



Northern Ireland
Assembly

Research and Information Service Briefing Note

Paper 15/13

25 January 2013

NIAR 69-2013

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The Living Wage

1 What is the Living Wage?

The Living Wage is an hourly rate calculated according to the basic cost of living in London and the rest of the UK. The UK Living Wage is calculated by the Centre for Research in Social Policy. The London Living Wage is calculated by the Greater London Authority.

The current rates are £8.55 for London and £7.45 for the rest of the UK. The Living Wage is greater than the National Minimum Wage¹, which is currently £6.19 per hour for workers aged 21 and over (lower rates for under 21s). The Living Wage represents a benchmark which nobody should have to be below, although it is not necessarily something that will meet every household's needs. Employers can choose to pay the higher rate Living Wage on a voluntary basis. The Living Wage Foundation offers accreditation to employers who choose to do so.²

The Living Wage Campaign was first launched by members of London Citizens³ in 2001. In 2005, following a series of campaigns and growing interest from employers, the Greater London Authority (GLA) established the Living Wage Unit to calculate the London Living Wage.⁴

¹ See <https://www.gov.uk/national-minimum-wage-rates> on National Minimum Wage.

² See Living Wage Foundation - <http://www.livingwage.org.uk/about-living-wage>.

³ See <http://www.citizensuk.org/chapters/telco/>.

⁴ See http://www.london.gov.uk/mayor/economic_unit/workstreams/living-wage.jsp.

In 2008 the Centre for Research in Social Policy (CRSP) funded by the Joseph Rowntree Foundation began calculating a UK wide Minimum Income Standard (MIS) figure. The MIS is an average across the whole of the UK, but does not reflect the variation in the cost of living inside and outside of London.⁵

In 2011 Citizens UK⁶ brought together campaigners and leading employers from across the UK to agree a standard model, calculated by the CRSP, for setting the UK Living Wage outside of London.

Since 2001 the Living Wage campaign has impacted over 45,000 employees and now involves over 100 employers.⁷

More recently, Ed Miliband, the Labour leader, and Boris Johnson, the Mayor of London, have both voiced their support for the introduction of the Living Wage, while several Whitehall departments are also considering the move.⁸

In Scotland, John Park MSP has just completed a consultation on his proposal for a Living Wage (Scotland) Bill.⁹ The main objective of the Bill is to increase the number of workers in Scotland who are paid the Living Wage. The consultation sought views on two approaches - delivering the Living Wage through the public sector procurement process, and/or by placing a duty on Scottish Ministers to promote the Living Wage to encourage employers, in all sectors, into paying their lowest paid workers the Living Wage.¹⁰ The Scottish Government, however, has stated that it believes that it is not possible under EU law to use public sector procurement processes to deliver the Living Wage.

In the United States, Living Wage laws have been introduced in more than 140 cities making it compulsory for employers tied in with government contracts to pay a Living Wage.¹¹ In New Zealand, some campaigners want to go a step further and a campaign is being mounted to replace the adult minimum wage rate with the higher Living Wage.¹²

2 How is it calculated?

Both the London and UK Living Wage rates are based on an estimate of the costs of a socially acceptable minimum standard of living for a range of household types, although these costs are calculated in different ways for each rate. The London Living

⁵ See Centre for Research in Social Policy website for methods used to calculate the MIS and the UK Living Wage - http://www.crsp.ac.uk/projects/living_wage.htm .

⁶ See <http://www.citizensuk.org/> .

⁷ See <http://www.livingwage.org.uk/employers> for a list of employers at December 2012.

⁸ Media reports, for example - <http://www.independent.co.uk/news/uk/politics/living-wage-for-all-workers-would-boost-taxes-and-gdp-8432145.html>

⁹ See <http://www.scottish.parliament.uk/gettinginvolved/53618.aspx>.

¹⁰ See http://www.scottish.parliament.uk/S4_MembersBills/Living_Wage_Consultation_Final.pdf for consultation document on the proposed Bill.

¹¹ Living Wage NYC - <http://www.livingwagenyc.org/pagedetail.php?id=5>.

¹² See <http://www.unite.org.nz/livingwage> .

Wage rate is based on a 'basic living costs' approach which seeks to estimate a 'low cost but acceptable' (LCA) budget for 14 different household types. This LCA budget is made up of housing, council tax, transport, childcare and all other costs in 'a regular shopping basket'. An average wage is then calculated that would meet the costs of this budget for different family types, with the average weighted to reflect the composition of families in London (estimated to be £7.10 an hour in 2012). The GLA then calculates the wage that would be required to lift a worker and their family above the capital's relative poverty threshold of 60 per cent of median household income (estimated to be £7.80 in 2012). An average is then taken of the 'basic living costs' wage and the 'income distribution' wage to calculate a 'poverty threshold wage' (giving a figure of £7.45). A 15 per cent margin is then added to account for any unforeseen events that would otherwise take a family below the minimum standard of living. This took the 2012 rate to £8.55 per hour.¹³

