

Costs and Benefits of a Living Wage

Trust for London commissioned Queen Mary, University of London to explore the costs and benefits of a London Living Wage (LW), including examining workplaces before and after they introduced the LW as well as comparisons with workplaces where the LW was not paid.

Key findings

- Over half of those in Living Wage workplaces (54%) felt more positive about their employment after it was introduced and a similar number (52%) felt more loyal towards their employer.
- The introduction of the Living Wage (LW) resulted in staff leaving rates falling by 25%.
- Companies paying the LW identified improvements in the stability, attitudes and characteristics of the workers.
- Reputational benefits to companies paying the LW were significant, including helping to attract new business/customers and in recruiting staff to professional roles.
- Workers in LW workplaces had better psychological well-being than those in non-LW workplaces.
- Around one-third (32%) of those in LW workplaces felt it had benefitted their family life, for example enabling them to spend more time with their family and to take more holidays.
- Over one-third (38%) of those in LW workplaces reported financial benefits, such as the ability to buy more goods and save more.
- Overall, two-thirds (65%) of those in LW workplaces reported an improvement in either their work, family life or finances.
- Wage cost increases associated with introducing the LW were 6% of the contract cost on average, despite low-paid staff receiving much higher increases in their hourly rate of pay (an average of 26%). The cost increase was mitigated through savings such as reviewing working practices, reducing management overheads and in some cases, reducing working hours.
- Savings from reduced staff turnover (such as recruitment savings and reduced levels of sickness) were low and on average represented 0.3% of overall costs.
- The London LW makes a significant difference to the disposable income of households that do not claim (or are ineligible to claim) welfare benefits and tax credits. The financial impact on those claiming these benefits and credits is much lower as the entitlements reduce as wages rise. The introduction of Universal Credit will improve this situation.
- If all low-paid Londoners were paid a LW this could save the Government £823 million per annum by increasing the tax base and reducing welfare benefit spending.

Background

Recent campaigns for a LW have gained support in part due to the growth of in-work poverty. In 2011, 580,000 jobs were paid below the LW in London. The London Living Wage (LLW) rate is calculated annually by the Greater London Authority and since May 2011, it has been set at £8.30 per hour.

Trust for London has invested around £1 million in its Living Wage special initiative, including research into the cost and benefits of paying a LW. Queen Mary, University of London was commissioned by the Trust to undertake this research. This included analysing data from seven workplaces before and after they introduced the LW; as well as five workplaces where the LW was paid and comparing these to five similar workplaces where the LW was not paid.

Nearly all of those employers who were part of this study were external contractors providing a service such as cleaning, catering or grounds work. This service was provided for a range of clients including a local authority, a university, a transport company and financial services firms. Contracting out of low-paid work has become a common feature of many workplaces.

Statistical data such as staff retention rates, sickness levels and training costs were collected from employers and interviews conducted with the latter and with their clients. A questionnaire survey of 416 low-paid workers was conducted face-to-face, of which around half of the sample were in LW workplaces and half were in non-LW workplaces. The research also included an analysis of secondary data to explore the impact of the LLW on the income, tax and welfare benefits systems.

To date, the main employees who have benefitted from the introduction of the LW have been contracted out cleaners and they were the primary focus of this research. However, the findings are of relevance to other low-paid staff and workplaces in and out of London. This is a summary of the full report.

Impact on employers

There was a significant reduction in staff turnover as a result of the introduction of the LW. Average staff leaving rates fell by 25%. Furthermore, improvements in the stability, attitudes and characteristics of the workers were identified by all of the clients:

“The Living Wage gives you continuity. It enables you to manage service standards up because you have got that continuity of employees. You can’t deliver high quality service by having a constant churn of staff.”

“The more you pay people, the harder people work and the more dedicated they are to the job.”

Reduced rates of labour turnover helped build relationships between in-house staff and the sub-contracted staff. Some clients reported that the LW reinforced their brand and reputation as a good employer. One client marketed payment of the LW as an example of its corporate social responsibility. The LW was cited by graduates as one of the top three reasons for wanting to work for this company. Another company believed that paying the LW was a factor in securing new contracts.

Workers in LW workplaces were found to have higher levels of education. Nearly a quarter of those in LW workplaces were graduates or post-graduates. The figure for those in non-LW workplaces was just half this rate.

The increase in average wage rates at companies that introduced the LW was 26%. In some cases this cost increase was mitigated through savings such as reviewing working practices and service specifications, reducing management overheads and in some cases, reducing working hours and/or the number of staff employed. Staff benefits such as regular bonuses

and differentials were also reviewed. As a result, the overall costs of contracts rose on average by 11%.

