Living Wage Aotearoa
New Zealand

THE LIVING WAGE in the world’s most liveable city

Addressing inequality starting with Auckland Council

This report has been prepared by the Living Wage Movement Aotearoa New Zealand (LWMANZ). LWMANZ is an incorporated society, and it is made up of over 200 community groups, including faith groups, unions, employers, migrant and refugee advocates, beneficiary advocates and other community groups.
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EXECUTIVE SUMMARY

Since its launch in February 2013, the living wage has entered the public lexicon as a tangible response to the poverty and inequality that has come to characterise much of Aotearoa New Zealand. Auckland exemplifies these issues. Nearly 40% of Auckland adults have income below $20,000 annually, and 28.5% of kiwis workers earning below the living wage – 204,500 workers – live in Auckland. Large employers have a moral responsibility to respond to this poverty and inequality, since they have an impact right across the labour market.

Auckland Council employs over 10,000 staff directly and contracts many more. With 770 staff earning over $120,000 a year and 1623 workers earning below the living wage it clearly demonstrates this inequality. Its role as an institution using ratepayers’ funds imparts a clear moral responsibility to address this issue.

There has been significant public discussion around the living wage. Auckland Council’s Technical Report provides detailed analysis of the various costs and benefits based on the experience of other countries, and details evidence of increased productivity, lower worker turnover and absenteeism, as well as poverty reduction. Treasury’s Report on the living wage, however, is based on a series of incorrect assumptions, accordingly providing an inappropriate analysis of what would happen if the minimum wage itself was raised to the current living wage rate. This disregards the voluntary nature of the living wage mechanism, and accordingly produces a series of flawed findings. Treasury asserts that central government and single adults with no dependents would be the major beneficiary of such a policy, and that working families would see little improvement. As we argue, to implement drastic increases to the minimum wage without adjusting other parts of the social security net will provide a skewed view on what the impact of the living wage would be.

Current costing exercises around the living wage demonstrate that large employers like the Auckland Council would be minimally affected. The current estimate provided by Council for directly employed staff is $3.75 million, however Council has so far given no indication on costs for including contractors. It is critical that contractors are included in living wage policy from the outset, as exclusion could accelerate and intensify the process of outsourcing these operations. Through our affiliate organisations, Living Wage Aotearoa has estimated the cost of bringing contractors up to a living wage as $3.2 million, bringing the total cost to $6.95 million. It must be stressed that this estimate represents an upper limit, and, due to improvements in productivity, lower worker turnover and absenteeism, and the ability of contracting firms to absorb costs, the final cost will likely be much lower. This cost is just over 1% of the total wage budget and just over 0.015% of Council’s total operational budget, and could be covered with a 5.5% cut in the salaries of the 770 staff earning over $120,000.

Some guidance on the process of implementation is also provided. It is suggested that implementation begins with directly employed staff, such as library workers, then including Council Controlled Organisations and bringing contracted services in as tenders come up for renewal. Annexed is an adapted resolution that was suggested to Wellington City Council before they adopted the policy.
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1. Introduction

Living wage movements exist across the world, targeting large employers that pay low wages that unfairly keep their workers in poverty. These employers have an impact right across the labour market, and act to depress wages.

Living Wage Movement Aotearoa New Zealand (LWMANZ) was established in 2012 to promote a living wage. A living wage is defined as

“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.”

In February 2013 researchers Charles Waldegrave and Peter King at the Family Centre Social Policy Research Centre undertook an empirical study of the costs of living in New Zealand and calculated the living wage. The calculation is based on what an average low-income New Zealand family looks like – two adults (one in full-time employment of forty hours and the other in part-time employment of 20 hours) and two children. This figure was worked out to be $18.40 per hour and is considered to provide most workers with the basic necessities of life.

A figure of $24.11 was also proposed as the living wage for Auckland City (where the costs of living are higher), however this figure has not been included as a demand of LWANZ.

The figure will be review annually, with the outcome of the first review due to be announced in February 2014. The full study can be found at www.livingwagenz.org.nz.

In March 2013 a delegation of community leaders in the Auckland region visited Auckland Mayor Len Brown. The delegation passionately made the case for instituting a living wage of $18.40 for those that undertake council work, both directly employed workers and those working for firms under service procurement contracts. The Mayor committed to the principle of the living wage, and commissioned a scoping study of the economic impacts of such a policy.

Throughout the campaigning period of the 2013 Auckland local government elections, LWA held a series of ‘Living Wage forums’ in which political candidates were asked to make a commitment to the principle of a living wage at Auckland Council. In total 117 candidates and 21 running for councillor positions committed to the living wage. These candidates, committed either verbally at forums or in writing, to Auckland Council adopting a Living Wage for directly employed staff and those employed by contractors delivering services on a regular and on-going basis. In November 2013 the re-elected Auckland City Mayor Len Brown proposed a
policy of introducing a living wage for staff directly employed by the council. This was included in the draft budget, and is proposed to come in over 3 years, with $1.25 million committed in the first year until the proposed cost of $3.75 million has been reached. We applaud the commitment made by the Mayor and his Council, but believe it has not gone far enough. The policy did not include the employees of firms contracted to the Council, some of the lowest-paid workers in the city. Without a firm commitment to include contracted staff, there will be an incentive on Council to accelerate the process of contracting out services, leaving many workers outside the coverage of the living wage policy.

