

Working Paper 4

Implementing the Living Wage in Local Authorities

Introduction

The increase in the number of people living in poverty but who are in employment has meant that work hasn't always offered a route out of poverty. Talk of a 'cost of living crisis' and a recognition that wages at the lower end have not increased at the same rate as those at the top has led to campaigns and political commitments around the idea of a 'Living Wage'. Despite a large number of Local Authorities (LAs) across the UK becoming Living Wage employers, at the time of writing, no LAs in the North East pay the UK Living Wage to its entire staff. This Working Paper examines some of the issues that need to be addressed in order to become Living Wage employers.

What is the Living Wage?

A 'Living Wage' is a level of pay that allows employees to achieve an agreed acceptable minimum standard of living. In the UK, there are two Living Wage levels, one for London and one for the rest of the UK. The 'UK Living Wage' is set by the Living Wage Foundation and currently stands at £7.65 per hour. It is linked to the Minimum Income Standard, devised by researchers at Loughborough University and supported by the Joseph Rowntree Foundation. The methodology involves working with members of the public to understand what items, goods and services are required for a minimum acceptable standard of living in the UK today. This 'consensual' approach ensures that the Living Wage is free from political or employer considerations regarding at what level a Living Wage should be set. The methodology developed by the CRSP at Loughborough University is rarely challenged and is internationally recognised as being robust.

Whilst the UK Living Wage is an important and robust tool in tackling in-work poverty, it does make certain assumptions about household circumstances. For example, the level at which the Living Wage is calculated assumes that families claim of the benefits and tax credits to which they are entitled and that all adults in the household are able to work full-time. It has been stated that:

In this sense, the Living Wage level, like the MIS itself, represents a benchmark which nobody should have to be below, rather than necessarily something that will meet every household's needs. (Hirsch & Moore 2011, p7)

Therefore, it is not - and does not claim to be - a panacea for in-work poverty but it is a very important piece of the jigsaw.

Why is a Living Wage needed?

In the UK today, **66% of children growing up in poverty in the UK today live in a household where at least 1 person works** and **44% of children growing up in poverty live in households where at least one adult is in full time employment or is self-employed**. Quite simply, a growing number of families are unable to 'work themselves out of poverty', despite this being a key goal in the Government Child Poverty Strategy (DfE 2010, p3). Low wages, insecure employment, zero-hours contracts and underemployment all contribute to a long-term increase in the numbers of people in in-work poverty. Paying the UK Living Wage is both a strong symbolic leap and a necessary practical step towards reducing the levels of poverty in the UK today.

Poverty is one of the public sectors 'wicked issues' which cuts across different departmental and service priorities. There are social and economic determinants to health and poverty affects educational outcomes amongst children and poor housing and physical environments are also associated with poverty.

Local Authorities have statutory duties to tackle child poverty and they are required to 'make arrangements' 'with a view to reducing, and mitigating the effects of, child poverty' (Child Poverty Act, 2010, p13). Low pay for local authority employees will not help in meeting these duties.

How can public sector organisations implement the Living Wage?

There are a number of reasons why LAs might argue that it is difficult for them to become Living Wage employers. However, even in the current economic climate, a growing number of LAs across the UK have been able to overcome these issues and find solutions to them.

Financial

A wage rise for the lowest paid employees should not be unaffordable for any employer. Islington Council have stated that they have been able to become a Living Wage employer without the 'taxpayer' bearing the cost and wage bills have risen in Local Authorities for most of the past few decades. Small increases at the lower end of the wage bill can be offset elsewhere, through reduced 'pay ratios' (the difference between the highest and lowest earners) and by reduced costs in other parts of the organisations, such as (re)training and recruitment.

There is an emerging 'business case' for being a Living Wage employer and this applies across sectors. A small scale piece of research carried out on the benefits of the Living Wage in London suggested that there was

some evidence of productivity increases (often not statistically significant) associated with higher effort, lower staff turnover, reduced absenteeism, increased stability of workforce, and improved worker morale, motivation and commitment (London Economics 2009, pv)

HR

A number of LAs have implemented the Living Wage by paying a 'discretionary supplement' to staff on wages below the level of the Living Wage in existing pay structures. This approach means that issues such as Single Status and/or and job evaluations do not have to be revisited or amended to become a Living Wage employer.

