

The economic impact of SSE's supply chain Living Wage commitment

A KPMG Report commissioned by SSE

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About the study

Approximately
6 million
jobs pay less than
Living Wage in the UK¹



The Living Wage

The Living Wage is an hourly rate set by the Living Wage Foundation that is calculated to reflect a 'true' cost of living in the UK. Unlike the national minimum wage, the Living Wage is calculated as an hourly rate that takes into account the costs of housing, bills, food and work travel.

The voluntary commitment to pay employees a Living Wage was formally introduced in 2008 in London and in 2011 across the rest of the UK.

The 2015 Living Wage rate in London is set at £9.15 per hour and £7.85 per hour for the rest of the UK. The new rate, to be implemented by May 2016, will be set in November 2015.

According to the Office for National Statistics (ONS), approximately six million jobs pay less than the Living Wage in the UK¹. This equates to approximately one in four jobs.

SSE's Living Wage Commitment

In September 2013, SSE became an accredited Living Wage employer. At the time, it was the largest company in the FTSE 100 and the only energy company to meet the Living Wage Foundation's criteria for accreditation².

As part of its Living Wage accreditation, SSE is phasing in the Living Wage across its £2.2 billion supply chain. In April 2014, SSE introduced the 'Living Wage Clause' in its new supplier contracts, requiring that its suppliers pay all staff: "... who are directly employed by the Supplier... not less than the Living Wage for the terms of the contract ..." provided the work undertaken meets the Living Wage eligibility criteria. The eligibility criteria requires employees to work on SSE site for at least two hours a day for at least eight consecutive weeks³.

Although SSE is introducing this Living Wage Clause into new contracts, it does not yet apply to all supplier contracts because a large number of existing suppliers were contracted prior to 1 April 2014. However, based on contract end dates for framework contracts, SSE estimates that approximately 10% of SSE supplier spending will be with suppliers with the Living Wage Clause in their contracts by April 2015, approximately 50% by April 2016, approximately 90% by April 2017, and by December 2020 100% of SSE supplier spending should be with suppliers with the Living Wage Clause in their contracts.

KPMG's study

In order to understand the potential impact of the introduction of the Living Wage Clause in its supplier contracts, SSE commissioned KPMG to conduct an analysis to estimate the number of employees that would benefit when it is fully implemented across SSE's Tier 1 (direct) supply chain by the end of 2020 and the financial gain for those employees benefiting in FY2014/15.

¹ ONS, London- Estimates of proportion of jobs paying less than the Living Wage

² SSE: <http://sse.com/newsandviews/allarticles/2015/05/sse-features-in-bbc-scotland-living-wage-programme/>

³ The full SSE Living Wage contract clause is set out in the Technical Appendix.

The economic impact of SSE's supply chain Living Wage commitment

In Financial Year (FY) 2014/15, SSE's £2.2 billion annual global supply chain covered the procurement of a wide range of goods and services from suppliers across a broad range of sectors, from the manufacturers providing the blades for turbines at its windfarms to cleaners providing services at construction sites.

Based on the findings of analysis conducted for SSE covering the last four years¹, SSE's supplier spending in FY2014/15 can be considered 'typical' of other years. Over the period FY2011/12 to FY2014/15, its contribution to the UK economy in terms of Gross Value Added (GVA) has been reasonably stable, and we understand from SSE that the proportions of spending with suppliers in different sectors has also remained broadly stable. Therefore, we consider it reasonable to base our analysis on the FY2014/15 supplier data.

Although SSE spent £2.2 billion with suppliers in FY2014/15, not all of the supply chain will be affected by the Living Wage Clause.

As SSE's Living Wage Clause extends to people working on its sites in the UK for a certain period of time, it does not apply to suppliers operating outside the UK. Supplier spending on goods will not be affected as it does not involve supplier employees working on SSE sites. And further supplier spending will not be affected, where the supplier provides services but without employees working on SSE sites. This includes suppliers providing membership or licences, or where the contract value is below the level at which any supplier employees would be paid for working on SSE sites for at least 2 hours per day for at least 8 consecutive weeks.

We estimate that approximately 42% of SSE's supply chain (£923 million of supplier spending) will be affected by the requirement of suppliers to pay their employees a UK Living Wage².



800
full-time employees
will be positively impacted
each year by end-2020...



Each earning
higher wages for
1,575 hours

How many of SSE's suppliers' employees will benefit?

