

Report to Cabinet
17 October 2012
Report of Head of local neighbourhood services
Subject Living wage accreditation

Item

5

KEY DECISION

Purpose

To seek approval for an application to be submitted from the council to the Living Wage Foundation, national accreditation scheme

Recommendation

That the council seeks living wage accreditation from the Living Wage Foundation

Corporate and service priorities

The report helps to meet the corporate priority “A prosperous city and the service priority to review the financial inclusion strategy priorities in light of the welfare reform changes, the commissioning of debt and general advice services and opportunities for a living wage initiative.”

Financial implications

It is estimated that an additional £95,000 p.a. may be required as contractor costs increase through the application of the living wage

However this will only have an impact as contracts renew at their end date or the council chooses to implement before contracts renew.

One such contract is due to renew within the 2012/13 financial year and would have an in year impact of approx £2,000.

The Living Wage foundation charges an annual accreditation fee of £450.00 which will be met from existing budgets.

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

Contact officers

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Boyd Taylor - Financial inclusion manager	01603 212458
Anton Bull – Executive head of business relationship management	01603 212326

Background documents

None

Report

1. The current recession has brought into focus the plight of those people who are in work but remain in poverty – the working poor.
2. These are people that are working but rely on benefits for housing and council tax costs and tax credits and notwithstanding the welfare support that they receive, are still not in a position to save or fully participate in society.
3. This can lead to increased debt, increased risk of use of illegal money lending, higher levels of stress and family breakdown.
4. The council's financial inclusion strategy identifies that a living wage, which is defined as the income, required maintaining a safe, decent standard of living and having the ability to save for future needs, should be an aspiration that the council can promote and encourage. The living wage rate for outside of London is currently set at £7.20 per hour.
5. The strategy stated that the council would explore with partners and employers how a living wage initiative can be developed in Norwich.

Norwich wage levels

6. As well as relying on benefits to top up wage levels, some residents in Norwich are also impacted by Norwich having lower than average wage rates. Median resident earnings for full-time workers in Norwich (earnings for Norwich residents working in the city) are 17.5% lower than regional median earnings and 12% lower than national median earnings.
7. Over the period 2010 to 2011, median resident earnings for full-time workers in Norwich declined by 5%. Over the same period, regional level earnings increased by 2% and at the national level earnings fell by 1%.
8. Median workplace earnings (earnings for employees both local residents and in-commuters) for full-time workers in Norwich are 0.4% lower than for the East of England and 4% lower than for Gt. Britain as a whole.
9. Using various information and surveys¹, it is possible to estimate the numbers of employees in different employment sectors and the average hourly pay per full time employee. With 81,600 employees in the City this suggests that 30% (24,500) earn less than £7.35 per hour. 8,160 employees earn less than £6.43 per hour.
10. This information further evidences that Norwich has a low wage economy and provides the rational for the council to progress and champion a living wage for the city.

¹ BRES (NOMIS 2012, ASHE,

Possible mechanisms of reducing in work poverty

11. Research from the Institute for Public Policy Research appears to identify four possible approaches to breaking the cycle of in work poverty.²
 - **Increasing hourly pay: raising the minimum wage:** campaigning for a living wage; providing in-work support, training and career pathways to low earners; raising performance and productivity in low-paying sectors; increasing the supply of jobs that pay a decent wage
 - **Helping low earners to work longer hours:** a particularly important option for couples where neither partner is working full-time, this option needs to be balanced against the risk of 'time poverty'³; it could be achieved through more flexible and affordable childcare, in-work support and better flexible working opportunities
 - **Providing incentives for both partners in a couple to work:** this could be achieved through a Personalised Tax Credit Allowance which would allow a second earner to retain more of their earnings before their entitlement to Working Tax Credit is withdrawn
 - **Increasing the value of benefits and tax credits for low earners:** this is a long-term aspiration that is difficult to pursue when cuts to the welfare budget are likely in the near future.
12. With options two to four being outside the remit of the Council, route one is where the council has a role as an employer, a commissioner of services and with its leadership role.

A Role for the City Council

13. The Council has since 1990, ensured that its employees were protected from low pay through a low pay initiative. This has been maintained over this period for all directly employed staff.
14. The positive implications of this decision was that resources were directed to lowest paid employees and would particularly benefit women, many of whom were in part time jobs.
15. There is sufficient understanding that paying a Living Wage to all employees has a range of returns to employers and society as a whole that exceed the additional costs of such an approach.
16. For individuals, it is an incentive to work and a mechanism out of hardship for themselves and their families. For employers, it can make business sense. Paying a living wage can increase loyalty and productivity and is a sign that an employer respects everyone who makes the organisation work and value the work they do (even those they don't employ directly).

² IPPR Working out of poverty: A study of the low paid and 'working poor' 2008

³ The Journal of Human Resource 1977: The Time Poor: A new look at poverty

17. As well as direct employees, the council is also indirectly responsible for the employment of over 400 workers through contracts put in place through the commissioning and procurement frameworks.
18. The Living Wage Foundation indicates broad support for living wage including from the Greater London Authority and highlights that 100 top employers have made a public commitment to the living wage.
19. Nationally, published information shows organisations including KPMG, Barclays, the Olympic Delivery Authority and the Greater London Authority being living wage employers and advocates.

