

# SCOTLAND FOOD & DRINK

## The Real Living Wage and Food and Drink Businesses in Scotland

### Scotland Food & Drink Report

February 2024

**Acknowledgements:** Thank you to all those who responded to the survey and contributed to the report which has been produced to support the Policy and Regulation programme within the industry strategy, Sustaining Scotland, Supplying the World.

The strategy was developed by the Scotland Food & Drink Partnership, which is made up of:

The Agriculture and Horticulture Development Board, Highlands and Islands Enterprise, Dairy UK, Food and Drink Federation Scotland, NFU Scotland, Opportunity North East, Quality Meat Scotland, Seafood Scotland, SEFARI, Scotch Whisky Association, Scottish Agricultural Organisation Society, Scottish Bakers, Scottish Development International, Skills Development Scotland, Scottish Enterprise, the Scottish Government, and Salmon Scotland.

## Executive Summary

- ❖ 48 businesses responded to the survey. 54% were involved in manufacturing, followed by processing (22%) and agricultural activity (9%). Whilst not fully representative of the industry, we believe the findings offer useful insights.
- ❖ Overall, nearly half of respondents reported paying 100% of their staff the RLW, with just over a quarter paying less than 50% of their staff the RLW.
- ❖ The proportion of respondents paying all staff the RLW by business type:  
**Manufacturing: 52%   Processing: 25%   Agriculture: 16%**
- ❖ The main reason given for not paying RLW is the difficult balancing act between ensuring fair wages and maintaining business viability.
- ❖ There is general recognition across the food and drink industry of the importance of paying a fair wage, but responses highlight the complex financial and operational adjustments businesses must make to implement the RLW. This is in a context of ongoing economic challenges such as high input costs, intense competitiveness, and a lack of buying and selling power which squeeze margins for most operators in Scotland.

## Recommendations:

1. The Scottish Government and agencies should aim for a consistent approach to exceptions, based principally on affordability. We understand from discussions with funders that an exceptions process is in place, but businesses would appreciate further clarity around how “affordability” is defined.
2. Funders should be flexible in their approach to the discrepancy between official RLW requirements and those set by the Living Wage Foundation, to avoid penalising certified “Living Wage Employers”.
3. Funding should be considered for businesses who do not pay all staff RLW but commit to doing so over an agreed timeframe. This would address concerns around contractual arrangements and operational challenges.
4. Funding decisions around RLW should take into account the additional financial pressures within the food and drink industry due to the high levels of competitiveness and low margins achievable through many routes to market, particularly where the policy gives Scottish businesses a competitive disadvantage against similar businesses operating in the rest of the UK.

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## **Introduction**

This report is part of the delivery work of the Policy and Regulation programme which is one of seven programmes set up to deliver the industry strategy: Sustaining Scotland, Supplying the World.

The objective was to gather and share insights from food and drink businesses in Scotland about the impact of Real Living Wage (RLW) requirements relating to public funding. Views have been gathered in part through an industry survey (48 respondents), as well as informal discussions with businesses and representative bodies. Although the number of business responses was relatively low, they came from a wide spectrum of sectors and business types and sizes, so we have a good level of confidence in the robustness of the findings.

## **Background to the Real Living Wage Requirement**

Since July 2023, it has been a requirement for most food and drink businesses in Scotland to pay the Real Living Wage (currently £12 per hour) to receive public funding. The requirement applies to funding distributed by the Scottish Government and associated agencies and requires that: “all staff who are directly employed by the grant recipient and work in Scotland must be paid at least the real Living Wage. This applies to all directly employed staff aged 16 and over, including apprentices. In addition, all workers who are directly engaged in delivering the grant funded activity ... must also be paid at least the real Living Wage. This applies to workers aged 16 and over, including apprentices...”

The Scottish Government requirements go beyond those set by the Living Wage Foundation which apply to directly employed and regularly contracted staff over 18 years of age, not including apprentices.

