

Investor Brief: Why investors should back the 2022 Living Wage resolution at Sainsbury's

Introduction

A group of 10 institutional investors with £2.2tn assets under management including: Legal and General Investment Management, Fidelity International, Nest Pensions and Joseph Rowntree Foundation¹ co-ordinated by ShareAction have filed a special shareholder resolution at Sainsbury's calling for the company to accredit as a Living Wage employer by July 2023, and to commit to pay all workers a real Living Wage.

This document provides investors with the background to the resolution and arguments why investors should **vote in support of the resolution** at the AGM in July.

The public health and economic consequences of the Covid-19 pandemic have exposed the extent of low pay and income inequality in the UK—and the cost of living is rising sharply. The Resolution Foundation has said that a major living standard hit for households driven by high and rising inflation will be the defining feature of 2022ⁱ, which will hit low-income households the hardest.

Yet workers in the sector are one of the largest groups of low-paid workers in the UK. 42 per cent of all supermarket workers (366,000 people) earn less than the real Living Wage, with female and ethnic minority workers disproportionately affected. 49 per cent of female workers and 44 per cent of minority workers earn less than the real Living Wage, compared to 35 per cent of men and 41 per cent of white workersⁱⁱ. The combination of rising cost of Living, higher national insurance contributions (NICs), Universal Credit cuts and a freeze on the income tax personal allowance will mean the average supermarket worker in the UK will be £1,040 worse off in 2022.

¹ The full list of co-filers is as follows Actiam, Brunel Pension Partnership, Fidelity International, Friend's Provident Foundation, Guy's and St Thomas Foundation, HSBC Asset Management, Islington Pension Fund, Joseph Rowntree Foundation, Legal and General Investment Management, Nest Pensions & ShareAction.

There is an opportunity for Sainsbury's to demonstrate leadership in the sector

Currently no major supermarket is an accredited Living Wage employer, although the direction of movement is to mirror or even exceed the 2021/2022 real Living Wage rate (£9.90 per hour) for direct employees. However, few supermarkets match the real Living Wage rate for London or ensure that the rates paid to employees are also paid to sub-contracted staff working on their premises.

ShareAction have been engaging with supermarkets on the Living Wage since 2013 and have escalated our engagement since the beginning of the COVID-19 pandemic. ShareAction and the investor coalition are calling on all supermarkets to accredit as Living Wage employers. Sainsbury's is the second largest U.K. grocery chain with 16.5 per cent of the market. It operates over 600 supermarkets, 800 convenience stores and directly employs 1 89,000 workers. Sainsbury's has a strong reputation as a responsible retailer and has a track record of meeting voluntary standards which reflect societal expectations of supermarket retail. Despite this Sainsbury's have not met the Living Wage standard.

It's time for all investors to take a stance on the real Living Wage

In the context of the rising cost of living Sainsbury's could gain first mover advantage as there are a growing expectations both from consumers and investors that responsible retailers pay the Living Wage.

As we recover from the COVID-19 pandemic and enter a cost of living crisis, now more than ever, it is vital that all workers receive the Living Wage. Furthermore, given heightened public support for key workers and a tight labour market, this is a good moment for supermarkets to shift up a gear and seek accreditation as real Living Wage employers. ShareAction and the co-filing group anticipate that once one major supermarket group makes the move to accreditation with the Living Wage Foundation, others could follow suit.

The resolution has been backed and co-filed by some of the UK's largest institutional investors who believe that paying the Living Wage has business benefits, as well as being the right thing to do.

Diandra Soobiah, Head of Responsible Investment, Nest said that they had co-filed this resolution because:

“Research shows a fair salary helps sustain a more productive, motivated workforce who are likely to stay longer with the organisation.” And Angeli Benham, Senior Global ESG Manager, Legal & General Investment Management said: We have co-signed this shareholder resolution because we believe all employees, both

direct and indirect, who are helping Sainsbury's to be a sustainable, reputable and impactful business deserve to be paid the real living wage.

Jonathan Levy, Investment Manager Joseph Rowntree Foundation highlighted the importance that all workers including third-party contractors are paid the Living Wage

“Crucially, Living Wage accreditation encompasses third party contractors, such as cleaners and security guards, many of whom are low paid and do not always appear on official company payrolls, despite playing critical roles in businesses' ability to operate. We are urging Sainsbury's to seize the opportunity to become the first supermarket in the UK to commit to paying both directly and indirectly employed staff a real Living Wage.

Investor support for this resolution will be critical to bringing about this much needed change in practice within the sector.

This report lays out what the resolution asks for, why investors should vote in support of the resolution at Sainsbury's AGM on July 7th and what investors can do next.

What does the resolution ask for?

Resolution Text

To promote the long-term success of the Company, given developing expectations on rewarding key workers, the opportunities and risks associated with the increased costs of living for workers in the UK, and growing expectations that responsible businesses pay the real Living Wage, we as shareholders direct the Company to accredit as a Living Wage Employer by July 2023⁽¹⁾.

