

Living Wage and the Role of Local Government

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The Greater Manchester Living Wage Campaign

The Greater Manchester Living Wage Campaign is a coalition of people and organisations who want to make Greater Manchester a Living Wage Zone; to challenge low pay; to put Living Wage policy and a culture of social equality at the heart of how Greater Manchester works.

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This publication has been written as part of CLES' commitment to the Living Wage. CLES pays the Living Wage to all of its' employees and actively encourages local government and other stakeholders to consider the challenge low pay presents to the livelihoods of workers and communities.

INTRODUCTION

This think-piece written collectively by the Centre for Local Economic Strategies (CLEES) and the Greater Manchester Living Wage Campaign (GMLWC) seeks to discuss how local authorities in Greater Manchester can show the required leadership to improve pay across the city-region.

The low pay concern

This think-piece comes at a time where low pay is high on the political and economic agenda. Despite a recognition that the economy is moving towards recovering from the recession commencing in 2008, evidenced through increases in quarterly growth figures, there is no match of this growth with a real-time increase in wages. This suggests that economic growth is a bit of a folly; benefiting corporations and strong sectors of the economy at the expense of those struggling to get by.

Political parties of all colours have talked at the recent Party Conferences of the need to address the issue of low pay across all sectors of the economy. Indeed, the Labour Party made commitments to increase the national minimum wage from £6.50 per hour to £8.00 per hour by 2020; with the Conservative Party continuing to use welfare reforms and tax cuts to move people into work and theoretically a more prosperous life.

The emergence of the Living Wage Foundation and GMLWC

The challenge of low pay is, however, not as straightforward as simply upping an hourly rate. Low pay is the largest growing factor of poverty in the UK with an estimated 5 million people not paid a wage which enables them a 'decent quality of life'. Welfare reforms, particularly around tax credits are exacerbating the problem rather than solving it; and businesses, public bodies and other institutions require a vast shift in their pay policies and wider cultural practices to ensure low pay is addressed.

Over the last few years, the Living Wage Foundation at the national level and largely local authorities and lobby groups at the local level have campaigned about the importance of organisations in all sectors paying their staff a Living Wage. The Foundation has done this through setting Living Wage rates and seeking to influence the behaviour of organisations in localities. There is, however, an increasing recognition that the Foundation and supportive localities need to go beyond cajoling and that the payment of a Living Wage becomes a key part of the place leadership role of local authorities and is universally considered by business as a positive thing to do.

Local government are therefore crucial to the wider adoption of the Living Wage and meeting the aspirations of the Foundation. Local government has a role in terms of its democratic remit; its strategic remit; its role as a purchaser of goods and services; and perhaps most importantly its role as a 'place-shaper', utilising its network of partners and influence. In Greater Manchester, the Greater Manchester Living Wage Campaign is a coalition of willing people and organisations who want to make the city-region a Living Wage zone, who want to challenge low pay, and who want to put social equality at the heart of how Greater Manchester works.

The focus of this think-piece: enhancing the role of local government

To enable the above aspiration to be met, the Greater Manchester Living Wage Campaign is encouraging the ten local authorities in Greater Manchester and the Combined Authority to show leadership to improve pay across the city-region. This think-piece therefore seeks to suggest ways in which the issue of low pay and the consideration of Living Wage can be more effectively embedded into the place leadership role of local government. It does this by:

- 1)** Outlining the issue of low pay and why a Living Wage is needed;
- 2)** Highlighting why the Living Wage is good for the economy, for business, and for workers;
- 3)** Exploring the overarching roles of local authorities in addressing the issue of low pay;
- 4)** Detailing what local authorities are doing specifically to accelerate and cascade the Living Wage to other organisations in their locality;
- 5)** Identifying recommendations for how the 'ante' of Living Wage can be 'upped' in Greater Manchester.

THE ISSUE OF LOW PAY AND WHY A LIVING WAGE IS NEEDED

This section of the think-piece briefly outlines the scale of the challenge around low pay in the UK and identifies why a Living Wage is needed. It is designed to set up further sections around the benefits of the Living Wage and the role of local government.