The UK Living Wage is calculated using a similar approach to the LCA budget calculation, but draws instead on the Minimum Income Standards (MIS) project based at the University of Loughborough and supported by the Joseph Rowntree Foundation.¹⁴ The MIS uses focus groups to agree a minimum acceptable family budget for nine different household types.¹⁵

3 Who would benefit from a Living Wage?

Research recently carried out by Markit, on behalf of KPMG, found that one in five earners were earning less than the Living Wage and Northern Ireland is the region with the highest proportion of people (24%) earning below the Living Wage (Table 1).¹⁶

Table 1. Earners below Living Wage by Region (from KPMG Report)

| Rank | Region | Number (000s) | Median wage | Annual % chg | Mean wage | Annual % chg | No. below Living Wage* | % below Living Wage* |
|------|--------------------------|---------------|--------------|--------------|--------------|--------------|------------------------|----------------------|
| 1 | Northern Ireland | 716 | 10.00 | 2.1 | 12.83 | 2.9 | 170 | 24% |
| 2 | Wales | 1,084 | 10.05 | 0.0 | 12.76 | 0.6 | 250 | 23% |
| 3 | East Midlands | 1,679 | 10.18 | 0.4 | 13.17 | 0.0 | 370 | 22% |
| 4 | Yorkshire and The Humber | 2,001 | 10.32 | 1.0 | 13.21 | 1.3 | 440 | 22% |
| 5 | North West | 2,596 | 10.41 | -0.5 | 13.49 | -0.5 | 570 | 22% |
| 6 | West Midlands | 2,104 | 10.43 | 1.4 | 13.44 | 0.5 | 460 | 22% |
| 7 | North East | 936 | 10.31 | 1.8 | 13.20 | 2.5 | 200 | 21% |
| 8 | South West | 2,052 | 10.36 | -0.3 | 13.39 | 0.4 | 430 | 21% |
| 9 | Eastern England | 2,196 | 10.87 | 1.3 | 14.01 | 0.6 | 440 | 20% |
| 10 | Scotland | 2,162 | 11.09 | 0.8 | 14.07 | 1.4 | 390 | 18% |
| 11 | South East | 3,321 | 11.81 | 0.9 | 15.37 | 0.8 | 530 | 16% |
| 12 | London | 3,539 | 15.67 | 1.1 | 20.70 | 3.3 | 570 | 16% |
| | All UK | 24,385 | 11.20 | 0.5 | 14.80 | 1.3 | 4,820 | 20% |

¹³ Institute for Public Policy Research Report 'Beyond the Bottom Line: The Challenges and Opportunities of a Living Wage', January 2013 - http://www.resolutionfoundation.org/media/media/downloads/Beyond_the_Bottom_Line_-_FINAL.pdf .

¹⁴ See Joseph Rowntree Foundation Report 'A Minimum Income Standard for the UK in 2012', July 2012.

¹⁵ Institute for Public Policy Research Report 'Beyond the Bottom Line: The Challenges and Opportunities of a Living Wage', January 2013 - http://www.resolutionfoundation.org/media/media/downloads/Beyond_the_Bottom_Line_-_FINAL.pdf .

¹⁶ The KPMG Report was published in October 2012, so estimates were based on the Living Wage at that time, which was £8.30 an hour in London and £7.20 outside London - <http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/NewsReleases/Pages/One-in-five-UK-workers-paid-less-than-the-Living-Wage.aspx> .

In terms of occupation, bar staff, waiting and other catering staff are more likely than other occupations to be earning less than the Living Wage (Table 2).

Table 2. Earners below Living Wage by Occupation (from KPMG Report)

