

IMPLEMENTATION OF A LIVING WAGE RATE

1. Purpose of report

This report discusses implementation options of a living wage rate.

The report does not discuss the merits or otherwise of introducing a living wage. The council has previously discussed this and made an in-principle decision¹. The report notes the two primary objectives advanced in support of a living wage – a contribution to the reduction in poverty and uplifts in workplace morale and productivity. For the purposes of implementation, a living wage rate is being advanced as part of a wider workforce development package.

2. Recommendations

That the Governance, Finance and Planning Committee:

1. *Receive the information.*
2. *Note that (inline with the council's in principle direction) the chief executive will introduce a living wage-rate for council staff² as part of a workforce development package.*
3. *Note:*
 - a. *that implementation will be phased in from 1 January 2014.*
 - b. *that \$500k is included in the 2014/15 base budget.*
 - c. *that a further \$250k is required for full implementation.*
4. *Agree the timing for full implementation be:*

EITHER

- *1 July 2014 (with the additional \$250k subject to offset savings being identified in the wider personnel budget³ and reported as part of the final annual plan);*

OR

- *1 July 2015 (with the addition of \$250k funding to be provided in the Long-term Plan).*

¹ Strategy and Policy Committee June 2013

² This would apply to directly employed staff and would exclude those in training positions such as apprenticeships.

³ Options could include vacancy loading and potential reductions in recruitment costs.

5. *Direct Council Controlled Organisations (through the statements of intent process) to consider how they would implement within budget a living wage-rate for their staff and report back as part of the 2015 Long-term Plan.*
6. *Agree that further work be undertaken on the question of applying the living wage-rate to contractors and be reported back as part of the 2015 Long-term Plan.*

3. Executive summary

The living wage is voluntary. It aims to lift the lowest wages in the workforce to a level that allows for participation in society. This has been calculated at \$18.40 per hour. The council agreed in principle to apply a living wage rate and consider its implementation.

Three implementation scenarios have been tested. The proposed option links the living wage to workforce development. Other objectives such as economic growth and reduction in social disparities are largely unproven in New Zealand and more difficult to argue in the context of local government legislation.

The proposed scenario is the least cost option for ratepayers. It would see uplift in remuneration for council employees as part of a wider package of initiatives including customer service development and a leadership development programme.

The proposal will see a living wage rate implemented for council employees from 1 January 2014.

The proposal includes direction to CCOs and the council doing further work on the question of applying a living wage to contractors.

The alternative scenarios represent real risks to council that are difficult to mitigate. They include: affordability; exposure to cost escalations; and outcomes that are counter to the objective such as service reductions.

The proposed option is consistent with council's in principle decision:

- direct employees receive an uplift
- Council Controlled Organisations are directed to move towards this over time
- contractors are provided a clear signal that paying a living wage may be advantageous
- Wellington is seen to lead in a way that balances the benefits and costs.

3. Background

3.1 The council has agreed in principle to introduce a living wage rate.

The council has asked officers to consider a framework for the implementation of a living wage. A prerequisite to this is determining a clear objective. There are competing views on the rationale and effectiveness of implementing a living wage.

3.2 Living Wage Aotearoa aims to lift incomes and reduce poverty.

Living Wage Aotearoa New Zealand (LWANZ) aims to reduce inequality and poverty by influencing employers to lift the wages of New Zealand's lowest paid workers⁴.

LWANZ provided advice to Council in June 2013 that income inequality continues to grow in New Zealand. In fact, New Zealand was – at the time of that advice – ranked 23rd of 30 countries in the OECD for income inequality and as a result is one of the OECD's poorest performing countries by this indicator.

As a sub-set of that indicator, child poverty indicators record 40% of poor children come from families where at least one person is in full-time employment or is self-employed.

A number of organisations around New Zealand and the world have adopted the Living Wage as part of their employment practices. The most notable employer locally is The Warehouse. They adopted a career retailers wage.

The Living Wage is described by LWANZ:

A Living Wage is the income necessary to provide workers and their families with the basic necessities of life. A Living Wage will enable workers to live with dignity and to participate as active citizens in society.

We call upon the government, employers and society as a whole to strive for a living wage for all households as a necessary and important step in the reduction of poverty in New Zealand.