The scale of low pay

In-work poverty exists at greater cost to the taxpayer than those who are unemployed and on benefits. For example, Government data from 2012 reveals that Income Support and Working Tax Credit payments to those in work totalled £13.8 billion while payments to those claiming Jobseeker's Allowance was less than half this amount, at £4.9 billion.¹ This £13.8 billion top-up of salaries indicates that a large proportion of jobs are drastically underpaid. On a similar note the rise of zero-hours contracts may be exacerbating this picture. 29% of individuals on zero hours contracts want more paid work, compared to just 11% on other forms of contract.²

A recognised definition of low pay is that an individual does not earn enough to purchase what is needed for a given minimum standard of living. Recent research by the Joseph Rowntree Foundation asked members of the public what goods and services they felt that households in the UK today needed to achieve a socially acceptable minimum living standard. When the total costs of the goods identified by the public is

added up it suggests that a single person would need to earn a minimum of £16,300 a year before tax to pay for them.³ This salary is significantly more than a minimum wage full-time salary of £11,830.⁴

The need for a Living Wage

Further evidence suggests that a minimum standard of living is becoming even less affordable over time. Because poorer households earn less money, proportionally more of their income is spent on essential goods such as housing and utility bills where as in wealthier households the proportion of salary spent on essential goods and less vital goods such as electronic goods and holidays abroad is more balanced. While the cost of less vital goods have, overall, decreased over time, the cost of essentials have seen large price increases. For example, food prices since 2006 have increased by 40%, housing by 15% and energy by 73%. This means that low-earning households are impacted to a greater extent by inflation than those living in higher income households.⁵

WHY IS THE LIVING WAGE GOOD FOR THE ECONOMY, FOR BUSINESS AND FOR WORKERS?

This section of the think-piece focuses on the potential beneficiaries of accelerating and cascading the Living Wage.

The Living Wage has an obvious benefit for workers in that they are in receipt of enhanced wages and potentially therefore have greater spending power and a better quality of life, with subsequent knock-on effects for their families. However, there are a range of other beneficiaries in terms of the national economy and Treasury, places and local economies, and business.

The national economy and Treasury

A key beneficiary of accelerating and cascading the Living Wage would be the national economy and notably the Treasury. The Resolution Foundation⁶ in their report on the Living Wage, states the biggest beneficiary of a universal implementation of the Living Wage (across all organisations and businesses) would be HM Treasury, as not only would income from tax receipts and national insurance contributions increase, but spending on tax credits and in-work benefit payments, which are currently paid to the low-paid, would fall. The Resolution Foundation suggest a gross saving for the exchequer of £3.6 billion; with the Living Wage Commission⁷ in their report suggesting £4.2 billion.

Workers

A key beneficiary of accelerating and cascading the Living Wage would be workers themselves. The Resolution Foundation estimates that 5 million people in the UK would see wages rise as a result of universal adoption of the Living Wage. This would see the gross earnings of the workforce rise by £6.5 billion, an average of around £850 per household. Being paid a Living Wage also tends to make workers happier, as they do not have to think about domestic financial concerns whilst at work.

Places and local economies

A key beneficiary of accelerating and cascading the Living Wage would be places and local economies. This benefit has two connotations. First, the increases in the wages of the local workforce, that would occur from the universal adoption of the Living Wage, could result in an increase in the level of workers' disposable income, which in turn will increase their spending powers. This has benefits for shops and services in the locality in which benefitting individuals live. Second, it potentially increases people's affinity to the place in which they live. Increased wages may enable people to shop more independently, for example, thus contributing to the sustainability of

local businesses rather than the pockets of multi-national chain corporations. It may also reduce more socially irresponsible behaviour and thus improve local outcomes around crime and health, for example.

