

THE 'LIVING WAGE' AND THE PUBLIC SECTOR'S ROLE IN ESTABLISHING EMPLOYMENT STANDARDS

Local government and health authorities play a key role in tackling poverty and its consequences, such as health inequalities. Yet public sector employment practices can run against these ambitions. In particular, many support services are now provided by private sector contractors who often offer very low wage rates, potentially creating the very poverty that the public sector organisations are trying to combat. One answer to this is the 'living wage'.

In this briefing paper **Steven Fuller and Peter Kenway** discuss how public sector bodies could use their procurement practices to promote good employment standards, bolster their anti-poverty work, tackle inequalities and support public service reform.

What is the living wage?

That workers should, as a minimum, be paid at a level which enables them to achieve an acceptable standard of living - the 'living wage' - has long been the aim of anti-poverty campaigners and unions. Central to this are the notions that a certain dignity should flow from work, and that in tackling poverty specific regard should be had to 'how much is enough'.

The living wage, as it is understood here, would involve employers ensuring that both their own employees, and the employees of their contractors, are paid enough to reach minimum living standards in their area of work.

This policy has already been adopted in the public sector in over 150 US cities. Although the precise means of calculating the wage vary, the beliefs that there should be such a standard and that public sector bodies should take the lead in applying this standard are commonly held.

Recently, a new approach to campaigning on the living wage has developed in the UK. Unison and TELCO, a community organisation in East London, have begun to work jointly to champion the idea both to large corporate employers and, in particular, to public sector bodies in East London.

Jointly commissioned research has suggested that a figure of £6.30 per hour is required to ensure that a family of four, with one full-time and one part-time worker reach a 'low cost but acceptable' living standard in East London.

THE LIVING WAGE IN EAST LONDON: TELCO'S CAMPAIGN

The East London Communities Organisation (TELCO), composed of independent institutions such as churches, mosques and schools, is campaigning for a 'living wage' in East London. It has the support of a number of private sector employers, national unions, numerous local union branches and a number of civic leaders.

TELCO calculates the 'living wage' on the basis that it should be sufficient for a family with two young children, one full-time worker and one part-time worker (17 hours) to enjoy a 'low cost but acceptable' living standard. This is a standard below which good health, social integration and satisfactory standards of child development are at risk. It therefore ensures warmth, shelter and a healthy diet, but recognises that these are insufficient on their own for genuine well-being.

Using local costs and prices, research by the Family Budget Unit, King's College London shows that the disposable income needed for the family of four to reach this living standard is £322 per week. With only the help of child benefits, this requires a wage rate of £6.30 per hour. It is this rate for which TELCO campaigns.

The living wage and the minimum wage

From this autumn, the national minimum wage is £4.10 an hour. The living wage differs from the minimum wage in three ways.

First, the living wage is inherently local, in particular using local costs to calculate what the living wage rate should be.

Second, the living wage would not be expected to apply universally, but would instead be confined to the public sector and its contractors and larger corporate employers capable of absorbing the additional cost.

Third, the living wage is calculated to lift the beneficiaries above particular poverty thresholds *without* the assistance of means tested benefits and tax credits. The family receiving the living wage of £6.30 described above would still, however, remain entitled to some Working Families Tax Credit. The living wage, then, would not necessarily mean that its recipients no longer receive benefits and credits, it simply ensures that they are not dependent on them to reach certain minimum living standards.

The living wage therefore complements the system of benefits and credits, shifting a greater responsibility for achieving minimum standards to the employer, while leaving scope for the supportive role of the state.

'Living wages' and 'fair wages'

The idea of the 'fair wage' is that a worker in a contracted out public service should be given the same pay and benefits as have been negotiated through collective bargaining for a public sector employee in a similar position and of equivalent seniority. It is an idea that is well established throughout the EU, and is now a policy commitment of the Greater London Authority.

In practical terms, 'living' and 'fair' wages are closely related and likely to be complementary. In particular, where public sector employees are already being paid what is effectively a living wage, a fair wage clause would bring the same benefits to contractors' staff as a living wage clause.

There are, however, differences. Most notably, the living wage is an absolute concept, resting on the notion of a minimum acceptable living standard. By contrast, the fair wage is a relative concept, relying on the principle of comparability.

The case for the living wage

The primary argument for a public sector living wage is that the public sector should set a clear example on employment standards. Acceptance of this principle in so far as it applies to wages can be seen in those - very few - local authorities that do have minimum earnings guarantees for their employees. For example, the guarantee of the London Borough of Hammersmith works out at over £7 per hour (including London Weighting).

Recent research at the University of London has shown that the impact of a living wage on contract workers would be considerable.

MAPPING LOW PAY IN EAST LONDON

Research by Jane Wills, at London University's Queen Mary and Westfield College, has established that the levels of pay for workers on contracted out public services in East London are often at, or just above, minimum wage levels.

Furthermore, very few of the numerous workers with children who were interviewed were found to be claiming Working Families Tax Credit. Low levels of union membership contribute to the problem that low-paid workers often have limited information about their employment rights and benefits entitlements.

With pay as low as £3.75 for cleaning buses or £4.05 for cleaning hospitals, along with no London Weighting and the same flat rate for overtime, workers reported having to work more than 60 hour weeks to earn £250.