3.3 The Treasury has argued that the living wage is not well targeted.

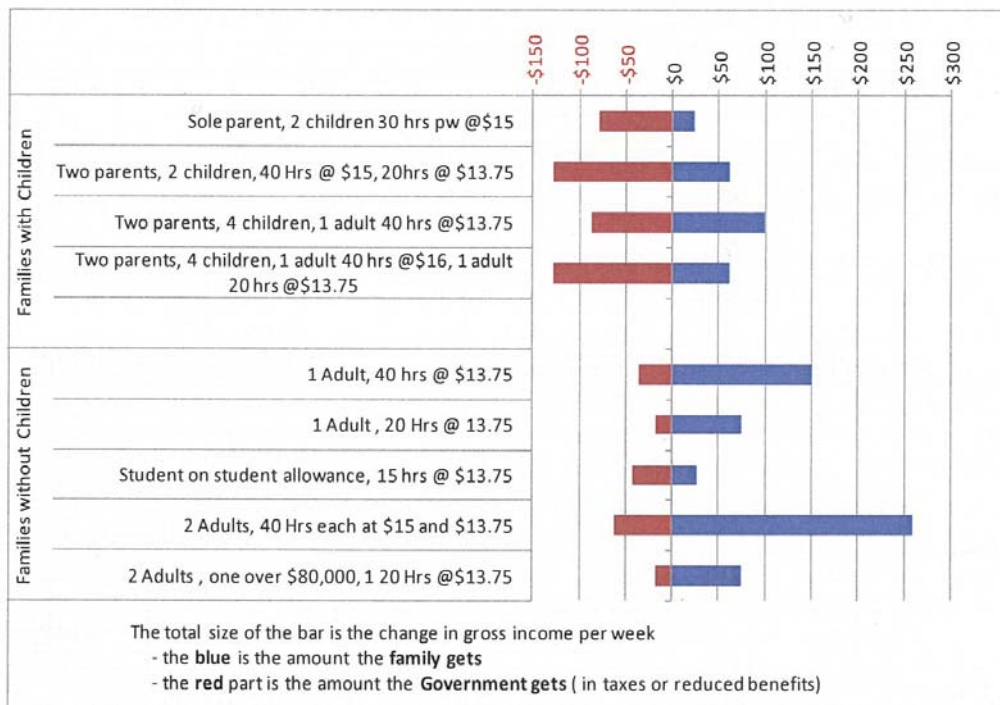
The Treasury has undertaken an initial assessment⁵ of the living wage in New Zealand. Their findings are:

- That it is not well targeted to low income families with children.
- Those who would benefit most are those that receive no means tested support from government ie those below 30 who are single or part of a childless couple.
- That not all the extra income provided by lifting wage rates would end up in wage earners hands. The graph below indicates the distribution between the government and the earner of applying a living wage (due to higher taxes and the abatement of supplements).

⁴ Refer to www.livingwage.org.nz for a full account of the campaign and objectives.

⁵ Refer November 2013 Treasury release www.treasury.govt.nz/publications/informationreleases/livingwage.

Total additional income distribution between government and the earner



Source: Treasury, MSD and IRD calculations

It is important to note that in each situation the employee receives a net gain in income.

3.4 The evidence from literature is mixed.

The living wage has been implemented by a number of organisations and cities internationally. There is evidence of both positive and negative effects of its implementation⁶:

- Case studies of affected workers indicate that the living wage can make a real impact on their daily lives and choices.
- Other literature points to small reductions in poverty and increases in employee wellbeing.
- Counter to that is evidence of loss of work hours and constraints on workforce entry.
- There are accounts of lower workforce turnover and improvements in the quality of job applicants.
- There is some evidence in locations of economic spillovers from the implementation of the living wage. The direct application of these findings to Wellington is limited. This is because the living wage is voluntary and applied on local settings.

It is also acknowledged that the living wage is not (or intended to be) an effective, standalone tool for alleviating poverty as it is only applied to those in employment.

⁶ Refer to A Literature Review on the Effects of Living Wage Policies published by Auckland Council August 2013.

3.5 Workforce development provides a clear objective for implementation.

Wellington City Council is a diverse organisation. Its workforce reflects this, with roles ranging from professions such as architecture and civil engineering to intensive labour and customer service roles. The skills required to run a city are numerous and ever changing.

