The communications union

RESEARCH

CWU SUBMISSION TO THE LOW PAY COMMISSSION CONSULTATION ON THE NATIONAL MINIMUM WAGE

SEPTEMBER 2014

Introduction

1. The Communication Workers Union (CWU) is the largest union in the communications sector in the UK, representing over 200,000 employees in the postal, telecoms, financial services and related industries. The majority of CWU members work in well-unionised workplaces and receive basic rates of pay well above the October 2014 adult National Minimum Wage (NMW) rate of £6.50 per hour. However, some of our members are paid rates close to the NMW and below the level of a living wage that allows them and their families to live comfortably.

2. The CWU believes the Low Pay Commission (LPC) should conduct a full analysis of the minimum level of acceptable pay in both real and relative terms; and that it should subsequently commit to raising the NMW to such a living wage rate. We believe this should be achieved through a number of staged increases, above both inflation and average earnings, to ensure that anyone in work can afford a socially acceptable standard of living. In conjunction with this, we believe the Development, 16-17 year old and Apprentice NMW wage rates should be brought into line with the adult NMW and effectively abolished.

3. In last year's submission to the LPC, we said improvements in economic growth, business confidence and the labour market supported taking such an approach to significantly increase the level of the NMW. Twelve months on, we believe this case to be even stronger given evidence that the economy has improved further and is expected to continue to grow. However, we also reiterate our previous call for the LPC to give greater consideration to the impact of inflation on low income households, levels of in-work poverty and the decline in living standards when it sets NMW rates. The UK is one of the richest countries in the world and those in work at the lower end of the income scale should be able to afford to live comfortably.

The Low Pay Commission remit

4. The remit the LPC has received from the Government is to:

   a) Monitor, evaluate, and review the levels of each of the different NMW rates and make recommendations on the levels it believes should apply from October 2015.

   b) Consider whether:-
      - Any changes can be made to the apprentice rate to make the structure simpler and improve compliance; and
      - The structure and level of the apprentice rate should continue to be applied to all levels of apprenticeship, including higher levels.

   c) Review the conditions that need to be in place to allow the value of the minimum wage to increase in real terms. This would include an update on your advice on the future path of the NMW.

5. In making recommendations in the areas set out above, the LPC has been asked to take account of the state of the economy, employment and unemployment levels, and relevant policy changes.

Outlook for the UK economy

6. In last year's report, the LPC said it intended to build on the 3% increase from October 2014, provided that the economy and earnings took the upward path that is widely expected. For significantly faster increases in the minimum wage to be achievable without risk to the employment of the low paid, the LPC said it would be necessary to see rising real wages in the economy more generally; stable or rising employment, particularly in low-paying industries and small firms; and an expectation of sustained economic growth. We believe all such conditions have been met.

7. We note the economy has been steadily improving since that time and that all signs point to this continuing over the next twelve months. Latest statistics from the Office of National Statistics (ONS) show that Gross Domestic Product (GDP) was 3.2% higher in the second quarter of 2014 compared to a year earlier. The ONS estimates this to be 0.2% above the pre-downturn peak in the first quarter of 2008.[1]

8. Medium-term economic forecasts from HM Treasury published in August also upgraded GDP growth rates for 2014 to 2.9%; whilst estimated GDP growth for 2015 remained steady at 2.5%.[2] In March this year the Office for Budget Responsibility (OBR) also revised its GDP

[1] ONS "Gross Domestic Product Second Estimate" published on the 15th August 2014.
[2] HM Treasury, *Forecasts for the UK Economy: a comparison of independent forecasts*, August, 2014, p.18.

growth forecasts upwards, based on the momentum the economy carried in 2014. It now expects GDP growth to be 2.7% in 2014 and 2.3% in 2015.[3]

9. The Bank of England's August Inflation Report's final estimate of four-quarter growth, taking into account further revisions, is projected to ease back from around 3.5% in 2014 to around its pre-crisis historical average rate. It notes there has been a gradual revival in productivity growth underpinning strengthening real household incomes and that housing and business investment continue to support growth.[4] There have been decent productivity increases in the sectors where NMW jobs are concentrated; such as the hospitality sector, where output per hour has increased 1.4%; the retail sector, where productivity has increased by 1.2%; and the textiles and footwear sector, where it has increased by 5%.[5]