Business

A range of staffing benefits

The payment of the Living Wage brings a range of benefits to businesses in terms of their workforces. Fair pay is a key factor in staff loyalty and as such paying a Living Wage that is reflective of quality of life considerations keeps staff focused on the job and happier within work. For example, it means that employees are not focusing on domestic financial concerns whilst at work. Paying the Living Wage also enables businesses to retain staff as their wages will be more attractive than an organisation which does not pay the Living Wage. Relatedly, paying the Living Wage means businesses are able to attract a better quality of employee in the first place.

Both the Living Wage Commission and the Economic Policy Institute⁸ state that adoption of the Living Wage leads to a host of 'cost-saving opportunities' for businesses resulting from decreased staff turnover and absenteeism, along with increased stability, motivation and commitment and business reputation. There is also evidence to suggest there is a link between businesses paying the Living Wage and increased productivity. The Resolution Foundation state that businesses adapt to the rising costs associated with Living Wage by rising productivity (as with introduction of the National Minimum Wage) by either increased employee satisfaction or through investment in training.

Remember there are also challenges with the Living Wage

Whilst the purpose of this paper is to accentuate the benefits of the Living Wage and to accelerate and cascade the implementation; any assessment of benefit has to be matched with an exploration of the potential challenges. Again these can be themed as follows:

The national economy and Treasury

There will potentially be lower demand for labour, with the Resolution Foundation suggesting a reduced demand of some 160,000 jobs nationally as a result of universal adoption.

Places and local economies

The increase in disposable income resulting from being paid the Living Wage may lead to enhanced aspirations and people wanting to move out of the area in which they live. Again this could have connotations for local economies, but negative ones as a result of reduced spending in a particular neighbourhood.

Business

The implementation of Living Wage can also present challenges for business, most notably where related to local authority procurement processes.

- For example, it can lead to competitive disadvantage where some businesses are committing to paying the Living Wage and others are not;
- Living Wage commitments are not being matched with uplifts in contract values through procurement;
- Adoption of the Living Wage may lead to a need to increase prices of goods and services, with subsequent knock-on effects for customers.

THE ROLE OF LOCAL GOVERNMENT

This section of the think-piece outlines what we see as the key overarching roles of local government in the low pay agenda, with subsequent case studies of specific practices of how these roles can be achieved.

Local government and indeed the wider public sector are key partners for the Living Wage Foundation in accelerating and cascading the Living Wage. Local authorities are key employers within place; key developers of local strategy and policy; key purchasers of goods and services; and key cajolers of the behaviour of other organisations including the business community and voluntary and community sector organisations. As such they have a number of roles in the low pay agenda.

Role 1 – as democratic place leaders

Local authorities are democratically controlled organisations through the remit of elected members. Therefore, an authority with principles around addressing low pay and aspirations around paying the Living Wage directly and through supply chains would have such an aspiration at the forefront of their political leadership, alongside other issues such as growth, public service reform and responding to the challenges posed by austerity. Political leadership is therefore a key role of local government in addressing low pay, as the political leadership of elected members can influence the implementation and cascading of Living Wage.

Case study – Preston City Council

The issue of low pay and the Living Wage has been at the forefront of the local Labour party's policies in Preston since 2008. Indeed, it was a key component of the manifesto for the party when they took control of the Council following local elections in 2011. Since then, Living Wage principles have shaped: the structure of the Cabinet with a dedicated elected member for social inclusion; policy interventions; procurement choices; and the behaviour of other public, private, and voluntary and community sector organisations. Preston City Council are accredited Living Wage employers and are now undertaking a range of activities to foster local community wealth. The Council's role as a democratic place leader has been key to this.

Role 2 – as accredited Living Wage Employers

CLES has recently undertaken work with Manchester City Council to explore the extent to which local authorities across the UK are paying their own direct labour force the Living Wage and the mechanisms they are utilising to embed such principles into procurement, and subsequently suppliers. The research revealed that around two thirds of local authorities are currently paying

their staff the Living Wage, with 60% of these also having some form of mechanism to encourage their suppliers and contractors to pay the Living Wage through procurement. It should be noted, however, that there is a difference between being a Living Wage-paying authority and an ‘accredited’ Living Wage authority. There are currently 11 accredited Living Wage authorities in England. Becoming an accredited Living Wage Employer is therefore a key role of local government in the low pay agenda.

