Wider Payment of the Living Wage in Scotland – Issues for consideration
WIDER PAYMENT OF THE LIVING WAGE IN SCOTLAND – ISSUES FOR CONSIDERATION

Mark Diffley, Christopher McLean, Ipek Ozgul and Colin Hockaday
Ipsos MORI Scotland

Donald Hirsch and Dr Laura Valadez
Centre for Research in Social Policy at Loughborough University

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The views expressed in this report are those of the researcher and do not necessarily represent those of the Scottish Government or Scottish Ministers.
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EXECUTIVE SUMMARY

Background

1. The Living Wage is calculated to represent the minimum pay rate required for a worker to meaningfully participate in society. It is based on detailed research into the types of goods or services members of the public think are needed to reach a socially acceptable standard of living. There is no legal requirement on employers to pay the Living Wage, unlike the statutory National Minimum Wage (NMW), and it is not possible to make payment of the Living Wage a compulsory condition of publicly procured contracts.

2. The Scottish Government has committed to paying the Living Wage as part of its public sector pay policy, and supports the Scottish Living Wage Campaign as one of the measures to address poverty in Scotland, and it has published guidance on how procurement processes can encourage payment of the Living Wage, as part of a wider package of workforce matters. There have been calls to encourage the further introduction of the Living Wage wherever it might be appropriate, taking account of the prevailing economic conditions.

Aim and research methods

3. The purpose of this research was to inform potential action by the Scottish Government to support the Living Wage, by:
   - Reviewing, and assessing the applicability to Scotland, of existing empirical and theoretical research on the impacts and practicalities of introducing the Living Wage, universally, in parts of the public or private sectors and of promotion through public contracts.
   - Through in-depth interviews with employers who had already introduced the Living Wage, Scottish Government contractors and stakeholder organisations: exploring perceived costs and benefits of the Living Wage, barriers (and enablers) to implementation, and their suggestions for future action; and gathering any objective evidence available on the impact of the Living Wage in Scottish organisations. It should be noted that it was not within the scope of the research to assess the feasibility of research participants’ suggestions for future action.

4. The research was conducted between 16 January and 28 May 2014. Full details of methods can be found in chapter 2.

What the existing research literature tells us

5. Literature on the effects of the Living Wage in the United Kingdom, particularly outside London, is relatively new and sparse. However, a large body of literature from the United States gives empirical evidence of the impact of raising wage floors in practice, rather than merely the predictions of economic theory.

6. In particular, two decades of intensive research comparing employment levels under different minimum and Living Wages in the United States have failed to confirm the hypothesis that a higher wage floor reduces employment. The evidence suggests that the impact on labour demand is not as large as is sometimes assumed, not least
because low wage jobs tend not to be in internationally traded goods or services where higher pay could be readily undercut from abroad. In the UK, estimates of the labour demand effect of the Living Wage being universally adopted remain theoretical, but also suggest a small impact, largely confined to certain sectors.

7. This limited impact on employment levels is because of a combination of productivity increases (e.g. due to reduced employee turnover), and employers reducing labour costs in other ways (e.g. non-wage benefits), increasing prices to consumers, or reducing profit margins. There is little consensus in the economics literature about which of these effects dominates. Although increased productivity is likely to outweigh the higher wage cost for many firms, this does not mean that all firms will experience increased productivity, or that it will fully cover the cost for all those that do experience it.

8. Significant US evidence indicates that introducing higher wages in the public sector has not been associated in a significant way with a net increase in public spending, and can even have the reverse effect (taking account of reduced income-related social benefits and increases in income taxes). Some UK analysts suggest that the same will be true in the UK, helped by reduced in-work benefits and the multiplier effect of additional disposable income spent by low-income groups.

9. The evidence suggests that payment of the Living Wage can improve employee wellbeing. However, the effects on reducing poverty are less clear, as a large proportion of the employee’s pay increase is often lost in increased taxes and reduced means-tested benefits.

10. The US approach has been to test the limits of higher minimum and Living Wages in some areas, with research generally showing that negative impacts have been smaller than predicted. Evidence of impacts in the UK is at an earlier stage, suggesting that further steps in its implementation need to be carefully monitored.

The views of Scottish Living Wage employers

11. The Scottish Living Wage employers interviewed did not yet have a specific, formal assessment mechanism to monitor the impact once the Living Wage was implemented. Instead, monitoring of the impact was included as part of wider mechanisms used to measure overall staff performance and turnover. Therefore, the evidence of costs and benefits of introducing the Living Wage reported here relies on the perceptions of Scottish Living Wage employers interviewed, rather than on objectively quantified measurement of these gains. When asked about their perceptions of the positive impacts of introducing the Living Wage, employers tended to discuss these in terms of benefits to:

- Employees – through increased salaries, which were perceived to help employees and their families achieve a higher standard of living and create a more positive working environment.
- Employers – through an increased ability to retain high-calibre staff and attract more qualified applicants, as well as the reputational benefits of being seen to be a Living Wage employer.
12. Employers in smaller and medium sized organisations felt that introducing the Living Wage did not provide significant benefits to the company as a whole, due to the very small number of staff affected.

13. There was widespread agreement among Living Wage employers that, on the whole, the process of implementing the Living Wage was straightforward, particularly among small and medium-sized companies. However, Living Wage employers did identify a range of factors that created barriers or difficulties in adopting the Living Wage. The barriers cited by employers tended to fall under four broad categories.

14. **The financial cost of increasing wages** – Before they implemented the Living Wage, employers had three main concerns about increased wage costs: the potential for undercutting of prices by competitors; the potential for a wider inflationary impact on salaries across larger organisations; and a reluctance to pay younger employees the Living Wage in addition to investment in their training and development.

15. **Ensuring that sub-contractors paid the Living Wage** – The most commonly expressed difficulties were: the resources needed to manage this; resistance from sub-contractors; an increase in contract costs; and ensuring sub-contractors actually pay their employees the Living Wage. Living Wage employers discussed the need to create an action plan incorporating: setting achievable goals for sub-contractors; determining a timeline for implementing the Living Wage across all contracts; and identifying challenges and ways of addressing these.

16. **Communicating changes to employees** – Some employers were concerned that staff might perceive the company to have been “taking advantage of them” prior to implementing the Living Wage, or that some employees may lose out on receiving state benefits or tax credits. To address this, they adopted an iterative approach in which they responded to negative reactions as and when they occurred. Among employers who chose to openly communicate with staff about the implementation of the Living Wage, many felt it created a “feel good” factor within the company.

17. **Perceived lack of clarity about what is expected as part of Living Wage accreditation** – Some larger employers expressed a need for more information on reporting requirements, the nature of the yearly audits and the impact of having a different financial year to the Living Wage Foundation. However, these concerns tended to be addressed through dialogue with Glasgow City Council or the Living Wage Foundation.

**The views of Scottish Government contractors**

18. Contractors’ perceptions about the potential benefits and costs of encouraging the implementation of the Living Wage were broadly similar to those held by Living Wage employers – namely, that promoting the Living Wage through public contracts would bring benefits to:

- Employees – through improved employee morale, leading to greater levels of job satisfaction and engagement; and contributing towards improving the general health and wellbeing of employees by enabling them to support themselves and their families adequately.
- Employers – through greater employee engagement, resulting in improved staff retention, reduced absenteeism and improved workplace atmosphere; enabling
organisations to attract higher calibre employees; and improved reputation by demonstrating that they were a socially responsible organisation.

19. Contractors expressed deeper concerns about the potential financial cost of implementing the Living Wage than Living Wage employers. The prevailing view was that it would be difficult to absorb the additional cost of paying the Living Wage, particularly within the current economic climate of “squeezed” profit margins. They felt increases in staff costs would have to be passed on to clients, and would therefore put the organisation’s competitiveness at risk.

20. Some contractors were of the view that increasing the wages of employees below the Living Wage could create an inflationary impact on wages across the organisation. Others felt that it might result in the Living Wage being used as a “wage floor” by organisations to depress wages within industries.

21. Most contractors felt that the promotion of the Living Wage through public contracts would have little impact on the recruitment of young people, but had two main concerns. Firstly, some felt that, when considering how much young people are paid, it is important to look at the wider investment in young people by companies, such as the cost of training and providing experience. Secondly, there was a broader concern about the “appropriateness” of paying young people at Living Wage levels based on the belief that many young people live at home and the subsistence costs the Living Wage is designed to cover will already be addressed through the household income of their parents.

22. On the whole, contractors were supportive of the principle of using public sector procurement to promote the Living Wage. Indeed, some contractors commented that they had a clear preference to an approach which would enable incorporating the Living Wage into procurement practice in a way which would help to establish a “level playing field” and enable contracts to be judged on quality and their contribution to society as opposed to cost.

23. A small number of contractors were more sceptical about the use of procurement to promote Living Wage, mainly due to perceptions that: the procurement process would favour larger companies; there would be an exponential increase in the cost of goods and services if organisations in a supply chain all implemented the Living Wage; and focussing on the Living Wage was too arbitrary and failed to consider wider packages offered to employees.

The views of key stakeholder organisations

24. The benefit of increasing employees’ salaries was mentioned by some stakeholders in the context of addressing in-work poverty.

25. The timing of the Living Wage debate was a concern for some stakeholders, who felt that the economy had only very recently begun to show signs of recovery and additional “burden” on businesses would be unwelcome.

26. Stakeholder views on Scottish Government contractors’ concerns were mixed. On the one hand, some stakeholders felt that businesses tended to overstate the financial costs of increasing employees’ wages. On the other hand, some expressed strong concerns that the impact on costs would have a considerable impact on
businesses and a disproportionate impact on companies in industries where staff costs tend to make up a higher proportion of the overall business costs.

27. Further, stakeholders tended to take a broader view of the role of the Living Wage in procurement, and felt that its consideration should take place within a context of wider social policies.

28. A number of stakeholders also highlighted a range of potential practical issues in relation to using Living Wage considerations in determining public contract decisions. These included: concerns that ‘additional bureaucracy’ may result in some businesses opting out of applying for Scottish Government contracts; concerns about how contractors will be asked to ‘prove’ that they are actually paying the Living Wage; and concerns about whether payment of the Living Wage applies only to work relating to a defined government contract, or whether it applies to all activity of an individual contractor.

29. The consensus among stakeholders was that organisations delivering public sector contracts would be unlikely to afford to pay all staff working on these contracts a Living Wage unless public bodies were willing to pay more for the contracts.

Conclusions

Costs and benefits

30. Existing research suggests that payment of the Living Wage can improve employee wellbeing, but has a limited impact on poverty. Therefore, it has been argued that it is essential to combine the Living Wage with other policies which impact on wider workforce terms and those which are designed to improve career progression and to reduce the costs faced by people on low incomes (e.g. childcare costs). In addition, changes to benefit withdrawal and tax settings could ensure that lower income households keep a greater proportion of the increases in earned income.

31. A considerable body of evidence from the US shows that employers have made many adaptations to higher wage floors, such as shifting the composition toward higher skilled workers, or simply accepting a smaller profit margin. Coupled with benefits such as reduced staff turnover and improved productivity, this has meant that the impact on employment levels has been limited. Evidence of impacts in the UK is at an earlier stage, however, suggesting that further steps in its implementation need to be carefully monitored.

Employers’ views of the implementation process

32. There was widespread agreement among Living Wage employers that implementing the Living Wage was straightforward, though this was dependent on the size of an organisation or the sector in which it is operating.

33. Based on their experience of implementing Living Wage, employers made a number of suggestions that they felt would help organisations move to paying their employees a Living Wage, including:

• conducting feasibility studies to identify potential risks, devise approaches to address risks and develop an appropriate timescale for implementation
• communicating openly with all staff in the process to explain the rationale for adopting the Living Wage
• creating a clear action plan for working with sub-contractors and ensure good communication between their business and sub-contractors to facilitate implementation.

34. Living Wage employers also suggested ways in which they believed the Scottish Government and organisations promoting the Living Wage could support employers. These suggestions included:
• providing advice and guidance on all aspects of the implementation phase
• encouraging dialogue between employers that have been through the implementation process and employers that are considering it
• raising awareness among recruitment agencies about the Living Wage
• providing more information and evidence on its benefits
• providing financial incentives to help small businesses
• improving communications on how the current level of the Living Wage is set
• involving local businesses in the process of determining the Living Wage rate.

Using public sector procurement to promote the Living Wage

35. Scottish Government contractors were generally supportive in principle of using procurement processes to encourage companies to adopt the Living Wage, although a small number were sceptical, mainly due to perceptions that this would favour larger companies and increase the costs of goods and services, and fails to consider wider benefit packages offered to employees.

36. Contractors identified a range of steps that they felt could be taken to encourage them to pay the Living Wage. These mainly involve negotiation with the contractor to vary existing contracts, including price, to cater for the additional costs. The views expressed included:
• encouraging payment of the Living Wage in public sector contracts, but not making it mandatory
• working in partnership with contractors to promote the payment of Living Wage in public contracts
• a staged approach to promotion, beginning with larger contracts before filtering down to smaller contracts
• providing clarity on how the Living Wage can be promoted in tendering processes
• some form of subsidy for organisations to help offset increases in wage costs among contractors
• making use of local government and non-departmental government bodies who deal directly with contractors to provide information and support
• organising workshops with contractors to provide information and advice on best practice
• providing robust evidence on the impacts and advice on addressing barriers
37. Existing research in the US has found that many bidders welcome the "level playing field" provided by a wage floor, which does not encourage a “race to the bottom”. In some cases, this actually attracts more bidders. Where the additional contracting costs have been quantified, they have often been found to be low. The US does not operate within the same legal framework as the UK. If a public sector body in Scotland (or the rest of the UK) made the payment of staff at a higher rate than the National Minimum Wage a mandatory requirement as part of a competitive procurement process, this would run the risk of breaching European Law and European Procurement rules. It is, however, possible to include Living Wage considerations in procurement exercises without making payment of the Living Wage a mandatory requirement, and a number of public bodies in the UK have done so.
1 INTRODUCTION

Background to the research

1.1 The idea of a Living Wage is to set a voluntary wage floor, benchmarked on estimates of what households need to meet minimum living costs. The calculation of these costs, by the Centre for Research in Social Policy at Loughborough University, is based on detailed research into what types of goods or services members of the public think are needed for a socially acceptable standard of living. The Living Wage is updated annually, in line with changing price levels and living standards.

1.2 The Living Wage encompasses a voluntary approach to a wage floor, unlike the statutory National Minimum Wage, which is set by the UK Government. However, the ambition of many of its advocates is to develop new norms to which employers can adhere. The Living Wage has been implemented by a range of employers across the United Kingdom. As at May 2015, around 1500 employers have been accredited by the Living Wage Foundation, including around 200 based in Scotland\(^1\). There were 5.2 million private sector businesses in the UK at the start of 2014, 322,555 of which were based in Scotland (Department for Business, Innovation & Skills, 2014).

1.3 It is Scottish Government policy to ensure that all directly-employed staff are paid the Living Wage. The Scottish Government has also provided funding to the Poverty Alliance for a pilot to promote take up of the Living Wage Accreditation Scheme and increase the number of employers paying the Living Wage in all sectors in Scotland.

1.4 In December 2011, the Scottish Parliament Local Government and Regeneration Committee held an inquiry into a Living Wage. In its subsequent report, published in February 2012, the Committee set out its broad support for the Living Wage but also noted the “complex range of factors, difficulties and unresolved issues” that must be taken into account in decisions on whether or not to introduce the Living Wage. Further, it acknowledged that current economic circumstances bring “additional pressures on the public, private and voluntary sectors alike, which do not lead to conditions that are generally favourable in respect of the likelihood of wider introduction of the Living Wage”\(^2\).

The Committee noted that any savings resulting from increased tax revenue and decreased benefits spending that might result from wider adoption of the Living Wage in Scotland would accrue to the United Kingdom Government rather than to the funds available to the Scottish Government, because of the way in which the Scottish Budget is funded. It also noted that it is not for the Scottish Government to determine wages in the private and voluntary sectors, but that the public sector can lead the way by example, and called on the Scottish Government to use its experience, expertise and good relationship with COSLA and with local government generally to seek to encourage the further introduction of the Living Wage wherever it might be appropriate, taking account of the prevailing economic conditions.

\(^1\) [http://www.livingwage.org.uk/who-accredited](http://www.livingwage.org.uk/who-accredited)

1.5 It is in this context that the Scottish Government commissioned Ipsos MORI Scotland and the Centre for Research in Social Policy at Loughborough University to conduct research to gather evidence on the potential costs and benefits of, and barriers and enablers to, wider implementation of the Living Wage in Scotland.

Aim and objectives

1.6 The overarching aim of this study was to inform potential action by the Scottish Government to support the Living Wage. The specific objectives were to:

i. Review (and assess the applicability to Scotland of) existing empirical and theoretical research on the impacts and practicalities of:
   - introducing the Living Wage universally
   - introducing the Living Wage across the public sector only
   - introducing the Living Wage in only a subset of organisations in the private sector
   - promoting the Living Wage specifically through public sector contracts

ii. Gather information from organisations in the Scottish private sector that have already introduced the Living Wage on:
   - what they perceive the costs and benefits to have been
   - any objective evidence of the costs and benefits that is available
   - any barriers to implementation that were encountered
   - how these barriers were overcome.

iii. Gather information from a sample of Scottish Government contractors on the perceived costs and benefits of the Scottish Government encouraging the implementation of the Living Wage through their procurement activities.

iv. Gather opinions from a range of interested stakeholders in relation to the findings in objectives i-iii.
2 RESEARCH METHODS

2.1 The study was conducted using a combination of primary and secondary research methods, comprising:

- a review of existing empirical and theoretical research on the impacts and practicalities of introducing the Living Wage
- a series of in-depth interviews with:
  - Scottish Living Wage employers
  - Scottish Government contractors
  - stakeholder organisations representing key sectors and industries

2.2 All aspects of the study were carried out to the international quality standard for market research, ISO 20252.

Review of existing research

2.3 The secondary research involved a review of existing research, primarily focusing on academic literature in peer-reviewed journals. These journals provided high quality evaluations of the impact of the Living Wage in organisations, sectors and sub-sectors. Greater weight was given to such evaluations over descriptions of policy and projections or estimates of numbers affected that do not include such an evaluation. However, ‘grey’ literature was also reviewed, looking at descriptive experiences of the implementation of the Living Wage – for example, about the practicalities of requiring or influencing suppliers to take on the Living Wage through procurement practices. Framed by the key questions outlined in the first objective above, the review drew principally from the following categories of material:

- Individual studies from the United States looking at the impact of different minimum wage and Living Wage levels on employment and other labour market outcomes. These studies take a wide variety of forms, ranging from qualitative descriptions of responses to the introduction of wage floors to quantitative “natural experiments”, comparing two or more situations with different wage requirements. One type of comparison looks at workers within a single jurisdiction in companies covered and not covered by a wage floor, such as private sector workers in cities where ordinances cover those contracted by the public sector. Another compares outcomes in similar counties in two adjacent states with contrasting US minimum wages.