The living wage would therefore have a significant upward impact on the earnings of these low paid workers. It would additionally ensure that there was no longer the 'two-tier' workforce, likely to undermine productivity and morale, which is commonly a consequence of TUPE (the regulations ensuring that the wages and benefits of workers previously in public sector employment are maintained on transfer). The living wage would ensure that *all* contractors' employees (not only former public sector workers) earned enough to support an acceptable living standard.

The case for the application of living wage rates to contractors may additionally be made on the basis that as recipients of public money, they should provide the sort of jobs that the public sector deems desirable: ideally including good training and conditions as well as adequate pay.

Complementing local and health authorities' strategies for tackling poverty and inequality

The living wage could also play a useful additional role in bolstering local anti-poverty strategies, resolving the inconsistency of having local initiatives to alleviate poverty and inequalities, while simultaneously contracting with companies who offer 'poverty pay'.

Furthermore few, if any, current anti-poverty initiatives do anything to increase wages. Yet low pay remains a key factor in poverty. Indeed, with unemployment at its presently low levels, addressing low pay is arguably the key challenge in tackling poverty. Additionally, direct beneficiaries would strengthen the local economy as they spend their money locally.

Raising standards in public sector services

The government recognises the need to bolster the conditions and morale of professionals, but there may be a danger that the vital role played by other 'key workers', such as hospital cleaners and caterers, is ignored.

It seems questionable to expect the highest standards in public services if these vital workers often earn less than is necessary to sustain an acceptable standard of living. Unless this inconsistency is tackled, it may be difficult to re-establish the desirability of public sector employment and achieve the expected substantial improvements in service delivery.

Living wages would be likely to have an upward impact on productivity and service quality and so support the agenda of public service reform.

Practical problems with the living wage

Anti-competitiveness

The main concern here is whether a living wage clause would reduce the number of companies interested in tendering for contracts.

Studies of the impacts of living wage ordinances in the US suggest show that the number of companies tendering did not fall significantly. If companies have already established profitable relationships with local authorities and trusts, then they will probably consider how they can absorb the additional labour costs before they think about pulling out of the tendering process.

A living wage clause could also make the tendering process more competitive, by enabling those companies who offer their employees better terms and conditions to enter the market.

Effects on jobs, costs and other services

Job losses among contractors seems unlikely because these companies are likely to have pared down their workforces to the minimum already.

Higher wages, if they lead to more job satisfaction, may also bring savings in terms of reduced recruitment costs (lower staff turnover) and fewer penalties for poor work. Low pay sectors such as cleaning, catering and security often have high staff turnover and so have considerable recruitment costs to cut.

Costs that are not absorbed in this way or through reduced profits, would fall to the public sector bodies in the form of higher overall costs for the contract. This is more contentious, especially if it might necessitate a reduction in other services to compensate.

However, the introduction of the living wage would also bring savings to the public purse through reduced social security benefits and tax credits. One challenge is to find a way of somehow transferring these savings that would accrue at the national level to the local authority that had introduced the living wage.

Legality

Legal opinion seems to be that, given certain provisos, local and health authorities may lawfully consider the attitude of a company to living wage clauses when evaluating tenders.

THE LEGISLATIVE FRAMEWORK

The key pieces of legislation are the Best Value laws (which apply to local authorities but not health authorities) and the European Procurement directives which apply to all public sector bodies.

The Local Government Act 1988 specifically prohibited the consideration of 'non-commercial' matters in local authority procurement, such as the conditions of employment of the contractors' workers. This barrier to the living wage and the fair wage was removed in March 2001 by a Best Value Order, but only so far as necessary or expedient to allow compliance with other Best Value requirements.

These requirements make it unlikely that local authorities would lawfully be able to exclude automatically any tenderer who refused to comply with the living wage. But they probably do not prevent local authorities from having regard to a contractor's attitude to living wage clauses on a case-by-case basis.

European procurement laws (which apply only above certain thresholds) require that the public body selects the tender with the lowest price or that which is 'economically most advantageous'.

The crucial question is whether or not social considerations - such as improving wage levels - may be viewed as contributing towards the economic advantageousness of the tender. The current opinion of the European Court, based on two cases where tenders were used in combating unemployment, seems to be that such considerations may be taken into account.

What should happen next?

The fact that the living wage is based on living costs in specific local areas, means that the principal effort to establish it ought probably to be at the local level, initially at least. Specific next steps which could be taken include:

- Local authorities, health authorities and other public bodies conducting impact assessments to establish how the introduction of living wage clauses into their procurement contracts could support their anti-poverty and regeneration objectives.
- Best Value authorities testing the opinion of their local populations on the possibility of the living wage under the 'consultation' requirement of Best Value.
- Government clarifying the law to make living wage clauses more clearly permissible, especially since they would be likely to support its agenda of improving public services and literally fit the rhetoric of 'making work pay'.
- Government examining ways of transferring the savings from reduced social security benefits to local authorities who introduce living wage clauses.

More broadly a debate on the living wage could be useful in highlighting what minimum income standards might be, establishing a benchmark which would help employees in negotiating pay and employers in appreciating the wage levels with which they could reasonably feel comfortable.

Comments on this policy brief are welcome. To get in touch, please email: analysis@npi.org.uk

Acknowledgements.

The support of Unison and TGWU in making this Policy analysis possible is gratefully acknowledged. The views expressed here should not be attributed to either Unison, TGWU or TELCO.

Published by New Policy Institute © 2001. Printed by Express Printing U.K. Ltd.

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