

STRATEGY AND POLICY COMMITTEE

11 JUNE 2013



LIVING WAGE

1. Purpose of report

This report provides an outline of matters for consideration in relation to directing next steps on the question of a 'living wage'.

2. Executive summary

The adoption of a living wage is discretionary.

There are two broad objectives and approaches to considering the introduction of the living wage:

- (i) Acceptance of an ethical principle that employees should be paid a sufficient amount to actively participate in society. Here, the primary consideration in implementing a living wage relate to financial impacts and funding sources.
- (ii) There is a business case where the benefits of its introduction accrue to both the employee and to the organisation. Often these are in the form of morale, workforce efficiencies, and savings in recruitment due to higher levels of retention.

The decision on whether to introduce a living wage rests with each individual organisation and employer, taking into account their own circumstances.

As a large organisation delivering a number of services – that are labour intensive and attract lower wage roles – the impacts of applying a living wage at the Council are significant. The Council must also have regard to the purpose of the Local Government Act to ensure its services are cost effective.

There are also potential circumstances where the introduction of a living wage could create unintended consequence. For example, lifting employees' wages above that of the market could result in job losses where the work can be more cost effectively delivered by others.

This report cautions the Council to take these and other factors into consideration. It presents options but recommends that further work be undertaken before a final decision is made.¹

¹ Taking into account international findings.

This is particularly the case in terms of any direction to introduce a procurement policy that requires contractors to pay a living wage or to brand Wellington as a 'living wage' city.

There are international examples of where the adoption of a living wage has been argued to have contributed to wider economic returns. The application of these in the local setting though is largely untested. Auckland Council is currently undertaking significant work on this topic. They are not expected to make any decisions until after October 2013. It is recommended that any further work in this area for Wellington be informed by those findings.

3. Recommendations

Officers recommend that the Strategy and Policy Committee:

1. *Receive the information.*
2. *Note that the adoption of a living wage is discretionary, and agree the guiding principle that each employer should determine for themselves, taking into account their market and circumstances, the adoption of a living wage.*
3. *a. Instruct the Chief Executive to report back in November 2013 on how to introduce a principle that after 4,000 hours of accrued service staff will be paid at least \$18.40 per hour.*
b. Make provision in the 2013/14 annual plan of \$125k, funded from general rates, for its implementation.
4. *Note that officers will continue to research the work of others to inform advice on Council's policy parameters in relation to the living wage.*

3. Background

The Committee has asked officers to explore whether the organisation should apply a living wage to its employees, Council Controlled Organisations, and employees of contractors, and whether Wellington should be promoted as a living wage city.

Arguments for the introduction of a living wage largely focus on an ethical principle that wages should be set at a sufficient level for people to actively participate in society. Business benefits such as staff retention and brand recognition are also cited as reasons for applying a living wage.

It is important for the Council to be clear about its objectives should it decide to apply a living wage. The Council is a large employer and the financial impacts would need to be met through either user charges or rates. Some savings from recruitment practices may reduce the costs.

It is therefore important to consider the decision in the context of the trade offs required across the council's annual plan.

3.1 The facts: settings

The current minimum wage in New Zealand is \$13.75 an hour. A living wage has been set at \$18.40 an hour².

The Government provides a range of income supplements that in effect close the gap between the minimum wage and a living wage. Payment of a living wage in certain situations would reduce or eliminate entitlement to these supplements. Workers on a living wage would nevertheless have a net gain from being paid a living wage.

The living wage is defined as ‘the wage necessary for a worker to survive and participate in society. It reflects the basic necessities and expenses of workers and their families such as food, transportation and child care.’

3.2 The facts: employee numbers and current practice

The Council’s current remuneration practice is to grade jobs on a market basis and pay between 85% - 115% where the mid point (100%) equates to being fully competent and performing to the expectations of the role.

The mid point on three grades is less than the living wage of \$18.40 an hour.

A wholesale adoption of the living wage for Wellington City Council and Group employees would cost \$890k to implement or circa. \$10 million (inflation adjusted) over the ten years of a long term plan.