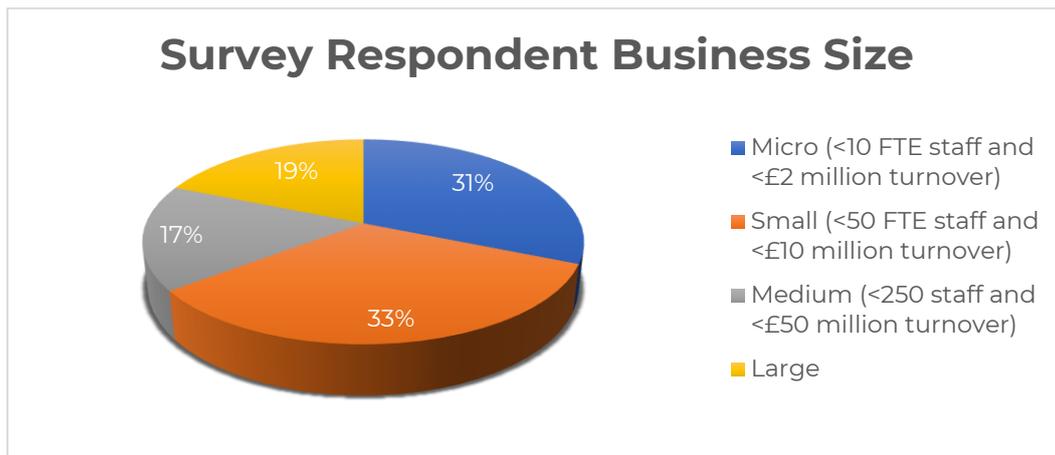
Guidance was updated in December 2023, outlining that “The Scottish Government or other relevant funder *may apply limited exceptions* to meeting the real Living Wage condition where the potential grant recipient genuinely cannot afford to pay the real Living Wage to part(s) or all of its workforce.”

Agricultural businesses are expected to be required to comply from Spring 2024, although it is currently not known precisely which grant payments will apply.

It should also be noted that sectoral representative bodies have made their own efforts to highlight the impacts of RLW requirements on their members' operations, which will likely continue, especially for those sectors which are particularly labour intensive. Such representations have not been explicitly reflected in this report, which focusses on the survey responses collected.

## How Many Businesses Already Pay the RLW?

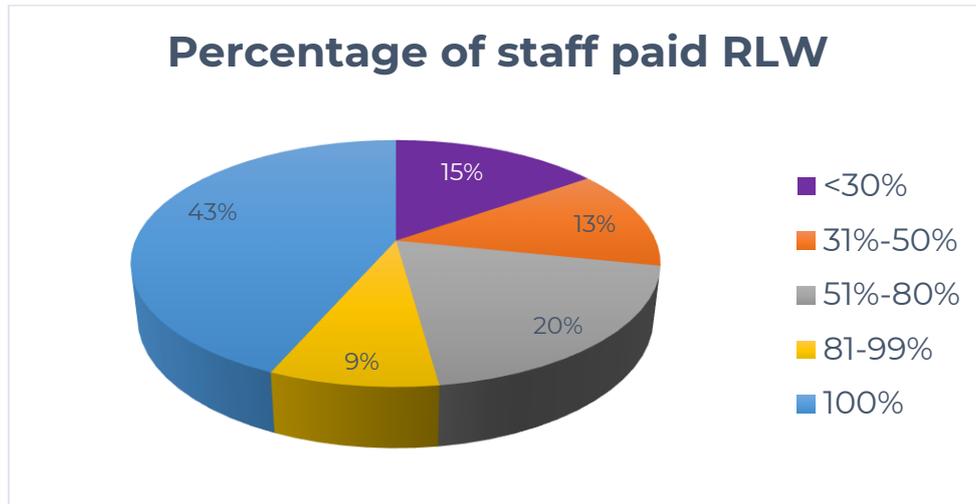
All sizes of businesses took part in the survey across the main activities of agriculture, processing, manufacturing.