We estimate that there are approximately 6,010 full-time equivalent (FTE) employees in SSE's Tier 1 (direct) suppliers providing services to SSE under contracts affected by the Living Wage Clause³. The 6,010 FTEs is the number of supplier employees working full-time for the full financial year on SSE contracts for the £923 million of affected supplier spending.

However, only a limited proportion of these supplier employees will be earning below the Living Wage.

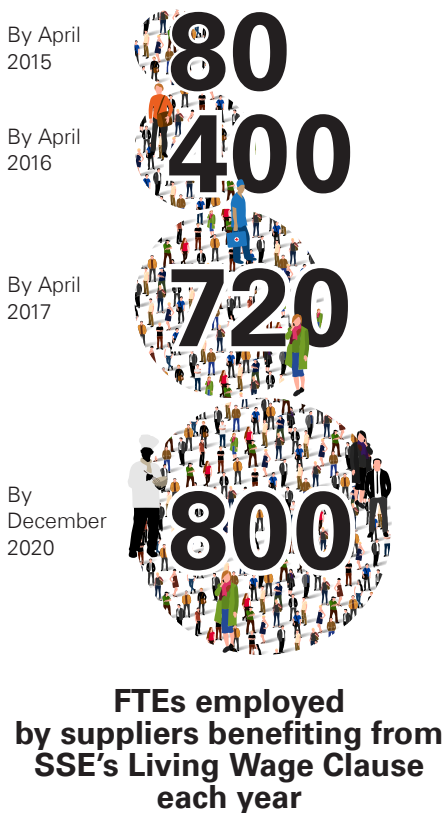
The ONS estimates the proportion of jobs paying less than the Living Wage at the 2-digit Standard Industry Classification (SIC) level. For example, it estimates that 8% of employees in the construction sector (outside of London) earn less than the Living Wage. Applying these ONS proportions of employees earning below the Living Wage to the number of employees by sector in SSE's suppliers affected by the Living Wage Clause, we estimate that by December 2020 the equivalent of approximately 800 full-time employees will be positively impacted each year when SSE's Living Wage Clause is rolled out across 100% of all supplier contracts.

This is equivalent to 800 supplier employees working full-time on SSE sites for the full financial year, earning higher wages for each of the 1,575 hours they each work for SSE by the end of 2020³. And equivalent to just over 13% of employees benefiting across all suppliers affected by SSE's Living Wage Clause.

¹ PwC, SSE's Economic Contribution to the UK, Scotland, and the Republic of Ireland, May 2014, December 2014, May 2015.

² For more information on how the dataset for SSE's relevant Living Wage supply chain was created, please refer to the Technical Appendix.

³ This is based on a 35 hour week and 225 days of work a year (253 working days less 28 days of statutory leave entitlement)

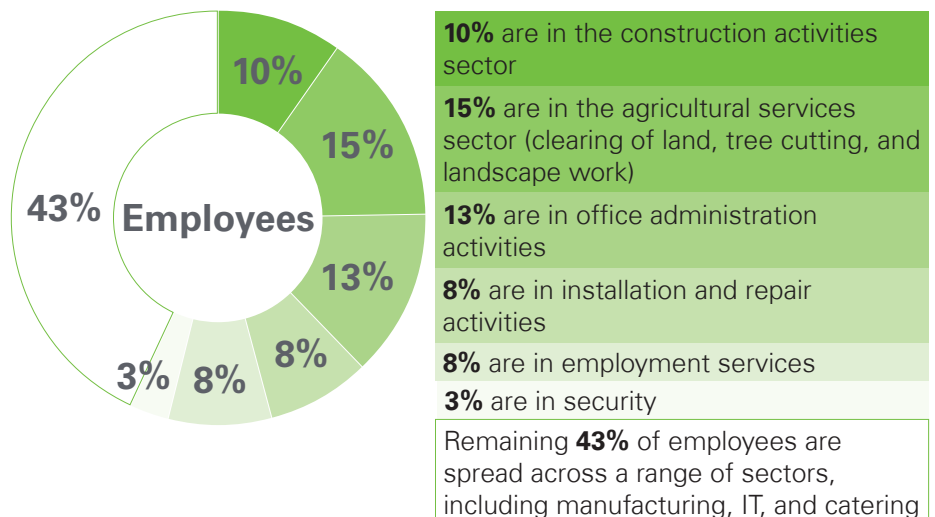


Given that SSE is in the process of introducing the Living Wage Clause into new contracts with suppliers, we estimate that:

- between **1 April 2014 and 31 March 2015**, the equivalent of **80 full-time employees** will have received a pay increase as a result of SSE's Living Wage Clause;
- between **1 April 2015 and 31 March 2016**, the equivalent of **400 full-time employees** will have received a pay increase as a result of SSE's Living Wage Clause;
- between **1 April 2016 and 31 March 2017**, the equivalent of **720 full-time employees** will have received a pay increase as a result of SSE's Living Wage Clause; and
- between **1 April 2017 and end-December 2020**, an additional 80 full-time employees will have received a pay increase as a result of SSE's Living Wage Clause, taking the total to **800 full-time employees each year**.