10. Employment rates too have continued to improve, with the unemployment rate falling to 6.4% for April to June 2014, the lowest rate since late 2008. For April to June 2014, there were 167,000 more people in work than for January to March 2014 and 820,000 more than a year earlier.[6] Much of this job creation has been in low-paying industries, with the number of jobs created in food and beverage services and services to building and landscaping industries growing by around a quarter (a net increase of 277,000 jobs) over the last five years.[7]

11. However, despite improvements in the economy and the employment market in recent years, growth in Average Weekly Earnings (AWE) has failed to improve significantly, with basic or regular pay (excluding bonuses) for April to June 2014 increasing just 0.6% on a year earlier – the lowest annual growth rate since records began in 2001 and far below the pre-economic crisis average of 4%.[8] As the Governor of the Bank of England recently pointed out, once inflation is taken into account, earnings have fallen, on average, by 10% since the start of the financial crisis - a drop that hasn't been seen since the 1920s.[9]

12. It is therefore concerning that in August the Bank of England cut its wage forecast for 2014 to just 1.25%. However, more recently, the Bank's Governor Mark Carney indicated that he believes wages should start rising in real terms "around the middle of next year" and "accelerate" afterwards.[10] In a speech to TUC Congress in September 2014 he said he expected average pay increases of around 4% by 2017.[11] This should be taken into account by the LPC in setting future NMW rates.

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[3] Office for Budget Responsibility (OBR), *Economic and Fiscal Outlook*, March 2014, p.5.
[4] Bank of England, *Inflation Report: August 2014*, Overview, p.6-7.
[5] ONS productivity statistics, Q1 2014.
[6] ONS, Labour Market Statistics August 2014.
[7] TUC, 'Low paid job creation has pushed earnings growth to a record low', 4 September 2014.
[8] Ibid.
[9] Smith, Nicola, 'Mark Carney at Congress 2014: When will Britain get a pay rise?', TUC Touchstone, 9 September 2014.
[10] Parkinson, Justin, "Mark Carney predicts real terms wage rises 'next year', BBC News, 9 September 2014.
[11] Inman, Phillip, 'Mark Carney warns TUC that pay rises may come after mortgage hike', *The Guardian*, 9 September 2014.

13. The recent cost of living crisis, in which wages have failed to keep pace with inflation, has been particularly difficult for low income workers because they tend to spend the greatest share of their weekly income on essentials such as food and fuel. These two forms of spending have increased far above inflation, by 26% and 46% respectively since 2008, according to the Joseph Rowntree Foundation.[12] When recommending NMW rates to the Government, we urge the LPC to help these workers gain back some of the ground lost during the economic crisis.

14. Whilst we are pleased that the Low Pay Commission has stated that it intends to build on the 2014 recommendation to increase the adult NMW by 3% (if the economy and earnings take the upward path that is expected); we would expect the percentage increase in 2015 to exceed the previous year's, especially considering HM Treasury recently upgraded its medium term inflation forecasts to 3.1% in 2015 and 3.5% in 2016.[13]

The need for a living wage

15. We believe that the LPC needs to conduct a full analysis of the minimum level of acceptable pay in both real and relative terms before setting the 2015 NMW rates and any future rates. The NMW should be the minimum hourly rate that allows workers to lead decent lives free from poverty; and yet we know that it currently falls far below this modest aspiration.

16. Both the Living Wage (currently £8.80 per hour in London and £7.65 per hour in the rest of the UK) and the Joseph Rowntree Foundation's Minimum Income Standard for 2014 (£16,300 a year before tax for a single person) far exceed the October 2014 adult NMW rate of £6.50 per hour. An employee on the NMW is taking home considerably less pay than these measures, both of which attempt to estimate the minimum income required for a person to have a decent standard of living (taking into account in-work benefits). For instance, from October 2014 a single person working a 37.5 hour week will be taking home £172.50 less per month than the Living Wage and £383.33 less than the Minimum Income Standard.

17. Such a significant gap between what the NMW will pay and the level of pay that people need in order to live well is of deep concern. Both the Living Wage and the Minimum Income standard are set according to basic levels of spending, not luxuries. The Minimum Income Standard in particular is based on detailed discussions with members of the public, as well as expert input, and therefore reflects the standard below which society thinks no one should fall. The LPC should take such expectations into account when setting NMW rates.

