

# ALL WORK AND LOW PAY?

## THE THIRD SECTOR AND THE REAL LIVING WAGE

Yasmin Mahmoudi, Alice Ollendorff and Joe Richardson

June 2022





1	FOREWORD .....	4
2	EXECUTIVE SUMMARY .....	6
3	LOW PAY IN THE THIRD SECTOR .....	9
4	DRIVERS OF LOW PAY AND INSECURE WORK IN THE THIRD SECTOR .....	21
5	PUBLIC PERCEPTIONS OF THIRD SECTOR WORKERS AND THE LIVING WAGE .....	25
6	WHY THE LIVING WAGE MATTERS .....	30
7	CONCLUSION AND RECOMMENDATIONS .....	37
8	ANNEX .....	43
9	ACKNOWLEDGEMENTS .....	47
10	REFERENCES .....	49



# GLOSSARY

## **The real Living Wage (rLW)**

The real Living Wage (rLW) is an independently calculated hourly rate, produced by the Resolution Foundation and overseen by the Living Wage Commission. The rate is updated annually to reflect actual living costs, based on the best available evidence. The London Living Wage (LLW) rate is higher to reflect higher living costs.

The current rates are £11.05 in London and £9.90 in the rest of the UK. Accredited Living Wage employers pay the rLW to all employed staff, including third party staff, aged 18 or over.

The real Living Wage is different

to the National Living Wage (see below). In this report, we use the terms 'real Living Wage' and 'Living Wage' interchangeably.

## **The National Living Wage (NLW) and National Minimum Wage (NMW)**

The rLW is voluntary, unlike the government's National Living Wage (NLW), which is a statutory minimum that applies to all UK employees aged 23 and over. The NLW is currently £9.50 for workers across the whole of the UK. Those under 23 are entitled to the National Minimum Wage (NMW), which currently stands at £9.18 for those aged 21-22, £6.83 for those aged 18-20 and £4.18 for those aged under 18 and apprentices.

## **The Living Wage Foundation**

The Living Wage Foundation was created in 2011 to promote the Living Wage and celebrate employers who pay through accreditation. Since its establishment in 2011, the Foundation has accredited over 10,000 Living Wage Employers, putting £1.8 billion back into the pockets of workers.

## **Living Wage Funders**

The Living Wage Foundation's Living Wage Funders scheme tackles low pay in the sector by recognising funders who commit to supporting their grantees to pay the Living Wage through the grant making process. The scheme was

developed in collaboration with and Local Authorities. At the time of writing there are 58 accredited Living Wage Funders.

## **Living Hours**

The Living Hours scheme was set up to tackle the problems associated with casualised and insecure work. Living Hours employers commit to providing secure hours and predictable shifts to help low paid workers make ends meet. The Living Hours scheme covers directly employed staff and third-party staff covered by the Living Wage commitment.

# 1 FOREWORD

**Glynn Davies, sector worker and member of Third Sector Steering Committee**

I always knew that I wanted to help create a better society. After graduating, I sought out roles where I could support people to overcome the social barriers that hold them back, driven by my own experience of needing such support growing up.

Over the years, this work has been incredibly rewarding. It has given me control over many of the inequalities I have faced. However, economic inequality, as for many people, has been hard to shake off.

Reading this report, I was taken back to the perilous uncertainty of fixed term contracts and pay that is

unreflective of living costs, which I, and many others in the sector, have experienced. I know all too well the emotional stress of just surviving day-to-day, never having enough for the basics of life, leaving little space for comfort, joy and most importantly, stability.

I was determined to use my education, skills, and experience to drive social change, but the drain on my wellbeing and the uncertainty of low pay often meant I was running on empty. Like many colleagues, I struggled to see the work I love as a viable option.

This year, I started working for a Living Wage Accredited Employer and the change in my standard of living has been beyond what I

could have imagined. Not having to worry about making just enough to get by means I can focus on the joy that working in the third sector brings. I feel valued in a meaningful way, which ultimately means I am more motivated at work and have a stronger commitment to my employer.

I truly believe the benefits of paying a Living Wage extend far beyond the immediate impact for workers. It also has a profound effect on an organisation's productivity, morale, and reputation. I am passionate about a real Living Wage, and I hope this report demonstrates just how important an issue it is; not just for workers but for the third sector organisations that employ them too.

**John Hume, CEO, People's Health Trust  
– Living Wage Funder and LWF Third  
Sector Steering Committee Chair**

This report comes on the back of five years' work trying to drive up wages in the third sector. Whilst there have been improvements in low pay, it has not been distributed evenly: there remain significant inequalities between the third sector and other sectors, as well as between different groups within the sector. In short, low pay in the third sector drives worse health outcomes, poorer employee satisfaction and retention and is an issue of equality and inclusivity.

The report points to some perhaps all-too-familiar facts: that women in the sector are over six percentage points more likely to experience pay below the real Living Wage than men; that part time workers (mainly women), Black, Bangladeshi, and Pakistani workers, young workers,

and people over 60 are all more likely to experience low pay when compared other groups across the sector or in relation to other sectors.

It is clear that the drivers of low pay can be traced to 'market forces.' Commissioning models encourage more competition and effectively a 'race to the bottom', with the only losers being those on the lowest incomes within the third sector. But it isn't just market forces that are at play.

Perhaps one of the most surprising revelations of the report is that low pay is a cultural issue. There is a kind of own-goal dogged belief that the public's rightful concern over the effective stewardship of charity resources means not paying some of our lowest paid workers the real Living Wage. This report blows a hole in this myth.

With almost 60 funders ensuring that they will only pay grants at the real Living Wage, achieving a real Living Wage culture is gaining ground. This helps, but the data clearly show the Living Wage is not reaching some groups equitably. Therefore, our sector focus and that of our commissioners, supporters and funders needs be on equity and targeting. We need actions that make a concerted effort at parity, not only between the third sector and other sectors, but also between groups *within* the sector. Only when we have our own house in order can we start to feel that we are addressing the social injustices that we exist to tackle.

# 2 EXECUTIVE SUMMARY

## 2. Executive Summary

As previous Living Wage Foundation research has shown, below Living Wage pay is a significant issue in the third sector. While the sector dedicates a large amount of resources to the root causes of financial hardship, sections of the workforce are not paid a wage that allows them to meet essential living costs. This affects workers' physical and mental health and whether they can remain in the sector. Paying less than a Living Wage affects organisations too – in their ability to attract and retain good staff, the financial costs of sick leave and reputational damage.

Despite this, there is limited attention on the scale of low pay across the third sector, and even less on whom this impacts most or what the main drivers are. The Commission on Civil Society has identified information on pay – particularly below Living Wage pay – as a key knowledge gap.<sup>1</sup>

This report looks to address part of that knowledge gap. It builds on previous Living Wage Foundation research into this area in September 2021, looking not only at the scale of low pay in the sector, but also at who is most impacted by it, the effect that paying the Living Wage has on third sector organisations and what the main drivers of low pay are. The report also identifies solutions available to third sector organisations when it comes to paying the real Living Wage to their staff, partners, and those they fund.

**Low pay is a significant issue in the third sector:**

- 14.1 per cent of jobs in the third sector are paid less than the Living Wage. This is higher than the public sector (5.5 per cent), but lower than the private sector (22.1 per cent).
- The proportion of below Living Wage jobs in the third sector has declined over recent years. In 2015, 16.9 per cent of jobs were low paid, compared to the current figure of 14.1 per cent, a drop of 2.8 percentage points.
- Changes to the funding landscape including the shift to commissioning of services can encourage a 'race to the bottom.' As third sector providers compete to cut costs and win contracts this can hit those on low pay the hardest.

**Low pay in the third sector is reinforcing inequality:**

- Jobs held by women are more likely to earn less than the Living Wage than men (16.6 per cent compared to 10.3 per cent).
- Certain racialised groups are more likely to be paid below the Living Wage. 'Other ethnic,'<sup>2</sup> Pakistani and Bangladeshi, and Black African, Black Caribbean and Black British groups all have above average proportions of workers earning below the Living Wage.



- Disabled workers are more likely to be low paid than those non-disabled, but the difference is narrower in the third sector than across the economy as a whole.

### Third sector organisations benefit from paying a real Living Wage:

- 68 per cent of Living Wage accredited third sector organisations said paying the real Living Wage enhanced their general reputation as an employer.
- 42 per cent said paying the Living Wage improved recruitment of employees into jobs covered by the Living Wage.
- 24 per cent said accreditation helped secure funding or investment for their organisation

### Public support for paying a real Living Wage

- Polling found that 78 per cent of the public say that staff working in the third sector (directly and third-party) should receive the real Living Wage.

This report provides a number of next steps and recommendations for third sector employers, funders, sector bodies and Local Authorities to tackle low pay in the sector and improve working conditions, including:

- Accrediting as Living Wage Employer
- Championing the Living Wage across relevant networks
- Accrediting as a Living Hours Employer

- For Funders offering long-term and targeted funding models and using the power of investment to enable a better future for workers

### HOW WE DEFINE THE ‘THIRD SECTOR’

We have used the Inter-Department Business Register’s (IDBR’s) definition of a ‘non-profit body or mutual association’. This includes:

- Charities
- Community Interest Companies
- Social Enterprises
- Pressure Groups
- Universities<sup>3</sup>

This definition is the same as that used by the ONS in the Annual Survey of Hours and Earnings (ASHE), which is where we draw most of our analysis on below Living Wage pay.

‘Third sector’ generally describes the sector that is distinct from the state and the market<sup>4</sup>, referring to organisations that typically operate on a not-for-profit basis and whose primary purpose is to create social impact. However, this description can mask the interplay between the three sectors, as well as the many differences across the sector itself, making it difficult to discuss the sector as a whole.



We have decided to use the term 'third sector,' but other terms are widely used, such as the voluntary, community and social enterprise (VCSE) sector, social sector, not-for-profit sector, or civil society. However, the use and meaning of many of these terms are contested because they emphasise certain attributes while obscuring others.<sup>5</sup>

While charities are the largest single category within the third sector, our report seeks to examine low pay across the broader range of organisations committed to delivering social impact. This focus, as well as the current availability of data, is why we chose 'third sector.'

### **METHODOLOGICAL CONSIDERATIONS**

The ASHE data is the most robust and accurate dataset on employee earnings in the UK and provides comprehensive data on low pay in the third sector. However, in this report, we did not just want to uncover the scale of low pay in the third sector. We wanted to find out who is most impacted by it. For this reason, we also used the Labour Force Survey (LFS), which offers a much wider set of variables. Nonetheless, this has its methodological challenges, which are outlined in the Annex of this report.

