

20 June 2013

Stuart Todd
Public Petitions Committee
T3.40
Scottish Parliament
Edinburgh
EH99 1SP

PE1467 – Scottish Living Wage Recognition Scheme

Dear Stuart,

CBI Scotland welcomes this opportunity to respond to the petition for a Scottish Living Wage Recognition Scheme. We previously responded to related consultations on the proposed Living Wage (Scotland) Bill (2012) and the Living Wage Inquiry (2011).

The CBI supports the National Minimum Wage (NMW) and the independent Low Pay Commission (LPC), which sets the wage each year at a level that balances income for low waged employees and the need to preserve jobs. Beyond this, decisions on pay, including the Scottish Living Wage, must be left at the discretion of the individual business to make taking into account their wider business strategy including affordability which is not universal across business. Accordingly, the Scottish Government should not introduce a Scottish Living Wage Recognition Scheme as this would undermine the current voluntary approach. In particular,

- **A Scottish Government Living Wage recognition scheme would send the message to business that mass implementation of the living wage is appropriate. It therefore risks driving up labour costs and damaging employment prospects, especially for young people**
- **The Scottish Government Living Wage scheme would undermine the current consensus on National Minimum Wage policy**

A Scottish Government Living Wage recognition scheme would send the message to business that mass implementation of the living wage is appropriate. It therefore risks driving up labour costs and damaging employment prospects, particularly for young people

Pay restraint has played an important role in supporting current levels of employment. A Scottish Government living wage recognition scheme would encourage mass implementation of the wage which would put employment prospects at risk particularly for those furthest from the labour market. Pay restraint is set to continue with containing labour costs cited as the second highest



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workforce priority for businesses in the next 12 months, with half of respondents to the CBI Employment Trends Survey citing this as a workforce priority.¹

Encouraging mass implementation of the Scottish living wage would drive up labour costs further and damage employment prospects of young people especially given that the wage is set at fifty per cent more than the 18-20 year old NMW rate, and over twice the level of the 16-17 year old NMW. Evidence from the LPC has already found that NMW upratings caused reduced weekly hours for 18-21 year olds, resulting in an overall reduction in weekly earnings.²

When considering the Living Wage, a key issue for businesses is affordability. An increase from the NMW to the Scottish Living Wage would involve a pay rise of 20% which would be especially significant for small businesses. In order to absorb the cost of a move to the Scottish Living Wage, many businesses would have to make sacrifices in other areas which in the short term may include a freeze on hiring new staff. The wage therefore has the potential to create a divide between insiders, who benefit from the wage and, outsiders, who have been excluded from the labour market to accommodate insiders. Also, many of our members tell us that in order to absorb the additional costs they would need to review the wider reward package which may include flexible working hours, clothing allowances and cycle-to-work schemes. This supports existing evidence on the impact of the Living Wage on the total reward package.³

A Scottish Government recognition scheme would create a particular pressure on businesses to adopt the Scottish Living Wage even if it is not feasible and this would risk business viability. In the petition, it is suggested that the scheme could require businesses to uprate pay within six months is particularly concerning. This is clearly out of step with current pay policy practices and has the potential to severely effect employee relations by creating policy disparities within businesses, especially if it operates across the United Kingdom.

Scottish Government resources could be more effectively targeted at promoting education and skills development through targeted apprenticeships, internships and other work experience schemes that support in-work progression and allow people to get in and got on in work rather than being priced out of the labour market.

The Scottish Government Living Wage scheme would undermine the current consensus on NMW policy

The Low Pay Commission (LPC) sets the NMW, youth rates and apprenticeship rates each year at a level that balances income for low waged employees while preserving jobs. The current consensus on pay took long to establish and the vast majority of businesses support NMW policy and the role of the LPC. The success of the NMW is in part due to the LPC's independence which gives it credibility. A Scottish Government recognition scheme would call the role of the LPC into question and undermine the consensus achieved by creating tension with existing policy.

As stated in the petition, recognition schemes already exist for Living Wage employers. Creating another could confuse the existing accreditation environment and reduce the perceived value of such schemes to Living Wage employers. The details of how a Scottish Government scheme could work in practice are unclear. Businesses are currently operating in a fragile economic environment and signing up to legally-binding declarations with administrative requirements would commit significant business and Scottish Government resources that would be better targeted at growing

¹ [Seeking a competitive edge](#), CBI/Harvey Nash employment trends survey, autumn 2012

² LPC, 2012

³ Carroll and Grimshaw, 2002

businesses and therefore creating apprenticeships, work experience schemes and encouraging wider skills development that would be more effective in supporting in-work progression.

A Scottish Living Wage recognition scheme is not the right answer to low incomes. The Living Wage risks the employment prospects of young people by driving up labour costs and damaging their employment prospects. Such a scheme would benefit insiders and penalise outsiders, and put at risk the pay consensus that took a long time to establish. Living Wage recognition schemes are already in place, and creating another would reduce the value of existing schemes and add place administrative burden to business and the Scottish Government. CBI Scotland therefore believes that the Scottish Government therefore should not introduce a Scottish Living Wage recognition scheme.

We hope these comments are useful to the Committee.

Yours sincerely,

Lauren Paterson