However, this approach means that there are some issues to consider around the treatment of casual or sessional workers who have traditionally received the same pay as permanent members of staff but who have different employment rights. It should, of course, be noted that casual or sessional workers might be at greater risk of poverty than permanent members of staff and so should not be excluded from Living Wage arrangements if tackling poverty was one of the reasons for implementation. Apprenticeships are not covered by the UK Living Wage methodology.

There are no known circumstances where increasing an employees pay to the UK Living Wage would make them worse off than before and, as such, no LAs have agreed to 'opt-in' or 'opt-out' schemes for employees, as this facility does not exist in existing pay arrangements.

Legal

Concerns regarding possible legal challenges to paying the Living Wage have been addressed by legal advice from a number of authorities. For example, York City Council argued that:

Equal pays risks associated with paying a staff group differently can be mitigated by choosing a mechanism that is transparent and based on a legitimate aim ... (Paying a Living Wage is) a proportionate means of achieving a legitimate aim, namely the application of a national initiative to address poverty.

The 'discretionary supplement' approach to the Living Wage highlighted in the HR section above is an example of an approach that minimises the impact on - and ensures the integrity of - existing pay structures which should, again, reduce the prospect of a legal challenge to Living Wage employers.

Procurement

A range of approaches towards procurement have been adopted by local authorities in respect of the Living Wage. The reach and impact of the Living Wage depends on a range of employers - and not just LAs - paying a Living Wage to directly employed staff. As public sector organisations are set to increasingly become commissioners, rather than providers, of services, commissioning and procurement arrangements involving the consideration of the Living Wage will take on increasing importance.

Some Local Authorities have shied away from discussing the Living Wage with contractors whilst others have been more explicit in their approach. Lewisham Council, for example, ask for two tenders to be submitted if the Living Wage is relevant to a contract: one tender with the contractor paying a Living Wage and one without this requirement. A decision is then made internally. The same authority also work proactively with the local Chamber of Commerce to encourage local businesses to bid for council contracts, which will help improve the local economy and potentially increase the amount of money circulating locally through 'local multipliers'. And, as John Ruskin said:

"It is unwise to pay too much, but it's worse to pay too little. When you pay too much, you lose a little money - that's all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot - it can't be done. If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that you will have enough to pay for something better."

Communications

At a time when people are very aware of wages not keeping pace with inflation, the need for sensitive communications around pay increases for some public sector workers should not be underestimated. Some employees will require reassurance that they will not be worse off as a result of any implementation of the Living Wage and colleagues just above the level of the Living Wage (who may be supervising colleagues below the Living Wage level) may be concerned about the impact on them and their roles.

More widely, communication with external stakeholders – including residents – will need consideration although there are very obvious positive messages that can be conveyed and the Living Wage enjoys widespread public support. Many people benefitting from the implementation of the Living Wage are likely to be amongst some of the most disadvantaged and poorest members of society and the council has responsibilities to address poverty and improve health and educational outcomes. As highlighted above, the Living Wage is a ‘proportionate means of achieving a legitimate aim’.

Monitoring

There is an undoubted need to monitor the impact of the implementation of the Living Wage. If there are anticipated ‘business benefits’ to becoming a Living Wage employer, these must be measured in order to continually build and demonstrate the business case for the Living Wage. For Local Authorities, monitoring should include impacts beyond the immediate effect on the workforce and should also include consideration of any effects on service delivery, resident satisfaction and impact on procurement activity.

Wider support

Even if all local authorities or public sector bodies took the decision to become Living Wage employers, there is a need for people employed in the private and voluntary sectors to understand the rationale behind such a decision, to support it, and to potentially benefit from a similar decision by their employer. There has been talk of ‘living wage zones’ and ‘living wage city deals’ (Pennycook & Lawton 2013, p6) with a focus on public sector bodies leading the way in becoming Living Wage employers and then ‘committing to re-letting service contracts on a living wage basis’ (p54) and working to gain support from local and regional business and employer organisations.

Summary

There are a number of reasons why implementing a Living Wage might be difficult for local authorities, especially in the current economic and political climate. However, none of these obstacles are insurmountable as numerous local authorities across the UK have shown by becoming accredited Living Wage employers.

All local authorities have statutory duties to tackle child poverty in their area and yet very few of them explore how their own organisational behaviour affects the potential for people to find work which will provide an income that lifts them out of poverty. Instead of focusing on the perceived behavioural short-comings of job-seekers and parents of children living in poverty, local authorities should explore what they can do as part of their core work, which involves employing people both

directly and indirectly to deliver services to communities within its boundaries. Rose Wheeler, writing for the Local Government Anti -Poverty Unit in 1995 argued that:

“The real challenge is to look at and change as necessary, the whole of local authority activity, in direct relation to the needs of the community it is there to serve.”

