



# Low pay in the third sector:

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*with support from Yasmin Mahmoudi, Living Wage Foundation*

Covid-19 provided a pertinent reminder of the critical role played by the UK third sector. In financial terms, the pandemic was a perfect storm for low income households, with many facing cuts to income while costs went through the roof. As households struggled for essentials, it was often third sector organisations that stepped in to provide the goods, from food parcels to home-schooling equipment and everything in between.

Unbeknownst to many, the financial climate of charities – who make up a significant proportion of the third sector - often mirrored the households they were helping. [63 per cent of charities reported an upsurge in demand during Covid-19](#), resulting in increased costs and a higher workload. Concurrently, the sector also experienced widespread financial losses, with numerous funding streams slowing down, such as individual giving, or closing completely - such as charity retail or fundraising events. Consequently, in January 2021, [83 per cent of charities projected a decline in income for the next 12 months, and 69 per cent said it would take more than a year to return to precrisis income levels](#).

As is often the case, when sections of the economy struggle, it usually impacts low paid workers disproportionately. The third sector is no different. As outlined in this report, around a fifth (17 per cent) of all third sector workers earn less than the real Living Wage. This compares with 26 per cent in the private sector and 6 per cent in the public sector. It is these workers – particularly those in the private and third sectors – who are more likely to have lost work or income due to being furloughed throughout the pandemic, while those on better pay have typically fared better.

As the sector re-orientates to life after lockdown, it is critical that workers in the sector, who have done so much to ensure families aren't without essentials, don't have to forgo those essentials themselves. These workers need a real Living Wage.

## What is the 'third sector'?

For our definition of 'third sector', we use the Inter-Department Business Register's (IDBR's) 'non-profit body or mutual association'. This category includes:

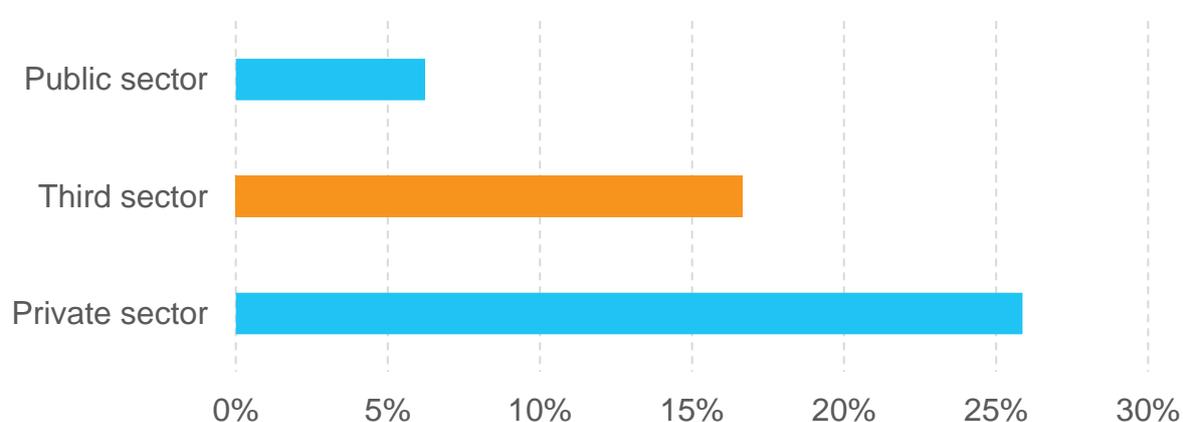
- Charities
- Universities
- Community Interest Companies
- Social Enterprises
- Pressure Groups

There are almost 90,000 registered non-profits in the UK, employing 2.3m people. This compares with 2.4m organisations and 17m employees in the private sector and 12,700 organisations and 6.6m employees in the public sector. This makes the third sector the second largest in terms of the number of organisations and the smallest in terms of number of people employed.

