PAYING A LIVING WAGE IN AOTEAROA NEW ZEALAND IN 2017 – HOW THE GOVERNMENT CAN DO IT

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CONTENTS

EXECUTIVE SUMMARY

- The Living Wage is the income necessary to provide workers and their families with the basic necessities of life;

- The problem of working poverty has become a widespread phenomenon in Aotearoa New Zealand in recent years. Wages are so low that work is often no longer the way out of poverty;

- The Government says the economy is strong and large surpluses are predicted in the coming years;

- The Living Wage is not an expense: it is an investment. Paying the Living Wage saves governments money on in-work tax credits and benefits. It also results in an increased tax take and greater consumer spending. This, in turn, creates more jobs

- Aotearoa New Zealand can afford to implement a Living Wage to ensure that workers earn enough from work to live on. The Scottish Government in 2011 introduced a Living Wage for all employees in the public sector. This country should do the same. The Scottish Government did this at a time of economic hardship and when the Government budget was being cut. Aotearoa New Zealand currently has budget surpluses;

- Aotearoa New Zealand should adopt the brand of being the first Living Wage country in the world. This would complement its existing clean, green image and would be a selling point for goods, services and tourism;

- The Government should immediately introduce a Living Wage for all employees and contracted workers at Parliament and in MPs' offices. This could be funded by freezing the pay of MPs and reducing their expenses and the benefits paid to former MPs;

- The Government should implement a Living Wage throughout the public sector. Money for this could come from being more pro-active in tackling tax evasion; ensuring multinationals pay tax in Aotearoa New

Zealand; not cutting taxes further; cancelling or postponing some of the planned $20 billion in Defence spending; and other initiatives.

- The Government should pro-actively promote adoption of the Living Wage by local government and the private sector, as the Scottish Government and the London Mayor do.

RECOMMENDATIONS

Whichever parties form the Government after 23 September should –

1. Immediately begin paying all staff and contracted workers at Parliament and in MPs’ electorate offices the Living Wage. The Scottish Government in 2010 committed to paying a Living Wage for employees in the public sector, and implemented this in 2011. The Westminster Houses of Parliament became a London Living Wage accredited employer in 2014.

2. Commit to paying a Living Wage for employees in the public sector and prepare a detailed budget for implementing this. The Prime Minister and Minister of Finance have repeatedly said in speeches that the economy is healthy and large surpluses are predicted in the coming years. The Living Wage is not a cost: it is an investment in workers and the future of the country. It also returns dividends. The Government will save large sums on Working for Families and on benefits and will receive a higher tax take. In addition, there will be a stimulus effect for the economy as those on low incomes spend almost all their incomes. This will increase consumer spending and, in turn, create additional jobs and result in a higher GST take. There is considerable information about this stimulus effect from Scotland and the rest of the United Kingdom. The United Kingdom Government at present subsidises employers who pay low wages to the tune of £11 billion a year through in-work tax credits and other benefits. The New Zealand Government is committed to improving the economic position of Māori and paying a Living Wage would benefit many Māori as they are disproportionately represented among low income earners. Paying the Living Wage also means that employers save on recruitment and training. Auckland Mayor Phil Goff told a Council meeting on 9 February 2017 that it was calculated that the Council would save $1 million a year on recruitment and training by implementing a Living Wage. The Scottish Living Wage covers 180,000 people in Scotland who work for the central government. Scotland has a population of 5.3 million, while the population of Aotearoa New Zealand is 4.7 million. Implementation of the Living Wage in Scotland for both employees and contracted workers in the public sector has been complicated by the facts that Scotland does not have control of all of its governmental activities, and that it is subject to European Union law. This country does not have those complications.

3. Prepare a timetable and budget for implementing a Living Wage for public sector contracted workers once it has been put in place for employees.

4. The Government and all Ministers and MPs should play a proactive role in encouraging employers in local government and the private sector to implement the Living Wage. Politicians in Scotland and the rest of the United Kingdom publicly support the Living Wage and are involved in many actions to support and promote it.

5. Funding should be allocated to monitor the implementation of the Living Wage and to check that it is paid.

6. If the Government in future gives funding to sports events, such as the Rugby World Cup and the America’s Cup, it should be a condition of the grant that employees and contracted workers working on the projects are paid a Living Wage.

7. The Government should adopt the brand of Aotearoa New Zealand as the first Living Wage country in the world. This would complement the country’s clean, green brand and be an important selling point for goods, services and tourism.

HOW THE GOVERNMENT CAN AFFORD TO PAY THE LIVING WAGE

The Government says that the economy is strong and growth and surpluses are predicted in the coming years. It can afford to implement a Living Wage now by –

1. Using money from the large surpluses forecast for coming years.

2. Taking more action to recover money lost through tax evasion. Tax evasion is estimated to cost Aotearoa New Zealand between $1 billion and $6 billion a year. The Government has taken some steps in recent years to be more pro-active about cracking down on tax evasion. If it stepped up this action, it would recover additional money. Then-United Kingdom Chancellor George Osborne in the Summer 2015 budget said that £5 billion had been recovered from tackling tax evasion. The Government in that budget allocated an additional £750 million to HMRC to pursue tax fraud, offshore trusts and the businesses of the hidden economy. It was estimated that this would raise an additional £7.2 billion.[1]

3. Acting to ensure that multinationals pay their fair share of tax in Aotearoa New Zealand and can no longer avoid paying tax through the use of complex offshore structures. Finance Minister Steven Joyce and Revenue Minister Judith Collins on 3 March 2017 released three consultation papers proposing new measures to strengthen this country's rules for taxing large multinationals. Submissions on the documents were due by April 2017 and the Government plans to consider proposals arising from the papers later in 2017. However, the Government has been well aware of this problem for a considerable period and has been slow to act. There has been considerable publicity about the very low amounts of tax paid in this country by a number of multinationals. For example, *The New Zealand Herald* reported that the 20 multinationals most aggressive in shifting profits out of this country overall paid virtually no income tax, despite earning almost $10 billion annually in Aotearoa New Zealand. The newspaper calculated that, had the Aotearoa New Zealand branches of the firms reported profits at the same rate as their parent companies, their combined income tax bill

[1] Osborne, G, op cit, pp 5 -6.

would have been almost $490 million.[2] Apple in the year to September 2015 paid $8.9 million on its pre-tax profit of $26.6 million in this country. That profit was achieved from sales of $732 million.[3]

4. Not implementing further tax cuts. Billions of dollars have already been spent on tax cuts in Aotearoa New Zealand since 2008. The money that the Government is planning to use for further tax cuts should instead be used to implement the Living Wage.

5. Reviewing plans to spend an additional $20 billion on the Defence Force in the coming years. Some of the planned spending should be cancelled and some should be delayed. This would provide funding to introduce the Living Wage.

6. Reducing by 50 per cent the $503 million package of spending on the Police announced by the Government in February 2017. The $250 million saved should be spent on implementing the Living Wage.

7. Freezing MPs' pay and cutting benefits paid to former MPs. MPs are paid between $160,024 (backbenchers) and $459,739 a year, as well as travel costs and expenses. Savings from reducing spending on MPs would be enough to pay the Living Wage to low-income earners working in Parliament. Former Prime Minister Sir John Key will receive $51,000 a year for the rest of his life, even though he is a multi-millionaire and does not need the money.

8. Not replacing the ministerial fleet so frequently and purchasing less expensive vehicles would help to fund the Living Wage. Auckland Mayor Phil Goff plans to free up some money for paying the Living Wage to Auckland Council staff by making savings on the Council's vehicle fleet. The Government should do the same.

9. Cancelling the $763 million announced in Budget 2017 for new prison capacity around Aotearoa New Zealand. Prime Minister Bill English has himself publicly admitted that prisons are a failure.

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[2] Nippert, M, Top multinationals pay almost no tax in New Zealand, The New Zealand Herald, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11607336.
[3] Pullar-Strecker, T, Lin, T and Sachdeva, S, Tech giant Appel pays $9m tax in NZ – how does that add up ?

10. Cancelling the $1.2 billion allocated in Budget 2017 for law and order, including provision for a 10 per cent increase in police staff numbers and funding to meet increased demand for justice, courts and corrections services.

WHAT IS THE LIVING WAGE ?

The 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."[4]

The Living Wage is calculated to enable a working family of two adults and two children to be able to pay basic household bills, provide healthy food and pay for children's school trips. It is based on expenditure items for a modest weekly budget. Wage movement is reported by Statistics New Zealand quarterly in the New Zealand Income Survey, and the Living Wage rate is set annually according to this wage movement for the year to the previous June, with a full review every five years.

Campaigns for payment of a Living Wage have evolved in many countries in recent years, with payment of the first Living Wage by a local body occurring in the American city of Baltimore in 1994. By 2013, more than 140 municipalities in the United States had passed Living Wage ordinances and the campaign had spread to the United Kingdom, Australia and Canada.

In Aotearoa New Zealand, the first Living Wage campaign was launched in May 2012 in Auckland, and followed by Wellington in August that year. More than 200 supporting organisations joined forces in a statement of commitment to a Living Wage. In April 2013, an incorporated society was formed called Living Wage Movement Aotearoa New Zealand. It comprises three streams from civil society: faith-based religious groups, unions and community organisations.

The Family Centre Social Policy Unit in 2013 established the first Living Wage for New Zealand as $18.40 an hour. That was updated in February 2014 to $18.80 an hour, and in February 2015 to $19.25 an hour. The current minimum wage in New Zealand is $15.75 an hour. The minimum wage is reviewed by the Government each year as required under section 5 of the Minimum Wage Act 1983 and, if there is a rise, the new rate takes effect from 1 April. The Living Wage is also reviewed annually to take account of increased living costs.

In February 2014, a trademark brand for a Living Wage Employer was launched, with the inaugural Living Wage Employers for 2014/15 being announced on 1 July. More than 20 employers from non-government

[4] Living Wage Movement Aotearoa New Zealand, http://www.livingwage.org.nz/.

organisations and the private sector met the criteria to become Living Wage Employers, including businesses in the manufacturing, community and hospitality sectors. Further Living Wage Employers for 2015/16 were announced on 1 July 2015, with the total number doubling to 40 employers. In 2017, the figure reached 63.

In Scotland, the Scottish Living Wage Campaign announces the Scottish Living Wage annually. The Scottish Living Wage has been adopted by the Scottish Government and since 2011 has been paid to most civil servants in central government, government agencies, non-departmental public bodies and the National Health Service.

The position is complicated in Scotland by the fact that Scotland does not have independence from Westminster and the Scottish Government accordingly does not have control over all aspects of government. In addition, the United Kingdom's membership of the European Union has made more difficult the Scottish Government's moves to extend payment of the Scottish Living Wage in procurement, as European Union law restricts its ability to do this.

In the United Kingdom, there is an independent Living Wage set by the Living Wage Foundation and the Living Wage Commission. This Living Wage is analogous to the independent Living Wages in Aotearoa New Zealand, Scotland and other places.

The Living Wage Commission appoints the Living Wage Foundation to oversee the calculation of the independent Living Wage. In the United Kingdom, there is an independent Living Wage rate for the United Kingdom as a whole, as well as a separate London Living Wage rate to reflect the higher cost of living in London.

The Centre for Research in Social Policy at Loughborough University calculates the independent Living Wage and the London Living Wage based on a calculation of the "Minimum Income Standard for the United Kingdom."

This is "an estimate of the minimum income that households need in order to afford a minimum acceptable standard of living, as defined by members of the public" and is based on expert knowledge, combined with regular research as to the public's views.[5]

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[5] Centre for Research in Social Policy, cited in the Scottish Parliament's Local Government and Regeneration Committee 2nd Report, 2012 (Session 4) Report on the Living Wage in Scotland, Edinburgh, 2012, p 5.

The Minimum Income Standard is calculated by specifying baskets of goods and services required by different types of households in order to meet these needs and to participate in society. This is arrived at by discussions about what a family has to afford to be able to achieve an acceptable living standard. The specifications are then reviewed by experts to ensure they meet basic criteria, such as nutritional adequacy.

Each group typically comprises six to eight people from a mix of socio-economic backgrounds, with each group corresponding to the demographic group under consideration. For example, pensioner groups decide the minimum for pensioners.

The Centre for Research in Social Policy notes that the Minimum Income Standard covers “needs, not wants” – that is, necessities. It includes food, clothes and shelter, but also what is needed to have the opportunities and choices necessary to participate in society.[6]

Outside London, the Centre for Research in Social Policy at Loughborough University calculates minimum living costs, based on estimates of the cost of a socially-acceptable minimum standard of living, and then translates these into a wage requirement, assuming that all benefit entitlements are claimed.[7]

By February 2017, almost 3000 firms in the United Kingdom were voluntarily paying the Living Wage.

However, there is also a mandatory Living Wage in the United Kingdom. This was introduced by the Government in 2016. It is set at a lower rate than the independent Living Wage and London Living Wage and is not calculated in the same way as the independent Living Wages in Aotearoa New Zealand, Scotland and the United Kingdom. It is paid only to those aged 25 and over.

There is a legal requirement for businesses to pay the government Living Wage in the United Kingdom. The government Living Wage is sometimes called the Over 25 Minimum Wage.

[6] Ibid, pp5-6.

[7] House of Commons Library, The Living Wage, Briefing Paper 06675, 12 June 2015, p 5.

THE BUSINESS CASE FOR THE LIVING WAGE AND THE LIVING WAGE'S IMPACT ON EMPLOYMENT

Employers and governments are often concerned that paying the Living Wage will be expensive. Economists and others have also sometimes argued that it will result in job losses.

There is now a growing body of international research about the impact of the Living Wage. This has examined its impact on employment, as well as costs for businesses and governments, and benefits from reduced recruitment and training expenses and higher tax takes for governments.

A Scottish Government report in 2015 reviewed United States research about the impact of the Living Wage on employment and analysed whether paying a Living Wage resulted in job losses. The study concluded that -

"Two decades of intensive research comparing employment levels under different minimum and Living Wages in the United States have failed to confirm the hypothesis that a higher wage floor reduces employment. The evidence suggests that the impact on labour demand is not as large as is sometimes assumed, not least because low wage jobs tend not to be in internationally traded goods or services where higher pay could be readily undercut from abroad. In the UK, estimates of the labour demand effect of the Living Wage being universally adopted remain theoretical, but also suggest a small impact, largely confined to certain sectors."[8]

The paper said that the limited impact on employment levels was because of a combination of –

- productivity increases (partly due to reduced employee turnover);
- employers reducing labour costs in other ways (such as non-wage benefits);
- Increasing prices to consumers; or
- reducing profit margins.[9]

The document went on to state that significant United States evidence indicated that introducing higher wages in the public sector had not been associated in a significant way with a net increase in public spending. In fact, it could have the reverse effect, as governments benefited from increased tax takes and reduced benefit spending. Some United Kingdom analysts suggested

[8] Diffley, M, McLean C, Ozgul, I, Hockaday, C, Hirsch, D and Valadez, L – Wider Payment of the Living Wage in Scotland – Issues for consideration, Scottish Government Social Research, 2015, pp 4-5.
[9] Ibid, p 5.

that the same would be true in the United Kingdom, helped by reduced in-work benefits and the multiplier effect of additional disposable income spent by low-income groups. [10] Low income earners spend 106 per cent of their disposable income, compared with 67 per cent for higher income earners.