- More extensive comparisons and meta-studies from the United States, seeking to generalise evidence of the impact of different wage floors. These studies have become increasingly sophisticated over the years. They allow one to observe the extent to which certain results are isolated to particular studies or contexts or more generally observed, to distinguish particular effects such as differences in regional economies and to make distinctions between studies with different degrees of reliability.

- Observations of the effects of the Living Wage as implemented in the United Kingdom. These draw largely on the London Living Wage, which has been in place for a decade, but have not been able to provide as solid evidence on its effects as the larger US studies, mainly because it is intrinsically difficult to attribute overall labour market outcomes to implementation of a standard that
(i) only affects a small minority of workers and (ii) is voluntary and therefore most likely to be taken up by companies who believe that they can do so without negative consequences on employment.

- Other UK studies that attempt to project the impact of the Living Wage, by reviewing existing evidence, by interviewing employers and other stakeholders and through general analysis

- Local/regional UK reviews, considering the implications of the Living Wage for various jurisdictions, including Manchester, Newcastle, Cardiff, Brighton and Wales. Some of these were commissioned in preparation for introducing the Living Wage by public bodies in these places.

2.4 Following a comprehensive review, the material identified as relevant to the key research questions was synthesised and analysed using a matrix method. This is a transparent and robust way of analysing data from textual sources and is similar to the approach adopted in much qualitative research. The content of the identified evidence was summarised and organised according to themes reflecting the four key questions outlined in the first objective above. The findings from the literature review were subsequently used to inform the content of the in-depth interviews (see below).

**In-depth interviews**

2.5 The primary research was conducted using in-depth interviews with senior members of staff from organisations selected to participate in the study (see 2.6 for an explanation of how organisations were selected). This method allowed the research team to explore participants’ specific circumstances, experiences and views in detail. Further, it enabled the research team to probe on key points of interest as they emerged, in order to form as clear an account as possible of the perceived opportunities and challenges the Living Wage presents for different types of employers.

**Sample profile**

2.6 In order to select a suitable range of organisations for in-depth interviews, separate lists were obtained for: organisations who have already introduced the Living Wage; and Scottish Government contractors.

2.7 For organisations who have already introduced the Living Wage, the research team used two available listings of Scottish private sector employers that have introduced the Living Wage: the Living Wage Foundation’s database of accredited employers; and Glasgow City Council’s Living Wage Employers’ list. The research team selected employers to ensure a spread of industry sectors and organisation sizes (see table 2.1).

2.8 For Scottish Government contractors, the research team used the main listing of contractors supplied by the Scottish Government. The list provided the details of organisations who had worked on Scottish Government procurement contracts in the last year. Again, the research team selected organisations to ensure a spread of sectors (public, private and third), industry sectors and organisational sizes (see table 2.2).
2.9 For stakeholders, a range of organisations representing key sectors and industries were selected by the research team in consultation with the Scottish Government. Stakeholders were selected to provide a broader perspective on the issues covered in the report, with a particular emphasis on sectors and industries that may be disproportionately affected by the implementation of the Living Wage.

Recruitment

2.10 Recruitment was carried out by members of the core Ipsos MORI research team. All potential participants were sent an advance letter, either via post or e-mail, outlining the purpose of the research and the reason their participation was being sought (see Annex B). Scottish Government contractors were also sent an information sheet providing basic information on the Living Wage and the Scottish Government’s consultation on the Living Wage through procurement (provided in Annex C). Participants were then contacted by telephone and asked if they were willing to participate in the study.

2.11 Interviews were conducted with the managing director or another suitably senior member of staff in each organisation, for example an HR Director or Finance Director.

2.12 On recruitment, all Living Wage employers who agreed to participate in the research were screened to ensure they had taken a conscious decision to move to the Living Wage, having previously paid at least some of their employees at a lower rate.

2.13 The profile of Living Wage employers and Scottish Government contractors is shown in tables 2.1 and 2.2 below:

**Table 2.1: Living Wage employers**

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<thead>
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<th>Number of employees</th>
<th>Number of respondents</th>
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<tbody>
<tr>
<td>Fewer than 10</td>
<td>3</td>
</tr>
<tr>
<td>11 to 50</td>
<td>3</td>
</tr>
<tr>
<td>51 to 250</td>
<td>2</td>
</tr>
<tr>
<td>251 to 500</td>
<td>1</td>
</tr>
<tr>
<td>More than 500</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
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</table>

<table>
<thead>
<tr>
<th>Industry type</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business services</td>
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</tr>
<tr>
<td>Financial and professional services</td>
<td>2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2</td>
</tr>
<tr>
<td>Health care</td>
<td>1</td>
</tr>
<tr>
<td>Energy</td>
<td>1</td>
</tr>
<tr>
<td>Environmental</td>
<td>1</td>
</tr>
<tr>
<td>Hospitality</td>
<td>1</td>
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<tr>
<td>ICT</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
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</tbody>
</table>

**Table 2.2: Scottish Government contractors**

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Number of respondents</th>
</tr>
</thead>
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<tr>
<td>Fewer than 10</td>
<td>4</td>
</tr>
<tr>
<td>11 to 50</td>
<td>7</td>
</tr>
</tbody>
</table>
Discussion guide and materials

2.14 All fieldwork materials were designed by the research team and agreed with the Scottish Government. The materials included discussion guides used by interviewers to guide the flow of discussions, which were informed by responses to the consultation on the Procurement Reform Bill and the findings from the literature review. Separate guides were designed for interviews with Living Wage employers, Scottish Government contractors and stakeholder organisations, allowing specific areas of relevance to be targeted within each (copies of the discussion guides are provided in Annex A).

Fieldwork

2.15 In the first phase of the research, a total of 40 in-depth interviews were undertaken between 16 January and 7 March 2014: 11 in-depth interviews were undertaken with organisations who have already introduced the Living Wage and 29 in-depth interviews were undertaken with Scottish Government contractors.

2.16 Interviews with organisations that have already introduced the Living Wage lasted between 30 and 45 minutes. Interviews with Scottish Government contractors...
contractors lasted between 15 and 30 minutes. The interviews were conducted by the Ipsos MORI researchers who had designed the discussion guide (and who then undertook the analysis and reporting).

2.17 An interim report was produced based on the information gathered from the first phase of the research. In the second phase of the research, the research team worked with a total of 8 stakeholders representing different sectors and groups of businesses. In-depth interviews were undertaken with each of the stakeholders and the interim report formed the basis of the team’s engagement with the key stakeholders. Each interview lasted between around 60 minutes. Seven of these were conducted face-to-face, while the other was conducted by telephone. Interviews were conducted between 30 April and 28 May 2014.
Analysis

2.18 With the permission of participants, all interviews were audio-recorded and transcribed for analysis. The transcripts and interviewer notes from the interviews were then systematically analysed to identify the substantive themes which emerged in relation to each question in the discussion guide along with key points and illustrative verbatim comments.

2.19 This ensured that the analysis of the data was rigorous, balanced and accurate, and that key messages or concepts were brought out. It was also flexible enough to allow links and connections across different themes or sub-themes to be made, and for moments of interpretive insight and inspiration to be recorded.

2.20 It should be noted that the findings presented in this report were based on the perceptions of the research participants and derived using qualitative data collection methods and analysis. The report is aimed to help develop a deeper understanding of the range of factors that shape views and perceptions of the research participants, as well as identifying key attitudinal tendencies. It was not within the scope of the research to assess the feasibility of research participants' suggestions for future action.
3 WHAT THE EXISTING RESEARCH LITERATURE TELLS US

Introduction

3.1 In the United Kingdom (UK), the Living Wage has been promoted by the Living Wage Foundation and others, and adopted by local authorities, universities and numerous other public and private bodies, including the Scottish Government for its own employees. The Living Wage in various forms has also been promoted in other countries, including the United States (US) and New Zealand. The increased interest in adopting a Living Wage has been accompanied by a need to understand its costs, benefits, and implications, including its impact on public budgets, labour demand, Living Wage recipients and society in general.

3.2 In investigating such effects, we need from the outset to be clear about what we mean by a Living Wage. In the UK today it is principally understood to mean the voluntary adoption by public and private employers of a wage floor based on what is needed for people to meet minimum living costs. However, in the US the term can also refer to a standard that has some form of statutory backing and/or is not purely voluntary. In the US, for example, some cities have adopted Living Wage Ordinances that impose a higher compulsory minimum wage than required by state laws, mainly on employers receiving public funding through contracts or grants. At the same time, a number of states as well as some cities set minimum wages for all employees substantially above the federally required minimum, and arguments about living standards can influence this too. As a consequence, the US provides by far the best test-bed and solid long-term evidence of the effect of compulsory wage floors at different levels. The overall effects of voluntary standards remain much harder to research.

3.3 Individual studies of the effects (on companies and the labour market) of adopting wage floors provide varied and, to some extent, contradictory findings. This is partly because of the range of contexts in which these wage floors have been implemented, and may also be influenced by bias related to the controversial nature of the subject, which is influenced by political and economic beliefs. This has led to accusations of data mishandling and of misinterpretation of evidence between authors. Nevertheless, studies that have reviewed the evidence as a whole, based on a range of research, have come to reasonably clear-cut conclusions.

3.4 This literature review aims to assess what existing evidence can tell us about the introduction and extension of the Living Wage in Scotland, based mainly on evidence from the UK and the US. The fact that studies have found varying impacts in different contexts and that the experience of the Living Wage in the UK, especially outside London, is relatively new and limited means that there is no fully reliable way to predict the effects of a widespread implementation of the Living Wage in parts of the United Kingdom.

3.5 However, the evidence on wage floors found elsewhere, especially in the US, does give some strong indications of their impacts on:

1) labour demand and employment levels
2) wage costs, and ways in which employers absorb any increases

3) employees’ wellbeing, income and poverty rates

3.6 A fourth important impact is on the cost and level of public services, where public bodies and their contractors raise wages at the bottom. These effects are harder to project from research, but experiences of bodies who have introduced the Living Wage in the UK are nonetheless relevant.

The effect on labour demand and employment levels

3.7 The debate on whether raising the minimum wage is detrimental for the economy is not new. In the US, academic and political discussions on the minimum wage go back a century (Kaufman, 2010; Neumark and Wascher, 2007). Classical liberal and neo-liberal theories argue that imposing wage floors leads to a reduction in employment rates due to the increased cost of labour. In the United Kingdom, this has produced a cautious approach to the setting of a national minimum wage (NMW). Throughout the 15 years that the Low Pay Commission has supervised the uprating of the UK Minimum Wage, it has found no evidence of significant negative employment effects (e.g. Draca et al, 2011). However, this may be because the NMW has never been at a level high enough to affect labour demand, and that there is bound to be some higher level at which it would do so. In the United States, the setting of minimum wages at up to 50% above the federal level of $7.25 ($10.74 in San Francisco) offers much greater scope for researchers to test whether a relatively high wage floor is associated with less employment.

Have higher wage floors reduced employment levels in the US?

3.8 Two decades of intensive research comparing employment levels under different minimum wages in the US has failed to confirm the hypothesis that higher minimum wages reduce employment. On the one hand, Card and Kreueger’s (1994) influential study of the effect of minimum wage increases in fast food restaurants in New Jersey found no discernible employment effect. Subsequent research in the US (Fairris, 2007; Fairris and Fernandez, 2008; Reich, Hall, and Jacobs, 2005) has continued to show no consistent evidence of changes in labour demand as a result of increasing wages. Recently, Laura D’Andrea Tyson, who served as chairwoman of the Council of Economic Advisers under President Clinton, reflected that despite the increase in the minimum wage implemented during Clinton’s administration, “a higher minimum wage did not impede robust employment growth; it did contribute to healthy income gains for low-wage workers” (D’Andrea, 2013).

3.9 On the other hand, some studies show significant negative employment effects in certain cases. For example, Neumark and Adams (2003) found reductions in employment associated with programmes that set wage floors for recipients of public business assistance. Also, Tolley, Bernstein, and Lesage (1999) estimated that a proposed Living Wage Ordinance in Chicago would cost over 1,300 jobs – based on a survey of public sector contractors to whom it would have applied.

3.10 One approach to summing up the effects of various studies has been to carry out “meta-studies” of employment effects identified by a large range of individual studies (Allegretto et al, 2013; Doucouliagos and Stanley 2009; Giuliano, 2009;
Lester and Jacobs, 2010). In general, these studies have found there is no consistent relationship between wage floors and employment levels (i.e. there are considerable differences in individual studies’ findings of whether employment effects are positive or negative), but the key finding is that the vast majority of individual studies show the effects to be very small.

3.11 Some authors have argued that traditional approaches have failed to account for ways in which employers may not behave in manners predicted by competitive models and find channels of adjustment (Brenner, 2004; Schmitt, 2013; Thompson and Chapman, 2006) or contextual differences in employment growth (Dube, Leicester, and Reich 2010).

**Would the Living Wage reduce employment levels in the United Kingdom if implemented generally?**

3.12 Studies in the United Kingdom have pointed out that the association between higher wages and employment often contradicts the theoretical expectations of classical economic thinking (Bryan, Salvatori and Taylor, 2012; Dolton, Rosazza and Wadsworth, 2012; Stewart, 2004). Metcalf (2008) found that the introduction of the national minimum wage (NMW) is not associated with employment trends during the last two decades and exposed twelve possible reasons for small or non-existent employment effects of the NMW in the UK.

3.13 A number of studies have sought to project what would happen to employment levels in the UK if the current Living Wage were generalised, either through some form of compulsion or through very widespread take-up and possibly a situation where larger companies feel obliged to implement it for reputational purposes. At present, none of the evidence on the Living Wage as implemented, including in London over the period of a decade is able to address that question, because it has not been sufficiently generalised.

3.14 Lawton and Pennycook (2013) sought to project “the likely economic and social impact of more extensive Living Wage coverage”. One aspect of this was to model the impact on labour demand of a situation where the present Living Wage levels became compulsory. It estimated that “labour demand” would decline by 80,000 net, and by 160,000 for young people (some of whose jobs could go to older more experienced workers). This theoretical calculation is based on previously known relationships between pay and employment levels. It is important to emphasise that this is not a prediction of how many jobs would actually be lost; rather, it is based on observed historical relationships between pay and employment levels, which may not apply to the unknown context of increasing significantly the wages paid in all lowest-paid jobs.

3.15 Lawton and Pennycook’s (2013) analysis is also helpful in setting out which job sectors might be most at risk, which is largely based on the distribution of jobs where pay is well below the Living Wage. A move to the Living Wage would increase the wage bill most for bars and restaurants (6.2%), general retailers (4.9%) and food and drug retailers (4.7%). In most other sectors the effect on the overall wage bill would be very low or negligible, because only a small minority of jobs would be affected and/or because those affected pay not much below the Living Wage at present. It is also notable that workers under 30 – and particularly those under 20 and young workers with low skills – have a much higher than average chance of being on low pay, and are therefore more likely to be beneficiaries of a Living Wage, but also face some risk that they will be replaced.
by more experienced or better qualified workers. Finally a regional breakdown shows that the risk of being below the Living Wage is somewhat lower in Scotland than on average in the UK – at 18%, lower than in any other UK region except London and the South East.

3.16 Reed (2013) has attempted to make a comprehensive estimate of effects of expanding the Living Wage to all employees in the United Kingdom, taking account of macroeconomic knock-on effects. Arguing that the net fiscal benefits derived from implementing the Living Wage universally would be of £1.5 billion, which, through a multiplier effect, would increase GDP by £3.15 billion, he estimates employment effects of between 45,000 jobs lost and 58,000 jobs gained. This can only be seen as a very broad estimate of what would actually happen, but shows the degree to which the uncertainty but generally low level of projected employment effects can make it hard even to know whether there would be a small net reduction or small net increase in employment.

3.17 A report for the Welsh Assembly Government (Marsh et al, 2010) estimated the consequences if Neumark and Adams’ (2003) estimate of an employment elasticity of -0.12 were to apply to introducing a Living Wage to 9,000 low-paid workers in public administration in Wales. This estimate means that a 10% wage increase is associated with a 1% cut in employment, and on this basis it was estimated that job losses would be of the order of 300. However, it is by no means clear that an estimate applying to contracted and publicly-aided employers in the US is valid for predicting the employment outcomes for public administration in Wales (or, indeed, Scotland).

3.18 Local reports, such as Holden and Raikes (2012) for Manchester, have to some extent drawn on the evidence from London and the United States and concluded that there is unlikely to be a serious impact on jobs. However, these studies have largely considered the Living Wage in terms of a voluntary initiative, in which firms have to make their own judgements about whether and how to implement it, and so have not considered in detail possible economic impacts of a mandatory increase in the wage floor.

The effect on wage costs, and ways in which employers absorb any increases

3.19 There is considerable literature in both the US and among Living Wage employers in the UK detailing how employers have adapted to higher wage floors. This evidence helps explain why it has been hard to discern significant reductions in employment levels. In general, other changes create a context where the economic principle that “other things being equal, higher minimum wages means fewer jobs” does not apply, for the simple reason that other things are not equal.