# 3 LOW PAY IN THE THIRD SECTOR

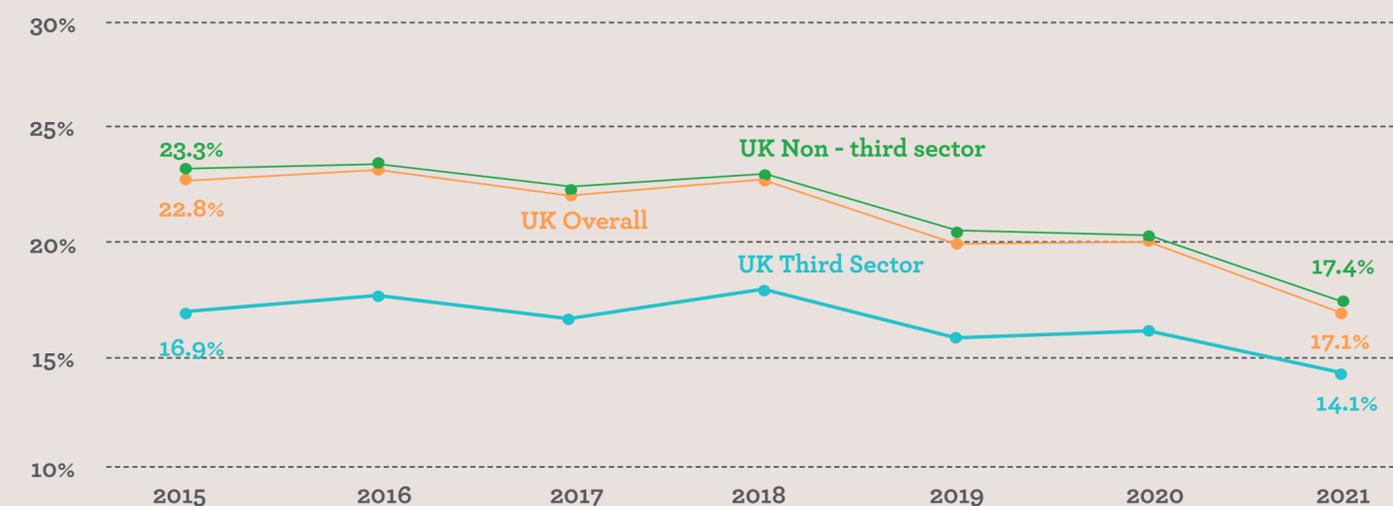
## 3. Low pay in the third sector

14.1 per cent of jobs in the third sector are paid less than the real Living Wage, which is lower than across the economy as a whole (17.1 per cent). Of all sector groups, the private sector has the highest percentage of low paid jobs while the public sector has the lowest. As outlined in Graph 1, the third sector has a lower proportion of low paid jobs than the public and private sectors combined (i.e., non-third sector), where 17.4 per cent of workers are low paid.

from 16.9 per cent to 14.1 per cent, a drop of 2.8 percentage points. This compares with a fall from 22.8 per cent to 17.1 per cent for the economy as a whole – a drop of 5.7 percentage points.

Although the third sector has consistently had a lower proportion of low paid jobs than the wider UK labour market, the decline in low paid jobs has been more muted. Looking at the trend from 2015 onwards (Graph 1), we see that the proportion of low paid jobs in the third sector fell

**Graph 1:** Proportion of employees earning below the Living Wage in third sector compared to economy as a whole, UK, 2015-2021:



Source: Living Wage Foundation analysis of Annual Survey of Hours and Earnings, 2015-2021.

### 3. Low pay in the third sector

Covid-19 and resultant lockdowns during 2020-2021 hit low paid workers hardest, with these workers being more likely than better paid workers to be in 'lockdown impacted sectors.'<sup>6</sup> Third sector organisations were particularly impacted, with many providing extra support to those hardest hit on top of their day-to-day activities. The pandemic also meant that many were also facing staffing and funding shortages at the same time.

As a result, the majority (60 per cent) of third sector organisations saw a loss of income during the initial outbreak of the pandemic, and 40 per cent used their reserves to meet additional demand. Nine in ten charities reported Covid-19 having a negative impact on their organisation.<sup>7</sup> Living Wage Foundation analysis found almost

half of low paid third sector workers were temporarily away from work (mainly due to furlough), when Covid-19 first hit, compared to a fifth of third sector workers with better pay.<sup>8</sup>

Despite this, low pay remained broadly flat in 2020 and decreased in 2021, both for the economy as a whole and the third sector. There are a number of drivers of this, not all of which are related to pay. For instance, the pandemic created 'composition affects' in the UK labour market, which drastically impact pay estimates. This is because low paid workers were more likely to become unemployed as a result of Covid-19, and as such, the scale of low pay seems to have gone down since Covid-19 hit. However, this is not exclusively because workers have enjoyed pay increases, but

also because there are fewer low paid workers in the labour market altogether.<sup>9</sup>

The National Living Wage increased over this period, to £8.72 in April 2020, and £8.91 in 2021 which also reduced age of those who receive it from 25 to 23.<sup>10</sup> Increases to the wage floor tend to create 'ripple effects' further up the income distribution, thereby pushing more workers over the Living Wage threshold. This pandemic period – particularly the early stages – was therefore something of a mixed bag for the nation's low paid. The emergence of the furlough scheme and the concurrent raising of the wage floor balanced each other out when it came to the proportion of below Living Wage jobs.

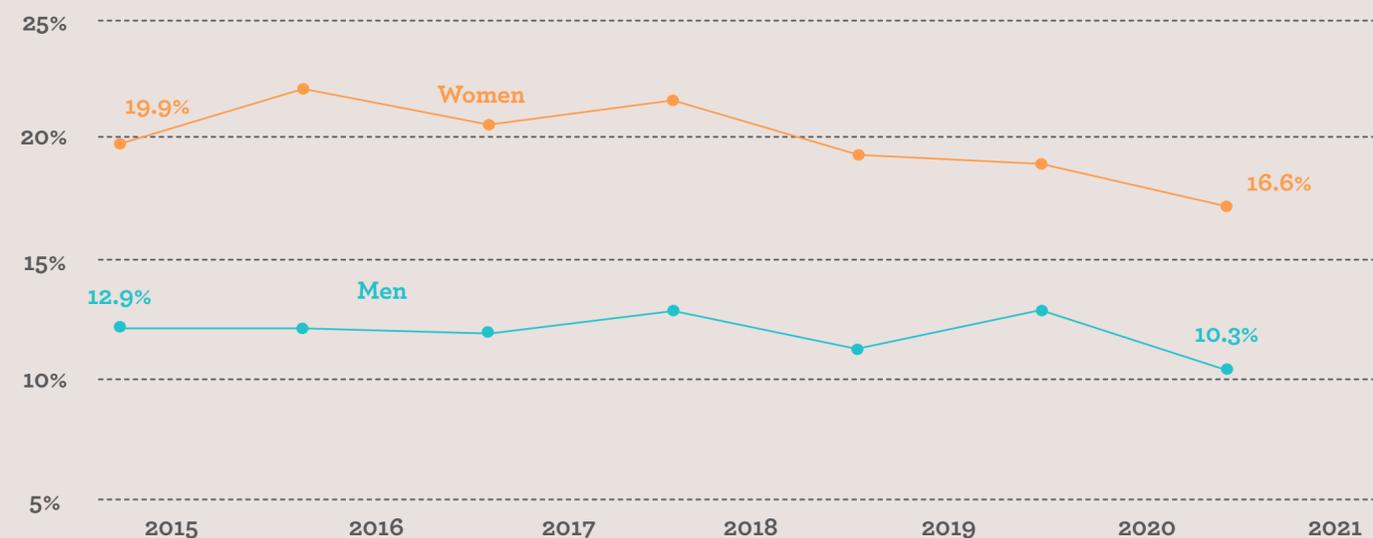
That said, as the economic recovery from Covid-19 took shape in 2021 and the furlough scheme was wound down, the gains made by low paid workers through increases to the wage floor became more evident. Over this period, the proportion of below Living Wage jobs fell for both the third sector and the UK economy overall (by 2.1 and 3.1 percentage points respectively), resulting in each of the figures falling to their lowest point in the past six years.

**LOW PAY IN THE THIRD SECTOR BY GENDER**

Jobs held by women in the third sector are more likely to be low paid than those held by men. However, the difference between the proportion of jobs held by men and women earning below the Living Wage has reduced over the past seven years, albeit not hugely. Around a fifth of jobs held by women were low paid in 2015 compared to 16.6 per cent in 2021. The trendline is slightly flatter for jobs held by men in the third sector, with 12.1 per cent earning less than the Living Wage in 2015 compared to 10.3 per cent in 2021.

Of all low paid jobs in the third sector, 71.3 per cent are held by women. This is a result of women being more likely to be low paid in the sector, while also being more likely to work in the sector in the first place. Of all employee jobs in the sector, 60.7 per cent are held by women and 39.3 per cent are held by men.

**Graph 2:** Proportion of employees earning below the Living Wage in third sector by gender, UK, 2015-2021:



Source: Living Wage Foundation analysis of Annual Survey of Hours and Earnings, 2015-2021.

### 3. Low pay in the third sector

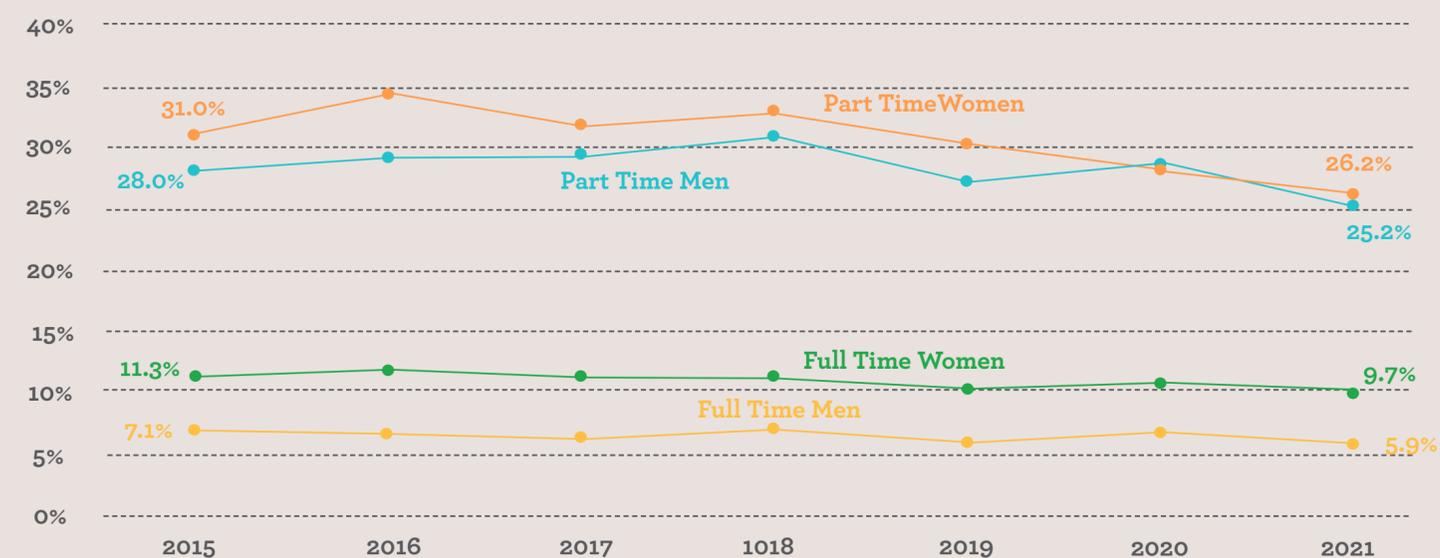
#### LOW PAY IN THE THIRD SECTOR BY WORKING HOURS

The number of hours worked significantly impacts the likelihood of third sector workers earning less than the Living Wage. Part time jobs are at a much greater risk of being low paid than full time jobs (25.7 per cent compared to 8.2 per cent). This mirrors research into part time work and low pay in the wider economy.<sup>11</sup>

Part time jobs held by women in the third sector are more likely to earn less than the Living Wage than part time jobs held by men, albeit the gap has narrowed. This differs from across the wider economy, where part time jobs held by women are more likely to earn less than the Living Wage than those held by men.