In reaching these conclusions, the paper reviewed studies of the impact of the Living Wage or the adoption of a minimum wage higher than the federal minimum wage in Maryland, Baltimore, Los Angeles, Boston, Chicago, San Franciso and Florida. The study also examined meta-studies and multi-city analysis in the United States. This research included a 70-city study; 64 studies on the impacts of increasing wages in the United States; 700 stores across the country; 45 states; and 504 counties.[11]

In addition, the report examined average annual city contract costs after the passage of Living Wage laws, and the economic impacts of various Living Wage ordinances.[12] The increases in city contract costs as a percentage of city budgets after the passage of Living Wage laws were 0.067 per cent for Alexandria, Virginia; 0.079 per cent for Berkeley, California; 0.067 per cent for Cambridge, Massachusetts; and 0.006 per cent for San Jose, California.[13]

The paper reported that overall employment growth in six states with minimum wages above the federal minimum between 1998 and 2003 was 0.55 per cent, compared with 0.43 per cent for 39 states paying only the federal minimum wage.[14] Restaurant industry employment growth over the period for the six states paying the higher wage was 1.4 per cent, compared with 1.9 per cent for those paying the minimum. Hotel industry employment growth for the six states was 0.61 per cent, compared with a decline of 0.24 per cent for the 39 states.[15]

The United Kingdom's Low Pay Commission concluded in its 2003 report that the evidence available suggested that minimum wages did not appear to have cut employment to any significant degree.[16] It said that, although some firms had responded to the introduction of the National Minimum Wage by reducing hours, raising prices or accepting lower profits, the reduced hours did not

[10] Ibid, p 5.
[11] Ibid, pp 62 – 73.
[12] Ibid, pp 74 – 75.
[13] Ibid,p 75.
[14] Ibid, p 76.
[15] Ibid, p 76.
[16] Low Pay Commission, National Minimum Wage Report 2011, 2011.

appear to have reduced weekly earnings and the lower profits had not led to business closures.

A 2006 study interviewed 65 hospital workers who were paid the London Living Wage. More than 87 per cent of workers stated that their lives had improved as a consequence of receipt of the Living Wage.[17] A 2012 report comprising comparative case studies of 16 companies found that payment of the London Living Wage had resulted in an average 25 per cent reduction in labour turnover, representing savings of 0.3 per cent on costs prior to introducing the Living Wage.[18]

A separate 2012 paper examined financial data from 79 firms in relation to the London Living Wage. It concluded that average wage bills would be larger among the food and drug retailers by 4.7 per cent; for general retailers by 4.9 per cent; and for bars and restaurants by 6.2 per cent. However, wage increases in the other industry sectors would be between 0.1 per cent for banking and 1.1 per cent for food producers.[19]

A 2013 paper reported that the United Kingdom's Office of Budget Responsibility calculated that applying the Living Wage to the entirety of the United Kingdom would result in a net employment loss of 95,000 jobs. However, using the International Monetary Fund's lower and higher bounds of the multiplier, it was predicted there would be a net loss of 45,000 jobs and a net increase in 58,000 jobs.[20]

As higher wages result in greater consumer spending and higher tax takes, it is important to calculate the likely number of jobs created by the payment of a Living Wage, as well as the possibility of job losses, in order to obtain a broad picture of the projected impacts.

A 2012 report[21]predicted that both local and national government would benefit from more employers paying the Living Wage, as the cost of in-work benefits such as tax credits and housing benefits would be reduced and savings would be made from services dealing with the consequences of individuals encountering financial difficulties.

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[17] Cited in ibid,p 76.
[18] Cited in ibid, p 77.
[19] Cited in ibid p 78.
[20] Cited in ibid, p 79.
[21] Holden and Raikes, cited in ibid, p 81.

A September 2014 report by Unite the Union, titled *The Economic Impact of a £1.50/hour increase in the National Minimum Wage,* examined the microeconomic employment impact of increasing the National Minimum Wage. It said that theory suggested that the employment impact of a minimum wage was an open question.[22]

However, debate about the empirical evidence had "swung wildly" between defenders and opponents of minimum wages since 1995, when two eminent American labour economists had produced results from micro-studies of United States data which showed that the best estimate of the effects of the minimum wage on United States employment was zero.[23]

That conclusion was challenged in 2007, but more recent analysis in 2009 had cast doubts on the credibility of the 2007 conclusions. Accordingly, the estimated average effect of minimum wages on employment in the United States from the meta-analysis was almost zero.[24]

The evidence from the United Kingdom was smaller in quantity but of comparable quality to the United States information. There was no evidence that the recent levels of minimum wage in the United Kingdom had produced any adverse effects on employment – a conclusion consistent with results from the United States.[25]

The paper also examined the macroeconomic impacts of increasing the National Minimum Wage. It said that a £1.50 per hour increase in the National Minimum Wage should lead to increased consumer demand, which would have a positive multiplier effect on GDP.[26] The increase in the National Minimum Wage would result in an increase in net incomes for low-paid workers of around £3.75 billion. There would be an improvement of around £2.1 billion in public finances. The multiplier effect would depend on what the extra resources were spent on, but assuming half was spent on capital investment and the other half on other aspects of departmental spending, the overall increase in GDP resulting from the improvement in public finances would be £1.9 billion. The total GDP rise would be £3.6 billion. That

[22] Reed, H, The Economic Impact of a £1.50/hour increase in the National Minimum Wage, Unite the Union, September 2014, p 27.
[23] Ibid, p 27.
[24] Ibid, p 28.
[25] Ibid, p 28.
[26] Ibid, p 31.

macroeconomic stimulus was likely to create an extra 73,500 full-time equivalent jobs.[27]

However, 73,500 jobs was likely to be an underestimate of the overall macroeconomic impact of increasing the National Minimum Wage, as it did not take account of the general state of the economy. There was good evidence from the International Monetary Fund that multiplier effects were larger when national economies were operating well below full employment. Using the IMF lower bound, it was likely that 132,000 additional jobs would be created. Using the higher bound produced a figure of 250,000 new jobs. The midpoint was a rise of 190,000 jobs.[28]

Almost 3000 employers in the United Kingdom have become independent Living Wage employers. That includes almost a third of the FTSE-100, as well as Nationwide, National Grid, National Express Bus Group, British Library, the Houses of Parliament, Majestic Wine, Oliver Bonas, Ikea and Chelsea and Everton Football Clubs.[29]

A January 2015 report titled *Living Wage Employers: evidence of UK Business Cases* [30] reviewed the evidence of the business case for the Living Wage in the United Kingdom. The paper said that studies examining the business case for the Living Wage in terms of its impact on employers were limited and varied. Commonly, there was a focus on the "costs" and "benefits" to employers.

Studies relating to the impact of the London Living Wage had reported a 25 per cent reduction in staff turnover on average, as well as 52 per cent of employees feeling more loyal towards their employers.[31] However, fears remained that the costs of implementing the independent Living Wage were unaffordable or could lead to a loss of employment.

The aim of the paper, accordingly, was to build the business case from the point of view of employers. The study detailed the business cases of five independent Living Wage employers: Aviva, Barclays, KPMG, Penrose Care and

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[27] Ibid, pp 32- 33.
[28] Ibid, p 34.
[29] Lanning, T, Low Pay and the National Living Wage: Why employers should do more than the minimum, 24 February 2017, http://www.futureofworkhub.info/comment/2017/2/24/low-pay-and-the-national-living-wage-why-employers-should-do-more-than-the-minimum.
[30] Coulson, A and Bonner, J, Living Wage Employers: evidence of UK Business cases, University of Strathclyde and Living Wage Foundation, 26 January 2015, http://www.livingwage.org.uk/sites/default/files/BAR_LivingWageReport%20cropped%2021%2001.pdf.
[31] Ibid, pp 8-9.

SSE, as well as a member of the Living Wage Foundation's Service Provider Recognition programme, Enhance Office Cleaning. The paper set out details of the business case for each organisation, concluding that long-term value creation was crucial. Covering the financial costs of the Living Wage was fundamental, but it could be phased in as part of a broader change management programme.[32]

The document, *Good Jobs in Retail A Toolkit – How to move to a Living Wage and maximise the benefits,* was released in July 2016.[33] Its purpose was to offer a practical guide to businesses about how to implement the Living Wage. The paper said that the United Kingdom's retail and wholesale sector contributed £180 billion to the economy and employed nearly five million people. It was the country's largest employer, but faced a challenging business environment as established players encountered pressure from lower-cost entrants and the rise of online shopping meant fewer people were entering physical stores.

These pressures had led to ongoing drives to control costs, the largest and most tangible of which were labour costs. The paper said that efforts to improve competitiveness often focused on limiting the costs of employees' pay and benefits, minimising investment in training and matching staffing levels and contracts as closely as possible to patterns of customer traffic.

"As a result, low wages, chaotic schedules and a lack of training and progression opportunities are often seen as an inevitable feature of jobs in the sector. 1.5 million people in wholesale and retail are low paid – making up nearly a third of all low paid people in the UK.

"The use of short-hours contracts is common, and research estimates that 40 per cent of wholesale and retail employers provide no training for their staff.

"These problems have got worse in recent years, as many retailers responded to the downturn with cuts to staff training budgets, real terms reductions in pay, and a move to more part time and agency staff."[34]

The report said that this was not just bad for employees: many employers were concerned about the sustainability of a strategy which was associated with high levels of staff turnover, absenteeism and loss of stock to error and theft. The paper suggested that responding to concerns about competitiveness by cutting staff pay and conditions resulted in a vicious circle.

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32 Ibid, p 41.
33 Living Wage Foundation and OXFAM, Good Jobs in Retail A Toolkit – How to move to a Living Wage and maximise the benefits, 15 July 2017.
34 Ibid, p 7.

The authors said that a better strategy would be to take the "high road" to business success.

"The relationship between higher wages and lower staff turnover is long-established, and organisations that pay the Living Wage across different sectors have reported improvements in staff loyalty, engagement and quality of work, reductions in staff turnover and absenteeism, and a stronger corporate reputation."[35]

The document said that a study by London Economics had found that more than 80 per cent of London Living Wage employers reported enhanced staff performance.[36] The majority said that it had improved staff recruitment and retention, while 70 per cent said that it had boosted consumer awareness of the business's commitment to being an ethical employer.[37]

The report said that organisations which paid the Living Wage took a holistic approach: combining the investment in staff pay with wider changes that resulted in permanent improvements in staff performance, productivity and customer service. This was sometimes underpinned by a move to a flatter, more collaborative team structure that supported higher entry pay rates and more stable contracts.[38]

The paper included a number of business case studies. It reported that, when the bar chain and brewery BrewDog decided to move to the independent Living Wage in 2014, the firm also increased managerial pay, abolished zero hours contracts and invested in training and progression routes. Within six months, the company saw a 50 per cent improvement in employee satisfaction with pay. Staff turnover fell by 40 per cent across the company's retail sites and 80 per cent of managerial positions are now filled by internal promotions. Recruitment costs have dropped and the company grew from 300 staff in 2014 to 540 in 2016.[39]

IKEA became an accredited Living Wage employer in April 2016. As well as increasing entry-level pay rates to the Living Wage, it lifted pay for all employees up to the first tier of management. This meant that 6700 people received pay rises. A plan was also put in place to move all sub-contracted staff working on the premises to a Living Wage within two years. This was one part of a long-term business strategy to improve customer service and sales,

[35] Ibid, p 12.
[36] Ibid, p 13.
[37] Ibid,p 13.
[38] Ibid, p 14.
[39] Ibid, p 14.

including a plan to tackle underemployment and make better use of staff skills and abilities.

The firm said that making the changes was not easy. IKEA had a turnover of more than £1.9 billion and employed 9000 people across 18 large stores. A team was accordingly set up to oversee the changes, including engaging with all parts of the business to develop and test the proposals.

"The company is clear that the investment will make them money overall. Together the changes aim to improve employee satisfaction – including a target to save up to £10 million by reducing staff turnover to less than 10 per cent."[40]

[40] Ibid, p 17.

THE SCOTTISH GOVERNMENT PAYS THE LIVING WAGE

The Scottish Government on 18 October 2010 announced that it would support the Living Wage for all workers directly employed by the Scottish Government and the National Health Service. Then-First Minister Alex Salmond said that the Government would “approach this pay round seeking to ensure that every wage packet controlled directly by the Scottish Government – through the NHS and the Government agencies – will meet the living wage target.”[41]

At that time, the Scottish Living Wage Campaign estimated that almost 400,000 workers in Scotland were paid less than £7 an hour. The Scottish Living Wage in 2010 was £7.15.[42] In 2012, the Scottish Parliament’s Local Government and Regeneration Committee reported that around 550,000 employees on adult rates in Scotland were paid earnings below the Living Wage.[43]

Then-Scottish Labour leader Iain Gray had in September 2010 committed Labour to paying a Scottish Living Wage should the party form a government after the 2011 Scottish Parliament elections. Labour also pledged that it would establish a Scottish Living Wage Unit, which would have a key role in setting, promoting and monitoring the implementation of the Living Wage and using public procurement to reduce low pay. [44]

The Scottish Spending Plans and Draft Budget released on 17 November 2010 provided for the implementation of a Living Wage, despite what Cabinet Secretary for Finance and Sustainable Growth, John Swinney, described as “the most dramatic reduction in public spending imposed on Scotland by a UK Government.[45] He said that the Comprehensive Spending Review had confirmed that the Scottish Budget would be cut by £1.3 billion in 2011, compared to 2010.

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[41] Scottish Living Wage – Scottish Living Wage Campaign welcomes First Minister’s Announcement on a ‘Living Wage,’ Press Release, 18 October 2010, http://slw.povertyalliance.org/userfiles/files/SLWC_PR_AlexSalmond%20181010.pdf.

[42] Ibid.

[43] Local Government and Regeneration Committee 2nd Report, 2012, op cit, p 6.

[44] Scottish Living Wage – Scottish Living Wage Campaign welcomes Labour Leaders’ Commitment to Living Wage, Press Release, 27 September 2010, http://slw.povertyalliance.org/userfiles/files/SLWC_PR_labour270910.pdf.

[45] The Scottish Government, Scotland’s Spending Plans and Draft Budget 2011-12, Edinburgh, 2010, p iv http://www.gov.scot/Resource/Doc/331661/0107923.pdf.