3.20 These other potential changes, each of which have been documented in US studies (Schmitt, 2013), are:

- Employers reducing labour costs in other ways, such as by reducing hours, non-wage benefits, or training; or by cutting the wages of higher-wage workers
- Employers suffering reduced profits as they absorb the costs of the Living Wage, cutting returns to their owners
• Employers passing the costs of a higher pay bill on to consumers in the form of higher prices
• Productivity increasing as a result of a higher minimum wage, for a variety of reasons e.g. reduced employee turnover (resulting in lower recruitment and training costs) and increased employee effort, or as a result of employer action (such as increasing training or shifting the composition toward higher skilled workers).

3.21 There is little consensus in the economics literature about which of these effects dominates in practice. Most of the real world changes that have occurred because of minimum wage rates have been quite small, which makes their effects difficult to measure against a background of constantly changing macroeconomic conditions and long-term trends in the regional and industrial makeup of the economy (Northern Ireland Council for Voluntary Action, 2014).

3.22 A study of the effects of the implementation of the National Minimum Wage found that there were no effects on productivity or on employment levels, but some reduction in profits (Draca et al, 2011, pages 130, 149). However, the OECD has concluded that an increase in the ratio of the minimum wage to the median wage by ten percentage points can boost productivity by almost two percentage points (OECD, 2007). And Schmitt’s (2013) review of US evidence concludes that:

“…the cost shock of the minimum wage is small relative to most firms’ overall costs and only modest relative to the wages paid to low-wage workers … probably the most important channel of adjustment is through reductions in labour turnover, which yield significant cost savings to employers.” (p23)

3.23 Evidence in the UK also highlights staff turnover as the single most widely-cited change associated with introducing the Living Wage. Wills and Linneker (2012) found that in a sample of London employers taking up the Living Wage, turnover had reduced by an average of 25%, causing a 0.3% reduction in overall wage costs. London Economics (2009) came to a similar conclusion, and also noted a range of other effects: reduced absenteeism and sickness, increased worker effort and productivity and reputational benefits. While some issues had arisen about wage structures and differentials, the study found that there were no reported lasting disadvantages from a business perspective. Wayland (2011) refers to a study conducted by Barclays Bank in 2004, where absenteeism was reported to reduce from 30% to 4% since the introduction of the Living Wage.

3.24 It is important to note that these London studies are based on small samples and must be regarded as indicative. Moreover, results may depend on how and to whom questions are asked. The London Chamber of Commerce & Industry (2008), asked 275 business representatives about the London Living Wage and 42% of respondents said they would consider job cuts, 49% could cut back on investment, and 26% reduce their training budgets. However, this reports the views of employers not volunteering for a voluntary standard, and does not report on actual behaviour.

3.25 Overall, the US and UK evidence suggests that firms’ experiences of costs and benefits of the Living Wage, and the ways in which costs are absorbed, are highly diverse. Although increased productivity is likely to outweigh the higher
wage cost for many firms, this does not mean that all firms will experience increased productivity, or that it will fully cover the cost for all those that do experience it.

The effect on employees’ wellbeing, income and poverty rates

3.26 Studies of minimum wages and of Living Wages find, not surprisingly, that they increase the earnings of the employees affected. The amount obviously varies according to the size of change in the wage floor. Importantly, the impact on net incomes also varies according to the rate at which increased taxes and reduced in-work benefits result from higher individual earnings, as well as the extent to which low individual earners are located in households with low overall incomes. This makes it impossible to generalise effects on poverty levels from one context to another.

3.27 A number of US studies suggest that, despite the fact that low pay is not the same as poverty, raising minimum pay can have significant effects in reducing household poverty and improving outcomes such as health. For example, the Living Wage Ordinance in San Francisco has been associated with less sickness absence, improved subjective health, reduced premature death rates (Bhatia and Katz, 2001) and a 15% reduction in poverty rates (Howes, 2002). Similarly, Neumark, Thompson, and Koyle (2012) found that implementing business assistance Living Wage laws is associated with a reduction in the poverty rate by 2.4% in twenty-six American cities.

3.28 In the United Kingdom context, gains from Living Wages are bound to be shared between the recipient and the Exchequer, particularly in the case of families on tax credits (who typically lose 73% of additional earnings in reduced tax credits and increased taxation). Partly as a result of this, some UK authors have urged caution about the size of the direct impact of the Living Wage on poverty. Holden and Raikes (2012) argue that it would be a mistake to rely on the Living Wage on its own to address in-work poverty, and that it is essential to combine it with other policies designed to improve career progression and to reduce the costs faced by people on low incomes, for example in paying for housing, transport and childcare (which could potentially be funded from the gains to the Exchequer of a Living Wage). In addition, changes to benefit withdrawal and tax settings could ensure that lower income households keep a greater proportion of the increases in earned income.

3.29 The ways in which employers absorb any increases in wage costs are also likely to influence the impact of increased hourly wages on employees. For example, as noted earlier, some employers respond to higher wage bills by reducing hours, non-wage benefits, or training (Schmitt, 2013).

3.30 Nevertheless, other authors have pointed to tangible ways in which those who receive the Living Wage in the UK experience a higher living standard than those who do not. Flint, Cummins, and Wills (2013) found that those who received the London Living Wage scored 3.9 units higher on a 70-point well-being scale than those who did not, controlling for other socio-economic and demographic characteristics. The introduction of the London Living Wage has also been associated with higher commitment and better working atmosphere (Sokol et al, 2006) and with higher satisfaction at the workplace (Wills, Kakpo, and Begum, 2009).
The amount that a Living Wage raises the direct pay-bill of public bodies

3.31 It has already become evident in the United Kingdom that the direct effects of public sector bodies adopting the Living Wage for their own staff is very small. This depends on the extent to which, before the policy is implemented, public employees are earning below the Living Wage. In general, only a relatively small minority have such low earnings and often they are not too far below the Living Wage.

3.32 A Freedom of Information request in 2011 by the Poverty Alliance produced a list of the numbers below the Living Wage in each Scottish local authority at that time. On average this represented 7% of local authority direct employment, with a range from zero to 15% (Poverty Alliance, 2011). As an illustration, a local authority paying say 7% of its employees an average of £1 below the Living Wage would have to increase its overall wage bill by well under 1% in order to lift their wages to that level. In practice, local authorities deciding to pay the Living Wage to all staff have experienced only very minor increases in total wage costs. For example, in Glasgow it is an estimated £1.2 million (Marsh et al, 2011, p 58) and in Birmingham £1.3 million (Birmingham City Council 2012); these local authorities have total budgets of over £2 billion and over £3 billion respectively. Similarly, Elmore’s (2003) study in twenty American cities found that the actual cost was less than 0.1% of the total city budget (see Table 2 in Part 2, section B below).

3.33 An important reason for this situation is that many of the lowest paying jobs funded by the public sector, such as cleaning and care staff, are not carried out by directly employed personnel. This makes the issue of the Living Wage for staff in contracted services important both in terms of the benefits of the Living Wage to staff in public services and the potential cost to the public purse.

The scope for introducing the Living Wage among contractors to the public sector

3.34 Setting wage floors for directly-employed staff only can potentially create a perverse incentive to contract out to cheaper suppliers who do not pay the Living Wage. At present, the Living Wage Foundation recommends that Living Wage employers should set achievable milestones towards ensuring that their suppliers also pay their staff a Living Wage.

3.35 While the US has widespread experience of using city ordinances to enforce a Living Wage among all public contractors (and in some cases all bodies receiving any public grants), the situation is different for public bodies in the UK. If a public sector body in Scotland (or the rest of the UK) made the payment of staff at a higher rate than the National Minimum Wage a mandatory requirement as part of a competitive procurement process, this would run the risk of breaching European Law and European Procurement rules. It is, however, possible to include Living Wage considerations in procurement exercises without making payment of the Living Wage a mandatory requirement, and a number of public bodies in the UK have done so (Ready for Business, 2015). For example, one contracting authority asked bidders to include proposals to enhance workforce retention/cohesion/performance”, and reference was made to the authority having an interest in the promotion of equality and measures towards
ensuring good working conditions for those performing the contract. The successful bidder included a commitment to paying the Living Wage within their response to this question. In Lewisham Council, as each contract comes up for renewal or extension, the corporate procurement team ascertains whether staff involved in providing the services are paid above or below the Living Wage. If staff are paid below the Living Wage then the tender documents include two pricing schedules for the tenderer to complete: one which included paying all staff the Living Wage and one without. Evaluation of the bids is carried out and an award recommendation produced, identifying the proposed service provider and also whether the Living Wage should be implemented (the actual cost can be seen by the difference in the two price schedules) (Public Health England, 2014).

3.36 The approach taken in the Procurement Reform (Scotland) Act 2014 will see Scottish Ministers publish statutory guidance for public bodies on how workforce related matters, which can include such matters as a company’s approach to recruitment, remuneration, including Living Wage and terms of engagement, should be considered when selecting bidders and awarding public contracts, where such matters will affect the quality of service that the bidder may provide.

3.37 The Act, once provisions are commenced, will see those public bodies required to prepare procurement strategies set out (among a range of other priorities) what their general policy is on payment of a Living Wage to persons working on their contracts.

3.38 A sector where workforce terms and conditions are key to the delivery of quality public services, and where it is particularly challenging to encourage suppliers to pay a Living Wage as part of a procurement exercise, is social care. This is a sector with large numbers of low-paid staff, where there has been a severe squeeze on public budgets, and where the relationships between local authority funding and delivery is complicated by factors such as personal budgets and purchase of residential provision to out-of-area suppliers who may have charges applying to the residents of several local authorities. For example, Birmingham City Council estimated potential increased costs of circa £11m per annum if the Living Wage was to be applied to its social care contracts (not including personal budgets) (Birmingham City Council, undated). In Lewisham, legal advice was that to include the Living Wage in its residential and nursing care homes contract, Lewisham Council would have been required to purchase all available rooms. The council only block-books a proportion of rooms or spot purchases individual units and the legal advice was that by paying the Living Wage in these circumstances it would be subsidising self-funders and placements by other councils, which is beyond the council’s powers (Public Health England, 2014).

3.39 In the US (which, unlike the UK, is able to use city ordinances to enforce a Living Wage among public contractors), evidence on additional contracting costs suggests at most very modest effects. Brenner (2004, p 22) reported on the basis of a range of local studies that “although cities have had a wide range of experiences with Living Wage laws, the preponderance of evidence indicates that Living Wage ordinances are unlikely to cause large increases in city contract costs”. The bidding process, these studies find, can be influenced in a variety of ways. In some cases, it may narrow the field of bidders. In some, it replaces competition on the basis of undercutting on price by paying low wages with competition based more on quality. Importantly, many bidders welcome the “level
playing field” provided by a wage floor, and in some cases this actually attracts more bidders. Overall, Brenner’s review found that Living Wage ordinances have not produced an observable increase in public sector costs, but are compatible with a competitive bidding process in which profit margins are trimmed. In addition, Adams and Neumark (2005) found that in order to mitigate the costs of complying with Living Wage laws in the US, some employers have reallocated their higher-wage labour to the contract work and their lower wage labour to the non-contract work – producing better quality for the taxpayer if not always an overall improvement for employees.

3.40 Where the additional contracting costs have been quantified they have often been found to be low. Studies by Weisbrot and Sforza-Roderick (1996) and Niedt et al (1999) of Baltimore’s Living Wage indicate that even though the cost of contracting increased due to increased labour costs, inflation was higher during that period. The former study found that nominal costs of contracting increased by 0.2%, but that after adjusting for inflation, they declined by 2.4%. Similarly, the latter concluded that city contracting costs increased by 1.2%, but that real costs actually decreased once inflation was taken into consideration.

The overall fiscal consequences and where they fall

3.41 Some UK analysts suggest that any increased public costs consequent on the Living Wage will be largely or wholly offset by other effects on the public finances, derived from increased income tax and national insurance contributions and reduced benefits and tax credit payments and a multiplier effect of additional disposable income spent by low-income groups. Reed (2013) estimates that expanding the Living Wage to 572,000 workers in the United Kingdom would result in a net increase of around £1.5 billion in the public finances. Wills and Linneker (2012) calculate that by paying the London Living Wage to those who are currently being paid lower rates (around 580,000 workers in London), the Exchequer would save around £823 million per year. This is because the overall gains in reduced benefits and tax credits and higher tax revenues from public and private employers switching to the Living Wage would be greater than the additional wage bill for just the public employers who adopt it.

3.42 Evidence in the US also suggests that additional public costs will be offset by fiscal benefits, but evidence on the overall net effect varies. Studies like Pollin, Brenner, and Wicks-Lim (2004) estimated net fiscal savings of around $3.4 million per annum, resulting from additional $12.6 million in wages and implementation of the law and savings of $16 million due to reduced Medicaid expenditures and increases in tax revenues. One important difference between the US and the UK in these calculations is that the American cities may require their contractors to pay all their staff, not just those working on public contracts, a higher wage. The fiscal impact of implementing the Living Wage universally or only through public contracting would be associated with a range of issues, including not only the costs of paying higher wages and administrative costs, but the tax and social benefit rules in place. In Pollin, Brenner, and Wicks-Lim’s (2004) study, higher wages were associated with lower public cost in medical assistance to low income families – but as with tax credits in the UK, these savings will not all accrue directly to the local authority paying the higher contract

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*Several studies (Brenner, 2004; Niedt et al, 1999; Thompson and Chapman, 2006) make a reference to Weisbrot and Sforza-Roderick’s (1996) work. However, it has also been criticised (Employment Policies Institute, 1998, 2000) for conducting erroneous calculations. It has not been possible to find the original source.*
costs. For instance, Tolley, Bernstein, and Lesage (1999) calculated that introducing the Living Wage in Chicago would cost the city around $20 million, and that of the $5 million recouped in fiscal gains, less than 20% would remain in Chicago.
4 THE VIEWS OF SCOTTISH LIVING WAGE EMPLOYERS

4.1 This chapter presents the findings from the in-depth interviews with organisations that had implemented the Living Wage. The chapter begins by exploring the perceived benefits experienced by Living Wage employers, before examining the concerns and barriers experienced by these organisations and ways in which these were overcome. It also presents these organisations’ suggestions for future action.

Benefits of implementing the Living Wage

4.2 The Scottish Living Wage employers interviewed did not yet have a specific, formal assessment mechanism to monitor the impact once the Living Wage was implemented. Instead, monitoring of the impact was included as part of wider mechanisms used to measure overall staff performance and turnover. Therefore, the evidence of costs and benefits of introducing the Living Wage reported here relies on the perceptions of Scottish Living Wage employers interviewed rather than on objectively quantified measurement of these gains. When asked about their perceptions of the positive impacts of implementing the Living Wage, employers tended to discuss these in terms of the benefits to employees and benefits to their business.

Benefits to employees

4.3 The most commonly mentioned benefit was the salary increase received, which helped employees and their families achieve a better standard of living. Further, among Living Wage employers that tended to use a substantial number of sub-contracted staff, there was also a sense of satisfaction knowing that they will have raised the salaries of many more employees than just directly employed staff.

4.4 Living Wage employers also mentioned that word of mouth from these employees helped to create a more positive working environment within the company. One employer mentioned that they encouraged employees whose salaries were raised to come out and share what kind of a difference, if any, the salary increase made in their life, and communicated that anecdotal evidence to the rest of the staff. This helped employees understand better why the company was taking this step and increased a sense of ownership of the Living Wage scheme within the company.

“The CEO did a blog saying this is why we’re doing it; it's the right thing to do. We asked people to tell us some of their stories about what does it mean to you. So we managed to get some really good sound bite stories out of people saying look, I'm now going to benefit from this, this is what it means for me personally. So we shared some of that to make it real.”

(Living Wage employer, More than 500 employees)

4.5 A less commonly held view was that employee engagement seemed to increase among those members of staff whose salaries were raised. This was a less typical view, partly due to the fact that employers seemed to prioritise assessing things such as staff retention and turnover, which they felt had a more direct impact on the company as a whole.
“In terms of the catering staff and the staff restaurants, generally and indeed the cleaning staff in particular, those two groups are definitely far more engaged and far more likely to talk to everybody in the firm, rather than be walking about disenchanted with the existence that they have.”

(Living Wage employer, More than 500 employees)

Benefits to the business

4.6 The benefits that Living Wage employers mentioned with regards to the company as a whole tended to focus on external benefits and internal benefits.

4.7 It is worth noting that small employers and also a number of medium sized employers felt that implementation of the Living Wage did not benefit the company as a whole due to the very small number of staff affected. This view was echoed by some stakeholders who further added that small and medium businesses would not perceive the benefits in a way that the large businesses would. These stakeholders were of the opinion that indicators such as staff morale, loyalty and engagement may not be as relevant to the small and medium sized businesses as they would be to larger businesses. Also employee satisfaction may be measured through a very different set of criteria where adoption of a Living Wage salary would not necessarily have a critical influence on employee satisfaction.

4.8 The two internal benefits identified by Living Wage employers were the retention of high-calibre staff and attracting more qualified applicants for specific positions. Employers who reported having lower staff turnover since the implementation of the Living Wage felt that this could partially be attributed to paying their employees better. However, they added that paying the Living Wage should be seen as one of a wider range of factors that helped them retain staff, including creating a good working environment and offering employees other benefits. With regards to attracting higher quality staff, an employer from the manufacturing sector felt that paying the Living Wage was going to help their sector attract more qualified young applicants.

“The main thing is the word of mouth from our employees to the outside world, that says, we get paid a reasonable wage, we are happy with it. It’s not about our own employees saying, oh yes, they pay us well, what I get is people who come in at a temporary basis or people who are just new into the business, will say, wow, you treat your people pretty well, and the fact that the minimum that anybody gets is at least, at the very least the Living Wage.”