A workforce development plan that provides for the retention, attraction and development of these skills is vital for the council. Remuneration is one part of that plan. Lifting the lowest wages to that of the living wage rate is one signal that the council values the contribution its people make to the operations of the city.

There are circa 450 direct employees earning under the living wage rate. The roles they perform are directly aligned to the council's objectives. Performing them to expected levels improves safety, lifts environmental practices, enhances customer service and drives efficiencies so that we are open for business. Lifting their incomes is recognition of this contribution.

The implementation of a living wage rate at the council is recommended on this basis.

As noted, the broader arguments that implementing a living wage stimulates economic activity and reduces social disparities are largely unproven in New Zealand. While there are likely to be some benefits, it is difficult to argue that a living wage is the most cost effective way of achieving those objectives - a test the council must meet under the legislation.

The implementation therefore turns on workforce development. The council is not placed to make judgments across other workforces. As a guide for implementation each employer should determine for themselves the benefits to them of such a step. The council can play a leadership role towards this end.

Workforce Development

The objective of workforce development is to maintain a highly skilled workforce at all times to deliver on the organisation's work programmes and priorities. This is achieved by being seen as an employer of choice among graduates, professionals, migrants, and school leavers, actively recruiting 'talent' into the organisation, growing the skills-base and knowledge of existing staff, and developing leaders. In addition to the living wage rate, the workstreams include:

Modern apprenticeships / internships:

Council is developing a modern apprenticeship and internships scheme for the organisation. The scheme is expected to target a range of skills to meet the breadth of opportunities at Council – everything from professional services such as planners, accountants and policy analysts, through to front-line roles. The broad intention of this work is to provide a

'pathway' to bring talent into the organisation, deliver on a commitment to be a valued high-quality employer of choice for people, and build stronger connections with educational institutions in the city and region. The apprenticeship scheme will likely start in a small number of areas and be grown over time.

Learning and skills development:

Investing in staff is critical to the organisation's success. To help staff reach their potential they are encouraged to undertake ongoing learning and development. This is done by ensuring training is available for individuals and business units. Learning and development is linked to the organisations goals and priorities and development opportunities are regularly reviewed and improved to meet individual, team and the organisation's needs.

Leadership Development:

Leadership development is a key focus in the organisation. The general practice is not wait for leaders to appear, but identify leadership potential and develop these individuals through training and mentoring.

These steps aim to:

- reduce staff turnover and associated costs
- lift staff engagement levels
- enhance the service experience of the public
- attract talented applicants.

3.6 Each employer is best placed to consider workforce development plans.

Legislation prescribes that the chief executive is responsible for employing council staff and for setting terms and conditions⁷. It also specifies that all decisions relating to the operations of Council Controlled Organisations must be made by, or on the authority, of the board of the organisation. There are, nevertheless, mechanisms for council to take a leadership role in support of a living wage rate. The council can:

- provide the budget for the chief executive to introduce a living wage rate for council's direct employees (inline with the in principle decision) as part of a wider workforce development package
- use the statements of intent process for CCOs to set out the council's expectations as a shareholder that solutions for payment of a living wage-rate be investigated from within their budgets

⁷ Legislation now provides the council with the option of introducing a remuneration and employment policy. Such a policy would be broader than the living wage rate and is not necessary implement the increase because the chief executive has indicated he will implement the rate once funded.

- evaluate how contractors paying a living wage could be favoured, while taking into account other service and contractual factors such as health and safety, capability, capacity, quality, value for money for ratepayers etc.

4. Discussion

4.1 *There are a number of implementation factors to consider.*

All policies and frameworks have limitations. The following factors provide a basis for assessing the relative merits of implementation options:

- **Cost:** implementation has a cost. The council is required in legislation to ensure the most cost effective option.
- **Funding:** the council's funding options are guided by its revenue and financing policy. At its simplest this aims to see costs rest with those that benefit and to avoid where practical cross subsidisation – the situation where one function is funded by an unrelated function or someone that doesn't benefit.
- **Opportunity cost:** does potential exist for the money to be spent on other activities to generate similar or broader benefits.
- **Effectiveness:** can the benefits be realised and linked to the intervention.
- **Administrative ease/complexity:** the simplest options for implementation are often the most transparent. Administrative complexity can add to transactional costs that erodes the likelihood of take up over the long term.
- **Relativities:** how will parity between roles be maintained. Options range from doing nothing to applying relative uplifts across the entire workforce. Neither option is considered sustainable. A broad uplift is cost prohibitive and unwarranted (ie why should a policy adviser earning above the living wage receive an increase simply because a life guard's income is lifted) and doing nothing is highly likely to create workplace tension. A middle ground is to apply an uplift to direct supervisory roles to maintain parity. This will not mitigate all tensions or wage pressures.
- **Risk:** does the option expose the council unnecessarily to cost escalations or legal risks?
- **Market displacement:** will the implementation option result in unintended outcomes such as limitations on service delivery options.