Women are much more likely to be in part time work than men across the entirety of the UK labour market, including in the third sector. Almost half (42.7 per cent) of third sector jobs held by women are part time, compared to around a quarter (23.6 per cent) of jobs held by men. As such 47.4 per cent of jobs paid below the Living Wage are held by women working part time.

**Graph 3:** Proportion of employees earning below the Living Wage in third sector by sex and working hours, UK, 2015-2021:

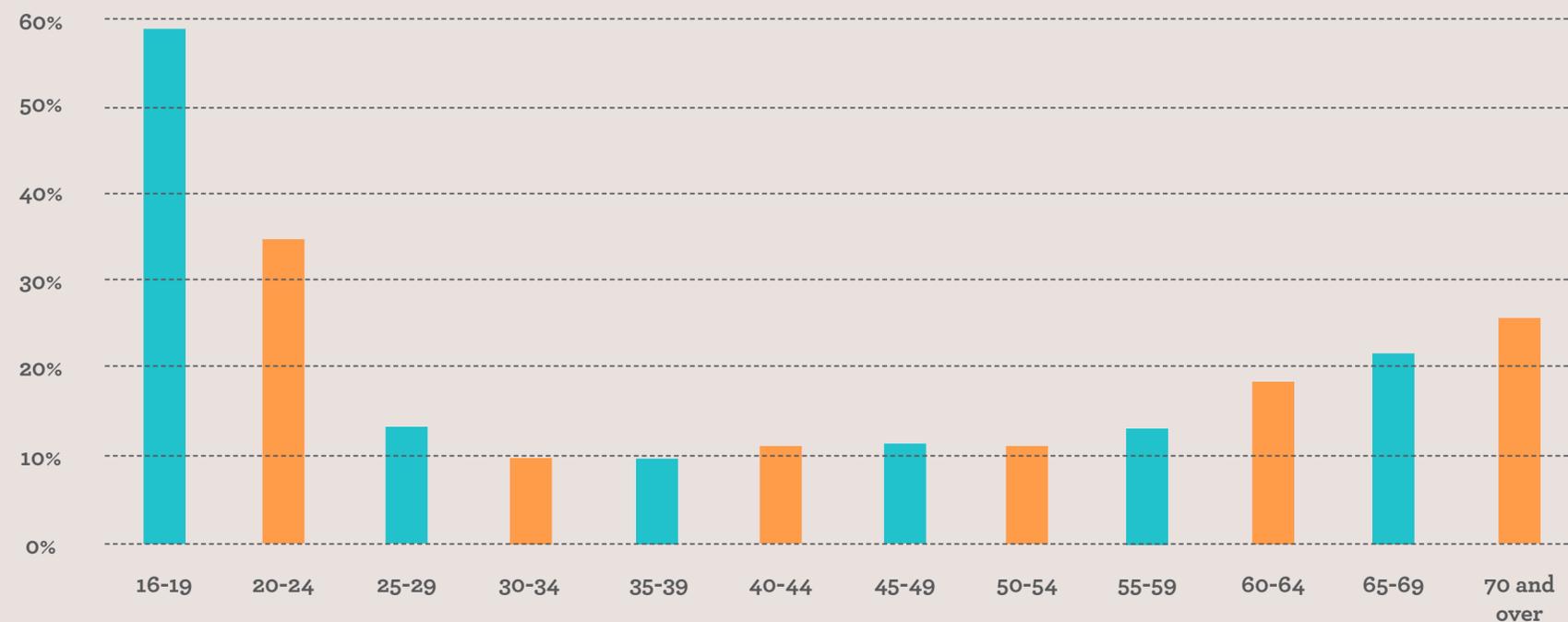


Source: Living Wage Foundation analysis of Annual Survey of Hours and Earnings, 2015-2021.

**LOW PAY IN THE THIRD SECTOR BY AGE**

Age is a significant driver of low pay in the sector. 58.4 per cent of those aged 16-19 are low paid, while the same is true for 34.9 per cent of those aged 20-24. This is similar to the whole economy, where young workers are more likely to be low paid, as they are more likely to be in entry-level positions, and the statutory wage floor (NMW) is considerably lower for workers younger than 21. Workers aged 60 and above are also more likely to experience low pay than across the sector as a whole, although their risk is much lower than younger workers.

**Graph 4:** Proportion of employees earning below the Living Wage in the third sector by age, UK, 2021:



Source: Living Wage Foundation analysis of Annual Survey of Hours and Earnings and Labour Force Survey (2016-2021).

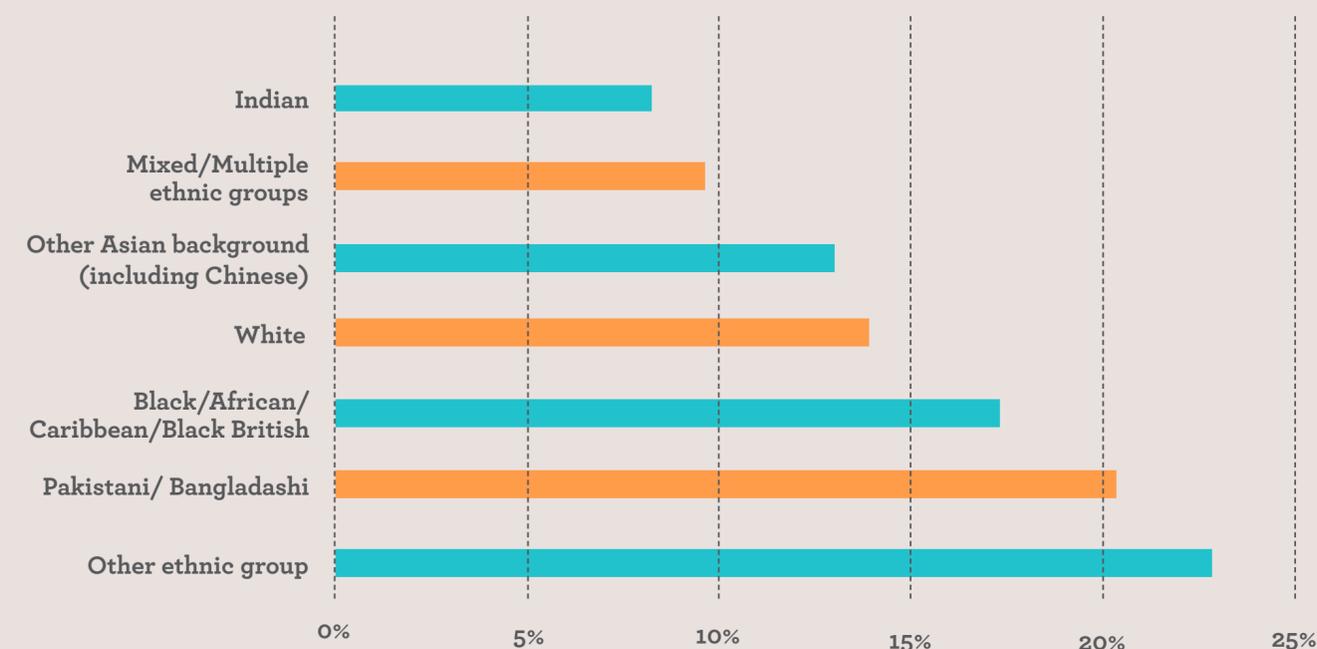
### LOW PAY IN THE THIRD SECTOR BY ETHNICITY

Certain racialised minority groups face a heightened risk of low pay in the third sector. 'Other ethnic,'<sup>12</sup> Pakistani and Bangladeshi, and Black African, Black Caribbean and Black British ethnic groups all have above average proportions of workers earning below the Living Wage. The opposite is true for those from 'Other Asian backgrounds,' 'Mixed/Multiple' backgrounds and Indian workers.

The third sector has been criticised for its lack of racial diversity at the top end of the pay scale and in executive level positions.<sup>13</sup> However, Labour Force Survey data shows that

more than nine out of 10 employees (90.9 per cent) in the third sector are from white backgrounds. This is more than the private (88.2 per cent) and public (85.8 per cent) sectors. Other research reveals that, although the proportion of workers from racialised minority backgrounds in the third sector has grown over the last decade, that growth has been less pronounced than in the economy as a whole.<sup>14</sup> This evidence would suggest that a lack of ethnic diversity is a problem across the sector as a whole, and not just at the executive level.

**Graph 5:** Proportion of employees earning below the Living Wage in the third sector by ethnicity, UK, 2021



Source: Living Wage Foundation analysis of Annual Survey of Hours and Earnings and Labour Force Survey (2016-2021).

Notes: Due to small samples, some racialised minority groups were grouped together - Pakistani & Bangladeshi and 'Any other Asian' & Chinese. This has an impact on where different racial groups sit when it comes to low pay. For instance, Chinese workers are typically highly paid, and thus pull the 'Other Asian Background' category upwards in earnings data. Similarly, Pakistani workers are slightly higher paid than Bangladeshi workers - the latter being generally lower paid than all other racial groups.

### LOW PAY IN THE THIRD SECTOR BY DISABILITY STATUS

In the third sector, disabled workers<sup>15</sup> are more likely to earn less than the Living Wage than non-disabled workers. In 2021, 16.5 per cent of disabled workers earned less than the Living Wage, compared to 13.1 per cent of those who are not disabled. This gap between the two groups is not as pronounced as across the economy as a whole, where 22.3 per cent of disabled workers earn less than the Living Wage compared to 15.6 per cent of those without a disability.

**Graph 6:** Proportion of employees earning below the Living Wage in the third sector by disability status, 2021



Source: Living Wage Foundation analysis of Annual Survey of Hours and Earnings and Labour Force Survey (2016-2021).

**LOW PAY IN THE THIRD SECTOR BY REGION**

There is a clear regional divide in the location of low paid jobs in the third sector. The North West, East Midlands and West Midlands have the highest levels of low pay. Meanwhile, areas with particularly low levels of low pay in the sector are London, Scotland and the South East. This may be because the headquarters of larger charities are more likely to be based in those areas, with a greater proportion of office-based roles that tend to be better paid than front line service delivery.