Mr Swinney stated that, as well as implementing a Living Wage of £7.15 an hour, the Scottish Government would cut the pay bill of the highest earners, freeze pay, and provide a minimum annual increase of £250 for employees earning less than £21,000.[46] The budget recorded that a reduction of 20 per cent – approximately £1 million – in travel expenditure had been achieved between 2008-09 and 2009-10, thereby freeing up resources for frontline services. Plans had also been prepared to reduce the costs of the Senior Civil Service by at least 10 per cent by the end of 2011-12 and 25 per cent by 2014-15. The pay freeze for Senior Civil Service staff would be extended from 2010-11 for at least a further year.[47]

The Scottish Government's *Public Sector Pay Policy for Staff Pay Remits 2011-12*[48] said that the Government was facing a period of unprecedented financial constraint. A tight pay policy framework would be imposed, with a pay freeze which would be subject to only two exceptions. These were the introduction of the Living Wage and a minimum annual pay increase of £250 for those earning less than £21,000. In recognition of the tight financial conditions, Scottish Ministers would also freeze their pay for the third year running.[49]

On 5 November 2012, Mr Swinney announced a new Living Wage of £7.45 for employees working in parts of the public sector under the Government's pay policy.[50] He said that the requirement to pay a Living Wage had been introduced in the Scottish Government's pay policy in 2011-12 and had benefited approximately 6000 workers. The new rate would potentially benefit up to 3300 employees.[51] In 2012, the Scottish Living Wage campaign calculated that around 15,000 workers in the public sector had benefited from the adoption of Living Wage policies.[52]

In the run-up to the referendum on independence for Scotland, the Scottish Government in November 2013 published *Scotland's Future: Your guide to an independent Scotland.*[53] The paper said that, if Scotland voted in favour of

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[46] Ibid, p vi.
[47] Ibid, p 184.
[48] The Scottish Government, Public Sector Pay Policy for Staff Pay Remits 2011-12, 2010, http://www.gov.scot/resource/doc/331744/0107939.pdf
[49] Ibid, p 1.
[50] The Scottish Government, Government commits to £7.45 Scottish Living Wage, Press Release, 5 November 2012.
[51] Ibid, p 1.
[52] Scottish Living Wage Campaign submission cited in The Scottish Parliament, Local Government and Regeneration Committee, 2nd Report 2010 (Session 4), Edinburgh, 2012.
[53] The Scottish Government, Scotland's Future: Your guide to an independent Scotland, Edinburgh, 26 November 2013, http://www.gov.scot/Resource/0043/00439021.pdf.

independence, the Government would support a labour market that helped people into work that was sustainable and fairly rewarded. The Fair Work Commission would guarantee that the minimum wage rose – at the very least – in line with inflation, to ensure that work was a route out of poverty.[54]

The document said that priorities for action by the Scottish Government in the first term of an independent Scottish Parliament would include creating "sustainable employment that pays fairly through changes to the minimum wage and a commitment to the living wage."[55] The Government would also establish a National Convention on Employment and Labour Relations. This would bring together labour market regulation and other employment-related policies in a forum which encouraged direct and constructive dialogue across all key stakeholders on issues including the Living Wage.[56]

"Achieving fair levels of pay is a fundamental aspect of building a more equal, socially just society. More of the people living in poverty today are in work than out of it and this trend has increased since the mid-1990s. The Scottish government fully supports the Living Wage campaign and its principle of encouraging employers to reward their staff fairly. We have led by example by ensuring all staff covered by the public sector pay policy are paid at least the Scottish Living Wage. This covers the 180,000 people in Scotland working for central government, our agencies and the NHS benefiting directly up to 3,300 workers. This is part of the Government's "social wage" – the contract between the people of Scotland and their government.

"Our commitment to support the Scottish Living Wage for the duration of this Parliament is a commitment to those on the lowest incomes. However, over 400,000 people in Scotland are working for less than the living wage, which is nearly a fifth of the Scottish workforce and the majority of these low paid workers are women. The Scottish Government is funding the Poverty Alliance to deliver a Living Wage Accreditation Scheme to promote the living wage and increase the number of private companies that pay it to make decent pay the norm in our country. We will continue to support and promote the living wage in an independent Scotland."[57]

The Scottish Government's *Public Sector Pay Policy for Staff Pay Remits 2017-18 Technical Guide*[58] was announced in the draft Budget statement on 15 December 2016 and covers pay settlements in 2017-18. It sets the parameters for public sector pay increase for both staff pay and senior appointments in a range of public bodies in Scotland this year and next year.

The policy states that the Government is continuing its specific measures to support the lower-paid. These include a fixed pay uplift of £400 per annum for

[54] Ibid, p 85.
[55] Ibid, p 104.
[56] Ibid, p 105.
[57] Ibid, p 107.
[58] The Scottish Government, Public Sector Pay Policy for Staff Pay Remits 2017-18 Technical Guide, January 2017 http://www.gov.scot/Resource/0049/00491275.pdf.

those earning below the Low Pay Threshold, as well as requiring employers to pay their staff the Scottish Living Wage. Employers covered by the technical guide must comply with those two requirements.

The technical guide applies to the Scottish Government and its associated departments, agencies, non-departmental public bodies and public corporation and NHS Scotland Executive and Senior Management posts.[59]

Four key metrics are being used to assess pay remits in 2017-18. Two of them relate to improving wages for low-paid workers. These are proposed measures to address equality issues, and proposed measures for addressing the lower paid.[60]

The document states that the policy intention is that "the employer of every worker whose pay is controlled directly by the Scottish Government will meet the Scottish Living Wage rate."[61] The Scottish Living Wage for 2016-17 is to be applied as an annual gross salary equivalent of £16,150. All public bodies are expected to meet the Scottish Living Wage obligation by paying the specified gross annual salary regardless of the number of conditioned hours.

The technical guide says that the Scottish Government is committed to ensuring pay systems in the public sector are fair and non-discriminatory.

> "Each public body should make sure it has due regard to its obligations under the public sector equality duties when considering its pay systems. This must include the legal requirement on public bodies to assess the impact of their policies and practices on people from different ethnic groups, disabled people and gender. In terms of pay proposals, public bodies are expected to have carried out equal pay reviews and set out in their business case the results of such reviews and the steps they propose to take to address any inequalities they have identified."[62]

Public bodies are permitted to use paybill savings of up to 0.5 per cent of baseline paybill to address pay inequalities by making affordable and sustainable changes to their pay and grading structures.[63] Examples of this could include –

- future-proofing for the Scottish Living Wage and National Living Wage;
- paying lower-paid staff more than the £400;

[59] Ibid, p 4.
[60] Ibid, p 8.
[61] Ibid, p 14.
[62] Ibid, p 17.
[63] Ibid, p 18.

- reviewing existing pay and grading structures, including by reducing progression journey times, recalibrating existing pay steps and reducing or removing overlaps between grades;
- equalising contractual and working hours; and
- changes to wider human resources polices, such as increases to maternity, paternity or adoption leave; changes to recruitment processes to encourage greater uptake by under-represented groups; and reviewing service-related benefits. [64]

Employers are expected to meet their public sector equality duty and review their pay systems on an annual basis and ensure they carry out a full equality impact assessment of their reward policies. The technical guide says that public bodies are encouraged to work with their trade unions in undertaking equal pay reviews.[65]

A public sector equality duty under the Equality Act 2010 came into force in April 2011. It requires Scottish public authorities to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations. Scottish Ministers promulgated regulations in May 2012 placing specific duties on public authorities to enable the better performance of the public sector equality duty. These duties include duties to publish equality outcomes and to report progress; to publish statements about equal pay; to publish gender pay gap information; and to disseminate proposals for improved performance.[66]

The Scottish Government's promotion of the Living Wage

In addition to paying the Living Wage to directly-employed government workers, the Scottish Government has been active in promoting the Living Wage.

However, its commitment to the Living Wage currently applies only to directly-employed workers, not to contracted workers, due to complications relating to European Union law. The Scottish Living Wage Campaign welcomed the

[64] Ibid, p 18.
[65] Ibid, p 18.
[66] The Scottish Government, Scottish Government's equality and rights policies , http://www.gov.scot/Topics/People/Equality/PublicEqualityDuties/PublicSectorEqualityDutyScottishSpecificDuties.

announcement in November 2010 that all workers directly employed by the Scottish Government and the NHS would be paid a Living Wage. However, it said the policy did not go far enough, identifying three areas requiring progress –

- There was no mention of a Living Wage Unit within the Government to monitor the implementation of the Living Wage in the public sector;
- Clarity was needed on how the Living Wage would be included in public sector procurement; and
- The Living Wage should be extended to local government workers.[67]

The Scottish Living Wage Campaign said that more information was needed about procurement and monitoring. The majority of low-paid public sector workers were in local government and there was now an opportunity to extend the Living Wage to all 13,000 low-paid local authority workers.[68]

The Scottish Parliament on 3 February 2012 published the Local Government and Regeneration Committee's second *Report on the Living Wage in Scotland.*[69] The genesis of the document was the committee's decision to hold a short inquiry into the Living Wage. The aim of the inquiry was to consider issues relating to –

- The benefits of a Living Wage for individuals, families and communities;
- The introduction of a Living Wage by local authorities; and
- The extent to which procurement could include criteria linked to the payment of a Living Wage.[70]

The committee held four evidence-taking sessions during which it heard evidence from academics, non-government organisations, unions, employers, local government representatives and government officials.

The Joseph Rowntree Foundation told the committee that child poverty cost the economy at least £25 billion a year in extra spending on services and the lost earnings in the adult lives of people who grew up in poverty.[71]

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[67] Scottish Living Wage – Hit and Miss Budget for Living Wage, Press Release, 17 November 2010, http://slw.povertyalliance.org/userfiles/files/SLWC_Budget_Response%20171110%20PK%20FINAL.pdf
[68] Ibid, p 1.
[69] The Scottish Parliament, Local Government and Regeneration Committee, 2nd Report, 2012 (Session 4) Report on the Living Wage in Scotland, 3 February 2012.
[70] Ibid, p 1.
[71] Ibid, p 8.

Loughborough University's Centre for Research in Social Policy's Head of Income Studies, Donald Hirsch, submitted that the Living Wage could "contribute to a strategy for spending on fewer services that help people whose lives go wrong by ensuring that their lives do not go wrong in the first place."[72]

The Cabinet Secretary for Finance, Employment and Sustainable Growth gave evidence that the Living Wage would lead to "increased tax and national insurance contributions, reductions in income-related benefits, and through tax credits," all of which were "clearly benefits to the public purse."[73] The increase in disposable income for workers would also be positive for the Scottish economy.

The Cabinet Secretary said that the cost to central government of paying the Living Wage was a little over £1.7 million.[74]

South Lanarkshire Council said that the cost of it adopting the Living Wage in 2011-12 had been £3.5 million. [75] Other councils reported that they had funded the Living Wage as part of a wider package of reforms and efficiency savings. East Renfrewshire said that introducing the Living Wage was "about giving something back in recognition of the substantial work that had been undertaken to generate significant savings." The cost was small in comparison to the wider savings the council had achieved.[76]

Glasgow City Council said that Living Wage was one of three measures it believed would give it an effective workforce for the future. Councillor Michael Cook of Scottish Borders Council and COSLA described the Living Wage as a "moral imperative" and said funding it had been negotiated with unions. The resulting agreement would deliver net efficiencies of £5 million by the end of March 2014.[77]

Some councils argued that the Living Wage had the potential to have a beneficial economic impact on their areas. South Lanarkshire Council said that employees who earned the Living Wage spent money locally and the money was accordingly returned to local businesses. North Ayrshire Council stated

[72] Ibid, p 8.
[73] Ibid, p 10.
[74] Ibid, p 13.
[75] Ibid, p13.
[76] Ibid, pp 13-14.
[77] Ibid,p 14.

that people who lived in an area spent in that area, and the Living Wage accordingly had a circuitous benefit for the local economy.[78]

East Renfrewshire Council said that the Living Wage had brought many benefits locally, particularly for industrial relations.

"We are a good employer and we want to set out our stall as such. It was important to the authority to set an example to other employers in East Renfrewshire because we are the largest employer in the area. We believe that the measure has had an impact on morale, particularly among the low paid. It is perhaps a little too early to say, but we hope that it will also have an impact on recruitment and retention although, because of the current economic conditions, that is less of a challenge than it has been in recent times."[79]

Several other councils said that, as the largest employers in their areas, they believed they had duties to be exemplary employers.[80] North Ayrshire Council said that its decision to implement a Living Wage had been a cross-party one and "a value judgment for councillors."[81] South Lanarkshire Council told the committee that its employee turnover rate for the year was 1.9 per cent and sickness absence rates were down. It was difficult to ascertain the exact reasons for those developments, but the Living Wage was likely to be one cause.[82]

The committee said that a Living Wage was intended to provide a means of addressing in-work poverty by providing a level of income that enabled households to provide adequately for themselves. The Scottish Government had introduced a Living Wage for directly-employed staff, staff in its agencies and the NHS; and seven local authorities had adopted the Living Wage. The Scottish Living Wage Campaign estimated that around 15,000 workers in the public sector had benefited from the move to a Living Wage.[83]

However, it was estimated that around 550,000 employees on adult rates in Scotland were paid below the Living Wage.[84] A higher percentage of those employees worked in the private sector than in the public sector – 28.1 per cent, as opposed to 3.9 per cent. 14.6 per cent of the employees were male, and 22.6 per cent female.

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78 Ibid, p 10.
79 Ibid, p 10.
80 Ibid, p 11.
81 Ibid, p 11.
82 Ibid, p 12.
83 Ibid, p 5.
84 Ibid, p 6.

The committee said that implementing a Living Wage through public sector procurement would have differential effects, depending on the type of contract and the nature of earnings and employment in the specific region, sector and organisation concerned. For example, the implementation of the Living Wage through a cleaning contract might impact on a higher proportion of employees compared with other contracts, and might affect more female than male employees, given that more women than men were typically employed as cleaners.[85]

The committee noted that, at the time of its inquiry, seven councils had implemented the Living Wage and two others would adopt it in 2012. One other mainland council and three island authorities said all staff were paid at least the Living Wage.[86] The Scottish Living Wage Campaign estimated that 18,000 local government staff would be eligible for the Living Wage.

The committee recognised that one of the main factors militating against a national Scotland-wide approach to rolling out the Living Wage across local government was that local authorities were independent public bodies, and not accountable to Parliament or to Scottish Ministers.[87]

Another complicating factor was the extent to which it might be possible to build a Living Wage requirement into contracts let by local authorities to the private or voluntary sector, and whether or not councils had structures of arms' length organisations delivering services on their behalf.

In relation to costs, the committee had been unable to estimate the overall cost without access to information that was not available to it for this short inquiry.

"The Committee concludes that while there will be costs associated with the introduction of a living wage, these cannot be accurately quantified and will largely depend on the overall approach that the local authority in question takes to the implementation of the living wage, and whether or not it is part of an overall package of efficiency savings that might well deliver net savings to the council."[88]

The committee said that one of the issues on which it had found it most difficult to obtain clear answers was the extent to which it would be possible to build Living Wage requirements into contracts to extend the Living Wage across workforces engaged on local government contracts. The reasons for this

[85] Ibid, p 7.
[86] Ibid, p 18.
[87] Ibid, p 18.
[88] Ibid, p 20.

related primarily to provisions of the European Procurement Directive and United Kingdom employment law. [89]They are accordingly not relevant to New Zealand moves to adopt the Living Wage.

The committee noted that the Cabinet Secretary for Infrastructure and Capital Investment had written to the European Commission seeking clarification as to whether European Union regulations would permit the insertion of a requirement for contractors to pay the Living Wage as a condition for performance of a contract.[90]

The committee concluded that, although it was not for the Scottish Government to determine wages in the private and voluntary sectors, the London experience had shown that the public sector could lead the way by example and increasingly the private sector would be likely to come on board once the business case had been demonstrated. Private sector organisations had increasingly embraced the London Living Wage in response to the political leadership shown by the mayor.[91]

The report recommended that the Scottish Government use its relationship with local government to encourage the further introduction of the Living Wage. The committee expressed its disappointment that CBI Scotland had rejected the committee's invitation to appear before it to discuss the organisation's written submission.[92]

The committee said it wanted to draw CBI Scotland's attention to the experience of the London Living Wage, with the business case for the Living Wage increasingly being demonstrated and taken on board by major private sector organisations. Deloitte, Unilever, JP Morgan, Coca-Cola, Barclays and KPMG had implemented the Living Wage.

"The Committee also notes CBI Scotland's point that the public sector pay premium would be 'exacerbated' by further adoption of the living wage, and that this would impede the 'smooth functioning of local labour markets.' However, the Committee takes the view that the Living Wage would only be applicable to the least well-paid workers and the effect on the premium would therefore be likely to be negligible."[93]

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[89] Ibid, p 24.
[90] Ibid, p 28.
[91] Ibid, pp 29-30.
[92] Ibid, p 31.
[93] Ibid, p 31.