## Low pay in the third sector – how much is there and who is most impacted by it?

As shown in Figure 1, 17 per cent of workers in the third sector earn less than the Living Wage, this compares favourably with the private sector where low pay is the highest (26 per cent), but less favourably than in the public sector where low pay is the lowest (6 per cent). The picture is largely the same in London, with the private sector having the largest proportion of workers earning below the London Living Wage (25 per cent), compared with 14 per cent in the third sector and 7 per cent in the public sector.

*Figure 1: Proportion of workers paid below the Living Wage by sector group, UK, 2020*



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

*Notes: The ASHE tables do not produce data on the proportion of jobs below the real Living Wage by sector class. We use linear interpolation to estimate. 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 does not allow us to accurately estimate the number or proportion of jobs paid below the Living Wage in categories where the proportion is below 10 per cent, and so these figures should be treated with caution.***

### Sex and working patterns:

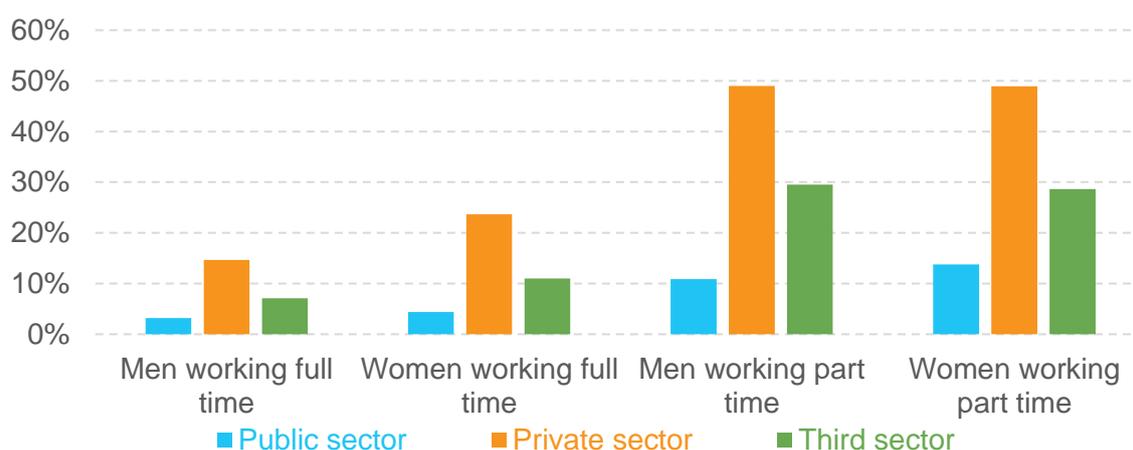
In all three sector groups, part time workers are at a greater risk of earning below the Living Wage. For example, half (49 per cent) of part time workers in the private sector earn below the Living Wage, compared to 18 per cent of full time workers. Similarly, almost a third (29 per cent) of part time third sector workers earn below the Living Wage, compared to 9 per cent of those in full time roles. In the public sector, 13 per cent of part time workers earn below the Living Wage, while the same is true for just 4 per cent of full time workers.

Similarly, women are considerably more likely than men to earn below the Living Wage across sector groups. The largest distinction is in the private sector, with 34 per cent of women earning less than the Living Wage compared to 19 per cent of men. In the third sector, 19 per cent of women earn below the Living Wage, compared to 13 per cent of men. It is also the case that women make up a much larger proportion of third sector workers – (1.4m compared to 900,000 men). Consequently, the number of low paid women in the third sector is more than double that of men (269,000 and

117,000 respectively. The public sector has the smallest percentage point difference, with 8 per cent of women earning below the Living Wage compared to 4 per cent of men.

As shown in Figure 2, when both men and women are in part time work, they face a similar risk of earning below the Living Wage across these three main sectors. That said, women take up around 75 per cent of all part time jobs across the UK as a whole, and so the risk of earning below the Living Wage for part time workers impacts them disproportionately. Additionally, women working full time are still more likely than men working full time to earn below the Living Wage in all three sector groups.