18. We would like to see the Low Pay Commission, as the body which advises the Government on low pay and the NMW, establish its own living wage or minimum income standard and

[12] Hirsch, Donald, 'Keeping up with a minimum income standard', Presentation at the launch of the JRF/Centre for Research in Social Policy, Loughborough University Minimum Income Standard for the UK 2014, 1 July 2014.
[13] HM Treasury, *Forecasts for the UK Economy*, August 2014.

adopt a staged approach to increasing the NMW to this level. This would likely require significant increases, but over a set number of years would be manageable and allow for any potential negative impact on employment to be kept in check. It is notable that even a Conservative Chancellor has signalled his willingness for there to be above-inflation increases to the NMW; such is the level of concern about the current cost of living crisis for low paid workers.[14] We also note that HM Treasury has stated that a rise in the NMW to £7 would have only very modest negative side-effects at the worst.[15]

19. The UK now has one of the highest rates of low pay amongst countries in the Organisation for Economic Cooperation and Development (OECD). Low pay affects women workers, younger workers and part-time workers disproportionately; with a third of all women in work, nearly two fifths of 16 to 30 year old employees and 43% of part-time workers low paid. As Alan Buckle recently noted in his report on low pay for the Labour Party, low paid jobs have often been portrayed as stepping stones to better paid work, and yet a recent Resolution Foundation report found that almost three-quarters of Britain's workers who were on low pay in 2002 were still low paid ten years later.[16]

20. The numbers of people in working households that fall below the poverty line continue to increase at an alarming rate. In December 2013, the Joseph Rowntree Foundation found that, for the first time, the number of working families living in poverty in the UK exceeded non-working ones; with just over half of the 13m people estimated to be living in poverty coming from working families. This was an increase of half a million people compared to the previous year's statistics.[17]

21. Many of these workers feel they have no escape from persistent low pay. A July 2014 Survation poll of NMW workers found that 60% felt trapped in low pay with 20% of respondents having been forced to turn to food banks in the last year.[18] The Trussell Trust reports increasing numbers of people in work coming to their food banks for help, with over 20% of those referred to them in 2013/14 reporting being on low incomes. A March 2014 survey of over two thousand working families by the Trussell Trust and Netmums found one in five working parents had been forced to choose between paying an essential bill or putting food on the table in the previous year.[19]

22. Low pay impacts not only workers but their children. Of the approximate 900,000 people who received food and household goods from food banks in 2013/14, well over 300,000

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[14] Watt, Nicholas and Patrick Wintour, "George Osborne backs above-inflation rise in the national minimum wage', The Guardian, 16 January 2014.
[15] BIS, Final evidence to the Low Pay Commission, January 2014.
[16] Buckle, Alan, *Low pay; the nation's challenge*, May 2014. The Resolution Foundation report referenced is 'Starting out or getting stuck? An analysis of who gets trapped in low paid work – and who escapes', 2013.
[17] MacInnes, Tom et al., Monitoring poverty and social exclusion, Joseph Rowntree Foundation, December 2013.
[18] Unite, 'First ever poll of minimum wage workers confirms poverty pay pricing people out of the economy', 16 July 2014.
[19] The Trussell Trust, 'Latest Food bank figures top 900,000: Life has got worse not better for poorest in 2013/14, and this is just the tip of the iceberg', August 2014.

were children. The Trussell Trust reports many parents are not eating properly themselves, in order to be able to feed their children. Even families were two parents are working on the minimum wage are unable to live without fear of poverty. A recent report by the Child Poverty Action Group found that in 2014, families in which both parents work full-time on the NMW now have only 82% of the minimum income required to meet their needs.[20]

23. The current squeeze on the living standards of the low paid will only worsen further if, as indicated, the Bank of England decides to raise interest rates next year before wages increase in real terms. Recent research from Shelter and YouGov found that more than 3m households are on a financial knife-edge, where even a small drop in income could put them at risk of losing their home. The survey found that one in eight households in the UK are both living on low incomes and paying unaffordable housing costs, with 625,000 having already been forced to miss at least one essential household bill payment.[21] We believe the LPC should take such statistics, which reflect the real lives of those on low incomes, into account when setting NMW rates.

Affordability of a statutory living wage

24. The majority of CWU members are employed by Royal Mail and BT. For the 2014/15 year; CWU represented grades in the two businesses will receive consolidated basic pay increases of 3% and 2.5% respectively. Both companies remain profitable, with Royal Mail posting operating profits of £430m in 2013/14 and BT posting profits of £326m over the same period.