(Living Wage employer, 51 – 250 employees)

“Some of the machines we have now are touch screen they need programming, so we need people who understand the electronic side of things, and young people, with their phones and different things, are exactly what we need. […] So, we now have to go to the educators if you like and try and sell manufacturing as a way to go and of course the fact that we are a Living Wage employer helps that as well.”

(Living Wage employer, 51 – 250 employees)
4.9 In terms of external benefits, the most commonly cited was reputational benefit, as adopting the Living Wage helped to strengthen or reinforce the positioning of these organisations as ethical and socially responsible businesses. This finding was very much in line with what attracted these employers towards the Living Wage in the first place, and with this being part of wider actions undertaken to become a fair and ethical business.

4.10 Further, some large companies perceived the adoption of the Living Wage as an important opportunity to reinforce their position of leadership in their sector, as they had the scale and the size to help raise awareness of the Living Wage within their markets.

4.11 Some Living Wage employers were sceptical about accreditation, feeling that it did not bring any additional benefits over and above those of adopting the Living Wage. Others thought that accreditation helped improve the reputation of the company, by providing an external validation that can be displayed to clients and customers. These employers liked the fact that both Glasgow City Council and the Living Wage Foundation put the names of all Living Wage employers accredited by them on their websites, which enabled potential clients to confirm that they were Living Wage employers. More exceptionally, some also mentioned that the Living Wage Foundation provided a comprehensive package of information about the benefits of accreditation alongside communication materials, such as Living Wage merchandise and a plaque, to encourage employers to use those in their external communication.

4.12 The second most commonly cited external benefit was the increased likelihood to bid for public contracts. Employers felt that being a Living Wage employer would make a positive impression when applying for public contracts and help them stand out among the competition.

“That was a big thing for us, reputationally we wanted to be seen to do it and […] it assists us when I am bidding for local authority work and I can say, yes, we have got the Living Wage accreditation, everybody who works on our site, sub-contractor or otherwise are paid the Living Wage nationally.”

(Living Wage employer, more than 500 employees)

4.13 In the case of Living Wage employers in Glasgow, many highlighted the fact that Glasgow City Council had been a Living Wage employer since 2009 as a factor that influenced their decision to adapt the Living Wage. These employers regularly tendered for Glasgow City Council contracts and wanted to align themselves with the Local Authority to ensure they remained competitive when bidding for contracts.

“The real tacks and bolts of it are the fact that we do a lot of work for this local authority here and housing associations and the like. So, it’s important for us to be seen to be giving something back as well.”

(Living Wage employer, 51 – 250 employees)

Barriers to introducing the Living Wage

4.14 There was widespread agreement among Living Wage employers that, on the whole, the process of implementing the Living Wage was straightforward, particularly for small and medium-sized companies where a relatively small
proportion of staff salaries were uprated. These Living Wage employers felt that having a good sense of their company’s financial performance and the relatively small additional cost incurred as a result of the wage increase made the process easier.

“There wasn't really that much involved in it to be honest with you. Because, again, we would know the state of the finances of the company. Ultimately, because it was only one person and it wasn't a great big jump, then I suppose that had to make it simple and straightforward. Because it is just literally a case of, yeah we're going to do this and let’s implement it this month.”

(Living Wage employer, 1 – 10 employees)

“It wasn't difficult for us, because in essence, the vast majority of our people were already on a Living Wage and so all I had to do was convince my Board to bring a few others, half a dozen, ten people, up into that area and then to start putting our self over as an employer who would go by this Glasgow Living Wage process and they agreed with that.”

(Living Wage employer, 51 - 250 employees)

4.15 However, Living Wage employers did identify a range of factors that created barriers or difficulties during the implementation process. These barriers tended to fall under four broad categories:

- Concerns about the financial cost of increasing wages
- Ensuring sub-contractors also paid the Living Wage
- Communicating changes to employees
- Lack of clarity about what is expected as part of Living Wage accreditation.

Financial cost of increasing wages

4.16 Concerns held by Living Wage employers about the financial costs of implementing the Living Wage, prior to undertaking the implementation, were threefold. Firstly, there was a view that the increase in wage costs may have a negative impact on the competitiveness and, in some cases, the viability of the organisation. Living Wage employers expressed concerns that competitors which have not implemented the Living Wage would have a commercial advantage when tendering for public and private sector contracts due to having a lower cost base. This was predicated on the belief that price was, ultimately, the key determinant in awarding contracts.

4.17 However, after conducting internal analysis of the potential financial costs involved, Living Wage employers said that the found that increases in wage costs would not have as significant an impact on their overall costs or ability to offer competitive prices as they had originally assumed. This was largely the result of having a small proportion of employees whose salaries were below the Living Wage. In the case of larger Living Wage employers, the flexibility that came with being a large employer meant that the costs of increasing wages
could be absorbed more easily compared to smaller businesses. Furthermore, there was widespread agreement that the strong commitment from the senior management towards the implementation of the organisation played a key role in driving the implementation.

4.18 Secondly, some larger Living Wage employers expressed concern about the potential for a wider inflationary impact on salaries across their organisation. These employers felt that staff whose salaries were at, or just above, Living Wage levels may also seek salary increases as a result of seeing their colleagues receive an increase. There was a perceived need among such employers to maintain differentials between levels of staff, particularly between lower level staff and their supervisors, which led to concerns that implementing the Living Wage would require companies to adjust pay brackets across the whole company.

4.19 Living Wage employers discussed a number of ways in which they addressed this barrier, namely:

- Holding meetings with supervisors to provide details about the rationale for implementing the Living Wage, how it would be implemented and which staff would receive a pay increase: The view among employers was that this approach provided line managers and supervisors with a stake in the process and enabled them to act as a first point of contact for any questions and concerns raised by employees.

- Identifying where pay differentials between different levels of staff became too narrow and increasing wages of the higher level staff to retain a sufficient differential.

- Choosing to implement the Living Wage at an early stage of the financial year so that there would be time to make up for any additional unforeseen costs in the rest of the financial year.

“If you move some people and you narrow the differentials, somebody else will come back and say I think I'm doing a more accountable job, I used to get paid £1 an hour more, I'm now getting paid 70 pence more, this isn't right. So where the differential was completely eroded we didn't put the whole differential back in, we put something in there to say if you're in charge you get a little bit more.”

(Living Wage employer, More than 500 employees)

4.20 Thirdly, although employers tended to be supportive of implementing the Living Wage, some were more reluctant to apply it to younger employees. This reluctance was largely based on the fact that younger employees also received significant investment from the company in training and development and that paying younger people at Living Wage levels could make such training schemes untenable.

4.21 Some Living Wage employers also felt there was a lack of clarity about how the Living Wage applies to apprentices and interns. In such instances, employers sought advice directly from the accrediting body (the Living Wage Foundation or Glasgow City Council) on what was expected of employers, when employing interns and apprenticeships. Some larger Living Wage employers said that their concerns were addressed once they found out that apprenticeships and interns
were considered separate from the Living Wage scheme. However, it is worth mentioning that this was one concern that did not appear to be resolved for some employers, particularly smaller companies.

Ensuring sub-contractors implement the Living Wage

4.22 Encouraging sub-contractors to implement the Living Wage tended to be a significant concern for Living Wage employers, particularly larger companies. The most commonly experienced difficulties by larger Living Wage employers were:

- the amount of additional time and resources required to manage this part of the implementation process successfully
- scepticism and resistance among sub-contractors due to the commercial impact of applying the Living Wage
- additional financial cost incurred as a result of sub-contractors increasing their prices to cover additional costs of implementing the Living Wage
- ensuring sub-contracted companies pay employees Living Wage rates for the work that is delivered on the employer’s premises

“The bulk of the service contracts we’ve got tend to quote and tender on a price, so if you’re moving that from minimum wage to Living Wage, you have to recognise that even if you squeeze suppliers on their margins there will still be a cost increase coming to the business.”

(Living Wage employer, More than 500 employees)

4.23 With regards to the approach taken to tackle difficulties around ensuring subcontractors pay the Living Wage, large employers discussed the need to create an action plan to: set achievable goals for sub-contractors; determine a timeline for implementing the Living Wage across all contracts; and identify challenges and ways of addressing these. Living Wage employers acknowledged that implementation was a long-term process and that the attitude of the Living Wage Foundation towards what was achievable within particular timeframes helped to ease pressure on these employers.

4.24 Large Living Wage employers also highlighted the importance of good communication between their business and sub-contractors in helping to facilitate the implementation. Communicating openly at an early stage early was perceived as the best way to take sub-contractors “on the journey” towards implementing the Living Wage. Such employers felt that it provided sub-contractors with sufficient time to adapt, while also ensuring the process was fair and transparent for all sub-contractors. Indeed, one Living Wage employer discussed holding workshops for sub-contractors in conjunction with experts from the Joseph Rowntree Foundation to provide information and “get the message across” about why the company was adopting the Living Wage.

“Essentially, what a lot of [sub-contractors] are fixated on [is that] it’s a low margin business that they operate in and they struggle to see the benefit [of the Living Wage]. I created several workshops for all my
main contractors to explain to them why it was important to us. In most instances, most organisations get it and they understand and it positions [them] far better when they’re applying for local authority work, they get it. But, there are one or two, as I’ve said, who are still attached to some old school thinking about it is going to push up the payroll cost”
(Living Wage employer, More than 500 employees)

Communicating changes to employees

4.25 Some Living Wage employers expressed concerns about communicating the changes to employees. This concern was predicated on the belief that some staff who receive a salary increase may react negatively, either because:

- employees perceive the company to have been “taking advantage of them” before implementing the Living Wage

“It becomes a double edged sword, those getting it, whilst happy to get it, could well turn round and say, well why have you paid me less for so long then? Whereas the ones just above, not getting anything could potentially go, well why don't I get something?”
(Living Wage employer, 51 – 250 employees)

- employees may lose out on receiving benefits or tax credits, which result in such employees receiving a net loss from the pay increase

4.26 Consequently, some employers did not feel confident in communicating the benefits of the Living Wage to employees and their families in case it “backfired”. In order to address this concern, employers felt it best to adopt an iterative approach by going ahead with the implementation and responding to negative reactions as and when they occurred. The main reason that these employers gave for this approach was that assessing the net impact of the pay increase would be difficult due to employees' benefits coming from a whole range of different channels. Employers mentioned that if there were any employees who were concerned about whether they would actually be better off or not, they would put these cases on hold until the employees and the employers were assured of the net gain.

4.27 Among employers who chose to openly communicate with staff about the implementation of the Living Wage, many felt it created a “feel good” factor within the company, as employees had a better understanding of why the company was implementing the Living Wage.

Clarity about what is expected as part of Living Wage accreditation

4.28 Some larger Living Wage employers felt that there was a lack of clarity at the outset of the accreditation process, particularly around compliance requirements. They expressed a need for more information on reporting requirements, the nature of the yearly audits and the impact of having a different financial year to the Living Wage Foundation.

4.29 However, these concerns tended to be addressed through dialogue with Glasgow City Council or the Living Wage Foundation. Both organisations were viewed positively by the employers with regards to the ease of the application procedure for the Living Wage accreditation. Living Wage employers from
Glasgow underlined the speed of the Glasgow City Council’s application process while the comments of employers accredited by the Living Wage Foundation focused more on how well the Foundation responded to employers’ concerns and questions during the implementation stage.

“Well, what we had was information from the council about what the Living Wage was, [...]. So, we just addressed the problem, we then had to fill in a form and send it back to the Council, and we got a certificate saying that we are a Living Wage employer and that was it basically.”

(Living Wage employer, 11 - 50 employees)

“[The Living Wage Foundation] were supportive, they were pragmatic. [...] I think we felt that actually they're being reasonably balanced in the process that they're trying to follow. And I think I would go as far to say we felt that they were pretty business-friendly, which isn't always the case [with other accreditation agencies].”

(Living Wage employer, More than 500 employees)

Approaches to monitoring the impact of the implementation of the Living Wage

4.30 Living Wage employers were asked how, if at all, they assessed the impact of implementing the Living Wage. Most indicated that they did not have a specific, formal assessment mechanism. Instead, monitoring of the impact was included as part of wider mechanisms used to measure overall staff performance and turnover, which enabled them to identify significant changes in these indicators.

“We have got a monitoring mechanism for staff turnover and customers and employee feelings regarding loyalty and value and then the perceived fairness in terms of pay and conditions, but not something that specifically catches the Living Wage. [...] I don't think it's worth the effort because it's not core to our business.”

(Living Wage employer, 51 - 250 employees)

4.31 The predominant view among employers was that an assessment specifically looking at the impact of the Living Wage was not required for two main reasons. Firstly, the number of staff whose salaries were increased as a result of the implementation was often fairly low and Living Wage employers expressed doubts about whether an assessment would yield any meaningful results. Secondly, the type of staff whose wages were increased tended to be in ancillary or support roles, such as cleaning or administration, which constituted a small proportion of the payroll and did not have a significant impact on the overall performance of the business.

4.32 A few larger Living Wage companies said that they intended to look at the more specific impacts of the Living Wage in the future, as they felt not enough time had passed to make a sound judgement. One such company added that the only Living Wage specific assessment that they had introduced in their organisation was an auditing mechanism to ensure that their sub-contractors were paying the Living Wage.
Suggestions for improving the implementation process

4.33 Having experienced the implementation process, Living Wage employers were well positioned to suggest ways of improving it. Suggestions made by Living Wage employers covered three broad areas, discussed below: internal processes; guidance and assistance; and help from the Scottish Government or local authorities.

4.34 Suggestions for improving organisations’ internal processes included:

- conducting feasibility studies prior to implementation to identify potential risks, devise approaches to address risks and develop an appropriate timescale for implementation
- communicating with all staff to explain the rationale for adopting the Living Wage and to respond to questions or concerns raised by staff
- involving staff as much as possible to make the process less top-down and increase ownership of the Living Wage and the implementation process
- promoting the implementation to customers and clients through using the Living Wage Employer logo and other marketing materials

4.35 Guidance and assistance could be improved by providing more information on:

- dealing with any impact on benefits for people whose salaries would be raised to Living Wage level
- what is expected of Living Wage employers, large businesses in particular, with regards to sub-contractors, specifically:
  - how to implement the Living Wage across contracts, set achievable targets, ensure subcontractors are paying the Living Wage
  - encouraging large employers that have been through the process to share experiences and any lessons
  - communicating to employers that use several subcontractors that the process of implementing the Living Wage is relatively straightforward and flexible in terms of the time period in which the implementation is to be completed
- what is expected when dealing with sub-contractors in order to ensure they meet the Living Wage criteria when doing work on the premises of Living Wage employers
- the employment of apprentices and interns

4.36 Suggested ways of providing guidance and assistance included:

- encouraging dialogue between employers that have been through the implementation process and employers that are considering adopting the Living Wage
• continuing to make the list of Living Wage employers available to the wider public through different communication channels

• raising awareness among recruitment agencies about the Living Wage and what it means to be a Living Wage employer, which, in turn, would encourage agencies to abide by Living Wage principles when sourcing personnel for employers

4.37 Suggested ways in which the Scottish Government or local authorities can support the implementation of the Living Wage included:

• providing more clarity on how the Living Wage rate is calculated and how the businesses should apply the criteria to the different types of staff who work on different types of contracts

• providing more information and evidence on the benefits of the Living Wage for employers, including when tendering for public contracts

• conducting more specific and sector-based analysis of the impacts of the Living Wage which quantify the costs and potential benefits in particular for small businesses, hospitality and retail sectors, social care and child care

• providing financial incentives to sectors which are more likely to employ people below the Living Wage such as the sectors mentioned in the previous point to help absorb the initial financial impact of implementation

• improving communications on how the current level of the Living Wage is set and involving local businesses in the process of determining the Living Wage rate
5 THE VIEWS OF SCOTTISH GOVERNMENT CONTRACTORS

5.1 This chapter presents the findings from the in-depth interviews with Scottish Government contractors. It begins by exploring Scottish Government contractors’ awareness and overall perceptions of the Living Wage before going on to examine the perceived benefits and costs of promoting Living Wage through public contracts. It then examines Scottish Government contractors’ attitudes towards the use of procurement processes to encourage the implementation of the Living Wage and their suggestions for how this could be supported.

Awareness and overall perceptions of the Living Wage

5.2 Almost all Scottish Government contractors had at least heard of the Living Wage prior to being interviewed. Most had read, seen or heard stories in the media about the Living Wage, with some commenting that they perceived an increased focus on the Living Wage in media stories in the past year or so. Some also mentioned having received information directly from the Scottish Government or local authorities.

5.3 Further, some Scottish Government contractors had held formal discussions, either at boardroom level or with Trade Union representatives, about the Living Wage and its implications for their organisation. A small number had been involved in implementing the Living Wage in other parts of their organisation to respond to private sector client expectations or to comply with the London Living Wage.

5.4 Overall perceptions of the Living Wage among Scottish Government contractors were largely positive, although the extent of support for a wider implementation of the Living Wage varied. Among those contractors who expressed greater support for the Living Wage, this was based on a view that it was a “fairer” or “more equitable” rate of pay than the minimum wage because it was linked to “real world conditions” rather than an arbitrary amount set by Government, which is how they perceived the minimum wage.

“The minimum wage, to me, [is] more about business trying to keep [wages] as low as possible so they can carry on as they want to. The Living Wage feels as though it’s more linked to what’s actually happening in terms of [real world costs].”

(Scottish Government contractor, 51-250 employees)

5.5 However, some Scottish Government contractors expressed the view that, although they supported the Living Wage in principle, there was a need to consider and address the implications of increasing employees’ pay. These implications, which tended to be focussed on increased financial costs to their organisation, are discussed in greater detail later in this chapter.
Perceived benefits of implementing the Living Wage

5.6 Scottish Government contractors’ perceptions about the potential benefits of implementing the Living Wage were broadly similar to those held by Living Wage employers.

5.7 With regards to benefits, the general perception among Scottish Government contractors was that implementing the Living Wage would bring benefits to both the organisation and its employees.