*Figure 2: Proportion of workers paid below the Living Wage by sex, working patterns and sector group, UK, 2020*



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

Notes: The ASHE tables do not produce data on the proportion of jobs below the real Living Wage by sector class. We use linear interpolation to estimate this. 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 does not allow us to accurately estimate the number or proportion of jobs paid below the Living Wage in categories where the proportion is below 10 per cent, and so these figures should be treated with caution.**

### Ethnicity:

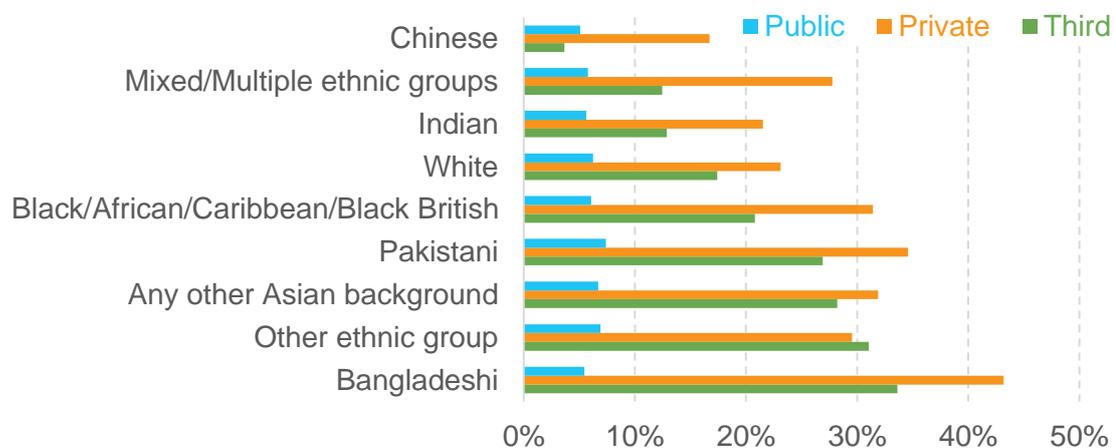
According to the most recent data, the [ethnicity pay gap in the UK currently stands at 2.3 per cent the lowest it has been since 2012](#). That said, our analysis shows that when it comes to the Living Wage, ethnic pay gaps are present, particularly in the private and third sectors. For instance, in the private sector, 23 per cent of white workers earn below the Living Wage compared to 28 per cent of those from racialised groups. The gap is slightly smaller in the third sector, with 17 per cent of white workers earning below the Living Wage compared to 20 per cent of those from racialised groups. There is no such gap in the public sector, where the rate of below Living Wage pay is the same for both white and racialised workers – 6 per cent.

Breaking down Living Wage pay gaps between more granular ethnic classifications presents a picture that less clear. For instance, while the third sector has the largest ethnic discrepancy in below Living Wage pay, white workers actually sit somewhere in the middle. 17 per cent of white

workers in the third sector earn below the Living Wage with ‘Chinese’ (4 per cent), ‘Mixed/multiple ethnic’ group (12 per cent) and ‘Indian’ (13 per cent) workers all facing a lower risk of earning below the real Living Wage. That said, other ethnic groups face a considerably higher risk of earning below the Living Wage in the third sector – particularly ‘Bangladeshi’ (34 per cent) ‘Other’ (31 per cent), ‘Other Asian’ (28 per cent) and ‘Pakistani’ (27 per cent) workers.

The third sector has also come under criticism for a lack of racial diversity at the top end of the salary scale, with organisations such as [#CharitySoWhite](#) and others highlighting the absence of racialised workers – particularly racialised women – on charity boards and in executive-level positions. For example, previous research has found that [62 per cent of the UK’s largest charities have all white boards](#). Evidently, the third sector still has some way to go in becoming a fully inclusive sector. While the picture is not completely linear, workers from racialised groups face a greater overall risk of earning below the Living Wage, while specific ethnic groups lag far behind those at the top end of the pay scale. This is particularly discouraging when considering that many third sector organisations have committed to eradicating racial pay disparities. Looking forward, much more needs to be done to redress these cleavages within the sector as well as in the UK more broadly.

