommend that public sector employers:

- put their own house in order by eradicating low pay for directly employed staff
- hard wire fair pay into commissioning strategies in order to negotiate confidently for decent terms of employment for all contracted staff
- ensure that cost led procurement is not driving low pay and to transparently evidence where this is occurring
- adopt an overt civic leadership role to advance best practice through supply chains and across local economies

Of course, the best 'incentive' of all is to make it illegal to pay less than the Living Wage. UNISON believes this could be done without putting jobs at risk and would help stimulate the economy.

Could living wage accreditation take account of alternative remuneration methods used in sectors such as retail and hospitality?

No. The Living Wage should be about wages paid directly to workers, not payments in kind. The experience of the national minimum wage shows that employers often use alternative forms of payment as a way of avoiding their responsibility to pay a proper, cash wage. Complicating the system further risks creating more opportunities for this kind of exploitative practice.

What could be the potential for living wage zones in the capital?

Living wage zones could be very significant and should involve effective mobilisation of the measures set out above.

Could investment and pension funds, procurement policies and sponsorship agreements be better harnessed to support expansion of the living wage?

Procurement policies have a major role to play – see above.

Similarly, investment decisions by pension funds should support fairer pay and, wherever possible, promote inclusive employment regimes. Alongside the TUC and other trade unions UNISON has formed Trade Union Share Owners, which promotes the Living Wage and other policy goals through active share ownership of our own pension funds.

How should the living wage campaign relate to other initiatives aiming to foster progression out of low pay?

What workers (especially low-paid workers) need alongside a Living Wage is some embedded institution that allows them to express themselves to their employer through a well-developed dialogue about conditions of employment, which can also lead to the resolution of workplace problems. This should form part of a new approach to the labour market – and form an essential component of the route towards a more inclusive employment regime (see above).

References:

New Economics Foundation: The economic case for fairer pay in public services (forthcoming)

The Smith Institute: Just deserts? Poverty and income inequality: Can workplace democracy make a difference 2013

Resolution Foundation: Low pay Britain 2012

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Thursday, 22 August 2013

Dear Mr. Knight,

Re: Low Pay and the London Living Wage

The British Retail Consortium (BRC) welcomes the opportunity to respond to the London Assembly Economy Committee's investigation into low pay in London and the London Living Wage.

Retail is a vital part of the London economy, offering significant employment and career opportunities across the capital. Almost three million people choose to work in retail across the UK, the largest private sector employer, attracting people from all sections of society. Given this, pay across the sector naturally attracts significant interest and for this reason, the BRC has been working closely with our members to understand more about pay and the total employment reward packages they offer their employees.

The enclosed policy paper outlines to the Committee the work the BRC has undertaken in this area and explains why we firmly believe that as discussions continue on the Living Wage, the debate must move forward from only examining hourly rates and recognise the value of total reward packages and the benefits they bring to individual employees. At the same time, it is important to emphasise that the BRC remains strongly supportive of the National Minimum Wage as a base floor for pay.

In response to the specific question outlined in the Committee's investigation paper, the BRC does therefore believe living wage accreditation should take account of alternative remuneration methods used in sectors such as retail. This is illustrated by the findings of our research which, based on the five most common additional benefits offered across the sector, shows that for an average retail worker on a base hourly wage of £6.69, these benefits increase total reward to an equivalent hourly rate of £7.63. This does not however include regional enhancements, the highest of which are paid in Central London and would therefore increase the base hourly wage and in turn, the equivalent hourly rate.

As your Committee continues this investigation we hope further recognition will be given to the value of total reward packages in the retail sector and the benefits they bring to individual employees.

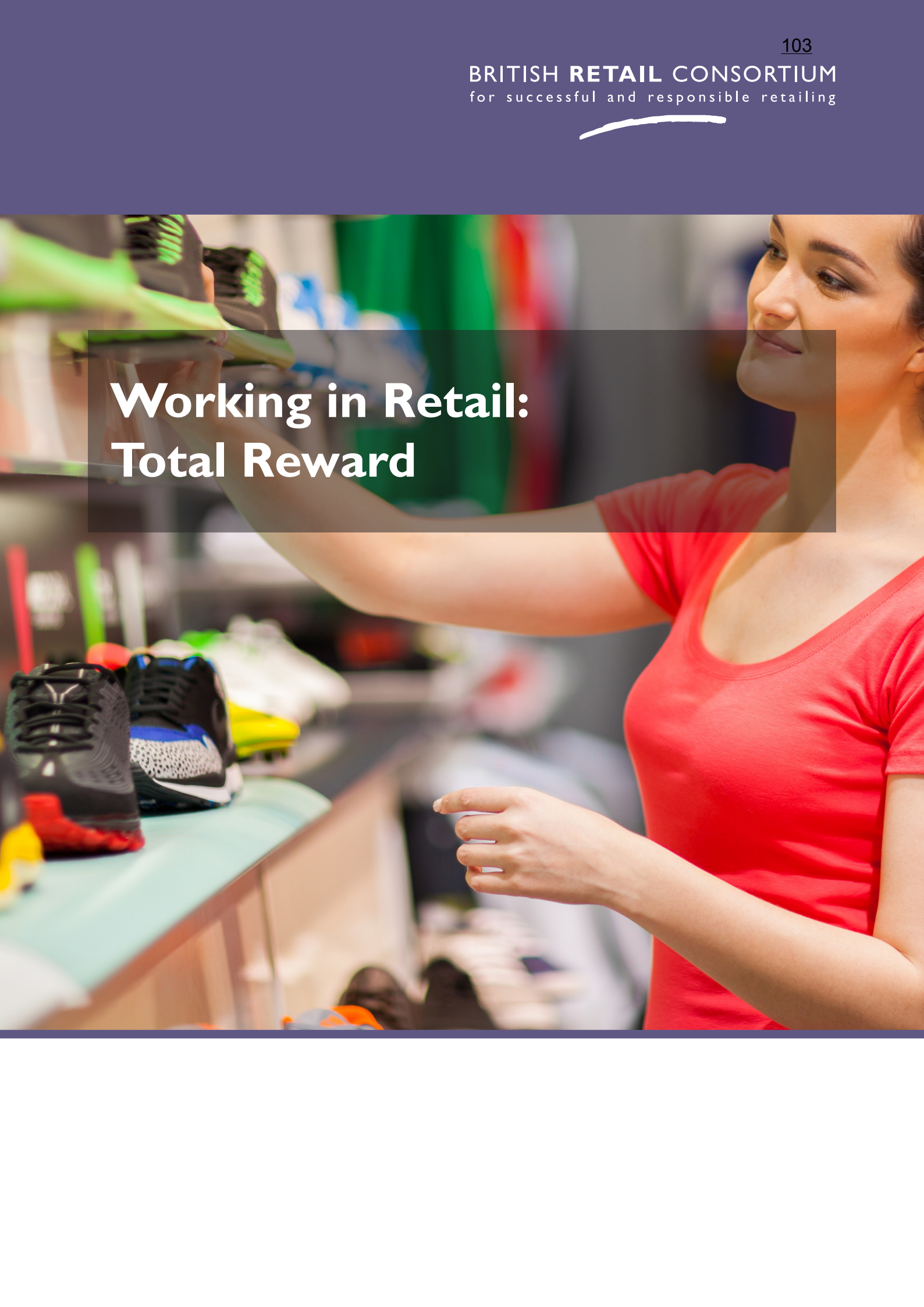
We hope our paper is useful in outlining our position to the Committee. We would be happy to discuss this in further detail if this would be helpful.

Yours sincerely



Helen Dickinson
Director General



A woman with dark hair, wearing a bright red short-sleeved top, is working in a retail shoe store. She is holding a black and green sneaker up to a shelf. In the foreground, a black and blue sneaker sits on a light blue display stand. The background is filled with various other shoes and clothing items, creating a busy retail environment.

Working in Retail: Total Reward

SUMMARY

The retail sector is incredibly diverse and offers a wealth of employment and career opportunities to people of all skills and backgrounds. With the sector employing three million people, pay across the sector naturally attracts significant interest. Too frequently there is a misconception that jobs in the sector are low-paid or low-skilled. In reality retailers offer their employees generous total reward packages, alongside significant career and development opportunities.

