

A person wearing a red cap and a grey short-sleeved shirt is seen from the back, working behind a counter. In front of them are several trays filled with golden-brown fried chicken. The background is slightly blurred, showing more of the kitchen environment.

ACCOUNTING FOR A LIVING WAGE: USING THE LIVING WAGE ACCOUNTING MODEL

Shift



**CAPITALS
COALITION**

ACCOUNTING FOR A LIVING WAGE | USING THE LIVING WAGE ACCOUNTING MODEL TO MEASURE PROGRESS ON LIVING WAGES

ABOUT THE MODEL

THREE KEY CRITERIA HAVE GUIDED THE DEVELOPMENT OF THE MODEL:

- 1 IT CAN BE APPLIED CONSISTENTLY AND STRAIGHTFORWARDLY BY ORGANIZATIONS IN DIFFERENT SECTORS AND COUNTRIES.
- 2 IT INCENTIVIZES PROGRESS TOWARDS PAYING LIVING WAGES AND PROVIDES INSIGHT INTO A COMPANY'S APPROACH TO TACKLING INEQUALITY.
- 3 IT POINTS TOWARDS THE VALUE TO SOCIETY OF WORKERS OF BEING PAID A LIVING WAGE.

Two key concepts underpin the model: the **Living Wage Threshold** and the **Living Wage Deficit**.

The payment of a living wage to all workers represents a threshold that every company should meet, or work urgently towards meeting, to ensure respect for this human right. The living wage deficit exists where workers fall below the threshold of a living wage. This deficit cannot be off-set, for example by valuations of wages in excess of the living wage, or training and other investments in the workforce. Wages below the living wage result in impacts on workers and costs to society (eg impacts on people's health, which increases pressure on healthcare and social security systems, etc.), quite apart from impacts on business (eg worker turnover, productivity loss). Assessing these consequences of paying below the living wage provides relevant information for business to better manage their risk and opportunities.¹

The Model is divided into two parts:

The first part includes basic disclosures that could be adopted today by reporting standard-setters as part of companies' public reporting on wages specifically, or on the income-related drivers of inequality more generally. In doing so, it will help providers of capital reward companies that progress towards living wages. This part comprises a Living Wage Progress Tool that performs all the necessary calculations based on wage and related data entered by companies, as well as a set of accompanying Statements of Methodology that provide the context in which these indicators should be understood. The full set of living wage disclosures follows the ISSB four-part framework of Governance, Strategy, Risk Management and Targets and Metrics. The Model comprises the disclosures related to Targets and Metrics. The disclosures proposed in relation to Governance, Strategy and Risk Management are available in a separate document [here](#). These draw heavily on existing disclosures available through other frameworks or standards.² Together, these indicators comprise a comprehensive Living Wage Reporting Framework (see Figure 1 overleaf).

The second part of the Model provides for a more advanced set of estimates of the erosion of human capital that results from paying below living wages and the regeneration of value that results from reducing the living wage deficit. Human Capital Erosion, as measured in physical terms, is an estimate of the erosion of human capital

¹ Barford, Gilbert, Beales, Zorila and Nelson. The Case for Living Wages: How paying living wages improves business performance and tackles poverty

² GRI, DJSI, ETI, WDI

that results from impacts on the well-being of workers paid below the living wage. Human Capital Erosion is also measured in monetary units, to convert the physical measure into an estimated monetary value of the reduction in human capital. To date, global data sets are only sufficient to measure health-related effects on well-being when wages fall below the living wage. The hope is that future data sets will enable the inclusion of other factors of well-being to arrive at a more complete estimate of Human Capital Erosion.

These two human capital measures can be used both to aid companies’ internal decision-making, and as part of voluntary disclosures or future evolutions in sustainability reporting standards that reflect multi-capital accounting and integrated thinking. All the calculations necessary to produce these estimates are performed by the Progress Tool, with no additional entry of data required.