4.2 *Three implementation scenarios have been reviewed.*

Different implementation options have been considered for the living wage rate. The primary differences between the options relate to cost and to timing for each of three categories: direct employees; employees of CCOs; and employees of contractors.

<i>Scenario 1</i>		
Direct employees ⁸	CCO employees ⁹	Contractors employees
<p>The <i>living wage rate</i> is applied to directly employed roles in Council (excluding training roles).</p> <p>This would be phased in: <i>1 January 2014</i> This would be equivalent to the mid point on the lowest pay grade being set at \$18.40 an hour.¹⁰ <i>1 July 2014 (or later)</i> \$18.40 an hour set as the base rate.</p>	<p>Council Controlled Organisations are directed to consider a living wage policy and report back on its funding from savings within their budgets as part of the next long term plan that comes into effect on 1 July 2015.</p>	<p>Agree that further work be undertaken on the question of applying the living wage-rate to contractors and be reported back as part of the 2015 long-term plan</p>
Cost: \$750k	-	-

<i>Scenario 2</i>		
Direct employees	CCO employees	Contractors employees
As per scenario one above.	<p>Council Controlled Organisations are directed to pay a living wage funded from rates increases or service cuts as at 1 July 2014 (or later).</p>	As per scenario one above.
Cost: \$750k	+ \$650k*	-

*Note this does not include uplifts related to any relativity payments within CCOs.

<i>Scenario 3</i>		
Direct employees	CCO employees	Contractors employees
As per scenario one above.	As per scenario two above	<p>The council sets a requirement that contractors pay a living wage. This would be introduced over time as each contract come up for renewal.**</p>
Cost: \$750k	+ \$650k	+\$2.5 million (at least)*

* Note that the full cost of applying the living wage rate to contractors is unknown, because the make up of the pricing strategies for some companies is not known. The \$2.5m is considered the least cost option if contractors were to pass through the costs of paying the living wage.

⁸ Circa 450 employees would benefit.

⁹ Circa 310 CCO employees would benefit.

¹⁰ A staff member performing at 100% of competence would be at the mid point. This means some staff would not receive the full uplift until the second phase of implementation.

** Note that any change in existing contracts would expose the council to costs in the form of penalties.

4.3 Scenario one stands out when matched with the implementation factors.

The following table discusses the limitations and considerations of each scenario and the implementation factors. Scenario one is recommended primarily based on: cost; effectiveness; administrative ease; and its lower risk profile.

Implementation factor	Scenario 1	Scenario 2	Scenario 3
<i>Cost</i>	Least cost	Double that of scenario 1 though less cost than scenario three.	Highest cost
<i>Funding</i>	Largely budgeted. \$250k will need to be added as part of the annual plan. The direction to CCOs provides them with the opportunity to assess how a living wage rate (and the benefits of it) could be funded from within their business.	There are three funding options. i. From CCO savings and efficiencies. ii. From service cuts. iii. From rates increases. Funding from service cuts would be counter productive to the objective of a living wage (as it would likely result in job losses) and rates funding would run counter to the establishment of CCOs (to generate income opportunities).	Providing increased funding with no corresponding uplift in productivity or service quality would struggle to meet the test of most cost effective in the Local Government Act.
<i>Opportunity cost</i>	Equates to servicing a >\$8million capital expenditure investment.	Equates to servicing a >\$12million capital expenditure investment.	Equates to servicing a >\$35million capital expenditure investment.
<i>Effectiveness</i>	Measurable: Can be measured in terms of staff engagement and customer experience. The requirement for contractors to be accredited provides	Conditional: Turns on the funding option. Any reductions to levels of service may have a negative impact on staff levels.	Conditional and uncertain: The effectiveness would turn on funding and on the uplift being applied for all hours worked. Note that contracts subject to

	certainty that their staff are earning the living wage (on all tasks not only for those hours worked for the council).		NZTA funding would be excluded (due to their criteria).
<i>Administrative ease</i>	Further work to be undertaken.	The implementation rests with each employer.	Complex though achievable: independent verification of each tender would be required.
<i>Risk</i>	Limited risk: The ability to set remuneration levels rests with the council.	Moderate risk: where the funding is sourced from rates or service cuts the council runs a higher risk of challenge for its decision.	Potential cost exposures: the pricing strategies for some contractors are not known. A blanket requirement may expose the council to further cost increases.

