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The living wage: putting a social aspiration into practice

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Summary

The living wage, which aims to provide workers with sufficient income to reach a modest but decent standard of living, has been on the public policy agenda since the early 2000s. The campaign has since gained national traction with trade unions, political leaders and businesses, but significant challenges remain in implementing it within organisations. In this briefing, we explore the findings from my paper which outlines some of the tensions the living wage has created in local government. These challenges include a potential squeeze on wage differences near the bottom of the pay scale, and the issue of extending it along the supply chain. While the living wage clearly delivers improvements for low paid workers, there are ongoing questions about the low value placed on feminised occupations in public services such as care work, cleaning and school catering.

Introduction:
growing awareness, political support

The living wage has been working its way into public consciousness for nearly 20 years. In 2001 an initiative to address the gap between the minimum wage and the high cost of living in London was established by The East London Company and public sector trade union UNISON. It has since grown into a nationwide campaign coordinated by Citizens UK to tackle endemic low pay.

The London Living Wage, which is currently £10.40 an hour and the UK Living Wage, which is £9 an hour, are estimated to provide workers with an income that reflects the true cost of living in modern Britain. This is based on the cost of accommodation, goods and services in a specific location. Both are higher than the statutory UK National Minimum Wage, which is £8.21 for workers aged 25 and over.

Its profile and acceptance has continued to ramp up across the UK, despite initial reservations from businesses and policy-makers about the possible negative effects on employment. This is because persistent low pay and widening income inequality during times of austerity have arguably contributed to growing calls for higher minimum benchmarks. There are now more than 5,000 organisations in the UK that pay their staff at this level and above **https://www.livingwage.org.uk/accredited-living-wage-employers**

But while the living wage continues to make headlines in national newspapers, challenges still exist. The government's rebranding of the statutory minimum wage as the 'national living wage' has created confusion and undermines the real living wage campaign. There are also issues with the implementation process: accreditation with the Living Wage Foundation, in particular, brings additional commitments for businesses to increase pay along their supply chains. In our view there is a long way to go to address these challenges and other fundamental issues that sit behind low pay.

The first thing to say though is that the living wage is a good thing, it does raise wages for those who absolutely need it. But as positive as that story might be, it has also highlighted the problem of low wages in core public services. If we continue to think that cleaners, catering staff and school support staff are only worth so much an hour, why don't we value these jobs any higher?

In my 2017 study, *Implementing the living wage in UK local government,* I looked at the work of four local authorities – two in London and two in the north of England – over a period of 18 months in 2013 and 2014. In a series of interviews with HR managers, procurement and operations staff, and representatives from UNISON, I paint a rich picture of what I call the "development and outcomes" of living wage policies at local level, and some of the tensions and challenges that arise during the implementation process.

In all four councils, with substantial Labour majorities, there was broad consensus that public sector cuts under the Conservative-Liberal Democrat coalition government, and the rising cost of living, were having detrimental effects on the lowest earners. While the living wage had long been an objective for the trade unions nationally, at a time of public sector austerity and wage restraint there was no real prospect of achieving a national agreement. This meant that individual councils had entered into local negotiations about achieving a living wage for their lowest paid workers. In all cases, political leadership was an important driver of change.

What follows is an exploration of the results, in the context of recent achievements in the sector, and their implications for the future of the living wage.

Challenge one – compression of pay structures

One of the main challenges highlighted by my research was the issue of how to manage the impact on wage differences near the bottom of the pay scale. At one of the London councils sharp increases in pay to keep up with the living wage meant the lowest six pay points effectively disappeared and cleaners with varying numbers of years' service all moved onto a single rate of pay. Similarly at one of the northern councils while the lowest paid received significant increases to move them up to a living wage, the wages above didn't increase at the same rate. Although small wage 'supplements' were used to maintain some differences, the gap between the lowest six pay points reduced from 16.4 per cent to 5.4 per cent in the space of two of years.

As such you start to get the challenge where large numbers of workers become 'living wage workers' and the band of pay starts to compress at the bottom end. So you've got cleaners and their supervisors, for example, paid 5p to 10p difference and you're effectively removing some of those management and supervisory layers. The career ladders that come with it disappear.

Although the national unions stopped short of blocking local living wage deals, there was some concern that various agreements could lead to significant wage compression (as seen in the research). And, more importantly, they would disturb carefully designed 'gender neutral' pay scales developed over a period of several years. The use of pay supplements was one way around the issue of gender pay equality, but by not changing the pay spine it meant that pension contributions and sick pay would still be calculated at the lower rate, minus the supplements.

In 2018, the local government trade unions (UNISON, Unite and the GMB) announced they had agreed a **two-year pay deal** with the national employers to bring the bottom of the national pay spine up to the level of the living wage of £9 an hour. This was seen as a significant breakthrough, given the long period of slow wage growth since 2010.

Importantly, the agreement sought to address the twin issues of low pay at the bottom and significant wage compression among the lowest band of earners. Up until 2018, the lowest ten pay points on the national spine were separated by only £1 an hour. From April 2019 onwards, the differentials across the first ten points had increased to £1.76 an hour, reducing the compression in low pay brackets.

The recent pay deal with unions is some vindication for the living wage, with a redesigned pay scale maintaining some differentials for workers. Although I would stop short of calling it an outright success for the challenge of wage compression, I am supportive of the way it was done. Rather than coming up with local compromises and fudges they have achieved that at national level, which had previously been a key challenge for unions.