To provide a balanced picture of the benefits of working in the sector, we need to look not just at the hourly rate but also at the total reward package an employee receives. The BRC has undertaken research on the five most common additional benefits offered across the sector to illustrate the significance of total reward packages. Our research shows that for an average retail worker on a base hourly wage of £6.69, these benefits increase total reward to an equivalent hourly rate of £7.63.

As discussions continue on the Living Wage, the debate must move forward from only examining hourly rates and recognise the value of total reward packages and the benefits they bring to individual employees.



WORKING IN RETAIL

Retail is one of the most varied and rewarding sectors to work in, with opportunities for rapid promotion, dynamic training, good salaries and excellent overall benefits.

Almost three million people choose to work in the retail sector, the largest private sector employer, attracting people from all sections of society. The retail workforce is one of the UK's most diverse comprising 62 per cent women, 13 per cent disabled workers (in line with the UK population) and 12 per cent ethnic minority workers in proportions reflective of local populations. One of the many benefits of working within the sector is the flexible and part time working opportunities that are offered which are no bar to career progression.

Roles vary significantly, from Customer Services Assistant to Store Manager, from Insight Analyst to Buyer, with the sector offering a wide variety of careers with real opportunities to learn skills and progress within the sector and in the wider economy. This is clearly demonstrated by the sector's commitment to providing comprehensive training and skills development which equates to an investment of £1,225 per employee per year¹.

Retailers also offer excellent employee benefits. Five of the most common, which we have used for the purposes of our research, are bonuses, generous staff discounts, additional holiday allowance, pension contributions and paid breaks. But many retailers offer additional benefits beyond this list which are equally valued by their employees and should not be undervalued. These can include share-save schemes, optional overtime, use of discounted holiday facilities and special offers at other retailers.

RETAIL AND THE NATIONAL MINIMUM WAGE

Despite popular perception, retail is not a National Minimum Wage (NMW) sector. Analysis from our NMW 2012 survey shows that 97 per cent of employees earn above the NMW, with the median salary across the sector being £6.69 per hour². Our survey also shows the following:

- Two thirds of 16 and 17 year olds working in retail are paid at or above the adult level of the NMW despite there being a separate rate for under 18s;
- 89 per cent of 18-20 year olds are paid at least the adult NMW despite there being a separate rate for this group;
- Regional pay enhancements are commonly used by retailers to vary hourly rates of pay in recognition of the higher costs of living and local labour market conditions.

¹ UK Employers Skills Survey 2011, UK Commission for Employment and Skills

² The NMW 2012 survey represented over 20 large retailers that represent over 50% of the retail sector by turnover and over 1.3 million retail employees.

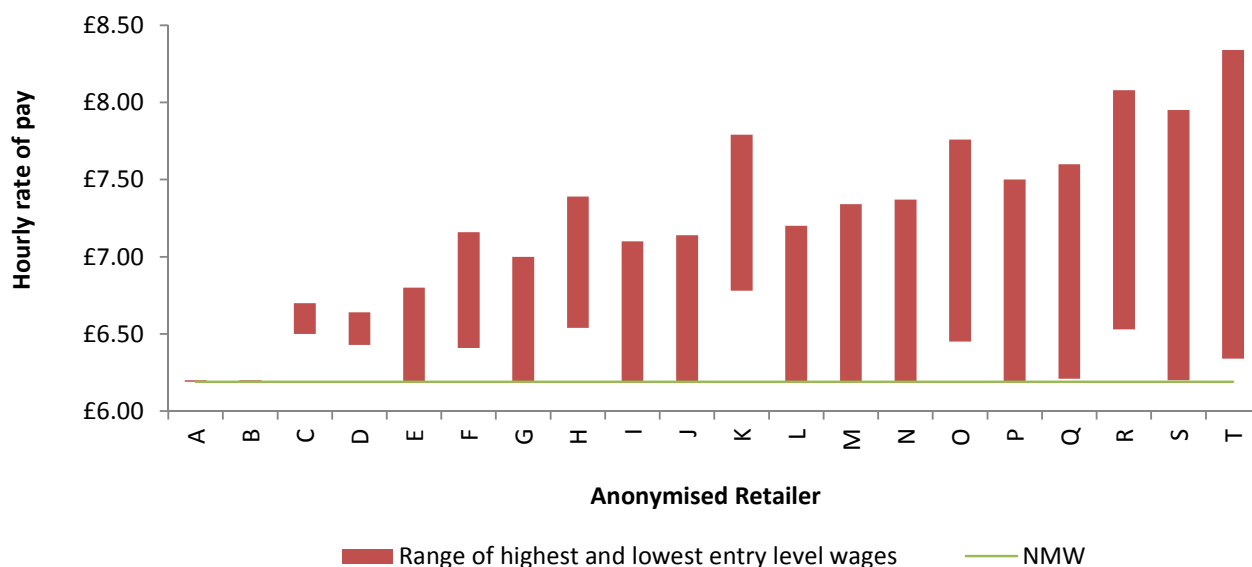
REGIONAL VARIATIONS IN PAY

Regional and zonal pay systems are common place in the retail sector, used to enhance hourly rates of pay in recognition of local conditions.

Regional pay systems usually consist of between three and five pay zones, the highest paying in Central London. The use of zonal pay systems have evolved since their inception and have been implemented across larger cities in the UK such as Bristol, Manchester, Birmingham and “hot spots” such as airports and out-of-town retail parks. Location-based approaches to pay have become more sophisticated, helping retailers recruit staff more effectively, reduce churn rates and enabling flexibility for larger employers to adjust to local labour market conditions. In some areas of the UK, a high degree of retailer concentration leads to tougher competition to recruit the most experienced and sought-after staff. Flexibility in wage structures is essential to adapt to local labour market conditions which go beyond the traditional location-based approaches.

Regional pay systems continue to be centred on London and the South East with the highest rates paid in these areas to reflect the higher cost of living.

RANGE OF REGIONAL ENTRY LEVEL HOURLY WAGE RATES BY RETAILER



Source: IDS, BRC analysis

BRC RESEARCH

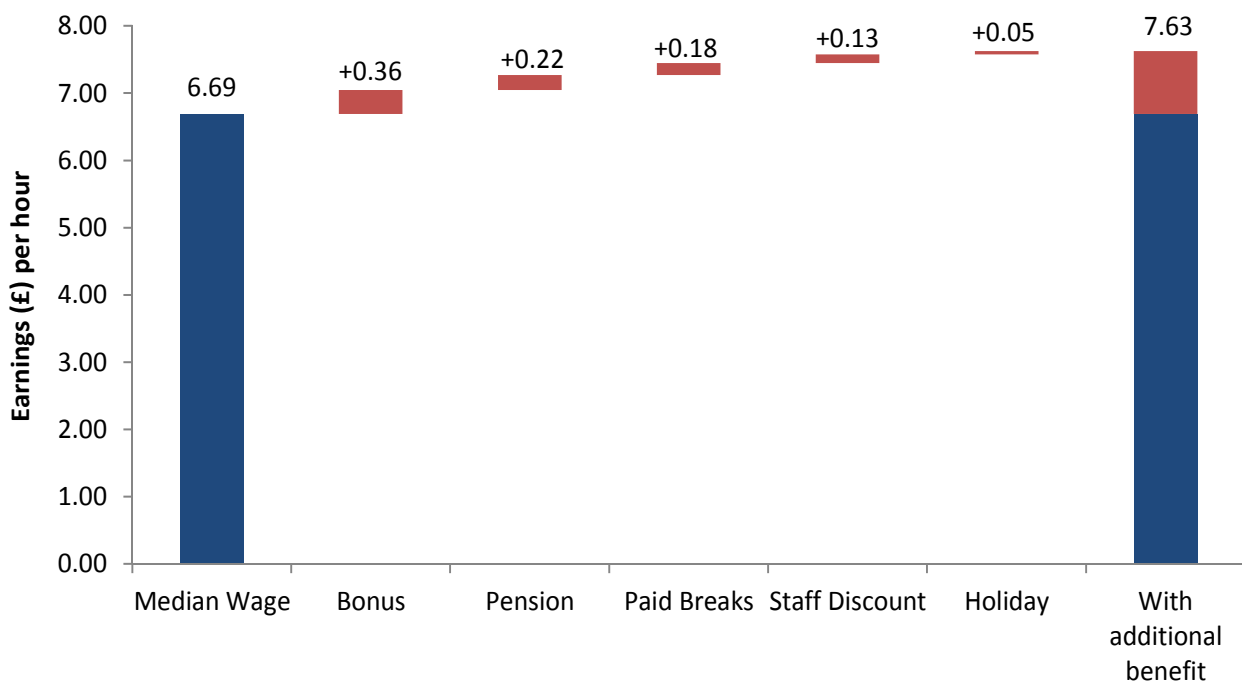
The BRC has conducted a survey of our members to assess retailers' total reward packages. An average retail package offers benefits which go significantly above and beyond the statutory minimum required.