As these estimates are based on full-time employees working on SSE sites for the full financial year, the actual number of individuals benefiting could be higher, given that many SSE supplier contracts may not run for a full year, or involve individuals working full-time on SSE related activity. For example, SSE direct suppliers could have two employees working full-time for six months of the year each, which would equate to one full-time equivalent for the year in our estimates. Our estimates provide the minimum number of individuals benefitting from SSE's Living Wage Clause.

And if SSE's supplier spending changes over this period, the number of full-time employees benefitting from the Living Wage Clause may also change.





Individuals working for SSE's suppliers across a range of sectors will be positively impacted. Of the full-time employees that we estimate will benefit: Further employees may also be affected by the Living Wage Clause as for some SSE projects, particularly large capital projects, SSE suppliers may employ a range of subcontractors to fulfil elements of their contract. These subcontractors may sit within other, potentially lower paid, industries than the main supplier, and when the Living Wage Clause is applied to these subcontracts (as the SSE contract term requires) more employees may benefit. It was not possible to analyse this in our study due to data constraints. However, for illustration purposes, based on one supplier contract we understand that while the main supplier sat within the construction sector, 22% of the contract value was provided by subcontractors in the engineering sector and a further 12% by subcontractors supplying architectural services. These are both sectors with very different proportions of employees earning below the Living Wage when compared to the industry of the main contracting supplier.

And how much do they stand to benefit by?

Using the 2014 Annual Survey of Hours and Earnings (ASHE), we have calculated an average wage uplift for employees benefiting from the Living Wage by sector.

We estimate that, on average, the full-time employees in SSE suppliers benefitting from the Living Wage Clause in **FY2014/15** would see an approximate **increase in wages of £1,030** a year, representing a **10% wage uplift**.

This is equivalent to each of these 80 supplier employees working full-time on SSE sites for the full financial year, earning an additional 65 pence per hour for each of the 1,575 hours they each work for SSE each year.

The wage uplift varies across the sectors the suppliers' employees work in. For example, the average annual salary increases for those employed in the security, construction and office administration activities sectors are £1,160, £1,100 and £1,030 respectively.

Given uncertainties about changes over time in the Living Wage and in the wage distribution of those individuals earning below the Living Wage (particularly in light of the introduction of the national living wage in April 2016¹), we do not analyse the potential financial gains for supplier employees benefitting from the Living Wage Clause in future years.

Concluding Remarks

In 2013, when SSE signed up as a Living Wage employer, it committed to pay its nearly 20,000 direct employees a wage at least high enough to cover the basic cost of living. SSE estimates that 158 of its employees have benefited from an increase in their salary to the Living Wage as a direct result².

Through extending its commitment through its supply chain, we estimate that when a Living Wage Clause is in place across all of SSE's supplier contracts by December 2020, each year the equivalent of 800 full-time employees in SSE suppliers will each benefit from an average annual salary uplift. For employees benefitting in FY2014/15 this was £1,030.

¹ From 1 April 2016 From April 2016, the government will introduce a new mandatory national living wage for workers aged 25 and above, initially set at £7.20 per hour. The National Minimum Wage will continue to apply for those aged 21 to 24.
² <http://www.livingwage.org.uk/living-wage-champion-awards-2015>

Technical Appendix: Approach taken to quantifying the impact of SSE's supply chain Living Wage commitment

1. The Living Wage and becoming an accredited Living Wage Employer

The Living Wage is a voluntary arrangement to pay a higher rate of base pay. It "...provides a benchmark for responsible employers who choose to pay more than the National Minimum Wage..." by taking into account the basic cost of living in the UK¹.

The Living Wage²:

- applies to all staff who work regularly on an employer's site (i.e. staff who work on site for a minimum of 2 hours a day for 8 or more consecutive weeks of the year);
- applies to everyone over the age of 18;
- does not apply to volunteers, apprentices and interns; and
- does not apply to contractors on the supply side, e.g. stationary suppliers, or third party contracted staff outside the UK.