**Figure 3: Proportion of workers paid below the Living Wage by ethnicity and sector group, UK, 2016-2020**



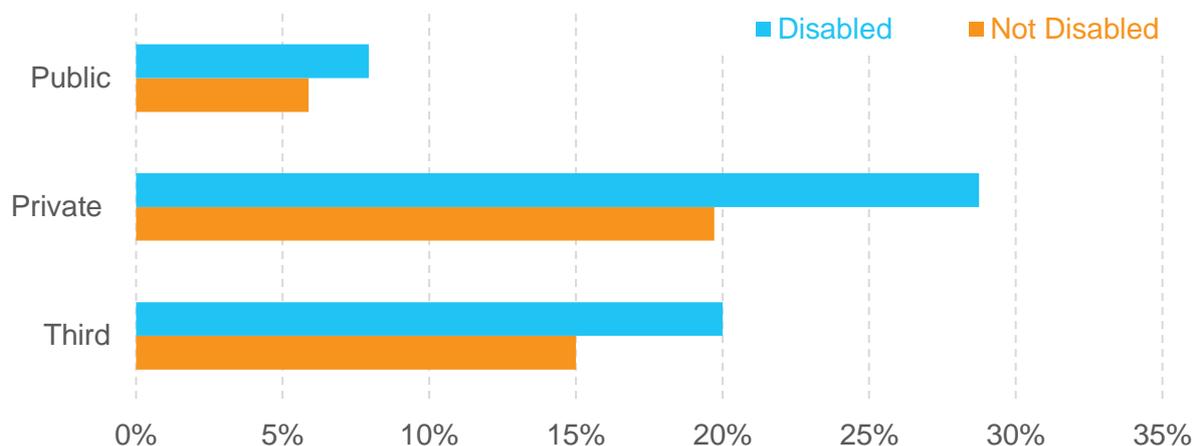
Source: Living Wage Foundation analysis of ONS, Annual Survey of Hours and Earnings and ONS, Labour Force Survey.

Notes: The ASHE data does not have an ethnicity flag. Figure 3 is from the LFS. As the LFS tends to over-estimate the scale of low pay, we have re-weighted the LFS data to produce results that are consistent with ASHE data.

### Disability status:

Across each of the three sectors, disabled workers are at greater risk of earning below the Living Wage than those without a disability. The difference is most pronounced in the private sector, where 29 per cent of disabled workers earn below the Living Wage compared to 20 per cent of those without a disability. In the third sector, 20 per cent of disabled workers earn below the Living Wage compared to 15 per cent of those without a disability. The public sector is where the difference is the least pronounced, with 8 per cent of disabled workers earning below the Living Wage compared to 6 per cent of those without a disability.

