



# Living Wage Aotearoa New Zealand

## THE LIVING WAGE in the People-Centred, Smart Capital of Aotearoa/New Zealand

Addressing inequality starting  
with Wellington City Council

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# Living Wage Aotearoa New Zealand

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This paper has been prepared for Living Wage Wellington, an organisation of Wellington faith groups, community organisations and unions. Living Wage Wellington is part of Living Wage Aotearoa New Zealand Inc.

Supporting organisations include: St Andrews on The Terrace, St Peters on Willis, Victoria University Students Association, Downtown Community Ministry, Wesley Community Action, Newtown Budgeting and Advocacy Service, Healthcare Aotearoa, Newtown Union Health Service, NZCCSS, Wesley Wellington Church, Pacific Island Presbyterian Church Newtown, St Joseph's Catholic Church, Caritas and Wellington Samoan Ministers' Association, The New Zealand Council of Trade Unions and individual unions, including The Service and Food Workers Union, The New Zealand Public Service Association, FIRST Union and The New Zealand Educational Institute.



## Contents

Executive summary	5
Introduction	7
Why a Living Wage in Wellington	8
Responding to the critics	11
Costs and benefits of a Living Wage	13
Direct cost to Wellington City Council	15
Implementation proposal	17
Proposed resolution	21
References	22



## Executive summary

In June 2013 Wellington City Council (WCC) voted to support in principle a Living Wage Council and a Living Wage Capital. Councillors asked council officers to prepare a “Living Wage Framework” by November 2013, detailing a phased implementation of a living wage for directly-employed council staff, staff employed by council-controlled organisations (CCOs) and by contractors who deliver council services.

A clear majority of the new council committed during the recent local body election campaign to take all possible steps to implement the living wage for all directly employed, CCO and contracted council workers during this term.

Living Wage Aotearoa New Zealand defines the living wage 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.” Independent research carried out by the Family Centre’s Social Policy Research Centre has identified the current New Zealand living wage hourly rate as \$18.40.

In the past 25 years, New Zealand has gone from being one of the most equal countries in the world to one of the most unequal. The call for a living wage has emerged from growing concern about poverty and inequality. The same concern has led to the formation of living wage movements across the world.

There is clear international evidence that high levels of inequality contribute significantly to major problems in society. Many families experience hardship or poverty despite having one or two adults in paid work. Of the 270,000 children estimated to be living in poverty in New Zealand, two in five come from households where at least one person is in full time work or self-employed.<sup>1</sup>

Wellington City is in a good position to take

a lead on the living wage. While the region leads the country with the highest average hourly wages, it does not have lower levels of inequality. It is not acceptable that a significant number of Wellington workers are part of the working poor. WCC can play a vital leadership role in addressing poverty and inequality and lead the region and the country by showing the way.

Adopting the living wage fits with WCC’s policies, goals and strategies and its short and long term vision. The living wage has been successfully implemented by councils around the world. International experience shows initial estimates of the cost are almost always higher than the eventual outcome. There are also significant benefits, including lower staff turnover and absenteeism, and boosted productivity. Becoming a living wage council and encouraging other employers to do the same will improve the economic prosperity and quality of life of Wellington.

Since the living wage rate was launched in February 2013, there have been some critical responses, including a recent Treasury Report. This was based on incorrect assumptions, for example that the living wage campaign is a campaign to lift the legislated minimum wage. Living wages are voluntary, and employers who can and should pay are targeted.

Critics have also asserted that the Local Government Act prevents councils from implementing the living wage. A legal opinion by Dr Matthew Palmer refutes this assertion.

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## Living Wage Aotearoa New Zealand

Council officers have quantified the cost of implementing the living wage for directly-employed staff at \$575k and the cost for staff employed in CCOs at \$325k.

Officers have not quantified the cost for the council workforce employed by contractors. As council has committed to achieving the living wage for contract staff, this must be done with

urgency. The living wage can be achieved for contract staff as contracts expire.

Living Wage Wellington proposes that WCC implements the living wage during this council term, beginning on 1 January 2014, making tangible progress from the start for direct, CCO and contract-employed staff earning below the living wage.