**Graph 7:** Proportion of employees earning below the Living Wage in third sector by region, UK, 2021

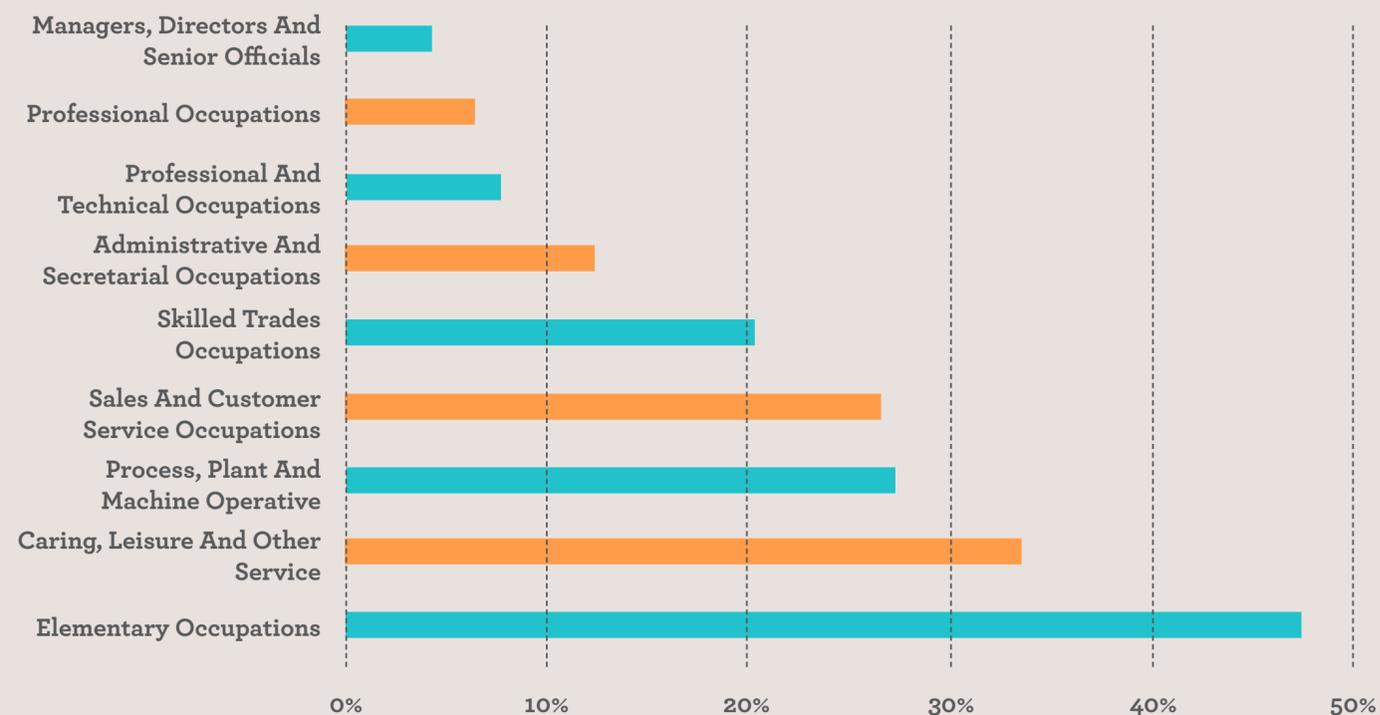


Source: Living Wage Foundation analysis of Annual Survey of Hours and Earnings, 2021.

**LOW PAY IN THE THIRD SECTOR BY OCCUPATION**

Low pay is unevenly spread across different occupational groups in the third sector. Almost half of workers in ‘Elementary occupations’ (i.e., cleaners, security guards and customer service operatives), while the same is true for over a third of workers in the ‘Caring, Leisure and Other Service occupations’, and over a quarter of those in ‘Process, Plant and Machine operatives’ and ‘Sales and Customer Service occupations’. Occupations with the lowest incidence of low pay are typically associated with increased seniority or specialism, such as ‘Associate Professional and Technical occupations,’ ‘Professional Occupations’ and ‘Managers, Directors and Senior Officials.’

**Graph 8:** Proportion of employees earning below the Living Wage in third sector by Occupation (1 Digit SOC code), UK, 2021



Source: Living Wage Foundation analysis of Annual Survey of Hours and Earnings and Labour Force Survey (2016-2021).

**LOW PAY IN THE THIRD SECTOR BY INDUSTRY**

People working for third sector organisations that operate in low paid industries (one-digit SIC code) face a heightened risk of earning less than the Living Wage. This is a similar story to the UK Labour Market as a whole. Within the third sector, four of the five industries with the highest levels of low pay are also in the top five low paying industries across the economy as a whole, with 'Education' being the only exception.

**Graph 9:** Proportion of employees paid below the Living Wage by Sector (1-Digit SIC code), top 5 most impacted sectors, UK, 2021:



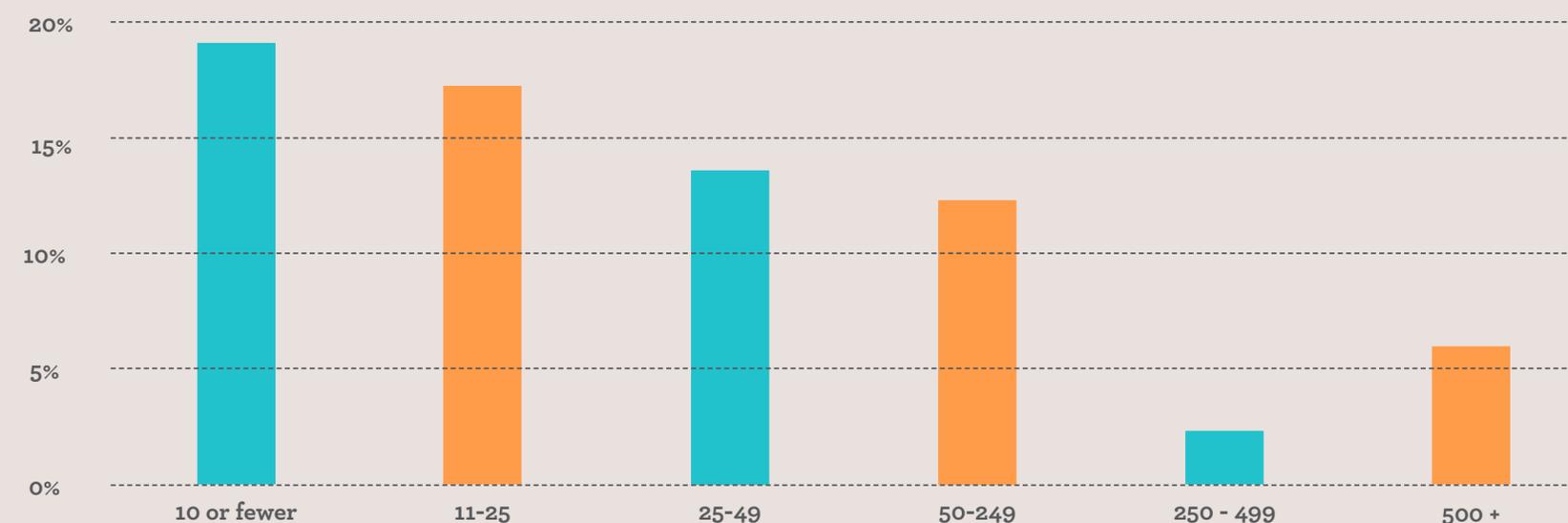
Source: Living Wage Foundation analysis of Annual Survey of Hours and Earnings and Labour Force Survey (2016-2021)

### LOW PAY IN THE THIRD SECTOR BY ORGANISATION

Broadly speaking, employees working for smaller third sector organisations (as measured by the number of employees), are more likely to be low paid than those working for larger ones. This is shown in Graph 10, with those in organisations with 250 or more employees being less likely to be low paid than those with fewer than 250 employees.

It is no surprise that smaller third sector organisations typically have higher levels of low pay. Smaller third sector organisations (particularly smaller charities) typically have less turnover and smaller budgets, and therefore much fewer resources to allocate to staff. This divide between smaller and larger charities has worsened over the last decade, with NCVO research finding that smaller charities have seen a 20 per cent decrease in their income over the past ten years, while income has increased for larger charities by a margin of 30 per cent.<sup>16</sup>

**Graph 10:** Proportion of employees paid below the Living Wage by size of organisation, UK, 2021



Source: Living Wage Foundation analysis of Annual Survey of Hours and Earnings and Labour Force Survey (2016-2021).

**INSECURE WORK IN THE THIRD SECTOR**

Security of working hours is an important issue that impacts workers' ability to make ends meet. Previous research by LWF found that 21 per cent of workers across the economy experience work insecurity in the UK, while 12 per cent experience insecure work that is also low paid.<sup>17</sup> In comparison, 10.6 per cent of third sector workers experience insecurity, while 4.4 per cent are in low paid insecure work.

Graph 11 shows a significant drop in the percentage of insecure roles within the third sector after 2019. However, given the figure had remained broadly consistent before 2020, this may be because those in insecure positions lost their jobs due to Covid-19. This would broadly mirror trends seen across the economy at large, with those in low paid and more insecure roles during the pandemic typically at a greater risk of losing work, either through the Job Retention Scheme (furlough) or redundancy.<sup>18</sup>

**Graph 11:** Proportion of employees in insecure work/low paid insecure work in the third sector, UK, 2016-2021:



Source: Living Wage Foundation analysis of Annual Survey of Hours and Earnings and Labour Force Survey (2016-2021).

# 4 DRIVERS OF LOW PAY AND INSECURE WORK IN THE SECTOR

## 4. Drivers of low pay and insecure work in the sector

This section describes some of the key drivers of low pay and insecure work in the sector, with findings identified through desk research and interviews with a range of accredited Living Wage Employers. Given the complexity and diversity within the sector, this is not intended to be exhaustive or capture the totality of experience for all third sector organisations, but rather to identify key themes and patterns that have emerged through this research.

### THE FUNDING LANDSCAPE

The relationship between the third, private and public sectors has undergone a series of shifts over the decades that shape how the sector operates today and has implications for pay and working conditions. The impact of reduced government spending over the years, combined with changes in funding structures and priorities, have led to third sector organisations becoming increasingly responsible for the delivery of public goods and services, and competing against the private sector for large-scale public service contracts.<sup>19</sup>

Many interviewees described these shifts, which includes the move away from grant-funding to commissioning, as fostering an environment of increased competition and a 'race to the bottom' across the sector, as contracts are generally given to the provider with the cheapest quote. Funding for the sector as a whole (not just from the government) was described as often being short-term, project-based and without inbuilt inflationary increases, meaning that organisations have to deliver the same services while their budget is being cut in real terms over time.

#### 4. Drivers of low pay and insecure work in the sector

*“There is [...] an expectation of the third sector delivering high calibre work for nothing, [...] ‘Make it cheaper, make it cheaper!’ without realising that you erode the quality and it’s going to have an impact on people.”*

Given this context, organisations reported feeling that staff wages and other core costs were deprioritised. Staff wages were seen primarily as a cost, rather than as an investment in recruiting and retaining a skilled and committed workforce. This has implications for contracts as well as pay, with one organisation reporting nearly all its staff being on fixed-term contracts over many years:

*“I think this is a real problem for the sector. Most of our staff are on year-on-year contracts [...] We’ve been doing quite a lot of persuading of government at a regional and a local level in terms of that being really unacceptable for people’s working conditions, life*

*expectations and all the rest.”*  
*“Even our core funding has been year-on-year [...] There isn’t such thing as a permanent worker in our organisation.”*

The short-term nature of funding can make long-term financial planning difficult, impacting pay among other things. Organisations are trapped in a continuous resource-intensive cycle of raising and applying for new funds to ensure survival, which can eclipse much-needed organisational and workforce development. The pressure to do more for less is linked to overwork and increased risk of burnout. Regularly working beyond contracted hours was cited as commonplace by interviewees (see section 6).

Certain organisations are more likely to be adversely impacted by these pressures. One in five small charities receive over half of their earned income from the public sector, while one in ten receive 75 per cent or more.<sup>20</sup> Organisations with a history of underinvestment, and which have

limited capacity to sustain paid staff – such as those led by racialised minority groups and/or typically operate at grassroots level – are particularly affected.<sup>21</sup>

Covid-19 had a significant impact on many third sector organisations’ income, particularly if they were reliant on certain fundraising activities or trading activity, coupled with pressures from increased demand on services. Many funders stepped in to provide emergency support and adopted a more flexible approach to their funding, enabling organisations’ survival and for them to respond to the immediate crisis for communities.<sup>22</sup> Research elsewhere has suggested that the financial position of many third sector organisations is beginning to stabilise due to this support and organisations adapting their activity.<sup>23</sup> However, income and rising demand continues to be a challenge for many, with many of the structural weaknesses in sector finance, some of which are touched on here, predating the pandemic.

There has been some awareness-raising and advocacy on these issues with funders and commissioners. However, the organisations we interviewed that were reliant on government or grant funding acknowledged that the wider situation has them (to cite one organisation) ‘over a barrel’, given the responsibility they feel towards the communities they serve.