We identified five main benefits offered by most retailers which play a significant role in boosting the overall benefit of working in the retail sector. By quantifying the impact of these benefits it is possible to demonstrate that an average retail job offers a substantial monetary boost to basic earnings.

The survey sample consisted of over 20 large retailers, representing more than 50 per cent of the retail sector by turnover and over 1.3 million retail employees.

The chart below quantifies the contribution each of the five benefits make to the average hourly pay of a retail employee. Our research shows that the median national hourly wage rate is £6.69 per hour. However, an average retail wage would increase by £0.36 per hour once a bonus payment has been taken into account. In addition, taking into account pensions, paid breaks, staff discount and above statutory minimum holiday pay, we estimate an average retail worker earns £7.63 per hour.

CONTRIBUTION TO HOURLY WAGES FROM RETAIL BENEFITS



Source: BRC

BONUSES

Bonus schemes are used by retailers to reward employees and are often linked to key objectives such as productivity, sales, customer service and individual performance. Our survey showed that **95 per cent** of respondents use bonus schemes to reward employees.

Bonus payments varied by retailer but on average added **£0.36 per hour** to the average salary of a retail employee in the UK.

HOLIDAY

All employees are legally entitled to 5.6 weeks paid holiday per year in line with the statutory minimum however, many retailers go beyond the basic requirements by offering their staff additional days of annual leave. The number of paid holiday days varied by retailer but over **90 per cent** of those surveyed offered above the minimum required. Many retailers rewarded staff with additional holiday days for long service while some even provide additional days, such as “celebration” day for weddings or birthdays.

On average, our survey found retailers offer **1.86 days** additional to the minimum requirement. To quantify this additional benefit, the average retail worker earns an additional **£0.05 per hour** as a result of paid holidays above the statutory minimum.

PENSION

Pension auto-enrolment began for the largest employers in October 2012 with the minimum contribution level starting at one per cent. However, our survey showed that **86 per cent** of the sample offer pension packages above the minimum. This equates to an additional **£0.22 per hour** for the average retail employee.

PAID BREAKS

The basic requirement is for a retailer to allow staff a 20 minute non-paid break every six hours but **65 per cent** of the sample go beyond the statutory minimum, placing additional value on a workers overall package. Paid breaks equate to **£0.18 per hour** for the average retail employee.

STAFF DISCOUNT

Staff discounts varied widely depending on the sector in which the retailer operates and the individual retailer. However, **95 per cent** of the sample surveyed suggested that they offered staff discounts which can make a considerable impact on the overall package offered to employees. On average, staff discounts contribute **£0.13 per hour** to average starting wages in retail.

OVERALL PACKAGE

Once all additional components of the total retail packaged are accounted for, an average national hourly salary given to a retail employee equates to approximately **£7.63 per hour**. This equates to around a **14 per cent** increase in average hourly earnings.

This table compares the additional contribution made to hourly rates of pay for average retail workers and those earning the National Minimum Wage. Although only a small proportion of retail employees earn the National Minimum Wage, additional benefits still equate to an additional **£0.88** per hour.

	National Minimum Wage	Average retail worker
Bonus	£0.34	£0.36
Pension	£0.21	£0.22
Paid Breaks	£0.16	£0.18
Staff Discount	£0.13	£0.13
Holiday	£0.04	£0.05
Total Average Package	£0.88	£0.94

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Concept/Design: Brendon Hunt, Marketing Manager, British Retail Consortium.
 Photograph: © michaeljung - Fotolia.com
 Printed: August 2013

A woman with dark hair, wearing a bright red short-sleeved top, is looking at a pair of black and green sneakers on a shelf. She is holding the shoe with her right hand. In the foreground, there are more pairs of sneakers on a light blue display stand. The background is slightly blurred, showing more clothing and shelves in a retail environment.

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15 August 2013

Low pay and the London Living Wage – London Assembly Consultation

Response from the Universities and Colleges Employers Association (UCEA)

This is a response by the [Universities and Colleges Employers Association \(UCEA\)](#), which represents the views of higher education institutions (HEIs) from across the UK in their capacity as employers. In formulating our response, we sought the views of HR teams in our member HEIs in London.

1. Summary

- **The Living Wage campaign has been prominent in the higher education (HE) sector at both local and national level for several years.** It has featured as a discussion item within multi-employer negotiations which cover the general annual pay adjustment for 85 per cent of HE staff and there have been several local campaigns led by trade unions and/or students. The first London HEIs signed up to the campaign in 2009.
- **Although only a small number of HEIs are accredited Living Wage employers, the vast majority of HEIs in London pay at least the London Living Wage** to all directly employed staff and some also have agreements in place to ensure that this rate is also paid as minimum to all staff at their major subcontractors. The median minimum hourly rate of pay for staff on the national pay spine employed by London HEIs is £9.07 an hour. The estimated number of staff in this category paid below £8.55 per hour is 243 out of total employee population of 65,000.
- The London Living Wage can be said to provide a useful **benchmark** for organisations looking for an appropriate minimum figure for pay at their organisation which will ensure that employees are paid at rates consistent with a satisfactory standard of living in London. However, employers feel that it **fails to recognise and place any value on other elements of the employment deal** which in HE includes excellent paid leave, pensions and other benefits. **Employers also consider** affordability, recruitment and retention, organisational performance, productivity, collective agreements, government policy and the economic outlook when making decisions on pay levels for their staff.
- While **Living Wage accreditation is seen as an attractive option by some employers** including a small number of HEIs in London, for other employers this is not an attractive proposition. **There is a perceived risk for employers in tying their minimum rates of pay to an externally determined figure.** This is particularly important during a period of economic uncertainty and pay restraint, especially given that the London Living Wage has increased much more rapidly (8.9 per cent since October 2010) than average wages in

the HE sector and in the wider economy (3.5 per cent). **The disconnect between average wage growth / public sector wage restraint and London Living Wage increases can also have implications for the pay and benefits of staff further up the pay distribution.**

- Although Living Wage accreditation is not deemed desirable by some employers, there are several examples in the HE sector in London where **agreement has been reached between trade unions and/or student representatives and the HEI to meet the current Living Wage level** without becoming formally accredited or committing to future increases in the Living Wage.
- **There are a range of views among HEIs regarding the future shape of the London Living Wage.** HEIs have a high level of awareness about the campaign and the rate and many are supportive of the general ambitions and principles. Using public sector procurement was identified as a key lever for increasing the number of employers paying the Living Wage by some HEIs and it was also recommended that incentives could be created through the tax/National Insurance systems. There was little support for considering alternative forms of remuneration as this would be too complex to calculate accurately and equitably.
- **One of the main routes out of low paid work is through the acquisition of skills and qualifications.** It is therefore recommended that the Living Wage campaign consider how the work could be broadened to embrace workplace initiatives that support lifelong learning, skills acquisition through qualifications or on-the-job learning, and personal development for low paid staff.