On 11 December 2013 a LWA delegation met with Wellington City Council, where the Council voted 9-5 in favour of a policy that it will pay its directly employed staff a living wage. Implementation will begin from 1 January 2014 to achieve full implementation by 1 July 2014, and a further $500,000 was committed to the process, taking the total budget for WCC’s living wage to $750,000. The current policy will not include those staff employed by council controlled organisations or contractors, however that Council has agreed that those issues should be further investigated and is planning on including them in the 2015 long term plan.

Now that Wellington has responded to the call, Auckland Council must not be left behind. This paper renews the call for a living wage of $18.40 for both directly employed and contracted council staff. It looks at the extent of poverty and inequality in Auckland City, estimates the cost of a living wage for council workers, reviews the arguments for and against the living wage in the New Zealand context, and tracks a path for implementing the living wage.

Auckland cannot become the world’s most liveable city without the introduction of a living wage of $18.40 for both directly employed and contracted staff.
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2. How much do you know about Auckland?

Auckland is home to 1,507,600 people, having grown 9.8% since 2006. However Auckland, like New Zealand as a whole, is home to increasing inequality, creating deep and seemingly intractable pockets of poverty. This section looks at how the growing poverty of New Zealand as a whole is intensified in Auckland, and reflected in the structure of the Auckland Council.

Inequality in New Zealand

Inequality is a growing phenomenon in New Zealand that has developed since the mid-1980s. Driving factors have included the acceleration of globalisation, financial and labour market deregulation, cuts to the social safety net and the privatisation of state assets, increasing unemployment and underemployment and a reliance on exporting low-value unprocessed commodities.

There are multiple ways of measuring inequality in New Zealand, and here we will look at four different ways of measuring inequality – wealth inequality, income inequality, tax inequality and debt inequality.

The first and most significant measure is wealth inequality. In 2013 the wealthiest 1% of the 2.9 million adults in New Zealand now own 16% of the $470 billion of national wealth – over three times as much wealth as the poorest 50% of New Zealanders (5%). There is a serious lack of public data with regard to the wealthiest New Zealanders, however according to the National Business Review’s ‘2013 Rich List’ the combined wealth of the top ten wealthiest New Zealanders is $20.53 billion (3 of which are families).

While wealth inequality is the primary indicator of quality of life in New Zealand, other measures of inequality facilitate that wealth inequality. For example, income inequality drives wealth inequality, while an unequal taxation system, which ought to redistribute capital to where it is most needed for social reproduction, intensifies this problem. Similarly debt inequality – with regards to the cost of capital – looks at the extent to which people with different wealth levels can access credit at the interest rate at which that credit is available.

The richest 1% of NZers owns three times the wealth of the bottom 50%.

Income inequality paints a similarly stark picture. The OECD-wide trend is that wealth inequality tends to be around twice income inequality, and New Zealand similarly reflects this trend. The average household in the top 10% in New Zealand has around nine times the income of one household in the bottom 10%. To be in the top 10% you must earn only $72,000, while the 50% level indicates an income of $24,000.

Since the mid-1980s income inequality in New Zealand has grown rapidly. 39% of workers – 716,500 people – have hourly wages from their main jobs less than the living wage rate of less than $18.40; 442,000 are

2 Max Rasbrooke Inequality: A New Zealand Crisis (Bridget Williams Books, Wellington, 2013) at 1-2.
employed on a full-time basis and 274,600 are part-time workers.\(^3\) While young people are more regularly affected (228,500 workers below the minimum wage are between 15 and 24) there are at least 49,000 workers in each five year age bracket up to 60 years old. 47% of Maori workers and 55% of Pacific Island workers are below the living wage. The most common sectors are retail trade and accommodation (209,700), manufacturing (80,900), health (79,400), education and training (52,300) and professional and administrative services (52,100).

The increasingly unequal nature of the tax system, which ought to go some length toward ameliorating income inequality, demonstrates the dynamics of a changing society. Over the past thirty years the New Zealand taxation system has become increasingly less progressive. The top tax bracket on income was set at 77.5% in 1938, dropping to 33% in the 1980s. Despite fluctuating up and down, it is still just 33%. At the same time Goods and Services Tax has been raised to 15%, a tax on consumption which disproportionately affects low income earners who spend most, if not all (or even more than all) of the money they earn. To make matters worse, a significant amount of capital earned by upper income earners made through capital gains are not taxed at all – a significant loophole that encourages property speculation and has been instrumental in pushing up house prices across the country.

One final indicator of equality relates to the cost of capital, that is debt inequality. Increasingly, New Zealanders’ lives are mediated by the experience of debt, whether it is debt to fund production (generally for the wealthier among us) or debt to fund consumption (for the poorer among us). For those at the top, capital is available at a very low cost – borrowing can be very cheap. Those at the very bottom don’t have such luxuries. Low-income people often cannot get access to credit cards (where a common interest rate might be around 19.95% per annum), and often have to see second and third tier lenders such as pay day loans or loan sharks. There is no mandated top level interest rate for lenders in New Zealand, and in 2012 the Commerce Commission prosecuted one loan shark (for other offences) who was charging 1738% interest.\(^4\) The shift of wealth that takes place through these usurious interest rates is a radical intensifier of inequality. One only needs to take a trip through some of Auckland’s lower-income areas (see page 9), where the scourge of these second- and third-tier lenders is directly undermining livelihoods and communities.

The combined effect of wealth inequality, income inequality, an increasingly less progressive tax system and a credit system that penalises the poor is accelerating inequality across-the-board.