Currently 502 Council employees earn below \$18.40 an hour. The number of employees and additional costs associated with applying a living wage are:

- 345 permanent staff: \$450k per annum
- 30 fixed term staff: \$12k per annum
- 127 casual staff: \$75.5k per annum
- Subtotal: \$550k per annum
- Total: \$575k (adjusted for Kiwisaver contributions).

There are 312 employees of CCOs that earn below \$18.40. The number of employees and additional costs associated with applying a living wage are:

- 49 permanent staff: \$77k per annum
- 263 fixed term and casual staff: \$238k per annum
- Subtotal: \$315k per annum
- Total: \$325k (adjusted for Kiwisaver contributions).

3.3 The context: domestic

The living wage movement was launched as “Living Wage Aotearoa New Zealand” in May 2012. The movement’s aim is reduce inequality and poverty in society by lifting wages of the lowest paid.

The movement notes that income inequality is growing in New Zealand. It is ranked 23rd out of 30 countries in the OECD for income inequality (30 having the greatest inequality). Child poverty is also noted with 40% of poor children

² The Family Centre Social Policy Research Unit

coming from families where at least one person is in full-time work or self-employed.

A number of organisations have recently taken steps towards adopting living wage practices. These include The Warehouse, Thames Publications and Hamilton City. The Auckland Council is also considering the potential and impacts of applying a living wage.

3.4 The context: international

The concept of a living wage is an established initiative in parts of the world. Significant literature has been generated overseas discussing the costs and benefits of a Living Wage approach to remuneration and its impacts on local economies.

A small number of employers in the United States, Britain, and Canada have adopted a living wage policy. The benefits arising from its implementation are starting to be more identifiable and include reductions in staff turn-over, improved organisational reputation and loyalty, and where matched with training increased rates of productivity.

3.5 The context: benefits and potential risks

The primary benefits of adopting a living wage for direct employees are those of staff loyalty, increased morale, and improved efficiencies. This primarily relate to a reduction in time spent on recruitment as the higher wages tend to encourage staff to stay longer. This is a factor for the Council with a current turnover of above 30%.

There are also potential unintended consequences against which any implementation of a living wage policy should be considered.

Those often cited include:

- that increased costs/rates/fees for organisations to meet Living Wage standards are recovered through a reduction in overall staff to ensure organisations continue to operate within overall fiscal parameters to remain viable
- impacts on employment opportunities – low wage jobs are often entry level positions³ – paying higher wages can impact on low skilled and young people's enter into the workforce
- wide scale application of higher wages with no commensurate increase in productivity can have inflationary effects and in certain circumstance affect the attraction and or retention of some industries that utilise low skilled labour in their businesses.

In addition, consideration should be given to whether a living wage intervention is the most effective tool to achieve the desired outcome⁴. While wage levels are an issue, access to full-time, steady work opportunities, not low hourly wage rates, are often just as important for people – particularly younger people.

³ Low wage roles are not exclusively entry level.

⁴ As per the new core purpose of the Local Government Act.

Similarly, measures designed to improve workplace skills may ultimately be more effective in bringing about better living standards as well as productivity, and this should also be evaluated in more detail before decisions are made.

There is also a broader significant issue in the living wage debate rests on the relative roles of local government and central government. Central government clearly has responsibility for establishing national settings around minimum wages and the offsetting effect of government financial support mechanisms such as Working for Families, Housing Subsidies, tax rebates and so on. Are the objectives behind the living wage better met at a macro, national level or should these fall within the ambit of local government's role?

3.6 The context: strategic fit

The Wellington City Council is an equal opportunities employer with a focus on assisting its employees to deliver a better value for money service to its residents. Initiatives that lift the performance and productivity of staff could be seen to reflect this objective by delivering the highest quality and best value for money services possible.

At the macro level the Council's role is to create an environment where the local economy can flourish. It provides infrastructure and economic initiatives that aim to stimulate jobs growth and diversification towards higher skilled roles.

4. Discussion and options

4.1 The options: council as an employer

The organisation grades jobs on a market basis. The policy is to pay on a band between 85-115% of the grade. A further aspect of the policy is 'progression along the band'. The mid point – 100% – equates to someone who is fully competent in the role and is meeting performance expectations.