2. Background

The London Living Wage campaign was established in 2004 to achieve improved compensation for contracted workers in the Canary Wharf financial district and slowly moved into other areas, including the HE sector. The campaign gained momentum in HE from 2009 when Queen Mary University of London and the London School of Economics signed up to paying their staff the London Living Wage¹ and, by July 2010, a further five University of London colleges (Birkbeck, Goldsmiths, Institute of Education, London School of Hygiene and Tropical Medicine and SOAS) had become London Living Wage employers². Other HEIs, including London Metropolitan University, the Royal College of Music, University of East London and University College London, committed in 2011 and the Greater London Authority (GLA) counted 14 HEIs as Living Wage employers in its 2011 report.

When the above University of London colleges signed up to the London Living Wage in 2010, the rate was £7.85 an hour, but by November 2012 the hourly rate had increased by 8.9 per cent to £8.55 during a period where average wages increased by only 3.5 per cent.³ The campaign also introduced a Living Wage for employers outside London which began at £7.20 in 2011 and was updated to £7.45 in 2012.

Following a review of the scheme in 2012, the Living Wage Foundation introduced a new accreditation process which applied to all existing and new Living Wage employers. The process required employers to sign a new licence agreement which set out the requirements of Living Wage accreditation, accreditation fees, the provision of information necessary to confirm that the licensee is complying with the terms of the licence, and the rules pertaining to the termination of the agreement. On 5 November, the Foundation published a new list of accredited Living Wage employers which included only two HEIs – Queen Mary University of London and London Business School. Two other HEIs, London School of Economics and the University of East London were listed as in the process of accreditation and the other University of London colleges noted above were listed by the GLA as ‘committed employers’ but omitted from the Living Wage Foundation list. Since the launch of the accreditation scheme other HE employers have signed up to the scheme including the University of Huddersfield and St Mary’s University College Twickenham.

3. The Living Wage in multi-employer pay negotiations

While campaigners had made progress at institutional level in HE, the 2012-13 joint national pay claim from the five main HE trade unions included a request for all HEIs to pay the Living Wage to their staff. UCEA, acting on behalf of employers in the New Joint National Committee for Higher Education Staff (New JNCHES), stated that, under the Framework Agreement for the Modernisation of Pay Structures, the decision to pay the Living Wage was one for HEIs and no commitment could be made in multi-employer negotiations. This response was based on the views submitted by HE employers during UCEA’s consultation prior to the negotiating meetings.

¹ http://www.london.gov.uk/mayor/economic_unit/docs/living-wage-2009.pdf

² <http://www.citizensuk.org/2010/07/leading-universities-receive-living-wage-awards-at-young-citizens-assembly/>

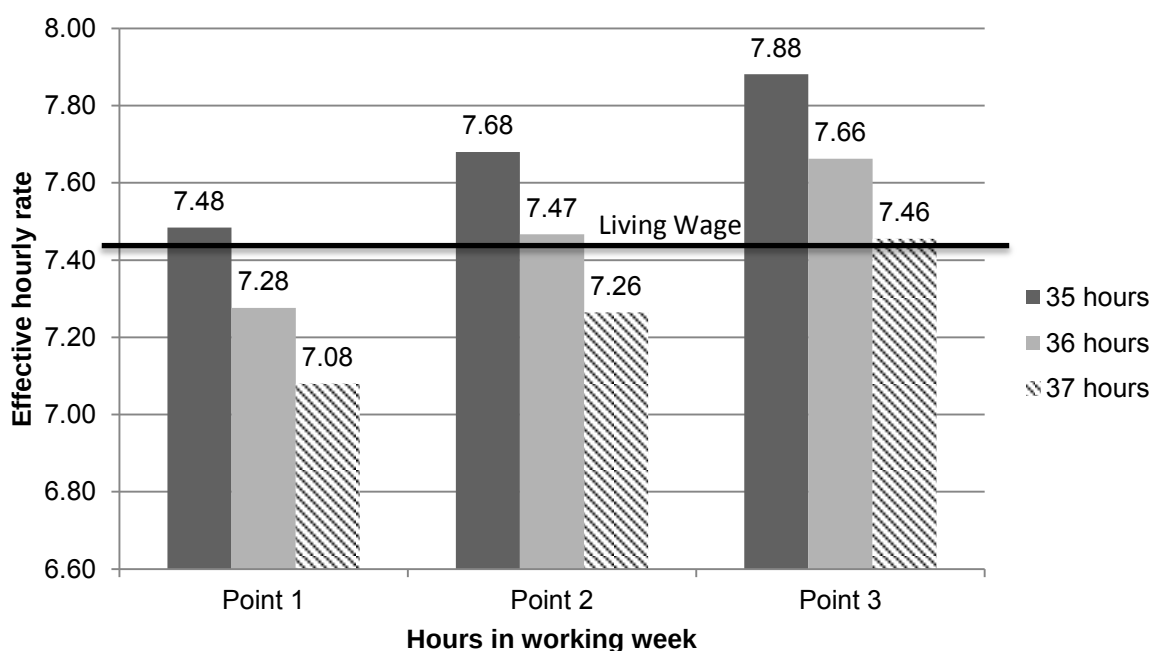
³ Based on the Office for National Statistics’ Average Weekly Earnings (AWE) index - October 2010 to November 2012. Whole economy, seasonally adjusted.

The final pay settlement included the following text:

The lower rates on the 51 point pay spine in HE do compare well with many other sectors and many HEIs are already meeting (or exceeding) the levels used within the campaign. Where an HEI is not in that position for staff they employ directly, we would expect the matter to be raised within the local negotiating arrangements.

UCEA issued a detailed briefing on the Living Wage to its members during the negotiations in May 2012 and updated this in November following the launch of the new accreditation process. The request for all HEIs to pay the Living Wage was repeated in the 2013-14 trade union claim, but this was expressed as a demand to delete the bottom two points on the single pay spine. UCEA reiterated that the Living Wage is an issue for individual employers and noted that deleting points from the pay spine was a blunt way of achieving this given the variation in the working week across HEIs, which can have a significant on the effective hourly rate. This point is illustrated by **Figure 1** which shows the variation in hourly rates according to the different working weeks used by HEIs against the Living Wage of £7.45 for organisations outside of London.

Figure 1: Hourly rates on pay spine points 1 – 3 (based on the current offer from employers for a 1.0% increase on all pay spine points from August 2013)



4. The London Living Wage in HE

The following London HEIs are currently accredited Living Wage employers:

- London Business School
- London School of Economics
- Queen Mary, University of London
- London School of Economics
- St Mary's University College Twickenham

While there are only a few accredited Living Wage employers in the sector in London, the vast majority of HEIs in London pay at rates at or above the London Living Wage to directly employed

staff and some have agreements in place with subcontractors to pay the London Living Wage even where they are not accredited. According to research conducted by UCEA in March 2013, three quarters of (19 out of 26 respondents) HEIs in London were paying at or above the London Living Wage to all directly employed staff. Although only three of these HEIs were accredited Living Wage employers, six HEIs had agreed with local trade unions or student representatives to meet the current rate without pursuing formal accreditation. One non-accredited London HEI has also recently retendered for two major services with the provision that all staff are paid at least the London Living Wage.

Minimum rates of pay vary significantly both between London HEIs and within individual HEIs. Although the equivalent hourly rate of the lowest annual salary on the pay spine (see **Figure 1**) used by the vast majority of HEIs is below the London Living Wage, all London HEIs pay a London allowance to directly employed staff covered by the 2003-04 Framework Agreement, which is either consolidated into salary or paid as a separate allowance; this is currently (on average) £2,561 per annum. HEIs are all in a situation where they determine their own pay and grading structures, in general using the points on the national pay spine, and many London HEIs choose not to use the lower points. Many HEIs have different minimum rates of pay for those staff employed on contracts covered by the national pay spine, those staff employed directly by the HEI but not covered by the national pay spine (e.g. apprentices), and for contractors.