5.8 There were three main ways in which Scottish Government contractors felt organisations could benefit from implementing the Living Wage. Firstly, there was a view that implementing the Living Wage could result in greater employee engagement, resulting in improved staff retention, reduced absenteeism and improved workplace atmosphere. Some, particularly those working in the catering and facilities management industries, felt that staff would often leave to join another company for marginal differences in pay and that implementing the Living Wage may help to mitigate this risk. Indeed, in some cases, Scottish Government contractors felt that the potential to reduce recruitment costs and increase productivity would help to offset the increased costs of paying the Living Wage, though this view was not widely held.

5.9 Secondly, there was a perception that offering a higher wage would enable organisations to attract higher calibre employees, though this was dependent on the industry in which contractors operated. On the one hand, those in the third and public sector felt that offering a Living Wage would “level the playing field” with private sector companies who tended to offer higher salaries, meaning public and third sector organisations would have a better chance of attracting higher calibre employees. On the other hand, those in the catering and facilities management industries said that vacancies were already vastly oversubscribed, which they attributed to the current economic climate and higher levels of unemployment, resulting in them being able to select the best candidates.

“[If the Living Wage is implemented] it means that people can move for career advancement rather than [if one company] is paying a little bit more than the other. So, I think that, it creates a mutual environment really for small organisations to recruit and retain staff.”

(Scottish Government contractor, 11-50 employees)

“At the moment, recruitment is not a problem; we will fill a job on the same day as we advertise it. So, we don’t think that there is pressure in the job market at the moment, but the job market is a tough place, so it is easier to recruit. Five or six years ago it was difficult for us to recruit but the world is different place to what it was then.”

(Scottish Government contractor, More than 250 employees)

5.10 Thirdly, a common view held by Scottish Government contractors was that being seen as a Living Wage employer would be beneficial to their reputation, particularly among public sector clients. They felt that paying the Living Wage demonstrated that they were a socially responsible organisation and were contributing to the benefit of society and were, ultimately, aligned with the values of public sector clients.
With regards to the potential benefits to employees of implementing the Living Wage, a commonly expressed view by Scottish Government contractors was that the implementation of the Living Wage could:

- Improve morale among employees, which could, in turn, lead to greater levels of job satisfaction and engagement among employees who received pay increases. However, some contractors were more sceptical about the impact on staff morale and engagement, often making the assertion that other working conditions had a greater influence on job satisfaction than pay. Further, some felt that any improvement in staff engagement would be a temporary boost following implementation which would be less pronounced once the Living Wage became “the norm”.

- Contribute towards improving the general health and wellbeing of employees. This view was predicated on the belief that, by being paid a wage that enables employees to support themselves and their families adequately, employees would be less concerned about “making ends meet” and less likely to need more than one job or to rely on the state to subsidise their earnings, which would have a positive impact on their physical and mental wellbeing.

“If people feel better about their work, [they tend to be] less stressed. Stress is a contributory factor to many other illnesses and killers [and], for that matter, [the Living Wage could have a] beneficial effect on society [if] people to feel better about being valued at work.”

(Scottish Government contractor, 1 – 10 employees)

Perceived barriers to implementing the Living Wage

Scottish Government contractors expressed a number of concerns about the potential financial cost of promoting Living Wage through public contracts. Again, there were some similarities between the concerns identified by contractors and those identified by Living Wage employers, though contractors displayed deeper concern about these issues than employers. Further, many contractors went on to say that, in order for the benefits of implementing the Living Wage to be realised, such concerns would have to be addressed.

The prevailing view among Scottish Government contractors was that it would be difficult for many companies to absorb the additional cost of paying the Living Wage. Contractors working in smaller companies and those operating in industries with low profit margins, such as catering, facilities management and retail, expressed greater concern about the financial implications of paying their staff the Living Wage. Some larger contractors also highlighted that six- and seven-figure increases in wage costs would be required to implement the Living Wage across their businesses.

Some of the concerns expressed by Scottish Government contractors in relation to wage costs were similar to those held by Living Wage employers (discussed in chapter 4), namely regarding the potential inflationary impact on wages across the organisation and the potential for some employees to lose out on tax credits as a result of earning higher wages.

Further, some Scottish Government contractors felt that widespread implementation could result in the Living Wage being used as a “wage floor” by
organisations to depress wages within industries. A view shared by several contractors was that some organisations would offer the Living Wage “as standard” rather than offering an appropriate wage based on an assessment of the specific requirements of a job. In particular, such contractors were concerned about the recruitment of young people, interns and trainees, whom they felt would be most likely to be offered the Living Wage rather than higher wages that match the responsibilities associated with a specific role.

“If you announce a minimum wage [companies] will think it’s a guidance, so [companies] think that’s what you pay, rather than taking into account what the job is worth. [Companies will] think that’s what you pay and don’t give too much thought to the value of the job.”

(Scottish Government contractor, 11-50 employees)

Views about potential impact on employment of young people

5.16 A further aspect explored among Scottish Government contractors was the potential impact on the recruitment of younger people if the Living Wage was implemented. On the whole, most contractors felt that the implementation would have little impact on the recruitment of young people. Some said they already pay young people at, or above, Living Wage levels, while others felt that graduate and apprenticeship schemes were key parts of their business that they would continue to run.

5.17 However, Scottish Government contractors expressed two main concerns about the blanket application of the Living Wage across all age groups. Firstly, some felt that, when considering how much young people are paid, it was important to look at the wider investment in young people by companies, such as the cost of training and providing opportunities to gain experience. Consequently, they felt that implementing the Living Wage may result in some companies reducing their investment in providing training to young people.

“Well, we would have to look at [paying young people the Living Wage] very carefully, because part of the whole apprenticeship idea is that you are putting management resources into the skills, knowledge and development, of that individual, so there is another cost in terms of time for the managers who are involved in that. We would need to look at [the costs] very carefully.”

(Scottish Government contractor, 51-250 employees)

5.18 Secondly, there was a broader concern expressed by some Scottish Government contractors about the “appropriateness” of paying young people at Living Wage levels. This view was predicated on the belief that many young people live at home and, therefore, don’t need a Living Wage to survive, as many of the subsistence costs the Living Wage is designed to cover will already be addressed through the household income of their parents.

“I think [the Living Wage should] apply to people who are supporting themselves, but I think [there is a need to] think about the circumstances and what’s appropriate. The principle of the Living Wage is to support people to have a certain standard of life, whereas youngsters who are in that transition period between home and the
work are achieving that balance and it's not about taking advantage of them, it's about [paying them] an appropriate level.”

(Scottish Government contractor, 11-50 employees)

5.19 However, a minority were of the view that paying younger people a Living Wage would have a positive impact by improving the attractiveness of work, which could act as an incentive for younger people to choose work over benefits.

Views about the use of procurement to encourage implementation of the Living Wage

5.20 Scottish Government contractors were asked about their views on the potential for the Scottish Government to use procurement processes to encourage the payment of the Living Wage. On the whole, Scottish Government contractors were supportive of the principle of using public sector procurement to promote the Living Wage. A number of contractors felt that, if the Scottish Government was serious about promoting the Living Wage, then procurement policies were the most effective way of encouraging companies to adopt. Indeed, some Scottish Government contractors commented that incorporating the Living Wage into procurement practice would help to “level the playing field” and enable contracts to be judged on quality and their contribution to society as opposed to cost. It is important to note that EU law limits the possibility of this as an approach, as any requirement on contractors to pay their employees a living wage set higher than the UK’s National Minimum Wage is unlikely to be compatible with EU law.

“[Incorporating the Living Wage into procurement] recognises the appropriate costs, so it looks at the real value [of the tender], so it creates an even playing field between those organisations that are socially minded and those who would seek to create a price advantage by paying less.”

(Scottish Government contractor, 11-50 employees)

5.21 Some Scottish Government contractors were more sceptical about the use of procurement to promote the implementation of the Living Wage. Three main reasons for this scepticism were offered. Firstly, there was a concern about the financial implications of higher wage costs, and a view that using the procurement process would favour larger companies, as they would be better placed than smaller companies to absorb these additional costs. Secondly, Scottish Government contractors had concerns about a potential “domino effect” occurring if organisations in a supply chain all implemented the Living Wage, which could impact exponentially on the price of goods and services. Thirdly, some felt that focussing on the Living Wage was too arbitrary, and that it should be considered alongside wider packages offered to employees, such as uniforms, meals and employee benefits.

5.22 In relation to the challenge of absorbing higher wage costs, some contractors said that, in the current economic climate, prices and profit margins on contracts were being “squeezed”, as both public and private sector clients seek to reduce costs. They felt that profit margins on many contracts were already tight, making it more difficult for businesses to absorb any increase in staff costs.
“[Our organisation] can’t afford to [increase staff costs] because the margins are typically [very low] and the Scottish government are, in these times of austerity, always looking for savings to their contracts. So, it’s a bit of a vicious circle where no one really wants to pay it and no one can pay it and that’s the difficulty.”

(Scottish Government contractor, More than 250 employees)

5.23 A further view held by some Scottish Government contractors was that price was often the deciding factor when contracts were awarded, which meant there was a danger of organisations becoming uncompetitive if staff costs increase as a result of implementing the Living Wage. They felt there was a danger of being undercut on price by competitors who did not implement the Living Wage, and that organisations paying the Living Wage would lose out.

5.24 As a result of the pressures on contract margins, the predominant view among contractors was that increases would, ultimately, have to be passed on to clients.

“We have to work with our client, but we have a commercial organisation to operate and will seek some recovery of [increased costs] from our client. There is clearly a cost implication to [implementing the Living Wage] and we need some contribution by the client towards [covering those costs].”

(Scottish Government contractor, More than 250 employees)

5.25 A small number of Scottish Government contractors felt that they would be able to absorb the additional costs of implementing the Living Wage provided that cost increases could be offset elsewhere; for example, by seeking efficiency savings elsewhere in the contract, or through realising lower recruitment costs as a result of improved staff retention.

Actions suggested by contractors to support the use of procurement to encourage payment of the Living Wage

5.26 In order to address concerns, Scottish Government contractors identified a range of actions that could be undertaken to support the use of procurement to encourage implementation of the Living Wage. These actions tended to be focussed on addressing concerns about the financial impact of implementing the Living Wage, and ways of ensuring that companies are prepared for the transition.

5.27 With regards to addressing concerns about the financial impact, the predominant view among contractors was that the Scottish Government should help to subsidise increases in wage costs, primarily by paying for these costs as part of the terms of the contract. This was perceived as important, particularly in the short term, to enable organisations to implement the Living Wage while still protecting profit margins on contracts. There was a view held by some contractors that increases in the cost of public contracts would be offset by savings accrued from lower spend on tax credits and benefits, and from higher tax intakes, as a result of employees being paid higher wages.

5.28 Alternatively, some contractors suggested that the Scottish Government could subsidise the implementation of the Living Wage through offering grants or tax breaks to contractors, particularly small companies, to help them absorb the
initial cost of implementing the Living Wage. Contractors cited examples of schemes designed to tackle unemployment – such as the Community Job Fund, which encouraged companies to take on more employees - as ways in which subsidies could be delivered.

“In terms of the transition, [the Scottish Government need] to make sure that potential bidders are not disadvantaged [and] but one approach could be [to offer] tax concessions to companies to adopt a Living Wage.”

(Scottish Government contractor, More than 250 employees)

5.29 There was a feeling that businesses needed time and help to implement the Living Wage, and that this could be achieved through:

- Encouraging payment of the Living Wage in public sector contracts, but not making it mandatory. Contractors felt that organisations bidding for contracts should receive additional points when assessing tenders if they can demonstrate that they pay the Living Wage, rather than being excluded for not paying it. It was felt that this would encourage companies to implement the Living Wage in order to gain extra points, while not excluding those who were unable to afford to implement the Living Wage.

- Working in partnership with contractors. The prevailing view was that, while there was support for the Living Wage, contractors’ concerns would need to be addressed in order to ensure that organisations were prepared and to minimise disruption to the tendering process. Some contractors suggested that industry bodies could help to promote the Living Wage and ensure that a uniform approach is adopted within industries.

- A staged implementation beginning with larger contracts before filtering down to smaller contracts. There was a perception that larger contracts offered greater profit margins and businesses would be better equipped to absorb financial costs. The implementation of workplace pensions, in which the requirement to pay pensions is staggered over time depending on company size, was often cited as an example of how this might be achieved.

- Providing clarity in the tendering process about whether payment of the Living Wage is mandatory, voluntary or even considered at all. A small number of contractors felt that there was currently a lack of clarity about the role that the Living Wage currently plays in awarding contracts and that greater clarity was needed to help contractors when costing and submitting bids.

- There was a general feeling that the Scottish Government could do more to raise awareness among contractors about the Living Wage in general and its role in procurement decisions specifically. When asked how the Scottish Government might support businesses, contractors suggested a number of methods, including:

  - Providing information about the Living Wage, how it is calculated and what implementation entails through promotional campaign or formal government channels, e.g. Business Gateway or Scottish Enterprise.

  - Making use of local government and non-departmental government bodies who deal directly with contractors to provide information and support. This
was seen as particularly important for Third Sector organisations, which rely heavily on local government contracts for revenue.

- Organising workshops with contractors to provide information and advice on best practice for implementing the Living Wage.

5.30 Regardless of the method chosen, many contractors felt that the Scottish Government should, where possible, provide robust evidence on the impacts on contractors of implementing the Living Wage, and advice on addressing barriers to implementation.
6 THE VIEWS OF KEY STAKEHOLDER ORGANISATIONS

6.1 This chapter presents the findings from the in-depth interviews with stakeholder organisations representing key sectors and industries. It includes their feedback on the applicability of the findings from the in-depth interviews with Living Wage organisations to different types of businesses and sectors. It also examines stakeholders’ attitudes towards the use of procurement processes to encourage the implementation of the Living Wage and their suggestions for how this could be supported.

6.2 A particular point emphasised by stakeholders was that the costs and benefits of implementing the Living Wage, and the ease or difficulty of the implementation process, will vary depending on the size of the organisation and the sector in which it operates. They felt that concern and scepticism towards implementing the Living Wage would be more prevalent among small and medium sized contractors, as they would find it difficult to absorb additional wage costs. These stakeholders were of the opinion that more specific research focussed on the experiences of small and medium businesses is required, including among those who have considered but not implemented the Living Wage.

Perceived benefits of implementing the Living Wage

6.3 Some stakeholders mentioned the importance of increasing employees’ salaries in addressing in-work poverty (although it was acknowledged that implementing the Living Wage widely is not the sole tool in addressing in-work poverty). More exceptionally, stakeholders mentioned that the increased purchasing power of employees who are uprated to Living Wage levels and their families would, in turn, benefit the local economy, as they will have higher levels of disposable income. These stakeholders felt that these kinds of benefits were not well communicated to small and medium businesses, and that there would be benefit in focusing more on these types of benefits.

“I think we also make the advice and stuff technical, forgetting people, you know, we often use the phrase we live in a society not an economy, and it's about particularly small businesses who are embedding in their community. (...) I think you need to be saying particularly the local multiplier effect, because people who are on a low wage are going to spend locally, so your business will benefit.”

(Stakeholder)

6.4 Another benefit mentioned less commonly by stakeholders was employers being empowered to make a contribution to their community, independent of local or central government.

“[The Living Wage] is also about something that was about communities taking the lead and campaigning for economic justice, and for those arguments, not simply to be taken to government as many arguments for economic and social justice around taxation or welfare. (...) [The idea] was to take those arguments to a different location power, to take it to employers, predominately probably large employers, but organisations that have some power and control in communities.”

(Stakeholder)
6.5 Although some stakeholders acknowledged that the implementation of the Living Wage could deliver organisational benefits, the prevailing view was that these benefits would only be realised if paying the Living Wage remained voluntary. This was predicated on the belief that choosing to pay the Living Wage offered organisations a potential commercial advantage that would diminish if their competitors also paid the Living Wage.

6.6 Some stakeholders echoed the view of small employers (and a number of medium sized employers) that implementation of the Living Wage did not benefit the company as a whole, due to the very small number of staff affected. They further added that small and medium businesses would not perceive the benefits in a way that the large businesses would. These stakeholders were of the opinion that indicators such as staff morale, loyalty and engagement may not be as relevant to the small and medium sized businesses as they would be to larger businesses. Also, employee satisfaction may be measured through a very different set of criteria, where adoption of a Living Wage salary would not necessarily have a critical influence on employee satisfaction.

6.7 There was also scepticism among some stakeholders around whether the benefits that the implementation of the Living Wage would bring to the company would be enough to offset the additional cost. Some went on to say that the benefits and costs needed to be quantified to ensure sectors such as hospitality, retail and social care, or small and medium businesses, were making an informed decision about whether to adopt the Living Wage.

“(…) if there was to be potential reduction in say turnover and the costs involved in recruitment and training would that be enough to offset any additional cost or would it not come anywhere near it? (…) I think it would be very difficult to see savings in terms of reduced staff turnover and recruitment cost equalling, let’s say 10% of your payroll cost.”

(Stakeholder)

“There’s not yet enough evidence from hospitality employers who have initiated the Living Wage, and we can quantify what the wage costs might be, it would be interesting to be in a position to have some authoritative evidence relative to our sector, if introducing the Living Wage did result in reduced staff turnover and more productive staff and reduced, a reduction in the need to train people and reduced recruitment costs. Let’s quantify that so that we can look at the pros and cons in a quantified way.”