The Living Wage accreditation is "...a signed licence between the [Living Wage] Foundation and the employer."

To become a Living Wage accredited employer, an employer must pay directly employed staff the Living Wage and have an agreed plan in place for third party contracted staff (e.g. catering and facilities management) who meet the Living Wage eligibility criteria. For large employers with existing contracts, a phased implementation of the Living Wage in to supplier contracts can be adopted.

2. SSE's Living Wage Clause

SSE in the process of a phased implementation of the Living Wage in to its new supplier contracts. This process started on 1 April 2014.

SSE's Living Wage Clause states:

"The Supplier agrees to (a) pay all its personnel who are directly employed by the Supplier in respect of the Services or Works, and (b) ensure all employees of its contractors and sub-contractors performing the Services or Works are paid not less than the Living Wage for the term of the contract provided the following conditions are met:

The employees, contractor or sub-contractor (as applicable) engaged in the provision of the Services or Works (excluding apprentices and interns):

1. is aged 18 or over;
2. works on the Purchaser's premises, and/or any site or property which is not directly owned or in control by the Purchaser (and such premises are based in the United Kingdom);
3. works for at least 2 hours in any working day; and
4. works for at least 8 consecutive weeks in any calendar year.

The Supplier agrees to implement any change to the Living Wage by the LW Implementation Date.

The Purchaser may request, and the Supplier provides the Purchaser with all of the information the Purchaser requires (acting reasonably) to confirm the Supplier's compliance with this clause.

In the event of non-compliance with this clause by the Supplier, the Supplier shall act to resolve any non-compliance and will resolve in accordance with the Purchaser's instructions, where these are issued, to resolve any non-compliance, which shall include backdating any applicable payments to the LW Announcement Date. The backdating of payments shall be undertaken entirely at the cost of the Supplier, and the Supplier shall have no right to recover such costs of non-compliance or the costs of resolving non-compliance from the Purchaser. In the event the Supplier has not resolved the non-compliance within a reasonable time (as determined by the Purchaser in its sole discretion), the Purchaser shall be entitled to cancel this Order in accordance with Clause 24."

¹ <http://www.livingwage.org.uk/living-wage-champion-awards-2015>

² <http://www.livingwage.org.uk/faq#n1584>

3. Identifying supplier spending for which SSE's Living Wage Clause may apply

SSE data indicates that it spent approximately £2.2 billion with suppliers in FY2014/2015.

We assume that SSE's supplier spending in FY2014/15 is representative of its supplier spending (both in terms of the level of spend and the suppliers it procures from) and, therefore, can be treated as a 'typical' year. We agreed with SSE that this is a reasonable assumption to make given that analysis conducted for SSE covering the last four years¹, indicates that its UK GVA contribution has remained reasonably stable, and we understand from SSE that the proportions of spending with suppliers in different sectors has also remained broadly stable.

Although SSE spent approximately £2.2 billion with suppliers in FY2014/2015, a proportion of the suppliers it contracted with would be unaffected by the inclusion of the Living Wage Clause. Therefore, this spend was excluded from the analysis. Details of the excluded spend and the reasons for the exclusion are outlined below:

- Spending with non-UK suppliers: excluded as the Living Wage only applies in the UK.
- Spending on goods: excluded as spending on goods would not involve any supplier employees working on SSE sites.
- Spending with suppliers that are SSE subsidiaries (SSE Contracting Ltd, SSE Energy Solutions Ltd, SSE Energy Supply Ltd, SSE Generation Ltd, SSE Home Services Ltd, SSE Metering Ltd, SSE Renewables Development (NI) Ltd, SSE Metering Ltd, SSE Renewables Development (UK) Ltd, SSE Utility Services Plc): excluded as although these subsidiaries are treated as suppliers in terms of contracting, for Living Wage purposes the employees are considered direct SSE employees and so would benefit from SSE's Living Wage employer commitment rather than the supply chain Living Wage Clause.

- Spending below a minimum contract value, estimated for each supplier SIC code based on the median wage for 80 hours of work using Annual Survey of Hours and Earnings (ASHE) data: excluded as for contracts under this value it would not be possible for suppliers to pay an employee to be on SSE sites for 2 hours per day for 8 consecutive weeks (as per the Living Wage eligibility requirements) unless it was a loss-making contract. We assume it would not be loss making so the Living Wage Clause would not apply to this contract.
- Spending under invoice descriptions where it was assumed, based on a review of a descriptions and discussions with SSE's procurement team, that the provision of the service would not involve supplier employees being on SSE sites (e.g. spending on membership fees, licences and sponsorship fees): excluded as the Living Wage eligibility requirements would not be met.

