Key issues and conclusions

The early promise of living wage campaigns to organise workers and leverage better wages in low paying private sector firms (Wills 2004) does not appear to have been sustained, with the pay of many still chiefly influenced by changes in the National Minimum Wage (Grimshaw et al. 2013). The living wage has increasingly become associated with the public sector as an adjunct to more 'traditional' forms of social dialogue between employers and recognised unions around pay and working conditions. At a time when public sector funding is being significantly reduced, efforts to raise starting rates may come up against other policies designed to reduce workforce costs such as cuts to jobs and hours, outsourcing, and changes to terms and conditions. Trade unions tend to be broadly supportive of living wages but local branches have to remain vigilant to prevent better wages for one group of staff being paid for by cuts to pay and conditions elsewhere, or being completely negated by the downsizing and privatisation of low wage jobs. Unions may push employers to pursue accreditation but any binding commitments to increase wages at the bottom may come with strings attached: Derby City Council introduced a living wage in early 2014 but also reduced the value of unsocial hours enhancements meaning that many Affairs were no better off overall and Oxford City Council adopted a living wage in 2013 at the same time as withdrawing from the national pay agreement.

Employers have a range of options when designing a living wage policy, and although a welcome addition to discussions over pay, the final agreement may offer only partial or short-term coverage for low paid workers to relieve inflationary pressures. By focusing on the cost of living, employers can avoid making a permanent commitment to progressive wage settlements for 'undervalued' jobs across the wage distribution. Changing pay structures structures and restoring differentials between jobs can be time consuming and potentially expensive but offers greater protection for staff over the long term, and promotes a new notion of fair reward (Bennett and Lister 2010). Efforts must be made to broaden the impact of low wage strategies across all sectors, and reframing the living wage as an instrument to reduce labour market inequality is one way to facilitate this.

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Further materials, links and references

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The living wage in UK local government

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Living wage, pay structures, public sector, collective bargaining, social dialogue

Summary

This briefing draws on publicly available data on living wage agreements in UK local government and unpublished work undertaken by Mathew Johnson as part of a PhD programme at Manchester Business School.

The living wage has become a symbolic issue of pay equity and social justice in the UK since the banking-led economic collapse of 2007-08, gaining widespread support from across the political spectrum. With an annual inflation rate of around 3% and stagnant earnings growth in most sectors of the economy, recent data points to an increasing gap between observed pay rates and the hourly wage required to achieve a basic standard of living.

Worryingly, this pattern is now beginning to spread to unionised sectors such as local government where most workers are covered by centralised collective bargaining. Through the annual pay negotiation trade unions have long pressed for the living wage to be the lowest pay point on the local government pay spine, but in the vacuum created by stalled sector-wide social dialogue, individual local authorities are pursuing localised versions of living wage policies with or without trade union endorsement. Structural and financial constraints will inevitably lead to compromises in the search for better and more evenly distributed rewards, but the inability to mandate a living wage puts the 'strength' of any agreement at the mercy of political decision making and local level bargaining power.

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Introduction and background

The notion of a living wage is not new, but UK campaigns emerged in the early 2000s when The East London Community Organisation (TELCO) and one of the UK's largest trade unions, UNISON, began lobbying for a living wage some 30% higher than the National Minimum Wage (NMW) to ensure that nobody in full time work fell below the poverty line (UNISON 2002, cited by Grover 2005: 10). The living wage is calculated on an annual basis to provide a 'low cost but acceptable budget' based on typical housing and living costs in the capital, and across the rest of the UK. The 2014-2015 figures for London and the UK are £9.15 and £7.85 respectively[1]. It is estimated that over 5 million UK workers earn less than the living wage, and workers in sectors such as cleaning, personal care, and hospitality are particularly at risk of low wages (Kennedy et al. 2013), where the NMW is often seen as the 'going rate' and there are few mechanisms to prevent excessive wage compression. (Grimshaw et al. 2013).