(Stakeholder)

Perceived barriers to implementing the Living Wage

6.8 Some stakeholders were concerned about the potential impact of implementing the Living Wage on an organisation’s ability to remain competitive. This was particularly in relation to the hospitality, retail and private childcare sectors but also for other sectors, such as tourism and events. There was a view among these stakeholders that profit margins were already tight for sectors that rely on staff to deliver services to customers, and that additional wage costs would make it difficult for such firms to remain competitive. One stakeholder went on to say that higher wage costs may also deter foreign investment in these sectors.
“(…) the wage and salary bill payroll is the single biggest cost faced by the [hospitality] industry. It is very much a people industry, it’s very difficult to automate or make more efficient a lot of the services we deliver. So, typically wages and salaries might account for between 30 and 40% of total turnover. (…)”

(Stakeholder)

6.9 Some stakeholders reiterated the concern of some larger Living Wage employers about the potential for a wider inflationary impact on salaries across the organisation. These stakeholders felt that the inflationary impact may threaten the viability of some businesses in the hospitality and retail industries and the voluntary sector in particular. Increasing end prices wasn’t considered an option, due to the competitiveness of the sectors or already tight budgets. A stakeholder gave the example below to indicate how the inflationary impact would affect the costs in one business:

“One company looked at increasing their staff from the national minimum wage. If they were increasing to a Living Wage of £7.65 their payroll would rise by 12.2%. If they maintained the differentials that they have up the seniority and more experienced chain that increases their payroll by 23.5%. I was actually quite alarmed when I looked at the figures that people were showing me about the impact on their payroll and particularly if the differentials were maintained, knowing that payroll costs are the single largest cost, and can be 30 to 40% of turnover.”

(Stakeholder)

6.10 A number of stakeholders were sceptical about whether the actions that Living Wage employers said they took to address this barrier would be sufficient for all employers. These stakeholders expressed a view that the employers would need to consider cutting back on other labour costs such as benefits given to the employees (e.g. health insurance, meals, discount on products or services), or they may consider reducing investment in other areas of the company to help manage overall costs.

“As a sector we offer a wide range of benefits in addition to what we pay as an hourly rate. If we were forced into a position of offering a Living Wage, so we focused entirely on the hourly rate and we dismissed all these other benefits, some of these benefits would have to be sacrificed. Because in our view many of our members probably feel as if they can’t offer a Living Wage in terms of the hourly rate across all of their staff without there being an impact on either prices rising or on their margins.”

(Stakeholder)

6.11 A further concern, raised by some stakeholders, centred on the timing of the Living Wage debate. Some felt that many small and medium businesses were still operating in a fragile economy that only very recently has begun to show signs of recovery. Furthermore, there was a more exceptional view that employers were currently adjusting to accommodate other recently introduced measures such as pension auto-enrolment, and that implementing the Living Wage would place additional burden on employers.
Stakeholder views on employers’ concerns were mixed. On the one hand, some stakeholders felt that businesses tended to overstate the financial costs of increasing employees’ wages, citing the implementation of the minimum wage as an example of a case where the actual impact on businesses’ financial costs were not as bad as had been predicted prior to the introduction of the legislation.

On the other hand, some expressed strong concerns that the impact on costs would have a considerable impact on businesses. These stakeholders felt that the implementation of the Living Wage would have a disproportionate impact on companies in industries such as hospitality, facilities management, retail and social care, where staff costs tend to make up a higher proportion of the overall business costs. These industries were often perceived as being very ‘price sensitive’, which negated the ability of these companies to pass on the cost to customers.

Further, there was a feeling among some stakeholders that public sector organisations did not have to worry about commercial pressures, such as price and competition, in the same way as the private sector and, therefore, should not force the implementation of the Living Wage on private companies or expect them to implement it as easily as public sector organisations.

“I think also a feeling [among private sector companies] that it’s really easy for government to talk about [implementing the Living Wage], because [government] can find the money to pay [its] own workers, but that’s not the real world of business. I think some of those more subtle kind of issues are sort of bubbling away in terms of how businesses think about government and its understanding of business.”

(Stakeholder)

A small number of stakeholders also expressed the view that the potential costs outlined by Scottish Government contractors were more tangible and easier for organisations to measure than the potential benefits. Consequently, they felt that this would make it very difficult to encourage organisations to adopt the Living Wage, and that more research was required to quantify both the costs and benefits of implementing the Living Wage in different sectors.

Views on the use of public sector procurement to encourage implementation of the Living Wage

The concerns raised by some Scottish Government contractors about the use of procurement to promote the implementation of the Living Wage were echoed by some stakeholders, who also felt that there would be a disproportionate impact on some industries, particularly hospitality, facilities management, retail and social care. They expressed a concern about whether the voluntary sector in general, and the social care sector in particular, could afford increasing wages to the Living Wage level. The predominant view among these stakeholders was that contract prices offered by local authorities were already very low and that the majority of social care employers could hardly afford to pay the minimum wage.
6.17 Further, stakeholders tended to take a broader view of the role of the Living Wage in procurement and felt that its consideration should take place within a context of wider social policies. The prevailing view was that procurement processes did not currently do enough to consider issues such as the social or community impact of a contract, the overall investment in staff by contractors or whether the overall cost was sufficient to deliver desired benefits (for example, increased employment and training).

6.18 Some stakeholders went on to say that focussing on wage levels was a distraction from considering these issues and could, potentially, have a negative impact. For example, some stakeholders felt that forcing contractors to pay higher wages could result in contractors reducing employment levels, either through cutting staff or cutting hours, and/or reducing investment in training.

6.19 A number of stakeholders also flagged up a range of potential practical issues in relation to using Living Wage considerations in determining public contract decisions. These included concerns:

- that ‘additional bureaucracy’ may drive some businesses from opting out of applying for public sector contracts
- about how contractors (and sub-contractors) will be asked to ‘prove’ that they are actually paying the Living Wage rather than merely asserting so in a bid document
- about whether rules of the payment of the Living Wage applies only to work relating to a defined government contract, or whether it applies to all activity of an individual contractor.

6.20 The consensus among stakeholders was that organisations carrying out public sector contracts would be unlikely to afford to pay all staff working on these contracts a Living Wage unless public bodies were willing to pay more for the contracts.
7 CONCLUSIONS

Costs and benefits of the Living Wage

7.1 Across the interviews, it was clear that there were a number of shared concerns about wider payment of the Living Wage, as well as recognition of potential benefits.

7.2 The main benefits of the Living Wage were perceived to be:

- **employee benefits** – enhanced standard of living, better health and wellbeing and improved morale
- **organisational benefits** – enhanced reputation, ability to recruit higher calibre staff, better working environment, greater staff engagement

7.3 A number of key concerns about the Living Wage were raised, namely:

- the potential impact of implementing the Living Wage on an organisation’s ability to remain competitive
- the potential negative impact on their profit
- the potential impact on wage costs by creating an inflationary impact on wages across their organisation

7.4 The Scottish Living Wage employers interviewed did not yet have a specific, formal assessment mechanism to monitor the impact once the Living Wage was implemented. Instead, monitoring of the impact was included as part of wider mechanisms used to measure overall staff performance and turnover. The existing research evidence on a Living Wage cannot determine exactly what would happen as a result of various policies of extending the Living Wage within Scotland. However, it allows these effects to be considered in a much more informed way than simply on the basis of the consequences predicted by economic theory.

7.5 In terms of the benefits to employees, the evidence suggests that payment of the Living Wage can improve wellbeing. Evidence from the US suggests that raising minimum pay can also have significant effects in reducing household poverty. However, for low-paid workers in the UK, a large proportion of any increased pay resulting from the Living Wage is lost, due to a resulting increase in taxes and reduction in means-tested benefits. This means that increasing earned income may have little or no impact on total household income. Therefore, it has been argued that it is essential to combine the Living Wage with other policies designed to improve career progression and to reduce the costs faced by people on low incomes (e.g. childcare costs). In addition, changes to benefit withdrawal and tax settings could ensure that lower income households keep a greater proportion of the increases in earned income.

7.6 While the US does not operate within the same legal framework as the UK, a considerable body of evidence from the US shows that employers have made many adaptations to higher wage floors, such as shifting the composition toward higher skilled workers, or simply accepting a smaller profit margin. Coupled with benefits such as reduced staff turnover and improved productivity, this has
meant that the impact on labour demand (and, therefore, employment levels) has been limited.

7.7 This does not mean that a Living Wage can be readily implemented across the board without significant costs. In the lower-paying parts of the private sector such as hotels and catering, there is likely to be a significant impact on labour demand, which suggests a cautious approach to implementation in a weak economy. However, even here, the impact on labour demand is not as large as is sometimes assumed, not least because the industries with the lowest wages tend not to be in internationally traded goods or services (where higher pay could be readily undercut by overseas suppliers).

7.8 The fact that there are some sectors where implementing the Living Wage is harder than others is not an absolute barrier to its progressive extension. The US approach has been to test the limits of higher minimum and Living Wages in some areas, with research generally showing that negative impacts have been smaller than predicted. Evidence of impacts in the UK is at an earlier stage, suggesting that extending the payment of the Living Wage in Scotland would need to be carefully monitored.

Employers’ views of the implementation process

7.9 There was widespread agreement among Living Wage employers that the process of implementing the Living Wage in their organisations was straightforward, though this was dependent on the size of an organisation or the sector in which it is operating.

7.10 A number of barriers to implementation were identified, namely:

- encouraging sub-contractors to implement the Living Wage
- staff reacting negatively to a wage increase, because of the associated loss of benefits and tax credits, and/or because it highlights that they were not being paid a fair wage previously
- a lack of clarity at the outset of the Living Wage accreditation process

7.11 Further, based on their experience, Living Wage employers made a number of suggestions to help organisations improve the implementation process, including:

- conducting feasibility studies to identify potential risks, devise approaches to address risks and develop an appropriate timescale for implementation
- communicating openly with all staff in the process to explain the rationale for adopting the Living Wage
- creating a clear action plan for working with sub-contractors and ensure good communication between their business and sub-contractors to facilitate implementation

7.12 Living Wage employers also suggested ways in which the Scottish Government and organisations promoting the Living Wage could support employers. These suggestions included:
• providing advice and guidance on all aspects of the implementation phase
• encouraging dialogue between employers that have been through the implementation process and employers that are considering it
• raising awareness among recruitment agencies about the Living Wage
• providing more information and evidence on its benefits
• providing financial incentives to help small businesses
• improving communications on how the current level of the Living Wage is set
• involving local businesses in the process of determining the Living Wage rate

Using public sector procurement to promote the Living Wage

7.13 Scottish Government contractors were generally supportive in principle of using procurement processes to encourage companies to adopt the Living Wage.

7.14 However, there were qualifications to this support, especially in relation to supporting business. Contractors suggested that this could be achieved through:

• encouraging payment of the Living Wage in public sector contracts, but not making it mandatory
• working in partnership with contractors, to encourage payment of the Living Wage in public contracts
• a staged approach to encouraging payment of the Living Wage, beginning with larger contracts before filtering down to smaller contracts
• providing clarity on how the Living Wage can be promoted in tendering processes

7.15 A small number of contractors were sceptical about the use of procurement to promote payment of the Living Wage, mainly due to perceptions that procurement would favour larger companies, increase the costs of goods and services, and fail to consider wider benefit packages offered to employees.

7.16 To address concerns, contractors identified actions that they felt could support the use of procurement to encourage implementation of the Living Wage, including:

• some form of subsidy to help offset increases in wage costs among contractors
• making use of local government and non-departmental government bodies to provide information and support
• organising workshops with contractors to provide information and advice on best practice
• providing robust evidence on the impacts and advice on addressing barriers
7.17 Stakeholders tended to take a broader view of the role of the Living Wage in procurement, and felt that its consideration should take place as part of a wider review of procurement and other relevant policies, focussed on issues such as the social or community impact, overall investment in staff by contractors and whether the overall cost is sufficient to deliver desired benefits.

7.18 Stakeholders also highlighted a range of practical issues in relation to incorporating Living Wage considerations in public contract awards, including the potential for perceived additional bureaucracy to discourage companies from bidding for public contracts, concerns about how contractors ‘prove’ they are paying the Living Wage and concerns about the extent to which Living Wage requirements extend to the company as a whole or the individual contract.

7.19 Existing research in the US has found that many bidders welcome the “level playing field” provided by a wage floor, which does not encourage a “race to the bottom”. In some cases, this actually attracts more bidders. Where the additional contracting costs have been quantified, they have often been found to be low.

7.20 If a public sector body in Scotland (or the rest of the UK) made the payment of staff at a higher rate than the National Minimum Wage a mandatory requirement as part of a competitive procurement process, this would run the risk of breaching European Law and European Procurement rules. It is, however, possible to include Living Wage considerations in procurement exercises without making payment of the Living Wage a mandatory requirement, and a number of public bodies in the UK have done so. However, no satisfactory way of dealing with social care contracts has been found, due to very tight public budgets and a cost base dominated by low-paid labour.
REFERENCES


Bryan, M., Salvatori, A., and Taylor, M. “the impact of the National Minimum Wage on earnings, employment and hours through the recession”. ISER, report to the Low Pay Commission.


Details of studies included in the review of existing research

(a) Original evidence in the United States
(For context in this section: the federal Minimum Wage in the United States is $7.25 per hour in 2014.)

<table>
<thead>
<tr>
<th>Author(s) and year of publication</th>
<th>Methodology of the study</th>
<th>Effects on employment and labour demand</th>
<th>Effects on public budgets</th>
<th>Effects on recipients</th>
<th>Other effects</th>
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<tr>
<td>Niedt et al., 1999</td>
<td>Data: Minutes of the Baltimore Board of Estimates, Baltimore’s Legislative Reference, Bureau of Purchases, Census, payroll data for school bus aides, and interviews. Method: Calculations of labour costs for 26 contracts before and after implementing Living Wages, and interviews with 26 living-wage workers.</td>
<td>Interviews (26 cases) indicated no evidence that employment levels or working time had changed because of the Living Wage.</td>
<td>The cost contracting increased around 1.2% after the introduction of the Living Wage. Costs varied according to sector: janitorial services rose by 16.6%; bus service contracts increased by 2.1%. However, inflation was higher during that period. Hence, real costs of city contracting either decreased after the introduction of the Living Wage or did not have a significant effect on city budgets.</td>
<td>Interviews (26 cases) indicated more positive attitudes towards work. Higher wages did not necessarily translate into higher incomes or overcoming poverty.</td>
<td>Not included in the study.</td>
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<td>Author(s) and year of publication</td>
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<tr>
<td><strong>Los Angeles Living Wage Ordinance</strong></td>
<td>Compulsory, first adopted in 1997.</td>
<td>Living Wage applies to city contractors with contracts over 3 months or $25,000. Also applies to employees of Los Angeles Airport.</td>
<td>Los Angeles Living Wage in 2014 = $10.91/hour with health benefits, or $12.16/hour if no health benefits are provided (valid until July 2014).</td>
<td>Los Angeles Airport employees in 2014 = $10.91/hour with health benefits, or $15.67/hour if no health benefits are provided (valid until July 2014).</td>
<td>Living Wage also provides 12 compensated days per year for sick leave, vacation, or personal necessity, plus 10 additional uncompensated days off for family or personal illness.</td>
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<tr>
<td>Williams and Sander, 1997</td>
<td>Data: Survey applied to 310 contractors. Method: calculations based on the data provided by the surveyed contractors.</td>
<td>Not included in the study.</td>
<td>The total cost of implementing the Ordinance for service contractors represents about 4-7% of the total amount of all City service contracts.</td>
<td>About 20% of workers who would start receiving higher wages would be lifted above the poverty line.</td>
<td>Not included in the study.</td>
</tr>
<tr>
<td>Fairris, 2007</td>
<td>Data: Interviews with 82 Living Wage employers and surveys applied to 320 workers from 65 companies.</td>
<td>81% of the companies did not reduce their workforce. It is estimated that job loss occurred for less than</td>
<td>Not included in the study.</td>
<td>Increased wages benefited low-income households but still 81% of respondents</td>
<td>The ordinance did not prompt firms to provide health benefits plans if they were not</td>
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<td>Author(s) and year of publication</td>
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<tr>
<td>Brenner, 2005</td>
<td>Data: A survey applied to 72 city contractors. Method: calculations based on the data provided by the surveyed companies.</td>
<td>No significant difference in changes in employment, from 1998 to 2001, between contractors who implemented higher wages and those who did not.</td>
<td>Only 15% of firms raised their bid prices.</td>
<td>Not included in the study.</td>
<td>Among the 13 companies that had increased wages as a consequence of the Living Wage, 1% indicated that it was not enough to satisfy needs.</td>
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**Method:** calculations based on the data provided by the surveyed workers and companies.

1% of the covered workers, or 1.4% of those receiving mandatory wage increases. Reduction in training. Lower turnover.

**Method:** regression analyses.

Substitution of labour towards male, Latino, and black workers with formal training. Not included in the study.

**Data:** Survey of Los Angeles Living Wage Employers; used to match data of 82 Living Wage employers with data of 320 employees from 65 Living Wage firms, 2002-2003.

**Boston Jobs and Living Wage Ordinance**

Compulsory, first adopted in 1998.

Boston Living Wage Ordinance in 2014 = $13.76/hour (valid until 30 June 2014), applies to city contractors and companies that receive governmental funds in the form of grants, loans, tax incentives, bond financing, subsidies, or other form of assistance of at least $100,000. Exceptions = construction (under different scheme), youth programmes, and traineeship programmes.