The following chart shows the proportion of respondents who are *accredited/certified* as a Living Wage Employer, which is an externally verified process, but does not demonstrate full compliance with the Scottish Government requirements around the RLW due to the difference in age and agency worker requirements.



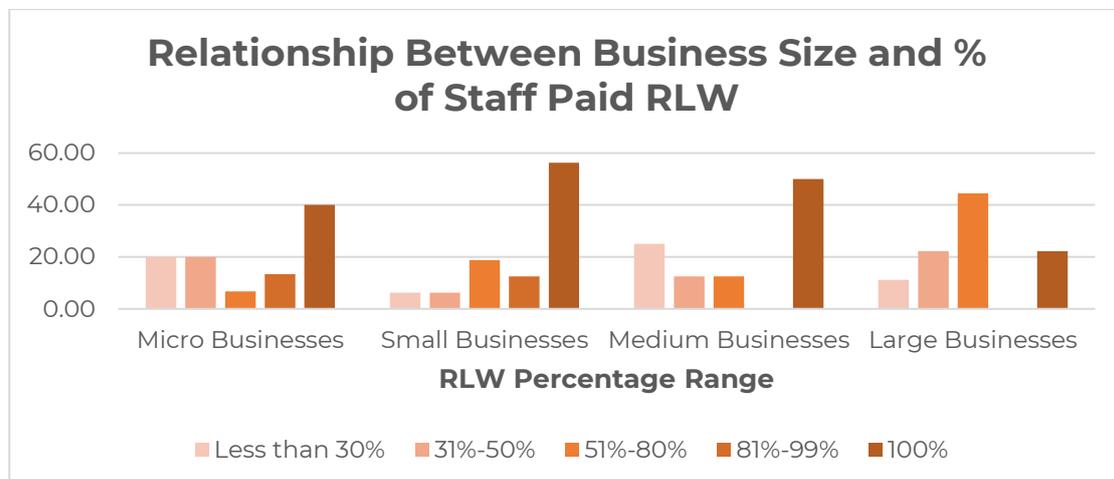
The following chart shows the percentage of businesses paying a particular percentage of staff the RLW. The survey provided five options ranging from <30% to 100%.



It should be noted that the survey asked what % of staff *aged 18 and over* were paid the RLW. It became apparent after the survey went live that the Scottish Government requirements go beyond those set by the Living Wage Foundation.

It is likely that the proportion of businesses paying 100% of staff would be less than indicated in this survey if it was repeated to include staff over the age of 16 and apprentices. It was also mentioned by some respondents that because the Scottish Government and agency requirements have been set at 16+, and include agency staff, the challenges being highlighted were likely to be exacerbated.

The distribution of Real Living Wage (RLW) being paid by businesses of different sizes is as follows:



As the above chart shows, there is a modest correlation between the size of business and % of staff paid the RLW. Small businesses are more likely to pay 100% of their staff the RLW than other sizes. Large businesses are more likely to pay more than 50% of staff the RLW but less than 100% compared to other business sizes.

A higher percentage of small (56.25%) and medium (50%) businesses reported paying 100% of their staff the RLW, compared to micro (40%) and large businesses (22.22%). Additionally, large businesses show a notable concentration in the 51%-80% range. Large businesses were most likely to be involved in processing and manufacturing. They were also most likely to report a severe negative impact if they changed to pay 100% of staff the RLW, with “£500,000” noted as the annual cost by one business, and “probable insolvency” by another.

## Business Likelihood of Applying for Public Funding

Respondents were asked how likely they were to apply for funding, as the RLW requirements only apply to those who do so, unlike the National Minimum Wage which is a legal requirement for all businesses. The responses could be relevant for business support organisations as well as those developing and monitoring this and other policies, as well as those distributing funding to businesses. As with other questions, responses varied across business size, activity type, and the percentage of staff paid the RLW.