There are three grades where the mid point is below \$18.40 an hour. The number of employees⁵ earning under \$18.40 an hour is:

Permanent: 345

Fixed term: 30

Casual: 127.

There is high staff turnover in roles that currently earn below \$18.40: 11% at one year of service; 25.5% at two years of service; and 44% in total.

This turnover rate is partly explained by the nature of the roles that fall into this category. For example roles such as lifeguards, aquatic instructors, and library assistants are often filled by students entering the workforce. The turnover can relate to them moving onto other roles more suited to their training.

There is nevertheless recruitment costs associated with such a turnover rate that can be reduced through improved retention.

⁵ As at the end of May 2013

APPENDIX 6

Applying the living wage as an objective to retain staff at 4,000 hours (ie two years full time) of continuous service would cost the Council \$250k per annum. The '4,000 hour threshold' is a proxy for the point at which turnover is highest. It is also the point at which staff are entitled to another aspect of our retention policy - an additional week's leave.

Applying the living wage to this cohort as a whole would cost \$450k per annum.

A consideration when applying a living wage in an organisation is 'compression'. This is the situation where an increase in the lower grade necessitates an increase in the grades above – a domino effect. The gap in the mid point of the next grade is \$1.48 an hour. This equates to an 8 percent increase. The sufficiency of this gap will be tested through wage bargaining.

An alternative approach as an employer could be to lift the value of roles – that is, to introduce higher expectations into every job description. This would have the effect of lifting every position to a salary grade at or above the living wage.

The underlying objective is to fulfil the council's aims of engagement, customer service and quality of life. By adding additional competencies to low wage roles (and providing associated training) the skills of the workforce would be increased.

The policy position could be that:

- no job (description) is designed to have a value less than the living wage
- the organisation will invest in assisting employees to meet the necessary skills and standards to meet that value
- the living wage salary will be paid on completion of training and accrual of service.

This approach is conceptual only and further work would be required to assess its viability. Its limitations include: the fact that not all roles could have additional competencies added; cost; administrative complexity and timeframes – as negotiations would be required on all job descriptions.

It is recommended that more work is undertaken on retention strategies for these lower waged roles and that these be reported back to the council once complete.

Living wage: options for council as an employer

Either:

- i. Do nothing in relation to living wage and continue to pay based on market grade for all roles.

Or:

- ii. (Continue to pay based on market grade for all roles but) introduce the living wage as part of a staff retention policy. It would be applied after 4,000 hours of accrued service ie two years full time. It would cost \$275k per annum to introduce. It could be implemented from 1 January 2014. This would require \$125k set aside in the 2013/14 annual plan.

Or:

- iii. Explore options and develop a broad retention strategy for lower wage roles and report back to Council on an overall remuneration policy.

4.2 The option: council controlled organisations

The recruitment practices of Council Controlled Organisations are set by each organisation. This allows them to take into the employment market in which they operate. It is not recommended that this practice change for waged employees⁶.

The number of employees earning under \$18.40 an hour across the Council Controlled Organisation is:

Permanent: 49

Fixed term: 4

Casual: 257.

The cost of applying the living wage to this cohort as a whole would be \$325k per annum.

An important consideration for each CCO in applying a living wage will be funding. This would need to be met by each CCO. The alternative would be to fund these from rates increases or through savings from the Council's own programmes. The Council would need to establish a rationale before making such a decision.

A number of key CCOs – such as Wellington Venues Ltd, the Wellington Museums Trust and the subsidiary Stadium Trust – operate in markets that are highly competitive within New Zealand and the Asia-Pacific region. Combined they bring significant commercial and reputational benefits to Wellington and the region. They are also a significant employer and – because the nature of the work – some of this is casual and low skilled labour.

These organisations are able to succeed because they are operated and governed independently by experts in their relative fields who understand the risks and opportunities associated with their respective markets, and have access to casual and low skilled labour to carry out some of the work. Additional costs associated with moving to a living wage for these organisations will increase

⁶ The setting of executive salaries has a closer link to the overall governance performance of a CCO and the Council has discussed the appropriate practices to be applied at these levels.

costs and will reduce their overall competitiveness. For example, it could reduce their ability to attract events and conferences to Wellington which in turn will have a flow on affect on the viability of some venues, and that in turn would impact on employment of staff who work there.