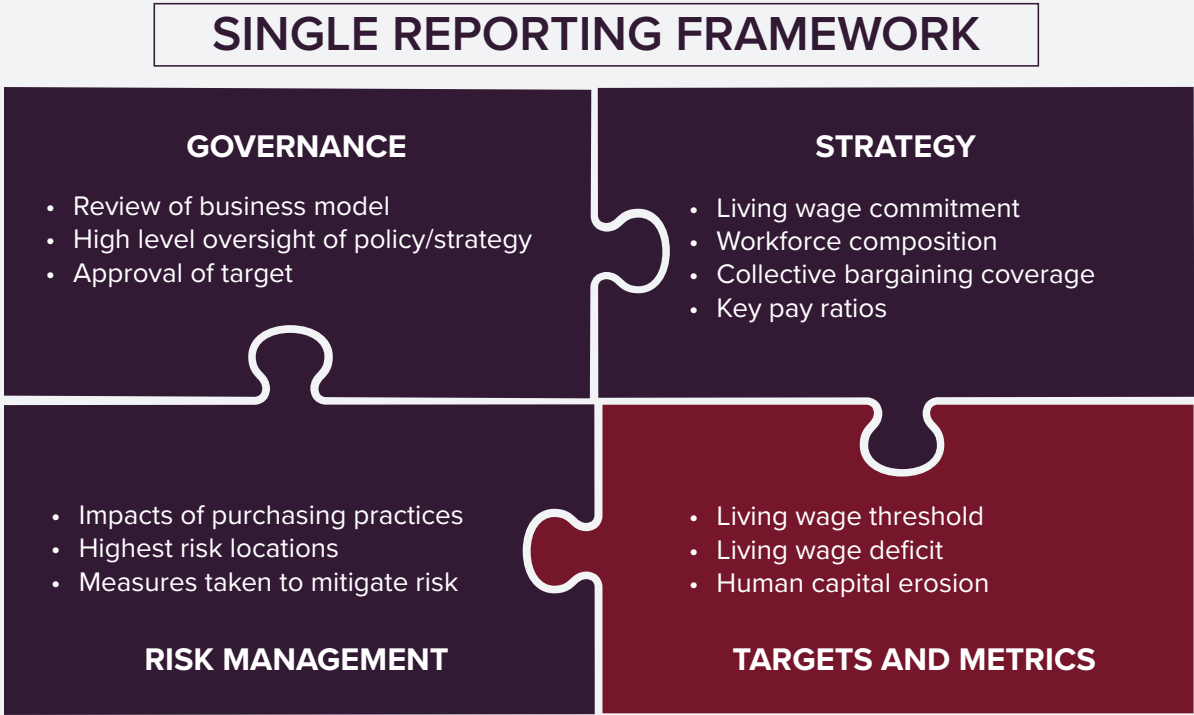


Figure 1: Single Reporting Framework

THE FOUR CATEGORIES OF WORKER COVERED BY THE MODEL

EMPLOYEES

Workers employed directly in a company's own operations. This may include permanent and temporary employees, full-time, part-time and non-guaranteed hour employees. Employees who are not full-time are included on a full-time equivalent (FTE) basis.

Workers who are employed via third parties (i.e. not direct employees), but whose work is controlled by the company and who perform roles that are the same as or similar to those of employees or otherwise engaged in the company's core business, for example working on production lines in a manufacturing company, providing care in a care facility, delivering meals for a restaurant.

CORE CONTRACTORS

NON-CORE CONTRACTORS

Workers who are employed via third parties (i.e. not direct employees), but whose workplace is controlled by the company and who perform services that are not core to the company's business, for example providing cleaning, catering or security services for their facilities.

Workers who are direct employees or core contractors of suppliers with which the pilot company has a direct contractual relationship (or, in the event it uses a vendor/ other intermediary to contract with suppliers, those suppliers with which its vendor/ intermediary contracts directly).