25. Whilst the majority of our members receive basic rates of pay far above the NMW, we do have members in businesses who continue to post record profits and yet pay their employees at, or close to, the adult NMW. This includes companies such as Capita plc, which in 2013 posted an underlying pre-tax profit of £475m (up from £417m in 2012) and paid dividends of £159.1m during the year; boasting in its annual report of a shareholder return of 425% compared to 115% for the FTSE 100 for the ten year period to end of December 2013.[22] Likewise Manpower UK, part of Manpower Group, posted global operating profits of US$511.9m and paid dividends of US$72m in 2013 whilst paying staff close to the NMW.[23]

26. We note that in many industries the impact on the wage bill of implementing a living wage, whilst making a significant difference to the lives of its workers, would be relatively negligible. For instance, in 2012 the IPPR and the Resolution Foundation estimated that employers in the food production industry would face only a 1.1% increase in their wage bill from paying a living wage to all employees.[24]

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[20] Hirsch, Donald, *The cost of a child in 2014*, Child Poverty Action Group, August 2014.
[21] Read, Simon, 'Low income and high housing costs leave millions facing losing their home,' *The Independent*, 9 September 2014.
[22] Capita plc, Annual Report and Accounts 2013.
[23] Manpower Group Annual Report 2013.
[24] Pennycook, Matthew, *What price a living wage?* May 2012.

27. Many low paid employees believe their employers could afford to pay them a decent wage. A recent YouGov poll for the TUC found that 50% of those polled think their employer could afford better pay rises than those they have given to staff, with 58% disagreeing that their pay has kept up with the cost of living over the past few years. Of the 31% of workers who said their employer doesn't pay the living wage to all staff, 79% said they believed their employers could afford to pay it.[25]

28. Profitability in the service sector, where most NMW jobs are concentrated, held up well during the recession and has been steadily increasing in recent years. Net profits were 15% in the first quarter of 2014 for service sector corporations and 11.9% for all non-financial corporations.[26] These figures suggest both that the NMW has not hindered economic performance and that companies can likely afford to pay their workers a higher NMW.

The shift to a low pay economy

29. It is important to note that low average earnings growth in the UK is being driven by structural changes to the workforce. Recent research by Income Data Services (IDS) for the Trades Union Congress (TUC) found that average wages have been eroded in real terms by a shift away from higher paying manufacturing and finance jobs towards lower paying part-time service industry jobs.[27] A recent report from Centre for Cities and the Joseph Rowntree Foundation estimates that one in five workers are now low paid.[28] This equates to 5.2m people earning less than they need to live well on – up from 4.8m in 2012 and 3.4m in 2009. This shift helps to explain why earnings growth is so poor when IDS currently reports median pay settlements in line with RPI growth of 2.5%. Both the ONS and the Bank of England estimate that compositional changes in the workforce have been depressing the headline Average Weekly Earnings figures by around 0.5%.[29]

30. Whilst the economy is growing, the continuing decline in real wages and stable employment means that more and more people are looking to work extra hours just in order to make ends meet. TUC analysis of the Labour Force Survey over the last two years shows that the number of people that are under-employed[30] has increased by nearly 100,000. The current level of under-employment, at 3.4m is 46% higher than it was before the economic downturn.[31]

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[25] TUC, 'Half of workers think their bosses can afford a pay rise', 7 September 2014.
[26] ONS, Profitability of UK Companies, Q1 2014
[27] IDS, *Earnings and settlements: a research report for the TUC*, June 2014.
[28] Clayton, N., M. Williams and A. Howell, *Unequal opportunity: how jobs are changing cities*, September 2014. The report defines low pay as wages of less than £7.71 an hour, or two thirds of the hourly median wage (£11.65).
[29] ONS Labour Market Statistics, Earnings dataset, March 2014 and Bank of England Inflation Report, August 2014.
[30] The TUC's analysis uses January to March 2014 figures from the Labour Force Survey, which asks respondents both whether they are working part-time and would like full-time work and whether they would like to undertake more hours in their current jobs (whilst controlling for double counting).
[31] TUC, 'A record number of people are looking for extra hours to top up their wages', 3 September 2014.