*“Third sector organisations are value-based organisations. So, you want to have that Service Level Agreement (SLA) or that contract, whatever it might be, because the reason you’re doing the work is to serve people and if you get really political about it and say, ‘don’t give my staff a cost-of-living-increase, and we won’t run the service’, the end result is community members not getting something.”*

The two social enterprises interviewed were relatively insulated from this pressure because they were not reliant on funding in the same

#### 4. Drivers of low pay and insecure work in the sector

way and felt that this allowed them to prioritise quality over cost.

*“ We look strategically at what we’re doing and try to reduce our reliance on customers who aren’t prepared to pay for the things they say they want.”*

Social enterprises typically obtain funding from grants, investments, or a combination of both. Social Enterprise UK’s ‘State of Social Enterprise Survey’, which surveyed 890 social enterprises in their network found that 72 per cent reported paying a real Living Wage.<sup>24</sup>

#### A LABOUR OF LOVE

A key feature of working in the sector is the sense of meaning or purpose people experience when addressing a social objective. Passion and purpose were frequently identified in employer and worker interviews as

providing significant job satisfaction and pride, along with the motivation to make social change. However, there were instances where this sense of purpose and commitment to a cause or constituency was perceived to be more important than pay, job security, health, and wellbeing. One worker, Lisa, told us that she found it difficult to challenge excessive workloads because she knew she was having a positive impact in the community.

Wider research suggests that there may be a gendered dimension to this perception, given the parallels between work carried out in the sector (particularly frontline roles) and the types of caring labour that have historically been construed as ‘women’s work’. This labour has traditionally been given lower status due to perceptions of it not being ‘real’ work or characterised as holding intrinsic rewards over external or material rewards, both of

which are used to justify low pay, or sometimes no pay at all.<sup>25</sup>

*“ The frontline staff always getting the lowest wages is really problematic in our sector.”*

This may in part explain why, despite a largely female workforce (60.6 per cent),<sup>26</sup> more than 70 per cent of jobs paid below a Living Wage are held by women, with almost half of those being part time.

*“ [Street fundraisers] were paid Living Wage whereas retail workers were not. There’s a whole debate about whether it’s the same job and whether we need the same skills, but it does seem kind of linked to gender... retail typically is female.” Anne (worker)*

Paying a real Living Wage would reduce the extent to which women are trapped in low paid jobs in the sector, a factor acknowledged by employers we interviewed.

*“ Some of the lowest paid jobs are the most (sort of) essential to the operation of the organisation.”*

#### ROLE OF TRUSTEES AND SENIOR LEADERS

Employer and worker interviewees highlighted that the roles and perspectives of board members and other key decision makers mattered when it came to pay. This was underpinned by accountability structures and the balance of power and influence in the sector often being held by boards, donors and funders rather than by workers. Trade unions can help workers to claim

#### 4. Drivers of low pay and insecure work in the sector

power and collectively organise for better terms and conditions, including pay. There is a lack of reporting on trade union coverage in the sector, though existing research suggests a lack of unified trade union presence.<sup>27</sup>

A lack of socioeconomic diversity among decision makers was also highlighted, with respondents suggesting that this shaped attitudes and the types of action taken around low pay in the sector.

One charity CEO reflected on their initial struggle to gain board approval to pay a Living Wage to all frontline staff, because trustees did not necessarily understand the impact it would have. This underlines the importance of diversity and representation among trustees and senior leaders in the third sector.

Several interviewees from both worker and employer groups commented on the extent to which low pay, including expectations of unpaid work in the sector, created barriers towards a sustainable

career. This is particularly true for those without the socioeconomic capital or generational wealth to insulate them from the challenges that come with low pay and insecure hours.

*“If you’re on a low income, if you’ve got caring responsibilities or if it’s a culture where you must work, you have to [have a paid job]. There should be other channels which people can get into the sector without having to volunteer first. And it usually means privileged people and those in the know get into that sector.” Lisa (worker).*

Another respondent commented that the lack of diversity prevented the sector from addressing low pay and insecurity.

*“Until people have more [...] connection to the lived experience of what it’s like to be in a low pay situation, the situation doesn’t resolve itself and we will blame it on other things [...]*

*but I think a fundamental issue is the fact that we do not realise our own privilege.”*

#### WHERE THE MONEY GOES

In organisations that rely on individual giving, there is a perception that donors prefer their money to be spent on charitable causes rather than on an organisation’s administrative costs.

One third sector leader explained the situation.

*“There is huge pressure within the third sector to manage the costs, and it’s a big thing around accountability to the public [...] that the majority of your money goes towards the mission of what you’re supporting [...]. It [...] drives pressure to keep costs as low as possible and it’s very uncomfortable for anyone in a trustee position or in a leadership position to say, ‘Well, our biggest cost is our staff’. Because there is a fear that people would be horrified by that. ‘What do you mean, you pay staff?’*

Given that third sector organisations tend to work with and advocate for communities who face marginalisation and hardship, in many cases directly linked to poverty and financial insecurity, low pay and insecure work in the sector should be a cause for concern.

Furthermore, without addressing issues surrounding low pay and job security, particularly given that those with protected characteristics are much more likely to be paid less than a Living Wage, the sector will continue to attract more people from economically privileged backgrounds. At the same time, it will reduce opportunities in the sector for those with lived experience of the issues many such organisations are working to address.

# 5 PUBLIC PERCEPTIONS OF THIRD SECTOR WORKERS AND THE LIVING WAGE

5. Public perceptions of third sector workers and the living wage

The interviews conducted for this research highlighted an assumption in the third sector that the public may not be wholly supportive of donations going towards staff salaries. For this reason, we commissioned Savanta ComRes to poll a representative sample of UK respondents on their perceptions of and attitudes to the third sector workforce. The survey focused on the extent to which the public value the third sector's work, with particular focus on whether those working in the sector deserve a real Living Wage.

**PUBLIC SUPPORT FOR A LIVING WAGE**

78 per cent of respondents thought all directly employed staff and third-party staff operating within the third sector should be paid the real Living Wage. This runs counter to the assumption in the sector that staffing costs should be kept to a minimum. The statement that ‘no staff working for third sector organisations should receive the real Living Wage’ was by far the least popular – selected by only 3 per cent of respondents.

Our polling sought to uncover the broader value ascribed to the sector beyond levels of pay. A large number of respondents recognised the value the sector provided during Covid-19 and reported high satisfaction rates when they engaged with third sector organisations during that time. Respondents were also asked their opinion on the value of the third sector to society, compared to the

public and private sector. The polling found that the public were more likely to consider workers in the third sector to be both ‘efficient’ and ‘hard working’ than those in the public sector, albeit, the public were most

likely to consider the private sector workforce as both efficient and hard working. Crucially, the vast majority also believed that workers in the sector should receive a Living Wage.

**Graph 12: Whether third sector employees should receive the real Living Wage UK, 2021:**



Source: Savanta ComRes Omnibus Polling of 2,156 UK adults (18+) online from 22-24 April.

## THE IMPACT OF BEING ON LOW PAY

We conducted interviews with 11 third sector workers who had previously been paid below the Living Wage in the sector, to uncover the impact of low pay and insecure work, and to understand the difference a Living Wage can make. All interviewees were asked the same questions centred on four key themes: their broad experiences of working in the third sector, low pay, insecurity of hours and Covid-19. Pseudonyms were assigned in recognition of the sensitive nature of the issues and concerns raised.

### COST OF LIVING CHALLENGES

Overall, low pay was cited in most of the worker interviews as being the main disadvantage of working in the third sector. Participants described how being paid below the Living Wage meant they were unable to plan ahead or think about the future.

*“In my experience [of] getting minimum wage, it’s a matter of just trying to survive, and using that wage for basic amenities and just for living really, and that’s all you can do.” Peter.*

Peter was not the only worker who spoke of all his focus being on the daily struggle to get by.

*“[I] had to count every penny [...] just to reach the basic standard for the gas, for the water, for the rent.” Frances.*

Paying the rent was mentioned by several interviewees as being a challenge for people on a low wage.

*“[I] had so much debt because you get a credit card [for] transportation, rent, family and things like that, and with minimum wage [...] your landlord [doesn’t] think about how much you get [...] they just put [up] your rent.’ Nicholas.*

### POOR PHYSICAL AND MENTAL HEALTH

Workers told us that focusing so intensely on survival had a negative impact on their physical and mental health.

*“It’s so stressful when you’re on a low pay that you’re having to check your bank balance all the time, constantly having to add things up in your head.” Bethan.*

This pressure can impact on workers’ wellbeing and self-worth, as Bethan goes onto explain.

*“You feel kind of down-trodden and undervalued and like there’s no hope, like you don’t know where to go with your life.” Bethan.*

Several workers expressed their frustration that zero-hour contracts meant they had to choose between turning down last-minute shifts or cancelling their social plans.

*“You cannot have a budget; you can’t plan your life with that [...] you’re [choosing] between going to make that money and letting your family down. So, it’s really hard [...] it causes depression sometimes.” Nicholas.*

## 5. Public perceptions of third sector workers and the living wage

In addition to the stress that comes with living from one pay packet to the next, there is a very real concern among some third sector workers that there may not even be a next pay packet. A common theme expressed in the interviews was the sheer amount of time workers spent worrying about whether they had enough shifts to cover the cost of living. When Emma was on a zero-hours contract, she described the “mental gymnastics” she had to do constantly to work out whether she had been assigned enough shifts to cover her living costs.

Another common concern that many interviewees spoke about, was the stress of having a role that relies solely on funding, and how this creates a real sense of insecurity.

*“If they decided to end a project, you wouldn't really get much notice because [to them] you're just a freelancer in the third sector.” Lisa.*

### FEELING DEVALUED

During our interviews, workers reported having high levels of skill, experience, and dedication to their profession but interviewees described feeling that was not reflected in their wages. The word “undervalued” came up repeatedly.

*“I had all different kinds of responsibility, so even though my title was Project Coordinator [...] it was kind of anything and everything, it was fundraising, it was admin, it was comms [...] you have to wear a lot of hats.” Maria.*

Nicholas found himself in a similar situation.

*“You don't get paid according to how you should get paid [...] It's like you're trying to do good but then the good you're trying*

*to do is actually affecting your own lifestyle.”*

The interviewees' dedication meant they often felt reluctant to say no to additional case work, because they saw it as letting their colleagues and clients down. The expectation of overwork and unpaid overtime was a recurring theme across the worker interviews. This practice sometimes pushed workers below the minimum wage threshold.

Anne, who worked in a charity shop, explained that she was paid for seven and a half hours work per day, which was the amount of time the shop was required to be open.

*“[...] before the shop could open, you'd always have to [...] get everything ready for the day. And afterwards, you'd have to cash up, which is quite a lengthy process [...] but that would all be in*

*your own time. So, I was often working at least an hour sometimes two a day extra [...] I was probably [paid] below minimum wage.”*

### CONSIDERING EXITING THE SECTOR

Because their wages were so low and their hours often not guaranteed, most of those interviewed had seriously considered moving to a job in the private or public sector. Bethan's experience was not unusual.

*“Even if it's a job I've really enjoyed [...] I'd be keeping an eye out for other jobs.”*

She went on to explain her “internal struggle.”

*“If I go to this other job, I'll make more money, but I might not be as happy with my actual job.”*

Job insecurity is another key motivation for people to consider leaving the sector. Frances, who now leads a team of third sector workers explained how it impacts her colleagues.