FIRST TIER SUPPLY CHAIN WORKERS

USING THE MODEL

To facilitate calculation, Shift and the Capitals Coalition will be releasing a Living Wage Progress Tool to minimize the number and complexity of inputs required. The Tool uses these inputs to make the necessary calculations to produce the disclosure metrics. The basic disclosures for each category of worker covered are the **Living Wage Threshold**, the **Living Wage Deficit** (in both monetary and percentage terms), and **Living Wage Progress**. These are aggregated across all the locations for which inputs have been made to the Progress Tool.

ACCOUNTING FOR A LIVING WAGE KEY METRICS	
LIVING WAGE THRESHOLD (\$)	= Total no. of workers x Living Wage for their location
LIVING WAGE DEFICIT	AS A PROPORTION OF WORKFORCE
	= Total no. of workers below a LW ÷ Total no. of workers
	IN \$
	= Total no. of workers below a LW x distance to LW for those workers
LIVING WAGE PROGRESS	Year-on-Year change in Living Wage Deficit (\$) as a proportion of Living Wage Threshold (\$)
HUMAN CAPITAL EROSION	IN PHYSICAL UNITS
	= Living Wage Deficit (\$) x Utility of Income Factor (e.g. Health)
	IN \$
	= Human Capital Erosion (in physical units) x value of physical welfare component

In addition, disaggregated data should be disclosed for three or more priority countries that have been identified according to the significance of the living wage risk.

The metrics to be disclosed for each category of worker appear in the Outputs tab of the Progress Tool. An example of a disclosure is provided in the Appendix.

These disclosures should be supplemented by the Statements of Methodology below in order to provide necessary information about the basis for the inputs.

BASIC DISCLOSURES

SCOPE OF WORKERS COVERED	
INPUTS TO THE MODEL	The categories of workers in relation to which the company is reporting living wage information in the current reporting year.

LIVING WAGE THRESHOLD (\$)	
The number of workers in each living wage location, multiplied by the living wage in their location, converted into USD and aggregated across all locations	
INPUTS TO THE MODEL	For each category of workers in scope: (i) The number of workers in each living wage location (ii) The living wage in their location, converted into USD

LIVING WAGE DEFICIT (\$)	
The total number of workers below the living wage, multiplied by the distance to the living wage for those workers	
METHOD 1 (To be used for employees, and where possible for other categories of worker) The number of workers in each cohort below the living wage (see Table 1) multiplied by the distance to the living wage for that cohort, aggregated across all cohorts and across all living wage locations, and expressed in USD	
INPUTS TO THE MODEL	The number of workers whose wages fall below the living wage estimate for their location, disaggregated into each of four cohorts below the living wage estimate set out in Table 1 below
METHOD 2 (For non-core contractors and supply chain workers, if not applying Method 1) The number of workers below the living wage estimate in each job type multiplied by the gap between the average wage for that job type and the living wage, aggregated across all job types and locations, expressed in USD	
INPUTS TO THE MODEL	(i) The number of workers below the living wage estimate in each job type (ii) The average wage for that job type
METHOD 3 (For non-core contractors and supply chain workers where Methods 1 or 2 cannot yet be applied) The number of workers in a living wage location who earn below the living wage, multiplied by the gap between the lowest wage and the living wage for that location, aggregated across all locations, expressed in USD.	
INPUTS TO THE MODEL	(i) The number of workers in a living wage location who earn below a living wage (ii) The lowest wage for that location

LIVING WAGE DEFICIT (%)	
The total number of workers below a living wage, divided by the total number of workers	
INPUTS TO THE MODEL	No additional inputs required

LIVING WAGE PROGRESS (%)	
The year-to-year change in the Living Wage Deficit (\$) divided by the Living Wage Threshold	
INPUTS TO THE MODEL	Multiple year entries of wage data

EXPANDED DISCLOSURES

HUMAN CAPITAL EROSION (PHYSICAL)	
The Living Wage Deficit for workers by category and country, multiplied by the Utility of Income (UI) factor for the country concerned, aggregated across all countries	
INPUTS TO THE MODEL	The relevant country(ies) of workers covered in the living wage disclosure
HUMAN CAPITAL EROSION (MONETARY UNITS)	
Human Capital Erosion (physical) for that category of worker and country, multiplied by the monetary value of the welfare component affected for the country, aggregated across all locations	
INPUTS TO THE MODEL	No additional inputs required