### Inequality in Auckland

Auckland’s GDP per capita is ranked 69\(^{th}\) out of 85 OECD metropolitan regions – 25% below Sydney and 40% below Dublin, London and Paris. Labour productivity growth has been on a downward trend over the last decade, and has been negative for the three years to 2012.\(^5\) As a whole, Auckland presents a greater degree of inequality than the New Zealand average. On the one hand Auckland and its surrounding areas is home to many of the wealthiest people in the country, and is attracting an increasing

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\(^3\) Analysis provided by Statistics NZ

\(^4\) See e.g http://www.interest.co.nz/personal-finance/60014/commerce-commission-prosecutes-reprehensible-loan-shark-who-charged-interest.

\(^5\) AUT, above n.1, at 19.
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number of “high-net worth individuals”, (defined as individuals with a net worth of US$30 million or more). A recent study ranked Auckland as the third most attractive city for high-net worth individuals to live, work and invest in.⁶

The rest of the city doesn’t enjoy such wealth. According to recent Census statistics, the median income for Aucklanders was $28,500 ($36,500 for men and $23,100 for women), and nearly 40% of adults in Auckland have income below $20,000. Auckland’s household income averages just over $100,000, however this average masks the degree of income inequality in the region.

Nearly 40% of Auckland’s adults have income below $20,000.

Household income inequality increased from 60% in 2008 to 62% in 2010.⁷

An increasing number of Aucklanders now claim they don’t have enough money on a day-to-day basis (18% compared to 14% for the rest of the country) and Auckland street areas in the ‘most deprived’ category total 14%, compared to 12% for the rest of New Zealand. Aucklanders know this – we tend to rate our standard of living lower than other New Zealanders (48% rate it high/fairly high as opposed to 50% for the rest of the country). Those Aucklanders least likely to rate their quality of life positively were living in Henderson-Massey and Manurewa, were of Pacific, Maori or Asian/Indian ethnicity, or in households with an income under $70,000 annually.⁸

The geographical nature of this inequality is apparent from the maps on the following page. These maps, based on 2006 data, demonstrate the extent of deprivation in Auckland. Dark red indicates the poorest fifth of New Zealand, and the light colour is the richest fifth. There is a clear geographical concentration South and Southeast Auckland, while Central and East Auckland are home to much higher incomes. The appearance of these pictures is somewhat distorted by the difference in property size between – the wealthy can afford larger sections, while the more deprived Aucklanders cannot. The maps have not yet been updated with new census data, however there have been some relevant demographic changes. The Mangere-Otahuhu local board area has seen its income drop from $19,900 to $19,700 – 16% when adjusted for inflation – while neighbouring Otara-Papatoetoe and Manurewa local boards reveal a decrease of

28.5% - almost a third - of kiwi workers below the living wage live in Auckland.

⁷ AUT above n1, at 8.
⁸ Ibid., at 7.
Auckland Deprivation Maps 2006

17 per cent each. Maori and Pacific peoples – more commonly affected by lower incomes – also had a low response rate to census questions around personal income.

28.5% – 204,500 workers – of all workers who earn less than the living wage rate live in the Auckland region – 34% of the total Auckland working population. While a large number of these (73,600) are between the ages of 15 and 24, 78,800 are between 24 and 44 and a further 52,500 are 45 and over. 41% of Maori, 56% of Pasifika and 47% of Asian workers earn less than the living wage, compared with just over a quarter of European workers.

Auckland has a higher unemployment rate than the national average, 7.3% compared to 6.2% (17.7% higher than the national average and double what it was 5 years ago). For 15-24 year olds this is 19.8%, and rates for Maori youth and Pacific youth are 26% and 31% respectively. Indeed youth make up 40% of all unemployed people in the Auckland region, with 28,700 Auckland not in employment, education, or training.

Within this question housing affordability has become a key issue that demonstrates this income inequality and the dynamics of debt. The lack of new housing developments since the global financial crisis, no taxation on capital gains, the privatisation of existing council housing and the propensity of New Zealanders to store wealth in their houses has pushed up the cost of housing in Auckland. Auckland now has a “median multiple” – the multiplier of the median house prices times to reach the gross median household income – of 6.7. A recent NZ Herald study revealed that it would take 19 median incomes in Auckland to buy a home for the city’s median house price of $582,000. For a growing number of Aucklanders, this is a simply unachievable prospect, and Aucklanders are increasingly having to share housing to meet their living costs. In 2010 9% of Aucklanders lived in overcrowded houses, including 17% of Auckland’s children.  

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8 Auckland Council figures provided by Statistics NZ

10 See http://www.nzherald.co.nz/business/news/article.cfm?id=11169717

11 AUT, above n1, at 10.
Auckland Council is one of the largest employers in the city of Auckland. In 2013 the Council group (including the Council itself and council-controlled organisations) had 10,616 directly employed staff, including 8,074 full-time employees. Together these positions equate to 9,564 full-time equivalent positions.

In 2013 the Council group was responsible for around $4.5 billion in annual spending. $638 million of that goes towards paying salaries and wages for the staff of the Council group. This figure is roughly the same as it was for 2012, but over $100 million more than it was in 2010 ($537 million). Millions more is spent by the Council in procurement costs, which also have significant wage components.

Yet this huge amount of spending is administered in an opaque manner. As on a national scale, we have seen an increasing trend of wage inequality within Council salaries and the wages of those staff procured through service contracts.