### A worker's story

*A living wage would be life-changing for 22-year old Esau Taniela. The Parkwise parking warden earns \$14.40 an hour before tax and works a 68 hour week to bring home \$719 while his pregnant partner is working three jobs.*

*He says it's barely enough to pay bills and rent, let alone provide healthy food for his family, or savings.*

*"The most important thing for me is to have a stable future for my family," Mr Taniela said. "I want a future where I don't have to worry constantly about the bills – to be happy and not stressing all the time, and to have enough time to spend with my partner and our baby."*





## Introduction

The call for a living wage has emerged from growing concern in New Zealand about poverty and inequality. This concern has led to the formation of living wage movements across the world.

The relationship between wages and well-being is well-documented. Implementing a living wage brings benefits to workers and their families, communities, along with central and local government. Health and education outcomes and social participation all improve when wages are lifted.

Living Wage Aotearoa New Zealand (LWANZ) defines the living wage 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.”

The International Labour Organisation definition reads: “The idea of a living wage is that workers and their families should be able to afford a basic, but decent, lifestyle that is considered acceptable by society at its current level of economic development. Workers and their families should be able to live above the poverty level, and be able to participate in social and cultural life”.<sup>2</sup>

A detailed study undertaken for LWANZ in 2012 by Peter King and Charles Waldegrave of the Family Centre Social Policy Research Unit provided the empirical basis for an hourly living wage figure of \$18.40 for New Zealand, although the hourly wage is not all there is to achieving the objectives of a living wage. The figure will be reviewed annually, with the outcome of the first review due to be announced in February 2014. The full study can be found at [www.livingwage.org.nz](http://www.livingwage.org.nz)

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.

Major increases in earnings’ inequality are the most significant cause of the overall increase in household and family inequality. Such widening inequality has been observed throughout the world, but particularly in New Zealand, where many lower paid workers have seen their incomes fail to keep up with inflation, while top incomes have soared.

The rapidly increasing income and earnings inequality experienced by New Zealand in the 15 year period 1985 to 2000 has never been reversed and has taken the country from being one of the most equal to one of the most unequal in the developed world.<sup>3</sup>

Wellingtonian Max Rashbrooke’s recently published book on inequality describes a New Zealand in 2013 where the wealthiest 1% of the 2.9 million adults now own 16% of the \$470 million of national wealth – over three times as much wealth as the poorest 50% of New Zealanders (5%).<sup>4</sup>

Many families experience hardship or poverty despite having one or two adults in paid work. Of the 270,000 children estimated to be living in poverty in New Zealand, two in five come from households where at least one person is in full time work or self-employed.<sup>5</sup>

There is now clear international evidence that high levels of inequality contribute significantly to major problems in society. There is a substantial price to be paid in the quality of life for all New Zealanders, as well as major economic costs for us all.

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**There is now clear international evidence that high levels of inequality contribute significantly to major problems in society.**

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## Why a Living Wage in Wellington?

In June 2013, WCC voted to support, in principle, becoming a Living Wage Council and a Living Wage Capital. Councillors supported a resolution asking council officers to prepare a “Living Wage Framework” detailing a phased implementation of a living wage for directly-employed council staff, staff employed by CCOs and contractors who deliver council services and to advise on the impact on council’s procurement policy and future tendering arrangements.

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**It is not acceptable that a significant number of Wellington workers are part of the working poor. The Council can play a vital leadership role in making a difference to address poverty and inequality in Wellington City and the region and the country by showing the way.**

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\$250k was budgeted for in the 2013/14 draft Annual Plan, for implementation of the living wage from 1 January 2014.

A clear majority of the new council committed during the recent local body election campaign to take all possible steps to implement the living wage for all directly-employed, CCO and contracted council workers during this term.

Wellington City, as the largest population centre of the Wellington Region is in a good position to take a lead on the living wage.

The region has the highest average hourly wage and average household income of any New Zealand region.

The September 2013 Quarterly Employment Survey shows:

- The Wellington Regional Council Area average ordinary time hourly wage was highest out of Auckland Regional Council Area, Canterbury Regional Council Area

and the “Rest of NZ”: \$31.30 compared to \$27.98 for the whole of New Zealand (11.9% higher).

