



Report of the Chief Executive

Date: 3rd December 2008

Subject: Implications of Introducing a Living Wage for Leeds

Electoral Wards Affected: All

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(Details contained in the report)

EXECUTIVE SUMMARY

1. On 9th April 2008 the Council resolved that the Chief Executive prepare a report to the Executive Board to:
 - a) Outline how Leeds can become a 'Living Wage City' where every worker earns a Living Wage, and;
 - b) Explain what the financial commitment would be for Leeds City Council to achieving this aim.
2. This report offers:
 - a) Information about the Living Wage
 - b) The different models for calculating Living Wages and calculations for Leeds.
 - c) Discussion on the implication of Living Wages for direct employees and contract workers.
 - d) Issues regarding benefits
3. Conclusions highlight that Leeds can place appropriate emphasis upon assessing Living Wage issues and review low-pay implications in the city. Consideration of how this fits with Narrowing the Gap plans is also made.

PURPOSE OF REPORT

4. On 9th April 2008, the Council considered a White Paper motion on Living Wages, and agreed that the Chief Executive reports to the Executive Board to:
 - a) Outline how Leeds can become a 'Living Wage City' where every worker earns a Living Wage, and;
 - b) Explain what the financial commitment would be for Leeds City Council to achieve this aim.
5. This report considers this and covers the following:
 - a) Definitions and background information
 - b) What the Living Wage would be in Leeds
 - c) The implications of a Leeds Living Wage, regarding:
 - i) Our work-force
 - ii) Services procured
 - iii) Benefits administration
 - iv) Narrowing the Gap Strategies
 - d) Conclusions and Recommendations

BACKGROUND INFORMATION

6. There is no set model for becoming a "Living Wage City". This can be achieved primarily by adopting policies that would:
 - a) review low pay earnings.
 - b) seek to apply a minimum pay threshold as an employer and purchaser of services.
 - c) seek to influence others to do the same.
7. This is explained below.
8. Economists and anti-poverty pressure groups have developed the concept of Living Wages. The Family Budget Unit (FBU) define a Living Wage as:

'a wage that achieves an adequate level of warmth and shelter, a healthy palatable diet, social integration and avoidance of chronic stress for earners and their dependants'.
9. However, like other indicators on poverty (e.g. wider issues for people on benefits or child poverty), various definitions apply and there is no single approach to set a level of earnings to offset poverty.
10. Living Wages are being promoted due to difficulties with the National Minimum Wage (NMW) in areas of high prosperity and living costs. Since 1998, the Low Pay Commission sets the NMW in consultation with employers and trade unions. This focuses on assessments of economic sustainability rather than personal needs (e.g. implications for growth and investment, business start-ups etc. as opposed to the needs of workers). Nevertheless, there is no reason why Local Government cannot raise its concern on low pay in these consultations.

11. Although different thresholds are set for younger workers, the current NMW of £5.73 applies across the economy as a whole as the legal minimum an employer must pay workers. To recruit in economically prosperous areas, employers pay above the NMW. However, it is argued that there is still a poverty gap for many.
12. The Greater London Authority (GLA) highlighted such issues; receiving attention by:
 - a) Researching low pay and developing Living Wage models e.g. based on 60% of median earnings plus a 15% safety net.
 - b) Using their Living Wage criteria for awarding some contracts.
13. Living Wages are promoted as a means of:
 - a) achieving social inclusion; supporting better family life, education, health and well-being – especially by enabling people to earn more through the working of fewer hours.
 - b) providing quality services where there are chronic recruitment difficulties (e.g. employers in the City of London use Living Wages to ensure cleaning contractors can recruit).
 - c) enhancing Corporate Social Responsibility. Some banks and consultancy firms commit to Living Wages for these reasons.
14. Conversely, commentators have identified drawbacks: e.g.:
 - a) risks to economic prosperity; making businesses, areas or regions uncompetitive; causing unemployment or job migration.
 - b) disconnections from other financial support - i.e. various in-work benefits.
 - c) not reflecting individual circumstances (e.g. the differing needs of single people contrasted with families).
 - d) overlooking wider poverty affecting other groups e.g. pensioners and unemployed people.
15. With arguments ongoing, employers and some Councils such as Oxford Council are exploring issues raised by the GLA and promote themselves as being either Living Wage employers or working towards Living Wages. There is also a National Fair Pay Network which, with the TUC, campaigns for better pay.
16. Recently, the Joseph Rowntree Foundation (JRF) attracted media attention by suggesting an alternative model for Minimum Income Standards (MIS). UNISON have, in a submission to the Low Pay Commission, argued for the NMW to be raised to £6.75 an hour to make it closer to a “fairer living wage”. These developments mean there are a number of models that can be used to calculate a Living Wage.
17. However, the most established Living Wage models either set earnings:
 - a) as a proportion of median earnings (one of the GLA’s models), or;
 - b) use a “shopping basket” of essential items (the JRF model).