*“If they could find a permanent job with a higher pay [...] they're gone [...] [they] come here to gain the experience but if [they] can find better job and better pay, the people will go.”*

Despite many workers saying that they have been tempted to move sectors due to the low pay it was clear that they had strong attachments to their fields of work and had chosen their career because they cared about helping others. Workers spoke of the “positive impact” they were having in society.

*“[It is] a general feeling of helping something that's bigger than yourself.” Bethan.*

Emma told us about a time when she provided unfaltering support to an individual, going above and beyond her job role, and the impact this had on the individual.

*“He's now able to claim benefits. He's no longer in a position where he's relying on his social worker bringing him money or [on] foodbanks [...] that's priceless in a sense.”*

Emma also pointed out that some people do not consider joining the third sector in the first place because of low pay. This means that the sector risks not being able to draw on the best talent or retain experienced and skilled workers who care about doing good in the world.

All workers interviewed were extremely dedicated and passionate about their work and the difference they were making to their clients' lives. Not receiving the Living Wage led them to feeling unappreciated and disposable, which negatively impacted their wellbeing. In addition, the stress and pressure of not being able to afford life's basic amenities put a further strain on their physical and mental health and life outside of work. Considering that the third sector is designed to support communities facing barriers in their own lives, often linked to poverty, it is crucial that those supporting these communities are receiving a wage that they themselves can afford to live on.

# 6 WHY THE REAL LIVING WAGE MATTERS

## 6. Why the real Living Wage matters

### THE DIFFERENCE A LIVING WAGE MAKES TO WORKERS

#### MONEY FOR NECESSITIES AND SOCIAL ACTIVITIES

We asked the workers we interviewed what being paid the Living Wage means to them. They told us about its positive impact on their lives, giving them the freedom and flexibility to buy things they need, or to treat themselves or their family once in a while.

*“ [It’s about] you as an individual [having] a life outside of work and [your employer] understands that you need funds to be able to function and to have a good quality of life, and that obviously feeds into working life as well.” Erin.*

*“ The Living Wage has allowed me to have that [...] extra money to either go away for a weekend or to buy something that maybe you need, like beds and cookers.” Peter.*

Workers explained that the Living Wage has enabled them to do things that they had not been able to do before.

*“ We took [the children] to Blackpool last year. And that was the first time I managed to go somewhere [...] just with that bit of extra savings.” Aisha.*

#### IMPROVED ABILITY TO SAVE

Workers we interviewed frequently mentioned that the Living Wage allowed them to save money, which they could not do on a lower wage. Savings not only enable workers to cover unexpected costs that can crop up in everyday life, such as a broken boiler, but also to make significant changes to their lives. A number of interviewees reported that buying a house was now a realistic prospect.

*“ [Since accreditation] at least two staff members including myself are now going to be homeowners, and I don’t know if that would have been a consideration before.” Erin.*

#### IMPROVED PHYSICAL AND MENTAL HEALTH

Interviewees told us how more financial freedom, and not always having to worry about living from one pay packet to the next, has a positive impact on workers’ physical and mental health.

*“ For me, it was a big thing for my mental health not being able to go and do things or pursue things that I wanted to do in my life and to do outside of work. But I’d say that that changed since [the] Living Wage [...] having that just little bit more freedom.” Peter*



## 6. Why the real Living Wage matters

Other interviewees described how the Living Wage has positively impacted on their physical health. Emma explained that it has helped her to self-manage her health and attend medical appointments

### IMPROVED MORALE AND MOTIVATION AT WORK

Feeling more valued and appreciated was commonly felt by workers when they were moved onto the Living Wage. They reported that this also meant they valued their employer more, creating a positive cycle that opened up opportunities for them to excel in their jobs.

*“ [It’s the] feeling that the organisation you work with is trying to uplift you and is trying to support you [...] [It] improves the quality of life all around and that sense of satisfaction*

*and purpose and investment from the organisation [...] you can then put in your 100 per cent and know that you’re getting it back from your employer.”*  
Erin.

*“ You do feel more valued, and you’ve got a bit more money to enjoy life, earn more and plan for the future. So overall, it’s a brilliant thing [...] It makes such an impact on the staff’s wellbeing [...] you’re less likely to go elsewhere and look for other jobs.”*  
Bethan.

The Living Wage has clear benefits for workers. It frees people from worrying about whether they can cover the cost of bills, allows them to spend money on things they need and want, and to save. This impacts positively on mental and physical health and allows people to focus on doing their jobs to the best of their abilities.

# THE DIFFERENCE A LIVING WAGE MAKES TO EMPLOYERS

There is a growing body of evidence that highlights significant benefits for organisations that pay the real Living Wage, including increases in productivity, job retention, skills, motivation, work-life balance and health and wellbeing, as well as for the wider economy.<sup>28</sup>

## ECONOMIC BENEFITS

The 'Living Wage Dividend' report<sup>29</sup> showed how third sector organisations paying the real Living Wage are strengthening their broader social impact and contributing to the economic resilience of communities. It found that:

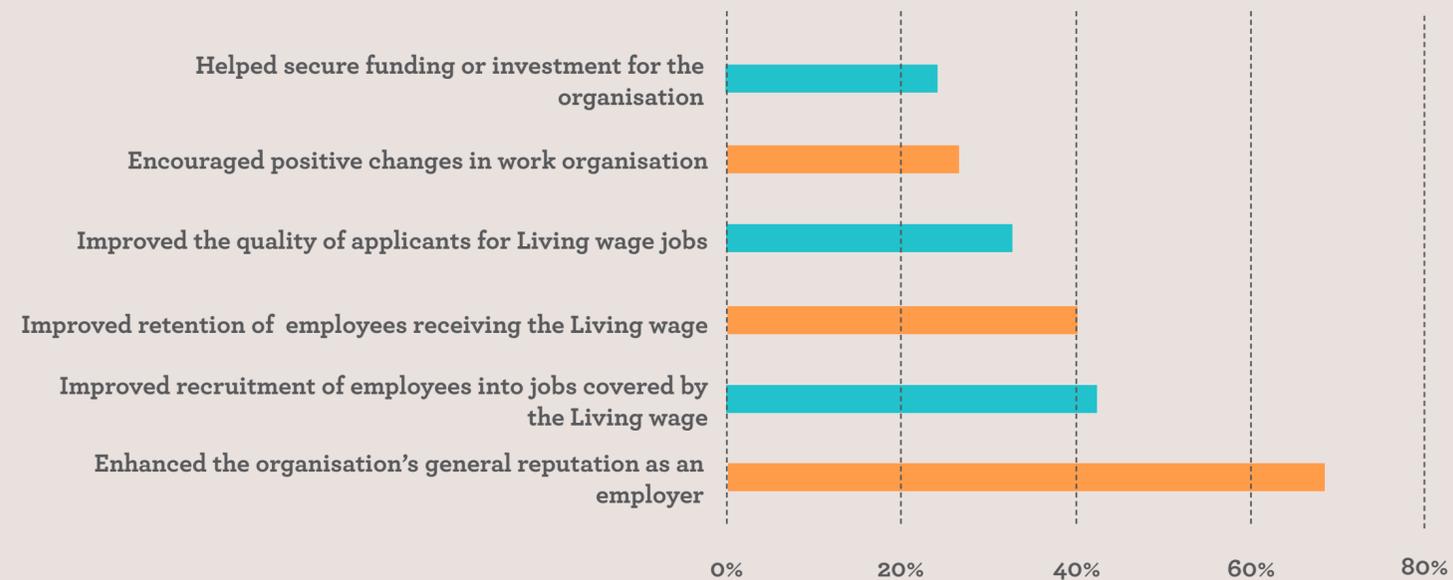
- If just a quarter of those on low incomes saw their pay raised to the real Living Wage, a subsequent increase in wages, productivity and spending could deliver a £1.5bn economic boost to the UK economy.

- An increase in Living Wage jobs could provide significant benefits to local economies, with 11 city regions, including London, Greater Manchester, Liverpool, Cardiff, and Glasgow, benefitting from a combined economic boost of almost £700m. These findings point to how third sector organisations paying the real Living Wage are contributing to the economic resilience of communities and strengthening their broader social impact by accrediting.



As shown in Graph 13, research conducted by Cardiff Business School for the Living Wage Foundation has highlighted the benefits of Living Wage accreditation to employers. The survey of 1,530 Living Wage Employers included 579 third sector organisations. Of these, 68 per cent agreed that accreditation enhanced their general reputation as an employer with improvements to recruitment, retention and broader positive changes in work organisation and ability to secure funding also being reported.<sup>30</sup>

**Graph 13:** Reported benefits of becoming accredited Living Wage Employers among third sector organisations, UK, 2021:



Source: Polling of 579 Living Wage Accredited employers who were defined as being in the 'third sector' between March-June 2021.



## LIVING THEIR VALUES

Most employers we interviewed told us it was a straightforward decision to accredit because it aligned with the values and mission of their organisation. They saw it as a basic element of being a good employer, which provided assurances to workers that their pay levels were protected and would increase year on year.

*“People need a baseline minimum income, and it needs to be a real Living Wage. It was just a no-brainer.” Employer.*

## MORALE

More than one accredited employer and funder told us about the ‘ripple effect’ following their decision to accredit.

*“The morale boost you get when you start paying your low*

*paid workers – well – you just can’t underestimate how that ripples through the whole organisation”. Employer.*

*“It empowers an organisation that is seeking funding from you to actually get their staff paid at a decent wage and that then empowers the organisation to have other conversations with other funders to say, ‘Look, I can’t have a pay disparity here where some of my support workers are paid at Living Wage and some of them aren’t because of who they’re funded by.’ It’s a ripple effect that is positive and it’s not much work [for us]. So, we really have no excuse for not doing it.” Funder.*

## SECTOR POSITIONING

Interviewees reported that accreditation improved their standing and enabled some of them to advocate for better pay and conditions in the wider sector.

## 6. Why the real Living Wage matters

*“Being a Living Wage Funder is a good tool through which, as a funder, you can positively influence people to think about pay and [...] we can also supplement the kind of influencing and encouragement with actual hard cash.”*

## HEALTH AND WELLBEING

Improved health and wellbeing as a result of paying a Living Wage was just as an important outcome for employers as it was for workers. Accredited organisations reported that employees were able to improve their physical health by working fewer hours and eating better. Increased financial security also improved their mental health and wellbeing.

### TACKLING INEQUALITY

Because certain demographics are more likely to be paid less than the Living Wage (see section 3), many third sector employers interviewed found that increasing pay tackled existing inequalities in their organisation and attracted a wider pool of candidates.

*“You’re addressing class and gender differences in salary, while at the same time bringing people into the organisation [who’ve] got to be attracted from other places of work into your place of work.”  
Social enterprise.*

### REPUTATION

Similar to the findings from the Cardiff Business School survey, organisations interviewed noted that their reputation improved, and that accreditation made them stand apart from other organisations. This was particularly the case for the social enterprises interviewed, with one noting the appeal of the Living Wage branding.

*“It’s just another of the difference between us and them... we can put in bids and tenders and we put it on social media for our customers [who] buy from us in part because they share our values.”  
Employer.*

### RECRUITMENT AND RETENTION

Organisations also experienced improved recruitment and retention.

*“[We were] very happy to see that other care agencies have adopted [the Living Wage] because it’s the only way they will attract people.”  
Social care organisation.*

*“Our retention is awesome [...] people who run warehouse type of environments have real problems with recruitment and retention of people, just nobody caring. I don’t have those sorts of problems.”  
Employer.*



In summary, our interviewees told us that, while paying the real Living Wage should be seen as part and parcel of the sector's commitment to social justice, the case for accrediting extends beyond the moral one. There are many noted organisational and economic benefits for employers that pay the real Living Wage. These findings show us that investing in people can improve an organisation's ability to attract, motivate and retain great employees, as well as improving the quality of life for individual staff members.