- Similarly average total weekly earnings (averaged by number of employees) were \$1,033.57 compared to \$916.48 (12.8% higher).

The June 2013 New Zealand Income Survey shows:

- Wellington has highest average and median household income out of 12 regions. Nearest is Auckland, which is still significantly behind.
- Average weekly household income: Wellington \$1794, Auckland \$1736, whole country: \$1601. Wellington is 12.1% above the country average.
- Median weekly household income: Wellington \$1529, Auckland \$1458, whole country: \$1358. Wellington 12.6% above the country median.

However, although Wellington leads the way with the highest household incomes, the region does not lead other regions in inequality.

One useful measure of inequality is the P80/P20 ratio between the income of households four fifths of the way up the income distribution scale and those only one fifth of the way up. This measure uses household disposable income and is adjusted for household size and composition.

The 2009 80/20 figures showed Wellington had higher levels of inequality than the rest of the country but comparable more up-to-date data is not available. Even if that showed some reduction in inequality, Wellington is unlikely to be better than the average for the country with its high levels of inequality.

Hence Wellington has both the capacity and the need for a living wage.



## Living Wage Aotearoa New Zealand

It is not acceptable that a significant number of Wellington workers are part of the working poor. The Council can play a vital leadership role in making a difference to address poverty and inequality in Wellington City and lead the region and the country by showing the way.

The economic impact of WCC expenditure in the total economy of the region is highly significant. WCC can help the region economically by raising the standard of contractors and stimulating demand for goods and services at a time when the city, while certainly not dying, is struggling to replace the gaps left by the recession and the depleted public service. WCC is one of Wellington's larger employers, either directly or through CCOs and in turn affects other workers' employment through expenditure on contracted services.

WCC will spend around \$260 million in 2014 on employees and suppliers. Hence the economic impact of WCC expenditure in the total economy of the region is highly significant. Paying a living wage to its employees and ensuring its contractors do the same, will create winners not only among low-paid working people, but in the broader community.

An employer accreditation process will soon be finalised that will issue a license to employers that meet the criteria for a living wage business, including that all workers, directly employed and contracted, are paid a living wage. It is in WCC's interests to be one of the first employers to be accredited, with the accompanying prestige and attention that this would bring.

Becoming a living wage council provides WCC with an opportunity to:

- Demonstrate WCC is proactive in making Wellington a fair and equal, people-centred city by addressing poverty and inequality.
- Profile local businesses stepping up to pay the living wage.
- Highlight the social and economic benefits to the city and the benefits to businesses and the council as an organisation and

Wellington's largest employer.

- Profile communities coming together and celebrating the city.
- Broaden the positive voices in the capital city to include ordinary working people and their families who have benefitted from the living wage and are able not just to survive but to participate actively in their city.

Becoming a living wage council and encouraging other employers to do the same will improve the economic prosperity and quality of life of Wellington workers and residents. Paying staff a living wage will ensure they can participate in the amenities of the city and have access to recreational and community facilities. A

prosperous economic environment depends on consumers having the spending power to support local business and the low-paid workers who would benefit from receiving the living wage typically spend their entire incomes on retail and basic services.

Adopting the living wage fits with WCC's policies, embodied in its goals and strategies and its short and long term vision. It is consistent with the goal identified in Wellington Towards 2040: Smart Capital Vision to ensure Wellington is a people-centred city. The Smart Capital proposal states, "Cities... need to be active in their efforts to attract new people into the city – to live, work or visit. This means a city that is easy to do business in, attractive to new migrants, connected internationally, and tolerant of diversity." The living wage will support this goal.

Wellington is proud to be a Fair Trade and Anti-Nuclear Capital City and prides itself in being the "Coolest Little Capital in the World." It

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## Living Wage Aotearoa New Zealand

makes sense to also become New Zealand's first "Living Wage City".

A recent New Zealand survey shows strong support for the living wage. Horizon Research's 2013 Living Wage Insights Report, based on the views of 2,799 respondents, found that 69.7% expressed support for employers in New Zealand being encouraged to pay a living wage, while 10.6% of respondents opposed this.