State of Massachusetts minimum wage in 2014 = $8.00/hour, applies to all other employers.
| Brenner and Luce, 2005 | Data: city accounts and a survey applied to 72 city contractors (see Brenner, 2005). Method: calculations made with city accounts and with information provided by the surveyed companies. | Not included in the study. | Total annual cost of the 28 city contracts was reduced in 17% after implementing the ordinance. For those who were earning below the Living Wage and had their wages raised to the Living Wage, severe poverty was reduced from 34% in 1998 to 13% in 2001; and poverty reduced from 41% to 28% in that same period. | Among the 13 companies that had increased wages as a consequence of the Living Wage, 25% reported higher employee morale and effort (see Brenner, 2005). 39% of the 13 firms that introduced the Living Wage reported reducing profits to comply with Living Wage law. |

**Chicago Living Wage Ordinance** Compulsory, first adopted in 1999. Chicago Living Wage Ordinance in 2014 = $11.78/hour, applies to certain contractors and to companies that receive governmental funds. Contractors included: non-City employed security guards, parking attendants, day labourers, home and health care workers, cashiers, elevator operators, custodial workers, and clerical workers. Exceptions = not-for-profit organisations. State of Illinois minimum wage in 2014 = $8.25/hour, applies to all other employers.
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<tr>
<td>Tolley, Bernstein, and Lesage, 1999.</td>
<td>Data: A survey applied to 133 firms in Chicago. Method: calculations made with information provided by the surveyed companies and estimations to obtain citywide figures.</td>
<td>Estimated: a reduction in more than 1,300 jobs.</td>
<td>Estimated: introducing the Ordinance would cost the city around 20 million USD, 20% of which would be paid by taxpayers in Chicago.</td>
<td>Not included in the study.</td>
<td>Not included in the study.</td>
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<tr>
<td>City and County of San Francisco Minimum Wage Ordinance</td>
<td>Compulsory, first adopted in 2000. Applies to all private and public employers, regardless of where they are located, who have employees working in San Francisco. This includes employees who are legally or illegally working in San Francisco. There are three rates: a general wage for all employees, a wage for for-profit contractors, and a wage for non-for-profit contractors: City and County of San Francisco Living Wage for all employees in 2014= $10.74/hour. City and County of San Francisco Contractors and workers of San Francisco Airport in 2014 = $12.66/hour. City and County of San Francisco Contractors that are non-profit organisations in 2014= $11.03/hour. State of California minimum wage in 2014= $8.00/hour, applies to all other employers.</td>
<td>Between 1997 and 2002: an increase of 54% in the number of homecare workers and an increase of 47% in consumers of homecare services.</td>
<td>Not included in the study.</td>
<td>15% reduction in poverty rates.</td>
<td>Turnover of workforce fell by around 17%.</td>
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<tr>
<td>Howes, 2002</td>
<td>Data: obtained from the San Francisco Case Management, Information and Payroll System and interviews with workers. Method: calculations conducted by matching 18,000 San Francisco</td>
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<td>Study</td>
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<td>Bhatia and Katz, 2001</td>
<td>Data: surveys applied to city contractors and administrative data provided by the city. Method: estimations made with previously published estimates of the association between income and health status.</td>
<td>Not included in the study.</td>
<td>Not included in the study.</td>
<td>Reduction of days sick in bed, in depressive symptoms, and in subjective overall health.</td>
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<tr>
<td>Elmore, 2003</td>
<td>Data: interviews with officials in twenty Living Wage cities or counties. Method: calculations made with data provided by officials and with city accounts. Some estimates are provided for specific cities.</td>
<td>Not included in the study.</td>
<td>In 2001: with a contract budget for human services of $312 million, the Living Wage resulted in a cost increase of 1.01%</td>
<td>Not included in the study.</td>
<td>Increased competitiveness and new services contracts put out for bid.</td>
</tr>
<tr>
<td>Reich, Hall, and Jacobs, 2005</td>
<td>Data: surveys applied to samples of airport firms before and after the implementation of the Living Wage, 1998-2001; administrative data of San Francisco Airport; interviews with eleven union organisers; and a survey applied to 99</td>
<td>No evidence of a reduction in employment.</td>
<td>Not included in the study.</td>
<td>Employees in SF Airport: Improved reported time spent with families, personal finances, hours worked, housing situation, and health status.</td>
<td>Turnover was reduced between 5% (customer service) and 80% (security screeners) after the increase in wages San Francisco Airport.</td>
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workers.
Method: calculations made with information obtained from the surveys and administrative data.

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<tr>
<th>Florida Minimum Wage Amendment</th>
<th>Compulsory, first adopted in 2004. It establishes a minimum wage that is higher than the federal minimum. State of Florida minimum wage in 2014= $7.93/hour.</th>
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<tr>
<td>Author(s) and year of publication</td>
<td>Methodology of the study</td>
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<tr>
<td>Pollin, Brenner, and Wicks-Lim, 2004</td>
<td>Data: obtained from the Employment and Wages reports, the 1997 Economic Census, Current Population Survey, and Annual Demographic Supplement for Florida. Method: estimates using the data sources.</td>
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</table>
(b) Meta-studies and multi-city analysis in the United States

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<tr>
<th>Author(s) and year of publication</th>
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<tr>
<td>Brenner, 2004</td>
<td>Los Angeles California, Miami-Dade Florida, San Jose California, San Francisco California, Detroit Michigan, New Orleans, Louisiana, Oakland California, Santa Monica California, New York City, Baltimore Maryland, New Haven Connecticut, Boston Massachusetts, Dane County Wisconsin, Corvallis Oregon, Hartford.</td>
<td>Review of prospective and retrospective studies.</td>
<td>See Table 1 below.</td>
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<tr>
<td>Thompson and Chapman, 2006</td>
<td>Los Angeles California, Cleveland, Ohio,</td>
<td>Review of existing literature.</td>
<td>Little or no negative effect on employment.</td>
<td>Small to moderate effects on</td>
<td>Not included in the study.</td>
<td>Lower turnover and higher</td>
</tr>
<tr>
<td>Study Details</td>
<td>Method/Approach</td>
<td>Findings/Implications</td>
<td>Not Included in Study</td>
<td></td>
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</tr>
<tr>
<td>Doucouliagos and Stanley, 2009</td>
<td>64 studies on the impacts of increasing wages in the United States.</td>
<td>Meta-regression analysis of the estimated elasticity for employment.</td>
<td>Not included in the study.</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Once selection effects are controlled for, empirical evidence in the studies examined indicates no negative effect on employment.</td>
<td>Not included in the study.</td>
<td></td>
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</tr>
<tr>
<td>Schmitt, 2013</td>
<td>Original research, meta-studies, literature reviews.</td>
<td>Review of existing literature.</td>
<td>Not included in the study.</td>
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<tr>
<td></td>
<td></td>
<td>Little or no significant effects on employment.</td>
<td>Not included in the study.</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Method: estimations using an equation to model wages across time according to demographic and city wages characteristics, and difference-in-</td>
<td>Not included in the study.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>No significant effects on employment after six months of implementing the Living Wage.</td>
<td>Not included in the study.</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>After 12 months of implementation: Positive employment effects in higher income households (elasticity of 0.07), but negative effect in lower income households</td>
<td>Not included in the study.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Study</td>
<td>Sample Size</td>
<td>Method</td>
<td>Findings</td>
<td>Notes</td>
<td></td>
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</tr>
<tr>
<td>Elmore, 2003</td>
<td>20 cities.</td>
<td>Data: interviews with officials in twenty Living Wage cities or counties. Method: calculations made with data provided by officials and with city accounts.</td>
<td>Increases in service contract prices ranged between 0.003% and 0.079% of the localities’ budgets. See Table I, below.</td>
<td>Not included in the study.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pollin, Brenner, and Wicks-Lim, 2004</td>
<td>45 states.</td>
<td>Not included in the study.</td>
<td>Higher employment growth in states with higher wages than in states with federal wages, see Table 3, below.</td>
<td>Not included in the study.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Giuliano, 2009</td>
<td>700 stores across the country.</td>
<td>Not included in the study.</td>
<td>Negative, but statistically insignificant effects on the full-time equivalent level of employment.</td>
<td>Not included in the study.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lester and Jacobs, 2010</td>
<td>15 cities that have passed Living Wage ordinances and 16 similar cities that have not passed Living Wage laws. Data: obtained from the National Establishment Time Series Database. Method: Difference-in-difference.</td>
<td>No significant effect on citywide employment. “It is important to note that the results are based on nearly 20 years of data—a timeframe that contained years of recessions and expansions—which suggests that business assistance Living Wage laws are unlikely to have an effect on employment levels even during hard economic times”</td>
<td>Not included in the study.</td>
<td>Not included in the study.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Author(s), Year</td>
<td>Sample Size</td>
<td>Data Source</td>
<td>Method</td>
<td>Findings</td>
<td>Follow-up in Study</td>
<td>Follow-up in Study</td>
</tr>
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</tr>
<tr>
<td>afterwards.</td>
<td>Method: regression analyses.</td>
<td>2.4%.</td>
<td></td>
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</tr>
<tr>
<td>Allegretto, Dube, Reich, and Zipperer, 2013</td>
<td>Country-wide data for teenagers and restaurant workers.</td>
<td>Data: American Community Survey Census, Current Population Survey, Quarterly Census of Employment and Wages, and Quarterly Workforce Indicators. Method: various econometric models, controlling for time-varying heterogeneity and spatial discontinuities.</td>
<td>“Results from four databases and six approaches all suggest employment effects are small” (p. 1). Employment elasticity: between -.076 and -.004 for teenagers and between -.030 and -.000 for restaurant workers. Not included in the study. Not included in the study. Not included in the study.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 1 Economic Impact of Various Living Wage Ordinances – retrospective evidence – from Brenner (2004)

<table>
<thead>
<tr>
<th>City</th>
<th>Fiscal Year Living Wage Implemented</th>
<th>Wage Increase as a Percentage of the Minimum Wage</th>
<th>Average Annual Increase in Real Contract Costs</th>
<th>Number of Contracts Reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baltimore, MD</td>
<td>FY 96-97</td>
<td>44%</td>
<td>-1.9%</td>
<td>19</td>
</tr>
<tr>
<td>(Weiszbrod and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sforza-Roderick</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baltimore, MD</td>
<td>FY 96-97</td>
<td>44%</td>
<td>1.2%</td>
<td>26</td>
</tr>
<tr>
<td>(Niedt et al.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Haven, CT</td>
<td>FY 97-98</td>
<td>56%</td>
<td>-10.9%</td>
<td>9</td>
</tr>
<tr>
<td>(Brenner and Luce 2003)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boston, MA</td>
<td>FY 99-00</td>
<td>57%</td>
<td>-7.3%</td>
<td>29</td>
</tr>
<tr>
<td>(Brenner and Luce 2003)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dane County, WI</td>
<td>FY 99-00</td>
<td>54%</td>
<td>2.8%</td>
<td>12</td>
</tr>
<tr>
<td>(Elmore 2003)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corvallis, OR</td>
<td>FY 00-01</td>
<td>38%</td>
<td>9.1%</td>
<td>31</td>
</tr>
<tr>
<td>(Brewer 2001)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>FY 00-01</td>
<td>57% (with health) 78% (without)</td>
<td>1.0%</td>
<td>-</td>
</tr>
<tr>
<td>(Elmore 2003)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hartford</td>
<td>FY 00-01</td>
<td>43% (with health) 71% (without)</td>
<td>33.4%</td>
<td>2</td>
</tr>
<tr>
<td>(Brenner and Luce 2003)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Percentages are weighted by contract value.

b. Contract cost increases are measured in nominal terms.

c. These figures are for the human services contracts covered by the living wage law in each locality.
Table 2: Increases in City Contract Costs after Passage of Living Wage Laws – from Elmore (2003)

<table>
<thead>
<tr>
<th>Locality</th>
<th>City Budget</th>
<th>Contract Cost Increase</th>
<th>Increase as a % of City Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexandria, VA</td>
<td>$395,636,000</td>
<td>$265,000</td>
<td>0.067%</td>
</tr>
<tr>
<td>Berkeley, CA</td>
<td>$289,546,000</td>
<td>$229,000</td>
<td>0.079%</td>
</tr>
<tr>
<td>Cambridge, MA</td>
<td>$296,467,000</td>
<td>$150-$200,000</td>
<td>0.067%</td>
</tr>
<tr>
<td>Hartford, CT</td>
<td>$422,667,000</td>
<td>$160,000</td>
<td>0.038%</td>
</tr>
<tr>
<td>Hayward, CA</td>
<td>$135,400,000</td>
<td>$9,000</td>
<td>0.006%</td>
</tr>
<tr>
<td>Madison, WI</td>
<td>$159,000,000</td>
<td>$29,000</td>
<td>0.018%</td>
</tr>
<tr>
<td>New Haven, CT</td>
<td>$511,071,000</td>
<td>$20,000</td>
<td>0.003%</td>
</tr>
<tr>
<td>Pasadena, CA</td>
<td>$493,596,000</td>
<td>$240,000</td>
<td>0.049%</td>
</tr>
<tr>
<td>San Jose, CA</td>
<td>$645,000,000</td>
<td>$40,000\textsuperscript{10}</td>
<td>0.006%</td>
</tr>
<tr>
<td>Warren, MI</td>
<td>$136,490,000</td>
<td>$60,000</td>
<td>0.040%</td>
</tr>
<tr>
<td>Ypsilanti, MI</td>
<td>$13,000,000</td>
<td>$6,000</td>
<td>0.044%</td>
</tr>
<tr>
<td>Ypsilanti Township, MI</td>
<td>$24,745,000</td>
<td>$0\textsuperscript{11}</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
Table 3: Comparing Employment Growth for States with Above $5.15 Minimum Wage Standards versus States with only Federal $5.15 Minimum, from Pollin, Brenner, and Wicks-Lim (2004):

<table>
<thead>
<tr>
<th></th>
<th>6 States with above</th>
<th>39 States with only</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$5.15 minimum wage over 1998–2003</td>
<td>Federal $5.15 minimum</td>
</tr>
<tr>
<td>Overall Employment Growth</td>
<td>0.55</td>
<td>0.43</td>
</tr>
<tr>
<td>Restaurant Industry Employment Growth</td>
<td>1.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Hotel Industry Employment Growth</td>
<td>0.61</td>
<td>-0.24</td>
</tr>
</tbody>
</table>

Source: See Appendix 3. The six states in the first category of this table are Alaska, Connecticut, Hawaii, Massachusetts, Oregon, and Vermont.

(c) Evidence on the London Living Wage

<table>
<thead>
<tr>
<th>London Living Wage</th>
<th>Voluntary. London Living Wage in 2014 = £8.80/hour, applies to public, private, and non-governmental sectors that voluntarily pay the Living Wage.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Author(s) and year of publication</td>
<td>Methodology of the study</td>
</tr>
<tr>
<td>Sokol et al, 2006</td>
<td>Interviews with and a survey applied to 65 workers in the hospital.</td>
</tr>
</tbody>
</table>

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5 UK minimum wage in 2014 = £6.31 for employees aged 21 years or more.
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Study Description</th>
<th>Source</th>
<th>Findings</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wills, Kakpo, and Begum, 2009</td>
<td>A survey was applied to 292 employees in Queen Mary University of London and 73 follow-up interviews were conducted during 2008.</td>
<td>Not included in the study. Not included in the study. Not included in the study.</td>
<td>Employees reported to work more productively, with increased supervision, and with a broader range of tasks. Also, workers felt higher satisfaction with their working conditions.</td>
<td>Not included in the study.</td>
</tr>
<tr>
<td>Wills and Linneker, 2012</td>
<td>Comparative case studies of 16 companies, 7 of which had information for before and after the implementation of the London Living Wage.</td>
<td>Not included in the study.</td>
<td>The Exchequer would save around £823 million per year.</td>
<td>Not included in the study.</td>
</tr>
<tr>
<td>Pennycook, 2012</td>
<td>Examined financial data of 79 firms.</td>
<td>Not included in the study.</td>
<td>Not included in the study.</td>
<td>Average wage bills for companies would be larger in the food and drug retailers.</td>
</tr>
</tbody>
</table>

Of employees who reported to feel to have enough money to pay for their housing after receiving higher wages was almost 71%.

Wills, Kakpo, and Begum, 2009

A survey was applied to 292 employees in Queen Mary University of London and 73 follow-up interviews were conducted during 2008.

Employees reported to work more productively, with increased supervision, and with a broader range of tasks. Also, workers felt higher satisfaction with their working conditions.
(4.7%), general retailers (4.9%), and bars and restaurants (6.2%). However, wage increases in the other industry sectors would be between 0.1% (banking) and 1.1% (food producers).

| Flint, Cummins, and Wills, 2013 | 300 interviews, 173 who were receiving the London Living Wage and 127 who did not. | Not included in the study. | Not included in the study. | Those who received the London Living Wage scored 3.9 units higher (in a 70-point scale) than those who did not. | Not included in the study. |

(d) General evidence in the United Kingdom

<p>| Living Wage | Voluntary. UK Living Wage in 2014 = £7.65/hour, applies to public, private, and non-governmental sectors that voluntarily pay the Living Wage. |</p>
<table>
<thead>
<tr>
<th>Author(s) and year of publication</th>
<th>Methodology of the study</th>
<th>Effects on employment and labour demand</th>
<th>Effects on public budgets</th>
<th>Effects on recipients</th>
<th>Other effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lawton and Pennycook, 2013</td>
<td>Estimates of the costs and benefits of introducing the Living Wage universally in the United Kingdom.</td>
<td></td>
<td>Net savings for the state would be of around £2.2 billion</td>
<td>Positive effects in alleviating poverty, especially for low-income households.</td>
<td></td>
</tr>
<tr>
<td>Kennedy, Moore,</td>
<td>Using a survey of</td>
<td>Not included in the study.</td>
<td>Not included in the study.</td>
<td>Around 38% of those who</td>
<td>Not included</td>
</tr>
<tr>
<td>Source</td>
<td>Description</td>
<td>Findings</td>
<td>Notes</td>
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</tr>
<tr>
<td>and Fiddes, 2013</td>
<td>Household finances, with a sample of 1,500 workers in the UK, the study looks into differences in various financial indicators between those who receive a Living Wage and those who do not, taking into account information collected in October 2012 and in October 2013.</td>
<td>Study.</td>
<td>Study.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metcalf, 2008</td>
<td>Review of studies on the effects on the British National Minimum Wage on Employment</td>
<td>No association between aggregate UK employment trends and the introduction of NMW.</td>
<td>Not included in the study.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reed, 2013</td>
<td>Estimates of applying the Living Wage to the entirety of the United Kingdom.</td>
<td>Using the UK’s Office of Budget Responsibility multiplier: net employment loss of 95,000 jobs. Using the International Monetary Fund’s lower and higher bounds of the multiplier: net loss of 45,000 jobs and net increase in 58,000 jobs.</td>
<td>An increase of around £1.5 billion in the public finances.</td>
<td>Not included in the study.</td>
<td></td>
</tr>
</tbody>
</table>
(e) Evidence in specific UK jurisdictions

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Author(s) and year of publication</th>
<th>Methodology of the study</th>
<th>Effects on employment and labour demand</th>
<th>Effects on public budgets</th>
<th>Effects on recipients</th>
<th>Other effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brighton &amp; Hove</td>
<td>Brighton &amp; Hove Living Wage Commission, 2012</td>
<td>Review of evidence and development of debates and interviews between October 2011 and March 2012.</td>
<td>No precise calculations, but high hotels and catering sector mean that more private jobs than average (29%) paid below Living Wage in Brighton and Hove</td>
<td>Relatively few public sector jobs (5%) were below the Living Wage in Brighton and Hove.</td>
<td>The Living Wage would “help lift some of the 22% of children in Brighton &amp; Hove out of poverty and out of the ‘benefits trap’” (p. 8). Promotion of equality between those who earn less and those who earn more.</td>
<td>Higher staff retention, loyalty and motivation. Economic spill-over in the city, due to higher earnings and higher spending.</td>
</tr>
<tr>
<td>Cardiff</td>
<td>Corporate Chief Officer, 2012</td>
<td>Estimates based on governmental data.</td>
<td>Not mentioned.</td>
<td>“The impact on pay differentials will need to be closely monitored to see if there are any recruitment and retention issues that need to be addressed” (p. 3). The estimated costs of implementing the Living Wage in Cardiff Council</td>
<td>“Notwithstanding the future national agenda concerning welfare reform, the current benefits landscape is complex and is linked directly to individuals’ personal circumstances so it is difficult to develop an approach that caters for every”</td>
<td>Not mentioned.</td>
</tr>
</tbody>
</table>
were of £1 million in a full year and around £584,000 in 2012/13. eventuality” (p. 4).