The employers interviewed believe that providing decent pay and working conditions is fundamental to tackling inequalities within the sector and beyond, given that these issues disproportionately affect those with

protected characteristics. They saw it as crucial to effectively delivering on their mission and rejected the view that it was in conflict with or channelling resources away from their cause or communities.

#### **THE BUSINESS CASE**

The CEO cited earlier whose frontline staff were low paid and had initially faced significant challenges to accrediting, including pressure from the board about keeping costs low. It took three years for this organisation to accredit, and despite the significant moral imperative, it was the financial argument that eventually won the board over. She was able to prove that not paying the Living Wage undermines organisational effectiveness and is

costlier for the organisation in the long run.

*“ [...we...] worked out [...] there was more money on pay-outs for staff sickness than it actually [cost] to put in place the Living Wage.” Employer.*

## **6. Why the real Living Wage matters**

# 7 CONCLUSION AND RECOMMENDATIONS

## 7. Conclusion and recommendations

The past two years have been marked by accelerated uncertainty and change for the third sector, during which it has shown remarkable resilience and innovation. With the unfolding cost of living crisis, organisations operating in an already resource constrained environment will continue to be challenged, with low paid workers hit hardest by spiralling costs. Against this shifting landscape, many third sector organisations and funders have been examining their own practice and impact within these wider systems.

At the time of writing, around a third of the 10,000 Living Wage accredited organisations are from the third sector, resulting in 32,000 workers pay rises that meet the cost of living. Over three-quarters of

accredited third organisations have less than 50 employees and within the third sector, charities are the fastest growing sub-sector. This is a strong base from which to build but as this report highlights, more needs to be done to tackle the 14.1 per cent of jobs that remain below the real Living Wage and which, crucially, are reinforcing inequalities for many underrepresented groups.

### KEY FINDINGS FROM THIS REPORT:

#### Low pay is a significant issue in the third sector:

- Whilst there have been some improvements in recent years, 1 in 7 jobs in the third sector still pay below the Living Wage.

- Changes to the funding landscape including the shift to commissioning of services can encourage a 'race to the bottom'. As third sector providers compete to cut costs and win contracts, this can hit those earning the least the hardest. This is not sustainable for the sector or its employees over the long term.

#### Low pay in the third sector reinforces inequality:

- Low pay in the third sector is not experienced equally. Those with certain protected characteristics are much more likely to be paid less than a Living Wage including women, disabled workers and certain racialised groups including those who are Black, Pakistani, Bangladeshi and those that identify

as 'Other' ethnic backgrounds. Without tackling low pay, the sector is at risk of perpetuating the inequalities and injustices it aims to address.

- Low pay is unevenly spread across ages, occupations, industries and geographies suggesting that a targeted approach to increasing Living Wage uptake across the sector is needed.



### Third sector organisations benefit from paying a real Living Wage:

- For employers the benefits of paying the Living Wage takes place on multiple layers. Employers report that paying the real Living Wage enhanced their reputation, improved retention and recruitment and helped secure future funding and increased productivity, motivation and morale.

### Public supports paying a real Living Wage in the third sector:

- There can be an assumption within the sector that paying staff well may not be supported by the public. Polling undertaken for this report suggest otherwise, as 78 per cent of respondents thought that all directly employed staff and third-party staff operating within the third sector should be paid the real Living Wage.

Our interviews with workers and employers, and public polling, have been clear. Decent pay and working conditions for workers are integral to the sector sustainably delivering and maintaining its social impact, rather than being peripheral to or in tension with it.

There is a real opportunity for the sector to step up and work together including through commissioning and funding models to do more to tackle low pay and poor conditions including targeting support where it is needed most.

The Living Wage Foundation's Living Wage accreditation, Living Wage Funder accreditation and Living Hours scheme are all critical benchmarks for tackling the risk of in-work poverty and entrenching inequality in the sector. As more charities start to think about their ESG (Environmental, Social and Governance) commitments, they also provide a critical way of demonstrating the 'S' in ESG criteria.

## 7. Conclusion and recommendations



# NEXT STEPS AND RECOMMENDATIONS

## THIRD SECTOR ORGANISATIONS

For organisations who are not yet accredited

- Accredit as a Living Wage Employer. This might mean making the case internally and with the board for how the Living Wage will contribute to Equality, Diversity and Inclusion (EDI) as well as organisational benefits from improved recruitment, retention and productivity. We can provide opportunities for accredited organisations to connect with their peers and support them in their journey.

Living Wage Employers

### CHAMPION THE LIVING WAGE

- Promote the Living Wage, by displaying the Living Wage

logo on your digital channels, in recruitment materials and on your premises.

- Celebrate Living Wage Week, the annual celebration and promotion of the achievements of the Living Wage movement that takes place every November.
- Host roundtables and other learning opportunities to promote the Living Wage within your sector
- Encourage funders to fund posts at the Living Wage and become Living Wage Funders.<sup>31</sup>
- Use the power of procurements and supplier relationships to promote the benefits of the Living Wage.
- Embed and communicate Living Wage accreditation within longer-term organisational Wellbeing and

Equality, Diversity and Inclusion (EDI) strategies. This can be done alongside broader work to ensure equitable and transparent pay structures at all staff levels, such as regular pay gap reporting, union engagement and other initiatives to tackle pay inequities, such as Show the Salary.<sup>32</sup>

### GROW THE LIVING WAGE IN YOUR LOCAL AREA

- Join relevant Living Wage Places<sup>33</sup> action groups which bring together communities and organisations choosing to work together to tackle low pay within their localities and contribute to targeted and inclusive growth.

## 7. Conclusion and recommendations

### BECOME LIVING HOURS ACCREDITED

- Accredit as a Living Hours employer to provide further security to part time staff and those on shift patterns. Increase the number of permanent full and part time contracts.

### ALIGN WITH RELEVANT CAMPAIGNS

- The Living Wage is a cross-cutting issue impacting poverty, health, equality and inclusion. It is important for third sector organisations who exist to tackle a range of wider inequalities within society to do more to champion Living Wage accreditation as all of these issues are interconnected.



## FUNDERS

Funders can enable Living Wage uptake through the grant-making process by accrediting as a Living Wage Funder. This sends a clear signal to grantees that they will be funded at the level needed.

### Suggested next steps for funders:

- Talk to grantees about the Living Wage and responsible employment wherever possible, recognising that moving to the Living Wage can be a journey, and signposting to the Living Wage Foundation for advice and support.
- Fund on a full cost recovery basis, to make it easier for charities to pay the Living Wage.
- Build in cost-of-living increases to multi-year grants.
- Collect and share case studies of how to implement the real Living Wage funding.

- **Targeted funding models:** Where possible, ensure that grassroots organisations and those represented by and working with marginalised groups, who have faced historic underinvestment that has limited their capacity to sustain paid staff, are prioritised to receive sustainable funding streams.

- **Long-term funding models:** Offer multi-year (three years or longer preferably) and unrestricted core support where possible, so that organisations can concentrate on strengthening their own infrastructure and workforce development, including cost of pay and conditions including Living Hours.

- **Use the power of investment:** Adopt wider strategies for helping to ensure a better future for workers in the sector and beyond. For example, trusts and foundations can screen their investment portfolios for decent pay and conditions including the Living

Wage and Living Hours<sup>34</sup>, and build alliances with grassroots movements and organisations working to create social change around pay and working conditions.

- **Living Wage funders can think about how to promote Living Hours** through their grant-making process.

## 7. Conclusion and recommendations



## COMMISSIONERS

Local authorities and public bodies that commission services significantly impact wages and working arrangements in the third sector. The Living Wage is a key component to delivering social value and building resilient local economies. Living Wage accredited Local Authorities can ensure they are also Living Wage Funders to avoid the risk of outsourcing low pay to third sector providers.

- Lead by example, ensuring that funding and procurement enables third sector employees to earn the Living Wage. For example, organisations can give favourable weighting to Living Wage bids
- Understand and communicate the organisational benefits of the Living Wage in delivering projects effectively, capturing what works well and sharing it.
- Local Authorities who are Living

Wage Funders should seek to engage in shared learning with other local authorities to support them to embark on this process. More information can be found here.

## SECTOR BODIES AND NETWORKS

- Third Sector Professional networks can provide guidance and practical case studies, in partnership with the Living Wage Foundation, on how third sector organisations can become Living Wage and Living Hours accredited.
- Trustee networks can raise awareness about the Living Wage, encouraging trustees to promote the Living Wage as part of responsible governance, tackling equality and inclusivity and in line with ESG goals.
- Target support for sectors, industries and groups where low pay is prevalent. The Living Wage Foundation can partner with organisations to explore barriers and share best practice.<sup>35</sup>

## 7. Conclusion and recommendations

WE WILL DEVELOP FURTHER RESOURCES TO SUPPORT THIRD SECTOR ORGANISATIONS TO ACHIEVE SOCIAL JUSTICE FOR WORKERS. IF YOU HAVE ANY QUERIES PLEASE GET IN TOUCH WITH US AT

[ACCREDITATION@LIVINGWAGE.ORG.UK](mailto:ACCREDITATION@LIVINGWAGE.ORG.UK)

# ANNEX

## METHODOLOGY AND DATA SOURCES

We used a number of different sources to develop this report. Unless stated otherwise, the data used in this report comes from one of the following sources.

### **ANALYSIS OF THE ANNUAL SURVEY OF HOURS AND EARNINGS (ASHE)**

To ascertain the overall levels of low pay in the third sector, we analysed Table 25.5a of the ASHE dataset, which collects the levels of pay across the three main sector groups (public, private and third) for all employees, with breakdowns by gender, working hours (e.g. full time and part time) and gender & working hours (e.g. full time men, full time women etc). The ASHE dataset uses the IDBR definition of third sector used throughout this report and is

the most comprehensive source of information on the structure and distribution of earnings and hours worked among employees in the UK. ASHE is based on a one per cent sample of employee jobs taken from HM Revenue & Customs (HMRC) Pay As You Earn (PAYE) records.

Unlike in other tables within the ASHE dataset, Table 25.5a does not produce published results detailing the number and proportion of UK jobs paid below the Living Wage by sector groups. As such, for this analysis, we estimate the proportion of jobs paid below the Living Wage within the third sector using the percentile distribution of earnings (the 10th, 20th, 25th, 30th, 40th, 50th (median), 60th, 70th, 75th, 80th and 90th percentiles are published). To

do this, we identify the percentile band within which the applicable Living Wage rate (London or UK) falls. We then interpolate the exact proportion of jobs that fall below this threshold, assuming that the distribution of earnings follows a linear trend between percentile points. This method is referred to as 'linear interpolation'.

We apply this proportion to the total number of jobs in each category to estimate the number of employee jobs paid below the Living Wage. We then sum results for each region and nation to derive UK-wide figures. This method does not allow us to estimate the number or proportion of jobs paid below the Living Wage in categories where the proportion is below 10 per cent, so estimates of

this nature should be treated with caution.