The median minimum hourly rate of pay for staff on the national pay spine employed by London HEIs is £9.07 with a first quartile of £8.58 and an upper quartile of £10.14. The estimated number of staff in this latter category paid below £8.55 per hour is 243 out of total employee population of 65,000.⁴ The median minimum hourly rate of pay for the small numbers of staff employed directly by the HEI but not on the national pay spine is £7.37 while for major contractors it is £8.55. It has not been possible to estimate the numbers of casual or subcontracted staff who are paid below the Living Wage. These small numbers of staff that are paid a rate below the London Living Wage include student ambassadors and students employed for casual catering assignments and student union bar work. One HEI noted that at present these staff are paid at a lower rate than the London Living Wage but that if these roles were paid a higher rate this may impact on the decision to recruit primarily from the student population or to employ experienced agency or casual staff.

5. Consultation questions

UCEA wrote to all London HEIs in July inviting them to respond to the consultation questions as set out by the London Assembly. The response rate was lower than would usually be expected for this type of exercise but it was likely that it was affected by the timing of the consultation during the summer months. UCEA has analysed the responses that were received and these are detailed below. As noted these are not necessarily representative of all HEIs in London but UCEA feels that the responses will be useful for the purposes of the London Assembly's consultation.

⁴ This is based on the number of staff recorded as being on pay spine points that are below the London Living Wage once the minimum London allowance paid by London HEIs is added. Figures are from the 2011-12 HESA Staff Record.

Is it realistic and achievable for the Living Wage to become 'the norm' for London's employers by 2020? If so, how could 'the norm' be defined as a target?

- Some HEIs believe that this is a realistic target or at least should be the aspiration, but this is not a unanimous view. Some HEIs feel that employers need to retain control over pay bill costs and are reluctant to tie in to future increases in the London Living Wage.
- Employers did not offer examples of what 'the norm' might be but it was noted that the campaign must be clear on who the target population is, e.g. directly employed staff excluding individuals employed on a training or work experience basis.
- The Mayor of London currently has a target based on employers but this does not account for employer size (by employees). If the target is based on employer numbers then this could limit gains in total impact on individuals made through achieving the Living Wage for staff at fewer large employers.

What would be the milestones for achieving this goal?

- HEIs that agree with a 2020 target identify the important role that the public sector can play in demonstrating model employment practices and the effect it can have as an employer in its own right. For example, one HEI recommended that all local government and central government departments in London should be paying the London Living Wage by 2018.
- It was recommended that as an early milestone, an in-depth feasibility study should be conducted on the social and economic effects of widespread implementation of the London Living Wage, particularly effects on employers and employment.

What are the key drivers for low pay in the capital?

- This question was not widely answered by respondents to UCEA's call for responses, but it is acknowledged that there are multiple drivers and the interaction between these is complex. The following drivers were identified, many of which are interlinked:
 - Competitive pressures on businesses
 - Relatively high unemployment
 - Low skilled labour supply outstripping demand in the labour market – this is exacerbated by increased prevalence of under-employment where individuals are working in occupations that are below their skill / qualification level and thus crowding out those with matched, but lower, skill / qualification levels.
 - New migrants with either low skills or limited English language skills that do not allow them to enter the labour market at the appropriate level – recognition of qualifications is likely to be another barrier

- Expansion of low paid service jobs⁵
- Prevalence of outsourcing and agency workers

What is the extent of persistent low pay in the capital and which groups are most at risk?

- All of the drivers above are likely to persist in the near-term. There is a significant gap between the National Minimum Wage and the London Living Wage and so it is unlikely that improvements in the legal wage floor have a significant effect on low pay in the capital. The groups considered more likely to be at risk include young people, ethnic minorities, female workers, part-time workers, the low skilled, and the disabled.

What are the key factors determining employers' decisions on pay levels?

- HE employers consider a range of factors when making decisions on pay. The vast majority of HE employers participate in multi-employer bargaining to determine the uplift to the 51 point pay spine which covers 85 per cent of HE staff (i.e. below professorial / senior management level). All other aspects of reward including London weighting, pay and grading structures, contribution-related pay and senior staff pay is determined locally.
- The HE sector is currently navigating through a period of significant change and uncertainty following changes to undergraduate student finance and reductions in public funding. There was a decline in demand for undergraduate university places across the UK in 2012-13 and acceptance numbers in England were considerably affected by the new funding policy with 40 HEIs experiencing a fall in student numbers of 10% or more. This uncertainty and concerns about sustainability have contributed to modest pay awards in the sector over the last four years. Pay moderation alongside a range of other efficiency savings and workforce management approaches has minimised the impact of the cuts and policy changes on total employment in the sector.
- Employers also consider the wider economy including inflation, trends in private sector pay, public sector pay deals and policies and occupational comparisons. As autonomous employers, HEIs are not subject to public sector pay policies but do receive a significant proportion of their income from the government and therefore need to be mindful of the restraint currently being applied.
- Employer reputation was also mentioned as an important factor by two HEIs, one of which emphasised the important role of HEIs in the local community as civic HEIs and as employers of a large number of staff.
- Most HE employees, including those in lower pay grades, receive some annual incremental progression (subject to satisfactory performance) in their grade equivalent to a 3 per cent increase in salary which creates pay bill drift in the region of 1.4 to 1.6 per cent per annum.
- The sector has not historically encountered widespread recruitment and retention difficulties although there are specific areas where recruitment is more challenging. These

⁵ According to the TUC, four in five jobs created since June 2010 have been in low-paid industries.
<http://www.tuc.org.uk/economy/tuc-22364-f0.cfm>

are largely academic disciplines with higher degrees of crossover to the private sector (e.g. engineering, business, economics, IT) and IT professionals. HEIs report very few problems recruiting for roles paid at the lower end of the salary scale.

What is the right approach to addressing low pay in the capital, while maintaining London's competitiveness?

- This question was not widely answered by respondents. It was suggested by one HEI that the approach should align the issue of low pay with improvements in the quality of work delivered by employees in these jobs and the potential increases in productivity from lower rates of sickness absence, lower employee turnover and improved employee engagement. Procurement is also an important lever for change and the assumption of appointing the lowest bid without assessing quality issues, which might include the pay and conditions of the staff, should be questioned.

What would incentivise or assist employers to pay the living wage, including in sectors where low pay is widespread?

- Most respondents to the UCEA call for responses commented on this question from an institutional perspective. However, most of these HEIs already paid the London Living Wage and the concern for some was less about incentives to pay the Living Wage and more about the obligations of accreditation.
- The evidence set out above shows that low pay, as defined by the Living Wage, is not widespread within the HE sector in London and indeed many employers have taken positive steps to either be accredited or meet the Living Wage levels without a formal commitment.
- The majority of London HEIs pay the London Living Wage to directly employed staff, but only a small minority are accredited HEIs. Indeed, the number of accredited HEIs fell sharply following the introduction of new accreditation procedures in 2012. Some HEIs that are eligible for Living Wage accreditation noted that while they agree with the principle of the campaign, they are not comfortable with the concept of relinquishing control over pay determination for a section of their staff and ultimately over pay bill costs. In this respect, some HEIs appear to find the Living Wage measure useful as an external benchmark for the minimum level of pay required for individuals to achieve and maintain an appropriate standard of living in London; however they do not wish to lock their HEI into a mechanism which requires them to meet any future increases in this amount.
- In terms of specific incentives that may encourage HEIs or indeed other organisations to adopt the Living Wage, there were two clear suggestions. The first is to create beneficial tax arrangements for organisations, perhaps similar to those floated by the Labour Party, and the second is to use public procurement as a lever for change in a similar way that has been done with workforce equality.
- The wider effects of increasing minimum rates of pay more rapidly than average earnings should also be considered. For example, research commissioned by the Low Pay Commission found that increases in the minimum wage create direct and indirect spill-

over effects that can reach up to the 25th percentile of the earnings distribution.⁶ The Low Pay Commission also reported in 2013 that although the introduction of the National Minimum Wage in 1997 had very little impact on business at the time due to employer anticipation of the change, large upratings between October 2001 and October 2006 led to changes in pay structures (reduced hierarchies and geographic pay zones) as well as reductions in other labour costs such as pay premia for overtime and unsocial hours and restrictions in non-wage benefits such as subsidised transport, annual leave, pensions and staff discounts.⁷

Could living wage accreditation take account of alternative remuneration methods used in sectors such as retail and hospitality?