| Percent below Living Wage (est) | Occupations | |
|---------------------------------|---|--|
| 90+ | Bar staff | |
| 80-89 | Waiters, waitresses | |
| 70-79 | Kitchen and catering assistants Elementary sales occupations n.e.c. Launderers, dry cleaners, pressers | Elementary personal services occupations n.e.c. Floral arrangers, florists Cleaners, domestics |
| 60-69 | Leisure and theme park attendants Sales and retail assistants School crossing patrol attendants Hairdressers, barbers | Elementary office occupations n.e.c. Retail cashiers and check-out operators School mid-day assistants |
| 50-59 | Hotel porters Fishmongers, poultry dressers Packers, bottlers, canners, fillers Beauticians and related occupations | Playgroup leaders/assistants Animal care occupations n.e.c. Nursery nurses |
| 40-49 | Fishing and agriculture related occupations n.e.c. Tyre, exhaust and windscreen fitters Car park attendants Sewing machinists Sports and leisure assistants Food, drink and tobacco process operatives | Housekeepers and related occupations Chefs, cooks Travel and tour guides Leisure and travel service occupations n.e.c. Labourers in process and plant operations n.e.c. |
| 30-39 | Taxi, cab drivers and chauffeurs Customer care occupations Van drivers Butchers, meat cutters Industrial cleaning process occupations Shelf fillers Receptionists | Childminders and related occupations Merchandisers and window dressers Assemblers and routine operatives n.e.c. Farm workers Care assistants and home carers Other goods handling and storage occupations n.e.c. Weighers, graders, sorters |
| 20-29 | Shopkeepers and wholesale/retail dealers Security guards and related occupations Educational assistants Labourers in building and woodworking trades Veterinary nurses and assistants Labourers in other construction trades n.e.c. Pharmaceutical dispensers Glass and ceramics process operatives Farmers Call centre agents/operators Market research interviewers Bakers, flour confectioners Refuse and salvage occupations Sales related occupations n.e.c. | Travel agents Gardeners and groundsmen/groundswomen Telephonists Publicans and managers of licensed premises Assemblers (electrical products) Fitness instructors Fork-lift truck drivers Telephone salespersons Agricultural and fishing trades n.e.c. Transport operatives n.e.c. Database assistants/clerks Debt, rent and other cash collectors Dental nurses |
| 10-19 | Textile process operatives Company secretaries Routine laboratory testers General office assistants/clerks Postal workers, mail sorters, messengers, couriers Bookbinders and print finishers Metal making and treating process operatives Glaziers, window fabricators and fitters Typists Counter clerks Photographers and audio-visual equipment operators Paper and wood machine operatives Houseparents and residential wardens Stock control clerks Printing machine minders and assistants Plastics process operatives Library assistants/clerks | Elementary security occupations n.e.c. Caretakers Restaurant and catering managers Plant and machine operatives n.e.c. Metal working machine operatives Hotel and accommodation managers Routine inspectors and testers Road sweepers Motor mechanics, auto engineers Construction operatives n.e.c. Clergy Chemical and related process operatives Retail and wholesale managers Furniture makers, other craft woodworkers School secretaries Road construction operatives |

4 Arguments for and against the Living Wage

While there are many who argue the case for a Living Wage on ethical and economic grounds, one of the major barriers for employers is the cost of adopting the Living Wage. An Institute for Public Policy Research (IPPR) report on the subject makes this point as follows:¹⁷

“Many of the high-profile financial and legal firms which have made the decision to implement a living wage require relatively small numbers of subcontracted staff and the cost of implementation for them is often minimal, especially weighed against the reputational benefits that living wage accreditation delivers. In contrast, aside from a handful of notable exceptions, relatively few companies in retail, food service or the travel and tourism sectors – accounting for the bulk of low-wage jobs – have become living wage employers. For employers in these sectors, appeals to ethical business best practice and the ostensible and much publicised benefits of paying employees a living wage are seemingly outweighed by ongoing concerns about their capacity to absorb the additional costs that a living wage entails.”

A more recent IPPR report has attempted to estimate the impact of replacing the National Minimum Wage with the Living Wage for all UK employees.¹⁸ The report concludes that households around the middle of the income distribution would gain more than the poorest households and that the biggest beneficiary would be the Treasury:

“...modelling an extreme scenario in which the living wage is guaranteed to all UK employees we find that the workforce would see their gross earnings rise by £6.5 billion. These gains would not all flow down to the poorest working households. In fact, households around the middle of the income distribution would gain disproportionately from the living wage as lots of low earners live with others who are not necessarily low paid. But the biggest beneficiary of the living wage would be HM Treasury, which would see income tax receipts and national insurance contributions rise, while spending on tax credits and in-work benefits would fall. We estimate that the Treasury would achieve gross savings of around £3.6 billion if the living wage was universally applied.”

The fact that the Treasury (and therefore the tax-paying public) would benefit is, of course, also an argument in favour of the Living Wage. Other arguments in favour of a Living Wage include the economic benefits of increased productivity, reduced staff

¹⁷ Institute for Public Policy Research Report ‘What Price a Living Wage? Understanding the impact of a living wage on firm-level wage bills’, May 2012 - http://www.resolutionfoundation.org/media/media/downloads/Final_What_Price_a_Living_Wage_1.pdf (page 6).

¹⁸ Institute for Public Policy Research Report ‘Beyond the Bottom Line: The Challenges and Opportunities of a Living Wage’, January 2013 - http://www.resolutionfoundation.org/media/media/downloads/Beyond_the_Bottom_Line_-_FINAL.pdf (page 5).

turnover, reduced absenteeism, and a reduced reliance on welfare benefits. It is also argued that adopting the Living Wage enhances the reputation of the employer and improves the psychological well-being of the workers.¹⁹

Unison also makes the economic and ethical case for employers adopting a Living Wage. They argue that in addition to the benefits for employers in terms of reputation, recruitment, reduced staff turnover, reduced absenteeism, improved morale and increased productivity, there is widespread acceptance of the principle that people should not be expected to work for anything less than a basic standard of living.²⁰

¹⁹ See, for example, research carried out on behalf of the Trust for London 'The costs and benefits of the London living wage', September 2012 - <http://www.geog.qmul.ac.uk/livingwage/pdf/Livingwagecostsandbenefits.pdf> .

²⁰ Unison Factsheet: The Living Wage - <http://www.unison.org.uk/file/Living%20Wage%20Factsheet%202012.pdf> .