STATEMENTS OF METHODOLOGY

SCOPE OF WORKERS COVERED	<p>A. State which of the following categories of workers (as defined in Annex B) are fully covered (i.e. all workers in that category in all locations), which are covered in part (e.g. only in certain locations/ roles), and which are not included at all:</p> <ul style="list-style-type: none"> (a) employees (b) core contractors (c) non-core contractors, (d) first tier supply chain workers; <p>and:</p> <ul style="list-style-type: none"> (i) If the workers covered do not include all of the company's own employees, state the reason why and the plan to extend reporting to this category of workers in full. (ii) If the workers covered include the company's own employees but not all core contractors, state the reason why, the proportion of core contractors covered, and the plan to extend reporting to all core contractors. <p>If any category of workers is covered only in certain geographies, state the basis on which those geographies were selected to start reporting.</p>
	<p>B. Explain on which of these bases the three or more priority countries were selected for the disclosure of disaggregated information:</p> <ul style="list-style-type: none"> • the number and/or proportion of workers falling below a living wage in a given country • the living wage deficit for workers in a given country • the erosion of human capital, measured in physical terms, resulting from impacts on workers of being paid below the Living Wage in a given country • the erosion of human capital, measured in monetary terms, resulting from impacts on workers of being paid below the Living Wage in a given country

LIVING WAGE THRESHOLD	<p>(i) Identify the living wage estimate(s) being applied and confirm whether they meet(s) the criteria set out in Table B</p> <p>(ii) If the living wage estimate is calculated on the assumption of more than one wage earner per family, state the number of wage earners assumed and the rationale for this assumption.</p>
LIVING WAGE DEFICIT	<p>(i) Confirm that wages are calculated based on:</p> <ul style="list-style-type: none"> a. the FTE basic wage of workers; b. fixed additional payments that are guaranteed and paid to all workers in the category of worker concerned c. the exclusion of overtime and all non-guaranteed payments. <p>(ii) State:</p> <ul style="list-style-type: none"> a. whether any in-kind or other non-wage benefits have been included in the calculation of wages; b. if so, the methodology used to attribute a value to them; and c. in the event that such benefits exceed 15% of wages, an explanation of the rationale. <p>(iii) State whether workers were consulted on the wage data gathered, either through their trade unions or directly e.g. through surveys.</p>

APPENDIX

Table A

CRITERIA FOR LIVING WAGE ESTIMATES TO BE USED IN THE MODEL	
COLLECTING DATA	The estimate is based on data that is collected and representative of the location of the living wage estimate
DIFFERENCES IN CONTEXT	The estimate is city- or region-specific or at least accounts for urban and rural differences
COST OF LIVING OF A TYPICAL FAMILY	The estimate measures the cost of living of a typical family in a region (family size is estimated based on regional/national family size data or birth-rate data)
ITEMS OF COST OF LIVING	The estimate assesses the cost of living based on requirements that include good nutrition, decent housing, clothing and footwear, education, healthcare, household goods, transportation, etc.
SUFFICIENT NET INCOME	The estimate accounts for statutory deductions from gross income, such as taxes, union fees, etc.
NUMBER OF WAGE EARNERS	The estimate is based on an assumption of a single wage earner per family, in line with the definition of a living wage.
WORKER CONSULTATION	The estimate is based in part on information sought directly from relevant workers with regard to their needs and expenses
CONFLICT OF INTEREST	The estimate has no inherent conflicts of interests. Methodologies must have sufficient distance from funding sources to maintain integrity. In addition, individual estimates must not be influenced by the funding source
TRANSPARENCY	The estimate provider publishes a clear and consistent methodology for data collection and calculation elements

Table B: Living Wage Cohort Rates

	% OF LIVING WAGE PAID	RATE APPLIED BY THE MODEL
COHORT 1	Workers who are paid 90% to 99% of the Living Wage	95% of LW
COHORT 2	Workers who are paid 75% to 89% of the Living Wage	82.5% of LW
COHORT 3	Workers who are paid 50% to 74% of the Living Wage	62.5% of LW
COHORT 4	Workers who are paid less than 50% of the Living Wage	0% of LW

Example of a living wage disclosure using the Living Wage Progress Tool

NB all numbers are fictitious and included for illustrative purposes only.