A commitment to pay the real Living Wage to all workers is in line with recent investments by Sainsbury's in direct employees' pay. This should be done at reasonable expense and nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of the Company.

(1) The 'real Living Wage', as overseen by the Living Wage Foundation, is based on the cost of living in the UK and is voluntarily paid by 50 FTSE 100 companies amongst over 9,500 employers. The rates are currently £9.90 per hour in the UK and £11.05 in London.'

The real Living Wage accreditation standard

In the UK, the real Living Wage is an hourly rate of pay set independently and updated annually. It is calculated according to an assessment of the basic cost of living. The methodology is led by the Resolution Foundation and is based on the ‘Minimum Income Standard’ⁱⁱⁱ. The calculation is overseen by the Living Wage Commission, an independent body drawn from leading Living Wage Employers, trade unions, civil society and academia^{iv}. The rates are currently £11.05 per hour in London and £9.90 throughout the rest of the UK.

The real Living Wage, is different to the National Living Wage for over 23 year olds, set by the government that was introduced in 2015. The government’s National Living Wage is not calculated according to what employees and their families need to live but rather it is based on a target to reach 66 per cent of median earnings by 2024^v. From April 2022 the rates will be £9.50 per hour^{vi}.

Living Wage employers pay all directly employed staff and any third-party subcontracted staff that regularly work on behalf of the company at least the real Living Wage. ‘Regularly’ is defined as 2 or more hours, for 8 or more consecutive weeks. This extends to those suppliers providing a service such as cleaning or security, not goods. At the point of accreditation, employers need to pay all directly employed staff a Living Wage and have a plan in place for third-party subcontracted staff.

To meet the standard the resolution asks Sainsbury’s to:

1. Ensure all direct workers, in London and across the UK, are paid at least the real Living Wage rate now and in future;
2. Conduct an analysis (by July 2023) of third-party contractors used by the company to find out how many workers earn below the real Living Wage rate for their region and agree a timescale for contracts to be uplifted to the real Living Wage;
3. Work with third-party contractor providers to lift all subcontracted workers to the real Living Wage rate by July 2026 and to agree a wage floor of the real Living Wage on an ongoing basis.

Why should investors support the resolution?

Living Wage accreditation would make a huge difference to thousands of Sainsbury’s workers up and down the country, guaranteeing them a wage that covers the cost of living and means they can live a life of dignity.

- Rising food prices, skyrocketing energy bills, an increase in national insurance contributions, and cuts to Universal Credit are putting huge financial pressure on individuals and families across the economic spectrum. Food banks are recording unprecedented numbers and some 2.5 million families could be plunged into fuel poverty by the Spring. Inevitably, it is the poorest who will be hit worst by this crisis.
- Covid-19 highlighted the role that low-paid key workers – including supermarket workers – have in underpinning our economy and society. The public health and economic consequences of the pandemic also exposed the extent of low pay and income inequality in the UK, and highlighted the critical importance of a resilient workforce.
- Despite Sainsbury's reporting strong results in January, reflecting robust Christmas grocery volumes and market share growth, one in three Sainsbury's workers report that they regularly worry about putting food on the table. The Independent Food Aid Network (IFAN) says it has seen an increase in supermarket workers using their food banks.
- Living Wage accreditation ensures all employees can earn a wage that is enough to live on. Yet, 42 per cent of all supermarket workers in the UK earn below a living wage – and no supermarket is currently accredited as a Living Wage Employer. This puts the sector out of step with the 9,500 UK companies including other large retail companies such as IKEA and 50 per cent of the FTSE 100 – who are accredited.

There are well-documented business benefits of paying higher wages, including higher customer engagement, higher productivity, and reduced turnover and training costs.

- Research by the MIT Sloan School of Management shows that adopting a Good Jobs Strategy, including base pay rates above minimum wages can drive increased service quality, productivity, and a reduction of costs in the long term.
- In research by the Cardiff University Business school, the benefits that retailers have experienced by accrediting have been greater than other industries^{vii}:
 - 89 per cent found paying the Living Wage enhanced their reputation
 - 70 per cent found it improved relations between staff and managers
 - 57 per cent saw increased commitment of Living Wage employees
 - 62 per cent saw an improvement in recruitment for jobs at the Living Wage

42 per cent of all supermarket workers in the UK earn below the real Living Wage and no supermarket retailer has yet joined the group of accredited companies.

- Sainsbury's is the second largest supermarket in the UK, employing 189,000 direct workers

- With its roots as a family business, Sainsbury's has made a public commitment to 'always focus on doing the right thing for our people'.
- It has demonstrated leadership on environmental sustainability and in other aspects of its approach to its people, including leading practices such as publishing its ethnicity pay gap since 2020.

Without accrediting as a Living Wage employer, Sainsbury's has made no commitment that pay will continue to increase in line with the cost of living in future years.

- Accreditation would provide workers with confidence and security that they will continue to earn at least the real Living Wage in future years.
- Additionally, the standard would act as reassurance to investors that the company paid all staff a fair wage that meets the cost of living at a minimum, reducing the need for continuous engagement on low pay.