What is the Living Wage?

20. The principle underlying the Living Wage is simple and powerful. This is that work should bring dignity and should pay enough to provide families the essentials of life. The concept has deep historical roots. In 1894, Mark Oldroyd, MP for Dewsbury wrote, "*A living wage must be sufficient to maintain the worker in the highest state of industrial efficiency, with decent surroundings and sufficient leisure.*"
21. During this period, social reformers sought to bring rigour and clarity to the concept. The leading figure in this work was Benjamin Rowntree, who developed a methodology for calculating the living wage, or what he called the human costs of labour.
22. Studies by the Greater London Authority and Queen Mary, University of London, found clear evidence that employers have benefited across a wide range of areas after implementing the Living Wage indicating a sound business rationale. The most significant impacts noted were improved recruitment and retention, higher worker morale, motivation and productivity, in addition to the reputational benefits of being an ethical employer.
23. The UK Living Wage for outside London is currently £7.20 per hour. The figure is set annually by the Centre for Research in Social Policy at Loughborough University and is calculated to allow employees the ability to afford basic living expenses (see appendix 1).
24. From November 2012 Living Wage figures will be recalculated on an annual basis and Living Wage employers are expected to implement the new rate within six months following the annual announcement.

Health Benefits of reduced poverty

25. In addition to employer benefits, there are broad benefits to employees and communities as a whole. Published information from the Living Wage Foundation indicates that where a living wage has been introduced it has achieved the following:
 - It affords people the opportunity to provide for themselves and their families.
 - 75% of employees reported increases in work quality as a result of receiving the Living Wage

- 50% of employees felt that the Living Wage had made them more willing to implement changes in their working practices; enabled them to require fewer concessions to effect change; and made them more likely to adopt changes more quickly.

26. There is also an established relationship between low income and poor health which operates in several ways.

27. People on low incomes refrain from purchasing goods and services that maintain or improve health or are forced to purchase cheaper goods and services that may increase health risks. Being on a low income also prevents people from participating in community or social life and can lead to feelings of less worthy or have a lower status in society than those that can be considered better-off.⁴ The relationship can operate in both directions: low income can lead to poor health and ill health can result in a lower earning capacity.

Living wage accreditation

28. The Council is seeking accreditation with the Living Wage Foundation (an independent charitable body dedicated to promoting the Living Wage). Living Wage accreditation is about celebrating those employers who are paying a Living Wage and in the Norwich context to promote it to other Norwich employers.

29. The Council is well placed in its civic leadership role to champion the benefits of a Living Wage with employers in the City as well as using its commissioning and procurement frameworks to bring the benefits to its indirect workers.

30. A requirement of living wage accreditation is that the Council should be a living wage employer and have a plan in place to ensure indirect workers i.e. those employed through contractors and delivering council services are also paid a living wage.

31. The accreditation guidance states *that “the test for whether a contracted worker falls within the ambit of the living wage depends on the regularity of service and the location of their work. In simple terms, a living wage employer will ensure contracted workers are paid a living wage in the following circumstances: the worker is on the employer’s premises for two or more hours per week, for eight or more consecutive weeks in the year.”*

32. There is a three stage process to achieving living wage accreditation based on whether workers are directly or indirectly employed.

33. Stage one is to ensure that the employer is currently paying all directly employed employees at a wage level equal to or exceeding the Living Wage level.

34. Stage two is to ensure that steps are being put in place to ensure that workers employed directly by the council’s contractors are paid at a level equal to or exceeds this hourly rate.

⁴ Marmot M (2004) ‘Social Causes of Social Inequalities in Health’ in Anand S, Fabienne P and Sen A (Eds.

35. Stage three is to ensure that any workers employed by companies undertaking one off contracted pieces of work for example within Council premises are included.
36. The accreditation process does not require the council to intervene and amend existing contracts. Using the Council's commissioning and procurement process, the Council will review the requirements for and integrating a living wage as contracts come up for renewal.
37. In addition, a monitoring framework should be put in place to ensure that progress is maintained and monitored and benefits identified.
38. An interwoven requirement is for the council to promote and celebrate living wage with employers across the City.

Meeting the requirements of the living wage accreditation

39. The first requirement is met as all Norwich City Council employees are in receipt of an hourly rate in excess of the Living Wage.
40. The situation with the council's current contracts is mixed. There are a number of contracts where employees of the contractor are wholly or mainly engaged on delivery of services for the council. However, there are also a number of contracts where the contractor's employees only spend a small proportion of their time on services for the council. Many of the contractor employees are already paid above the living wage. However, there appears to be over 50 employees who are paid below living wage.
41. Whilst the majority of workers who are employed by our contractors are paid above the living wage there is a significant minority who are not. Basic rates of hourly pay are around £6.50 for approximately 50 staff.
42. As the council is not the employer it would not be appropriate at this stage to identify contracts and contractors who have employees that may be affected. However the council has a large number of contracts and will not be able to look at every single contract immediately. The council has reviewed contracts to identify those with the highest number of employees that are likely to be affected. There are three contracts that have been identified where the majority of employees who are likely to be affected are employed. These contracts will be looked at first and then progressively through contracts so that the initial effort is targeted where the greatest return will be.