Following the exclusion of this supplier spending from the SSE data, £923 million of spend with SSE Tier 1 suppliers that we consider will be affected by SSE's Living Wage Clause remained.

4. Estimating the number of employees in SSE's direct suppliers affected by the Living Wage Clause

Having identified the supplier spending that may be affected by SSE's Living Wage Clause, and identifying the spending by supplier SIC code, we estimated the number of employees affected by the SSE Living Wage Clause at its Tier 1 suppliers (i.e. direct suppliers to SSE). This was based on estimating the GVA associated with the supplier spending using the GVA to output ratios for each SIC code derived from analysis of the ONS's Blue Book data. We then used ONS data on the average GVA per employee by SIC code to derive the number of indirect employees in SSE's suppliers.

To estimate the proportion of these supplier employees that may be earning below the Living Wage (and so benefit from SSE's Living Wage Clause), we applied the ONS proportions of employees earning below the Living Wage in the UK (excluding London) at the 2-digit SIC sector level where possible. ONS data for the UK (excluding London) was used given that we understand that the majority of SSE's supply chain is located outside London.

¹ PwC, SSE's Economic Contribution to the UK, Scotland, and the Republic of Ireland, May 2014, December 2014, May 2015.

Where data did not exist (due to lack of statistical reliability) at the 2-digit SIC level we used the ONS aggregated dataset (at the 1-digit SIC level).

No ONS data on the proportion of employees earning below the Living Wage was available for Mining and Water/Electricity Management. For these sectors we assumed 0% of employees earn less than the Living Wage as both sectors have relatively higher hourly wages in the lowest decile (greater than £9/hour). By assuming that 0% of employees are below the Living Wage in these sectors, we consider that our estimates are conservative.

Our analysis assumes that the proportion of jobs paying less than the Living Wage by sector will remain constant over the period in which SSE's Living Wage Clause is rolled out.

5. Estimating the financial benefit for employees in SSE's direct suppliers affected by the Living Wage Clause

We estimated the financial benefit for employees affected by SSE's supplier Living Wage Clause using wage distribution data from ASHE (2014).

In order to do this, we determined the differential between the estimated current wage of affected employees (across the wage distribution) and the Living Wage (outside London) to give an estimated hourly wage uplift for each sector at the 2-digit SIC level. The estimated wage uplift was calculated using wage distribution data at the decile level to give us a weighted average hourly uplift by sector. Where data at the 2-digit

SIC level was unavailable, we used the weighted wage uplift at the 1-digit SIC level. Where this did not exist, we took the conservative approach of assuming a zero uplift (this only affected a very small number of sectors).

Our analysis focuses on the financial gain to those supplier employees benefitting from the SSE Living Wage Clause in FY2014/15 only.

Given uncertainties about changes over time in the Living Wage and in the wage distribution of those individuals earning below the Living Wage (particularly in light of the introduction of the national living wage (NLW) in April 2016), we do not analyse the potential financial gains for supplier employees benefitting from the Living Wage Clause beyond FY2014/15.

Our analysis also assumes that there is 100% compliance with the Living Wage Clause in supplier contracts. Although no evidence is required from suppliers that they are paying the Living Wage to their employees working at least 2 hours per week for at least 8 consecutive weeks on SSE sites, failing to do so would be considered non-compliance with the contract.

6. Data sources

Our analysis is based on data and information from a range of sources, both internal to SSE and publicly available. The table below sets out the key statistics, the sources for these and notes about the data.

Statistic	Source	Notes
Proportion of employee jobs in the UK excluding London paid less than the Living Wage in 2014, by industry division	ONS	Data published 16th October, 2015
London Analysis- Estimates of employee jobs paid less than the Living Wage in London and other parts of the UK	ONS	Data published 12th October, 2015
Annual Survey of Hours and Earnings	ONS	Data published 19th November, 2014
The Blue Book 2014	ONS	Data published 31st October, 2014
GDP Low Level Aggregates	ONS	Data published 30th September, 2015
Business Register and Employment Survey	ONS	Data published 24th September, 2015
SSE Raw Supplier Spend Data	Internal SSE Data	Data covering spend across FY2014-2015



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