- It is felt that while such an approach may be beneficial in encouraging employers and increasing the number of staff judged to be above the London Living Wage, it would be far too complex to measure in practice and difficult to ensure equity across sectors and between organisations. It would also beg the question of whether additional employment benefits such as above statutory maternity pay, defined benefit pensions schemes and staff discounts should also be taken into consideration.

What could be the potential for 'living wage zones' in the capital?

- Few responses were received on this issue and it is unclear what this would mean in practice.

Could investment and pension funds, procurement policies and sponsorship agreements be better harnessed to support expansion of the living wage?

- Procurement policies have been addressed in questions above. No comments were received regarding pension funds and sponsorship agreements.

How should the living wage campaign relate to other initiatives aiming to foster progression out of low pay?

- One of the main routes out of low paid work is through the acquisition of skills and qualifications. It is therefore suggested that the Living Wage campaign could broaden its outlook and consider how it might align with those workplace initiatives that support lifelong learning, skills acquisition through qualifications or on-the-job learning, and personal development for low paid staff.

6. Contact

If you have any queries please contact Laurence Hopkins, Research Manager at UCEA – l.hopkins@ucea.ac.uk or 020 7383 2444.

⁶ Butcher, Dickens and Manning (2012), *The Impact of the National Minimum Wage on the Wage Distribution*. Research Report for the Low Pay Commission. February. (Low Pay Commission; University of Sussex; and London School of Economics.).

⁷ Low Pay Commission (2013), *National Minimum Wage – Low Pay Commission Report*, London: HMSO.

CBI SUBMISSION TO LONDON ASSEMBLY ECONOMY COMMITTEE'S INVESTIGATION ON LOW PAY IN LONDON AND THE LONDON LIVING WAGE

1. The CBI welcomes this opportunity to respond to the London Assembly Economy Committee's investigation into low pay in London and the London Living Wage (LLW). The CBI is the UK's leading business organisation speaking for some 240,000 businesses that together employ around a third of the UK's private sector workforce.
2. The CBI supports the National Minimum Wage (NMW) and the independent Low Pay Commission (LPC), which sets the wage each year at a level that balances income for the lower paid and the need to preserve jobs. The London Living Wage is a useful benchmark for firms, but it is not the answer to low pay and must remain voluntary as it does not reflect the need to balance wage costs with job creation, productivity or wider economic growth. The right answer on low pay is investment in progression, not higher pay minima. Investment in progression to help individuals prosper for the long-term will lead to material productivity improvements with wider benefits for sustainable economic growth, which, in turn, will facilitate sustainable wage growth. We would like to highlight three issues in particular:
 - **When setting pay minima, wider economic factors need to be taken into account**
 - **A high minimum wage can be damaging beyond its effect on hiring**
 - **The right challenge to business is around progression from entry-level wages**

When setting pay minima, wider economic factors need to be taken into account

3. Pay minima exist to provide protection to the lowest paid, without an adverse impact on employment and the wider economy. Wages and wage growth depend on a number of factors, including the broader economic environment, productivity levels across the workforce and the level of unemployment. When pay minima are set, it is important that these factors are taken into account to avoid negative impacts on employment and job creation.
4. This is why the LPC take into account a broad range of factors including affordability, unemployment, productivity, and the wider economic climate when reviewing the NMW each year. The work of the LPC helps to ensure that a balance is struck, meaning that the introduction of the NMW has not adversely impacted on overall levels of employment growth, as most employers were able to accommodate its introduction.¹ This is due to the level at which the NMW rate was initially set, however there were effects beyond employment growth as outlined in the next section. The NMW has not fallen as far behind as many claim – indeed NMW workers have done rather better across the recession than the rest - and it is possible to reach the living wage standard of income on a normal working week.
5. The LW and LLW, on the other hand, are calculated using 'cost-of living' calculations without accounting for wider economic factors. The LLW even includes a 15% margin for "unforeseen events" for which

¹ Low Pay Commission, 2011

there is no economic justification and an arbitrary judgement of the length of the working week, below the norm for full time workers. Therefore a mandatory LLW as the 'norm' for London could have serious consequences for London economy in the absence of a voluntary approach. With unemployment in London at 8.7 per cent, compared to 7.6 per cent in the UK overall, we cannot afford policies that stifle employment growth.²

6. As the economy starts to recover, we should see an improvement in pay growth. Yet sustainable wage growth can only follow sustainable economic growth. This will improve the ability of businesses to pay more. We have been through a tough time economically over the past few years, and this has been reflected in the jobs market in terms of lower pay increases and more part-time work. But this response has saved jobs by protecting levels of employment during the downturn and in its aftermath. It has also started to reverse, with stronger growth in the last few months already feeding through to more permanent, full time job creation. Unemployment is still too high, but far more people have been kept in work because of wage restraint and flexibility on hours than was initially thought possible. Recent upratings of the LLW, on the other hand, have been out of step with pay growth in the wider labour market. For example, in 2012, the LLW was uprated by 3% compared wider earnings growth in London and the wider UK was around 1%.^{3,4} To ensure that London remains competitive, wages must remain a reflection of productivity and pay decisions taken with a view to what is happening in the wider labour market. A mandatory LLW would fall hollow if businesses are not able to sustain the increase in costs or, equally, invest for growth.

A high minimum wage can be damaging beyond its effect on hiring

7. The NMW is widely regarded as one of the most successful public policies of recent times.⁵ However to say it was not without pain for some sectors is wrong – for instance, there is clear evidence of changes in patterns of hours. In our evidence to the LPC in 2002, we identified that 23% of our member companies reduced working hours to offset the cost of the NMW's introduction. More recent research has also found evidence of upratings of the NMW negatively impacting hours worked.⁶ This demonstrates that a minimum wage can have negative effects beyond employment growth through its effect on other factors such as hours worked. Given that the LLW is nearly 40 per cent higher than the NMW and calculated solely on a cost-of-living basis, it is reasonable to expect that the negative impact of a mandatory LLW.
8. When considering the LLW, a key issue for businesses is its affordability. Some businesses can and choose to pay the LLW, however, it is clear that affordability is not universal across business. Therefore the voluntary approach must remain. A mandatory move from the NMW to the LLW would be especially significant for small businesses, low-margin businesses and consumer-facing businesses where the paybill can represent a significant business cost. Many would have to make sacrifices in other areas in order to absorb the cost of the LLW or increase prices for hard-pressed local families. In the short term, this may include a freeze on hiring new staff as well as a reduction in working hours as outlined above. A Voice of Local Shops survey of independent retailers found that store owners have been sacrificing their own wages and taking home less than the NMW in order to keep their stores open and pay staff.⁷ Situations like these illustrate why the voluntary approach to the LLW must remain so that businesses can make the decision on the LLW with a view to its sustainability.
9. The difference between the NMW and the LLW is such that significant affordability concerns arise especially around wage rates above the NMW – rewarding small developments – which would be eaten up over time, leading to limited incentives for staff to progress. Research from the XpertHR pay prospects survey 2013/14 showed that changes in the NMW are a key negotiating pressure for the 2013/14 pay setting for 16% of respondents; this is up from 10% in 2012/13. However, one of the top upward pressures on pay reported in the survey was 'company performance/ability to pay' at 55% –

² ONS, Labour Market Statistics, November 2013

³ GLA Economics, *A Fairer London: the 2012 Living Wage in London*, 2012

⁴ Annual Survey of Hours and Earnings, 2012

⁵ Institute for Government, *The "S" Factors*, 2012

⁶ http://www.lowpay.gov.uk/lowpay/research/pdf/ISER_NMW_Report_Final.pdf

⁷ <http://www.acs.org.uk/en/research/voice-of-local-shops-survey/>

reinforcing the fact that business growth is necessary to support wage growth, and will need to happen first.⁸

10. Pay is just one, albeit important, element of the total reward package offered by businesses. For some businesses, the wider reward package may need to be reviewed if the LLW was made mandatory. Other benefits offered as part of the reward package include flexible working arrangements, childcare support, travel loans and cycle-to-work schemes. In London, where the cost of care and travel are significant expenses for Londoners, these schemes are greatly valued by employees. However, the LLW has implications for the wider benefits offered by employers. Many CBI members tell us that if wages were to rise significantly, they would need to review their offering of such benefits, which supports existing evidence of the impact of a living wage on the wider reward package.⁹