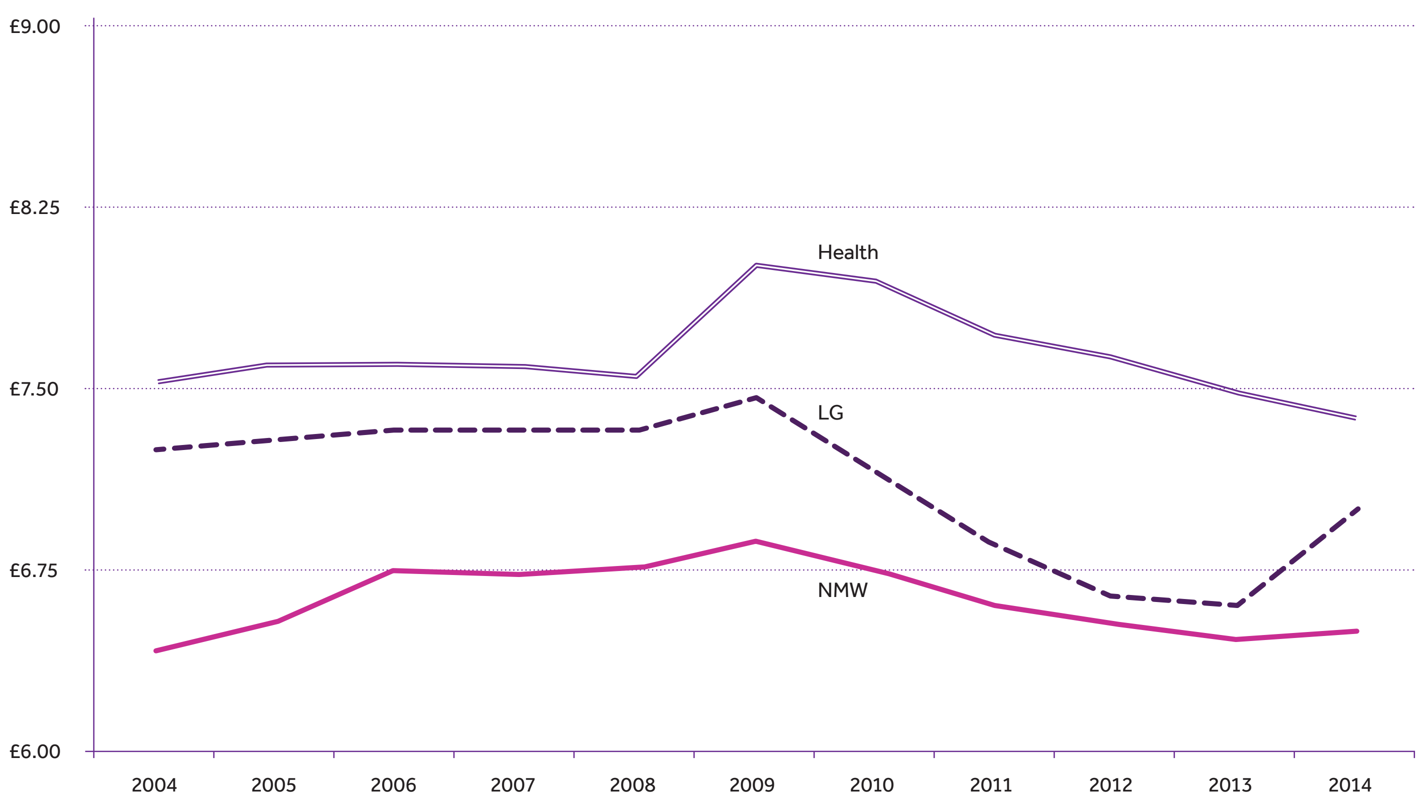
Despite high levels of unionisation and a sector-wide collective bargaining agreement the local government pay spine currently starts at just £7.00 (lower than the health service and further/higher education and around 500,000 workers earn less than the living wage.

Following a three year pay freeze and two below inflation increases in 2013 and 2014 councils may be tempted to act decisively in order to raise pay for low earners, but find that a pay agreement reached locally creates problems with existing pay hierarchies and commits the organisation to uplifting the bottom rates much faster than the rest.

Employers therefore have to make choices about the scope and coverage of living wage policies, and this type of egalitarian pay strategy may come up against parallel processes to downsize the workforce and cuts costs.

1. http://www.livingwage.org.uk

Figure 1:
Growth in the real terms value of public sector base rates and the NMW, 2004 – 2014 (deflated to 2014 prices)



Source: Inflation index RPI from the Office for National Statistics January 2015; national minimum wage data for workers aged 21 or over from the Low Pay Commission; base rates of pay for NJC and AfC from the respective sector-level collective agreements (all figures correct at time of writing)

The research

In the US living wages are paid either inclusive or exclusive of employer health insurance, which can add around 15% to the basic hourly rate. Living wage ordinances (laws) are generally aimed at private contractors working on publicly funded or subsidised projects such as housing and infrastructure. Luce (2005) identifies narrow, moderate and expansive forms of living wage ordinances in US cities, based on the involvement of community groups in the monitoring process and the commitment of resources from city administrators to penalise businesses who do not comply. A common criticism of living wages is that they have only a negligible impact on poverty owing to the low numbers of workers affected (Adams and Neumark 2004). To maximise the impact of living wages there has to be a similar commitment to extending the coverage wherever possible, and ensuring that all eligible employees receive the higher hourly rate.