Answers ranged from 1 (very unlikely) to 5 (very likely). The average answer across all respondents was 3.9. The mode (most common) response, was 5, suggesting a high likelihood of many businesses applying for funding although 19% of respondents answered either 1 or 2 to this question, suggesting that almost a fifth of respondents have no plans to apply for funding. Interestingly more than half of businesses replying 1 or 2 already pay 100% of staff the RLW, suggesting that the financial situation of the business may play a part.

As shown in the table below, there is a modest relationship between the % of staff currently paid the RLW and the likelihood of applying for public funding. Those most likely to apply are those currently paying between 31% and 80% of their staff the RLW. They will need to increase the percentage of those being paid the RLW from current levels to meet requirements, unless they can demonstrate their eligibility for an exception.

<b>% of Staff Paid RLW</b>	<b>Avg. Likelihood of Applying for Public Funding</b>
51%-80%	4.33
31%-50%	4.29
100%	3.81
81-99%	3.50
<30%	3.29

## Assessing Affordability

Discussions with funders suggest that *affordability* is, as of February 2024, one of the exception criteria being used. Many funding opportunities already include a requirement that the business should not be able to afford to pay independently for a project without the funding, so an affordability assessment is not new.

We believe that capital funding support is hugely important for growth and productivity. Some businesses who do not pay the RLW to all staff could potentially do so through the growth and profitability achieved via such investment. The table above shows that businesses who pay RLW to between 50 and 80% of staff are most likely to apply for funding. A fair and consistent way of measuring and applying exceptions is essential to support these businesses.

## Barriers to Paying the RLW to All Staff

Respondents who don't currently pay the RLW to all staff (more than half of all who responded) flagged challenges including increased costs, operational issues, and market competitiveness. The main barriers are financial strain and the need for careful planning and adaptation to accommodate the wage increase.

- 1. Financial Constraints:** Businesses face significant financial pressure to implement the RLW for all staff, with additional annual costs up to £500,000. Several businesses said the increase would eliminate profits.
- 2. Pricing and Competitiveness:** To manage increased costs, many businesses will need to raise prices, which could impact their competitiveness and have a knock-on impact on food prices for customers. One respondent indicated that increased prices was likely to lead to a loss of business, while another was concerned about becoming less competitive compared to those paying only the National Living Wage (NLW).
- 3. Staffing and Operational Changes:** Significant operational adjustments were anticipated by some, including reduced working hours, overhaul of grading structures, and potential reduction in overall workforce numbers which could reduce the ability to grow and take on new orders.
- 4. Impact on Wage Structure:** Some businesses expect the requirement to disrupt internal wage differentials. This includes concerns about the RLW overtaking different skill levels and necessitating a complete restructuring of pay grades, as well as the potential domino effect on employees just above the RLW level.
- 5. Market and Contractual Challenges:** Many businesses face difficulties in passing on increased costs to customers or renegotiating contracts. One respondent flagged the difficulty of renegotiating long-term contracts.
- 6. Impact on Training and Apprenticeships:** Concerns were also raised about the affordability of paying apprentices the RLW, particularly when this requires significantly higher pay for their trainers. This could affect the structure and feasibility of training programs.
- 7. Industry-Specific Issues:** Food and drink has especially tight margins, making it harder to implement RLW for all staff.
- 8. Timing and Planning:** The timing of implementing the RLW poses a challenge for some, unless business financial planning and review processes can be aligned with the timing/changes of the requirement.

Overall, while there is recognition of the importance of a fair living wage, the practical implications of implementing the RLW present a range of financial, operational, market, and training challenges for many businesses.