At the top, there has been a huge increase in both the size of top-end salaries and the number of these salaries. While the total number of council employees increased by only 459 staff between 2012 and 2013, the number of staff earning over $100,000 increased by 335 to 1,500. 770 staff earn over $120,000 and 113 staff members on over $200,000. These 770 individuals constitute 7% of the Council’s staff, yet collectively they receive $127 million 20% of the staff budget. The higher up, the worse the problem gets, and compared to Mayor Brown’s salary of $251,000 seems comparatively modest. The 2013 salary of the chief executive of the council (Doug McKay) rose $15,656 to $782,887, and the CEO of CCO Watercare (Mark Ford) rose $70,000 to between $780,000 and $790,000.

At the other end of the spectrum, there are 1623 directly employed workers in the

770 council staff are paid over $120,000 p.a. while 1623 workers are paid below the living wage.

Council group earning less than a living wage of $18.40 per hour. The most common roles that are affected are library assistants and shakers, event services attendants, assistants, leisure recreation assistants, lifeguards, fitness instructors, student rangers, catering assistants and other similar roles.

A number of procured services also rely heavily on labour that is below the living wage rate, however obtaining information on these is much more difficult. Little information was available to Council researchers on the extent to which firms contracted to Council rely on workers paid below a living wage “due to the commercial nature of these businesses.”

On this basis council officers recommended that procurement contracts not be included in consideration of a living wage for the council. LWA filed an information request with the Council to find this data but it was rejected on the grounds that it would be require significant collation.

This position is unacceptable. These workers – largely council cleaners and waste and recycling workers – are among the lowest paid of the council’s workers. Through its

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12 Auckland Plan Committee 18 September p80
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affiliate organisations – notably the Service and Food Workers Union and FIRST Union – LWA has been able to undertake an estimate of the number of these workers there are below a living wage. The purpose of this was to assist the Council in providing greater clarity on costing the increase required to institute a living wage. According to our estimates, there are approximately 200 workers on Council waste and recycling contracts that are earning less than a living wage, and approximately 256 workers on Council cleaning and security contracts.

3. Responding to the critics

Since the living wage rate was launched in February 2013, there have been a number of notable responses and significant discussion has now taken place within the Auckland Council.

A Technical Report was produced by the Research, Investigations and Monitoring Unit (RIMU), which then formed the basis of an agenda item for discussion at the Auckland Plan Committee on 18 September 2013. There, a resolution was passed requesting the Chief Executive provide a report to the incoming council, agreeing that the report investigate how the living wage can be extended to (sub)contractors and agreeing that any further work on the living wage be done on the proviso that it be paid for within the existing wage and salary budget of the Council Group (see Annex 2 for wording).

In November 2013 the Treasury also released a report on the social and economic impact of the living wage. This report looks at the potential implications of raising the minimum wage to the level of the living wage.

This section will look at those two reports, as well as other lines of argumentation, assessing some of the evidence used and the arguments they present to assess their overall usefulness.

Auckland Council: Technical Report

The Council’s Technical Report\textsuperscript{13} provides a literature review on existing experiences with living wage ordinances, assessing the rhetoric alongside the reality. It is organised by looking at North American experiences, then the United Kingdom experience, then looking at the New Zealand studies of raising the minimum wage.

The report is a formidable piece of research, reviewing academic literature that both supports and critiques the living wage concept. They find evidence that paying a living wage can increase productivity; reduce worker turnover and absenteeism, and improve the quality of future applicants.

Cost increases are low, and can largely be absorbed through employer profits and higher product prices. They also review evidence that it could reduce employment levels or hours, although they admit evidence on this is limited, and disputed. And, most importantly,

they find that despite their limited coverage “there is evidence that living wage laws have the intended effects in reducing poverty rates”.

The authors argue that the potential effect of a living wage law is limited, but at the same time concede that “[e]ven small positive benefits for specific groups of low-wage workers and their families may be better than nothing.”

As the authors admit, there are problems with the studies cited on raising the minimum wage, due to the voluntary nature of the mechanism. It is contended that this evidence ought to be discounted.

**The Treasury Report (November 2013)**

In November 2013 the Treasury released an analysis of the proposed $18.40 living wage, which, they argued, is ‘not well targeted at low income families’ and is likely to have negative economic impacts on employment and inflation.

The report appears to be based on a number of unfounded assumptions:

- That the living wage of $18.40 per hour is to replace the hourly minimum wage (i.e. to effectively raise the minimum wage overnight by $4.65);
- That this minimum wage increase would be instituted with no other accompanying legislative, regulatory or policy changes; and
- That there would be no other behavioural changes that would come about as a result of such a significant jump.

None of these assumptions are correct, nor are they in keeping with the demands of LWANZ. Yet even if these assumptions are accepted, Treasury’s analysis is full of holes.

First, it is pointed out that the kind of family on which the living wage calculation was based is a minority in New Zealand, and that 63% of earners below a living wage are single adults, and that it is therefore not a well targeted mechanism. A single adult on $13.75 with no other government support will be the greatest benefactor of lifting the minimum wage to $18.40, lifting their after tax take-home pay by $150 a week.

The argument that this is accordingly evidence of poor targeting is to discount a significant amount of other information. These individuals – largely young people – are also much more vulnerable to insecure work relationships, such as contracts with few guaranteed hours of limited duration contracts. Young workers entering a tight labour market often have to take what they can get, which can mean temporary work, casual employment and limited union coverage.14 Further, the criticism misses the fundamental insight that most families begin their working life as single adults. A helping hand now will reduce the likelihood of them being reliant on state subsidies later, as well as reduce the likelihood they will jump the ditch to Australia in search of better-paying work.