**Figure 4: Proportion of workers paid below the Living Wage by disability status and sector group, UK, 2020**



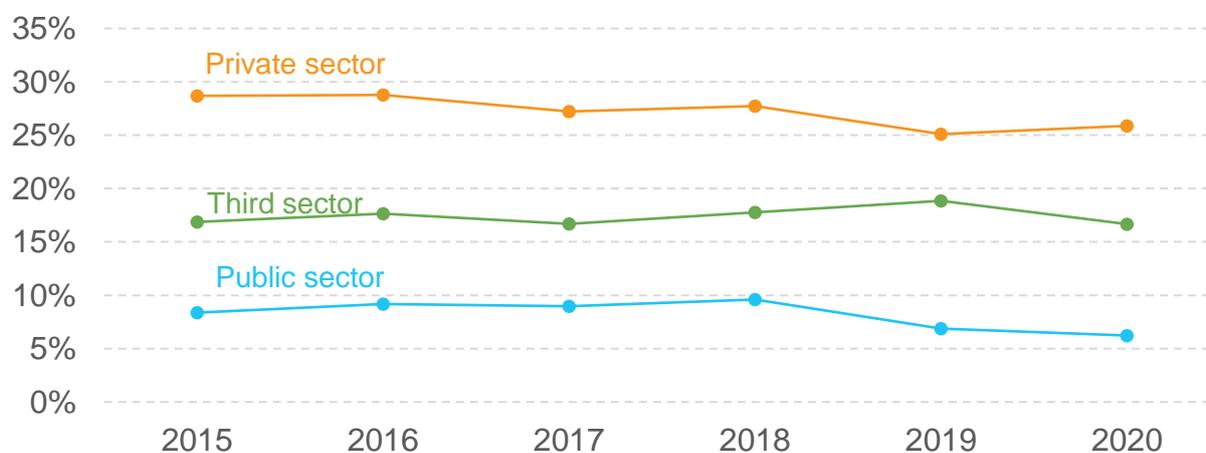
Source: Living Wage Foundation analysis of ONS, Annual Survey of Hours and Earnings and ONS, Labour Force Survey.

Notes: Notes: The ASHE data does not have a disability flag. Figure 4 is from the LFS. As the LFS tends to over-estimate the scale of low pay, we have re-weighted the LFS data to produce results that are more consistent with ASHE data.

## Low pay over time across the sectors and the impact of Covid-19

As outlined in Figure 5, between 2015-2020, there has been little movement in the proportion of employees earning below the Living Wage in any of the three main sector groups. The largest movement comes from the private sector, where the rate of below Living Wage pay has dropped from 29 per cent in 2015 to 26 per cent in 2020. That said, the larger fall in this sector is in the context of having much higher rates of below Living Wage pay to begin with. The figure for the public sector has remained below 10 per cent throughout, while the rate of below Living Wage pay in the third sector was the same in 2020 as it was in 2015 – 17 per cent.

**Figure 5: Proportion of workers earning below the Living Wage by sector group over time, UK, 2015-2020**



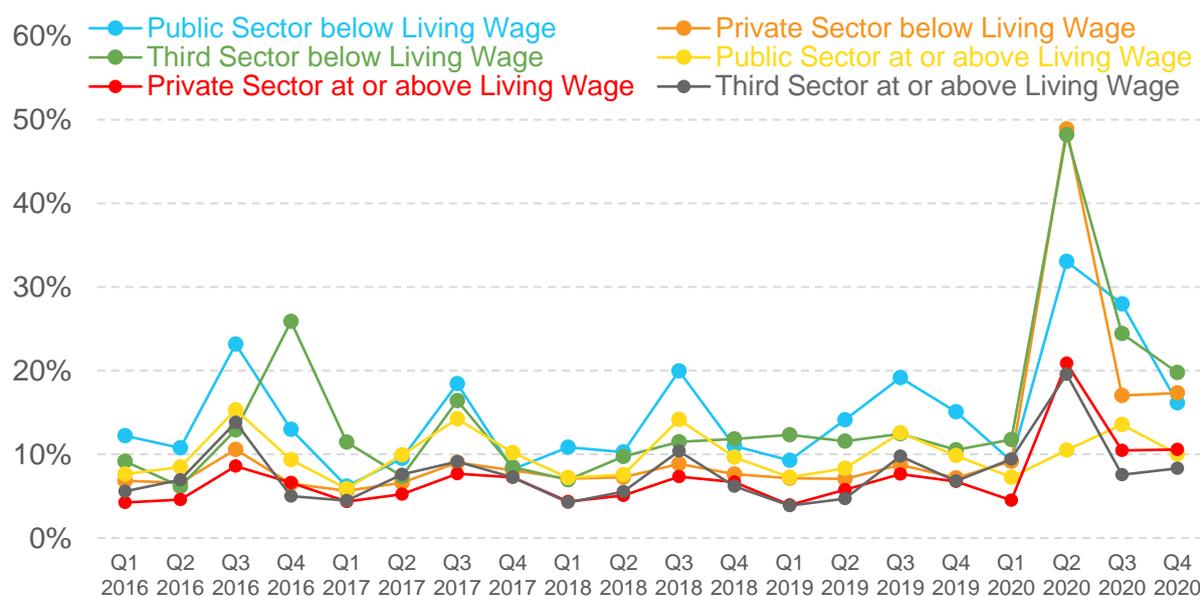
Source: Living Wage Foundation analysis of ONS, Annual Survey of Hours and Earnings and ONS, Labour Force Survey.