Adopting a living wage framework is an outstanding leadership opportunity for Wellington City. A feature of written proposals for the living wage to councils overseas is a communications strategy and Living Wage Wellington strongly supports working in partnership with stakeholders in

the development of such a strategy. During the recent Living Wage Week in the UK, churches and community organisations took the opportunity to highlight the benefits of the living wage in addressing poverty and inequality. Councils reinforced the benefits of the living wage, both social and economic, and a significant number of new living wage employers announced their accredited status.

Although regulations differ in the UK, there are many examples from existing living wage cities that are comparable in size to Wellington of ways that the Council can promote the benefits of a living wage. Examples are Glasgow, Preston, Newcastle, Birmingham, Cardiff, Oxford and the London boroughs of Camden, Hounslow, Lambeth and Southwark.<sup>6</sup>



## Responding to the critics

Since the living wage rate was launched in February 2013, there have been a number of notable responses, some supportive and some from a critical standpoint.

### The Treasury Report

In November 2013 the Treasury released an analysis of the proposed \$18.40 hourly living wage, which, it 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 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
- 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 aspirations of LWANZ. Even if these assumptions are accepted, Treasury's analysis is seriously flawed.

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.

This criticism misses the point 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 and enable them to begin saving towards a house and retirement, 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, 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.<sup>7</sup> The government would be the biggest benefactor, with an additional \$126 per week per

person 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 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."<sup>8</sup> We agree with this proposition.

Minimum/living wages and social welfare are not

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**Living wages are voluntary, and are based on adoption by employers who both can and should pay.**

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alternatives but must work together to provide adequate living standards. The balance has shifted too far with inadequate wage levels – the tax and transfer system allows employers to pay wages well below what can be justified by both fairness and productivity levels.

Since deregulation of the labour market lower 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 evidence for the alleged cause- low skill and personal inefficiency”.<sup>9</sup>

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**“There is no real question about whether a relatively rich country like New Zealand can ‘afford’ to pay everybody a living wage. Indeed, can we afford not to?”**

Tim Hazeldine

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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?”<sup>10</sup>

It is important to remember how a living wage mechanism works. Living wages are voluntary, and are based on adoption by employers who 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 LWANZ have been small businesses who see the innate value in having a living wage.

### 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.

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



## The costs and benefits of the Living Wage

Given the many local authorities that have introduced the living wage around the world, there is a large body of literature on the costs and benefits of doing so.

International experience has been that initial estimates of the cost of implementing the living wage are almost always higher than the eventual outcome. When Los Angeles introduced the living wage in 1997, it was predicted to cost somewhere between US\$30-40 million. However, the total increase to labour costs was \$US2.5 million.<sup>11</sup>

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 been minimal.<sup>12</sup>

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 be absorbed by the firms themselves. Secondly, there are significant benefits associated with implementing a living wage, with regard to lower staff turnover, absenteeism, and 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.”<sup>13</sup>

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. 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.”

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## Living Wage Aotearoa New Zealand

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."

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**"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

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## The direct cost to Wellington City Council

The literature review on the effects of living wage policies carried out in August 2013 for the Auckland Council by labour economist Professor Tim Maloney of AUT, with Amanda Gilbertson, reports relatively small impacts overall from living wage ordinances and policies with only a small proportion of most workforces covered, but notes that “even small positive benefits for specific groups of low-wage workers and their families may be better than nothing.”

WCC officers have quantified the cost of implementing the living wage for directly-employed staff and for CCO staff as \$900k.

Their paper for the 11 June 2013 meeting of the WCC Strategy and Policy Committee estimates that there are around 500 directly-employed council staff receiving less than \$18.40 an hour. This includes staff on fixed-term or casual contracts.

Officials estimate the number of directly-employed staff and costs of applying a living wage at:

- 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 per annum (adjusted for Kiwisaver contributions)

The paper went on to point to possible savings from a living wage. “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.”

The PSA also reports that current turnover of directly-employed staff is very high. Between June 2011 and March 2013 there were 463 resignations from council. In addition 235 positions were disestablished due to

restructuring. This is out of a total workforce of approximately 1300.