Case study – the benefits of accreditation

All the local authorities (and indeed other organisations) which have become accredited will reap similar benefits. These are important in the ‘place-shaping’ role of local authorities and in cascading the principles of Living Wage to partner organisations and through the supply chain. Key benefits include:

- Access to guidance on implementing the Living Wage through procurement;
- Becoming part of a strategic network of employers that promote and support the Living Wage;
- Appearing on the Living Wage Foundation website with subsequent opportunities for promoting the accreditation.

Role 3 – as strategic purveyors

Addressing low pay and the payment of the Living Wage will just be one of the ways in which local authorities will be looking to address local economic, social and environmental challenges. Each authority will have priorities laid out in their Corporate Plans and Community Strategies around the economy, health inequalities and housing, for example. These plans effectively drive the priorities of the authority and other key partners across the public, commercial, and social sectors; hence being key documents for embedding Living Wage priorities and principles within. Local authorities can effectively utilise this commitment to an issue to ensure it strategically purveys other aspects of local authority business.

For example, detailing low pay as one of a suite of priorities in invitation to tender documentation can encourage suppliers and contractors to pay the Living Wage as part of tender submissions and contract delivery. Authorities can also utilise charters (as in the example of Salford) to ensure spend is maximised in economic, social and environmental terms.

Case Study – Salford City Council

Salford City Mayor's Employment Charter was launched in November 2013 and is designed to help raise employment standards for employees and businesses across the city. The Charter consists of a number of pledges which are based around three themes. First, it seeks to put Salford first by creating training and employment opportunities for Salford people. Second, it seeks to promote buying in Salford, by looking to purchase Salford goods and services at every practicable opportunity. And third, it seeks to set the standard by promoting the best possible working practices and conditions such as opposing the use of zero-hour contracts. The Living Wage forms part of theme three, with all businesses supporting the Charter expected to pay the Living Wage. Additionally, Salford City Council are using the Charter as a key component of their procurement processes to ensure spend brings maximum benefit for the local economy and Salford people.

Role 4 – as requirers, encouragers and cajolers through procurement

The process of procurement presents local authorities with a key opportunity to embed low wage concerns and Living Wage principles into the behaviour and activities of their supply chain. There are two means of doing this. One is through requiring suppliers to pay the Living Wage through placing questions in tender documentation and clauses in contracts (as detailed in the example from Islington). There are concerns with risk around this in terms of legal challenge from other potential suppliers who are not able or willing to pay the Living Wage

as part of a procurement exercise. However, this has not yet been subject to challenge and as such the changing EU procurement regulations makes challenge less likely. A uniform approach cannot be adopted, however, and places must consider an effective balance between requiring, influencing and cajoling the payment of the Living Wage. This can be undertaken through:

- education, encouragement and engagement as opposed to enforcement;
- including questions in tender documentation and compulsory scoring;
- the social value agenda;
- supplier charters.

Case Study - London Borough of Islington

Islington Council has developed a compulsory Living Wage policy from the recommendations of its Fairness Commission. The requirement for potential suppliers to pay the Living Wage is detailed in tender documentation and enforced through the inserting of Living Wage requirements into contract criteria. Importantly, Islington Council is monitoring adherence to the payment of the Living Wage through contract management. A condition of contract is that the Council can monitor suppliers at any time and ask them to provide evidence at contract review meetings.

Role 5 – as reinvestors of savings to the public purse

The policy environment in the UK is currently entrenched in a debate around devolution. Initial powers and resources devolved to cities through the City Deal process and through Local Enterprise Partnerships (LEPs) have been exacerbated certainly in rhetoric terms by the Scottish Referendum and the myriad of reports about devolution, particularly in the Northern parts of England. Greater Manchester already has a City Deal in place which seeks to retain and reinvest some tax raising activities. There is certainly scope for Greater Manchester to utilise the existing City Deal as a means of negotiations with government to reinvest the savings from the implementation of the Living Wage across all sectors of the economy.