The committee recommended that the Cabinet Secretary use his influence with local government to encourage local authorities to introduce the Living Wage.

On 17 August 2012, MP John Park lodged the Living Wage (Scotland) Bill, a proposal to require private sector employees working on public sector contracts to be paid the Living Wage and/or to require Scottish Ministers to prepare and report to Parliament on a strategic plan to promote the Living Wage. The paper said that action was needed to drive forward the payment of the Living Wage in the private sector. In 2011 3.9 per cent of employees in the public sector were paid less than the Living Wage, while the corresponding figure for the private sector was 28.1 per cent.[94]

Mr Park said that the public sector spent £9 billion through procurement with the private sector. A Living Wage condition in public procurement would bring benefits to a significant number of private sector workers. Although the Scottish Government had shown its commitment to the Living Wage, more focus was required to ensure the incomes of the 500,000 people not earning the Living Wage were improved.[95]

Mr Park advocated requiring all relevant public bodies to include Living Wage conditions in their contract performance clauses when carrying out public procurement; as well as placing a duty on Scottish Ministers to promote the Living Wage, to prepare a strategic plan detailing how they would do this, and to report to Parliament on progress.[96] The proposed bill was withdrawn on 7 December 2012.

Finance Secretary John Swinney, when he announced an updated Living Wage on 5 November 2012, urged employers in the private, public and third sectors to follow the Government's example and pay a Living Wage themselves.[97] He said a commitment to the Living Wage encouraged employers to ensure that all staff on lower incomes received a fair level of pay.

"The Scottish Government is committed to the Scottish Living Wage and we fully support the principles of the Living Wage Campaign, which encourages all employers to reward their staff fairly. That is why the commitment to pay the Living Wage is part of the Scottish Government's public sector pay policy for the third year running.

[94] Park, J, Living Wage (Scotland) Bill, August 2012.
[95] Ibid, p 7.
[96] Ibid,p 10.
[97] The Scottish Government, 5 November 2012, op cit, p 1.

"Since 2011, this Government has ensured all staff within our responsibility are paid a living wage and we would encourage all public, private and third sector organisations to recognise the benefits of this approach and do likewise. Furthermore, our pay policy recognises the importance of supporting those on low incomes and provides for a minimum basic pay increase of £250 for all staff earning under £21,000… The living wage is a positive step that all employers can take to help boost consumer confidence, [and] strengthen economic recovery, while helping to provide certainty for individuals and families who are already dealing with pressures on family budgets."[98]

In his speech about the *Programme for Government* on 3 September 2013, Mr Salmond outlined the Government's programme for the coming year. He said that a truly national health service, decent affordable housing and universally-available services were part of a vision of society based on cohesion, not division, and social inclusion, not stigma.

"These advances are what we like to call the social wage – services are available to everyone, because everyone contributes to society. It's the same spirit which has influenced other Government policies – no compulsory redundancies in the public sector; the introduction of a living wage; the council tax freeze to help hard-pressed families.

"Some people see the price of such policies, not their value. They say these social gains are not sustainable. I say what makes them sustainable is that they are universal, part of a social wage.

"If they weren't universal then those in receipt of the social benefit would be separated and stigmatised – exactly as is happening with the UK Government's welfare agenda.

"And far from being a something for nothing culture, the social wage is a contract we have with the people of Scotland. To suggest this is "something for nothing" is to mimic the bankrupt ideology prevailing in the Westminster Parliament.

"The social wage also has an economic benefit. By helping to promote a secure, stable and inclusive society, the public sector will nurture and encourage the talent and ambition of the people. Scotland will be a place where people want to invest, work and live.

"The social wage helps to show that prosperity and fairness gang thegither (sic – Scottish word). There is no trade-off between living in a wealthy country and living in a good society."[99]

Mr Salmond went on to state that the United Kingdom Government's welfare reforms would reduce household incomes in Scotland by almost £2 billion a year by 2014, with much of that money being taken out of those in work and earning low wages.

"Yet last year, the UK Government announced £350 million more of spending on the next stage of Trident renewal. That money, of course, is barely one third of one per cent of the estimated £100 billion lifetime total cost of a decision to replace the current Trident system.

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[98] Ibid, p 1.
[99] First Minister, Speech about Programme for Government, 3 September 2013, http://news.gov.scot/speeches-and-briefings/speech-about-programme-for-government, p 5.

"The question is how can any government choose to embark on expenditure of £100 billion, to renew Europe's largest concentration of weapons of mass destruction, while reducing benefits for the poorest households across the country ?"[100]

In May 2014, the Scottish Parliament voted down a move to make the Living Wage a part of all public sector contracts. The Government said such a requirement might breach European law. As an alternative, ministers said that firms seeking public contracts would have their willingness and ability to pay the Living Wage assessed.[101]

The Procurement Reform (Scotland) Act 2014 addresses and defines the Living Wage in national legislation. It provides for Scottish Ministers to issue statutory guidance on how a company's approach to recruitment, remuneration – including the Living Wage – and other terms of engagement should be considered when selecting bidders and awarding public contracts. The act requires public bodies, when preparing their procurement strategies, to set out their general policies on payment of the Living Wage to people working on their contracts.[102] The European Commission twice confirmed that any requirement for contractors, as part of a public procurement process or public contract, to pay their employees a Living Wage set at a higher rate than the United Kingdom's National Minimum Wage was unlikely to be compatible with European Union law.

On 26 November 2014, the Scottish Government provided an additional £200,000 for the Scottish Living Wage accreditation initiative, bringing total funding to £280,000.

The Scottish Parliament's Financial Scrutiny Unit Briefing, *The Living Wage,* was released on 12 March 2015. It noted that there were 370,000 people in poverty living in households in which at least one person worked – 45 per cent of those in poverty in Scotland.[103]

In March 2015, *Scotland's Economic Strategy* was released.[104] First Minister Nicola Sturgeon said in the Foreword that there was growing international

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[100] Ibid, p 7.
[101] BBC, Living Wage contract move defeated by MSPs, 13 May 2014.
[102] The Scottish Government, Living Wage Through Procurement.
[103] Scottish Parliament Information Centre, The Living Wage, Financial Scrutiny Unit Briefing, 12 March 2015.
[104] The Scottish Government, Scotland's Economic Strategy, Edinburgh, March 2015, http://www.gov.scot/Resource/0047/00472389.pdf.

evidence that promoting competitiveness and addressing inequality were interdependent ambitions.

"Creating a fairer society is not just a desirable goal in itself, but is essential to the sustained, long-term prosperity of the Scottish economy. Our approach to economic policy is based on the principle that delivering sustainable growth and addressing long-standing inequalities are reinforcing – not competing – objectives."[105]

The document said that the Government's approach to the economy was based on two key pillars: increasing competitiveness and tackling inequality.[106] Reducing inequality was not only important in itself, but was vital to creating the conditions to deliver sustainable economic growth in the long term.

The paper noted that the proportion of national income accounted for by wages had declined in the United Kingdom in recent decades. That had been accompanied by a growing concentration of income at the very top of the income distribution. The highest earners had also seen the largest increases in income between 1997-78 and 2010-11. By 2010-11, the richest one per cent of the income tax-paying population earned eight per cent of total pre-tax incomes.[107]

Between 2008 and 2010, the strategy said that the wealthiest 30 per cent of households owned 76 per cent of all private household wealth in Scotland. The least wealthy, by contrast, owned less than two per cent of wealth.[108]
In 2012, it was estimated that 18 per cent of Scottish employees – around 418,000 people – earned less than the Living Wage. Those trends had contributed to an increase in in-work poverty. Among working-age adults in poverty in Scotland, 52 per cent lived in households with at least one adult in employment. 59 per cent of children who lived in poverty were living in those households.[109]

The strategy said that in-work poverty had an economic cost to society on top of the human costs it imposed. It increased payments of tax credits and other in-work benefits that topped up low incomes, and decreased tax revenues.

[105] Ibid, p 5.
[106] Ibid, p 7.
[107] Ibid,p 61.
[108] Ibid, p 22.
[109] Ibid, p 61.

The Government said that its economic strategy depended on coherent economic, industrial and social policies that helped all people to realise their potential.

"The Scottish Government will continue to lead by example in areas such as advancing greater gender equality, and by ensuring all staff covered by our own pay policy receive the Living Wage.

"We are also funding the Poverty Alliance to promote take up of the Living Wage Accreditation Scheme across the wider economy. We have set the target of increasing the number of accredited employers in Scotland to at least 150 by the end of 2015 and are on track to achieve this target.

"Progress towards Fair Work will, however, require a much wider group of partners – employers, employees and trade unions – to share, encourage and adopt best practice in workplaces across the country.

"As part of the delivery of our Economic Strategy we will establish a Fair Work Convention to draw on best practice and facilitate a joint approach with our partners. The Convention will be to consider the best thinking and research on matters relating to Fair Work, including innovative and productive workplaces, industrial relations, and the Living Wage. It will promote a new type of dialogue between employers, employees and trade unions, public bodies and the Scottish Government."[110]

The strategy also said that the Government intended to develop the Scottish Business Pledge, which would aim to create a partnership between the Government and businesses by supporting businesses in return for a private sector commitment to a range of business and social policies. These included paying the Living Wage and not using zero hours contracts.[111] The pledge was unveiled on 25 May 2015 and the First Minister expressed the hope it would become a "badge of pride."[112]

The Scottish Government's website states that the Scottish Business Pledge is a values-led partnership between the Government and business. It comprises a shared ambition to boost productivity, competitiveness, sustainable employment and workforce engagement and development. It is built on a commitment by the Government and its partners to support sustainable business growth in Scotland; a voluntary code of business practice; and a mutual pledge to ensure that prosperity, innovation, fairness and opportunity develop hand in hand.

Making the pledge requires paying the Living Wage, meeting at least two of the nine other pledge elements, and making a long-term commitment to

[110] Ibid, p 62.
[111] Ibid, p 63.
[112] Macnab, S, Sturgeon asks business to take 'fairness' pledge, The Scotsman, 25 May 2015.

satisfying all nine components.[113] The components include no zero hours contracts, investing in youth, and prompt payment. By February 2017, 338 businesses had made the pledge.

On 27 May 2015, the Scottish Government published *Wider Payment of the Living Wage in Scotland – Issues for consideration.* The document was designed to inform potential action by the Government to support the Living Wage by assessing the applicability of introducing the Living Wage universally in parts of the public or private sectors, and of promotion through public contracts.[114]

The paper concluded that Scottish contractors were generally supportive in principle of using procurement processes to encourage companies to adopt the Living Wage. They suggested that it could be encouraged in public sector contracts, but not made mandatory. They also said that the Government could work in partnership with contractors to persuade them to pay the Living Wage in public contracts. There could be a staged process, with larger contracts adopting the Living Wage and it gradually filtering down to smaller contracts.

However, a small number of contractors was sceptical about the use of procurement to promote payment of the Living Wage, mainly due to perceptions that it would favour larger companies, increase costs, and fail to take into account wider benefit packages offered to employees.[115]

Those contractors proposed subsidies to offset increased wage costs, information and support being provided by local government and non-departmental government bodies, and the provision of robust evidence on impacts and advice on addressing barriers.

The Scottish Government on 3 June 2015 was accredited as a Living Wage employer. The Scottish First Minister said that accreditation further demonstrated the Government's commitment to the Living Wage. Research had demonstrated the potential benefits of the Living Wage as including enhanced productivity, reduced absenteeism and better staff morale.[116]

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[113] The Scottish Government, The Scottish Business Pledge, https://scottishbusinesspledge.scot/
[114] Diffleym M et al, op cit, p 4.
[115] Ibid, p 54.
[116] Scottish Living Wage, Scottish Government Announced as Newest Living Wage Accredited Employer, 3 June 2015.

“However, more needs to be done. We are committed to having 500 Scots-based Living Wage accredited employers by March 2016, a decisive long-term commitment to those on the lowest pay.”[117]

On the same date of 3 June 2015, Ms Sturgeon and Fair Work Secretary Roseanna Cunningham joined key business leaders at a summit to discuss how the Living Wage could benefit employers, staff and the wider economy.[118]

The Scottish Government in 2015 published a paper aimed at setting out concrete ways in which it could take further action to support the Living Wage. *Wider Payment of the Living Wage in Scotland – Issues for consideration*[119] included interviews with employers who had already introduced a Living Wage as well as Scottish Government contractors and stakeholders. The research explored the perceived costs and benefits of the Living Wage, barriers and enablers to implementation, and suggestions for future action.

On 6 October 2015, the Scottish government released *Statutory Guidance on the Selection of Tenderers and Award of Contracts – Addressing Fair Work Practices, including the Living Wage, in Procurement.* The document said that the Government considered that payment of the Living Wage was a “significant indicator” of an employer’s commitment to fair work practices and payment of the Living Wage was one of the clearest ways an employer could demonstrate a positive approach to its workforce. The paper said that the Government was a Living Wage employer and encouraged other businesses to become Living Wage accredited.[120]

The Poverty Alliance and New Policy Institute in March 2016 published a paper titled *Enlightened self-interest ? The role of private sector employers in reducing poverty.*[121] The research was funded by the Scottish Government and aimed to provide a qualitative account of how and why businesses engaged in actions to tackle poverty. 21 private sector employers and senior executives either participated in interviews or joined the study’s advisory group.

[117] Ibid.
[118] The Scottish Government, First Living Wage government, Press Release, 3 June 2015.
[119] Diffley, M, McLean C, Ozgul, I, Hockaday, C, Hirsch, D and Valadez, L – Wider Payment of the Living Wage in Scotland – Issues for consideration, Scottish Government Social Research, 2015, http://www.gov.scot/Resource/0047/00475903.pdf.
[120] The Scottish Government, Statutory Guidance on the Selection of Tenderers and Award of Contracts – Addressing Fair Work Practices, including the Living Wage, in Procurement, 6 October 2015, http://www.gov.scot/Resource/0048/00486741.pdf.
[121] Hughes, C, Kenway, P, Kelly P and Barry-Born, T, Enlightened self-interest ? The role of private sector employers in reducing poverty, The Poverty Alliance, New Policy Institute, March 2016.

Some of the interview sample had paid the Living Wage from the outset and regarded accreditation through the Living Wage Foundation as offering an opportunity to gain external validation for their decisions. A few employers operating in low-paid sectors saw the Living Wage as an integral part of their marketing strategy – a means of differentiating themselves from their competitors, easing recruitment issues and ensuring the loyalty of staff. Others regarded the Living Wage as helping to settle the question of what they should pay staff when they wanted a wage rate that "felt fair."[122]

"Businesses stated that one of the main reasons that they paid the Living Wage was the positive impact that it would have on their employees and workers in the wider supply chain. But the rationale went beyond business ethics.

"Many employers believed that signing up to the Living Wage was a way to differentiate themselves from other employers. The reference point might be their direct competitors or the wider sector.

"For a number of interviewees, the Living Wage was seen as a good way for the business to distance itself from negative associations that might be attached to the wider sector in which they operated.