All the same, the claim that it is not a well-targeted mechanism to assist those with low incomes bears further discussion. As the report itself notes, over half of all sole parents with dependants earn below the living wage (indeed many below $15 an hour), in 25% of households with two adults and dependants the principal earner is on less than a living wage.

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wage, and 21% of families earning below the living wage have dependants.

It is also argued that for a family with two parents (one working 40 hours at $16 an hour and one working 20 hours at $13.75) with two children, a living wage would increase their take-home pay by only $63 a week.\textsuperscript{15} The government would be the biggest benefactor, with an increase of $126 a week in increased tax and reduced benefits. A number of points can be made here. Firstly, any increase in pay for low-income families is a positive outcome and this family has been left $3,276 better off each year. Secondly, getting employers to pay a living wage allows us to refocus government spending in way that can target low-income families even more effectively - that $126 a week ($6552 a year, per family) could be shifted into fixing other parts of the social safety net, assisting others into work, or paying down public debt.

As Treasury’s report itself argues, “adopting a Living Wage would rebalance the role of the employer and the welfare system towards work being the primary mechanism for people to support themselves.”\textsuperscript{16} We agree with this proposition, and believe that many large employers are in a position to do this right now.

However if a living wage were to be adopted in such a widespread manner (which LWMANZ has never directly advocated) the role played by the welfare system would have to be substantially recalibrated. This is not a remarkable proposal – the Social Security Act

\textsuperscript{15} Their before-tax wages would increase by $189, reduced to $153 after tax; which would result in a decrease of supplementary support of $88.
\textsuperscript{16} New Zealand Treasury Analysis of the Proposed $18.40 Living Wage (September 2013) at 5. Available at: http://www.treasury.govt.nz/publications/information-releases/livingwage/pdfs/lw-2726822.pdf

If earnings had kept up with labour productivity growth since 1989, the average wage in the private sector would have been $31.85 in March 2011, but it was only $23.43.

Since deregulation of the labour market lower income earners have failed to receive the gains from their productivity increases. If earnings had kept up with labour productivity growth since 1989, the average wage in the private sector would have been $31.85 in March 2011, but it was only $23.43.

Many economists have rejected the view that low pay simply reflects low skill, “an argument of impregnable circularity in which the outcome, low pay, is used as the only
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evidence for the alleged cause - low skill and personal inefficiency.”

Similarly, Auckland Professor of Economics Tim Hazeldine argues: “We must insist on fair shares. This means reversing the past decade’s trend towards a hollowing out of the income distribution: top people paying themselves more and paying those at the bottom less... There is no real question about whether a relatively rich country like New Zealand can ‘afford’ to pay everybody a decent living wage. Indeed, can we afford not to, in the long run?”

It is important to remember how a living wage mechanism works. Living wages are voluntary, and are based on the will of communities in targeting the employers they believe both can and should pay. These tend to be large employers, are often multinationals or have overseas shareholders, are profitable despite their low wages, and have an impact right across the relevant labour market. It is well established that there are a large number of small businesses in New Zealand that are not in a position to pay a living wage due to their low turnover and profit. This notwithstanding, many of the employers that have sought accreditation with LWA have been small businesses who see the value in being known as a living wage employer that treats their workers – who form part of their community – with respect. This respect is returned to them in the form of increased patronage by the wider community.

Local Government Act

It has been argued that the Local Government Act 2002 is a barrier to paying council employees and/or requiring its CCOs and contractors to pay a living wage.

A legal opinion by Dr Matthew Palmer concludes it is not a barrier: “...the Local Government Act does not prohibit a local authority or Council-Controlled Organisation from paying its employees, or requiring its contractors to pay their employees, a living wage. My opinion is based on material that explains the economic justification of a living wage in terms of associated productivity gains. Pursuing such a policy would be consistent with the purpose of local government which includes cost-effectiveness and provision of good quality services. In particular, I consider that it would be valid for a local authority to exercise its power to set remuneration policy under the Local Government Act by adopting a living wage policy.”

Relativity Issues

Some concerns have been raised about the impact on those workers on higher pay rates than the living wage and whether this will create upward pressure on wages in general to maintain or restore differentials.

It should be underscored that Auckland Council’s calculation of $3.75 million to lift the wages of directly employed staff included $836,000 to account for a 10% rise for 683 indirectly affected staff. As council’s report states, “These are staff whose base salaries would also have to increase in order to maintain a reasonable differential between staff in supervisory or higher evaluated positions.”

The PSA is clear that for Auckland Council employees, pay increases to those below the living wage should not mean increases for all.

17 Peter Brosnan, and Frank Wilkinson Low Pay and the Minimum Wage (New Zealand Institute of Industrial Relations Research, Wellington, 1989) at 35
other employees of the same percentage to maintain internal relativities. Compression of pay scales is accepted, with the living wage policy aimed at targeting the lowest paid employees. The PSA says it would continue to advocate cost of living increases at a minimum for its other members. For example, library staff just above the living wage level (earning $19-$25 per hour) would expect some increase, but less in percentage terms than those currently below the living wage. This position has been overwhelmingly endorsed by its members.

4. Costs of a Living Wage for Auckland Council

International Experience

Given the large number of municipalities around the world that have introduced living wage ordinances, there is a large amount of literature on the projected cost of such a measure.