The costs should also be offset by the considerable benefits. With regard to Wellington, these benefits have been reinforced in the officials’ paper to councillors (June 2013) which refers to the benefits of adopting a living wage for direct employees in terms of “staff loyalty, increased morale, and improved efficiencies. This primarily relates 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%.”

With regard to CCOs, the officials reported 312 employees earning below \$18.40 and the breakdown of numbers of staff and the costs associated with the living wage as:

- 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).

No costs have been estimated for the council workforce employed by contractors in the officials’ paper. On this, the paper said: “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

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**The costs should also be offset by the considerable benefits – “staff loyalty, increased morale, and improved efficiencies”. Council officers’ report**

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## Living Wage Aotearoa New Zealand

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.”

As council has also made the commitment in principle to achieving the living wage for contract staff, the cost of this implementation

must also be quantified with urgency to ensure a fair implementation. There are numerous reasons why contract workers must be included. Apart from the fairness issues and the need to take a lead in addressing poverty and inequality in Wellington City, if the living wage coverage does not include procured services then it will incentivise and accelerate the process of outsourcing core local government services.



## Implementation proposal

### Directly-employed staff

WCC 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.

Up to 500 directly-employed WCC staff earn below the living wage out of a total workforce of 1300. They work mainly in libraries, pools, recreation centres, parks and some administration and receptionist roles. The living wage should be implemented as soon as possible. Should a phased implementation be necessary, this will be completed by June 2016.

The movement of wages to reach the living wage should be treated as a separate process to adjustments for cost of living or other changes for employees 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.

Living Wage Wellington proposes that WCC 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. The Library Agreement expires on 5 May 2014 and the Building Compliance and Consents Agreement on 30 June 2014. Bargaining has recently been initiated for a new collective agreement to cover these employees, including pay levels. The PSA has claimed to have pay rates written into the agreement in future, with wage levels to be bargained. The PSA will be seeking to have all starting rates on or above the living wage as soon as possible, with unanimous support

having been voted by its members, including those paid above the living wage.

A total of 45 of about 200 library employees are paid below the living wage of \$18.40. Thirty of these are located in the Central Library and 15 at branch libraries. In addition those in customer service roles, mostly at entry level, but with the potential to move to other full-time or permanent positions in the library, have starting rates below the living wage. For

the newer employees in this group there have been little to no recent pay increases, and progression within salary bands is no longer automatic. 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

There are currently 10 CCOs operating under various ownership models. The eight 100%-controlled CCOs are:

- Wellington Zoo Trust
- Wellington Museums Trust
- Wellington Venues Ltd
- Basin Reserve Trust
- Positively Wellington Tourism
- Positively Wellington Venues
- Wellington Cable Car Ltd
- Wellington Waterfront

As full council subsidiaries established to run

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**WCC 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.**

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activities that are key to the city's success, they must be run in a way that contributes to the overall wellbeing of all Wellingtonians. 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.

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## The parking enforcement contract comes up early in 2014, and would provide a good starting place to implement the living wage for contracted staff providing a service to the city.

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As a first step, WCC will require each directly-owned CCO to develop an implementation plan.

The PSA notes that many of its members working for the Museums Trust earn below the living wage and funding is tight. The debate about CCO structure and whether some, or all should be brought back in-house, is beyond the scope of this paper but this may assist in ensuring CCO employees

are paid the living wage.

### Other ownership arrangements

Two CCOs have more diffuse ownership arrangements: Capacity (joint-ownership with Hutt Councils) and Wellington Regional Stadium Trust (joint ownership with Greater Wellington Council). These CCOs would not initially be included in the living wage process but options for progressing the issue within the existing ownership models should be identified.

### Contractors who deliver services

While we have not been supplied with any detail from council officers about the scope of the council contracts and their cost, we understand from various sources that the main contractors cover cleaning, catering, security, car parking enforcement, roading, refuse/recycling and facility maintenance. We understand that the two largest of these contracts, covering roading and property maintenance, have been recently let for five-year terms. This means there will be a lengthy

period where the living wage will not apply.

The parking enforcement contract comes up early in 2014, and would provide a good starting place to implement the living wage for contracted staff providing a service to the city.