"In addition to the many positive reasons cited by interviewees, there were also more reactive, or defensive, reasons for businesses to pay the Living Wage and participate in other actions to tackle disadvantage. Essentially, by taking part in positive social actions, they were also looking to protect themselves from censure."[123]

ScotRail became a Living Wage employer in March 2016. Abellio UK was in 2015 awarded the franchise to operate the railways. The contract is the single largest contract awarded by Scottish Ministers and is worth more than £7 billion over ten years. ScotRail is Scotland's sixth-largest Living Wage employer.[124]

On 22 May 2016, the Church of Scotland voted to pay its cleaners, cooks and ancillary staff the Living Wage. It was estimated that the move would cost £1 million to implement. CrossReach, the Kirk's social care council, is one of the largest social care agencies in Scotland. Care staff were already due to receive a Living Wage as part of £1 million in funding from the Scottish Government's additional £250 million allocation to health and social care partnerships, but that figure did not cover staff in other roles such as cleaners.[125]

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[122] Ibid, p 5.
[123] Ibid, p 5.
[124] ScotRail becomes Living Wage employer one year into the current franchise, www.rail.co.uk, 24 March 2016.
[125] Ross, S, Kirk plan to pay Scottish staff living wage to cost £ 1m, The Scotsman, 23 May 2016.

In 2016, the Government issued *Guidance to support delivery of the Living Wage Commitment to Care at Home and Housing Support.* The document is a tri-partite agreement between the Scottish government, the Convention of Scottish Local Authorities, the Coalitions of Care and Support Providers, and Scottish Care.[126]

The guidance is designed to support local authorities and providers in their local decision-making to help implement the Living Wage as part of a positive approach to fair work practices. The budget allocated to local authorities by the Scottish Government is provisionally agreed for a three-year settlement at each Spending Review. Individual revenue and capital allocations are agreed each February and final determination of the allocations occurs in March.

The guidance recorded that the Living Wage commitment made by the Scottish Government and local government as part of the 2016-17 settlement was to ensure that the Living Wage of £8.25 an hour from 1October 2016 was paid to care workers providing direct care and support to adults in care homes, care at home and housing support.[127]

The document noted that the Scottish Government and Local Government had provided resources to contribute to the commitment. If councils did not deliver on the commitments, including the Living Wage commitment, the Government reserved its position to take action to remove access to, or recover, the specific funding identified in the settlement letter.

The paper said that the Scottish Government had received clarification from the European Commission confirming that contracting authorities were unable to make the payment of a specified wage rate above the minimum wage, enshrined in law, a mandatory requirement as part of a competitive tender process. However, contracting authorities could take account of bidders' approaches to fair work practices – including payment of the Living Wage – and evaluate them as part of the procurement process.[128]

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[126] The Scottish Government, Guidance to support delivery of the Living Wage Commitment to Care at Home and Housing Support - http://www.cosla.gov.uk/sites/default/files/documents/joint_guidance_to_support_delivery_of_the_living_wage_-_scottish_governm....pdf

[127] Ibid, p 2.

[128] Ibid, p 2.

The guidance noted that the Scottish Government and local government had provided resources to contribute to the Living Wage commitment for 2016-17.[129]

Scottish First Minister, Nicola Sturgeon, announced the updated Living Wage in Living Wage week in November 2016. She urged more employers to sign up as accredited Living Wage employers.[130] Cabinet Secretary for Fair Work, Keith Brown, said that the Living Wage accreditation initiative had been set an ambitious new target of 1000 accredited employers by autumn 2017. He said that, throughout Living Wage week, he and ministerial colleagues would be meeting with employers and employees to hear about what the Living Wage meant to them and the positive impact it could have.[131]

On 11 January 2017, Cabinet Secretary for Fair Work, Keith Brown, announced that Scottish Canals had become the 700th Scottish-based Living Wage accredited employer.[132]

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[129] Ibid, p 2.

[130] Scottish Living Wage Campaignhttp://scottishlivingwage.org/article/new_living_wage_rate_announced, 31 October 2016.

[131] Brown, K, Scotland's Economy – Living Wage Week 2016, 4 November 2016.

[132] Scottish Living Wage Accreditation, Scottish Canals has become the 700th Scottish-based Living Wage accredited employer, 11 January 2017.

THE LIVING WAGE AND THE UNITED KINGDOM (EXCLUDING SCOTLAND)

The National Living Wage introduced by the United Kingdom Government is not a Living Wage as advocated by groups promoting Living Wages in the United Kingdom and in other countries. The Living Wages supported by those groups are calculated to provide enough money for families to live on. That is not the basis of the calculation of the United Kingdom Government's National Living Wage.

The United Kingdom in 1999 introduced a National Minimum Wage, following the passage of the National Minimum Wage Act in 1998. The National Minimum Wage is the minimum hourly rate which can legally be paid to employees in the United Kingdom. In 1999 it was set at £3.60. In 2012 the rate was £6.08 per hour for most workers aged 21 and over. There were lower rates for younger workers and for apprentices.

Prior to the introduction of the National Minimum Wage, it was calculated that 1.4 million workers were paid less than the hourly rate specified for the National Minimum Wage. Those workers were concentrated in the wholesale, retail, restaurant, hotel, business services, health and social work sectors.[133]

The genesis of the Living Wage campaign in the United Kingdom lies in a campaign begun by London Citizens in 2001. The United Kingdom Living Wage Campaign was launched on 2 May 2011 by Citizens UK. The campaign proposed a methodology for calculating the Living Wage outside London, with the figure being set at £7.20 an hour for 2011.

The Greater London Authority introduced an annually updated Living Wage in 2005. It is calculated by combining –

- an assessment of the cost of achieving an adequate standard of living (a 'Low Cost but Acceptable' budget), assuming all relevant benefits and tax credits are claimed; and
- 60 per cent of the median London income for representative London households.[134]

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[133] Forth, J and O'Mahony, M, The impact of the National Minimum Wage on labour productivity and unit labour costs, National Institute of Economic and Social Research, 2003.
[134] House of Commons Library, The Living Wage, Briefing Paper, No 06675, 12 June 2015, p 5.

The London Living Wage computes a "poverty threshold wage" as an average of the wages needed to achieve these two incomes and adds 15 per cent to protect against unforeseen events.

Since 2006, the Greater London Authority Group has been implementing the London Living Wage provisions. The Group includes the London Living Wage as a requirement as contracts are let or renewed.

Like the New Zealand Government, the United Kingdom Government provides financial top-ups to low-paid workers. This means taxpayers are subsidising employers who pay less than liveable wages.

Citizens UK calculated that, in 2014, this subsidy to low-wage paying employers totalled £10.9 billion.[135] The paper estimated that there were 5.24 million low-paid workers in the United Kingdom at that time. The paper also looked at specific employers and how much their low wages were subsidised by taxpayers.

It said that Tesco had 310,000 employees in 2014, approximately 209,000 of whom were low-wage employees. The net public subsidy to Tesco was accordingly £364 million. In the last full financial year prior to publication of the report, Tesco paid £519 million in corporation tax.

In 2012, the Living Wage Unit of Greater London Authority Economics released a paper titled *A Fairer London: The 2012 Living Wage in London.*[136] The report was the eighth annual Living Wage report from the Greater London Authority. It unveiled the updated Living Wage and reviewed progress on its implementation.

Then-Mayor Boris Johnson said in the document that the success of the Living Wage could only be measured by the number of employers who committed to it and the number of employees affected. A recent study had estimated that 11,500 London workers had benefited from the Living Wage. Close to 200 employers in London had committed to paying it. The Greater London Authority Group included the London Living Wage as a requirement as

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[135] Citizens UK Report, The public subsidy to low wage employers, 2014, http://www.citizensuk.org/subsidy_report?recruiter_id=2

[136] Greater London Authority Economics, A Fairer London: The 2012 Living Wage in London, Living Wage Unit, 2012.

contracts were let or renewed. There were now some 3400 London Living Wage beneficiaries across the group.

"Nevertheless there is still some way to go before all Londoners receive the London Living Wage. Ten per cent of full time workers and 44 per cent of part-time workers earn less than the Living Wage – a total approaching 700,000. I will be putting as much pressure as I can on businesses that haven't yet agreed to pay the London Living Wage.

"Paying the London Living Wage is the right thing to do – it can make all the difference for low income families. But it also makes sound business sense. There is increasing evidence that organisations that pay the Living Wage experience lower staff turnover and higher staff morale, health and productivity as well as being seen as good places to work and acquiring reputational benefits." [137]

The document said that data from the Annual Survey of Hours and Earnings suggested that 88.6 per cent of full-time employees in London earned more than the Living Wage of £8.55 an hour.

The Olympic Games were held in London in 2012. The Olympic Delivery Authority said the London Living Wage had been implemented across the construction of the Olympic stadium project. Representatives said that there were good levels of attendance at work by workers, as well as high retention and productivity. It was difficult to ascertain the exact reasons for this – it could partly be because people were keen to be involved in a unique project, but it could also have been because the London Living Wage was paid.

"The project finished just before time and on budget, and all those things – including the London living wage – contributed to that success.[138]

The Institute for Public Policy Research and the Resolution Foundation in January 2013 released a report titled *Beyond the Bottom Line: The challenges and opportunities of a living wage.* [139] It calculated that, if the Living Wage were to be guaranteed to all United Kingdom employees, the workforce would see its gross earnings rise by £6.5 billion. At the same time, Treasury would achieve gross savings of £3.6 billion if the Living Wage were universally applied.[140] This was because income tax receipts and national insurance contributions would rise, while spending on tax credits and in-work benefits would fall.

[137] Ibid, 4.
[138] The Scottish Parliament's Local Government and Regeneration Committee, 2nd Report, 2012 (Session 4), op cit, p 11.
[139] Lawton, K and Pennycook, M, Beyond the Bottom Line: The challenges and opportunities of a living wage, Institute for Public Policy Research and Resolution Foundation, January 2013.
[140] Ibid, p 5.

The study calculated the average firm level wage increases by industrial sector if there was no wage spill-over effect. The largest impact was on the bar and restaurant sector, with wage bills expected to increase by 5.9 per cent. The figures for general retailers were 4.6 per cent; for food and drug retailers 4.5 per cent; for food producers one per cent; for construction 0.5 per cent; and for banking 0.2 per cent.[141]

The document also set out projected costs for 15 local authorities. Birmingham had the largest number of staff affected – 3074 – and it was estimated that first full-year costs would be £1.3 million. The figure for Cardiff, with 2261 staff affected, was £1 million, and for Newcastle, with 2000 staff affected, also £1 million.

The Labour Party announced in November 2013 that its policy for the 2015 general election would include “Make Work Pay Contracts.” These would provide that firms which signed up to pay the Living Wage at the start of the parliamentary term would benefit from a 12-month tax rebate of up to £1000 for every low-paid worker who received a pay rise. The measure would be funded by the increased tax and National Insurance revenue received by the Treasury from employees being paid higher wages.[142]

The independent Living Wage Commission in June 2014 published a report titled *Work that Pays – the Final Report of the Living Wage Commission.*[143] The paper followed a year-long investigation of the future of the Living Wage, chaired by the Archbishop of York. The commission recommended that the United Kingdom Government should make it an explicit goal to increase the take-up of the voluntary Living Wage to benefit at least an additional one million employees by 2020. Other proposals included the United Kingdom and devolved governments ensuring that all directly-employed public sector employees were paid a Living Wage, as well as making the public sector procure on value rather than on spreadsheet cost.

The report recommended that central and local government should support the Living Wage by championing it to employers across the United Kingdom. The Living Wage Foundation should oversee the production of a toolkit for businesses to measure both the costs and the benefits of increasing wages for

141 Ibid, p 72.
142 House of Commons Library, The Living Wage, Briefing Paper No 06675, 12 June 2015, p 8.
143 Living Wage Commission, Work that Pays – The Final Report of the Living Wage Commission, June 2014.

the lowest-paid workers, and an online tool to allow consumers to identify which goods and services were from Living Wage providers. All publicly-listed companies should publish the number of people paid below a Living Wage in their organisations. The United Kingdom Government should legislate if they failed to do so.[144]

The Greater London Authority in 2014 published a report titled *Fair pay – Making the London Living Wage the norm.*[145] The paper aimed to investigate the extent and drivers for low pay in London; the impact of low pay on London's economic success; and what action should be taken by the mayor, employers and partners in relation to low pay in London.

Economy Committee chair, Stephen Knight, said in the Foreword that wages across the economy had been falling in real terms since 2009, with reduced purchasing power being felt particularly harshly by those already at the bottom of the wage spectrum.

"The National Minimum Wage, which has been falling in real terms since 2007, takes no account of the substantially higher living costs in London and clearly represents, for most Londoners, an unsustainably low income."[146]

The report noted that both the previous and the current mayor and all parties on the London Assembly had supported the London Living Wage since its introduction in 2005. The current mayor had announced that he wanted the London Living Wage to be the "the norm" in London by 2020.

"Tackling low pay would have a positive impact not only on individuals and their families, but also London's employers and wider economy. Higher wages mean not only a more loyal and productive workforce, leading to higher productivity, but also higher consumer spending and therefore wider economic growth.

"There are an estimated 750,000 Londoners earning less than the London Living Wage. The majority are women and the majority work part-time.

"The London Assembly Committee shares the Mayor's ambition for the London Living Wage to be the norm by 2020. But for this to happen, the Living Wage movement must go beyond being a niche initiative limited to certain sectors and employers.[147]

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[144] Ibid, pp 7-8.
[145] Economy Committee, London Assembly, Fair pay – Making the London Living Wage the norm, Greater London Authority, February 2014, https://www.london.gov.uk/sites/default/files/Economy%20Committee%20Fair%20Pay%2011%20Feb%2014.pdf.
[146] Ibid, p 4.
[147] Ibid, p 4.

The document observed that there were currently no major employers signed up to the London Living Wage from the sectors in which low pay in London was concentrated – hospitality, catering, cleaning, retail and social care. It also noted that there appeared to be "little likelihood" that any of those employers would begin paying the London Living Wage in the near future.

"It is therefore clear that, despite undoubted steady progress over the years, without a major new effort, the Mayor's vision of the London Living Wage becoming "the norm" by 2020 will not be achieved."[148]

The report accordingly suggested strategies for increasing take-up of the London Living Wage. If those failed, a majority of the committee believed that the mayor should ask the Government to consider a statutory solution for tackling low pay in London.[149]

The committee said that evidence suggested that many London employers could already pay the Living Wage. Adopting the Living Wage in low-wage sectors would be "particularly challenging," but not impossible.[150]

The report made 10 recommendations –

- The Mayor should support the London boroughs seeking to pilot partial devolution of minimum wage enforcement powers. If those trials were successful in increasing the effectiveness of minimum wage enforcement in London, the mayor should call on the Government to partially devolve minimum wage enforcement to London boroughs. London boroughs should ensure that minimum wage rules were followed for both directly-employed and contracted social care staff;
- The mayor should ensure that the Metropolitan Police Service adhered to its commitment to become fully Living Wage compliant by January 2016;
- The Mayor should write a joint letter with the Assembly to all unaccredited London boroughs, Whitehall departments and other public sector bodies setting out the case for becoming Living Wage employers and asking for responses detailing the organisations' assessment of the feasibility of adopting the Living Wage for both directly-employed and contracted staff. Responses to the letters should be tracked and pro-

[148] Ibid, p 5.
[149] Ibid, p 5.
[150] Ibid, p 7.

actively followed up. The mayor should propose an item covering London borough adoption of the Living Wage for the agenda of a meeting of the Congress of Leaders – the joint meeting between the mayor and borough leaders;

- The Living Wage Foundation should set out a framework for Living Wage zones, clearly stating the areas would become official zones only once the majority of low-paid workers' wage rose to, or tracked, the Living Wage and with an explicit aim for all low-paid workers to be paid the Living Wage in future;
- The mayor should target 30 catering and hospitality employers in 2014, alongside 30 high street retailers. The mayor should report in both November 2014 and November 2015 on instances in which this contact had contributed to Living Wage accreditation. The mayor and the Living Wage Foundation should jointly develop a cohort of 20 employer champions across low-pay sectors. Those champions should advocate the Living Wage to their respective sectors;
- The mayor should continue to make the case for a Living Wage procurement standard, particularly to senior politicians and officers in London boroughs and Whitehall departments. The mayor should particularly emphasise the positive impact that Living Wage procurement would have on social care workers across the capital;
- The mayor should use his dialogue with institutional investors to advocate the adoption of Living Wage standards, particularly when investors had a high proportion of London-based beneficiaries and/or London-based assets. The mayor should be ready to support the Responsible Investment for London network, particularly when it was promoting the Living Wage to investors;
- Transport for London and the London Legacy Development Corporation should produce an assessment of the consequences of championing the Living Wage to potential and current tenants by summer 2014;
- The London Enterprise Panel should include a focus on low-paid workers in its future skills strategy. This should include developing an open source resource of successful initiatives to progress and retain low-paid staff; and lobbying for the Adult Skills Budget to allocate significant resources to support the progression of low-paid workers;
- The mayor and London Enterprise Panel should share details of their plans to increase the number of part-time jobs in London paying at least the London Living Wage. The work could include targeted work in inner London.[151]

[151] Ibid, pp 37-39.