The first lesson to bear in mind is that initial estimates are almost always higher than the actual cost. For example, when Los Angeles introduced its living wage in May 1997 it was predicted to cost somewhere between US$30-40 million, however the total increase to labour costs only came to US$2.5 million, concluding that there was “no significant positive or negative effect on the city’s fiscal health or the local economy from the living wage ordinance.”

Other studies corroborate this conclusion. Baltimore is the longest-running and most studied municipality with a living wage ordinance, from 1994 onwards. The first study, by the Preamble Centre for Public Policy showed that in the first year nominal contract costs rose by only 0.2%, declining by 2.4% once adjusted for inflation. A 1999 study found that nominal contract costs rose by 1.2% - lower than inflation for the period – and concluded that the budgetary impact had to date been minimal.

A study of 20 cities that adopted living wage ordinances since 2001 found that in most municipalities contract costs increase by less than 0.1%.

A 2003 study of 20 cities and counties that had adopted living wage ordinances since 2001 concluded that in most municipalities, “contract costs increased by less than 0.1% of the overall local budget in the years after a living wage law was adopted,” while those that had included human service providers could expect a slightly higher increase, from 0.3% to 2.8%.

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18 Jeff Thompson and Jeff Chapman “The Economic Impact of Local Living Wages” at 5.
21 Andrew J Elmore Living Wage Laws & Communities: Smarter Economic Development, Lower than Expected
There are a number of reasons that costs often end up much lower than estimated. Firstly, given that many of the services councils provide are now procured from private firms (who rely on low wage labour), some of the costs can often be absorbed by the firms themselves. Secondly, there are significant benefits that come with implementing a living wage, with regard to lower staff turnover and absenteeism, boosted productivity.

Two UK studies demonstrate the positive impacts of paying a living wage. The first was a 2008 study of Queen Mary, a college of the University of London, which moved to pay its cleaners the London living wage, and brought cleaning in-house, ending an outsourced contracting arrangement. The study, led by Professor Jane Wills, Professor of Human Geography at the University, showed that cleaners had higher levels of morale and job satisfaction, worked more productively, and completed a broader range of tasks.

The authors concluded: “The research has revealed that the move to be a living wage employer and bring the cleaning service in-house has stimulated improvements in job quality, productivity and service delivery, with very little increase in costs.”

The second study, conducted by consultancy firm London Economics for the Greater London Authority, showed “significantly lower rates of staff turnover” leading to “substantial cost savings on recruitment and induction training”.

There were also lower rates of absenteeism and sick leave, enhanced quality of work, and widespread efficient work reorganisation.

“Paying the London Living Wage ensures hard-working Londoners are helped to make ends meet, providing a boost not only for their personal quality of life but delivering indisputable economic dividends to employers too. This in turn is good for London’s productivity and growth.”

- Boris Johnson

This was alongside significantly boosted worker morale and motivation and reputational benefits for the employers. It found “evidence of little or no impact on business performance of London Living Wage implementation.

Firms in the finance industry in the UK report the types of results discussed above. KPMG, with a UK turnover of £1.6bn and over 5,000 staff in two large London offices, states: “We have been paying the living wage since 2006 and have found that it really pays off. Since its introduction, staff turnover has reduced and productivity has increased as attitudes are now more flexible and positive. Paying the Living Wage is not just a moral issue – we have found that it also makes good business sense.”


London’s Conservative Mayor, Boris Johnson, is a strong advocate of the living wage movement: “More and more London firms are recognising the benefits of fair remuneration for all of their workforce. Paying the London Living Wage ensures hard-working Londoners are helped to make ends meet, providing a boost not only for their personal quality of life but delivering indisputable economic dividends to employers too. This in turn is good for London’s productivity and growth.”

Auckland Estimates

The Auckland Council has produced a number of estimates of the cost of implementing a living wage for its directly employed staff.

The Council’s paper of 12 March it was estimated that the cost of paying a living wage to most directly employed Council staff would be $2.5 million. This included shared service CCOs like Regional Facilities Auckland, Auckland Tourism, Events and Economic Development, and the Waterfront Development Agency but did not include Auckland Transport or Watercare. This figure did not include costs such as increased kiwisaver and ACC payments, fringe benefit tax and any extra training, nor did it include wage differential or relativities for other staff.

The paper presented to the Auckland Plan Committee revised that figure, stating a figure of $3.75 million. The new calculation included on costs like increased kiwisaver and ACC payments, fringe benefit tax and training, and included Watercare and Auckland Transport as well as the shared service CCOs. The bulk of that figure - $2.9 million – went towards boosting the wages of the existing 1623 staff below a living wage to that level. The figure also included a budget of $836,000 of wage differentials/relativities for increasing the wages of supervisory positions by 10% for the Council staff and shared services CCOs, but not for Auckland Transport and Watercare. To include wage differentials for other affected staff would most likely slightly increase that figure.

Further increases might be likely as a result of other impacted staff, given that “the differential only calculated the immediate impact on the next affected position”, rather than including the “domino” effect throughout the organisation.

Estimating contractors costs:

As already noted, due to limited information available to council officials no data was provided on the potential costs of including staff indirectly employed by the council through procurement contracts. The Tenders and Procurement Subcommittee administers...
approximately $650 million to procure various and wide ranging services. However this information is managed in a very opaque way and getting any data on these workers is not a straightforward exercise.\(^{23}\)

It is position of the LWMANZ that including contractors within the coverage of any living wage policy is absolutely critical for Auckland Council. There are a number of reasons for this. Firstly, contracted workers do some of the dirtiest, most dangerous and most demanding work the council undertakes. Secondly, it was not long ago when most of this work was undertaken by council workers themselves. However the most important reason is because if living wage coverage does not include procured services then it will incentivise and accelerate the process of outsourcing core local government services, amplifying the existing difficulties with transparency and accountability.