Risk management

43. The council will not be able to immediately review every contract and the employees rates of pay that are engaged on them. This means that there is a risk that contracts where there is only one or two employees may come forward and the council is not able immediately to analyse and resolve the rates of pay for those employees as it targets resources at contracts where the most employees are.
44. Whilst an estimate of potential financial impact has been made there is a risk that this may not be sufficient.

Financial and best value implications

45. The introduction of a living wage into council contracts will need to satisfy best value requirements. There are currently no additional cost implications for paying those directly employed and those employed via an agency a living wage as the council currently meets this criteria. Temporary contracts when put in place will meet wage levels paid by the council and therefore will reflect living wage requirements.
46. An evaluation of the costs and benefits of requiring contractors to pay a living wage to their employees will need to be undertaken on a case by case basis as each contract is being let. The benefits of adoption will be undertaken in each tender evaluation exercise.
47. Best practice shows the benefits of a living wage which will offset the direct costs of increased wage rates. Although the benefits are broad, they are difficult to quantify – improved morale, reduced turnover, reduced absenteeism, greater productivity – but evidence does show that improvements to services do occur.
48. It is proposed that as part of the council's contract management framework, performance measures will be developed to identify the value of a living wage.

Next steps

49. An implementation plan will be developed to support the council's application for accreditation to develop and fulfil the different requirements and to incorporate the council's work externally to promote and champion the living wage in Norwich with partners, employers and the business community.

Integrated impact assessment



NORWICH
City Council

The IIA should assess **the impact of the recommendation** being made by the report

Detailed guidance to help with completing the assessment can be found [here](#). Delete this row after completion

Report author to complete

Committee:	Cabinet
Committee date:	17 October 2012
Head of service:	Bob Cronk
Report subject:	Living wage accreditation
Date assessed:	2 October 2012
Description:	

	Impact			
Economic (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Finance (value for money)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Whilst there will be an increased cost for the council, value for money is about more than just cost. The additional cost is justified by the additional benefits implementation of the living wage will bring as detailed in the report and as below.
Other departments and services e.g. office facilities, customer contact	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
ICT services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Economic development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The payment of a Living Wage helps to strengthen and develop Norwich's economy for the benefit of all its citizens.
Financial inclusion	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The council is committed to tackling poverty and financial exclusion. Living wage can bring positive impacts on some of the poorest people living in our communities and will make work "pay" for many more families in Norwich - a key starting point in raising aspirations among young people in the poorest communities in the city.
Social (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments

	Impact			
Safeguarding children and adults	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Increased levels of indebtedness which are not resolved or are resolved less quickly may result in families being financial excluded and therefore children being more vulnerable and therefore at risk. A Living wage can make a positive difference to some of the poorest families in our communities meaning they are less at risk of financial exclusion
<u>S17 crime and disorder act 1998</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	There is evidence to indicate that in some individuals, economic deprivation and increased indebtedness can lead to a path into crime. A living wage will contribute to reducing this risk.
Human Rights Act 1998	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The life chances or individuals who are already socially and financially excluded are reduced. The institute of fiscal studies have previously indicated that the continuing financial climate will result in a greater number of families and children being in poverty. A living wage can contribute to reducing this risk. .
Health and well being	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Living wage sets out to support some of the poorest people in our communities and can improve the health and well being of these residents and communities as a whole

	Impact			
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Eliminating discrimination & harassment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Advancing equality of opportunity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Living wage sets out to support some of the most excluded residents and families in our communities and can contribute to advancing their equality of opportunity
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Natural and built environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Waste minimisation & resource use	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Pollution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Sustainable procurement	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Energy and climate change	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments

	Impact			
Risk management	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

Recommendations from impact assessment
Positive
A living wage will contribute to improving the life chances of many socially and financially excluded individuals across the city.
Negative
Neutral
Issues

Appendix 1

The Living Wage calculation

The calculation is based on 4 steps and it has in place certain features to prevent 'spikes' in wage rates.

1. For each of nine household types, the Minimum Income Standard is used to represent the basket of goods and services that a family needs to buy in order to reach a minimum acceptable standard of living. The MIS costs used here exclude housing costs, which are the most variable costs from one part of the country to another, as well as council tax and childcare.
2. For each of these household types, costs are added on for childcare, rent and council tax, based on calculations from across the UK outside London.
3. For each of the nine family types, the required wage for meeting these living costs is calculated. This assumes that the adult(s) in the household work full time and that people claim all the benefits and tax credits that they are entitled to.
4. The resulting wage requirements for the nine household types are averaged, weighted according to the prevalence of different household types in the population, to produce a single Living Wage, rounded to the nearest 5p.

The formula used will limit the rate of any increase to a maximum of two percentage points above the rise in average income/median earnings.