APPLYING MODELS IN LEEDS

18. Developing a specific Leeds model for a Living Wage would require much research and data maintenance e.g.
- a) to reflect inflation and
 - b) understanding complexities regarding different family types in the city.
19. However, established models can be applied using available information from the 2007 Survey of Hours and Earnings, local housing costs and Council Tax rates to produce an outline Leeds Living Wage. Findings are shown below alongside estimates from various bodies:

<i>Model</i>	<i>Living Wage estimate (p/h)</i>
GLA Model with Leeds data	£6.86
JRF Model	£6.88
Unison National Suggestion ¹	£6.75
TUC Leeds Suggestion ²	£6.50

20. It is possible to estimate the number of working Leeds residents earning less than £6.88 using local data from the Office of National Statistics (ONS). Accordingly, around 22% workers in Leeds were paid below £6.88 an hour; approximately 66,000 people. Based on a number of assumptions on the levels of low pay in this group, the cost of raising wages to £6.88 would be just under £90m.
21. This needs to be seen as an illustrative cost. However, given current economic circumstances, this would be a challenging proposition for most employers in Leeds.

THE IMPLICATIONS OF A LIVING WAGE FOR THE COUNCIL

22. LCC can more directly influence issues of low pay, as we are a major:
- a) Employer – with around 34,000 employees across the Council, Schools, ALMOs and Education Leeds.
 - b) Purchaser – directly and indirectly procuring services where workers may be lower-paid.
 - c) Benefits Administrator and Advisor – helping people who are likely to also be claiming benefits from the DWP or HRMC.
23. The specific implications of these are considered below.

¹ This is the Unison estimate submitted to the Low Pay Commission

² This is taken from the Fair Pay Network at www.fairpaynetwork.com [September 2008]

Direct Employment

24. New Pay structures mean the lowest pay rate would be £6.37 an hour (subject to agreeing a 2.45% pay offer). This marks a major investment in fair pay; reducing pay gender gaps. In addition, LCC employees access many other benefits. These include:
- a) **Extra Holiday Entitlement** – Depending on the length of service, this arguably increases pay rates to between £6.56 and £6.68 an hour.
 - b) **Pensions** –LCC makes an average net pension contribution of 12.6%. This is a deferred benefit and does not offer any immediate extra income. However, it also provides life insurance cover and can be considered a “safety net” payment.
 - c) **Other benefits and contract conditions** – Under national agreements, employees are entitled to sick pay, special leave, premium payments and overtime. LCC also offers salary sacrifice schemes to reduce child care costs.
25. Arguably, these benefits are more than equivalent to a safety net used by the GLA of 15%. If so, the package given to our lowest paid would be equivalent to £7.33 per hour.
26. Alternatively, if employee benefits are excluded from the analysis, it would cost the Council around £2.7m to raise minimum pay to £6.88 per hour. Other significant costs would be encountered to ensure our new pay structures remain “equal pay” proof; i.e. knock-on pay increases for staff with higher pay.

Indirect Employment/ Contracts

27. LCC could apply a Living Wage policy in its procurement. The GLA specifically include Living Wage clauses in their cleaning contracts. Complex legal issues apply about enforcing this. But the GLA argue that this is an acceptable evaluation criteria and that it underwrites quality performance from its contractors.
28. Despite the work of the GLA, non-commercial clauses and social objectives are traditionally “out of bounds”; with Councils discouraged from monitoring or assessing input factors like pay. Like other themes such as fair trade, local employment or community benefits clauses, Living Wage clauses would be secondary to the main purpose of a contract: to procure a specific good or service.
29. In Leeds, whilst our tender assessment arrangements consider relevant quality and cost matters, services are delivered to specification without monitoring issues like pay and conditions. Further analysis of this would also depend upon the willingness of providers to share sensitive commercial information.
30. An exception to this covers services that have been outsourced as a “best value” arrangement after 2003. To ensure parity between TUPE protected staff and new workers, contractors are required to adhere to a code of practice where broadly equivalent terms and conditions apply. This predominately covers contracts for cleaning and catering in PFI schools and would apply to any further outsourcing.
31. Due to the nature of service industries, areas of potential low pay may include labour intensive activities such as:
- a) Catering contracts
 - b) Cleaning contracts

- c) Some maintenance/security contracts – e.g. unskilled workers are involved.
- d) Agency worker contracts – although in future there will be greater pay parity between agency workers under the EU Agency Workers Directive

32. There are also wider sub-contract and supply chain issues regarding Living Wages. Some commentators suggest that all workers across sub-contracts and supply chains should receive a Living Wage. Although there is scope to consider objectives like wider environmental impact in some contracts, it would be difficult to monitor and difficult to justify this as a blanket approach.