In its report, council officers did identify a few areas they think would most likely employ workers below the living wage. They identify ‘building and facility construction and maintenance services’, ‘environmental services’, farming and fishing and forestry and wildlife contracting services’ and ‘industrial cleaning services’ as the most likely areas with low wage workers. The council spends $236 million annually on these contracts, paid to 106 different providers. The proportion of this cost that goes to wages is likely to be significantly lower, as it also accounts for operational costs, consumables, managerial salaries, and corporate profits. More than anything, this large figure obscures more than it reveals and is of little assistance.

\(^{23}\) Section 7(2)(h) of the Local Government Official Information and Meetings Act 1987 is commonly used to restrict access to information on procurement contracts. It reads: “Subject to sections, 6, 8, and 17, this section applies if, and only if, the withholding of the information is necessary to ... enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities”.
As a result of these difficulties, LWMANZ has attempted to make its own estimate of the costs of extending living wage coverage to include procurement contracts. As a movement, LWANZ brings together over 200 community organisations, including a number of unions that have access to information in certain sectors. We believe that the main area where these workers will be affected are in council cleaning and security contracts and in council waste and recycling contracts.

The union for cleaners is the Service and Food Workers Union Nga Runga Tōta ("SFWU"). SFWU officials have undertaken a rigorous process of surveying staff members who work on Council contracts, asking them how many hours they were working and their wage rates. The difference between these rates and the living wage rate provides an approximate figure for cost difference. For the reasons outlined on pages 14-15, this is likely to indicate an upper limit figure, as the various efficiencies that come along with paying a living wage – reduced turnover and absenteeism, higher productivity – have not been factored in. Also, the ability of contracting firms to absorb a significant proportion of these costs would further depress this figure.

There were found to be approximately 256 workers in cleaning and security contracts, with 61 security guards and 195 cleaners. Those 256 workers did a total of 8223.95 hours of work per week, averaging out to ~32 hours per week (although this masks the fact that some workers are working just a few hours a week). Rates of pay for cleaners was uniform at $14.10 ($4.30 below the living wage rate), while security rates sat between $14.62 and $15.15.

The total wage bill for these workers, on an annual (52 week-a-year) basis, including 3% kiwisaver employer contribution, is currently $6,383,842.20. The total annual wage bill if these workers were doing the same number of hours on $18.40 an hour, including a 3% kiwisaver employer contribution, would be $8,104,704.73. The difference between these figures is $1,720,862.53. There may be other additional costs to be worked out, such as ACC payments, fringe benefit tax and training costs; however the increase on these would be minimal, and likely more than wiped out by the increase in efficiency from having productive, well-paid staff.

The union for waste and recycling workers is FIRST Union. While union density is very low in this sector, the union still has some idea of estimates of the number of workers in the sector and has been able to extrapolate from there. There are approximately 200 workers in roles that are contracted to Auckland Council, working an average of 35 hours each a week, a total of around 7000 hours per week.
Living Wage Aotearoa
New Zealand

Wages are around $14.50 an hour, which means that for a 52-week year the wage bill including a 3% kiwisaver employer contribution is $5,436,340. At a wage rate of $18.40 with a 3% kiwisaver employer contribution would come to $6,898,528. The difference between these two figures is $1,462,188. Again, there may be other additional costs to be worked out, such as ACC payments, fringe benefit tax and training costs, however the increase on these would be minimal, and likely more than wiped out by the increase in efficiency from having productive, well-paid staff.

Adding these two figures together, we are left with an estimated annual increase cost for security and cleaning contracts and waste and recycling contracts of $3,183,050.53, which we can round up to $3.2 million.

Based on this figure, we can estimate a total implementation cost for the living wage at Auckland Council for directly employed and contracted staff is $ 6.95 million, around 1% of the Auckland Council’s wage budget and around 0.015% of Council’s annual budget.

Implementation Proposal

Implementing a living wage can be a daunting task for a large organisation like Auckland Council. There are many different workers on different pay-scales, through different contracts and organisations, doing work that is difficult to compare.

Wellington City Council has explored the issue of implementation in greater detail. This section will borrow from the WCC implementation proposal, adapting that approach for the Auckland Council as appropriate.

Directly-employed staff

Auckland Council should be the best possible employer offering the best possible jobs by moving all directly-employed staff above the living wage as soon as possible.

1623 workers at the Auckland Council are earning below the living wage, out of a total staff of 10,616 workers. As the above graphic shows, their roles include working in libraries, catering, lifeguards and pool workers, parks and some administration and receptionist roles. The living wage should be implemented as soon as possible. Should a phased implementation be necessary, this should be completed by June 2016.

The process of lifting wages to reach the living wage should be treated as a separate process to making relative changes to the wages of employees already above the living wage. Performance pay issues should not be related to paying a living wage; they should be a separate issue for employment negotiation. Any proposals to change and enhance job descriptions to accompany the wage changes should not be a condition of living wage implementation, but worked through independently in employment relations processes. These issues are best discussed and debated between employers, unions and workers directly.
Living Wage Auckland proposes that Auckland Council implements the living wage through collective bargaining. Currently the PSA has collective agreements that cover employees in the libraries and in the Building Compliance and Consents parts of council.