<p>| Manchester | Holden and Raikes, 2012 | Review of evidence and calculations based on various sources of national and local data, as well as referring to the Minimum Income Standard method. | Makes reference to evidence on the national minimum wage in the UK: effects on employment have been marginal. References to evidence in the United States: no negative effects on employment or some labour-labour substitution. “The current evidence on the impact of Living Wages (on employment or labour demand) is not sufficiently developed in the UK to assess the extent to which these theoretical impacts arise in practice” (p. 41). Negligible negative economic impact. “Both local and national Government would benefit from more employers paying a Living Wage, as the amount they have to pay towards in-work benefits (for example tax credits, housing benefit and so on) reduces and they are able to make savings from services that deal with the consequences of individuals getting into financial difficulties” (p. 42). Higher income, more stable family life, improved health and well-being. Additional support should be given to those in debt. Higher retention; lower recruitment costs; higher quality staff; better attendance; higher productivity, motivation and loyalty; and better quality of service. |</p>
<table>
<thead>
<tr>
<th>Newcastle</th>
<th>Independent Advisory Panel to Newcastle City Council for the Living Wage, 2012</th>
<th>Review of evidence and interviews.</th>
<th>Not mentioned.</th>
<th>“We do not think it is a matter for the Panel to determine whether Newcastle City Council or any other employer can afford at any particular time to pay a Living Wage. We think that is a matter for each employer to consider carefully, both from a strategic perspective and from a consideration of the current demanding economic situation” (p. 14).</th>
<th>Significant increase in income for some low-paid workers. The exact effects on household income would depend on the then proposed but not yet implemented welfare reform.</th>
<th>Greater productivity, better quality of work, reduced absenteeism, reduced turnover, and higher levels of recruitment and retention. Economic spill-over in the areas around Newcastle, due to higher earnings and higher spending.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newcastle</td>
<td>Catherine McKinnell MP, 2013</td>
<td>Responses to debate on taxation and the Living Wage, held in January 2013.</td>
<td>Not mentioned.</td>
<td>“the analysis by the Institute for Public Policy Research and the Resolution Foundation suggested that introducing a Living Wage could lead to a net gain to the Treasury of more than £2 billion a year when the costs of paying it throughout the public sector are set against reduced benefit and tax credit payments, and higher income tax and national insurance receipts”.</td>
<td>“We want to aim for a higher skilled, higher waged and more productive economy that can genuinely compete on the global stage so that workers are not forced into several jobs with no chance of spending proper time with their families”.</td>
<td>“Around 140 private sector employers have taken that step; (...). Many of those firms have been clear about the positive impact that paying a Living Wage has had on their companies. KPMG has reported higher employee morale, motivation and productivity alongside a</td>
</tr>
</tbody>
</table>
Newcastle “is meeting the cost of paying the Living Wage entirely from a reduction in management costs”.

<table>
<thead>
<tr>
<th>Location</th>
<th>Authors</th>
<th>Methodology</th>
<th>Findings</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wales</td>
<td>Marsh <em>et al</em>, 2010</td>
<td>Using data from the Quarterly Labour Force Survey 2008, the authors simulate the effect of different Living Wage levels on poverty rates.</td>
<td>Taking into account an elasticity of labour demand of –0.12 (based on Adams and Neumark, 2005), results suggest that if 10% of the 93,600 public employees in Wales were to receive the Living Wage, there would be an employment loss of between 2.4% and 3.6%, or 230 to 340 jobs.</td>
<td>Not included in the study.</td>
</tr>
</tbody>
</table>
ANNEX A: TOPIC GUIDES

TOPIC GUIDE FOR LIVING WAGE EMPLOYERS

INTRODUCTION

Introduce self and Ipsos MORI and thank participant for their time and for agreeing to take part.

*Explain purpose of research: Ipsos MORI is conducting research on behalf of the Scottish Government to inform their approach to the Living Wage. The purpose of the research is to seek the views of a range of organisations towards the Living Wage.*

*We are interested in building an understanding of your organisation’s experience of implementing the Living Wage. Please be assured that this is not a test and you are not being judged on compliance, we are just looking to get an accurate picture of the practicalities of introducing the Living Wage from an organisation’s perspective.*

- Explain the interview should take around 60 minutes
- Emphasise confidentiality and anonymity
- Obtain permission to record

INTRODUCTION

- To begin with, I’d like to ask a few questions about yourself and your organisation?
  - What is your position within the company?
  - How long have you been working for [ORGANISATION]?
  - What are the core activities of your organisation?
  - How many staff do you employ?

PRE-IMPLEMENTATION STAGE

*EXPLAIN: I’d like to discuss the process in which your organisation went through to implement the Living Wage, starting at the beginning.*

- Could you please tell me about how your organisation first became aware of the Living Wage?
- What was it that attracted you towards the Living Wage?
  - Probe: perceived advantages/benefits
• At that stage, did you have any reservations about introducing the Living Wage?
  o Probe: perceived disadvantages/barriers
• Did you seek out any information about the Living Wage at that stage?
  o If no, why not?
  o If yes, probe:
    ▪ What type of information did you look for?
    ▪ Where did you look for this information?
    ▪ How easy or difficult was it to find information?
    ▪ Did you find the information you were looking for? From where?
    ▪ Did the information address your concerns?
• Once you had the information you needed, what happened next?
  o Probe:
    ▪ Did you seek further information?
    ▪ What procedures did you follow?
• Who would you say was responsible for driving the implementation of the Living Wage?
  o Probe: Senior management / HR / staff
• Did anyone in the organisation oppose the introduction of the Living Wage?
  o Probe: Senior management / HR / staff
• Were there any concerns regarding the introduction of the Living Wage?
  o IF YES probe:
    ▪ What were those concerns?
    ▪ How, if at all, were they addressed?
• When did your organisation introduce the Living Wage?
• Roughly what proportion of staff had their pay increased in line with the Living Wage?

IMPLEMENTATION STAGE
• Overall, how did you find the process of introducing the Living Wage within your organisation?
• What, if anything, would you say aided the implementation of the Living Wage?
• What, if anything, made the implementation of the Living Wage more difficult?
  o Probe: Existing/new procedures; attitudes of management/staff; bureaucracy; administration costs/time;

• What measures, if any, were taken to overcome these difficulties?
  o Probe: were any consequential changes made to enable implementation of Living Wage, e.g. financial personnel package or service levels.

• Did you receive any support from external organisations, for example, the Living Wage foundation?
  o If Yes, probe:
    ▪ In what form was this support provided?
    ▪ Did you find it useful or not?

• In what ways, if at all, is your organisation assessing the impact of the Living Wage within the organisation?
  o PROBE FOR DETAILS OF ANY OBJECTIVE EVIDENCE USED: e.g. financial costs/benefits; staff morale/performance/productivity/absenteeism; staff survey results

• Has your organisation received accreditation for adopting the Living Wage?
  o IF YES, PROBE: type of accreditation; when this was awarded
  o IF No, PROBE: why not

• What benefits, if any, has this accreditation provided?

POST-IMPLEMENTATION

• What, if anything, would you say have been the positive impacts of introducing the Living Wage?
  o PROBE: on staff; management; reputation

• What, if anything, would you say have been the negative impacts of introducing the Living Wage?
  o Probe: on staff; management; reputation; cost

• What measures, if any, has the organisation undertaken to mitigate these negative impacts?
  o Probe: procedures; communication
• If you were going to implement the Living Wage again, what, if anything, would you do differently?

• As you may know, the Living Wage rate is periodically uprated to reflect changing price levels and living standards. How has your organisation found it to keep up with increases to the Living Wage?

• Unlike the National Minimum Wage, the Living Wage is not differentiated by age. In what way, if at all, has the implementation of the Living Wage affected your recruitment of workers under the age of 20?

• How likely would you be to recommend adopting the Living Wage to other organisations?

• What, if anything, could be done to support the future roll out of the LW?

Thank respondent and close
TOPIC GUIDE FOR SCOTTISH GOVERNMENT CONTRACTORS

INTRODUCTION
Introduce self and Ipsos MORI and thank participant for their time and for agreeing to take part.

Explain purpose of research: Ipsos MORI is conducting research on behalf of the Scottish Government to inform their approach to the Living Wage. The purpose of the research is to seek the views of a range of organisations towards the Living Wage. We are interested in gaining an understanding of organisations’ perceptions on the Living Wage. Please be assured that this research is being undertaken independently from the Scottish Government and any commercial tenders which you have submitted or intend to submit in the future.

- Explain the interview should take around 30 minutes
- Emphasise confidentiality and anonymity
- Obtain permission to record
- Check that they received and read the information sheet

INTRODUCTION
- To begin with, I’d like to ask a few questions about yourself and your organisation?
  - What is your position within the company?
  - How long have you been working for [ORGANISATION]?
  - What are the core activities of your organisation?
  - How many staff do you employ?

PERCEPTIONS OF THE LIVING WAGE
- Prior to this interview, to what extent, if at all, were you aware of the Living Wage?
- What is your overall impression of the Living Wage?
- Have you sought any information about the Living Wage?
  - If no, why not?
  - If yes, probe:
    - What type of information did you look for?
    - Where did you look for this information?
    - From which sources did you seek information?
    - How easy or difficult was it to find information?
• Did you find the information you were looking for? From where?
• Did the information address your concerns?

• Has your organisation considered implementing the Living Wage?
  o IF NO, PROBE: Why not?
  o IF YES, PROBE: Why? What happened?

• What, if anything, would you say are the main advantages of implementing the Living Wage?
  o PROBE: staff morale; productivity; reputational benefits; attracting talent

• What, if anything, would you say are the main disadvantages of implementing the Living Wage?
  o PROBE: cost; administration

• What do you see as the main barriers to your organisation adopting the Living Wage?
  o PROBE: costs; lack of willingness from senior management; remaining competitive

• What, if anything, do you think would help your organisation implement the Living Wage if it wanted to?
  o PROBE: support/information; evidence of impacts; government incentives

• Do you think the introduction of the Living Wage would be something that your organisation would consider in the future?

PROMOTING THE LIVING WAGE THROUGH PROCUREMENT

• How, if at all, do you think the Scottish Government could promote the Living Wage to organisations like yours?

• How would you feel about the use of procurement policies to encourage contractors to implement the Living Wage, for example, by encouraging contractors tendering for public sector contracts to pay their staff the Living Wage?

• If public bodies were to stipulate that contractors tendering for public sector contracts should be encouraged to pay their staff the Living Wage, what impact, if any, do you think this would have on:
  o competition in the sector?
  o the cost of the contracts? [probe how any additional costs would be borne and by whom]
  o the quality of the goods or services?
  o wage costs in the sector?
o the viability of some businesses in the sector?

o the likelihood of organisations bidding for public sector work?

[PROBE FOR EVIDENCE THAT VIEWS ARE BASED ON]

• And what impact, if any, do you think this would have on your organisation, with regards to:

  o wage costs?

  o recruitment or retention of staff?

  o employees' motivation and commitment?

  o staff conditions, for example, the hours staff work; employee benefits

[PROBE FOR EVIDENCE THAT VIEWS ARE BASED ON]

• What impact, if any, do you think this would have on your organisations willingness to employ younger people?

• Do you think it would be appropriate to promote the payment of the Living Wage in all public contracts or only contracts of a specific type or value?

• Is there anything else you would like to add?

  Thank respondent and close
ANNEX B: ADVANCE LETTERS

ADVANCE LETTER FOR LIVING WAGE EMPLOYERS

Dear

The Scottish Government has commissioned Ipsos MORI, the independent research company, to undertake an assessment of the impact of the Living Wage in Scotland. The research is designed to explore employers’ awareness of, and attitudes towards, the Living Wage in Scotland to inform the Scottish Government’s approach to supporting the Living Wage.

Having reviewed the [Living Wage Foundation’s/Glasgow City Council’s] database of organisations that have introduced the Living Wage, Ipsos MORI has identified you as someone who is able to offer an important perspective on the themes to be addressed in the research. We are particularly interested in your views and experience of introducing the Living Wage within your organisation. For this reason, I am writing to you in the hope that you might agree to participate in an interview over the next week or two.

The interview will be conducted face to face and will last approximately 45 minutes. Any comments that you make will be treated in the strictest confidence and you will not be identifiable in any reports that we produce.

You do not need to do anything immediately, a member of the Ipsos MORI research team will phone you early next week to arrange a suitable date and time for the interview. If you would prefer not to participate, or if you would like further information about the research, please do not hesitate to contact Christopher McLean or Mark Diffley at Ipsos MORI on 0131 220 5699 or by email (christopher.mclean@ipsos.com; mark.diffley@ipsos.com). The Project Manager at the Scottish Government is Alison Stout, Equality and Poverty Research Team, who can be contacted on 0131 244 7371 or alison.stout@scotland.gsi.gov.uk.

Thank you for your time.

Yours Sincerely,

Mark Diffley
Research Director, Ipsos MORI Scotland
ADVANCE LETTER FOR SCOTTISH GOVERNMENT CONTRACTORS

Dear

The Scottish Government has commissioned Ipsos MORI, the independent research company, to undertake an assessment of the impact of the Living Wage in Scotland. The research is designed to explore employers’ awareness of, and attitudes towards, the Living Wage in Scotland to inform the Scottish Government’s approach to supporting the Living Wage in the future.

The Scottish Government has identified you as someone who can offer an important perspective on the themes to be addressed in the research. We are particularly interested in your attitudes towards the Living Wage and ways in which the Scottish Government could support wider implementation. For this reason, I am writing to you in the hope that you might agree to participate in an interview over the next week or two.

The interview will be conducted by telephone and will last approximately 30 minutes. Any comments that you make will be treated in the strictest confidence and you will not be identifiable in any reports that we produce. Please find enclosed an information sheet providing some background information about the Living Wage.

You do not need to do anything immediately, a member of the Ipsos MORI research team will phone you early next week to arrange a suitable date and time for the interview. If you would prefer not to participate, or if you would like further information about the research, please do not hesitate to contact Christopher McLean or Mark Diffley at Ipsos MORI on 0131 220 5699 or by email (christopher.mclean@ipsos.com; mark.diffley@ipsos.com). The Project Manager at the Scottish Government is Alison Stout, Equality and Poverty Research Team, who can be contacted on 0131 244 7371 or alison.stout@scotland.gsi.gov.uk.

Thank you for your time.

Yours Sincerely,

Mark Diffley
Research Director, Ipsos MORI Scotland
ANNEX C: LIVING WAGE INFORMATION SHEET

Introduction to the Living Wage

The Living Wage, an independently set rate of pay, is calculated to represent the minimum pay rate required for a worker to meaningfully participate in society, rather than merely provide the minimum income necessary for basic necessities. It is calculated to include housing and utilities, food, and health care as well as transport and recreation.

- The Living Wage is currently set at £7.65 per hour, compared to the main National Minimum Wage rate of £6.31 per hour (for those aged 21 and over)\(^6\)
- Unlike the National Minimum Wage, the Living Wage is not differentiated by age and is updated annually to reflect changing price levels and living standards, nor is the Living Wage a rate of pay set by national legislation.

A wide range of employers across the UK have introduced this higher rate of pay, including over 300 accredited by the Living Wage Foundation.

The Scottish Government has committed as part of its pay policy to paying the Living Wage, and it supports the Living Wage campaign as one of the measures to address poverty in Scotland. Since 2011, it is Scottish Government policy that directly-employed Scottish Government and NHS employees are paid the Living Wage.

The Living Wage is thought to offer both economic and social benefits, including:

- Enhanced staff motivation and quality of work
- Improved staff recruitment and retention
- Reductions in in-work poverty and income equality

**Scottish Government: Consultation on Living Wage through Procurement**

There have been calls for the Scottish Government to support the use of public procurement processes to promote the payment of the Living Wage by suppliers to the public sector in Scotland. The Scottish Government is keen to seek stakeholders’ views and fully understand the potential impacts of using procurement activity as a mechanism for delivering the Living Wage.

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\(^6\) Please note that the Living Wage and the National Minimum Wage figures given in this information sheet were correct at the time of interview. The UK Living Wage is currently (March 2015) set at £7.85 per hour and the National Minimum Wage at £6.50 per hour (for those aged 21 and over).