The right challenge to government and business is on progression from entry-level wages

11. The current ideas being proposed to address low pay and living standards such as restricting the use of flexible contracts or substantial increases in minimum wages seek to address the right question with the wrong answer.
12. An hourly wage alone will never be enough to deliver a set standard of living. A household's composition, hours worked and other income and benefits all help to define household living standards. Work, however, remains a crucial factor in lifting individuals out of poverty. Once in work, we need to ensure that people are able to progress in their career especially from entry-level roles. This will support sustainable pay progression in a way that reflects productivity.
13. Flexible contracts, such as zero-hours, have been a vital tool in supporting entry into – and maintaining contact – with the labour market. The focus on these contracts should not be on how many contracts do or do not guarantee hours, but instead on whether contracts work for both parties and on tackling abuses. Zero-hour contracts boost employment and often suit the preferences of businesses and employees, shown by the fact that the majority of zero-hours workers are also not looking for an alternative job (80%) and only around a quarter would like to work longer hours if given the option (26%).¹⁰ For businesses, these contracts allow them to flex the number of hours worked when demand decreases, rather than having to make workers redundant in order to match supply to demand. Most of the examples of workers being dissatisfied with zero-hours contracts seem not to be problems with the zero-hours nature of the contract, but the insufficient enforcement of the NMW regulations and the Working Time Regulations.
14. Ensuring the “talent pipeline” flows as smoothly as possible, so that no barriers prevent talented people from progressing in work, is crucial to ensuring that we make the most of our human capital. The “talent pipeline” is the route in employment from the lowest point – entry to the labour market – to the next step in their career. Identifying and tackling the barriers to maximising talent is part of an overarching goal to secure a dynamic and flexible labour market with multiple and diverse routes to success. For example, on childcare, the introduction of shared parental leave in 2015 offers the potential to offer real benefits for businesses and employees. Sharing leave between parents reduces the loss of knowledge and human capital from the workplace by enabling both to maintain contact with the labour market. For women in middle-management roles, this is especially relevant, as career breaks at this level can impact on progression to the top.
15. Skills are also an important factor, and, in London especially, government and business action is needed. Being a key driver of productivity, skills advancement will be fundamental in any discussion of pay progression. Evidence from GLA Economics showed that people with higher skills levels are doing better in work, with 50% of London employees earning below the LLW having no qualifications. This clearly indicates a need to focus on the skills development of the lower-paid to support their progression.

⁸ XpertHR, *XpertHR survey of pay prospects 2014: subdued settlement levels to continue*, 2013

⁹ Carroll and Grimshaw, 2002

¹⁰ The Work Foundation, *Flexibility or insecurity? Exploring the rise in zero hours contracts*, 2013

16. The need is especially pertinent for young people. Our CBI/Pearson 2013 Education and Skills Survey indicated that businesses are still finding that young people are not being prepared well for the workplace. Making sure that our young people not only have academic but vocational rigour through a comprehensive package of measures including apprenticeships, through the recommendations of the Richard Review, and other forms of training will be necessary to build up the skills base of our young people, so that with higher productivity, young people can experience faster career progression as they break into the labour market.
17. Businesses are stepping up to the challenge by increasing the number traineeships and apprenticeships – as well as undertaking action in other areas such as diversity – and there is opportunity for businesses to do more in these areas. However, these offerings require a lot of investment by business that could be put at risk should there be a mandatory LLW. Our *Tomorrow's Growth* report highlights the need to remove the barriers that currently exist to co-operation in skills development, around finance, information, and the lack of incentives in the education system to focus on employment outcomes.¹¹ Again, addressing this will not only support young people in their transition into work, but it will also aid faster career progression due to higher productivity. This in turn will give businesses the ability to pay more.

**CBI Employment and Skills Directorate
December 2013**

¹¹ CBI, *Tomorrow's Growth*, 2013

Response to the London Assembly

Low Pay and the London Living Wage

Submission by the Joseph Rowntree Foundation

August 2013

The Joseph Rowntree Foundation (JRF) is one of the largest social policy research and development charities in the UK. For more than a century we have been engaged with searching out the causes of social problems, investigating solutions and seeking to influence those who can make changes. JRF's purpose is to understand the root causes of social problems, to identify ways of overcoming them, and to show how social needs can be met in practice. The Joseph Rowntree Housing Trust (JRHT) shares the aims of the Foundation and engages in practical housing and care work.

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Introduction

In 2011, 6.1m people experiencing poverty lived in households where at least one person was working; 5.1m lived in workless households (Aldridge et al 2012). Work clearly does not offer a guaranteed route out of poverty.

Furthermore, those in and out of work are not static groups, and people cycle in and out of work and in and out of poverty as their circumstances change.

One key explanatory factor for the UK's high rates of in-work poverty is the relatively high and rising incidence of low paid employment.

Across the UK, around 20% of employees (5 million) earn less than the living wage, with a similar proportion earning less than the commonly used low pay threshold for OECD countries (defined as less than 2/3 gross median hourly pay). The UK is second only to the USA for incidence of low pay among OECD countries. This is the outcome of a number of deep seated structural and institutional features of our economy and society, which make this a difficult and complex challenge to address (as discussed in Philpott, forthcoming).

Across the UK as a whole low pay is particularly prevalent in certain sectors. According to the Low Pay Commission, the hospitality, retail and cleaning sectors together account for over half (54%) of minimum wage jobs, while social care, childcare, transport, food processing and storage each account for between 3% and 4%.

Low pay is also more prevalent among certain groups. For example, young people account for 1 in 6 low paid employees. While a period of low pay while young is generally deemed acceptable so long as it is followed by progression into better paid work, 1 in 3 low paid workers are in the prime of their working lives (aged 31-50), suggesting that this progression does not occur for a large number of people.

Yet the relationship between low pay and poverty is not straight forward: only 54% of the UK's low paid workers live in low to middle income households. Other factors alongside pay - such as the number of hours worked, security of the contract and the possibilities for progression through promotion or a pay rise – all influence whether work offers a route out of poverty. Furthermore, other household circumstances also influence the likelihood of in-work poverty, such as whether someone lives with non-earning dependents, the size

of family and the interaction between earnings and the tax and benefit system. In short, pay is not a silver bullet for in-work poverty but it is undoubtedly an important factor. As a result it is right to make pay central to the debate about living standards and in-work poverty, but it is also right to consider what other ways employers could tackle poverty among their workforce.

JRF has been looking at these issues for a number of years, most recently through our Future of the UK Labour Market and Anti-Poverty Strategy programmes of work. Many of the references used here are for forthcoming publications. These publications are not specific to London, therefore we have only answered questions where we can either apply our evidence to a London context or where questions are relatively general in nature. We would be happy to follow up this submission with a meeting if that would be helpful.

What are the key drivers of low pay in the capital?

As with elsewhere in the UK, low paying sectors are influenced by a range of factors, with different sectors of the economy subject to different pressures. For some, particularly those open to global competition or operating in highly competitive markets, low pay is part of a strategy to keep costs down in order to remain competitive. Often these businesses have very finely balanced profit margins. For others, low pay results from technological changes which have de-skilled formerly complex jobs into simpler routine tasks (Philpott forthcoming)

Consumer demand also shapes markets and business strategies. This is most clearly seen in retail where at one end of the spectrum there is demand for luxury and individual goods, while at the other end there is demand for high volume, low cost and low value goods (known as the high- and the low-road) (Devins et al 2014 forthcoming). In this regard business model decisions about which part of the market to target influence rates of low pay. Furthermore, there is a feedback loop in operation, as a large group of low paid workers in turn creates a large market for low price goods and services (Philpott forthcoming).

A plentiful supply of labour is also a factor. Active labour market policies and a hollowing out of the middle of the labour market - as mid-skilled jobs have reduced in number - have increased the number of people willing to work for low pay. This means employers can maintain low cost and low quality business models without being overly concerned about staff retention, particularly where job skills are relatively easy to learn (Devins et al 2014 forthcoming).