However, this increase applied to the lowest paid staff and the increase in wage costs is likely to represent a small proportion of the total costs of the client. For example, in one firm, the LW contracts to provide cleaning and catering represented just 0.6% of the client's annual operational costs. Related research that has examined the potential impact of the LW on in-house workers has found the wage bill of those earning below the LW is a small percentage of overall salary costs (Pennycook, 2012). This provides strong evidence that the costs of introducing the LW need not be prohibitively high.

There were savings from introducing the LW, such as reduced recruitment costs (including advertising, management time, administration, induction and uniform costs). However, the savings were low and on average, represented just 0.3% of overall contract costs. This reflects the modest costs of recruiting low-paid staff.

Impact on workers

Over 200 employees in LW workplaces were asked about the changes the LW had made to their lives, with a focus on their work, family and finances. Over half (54%) felt more positive about their workplace. Workers who were employed as the workplace moved on to the LW reported a number of improvements. This included being happier about their work (25%), saying that there was more supervision (20%), the work was more productive (17%), there were a wider range of tasks to undertake (16%) and there was more access to training (12%). Workers employed as the workplace moved to the LW were more loyal towards their employer (52%). One worker summed it up by saying:

“When you get more money you feel more valued for what you do.”

However, around one quarter (27%) reported at least one negative change. The most common was having to work harder (11%) and 10% were less happy about their work.

Around one-third (32%) felt the LW had benefitted their family life, for example enabling them to spend more time with their family, having more leisure time and taking more holidays. Over one-third (38%) reported financial benefits, such as the ability to buy more and save more.

The relatively lower numbers citing improvements in family and finances could be due to a number of factors. As one worker explained, many low-paid staff work a number of part-time jobs and not all of these jobs pay the LW:

“The living wage has made a big difference in this job but in my other jobs they don't pay the living wage so I still have to work very long hours to make enough money to live.”

Another worker cited the very high cost of living in London:

“It's not enough because living in London and prices are very high.”

For many, the LW was not set at a high enough rate to make a significant difference to their everyday lives. Nevertheless, overall two-thirds (65%) of those in LW workplaces reported an improvement in either their work, family life or finances.

The researchers also incorporated an assessment of the health and psychological well-being of the low-paid workers. This revealed that workers in LW workplaces had better psychological well-being than those in non-LW workplaces. This was shown to be the case irrespective of differences in the composition of the two groups of workers with regards to age, gender, ethnicity, working hours, educational attainment, dependent children, having another job and being born in the UK. However, the difference could have been due to other factors, which were not controlled for in the research.

Financial impact on households

The majority of those interviewed were not claiming any welfare benefits or tax credits (72%). For these individuals the introduction of a LW had the greatest financial impact if others in their household were also not claiming welfare benefits or tax credits. For example, for any adult working 16 hours at the LLW rather than the National Minimum Wage (NMW), the gain (after Income Tax and NI deductions) would be an extra £35.52 a week or £1,847 a year (a 36% increase in income); working full-time (35 hours) the gain would be an extra £52.84 a week or just over £2,700 per annum (a 28% increase in income).

Modelling of various household types found the financial gains for those claiming welfare benefits and tax credits were significantly less because these entitlements reduce as wages rise. For example:

- A single parent with 2 children (not in childcare), in a two-bed property owned by a Registered Social Landlord, working 16 hours a week at the LLW rather than the NMW gained £4.76 a week.
- A couple with 3 children, in a three-bed private rented property, where one adult worked full-time at the LLW rather than the NMW gained £3.14 a week. If both these adults worked full-time and didn't use childcare, it added £14.68 a week to their household net income.
- A single adult in a shared room in the private sector, working full-time working 24 hours a week gained £5.43 a week if working at the LLW rather than the NMW. When working full-time, they gained £26.94 a week (the largest gain associated with the LLW in any of the household types claiming the full benefit entitlement).

Looking ahead to anticipated changes to welfare benefits associated with the introduction of Universal Credit, workers who are claiming welfare benefits will see an increase in their net income if they move from the NMW to the LLW.

Financial impact on Government

Using data from the questionnaire survey of LW employees and the household modelling of income, tax and benefits, it was possible to calculate potential savings to Government if all low-paid Londoners were paid a LW. This could save the Government an estimated £823 million per annum by increasing the tax base and reducing welfare benefit spending. This was based on an additional £477 million in Income Tax and employees' National Insurance payments and a reduction of £346 million in welfare benefits payments and tax credits.

Trust for London

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Established in 1891 it is one of the largest independent charitable foundations in London and aims to tackle poverty and inequality, in the capital.

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The full report can be downloaded from www.geog.qmul.ac.uk/living wage