UPPING THE ANTE OF THE LIVING WAGE IN LOCAL GOVERNMENT

This paper has to date highlighted the scale of the challenge around low pay, the benefits of the Living Wage, and the role of local government in the low pay and Living Wage agendas. The issue is particularly prevalent given the nature of the times we find ourselves within in policy terms. Local authorities are seeking to respond in innovative terms to the challenges posed by austerity; they are also being asked to respond to the Public Services (Social Value) Act to ensure procurement reaps maximum benefit for local economies; they are being asked to reform services so there is less dependency upon local authority delivered services; and there are hints from central government around the devolution of more powers and resources to the local level.

It is therefore an opportune time for local authorities to up the ante of their activities around low pay and the Living Wage; including those in Greater Manchester. As such, the below are effectively recommendations for how the ante can be upped.

Recommendation 1 – lobby for reinvestment of Living Wage tax benefits

Through implementing the Living Wage and embedding it into contract arrangements local authorities will be contributing to increasing tax revenues and reducing benefit payments; effectively central state priorities. Collectively the Greater Manchester authorities should therefore lobby central government for a reinvestment of those revenues through any devolution settlement. This in turn can be spent

on regeneration initiatives or engagement activity with business and other organisations to promote the value of the Living Wage to their organisations and support its implementation. This could be undertaken through the existing City Deal as discussed in recommendation 5 or through other forms of devolution.

Recommendation 2 - embed addressing low pay as a corporate priority

The issue of low pay is possibly the key emerging challenge around poverty. Unless it is addressed, it is likely to stifle growth as workers are less productive; and more and more families will not have a decent quality of life. Collectively, the Greater Manchester authorities need to ensure that addressing low pay forms a key priority in the Greater Manchester Strategy, the thematic groups of the Combined Authority and the key strategies of the individual local authorities.

Recommendation 3 – explore the practice of others

As alluded to in the previous section, different authorities have adopted different ways of embedding Living Wage principles into their strategy and practices. Collectively, the authorities in Greater Manchester should investigate the relative strengths and applicability of roles encompassing: as democratic place leaders; as accredited Living Wage employers; as strategic purveyors; as requirers, encouragers and cajolers through procurement; and as reinvestors of savings to the public purse. Authorities should be invited to showcase how they have adopted the Living Wage.

Recommendation 4 – develop a collective charter for social responsibility

Procurement is an important function for local authorities and other public bodies across Greater Manchester and there are many things which can be done through the process to foster and maximise local economic, social and environmental benefit. Collectively, the Greater Manchester authorities should develop a charter for social responsibility (building upon the employment charter from Salford and the social value charter from Oldham) which shapes all procurement decisions. This should enable considerations around the Living Wage to be included on a case by case basis. In some instances it may require potential suppliers to pay the Living Wage; and as evidenced from Islington this can lead to a high percentage of suppliers paying the Living Wage. In other instances, it may be that the approach will be one of influencing.

Recommendation 5 – utilise existing devolved powers

Over the last couple a years there has been some devolution of powers to the local level (notably cities) through the City Deals and the strategic plans of the Local Enterprise Partnerships. Working through these vehicles and with recommendation 1 in mind, we recommend that local authorities use the process of City Deals to create Living Wage city deals whereby local authorities draw down the tax and benefit savings they make from their own implementation of the Living Wage to support Living Wages across the private and voluntary and community sectors. The savings would effectively support the transition costs for business and voluntary and community sector organisations of moving to the Living Wage. Like much of the existing aspects of City Deal agreements there is a geographical element so local authorities should look to negotiate with government ‘Living Wage Zones’.

Recommendation 6 – embed Living Wage in development activities

The charter for social responsibility, as discussed in recommendation 4, should not only apply to local authorities and the wider public sector in relation to their purchasing, but also around major infrastructure and development projects. Greater Manchester has a host of infrastructure projects coming up in the next 10 years including HS2 and continued activities around Airport City. The Combined Authority, the Airport, and the ten local authorities should put Living Wage principles at the heart of all infrastructure and development activities.

FOOTNOTES

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