## Benefits of the RLW

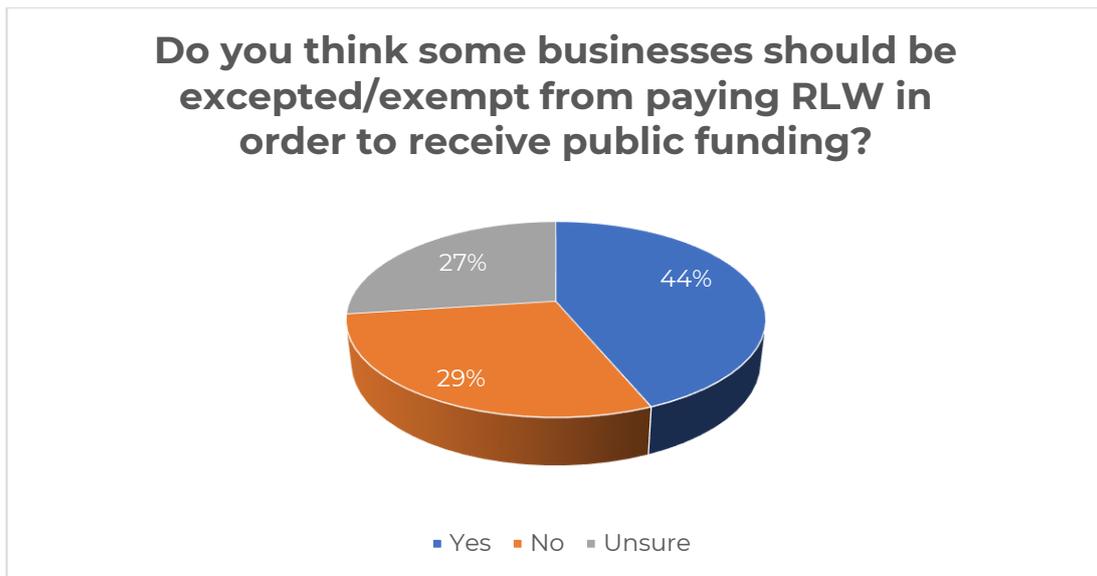
Responses to the question about the expected or observed benefits of adopting the Real Living Wage (RLW) show a range of perceptions among businesses, most of which were provided by businesses who already pay most of their staff the RLW:

1. **Positive Feedback from Staff:** This was the most cited benefit, mentioned in numerous responses. It suggests that staff generally appreciate that RLW may contribute to overall employee satisfaction and morale.
2. **Improved Employee Retention:** Many respondents indicated that adopting the RLW has led to or is expected to lead to better employee retention. This implies that higher wages under the RLW can be an effective tool in reducing staff turnover, which is crucial for maintaining a stable and experienced workforce.
3. **Increased Productivity:** A significant number of responses also mentioned increased productivity as a benefit. This indicates a belief among some businesses that better wages lead to more motivated and efficient employees.
4. **Company Reputation and Recruitment:** Some responses highlighted the positive impact of the RLW on company reputation and its usefulness in recruitment. This suggests that businesses perceive a value in being seen as a fair and responsible employer, which can attract talent and enhance their public image.
5. **No Benefits Observed:** A noteworthy portion of respondents indicated they have not observed any benefits from adopting the RLW. This perspective might reflect challenges in quantifying the direct impacts of wage increases or possibly indicate that the benefits are not immediately apparent or tangible for some businesses.
6. **Other Notable Mentions:** Responses included points such as "avoids difficult assessments of wage positioning" and "Motivation, engagement, loyalty." These responses suggest that some businesses see the RLW as simplifying wage management and enhancing overall employee engagement and loyalty.
7. **Ethical Considerations:** A few responses expressed adopting the RLW as "the right thing to do," especially in the context of the current cost-of-living crisis. This indicates an ethical consideration in business decision-making, emphasising social responsibility over direct business benefits.