The ability to be highly competitive in these areas is very important at a time when the economy remains flat – and particularly when the Council is in the process of earthquake strengthening key infrastructure through which a number of these services are provided. Further uncertainty in terms of additional costs is highly likely to be detrimental to their overall competitiveness.

In all instances, each individual CCO is best placed to understand the markets in which they operate and the risks and opportunities associated with making changes to the costs of providing services. They are independent, are separate legal entities, and any change in wages must be left to each CCO to determine.

Living wage: guidance for Council Controlled Organisations

- As independent organisations and employers they are best placed to determine their recruitment and remuneration policies.
- Any adoption of a living wage would need to be met from each CCOs operations. They would be expected to assess the impact of adoption on their ongoing competitiveness.

4.3 The broader application: contractors' employees

Living Wage Aotearoa is considering the introduction of an accreditation standard. This will establish the parameters by which organisations can officially use the living wage brand. As part of this organisations will be asked to adopt the payment of a living wage to their direct employees and to use contractors that pay the living wage to their staff.

The likely mechanism for achieving this would be the adoption of procurement practices that require successful contractors to pay their employees a living wage.

The nature of the Council's contracted services mean any addition of a living wage into tendered services is anticipated to be a significant cost. No assessment of the potential cost of applying a living wage to contractor roles has been possible in the timeframes for this report – the Council is therefore not in position to make a decision.

Nevertheless, the use of such an approach would cut across the principle that: the living wage is discretionary and the decision to adopt it should rest with each organisation taking into account their circumstances.

Legislation requires Council to deliver services that are the most cost effective for households and businesses. Applying a living wage to contractors could expose Council to challenge because it may not be able to demonstrate that it is meeting the 'most effective' purpose of the Local Government Act 2002.

Auckland Council is currently undertaking extensive research into the question of the living wage. It is recommended that this and other research be undertaken before any decision is made here. This information would be required to inform a decision on branding the city.

Living wage: brand and requirements on contractors

- Each employer should determine for themselves, taking into account their market and circumstances, the adoption of a living wage.
- The costs of introducing a living wage requirement as part of a procurement / tender practice is not recommended. The costs are likely to be significant and beyond the council's direct control. As such, the ability of the council to demonstrate it is meeting the 'most cost effective' purpose of the Local Government Act would be open to challenge.

4.4 The process: engagement

The living wage initiative has emerged recently. It is proposed by a community campaign but its adoption by council has not been subject to consultation. The subject is complex and a broader public conversation on its adoption would inform what approach the council could take.

The council could facilitate the conversation by hosting business leaders' discussions⁷ and profiling the topic on the Council's online discussion forum.

5. Conclusion

Officers have been asked to explore whether Wellington City Council should apply a living wage to its employees, Council Controlled Organisations, and employees of contractors, and whether Wellington should be promoted as a living wage city. This report outlines a number of factors requiring further consideration to help the Council determine whether a living wage should be implemented at Wellington City Council and the city branded as a living wage city.

⁷ An initial meeting was held on 5 June 2013.

SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

The content of the paper is most strongly aligned to the Council outcome - People-Centred City

2) LTP/Annual Plan reference and long term financial impact

Any decision to pay a living wage will have a financial impact. The scale of this will depend on the extent of its application. The timing of this paper allows for any increases to be included in the 2013/14 annual plan.

3) Treaty of Waitangi considerations

Consultation with mana whenua partners will occur during a further exploration or research on the topic.

4) Decision-making

This report presents background information and a number of options for the consideration of the living wage

5) Consultation

This topic arose during consultation on the draft annual plan. The application of the living wage to Wellington city and associated costs and benefits has not been consulted on.

6) Legal implications

The application of a living wage has potential impacts for employment contracts and negotiations. Adopting a living wage more widely than canvassed in this paper could leave the Council open to legal challenge on the basis of the core purpose of local government and a lack of broad consultation to date.