Notes: The ASHE data does not produce data on the proportion of jobs below the real Living Wage by sector class. We use linear interpolation to estimate. 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 does not allow us to accurately estimate the number or proportion of jobs paid below the Living Wage in categories where the proportion is below 10 per cent, and so these figures should be treated with caution.**

Figure 6 shows the proportion of workers that have been ‘temporarily away from work’ from 2016-2020. Previously, this usually indicated a worker being on holiday or off sick, but since Q2 2020, is mainly comprised of employees on the Job-Retention-Scheme. [Previous LWF analysis has shown that low paid workers are considerably more likely to be Furloughed than those on better pay.](#) Our analysis finds this to be consistent across all three sectors. In both the private and third sectors, almost half of low paid workers (49 per cent and 48 per cent respectively) were away from work during the height of the pandemic – Q2 2020. Low paid workers in the third sector were the most likely to still be away from work at the end of 2020 – this was the case for a fifth (20 per cent) of these workers compared to 17 per cent of low paid workers in the private sector and 16 per cent of low paid workers in the public sector.

Among those paid above the Living Wage, being away from work during the pandemic was considerably less likely. For example, around a fifth of private and third sector workers earning above the Living Wage were away from work when Covid-19 first hit the labour market (Q2 2020), while the same was true for 11 per cent of those in the public sector earning at or above the Living Wage. Better paid workers are also tend to return to work quicker than those on low pay. By Q4 2020, around one tenth of those earning at or above the Living Wage were away from work in all three sectors, broadly consistent with the figures seen before the pandemic.

**Figure 6: Proportion of workers temporarily away from work (mainly due to Furlough as of Q2 2020), by sector group and Living Wage status, UK, Q1 2016-Q4 2020**



Source: Living Wage Foundation analysis of Labour Force Survey and Annual Survey of Hours and Earnings.



*Notes: Before Covid-19, being temporarily away from work referred to those that were on paid leave or were off sick, but as of Q2 2020, is mainly dominated by those who were put on the Job-Retention-Scheme, while also accounting for those with Covid-19 or those self-isolating. LFS data has been re-weighted to produce results consistent with the ASHE data.*

## Conclusion

As we continue to grapple with the ways in which the pandemic has impacted our society, it is essential to remember the critical role the third sector has had in safeguarding financially vulnerable households from extreme hardship. It is worth noting that the third sector was providing this service long before the pandemic, and it will no doubt continue to do so as we progress out of it.

After more than a year of pandemic firefighting, many third sector organisations will welcome the respite that has come with the vaccine rollout and the opening up of formerly shutdown sectors of the economy. This reprieve will no doubt free up space to think more long-term about how they can support their communities. We must be mindful that this work continues to be carried out by individuals who continue to be underpaid. Ensuring these workers earn a real Living Wage is the least we can do – it cannot be right that those who work tirelessly to prevent families from falling into poverty have to experience poverty themselves due to chronic low pay.

We will be releasing a larger piece of work in early 2022 which provides a more detailed picture of how low pay impacts the sector. In the meantime, we urge third sector organisations who can to become Living Wage employers today (<https://www.livingwage.org.uk/become-a-living-wage-employer>) and Living Wage Funders, (<https://www.livingwage.org.uk/how-become-living-wage-funder>) if your organisation provides funding within the sector.