GENERAL SYNOD

PRIVATE MEMBER'S MOTION: LIVING WAGE

A briefing note from the Mission & Public Affairs Council

Introduction

1. The principle behind the Living Wage is that work ought to pay enough to sustain the essentials of life without people having to do multiple jobs or otherwise work excessively long hours. History suggests that the market alone cannot be relied on to guarantee this social ethical principle. According to a recent OECD report, the UK has one of the highest incidences of low-paid employment[1] of all the advanced world economies (second only to the US).

2. In the UK, the Living Wage movement has established a formula for calculating a living wage rate, initially for London (£8.30 an hour, at the time of writing) and then more recently for the rest of the UK (£7.20 an hour). These rates are significantly higher than the National Minimum Wage, which is currently £6.19 an hour for over 21 year olds with no higher rate to offset additional costs of living in London. Around one in six employees in the UK earns less than the Living Wage.

History

3. The Living Wage has deep historical roots going back more than a century. The original use of the term is attributed to striking English miners around1890 who were calling for "a life line below which point wages dare not fall". Within a few years, Charles Gore (theologian and successively Bishop of Worcester, Birmingham and Oxford) and other churchmen were making the case for the living wage from within the Church of England. The Living Wage "on which it is possible to live and save" was for them a symbol of justice for working people and a small step towards a decent society for everyone. They were not calling for government to set wages, but that the market - through the arbitration process – ought to recognise an adequate minimum.

4. In 1909, Winston Churchill, President of the Board of Trade, established Trade Boards (re-named Wages Councils), creating the first national system of wage regulation to protect the pay and conditions of workers, including setting <u>minimum</u> wages in a number of specific low-wage industries. This system was extended in 1945 and remained in place for over 80 years until it was finally abolished by the Major Government in 1993. At the same time, the contracting out of services (which took many employees out of collective bargaining arrangements) – and the effects of globalisation – were putting downward pressure on the wages of low-skill workers.

5. Partly in response to this decline in employees' bargaining power, the new Labour Government introduced a National Minimum Wage (NMW) in 1999. The level of the NMW was initially set- and has remained since- at a relatively modest level on the argument that a nationally enforceable minimum wage should not be so high as to risk distorting the labour market and perhaps reducing the number of jobs by setting it too high. A Low Pay Commission advises the Government annually on the level of the NMW.

[1] Low pay is defined by the OECD as earning less than two-thirds of the national gross median hourly wage.

6. Though welcomed by campaigners against low pay, the NMW is seen as inadequate for many families to live decently on, particularly in London where housing and other costs are considerably higher. It was in London that, the Living Wage Campaign in its current guise originated, when listening campaigns organised by London Citizens - a community organising body - highlighted the financial pressures that low pay was putting on the lives of many families in East London.

7. Launched in 2001, the campaign took off in 2004 when all the candidates for London Mayor pledged their support. The Greater London Authority has since committed to paying its staff at least the Living Wage, as have around 250 public, private and voluntary organisations. Active campaigns have now emerged all over the UK, including in Scotland, Wales, Oxford, Norwich, Preston, Milton Keynes, Leeds and Brighton. In May 2011, Citizens UK established the Living Wage Foundation as a national body to oversee and formalise the accreditation of Living Wage Employers.

8. Churches have been closely involved in the Living Wage campaign from the start as part of a broad coalition of community and labour organisations. General Synod commended for study the *Faithful Cities* report in 2006, which recommended that Government consider the positive effects of implementing a living wage. Several Anglican leaders and dioceses have also endorsed the concept, most recently the Archbishop of York in the report of the York Fairness Commission: "*Our call for a Living Wage recognises that we need to value each and every person in our great city and that people should be paid a fair wage for a fair day's work.*"

The Living Wage Today

9. Paying the National Minimum Wage is a statutory obligation. By contrast,the Living Wage is a voluntary undertaking by employers who commit to paying their lowest paid staff more than the statutory minimum and above the 'market' rate for these jobs. Volunteers, interns and apprentices are not covered by the Living Wage, but sub-contracted workers, such as cleaners, are included[2].

10. As the Living Wage is a voluntary commitment by employers, the question arises about the proper level at which a decision to adopt the Living Wage might be made – for example, whether the decision should always be for individual employing bodies or whether employers should feel bound by a decision taken on behalf of their sector. This question clearly arises in the case of the Church of England which is made up of numerous, legally autonomous, employing bodies, from local parishes to the National Church Institutions.

11. The Living Wage is a mechanism for tackling poverty that does not require additional public spending. At present, low wages are effectively subsidised by the government through benefits and tax credits.

12. The main criticism of the Living Wage is that some employers may be unable to pay above the market rate without becoming uncompetitive or cutting jobs. This may be true in some cases though there is also evidence that paying decent wages benefits employers by reducing staff turnover and absenteeism, raising staff morale and productivity, as well

[2] According to the guidelines laid out by the Living Wage Foundation, the Living Wage should cover anyone who does 2 or more hours of work in any given day in a week, for 8 or more consecutive weeks in a year.

as enhancing an organisation's reputation. Large employers in some sectors, such as Linklaters and KPMG, have made the case for the Living Wage on business, as well as moral, grounds.