Challenge two – accreditation and outsourced providers

Employers who become accredited with the Living Wage Foundation can benefit from the profile it brings, with the logo on their website and in their premises, for example. It also appears that many businesses are adopting the living wage for ethical and moral reasons, rather than trade union pressure. In turn, these factors are likely to attract good headlines and will potentially increase morale and reduce staff turnover.

But accreditation brings with it a set of additional obligations for employers. They must pay it to everyone who works for them directly and increase pay within six months of the new rate being announced in November each year. Accredited employers must also have a plan in place to extend the living wage to third party contracted staff. In the cases where this can't happen immediately, then it can be done over time, as contracts come up for renewal.

The approach to full accreditation in my study was mixed, with only two councils signing up. At the time, local authorities were still trying to work out how much it would cost on an annual basis to comply with the uplift and, more importantly, how much it would cost to extend the living wage to outsourced staff. One of the councils in this study didn't get accredited, because of their fear that pay rates would suddenly jump up and they wouldn't be able to honour them. Adopting a 'soft' localised version of the living wage would not leave the council exposed to sharp increases they couldn't afford in future years.

But the biggest challenge for organisations seeking accreditation is how to implement the living wage throughout the supply chain. The issue is who takes on the additional cost, given that outsourcing is usually financially driven in the first place. Employers would say that until councils give them more money they cannot do anything, while councils would say that they cannot give more money. There are always opposing forces in that discussion.

While there are examples in the study of some positive knock-on effects to outsourced staff, the story of one of the councils tendering a cleaning contract that required bidders to comply with the London Living Wage is worth sharing. Neither the council nor the contractor had allowed for the annual uplift in the living wage rate and ultimately the payment of the London Living Wage to 75 workers that transferred by TUPE agreement to the successful bidder was offset by job cuts of over 30 per cent.

The obligation on accredited employers to raise wages throughout the supply chain has been partially successful in highlighting the problem of low wages in outsourced services. But I found that progress had been slow in tackling pay in outsourced care for older people at two of the councils, and extending coverage generally to the private sector was less clear-cut than other findings.

The real problem comes with outsourced staff, where local authorities have got huge numbers of workers paid below the living wage and where the reason they outsource those workers in the first place is to save money. If we look at waste services, leisure centres, building security and care, for example, they are some of the biggest areas of cost a local authority has. That's the paradox they find themselves in now.

Conclusions:
what does the future look like?

The living wage remains very much on the agenda. **A recent report from the IPPR** highlights what it calls a jobs quality crisis in the north of England, where one in four people earn less than £9 per hour, in the face of precarious employment conditions and zero hours contracts.

In addition, it says that 'real weekly pay' has fallen by £21 in the past decade, and only 49 of 326 councils in the UK is now accredited with the Living Wage Foundation. I believe my findings and recent media coverage strike at the heart of the structural challenges in dealing with low pay.

There is still the issue of regulating outsourced services and that's where you find the really big concentration of not only low paid workers, but workers on short hours and insecure contracts. This is where it's about more than just the hourly rate. If your workers are on zero hours contracts and they are working through a temporary agency, for example, that's never going to be enough to guarantee a minimum standard of living because they are never going to know how many hours they'll be doing. That is a bigger product of outsourcing.

Meanwhile work is ongoing to understand ways in which this can be implemented into the supply chain. In other research I've compared the UK to Germany and Denmark in terms of how they regulate outsourced services. Indeed there are examples of local authorities sitting down with providers and finding ways to increase hourly rates, guarantee hours and support with travel between clients (Jaehrling et al, 2018). This requires more investment from central and local government in core services, but also a good knowledge of the local market and a strong bargaining stance from commissioners, in order to save on management costs and redistribute money to the lowest paid workers.

But as an instrument of social justice, where the living wage meets the money-saving market forces of outsourcing to the private sector, challenges of implementation remain very real. While there has been progress with a national pay deal that delivers a living wage for direct employees, accreditation is still very low across the sector and there is a clear risk that outsourced workers are not benefiting from the real living wage.

I conclude in the paper that a voluntary pay initiative which relies on either a business case, or employer benevolence, is clearly at risk once the initial publicity fades away. Furthermore, even in the public sector, the workers most likely to benefit are also those who are most exposed to market forces as a result of organisational restructuring, downsizing and outsourcing.

The two-year deal was a breakthrough in the sense that we did see this coordinated agreement, with changes to the pay spine to preserve differentials. But at the same time, the health service has already moved on, higher education has moved on. If you were to take the median salary in local government, it's been flat for ten years.

So while the living wage is a welcome addition to the debate around pay at the very bottom end of the pay scale, there are still significant problems of low earnings in what is a highly feminised sector.

The Living Wage – what you need to know

What is the UK Living Wage?
It is the minimum people need to live on, according to the real-world cost of living in the UK. It is independently calculated each year by the Resolution Foundation and overseen by the Living Wage Foundation. From April 2019, the rate is £9 per hour.

How is it different to the National Living Wage?
In April 2016, the government introduced a higher minimum wage rate for workers aged 25 and over and rebranded it the National Living Wage. The rate is currently £8.21 per hour and the aim is to increase this to 60 per cent of median earnings by 2020, but there is no explicit connection with the cost of living.

Do employers have to do it?
No, it's a voluntary higher rate of base pay and provides a benchmark for employers who "choose to pay their employees a rate that meets the basic cost of living in the UK and London".

Do you have to be accredited?
Accreditation brings with it the value of publicity and being a 'living wage' employer, but it also means rates should be increased in line with the Living Wage Foundation's annual calculations. Employers should also take steps to implement the living wage throughout their supply chains.

References

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