GLOBAL AGGREGATED DATA	YEAR 0	YEAR 1	YEAR 2
TOTAL NO. OF WORKERS	8,880	8,805	8,350
NO. OF WORKERS < LW	11,190	11,565	11,900
LIVING WAGE THRESHOLD (\$,000)	62,420	65,859	66,211
LIVING WAGE DEFICIT (% OF WORKERS)	79%	76%	70%
LIVING WAGE DEFICIT (\$'000)	(5,846)	(4,415)	(3,005)
LIVING WAGE PROGRESS (DEFICIT AS A % OF THRESHOLD)	9%	6%	5%

PRIORITY COUNTRY 1	YEAR 0	YEAR 1	YEAR 2
LIVING WAGE (\$)	200	244	263
TOTAL NO. OF WORKERS	900	870	850
NO. OF WORKERS < LW	700	650	500
LIVING WAGE THRESHOLD (\$,000)	180	213	224
LIVING WAGE DEFICIT (% OF WORKERS)	78%	75%	59%
LIVING WAGE DEFICIT (\$'000)	(43)	(39)	(21)
LIVING WAGE PROGRESS (DEFICIT AS A % OF THRESHOLD)	24%	19%	9%

PRIORITY COUNTRY 2	YEAR 0	YEAR 1	YEAR 2
LIVING WAGE (\$)	13,636	13,478	12,692
TOTAL NO. OF WORKERS	1,000	950	950
NO. OF WORKERS < LW	800	650	350
LIVING WAGE THRESHOLD (\$,000)	13,636	13,478	12,692
LIVING WAGE DEFICIT (% OF WORKERS)	80%	68%	37%
LIVING WAGE DEFICIT (\$'000)	(2063)	(826)	(301)
LIVING WAGE PROGRESS (DEFICIT AS A % OF THRESHOLD)	15%	6%	3%

PRIORITY COUNTRY 3	YEAR 0	YEAR 1	YEAR 2
LIVING WAGE (\$)	9,000	9,524	10,000
TOTAL NO. OF WORKERS	1,300	1,380	1,450
NO. OF WORKERS < LW	800	830	850
LIVING WAGE THRESHOLD (\$,000)	11,700	13,143	14,500
LIVING WAGE DEFICIT (% OF WORKERS)	62%	60%	59%
LIVING WAGE DEFICIT (\$'000)	(1,451)	(1,390)	(1,145)
LIVING WAGE PROGRESS (DEFICIT AS A % OF THRESHOLD)	12%		

Accounting for a Living Wage

Shift, New York. September 2023

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ABOUT SHIFT

Shift is the leading center of expertise on the UN Guiding Principles on Business and Human Rights. Shift's global team of experts works across all continents and sectors to challenge assumptions, push boundaries and redefine corporate practice in order to build a world where business gets done with respect for people's dignity. We are a non-profit, mission-driven organization headquartered in New York City.



ABOUT CAPITALS COALITION

Capitals Coalition is a global collaboration redefining value to transform decision making. It sits at the heart of an extensive global network which has united to advance the capitals approach to decision-making. The ambition of the Coalition is that by 2030 the majority of businesses, financial institutions and governments will include the value of natural capital, social capital and human capital in their decision making and that this will deliver a fairer, just and more sustainable world.

ABOUT THE LIVING WAGE PROJECT

The Living Wage Accounting Model provides organizations with the means to measure and articulate progress towards payment of a living wage for their own employees, contractors, and workers in the first tier of their supply chain, by demonstrating the year-on-year movement of workers towards living wages.