Within supply chains too there is downward pressure on prices, often resulting in low pay to keep costs down. For example, higher paying organisations often seek efficiencies in areas other than their wage bill, resulting in pressure on suppliers to keep their costs down. Public sector procurement too has a part to play. For example, in the adult social care sector, local authorities are major purchasers of social care services, but pressure on their budgets combined with the availability of low skilled workers means companies providing care have little incentive to improve employee pay, conditions and working practices. According to one estimate, cuts to local authority budgets have resulted in a 20% reduction in funding for adult social care since 2010, after

adjustment for inflation and increased number of people with eligible care needs (Association of Directors of Adult Social Services 2013)

What are the key factors determining employers decisions on pay levels?

For some of those subject to the pressures outlined above, profitability and affordability are key factors in decisions about pay. Some employers would not be able to practice their existing business model and stay in business if they paid better. Furthermore, in the absence of statutory or regulatory requirement to do otherwise, their current business model is sustainable, meaning there is no immediate imperative for them to seek change.

However, research has also shown that employers in very similar markets operate different business models, particularly in relation to how far they use secure 'core' staff (those with permanent contracts and opportunities for progression) as opposed to temporary and agency staff. Evidence suggests there is little difference in business performance between employers using these different business models (Metcalf and Dhudwar 2010; Devins et al 2014 forthcoming). This suggests ethos and employers' preferences seem to be key factors in these circumstances.

What would incentivise or assist employers to pay the living wage including in sectors where low pay is widespread?

Developing a strong business case for the living wage boosting the bottom line of business is important here. There is some evidence that higher pay helps reduce staff turnover and consequent recruitment and induction costs, and reduces rates of sick leave too (Wills and Linneker 2012). However, the evidence base is not very strong at present and more work needs to be done to build a more robust evidence base. At present JRF is working with York University and other employers in York to evaluate the impact of implementing the living wage; we hope this will contribute to the evidence base in time, but the research is its early days.

Beyond the question of the benefit to the bottom line, there are other drivers that could incentivise employers to pay the living wage. These include: minimising reputational risk of being seen as a "bad employer"; peer pressure if other employers in the sector begin to introduce the living wage; and a campaign to win the hearts and minds of employers, by arguing that paying the living wage is the right thing to do.

The Living Wage Foundation has been successfully deploying a combination of these tactics in its work to date.

Could living wage accreditation take account of alternative remuneration methods used in sectors such as retail and hospitality?

This would be a possibly, however, whether or not it is a good idea is a tactical question for the campaign. On the one hand it could be argued that accepting alternative remuneration methods would muddy the water or what is otherwise a very clear and simple campaigning message; on the other it could be argued that taking a broader approach to what it is to be a living wage employer would enable the campaign to break into some sectors that have proved otherwise difficult to win over

.

However, if accreditation was to take account of alternative remuneration packages there are a number of questions that would need to be asked, such as:

- What is the level of take up of existing wider benefits among low paid staff?
- Which wider benefits are most valued by low paid staff?

A JRF review of the literature in this area found there is scant evidence to enable us to answer these questions at present (Philpott forthcoming).

If it is decided that accreditation should take account of alternative remuneration, it is essential that this does not result in companies simply accrediting existing remuneration packages, as without change we will not reduce in-work poverty. At the very least, companies would need to be required to demonstrate how they were going to increase take up among low paid staff.

What could be the potential for living wage zones in the capital?

We have not carried out any research into this idea or its implementation. It does, however, seem to have potential. In its implementation it would be essential to learn lessons from the experience of trying to implement local labour clauses in contracts for new developments. These include the need for precise wording of clauses with firm and realistic expectations, accompanied

by monitoring and enforcement. Such arrangements work best when they are underpinned by strong relationships and a shared understanding of the community benefit that is being sought (McFarlane and Cook 2002; Betts et al 2008)

Could investment and pension funds, procurement policies and sponsorship agreements be better harnessed to support expansion of the living wage?

While we do not have research in this area, JRF is involved with the Charities Responsible Investment Network and ShareAction. Guidance to charities for making use of their investments to further the living wage includes:

- Get fund managers to add the living wage as an agenda item for discussion when meeting companies and include a paragraph in support of Living Wage standards in correspondence with investee companies.
- Develop a voting policy which gives explicit reference to support for Living Wage standards at investee companies. A foundation's voting policy is made available to its fund managers as a guide to its preferences on the voting of its shares by the manager.
- Attend company AGMs to express to the board of directors support for Living Wage standards or to express approval of the company's adoption of those standards.

With regard to procurement policies, as with living wage zones, supporting take up of the living wage through procurement policy requires lessons to be learnt from existing experience. For success, pushing good practice through a supply chain needs to be accompanied by advice and support and appropriate enforcement (Hudson et al forthcoming)

How should the living wage campaign relate to other initiatives aiming to foster progression out of low pay?

This is crucial – pay not a silver bullet as we outlined in the introduction. To tackle in-work poverty the number of hours worked, contract security, and progression are all crucial issues. So too is tackling the essential cost of living which is driven up by particularly high housing costs and childcare costs in London.

This might be an issue for the GLA rather than the Living Wage campaign – again this comes down to a tactical question of whether it is better for the living wage campaign to have a simple and clear message.

Nonetheless, our review of the evidence suggests focusing on progression routes through training and the development of transparent career paths with clear links to the necessary training and experience are the most important non-pay interventions from the point of view of low paid employees. There is also evidence for the positive effect of flexible working (Philpott forthcoming).

There are a number of areas for activity that would help to promote progression out of low pay.

In-work conditionality: The government is planning to introduce an element of in-work conditionality within Universal Credit, to encourage people to increase their earnings. If done in a supportive way, this has potential to help people improve their circumstances. In particular, UC will provide a rich data source on the pay and hours currently being worked by individuals and their overall household income. If this data is shared, it will enable support services to target assistance at individuals in households that would most benefit from more pay or more hours (Barnes and Lord forthcoming). This is an area where London could potentially pilot some approaches.

However, relying solely on supply-side solutions cannot solve this problem. Employers also have a key part to play. Greater employer aspiration and demand for skilled workers is required, so fewer people are trapped in low paid low skilled work.

Choice of business models: Research shows there is no difference in business performance for employers using permanent contract arrangements compared to those using temporary ones (Metcalf and Dhudwar 2010). This suggests employer ethos, or a belief that better conditions will result in a more committed workforce, drives decisions about what sort of business models to use.

Similarly, a key enabler of low paying employers offering progression opportunities is the ethos and commitment of the organisation and the managers within it (Devins et al 2014 forthcoming). This suggests the development of human resources practice and managerial development has a key role to play in improving conditions for low paid workers. Supportive line managers have a particular role to play in facilitating progression. Such managers alert staff to new opportunities, encourage them to learn and provide constructive feedback and support within and outside of Personal Development Reviews. However, many low paid workers do not feel that this support is forthcoming. Instead, along with unsupportive line managers there are several factors which contribute to low wage traps and unfulfilled aspirations. These include the focus of formal training opportunities on the existing job; and a lack of informal developmental opportunities such as shadowing or being mentored. Even those employers that have good progression pathways in place can experience pockets of bad practice (Hudson et al forthcoming). Where good policies are in place it is essential that they are clearly communicated. (Devins et al 2014 forthcoming)

Boosting employer demand for skills: However, the business model of low-pay low-skill employers also needs to be challenged in order to boost overall demand for a higher skilled workforce, which should in theory result in higher productivity. Evidence suggests one effective way to do this is through employer-to-employer networking and influence, with leadership, role models and peer pressure acting to encourage employers to improve their practice (Sissons and Jones 2014 forthcoming).

Another important mechanism is ensuring training responds to employer needs by involving employers in the design of training courses and the establishment of career ladders. However this should also be done in conjunction with other stakeholders such as employee representatives and training providers (Sissons and Jones 2014 forthcoming; Henderson et al 2013). The GLA and its partners have a key role to play in this respect.

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