All companies have a responsibility towards sub-contracted workers working on their behalf, not just direct employees

- Using third-party contractors should not be an enable businesses to outsource responsibility for pay and conditions. Third-Party contractors work alongside their directly employed colleagues and should have the same pay and conditions.
- Yet the evidence suggests that third party contractors are amongst the lowest paid and in the most insecure roles. They do not receive the same total reward packages as direct employees. Furthermore they are invisible in workforce reporting data like pay ratio disclosures.
- The Living Wage foundation includes third-party contractors in the standard for these reasons, in addition inclusion addresses company incentives to outsource labour as a result of cost increases.

Low pay and income inequality is a drag on output and economic growth and drives political polarisation and societal instability

- Inequality is a systemic risk. OECD research found that if inequality increased by 3 Gini points, the average increase recorded over the last 20 years in the OECD, economic growth would decrease by 0.35 per cent per year for 25 years, leading to a cumulative loss in GDP of 8.5 per cent^{viii}.
- Highly diversified investors—so called universal owners—cannot 'externalise' the societal costs of low pay, by divesting from low paying businesses.
- Responsible investors need to set minimum standards, or guardrails, such as Living Wage accreditation, to manage this risk

The gaps between Sainsbury's practice and the Living Wage standard

In January, Sainsbury's announced their new pay policy for, its direct workers that came into effect in March. In the UK (outside London) and inner London now earn wages that meet the 2021/22 Living Wage rates (£9.90 and £11.05 respectively).

Sainsbury's announced the following changes:

- Pay for Sainsbury's and Argos store staff throughout the UK increased from £9.50 to £10 an hour;
- Pay for staff in inner London increased from £10.10 to £11.05;
- Pay for staff in outer London increased from £9.75 to £10.50;
- Groceries online drivers pay increase to £11.50 per hour, Argos Delivery drivers pay will increase to £11.

In April, Sainsbury's announced partly in response to the engagement with the co-filer group that it would extend the inner London rate (£11.05) to workers in outer London. This announcement means that directly employed workers in the UK (outside London) and London now earn wages that meet the 2021/22 Living Wage rates (£9.90 and £11.05 respectively).

This is a welcome development, however there are still important gaps compared to the real Living Wage standard.

Third Party Contractors

Sainsbury's have not made any announcement or commitment relating to the pay of third-party staff, such as cleaners and security guards. These are amongst the most vulnerable workers in the most insecure work and are more likely to be in in-work poverty. These workers are often called 'invisible' as they are not included in workforce reporting such as CEO pay ratios.

By excluding third-party staff, Sainsbury's have an incentive to increase their use of outsourcing, reinforcing the growth of outsourcing, reinforcing the growth of insecure work and its societal cost.

Living Wage employers commit to paying all third-party staff regularly providing a service, the real Living Wage. To accredit, an employer must have an agreed plan in place to implement the Living Wage for all third part contracts over a period of three years.

A commitment that pay will continue to meet the cost of living

Without accrediting as a Living Wage employer, Sainsbury's have made no commitment that pay will continue to increase in line with the cost of living in future years.

| | Sainsbury's (previous) | Sainsbury's (from April 2022) | Real Living Wage Standard (2021/2022) |
|----------------------------|---|----------------------------------|---|
| Rest of UK | £9.50 | £10 | £9.90 |
| London | Inner London: £10.10 Outer London: £9.75 | Single London rate: £11.05 | Single London rate: £11.05 |
| Third-party contractors | Excluded | Excluded | Included (applies to workers regularly providing a service to Sainsbury's within 3 years of Sainsbury's accreditation) |
| Future commitment | None | None | Commitment to match real Living Wage rates in line with cost of living increases year on year. |

Next Step for investors

Proxy voting is a core part of an investor's fiduciary duty and a key way in which the sector can influence companies on both social and environmental issues. The asset management sector is failing to support the vast majority of resolutions focused on social issues, with considerably lower levels of support compared to the environmental resolutions. In 2021, only 15 per cent of all social resolutions received majority support^{ix}.

The Covid-19 pandemic has deepened the already growing social inequality, which will be further exacerbated by a period of expected high inflation in the UK. Now is the time for investors to use all available tools, including their voting power, to ensure good workforce practices including payment of Living Wage to all workers.

We urge investors in Sainsbury's to:

1. Write to Sainsbury's and other supermarkets in support of the resolution and the real Living Wage accreditation standard.
2. In the case of shareholders, cast a vote in favour of the resolution ahead of the company's 2022 AGM on 7th July. In the case of asset owners, engage with their asset managers to encourage that they vote in support of the resolution.
3. Make their support for the resolution public.
4. Get in touch with ShareAction should they have any questions about this engagement, Sainsbury's practices or ShareAction's engagement on Living Wages in the supermarket sector more generally.

If you want to discuss the resolution with our Good Work team, please get in touch on: martin.buttle@ShareAction.org

References

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ShareAction»

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