Some of the contractors, such as City Care, employ tradespeople, trades assistants and labourers and nearly all of these employees are paid above the living wage with only two steps in their collective agreement being just below the living wage, affecting only a handful of individual workers. City Care has the contract for facility maintenance. It also has a contract with Capacity for drainage, which is currently outside the scope of this exercise.

Catering and security are fairly small-scale operations, with part of security in-house.

Cleaning is a service where there is a regular workforce cleaning WCC premises, including libraries and council service centres as well as the main Wakefield Street premises. We understand that 25 Spotless cleaners are employed in total but some are on low, part-time hours with the overall average probably about 20 hours a week. They are employed on \$14.10 an hour with a handful paid more. We estimate about \$113,000 for the direct wage cost of increasing the rate to \$18.40, plus ACC levies etc.

We understand that in the current tendering process for carparking enforcement, the prospective tenders are being asked to give two quotes with and without payment at the living wage rate. Carparking is currently run by Armourguard (Parkwise), which employs the workers involved in issuing parking enforcement tickets, and Tenix Solutions, which deals with payment notices, receipt and enforcement for non-payers. We understand that some Tenix workers may be paid below the living wage but probably no more than 10 maximum with a \$2.00 per hour gap.

The Service and Food Workers Union (SFWU) has members in Parkwise which employs 33 parking attendants who all work 40 hours per



week or more, some as many as 60 hours. They are paid between \$14.08 and \$14.40 per hour and may get bonuses for issuing more than the standard number of parking enforcement tickets in a week.

We estimate that it would cost some \$300,000 to bring them up to the living wage (plus ACC levies etc). WCC income from car parking is approximately \$15 million per annum. On a quick estimate, paying the living wage could be covered by an 8c increase on the current \$4.00 an hour parking charge. WCC has already said that consideration could be given to increasing the charge to \$5.00 per hour. Less than 10% of this towards the living wage commitment would seem very reasonable.

Most of the lowest-paid workers are employed in WCC-contracted organisations, with the cleaners, catering workers, security and carparking enforcement workers paid not much above \$14.00 an hour. In line with the guiding principle that all low-paid workers should benefit from living wage implementation, the council will need to make progress on contracted services from the start of the implementation process.

The payment of a living wage should be a condition of all new service contracts delivered to WCC 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 sub-contracted by the successful contractor. It is assumed that WCC 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, or possibly price increases where consumers pay for services, such as parking. While virtually all of the workers in cleaning, catering, security and parking are paid well below the living wage, their numbers are not huge and the cost may

not be as much as expected.

Some current contractors may raise arguments against the living wage implementation to protect the status quo (although some have welcomed it as a way to keep good staff):

- “We will have to pay all of our staff the living wage whether they work on a WCC contract or not because our employment arrangements do not allow for the payment of different rates.” Even though it would be good if the contractor decides to spread the living wage to all of its Wellington workforce, there is nothing in the law that prevents a contractor from paying one wage at the WCC and another at another site. In fact, in both cleaning and security (including car parking enforcement) the national collective agreements specifically acknowledge that this will happen.
- “Other vulnerable workers, such as young people and less qualified people will lose out as the payment of the living wage will mean that staff will need to be more productive and more skilled”. International evidence suggests this is not a significant problem.
- “The cost of the contract will dramatically increase.” Evidence from the USA experience with the living wage suggests the overall impact on costs over time is not significant. (See section on cost.)
- “The Wellington market is not large enough for the tenders to be competitive enough so that contractors absorb some of the costs.” If the Wellington market isn’t large enough, then what market in NZ actually is? In any case, WCC could be expected to

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include such matters in its negotiations with tenderers.

## Procurement and tendering processes – impact of a living wage

Council officials will need to produce an analysis of how the living wage can be integrated into the current procurement policy of WCC. Unlike local authorities in the UK and European Union, there are fewer legal constraints on the ability of New Zealand councils to set criteria for contracted services in New Zealand, beyond

a general obligation to be transparent and open in the tender processes.

There are seven main contractors delivering services currently who would be impacted by living wage implementation. The affected areas of service are catering, parking, security, roading, refuse/recycling, facility maintenance and cleaning. 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.
- WCC will 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.