As of November 2014 there were almost 1,000 employers accredited with the living wage foundation[2], with a number of public sector organisations either accredited or awaiting accreditation. The living wage has been adopted widely in Scottish local government, 17 of the 32 London boroughs, and around 100 of 350 local government employers across England and Wales claim to be living wage employers.

There is no statutory underpinning to the living wage in the UK which is seen to be in keeping with its 'grassroots origins' (Pennycook 2012). Accreditation with the Living Wage Foundation commits an employer to meeting additional requirements such as abiding by the annual uplift, and promoting the living wage with suppliers and contracted service providers. However, an employer may choose to pay a living wage without seeking accreditation, and there are no mechanisms by which the accreditation obligations can be enforced. Furthermore, if a living wage can only be guaranteed for directly employed staff, there is the possibility that voluntary procurement clauses may not be sufficient to protect the earnings of contracted staff[3]. Councils looking to save money by outsourcing may not be inclined to insist on a living wage for all of its contractors if it ultimately has to cover the additional costs.

In the context of the UK public sector, living wage policies agreed outside the sector bargaining framework may therefore vary on a number of core dimensions:

– The permanence of the new pay rate

– Commitment to the annual uplift

– Coverage for contracted staff

2. http://www.livingwage.org.uk

3. There is still some uncertainty about the legal status of 'living wage clauses' and some organisations may cite EU procurement law as a way of obscuring their power to include the living wage in contracts

The research continued

Permanence

Where a full living wage is not felt to be affordable, or the employer does not want to make a long-term commitment to raising pay up to a living wage, they may implement a temporary or non-consolidated version of the living wage until the cost implications are fully understood. There may be a progressive approach to increasing pay but the employer does not commit to a permanent policy, and additional employer contributions such as overtime and pension payments are not automatically adjusted.

Paying a non-consolidated supplement leaves existing pay and grading structures in tact (which is important where local authorities have applied equal pay job evaluation).

– Bristol City Council introduced a time-limited non-consolidated pay supplement in order to raise base rates up to the equivalent of an hourly living wage for the 2012/13 year to alleviate cost of living pressures, and discussions are currently underway with trade unions as to how a full living wage could be implemented from April 2015.

In 2012 Cardiff City Council introduced living wage, but in order to preserve the existing pay and grading structure this was paid by supplement rather than altering basic rates. This meant that any other pay awards made through the national agreement would be absorbed by the supplement and that overtime rates were paid at multiples of basic pay and not the higher living wage rate.

Annual uplift

Where the council is in a position to introduce a living wage, but does not wish to make a binding commitment to matching the annual uplift they may pay a living wage without pursuing accreditation. This gives the employer some flexibility over future increases, and the majority of councils who claim to be living wage employers fall into this category.

A number of councils including Oldham and Hartlepool have committed to local living wage policies, but by not pursuing accreditation the actual base rate has tended to lag slightly behind the annual recommendations of the living wage foundation: both currently pay just over £7.20 per hour and are working towards a rate of £7.65 as of April 2015 (which will be just short of the official 2014/15 figure of £7.85.)

Contracted staff

The final piece of the jigsaw is the use of public procurement to leverage higher wage rates among contractors. Councils may express an ambition to increase wages and living standards across the local area, particularly in low paying sectors such as cleaning, social care and school catering. However, the cost savings associated with lower wages in the private sector is one of the main reasons for outsourcing these services in the first place. Councils therefore have to choose how much additional cost they are willing to bear in pursuit of this social aim. Furthermore, following the European Court of Justice ruling on posted workers in the 2006 'Ruffert Case,' councils may argue that the legal risk associated with mandatory living wage clauses in all contracts is too high, and rely on voluntary agreements with individual suppliers.

In order to achieve (and maintain) accreditation, the council has to ensure that staff working on council contracts in the private and independent sector are also paid the living wage, and the recently introduced Social Value Act[4] offers some scope to include clauses which relate to employment standards. Reflecting the proportion of outsourced services in local government it seems likely that the extension of living wages to contracted staff will become increasingly important to maximise its impact.

– Southwark Borough Council is an accredited London living wage employer, and implemented the new pay rate by increasing the lowest scale points on the council structure. The council is working to introduce the living wage across all schools in the borough and has made significant progress in inserting LLW clauses in external contracts (including agency staff.)

4. http://www.legislation.gov.uk/ukpga/2012/3/enacted