On 1 July 2014, the London Living Wage Foundation formally handed plaques to the House of Parliament identifying that they had been accredited as Living Wage employers. The Commons and the Lords had pledged to ensure that the London Living Wage was paid not only to staff employed by Parliament, but also to staff of contractors providing services to Parliament. [152]

Speaker of the House of Commons, John Bercow, said he hoped that Parliament would be an exemplar of excellent employment practice and that where the House of Commons led, others would follow.[153] Lord Speaker Baroness D'Souza said the Houses of Parliament were iconic institutions which had at their core the aim of improving the lives of the United Kingdom's citizens.

"One way of making a direct improvement, much closer to home, is by recognising the hard work and dedication of our staff, and signing up to the Living Wage promise."[154]

Unite the Union on 26 September 2014 released a report calculating that a national increase of £1.50 an hour in the National Minimum Wage in 2015 would benefit 4.6 million workers by an average of £1400 per year, while at the same time adding an extra £2.1 billion to public finances and potentially generating at least 30,000 new jobs. The paper was written by Landman Economics Director, Howard Reed, and was titled *The Economic Impact of a £1.50/ hour increase in the National Minimum Wage.*[155]

The study said that public finances would benefit from an increase in the National Minimum Wage through increased income tax and National Insurance Contributions receipts, increased receipts from expenditure tax due to higher consumer spending by workers with higher net wages, and lower in-work benefit and tax credit spending. Once the potential stimulus effects of increasing low wages were taken into account, there was the potential for modest gains in employment.

The £2.1 billion increase in public finances was equal to 33 per cent of the increase of £6.3 billion in the gross wage bill.

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[152] United Kingdom Parliament, Living Wage and Parliament, News from Parliament, 1 July 2014.
[153] Ibid,p 1.
[154] Ibid, p 1.
[155] Reed, H, The Economic Impact of a £ 1.50/hour increase in the National Minimum Wage, Unite the Union, September 2016, www.unitetheunion.org.

On 6 November 2014 the Minister for Skills and Equalities said during a Backbench Committee Debate that, while companies that could afford to pay the Living Wage should be encouraged to do so, some small and medium-sized businesses might not be able to pay it. Accordingly, it was better that the case for the Living Wage was made through argument and example.

"That is why the Low Pay Commission does not believe that imposing a living wage or making the national minimum wage rise to the level of the living wage, would be sensible."[156]

However, in his speech on the Summer Budget 2015, then-Chancellor of the Exchequer, George Osborne, announced that the Government would introduce a National Living Wage. Mr Osborne said the Government had been clear that it wanted Britain to move from a low wage, high tax, high welfare economy to a higher wage, lower tax, lower welfare society.

"I have set out my plans to move us to lower welfare and lower taxes. That leaves us the challenge of higher wages. It can't be right that we go on asking taxpayers to subsidise, through the tax credit system, the businesses who pay the lowest wages. That subsidised low pay contributes to our productivity problem. The government is against unfair subsidies wherever we find them. In the last five years, we've taken the tough choices to drive down our borrowing, make our business taxes competitive and reform welfare.

"It's because we've taken these difficult decisions, and overcome the opposition to them, that Britain is able to afford a pay rise. Because let me be clear: Britain deserves a pay rise and Britain is getting a pay rise. I am today introducing a new National Living Wage. We've set it to reach £9 an hour by 2020. The new National Living Wage will be compulsory. Working people aged 25 and over will receive it…

"The [Office for Budget Responsibility] today say that the new National Living Wage will have, in their words, only a "fractional" effect on jobs. The OBR have assessed the economic conditions of the country, and all the policies in the Budget. They say that by 2020 there will be 60,000 fewer jobs as a result of the National Living Wage but almost 1 million more in total. They also estimate that the cost to business will amount to just 1% of corporate profits. To offset that I have cut corporation tax to 18%.

"To help small firms I will now go further and cut their national insurance contributions. From 2016 our new Employment Allowance will now be increased by 50% to £3000. That means a firm will be able to employ 4 people full time on the new National Living Wage and pay no national insurance at all. And let's be clear what it means for the low paid in our country. Two and a half million people will get a direct pay rise.[157]

Mr Osborne said that those on the minimum wage would see their pay rise by over a third during the term of the Parliament, a cash increase for a full-time

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[156] House of Commons Library, The Living Wage, Briefing Paper No 06675, 12 June 2015,p 6.
[157] Osborne, G, Summer Budget 2015: Full text of George Osborne's speech, 8 July 2015 http://blogs.spectator.co.uk/2015/07/summer-budget-2015-full-text-of-george-osbornes-speech/.

worker of over £5000. It was expected that six million people would see their pay rise as a result.[158]

Additional measures announced by the Government to mitigate the cost of the National Living Wage for businesses included placing funding from the apprentice levy in the hands of employers to support training, and a communications campaign to help employers with guidance on complying with the regulatory requirements.

The Impact Assessment for the *Amendment to the National Minimum Wage regulations 2015 - introducing the National Living Wage* was dated 30 November 2015.[159] It said that the National Living Wage was an essential part of a package of measures aimed at rebalancing the economy to a higher wage, lower tax, lower welfare society.

> "It ensures that work pays and that low wage workers take a greater share of the gains from growth. The microeconomic rationale for the NLW remains as with the National Minimum Wage – to ensure that unequal bargaining power is not used by employers to undercut competitors by paying unacceptably low wages."[160]

The Impact Assessment said that introducing a National Living Wage into the current National Minimum Wage framework would directly increase the earnings of 1.74 million workers. A full-time worker on the current National Minimum Wage would earn £910 more.[161]

The assessment predicted that the National Living Wage would increase the total number of workers covered by a minimum wage by approximately 450,000. 1.28 million workers previously on the National Minimum Wage adult rate would move to the National Living Wage, and 450,000 workers previously earning above £6.70 would see their pay brought up to £7.20 an hour. Approximately 4.2 million additional workers would benefit from indirect pay rises through the ripple effect.[162] That meant that almost six million workers would benefit.

The paper calculated that the direct cost impact of the introduction of the National Living Wage would be an increase in labour costs of £835.6 million for

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[158] Ibid, p 31.
[159] Department for Business Innovation and Skills, Impact Assessment, Amendment to the National Minimum Wage regulations 2015 – introducing the National Living Wage, 30 November 2015.
[160] Ibid, p 1.
[161] Ibid, pp 1, 20.
[162] Ibid, p 20.

all employers. That figure could be broken down into increased wages of £698.1 million, and increased non-wage labour costs of £137.5 million. The document said that this was apprised as a transfer from businesses to employees and the exchequer.[163]

Repeating the calculation only for private sector workers yielded an estimated total direct cost to business of £804.4 million, comprising £672 million in wage costs and £132.4 million in non-wage labour costs.[164]

The assessment estimated that the cost of all employers familiarising themselves with the new payment would be £12.1 million, while administration costs for employers would be £20.9 million. The cost to business from the ripple effect would be £37.7 million.[165]

The total estimated cost of introducing the National Living Wage was accordingly £1,138.7 million. The Equivalent Annual Net Cost to Business would be £820.97 million.

The paper predicted that, as a result of the National Living Wage in 2016, the average earnings growth forecast would be 0.1 percentage points higher. The forecast change in average hours worked would be 0.03 percentage points lower. The forecast structural unemployment rate would be 0.03 percentage points higher – equivalent to just under 9000 jobs. The hourly productivity forecast would be 0.05 percentage points higher.[166]

In addition, it was estimated that expenditure on tax credits and housing benefits would fall by £200 million.

The United Kingdom's National Living Wage came into force in April 2016, set at £7.20. As already noted in the section titled *What is the Living Wage*, the United Kingdom's Government's National Living Wage is not calculated in the same way as the independent Living Wages calculated by Living Wage campaigns in the United Kingdom, Scotland, New Zealand and other countries. The United Kingdom's initial Living Wage was set 50 pence higher than the

[163] Ibid, p 21.
[164] Ibid, p 21.
[165] Ibid, pp 22-24.
[166] Ibid, p 24.

National Minimum Wage. The Government said that its aim was to have a National Living Wage of over £9 by 2020.[167]

The Low Pay Commission is charged with recommending future rises in the National Living Wage. It was estimated that the level of the National Living Wage in April 2016 would be 55 per cent of median earnings, with the aim of reaching 60 per cent by 2020.[168] That was the minimum level of pay recommended in the report to the Resolution Foundation by Low Pay Commission chair, Professor Sir George Bain.

A House of Commons Library Briefing Paper dated 24 March 2016 and titled *Economic impacts of the National Living Wage* noted that the National Living Wage benefited a higher proportion of part-time rather than full-time employees. A higher share of employees aged 25 to 30 and over 66 received a pay increase, compared to other age groups. More women than men benefited as women were more likely to be employed in low-paid roles.[169]

In October 2016 the Department for Business, Energy & Industrial Strategy published the Government's evidence for the Low Pay Commission's Autumn 2016 report in a paper titled *National Minimum Wage.*[170] The paper said that the Government remained firmly committed to the National Living Wage and the National Minimum Wage. Parliamentary Undersecretary of State at the Department for Business, Energy & Industrial Relations Strategy, Margot James, said it was right that the Government ensured that the lowest-paid received their fair share of the gains from economic growth.

"Over a million hard-working people across the UK have already directly benefited from the initial introduction of the National Living Wage this April at £7.20. Increases to the National Minimum Wage for workers under the age of 25 continue to improve the pay of low wage workers, providing essential protection without damaging their employment prospects.

"The expert and independent Low Pay Commission plays an important role in supporting the Government in achieving these aims. And the Commission's recommendations have proved that rising minimum wages can go hand in hand with rising employment."[171]

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[167] Department for Business, Energy & Industrial Strategy, National Minimum Wage – Government evidence for the Low Pay Commission's Autumn 2016 Report, October 2016, p 10.
[168] Ibid, p 6.
[169] House of Commons Library, Economic impacts of the National Living wage, Briefing Paper, No 7319,24 March 2016.
[170] Ibid.
[171] Ibid, p 3.

The Minister said that the analysis in the report showed that strong labour market performance was shared across all age groups relevant to the National Minimum Wage and the National Living Wage.

The paper said that it was too soon to reach firm conclusions about the impact of the introduction of the National Living Wage.

"Tentative findings from small scale surveys of employers suggest that the most common response has been to accommodate the initial increase through higher prices and lower profit levels. However, some firms report adjusting employment levels and other firms note they have taken steps to boost productivity, such as investing more in training."[172]

On 7 October 2016 a report titled *Putting the Living Wage to Work: Strategies and Practices in Small and Medium Sized Enterprises* was published.[173] The paper examined the business case for the independent Living Wage and found that –

- 75 per cent of respondents experienced a positive impact on their brand reputations after paying the independent Living Wage;
- 60 per cent saw a positive effect on manager/employee relations;
- 43 per cent said that employee morale and productivity improved;
- 77 per cent said they paid the independent Living Wage because it was in line with their company's values.

15 per cent of those surveyed said that paying the independent Living Wage had added more than 10 per cent to their wage bills. 40 per cent said it had not. Small and medium enterprises comprise more than half of the employers in the United Kingdom who have voluntarily committed to paying the independent Living Wage.

The authors said that public sector institutions such as local councils, universities and hospital trusts could promote the independent Living Wage through their procurement and by actively recognising the potential for SME suppliers to be Living Wage employers. They said that politicians at local, regional and national levels could promote Living Wage adoption within their

[172] Ibid, p 6.
[173] Werner, A, and Lim, M, Putting the Living Wage to Work: Strategies and Practices in Small and Medium Sized Enterprises, Middlesex University London and University of Liverpool, 2016, https://www.barrowcadbury.org.uk/wp-content/uploads/2016/10/University-of-Middlesex-Putting-the-Living-Wage-to-Work-October-2016.pdf

spheres of influence and give public recognition to SMEs that were Living Wage accredited.[174]

Co-author, Dr Andrea Werner, said that the study showed that small businesses could afford to pay the Living Wage.

"It can be done and the benefits make economic sense. Respondents who took part in our study told us how much they benefited from paying the Living Wage in terms of brand reputation, employee retention and increased staff productivity and motivation. It's a definite win for these businesses."

The *Good Food For London: How London boroughs can help secure a healthy and sustainable food future* report tracks annually how many London boroughs have become London Living Wage accredited employers.[175] The 2016 document recorded that 15 boroughs had become accredited, up from 12 in 2015.[176]

On 24 November 2016, the IHS Markit *Living Wage Research for KPMG 2016 Report* was released. It revealed that almost a quarter of workers in the United Kingdom were not paid the independent Living Wage. This meant that 5.6 million people earned less than the Living Wage.[177]

Five broad job categories accounted for 50 per cent of roles earning less than the independent Living Wage. They were as follows –

- Sales assistants and retail cashiers (880,000 employees);
- Other elementary services occupations (740,000);
- Caring personal services (450,000);
- Elementary cleaning occupations (430,000); and
- Childcare and related personal services (300,000).[178]

The research broke these categories down further, reporting that waiters and waitresses were most likely to earn less than the independent Living Wage (80 per cent), followed by kitchen and catering assistants (75 per cent).

[174] Ibid. p 6.
[175] London Food Link Good Food for London 2016: How London boroughs can help secure a healthy and sustainable food future, 2016.
[176] Ibid, p 11.
[177] IHS Markit , Living Wage Research for KPMG 2016 Report, 2016, p 3.
[178] Bid, p 3.

By local authority, Weymouth and Portland had the highest estimated proportion of jobs earning less than the Living Wage, while the City of London and Oxford had the lowest proportion.

An estimated 27 per cent of women earned less than the independent Living Wage, compared with 17 per cent of men. 69 per cent of those aged 18 to 21 were below the Living Wage threshold.[179]

On 8 December 2016, the Joseph Rountree Foundation's report, *Monitoring poverty and social exclusion 2016,* was published.[180]The document is published annually and presents a comprehensive account of poverty in the United Kingdom. The study said that in 2014/15 there were 13.5 million people living in low-income households - 21 per cent of the United Kingdom's population.

The proportion of working-age adults in employment was at a record high, with full-time employees accounting for 62 per cent of the growth in jobs since 2010. The proportion of young adults who were unemployed was the lowest since 2005.

However, the number of people in poverty in working families was 55 per cent – also a record high. Four-fifths of the adults in those families were working – some 3.8 million workers. The adults who were not in paid employment were primarily caring for children. Male weekly earnings were lower than 2005 levels once inflation was taken into account. Female weekly earnings were equal with 2005 levels, but still below what they were in 2010.