13. So far, the Living Wage Campaign has largely focused on the financial sector where the wages of low paid employees make up a relatively small share of their total costs, and on the public sector. The potential impact on competitiveness is a greater concern in other sectors that are more heavily reliant on low wage labour. A recent report by the Resolution Foundation estimates that the increase in the overall wage bill as a result of implementing the Living Wage ranges from less than 1% in construction, IT, banking and food production to 5% or more in retail and bars and restaurants.

Calculating the Living Wage

14. Since 2005, the London Living Wage has been calculated annually by the Greater London Authority (GLA). In 2011, when the Living Wage Foundation was established, one of its first actions was to establish a methodology for calculating the Living Wage rate *outside* London. This work was conducted by the Centre for Research in Social Policy (CRSP) at Loughborough University. The work of CRSP and GLA is carried out and funded independently of the Living Wage Foundation (LWF), although there is close consultation between them, including representation on a technical sub-committee that was set up to advise the LWF on the calculation of the Living Wage. Both rates will be updated annually in November.

15. The idea of a single rate for London and for the rest of the UK is attractive for campaigning purposes, but involves a complex and subjective assessment of the level of income needed to achieve a minimum acceptable standard of living.

16. The advantages of the current methodology is that is well-documented; it is comprehensive, taking into account all or nearly all of the expenses faced by most families; and it is grounded in rigorous academic research, based on public consensus about what constitutes a minimum acceptable standard of living.

17. On the other hand, it is (necessarily) complex, especially in the case of the London Living Wage, and there are a number of discrepancies between the methodologies used to calculate the rate for London and for the rest of the UK. Also, a single rate cannot take into account the wide variation in individual family circumstances, which means that the Living Wage will still be inadequate for many families, in particular large families and single people living alone[3].

18. Overall, the methodology for calculating the rate *outside* London is sound and probably the best that can be done. The methodology for calculating the London Living Wage is less robust, and probably <u>under</u>estimates the 'true' living wage in the capital. However, all such calculations have to make assumptions which are open to challenge and these may be chosen partly on pragmatic grounds. The figure for the LLW - £8.30 per hour – is arrived at by an open methodology and is also a realistic campaigning objective, being higher than the rate for the rest of the UK without being so high that employers would reject it outright. Now that the rates in and outside London have been established, it seems likely

[3] Single person households have only one potential earner and relatively high housing costs (because it is assumed they do not have access to social housing).

that the bodies involved will seek broadly to maintain the current differential in future years.

19. One concern with committing to the Living Wage is that it ties an organisation's payroll costs to the decisions of another body. To date, increases in the Living Wage have broadly mirrored price inflation, which until recently was lower than the growth in average earnings. But, the rates are potentially quite sensitive to changes in the cost of living and tax/benefit policy, so that small changes in the latter could lead to much larger increases in the Living Wage.[4] This a potential risk in future years if the cost of living continues to rise and benefits are cut further.

20. Set against this, a mechanism is now in place to limit annual increases in the Living Wage rate outside London to no more than 2 percentage points above the growth in average earnings. Although the GLA methodology for London does not have an explicit mechanism to constrain increases in the London Living Wage, the bodies involved will want to ensure that any increases in the rate are reasonable and politically expedient. Ultimately, any commitment to the Living Wage is made voluntarily, so employers maintain the freedom to make their own decisions about pay policy, although once a public commitment has been made, withdrawing from it risks bad publicity and cannot be contemplated lightly.

Cost implications

21. The motion is addressed to all Church of England institutions. This would include parishes, diocesan offices and the National Church Institutions and associated bodies.

22. There is no centrally available information on pay rates in parishes, so it is difficult to put an estimate on the overall cost to local churches. The most relevant information available is from a report into the cost of implementing the Living Wage within the Methodist Church. This report concluded that 85% of their local churches would be unaffected, 15% would face an increase in their wage bill of between £3-13 a week, and a small number of churches might face an even larger increase. Most of those affected would be small Methodist churches seeking to cover the extra cost of very part-time or occasional cleaners and caretakers.

23. At diocesan level, Sheffield estimated the financial cost to them would be around £6,500 a year - or between 1.5-2% of their total expenditure on management and administration. To our knowledge, there are no comparable estimates for other dioceses. Possible costs for the National Church Institutions are covered in the financial memorandum.

24. Additional costs are on-going for as long as the Living Wage rate continues to exceed the 'market' wage for the Church's lowest-paid employees. Phasing in the increase over time, as do some Living Wage employers, would reduce the cost in the initial years of implementation.

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[4] This is due to the very high withdrawal rates faced by low-income families, whereby benefits and tax credits are reduced as earned income rises.