Benefits and Financial Advice

33. Tax credits are a core means of addressing low pay issues. This is administered by HMRC through Local Tax offices and is a complex benefit reflecting fluctuating employment, earnings and changes in family circumstances. For these reasons many workers do not claim their full entitlements; especially single people. LCC is piloting schemes to promote better take-up of benefits such as Working Tax credits. Increasing benefit take up means that it is possible for LCC to help raise income of the lowest paid without raising our costs.

34. In addition, there are also wider LCC programmes within the Financial Inclusion Initiative – such as the affordable credit scheme and money/ debt advice – which reduce strain on those who struggle financially.

35. Although allowing people to achieve pay levels that reduce any dependency on benefits is desirable, practical issues with poverty-traps need appreciating. Applying Living Wages may become benefit substitute in some cases. Depending on circumstances, increasing pay from the NMW to £6.88 can dramatically reduce benefit entitlement and result in only marginal pay increases for some.

36. As this is funded by the Council, it shifts costs from agencies like DWP and HRMC to local taxpayers. Allied to this will be added administrative costs for LCC due to increased billing and debt recovery.

NARROWING THE GAP

37. The aims of Living Wages undoubtedly fit with Narrowing the Gap strategies. Specifically, the Leeds Strategic Plan aims to see:

- a) “people happy, healthy, safe, successful and free from the effects of poverty”.
- b) “an enhanced workforce that will meet future challenges through fulfilling individual and economic potential and investing in learning facilities”
- c) “increased economic activity through targeted support to reduce worklessness and poverty”

38. Adopting Living Wage policies would therefore be part of a wider picture, where the Council aims to improve lives for all disadvantaged people - not just those in work.

CONCLUSIONS

Costs

39. There is scope to refine methods of calculation and costs. Different models and assumptions are used to generate a Living Wage in Leeds; giving a highest rate of £6.88. Approximately 66,000 people in Leeds earn less than this, although they may be able to increase income via in-work benefits and other entitlements.
40. To increase earnings on a City-wide basis to £6.88, it would cost in the region of £90m. This needs to be considered in the light of an economic downturn; with growth investment and employment implications.
41. With regard to areas the Council can directly influence, introducing a Living Wage of £6.88 would increase:
 - a) Employment costs by at least £2.7m per annum – although it can be argued that LCC’s recent investment in its lowest paid staff, together with the overall package they receive, exceeds this and no investment is needed.
 - b) Service contract costs – it is not possible to be precise here, as data is unavailable: but contract costs would rise in some areas if contract workers were guaranteed no less than £6.88 per hour.
 - c) Benefit administration costs, as paying Living Wages will result in some transfer of responsibility for the topping up low income from Government Agencies to local taxpayers.
42. Such cost increases have not been considered within our three-year financial strategies.

Policy Implications

43. As with calculation methods, there is no blueprint for becoming a Living Wage City. Organisations can set various policies to ensure they promote Living Wages through their employment and procurement practices. For public bodies, there are potential restrictions on this, but pay and conditions of contracted staff can legitimately be considered for some contracts where this may influence quality.
44. For Leeds, adopting Living Wages would overlap with other activity to increase the standard of living for all citizens through Narrowing the Gap. Consequently, if considering pursuing Living Wages, there would need to be an assessment of whether this would be the most economically advantageous arrangement for all Leeds citizens and its alignment with strategic aims.

RECOMMENDATIONS

45. The Executive Board are recommended to note the contents of this report.

Background Papers

Fair Pay Network Leeds, 2008 [<http://www.fairpaynetwork.org/index.php?page=leeds>]

Greater London Authority, 2005, A fairer London: A Living Wage in London 2005 [accessed from http://www.london.gov.uk/mayor/economic_unit/workstreams/living-wage.jsp]

Greater London Authority, 2007, A fairer London: A Living Wage in London 2007 [accessed from http://www.london.gov.uk/mayor/economic_unit/workstreams/living-wage.jsp]

Greater London Authority, 2008, A fairer London: A Living Wage in London 2008 [accessed from http://www.london.gov.uk/mayor/economic_unit/workstreams/living-wage.jsp]

Joseph Rowntree Foundation, 2008, A Minimum income standard for Britain [accessed from <http://www.jrf.org.uk/knowledge/findings/socialpolicy/2244.asp>]

Oxford City Council, 2008, Deriving an Oxford Living Wage from the new income standard, internal report produced by the Council.