1.4 million children were in long-term workless households, down 280,000 in four years. Excluding lone parent families with a child under five, 55 per cent of those children had a disabled adult in their households. Once account was taken of the higher costs faced by those who were disabled, half of people living in poverty were either themselves disabled or were living with a disabled person in their households.

London Mayor Sadiq Khan on 17 January 2017 called on the capital's Premier League football clubs to join him in working to make London a Living Wage City. The mayor wrote to the chairmen and owners of Arsenal, Tottenham

[179] Ibid, p 3.
[180] Tinson, A, Ayrton, C, Barker, K, Born, T, Aldridge, H and Kenway, P, Monitoring poverty and social exclusion 2016, New Policy Institute, Joseph Rountree Foundation, 2016.

Hotspur, West Ham and Crystal Palace urging them to set an example for other businesses across the capital by paying their staff the London Living Wage.[181]

Chelsea, which signed up in 2014, is the only premier league club to pay its employees the London Living Wage. Mr Khan said that he was determined to create a city of opportunity for everyone and the London Living Wage was a crucial part of challenging low pay in the capital.

"My vision is to make London a Living Wage City and that is why I am calling on our great city's Premier League clubs to join me in making that a reality. The likes of Arsenal, Spurs, West Ham and Crystal Palace are not only top football clubs, but leading employers in London. I'm calling on them to sign up and pay their staff the increased rate. It's a 'win-win' situation: they can improve staff recruitment, retention and productivity, while helping me promote the London Living Wage across the city."[182]

In the run-up to the British general election on 8 June 2017, the Conservative Party announced that, if re-elected, it would increase the National Living Wage to £8.75 an hour by 2020.[183] The proportion of employees aged 25 and over currently paid the National Living Wage is eight per cent. Under the Conservative Party policy, that would jump to 12 per cent by 2020.[184]

The media report about the policy noted that 100 of the Financial Times Stock Exchange bosses are paid 386 times the National Living Wage.[185]

Labour leader Jeremy Corbyn announced that, if Labour was elected, it would raise the legal minimum wage to £10 an hour by 2020, to bring it into line with the Living Wage.[186] Mr Corbyn said that more than five and a half million workers would receive a pay rise as a result – boosting the incomes of more than 20 per cent of the workforce. The media report about the announcement noted that the National Living Wage rate for over 25-year-olds was expected to rise from £7.50 in 2017 to £8.75 by 2020.[187] The article said that former

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[181] Living Wage Foundation, London Mayor calls for Premier League football clubs to go Living Wage, 17 January 2017 http://www.livingwage.org.uk/news/london-mayor-calls-premier-league-football-clubs-go-living-wage.

[182] Ibid, p 2.

[183] Rodionova, Z – Labour and Tory pledges to increase National Minimum Wage could put lw income jobs in danger, IFS warns, The Independent, 11 May 2017 http://www.independent.co.uk/news/business/news/labour-tory-national-minimum-wage-increase-general-election-2017-conservatives-low-income-jobs-a7729626.html.

[184] Ibid, p 2.

[185] Ibid, p 2.

[186] Hughes, L – Jeremy Corbyn announces Labour would raise legal minimum wage to £10 an hour by 2020, The Telegraph, 10 April 2017, http://www.telegraph.co.uk/news/2017/04/10/jeremy-corbyn-announceslabour-would-raise-legal-minimum-wage/

[187] Ibid, p 3.

Chancellor George Osborne had in 2015 revealed plans for a compulsory Living Wage for workers aged 25 and over.

In June 2017, Mr Corbyn said that 16 and 17-year-olds should be paid a £10 an hour Living Wage.[188] At present, workers under 18 only have to be paid £4.05 an hour while the minimum wage for 18 to 20-year-olds is £5.60 an hour.

The Liberal Democrats in their 2017 election manifesto pledged to establish an independent review to consult on how to set a genuine Living Wage across all sectors, as well as compelling employers to disclose the number of people paid less than the Living Wage and the ratio between top and median pay.[189]

The Greens pledged to adopt the Living Wage by increasing the minimum wage to £10 an hour by 2020.[190]

The United Kingdom Independence Party said that it would enforce the existing minimum and Living Wages and reverse government cuts to the number of minimum wage inspectors in England and Wales.[191]

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[188] Malnick, E – Jeremy Corbyn's plan to pay 16-year-olds £ 10 Living Wage could "price them out of workplace," The Telegraph, 23 June 2017, http://www.telegraph.co.uk/news/2017/06/23/jeremy-corbyns-plan-pay-16-year-olds-10-living-wage-could-price/
[189] Martin, W – Election 2017: Here's what the Tories, Labour and the Lib Dems are promising on the economy, Business Insider, 19 May 2017 https://www.businessinsider.com.au/general-election-conservative-labour-lib-dems-manifesto-economy-2017-5?r=US&IR=T
[190] Reality Check: Where the parties stand on the minimum wage, BBC, 1 June 2017 http://www.bbc.com/news/election-2017-40107605.
[191] Ibid, p 3.

AOTEAROA NEW ZEALAND

The minimum wage and the Living Wage

The minimum wage in Aotearoa New Zealand in 2017 is $15.75 an hour, effective from 1 April. The Living Wage is $20.20, effective from 1 July.

63 employers in Aotearoa New Zealand have voluntarily agreed to pay the Living Wage and have become accredited Living Wage employers. A full list of accredited employers can be found here - http://www.livingwage.org.nz/accreditedemployers.

The Government's economic plans

Prime Minister Bill English in a speech to the Rotary Club of Auckland on 2 February 2017 said that the start of the year was a good time to stand back and look at how the nation was doing. He said that this country was currently ranked first in the world for overall prosperity, first for personal freedom and civil rights, first for ease of doing business, first equal for anti-corruption and second for quality of government. The Prime Minister said the Government wanted to be first for quality of government as well.[192]

Mr English said that the outlook remained positive and the economy continued to grow, with over 130,000 jobs created in the past year. Average wages were expected to keep rising and reach $66,000 a year by 2021.[193]

"The whole point of building a strong economy is to improve the lives of all New Zealanders.

"If we can stay on course and build on the progress we've already made, we have the best opportunity in decades to make positive sustainable choices for our country – choices that deliver better incomes for our families, safer communities, and provide better government services for everyone.

"As Prime Minister, I want people to be rewarded for their hard work and enterprise.

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[192] English, B, Speech to Rotary Club of Auckland, 2 February 2017, https://www.beehive.govt.nz/speech/speech-rotary-club-auckland.
[193] Ibid, p 2.

“Businesses, farms and entrepreneurs across New Zealand are the engines of growth in our country – as are the people who work hard every day in those enterprises.

“So we’ll continue to back people who take risks to create new jobs and new businesses.

“We’ll back hard-working people who get up early in the morning to milk the cows or to catch the bus to work, so they can raise their families.

“And we’ll back people who bravely leave behind welfare dependency to move into work or who work hard to manage their health issues or disability so they can live independently.”[194]

On 2 February 2017, Prime Minister Bill English also announced a $503 million Safer Communities package, including 1125 police staff over the next four years.[195]

On 7 February 2017 Mr English delivered the Prime Minister’s Statement to Parliament.[196] He said that annual economic growth was expected to average around three per cent over the next five years. This would support more jobs, reduce unemployment and allow incomes to rise faster than inflation.[197]

“The National-led Government’s busy and ambitious policy agenda and legislative programme in 2017 will continue to back New Zealanders to succeed.

“This is a Government focused on delivering more opportunities for people to get ahead.

“It is a Government that backs New Zealanders who take risks to create new jobs and new businesses.

“It backs New Zealanders who work hard to they can raise their families.

“And it backs New Zealanders who need the Government’s support to improve their lives.

“In 2017, the Government will progress a range of initiatives to achieve these goals.”[198]

The Prime Minister said that Budget 2017 would set out the Government’s revenue and spending intentions. The operating allowance remained at $1.5 billion for each of the next four budgets. The capital allowance had been increased to $3 billion in Budget 2017 and to $2 billion in future budgets to provide for a number of infrastructure and investment projects.

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[194] Ibid, p 3.
[195] English, B, Extra police to make communities safer, 2 February 2017, www.beehive.govt.nz.
[196] English, B, Prime Minister’s Statement to Parliament, 7 February 2017, www.beehive.govt.nz.
[197] Ibid, p 1.
[198] Ibid, p 1.

Treasury's latest forecasts of the operating balance before gains and losses were for a $473 million surplus this year, rising to $8.5 billion in 2020/21. Net debt was expected to fall to 18.8 per cent of GDP by 2020/21, with contributions to the NZ Superannuation Fund forecast to restart the same year.

Mr English said that the minimum wage would increase by 50 cents to $15.75 an hour from 1 April, benefiting approximately 120,000 workers.

The Business Growth Agenda was the Government's programme of work to build a more productive and competitive economy that would deliver more jobs, higher incomes and higher living standards for New Zealanders. The Business Growth Agenda was focused on the six key inputs for business: exports, investment, innovation, skills, natural resources and infrastructure. Mr English said that the Government would continue to support, update and implement the Business Growth Agenda in 2017. It also captured three important cross-cutting themes – Māori economic development, sectors and regions, and regulation.

Finance Minister Steven Joyce on 8 February 2017 announced that the Government's 2017 Budget would be delivered on 25 May. He said it would be centred on opportunities for all kiwis to get ahead.

"The 2017 Budget will build on the strengthening performance of the New Zealand economy over the last several years. It will focus on creating the conditions for further growth and greater prosperity for all New Zealanders.

"New Zealand businesses have generated 328,000 new jobs since 2008, and average weekly wages have grown by 26.1 per cent – more than double the rate of inflation. Budget 2017 will seek to give businesses the confidence to keep investing and keep growing, to provide more opportunities for New Zealand families."[199]

Mr Joyce said that it was also very important to remain mindful that the money the Government spent came from hard-working kiwi families.

"We remain committed to reducing the tax burden on lower and middle income earners when we have the room to do so."[200]

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[199] Joyce, S, 2017 Budget to be presented on 25 May, 8 February 2017, www.beehive.govt.nz.
[200] Ibid.

Mr Joyce on 16 February 2017 spoke to Massey University and the Auckland Chamber of Commerce about the Aotearoa New Zealand Economy.[201] He said that the outlook for the country was positive.

"Treasury is forecasting 3.5 per cent growth for each of the next two years – averaging 3 per cent over the total five years.

"We are in the unfamiliar position of being one of the fastest growing countries in the developed world. New Zealand currently has the fourth fastest growth in the OECD."[202]

The Minister said that stronger economic growth was flowing through into the Government's books. Tax revenue was continuing to come in ahead of forecast, and for the first six months of 2016/17 the Government's books showed an OBEGAL surplus of $9 million. That result was around $700 million ahead of Treasury's forecast, driven by a higher tax take and lower than expected expenditure.[203]

Mr Joyce said that surpluses were predicted to rise to $5.4 billion by 2018/19.Provided that occurred, this offered the country options. It was important that those options be considered carefully. The Minister said that he was thinking about four key areas in preparing for the 2017 budget –

- Delivering better public services for a growing country;
- Building infrastructure;
- Paying down debt; and
- Reducing the tax burden, and particularly the impact of marginal tax rates on low and middle income earners.[204]

In an interview in February 2017, Mr Joyce said that he had not ruled tax cuts in or out.

"It's just too early to say. I don't think you're going to see massive tax cuts in this year's Budget. What you might see, if we get the room, is that I'm worried about some of the thresholds. The obvious one: at the $48k level people go from paying 17-and-a-half cents in the dollar to 30c. And if they've got a student loan they're at 42c. Those sorts of things worry me.

"Again, I don't know how much we can do this time. I wouldn't be rushing around thinking you're going to get a windfall. But if we can start a programme this year or next year, that's something we're interested in."[205]

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[201] Joyce, S, Speech to Massey University and Auckland Chamber of Commerce, 16 February 2017, www.beehive.govt.nz.
[202] Ibid, p 1.
[203] Ibid, p 2.
[204] Ibid, p 3.

Former Prime Minister John Key in 2016 repeatedly floated the idea of announcing further tax cuts during 2017. Prior to his resignation as Prime Minister in December 2016, he said on 28 November that the following week's surplus forecasts would be so large that the Government would be able to undertake significant expenditure. This would include increased social spending, a family and tax package and debt repayment.

"When you see the [Half-yearly economic and fiscal update] numbers, what you'll see is the budget surpluses start hockey-sticking up and they start getting quite big."[206]

Then-Finance Minister Bill English on 8 December 2016 said that tax cuts were on hold as responding to the Kaikoura earthquake and reducing debt were currently higher priorities.[207]

Mr English said that the Half Year Update did not make an explicit provision for tax reductions but the Government would continue to consider options for lower rates or thresholds, either in Budget 2017 or afterwards. The December forecasts added an estimated $7.2 billion to core Crown tax revenue between 2017 and 2020, compared with expectations in May.

The New Zealand Herald reported on 11 March 2017 that the Government was giving $5.5 million to two golf tournaments over the next three years.

The 2017 Budget was delivered on 25 May 2017. In it, the Government announced $4 billion of new capital spending, including $450 million for rail infrastructure, $812 million for reinstating State Highway One north and south of Kaikoura, $576 million for the Defence Forces for new equipment and the commencement of upgrading of the Defence Estate, and $763 million for new prison capacity around Aotearoa New Zealand.[208]

The Government also announced in the Budget that it was allocating $7 billion over four years to sustain and expand public services in health, education, law and order and social development. [209]This included $1.2 billion over four years for law and order.

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[205] Dann, L, Interview with Steven Joyce, New Zealand Herald, 18 February 2017, p C1.
[206] Young, A, Key signals surplus for a spend-up, New Zealand Herald, 29 November 2016, p 3.
[207] Smellie, P, Quake puts tax cuts on hold, The Business, New Zealand Herald, 9 December 2016.
[208] Joyce, S - $4b in new capital investment in Budget 2017, 25 May 2017
https://www.beehive.govt.nz/release/4b-new-capital-investment-budget-2017
[209] Joyce, S - $7b to build better public services for a growing country, 25 May 2017
https://www.beehive.govt.nz/release/7b-build-better-public-services-growing-country

Mr Joyce on 6 June 2017 in a media release said that the Government accounts for the ten months to 30 April 2017 showed a surplus of $2.5 billion, although about $1 billion of that was due to timing differences that were expected to reverse out in May.[210] He said that Treasury and Inland Revenue expected the 2016/17 accounts to be broadly as forecast.

Core Crown revenue was $1.1 billion higher than expected for the 10 month period, while Core Crown expenditure was $400 million less than anticipated.[211]

Addressing the National Party's election year conference in June 2017, Prime Minister Bill English again raised the prospect of tax cuts.

Long-term Defence spending

Defence Minister Gerry Brownlee on 16 November 2016 outlined a $20 billion defence equipment spending programme stretching out to 2030.[212] In a speech to the Defence Industry Association, he said that, as a result of the Government's assessment of New Zealand's strategic outlook in the June Defence White Paper, significant new capability investments would be made in five crucial areas.

These were Antarctic and Southern Ocean Operations; Air Surveillance; Littoral Operations; Cyber Protection and Support; and Intelligence Support. Mr Brownlee launched the Defence Capability Plan 2016, the third and most detailed edition of the plan released by the Government.

Mr Brownlee said that $1.7 billion would be spent on modernising the Defence Estate. To support the planned capital investment, the Government had planned annual increases in the Defence Force operating and capital budgets which would maintain Defence spending at an average of around one per cent of GDP until 2030. Increases were already underway, with $300 million of additional operating spending allocated over the next four financial years as part of Budget 2016.