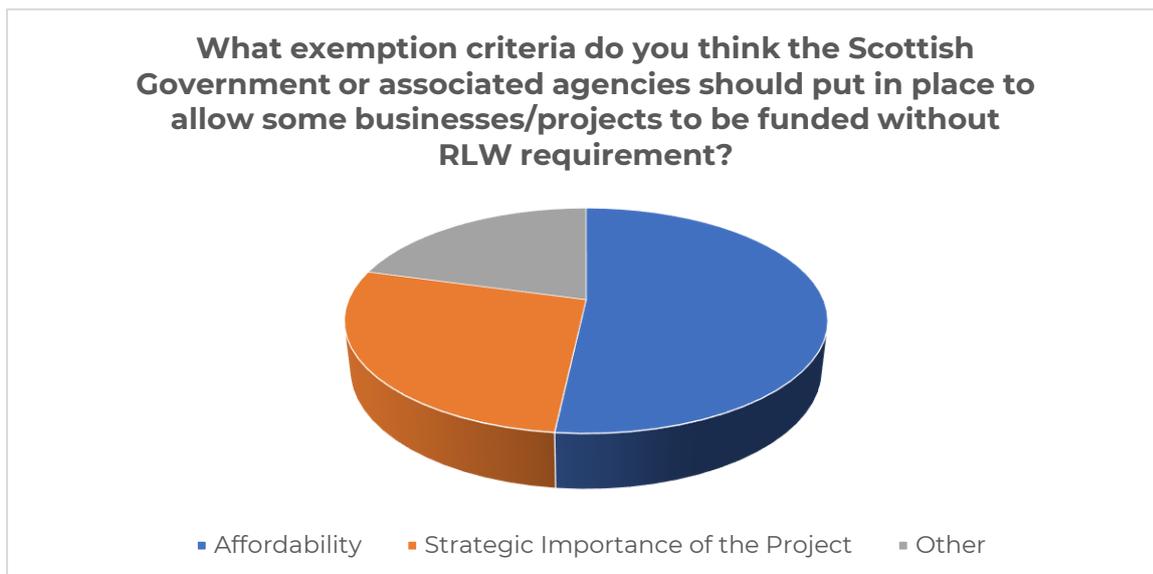
In summary, most businesses reported positive impacts from adopting the RLW, particularly in terms of staff feedback and retention. The responses reflected both tangible business benefits and ethical considerations by businesses.

## Views on Business Exemptions/Exceptions

As the chart below shows, only 44% of respondents felt that some businesses should be exempt from paying the RLW. Although when asked to detail the exemption criteria that might be applied, more than 50% of all respondents said “Affordability” should be considered.



The following chart provides more detail about the exemption criteria suggested by businesses:



There were two primary choices available to respondents, alongside the option to choose “other”:

1. **Affordability:** This was the most frequently cited criterion for exemption. 52% of respondents suggested that businesses should be exempt from the RLW requirement if they genuinely cannot afford it. This viewpoint reflects a concern that smaller or financially constrained businesses might struggle to meet the RLW threshold, potentially hindering their growth or viability.
2. **Strategic Importance of the Project:** The second choice of respondents was the strategic importance of the project. This suggests an acknowledgment that some projects, despite not meeting the RLW requirements, may be crucial for economic development, innovation, or addressing specific societal needs.

There were also notable “other” options given:

- **No Exemptions:** Several respondents used this question to expand on their view that there should be no exemptions to the RLW requirement. Such views tended to emphasise the ethical imperative of ensuring fair wages for all employees and included suggestions that taxpayer money should not subsidise businesses that do not pay a living wage.
- **Additional Benefits Consideration:** One response mentioned considering the additional benefits companies offer as a potential criterion for exemption. This implies that a broader view of employee compensation, beyond just wages, could be a factor in determining eligibility for funding.
- **Support for Future-Needed Skills:** One respondent proposed exemptions for businesses that support or create jobs for skills that will be needed in the future in Scotland. This criterion focuses on long-term economic planning and skill development.

In summary, while affordability and strategic importance were the most cited criteria for potential exemptions from the RLW requirement, opinions vary, with some advocating for no exemptions. This diversity in responses further demonstrates the range of perspectives on balancing the need for fair wages with the practicalities of business and economic development.