A significant number of library employees are paid below the living wage of $18.40. In addition those in customer service roles, mostly at entry level, but with the potential to move to other fulltime or permanent positions in the library, have starting rates below the living wage. Cuts in the library budget in recent years have resulted in some staff having their hours reduced, making the hourly rate even more crucial. The living wage campaign for this group has taken on real importance.

Council Controlled Organisations

Auckland Council has seven substantive council controlled organisations (CCOs):

- Auckland Council Investments Limited
- Auckland Council Property Limited
Living Wage Aotearoa
New Zealand

- Auckland Tourism, Events and Economic Development Limited
- Auckland Transport
- Auckland Waterfront Development Agency Limited
- Regional Facilities Auckland
- Watercare Services Limited

As full or partial council subsidiaries established to run activities that are key to the city’s success, they must be run in a way that contributes to the overall wellbeing of all Aucklanders. Implementing the living wage would involve working with each organisation to achieve living wage accreditation in this council term within the overall living wage framework.

As a first step, Auckland Council will require each directly owned COO to develop an implementation plan.

Contractors who deliver services

In the previous section we undertook an estimate of the potential cost to bring contractors up to the living wage, a figure just below $3.2 million. However the time for implementing these costs will depend on the time at which contracts are tendered, often on a three year basis with a two year right-of-renewal, however it varies from contract to contract.

The payment of a living wage should be a condition of all new service contracts delivered to Auckland Council on an on-going basis and not on an irregular or one-off basis. The tender documents for the new contracts must also ensure that the payment of the living wage covers service contract work that is subcontracted by the successful contractor. It is assumed that Auckland Council will bear the cost of the movement to the Living Wage although competition between contractors to win the service contracts will also mean that some of that cost will be borne by successful contractors through the reduction of margins or productivity improvements.

Council officials will need to produce an analysis of how the living wage can be integrated into the current procurement policy. Given the extent and size of the contracts and long terms (some are for five years), the implementation would take place over a number of years.

- The framework will need to include a timetable for the contracts that are due for tender.
- Auckland Council must signal to current contractors its intention to implement a living wage as a condition of tender and design an engagement process with current contractors so that they are aware and prepared for this development.

A Papatoetoe LWMANZ forum during the election lead-up, where candidates committed to living wages for Council workers.
Reducing top salaries

The modest cost of introducing the Living Wage should be put in perspective by considering the top salaries. As we note earlier in this report, 7% of the workforce earn over $120,000, costing $127 million – 20% of the total salary budget. The estimated cost of introducing a living wage for directly employed staff and contractors is $6.95 million, around 1% of the total salary budget, and around 0.015% of the total Council budget. A reduction of the total amount paid to those on salaries above $120,000 by 5.5% would more than meet that living wage cost.
Annex 1. Modified Wellington Resolution

THAT the Auckland Plan Committee recommends that Council agrees:

1) To adopt the following guidelines for implementation of the living wage at Auckland Council:

➢ The living wage will be implemented in this term, beginning on 1 January 2014.
➢ Tangible progress will be made from the start of implementation for direct, CCO and contract employed staff earning below the living wage.

2) To implement the living wage in this term by:

➢ Committing to become an accredited living wage employer by November 2016
➢ Lifting all directly-employed staff to the living wage in this term
➢ Ensuring staff employed by CCOs are paid the living wage in this term

3) To ensure that, as contracts for services supplied to Auckland Council on a regular and on-going basis expire, that a clause is inserted in tender documents requiring contractors to pay a living wage to all employees involved in these contracts.

4) To actively support and encourage Auckland employers to become living wage employers.

5) To Work with Living Wage Auckland to prepare an implementation plan.

6) To prepare a communications strategy highlighting the benefits of the living wage to Auckland City

7) To provide sufficient funding in this Annual Plan round on the first stage of implementing the living wage for all directly-employed staff and implementing the living wage in parking services.

8) To make provision in subsequent Annual Plans to progress all stages of the implementation plan towards the goal of full implementation by November 2016.
Annex 2: Auckland Council Plan Committee Resolution
APC/2013/146

That the Auckland Plan Committee:

a) receive the report,
b) note the updated information presented in this report,
c) request the Chief Executive to provide a report on the living wage to the incoming council, including the potential benefits and costs and options for funding if council is of a mind to investigate further,
d) agree that the report investigate methods by which Council can ensure Living Wage is paid by contractors and subcontractors,
e) agree that any further work on the living wage be done on the proviso that any extra money required be found within the current wage and salary budget (approximately $700 million) of the Auckland Council Group, not funded by a further rates increase or reduction in existing council services.

A division was called for, voting on which was as follows:

For: Anae Arthur Anae
Dr Cathy Casey
Alf Filipaina
Michael Goudie
Ann Hartley
Penny Hulse
Mike Lee
Anahera Morehu
Des Morrison
Richard Northeay
David Taipari
Penny Webster
George Wood

Against: Cameron Brewer
Calum Penrose
Dick Quax
Sharon Stewart

The division was declared CARRIED by 13 votes to 4.

Mayor Brown, Councillors Coney, Fletcher, Raffills, J Walker, W Walker and Mr Tupuh were absent.

CARRIED

Secretarial note: Pursuant to standing order 3.15.5 Councillors Brewer, Quax and Stuart requested their dissenting votes be recorded