That is still the challenge today and the Living Wage helps us to meet this challenge.

Living Wage accreditation



More information on how to become an accredited Living Wage employer can be found on the Living Wage Foundation website - <http://www.livingwage.org.uk/>

The **North East Child Poverty Commission** is a multi-agency stakeholder group that believes that every child should have an equal chance in life. It is made up of representatives from the public, voluntary and private sectors in the North East and works to promote public and political support for policies that will help to end child poverty.

The **Institute for Local Governance (ILG)** is a pioneering research and knowledge exchange venture designed to maximise the benefits of collaboration between all five universities in North East England and the wider public realm. It is a unique research partnership between North East local authorities, universities, police forces, fire and rescue services and other public sector partners. The ILG is hosted by Durham University Business School.

Contact

Stephen Crossley | s.j.crossley@durham.ac.uk | (0191) 334 9107 | 07983 408 966



**Milfield House
Foundation**

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DfE (2010) *A New approach to child poverty: tackling the causes of disadvantage and transforming families lives*, London: DfE

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Hirsch, D. & Moore, R (2011) *The Living Wage in the United Kingdom: Building on success*, London: Citizens UK

Available at <http://www.citizensuk.org/wp-content/uploads/2011/06/The-Living-Wage-in-the-United-Kingdom-May-2011.pdf>

London Economics (2009) *An independent study of the business benefits of implementing a Living Wage policy in London*, London: GLA Economics

Available at http://www.london.gov.uk/mayor/economic_unit/docs/living-wage-benefits-report.pdf

Pennycook, M. & Lawton, K. (2013) *Beyond the Bottom Line: The challenges and opportunities of a Living Wage*, London: Resolution Foundation & IPPR

Wheeler, R. (1995) *Implementing Local Government Strategies* (LGAPU)

Further Reading (Implementation)

Brighton & Hove Living Wage Commission – *Final Report*

Available at http://www.brighton-hove.gov.uk/sites/brighton-hove.gov.uk/files/downloads/living_wage_commission/Living_Wage_Commission_Report_Final.pdf

Cardiff Council – *Implementing the Living Wage*

Available at

http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&cad=rja&ved=0CDMQFjAA&url=http%3A%2F%2Fwww.cardiff.gov.uk%2Fobjview.asp%3Fobject_id%3D23853&ei=dvx4Uv3ADcqR7Aaxj4G4DQ&usg=AFQjCNEZ44xRN-o-XSGUZgvyO4y6Pz59g&sig2=6RThzegQ1X5dvDqAFi-r-g&bvm=bv.55980276,d.ZGU

City of Worcester – *The Living Wage*

Available at <http://committee.cityofworcester.gov.uk/documents/s21255/Living%20Wage%20-%20report%20to%20PMBS%20-%20January%202013.pdf>

Islington Borough Council – *How Islington is implementing the Living Wage*

Available at

[http://www.islington.gov.uk/publicrecords/library/Finance/Information/Factsheets/2012-2013/\(2012-07-11\)-london-living-wage-case-study.pdf](http://www.islington.gov.uk/publicrecords/library/Finance/Information/Factsheets/2012-2013/(2012-07-11)-london-living-wage-case-study.pdf)

Lewisham Council – *Overview & Scrutiny Report: Fairness in procurement and pay & employment practices*

Available at <http://www.lewisham.gov.uk/mayorandcouncil/overview-scrutiny/Overview-and-Scrutiny-Reports/Documents/Fairness%20in%20procurement%20review.pdf>

Newcastle City Council – *A Living Wage for Newcastle*

Available at

http://www.newcastle.gov.uk/sites/drupalncc.newcastle.gov.uk/files/wwwfileroot/your-council/communications_and_marketing/a_living_wage_for_newcastle_-_april_2012.pdf

York City Council – *Implementing the Living Wage*

Available at

<http://democracy.york.gov.uk/documents/s78004/Implementing%20a%20Living%20Wage%20Cabinet%20Report%204%20Dec%202012%20Final%20Draft%20with%20schools%201.pdf>

Further Reading (Background & Methodology)

Living Wage Foundation – www.livingwage.org.uk

Minimum Income Standard - <http://www.lboro.ac.uk/research/crsp/mis/>

<http://www.jrf.org.uk/topic/mis>