## Additional Views

Responses detailing additional comments or concerns highlighted a range of perspectives, indicating the multifaceted nature of the issue:

1. **Support and Implementation Concerns:** Some respondents support the RLW but express concerns about the feasibility and timing of its implementation. For instance, one mentioned the challenge of aligning RLW introduction with business fiscal years and budget planning.
2. **Impact on Business Operations:** Many responses highlight concerns about the impact of the RLW on business operations. This includes potential effects on wage structures, staffing levels, and pricing strategies. One response noted, "It will make us uncompetitive in the marketplace."
3. **Other Employee Welfare Factors:** A few responses point out that factors other than wages, such as working conditions and work/life balance, are also important to staff. One respondent stated, "RLW isn't a factor for most of our team."
4. **Sub-sector or Geographical Challenges:** Some responses highlight specific challenges in different sub-sectors or locations (i.e. rural businesses) where margins are particularly tight.
5. **Wage Disparities and Skill Recognition:** The RLW's potential to narrow the pay gap between skilled and unskilled workers is a concern, with some businesses worried about maintaining wage differentials to recognise skill levels.
6. **Economic and Market Realities:** The responses reflect concerns about the economic environment, including inflation and market competitiveness. One respondent observed, "Living wage will cost our business an additional 12k per week...Just not possible in the low margin food sector."
7. **Varied Regional Impacts:** It was also mentioned that the policy does not reflect different local economic contexts (e.g. house prices).
8. **Automation and Efficiency:** A few responses mentioned the drive towards automation and efficiency in business processes as a response to increased wage costs.
9. **Taxation and Net Income:** Some respondents highlighted the issue of taxation on wages, suggesting that net income is a more critical issue than gross wage levels.
10. **Social and Ethical Considerations:** A few responses emphasised the societal importance of the RLW, arguing that it is essential for supporting staff during cost-of-living crises and for societal wellbeing.

In summary, the responses demonstrate, as per the rest of the survey, a spectrum of views, from concerns about business viability and operational challenges to broader societal and ethical considerations. The complexity of implementing the RLW across diverse business contexts and regional disparities is a recurring theme, along with the need for a more holistic approach to employee welfare beyond just wage levels, although it should be noted that some of these could be reflected in wider Fair Work First criteria such as an effective staff voice, which were not considered within this report.

## Conclusion

The research indicates a strong commitment within the food and drink sector to offer competitive wages, including through the Real Living Wage (RLW). This approach is seen to offer numerous benefits for businesses, including enhanced employee satisfaction and productivity. That said, implementing the RLW across all staff poses significant challenges for many businesses, particularly those which are less profitable and/or which operate on narrow margins, which is true for many in the food and drink industry.

Some will clearly require exemptions/exceptions as they adapt to the RLW standards, which may take some time in the current trading environment. Concerns raised by participants about potential adverse effects on other staff, including those training or managing inexperienced staff, when the RLW is the minimum, warrant further exploration.

A critical aspect emerging from the research, and highlighted in the recommendations, relates to the disparity between the Scottish Government's requirements and the criteria set by the Living Wage Foundation for accrediting "Living Wage Employers". This discrepancy seems unjust, especially for businesses attaining "Living Wage Employer" status but which fail to secure funding due to more stringent governmental standards. This situation also complicates the assessment process for funders when determining funding eligibility and could lead to inconsistencies.

The food and drink industry in Scotland offers a wealth of career opportunities across a diverse range of professions. It is widely recognised that we must remunerate our hard working and skilled workforce appropriately and to support their career growth and attract new staff.

Food and drink businesses enhance the livelihoods of individuals, families, and communities but also contribute significantly to the Scottish economy. This, in turn, supports the provision of essential public services, reinforcing the sector's role in the nation's economic and social fabric.

We continue to value the collaborative nature of the Scotland Food & Drink Partnership, which includes the Scottish Government, and will seek further input following this report to explore potential implications around the recommendations given at the start of this report including exceptions and eligibility, as well as how we can best invest in this sector to maximise benefits for businesses and wider society.