However, we know from previous research that the linear interpolation estimation approach produces very similar (but consistently slightly lower) results when compared to the ONS published results. As such, we adjust the estimates from our linear interpolations on low pay on the third sector using 'scale factors' based on the proportional difference between estimated and published results for each region in the relevant year. Scale factors are calculated by dividing the published results by the ONS by the results derived from the linear interpolation model for each region of the UK.<sup>36</sup>

## ANALYSIS OF THE QUARTERLY LABOUR FORCE SURVEYS

Despite the ASHE dataset being an authoritative source for examining low pay, there are limited crossbreaks in the data – for instance, the dataset does not have ethnicity or disability flags. As we wanted to get a comprehensive overview of low pay across the third sector, we used the Labour Force Survey (LFS) alongside the ASHE dataset to evaluate how pay in the third sector is distributed across different ethnicities, age groups, sectors, occupations, and organisations of different sizes.

However, this does present methodological challenges. Firstly, across the economy as a whole, not just the third sector, the LFS presents a higher proportion of jobs paid below the Living Wage than the ASHE data. This is due

to derivation issues within the LFS. Unlike ASHE, the LFS asks respondents to self-report income based on how they are paid – i.e., by hour, week, or month. A minority of respondents report their pay hourly, and for those that do not, the hourly pay variable in the LFS is derived from the amount of pay respondents receive divided by the number of hours typically worked per week.<sup>37</sup> Consequently, those that work more than their contracted hours, such as for unpaid training, work events or those that typically work longer than their contracted office hours, will have a derived hourly pay that is lower than their official rate. The ASHE survey, on the contrary, samples from business' own PAYE systems, and so avoids derivation issues. Therefore, to avoid providing inaccurate and inconsistent results, we have scaled the LFS figures to the ASHE by using standard re-

weighting techniques, essentially pegging LFS data from Q2 of each year (when the ASHE data is collected), with the ASHE data from that year. This has allowed us to study the scale of low pay in the third sector across a comprehensive set of crossbreaks without sacrificing accuracy and consistency across the report.

Samples within the LFS for third sector workers who report their pay through an hourly rate are also limited – around 1500 a year – making robust analysis across additional crossbreaks (i.e., third sector workers by industry; ethnicities or age groups) impossible while using data from 2021 only. We therefore used data from all quarters from the years 2016-2021 when studying low pay in the third sector. However, because low pay has declined across the sector – and the economy as a

whole – in the past five years, results from the five-year sample present slightly higher levels of low pay than for the year 2021. To avoid artificially inflating the below Living Wage figures from the LFS, we have scaled the figures down by dividing the percentage of below Living Wage jobs from the (re-weighted) LFS from 2016-2021 by the total from the ASHE dataset for the year 2021, and then multiplying each figure used in the LFS by the difference. For example, if when we ran the analysis on disability and the Living Wage, the total number of below Living Wage jobs across both the disabled and non-disabled population was 16.8 per cent, according to the LFS (2.7 percentage points higher than in the ASHE data – 14.1 per cent). To bring back in line with ASHE figures, we divided that 16.8 per cent by the figure in the ASHE data (14.1 per cent) and multiplied the below



Living Wage figure for disabled and non-disabled workers by the difference (around 0.83).

Finally, there is also the issue that the LFS does not have the same definition of third sector as that in the ASHE spreadsheet. We have therefore had to derive a third sector variable using the 'type of non-private organisation' variable within the LFS (SECTOR03) and carrying forward; 'Charity voluntary organisation' 'University' and 'Other kind of organisation'. These are all within the IDBR/ASHE definition of third sector, but due to the way the data is collected, there is a slight drop off in the estimated employee base in the LFS (around 1.3m compared to 2.4m in the ASHE dataset).

As a result of all these factors, figures in this report from the LFS should be treated with some caution. That said, we are confident that our approach

is a robust way of synthesising the breadth of analysis available through the LFS while retaining the accuracy that comes with using the ASHE datasheet.

#### **ANALYSIS OF POLLING BY SAVANTA COMRES**

To inform the section regarding public perception of third sector workers, we commissioned Savanta ComRes to poll a sample of 2,156 UK adults (18+) online from 22-24 April 2022, on their levels of engagement with, and how they perceive third sector workers, with comparison to the other two sector groups (public and private). Data were weighted to be representative of population by age, gender, region, and socio-economic characteristics such as social grade. Savanta ComRes is a member of the British Polling Council and abides by its rules.

#### **ANALYSIS OF ACCREDITED LIVING WAGE EMPLOYERS IN THE THIRD SECTOR BY CARDIFF BUSINESS SCHOOL:**

Data on the impacts of paying the Living Wage comes from a survey of Accredited Living Wage Employers, conducted in the spring of 2021. The survey questionnaire was sent out to approximately 7,000 employers who had accredited by the end of 2020 and asked about various aspects of their experience of paying the Living Wage. The questionnaire also sought information on how employers had fared during the COVID-19 pandemic. Over 1,530 employers responded to the survey, 579 of which were third sector employers. Results cited in this report come from the 579 third sector organisations alone.

### QUALITATIVE INTERVIEWS WITH EMPLOYERS

Semi-structured interviews took place with six accredited Living Wage Employers, with the aim to understand their experience of implementing the Living Wage and what they thought the contributors to low pay and insecure work in the sector might be. All interviews were conducted with the executive directors or chief executives of those organisations.

The organisations were comprised of two grant makers, one of whom was a Living Wage Funder, two infrastructure organisations and two small social enterprises, who were mixed geographically and in terms of size. Interviews were conducted online, recorded and transcribed verbatim. Analysis is thematic and involves both within-case and cross-case comparisons. Due to the sensitive nature of some

of the issues and concerns discussed and observed in the research, case studies have largely been anonymised.

### QUALITATIVE INTERVIEWS WITH EMPLOYEES

Semi-structured interviews took place with eleven workers, all of whom were previously paid below the Living Wage in the sector, with the aim of uncovering the impact of low pay and insecure work, and to highlight the difference a Living Wage can make to workers in the sector.

All eleven workers were asked the same questions centred on four key themes: their broad experiences of working in the third sector, low pay, insecurity of hours and the impact of Covid-19.

The sample was diverse in terms of ethnicity, age and geography; however, a weakness of the sample

was the predominancy of female participants, with nine out of the eleven interviewed identifying as female. This was largely due to the challenge of securing male interviewees but also a reflection of the sector being largely female. Interviews were conducted online, recorded and transcribed. Analysis is thematic and all interviewees were assigned pseudonyms as requested and due to the sensitive nature of the issues and concerns raised.



# ACKNOWLEDGEMENTS

We are grateful for the thoughts and insights from our external reviewers which much improved our report: **Matt Whittaker** (Pro Bono Economics) and **John Hume** (People's Health Trust).

We are also grateful to **Liz Barling** for her formal review of the report, and to **Savanta ComRes** for their polling work used in the report. Finally, we would also like to thank the employees and employers that were interviewed for this report, who, for confidentiality purposes, remain anonymous.

# REFERENCES

1. Martin, A (2021) What's missing? Evaluating social sector data gaps. London: Commission on Civil Society and Pro-Bono Economics.
- 2 Other includes respondents in Northern Ireland identifying themselves as 'Irish Traveller' and respondents in all UK countries identifying themselves as 'Arab'.
- 3 We recognise Universities are not always considered as part of the third sector, but as we use the ASHE data to analyse low pay by sector group, we are unable to separate them from the other groups within the third sector category.
- 4 Hill, M (2010) The role of the charitable sector in strengthening civil society. London: House of Lords Library Note.
- 5 See reference 1.
- 6 Cominetti, N, McCurdy, C and Slaughter, H (2021). Low pay Britain 2021. London: Resolution Foundation.
- 7 Charity Commission (2021) Covid-19 Survey 2021. .
- 8 Richardson, J & Mahmoudi, Y (2021) Low pay in the third sector. London: Living Wage Foundation.
- 9 Richardson, J (2021) Employee jobs below the Living Wage. London: Living Wage Foundation.
- 10 Gov.co.uk (2022) National Minimum Wage and National Living Wage rates.
- 11 See reference 9.
- 12 We use ONS Ethnicity Variable ETHUKEUL, which classifies ethnic groups into 9 categories:
  - (1) White
  - (2) Mixed/Multiple ethnic groups
  - (3) Indian
  - (4) Pakistani
  - (5) Bangladeshi
  - (6) Chinese
  - (7) Any other Asian background
  - (8) Black/African/Caribbean/Black British
  - (9) Other ethnic group\*\*
- \*\*Other includes respondents in Northern Ireland identifying themselves as 'Irish Traveller' and respondents in all UK countries identifying themselves as 'Arab'.
- 13 Inclusive boards (2018) Charities: Inclusive Governance.
- 14 Larkham, J (2022) Inequality in civil society: the data.
- 15 We define 'disabled workers' as those who are in work and have a disability as recognised by the Equalities Act 2010.
- 16 NCVO (2019) Small charities: key findings from our data.
- 17 Richardson, J. (2021) An Insecurity Complex: Low paid workers and the rise of insecure work. We define insecure work as workers who meet one of these characteristics: 1. People in non-permanent work (casual, seasonal jobs, fixed term and agency) excluding anyone who said they did not want a permanent job. 2 People who self-report volatile pay and hours including those on zero hours contracts. 3 People who self-report constant pay but volatile hours. 4 Low paid self-employed people. Low paid insecure work is defined as those who meet one of the above criteria while also being paid less than the real Living Wage. Those that meet more than one of these characteristics were not double counted. For more information, see methodology section of 'An Insecurity Complex: Low paid workers and the rise of insecure work'.
- 18 ONS (2021). Average weekly earnings in Great Britain: January 2022 & A, Collinson (2021) A tale of two pandemics: low paid workers hit hardest by Covid class divide.
- 19 Ellis Paine, Angela; Macmillan, Rob (2019) Telling tales of commissioning: insights from a qualitative longitudinal study of third sector organisations. Third Sector Research Centre Working Paper 145



20 Small Charities Data (2020) Government funding to small charities.

21 The Ubele Initiative (2021) Booska Paper: exposing structural racism in the third sector.

22 King, D et al. (2022), Respond, Recover, Reset: Two Years On, Nottingham Trent University, Centre for People, Work and Organisational Practice

23 Ibid.

24 Social Enterprise UK (2021) State of Social Enterprise Survey 2021.

25 Oxfam (2017) Why is women's work low-paid.

26 Living Wage Foundation analysis of Annual Survey of Hours and Earnings, 2021.

27 Clarke, Nita (2008) The Way Ahead trade unions and the third sector.

28 Barford et al ( 2022 ) The Case for Living Wages: How paying Living Wages improves business performance and tackles poverty.

29 Hunter,P[2021] The Local Living Wage Dividend - London: Smith Institute of the Living Wage Foundation

30 Analysis of Cardiff Business School 2021 survey of Living Wage Foundation network, full report to be launched in July 2022.

31 For more information on Living Wage Funders, see: <https://www.livingwage.org.uk/living-wage-funders>

32 For more information on 'Show the Salary', see <https://showthesalary.wordpress.com/about/>

33 For more information on 'Living Wage Places', see <https://www.livingwage.org.uk/living-wage-places>

34 Martin, A and Sino, M (2021) Endowing Labour - Using foundation sector capital to improve the rights of labour. PIRC and Alex Ferry Foundation.

35 Living Wage Foundation (2021) The Living Wage in Social Care: a toolkit for social care providers and local authorities commissioning care.

36 For more information on the linear interpolation model, see the Methodology section of: Richardson, J (2021) 'Employee jobs below the Living Wage - 2021'.

37 More information on the LFS income measures can be accessed here: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/methodologies/labourforcesurveyuserguidance>



LIVINGWAGE.ORG.UK  
@LIVINGWAGEUK