31. Everyone should benefit from the nation's improved economic growth, and yet increasingly our labour market is becoming polarised, with growth concentrated in insecure and low paid forms of work. Such structural changes require remedy from government and we note that the OECD recently called on governments to do more to promote more productive and rewarding jobs.[32] However a sustainable recovery requires a revival of earnings growth and the LPC could play an important role in boosting living standards and economic output by committing to significant staged increases in the NMW towards a living wage rate.

32. There are also strong public policy and economic cases for significant increases in the NMW. Research from Landman Economics for the Living Wage Commission suggests the Exchequer could gain up to £4.2bn in increased tax revenues and reduced expenditure on tax credits and other in-work benefits from increased coverage of the living wage.[33] Increasing the disposable income of the low paid would also have a positive impact on economic growth because households on low incomes are more likely to spend any additional income than save it. Landman Economics estimates there would be a net GDP gain of between an additional £3.5bn and £10.71bn from extending the living wage and that the additional money going in to the pockets of the lowest paid workers could create between 64,000 and 218,000 jobs.[34]

33. There are also clear business benefits for companies who implement a living wage, with a study by GLA Economics of living wage employers in London finding that 80% believed it had enhanced the quality of the work of their staff.[35] Companies that already pay a living wage also report lower staff turnover, reduced absenteeism, reputational benefits and improved morale, motivation and commitment from their workforce.[36]

Apprentice pay

34. We remain concerned that the Apprentice NMW rate is so low, at just £2.73 from October 2014, and fails to provide adequate support for someone in work. This rate needs to be raised substantially in 2015, and we note that most apprentices earn much more than the relevant minimum wage rate, with median earnings of £6.09 per hour reported in a 2013 survey by the Department for Business, Innovation and Skills.[37] However the same survey also found around 24% of apprentices were paid less than the applicable minimum wage rate, with 4% were paid nothing at all, so clearly urgent action needs to be taken to boost enforcement mechanisms.

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[32] Groom, Brian, ''OECD warns wage cuts create deflation risk', *The Financial Times*, 3 September 2014.
[33] Living Wage Commission, *Work that pays: the final report of the Living Wage Commission*, June 2014.
[34] Reed, Howard, *The economic impact of extending the living wage to all employees in the UK*, Landman Economics, October 2013.
[35] GLA Economics, *An independent study of the business benefits of implementing a Living Wage policy in London*, Greater London Authority, February 2009.
[36] Living Wage Commission, op. cit.
[37] BIS, Apprentice Pay Survey 2012: Research Findings', 2013.

35. The two major employers in which the CWU has members – Royal Mail and BT – each employ apprentices across their business at a higher rate of pay than this statutory minimum. Royal Mail apprentices are paid the CWU represented grade appropriate to their entry age, with national basic pay rates for any apprentices in the Letters part of the business therefore ranging from £236.86 per week for 16 year olds to £355.28 for adult recruits aged 18 from April 2014. BT pays it apprentices £11,260 per annum at the lowest grade to £19,237 at the highest grade for a 36 hour week.

36. As the CWU has previously argued, we believe the LPC should commit to a fair day's wage for a fair day's work. We believe that all employees, irrespective of age, should be paid equally for work of equal value and that all working time, including that spent training, should be subject to the NMW. We therefore believe the Apprentice NMW, like the 16-17 year old rate and the Youth Development rate, should be raised significantly from 2015 - at least above inflation and average earnings - and ultimately brought in line with the Adult NMW.

Conclusion and recommendations for 2015

37. In this submission we have argued that the state of the economy, the labour market and the political climate are such that significant increases in the NMW are warranted. However, we would like to see the LPC take a more wholistic approach to low pay in the UK so that everyone will benefit from the economic recovery. We therefore urge the LPC to undertake a full analysis of the minimum level of acceptable pay in both real and relative terms and to commit to raising the NMW to such a living wage through a number of staged increases in the next few years. For the NMW rate setting period from October 2015 to September 2016, we urge the LPC to recommend a significant increase to the government that is at least above inflation and average earnings.

38. All signs point to the UK economy improving over the next NMW rate setting period, and yet there are alarming increases in the numbers of people who are moving into lower paid, less secure, forms of work and who are unable to cover their basic needs. Although some of the structural shifts within the labour market are beyond the remit of the LPC, we believe that large increases in the NMW towards a living wage are an important component of securing a sustainable economic recovery. It is not right that in one of the richest countries in the world, people in work are unable to cover their basic costs and are increasingly having to rely on charity from food banks just to make ends meet.

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