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[210] Joyce, S – Strong Crown Accounts in April, 6 June 2017, https://www.beehive.govt.nz/release/strong-crown-accounts-april

[211] Ibid.

[212] Brownlee, G, Speech to the New Zealand Defence Industry Association, 16 November 2016, https://www.beehive.govt.nz/speech/speech-new-zealand-defence-industry-association-%E2%80%93-viaduct-events-centre-auckland

The Minister said that capital investment in cyber security, such as the procurement of software, would take place on an annual basis until 2030. The current ANZAC frigates would be upgraded over the next four years to maintain their ability to defend against current and forecast threats.[213] The Government was also committed to replacing the frigates with modern combat vessels relevant to the prevailing strategic environment of the late 2020s and early 2030s.

Mr Brownlee said that the fleet of Offshore Patrol Vessels would be increased from two to three, with the new vessel being ice-strengthened and winterised. A Marine Sustainment Capability contract had been signed to build a contemporary tanker. The Littoral Operations Support Capability Project, currently out for tender, would deliver a new vessel to the Navy in the early 2020s.

A range of projects was planned to ensure that Army personnel were supplied with up-to-date and effective technology, weapons and equipment. One of these would involve considering how the Pinzgauer and NZLAV vehicles could be replaced, modernised or integrated with other forms of protected mobility.

Mr Brownlee said that significant investment was also planned in the New Zealand Special Air Service. In the air domain, new investments were planned for the fixed wing aircraft fleets.

Hundreds of senior Defence Force staff received large pay rises in 2016, with those on more than $200,000 a year increasing by 57 per cent that year. Staff on six-figure salaries rose by 10 per cent from 1452 in 2015 to 1607 in 2016 according to the New Zealand Defence Force’s annual report. Total pay for the senior executive group increased by nearly a million dollars from $3.8 million to $4.7 million.[214]The senior group of 12 earned an average of almost $400,000, with the Chief of Defence paid $630,000.

Treasury’s advice to the Government about the Living Wage

Treasury in September 2013 prepared a paper about the Living Wage titled *Analysis of the Proposed $18.40 Living Wage.* The report aimed to provide

[213] Ibid, p 3.
[214] Hurley, B, Defence bosses get big payrise, Sunday Star-Times, 27 November 2016, p 3.

then-Finance Minister Bill English with information about who earned wages below $18.40 an hour in Aotearoa New Zealand and the likely impact of the Living Wage being widely adopted .[215] ($18.40 was the Living Wage figure at the time).

The paper said that almost all teenagers and the majority of people in their twenties earned below $18.40 an hour. 63 per cent of households earning below $18.40 an hour were single adults without dependents. About 30 per cent of households with dependents earned below $18.40 an hour. Those who would benefit most from the Living Wage were the families which did not receive supplementary assistance that abated.[216]

The paper said that the current objective of the minimum wage was to protect the real incomes of low wage earners, while minimising job losses. It was not an effective mechanism for reducing poverty on its own, and neither was it intended to be. Instead, there were other measures, such as income transfers, subsidised access to health and education services, and childcare assistance, to improve the wellbeing of families on low incomes.[217]

"A legislated Living Wage would put the regulation of wages at the centre of policies which are aimed to achieve higher living standards for families. In many cases, the reliance on other public assistance would reduce significantly or abate entirely."[218]

The paper said that the Living Wage of $18.40 an hour was nearly at the median hourly earnings, so just under half (45 per cent) of wage earners were paid less than that. 56 per cent of the group earned between $13.75 and $15 an hour, with the rest being paid between $15 and $18.40 an hour. Women were more likely to be in the $13.75 to $15 band and less likely to earn above $18.40 an hour.

60 per cent of Māori and Pacific wage earners were paid below the Living Wage, compared with 40 per cent of New Zealand European. The report noted that people were most likely to earn below the Living Wage when they were under 30. Almost all teenagers worked for less than $18.40 an hour, as did about 70 per cent of those in their twenties.[219]

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[215] The Treasury, Treasury Report: Analysis of the Proposed $18.40 Living Wage, http://www.treasury.govt.nz/publications/informationreleases/livingwage/pdfs/lw-2726820.pdf.
[216] Ibid, p 3.
[217] Ibid,p 6.
[218] Ibid, p 6.
[219] Ibid, p 6.

Treasury said that, assuming those in work remained employed with the same hours, adopting the Living Wage would rebalance the role of the employer and the welfare system towards work being the primary mechanism for people to support themselves.[220]

The paper said that introducing the Living Wage would impact on employment levels. MBIE had estimated that forecast employment would reduce by 25,000 if the minimum wage were to be lifted to the Living Wage. Treasury said that the industries most affected by the adoption of a Living Wage would be accommodation and food, wholesale and retail trade and health care. The paper suggested that adoption of the Living Wage would risk reinforcing slow employment growth.

Remuneration of MPs in Aotearoa New Zealand

The Parliamentary Salaries and Allowances Determination 2016 sets the current remuneration for Members of Parliament. It provides for the following salaries –

- Prime Minister – $459,739
- Deputy Prime Minister - $326,697
- Cabinet Ministers - $288,900
- Ministers outside Cabinet - $243,841
- Speaker - $288,900
- MPs - $160,024.

In addition, MPs have allowances and travel costs.

Poverty and inequality in Aotearoa New Zealand

Approximately 713,600 people are in poverty in Aotearoa New Zealand. That is 16 per cent of the population, including around 230,000 children.[221] 55 per

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220 Ibid,p 11.
221 Ministry of Social Development, MSD Household Incomes report, August 2016, pp 112- 113, www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html.

cent of children in poverty live in families in which one household member is employed.[222]

The *Child Poverty Monitor: 2016 Technical Report,* released on 13 December 2016, recorded that 28 per cent of dependent children – approximately 295,000 children or a population the size of Wellington and Lower Hutt cities – lived in income poverty in 2015.[223] That figure was based on a contemporary median threshold of 60 per cent of the median income after housing costs. Using a fixed-line threshold of below 60 per cent of the median income after household costs, an estimated 21 per cent of dependent children – 220,000, or almost the population of Hamilton – were in income poverty in 2015.[224]

The document compared that with the period 1982 to 1990, when the number of 0 -17 year olds living in income poverty was between 10 and 15 per cent using the contemporary median threshold, and between 11 and 16 per cent using the fixed-line threshold.

Using the New Zealand Household Economic Survey data, the percentage of 0 -17 year olds in households living in material hardship in 2015 was 14 per cent, the same figure as in 2014.[225]

The 2016 report is the fourth consecutive annual report on indicators that assess aspects of child poverty in Aotearoa New Zealand and their implications for child wellbeing. The first group of measures comprises the five measures identified in the 2012 report to the New Zealand Children's Commissioner on solutions to poverty. That paper advocated a fixed-line income measure; a moving-line income measure; and measures of material hardship, severe poverty and poverty persistence to capture different aspects of child poverty and facilitate monitoring of the effectiveness of efforts to reduce child poverty in Aotearoa New Zealand.

The second group of indicators tracks progress on factors in the health, education, housing and social sectors relating to the conditions in which children are born, live and grow, and which affect their ability to develop and thrive. The third suite of measures has examples from the New Zealand social

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[222] Child Poverty, 2016 http://www.childpoverty.co.nz/flow-infographics/income-poverty-2016.
[223] Simpson J, Duncanson M, Oben G, Wicken A, Gallagher S, Child Poverty Monitor: 2016 Technical Report, New Zealand Child and Youth Epidemiology Service, University of Otago, Dunedin http://www.nzchildren.co.nz/, p 3.
[224] Ibid, p 3.
[225] Ibid, p 3.

and economic environment of the context for specific child-related issues, including measures of income inequality and data on unemployment and underutilisation.

The *Child Poverty Monitor; 2016 Technical Report* noted that child income poverty rose from 13 per cent in 1988 to 27 per cent in 1992, as a result of rising unemployment and benefit cuts in 1991.[226] Between 1992 and 1998, child poverty declined as unemployment fell. However, after 1998, incomes for many low-income households with children did not rise. The promising decline in child poverty seen between 2001 and 2007, when policies such as Working for Families contributed to increases in income for some families, has not been maintained.[227] Between 2007 and 2010 child poverty rates increased, then declined, so that in 2013 rates were nearly equal to those in 2007.[228]

Poverty in Aotearoa New Zealand is now no longer associated with being out of work. A majority of people in poverty are working. In 2013, 39 per cent of households in poverty had at least one person in full-time work.[229]

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226 Ibid, p 10.
227 Ibid, p 10.
228 Ibid, p 10.
229 New Zealand Council of Christian Social Services, Getting a job doesn't solve the poverty problem, www.nzcccs.org.nz.

CONCLUSION

Aotearoa New Zealand in recent years has become a nation with a high proportion of people living in poverty. Many of those in poverty now work full-time.

Wages have declined in proportion to increases in living expenses, and particularly the cost of housing.

The Government states that the economy is healthy, year-on-year growth is predicted in coming years, there will be surpluses amounting to billions of dollars.

This means that 2017 is the perfect time for all political parties to commit to paying a Living Wage to workers so that they can support their families.

RECOMMENDATIONS

Whichever parties form the Government after 23 September should –

1. Immediately begin paying all staff and contracted workers at Parliament and in MPs' electorate offices the Living Wage. The Scottish Government in 2010 committed to paying a Living Wage for employees in the public sector, and implemented this in 2011. The Westminster Houses of Parliament became a London Living Wage accredited employer in 2014.

2. Commit to paying a Living Wage for employees in the public sector and prepare a detailed budget for implementing this. The Prime Minister and Minister of Finance have repeatedly said in speeches that the economy is healthy and large surpluses are predicted in the coming years. The Living Wage is not a cost: it is an investment in workers and the future of the country. It also returns dividends. The Government will save large sums on Working for Families and on benefits and will receive a higher tax take. In addition, there will be a stimulus effect for the economy as those on low incomes spend almost all their incomes. This will increase consumer spending and, in turn, create additional jobs and result in a higher GST take. There is considerable information about this stimulus effect from Scotland and the rest of the United Kingdom. The United Kingdom Government at present subsidises employers who pay low wages to the tune of £11 billion a year through in-work tax credits and other benefits. The New Zealand Government is committed to improving the economic position of Māori and paying a Living Wage would benefit many Māori as they are disproportionately represented among low income earners. Paying the Living Wage also means that employers save on recruitment and training. Auckland Mayor Phil Goff told a Council meeting on 9 February 2017 that it was calculated that the Council would save $1 million a year on recruitment and training by implementing a Living Wage. The Scottish Living Wage covers 180,000 people in Scotland who work for the central government. Scotland has a population of 5.3 million, while the population of Aotearoa New Zealand is 4.7 million. Implementation of the Living Wage in Scotland for both employees and contracted workers in the public sector has been complicated by the facts that Scotland does not have control of all of its governmental activities, and that it is subject to European Union law. This country does not have those complications.

3. Prepare a timetable and budget for implementing a Living Wage for contracted workers delivering regular and ongoing services to the public sector, once the Living Wage has been put in place for employees.

4. The Government and all Ministers and MPs should play a proactive role in encouraging employers in local government and the private sector to implement the Living Wage. Politicians in Scotland and the rest of the United Kingdom publicly support the Living Wage and are involved in many actions to support and promote it.

5. Funding should be allocated to monitor the implementation of the Living Wage and to check that it is paid.

6. If the Government in future gives funding to sports events, such as the Rugby World Cup and the America's Cup, it should be a condition of the grant that employees and contracted workers working on the projects are paid a Living Wage.

7. The Government should adopt the brand of Aotearoa New Zealand as the first Living Wage country in the world. This would complement the country's clean, green brand and be an important selling point for goods, services and tourism.

HOW THE GOVERNMENT CAN AFFORD TO PAY THE LIVING WAGE

The Government says that the economy is strong and growth and surpluses are predicted in the coming years. It can afford to implement a Living Wage now by –

1. Using money from the large surpluses forecast for coming years.

2. Taking more action to recover money lost through tax evasion. Tax evasion is estimated to cost Aotearoa New Zealand between $1 billion and $6 billion a year. The Government has taken some steps in recent years to be more pro-active about cracking down on tax evasion. If it stepped up this action, it would recover additional money. Then-United Kingdom Chancellor George Osborne in the Summer 2015 budget said that £5 billion had been recovered from tackling tax evasion. The Government in that budget allocated an additional £750 million to HMRC to pursue tax fraud, offshore trusts and the businesses of the hidden economy. It was estimated that this would raise an additional £7.2 billion.[230]

3. Acting to ensure that multinationals pay their fair share of tax in Aotearoa/New Zealand and can no longer avoid paying tax through the use of complex offshore structures. Finance Minister Steven Joyce and Revenue Minister Judith Collins on 3 March 2017 released three consultation papers proposing new measures to strengthen this country's rules for taxing large multinationals. Submissions on the documents were due by April 2017 and the Government plans to consider proposals arising from the papers later in 2017. However, the Government has been well aware of this problem for a long time and has been slow to act. There has been considerable publicity about the very low amounts of tax paid in this country by a number of multinationals. For example, *The New Zealand Herald* reported that the 20 multinationals most aggressive in shifting profits out of this country overall paid virtually no income tax, despite earning almost $10 billion annually in Aotearoa/New Zealand. The newspaper calculated that, had the Aotearoa/New Zealand branches of the firms reported profits at the same rate as their parent companies, their combined income tax bill

[230] Osborne, G, op cit, pp 5 -6.

would have been almost $490 million.[231] Apple in the year to September 2015 paid $8.9 million on its pre-tax profit of $26.6 million in this country. That profit was achieved from sales of $732 million.[232]

4. Not implementing further tax cuts. Billions of dollars have already been spent on tax cuts in Aotearoa/New Zealand since 2008. The money that the Government is planning to use for further tax cuts should instead be used to implement the Living Wage.

5. Reviewing plans to spend an additional $20 billion on the Defence Force in the coming years. Some of the planned spending should be cancelled and some should be delayed. This would provide funding to introduce the Living Wage.

6. Reducing by 50 per cent the $503 million package of spending on the Police announced by the Government in February 2017. The $250 million saved should be spent on implementing the Living Wage.

7. Freezing MPs' pay and cutting benefits paid to former MPs. MPs are paid between $160,024 (backbenchers) and $459,739 a year, as well as travel costs and expenses. Savings from reducing spending on MPs would be enough to pay the Living Wage to low-income earners working in Parliament. Former Prime Minister Sir John Key will receive $51,000 a year for the rest of his life, even though he is a multi-millionaire and does not need the money.

8. Not replacing the ministerial fleet so frequently and purchasing less expensive vehicles would help to fund the Living Wage. Auckland Mayor Phil Goff plans to free up some money for paying the Living Wage to Auckland Council staff by making savings on the Council's vehicle fleet. The Government should do the same.

9. Cancelling the $763 million announced in Budget 2017 for new prison capacity in Aotearoa New Zealand. Prime Minister Bill English has himself publicly admitted that prisons are a failure.

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[231] Nippert, M, Top multinationals pay almost no tax in New Zealand, The New Zealand Herald, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11607336.
[232] Pullar-Strecker, T, Lin, T and Sachdeva, S, Tech giant Appel pays $9m tax in NZ – how does that add up ?

10. Cancelling the $1.2 billion allocated in Budget 2017 for law and order, including provision for a 10 per cent increase in police staff numbers and funding to meet increased demand for justice, courts and corrections.