There has been a suggestion that rather than requiring tenderers to quote on the basis of paying a living wage, tenderers (such as in carparking enforcement) may be asked to put in two quotes – one paying a living wage and one without a living wage. The living wage quote could then be given a preference by putting in a tender evaluation process weighting to favour the living wage quote over the non-living wage quote. We believe this sends mixed messages to the tenderers, would not allow WCC to ever become an accredited Living Wage Employer and would not allow WCC to get the best value out of contractors competing for their tenders.

## Reducing top salaries

The modest cost of introducing the living wage is put in perspective alongside the possibility of funding it by addressing top salaries.

Work at Auckland Council produced some interesting figures. In the financial year ending 30 June 2013 there were 770 staff – 7% of the workforce – earning salaries over \$120,000. The total cost of those salaries was approximately \$127 million or 20% of the total salary budget. The proposed cost of introducing a living wage for direct employed staff at Auckland Council was \$3.5m, or 0.5% of the total salary budget. A reduction of the total amount paid to those on salaries above \$120,000 by 3% would, on its own, more than meet that living wage cost.

Budget implications and options can be set out by council officials. Such options could include exploring funding the rise in the living wage through a cap on top salaries (including CEO and senior executive packages) to help limit the overall cost to WCC of implementation.

## The modest cost of introducing the living wage is put in perspective alongside the possibility of funding it by addressing top salaries.



## Proposed resolution

THAT the Governance, Finance and Planning Committee recommends that Council agrees:

- 1) To adopt the following guidelines for implementation of the living wage at Wellington City 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 WCC 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 Wellington employers to become living wage employers.
- 5) To Work with Living Wage Wellington to prepare an implementation plan.
- 6) To prepare a communications strategy highlighting the benefits of the living wage to Wellington City
- 7) To spend \$250k 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.



## References

- <sup>1</sup> Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2012. Ministry of Social Development, [www.msd.govt.nz](http://www.msd.govt.nz)
- <sup>2</sup> Richard Anker, A new methodology for estimating internationally comparable poverty lines and living wage rates, ILO Working Paper No. 72, 2005, p 5, available at [http://www.ilo.org/integration/resources/papers/WCMS\\_079165/lang--en/index.htm](http://www.ilo.org/integration/resources/papers/WCMS_079165/lang--en/index.htm)
- <sup>3</sup> See annual reports on Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship at <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html> for full documentation of household incomes, poverty levels, and inequality measures in New Zealand).
- <sup>4</sup> Max Rashbrooke, Inequality a New Zealand Crisis page 1-2.
- <sup>5</sup> Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2012. Ministry of Social Development, [www.msd.govt.nz](http://www.msd.govt.nz)
- <sup>6</sup> <http://www.glasgow.gov.uk/index.aspx?article=3791> ; <http://www.glasgowlivingwage.co.uk/> ; <http://vimeo.com/24115491> ; <http://www.glasgow.gov.uk/index.aspx?articleid=4663> ; <http://www.livingwagewcastle.co.uk/> ; <http://www.preston.govt.uk/yourservices/jobs-and-volunteering/preston-living-wage/>
- <sup>7</sup> Their before-tax wages would increase by \$189, reduced to \$153 after tax; which would result in a decrease of supplementary support of \$88.
- <sup>8</sup> Treasury report, page 5.
- <sup>9</sup> Peter Brosnan, and Frank Wilkinson, 1989, Wellington: New Zealand Institute of Industrial Relations Research, Low Pay and the Minimum Wage, page 35
- <sup>10</sup> Hazledine, T., Taking New Zealand Seriously: The Economics of Decency, (1998) Auckland: Harper Collins, page 172
- <sup>11</sup> Andrew J Elmore, Living Wage Laws & Communities: Smarter Economic Development, Lower than Expected Cost, , Brennan Center for Justice, New York, 2003, p. 2).
- <sup>12</sup> Christopher Niedt, Greg Ruiters, Diana Wise and Erica Schoenberger (1999) The Effects of the Living wage in Baltimore (Working paper No 199) at 6-9.
- <sup>13</sup> Jane Wills, The business case for the living wage: The story of the cleaning service at Queen Mary, University of London, January 2009, available at <http://www.geog.qmul.ac.uk/docs/staff/8041.pdf> ).