Implementation factor	Scenario 1	Scenario 2	Scenario 3
<i>Relativities</i>	This would be applied primarily on a one up basis. This limited change is likely to generate workplace tensions as parity between other staff may be diminished. This is highly likely to in turn expose the council to greater labour force pressures to carry through increases particularly where collective contracts are in place or where qualified roles are no longer distinguished through salary. This could result in the need for further budgetary increases.	This is likely to be applied on a one up basis though this would likely create workplace tensions the decision would rest with each CCO.	Many contractors do not work exclusively for Council. A mandatory living wage approach with contractors only provides certainty of a living wage for workers for the portion they are contracted to work for Council. A broader and more participative approach would be to revise the procurement policy so that preferential treatment is given to businesses that are accredited. This would encourage

			businesses to become accredited to win Council contracts, and workers would be paid a living wage regardless of who the contract was with.
<i>Potential competitiveness</i>	<p>Wages are only one aspect of competitiveness. The application of a living wage to council staff is unlikely to be the determinate for a change in service delivery. The increase could for instance be offset by a higher skilled workforce.</p> <p>There are situations where the increase in salary costs make the business more expensive compared to the market ie learn to swim programmes.</p>	The application of a living wage to be recouped through fees and charges may impact on competitiveness ie increased costs in the convention and venues space. This could in turn result in fewer events and consequential job losses.	The impacts on the market of a procurement practice that required a living wage are untested. Living Wage Accreditation may become a competitive advantage – providing an additional dimension to a business.

5. Implementation steps

The practical consideration in implementing scenario one include:

- **Timing:** it is recommended that this be implemented in two phases. Partial implementation on 1 January 2014 and then full implementation on 1 July 2014. There is the option to introduce it a year later if other funding priorities are identified in the draft annual plan.
- **Budget:** currently \$500k is included in the preliminary budget. A further \$250k is required to implement this for directly employed staff. Officers will explore what opportunities exist in the overall personnel budget to offset the costs. This could include reductions in recruitment costs and vacancy loading etc.
- **Consultation:** the phased implementation will allow for public wide consultation on the proposal that has not occurred to date. It will be important that the consultation be clear about what is open to change.

Any phased implementation will limit the focus to the full implementation portion (as there would be no ability to over turn the \$500k first phase).

- Letters of expectation: these will be provided to CCOs directing them to consider a living wage policy and report back on its funding from savings within their budgets as part of the 2015 long term plan that comes into effect on 1 July 2015. The timing allows for the proposed merger and changes to be embedded.

6. Conclusion

The council is taking a leadership role on the challenge to lift low wages.

Three scenarios have been considered on how best to achieve this. The recommended option sees:

- i. council employees receiving a lift in salary as part of a broader workforce development package
- ii. council direct CCOs to consider how to implement a living wage-rate for their staff
- iii. look at how it could favour Living Wage Accredited contractors as part of its service procurement options, while taking into account other necessary factors such as health and safety.

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SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

The Living Wage proposal delivers on Council's workforce development objective – reducing staff turnover and associated costs, lifting staff engagement levels, enhancing the service level experience of the public, and attracting talented people to the organisation.

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

The budgetary implications are specifically contained in the report.

3) Treaty of Waitangi considerations

There are no Treaty of Waitangi considerations.

4) Decision-making

This is not a significant decision.

5) Consultation

a) General consultation

Consultation has taken place with interested parties such as Living Wage Aotearoa NZ. The phased implementation, as recommended in the report, will allow for consultation with the wider community.

6) Legal implications

The application of a living wage has potential impacts for employment contracts and negotiations. Adopting a living wage could leave the Council open to legal challenge on the basis of the core purpose of local government. The phased implementation will allow for public wide consultation on the proposal. It will reduce the potential for a challenge on process grounds.